



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

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

DATE: May 18-19, 2016 Board Meeting

AGENDA ITEM: 21b. Water Project Loans
Union Well Augmentation Group - Union Reservoir Water Rights Purchase

Introduction

The Union Well Augmentation Group, Ltd. (Augmentation Group) is applying for a loan for the Union Reservoir Water Rights Purchase (Project). The Augmentation Group runs an augmentation plan for Union Ditch Company (Ditch Company) shareholders who wish to utilize their wells for supplemental irrigation water. The purpose of the Project is to enable the Augmentation Group to provide additional augmentation water to its shareholders by purchasing shares in the Union Reservoir Company (Reservoir Company) for use in the augmentation plan. The total Project cost is estimated to be \$273,000. The Augmentation Group 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.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$248,157 (\$245,700 for Project costs and \$2,457 for the 1% service fee) to the Union Well Augmentation Group for costs related to the Union Reservoir Water Rights Purchase from the Severance Tax Perpetual Base Fund. The loan terms shall be 20 years at a reduced agricultural interest rate of 1.45% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following contract condition:

- a) The Augmentation Group will use the water rights purchased with the CWCB loan funds to provide augmentation water for the irrigation of crops. If the water is no longer being used for agricultural purposes CWCB may adjust the interest rate accordingly. The parties shall amend this contract including a revised Promissory Note, to effect said change in interest rate.



Background

The Augmentation Group is located in Weld County and was formed to provide augmentation water for well owners of the Ditch Company who wish to utilize their wells. All shareholders of the Augmentation Group are shareholders of the Ditch Company, but there are shareholders of the Ditch Company who are not shareholders of the Augmentation Group. The Augmentation Group's service area is the land irrigated under the Union Ditch, generally east of LaSalle between the Lower Latham canal system to the north, and the Western Mutual (Hewes-Cook) canal system to the south. The Augmentation Group provides the replacement water necessary to allow its shareholders to use their wells to provide supplemental irrigation water for a variety of agricultural crops, typically in the early irrigation season prior to Union Ditch water being run. Wells under the plan provide supplemental irrigation water to approximately 2,200 acres of irrigated land. Should the Augmentation Group no longer serve agricultural purposes, the interest rate is subject to modification. However, the leasing of augmentation credits will not cause a change in interest rates when those revenues are used to subsidize the agricultural shareholder's assessments.

The augmentation plan was filed in District Court for Water Division No. 1 in December 2003 (water court case No. 03CW404) under a joint application by the Augmentation Group and the Ditch Company. The decree was signed in February 2012 and included a change of water rights for the Ditch Company's 5.75 shares of the Reservoir Company, a change of water rights for the Augmentation Group's 1.0 share of the Ditch Company, a conditional junior recharge water right for the Augmentation Group's Miller Recharge Pond, and the plan for augmentation. The Augmentation Group has a long term lease agreement for the Ditch Company's 5.75 shares of the Reservoir Company for use in the augmentation plan. The decree provides a method to allow the addition of other water to be used in the plan by notifying the original objectors in the case.

The Augmentation Group has a lease with the City of Longmont to provide up to 100 AF of water per year at an initial cost of \$258/AF. Since 2014 that rate has varied between \$641 and \$1,112 per AF. In response to the rising lease rate, the Augmentation Group secured a lease for 80 AF from Aurora at a cost of \$300/AF in 2015. Similar to the Longmont lease, Aurora can modify this rate starting in 2020. The Augmentation Group still leases a small portion of water from Longmont, but this is paid directly by one augmentation plan member.

The Augmentation Group annually sets a replacement quota per share. Over the past 5 years the Augmentation Group has set an average quota of 4.0 AF of replacement water per share. Each share in the Augmentation Group covers one well.

Loan Feasibility Study

Donna Coble, Secretary for the Union Well Augmentation Group, along with its water accountant Soley Belt of BELA Designs LLC, prepared the Loan Feasibility Study, titled "Feasibility Study for the Purchase of Union Reservoir Company Shares for Augmentation Use," dated September 2015. The feasibility study was prepared in accordance with the CWCB guidelines and included an alternative analysis and a cost estimate. Additionally, the Company provided a water rights analysis and appraisal prepared by TZA Water Engineers, dated April 25, 2016.

