



**COLORADO**

**Colorado Water  
Conservation Board**

Department of Natural Resources

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Denver, CO 80203

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John Hickenlooper, Governor

Robert Randall, DNR Executive Director

James Eklund, CWCB Director

**TO:** Colorado Water Conservation Board Members

**FROM:** Kirk Russell, P.E., Finance Section Chief  
Anna Mauss, P.E., Marketing Manager

**DATE:** November 16-17, 2016 Board Meeting

**AGENDA ITEM:** 9d. Large Water Project Financing Authorization  
(1) Northern Colorado Water Conservancy Municipal Sub District - Windy Gap  
Firming Project

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### Introduction

The Windy Gap Firming Project is a regional water project with 13 participants to improve the reliability of water supplies from the Windy Gap Project. Built between 1981 and 1985, the Windy Gap Project diverts water from the Colorado River. That water is pumped to Lake Granby and is delivered through the Colorado-Big Thompson system. During wet periods when Lake Granby is full, the Windy Gap Pump Plant cannot operate due to the lack of reservoir storage for Windy Gap Project water and in dry periods it cannot divert water from the Colorado River due to its junior water rights. The Windy Gap Firming Project includes the construction of a new 90,000 acre-foot reservoir called Chimney Hollow, to be located east of the continental divide, southwest of Loveland and just west of Carter Lake. The current cost estimate of the project is approximately \$400 million. The CWCB currently does not have the funding capacity to finance the entire project, so staff is working with the participants and other funding entities to evaluate pooled financing options. See attached Project Data Sheet for a location map and project summary.

### Staff Recommendation

Staff recommends the Board request the General Assembly authorize up to \$90 million in loans to the participants in the Windy Gap Firming Project in the 2017 CWCB Projects Bill.

### Additional Conditions:

Prior to execution of a loan contract, the borrower must submit a loan application and loan feasibility study for review by CWCB staff and for approval by the Board.

### Background

Windy Gap Firming Project participants include: Broomfield, Central Weld County Water District, Erie, Evans, Fort Lupton, Greeley, Lafayette, Little Thompson Water District, Longmont, Louisville, Loveland, Platte River Power Authority, and Superior. It is anticipated that the Municipal Subdistrict of the Northern Colorado Water Conservancy District, acting by and through its Windy Gap Firming Project Water Activity Enterprise, will be the borrower on a pooled financing. The primary financing will possibly come from the sale of a revenue bond issued by the Colorado Water Resources and Power Development Authority (CWRPDA). The bond would be secured by a senior lien on payments from participants involved in the pooled financing. CWCB would provide a subordinate loan secured by a junior lien on the payments of participants.



The idea behind this type of financing is to meet the debt service coverage ratio required by the bond market to keep the interest rate as low as possible for all participants. In order to qualify for the most favorable interest rate, the pooled participants need to meet a favorable debt coverage ratio (income - expenses / debt). If the total project cost is such that optimum debt coverage cannot be met by pooled participants, the CWCB might be able to offset the risk to the bond holders by issuing a subordinate loan.

For instance, assuming a total project cost of \$400 million, a possible loan arrangement under this scenario would be a \$310 million revenue bond and a subordinate loan of \$90 million from the CWCB. At this time, project participants are still evaluating options and some might opt to bring cash for their pro rata portions of the project cost.

Revenue into the Subdistrict will be allotment assessments from participants. Staff and project participants have discussed a step up provision in the event that a participant fails to make a payment and options for other participants to purchase a defaulting participant's interest in the project if a payment is missed.

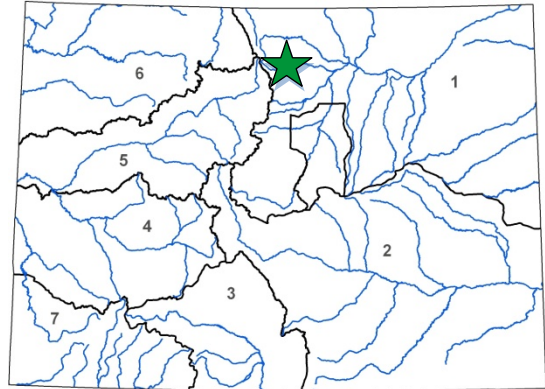
If approved, the CWCB loan will be a 30 year fixed rate at the market rate of a AA Bond unless it is determined that the pooled credit rating is a higher rating.



