

As before, the main focus of your board of directors for the past year has been the responsibility to deliver water in a timely manner to shareholders while continuing to maintain and improve the infrastructure of the complete reservoir and ditch water delivery system.

The Overland's 2008 Water Year was a great one by any measure. We delivered to shareholders the most water in a number of years and did so with only a minimum of interruptions. Thanks to our Operations team (Manager Bob Church and Ditch Rider Bill Stahl) and Water Commissioner Steve Tuck, several potential ditch washouts on the upper ditch were averted during the massive spring runoff. Thanks to on-going ditch maintenance efforts over the past couple years we are now able to move more water through the upper ditch than has been possible for some time. The fall weather allowed us to complete repair and maintenance work the full length of the upper ditch. We completed repair work to both the main dam and auxiliary dam which was required by the State Dam Inspector. A leak that developed in the spillway has been repaired and regular piezometer tests show that both dams are secure and performing as designed.

The Overland Ditch Management Plan has been completed and the Bureau of Reclamation Grant which financed the plan was expanded to include the Redlands Water Users portion of our distribution system. Now, for the first time, there are complete maps and descriptions of the complete Overland water system starting at the reservoir down through the complete distribution via laterals on Redlands Mesa. This work includes very detailed Geographic Information System (GIS) data, photographs, and descriptions of all the pieces and parts that make water appear at your turnout. The amount of work required to prepare these plans has been expansive, to say the least. Your company owes board member Phil Ceriani tremendous thanks for his long and tedious efforts to make this such a success. We will now be able to apply for ditch improvement grants from both federal and state organizations.

But delivering water is just the most important function of your board. Our company exists in a world of water regulation and management that often puts even the most level headed managers to task. Protecting our water and insuring our water's value to company shareholders and Colorado's stakeholders gets more and more convoluted. As you know our planned reservoir expansion has run headlong into the bureaucratic regulation swamp and efforts to swim through seem to have been never ending. But as you'll hear in tonight's meeting from Bruce Marvin the other side of the swamp is not only in sight, but our feet are occasionally touching bottom – and that always brings extra energy into the effort.

The value of your water continues to increase – at an ever increasing rate. Continuing efforts by the federal government to pull the historical control of water away from the states and into federal hands is one indication. Proposed legislation to put all water, not just navigable waters, under federal control has a better chance of passing with our new federal congress than ever before. The 1922 Colorado River Pact will probably be “reviewed^{[\[1\]](#)}” again and of course most political power lies downstream from Colorado. The State of Colorado is exploring the possibility of implementing a “Colorado River Water Bank” that would prepare Colorado for the eventual “call” on the river in accordance with the 1922 River Pact. The “Bank” proposal would allow water users (both domestic and agricultural) to contract for water in advance so that when the “call” happens the delivery would be pre-planned and injury compensation in place. All these actions make our reservoir expansion project even more important to both us and the stakeholders of Colorado. Our pre 1922 conditional decree for 970 acre feet cannot be converted to absolute until we have the ability to store the water. Pre-1922 decrees are exempt from the 1922 Pact and therefore very valuable. Once the water is stored and the decree made absolute – the water is available for use and your company can evaluate options regarding the cash value of the water for augmentation or banking.

So we continue to swim through the expansion project swamp, carefully pushing aside the “fens” and working towards actually starting the reservoir expansion project. But as you would expect, these efforts not only take inordinate amounts of time – but they also cost money. We have been forced to prepare extremely detailed engineering reports regarding the project’s impact on wetlands and specifically “fens” as detailed by the Environmental Protection Agency (EPA). As you see in the Treasurer’s report, our engineering costs over the past year have been substantial – but many of these costs are not a direct burden on you as a shareholder. We secured a grant from the Gunnison River Roundtable for \$68,000 to assist in the preparation of these reports and other costs associated with all the US Forest Service (USFS) and US Corps of Engineers (COE) “permitting” necessary prior to starting the actual construction. Costs incurred before the “fens” issue were paid by the project loan and additional works created by the “fens” issue are being paid by the Roundtable grant. We believe the Roundtable grant funds expended will also be credited to the 10% matching funds required as part of the project loan.

But we all know that costs have been increasing and we’re told a coming recession will make times tougher. So let’s take a closer look at the company’s long term financial obligations. We have two loans that are currently active:

Loan 1 - Balance due - \$272,229.22 - Annual Payment \$35,255.30 - Maturity Date 2018

Loan 2 - Balance due - \$574,488.89 - Annual Payment \$32,506.38 - Maturity Date 2028

Your loan payment assessments on these two loans are: \$6.85 / share per year through 2018

\$3.25 / share per year 2019 through 2028

The current Colorado Water Conservation Board (CWCB) loan for the reservoir expansion project is set with 20003 cost estimates at \$1,141,300. We are not required to start making payments on that loan until after the project has been completed. It’s an attractive loan at 2.5%. We have notified the CWCB and they are aware of our delay problems. The CWCB is also aware that we may have to ask for a loan increase to meet rising construction costs. What that increase will be is unknown – especially in light of the current economic situation. Bruce thinks our construction costs have increased about 50%. Assuming the CWCB would agree, that would raise the loan amount to roughly \$1,725,000.00. The 30 year 2.5% loan would then require annual payments of \$82,416.43 or about \$8.24 / share per year. With this assumption, the total per share loan payments (assessments) after the completion of the expansion project would be about:

\$15.09 / share per year 2011 through 2018

\$11.49 / share per year 2019 through 2028

\$ 8.24 / share per year 2029 through 2040

Without raising any false ‘Hope’ or attempting to establish any inappropriate levels of ‘Fairness’ there are programs being considered by the federal government which would make massive funds available to help ‘stimulate’ our economy by making monies available for infrastructure improvement projects. Whether the Overland expansion project will fall under the to-be-determined project definitions is unknown. But, efforts are already underway to identify our project to both state and federal politicians and request financial support. There is always a chance someone will recognize the value of this project and help us find financial support. Your current board has accomplished an amazing amount of work over the past year. There are a number of smaller projects and accomplishments not included here. We have identified several more concerns and projects for the next year. It would be my pleasure to work with the same board members again. I know their dedication to the company and their willingness to work. I believe retaining Reg Cridler, Bryan Klaseen and Phil Ceriani as board members would benefit you, your company and the water management community in general.

Tom Howe
Board President

[\[1\]](#) Senator Ken Salazar before becoming Secretary of the Interior.