EXECUTIVE COMMITTEE
MINUTES
July 25, 2019

A meeting of the Executive Committee was held on Thursday, July 25, 2019 at 10:20 a.m. at the Southeastern Colorado Water Conservancy District.

Chairman Bill Long announced a quorum was present.

COMMITTEE MEMBERS PRESENT:
Bill Long – Chairman, Curtis Mitchell – Vice-Chairman, Tom Goodwin, Alan Hamel, and Jim Broderick

COMMITTEE MEMBERS ABSENT AND EXCUSED:
Seth Clayton, Carl McClure, and Ann Nichols

OTHERS PRESENT:
Kevin Karney, Mark Pifher, and Andrew Colosimo, SECWCD Board members; Leann Noga, Chris Woodka, and Garrett Markus, SECWCD staff; Kent Ricken, Colorado Water Protective and Development Association; Jenny Bishop, Scott Shirola, and Kyle Wilson, Colorado Springs Utilities; Terry Scanga, Upper Arkansas Water Conservancy District, and Dennis Jackson, JACOBS.

APPROVAL OF MINUTES:
Chairman Long confirmed that members of the Committee received their copy of the June 27, 2019 minutes, and asked if there were any corrections or additions. Hearing none, Mr. Hamel moved, seconded by Mr. Mitchell, to approve the minutes. Motion unanimously carried.

PRESENTATIONS:
Financial Strategy and Sustainability Study
Workshop 4: Water Rate Design and Analysis

- Mr. Jackson reviewed Workshops 1-3, and explained that Workshop 4 would be the “home stretch” in the study. He explained the purpose of Workshop 4 would be to:
- Present the Rate Design scenarios and results

- Receive comments from the Committee on the reasonableness of assumptions, and preferences for rate design, rate hearing, and timeframe for phase-in to new rates.
- Determine which scenarios will be presented to the Board at the first rate hearing.

There were some questions about the forecast of combined net revenues, which are based on the theoretical cost of service.

Mr. Broderick and Mrs. Noga made the point that the rate-setting portion of the study will be effective only for the first year, and two subsequent years rather than the 10 years of projections in the financial plan. A new cost of service study is recommended in three years. The Board is legally able to approve only one year's budget, and cannot bind actions of future boards.

Mr. Broderick made the point that the District also must fund reserves as well as meet cost of service in the next 10 years. The District has not had a rate increase in 20 years, and the amount recommended in the study reflects a large difference in rates as a result.

Mr. Mitchell asked, and Mr. Broderick confirmed, that the District will have the tools to investigate and adjust rates each year.

Mr. Pifher asked to clarify that the 0.9-mill levy is used specifically to fund Fryingpan-Arkansas Project repayment. Staff confirmed that the 0.9 contract mill levy supports the operations, maintenance, replacement and betterment of the Fry-Ark Project according to Amendment 11 of the Fry-Ark contract. At this point no other funds are used for this purpose of the Fry-Ark Project.

Mr. Colosimo asked about the status of the Hydro debt to the Enterprise, and if there is a pay back. Staff explained that there is a planned payback in the cash flow model but there has been no action taken by the board.

Mr. Jackson explained there are three scenarios that are being considered:

- Aggressive: 1-Year Phase In
- Moderate: 5-year Phase In

- Gradual: 10-Year Phase In

Information about how rates would increase over 10 years under each scenario was provide to the Committee and guests in written form.

- Assumptions for all rate scenarios were based on:
- Surcharges remain unchanged
- Annual Irrigation = 6,470 af (20-year average)
- Annual Municipal Return Flows = 1,000 af (20-year average)
- Annual Winter Water Storage = 42,000 af (20-year average)
- Annual Carry-over Storage = 123,944 af (10-year average)
- Carryover phased in over 5 years (0 in 1st year, 25% per year after)
- Transfers of $300,000 annually are made from the Water Fund to the District Operations Fund
- Annual rate increases of 5% annually for phase-in scenarios
- Only split allocation (municipal/irrigation) rates were presented, although uniform rates were studied.

The question of charging for storage was raised. Mr. Broderick said that in the past the Board made the decision to charge against stored water. The question now will be the rate.

Mr. Long said the Board will have sole discretion of how much storage will be charged.

Mr. Mitchell asked if the goal of the rates is to meet revenue requirements or eliminate the deficit. Mr. Jackson said both are addressed in each scenario for a 10-year period. Mr. Long said the District is building reserves in the Fry-Ark Fund, but for the other funds, rates meet revenue requirements.

Mr. Shirrola asked if the annual $300,000 transfer is accounted for in specific expenditures under the cost of service. Mr. Jackson it was not, because this is the first cost of service study.

Mr. Broderick explained that the 0.9-mill levy does not pay for programs associated with the Fry-Ark Project, such as Reclamation Reform Act, conservation programs or watershed mitigation.

Mr. Jackson explained that the 5% annual increases provide roughly the amount needed to meet revenue requirements and eliminate the deficit over a 10-year period under each scenario.

Mr. Jackson presented graphs, tables, and summaries for each scenario, showing minimum and maximum fund balances over a 10-year period.

The table below summarizes the differences.

Criteria	Aggressive 1-Year	Moderate 5-Year	Gradual 10-Year
Rate Phase-in Last Year	2020	2024	2029
Irrigation Rate at 2029 ($/AF)	$13.14	$16.06	$19.50
Municipal Rate at 2029 ($/AF)	$15.25	$18.51	$22.31
Year 1 Revenue Increase	33%	8%	4%
Year 5 Revenue Increase	128%	154%	80%
Year 10 Revenue Increase	128%	154%	182%
Year Deficits Eliminated	2022	2023	2025
10 Year Net Revenue:	$4.1 million	$5.2 million	$1.6 million
Minimum Fund Balance:	$4.7 million (2020)	$3.6 million (2022)	$2.4 million (2025)
Maximum Fund Balance:	$10.5 million (2029)	$11.7 million (2029)	$8.0 million (2029)

By phasing in rate increases, the deficits will continue over multiple years, revenue collections will vary, and rates will be higher at the end of the 10-year period.

Mr. Mitchell asked how the District would explain how doubling revenue generated by water sales rate and adding new rates for storage does not create more revenue than required. He said he understands explaining rate increases from the other side of the table.

Mr. Broderick said the Board must determine its comfort level.

Mr. Pifher said the “fund balance” would effectively become “reserves.”

Tom Goodwin asked if $7/af rate in 1998 were adjusted for inflation, what would the rate be now? Mr. Scanga observed that the value of water and storage have increase faster than the Consumer Price Index, so the rate would not be a reliable.

Mr. Jackson added the Hydro Fund has a negative balance because of the $2.5 million loan from the Water Fund.

Mr. Jackson suggested the aggressive scenario be adopted because it:

- Has the lowest rate increase
- Provides a 5-year phase-in for the carryover storage rate
- Has the smallest increase in revenue
- Minimizes near-term risks
- Is the simplest scenario

Mr. Broderick discussed the next steps and decisions the Board will have to make. District staff will review the workshops and frame the decisions that the Board must make. The financial discussion will move from the Executive Committee to the Board.

This will mean that for the next few meetings, we will move action items to the beginning of monthly Board meetings for the District and Enterprise, and discuss financial policies for the Board for the bulk of meetings.

Mr. Broderick said questions about the workshops, policy, and financial information should be sent to Mrs. Noga, so that they are in one place.

Mr. Colosimo asked about the public outreach process. Mr. Broderick said all information will be shared at the next round of outreach meetings.

Mr. Goodwin suggested a policy of rate study every three years. Mr. Broderick said the policies will be discussed in coming months.

ACTION ITEMS:
None

INFORMATION ITEMS:
None

OTHER BUSINESS:
None

NEXT MEETING
August 15, 2019

ADJOURN

Chairman Long adjourned the meeting at 12:19 p.m.

Respectfully submitted,

Chris Woodka
Senior Policy and Issues Manager