

## VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

### **Proposed Action:**

Increase Valley at Winter Park Water District (District) revenues for the purpose of improving and maintaining the water system to standard. At the meeting, the District will share with the community project costs and timeline recommended by a civil engineering firm.

### **Purpose and Need:**

The existing water system is 20-years-old and has not received any upgrades, major or minor, since its installation and implementation. Analysis from contracted consultants and engineers have advised the District to make improvements to the system and to revise the current fee structure to financially support those needs.

### **Background:**

The District's water system was installed in 2003 and became fully operational in 2004. The well was originally drilled to provide irrigation water for the now abandoned golf course. The well is and has been the only source of water for the now 13+ households and one lot for limited landscape watering.

Funding the District's operations have been done via an annual service fee and water sales. The District began with just over 50 acre-feet of water rights. Now, in late 2022, the District has 20 acre-feet remaining of that original amount. Previously, rights were sold with the intent of the revenue to be used for capital improvement needs, but revenues were limited and no improvements have been made. Some emergency repairs have been completed recently.

In 2021, the first, large installment of funds (\$39,000) was transferred to the District's money market account, an account set up to hold capital improvement funds. The balance in the Board's money market fund for capital improvements is \$34,000.

### **Expert Recommendations:**

Several firms have been retained by the Board over the years to evaluate the District's operations. In addition the Board received a memo regarding long term asset management planning from the District's Operator in 2012. Since that point, the Board received recommendations about improvements and starting to build an adequate capital fund. Unfortunately, the Board did not take adequate action to prepare financially.

In 2013, the consulting firm of Clifton, Larson and Allen was retained by the District to complete an Operations/Rates Review. Their findings and recommendations summarized at the end of this memo.

In 2021, Diamondback Engineering and Surveying completed a water system evaluation and rate structure analysis. Their findings and recommendations are summarized at the end of this memo.

An initial recommendation by Purrington Engineering received in fall 2022 is attached.

## VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

### **Existing Condition:**

The water system consists of:

- One 298-foot deep **residential** well with a 4-inch casing. (drilled in 2001),
- One 20-year-old, submerged, 5 horsepower well pump which is nearing the end of its lifespan,
- One 30,000-gallon fiberglass storage tank,
- Approximately 1,400 feet of 3-inch PVC transmission line (well to tank),
- Approximately 14,600 feet of 4-inch PVC distribution line,
- Approximately 650 of 8-inch fire hydrant supply line,
- Two fire hydrants fed by the 4 inch low pressure distribution line. (deemed inadequate by East Grand Fire Department)
- One dry hydrant connected to the pond - and also not deemed adequate by the EGFD.
- One small pump house containing treatment, metering and electrical components,
- Approximately 1,200 feet of supply line to the pond which has been identified as a cross connection/contamination violation, and the Board understands has been disconnected.

Note: The Board understands that all former golf course irrigation supply lines have been disconnected .

The current service fees were increased in 2021 from \$600 to \$1,200 annually. The fee covers the service year which is January through December. Overage fees are based on 1<sup>st</sup> and 4<sup>th</sup> quarterly water usage over 30,000 gallons per quarter (10,000 gallons per month) and 2<sup>nd</sup> and 3<sup>rd</sup> quarter usage over 40,000 gallons (13,333 gallons per month). The rate details are found in Appendix A of the Rules and Regulations document.

The annual service fee covers the water operator contract, water testing, state regulation compliance, District administrator service agreement, water engineer, water attorney, special district attorney and general counsel, civil engineering, information technology support including website maintenance, postage, recording fees, office supplies, insurance and other miscellaneous items.

The Board will present and discuss the proposed budget for 2023 in its regular meeting scheduled on December 9, 2022 at 6:00 pm.

### **Desired Future Condition:**

The District invests in infrastructure to ensure a safe and reliable water service to our community. Existing assets are maintained or upgraded to meet state standards for community water systems.

The fee structure is updated to meet annual operating and administrative costs while also contributing to a working capital fund to implement timely capital improvements and not be forced to react to emergent problems.

