



Notice of Intent to Raise Water and Sewer Rates for all Owners of Businesses or Living Units with Access to a Water or Sewer Main in the Town of Crestone

A Public Meeting will be held regarding rate increases on Saturday, September 10, 2022 at 10:00 am at Bob's Place (182 E. Galena Ave.)

The Town proposes to require water meters and sewer connections for all residential and business units with reasonably proximate access to mains, regardless of how many are on one property (with an option that if someone doesn't want to connect, they are charged an availability fee equivalent to the base rate or applicable EQR).

- Water base rate would increase to \$54 per month (now \$34 a month)
- Sewer rate per EQR would increase to \$68 per month (now \$40 per month)

At that meeting, the Board of Trustees will also consider imposing an incremental rate increase from September 1st through December 31st of 2022 at the following rate:

- Water base rate would increase to \$44 per month (now \$34 a month)
- Sewer rate per EQR would increase to \$54 per month (now \$40 per month)

The Town does not have an EQR definition in its code. Staff will recommend to the Board that a definition and schedule similar to the attached schedule (minus any reference to outdoor irrigated areas) be adopted and used to calculate EQRs for sewer billing purposes.

The Town of Crestone must raise its Water and Sewer rates to compensate for the loss of sales tax subsidies used to subsidize those funds at a rate that far exceeded what is allowed by the State of Colorado's Taxpayer's Bill of Rights (**TABOR**) Amendment (effective 1992). The sales tax provided approximately 50% of fund revenue. TABOR restricts enterprise funds (such as water and sewer funds) to no more than 10% of revenue from taxes and state grants. Without a substantial rate increase, both funds will be completely depleted in 2023.

The Water Fund is running at a deficit in 2022, even with the incorrect sales tax subsidies applied. Recently, the Town increased its payments to the Baca Grande Water and Sanitation District to cover the total cost of sewer treatment. The Town had previously been paying a significantly reduced rate due to its initial contribution of grant funds to the initial construction of the treatment plant. That discount is no longer viable.

The process of raising rates is never easy. No one wants to pay more for essential services. The

Town of Crestone has enjoyed much lower rates than other municipalities because those operations were heavily subsidized by sales tax, both directly and by accounting for water and sewer-related expenses in the General Fund. These practices were in error, which was addressed in previous annual audits, and the Town must stop its use of excess tax subsidies to provide water and sewer services. The Town has not required that businesses and residents tap into existing water lines. It has not required that all businesses and residents pay a monthly rate for service availability. Most all municipalities require that potential customers with access to water and sewer mains tap into service and pay monthly fees for that service.

The reason why municipalities and water/sewer districts require mandatory taps (or an availability fee for those that don't tap) is that the Town is paying the costs of operating and maintaining its treatment and distribution (water) and collection system (sewer). Those costs are significant and the same whether the Town has 40 or 80 customers. If the Town allows business and residential owners not to pay for the infrastructure developed to serve them, the Board of Trustees have to charge the tapped-in customers more money, and they shoulder a proportionately larger share of those costs.

For the purpose of water and sewer service billing, the following definitions of what units will be assigned a water and sewer account apply:

- A residential unit is a unit with cooking and toilet/sink/bathing facilities (water using) that one or more people occupy for more than 30 days in one year. It does not include transient rentals such as bed and breakfast businesses or motels.
- A business unit is a unit that has toilet/sink facilities (water using).

The Town Board considered these options to make up for lost revenue in each fund:

1. Continue to bill tapped customers only
 - Water base rate would increase to \$130 per month (now \$34 a month)
 - Sewer rate per EQR would increase to \$86 per month (now \$40 a month)
2. If the Town were to require mandatory connections for those business and residential properties with access to mains (with an option that if someone doesn't want to connect, they are charged an availability fee equivalent to the base rate)
 - Water base rate would increase to \$80 per month (now \$34 a month)
 - Sewer rate per EQR would increase to \$68 per month (now \$40 per month)
3. If the Town were to require mandatory connections or availability fees for all residential and business units, regardless of how many are on one property with access to mains (with an option that if someone doesn't want to connect, they are charged an availability fee equivalent to the base rate)
 - Water base rate would increase to \$54 per month (now \$34 a month)

- Sewer rate per EQR would increase to \$68 per month (now \$40 per month)

The Town Board reviewed these options at their July 11, 2022, regular Board of Trustees meeting and has selected option 3.

More information about Water and Sewer Fund Status

Water

Currently, the base rate for water is \$34. Most customers pay the base rate. The Town does collect some additional use revenue as follows:

Up to 4,000 gallons: Base rate @ \$34

From 4,000 to 8,000 gallons: \$6 per 1,000 gallons used

From 8,000 to 12,000 gallons: \$8 per 1,000 gallons used

Over 12,000 gallons: \$10 per 1,000 gallons used

In 2023, the Town's Water Enterprise Fund budget will operate at a deficit of \$69,482 with no rate increase. This is due to the loss of excess sales tax revenue and spending down the cash balance. The cash balance is reduced because all expenses are now shown in the Water Enterprise Fund and paid out of water revenue instead of General Fund subsidies. The Fund would have operated at a revenue deficit this year if it didn't have the excess cash balance to make it through the year. The General Fund revenue is primarily from sales tax, and subsidizing the Water Enterprise Fund with those taxes exacerbates the TABOR limit problem. The cash balance was spent to make up for that deficit. In the future, the cash balance carried from year to year should equal the four-month reserve.

The staff completed research to determine how many taps the Town had and how many people could tap into an adjacent main. The Town doesn't have perfect records or good mapping, so this could be off by a tap or two.

- Number of taps: 61
- Number of customers being billed: approximately 47 in 2021
- Total number of properties (accounts) that would pay for water service costs if the Town billed all existing taps and required mandatory taps: 103
- Total number of accounts that would pay for water service costs if the Town billed all existing UNITS (residential or business): 153

The Town requires customers to pay the base rate if they are tapped regardless of if they choose to use a well instead. The staff surmises that some tapped customers are not being billed because they elected to use their wells. The rate has been calculated using the number of taps – 61 – and not the number of accounts currently billed – 47. The Town will start sending bills to all tapped customers.

The new total base rate is \$130 if only customers with taps are charged. This amount covers the Town's Water Enterprise Fund debt service, operations, and maintenance, not capital improvements.

It would work as follows:

Up to 4,000 gallons: Base rate @ \$130
From 4,000 to 8,000 gallons: \$6 per 1,000 gallons used
From 8,000 to 12,000 gallons: \$8 per 1,000 gallons used
Over 12,000 gallons: \$10 per 1,000 gallons used

If someone were to use 12,000 gallons in a month, their bill would be: \$186 and increase by \$10 for every additional 1,000 gallons used.

If the Town were to require mandatory connections (with an option that if someone doesn't want to connect, they would be charged an availability fee equivalent to the base rate), the new total base rate would be \$80. This amount covers the Town's Water Enterprise Fund debt service, operations, and maintenance, but not capital improvements.

This base rate assumes 103 potential customers are billed at the base rate, whether tapped or not.

It would work as follows:

Up to 4,000 gallons: Base rate @ \$80
From 4,000 to 8,000 gallons: \$6 per 1,000 gallons used
From 8,000 to 12,000 gallons: \$8 per 1,000 gallons used
Over 12,000 gallons: \$10 per 1,000 gallons used

If someone were to use 12,000 gallons in a month, their bill would be \$136, increasing by \$10 for every additional 1,000 gallons used.

Most municipalities now require each unit – including multiple units in one building or located on one property – to be metered and charged accordingly. If the Town were to require mandatory connections for all units (with an option that if someone doesn't want to connect, they are charged an availability fee equivalent to the base rate), the new total base rate would be \$54. This amount covers the Town's Water Enterprise Fund debt service, operations, and maintenance, but not capital improvements.

This base rate assumes 153 customers are billed at the base rate, whether tapped or not.

It would work as follows:

Up to 4,000 gallons: Base rate @ \$54
From 4,000 to 8,000 gallons: \$6 per 1,000 gallons used
From 8,000 to 12,000 gallons: \$8 per 1,000 gallons used
Over 12,000 gallons: \$10 per 1,000 gallons used

If someone were to use 12,000 gallons in a month, their bill would be \$110, increasing by \$10 for every additional 1,000 gallons used.

Wastewater

The base rate for one EQR is \$40 (\$38.50 plus a \$1.50 admin fee). Most customers pay the base rate. Eleven customers pay for a total of 43.5 additional EQRs charged at \$38.50 each. The proposed rate change will include admin fees within the total amount. A separate admin fee will no longer be charged.

If the Board does not increase rates in the Sewer Enterprise Fund, the 2023 budget will operate at a deficit of \$65,812. This is due to the loss of sales tax revenue and spending down the cash balance. The cash balance is reduced because all expenses are now shown in the Sewer Enterprise Fund and paid out of sewer revenue instead of General Fund subsidies. The General Fund revenue is primarily from sales and property tax, exacerbating the TABOR limit problem. In the future, the cash balance carried from year to year should equal the four-month reserve.

The staff researched how many taps the Town has and how many people could tap into an adjacent main. The Town doesn't have perfect records or good mapping, so this could be off by a tap or two.

- Number of taps: 83
- Number of customers being billed: approximately 77 in 2021
- Number of additional properties that would be tapped if the Town required mandatory taps: 10
- Number of properties that would be tapped if the Town required mandatory taps on the pending 2023 sewer line extension: 15 to 20
- Total number of properties that would pay for sewer service costs if the Town billed all existing taps and required mandatory taps: 93 now, potentially 120

The town requires customers to pay the base EQR sewer rate if they have a tap. It is not known why the Town is not charging the six customers with taps, and they will start receiving a bill. The rate has been calculated using the number of taps – 83 – and not the number of accounts currently billed – 77.

The total base rate increase the Board of Trustees must institute on January 1 for existing taps only is \$86. This amount covers Sewer Enterprise Fund maintenance and operations, not capital improvements.

It would work as follows, figuring 126.5 EQRs billed per month:

For the 83 customers at the base rate for one EQR: \$86
The 11 customers would pay this rate per additional EQR

The total Base Rate for Customers with access to both water and sewer would be \$216 per month.

If the Town were to require mandatory connections (with an option that if someone doesn't want to connect, they are charged an availability fee equivalent to the base rate), the EQR rate increase would be \$68. This amount covers Water Enterprise Fund maintenance and operations, not capital improvements. This base rate assumes 103 customers are billed at the base rate.

Although, the Town estimates an additional 27 additional customers based on ten customers that aren't connected now and an additional 17 added after the sewer line extension is installed. Staff counted an additional 35 EQRs because of the types of uses not connected.

It would work as follows, figuring 161.5 EQRs billed per month:

- For the 83 customers at the base rate for one EQR: \$68
- The 11 customers would pay this rate per additional EQR

The total Base Rate for Customers with access to both water and sewer with mandatory connections would be \$148 per month.