



**COLORADO**

**Colorado Water  
Conservation Board**

Department of Natural Resources

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Jared Polis, Governor

Dan Gibbs, 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:** January 28-29, 2019 Board Meeting

**AGENDA ITEM:** 14c. Changes to Existing Loans  
Ordway Feedyard, LLC - Transfer of Loan Obligation

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### Introduction

The Ordway Feedyard, LLC (Company or LLC) received approval of a \$2,525,000 CWCB loan (Contract Number C150349) to finance the Ordway Feedyard Raw Water Line Extension Project (Project) at the March 2013 Board Meeting. The purpose of the Project was to provide a consistent water supply, enabling the Company to sustain its operations and provide economic stability within Crowley County. At the time the original loan was approved, the Company was the third largest employer in the County. The economic benefit to the County made it a participant in the Project, contributing cash and a \$275,000 Water Supply Reserve Fund (WSRF) Grant to assist in funding. The Project included engineering and construction of 10.5 miles of new pipeline to bring water from the Company's River Ranch property to the feedyard.

The Project was substantially completed on April 1, 2014 with the first annual loan payment due on April 1, 2015. The loan is in good standing as the Company has made all required payments on time. The current loan balance is \$1,839,813.29.

Over recent years, the Company has struggled to make a profit. The segment of the industry that made up the Company's main customer base, dairy cattle (Holsteins) for beef production suffered from high supply driving prices down. As a result, the Company's customer base dwindled. In order to help protect the economic viability of the feedyard, the Company's owners looked for funding partners and currently have a Letter of Intent from funding partners to create a new organization, Ordway Feeders, LP, to purchase the LLC. The current owners of the LLC will become 25% owners in the newly formed Ordway Feeders, LP.

The Company is requesting a transfer of the loan obligation from the LLC to Ordway Feeders, LP. See attached Letter of Request from the Company. The original board memo is also attached for reference and additional Project background.

### Staff Recommendation

In order to help the Company to remain viable as a borrower and as an economic benefit to Crowley County, Staff recommends the Board approve a transfer of loan obligation, (Contract Number C150349) from Ordway Feedyard, LLC to Ordway Feeders, LP. The loan terms will remain 1.75% with no change to the repayment schedule. Collateral for the loan shall remain in compliance with CWCB Financial Policy #5.



**Background**

The Company provided the CWCB with a copy of an initial Letter of Intent that describes the basic terms of the transaction. Ordway Feeders, LP will purchase Ordway Feedyard, LLC including all of the Company's land, buildings, water systems, and fixed improvements. The new organization's intent is to conduct business in the same fashion. The Letter of Intent identifies the CWCB loan as the only long-term liability and requires an assumption of the loan by Ordway Feeders, LP.

**Schedule:** The Company plans to complete the transaction in late February 2019. Prior to closing, the CWCB will require a signed purchase agreement and written acceptance of the loan obligations by Ordway Feeders, LP. CWCB will then process contract transfer documents including a Promissory Note, Security Agreement, and Deed of Trust. Per contract, a \$1,000 service fee will be imposed by the CWCB.

**Financial Analysis:** As a newly formed company, Ordway Feeders, LP does not have financial statements for staff to review; however, the Company did provide a pro-forma income statement for the LP. Assumptions included in the pro-forma are an occupancy of 50,000 head of cattle at an 85% occupancy rate. Based on these assumptions, it anticipates a positive cash flow of approximately \$3 million annually.

**Collateral:** Collateral for the loan is and will remain 616.56 acres of land beneath the feedyard and the associated infrastructure. CWCB's lien on the feedyard will transfer with the new ownership. An appraisal was provided at the time of the original loan approval in March of 2013. At that time the market value of the feedyard and associated improvements was estimated to be \$7.1 million. Staff recently contacted the original appraiser, Kirby Harker with Trans Pesco Real Estate, Inc. in Waxahachie, Texas, regarding the feedlot value. While he could not provide a value of the feedyard without a site visit and detailed analysis, he did note that generally the feedyard sales market is stronger now than it was in 2013 with some record sales occurring in Kansas and Texas (markets he considered to be similar to Colorado).

cc: Luke Larson, Ordway Feedyard, LLC  
Jennifer Mele, Colorado Attorney General's Office

Attachments: Letter of Request from Ordway Feedyard, LLC  
Original Board Memo (March 2013)

**Luke Larson**

[Type the sender address]  
Phone: [Type the sender phone number]

► **Anna Mauss**  
**Colorado Water Conservation Board**

1313 Sherman St, Room 718  
Denver, CO 80203  
Phone: 303-866-3441

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**To whom it may concern**

I am writing this letter to request that our loan with the State of Colorado be transferred from the current entity (Ordway Feedyard, LLC) to a new entity (Ordway Cattle Feeders, LP). Ordway Feedyard, LLC which is owned by the Larson family primarily is close to closing on a deal to sell 75% of its interest in the feedyard facility. Ordway Feedyard, LLC will own 25% of Ordway Cattle Feeders, LP. The other 75% will be owned by major cattle feeding customers currently feeding their cattle in our yard. The purpose of this transaction is to solidify our sustainability moving forward. We are very excited about the new partnership and the viability it brings to our operation.

We very much appreciate your consideration and feel this transaction will be very beneficial for all involved – including the Arkansas Valley community. Please call or email me with any questions at all.

Sincerely



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**Luke Larson**  
General Manager  
Ordway Feedyard, LLC  
[Pick the date]

# STATE OF COLORADO

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## Colorado Water Conservation Board Department of Natural Resources

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John W. Hickenlooper  
Governor

Mike King  
DNR Executive Director

Jennifer L. Gimbel  
CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Ryan Edwards, P.E., Project Manager  
Kirk Russell, P.E., Chief  
Finance and Administration Section

DATE: March 5, 2013 (**UPDATED March 20, 2013**)

SUBJECT: **Agenda Item 17a, March 19-20, 2013 Board Meeting**  
**Finance/Water Supply Planning – CWCB Loan and WSRA Application**  
**Ordway Feedyard, LLC (LOAN), Crowley County (GRANT)**  
**Ordway Feedyard Raw Water Line Extension Project**

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### Introduction

The Ordway Feedyard, LLC (Company) is applying for a CWCB loan, and Crowley County is applying for a Water Supply Reserve Account (WSRA) Grant, to finance a portion of the Ordway Feedyard Raw Water Line Extension Project (Project). The purpose of the Project is to complete a raw water system that will provide a consistent, viable water supply, enabling the Company to sustain its operations and provide economic stability within Crowley County. The total cost of the Project is estimated to be \$3,381,500. Crowley County was approved for a \$275,000 WSRA grant, by the Arkansas River Basin Round Table. The Company is requesting a loan from the CWCB to cover the remaining 90% of Project Costs. See the attached Project Data Sheet for a location map and project summary.

### Staff Recommendation for WSRA Grant (Board approved staff recommendation on March 19, 2013)

Staff recommends approval of \$225,000 from the Statewide Account and \$50,000 from the Arkansas Basin Account to Crowley County to fund the Ordway Feedyard Raw Water Line Extension Project.

### Staff Recommendation for Construction Fund Loan (Board approved staff recommendation on March 19, 2013)

Staff recommends the Board approve a loan, from the Construction Fund, not to exceed \$2,525,000 (\$2,500,000 for Project costs and \$25,000 for the 1% Loan Service Fee) to the Ordway Feedyard, LLC for the Ordway Feedyard Raw Water Line Extension Project. The loan terms shall be 30 years at the agricultural interest rate of 1.75% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

## **Background**

The Company utilizes the feedyard, located two miles east of Ordway CO, to feed and tend cattle until they are market ready. The Company is an essential member of the Crowley County economy, representing its 3<sup>rd</sup> largest employer. Crowley County once had over 50,000 acres of agricultural land in production. Throughout the 1970's and 80's large-scale municipal water transfers diminished the available raw water supply in the county. Actively irrigated agricultural land now makes up approximately 6,600 acres of land.

The Company owns both the feedyard and River Ranch, a 1,000-acre ranch located fifteen miles to the southwest of the feedyard. The ranch is situated along the Arkansas River and has 20 existing wells which are decreed for irrigation and stock watering. Currently there is no means to convey water between the ranch and feedyard. The current water supply for the feedyard is derived from shares in the Colorado Canal, leased water, and potable water supplied by the 96 Pipeline Company. The water is used primarily for livestock drinking water, dust abatement, mill operations and compost conditioning for the feedyard. The Company is in need of securing a more reliable and affordable water supply.

This Project is intended to complete an infrastructure network capable of delivering high-quality well water from the ranch to the feedyard to augment its dependence on potable water (approximately 14 AF per year), leased water, and reduce transit losses on ditch water. The water supply enhancements are expected to reduce operational costs and preserve transit and evaporation losses at an estimated rate of 850 AF annually. The economic benefit to Crowley County has encouraged it to be an active participant in the Project, contributing cash and applying for a WSRA grant to assist in funding the Project.

