

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Mike Serlet, P.E., Chief
Water Supply Planning and Finance Section

DATE: May 11, 2009

SUBJECT: **Agenda Item #16 – May 19-20, 2009, Board Meeting**
Water Supply Planning and Finance Section – Revisions to Existing Loans
Dolores Water Conservancy District – WETPAK Project De-Authorization

Bill Ritter, Jr.
Governor

Harris D. Sherman
DNR Executive Director

Jennifer Gimbel
CWCB Director

Dan McAuliffe
Deputy CWCB Director

Background

The CWCB authorized a \$3,323,180 loan to the Dolores Water Conservancy District (District) at its January 26, 2005 meeting for the construction of two pumping plants and pipeline facilities to provide water to irrigate approximately 2,200 acres. The project was part of the District's WETPAK project located in Montezuma County. The District has requested that the CWCB de-authorize the original loan amount and terminate their loan contract. (see attachment)

Discussion

The District pledged an interest-bearing annuity, established for the purpose of repayment of and as collateral for the original loan amount under an Investment Agreement with MBIA, Inc., dated December 5, 2002. The annuity has recently been downgraded by its Insurer from a AAA rating to an A rating. Due to the downgrade, recent fiscal statutory changes disallowing this type of collateral, and the unstable economy, the District and the CWCB can no longer rely on the annuity to secure the loan from the Severance Tax Trust Fund Perpetual Base Account.

The original project consisted of two parts: 1) acquisition of water rights from the Montezuma Valley Irrigation Company, and 2) the construction of the pumping stations and pipeline facilities. The water rights were obtained with an initial loan contract that the District has re-paid in full. The second part of the project has never commenced. The annuity secured both parts of the project.

When the District was notified that the annuity had been downgraded from a AAA rating to an A rating, the loan contract in essence had been breached. The District immediately notified the CWCB staff and an equivalent collateral alternative was investigated. The District's board

was unsuccessful in their attempts to agree upon an alternative source of collateral and decided to request de-authorization of the loan.

Recommendation

Staff recommends the Board de-authorize the remaining funds, \$3,323,180, in the Dolores Water Conservancy District loan contract #C-150193, including all amendments, and return the funds to the Severance Tax Trust Fund Perpetual Base Account.