



COLORADO

Colorado Water Conservation Board

Department of Natural Resources
1313 Sherman Street, Room 718
Denver, CO 80203

July 19, 2019

Donald F. Higbee, Manager and Secretary
Lower Arkansas Water Management Association
PO Box 1161
Lamar, CO 81052

Re: Lower Arkansas Water Management Association - West Farm Gravel Pit Storage Purchase
Loan Approval

Mr. Higbee:

I am pleased to inform you that on July 17, 2019, the Colorado Water Conservation Board approved your funding request for the Lower Arkansas Water Management - West Farm Gravel Pit Storage Purchase as described in the application and approved Loan Feasibility Study titled "Colorado Water Conservation Board Feasibility Study for Acquisition of the West Farm Gravel Pit," dated February 1, 2019. The Board approved a loan not to exceed \$3,630,950 (\$3,595,000 for Project costs and \$35,950 for the 1% service fee). The loan terms shall be 2.45% per annum for 30 years. The Board also approved a Water Plan Grant of up to \$1,000,000 from the Water Plan Grant - Storage and Supply category to the Lower Arkansas Water Management Association for costs related to the West Farm Gravel Pit Storage Purchase.

I have attached a copy of the updated Board memo dated July 17, 2019, that includes the Board's approval. After the Board approves the funding there are a few steps that remain in the process including:

Contracting: An executed contract must be in place before funds can be disbursed for eligible project expenses. Peg Mason, Loan Contracts Manager, will contact you to initiate the contracting process. She can be reached at (303) 866-3441 x3227.

Design/Construction: You must adhere to the CWCB Design and Construction Administration Procedures including an invitation to the Prebid, Preconstruction and Bid Opening meetings. Rachel Pittinger, P.E., will be the Project Manager for this phase of the process and will work with you on the disbursements of your loan funds. She can be reached at (303) 866-3441 x3254.

On behalf of the Board, I would like to thank you for your interest in a loan from the CWCB.

Sincerely,

Kirk Russell, P.E., Chief
Finance Section

Attachment: Updated Board Memo





COLORADO
Colorado Water
Conservation Board
Department of Natural Resources

1313 Sherman Street
Denver, CO 80203
P (303) 866-3441
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Jared Polis, Governor
Dan Gibbs, DNR Executive Director
Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: July 17-18, 2019 Board Meeting (Updated July 17, 2019)

AGENDA ITEM: 11a. Water Project Loans
Lower Arkansas Water Management Association - West Farm Gravel Pit Storage Purchase

Introduction

The Lower Arkansas Water Management Association (LAWMA) is applying for a loan and a Water Plan Grant for the West Farm Gravel Pit Storage Purchase (Project). The West Farm Gravel Pit (WFGP) is a lined gravel pit located in the Arkansas Basin east of Lamar. The purpose of the Project is to purchase 1,638 acre-feet of water storage space in the WFGP. This storage is expected to increase LAWMA's water allocations to all shareholders and assist in compliance with the Arkansas River Compact by re-timing LAWMA's use of its direct flow augmentation and replacement water supplies. The purchase price is estimated at \$4,595,000. LAWMA submitted a Water Plan Grant application on February 1, 2019 for \$1,000,000 from the Storage and Supply category. The grant recommendation was delayed until additional review could be performed. If the grant is approved, it will result in a loan for approximately 78% of the purchase price and a Water Plan Grant covering approximately 22% of the cost. See attached Project Data Sheet for the Loan and the Water Plan Grant which includes a location map and Project summary.

Staff Recommendation for Loan (Board approved Staff Recommendation July 17, 2019)

Staff recommends the Board approve a loan not to exceed \$3,630,950 (\$3,595,000 for Project costs and \$35,950 for the 1% service fee) to the Lower Arkansas Water Management Association for costs related to the West Farm Gravel Pit Storage Purchase, from the Construction Fund. The loan term will be 30 years at a blended interest rate of 2.45% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff Recommendation for Water Plan Grant (Board approved Staff Recommendation July 17, 2019)

Staff recommends the Board approve a grant of up to \$1,000,000 from the Water Plan Grant - Storage and Supply category to the Lower Arkansas Water Management Association for costs related to the West Farm Gravel Pit Storage Purchase.



Borrower - Lower Arkansas Water Management Association

The Lower Arkansas Water Management Association (LAWMA) is a mutual ditch company that operates as a non-profit corporation. LAWMA formed in 1973. In 1998, LAWMA re-organized, by vote of the membership, as a share-based corporation. LAWMA was formed for the primary purpose of replacing depletions from its members' well pumping and other water uses requiring augmentation within the lower portion of the Arkansas River Basin, generally below John Martin Reservoir, in order to comply with Colorado law and the Arkansas River Compact.

LAWMA is in good standing with the Colorado Secretary of State. LAWMA has 27,281.5 common shares and 1,109.4 preferred shares. One share of preferred stock may be issued in exchange for 2.5 shares of common stock. The annual water allocation to a preferred stock holder is guaranteed and not adjusted in a water year unlike the annual allocation to a common stock that varies according to the projected yield during a water year. The preferred share annual allocation is set at 1 acre-foot of fully consumable replacement water per share. LAWMA's revenue sources are from membership dues and annual assessments.

The control and management of LAWMA is vested in its seven-member Board. The board of directors has the authority to collect on assessments, the power to enforce collection of assessments by ceasing water deliveries to delinquent shareholders, and may issue liens on the shares. The Board also has the power to make and enforce all rules and regulations concerning the delivery of water. The total average annual diversion is approximately 52,516 acre-feet.

LAWMA's primary service area is the Arkansas River mainstem below the Fort Lyon Canal river headgate near Rocky Ford. LAWMA currently augments structures in Baca, Bent, Cheyenne, Elbert, Kiowa, Lincoln, Otero and Prowers counties.

In July 2018, LAWMA entered into a water sharing agreement with Colorado Springs Utilities (CS-U). Upon LAWMA's obtaining a water court decree authorizing the direct delivery of LAWMA shares to CS-U, CS-U will pay LAWMA \$1,750,000 for 500 AF of storage in the WFGP and to offset potential adverse impacts to LAWMA from delivering water to CS-U. The water sharing agreement is a separate transaction from this Project however, the agreement has a financial impact on LAWMA shareholders. In Case No. 15CW3067, LAWMA's water use is decreed for augmentation and replacement purposes and may be stored in the WFGP.

Background

LAWMA has a need for storage to increase and firm the amount of water that LAWMA allocates to its common shares while increasing and firming the amount of water shareholders may use for irrigation, municipal, and other purposes. An annual allocation of 100% to a common share means that one acre-foot of fully consumable water is available per share; an allocation of 70% means 0.7 acre-feet of fully consumable water is available per share. Currently, LAWMA has excess consumptive use credits it is able to store in certain Arkansas River Compact limited accounts in John Martin Reservoir. Storage is needed to capture and re-time the excess credits to maximize the efficient beneficial use of its water rights. It is anticipated that the additional storage will increase the average annual allocation from 72% to 85% and reduce the number of minimum allocation years. Currently, LAWMA has leased the WFGP water storage space from GP Aggregates, LLC since Case No. 15CW3067 was approved and allowed augmentation water to be stored in the WFGP.

Loan Feasibility Study

Randy Hendrix, P.E., with Hendrix Wai Engineering, Inc. prepared the Loan Feasibility Study titled, "Colorado Water Conservation Board Feasibility Study for Acquisition of the West Farm Gravel Pit," dated February 1, 2019. The feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of alternatives, preliminary engineering, and estimated costs. Audited financial statements were provided by Gary Anderson, C.P.A., Anderson & Company, P.C. - C.P.A.'s. Gregory Gerken with Hegarty and Gerken, Inc., will provide an appraisal on the fair market value of the WFGP.

Water Rights

LAWMA owns water rights and other sources used to augment the stream depletions caused by LAWMA shareholders' well pumping and other diversions. Case No. 15CW3067 identifies the decreed water rights that may be stored in the WFGP for augmentation by LAWMA. LAWMA's water rights associated with the Project are shown in Table 1.

TABLE 1: WATER RIGHTS

Name	Pro-rata Amount	Appropriation Date	Adjudication Date	Water Court Case No.
Lamar Canal and Granada Irrigation Ditch	15.75 cfs 72.09 cfs 13.64 cfs 184.27 cfs	November 30, 1875 November 4, 1886 April 16, 1887 July 16, 1890	July 1, 1895	15CW3067

Project Description

The purpose of the Project is to purchase water storage in order to increase average annual allocations and reduce the number of dry-year allocations.

Alternative 1 - No Action: It was determined that there is not currently another source of storage capacity available for LAWMA's purchase on the Arkansas River below John Martin Reservoir and above the river reaches LAWMA must deliver water. This alternative was not selected.

Selected Alternative 2 - West Farm Gravel Pit Storage Purchase: This alternative includes the purchase of 1,638 acre-feet of open water storage available in the WFGP. Case No. 15CW3067 lists the decreed water rights that may be stored in the WFGP for augmentation by LAWMA. Because the WFGP is an existing, gravel pit reservoir, there will be no additional impacts to the environment caused by this Project. In February 2015, the State Engineer's Office determined the WFGP slurry wall was lined to the design standard. The purchase cost associated with the storage is \$4,595,000. No additional improvements will be necessary for LAWMA to incorporate the reservoir into its replacement operations.

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

Schedule: LAWMA anticipates completing the purchase in 2019.

Financial Analysis

Table 2 provides a summary of the Project's financial aspects. LAWMA qualifies for a blended interest rate of 2.45% for a 30-year term (Ownership: 69% Agricultural, 14% Low-Income Municipal, 17% Commercial).

TABLE 2: FINANCIAL SUMMARY

Project Cost	\$4,595,000
Water Plan Grant (Storage and Supply)	\$1,000,000
CWCB Loan Amount	\$3,595,000
CWCB Loan Amount (Including 1% Service Fee)	\$3,630,950
CWCB Annual Loan Payment	\$172,324
CWCB Annual Loan Obligation (1 st Ten Years)	\$189,556
Number of Shares	30,055
Annual Loan Obligation per Share	\$6.30
Current Assessment per Common Share	\$39.50
Estimated Total Future Assessment per Common Share	\$50
Estimated Storage Cost per Acre-Foot (1,638 AF)	\$2,805/AF

Loan/Grant Disbursement: Payments from CWCB funds will be disbursed at the following percentages: 78% loan and 22% grant.

Creditworthiness: LAWMA has \$7,596,084 in existing debt made up of four CWCB loans. These loans are in good standing and are shown in Table 3. Assessments have gradually increased from 1999 to present. In 2006, assessments for common shares was \$22.30/share and for the preferred shares, \$44.60/share. In 2013, assessments for common shares was \$36/share and for the preferred shares, \$82.80/share. Currently, the assessments for common shares is \$39.50/share and for preferred shares, \$98.75/share. LAWMA anticipates raising assessments for the common share to \$50/share and the preferred share to \$125/share as a result of this Project.

Shareholder Approval: At a special meeting held, June 21, 2019, the Project was presented including the anticipated increase to share assessments needed to cover the payment of the existing loans and the proposed Project loan. LAWMA obtained shareholder approval for the WFGP storage purchase and for an increase in share assessments to take on debt for the purchase. During the meeting, approximately 85% of the entitled to cast a vote on the proposed storage purchase were present or in proxy. Approximately 79% voted in favor of the proposed storage purchase.

LAWMA identified that only Board members or controlling shareholders owe a fiduciary duty to other shareholders and therefore have a conflict of interest if they have a direct financial interest in the transaction; therefore, all Board members without a direct financial interest in the transaction and non-controlling shareholders are free of any conflicts of interest. Many shareholders are connected to the Project. Only one director was identified as a controlling shareholder with conflict of interest, and did not vote.

TABLE 3: EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
CWCB C153715	\$3,688,567	\$2,622,480	\$199,184	2035	Water rights available to the Keesee Ditch in C150258 and C150150, X-Y Ranch and its associated water rights in C153715 and C153768.
CWCB C153768	\$2,300,000	\$1,554,937	\$89,297	2044	
CWCB C150150	\$2,272,500	\$1,344,304	\$108,575	2034	
CWCB C150258	\$2,493,722	\$1,769,213	\$115,990	2038	
Total		\$7,596,084	\$513,046		

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	88% (weak) \$1.34M/\$1.52M	100% (average) \$1.71M/\$1.71M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	66% (weak) (\$1.34M-\$1.01M) \$513K	100% (average) (\$1.71M-\$1.01M) \$703K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	20% (weak) \$263K/\$1.52M	15% (weak) \$263K/\$1.71M

Collateral: Security for this loan will be a pledge of assessment revenues backed by an assessment covenant and the Project itself, including 1,638 acre-feet of water storage, and inlet and outlet facilities. Security for this loan will also include collateral secured in LAWMA's previous CWCB loans C153715, C153768, C150150 and C150258. This security is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Don Higbee, Manager, Lower Arkansas Water Management Association
 Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet
 Water Plan Grant Program - Project Data Sheet

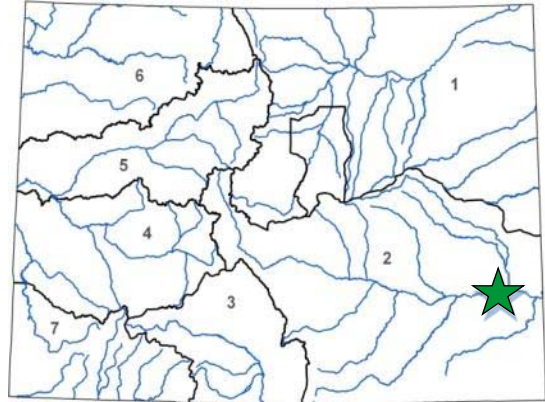


West Farm Gravel Pit Storage Purchase

Lower Arkansas Water Management Association

July 2019 Board Meeting

L O A N D E T A I L S	
<i>Project Cost:</i>	\$4,595,000
<i>CWCB Loan (with 1% Service Fee):</i>	\$3,630,950
<i>Loan Term and Interest Rate:</i>	30 years @ 2.45%
<i>Funding Source:</i>	Construction Fund/Water Plan Grant
B O R R O W E R T Y P E	
<i>Agriculture</i>	<i>Municipal</i>
69%	14%
	<i>Commercial</i>
	17%
P R O J E C T D E T A I L S	
<i>Project Type:</i>	Reservoir Storage
<i>Average Annual Diversions:</i>	52,516 AF



The West Farm Gravel Pit (WFGP) storage reservoir is located downstream of the City of Lamar on the Arkansas River. The Lower Arkansas Water Management Association (LAWMA) plans to purchase approximately 1,638 acre-feet of open water storage capacity in the WFGP to store fully consumable water for use in LAWMA's decreed plan for augmentation, its annual Arkansas River Use Rules replacement plan (Rule 14 Plan), LAWMA-operated Compact Compliance Plans under Rule 10 of the Compact Rules Governing improvements to Surface Water Irrigation Systems in the Arkansas River Basin in Colorado (Rule 10 Plan), and substitute water supply plans that include LAWMA shares as a source of replacement supply. Project benefits include an increased average annual allocation to a common share from 72% to 85% and a reduction in the number of dry year allocations. Along with its loan application, LAWMA applied for a Water Plan Grant to fund a portion of this project with grant money available for water storage projects. A February 2015 final letter report prepared by the State Engineer's Office determined the WFGP slurry wall has been lined to the design standard. LAWMA anticipates completing the purchase in 2019.

L O C A T I O N	
<i>County:</i>	Prowers
<i>Water Source:</i>	Arkansas River
<i>Drainage Basin:</i>	Arkansas
<i>Division:</i>	2
<i>District:</i>	67

