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: Matt Stearns, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: May 15-16, 2024 Board Meeting

AGENDA ITEM: 6a. Change to Existing Loan
Sanchez Ditch and Reservoir Company
Sanchez Reservoir Outlet Rehabilitation Project - Loan Payment Deferral Request

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Staff Recommendation

Staff recommends the Board approve the Sanchez Ditch and Reservoir Company's request for financial relief by granting three annual principal payment deferments for Loan Contract CT 2015-012, totalling $90,159. The interest portion of the payment will continue to be due on the annual payment date, which will be reflected in the amortization schedule. The loan terms shall remain 40 years at an interest rate of 2.00% per annum. The Company will return to making annual principal and interest payments in September 2027 with the balance paid over the remaining 32 years.

Introduction

The Sanchez Ditch and Reservoir Company (Company) has requested deferment of three annual principal payments from the Company's current Construction Fund loan (per letter received on April 24, 2024 - attached). The purpose of this request is to help offset the Company's financial burden related to the costs of engineering a seepage mitigation strategy scheduled to be completed in the fall of 2027 at Sanchez Reservoir (Reservoir) which is under a Dam Safety Branch of the State Engineer's Office (SEO) Storage Restriction. The cost of the engineering is estimated to be approximately $605,000. The Company requested and received support of a $549,902 WSRF grant ($64,694 Basin and $485,208 Statewide) from the Rio Grande Basin Roundtable which will be considered by the CWCB Board (agenda item 11a). The principal portion of the Company's annual loan payment is approximately $30,000 which they are requesting to use as the Company's match contribution for the grant. CWCB Financial Policy #10 allows for "providing project sponsors an opportunity to recover from periods of financial difficulties, drought, flood, or other hardship beyond their control." Staff reviewed the request, supporting documentation, and the Company's repayment history in preparation of the Staff Recommendation.

Borrower - Sanchez Ditch and Reservoir Company
The Company is a Colorado Mutual Ditch Company in good standing with the Colorado Secretary of State and was incorporated in 1956. The Company serves about 22,400 acres of irrigable land of which approximately 13,400 acres are currently irrigated in Costilla County. The Company's system includes the Reservoir, Culebra Sanchez Canal, Mesita Reservoir, Culebra Eastdale Canal, other canals, and ditches. Irrigated crops include potatoes, wheat, barley, oats, alfalfa and hay.

The Company is governed by a five-member board of directors. There are 22 shareholders with a total of 21,750 shares of stock. Revenues for the Company are primarily from assessments. The board has the ability to take on debt and to withhold delivery of water to stockholders if assessments are unpaid. Liens can also be placed against any shares of stock if assessments are unpaid. Shareholder approval is required in order to set assessments for engineering services and reservoir repair projects.

Background
The Company was approved for this loan in September 2012 to make safety and operational improvements to the outlet works for the Reservoir and address seepage concerns raised by the SEO. The loan was structured with a 30-year repayment term with the first five years as interest-only payments in order to accelerate payment on two previous loans the Company had received from CWCB (C153623 & C153755.) The loan was then increased in both July 2014 and May 2018 with the repayment term also being extended to 40 years due to cost increases. The Project was substantially completed on September 1, 2018 with the 40 year repayment term commencing.

Project
The Reservoir was built in 1910 with a dam height of 135 feet and a storage capacity of 103,114 AF. Currently the Reservoir is under a storage restriction from the SEO due to seepage concerns. The safe storage volume was determined to be 21,511 AF by the SEO in 2015. The Reservoir’s original outlet included a 135-foot tall concrete gate tower. In order to operate the dam, a tramway/gondola ran along a cable and was powered by a portable gasoline generator. Because daily operation of the gate is required during irrigation season, the reliability and safety of the gondola system was a concern of the Company. Using loan and grant funds, the Company demolished the gate tower; installed new control gates and operators; lined the outlet conduit with shotcrete; repaired the downstream outlet structure; and, installed a new perimeter drain and weir along the right side of the outlet structure to control seepage. Additional seepage monitoring was also funded through the Project.

