

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 15c, January 28-29, 2013 Board Meeting**
Finance Section – New Construction Fund and Severance Tax Trust Fund
Perpetual Base Account Loans
City of Greeley – High Park Fire Restoration Project

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Introduction

The City of Greeley (City), acting by and through its Water and Sewer Enterprise, is applying for a loan for the High Park Fire Restoration Project (Project). The High Park fire damaged approximately 87,000 acres in the Poudre River watershed. Through the Burned Area Emergency Response (BAER) report prepared by the Natural Resource Conservation Service (NRCS), 5,500 acres of non-federal land were identified as needing treatment including aerial application of seeded mulch for soil stabilization; and check structures to catch ash, debris and sediment; and contour felling to reduce flash flood risk. The overall cost to address the impacts of the fire is estimated to be \$24 million. The City is applying for a \$2,000,000, 20-year, 0% interest fire mitigation loan from the CWCB. 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 \$2,020,000 (\$2,000,000 for project costs and \$20,000 for the 1% Loan Service Fee) to the City of Greeley, acting by and through its Water and Sewer Enterprise, for costs associated with construction of the High Park Fire Restoration Project from the Severance Tax Trust Fund Perpetual Base Account. The loan terms shall be 20 years at the fire mitigation interest rate of 0.0% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background

Between June 9, 2012 and July 1, 2012, the High Park Fire burned over 87,200 acres in the Cache la Poudre River basin. It was the largest and most destructive fire in Larimer County history. The aftereffects of the fire include increased flooding potential, erosion, and threats to human life and safety. Also within the basin, an additional 7,685 acres burned in May 2012 in the Hewlett Gulch Fire.

An interagency BAER team was created as a result of the fire. The team was made up of specialists from the NRCS, Larimer County, Colorado Department of Transportation, and the U.S. Forest Service. The team assessed the post-fire risks based on the magnitude of the consequences and probability of damages or loss of critical values. The critical values were identified as: human life and safety, property, natural resources including water supply, and cultural and heritage resources.

The BAER team put together a report titled, *High Park Emergency Stabilization Burned Area Report*, dated July 17, 2012. This report identified \$24 million in potential emergency stabilization treatments to address the impacts of the fire.

The report highlighted the City's municipal water supply diversion within the burn perimeter. These facilities are at an increased risk of damage due to debris and sediment accumulating at the intakes along the Poudre River. In addition to the at risk diversion structure, the City of Greeley uses Horsetooth Reservoir for storage. The reservoir was along the eastern perimeter of the burn area and is also at increased risk from post-fire runoff and sedimentation.

The report also identified numerous irrigation canals, ponds, and small reservoirs within the burn area that are at an increased risk of filling with sediment and potentially causing dam failure. Within the burn area there are 18 irrigation diversion structures that provide irrigation water through 440 miles of canals, supporting over 100,000 acres of irrigated farm land.

Beyond the water supply concerns, the report also identified flood hazards immediately downstream of the burn area. With increased runoff following the fire, the risk to life and property from flooding and debris flow was identified as a very high risk.

In addition to the City, Fort Collins and Tri-Districts water supply also comes from the Poudre Basin. (The Tri-Districts are made up of the East Larimer County Water District, the North Weld County Water District, and the Fort Collins – Loveland Water District. The Tri-Districts also provide water to the towns of Windsor, Eaton, Ault, Timnath, and Nunn.)

The three entities agreed to split mitigation costs based upon each user's proportionate amount of direct flow water rights. The ratios are: 45% Greeley, 44% Fort Collins, and 11% Tri-Districts.

Of the \$24 million in potential emergency stabilization treatments to address the impacts of the fire, approximately \$7.4 million was estimated for watershed protection (i.e. mulching, sediment traps, and check structures). The watershed protection costs were split into two phases. Phase I began immediately after the fire and was estimated at \$4.4 million. To date, the City has spent over \$1.5 million for Phase I in aerial mulching for the High Park and Hewlett Gulch fires.

The City, along with Fort Collins and Tri-Districts, is in the process of working with JW Associates from Breckenridge, Colorado, to continue mitigation planning efforts for Phase II. Up through

October of 2012, approximately half of the watershed restoration identified in the BAER report was completed. Mitigation efforts are expected to resume in spring as soon as weather permits.

Loan Feasibility Study

The Loan Feasibility Study titled, *High Park Fire Restoration*, dated December 2012, was prepared by the City. Supporting technical documentation was included in the *High Park Fire Burned Area Emergency Response Report*, dated July 17, 2012. The study was prepared in accordance with the CWCB guidelines and includes an alternative analysis and cost estimates.

City of Greeley

The City operates its water and sewer services through the Greeley Water and Sewer Enterprise. The Enterprise was created in 1958 through the City's charter. 90% of the Enterprise revenues are generated through water and sewer rates. Additional income comes from tap fees, equipment rentals, royalties on Enterprise owned land, and plant investment fees paid by developers.

Water Rights

The City's water sources include direct river diversions, ownership in the Colorado-Big Thompson and Windy Gap projects, high mountain reservoirs, and rights in several irrigation companies.

