

Additional Information for the April 15, 2021 Sewer Rate Hearing Relating to the Edgemont Ranch Metro District Wastewater Treatment Plant

Below you will find additional information about the new required Wastewater Treatment Plant (WWTP). We will be discussing this at our Rate Hearing on April 15th, 2021 via Zoom Conference call. Please send your questions via email ahead of time so that staff and the board can try to prepare any needed information. Address emails to: robert@edgemontranch.com

Background: ERMD has been working with the Colorado Department of Public Health and Environment (CDPHE), our primary water quality regulator, to get approval of a new WWTP to meet new, more stringent effluent limits that went into effect in 2015. At that time, we started the process to design and build a new WWTP to meet these new requirements. The District engaged Goff Engineering (Durango) and Element Engineering; a Denver based firm specializing in water treatment projects. We expected a 12-month approval process for plant design and location. Unfortunately, that process took more than 3 years, during which time our requirements to remove grit, nitrogen and phosphorus were increased and treatment redundancies were added by CDPHE, all of which required upgrades to our design. The additional requirements and the delayed approval have significantly increased the plant's cost. However, ERMD now has approval of all aspects of the project and secured a firm bid from Integrated Water Services of \$7.5 million for plant construction during a competitive bidding process that included entering into a value-engineering process that reduced the final cost by over \$500,000.

Financing Options: When ERMD received our first set of new Effluent Limits from CDPHE we were given a deadline to have financing in place by 2017. We did this, borrowing \$4.5 million from Alpine Bank in 2017 at 3.375% on a 20-year amortization schedule. This would have been sufficient to finance a plant designed to meet this first set of limits. The Board considered several options, including, 1. A one-time assessment of all lots (approximately \$7,200 per lot), 2. partial grant funding, and 3. borrowing at 5-, 10- and 20-year amortizations. The Board's approach was that the new WWTP costs should be borne by future residents as well as current residents and spread over a longer period of time in order to benefit from future growth.

We considered grants. However, the higher-than-average median home and income level of our development, the decrease in DOLA and other government funding agencies resources and the high cost of complying with government funded projects made grant funding unlikely and uneconomic. The new \$1.9 trillion stimulus bill does contain funding for water quality projects at the local level. We will explore these, and if successful, any reduction in borrowing costs will allow us to lower our sewer rates. The borrowing options included the bond market and local banks. The bond option was more expensive (fees and legal costs were higher on a small deal of our size) and was not flexible – no ability to pre-pay the debt if our growth generated more cash flow. We chose Alpine on cost and flexibility: we are able to prepay the debt without penalty and the long term loan spreads the cost over future and current residents.

Current Situation: Now that we have finally received all necessary approvals and the cost has been bid at \$7.5 million, we are discussing financing with banks and bond providers. We intend to provide a \$600,000 Contingency on the project bid cost, 8% of the expected cost. In the past 6 months construction costs, especially steel, concrete and lumber have soared. And, while we do not anticipate incurring costs beyond the bid price, it is prudent and standard practice to provide for contingencies. Finally, while interest rates are rising now, they remain at very low historic levels; for planning purposes we are assuming a rate of approximately 3% on a 20-year maturity schedule. Taking all of this into account, at this time we believe our new financing need is an additional \$3.25 million.

In the coming weeks we plan to get preliminary indications of our financing options (fees, rates and maturities). By mid-year we hope to lock in the financing. At that time the board will determine any needed changes to our current Sewer rates and timing. Currently any rate increase would likely take effect as of September 31 or December 31, 2021. Based on the information we now have the most likely options are an increase in ERMD's sewer charges of between \$5 and \$10 per month. This would be a 5.3% to 10.5% increase over existing Sewer charges of \$95/month. As stated above, in setting rates, the

board will take into consideration lower interest rates, lower construction cost, etc. However, please be aware that this depends on ERMD’s ability to secure financing, and, while we are confident in our ability to get good financial terms, we do not yet have firm, committed financing. We are negotiating with local and national tax-exempt underwriters and banks to secure the least expensive, most flexible financing package available and will pass on savings from lower interest rates and better repayment schedules into our Sewer fee levels.

