



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

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: March 10-11, 2021 Board Meeting

AGENDA ITEM: Consent Agenda 6a. Change to Existing Loans
Lateral Ditch ML47, Inc. - Lateral Ditch Pipeline Project

Staff Recommendation:

Staff recommends the Board approve a an increase to the final long-term debt amount up to \$219,000 while maintaining the terms of the existing loan not to exceed \$707,000 (\$700,000 for Project costs and \$7,000 for the 1% service fee) to the Lateral Ditch ML47, Inc. for the Lateral Ditch Pipeline Project. Security for the loan shall remain in compliance with CWCB Financial Policy #5.

Introduction:

The Lateral Ditch ML47, Inc. (Company) received approval of a \$707,000 CWCB loan (Contract number CT2021-0515) for 30 years at a blended interest rate of 1.60% to finance the Lateral Ditch Pipeline (Project) at the May 2020 Board Meeting. The ML47 Lateral Ditch is a small, open ditch supplying twenty-five properties in a partially agricultural and partially rural residential area in the east Grand Junction area. It is inadequately lined and as a result experiences excessive water losses. By piping the ditch and improving its headgate, efficiency and safety will be increased. To that end, the Project is currently under construction and approximately 60% complete. The Company has secured a Federal grant of \$538,000 from the Bureau of Reclamation Basin States Program which will be disbursed upon completion of the Project. Originally, it was expected that the entirety of the Grant would be used to pay down the CWCB loan at the end of the project, however, construction and other unexpected costs have exceeded the original estimate and therefore, a portion of the Grant will be used to pay the Contractor directly and the remainder will be used to pay down the loan. This will allow the current loan contract amount of \$707,000 to remain in place. See attached Project Data Sheet for a location map and Project summary.



Project Update

Lateral Ditch ML47 Inc. has made significant progress on the Project since the May 2020 Board Meeting authorizing the loan. The Company executed a competitive bid process which resulted in a contract with Dirtworks Construction, LLC as the general contractor. Dirtworks and its several subcontractors mobilized in November 2020. Starting at the lower end of the lateral, they have moved northward toward the ditch headgate, and have installed about two-thirds of the 8,200 feet of pipe as of February 2021.

TABLE 1: UPDATED ESTIMATED PROJECT COST

| Task | Original | Current |
|-----------------------|------------------|------------------|
| Construction | \$654,000 | \$731,000 |
| Attorney Fees | \$0 | \$8,000 |
| Headgate Improvements | \$0 | \$7,000 |
| Contingency | \$46,000 | \$12,000 |
| TOTAL | \$700,000 | \$758,000 |

Permitting: The Company coordinated with Mesa County for road crossings and all necessary permits have been executed.

Schedule: The original project completion date was extended from March 2021 to April 2021. This extension will allow for pipe pressure testing to take place after water is released into the GVIC Canal at the head of ML47. The Bureau of Reclamation Basin State's Program Grant end date was also extended to April to protect the grant funding.

Financial Analysis:

Table 2 provides a summary of the updated Project's financial aspects. In 2017 the Company secured a \$538,000 grant through the Basin States Program of the Colorado River Basin Salinity Control Program for the Project. This funding traditionally pays out as a lump sum upon project completion and at least \$488,000 of it will remain at the end of the Project and be applied to the loan balance. The Company qualifies for a blended interest rate of 1.60% (Ownership: 50% agricultural, 50% low-income municipal, 0% commercial) for a 30-year term. The Company was also awarded an \$8,000 WSRF grant for the project in November 2020.

TABLE 2: UPDATED FINANCIAL SUMMARY

| Project Item | Original | Current |
|---|-----------|-----------|
| Total Project Cost | \$700,000 | \$758,000 |
| CWCB Loan Amount | \$700,000 | \$700,000 |
| CWCB Loan Amount (Including 1% Service Fee) | \$707,000 | \$707,000 |
| WSRF Grant Funding | \$0 | \$8,000 |
| Basin States Program Grant Funding | \$538,000 | \$538,000 |
| CWCB Long-Term Debt | \$169,000 | \$219,000 |
| CWCB Annual Loan Payment | \$7,100 | \$9,250 |
| CWCB Annual Loan Obligation (1 st Ten Years) | \$7,800 | \$10,175 |
| Number of Users | 25 | 25 |
| Annual Loan Obligation per User | \$310 | \$407 |
| Current Assessment per User | \$100 | \$100 |
| Estimated Average Future Assessment per User ¹ | \$410 | \$507 |

1. Because the number of shares owned by each user will differ, the average assessment is not necessarily reflective of the actual assessment paid by any given user.

Creditworthiness: The Company's debt has not changed since the January 2020 Project Approval and they are still considered an average to strong borrower.

TABLE 3: UPDATED FINANCIAL RATIOS

| Financial Ratio | Prior Years | Future w/ Project |
|--|--------------------------------------|---|
| Operating Ratio (revenues/expenses) weak: <100% / average: 100% to 120% / strong: >120% | 139% (strong) \$2.5K/\$1.8K | 100% (average) \$12.0K/\$12.0K |
| Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% / average: 100% to 120% / strong: >120% | N/A | 100% (average) <u>(\$12.0K-\$1.8K)</u> \$10.2K |
| Cash Reserves to Current Expenses weak: <50% / average: 50% to 100% / strong: >100% | 389% (strong) \$7.0K/\$1.8K | 58% (average) \$7.0K/\$12.0K |
| Annual Operating Cost per Acre-Foot (1,400 AF) weak: >\$20 / average: \$10 to \$20 / strong: <\$10 | \$1.29 (strong) \$1.8K/1.4K AF | \$8.57 (strong) \$12.0K/1.4K AF |

Collateral: Security for this loan will remain a pledge of assessment revenues and shares of the Grand Valley Irrigation Company represented by stock certificates deemed adequate by staff to secure the long-term debt amount with respect to the creditworthiness and repayment capacity of the borrower per Policy #5.

cc: Kathy Ericson, President, Lateral Ditch ML47, Inc.
 Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet; Original Board Memo (May 2020)

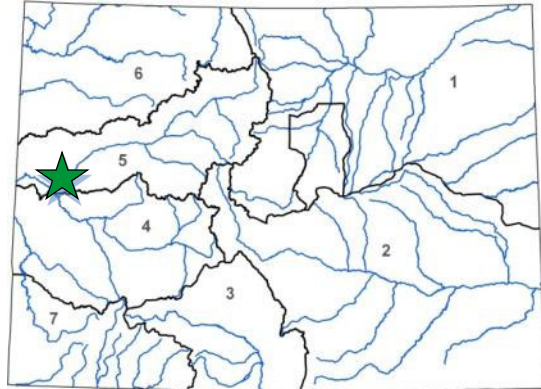


Lateral Ditch Pipeline Project

Lateral Ditch ML47, Inc.
March 2021 Board Meeting

(Final Term Increase)

| L O A N D E T A I L S | |
|---|-----------------------------------|
| Project Cost: | \$700,000 |
| Initial CWCB Loan (with Service Fee): | \$707,000 |
| Long Term CWCB Loan (with Service Fee): | \$219,000 |
| Loan Term and Interest Rate: | 30 years @ 1.60% |
| Funding Source: | Severance Tax Perpetual Base Fund |
| B O R R O W E R T Y P E | |
| Agriculture | Municipal |
| 50% | 50% Low - 0% Mid - 0% High |
| Commercial | 0% |
| P R O J E C T D E T A I L S | |
| Project Type: | Ditch Piping |
| Average Annual Diversions: | 1,400 AF |

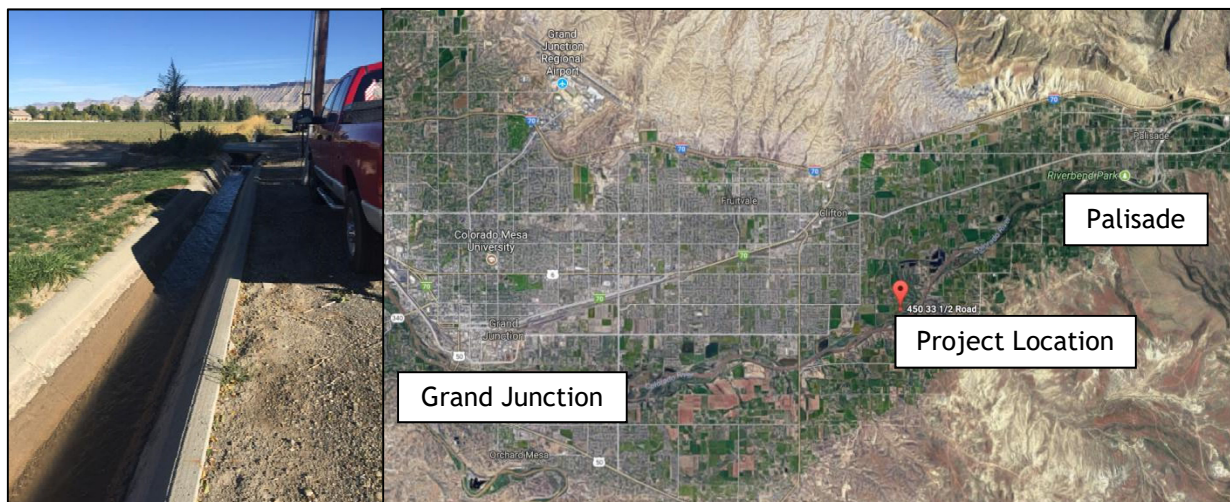


| L O C A T I O N | |
|-----------------|----------------|
| County: | Mesa |
| Water Source: | Colorado River |
| Drainage Basin: | Colorado |
| Division: | 5 |
| District: | 72 |

Lateral Ditch ML47, Inc. (Company) is a nonprofit corporation that operates and maintains a lateral serving 25 irrigators along 33 ½ Road who grow hay, corn, alfalfa, hemp, as well as water lawns and pastures. These irrigators all own shares in the Grand Valley Irrigation Company (GVIC), which owns senior water rights on the Colorado River, and provides water to the lateral.

The lateral is primarily a concrete lined ditch, which occasionally experiences flooding when trash blows in and blocks the flow, and has developed significant cracks that leach water. The Company executed a competitive bid process which resulted in a contract with Dirtworks Construction, LLC as the general contractor. Dirtworks and its several subcontractors mobilized in November 2020. They are now in the process of improving the GVIC headgate and piping the ditch.

The improved irrigation system will allow the Company to regulate the amount of water members use, and determine if there is a need to adjust shares to meet current needs. The project will also leverage federal funding through a Bureau of Reclamation Basin States Program grant for \$538,000. Originally, it was expected that the entirety of the Grant would be used to pay down the CWCB loan at the end of the project, however, construction and other unexpected costs have exceeded the original estimate and therefore, a portion of the Grant will need to be used to pay the Contractor directly and the remainder will be used to pay down the loan.





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Dan Gibbs, DNR Executive Director

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

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

DATE: May 20, 2020

AGENDA ITEM: 11b. Water Project Loans
Lateral Ditch ML47, Inc. – Lateral Ditch Pipeline Project

Staff Recommendation:

Staff recommends the Board approve a loan not to exceed \$707,000 (\$700,000 for Project costs and \$7,000 for the 1% service fee) to the Lateral Ditch ML47, Inc. for costs related to the Lateral Ditch Pipeline Project, from the Severance Tax Perpetual Base Fund. The loan terms shall be 30 years at a blended interest rate of 1.60% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Additionally, staff recommends the following contract conditions:

1. Any future Bureau of Reclamation Basin States Program funds obtained for the purpose of this Project shall be submitted to CWCB to be applied to the balance of the loan within thirty (30) days after receipt of said funds. The remaining balance of the loan will be the long-term loan debt.
2. CWCB will hold a lien on a number of Grand Valley Irrigation Company shares represented by a single stock certificate whose value, in combination with other securities, is equal to or exceeds the long-term loan debt prior to any loan disbursements.

Introduction:

The Lateral Ditch ML47, Inc. (Company) is applying for a loan for the Lateral Ditch Pipeline (Project). The ML47 Lateral Ditch is a small, open ditch supplying twenty-five users in a partially agricultural and partially rural residential area in the Grand Valley. It diverts about 1,400 acre-feet annually from a headgate on the Grand Valley Irrigation Canal (GVIC) which diverts water from the Colorado River in Palisade. The ML47 Lateral Ditch is inadequately lined and as a result experiences excessive water losses. By piping the ditch and improving the GVIC headgate, efficiency and safety will be increased. The quality of water returning to the Colorado River will also be improved while reducing water loss, maintenance costs, and the risks and liabilities of flooding. To those ends, the Project was designed and is estimated to cost \$700,000. The Company has secured a Federal grant from the Bureau of Reclamation Basin States Program which will be disbursed upon completion of the Project and used to pay down \$538,000 of loan principal. These funds will expire in March 2021 if not utilized by that time. See attached Project Data Sheet for a location map and Project summary.



Borrower - Lateral Ditch ML47, Inc.

The Company is a nonprofit corporation registered in the State of Colorado on July 27, 2011. The ditch itself has existed as an association of irrigators since the late 1800's. The ditch users maintain the lateral and pay assessments for needed repairs. There are twenty-five current users on the lateral ditch listed on the Grand Valley Irrigation Company (GVIC) Head Gate ML47 Report. The Company has the power to set annual assessments to be paid by the lateral's users.

