

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

1313 Sherman Street, Room 721
Denver, Colorado 80203
Phone: (303) 866-3441
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www.cwcb.state.co.us



October 2, 2012

Mrs. Jen Coates
Town of Ridgway, Town Manager
P.O. Box 10
Ridgway, CO 81432

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Re: Lake Otonowanda Rehabilitation Project
Contract Number C150340

Mrs. Coates:

I am pleased to inform you that on September 28, 2012 the Colorado Water Conservation Board approved your loan request for the Lake Otonowanda Rehabilitation Project as described in the application and approved Loan Feasibility Study titled "*Town of Ridgway – Lake Otonowanda Rehabilitation Project*." The Board approved a loan not to exceed \$606,000 (\$600,000 for project costs and \$6,000 for the 1% Loan Service Fee). The loan terms shall be 30 years at an interest rate of 3.0% per annum.

I have attached a copy of the updated Board memo dated October 2, 2012, that includes the Board's approval.

After the Board approves a loan there are a few steps that remain in the loan process including:

- A) Board/Staff Approval Conditions: Prior to disbursement of loan funds the Town shall have the necessary funds secured to finance the entire Project.
- B) Contracting: An approved contract must be in place before funds can be disbursed. Peg Mason will contact you to initiate the loan contracting process for this project. When all of the contract conditions are met and the contract is executed the Town may request loan funds to cover eligible project expenses. You can contact Peg at (303) 866-3441 x3227.
- C) Design/Construction: You must adhere to the CWCB Design and Construction Administration Procedures. Kirk Russell will be the project manager for this phase of the process. Kirk will make construction site visits, which will be the basis of pay estimates for disbursement of your loan funds. You can contact Kirk at (303) 866-3441 x3232.

NOTE: No expenses incurred on any work performed prior to execution of the WSRA Grant Contract will be eligible for reimbursement through the loan or grant.

Town of Ridgway
Lake Otonowanda Rehabilitation Project
October 2, 2012
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On behalf of the Board, I would like to thank you for your interest in a loan from the Colorado Water Conservation Board.

Sincerely,

A handwritten signature in black ink, appearing to read "Kirk Russell".

Kirk Russell, P.E., Chief
Finance Section
Colorado Water Conservation Board

A handwritten signature in blue ink, appearing to read "Ryan Edwards".

Ryan Edwards, P.E., Project Manager
Finance Section
Colorado Water Conservation Board

Attachment: Updated Board Memo

E-mail Copy (Including Attachments)

John McClow, CWCB Board Member – Gunnison River Basin
CWCB Finance Section Staff

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TO: Colorado Water Conservation Board Members

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

DATE: September 18, 2012 (October 2, 2012)

SUBJECT: **Agenda Item 23a, September 27-28, 2012 Board Meeting**
Finance/Water Supply Planning – WSRA Grant & Construction Fund Loan
Town of Ridgway – Lake Otonowanda Rehabilitation Project

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Introduction

The Town of Ridgway (Town), acting by and through its Water Enterprise, is applying for a WSRA grant and CWCB loan to finance the Lake Otonowanda Rehabilitation Project (Project). The purpose of the Project is to rehabilitate Lake Otonowanda (Otonowanda) and increase the Town's raw water storage capacity to ensure a reliable water supply is available under future drought conditions. The total cost of the Project is estimated to be \$2,080,850. The Town was approved for a \$600,000 grant by the Gunnison River Basin Round Table from the Water Supply Reserve Account and has requested a CWCB loan to assist with Project costs. See the attached Project Data Sheet for a location map and project summary.

Staff Recommendation for WSRA Grant (Board approved recommendation on September 28, 2012)

Staff recommends grant approval of \$540,000 from the Statewide Account and \$60,000 from the Gunnison Basin account to help fund the Town of Ridgway's Lake Otonowanda Rehabilitation Project.

