



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: May 20-21, 2015 Board Meeting

AGENDA ITEM: 14c. Water Project Loans
Lower Arkansas Valley Water Conservancy District- Water Rights Purchase

Introduction

The Lower Arkansas Valley Water Conservancy District (District), acting by and through its water activity enterprise, is applying for a loan for the Water Rights Purchase (Project). The purpose of the project is to increase the reliability of District water to satisfy existing needs including compact compliance, augmentation water replacement for Rule 10 and Rule 14 plans, lease/fallowing replacement water, and providing additional assurance against current needs and shortages due to drought conditions and growing municipal demand. The Project cost is estimated at \$4,077,000. The District is requesting a loan to cover 62% of the Project cost. The District was approved for a Water Supply Reserve Account (WSRA) grant of \$300,000 in March of 2015. The attached Project Data Sheet provides a location map and a Project summary.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$2,560,350 (\$2,535,000 for project costs and \$25,350 for the 1% Loan Service Fee) from the Severance Tax Perpetual Base Fund to the Lower Arkansas Valley Water Conservancy District for costs associated with the Water Rights Purchase project. The loan terms shall be 20 years at the agricultural interest rate of 1.45% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff further recommends the following Contract Condition:

Bridge financing for the purchase of the shares shall be paid in full within 30 days of receipt of CWCB funds.



Background / Purpose of Project

The District covers five counties within the Lower Arkansas River valley: Pueblo, Otero, Crowley, Bent, and Prowers. 34 irrigation ditches are located within District boundaries.

The District's mission is to promote and protect agriculture in the Lower Arkansas Basin through the acquisition of water resources and participation in water-related projects that benefit the Basin, including the acceptance of conservation easements, with or without water.

Water rights held by the District are available to members for various uses, mostly associated with Compact Compliance, and include:

- Rule 10 and 14 needs to assist members in compliance with the Arkansas River Compact.
- In 2015, some District shares will be used for replacement of evaporative loss in Lake Isabel. Located in the San Isabel National Forest, Lake Isabel is one of only a few area lakes that have the capacity to be used for dipping for firefighting. Maintaining this lake level benefits recreation as well as contributing to watershed health and safety.
- The Catlin Pilot Project, a Fallowing-Leasing project, was approved by the CWCB at the January 2015 meeting. Some of the water to be purchased will be used to meet historic return flow obligations associated with this project.
- Improved utilization of water through added flexibility and stability will result, increasing the possibility of trades and exchanges, while diminishing transit and evaporative losses.
- Water leases to farmers, when available.

With this project, the District seeks to acquire additional water rights to provide additional assurance for current needs and future shortages due to drought conditions and growing municipal demands. The District regularly purchases one-time lease water at auction by the Pueblo Board of Water Works, a need and expense that will be reduced with purchase of the subject shares.

Loan Feasibility Study

The Loan Feasibility Study titled "Lower Arkansas Valley Water Conservancy District - Repurposing of Water Supply" dated March 2015 was prepared by Elise M. Bergsten of Balanced Management Services Company. The Study was prepared in accordance with CWCB guidelines and includes the District's "Appraisal of Colorado Canal Water Rights".

Borrower - Lower Arkansas Valley Water Conservancy District

The District was formed in 2002 pursuant to the Water Conservancy Act as the result of an election by the voters in Pueblo, Otero, Crowley, Bent, and Prowers Counties, is governed by a seven member board of directors. Formal adoption of budget, bylaws, policies & procedures occurred in the following year.

The District, via its General Fund, receives revenue from real property tax assessments, specific ownership taxes, and interest on accounts. From inception, the District has operated a water activity enterprise to account for its water management operations. Enterprise revenues are generated from water leases, miscellaneous fees, management fees from the general fund, and grants.

Water Rights

The District's current water rights portfolio includes the following mutual ditch company shares:

TABLE 1: WATER RIGHTS

Name	Shares	Firm Yield (dry year) Ac-ft
Bessemer Irrigation Ditch Co.	73.6	73.6
Catlin Canal Company	0.1	0.07
Colorado Canal Co/Lake Meredith	2	1.18
Consolidated Extension Canal Co.	1	NA
Rocky Ford Ditch Co.	1	1.38
Twin Lakes	91.34	70.33

Project Description

The goal of this Project is to secure a permanently available water supply for the District's service needs. In planning for this project, two alternates were considered:

Alternate 1 - No action

This alternative was considered unacceptable. It would mean the District would be required to bid upon and purchase increasing amounts of on-demand water annually, and could result in the inability to complete projects already underway. For instance, no on-demand water was available for lease in 2013.

Selected Alternate 2 - Purchase water shares

The subject water shares have no land or improvements associated with them and are decreed for any beneficial use per change case dated October 31, 1985. They are Colorado Canal shares and are paired with either Lake Henry or Lake Meredith storage rights. The Colorado Canal is located in Crowley and Pueblo Counties. The firm yield for the total number of 558 shares is 102.2 acre feet.

The District has completed the purchase of 282 paired shares for Colorado Canal & Lake Meredith, and 126.6 paired shares for Colorado Canal & Lake Henry, supported by a bridge loan that will be replaced by CWCB loan funds. The CWCB loan will include associated closing costs.

The District was approved for a CWCB WSRA grant totaling \$300,000 at the March 2015 CWCB Board meeting, conditioned upon approval of this loan.

Appraisal - In accordance with the CWCB Financial Policy 8 regarding the purchase of water rights, a written appraisal from a qualified water rights appraiser supporting the purchase price has been submitted.

Table 2 below tabulates the historical diversions, consumptive use, and firm yield of the shares that are part of the Project.

TABLE 2: COST AND WATER YIELDS

Canal Company /Storage Pairing	# of Shares	Cost per Share	Total Cost	Avg. Diversions (1983-2011)	Historical Consumptive Use (1983-2011)		Cost per acre-ft firm yield
					Minimum (firm yield)	Average	
Colo. Canal Co/ Lake Meredith	282	\$ 4,500	\$1,269,000	271 AF	28.8 AF	161 AF	\$44,063
Colo. Canal Co/ Lake Henry	126.6	\$ 10,000	\$1,266,000	203 AF	33.7 AF	129 AF	\$37,567
Colo. Canal Co/ Lake Henry ¹	149.4	\$ 10,000	\$1,494,000	239 AF	39.7 AF	152 AF	\$37,632
Totals			\$4,029,000 ²	713 AF	102.2 AF	442 AF	\$39,423

Note:

1. The third grouping of shares above will be purchased using CWCB WSRA grant funds and owner-carried financing, but are included in this table to show the complete Project scope.
2. The total cost of the above shares does not show anticipated closing costs.

Schedule - The subject water rights will become available for use upon CWCB loan execution.

Financial Analysis

The District qualifies for the agricultural interest rate of 1.70% for a 30-year term. In accordance with Financial Policy #7, this rate will be reduced by one-quarter of one percent to 1.45% for a 20-year term.

The District was approved for a CWCB WSRA grant which, along with the District's funding, amounts to 38% of project costs, well above the required 10% borrower match. The District will cover any costs that exceed the estimated Project cost. Table 3 provides a summary of the Project's financial aspects.

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$4,077,000
CWCB WSRA Grant	\$ 300,000
District Funds (seller-carried financing)	\$1,242,000
CWCB Loan	\$2,535,000
CWCB Loan (Including 1% Service Fee)	\$2,560,350
CWCB Annual Loan Payment	\$ 148,395
CWCB Annual Loan Obligation (including 10% debt reserve funding)	\$ 163,235
Firm Yield of new shares	102 AF
Cost of CWCB Loan per AF of new water (474 AF)	\$5,400/AF

Creditworthiness: The District has no debt outside of the existing bridge loan financing, which will be paid off with CWCB loan funds. The District's income currently comes from tax assessments, annual fees, and water leases.

In addition, the District will execute a separate agreement with the seller for the Colorado Canal / Lake Henry shares. The purchase will be carried for 20 years at 1.75% per annum, with payments due semiannually at \$43,400.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future ¹ w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	133% (strong) \$1224K / \$918K	105% (average) \$1224K / \$1168K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	No Debt	122% (strong) (\$1224K-\$918K) / \$250K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	17% (weak) \$156K / \$918K	17% (weak) \$197K / \$1168K

Notes:

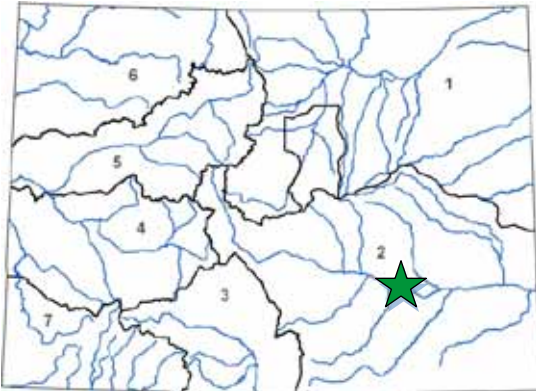
1. Potential new water lease sales are not included as income for the financial analysis. Repayment ratios were calculated using only existing enterprise income.

Collateral: Security for this loan will be a pledge of the District's water activity enterprise revenues. Colorado Canal Company paired shares for Colorado Canal & Lake Meredith, and Colorado Canal Company paired shares for Colorado Canal & Lake Henry, purchased with CWCB loan funds, will also be used as security for this loan. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Jay Winner, General Manager, Lower Arkansas Valley Water Conservancy District
 Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Project Data Sheet

L O A N D E T A I L S	
Project Cost:	\$4,077,000
CWCB Loan (with Service Fee):	\$2,560,350
Loan Term and Interest Rate:	20 years @ 1.45%
Funding Source:	Severance Tax Perpetual Base Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
100%	0% Low 0% Mid 0% High 0%
P R O J E C T D E T A I L S	
Project Type:	Water Rights Purchase
Average Annual Delivery:	442 AF



L O C A T I O N	
County:	Bent, Crowley, Otero, Prowers, Pueblo
Water Source:	Arkansas River
Drainage Basin:	Arkansas
Division:	2 Districts: 14, 17, & 67

The Lower Arkansas Valley Water Conservancy District supports agriculture in the Lower Arkansas River valley, participating in water-related projects and providing water for Rule 10 and Rule 14 plans in compliance with the Arkansas River Compact, the Catlin Following-Leasing pilot project, and leases to farmers as needed and available.

The District plans to purchase 400.6 Colorado Canal Company shares to complement an additional purchase of 149.4 Colorado Canal Company shares with the support of a separate WSRA Grant and District funds.

