



COLORADO
Colorado Water
Conservation Board
Department of Natural Resources

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Dan Gibbs, DNR Executive Director

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Finance Section Chief

DATE: January 23-34, 2023 Board Meeting

CONSENT

AGENDA ITEM: 4a. Changes to Existing Loans
Tunnel Water Company
West Half Laramie-Poudre Tunnel Rehabilitation

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$18,008,300 (\$17,830,000 for Project costs and \$178,300 for the 1% service fee) to the Tunnel Water Company for costs associated with the West Half Laramie-Poudre Tunnel Rehabilitation from the Construction Fund. The loan term shall remain 30 years at an interest rate of 2.85% per annum. This is an increase of \$757,500 (\$750,000 for Project costs and \$7,500 for the 1% service fee) above the current loan contract. Security for the loan shall remain in compliance with CWCB Financial Policy #5.

Introduction/Background

The Tunnel Water Company (Company) originally received approval of a \$9,090,000 CWCB loan (Contract No. CT2019-3706) to finance the West Half of the Laramie-Poudre Tunnel Rehabilitation (Project) at the March 2019 Board Meeting. In November 2019, the Board approved a loan increase up to \$11,615,000. This first Increase required the loan to be put in the CWCB Projects Bill (HB20-1403). This was due to the new loan amount exceeding the Board's approval threshold of \$10M, and therefore, Legislative authorization was required. Before the Bill was introduced in early 2020, a second increase was needed and approved in March of 2020 for total loan amount of \$17,250,800 and is currently the contracted amount. The request now is the third loan increase. It is \$8,918,300 (\$8,830,000 for Project costs and \$88,300 for the 1% service fee) above the original approval.

The general purpose of the Project is to prevent future tunnel collapse and blockage by rehabilitating the existing west half of the tunnel with replacement of the existing support systems. After nearly 3 years of construction delays due to a fire in the tunnel; the Cameron Peak Fire (Aug 2020) and additional complications with tunnel construction in areas of weak rock material, the Project is nearly complete. The Company is in negotiations with the contractor to determine what additional work is under warranty vs. contract scope of work. It has been estimated that an additional \$750,000 in additional work may be needed to close out the Project. See the attached Project Data Sheet for a location map and a Project summary.



Project Update

West Half of the Laramie Poudre Tunnel: The Company began work on the Laramie-Poudre Tunnel in August 2019. The project was originally scheduled for completion in the Spring of 2020, but extended into a second construction season largely due to a fire that occurred within the tunnel in February of 2020. Another major setback for the project occurred in August 2020 due to the Cameron Peak Fire, which delayed the Project approximately three months. This resulted in delays that forced the Project into a third construction season, (Aug 2021 through May 2022).

In early 2022, the contractor, Harrison Western Corporation, discovered they had constructed the tunnel 8ft higher than design grade over a length of about 100 feet. Harrison Western agreed to correct the invert to design grade under its warranty. Harrison Western declared the project substantially complete in May 2022.

Upon inspection in August 2022, the Company discovered that significant portions of the tunnel had collapsed and were actively collapsing in the same area. The Company is in negotiation with the contractor to determine which issues fall under the contract as warranty work vs. additional construction cost. Currently the total cost associated with the repairs is estimated to be up to \$750,000. The total Project cost is now estimated at \$17,830,000.

Schedule: Construction will continue through the spring of 2023.

Financial Analysis

Table 1 provides a summary of the Project's financial aspects. The term of the loan will remain at 30 years at a blended interest rate of 2.85% (Ownership: 4% Low-Income Municipal, 25% Middle-Income Municipal, 49% High-Income Municipal, 22% Agriculture). This increase will cover 100% of eligible costs.

TABLE 1: UPDATED FINANCIAL SUMMARY

	Original	Last Increase	Current
Total Project Cost	\$9,000,000	\$17,080,000	\$17,830,000
CWCB Loan Amount	\$9,000,000	\$17,080,000	\$17,830,000
CWCB Loan Amount (Including 1% Service Fee)	\$9,090,000	\$17,250,800	\$18,008,300
CWCB Annual Loan Payment	\$454,818	\$863,144	\$901,046
CWCB Annual Loan Obligation (inc 10% Reserve)	\$500,300	\$949,458	\$991,151
Number of Shares	450	450	450
Annual Loan Obligation per Share	\$1,112	\$2,110	\$2,203
Current Assessment per Share	\$1,370	\$1,437	\$2,778
Future Assessment per Share (Estimate)	\$2,620	\$3,697	\$3,956*

* The Company will set assessments based on the final Project costs.

Creditworthiness: The Company has \$5,378,864 in existing debt made up of five CWCB loans as summarized in Table 3. All loans are in good standing.

