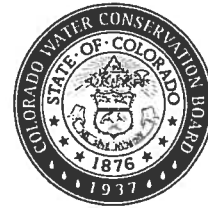


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TO: Colorado Water Conservation Board Members

FROM: Ryan Edwards, P.E., Project Manager *RME*
Kirk Russell, P.E., Chief *KGR*
Finance Section

DATE: January 13, 2012

SUBJECT: ²Agenda Item 27a, January 23-24, 2012 Board Meeting
Finance Section – Construction Fund – Change to Existing Loan
The Jackson Ditch Company – Check Dam Rehabilitation Project

Introduction

The Jackson Ditch Company (Company) received approval of a loan for its Check Dam Rehabilitation Project (Project) in September 2011. The Project involves the installation of a new check dam structure across the Cache la Poudre River, allowing the Company to divert its most senior water rights during times of low flow. The Company is requesting a loan increase because the three contractor bids exceeded the engineer's estimated project cost of \$90,000. The revised total project cost is estimated to be \$137,000, which is a 52% increase over the original project cost. The loan request is for 90% of the revised total project cost.

Staff Recommendation

Staff recommends the Board approve a loan increase of \$42,723 (\$42,300 for project costs and \$423 for the 1% Loan Service Fee), from the Construction Fund, to the Jackson Ditch Company. The Company's amended total loan amount will be \$124,533 (\$123,300 for project costs and \$1,233 for the 1% Loan Service Fee) for engineering and construction costs related to the Check Dam Rehabilitation Project. The loan terms shall remain 30-years at a blended rate of 3.60% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background and Current Project Status

At a point approximately five miles northwest of Fort Collins the Cache la Poudre River splits and flows around an island located 700 feet upstream of the Jackson Ditch diversion gate. During periods of low flow the Company must utilize the check dam structure to secure its most senior water rights. The check dam spans the river from the upstream tip of the island to the west river bank, and diverts flows around the east side of the island towards the Company's diversion gate. Using the structure to reroute river flows enables the Company to divert water that would otherwise

travel west, around the island, bypassing the diversion gate. The check dam, originally constructed from wood approximately 100 years ago, was replaced with a concrete structure in the 1960's. That structure has fallen into disrepair and over the past decade the Company has made routine temporary repairs to keep it operational. This Project involves permanent improvements designed to restore the structure's reliability for years to come and provide shareholders with a more dependable supply of water.

The Board approved the Company's original loan request on September 14, 2011. On November 16, the Company invited three local contractors to bid on the Project. Bids were received two weeks later and were substantially higher than estimated by the engineer. Bids ranged from \$119,000 to \$134,000. The initial estimate provided in the loan application and feasibility study established a construction budget of \$75,000. The most significant difference between the estimate and bids was reflected in unit costs for reinforced concrete, including mobilization, forming, reinforcement, placement, and heating.

The Company accepted a bid, negotiated down to \$117,000, which resulted in a revised project cost of \$137,000, with engineering and contingencies included. Pending approval of the requested loan increase, construction is expected to begin in January 2012 and be completed no later than April 1, 2012. A loan contract was drafted per the terms of the initial loan approval; however, it was never executed. The contract will be updated to reflect the terms outlined in this memo if approved.

The Jackson Ditch Company

The Company, located in Fort Collins, Colorado, is a Colorado mutual ditch corporation founded in 1894. The Company diverts water from the Cache la Poudre to the ditch where it delivers water, primarily for agricultural irrigation, to its 73 shareholders, totaling 24 shares. The Company's facilities include the check dam and diversion gate along the Cache la Poudre, and approximately 8.7 miles of earthen ditch. The average annual diversion through the Ditch is 5,500 acre-feet (AF).

Financial Analysis

The Company qualifies for a blended (55% agricultural, 37% middle-income municipal, 6% high-income municipal, and 2% commercial) interest rate of 3.60% for a 30-year term. Table 1 provides a summary of the financial criteria of the loan request.

TABLE 1: FINANCIAL SUMMARY

	Original	Increase	New
Total Project Cost	\$90,000	\$47,000	\$137,000
Borrower Contribution	\$9,000	\$4,700	\$13,700
CWCB Loan Amount (90% of total Project cost)	\$81,000	\$42,300	\$123,300
CWCB Loan Amount (including 1% Service Fee)	\$81,810	\$42,723	\$124,533
CWCB Annual Loan Payment	\$4,504	\$2,352	\$6,856
CWCB Loan Obligation (including 10% debt reserve funding)	\$4,954	\$2,588	\$7,542
Number of Shares	24	-	24
Current Assessment per Share	\$2,275	-	\$2,275
Annual Cost of Project per Share To Cover CWCB Loan Obligation	\$207	\$108	\$315
Cost of Project per Acre-Foot (5,500 AF)	\$16	\$9	\$25

Creditworthiness:

Operating revenues for the Company are generated by annual shareholder assessments, currently set at \$2,275 per share. The Company has no outstanding debt and sufficient cash reserves to cover the Company's portion of the total project cost. A surplus from current assessments is sufficient to cover the annual CWCB loan obligation; however, an assessment increase will be discussed at the annual shareholder meeting in January 2012 in order to offset a portion of the debt service incurred by this loan.

TABLE 2: FINANCIAL RATIOS

Financial Ratio	Prior to Project	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	116% (average) \$55.0K/\$47.5K	100% (average) \$55.0K/\$55.0K
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	No Current Debt	100% (average) \$(55.0K-47.5K)/\$7.5K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	68% (average) \$32.4K/\$47.5K	34% (weak) \$18.7K/\$55.0K
Average Operating Cost per Acre-Foot (5,500 AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$8.64 (strong) \$47.5K/\$5,500 AF	\$10.00 (average) \$55.0K/\$5,500 AF

Collateral: The security for the loan will continue to remain a pledge of assessment revenues backed by a rate covenant; and will additionally include the Project itself and associated access easements. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Dennis Harmon, General Manager, The Jackson Ditch Company
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

CWCBC Construction Loan Program Project Data Sheet

Borrower: The Jackson Ditch Company

County: Larimer

Project Name: Check Dam Rehabilitation

Project Type: Ditch Rehabilitation

Drainage Basin: South Platte River, District 3

Water Source: Cache la Poudre River

Total Project Cost: \$137,000

Funding Sources: Construction Fund

Type of Borrower: Blended Agricultural,
Municipal & Commercial

Details: Avg. 5,500 AF diverted annually

Loan Amount: \$124,533 (Including 1% fee)

Interest Rate: 3.60% **Term:** 30 years

The Jackson Ditch Company is requesting a CWCBC loan for rehabilitation of its check dam structure on the Cache la Poudre River. The river splits and flows around an island just upstream of the Company's diversion headgate. When flows are particularly low the structure is utilized to convey flows to the east side of the island where they can be diverted through the headgate. The concrete check dam has been in place since the 1960's, but has recently fallen into disrepair, preventing the Company from diverting its most senior water rights at times. The project will provide a long-term, low maintenance solution for restoring the ability to deliver water to shareholders during times of extreme river conditions. Construction is planned to start in January 2012 and be completed by April 1, 2012.

