



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

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

DATE: November 14-15, 2018 Board Meeting

AGENDA ITEM: 12c. Financial Matters - Construction Fund and Severance Tax PBF
New Financial Policy - Sale of CWCB Water Storage Assets

Introduction

The CWCB owns water storage assets in two large federally built reservoirs. They are the Chatfield Reservoir Reallocation Project (Chatfield) and the Animas-La Plata Project (ALP). The authority to own and manage CWCB's rights in these projects is in CRS 37-60-120.1 and 120.2. The ALP asset was acquired in 2007 after the project was substantially completed and the Chatfield Project is currently under construction with an estimated substantial completion in the spring of 2020. Ownership in both of these projects was achieved by utilizing cash from the CWCB's Construction Fund or the Severance Tax Perpetual Base Fund. In recent months, the CWCB has been contacted by water providers interested in the purchase of the Chatfield asset. The Board has requested staff to prepare a policy to assist in establishing a sale price for the assets since a cost comparison appraisal is not available due to the uniqueness of a federally built storage project. The attached draft of the policy will be presented to the Board for review and approval.

The Board's authority "to sell or otherwise dispose of property owned by the board...in such a manner as to be most advantageous to the state" is found in CRS 37-60-106(o).

If approved this will become CWCB Policy #22

Recommendation

Staff recommends approval of the policy as is or with modifications as required based on the Board's review.

Discussion

In the past, the CWCB has sold its storage assets for the originally constructed (or purchased) price (or estimated completion cost) without taking into consideration the present value of money. The attached policy attempts to address the Board's desire to price the asset to recover lost opportunity costs as a result of investing in the asset in lieu of investing it in the Water Project Loan Program. As a reference, the CWCB's loan portfolio has produced about 3% annually in interest earnings for the last five years.

Staff is proposing to use a construction cost index approach to establish a present value, at the time of sale, using the original construction cost of the asset (or purchase price). Many factors may also be considered when selling or valuing the water storage asset including the buyer's intended use of the water along with multi-beneficial values associated with the resulting use.



This table shows the sample of the Bureau of Reclamation's Construction Cost trend Index for a couple dam related construction items over the few years. (Base: 1977 = 100)

	2012	2013	2014	2015	2016	2017	2018
Earth Dams	330	334	341	334	338	346	362
Dam Structure	302	307	313	304	311	320	331
Spillway	353	357	365	358	358	367	387
Outlet Works	367	372	382	380	383	389	409
Composite Project	367	372	381	381	385	395	413
% Increase		1.4%	2.4%	0.0%	1.0%	2.6%	4.6%

The Bureau updates this "Cost Trend" quarterly. The numbers shown in this table are representing the 3rd quarter of the calendar year.

To use the index, use the following formula:

$$(\text{Index for Year B} / \text{Index for Year A}) \times \text{Cost in Year A} = \text{Cost in Year B}$$

Year A = Substantially Completed year

Year B = Sale Year

Example:

Project is completed in 2014 for \$10,000,000 would have a 2018 sale price of \$10,839,895

$$(413/381) \times \$10,000,000 = \$10,839,895$$

POLICY NUMBER: XX

SUBJECT: **SELLING CWCB WATER STORAGE ASSETS**

EFFECTIVE DATE: November 16, 2018 (DRAFT PRESENTED TO BOARD)

REVISED DATE: N/A

POLICY: This policy will be used to establish a value or sale price and a sale procedure for assets owned and paid for by the Colorado Water Conservation Board (CWCB) using monies from the Construction Fund or the Severance Tax Perpetual Base Fund as authorized by CRS 37-60-106. The Board will strive to sell its assets with a focus on utilizing them to advance the Colorado Water Plan. This includes focusing on an end user of the asset that can support: 1) existing water supply limitations or needs; 2) multi-beneficial uses including compact compliance, consumptive and non-consumptive uses and operational exchange potential of water in the basin; and 3) reduction in the dry up of productive agricultural land.

This policy may be used as the basis for sale of a water storage asset; however, market value or highest and best use should always be considered when selling the asset. Staff will attempt to acquire a cost comparison appraisal when applicable.

Currently, the CWCB has ownership in two reservoir, the Chatfield Reservoir Reallocation Project referenced in CRS 37-60-120.1 and the Animas-La Plata Project referenced in CRS 37-60-120.2.

PURPOSE: This policy guides the Board by establishing a basis for a sale price of a water storage asset. Water storage reservoirs have unique characteristics that make them valuable to a limited market. This policy applies to situations when the CWCB is considering the value of a water storage asset owned by the Board via purchase or construction.

The policy is established to offset the impact to the CWCB's Funds since the money that was used on the asset purchase or construction is not available to be invested in the Water Project Loan Program.

APPLICABILITY: The Board's goal of setting a sale price, in the absence of a cost comparison appraisal based on market value determination, is to recover lost opportunity costs and to determine a present value of the cost of construction (or purchase). This policy does not limit the Board's opportunity to sell the asset in portions via mutually agreed upon contract conditions.

Buyers interested in a CWCB loan to finance the purchase of the asset, may be considered based on the buyer's ability to repay the loan per Policy No. 4. The Board may also consider including the asset as collateral to secure the loan per Policy No. 5.

PROCEDURE: When a buyer is identified, staff will provide the Board with a recommendation to sell the asset including a sale price based on this policy. The sale price will be obtained by multiplying the original construction cost (or purchase) by an annual construction inflation rate or Construction Cost Index (CCI) rate from the time the asset was substantially completed and available for its intended use. The CCI will be determined by using the Bureau of Reclamation's (BOR) published Construction Cost Trend data. In the absence of the BOR data, the RSMeans data or the Engineering News Record (ENR) data may be used. Staff will maintain a record of these indices and make them available at the annual CWCB Finance Committee meeting.

This policy shall not prevent the recovery of non-construction related costs incurred in designing, developing and maintaining the asset, including past assessments for operations, maintenance and replacement charges.