



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
Lauren Ris, CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Zach Salin, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: January 27-28, 2025 Board Meeting

AGENDA ITEM: 15a. Water Project Loans
Rio Grande Water Conservation District - Special Improvement District No. 5
Saguache Augmentation Project

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$6,093,330 (\$6,033,000 for project costs and \$60,330 for the 1% service fee) to the Rio Grande Water Conservation District - Special Improvement District No. 5, acting by and through its water activity enterprise, for costs related to the Saguache Augmentation Project, from the Severance Tax Perpetual Base Fund. The loan term will be 30 years at an interest rate of 2.15% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Additionally, staff recommends the following loan contract conditions be fulfilled prior to the disbursement of loan funds for the Project:

1. Obtain easements needed for the Project, prior to disbursement of loan funds.
2. If the land is purchased by the Subdistrict with CWCB loan funds, proceeds from the sale of the land must be used to repay the loan.

Introduction

The Rio Grande Water Conservation District (District) Special Improvement District No. 5 (Subdistrict), acting by and through its water activity enterprise, is applying for a CWCB blended interest rate loan for the Saguache Augmentation Project (Project). The Subdistrict is seeking to purchase water rights associated with four irrigation wells used for center pivot irrigation. These groundwater rights will be used as a source of augmentation water through at least two new augmentation wells which will be drilled near Saguache Creek. This will allow for the augmentation of depletions for the benefit of senior surface water right holders on Saguache Creek due to groundwater pumping within the Subdistrict. Purchase of the wells is anticipated in the spring of 2025. A valuation of the wells, water rights, and all appurtenances associated therewith will be provided by the Subdistrict per the CWCB loan contract. Construction is expected to take place between spring 2025 and summer 2026. The total Project cost is estimated to be \$6,033,000. See attached Project Data Sheet for a location map and Project summary.



Borrower - Rio Grande Water Conservation District - Special Improvement District No. 5

The District and its Subdistrict are located within the San Luis Valley in Water Division 3 and encompasses about 3,200 square miles of land in southern Colorado including Alamosa, Rio Grande, Conejos Counties and portions of Saguache and Mineral Counties within the Rio Grande River basin.

The District was created by the Colorado General Assembly and formed in 1967. The District was created to protect, enhance, and develop water resources in the Rio Grande River basin. The District is a corporate body and a political subdivision. The District is authorized to levy an ad valorem tax on all real property located within the District, collect fees assessments and surcharges. In addition, the District is also authorized to contract with Federal, State and local agencies, and individuals. Under section 37-48-108 C.R.S., the District is authorized to form Special Improvement Districts, or “Subdistricts”, which address specific needs and purposes for groups of water users in the District.

The Subdistrict was established by the Saguache County District Court on December 18, 2017, in Case 2017CV30015. The overall purpose of the Subdistrict is to provide a community-oriented water management alternative to individual augmentation plans or state-imposed regulations limiting the use of wells within Water Division 3. Additionally, formation of the Subdistrict provided a mechanism through which well users in the Subdistrict can work collaboratively to develop and implement a system of self-regulation using economic-based incentives and other management tools that promote responsible groundwater management within the Subdistrict.

The Subdistrict currently consists of 222 wells that withdraw an average of 37,000 AF of groundwater. The fees assessed by the Subdistrict are a per well Administrative Fee and a per acre-foot Groundwater Withdrawal Fee.

The Subdistrict has a 5-member Board of Managers composed of landowners or full-time employees of a landowner charged with the management and operation of farming, ranching or other activities on land that involves the beneficial use of water from a well within the Subdistrict. As determined by the Board of Managers, the enterprise is responsible for its allocation of the Subdistrict debts, other financial obligations, revenue bond, or other evidences of indebtedness as shown in bond or contract covenants, documentation of evidence of indebtedness, budgets, or resolutions of the Subdistrict.

