COLORADO
Colorado Water Conservation Board
Department of Natural Resources

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**TO:** Colorado Water Conservation Board Members

**FROM:** Anna Mauss, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

**DATE:** July 16 – 17, 2014 Board Meeting

**AGENDA ITEM:** 25a. Change to Existing Loan
Sanchez Ditch and Reservoir Company – Sanchez Reservoir Outlet Rehabilitation Project

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**Introduction**

In September of 2012, the Sanchez Ditch and Reservoir Company (Company) received approval for a $914,400 WSRA grant and $1,117,600 CWCB loan to finance the Sanchez Reservoir Outlet Rehabilitation Project (Project). The purpose of the Project was to make safety and operational improvements to the outlet works at Sanchez Reservoir (Reservoir). The total Project cost was originally estimated to be $2,032,000. In May of 2014, the Company bid the Project and the bids came in significantly higher than the original Project esimate. In order to continue with the Project, the Company is requesting a $250,000 loan increase from the CWCB. This increase will cost more per share than originally approved by the shareholders. The Company is concerned that raising assessments again will cause a hardship for its shareholders as the Project is located in one of the lowest income communities in Colorado. For this reason, the Company is also requesting the loan terms be extended from 30 years to 40 years. This will keep annual assessments close to the amount anticipated when shareholders originally approved an increase for the Project. See attached Project Data Sheet for a location map and a Project summary.

**Staff Recommendation**

Staff recommends the Board approve a loan increase, from the Construction Fund, not to exceed $252,500 ($250,000 for Project costs and $2,500 for the 1% Loan Service Fee) for a total loan not to exceed $1,381,276 ($1,367,600 for Project cost and $13,676 for the 1% Loan Service Fee) to the Sanchez Ditch And Reservoir Company for the Sanchez Reservoir Outlet Rehabilitation Project. The loan terms shall be changed to 40 years at an adjusted agricultural interest rate of 2.0% per annum. Security for the loan shall be as originally approved and is in compliance with CWCB Financial Policy #5.

**Background**

The Company provides irrigation water for users in Costilla County, southwest of the town of San Luis. The Company's primary storage reservoir is Sanchez Reservoir. The 103,155 acre-foot reservoir was built in 1910 and is impounded by two separate earthfill dams known as the Main Dam and East Dike. The Main Dam is 135 feet tall and 1,170 feet long and is classified as a large, high hazard structure.

The reservoir's outlet includes a 135-foot concrete gate tower. Within the tower, there are eight sets of 30-inch diameter valves located at varying elevations. Water exits the gate tower through a 10 ½ foot concrete outlet conduit that is approximately 600 feet long. In order to access the gates to operate the dam, a tramway/gondola runs along a cable and is powered by a portable gasoline generator. Because daily access to the tower is required during irrigation season, the reliability and safety of the gondola system has been a concern of the Company.

In July of 2011, the Company was awarded $95,000 in WSRA grants ($10,000 from the Rio Grande Basin Account and $85,000 from the Statewide Account) to assess the deteriorating infrastructure and safety concerns of the reservoir. That study, titled "*Phase I Assessment & Upgrade*," concluded that abandoning the gondola and replacing the outlet works with remotely operated valves would provide for the most efficient management of the water and would improve safety for Company employees.

**Project Update**

In May of 2014, the Company bid the Project with a construction budget of $1.8M. The contractor's bids ranged from $2.5M to $3.7M. At the same time, the Company and its engineer had conversations with the State Engineer's Office Dam Safety Branch regarding seepage issues at the Reservoir. Working with the low bidder (Moltz Constructors, Inc.) and its engineer, Duane Smith, P.E., of Smith Geotechnical, Inc., the Company plans to scale back some of the outlet tunnel repairs and is adding additional seepage control work to the Project. It anticipates an additional $250,000 will be required to complete the Project.

***Schedule:*** Construction is expected to begin in the summer of 2014.

**Financial Analysis**

At the time of the original loan approval, the Company qualified for the agricultural interest rate of 1.75% for a 30-year term. Due to the increased Project costs, the Company requested a hardship exemption and has asked for a 40-year loan term in order to keep the shareholder assessments close to the originally budgeted amount. Per CWCB Financial Policy #7, we typcially reduce the interest rate by 0.25% when borrowers reduce the term by 10 years. In this case, staff is recommending increasing the interest rate by 0.25% to adjust for the longer loan term. Table 1 provides a financial summary of the loan request.

**TABLE 1: PROJECT FINANCIAL SUMMARY**

| | Original Approval | New Request |
|---|---|---|
| Total Project Cost | $2,032,000 | $2,282,000 |
| WSRA Grant | $914,400 (45% of Project) | $914,400 (40% of Project) |
| CWCB Loan Amount | $1,117,600 (55% of Project) | $1,367,600 (60% of Project) |
| CWCB Loan Amount (including 1% Service Fee) | $1,128,776 | $1,381,276 |
| CWCB Annual Loan Payment | $56,133 (30 years at 1.75%) | $55,254 (40 years at 2.0%) |
| CWCB Loan Obligation (including 10% debt reserve funding) | $61,747 | $60,780 |
| Interest Only Payment (est. 2015 – 2020) | $19,754 | $24,172 |
| Number of Shareholders | 34 | 34 |
| Number of Shares | 20,777 | 20,777 |
| Current Annual Assessment (per Share) | $11.50 | $11.60 * (* with $0.10 per share increase) |
| Annual Cost of Project (per Share) | $2.83 | $2.93 |
| Cost of Project per AF to Preserve Storage (103,155 AF) | $19.70 | $22.12 |

***Creditworthiness*:**
The Company has two existing loans with the CWCB (C153623 and C153755A). Both loans were for rehabilitation work on the Sanchez Reservoir outlet and dam. The Company received a one-year deferment on both loans in July 2011 so it could spend the otherwise obligated loan funds on a study titled "*The Phase I Assessment & Upgrade Study*."

In 2009, 2010 and 2011, assessments were set at $10.50 per share. In anticipation of the Project, assessments were increased to $11.50 per share in 2012. The cost of this Project will ultimately be an additional $2.93 per share.

At the time of the original loan request, the Company was concerned that the additional debt service would be a burden on shareholders and asked the CWCB for assistance in scheduling the debt repayment to help balance out the debt burden. CWCB staff worked with the Company and suggested accelerating the payments on the original two loans. The extra payments and new payoff dates are noted in Table 2.

Upon substantial completion of the new Project, the Company will pay interest only for the first five years of repayment on the new loan. Principal and interest would have been paid over the remaining 25 years. With the increased Project cost, the Company is requesting a 40-year term with similar repayment terms of interest only for the first five years and the remaining balance will be paid over 35 years.

**TABLE 2: EXISTING DEBT**

| Loan Contract Number | Contract Dated | Contract Amount | Current Balance | Final Payment Due | Annual Payment Amount | Additional Principal Payments | New Estimated Final Payment Date |
|---|---|---|---|---|---|---|---|
| C153623 | 8/20/1992 | $200,000 | $64,431 | 2017 | $11,485.57 | $5,000 | 2016 |
| C153755A | 9/3/1997 | $335,000 | $187,644 | 2023 | $19,900.35 | $15,000* | 2020 |
| Totals | | $535,000 | $252,075 | | $31,385.92 | | |

*Note: The additional payment on loan C153755A will begin in 2018 after C153623 is paid off.

**TABLE 3: FINANCIAL RATIOS**

| Financial Ratio | Original (2009-2011) | Future w/ Project (2020+) |
|---|---|---|
| Operating Ratio (operating revenues/operating expenses)<br>weak: <100% - average: 100% - 120% - strong: >120% | 108%<br>(average)<br>$237K/$220K | 100%<br>(average)<br>$246K/$246K |
| Debt Service Coverage Ratio<br>(total eligible revenues-operating expenses)/total debt service<br>weak: <100% - average: 100% - 120% - strong: >120% | 149%<br>(strong)<br>($237K-$185K)/<br>$35K | 100%<br>(average)<br>($246K-185K)/<br>$61K |
| Cash Reserves to Current Expenses<br>weak: <50% - average: 50% - 100% - strong: >100% | 69%<br>(average)<br>$151K/$220K | 101%<br>(strong)<br>$249K/$246K |
| Annual Operating Cost per Acre-Foot (based on 15K AF)<br>weak: >$20 - average: $10 - $20 - strong: <$10 | $14.67<br>(average)<br>$220K/15K AF | $16.40<br>(average)<br>$246K/15K AF |

***Collateral***: Security for the loan will remain a pledge of assessment revenues backed by a rate covenant and the undivided one hundred percent (100%) interest in the Sanchez Dam and Reservoir and all appurtenant structures thereto, including all lands on which these facilities are located. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Jerry Lorenz, President, Sanchez Ditch and Reservoir Company
Travis Robinson, Manager, Sanchez Ditch and Reservoir Company
Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program – Project Data Sheet

**CWCB Construction Loan Program**
**Project Data Sheet**
**(Increase)**

# C150342

**Borrower:** Sanchez Ditch and Reservoir Co.

**County**: Costilla

**Project Name:** Sanchez Reservoir Outlet Rehabilitation Project

**Project Type:** Dam Rehabilitation

**Basin / District:** Rio Grande / 24

**Water Source(s)**: Ventero Creek

**Total Project Cost:** $2,282,000

**Funding Sources:** Construction Fund & WSRA (Basin & Statewide funds)

**Type of Borrower:** Agricultural

**Average Diversions:** 15,000 AF

(Interest Rate Increased by 0.25% for longer term)

**Loan Amount:** $1,381,276 (Including 1% fee) **Interest Rate:** 2.0% **Term:** 40 years

**WSRA Grant Amounts:** $55,000 Rio Grande Basin & $859,400 Statewide

The Company provides irrigation water for users in Costilla County, southwest of the town of San Luis. The Company's primary storage reservoir is Sanchez Reservoir. The approximately 104,000 acre-foot reservoir was built in 1910. The reservoir's outlet includes a 135 foot tall concrete gate tower. In order to access the gates to operate the dam, a tramway/gondola runs along a cable and is powered by a portable gasoline generator. Because daily access to the tower is required during irrigation season, the reliability and safety of the gondola system has been a concern of the Company. Using loan and grant funds, the Company intends to address the safety and operational management concerns at the reservoir through the demolition of the gate tower; the installation of new control gates and operators; patching the outlet conduit; repairing the downstream outlet structure; and, installing a new perimeter drain and weir along the right side of the outlet structure to control seepage. The project schedule is estimated as: final design and State Engineer's Office (SEO) approval by August 2014; bid the project in May of 2014; award the bid by August of 2014; start construction in September of 2014; complete construction by March of 2015.