



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

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Denver, CO 80203

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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: November 20-21, 2019 Board Meeting

AGENDA ITEM: CA4a. Change to Existing Loans
Huerfano County Water Conservancy District - Regional Augmentation Project

Guidance

At the May 2005 Board Meeting, the Board authorized staff to present as Consent Agenda items increases to existing loans that are less than 20% of the original loan request. This request is for an increase of approximately 17% of the original loan amount.

Introduction

The Huerfano County Water Conservancy District (District) received approval of a \$2,200,000 CWCB loan (Contract number CT2015-047) to finance the Regional Augmentation (Project) at the September 2013 Board Meeting. The purpose of the Project is to provide a reliable source of water and infrastructure to develop an efficient and permanent regional augmentation plan that will replace depletions from wells using the Sheep Mountain Augmentation Facility (formerly Red Wing Reservoir). Construction cost increases and unforeseeable delays including the Spring Creek fire contribute to this loan increase request for the last phase and installation of a diversion structure and pump station. The total Project cost is now estimated to be \$3,490,000 and the District is requesting an increase loan amount \$2,640,000 for Project cost increases and a time of performance extension through December 31, 2021. See the attached Project Data Sheet for a location map and a Project summary.

Staff Recommendation

Staff recommends the Board approve a loan for the \$2,666,400 (\$2,640,000 for Project costs and \$26,400 for the 1% service fee) loan to Huerfano County Water Conservancy District for costs related to the Regional Augmentation Facility Project, from the Construction Fund. This is an increase of \$444,400 (\$440,000 for Project costs and \$4,400 for the 1% service fee). The loan term shall be 30 years at low-income municipal interest rate of 2.25% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following contract condition remain:

If the District sells, conveys, assigns, transfers, or otherwise disposes of any portion of land purchased with CWCB funds from this loan, proceeds from such transfer shall be applied to the CWCB debt service within 90 days of the sale. In the event of such sale or transfer and the proceeds not applied to this CWCB debt, the CWCB may declare all outstanding principal and interest immediately due and payable.



Project Update

The District received adjudication of its Regional Augmentation Plan and is in the process of building the Sheep Mountain Augmentation Facility near Gardner. The Project has encountered unforeseen delays. In 2017, the District determined there was not enough gravel remaining at the Project site to make the gravel mining effort economically feasible and made the work available for contractor bidding. Bidding resulted in a one contractor bid and several weeks of contract and Project discussions. In 2018, the Project encountered another delay with the Spring Creek fire and its severity in the Pass Creek watershed. This watershed is tributary to the Huerfano River and approximately 1-mile upstream from the Project. Concerns about the effect of the upstream waters on the Project were discussed with a fluvial morphologist. It was determined that flooding and debris would adversely impact the diversion structure installation in the river. The Project's construction schedule was further delayed.

The updated Project cost estimate is \$3,490,000 as shown in Table 1. The District's engineer revised the overall cost estimate which was found to have increased significantly, primarily due to the increase in construction costs and materials over time.

TABLE 1: UPDATED PROJECT COST ESTIMATE

Task	Original	Current
Camp Ranch and Water Rights purchase	\$1,800,000	\$1,800,000
Reservoir Design, Engineering, and Construction	\$650,000	\$1,090,000
<i>Project Costs that cannot be reimbursed by CWCB (Consultant and Attorney fees for SWSP permitting and Water Court)</i>	<i>\$600,000</i>	<i>\$600,000</i>
Total	\$3,050,000	\$3,490,000

Permitting: There are no permits anticipated for this last phase of the Project.

Schedule: The majority of the remaining construction activity is scheduled for 2020 but will continue through 2021.

Financial Analysis

Table 2 provides a summary of the Project's financial aspects. The term of the loan will remain at 30 years at a low-income municipal interest rate of 2.25%. This increase will cover 75% of eligible costs.

TABLE 2: UPDATED FINANCIAL SUMMARY

	Original	Current
Total Project Cost	\$3,050,000	\$3,490,000
WSRF Grant	\$250,000	\$250,000
District Cash	\$0	\$40,324
CWCB Loan Amount	\$2,200,000	\$2,640,000
CWCB Loan Amount (Including 1% Service Fee)	\$2,222,000	\$2,666,400
CWCB Annual Loan Payment	\$102,655	\$123,186
CWCB Annual Loan Obligation (including 10% Reserve)	\$112,920	\$135,505

Creditworthiness: The District's only debt is this CWCB loan.

TABLE 3: UPDATED FINANCIAL RATIOS

Financial Ratio	Prior Year	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	166% (strong) \$1.16M/\$696K	139% (strong) \$1.16M/\$831K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	N/A	340% (strong) (\$1.16M-\$696K) \$136K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	6% (weak) \$40.3K/\$696K	5% (weak) \$40.3K/\$831K

Collateral: Security for this loan will remain a pledge of mill levy revenues and will remain in compliance with CWCB Financial Policy #5 (Collateral).

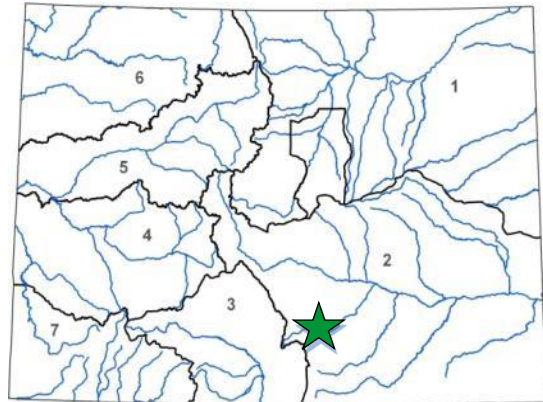
cc: Michael White, Manager, Huerfano County Water Conservancy District
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet
Original Board Memo (September 2013)



(Loan Increase)

L O A N D E T A I L S	
Total Project Cost:	\$3,490,000
CWCB Grant:	\$250,000
CWCB Loan:	\$2,640,000
CWCB Loan (with 1% Service Fee):	\$2,666,400
Loan Term and Interest Rate:	30 years at 2.25%
Funding Source:	Construction Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
0%	100% Low - 0% Mid - 0% High 0%
P R O J E C T D E T A I L S	
Project Type:	Augmentation Facilities
Average Annual Delivery:	19.5 AF



L O C A T I O N	
Counties:	Huerfano
Water Source:	Huerfano River
Drainage Basin:	Arkansas
Division: 2	District: 67

The Huerfano County Water Conservancy District (District) is applying for a CWCB loan increase of \$440,000 to continue development of a regional augmentation program. This program will replace depletions of wells in unincorporated communities in Huerfano County. Within Huerfano County, many water users are at risk of being curtailed due either to being out of priority or due to failing (or failed) augmentation plans. The users include schools, domestic, commercial, and agricultural users. The District has utilized a Substitute Water Supply Plan and Regional Rule 14 Replacement Plan to provide augmentation water to five entities that were in danger of having water use curtailed due to out of priority usage.

Project components include the purchase of land and water rights, construction of a reservoir for augmentation use and construction of a diversion structure, pump house and diversion structure. To-date, the water rights purchase is complete and the majority of reservoir construction is complete. Construction completion of the diversion structure and pump house is anticipated by the end of 2020.



Sheep Mountain Regional Augmentation Pond and Project site

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

1313 Sherman Street, Room 721
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September 30, 2013

Huerfano County Water Conservancy District
Michael (Sandy) White, Director
Attn: Carol Dunn, Secretary
PO Box 1213
La Veta, CO 81055

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

James Eklund
CWCB Director

Re: Regional Augmentation Project
Contract Number C150364

Mr. White:

I am pleased to inform you that on September 25, 2013 the Colorado Water Conservation Board approved your loan request for the Regional Augmentation Project as described in the application and approved Loan Feasibility Study titled "*Loan Feasibility Study for Huerfano County Regional Augmentation Project*," dated July 2013. The Board approved a loan not to exceed \$2,222,000 (\$2,200,000 for project costs and \$22,000 for the 1% Loan Service Fee). The loan terms shall be 30 years at the low-income municipal rate of 2.25% per annum.

I have attached a copy of the updated Board memo dated September 26, 2013, that includes the Board's approval.

After the Board approves a loan there are a few steps that remain in the loan process including:

- A) Contracting: An approved contract must be in place before funds can be disbursed. Peg Mason will contact you to initiate the loan contracting process for this project. When all of the contract conditions are met and the contract is executed the District may request loan funds to cover eligible project expenses. You can reach Peg at (303) 866-3441 x3227.

The contract will have the following additional condition:

If the District sells, conveys, assigns, transfers, or otherwise disposes of any portion of land purchased with CWCB funds from this loan, proceeds from such transfer shall be applied to the CWCB debt service within 90 days of the sale. In the event of such sale or transfer and the proceeds not applied to this CWCB debt, the CWCB may declare all outstanding principal and interest immediately due and payable.

- B) Design/Construction: You must adhere to the CWCB Design and Construction Administration Procedures. Anna Mauss will be the Project Manager for this phase of the process. She will work with you on the disbursements of your loan funds. You can contact her at (303) 866-3441 x3224.

On behalf of the Board, I would like to thank you for your interest in a loan from the Colorado Water Conservation Board.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kirk Russell', with a stylized, cursive script.

Kirk Russell, P.E., Chief
Finance & Administration Section
Colorado Water Conservation Board

Attachment: Updated Board Memo

E-mail Copy (Including Attachments)

Alan Hamel, CWCB Board Member – Arkansas River Basin
CWCB Finance Section Staff

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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TO: Colorado Water Conservation Board Members

John W. Hickenlooper
Governor

FROM: Anna Mauss, P.E., Project Manager *AM*
Kirk Russell, P.E., Chief *KR*
Finance and Administration Section

Mike King
DNR Executive Director

James Eklund
CWCB Director

DATE: September 13, 2013 (Updated September 26, 2013)

SUBJECT: **Agenda Item 30c, September 24-25, 2013 Board Meeting**
Finance – Water Project Loans
Huerfano County Water Conservancy District – Regional Augmentation Project

Introduction

The Huerfano County Water Conservancy District (District) is applying for a CWCB loan to finance its Regional Augmentation Project (Project). The purpose of the Project is to replace depletions from wells in unincorporated communities in Huerfano County through a regional augmentation plan. The total Project cost is estimated to be \$3,050,000. The District is requesting a loan from the CWCB to cover approximately 70% of Project Costs. See attached Project Data Sheet for a location map and a Project summary.

Staff Recommendation (Board approved staff recommendation on September 25, 2013)

Staff recommends the Board approve a loan, from the Construction Fund, not to exceed \$2,222,000 (\$2,200,000 for project costs and \$22,000 for the 1% Loan Service Fee) to the Huerfano County Water Conservancy District for the Regional Augmentation Project. The loan terms shall be 30 years at the low-income municipal rate of 2.25% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following contract condition:

If the District sells, conveys, assigns, transfers, or otherwise disposes of any portion of land purchased with CWCB funds from this loan, proceeds from such transfer shall be applied to the CWCB debt service within 90 days of the sale. In the event of such sale or transfer and the proceeds not applied to this CWCB debt, the CWCB may declare all outstanding principal and interest immediately due and payable.

Background

Within Huerfano County there are many domestic wells that are at risk of being curtailed due to either being out of priority or due to failing (or failed) augmentation plans. The users include schools, and domestic, commercial, and agricultural users.

The District has utilized a Substitute Water Supply Plan (SWSP) and a Regional Rule 14 Replacement Plan from 2009 to 2013 to provide augmentation water to five entities in danger of having water use curtailed due to out of priority pumping. The entities were: Huerfano County Road and Bridge, Malachite Spring, Co 61 Water Association, Gardner Water and Sanitation District, and Paradise Acres Homeowners Association. The District believes that other water users will find it necessary to join the regional augmentation plan and the Division Engineer has indicated an urgent need for such a plan.

