

MINUTES OF A REGULAR 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-October 13th, 2023

DIRECTORS PRESENT: Gavin Malia, Don White, Alan Koermer, and Wade Gebhardt,
(in-person)

DIRECTORS ABSENT: John Shively

STAFF PRESENT: Frank Alfone, General Manager
Tyler Gilman, Operations Manager
Cat Smith, Business Manager
Beau Cahill, Project Development Coordinator
Tom Sharp, General Counsel
(in-person)

OTHERS PRESENT: Michelle Carr, Distribution & Collection Manager, City of Steamboat Springs
(via Microsoft Teams)
Cody Berg, Associate VP and Financial Services Lead, Carollo Engineers, Inc.
(in-person)
Mark Hamilton, Attorney/Partner, Holland & Hart LLP
Jonathan Kelly, P.E., Wright Water Engineers

I. ESTABLISHMENT OF QUORUM AND CALL TO ORDER

Director Malia stated that a quorum was present and called the meeting to order at 8:06 A.M.

II. ACKNOWLEDGE PUBLIC

III. APPROVAL OF AGENDA FOR MEETING

Director Malia asked if there were any changes to the agenda. Mr. Alfone informed the Board that 45 minutes should be allocated to Cody Berg with Carollo Engineers to give his 2024 draft budget presentation and 45 minutes planned for the Executive Session. Thus, due to the timing of those two topics, other reoccurring reports may be shorter, or not discussed.

MOTION: To approve the agenda.

APPROVED: Vote 4-0

IV. STAFF INTRODUCTIONS

- A. Beau Cahill, Project Development Coordinator – Mr. Alfone introduced Mr. Cahill and noted he will be working with the City Planning Department on the design review team (DRT) process, interacting with the building department, coordinating private development projects, working on District CIP projects, and interacting with contractors, owners, and developers. Mr. Cahill introduced himself and provided background on his most recent position at ACZ Laboratories and how long he has lived in Steamboat.
- B. Daniel Mitchelson, Distribution and Collection Operator – Mr. Gilman introduced Mr. Mitchelson stating he would be working under Ed Briones and be part of the Field Operations Team. Mr. Mitchelson introduced himself and stated how long he has lived in Steamboat; his most recent job was in the construction field and mentioned he was excited to join the team.

V. APPROVAL OF SUBMITTED MINUTES OF PREVIOUS MEETING

- A. From the July 21, 2023, Regular Board Meeting

MOTION: To approve the minutes from the July 21, 2023, Regular Board Meeting

APPROVED: Vote 4-0

VI. PUBLIC COMMENT

There was no public comment.

VII. TREASURERS REPORT

- A. Financial Statement – August 31, 2023, Year-to-Date Report

As of August 31, 2023, total operating revenues equaled \$1.76M which is 48% of the total budget. Third quarter “services” invoices were just mailed out which are due November 10th.

Operating costs equaled 1.8M which makes up approximately 64% of total budget.

Non-operating revenues equaled \$652K excluding the CWRPDA loans revenue. YTD Plant Investment Fee (PIF) revenue equaled \$587K. Capital Improvement Plan (CIP) expenses equaled \$1.77M.

Mrs. Smith mentioned that the Holiday Inn Express is going through the planning process which could bring in substantial PIF revenue in 2023, or in early 2024.

As of August 31, 2023, the Districts total reserves equaled approximately \$1.8M.

Customer(s) Accounts Receivable as of August 31, 2023, was \$3,500; all are residential accounts. Mrs. Smith and Mrs. Kuntz will continue to work with these past-due customers to collect the fees.

Mr. Alfone noted that third quarter water revenue equaled approximately \$1.1M which would bring the total revenue to 82% of total 2023 budget, and wastewater collection revenue was \$164K which is equal to 78% of the budget. The Holiday Inn Express PIF is predicted to equal \$247K and Mr. Alfone mentioned that the project may not come to fruition this year, so PIF fees could potentially be paid in 2024 for the project.

VIII. COMMITTEE REPORTS

A. Budget and Audit Committee

1. 2024 Preliminary Draft Budget Presentation – Mr. Alfone discussed that Carollo Engineers and District staff are working together to update the District’s financial models and looking at cash flow needs for upcoming projects over the next 20 years. He thanked Director White for his help on budget items. The team has looked at reserve amounts to ensure there is enough debt coverage to satisfy loan covenants and target reserves goals are achieved. Mr. Alfone reviewed highlights about the budget information sent to the Board. The biggest CIP project, slated for 2024 is the orthophosphate system (2B) which will equal about \$7.4M with the City contributing approximately 48% towards the cost. But this project is driving the need for future rate increases . A 20% water and wastewater collections increase for 2024 is being proposed with a 10% increase for 2025 and then a 3% increase forecasted for the next 18 years. A \$2M loan is forecasted in 2024 and will help satisfy the District’s cost for the 2B project. The rate increases and loan issuance will help the District meet operating, reserve target goals, and maintain debt service coverage per the loan documents. The rate increases, coupled with the \$2M loan, should leave the District in a good financial position at the end of 2024. Mr. Alfone anticipates ending 2024 with \$1.4M reserves in the bank, which is the lowest number of reserves projected for the next 20 years. However, this amount is lower than target goals but is necessary so additional “borrowed” money or higher rate increases are not required in 2024. Operating costs in 2024 are 4% higher than 2023 and 7% higher than projected 2023 costs. Included in the Board packet was a summary sheet, operating and CIP expenses overview , a 20-year look-ahead and the 20-year future CIP sheets. The team also looked at ensuring reserve targets are met but also determining if there is an opportunity to pay down the loans sooner than their maturity date. In 2024, it is anticipated the loan may have a 6%-6.5% interest rate; the existing loans have a 2.5%-3% interest rate, thus the team discussed paying down the new loan quickly and targeting paying down as much principle as possible on the other loans before their maturity dates. Mr. Alfone explained that the loan covenants require a debt service allocation of 1.1 and an operating and maintenance restricted reserve equal to 3 months of operating expenses.

Director Gebhardt noted he would be critical of adding an additional loan and having a portion of loan proceeds earmarked to supply the reserve requirements. He stated overall it will not be a 6% interest rate but will end up being 7-8% which equates to borrowing more money to supply the reserve needs.

Mr. Berg mentioned that inflation has had more of an impact than expected so the District is still trying to catch up with expenses increases and in 2024, (with the rates increase and new loan) will help get the District back to where it needs to be financially, and then after the proposed 10% rate increases in 2025 the District can go back to standard inflationary rates increases (3%).

Mr. Berg clarified that the loan would not just be used to fund the reserves, it would go towards CIP projects as well.

Director White mentioned that in 2035 that the forecasted reserves dip down to \$500K and asked whether adjustments would have to be made to increase that

figure. The Board discussed that since it is still 10 years out, it is a good idea to keep an eye on reserves amounts and if early loan payments or other factors need to be adjusted, they could be. Director White noted that while working with Mr. Alfone they adjusted planned CIP projects to span over two years since long term plant equipment purchases are needed many months (12-18 months) in advance, and this practice will help spread costs over multiple years. Mr. Alfone also mentioned that in several years, reserve balances are substantial which could give the District flexibility and a cushion to make early loan payments or pay for unforeseen CIP projects. Moving forward, there is also \$100K allocated per year for both wastewater collection and water improvements, and the funds are not tied to a specific project and may be utilized for unforeseen projects that may occur. Director White identified the 2024 budget figure for replacing the Filter 6 media, and potentially allocating funds each year to replace some of them sooner than the 2030-31, planned 3A project.

Mr. Alfone discussed the process to approve the budget. It does not need final approval until the December 8th board meeting. If the Board agrees with the recommendation regarding the rate increases, staff will post notice in the paper for a Public Hearing in addition to the normal notice of the budget being presented and considered for adoption by the Board. Due to these factors, direction from the Board is needed soon to advertise in the paper by the required deadlines – 30 days in advance of the December 8th Board meeting.

2. Cody Berg, Carollo U.S. Financial Services Lead – Mr. Berg reviewed his financial presentation. He explained their process and how they determine what rates are needed to cover all expenses. The first is the revenue requirement analysis, which is how much money is needed to cover all expenses. The second is the cost-of-service analysis which analyzes where the revenues will come from, i.e., customer types – residential or commercial. The third is the rate design analyzing how to get the money, i.e., is it going to be a fixed (base rate) charge or volumetric usage charge, or combination of both, etc.

Mr. Berg stated that the District's targeted reserves are healthy, equaling 180 days of operating and maintenance (O & M) expenses, half (3 months) is required per the loan covenants. He recommended that the budget (target reserves) for wastewater get closer to 180 days for O & M, even though the District looks at water and wastewater on a combined basis, you should not have cross subsidization of expenses. He discussed how to decide when to use reserves and how much to draw them down before replenishing them – lowest target amount. For targeted Capital Reserves for water, his team input \$500K escalating annually, and for wastewater \$150K. Depending on past experiences and future project needs, the District could decide that more money needs to be allocated to the water fund versus wastewater fund or vice versa.

Mr. Berg discussed debt issuances and noted that interest rates are a lot higher now, and due to this fact, the District may have to investigate additional grants and funds opportunities. A water revenue bond is an option to borrow money which has a projected 6% interest rate, a 20-year term, and the term could be extended if needed. Any money borrowed in the future is going to be more expensive than it has historically been so that needs to be considered. Also, Mr. Berg asked the Board what the best use of projected PIF revenue is, i.e., pay down debt early? Counsel Sharp asked if a better interest rate could be obtained through the Colorado Water Resources and Power Development Authority (CWRPDA). Mr. Berg stated it might still be about a 5% interest rate. Mr. Alfone will contact CWRPDA to determine current interest rates. The debt service coverage ratio (DSCR) was discussed; the District's current loan has a 1.10 DSCR ratio and revenue bonds would be about a 1.25-1.3 DSCR. Mr. Berg stated that he raised the DSCR to 1.3 for revenue bonds. Inflation was also increased to a 5% escalator for the first 4-5 years on costs, then leveling it off into the future.

Mr. Berg and his team looked at the following three tests to determine what is needed: Revenue requirement analysis – the cash flow test determines if existing rates are recovering enough money to cover current costs. Debt coverage – is the District meeting or exceeding the DSCR required.

Reserve fund test – the loans require 90 days of O & M reserves, so that is money that is restricted and the District has determined internal target reserves amounts (6 months for O&M, 500K for CIP water and 150K for CIP Sewer). They look at all three tests with all three needed to be satisfied and what is required to meet the greatest deficit for each. If the greatest deficit is not met, then the District may be at risk of drawing down on cash reserves or be in violation of rate covenants.

Mr. Berg showed and reviewed a graph with the projected “base scenario” for the water and wastewater funds, along with the 10-year forecast. He showed a couple of years where the District would have a surplus reserve amount and other years where it would draw down on reserves due to Capital expenditures. He stated you get more value from the dollar with higher rate increases up front versus on the backend, meaning you won’t get the compounding of that first year if you were to do, as an example a 15% increase for two years in a row as opposed to 20% in ’24 and 10% in ’25. Mr. Berg showed various water rates from other mountain towns to illustrate how District rates compare – generally lower. Mr. Alfone compared the City’s water rates to the District rates; the City rates are now about double, with next year’s projected 20% increase, the District would be about 80% less, and after the 10% increase in 2025, we would be about 63% less. On the sewer side the District is now 60% less, after increases in ’24 and ’25, we will be about 20% less. The comparison does not factor in any City rate increases in 2024 and 2025 and Mr. Alfone reminded the Board that Wastewater Treatment Rates are a pass-through to District customers, and those rates are factored into the wastewater rates comparison.

Mr. Berg discussed wastewater rates which have a projected same rate increase in 2024 and 2025. Near-term future years show significant expenditures that exceed revenues, but it does level off and reserves stay steady after that. The \$2M loan in 2024 is for the water fund and there is no debt being issued for wastewater. Mr. Berg then combined the water and wastewater graphs.

Mr. Berg asked what other scenarios the Board would like to see regarding rate increases and loan amounts. With the significant amount of costs in 2024, a rate increase on some level will have to be implemented. On the Debt issuance question, Director Gebhardt asked why to consider long term debt on a loan for a short-term need. Mr. Berg stated a 20-year loan term is not required, and terms equal to 5, 10, or 15 years would have a better interest rate. Director Gebhardt suggested investigating local financing with a line of credit (LOC) allowing the District to borrow money as needed, and still maintain reserves targets.

Per Board direction, Mr. Berg will draft three additional scenarios for the Board to review; one with no debt if a LOC is issued, the second is a higher debt scenario which would be valuable to give an example of the cost of capital and lower rates increases and third, a scenario showing level services rates increases, for example four years with a 12% increase and then a rate drop after those initial flat rate increases.

Mr. Alfone will investigate local LOC options and contact CWRPDA to determine interest rates and application deadlines.

The District must publish rate increases (Public Hearing) 30 days prior to the December 8th meeting, thus proposed rates need to be decided in early November. The Board agreed to meet Friday November 3rd at 8am. This will be a Special Board Meeting to discuss the rates only.

- B. Water Matters Committee (WMC) Report – discussion about the September 8th WMC meeting will be held in the Executive Session.
- C. Succession Committee Report – as discussed earlier, two new hires have joined the team.

IX. REPORT OF GENERAL MANAGER

A. Executive Summary Review –

Ski Time Square project – Mr. Alfone informed the Board that two deep manholes will be replaced this year and budgeted in 2023 with the remainder of funds budgeted for 2024.

Crawford project – the work is in progress and the builders now have a better understanding of District requirements. Baseline Engineering is now the engineer on record for the job and will perform inspections.

Discussion took place about proposed changes to District easement language in the Rules and Regulations.

Mr. Alfone mentioned working on updating the rules and regs., and one item not specifically called out in existing easement wording is what can be built in/above a District easement. There is only general language and one goal is to incorporate more specific language about what is acceptable. There were concerns raised that the language could be too constricting with building on steep, rugged, challenging lots within the District. Mr. Alfone will have more information for the Board on this subject in the first quarter of 2024 and variances to new language may be a viable option for builders.

The District terminated the agreement with Baseline Engineering for the Infiltration Gallery project. They were not performing as agreed; thus, staff terminated the contract. Mr. Alfone and Mr. Gilman talked to CDPHE and asked if a Professional Engineer is required to submit the construction completion form to close out the project and they stated said no. Thus, staff recently submitted the necessary paperwork and are waiting for their review and approval.

X. REPORT OF GENERAL COUNSEL

There was no report.

XI. EXECUTIVE SESSION- UNDER C.R.S. 24-6-402(4)(b) REGARDING LEGAL ADVICE ON SPECIFIC LEGAL QUESTIONS AND C.R.S. 24-6-402(4)(e) – NEGOTIATIONS.

THIS ITEM PERTAINS TO WATER RIGHTS AND MEASUREMENT DEVICES IN FISH CREEK AND FISH CREEK RESERVOIR.

MOTION: To adjourn the Regular Meeting and go into Executive Session at approximately 9:33 A.M. under §24-6-402(4)(b), C.R.S., regarding legal advice on specific legal questions and C.R.S. 24-6-402(4)(e) relating to water rights and measurement devices in Fish Creek and Fish Creek Reservoir.

APPROVED: Vote 4-0

MOTION: To come out of Executive Session and reconvene the Regular Meeting at 10:15 A.M. with no action having been taken.

APPROVED: Vote 4-0

MOTION: To proceed with the recommendation in W.W. Wheeler and Associates Engineering Report to install measuring instruments at 4 locations in Fish Creek and Long Lake Reservoirs and propose a 50/50 cost split with the City. The agreement would solely be between the City of Steamboat Springs and the District.

APPROVED: Vote 4-0

XII. UNFINISHED BUSINESS

There was no unfinished business.

XIII. NEW BUSINESS

- A. Holiday Party – three venues were discussed, Table 79, Ore House, and Yampa Valley Kitchen. Mrs. Smith will look on December 15th at 6 pm for all the venues and see what is available.

XIV. ADJOURN

A Special Board Meeting was scheduled for November 3rd, 2023, at 8:00 AM.

The next Regular Board Meeting is December 8th, 2023, at 8:00 A.M.

There being no further business, the meeting was adjourned at 10:21 A.M.

Respectfully submitted,

Frank Alfone, Secretary/General Manager

STATEMENT FROM ATTORNEY REGARDING ATTORNEY-CLIENT PRIVILEGE

The undersigned Thomas R. Sharp hereby attests, pursuant to CRS Section 24-6-402 (4) (b) and (e-I), that the executive session that was not recorded because, in his opinion, his participation in answering legal questions and discussion of negotiations constituted a privileged attorney-client communication.

Thomas R. Sharp, Counsel

Date:

STATEMENT FROM CHAIR OF EXECUTIVE SESSION REGARDING ATTORNEY-CLIENT PRIVILEGE

The undersigned chairperson hereby attests, pursuant to CRS Section 24-6-402 (4)(b) and (e-I), that the executive session was not recorded and were confined to the topics authorized for discussion in an executive session pursuant to subsection (4) of CRS Section 24-6-402.

Gavin Malia, President, and Chair

Date: