



Town of Castle Rock

Agenda Memorandum

Agenda Date: 9/17/2019

Item #: File #: TMP 2019-634

To: Honorable Mayor and Members of Town Council

From: Mark Marlowe, P.E., Director of Castle Rock Water
Matt Benak, P. E., Water Resources Program Manager
Angie Brown, Water Resources Program Analyst

A Resolution Approving the Purchase of Arapahoe County Water & Wastewater Authority's Interest in the Cherry Creek Project Water Authority

Executive Summary

The purpose of this memorandum is to seek approval through Resolution (**Attachment A**) by Town Council for the Town to purchase interest in the Cherry Creek Project Water Authority (CCPWA) currently held by the Arapahoe County Water & Wastewater Authority (ACWWA). Castle Rock Water (CRW) is not currently a member of CCPWA and this purchase would allow the Town to gain access to additional senior and junior water rights without a lengthy water court process, increasing our water supply potential in Rueter-Hess Reservoir, and improving our overall quantity of renewable water. Staff recommends purchasing ACWWA's interest in CCPWA, per the terms of the attached agreement (**Exhibit 1**), cash price of \$4.5 million, and allowing ACWWA to keep a payout from the CCPWA for the previous sale of property in the amount of \$2.99 million. Generally, the CCPWA assets are shown on the map (**Attachment B**).

History of Past Town Council, Boards & Commissions, or Other Discussions

On June 17, 2019, CRW staff presented the opportunity to purchase ACWWA's interest in the CCPWA to the Castle Rock Water Commission (CRWC), who recommended that the Town move forward with the purchase.

On June, 18, 2019, CRW staff presented the opportunity to purchase ACWWA's interest in the CCPWA to the Water Resources Committee.

On August 28, 2019, staff presented this topic to the Castle Rock Water Commission. The commission voted _____.

Discussion

The CCPWA is a group of water providers that has formed an Authority to construct and operate a water project in the Cherry Creek Basin to provide relatively firm water yield of from 500 to 2,000 acre

feet per year. Currently, CCPWA is comprised of four participants with shares in the project as follows:

Denver Southeast Suburban (AKA "The Pinery")	20.489%
Inverness Water & Sanitation District	31.118%
Cottonwood Water & Sanitation District	7.143%
Arapahoe County Water & Wastewater Authority	41.25%

In late 2018, CRW approached ACWWA about purchasing their interest in CCPWA, which includes the following assets:

1. Senior absolute renewable water rights of approximately 80.69 acre feet annually;
2. Junior absolute renewable water rights of up to 240 acre feet annually;
3. Junior conditional renewable water rights of up to 201.5 acre feet annually;
4. Denver Basin groundwater rights of up to 3,175 acre feet annually;
5. 41.25% of two Denver Basin groundwater wells;
6. 41.25% of two property parcels (63 acres and 167 acres) including mineral rights;
7. Easements for tributary and Denver Basin wells;
8. An augmentation plan and various related water rights.

All of the water rights have been decreed for use in Castle Rock's service area, so there will not be a need to go back to Water Court. CRW's water rights consultant has analyzed the renewable water rights in this portfolio and believes that the yield will vary from 75 to 533 acre feet per year, with an average yield of about 247 acre feet of renewable water. This assumes that Castle Rock Water upgrades alluvial wells we own or CCPWA owns, and builds a pipeline from those wells to Rueter Hess Reservoir (RHR). If we do not build these improvements, we could capture between 11 and 132 acre feet of renewable water with an average yield of 65 acre feet just by upgrading the diversion pump station at Parker's RHR diversion on Cherry Creek.

The overall purchase includes all of the Denver Basin water rights listed above, as well as two existing Denver Basin wells. As such, Castle Rock would have the option to utilize these resources to provide for a larger firm yield of water supply in collaboration with CCPWA. In total, yields with this approach could be 412 to 825 acre feet per year, depending on the implementation of additional capital infrastructure. Still, CRW's primary interest in the water rights is for renewable water.

There is also the potential that a revision to the 404 permit for RHR may be necessary to store some of the water rights in RHR. This is an issue that will be clarified during due diligence. Our legal review indicates that water to be stored out of priority through the CCPWA augmentation plan may require this revision to the 404 permit. The cost and time to complete this permit revision is unknown at this time and will need to be clarified prior to final purchase.

Based on the evaluations done to date, staff is suggesting the following basic offer to ACWWA.

1. Cash price of \$4.5 million.
2. ACWWA keeps payout of \$2,990,625 on property previously sold by the Authority.
3. Total value to ACWWA is \$7.5 million, equivalent to 0.1% annual interest on their initial

investment for the assets.

4. 90 day due diligence period.
5. Close 60 days after due diligence period.
6. ACWWA must obtain waivers from the other CCPWA members on their first right of refusal, and they must consent to the sale.

An Estoppel Agreement signed by the other members to protect the Town against breaches in the CCPWA Formation Agreement.

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Budget Impact

The initial cost of ACWWA's share in CCPWA would be \$4.5 million, with additional capital costs expected at a later date as part of CCPWA's master plan including infrastructure. The current CCPWA master plan estimates ACWWA's share of these costs to be between \$3.9 million and \$23.9 million, though CRW staff believe this cost can be significantly reduced for the overall project, because of CRW's existing infrastructure that could potentially be used as part of CCPWA.

The potential total financial commitment could go beyond what Castle Rock Water needs to operate renewable water rights if CCPWA wants to continue with their 2014 Master Plan. If this occurs, CRW's costs would include the original capital infrastructure identified for the project, which was \$3.9 million to \$20.3 million. This additional investment; however, would allow Castle Rock to utilize the Denver Basin groundwater rights in conjunction with the renewable water rights for a much larger reliable yield, 412 to 825 as noted above. If CRW is able to take a different path with CCPWA, the preliminary estimated capital costs associated with improvements to CRW's Cherry Creek alluvial wells and infrastructure to divert the renewable water rights only into RHR would range from \$2.7 to \$4.2 million.

If Council approves the agreement, CRW will purchase available CCPWA interest from ACWWA for \$4.5 million. Funding for the Denver Basin Groundwater portion of this purchase (\$250,000) will come from the Ground Water Rights Purchase account (210-4275-442.78-97), which has a balance of \$250,000. Funding for the remaining portion of this purchase (\$4.25 million) will come from the ASOS account (211-4375-443.77-30), which has a planned budget of \$5.8 million for 2020. If closing takes place in 2019, a budget amendment will be necessary.

Staff Recommendation

Staff and CRWC recommend approval of the Agreement for Purchase and Sale of ACWWA's interest in the CCPWA.

Proposed Motion

"I move to approve the Resolution as introduced by title."

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Attachments

Attachment A: Resolution
Exhibit 1: Agreement
Attachment B: Map

