



October 9, 2013

**Operations Review and Rates Projection:**

## **Valley at Winter Park Water District**

*Prepared by:*

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October 9, 2013

Mr. Matthew Small  
Director, Valley at Winter Park Water District

Dear Matt:

The Valley at Winter Park Water District (VWP) has engaged CliftonLarsonAllen LLP (CLA) to do an "Operations/Rates Review" of the District's budget and assets. The District's goal is to determine both current and future financial health. This report looks at revenues/expenditures, assesses capital needs of the district and provides recommendations for items that are recognized or identified as potential future issues. The final report is attached.

To accomplish this task, CLA performed a variety of investigative tasks and analysis. This included speaking with Board members, the operations manager, and the District's attorney, as well as evaluation of the financial trends in budgets from 2009-2013. The trends identified in the budgets were then charted through 2018. We evaluated the two IGA's that the District has in place with Tabernash Meadows Water and Sanitation District. Finally, we reviewed the current infrastructure assets and evaluated the financial impact they could have on the District in the next five years.

The final section of the report includes recommendations for the Board's consideration.

We have enjoyed performing this work for you and hope you find it useful in your operations and long term planning efforts.

Best regards,

**CLIFTONLARSONALLEN LLP**



Denise Denslow  
Principal

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## OVERVIEW OF REPORT

The approach that CLA took in performing this analysis was to look at each task performed by the District with an operational objectivity. Our goal was to be able to generate a useful and easily understood report with recommendations to be implemented by the District at relatively low costs. With simple analysis of budget trends, cash flows, asset review, and policy review, one can arrive at some very easy but meaningful solutions that can help the District long term. It was this approach that CLA used to complete our analysis.

CLA was engaged to evaluate the following:

1. Assess the District's current rate structure, evaluate the budget from 2009-2013 to help the District identify its trends, and create a long term "operations plan" for the District.
2. Help the Board develop a long term Capital Improvement Plan (CIP) that can be implemented by the Board and incorporated into the budget process.
3. Present the District with recommendations that will help the District achieve operational sustainability in the future.

This report is broken up into three sections; methods and data, conclusions, and recommendations. In the methods section, we outline the methodology, as well as the data used to arrive at such conclusions. The conclusions section outlines the results of the data analysis. In the final section we outline five recommendation, based on the conclusions arrived at, as well as some "external factors" that may be useful to understand moving forward.

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## METHODS AND DATA

### Methods

To complete the three tasks we listed in our proposal, CLA performed the following analysis:

1. Analyzed the District's revenues from 2009 - 2013, identified the sources of those revenues, identified cash balance trends, and charted expenditures.
2. Established a base line of revenues versus expenditures for following five years based on the past trends in a budget format from 2014-2018.
3. Reviewed the current capital assets of the District, the current expected life of those assets, and what the replacement of those assets could cost in the future.

**Notes:** When doing the budget projections, CLA used a full accrual method, or a budget analysis from a simple debt and credit perspective. This helps the District see an overall picture of the expenditures. We also took into consideration current agreements that are in place (two Tabernash IGA's), but we did not incorporate anticipated agreements nor did we take into account your recently adopted water usage rate structure. We did this for two reasons: 1) when budgeting for future expenditures, it's a "best management practice" to only do a projection on what is current and actually usable from a revenue standpoint. The same standard is used on the expenditure side as well. Until these agreements come into fruition, CLA used a conservative approach and did not include them in the projection. We instead list them in the "external factors" part of the report to allow for an understanding of the issue and potential impacts. On the recently adopted rate structure, there is only consumption for five homes through January 31, 2013, which is shown as total usage and not a month-by month-breakdown. Without the month- by-month breakdown, it is difficult to project the revenue generation. However, with an additional breakdown, it could be incorporated into the schedule. For the time being, Director Small instructed not to include.

**Data:** For #1 and #2 we used the following data sources: 1) Department of Local Affairs (DOLA) budget filings for the District through 2013, 2) the audit exemptions from 2009 through 2012, 3) the bank reconciliation that was provided to the Board by Jeanette Berg on December 30, 2012, 4) a phone interview with Jerry Eckelberger Board Treasurer, 5) a phone interview with Evan Ela, District Legal Counsel, 6) a phone interview with Matt Small, Director.

For #3 we used the following data sources: 1) interview with operations manager Doug Bellatty to gain perspective on the current system's health, and any anticipated issues that could impact the District's assets in the long term 2) review of existing documentation related to those assets, 3) review of the insurance

policy of the District, 4) review of the final plat of the District, and 5) review of a memorandum from Doug Bellatty on March 1, 2012 regarding "long term asset management planning discussion". This information was provided by Matt Small, board member, and Doug Bellatty.

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## CONCLUSIONS

Below are the conclusions that CLA derived from the methods/data collection analysis that was performed:

### Budget Analysis

1. Based on the budget analysis at current revenue and expenditure trends, the District will hit a negative fund balance at the start of 2015 of (\$1,900), and will have a negative fund balance of (\$18,710) (See Chart A). TABOR does not allow the District to budget to a negative outcome and local government budgets must always balance to at least a break even on revenues and expenditures.
2. The year 2016 brings the possible infusion of approximately \$75,000 per the IGA with Tabernash Meadows Water and Sanitation District for sale of excess water which will help the District end that calendar year with a positive fund balance. With the current rate structure, the District will only have \$3,400 in fund balance at the beginning of 2018 and by the end of the year (\$17,000).
3. Currently the District's status with the state that does not require water test reporting to be done. When the District hits 15 homes (District should end 2013 with seven homes) it will be required to put in place a more comprehensive testing program. This will increase water operations costs. With a trend of two homes per year in 2013, 2014, and three homes in 2015-2018, the District will hit 15 homes in 2016. As a result, the analysis builds in a \$4000 increase in water operations starting in 2017. The increase is an estimate based on the current budget costs for water operations per discussions with Doug.

### Asset Analysis

1. The District's current water system is capable, without upgrade, of providing adequate capacity and treatment of the subdivision at build-out. No *new* major capital upgrades will be needed for the system in the future. This is solely the delivery system itself.
2. Since the system is only five years old and is currently working well, there is little fear of breakdown from wear and tear. However, there is no capital savings, or a plan for capital replacement upgrades built into the budget. With the current trend of the fund balance, the current budget model does not provide for any safety net should a major repair be needed.
3. The District's current insurance policy does not include coverable assets. These include the well, pumphouse and contents, and water storage tank. If something happens to any of these items (like a flood that damages the facility), the District would not have proper

coverage. This would put the District in a very tough financial position of covering the complete cost of the repair/replacement of the asset.

4. Currently, operation costs of the system are at a minimum, however, when the District hits 15 homes, operations and infrastructure testing will increase. This will cause an automatic rise in expenditures. After speaking with Doug, he cannot estimate the costs necessary per the state, but has inferred that a cost increase will occur. Illustrated in chart A, in increase \$4,000 in operations, starting in 2016 to account for this change.
5. The District currently has one producing well, and a 30,000 gallon storage tank. If the well was to fail for a period of more than three days, the storage tank may not be adequate to handle the water demands of the District. That combined with a slow, but steady, increase in uptake in homes will only add to the stress on the system. The District does have another well that it owns but is currently not operational.



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## RECOMMENDATIONS

Below are four recommendations based on the conclusions previously presented. There are two recommendations for the budget analysis and three recommendations for the asset analysis.

Additionally, provided is a list of issues that may provide potential challenges to the District in the future.

### **Budget Recommendations:**

1. The District's current rate structure is too low to provide a sustainable future. It is our recommendation that the District implement a gradual, but impactful increase, to its user fees/rates in order to ensure that it can avoid negative fund balances and also start planning for the future capital replacements. Included is a basic model of a capital replacement fund to provide a template for the District.
2. It is the recommendation of CLA that the District to start planning now for the future of the system and the projected costs for a five year CIP plan. The District should anticipate future capital replacement and programs that are going to be needed within a five-year period. Typically, a water district will start planning at least five years in advance. By increasing rates to cover the basic costs of the system, stress on the budget in the future can be avoided. Different methods can be used, for example, the sale of water (one time installments), to pay for these one time upgrades such as the completion of the new well.

### **Asset Recommendations:**

1. The District should immediately add the extra well, pumphouse and contents, and water storage tank to the insurance policy. The District does not currently have replacement values of each item, but can be based on similar pieces of equipment. As part of this process, CLA discussed this issue with the insurance provider and they are prepared to add this property to the policy as soon as possible, pending receipt of the value information.
2. Additionally, CLA has created an example "CIP" template for the District to start planning for its capital replacements and upgrades. It is recommended to start building this into the budget process so that proper planning can lead to a balanced document.
3. As a first upgrade to the system, it is recommended to add the extra well. This secures the water delivery system and provided redundancy.