## Windy Gap Firming Project

Municipal Subdistrict,  
Northern Colorado Water Conservancy District  
November 2016 Board Meeting

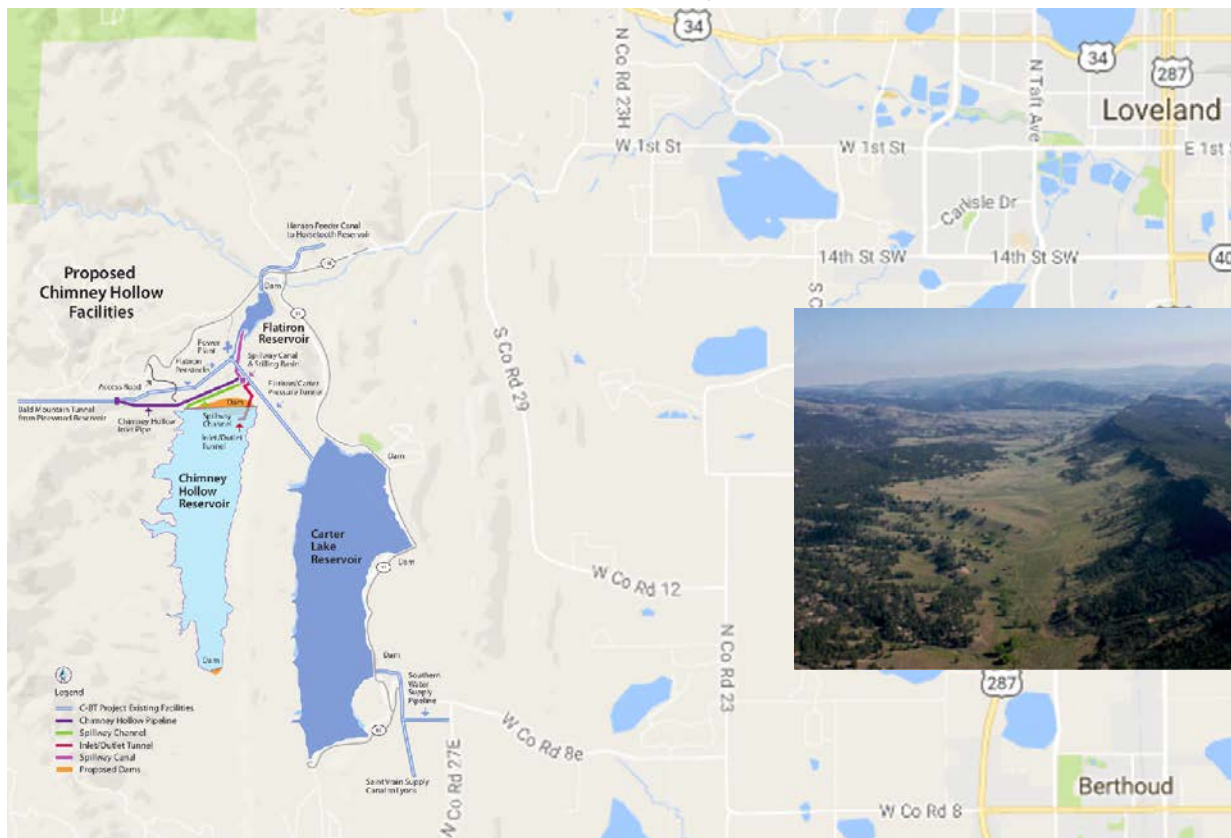
L O A N   D E T A I L S	
Project Cost:	\$400,000,000
CWCB Loan (with Service Fee):	\$90,000,000
Loan Term and Interest Rate:	TBD
Funding Source:	TBD
B O R R O W E R   T Y P E	
Municipal	
P R O J E C T   D E T A I L S	
Project Type:	New Reservoir
New Storage Capacity:	90,000 AF



L O C A T I O N	
County:	Larimer, Boulder, Weld
Water Source:	Colorado River
Drainage Basin:	South Platte
Division:	1      District: 2,3,4,5,6

In 1967, six Northern Colorado cities formed the Municipal Subdistrict to plan, finance and build the Windy Gap Project, which was completed in 1985. Following completion and approval of an Environmental Impact Statement and acquisition of 23 permits and licenses, Windy Gap Project construction began in July 1981. The project was completed in 1985 and began delivering water to Municipal Subdistrict allottees in July.

Today, the Windy Gap Project consists of a diversion dam on the Colorado River that creates the 445-acre-foot Windy Gap Reservoir, a pumping plant and a six-mile pipeline to Lake Granby. During wet periods when Lake Granby is full, the Windy Gap Pump Plant cannot operate due to the lack of reservoir storage for Windy Gap Project water and in dry periods it cannot divert water from the Colorado River due to its junior water rights. The Windy Gap Firming Project will be the construction of a new 90,000 acre-foot East Slope reservoir called Chimney Hallow.





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November 3, 2016

Colorado Water Conservation Board  
1313 Sherman Street, Suite 718  
Denver, Colorado 80203

**Re: Windy Gap Firming Project – Letter of Intent for Subordinate Loan**

Ladies and Gentlemen:

Consistent with our prior discussions with you, the Municipal Subdistrict, Northern Colorado Water Conservancy District (**Subdistrict**), acting by and through its Windy Gap Firming Project Water Activity Enterprise (**WGFPWAE**) is pleased to provide you with this Letter of Intent ("**LOI**"), which outlines the Subdistrict's and the WGFPWAE's understanding of the general terms and conditions of a proposed subordinate lien loan (the "**Subordinate Loan**") from the Colorado Water Conservation Board (CWCB) to the WGFPWAE. The purpose of the Subordinate Loan would be to finance a portion of the cost of construction of the Windy Gap Firming Project (the "**Windy Gap Firming Project**" or the "**Project**"), as described below.

**PROJECT NEED AND DESCRIPTION:**

The Windy Gap Project was first proposed in 1967, was constructed by the Subdistrict, acting by and through its Windy Gap Water Activity Enterprise, between 1981 and 1985, first delivering water in 1985. All outstanding indebtedness incurred for the construction of the Windy Gap Project was fully defeased in 2016. The Windy Gap Project consists of a diversion dam on the Colorado River, a pump plant and a 6-mile pipeline to Granby Reservoir, the largest storage reservoir in the Colorado-Big Thompson Project ("**C-BT Project**") system. However, the annual delivery of Windy Gap Project water is not reliable because (a) in years of low spring runoffs, Windy Gap Project water cannot be diverted from the Colorado River due to the Windy Gap Project's junior water rights, and (b) conversely, during some wet periods, storage space in Granby Reservoir is not available for Windy Gap Project water because Windy Gap Project water has a lower priority to utilize available storage space within Granby Reservoir than does C-BT Project water.

The WGFPWAE will undertake the Windy Gap Firming Project to increase the reliable firm yield of the Windy Gap Project to approximately 30,000 acre-feet, thereby improving the reliability of water deliveries to nine cities, two water districts and one public power provider (collectively, the "**Project Participants**"), and ultimately to the end users the Project Participants serve, all within the boundaries of the Subdistrict. Additional reliability will be achieved by the Subdistrict constructing a new, dedicated 90,000 acre-feet reservoir, the Chimney Hollow Reservoir, located southwest of Loveland and just west of Carter Lake Reservoir, to store Windy Gap Project water. This is the Windy Gap Firming Project.

That part of the State of Colorado included within the boundaries of the Subdistrict is a strategically important portion of the State with a growing population and an ever-increasing need for water which will be met, in-part, by the Project. The Project's cost of construction is approximately \$400 million. The planning and permitting required for the Project are nearly completed. The Windy Gap Firming Project received Governor Hickenlooper's endorsement on April 12, 2016.

#### **PROJECT FINANCING AND THE SUBORDINATE LOAN:**

The Subdistrict understands that CWCB proposes to extend the Subordinate Loan to the Subdistrict, acting by and through its WGFPWAE, in an aggregate principal amount of up to \$90 million. The proceeds of the Subordinate Loan, when combined with other funds provided by the Project Participants, which may include but may not be limited to senior lien revenue bonds (the "**Senior Bonds**") which the Subdistrict, acting by and through its WGFPWAE, proposes to issue, will provide the funds necessary to pay the cost of constructing the Project. In addition, it is believed that the subordinate nature of the Subordinate Loan will be very important in successfully accomplishing the financing of the Project and attracting buyers for the Senior Bonds at a favorable rate of interest. To provide a means of repaying both the Senior Bonds and the Subordinate Loan, the Subdistrict, acting by and through its WGFPWAE, plans to enter into allotment contracts (the "**Allotment Contracts**") with the Project Participants regarding the water storage capacity in the Project. The financing of the Project is anticipated to close by the third quarter of 2018.

#### **OTHER TERMS AND CONDITIONS RELATING TO THE SUBORDINATE LOAN**

**Collateral:** A pledge of Project revenues (i.e. payments received by the Subdistrict, acting by and through its WGFPWAE, from the Project Participants under the Project Allotment Contracts); provided that such pledge will be subordinate to the payment of the Senior Bonds issued for the purpose of constructing the Windy Gap Firming Project.

**Evidenced:** The Subordinate Loan shall be evidenced by a bond or note issued by the Subdistrict, acting by and through its WGFPWAE, under and subject to the terms set forth in a definitive Subordinate Loan agreement (the "**Loan Agreement**") acceptable to both CWCB and the Subdistrict.

**Interest Rate:** A fixed rate equal to the market rate of AA Bonds unless it is determined by an analysis done during that period 30 days in advance of the execution of the Loan Agreement that the credit rating of the pooled entities is a higher rating .

**Maturity:** Not less than 30-years.

**Payments:** Annual payments of principal and interest.

**Prepayment:** The Subordinate Loan will be subject to prepayment by the Subdistrict, acting by and through its WGFPWAE, at par at any time upon notice as provided in the Loan Agreement.

**Covenants:** As shall be set forth in the Loan Agreement.

**Closing:** Closing of the Subordinate Loan shall be subject to CWCB receiving legal opinions in form and substance reasonably acceptable to it, and such other conditions as shall be set forth in the Loan Agreement.

**Reporting:** The Subdistrict, acting by and through its WGFPWAE, shall deliver to CWCB such financial statements and other information, and at such times, as shall be set forth in the Loan Agreement.

## **TERMS AND CONDITIONS OF THIS LETTER OF INTENT**

This LOI by the Subdistrict on behalf of its WGFPWAE does not constitute or create, and shall not be deemed to constitute or create, any legally binding or enforceable obligation on the part of either CWCB or the Subdistrict or the WGFPWAE, and should not be construed as either a binding commitment by CWCB to provide the Subdistrict, acting by and through its WGFPWAE, a subordinate loan for the Project or a binding commitment of the Subdistrict or the WGFPWAE to accept from CWCB a subordinate loan for the Project. Notwithstanding the foregoing or any other provision of this LOI to the contrary, CWCB and the Subdistrict, acting by and through its WGFPWAE, each shall be obligated to act in good faith and to use reasonable efforts to work toward the consummation of the Subordinate Loan.

It is understood by the Subdistrict and the WGFPWAE that the Subdistrict, acting by and through its WGFPWAE, must submit a loan application and loan feasibility study for approval by the CWCB in accordance with the CWCB Water Project Loan Program Guidelines and that the submitted loan application and loan feasibility study shall be the bases used for final approval of the Subordinate Loan by the CWCB.

