

STATE OF COLORADO

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: November 8, 2013

SUBJECT: **Agenda Item 30b, November 19-20, 2013 Board Meeting**
Finance – Water Project Loans
Wadley Farms Filing No. 3 Homeowners' Association – Water Rights Purchase

Introduction

The Wadley Farms Filing No. 3 Homeowners' Association (Association) is applying for a loan to purchase water rights (Project). The purpose of the Project is to increase the reliability of the Association's non-potable irrigation water and fire protection system by increasing the Association's water supply to better meet their existing need. The total Project cost is estimated to be \$800,000. The Association is requesting a loan from the CWCB for 90% of Project costs. See attached Project Data Sheet for a location map and project summary.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$727,200 (\$720,000 for project cost and \$7,200 for the 1% service fee) from the Construction Fund to the Wadley Farms Filing No. 3 Homeowners' Association for cost related to the Water Rights Purchase Project. The loan terms shall be 30 years at a high-income municipal interest rate of 3.00% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background

Wadley Farms Filing No. 3 is a 109 residential large-acre lot subdivision located at the northwest corner of Colorado Boulevard and 144th Avenue at the north edge of the Denver Metropolitan area in unincorporated Adams County. The Association owns and operates a raw water supply system for the benefit of its homeowners. The water system provides raw water for outside irrigation and fire protection and consists of three reservoirs, pumps, an underground water pipe network, fire hydrants, and ancillary equipment. In-house domestic water is provided by individual deep Denver aquifer wells owned and operated by each homeowner.

Of the 109 lots in the subdivision, 104 lots are developed with a single-family house and associated outbuildings. The land is zoned for agricultural use and the subdivision has a rural character with pasture areas and horses or small farm animals on most lots. Lots range from 2.5 acres to 4 acres and are allowed to irrigate up to 8,000 square feet (0.18 acres) per the subdivision covenants. Irrigated areas largely consist of lawn areas as well as vegetable gardens, ornamental gardens, and trees. The remaining vegetated portion of properties mostly consists of non-irrigated pasture grasses.

The Association owns three shares of the Farmer's High Line Canal and Reservoir Company (FHL). The FHL canal diverts off Clear Creek in Golden. The Association's shares are then delivered through a headgate off the FHL canal into the Signal Ditch for 4.2 miles where it is then delivered into the three Wadley Reservoirs. From the reservoirs water is delivered to each individual lot using pumps located at each reservoir that delivers water into the pressurized pipe system. When needed, the Association has leased an additional share of FHL to help meet existing water demands beyond the yield its shares provide. A water supply study shows that with just the Association's three FHL shares, it has a risk of having insufficient water supplies in six out of ten years (60%), and has a risk of having insufficient fire-fighting reserves and highly-restricted irrigation water in one out of ten years (10%).

Loan Feasibility Study

Carol Ellinghouse, P.E., prepared the Loan Feasibility Study titled "*Wadley Farms No. 3 Water Supply CWCB Loan Feasibility Study – Acquisition of Additional Water Supply*," dated September 30, 2013. The study includes an alternative analysis, cost estimates, and a water supply analysis from Bishop-Brogden Associates, Inc. The study was prepared in accordance with CWCB guidelines.

Borrower – The Wadley Farms, Filing No. 3, Homeowners' Association

The Association incorporated with the State of Colorado in 1982. The Association is responsible for the operation and maintenance of the community raw water irrigation system, management of HOA property, and enforcement of covenants (1979) that maintain the rural character of the community. The subdivision has 109 lots of which 104 are developed as single-family homes. The remaining 5 lots are reserved for the oil & gas developments currently on them. No additional lots will be added to the subdivision in the future and no additional water demands are expected.

The Association is managed by a five-member Board of Directors. Under the Association's Bylaws, the Board of Directors can authorize the President or other officer to execute documents to incur debt to meet the purposes of the Association. The Covenants give the Association the authority to restrict water usage and make regulations regarding water storage and fire protection. The Covenants authorizes the Association to place liens against the lot of any homeowner who fails to

pay assessments when due. The primary sources of income are homeowner assessments and oil & gas royalty payments.

Water Rights

The Association owns three (3) shares of the Farmer's High Line Canal and Reservoir Company (FHL) and the Wadley Reservoirs' storage water rights shown in Table 1. The FHL has 12 direct flow rights on Clear Creek ranging from very senior (1860) to junior (1905) rights. The Association does not own water rights for in-house use.

TABLE 1: WADLEY RESERVOIRS STORAGE WATER RIGHTS

Name	Amount (CFS)	Amount (AF)	Appropriation Date	Adjudication Date
Wadley Reservoir No. 1	10.0	38.0	12/15/1893	5/13/1936
Wadley Reservoir No. 1	10.0	39.0	12/3/1898	5/13/1936
Wadley Reservoir No. 2	8.0	21.3	12/30/1899	5/13/1936
Wadley Reservoir No. 3	8.0	151.1	10/25/1902	5/13/1936

The average historic direct irrigation water from the three FHL shares is 54.5 AF per year and the average historic reservoir yields are 74.0 AF per year for a total average annual delivery of 128.5 AF. The minimum dry year total delivery was 67.4 AF.

Project Description

The purpose of the Project is to increase the reliability of the Association's irrigation and fire protection raw water system by increasing the Association's water supply. This will enable the Association to more often meet the existing water demand and better guarantee its fire protection water supply. Five alternatives were considered by the Association as described below.

Alternative 1 – Do Nothing: This alternative was considered unacceptable. If no action is taken the Association's available water supply will decrease because the leased FHL share the Association has previously relied on is one of the two FHL shares for sale. If not purchased by the Association, the share will be purchased by another entity and will likely no longer be available to lease.

Alternative 2 – Purchase Water from the City of Thornton: To tie into Thornton's water system and allow delivery of Thornton water, the subdivision would have to be annexed into the City. This would include giving its three FHL shares to Thornton and converting the subdivision from wells and raw irrigation water to treated water. Additionally Thornton would require 'upgrading' the subdivision to City standards for such things as road paving, and curb and gutter installation. This alternative was considered unacceptable due to the cost involved and the subdivision's loss of its rural character.

Alternative 3 – Effluent Exchange with the City of Westminster: The Association approached Westminster with a proposed exchange where Westminster would use the Association's three FHL shares at Standley Lake and, in return, the Association would receive a greater number of acre-feet of wastewater out of Big Dry Creek than yielded by the three FHL shares. Westminster countered with an offer that the Association would either have to pay for exchanges or Westminster would deliver a lesser amount of wastewater than the FHL shares yielded. This alternative was considered unacceptable because aside from the approximate \$1.2 million infrastructure improvements required for this operation, the result of the alternative is counterproductive to the Project's goals.

Alternative 4 – Delivery out of Big Dry Creek: The Association considered purchasing shares of other ditch companies that could be diverted at Big Dry Creek. This alternative carried the same

infrastructure cost as Alternative 3 (\$1.2 million) and initial inquiries showed Lupton Bottom Ditch Company shares in the range of \$600,000 to \$800,000 per share. There would also be additional water court cost to pursue a decree authorizing the change in place of use. This alternative was considered unacceptable.

Selected Alternative 5 – Purchase FHL Shares: This preferred alternative was identified in a 2003 water supply analysis by Bishop-Brogden Associates as a viable source of new water supply. However, much of the FHL system has already been purchased by municipalities. As a result, shares are rarely made available for purchase. The Association has only now been presented with an opportunity to purchase two shares due to the shareowner's death and the desire of her heirs to settle the estate. Further, one of the two available shares has historically been leased by the Association. Therefore, the Association's purchase of the shares will prevent a purchase by others which would reduce the Associations historically available water supply. With these two additional shares, the risk that the HOA will have insufficient water supplies to meet its needs without use restrictions is reduced from six out of ten years (60%) to two out of ten years (20%), and the risk of having insufficient fire-fighting reserves and highly-restricted irrigation water is reduced from one out of ten years (10%) to one out of a hundred years (1%).

The purchase price for the shares has been negotiated at \$400,000 per share for a total cost of \$800,000. There will be no additional infrastructure needed to utilize these shares. The cost of operating the Association's water system is only expected to increase by \$3,000 per year due to the expected annual FHL share assessments. This alternative meets the Project's goals and is the most inexpensive and most feasible alternative for expanding the Association's water supply. Since this purchase will not promote growth but will serve an existing need, the Project meets Policy No. 8 (loans solely for the purchase of water rights). The Association will be required to submit a written appraisal or opinion of value from a qualified water rights appraiser supporting the purchase price prior to disbursement of loan funds in accordance with Policy No. 8.

Schedule: The Association expects to purchase the identified ditch shares by the start of the 2014 irrigation season.

Financial Analysis

Table 2 provides a summary of the Project's financial aspects. The term of the loan will be 30-years and the interest rate will be at the high-income municipal rate of 3.00%.

TABLE 2: FINANCIAL SUMMARY

Total Project Cost	\$800,000
Borrower Match (10% of total Project cost)	\$80,000
CWCB Loan Amount (90% of total Project cost)	\$720,000
CWCB Loan Amount (Including 1% Service Fee)	\$727,200
CWCB Annual Loan Payment	\$37,101
CWCB Loan Obligation (Including 10% Reserve)	\$40,811
Number of Assessed Lots	104
Annual Cost Per Lot for Loan	\$392
Current Assessment per Lot (Annual)	\$500
Future Assessment per Lot (Annual)	\$892

Creditworthiness: The Association has no existing debt and has sufficient cash reserves to cover its portion of the total Project cost.

TABLE 3: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	136% (Strong) \$101K/\$74K	120% (Strong) \$142K/\$118K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	No Existing Debt	159% (Strong) <u>\$142K-\$77K</u> \$41K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	158% (Strong) \$117K/\$74K	31% (Weak) \$37K/\$118K
Average Cost of Water per Residence (monthly) weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$42 (Average)	\$73 (Weak) ¹
Debt per Tap (Total Debt Service / taps) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: <\$2,000	No Existing Debt	\$6,990 (weak) ¹ \$727K/104

¹ This ratio is used when assessing municipal borrowers and may not necessarily apply to homeowner associations.

Collateral: As security for the loan, the Association will pledge its assessment revenues backed by a rate covenant and the ditch shares purchased with the loan proceeds. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Brett Ginther, Director/Treasurer, Wadley Farms Filing No. 3 Homeowners' Association
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**

C150379

Borrower: Wadley Farms Filing No. 3
Homeowner's Association

County: Adams

Project Name: Water Rights Purchase

Project Type: Water Rights Purchase

Drainage Basin/ District: South Platte / 7

Water Source: Clear Creek

Total Project Cost: \$800,000

Funding Source: Construction Fund

Type of Borrower: Mid-Income Municipal

Average Annual Delivery: 128.5 AF

CWCB Loan: \$727,200
(with 1% service fee)

Interest Rate: 3.00% **Term:** 30-years

The Wadley Farms Filing No. 3 Homeowner's Association was incorporated in 1982 and is responsible for providing Wadley Farms Filing No. 3 subdivision with a raw water irrigation and fire protection system. The subdivision is located in unincorporated Adams County near 144th Ave and Colorado Blvd in the north Denver Metropolitan area and has 109 large acre residential lots. The purpose of the Project is to increase the reliability of the Association's irrigation and fire protection raw water system by purchasing two shares of the Farmer's High Line Canal and Reservoir Company to add to the Association's portfolio of three shares of the same company. Water is stored in three storage reservoirs and is delivered through a pressurized underground pipe system to individual lots.