Staff Recommendation for Construction Fund Loan (Board approved recommendation on September 28, 2012)

Staff recommends the Board approve a loan, from the Construction Fund, not to exceed \$606,000 (\$600,000 for Project costs and \$6,000 for the 1% Loan Service Fee) to the Town of Ridgway, acting by and through its Water Enterprise, for the Lake Otonowanda Rehabilitation Project. The loan terms shall be 30 years at a middle-income municipal interest rate of 3.0% 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 Town shall have the necessary funds secured to finance the entire Project.

Background

The Town is responsible for supplying potable water to 695 single family equivalence (SFE's). It derives the majority of its raw water supply from two sources: the Ridgway Ditch system and the Happy Hallow system. Diversions from these two systems directly feed the Town's treatment plant. During 2002, all of the Town's water rights fell out of priority due to extended drought conditions. Over the past decade the Town has dedicated technical and financial resources towards studying, designing and constructing improvements to increase the reliability and efficiency of its municipal water system to avoid a recurrence of 2002. The rehabilitation of Otonowanda will improve the Town's overall supply and storage system.

Otonowanda is a 109-AF reservoir located approximately 4 miles south of the Town. It lies within the Ridgway Ditch system and is situated in a natural depression, and the storage volume is created by a dam crossing the depression. Ridgway Ditch gets its water from diversions on the mainstem and East Fork of Beaver Creek. A wooden diversion box along Ridgway Ditch, adjacent to Otonowanda, can direct water to the reservoir or allow it to bypass to the Otonowanda Pipeline. The pipeline is a direct conveyance to the treatment plant's sedimentation basin. The existing Otonowanda outlet structure is located on the northwest side of the reservoir and consists of a tunnel that collapsed years ago, rendering the outlet inoperable. The Town owns a pump that it can install to draw water from Otonowanda in an emergency event.

The improvements proposed with this Project include constructing a functional outlet system to control release rates, line a portion of Otonowanda to protect against seepage, and replace the existing dam with a larger dam, increasing the storage capacity from 109 AF to 363 AF. The reconstructed dam will increase the surface area of Otonowanda from 26 AF to 29 acres.

Loan Feasibility Study

The loan feasibility study titled "*Town of Ridgway – Lake Otonowanda Rehabilitation Project*," dated July 9, 2012, was prepared by Joanne Fagan, P.E., Town Engineer for Ridgway. Legal support was provided by city attorney John Kappa, Esq. The study was prepared in accordance with CWCBC guidelines and includes a preliminary engineering design that was used in the determination of the total Project cost.

A related study titled "*Ridgway Ditch & Otonowanda Reservoir*," dated January 2012, was prepared by Craig Ulman, P.E., from Applegate Group, Inc. The study provided the Town an analysis of available water supplies and potential alternatives for meeting current and future potable water demands. Information from the study was used in preparation of the loan feasibility study.

Town of Ridgway

The Town of Ridgway is a home rule municipality established in 1891. It is located along the Uncompahgre River in the foothills of the San Juan Mountains in southwest Colorado, and has a population of approximately 1,000 people. The Town is responsible for the delivery of water to the local businesses and residents within its municipal boundary. It operates its water treatment and delivery services through a Water Enterprise Fund. The Enterprise generates the majority of its operating revenue through a monthly service charge and monthly water usage fees. Tap fees, transfer fees and investment income supplement the revenue stream but generally in minor amounts.

The Town's water facilities include the Beaver and East Fork Beaver diversion gates, Happy Hollow diversion gate, two 300,000 gallon storage tanks, the treatment facility and the pipe distribution network. On average, the Town delivers approximately 280 AF of treated water annually.

Water Rights

The Town is located in the Gunnison River Basin, District 68. The Town owns multiple direct flow rights, a 746-acre storage right in Otonowanda, and a 14.9-acre storage right in the sedimentation ponds. The rights all have an adjudication date of August 2, 1905 and appropriation dates ranging from June 1, 1890 to March 1, 1892.

Project Description

The primary goal of the Project is to make Otonowanda a reliable source of raw water storage by constructing a functional outlet control system and increasing the storage capacity, enabling the Town to store a greater percentage of its appropriated rights. The Applegate Group study included field surveys, geotechnical analysis, preliminary engineering design, and permitting requirements; and produced two alternatives for enlarging the reservoir:

Alternative A: On Property - involves removing the existing dam and constructing a larger dam in its place. This scenario would limit the expansion of the Otonowanda footprint to 3 acres (from 26 acres to 29 acres) while increasing the volume by approximately 254 AF (from 109 AF to 363 AF).

Alternative B: Off Property - involves removing the existing dam and using the natural topography. An existing saddle on adjacent property (private), requiring minimal grading, would function as the new dam. A spillway or overflow pipe and outlet works would be constructed to control discharge from the reservoir. This scenario would increase the storage volume by approximately 268 AF (from 109 AF to 377 AF), the surface area by 36 acres (from 26 acres to 62 acres), and require lease, construction and access easements across the adjacent property.

Both alternatives included options for seepage control, outlet control, inlet rehabilitation, and spillway design. After analyzing both, the Town selected Alternative A: On Property. Although the estimated construction costs are slightly greater, the Town felt it is a better alternative at this time versus dealing with the potential complications related to securing the necessary rights and access to the adjacent land. Table 1 provides a detailed summary of Project costs associated with the selected alternative.

TABLE 1: TOTAL PROJECT COST SUMMARY

Task	Cost
Engineering and Construction Management	\$217,860
Permitting and Easement Acquisition	\$36,157
Construction	\$1,660,751
Contingency (10%)	\$166,082
Total	\$2,080,850

The Town has coordinated with local, state and federal authorities in regards to permitting for the Project. The Ouray County Planning and Zoning staff has indicated that no local permits will be required. A Stormwater Management Plan and potentially a dewatering permit will be required in accordance with Colorado Department of Health and Environment (CDPHE) guidelines. And the U. S. Army Corps of Engineers concurred there are no jurisdictional wetlands impacted by the project; therefore, a 404 permit will not be required.

It is anticipated that the proposed dam will be classified as a small jurisdictional, non-public hazard dam and would require design approval by the State Engineer's Office (SEO). Final engineering, geotechnical design, and survey work is scheduled for this fall. It is anticipated that construction will begin as early as July 2013 and be completed in the summer of 2014.

Table 2 provides a summary of the financing components for the Project.

TABLE 2: PROJECT FUNDING SUMMARY

Applicant Contribution (in-house eng. design and construction mgmt.)	\$161,250
Department of Local Affairs (Energy and Mineral Impact Fund grant)	\$600,000
River District	
Design Grant	\$19,600
<u>Construction Grant</u>	<u>\$100,000</u>
TOTAL	\$119,600
WSRA Grant	
Gunnison River Basin	\$60,000
<u>Statewide</u>	<u>\$540,000</u>
TOTAL	\$600,000
CWCB Construction Fund Loan	\$600,000
Total Project Cost	\$2,080,850

CWCB disbursement of loan and WSRA grant funds will be issued at a prorated ratio of 1:1, up to the approved limit, for construction activities outlined in the Statement of Work detailing which tasks and subtasks will be funded with CWCB loan and WSRA grant monies.

Water Supply Reserve Account Grant

At the June 4, 2012 Gunnison Basin Roundtable meeting the Roundtable granted approval of the Lake Otonowanda Rehabilitation Project application request for \$60,000 in Basin Funds, and recommended approval of \$540,000 of Statewide Funds.

Source of Funds: \$540,000 Statewide Funds, \$60,000 Gunnison Basin Funds

Matching Funds: \$600,000 CWCB Loan, \$600,000 DOLA Energy & Minerals Assistance Fund (EIAF), \$161,250 Applicant Contribution, \$119,600 Colorado River District

Threshold and Evaluation Criteria: The application articulates how the Project satisfies the Threshold and Evaluation Criteria as summarized below:

Tier 1: Promoting Collaboration/Cooperation & Meeting Water Management Goals & Identified Needs: By making structural improvements to the outlet works, this Project provides interbasin needs at the municipal level. Increasing the capacity to store pre-1922 waters will provide value to western slope users in the event of a Compact Call. The Project is included in the SWSI 2010 Projects and Processes (IPP's) identified as needed to meet future water supply demands and is identified in the Basin's Needs Assessment.

Tier 2: Facilitating Water Activity Implementation: Without WSRA funding, the Town would not be in a financial position to implement this Project. The Project is the culmination of planning, design and implementation efforts dating back to 2002, and to this point the Town has contributed financially with cash funds and in-kind services. Funding the full Project cost exclusively through rate increases would place too great a burden on the average user's ability to pay. The Town is prepared to contribute an estimated \$161,250 towards the Project in the form of cash, in-house engineering design, and construction management activities. The Town has requested a \$600,000 CWCB loan which will be paid through a rate increase of up to \$5 per month; however, joining forces with State and local stakeholders is the only practical means the Town has to implement this Project at this time.

Tier 3: The Water Activity Addresses Issues of Statewide Value and Maximizes Benefits: This is a multipurpose project that benefits both consumptive and nonconsumptive uses. In addition to enlarging the reservoir, a portion of the reservoir will be lined to prevent against the excessive seepage that presently occurs. The Project will have an immediate impact on the Town of Ridgway and its ability to store its pre-1922 waters, assisting both the Town and Basin in the event of a Compact Call. The reservoir lies outside the Town's municipal boundary, on the edge of the San Juan Mountains, adjacent to a private conservation easement. Expanding Otonowanda will improve wildlife and the native plant habitat in the vicinity. Both the consumptive and nonconsumptive benefits are attainable at a price of less than \$6,000 per AF which is below the average cost of a majority of M&I projects in the region.

Discussion: The requested WSRA funds will enable the Town to finance a multi-purpose project in the Gunnison River Basin that will bolster raw water storage for serving current and future residents of the Town and enhance the habitat in and adjacent to the reservoir.

In addition to the requested WSRA funds, the applicant is seeking CWCB loan funds in the amount of \$600,000, a \$600,000 DOLA (EIAF) grant, \$119,600 from the Colorado River District for design and construction expenses, and plans to contribute in excess of \$161,000 of cash and in-kind contributions.

Issues/Additional Needs: CWCB staff requests that the following issues be addressed during contracting and Project execution:

- The applicant has the necessary funds secured to construct the entire Project.
- Applicant to provide a Statement of Work detailing which tasks and subtasks will be funded with the CWCB loan and WSRA grant monies.
- The sequencing of CWCB fund disbursements will be issued at a prorated ratio of 1:1, up to the approved limit, for construction activities as outlined in the Statement of Work.

Reporting and Deliverables: All products, data and information developed as a result of this grant must be provided to CWCB in hard copy and electronic format as part of the project documentation. This information will in turn be made widely available to Basin Roundtables and the general public and will help promote the development of a common technical platform.

Staff would like to highlight additional reporting and final deliverable requirements in accordance with the revised WSRA Criteria and Guidelines:

Reporting: The applicant shall provide the CWCB a progress report every 6 months, beginning from the date of the executed contract. The progress report shall describe the completion or partial completion of the tasks identified in the scope of work including a description of any major issues that have occurred and any corrective action taken to address these issues.

Final Deliverable: At completion of the Project, the applicant shall provide the CWCB a final report that summarizes the project and documents how the project was completed. This report may contain photographs, summaries of meetings and engineering reports/designs.

Engineering: All engineering work (as defined in the Engineers Practice Act (§12-25-102(10) C.R.S.)) performed under this grant shall be performed by or under the responsible charge of professional engineer licensed by the State of Colorado to practice Engineering.

CWCB Construction Fund Loan

Financial Analysis

The Town qualifies for a middle-income municipal interest rate of 3.00% for a 30-year term. Table 3 provides a summary of the financial aspects of the loan request.

