

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Tim Feehan, PE, Chief
Finance Section

DATE: May 11, 2010

SUBJECT: **Consent Agenda Item 2, May 18-19, 2010 Board Meeting**
Finance Section – Revisions to Existing Loans
Lower Poudre Augmentation Co. – Reservoir and Water Rights Purchase

Bill Ritter, Jr.
Governor

James B. Martin
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Introduction

At the March 2007 Board Meeting, the Board authorized staff to revise existing loans totaling less than 20% of the original loan as Consent Agenda Items. The Lower Poudre Augmentation Company (Company) loan increase presented below is less than 20%.

The Company is requesting an increase of \$456,280 to its March 2007 authorization of \$3,104,053, which was to purchase the Timnath Flatiron Reservoir (Reservoir), acquire 4.5 shares of the Boxelder Ditch, and to construct the necessary augmentation improvements in and around the Reservoir. The requested loan increase is based on actual construction bids received to improve the Reservoir, and increased engineering costs.

Staff Recommendation

Staff recommends that the Board approve an increase of \$456,280 (\$451,762 for project costs and \$4,518 for the 1% loan service fee) to the Lower Poudre Augmentation Company, from the Severance Tax Trust Fund Perpetual Base Account. The Company's total amended loan amount will be \$3,560,333 (\$3,525,082 for project costs and \$35,251 for the 1% loan service fee) for the purchase of the Reservoir, the purchase of 4.5 shares of Boxelder Ditch, and for improvements in and around the Reservoir. Security for the loan shall be collateral in compliance with CWCB Loan Policy No. 5.

Background

The Company is a non-profit well augmentation company that was incorporated in 2004, by the New Cache La Poudre Irrigating Company (Irrigating Company) and the Cache La Poudre Reservoir Company (Reservoir Company), in order to separate the costs and the benefits accrued for well augmentation projects. The Company is owned by the Irrigating Company (2/3 interest) and the Reservoir Company (1/3 interest). The Company supplies well augmentation coverage for well owners throughout the Irrigating Company service area in Larimer and Weld Counties, in order to replace out-of-priority depletions caused by well pumping and usage. Well owners are not Company members but contract for coverage through augmentation agreements with the Company.

The Company is currently operating under an approved Substitute Water Supply Plan (SWSP) that provides for replacement of out-of-priority depletions from 72 wells (71 irrigation wells and 1 stock well). The Company currently meets its augmentation demands through rental water from the Water Supply and Storage Company; reservoir water from various sources recharged through the Greeley No. 2 canal system and recharge ponds; water available from dry-up of irrigated land at the Cornish Plains property; and various other sources, including some additional rental of native waters for return flows to the Poudre River.

The Company has filed a permanent well augmentation plan that is pending in Division 1 Water Court (Case No. 04CW025). The original plan filed by the Irrigating Company in 2004 and was amended in December 2006 to assign the plan to the Company and to include water for augmentation from a change of use application (Case No. 06CW295) filed to convert 277 shares of the Irrigating Company (2,500 shares total) and 271.5 shares of Reservoir Company (3,000 shares total) from irrigation to augmentation. These surface rights are pledged by the well owners in perpetuity, to be used in the Augmentation Plan. The water referee has referred the case back to water court and a court date is anticipated sometime in 2012.

In March of 2007, the CWCBA approved a loan to the Company for \$3,104,053 to purchase the Reservoir, acquire 4.5 shares of Boxelder Ditch, and for various improvements in and around the Reservoir. The Company purchased the Reservoir and the 4.5 shares of Boxelder Ditch in October of 2007. Since the purchase of the reservoir and shares of the Ditch, the Company has spent the last 2 ½ years perfecting the change in use for the 4.5 shares of Boxelder Ditch purchased, the decree for its stream diversion on the Cache La Poudre River, and its storage decree in the Reservoir. Additionally, the Company recently completed the final design for improvements in and around the Reservoir, which will allow water from Box Elder Ditch to flow into and out of the Reservoir. Those improvements include a diversion structure at Box Elder Ditch and corresponding lateral upgrades, a 54-inch bore under I-25, a pump station at the Reservoir, and modification to the Reservoir's inlet and outlet structures. In March of 2010, bids were received to complete those items. Connell Construction of Loveland was selected to construct the diversion structure, bore, and pump station at a bid price of \$806,490. Cascade Industries, Inc. was selected by the Company to provide the pump skid for \$149,177. The Company is providing the gates and SCADA system for \$65,650.

