

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



March 20, 2013

Mr. Tyler Karney
Ordway Feedyard, LLC, Manager
19424 Colorado Hwy 96
Ordway, CO 81063

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Re: Ordway Feedyard Raw Water Line Extension Project
Contract Number C150349

Mr. Karney:

I am pleased to inform you that on March 19, 2013 the Colorado Water Conservation Board approved your loan request for the Ordway Feedyard Raw Water Line Extension Project as described in the application and approved Loan Feasibility Study titled "*Feasibility Study – Ordway Feedyard, LLC.*" The Board approved a loan not to exceed \$2,525,000 (\$2,500,000 for project costs and \$25,000 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 March 20, 2013 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 Company may request loan funds to cover eligible project expenses. You can contact Peg at (303) 866-3441 x3227.
- 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 make construction site visits, which will be the basis of pay estimates for disbursement of your loan funds. You can contact Anna at (303) 866-3441 x 3224.

NOTE: No expenses incurred on any work performed prior to execution of the WSRA Grant Contract will be eligible for reimbursement through the loan or grant.

Ordway Feedyard, LLC
Ordway Feedyard Raw Water Line Extension Project
March 20, 2013
Page 2 of 2

On behalf of the Board, I would like to thank you for your interest in a loan from the Colorado Water Conservation Board.

Sincerely,



Kirk Russell, P.E., Chief
Finance Section
Colorado Water Conservation Board



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

Attachment: Updated Board Memo

E-mail Copy (Including Attachments)

Alan Hamel, CWCB Board Member – Arkansas River Basin
CWCB Finance Section Staff

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



John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Ryan Edwards, P.E., Project Manager
Kirk Russell, P.E., Chief *KLR*
Finance and Administration Section

DATE: March 5, 2013 (UPDATED March 20, 2013) *am*

SUBJECT: **Agenda Item 17a, March 19-20, 2013 Board Meeting**
Finance/Water Supply Planning – CWCB Loan and WSRA Application
Ordway Feedyard, LLC (LOAN), Crowley County (GRANT)
Ordway Feedyard Raw Water Line Extension Project

Introduction

The Ordway Feedyard, LLC (Company) is applying for a CWCB loan, and Crowley County is applying for a Water Supply Reserve Account (WSRA) Grant, to finance a portion of the Ordway Feedyard Raw Water Line Extension Project (Project). The purpose of the Project is to complete a raw water system that will provide a consistent, viable water supply, enabling the Company to sustain its operations and provide economic stability within Crowley County. The total cost of the Project is estimated to be \$3,381,500. Crowley County was approved for a \$275,000 WSRA grant, by the Arkansas River Basin Round Table. The Company is requesting a loan from the CWCB to cover the remaining 90% of Project Costs. See the attached Project Data Sheet for a location map and project summary.

Staff Recommendation for WSRA Grant (Board approved staff recommendation on March 19, 2013)

Staff recommends approval of \$225,000 from the Statewide Account and \$50,000 from the Arkansas Basin Account to Crowley County to fund the Ordway Feedyard Raw Water Line Extension Project.

Staff Recommendation for Construction Fund Loan (Board approved staff recommendation on March 19, 2013)

Staff recommends the Board approve a loan, from the Construction Fund, not to exceed \$2,525,000 (\$2,500,000 for Project costs and \$25,000 for the 1% Loan Service Fee) to the Ordway Feedyard, LLC for the Ordway Feedyard Raw Water Line Extension 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.

Background

The Company utilizes the feedyard, located two miles east of Ordway CO, to feed and tend cattle until they are market ready. The Company is an essential member of the Crowley County economy, representing its 3rd largest employer. Crowley County once had over 50,000 acres of agricultural land in production. Throughout the 1970's and 80's large-scale municipal water transfers diminished the available raw water supply in the county. Actively irrigated agricultural land now makes up approximately 6,600 acres of land.

The Company owns both the feedyard and River Ranch, a 1,000-acre ranch located fifteen miles to the southwest of the feedyard. The ranch is situated along the Arkansas River and has 20 existing wells which are decreed for irrigation and stock watering. Currently there is no means to convey water between the ranch and feedyard. The current water supply for the feedyard is derived from shares in the Colorado Canal, leased water, and potable water supplied by the 96 Pipeline Company. The water is used primarily for livestock drinking water, dust abatement, mill operations and compost conditioning for the feedyard. The Company is in need of securing a more reliable and affordable water supply.

