



Town of Castle Rock

Agenda Memorandum

Agenda Date: 2/5/2019

Item #: 17. **File #:** ORD 2019-003

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

Ordinance Approving the Intergovernmental Agreement for the Option to Purchase and First Right of Refusal Regarding Groundwater Rights, Easements and Related Improvements (Second Reading - Approved on First Reading on January 22, 2019 by a vote of 6-1) [The sale of Town water rights that the Town cannot use at Cherokee Ranch to Dominion Water and Sanitation District.]

Executive Summary

The Ordinance was approved on First Reading on January 22, 2019 by a vote of 6-1.

The purpose of this memorandum is to seek Town Council approval of an Ordinance (see **Attachment A**) regarding the sale of certain Denver Basin aquifer water rights to Dominion Water and Sanitation District (Dominion) known as the Cherokee Ranch water rights. These water rights were acquired by the Town as part of the United Water and Sanitation District (United) transaction in November 2017. Since the initial negotiations began with United, Castle Rock Water had always intended to sell all or a portion of these water rights in order to recoup some of the costs of the transaction and because they are not readily usable by the Town. Dominion has requested an option to purchase 1,574 acre-feet (AF) of Arapahoe aquifer water; 1,614 AF of Denver aquifer water; and 381 AF of Laramie Fox Hills water that we own under the Cherokee Ranch and Castle Foundation property (Property). The purchase will also include use of the well site easements and the easements to the south of the Property that provide for access for pipelines and appurtenances to deliver replacement water from the Property. The option to purchase the water rights will extend until September 30, 2022, and the initial purchase would be for a minimum of 500 AF of water rights. The price for the initial purchase is \$1,450,000. The total price is \$8.4 million with potential option payments of \$0.8 million.

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

Staff discussed the proposed purchase option agreement with the Castle Rock Water Commission on May 23, 2018. Castle Rock Water Commission unanimously recommended that Council approve the agreement.

Discussion

Dominion is a wholesale water district located in northwest Douglas County, and provides water and wastewater service to the Sterling Ranch planned development and, will potentially provide this service to other existing nearby special districts that may request water in the future. Sterling Ranch is a 3,450-acre planned community which will build out to approximately 12,000 residential units located in northwest Douglas County. It has a planned build-out water demand of approximately 4,800 AF with a conjunctive use water supply consisting of renewable water sources (such as WISE) and Denver basin groundwater sources.

The key terms of this Intergovernmental Agreement for the Option to Purchase and Right of First Refusal Regarding Ground Water Rights, Easements and Related Improvements (hereinafter referred to as "Agreement" or "IGA") are as follows:

1. The option to purchase all of the Town's real property interests and non-tributary and not non-tributary water rights located beneath the Cherokee Ranch and Castle Foundation property (Property) and the additional easements that extend from the Property to East Plum Creek. The groundwater rights consist of the following:
 - a. 1,574 AF of non-tributary groundwater rights in the Arapahoe aquifer, valued at \$2,900 per AF;
 - b. 1,614 AF of not non-tributary groundwater rights in the Denver aquifer, valued at \$1,970 per AF;
 - c. 381 AF of non-tributary groundwater rights in the Laramie Fox Hills (LFH) aquifer, valued at \$1,970 per AF.
2. The Option term extends until September 30, 2022, and if Dominion has not defaulted on the Agreement, a Right of First Refusal will be in effect from October 1, 2022 to October 1, 2026 whereby Dominion shall be notified of any bona fide offers to purchase the remaining water rights and shall have the ability purchase under the same terms and conditions of the qualified offer.
3. Use of the permanent easements associated with the Property that were part of the Town's purchase from United. The easements include four, 10,000 square foot well sites, thirty foot wide permanent easements to the edge of the Cherokee Castle Ranch property for pipelines, electrical and access roads, and a thirty foot wide permanent easement across the BCK Farms property so that the water pipeline is able to discharge into East Plum Creek.
4. Within five days of execution of the Agreement, Dominion will pay \$50,000 into escrow as an Initial Option Payment which can be applied to the initial closing. Dominion will have up to 90 days to perform its due diligence and may then elect to close on a minimum of 500 AF of water rights from any of the three aquifers.
5. Each year, on the anniversary of the end of the due diligence period, Dominion will pay the Town annual option payments of \$115 per AF for remaining Arapahoe aquifer water and \$78 per AF for remaining Denver or LFH aquifer water. These option payments are non-refundable and cannot be applied to future closings.

Future closings on water rights will be for a minimum of 200 AF each.

Budget Impact

The IGA has positive impacts to the Water Enterprise fund. By selling the water rights at the calculated rates, Castle Rock Water could realize up to \$8,494,750. Additionally, if the option payments are extended to their full dates then Castle Rock Water would realize up to an additional \$768,360 in revenue.

The sale of these water rights will have a positive impact on the Town's water enterprise budget. Proceeds from the sales will be placed into Account Number 210-4275-392.10-00 (Water Fund - Capital Asset Disposals/Proceeds-Sale of Assets).

Staff Recommendation

Staff and Castle Rock Water Commission recommend that Town Council approve the Purchase Option Agreement on second reading.

Proposed Motion

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

Attachments

Attachment A:	Ordinance - Second Reading
Exhibit 1:	Agreement
Attachment B:	Map of water rights locations and easements