



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

Robert Randall, DNR Executive Director

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: March 21-22, 2018 Board Meeting

AGENDA ITEM: 10a. Change to Existing Loans
Corsentino Dairy Farms, Inc. – Holita Dam Rehabilitation

Introduction

Corsentino Dairy Farms, Inc. (Dairy) was approved for a \$85,466 loan for 90% of the estimated cost to complete the Holita Dam Rehabilitation (Project) at the July 2017 Board meeting. The Project includes repairs to address embankment seepage, inadequate freeboard, and a permanent lowering of the spillway. Holita Dam is currently under a storage restriction by the Dam Safety Branch of the State Engineer's Office (SEO). Holita Reservoir is the primary water supply storage reservoir for the Dairy and a critical component to its operations. After the Project is complete it will preserve 274 acre-feet of water storage. The Dairy contracted with Double M Excavating, Inc. to complete the repairs. Based on an updated estimate from the contractor, the Project is now expected to cost \$124,000. The Dairy is requesting a loan increase to cover 90% of the updated Project costs. See attached Project Data Sheet for a location map and Project Summary.

Staff Recommendation

Staff recommends the Board approve a loan increase not to exceed \$27,270 (\$27,000 for Project costs and \$270 for the 1% service fee) to Corsentino Dairy Farms, Inc. for costs related to the Holita Dam Rehabilitation Project from the Severance Tax Perpetual Base Fund. The total loan amount will become \$112,716 (\$111,600 for Project costs and \$1,116 for the 1% service fee). Loan terms shall remain 10 years at the reduced agricultural interest rate of 0.5% per annum. Security for the loan shall remain the Corsentino Dairy Farm and water rights.

Staff additionally recommends maintaining the contract condition requiring the borrower to establish a reserve fund equal to one annual payment prior to disbursement of loan funds.



Project Update

Nicholas Koch, P.E. and Walter Bland, Engineering Technician, agricultural engineers out of La Junta, worked with the Dairy to select a contractor to complete the repairs to Holita Dam. The estimated cost of the Project increased by \$30,000 as noted in Table 1.

TABLE 1: ESTIMATED PROJECT COSTS

Task	Original Estimate (June 2017)	Updated Estimate (Jan 2018)
Site Survey / Construction Stakeout	\$5,000	\$5,000
Drain Reservoir & Site Stripping	\$2,100	\$4,100
Trench Excavation	\$24,000	\$32,000
Plug Existing Pipe	\$1,000	-
Place Compacted Fill	\$48,000	\$52,300
Excavate Emergency Spillway	\$500	\$500
Engineering Design	\$4,000	\$4,000
Contingencies	\$9,400	\$21,100
Mobilization		\$5,000
TOTAL	\$94,000	\$124,000

Schedule: The contractor mobilized in January 2018 and replaced an existing outlet pipe. This work was not part of the original scope and was paid by the minority shareholder in the Holita Ditch and Reservoir Company. The embankment and spillway work is expected to be complete by May 2018.

Financial Analysis

The loan terms will remain the same as the original loan approval.

TABLE 2: UPDATED FINANCIAL SUMMARY

	Original Approval (July 2017)	New Request (March 2018)
Total Project Cost	\$94,000	\$124,000
Borrower Contribution (10%)	\$9,400	\$12,400
CWCB Loan Amount	\$84,600	\$116,000
CWCB Loan Amount (Including 1% Service Fee)	\$85,446	\$112,716
CWCB Annual Loan Payment	\$8,781	\$11,584
Project cost per acre-foot storage (224 AF)	\$420	\$554

Creditworthiness: The Dairy has an existing loan with Community Banks of Colorado in Walsenburg executed November 26, 2003. The loan matures in 2021 with a balloon payment due at that time. The Community Banks of Colorado loan is secured by the Dairy and includes the land and water rights.

TABLE 3: UPDATED EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
Community Banks of Colorado	\$1,913,000	\$1,182,655 ⁽¹⁾	\$85,512	April 2021	Corseintino Dairy including 1,018.78 acres of land and the Dairy's water rights

(1) Balance on March 1, 2018 as provided by Community Banks of Colorado.

