

RECORD OF PROCEEDINGS

CHERRY CREEK VALLEY WATER AND SANITATION DISTRICT

REGULAR MEETING OF THE BOARD OF DIRECTORS

October 18, 2011

The regular meeting of the Board of Directors of the Cherry Creek Valley Water and Sanitation District was held at the District Offices, 2325 S. Wabash Street, Arapahoe County, Colorado at 7:00 p.m. on October 18, 2011.

PRESENT

Paul Hanley – Chairman
Jorge-Ayn Riley – Vice-Chairman
Paul Thayer – Secretary/Treasurer
Louis D. Halsell Jr. – Director
Mark Lampert – Director

OTHERS PRESENT

John R. Warford – Manager
April Clendenin – Accountant
Carmine Iadarola – AquaSan Network
Ron Dvorak – McLaughlin Water Engineers, Ltd
Darryl Farrington – Semple, Farrington & Everall, P.C.
J.M. Fay – Resident

ABSENT

None

Mr. Hanley, Chairman of the Board, called the meeting to order at 7:03 p.m.

Mr. Hanley asked if there were any corrections or additions to the minutes of the September 21, 2011 Board meeting. There were none. Mr. Halsell made a motion to approve the minutes as presented. Mr. Lampert seconded the motion. Motion carried.

Next on the agenda was the Treasurer's Report and Bills Payable. Mr. Warford reported that Cherry Creek Valley Water and Sanitation District ("District") has been using Labor Ready for contract labor for cleaning up and maintenance. He said it may seem like a large amount of money, but it has been one reason for why the District hasn't needed to put an additional employee on payroll, and that may be a savings since the District doesn't have to pay out all the taxes and benefits that would be needed if there was an additional person on payroll. Check # 22639 is to National Meter & Automation for \$16,572.20 for replacing the water meters, which is still an ongoing project. Check # 22647 is to Concrete Express for \$11,955.37 is the final bill for the construction project for the storm sewer and pond fill-in by Denver Campus for Jewish Education. There was some negotiation regarding the County requirement for landscaping, which required more costs. They asked for about \$4,000 additional for this, and Mr. Warford settled with them for \$2,000 instead. Mr. Hanley asked where 9091 E Wesley Dr was, regarding check # 22650 for tap fees and soil inspection fees. Mr. Warford answered that it is over in the Cherry Creek Country Club. Mr. Lampert asked if the inspection fees the District pays are billed back to the developer. Mr. Warford answered yes. Mr. Lampert asked for clarification about whether the fees to the developer are fees passed on from Denver Water. Mrs. Clendenin answered that most of what a developer pays for taps and inspections are fees that are passed on from Denver Water or Metro Wastewater Reclamation District (Metro Wastewater), but the District also charges some of its own fees that it keeps. Mrs. Clendenin estimated that about 80% of the tap fees charged to a developer or land-owner are fee pass-thrus from Denver Water and Metro Wastewater. Mr. Hanley asked if there were any other questions regarding the Treasurer's Report and Bills Payable. There were none. Mr. Lampert made a motion to receive the Treasurer's Report and to pay the Bills. Mr. Thayer seconded the motion. The motion

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carried.

Mr. Hanley then opened the meeting for public comments. There being no public comments Mr. Hanley went to the next item on the agenda, Mr. Iadarola's Water Resource Report.

- **Wabash Complex** – Mr. Iadarola was notified today that the District's substitute water supply plan has been approved and becomes effective November 1st and will be good through October 31st of next year. He said that he is anticipating having a decree by then. He said that things are going well with regards to the augmentation plan and the movement of the decreed location for the District's alluvial well # 2 (ALV2). Metro Wastewater has reached a stipulated agreement with the District. United Water and Sanitation District has dropped out of the opposition. All that is left is Aurora and Mr. Iadarola stated that it appears that Aurora's comments are minor. Mr. Iadarola said that the water rights should be approved by next year. Mr. Hanley asked if it could be accelerated if there are no objections left. Mr. Iadarola answered that the judge is accelerating it by pushing it forward and not giving extensions, so Mr. Iadarola is hopeful that it will be completed within months rather than years.

There was an error in communication for the billing with the Cherry Creek Country Club regarding supplemental augmentation in the week of June 27th of this year. The error was found when the final calculations for the water year were being performed. The District has reached an agreement with the Cherry Creek Country Club regarding the June billing, for 715,400 gallons, which corrects that error and brings the water accounts back into balance for that water year.

- **Denver Water Rates** – Denver Water Board (DWB) did increase their billing rates by a flat rate of 5.5% across the board, meaning for all customers – inside Denver customers and outside Denver customers (Read & Bill, Total Service, and Master Meter). This has not been met with much acceptance from the distributors. First, Denver Water had said that the distributors would be involved with the rate-making process and they have not been. Secondly, Denver Water diverged significantly from their traditional cost-based model.

Mr. Iadarola gave the Board a report on the history of the rate structure and the development of the Denver Water system as a background before talking further about the new rate increase. The drought of 1952-1954 was the most extended severe drought that Denver Water had experienced. It wasn't as severe as the 2001-2002 drought, but it was longer. At that time, Denver had a charter that said they could only enter into contracts outside the city on a year-to-year basis. Denver, because of the drought, started to threaten several of the other cities with potential severe cut-backs in their water supply. In response, Englewood and Aurora started to seek their own independent water systems. When they did that, Denver lost a significant number of customers in their rate base. At that time, there were no system development charges or tap fees. Most (95%) of their revenue then came from service charges/rates. Because of the drought, it was determined that another reservoir was needed to serve the growing population of the Denver metropolitan area. Dillon Reservoir was selected. It took President Eisenhower's personal involvement with the Blue River Decree in order to get the Dillon Reservoir built.

It was recognized early on that Denver needed the suburbs' support politically, and financially, to get the project built. They couldn't finance it by themselves on Denver inside-city rate paying customer base. The financial houses deemed the bonds for the project to be too risky since the suburbs have contracts that were only one year at a time and they could pull out at any time after one year. Denver asked its People to vote to change the charter, which they did, allowing the Denver Water Board to enter into permanent contracts. In 1962, the District negotiated and signed their permanent contract

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with the Denver Water Board. One issue for the suburbs was that if they were going to tie their fate to the City and County of Denver, where they had no vote, they were concerned about being gouged for rates. So there was a stipulation in the contract that limited Denver's rate of return from the suburbs to 6%, which was a pretty good rate of return for 1962.

In 1996, Denver Water admitted that they were getting a return that was closer to 11%. The suburbs sued, and the suburbs lost. Subsequent to that, the District entered into a new contract that allowed Denver Water to have more rate-making flexibility, and eliminated the 6% limit. The rate model that they've used after signing that distributor contract was one based on costs – a cost-plus rate model. Mr. Iadarola provided the Board with a cost-plus rate model for 2012 rates developed by the TAC committee, which the District has been a member of since its inception, in order to compare the new 5.5% rate increase to the traditional way of doing business. It shows that the traditional model would have yielded an increase of 3.8% to Master Meter customers. Total Service customers would have increased by 3.9%, and Read & Bill customers would have had a decrease of 1.2%; Inside City customers would have had increases of 9.1%. It clearly indicates that the people of the City & County of Denver benefited by Denver Water diverging from its traditional rate making process and taking an across the board 5.5% rate increase, at the expense of the suburban customers. Denver Water has said that they didn't really have time to do all the work to make the rates, so this is just a bridge until they come up with a new rate-making methodology and they will include the suburbs in the whole process. That process has now begun, meeting with the TAC committee to discuss the rates for 2013.

The 5.5% rate increase takes effect January 1, 2012. Mrs. Riley asked about the two tables in the report – the second wasn't printed clearly enough to read. Mr. Iadarola apologized for his scanning of the table, which was created by the TAC committee, and explained that it showed a summary that compares the 2011 actual rates to the 2012 rates that the traditional cost-of-service model would have yielded for the different customer types. Mr. Lampert asked if it would be possible to get a legible copy of that table. Mr. Iadarola answered that he would send them a better copy tomorrow. Mr. Hanley asked to clarify that the first table is showing that they raised all rates across the board by 5.5%, but if they were going off costs that Denver's rates to their inside-city customers should have been increased by 9.1%, so they are enjoying a savings because their rate is only increasing by 5.5%. That is correct, Mr. Iadarola answered. He added that the suburbs understand the Denver gets a rate of return, but it was never intended that the suburbs would be the ones subsidizing that. Mr. Hanley asked for another point of clarification – in recent years, has it not been true that Denver's customers have experienced rate increases when the suburban customers did not. Mr. Warford answered that two years ago, there wasn't a rate increase to Master Meter distributors. And last year, Master Meter distributors' increase was pretty high. He said that Denver is one of only two or three cities in the U.S. that uses the system that they do, and it just isn't fair – basically since 1962 the suburban area has been augmenting Denver rates. The distributors lost the rate court case; and Mr. Warford says he believes part of the reason for that was the rate-making people presenting their side of the case weren't as good as they needed to be. The contract said 6% limit on rate of return. Denver admitted to 11%, but the distributors were saying that they were actually closer to 14%. They tried to get the case heard in another county, but were not able to – it was heard in Denver, which was probably the biggest reason that the distributors lost.

Mr. Lampert asked for clarification about which type of customer the District is, Master Meter? Mr. Iadarola confirmed, and explained that the District is responsible for everything behind the Master Meters, and only receives water from Denver through the Master Meters. Mr. Lampert asked Mr. Iadarola to explain the other customer types of Read & Bill and Total Service. Mr. Iadarola said that Read & Bill is Denver reads the

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meter and bills the customer. Mr. Lampert asked to clarify – the customer is not in the City and County of Denver. Mr. Iadarola confirmed, and added that Read & Bill, Total Service, and Master Meter are three different kinds of contracts for outside city customers. Master Meter is the lowest level of service, Denver Water just delivers the water to the District at a wholesale rate and the District is responsible for reading the meters, billing the customers, and operations and maintenance of the system. The next level of service is Read & Bill. Denver reads the meter and bills the customer, but the distributor is responsible for the operation and maintenance of the pipe. Total service gives the distributor's customers the same service as if they were inside Denver – Denver Water reads the meter, bills the customer, and is responsible for the operation, maintenance, and replacement of the water system. If there is a main break at 2am, Denver Water gets called and they go out and fix it for the distributor. It's the highest level of service and of course the most expensive. The District has the lowest rates of any distributor outside of Denver that is on the Denver Water system, so the District is very well managed.

The distributors are putting together a committee of water districts' attorneys to talk about what do the contracts say and what are their rights, and which course of action should they take – political action, by maybe going to the legislature and asking for suburban representation on the Board or; legal action, by maybe suing in court over the rates again; or administrative action, by trying to negotiate as they have in the past.

Currently, more than half of Denver Water's customers and revenues are outside of the City and County of Denver. Denver is growing faster than the suburbs. The new water is mostly needed for Denver, and not for the existing suburban customers. The new water is the most expensive. Most of the existing suburban customers are pretty much built out, and not growing nearly as much as areas such as Stapleton in Denver. This is opposite of the past, where the suburbs needed most of the new water and paid higher rates because of this. Denver did not build the water system; it was a cooperative effort between Denver and the suburban distributors. Denver has never built a project by themselves without the suburbs, they could never afford to do it or politically get it done by themselves. Denver's interest in the WISE program gives them a whole new market of development outside of Denver to sell expensive water to.

- **Denver Water** – Denver Water has bifurcated the Manager's position. Mr. Lochhead will perform the duties of a Chief Executive Officer, focusing on implementing the "universal water agreement" with the West Slope. He's the big picture guy. Mr. Thayer asked to confirm if he was from the West Slope, and Mr. Iadarola confirmed that he is, and that explains a great deal about why he is in this position. The day to day operations and negotiations with distributors and East Slope interests will be handled by a Chief Operating Officer, Mr. Good.

Mr. Hanley asked if there were any further comments regarding Mr. Iadarola's report. There were none. Mr. Hanley thanked Mr. Iadarola for the report, and then moved on to the Manager's Report.

Mr. Warford stated that the agreement between the District and the Denver Jewish Day School regarding the exchange of property has been pretty much completed with the exception of installing the tank for their non-potable water supply. They are on Denver water now. Hopefully, in this coming year, the tank can be installed and have the facilities changed over to use the non-potable water supply. Mr. Hanley asked, as clarification, was this part of the purchase agreement, to build this tank for them? Mr. Warford confirmed. Mr. Lampert asked where the tank will go. Mr. Warford answered that it will go on their property, just to the northeast of the District's well. He said most of the underground facilities to tie into the District's facilities have been built. To tie into their facilities will be more extensive, as well as installing the tank. Mr. Lampert asked if that will be below grade. Mr. Warford answered yes.

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The ponds have been filled and everything seems to be good – the County has approved the final grading and so forth.

The first phase of the Iliff underpass has begun, with Xcel Energy. The District will probably be the second phase of that project and will require more restrictions in traffic flow when the District starts. There will be some widening of the road to bypass and let traffic through, but it will be difficult. Mr. Hanley asked what the District has to do, and Mr. Warford answered that the District will be moving the water and sewer lines. The District has had a pre-construction meeting and is negotiating about supplies and informing the construction companies about the District's Rules and Regulations that apply to the installation. Lawrence Construction will be the company doing that work, along with a subcontractor – Brannan Sand and Gravel. Both companies have been licensed in the District. Mr. Lampert asked for more details about the distance and direction of the water and sewer line relocations. Mr. Warford answered that the sewer will be straight lined as it is, but put into an encasement. The water will also be put into an encasement, but could be offset by as much as six to eight feet. Mr. Dvorak added that the plans are currently for five to six feet. Mr. Warford says that the system will have to be shut down while the relocation is done, and that will put the Cherry Creek Country Club ("CCCC") maintenance building, and the Arapahoe County Sheriff police station out of water. He added that he is hoping to have it shut down for only one day, but it could be more. He said that he still needs to talk to Tri-County Health Department and the CCCC about this. He doesn't anticipate many problems from the police station, but the CCCC may have employees living at the maintenance building. The fire hydrant at that entrance will be moved and then re-installed. They plan to start on the 1st of November, even though Xcel Energy is in place now. Mr. Warford says that if there is bad weather, then this project could become a great concern. Mr. Halsell asked for the completion time. Mr. Warford answered that they are saying three months. He said that he will be surprised if they can meet that goal, depending on the weather. Mr. Lampert added that if the weather is nice and dry in both fall and winter, it should be no problem. But, he added, they will have to come back in April 2012 because the surface will have to be removed and put down again because of cold patch versus hot patch. So it is a temporary road until spring time. Mr. Warford added, unless they can get some hot patch from Denver – Denver keeps its plant open all winter. He stated that Lawrence Construction has been around a very long time, and the meetings with them have been good. Mr. Dvorak has also been having meetings with them, to go over specs, materials, and sizes. Mr. Lampert said that the County said that they would be putting up signs to warn people of the impending traffic jam. Tonight, Iliff was backed up all the way to Monaco. Mr. Warford said that he had also observed that. Mr. Lampert said that it is creating another problem too. People know that they can bail off, go down Cherry Creek Drive and go up to Florida. Florida was backed up to Quebec – Quebec Street, not Quebec Way. All the way down the hill to Quebec Street. Construction is supposed to start on that sidewalk, which will put a crimp on one-way traffic on Florida. Mr. Warford added that weather is a nightmare on Florida. Mr. Warford added that there may be some issues with the County based on the District's engineering standards. The District does not allow any Mega-lugs, which are cramping devices that go on the pipe to restrain and keep them from separating during movement from hydraulic pressure and things like that in a line. The District requires anything on the old cast iron to be restrained by rodding because the District doesn't want to see the Mega-lug dig into and cut the pipe. This causes more street problems, with cuts sometimes back as far as 100 feet, depending on where the bells are on these pipes.

