



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: September 20-21, 2017 Board Meeting

AGENDA ITEM: 15d. Water Project Loans
Left Hand Water District - Participation in Southern Water Supply Project II

Introduction

The Left Hand Water District (District) is applying for a loan for its participation in the Southern Water Supply Project II (Project). The purpose of this loan is to fund the District's portion of the construction costs for the Southern Water Supply Project (SWSP) II. Proposed by the Northern Colorado Water Conservancy District (Northern Water), SWSP II is a raw water pipeline beginning at Carter Lake and terminating at the Boulder Reservoir Water Treatment Plant, generally following the existing SWSP pipeline alignment. The SWSP II construction cost is estimated to be \$43,890,000. The District's participation cost is estimated to be \$10,735,000. The District is requesting this loan for \$10,000,000 to cover a majority of its cost share. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$10,000,000 (\$9,900,990 for Project costs and \$99,010 for the 1% service fee) to the Left Hand Water District for costs related to its Participation in Southern Water Supply Project II, from the Construction Fund. The loan terms shall be 20 years at a blended interest rate of 2.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.



Background

The District provides potable water service to customers within its 108 square mile service area largely in unincorporated areas of Boulder and Weld Counties. The service area is generally bounded by the cities of Boulder, Lafayette, and Erie to the south; Longmont to the north; I-25 to the east; and the foothills to the west. The District serves approximately 20,000 people through 7,154 individually metered taps. The customer base is 95% residential and 5% commercial taps.

Water is treated at two District owned water treatment plants (WTP): Spurgeon WTP with a capacity of 7.5 million gallons per day (MGD), and Dodd WTP with a capacity of 10 MGD. Spurgeon WTP receives raw water via the Haldi Pipeline which is connected to two District reservoirs. This allows Spurgeon to operate year-round. Dodd WTP receives raw water from Northern Water via the Boulder Feeder Canal. Since the canal is operated by Northern Water on a seasonal basis, Dodd WTP is limited in operation to between April 1 and October 31 of each year.

Dodd WTP underwent an extensive upgrade and expansion project in 2015-2016 and is designed to allow for the proposed connection to the SWSP II as well as for expansion to a build-out capacity of 16 MGD. However, the seasonal limitation of Dodd WTP presents challenges and vulnerabilities to the District's water supply. For example, the District is unable to respond to an emergency requiring the shutdown of the Spurgeon WTP during the winter months. Additionally, being an open channel, the canal presents operational challenges for water quality and leaves the District vulnerable to a water supply interruption such as was seen in the September 2013 floods.

The SWSP II is a proposed pipeline that will supply C-BT and Wind Gap Project water from Carter Lake to the City of Boulder, Left Hand Water District, and Longs Peak Water District. The raw water transmission pipeline will traverse a total of 20 miles from Carter Lake south to the Boulder Reservoir WTP. The SWSP II project will be managed and operated by Northern Water's Southern Water Supply Project Water Activity Enterprise (Enterprise). The Enterprise is entirely funded by the Project participants who will share in project costs, and pipeline capacity, based on pro-rata participation governed via Allotment Contracts between each participant and Northern Water. The City of Boulder is the largest participant at 32 CFS, the District is the next at 12 CFS, and Longs Peak Water District is receiving 3 CFS. Participation cost is a factor of pipeline capacity, and which segment of the pipeline is needed to serve each entity.

Loan Feasibility Study

Christopher Smith, P.E., General Manager of Left Hand Water District, prepared the Loan Feasibility Study titled, "Feasibility Study for Left Hand Water District's Participation in Northern Colorado Water Conservancy District South Water Supply Project II," dated August 2017. The feasibility study was prepared in accordance with CWCB guidelines and included an analysis of alternatives and engineering cost estimates. Audited financial statements of the District were provided by CliftonLarsonAllen, LLP. The Feasibility Study relied on the extensive engineering and environmental studies performed by Northern Water.

