



STAFF REPORT

To: Honorable Mayor and Members of Town Council

From: Mark Marlowe, P.E., Utilities Director
Matt Benak, P.E., Water Resources Manager

Title: Resolution: Approving an Option Agreement for Acquisition of Chatfield Reservoir Reallocation Project Shares from the State of Colorado

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

In 2004, the Town Council approved a resolution consenting to the South Metro Water Authority (currently the South Metro Water Supply Authority) reserving 1,400 acre-feet of the storage capacity on behalf of its members. The Town's current share of that capacity is 34.8 percent (34.8%) or 487.2 acre-feet.

In 2005, the Town signed a Letter of Commitment between the Town of Castle Rock and the Colorado Water Conservation Board (CWCB) to reserve permanent storage space in Chatfield Reservoir if the storage becomes available as a result of this project. The Town's current reserved capacity is 1,013.2 acre-feet.

In September 2012, Town Council approved a resolution to submit a letter to the US Army Corps of Engineers in support of the Chatfield Reallocation Project.

Utilities Commission was updated on the status of the project on June 26 and July 24, and October 22, 2013.

Town Council was updated on the status of the project in October 2013.

The Water Resources Committee reviewed this project on May 6, 2014.

On May 28, 2014, Utilities Commission was updated on the status of the recommended reduced participation level of 200 acre-feet. Utilities Commission voted 5-1 approving the recommended reduced participation level with one Commission member stating that participation at a higher level is preferred. The primary reason for a reduction in participation was the financial impact that full participation would have had to our customer's water rates.

On June 17, 2014, Town Council approved a resolution to reduce participation in the Chatfield Reallocation Project from 1,500.3 acre-feet to 200 acre-feet.

On November 18, 2014, Town Council approved a resolution to approve the Execution of the Articles and Bylaws of the Chatfield Reservoir Mitigation Company, Water Storage Agreement, Escrow Agreement, and Water Provider Agreement for the project.

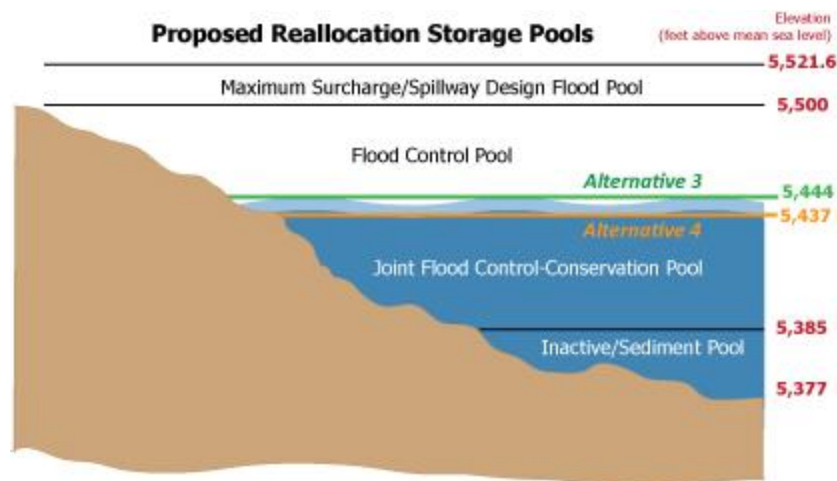
On April 21, 2015, the Town Council was provided with a discussion of the salient points of a draft option agreement with CWCB.

On May 27, 2015 the Utilities Commission unanimously supported the recommendation to Town Council to proceed with entering into an option agreement with CWCB for the acquisition of additional project shares over a multi-year period.

Discussion

The Chatfield Dam and Reservoir Project is a Federal project owned and operated by the U.S. Army Corps of Engineers (Omaha District) and is located in northwest Douglas County. The Chatfield Reallocation Project goal is to reallocate storage space in Chatfield Reservoir. The concept of reallocation is to convert pool space from one type of storage use to another. In this case, a reallocation would re-designate water storage space in Chatfield Reservoir that is currently exclusively reserved for flood control purposes to storage space for joint flood control and conservation purposes.

This is achieved by raising the top elevation of the existing multipurpose-conservation pool, effectively increasing capacity for multipurpose water. The expanded multipurpose pool would be re-designated as the “joint flood control-conservation” pool.



A reallocation would have no negative impacts on the originally-authorized flood control purpose of the dam and reservoir. Through modification of the water control plan, a reallocation could also be accomplished without the need to raise the existing maximum flood control pool elevation. The current study analyzes necessary mitigation options and modification strategies needed to offset impacts to the environment, recreation and infrastructure in and around Chatfield State Park.

