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liquid assets: turning water into gold part III

Suburban aggression

Desperate to find enough water to grow, Front Range cities pull the plug on restraint, turning to secret agents and meetings, willing to mortgage their future to make sure the glass is full years down the road.

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Denver Post Staff Writers THIRD OF FOUR PARTS
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Vi Misztal's utility bills shot up in the 1980s to help pay for water her city purchased secretly from farms in another county.

Now she can't help but laugh at the idea she may never taste a drop of the water she has been buying for 19 years.

"I'm an old gal," she said after a card game for pennies at a Thornton senior center. "I'm 83. My God, I can't look forward to paying more and more and more of these bills. I don't appreciate that at all."

Like every other homeowner in Thornton, she has been paying for water the city bought two decades ago but has never delivered. Though most don't know it, ratepayers are financing a water project that could easily cost half a billion dollars and still faces serious obstacles before any water pours through a pipe.

In the first three years after Thornton hired a prominent water broker in 1985 to buy water rights from 110 farms in Weld and Larimer counties, Misztal's water rates shot up 37 percent. In the past three years, the water connection fees for a new Thornton home have nearly doubled to \$14,797.

Thornton spent 12 embattled years in court just to get the right to consume water it spent \$50 million to acquire. Though city officials say they still hope to pipe in the water by 2024 - 38 years after they bought it - they have not even begun to buy the rights of way along the proposed 56-mile route. Thornton's former longtime mayor is among those who doubt the pipeline will ever be built.

Instead, Thornton plans to spend the next 15 years turning irrigated farms into natural grassland so it can claim the water it owns and trade it for water closer to home.

Aurora, its fast-growing neighbor, already takes water from three of Colorado's seven river basins. Now it plans to spend half a billion dollars to pipe treated wastewater from the South Platte River to a new purification plant - and back to its residents' faucets.

The painful lesson that Thornton, Aurora and other Colorado cities have learned: Buying water is just the beginning. The other costs include everything from hiring secret agents at closed predawn meetings to paying a farmer who now raises pheasants on a \$200-a-day hunting range.

As Denver's suburbs reach farther to find water, they find themselves forced by state law and water court decisions to compensate the communities they tap. In Aurora's case, ratepayers have been required to do everything from reseeding 15,000 acres of farmland and paying a public school district 165 miles away to supporting a new kayak course in Pueblo.

"It's the cost of doing business," said Peter Binney, Aurora's utility director. "Do I choke at the price of it now? Yes."

Thornton likewise is paying schools and fire departments for lost taxes and promising to reseed thousands of acres as it takes water rights from farms. To get water, it also bought farmland, farm buildings, tractors, sprinklers and other equipment it still owns.

"They came around for two years afterward trying to find out what the hell they had bought," said Gary Simpson, who sold his farms to Thornton. "The only thing they knew for sure was that they owned the water."

Man in a Cadillac makes offers farmers can't refuse

One by one, rural neighbors agree to sell, but even the rumor mill can't detect who the mystery buyer is.

Ken Nelson remembers how it all began. A gray Cadillac Seville pulled into the muddy drive outside his Cactus Hill sheep farm near Ault, east of Fort Collins. Out stepped Duane Rennels, a local real estate man.

Rennels had been talking to scores of Nelson's neighbors. He was offering hard cash on behalf of a mystery buyer to farmers hard pressed by extraordinary interest rates. Rampant rumors held that the buyer was someone big. Ferdinand and Imelda Marcos. The Catholic Church. Arabs. Maybe Aurora.

Men and women who had farmed the land for generations were selling, Rennels told Nelson. But the whole deal could sour if he didn't join up.

And this was the only buyer in town.

Nelson knew what his neighbors faced. Some farmers had already been given "the linoleum room" treatment at the bank. Simpson was one. When the bank loaned him money, he got to sit on the carpeted main floor. But then they called him in and took him down to the basement, where they sat in a linoleum-floored break room. He said the bank had been lending money - payable on demand - to cover his mortgage payments as he got deeper in debt.

"They said, 'We think it's time you get out of debt,'" Simpson remembers. "'We want our money.' I only owed \$1.6 million."

Like most farmers in the area, Simpson put his farm up for sale.

And then the gray Seville pulled up with the promise of a fix.

When farmers asked who was buying, Rennels would say only, "I am."

The Thornton council had met at 5 a.m. to plot its strategy. In a closed session, the members voted to take over the Water Supply and Storage Company, a shareholder-owned agricultural ditch company with rights to the pristine Cache la Poudre River.

It also hired Rennels secretly in September 1985 without competitive bids and let him buy farms when farmers refused to sell water rights without land. Thornton set a limit on what it would pay for land and water, and would buy only if it could acquire a large block of shares at once.

Thornton records show the council originally asked Rennels to buy 301 of 600 shares of Water Supply and Storage Company. Ultimately, the city stopped short of buying a controlling interest. Mayor Noel Busck, then a council member, insists Thornton quickly backed away from a takeover and agreed to own just under half the company.

Busck also said confidentiality was crucial to protect the city's business strategy.

"Once we got word out that we were up there buying, Aurora and everyone else would be up there wheeling and dealing with us," he explained.

Actually, Aurora already had passed on the chance. Rennels said he brought Thornton the idea of buying half a ditch company - enough water for a quarter-million city dwellers - after Aurora, which had other water projects in the works, turned him down.

He ended up with \$3.5 million in commissions. And a car.

One farmer was \$7 million in debt and so desperate to sell that he took Rennels out to his barn, filled with a collection of antique Mercedeses, and told him he could take his pick if he would just move up the closing date three months.

Rennels said he cleared the car deal with then-Thornton Mayor Margaret Carpenter, who said she doesn't remember approving it.

As Thornton's secret agent, Rennels sometimes had to lose a man in an aging Chrysler who tried to tail his Seville on dirt roads from farm to farm. Secrecy was essential, he agreed, because "the price would have skyrocketed" if Thornton had been identified.

"No one knew who I was buying for except my wife and my secretary," he said.

Thornton leaders were so concerned about their dependence on one man to acquire a future water supply that, in his contract, Rennels agreed not to fly his private plane for nine months.

Nelson resisted selling to the end. He and his sons got into the truck and drove away from the gray Seville to a Windsor restaurant. A persistent Rennels followed them there, finally persuading them to sell about half their farmland.

That same night there was a meeting at a Holiday Inn in Fort Collins, "and all the big shots were going to be there. They were going to tell us what was going on and who it was," Nelson said. "Turned out to be the mayor of Thornton."

Overnight, Thornton officials said, their city had emerged as the largest landowner in a county completely outside its borders.

"Holy Toledo," Busck said. "We wound up with 20,000 acres in Weld County."

City unveils pipeline plan that is quickly stymied

Northern neighbors pour into water court protesting. Thornton's millions fail to get clean mountain water.

At the Holiday Inn in 1986, Carpenter outlined an elaborate plan to benefit her city and local farmers. Thornton would build two pipelines, one to carry water south, one to return treated effluent for agricultural use. Its city manager said pipeline construction would begin within 10 years.

Opponents soon turned that schedule into a pipe dream. The ditch company, fearing a takeover, promptly tried to dilute Thornton's ownership by issuing new stock. Thornton sued - then agreed in a settlement to pay more than \$8 million to use and improve the company's facilities.

In water court, farmers, cities and water districts protested the exportation of northern Colorado water to a Denver suburb. Forty- eight parties filed objections, flooding the courtroom with lawyers

and engineers.

In March 1998, Thornton finally secured rights to the water it bought - with a long list of conditions before the city could use it.

Many of the farmers who sold to Thornton asked if they could lease the farms back until the city needed the water. Two decades later, they grow the same crops on the same land, but as tenants of a city that still owns 30 square miles of Weld and Larimer counties.

Thornton gets about \$1.5 million by leasing the land it owns back to farmers, said the city's water resources manager, Mark Koleber, but spends \$500,000 a year on maintenance.

Rennels said Thornton "made a hell of a deal" for the water, but he doubts it will ever be delivered in a pipeline. So does Carpenter, the city's mayor for 20 years.

"Unless it's financially feasible, I don't think the city can do it," she said. "Obviously there were lots and lots of things we didn't consider."

If Thornton never completes a pipeline, it can still trade its farm water for water from the South Platte and other streams.

But there is a disadvantage to that cheaper alternative.

Thornton went north for three reasons. It guessed correctly that Two Forks, a giant Denver-led reservoir project, would never be built. It aspired to buy enough water for a city of 300,000 people. And it wanted clean mountain water from the Cache la Poudre River. In court, it asserted that growing urban pollution threatened the reliability of its existing water sources.

Today, about 106,000 people live in Thornton, and a regional forecast estimates its population will not exceed 185,000 in the next 25 years. It continues to get much of its water from the South Platte River, which is tainted by treated wastewater from Denver suburbs as well as parking-lot oils and landscaping chemicals that run off urban streets.

Moreover, the 1998 water court decree requires Thornton to make "reasonable efforts" to protect and treat its existing supplies before taking that clean mountain water.

So the city has spent \$56 million for advanced treatment and filtration processes that make sure parasites such as cryptosporidium and giardia cannot slip through. It may spend \$14 million more to cleanse its water of organic chemicals such as herbicides, pesticides and previously consumed pharmaceuticals, a project that would temporarily give Thornton the most sophisticated treatment plant in Colorado.

"We're at the wrong end of the stream," Busck complained. "The water quality is atrocious."

Thornton now plans to use the water rights it bought by trading them. When its farms stop taking water from the Cache la Poudre, which feeds the South Platte, Thornton gains credit to use equivalent amounts upstream on the South Platte and Clear Creek. To accomplish this, it must first evict its tenants, one farm at a time, and successfully turn irrigated cropland into native grassland as the water court decree requires.

In its new timetable, the farm-drying project will take 15 years, and Thornton will begin to claim its northern water rights by exchanges about 2011. But the exchange means that, for all its effort and expense, Thornton will gain water from the river it complained was getting polluted - not the clean mountain water it paid for.

Thornton officials insist they still plan to complete the pipeline that would physically deliver Cache la Poudre water, but not until 2024. Fifteen years ago, Thornton estimated it would cost \$427 million

to complete its northern water project. The city is revising that estimate, which may go higher. For one thing, land values in booming northern Colorado have escalated, and Thornton has not acquired rights of way for a 56-mile pipeline.

Thornton's mayor says every city buys water for the future, and the water it acquired for its citizens is now worth several times what the city paid for it.

Busck said he has no regrets, "never a moment of doubt," about the project.

"It's a long-range vision, and the water is there," he said. "The water will come down when we need it. Did it take a long time? Sure it took a long time."

Farmers praise Thornton as a landlord who, until recently, threw them a Christmas party every year. They say the city allowed them to keep farming land that otherwise could have been seized by the banks.

But they marvel at the cost to Thornton residents.

"If the citizens had known, they'd have thrown a fit," Nelson said. "The guy who paid taxes on it for the last 20 years in Thornton hasn't gotten anything for it yet."

To gain water, Aurora pays for others' quality of life

It picks up part of the tab for Rocky Ford, helps a pheasant hunting retreat and struggles to clean water.

One hundred sixty-five miles south of Thornton's farms, pheasants hatch and grow to become prey for hunting at a place that got a big check from Aurora.

Along the Arkansas River, Aurora is subsidizing the cost of highly efficient drip irrigation systems on farms just to claim the water saved as a result. Elsewhere it has spent nearly \$4 million in two counties to transform into grassland 15,000 acres of irrigated farmland it bought.

And it gave some farmers the option of taking that money to reseed their own land.

That's where the pheasants come in. On Hal Holder's farm near Rocky Ford, the revegetation check "financed this operation," said Wesley Mason, Holder's partner, waving a hand around the pheasant birthing room. "My seed money, basically."

Mason and Holder became partners in Newdale Ventures, raising birds on a former wheat field converted to a hunting club. For \$200 a day, hunters "get a guide and a dog and lunch - and we'll clean your birds for you," Mason said.

Aurora's payments don't stop there. It agreed to make up the \$1.5 million difference in taxes that Rocky Ford schools will suffer in the next 90 years as tax-revenue-generating farmland is converted to dry grass. It even supported an economic development study for the community.

Far upriver, Aurora also opened miles of a stream to public fishing and agreed to protect land near Colorado's two highest mountains from development by donating it to open-space programs.

Aurora doesn't do these things just to be generous. It does so because state law permits counties to demand compensation for lost water, and water courts have begun to require such programs as conditions of approval.

Indeed, demands for South Platte water downstream of Denver keep rising despite this distasteful

fact:

Though the river flows through Denver as a playground for kayakers and an attraction for trail-riding cyclists, joggers and walkers, a major irrigation ditch called the Burlington Canal drains it as it leaves the city.

Above the Denver metro wastewater plant, the river is often reduced to a trickle.

Below the plant, which treats and discharges water from the faucets, toilets and bathtubs of 1 1/2 million people, "we make up nine-tenths of the river for nine months of the year," wastewater district spokesman Steve Frank said. "The river as it goes north from here essentially comes from our outfalls."

Aurora plans to turn it into drinking water. It recently announced it would spend \$500 million to collect water it has already discharged into the South Platte.

It designed a "five-barrier" system to make sure the water is safe. The water will be drawn from wells near the river, distilled for a month in gravel pits, then piped 34 miles to a new state-of-the-art treatment plant, sent through three more purification processes and blended with mountain water.

Aurora water bills will go up 12 percent - \$67 extra a year on a typical residential bill - to launch this project. Residential tap fees for new homes will rise to \$16,641 next year. More rate increases are expected.

According to Binney, Aurora's utility director, most of its water rights allow the city to use it "to extinction" - through the faucet, down the drain and back again.

"Obviously I'd love to have mountain water available to me. God didn't make it available. So I had to go to the next best thing," he said.

In Thornton, Koleber is struck by the fact that while Front Range cities in sight of the Rockies go to such trouble for drinkable water, the city of New York gets its water from protected mountain lakes and simply chlorinates it.

He laments that Colorado's rigid water rights system often creates a winner-take-all bidding war that prevents sharing a public resource.

In order to claim Thornton's water, "I can't put it back on these farms" once they're dried up. "The law doesn't allow that," he said. "I've got to show that it's never used there again."

Post researcher Barbara Hudson contributed to this report.

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