



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: Joshua Godwin, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: September 20-21, 2022 Board Meeting

AGENDA ITEM: 10c. Water Project Loans
Town of Keenesburg - Alluvial Water Rights Extension Project

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$2,121,000 (\$2,100,000 for project costs and \$21,000 for the 1% service fee) to the Town of Keenesburg, operating by and through its water activity enterprise, for costs related to the Alluvial Water Rights Extension Project, from the Severance Tax Perpetual Base Fund. The loan term will be 30 years at an interest rate of 2.70% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Introduction

The Town of Keenesburg (Town) is applying for a loan for the Alluvial Water Rights Extension Project (Project). The Town serves an estimated population of 2,500 residents. The Town currently obtains its water from five wells located in or near the Town that withdraw water from a non-renewable aquifer and one well that withdraws water from a renewable aquifer. The Town has seen significant growth and service area expansion and will need additional water supply for residents before 2025. The total Project cost is estimated to be \$3,110,000; this includes the costs of water rights, piping, and engineering. The Town is requesting a loan for roughly 70% of the Project and will fund the rest of the Project with cash reserves. See attached Project Data Sheet for a location map and Project summary.



Borrower - Town of Keenesburg

The Town, established in 1919, provides drinking water to its residents and is located in Weld County along I-76 within the Lost Creek Designated Basin. The Town has an estimated population of nearly 2,500. The Town relies on water sales to fund water supply operations and maintenance, and tap fees, and raw water acquisition fees to fund expansion of its system. They are currently serving 854 taps, with 95% being residential and the remaining 5% of taps split between commercial, schools, and public buildings. The Town does not deliver more than 2,000 AF of water and therefore a Water Efficiency Plan is not required for this loan.

Background

The Town currently supplies water to residents through five Laramie-Fox Hills (LFH) wells and one Lost Creek Designated Basin alluvial well. The Town has found that the blending of the two water sources at roughly a 55:45 (alluvial : LFH) ratio maintains water quality beneath the Colorado Department of Public Health and Environment's Maximum Contaminant Level fluoride and sodium are the constituents of concern in the LFH wells. The Town has LFH water and Lost Creek alluvial water that it may draw from; projections show that at the current rate of growth, the Town will need the additional alluvial water supply for blending before 2025. Also, should the Town's existing Lost Creek alluvial well shut down for repair or involuntary reasons, there is no redundant back-up supplies to blend with the LFH water. The proposed Project will provide needed blending supplies in the near future, as well as, redundancy in the potential shut-down of their existing Lost Creek alluvial well for maintenance. The Project will also extend 1.3 miles of pipeline to integrate the new well with the Town's infrastructure.

Loan Feasibility Study

Thomas Dea, P.E., with Colorado Water Well, prepared the Loan Feasibility Study titled, "Feasibility Study for CWCB Loan Application" dated July 2022 at the behest of the Town of Keenesburg. The feasibility study is in accordance with CWCB guidelines and includes an analysis of alternatives, estimated costs, and financial statements prepared by the Town's Treasurer.

Water Rights

The Town currently has right to 244.5 AF of LFH water rights and 139.6 AF of Lost Creek alluvial water rights. The LFH water is considered nonrenewable in that there is a finite volume that the Town will be able to withdraw; the Lost Creek alluvial water rights are considered renewable and - since the rights are within a designated basin - they are not part of the prior appropriation system. The proposed water rights to be purchased as part of the Project have - in recent years - been used for oil and gas development. The water rights have gone through a historical consumptive use analysis and therefore approved consumption of 120 AF/yr. The seller and the Town are currently co-applicants before the Groundwater Commission to modify the approved uses of the water right to include "municipal uses".

TABLE 1: WATER RIGHTS

| Name | Permit | Amount (AF/Yr) |
|--|----------|----------------|
| Laramie-Fox Hills Wells (Wells 2, 4, 5, 7, 14) | 2417-FP | 32 |
| | 31587-FP | 50 |
| | 23522-FP | 60 |
| | 23850-FP | 65 |
| | 84983-FP | 37.5 |
| Lost Creek Alluvial Well (Well 11) | 31652-FP | 139.6 |

Project Description

The purpose of this Project is to acquire water supply for the Town’s imminent needs and connect the new water rights to existing infrastructure.

Alternative 1 - No Action: Taking no action would result in the failure of the Town to meet future demands in the near future and place the Town at risk should their existing Lost Creek Alluvial Well cease to operate. Because this alternative does not meet the Town’s needs, it was not selected.

Alternative 2 - Construct Additional LFH Wells: This alternative involves constructing additional LFH wells as the Town continues to grow. While this option would provide additional water for the Town, it would not alleviate the blending limitations that will impact water quality. Each additional LFH well is estimated to cost \$700,000 and expected to produce 80 AF/yr. Even though this is comparatively inexpensive, additional LFH wells would not meet the redundancy needs of the Town’s alluvial water supply and therefore was not selected.

Selected Alternative 3- Purchase Lost Creek Alluvial Water Rights: This alternative involves the purchase of water rights associated with Permit # 31558-FP, the upgrade of the existing well, and connecting the water rights to the Town’s existing infrastructure via 1.3 miles of pipeline. This alternative would meet the Town’s redundancy needs and provide them with 120 AF/yr of alluvial water needed for blending. The estimated cost is \$3,110,000 and is shown in Table 2.

TABLE 2: ESTIMATED PROJECT COST

| Tasks | Cost |
|--|--------------------|
| Water Rights Purchase | \$2,100,000 |
| Engineering, Legal, and Administration | \$132,000 |
| 1.3 Miles of Pipeline | \$449,000 |
| Well, Pumps, Vaults, and Structures | \$315,000 |
| Construction Contingencies 15% | \$114,000 |
| TOTAL | \$3,110,000 |

Permitting: No permits are expected to be needed on the Project. Any construction related permits will be addressed by the contractor.

Schedule: The Town has an agreed upon purchase price for the water rights and desires to finalize the transaction by late 2022. The seller and the Town are co-applicants before the Groundwater Commission to modify the approved uses of the water right to include municipal uses. The sale will not close until the change of use is approved. The Town anticipates construction to begin in early 2023 and to be completed in 2024.

Financial Analysis

Table 3 provides a summary of the Project’s financial aspects. The Town qualifies for a Municipal Middle-Income interest rate of 2.70% for a 30-year loan. All interest rate evaluations are per CWCB Financial Policy #7 (Lending Rate Determination).

TABLE 3: FINANCIAL SUMMARY

| | |
|---|-------------|
| Project Cost | \$3,110,000 |
| CWCB Loan Amount | \$2,100,000 |
| CWCB Loan Amount (Including 1% Service Fee) | \$2,121,000 |
| CWCB Annual Loan Payment | \$104,058 |
| CWCB Annual Loan Obligation (1 st Ten Years) | \$114,464 |
| Number of Taps | 854 |
| Monthly Loan Obligation per Tap | \$11.17 |

Creditworthiness: The Town received a CWCB loan in 2006: C150223 for \$1,127,068. The Town has \$624,147 in long-term debt remaining. The Town is up-to-date on their payments and is in good standing.

TABLE 4: EXISTING DEBT

| Lender | Original Balance | Current Balance | Annual Payment | Maturity Date | Collateral |
|----------------|------------------|-----------------|----------------|---------------|--------------------|
| CWCB (C150223) | \$1,127,068 | \$624,147 | \$63,265 | 07/01/2035 | Pledge of Revenues |

TABLE 5: FINANCIAL RATIOS

| Financial Ratio | Past Years | Future w/ Project |
|---|--|--|
| Operating Ratio (revenues/expenses) weak: <100% average: 100% - 120% strong: >120% | 438% (strong) \$3.5M/\$0.80M | 383% (strong) \$3.5M/\$0.91M |
| Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% average: 100% - 120% strong: >120% | 4,385% (strong) <u>\$3.5M-\$0.74M</u> \$0.06M | 1,561% (strong) <u>\$3.5M-\$0.74M</u> \$0.18M |
| Cash Reserves to Current Expenses weak: <50% average: 50% - 100% strong: >100% | 625% (strong) \$5.0M/\$0.80M | 438% (strong) \$4.0M/\$0.91M |
| Debt per Tap (854 taps) weak: >\$5,000 average: \$2,500 - \$5,000 strong: <\$2,500 | \$726 (strong) \$620K/854 | \$2,483 (strong) \$2.1M/854 |
| Average Monthly Water Bill weak: >\$60 average: \$30 - \$60 strong: <\$30 | \$70 (weak) | \$70* (weak) |

*The Town does not plan to raise rates after taking this loan. The loan repayment will be covered by other revenue streams.

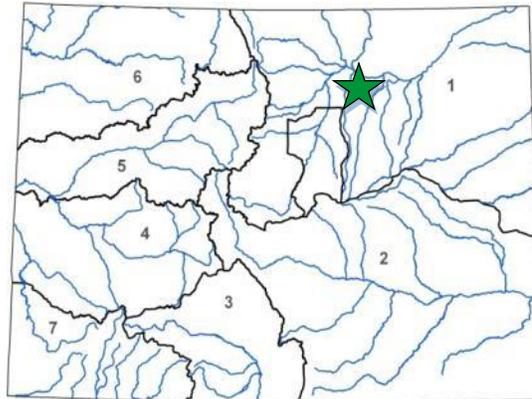
Collateral: Security for this loan will be a pledge of water enterprise fund revenues backed by a rate covenant as evidenced by annual financial reporting. This security is in compliance with the CWCB financial Policy #5 (Collateral).

cc: Debra Chumley, Town Manager, Town of Keenesburg
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet



| L O A N D E T A I L S | |
|----------------------------------|-----------------------------------|
| Project Cost: | \$3,110,000 |
| CWCB Loan (with 1% Service Fee): | \$2,121,000 |
| Loan Term and Interest Rate: | 30 Yrs @ 2.70% |
| Funding Source: | Severance Tax Perpetual Base Fund |
| B O R R O W E R T Y P E | |
| Agriculture | Municipal |
| 0% | 0% Low - 100% Mid - 0% High |
| Commercial | 0% |
| P R O J E C T D E T A I L S | |
| Project Type: | Water Rights Purchase |
| Average Annual Delivery: | 233 AF |



| L O C A T I O N | |
|-----------------|--------------|
| County: | Weld |
| Water Source: | Lost Creek |
| Drainage Basin: | South Platte |
| Division: 1 | District: 1 |

The Town of Keenesburg, by and through its water activity enterprise, serves 854 taps with an estimated population of 2,500. The Town is experiencing significant population growth, including requests for annexation, and is expected to continue to grow thereby requiring new water supplies. Water for the Town is currently served by 5 wells in the Laramie-Fox Hills Aquifer, which has high levels on fluoride requiring blending with another well in the Lost Creek (LC) alluvial aquifer to meet state water quality standards.

The Project includes the purchase of a LC well, and construction of a well pump and 1.3 miles of pipeline to connect the well to Town's existing water system. The Town anticipates using the loan to fund 70% of the Project. The Town intends to complete the purchase of the water rights when funds are secured and a joint application for municipal use is approved; construction is expected to begin in late 2023 and complete in late 2024.

