



# Town of Castle Rock

## Agenda Memorandum

**Agenda Date:** 1/18/2022

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**Item #:** 8. **File #:** ORD 2022-001

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**To:** Honorable Mayor and Members of Town Council

**Through:** David L. Corliss, Town Manager

**From:** Mark Marlowe, P.E., Director of Castle Rock Water

**Ordinance Authorizing the Issuance and Sale of Water and Sewer Enterprise Revenue Bonds, Series 2022, Payable Solely Out of the Net Pledged Revenues to Be Derived from the Operation of the Town's Water and Sewer Enterprise; Providing Other Details Concerning the Bonds, Including, Without Limitation, Covenants and Agreements in Connection Therewith; Providing Other Matters Relating Thereto; and Providing for its Emergency Adoption on Second and Final Reading (Second Reading - Approved on First Reading on January 4, 2022, by a vote 7-0) [Entire Town Service Area]**

### Executive Summary

The purpose of this memorandum is to seek Council approval and to provide for its Emergency Adoption on second and final reading of an ordinance (**See Attachment A**) approving the sale of water and sewer enterprise revenue bonds in an amount of \$30,000,000. This memo will outline our current debt position, and provide a case for issuing additional debt to address future capital needs.

### **Future Capital Needs**

During the 2022 budget process and the annual 2021 Rates and Fees Study, Castle Rock Water (CRW) updated the long term renewable water capital plan. The plan was updated to respond to current market conditions for water rights and water infrastructure construction as well as the higher than expected growth occurring in the community. The revised long term renewable water capital plan anticipates long term investments of \$523M. This is a significant increase over the 2020 Rates and Fees Study, which projected long term investments of \$477M. In addition, the timing of capital investments has been pushed forward. The long term renewable water capital plan now calls for increases of approximately \$32M by 2025 and approximately \$65M by 2040. The updated capital plan for 2041-2060 shows decreases of approximately \$20M as a result of CRW's strategy to move plans forward.

Castle Rock Water (CRW), as part of the annual budget process, has presented a plan to Council with 3% annual increases from 2022 through 2026 as part of the response to these capital needs. In addition, system development fees were increased by 40.1% in the Plum Creek Basin and 39.0% in the Cherry Creek Basin. Despite these actions and due to future capital demands, rate models

indicated the need for large rate increases beyond the 2022 through 2026 increases, beginning in 2029. In order to mitigate significant impact on the rate payers, CRW has created a model that solves for the large rate increases through both the issuance of debt in 2022 and marginal rate increases through 2044.

### **Current Borrowing Market**

CRW met with Hilltop Securities to discuss debt options on October 13, 2021. Hilltop Securities confirmed that current interest rates are low and that it would be advantageous for CRW to issue new debt sooner rather than later. Hilltop Securities indicated their current timeline would allow for a February 2022 bond issuance date. Hilltop Securities expects that CRW would be able to obtain an interest rate equal to or below 2.5% unless market conditions change significantly in the coming month.

### **Proposed Debt Issuance**

CRW is proposing to issue \$30M in water and sewer revenue bonds in order to mitigate future rate impacts associated with the implementation of the long term renewable water plan. This debt issuance was modelled at a 2.39% interest rate with a 20-year term. A negotiated sale and competitive sale are being considered, and a final recommendation will be made at second reading. The Town and CRW have current ratings by the S&P and Moody's of AA+ and AA2, indicating that we should receive a good interest rate. Annual payments would be on the order of \$1.8M, and total borrowing costs are estimated at \$325,350. With issuance of this debt, the model runs resulted in potential rate increases in the future being smoothed to a maximum of 3.50% through 2060.

### **Projects to Be Funded with Debt**

Projects we would anticipate funding from bond proceeds include:

- A pipeline through Parker Water and Sanitation District to support additional conveyance capacity for water we receive as part of the Water Infrastructure Supply Efficiency (WISE) project. The cost of the pipeline is estimated at \$13M.
- A new 822-acre-foot reservoir to be located on property in Sedalia, Colorado, for an estimated cost of \$11.5M.
- A new pipeline and pump station (the Newlin Gulch Pipeline and Pump Station) to move raw water owned by Castle Rock from the Plum Creek Basin up to Rueter-Hess Reservoir for storage at an estimated cost of \$10M.
- Other long term renewable water projects as funding is available including the expansion of the Plum Creek Advanced Water Purification Facility from 6 million gallons per day to 12 million gallons per day.

### **Notification and Outreach Efforts**

No specific outreach efforts are necessary for this item.

### **History of Past Town Council, Boards & Commissions, or Other Discussions**

Castle Rock Water (CRW) Commission was briefed on the case for issuing \$30,000,000 in additional debt to support the long term renewable water plan on October 27, 2021. General consensus of the CRW Commission was to proceed with the debt issuance.

