



COLORADO
**Colorado Water
Conservation Board**
Department of Natural Resources

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TO: Colorado Water Conservation Board Members

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

DATE: March 19-20, 2025 Board Meeting

AGENDA ITEM: 19b. Water Project Loans
Rio Grande Water Conservation District - Special Improvement District No. 2
Williams Creek Water Rights Purchase

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$723,160 (\$716,000 for project costs and \$7,160 for the 1% service fee) to the Rio Grande Water Conservation District - Special Improvement District No. 2, 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 2.25% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Introduction

The Rio Grande Water Conservation District (District) Special Improvement District No. 2 (Subdistrict), acting by and through its water activity enterprise, is applying for a CWCB blended interest rate loan for the Williams Creek Water Rights Purchase (Project). The Subdistrict is seeking to purchase a fractional surface water right from the WCSPD (WDID 7804672). This water right will be used as a source of exchange and augmentation water allowing for the augmentation of depletions to the Rio Grande due to groundwater pumping within the Subdistrict. Purchase of the water rights are anticipated in the spring of 2025. A valuation of the water right, and all appurtenances associated therewith will be provided by the Subdistrict per the CWCB loan contract. The total Project cost is estimated to be \$716,000. See attached Project Data Sheet for a location map and Project summary.



Borrower - Rio Grande Water Conservation District - Special Improvement District No. 2

The District and its Subdistrict are located within the San Luis Valley in Water Division 3. The District 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 Rio Grande County District Court on March 1, 2016, in Case 2015CV30050. 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 in Water Division No. 3. That is, to provide a mechanism through which a group of well users in the Rio Grande Alluvium Response Area 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 256 wells that withdraw an average of 13,472 AF of groundwater annually. 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 bonds, 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 to water rights, the State Engineer has promulgated Groundwater Rules that regulate 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’s Annual Replacement Plan must demonstrate there is a sufficient source of replacement water available to replace out-of-priority 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 the Rio Grande as a result of the groundwater withdrawals from wells within the Subdistrict.

The proposed water source for the Project is a purchase of the remaining fractional uncommitted share of the WCSPD Water Right.

Loan Feasibility Study

Mr. Angelo Bellah, 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 Navajo Development, Inc.’s WCSPD Water Right Purchase” dated January 2025. 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.

The Subdistrict has provided the executable purchase agreement for the Project. Additionally the Subdistrict will provide a valuation of the water right, and all easements and appurtenances associated therewith per the CWCB loan contract.

Water Rights

Members of the Subdistrict withdraw approximately 13,472 AF on average annually from 256 permitted groundwater wells throughout the Subdistrict. The Project will augment depletions to the Rio Grande in the Subdistrict’s Annual Replacement Plan using the historical consumptive use of the purchased water rights. The water right contemplated for purchase through the Project is shown in Table 1.

TABLE 1: WATER RIGHTS ASSOCIATED WITH THE PROJECT

Name (WDID)	Amount (AF)	Appropriation Date	Adjudication Date	Case No.
WCSPD (7804672)	168*	9/9/1937	4/19/1962	CA0308

* the uncommitted HCU available for purchase under this Project is 54.1 AF.

This water right is a transmountain diversion of water from Division 7 to Division 3. The water right involved in this Project has been adjudicated through water court Case No. 20CW3016 for an appropriative right of exchange, and for a change of water right to add and confirm beneficial uses of the water right, and to confirm the quantified historical consumptive use (HCU) of the water right based on previous decrees in Case Nos. W-1869-78 (Division 7) and W-3930 (Division 3) for its use as a source of remedy for stream depletions by the Subdistrict. The present decreed uses of the WCSPD water right are municipal, recreation, replacement, and augmentation.

