



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Cole Bedford, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: July 15-16, 2020 Board Meeting

AGENDA ITEM: 12b. Water Project Loans
Fort Morgan Farms, LLC - Delta Water Storage Phase I

Staff Recommendation:

Staff recommends the Board approve a loan not to exceed \$9,071,820 (\$8,982,000 for Project costs and \$89,820 for the 1% service fee) to Fort Morgan Farms, LLC for costs related to the Delta Water Storage Phase I Project, from the Severance Tax Perpetual Base Fund. The loan term shall be 30 years at the agricultural interest rate of 1.30% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following conditions:

1. Prior to the execution of the loan contract Fort Morgan Farms will provide a valuation of the proposed collateral to be pledged on the loan.
2. The loan contract will include a condition that Fort Morgan Farms will provide a summary, accompanying each year's annual payment, documenting the prior year's water storage and use. If the Delta Water Storage Phase I Reservoir is used for non-agricultural purposes, the CWCB will amend the contract to adjust the interest rate to the current interest rate related to the use. The duration of the loan will remain the same and a contract change fee will be assessed per Policy.

Introduction:

The Fort Morgan Farms, LLC (Company) is applying for a loan for the Delta Water Storage Phase I (Project). The Company is primarily engaged in the production and sale of wheat, corn, and hay on land owned and leased just west of Fort Morgan. Their ability to irrigate this land and put it to maximum use is currently limited by water availability. To increase its water availability, the Company has applied for a junior water right that would allow it to divert from the South Platte and Cache la Poudre Rivers into storage. The Project would create a storage reservoir within a currently unmined gravel pit upstream of the Company's landholdings at the confluence of the South Platte and the Cache la Poudre near Greeley to hold water associated with this junior right.

The Project, estimated at \$9,981,000, is the first of a three phase undertaking. It includes construction of a slurry wall around one of the pit cells and installation of pumping, conveyance, and measurement infrastructure that will initially allow for up to 750 acre-feet of storage in the unmined gravel alluvium. The proposed loan would cover costs associated with Phase I only. In Phase II, the gravel will be mined out by a separate entity over the course of a 10-year period. After the mining period, Phase III will construct additional pumping and conveyance infrastructure to utilize a final estimated 5,750 acre-feet of storage. See attached Project Data Sheet for a location map and Project summary.



Borrower - Fort Morgan Farms

The Company, a private entity currently in good standing with the Colorado Secretary of State, owns and works farmland in Morgan County, Colorado. It also leases fields from High Plains Grazing, LLC for additional operations. Sole ownership of both the Company and High Plains Grazing lies with Robert L. Graves. 1,480 acres of farmland are currently irrigated under with Colorado-Big Thompson units and ditch company shares and an additional 780 acres utilize wells included in augmentation plans. In 2019, the Company produced 243,000 bushels of corn, 63,500 bushels of wheat, and 866 tons of hay and straw. The Company is also closely affiliated with the Morning Fresh Dairy Farms, LLC with which it shares staff and other resources, also owned by Mr. Graves. Morning Fresh Dairy Farms is an older and larger operation engaged primarily in milk production.

Background:

The Company has not been able to fully irrigate all of its owned and leased property for lack of water and therefore has been pursuing supplemental water for several years. To that end, it has collaborated with DPG Farms to develop a property owned by DPG Farms for a water storage reservoir and an agreement to do so was signed by both parties in July 2019. The agreement states that the Company will construct a slurry wall around one cell of gravel alluvium underlying DPG Farms' property. The slurry wall is necessary to isolate groundwater from the stored surface water inside the reservoir. The slurry wall will also meet permitting requirements to allow DPG Farms to mine and sell the gravel. In return for the slurry wall investment by the Company, DPG Farms has granted an easement to the Company to store water. To utilize the storage space, the Company and co-water right applicant High Plains Grazing have applied and are under review for a junior water right in Division 1. Though approval of their application is not expected until 2024, the Company anticipates utilizing the water right in the interim.

Loan Feasibility Study:

Company staff prepared the Loan Feasibility Study titled "CWCB Loan Feasibility Study Delta Water Storage Project" dated June 2020. The study includes engineering analysis and design by Deere and Ault Engineering and Fort Morgan Farms Staff Engineer, Alan Overton, PE. The feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of alternatives, engineering plans, and construction cost estimates. Financial statements were provided by the Company.

Water Rights:

The Company's 2,260 owned and leased acres of potentially irrigable land are currently supplied by wells included in existing and contemplated augmentation plans (Case Numbers: 00CW0261, 07CW291, 08CW104). Additionally, the Company holds 723 Colorado-Big Thompson shares, 36.5 Jackson Lake shares, and 342 Bijou Ditch shares. The application for conditional storage rights associated with the Project (19CW3246) was filed in the December 2019 Water Court Resume in Division 1 Water Court.

Project Description:

The Purpose of the Project is to increase the supply of water available to the Company for irrigation and augmentation purposes. The following alternatives were analyzed:

Alternative 1 - No Action: Under this alternative the Company would continue to rely on existing water supplies for irrigation and augmentation. Water availability and storage capacity would not be increased making it unlikely that increased production of currently unirrigated farmland could be undertaken. This alternative was not selected because it does not accomplish the project purpose.

Alternative 2 - Purchase Existing Reservoir: Under this alternative the Company would purchase existing water storage capacity. Because the cost of recently built reservoirs in the region have been in the range of \$5,000 to \$6,000 per acre-foot, a 5,750 acre-foot reservoir might cost approximately \$30-\$39 million. Furthermore, the location of any purchased reservoir would have a major impact on its usefulness and would likely not be ideal. This alternative was not selected because of its high cost and lack of flexibility.

Selected Alternative 3 - Delta Water Storage Phase I: This alternative consists of the construction of a slurry wall around one gravel alluvium cell on DPG Farms’ property and would create an immediate, usable storage capacity of 750 acre-feet. Two subsequent phases will create an additional 5,000 acre-feet of storage by mining out the gravel and constructing robust inlet/outlet infrastructure over the next decade.

The cost estimate of this alternative is \$9,981,000 as shown in Table 1.

TABLE 1: ESTIMATED PROJECT COST

Task	Total
Pre-Construction Services	\$296,000
Construction Services	
Mobilization/Demobilization	\$1,065,000
Trenching and Bentonite Backfill <78-feet in Depth	\$1,483,000
Trenching and Bentonite Backfill >78-feet in Depth	\$4,366,000
Other	\$1,089,000
Post-Construction Services	\$184,000
Contingency (10%)	\$848,000
2021 Pumping, Conveyance, and Measurement Infrastructure	\$650,000
TOTAL	\$9,981,000

Permitting: The Weld County Planning Commission approved the Delta Water Storage Development Plan in 2019 and the Weld County Commissioners followed suit in February 2020 with minor stipulations related to a traffic intersection adjacent to the site. Permit number M2019028 has been obtained from the Colorado Division of Reclamation, Mining and Safety for the mining operation associated with Phase II.

Schedule: Final project design is currently underway. Construction of the slurry wall and pumping, conveyance, and measurement infrastructure is expected to begin in late summer 2020 and be completed in the winter of 2020/21. The Project Loan will be substantially completed with the testing and acceptance of the slurry wall around March 2021. The Company’s junior water right application is currently under review by the Division 1 Water Court with final approval expected in 2024. Phase II gravel mining will take place over an estimated ten-year period from 2021 to 2031 and Phase III will see the realization of the total expected storage space of 5,750 AF around 2031.

Financial Analysis:

Table 2 provides a summary of the Project’s financial aspects. The Company qualifies for an agricultural interest rate of 1.30% for a 30-year term.

TABLE 2: FINANCIAL SUMMARY

Total Project Cost	\$9,981,000
CWCB Loan Amount (90% of Project Costs per Policy #11)	\$8,982,000
CWCB Loan Amount (Including 1% Service Fee)	\$9,071,820
CWCB Annual Loan Payment	\$367,121
CWCB Annual Loan Obligation (1 st Ten Years)	\$403,833
Cost of Project per AF of Phase I Storage (750 AF)	\$13,300
Future Estimated Cost of Project per AF of Eventual Storage (5,750 AF)	\$1,900 ⁽¹⁾

(1) This assumes an additional \$900,000 investment will be required to realize the full 5,750 AF storage capacity.

Creditworthiness: Morning Fresh Dairy Farms, LLC has signed a formal pledge to support Fort Morgan Farm's repayment of the CWCB Loan. Therefore, both companies' debt, revenues, and expenses were considered in the financial analysis. Table 3 shows the Companies' debt and Table 4 provides financial ratios for the companies' historic performance from 2017-2019 and future projection with this project.

CWCB Financial Policy #11 requires that private borrowers, such as Fort Morgan Farms, LLC, shall provide collateral at a value of 110% of the borrowed amount. Furthermore, Policy #11 limits the loan to 90% of the total costs for the planning, engineering, design, and construction of projects. Both the provided collateral and the borrower match will be in compliance with CWCB Financial Policy #11.

