



COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Derek Johnson, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: November 19-20, 2014 Board Meeting

CONSENT AGENDA: Item 4a. - Change to Existing Loans
Penrose Water District - Raw Water Acquisition and Utilization Project

Guidance

At the May 2005 Board Meeting, the Board authorized staff to present increases to existing loans less than 20% of the original loan as Consent Agenda items. This request for increase is approximately 10% of the original amount.

Introduction

The Penrose Water District (District), acting by and through its Water Activity Enterprise, received approval of a CWCB loan (Contract C150237/ CT2015-040) to finance the ongoing Raw Water Acquisition and Utilization Project (Project) at the November 2006 CWCB Board Meeting, in the contracted amount of \$8,844,570, including the 1% loan service fee. This loan was included in the 2007 CWCB Projects Bill approved by the General Assembly by Senate Bill 07-122. The purpose of the Project is to purchase water rights, construct a raw water pipeline from the Arkansas River to the District's service area, and to acquire storage space in Brush Hollow Reservoir.

The District has incurred additional costs to the project in the activities of purchasing additional water rights, acquiring related reservoir storage, preparing additional required engineering studies, and additional project elements in the specialties of electrical and pipeline construction costs. The District is requesting a loan increase of \$910,000 to finalize the overall project. This increase is approximately 10% of the original loan request. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation

Staff recommends the Board approve a loan increase of \$919,100 (\$910,000 for project costs and \$9,100 for the 1% Loan Service Fee) for a total loan not to exceed \$9,763,670 (\$9,667,000 for project cost and \$96,670 for the 1% Loan Service Fee) to the Penrose Water District, acting by and through its Water District Water Activity Enterprise, for engineering and construction costs related to the Raw Water Acquisition and Utilization Project from the Severance Tax Perpetual Base Fund. The loan terms shall remain 30 years at a blended interest rate of 3.25% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.



Background

The District is located in Fremont County about 35 miles southwest of Colorado Springs and 20 miles west of Pueblo and currently provides domestic water to approximately 4000 people with 1870 Equivalent Residential Units (ERUs) in and around the unincorporated town of Penrose. The existing demand is 489 acre-feet per year and projected future buildout demand by 2040 is projected to be 2,100 acre-feet for about 8000 residents and 4286 ERUs. The District water supply is obtained by a lease with Beaver Park Water Inc (BPW) a Colorado non-profit mutual ditch and reservoir company that owns and operates Brush Hollow Reservoir. The 1990 lease has a 30-year term and provides an increasing amount of water each year, 751 acre-feet in 2006, leveling out at 1000 acre-feet in 2020. The District has the option to renew the lease. Delivery to the District is by the Brush Hollow Reservoir Supply Canal owned by BPW. The reservoir has a dual purpose: primarily to provide irrigation water to local agriculture, and secondarily to serve as an alternate raw water supply for the District. The District receives most of its raw water by direct diversion from the canal, with a limited amount taken from Brush Hollow Reservoir. Raw water is passed through settling ponds and is treated at the District's 2 MGD water treatment plant.

In drought years, the amount available to the District is reduced below the lease contract amount. When the BPW water supply, physically or legally available under their water rights, becomes inadequate to allow them to fully meet the District's water service commitment, the water allocation to the District may be reduced. Such reductions occurred in 2002 and 2003 and in years preceding the 2002 drought. Subsequently, based on a previous 1999 water availability study, the impacts of the 2002 drought, and a 2003 water demand study, the District concluded that Beaver Creek is not a reliable source of raw water supply and that diversification in the system through alternative water supplies is vital. It was also determined that the District demand for water would exceed the maximum BPW lease contract table amount of 1,000 acre feet per year by the year 2023. In July 2005, the District acquired the Goodwin Ranch, consisting of 456 acres of ranch land and water rights near Howard, for \$3M. The acquisition is expected to yield 339 acre-feet of water.

Project Update

The ongoing Project includes the now-completed acquisition of water rights from the ranch purchase, 10/12 of the Pleasant Valley Ditch, with a change in use and change in point of diversion approximately 6 miles downstream to Sec 13 T19S R69W. Water will be diverted through the completed construction of 6 shallow alluvial wells immediately north of the Arkansas River, which is under construction. Water will be pumped approximately 6 miles through a 12-inch transmission line to Brush Hollow Reservoir.

The Project was bid on July 17, 2014. The low responsive bidder was Pate Construction Co. out of Pueblo, Colorado. The District's Board moved to award the project to Pate Construction for the Base Bid and Alternate Nos. 4 and 5 in the amount of \$4,139,377.50. The District reserved within the award process the option to incorporate into the project Alternate Nos. 2, 6 and 7 as bid. Their incorporation would be made subsequent to the CDPHE's approval of the diversion of water to the District's water treatment plant and securing adequate financing.

Construction activities started on August 18, 2014. Through the end of September, construction activities consisted of survey and site layout, shop submittals, mobilization, coordination with property owners, and materials delivery. Installation of pipe and foundation work for the tank and booster station started on October 6, 2014. Since that time, over 8,000 lineal feet of pipe have been installed, along with foundation work and pipe penetrations at the tank and booster station sites. Clearing and grubbing of the pipeline alignment from the well sites to the booster station has also been undertaken. Layout of the piping into Brush Hollow has also commenced. Work activities are programmed into March of 2015 and may extend further based on additional work added and weather delays.

Loan Increase

The District has recently had its DOLA funding increased by \$300k from the original \$500k grant in response to the additional costs incurred by the project, and is requesting additional loan funding from the CWCB.

Through the course of the project there has been the need to satisfy the Colorado Division of Water Resources relative to the District's augmentation plan for the water rights purchased, including the need to install a flow monitoring gage at the headgate of the Pleasant Valley Ditch. Therefore, the District will be pursuing the design and construction of the flow monitoring structure, which is estimated to cost \$215,000.

TABLE 1: UPDATED PROJECT COST SUMMARY

Original Project Cost	\$ 9,730,000
Additional Project Elements/Increases	\$ 237,039
Monitoring Guage	\$ 215,000
Water Rights & Storage	\$ 567,061
Engineering	\$ 200,000
Revised Project Cost	\$ 10,949,100

Schedule:

Construction activities are ongoing. Project completion is expected in Spring of 2015.

Financial Analysis

The District's interest rate is 3.25% for a 30-year repayment term based on the municipal low-income interest rate applicable at the time of original loan approval.

TABLE 2: FINANCIAL SUMMARY

	Original Approval	New Request
Project Cost	\$ 9,730,000	\$ 10,949,100
DOLA	\$ 500,000	800,000
District Contribution	\$ 473,000	\$ 482,100
CWCB Loan	\$ 8,757,000	\$ 9,667,000
Loan with service fee	\$ 8,844,570	\$ 9,763,670
Loan Payment	\$ 461,334	\$ 514,367
Loan Payment with Reserve	\$ 507,467	\$ 565,804
Per Tap Cost of Loan (1,870 Equiv. Taps)	\$ 23	\$ 25

Creditworthiness: The District has no other debt.

TABLE 3: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	159% (strong) \$1,273K / \$800K	100% (average) \$1,372K / \$1,366K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	No current debt	101% (average) (\$1,372K-\$800K) / \$566K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	109% (strong) \$873K / \$800K	64% (average) \$873K / \$1,366K
Monthly Residential Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$49.61 (average)	\$55 (average)

Collateral: Security for the loan will remain as a pledge of the District's base water use revenues backed by a rate covenant, and all revenues from the voter authorized 3.00 mill Special Revenue Fund levy. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Ron Gasser, President, Penrose Water District
Jason Meyer, P.E., GMS
Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet