

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: January 18, 2013

SUBJECT: **Agenda Item 15a, January 28-29, 2013 Board Meeting**
Finance Section – New Construction Fund and Severance Tax Trust Fund
Perpetual Base Account Loans
Roxborough Water and Sanitation District – Raw Water Supply Project

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Introduction

The Roxborough Water and Sanitation District (District), acting by and through its Water Activity Enterprise, is applying for a loan for the Raw Water Supply Project (Project). Since 1972 the District has been leasing water from Aurora through an agreement that expires in 2022. After many years of discussion, the District has reached an agreement with Aurora to purchase a permanent raw water supply. The agreement is based on the use of Aurora's existing and future raw water supplies and infrastructure. The total Project cost is estimated at \$26,300,000. The District is applying for a loan to cover approximately 70% of the project cost 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 \$18,538,550 (\$18,355,000 for project costs and \$183,550 for the 1% Loan Service Fee) to the Roxborough Water and Sanitation District, acting by and through its Water Activity Enterprise, for costs associated with the Raw Water Supply Project from the Construction Fund. The loan terms shall be 30 years at the high-income municipal rate of 3.25% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background

The District is located along the eastern edge of the foothills in unincorporated northwest Douglas and southeast Jefferson Counties, south of C-470, and west of US Highway 85. The portion of the District located in Douglas County contains all of the District's residential, commercial, and irrigation water customers.

In 1972 the District entered into a 25 year lease agreement with Aurora. Through this lease agreement Aurora provides raw water to the District. The District treats the water and delivers it within its service boundary. The original lease agreement was renewed for 25 years and is set to expire in 2022. Prior to that date, the District must find a permanent raw water supply.

Loan Feasibility Study

The Loan Feasibility Study titled, *Roxborough Water and Sanitation District Loan Feasibility Study*, dated December 2012, was prepared by Dean Bedford, P.E. with TST Infrastructure LLC. The study was prepared in accordance with the CWCB guidelines and includes an alternative analysis, and cost estimates.

Roxborough Water and Sanitation District

The Roxborough Metropolitan District was originally formed in 1971 as a special district under Title 32 of Colorado State Statutes and was authorized to provide water, sewer, and fire protection services to its customers. In 1999, responsibility for fire protection service was transferred to the West Metro Fire Protection District. The name of the District was changed in 2006 to the Roxborough Water and Sanitation District to more accurately reflect the services.

The District's population is 9,100 with approximately 3,400 Equivalent Residential Units (EQRs). At ultimate buildout, the District estimates there will be 3,800 EQRs. The water users served by the District are composed of 97% residential users, 2% commercial users, and 1% irrigation users. The irrigation users that receive raw water are the Roxborough Village Metropolitan District and the Arrowhead Golf Course.

The District's sources of revenue include ad valorem taxes and user charges. Because the District's water utility is operated as an enterprise under the Taxpayer Bill of Rights, the use of tax revenue by the water activity enterprise is limited, and the majority of the District's water activity enterprise revenues are derived from user charges. In order to ensure adequate revenues, the District reviews rates on an annual basis in accordance with its established rate policies.

Water Rights

The District's current water supply is based entirely on water delivered under the 1972 Aurora lease agreement. Water is delivered to the District through water supply facilities owned and operated by Aurora. Because the 1972 lease agreement did not provide for a permanent supply, the District has been working towards developing additional water supply assets.

In addition to the leased supply, the District has acquired 80 acre-feet (AF) per year from the Meadow Ditch. This water right was adjudicated for municipal use, but the infrastructure to convey the water was never developed. The Meadow Ditch rights also include a storage right of approximately 17 AF in the existing Lambert No. 3 reservoir.

Project Description

The District considered a wide range of alternatives for developing a permanent water supply, and over the years expended considerable effort to investigate the alternatives. These alternatives included acquiring water rights and developing its own delivery system; connecting to a larger existing supplier; or participating in a regional effort to develop new supplies. Each alternative was evaluated based upon: the adequacy of the supply; economic feasibility; impacts to the environment; institutional requirements; and special considerations including technical considerations, the need for further investigations, and risk/uncertainty.

Alternative No. 1 – Develop its own water supply - District Alone: The District evaluated acquiring sufficient raw water rights to meet its ultimate demand and the development of the infrastructure to deliver the water to the District. Given the high cost and uncertainty of purchasing the water rights, the environmental impacts, permitting, court actions, and technical investigations, this alternative was not selected.

Alternative No. 2 – Regional Water Solution: The District considered the Water Infrastructure and Supply Efficiency (WISE) project. The WISE project is a joint effort between Denver Water, Aurora, and the South Metro Water Supply Authority to reclaim and treat return flows from the South Platte River and deliver treated water to South Metro Water Supply Authority members. In certain years, all of the water developed through the WISE project would be completely utilized by Denver Water and Aurora and would not be available to South Metro Water Supply Authority members. It is estimated that water would be available in 8 of every 10 years. In years when the supply is not available, members would need to find alternate supplies. Because of the need to acquire an alternate supply in 2 out of 10 years, this alternative did not offer a complete water supply solution.

Alternative No. 3 – Denver Water: The District is located in close proximity to Denver Water's raw water delivery system but outside of the Denver Water service area. Denver Water indicated that it would not provide water supply to the District, so this alternative was not selected.

Selected Alternative No. 4 – Aurora Water Supply Agreement: Under this alternative Aurora will provide a permanent raw water supply to the District using Aurora's existing and future raw water supplies and facilities; and the District will not acquire ownership of any water rights. This alternative provided the District with more certainty than the other alternatives and had no environmental or institutional requirements. For those reasons, the District selected this alternative and executed a new water supply agreement with Aurora referred to as the 2010 Raw Water Supply Agreement.

The following is a summary of the major provisions of the 2010 Raw Water Supply Agreement:

1. Aurora will deliver a maximum of 1,800 AF/yr of raw water through its existing system for treatment by the District.
2. The District may use the water supplied to serve a maximum of 3,800 EQRs located within the current District boundary.
3. The District will pay Aurora a Development and Connection Fee (currently \$6,575) for each EQR connected to the District's system. Payment is due at the time each new unit is connected.

4. In addition to the 1,800 AF/yr of raw water for service to the District’s potable water customers, Aurora will provide up to an additional 350 AF/yr of raw water which may be used only for service to the irrigation customers.
5. In addition to the Development and Connection Fee, the District will pay Aurora a rate per 1,000 gallons for raw water supplied to the District.
6. The 2010 Raw Water Supply Agreement was approved and executed in December 2010. To allow adequate time for financial planning, the agreement allows the District up to 5 years to implement the agreement by the current Development and Connection Fee, at which time the 2010 Raw Water Supply Agreement will supersede in its entirety, the 1972 lease agreement.
7. Prior to the District paying the Development and Connection fee, Aurora will continue to provide raw water to the District pursuant to the 1972 lease agreement.

Project Cost: The Development and Connection Fee in the 2010 Water Supply Agreement is \$6,575 per EQR. The District will initially connect 3,400 EQRs totaling \$22,355,000. An additional 285 AF (602 EQRs) will provide service to the Irrigation Customers. This cost is \$3,958,150. This brings the total Project cost for the connection fees to \$26,313,150.

The irrigation customers are paying cash for their portion of the Project costs. (See Table 1.)

Schedule: While the District has until December 2015 to make payment on the Water Supply Agreement, it is planning on implementing the agreement in 2013 to avoid potential cost increases if the Development and Connection Fees increase.

Financial Analysis

The District qualifies for the high-income municipal interest rate of 3.25% for a 30-year term.

TABLE 1: FINANCIAL SUMMARY

Total Project Cost	\$26,313,150
Borrower Contribution	\$7,958,150
CWCB Loan Amount	\$18,355,000
CWCB Loan Amount (Including 1% Service Fee)	\$18,538,550
CWCB Loan Payment	\$976,643
CWCB Loan Payment (Including 10% Reserve)	\$1,074,307
Monthly Cost of Loan (with Reserve Account) per EQR (3,400)	\$26.33

Creditworthiness: The District has a Colorado Water Resources and Power Development Authority – Clean Water Revenue Bond. The bond has \$7,055,000 remaining and a maturity date of 2026. The annual payment is \$685,000. This bond is associated with the governmental activities and tax revenues and is not backed by user rate revenues.

TABLE 2: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	130% (Strong) \$3.5M/\$2.7M	111% (Average) \$4.2M/\$3.8M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	Enterprise has no existing debt	136% (Strong) \$4.2M-2.7M/ \$1.1M
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	1059% (Strong) \$28.6M/\$2.7M	103% (Strong) \$3.9M*/\$3.8M
Debt per Tap (3,400 EQRs) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: < \$2,500	Enterprise has no existing debt	\$5,441 (Weak) \$18.5M/ 3,400
Monthly Residential Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$76.25 (Weak)	\$92.58** (Weak)

Notes:

*The District's water treatment plant needs approximately \$20.7M in upgrades. The District intends to use its cash reserves for the work; therefore that number was subtracted from the cash balance in the "future w/ project" ratio.

**The current water rates include \$10/month for water projects. This money will be redirected for the CWCB debt service, so rates will only be increased by \$16.33/month.

Collateral: As security for the loan, the District will pledge its user revenues backed by a rate covenant and annual financial reporting. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Larry Moore, General Manger, Roxborough Water and Sanitation District
 Susan Schneider, AGO
 Peter Johnson, AGO

Attachment: Project Data Sheet

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

Borrower: Roxborough Water and Sanitation District, Water Activity Enterprise

County: Douglas

Project Name: Raw Water Supply Project

Project Type: Water Acquisition

Basin: South Platte **District:** 8

Water Source: South Platte

Total Project Cost: \$26,313,150

Funding Source: Construction Fund

Type of Borrower: High-income municipal

Average Annual Diversion: 1,141 AF

CWCB Loan: \$18,538,550 (w/ 1% service fee) **Interest Rate:** 3.25% **Term:** 30-years

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