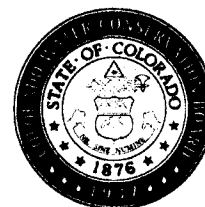


STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E. *KR*
Tim Feehan, P.E., Chief *TF*
Finance Section

DATE: July 1, 2011

SUBJECT: **Agenda Item 22a, July 12-13, 2011 Board Meeting**
Finance Section – Changes to Existing Loans
Sanchez Ditch and Reservoir Company – Loan Payment Deferral Request

Introduction

The Sanchez Ditch and Reservoir Company (Company) has requested one annual loan payment deferment from both of the Company's current CWCB Construction Fund loans (per letter received on June 2, 2011 - attached). The purpose for this request is to help offset the Company's financial burden related to urgently needed safety upgrades to the tramway/gondola system used to access the outlet tower. The cost of the improvements is estimated to be about \$27,000. The Company's two CWCB loan payments total \$31,385.92. CWCB Financial Policy #10 (attached) allows for "providing project sponsors an opportunity to recover from periods financial difficulties.....or other hardship beyond their control." The staff has reviewed the request, supporting documentation and the Company's repayment history in preparation of the Staff Recommendation.

Staff Recommendation

Staff recommends the Board approve the Sanchez Ditch and Reservoir Company's request for financial relief by granting one annual loan payment deferment of principal and interest for Loan Contracts C153623 and C153755A, totaling \$31,385.92. The interest portion due within the deferred payment will be transferred to principal, which will be reflected in the new amortization schedules. Since the principal will be increased, the term of the loan will also need to be increased. The Company will return to making its annual payments in 2012.

Background

The Company has two CWCB loans as shown in Table 1. The loans are in good standing with a history of annual payments submitted on time. The loans were both for rehabilitation work to the Sanchez Reservoir outlet and dam.

Table 1. CWCB Loan Contract Summary

Loan Contract Number	Contract Dated	Contract Amount	Current Balance	Final Payment Due	Annual Payment Amount	2011 Principal Payment Portion	2011 Interest Payment Portion
C153623	8/20/1992	\$200,000	\$71,588	2017	\$11,485.57	\$9,338.82	\$2,146.75
C153755A	9/3/1997	\$335,000	\$194,459	2022	\$19,900.35	\$13,465.60	\$6,434.75
Totals		\$535,000	\$266,017		\$31,385.92	\$22,804.42	\$8,581.50

The Sanchez Reservoir outlet includes a 150 foot free standing concrete inlet gate tower. The tower houses the outlet gate valves for the Reservoir. In order to access the gates to operate the dam the Company utilizes a tramway/gondola which runs on a fixed cable and is powered by a portable gasoline generator that winches the gondola from shore to tower. All gate valves in the tower are manually controlled from the top of the tower. Daily access to the tower is required during the irrigation season. Due to dam safety concerns and the reliability/safety of the tramway/gondola system for gate operations, the Company needs urgent upgrades to the tramway/gondola system.

The Company has requested and received approval of a \$95,000 grant (\$10,000 Basin & \$85,000 Statewide) from the Rio Grande Basin Roundtable on May 10, 2011. This WSRA grant will be considered by CWCB at the September 2011 Board meeting. The grant will cover additional rehabilitation and upgrades needed to bring the system into compliance with SEO - Dam Safety and allow for more efficient operations.

Sanchez Ditch and Reservoir Company

The Sanchez Ditch and Reservoir Company is a Colorado Mutual Ditch Company, incorporated in 1956. The Company serves about 22,400 acres (13,400 irrigated acres) in Costilla County. The Company's system includes Sanchez Reservoir, Culebra Sanchez Canal, Mesita Reservoir, Culebra Eastdale Canal other canals and ditches. Sanchez Reservoir serves 34 shareholders with a total of 21,802 shares. Irrigated crops include potatoes, wheat, barley, oats, alfalfa and hay. Sanchez Reservoir was built in 1910 with a dam height of 135 feet and a storage capacity 103,114 acre-feet.

Project

The Project includes making essential operational and safety repairs and installation of an automated hydraulic system, which will allow the SEO - Dam Safety required drawdown capability of 1 foot per day over 5 days. The configuration of the gondola and tower will be evaluated with the goal of achieving optimum operational efficiency.

Table 2. Project Estimate

Task 1	Gondola/Tramway Upgrades	\$27,000
Task 2	Cylinder Repair	\$6,100
Task 3	Solar System & SCADA	\$71,900
Task 4	Feasibility Study	\$13,500
Task 5	Administration & Report	<u>\$9,600</u>
Total		\$128,160

Task 1 has been identified by the Company as urgent and requiring immediate attention. The task includes inspection, analysis, and upgrades to the gondola/tramway system for operational safety and has been estimated at \$27,000.

It is anticipated that the remaining costs (tasks 2 through 5) will be covered in part by a \$95,000 WSRA Grant.

Discussion

If the Company is allowed to utilize a deferred annual payment of \$31,385.92 for the tramway/gondola system upgrades the Company can quickly start work and not have to administer a special assessment to cover the urgent costs.

