

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Anna Mauss, P.E., Project Manager
Kirk Russell, P.E., Chief
Finance Section

DATE: September 18, 2012

SUBJECT: **Agenda Item 22b, September 27-28, 2012 Board Meeting**
Finance Section – New Construction Fund Loans
Eckhardt Farms Inc. – Water Rights Purchase

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Introduction

Eckhardt Farms Inc. (Corporation) is applying for a loan for a Water Rights Purchase (Project). The subject water rights are rights that the Corporation has been leasing since 2005. The purchase will allow the Corporation to continue farming operations, despite the loss of well water on the farms. The total Project cost is estimated at \$1,470,000. The Corporation is applying for a loan to cover 90% of the purchase price with a 30-year CWCB loan. See attached Project Data Sheet for a location map and a project summary.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$1,336,230 (\$1,323,000 for project costs and \$13,230 for the 1% Loan Service Fee) from the Construction Fund to Eckhardt Farms Inc. for costs related to the Water Rights Purchase Project. The loan terms shall be 30 years at the agricultural interest rate of 1.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following contract conditions:

- a) The Corporation must use the water rights purchased with the CWCB loan funds for irrigation of crops. If the water cannot be used for crop irrigation, the remaining balance of the loan may be called due within one year by the CWCB.

Background

The Corporation runs a farming operation in Weld County near LaSalle, Colorado. The Corporation irrigates approximately 3,000 acres to grow hay, wheat, corn, sugar beets, onions, and pinto beans.

In the past, the Corporation was able to irrigate with well water. The wells it used are part of Central Colorado Water Conservancy District's – Well Augmentation Subdistrict and have not been able to pump since 2005. Since that time the Corporation has been leasing 21 shares in the Western Mutual Ditch Company.

Through this loan, the Corporation intends to purchase the water it has been leasing for the past seven years and continue to use it for agricultural production.

Loan Feasibility Study

The Loan Feasibility Study titled, *Loan Feasibility Study: Eckhardt Farms Inc. Water Project*, dated August 2012, was prepared by Eckhardt Farms Inc. with a water rights analysis prepared by Leonard Rice Engineers, Inc. The study was prepared in accordance with the CWCB guidelines and includes an alternatives analysis and cost estimates.

Eckhardt Farms Inc.

The Corporation was established as a for-profit Corporation in 1993 and is in good standing with the Colorado Secretary of State. There are three directors of the corporation: Frank Eckhardt, Steven Eckhardt, and David Eckhardt. The Corporation is the entity that oversees the farming operations. Revenues are generated from agricultural production. In order to take on debt, a board resolution is required. (Per CWCB Financial Policy #5, the Corporation is considered to be a "closely held corporation.")

The three directors also run Eckhardt Farms Partnership (Partnership) that owns the land and farming equipment used for farming operations. The partnership owns approximately 200 acres and leases 2,800 acres.

Water Rights

The current water rights portfolio consists of five shares of the Farmers Independent Ditch Company and will include the 21 shares of the Western Mutual Ditch Company to be purchased through this loan. The Western Mutual Ditch Company shares will be used for irrigation purposes and will not require a change in use. Based upon the average yield per share in each ditch company, the average annual water delivery to Eckhardt Farms is 694 AF.

Project Description

The subject water rights are shares in the Western Mutual Ditch Company. The Corporation considered three alternatives: 1) no action; 2) purchasing 10.5 shares in the Western Mutual Ditch Company; 3) purchasing 21 shares in the Western Mutual Ditch Company. Alternative 3 was selected.

The Corporation hired Leonard Rice Engineers, Inc. to investigate the shares being purchased. The engineers concluded that the historical consumptive use of the Western Mutual Ditch Company shares range from 7.3 acre-feet (AF) per share to 10.2 AF per share. They also valued the market price of the water to be between \$8,000 - \$10,000 per AF for senior water rights on the South Platte River.

TABLE 1: TOTAL PROJECT COST SUMMARY

| Ditch Company | Average yield per share (AF/share) | Number of shares being purchased | Cost per share | Purchase Price per AF | Purchase Price |
|------------------------------|------------------------------------|----------------------------------|----------------|-----------------------|----------------|
| Western Mutual Ditch Company | 8.75 AF/share | 21 | \$70,000 | \$8,000/AF | \$1,470,000.00 |

Schedule: The directors of the Corporation currently have a handshake agreement to purchase the subject water rights. They expect to execute a purchase agreement and close on the water rights purchase by the end of 2012.

Financial Analysis

The Corporation qualifies for the agricultural interest rate of 1.75% for a 30-year term.

TABLE 2: FINANCIAL SUMMARY

| | |
|---|-------------|
| Total Project Cost | \$1,470,000 |
| Corporation's 10% Match | \$147,000 |
| Loan Amount (90% of total cost) | \$1,323,000 |
| Total Loan Amount (including the 1% Service Fee) | \$1,336,230 |
| Annual Loan Payment | \$57,631 |
| Annual Loan Obligation 1 st 10 years (including reserve account) | \$63,394 |

Creditworthiness: The Corporation has an \$800,000 line of credit annually for its farming operations. The Partnership has a \$94,923 mortgage on farm land with annual payments of \$16,973. Because the Corporation and partnership financial information are kept on one balance sheet, the numbers in Table 3 reflect the combined revenues and expenses.

TABLE 3: FINANCIAL RATIOS

| Financial Ratio | Average Past 3 Years | Future w/ Project |
|---|--|--------------------------------------|
| Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120% | 122% (Strong) \$934K/\$764K | 113% (Average) \$934K/\$827K |
| Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120% | 1100% (Strong) \$934-6747K/\$17K | 234% (Strong) \$934-747K/\$80K |
| Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100% | 34% (Weak) \$256K/\$764K | 13% (Weak) \$109K/\$827K |

Collateral: Per CWCB Financial Policy #5, the Corporation is considered to be a “closely held corporation” so collateral must be water rights valued at an amount equal to or greater than 110% of the loan amount. Leonard Rice Engineers, Inc. provided an estimated market value of the subject water rights to be within the range of \$1,470,000 to \$1,837,500.

Security for the loan will be the water rights purchased through this loan (21 shares in the Western Mutual Ditch Company). This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Frank Eckhardt, President, Eckhardt Farms Inc.
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

**CWCB Water Project Loan Program
Project Data Sheet**

Borrower: Eckhardt Farms Inc.

County: Weld

Project Name: Water Rights Purchase

Project Type: Water Rights Purchase

Basin: South Platte **District:** 1

Water Source: Western Mutual Ditch

Total Project Cost: \$1,470,000

Funding Source: Construction Fund

Type of Borrower: Agricultural

Average Annual Diversion: 694 AF

CWCB Loan: \$1,336,230 (w/ 1% service fee) **Interest Rate:** 1.75% **Term:** 30-years

Eckhardt Farms Inc. is located in Weld County near LaSalle, Colorado. The farming Corporation has been incorporated since 1993. It farms 3,000 acres and generates revenues from crops of hay, wheat, corn, sugar beets, onions, and pinto beans. In the past, the Corporation was able to irrigate with well water. The wells it used are part of Central Colorado Water Conservancy District's – Well Augmentation Subdistrict and have not been able to be pumped since 2005. Since that time the Corporation has been leasing shares in the Western Mutual Ditch Company. Through this loan, the Corporation intends to purchase the water it has been leasing for the past seven years and continue to use it for agricultural production.

