

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Chief Finance Section *KLR*

DATE: May 9, 2014

SUBJECT: **Agenda Item 34c, May 21-22, 2014 Board Meeting**
Water Project Loans
Fulton Irrigating Ditch Company – Diversion Structure Rehabilitation Project

Introduction

The Fulton Irrigating Ditch Company (Company) is applying for a loan for the Diversion Structure Rehabilitation Project (Project). The purpose of the Project is to replace the Company's South Platte River diversion gates and rehabilitate the existing trash rack. The Project will also include the reconstruction of the Branch Ditch Diversion Structure on the Fulton Ditch. The total Project cost is estimated to be \$2,230,000. The Company is requesting a loan from the CWCB for approximately 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 \$2,027,070 (\$2,007,000 for project costs and \$20,070 for the 1% Loan Service Fee) to the Fulton Irrigating Ditch Company for engineering and construction costs related to the Diversion Structure Rehabilitation Project from the Construction Fund. The loan terms shall be 30 years at a blended interest rate of 2.45% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Background

The Company is located in Adams County and operates the Fulton Ditch for the benefit of the shareholders by providing direct flow irrigation water. The Ditch diverts from the South Platte River near 100th Ave. in Commerce City and water deliveries are made through the Company's ditch system to a 38,000 acre service area. The growth of Sago pond weed in the South Platte River has escalated significantly over the last several years and is obstructing the flow through the trash rack. In fact, during the summer, it is common to stop ditch diversions on a daily basis to allow for the manual cleaning of the trash rack. In addition to the challenges being faced by the Company related to the trash rack, holes have been discovered in the river diversion gates and the recent flooding has made it apparent that the gates need to be replaced. The Company will also replace the Branch Ditch Diversion Structure with a new structure. The Branch Ditch is located on the Fulton Ditch near 136th Ave. The structure was originally constructed of timber and concrete and has deteriorated to the point of potential failure.

Loan Feasibility Study

Colby Hayden, P.E. of Deere and Ault Consultants, Inc. in Longmont, CO prepared the Loan Feasibility Study, titled "*Rivergate Replacement, Trash Rack Cleaning System and Branch Ditch Diversion Reconstruction – Feasibility Study*" dated March 31, 2014. The Study was prepared in accordance with CWCB guidelines and includes preliminary engineering and an engineer's estimate of probable cost that were used in determination of the total Project cost. Financial statements were prepared by Buckner Wadsworth & Assoc. LLP, and assistance was provided by Bryce Steele, P.C., Company Secretary/Treasurer.

Borrower – Fulton Irrigating Ditch Company

The Company is a mutual ditch company and a non-profit corporation registered in the State of Colorado and are in good standing. There are 220 shareholders and 7,185 shares of stock. The Shareholders set annual assessments and the Board of Directors have power to cut off water deliveries to shareholders that fail to pay their assessments and the power to offer stock for sale to pay back assessments.

The Company's Bylaws indicate the ability to borrow money for corporate purposes whenever deemed necessary by its Board of Directors. The Company obtained a vote of approval from the shareholders at its February 16, 2013 annual meeting to contract for the CWCB loan and increase the annual assessments to service the loan payments.

Water Rights

The source of water for the Company is direct flow water rights out of the South Platte River. The Company's water rights are summarized in the Table 1.

TABLE 1: COMPANY'S DIRECT FLOW WATER RIGHTS

Case Number	Adjudication Date	Appropriation Date	Amount (CFS)
CA6009	4/28/1883	5/1/1865	79.7
CA6009	4/28/1883	7/8/1876	74.25
CA6009	4/28/1883	11/5/1879	50.23
		Total	204.18

Company records indicate that the total average annual diversions are 29,684 acre-feet, based on record years 2008 through 2012.

Project Description

The purpose of the Project is to prevent the occurrence of failures in the diversion structure system. Three alternatives were considered.

Alternative No. 1 - No Action: was considered unacceptable as the Company could not deliver water to its shareholders if the river diversion gates fail, and the loss of water and increased labor expense associated with the shutdown of the ditch and manual cleaning of the trash rack is too costly.

Selected Alternative No. 2 – Rehabilitation: Replace the trash rack with a self-cleaning version, retrofit the existing headgate structure with new slide gates, and replace the Branch Ditch diversion structure. This alternative provided the least expensive and most timely repair of the structures, and would insure at least a 30 to 40 year life for the headgate, trash rack and bifurcation. The estimated cost of the completed project is \$2,230,000.

Alternative No. 3 – Remove and Replace: Removal and replacement of South Platte River diversion structure, headgates, and trash rack with self-cleaning version along with a replacement of the Branch Ditch diversion structure. This was considered and dismissed, as it would require several times the amount of money and time available, and would present numerous permitting requirements.

The engineer's opinion of Project costs for the selected alternative is shown in Table 2.

TABLE 2: PROJECT COST SUMMARY

Task	Cost
Engineering (Design Engineering, Project Planning, Right-of-way)	\$250,000
Construction	\$1,650,000
Construction Contingency (15%)	\$330,000
Total	\$2,230,000

Permitting: The Company expects to be exempt from 404 permitting since a majority of the shareholders are agricultural users. An Adams County floodplain development permit will be needed for this Project.

Schedule: The engineering is to be completed by September 2014. Construction will begin as soon as the canal water is turned off in November 2014 and should be completed by the spring of 2015.

Financial Analysis

Table 3 provides a summary of the Project's financial aspects. The term of the loan will be 30 years and the blended interest rate will be 2.45% (51% ag. rate of 1.75%, 23% mid-municipal at 2.75%, 21% high-municipal at 3.0%, and 5% commercial at 6.0%).

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$2,230,000
Borrower Match (10% of total Project cost)	\$223,000
CWCB Loan Amount (90% of total Project cost)	\$2,007,000
CWCB Loan Amount (Including 1% Service Fee)	\$2,027,070
Annual CWCB Loan Payment	\$96,200
Annual CWCB Loan Obligation (Including 10% Reserve)	\$105,820
Number of Shares	7,185
Total Project Cost per Acre Foot (29,684AF)	\$75/AF
Annual Loan Obligation per Share (first 10 years)	\$14.73/share
Current Assessment*	\$42/share
Future Assessment Planned	\$61/share

* In addition, the shareholders approved a \$13/share special assessment for this Project in 2014

Creditworthiness: The Company has \$105,990 (original loan \$171,700) in existing debt that is CWCB loan C150168. This loan financed the repair of the Company's Fulton Ditch diversion on the South Platte River in 2004 and has an annual payment of \$11,328 and \$12,460 in annual loan obligation. The collateral for this loan is the Fulton Ditch Diversion Structure. The loan will be paid off in 2024 and is in good standing.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past 2 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	100% (Average) \$311K/\$311K	105% (Average) \$438K/\$417K
Debt Service Coverage Ratio (revenues- expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	101% (Average) (\$311K-298.5K) \$12.5K	118% (Average) (\$438K-\$311K) \$118.3K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	80% (Average) \$250K/\$311K	6% (Weak) \$27K/\$417K
Annual Operating Cost per Acre-Foot (29,684AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$10.50 (Average) \$311K/29.7KAF	\$15.16 (Average) \$417K/29.7KAF

Collateral: Security for the loan will be a pledge of assessment revenues backed by an assessment covenant and the Project itself (installed trash rack, rivergates and diversion structure). This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Brice Steele, Secretary, Fulton 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**

C150399

Borrower: Fulton Irrigation Ditch Company

County: Adams

Project Name: Diversion Structure Rehabilitation Project **Project Type:** Diversion Rehabilitation

Drainage Basin/ District: South Platte / 2

Water Source: South Platte River

Total Project Cost: \$2,230,000

Funding Source: Construction Fund

Type of Borrower: Blended

Average Annual Diversion: 29,684 AF

CWCB Loan: \$2,027,070
(with 1% service fee)

Interest Rate: 2.45% **Term:** 30-years

The purpose of the Project is to replace the Company's South Platte River diversion gates and rehabilitate the existing trash rack. The Project will also include the reconstruction of the Branch Ditch Diversion Structure on the Fulton Ditch. The Company diverts South Platte River water near 100th Ave. in Commerce City to a 38,000 acre service area. Sago pond weed in the South Platte River has escalated and is beginning to obstruct the flow of water through the existing trash rack. Construction is expected to occur in the fall/winter of 2014/2015.