Background

Members of the Subdistrict are landowners within the District who rely on groundwater for all or part of their commercial, industrial and/or irrigated agricultural practices within the area defined by the Rio Grande Decision Support System (RGDSS) Groundwater Model and the Rules Governing the Withdrawal of Groundwater in Water Division 3, District Court, Water Division 3, Decree 15CW3024.

The RGDSS Groundwater Model calculates stream depletions occurring to surface water streams caused by wells withdrawing water from the groundwater system. In order to prevent injury or interference, the State Engineer has promulgated Groundwater Rules that have a direct impact on the future use of groundwater within the Subdistrict.

Under the Groundwater Rules non-exempt wells can only continue groundwater withdrawals if they have an individual Plan for Augmentation, a Substitute Water Supply Plan, or their well is included in a Groundwater Management Plan and Annual Replacement Plan. The Subdistrict Annual Replacement Plan must demonstrate there is a sufficient source of replacement water available to replace injurious stream depletions resulting from groundwater withdrawals. The Subdistrict intends to construct this Project in order to augment stream depletions under its Annual Replacement Plan which may occur to Saguache Creek and the Rio Grande as a result of the groundwater withdrawals from wells within the Subdistrict.

The proposed water source for the Project will come from four separate irrigation wells which have historically irrigated acres under center pivot sprinklers. The irrigation under the center pivots will cease, acres will be dried up, and the historical consumptive use from the center pivots will be used to remedy depletions from the Subdistrict wells. The crops under the irrigated ground which will be dried up have been in an alfalfa and small grain rotation for the last 25 years. It is anticipated that each irrigated area under the center pivots will yield an annual average historical consumptive use of ± 215 AF per pivot annually. This estimated total annual amount of 855 AF is expected to be available to augment depletions to Saguache Creek.

Ultimately, the Subdistrict intends to proceed in water court to obtain a water right and change the use of the wells from irrigation to augmentation.

Loan Feasibility Study

Mr. Chris Ivers, the Program Manager for the Subdistrict, with assistance from Mr. Clinton Phillips, P.E., Davis Engineering Services, Inc. prepared the Loan Feasibility Study titled, "Loan Feasibility Study for Saguache Augmentation Project," dated November 2024. The feasibility study was prepared in accordance with CWCB guidelines and includes preliminary engineering, an analysis of alternatives and costs. Audited financial statements were provided by the Subdistrict and were prepared by Wall, Smith, Bateman Inc., CPA.

A valuation of the four wells, water rights, and all appurtenances associated therewith included in this Project and the executable purchase agreement between the Subdistrict and the well owner will be provided by the Subdistrict.

Water Rights

Members of the Subdistrict withdraw approximately 37,000 AF on average annually from 222 permitted groundwater wells throughout the Subdistrict. The Project will augment depletions in the Subdistrict's Annual Replacement Plan using the historical consumptive use of the purchased water rights. A summary of the water rights contemplated for purchase through the Project are shown in Table 1.

TABLE 1: WATER RIGHTS ASSOCIATED WITH THE PROJECT

Name (WDID)	Amount (cfs)	Appropriation Date	Adjudication Date	Case No.	Permit
North Star Farm Well 25 (2605044)	3.57	12/12/1956	12/31/1972	W1902	6052-R
North Star Farm Well 02A (2605046)	2.12	8/27/1951	12/31/1972	W1902	19063-F
North Star Farm Well 10A (2605050)	2.12	7/17/1952	12/31/1972	W1902	19064-F
North Star Farm Well 25A (2605052)	2.12	12/12/1956	12/31/1972	W1902	19058-F, 19058-F-R, 19058--R

Project Description

The purpose of this Project is to acquire water rights and construct augmentation wells, which will allow the Subdistrict members to continue operating their groundwater wells within the Subdistrict.

Alternative 1 - No Action: Taking no action would result in the Subdistrict's 222 groundwater irrigation wells being shut off throughout the Saguache Response Area. The economic and environmental impacts of this alternative would be devastating to the area. Accordingly, this option was not selected.

Alternative 2 - Purchase Surface Water Rights and Well Injury Payment Agreements: Surface water rights could be purchased, and the irrigated land could be dried up. The historical consumptive use would be changed to augmentation through water court. The Saguache Creek drainage does not have

any existing reservoir storage; therefore, the water would need to be left in the creek to meet depletions or with DWR approval the water could be recharged and pumped back to the creek later during the irrigation season when needed. There are limited options for purchasing surface water rights along Saguache Creek that are not under conservation easements that prevent this change in use.

Another remedy that was considered with this option is a Well Injury Payment Agreement, which is an alternative type of agreement where the surface water right owner foregoes the injury owed to their water right for some type of compensation (typically monetary) which is agreeable to them. The majority of surface water users along Saguache Creek are not amenable to Well Injury Payments as a remedy source. For these reasons, this alternative was not selected.

Selected Alternative 3 - Saguache Augmentation Project: This alternative purchases four groundwater well rights and the drilling up to three additional augmentation wells, which will increase the Subdistrict's supply of replacement water and the capacity to deliver that water in the time and place it is needed, as dictated by the projected updates to the RGDSS Groundwater Model. The place of use for these groundwater rights will be changed to locations closer to Saguache Creek, which eliminates the need for a long pipeline. Up to three new augmentation wells will be constructed at these new locations to pump and discharge the augmentation water directly into Saguache Creek. The purchase of groundwater rights allows the Subdistrict to use the aquifer as a reservoir and gives the Subdistrict a reliable source of on demand augmentation water. This on demand source of water will be relied upon only when the surface water rights are insufficient to remedy the Subdistrict's injurious stream depletions. In times when the additional sources of water and augmentation wells are not needed, the historical consumptive use "credits" may be left in the aquifer, which will improve efforts to sustainably manage the groundwater resources in the Subdistrict. The total estimated cost of this alternative is \$6,033,000 as shown in Table 2.

TABLE 2: ESTIMATED PROJECT COST

Tasks	Cost
Groundwater Well and Water Rights Purchase*	\$3,400,000
Drill and install Augmentation Well (Layer 2) - 2 total	\$1,155,000
Drill and install Augmentation Well (Layer 3) - 1 total	\$577,000
Augmentation Well Access	\$301,000
Contingency (~10%)	\$600,000
TOTAL	\$6,033,000

* The contingency may be used by the Subdistrict for purchase of the land irrigated by the groundwater wells included in the purchase.

Permitting: All four wells contemplated for purchase under this Project are permitted through the Division of Water Resources and decreed through water court. The Subdistrict anticipates that no construction permits will be required for the Project. The Subdistrict plans to temporarily change the water rights use from irrigation to augmentation through a Substitute Water Supply Plan until they are able to permanently change the water rights through water court.

Schedule: The Subdistrict is currently negotiating a purchase and sale agreement with the owner of North Star Farms for the groundwater rights. Bids and contracts to drill the augmentation wells have been awarded. The Subdistrict anticipates the Project, including drilling the augmentation wells, starting sometime in the spring of 2025, with completion of the Project expected in the summer of 2026.

Financial Analysis

Table 3 provides a summary of the Project's financial aspects. The District qualifies for a blended (97% agricultural, 3% commercial) interest rate of 2.15% for a 30-year loan. All interest rate evaluations are per CWCB Financial Policy #7 (Lending Rate Determination).

TABLE 3: FINANCIAL SUMMARY

Project Cost	\$6,033,000
CWCB Loan Amount	\$6,033,000
CWCB Loan Amount (Including 1% Service Fee)	\$6,093,330
CWCB Annual Loan Payment	\$277,710
CWCB Annual Loan Obligation (1 st Ten Years)	\$305,481
Number of Members (wells)	222
Current Average Administrative Assessment per well	\$875
Estimated Future Administrative Assessment per well	\$875
Current Average Groundwater Assessment per AF	\$24
Estimated Future Groundwater Assessment per AF	\$39

Creditworthiness: The Company's only long-term liability is one loan with CWCB for the purchase of other North Star Farms groundwater rights and construction of the Saguache Pipeline Project. The loan is expected to begin repayment in 2026. This existing debt is described in Table 4. Financial ratios are shown in Table 5.

TABLE 4: EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
CT2021-3846**	\$6,019,316	\$6,019,316	\$266,784	est. 2056	Pledged Assessment Revenues

** This loan is not in repayment. Values are based on current disbursements and are applied to the "Future w/ Project" column in Table 5.

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Past Years (Avg)	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% typical: 100% - 120% strong: >120%	157% (strong) \$663k/\$422k	100% (typical) \$994k/\$994k
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% typical: 100% - 125% strong: >125%	n/a	100% (typical) <u>(\$994k-\$422k)</u> \$572k
Cash Reserves to Current Expenses weak: <50% typical: 50% - 100% strong: >100%	26% (weak) \$215k/\$831k	22% (weak) \$262k/\$994k

Collateral: Security for this loan will be a pledge of assessment revenues backed by an assessment covenant and the Project itself (e.g., the purchased irrigation wells and groundwater rights, and the installed augmentation wells) including all access, easements, rights, and appurtenances associated therewith. This security is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Chris Ivers, Program Manager, Rio Grande Water Conservation District - Subdistrict No. 5
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet



COLORADO

Colorado Water
Conservation Board
Department of Natural Resources

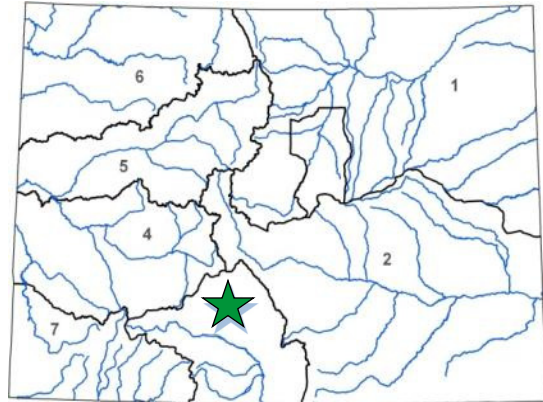
Saguache Augmentation Project

Rio Grande Water Conservation District

Special Improvement District No. 5

January 2025 Board Meeting

L O A N D E T A I L S	
Project Cost:	\$6,033,000
CWCB Loan (with 1% Service Fee):	\$6,093,330
Loan Term and Interest Rate:	30 Yrs @ 2.15%
Funding Source:	Severance Tax Perpetual Base Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
97%	0% Low - 0% Mid - 0% High 3%
P R O J E C T D E T A I L S	
Project Type:	Water Rights Purchase
Average Annual Delivery:	37,000 AF



L O C A T I O N	
County:	Saguache
Water Source:	Saguache Creek
Drainage Basin:	Rio Grande
Division:	3 District: 26

The Rio Grande Water Conservation District, Special Improvement District No. 5 (Subdistrict) acting by and through its water activity enterprise, was established in 2017 to address the needs of its water users and to aid compliance with the Rules Governing the Withdrawal of Groundwater in Water Division 3, thereby preventing injury to senior surface water rights resulting from groundwater use. The Subdistrict serves members who primarily farm grass hay, grass pasture, and alfalfa.

The project will include the purchase of water rights associated with four irrigation wells used for center pivot irrigation and construction of up to three augmentations wells to replace depletions to Saguache Creek (Creek). The Subdistrict will change the place of use of the groundwater rights to locations closer to the Creek, thereby eliminating the need for a long pipeline for the purpose of pumping water directly into the Creek. The groundwater rights have a historical combined consumptive use of approximately 855 AF, and were used historically for center pivot irrigation. Once purchased, the water rights will be temporarily changed from irrigation to augmentation via a Substitute Water Supply Plan until the water rights can be permanently changed via a formal water court process. Purchase of the irrigation wells and water rights and construction of the augmentation wells is expected to begin in the spring of 2025 and be completed by the summer of 2026.

