



COLORADO
Colorado Water
Conservation Board
Department of Natural Resources

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TO: Colorado Water Conservation Board Members

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

DATE: January 26-27, 2015 Board Meeting

AGENDA ITEM: 19c. Change to Existing Loans
East Mesa Water Company - Ditch Piping Project

Introduction

At the July 2013 Board Meeting, the East Mesa Water Company (Company) received approval for a \$555,500 CWCB loan (C150360) to finance the Ditch Piping Project (Project). The Project will remove the threat of a tunnel collapse and ensure the delivery of irrigation water to the Company's ranching shareholders. Due to complications that developed during discussions to realign the ditch on adjacent property as originally designed by the Natural Resources Conservation Service (NRCS), the Company has decided to change the Project from a siphon bypass to a repair of the existing tunnel. As a result, the bids received are higher than the original estimate. The Company is working with the NRCS, the contractor and AECOM/URS engineers to optimize Company funds. Based on an updated cost estimate the Company is requesting a loan increase of \$200,000 in order to cover construction expenses. The Company received approval of a \$60,000 WSRA Grant in March of 2014. The Company is also eligible to receive additional grant assistance from NRCS and other sources, which will be applied the loan balance after the project is completed. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation

Staff recommends the Board approve a loan increase of \$202,000 (\$200,000 for Project costs and \$2,000 for the 1% service fee) for a total loan not to exceed \$757,500 (\$750,000 for Project costs and \$7,500 for the 1% service fee) to the East Mesa Water Company from the Construction Fund for the design and construction of the Ditch Piping Project. The loan terms shall be 30 years at an agricultural interest rate of 1.75% per annum. Following completion of construction and receipt of all applicable grant funds, staff will amend the loan to the reduced principle amount. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Contract Conditions shall remain as follows:

- 1) All additional 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) calendar days after receipt of said funds.
- 2) An NRCS contract shall be executed by the East Mesa Water Company prior to disbursal of CWCB loan funds.



Background

This Company is located in the Crystal River Valley in the western portion of Pitkin County, Colorado. It owns and operates the East Mesa Ditch system which diverts water out of the Crystal River. About one mile down ditch from the river diversion, the ditch enters a 650-foot long rock tunnel that is collapsing. The NRCS proposed a siphon to replace the failing tunnel, which was the supporting design for the original CWCB loan. After significant cost increases were realized due to an easement purchase and related delays, the Company has elected to maintain the existing alignment and apply the available funds to rehabilitating the existing tunnel. The Company has hired AECOM/URS to provide engineering support for the tunnel work and will continue to work with the NRCS to install pipe in the exiting ditch to solve the tunnel access and leaking ditch problems.

Project Update

The original realignment cost and complications with easement acquisition were determined to be too large to overcome. The Company has chosen to rehabilitate the existing tunnel. The Project now involves the installation of 1,100 feet of 48-inch high density polyethylene (HDPE) pipe in the existing ditch alignment to reduce ditch leakage and improve tunnel access. The tunnel work will include rock anchors and structural improvements to reduce future tunnel degradation.

The pipe design was completed by the Glenwood Springs NRCS staff. The design of the tunnel improvements were performed by the Glenwood Springs office of AECOM/URS. An updated breakdown of the Project cost estimate is provided in Table 1.

Table 1. Project Cost Estimate

Administration/Engineering	\$140,000
Pipe Work (48-inch HDPE)	\$400,000
Tunnel Work	\$200,000
Approx. 10% Contingency	<u>\$70,000</u>
Total	\$810,000

Schedule: The design is complete and contractors have been selected. Construction is expected to start January 2015 and be completed before irrigation water is turned on in May 2015.

Financial Analysis

Table 2 shows a summary of possible funding sources for the Project.

Table 2. Funding Sources

Funding Source	Amount	Approval Dates
NRCS Design Services	In Kind	Approved
CWCB Loan Increase	\$757,500	January 2015
Colorado River District	\$25,000	April 2014
Colorado River BRT (WSRA)	\$60,000	March 2014
Pitkin County Grant	\$45,000	January 2015
NRCS Cost Share *	\$232,000	July 2013

* Funding received from NRCS will be disbursed after construction is complete.

Table 3 shows a summary of the financial aspects of the Project. Since this is an NRCS funded project CWCB Financial Policy #11 allows funding 100% of the construction costs of the Project. The Company's interest rate will remain the July 2013 Agricultural interest rate of 1.75% for a 30 year term.

Table 3. Financial Summary of Project

PROJECT/LOAN	
Total Project Cost	\$810,000
WSRA Grant Funding	\$60,000
Initial CWCB Construction Loan Amount	\$750,000
Initial Loan Amount with 1% Service Fee	\$757,500
CWCB Annual Loan Payment (if no grant funds are received)	\$32,700
CWCB Loan Obligation (including 10% debt reserve funding)	\$36,000
Number of Shares	1000
Current Annual Assessment (per Share)	\$15/Share
Annual Cost per share for loan repayment (if no grant funds are received)	\$36/Share
Estimated cost per share for loan repayment (if all grant funds are received)	\$22/Share
Total Cost of Project per AF Delivered (using 9,669AF)	\$84/AF

Creditworthiness: The Company has no existing debt.

Table 4 shows the Financial Ratios for the Company.

Table 4. Financial Ratios

<i>Financial Ratio</i>	Past Years	Future ⁽¹⁾
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	162% (Strong) \$15K/9.3K	119% (Average) \$37K/31K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	N/A (No Debt)	126% (Strong) \$37-9.3K/22K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	5% (Weak) \$0.5K/9.3K	2% (Weak) \$0.5K/31K
Annual Operating Cost per Acre-Foot (9,669AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$0.96/AF (Strong) \$9.3K/9,669AF	\$3.20/AF (Strong) \$31K/9,669AF

(1) Assumes \$362,000 in grants funds are made available

Collateral - Security for the loan shall remain as a pledge of the Company's assessment revenues backed by a rate covenant and the Project itself (the 48-inch installed pipeline and associated access rights). This is in compliance with CWCB Financial Policy #5 (Collateral).

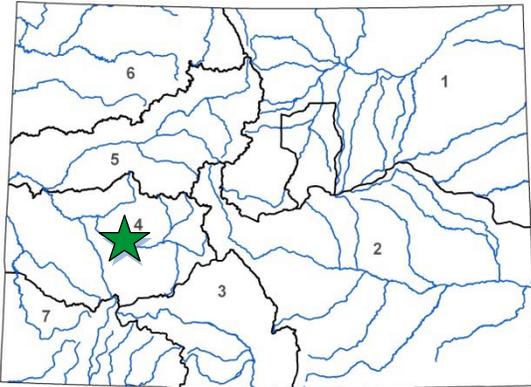
cc: Marty Nieslanik, President, East Mesa Water Company
 Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet



Loan Increase Request

L O A N D E T A I L S	
Project Cost:	\$810,000
CWCB Loan (with Service Fee):	\$757,500
Loan Term and Interest Rate:	30 Years @ 1.75%
Funding Source:	Construction Fund, NRCS
B O R R O W E R T Y P E	
Agriculture	Municipal
100%	100% Low - 0% Mid - 0% High
0%	0%
P R O J E C T D E T A I L S	
Project Type:	Ditch Rehabilitation
Average Annual Delivery:	9,669 AF



L O C A T I O N	
County:	Pitkin, Garfield
Water Source:	Crystal River
Drainage Basin:	Colorado
Division:	4
District:	38

This Company is located in the Crystal River Valley in the western portion of Pitkin County and provides irrigation water diverted out of the Crystal River. The earthen ditch enters a 650 foot long rock tunnel that is collapsing. The Company is working with the NRCS to realign the ditch to avoid the tunnel by putting the ditch into a new 1,450 foot HDPE pipe. The Company serves 12 shareholders and is primarily used to grow hay and forage crops for cattle ranching. The Company is approved for grant funding from NRCS and construction is anticipated to occur in the fall of 2013.