Related to this Project, the City owns direct flow and storage rights on the Poudre River. The direct rights are the cornerstone of the City's portfolio and yield 9,000 acre feet (AF) for treatment at the Bellvue Filter Plant (one of the City's two water treatment plants). These rights are the number 6 and 6 ½ priority on the Poudre.

The Poudre storage rights include five high mountain reservoirs: Barnes Meadow, Peterson, Comanche, Hourglass, and Twin Lakes. Milton Seaman Reservoir, on the North Fork of the Poudre, in the City's largest multi-year storage reservoir and is primarily used for drought storage.

Project Description

The BAER report evaluated the affected areas of the Poudre basin and prioritized the areas to be treated. The watershed mitigation funded by this loan will include mulching, sediment traps, check structures, and contour tree felling.

Schedule: The City will resume the mitigation efforts in the spring of 2013 as weather permits with mulching for all phases according to the recommendations of the BAER report.

Costs: The City does not have a guarantee that Fort Collins and/or Tri-Districts will contribute the portions of the project costs noted in Table 1; however, it intends to continue with the mitigation efforts with or without other participants.

TABLE 1: PROJECT COST

City of Greeley (45%)	\$3,330,000
Fort Collins (44%)	\$3,250,000
Tri-Districts (11%)	\$820,000
Phase I and Phase II Total	\$ 7,400,000

Financial Analysis

The City qualifies for a middle income municipal interest rate; however, in consideration of the hardship created by the enormous costs associated with the High Park Fire, the CWCB offered a special interest rate of 0% for a suggested 10 year term at the September 2012 CWCB meeting. The City requested a 20-year loan term.

TABLE 2: FINANCIAL SUMMARY

Total Project Cost	\$7,400,000
City's portion of Project Cost	\$3,330,000
CWCB Loan Amount (60% of City's portion of the Project Cost)	\$2,000,000
CWCB Loan Amount (Including 1% Service Fee)	\$2,020,000
Borrower Contribution	\$1,330,000
CWCB Loan Payment	\$101,000
CWCB Loan Payment (Including 10% Reserve)	\$111,100
Number of taps	26,185
Monthly cost of loan (with Reserve Account) per tap	\$0.35

Creditworthiness: Over the past two years, the City paid off four CWCB loans. The loans were all at 5% interest with terms ranging from 15 to 25 years. The original loan amounts totaled \$2,264,013. The City's Water and Sewer Enterprise current debt is listed in Table 3.

TABLE 3: EXISTING DEBT

Loan	Maturity Date	Remaining Amount	Annual Payment
Colorado Water Resources and Power Development Authority – Rehab of Boyd & Bellvue Filter Plants	2019	\$6,314,530	\$1,100,000
2004 Water Revenue Bonds – 60-inch water transmission line / water rights acquisition	2024	\$11,600,000	\$1,250,000
2006 Water Revenue Bonds – water rights acquisition	2026	\$20,290,000	\$1,900,000
2008 Water Revenue Bonds– 60-inch transmission line	2028	\$30,360,000	\$2,750,000
2012 Water Revenue Bonds– water rights acquisition	2031	\$30,370,000	\$2,300,000
Total	-	\$98,934,530	\$9,300,000

Parity agreements will be required with each of the lenders listed in Table 3.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	149% (Strong) \$36.2M/\$24.3M	136% (Strong) \$36.3M/\$26.7M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	270% (Strong) \$36.2M-17.3M/ \$7.0M	202% (Strong) \$36.3M-17.3M/ \$9.4M
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	64% (Average) \$ 15.6M/\$24.3M	54% (Average) \$14.3M/ \$26.7M
Debt per Tap (26,185 Taps) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: < \$2,500	\$2,620 (Average) \$68.6M/ 26,185	\$3,857 (Average) \$101.0M/ 26,185
Average Monthly Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$52.72 (Average)	\$53.07 (Average)

Collateral: As security for the loan, the City's Water and Sewer Enterprise and 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: Eric Reckentine, Deputy Director, City of Greeley Water Resources
 Donna Brosemer, Government and Public Relations, City of Greeley Water and Sewer Dept
 Susan Schneider, AGO
 Peter Johnson, AGO

Attachment: Project Data Sheet

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

Borrower: City of Greeley,
Water and Sewer Enterprise

County: Larimer

Project Name: High Park Fire Restoration

Project Type: Watershed Protection

Basin: South Platte **District:** 3

Water Source: Cache La Poudre

Total Project Cost: \$7,400,000

Funding Source: Severance Tax Trust Fund
Perpetual Base Account

Type of Borrower: High-income municipal

Average Annual Diversion: 9,000 AF

CWCB Loan: \$2,020,000 (w/ 1% service fee) **Interest Rate:** 0% **Term:** 20-years

The City of Greeley is applying for a loan for to protect portions of the Poudre watershed damaged by the High Park Fire that damaged 87,000 acres in the summer of 2012. Through the Burned Area Emergency Response (BAER) report 5,500 acres of non-federal land were identified as needing treatment including aerial application of seeded mulch for soil stabilization; and check structures to catch ash, debris and sediment; and, contour felling to reduce flash flood risk. Because much of the City's municipal water supply diversions are within the burn perimeter, watershed restoration is critical. Efforts began immediately after the fire was contained in July of 2012. These efforts are expected to resume in the spring of 2013 as soon as weather permits.