### **Discussion**

The rates and fees models developed for the 2021 rate study indicated that a potential large rate increase would be needed in 2029 in the Water Resources Fund, assuming implementation of the full capital plan proposed. The 2021 capital plan (through 2060) for the Water Resources Enterprise includes approximately \$523M in investments. There are several options for addressing the potential large rate increase in 2029, including retiming of capital investments through deferment of some of the projects, cancellation of some of the projects to reduce the long term expected investments, utilization of debt to spread the needed rate impacts out over a longer period, and a combination of these options.

One of the options CRW wanted to explore was issuance of additional debt. The model that was created to evaluate using debt to solve for the large projected rate increases in 2029 calls for additional rate increases beyond 2029. Beginning in 2027, the model proposes annual rate increases of 3.5% through 2032 and increases of 3% from 2033 through 2044. In addition to rate increases, the model assumes the issuance of debt of \$30M in 2022, \$52M in 2030 and \$42M in 2045.

This model using debt allows CRW to avoid large rate increases to the rate payers in 2029 while maintaining a Debt Ratio that falls within the AWWA top quartile for lowest debt to asset ratio over the long term.

### **Current Debt Ratio**

Debt Ratio measures the ratio of total liabilities to total assets and is a benchmarking Key Performance Indicator (KPI) in the AWWA Utility Benchmarking Program. Following is a summary of the current AWWA Debt Ratio benchmarking.

	<b>75th Percentile</b>	<b>Median</b>	<b>25th Percentile</b>
<b>Debt Ratio</b>	23%	39%	55%

Our goal is to be in the top 25% of the utilities who participate in the AWWA Benchmarking Survey. The table below summarizes CRW's annual Debt Ratio for 2015 through 2021 Q3. CRW consistently

remains in the top 25% of utilities for this KPI and performance has continued to improve annually.

	2015	2016	2017	2018	2019	2020	2021 *
<b>Debt Ratio</b>	15%	15%	13%	12%	11%	10%	9%

- Through Q3 YTD

### Financial Management Plan

The CRW Financial Management Plan (FMP) is set in place to outline the main financial policies, procedures and financial performance for past, present and future. FMP goals were derived based upon CRW’s main vision to become a national leader in the water industry and our mission to provide our community with exceptional service. The first two FMP goals are as follows:

1. To minimize future rates at or below the 2013 Hybrid Model levels
2. To minimize debt carrying costs at or below industry standards (the above tables indicate that CRW is achieving this goal)

CRW’s current Debt Ratio performance to the benchmarking standards demonstrates that there is opportunity to issue additional debt while still being an industry leader in this KPI. The ability to issue more debt is complicated and depends on a number of factors including current market conditions, interest rates, bond coverage ratios, reliability of revenue streams, ability to increase rates, and agency ratings, among others. Below is a table showing our current debt position, along with the amount of additional debt we are able to take on and still remain in the top quartile of lowest debt ratios among our peers.

	Q3 2021 YTD	75th Percentile	Median	25th Percentile
Liabilities	68,297,639	173,721,315	294,570,925	415,420,535
Assets	765,028,205	755,310,064	755,310,064	755,310,064
Debt Ratio	9%	23%	39%	55%
<b>Theoretical Debt Capacity Based on KPI</b>		<b>106,361,784</b>	<b>227,211,394</b>	<b>348,061,004</b>

## Current Debt Portfolio

The current debt portfolio for CRW primarily contains revenue bonds for water, wastewater, and water resources and a bank loan dedicated to the Stormwater Enterprise. Following is a summary of the current CRW debt portfolio.

Debt Obligations	Remaining Principal YE 2020	Interest Rate	Maturity Date
Water and Sewer Revenue Refunding Bonds, Series 2012	\$3,795,000	2.60%	2023
Water and Sewer Revenue Refunding Bonds, Series 2015	\$3,535,000	2.79%	2026
2016 Refunding of COP Bonds	\$40,510,000	2.51%	2034
2019 Stormwater Enterprise Revenue Loan	\$9,000,000	1.92%	2030
<b>Total</b>	<b>\$56,840,000</b>	<b>2.44%</b>	

## Budget Impact

The annual impact to the budget would be approximately \$1.8M in additional debt carrying costs. In addition, borrowing costs would include \$325,250. A first quarter budget amendment will be necessary to adjust the revenue and expense budgets for CRW in accordance with the resulting debt issuance.

## Staff Recommendation

Staff recommends proceeding with the debt issuance as outlined in this memo.

## Proposed Motion

*"I move to approve the ordinance as introduced by title."*

## Alternative Motions

*"I move to approve the ordinance as introduced by title, with the following conditions: (list conditions)."*

*"I move to continue this item to the Town Council meeting on \_\_\_\_\_ date to allow additional time to (list information needed)."*

## Attachments

Attachment A: Ordinance