

# 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: Jonathan Hernandez, P.E., Project Manager  
Kirk Russell, P.E., Chief  
Finance and Administration Section

DATE: September 13, 2013

SUBJECT: **Agenda Item 30d, September 24-25, 2013 Board Meeting**  
**Finance – Water Project Loans**  
**Petrocco Family Limited Partnership, LLLP – Water Rights Purchase**

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John W. Hickenlooper  
Governor

Mike King  
DNR Executive Director

James Eklund  
CWCB Director

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### Introduction

Petrocco Family Limited Partnership, LLLP (Partnership) is applying for a loan for a Water Rights Purchase (Project). The purpose of the Project is to better guarantee an annual water supply for its agriculture operation by purchasing water for its farms that currently rely on leased water. The total Project cost is estimated at \$925,000. The Partnership is applying for a loan to cover 90% of the purchase price. 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 \$840,825 (\$832,500 for project costs and \$8,324 for the 1% Loan Service Fee) from the Construction Fund to Petrocco Family Limited Partnership, LLLP for costs related to the Water Rights Purchase Project. The loan terms shall be 20 years at the agricultural interest rate of 1.50% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following contract conditions:

1) The Partnership must use the water rights purchased with the CWCB loan funds for irrigation of crops. If the water cannot be used for crop irrigation, the remaining balance of the loan may be called due within one year by the CWCB.



## Background

The Petrocco Farming operation is a family owned and operated produce business located in Brighton, CO and has been in operation since 1916. It operates under two entities, the Petrocco Family Limited Partnership, LLLP (Partnership) and David Petrocco Farms, Inc (Corporation). The Partnership owns the lands, water rights, buildings and equipment. These assets are leased to the Corporation, the operating entity, which in turn farms the land and produces and sells the product. This proposed loan is being sought by the Partnership.

Farming operations currently include farming approximately 2,600 acres in western Adams and Weld counties. This area extends from the home offices south of Brighton, north along the U.S. Highway 85 corridor approximately 25 miles to an area east of Lucerne. The list of crops produced include cabbage, green beans, onions, spinach, turnip greens, mustard greens, collard greens, kale greens, peppers, and winter squash. These produce are shipped to various supermarkets and food services throughout Colorado, Wyoming, Kansas, Nebraska, Texas, Louisiana, Missouri, and New Mexico.

## Loan Feasibility Study

Mike Serlet, P.E. and Bruce Johnson, P.E. with Serlet Project Consulting, LLC prepared the Loan Feasibility Study titled “*Feasibility of the Petrocco Farms Water Rights Purchase*,” dated August 2013, with a water right analysis provided by TZA Water Engineers, Inc. The study was prepared in accordance with the CWCB guidelines and includes an alternative analysis and cost estimates.

## Borrower – Petrocco Family Limited Partnership, LLLP.

The Partnership was established as a Limited Liability Limited Partnership (LLLP) in 1998 and is in good standing with the Colorado Secretary of State. The General Partner responsible for the operation of the Partnership is David Petrocco Sr. The Partnership is also made up of the following Limited Partners: David Petrocco Jr., Joseph Petrocco, and Julie Petrocco n/k/a Julie Marrone. Partnership revenues are generated from leasing its assets to the Corporation. The Corporation’s revenues are generated from selling the agricultural production. The Partnership Agreement authorizes the General Partner to take on debt and to subject any portion of the property of the Partnership as debt security.

## Water Rights

**TABLE 1: EXISTING PARTNERSHIP WATER RIGHTS**

Water Source	# of Shares or Wells
Fulton Ditch Company Shares	72
Farmers Independent Ditch Company Shares	86.5
Western Mutual Ditch Company Shares	12
New Cache La Poudre Irrigating Company Shares	21
Cache La Poudre Reservoir Company Shares	20
Windsor Reservoir & Canal Company Shares	1
New Cache Augmented Wells	1
1953 Adjudicated Non-Trib Wells	2

Each farm has an annual estimated water need of approximately three acre-feet per irrigated acre. For the entire operation, this translates to an annual average need of about 7,800 acre-feet. The existing Partnership water rights provides approximately 3,000 acre-feet annually while water available on leased farms grounds provides another 3,500 acre-feet annually. The proposed water rights for purchase will provide another 260 acre-feet annually. This leaves approximately 1,040



acre-feet of water which will still have to be leased after this water rights purchase. Since the water rights to be purchased satisfy an existing water need, this loan is in compliance with CWCB Financial Policy #8.

### **Project Description**

The farming operation is water short when it comes to providing enough water to irrigate its 2,600 acres of farm land. In wanting to maintain its long term family business goals and to provide a more reliable water supply for future farming operations, the partners of the Partnership have initiated a program of purchasing land and water shares, when available, from ditch and irrigation companies adjacent to their owned and leased farms. Three alternatives were considered by the Partnership as described below.

**Alternative No. 1 – Do Nothing:** This alternative was considered unacceptable.

**Alternative No. 2 – Improve Efficiencies:** This alternative is to improve the efficiencies of the existing irrigation systems on owned land and to purchase water available for leased land. This alternative would meet the Partnership’s goals by providing a reduction of water use on two farms and increasing the water supply for three farms. At an estimated cost of \$1,803,000, this was not considered a preferred option.