Mr. Warford reported that the District is working on the infiltration gallery and wells. There are some electrical things to work out on that regarding the motors and the electrical supply for the system that is needed for the gallery.

Mr. Warford reported that, regarding the reservoir application and permitting, the State has come back and wanted to do more tests in the sands. Mr. Dvorak added that they want more tests around the whole site. It was just finished and now they are being evaluating for the

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marketability or use of the sands. Mr. Dvorak's firm is also working on the drawings that the State requires, including embankment, cut sheets, and fill sheets. Mr. Lampert asked for more explanation of the importance on the marketability of the materials. Mr. Hanley commented that he thought this was already resolved. Mr. Warford answered Mr. Hanley that he also thought they were finished – the tests that were done had resulted in the samples being not marketable – but the State came back and asked for more tests. Mr. Dvorak answered Mr. Lampert's question that the State worries that if the materials aren't quantified, then some sand and gravel company will not be able to find and use the material if there is any in the area being dug up. The District has to evaluate the materials and it has to be in the specs as to how they are going to be either sold or disposed of. They have to evaluate the materials that they will be taking out. The District can't just have it taken out and the contractor use it wherever they want to. If there is value to the materials being taken out, it has to be quantified as a sand-and-gravel operation – a mining operation, so to speak. Mr. Thayer asked to verify who determines that. Mr. Dvorak said that they are using a permitting specialist. Mr. Warford said it is from the State mining regulations.

There was a sewer backup on East Yale Avenue recently, between South Syracuse and the new bridge. There was a contractor which filled one of the manholes with as much as three feet of dirt. There was sewage coming out of manholes by the Hunter's Run condominium complex. The contractor hit all three of the manholes while they were overlaying. The District had the debris pulled out and the lines cleaned by their sewer contractor, and videoed. Mr. Warford indicated that he had it videoed again earlier today so he can make sure that it is all fixed now. He added that the District is lucky that there weren't any garden walk-out units there, or it would have been a lot worse. The District's field employees were out working on it until 3:00am. Mr. Lampert asked about who is responsible if the street contractor is deemed to have caused the back-up? Mr. Warford answered that the street contractor is being held responsible, and will be reimbursing the District for the charges related to this instance, including the sewer contractor's charges, the District's field employees' overtime, and other charges. Mr. Lampert asked to verify, no residential units were hit? Mr. Warford answered no, everybody was lucky.

Mr. Warford reported that there hasn't been progress since last Board meeting on Mr. Ginsberg's memorial. Mrs. Riley indicated that she hasn't been able to find a good time yet to ask his widow about this. She will continue to work on this item.

Mr. Warford reported that the auditor's engagement letter has been received and he is bringing it to the Board for their approval. He indicated that it is pretty much the language as last year's letter. He allowed Mr. Farrington to review it during the meeting tonight. Mr. Farrington said that he noticed that the auditor is using an old statute's language in their section of the letter regarding not hiring illegal aliens. Mrs. Riley said this was an issue last year as well. She added that she also believes that the term "illegal alien" is inappropriate. Mr. Farrington said that the term is as it is written in the statute. Mrs. Riley asked if they had to use it. Mr. Farrington said that they could use the term "undocumented immigrant". Mrs. Riley said that that term feels better than the original. Mr. Farrington added that he has seen these provisions done using the term "undocumented immigrant". Mr. Hanley asked for clarification about where the language is outdated. Mr. Farrington answered that the auditor refers to the term Basic Pilot Employment Verification Program, which is what it was when the statute first came out. Now, it is the E-Verify Program. He said that there would be no negative consequences for the Board to ignore it, but he wanted to mention it since it is a mistake. Mr. Hanley asked if there was time to have this re-done. Mrs. Clendenin indicated that the audit won't start until next year, but the auditor needs to know who to schedule so they can get prepared with their program and planning. Mrs. Clendenin suggested that the Board approve the letter, subject to the revisions discussed tonight. She said that if for some reason the auditor refuses to make these changes, there is still time for the Board to address it and perhaps even consider engaging another auditor. Mr. Lampert commented that there is a good relationship between the District and its auditor though, so for something like this which is just a technical issue, there shouldn't likely be any problems. Mrs. Clendenin agreed. Mr. Farrington volunteered to provide Mrs. Clendenin with the updated provisional language from the newer statute by email. Mrs. Riley motioned to approve the