TABLE 3: EXISTING LONG-TERM DEBT

Debt Type	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
Fort Morgan Farms, LLC					
Keith Farm	\$2,067,950	\$1,266,902	\$157,757	9/1/2029	320 acres
Heitchmidt Note	\$343,373	\$135,129	\$34,136	1/1/2024	400 acres
Stonner Note	\$191,138	\$85,428	\$23,507	4/1/2023	220 acres
Southard Farm	\$350,000	\$119,553	\$43,044	12/1/2022	103 acres
Southard House	\$114,000	\$46,784	\$14,145	7/1/2023	Building
Deganhart Note	\$700,000	\$396,673	\$64,428	1/1/2027	136 acres
Kula Note	\$344,048	\$153,771	\$42,313	1/1/2023	82 acres
3 Jackson Shares	\$180,000	\$73,530	\$23,254	1/1/2024	3 Jackson
Larrick Note	\$1,100,000	\$587,171	\$100,240	4/1/2027	16.5 Jackson
200 CBT Note	\$3,400,000	\$2,654,505	\$254,629	1/1/2030	200 CBT
60 CBT Note	\$1,037,500	\$809,712	\$84,100	6/1/2033	60 CBT
80 CBT Note	\$1,950,000	\$1,446,101	\$182,505	10/1/2029	80 CBT
85 CBT Note	\$550,000	\$50,625	\$69,088	9/1/2020	85 CBT
90 CBT Note	\$1,500,000	\$1,134,016	\$140,388	6/1/2033	90 CBT
192 CBT Note	\$2,800,000	\$2,116,830	\$262,058	1/1/2030	192 CBT
Neb House Note	\$97,500	\$25,403	\$11,818	3/1/2022	Building
Total		\$11,102,133	\$1,507,410		
Morning Fresh Dairy Farms, LLC					
Ranch Note 1	\$2,074,378	\$621,895	\$133,731	1/1/2025	784 ac, CBT
Laporte House	\$130,201	\$13,815	\$13,101	1/1/2021	Building
River House	\$546,885	\$225,701	\$34,907	5/1/2027	Building
Rice House	\$228,124	\$94,175	\$13,247	6/1/2028	Building
Total		\$955,587	\$194,986		

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Prior Years	Future w/ Project ⁽¹⁾
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	110% (average) \$16.0M/\$14.5M	107% (average) \$16.0M/\$14.9M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	188% (strong) (\$16.0M-\$12.8M) \$1.7M	152% (strong) (\$16.0M-\$12.8M) \$2.1M
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	26% (weak) \$3.75M/\$14.5M	25% (weak) \$3.75/\$14.9M

(1) Though an increase in revenue is expected as a result of the project implementation, these values conservatively assume no increase in revenues.

Collateral: Security for this loan will be Colorado-Big Thompson (CB-T) contractual rights for water administered by the Northern Water Conservancy District (Northern Water) and a partial interest in the Delta Water Storage Project whose combined value is at least 110% of the loan amount. 75% of the required security value will be represented by CB-T contractual rights and 25% of the required security value will be represented by a partial interest in the Project. A valuation of all forms of security will be conducted prior to contracting. This security is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Kurt Spears, Chief Financial Officer, Fort Morgan Farms, LLC
Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet

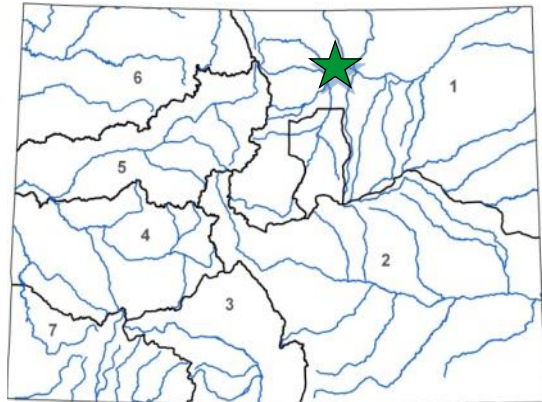


Delta Water Storage Phase 1

Fort Morgan Farms, LLC

July 2020 Board Meeting

L O A N D E T A I L S	
Project Cost:	\$9,981,000
CWCB Loan (with 1% Service Fee):	\$9,071,820
Loan Term and Interest Rate:	30 Years @ 1.30%
Funding Source:	Severance Tax Perpetual Base Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
100%	0% Low - 0% Mid - 0% High 0%
P R O J E C T D E T A I L S	
Project Type:	New Reservoir
Storage Created:	750 AF (5,750 AF eventual)



Fort Morgan Farms, LLC (Company) was formed in 2000 and owns and leases a combined 2,260 acres of land in Morgan County. The Company, however, is only able to actively farm 1,480 acres due to junior water rights. The Company grows corn, wheat, hay, and straw, and rents unused land to other parties.

L O C A T I O N	
County:	Weld
Water Source:	Cache la Poudre and South Platte Rivers
Drainage Basin:	South Platte
Division:	1 District: 2,3

The Company, along with water rights co-applicant High Plains Grazing, LLC, has an application pending in Water Court for water storage at the confluence of the Cache la Poudre and South Platte rivers with conditional diversions of 100 CFS from each. This phase of the project will construct inlet/outlet infrastructure and a slurry wall around an area that will provide up to 750 AF of storage. Once the land is mined for sand and gravel, however, about 5,750 AF of storage will be available. The Company does not own the land but has obtained a permanent easement for water storage in the reservoir. The loan will pay for engineering and construction, with the project expecting to begin construction in 2020.

