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STATE BOARD FOR FINANCING WATER PROJECTS

April 14, 2008

Mr. Vernon Dalton
Metropolis Water Irrigation District
HC60 Box 130
Wells, Nevada 89835

Subject: Metropolis Water Irrigation Restoration Project

Dear Mr. Dalton:

The letter from Dan Dyer titled "Responses to Questions from Board for Financing Water Projects, Metropolis Water Irrigation Restoration Project, Wells, Nevada" and dated February 22, 2008, was discussed at the March 20, 2008, Board for Financing Water Projects (Board) meeting. The Board expressed disappointment in some of the responses to their questions. There appears to be some ambiguity with respect to match funding, release of water, recreational facilities, and revenue to operate and maintain the dam and irrigation system.

As discussed in the November 2005 Board meeting, the project was split into two phases. Given the uncertainty in the time necessary to complete design and permitting, the Board approved a phased approach to the project with a first phase for the engineering and permitting. That Phase 1 grant was awarded in January 2006, and uncertain and changing requirements with the cultural and biological surveys have delayed both design and permitting. The Board was clear that the commitment to build the dam was not made with the design/permitting phase (Phase 1). Any commitment by the Board to provide funds towards the construction of the dam will be part of the review and action associated with Phase 2, the construction phase. Commitment of funding will be considered by the Board when the District completes Phase 1 of this project and comes to the Board to apply for Phase 2 of the project.

Both the City of Wells (City) and Elko County (County) have pledged financial assistance in funding the restoration of the dam as a more broadly based economic development project that would result in an increase in tourism activities to northeastern Nevada. It appears, however, that there is a limited commitment on behalf of the Metropolis Water Irrigation District (District) to the Bishop Creek Recreational Facility. Your response, in the subject letter, that the "fishery has never been part of the plan" is interesting as it appears to be in direct conflict with the Board's desire and with comments you made during the Letter of Intent review at the Board meeting in November 2005. The City has continued to point to fishing licenses and bait shops as potential positive economic benefits if this dam is constructed. As you may recall, the majority of the Board members spoke favorably about this project because it provided for multi-faceted recreational opportunities that would benefit the citizens of Nevada as a whole and be more than simply a project that benefits only a few private individuals. Recreation,

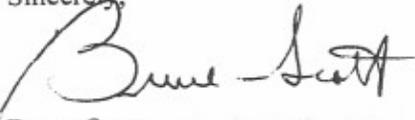
public access, a viable fishery (even if it is under stress in certain drought situations) are all important multiple use benefits which the Board must consider while, at the same time, recognizing the benefit that the irrigation itself would bring.

If you will recall, the Board encouraged the District to ensure that a portion of the revenue stream generated by the increase in tourism be assigned to fund the needed maintenance and capital reserve fund of the dam and the irrigation system. It is not clear how the District will otherwise manage these expenses given the small number of users and irrigated acres. Further information on the District's ability to fund a capital replacement account has not been forthcoming and an operator for the recreational area (e.g., the Bureau of Land Management, Division of State Parks, etc.) have not, yet, been identified.

Before the District comes to the Board to request funding for a Phase 2 of this project, the Board will need to have the District's information regarding the establishment of water rates for irrigation water and revenue from tourism that is sufficient to pay for the continued operation, maintenance and capital reserve funding of this irrigation system. To date, the information provided is not adequate.

Please coordinate with staff to discuss any questions and to be sure the Board's concerns with the District's letter of February 22, 2008 are addressed prior to your next meeting with the Board.

Sincerely,



Bruce Scott
Chairman, Nevada Board for Financing Water Projects

cc: Adele Basham, Technical Assistant to the Board for Financing Water Projects
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