### **The specific capital improvement projects include:**

2022 Project Descriptions: replace existing well pump which is nearing the end of its useful life, install SCADA monitoring system, and electrical upgrades. The SCADA computer system that will be used by our Operator for monitoring the ground water level, pumping operations, storage tank level, and chlorine

## VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

residual. The system will send alarms to our Operator to prevent issues such as the recent problem that led to the tank continually filling and overflowing which wasted thousands of gallons of water.

2023-2024 Project Descriptions: Drill second well to provide redundancy. Relocate and construct a new pumphouse and add necessary piping.

Future goals: Improve fire mitigation system and prepare financially for replacement of the water tank.

### Fee Types:

- **Service Fee:** Flat rate fee billed quarterly which is used to cover the water operator contract, administrative services agreement, legal fees, engineering fees (water and civil), electricity, office operations (postage, supplies, recording fees, etc.), routine annual maintenance,
- **Usage Fee:** A fee based on the amount of metered water usage which is billed quarterly and is added to the service fee balance.

**Special Assessment:** An additional fee assessed by the District to pay for specific, approved projects such as capital improvements needed to maintain the water system to standard when other revenue sources are not sufficient to cover the costs. The assessment is a capital investment. Owners can speak to their tax professional about the possibility of the assessment counting as a capital improvement to be deducted from capital gains taxes when selling their property.

### Alternatives:

**No Action Alternative:** No increases are made to the service fee which is \$1,200 per lot per year per lot and a special assessment is not levied in 2022 or 2023.

#### Pros:

- Lot owners will not pay more for water service.

#### Cons:

- The district's community water system will be identified as non compliant by the Colorado Department of Public Health and Environment, Water Quality Control Division (CDPHE WQCD). The WQCD will issue an order requiring us to be compliant or shut us down.
- The revenue collected will only be enough to maintain the operating and administrative costs.
- The capital improvements identified by professional consultants to maintain the system to standard will not be completed.
- The potential for system failure increases as the system ages and capital improvements and heavy maintenance continues to be deferred.
- Additional water rights may need to be sold if other revenue sources are not secured.

## VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

**Special Assessment Alternative:** Levy an assessment of for each lot with no increase in the annual (calendar year) water use/service fee which is currently \$1,200 per Lot per year. The revenue from the special assessment is earmarked for capital (infrastructure) improvement and additions.

Pros:

- Special assessment provides a potential capital gains tax reduction benefit. Assessed amount is a capital expense. Owners should talk to their tax advisor to confirm.
- The District will not be forced to sell any of the remaining water rights to fund capital improvements.
- Service fee is unchanged
- Lump sum payment provides the district the funds to get the capital improvement performed and have a compliant and safe drinking water system.

Cons:

- Lump sum payment needed from each lot owner

**Service Fee Increase Alternative:** Increase the annual service fee only with no special assessment.

Pros:

- The service fee to increase revenue is spread out and is not made in a lump sum payment.
- Reallocation of funds to the Capital Improvement fund can be customized to meet the annual need. (The District cannot operate with negative balances so the allocation must not draw the operation and administration funds below \$0.)

Cons:

- Having funds trickle in over the course of several years will make it difficult to secure bids and proposals from contractors because we cannot hire any entity without the funding secured.
- The stated purpose and need is to increase revenue to implement capital improvement for improvements that are needed immediately. This method will slow the collection of needed funds and delay projects.
- Since this option is the traditional method of raising operating revenues, the District would need a resolution to transfer funds between operations and capital accounts.
- With no special assessment, there will be no potential capital gains reduction benefit.

**Combination Alternative:** Levy a special assessment for each Lot in 2022 and 2023 and increase the service fees per Lot per year. The revenue from the special assessment is earmarked for capital (infrastructure) improvements and additions. A portion of the service fees would be shifted to a capital improvement fund.

Pros:

VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO  
IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

- The District may not lose any of the remaining water rights due to the need to sell more rights to fulfill revenue needs.
- Special assessment provides a potential, yet smaller than Option A, capital gains tax reduction benefit.

Cons:

- Lump sum payment, while smaller than Option A, and an increase in annual service fee.
- The timeline for making improvements may be delayed as the service fees are collected .

