

# STATE OF COLORADO

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## Colorado Water Conservation Board

### Department of Natural Resources

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TO: Colorado Water Conservation Board Members

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

DATE: January 19, 2010

SUBJECT: **Agenda Item 26a, January 26-27, 2010 Board Meeting**  
**Water Supply Planning and Finance Section – New Project Loans**  
**Lower Latham Reservoir Company – Well Augmentation Project - Phase III**

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Bill Ritter, Jr.  
Governor

James B. Martin  
DNR Executive Director

Jennifer L. Gimbel  
CWCB Director

Dan McAuliffe  
CWCB Deputy Director

### Introduction

The Lower Latham Reservoir Company (Company) is applying for a \$3,773,835 loan to acquire five shares of the Lower Latham Ditch Company (LLDC), for the purpose of providing additional augmentation water for existing shareholder wells and to construct groundwater recharge facilities. This project has been identified as the Well Augmentation Project - Phase III (Project). The Company previously financed two water rights purchases through CWCB in July 2007 and March 2008. The current loan request is for 90% of the estimated total project cost of \$4,193,150. See attached Project Data Sheet for a location map and a project summary.

### Staff Recommendation

Staff recommends the Board approve a loan from the Construction Fund not to exceed \$3,811,573 (\$3,773,835 for project costs and \$37,738 for the 1% Loan Service Fee) to Lower Latham Reservoir Company for the water rights purchase, engineering and construction costs related to the Well Augmentation Project – Phase III. The loan terms shall be 30 years at the agricultural rate of 2.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff also recommends a contract condition requiring the bridge financing related to the Project be paid in full with the proceeds from this CWCB loan.

### Background

The Company operates jointly with the LLDC to irrigate approximately 11,000 acres southeast of Greeley, in Weld County. In addition to owning and operating the Lower Latham Reservoir, the Company provides well augmentation for 84 wells to replace out-of-priority depletions caused by

well pumping and usage. The wells provide supplemental irrigation water supplies to farms owned by Company stockholders. Of the 84 wells operating, 39 were formerly in the Groundwater Appropriators of the South Platte (GASP) augmentation plan, and the remaining 45 were covered in the augmentation plan of the Groundwater Management Sub-District (GMS) of the Central Colorado Water Conservancy District.

In 2003, the Company elected to pursue an independent plan for augmentation and filed an application in District Court, Water Division 1 (Case No. 2003CW047) for a change of water rights and approval of its plan for augmentation to ensure a means of continued legal operation of the wells. The wells have operated under annual State Engineer Office (SEO) approved substitute water supply plans (SWSPs) since 2003. From 2003 on, the Company has pursued additional water rights acquisitions to support its plan for augmentation.

In 2007, the Company purchased six shares of the LLDC and installed measurement devices to record flows within its system. This was the first phase of the project financed through the CWCB. In 2008, the Company purchased an additional two shares of the LLDC. This second phase of the project was also financed through the CWCB.

The Project being financed through this CWCB loan is the purchase of an additional five shares of LLDC, the construction of two new groundwater recharge facilities, the land required for these sites, and system improvements.

### **Loan Feasibility Study**

Doug Seeley, P.E., prepared the Loan Feasibility Study titled “Feasibility of the Lower Latham Reservoir Company Well Augmentation Project – Phase III, November 2009.” The study was prepared in accordance with the CWCB guidelines. The study references the Water Rights Valuation that was performed in conjunction with the loan approval in July 2007.

### **Lower Latham Reservoir Company**

The Company is registered as a Colorado non-profit mutual ditch company located in Kersey, Colorado. It was established in 1898. There are 47 shareholders that own 156 shares of stock. The Company is managed by a five-member Board of Directors. The Board has the power to levy annual assessments, cease delivery of water to shareholders whose assessments are not paid in full, sell stock of delinquent shareholders, and enter into loan agreements. The Company does not currently levy a shareholder assessment. Approximately 90% of the Company revenues are from oil and gas royalties from wells that are located on Company property. The remaining 10% comes from leases, fees and interest.

### **Water Rights**

On average the Company delivers 5,705 AF annually. The Company the water rights as summarized in Table 1.

**TABLE 1**  
**WATER RIGHTS**

<b>Water Right</b>	<b>Appropriation Date</b>	<b>Rate (cfs)</b>	<b>Decreed Use</b>	<b>Water Source</b>
Lower Latham Ditch	5/12/1869	20.4	Irrigation	South Platte
Lower Latham Ditch	12/12/1874	35.77	Irrigation	South Platte
Lower Latham Ditch	11/14/1877	97.68	Irrigation	South Platte
Lower Latham Ditch	10/24/1881	133.88	Irrigation	South Platte
Lower Latham Drain	3/1/1889	35.0	Irrigation	South Platte

The total irrigated acreage in the Company's SWSP is 7,985.9 acres. For the 2009 plan year (April 2009 through March 2010), the total stream replacement obligation was determined to be 480.4 acre-feet (AF). The 2009 SWSP provides augmentation water from the following sources: shares of LLDC water, shares of Union Ditch Company, shares of Greeley Irrigation Company, and an agreement with the City of Longmont (subject to renewal) to exchange shares of Colorado Big Thompson (CBT) water owned by the Company for its municipal effluent. The 2010 SWSP Renewal Request was prepared and submitted to the SEO in December 2009. SWSP renewals are usually approved by March 31 of each year.

