



COLORADO

Colorado Water Conservation Board

Department of Natural Resources

1313 Sherman Street, Room 718
Denver, CO 80203

May 22, 2015

Mr. Dale Trowbridge, General Manager
Lower Poudre Augmentation Company
P.O. Box 104
Lucerne, CO 80646

Re: Cornish Water Rights Purchase

Mr. Trowbridge:

I am pleased to inform you that on May 21, 2015, the Colorado Water Conservation Board approved your loan request for the Cornish Water Rights Purchase as described in the application and approved Loan Feasibility Study titled "*Feasibility of the Lower Poudre Augmentation Company Water Rights Purchase*" dated March 2015. The Board approved a loan not to exceed \$1,163,015 (\$1,151,500 for purchase costs and \$11,515 for the 1% Loan Service Fee). The loan terms shall be 1.70% per annum for 30 years.

After the Board approves a loan there are a few steps that remain in the loan process including:

Contracting: An executed loan contract must be in place before funds can be disbursed for eligible project expenses. Peg Mason will contact you to initiate the loan contracting process. She can be reached at (303) 866-3441 x3227.

Disbursing of Loan Funds: You must adhere to the CWCB Design and Construction Administration Procedures. Jonathan Hernandez, P.E., will be the Project Manager for this phase of the process and will work with you on the disbursements of your loan funds. He can be reached at (303) 866-3441 x3234.

On behalf of the Board, I would like to thank you for your interest in a loan from the Colorado Water Conservation Board.

Sincerely,

Kirk Russell, P.E., Chief
Finance Section

Attachment: Updated Board Memo

E-mail Copy (Including Attachments): Diane Hoppe, CWCB Board Member - South Platte River Basin





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Colorado Water
Conservation Board
Department of Natural Resources

1313 Sherman Street
Denver, CO 80203

P (303) 866-3441
F (303) 866-4474

John Hickenlooper, Governor

Mike King, DNR Executive Director

James Eklund, CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Jonathan Hernandez, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: May 20-21, 2015 Board Meeting (**Updated May 22, 2015**)

AGENDA ITEM: 14b. Water Project Loans
Lower Poudre Augmentation Company - Cornish Water Rights Purchase

Introduction

The Lower Poudre Augmentation Company (Company) is applying for a loan for the Cornish Water Rights Purchase (Project). The purpose of the Project is to purchase water rights for use in the Company's augmentation plan. The total Project cost is estimated to be \$1,279,500. The Company is requesting a loan from CWCB for 90% of the Project Cost. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation (Board Approved Staff Recommendation on May 21, 2015)

Staff recommends the Board approve a loan not to exceed \$1,163,015 (\$1,151,500 for Project costs and \$11,515 for the 1% service fee) to the Lower Poudre Augmentation Company for costs related to the Cornish Water Rights Purchase from the Severance Tax Perpetual Base Fund, up to the approved loan amount. The loan terms shall be 30 years at a blended interest rate of 1.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.



Background

The Company was formed by the New Cache La Poudre Irrigating Company (Irrigating Company) and the Cache La Poudre Reservoir Company (Reservoir Company) in order to separate the costs and benefits accrued for a well augmentation program. The Company operates an augmentation plan for wells located within the service area of the Irrigating Company and the Larimer and Weld Irrigation Company. Currently, augmentation is provided to 28 well owners for a total of 62 wells that provide irrigation water to approximately 4000 acres of irrigated land. The Company currently has in place a quota of one AF of augmentation water per irrigated acre.

The Company's augmentation plan was awarded a decree under consolidated Case No. 04CW025/06CW295 in January 2014. A portion of water rights that were changed for augmentation use for the Company's augmentation plan in that decree include the Cornish Plains Farm water rights (Subject Water Rights). The Subject Water Rights have been leased to the Company for use in the augmentation plan every year since 2004. As the decree became closer to being signed, the Cornish Plains Farm landowners elected to sell the Subject Water Rights. Due to financial resources that the water court procedures were requiring of the Company at the time, the Irrigating Company purchased the Subject Water Rights and has been leasing them to the Company annually, with an understanding that the Company will eventually purchase and own the shares.