The board, with a 2/3 vote, may authorize indebtedness but the loan must have first been approved by a majority vote of the membership. Membership dues are collected annually in March and are delinquent after June. Delinquent dues are charged interest at the rate of 10% per month until paid. The Board has the ability to file a lien against a property of delinquent members. Special assessments to fund construction projects shall be approved by a majority vote based upon total water user shares at the Company's annual meeting. If the membership fails to approve a recommended assessment, the Board of Directors has the power to set special assessments as required for the continued operation of the lateral.

Background:

Much of the ML47 Ditch was lined in the 1970's and for many years afterward it was maintained by its users under informal agreements. As the lining aged, however, maintenance needs became more extensive and therefore Lateral Ditch ML47, Inc. was formed in 2011 to better coordinate ditch improvements. Identifying a need to reduce water losses through the ditch and to more accurately distribute the supply, the Company subsequently worked with the Natural Resources Conservation Service (NRCS) to design the Lateral Ditch Pipeline Project. Furthermore, in 2017 the Company secured a grant through the Basin States Program of the Colorado River Basin Salinity Control Program for the Project.

Loan Feasibility Study:

Kathy Ericson, President of Lateral Ditch ML47, Inc. prepared the Loan Feasibility Study titled "Loan Feasibility Study for Lateral Ditch ML47, Inc." dated ??? with technical support from NRCS. The feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of alternatives, stamped engineering plans, and construction cost estimates. Financial statements were provided by the Company.

Water Rights:

The users of ML47 own 340 shares in the GVIC. Most or all of these shares will be transferred to the Company to be used as collateral in accordance with this loan's approval condition. The Company diverts their allotment of water from the mainline of the GVIC at the ML47 headgate. The source of water is the Colorado River where GVIC has a diversion structure on the north bank, near Highway 6 in Palisade. The Company diverts approximately 1,400 AF of water annually.

Project Description:

The Purpose of the Project is to improve the GVIC headgate and pipe the ditch with a pressurized system to increase efficiency, safety, and improve the quality of water returning to the Colorado River while also reducing water loss, maintenance costs, and the risks and liabilities of flooding. The following alternatives were analyzed:

Alternative 1 - No Action: This alternative was considered unacceptable because it would not address current water losses and would lead to increased maintenance costs over time. It would also fail to leverage federal funding.

Alternative 2 - Concrete Lining Lateral: This alternative was considered unacceptable. It would address percolation losses, but not evaporative losses which are difficult to estimate. The ditch would remain open and a potential hazard to pedestrians. Maintenance costs would remain high and additional funding would need to be secured for this alternative.

Selected Alternative 3 - Pressurized Pipe System: This alternative will consist of replacing the open lateral ditch system with a system of pressured pipes. This will address the percolation losses, improve safety, and leverage the secured federal funding.

The cost estimate of this alternative is \$700,000 as shown in Table 1.

TABLE 1: ESTIMATED PROJECT COST

| Task | Total |
|--|------------------|
| Demolition | \$16,400 |
| Road Crossings (x6) | \$108,000 |
| Concrete | \$14,400 |
| Pipe Material and Installation | \$320,000 |
| Gravel and Fill Material | \$41,000 |
| Other Fittings, Material, and Installation | \$154,200 |
| Contingency | \$46,000 |
| TOTAL | \$700,000 |

Permitting: The Company will coordinate with Mesa County for road crossings.

Schedule: Final engineering and design is complete. The contractor selection process and coordination with GVIC will begin upon confirmation of loan approval. Construction will begin at the end of the irrigation season in October 2020 and be completed around February 1, 2021.

Financial Analysis:

Table 2 provides a summary of the Project's financial aspects. In 2017 the Company secured a \$538,000 grant through the Basin States Program of the Colorado River Basin Salinity Control Program for the Project. This funding pays out as a lump sum upon project completion and will be applied to the loan balance per this loan's contract condition. The Company qualifies for a blended interest rate of 1.60% (Ownership: 50% agricultural, 50% low-income municipal, 0% commercial) for a 30-year term. The Company is also pursuing a WSRF grant which has been recommended for approval by the Colorado Basin Roundtable. Table 2 does not reflect potential WSRF funding.