Discussion

The Company has awarded the project to Connell Construction, for the diversion structure, pump station, and I-25 bore, and Cascade Industries, Inc., for the pump skid. The original cost estimate to complete the overall project was presented in the Company's loan feasibility study, prepared by the Applegate Group in March of 2007.

Table 1 below compares the original cost estimate with current costs:

Table 1 – Cost

Item	Original Est.	Current Expenses
Construction	\$614,850	1,043,433
Reservoir Purchase	\$1,576,000	1,578,178
Water Rights Purchase	\$900,000	900,000
Engineering/Legal/Adm.	\$76,485	\$197,322
Construction Management	\$61,485	\$85,000
Contingency	\$184,455 (30%)	112,825 (11%)
Total:	\$3,413,275	\$3,916,758

Based on actual construction costs and higher than estimated engineering services to complete the project, the overall cost of the project has increased by approximately 15%. The Company is requesting a loan increase of \$456,280 to cover 90% of the cost overruns. Staff has reviewed the bids received and the engineering plans and specifications for the project, and finds the overall project costs to be reasonable and consistent with similar reservoir rehabilitation projects.

The new total amended loan amount for the Company will be \$3,560,333 (\$3,525,082 for project costs and \$35,251 for the 1% Loan Service Fee), at its current interest rate of 2.50% for 30-years.

A financial summary for the amended project is presented below in Table 2.

Table 2 – Financial Summary

Total Project Cost	\$3,916,758
CWCB Loan Amount (90% w/1% Fee)	\$3,560,333
CWCB Loan Payment (Includes 10% Reserve)	\$187,114
Current Well User Charge per AF Depletions	\$166
Annual Loan Cost per AF (657 AF – Reservoir)	\$284
Total Project Cost per AF of Storage (657 AF)	\$5,966

Table 3 illustrates the Financial Ratios for the Lower Poudre Augmentation Company

Table 3. Financial Ratios

Financial Ratio	Approved Project March 2007	Proposed Project
Operating Ratio (revenue/expense) weak: less than 100% average: 100% - 120% strong: greater than 120%	144% (strong) (535K/372K)	100% (average) (590K/590K)
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: less than 100% average: 100% - 125% strong: greater than 125%	101% (average) (535K-372K/161.5K)	100% (average) (590K-403K/187K)
Cash Reserves to Current Expense weak: less than 50% average: 50% - 100% strong: greater than 100%	7% (weak) (35K/533.5K)	<1% (weak) (3K/590K)
Annual Operating Cost per Acre-Ft. (3,217AF) weak: greater than \$20 average: \$10 - \$20 strong: less than \$10	\$166 (weak) (533.5K/3.2K)	\$184 (weak) (590K/3.2K)

Collateral: Security for this loan will remain the same; it includes the Company's pledge of annual well augmentation revenue fees, backed by a rate covenant, and other Company revenue, the project itself, including the Reservoir and appurtenances, and 4.5 shares of Boxelder Ditch, along with the Boxelder Ditch carriage agreement.

Staff Recommendation

Staff recommends that the Board approve an increase of \$456,280 (\$451,762 for project costs and \$4,518 for the 1% loan service fee) to the Lower Poudre Augmentation Company, from the Severance Tax Trust Fund Perpetual Base Account. The Company's total amended loan amount will be \$3,560,333 (\$3,525,082 for project costs and \$35,251 for the 1% loan service fee) for the purchase of the Reservoir, the purchase of 4.5 shares of Boxelder Ditch, and for improvements in and around the Reservoir. Security for the loan shall be collateral in compliance with CWCB Loan Policy No. 5.

c: Don Magnuson, Manager, Lower Poudre Augmentation Company
Susan Schneider, AGO
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