

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 & Administration Section

DATE: November 5, 2012

SUBJECT: **Agenda Item 15a, November 13-14, 2012 Board Meeting**
Finance – Change to Existing Loan
Farmers’ High Line Canal and Reservoir Company – System Rehabilitation Project

Introduction

The Farmers’ High Line Canal and Reservoir Company (Company) received approval of a \$1.55M loan for its System Rehabilitation Project (Project) in November 2010. The Project involves the rehabilitation of the Company’s 130-year-old canal system. The Company is requesting a loan increase because the three contractor bids exceeded the engineer’s estimated project cost. The revised total project cost is estimated to be \$2.43M. The loan request is for 90% of the revised project cost.

Staff Recommendation

Staff recommends the Board approve a loan increase of \$798,829 (\$790,920 for project costs and \$7,909 for the 1% Loan Service Fee), from the Construction Fund, to the Farmers’ High Line Canal and Reservoir Company. The amended loan amount will be \$2,209,597 (\$2,187,720 for project costs and \$21,877 for the 1% Loan Service Fee) for engineering and construction costs related to the System Rehabilitation Project. The loan terms shall remain 30-years at a blended rate of 4.65% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background and Current Project Status

The Company operates a ditch and reservoir system with 31 miles of canal from Clear Creek, in Golden, Colorado, through Jefferson and Adams counties. Water is delivered to both municipal and agricultural shareholders over a 96-square mile area.

Concerned over the aging infrastructure, the Board of Directors of the Company commissioned Deere & Ault Consultants, Inc. to prepare a canal evaluation and engineering planning study with regard to infrastructure repair and replacement. The study outlined a variety of tasks, with the most impactful tasks being the rehabilitation of the main headworks and diversion dam, and replacement of the Van Bibber Creek and Ralston Creek siphons.

The Board approved the Company's original loan request on November 16, 2010. After the loan contract (C150314) was signed in early 2011, the Company drew on the loan for engineering and construction of various small tasks (\$373,036 of the approved loan has been spent to date) while final construction documents were prepared for the more expensive rehab items.

In November 2011, prequalified contractors were taken on a pre-bid field visit. The three bids received ranged from \$435,200 to \$588,000, compared to the \$191,000 estimate provided in the loan application and feasibility study. The Company determined it was not acceptable to spend such a large percentage of the approved loan amount on the smaller, less significant tasks and elected to reserve the loan funds to finance the future headworks, diversion dam, and siphon work.

In September 2012, the Company held a pre-bid for only the headworks, diversion dam and siphon repairs. The Company received bids on October 1, ranging between \$1.73M and \$1.83M, exceeding the estimate of \$1.08M. The discrepancies have been attributed to concrete and rip-rap material costs, bonding and insurance expenses, demolition, earthwork, dewatering and equipment (slide gates and SCADA elements) price and installation expense.

Schedule: The Company accepted the bid of \$1.73M for the headworks and diversion dam repair and replacement of the Van Bibber Creek and Ralston Creek siphons. The Company will begin construction in November 2012 on the headworks and diversion dam, under the original contract. Pending approval of the requested loan increase, construction on the two siphons is expected to begin in late November 2012 as well. Both projects should be completed by March 2013.

The Farmers' High Line Canal and Reservoir Company

The Company is headquartered in Northglenn, Colorado. The Company is a Mutual Ditch Company that was founded in 1885, and includes 1,110 shares of stock issued amongst 80 shareholders. The Company is managed by a seven-member board of directors with the authority to terminate water deliveries and sell the stock of shareholders who are sufficiently delinquent on assessments, and to take on debt. Assessment rates are set annually, at a rate sufficient to cover projected operating expenses for the year, and require shareholder approval.

Financial Analysis

The Company qualified for a fiscal year 2011/2012 blended interest rate (55% middle-income municipal, 31% high-income municipal, 7% commercial, 6% agricultural, and 1% low-income municipal) of 4.65% for a 30-year term. Table 1 provides a summary of the financial criteria of the loan request.

TABLE 1: FINANCIAL SUMMARY

	Original	Increase	New
Total Project Cost	\$1.55M	\$0.88M	\$2.43M
Borrower Contribution	\$155,200	\$87,880	\$243,080
CWCB Loan Amount (90% of total Project cost)	\$1,396,800	\$790,920	\$2,187,720
CWCB Loan Amount (including 1% Service Fee)	\$1,410,768	\$798,829	\$2,209,597
CWCB Annual Loan Payment	\$88,144	\$49,910	\$138,054
CWCB Loan Obligation (including 10% debt reserve funding)	\$96,958	\$54,902	\$151,860
Number of Shares	1,110	-	1,110
Current Assessment per Share	\$398	-	\$398
Annual Cost of Project per Share (with 10% reserve)	\$87	\$50	\$137
Cost of Project per Acre-Foot (24,000 AF)	\$65	\$36	\$101

Creditworthiness: Revenues for the Company are generated by annual shareholder assessments, recently raised to \$485 (\$398 for operating expenses and \$87 for debt service on the existing CWCB loan) per share. The Company has no other outstanding debt and sufficient cash reserves to cover the Company's portion of the project cost. The CWCB payment for the loan increase will be repaid from an increase in share assessments and/or the sale of real estate assets the Company owns.

TABLE 2: FINANCIAL RATIOS

Financial Ratio	Prior to Project	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	107% (average) \$450K/\$422K	105% (average) \$602K/\$574K
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	No Existing Debt	118% (average) \$(602K-422K)/\$152K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	207% (strong) \$872K/\$422K	110% (strong) \$629K/\$574K
Average Operating Cost per Acre-Foot (24,000 AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$18 (average) \$422K/24,000 AF	\$24 (weak) \$519K/24,000 AF

Collateral: The security for the loan will continue to remain a pledge of assessment revenues backed by a rate covenant, annual financial reporting, and the Project itself (the Company's main diversion structure located on Clear Creek). This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Mary J. Vestal, Director, Farmers' High Line Canal and Reservoir Company
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

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

Borrower: Farmers' High Line Canal and Reservoir Company

Project Name: System Rehabilitation

County: Adams/Jefferson

Project Type: Ditch Rehabilitation

Drainage Basin/District: South Platte / 7

Water Source: Clear Creek

Total Project Cost: \$2,430,000

Funding Source: Construction Fund

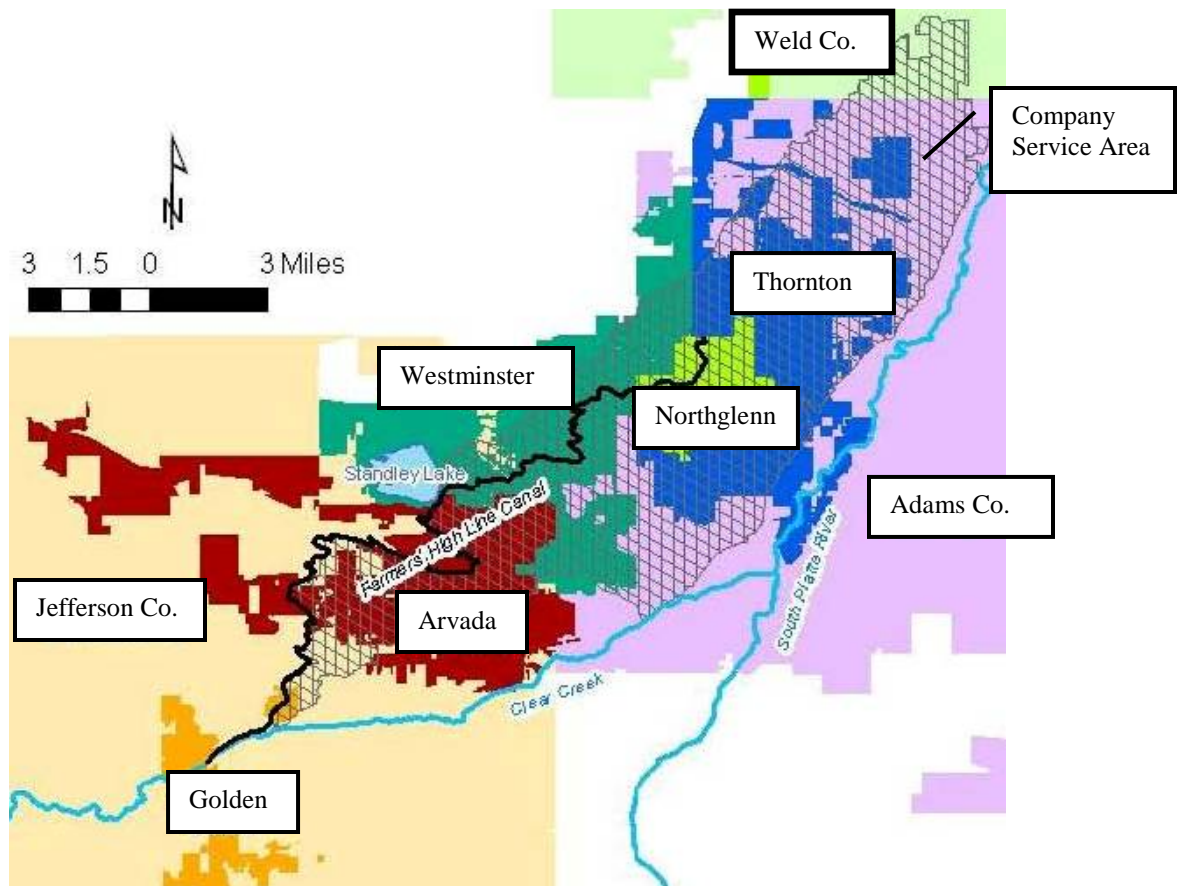
Type of Borrower: Municipal

Water Delivery: 24,000 AF/yr

CWCB Loan: \$2,209,597 (incl. 1% loan fee)

Interest Rate: 4.65% **Term:** 30 years
(Blended rate)

The Farmers High Line Canal and Reservoir Company (Company) is a ditch company that was established in 1885. It diverts water off of clear creek and it delivers water through a 31 mile canal running from Golden to Northglenn, through Arvada and Westminster. The Company has completed a canal evaluation and engineering planning study and identified a list of improvements it intends to do with the CWCB loan proceeds. These items include: replacement of corroded drain pipes, replacement of three siphons, headgate rehabilitation, SCADA control system installation at the headgate, diversion dam rehabilitation, and tree removal along the ditch. This work is expected to be completed between the fall of 2010 through the winter of 2014.



Location Map