Unless (a) CWCB and the Subdistrict, acting by and through its WGFPWAE, execute and deliver the Loan Agreement not later than June 30, 2018, or (b) CWCB and the Subdistrict mutually agree to extend such date, this LOI will expire at 12:01 am, Colorado time, on July 1, 2018 and thereafter shall be of no further force and effect.

If the understanding of the Subdistrict and its WGFPWAE concerning the terms and conditions of the Subordinate Loan, as expressed in this LOI, are correct and acceptable to the CWCB, please (a) sign two copies of the concurrence below, (b) retain one CWCB-signed concurrence and this LOI for the CWCB's files, and (c) return to the Subdistrict the second CWCB-signed copy of the concurrence.

Sincerely,



Dennis Yanchunas, President

Municipal Subdistrict, Northern Colorado Water Conservancy District

## **CONCURRENCE**



Concurrence with Subdistrict and WGFPWAE Understanding of General Terms and Conditions  
as expressed herein this \_\_\_\_ day of November, 2016,

Colorado Water Conservation Board

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_







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**TO:** Colorado Water Conservation Board Members

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

**DATE:** November 16-17, 2016 Board Meeting

**AGENDA ITEM:** 9d. 2017 Projects Bill  
Large Water Project Financing Authorization  
(2) Rio Grande Cooperative Project - Funding Increase

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### Introduction

In November of 2011, the CWCB Board recommended approval of a funding package of \$30 million for the Rio Grande Cooperative Project. This was subsequently placed in the CWCB Projects Bill SB12-165 and was signed by the Governor in 2012. The authorization included a loan for \$10 million for the improvements needed to the Beaver Park Reservoir, owned and operated by Colorado Parks and Wildlife and was completed in 2015. In addition, a \$5 million grant was awarded to the San Luis Valley Irrigation District (District) to prepare final design plans for repairs needed at the Rio Grande Reservoir and to fund the seepage control improvements. The authorization also included a \$15 million loan-grant for the repair of the outlet tunnel and spillway.

The District recently received approval of final design by the State Dam Safety Branch for the repairs. This resulted in an increase in the engineer's estimate of total project cost. The District is requesting an increase from the current \$15 million loan-grant authorization to \$25 million in loan-grant authorization.

### Staff Recommendation

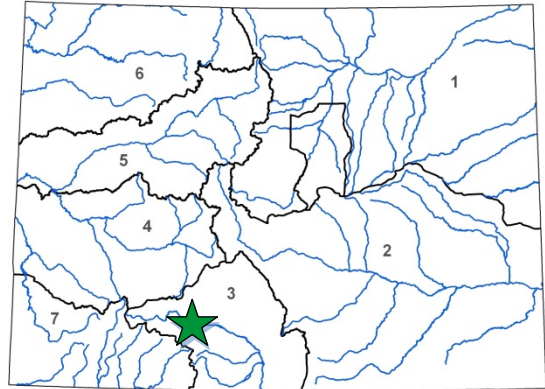
Staff recommends the Board request the General Assembly to authorize an additional \$10 million for a total of \$40 million funding package for the Rio Grande Cooperative Project. This increase will be reflected in the 2017 CWCB Projects Bill as a \$25 million loan-grant funding package to the San Luis Valley Irrigation District's Rio Grande Reservoir Rehabilitation Project.





(Increase)

L O A N   D E T A I L S	
Project Cost:	\$40,000,000
Loan/Grant Package:	\$10m CPW \$30m SLVID
Loan Term and Interest Rate:	TBD
Funding Source:	Severance Tax PBF transfer to Const Fund
B O R R O W E R   T Y P E	
Municipal	
P R O J E C T   D E T A I L S	
Project Type:	Reservoir Rehabilitation
Recovered Storage:	10,000AF Rio Grande 22,01AF Beaver Park



L O C A T I O N	
County:	Hinsdale, Rio Grande
Water Source:	Beaver Creek & Rio Grande
Drainage Basin:	Rio Grande
Division:	3      District: 20

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