



COLORADO

**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: September 15-17, 2015 Board Meeting

AGENDA ITEM: 22b. Water Project Loans
Lower Poudre Augmentation Company - Box Elder Ditch Water Rights Purchase

Introduction

The Lower Poudre Augmentation Company (Company) is applying for a loan for the Box Elder Ditch Water Rights Purchase (Project). The Company runs an augmentation plan that offsets well pumping by its members. The purpose of the Project is to enable the Company to provide additional augmentation water to its well members by purchasing water rights for use in the Company's augmentation plan. The total Project cost is estimated to be \$500,000. The Company is requesting a loan from CWCB for approximately 90% of the Project Cost. See attached Project Data Sheet for a location map and Project summary.

The Company was recently approved at the May 2015 Board meeting for the Cornish Water Rights Purchase project (CT2015-171). The purchase of the Box Elder Ditch water rights will not negate the need for the Cornish water rights, but will be added to the Company's water rights portfolio in addition to the newly acquired Cornish water rights.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$454,500 (\$450,000 for Project costs and \$4,500 for the 1% service fee) to the Lower Poudre Augmentation Company for costs related to the Box Elder Ditch Water Rights Purchase from the Severance Tax Perpetual Base Fund. The loan terms shall be 30 years at a blended interest rate of 1.85% 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 4,000 acres of irrigated land.

The Company's augmentation plan was awarded a decree under consolidated Case No. 04CW025/06CW295 in January 2014. Under this decree, the Company is required to augment out of priority pumping depletions associated with pumping of the member wells. The Company currently has in place a quota of one AF of augmentation water per irrigated acre due to a limited augmentation water supply. It is the intent of the Company to allow its well members to utilize their wells to their maximum potential and thus the Company actively seeks water rights to add to its portfolio.

Loan Feasibility Study

Jared Dains, P.E., of Applegate Group, prepared the Loan Feasibility Study, titled "Feasibility of the Lower Poudre Augmentation Company Water Rights Purchase," dated August 2015. The feasibility study was prepared in accordance with the CWCB guidelines. Additionally, the Company provided a water rights appraisal prepared by A. Bruce Johnson & Associates, dated August 5, 2015.

Borrower - Lower Poudre Augmentation Company

The Company is a non-profit augmentation company that was incorporated in December 2004 and is in good standing with the Colorado Secretary of State. 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)
Cache la Poudre Irrigating Company	34.5 Shares	Various	Various	04CW025 (Change Case)
Cache la Poudre Reservoir Company	4.0 Shares	Various	Various	04CW025 (Change Case)

Additionally, 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 provide additional augmentation water to the Company's well members by purchasing water rights for use in the Company's augmentation plan. Three alternatives were analyzed.

Alternative 1 - Do Nothing: This alternative was considered unacceptable as it does not help the Company meet its long-term goal of allowing the full utilization of member wells.

Alternative 2 - Locate and Purchase Other Water Rights: This alternative is not currently feasible as the Company is unaware of other water rights available for purchase that are also suitable for use in its augmentation plan.

Selected Alternative 3 - Purchase Available Box Elder Ditch Shares: This alternative would purchase 0.5 Box Elder Ditch shares historically used on the Morrison Farm, and 1.5 Box Elder Ditch shares historically used on the Rigden Farm (Subject Shares). The land historically irrigated by the Subject Shares is now the site of an active gravel pit and will become a lined reservoir at the conclusion of mining. Therefore, dry-up associated with the Subject Shares has already occurred.

Box Elder Ditch is a senior water right with a firm yield during dry years. Shares in the Box Elder Ditch have been changed in Water Court multiple times, including shares specifically related to the Subject Shares. The Company currently owns 3.5 Box Elder Shares that were used on the Morrison Farm and were successfully changed in water court Case No. 09CW030. Consumptive Use (CU) values from that change case were used for the 0.5 Morrison Farm shares in the Feasibility Study. Applegate Group provided a CU evaluation for the Rigden Farm shares as a part of the Feasibility Study. The Company will have to file a change of use application for the Subject Shares in water court which may result in slightly different CU values. It is expected the Subject Shares can be used in its augmentation plan as early as 2016 through a Substitute Water Supply Plan until the court issues a change decree.

The Subject Shares were recently owned by Cottonwood Land & Farms, a subsidiary of Flatiron Sand & Gravel Company. Due to timing restrictions of the seller, closing for the Subject Shares was set for August 2015. The Irrigating Company agreed to purchase these shares using cash on hand, with the intent to sell them to the Company upon this CWCB loan approval. The Irrigating Company is selling the Subject Shares for the same price it bought them from Cottonwood Land & Farms, which is \$500,000.

TABLE 2: SUBJECT SHARES ESTIMATED WATER YIELD AND VALUE

Property	# of Shares	Historic CU per share	Historic CU Credit	Appraised Value per CU	Appraised Value
Morrison Farm	0.5	43.62 AF	21.81 AF	\$10,000	\$218,100
Rigden Farm	1.5	44.07 AF	66.11 AF	\$10,000	\$661,100
TOTAL			87.92 AF		\$879,200

Schedule: The Subject Shares are available for purchase immediately.

Financial Analysis

The Company qualifies for a blended interest rate of 1.85% 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. The Company will raise its 10% Project cost share through its September 2015 assessment.

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$500,000
Borrowers Contribution (10%)	\$50,000
CWCB Loan Amount (90%)	\$450,000
CWCB Loan Amount (Including 1% Service Fee)	\$454,500
CWCB Annual Loan Payment	\$19,877
CWCB Annual Loan Obligation (1 st Ten Years)	\$21,865
Decreed Flowrate of Augmented Wells	41,062.6 GPM
Annual Loan Obligation per Decreed Flow Rate	\$0.53/GPM
Current Assessment per Decreed Flow Rate	\$1.75/GPM
Future Assessment per Decreed Flow Rate	\$2.28/GPM
Cost of Project per AF of Augmentation Water (88 AF)	\$5,682/AF

Creditworthiness: The Company has \$4,473,927 in existing debt as summarized in Table 4. CWCB Loan C150245 was for the purchase of the Harmony 25 Reservoir (aka Timnath Flatiron Reservoir) and 4.5 Shares of the Box Elder Ditch Company. CWCB Loan CT2015-171 was for the purchase of the Cornish Water Rights. These loans are 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 Box Elder Ditch Company, Box Elder Ditch carriage agreement.
CWCB (CT2015-171)	\$1,163,015	\$1,163,015	\$55,177	2045	Assessment revenues, Cornish water rights (34.5 Shares Cache la Poudre Irrigating Co., 4.0 Shares Cache la Poudre Reservoir Co.)

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project ¹
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	101% (Average) \$567K/\$564K	101% (Average) \$618K/\$615K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	102% (Average) (\$567K-\$394K) \$170K	101% (Average) (\$618K-\$368K) \$247K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	1% (Weak) ² \$4K/\$564K	1% (Weak) ² \$4K/\$593K

¹ 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 now owned Cornish water rights.

² Due to high oil and gas revenues, the Company is taxed as a "for profit" corporation and thus is intentionally setting assessments to generate as small an annual profit as practicable, resulting in little cash on hand.

Collateral: Security for this loan will be a pledge of the Company's well augmentation fee assessment revenues backed by an assessment 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

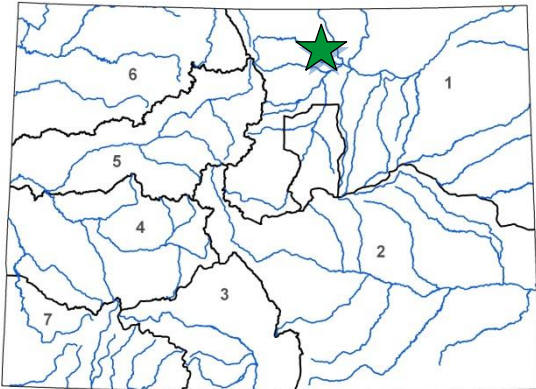


Box Elder Ditch Water Rights Purchase

Lower Poudre Augmentation Company

September 2015 Board Meeting

L O A N D E T A I L S	
Project Cost:	\$500,000
CWCB Loan (with Service Fee):	\$454,500
Loan Term and Interest Rate:	30 Years @ 1.85%
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 due to a limited augmentation water supply.

The Company seeks to purchase 0.5 Box Elder Ditch shares historically used on the Morrison Farm, and 1.5 Box Elder Ditch shares historically used on the Rigden Farm (Subject Shares). The land historically irrigated by the Subject Shares is now the site of an active gravel pit and will become a lined reservoir at the conclusion of mining. Therefore, dry-up associated with the Subject Shares has already occurred. It is expected that while the Subject Shares are undergoing a change of use case in water court, that they will be available for use in the Company's augmentation plan as early as 2016 through a Substitute Water Supply Plan.