TABLE 4: UPDATED FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% average: 100% - 120% strong: >120%	106% (average) \$2.22M / \$2.10M	106% (average) \$2.22M / \$2.10M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% average: 100% - 120% strong: >120%	246% (strong) (\$2.22M-\$2.01M) \$85.5K	216% (strong) (\$2.22M-\$2.01M) \$97.1K
Cash Reserves to Current Expenses weak: <50% average: 50% - 100% strong: >100%	2% (weak) \$39.0K/\$2.10M	1% (weak) \$27.4K/\$2.10M

Collateral: Security for this loan will remain the Corseintino Dairy Farm land and the water rights owned by the Dairy. The CWCB will be in a subordinate lien position; therefore, the security is a variance from CWCB Financial Policy #5 (Collateral).

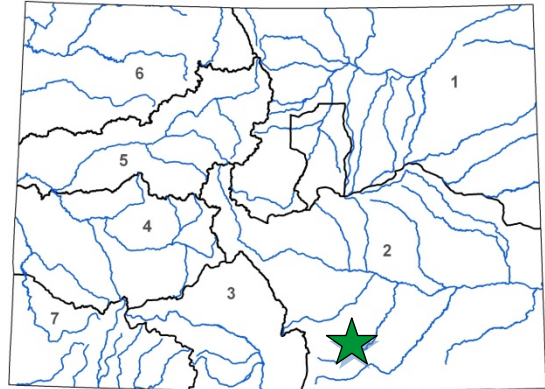
cc: Brett Corseintino, Corseintino Dairy Farm, Inc.
 Jennifer Mele, Colorado Office of the Attorney General

Attachments: Water Project Loan Program - Project Data Sheet
 Original Board Memo (updated July 21, 2017)



(Loan Increase)

L O A N D E T A I L S	
Project Cost:	\$124,000
CWCB Loan (with Service Fee):	\$112,716
Loan Term and Interest Rate:	10 Years @ 0.5%
Funding Source:	Severance Tax
B O R R O W E R T Y P E	
Agriculture	Municipal
100%	0% Low - 0% Mid - 0% High
	Commercial
	0%
P R O J E C T D E T A I L S	
Project Type:	Reservoir Rehabilitation
Average Annual Delivery:	540 AF
Storage Preserved:	274 AF



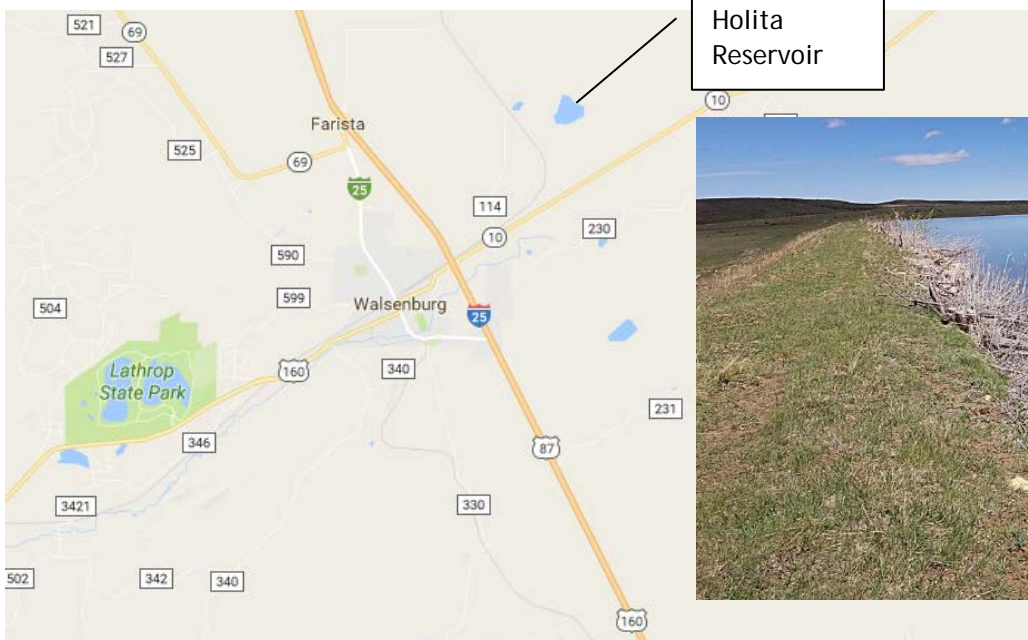
L O C A T I O N	
County:	Huerfano
Water Source:	Cucharas River
Drainage Basin:	Arkansas
Division:	2
District:	16