Borrower - Union Well Augmentation Group

The Augmentation Group is a for-profit corporation that was incorporated in September 2004 and is in good standing with the Colorado Secretary of State. Its office is located in Greeley. The Augmentation Group has issued 29 shares of stock to 17 shareholders. Revenues are primarily generated through shareholder assessments which are divided into an administrative assessment and an augmentation assessment.

The Augmentation Group's By-laws (2004) provide the five-member Board of Directors with all power with respect to management, control, and determination of the policies of the Corporation, including the power to set and levy annual assessments for each fiscal year. All assessments become a lien on the lands of the shareholders and the Augmentation Group may enforce the lien by foreclosure and sale of the share and the land.

Water Rights

The water rights of the Augmentation Group include:

TABLE 1: WATER RIGHTS

Name	Amount	Appropriation Date	Adjudication Date	Water Court Case No.
Miller Recharge Pond	9.3 CFS 40.7 CFS (conditional)	12/19/2003	12/31/2003	03CW404
Miller Recharge Pond	112.3 AF 387.7 AF (conditional)	12/19/2003	12/31/2003	03CW404
Union Ditch Company	1 Share	Various	Various	03CW404 (change case)

Additionally, the Augmentation Group has three leases: 5.75 Reservoir Company shares from the Ditch Company, reusable effluent from Longmont, and reusable effluent from Aurora.

Project Description

The goal of this Project is to acquire additional water for the Augmentation Group's augmentation plan. Rising lease costs have demonstrated the need to rely less on leased water and more on owned water.

Alternative 1 - No Action: This alternative was considered unacceptable as it leaves the Augmentation Group dependent on water leases, the costs for which are anticipated to rise out of its control in the near future. Additionally, this alternative doesn't allow the issuance of a higher well pumping quota.

Alternative 2 - Lease additional water: Although this alternative would allow an increase of the well pumping quota, rising lease costs show this cannot be a long-term solution. The Augmentation Group may continue to lease water for the short-term.

Selected Alternative 3 - Purchase Available Union Reservoir Shares: This alternative will purchase 2.0 shares of the Union Reservoir Company that are currently available for purchase. In the short term the Augmentation Group will lease these shares to Longmont in exchange for effluent. Longmont changed all Union Reservoir Shares in water court case no 87CW222 and can use these shares without additional water court proceedings. Additionally, the Augmentation Group can legally use Longmont's effluent in the augmentation plan as it's the same water they have been leasing from Longmont. In the future the Augmentation Group may elect to directly use the Reservoir shares in its augmentation plan following the procedure laid out in its decree.

The Augmentation Group has entered into an agreement with the water right owner at a purchase cost of \$250,000. TZA's water analysis shows each share to have an average historical consumptive use (CU) of 7.65 AF per share, along with the ability to store and regulate the average annual divertible yield of 15.3 AF per share. It is anticipated that these shares will add an average of 0.53 AF per share per year to the augmentation plan. TZA appraised each share to be between \$168,300 and \$174,000.

TABLE 2: SUBJECT SHARES ESTIMATED WATER YIELD

Company	# of Shares	Credit per share	Total Credit
Union Reservoir Co. Direct Flow Valuation	2.0	7.65 AF of CU	15.3 AF of CU
Union Reservoir Co Storage Valuation	2.0	15.3 AF of Storage	30.6 AF of Storage

TABLE 3: PROJECT COST

Task	Cost
Water Shares	\$250,000
Engineering & Appraisal	\$10,000
Legal Review of Contracts	\$13,000
TOTAL	\$273,000

Schedule: The Subject Shares are available for purchase immediately. The sale agreement has been signed but is conditioned upon loan approval.

Financial Analysis

The Augmentation Group qualifies for an agricultural interest rate of 1.70% for a 30-year term. The requested loan is for a 20-year term and therefore the interest rate is reduced to 1.45% per CWCB Loan Policy #7. Table 4 provides a summary of the Project's financial aspects. The Augmentation Group will raise its 10% Project cost share through a special assessment in 2016.

