

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

1313 Sherman Street, Room 721
Denver, Colorado 80203
Phone: (303) 866-3441
Fax: (303) 866-4474
www.cwcb.state.co.us



TO: Colorado Water Conservation Board Members

FROM: Anna Mauss, P.E.
Water Supply Planning & Finance Section

DATE: September 9, 2009

SUBJECT: **Agenda Item 7c, September 15-16, 2009 Board Meeting**
Water Supply Planning and Finance Section – New Project Loans
Raymond Dairy, Inc. – Raymond Ditch Reconstruction Project

Bill Ritter, Jr.
Governor

Harris D. Sherman
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Dan McAuliffe
CWCB Deputy Director

Introduction

The Raymond Dairy, Inc. (Borrower) has requested a loan from the CWCB to replace approximately 2,400 feet of its existing concrete ditch for the Raymond Ditch Reconstruction Project (Project). The Project will increase ditch efficiency and reduce salinity impacts in the Colorado River. The total Project cost, including engineering and construction, is estimated at \$95,000. The Borrower is eligible to receive funding assistance from Natural Resources Conservation Service (NRCS). The remaining project cost will become a 20-year CWCB loan. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation

Staff recommends the Board approve a loan, not to exceed \$95,950 (\$95,000 for project costs and \$950 for the 1% Loan Service Fee) for engineering and construction costs, to Raymond Dairy, Inc. from the Construction Fund for the Raymond Ditch Reconstruction Project. Following construction, the staff further recommends the loan be amended to an amount not to exceed \$63,950 (\$63,000 for the remaining balance of the Project and \$950 for the Loan Service Fee). The loan terms shall be 20 years at the reduced agricultural rate of 2.5% per annum (2.75% reduced by 0.25% for a 20-year term). Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff further recommends that no loan funds be disbursed until an account is set up with one annual payment is set aside as the reserve account.

Background

The Borrower is located in Mesa County just northwest of Fruita, Colorado. The Borrower owns Raymond Ditch (Ditch). The Ditch is located on land owned by Robert and Helen Raymond. The Ditch has a capacity of 3.5 cfs and is used to carry irrigation water to approximately 125 acres of field crops for dairy cattle. This dairy operation has been owned and operated by the Raymond family for more than four generations and currently milks 400+ dairy cows on a daily basis.

The Ditch is located in the Salinity Control area as defined by USDA/NRCS. The NRCS administers the Colorado River Basin Salinity Control Program by providing construction cost sharing and technical assistance using the USDA's Environmental Quality Incentives Program (EQIP). NRCS, Grand Junction Service Center, is managing the planning, design, and field engineering services for this Project. Qualifying ditch owners who install more efficient irrigation systems that reduce salt loadings are eligible for funding.

The Borrower has been approved (and signed a contract) for a grant from NRCS that will cover approximately 33% of the cost of the Project. This Project involves replacing 2,400 feet of the ditch, and installing new head gates and punch plates. This Project will decrease seepage; thereby improving the environment by reducing salt leaching into the Colorado River.

Feasibility Study

Robert (Bob) Raymond, of Raymond Dairy, Inc., with assistance from Lenore Snoke, completed the feasibility study in accordance with the CWCB guidelines. The study, titled *Reconstruction of the Raymond Ditch #545*, dated August 2009, includes an alternative analysis, engineering design, and a cost estimate that was prepared by NRCS and supported by a preliminary estimate by a local contractor. The contractor's estimated price was used to establish the requested loan amount.

Raymond Dairy, Inc.

Raymond Dairy, Inc. has been incorporated in the State of Colorado since 1993. Shares in the corporation are held by members of the Raymond family. Revenues from the corporation will be used to repay the CWCB debt service.

Water Rights

Water supplying the Ditch originates from irrigation returns that flow into an unnamed tributary and are then diverted into the Ditch. The 3.5 cfs water right has an adjudication date of March 1, 1947. The full water right has been diverted every year since the original recorded date. In addition, the Borrower also owns 283 shares of Grand Valley Irrigation Company.

Project Description

Two alternatives were analyzed in the feasibility study:

- 1) No action alternative;
- 2) Participate in the NRCS Colorado River Basin Salinity Control Program.

The Borrower chose to participate in the Salinity Control Program because of the funding assistance and engineering services provided by the NRCS. Work to be completed consists of replacing 2,400 feet of the Ditch, and installing new head gates and punch plates. The benefits of this Project include decreased amounts of seepage in the Ditch (thus decreasing the amount of salt that leaches into the Colorado River), increased efficiency of water flow, and reduction of the amount of debris in the water.

Construction is scheduled to begin in November 2009 and is expected to be complete by April 2010.

Financial Analysis

Table 1 shows a summary of the funding sources for the Project. The total estimated cost of the Project is \$95,000. An initial loan phase (during construction) amount is based on 100% of the estimated total Project cost (allowed per Policy #11). The loan will be reduced to \$63,000 after the Project is complete and the Borrower receives funds from the NRCS.

Table 1. Project Funding Sources

Funding Source	Grant/Other	Loan
Initial Loan Phase		
CWCB Loan		\$95,000
Total (\$95,000)	\$0	\$95,000
Post Construction Phase		
Borrower (NRCS-Cost Share)*	\$32,000	
CWCB Loan		\$63,000
Total (\$95,000)	\$32,000	\$63,000

* Received after construction is complete from NRCS

Table 2 shows a summary of the financial aspects of the Project.

Table 2. Financial Summary of Project

Total Project Cost	\$95,000
Initial Loan (100% of Project Cost)	\$95,000
Other Funding Assistance	\$32,000
Balance of Borrower's Obligation	\$63,000
1% Service Charge	\$950
Post-construction Loan Amount	\$63,950
Annual Loan Payment Amount (based on post-construction loan amount)	\$4,102

Creditworthiness: The Borrower has a loan with Farm Credit Service for \$77,700 with payments of \$18,000/year and a maturity date of 2016.

Repayment of the CWCB loan for the Project will come from proceeds from the dairy operation. In addition, the Borrower will set aside one annual payment as the reserve account prior to disbursements from the CWCB.

Table 3 shows the Financial Ratios for the corporation.

Table 3. Financial Ratios

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	103% (Average) \$1.86M/1.8M	103% (Average) \$1.86M/1.8M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	333% (Strong) \$1.86M- 1.8M/18K	273% (Strong) \$1.86M- 1.8M/22K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	2% (Weak) \$42K /1.8M	2% (Weak) \$42K /1.8M
Annual Operating Cost per Acre-Foot (based on 386 AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$8 (Strong) \$3000/386AF	< \$8/AF (Strong) *Note

*Note: The Borrower maintains the ditches on the dairy farm. The annual maintenance expenditures for the ditches are around \$2-3K/year. Maintenance costs will decrease as a result of this project but exact amount is unknown.

Collateral - As security for this loan, the Borrower will pledge one parcel of real property appraised for an amount not less than 110% of the long term loan amount. The proposed property is a 20-acre parcel of farm land on the northeast corner of the Raymond's land. It has a separate deed from the remainder of the farm and has no liens against it. This security is in compliance with CWCB Financial Policy #5 (Collateral).

Staff Recommendation

Staff recommends the Board approve a loan, not to exceed \$95,950 (\$95,000 for project costs and \$950 for the 1% Loan Service Fee) for engineering and construction costs, to Raymond Dairy, Inc. from the Construction Fund for the Raymond Ditch Reconstruction Project. Following construction, the staff further recommends the loan be amended to an amount not to exceed \$63,950 (\$63,000 for the remaining balance of the Project and \$950 for the Loan Service Fee). The loan terms shall be 20 years at the reduced agricultural rate of 2.5% per annum (2.75% reduced by 0.25% for a 20-year term). Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff further recommends that no loan funds be disbursed until an account is set up with one annual payment is set aside as the reserve account.

cc: Robert Raymond, Owner/President, Raymond Dairy, Inc.
Louie Hartbauer, NRCS
Susan Schneider, AGO

Attachment: Water Project Loan Program – Project Data Sheet

CWCB Construction Loan Program Project Data Sheet

Borrower: Raymond Dairy, Inc.