The water rights being purchased through this loan request will provide an additional 278.8 AF of consumptive use. The LLDC water is currently decreed for irrigation use. The Company has applied for a change in use to include augmentation. These rights will be included in the SWSP or plan for augmentation beginning in 2011. In addition, the augmentation plan application will be amended to include all acquisitions, including those to be covered by the CWCB loan.

### **Project Description**

The Company is in need of additional water rights for its plan for augmentation. It also needs either reservoir storage or recharge facilities to store excess consumptive use credits from the LLDC shares delivered during the summer and released during winter months to satisfy its well augmentation requirements and winter return flow obligations associated with the LLDC shares. The Company anticipates it will need recharge facilities or storage space capable of delivering 1,200 AF of water during winter months to meet the ultimate needs of the plan for augmentation.

The Company considered several potential alternatives for both replacement water sources for its plan for augmentation and for its recharge facilities:

#### ***Water Rights Purchase Alternatives***

***Alternative No. 1a – No action:*** This alternative was considered unacceptable to the Company as it determined that additional replacement sources are necessary to provide sufficient water during extended drought periods.

***Selected Alternative No. 1b – Purchase additional LLDC Shares:*** This alternative was chosen because the LLDC shares have senior water rights that sustain a high yield during both average and drought years. The shares are also easily incorporated into the plan for augmentation from an operational standpoint because the location of the point of diversion and river delivery structures provide augmentation deliveries in the necessary location.

### ***Recharge Facilities Alternatives***

***Alternative No. 2a – Underground reservoir storage constructed on property owned by the Company:*** This alternative was eliminated because it was cost prohibitive.

***Alternative No. 2b – Enlargement of the Lower Latham Reservoir:*** This alternative was also eliminated because it was also cost prohibitive and would require a significant increase to the existing spillway.

***Selected Alternative No. 2c – New recharge facilities under the Lower Latham Ditch system:*** This alternative included purchasing land under the Lower Latham Ditch system, constructing recharge ponds, improving laterals to the recharge sites, and modifying headgates at the laterals. This alternative was selected because it was the most economically feasible.

Through this Project, the Company intends to do the following:

- Purchase the Klein Farm, including: five shares of LLDC, 2-7/8 shares of the Company, two irrigation wells, and 240 acres of land with improvements;
- Construct two recharge ponds at the Klein site;
- Line 2,850 lineal feet of the Klein Lateral to facilitate deliveries to the site;
- Purchase the Schmidt recharge site, which includes 34.9 acres of land;
- Modify headgates at the north branch and south branch of the Smith Lateral;
- Enlarge both north and south branches of the Smith Lateral to increase conveyance;
- Construct two ponds at the Schmidt site.

***Schedule*** - The Company closed on the Klein Farm on December 15, 2009. It is currently in negotiations for the Schmidt site with final acquisition expected to occur in the next few months. Once the Company owns these properties, it is proposing the following schedule: design complete by the end of January 2010, bid in February 2010, award the bid in March 2010, construct between April and June 2010. The water rights will be added to the water court application prior to December 31, 2010.

***Cost*** - Table 2 shows the estimated Project costs. Note that the land acquisition costs are limited to the area required for the recharge ponds, sedimentation pond, and associated delivery and measurement structures.

**TABLE 2**  
**TOTAL PROJECT COST SUMMARY**

Task	Cost
Klein Water Rights	
Purchase	\$1,968,750
Engineering	\$10,500
Contract Preparation / Negotiation Fees	\$1,500
Bridge Loan Fees	\$25,000
Schmidt Recharge	
Construction/Survey	\$885,100
Contingency (20%)	\$177,100
Engineering (12%)	\$127,500
Land Acquisition (recharge site)	\$117,500
Klein Recharge	
Construction/Survey	\$593,500
Contingency (20%)	\$118,700
Engineering (12%)	\$85,500
Land Acquisition (recharge site)	\$82,500
Total	\$4,193,150

*Appraisal* - An appraisal of the LLDC shares purchase was completed by Bud Clemons, Colorado Certified General Appraiser, of Greeley in April 2007, in conjunction with the previously approved CWCB loan. The appraisal was considered current enough by both the Company and seller to determine the sale price. The appraised market value of the historic consumptive use of the two shares contemplated in the previous loan request was \$393,750/share and the Company is paying \$393,750/share for the Klein Farm shares.

### **Financial Analysis**

Table 3 shows a summary of the financial aspects of the loan request. The Company qualifies for an agriculture interest rate of 2.75% for a 30-year term.

**TABLE 3**  
**FINANCIAL SUMMARY**

<b>PROJECT/LOAN</b>		
Total Project Cost		\$4,193,150
CWCB Loan (90% of the Project cost)		\$3,773,835
CWCB Loan (Including 1% Service Fee)		\$3,811,573
CWCB Annual Loan Payment		\$188,232
CWCB Loan Obligation (including 10% debt reserve funding)		\$207,056
Total Cost of Project (based on 278.8 AF of consumptive use from Klein Farm water rights)		\$15,040/AF
Assessments per share	Current	With Project*
	\$0	\$0

\*Company revenues are generated from oil and gas royalties from wells located on Company owned property.

**Creditworthiness:** The Company has two existing loans with the CWCB for phases I and II of the Project. The phase I loan has a remaining balance of \$1,898,878 (\$92,149 due annually). The phase II loan has a remaining balance of \$654,712 (\$30,983 due annually). Both loans were secured by a pledge of revenues from oil and gas royalties, a pledge of future assessments as may be required by the Company, and the water rights purchased with the CWCB proceeds. If the oil and gas revenues do not meet expenses, shareholder assessments will be levied to cover the CWCB debt service.

The Company obtained a line-of-credit bridge loan from the Bank of Colorado in the amount of \$2,000,000. This full amount was drawn to facilitate the purchase of the water rights and land associated with the recharge facilities at the Klein farm. The interest rate on the loan is equal to the national prime rate, with a floor rate of 5.0%. As a contract condition, the Company will be required to pay off the balance of the bridge loan with the CWCB loan.

**TABLE 4**  
**FINANCIAL SUMMARY**

<b>Financial Ratio</b>	<b>Past 2 Years</b>	<b>Future w/ Project</b>
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	150% (Strong) \$1.5M/1.0M	115% (Average) \$1.5M/1.3M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	652% (Strong) (\$1.5M-900K)/ \$92K	180% (Strong) (\$1.5M-900K)/ 330K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	33% (Weak) \$333K/1.0M	69% (Average) \$900K/1.3M
Annual Operating Cost per Acre-Foot (based on 5,705 AF delivery) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$175 (Weak) \$1.0M/5,705	\$228 (Weak) \$1.3M/5,705

**Collateral** – Security for the loan will be a pledge of revenues from oil and gas royalties and a pledge of future assessment revenues as may be required by the Company, the purchased water rights (five shares of the Lower Latham Ditch Company), and the real property being purchased for the recharge facilities, including the associated headgates, ditches, and measurement devices. This is in compliance with CWCB Financial Policy #5 (Collateral).

### **Staff Recommendation**

Staff recommends the Board approve a loan from the Construction Fund not to exceed \$3,811,573 (\$3,773,835 for project costs and \$37,738 for the 1% Loan Service Fee) to Lower Latham Reservoir Company for the water rights purchase, engineering and construction costs related to the Well Augmentation Project – Phase III. The loan terms shall be 30 years at the agricultural rate of 2.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff also recommends a contract condition requiring the bridge financing related to the Project be paid in full with the proceeds from this CWCB loan.

cc: Dennis J. Hoshiko, President, Lower Latham Reservoir Company  
Doug Seeley, P.E., NoCo Engineering Inc.  
Susan Schneider, AGO

Attachment: Water Project Loan Program – Project Data Sheet

## Water Project Loan Program - Project Data

**Borrower:** Lower Latham Reservoir Company    **County:** Weld

**Project Name:** Well Augmentation Proj. (Ph III)    **Project Type:** Water Rights Purchase & Construction of Recharge Facilities

**Drainage Basin:** South Platte    **Water Source:** South Platte River

**Total Project Cost:** \$4,193,150    **Funding Sources:** Construction Fund

**Type of Borrower:** Agricultural    **Aver. Delivery:** 5,705 AF

**CWCB Loan:** \$3,811,573 (incl. 1% loan fee)    **Interest Rate:** 2.75%    **Term:** 30 years

The Lower Latham Reservoir Company (Company) is acquiring five shares of Lower Latham Ditch Company, for the purpose of providing augmentation water for existing shareholder wells. It is also constructing groundwater recharge facilities and other system improvements to utilize these shares and shares acquired in phases I & II of the project (both of which were financed by the CWCB). The Company provides augmentation water for 84 wells in Weld County by replacing out-of-priority pumping depletions. 39 of these wells were formerly in the GASP Augmentation Plan, and the remaining 45 wells are covered in the Augmentation Plan of Central Colorado Water Conservancy District's GMS. The Company is attempting to cover the former GASP wells, and supplement coverage of the GMS wells with their own augmentation plan. In 2003, the Company filed a permanent well augmentation plan that is pending. The Company has concluded that additional replacement sources are necessary to provide sufficient replacement water during extended drought years. A 2010 SWSP for the Company was revised and submitted to the SEO in December 2009.

