

November 1, 2001

WAYNE MCARTHUR, CHAIRMAN
SANTA CLARA RIVER DISTRIBUTION SYSTEM
175 E 200 N
ST GEORGE UT 84770

Dear Mr. McArthur:

The purpose of this letter is to introduce an issue that I had hoped we would never have to bring up. However, it is of vital importance to the Division of Water Rights ability to continue to administer its Commissioner and Distribution System Program. It is an issue that we would like to discuss at the next annual meeting of the Santa Clara River Distribution System.

There has been quite a bit of media overage lately about the state budget shortfalls. Earlier, this year the Governor issued a 4% budget hold back which essentially froze 4% of that portion of each division's budget that comes from general state revenues. Almost a hundred percent of the budget for the Division of Water Rights (excluding commissioner salaries and expenses and some federal dam safety funding) comes from general state revenues. Recently, the Governor issued another budget cut of 2%. We have been informed that these cuts plus an additional cut of about 1% will apply to next year's budget as well.

The Division of Water Rights has always operated on a tight budget. We have managed over the years to absorb budget cuts and make adjustments to be able to continue administering the Commissioner and Distribution Program without cost to the water users on each system. However, these current cuts and the prospect of future cuts put the division's budget in a situation where we have to make some difficult decisions.

Paragraph 73-5-1(3)a Utah Code Annotated states in part:

"The salary and expenses of the commissioner and all other expenses of distribution, including printing, postage, equipment, water user's expenses, **and any other expenses considered necessary by the state engineer**, shall be borne pro rata by the users of water from the river system or water source in accordance with a schedule to be fixed by the state engineer. ..." (bold added)

We recently did a study of division staff time dedicated to distribution administration which includes calculating & preparing assessments; processing assessment payments; disbursing distribution funds;

accounting; maintaining and updating distribution assessment accounts, etc. The study also included the cost of mailing notices and assessments. This effort supports over 2500 assessment accounts on 39 distribution systems. Our study revealed that this effort currently costs the division approximately \$76,000 each year in manpower and resources. This is equivalent to 7.7% of the total of the budgets set by the distribution systems for 2001.

In view of the budget situation, we believe we have no choice but to begin assessing distribution systems to help cover these costs. Each distribution system will be assessed based on a percentage of the budget set at the annual meeting. The same percentage will be used for each distribution system. The assessment will be drafted by the division from each distribution system's trust account sometime before the end of the state's fiscal year, June 30th. The division will draft the very least amount necessary according to the division's budget situation; therefore, the amount actually drafted by the division will be less than or equal to the percentage assessed.

The implementation of the State Engineer's assessment will begin in 2002 and will take place over a period of three years. The first year's assessment will be 2.5%, the second year's assessment will be 5.0%, and the assessment for the third and succeeding years' assessment will be 7.5%. Assuming that the budget for your distribution system remains at \$14,534.00 as set for 2001, the dollar amount of the State Engineer's assessment for your system will be as shown in the following table:

<u>YEAR</u>	<u>ASSESSMENT %</u>	<u>ASSESSMENT \$</u>
2002	2.5%	\$363.00
2003	5.0%	\$727.00
2004	7.5%	\$1,090.00

Any further changes in the assessment percentage will be based on future evaluations of the division's administration costs as described above.

At the annual meeting we would like to discuss this change with you to answer any questions you may have concerning the need for the assessment or the assessment procedures. If you have any questions or comments prior to the meeting please contact Lee Sim, Assistant State Engineer for Distribution at (801)538-7380.

Sincerely,

Robert L. Morgan, P.E.
State Engineer

cc: Lee H. Sim, Assistant State Engineer
Kerry Carpenter, Regional Engineer