Loan Feasibility Study

Dale Trowbridge of the Lower Poudre Augmentation Company, with assistance from Peter Boddie of HRS Water Consultants, prepared the Loan Feasibility Study, titled "Feasibility of the Lower Poudre Augmentation Company Water Rights Purchase," dated March 2015. The feasibility study was prepared in accordance with the CWCB guidelines. Additionally, the Company provided a water rights appraisal dated April 1, 2015 prepared by A. Bruce Johnson & Associates.

Borrower - Lower Poudre Augmentation Company

The Company is a non-profit augmentation company that was incorporated in December 2004. Its office is located in Lucerne. The Company is owned by the Irrigating Company (2/3 interest) and the Reservoir Company (1/3 interest). Well owners receiving augmentation water are not shareholders of the Company, but contract with the Company for coverage through augmentation agreements. Revenues are primarily derived from well owner assessments and leasing excess water to the oil and gas industry.

The Company's By-laws (2004) provide the five-member Board of Directors with authority to enter into loan contracts and to manage the business and affairs of the Company. The Board of Directors annually sets the assessments on wells based on the approved budget.

Water Rights

The water rights of the Company include:

TABLE 1: WATER RIGHTS

Name	Amount	Appropriation Date	Adjudication Date	Water Court Case No.
Harmony 25 Reservoir	682.75 AF (Conditional)	9/1/2005	2/27/2009	09CW030
Box Elder Ditch Company	4.5 Shares	Various	4/11/1882	09CW030 (Change Case)

The Irrigating Company received a decree in Case No. 01CW201/04CW343 for confirmation of direct flow and storage water rights that are utilized as the principal source of augmentation supply in the Company's augmentation plan. These rights include water storage rights for Cornish Plains Reservoir and Barnesville Equalizer, and direct flow rights for the Greeley Canal No. 2 including direct flow from the Cache la Poudre River and various points of inflow along the Greeley Canal No. 2 including the John Law Seepage Ditch, Cole Bank Draw, Eaton Draw, Lonetree Creek, and Owl Creek.

Project Description

The goal of this Project is to purchase water rights for use in its augmentation plan. The Company analyzed three alternatives.

Alternative 1 - Do Nothing: Since the application of the plan for augmentation to water court in 2004, the intent has always been for the Company to own the Subject Water Rights. By continuing to lease and not purchase the Subject Water Rights, there is the potential for an interruption in the water supply from these shares as the lease is not guaranteed. This alternative was considered an unacceptable long-term plan.

Alternative 2 - Locate and Purchase Other Water Rights: This alternative was considered unacceptable as the Company was unable to find other water rights that are readily available for purchase that have also gone through the change case necessary to be used for augmentation. If shares of water were purchased that are for irrigation only, a change of water rights application to the water court would be necessary, adding additional cost beyond the share purchase cost. The Company has already expended the necessary legal fees to change the Subject Water Rights in water court.

Selected Alternative 3 - Purchase Cornish Plains Farms Water Rights: This alternative would purchase the water shares that were historically used on the Cornish Plains Farm. The Subject Water Rights are comprised of 34.5 shares of the Irrigating Company and 4 shares of the Reservoir Company. The land irrigated by the Subject Water Rights is where the Cornish Plains Reservoir is now located and are subject to a dry-up agreement in water court case No. 04CW025/06CW295. That water court case included changing the Subject Water Rights to allow for their use under the Company's augmentation plan. The Irrigating Company has agreed to sell the Subject Water Rights at the same cost it purchased them from the Landowners. The cost associated with this alternative and the projected water yields are shown in Table 2.

TABLE 2: COST AND WATER YIELDS

Ditch Company	# of Shares	Cost per Share	Total Cost	Appraised Value (per Share)	Avg. Yield
Cache La Poudre Irrigating Company	34.5	\$35,000	\$1,207,500	\$45,000	415 AF
Cache La Poudre Reservoir Company	4.0	\$18,000	\$72,000	\$22,500	10 AF
TOTAL			\$1,279,500		425 AF

Schedule: The Subject Water Rights are available for purchase immediately.

Financial Analysis

The Company qualifies for a blended interest rate of 1.75% for a 30-year term (Ownership: 94% Agricultural, 1 % Low Municipal, 4% Mid Municipal, <1% High Municipal, 1% Commercial). Table 3 provides a summary of the Project's financial aspects. Included in the Financial Summary and Financial Ratios is a future reduction of \$26,000 per year in expenses which represents the average cost to lease the Subject Water Rights. The Company will raise its 10% Project cost share through its 2015 assessments.

