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To: Chairman Ken Staton & MVWD Board of Directors
From: Joseph Davis, General Manager
Date: January 22, 2020
Subject: Payment in Lieu of Water Rights

Background

The District's water dedication ordinance requires developers to dedicate potable water resources for their developments. In support of that document the creation of the ***Payment in lieu of Water Rights Dedication Implementation Policy*** was created to offer an avenue for developers to pay a fee for excess water resource in the District's portfolio.

On January 11, 2019 the Nevada State Engineer's Office issued Interim Order 1303 designating 6 basins in the Lower White River Flow System (LWRFS) as a joint administrative unit for the administration of water rights and that all water rights will be administered based upon their respective date of priorities within the regional groundwater unit.

The District's current valuation of \$3,150afa for *Payment in lieu of Water Rights* is based on a formula derived from the drilling costs for the Arrow Canyon well #2. With the overallocation of water rights in the LWRFS this evaluation method is using an outdated formula that looks at past water costs. The District's valuation of water rights should consist of factoring current as well as future costs of water resources in the LWRFS.

Currently water resource availability is centered on two sources, surface water (MVIC shares) and alluvial groundwater. Both options will require treatment, and each has a different set of obstacles that is associated with them. With the monthly and yearly variations in flow, it would be difficult for MVIC to quantify the fixed water equivalent on a per share basis.

Each year, SNWA receives approval from the office of the State Engineer and Bureau of Reclamation for Intentionally Created Surplus (ICS) of water credit in Lake Mead from their MVIC owned water shares. SNWA received 6.93afa for preferred shares and .704afa for common shares from the Muddy River tributary during the calendar year 2016.

The District's Water Dedication Ordinance requires 1.1afa per one residential unit. Using the 2016 quantification of $(6.93/1.1 = 6.3\text{afa Preferred})$ $(.704/1.1 = .64\text{afa})$ The estimated acre foot of water is contingent on receiving the full water amount when the conversion from Irrigation to municipal use. *(historically the conversion from groundwater irrigation rights to culinary requires up to a 30% hair cut in water volume)*

Using the current market value of \$40,000 for a MVIC preferred share, the Payment in lieu valuation would be in the range of $\$40,000/6.3 = \$6,350$
($\$30,000 = \$4,765$ $\$35,000 = \$5,555$ $\$45,000 = \$7,145$ $\$50,000 = \$7,940$)

The only valuation for groundwater rights the District has at its disposal is the water Union Pacific Railroad had for sale at the rate of \$6,000 an acre foot. This valuation was based on a total bulk sale requirement \$36,300,000 for 6,050afa.

Staff's recommendation is a valuation range between \$6,500 and \$8,500 to keep pace with the current market.

Suggested Motion

Move to adjust the payment in lieu of dedication fee to \$XXXX