MINUTES OF A SPECIAL MEETING
OF THE BOARD OF DIRECTORS OF THE
MOUNT WERNER WATER & SANITATION DISTRICT
HELD AT THE FISH CREEK WATER FILTRATION PLANT
STEAMBOAT SPRINGS, CO 80487
8:00 A.M. Friday – November 3rd, 2023

DIRECTORS PRESENT:	Gavin Malia, John Shively, Don White, Wade Gebhardt and Alan Koermer (in-person)
DIRECTORS ABSENT:	None
STAFF PRESENT:	Frank Alfone, General Manager Tyler Gilman, Operations Manager Cat Smith, Business Manager Beau Cahill, Project Development Coordinator Tom Sharp, General Counsel (via Microsoft Teams)
OTHERS PRESENT:	Michelle Carr, Distribution & Collection Manager, City of Steamboat Springs Cody Berg, Associate VP and Financial Services Lead, Carollo Engineers, Inc. Kim Lightner, Lead Financial and Funding Analyst, Carollo Engineers, Inc. (all via Microsoft Teams)

I. ESTABLISHMENT OF QUORUM AND CALL TO ORDER

Director Malia stated that a quorum was present and called the meeting to order at 8:03 A.M.

II. ACKNOWLEDGE PUBLIC

III. APPROVAL OF AGENDA FOR MEETING

Director Malia asked if there were any changes to the agenda; there were none.

MOTION: To approve the Agenda.
APPROVED: Vote 5-0

IV. PUBLIC COMMENT

There was no public comment.

V. APPROVAL OF SUBMITTED MINUTES OF PREVIOUS MEETING

A. From the October 13, 2023, Regular Board Meeting

MOTION: To approve the minutes from the October 13, 2023, Regular Board Meeting
APPROVED: Vote 5-0

VI. SECOND 2024 PRELIMINARY DRAFT BUDGET PRESENTATION – CODY BERG, CAROLLO U.S. FINANCIAL SERVICES LEAD

Mr. Alfone stated that the PowerPoint Presentation recently e-mailed to the Board about proposed rates increases has since been modified and new rate(s) proposals will be discussed at this meeting.

A. Rates and Loans Scenarios – Mr. Berg presented his PowerPoint presentation and gave an overview of the three (3) scenarios that he and his team prepared.
   - The first is the “baseline” scenario which was discussed at the October 13th Board meeting which included a 20% rate increase for water and wastewater collection services and a $2M loan.
   - The second is the “more debt” scenario.
   - The third is a “no debt” scenario which would incorporate a potential line of credit from a local bank.

   Potential revenue increases were discussed for each scenario and these increases will be applied to and above the existing rates to understand outcomes from each scenario for the District. The “scenario” results will show current rates and proposed rates for 2024 and 2025 and display a side-by-side comparison of those rates against similar municipalities in resort towns as well as the City of Steamboat Springs. Mr. Berg reviewed his assumptions:
   - Increase the wastewater collections operating fund target reserve to180 days for Operating & Maintenance expenses - an increase of 90 days. This now matches the water fund target reserve.
   - Future debt issuances projected for a revenue bond have interest rates much higher than the Colorado Water Resources and Power Development Authority (CWRPDA) loans (3-3.5%). He presented the worst-case scenario for debt issuances, and the associated higher interest rate (5-6%) is conservative in case the District did not qualify or receive a CWRPDA loan. The debt service coverage (DSC) ratio on the CWRPDA loan is based on the combined utility funds, meaning revenues from both water and wastewater collection fees make up the 1.10 ratio. The 1.10 ratio means for every $1 in debt service, the District must keep $1.10 in reserves after subtracting operating costs. If the District pursues a revenue bond, the DSC will be about 1.25/1.30 or higher. Director White asked if there is a DSC for a Line of Credit (LOC). Mr. Berg stated he was not sure how the LOC will be structured, or the terms of the LOC.

   Mr. Berg provided a recap about the revenue requirement analysis and associated components:
   - Cash Flow test to determine if revenues exceed Operating and Maintenance (O & M) expenses and capital needs.
   - Debt Coverage test to ensure adherence to loan(s) covenants and maintaining adequate DSC.
   - Reserve Fund test to satisfy the 90-day reserves requirement on the existing CWRPDA loans and a future loan(s), including analyzing needed additional reserves in case projects result in a depletion of reserves.

   Mr. Berg then displayed the results of each scenario:
   - Baseline scenario – the goal was to ensure there was $3M in total reserves by the end of the 10-year study period and assumed a 20% water and wastewater collection rates increase in 2024 and a $2M loan issuance in 2024 for the water fund. The loan

helps to offset large future years rate increases. Without the $2M loan issuance in 2024, including 20% rates increase would leave the ending fund balance short of 3M. Based on their forecasting, there is a need to increase the wastewater fund at a greater rate than the water fund.

- More debt scenario – two loan issuances ($7M-water and $2M-wastewater). Generally, when bonding for outstanding projects, you must spend the money in 36 months and if the money is not spent during that time, you must return the money. Mr. Berg studied the projected near-term Capital Improvement Projects (CIP) and what the District might spend, and he believes the $9M was a realistic figure. If this amount of debt is issued, it does keep rate increases significantly lower, however with the projected interest assumed to be high at 6%, Mr. Berg did not consider this option to be the most financially responsible, however he wanted to demonstrate the power of bonding. He stated this might be the best option in a more favorable interest rate environment. The total interest cost over the 20 or 30-year loan term was considered. The Board discussed that if scenario 2 was chosen, projects such as Phase 3a and maybe 3b at the Fish Creek Treatment Plant would have to be moved up to 2025/2026 in order to spend the borrowed money under the required timeline. Bonding might alleviate "rate shocks" but scenario 2 is not recommended by Mr. Berg.
- No debt scenario – under this scenario, a LOC at a local bank would allow the District to draw money from it as needed and might be repaid quickly as Plant Investment Fee (PIF) or rate revenue is received. This scenario includes a 20% rate(s) increase in 2024, but even with that increase, there is approximately $4.5M in CIP that must be funded. Under the baseline scenario the reserves would have an ending balance of $1.6M at the end of 2024, and under this scenario, the line of credit would have to be utilized to keep the cash balance (reserves) positive. Mr. Berg & Mr. Alfone approached the rate structure increases on a conservative basis when factoring in PIF revenue. They did budget some PIF revenue but did not consider a scenario that includes the District solely relying on PIF fees. The LOC should first be in place and then based on future PIF fee income, determine draws needed from the LOC.

Director Gebhardt explained a common scenario he sees where a LOC is secured for 2 years so it is considered long term debt as opposed to current debt, thus you would receive an advance on the last day of the fiscal year so it shows up as long term debt and that goes into your cash account which shows liquidity, then on the first day of the next fiscal year, you would pay it back. This satisfies the requirements and covenants of the LOC. He suggested carefully reviewing monthly cash flows to determine the highs and lows of the reserves balance, while analyzing timing of projects and when invoices are paid for CIP work. Since the draw down on reserves would be used for CIP and not associated with operating expenses and regarding cash flow patterns, the lender might be asked if they would sign off on in advance of, waive or reaffirm that covenant, so the LOC is not in default. Then you would have the LOC as insurance. It is likely that local banks would not have a significant number of financial covenants and requirements associated with a LOC.

Mr. Berg noted that Q3 is the largest quarter for District revenue and if cash flow is reviewed monthly, you could see an issue. Mr. Alfone noted that fall is the best time to complete projects since it is the least demanding time in terms of water demand/produced and at the same time most project payments will occur in the fall (after summer work is completed), which could benefit cash flow analysis. Mr. Alfone summarized that once you factor in the timing of CIP work completion and receipt of a pay application, review of the pay app. from the engineer, the payment to the contractor, a timeframe of 30-45 days after pay app. submittal until payment is delivered generally occurs. Director White mentioned requesting that the contractor provide an estimate about cash flow based on their schedule and make it a requirement which would give estimated cash flow needs of the District based on future project billings each month. Director Shively noted that the District continues to fall behind on funding project costs and must keep up with inflation, thus it is a good time to get caught up and move away from borrowing more money. He expressed concern about running an organization with borrowed money at any time. There was discussion about the uncertainty of interest rates, and it is not a good idea to incur more debt noting existing high interest rates in place now. Director Gebhardt mentioned that the second scenario with the proposed revenue bond will be very expensive in the long term. The District is not in an advantageous position to pursue a revenue bond and it would run contrary to how the District has been operated in the past, fairly conservative. A question was asked if it would cost money to have a line of credit available. Director Gebhardt stated there is a fee associated with LOCs since banks have costs to keep money available and need capital to offset fund requests. They must maintain reserves to honor the LOC commitment.

Mr. Berg noted that over the course of the 10-year study period, place holders for unforeseen capital expenditures have been added to the models; roughly $2M per year over the course of the 10 years within all 3 scenarios. Director White clarified that these reserves would be a pool of available resources in addition to money earmarked for planned projects. The Board requested a review of scenario one with a 25% rate(s) increase instead of 20%. Year-end reserves would equal about $1.79M instead of $1.6M, not a large difference. Mr. Berg demonstrated another scenario, removing the $2M loan to understand the rate increases needed to break even with no debt. The rates would have to be increased by 31%. The question was posed if it would make sense to consider a hybrid scenario with a CWRPDA loan and LOC. Mr. Alfone mentioned that the current CWRPDA loans are tied to a specific project and have no origination fee. If the District borrowed additional CWRDPA funds, there would be a 3-year timeframe to spend the money and it must be associated with a specific CIP project. Other scenarios were discussed such as getting a $1M from CWRPDA and a $1M LOC. Mr. Alfone stated that in 2024,'25 and '26 there is $3.7M projected in PIF revenue and only $2.9M budgeted and the projects on the PIF revenue list factored in have already been approved or are in the design review process with the City of Steamboat Springs Planning Department. He said the likelihood of collecting those PIF fees is high, but he did not want to budget the entire $3.7M. The District might not have to draw on the LOC if the PIF fees are realized, which gives the District some flexibility. Director Gebhardt reiterated the point that the District does not want to fix a short-term problem with long term debt, thus a revenue bond should not be considered. Also, the ability to pre-pay state/federal funded debt and securing a LOC may eliminate the 2024 borrowed funds balance by 2025, or 2026, if substantial PIF revenue is collected over the next 3 years.

Mr. Berg summarized District rates on a monthly basis and demonstrated that with the proposed 20% rate(s) increase in 2024, City of Steamboat Springs and other District's rates remain higher. Director White likes the idea of a LOC for planned projects, but also to utilize it for unforeseen problems/issues and having the "means" to take care of these issues, giving the management team the confidence that funds are available if needed and also might be quickly paid back if PIF revenue is substantial.

Mr. Alfone stated that the likelihood of securing an additional CWRDPA loan is high. Since these loans require a request for proposal (RFP) and bid advertisement for the associated project, the CWRPDA project manager that Mr. Alfone works with, stated since the District will be using the same contractor for Phase 2b that was used for 2a, the 2a RFP could satisfy this requirement. The project manager will look at the loan requirement details and ensure the rules and regulations are being followed. Mr. Alfone anticipates receiving an answer soon. The Board agreed to apply for a $2M loan from the CWRPDA and a $2M LOC. Mr. Berg commented about Mr. Alfone's ability to track down the necessary requirements from contractors to qualify for the CWRPDA loan – mainly for American Iron and Steel and Davis Bacon Wage requirements. Mr. Alfone stated that you pay more of a premium to contractors due to the administrative portion of the loan requirements (AIS and DB), but you recoup most of those costs, if not all resulting from the low interest rates on these loans. Mr. Alfone stated that the District must post for the rates increase (Public Hearing) 30 days prior to the December 8th meeting and asked for direction from the Board about the proposed rate(s) increase of 20% discussed today. Future direction regarding the loan and LOC can be discussed at the December Board meeting.

MOTION: To move forward and post for a Public Hearing notice proposing a 20% rate increase in 2024 for both water and wastewater collection services in the District.
APPROVED: Vote 5-0

VII. ADJOURN

The next Regular Board meeting date is December 8, 2023, at 8:00 A.M.

There being no further business, the meeting was adjourned at 9:16 A.M.

Respectfully submitted,

Frank Alfone, Secretary/General Manager