

DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: April 14, 2010

Board Item VI-B-2

**FINANCING TERMS OF COST SHARING AGREEMENT WITH
SOUTH ADAMS COUNTY WATER AND SANITATION DISTRICT**

Action by Consent

Action

Information

Background

In 1997, the Board and South Adams County Water and Sanitation District (South Adams) entered into a memorandum of understanding that formed the basis for a 1998 contract which included provisions for the development and cost sharing of construction of downstream reservoirs.

In 1997 it was anticipated that 12,000 AF of gravel pit storage would be developed and South Adams would pay for 8,000 AF of the capacity to be constructed. As of 2009, the gross estimated capacity is 21,792 AF and South Adams will pay for 12,000 AF (55%).

Under the original 1997 MOU it was assumed that construction would be completed by 2004 and South Adams would pay for their portion of the costs by 2014. As the project scope expanded and schedule for completion changed, South Adams made payments to Denver Water of varying amounts on an informal basis because no formal agreement existed defining payment terms.

2009 Payment Agreement for Historical Costs

In April 2009 the Board approved a contract with South Adams that reconciled costs incurred by the parties through 2008 on the joint project. It also developed payment terms for those costs which allowed South Adams to pay Denver Water approximately \$10.1 million over a 5-year period with final payment in 2014 (the original payment deadline envisioned in the 1997 MOU). The 3-month constant maturity treasury variable interest rate was designated in the 1997 MOU as the basis for the calculation of interest and in the 2009 contract the Board agreed to continue using this rate through 2014 for the unpaid 2008 balance. Under the 2009 Agreement, South Adams now pays Denver Water approximately \$2.18 million per year.

Project Costs 2009 and After

The 2009 contract required staff to develop a method for sharing costs for the years 2009 until project completion. South Adams wants to continue as business partners with Denver Water but also to lock in their financial exposure through an agreed upon payment schedule. Both utilities desire to lock in South Adams's financial exposure to avoid any misunderstandings regarding the scope and process for the project completion.

Staffs from both organizations have met and examined the tasks required to complete the shared project. Denver Water's budget estimate (expressed in 2010 dollars) for completion is approximately \$42.8 million. The project, as envisioned in 1997, was smaller and would have cost less. The parties are in the process of reaching agreement on the costs that provide mutual benefit to both Denver Water and South Adams; South Adams will pay 55% of the mutual beneficial costs.

The terms of the Proposed Agreement would include an interest rate equal to Denver Water's cost of debt plus 0.25-percent; this interest rate was agreed to by the Board in the 2009 Agreement. The

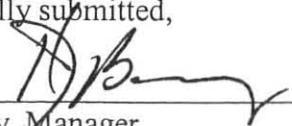
interest rate will be applied to expenses incurred by Denver Water dating back to January 2009. South Adams would prefer to defer any payments until 2015 because of its current payment plan. Final payment would be made by December 2020. The contract payments will be made twice a year in amortized amounts based upon the negotiated cost from 2015 until 2020. Operating Agreements for the reservoirs also need to be negotiated and brought to the Board. Those agreements will address the shared operational and maintenance costs of use of the storage facilities.

Approvals:

Respectfully submitted,



David LaFrance, Director of Finance



H. J. Barry, Manager

Robert J. Mahoney, Director of Engineering

AS TO FORM:



Patricia L. Wells,
General Counsel