## **Loan Feasibility Study**

The loan feasibility study titled "*Feasibility Study – Ordway Feedyard, LLC*," dated January 2013, was prepared by Elise M. Bergsten, from Balanced Management Services Company, Colorado Springs, with support from Tyler Karney, manager for the Ordway Feedlot. Engineering was provided by Kidd Engineering and Construction Management Services, Inc., Avondale, CO; and legal support was provided by Mrs. Wendy Shinn, from Shinn, Steerman & Shinn, Lamar, CO. The study was prepared in accordance with CWCB guidelines and includes a preliminary engineering design that was used in the determination of the total Project cost.

## **Ordway Feedyard, LLC**

The feedlot, originally established in 1972, has changed ownership several times since its inception and was most recently acquired by Ordway Feedyard, LLC. The Company was created in 1996 and owns the land and majority of physical assets associated with the River Ranch and feedyard. Ordway Cattle Feeders, LLC, created in 2006, owns the cattle and equipment and constitutes the farming operation. The two companies operate jointly. Combined the companies have 70 full-time employees, 10 part-time employees, and operate on an annual payroll in excess of \$1.7 million.

The Company appoints a manager to conduct the business and manage its assets. The manager has signatory authority and the right to borrow money for any Company purpose and to encumber, pledge or hypothecate all or any part of the Company property.

## **Water Rights**

The Company is located in the Arkansas River Basin, District 17. The Company water rights portfolio includes 569 shares in the Colorado Canal (originally decreed 6-9-1890 in Case CA2535) that are paired with shares of either Lake Meredith or Lake Henry, along with three shares in the Twin Lakes Reservoir and Canal Company. The Company has recently entered into a 15-year lease with the Pueblo Board of Water Works for an average annual delivery of 700 AF. The Company also owns the River Ranch property, which includes 20 wells decreed for irrigation and stock watering. No additional water rights acquisitions are planned as part of the Project.

## **Project Description**

The objective of the Project is to provide a cost effective means for securing and delivering a reliable and sustainable supply of water to continue feedyard operations. The Company has explored the two following alternatives:

### Alternative 1 – No Action

This option does not provide an alternative to the rising cost of potable and leased water necessary to maintain operations. With no action it is anticipated that the Company will be unable to operate through the foreseeable future.

### Alternative 2 – Raw Water Line Extension

This option focuses on rehabilitating the existing ranch irrigation system and installing additional pipeline and a booster pump station to deliver well water from River Ranch to the feedyard. As part of this alternative the Company evaluated a variety of alignments to determine the most ideal location for the pipeline and booster pump station.

After evaluating the technical, operational, and economical considerations of available alternatives, the Company selected Alternative 2 – Raw Water Line Extension as the preferred alternative. This option provides a two-phased approach to replace the dependence on potable water with a secure, reliable raw water supply. Phase one, funded entirely by the Company, includes rehabilitation of 4.2 miles of pipe, 4 wells, and two booster pump stations. The existing water supply system on the ranch was originally installed in 1980 to support pivot irrigation and has been idle for over 25 years. Construction of phase one was started in the summer of 2012 and is expected to be complete by early spring 2013.

Phase two includes engineering and construction of 10.5 miles of new pipeline, a new booster pump station with back-up generators, and the installation of a remote monitoring and control system. Table 1 provides a Project Cost Summary.

**TABLE 1: TOTAL PROJECT COST SUMMARY**

Task	Cost
Phase I – Engineering (Funded by Company)	\$15,000
Phase I – Construction (Funded by Company)	\$584,000
Phase II – Engineering	\$37,500
Phase II – Construction	\$2,466,500
Phase II – Construction Management & Administration	\$102,500
Contingency	\$176,000
<b>Total</b>	<b>\$3,381,500</b>

The Company worked closely with Crowley County representatives to plan the pipeline in existing easements/rights-of-way where possible, with the goal of minimizing impacts to natural and man-made environments. Final easement acquisitions and road crossings will be completed as part of the final engineering design. No additional permits or approval requirements are anticipated. Final engineering is expected to commence following contracting, with the start of construction scheduled to lag by three months. Construction is expected to take nine months to complete.

Table 2 provides a summary of financing components for the Project.

**TABLE 2: PROJECT FUNDING SUMMARY**

Applicant Contribution (Phase I)	\$599,000
Lower Arkansas Valley Water Conservancy District (LAVWCD)	\$2,500
Crowley County	\$5,000
WSRA Grant	
Arkansas River Basin	\$50,000
Statewide	\$225,000
TOTAL	\$275,000
CWCB Construction Fund Loan	\$2,500,000
<b>Total Project Cost</b>	<b>\$3,381,500</b>

The WSRA grant will be used prior to the loan for Project related expenses. After all grant funds have been expended the remaining Project costs will be funded by the CWCB Loan up to the approved limits.