This Project is intended to complete an infrastructure network capable of delivering high-quality well water from the ranch to the feedyard to augment its dependence on potable water (approximately 14 AF per year), leased water, and reduce transit losses on ditch water. The water supply enhancements are expected to reduce operational costs and preserve transit and evaporation losses at an estimated rate of 850 AF annually. The economic benefit to Crowley County has encouraged it to be an active participant in the Project, contributing cash and applying for a WSRA grant to assist in funding the Project.

Loan Feasibility Study

The loan feasibility study titled "*Feasibility Study – Ordway Feedyard, LLC*," dated January 2013, was prepared by Elise M. Bergsten, from Balanced Management Services Company, Colorado Springs, with support from Tyler Karney, manager for the Ordway Feedlot. Engineering was provided by Kidd Engineering and Construction Management Services, Inc., Avondale, CO; and legal support was provided by Mrs. Wendy Shinn, from Shinn, Steerman & Shinn, Lamar, CO. The study was prepared in accordance with CWCB guidelines and includes a preliminary engineering design that was used in the determination of the total Project cost.

Ordway Feedyard, LLC

The feedlot, originally established in 1972, has changed ownership several times since its inception and was most recently acquired by Ordway Feedyard, LLC. The Company was created in 1996 and owns the land and majority of physical assets associated with the River Ranch and feedyard. Ordway Cattle Feeders, LLC, created in 2006, owns the cattle and equipment and constitutes the farming operation. The two companies operate jointly. Combined the companies have 70 full-time employees, 10 part-time employees, and operate on an annual payroll in excess of \$1.7 million.

The Company appoints a manager to conduct the business and manage its assets. The manager has signatory authority and the right to borrow money for any Company purpose and to encumber, pledge or hypothecate all or any part of the Company property.

Water Rights

The Company is located in the Arkansas River Basin, District 17. The Company water rights portfolio includes 569 shares in the Colorado Canal (originally decreed 6-9-1890 in Case CA2535) that are paired with shares of either Lake Meredith or Lake Henry, along with three shares in the Twin Lakes Reservoir and Canal Company. The Company has recently entered into a 15-year lease with the Pueblo Board of Water Works for an average annual delivery of 700 AF. The Company also owns the River Ranch property, which includes 20 wells decreed for irrigation and stock watering. No additional water rights acquisitions are planned as part of the Project.

Project Description

The objective of the Project is to provide a cost effective means for securing and delivering a reliable and sustainable supply of water to continue feedyard operations. The Company has explored the two following alternatives:

Alternative 1 – No Action

This option does not provide an alternative to the rising cost of potable and leased water necessary to maintain operations. With no action it is anticipated that the Company will be unable to operate through the foreseeable future.

Alternative 2 – Raw Water Line Extension

This option focuses on rehabilitating the existing ranch irrigation system and installing additional pipeline and a booster pump station to deliver well water from River Ranch to the feedyard. As part of this alternative the Company evaluated a variety of alignments to determine the most ideal location for the pipeline and booster pump station.

After evaluating the technical, operational, and economical considerations of available alternatives, the Company selected Alternative 2 – Raw Water Line Extension as the preferred alternative. This option provides a two-phased approach to replace the dependence on potable water with a secure, reliable raw water supply. Phase one, funded entirely by the Company, includes rehabilitation of 4.2 miles of pipe, 4 wells, and two booster pump stations. The existing water supply system on the ranch was originally installed in 1980 to support pivot irrigation and has been idle for over 25 years. Construction of phase one was started in the summer of 2012 and is expected to be complete by early spring 2013.

Phase two includes engineering and construction of 10.5 miles of new pipeline, a new booster pump station with back-up generators, and the installation of a remote monitoring and control system. Table 1 provides a Project Cost Summary.

TABLE 1: TOTAL PROJECT COST SUMMARY

Task	Cost
Phase I – Engineering (Funded by Company)	\$15,000
Phase I – Construction (Funded by Company)	\$584,000
Phase II – Engineering	\$37,500
Phase II – Construction	\$2,466,500
Phase II – Construction Management & Administration	\$102,500
Contingency	\$176,000
Total	\$3,381,500

The Company worked closely with Crowley County representatives to plan the pipeline in existing easements/rights-of-way where possible, with the goal of minimizing impacts to natural and man-made environments. Final easement acquisitions and road crossings will be completed as part of the final engineering design. No additional permits or approval requirements are anticipated. Final engineering is expected to commence following contracting, with the start of construction scheduled to lag by three months. Construction is expected to take nine months to complete.

Table 2 provides a summary of financing components for the Project.

TABLE 2: PROJECT FUNDING SUMMARY

Applicant Contribution (Phase I)	\$599,000
Lower Arkansas Valley Water Conservancy District (LAVWCD)	\$2,500
Crowley County	\$5,000
WSRA Grant	
Arkansas River Basin	\$50,000
Statewide	\$225,000
TOTAL	\$275,000
CWCB Construction Fund Loan	\$2,500,000
Total Project Cost	\$3,381,500

The WSRA grant will be used prior to the loan for Project related expenses. After all grant funds have been expended the remaining Project costs will be funded by the CWCB Loan up to the approved limits.

Water Supply Reserve Account Grant

At the January 9, 2013 Arkansas Basin Roundtable meeting the Roundtable granted Crowley County approval of the Ordway Feedyard Water Line Extension Project application request for \$50,000 in Basin Funds, and recommended approval of \$225,000 of Statewide Funds. A letter of support signed by eight local farmers was received on behalf of the Project.

Source of Funds: \$225,000 Statewide Funds, \$50,000 Arkansas Basin Funds

Matching Funds: \$2,500,000 CWCB Loan, \$599,000 Applicant Contribution, \$5,000 Crowley County, and \$2,500 LAVWCD

Threshold and Evaluation Criteria: The application articulates how the Project satisfies the Threshold and Evaluation Criteria as summarized below:

Tier 1: Promoting Collaboration/Cooperation & Meeting Water Management Goals & Identified Needs: The Project is a collaborative effort amongst the Company, Crowley County and local farmers. The proposed improvements will provide a reliable supply of raw water for livestock and mill operations, reducing the demand for treated, potable water. In addition, by piping the water the Company estimates it can reduce transit and evaporative losses, conserving approximately 850 AF annually, making more water available for use in IPP's identified in SWSI and keeping water in higher elevation reservoirs to aid the riparian habitat. The Project will also include the installation of 10 fire hydrants along the pipeline, providing an emergency water supply to fight farmstead and wild land fires as the 2008 fire, responsible for the death of 2 fire fighters and destruction of 11 structures.

Tier 2: Facilitating Water Activity Implementation: The availability of a low-interest CWCB loan in combination with grant funding ensures that the Project remains financially viable. Failure to complete the Project would have an immediate and profound impact on both the Company, placing its viability in jeopardy, and the county. This Project is critical for the Company to stay in business and for Crowley County to maintain one of its largest revenue and employment resources.

Tier 3: The Water Activity Addresses Issues of Statewide Value and Maximizes Benefits: The Company is a direct and indirect agricultural and economic force in Crowley County, and the Arkansas and South Platte basin. Not only is the feedyard responsible for the production of cattle, but the cattle consume locally grown corn, hay and silage purchased from the surrounding community. Additionally, the Company has attempted to minimize the burden on the basin and statewide account by contributing \$599,000 in cash for Phase I and has committed to funding 90% of Phase II of the Project costs through a CWCB loan.

Discussion: The requested WSRA funds would enable the partnership between Crowley County and the Company to finance the second phase of a multi-purpose project in the Arkansas River Basin. The Project would bring a reliable and sustainable water supply to the Company, providing financial stability and certainty that would directly impact the county and surrounding agricultural producers. The Project offers consumptive and non-consumptive benefits by reducing water losses and enhancing reservoir habitat. The Company is the primary funding source, accounting for 92% of the overall Project cost through a CWCB loan and cash contributions.

Issues/Additional Needs: CWCB staff requests that the following issues be addressed during contracting and project execution:

- Applicant to provide a Statement of Work detailing the Project.
- A Memo of Understanding between Crowley County and the Company is required to indicate the intentions and delivery of WSRA funding for use on the Project.

Reporting and Deliverables: All products, data and information developed as a result of this grant must be provided to CWCB in hard copy and electronic format as part of the project documentation. This information will in turn be made widely available to Basin Roundtables and the general public and will help promote the development of a common technical platform.

Staff would like to highlight additional reporting and final deliverable requirements in accordance with the revised WSRA Criteria and Guidelines:

Reporting: The applicant shall provide the CWCB a progress report every 6 months, beginning from the date of the executed contract. The progress report shall describe the completion or partial completion of the tasks identified in the scope of work including a description of any major issues that have occurred and any corrective action taken to address these issues.

Final Deliverable: At completion of the project, the applicant shall provide the CWCB a final report that summarizes the project and documents how the project was completed. This report may contain photographs, summaries of meetings and engineering reports/designs.

Engineering: All engineering work (as defined in the Engineers Practice Act (§12-25-102(10) C.R.S.)) performed under this grant shall be performed by or under the responsible charge of professional engineer licensed by the State of Colorado to practice Engineering.

CWCB Construction Fund Loan

Financial Analysis

The Company qualifies for an agricultural interest rate of 1.75% for a 30-year term. Table 3 provides a summary of the financial aspects of the loan request.

TABLE 3: LOAN SUMMARY

Total Project Cost	\$3,381,500
Other Contributions	\$881,500
CWCB Loan Amount	\$2,500,000
CWCB Loan Amount (Including 1% Service Fee)	\$2,525,000
CWCB Annual Loan Payment	\$108,903
CWCB Loan Obligation (Including 10% Debt Reserve Funding)	\$119,793

Creditworthiness: The Company generates a majority of its revenue through a property lease to the Ordway Cattle Feeders, LLC. The Ordway Cattle Feeders, LLC generates revenue by providing custom cattle feeding services, with a capacity of up to 65,000 head. Based on recent financial statements, the combined companies' revenues have exceeded expenses over the past few years. The Company has made a commitment to this Project by investing nearly \$600,000 in cash towards this Project.

Combined, the two companies have numerous long-term liabilities, totaling \$5,351,331 (\$5,097,981 for Ordway Feedyard, LLC and \$253,350 for Ordway Cattle Feeders, LLC), for a variety of water and equipment leases related to operational expenses. The debt is secured by land and real property. The combined annual payments on the debt service total approximately \$1,000,000. The Company plans to secure its CWCB loan by pledging water rights and or land. Based on values provided by the Colorado Canal and Twin Lakes Reservoir and Canal Company, market rates of the Mutual Ditch Company stock shares owned by the Company are estimated as follows:

- \$27,500 per share in Twin Lakes
- \$6,000 per paired share of Colorado Canal and Lake Meredith
- \$11,000 per paired share of Colorado Canal and Lake Henry

Table 4 provides Financial Ratios for the Company.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past Average	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	134% (strong) \$12.9M/\$9.6M	133% (strong) \$12.9M/\$9.7M
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	430% (strong) (\$12.9M-\$8.6M)/\$1M	391% (strong) (\$12.9M-\$8.6M)/\$1.1M
Cash Reserves to Current Expenses* weak: <50% - average: 50% - 100% - strong: >100%	21% (weak) \$2M/\$9.6M	20% (weak) \$1.9M/\$9.7M
Annual Operating Cost per Acre-Foot weak: >\$20 - average: \$10 - \$20 - strong: <\$10	N/A	N/A

* This ratio is typically used for a mutual ditch company and not for a for-profit company; therefore, the ratio may not apply here.

Collateral: As security for the loan, the Company will pledge lease revenues and other legally available revenues, and a combination of real property and water rights sufficient to exceed 110% of the loan amount. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Elise M. Bergsten, Balanced Management Services Company
 Susan Schneider, AGO
 Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

Water Project Loan Program - Project Data

Borrower: Ordway Feedyard, LLC

County: Crowley

Project Name: Ordway Feedyard Raw Water
Line Extension Project

Project Type: Pipeline

Drainage Basin: Arkansas, District 17

Water Source: Groundwater

Total Project Cost: \$3,381,500

Funding Source: Construction Fund, WSRA,
Crowley County, LAVWCD

Type of Borrower: Agricultural

Avg. Annual Delivery: 500 AF (Feedyard)
1,000 AF (Ranch)

CWCB Loan: \$2,525,000 (incl. 1% loan fee)

Interest Rate: 1.75% **Term:** 30 years

WSRA Grant: \$275,000 (\$25,000/\$225,000)

The Company utilizes the feedyard to feed and tend cattle until they are market ready. The Company owns both the feedyard and River Ranch. The ranch has 20 existing wells which are decreed for irrigation and stock watering. Currently there is no means to convey water between the ranch and feedyard. This project will secure a more reliable and affordable water supply by completing an infrastructure network capable of delivering high-quality well water from the ranch to the feedyard to augment its dependence on potable (approximately 14 AF per year) and leased water. The water supply enhancements are expected to reduce operational costs and preserve transit and evaporation losses at an estimated rate of 850 AF annually. The economic benefit to Crowley County has made it an active participant in the project, contributing cash and applying for a WSRA grant to assist in funding the Project. The Project consists of two phases. Phase one includes the re-establishment of easements and the rehabilitation of: 4.2 miles of existing pipe line, 4 groundwater wells, and 2 booster stations. Phase two includes installation of the remaining infrastructure necessary to complete the delivery system. Construction is expected to begin in the summer of 2013 with completion by the summer of 2014.

Location Map

