



## **STAFF REPORT**

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

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

**From:** Mark Marlowe, P.E., Director of Castle Rock Water  
Nichol Bussey, Business Solutions Manager  
Paul Rementer, Enterprise Fund Analyst

**Title:** **An Ordinance Authorizing the Issuance and Sale of Water and Sewer Enterprise Revenue Bonds, Series 2025, 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 Adoption on First Reading** *[Entire Castle Rock Water Service Area]*

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### **Executive Summary**

The purpose of this memorandum is to seek Town Council approval of an Ordinance (**See *Attachment A***) authorizing the Mayor, Town Manager, Finance Director and Director of Castle Rock Water (CRW) to implement the sale of water and sewer enterprise revenue bonds at a time determined to be best for CRW within one year of the date of approval of this Ordinance on Second and Final Reading in accordance with the following parameters:

- Par Amount: The bonds may be issued in an amount not to exceed \$56 million.
- Maturity: Bonds will mature no later than December 1, 2045, with maximum annual principal not exceeding \$7.7 million with total repayment costs not to exceed \$95 million.
- Interest Rate: Not to exceed a net effective rate of 4.75%.
- Redemption Provisions: The Bonds may be sold with a provision for optional redemption prior to maturity, at a price not to exceed 100%.
- Sale: The bonds will be sold via negotiated sale to Stifel, Nicolaus & Company, Incorporated.
- Parity Lien: The 2025 Bonds will share an equal lien on Net Pledged Revenues with existing Parity Bonds from 2015, 2016, and 2022.
- Reserve Fund: May be established, and if so, funded with bond proceeds or a Reserve Fund Insurance Policy.

- **Bond Proceeds Use:** Funds will be allocated to a Project Fund for Water and Water Resource capital improvements (see Discussion for further details), a Reserve Fund (if required), and to cover issuance costs.

The specific capital improvements that the bond proceeds may be used to fund include project costs associated with the Water Infrastructure Supply Efficiency (WISE) project for construction of a desalinization facility or alternate facilities to meet total dissolved solids concentration requirements by 2030; pipeline, pump station, well and treatment infrastructure associated with the Box Elder project; the Plum Creek Central Pipeline; the Plum Creek to Rueter Hess Reservoir Pipeline and Pump Station; capacity in the Rueter Hess Water Purification Facility; storage in the Chatfield Storage Reallocation Project; and / or the Plum Creek Diversion Project.

### **Notification and Outreach Efforts**

No specific notification and outreach efforts have been undertaken.

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

This item will be presented to the Castle Rock Water Commission at their July 23, 2025 meeting for their recommendation.

### **Discussion**

During the 2025 budget process and the annual 2024 Rates and Fees Study, 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 and the results of CRW's long term water demand and supply model. Using the water demand and supply model, CRW has estimated the timing for when long-term renewable water projects need to be completed to achieve 75% renewable water supplies by 2050 and 100% renewable water supplies by 2065. The rates and fees model was then used to determine the availability of funding for these projects based on estimated rate increases and increases in system development fees for new development as shown below.

<b>2026 – 2029 Rates and Fees</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
Rate Increases	4.72%	4.77%	4.83%	4.88%
System Development Fee Increases	8.6%	5.4%	5.6%	5.9%

The model indicated a funding shortfall with the need to issue debt in 2025 or 2026 of up to \$55 million and in the 2030 to 2036 timeframe of up to \$66 million to avoid large rate increases. The revised long term renewable water capital plan anticipates long term investments of \$860M.

CRW met with Hilltop Securities to discuss debt options in June of 2025. Hilltop Securities confirmed that market conditions are currently unpredictable. CRW is recommending that this bond ordinance be approved now so that CRW can work with Hilltop Securities over the next year to find a time when interest rates are consistent with what CRW has used in our rates and

fees model, up to 4.75%. This will help ensure that CRW can keep rates and fees increases modest over the coming decade.