If the deferral is approved the loan will be re-amortized keeping the annual payment the same. The term of the loan will increase by two years to allow payment of the interest which converts to principal in the loan.

Financial Analysis

Creditworthiness: The Company has a history of eighteen years of prompt loan repayment to CWCB. The Company has been in the business of providing irrigation water to its shareholders since 1956. Table 3 shows the Financial Ratios of the Company for the last two years.

TABLE 3: Financial Ratios

Financial Ratio	Last Two Years
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	103% (Average) \$237K/\$229K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	125% (Strong) (\$237-\$198K)/ \$31K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	23% (Weak) \$53K/\$229K

Collateral: Security for the loans will not change as a result of this approval. The current collateral includes:

- 1) A pledge of assessment revenues;
- 2) An "undivided one hundred percent (100%) interest in and to the Sanchez Dam and Reservoir and all appurtenant structures thereto, including all lands on which these facilities are located." (The Reservoir collateral was in a second position behind a USDA-FHA loan which was paid off in 2005);
- 3) The Company maintains two Certificates of Deposit totaling \$19,891.96 as required in loan contract C153755A which are assigned as security for the loan. This collateral is in compliance with the current CWCB Financial Policy #5 (Collateral).

Staff Recommendation

Staff recommends the Board approve the Sanchez Ditch and Reservoir Company's request for financial relief by granting one annual loan payment deferment of principal and interest for Loan Contracts C153623 and C153755A, totaling \$31,385.92. The interest portion due within the deferred payment will be transferred to principal, which will be reflected in the new amortization schedules. Since the principal will be increased, the term of the loan will also need to be increased. The Company will return to making its annual payments in 2012.

cc: Jerry Lorenz, President
Susan Schneider, AGO

Attachments:

Sanchez Ditch and Reservoir Company - June 2, 2011 Letter
CWCB Financial Policy Number 10

Sanchez Ditch And Reservoir Company
Rt. 1 Box 215
San Acacio, Colorado 81151

Tim Feehan
Colorado Water Conservation Board
1580 Logan Street
Suite 600
Denver, Colorado 80203

RECEIVED

JUN 02 2011

Colorado Water
Conservation Board

Dear Sir:

The Sanchez Ditch And Reservoir Company is undergoing a structural and operational assessment and upgrade, including the rehabilitation of our Gondola and Gate Tower, a analysis of our existing Reservoir system with upgrades to the hydraulic system.

Sanchez Ditch And Reservoir Company (SDRC) has applied for a grant in the amount of \$95,000. The funding would come from the Water Supply Reserve Account, with \$10,000 from the Rio Grande Basin Account and \$85,000 from the Statewide Account. The project cost is \$128,160 with Sanchez Ditch and Reservoir Company pledging matching funds of \$33,160 or 26%.

In order to start some of the safety upgrades to the Gondola System and prior to receiving Notice to Proceed, the Board of Directors will begin the needed repairs and upgrades right away. It was explained to us that it might be possible to request a one year loan deferral from CWCB. This would greatly reduce the cash flow burden upon our operating funds. Therefore I am writing to request a loan payment deferral for one year in order to free up it's resources this important project.

Sanchez Ditch and Reservoir Company has two loans with CWCB Loan Nos. C153623 and C153755. With a yearly payment of \$31386.10 Sanchez Ditch and Reservoir Company has made it's yearly payments to CWCB in a timely manner.

Thank you very much for considering our request, and please let us know if you have any questions or if you need any further information.

Sincerely

Jerry Lorenz, President

POLICY NUMBER: 10

SUBJECT: **LOAN PAYMENT DEFERMENT REQUESTS FROM THE
CONSTRUCTION FUND AND SEVERANCE TAX TRUST
FUND PERPETUAL BASE ACCOUNT**

EFFECTIVE DATE: November 24, 1997

POLICY: Under the statutory authority of Section 37-60-120 (3) CRS, the Colorado Water Conservation Board (CWCBC) may, at its discretion, consider a request for deferment of payment on an existing loan from either the CWCBC Construction Fund or the Severance Tax Trust Fund Perpetual Base Account. Any request for deferment of payment on an existing loan will require either: (1) the borrower to pay interest for the period in which the loan payment is deferred or (2) calculation of a new loan amortization schedule that provides for adding to the principal of the loan the interest that accrues during the period in which the loan payment is deferred.

PURPOSE: This policy allows the Board to maintain the financial integrity of the Construction Fund and the Severance Tax Trust Fund Perpetual Base Account while providing project sponsors an opportunity to recover from periods of financial difficulties, drought, flood, or other hardship beyond their control.

APPLICABILITY: This policy and procedure apply to all loans from the CWCBC Construction Fund and Severance Tax Trust Fund Perpetual Base Account.

PROCEDURE: Upon request for deferral of an annual loan payment, staff will prepare a memorandum for presentation at the next regularly scheduled Board meeting. The memo will include the reason(s) for the deferral request, the original loan and project information, loan re-payment history, and a staff recommendation including, if applicable, a revised loan repayment schedule.

Approved by the CWCBC
November 24, 1997 Board Meeting
Agenda Item #15a