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engagement of the auditor, subject to the changes discussed. Mr. Lampert seconded the motion. Motion carried.

Mr. Warford reported that County has resolved the issue with the concrete contractor, to have them make the changes that they require. Xcel Energy is going to be installing new underground facilities. It looks like this probably won't be finalized until April 2012. Mr. Lampert commented that last meeting it was mentioned that the manhole covers need to be lowered. He added that they are still up earlier today. Mr. Warford said that they will still be required to lower them, and he will stay on top of that. Mr. Lampert said he thought the chances of Jewell being plowed are probably pretty remote. Mr. Warford disagreed, the traffic on Jewell and Dayton has been pretty heavy and they have been plowing for snows that are significant, but usually don't bother if it's only two to three inches.

Mr. Warford presented the draft budget. Mr. Halsell asked about what the utilities are for, since they are a significant cost. Mrs. Clendenin answered that the utilities estimate for 2011 of about \$29,000 is likely very close to what 2011 should come in at, since the majority of the utility costs are for running the pumps, for the Cherry Creek Country Club well augmentation and such, and the pumping and irrigation season is now over. She added that about the only way she could foresee it being higher than the estimate for this year is by having an extremely cold winter where the heat for the office and the maintenance buildings would have to run nearly constantly. She said the 2012 draft budget utility estimate is based on 2010 actual costs plus about 15% for price increases over the two years since then. Mr. Lampert asked if the two-tier electric rate structure hits the District. Mrs. Clendenin answered that the tiers are only in effect during the summer, and that's over now for 2011, so the 2011 costs are likely good estimates. Mr. Lampert asked how the 2011 estimate could be lower than the 2010 actual, given the implementation this year of the two tier rate structure at Xcel this year. Mrs. Clendenin answered that it is likely because not as much pumping needed to occur this season due to the wet months in the early to mid-summer.

Mr. Warford presented proposed rate increases in water and sewer usage fees to pass on fee increases from Denver Water and Metro Wastewater. Metro Wastewater's increase is very high; their billing is going to increase by more than 30% for next year for the District. The Board inquired as to why the costs from Metro Wastewater are going up so high. Mr. Warford answered that they have built a new plant, and he suspects that a lot of the increase has to do with those new costs. He added that the District is fortunate in not having a lot of industrial growth, since industries usually have more biological and solids waste than residences do. Mr. Lampert asked what the increases in the past have been like. Mr. Warford answered that it has been around 4-5% in the past, and the District has absorbed those increases for years – only in the most recent two years has the District passed them on. But this is a big increase and the District can't afford to absorb it. Mr. Lampert asked what the sewer rate is now, per home. Mrs. Clendenin answered \$12.00. Mr. Hanley mentioned that the Board should probably consider this and not give final approval on this yet. Mrs. Clendenin said that the public notice is being published for the budget hearing to be at the December 13th meeting, at 6:00pm. Mr. Warford said that the wages are increased in the proposed budget, with the plan for adding people to assist with the increased construction taking place in the District, as well as taking on some other projects such as updating the filing system. Mr. Warford added that a few of the reasons that wages have been decreased over the last year or two is because meters are being read in one to two days, and bills are going out in one to two days. But the District has a few things coming about that need to be updated in the office in order to continue to do the services that the District is rendering. Mr. Lampert asked about a line item called Merchandise Purchased, is that the meters? Mr. Warford answered yes, mostly for the replacement of the old meter type with the newer ones. Once that is done, that line item should go down – to be only for meters that will be sold. Mr. Warford said that if the District spends the total \$2,000,000 for the reservoir, the year will only be in a negative basis of a little over \$1,000,000. Mr. Hanley asked to confirm that conservative estimates were used for the investments. Mrs. Clendenin answered that it uses 2.5% for all but \$2,000,000 of the investments, and then 0.1% for the \$2,000,000 since that will likely stay low in the money market or cash. Mr. Warford added that he met with Bernstein last

