

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



July 26, 2010

Mr. Alan Wickert / Board President
Swan's Nest Metropolitan District – Water Enterprise
375 Revett Drive
Breckenridge, CO 80424

RE: Water Acquisition Project
Contract Number C150312

Bill Ritter, Jr.
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Dear Mr. Wickert:

I am pleased to inform you that on July 20, 2010 the Colorado Water Conservation Board approved your loan request for the Water Acquisition Project as described in the application and approved Loan Feasibility Study titled "*Swan's Nest Metropolitan District Feasibility Study for the CWCB Loan Application, May 2010.*" The Board approved a loan not to exceed \$151,500 (\$150,000 for project costs and \$1,500 for the 1% Loan Service Fee) with loan terms of 4.75% per annum for 20 years. I have attached a copy of the updated Board memo dated July 22, 2010 that includes the Board's approval.

After the Board approves a loan there are a few steps that remain in the loan process including:

- A) Contracting: An approved contract must be in place before funds can be disbursed. Vaughn McWilliams will initiate the loan contracting process for this project. When all of the contract conditions are met and the contract is executed the District may request loan funds to cover eligible project expenses. You can contact Vaughn at (303) 866-3441 x 3227 regarding the requirements.
- B) Design/Construction/Disbursements: You must adhere to the CWCB Design and Construction Administration Procedures. Kirk Russell will contact you regarding this phase of the process which includes the disbursement of your loan funds. You can contact Kirk at his desk at (303) 866-3441 x 3232 or on his cell phone at (303) 956-5653.

On behalf of the Board, I would like to thank you for your interest in a loan from the Colorado Water Conservation Board.

Sincerely,



Tim Feehan, P.E., Chief
Finance Section
Colorado Water Conservation Board



Anna Mauss, P.E.
Finance Section
Colorado Water Conservation Board

Attachment: Updated Board Memo

E-mail Copy (Including Attachments)

Eric Wilkinson, South Platte River Basin
Susan Schneider, AGO
Patricia DeChristopher, AGO
CWCB Finance Section Staff

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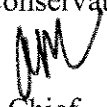


Bill Ritter, Jr.
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Anna Mauss, P.E. 
Tim Feehan, P.E., Chief
Finance Section

DATE: July 9, 2010 (UPDATED July 22, 2010)

SUBJECT: **Agenda Item 8c, July 20-21, 2010 Board Meeting**
Finance Section – New Project Loans
Swan's Nest Metropolitan District –Water Acquisition Project

Introduction

The Swan's Nest Metropolitan District (District) is applying for a loan for its Water Acquisition Project (Project). The purpose of this project is to allow the District to purchase water rights from the original developer of the area. The District has historically been using these water rights and will continue to use them to deliver water to its customers. The District is requesting a loan for approximately half of the \$285,000 purchase price. See attached Project Data Sheet for a location map and a project summary.

Staff Recommendation (Board approved staff recommendation on July 20, 2010)

Staff recommends the Board approve a loan from the Construction Fund not to exceed \$151,500 (\$150,000 for the water rights purchase and \$1,500 for the 1% Loan Service Fee) to the Swan's Nest Metropolitan District, acting by and through its enterprise, for the Water Acquisition Project. The loan terms shall be 20 years at the high-income municipal rate of 4.75% per annum (reduced from 5.0% for a 30 year term). Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background

The District is located in Summit County between Breckenridge and Frisco, Colorado, approximately two miles south of Dillon Reservoir. The District provides water service to 160 single family equivalent (SFE) customers in Swan River Ranch, The Villas at Swan's Nest, and the

Upper Blue Sanitation District employee housing. In addition, it leases water to 100 SFEs in the Tiger Run RV Park.

The customers in the District are all single family homes or condominium units. The District is near full build out with only three vacant lots remaining.

The District's water system is made up of two wells, a 240,000 gallon steel tank, and water mains throughout the area. All of the service lines from the main to the houses are the individual customer's responsibility.

The District uses 10 acre-feet (AF) of Vidler Tunnel water rights to augment its wells. The Vidler Tunnel rights are currently held by Breckenridge Meadows Development Co. LLC (Development Company). The Development Company acquired the water rights in the mid 1990s at the same time it acquired the property in the District. As the Development Company developed the area, it designated the District as the water provider for Swan River Ranch, The Villas at Swan's Nest, and Upper Blue Sanitation District employee housing. These water rights have historically been used to serve the developed property without cost to the District.

The District believed that the Vidler Tunnel water rights were implicitly dedicated from the Development Company to the District. However, when the Development Company turned over the water infrastructure to the District in the late 1990s, the water rights were not included.

This omission was discovered by the current District Board President. Although the District believes that the Development Company was legally obligated to convey the water rights to the District, the District Board and its attorneys decided to negotiate a settlement of the dispute and purchase the water rights rather than litigate the issue.

Loan Feasibility Study

Alan Wickert, President and Chief Operating Officer of the District, prepared the Loan Feasibility Study titled "Swan's Nest Metropolitan District Feasibility Study for the CWCB Loan Application, May 2010." Included in the study was an appraisal of the Vidler Tunnel water rights, completed by Peter Boddie, Senior Hydrologist with HRS Water Consultants. The study was prepared in accordance with the CWCB guidelines.

Swan's Nest Metro District

The District was formed in 1984 as a Colorado Special District under Title 32 CRS and is governed by an elected Board of Directors. The District relies on user fees and property taxes to fund operations, maintain the water supply system, and maintain its open spaces. The District operates as an enterprise and will repay the CWCB loan through user fees.

Water Rights

The water rights used by the District include 10 AF of Vidler Tunnel rights used for augmentation, three wells (Nos. 1, 2, and 6), and 6 AF of storage in Dillon Reservoir (as per a 1990 agreement with Denver Water). The Vidler Tunnel water rights include portions of senior rights in the Rice

Ditch, the Soda Creek Ditch, and the Phillips Ditch. These rights have been changed for augmentation use in Case Nos. W-217 and W-2110.

Table 1
Vidler Tunnel Water Rights

| Name | Amount | Appropriation Date | Adjudication Date | Use |
|--------------------------------|-----------|--------------------|-------------------|--------------|
| Rice Ditch | 4.5 cfs | 5/3/1893 | 3/2/1910 | Augmentation |
| Soda Creek Ditch | 2.72 cfs | 7/1/1900 | 3/2/1952 | Augmentation |
| Phillips Ditch | 4.00 cfs | 6/1/1904 | 3/2/1910 | Augmentation |
| Rice Ditch – Riley Enlargement | 10.00 cfs | 7/5/1914 | 10/26/1937 | Augmentation |
| Rice Ditch Enlargement | 10.00 cfs | 7/5/1914 | 3/10/1952 | Augmentation |

Project Description

The objective of this project is to allow the District to acquire clear title to the water rights it has historically used.

In 2009, the District hired Eugene Riordan, Esq., with Vranesh and Raisch, LLP to negotiate a price. An appraisal of the water rights was completed in December of 2009 and valued the Vidler Tunnel rights at \$300,000. Based upon this appraisal, the Development Company and District subsequently agreed upon a sales price of \$285,000.

Under the agreement with the Development Company, the District will acquire clear title to the Vidler Tunnel water rights and the Dillon storage water described in the water rights section of this memo, and all improvements and infrastructure (e.g. wells, pumps, pipes, storage tanks, and appurtenances thereto) that have been, or may in the future be used to withdraw, treat, and supply water to customers within the District's service area.

The District closed on the water rights purchase on June 22, 2010. The seller was paid \$85,000 in cash and was provided with a six month promissory note for the remainder.

Financial Analysis

Table 2 shows a summary of the financial aspects of the loan request. The District qualifies for the high-income municipal interest rate of 4.75% for a 20 year term (reduced from 5.0% for a 30 year term).

TABLE 2
FINANCIAL SUMMARY

| PROJECT/LOAN | |
|--|-----------|
| Total Project Cost | \$285,000 |
| District Match | \$135,000 |
| CWCB Loan (53% of the project cost) | \$150,000 |
| CWCB Loan (Including 1% Service Fee) | \$151,500 |
| CWCB Annual Loan Payment | \$11,900 |
| CWCB Loan Obligation (including 10% debt reserve funding) | \$13,090 |
| Total Number of SFEs | 160 |
| Annual Cost Per SFE for Project (1 st 10 years) | \$82 |

Creditworthiness: The District's enterprise does not have any existing debt service. The District itself does have bond debt with American National Bank. This bond was issued to finance the water distribution system infrastructure within the District. The total principal amount is approximately \$1,585,000 with annual payments totaling \$155,000. The bond debt service is scheduled to be paid off in December of 2025. Because the bond debt is tied to District tax revenues, not the enterprise funds which are generated by user fees, this debt was not included in the financial analysis in Table 3.

**TABLE 3
 FINANCIAL RATIOS**

| Financial Ratio | Past 2 Years | Future w/ Project |
|---|--------------------------------|--|
| Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120% | 100% (Average) \$90K/90K | 105% (Average) \$108K/103K |
| Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120% | N/A | 138% (Strong) (\$108K-90K)/ \$13K |
| Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100% | 151% (Strong) \$136K/90K | 38% (Weak) \$39K/103K |
| Monthly Residential Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30 | \$11 (Strong) | \$21 (Strong) |

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

Staff Recommendation (Board approved staff recommendation on July 20, 2010)

Staff recommends the Board approve a loan from the Construction Fund not to exceed \$151,500 (\$150,000 for the water rights purchase and \$1,500 for the 1% Loan Service Fee) to the Swan's Nest Metropolitan District, acting by and through its enterprise, for the Water Acquisition Project. The loan terms shall be 20 years at the high-income municipal rate of 4.75% per annum (reduced from 5.0% for a 30 year term). Security for the loan shall be in compliance with CWCB Financial Policy #5.

cc: Alan Wickert, Swan's Nest Metropolitan District, President and Chief Operating Officer
 Susan Schneider, AGO
 Patricia DeChristopher, AGO

Attachment: Water Project Loan Program – Project Data Sheet

Water Project Loan Program - Project Data

Borrower: Swan's Nest Metro District

County: Summit

Project Name: Water Acquisition Project

Project Type: Water Rights Purchase

Drainage Basin: South Platte

Water Source: Snake River

Total Project Cost: \$285,000

Funding Source: Construction Fund

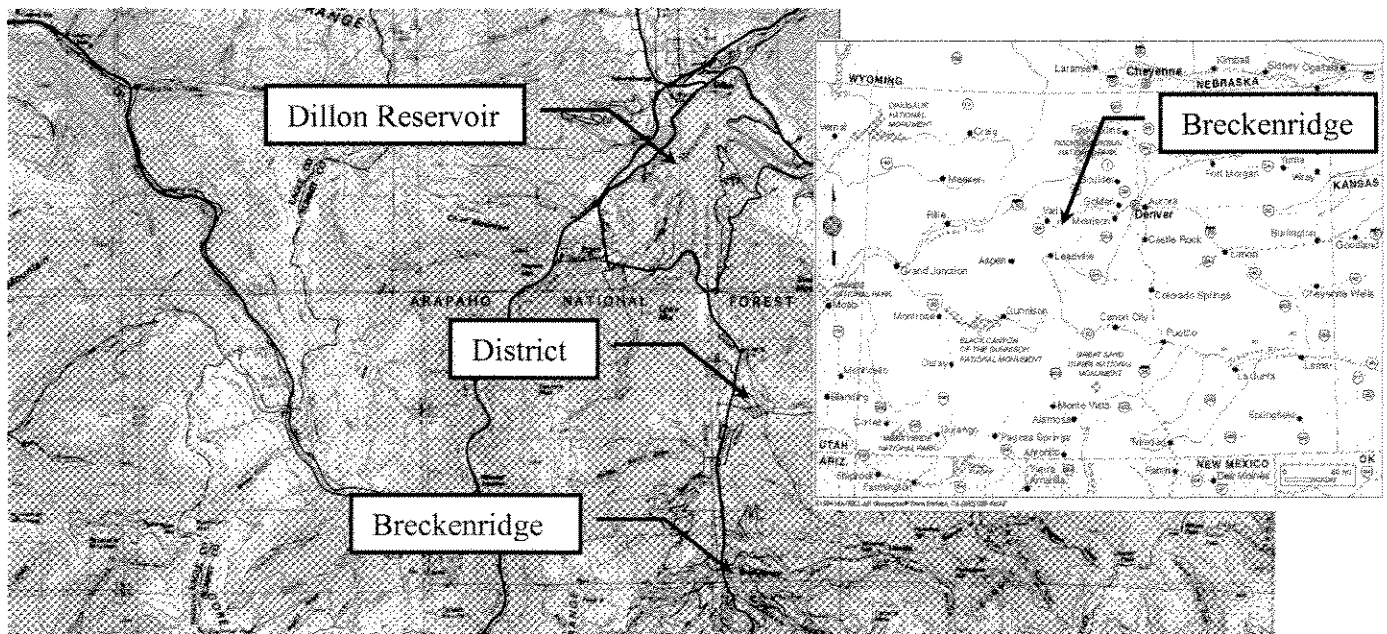
Type of Borrower: High Income Municipal

Aver. Diversion: 10 AF

CWCB Loan: \$151,500 (incl. 1% loan fee)

Interest Rate: 4.75% **Term:** 20 years
(Reduced from 5.0% for 30 year term)

The Swan's Nest Metropolitan District (District) is located in Summit County between Breckenridge and Frisco, Colorado. It provides water service to 160 single family equivalent (SFE) customers in Swan River Ranch, The Villas at Swan's Nest, and the Upper Blue Sanitation District employee housing. In addition, it leases water to 100 SFEs in the Tiger Run RV Park. The District's water system is made up of two wells, a 240,000 gallon steel tank, and water mains throughout the area. The District uses 10 acre-feet of Vidler Tunnel water rights to augment its wells. The District currently owns the water system infrastructure but not the Vidler Tunnel water rights. The water rights are held by Breckenridge Meadows Development Co. LLC (Development Company), the original developer of the area. The Development Company acquired the water rights in the mid 1990s at the same time it acquired and developed the property in the District. The Vidler water rights have historically been used to serve the developed property without cost to the District. Through this loan, the District will finance the purchase of the Vidler Tunnel water rights so it can continue to augment the wells in the District and provide water to its customers.



Location Map