

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

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

DATE: September 18, 2012

SUBJECT: **Agenda Item 22a, September 27-28, 2012 Board Meeting**
Finance Section – New Construction Fund Loans
The Well Augmentation Subdistrict of Central Colorado Water Conservancy
District – Water Rights Purchase and Gravel Pit Storage Project

Introduction

The Well Augmentation Subdistrict of the Central Colorado Water Conservancy District (CCWCD) is applying for a loan for the Water Rights Purchase and Gravel Pit Storage Project (Project). The purpose of the Project is to acquire additional water rights and storage capacity to use as augmentation supplies for wells in the WAS decree, enabling a pumping quota to be issued for contract holders. The loan request is for 90% of the estimated \$3,333,400 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 \$3,030,000 (\$3,000,000 for Project costs and \$30,000 for the 1% Loan Service Fee) to the Well Augmentation Subdistrict of Central Colorado Water Conservancy District for the Water Rights Purchase and Gravel Pit Storage Project. The loan terms shall be 30 years at the agricultural rate of 1.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff further recommends the following loan contract condition: Prior to disbursement of funds, the borrower shall provide CWCB an appraisal or written opinion of the value of water rights proposed for purchase and an engineering analysis identifying how the water will be put to beneficial use.

Background

The CCWCD was formed in 1965 to develop, manage, and protect water resources in northeast Colorado. The CCWCD spans over 750 square miles across Adams, Morgan, and Weld counties. Within CCWCD there are two subdistricts; the "Groundwater Management Subdistrict" (GMS), formed in 1973, and the "Well Augmentation Subdistrict," (WAS) formed in 2004. The subdistricts are separate legal entities with distinct legal boundaries and provide augmentation water for

different alluvial groundwater wells. The two subdistricts operate under separate decreed plans for augmentation that contain different restrictive terms and conditions.

Following legislation passed in 1969 that required alluvial wells to participate in the priority system, the Groundwater Appropriators of the South Platte (GASP) provided temporary augmentation for thousands of well owners in northeastern Colorado. In 2004, GASP disbanded, leaving the wells unable to pump. The CCWCD board of directors decided to form WAS to aid as many of the wells as was reasonably possible. WAS extends over the same broad area as the CCWCD, but is geographically smaller in terms of the number of acres included. The WAS boundaries are not contiguous and cover an aggregate area of approximately 78 square miles, with the largest concentrations of wells in the following areas: south of Greeley along US 85 to Brighton, southeast of Greeley extending to Keensberg, and north of I-76 between Wiggins and Fort Morgan.

Currently 214 wells, across 6 designated river reaches, are identified in the WAS augmentation plan. The wells have groundwater right priority dates ranging from 1904 to 1966 and 83 percent of the WAS wells have priority dates senior to 1960. Each WAS well owner has a contract with WAS for augmentation water (Class B, C, and D contracts), totaling 20,400 AF annually. WAS provides supplemental ground water to some contract owners and is the sole water supply for others. Irrigation uses comprise nearly 96 percent of WAS contracts.

WAS issues an annual pumping “quota” to its well members. The quota is a percentage of each member’s contracted augmentation supply amount, and is an allocation of overall WAS augmentation water supplies. Across the WAS system, an imbalance in projected supply versus projected depletions has resulted in issuance of a zero quota since 2006, meaning no wells have been authorized any groundwater pumping. The imbalance is derived from very restrictive terms and conditions in its augmentation plan decree. The augmentation plan; however, has operated daily to replace on-going out-of-priority depletions resulting from well pumping prior to 2006.

It is projected that WAS can achieve an overall system balance in supply versus depletions by incorporating additional water rights and storage capacity in the uppermost reach (Reach F). With this Project, it is projected that WAS can issue a sustainable pumping quota of up to eight percent across its entire system. WAS plans continued water rights and storage acquisition efforts, beyond this Project, with a goal of achieving a future quota of 100%.

Loan Feasibility Study

The loan feasibility study titled “*Feasibility of Developing Additional Augmentation Supplies Well Augmentation Subdistrict*,” dated July 31, 2012, was prepared by Ed Armbruster, P.E., from Leonard Rice Engineers, Inc. Legal support was provided by Lawrence, Jones, Custer & Grasmick. General support was provided by Randy Ray, Executive Director and Danyelle McCannon, Financial Analyst, both Central Colorado Water Conservancy District staff members. The study was prepared in accordance with CWCB guidelines.

WAS Subdistrict – Central Colorado Water Conservancy District

WAS is a special district created by the Weld County District Court on January 8, 2004, pursuant to the applicable provisions of the “Water Conservancy Act”, Section 37-45-101, C.R.S. It has the power to acquire and sell water rights, construct and operate facilities, exercise eminent domain, levy taxes, and contract with other agencies. WAS is governed by a 16-member Board of Directors

appointed by District Judges, and generates revenue primarily from member assessments and property taxes. In 2004, voters elected to “de-Bruce” WAS, allowing it to keep and use revenues that otherwise would have been returned to taxpayers under TABOR.

WAS obtained a Decree for a Plan of Augmentation from the Division One Water Court in 2008 in Case No. 03CW099. WAS is the primary owner of the Shores Project, consisting of storage ponds A, B, C, and D. WAS is also a fifty percent owner of the Orchard Project and owns several other water rights.

Water Rights

The current portfolio of water rights for WAS consists of changed senior direct flow rights and junior storage, recharge and exchange rights that have been decreed or are pending adjudication. Senior rights changed by WAS for augmentation use total nearly 1,000 AF per year. Table 1 provides a summary of WAS water rights.

TABLE 1: PROJECT WATER RIGHTS

Case No.	Decree Date	Water Right	Amount (AF)
04CW276	11/20/2009	Farmers Independent Ditch Company	84.7
05CW223	1/24/2011	Godfrey Ditch Company	82.3
03CW348	6/26/2009	Greeley Irrigation Company	195.9
11CW020	Pending	Greeley Irrigation Company	72.2
01CW255	5/6/2010	Rural Ditch Company	137.9
01CW255	5/6/2010	Godding Ditch Company	168.3
01CW255	5/6/2010	Boulder and Whiterock Ditch and Reservoir Company	7.9
01CW255	5/6/2010	McCormick Seepage Ditch	7.9
01CW255	5/6/2010	Cole Seepage Ditch	10.3
01CW255	5/6/2010	Mayfield Seepage Ditch	8.2
12CW---	Pending	Rural Ditch Company	100
12CW---	Pending	Godding Ditch Company	150
00CW083	7/22/2009	Shores Lake	7,500 ¹
05CW331	9/19/2011	Central Recharge and Exchange Plan	22,700 ²

¹ WAS owns the decree for Shores Lake, which can store water under junior priorities.

² WAS owns one-third of the decree authorizing CCWCD's Recharge and Exchange Plan (C-REP).

WAS also relies on several lease agreements of limited duration to provide additional replacement water supplies. Since 2009, WAS has used water supplies delivered through the Colorado-Big Thompson Project (CBT) to replace depletions from prior year pumping. WAS is allowed to use CBT to replace depletions associated with member well pumping that occurred prior to 2003. The statute allowing WAS to use CBT as a replacement water supply sunsets in 2017.

Project Description

WAS considered the following three alternatives to address its water supply shortage:

Alternative No. 1 – No Action: Under this alternative, WAS would continue to operate its augmentation plan primarily to replace depletions caused by historical pumping. Without additional water rights that can be used as firm supplies in the projection required by the WAS Decree, it is not expected WAS could authorize new well pumping for at least 10 years, and even

then WAS would be limited to an extremely small quota. Well members may not be able to continue farming operations under this alternative; therefore, this alternative was deemed unacceptable.

Selected Alternative No. 2 – Purchase Storage Space and Fully Consumable Water: In this alternative, WAS would purchase fully consumable water and gravel pit storage from a source or sources on the South Platte River. Fully consumable supplies may be in the form of reusable effluent and/or changed senior irrigation water rights. It is estimated that fully consumable water could be acquired at a rate of up to \$10,000 per AF depending on location and whether the right needs to be changed in court. The desired quantity of water is between 100 – 200 AF. WAS would also acquire between 100 – 300 AF of lined gravel pit storage in this alternative. It is estimated that gravel pit storage will cost \$3,000 per AF. Alternative No. 2 was selected because of the relative low cost and high positive impact it would have on the ability of members to pump their groundwater wells.

Alternative No. 3 – Purchase Water Supplies in Excess of Alternative No. 2: This alternative is similar to Alternative No. 2, but would involve purchase of greater amounts of fully consumable water and storage capacity. While this alternative is attractive because it greatly expedites development of the WAS system, the alternative was eliminated from consideration due to the extreme cost and debt service requirement to fund such purchases.

WAS has targeted prospective water rights and storage capacity necessary to implement the Project. Pending loan approval, WAS will initiate the acquisition process, with the goal of pumping within one year of completing the acquisitions. Table 2 provides a summary of the financing components for the Project.

TABLE 2: TOTAL PROJECT COST SUMMARY

Task	Cost
Water Rights Purchase, Gravel Storage and Legal Services	\$2,000,000
Gravel Pit Storage and Infrastructure	\$1,000,000
Legal & Administrative Services and Contingency*	\$333,400
Total	\$3,333,400

**legal services eligible for reimbursement include services related to the water and storage acquisitions, any and all water court expenses are excluded.*

Financial Analysis

WAS qualifies for the agricultural interest rate of 1.75% for a 30-year term. Table 3 provides a summary of the financial criteria of the loan request.

TABLE 3: PROJECT FINANCIAL SUMMARY

Total Project Cost	\$3,333,400
Borrower Contribution	\$333,400
CWCB Loan Amount (90% of total Project cost)	\$3,000,000
CWCB Loan Amount (including 1% Service Fee)	\$3,030,000
CWCB Annual Loan Payment	\$130,683
CWCB Loan Obligation (including 10% debt reserve funding)	\$143,751
Number of Wells	214
Annual Assessment	\$550,000
Projected 2012 Tax Revenue	\$1,600,000

CWCB will disburse funds at a rate of no greater than 90% of invoice amount for Project related expenses, up to the approved limit of \$3,000,000.

Creditworthiness: WAS generates revenues primarily from annual assessments and a 9 mill tax levy. WAS maintains two separate funds for purposes of financial operations: 1) the General Fund is used to fund daily operations, acquire water rights and develop water storage and recharge projects, and 2) the Debt Service Fund is used to repay loans and other debt that may be carried by WAS. Expenses have routinely exceeded revenues over recent years and WAS has relied on a substantial surplus in cash reserves to supplement the lack of revenues. The primary reasons for the differential are recent acquisitions and legal expenses WAS has incurred, and a reluctance to increase assessments prior to allowing customers to pump well water. Initial budget projections indicate an increase in assessments of up to 70% will be required for 2013.

The CCWCD has been approved for previous CWCB loans. The loans, including one to WAS, are in good standing. The previous WAS loan, Loan Number C150194, was issued in 2010 for acquisition of water rights and gravel pit storage. The initial balance was \$14,934,612 at 2.50% over a 30-year term, resulting in an annual payment of \$713,541. The current principal balance is \$14,245,757 and collateral for the loan is a pledge of the 9 mill property tax revenues.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	2010 - 2011	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	71% (weak) \$2.2M/\$3.1M	100% (average) \$3.3M/\$3.3M
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	-29% (weak) (\$2.2M-\$2.4M)/\$0.7M	100% (average) (\$3.3M-\$2.4M)/\$0.9M
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	67% (average) \$2.1M/\$3.1M	55% (average) \$1.8M/\$3.3M
Annual Operating Cost per Acre-Foot (20,400 consumptive AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$153 (weak)* \$3.1M/20,400	\$161 (weak)* \$3.3M/20,400

**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, WAS will pledge revenues from its 9 mill property tax revenue, the water rights purchased with the requested loan funds, and will provide annual financial reporting. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Danyelle McCannon, Financial Analyst, WAS
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

Water Project Loan Program – Project Data Sheet

Borrower:	Well Augmentation System of the Central Colorado Water Conservancy District	County:	Weld, Adams, Morgan		
Project Name:	Water Rights Purchase & Gravel Pit Storage Project	Project Type:	Water Rights Purchase & Augmentation Facility		
Drainage Basin:	South Platte	Water Source:	South Platte Basin		
Total Project Cost:	\$3,333,400	Funding Source:	Construction Fund		
Type of Borrower:	Agricultural	Annual Depletions Covered:	20,400 AF		
CWCB Loan:	\$3,030,000 (w/ 1% service fee)	Interest Rate:	1.75%	Term:	30 years

The Well Augmentation Subdistrict (WAS) of the Central Colorado Water Conservancy District is located in Adams, Weld, and Morgan counties. WAS is a special district created by the Weld County District Court on January 8, 2004, pursuant to the applicable provisions of the “Water Conservancy Act”, Section 37-45-101, C.R.S. It has the power to acquire and sell water rights, construct and operate facilities, exercise eminent domain, levy taxes, and contract with other agencies. WAS has operated an augmentation plan since 2004, covering approximately 78 square miles and 214 predominantly agricultural member wells. WAS has an average annual depletion of 20,400. WAS has requested a loan for purchasing more water and storage rights to enable WAS to issue a pumping quota to member wells for the first time since 2006. The WAS General Fund will cover the remaining project expenses.

Location Map

