



To: Honorable Mayor and Members of Town Council

Through: David L. Corliss, Town Manager

From: Mark Marlowe, P.E., Director of Castle Rock Water

Title Bid Results for the Castle Pines Metro District Water Rights

Executive Summary

This memorandum was prepared to provide a brief analysis of the bid results (see table below) for the Castle Pines North Metropolitan District (CPNMD) water rights for which Castle Rock Water submitted a bid. The results were clearly disappointing for Castle Rock Water. As we expected, the Fulton Ditch was the most competitive and received the most interest. Based on our research and market analysis, we believed our bid to be very, very strong for the Lupton Bottoms, Meadow Island and Platteville ditch water rights. Analysis of the bid results indicates we would have won the Meadow Island and Platteville ditch water rights had it not been for Aurora Water’s extraordinary bid. In total, Aurora Water bid \$18.25M or \$4M more than we bid, almost \$32,000 per acre foot and significantly more than any bidder in total. Prior to this bid, Aurora Water hadn’t paid more than about \$18,000 an acre foot for water in this area. This has reset the water rights market across Colorado.

	Denver Water	Aurora*	Town of CR	Brighton	ECCV	Central Water Conservancy
Lupton bottom	\$0.00	\$4,500,000.00	\$3,920,800.00	\$3,979,900.00	\$0.00	\$0.00
Meadow Island	\$0.00	\$3,500,000.00	\$3,164,200.00	\$0.00	\$0.00	\$0.00
Fulton Ditch	\$5,310,000.00	\$5,700,000.00	\$4,415,000.00	\$5,834,500.00	\$4,997,658.50	\$0.00
Platteville	\$0.00	\$3,300,000.00	\$2,831,400.00	\$0.00	\$2,752,995.00	\$2,600,000.00
Jr. Storage	\$0.00	\$250,000.00	\$0.00	\$0.00	\$0.00	\$0.00
*If they receive the main four bids they will add an additional \$1M to the payment						

It is also extraordinary that Denver Water bid on these water rights as historically they have not taken an interest in this part of the South Platte River. I have met with Denver Water’s Water Resources Manager to discuss this. The bottom line is that they are very concerned with what is going on in the Colorado River currently and will likely be pursuing water in other locations to backfill potential losses. Currently, almost 50% of their supply comes from the Colorado River so the drought, record low levels in Lake Powell and Mead, and the outlook for the river going forward has Denver Water very nervous. I will be meeting with the Director of Aurora Water in the next week or two, but I am sure that the Colorado River issues played into their thinking as well as roughly one third of their supply comes from the Colorado River.

What does this mean? It means the cost of water rights has gone up significantly across the board, even for water rights that are not senior and have a lot of "hair" (aka problems) on them. It means that "buy and dry" of agricultural land will gain more momentum in the near term. In fact, there were two farmers at the bid opening that were looking to see what the market was doing. It means there is going to be significantly more competition in the market on the Front Range with Denver Water joining the fray. It means that we will need to be more aggressive if we want to obtain additional water rights for future growth and / or to provide additional reliability and redundancy for our current customers.

In hindsight, we should have put in even higher bids for one of the ditches (the Lupton Bottom, Meadow Island or Platteville) as suggested by Mayor Pro Tem Bracken, but we would have had to go well beyond even our highest estimates for value to beat Aurora. For context, Castle Rock Water's previous water rights purchases have been well below the offering here. Lost Creek water rights were purchased for \$11,000 an acre foot; Rothe water rights for \$7,091 an acre foot; and Cherry Creek senior water rights for \$13,212 an acre foot. We were also trying to keep from completely using our capital reserves for one purchase as we have significant other needs that we must fulfill to maximize our local, most cost effective renewable water rights. One piece of good news from this is that Castle Rock Water will now be on the map for potential sellers of water rights in this area as our bid was certainly competitive. This should give us more opportunities to bid on or negotiate with prospective sellers in that area.

We will be evaluating a host of strategies going forward to secure more water rights which we will share with Council. One near term item is that we will be recommending a significant increase in our Water Resources System Development Fee to help ensure we have resources to go after these water rights in the future.