



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Rachel Pittinger, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: January 27-28, 2020 Board Meeting

AGENDA ITEM: 20b. Water Project Loans
Town of South Fork - Augmentation Water Purchase

Introduction

The Town of South Fork (Town), acting by and through its water activity enterprise, is applying for a loan for an Augmentation Water Purchase (Project). The Project is located approximately 50 miles west of Alamosa along the Rio Grande and the South Fork of the Rio Grande. The Town is required to replace well depletions through augmentation as a result of the Rules Governing the Withdrawal of Groundwater in Water Division No. 3 (Rules). These Rules require all non-exempt wells to replace their usage depletions to the Rio Grande by March 15, 2021. The purpose of the Project is to purchase a certificate representing 22 acre-feet of augmentation water from the San Luis Valley Water Conservancy District (SLVWCD) to ensure compliance with the Rules. The 22 acre-feet of augmentation water will support the Town's municipal water system. The augmentation water purchase is estimated at \$440,000. The Town is requesting a loan for 100% of Project costs. See attached Project Data Sheet a location map and Project summary.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$444,400 (\$440,000 for Project costs and \$4,400 for the 1% service fee) to the Town of South Fork, acting by and through its water activity enterprise, for costs related to the Augmentation Water Purchase, from the Construction Fund. The loan term will be 30 years at a low income municipal interest rate of 1.95% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.



Borrower - Town of South Fork

The Town is the municipal government in South Fork, Colorado that began in 1890, and was incorporated in 1992. In 2008, the Town formed the enterprise as the water authority to manage and administrate the water utility within the South Fork town limits. There is a seven-member Board, which includes a Mayor and six Trustees. The local voting citizens of the Town elect the seven positions of the governing body. The Board acting through its water enterprise fund has the ability to take on debt and to withhold delivery of water if assessments are unpaid.

Three ordinances support the Town's municipal water system. These ordinances establish the rules and requirements for the current and future users on the municipal water system and the declared service areas and establish the water augmentation standards for all wells within the service area. These standards are based on several water court decrees and created with the assistance and approval of Division Engineer.

Background

The majority of water service provided to residential and commercial development lots within Town limits are provided by several, small and privately owned water systems that were formed before the Town was incorporated. The water supplies for these water systems are derived entirely from wells. Water supply from some lot owners is also derived from individual wells.

The Rules require all non-exempt wells to replace depletions to the Rio Grande Basin rivers with augmentation water and follow a formal water augmentation plan. Wells that are not in compliance with the Rules after March 15, 2021 may be curtailed. Several of the private water systems in South Fork do not have augmentation water and therefore do not comply with the Rules. Most of the impacted private water system owners cannot afford to individually purchase the augmentation water. Without an alternative solution, wells in many South Fork areas may be shut down. The result could be a substantial health risk to the water users and impact property values.

The Town acquired five private water systems; Dakota Park, Vista Del Rio, Ponderosa Plaza, Jackson Heights, and Riverside Estates areas. Vista Del Rio and Jackson Heights systems are currently augmented by the SLVWCD and the other water systems require augmentation water.

SLVWCD operates and manages its augmentation plans through its Augmentation Program Enterprise to provide augmentation water to structures that participate in the Program. To be eligible to receive SLVWCD augmentation water, the owner of a structure must contract with SLVWCD. Participating structures must be located within SLVWCD boundaries for issuance of an Agreement and Augmentation Certificate (Certificate), subject of this loan request, along with approval by the Division Engineer. An Intergovernmental Agreement was signed between the Town and SLVWCD that allows augmentation water for the Town. In July 2019, the Division 3 Engineer, Craig W. Cotton, P.E., prepared a letter showing support of the Town's goals requiring adequate augmentation water and the method defining the amount of augmentation water required by the Town to have adequate water resources to meet their water needs.

Loan Feasibility Study

John Allen Davey, P.E., with Davis Engineering Service, Inc. prepared the Loan Feasibility Study titled, "Town of South Fork Water Enterprise Feasibility Study for the Purchase of Water Rights Municipal Water System - Westerly Phase," dated November 27, 2019. The feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of alternatives and estimated costs. Audited financial statements were provided by Wall, Smith, Bateman Inc., C.P.A.'s. An analysis will be performed on the fair market value of the 22 acre-feet of augmentation water.

Water Rights

The Town previously acquired augmentation certificates from SLVWCD as listed in Table 1. These existing certificates provide some of the augmentation water needed to comply with the Rules.

