

# STATE OF COLORADO

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## 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 and Administration Section

DATE: March 8, 2013

SUBJECT: **Agenda Item 18a, March 19-20, 2013 Board Meeting**  
**Finance – New Water Project Loans**  
**San Luis Valley Water Conservancy District – Anaconda Ditch Water Right Acquisition Project**

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### Introduction

The San Luis Valley Water Conservancy District (District), acting by and through its Water Activity Enterprise, is requesting a loan for the Anaconda Ditch Water Right Acquisition Project (Project), for the District's Augmentation Program. The total Project cost is estimated to be \$923,000. The District is requesting a loan from the CWCB for approximately 90% of Project costs. 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 \$839,000 (\$830,700 for project costs and \$8,300 for the 1% Loan Service Fee) to the San Luis Valley Water Conservancy District Water Activity Enterprise for the Water Rights Acquisition Project from the Construction Fund. The loan terms shall be 30 years at the municipal low income rate of 2.5% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

## **Background**

The District operates a Water Augmentation Program within a portion of the San Luis Valley and the upper Rio Grande River Basin in Colorado. The Program has provided augmentation water to water users since 1984.

The District's service area includes portions of Rio Grande, Alamosa, Saguache, Mineral and Hinsdale Counties. The actual augmentation service area is limited to the geographic area where depletions from augmented wells and ponds can be replaced by the District's augmentation plans, either directly or by exchange.

The District's Augmentation Program was developed to replace stream and river depletions resulting from withdrawal of groundwater through out-of-priority wells serving primarily residential and commercial uses. Rio Grande and transmountain surface water rights have been acquired by the District to replace these depletions. In order to replace these depletions at the time and place that they occur, upstream water storage rights have been obtained through agreements with Rio Grande, Santa Maria and Continental Reservoirs. Through the use of reservoir releases and surface diversions, the District replaces depletions resulting from wells included in its Augmentation Program.

To help control the water demand and prevent exhausting the remaining available water within the basin on large developments, the District has adopted a policy for potential large water users (those needing more than 3 acre-feet (AF) of augmentation water). The policy works by having the developer deed water rights to the District. The District then takes the water rights through court for use in its Augmentation Program. Following the final water court decree, the District has sufficient water to meet the development's demands with the excess water available for purchase by the District. It is through this policy that the District is acquiring the subject of this loan request, the Anaconda Ditch water rights.

## **Loan Feasibility Study**

The Loan Feasibility Study titled "*Feasibility Study – Anaconda Ditch Water Right Acquisition*," dated February 2013 was prepared for the District by Allen Davey, P.E. with Davis Engineering Service, Inc., in Alamosa with assistance from Mike Gibson, Manager of the District. The study was prepared in accordance with the CWCB guidelines.

In accordance with the CWCB Financial Policy #8 (Purchase of Water Rights), a written appraisal or opinion of value from a qualified water rights appraiser supporting the purchase price has been submitted. The appraisal was completed in December of 2006 by Thomas Williamsen of Helton & Williamsen, P.C., consulting engineers in water resources. The value was estimated to be \$2,918/AF in 2006.

## **San Luis Valley Water Conservancy District**

In 1949 the District was organized pursuant to the Water Conservancy Act by District Court in Alamosa, Colorado. Originally the District included the cities of Alamosa, Monte Vista, Del Norte, Center and Hooper and a patchwork of farm and ranch land that had petitioned into the new District. In 1984, the District Board of Directors decided to expand the boundaries and focus on establishing a central Augmentation Program. Revenue to the District consists of a current ad valorem tax of 0.483 mils and income from augmentation water sales and maintenance fees. The

District facilitates its Augmentation Program through a Water Activities Enterprise, established in 1993.

### Water Rights

The District has five augmentation plans and two pending water court cases, one of which involves the Anaconda Ditch water rights.

**Table 1 – Estimated Yield of District’s Augmentation Decrees**

| <b>Decree Case No.</b>  | <b>Average Yield (AF/year)</b> |
|---|--------------------------------|
| 84CW16  | 106                            |
| 94CW62  | 106                            |
| 03CW41  | 73                             |
| 03CW13  | 80                             |
| 07CW63  | 21                             |
| <b>Subtotal</b>   | <b>386</b>                     |
| Pending 09CW34 Anaconda Ditch (purchase in progress)            | 260 AF (estimated)             |
| Roban and Little Anna Ditch Water Rights (purchase in progress) | 150 AF (estimated)             |
| <b>Total</b>  | <b>796</b>                     |

The District’s augmentation demands were 366 AF in 2012. With the new State Engineer’s Office rules and regulations on wells within the Rio Grande Basin, expected to be promulgated in 2013, the District anticipates an additional demand of 200 to 300 AF per year.

The District leases 925 AF of storage space in three reservoirs: Rio Grande, Santa Maria, and Continental.

### Project Description

The purpose of this Project is to acquire additional water rights for inclusion in the District’s Augmentation Program. Without additional water rights, the District will not be able to support current and future demands of local communities in need of augmentation water. With the SEO’s new rules and regulations regarding non-exempt wells, well users have approached the District for augmentation assistance.

The District is using cash reserves (\$550,000) to purchase water rights in the Roban and Little Anna Ditches, with an expected yield of 150 AF. The District is in the process of finalizing the purchase agreement with the sellers and completing its due diligence. The purchase is expected to occur by July of 2013.