TABLE 4: FINANCIAL SUMMARY

Total Project Cost	\$273,000
Borrowers Contribution (10%)	\$27,300
CWCB Loan Amount (90%)	\$245,700
CWCB Loan Amount (Including 1% Service Fee)	\$248,157
CWCB Annual Loan Payment	\$14,383
CWCB Annual Loan Obligation (1 st Ten Years)	\$15,821
Annual Loan Obligation per Share (29 shares)	\$546
Current Assessment per Share	\$1,945
Future Assessment per Share	\$2,521
Current Assessment per AF of Quota (4.0 AF)	\$486
Future Assessment per AF of Quota (4.5 AF)	\$560
Annual Loan Obligation per AF of Average Yield (15.3 AF)	\$1,034/AF

Creditworthiness: The Augmentation Group has no existing debt. In March 2004 before the Augmentation Group was officially formed, the Ditch Company was approved for a CWCB Loan (Contract C150172) to construct the Miller Recharge Pond. Although the CWCB loan legally remains the responsibility of the Ditch Company, the Augmentation Group assesses its shareholders for the debt service and sends payment to the Ditch Company. The loan was substantially completed in 2013 and is in good standing. The annual payment of the loan is \$4,781 and its maturity date is 2043. The collateral is the Ditch Company's headgate and assessment revenue. The debt is included in Table 5 since the debt service is a part of the Augmentation Group's normal operating expense.

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Past 2 Years ¹	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	99% (weak) \$70.1K/\$71.0K	100% (average) \$86.8K/\$86.8K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	81% (weak) (\$70.1K-\$66.2K) \$4.8K	100% (average) (\$86.8K-\$66.2K) \$20.6K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	5% (weak) \$3.2K/\$71.0K	4% (weak) \$3.2K/\$86.8K

¹ As a for-profit corporation, assessments have intentionally been set to make minimal profits rather than build cash reserves.

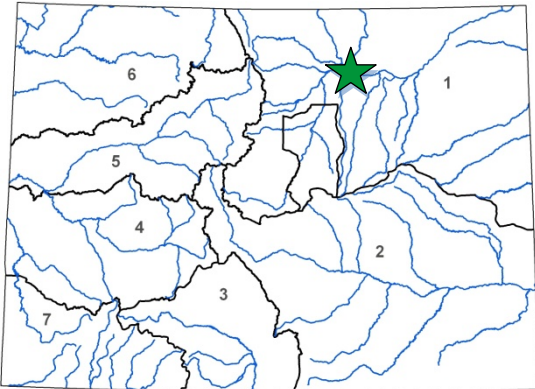
Collateral: Security for this loan will be a pledge of the Augmentation Group's assessment revenues backed by an assessment covenant, and the water shares purchased with the loan proceeds. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Gary Alles, President, Union Well Augmentation Group
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:	\$273,000
CWCB Loan (with Service Fee):	\$248,157
Loan Term and Interest Rate:	20 Years @ 1.45%
Funding Source:	Severance Tax PBF
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
100%	0% Low - % Mid - % High 0%
P R O J E C T D E T A I L S	
Project Type:	Water Rights Purchase
Average Annual Delivery:	116 AF



L O C A T I O N			
County:		Weld	
Water Source:		South Platte River	
Drainage Basin:		South Platte	
Division: 1		District: 2	

The Union Well Augmentation Group provides augmentation water for well owners of the Union Ditch Company, providing supplemental irrigation water to 29 wells covering 2,200 acres. The Company covers an average of 4 AF of well depletions per year.

The Augmentation Group seeks to purchase 2.0 shares of the Union Reservoir Company. The Augmentation Group will use these shares in the augmentation plan via a lease with the City of Longmont where Longmont will use the 2 shares and in return the Augmentation Group will receive the city's effluent, which is approved for use in the augmentation plan. It is expected that these 2 shares will add 15.3 AF to the Augmentation Group's average quota of 0.5 AF per well.

