

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Chief
Finance Section

DATE: September 18, 2012

SUBJECT: **Agenda Item 18b, September 27-28, 2012 Board Meeting**
Finance Section – Changes to Existing Loans
Pagosa Area Water & Sanitation District – Dry Gulch Reservoir Project
(Contract # C150261)

This is an Informational Item Only – No Board Action is Necessary

Introduction

The Pagosa Area Water & Sanitation District (District) was approved for a \$11,217,000 loan from the CWCB in January 2008 to finance the purchase of land for the future site of the Dry Gulch Reservoir (Reservoir). The loan represented 90% of the estimated acquisition cost of two parcels of land (Weber Parcel and Laverty Parcel). The Pagosa Springs area was experiencing significant growth and the Dry Gulch site was one of the last “preferred sites” still available for a reservoir. The District, in conjunction with the San Juan Water Conservancy District (SJWCD), purchased the Weber Parcel in January 2008.

Shortly after the downturn in the economy in early 2009, the District’s Board began reconsidering the need, size and value of a new reservoir in the area. Over the past three years, the District has struggled with the future of the Dry Gulch Reservoir Project. In August 2012, CWCB staff notified the District that the Loan Contract’s “Time of Performance” was going to expire on September 18, 2012. The staff offered the District two options: extend the “Time of Performance”, allowing more time to develop a plan to utilize the remaining loan funds for the purchase of the Laverty Parcel; or close out the loan and begin repayment. The latter option was chosen which eliminates access to the \$1.9 million left in the contract to secure the property necessary to build a reservoir.

See attached Project Data Sheet for a location map and a project summary.

Background

An extensive review of more than 13 potential reservoir sites within the County revealed two cost effective sites with the fewest environmental concerns. One of the sites, the Hidden Valley Reservoir site, was purchased for residential home development. To avoid a similar result with the other sites, the District began negotiations to purchase the land at the Dry Gulch site. The proposed Reservoir site is approximately one mile north of Pagosa Springs along US 160. It would be an off-channel facility within one half mile of the San Juan River.

Since the lead time to construct a new reservoir is typically 20 years or more, securing the land and starting design/permitting was the driving force in 2008 to meet the District's projected needs. The CWCB loan was to be used for the purchase of the private land needed to move the project forward. The Dry Gulch Reservoir site, as proposed at the time, had a potential storage capacity of 35,000 AF; however, a water court ruling left the District with a storage right for only 11,000 AF. The Loan Feasibility Study indicated the District planned to purchase of the Weber and the Laverty parcel. Both of which are needed to construct any size reservoir at the Dry Gulch site.

The Dry Gulch Reservoir project was identified in the Statewide Water Supply Initiative as a "Identified Project" to meet the future municipal demands in Archuleta County within the Dolores/San Juan/San Miguel Basin. As a result, the CWCB approved a \$1 million Water Supply Reserve fund grant to the SJWCD in March of 2007. (Grant Contract C150408) The grant was used as the local match for the purchase of the Weber parcel.

Original Land Purchase Estimates

Weber Property	\$10,320,000
Laverty Property	<u>2,020,000</u>
Total	\$12,340,000

The Weber property purchase occurred on January 3, 2008. An appraisal for the Weber parcel was completed by Walters & Mullins Inc., of Alamosa, dated August 22, 2007, which valued the property at \$10,525,000.

Pagosa Area Water & Sanitation District (District)

The Pagosa Water and Sanitation District was originally formed in 1971 and reorganized as the Pagosa Area Water and Sanitation District in 1977. The District is a quasi-municipal corporation and a political subdivision of the State. The District serves about 75 percent of the population of Archuleta County with M&I water and generates revenues from water use fees.

San Juan Water Conservancy District (SJWCD)

Nearly all the District is located within the SJWCD boundary. The SJWCD was formed in 1987 and encompasses approximately 100 square-miles of the 1,365 square-miles of Archuleta County. SJWCD service area includes approximately 95% of the current municipal and industrial water demand within the County. The purpose of the SJWCD is to conserve, maximize and utilize the water resources of the San Juan River and its tributaries. In addition, a primary function of the SJWCD is to address future water supply needs.

Decision

CWCB staff received a letter dated September 14, 2012 indicating the District's request to close-out the loan and begin repayment. Unfortunately, this will leave CWCB and the District with a loan on a parcel of land that cannot feasibly provide the site needed to construct a reservoir. The District along with SJWCD will still have options available to acquire the additional land necessary in the future. The District may also be interested in selling unneeded property within the Weber parcel to offset the cost of purchasing the needed portions of the Lavery property.

It is important to know that this decision may have an impact on the SJWCD's \$1,000,000 WSRA Grant (C150408) which contains a clause that requires repayment of the \$1,000,000 WSRA grant plus 3.5% annual interest (starting 2012) if a Notice to Proceed for the Reservoir construction has not occurred by 2025. The interest due in 2025 is estimated to be approximately \$450,000.

Existing Collateral

The CWCB loan is secured by a pledge of the District's Enterprise revenues. The pledge is backed by a rate covenant and annual financial reporting.

cc: Ed Winton General Manager, Pagosa Area Water & Sanitation District
Susan Schneider, AGO
Peter Johnson, AGO

Attachment: Water Project Loan Program – Project Data Sheet

CWCB Construction Loan Program Project Data Sheet

Borrower: Pagosa Area Water & Sanitation Dist. **County:** Archuleta

Project Name: Dry Gulch Reservoir
Land Acquisition Project

Project Type: New Reservoir

Drainage Basin: San Miguel-Dolores/San Juan

Water Source: San Juan River

Total Project Cost: \$12,340,000 (Land Acquis.)
\$80,000,000 total Project

Funding Sources: CWCB, WSRA Basin Grant

Type of Borrower: Municipal Middle Income

Average Delivery: Undetermined

Loan Amount: \$11,217,060 (Including 1% fee)

Interest Rate: 3.5%

Term: 30 years

District serves 9,500 residents in the 100 sq. mile District service area. Drought and demand from growth projections estimated the need for a new reservoir. The Dry Gulch site was the only reasonably valued site available due to land development. Primary fill source will be pumping of San Juan River water to the reservoir. A CWCB loan was authorized to purchase two parcels of land to begin the process of permitting and design. The land is needed for any sizes of reservoir in this location.