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Wednesday about their accounts and they feel pretty comfortable with where they are because that's all they do. The meeting included their broker from New York. He said that some of their investments are insured, and some are not. Mrs. Riley asked to clarify that the proposal includes raising water rates by 5.5% and sewer rates by about 30%. Mr. Warford answered yes, and added that the District still has the lowest water rates outside of Denver – perhaps lower than Denver in some ways. Mr. Lampert inquired about Denver Water – do they seem to feel that they can keep getting away with charging the distributors in this fashion until somebody tells them they can't. Mr. Warford answered that the courts have already indicated that they do not have to live by their contracts as it related to the 6% rate of return, superseded by the City Charter. Mr. Iadarola added that the City Charter change was done by a vote of the people, and was to allow them to enter into permanent contracts. Mr. Warford said that the District re-did the contract with them after the court case was lost. He said he thought that the only municipality under the old contract was the City of Littleton. Mr. Iadarola clarified that they signed a new agreement about four months ago.

Mr. Lampert inquired about large rate increases in the past, especially from home owners associations which then have to adjust their budget and not everybody is on the same fiscal year as the District is. He was wondering if more people complain from the HOAs, or from individual homeowners. Mr. Warford answered that the HOAs do call more than the individual homeowners, because of their budgeting. He is sure that there will be calls, with such a large sewer increase. Mr. Lampert commented that the important thing will be how it is presented to the people. It should be mentioned that these are costs being passed on – determined by other entities, because that's what the District is. And that the District has absorbed such increases from Metro Wastewater in the past and simply cannot afford to absorb it now. Mr. Warford said that there usually is a notice with the customers' bills that says that the District is passing on rate increases from Denver. Mr. Lampert asked if anybody would argue that the rates are being raised so that the District can build the reservoir. Mr. Warford answered that there likely are such. Mr. Lampert said that the District must distinguish that and make sure that people understand that this is not the case. Mr. Warford said that the District can show that it doesn't charge any more for water than the District pays to Denver Water. The District goes into the red anywhere from \$200,000 to \$300,000 for water operations each year. Mr. Lampert said that this needs to be promoted. Mr. Iadarola added that the reservoir funds were already raised, by sale of new taps, not water or sewer charges. Mr. Hanley commented that the District has plenty of money in the bank in reserve for infrastructure. Mr. Warford said that if there was a major catastrophe, the District would be very short. The District would be a lot better off than a lot of districts because they usually have to raise money through bond issues. Mrs. Clendenin gave the Board copies of the notice from the last rate increase, which was a water increase only. Mr. Hanley asked about the last time that sewer went up – he said that he remembers having a sewer increase a year or two ago. Mr. Warford said that the District has not had an increase in its water rates since 1976 above Denver Water. Mrs. Clendenin volunteered to contact Metro Wastewater to determine if they can disclose the various factors associated with the increase, and if they could give an idea as to whether or not more increases are planned for the near future. Mrs. Clendenin said that perhaps if the Board isn't comfortable with increasing it the entire amount in 2012, perhaps it could be split between this year and next year, such as by raising it 15% in 2012 and another 15% in 2013, if Metro Wastewater plans to not have further increases in 2013. Mr. Hanley commented that the increase doesn't seem to be a very large dollar figure, but the percentage is dramatic. He stated that some promotional materials should be prepared to send the message in the right way, including explanation as to why the costs Metro Wastewater is charging is increasing so much. He added that if the reason is to pay for a new plant, for new growth up north and such, then they seem to be doing the same thing as Denver Water with having developed suburban areas pay for infrastructure improvements for other customers. Mr. Warford said that this is an area that suburban districts that have contracts with Metro Wastewater may want to start looking at – to see how the capital improvement costs are being applied and who should be paying for it. He added that Metro Wastewater has generally increased their rates by 8-10% on an average for quite some time. Mr. Lampert commented that they are the only provider for these wastewater treatment services. Mr. Warford agreed, and added that there are a few

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satellite treatment plants but they are pretty much the only one that is feasible for the District. And Denver Water is pretty much the same way. Mr. Lampert said that there is Aurora Water ("Aurora"), if they ever got to a point where they had extra capacity. Mr. Warford said that Aurora is hurting for water too and ends up buying it from Denver Water from time to time and have some type of connection agreement now. Mr. Iadarola commented that Aurora's increases are much larger. Mr. Warford says that Aurora's rates are higher than the District's, and they have their own system. Mr. Hanley asked for a draft notice to be prepared for the Board to review next month. Mr. Warford said that the notice from Metro Wastewater usually comes out in September, when they also approve their annual budget. Mr. Warford commented that he is very pleased with what Metro Wastewater has done over the years – they have done a very good job.

Mrs. Riley asked if there was an average tap size, since the notice lists multiple types. Mr. Warford answered that the tap size is based on the use of water and what volume of water can be pushed thru that meter. Mr. Iadarola added that most single family residential taps are $\frac{3}{4}$ inches in size. He stated that very few taps in the District are at the high end of 6 inches in size, perhaps only two. Mr. Warford said that very few homes, if any, have a tap size of 1 inch. All residential is one equivalent, and equivalency is used to the extent that it goes over to commercial use. Mr. Iadarola said that 1" is a duplex, and 1 $\frac{1}{2}$ " to 2" is an apartment building (multi-family homes). Mr. Warford said that the unit charge is sometimes questioned, but with higher density complexes there is more usage than in the average residential usage. He added that for cities on the east side of the mountains, the cost of water is much higher, due to the mountain reservoirs and the pump-backs. He commented that California water rates, with the exception of the step rates, are primarily lower than metropolitan Denver. Mrs. Clendenin volunteered to gather some pricing data from other water providers in the metropolitan Denver area. Mr. Warford says that other entities have done that type of survey before and the District has provided its rates to those entities. Mr. Dvorak said that the Special District Association has all those rates, so she should start her search there. Mr. Lampert commented that the Denver and Aurora rates should also be added. Mr. Iadarola commented that he believes Denver and Englewood have the two lowest rates in the metropolitan area. Mr. Warford agreed. Mrs. Clendenin commented that Denver's rates to their customers seem to be low because the suburban customers are subsidizing them.

Mr. Iadarola added that the District also doesn't charge taxes. Almost all the other water districts charge property taxes. Mr. Warford thinks that the 1970s or 1980s, after the bonds were paid off, that the mill levy was dropped. He said that people don't believe that the District sells water at the same cost as Denver charges them. He added that Arapahoe County Water and Wastewater Authority's mill levy was 15 mills when he left there, and Cottonwood was about 60 to 70 mills. He said that the rates for the bonds to develop are extremely high if they are not subordinated by the developer. Mr. Lampert agreed that this information would also be useful to find out, even if it isn't published, regarding mill levy differences. Mrs. Riley added that the more information the better. Mr. Warford said that if the District has made any financial mistakes, it was that they should have continued to charge at least one half of a mill. Mrs. Clendenin added that the property taxes can be deducted on income taxes, whereas the fees paid for water and sewer service cannot. So, it would likely be beneficial to most users, and would help the District have even lower water and sewer rates. Mr. Warford said that the downside of doing that was that the District would then have to deal with various TABOR provisions and more regulations from Denver Water.

Mr. Hanley asked if there was any additional business. There being no further matters to come before the Board, Mr. Hanley called for the Board to adjourn. Mr. Lampert moved to adjourn, seconded by Mr. Halsell. Motion carried. Mr. Hanley declared meeting adjourned at 8:21 p.m.

READ AND APPROVED



DATED NOV 15, 2011