

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Tim Feehan, P.E, Deputy Director, Resource Management

DATE: November 8, 2013

SUBJECT: Agenda Item 29a, November 19-20, 2013 Board Meeting
2014 Projects Bill Discussion Item
Long Hollow Reservoir Project

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

James Eklund
CWCB Director

Introduction

The Colorado Water Resources and Power Development Authority (Authority) is currently constructing Long Hollow Reservoir (Project). During the bid process, the Authority determined the overall project to be approximately \$6 million over budget. The total Project costs at that time were determined to be \$24.5 million, which included past and future expenses for engineering, construction surveillance, administration, land acquisition, construction, and Project contingencies. To address the budget shortfall and to move the Project forward, the Authority agreed to contribute an additional \$3.5 million of Authority funds and the Ute Mountain Ute Indian Tribe agreed to use \$3 million from its Tribal Resource Fund, associated with the Animas-La Plata Project, to keep the Project moving forward.

During construction of the Project \$3.25 million in cost overruns occurred, mainly attributed to the grouting of the foundation. The Authority is requesting that the CWCB contribute funding for 50% of the cost overrun balance or \$1.575 million.

At its September 2013 meeting, the CWCB Finance Committee made a favorable recommendation to fund the \$1.575 million request from the Authority, for final consideration and potential approval by the CWCB Board at its regular November 2013 meeting. The favorable recommendation was contingent upon staff researching the potential transfer of the 300 AF of water rights, designated by the Project for compact purposes to the State of Colorado, from the La Plata Water Conservancy District to the CWCB. A detailed summary of the status of the water rights will be presented at the meeting.

Recommendation

Staff recommends that the Board approve this request for the General Assembly to authorize this Project and appropriate \$1,575,000 from the Severance Tax Perpetual Base Fund to the Department of Natural Resources for allocation to the Colorado Water Conservation Board for the construction of the Long Hollow Reservoir Project.

Project Background

The 5,400 acre-foot Long Hollow Reservoir facility is located approximately 22 miles southwest of Durango, Colorado. The Project is being constructed to supplement irrigation needs of the area, which were excluded from the Animas-La Plata Project, and to assist the State of Colorado in meeting its delivery obligations under the La Plata River Compact. The Project would allocate 300 acre-feet of storage annually for the State Engineer's Office to use for deliveries to New Mexico during the mid-summer low-flow period, with the remaining water to be used for irrigation purposes. It is estimated that the reservoir would fill to its 5,400 acre-foot capacity in 4 of 14 years, with an average fill of 3,450 acre-feet per year.

The Project will be contracted, managed, and operated by the La Plata Water Conservancy District (District) in conformance with the Memorandum of Understanding between the District and the Colorado Division of Water Resources. There are 46 irrigation ditches within the District, with an estimated irrigated acreage of 23,000 acres.

Water and Power Background

The Authority was created in 1981 to assist in the development of water resources in the State. Upon creation of the Authority, the General Assembly appropriated \$30.1 million to the Authority from the CWCBC Construction Fund to carry out its statutory mission. The \$30.1 million appropriation did not specifically identify any water projects. The Authority Board, however, did elect to participate in the Animas-La Plata Project to cover the State's cost sharing obligation for the Project. Therefore, in 1989, the Authority Board deposited \$30 million into an Animas-La Plata escrow account, which over time grew to a fund balance \$42.4 million, including interest.

In 2001, federal legislation greatly reduced the Project scope, removing any irrigation component and limited the Project strictly to municipal and industrial use. The Project identified seven project beneficiaries, the State of Colorado, Animas-La Plata District, Southern Ute Tribe, Ute Mountain Ute Tribe, San Juan Water Commission, Navajo Nation, and the La Plata Water Conservancy District. To assist in securing Colorado Project water, the Authority elected to purchase Animas-La Plata District's project water allocation of 2,600 acre-feet for \$7,256,750, given the District's financial inability to do so at that time. The Authority Board then elected to escrow \$15 million for water resource development in the La Plata River Basin, with priority given to projects that assisted with irrigated agriculture and helped to meet compact requirements. The remaining \$20.1 million (\$42.4m - \$7.2m - \$15m) in funds that were originally escrowed in 1989, were then released back to the Authority to assist with the development of water resources throughout the State. The \$20.1 million in remaining funds were loaned to the communities of Rifle, Louisville, Fountain, and Fountain Valley to assist with various water resource projects, consistent with the Authority's statutory mission. These loans were subsequently refunded on a long-term basis through the issuance of bonds by the Authority. The Authority has provided \$17 million of this \$20.1 million as a state match for federal funds received under the Safe Drinking Water Act. With the remaining resources and other resources of the Authority, the Authority created a small hydropower loan and matching feasibility grant program, with \$10 million available for loans.

Project Financial Summary

The \$15 million that the Authority Board set aside in 2001 for water resource projects in the La-Plata River Basin was directed to the design and construction of Long Hollow Reservoir in 2008. The Project was bid in 2011 and Weeminuche Construction was awarded the Project at a final negotiated bid of \$19 million. Available funds from the Authority for the Project were \$18 million (\$15M + \$3M interest). The total overall cost of the Project was \$24.5 million, including design, construction

surveillance, land purchase, administration, and Project contingencies. The Project proceeded forward in the summer of 2012 with the following financial support:

- Authority initial investment = \$18 million
- Authority additional funding = \$3.5 million
- Ute Mountain Ute Tribe Tribal Resource funds = \$3 million

To date, the Project is experiencing a significant cost overrun of approximately \$3.25 million, mainly attributed to final quantity of material associated with the foundation grouting. The Southwest Water Conservation District has recognized the significance of this Project and has committed \$100,000 to assist with the cost overruns. The Water and Power Board is requesting that the CWCB contribute funding for 50% of the remaining cost overrun balance or \$1.575 million.

Discussion

In reviewing the history of the Authority's development of water resource projects in southwest Colorado and throughout the State, and the overall financial management of funds to accomplish that task, staff believes the funding request by the Authority to be reasonable, for the following reasons:

- The Authority has committed an additional \$3.5 million of funds towards the Project, beyond the original funding for the Project of \$18 million.
- The Ute Mountain Ute Tribes are contributing \$3 million in Tribal Resource Funds to complete the Project.
- The Southwest Water Conservation District is contributing \$100k towards cost overruns.
- The Project allocates 300 acre-feet of storage annually for the State to meet its delivery obligations under the La Plata River Compact.
- The Project provides a critical irrigation component to the La Plata River Basin.
- The Authority would provide additional funding of \$1.575 million to cover cost overruns.
- The Project will be managed and operated by the La Plata Water Conservancy District in conformance with the Memorandum of Understanding between it and the Colorado Division of Water Resources. The Authority will no longer be associated with the Project.
- The \$30.1 million in financial resources appropriated to the Authority in 1981 have been utilized for various water resource development projects throughout the State. To date, the Authority will have directed \$23 million specifically to Long Hollow Reservoir Project, \$7.2 million for Animas-La Plata water purchase and \$20 million for loans to various communities for water projects. Though the Authority will receive a return on the Animas-La Plata water purchased and for the loans made, those funds go directly back into other Authority programs, such as providing the State match for the Drinking Water Revolving Fund and Water Pollution Control Revolving Fund that leverages millions in federal funding for water projects throughout the State.
- The CWCB and the Authority over the years have worked together on many projects to develop the water resources of the State. The completion of the Long Hollow Reservoir would serve as another collaborative example of working together to meet the State's water needs.