Corsentino Dairy Farms, Inc. is located on 1,019 acres located approximately three miles east of the City of Walsenburg, along the north and south sides of State Highway 10. The Dairy has been in the Corsentino family since 1936 and is currently operated as an organic dairy.

The primary water for the dairy operation comes from a well. The well is operated in accordance with the Corsentino Dairy plan for augmentation. The replacement water comes from the Holita Reservoir.

Holita reservoir has a storage capacity of 498 acre-feet and was built in 1889. In September of 2014 the Dairy received a letter from the Office of the State Engineer (SEO) that identified the Holita dam as unsatisfactory and restricted the storage level to five feet below the low point of the west dam crest.

The intent of the SEO storage restriction is to eliminate uncontrolled seepage from the dam. The SEO also identified the spillway as unsafe and is requiring a permanent lowering that will result in a storage volume of 274 acre-feet. Through this loan, the Dairy plans to rehabilitate the dam in the winter of 2017/2018.





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

Robert Randall, DNR Executive Director

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: July 19-20, 2017 Board Meeting (Updated July 21, 2017)

AGENDA ITEM: 23c. Water Project Loans
Corsentino Dairy Farms – Holita Dam Rehabilitation

Introduction

Corsentino Dairy Farms, Inc. (Dairy) is applying for a loan for the Holita Dam Rehabilitation (Project). The Project includes repairs to address embankment seepage, inadequate freeboard, and a permanent lowering of the spillway. Holita Dam is currently under a storage restriction by the Dam Safety Branch of the State Engineer's Office (SEO). Holita Reservoir is the primary water supply storage reservoir for the Dairy and a critical component to its operations. After the Project is complete it will preserve 274 acre-feet of water storage. Repairs to the dam are estimated at \$94,000. The Dairy is requesting a loan from the CWCB for 90% of Project costs. See attached Project Data Sheet for a location map and Project Summary.

Staff Recommendation (Board approved Staff Recommendation July 19, 2017)

Staff recommends the Board approve a loan not to exceed \$85,446 (\$84,600 for Project costs and \$846 for the 1% service fee) to Corsentino Dairy Farms, Inc. for costs related to the Holita Dam Rehabilitation Project from the Severance Tax Perpetual Base Fund. Loan terms shall be 10 years at the reduced agricultural interest rate of 0.5% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends a contract condition requiring the borrower to establish a reserve fund equal to one annual payment prior to disbursement of loan funds.



Background

The Dairy is located on 1,018.78 acres located approximately three miles east of Walsenburg, along the north and south sides of State Highway 10, in Huerfano County. The Dairy has been in the Corseantino family since 1936 and it changed to an organic dairy and farming operation in January 2011.

The primary water for the dairy operation comes from a well (Permit Number 56793-F). The well is approved pursuant to CRS 37-90-137(2) on the condition that this well is operated in accordance with the Corseantino Dairy plan for augmentation, approved in water court January 17, 2014. The replacement water comes from Holita Reservoir.

Holita Reservoir is adjacent to the Dairy farm on land owned by the City of Walsenburg. On June 12, 2017 the City and Dairy executed a license agreement giving the Dairy a license to use the reservoir. The license is effective unless the Dairy fails to maintain liability insurance or if the reservoir is not used to store water for a period of 12 consecutive months.

The water rights in the reservoir are owned by the Holita Ditch and Reservoir Company. The Company was established in 1940. Today the Dairy is the majority shareholder owning 93.12% of the Company. There is one minority shareholder who owns the remaining 6.88%. Because of the importance of the reservoir to the Dairy, the Dairy will be the sole borrower for the Project and responsible for the repayment of the loan.

