

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Anna Mauss, PE
Mike Serlet, PE, Chief
Water Supply Planning & Finance Section

DATE: January 20, 2009

SUBJECT: **Agenda Item 11a, January 27-28, 2000 Board Meeting**
Water Supply Planning and Finance Section – New Project Loans
Park Center Water District – Well Redrilling Project

Introduction

The Park Center Water District (District) acting by and through its Enterprise is applying for a \$1,000,000 loan for its Well Redrilling Project (Project). The Project consists of redrilling the well the District leases from the Bureau of Land Management (BLM). This well is a primary source of water for the residents of the District, located just north of Canon City. The well began leaking in the spring of 2008 and redrilling is necessary for the District to continue providing water to its residents. The Project cost is estimated to be approximately \$1,500,000. See attached Project Data Sheet.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$1,010,000 (\$1,000,000 for project costs and \$10,000 for the 1% Loan Service Fee) to the Park Center Water District acting by and through its Enterprise for its Well Redrilling Project from the Severance Tax Trust Fund Perpetual Base Account. The loan amount at no time shall exceed 90% of the total project expenditures. The loan terms shall be 30 years at an interest rate of 3.5% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff further recommends additional approval provisions:

- 1) Prior to signing a contract with the CWCB, the District must execute an extended lease agreement with the BLM showing a 30 year minimum lease so that the timeframe of the lease meets or exceeds the CWCB debt service repayment schedule.

- 2) Prior to signing a contract with the CWCB, the District must obtain written approval of the well drilling Project from the BLM as required in its existing lease document.

Staff further recommends the following clause be included in the contract:

If the District is successful in obtaining federal assistance through congressional funding or it (in conjunction with the BLM) receives emergency funds for well drilling, it will apply such funds towards repayment of the CWCB loan.

Background

Park Center Water District is located in Fremont County on the north side of Canon City. The District was formed in 1968 by irrigators of small ranches and farms as a means of supplying residents with drinking water. Prior to the District formation, the residents hauled water to fill cisterns or they took water directly from the ditch, which flowed with the Park Center/BLM well (well) water. In the 1960s, a water system was constructed to deliver water to area residents. Until 1995, the sole source of this supply was the well.

The 3,216 foot deep well was originally drilled as an oil exploration well between 1923 and 1927. The well failed to produce oil or gas; however, a large artesian aquifer was discovered. The BLM purchased the well from the oil company and began selling water to area users in 1937. The well has a 1938 decree for 2.67 cfs and is nontributary. The District has leased this well for forty years and has a first right of refusal to renew the lease when the current lease expires in 2021. The BLM currently charges the District \$0.43 per 1,000 gallons of water for municipal and domestic use and \$0.23 per 1,000 gallons of water diverted for irrigation use. The BLM has the right to modify the lease at five year intervals for purpose of updating the pricing of water.

In the spring of 2008, the well developed a leak allowing water to reach the surface. The BLM had a contractor inspect the well and it was determined that leaks existed from 10 feet to 2,400 feet below the surface. The well leaks are causing water to come up outside of the casing. The District has installed piping to take pressure off of the well and is diverting this water to an irrigation ditch until repairs can be made.

In addition to seeking funding through the CWCB, the District is attempting to get federal assistance through congressional funding and/or funds from the BLM for emergency well drilling. If it is successful in obtaining other funding, the CWCB contract will require that those funds be applied towards repayment of the CWCB loan.

Loan Feasibility Study

The Loan Feasibility Study titled "*Feasibility of Drilling a New Well at the Existing Park Center Well, November, 2008*" was prepared by Debbie Marsicano, District Manager, with technical support from Roy Smith, Water Rights Specialist, BLM. The study was prepared in accordance with the CWCB guidelines and includes a hydrogeologic report and cost estimates.

Park Center Water District

The District was created by election in 1968 to provide domestic water to residences in the North Canon City area. The District is a Title 37 Special District with its office located in Canon City, Colorado. It currently serves approximately 4,000 residents. The District operates as an Enterprise and is governed by a five member Board of Directors and is funded through user fees and tap fees. The Board has the ability to set user fees.

