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February 6, 2014

**ATTORNEY-CLIENT  
PRIVILEGED COMMUNICATION**

Via U.S. Mail

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**Re: February 13, 2014 YJWCD Meeting**

Dear Directors:

Attached is the meeting packet for the upcoming meeting scheduled for Thursday, February 13, 2014. Please let me know if you will be unable to attend the meeting as achieving a quorum can be difficult. There are a couple of matters to consider in advance of the upcoming meeting.

**Insurance.** As you know, the District's Officers' and Directors' liability policy has expired. The last quote I received from Mountain West was in the range of \$15,000 to \$11,000. I have been in the process of trying to shop around for other quotes and have turned to an agent in Glenwood Springs to see if there is a more reasonable product available. I had hoped to be further along in this process but have instead focused efforts on trying to reach a potential settlement with Livingston that would result in dismissal of the lawsuit (see discussion below). I have been told that dismissal of that lawsuit would result in a lower premium for the District.

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**Highland Ditch.** Attached is a letter inviting the Highland Ditch Company to come to the meeting. We had previously provided the ditch company with a revised lease, recognizing that the previous lease was outdated. Under the terms of the new lease, the District would agree to waive, or write-off, any claim for recovery of funds for years when water was delivered but no payment was received. I have not heard from ditch company whether it finds the terms of this agreement acceptable.

**Litigation.** I have been in contact with Mr. Livingston's attorney and Sarah Klahn has made an effort to contact the other remaining parties regarding possible settlement of the water cases as well as the budget lawsuit. Attached are two conceptual stipulations that I sent to Mr. Livingston's attorney as an attempt to re-start settlement discussions.

With respect to the diligence cases, the concept proposed is to allow the District to keep sufficient water rights to allow it to build a reservoir that would provide reliable storage for releases of up to 5,000 acre feet annually for augmentation purposes. The District would then abandon its remaining water rights. In exchange, the District would agree to limit its development of any other reservoir for a period of 25 years.

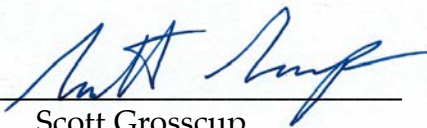
The District does not have a strong diligence case. And although it prevailed at the Supreme Court on the limited question related to director authority, it is unlikely that it will prevail on keeping the entirety of its water rights. In fact, it may lose them all. Thus, a significant reduction in the District's portfolio is a reasonable compromise given the District's financial situation and lack of ability to provide adequate evidence to meet the legal tests. I.e.; that it has a "specific plan" to put a "specific amount of water" to use, that the reservoirs are feasible, that there is an identified need for the water, and that the District "can and will" put the water to use within a reasonable time.

The other item that Mr. Livingston has been concerned with is that that the settlement must be "lasting." In other words, he wants certainty that the District won't turn around and seek new water rights and build something larger in the Upper White River. This has been the major sticking point with the District, that it does not want Mr. Livingston to decide the District's future. The proposed compromise position limits the District for a period of 25 years. Livingston receives his certainty, but it also recognizes that circumstances may change in the future, and provides the District with flexibility to take steps when and if that change occurs. This provision would not prohibit the District from partnering with the Rio Blanco Water Conservancy District for something in the lower basin.

As part of this settlement, we have also drafted a settlement offer in the lawsuit alleging budget violations. Here, Mr. Livingston's desires are less solid. It appears from talking with his attorney, that he is willing to let this case go with a settlement of the water cases. The proposed settlement contemplates a recognition by the District that it is subject to Colorado budget laws and in exchange he will agree to dismiss the lawsuit.

I will provide an additional update on these matters at the meeting.

Very truly yours,

By:   
Scott Grosscup

Encl.