CRW is proposing to issue \$56 million in water and sewer revenue bonds sometime in the next year as long as certain financial parameters can be achieved with the 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 4.9% interest rate with a 20-year term in our 2024 rates and fees study. 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 \$4.3 million and total borrowing costs are estimated at \$86.1 million. With issuance of this debt, the model runs resulted in potential rate increases in the future being smoothed to a maximum of 8.0% through 2065.

Additional details on the projects CRW would anticipate funding from bond proceeds include:

- Water Infrastructure Supply Efficiency (WISE) project will require additional capital infrastructure. The primary remaining piece of infrastructure is construction of a desalinization facility or alternate facilities for blending water supplies to meet total dissolved solids concentration requirements by 2030.
- CRW owns water rights in Box Elder Creek and Lost Creek and a pipeline from Lost Creek and Box Elder Creek to the East Cherry Creek Valley (ECCV) Water Treatment Facility is needed. The pipeline will include an inline pump station. Wells will need to be drilled in both Lost Creek and Box Elder Creek and standalone treatment infrastructure or capacity in the ECCV treatment facility will be needed.
- The Plum Creek Central Pipeline is a key pipeline running from the North Meadows Boulevard area to the Plum Creek Water Purification Facility (PCWPF) and will be expanded to increase total capacity to at least 12 million gallons per day which will be the capacity of the expanded Plum Creek Water Purification Facility (PCWPF).
- The Plum Creek to Rueter Hess Reservoir Pipeline and Pump Station is a critical project that will construct a pump station and 16-inch pipeline that will connect to CRW's raw water pipeline from Castle Rock Reservoirs 1 and 2. This pipeline will transfer CRW's raw water supplies in the Plum Creek basin including reusable water to Rueter Hess Reservoir.
- CRW needs to purchase approximately 6 million gallons per day of capacity in the Rueter Hess Water Purification Facility in order to treat and deliver raw water stored in CRW's 8,000 acre feet of storage space in Rueter Hess Reservoir.
- Storage in the Chatfield Storage Reallocation Project. CRW needs to purchase 127 acre foot blocks of storage space in Chatfield Reservoir over the next five years in order to fully develop a total of 2,000 acre feet of storage.
- The Plum Creek Diversion Project is a project to rebuild the diversion infrastructure located on Plum Creek on CRW's property in Sedalia, Colorado. This diversion diverts

CRW's water rights on Plum Creek as well as reusable supplies in the creek for storage in Castle Rock Reservoirs 1 and 2 or delivery to PCWPF. The current diversion does not have the physical capacity to divert the permitted flows, and CRW intends to upgrade the physical capacity to match the permitted capacity.

CRW monitors a number of financial Key Performance Indicators (KPI). Debt Ratio measures the ratio of total liabilities to total assets. CRW's current debt ratio is 0.10. This puts CRW in the top quartile of water utilities for lowest debt ratio according to the most recent American Water Works Association (AWWA) benchmarking study. This indicates that CRW has capacity for additional borrowing to help smooth rates and fees over the coming decade.

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 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.

<b>Debt Obligations</b>	<b>Remaining Principal YE 2024</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
Water and Sewer Revenue Refunding Bonds, Series 2015	\$1,280,000	2.79%	2026
2016 Refunding of COP Bonds	\$31,930,000	2.51%	2034
2019 Stormwater Enterprise Revenue Loan	\$6,625,000	1.92%	2030
Water and Sewer Revenue Bonds, Series 2022	\$22,925,000	2.67%	2042
<b>Total</b>	<b>\$62,760,000</b>	<b>2.51%</b>	

### **Budget Impact**

The budget impact of this bond ordinance will be fully determined when and if CRW moves forward with an actual debt issuance. The bond ordinance will provide CRW with one year to determine its exact needs up to \$56 million, find an acceptable interest rate at or below 4.75%, and go to market. The maximum annual debt cost will be \$95 million.

### **Staff Recommendation**

Staff recommends approval of the ordinance on first reading as introduced.

### **Proposed Motion**

*"I move to approve the Ordinance on first reading 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