



COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board

FROM: Kirk Russell, Finance Section Chief

DATE: March 19-20, 2025 Board Meeting (UPDATED March 20, 2025)

CONSENT ITEM: 20. Pagosa Area Water & Sanitation District - Dry Gulch Reservoir Loan

Staff Recommendation

~~Staff recommends the Board not exercise the right of first refusal to purchase the Running Iron Ranch from the Pagosa Area Water and Sanitation District at this time.~~

The Board declined Staff's recommendation, and instead, the Board directed staff to respond to PAWSD with a letter stating as follows: "The CWCB is in receipt of its January 17, 2025 letter informing the CWCB and SJWCD of its decision to sell the Running Iron Ranch (RIR). The CWCB is not at this time making a decision as to whether to purchase the RIR under paragraph 5.1 of the Amended Agreement. The CWCB reserves its right to exercise or not exercise the right of first refusal if it is determined in Case No. 24CV30069 that PAWSD is able to sell the RIR, or PAWSD otherwise is able to move forward with a sale of the RIR." The letter should also summarize the requirements of repayment of the loan under the Amended Agreement upon any sale.

Introduction/Background

In 2008, the CWCB approved a loan to the Pagosa Area Water & Sanitation District (PAWSD) of \$11,106,000 for 30 years at 3.5% annum (C150261) and issued a WSRF grant to the San Juan Water Conservancy District (SJWCD) for \$1,000,000 (C150408) to purchase land for the future construction of the Dry Gulch Reservoir (Reservoir).

An extensive inventory and review of more than 13 potential reservoir sites within the County revealed two cost effective sites with the fewest environmental concerns. One of those sites was purchased for residential development resulting in the PAWSD and the SJWCD's effort to secure two parcels of land at the Dry Gulch site, the Running Iron Ranch and the Laverty Property. The site is approximately one mile north of Pagosa Springs along US 160. It was to be an off- channel facility within a mile of the San Juan River.

The Pagosa Springs area had experienced significant growth in previous years and the purchase of land was the first step in developing a water supply storage facility. The Reservoir was projected to cost \$80 million at the time.

In 2013, PAWSD decided to close out the CWCB Loan after purchasing the Running Iron Ranch and without securing the Laverty Property as needed to build the Reservoir. The Loan was reduced to \$9,219,363 and put into repayment.

In 2015, PAWSD, SJWCD, and the CWCB entered into an agreement to restructure the loan and the grant. The agreement broke the loan balance into two loans, Loan A and Loan B. Loan A (CT2016-1696) received a reduced interest rate of 1.75%, amortized over 20 years. Loan B (CT2017-1008) was modified into a 40-year loan with zero interest and zero payments for the first 20 years, followed by a 20-year loan at 3.5% interest. The first 20 years of the agreement was defined as the "Planning Period" while Loan A is in



repayment and Loan B was paused. The agreement also requires the \$1,000,000 grant to be returned to CWCB along with a 3.5% interest if the Running Iron Ranch is sold or Dry Gulch Reservoir is not constructed.

The agreement includes a clause that allows CWCB to have “the right of first refusal on the purchase of the Running Iron Ranch at any time PAWSD offers it for sale.” This clause includes a 90-day notice period. This period was triggered on January 17, 2025 with the receipt of a letter from PAWSD notifying the CWCB and SJWCD of PAWSD’s decision to sell Running Iron Ranch, along with an accompanying appraisal.

Staff is recommending that the CWCB not exercise its right of first refusal described in the agreement at this time. The CWCB will be entitled to full repayment of the loans and grant including principal and interest, without the benefit of the reduced and interest-free terms spelled out in the agreement. This includes PAWSD paying the difference in interest for any payments made at the reduced interest rate of 1.75% from the original rate of 3.5%, as well as repayment of the grant at an interest rate of 3.5%.