Since substantially completing the Project in 2018, the Company has been exploring opportunities to remove the storage restriction. In 2023, the Company hired a consultant with a technology capable of identifying seepage paths based on the principle that seepage increases conductivity of the soil it flows through. This investigation identified one primary potential flow path for seepage beneath the dam, thereby opening the possibility of a solution. Subsequently, the Company is undertaking a comprehensive engineering analysis to evaluate infrastructure within the system and develop engineering plans and specifications for necessary dam repairs. The cost estimate for this work is as shown in Table 1. The design is expected to include grouting and construction of a sand filter, however, more data is needed.

TABLE 1: ESTIMATED SEEPAGE MITIGATION DESIGN COST

Tasks	Cost
Investigation of Conveyance Infrastructure Improvements	$50,000
Development of Alternatives for Dam Repair	$436,144
Project Coordination and Administration	$118,900
Total	**$605,044**

Discussion

If the Company is allowed to defer three annual principal payments (totaling approximately $90,150) for the Project, it will have cash available to invest towards the matching funds required for the seepage mitigation strategy. Without the deferment, the Company would need to take on additional debt in order to leverage grant funds for engineering.

If the deferral is approved, the loan will be re-amortized over the remaining years of the loan. Annual payments after the proposed interest-only period ends will increase from approximately $60,102 to $64,021 to maintain the original loan term repayment of 40 years.

The Company originally approached CWCB staff seeking a loan of $92,000 to fund the match requirement of a WSRF grant application.CWCB typically recommends a loan term of 10 years for engineering-only projects.

A 10-year loan for the seepage mitigation design work would create a debt bubble for the 10 years of repayment. The Company's annual payment for this loan is currently scheduled to increase from $30,049 to $60,102 this year since the previous principal payment deferral will expire. Adding additional debt would create volatility to annual assessments for shareholders.

Staff believes that this shows hardship for the Company if they are required to obtain a stand-alone loan for the seepage mitigation design. Instead, staff recommends allowing the Company three years of annual principal payment deferment, which will total to approximately the requested loan amount while not adding additional burden and costs.

Financial Analysis

TABLE 2: CURRENT LOAN REPAYMENT SCHEDULE

Payment Date	Amount*	Principal*	Interest*	Balance*
September 2023	$30,050	$0	$30,050	$1,502,462
September 2024	$60,102	$30,053	$30,049	$1,472,409
September 2025	$60,102	$30,654	$29,448	$1,441,754
September 2026	$60,102	$31,267	$28,835	$1,410,487
September 2027	$60,102	$31,893	$28,210	$1,378,594
September 2028	$60,102	$32,530	$27,572	$1,346,064
Final: September 2058	$60,074	$58,896	$1,778	$0

**Rounded to the nearest dollar.*

TABLE 3: PROPOSED LOAN REPAYMENT SCHEDULE

Payment Date	Amount*	Principal*	Interest*	Balance*
September 2023	$30,050	$0	$30,050	$1,502,462
September 2024	$30,050	$0	$30,050	$1,502,462
September 2025	$30,050	$0	$30,050	$1,502,462
September 2026	$30,050	$0	$30,050	$1,502,462
September 2027	$64,021	$33,972	$30,049	$1,468,490
September 2028	$64,021	$34,652	$29,369	$1,433,838
Final: September 2058	$63,995	$62,740	$1,285	$0

**Rounded to the nearest dollar.*

Creditworthiness: The Company has a long history of prompt loan payments to CWCB and has no other debt. Loan contract C153623 was paid in full in 2016 and loan contract C153755 was paid in full in 2021.

C153623 was originally contracted for $200,000 with a term of 25 years at an annual payment of $11,486. In 2011, the Company was granted a 1-year deferral on the principal and interest payment and the loan term was extended to 26 years. The deferral was approved by the Board at the July 2011 board meeting to offset the Company's financial burden to install urgently needed safety upgrades. The Company then increased the annual payment starting in 2013 and repaid the loan in only 23 years.

Loan contract C153755 was originally contracted for $335,000 with a term of 25 years and an annual payment of $19,900. In 2011, the Company was similarly granted a 1-year deferral on the principal and interest payment and the loan term was extended to 26 years. The Company, however, increased the annual payment starting in 2017 after the previous loan was paid in full, and repaid the loan in only 23 years.

TABLE 4: UPDATED FINANCIAL RATIOS

Financial Ratio	Past Years*
Operating Ratio (revenues/expenses) weak: <100% | typical: 100% - 120% | strong: >120%	108% (typical) $266K/$247K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% | typical: 100% - 125% | strong: >125%	163% (strong) ($266K-$217K) $30.1K**
Cash Reserves to Current Expenses weak: <50% | typical: 50% - 100% | strong: >100%	87% (typical) $214K/$247K
Annual Operating Cost per Acre-Foot (15,000 AF) weak: >$24 | typical: $3 - $24 | strong: <$3	$18 (typical) $274K/15K AF

**Only past years were analyzed since the Company is not taking on any new debt. If the deferral is not approved the annual loan payment amount will increase to $60.1k for future years, negatively impacting these financial ratios by increasing the expenses and debt service amounts.*
***This reflects the interest-only payments to date.*

Collateral: Security for this loan will not change as a result of this approval. The collateral will remain a pledge of assessment revenues backed by a rate covenant and the undivided one hundred percent (100%) interest in the Sanchez Dam and Reservoir and all appurtenant structures thereto, including all lands on which these facilities are located. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Keith Caldon, Sanchez Ditch and Reservoir Company
Mike Kester, President, Sanchez Ditch and Reservoir Company
Jennifer Mele, Colorado Attorney General's Office

Attachments: Project Datasheet - May, 2017
Sanchez Ditch and Reservoir Company Letter - April 24, 2024

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Sanchez Reservoir Outlet Rehabilitation Project

Sanchez Ditch and Reservoir Company

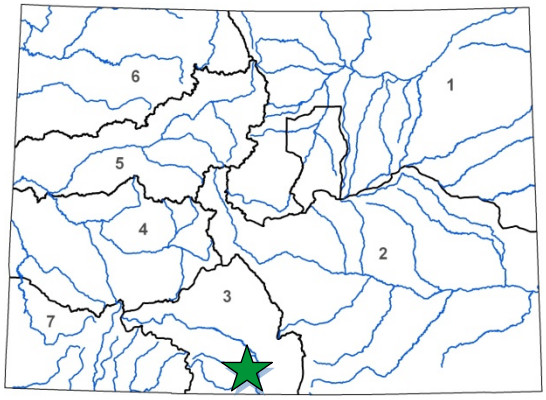
May 2017 Board Meeting

(2nd Loan Increase)

LOAN DETAILS	
Project Cost:	$2,402,000
CWCB Loan (with Service Fee):	$1,502,476
Loan Term and Interest Rate:	40 Years @ 2.0%
Funding Source:	Construction Fund / WSRF

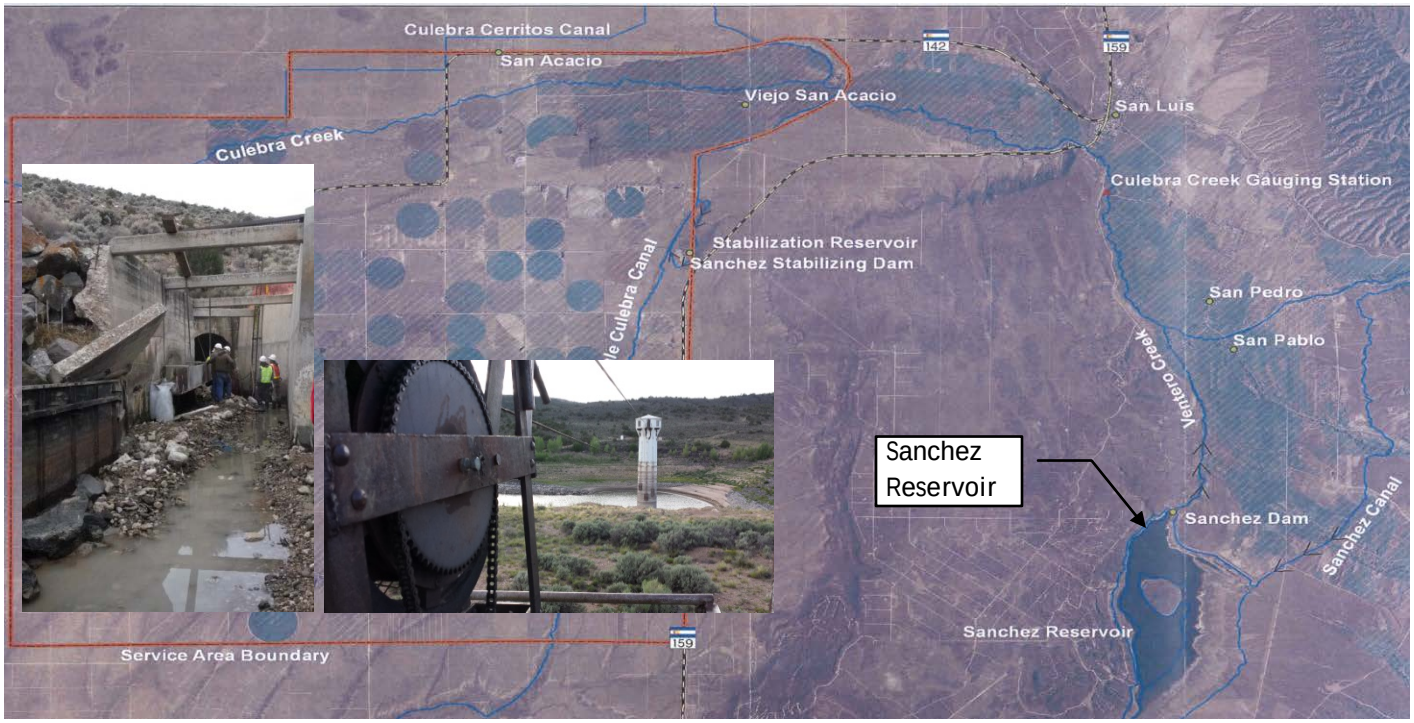
BORROWER TYPE		
Agriculture	*Municipal*	*Commercial*
100%	0% Low - 0% Mid - 0% High	0%

PROJECT DETAILS	
Project Type:	Dam Rehabilitation
Average Annual Delivery:	15,000AF



LOCATION			
County:			Costilla
Water Source:			Ventero Creek
Drainage Basin:			Rio Grande
Division:	3	*District:*	24

The Sanchez Ditch and Reservoir Company provides irrigation water for users in Costilla County, southwest of the town of San Luis. Its primary storage reservoir is Sanchez Reservoir. The approximately 104,000 acre-foot reservoir was built in 1910. The reservoir's outlet originally included a 135 foot tall concrete gate tower. To operate the dam, a tramway/gondola ran along a cable and was powered by a portable gasoline generator. Because daily access to the tower was required during irrigation season, the reliability and safety of the gondola system had been a concern of the Company. Using loan and grant funds, the Company replaced the outlet tower with new control gates and operators; patched the outlet conduit; repaired the downstream outlet structure. It is in the process of addressing seepage monitoring concerns. The seepage monitoring (both installation of equipment and engineering to review and analyze the data) is more expensive than the Company originally budgeted. Therefore, the Company is requesting a $120,000 loan increase. With this increase the total CWCB funding into the project will be $1,502,476 in loan funds and $914,400 in Water Supply Reserve Fund Grant funds.



Sanchez Ditch and Reservoir Company
11733 Highway 142
San Acacio, Colorado 81151

April 24, 2024

To: Colorado Water Conservation Board
Attention: Matt Stearns-Project Manager/Marketing

Re: Loan CT2015-012

Sanchez Ditch and Reservoir currently has a 40 year loan. A payment of $60,102.36 will commence on September 1, 2024 to cover principal and interest. We, hereby request to postpone the principal payment for three (3) years. Thus, allowing Sanchez Ditch to meet our requested match for the upcoming grant.

Your consideration on the matter is greatly appreciated. Any questions or concerns, please do not hesitate to contact us.

Sincerely,

Mike Kester, President

mk/drh