

MEMO

TO: Michelle Metteer, Manager

DATE: December 14, 2024

FROM: James Mann, Financial Analyst

RE: Water Treatment Plant Probable Cost – Probable Rate Impact Analysis

Based on the 30% design of the replacement water treatment plant cost estimates between \$12 million and \$14 million, the Town requested an evaluation of the impact of the project cost on the Town's water utility rate structure. After discussion with the Town's WTP Engineer, the \$14 million upper end of the project includes adequate contingency for the project, so the below analysis utilizes the upper end as the needed capital. The goal would be to get to a 90% design standard prior to issuing the debt, with the hopes of having a better final number to minimize the debt that would be issued.

In looking at the anticipated impacts, the following assumptions were used:

- Base Water Rates as established
- Volumetric Water Rate Tiers as established
- Implementation of a Senior Water Rate Structure that impacts 30 customers
- Project Costs - \$16,300,000 (HDR memo of 8/20/24)
  - \$14,000,000 WTP construction costs
  - \$1,100,000 design & engineering costs
  - \$1,200,000 construction management costs
- Adjustment of the Tap Fee to reflect cost of new plant – revised tap fee of \$16,271, indexed annually at the borrowing rate for the bonds
- Anticipated Community Development of 426 additional taps broken out and absorbed as follows:
  - Minturn North - 30 taps already accounted for
  - Malloitt Park – 120 taps
  - 100 Block Redevelopment – 30 taps
  - Infill/Other – 246
  - Assume 30 Senior Rate Class accounts (frozen monthly fees)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Current SFEs	756.4	756.4	726.4	741.4	766.4	796.4	826.4	856.4	886.4	901.4	906.4
Minturn North	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Malloitt Park	120.0	0.0	10.0	20.0	20.0	20.0	20.0	20.0	10.0	0.0	0.0
100 Block	30.0		5.0	5.0	5.0	5.0	5.0	5.0			
Infill	246.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Less Senior Rates			(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Total SFEs	396.0	756.4	726.4	741.4	766.4	796.4	826.4	856.4	886.4	901.4	906.4

- Anticipated Borrowing Rate of 3.50%
- Total Borrowing, including remaining engineering, construction management, and issuance costs of \$13,645,000

- 30-year amortization schedule
- Assume half year payment in 2026, fully amortizing in 2027
- Debt Coverage at a minimum 1.20x to meet bond covenants.

Based on the above assumptions, impacts have been modeled in two scenarios. The first scenario assumes that the no changes to bond covenants occur, requiring coverage to be at the 1.20x level, while the second scenario assumes that the Town pays off the original 1997 bond covenant debt to allow rewriting of the covenants to 1.10x (will need to work with CDPHE to ensure that they will agree). The impacts are summarized below:

	Option 1 – 1.20x	Option 2 – 1.10x
<b>Annual Debt Service (new bonds)</b>	\$741,897	\$741,897
<b>Total Debt Service (all bonds)</b>	\$899,702	\$885,221
<b>Gross Debt Service (coverage)</b>	\$1,079,643	\$973,744
<b>Required Max Monthly Debt Service Charge (2027)</b>	\$117.39	\$105.88
<b>Existing Monthly Debt Service Charge</b>	\$20.59	\$11.51
<b>New WTP Monthly Debt Service Charge</b>	\$96.80	\$94.37
<b>Reduce Borrowing by \$1.0 MM Impact</b>	\$7.28	\$6.50

Currently, the Base Rate per SFE is \$110.16, and the volumetric rates are set at \$4.25/1,000 for the first 4,000 gallons, \$9.75/1,000 for the next 4,000 gallons, and \$15.00/1,000 for anything over 8,001. These rates are not projected to increase for 2025 or 2026, but are projected to increase 2.00% in 2027. With the base and volumetric rates, plus the Option 1 debt service monthly fee, the average Town rate payer monthly bill in 2027 is projected to be \$243. Without the WTP project, the average Town rate payer monthly bill in 2027 is projected to be \$146.

While the above will have a significant impact on the rate payers, the Town does have the potential of reducing costs through project savings, or by obtaining additional grant funding. Aside from those aspects, the anticipated growth of taps through the Malloitt Park, 100 Block, and general infill of the Town will produce significant tap fee revenue that could be used to further offset some of the above impacts. These developments will add approximately 396 new taps to the Town, which will generate approximately \$6.2 MM of tap fee revenue. As those tap funds are receipted, the Town does have the opportunity to utilize those funds the year after they have been receipted to offset the monthly costs of the rate payers.