



# COLORADO

## Colorado Water Conservation Board

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

May 21, 2020

Ms. Kathy Ericson, President  
Lateral Ditch ML 47, Inc.  
PO Box 637  
Clifton, CO 81520

Re: Lateral Ditch Pipeline Project - Loan Approval

Dear Ms. Ericson:

I am pleased to inform you that on May 20, 2020, the Colorado Water Conservation Board approved your loan request for the Lateral Ditch ML47, Inc. - Lateral Ditch Pipeline Project described in the application and approved Loan Feasibility Study titled "Loan Feasibility Study for Lateral Ditch ML47, Inc." dated March 31, 2020. The Board approved a loan not to exceed \$707,000 (\$700,000 for Project costs and \$7,000 for the 1% service fee). The loan terms shall be 1.60% per annum for 30 years.

I have attached a copy of the updated Board memo dated May 21, 2020, that includes the Board's approval and two conditions that will be included in the loan contract. After the Board approves a loan there are a few steps that remain in the loan process including:

**Contracting:** An executed loan 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 loan contracting process. She can be reached at (303) 866-3441 x3227.

**Design/Construction:** You must adhere to the CWCB's design and construction administration procedures including an invitation to the Prebid, Preconstruction and Bid Opening meetings. Cole Bedford, 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. He can be reached at (303) 866-3441 x3234.

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, Room 718  
Denver, CO 80203

P (303) 866-3441  
F (303) 866-4474

Jared Polis, Governor

Dan Gibbs, DNR Executive Director

Rebecca Mitchell, CWCB Director

**TO:** Colorado Water Conservation Board Members

**FROM:** Cole Bedford, P.E., Project Manager  
Kirk Russell, P.E., Finance Section Chief

**DATE:** May 20, 2020 (Updated May 21, 2020)

**AGENDA ITEM:** 11b. Water Project Loans  
Lateral Ditch ML47, Inc. – Lateral Ditch Pipeline Project

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**Staff Recommendation: (Board approved Staff Recommendation May 21, 2020)**

Staff recommends the Board approve a loan not to exceed \$707,000 (\$700,000 for Project costs and \$7,000 for the 1% service fee) to the Lateral Ditch ML47, Inc. for costs related to the Lateral Ditch Pipeline Project, from the Severance Tax Perpetual Base Fund. The loan terms shall be 30 years at a blended interest rate of 1.60% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Additionally, staff recommends the following contract conditions:

1. Any future Bureau of Reclamation Basin States Program funds obtained for the purpose of this Project shall be submitted to CWCB to be applied to the balance of the loan within thirty (30) days after receipt of said funds. The remaining balance of the loan will be the long-term loan debt.
2. CWCB will hold a lien on a number of Grand Valley Irrigation Company shares represented by a single stock certificate whose value, in combination with other securities, is equal to or exceeds the long-term loan debt prior to any loan disbursements.

**Introduction:**

The Lateral Ditch ML47, Inc. (Company) is applying for a loan for the Lateral Ditch Pipeline (Project). The ML47 Lateral Ditch is a small, open ditch supplying twenty-five users in a partially agricultural and partially rural residential area in the Grand Valley. It diverts about 1,400 acre-feet annually from a headgate on the Grand Valley Irrigation Canal (GVIC) which diverts water from the Colorado River in Palisade. The ML47 Lateral Ditch is inadequately lined and as a result experiences excessive water losses. By piping the ditch and improving the GVIC headgate, efficiency and safety will be increased. The quality of water returning to the Colorado River will also be improved while reducing water loss, maintenance costs, and the risks and liabilities of flooding. To those ends, the Project was designed and is estimated to cost \$700,000. The Company has secured a Federal grant from the Bureau of Reclamation Basin States Program which will be disbursed upon completion of the Project and used to pay down \$538,000 of loan principal. These funds will expire in March 2021 if not utilized by that time. See attached Project Data Sheet for a location map and Project summary.



**Borrower - Lateral Ditch ML47, Inc.**

The Company is a nonprofit corporation registered in the State of Colorado on July 27, 2011. The ditch itself has existed as an association of irrigators since the late 1800's. The ditch users maintain the lateral and pay assessments for needed repairs. There are twenty-five current users on the lateral ditch listed on the Grand Valley Irrigation Company (GVIC) Head Gate ML47 Report. The Company has the power to set annual assessments to be paid by the lateral's users.

The board, with a 2/3 vote, may authorize indebtedness but the loan must have first been approved by a majority vote of the membership. Membership dues are collected annually in March and are delinquent after June. Delinquent dues are charged interest at the rate of 10% per month until paid. The Board has the ability to file a lien against a property of delinquent members. Special assessments to fund construction projects shall be approved by a majority vote based upon total water user shares at the Company's annual meeting. If the membership fails to approve a recommended assessment, the Board of Directors has the power to set special assessments as required for the continued operation of the lateral.

**Background:**

Much of the ML47 Ditch was lined in the 1970's and for many years afterward it was maintained by its users under informal agreements. As the lining aged, however, maintenance needs became more extensive and therefore Lateral Ditch ML47, Inc. was formed in 2011 to better coordinate ditch improvements. Identifying a need to reduce water losses through the ditch and to more accurately distribute the supply, the Company subsequently worked with the Natural Resources Conservation Service (NRCS) to design the Lateral Ditch Pipeline Project. Furthermore, in 2017 the Company secured a grant through the Basin States Program of the Colorado River Basin Salinity Control Program for the Project.

**Loan Feasibility Study:**

Kathy Ericson, President of Lateral Ditch ML47, Inc. prepared the Loan Feasibility Study titled "Loan Feasibility Study for Lateral Ditch ML47, Inc." dated 2020 with technical support from NRCS. The feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of alternatives, stamped engineering plans, and construction cost estimates. Financial statements were provided by the Company.

**Water Rights:**

The users of ML47 own 340 shares in the GVIC. Most or all of these shares will be transferred to the Company to be used as collateral in accordance with this loan's approval condition. The Company diverts their allotment of water from the mainline of the GVIC at the ML47 headgate. The source of water is the Colorado River where GVIC has a diversion structure on the north bank, near Highway 6 in Palisade. The Company diverts approximately 1,400 AF of water annually.

**Project Description:**

The Purpose of the Project is to improve the GVIC headgate and pipe the ditch with a pressurized system to increase efficiency, safety, and improve the quality of water returning to the Colorado River while also reducing water loss, maintenance costs, and the risks and liabilities of flooding. The following alternatives were analyzed:

**Alternative 1 - No Action:** This alternative was considered unacceptable because it would not address current water losses and would lead to increased maintenance costs over time. It would also fail to leverage federal funding.

**Alternative 2 - Concrete Lining Lateral:** This alternative was considered unacceptable. It would address percolation losses, but not evaporative losses which are difficult to estimate. The ditch would remain open and a potential hazard to pedestrians. Maintenance costs would remain high and additional funding would need to be secured for this alternative.

**Selected Alternative 3 - Pressurized Pipe System:** This alternative will consist of replacing the open lateral ditch system with a system of pressured pipes. This will address the percolation losses, improve safety, and leverage the secured federal funding.

The cost estimate of this alternative is \$700,000 as shown in Table 1.

TABLE 1: ESTIMATED PROJECT COST

Task	Total
Demolition	\$16,400
Road Crossings (x6)	\$108,000
Concrete	\$14,400
Pipe Material and Installation	\$320,000
Gravel and Fill Material	\$41,000
Other Fittings, Material, and Installation	\$154,200
Contingency	\$46,000
<b>TOTAL</b>	<b>\$700,000</b>

**Permitting:** The Company will coordinate with Mesa County for road crossings.

**Schedule:** Final engineering and design is complete. The contractor selection process and coordination with GVIC will begin upon confirmation of loan approval. Construction will begin at the end of the irrigation season in October 2020 and be completed around February 1, 2021.

**Financial Analysis:**

Table 2 provides a summary of the Project's financial aspects. In 2017 the Company secured a \$538,000 grant through the Basin States Program of the Colorado River Basin Salinity Control Program for the Project. This funding pays out as a lump sum upon project completion and will be applied to the loan balance per this loan's contract condition. The Company qualifies for a blended interest rate of 1.60% (Ownership: 50% agricultural, 50% low-income municipal, 0% commercial) for a 30-year term. The Company is also pursuing a WSRF grant which has been recommended for approval by the Colorado Basin Roundtable. Table 2 does not reflect potential WSRF funding.

TABLE 2: FINANCIAL SUMMARY

Total Project Cost	\$700,000
CWCB Loan Amount	\$700,000
CWCB Loan Amount (Including 1% Service Fee)	\$707,000
Basin States Program Grant Funding	\$538,000
CWCB Long-Term Debt	\$169,000
CWCB Annual Loan Payment	\$7,100
CWCB Annual Loan Obligation (1 <sup>st</sup> Ten Years)	\$7,800
Number of Users	25
Annual Loan Obligation per User	\$310
Current Assessment per User	\$100
Estimated Future Assessment per User	\$410

**Creditworthiness:** The Company has no existing debt. Revenues are derived from shareholder assessments which the Company will increase to cover their annual debt obligation to CWCB. Assessments have been steady in recent years. Table 3 provides financial ratios for the Company's historic performance from 2017-2019 and future projection with this project.