**Selected Alternative No. 3 – Water Rights Purchase:** This alternative is to purchase available water shares for the five most water short farms, regardless if the land is owned by the Partnership, or leased by the Corporation. The five most water short farms and the available water rights to be purchased are identified in Table 2. TZA Water Engineers, Inc. investigated the subject water rights and concluded the identified shares can be delivered to and used on the respective farms without a change in water right.

**TABLE 2: WATER RIGHTS TO BE PURCHASED**

<b>Farm Site</b>	<b>Ditch/Irrigation Company with Available Shares</b>	<b>Shares to be purchased</b>	<b>Average Annual Yield per Share (AF)</b>	<b>Total Average Annual Yield (AF)</b>
Sasaki North	Fulton Ditch Company	16	2.9	46.4
Sasaki South	Fulton Ditch Company	16	2.9	46.4
Palombo	Fulton Ditch Company	21	2.9	60.9
Benson #7	New Cache La Poudre Irrigating Company	4.8	12.0	57.6
	Cache La Poudre Reservoir Company	3.6	1.9	6.8
Williams #8	New Cache La Poudre Irrigating Company	3.2	12.0	38.4
	Cache La Poudre Reservoir Company	2.4	1.9	4.6

This Alternative meets the Project’s goals and is the most cost efficient with an estimated project cost of \$925,000. A summary of the cost is shown in the Table 3.



**TABLE 3: TOTAL PROJECT COST SUMMARY**

Task	Cost
Fulton Ditch Shares	\$570,000
New Cache La Poudre Irrigating Company Shares	\$240,000
Cache La Poudre Reservoir Company Shares	\$90,000
Feasibility Study	\$10,000
Water Engineering	\$7,500
Transaction Fees	\$7,500
Total	\$925,000

**Schedule:** The Partnership expects to purchase the identified water rights by the end of 2013.

### Financial Analysis

The Partnership qualifies for the agricultural interest rate of 1.50% for a 20-year term. This rate is reduced by 0.25% for a 20-year term per CWCB Financial Policy #7.

**TABLE 4: FINANCIAL SUMMARY**

Total Project Cost	\$925,000
Partnership 10% Match	\$92,500
Loan Amount (90% of total cost)	\$832,500
Total Loan Amount (including the 1% Service Fee)	\$840,825
Annual Loan Payment	\$48,974
Annual Loan Obligation 1 <sup>st</sup> 10 years (including reserve account)	\$53,871
Water Right Cost per Acre-Foot (Yield)	\$3,543

**Creditworthiness:** The Partnership has \$378,993 in existing debt made up of one existing loan with American Ag Credit in Greeley, CO. This is a 10-year note at a fixed annual interest rate of 5.95% for an annual payment of \$97,238. This loan will be paid off in December 2017. To more accurately analyze the financial condition of Petrocco farming operation, Table 5 reflects the combined revenues and expenses of both the Partnership and Corporation.

**TABLE 5: FINANCIAL RATIOS**

Financial Ratio	Average Past 2 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	112% (Average) \$20.9M/\$18.6M	112% (Average) \$20.9M/\$18.7M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	2400% (Strong) (\$20.9M-18.5M) 0.10M	1600% (Strong) (\$20.9M-18.5M) 0.15M
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	10% (Weak) \$1.9M/\$18.6M	10% (Weak) \$1.8M/\$18.7M

**Collateral:** Per CWCB Financial Policy #5, the Partnership, as a private unincorporated entity, must provide hard collateral valued at an amount equal to or greater than 110% of the loan amount. TZA Water Engineers, Inc. provided an estimated market value of the subject water rights to be within ranges from \$940,000 to \$1,220,500 (112% to 145% of loan amount).



Security for the loan will be the water rights purchased with the loan proceeds (53 Fulton Ditch Company shares, 8 New Cache La Poudre Irrigating Company shares, and 6 Cache La Poudre Reservoir Company shares). This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: David Petrocco Sr, General Partner, Petrocco Family Limited Partnership, LLLP  
Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program – Project Data Sheet



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

**Borrower:** Petrocco Family Limited Partnership    **County:** Adams/Weld

**Project Name:** Water Rights Purchase

**Project Type:** Water Rights Purchase

**Drainage Basin/ District:** South Platte / 2,3

**Water Source:** South Platte River  
Cache la Poudre River

**Total Project Cost:** \$925,000

**Funding Source:** Construction Fund

**Type of Borrower:** Agricultural

**Average Annual Diversion:** 3,000 AF

**CWCB Loan:** \$840,825  
(with 1% service fee)

**Interest Rate:** 1.50%    **Term:** 20-years

Petrocco Family Limited Partnership is a family owned and operated produce business located in Brighton, CO and has been in operation since 1916. Its operations currently include farming approximately 2,600 acres in western Adams and Weld counties. This area extends from the home offices south of Brighton, north along the U.S. Highway 85 corridor approximately 25 miles to an area east of Lucerne. The Petrocco Family Limited Partnership holds ownership of land, water, buildings, and equipment assets for the farming operation. The farms are water short when it comes to providing water to irrigate its 2,600 acres of farmland. In wanting to maintain its long term family business goals and to provide a more reliable water supply for its future farming operations, the Partnership has initiated a program of purchasing land and water shares, when available, from ditch and irrigation companies adjacent to its owned and leased farms. The water rights to be purchased from this loan are expected to provide an additional average annual yield of 261 acre-feet across 5 farm sites.

