

{SAMPLE LOAN DOCUMENT}

Loan Document of New Well

Sponsored by the
Example Homeowners Association
In conjunction with the
Idaho Water Resource Board

April 2010

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Loan Document of New Well Example Homeowners Association New Well

Introduction (Need for the Project)

The Example Homeowners Association (EHA), located in Idaho County, operates a water supply system for the EHA to supply domestic water to the residences in the subdivision. The current well is unable to keep up with seasonal peak demands and has dropped 20 feet in elevation in the last 5 years. The well is also starting to show a decrease in production down to 50 gpm from 75 gpm when first installed. EHA wants to drill a new well to meet the seasonal demands.

Project Sponsor

The EHA is entity that governs the EHA subdivision and is registered with the State of Idaho. There are currently 200 year round households and 25 part-time households. EHA is authorized to do projects and assess fees as voted on by its residents. EHA has the power to discontinue water delivery to the residences if they fail to pay their bill. A copy of the incorporation and by-laws are included in Appendix A.

Project service Area and Facilities

The EHA provides water to 85 residences in Idaho County. The EHA is located 40 miles east of Moscow, Idaho on Highway 45 and covers a service area of approximately 50 acres. The residences serviced by EHA are 65 year old and 20 seasonal with no water used for irrigation purposes. A map of the service area is in the back pocket of the report.

Hydrology and Water Rights

The source of water that serves the residences is a groundwater well. The water right for the well has an appropriation date of 1945 and 1960 totaling 400 gpm or 0.89 cfs. Records show that the draw on the well for the last three years has averaged 350 gpm, 289 gpm, and 245 gpm. EHA also has a surface water right of 0.5 cfs from Slim Creek. A summary of the water rights are found in Appendix C.

Detailed location map.

Photos of existing well

Project Description and Alternatives

The purpose of this project is to provide a means for the EHA to continue providing water for domestic use to the residents while minimizing the future diminishing output of the existing well. Three alternatives were considered:

1. The no action alternative.
2. Drilling a new well at a different location. (\$150,000)
3. Building a filtration plant to allow the use of the surface water right for domestic use. (\$1,000,000)

Alternative 1 was considered unacceptable since it means the EHA would be unable to deliver water to its residents in the near future.

Alternative 2 was selected since it was considered the least costly and would give a more timely relief to the situation.

Alternative 3 was considered too expensive and would take too long to build.

The selected alternative, **Alternative 2**, involves drilling a new well at the far end of the service area and connecting it to the existing waterline. A new well house and controls will be required. The controls will monitor both wells so that over pressurization of the system will not occur.

W.Z. PE is preparing an engineering design and cost estimates of the project. W.Z's conceptual design is in the back pocket.

The estimated cost of the completed project is \$150,000.00. The cost break sown is shown in Table 1. W. Z's cost preliminary report and detailed cost estimate are included in Appendix D.

Table 1. EHA –New Well Project – Cost Estimate

Item	Quantity	Unit	Unit Price \$	Amount \$
50 hp pump	1	ea	5500	\$5500
Variable Speed Drive 50 hp	1	ea	5000	\$5000
Computer controls	2	ea	2300	\$4600
8" PVC pipe	10560	ft	3.24	\$34,215
Trenching and backfill	10560	ft	2.60	\$27,456
Pump house, concrete and electrical	1	ea	26000	\$26,000
Engineering	1	ea	35000	\$35,000
Contingency	1	job	12230	\$12,230
Total				\$150,000

Implementation Schedule

The W.Z. Engineering Firm is expected to complete the design by mid-April. Construction will start on or before mid-May and is expected to be completed by September 2010.

Permitting

All easements required for the pipeline and electrical have been arranged for. Copies of the easements are in the back pocket.

Institutional Considerations

Entities that are, or may be, involved in the design, construction and financing of the project include:

- EHA; financing, and project management
- W.Z. Engineering Firm; design and construction
- IWRB; financing and construction

EHA will be the lead for the financing, design, and construction of the project and will be the entity entering into contracts and agreements with the various entities for the services provided by each.

Financial Analysis

Two entities will be involved in financing the estimated total project cost of \$150,000. The EHA is applying for a loan from the IWRB in a maximum amount of \$100,000. The actual estimated amounts are shown in Table 2.

Table 2. Sources of Funding

Entity	Grant	Loan	% Participation
EHA	\$0	\$5,000	33%
IWRB	\$0	\$100,000	66%
Totals	\$0	\$300,000	100%

EHA will cover any costs that exceed the estimated project cost.

EHA is requesting a 15 year loan from the IWRB. The standard lending rate for this type of project from the IWRB is 6%, resulting in payments of approximately \$11,000. This payment would include construction interest that is rolled into the amount of the loan. Table 3 is a

summary of the financial aspects of the project. Annual assessments will increase from \$125 per residence per month to \$140 per month. This represents an increase of \$15 per month per residence.

Table 3. Financial Summary

Project Cost	\$150,000
Loan amount (66% of project cost)	\$100,000
Number of residences	\$85
Current rate per residence	\$125
Estimated Future Assessment per residence	\$140
Estimated cost per cfs	\$300,000

Since no other funding source will be used for this project, the Homeowners Association would have no other debt service on the project. Operation and maintenance costs will increase but will be covered by the current budget.

Credit worthiness: EHA has no existing debt. Table 4 shows the Financial Ratios for the EHA and indicates average to strong ability to repay the project in place.

Alternative financing considerations: EHA has contacted US Bank about a loan for the \$100,000. EHA could receive the financing required for the project but at a much shorter term.

Collateral: For security of the loan, EHA will pledge the assessment income, water rights, and the project itself.

Complete the Financial Ratios spreadsheet found on the IDWR, Idaho Water Resource Board financial web page and turn in as an attachment.
<http://www.idwr.idaho.gov/waterboard/Financial%20program/financial.htm>

Economic Analysis

The economic benefit of the project is considerable. The estimated property is projected to drop by 30% or more should the project not be done. In the short term home values will decrease and in the long term the home may become unsalable. The cost benefit ratio is 2.64.

Social and Physical Impacts

The project will have a social impact in the sense that it will maintain drinking water availability for the residents of the subdivision. Without this well property values will decrease and water shortages will increase.

Conclusion

1. EHA is registered with the State of Idaho and has taken a vote of its members to allow it to proceed with a contract with the IWRB for the purpose of obtaining funding for construction of a new well, piping, pump, and controls.
2. Right-of-Way easements are in place for the project.
3. The project will provide domestic water without risk of shortage of delivery to the subdivision.
4. The total estimated cost of the project is \$150,000 and will be financed by in part by EHA. EHA is applying for a loan from the IWRB in the amount of \$100,000.
5. This project meets with the requirements of the State of Idaho's Water Plan and is necessary to avoid water shortages in the subdivision.
6. The project is technically and financially feasible.

Appendix A

Articles of Incorporation By-Laws

Appendix B

Water Right Summary

Appendix C

Preliminary Design Report and Cost Estimates

Appendix D

IWRB Loan Application

Appendix E

Financial Statements and Budgets: 2007 – 2010

Appendix F

Financial Ratio Spreadsheet

(Spreadsheet is found on the IDWR, Idaho Water Resource Board financial web page.)

<http://www.idwr.idaho.gov/waterboard/Financial%20program/financial.htm>

Back Pocket

Preliminary Drawings