Borrower - Left Hand Water District

The District is a quasi-municipal special district formed under the provisions of § 32-1-305(6), C.R.S., by election in May 1990. The District developed a Municipal Water Efficiency Plan (Updated 2015) in accordance with the Water Conservation Act of 2004 and to meet the provisions of § 37-60-126, C.R.S.

The average monthly water bill is \$98.73 which includes a monthly base fee of \$26.11 for a 5/8" meter, and \$72.62 for 17,000 gallons of water, which is the average monthly usage. Water usage

revenues account for 70% of the District's revenues. Other sources of revenues include tap fees, leases of surplus water, property lease agreements, and interest on investments.

As a Title 32 Special District, the District has taxing authority. Since formation, the District has set a zero mill levy and operates as a water activity enterprise under TABOR.

Water Rights

The District owns 7,028 units of Colorado-Big Thompson units, and 2,854 shares of Left Hand Ditch Company common stock. Both sources of raw water available to this district are high quality surface water supplies operated by well established organizations and produce dependable yields. This portfolio of raw water is sufficient to meet the District's demands including approximately 20% in reserves. The District's 5-year (2012-2016) average raw water diversions are 4,400 AF.

Project Description

The objective of the Project is to provide a year-round raw water source to Dodd WTP. The District began reviewing potential alternatives in 2003.

Alternative 1 - No Action: This alternative was determined to not be a viable option to meet current or future District needs. Without a year-round Dodd WTP operation, the District is unable to respond to an emergency requiring the shutdown of the Spurgeon WTP during winter months, or a shutdown of the Boulder Feeder Canal during the irrigation season. Further, winter deliveries to lands outside of the Left Hand Ditch Company's service area rely on a C-BT exchange with Ditch Company. That exchange is close to its volumetric limit such that there is not sufficient capacity for future growth.

Alternative 2 - Find Additional Capacity in Existing SWSP: Prior to participating in the permitting and design portion of SWSP II the District sought to acquire additional capacity in the existing SWSP pipeline through a purchase or long-term lease from a current SWSP participant. The District could only identify 3 CFS which is inadequate to meet its needs.

Selected Alternative 3 - Participate in SWSP II: This alternative is participating in a regional cooperative pipeline project that will deliver 12 CFS directly from Carter Lake to the Dodd WTP year-round. This alternative meets all of the project needs for the District, is regional in nature providing cost-sharing in design, construction, easement, and ultimately O&M costs by all project participants. The project will be designed, constructed, and operated by Northern Water to deliver the District's C-BT water and was determined by the District's Board of Directors to provide the most cost-effective and reliable solution to meet long term needs.

The SWSP II consists of constructing a 20.75 mile long welded steel pipeline from Carter Lake in Larimer County, to Boulder Reservoir WTP. The turn-out facility for the District will be located within an easement that has been granted to Northern Water on District's property, and will be the terminus for the District's participation in the Project.

The total SWSP II Project cost is \$43,890,000. Design and property acquisitions costs have already been funded by the participants according to their pro-rata share of the project capacity and the District is not seeking reimbursement for those costs. Prior to construction, the participants will enter into Allotment Contracts with Northern Water, which will govern funding of, and participation in, the construction and future use of the pipeline. The District's current participation cost is estimated to be \$10,735,000 as shown in Table 1.

TABLE 1: ESTIMATED PROJECT COST

| Tasks | SWSP II Cost | District's Cost |
|-----------------------------|--------------|-----------------|
| Pipeline Construction | \$38,598,000 | \$9,408,000 |
| Carter Outlet Modifications | \$1,446,000 | \$369,000 |
| SCADA Installation | \$200,000 | \$76,000 |
| Construction Management | \$1,625,000 | \$388,000 |
| SUBTOTAL | \$41,869,000 | \$10,241,000 |
| Contingency | \$2,021,000 | \$494,000 |
| TOTAL | \$43,890,000 | \$10,735,00 |

Permitting: The Pipeline alignment was approved in Boulder County through a 1041 permit in July 2012, and approved in Larimer County through a Location & Extent permit in June 2009. Northern Water, either in-house or through outside consultants, is completing the remaining permitting which includes: Larimer County/Boulder Count/CDOT right-of-way permits; Longmont Planning Development Permit; BNSF Railroad Crossing Permit; Army Corps of Engineers Nationwide Permit; and Ditch Company crossing permits.

Schedule: Final design will be completed in December 2017. The Project is scheduled for bidding in January 2018 and construction will take place between spring of 2018 and summer of 2019.

Financial Analysis

Table 2 provides a summary of the Project's financial aspects. The District qualifies for a blended interest rate of 3.0% for a 30-year term (30% Mid-Income Municipal, 70% High-Income Municipal). The District is seeking a 20-year term and thus the interest rate will be reduced by 0.25% to 2.75% per CWCB Financial Policy #7 (Lending Rate Determination).

TABLE 2: FINANCIAL SUMMARY

| | |
|--|--------------|
| Total SWSP II Project Cost | \$43,890,000 |
| District's Participation Cost | \$10,735,000 |
| District's Cash Match | \$834,010 |
| CWCB Loan Amount | \$9,900,990 |
| CWCB Loan Amount (Including 1% Service Fee) | \$10,000,000 |
| CWCB Annual Loan Payment | \$656,717 |
| CWCB Annual Loan Obligation (1 st Ten Years) | \$722,389 |
| Monthly Cost of Loan Obligation per Tap (7,154 EQR Taps) | \$8.41 |
| Average Monthly Water Bill | \$98.73 |

Creditworthiness: The District has \$26,952,091 in existing long term debt as of August 1, 2017 as shown in Table 3. The 1999 Colorado Water Resources and Power Development Authority (CWRPDA) Drinking Water Revolving Fund (DWRF) bond financed improvements to the Spurgeon WTP and to upgrade the water system. The 2014 CWRPDA-DWRF bond financed upgrades to the Dodd WTP. Both bonds are in good standing.

TABLE 3: EXISTING DEBT

| | Original Balance | Current Balance | Annual Payment | Maturity Date | Collateral |
|--------------------|------------------|-----------------|----------------|---------------|-------------------------|
| 1999 CWRPDA - DWRF | \$6,625,000 | \$892,697 | \$455,409 | May 2019 | District's net revenues |
| 2014 CWRPDA - DWRF | \$29,900,336 | \$25,810,345 | \$1,824,237 | Aug 2034 | District's net revenues |
| TOTAL | | \$26,703,042 | \$2,279,646 | | |

TABLE 4: FINANCIAL RATIOS

| Financial Ratio | Past 3 Years | Future w/ Project ¹ |
|---|---|--|
| Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120% | 156% (strong) \$11.04M/\$7.08M | 112% (average) \$8.71M/\$7.80M |
| Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120% | 274% (strong) (\$11.04M-\$4.80M) \$2.28M | 130% (strong) (\$8.71M-\$4.80M) \$3.00M |
| Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100% | 169% (strong) \$11.97M/\$7.08M | 143% (strong) \$11.14M/\$7.80M |
| Debt per Tap (7,154 taps) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: <\$2,500 | \$3,733 (average) | \$4,716 ² (average) |
| Average Monthly Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30 | \$98.73 (weak) | \$98.73 (weak) |

¹Future revenues limit capital contributions (i.e. tap fees) to 10% of total revenue in compliance with Financial Policy #6 (Parity debt)

²Represents projected debt after 2019.

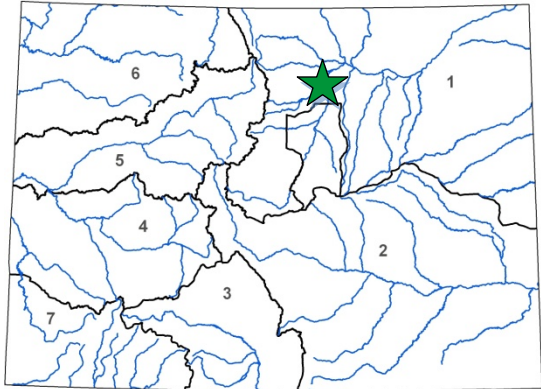
Collateral: Security for this loan will be a pledge of the District's net revenues backed by a rate covenant and annual financial reporting. This security is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Christopher Smith, General Manager, Left Hand Water District
Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet



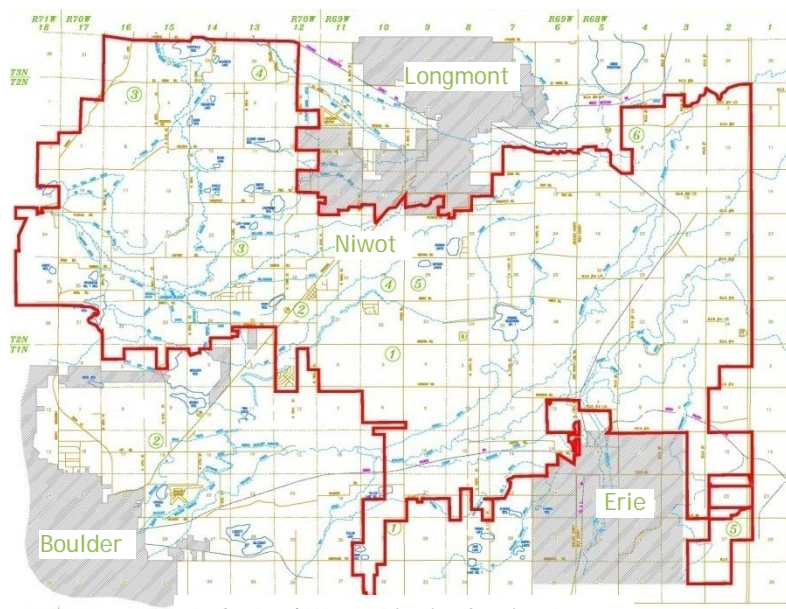
| L O A N D E T A I L S | |
|-------------------------------|-----------------------------------|
| Project Cost: | \$10,735,300 |
| CWCB Loan (with Service Fee): | \$10,000,000 |
| Loan Term and Interest Rate: | 20 Years @ 2.75% |
| Funding Source: | Construction Fund |
| B O R R O W E R T Y P E | |
| Agriculture | Municipal |
| 0% | 0% Low - 30% Mid -70% High |
| | Commercial |
| | 0% |
| P R O J E C T D E T A I L S | |
| Project Type: | Municipal Water Supply System New |
| Average Annual Delivery: | 4,400 AF |



| L O C A T I O N | |
|-----------------|------------------|
| County: | Broomfield, Weld |
| Water Source: | |
| Drainage Basin: | South Platte |
| Division: | 1 District: 5 |

The District provides potable water service within a 108 square mile service area within unincorporated areas of Boulder and Larimer Counties; serving approximately 20,000 people through 7,154 individually metered taps. Water is treated at the Spurgeon Water Treatment Plant (WTP) and Dodd WTP. Spurgeon WTP is operated year-round while Dodd WTP is operated only during the irrigation season. By participating in the Southern Water Supply Project (SWSP) II, the District will be able to supply Dodd WTP with a year-round water supply, significantly reducing the risk associated with having only one water supply during the non-irrigation season, as well as reducing the maintenance associated with an open canal supplying water for treatment.

The SWSP II, proposed by Northern Colorado Water Conservancy District, is a 20-mile pipeline from Carter Lake to the Boulder Reservoir. The pipeline will deliver raw water for municipal use to Left Hand Water District (Borrower), Longs Peak Water District, and the City of Boulder. The full cost of the project is estimated to be \$43,890,000. The Districts participation cost is estimated to be \$10,735,000. The \$10,000,000 CWCB loan will cover a majority of the District's participation cost. The District will use its cash reserves for any cost exceeding that exceeds the CWCB loan.



Left Hand Water District Service Area

