

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



TO: Colorado Water Conservation Board Members

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

DATE: December 16, 2013

SUBJECT: **Agenda Item 3c, December 19, 2013 Telephonic Board Meeting**
Finance – Emergency Loans
Zweck and Turner Ditch Company – Emergency Zweck and Turner Ditch Repair

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

James Eklund
CWCB Director

Introduction

The Zweck and Turner Ditch Company (Company) is applying for an Emergency Loan for the Emergency Zweck and Turner Ditch Repair Project (Project). During the unprecedented flood of September 2013 in the tributaries to the South Platte River, a significant number of diversion structures and dams along the river corridor were damaged. The Company's Zweck and Turner Ditch received significant damage as a result of this flood. The purpose of the Project is to repair the ditch to allow the Company to deliver its decreed water rights. The total Project cost is estimated to be \$362,500. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$252,500 (\$250,000 for Project cost and \$2,500 for the 1% service fee) to the Zweck and Turner Ditch Company for 100% of engineering and construction costs related to the Emergency Zweck and Turner Ditch Repair Project from the Severance Tax Perpetual Base Fund, up to the approved loan amount. The loan terms shall be 3 years of no interest followed by 27 years at a blended interest rate of 2.25% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Additionally, staff recommends the following contract conditions:

1. Any future grant funds obtained for the purpose of this Project shall be submitted to CWCB to be applied to the balance of the loan within thirty (30) days after receipt of said funds.
2. The borrower shall deposit one-third of an annual payment into a Reserve Account each of the first three years of the contract.

Background

The Company currently serves approximately 360 irrigated acres on the west side of Longmont. A portion of the Zweck and Turner water has been dedicated to Longmont as historically irrigated lands were annexed into Longmont. Additionally, a portion of its water is dedicated to gravel pit augmentation and Boulder County Open Space use. The remaining shareholders continue to use the water for irrigation of agricultural lands. The Zweck and Turner ditch diverts off the North Branch Ditch, which diverts from the St. Vrain Creek just downstream of the Hygiene Road crossing. The North Branch diversion structure is co-owned by the Zweck and Turner Ditch Company, the Denio Taylor Mill Ditch Company, and Runyon Ditch.

During the 2013 flood, the St. Vrain Creek left the river banks upstream from the ditch and flowed through a series of gravel pit ponds. As these pond embankments failed, significant erosion destroyed large portions of the Zweck and Turner Ditch.

Additionally the Company saw damage to the shared St. Vrain Creek diversion structure. The three owners submitted a joint application for a CWCB Flood Emergency Grant which was approved through the phase one funding cycle. It is anticipated the grant will be sufficient to repair this structure and as such, repairs to the shared diversion structure are not included in this loan request.

Loan Feasibility Study

Reggie Golden, President of the Zweck and Turner Ditch Company, with assistance from Branden Effland, P.E. of Deere and Ault Consultants prepared the Loan Feasibility Study, titled "*Emergency Loan Application and Feasibility Study*," dated December 1, 2013. The study includes an alternative analysis and preliminary engineering cost estimates. The feasibility study was prepared in accordance with the CWCB guidelines.

Borrower – Zweck and Turner Ditch Company

The Company is a mutual ditch company that was established on November 26, 2013. It has operated as a ditch since 1864 (appropriation date of its water rights). The Company's office is located in Longmont. It operates as a nonprofit corporation and is in good standing with the Colorado Secretary of State. The Company has issued 100 shares of stock and has 8 shareholders. The Company's revenues will primarily be derived from assessments charged on shares of stock owned by the stockholders and carriage assessments charged to Boulder County.

The Company's Bylaws (2013) allow the Board of Directors to authorize debts and require the shareholders to approve assessments. To enforce assessments, the Bylaws allow the Company to suspend water deliveries and place liens against the property of delinquent members.

Prior to the September 2013 flooding event, the Zweck and Turner Ditch Company was an unincorporated ditch company operated directly by the water users. Ditch maintenance and repairs were coordinated by the users on an as-needed basis. The only regular income was a carriage right assessment by Boulder County averaging \$3,000 annually. See the "Financial Analysis" section for further discussion of the Company's financial record.

Water Rights

The water rights impacted by this project include:

TABLE 1: IMPACTED WATER RIGHTS

Name	Amount	Appropriation Date	Adjudication Date
Zweck and Turner Ditch	82.61	6/30/1864	6/2/1882

Average annual diversions of the Company are 2,200 AF.

Project Description

The goal of this project is to restore the condition of the Zweck and Turner Ditch to pre-flood conditions or better. The Company has retained the engineering services of Deere and Ault Consultants, Inc.

Alternative 1 – Do Nothing: This alternative is considered unacceptable. The damage has rendered the ditch inoperable. Failure to repair the ditch will prevent the Company from diverting its water rights which could result in the abandonment of the water rights and ditch.

Alternative 2 – Rebuilding Collaboratively with Improvements: The Company shares a diversion off the St. Vrain Creek with the Denio Taylor Mill Ditch and the Runyon Ditch but that structure is not a part of this loan request. The ditch section to be repaired is not along the river corridor but does run through Boulder County Open Space Pella Ponds and private property. The Company will coordinate with Boulder County to assure timing of repairs to the County Open Space and the ditch is not in conflict. Additionally the Company is analyzing alternative alignments to assure the ditch is less likely to be damaged in the future and will be compatible with Open Space and planned gravel mining adjacent to the ditch.

Selected Alternative 3 – Reconstruct the Zweck and Turner Ditch to Pre-Flood Conditions: This alternative will repair the ditch to allow for the delivery of its decreed water rights. The ditch alignment will be backfilled, re-installed, and stabilized. Where the ditch was not destroyed by the flood, silt and other debris will be removed from the ditch channel to allow for water conveyance. No new measuring structures will be required for this reach of the ditch.

The estimated engineering and construction cost of this Alternative is \$362,500 and is further broken down in Table 2.

TABLE 2: PROJECT COST SUMMARY

Task	Cost
Design (Engineer, Survey, Geotechnical)	\$62,500
Construction	\$250,000
Subtotal	\$312,500
Contingency (16%)	\$50,000
Total	\$362,500

Schedule: Construction is expected to commence in January 2014 and be completed by April 2014.

Financial Analysis

Table 3 provides a summary of the Project's financial aspects. The first three years of the loan will be assessed a 0% interest rate. The remaining term of the loan will be assessed a blended interest

rate of 2.25% with the principal amortized over 27 years (Ownership: 52% Agriculture, 34% Mid Municipal, 14% High Municipal). Staff is recommending an exemption to Financial Policy #11 to allow for 100% funding of eligible Project costs, up to the approved loan amount.

As the Company was unincorporated prior to the flood event, annual corporate financial statements were not kept. For the financial analysis, staff reviewed the Company's trust fund account statements for the last ten years. This account has been managed by the Company's attorney. The Company does not employ a ditch rider or superintendent and thus has very few operating expenses. In fact, five of the ten years the Company saw less than \$200 in expenses for the year. Expenses that were paid out of the trust fund were primarily due to the construction of the shared diversion structure and attorney fees. The carriage assessments paid by Boulder County have been sufficient to pay for these expenses allowing the Company to not assess its own shareholders.

A 3-year financial analysis would not have been representative of the Company's financial operation due to the capital that was spent on construction projects in 2011 and 2013 since this is not its normal operating procedure. For this reason, the historical average was taken from a ten year period which is better representative of the Company's financial history. Over the ten year period of record the Company had income totaling \$34,432 and expenses totaling \$31,638. See Table 4 for the financial ratios.

The Company has decided to only pursue a loan up to \$250,000. Project cost in excess of \$250,000 will be paid for through a special assessment.

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$362,500
Company Contribution	\$112,500
CWCB Loan Amount	\$250,000
CWCB Loan Amount (Including 1% Service Fee)	\$252,500
CWCB Annual Loan Payment	\$12,580
Reserve Payment (1 st Three Years)	\$4,193
Number of Shares	100
Annual Cost Per Share for Loan	\$126
Current Assessment per Share	\$0
2014 Special Assessment per Share (Company Contribution)	\$1,125
Reserve Account Assessment per Share (1 st Three Years)	\$42
Loan Repayment Assessment per Share	\$126

Creditworthiness: The Company has no existing debt. Prior to incorporating in 2013, finances were run and managed through a trust fund at the attorney's office. Due to the lack of corporate history, Staff is recommending the Debt Service Reserve Account be fully funded within three years of the loan contract date and will take the Zweck and Turner Ditch diversion structure off the North Branch Ditch as collateral even though this structure is not a part of the Project.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past 10 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	106% (Average) \$3.4/\$3.2K	101% (Average) \$16K/\$15.8K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	No Existing Debt	102% (Average) <u>\$16K-\$3.2K</u> \$12.6K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	88% (Average) \$2.8K/\$3.2K	18% (Weak) \$2.8K/\$15.8K
Annual Operating Cost per Acre-Foot (2,200 AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$1.45 (Strong) \$3.2K/2.2K AF	\$7 (Strong) \$15.8K/2.2K AF

Collateral: As security for the loan, the Company will pledge its assessment revenues backed by a rate covenant, the Zweck and Turner Ditch diversion structure off the North Branch Ditch, and the Project itself. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Reggie Golden, President, Zweck and Turner Ditch Company
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**

C150388

Borrower: Zweck and Turner Ditch Company	County: Boulder
Project Name: Zweck and Turner Ditch Repair	Project Type: Ditch Rehabilitation
Drainage Basin/ District: South Platte / 5	Water Source: St. Vrain Creek
Total Project Cost: \$362,500	Funding Source: Severance Tax PBF
Type of Borrower: Blended	Average Annual Diversion: 2,200 AF
CWCB Loan: \$252,500 (with 1% service fee)	Interest Rate: 2.25% Term: 30-years (52% Ag, 34% Mid, 14% High)

During the unprecedented flood of September 2013 in the tributaries to the South Platte River, a significant number of diversion structures and dams along the river corridor were damaged including the Company's Culver Mahoney Ditch. During the flood, the St. Vrain Creek left the river banks upstream from the ditch and flowed through a series of gravel pit ponds. As these pond embankments failed, significant erosion destroyed large portions of the Zweck and Turner Ditch. The purpose of the Project is to repair the ditch to allow the Company to deliver its decreed water rights.