**Note:** Alternatives which introduced water Usage Fees were considered but excluded due to the need for a more predictable revenue stream. Less than 50% of the lots have an active water connection.

# VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

## Summary of Clifton Larson Allen Review Recommendations (Completed in 2013)

### RECOMMENDATIONS

Below are four recommendations based on the conclusions previously presented [in the report]. There are two recommendations for the budget analysis and three recommendations for the asset analysis. Additionally, provided is a list of issues that may provide potential challenges to the District in the future.

#### Budget Recommendations:

1. The District's current rate structure is too low to provide a sustainable future. It is our recommendation that the District implement a gradual, but impactful increase, to its user fees/rate in order to ensure that it can avoid negative fund balances and also start planning for the future capital replacements. Included is a basic model of a capital replacement fund to provide a template for the District.
2. It is the recommendation of CLA that the District start planning now for the future of the system and the projected costs for a five-year CIP plan. The District should anticipate future capital replacement and programs that are going to be needed within a five-year period. Typically, a water district will start planning at least five years in advance. By increasing the rates to cover the basic costs of the system, stress on the budget in the future can be avoided. The CLA report warned against selling water rights. Different methods can be used, for example, the sale of water (one-time installments), to pay for these one-time upgrades such as the completion of the new well.

#### Asset Recommendations:

1. The District should immediately add the extra well, pumphouse and contents, and water storage tank to the insurance policy. The District does not currently have replacement values of each item, but can be based on similar pieces of equipment. As part of this process, CLA discussed this issue with the insurance provider and they are prepared to add this property to the policy as soon as possible, pending receipt of the value information.
2. Additionally, CLA has created an example "CIP" template for the District to start planning for its capital replacements and upgrades. It is recommended to start building this into the budget process so that proper planning can lead to a balanced plan forward.
3. As a first upgrade to the system, it is recommended to add the extra well. This secures the water delivery system and provides redundancy.

The full report is available on the District's web site:

[https://drive.google.com/file/d/1UNooOy\\_kJRlat5U7i2hHpeLCivOMkh\\_E/view?usp=sharing](https://drive.google.com/file/d/1UNooOy_kJRlat5U7i2hHpeLCivOMkh_E/view?usp=sharing)

## VALLEY AT WINTER PARK WATER DISTRICT REVENUE GENERATING OPTIONS TO IMPLEMENT NECESSARY WATER SYSTEM CAPITAL IMPROVEMENTS

### **From Diamondback Engineering and Surveying Evaluation and Analysis (Completed in 2021)**

#### Identified Deficiencies

- The operator indicated that it is not normal for the concrete well vault to have standing water. An automatic sump pump should be installed and piped away from the building to drain this water as it collects.
- A broad-spectrum water quality analysis should be performed on a sample of raw well water as well as finished water from a residence to ensure that the source water quality has not changed since the last available lab analysis results from 2002. Water quality analyses cost approximately \$100 per sample and should be performed at least once per year.
- A well level sensor should be installed to ensure that well levels can be monitored.
- A replacement well pump should be purchased and available on short notice in preparation for a failure of the currently installed pump. The estimated cost of the installed pump is estimated at \$20,000 which includes additional costs that could be expected if the District increases the capacity of the pump, including step testing the well and new controls.
- The pipe that runs from the well house to the pond should be disconnected until a suitable backflow prevention device is properly installed to prevent potential contamination. An installed backflow preventer is estimated to cost \$3,500.
- A recent pipe failure caused erosion below the well house foundation and around the well vault. To prevent further settling and damage to the well house and plumbing below, the district should consult with a structural engineer on solutions for stabilizing the foundation.

(Three fee rate structure alternatives were presented. Option A recommends a gradual increase in the annual service fee over 20 years. Option B recommends the existing annual fee of \$1,200 remains unchanged and a per gallon usage fee be introduced with gradual increases over a 20-year period. Option C recommends a small gradual increase in the service fee plus introducing a more conservative (lower rate compared to Option B) per gallon usage fee. Diamondback recommended Option A because the usage fee options introduce “significant unpredictability” to the District’s revenue stream.)

The full report is available on the District’s web site: [Diamondback Engineering Valley At Winter Park Water Distribution System final \(1\).pdf](#)