

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



John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: July 6, 2012

SUBJECT: **Agenda Item 17a, July 17-18, 2012 Board Meeting**
Finance Section – New Construction Fund Loans
Center of Colorado Water Conservancy District – Smelter Pipeline Reservoir
Enlargement

Introduction

The Center of Colorado Water Conservancy District (District) is applying for a loan for the Smelter Pipeline Reservoir Enlargement Project (Project). The purpose of the Project is to rehabilitate the existing structure, increase the storage capacity, and reconstruct the inlet and outlet works of the Smelter Pipeline Reservoir (SPR). The loan request is for \$400,000 of the estimated \$565,800 total cost of the Project. See the attached Project Data Sheet for a location map and project summary.

Staff Recommendation

Staff recommends the Board approve a loan, from the Construction Fund, not to exceed \$404,000 (\$400,000 for project costs and \$4,000 for the 1% Loan Service Fee) to Center of Colorado Water Conservancy District for the Smelter Pipeline Reservoir Enlargement Project. The loan shall be at the middle-income municipal interest rate reduced to 2.5% per annum for a 10-year term. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background

The District, with a service area that encompasses all of Park County, co-owns and manages a blanket augmentation plan with the Upper South Platte Water Conservancy District (USPWCD). The augmentation plan was adjudicated in Case No. 02CW389 and the only storage allocated in the present plan is 50 acre-feet (AF) in Spinney Mountain Reservoir. Depletions throughout the service area are currently replaced by exchange from Spinney Mountain to the upstream points of depletion.

In 2005 the District acquired SPR, a storage facility at the headwaters of the Middle Fork of the South Platte River, from the Adventure Placer Subdivision. SPR, which is adjacent to Mosquito Creek, is an adjudicated augmentation water source for the subdivision per Case No. 80CW194.

The District agreed to assume the augmentation obligation for the subdivision as terms in the purchase of SPR. The District was decreed a 50 AF conditional enlargement of the reservoir in Case No. 09CW145. Currently, SPR has significant seepage issues and its diversion headgate is deteriorating and leaks, and the outlet works are marginally operational. This Project will increase the capacity of the reservoir by 7 AF while making improvements to address the headgate, outlet and seepage issues. The enlargement will be accomplished by excavating within the current reservoir footprint and will not increase the water surface elevation or the reservoir footprint. The District recently filed an application in Case No. 12CW50 to adjudicate a second blanket augmentation plan and to incorporate the SPR as a storage facility for the plan.

Loan Feasibility Study

The loan feasibility study, titled “Loan Application to CWCB for Smelter Pipeline Reservoir Project,” dated June 1, 2012, was prepared by James W. Culichia from Felt, Monson & Culichia, LLC. Technical support was provided by Tom Dea, P.E., from TZA Water Engineers. Additional support was provided by Dan Drucker, Operations Manager for the District. The study was prepared in accordance with CWCB guidelines and includes preliminary engineering that was used in the determination of the total Project cost.

Center of Colorado Water Conservancy District

The District was created in 1997 by election, to preserve and develop the water resources of Park County. The District is a Title 37 Special District with its office located in Fairplay, Colorado. The District is funded by an ad valorem tax on the real property within Park County. The District “De-Bruced” in 2000 and is authorized to retain all excess collected revenues. In the November 2010 general election voters authorized the District to incur multi-year debt up to a maximum amount of \$1,000,000 for the purposes of acquiring and constructing water storage facilities and acquiring water rights, specifically including the rehabilitation and enlargement of SPR.

Water Rights

The District’s water rights directly related to this Project include SPR, a 21 AF facility adjudicated in Case No. W-4322, and the enlargement right adjudicated in Case No. 09CW145.

Additional water rights owned by the District include:

- Randall Ditch and Sessions Ditch, including ownership of 23.50 and 1.15 cfs respectively within each ditch, adjudicated in Case No. 2005CW111. The District controls the first 200 AF of consumptive use of these rights and leases the remainder to the Centennial Water & Sanitation District (CWSD)
- Joint ownership of James Tingle Reservoir (JTR) with CWSD, and outright ownership of 195 AF of JTR storage rights adjudicated in Case No. 05CW111. The District and CWSD are permitted to store consumptive use credits from the Randall and Sessions Ditches in JTR and jointly adjudicated a junior water storage right for the facility in Case No. 09CW180.
- Joint ownership with the USPWCD of 30 AF of consumptive use water in the Parmalee No. 2 & 3 Ditches and Flume Ditch on Deer Creek, adjudicated in Case No. 02CW231.
- Joint ownership with the USPWCD of the blanket augmentation plan adjudicated in Case No. 2002CW389. The plan was adjudicated in April 2008 and currently serves 45 customers, utilizing approximately 26 AF of augmentation water annually.
- Membership of the Chatfield Reservoir Reallocation Project and approximately 135 AF of storage upon completion of that project.

Project Description

The purpose of the Project is to increase the effectiveness of SPR by enlarging its storage capacity from 21 to 28 AF while addressing diversion headgate and infiltration concerns.

Prior to acquiring SPR in 2005 the District explored multiple alternatives for expanding its augmentation capacity. The location of the reservoir, ease of enlargement, and condition of the existing dam and outlet works made SPR a logical choice. For that reason Project alternatives were limited to determining the most economical and environmentally sensitive approach to increasing capacity in the reservoir without increasing the normal pool elevation.

After analyzing the existing site conditions TZA Water Engineers proposed the following four Project components were selected: 1) reshaping and steepening the existing banks within the reservoir to increase the capacity by 7 AF; 2) reconstructing the diversion inlet and pipeline from Mosquito Creek to SPR; 3) lining the reservoir with a PVC liner; and 4) reconstructing the outlet works to accommodate the increased capacity.

The District bid the Project based on engineering documents and specification prepared by TZA Water Engineers. The District awarded the Project to Hudick Excavating, contingent upon loan approval, based on a negotiated bid of price of \$565,000. Table 1 is a summary of total Project costs.

TABLE 1: TOTAL PROJECT COST SUMMARY

Task	Cost
Engineering (already completed and paid for by the District)	N/A
Construction and Contingency	\$565,800
Total	\$565,800

The SPR is an existing non-jurisdictional reservoir and it will remain so after completion of the Project. The District has obtained a US Army Corps of Engineers 404 Permit and Park County has determined that the Project is exempt from the County's 1041 Permit regulations. The SEO has approved the reservoir outlet works rehabilitation and discharge to Mosquito Creek. With site access and permitting secured, construction is set to begin following board approval of the loan request. Construction is expected to take 3 months to complete.

Financial Analysis

The District qualifies for the middle-income municipal interest rate of 2.5% for a 10-year term. The interest rate was lowered 0.5% from the standard 30-year middle-income municipal rate of 3.0% per the reduced term. Table 2 provides a financial summary of the loan request.

TABLE 2: PROJECT FINANCIAL SUMMARY

Total Project Cost	\$565,800
Borrower Contribution	\$165,800
CWCB Loan Amount	\$400,000
CWCB Loan Amount (including 1% Service Fee)	\$404,000
CWCB Annual Loan Payment	\$46,161
CWCB Loan Obligation (including 10% debt reserve funding)	\$50,777
Project Cost per Acre-Foot (based on 28 AF)	\$20,207

CWCB will disburse funds at a rate of no greater than 90% of invoice amount for activities related to construction of the Project, up to the approved limit of \$400,000.

Creditworthiness:

A one mill ad valorem tax on the real property within Park County funds the operational and debt service expenses of the District. Historically there has been a net surplus in tax revenue that has enabled the District to grow its cash reserves which are more than sufficient to cover the District's portion of the estimated total project cost.

The District currently has two outstanding loans, listed below, and received voter approval at the 2010 general election to incur additional debt for the funding of this Project.

<u>Lender</u>	<u>Balance</u>	<u>Annual Payment</u>	<u>Maturity Date</u>
Frida Bargas and Frida Wahl Trust	\$1,196,287	\$225,923 ¹	June 2018
CWCB	\$375,659.62	\$54,649.70	October 2019

¹ Per a lease agreement with Centennial, dated April 10, 2003, the District is responsible for \$32,277 of the total annual payment and Centennial is responsible for the remainder (\$193,646).

Table 3 provides Financial Ratios for the District.

TABLE 3: FINANCIAL RATIOS

Financial Ratio	2009-2010	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	120% (average) \$480K/\$400K	106% (average) \$480K/\$451K
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	192% (strong) (\$480K-\$313K)/\$87K	121% (strong) (\$480K-\$313K)/\$138K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	176% (strong) \$703K/\$400K	119% (strong) \$537K/\$451K
Annual Operating Cost per Acre-Foot weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$5,973 (weak)* \$400K/67AF	\$4,849 (weak)* \$451K/93AF

* Annual Operating Cost ratios are intended for water delivery versus fully consumable augmentation water; therefore, "weak" status is not representative.

Collateral: As security for the loan the District will pledge revenues from its one mill ad valorem tax on real property (in accordance with its November 2010 voter approved ballot question) and annual financial reporting. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: James Culichia, Attorney, Center of Colorado Water Conservancy District
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet