

## TOWN OF LAKE CITY

### WATER AND SEWER SYSTEM

#### CURRENT STATUS

Since 2004, the Town of Lake City has been working with the firm of Short Elliott Hendrickson Inc., the Colorado Department of Local Affairs, USDA Rural Development and the Colorado Department of Public Health and Environment to develop and fund a major infrastructure replacement project in downtown Lake City. The following is a chronology that documents this effort:

- December, 2004. The Town published and distributed an Invitation for Consultant Services for the development of a master plan to address the condition and function of the town's street system.
- March, 2005. The Town hired Short Elliott Hendrickson, Inc. (SEH) to develop a Streets Master Plan that would incorporate drainage, irrigation ditches, surfacing, underground utilities (water, sewer, electricity, etc.), dust, and plans for future walkways and streetscape design. The plan would also include a strategy for the implementation of the plan elements including costs, financing and construction phases. Cost of the plan was \$27,270.00, which did not include construction engineering services.
- July, 2005. Subcontractor, Walsh Environmental Scientists and Engineers, LLC submitted a report summarizing the results of dust monitoring and metals samplings taken at ten high-traffic areas. This report is available for public inspection in the town offices.
- March, 2006. Completed plan presented to the Board of Trustees. Total cost of all five identified phases was \$3,536,470.00, expressed in 2005 dollars. Phase 2 – the downtown project – was estimated to cost \$1,506,939.00, again in 2005 dollars. This report is available for public inspection in the town offices.
- February, 2007. Town hired SEH to assist with initial grant writing to begin implementation of the first three priorities identified in the Street Master Plan. Total cost - \$6,000.00. These priorities were:
  1. Utilities, drainage and surfacing on Henson Street from 2<sup>nd</sup> Street to junction with Highway 149, including 2<sup>nd</sup> Street from Gunnison Avenue to Henson Street. *This was chosen as the first priority because the overall drainage system design required that construction commence where the outfall into the Lake Fork River would be located with work continuing uphill from that point.*

2. Utilities, drainage and surfacing on Silver Street from 2<sup>nd</sup> Street to 4<sup>th</sup> Street, including 3<sup>rd</sup> Street from Bluff to Gunnison Avenue; 2<sup>nd</sup> Street from Silver Street to Gunnison Avenue; 4<sup>th</sup> Street from Silver Street to Gunnison Avenue, 5<sup>th</sup> Street from Silver to Gunnison and 8 ½ Street from Highway 149 to Water Street.
  3. Drainage improvements not completed under Priorities 1 and 2 and water and sewer line replacements in Gunnison Avenue from 2<sup>nd</sup> Street to 8<sup>th</sup> Street.
- September, 2007. Town entered into a contract with the Colorado Department of Local Affairs for a grant (EIAF #5875) in the amount of \$32,250 to assist with costs to design and engineer the first priority of the Master Plan. Total cost of engineering contract (signed November 14, 2007) with SEH was \$64,500.
  - June, 2008. Cost of first priority is now estimated to be \$741,000 (up from \$520,309 in 2005). 29% (\$217,000) of the cost was determined to be ineligible for grant funding. Remaining 71% (\$524,000) was determined to be eligible for grant funding. 50% of the remaining project cost (\$262,000) would have to have been provided as a cash match for the grant. Since this project consisted mainly of street drainage and surfacing improvements, most of the cash match would have had to come from the Streets and Alleys Fund. With an average year end balance of \$59,827 in the Streets and Alleys Fund in any given year, these matching funds were not available.
  - July, 2008. In view of escalating costs and the lack of a cash match for Priority #1, the Trustees decided to focus their efforts on funding the 2<sup>nd</sup>, and largest, priority of the master plan, which would also address the major problem of the deteriorating water and sewer lines in the area. The Trustees anticipated that the cost of this priority would now be so high that it may be all that could be accomplished in the foreseeable future given the Town's limited resources.
  - April, 2009. Town entered into a contract with the Colorado Department of Local Affairs for a grant (EIAF #6609) in the amount of \$67,400 to assist with costs to design and engineer the second priority of the Master Plan. Total cost of engineering contract (signed May 2, 2009) with SEH was \$134,800.
  - August, 2009. State of Colorado suspended Energy and Mineral Impact Assistance Fund Grant Program. Funds were re-directed to help balance the State's budget. This suspension remains in effect until further notice. The Town was depending on receiving additional EIAF funding for construction of priority #2 improvements. As a government that does not generally qualify for private foundation grants, this action left little, if any, alternatives for receiving grants to fund construction.
  - November, 2009. Trustees decide to pursue possible project financing from USDA Rural Development. USDA Rural Development was offering combination grant/low interest

loan financing (3.25% interest rate at the time) with the average financing package consisting of approximately 45% grant and 55% loan.

- January, 2010. Town enters into another contract with SEH to develop USDA's required preliminary engineering report and environmental assessment. Total cost of contract was \$35,920. A supplemental agreement was approved on January 12, 2011 for an additional \$10,440. Estimated cost of priority #2 now exceeded 3.2 million dollars.
- June, 2011. After nearly a year and a half since the submittal of the Town's application, USDA Rural Development determined that the Town of Lake City did not qualify for any grant funding due to the Town's lower than average water and sewer rates. A 40-year loan at the rate of 3.375% was offered for water and sewer improvements. A separate enterprise fund for storm drainage improvements would have to be established and the Town would have to institute a new storm drainage assessment on all property within the Town limits.

A loan of \$3,200,000 at the rate of 3.375% over a 40-year payoff results in annual debt service payments of \$145,900/yr. \$145,900 divided by 556 existing customers equals a rate increase of \$262.41 per year per customer, or \$65.60 per quarter. By the time the loan is paid off, a total of \$2,635,724 *in interest* will have been paid.

High annual debt service payments, combined with USDA's detailed reporting and construction requirements and the need to fund further improvements in the future, lead the Trustees to decline the offer.

- October, 2011. Town Manager investigated possible 0% loan financing with the Colorado Department of Public Health & Environment and the possibility of some loan principal forgiveness. Lake City household income exceeds the maximum allowed for 0% loans and principal forgiveness. Lake City can qualify for a 30-year loan at a 2% interest rate for the water and sewer projects only. Storm drainage financing will have to be found elsewhere.

A loan of \$2,994,000 (no funding for storm drainage) at the rate of 2.0% over a 30-year payoff results in annual debt service payments of \$132,800/yr. \$132,800 divided by 556 existing customers equals a rate increase of \$238.85 per year per customer, or \$59.71 per quarter. By the time the loan is paid off, *a total of \$989,907 in interest* will have been paid.

- Both loan scenarios require a significant rate increase just to cover annual debt service payments, which does not include additional monies for infrastructure improvements that will still be needed in other areas (i.e. Wades Addition) or future capital construction projects (i.e. expansion of Wastewater Treatment Plant).

*This begs the question – if we have to raise rates anyway to include debt service payments AND future capital construction, is it possible to re-think our approach to financing our needs by trying to pay for them ourselves while avoiding those interest payments?*

- November, 2011. Town Manager attended a seminar sponsored by the Water Infrastructure Network of Colorado in Denver. Self-reliance was the theme of the seminar. There are no more grants – the state and federal governments are broke. Speakers strongly urged public utilities to at least begin to fund annual depreciation right away, while planning other financial strategies for dealing with our infrastructure needs. Need to investigate the potential of forming public/private partnerships that can provide quality installations at a reduced cost.
- November, 2011. Trustees begin discussions regarding figuring out a new approach to dealing with the problems associated with the Town's water and sewer infrastructure. With a focus on becoming self-reliant and paying for our own needs without taking on bottomless debt, these discussions have included the potential of rate increases to cover the cost of annual depreciation, to set aside a capital reserve for future capital needs and to cover the cost of inflation.
- What's next?
  - The Town Manager will meet soon with representatives from the Colorado Department of Local Affairs to brainstorm alternative approaches for solving Lake City's infrastructure problems, including the potential for forming partnerships with our local contractors.
  - The Board of Trustees will hire a professional consultant to develop a rate structure for water and sewer customers based on metered water usage.
  - Per town ordinance, water meters must be installed on all customer services no later than December, 2012. A new rate structure would go into effect sometime early in 2013.
  - The Trustees will continue to study and discuss the issues during their regular meetings in 2012. Watch our website – [www.townoflakecity.us](http://www.townoflakecity.us) for meeting notices and agendas.