

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



October 4, 2012

Mr. Frank Eckhardt
Eckhardt Farms Inc.
21454 Weld County Road 33
La Salle, CO 80645

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Re: Water Rights Purchase
Contract Number C150338

Mr. Eckhardt:

I am pleased to inform you that on September 28, 2012 the Colorado Water Conservation Board approved your loan request for the Water Rights Purchase Project as described in the application and approved Loan Feasibility Study titled "*Loan Feasibility Study: Eckhardt Farms Inc. Water Project.*" The Board approved a loan not to \$1,336,230 (\$1,323,000 for project costs and \$13,230 for the 1% Loan Service Fee). The loan terms shall be 30 years at an interest rate of 1.75% per annum.

I have attached a copy of the updated Board memo dated October 4, 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) 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 Corporation may request loan funds to cover eligible project expenses. You can contact Peg at (303) 866-3441 x3227.

There will be an additional condition within the contract:

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.

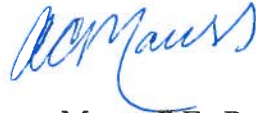
- B) Design/Construction: You must adhere to the CWCB Design and Construction Administration Procedures. Anna Mauss will be the project manager for this phase of the process. Anna will be the contact for the disbursement of your loan funds. You can contact Anna at (303) 866-3441 x3224.

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 "Anna Mauss".

Anna Mauss, P.E., Project Manager
Finance Section
Colorado Water Conservation Board

Attachment: Updated Board Memo

E-mail Copy (Including Attachments)

Diane Hoppe, CWCB Board Member – South Platte River Basin
CWCB Finance Section Staff

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TO: Colorado Water Conservation Board Members

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

DATE: September 18, 2012 (Updated October 4, 2012)

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

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 (Board approved staff recommendation on September 28, 2012)

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 CWCBC 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 CWCBC 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.

