Denver, Colorado, May 21st, 1918.

Montezuma Valley Irrigation District,
Cortez, Colorado.

Gentlemen:-

The Committee of the Bondholders of the Montezuma Valley Irrigation District makes to the District the following proposition: It is proposed that:

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1. The District pay all interest due June 1, 1918, upon all of its then outstanding bonds as soon as possible, and in any event not later than December 1, 1918, and also pay when due all interest on said bonds due June 1, 1919, June 1, 1920, June 1, 1921, and June 1, 1922. That on December 1, 1921, and December 1, 1922, the District pay not less than one-third of the amount of interest then due on all its then outstanding bonds.

2. The District, so far as the same may then or subsequently be collected, pay the interest on all its then outstanding bonds due December 1, 1918, December 1, 1919, December 1, 1920, and also the two-thirds of the interest due December 1, 1921, and December 1, 1922, and not hereinbefore agreed to be paid when due.

3. The District will take up and cancel the $115,000.00 of bonds of its second issue, authorized April 9, 1910, which now remain in the treasury of the District undisposed of, and that during the continuance of this agreement no additional bonds will be issued by the District.

4. To insure the development and upkeep of the District's irrigation system the District will levy annually during the life of this agreement a maintenance tax of not less than $1.25 per acre.
6. The District will, during the continuance of this agreement, continue in force the rule requiring the shutting off of water in case of the non-payment of tolls.

6. The District will levy for its sinking fund a tax of $8,050.00 for the year 1920 and a tax of $16,100.00 for each of the years 1921, and 1922, so that the first principal payment which falls due in 1923, as hereinafter provided, may be provided for.

7. The District will for all years subsequent to 1922 pay when due all interest falling due on any of its bonds outstanding, on any date when any interest falls due.

8. The District will pay when due all sums falling due in accordance with the proposition herein proposed.

9. A tax levy was made in 1917 for the payment of $40,000.00 par value of the outstanding District bonds due May 1, 1918, which levy is now in process of collection. The District will pay off and cancel said amount of bonds as and when said tax is collected.

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The Bondholders propose to agree that:

1. Of the now unpaid District interest taxes heretofore levied (excluding the levy of 1917) which shall hereafter be collected, the bondholders will, when paid, donate to the District one-half of the face value of their now unpaid coupons, and they will waive all claim to interest upon said past due coupons.

2. That all interest paid pursuant to paragraph numbered I 2 above, shall, when paid, be donated to the District, and that they will waive all claim to interest upon any of the coupons which shall be past due in whole or in part.

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3. The donations mentioned in paragraphs 1 and 2 above are to be deposited in a bank or trust company to be mutually agreed upon, subject to the joint control of the District directors and a representative of the Bondholders' Committee. The Bondholders' representative will see to it that the funds so deposited are expended for the most necessary betterments and repairs of the District's irrigation system. The compensation and expenses of the Bondholders' representative shall be paid out of this fund.

4. The bonds not falling due in 1918 the Bondholders will extend as follows: $40,500.00 to May 1, 1923, and a like amount to May 1st in each of the years 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1931, 1932, 1933, 1934, 1935, 1936, 1937, 1938, 1939, and 1940, and $36,000.00 to May 1, 1941. The District is to have the privilege of retiring all or any part of the bonds at par on any interest date by giving sixty days' prior notice, bonds paid hereunder to be drawn by lot.

-III-

It is further mutually proposed that:

1. This proposition applies only to such bonds as shall at the time this proposition is accepted by the District be in the control of the Committee under its agreement with the bondholders, and to such bonds as shall hereafter come into the control of the Committee under said agreement. The amount of the principal of the bonds now in the Committee's hands is $811,600.00. The Committee and the District will co-operate in an earnest endeavor to secure the deposit with the Committee under its agreement of as many as possible of the undeposited bonds, or, if the deposit of the bonds cannot be secured, to
procure the holders of such undeposited bonds to become parties to the agreement herein proposed.

2. The object of the proposition herein made is to cooperate with the District, (a) in preventing further defaults on its bonds; (b) in procuring the collection of taxes heretofore levied for the District's benefit and now remaining unpaid; (c) to assist the District in plowing its physical plant in good order and condition; (d) to assist the District in procuring settlers who will cultivate and pay District taxes on District lands now uncultivated, thereby assisting the District to pay its debt.

3. An endeavor will be made to form a corporation with ample financial resources for the purpose of cleaning up the present outstanding tax liens on the District's lands so as to promote the rapid development and settlement of the lands in the Valley and equalize the burden of taxation. It is proposed that this corporation be owned by Colorado people and the bondholders in substantially equal amounts.

4. In the event that this proposition meets with the approval of the District, a formal contract embodying the foregoing proposition is to be prepared and executed by the parties.

5. It is understood that in case the District shall make default in carrying out the provisions of any such formal contract, the agreements therein contained shall, at the option of the bondholders, become null and void and the bondholders shall have the same right to enforce their bonds and coupons according to law as they would have if no such contract had been entered into.

Mark Romo
Chairman

A. B. Read
Secretary
Grand Rapids, Michigan, September 24, 1918.

Mr. William B. Ebbert,
Chairman Landowners' Committee
Montezuma Valley Irrigation District,
Cortez, Colorado.
Dear Sir:

The Bondholders' Protective Committee of the Montezuma Valley Irrigation District met on August 21, 1918, and considered the counter-proposal made by your Committee of date July 20, 1918, looking to an adjustment between the bondholders and the landowners of said District.

At this meeting it was the ruling thought that nothing would be gained by asking either party to the proposed adjustment to agree to do that which they could not perform. This thought applies with equal force to things which may be legal but which the parties see no probability of their being able to perform, and to things which for legal reasons cannot be performed.

I state the views of the Committee in relation to the several paragraphs of your communication of July 20th seriatim.

Paragraph 1. The Bondholders' Committee cannot agree to obtain control of a minimum of 90% of all the outstanding bonds of the District. Every member of the Bondholders' Committee has had considerable experience in serving on committees of this character. That experience has taught us all that there is always a percentage of bondholders who will not deposit their bonds with a committee. It is, therefore, impossible for the Committee to guarantee its possession of any certain number of bonds. On August 29, 1918, the Committee
had on deposit $556,000.00 of the total outstanding bond issues of the District. Of this amount $2,150.00 of principal has been paid. The Committee believes that it will be able to secure control of a large amount of additional bonds, but this it cannot guarantee. The situation noted below under Paragraph 3 may, however, be a solution of this difficulty.