Portions of the WCSPD right have been allocated in Pools and purchased. The total HCU of the WCSPD water right is 168 AF, of which 50.399 AF is committed to Pool 1, having first priority, followed by 38.5 AF for Pool 2, having second priority, and finally, 25 AF for Pool 3 having third priority. The remaining amount of HCU available from the WCSPD water right that is not being used by existing commitments, is 54.1 AF. The Subdistrict plans to purchase this remaining 54.1 AF of Pool 3 HCU available under the water right.

Purchase of this water right will allow for the use of water diverted from the presently-named Grizzly Creek and delivered at the confluence of the Rio Grande and Williams Creek to the Rio Grande Reservoir in Hinsdale County, Colorado to augment stream depletions in the Rio Grande based on the Subdistrict's Annual Replacement Plan. The District has an existing contract with the San Luis Valley Irrigation District for storage of water in Rio Grande Reservoir.

Project Description

The purpose of this Project is to secure permanent sources of augmentation water that will allow the Subdistrict members to continue operating their groundwater wells within the Subdistrict.

Alternative 1 - No Action: Taking no action would result in some number of the Subdistrict's 256 groundwater irrigation wells being shut off or further limited in their future groundwater pumping. The economic and environmental impacts of this alternative would be devastating to the area. Accordingly, this option was not selected.

Alternative 2 - Continue to Operate with Temporary Remedy Sources: To date, the Subdistrict has used the following temporary remedies: 1) temporarily changed water rights as a part of the SWSP process, and 2) multiple Forbearance Agreements with senior water rights on the Rio Grande. Forbearance Agreements have been useful to the Subdistrict in the past but are temporary with no guarantee that a particular canal or ditch will renew a Forbearance Agreement on an annual basis. Additionally, as the value/cost of water continues to increase, Forbearance Agreements and short-term water leases will likely become cost-prohibitive in future years.

Additionally, without filing for a permanent change, water rights may only operate under a SWSP for five years, thus limiting the ability to use those water rights as a source of remedy. Accordingly, this option was not selected.

Selected Alternative 3 - Purchase the Uncommitted Interest in the WCSPD water right: This alternative would include purchasing the remaining portion of the WCSPD water right and maintaining the infrastructure needed to get the water to the Rio Grande. This alternative would provide a permanent source of water to augment a portion of the Subdistrict's depletions to the Rio Grande. This project does not provide enough permanent water to cover all the depletions requiring replacement or augmentation on the Rio Grande caused by groundwater withdrawals from wells within the Subdistrict,

so other sources of augmentation water will still be needed. This purchase does, however, help the Subdistrict move towards its goal of acquiring permanent remedy solutions.

Another advantage of this alternative is the location of the diversion in respect to the Rio Grande, which would permit the Subdistrict to repay depletions to all reaches of the Rio Grande. The total estimated cost of this selected alternative is \$716,000 as shown in Table 2.

TABLE 2: ESTIMATED PROJECT COST

Description	Cost
WCSPD fractional water right purchase	\$707,000
Legal and Engineering Costs for Infrastructure Maintenance	\$7,000
Contingency (Infrastructure)	\$2,000
TOTAL	\$716,000

Permitting: The United States Forest Service (USFS) will transfer the existing Special Use Permit to the District to allow the District to maintain and operate the infrastructure portions of this project. The District has been in contact with the USFS concerning the process of attaining said permit. Williams Creek will be used to deliver the water to the Rio Grande. No other construction is anticipated to occur under this Project apart from the maintenance of existing structures.

Schedule: The Subdistrict is currently negotiating a purchase and sale agreement with the owner of the water right. The Subdistrict intends to close on the water right purchase by May 1, 2025 in order to use it in the 2025 Annual Replacement Plan.

Financial Analysis

Table 3 provides a summary of the Project's financial aspects. The District qualifies for a blended (94% agricultural, 0.5% low-income municipal, 1.5% middle-income municipal, 4% commercial) interest rate of 2.25% for a 30-year loan. All interest rate evaluations are per CWCB Financial Policy #7 (Lending Rate Determination).