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$1,279,500
Borrowers Contribution (10%)	\$128,000
CWCB Loan Amount (90%)	\$1,151,500
CWCB Loan Amount (Including 1% Service Fee)	\$1,163,015
CWCB Annual Loan Payment	\$50,161
CWCB Annual Loan Obligation (1 st Ten Years)	\$55,177
Decreed Flowrate of Augmented Wells	41,062.6 GPM
Annual Loan Obligation per Decreed Flow Rate	\$1.34/GPM
Current Assessment per Decreed Flow Rate	\$1.05/GPM
Future Assessment per Decreed Flow Rate	\$1.75/GPM
Cost of Project per AF of Augmentation Water (425 AF)	\$3,010/AF

Creditworthiness: The Company has \$3,310,912 in existing debt as summarized in Table 4. The CWCB Loan was for the purchase of the Harmony 25 Reservoir (aka Timnath Flatiron Reservoir) and 4.5 Shares of the Boxelder Ditch Company. That loan is in good standing.

TABLE 4: EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
CWCB (C150245)	\$3,560,333	\$3,310,912	\$170,104	2041	Fee Revenues, Timnath Flatiron Reservoir, 4.5 Shares Boxelder Ditch Company, Boxelder Ditch carriage agreement.

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	101% (Average) \$567K/\$564K	101% (Average) \$596K/\$593K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	102% (Average) (\$567K-\$394K) \$170K	101% (Average) (\$596K-\$368K) \$225K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	1% (Weak)* \$4K/\$564K	1% (Weak)* \$4K/\$593K

* Due to recent oil and gas revenues, the Company has been required to pay taxes on profit and thus is intentionally setting assessments to generate as small an annual surplus as practicable.

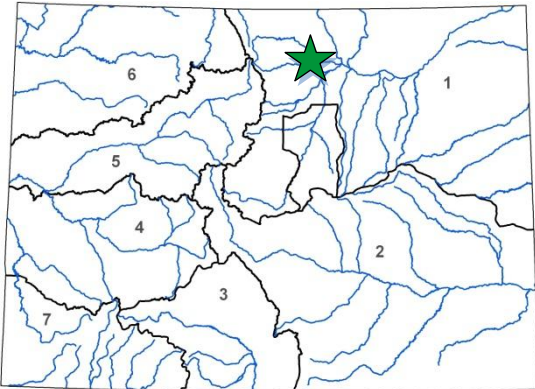
Collateral: Security for this loan will be a pledge of the Company's well augmentation fee assessment revenues backed by rate covenant, and the water shares purchased with the loan proceeds. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Dale Trowbridge, General Manager, Lower Poudre Augmentation Company
Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet



L O A N D E T A I L S	
Project Cost:	\$1,279,500
CWCB Loan (with Service Fee):	\$1,163,015
Loan Term and Interest Rate:	30 Years @ 1.75%
Funding Source:	Severence Tax Perpetual Base Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
94%	1% Low - 4% Mid - <1% High 1%
P R O J E C T D E T A I L S	
Project Type:	Water Rights Purchase
Average Annual Delivery:	4,000 AF



L O C A T I O N	
County:	Larimer & Weld
Water Source:	Cache la Poudre River
Drainage Basin:	South Platte
Division:	1 District: 3

The Lower Poudre Augmentation Company provides augmentation water for 62 irrigation wells in Larimer and Weld Counties owned by 28 individual owners. The wells provide irrigation water to 4,000 acres. The Company currently has in place 1 AF of augmentation water per irrigated acre quota.

The Company's augmentation plan was awarded a decree under consolidated Case No. 04CW025/06CW295 in January 2014. Water rights that were changed to augmentation use in that decree include the Cornish Plains Farms water rights, which are made up of 34.5 shares of the New Cache La Poudre Irrigating Company and 4.0 shares of the Cache La Poudre Reservoir Company. These shares have been leased to the Company for use in its augmentation plan since 2004. This Project will purchase these shares for permanent inclusion in the Company's augmentation plan.

