



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

1313 Sherman Street
Denver, CO 80203

P (303) 866-3441
F (303) 866-4474

John Hickenlooper, Governor

Robert Randall, DNR Executive Director

Lauren Ris, CWCB Acting Director

TO: Colorado Water Conservation Board Members

FROM: Jonathan Hernandez, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: May 17-18, 2017 Board Meeting

AGENDA ITEM: 27b. Water Project Loans
San Juan Water Conservancy District - Dry Gulch Reservoir Land Acquisition

Introduction

The San Juan Water Conservancy District (District) is applying for a loan for the Dry Gulch Reservoir Land Acquisition (Project). This loan is a part of the overall Dry Gulch Reservoir (Reservoir) project which has been under various stages of consideration since the 1960s. Previous efforts by the District and the Pagosa Area Water and Sanitation District (PAWSD) led to securing a majority of land needed for the proposed Reservoir through the use of a CWCB Water Supply Reserve Fund (WSRF) grant (Contract No. C150408) to the District and a CWCB loan (Contract No. C150261) to PAWSD. The purpose of this Project is to acquire and control the remaining land needed for the proposed Reservoir site. The District is seeking a CWCB loan to cover 100% of Project costs, estimated at \$2,000,000. See attached Project Data Sheet for a location map and Project summary.

The District agrees to make every effort to retain the lands purchased or exchanged with this loan during the Planning Period as identified in the "Agreement to Restructure Colorado Water Conservation Board Dry Gulch Reservoir Loan Contract Number C150261," dated July 22, 2015, and the "Amendment to Agreement to Restructure Colorado Water Conservation Board Dry Gulch Reservoir Loan Contract Number C150261," April 27, 2016 (combined, 3-Way Restructure Agreement). It is not the intention of CWCB or the District to add, change, or in any way amend the 3-Way Restructure Agreement.

Staff Recommendation

Staff recommends the Board approve a loan not to exceed \$2,000,000 (\$1,980,198 for Project costs and \$19,802 for the 1% service fee) to the San Juan Water Conservancy District for costs related to the Dry Gulch Reservoir Land Acquisition Project, from the Construction Fund. The loan terms shall be 30 years at the low-income municipal interest rate of 2.55% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Additionally, Staff recommends the following conditions:

- 1) Execution of the contract shall be contingent upon voter approval of the District's mill levy increase at an upcoming TABOR election.
- 2) Contract shall be conditioned such that CWCB has the right of first refusal on the land purchased or exchanged with the loan funds at any time the District offers it for sale.
- 3) Contract shall be conditioned such that in the event the District sells land needed for the Reservoir, to the extent the Reservoir can no longer be developed, this loan shall become due in full within 6 months of the date of sale.
- 4) CWCB disbursements for the purchase of land shall not exceed 100% of the appraised value as determined by a Colorado Certified General Appraiser.



Background

The District is located in Archuleta County and has a service area of approximately 100 square miles. The service area includes the Town of Pagosa Springs and approximately 90% of the municipal and industrial demand within the County. The purpose of the District is to conserve, maximize, and utilize the water resources of the San Juan River and its tributaries, with the primary function to address future water supply needs within its boundaries.

The current population of Archuleta County is approximately 12,000 and the Colorado State Demographer has projected the county population at 2050 to be 27,500. Extrapolating the demographers growth rate for year 2045 to 2050 (1.6%) through 2070, and the population may grow to 37,400. Assuming a 10% water usage reduction for conservation, and the estimated water demand associated with a population of 37,400 is 6,800 AF/year. PAWSD currently has facilities estimated to provide up to 2,500 to 3,000 AF/year in a drought year. Therefore a gap of 4,300 AF/year could be seen by 2070. A water supply gap, though initially much smaller, could appear as soon as 2025.

The Reservoir site has been in consideration since the 1960s when the Southwestern Water Conservation District filed for a conditional water right for a 6,300 AF reservoir. With the formation of the District in 1987, ownership of that water right was transferred to the District. There have been numerous studies and reports, including a review of more than 13 potential reservoir sites within the County to provide for future water demands. A 1989 report identified a 4,000 AF reservoir at the Dry Gulch site as the best site to store San Juan River diversions. After the 2002 drought, a 2003 report re-evaluated the reservoir options and again concluded the Dry Gulch site was the best. That report evaluated both a 4,000 AF reservoir and a 12,500 AF reservoir, and noted the maximum potential capacity to be a 35,000 AF reservoir. The Colorado Supreme Court determined population projections could not justify a 35,000 AF reservoir and a settlement of the litigation resulted in a determination that the District could proceed forward with plans for an 11,000 AF reservoir at the Dry Gulch site.

The District was the lead proponent of the Dry Gulch Reservoir until PAWSD entered into a Memorandum of Understanding (MOU) in 2002 between the two parties. PAWSD then took the lead in managing the development of the Reservoir and the District was a project partner. The Reservoir site includes land previously owned by the Webers (660 acres), land currently owned by the Lavertys (23.4 acres), and land currently owned by the United States Forest Service (USFS) (190.7 acres). PAWSD was approved for an \$11 million CWCB loan and the District was approved for a \$1 million WSRF grant at the January 2008 board meeting to acquire the Weber and Laverty property. The USFS property was not a subject of the 2008 loan. The Weber property (aka Running Iron Ranch) was purchased by PAWSD and the District with the loan and grant proceeds. However, before the Laverty property was purchased, PAWSD decided to no longer actively pursue the Project, closed out its CWCB loan in 2012, and terminated the MOU in 2013. In order to provide a way forward for the Project and provide PAWSD the financial flexibility to address its higher priority water issues, CWCB approved a restructuring of the PAWSD loan at the March 2016 board meeting. The 3-Way Restructure Agreement included transferring the project management from PAWSD back to the District, and included a clause obligating the District to acquire the remaining land necessary for the reservoir, namely the Laverty and USFS properties.

Loan Feasibility Study

Rod Proffitt, President and Chair of the District Board of Directors, with assistance from Steve Harris, P.E., Harris Water Engineering, Inc., prepared the Loan Feasibility Study titled, "Dry Gulch Water Storage Project Loan Feasibility Study for CWCB 2017 Loan Application," dated March 25, 2017. The feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of

alternatives and cost estimates. Financial statements were provided by Clark, White, & Associates, Inc. An appraisal of the Laverty and USFS property was performed by Ace Appraisal, LLC.

Borrower – San Juan Water Conservancy District

The District was formed in 1987 and is a quasi-municipal entity and a political subdivision of the state of Colorado, organized under the Water Conservancy Act, C.R.S. 37-45-101, et seq. The District was created by decree of the Archuleta County District Court, dated October 22, 1987. All powers, privileges and duties of the District are exercised and performed by a 5 to 9 member Board of Directors appointed by the District Court.

The District is subject to Article X, Section 20 of the Colorado Constitution (TABOR). The District was “de-Bruced” in the November 2006 election, removing revenue and spending increase limitations of TABOR. However, the approved ballot language contained a provision requiring voter approval for any property tax mill levy increase. Revenues are provided by a mill levy that is certified on or before December 15th of each year. At its formation, the District mill levy was 1.0 mill. Due to the ratchet-down effect of TABOR, the mill levy has since been reduced to 0.31 mills.

Water Rights

The District has a portfolio of conditional water rights. The water rights impacted by this Project are shown in Table 1.

