



COLORADO
Colorado Water
Conservation Board
Department of Natural Resources

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Jared Polis, Governor
Dan Gibbs, DNR Executive Director
Lauren Ris, CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: March 13-14, 2024 Board Meeting

CONSENT

AGENDA ITEM: 6a. Changes to Existing Loans
Tunnel Water Company - West Half Laramie-Poudre Tunnel Rehabilitation .

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$18,917,300 (\$18,730,000 for Project costs and \$187,300 for the 1% service fee) to the Tunnel Water Company for costs associated with the West Half Laramie-Poudre Tunnel Rehabilitation from the Construction Fund. The loan term shall remain 30 years at an interest rate of 2.85% per annum. This is an increase of \$909,000 (\$900,000 for Project costs and \$9,000 for the 1% service fee) above the current loan contract. Security for the loan shall remain in compliance with CWCB Financial Policy #5.

At the May 2005 Board Meeting, the Board authorized staff to recommend increases to existing loans up to 20% of the original loan as Consent Agenda Items.

Introduction/Background

The Tunnel Water Company (Company) originally received approval of a \$9,090,000 CWCB loan (Contract No. CT2019-3706) to finance the West Half of the Laramie-Poudre Tunnel Rehabilitation (Project) at the March 2019 Board Meeting. In November 2019, the Board approved a loan increase up to \$11,615,000. This first increase required the loan to be put in the CWCB Projects Bill (HB20-1403). This was due to the new loan amount exceeding the Board's approval threshold of \$10M, and therefore, Legislative authorization was required. Before the Bill was introduced in early 2020, a second increase was needed and approved in March of 2020 for total loan amount of \$17,250,800. In January of 2023, a third loan increase was approved for a total loan amount of \$18,008,300 which is the currently contracted loan amount. This request is the fourth loan increase. If this request is approved, the loan total will increase to 9,827,300 above the original loan amount (\$9,730,000 for Project costs and \$97,300 for the 1% service fee).

The general purpose of the Project is to prevent future tunnel collapse and blockage by rehabilitating the existing west half of the tunnel with replacement of the existing support systems. After nearly three years of construction delays due to a fire in the tunnel, the Cameron Peak Fire (Aug 2020), and additional complications with tunnel construction in areas of weak rock material, the Project is complete. The Company is near resolving a construction contract dispute regarding change order v. original contract scope. The recommended loan increase of \$900,000 will provide funds necessary to finally resolve the dispute and avoiding any additional cost increases. See the attached Project Data Sheet for a location map and a Project summary.



Project Update

West Half of the Laramie Poudre Tunnel: The Company began work on the Laramie-Poudre Tunnel in August 2019. The project was originally scheduled for completion in the spring of 2020, but extended into a second construction season largely due to a fire that occurred within the tunnel in February of 2020. Another major setback for the project occurred in August 2020 due to the Cameron Peak Fire, which delayed the Project approximately three months. This resulted in delays that forced the Project into a third construction season, (Aug 2021 through May 2022).

In early 2022, the contractor, Harrison Western Corporation (Contractor), discovered they had constructed the tunnel 8ft higher than design grade over a length of about 100 feet. The Contractor agreed to correct the invert to design grade under its warranty. The Contractor declared the project substantially complete in May 2022.

Upon inspection in August 2022, the Company discovered that significant portions of the tunnel had collapsed and that active collapse was continuing to occur in the same area. In discussions with the Contractor, the parties agreed that a portion of the work needed to correct the issues fell under the construction contracts as warranty work. However, there was a portion of the necessary work that fell within scope of the original contract.

Based on the anticipated scope of repairs at the time, in January 2023 the Company requested a loan amendment in the amount of \$750,000 to cover the anticipated costs of the repairs, which amount was approved by the CWCB, and of which a total of \$747,506 was disbursed to the Company and subsequently paid to the Contractor. A contract dispute between the Company and the Contractor has since arisen regarding the total amount due for the Season 4 (2022/2023 construction season) work in addition to the \$747,506 previously paid. In order to fully and finally resolve this dispute, the Company is requesting an additional \$900,000.

Schedule: Construction is complete.

Financial Analysis

Table 1 provides a summary of the Project's financial aspects. The term of the loan will remain at 30 years at a blended interest rate of 2.85% (Ownership: 4% Low-Income Municipal, 25% Middle-Income Municipal, 49% High-Income Municipal, 22% Agriculture). This increase will cover 100% of eligible costs.

TABLE 1: UPDATED FINANCIAL SUMMARY

	Original	Last Increase	Current Inc.
Total Project Cost	\$9,000,000	\$17,830,000	\$18,730,000
CWCB Loan Amount	\$9,000,000	\$17,830,000	\$18,730,000
CWCB Loan Amount (Including 1% Service Fee)	\$9,090,000	\$18,008,300	\$18,917,300
CWCB Annual Loan Payment	\$454,818	\$901,046	\$946,527
CWCB Annual Loan Obligation (incl. 10% Reserve)	\$500,300	\$991,151	1,041,180
Number of Shares	450	450	450
Annual Loan Obligation per Share	\$1,112	\$2,203	\$2,314
Assessment per Share	\$1,370	\$2,778	\$3,111
Future Assessment per Share (Estimate)			\$4,440*

* The Company will set assessments based on the final Project costs.

Creditworthiness: The Company has \$5,123,535 in existing debt made up of five CWCB loans as summarized in Table 3. All loans are in good standing.

TABLE 2: UPDATED EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
CWCB C150052	\$1,570,214	\$705,402	\$98,226	2032	Water rights available to the Laramie River System of the Tunnel Water Company. The west and east portal structures and the easement for the Laramie-Poudre Tunnel.
CWCB C150065	\$1,847,932	\$823,709	\$112,799	2032	
CWCB CT2016-2001	\$1,654,041	\$1,486,138	\$82,582	2049	
CWCB CT2021-3927	\$1,198,067	\$1,167,122	\$51,312	2052	
CWCB CT2021-3928	\$941,164	\$941,164	\$44,195*	2050	
Total		\$5,123,535	\$389,114		

* This is a Wildfire Impact Loan and does not require repayment to begin until May 1, 2024

TABLE 3: UPDATED FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% typical: 100% - 120% strong: >120%	100% (typical) \$1.58M/\$1.58M	100% (typical) \$2.18M/\$2.18M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% typical: 100% - 125% strong: >125 %	100% (typical) <u>(\$1.58M-\$0.34M)</u> \$1.24M	100% (typical) <u>(\$2.18M-\$0.65M)</u> \$1.53M
Cash Reserves to Current Expenses weak: <50% typical: 50% - 100% strong: >100%	39% (weak) \$0.62M/\$1.58M	28% (average) \$0.62M/\$2.18M
Annual Operating Cost per Acre-Foot (15,755AF) weak: >\$24 typical: \$3 - \$24 strong: <\$3	\$101 (weak) \$1.58M/15,755 AF	\$138 (weak) \$2.18M/15,755 AF

Collateral: Security for this loan will remain a pledge of assessment revenues and the project, the tunnel having a west portal continuing 2.15 miles until its east portal, including any easements, access and operation of the portal structures for the Laramie-Poudre Tunnel. This is in compliance with CWCB Financial Policy #5 (Collateral).

cc: Donald Frick, General Manager, The Tunnel Water Company
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet
Original Board Memo (March 2019)

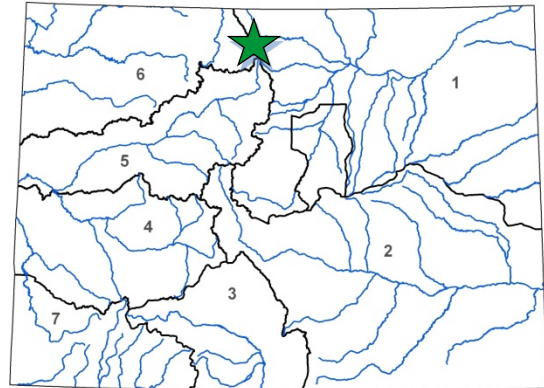


West Half Laramie-Poudre Tunnel Rehabilitation

Tunnel Water Company
March 2024 Board Meeting

(4th Loan Increase)

L O A N D E T A I L S	
Project Cost:	\$18,730,000
CWCB Loan (with Service Fee):	\$18,917,300
Loan Term and Interest Rate:	30 Years @ 2.85%
Funding Source:	Construction Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
22%	4% Low - 25% Mid - 49% High 0%
P R O J E C T D E T A I L S	
Project Type:	Ditch Rehabilitation
Average Annual Diversion:	15,755 AF

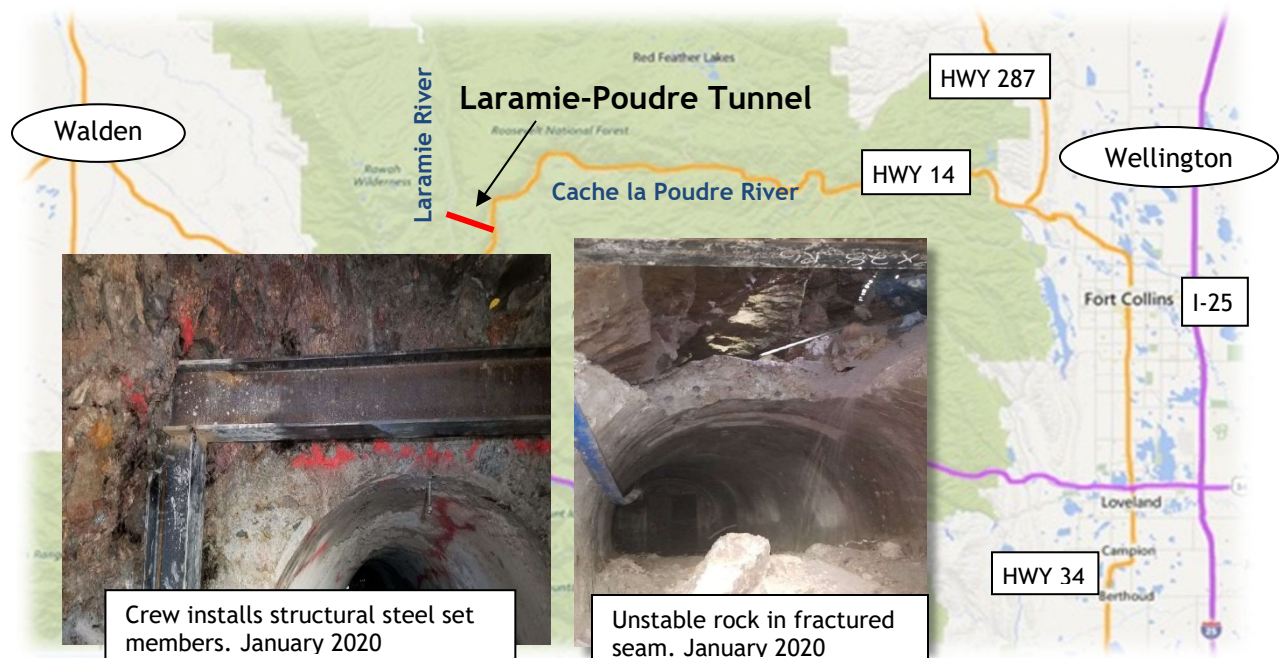


The Tunnel Water Company (Company) operates the Laramie-Poudre Tunnel for the benefit of its two shareholders: Water Supply and Storage Company (WSSC) and Windsor Reservoir and Canal Company (WRCC). The tunnel diverts from the Laramie River, about 60 miles west of Fort Collins, and delivers water through a 2.2-mile tunnel to the Poudre River. WSSC delivers irrigation water to its shareholders, primarily for agricultural irrigation on approximately 40,000 acres lying below the Larimer County Canal. WRCC delivers water to shareholders via the Soldier Canyon and Bellvue Water Treatment Plants for use in their service areas.

L O C A T I O N	
County:	Larimer
Water Source:	Laramie River
Drainage Basin:	North Platte/South Platte
Division:	1 District: 48,3

The Company purchased the Laramie Poudre Tunnel and its adjoining Laramie River System in 1938. Since 2001, the Company has repaired various sections of the tunnel. To prevent future collapse and tunnel blockage, this project includes replacement of aging support structures and the addition of new supports, rock bolts and shotcrete to ensure future serviceability and maintenance access. Construction began in September 2019 and will continue through spring of 2023.

The original Project cost was \$9M and the cost since construction began has risen significantly. This is primarily due to the discovery of voids found behind and above the existing concrete and existing steel sets. Substantial amounts of grout, above the anticipated quantities, filled voids. The old concrete and pre-existing steel support structures are being replaced. In addition to the void spaces, in an original tunnel section, old square set timbers, rebar, trees, sand, gravel and rocks were used as backfill. To ensure the tunnel is structurally sound in the short and long term, new steel sets are being used to replace the compromised section.





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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
Kirk Russell, P.E., Finance Section Chief

DATE: March 20-21, 2019 Board Meeting (**Updated March 20, 2019**)

AGENDA ITEM: 10b. Water Project Loans
The Tunnel Water Company - West Half Laramie-Poudre Tunnel Rehabilitation

Introduction

The Tunnel Water Company (Company) is applying for a loan for the West Half of the Laramie-Poudre Tunnel Rehabilitation (Project). The purpose of the Project is to prevent future tunnel collapse and blockage by rehabilitating the existing west half of the tunnel with replacement of the existing support systems. The Project cost estimate is \$9,000,000. The Company is seeking a loan from CWCB for 100% of Project costs. See attached Project Data Sheet for a location map and Project summary.

Staff Recommendation (Board approved Staff Recommendation March 20, 2019)

Staff recommends the Board approve a loan not to exceed \$9,090,000 (\$9,000,000 for Project costs and \$90,000 for the 1% service fee) to The Tunnel Water Company for costs related to the West Half of the Laramie-Poudre Tunnel Rehabilitation Project, from the Construction Fund. The loan terms shall be 30 years at the blended interest rate of 2.85% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.



Background

The Company is located in Larimer County and operates the Laramie-Poudre Tunnel, aka Laramie River Tunnel, for the benefit of its two shareholders: Water Supply and Storage Company (WSSC) and Windsor Reservoir and Canal Company (WRCC). The tunnel diverts from the Laramie River, a tributary of the North Platte River, about 60 miles west of Fort Collins, and delivers water through a 2.2-mile tunnel to the Cache la Poudre River. WSSC was founded in 1891 and delivers irrigation water to its shareholders, primarily for agricultural irrigation on approximately 40,000 acres lying below the Larimer County Canal. WRCC was founded in 1890 and delivers water to shareholders via the Soldier Canyon and Bellvue Water Treatment Plants.

The tunnel was originally built in 1910. In 2001, significant construction was required when a section of the tunnel collapsed in the east half of the tunnel. That repair was funded through two CWCB loans (C150052 & C150065). In 2016, a CWCB loan (CT2016-2001) was approved for repair of the tunnel's west (inlet) and east (outlet) portal structures. Construction activities at the west portal are complete, and the east portal construction activities will continue this fall.

Loan Feasibility Study

Dennis Harmon, General Manager of the Company, with assistance from Ryan Marsters, P.E., P.G., of Lithos Engineering prepared the Loan Feasibility Study titled, "Feasibility Study West Half of the Laramie-Poudre Tunnel Rehabilitation Project," dated February 2019. The feasibility study was prepared in accordance with CWCB guidelines and included an analysis of alternatives, preliminary engineering, and engineering costs estimated. Audited financial statements were provided by Scofield and Scofield, P.C., Certified Public Accountants.

Borrower - The Tunnel Water Company

The Company is a mutual ditch company that was incorporated in 1938. The Company purchased the tunnel and its adjoining Laramie River System in 1938 after the Greeley-Poudre Irrigation District dissolved. Assets of the Greeley-Poudre Irrigation District were divided between WSSC and WRCC. The Company office is located in Fort Collins and operates as a nonprofit corporation. It is in good standing with the Colorado Secretary of State. The Company has 450 shares of stock, owned by 2 shareholders: WSSC (2/3 interest) and WRCC (1/3 interest). The Company's revenues are primarily derived from share assessments.

The Company's Articles of Incorporation provide the five-member Board of Directors with authority to levy assessments to meet the expenses of operation and maintenance of the Company, including the repayment of debt. The Articles of Incorporation were amended in 2012 to provide the Board with the power to borrow money and provide Company property as security for debt. The Company's By-laws provide the authority to enforce unpaid assessments by ceasing water deliveries and if necessary by selling delinquent stock shares.

Water Rights

The water rights of the Company are shown in Table 1.

TABLE 1: WATER RIGHTS

Name	Amount	Appropriation Date	Adjudication Date	Water Court Case No.
Laramie River Tunnel	300 cfs	8/25/1902	2/20/1914	CA2725
McIntyre Ditch	40 cfs	8/25/1902	2/20/1914	CA2725
Rawah Ditch	225 cfs	8/25/1902	2/20/1914	CA2725
Rawah Lower Supply Ditch	275 cfs	8/25/1902	2/20/1914	CA2725

The tunnel is one of five transmountain diversion structures included in the Laramie River Compact between Colorado and Wyoming. The Laramie River Compact sets the maximum annual volume to be diverted by all transmountain users to be 19,875 AF per year. On average, 15,755 AF per year runs through this tunnel.

Project Description

The objective of the Project is to provide means for the Company to replace the existing support systems in the tunnel and to prevent future collapse and tunnel blockage.

Alternative 1 - No Action: This alternative was not selected because it will eventually result in the failure of the tunnel, rendering it unusable pending emergency repairs. If failure occurs during irrigation season, it would impact the shareholders who rely on diversions through the tunnel for a substantial portion of their annual irrigation and municipal needs.

Alternative 2 - Replacement of the Tunnel: This alternative involves a new tunnel location and was determined to be not feasible as there are no suitable locations nearby and the cost and delay would be prohibitive, due to environmental approvals and permitting processes required.

Alternative 3 - Alternative Water Sources: This alternative considers alternate sources of water but was not selected because the alternative sources of water available are junior in priority and would likely, be unreliable in most water years.

Selected Alternative 4 - Rehabilitation of Tunnel Support System: This alternative involves removal and rehabilitation of the existing support systems to prevent future collapse and blockage of the tunnel. Loose debris and material will be removed and materials will be mined to expand the tunnel to a more uniform 7-foot by 7-foot tunnel cross section to accommodate future maintenance and repairs. New support systems will be installed, including steel support structures, spot bolting, pattern bolting and shotcrete.

The total cost associated with the Project is \$9,000,000 as shown in Table 2.

TABLE 2: ESTIMATED PROJECT COST

Tasks	Cost
Design Engineering	\$1,100,000
Construction	\$7,700,000
SUBTOTAL	\$8,800,000
Contingency	\$200,000
TOTAL	\$9,000,000

Permitting: The tunnel and Project site lie within the Canyon Lakes District of the Arapaho and Roosevelt National Forest. The west portal of the tunnel is located on a 2.5 acre area requiring a USDA-Forest Service special use permit. The Company is the permittee. The construction and all the related activity, staging of materials and equipment, will occur within the Company's 1891 Act Easement or within the boundaries of a temporary construction special use permit to be issued. Preparation of the application for the temporary permit necessary is underway. Based on discussions with the Forest Service, the Company is confident it can meet the requirements of the Forest Service and will garner the necessary temporary permit well before construction commences. With respect to the easement for the tunnel inlet and the tunnel itself, this Project is a maintenance activity and permitted under the terms of its perpetual tunnel easement and Colorado law.

Schedule: Design is scheduled to be completed in April 2019. Construction is anticipated to begin September 2019, or sooner, if the tunnel diversions have reached the adjudicated maximum quota resulting in the end of diversions for the season.

Financial Analysis

Table 3 provides a summary of the Project's financial aspects. The Company qualifies for a blended interest rate of 2.85% for a 30-year term (Ownership: 4% Low-Income Municipal, 25% Middle-Income Municipal, 49% High-Income Municipal, 22% Agricultural).

TABLE 3: FINANCIAL SUMMARY

Project Cost	\$9,000,000
CWCB Loan Amount	\$9,000,000
CWCB Loan Amount (Including 1% Service Fee)	\$9,090,000
CWCB Annual Loan Payment	\$454,818
CWCB Annual Loan Obligation (1 st Ten Years)	\$500,300
Number of Shares	450
Annual Loan Obligation per Share	\$1,112
Current Assessment per Share	\$1,370
Future Assessment per Share (Estimated)	\$2,620

Creditworthiness: The Company has \$2,162,568 in existing debt made up of two CWCB loans. Additionally, the Company is approved for a CWCB loan not to exceed \$1,717,000 of which \$969,081 has been disbursed to date. These loans are in good standing and are shown in Table 4. Assessments have gradually increased from 2015 to present. Assessments were \$1,066/share in 2015, and are currently \$1,370/share. The Company anticipates raising assessments to \$2,620/share as a result of this Project.

TABLE 4: EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
CWCB C150052	\$1,570,214	\$997,263	\$98,226	2032	Water rights available to the Laramie River System of the Tunnel Water Company. The west and east portal structures and the easement for the Laramie-Poudre Tunnel.
CWCB C1150065	\$1,847,932	\$1,165,305	\$112,799	2032	
Subtotal (Existing Debt)		\$2,162,568	\$211,025		
CWCB CT2016-2001	\$1,717,000 (In Disbursement)	\$1,717,000 (Max Approved)	\$82,582 (Max Approved)	2046	
Total		\$3,879,568	\$293,607		

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Prior Years	Future w/ Project ¹
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	106% (average) \$518K/\$490K	101% (average) \$1.08M/\$1.07M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	113% (average) (\$518K-\$279K) \$211K	101% (average) (\$1.08M-\$279K) \$794K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	31% (weak) \$154K/\$490K	14% (weak) \$154K/\$1.07M
Annual Operating Cost per Acre-Foot (15,755AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10	\$31.10 (weak) \$490K/15,755AF	\$67.91 (weak) \$1.07M/15,755AF

¹ Future with Project ratios assume CWCB Loan CT2016-2001 is disbursed in full and is in repayment.

Collateral: Security for this loan will be a pledge of assessment revenues backed by an assessment covenant and the west and east portal structures for the Laramie-Poudre Tunnel. This is in compliance with CWCB Financial Policy #5 (Collateral).

cc: Mr. Dennis Harmon, General Manager, The Tunnel Water Company
 Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet