

WIN-7.00 KEY

KANSAS BOSTWICK IRRIGATION DISTRICT NO. 2

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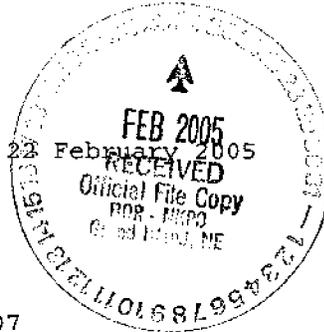
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Alice Johns, Area Manager
Bureau of Reclamation
PO Box 1607
Grand Island NE 68802-1607

NAME	INITIALS	ACTION	DATE
Steve	SA		2/25
Oliver	B	✓	2-24
Mike	✓		2-24
Jack	✓		3/7
Jandy	✓		3/8

REMARKS: cc: by FAX to
GP-3100
(Lynne He Smith)

Dear Ms. Johns:

The continuing drought coupled with depleted flows in the Republican River Basin is causing an extreme financial burden on the irrigators of the Kansas Bostwick Irrigation District. We therefore request the Bureau of Reclamation to grant us a deferment of our 2005 Water Supply Repayment Obligation (Article 5 our contract) and 2005 Distribution Works Repayment Obligation (Article 6 our contract).

Reclamation produced its estimate of water supply for the 2005 season on January 12, 2005 which was a much worst estimate than the one produced in January 2004. It appears the irrigators above Lovewell will not be able to irrigate again this year and the irrigators below Lovewell will have less than 1/2 their normal supply.

We have a contractual obligation to improve efficiencies both on farm and within district operations. Without a deferment we will not be able to live up to that obligation.

I am enclosing several pieces of information as justification for this deferment request.

First, there is a requirement within the contracts for reserve funds. I am enclosing a February 1, 2002 letter without attachments from Mr. Fred Ore, Area Manager to the IPRC districts discussing the lack of these funds reaching Bureau guideline amounts. As emphasized in our contracts, and the Administrative Memo dated September 18, 2002, the reserve funds were envisioned to be a revolving fund to accumulate money for work that would be beyond the District's financial capability to fund on an annual basis. An example of this possibility would be the replacement of a 530' steel pipeline over the Republican River which delivers water to the White Rock Extension Canal which is showing considerable deterioration. To our knowledge, reclamation has no current program to address these type of major

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repairs and it is in the districts best interest to hold funds in emergency reserves for these purposes as allowed in our contract. There are many other examples where infrastructure repair would equate to improved efficiencies but they are large projects and will not happen without an accumulation in reserve funds.

Second, is a commitment within the contract and described within the Administrative Memo, to improved efficiencies. I am enclosing a copy of a survey which Kansas Bostwick has been conducting on a 4 year basis since 1990 to demonstrate irrigators efforts to improve on farm efficiency. The survey began in 1990 when the district did not have enough pivot irrigation to consider it a category. The last survey was ran in 2002 and shows 27% of the district being irrigated by pivot. The percentage has increased considerably the last two years and Kansas Bostwick currently has 144 pivots in our district mostly installed in the last 10 years. The average pivot development will run + or - \$50,000.00. This equates to \$7,200,000.00 of pivot development by the irrigators. Whereas the majority of these pivots have been installed in the last few years, most irrigators still owe their bankers on these projects. I am also enclosing a sheet entitled Operations and Conservation Meeting with BOR. We hold an annual operations meeting with reclamation where we present this information as outlined in the contract calendar. This represents conservation funds spent by the district and by irrigators for 2004 projects. The \$310,806 represents the cost of pipe laterals installed to replace inefficient open ditch laterals. Of this, we utilized \$40,200 of cooperative agreement funds from Reclamation and \$25,820 contributed by irrigators and the remaining \$244,786 being Kansas Bostwick's contribution from conservation funds. Also shown on this sheet is \$39,499.00 worth of on farm conservation material such as pipe, screens, meters and so on purchase by the irrigators from the district. As agreed to in the Operating Plan of the contract, we have established a revolving fund from O&M charges which allows the district to continue the \$300,000 annual effort on conservation projects.

The third and perhaps most important point to consider is the financial position of the district being caused by the drought. I am enclosing a copy of a page from our Annual Report which is compiled by information from our Annual Crop Census. This shows nearly a \$6,000,000 decline from last years gross value of irrigation. Consider this along with the ongoing problem of having no ability to pay and it is apparent why the irrigator needs a deferment at this time. In Kansas, we are required to set our assessments in August to be collected the next year. In Aug. 04, we lowered our O&M assessments for the 13,000 acres above Lovewell from \$22.00/acre to \$10.00/acre a reduction of \$156,000.00. We left the O&M assessments below Lovewell at \$22.00/acre the same as it has been since 2003. This not only cuts into our budget but does not allow any inflationary increases since 2003. As you know, we were granted a deferment of our 2004 Repayment. We did not assess any Repayment for

05 but have carried over the funds collected in 04. These funds would not pay all of the 05 charge because a deferred amount increase has been added to the 05 charges. With a deferment of our 05 charges, we will carry these funds to 06 to be available for repayment charges at that time.

Please allow this deferment regardless of \$35,448.33 in Water Supply Reserve Funds, \$62,522.85 in Distribution Works Reserve Funds, or \$306,791.00 in Conservation Reserve Funds as required by the contract and as necessary to reach the required efficiencies within the contract. The irrigator understandably cannot pay the same charges for a limited or no supply of water as they did with full supplies. If we are required to spend these funds for normal O&M purposes we cannot improve our system and everyone will be losers.

Please allow the deferment of our 2005 Distribution Works Repayment Obligation of \$410,880 and our 2005 Water Supply Repayment Obligation of \$21,841. In regards to the distribution works, please allow the majority of the payment to be a balloon payment due in 2015 thus equalizing the payments in the remaining years of payments.

If you have any questions please contact me. I am available to discuss this with you or others within Reclamation at any time.

For the Board of Directors,



Kenneth Nelson
Superintendent

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OPERATIONS AND CONSERVATION MEETING WITH BOR

Spring 2004		mile	
WREX 13.0	2.2 miles reported 03		\$135,045
	\$44,055 reported in 03		
CW 8.5 lto		.6	\$ 22,669
3rd ltos 30.4		.1	\$ 4,069
			\$161,783
Fall 2004			
CW 7.6		.8	\$ 28,055
4th Sec 41.4	to be completed 05	1.5	\$120,968
			\$149,023
			Total \$310,806
Farmer Conservation	39,499.00	screens, pipelines, etc	

SPRING 2005
PLANNED C5th 48.9
52.3 tail end seepage and drainage

VALUE OF ACTUAL IRRIGATED CROPS
FROM
CROP CENSUS

YEAR	\$ GROSS	\$ PER/ACRE	ACRES
1970	3,882,835.00	140.00	27,736
1971	3,611,674.76	126.15	28,634
1972	5,114,061.00	192.87	26,515
1973	7,006,234.00	229.50	30,528
1974	9,278,426.00	310.24	29,907
1975	8,273,460.00	260.66	31,741
1976	6,846,199.25	222.29	30,798
1977	5,915,316.01	183.43	32,248
1978	7,618,348.80	238.75	31,909
1979	9,690,680.00	289.02	33,529
1980	9,597,194.54	288.79	33,232
1981	9,799,445.00	297.93	32,892
1982	8,313,569.92	244.66	33,980
1983	8,293,717.20	316.29	26,222
1984	9,922,025.00	330.21	30,048
1985	9,081,424.00	289.13	31,410
1986	7,015,931.65	218.67	32,085
1987	7,039,321.40	209.60	33,585
1988	9,938,060.00	332.80	29,862
1989	11,439,457.00	320.46	35,696
1990	10,407,855.94	283.84	36,667
1991	7,712,559.42	249.75	30,881
1992	7,620,389.10	323.05	23,589
1993	7,493,859.30	221.33	33,858
1994	10,636,665.00	304.49	34,933
1995	13,899,728.33	361.17	38,485
1996	13,463,982.00	380.00	35,431
1997	15,349,478.00	393.73	38,985
1998	11,410,761.21	296.49	38,486
1999	11,856,609.01	305.68	38,788
2000	10,666,977.55	262.02	40,711
2001	10,725,896.65	273.81	39,234
2002	14,809,851.00	375.42	39,449
2003	12,308,765.65	337.60	36,460
2004	6,825,529.50	296.32	23,035

1990 Ditch - Pipe Survey

Ride Name	Total Acres	Open Ditch	Pipe	Pivot
North	3586.0	1683.6	1902.4	-----
Ridge	4487.1	3711.2	775.9	-----
Blk I	1196.3	371.0	825.3	-----
4th Sec	4269.8	2391.4	1878.4	447.0
4th Main	893.8	329.6	564.2	-----
Upper West	4713.1	1888.2	2824.9	-----
Lower West	4813.6	2149.6	2664.0	-----
Upper 5th	5795.4	2552.3	3243.1	-----
Lower 5th	3848.3	1182.1	2666.2	273.2
Miller	4968.7	1950.5	3018.2	120.0
White Rock	3770.8	1333.0	2437.8	-----
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Total	42,462.9	(46%) 19,542.5	(54%) 22,920.4	783.4

1994 PIPE-DITCH SURVEY

RIDE	PIPE	DITCH	PIVOT	ACRES
1	906.4 -71%	361.7 -29%	0	1268.1
2	2083.3 -53%	1378.4 -36%	445.2 -11%	3906.9
3	1466.2 -30%	3365.0 -69%	64.1 -1%	4895.3
4	2026.3 -49%	1970.5 -48%	126.4 -3%	4123.2
5	610.7 -70%	256.8 -30%	0	867.5
6	2864.5 -61%	1731.1 -37%	85.0 -2%	4680.6
7	3402.3 -70%	1477.9 -30%	0	4880.2
8	2599.4 -56%	1782.9 -38%	264.2 -6%	4646.5
9	3036.5 -66%	974.9 -21%	586.2 -13%	4597.6
10	3000.5 -61%	1681.6 -34%	268.3 -5%	4950.4
11	2516.8 -68%	1198.6 -32%	0	3715.4
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	24512.9 -58%	16179.4 -38%	1839.4 -4%	42531.7

1998 PIPE-DITCH-PIVOT SURVEY

RIDE	PIPE	DITCH	PIVOT	ACRES
1	977.7 -77%	290.4 -23%	0	1268.1
2	1910.6 -52%	995.6 -27%	740.7 -21%	3646.9
3	1798.1 -36%	2719.0 -56%	422.2 -8%	4939.3
4	1943.5 -46%	1665.2 -42%	480.7 -12%	4089.4
5	867.5 -100%	0	0	867.5
6	3021.2 -64%	1276.1 -27%	418.2 -9%	4715.5
7	3177.2 -64%	1381.9 -28%	385.8 -8%	4944.9
8	2684.3 -57%	1381.1 -29%	667.9 -14%	4733.3
9	2771.4 -61%	544.8 -12%	1225.4 -27%	4541.6
10	3090.4 -62%	915.6 -19%	953.2 -19%	4959.2
11	2616.1 -70%	1099.3 -30%	0	3715.4
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	24858.0 -59%	12269.0 -29%	5294.1 -12%	42421.1

2002 PIPE-DITCH-PIVOT SURVEY

RIDE	PIPE	DITCH	PIVOT	ACRES
1	1037.8 -80%	132.6 -10%	126.8 -10%	1297.2
2	2036.2 -60%	685.1 -20%	691.8 -20%	3413.1
3	2053.9 -40%	1840.1 -37%	1052.1 -21%	4946.1
4	2059.9 -50%	915.0 -22%	1127.6 -28%	4102.5
5	757.7 -74%	0	261.6 -26%	1019.3
6	3258.9 -69%	768.7 -16%	712.3 -15%	4739.9
7	2881.3 -57%	763.7 -16%	1354.9 -27%	5025.5
8	2747.6 -57%	785.2 -16%	1293.6 -27%	4826.4
9	1943.7 -42%	110.9 -02%	2606.3 -56%	4660.9
10	2722.8 -53%	570.4 -11%	1821.9 -36%	5115.1
11	2426.3 -64%	696.0 -18%	653.5 -17%	3775.8
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	23926.1 -56%	7267.7 -17%	11702.4 -27%	42921.8



United States Department of the Interior

BUREAU OF RECLAMATION
Great Plains Region
Nebraska-Kansas Area Office
P. O. Box 1607
Grand Island, Nebraska 68802-1607

IN REPLY REFER TO:

NK-100

February 1, 2002

Mr. Kenneth Nelson
Chairman, Irrigation Project Reauthorization Council
P.O. Box 165
Courtland, KS 66939-0165

Subject: Reserve Fund Provisions - Republican River Basin Contracts

Dear Mr. Nelson:

This letter is being sent to further the discussions the Irrigation Projects Reauthorization Council (IPRC) and Reclamation have had regarding reserve fund provisions in the Republican River Basin (RRB) contracts.

Article 7 and 8 of each of the RRB Districts' contracts (with the exception of Frenchman Valley, which only has a water supply reserve fund) provide requirements for water supply and distribution works (respectively) reserve funds. Annual deposits are required to be made into the funds, which are required to be deposited in an interest bearing account with the interest also accumulating to the fund. As outlined in the contracts, the reserve funds have three purposes: extraordinary operation and maintenance (O&M), ordinary O&M incurred during periods of special stress, and additions and modernization.

Another provision of these articles states that written approval of the Contracting Officer is required for any expenditures from the funds, with exceptions for emergency expenditures of limited dollar amounts. No provisions are made in the contracts to divert the required annual deposits for other uses in out-years. Any such out-year commitments would jeopardize the viability of the reserve funds to serve their intended purpose.

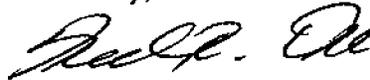
We have previously discussed Reclamation guidelines for reserve funds. A copy of the guidelines are attached. In general, Reclamation guidelines for Emergency Reserve Funds and Replacement Funds state the amounts should be based on the size and complexity of the project involved as well as the type and condition of the facilities involved. The guidelines provide a table based on the 5-year indexed average annual O&M costs and also state that judgement on the amount required to be in the fund should be "based on case-by-case conditions". The guidelines provide that the reserve

funds should be accumulated as rapidly as possible considering estimated payment capacity, O&M costs, repayment obligations and other factors, but that the accumulation should "be accomplished within the first 10 years of the repayment period". In the case of the RRB contracts, none of the Districts will have sufficient revenues accumulated within the first 10 years of the contract term to meet the amounts suggested.

We believe it would be beneficial to deal with individual requests from the RRB districts to utilize their reserve funds as the needs arise and the districts make a request. In that manner, the circumstances of each individual case, the amount of money in the reserve fund, the urgency of the request, and other pertinent factors can be considered. Any rules which would be established wherein all reserve fund utilization requests would need to fit would have to be overly restrictive in order to account for all possibilities which might come up during the administration of the contract. We believe establishing such rules would not be in the best interests of the districts or Reclamation.

This letter is written to continue our dialogue regarding the reserve funds and their use, not to be the last word on this subject. I look forward to working with the IPRC and the individual districts on this matter and all matters in the implementation and administration of the RRB contracts. If you have any questions or would like to discuss further the reserve funds, please contact me or Stephen Ronshaugen at the above address, or telephone 308-389-4622, extension 202 or 216, respectively.

Sincerely,



Fred R. Ore
Area Manager

Enclosure

cc w/enclosure:

Mr. Lee Orton
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Lincoln, NE 68508-1303