Loan Feasibility Study

Tom Dea, P.E. of TZA Water Engineers Inc., prepared the Loan Feasibility Study, titled "*Loan Feasibility Study for Huerfano County Regional Augmentation Project*," dated July 2013. The Study was prepared in accordance with CWCB guidelines and includes preliminary engineering and an engineer's estimate of probable cost that were used in determination of the total Project cost.

Borrower - Huerfano County Water Conservancy District

The District is a Title 37 Water Conservancy District. Its boundaries encompass almost all of Huerfano County (less a few parcels of land in the northeast corner of the County). The District is governed by a five-member board of directors.

District revenues come from an ad valorem property mill levy. In November 2012, the District received voter approval to increase the mill levy from 0.128 mills to 2.128 mills. Based upon the 2012 assessed valuation, this will generate approximately \$243,600 in annual tax revenues. The District also received voter approval to borrow up to \$3 million dollars for the purposes of acquiring and developing water rights and water storage facilities and to develop a regional augmentation plan to benefit the water users of Huerfano County.

Currently the District is limited to 15 years of debt service. The board of directors has approved a ballot question for placement on the November 2013 election ballot to allow a 30 year borrowing term. A CWCB loan contract will not be executed until the results of the election are known.

Water Rights

The District does not currently own any water rights. It has relied on leases to maintain the SWSP for the past five years. See Table 1 for further information on the water rights being purchased as a part of this Project.

Project Description

The purpose of the Project is to provide a reliable source of water and infrastructure to develop an efficient and permanent regional augmentation plan. Alternatives considered by the District included:

Alternative 1 – Do Nothing: Because the Huerfano River is over appropriated, doing nothing will result in curtailment of junior water users within the District's boundary.

Alternative 2 – Condemnation of Water Rights: The District was created to assist landowners with water issues. Condemnation was determined to be politically unacceptable to the District's board of directors.

Selected Alternative 3 – Camp Ranch Water Rights and Red Wing Augmentation Reservoir: This alternative includes: the purchase of the Camp Ranch and associated water rights, construction of the Red Wing augmentation reservoir; construction of the Camp Ranch recharge facility; and modifications to the Mapes Well No. 1 to convert it from a production well for use as a re-timing well to provide augmentation water directly to the Huerfano River.

The District has reached an agreement with the seller to purchase the Camp Ranch and associated water rights. Camp Ranch is located on the Huerfano River approximately four miles upstream of the I-25 crossing. The Camp Ranch water rights include six-sevenths interest in the William Craig Ditch, a one-third interest in the Jose Maria Ditch, and the Mapes Well No. 1. A summary of the water rights is provided in Table 1.

TABLE 1: WATER RIGHTS SUMMARY

Water Right	Decreed Amount	Decreed Use	Appropriation Date	Adjudication Date	Priority Date
William Craig Ditch	2.4 cfs	Irrigation of 120 acres	May 1, 1864	June 12, 1889	-
Jose Maria Ditch	0.24 cfs	Irrigation of 12 acres	May 1, 1873	June 12, 1889	-
Mapes Well No. 1	1.0 cfs	Irrigation of 120 acres	-	-	June 22, 1950

The District's engineers performed a preliminary analysis on the Project water rights. The results indicated an average 150 AF per year of the historical consumptive use. The dry year yield was about 70 percent of the average yield. At this time, the identified water uses requiring augmentation requirements in the Project sum to an average of about 10 AF annually. Additional water uses requiring augmentation in the Project area are expected.

The Project will include the construction of Red Wing Reservoir, a 25 AF, off-channel, lined reservoir near Red Wing, for the storage of consumptive use credits and delayed return flow obligations from the historically irrigated Camp Ranch property.

In addition to the Red Wing augmentation reservoir, a recharge facility will be built at Camp Ranch. Water will be delivered to the site(s) via the William Craig Ditch or the Jose Maria Ditch and will then recharge the Huerfano River alluvium. Water delivered to the recharge sites will address replacement of non-irrigation season return flows from the change of the senior water rights, and will provide augmentation credits to the river.