Water Rights

In addition to leasing well water, the District owns surface water rights through 614 shares in the Canon Heights Irrigation and Reservoir Company. In an average year, one share of stock is equivalent to one acre-foot of water.

Project Description

In order to address the well failure and continue providing water to its users, the District considered the following options:

1. Take no-action;
2. Repair the existing well casing;
3. Redrill the well;

Alternative No. 1 – The no action alternative of discontinuing the lease between BLM and the District was considered unacceptable to the District because it is reliant on the well and could not provide enough water to its users without the well.

Alternative No. 2 – The District and the BLM both contacted contractors to inspect the well to determine if it could be rehabilitated. Both contractors recommended redrilling the 80 year old well. Contractors believed that sliplining the artesian well was too dangerous and could result in complete well failure.

Selected Alternative No. 3 – The District (along with the support from the BLM) selected the well redrilling alternative because it knows the geography of the area, and the size and depth of the aquifer; therefore, it believes this will best solve the existing problem. The BLM will be assisting the District by obtaining all permits required for the project.

The District anticipates awarding a contract for the drilling in February 2009 with work commencing by the end of the month. It expects work to be complete by the end of March 2009.

Financial Analysis

Table 1 shows a summary of the financial aspects of the loan request. The District qualifies for the low-income municipal interest rate of 3.5% for a 30 year term.

Table 1. Financial Summary

PROJECT/LOAN		
Total Project Cost		\$1,500,000
CWCB Loan		\$1,000,000
CWCB Loan (Including 1% Service Fee)		\$1,010,000
CWCB Annual Loan Payment		\$55,000
CWCB Annual Loan Obligation (Including 10% Reserve Funding)		\$60,500
Current Number of Taps		1,415
Average Monthly Cost Per Tap for Project	Before	With Project
	\$28.00	\$31.23*

*Note: The District plans to set aside cash reserves for the CWCB debt reserve account rather than assess its users the additional amount.

Creditworthiness: The District has three existing loans with USDA Rural Development as shown in Table 2. The District is in good standing on all three loans. The collateral on the existing debt is a pledge of assessment revenues, which is the same collateral the CWCB will take; therefore, the CWCB will require a parity agreement from Rural Development as part of the standard contracting process.

Table 2. Existing Loans from Rural Development

Loan Description	Remaining Amount	Annual Payment	Maturity Date
District Improvements	\$218,000	\$20,125	2023
Treatment Plant Construction	\$629,900	\$43,187	2033
Treatment Plant Construction (2)	\$135,400	\$9,260	2034

Even with the Project, the District's monthly rates are within the State average. In the event that the Project runs over budget, the District will pay all additional costs with its cash reserves.

Table 3 shows the Financial Ratios for the District.

Table 3. Financial Ratios

Financial Ratio	Past Years	Future
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	102% (Average) \$791/772K	102% (Average) \$846/827K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	125% (Strong) \$791-700/73K	115% (Average) \$846-700/127K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	105% (Strong) \$808/772K	30% (Weak) \$248/827K
Monthly Residential Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$28.00 (Strong)	\$31.23 (Average)

Collateral – As security for the loan, the District will pledge assessment revenues backed by a rate covenant. This is in compliance with CWCB Financial Policy #5 (Collateral).

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Staff further recommends the following clause be included in the contract:

If the District is successful in obtaining federal assistance through congressional funding or it (in conjunction with the BLM) receives emergency funds for well drilling, it will apply such funds towards repayment of the CWCB loan.

cc: Debbie Marsicano, District Manager, Park Center Water District
Roy Smith, BLM
Susan Schneider, AGO

Attachment: Water Project Loan Program – Project Data Sheet

CWCB Construction Loan Program Project Data Sheet

Borrower: Park Center Water District

County: Fremont

Project Name: Well Redrilling Project

Project Type: Well Drilling

Drainage Basin: Arkansas

Water Source: Nontributary Well

Total Project Cost: \$1,500,000

Funding Sources: District & CWCB

Type of Borrower: Municipal (Low Income)

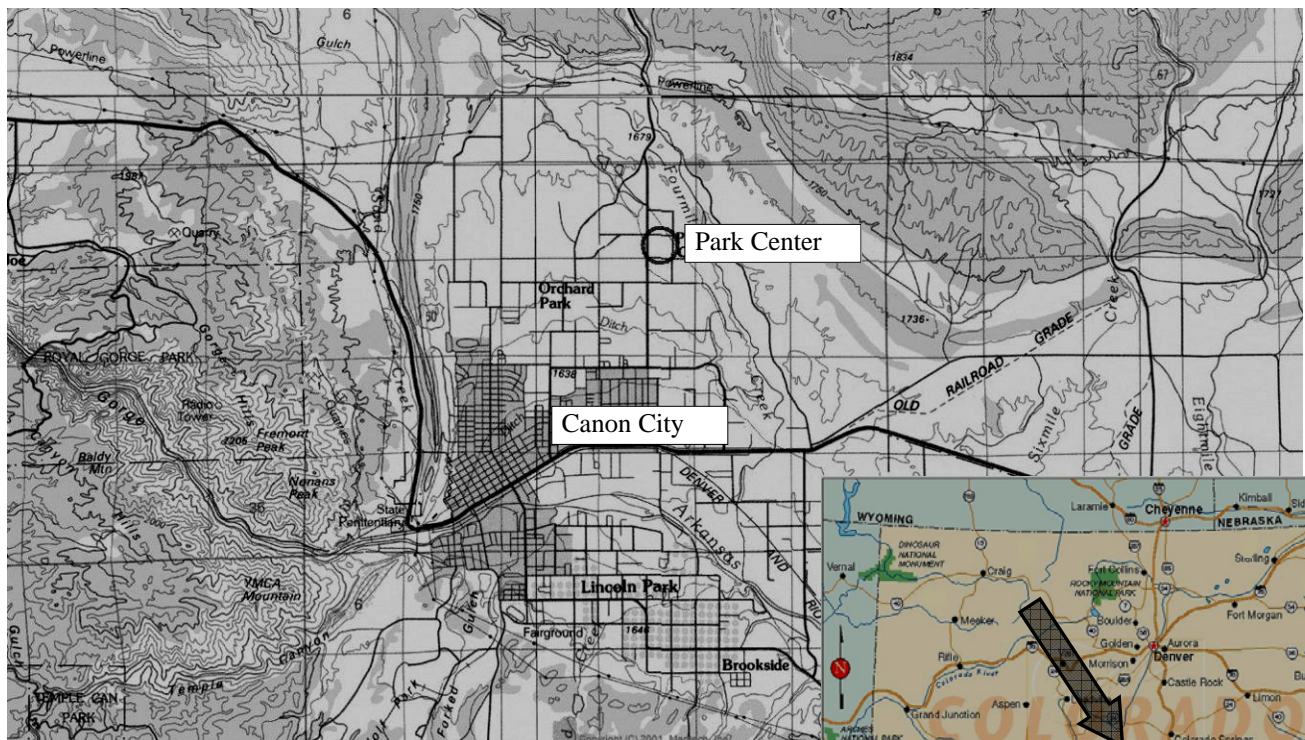
Average Diversion: 400 acre-feet

Loan Amount: \$1,010,000 (including 1% service fee)

Interest Rate: 3.5%

Term: 30 years

Park Center Water District (District) is located in Fremont County on the north side of Canon City. The District was formed in 1968 to supply drinking water to area residents. The primary source of this water is a well owned by the Bureau of Land Management (BLM) and leased by the District. The District has leased this well for forty years and has a first right of refusal to renew the lease when the current contract expires in 2021. In the spring of 2008, the 3,216 foot deep well developed a leak. The BLM and District had a contractor inspect the well and it was determined that leaks existed at 10 feet below the surface and at depths as great as 2,400 feet. The District decided the most cost effective solution is to redrill the well. The redrilling is expected to begin in February 2009 with completion by the end of March.



Location Map