TABLE 2: FINANCIAL SUMMARY

| | |
|---|-----------|
| Total Project Cost | \$700,000 |
| CWCB Loan Amount | \$700,000 |
| CWCB Loan Amount (Including 1% Service Fee) | \$707,000 |
| Basin States Program Grant Funding | \$538,000 |
| CWCB Long-Term Debt | \$169,000 |
| CWCB Annual Loan Payment | \$7,100 |
| CWCB Annual Loan Obligation (1 st Ten Years) | \$7,800 |
| Number of Users | 25 |
| Annual Loan Obligation per User | \$310 |
| Current Assessment per User | \$100 |
| Estimated Future Assessment per User | \$410 |

Creditworthiness: The Company has no existing debt. Revenues are derived from shareholder assessments which the Company will increase to cover their annual debt obligation to CWCB. Assessments have been steady in recent years. Table 3 provides financial ratios for the Company's historic performance from 2017-2019 and future projection with this project.

TABLE 3: FINANCIAL RATIOS

| Financial Ratio | Prior Years | Future w/ Project |
|---|--------------------------------------|--|
| Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120% | 139% (strong) \$2.5K/\$1.8K | 100% (average) \$9.6K/\$9.6K |
| Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120% | N/A | 100% (average) (\$9.6K-\$1.8K) \$7.8K |
| Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100% | 389% (strong) \$7.0K/\$1.8K | 73% (average) \$7.0K/\$9.6K |
| Annual Operating Cost per Acre-Foot (1,400 AF) weak: >\$20 - average: \$10 - \$20 - strong: <\$10 | \$1.29 (strong) \$1.8K/1.4K AF | \$6.86 (strong) \$9.6K/1.4K AF |

Collateral: Security for this loan will be a pledge of assessment revenues and shares of the Grand Valley Irrigation Company represented by a single stock certificate equal or exceeding the estimated long-term debt amount prior to disbursement of any CWCB funds. This security is in compliance with the CWCB financial Policy #5 (Collateral).

cc: Kathy Ericson, President, Lateral Ditch ML47, Inc.
Jennifer Mele, Colorado Attorney General's Office

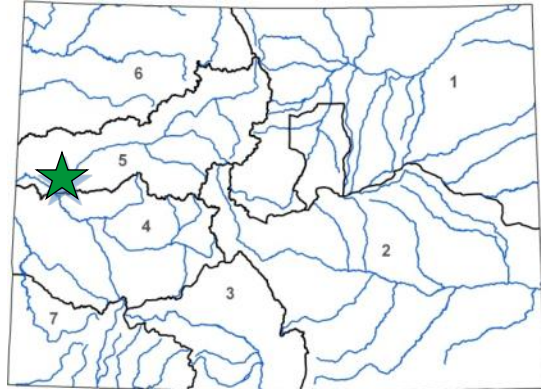
Attachment: Water Project Loan Program - Project Data Sheet



Lateral Ditch Pipeline Project

Lateral Ditch ML47, Inc.
May 2020 Board Meeting

| L O A N D E T A I L S | |
|---|-----------------------------------|
| Project Cost: | \$700,000 |
| Initial CWCB Loan (with Service Fee): | \$707,000 |
| Long Term CWCB Loan (with Service Fee): | \$169,000 |
| Loan Term and Interest Rate: | 30 years @ 1.60% |
| Funding Source: | Severance Tax Perpetual Base Fund |
| B O R R O W E R T Y P E | |
| Agriculture | Municipal |
| 50% | 50% Low - 0% Mid - 0% High |
| Commercial | 0% |
| P R O J E C T D E T A I L S | |
| Project Type: | Ditch Piping |
| Average Annual Diversions: | 1,400 AF |



| L O C A T I O N | | | |
|-----------------|----------------|-----------|----|
| County: | Mesa | | |
| Water Source: | Colorado River | | |
| Drainage Basin: | Colorado | | |
| Division: | 5 | District: | 72 |

Lateral Ditch ML47, Inc. (Company) is a nonprofit corporation that operates and maintains a lateral serving 25 irrigators along 33 ½ Road who grow hay, corn, alfalfa, hemp, as well as water lawns and pastures. These irrigators all own shares in the Grand Valley Irrigation Company (GVIC), which owns senior water rights on the Colorado River, and provides water to the lateral.

The lateral is primarily a concrete lined ditch, which occasionally experiences flooding when trash blows in and blocks the flow, and has developed significant cracks that leach water. The Company intends to improve the GVIC headgate, and pipe the ditch with a pressurized system to increase efficiency, safety, and improve the quality of water returning to the Colorado River while also reducing water loss, maintenance costs, and the risks and liabilities of flooding. The improved irrigation system will also allow the Company to regulate the amount of water members use, and determine if there is a need to adjust shares to meet current needs. The project will also leverage federal funding through a Bureau of Reclamation Basin States Program grant for \$538,000; however, this funding will not be paid until after construction is complete.