Below are 3 potential options showing the impact of a \$5, \$8 and \$10 per month rate increase to our Maintenance fee (Infrastructure cost is included in our Maintenance category). In the past, the board has considered variable rate charges that are based on water/sewer usage. However, due to the fact that variable charges are difficult to forecast and plan with, especially when trying to establish long term fixed rate financing, a flat fee per lot is more appropriate at this time.

We are assuming rapid growth over the next 2 years and then a slower rate of growth in lot and home building. Currently the District has 764 properties (616 homes & 148 lots). We are forecasting rapid growth in the next 2 years (62 new lots and 60 new homes – more than our historical average). In the event even faster growth occurs ERMD plans to pre-pay debt to lower our overall costs and pass that on in lower rates if feasible. It is also important to note that the operating costs of the new WWTP will be higher than those of the current lagoon system. This is due to the significantly more stringent standards (nitrogen, phosphorous and grit removal, filter maintenance and power requirements). These projections include the higher estimated operating costs.

Summary Edgemont Ranch Metro District Sewer Fund Cash Flow Forecast: New Rate Increase \$10 Per Month													
	Actual 2018	Actual 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
Existing Lots Start of Year	181	152	178	148	138	150	140	130	120	115	110	105	100
New Lots	17	49	0	20	42	10	5	5	5	5	5	5	5
Total Lots End of Year	152	178	148	138	150	140	130	120	115	110	105	100	95
Existing Homes Start of Year	517	563	586	616	646	676	696	711	726	736	746	756	766
New Homes	46	23	30	30	30	20	15	15	10	10	10	10	10
Homes @ End of Year	563	586	616	646	676	696	711	726	736	746	756	766	776
TOTAL PROPERTIES	715	764	764	784	826	836	841	846	851	856	861	866	871
TOTAL SEWER FUND REVS	\$821,797	\$788,790	\$829,610	\$928,630	\$962,374	\$1,001,880	\$1,015,345	\$1,024,645	\$1,033,070	\$1,040,870	\$1,048,670	\$1,056,470	\$1,064,270
TOTAL SEWER EXPENSES	\$563,327	\$672,652	\$661,393	\$5,640,071	\$3,400,574	\$654,994	\$659,552	\$664,256	\$669,102	\$674,104	\$679,266	\$684,587	\$690,077
NET REV BEFORE DEBT	\$258,470	\$116,138	\$168,217	-\$4,711,441	-\$2,438,200	\$346,886	\$355,793	\$360,389	\$363,968	\$366,766	\$369,404	\$371,883	\$374,193
New Debt				\$3,250,000									
Principal Repayment	\$162,335	\$167,978	\$173,426	\$240,000	\$285,750	\$294,550	\$303,129	\$312,005	\$321,864	\$331,276	\$342,004	\$353,338	\$362,779
NET CASH FLOW	\$96,135	-\$51,840	-\$5,209	-\$1,701,441	-\$2,723,950	\$52,336	\$52,664	\$48,384	\$42,104	\$35,490	\$27,400	\$18,545	\$11,414
Begin Sewer Cash Reserve	\$4,975,217	\$5,071,352	\$5,019,512	\$5,014,303	\$3,312,862	\$588,912	\$641,248	\$693,912	\$742,296	\$784,399	\$819,889	\$847,289	\$865,835
YE Sewer Cash Reserve	\$5,071,352	\$5,019,512	\$5,014,303	\$3,312,862	\$588,912	\$641,248	\$693,912	\$742,296	\$784,399	\$819,889	\$847,289	\$865,835	\$877,248

Summary Edgemont Ranch Metro District Sewer Fund Cash Flow Forecast: New Rate Increase \$8 Per Month														
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Existing Lots Start of Year	181	152	178	148	138	150	140	130	120	115	110	105	100	
New Lots	17	49	0	20	42	10	5	5	5	5	5	5	5	
Total Lots End of Year	152	178	148	138	150	140	130	120	115	110	105	100	95	
Existing Homes Start of Year	517	563	586	616	646	676	696	711	726	736	746	756	766	
New Homes	46	23	30	30	30	20	15	15	10	10	10	10	10	
Homes @ End of Year	563	586	616	646	676	696	711	726	736	746	756	766	776	
TOTAL PROPERTIES	715	764	764	784	826	836	841	846	851	856	861	866	871	
TOTAL SEWER FUND REVS	\$821,797	\$788,790	\$829,610	\$910,054	\$943,054	\$981,936	\$995,221	\$1,004,401	\$1,012,706	\$1,020,386	\$1,028,066	\$1,035,746	\$1,043,426	
TOTAL SEWER EXPENSES	\$563,327	\$672,652	\$661,393	\$5,640,071	\$3,400,574	\$654,994	\$659,552	\$664,256	\$669,102	\$674,104	\$679,266	\$684,587	\$690,077	
NET REV BEFORE DEBT	\$258,470	\$116,138	\$168,217	-\$4,730,017	-\$2,457,520	\$326,942	\$335,669	\$340,145	\$343,604	\$346,282	\$348,800	\$351,159	\$353,349	
New Debt				\$3,250,000										
Principal Repayment	\$162,335	\$167,978	\$173,426	\$240,000	\$285,750	\$294,550	\$303,129	\$312,005	\$321,864	\$331,276	\$342,004	\$353,338	\$362,779	
NET CASH FLOW	\$96,135	-\$51,840	-\$5,209	-\$1,720,017	-\$2,743,270	\$32,392	\$32,540	\$28,140	\$21,740	\$15,006	\$6,796	-\$2,179	-\$9,430	
Begin Sewer Cash Reserve	\$4,975,217	\$5,071,352	\$5,019,512	\$5,014,303	\$3,294,286	\$551,016	\$583,408	\$615,948	\$644,088	\$665,827	\$680,833	\$687,629	\$685,451	
YE Sewer Cash Reserve	\$5,071,352	\$5,019,512	\$5,014,303	\$3,294,286	\$551,016	\$583,408	\$615,948	\$644,088	\$665,827	\$680,833	\$687,629	\$685,451	\$676,020	

Summary Edgemont Ranch Metro District Sewer Fund Cash Flow Forecast: New Rate Increase \$5 Per Month														
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Existing Lots Start of Year	181	152	178	148	138	150	140	130	120	115	110	105	100	
New Lots	17	49	0	20	42	10	5	5	5	5	5	5	5	
Total Lots End of Year	152	178	148	138	150	140	130	120	115	110	105	100	95	
Existing Homes Start of Year	517	563	586	616	646	676	696	711	726	736	746	756	766	
New Homes	46	23	30	30	30	20	15	15	10	10	10	10	10	
Homes @ End of Year	563	586	616	646	676	696	711	726	736	746	756	766	776	
TOTAL PROPERTIES	715	764	764	784	826	836	841	846	851	856	861	866	871	
TOTAL SEWER FUND REVS	\$821,797	\$788,790	\$829,610	\$882,190	\$914,074	\$952,020	\$965,035	\$974,035	\$982,160	\$989,660	\$997,160	\$1,004,660	\$1,012,160	
TOTAL SEWER EXPENSES	\$563,327	\$672,652	\$661,393	\$5,640,071	\$3,400,574	\$654,994	\$659,552	\$664,256	\$669,102	\$674,104	\$679,266	\$684,587	\$690,077	
NET REV BEFORE DEBT	\$258,470	\$116,138	\$168,217	-\$4,757,881	-\$2,486,500	\$297,026	\$305,483	\$309,779	\$313,058	\$315,556	\$317,894	\$320,073	\$322,083	
New Debt				\$3,250,000										
Principal Repayment	\$162,335	\$167,978	\$173,426	\$240,000	\$285,750	\$294,550	\$303,129	\$312,005	\$321,864	\$331,276	\$342,004	\$353,338	\$362,779	
NET CASH FLOW	\$96,135	-\$51,840	-\$5,209	-\$1,747,881	-\$2,772,250	\$2,476	\$2,354	-\$2,226	-\$8,806	-\$15,720	-\$24,110	-\$33,265	-\$40,696	
Begin Sewer Cash Reserve	\$4,975,217	\$5,071,352	\$5,019,512	\$5,014,303	\$3,266,422	\$494,172	\$496,648	\$499,002	\$496,776	\$487,969	\$472,249	\$448,139	\$414,875	
YE Sewer Cash Reserve	\$5,071,352	\$5,019,512	\$5,014,303	\$3,266,422	\$494,172	\$496,648	\$499,002	\$496,776	\$487,969	\$472,249	\$448,139	\$414,875	\$374,178	