

**Water Supply Reserve Account – Grant and Loan Program
Water Activity Summary Sheet**

Applicant: San Juan Water Conservancy District

Amount Requested: \$1,000,000.00

Source of Funds: Statewide

Water Activity Name: Dry Gulch AKA San Juan Reservoir

Matching Funds: Yes not verified – claim
\$ 8.1 million dollars see issues below

Water Activity Purpose:

Structural Water Project – Land Acquisition for Reservoir Site

County:

Archuleta

Drainage Basin:

San Juan

Water Source:

San Juan River via either the Park Ditch and/or Pumping Station from San Juan (depending on size gravity fill by Park Ditch 4000 – 7,000 acre feet unclear from application versus Harris Study storage above this requires pumping) and small amounts of runoff from Dry Gulch watershed

Water Activity Summary:

The San Juan Water Conservancy District (SJWCD) was formed in October 1987 in accordance with C.R.S., sections 37-45-109 (2.5) and 37-45-139 to 37-45-141, and the general election laws of the state of Colorado. Notice of the election was published in conformance with C.R.S., section 37-45-140. The SJWCD is a political subdivision of the State of Colorado and a body corporate with all the powers of a public or municipal corporation as authorized by the statutes of the State of Colorado under C.R.S., section 37-45-010 et seq. The purpose of the SJWCD is to conserve, maximize and utilize the water resources of the San Juan River and its tributaries, and that property within the District will be benefited by this purpose. The highest priority of the SJWCD is to provide water for the health and welfare of its constituents. The contact for the SJWCD is Mr. Fred Schmidt, Board of Directors Chairman, POB 609, Pagosa Springs, CO 81147, (970) 903-8675.

Type of activity: Funding assistance for the initial purchase of Phase I land acquisition for the San Juan Reservoir.
Amount of funding requested: The SJWCD requests \$1 million from the CWCB 2006-2007 Water Supply Reserve Account, which represents only 11 percent of the total \$9.1 million land fund requirements.

Statement of what the activity is intended to accomplish: The funds obtained from this grant application will be used to purchase Phase I property for the San Juan Reservoir.

The need for the activity: Reservoir development is necessary for the health and welfare of the Districts' constituents due to unprecedented growth (7.1 percent per year based on equivalent unit usage) within the District boundaries. More than 60 percent of this growth is associated with second home construction/purchase. As an example of growth, historic water connections within the District average about 200 per year. There were, however, 309 connections in 2006 and already a request for 359 connections in 2007. The current water storage capacity in the District is 2,900 acre-feet (AF). Studies indicate that an additional 12,000 AF of storage capacity will be necessary by the year 2040 to meet the water needs of area residents. Since the lead-time to construct a new reservoir is typically 20 years or more, work to construct a new reservoir must begin immediately in order to have a reservoir constructed when needed. Unless the land is immediately purchased, it could be lost to other development interests and/or a financial impossibility due to extreme land escalation costs in the County.

The problems and opportunities to be addressed, including relevant project history: One large problem relates to the critical need for additional water storage. Another problem relates to the fact that there is only one feasible site in the County that meets the location needs to economically build a reservoir. An extensive inventory and review of more than 13 potential sites within the SJWCD and county (Archuleta) boundaries revealed that there were only two geo-technical, topographical, and economically feasible sites to choose from that have the least environmental concerns associated with them. One site has since been purchased for development. Thus, time is of the essence to secure the last remaining potential Reservoir site in the District, before it is either lost to development and/or a financial impossibility due to extreme land escalation costs in the County. A third problem relates to the vast cost and need for financial assistance to acquire the land and build a new reservoir. Opportunities include the obvious added storage capacity to meet water demands associated with growth and drought, as well as the recreational potential associated with the Reservoir.

Expectations of the participants: The expectations of the SJWCD and the community they serve are to identify initial supplemental funding assistance for land acquisition related to Reservoir development.

Why the activity is important: (see Need for the Activity above) As stated above, the SJWCD must provide an additional 12,000 acre-feet of water storage capacity by the year 2040 to meet the water needs of area residents and there is only one viable Reservoir site location in the District.

The service area or geographic location, maps, and socio-economic characteristics: The SJWCD encompasses a significant portion of Archuleta County, including the Town of Pagosa Springs and the Pagosa Area Water and Sanitation District. The Reservoir site is located less than one mile from the historic downtown area of Pagosa Springs and is adjacent to the San Juan River. The attached maps indicate the topography and locations of major streams, as well as the locations of existing facilities, proposed project facilities, and boundaries of lands to be served. The 2005 population of the Town of Pagosa Springs was 1,640 residents and 11,716 residents for Archuleta County as a whole. These population figures, however, do not reflect the large number of seasonal residents in the area. A local study on second homes indicates that 60 percent of properties are owned by people that live outside of the County. Population within the SJWCD is estimated to be approximately 52,000 by the year 2040. Per capita income (2000) was \$18,481. While tourism continues to play a major employment role, real estate and home building have both realized an upward trend.

Relevant issues: As described above, the largest relevant issue related to this project is the fact that there is only one viable site left in the County for Reservoir development and the SJWCD is in need of financial assistance for Phase I land acquisition. Another relevant issue relates to the sheer magnitude of total Reservoir project costs, estimated at \$145 million.

Detailed summary of the water activity: The funds obtained from this grant application will be used for the initial purchase of Phase I land acquisition for the San Juan Reservoir.

Description of the goals of the water activity and how the water activity will accomplish those goals: The goal of this project is to obtain the land necessary to provide an additional 12,000 to 35,000 AF of storage capacity to meet water needs related to growth and drought in the SJWCD. Development of the San Juan Reservoir will accomplish this goal by providing an adequate water supply through the year 2040.

Description of how the work will be accomplished and major deliverables/products: The negotiations for the purchase of the San Juan Reservoir property have been ongoing for over two years. The final agreement for the purchase of the main ranch and two adjacent parcels have been agreed upon. A major deliverable involves a first close of escrow for the land purchase scheduled for July-August 2007.

A list of participants and their qualifications to accomplish the project/water activity: For purposes of this funding request for land acquisition related to the San Juan Reservoir, financial participants include the SJWCD to fund the \$8.1 million land acquisition balance. In addition, the Town of Pagosa Springs and Archuleta county are also financial participants with their adoption of impact fees. The Pagosa Area Water and Sanitation District is a financial partner in the form of increased rates to pay for project financing. Wells Fargo Bank may be a financial participant with a lease purchase agreement, as well as investment bankers, George K. Baum. Related to the project as a whole, additional participants include Park Ditch Water Company and Aspen Springs Metropolitan District. The SJWCD is comprised of a very capable Board of Directors with recognized and varying degrees of expertise related to water resources finance and development. The SJWCD continues to have significant representation on its Board to include leading members of Town and County government. Early in 2007 the District intends to form its' team of consultants. A detailed budget by activity, level of effort, and rates, as well as the budget detailing the source of matching funds. The budget also includes any other outstanding or previously applied for funding that also supports the water activity. For purposes of this funding request for land acquisition related to the San Juan Reservoir, all funds will go toward the purchase of land. The SJWCD plans to fund the remaining \$8.1 million balance of the Reservoir land acquisition through a series of finance strategies to include: a) a current mill levy of approximately \$60,000 per year; b) reserve accounts of \$300,000; c) impact fees of approximately \$350,000 per year; and d) a proposed increase to the current mill levy on the November 2007 General Election ballot to generate, in total, approximately \$750,000 per year. In the event the ballot issue fails, the SJWCD, in conjunction with the Pagosa Area Water and Sanitation District, has obtained a commitment to increase water rates for project financing.

A detailed project schedule including key milestones: Funding from this Account will allow the SJWCD to begin purchase of land for the San Juan Reservoir in 2007. The Reservoir is estimated to be needed by about 2015, but it is not possible to complete all of the pre-construction work in that time frame. Since the Reservoir cannot be constructed and ready for use until about 2025, the SJWCD has the ability to construct the reservoir in two phases. Depending on the economic conditions, water demands, and costs, it may make sense to construct 12,000 AF in phase I and the remaining 23,000 AF in phase II, which will supply the water needs through about 2100. However, upon further evaluation, the entire project could be built to the 35,000 AF capacity in one phase.

Discussion:

The Pagosa Springs area is one of the fastest growing areas of the state. The Statewide Water Supply Initiative identified the need to develop additional water supplies to meet this growing need. The Dry Gulch Reservoir was identified as an option to meet future needs.

Given the rapid rate of development and escalating land prices it appears prudent to secure scarce locations for potential water storage. Currently there are several substantive, logistical and financial questions as discussed below.

Issues/Additional Needs:

- The 2001 Davis Engineering Report submitted with this application indicates that: Alternative 7 Dry Gulch Reservoir is not recommended because the yield is more than double what is needed by 2025 and existing rate payers are not able to finance the debt service to construct this large project and the existing distribution system has insufficient capacity to utilize the large yield.
- The 2001 Davis Engineering Report indicates a capacity of 4,000 acre feet with the need to acquire 200 acres at \$5,000/acre for a total land acquisition cost of \$1,000,000. The application indicates that

621 acres will be acquired and the decree included in the application is for up to 35,000 acre feet of storage. The applicant should reconcile these pieces of information.

- In addition to the reconciliation the applicant will need to provide documentation of the land costs via a valid appraisal and documentation of “fair market value” and confirmation of the need to acquire the full 621 acres especially in light of water availability and firm yield analysis. A full legal description of the proposed property needs to be provided with better mapping of the site location.
- The report references a 1989 Harris Water Engineering study that showed a yield of 3,300 acre feet. Additional work in the March 2003 Harris Water Engineering Report indicates a firm yield of up to 5,998 acre feet. Both estimates should be reconciled with the larger reservoir configuration which in turn requires the larger land acquisition.
- A more detailed schedule needs to be provided detailing the major activities to be undertaken specific to the land acquisition and then laying out the major activities that will be undertaken until possible construction which is indicated at 2015 or beyond.
- If awarded provisions in the contract will be made to ensure that if a water project is not constructed then the funding plus a “fee/interest” will be repaid to the State/CWCB.
- The applicant should explain how the project was to be financed without Water Supply reserve Account as the applicant appears to be currently under contract.
- Additional detail on existing service charges and tap fees and total taps should be provided and the amount of increase that would be required in the event that the ballot issue fails. This information is needed to assess the impact to users in light of the information/issues describes in the 2001 Davis Report.
- The name of the project should be resolved the application states San Juan reservoir but supporting work uses Dry Gulch as the primary name.

Staff Recommendation:

There is considerable important information missing from the application. However, the applicant also indicates that they have the land under contract with an anticipated closing scheduled for July-August. From the applicants perspective they would prefer not to wait for the September allocation to resolve these issues. At the time of this writing staff had not forwarded the issues to the applicant so additional information may be available at the Board meeting. Assuming that the issues are properly and fully addressed staff recommends funding of up to \$1,000,000.00 to assist in the purchase of the Dry Gulch reservoir site. This approval is conditioned on staff having a high level of comfort on the resolution of issues. Otherwise staff will need to seek direction from the Board.