TABLE 1: Augmentation Water Certificates

Name	Amount	Date	Augmented Well Permit No.
Augmentation Certificate No. 197	0.062 AF	May 6, 1996	46759-F
Augmentation Certificate No. 600	4.316 AF	September 23, 2005	63692-F
Augmentation Certificate No. 663	5.742 AF	November 1, 2007	66404-F

Project Description

The purpose of the Project is to purchase a certificate representing 22 acre-feet of augmentation water to ensure compliance with the Rules.

Alternative 1 - No Action: Wells that are not in compliance with the Rules after March 15, 2021 may be curtailed so this alternative was not selected.

Alternative 2 - Surface Water Rights Purchase and Water Court Change Case: This alternative involved finding a seller of surface water rights, purchase the surface water rights, and then taking these rights to water court to convert the rights to allow augmentation use. The surface water rights would have to be of the quantity and seniority to meet the requirements. The Town would be required to hire a legal representative and a water engineer. Financing the overall process of purchase and processing through the adjudication requirements is not within the Town's ability. Additionally, the water court process requires several years to complete. The timing requirements deadline of March 15, 2021 per the Rules enforced by the Division Engineer also does not allow time enough for this option.

Selected Alternative 3 - Augmentation Water Certificate Purchase: This alternative includes the purchase of a certificate representing 22 acre-feet of augmentation water from the SLVWCD. The SLVWCD operates and manages its augmentation plans through its Augmentation Program Enterprise to provide augmentation water to structures that participate in the Program, including wells, other diversion structures, storage ponds, and other structures located within the SLVWCD's boundaries. SLVWCD currently has five separately decreed plans for augmentation, including rights of exchange to Rio Grande Reservoir, Santa Maria Reservoir, and Continental Reservoir including Case No. 84CW16, Case No. 94CW62, Case No. 03CW41, Case No. 05CW13, Case No. 07CW63, and pending Case No. 14CW3011. These Decrees provide the SLVWCD with senior and junior native priorities, as well as transmountain water rights which divert from Water Division No. 7 and deliver the water to Rio Grande Reservoir for storage and augmentation use within the Rio Grande Basin. These water rights and the right to store that water either directly or, for native water rights, by exchange are incorporated into the SLVWCD's Augmentation Program to provide the SLVWCD with a secure water supply that can withstand periods of drought. The purchase cost associated with the augmentation water is \$440,000. Additional improvements will be necessary for the Town to incorporate the augmentation water into its replacement operations but are not included in this request.

Permitting: The Town does not anticipate the need to obtain any permits for this Project.

Schedule: The Town anticipates completing the purchase in 2020.

Financial Analysis

Table 2 provides a summary of the Project’s financial aspects. The Town qualifies for a low municipal interest rate of 1.95% for a 30-year term.

TABLE 2: FINANCIAL SUMMARY

Project Cost	\$440,000
CWCB Loan Amount	\$440,000
CWCB Loan Amount (Including 1% Service Fee)	\$444,400
CWCB Annual Loan Payment	\$19,706
CWCB Annual Loan Obligation (1 st Ten Years)	\$21,677
Number of Taps	400
Annual Loan Obligation per Tap (400 taps)	\$54

Creditworthiness: The Town’s water activity enterprise fund has no existing debt. The Town began using the water activity enterprise fund in 2019. The Town anticipates raising annual assessments for each tap \$54 as a result of this Project. Because additional improvements will be necessary for the Town to incorporate the augmentation water into its replacement operations, the municipal water system design, permitting and construction will be funded through a combination of the State Drinking Water Revolving Fund (DWRf) Loan for \$3,000,000 and Department of Local Affairs (DOLA) Energy Impact Assistance Fund (EAIF) grant for \$1,000,000. DWRf loan award is anticipated in April 2020 and the EAIF grant award is anticipated in February 2020.

TABLE 3: FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	103% (average) \$151K/\$147K	101% (average) \$171K/\$169K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	N/A	110% (average) (\$171K-\$147K) \$21.7K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	8% (weak) \$11.8K/\$147K	7% (weak) \$11.8K/\$169K
Debt per Tap (400 taps) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: <\$2,500	N/A	\$1,111 ¹ (strong) \$444K/400taps
Average Monthly Water Bill weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$42 (average)	\$47 (average)

¹ If the Town receives a \$3,000,000 loan from the DWRf the debt per Tap is \$3.44M/400 taps = \$8,610 per tap.

Collateral: Security for this loan will be a pledge of assessment revenues backed by a rate covenant. The security will be in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Dan Hicks, Administrator, Town of South Fork
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet

