



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Joshua Godwin, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: September 18, 2024 Board Meeting

AGENDA ITEM: 6e. Water Project Loans
West Divide Water Conservancy District
Flannery Reservoir Purchase

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$2,049,290 (\$2,029,000 for project costs and \$20,290 for the 1% service fee) to the West Divide Water Conservancy District, acting by and through its water activity enterprise, for costs related to the purchase of Flannery Reservoir, from the Construction Fund. The loan term will be 30 years at an interest rate of ~~3.90%~~ **3.80%** per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

In addition, Staff recommends the following contract condition:

1. If any portion of the land included in the purchase of Flannery Reservoir is sold before the loan has been fully repaid, proceeds from the sale will go to paying down the principal of the loan.

Introduction

The West Divide Water Conservancy District (District) is applying for a loan at a blended interest rate to finance the purchase of Flannery Reservoir (Project) for use in an augmentation plan for the Fourmile Creek basin. Many water users within the Fourmile Creek Basin rely on non-exempt junior, domestic wells for their water supply and contract with the District to provide augmentation water. The District's existing Fourmile Creek plan for Augmentation has become fully subscribed and contracts can no longer be issued despite additional requests for contracts. The District seeks to provide more augmentation water by purchasing the Flannery Reservoir and water rights. The total Project cost is estimated to be \$2,029,000. See attached Project Data Sheet for a location map and Project summary.



Borrower - West Divide Water Conservancy District

The West Divide Water Conservancy District (District) was created by decree of the District Court of Garfield County, Colorado, in 1964, pursuant to the Water Conservancy District Act, Title 37, Article 45, CRS 1973, as amended. The District is a political subdivision of the State of Colorado and is empowered to acquire water, acquire rights-of-way for water works, contract with the United States or otherwise to provide for water facilities, assume indebtedness, operate and maintain physical works to distribute water supplies, charges on services provided, and has a mill levy of 0.024 for those that reside within the District. The governing body of the District is the Board of Directors consisting of 5 members appointed by the Garfield County District Court Judge. The District has 492 existing contractees across the various plans for augmentation operated by the District. Each District augmentation service area has its own enterprise fund which generates revenue through fees for augmentation services.

Background

The District's Fourmile Creek Service Area (FCSA) - located southwest of Glenwood Springs - has water users that rely on non-exempt junior, rural, domestic wells for their water supply and contract with the District to provide a legal water supply through augmentation services. These augmentation contracts allow diversions to continue during times of administration by providing a replacement supply to the controlling water rights in the basin. The District continues to receive requests for augmentation services within the FCSA, but within the past year the FCSA became fully subscribed and augmentation contracts can no longer be issued. If non-exempt wells are not augmented, water users face curtailment of their water supplies by the State.

The District has negotiated for the purchase of Flannery Reservoir, which is ideally situated along the Threemile Creek Basin and Fourmile Creek Basin divide and has the ability to make augmentation releases into the FCSA via a siphon from Flannery Reservoir. Water rights analyses show that water available to the reservoir in wet, average, and dry years are 5,799 AF, 3,971 AF, and 544 AF, respectively. A bathymetric survey for Flannery Reservoir calculated a storage capacity of 97.2 AF.

This purchase will include the land and rights-of-way required to operate the reservoir and make deliveries to Fourmile Creek.

Loan Feasibility Study

Wendy Ryan, with BBA Water Consultants, Inc, in collaboration with John J. Treacy III, P.E. at W. W. Wheeler & Associates, Inc, prepared the Loan Feasibility Study titled, "Flannery Reservoir Purchase - Loan Feasibility Study", dated August 1, 2024. The feasibility study is in accordance with CWCB guidelines and includes an analysis of alternatives, estimated costs, and financial statements prepared by the Blair and Associates, P.C.

Water Rights

The original water storage right for Flannery Reservoir was abandoned due to lack of diligence in 2003. The current owner has a pending water court application for a water storage right in Case No. 20CW3182 in Water Division 5. The Flannery Ditch, also included in the purchase, was decreed in Case No. CA0420 in the amount of 2.5-cfs for irrigation uses with an appropriation date of December 15, 1885. Flannery Ditch is senior in priority to the only upstream diversion, the West Threemile Ditch. The District will be filing in water court to change the Flannery Reservoir water storage right to allow for augmentation use and to change the Flannery Ditch water right to allow for augmentation use after storage in Flannery Reservoir.

Project Description

The Purpose of this Project is to purchase Flannery Reservoir to create additional supply for augmentation water in the FCSA and limit the potential for curtailment.

Alternative 1 - No Action: Taking no action is the least expensive option; however, no additional augmentation contracts will be issued on Fourmile Creek and landowners requiring augmentation will need to develop their own augmentation plans or otherwise acquire the required supplies. This could be cost prohibitive for each water user when engineering, legal, and operations and maintenance expenses are considered. For these reasons this alternative was not selected.

Alternative 2 - Martin Reservoir Expansion: Martin Reservoir Nos. 1, 2, and 3 are located within the Fourmile Creek Basin. The District has been studying the feasibility of expanding the Martin Reservoir system in the headwaters of Fourmile Creek to similarly provide additional water supplies to the FCSA and preliminary investigations show the reservoir could be constructed to approximately 240 AF. However, the expansion requires significant permitting, would cost more than \$4,000,000 and would not yield water to the FCSA for several years. The Martin Reservoir Expansion may eventually be pursued by the District, but is not feasible at this time.

Selected Alternative 3 - Flannery Reservoir Purchase: Flannery Reservoir is an existing reservoir with an estimated storage capacity of between 88 and 105 AF (to be verified during due diligence period). The reservoir is situated on the FCSA border and has the infrastructure in place to deliver augmentation water. The cost of the reservoir and land parcel on which it is situated is \$1,750,000. Additionally, the District will rehabilitate the spillway and the outlet works of the reservoir as part of the Project. The total Project cost will be approximately \$2,029,000 as shown in Table 1.

TABLE 1: ESTIMATED PROJECT COST

Tasks	Cost
Flannery Reservoir Purchase	\$1,750,000
Bond Counsel Opinion	\$15,000
Land Appraisal	\$3,000
Water Rights Valuation	\$7,000
Construction	
Mobilization and Site Work	\$62,000
Spillway	\$14,000
Outlet Works	\$103,000
Stage Gage	\$2,000
Contingency (15%)	\$27,000
Engineering and Project Management	\$46,000
TOTAL	\$2,029,000

Permitting: Since the reservoir is already constructed and the infrastructure to deliver augmentation water is in place, the only regulatory considerations are water court activities to include the reservoir supplies in a new regional plan for augmentation and substitute water supply plan.

Schedule: The District closed the purchase on September 3, 2024 and will rely on seller bridge financing until the CWCB considers this loan application at the September 2024 board meeting. The District will seek a Substitute Water Supply Plan (SWSP) and file a new plan for augmentation for the supplies in Flannery Reservoir. The District anticipates augmenting under the SWSP by 2026.

Financial Analysis

Table 2 provides a summary of the Project's financial aspects. The Company qualifies for a blended interest rate of ~~3.90%~~ **3.80%** (District's contractee distribution is 8% agricultural, 67% middle-income municipal, and 25% commercial) for a 30-year loan. All interest rate evaluations are per CWCB Financial Policy #7 (Lending Rate Determination). The District assesses fees based on augmentation plan service area and contractee type. For the FCSA, domestic, subdivision, and commercial/industrial pay \$375, \$465, and \$550, respectively per AF of augmentation water.

TABLE 2: FINANCIAL SUMMARY

Project Cost	\$2,029,000
CWCB Loan Amount	\$2,029,000
CWCB Loan Amount (Including 1% Service Fee)	\$2,049,290
CWCB Annual Loan Payment	\$117,076 \$115,650
CWCB Annual Loan Obligation (1 st Ten Years)	\$128,784 \$127,215
Volume of Contracted Augmentation Water (AF)	1,239
Current Assessment per AF:	
Domestic	\$375
Subdivision	\$465
Commercial/Industrial	\$550
Annual Loan Obligation per AF of Augmentation Water	\$103.94 \$102.68¹

1. This assumes that no new contracts are established, whereas demand for augmentation water in the FCSA shows otherwise.

Creditworthiness: The District has no existing debt.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% typical: 100% - 120% strong: >120%	135% (strong) \$569K/\$422K	103% 104% (typical) \$569K/ \$550K \$549K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% typical: 100% - 125% strong: >125%	N/A	115% 116% (strong) (\$569K-\$422K) \$128K \$127K
Cash Reserves to Current Expenses weak: <50% typical: 50% - 100% strong: >100%	818% (strong) \$3.45M/\$422K	627% 628% (strong) \$3.45M/ \$550K \$549K
Annual Operating Cost per Acre-Foot (900 AF) weak: >\$24 typical: \$3 - \$24 strong: <\$3	\$468.89 ¹ (weak) \$422K/900 AF	\$611.11 \$610.00¹ (weak) \$550K \$549K /900 AF

1. It is typical for the price for augmentation water to be significantly higher than other uses.

Collateral: Security for this loan will be a pledge of revenues and the Project itself (The Flannery Reservoir and all associated water rights included in this purchase). This security is in compliance with the CWCB financial Policy #5 (Collateral).

cc: Sam Potter, Board President, West Divide Water Conservancy District
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet

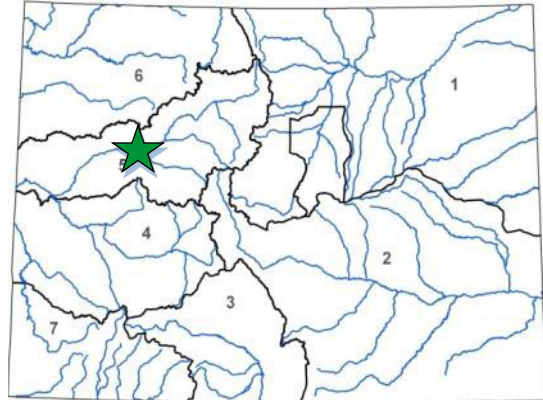


Flannery Reservoir Purchase

West Divide Water Conservancy District

September 2024 Board Meeting

LOAN DETAILS		
Project Cost:		\$2,029,000
CWCB Loan (with 1% Service Fee):		\$2,049,290
Loan Term and Interest Rate:		30 Yrs @ 3.80%
Funding Source:		Construction Fund
BORROWER TYPE		
Agriculture	Municipal	Commercial
8%	0% Low - 67% Mid - 0% High	25%
PROJECT DETAILS		
Project Type:		Water Rights Purchase
Average Annual Delivery:		900 AF



The West Divide Water Conservancy District (District), acting by and through its water activity enterprise, was created in 1964 to primarily operate augmentation plans for entities within its service area. Currently the District has 492 contractees in Pitkin, Mesa, and Garfield counties.

LOCATION	
County:	Garfield
Water Source:	Threemile Creek
Drainage Basin:	Colorado
Division:	5
District:	38

The District will use loan funds to purchase Flannery Reservoir and the land and rights of way needed to deliver water to Fourmile Creek. The water will be used for augmentation in Fourmile Creek and downstream. The purchase will occur in September of 2024, with the seller financing the cost until the CWCB loan is executed. Once the District obtains the reservoir, it will file a Substitute Water Supply Plan to allow for augmentation use while the District goes through a water court change case to add augmentation use to the water right.