TABLE 3: FINANCIAL SUMMARY

Project Cost	\$716,000	
CWCB Loan Amount	\$716,000	
CWCB Loan Amount (Including 1% Service Fee)	\$723,160	
CWCB Annual Loan Payment	\$33,409	
CWCB Annual Loan Obligation (1 st Ten Years)	\$36,750	
Purchase Cost (\$/AF)	\$15,000	
Number of Members (wells)	256	
Assessments	Current	Est. Future
Average Administrative Assessment per well	\$414	\$414
Average Groundwater Assessment per AF	\$71	\$74

Creditworthiness: The Subdistrict has no long-term debts or outstanding liabilities. Financial ratios are shown in Table 4.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past Years (Avg)	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% typical: 100% - 120% strong: >120%	109% (typical) \$841k/\$765k	105% (typical) \$841k/\$802k

Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% typical: 100% - 125% strong: >125%	n/a	205% (strong) <u>(\$841k-\$765k)</u> \$37k
Cash Reserves to Current Expenses weak: <50% typical: 50% - 100% strong: >100%	91% (typical) \$699k/\$765k	87% (typical) \$699k/\$802k
Annual Cost per Acre-Foot (13,472 AF)	\$57	\$60

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 water right) including all access, easements, rights, and appurtenances associated therewith. This security is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Angelo Bellah, Program Manager, Rio Grande Water Conservation District - Subdistrict No. 2
 Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet



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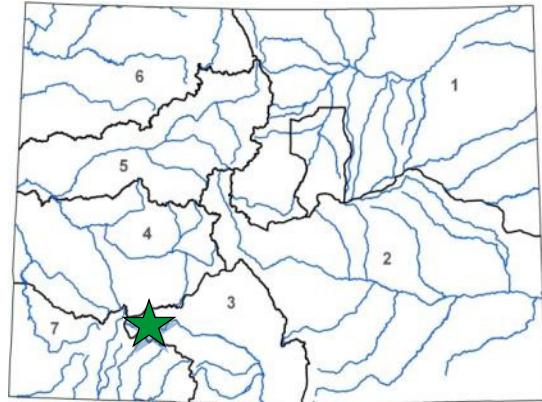
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Williams Creek Water Rights Purchase

Rio Grande Water Conservation District Special Improvement District No. 2

March 2025 Board Meeting

L O A N D E T A I L S	
Project Cost:	\$716,000
CWCB Loan (with 1% Service Fee):	\$723,160
Loan Term and Interest Rate:	30 Yrs @ 2.25%
Funding Source:	Severance Tax Perpetual Base Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
94%	0.5% Low - 1.5% Mid - 0% High 4%
P R O J E C T D E T A I L S	
Project Type:	Water Rights Purchase
Average Annual Groundwater Withdrawal:	13,472 AF



L O C A T I O N	
County:	Hinsdale
Water Source:	Williams Creek
Drainage Basin:	San Juan
Division:	7, 3 District: 78, 20

The Rio Grande Water Conservation District, Special Improvement District No. 2 (Subdistrict) was established in 2016 to provide a community-oriented water management alternative to individual augmentation plans or state-imposed regulations limiting the use of wells in Water Division No. 3. The Subdistrict serves members who primarily farm grass hay, grass pasture, alfalfa and grain crops.

The project will include purchasing existing, in-use transbasin surface water rights from Williams Creek, including additional water that may be diverted under free river conditions. Water under this right is diverted and delivered to Grizzly Creek, a tributary of the Rio Grande. Importantly, water diverted under this right can offset depletions to all reaches of the Rio Grande or can be exchanged into the Rio Grande Reservoir for storage and later use. The Subdistrict and the current water right owner were co-applicants in a water court case decreed in December 2024 whereby the beneficial uses of the water right included augmentation, municipal and recreation use. The Subdistrict intends to close on the water right purchase by May 1, 2025 in order to use it in the 2025 Annual Replacement Plan.

