


MEMO

TO: Michelle Metteer, Manager

DATE: February 1, 2024

FROM: James Mann, Financial Analyst 

RE: Membrane Water Treatment Plant – Rate Impact Estimate

As requested, I have reviewed the HDR report dated August 1, 2023, related to water treatment plant upgrade options. In looking at the options for a Membrane Treatment Plant, the HDR report provided a range of costs from \$9.8MM to \$14.9MM, with a midpoint of \$12.35MM. The below analysis attempts to break down the impact of the above plant costs on the water user rates of the town.

In evaluating the impact of the proposed treatment plant replacement, the following assumptions were used:

- Current rates based on the Adopted 2024 Fee Schedule
- Test Year usage and SFEs based on 2023 January through December actual usage as reported by the Town
- Projected Growth:
 - Minturn North – 54 Single Family Units
 - Malloit Park – 120 Single Family Units
- 30-Year Leveraged Loan borrowing through the Colorado Water Resources and Power Development Authority (CWRPDA)
- Issuance costs for the CWRPDA Leverage conservatively estimated at \$25.00/\$1,000 of borrowing
- Interest Rate of 3.50%
- \$3.0MM of Congressionally Directed Spending to offset cost of new plant
- Development of an annual water main replacement program
- Target Water Utility Reserves equal to six months of operations plus the trailing year's debt service

As noted in the first paragraph, the HDR report identified a high and low estimate for development of a membrane water treatment plant. In evaluating the impacts, a mid-point cost figure was developed as well. In addition, the high-cost membrane plant estimate did not include design and engineering fees, which were estimated at \$2.0MM. For the mid and low-cost estimates, the design and engineering fees were simply proportionately reduced.

On the next page is a summary of borrowing sizing:

					2025 High	2025 Mid	2025 Low
CIP Projects							
WTP					14,900,000	12,350,000	9,800,000
WTP Design/Engineering/CM					2,000,000	1,657,718	1,315,436
Other Projects					120,085	120,085	120,085
Less Other Sources							
Grants/Aids					(3,000,000)	(3,000,000)	(3,000,000)
Special Assessments					0	0	0
Equipment Replacement Fund					0	0	0
Cash					(120,085)	(120,085)	(120,085)
Net to be borrowed					13,900,000	11,007,718	8,115,436
Issuance Expenses per \$1,000/debt issued	\$ 25.00				356,500	282,250	208,125
Total Financed					14,256,500	11,289,968	8,323,561
Rounding					3,500	32	1,439
Net Bond Size					14,260,000	11,290,000	8,325,000

The above does not take into consideration any funds currently on hand, or funds anticipated to be on hand through development occurring in the Town. As an example, the Minturn North development of 54 single family equivalents (SFEs) will generate approximately \$700,000 in tap fees and an estimate of \$1,175,000 in System Improvement Fees. If those fees are paid prior to the issuance of debt, then the Town could apply those fees towards offsetting the gross borrowing. Similarly, the Malloit Park development of 120 new SFEs will generate approximately \$2.6MM of system improvement fees, however it is unknown whether any tap fees will be generated from the development.

Not taking into consideration any fee offset for the borrowing, the debt service on the new borrowing would range from a low of \$450,000 to a high of \$775,000. When added to the existing debt that the Town has outstanding for the Water Utility, the annual payment maximum for the high-cost estimate would be approximately \$980,000.

As you may recall, when issuing revenue backed debt (fee revenue generated by the utility used to pay the debt) you will covenant to ensure that after you operate the utility, that the funds left over to make the debt payment will be a minimum of 1.10x the actual debt payment. In developing the rate methodology, I used a 1.20x minimum factor to provide greater financial flexibility. Based on the above, the Town’s Debt Fee would need to generate \$1,176,000 annually.

Based on the current 756.5 SFEs, the monthly debt fee would need to increase at least \$69.53/month on the low-end, to \$112.19/month on the high-end, bringing the monthly utility debt fee to between \$86.90 and \$129.56. As the number of SFEs increase, the monthly debt fee would decrease as the amount of annual debt does not change.

The current base fee and volumetric fees that are in place are not anticipated to increase beyond two to three percent per year going forward. Given all the above, the utility would meet the recommended reserve requirement in 2029 and would maintain a debt service coverage ratio above 1.20x for the 10-year planning window.

Attachments

Table 1 – Operating Cash Flow (High-Cost Option)

Table 2 – Capital Improvement Plan (High-Cost Option)

Table 3 – Debt Sizing (High, Mid and Low-Cost Options)

Table 4 – Debt Amortization Schedule (Includes High-Cost Option Debt Service)