TABLE 2: UPDATED EXISTING DEBT

Lender	Original Balance	Current Balance	Annual Payment	Maturity Date	Collateral
CWCB C150052	\$1,570,214	\$769,023	\$98,226	2032	Water rights available to the Laramie River System of the Tunnel Water Company. The west and east portal structures and the easement for the Laramie-Poudre Tunnel.
CWCB C150065	\$1,847,932	\$897,898	\$112,799	2032	
CWCB CT2016-2001	\$1,654,041	\$1,572,712	\$82,582	2049	
CWCB CT2021-3927	\$1,198,067	\$1,198,067	\$51,312	2052	
CWCB CT2021-3928	\$941,164	\$941,164	\$44,195*	2050	
Total		\$5,378,864	\$389,114		

* This is a Wildfire Impact Loan and does not require repayment to begin until May 1, 2024

TABLE 3: UPDATED FINANCIAL RATIOS

Financial Ratio	Past Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% average: 100% - 120% strong: >120%	100% (average) \$1.58M/\$1.58M	100% (average) \$1.78M/\$1.78M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% average: 100% - 120% strong: >120%	100% (average) <u>(\$1.58M-\$0.340M)</u> \$1.24M	100% (average) <u>(\$1.78M-\$0.400M)</u> \$1.38M
Cash Reserves to Current Expenses weak: <50% average: 50% - 100% strong: >100%	19% (weak) \$0.293M/\$1.58M	72% (average) \$1.28M/\$1.78M
Annual Operating Cost per Acre-Foot (15,755AF) weak: >\$20 average: \$10 - \$20 strong: <\$10	\$101 (weak) \$1.58M/15,755 AF	\$113 (weak) \$1.78M/15,755 AF

Collateral: Security for this loan will remain a pledge of assessment revenues and the project, the tunnel having a west portal continuing 2.15 miles until its east portal, including any easements, access and operation of the portal structures for the Laramie-Poudre Tunnel. This is in compliance with CWCB Financial Policy #5 (Collateral).

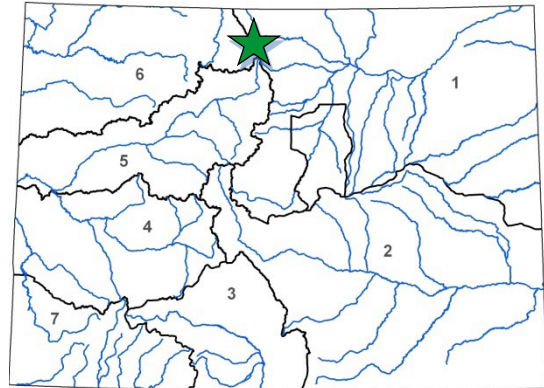
cc: Donald Frick, General Manager, The Tunnel Water Company
Jennifer Mele, Colorado Attorney General's Office

Attachments: Water Project Loan Program - Project Data Sheet
Original Board Memo (March 2019)
Increase Board Memo (November 2019)



(3rd Loan Increase)

L O A N D E T A I L S	
Project Cost:	\$17,830,000
CWCB Loan (with Service Fee):	\$18,008,300
Loan Term and Interest Rate:	30 Years @ 2.85%
Funding Source:	Construction Fund
B O R R O W E R T Y P E	
Agriculture	Municipal Commercial
22%	4% Low - 25% Mid - 49% High 0%
P R O J E C T D E T A I L S	
Project Type:	Ditch Rehabilitation
Average Annual Diversion:	15,755 AF



The Tunnel Water Company (Company) operates the Laramie-Poudre Tunnel for the benefit of its two shareholders: Water Supply and Storage Company (WSSC) and Windsor Reservoir and Canal Company (WRCC). The tunnel diverts from the Laramie River, about 60 miles west of Fort Collins, and delivers water through a 2.2-mile tunnel to the Poudre River. WSSC delivers irrigation water to its shareholders, primarily for agricultural irrigation on approximately 40,000 acres lying below the Larimer County Canal. WRCC delivers water to shareholders via the Soldier Canyon and Bellvue Water Treatment Plants for use in their service areas.

L O C A T I O N	
County:	Larimer
Water Source:	Laramie River
Drainage Basin:	North Platte/South Platte
Division:	1 District: 48,3

The Company purchased the Laramie Poudre Tunnel and its adjoining Laramie River System in 1938. Since 2001, the Company has repaired various sections of the tunnel. To prevent future collapse and tunnel blockage, this project includes replacement of aging support structures and the addition of new supports, rock bolts and shotcrete to ensure future serviceability and maintenance access. Construction began in September 2019 and will continue through spring of 2023.

The original Project cost was \$9M and the cost since construction began has risen significantly. This is primarily due to the discovery of voids found behind and above the existing concrete and existing steel sets. Substantial amounts of grout, above the anticipated quantities, filled voids. The old concrete and pre-existing steel support structures are being replaced. In addition to the void spaces, in an original tunnel section, old square set timbers, rebar, trees, sand, gravel and rocks were used as backfill. To ensure the tunnel is structurally sound in the short and long term, new steel sets are being used to replace the compromised section.