TABLE 3: FINANCIAL SUMMARY

CWCB Loan Amount	\$600,000
CWCB Loan Amount (including 1% Service Fee)	\$606,000
CWCB Annual Loan Payment	\$30,918
CWCB Loan Obligation (including 10% debt reserve funding)	\$34,009
Number of SFE's	695
Cost of Project (per month per SFE)	\$4.08
Cost of Project (per AF, based on 363 AF)	\$5,732

Creditworthiness: The Water Enterprise Fund has sufficient cash reserves on hand to cover its share of the Project and the fund has grown annually over recent years due to a surplus in operating revenues versus operating expenses. The surplus is a result of a recurring increase in service charges over the last three years, implemented in anticipation of this Project. The Enterprise is prepared to increase service charges, usage fees, or both as required to meet its financial obligations.

The Enterprise currently has four outstanding debt obligations. Table 4 provides a summary of the terms. The Town, nor the Enterprise, has ever defaulted on a loan, and all current obligations are in good standing.

TABLE 4: OUTSTANDING DEBT SUMMARY

Lender	Balance (as of July 9, 2012)	Annual Payment	Maturity Date
CWCB – Water Plant ¹	\$53,143	\$7,571	2020
DOLA – Water Plant ²	\$75,633	\$9,795	2021
CWRPDA ³	\$405,000	\$22,500	2030
Montrose Bank ⁴	\$122,325	\$15,225	2019

Collateral on the outstanding debt is as follows:

¹ Approximately 11,050 LF of water line and an intake structure

² A pledge of assessment revenues

³ A pledge of assessment revenues

⁴ A pledge of property tax revenues

Table 5 provides Financial Ratios for the Enterprise.

TABLE 5: FINANCIAL RATIOS

Financial Ratio	2011*	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	108% (average) \$335K/\$311K	101% (average) \$350K/\$345K
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	144% (strong) (\$335K-\$256K)/\$55K	106% (average) (\$350K-\$256K)/\$89K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	144% (strong) \$447K/\$311K	130% (strong) \$447K/\$345K
Average Residential Water Bill (monthly) weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$32 (average)	\$42 (average)
Debt per Tap (based on 695 SFE) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: <\$2,500	\$944 (strong) \$656K/695	\$1,807 (strong) \$1.26M/695

**The historical ratios are based on calendar year 2011 financial statements as the previous year's statements are not representative of current financial ratios for the Town's Water Enterprise Fund. The Fund operated at a loss from 2008-2010. Starting in 2009 the Town imposed an annual increase in the water service fee of \$5 per month, raising the fee from \$22/ month in 2009 to its current 2012 rate of \$37/ month.*

Collateral: As security for the loan, the Town's Water Enterprise Fund will pledge its service charge and usage fee revenues backed by a rate covenant and provide annual financial reporting. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Joanne Fagan, P.E., Town Engineer, Town of Ridgway
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

**CWCB Construction Loan Program
Project Data Sheet**

Borrower: Town of Ridgway

County: Ouray

Project Name: Lake Otonowanda Rehabilitation Project

Project Type: Reservoir Enlargement

Drainage Basin: Gunnison, District 68

Water Source: Ridgway Ditch

Total Project Cost: \$2,080,843

Funding Sources: Construction Fund, WSRA, DOLA, CO River District

Type of Borrower: middle-income municipal

Avg. Diversion: 280 AF (363 AF of reservoir storage)

Loan Amount: \$606,000 (Including 1% fee)

Interest Rate: 3.0%

Term: 30 years

WSRA Grant Amounts: \$60,000 Gunnison Basin & \$540,000 Statewide

The Town of Ridgway is requesting a CWCB loan for rehabilitation improvements and enlargement of Lake Otonowanda to ensure a reliable water supply of raw water is available under future drought conditions. Otonowanda is the primary storage facility for the town, responsible for treating and delivering potable water to 695 SFE. Otonowanda, with a current capacity of 109 AF, does not have a functional outlet works; therefore, no way to control reservoir discharge. During 2002, all of the Town's water rights fell out of priority due to extended drought conditions and the Town was dangerously close to running out of water. The improvements to the reservoir, including: replacement of the outlet works, reservoir lining and a 254-AF enlargement, will provide the Town the ability to store more of its adjudicated water rights and a controlled means to release the water, firming the Town's water supply in the event of future call outs.