TABLE 3: FINANCIAL RATIOS

Financial Ratio	Prior Years	Future w/ Project
Operating Ratio (revenues/expenses) <div> <div>weak: &lt;100%</div> <div>average: 100% - 120%</div> <div>strong: &gt;120%</div> </div>	139% (strong) \$2.5K/\$1.8K	100% (average) \$9.6K/\$9.6K
Debt Service Coverage Ratio (revenues-expenses)/debt service <div> <div>weak: &lt;100%</div> <div>average: 100% - 120%</div> <div>strong: &gt;120%</div> </div>	N/A	100% (average) (\$9.6K-\$1.8K) \$7.8K
Cash Reserves to Current Expenses <div> <div>weak: &lt;50%</div> <div>average: 50% - 100%</div> <div>strong: &gt;100%</div> </div>	389% (strong) \$7.0K/\$1.8K	73% (average) \$7.0K/\$9.6K
Annual Operating Cost per Acre-Foot (1,400 AF) <div> <div>weak: &gt;\$20</div> <div>average: \$10 - \$20</div> <div>strong: &lt;\$10</div> </div>	\$1.29 (strong) \$1.8K/1.4K AF	\$6.86 (strong) \$9.6K/1.4K AF

**Collateral:** Security for this loan will be a pledge of assessment revenues and shares of the Grand Valley Irrigation Company represented by a single stock certificate equal or exceeding the estimated long-term debt amount prior to disbursement of any CWCB funds. This security is in compliance with the CWCB financial Policy #5 (Collateral).

cc: Kathy Ericson, President, Lateral Ditch ML47, Inc.  
Jennifer Mele, Colorado Attorney General's Office

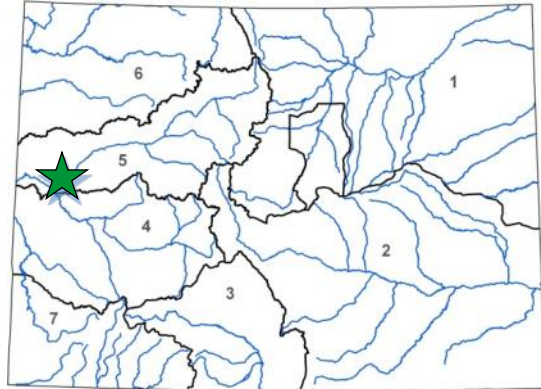
Attachment: Water Project Loan Program - Project Data Sheet



## Lateral Ditch Pipeline Project

Lateral Ditch ML47, Inc.  
May 2020 Board Meeting

L O A N   D E T A I L S	
Project Cost:	\$700,000
Initial CWCB Loan (with Service Fee):	\$707,000
Long Term CWCB Loan (with Service Fee):	\$169,000
Loan Term and Interest Rate:	30 years @ 1.60%
Funding Source:	Severance Tax Perpetual Base Fund
B O R R O W E R   T Y P E	
Agriculture	Municipal
50%	50% Low - 0% Mid - 0% High
Commercial	0%
P R O J E C T   D E T A I L S	
Project Type:	Ditch Piping
Average Annual Diversions:	1,400 AF



L O C A T I O N			
County:	Mesa		
Water Source:	Colorado River		
Drainage Basin:	Colorado		
Division:	5	District:	72

Lateral Ditch ML47, Inc. (Company) is a nonprofit corporation that operates and maintains a lateral serving 25 irrigators along 33 ½ Road who grow hay, corn, alfalfa, hemp, as well as water lawns and pastures. These irrigators all own shares in the Grand Valley Irrigation Company (GVIC), which owns senior water rights on the Colorado River, and provides water to the lateral.

The lateral is primarily a concrete lined ditch, which occasionally experiences flooding when trash blows in and blocks the flow, and has developed significant cracks that leach water. The Company intends to improve the GVIC headgate, and pipe the ditch with a pressurized system to increase efficiency, safety, and improve the quality of water returning to the Colorado River while also reducing water loss, maintenance costs, and the risks and liabilities of flooding. The improved irrigation system will also allow the Company to regulate the amount of water members use, and determine if there is a need to adjust shares to meet current needs. The project will also leverage federal funding through a Bureau of Reclamation Basin States Program grant for \$538,000; however, this funding will not be paid until after construction is complete.

