

**TOWN OF PALISADE, COLORADO
RESOLUTION NO. 2023-15**

A RESOLUTION OF THE BOARD OF TRUSTEES FOR THE TOWN OF PALISADE, COLORADO, ACCEPTING THE WASTEWATER RATE STUDY PREPARED BY RURAL COMMUNITY ASSISTANCE CORPORATION (RCAC).

WHEREAS, the Town of Palisade requested a wastewater rate study to ensure the wastewater fees charged by the Town are fair and equitable, yet adequate to meet the Town’s needs into the future, specifically funding the connection of the Town’s wastewater collection system to the wastewater treatment plant owned and operated by Clifton Sanitation District (the “Rate Study”); and

WHEREAS, the Town commissioned RCAC to prepare the Rate Study, which was presented to the Palisade Board of Trustees on May 23, 2023; and

WHEREAS, the Board of Trustees desires to accept the rate study.

NOW, THEREFORE, BE IT RESOLVED THAT THE BOARD OF TRUSTEES OF THE TOWN OF PALISADE, COLORADO THAT:

1. The Board of Trustees incorporates the foregoing recitals as findings by the Town.
2. The Wastewater Rate Study dated April 3, 2023 prepared by Rural Community Assistance Corporation is hereby accepted by the Town of Palisade with the Board of Trustees opting to proceed with Scenario 3 in the Rate Study to adequately meet its legal, fiduciary and financial responsibilities.

RESOLVED, APPROVED, and ADOPTED this 14 day of November 2023.

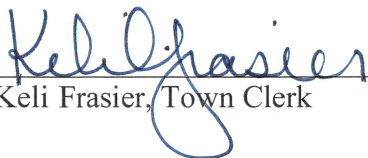
TOWN OF PALISADE, COLORADO

(Seal)

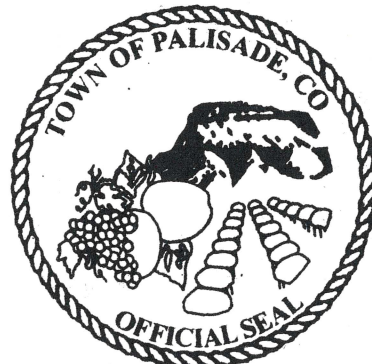


Greg Mikolai, Mayor

ATTEST:



Keli Frasier, Town Clerk



Town of Palisade

Summary of Rate Study Findings

April 3, 2023

Introduction

The Town of Palisade ('Town') is planning to build a conveyance line with lift station to connect their existing sewage collection system to Clifton Sanitation District's Wastewater Treatment Facility (CSD). The Town is currently considering taking on a financing package offered by USDA Rural Development that consists of two loans totaling \$16,495,000, a grant of \$5,650,000, and contributing \$2,068,000 themselves to meet the total project cost. It is planned for the purposes of this study that the new system would be completed and debt payments commence in 2026. The purpose of this Rate Study is to inform the Town regarding the affordability of the proposed financing package, and recommend various rate options to meet their revenue goals if the project is completed as proposed.

Methodology

This study is guided by the following three principles: Sustainability, Fairness, and Justifiability. Rates should cover the costs to the system to allow it to provide services now, and in the foreseeable future. The staff & board should stay aware of the changes to existing laws, community growth and demand which will require more water rights or further treatment, and therefore keep their capital replacement plan up to date. Rates should be fair to all rate payers. No single rate payer or group of rate payers should be singled out for different rates without logic & justification. The Town should not charge more for services than the cost to provide the service and save appropriately for future expenses, nor should customers be charged more for the sewer service than the reasonable cost to provide that service now and into the future. Unreasonably low rates for current customers will require unreasonably high rates for future customers, which should be avoided. To keep up with inflation, all scenarios considered in this study included an annual increase to the base rate year over year.

The following assumptions were made for these financial projections were made based on information provided by District staff:

- A growth factor of 1.2% annually
- An inflation factor of 5.0%

This study, made available at no charge to the Town, has been supported under a grant by the United States Department of Health and Human Services.