Through this Project the District is purchasing a 58% interest in the Anaconda Ditch. The purchase agreement is with a developer who made the Anaconda Ditch surface irrigation water rights available to the District in exchange for the District providing the developer with sufficient augmentation water to meet the development’s water supply needs. Once the District changes the water rights for use in the Augmentation Program, the District receives at no cost, sufficient water to meet the development’s demands with the excess water available for purchase by the District.

HRS Water Consultants, from Lakewood, CO, was hired by the previous owner of the Anaconda Ditch water rights to develop an augmentation plan. It estimated an average of 307 AF of augmentation water would be available annually from the water rights. Of that, 47 AF will be

conveyed to the District to cover the development's needs, leaving 260 AF for purchase by the District.

The purchase agreement has a negotiated price of \$3,550/AF of average annual consumptive use, for a total of \$923,000. The actual annual yield of the Anaconda Ditch water rights and the total cost of those rights will be determined in the change case.

*Schedule* – The Anaconda Ditch water rights are currently in water court (case 09CW34). A final decree is expected by October of 2013, upon which the water rights purchase will be finalized.

### **Financial Analysis**

Table 2 shows a summary of the financial aspects of the Project. Based on the median household income in the District's service area, the interest rate will be the municipal low income rate of 2.5% for a 30 year term.

In addition to the costs noted below, the District estimates it will spend \$12,000 in legal and engineering fees related to the water rights change case and contract negotiation. These fees are not included in the total Project cost as they are not a part of the loan request.

**Table 2. Project Financial Summary**

| <b>PROJECT/LOAN</b>                                       |           |
|---|-----------|
| Total Project Cost  | \$923,000 |
| Borrower Contribution (10%)                               | \$92,300  |
| CWCB Loan   | \$830,700 |
| CWCB Loan (Including 1% Service Fee)                      | \$839,000 |
| CWCB Annual Loan Payment                                  | \$40,086  |
| CWCB Loan Obligation (including 10% debt reserve funding) | \$44,094  |
| Annual Project Cost per AF based on 260 AF expected yield | \$3,550   |

***Creditworthiness:*** The District has an existing loan with the CWCB for the acquisition of water rights in the Pine River Weminuche Pass Ditch. The loan has a balance of \$667,825 with annual payments of \$39,540 and a maturity date of May 1, 2039. All payments have been made on time. Collateral for the loan is a pledge of Water Activity Enterprise revenues backed by a rate covenant and annual financial reporting.

**Table 3. Financial Ratios**

| Financial Ratio   | Past 3 Years                                | Future w/ Project                               |
|---|---|---|
| Operating Ratio (revenues/expenses)<br>weak: <100% - average: 100% - 120% - strong: >120%                             | 162%<br>(Strong)<br>\$470K/290K             | 141%<br>(Strong)<br>\$470K/334K                 |
| Debt Service Coverage Ratio<br>(revenues-expenses)/debt service<br>weak: <100% - average: 100% - 120% - strong: >120% | 550%<br>(Strong)<br>(\$470K-250K)/<br>\$40K | 262%<br>(Strong)<br>(\$470K-\$250K)/<br>\$84K   |
| Cash Reserves to Current Expenses<br>weak: <50% - average: 50% - 100% - strong: >100%                                 | 331%<br>(Strong)<br>\$959K/290K             | 95%<br>(Average)<br>\$317K <sup>(1)</sup> /334K |
| Annual Operating Cost per Acre-Foot <sup>(2)</sup><br>weak: >\$20 - average: \$10 - \$20 - strong: <\$10              | \$751 <sup>(3)</sup><br>\$290K/386AF        | \$420 <sup>(4)</sup><br>\$334K/796AF            |

- (1) Cash reserves assumes \$550,000 pending payment for the Roban and Little Anna Ditch water rights has been spent.
- (2) Cost per acre-foot is based on fully consumable water in the augmentation plan. This ratio is usually used for agricultural financial analysis and may not apply here.
- (3) Past years based on 386 AF
- (4) With project based on 796 AF (estimated yields for both Roban and Little Anna Ditch Purchases and Anaconda Ditch)

**Collateral** - Security for this loan will be a pledge of Water Activity Enterprise revenues backed by a rate covenant and annual financial reporting. This security is in compliance with CWCBC Loan Policy #5 (Collateral).

cc: Mike Gibson, Manager, San Luis Valley Water Conservancy District  
 Susan Schneider, AGO  
 Pete Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

## Water Project Loan Program - Project Data Sheet

**Borrower:** San Luis Valley Water Conservancy District    **County:** Alamosa

**Project Name:** Anaconda Ditch Water Right Acquisition    **Project Type:** Water Rights

**Drainage Basin / District:** Rio Grande / 20

**Water Source:** Rio Grande River

**Total Project Cost:** \$923,000

**Funding Sources:** Construction Fund

**Type of Borrower:** Municipal Low Income

**Average Delivery:** 386 acre-feet

**CWCB Loan:** \$839,000 (Including 1% fee)

**Interest Rate:** 2.5%    **Term:** 30 years

The San Luis Valley Water Conservancy District (District) operates an augmentation program servicing portions of Rio Grande, Alamosa, Saguache, Hinsdale and Mineral Counties. The augmentation program was developed to offset river depletions from wells serving residential and commercial uses in the area. The District intends to acquire additional water rights to add to its existing program, including the subject of this loan request, the Anaconda Ditch water rights. The District is purchasing a 58% interest in the ditch providing an estimated 260 acre-feet. The purchase will be finalized once the water rights have been through water court. The decree is expected in the fall of 2013.