The final Record of Decision (ROD) on the feasibility of the project was signed by the Corps in May 2014. The Water Storage Agreement between the Corps and the State

was executed in October 2014. Recreational modifications and environmental mitigation measures are estimated to be complete by end of 2017. According to the current project schedule, 80% of the storage will be available on October 9, 2017 provided all milestones of the Water Storage Agreement are met. If the milestones are not met completely, we will be able to store up to 25% in late 2017 with incremental storage capacity increases as milestones are met, and 100% storage capacity will be available in 2025.

In October 2014, the Audubon Society of the Greater Denver Area filed a suit against the Corps. The suit may slow certain project processes down but the Chatfield Participants feel that the Corps did all required due diligence prior to issuing the Record of Decision and are optimistic that the suit will be resolved. The case is currently under review.

In January 2015, Castle Pines Metro District reduced their participation in the project from 787 acre-feet to 10 acre-feet of storage capacity. Their shares have become orphan shares with CWCB. Some participants are considering purchasing these orphan shares for additional storage capacity in the project. The entities participating in the project and their participation level are included in **Table 1**.

Table 1: Chatfield Reallocation Project Participants

		Storage Amount, AF	Percent of Total
1	Central Colorado Water Conservancy District	4,274	20.75%
2	Colorado Water Conservation Board	6,278	30.48%
3	Colorado Parks and Wildlife	1,000	4.85%
4	Centennial Water and Sanitation District	6,922	33.60%
5	Castle Rock	200	0.97%
6	Castle Pines North Metro District	1,006	4.88%
7	Castle Pines Metro District	10	0.05%
8	Mount Carbon Metro District	779	3.78%
9	Center of Colorado Water Conservancy District	131	0.64%
		20,600	

Staff has been discussing with Colorado Water Conservation Board (CWCB) an option agreement to reserve additional future shares (1,300 acre-feet) at today's costs. The key terms of the option agreement are summarized below:

- 15-year amortization period with 5-years of individual deferments. The Town cannot defer two years in a row.
- Purchase price of \$7,000 per acre-foot but payments will be reconciled when final project costs are known.
- Castle Rock has first right of refusal to purchase the orphan shares that we relinquished.
- Castle Rock could purchase 87 acre-feet or more of additional storage each year at an approximate annual cost of \$609,000.
- Castle Rock would be required to pay operation, maintenance, rehabilitation, repair, and replacement costs to CWCB for the entire contract amount of 1,300

acre-feet. CWCB would request that the Town pays the same cost that CWCB pays the US Army Corps of Engineers for the storage shares which is approximately \$50 per acre-foot, or \$65,000 annually. If we think of this option agreement as a 20-year loan, \$65,000 is less than 1% interest. If CWCB is able to lease any of the storage in any year, they will pay their prorated share of the operation and maintenance cost.

- Town will have the ability to purchase wet water to store within the optioned space.

CWCB, with feedback from the Town, has completed an Agreement for Acquisition of Chatfield Reservoir Reallocation Project Shares from the State of Colorado. The benefits of this agreement to the Town of Castle Rock include:

- Reasonably priced storage capacity in the Plum Creek basin. The Town completed feasibility studies of storage along East Plum Creek in and around the Town boundaries. Costs for such storage facilities ranged from approximately \$16,000 up to \$30,000 per acre-foot. United has offered us storage in their Sutton Reservoir for \$8,500 per acre-foot.
- Gives the Town flexibility when considering purchasing new senior water rights along Plum Creek. With storage in Chatfield Reservoir available, water rights downstream of the confluence of East and West Plum Creek hold more value and can easily be captured and returned to the Town.
- The Town has a 2,000 acre-foot conditional junior water storage right in Chatfield (Water Court Case No. 89CW169) with an appropriation date of November 6, 1989. This case is up for due diligence in August 2016. This gives the Town wet water on the South Platte to put into storage when that right is in priority, which has occurred in 18 years during a 54-year study period (1961-2014). During these years, the Town's 2,000 acre-foot conditional storage right would have been filled. Once the Town fills its storage capacity, this conditional storage right would be made absolute and no additional water court cases would need to be filed.
- Regional project that has had statewide support and will increase cooperation amongst water providers in our area.
- The value of this storage will likely increase in the future.
- Based on a recent Water Court case (Case No. 09CW166) that settled, the Town has the right to store water in Chatfield.
- In-stream storage in the South Platte basin that will have potential value to many entities in the future, meaning Castle Rock might be able to lease excess water or sell or lease storage at attractive rates.
- Options to partner with other regional entities on treatment and transmission infrastructure.
- Gives us more future flexibility with WISE water (may be able to trade water with Centennial for example).
- May be able to use WISE infrastructure to access supplies in Chatfield directly.
- Allows us to purchase SPOT water from Denver and Aurora.
- Provides us a way to capture free river flows into Chatfield.
- We have another Water Court case (Case No. 12CW296) pending that would allow us to exchange water in Chatfield back up Plum Creek to Castle Rock.