



Town of Castle Rock

Agenda Memorandum

Agenda Date: 4/3/2018

Item #: File #: TMP 2018-279

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

Resolution Approving Funding for the Town's Existing Shares in the Chatfield Reservoir Reallocation Project

Executive Summary

Renewable water storage is a key component of the Town of Castle Rock's long-term water plan and participation in the Chatfield Reservoir Reallocation Project gives the Town unique access to additional renewable water sources. The purpose of this memorandum is to request Town Council approval to authorize the additional funding of the shares that the Town owns in the Chatfield Reservoir Reallocation Project.

The original preliminary cost estimate in the Water Storage Agreement (WSA) between the U.S. Army Corps of Engineers and the State of Colorado for the project was \$134 million (\$9.8 million for the Town at our full 1,500 acre-foot subscription). The WSA (and the subsequent Water Provider Agreement (WPA) between the State and the Town of Castle Rock) provided the State and the participants with an opportunity to re-evaluate the preliminary cost estimate for the project. If the new cost estimate exceeded ten percent of the \$134 million original estimate, the agreement provides an "off-ramp" for the participants to exit the project.

On October 13, 2017, the State provided notification that the estimated total project costs are now anticipated to be \$171,000,000 (\$12.45 million for the Town, assuming a 1,500 acre-foot subscription), which is more than ten percent of the original estimate (28 percent). If the original cost was simply escalated using common construction cost indices, the project cost would be between \$160 and \$163 million at the mid-point of construction. Pursuant to the WPA, the Town had the right to terminate its agreement with the State and relinquish its Pro Rata Share for a period of 60 days following the date of the notice (by December 12, 2017). On November 14, 2017, Town Council voted to remain in the project and staff provided noticed to the State of this decision. As such, Castle Rock has 180 days to fully fund the additional amount of its Pro Rata Share. For the Town, this amounts to an additional \$1,796 per acre-foot of storage space (for the initial 200 AF of storage space that we purchased), and \$1,301 per acre-foot (for the 174 AF of storage space with purchased from CWCB under a separate agreement). This equates to an additional \$585,593 that must be provided to the escrow company (US Bank) no later than June 11, 2018.

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.

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 reserved capacity stood at 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 Commissioner stating that participation at a higher level is preferred.

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 the execution of the articles and bylaws of the Chatfield Reservoir Mitigation Company, the Water Storage Agreement, the Escrow Agreement, and the Water Provider Agreement for the Chatfield Reallocation 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 agreement with CWCB for the acquisition of additional project shares over a multi-year period.

On June 16, 2015, Town Council approved the option agreement for acquisition of additional Chatfield Reservoir project shares from the State of Colorado over time.

On October 5, 2015, the Mayor was presented with execution instructions and original forms for the:

- Articles of Incorporation and Bylaws of Chatfield Reservoir Mitigation Company, Inc.
- Water Provider Agreement
- Escrow Agreement

The Chatfield Storage Reallocation Project refined cost estimate was presented to Utilities Commission on April 27, 2016. The commissioners unanimously recommended that the Town continue its participation in the project.

On May 17, 2016, Town Council was provided with an update on the progress of the Chatfield Reallocation Project.

On May 25, 2016, Utilities Commission was provided with a discussion of the key points for an amendment to the CWCB Option Agreement to buy 1,713 AF of storage shares over the next nineteen years. The commissioners unanimously recommended that staff work with CWCB to develop an amendment to the existing CWCB Option Agreement.

In December 2016, the Town closed on an additional 87 AF of storage space, bringing our current total to 374 AF.

On October 25, 2017, Castle Rock Water Commission was provided with a discussion of the Chatfield Storage Reallocation Project updated cost estimate and off-ramp option, and unanimously recommended the Town continue its participation in the project.

On November 14, 2017, Town Council was provided with a discussion of the Chatfield Storage Reallocation Project updated cost estimate and off-ramp option, and approved the Town's continued participation in the project.

Discussion

The Chatfield Storage Reallocation Project reallocates flood storage space in the existing Chatfield Reservoir located in northwest Douglas County to space that can be used for storing renewable water supplies. The Town of Castle Rock is currently, and has been since 2004, a participant in the Chatfield Reallocation Project. On June 7, 2014, Town Council approved a resolution to reduce the current participation in the Chatfield Reallocation Project from 1,500.339 acre-feet to 200 acre-feet based on staff's recommendations of the current need for storage in Chatfield by the Town. On June 16, 2015, Town Council approved the option agreement for acquisition of additional Chatfield Reservoir project shares from the State of Colorado over time and in December 2015, the Town closed on an additional 87 acre-feet of storage space, and in December 2016, the Town closed on another 87 AF, bringing the total Town-owned space to 374 AF. In 2017, Castle Rock Water staff elected to defer the purchase of an additional tranche of storage space so that we could monitor design and construction progress and better understand the overall costs. The flexibility of this option agreement allows us to ensure our level of participation in the project will be consistent with our long term financial capacity.

On October 13, 2017, the Colorado Department of Natural Resources (State) provided a redetermination of the project costs at \$171 million. The Town has decided to continue its

participation in the project, and given this, the Town has until June 11, 2018 to fully fund the additional amount of its Pro Rata Share.

There are many benefits to participation in the Chatfield project. Chatfield Reservoir is an on-stream reservoir located on the South Platte River and Plum Creek. The cost to build a similar reservoir today on the South Platte would undoubtedly be much greater. Within the past year, Castle Rock successfully completed a Water Court case that will allow us to exchange water stored in Chatfield back to the Town. The Town also has an option agreement with the State that allows us to spread out the costs of our investment in Chatfield over a 15 to 20 year period with no interest. Despite the increased cost estimate, staff is considering bringing Council an amendment to our Option Agreement to add another 500 shares as the value of this asset to Castle Rock is increasing now that our water rights case is settled. Finally, the Town has a South Platte River water right that we will be able to use now that Chatfield is moving forward.

It is important to keep in mind that this is still an estimate of the project costs and it is possible that the Total Project Cost could be more or less than this estimate. The good news is that the project has been progressing well and construction efforts are well underway, both on and off-site. Staff will continue to keep Council updated as the design and construction progresses and when updated cost information becomes available. Because the Town has an option agreement with the State, we have the flexibility to reduce our participation further if costs increase too much. In fact, we opted to use a deferment year in 2017 so that we could monitor design and construction progress and better understand the overall costs. The flexibility of this option agreement allows us to ensure our level of participation in the project will be consistent with our long term financial capacity.

Budget Impact

By remaining in the project, the Town will owe an additional \$585,593 on the 374 AF of space we currently own. This money is due to be paid to our US Bank escrow account no later than June 11, 2018. Currently, the Town has \$877,567 remaining in the project budget (Account Number 211-4375-443.77-29, Chatfield Reallocation), however, we have asked that the remaining account balance for 2017 of \$1,185,626 be carried over into 2018. Thus, the Chatfield Reallocation account will have adequate funding to pay for the existing storage share funding gap as well as our planned purchase of additional Chatfield shares in accordance with our existing option agreement with the State (a purchase of 87 AF of additional storage shares for 2018).

Recommendations

Staff recommends that Town Council approve the additional funding for the Town's existing shares in the Chatfield Reservoir Reallocation Project.

Proposed Motion

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

Attachments