

DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: April 14, 2010

Board Item VI-B-4

East Cherry Hills Village Total Service Conversion Recalibrated Financing Terms

Action by Consent

Action

Information

Background

On December 10, 2008 Denver Water entered into a Total Service Conversion agreement with East Cherry Hills Water District (ECHWD). ECHWD was a read and bill district that purchased water from Denver Water and distributed the water to approximately 54 residential customers. Their distribution line was in poor condition, their financial capacity was limited and as a result ECHWD desired to dissolve and become part of Cherry Hills Village which has a Total Service contract with Denver Water. Because ECHWD's distribution system was in poor condition, Denver Water required them to improve the distribution system at their costs. To facilitate the improvement Denver Water would finance the upgrade and recover the cost of the improvement from ECHWD through a surcharge on their water bills.

The bi-monthly surcharge was initially calculated at \$471 per account and is now being assessed at a monthly amount of \$235.50. The contract provided that the surcharge would be adjusted for the actual costs of the distribution system improvement, payment would be made over 15 years (with final payment in 2023) and include an interest rate of 7.12 percent which is based on our Outside City Rate of Return on water rates. It also allowed for pre-payment without penalty.

Current Situation

By the end of April 2010, Denver Water will have collected \$207,701 in surcharge revenue. The distribution system has not been repaired because ECHWD was seeking a low-interest rate loan from the State instead of the financing terms provided to them by Denver Water. They were successful in qualifying for such a loan but have opted to not receive the loan because of administrative complications.

ECHWD has also incurred some costs that they are unable to pay. As a result, ECHWD has asked that Denver Water provide them with approximately \$70,000 of the funds that we have collected from their customers through the surcharge so that they can pay the outstanding amount and dissolve the district.

Alternative Financing Option

Should the Board wish to consider assisting ECHWD, the Board could:

1. Return \$70,000 of the principle that the Board has collected through the surcharge to ECHWD.
2. Recalibrate the loan amount based on the initial cost estimate and the contract requirement that actual costs will be used in the calculation of the final surcharge.
3. Keep the requirement that repayment is completed by 2023 thus shortening the term of the recalibrated loan to 13 years.
4. Keep the interest rate at the 7.12 percent or consider lowering the rate to 6.50 percent (during discussions with ECHWD they requested that we consider lowering the interest rate to 6.5 percent).

The table below provides detail of existing and new financing arrangements and their impact on monthly surcharge.

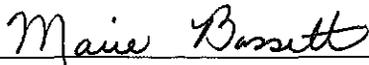
East Chery Hills Surcharge Analysis	As Is	Option 1	Option 2
	15 Yr loan at 7.12% Beginning Jan. '09	13 Yr loan at 7.12% Beginning June '10	13 Yr at 6.5% Beginning June '10
Amount of Note Receivable (PV)	\$1,380,000	\$1,378,048	\$1,378,048
No. of years (N)	15	13	13
Nominal Interest rate	7.12%	7.12%	6.50%
Monthly Pmt	\$12,717	\$13,568	\$13,108
Per account monthly surcharge ¹	\$236	\$251	\$243

¹ Based on 54 accounts

Approvals:

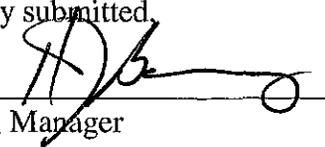


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Respectfully submitted,


 H. J. Barry, Manager