CHERRY CREEK VALLEY WATER AND SANITATION DISTRICT

SPECIAL MEETING OF THE BOARD OF DIRECTORS

DECEMBER 12, 2017

The special meeting of the Board of Directors of the Cherry Creek Valley Water and Sanitation District was held at the District Offices, 2325 S. Wabash Street, Arapahoe County, Colorado, at 7:00 p.m. on December 12, 2017.

PRESENT
Paul Hanley – Chairman
Mark Lampert – Vice Chairman
Frederick Norman – Director
Bradley Rastall – Director (by phone)

OTHERS PRESENT
John Warford – Manager
Lisa Glenn – Office Manager/Accountant
Jim Harrington – Ehlers
Matt Dempsey - Ehlers

ABSENT
William MacPhee – Secretary/Treasurer

Chairman Hanley called the meeting to order at 7:03 p.m.

The only item on the agenda was the financial management plan presentation by Mr. Harrington and Mr. Dempsey of Ehlers.

Ehlers was hired by the District's Board of Directors to prepare a long term financial plan for the District. Ehlers worked with District staff to prepare the financial model presented. Mr. Dempsey explained the purpose of the financial plan was to provide the District with projected capital project costs for the next ten years, the need for sustainable rates where water and sewer revenue cover operating costs, ensure long-term financial health, and provide options for long-term use of investments. Ehlers found that total net operations have been negative over the last several years and the District has used investment income to pay for capital projects and operations shortfalls. Ehlers model made the following assumptions: increase water rates to customers by 3.25% per year and no changes to sewer rates to customers for 2018 and 2019 but increase sewer rates by 5.25% starting in 2020 so that each division has positive operating income by the year 2027, Denver Water will increase rates to the District at 3.0% per year, Metro Wastewater will increase rates to the District at 8.0% per year, all other expenses will increase by 2.5% per year, investment income projected at 2.0% per year, capital equipment purchases at $100K per year, water line replacements at $300K for 2018 and increase by $100K per year, sewer line replacements at $400K per year, and tap fees and line contributions from 16 developments know to management at this time. Under this scenario the District will start using investments in the year 2023. By 2027, the District will have used $3.3M from investment accounts and cash and investments will have decreased by approximately $1.7M. Water operations will reach the break-even point by 2027 and sewer will still have income, but lower than what it is currently. Rate payers will see the minimum bill, with usage of 5,000 gallons per month, increase from $40.15 to $57.59 per month.

It was stated that cash reserves should be at least equal to approximately six months of operating expenses, excluding depreciation.

Chairman Hanley asked about the sewer charges from Metro Wastewater at 8% per year for all ten years. Mr. Warford explained that Metro Wastewater just built a new plant and with the growth of the Metro area, costs will increase on treating wastewater. Treated wastewater will be used more in the future for irrigation and other non-consumptive uses. Chairman Hanley questioned the amount allocated for water main replacements in the current model starting at $300K in 2018 and increasing $100K per year for the next ten years. Mr. Warford and Mrs. Glenn feel there will be more breaks in lines in the next 10-20 years because the lines are aging. At 2017 costs, there are $15M of water lines that were placed in service in the 1960's and $3.3M placed in service in the 1970's. The District has had 43 water main breaks in the last 25 years of which 29 breaks were on lines placed in service in the 1960's. Three lines in Huntington have been replaced that were placed in service in the 1960's, which equates to a useful life of less than 60 years. Some of the lines may live up to their useful lives on Merrick's asset plan worksheet, but some may not. Chairman Hanley questioned the 2% investment income rate used in the model because the District's investments make between 3-4% per year and the District normally holds the investments until maturity. The financial statements show the fair market value of the investments which reflect only a 1.5-2.0% increase per year since 2013. Mr. Warford said the rates currently and in the near future would yield about 2-3%. Chairman Hanley said the District has some higher yield investments in its portfolio, thus the 2% rate is probably conservative. Mr. Harrington and Mr. Dempsey agreed with both statements.

Ehlers has projected a 3.0% rate increase from Denver Water each year for the next ten years. Mr. Warford stated that Denver Water is issuing bonds to keep rates low in their budget for next year, which could mean larger rate increases in future years. Chairman Hanley said the

Board must justify the amount of reserves on hand and increasing water and sewer rates. Mr. Warford said our District has some of the lowest rates in the Metro area. The District only passes on its increases from Metro Wastewater and Denver Water. Director Lampert said he has had no problem justifying the large investment balance because it can be explained to residents that there are large costs in replacing water and sewer lines. Director Rastall said that according to the model the investments begin to be used for operating expenses starting in 2023. Mr. Dempsey said this model doesn't show the years after 2027. After 2027 there are likely to be more breaks and replacement of lines which will require the more use of investments. As the investment balances decline, the investment income on those investments will also decline.

Ehlers prepared another model that was more conservative than the first model discussed. The Board decided not to review this model because they feel the assumptions underlying that model are unlikely to occur.

Chairman Hanley questioned the amounts of net assets increasing from $52M in 2017 to $67M in 2027, when other information shows cash and investments decreasing in that same time period by about $1.7M. Mr. Dempsey said the increase in net resources is shown on line 57, which includes tap fees, investment earnings and capital contributions. Capital contributions are lines conveyed to the District from developers, which increase net assets but do not increase cash.

Chairman Hanley would like to change the model to a most favorable case by assuming investment income at 3.5-4.0% per year, decreasing water and sewer capital improvements down to $650-700K per year total and ramp up at a reasonable rate. Also add some project the Board will take on. The reservoir was around $5M, but the Board decided not to pursue that project since it would not be profitable until around the year 2045. Mr. Warford said that if the reservoir project is done and there's no profit from the sale of that water until 2045, income will need to be generated from some other source. As the District makes money on its investments and water becomes more valuable in the future, the Board will be able to build the reservoir when it's needed with the funds it has available. The Board could start with a small project. Chairman Hanley said to include in the model a $1M expenditure in both 2018 and 2019 for the cost of some project the Board may take on as a benefit to the community. Mr. Dempsey will prepare this model and email it to Mrs. Glenn for distribution to the Board. Mr. Warford recommended an annual financial plan model done every year as things change and the Board agreed.

MINUTES OF THE SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE CHERRY CREEK VALLEY WATER AND SANITATION DISTRICT OF DECEMBER 12, 2017, CONTINUED

Director Rastall said that the District could put out a statement to the customers stating the District could fund repairs and replacements for the next 10-20 years without going into debt. He also said that the revenue from investments could also be used to absorb some of the rate increases from Metro Wastewater and Denver Water. Chairman Hanley said one of the campaign slogans used during election time is that the District does not have a mill levy and no bond indebtedness. Mr. Warford added that the District's rates are some of the lowest in the Metro area. Mr. Dempsey said the District's low rates that customers pay are for only water and sewer, not infrastructure. The customers are very fortunate. Director Lampert said that some of the funds could be used on education and other projects that will benefit the community. Other districts don't have that luxury.

There being no other business to discuss, the Board unanimously voted to adjourn. Chairman Hanley declared the meeting adjourned at 8:30 p.m.

READ AND APPROVED ____________________ DATED 18 Jan 18