

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Steve Biondo, Finance Manager
Kirk Russell, P.E., Chief
Finance Section

DATE: September 18, 2012

SUBJECT: **Agenda Item 18a, September 27 – 28, 2012 Board Meeting**
Finance Section – Changes to Existing Loan
Town of Starkville – Loan Restructuring (Contract C153347)

Introduction

This refers to a loan contract change for the Town of Starkville (Town), Loan Contract No. C153347, between the Town and CWCB, dated June 1, 1981, amended April 1, 1982. The Town has been delinquent for several years and has been in financial hardship for most of that time. In an attempt to work with the Town to improve its ability to repay the CWCB loan, a loan restructuring is being proposed to include interest forgiveness and an interest rate reduction from 2% to 0% with a new term of 30 years. This will put the Town in a much better position to successfully repay the CWCB loan.

Recommendation

Staff recommends that the Board approve accrued interest forgiveness for the Town of Starkville, up to \$20,000, and amend Loan Contract No. C153347 to amortize the current principal balance of \$141,066, with loan terms of 30 years at a zero percent interest rate. The repayment provisions of the loan contract and Promissory Note will be revised accordingly. As security for the loan, the Town will pledge its water revenues backed by a rate covenant and provide annual financial reporting. This brings them in compliance with CWCB Financial Policy #5.

Background

The Town was incorporated February 11, 1954, in Las Animas County. The Atchison, Topeka & Santa Fe Railway Company donated its water distribution system to the Town in 1955. The current population of the Town is 120 people. The Town generates approximately \$28,000 in revenue from water sales from its 59 water taps.

In October 1977, a feasibility study titled "Proposed Sewer & Water System Improvements for the Town of Starkville, Las Animas County, Colorado," was prepared by Donald Sutherland Associates, Inc., Consulting Engineers. Per the report, the construction of a domestic water system would cost approximately \$400,000. The Farmers Home Administration (FHA) provided grant funding for \$200,000. The CWCB approved a recommendation in November 1977 to loan the Town \$200,000 at 2% annum for 40 years; resulting in an annual payment of \$7,312. Senate Bill 78-69 appropriated the funding for this loan and a loan contract was executed June 1, 1981. The water project was substantially completed June 1, 1983. The first annual payment was received in August 31, 1984 and was one year late.

In 1981, the Town established a new water rate to cover the annual payment, increasing rates from \$8/month to \$14/month. The revenue projections, of over \$13,000, were sufficient to cover the annual payment to CWCB. The original feasibility study indicated that the population at that time was approximately 225. The study also projected that the population of the Town would grow to 300 to 400 by the year 2000 and that coal mining and associated businesses would be restored. Unfortunately, the Town's population decreased rather than increased.

The Town's current base water rate is \$25/month per tap, including a \$5 per 1000 gallons over the base. The \$28,000 in revenue from the 59 taps is budgeted to pay for operations and maintenance and the CWCB loan. Water revenue is currently too low to cover all expenses and the current \$7,312 annual CWCB loan payment. The Town does not currently have a property tax. The Department of Local Affairs (DOLA), CWCB, and Mr. Dan Hyatt, attorney for the Town, worked with the new Mayor Christopher Carlisle to assist the Town with a plan to correct their financial problems.

The Town has a Water Purchase Agreement with the City of Trinidad (Trinidad) to provide treated water to the Town (approximately \$17,000 annually). The original CWCB loan and FHA grant paid for the construction of the water supply distribution system; relocation/repair of three water storage tanks and a Trinidad plant investment fee.

In April 2012, the Town voted to approve a new Town Ordinance which provides for a 6 mils property tax. This tax should generate approximately \$7,040 per year and will be used to cover the operating expenditures of the Town. This tax will take effect January 2013, with revenue occurring in January 2014. In order to make a payment to CWCB in 2013, Mr. Hyatt has proposed to enact a monthly facility fee. The Town will enact the fee after CWCB acts on the loan restructure plan.

Payment History

Only three payments out of seventeen were received on-time since 1983. In 1989, CWCB referred the delinquent account to the State's Central Collections Division (Collections) to handle and pursue legal action as necessary. The account was referred to Collections an additional two times. As a result of the rising legal costs and probability that the results would be futile, staff informed the Board in May 1995 that it would try to work with the Town and not continue with Collections at that time.

CWCB continued to work with the Town by managing monthly payments. The Town, however, has been delinquent since 2006. The Town was notified in March 2011 that Collection's procedures

would be initiated if payment did not resume; subsequently, a check for \$3,500 was received. A partial payment was also received in June 2012 in the amount of \$3,656.

The current loan principal balance is \$141,066 and the accrued interest as of June 1, 2012 is \$19,817.

Discussion

The Town has the desire to correct its budget problems and begin repaying the CWCB loan. By retaining Mr. Dan Hyatt, Esquire, the Town is making great strides towards accomplishing this goal. Since the Property Tax has been approved, operating costs will be segregated from water revenues enabling the Town to better manage its obligations. Due to the timing issue of the new ordinance, facility fees will need to be imposed on the water users. Hopefully this will be a onetime fee that can be eliminated once a positive cash flow is maintained. Because of a lack of proper management and the difficulty of raising rates, the Town has struggled for years.

CWCB staff feels that it has a greater chance of collecting its principal by providing a repayment structure that the Town can afford than to route this loan to Collections at a minimum fee of \$30,000. Staff is recommending a zero interest loan for 30 years which would establish an annual payment of \$4,703, based on a principal amount of \$141,066. In addition, staff is recommending that the accrued interest to date would be forgiven. With its new revenue stream and a new repayment schedule the Town's ability to repay the CWCB loan will improve. Should the Town fail to comply with the amended contract, CWCB will proceed with Central Collections for processing. The following table shows the Town's financial position with and without the loan restructure:

Financial Ratio	Prior Years	Future Years
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	80% (weak) \$26K/\$35K	100% (average) \$33K/\$33K
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	-29% (weak) (\$26K-\$28K)/\$7K	100% (average) (\$33K-\$28K)/\$5K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	9% (weak) \$3K/\$35K	9% (weak) \$3K/\$33K
Average Residential Water Bill (monthly) weak: >\$60 - average: \$30 - \$60 - strong: <\$30	\$30 (average)	\$30 (average)
Debt per Tap (based on 59 taps) weak: >\$5,000 - average: \$2,500 - \$5,000 - strong: <\$2,500	\$2,400 (strong) \$141K/59	\$2,400 (strong) \$141K/59

Statute

The Board has the statutory authority under section 37-60-120 (3), C.R.S. to adjust the authorized interest rate and extend the authorized repayment period due to unexpected financial difficulties. Under 24-30-202.4 (3) (II) (c) C.R.S., only the State Controller can forgive the principal indebtedness.

Collateral

Security for the amended loan contract will be a pledge of water revenues backed by a rate covenant and annual financial reporting. This is in compliance with CWCB Financial Policy #5 (Collateral).

cc: Christopher Carlisle, Mayor, Town of Starkville
Susan Schneider, AGO
Peter Johnson, AGO