**Paragraph 2.** The Committee has no objections to this paragraph.

**Paragraph 3.** The Committee is prepared to meet your views in regard to an extension of the bonds over a period of forty years, 2½% of the principal indebtedness to be paid each year after the time for beginning the payment of the principal; the bonds paid to be retired as a matter of course. In regard to your proposal to pay 3% interest during the years 1919 and 1920 and to postpone the payment of the remaining 2½% in each of those years until 1929 and 1930, the Committee cannot see its way clear to accept your proposition for the following reasons: Under your proposal, 25% of the bonds would be paid. It would be a practical impossibility, after the payment of these bonds, to ascertain the parties entitled to the 3½% additional interest proposed to be paid in each of the years 1929 and 1930. Many of them would be dead, all would be scattered, and the result would be that few, perhaps none, of them would ever receive this amount. The Committee appreciates your desire to make the first two years after we begin the execution of any adjustment as easy on the taxpayers as possible, and suggests that instead of the postponement of the interest, the further postponement of the payment of any principal for the period of two years be substituted. This would give the District forty-two years instead of forty in which to pay the principal.
In connection with this proposed extension of the bonds, our Committee is advised that there are serious legal difficulties and that legislation will be necessary to enable the desired end to be accomplished. These legal difficulties may be thus stated: Under the present law, the bonds and coupons which are due are receivable for District taxes. Any bondholder who has taxes to pay may pay the District taxes in that manner. Any taxpayer may purchase such bonds or coupons and use them to pay his District taxes. The right so vested by law we are advised cannot be abrogated by contract. Furthermore, only the taxes for the year in which the bonds or coupons fall due can be paid with the bonds and coupons of that year. It follows from this that if we could legally contract to allow the District to levy only $x\%$ of the principal of the bonds when the law requires them to levy a much larger amount, the taxpayers holding the bonds and coupons would be able to pay each year more than the levy for that year. The inevitable result would be that the total levy would be paid with old bonds and coupons and that in consequence, there would be no cash received to pay the remainder of the coupons and bonds. Another legal difficulty I have alluded to. In 1918 5% of the first issue of bonds fell due, next year 6%, and each year following for ten years an increasing percentage of the total. As the law is at present, the District is bound to levy a sufficient amount to pay the statutory proportion of the bonds outstanding. We are advised that this statutory duty cannot be abrogated by agreement.

We suggest, therefore, that if the parties can agree on the terms of adjustment, that the Colorado legislature of
1919 be applied to for legislation which will enable us to carry out our agreement. As the bondholders are unwilling to waive the benefit of the decision they have obtained in the case of Norris, et al, against the District, and as both parties to that litigation will be bound to accept and submit to its final result, we suggest that in the proposed legislation it be provided that the new bonds to be issued thereunder be liens of the same kind, character, and to the same extent as shall finally be determined in the litigation referred to. It is our thought that under this legislation the District might issue new bonds in accordance with the agreement in exchange for the old bonds. This would solve the legal difficulties above referred to and would also make it a practical certainty that all of the old bondholders would come in and exchange their old bonds for the new ones, thereby solving the difficulty I have noted under Paragraph 1 above. It would also have the additional advantage of enabling our Committee to wind up all of its business except possibly that of the taxbuying corporation. To our Committee it seems impossible to consider an agreement which would force the continuance of the Committee for any such periods as is under consideration in relation to an extension of the present bonds. The bondholders whom we represent would not consider any such proposition for a moment. Our Committee, of course, has in mind the fact that a new issue of bonds may be no better in regard to obtaining payment thereon than the old ones. It considers, however, that if an adjustment along the lines proposed can be made and the District empowered and required by law to cut off the water from lands on which taxes are not paid, together with the much easier terms of payment provided, the people of the District ought to succeed, and probably would succeed, in paying off the new bonds as they come due.
Paragraph 4. The proposition made in your Paragraph 4 amounts to making the $40,000.00 of bonds which fell due this year payable only subject to the collection of the tax levy of last year. As the litigation now stands, these bonds are entitled to the same rights as the other bonds. It would be a gross breach of trust, therefore, for the Committee to agree to put these $40,000.00 of bonds, or such portion of that amount as the Committee now holds, namely, $21,500.00, in a class by itself, which class should be worse off than the other bonds held by the Committee. In this same connection we may note that it is impossible, on the basis of this communication, to bring this proposed adjustment to a final conclusion before the levy of the tax for the payment of the bonds due in 1919. Our Committee therefore suggests in this matter that, if the proposition for an issue of new bonds be approved and agreed to, all old bonds unpaid be treated alike and that any moneys derived from the tax levies for principal of bonds falling due in 1918 and 1919 be devoted to the payment of the new bonds which are exchanged for the old bonds falling due in those years, the amount so paid, of course to be cancelled, thereby considerably reducing the District indebtedness. Our Committee is prepared to try and arrange this last matter on an easier basis, if a practical suggestion can be given on that line. As at present advised, it seems no way to avoid this difficulty.

Paragraph 5. Our Committee is unable to agree to your proposition No. 5. Our Committee is without the necessary means to finance the proposed taxbuying corporation without the use of a considerable proportion of the past due coupons now in its hands. For the purpose of paying back District taxes
for the several years in which the coupons fell due, these coupons are the same as cash. The Committee does not consider it a feasible plan to go to the bondholders in an attempt to raise funds to finance its share of such a corporation without the use of the coupons. It, therefore, finds itself unable to go further in the matter of donating to the District sums received from the collection of past due coupons than was stated in its original proposition of May 20, 1918.

It is, however, willing to suggest the following as a substitute: that it will donate to the District the proceeds which it shall hereafter receive from such proportion of the capital stock of the taxbuying corporation as shall be financed by coupons. For example, if $20,000.00 of the capital stock of the taxbuying corporation is represented by the coupons conveyed to it by our Committee, whatever sums, either of principal or dividend, are eventually derived from that investment in the corporate stock the Committee will, when received by it, donate to the District for its upbuilding. The Committee will, however, keep the corporate stock until the enterprise is closed up so as to enable it to have an equal voice with the District landowners in regard to the management of the proposed corporation.

Paragraph 6. Our Committee feels confident that as the District works get older, the District more settled, and a greater share of the lands therein under cultivation, the greater will be the necessity for the prompt and effective maintenance of the District works, and that its proposal that the District agree to levy a maintenance tax of not less than $1.25 is reasonable. It is, however, willing that this maintenance tax, after 1922, shall be reduced to a minimum of $1.00, such minimum to continue through the life of the bonds; if experience shows $1.00 to be too much, a subsequent agreement could readily be reached which would obviate an excessive levy.
Paragraph 7. We judge from Paragraph 7 of your communication that you figured that the Committee wanted to take over the administration of the Irrigation District. This it has no desire or intention whatever to do, has no objection to fixing a maximum expense for its representative, and has no desire to have that representative dictate. Inasmuch, however, as there might be a difference of opinion in the expenditure of the fund proposed by us to be created, and that difference might arise from a difference in judgment as to where the money could best be expended, we suggest that our original proposition be allowed to stand, with the addition that we agree on a reasonable compensation for the representative beforehand, and that in case of any difference of opinion as to what should be done next in the way of spending the fund to be created, that the matter be left to the Colorado State Engineer to decide and that his decision shall be final.

Paragraph 8. We have no objection to this paragraph. We suggest, however, that when the details of any agreement arrived at come to be drawn, that this should be rephrased so as to not only authorize but to require the District to shut off the water if the taxes are not paid when due. Of course, such action on the part of the District must be had at a time when the cutting off of the water would be effectual, and the District taxes should be payable at a time when the cutting off of the water would be an effectual method of enforcing tax payment.

Paragraph 9. The Committee is prepared to agree to finance one-half of a taxbuying corporation, to be capitalized at, say, $100,000.00, such capital to be paid in in cash or
past due bonds or coupons of the District at their face value, they being the same as cash in the matter of the payment of taxes, the other half of the corporate capital stock to be taken by residents of Colorado on the same basis.

Paragraphs 10 and 11 need no comment as they are satisfactory.

Paragraph 12. In view of the advice which our Committee has that additional legislation will be needed to make any such adjustment as is contemplated, it necessarily is required that Paragraph 12 be modified so that if new bonds are issued, the bondholders will have to stand on the new bonds. If, however, the legislation suggested cannot be obtained or some other means of adjustment suggested, it would necessarily follow that the adjustment could not be carried into effect, and that any contract entered into between the bondholders and the District would be ineffectual and the bondholders would have to stand on their rights under the present bonds.

We respectfully submit the foregoing as our views in response to yours above noted. We also beg leave to suggest that we should proceed with any further negotiations as speedily as possible so that if we arrive at an agreement we can be prepared to act thereon in ample time to bring the necessary matters to the attention of the legislature of 1919.

Mark Morris
Chairman.