The reservoir has a storage capacity of 498 acre-feet and was built in 1889. There has been a history of non-compliance with SEO orders related to Holita Dam. In 1977 the SEO issued a storage restriction; however the reservoir was not lowered. In the 2007 SEO inspection report, a five-foot storage restriction was recommended. In October of 2014 the Dairy received a letter from the SEO that identified the Holita Dam as unsatisfactory and restricted the storage level to five feet below the west dam crest. The storage restriction resulted in a loss of approximately 224 acre-feet.

The intent of the SEO storage restriction is to eliminate uncontrolled seepage from the dam. The SEO also identified the spillway as unsafe and is requiring a permanent lowering that will result in a final storage volume of 274 acre-feet. If the Dairy does not comply with the SEO order by December 28, 2017, it will result in legal action and could result in a fine of not less than \$500 per day and a potential breach order.

Loan Feasibility Study

Nicholas Koch, P.E. and Walter Bland, Engineering Technician, agricultural engineers out of La Junta, prepared the Loan Feasibility Study titled "Feasibility of Repairing Mr. Brett Corseantino's Holita Dam, DAMID 160214," dated May 31, 2017. Supplemental information came from an appraisal prepared by Kirby Harper dated November 7, 2015. Financial information was provided by Brenda Scott, bookkeeper for the Dairy. The feasibility study, prepared in accordance with CWCB guidelines, includes an analysis of alternatives, preliminary engineering design, and a construction cost estimate.

Borrower - Corseantino Dairy Farms, Inc.

The Dairy first filed with the Colorado Secretary of State in 1977 and is currently in good standing. It is a family run business with a three-member board of directors. Brett Corseantino is the President. (Per CWCB Policy #5, the Dairy is considered a "closely held corporation," thereby requiring additional collateral valued at an amount equal to or greater than 110% of the loan amount.) Revenues are generated from milk sales and cow sales. In 2006, the Dairy filed for Chapter 12 bankruptcy and restructured the organization.

Water Rights

Water for the Dairy livestock, milking operation, and domestic use is obtained from onsite water wells and the City of Walsenburg through an underground water line. Irrigation water for the Dairy is legally obtained through water rights from the Holita Reservoir, the Holita Enlargement, the Walsenburg Ditch No. 4, and the Ballejos Ditch No. 7.

TABLE 1: WATER RIGHTS OWNED BY BORROWER

Name	Appropriation Date	Adjudication Date or Permit Date	Decreed Rate or Volume	Use	Portion Owned by Dairy
Well Permit No. 56793-F	-	10/22/2001	38 GPM	Commercial	100%
Well Permit No. 49436-F		1/29/1998	12 GPM	Comercial/ Stock	100%
Holita Ditch Reservoir (Atwood Decree)	3/20/1901	2/23/1898	540 AF	Agriculture	93.12%
Holita Ditch Enlargement (Killian Decree)	5/23/1910	10/10/1901	130 AF	Agriculture	93.12%
Walsenburg Ditch No. 4	4/30/1866	6/12/1899	5.65 CFS	Agriculture	1.1%
Ballejos Ditch No. 7	4/1/1868	6/12/89	1.5 CFS	Agriculture	75%

Project Description

The purpose of this Project is to make repairs to meet the dam safety requirements for a low hazard earthen dam. Alternatives analyzed included:

Alternative 1 - No-Action: The no-action alternate was not selected as the SEO storage restriction would remain in place and a breach order could be enforced.

Selected Alternative 2 - Rehabilitate Holita Dam: The primary problems identified in the dam safety inspections are seepage along the west dam, a blocked spillway, inadequate freeboard, and a pressurized conduit through the dam. Construction of a core trench, grouting of the existing steel pipeline that runs through the embankment, and excavation of a new emergency spillway are the primary tasks associated with this alternative.

Estimated Project costs are shown in Table 2 below. The engineer, along with assistance from a local contractor, developed the estimates.

TABLE 2: ESTIMATED PROJECT COSTS

Task	Cost
Site Survey / Construction Stakeout	\$5,000
Drain Reservoir & Site Stripping	\$2,100
Trench Excavation	\$24,000
Plug Existing Pipe	\$1,000
Place Compacted Fill	\$48,000
Excavate Emergency Spillway	\$500
Engineering Design	\$4,000
Contingencies	\$9,400
TOTAL	\$94,000

Permitting: Because Holita Dam is a low hazard dam, the SEO's Rules and Regulations for Dam Safety Construction exempt the owner from many of the design and review requirements mandatory for larger dams. The dam owner must provide at least thirty days advanced written notice to the SEO with a clear description of the work to be performed. The SEO will inform the dam owner of engineering and construction requirements, if any, and will perform construction inspections as determined necessary. The dam owner must keep the SEO informed of the Project status and provide as-constructed drawings and specifications within sixty days following completion of the work.

Schedule: Final Design is complete. Construction is expected to begin in the fall of 2017 with completion by the spring of 2018.

Financial Analysis

The Dairy qualifies for the agricultural interest rate of 1.80% for a 30-year term. Due to the SEO storage restriction, an additional 0.5% interest rate reduction will be applied per Policy #7. Staff is recommending a 10-year term, reducing the interest rate by an additional 0.8%. With the reductions applied, the interest rate becomes 0.5% for a 10-year term.

The Dairy is considered a closely held corporation; therefore, Policy #11 limits the loan amount to 90 percent of the total costs for the planning, engineering design, and construction of Projects. Table 3 provides a summary of the Project's financial aspects.

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$94,000
Borrower Contribution (10%)	\$9,400
CWCB Loan Amount	\$84,600
CWCB Loan Amount (Including 1% Service Fee)	\$85,446
CWCB Annual Loan Payment	\$8,781
Project cost per acre-foot storage (224 AF)	\$420

Creditworthiness: The Dairy has an existing loan with Community Banks of Colorado in Walsenburg executed November 26, 2003. The loan matures in 2021 with a balloon payment due at that time. While the Dairy is current on payments at this time, it has a history of late payments. The Community Banks of Colorado loan is secured by the Dairy and includes the land and water rights.

Staff is requiring a fully funded Reserve Account equal to one annual loan payment prior to the disbursement of any loan funds.

TABLE 4: EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
Community Banks of Colorado	\$1,913,000	\$1,210,190 ⁽¹⁾	\$85,512	April 2021	Corsetino Dairy including 1,018.78 acres of land and the Dairy's water rights

(1) Balance on June 12, 2017 as provided by Community Banks of Colorado.

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% average: 100% - 120% strong: >120%	106% (average) \$2.22M / \$2.10M	106% (average) \$2.22M / \$2.10M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% average: 100% - 120% strong: >120%	246% (strong) (\$2.22M-\$2.01M) \$85.5K	223% (strong) (\$2.22M-\$2.01M) \$94.3K
Cash Reserves to Current Expenses weak: <50% average: 50% - 100% strong: >100%	2% (weak) \$39.0K/\$2.10M	1% (weak) \$30.2K/\$2.10M

Collateral: For closely held corporations, Policy #5 requires collateral at a value of 110 percent of the borrowed amount. Therefore, this loan requires \$93,060 in collateral value.

The Community Bank of Colorado already holds the first lien on the land and water rights as collateral. The bank had an appraisal done in November 2015 for loan monitoring purposes. The appraised value of the land and water rights was \$1,455,000. With the current loan balance of \$1,210,190, there is approximately \$244,810 in estimated equity in the farm and water rights.

Security for this loan will be the Corseintino Dairy Farm land and the water rights owned by the Dairy as listed in Table 1. The CWCB will be in a subordinate lien position; therefore, the security is a variance from CWCB Financial Policy #5 (Collateral).

cc: Brett Corseintino, Corseintino Dairy Farm, Inc.
 Jennifer Mele, Colorado Office of the Attorney General

Attachment: Water Project Loan Program - Project Data Sheet