Disclaimer: The recommendations contained in this study are based on financial information provided to RCAC by the Town. Although every effort was made to assure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein. Any opinions, findings, and conclusions or recommendations expressed in this material are solely the responsibility of the authors and do not necessarily represent the official views of HHS or USDA Rural Utilities Service. For accounting advice, a CPA should be consulted. For legal advice, the Town should seek the advice of their attorney.

Current Rates

The current rate structure is a monthly flat rate + tiered structure, as follows:

Residential – single unit	\$35.37
Residential – single unit with Lift Station	\$46.24
Mobile Home Park – each unit	\$35.37
Residential – multi unit: first unit	\$35.37 for first unit + \$24.76 for each additional unit
Residential – multi unit with Lift Station	\$46.24 for first unit + \$32.24 for each additional unit
Commercial – single <i>or</i> multi unit	\$46.24 with 8k gal included \$0.61 per 1k gallons for 8k-20k gal \$0.92 per 1k gallons for 20k-40k gal \$1.61 per 1k gallons for 40k+ gal

Budget

A five-year budget forecast is shown below. When the new project comes online and payments commence, it is expected that the annual expenses will rise to ~\$1.45M in 2026. The major factors for this change were modeled as:

- added O&M expenses for the Town’s responsibility of O&M for the new conveyance line,
- the sewage treatment fee expected to be charged by CSD,
- the decommissioning of the Town’s existing Treatment enterprise and associated expenses, and
- the new debt service and debt reserve payments requirement by the two RUS loans.

5-year Budget Forecast

	2023	2024	2025	2026	2027
Total Operation and Maintenance Expenses:	135,531	142,308	149,423	477,070	496,803
Total General and Administrative Expenses:	489,974	503,671	501,195	972,647	977,185
TOTAL EXPENSES	625,505	645,979	650,618	1,449,717	1,473,988

Note that as a result of the Infrastructure Capital Improvement Plan (ICIP) created in this study, an annual contribution to a capital reserve fund for the Town’s collection enterprise is recommended according to the following 5-year schedule. Full funding of this reserve fund is included in the General & Administrative Expenses line shown above.

5-year Capital Reserve Contribution Recommendation

	2023	2024	2025	2026	2027
Recommended Contribution Amount	210,662	210,662	193,813	190,670	190,670

Scenario 1: Existing Structure (flat + tiered) with full capital reserve saving

This scenario utilizes the same rate structure as the existing rate structure but increases the \$35.37 base residential rate to \$70.50 and all other classes according to the same percentage increase in 2023, followed by a 5% increase to all rates annually for 5 years.

One recommended change to the structure is to charge additional residential units at the same rate as the base residential unit, as described in Scenario 1.

Scenario 1: Rates 2023-2027

	2023	2024	2025	2026	2027
Residential – single unit	\$ 70.50	\$ 74.03	\$ 77.73	\$ 81.61	\$ 85.69
Residential – single unit with Lift Station	\$ 81.37	\$ 85.44	\$ 89.71	\$ 94.20	\$ 98.91
Mobile Home Park – each unit	\$ 70.50	\$ 74.03	\$ 77.73	\$ 81.61	\$ 85.69
Residential – multi unit – each unit	\$ 70.50	\$ 74.03	\$ 77.73	\$ 81.61	\$ 85.69
Residential – multi unit with Lift Station – each unit	\$ 81.37	\$ 85.44	\$ 89.71	\$ 94.20	\$ 98.91
Commercial – single <i>or</i> multi unit, <8k gal	\$ 81.37	\$ 85.44	\$ 89.71	\$ 94.20	\$ 98.91
Rate per 1,000 gal, 8-20k gal	\$ 1.22	\$ 1.28	\$ 1.34	\$ 1.41	\$ 1.48
Rate per 1,000 gal, 20-40k gal	\$ 1.82	\$ 1.92	\$ 2.01	\$ 2.11	\$ 2.22
Rate per 1,000 gal, 40k+ gal	\$ 3.19	\$ 3.35	\$ 3.52	\$ 3.70	\$ 3.88

Under this structure, the 5-year financial projection and affordability is as follows:

Results of the new rates	2023	2024	2025	2026	2027	5 Years
TOTAL EXPENSES	\$625,505	\$645,979	\$650,618	\$1,449,717	\$1,473,988	\$4,845,807
TOTAL REVENUE	\$1,221,270	\$1,281,747	\$1,345,281	\$1,412,025	\$1,482,143	\$6,742,465
NET LOSS OR GAIN: (Short/Over to Reserves)	\$595,765	\$635,769	\$694,662	-\$37,692	\$8,155	\$1,896,659
NET CASH FLOW (Contribution to Reserves)	\$807,426	\$847,430	\$889,474	\$216,725	\$262,572	\$3,023,628
Affordability assuming MHI of \$53571 for residential meters	1.58%	1.66%	1.74%	1.83%	1.92%	

The impact of Scenario 2 would be:

- Affordability rising to 1.92% by 2027 (1.5-4% is the recommended range)
- By 2027, capital reserve savings would be fully funded
- \$3.02M saved into reserves over 5 years, to fund the \$2.068M down payment

Scenario 2: Clifton EQU Structure with minimal increases to break even

This scenario utilizes CSD's EQU Schedule and converts existing Palisade sewer customers to be charged according to their schedule, as shown below. The EQU rates are set according to the same principle as Scenario 1 – increasing rates one-time in 2023 to \$45.25 followed by an annual 5% increase to 1.0 EQU, only high enough to break even on cash flow, but not fulling funding the capital reserve recommendation.

A. Hotels and Motels:

- a. No restaurants or kitchens $0.36 \times$ number of rooms E.Q.U.
- b. With kitchenettes $0.43 \times$ number of rooms E.Q.U.
- c. With restaurants - use above then add restaurants from below
- d. Bed & Breakfast - $0.36 \times$ number of rooms E.Q.U.

B. Restaurants:

- a. 12-hour or more operation $0.21 \times$ number of seats E.Q.U.
- b. less than 12 hours of operation $0.14 \times$ number of seats E.Q.U.
- c. Bar, no food $0.04 \times$ number of seats E.Q.U.

C. Specialty Foods: No fried foods, dishwashers, garbage disposals, grease traps, (business must use paper service for its customers)

- a. Open less than 12 hours per day – $0.075 \times$ number of seats E.Q.U.
- b. Open 12-hours or more $.10 \times$ number of seats E.Q.U.

D. Fast food take out - (Walk up or drive up)

- a. Open 12 hours or more each day
 $0.10 \times$ number of employees E.Q.U.
- b. Open less than 12 hours per day
 $0.06 \times$ number of employees E.Q.U.

E. Schools:

- a. No food or showers $0.04 \times$ number of student capacity
- b. Add to a. For cafeterias $0.02 \times$ number of student capacity
- c. Add to a. For showers $0.02 \times$ number of student capacity
- d. Boarding schools $0.27 \times$ number of student capacity

F. Shopping centers and stores:

$.35 \times$ number of thousand square feet of store space

G. Travel trailer park (K.O.A., etc.)

$.49 \times$ number of trailer parking spaces

H. Churches and assembly halls, theaters and arenas

$0.01 \times$ number of seating capacity

I. Factory, warehouses and offices (not including industrial waste)

$0.05 \times$ number of employees

J. Hospital

$0.89 \times$ number of bed spaces

K. Institution - nursing home

$0.36 \times$ number of residences

L. Laundry - coin operated

$0.90 \times$ number of washing machines

M. Car Wash - 3.5 x number of bays

N. Where the District Manager deems necessary, the EQU calculation may be utilized for nonresidential users that are not listed above by computing the hydraulic flow expected from the establishment; the EQU shall be computed by dividing the expected flows by 4,000 gallons per month.

Scenario 2: Rates 2023-2027

	2023	2024	2025	2026	2027
Residential – 1.0 EQU	\$45.25	\$47.51	\$49.89	\$52.38	\$55.00

Under this structure, the 5-year financial projection and affordability is as follows:

Results of the new rates	2023	2024	2025	2026	2027	5 Years
TOTAL EXPENSES	\$699,409	\$723,789	\$732,517	\$1,478,991	\$1,504,743	\$5,139,449
TOTAL REVENUE	\$987,689	\$1,049,174	\$1,114,339	\$1,183,398	\$1,256,577	\$5,591,177
NET LOSS OR GAIN: (Short/Over to Reserves)	\$288,280	\$325,386	\$381,823	-\$295,593	-\$248,166	\$451,728
NET CASH FLOW (Contribution to Reserves)	\$500,096	\$537,202	\$576,768	-\$41,511	\$5,916	\$1,578,471
Affordability Assuming MHI of \$53571 for residential meters	1.01%	1.06%	1.12%	1.17%	1.23%	

The impact of Scenario 3 would be:

- Affordability rising to 1.23% by 2027 (1.5-4% is the recommended range)
- By 2027, cash flow would be about breaking even but lacking reserve contributions
- \$1.58M saved back into reserves over 5 years, to help fund the \$2.068M down payment

Scenario 3: Clifton EQU Structure with full capital reserve saving – **RECOMMENDATION** by RCAC

This scenario utilizes CSD’s EQU Schedule (shown in Scenario 3 above) and converts existing Palisade sewer customers to be charged according to their schedule, as shown below. The EQU rates are set according to the same principle as Scenario 2 to cover the full recommend capital reserve saving – increasing rates one-time in 2023 to \$54.50 followed by an annual 5% increase to 1.0 EQU.

Scenario 3: Rates 2023-2027

	2023	2024	2025	2026	2027
Residential 1.0 EQU	\$54.50	\$57.23	\$60.09	\$63.10	\$66.25

Under this structure, the 5-year financial projection and affordability is as follows:

Results of the new rates	2023	2024	2025	2026	2027	5 Years
TOTAL EXPENSES	\$699,409	\$723,789	\$732,517	\$1,478,991	\$1,504,743	\$5,139,449
TOTAL REVENUE	\$1,186,459	\$1,260,358	\$1,338,681	\$1,421,685	\$1,509,643	\$6,716,826
NET LOSS OR GAIN: (Short/Over to Reserves)	\$487,050	\$536,569	\$606,164	-\$57,306	\$4,900	\$1,577,377
NET CASH FLOW (Contribution to Reserves)	\$698,866	\$748,386	\$801,110	\$196,776	\$258,982	\$2,704,120
Affordability Assuming MHI of \$53571 for residential meters	1.22%	1.28%	1.35%	1.41%	1.48%	

The impact of Scenario 3 would be:

- Affordability rising to 1.48% by 2027 (1.5-4% is the recommended range)
- By 2027, captial reserve savings would be fully funded
- \$2.70M saved into reserves over 5 years, to fund the \$2.068M down payment

Conclusion

Three scenarios were created and evaluated according to the methodology of this rate study, but the final scenario is the recommended option based on the findings.

1. Existing Structure (flat + tiered) with minimal increases to break even
2. Clifton EQU Structure with minimal increases to break even
3. ***Clifton EQU Structure with full capital reserve saving (RECOMMENDATION)***

All scenarios are viable options which will allow the Town to save in the next couple years and cover their bills once the conveyance line project is completed. However, the advantages of Scenario 3 include:

- Full reserve funding
- Small annual increases after an initial 54% increase to make the fees required to achieve full funding more palatable to customers by 2027
- A lower residential bill as compared to the existing flat + tiered structure to help with residential affordability
- Because the Town is charged on an EQU basis from CSD, it is justifiable to charge customers according to the same EQU schedule
- The existing commercial tier structure is based on summertime water usage which may include some agricultural use not applicable to sewer use

No matter which scenario the Town selects to move forward with, there are 3 major takeaways from these findings applicable to all scenarios models:

1. Because the project is not expected to be completed until 2026, upon which payments will begin, **beginning with a substantial increase upfront gives Town ~2.5 years to save, making the \$2.068M down payment much more manageable** within their financial outlook. The Town may be able to save a majority if not all the down payment required by the time the project comes online.
2. Affordability is defined as the percent an average household spends on their sewer bill, according to the MHI. Currently, affordability is very low at 0.78%. Most funders like to see affordability at 1.5-2.5%, with 4.0% being the upper limit, and do not begin offering grant funding until ~1.5% is reached. All scenarios see the 2027 rate rise closer to this rate, while still remaining quite low.
3. In any scenario, **it is recommended that the Town do a close review of each customer account and type of building to ensure each account is characterized and charged accurately** according to either their existing schedule or the EQU schedule.