The Project also includes the conversion of the Mapes Well No. 1 to an augmentation well to allow the District to pump groundwater directly to the Huerfano River if and when necessary to cover the replacement of any instantaneous depletions owed to the river.

Preliminary engineering estimates have been prepared and used for estimating the total project cost summary as provided in Table 2.

TABLE 2: TOTAL PROJECT COST SUMMARY

Task	Cost
Earnest Money for Camp Ranch	\$50,000
Balance due for Camp Ranch and Water Rights	\$1,750,000
Construction of Red Wing Reservoir	\$600,000
Construction of Camp Ranch Recharge Facility	\$50,000
<i>Consultant and Attorney fees for acquisitions, water court filings, diligence and planning</i>	<i>\$100,000*</i>
<i>SWSPs, permitting, engineering and consultant costs for due diligence on Camp Ranch water right</i>	<i>\$250,000*</i>
<i>Water court proceedings to change the water rights, transactions and permitting</i>	<i>\$250,000 *</i>
Total Project Cost	\$3,050,000
<i>*Project Costs that cannot be reimbursed by the CWCB</i>	<i>*\$600,000</i>

An appraisal of the land and water rights will be required prior to the disbursement of the CWCB loan funds.

Schedule: The estimated Project schedule is as follows: water rights and land purchase to be completed in early 2014, construction of the Camp Ranch Recharge Facility to occur in the 2014/2015 construction seasons, and Red Wing Reservoir construction to follow between 2015 and 2016.

The District will file the water court case to change the Camp Ranch water rights to adjudicate the regional augmentation plan by December 31, 2013. The District is hopeful that it can complete the adjudication as soon as reasonably practicable which would be approximately 2-3 years. During the years while the water court action is pending, the District will obtain SWSP's pursuant to C.R.S. 37-92-308 (4) using the Camp Ranch water rights as the augmentation water source so that there will be no curtailment of use by the existing SWSP participants.

Financial Analysis

The District qualifies for the low-income municipal interest rate of 2.25% for a 30-year term. Table 3 provides a financial summary of the loan request.

TABLE 3: LOAN FINANCIAL SUMMARY

Total Project Cost	\$3,050,000
WSRA Grant Request (future request)	Up to \$500,000
Borrower Cash Match	Up to \$600,000
CWCB Loan Amount (70% of total Project cost)	\$2,200,000
CWCB Loan Amount (including 1% Service Fee)	\$2,222,000
CWCB Annual Loan Payment	\$102,655
CWCB Annual Loan Obligation (including reserve account)	\$112,920

Creditworthiness:

In The District has no existing debt. Beginning in 2013, the District's property tax revenues have increased from approximately \$15,000 annually to \$243,600 because of the voter approved increase in the mill levy.

In addition to the mill levy revenues, the District will also generate revenue from the participating members of the regional augmentation plan. It estimates it will generate \$20,000 per AF in augmentation sales based on revenues from customers of its current SWSP. At this rate, the annual augmentation sale revenues are projected to be \$200,000. (Note: Because future sales are speculative, the potential sales revenues are not included in the Future w/ Project financial ratios.)

TABLE 4: FINANCIAL RATIOS

Financial Ratio	2011 - 2012	Future w/ Project
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	100% (average) \$20K/\$20K	183% (strong) \$244K/\$183K
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	N/A	197% (strong) (\$244K-\$20K)/\$113K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	10% (weak) \$2K/\$20K	0% ⁽¹⁾ (weak) \$0/\$133K

(1) The District currently does not have the cash reserves to cover its portion of the Project cost. It is anticipating covering the \$600,000 borrower match through a WSRA grant and through excess mill levy revenues over the Project timeframe.

Collateral: As security for the loan, the District will pledge mill levy revenues and will provide annual financial reporting. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Michael (Sandy) White, Director, Huerfano County Water Conservancy District
Susan Schneider/Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program – Project Data Sheet