County: Mesa

Project Name: Raymond Ditch Reconstruction

Project Type: Ditch Piping for Salinity Control

Drainage Basin: Colorado

Water Source(s): Raymond Ditch & Grand Valley Canal

Total Project Cost: \$95,000

Funding Sources: Construction Fund

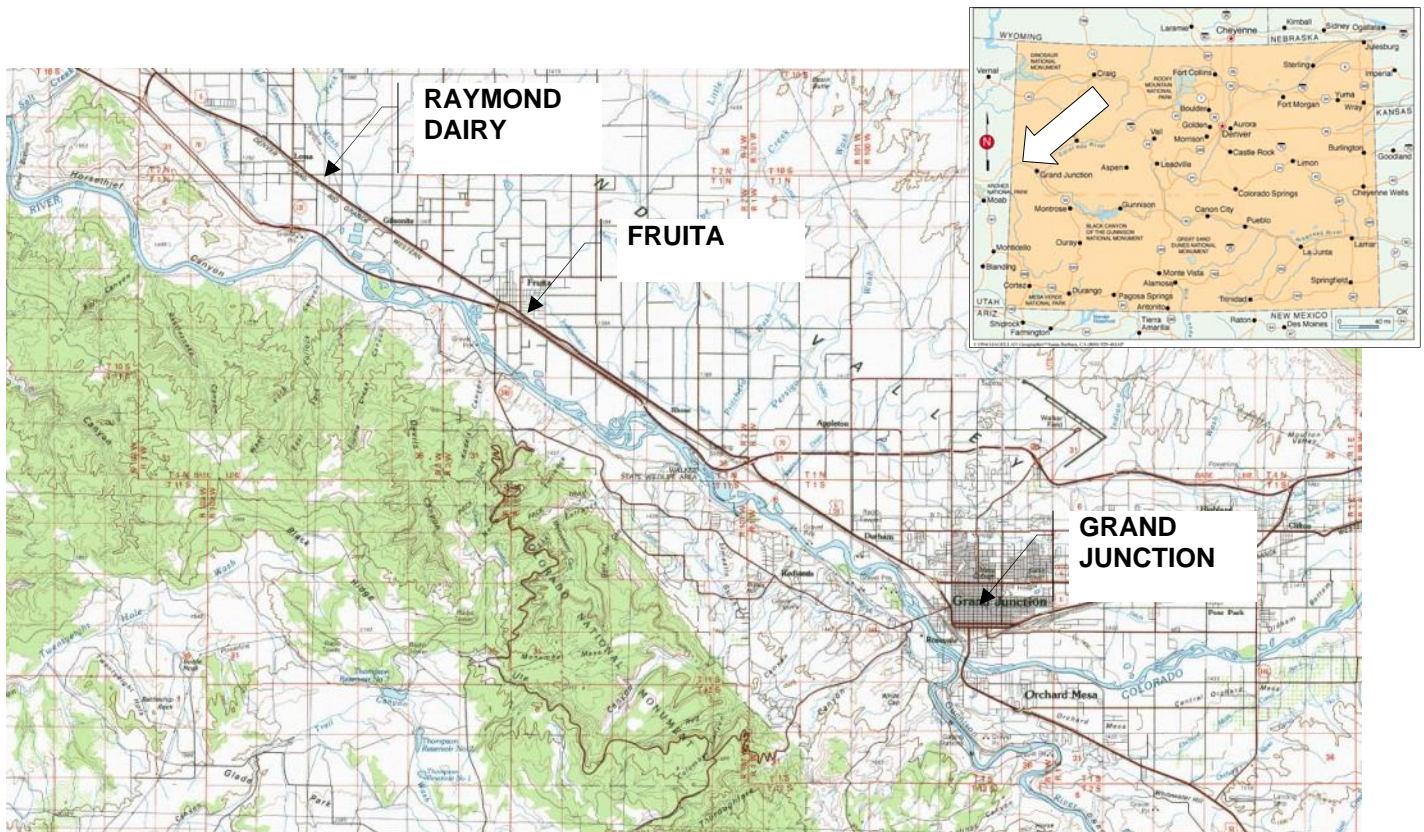
Type of Borrower: Agricultural

Average Delivery: 386 AF

Loan Amount: \$63,950 (Initial loan \$95,950)
(Including 1% fee)

Interest Rate: 2.5% **Term:** 20 years

The Raymond Dairy, Inc. is located just northwest of Fruita, Colorado and is owned by Robert and Helen Raymond. The Raymond Ditch has a capacity of 3.5 cfs and is used to carry irrigation water to approximately 125 acres of field crops for dairy cattle. This Project involves replacing 2,400 feet of the ditch, and installing new head gates and punch plates. This Project will decrease ditch seepage; thereby improving the environment by reducing salt leaching into the Colorado River. NRCS has provided planning and design engineering services for this work. The total project cost is \$95,000. The Borrower has been approved for a grant from NRCS that will cover approximately 33% of the cost of the Project. Construction is scheduled for the fall of 2009. Proposed CWCB funding consists of an initial loan from CWCB for \$95,950 that will be reduced by the NRCS grant. The remaining \$63,950 will become a 20-year CWCB Loan.



LOCATION MAP