### **External Factors:**

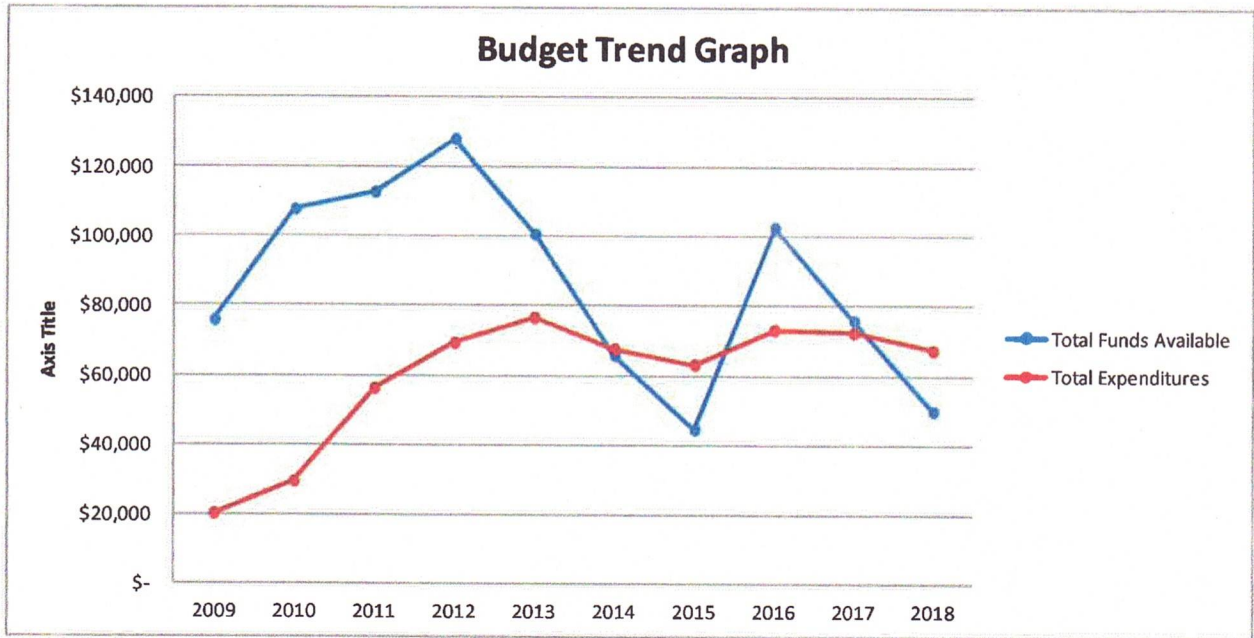
1. In discussions with Matt Small, it was determined that there exists the possibility of leasing of excess water to Trout Unlimited. This could be advantageous, however the District needs to be prepared for potential contest to this action.

2. As stated above, a potential contest of the water court application could have adverse impacts to long term sustainability. It is recommended to evaluate this situation with qualified legal counsel.
3. There have been discussions of a possible consolidation with Tabernash Water and Sanitation. If this is likely to happen, then consideration discussion during the budget process is advisable. From a legal stand point, it could provide the budgetary sustainability that VWP will need in the future.

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# APPENDIX





	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Adopted	2014 (Assumed Ex/Rev)	2015 (Assumed Ex/Rev)	2016 (Assumed Ex/Rev)	2017 (Assumed Ex/Rev)	2018 (Assumed Ex/Rev)
<b>Beginning fund A.33</b>	\$36,824.00	\$55,448.00	\$78,220.00	\$56,435.00	\$58,623.89	\$23,923.89	(\$1,910.00)	(\$18,710.00)	\$29,490.00	\$3,490.00
<b>Revenues:</b>		Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
User Fees (600/year x 48 users)	\$25,800.00	\$45,665.00	\$34,440.00	\$26,460.50	\$28,800.00	\$28,800.00	\$28,800.00	\$28,800.00	\$28,800.00	\$28,800.00
Tap Fees (6500/each x 2)	\$13,000.00	\$6,500.00	\$0.00	\$0.00	\$13,000.00	\$13,000.00	\$17,500.00	\$17,500.00	\$17,500.00	\$17,500.00
Interest Income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Income	\$0.00	\$0.00	\$0.00	\$45,000.00	\$0.00	\$0.00	\$0.00	\$75,000.00	\$0.00	\$0.00
<b>Total Revenues</b>	<b>\$38,800.00</b>	<b>\$52,165.00</b>	<b>\$34,440.00</b>	<b>\$71,460.50</b>	<b>\$41,800.00</b>	<b>\$41,800.00</b>	<b>\$46,300.00</b>	<b>\$121,300.00</b>	<b>\$46,300.00</b>	<b>\$46,300.00</b>
<b>Total Funds Available</b>	<b>\$75,624.00</b>	<b>\$107,613.00</b>	<b>\$112,660.00</b>	<b>\$127,895.50</b>	<b>\$100,423.89</b>	<b>\$65,723.89</b>	<b>\$44,390.00</b>	<b>\$102,590.00</b>	<b>\$75,790.00</b>	<b>\$49,790.00</b>
<b>Expenditures:</b>		Expenditures	Expenditures	Expenditures	Expenditures	Expenditures	Expenditures	Expenditures	Expenditures	Expenditures
Administrative Expense	\$1,785.00	\$2,626.00	\$1,844.00	\$3,314.33	\$3,500.00	\$3,500.00	\$3,500.00	\$3,500.00	\$3,500.00	\$3,500.00
Insurance	\$2,142.00	\$5,152.00	\$1,061.00	\$1,113.42	\$1,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00
Legal	\$951.00	\$2,358.00	\$23,756.00	\$16,292.60	\$18,000.00	\$14,000.00	\$14,000.00	\$14,000.00	\$10,000.00	\$10,000.00
Accounting	\$150.00	\$250.00	\$250.00	\$774.17	\$800.00	\$1,000.00	\$800.00	\$800.00	\$800.00	\$800.00
Office Supplies and Expenses	\$0.00	\$0.00	\$106.00	\$0.00	\$100.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00
Membership Dues	\$700.00	\$0.00	\$200.00	\$315.56	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00
Miscellaneous	\$72.00	\$84.00	\$590.00	\$217.75	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
Professional Fees	\$0.00	\$0.00	\$13,097.00	\$14,382.73	\$10,000.00	\$12,000.00	\$12,000.00	\$12,000.00	\$10,000.00	\$10,000.00
Water System										
Operator	\$12,759.00	\$10,770.00	\$12,354.00	\$13,389.17	\$13,000.00	\$14,000.00	\$14,000.00	\$14,000.00	\$18,000.00	\$18,000.00
Utilities	\$945.00	\$1,120.00	\$967.00	\$1,086.44	\$1,200.00	\$1,200.00	\$1,200.00	\$1,200.00	\$2,400.00	\$2,400.00
Supplies	\$0.00	\$0.00	\$0.00	\$0.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
Equipment Rental	\$0.00	\$0.00	\$0.00	\$0.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Repairs and Maintenance	\$672.00	\$533.00	\$0.00	\$3,600.19	\$1,500.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00
Ditch Improvements	\$0.00	\$0.00	\$0.00	\$0.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00
Reservoir Annual Accounting	\$0.00	\$0.00	\$0.00	\$0.00	\$3,200.00	\$3,200.00	\$3,200.00	\$3,200.00	\$3,200.00	\$3,200.00
Capital Improvements	\$0.00	\$6,500.00	\$0.00	\$0.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00
Contingency	\$0.00	\$0.00	\$0.00	\$14,785.25	\$15,000.00	\$4,333.89	\$0.00	\$10,000.00	\$10,000.00	\$5,000.00
<b>Total Expenditures</b>	<b>\$20,176.00</b>	<b>\$29,393.00</b>	<b>\$56,225.00</b>	<b>\$69,271.61</b>	<b>\$76,500.00</b>	<b>\$67,633.89</b>	<b>\$63,100.00</b>	<b>\$73,100.00</b>	<b>\$72,300.00</b>	<b>\$67,300.00</b>
<b>Ending Balance</b>	<b>\$55,448.00</b>	<b>\$78,220.00</b>	<b>\$56,435.00</b>	<b>\$58,623.89</b>	<b>\$23,923.89</b>	<b>(\$1,910.00)</b>	<b>(\$18,710.00)</b>	<b>\$29,490.00</b>	<b>\$3,490.00</b>	<b>(\$17,510.00)</b>



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