TABLE 1: IMPACTED WATER RIGHTS

Name	Amount	Appropriation Date	Adjudication Date	Water Court Case No.
Dry Gulch Reservoir	6,300 AF (Conditional)	7/22/1967	12/19/1968	CA0308-D (Diligence Due 10/2022)
Dry Gulch Reservoir	4,700 AF (Conditional)	12/20/2004	12/31/2004	04CW85 (Diligence Due 10/2017)

Project Description

The purpose of the Project is to take steps and actions to move the Dry Gulch Reservoir project forward by acquiring the remaining land needed for the proposed Reservoir, per the District’s requirement as Project lead under the 3-Way Restructure Agreement. The site selection alternative analysis was completed in the 1989 and 2003 reports and presented in past Board memos.

Alternative 1 – No Action: This alternative was not selected because the District views the Reservoir construction as a key element to the area’s future water supply. Further delay in purchasing the land could lead to higher land costs or to the abandonment of the Reservoir project.

Alternative 2 – Acquire Land Necessary for Dry Gulch Reservoir: This alternative would complete the goals of the original PAWSD Dry Gulch loan which was to acquire the Weber and Laverty property. Through the past PAWSD loan and District grant, PAWSD and the District now jointly own the Weber property but the Laverty property was not purchased. This new District loan will go to the purchase of the Laverty property, an access easement over a portion of the remaining Laverty ranch, as well as other off-site property as necessary to facilitate an exchange with the USFS for the portion of its land needed for the future Reservoir pool.

The District is working towards a direct purchase of the Laverty parcel and the Laverty easement. The District and Lavertys have agreed on most of the issues pertinent to the transaction, with the exception

of the final purchase price. The appraised value of the parcel is \$145,000 (\$6,200/acre), and the easement is \$27,500 (\$3,100/acre).

The District is unable to directly purchase the USFS land, and must instead purchase property off-site that is acceptable to the USFS for a land exchange. The appraised value of the USFS land to be acquired is \$915,000 (\$4,800/acre). The District has hired Western Land Group to assist with the land exchange and to identify potential off-site properties.

The District will also have costs associated with fencing the new boundary between the private land and the Reservoir pool and the road easement. As required by the USFS, the District will pay for the Environmental Assessment and all other expenses associated with the land exchange.

The cost associated with the Project is shown in Table 2.

TABLE 2: PROJECT COST

Task	Cost
USFS Land Exchange and Agreement	\$1,030,000
Laverty Parcel Land Purchase	\$145,000
Laverty Access Easement Purchase	\$27,500
Boundary and Road Fencing	\$298,500
NEPA Compliance	\$50,000
Professional Services	\$250,000
Contingencies	\$199,000
TOTAL	\$2,000,000

The current cost estimate to construct the dam and Park Ditch Inflow Siphon, is approximately \$60 million. The District has not finalized a funding plan for the Reservoir construction and this loan request does not commit CWCB to any future financial support for construction costs.

Permitting: An Environmental Assessment, including cultural resources, endangered species inventory, and wetlands will be required to facilitate the land exchange with the USFS.

Schedule: Sequence of events depends on a successful mill levy increase TABOR election. The next opportunity to place this on the ballot is the November 2017 election. Upon a successful passage of the ballot measure the District will move to finalize the Laverty land and easement purchase, possibly as soon as December 2017. The land exchange with the USFS is expected to be complete by the end of 2018 at the earliest. Fencing of the respective properties could begin immediately after acquisition and will require 4 months to complete.

Financial Analysis

Table 3 provides a summary of the Project's financial aspects. The District qualifies for the low-income municipal interest rate of 2.55% for a 30-year term.

TABLE 3: FINANCIAL SUMMARY

Total Project Cost	\$2,000,000
CWCB Loan Amount	\$1,980,198
CWCB Loan Amount (Including 1% Service Fee)	\$2,000,000
CWCB Annual Loan Payment	\$96,193
CWCB Annual Loan Obligation (1 st Ten Years)	\$105,813

Creditworthiness: The District has no existing long-term debt. Over the past 3 years, the District has operated at a negative operating ratio (see Table 4) and has balanced its budget by dipping into its reserves. The current balance of reserves, not including cash on hand, remains over \$200,000. Expenses outpacing revenues have been due in large part to the additional expenses related to negotiating of the Dry Gulch Reservoir project with PAWSD and CWCB, and a reliance on a revenue stream controlled by TABOR.

The District currently has a 0.31 mill levy and will be seeking voter approval to increase this to a 1.0 mill levy at an upcoming election. The District will not be able to afford the debt service payments unless the mill levy increased is approved. Therefore, execution of the contract will be contingent upon voter approval of the mill levy increase.

TABLE 4: FINANCIAL RATIOS

Financial Ratio	Past 3 Years	Future w/ Project ¹
Operating Ratio (revenues/expenses) weak: <100% - average: 100% - 120% - strong: >120%	85% (weak) \$74K/\$87K	111% (average) \$214K/\$193K
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% - average: 100% - 120% - strong: >120%	NA	120% (average) (<u>\$214K-\$87K</u>) \$106K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	311% (strong) \$227K/\$73K	118% (average) \$227K/\$193K

¹ Future with revenues assumes voter approval of a 1.0 mill levy.

Collateral: Security for this loan will be a pledge of mill levy revenues backed by a rate covenant and annual financial reporting. This security is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Rod Proffitt, Chair, Board of Directors, San Juan Water Conservancy District
Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet

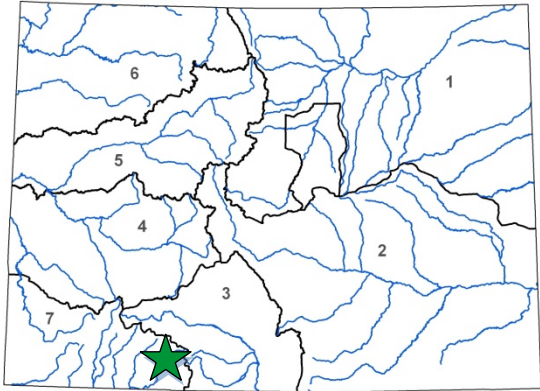


Dry Gulch Reservoir Land Acquisition

San Juan Water Conservancy District

May 2017 Board Meeting

L O A N D E T A I L S	
Project Cost:	\$2,000,000
CWCB Loan (with Service Fee):	\$2,000,000
Loan Term and Interest Rate:	30 Years @ 2.55%
Funding Source:	Construction Fund
B O R R O W E R T Y P E	
Agriculture	Municipal
0%	100% Low - 0% Mid - 0% High
	Commercial
	0%
P R O J E C T D E T A I L S	
Project Type:	Water Storage Land Acquisition
Average Annual Delivery:	NA



L O C A T I O N	
County:	Archuleta
Water Source:	San Juan River
Drainage Basin:	Southwest
Division:	29
District:	7

The District was created in 1987 with a purpose to conserve, maximize, and utilize the water resources of the San Juan River and its tributaries, with the primary function to address future water supply needs within its boundaries. Population projections predict an increase of 25,400 county-wide by 2070, an increase that could produce a water supply gap of 4,300 AF per year.

The District has identified the development of Dry Gulch Reservoir as a top priority project for the region's long-term water supply solution. This reservoir site has been under consideration since the 1960s and has been identified in 1989 and 2003 as a preferred water storage location for diversions from the San Juan River. A previous CWCB loan to the Pagosa Area Water and Sanitation District and a WSRF grant to the San Juan Water Conservancy District provided funding for the purchase of a large portion of the land needed for the proposed Dry Gulch Reservoir. This loan will acquire the remaining land needed for the proposed reservoir. The overall Dry Gulch Reservoir project will be planned in keeping with the objectives outlined in the Colorado Water Plan for new water storage, by not only off-setting the projected water supply gap, but also providing water resources for non-consumptive uses to enhance environmental and recreational opportunities of state and local economic benefit. Planning and permitting for the reservoir is expected to take up to 10 years. This loan will not provide funds for reservoir construction.