## Water Supply Reserve Account Grant

At the January 9, 2013 Arkansas Basin Roundtable meeting the Roundtable granted Crowley County approval of the Ordway Feedyard Water Line Extension Project application request for \$50,000 in Basin Funds, and recommended approval of \$225,000 of Statewide Funds. A letter of support signed by eight local farmers was received on behalf of the Project.

**Source of Funds:** \$225,000 Statewide Funds, \$50,000 Arkansas Basin Funds

**Matching Funds:** \$2,500,000 CWCB Loan, \$599,000 Applicant Contribution, \$5,000 Crowley County, and \$2,500 LAVWCD

**Threshold and Evaluation Criteria:** The application articulates how the Project satisfies the Threshold and Evaluation Criteria as summarized below:

Tier 1: Promoting Collaboration/Cooperation & Meeting Water Management Goals & Identified Needs: The Project is a collaborative effort amongst the Company, Crowley County and local farmers. The proposed improvements will provide a reliable supply of raw water for livestock and mill operations, reducing the demand for treated, potable water. In addition, by piping the water the Company estimates it can reduce transit and evaporative losses, conserving approximately 850 AF annually, making more water available for use in IPP's identified in SWSI and keeping water in higher elevation reservoirs to aid the riparian habitat. The Project will also include the installation of 10 fire hydrants along the pipeline, providing an emergency water supply to fight farmstead and wild land fires as the 2008 fire, responsible for the death of 2 fire fighters and destruction of 11 structures.

Tier 2: Facilitating Water Activity Implementation: The availability of a low-interest CWCB loan in combination with grant funding ensures that the Project remains financially viable. Failure to complete the Project would have an immediate and profound impact on both the Company, placing its viability in jeopardy, and the county. This Project is critical for the Company to stay in business and for Crowley County to maintain one of its largest revenue and employment resources.

Tier 3: The Water Activity Addresses Issues of Statewide Value and Maximizes Benefits: The Company is a direct and indirect agricultural and economic force in Crowley County, and the Arkansas and South Platte basin. Not only is the feedyard responsible for the production of cattle, but the cattle consume locally grown corn, hay and silage purchased from the surrounding community. Additionally, the Company has attempted to minimize the burden on the basin and statewide account by contributing \$599,000 in cash for Phase I and has committed to funding 90% of Phase II of the Project costs through a CWCB loan.

**Discussion:** The requested WSRA funds would enable the partnership between Crowley County and the Company to finance the second phase of a multi-purpose project in the Arkansas River Basin. The Project would bring a reliable and sustainable water supply to the Company, providing financial stability and certainty that would directly impact the county and surrounding agricultural producers. The Project offers consumptive and non-consumptive benefits by reducing water losses and enhancing reservoir habitat. The Company is the primary funding source, accounting for 92% of the overall Project cost through a CWCB loan and cash contributions.



**Issues/Additional Needs:** CWCB staff requests that the following issues be addressed during contracting and project execution:

- Applicant to provide a Statement of Work detailing the Project.
- A Memo of Understanding between Crowley County and the Company is required to indicate the intentions and delivery of WSRA funding for use on the Project.

**Reporting and Deliverables:** All products, data and information developed as a result of this grant must be provided to CWCB in hard copy and electronic format as part of the project documentation. This information will in turn be made widely available to Basin Roundtables and the general public and will help promote the development of a common technical platform.

Staff would like to highlight additional reporting and final deliverable requirements in accordance with the revised WSRA Criteria and Guidelines:

Reporting: The applicant shall provide the CWCB a progress report every 6 months, beginning from the date of the executed contract. The progress report shall describe the completion or partial completion of the tasks identified in the scope of work including a description of any major issues that have occurred and any corrective action taken to address these issues.

Final Deliverable: At completion of the project, the applicant shall provide the CWCB a final report that summarizes the project and documents how the project was completed. This report may contain photographs, summaries of meetings and engineering reports/designs.

Engineering: All engineering work (as defined in the Engineers Practice Act (§12-25-102(10) C.R.S.)) performed under this grant shall be performed by or under the responsible charge of professional engineer licensed by the State of Colorado to practice Engineering.

## CWCB Construction Fund Loan

### Financial Analysis

The Company qualifies for an agricultural interest rate of 1.75% for a 30-year term. Table 3 provides a summary of the financial aspects of the loan request.

**TABLE 3: LOAN SUMMARY**

Total Project Cost	\$3,381,500
Other Contributions	\$881,500
CWCB Loan Amount	\$2,500,000
CWCB Loan Amount (Including 1% Service Fee)	\$2,525,000
CWCB Annual Loan Payment	\$108,903
CWCB Loan Obligation (Including 10% Debt Reserve Funding)	\$119,793

**Creditworthiness:** The Company generates a majority of its revenue through a property lease to the Ordway Cattle Feeders, LLC. The Ordway Cattle Feeders, LLC generates revenue by providing custom cattle feeding services, with a capacity of up to 65,000 head. Based on recent financial statements, the combined companies' revenues have exceeded expenses over the past few years. The Company has made a commitment to this Project by investing nearly \$600,000 in cash towards this Project.

Combined, the two companies have numerous long-term liabilities, totaling \$5,351,331 (\$5,097,981 for Ordway Feedyard, LLC and \$253,350 for Ordway Cattle Feeders, LLC), for a variety of water and equipment leases related to operational expenses. The debt is secured by land and real property. The combined annual payments on the debt service total approximately \$1,000,000. The Company plans to secure its CWCB loan by pledging water rights and or land. Based on values provided by the Colorado Canal and Twin Lakes Reservoir and Canal Company, market rates of the Mutual Ditch Company stock shares owned by the Company are estimated as follows:

- \$27,500 per share in Twin Lakes
- \$6,000 per paired share of Colorado Canal and Lake Meredith
- \$11,000 per paired share of Colorado Canal and Lake Henry

Table 4 provides Financial Ratios for the Company.

**TABLE 4: FINANCIAL RATIOS**

Financial Ratio	Past Average	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	134% (strong) \$12.9M/\$9.6M	133% (strong) \$12.9M/\$9.7M
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	430% (strong) (\$12.9M-\$8.6M)/\$1M	391% (strong) (\$12.9M-\$8.6M)/\$1.1M
Cash Reserves to Current Expenses* weak: <50% - average: 50% - 100% - strong: >100%	21% (weak) \$2M/\$9.6M	20% (weak) \$1.9M/\$9.7M
Annual Operating Cost per Acre-Foot weak: >\$20 - average: \$10 - \$20 - strong: <\$10	N/A	N/A

\* This ratio is typically used for a mutual ditch company and not for a for-profit company; therefore, the ratio may not apply here.

**Collateral:** As security for the loan, the Company will pledge lease revenues and other legally available revenues, and a combination of real property and water rights sufficient to exceed 110% of the loan amount. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Elise M. Bergsten, Balanced Management Services Company  
 Susan Schneider, AGO  
 Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

## Water Project Loan Program - Project Data

**Borrower:** Ordway Feedyard, LLC**County:** Crowley**Project Name:** Ordway Feedyard Raw Water Line Extension Project**Project Type:** Pipeline**Drainage Basin:** Arkansas, District 17**Water Source:** Groundwater**Total Project Cost:** \$3,381,500**Funding Source:** Construction Fund, WSRA, Crowley County, LAVWCD**Type of Borrower:** Agricultural**Avg. Annual Delivery:** 500 AF (Feedyard)  
1,000 AF (Ranch)**CWCB Loan:** \$2,525,000 (incl. 1% loan fee)**Interest Rate:** 1.75%    **Term:** 30 years**WSRA Grant:** \$275,000 (\$25,000/\$225,000)

The Company utilizes the feedyard to feed and tend cattle until they are market ready. The Company owns both the feedyard and River Ranch. The ranch has 20 existing wells which are decreed for irrigation and stock watering. Currently there is no means to convey water between the ranch and feedyard. This project will secure a more reliable and affordable water supply by completing an infrastructure network capable of delivering high-quality well water from the ranch to the feedyard to augment its dependence on potable (approximately 14 AF per year) and leased water. The water supply enhancements are expected to reduce operational costs and preserve transit and evaporation losses at an estimated rate of 850 AF annually. The economic benefit to Crowley County has made it an active participant in the project, contributing cash and applying for a WSRA grant to assist in funding the Project. The Project consists of two phases. Phase one includes the re-establishment of easements and the rehabilitation of: 4.2 miles of existing pipe line, 4 groundwater wells, and 2 booster stations. Phase two includes installation of the remaining infrastructure necessary to complete the delivery system. Construction is expected to begin in the summer of 2013 with completion by the summer of 2014.

### Location Map

