

Notice of Fee Increase

October 2020 Fall News

To: Durango West #1 Homeowners
From: Board of Directors and District Manager
Re: Water Rates Increase

Dear Homeowners:

Budget time forces us to take a hard look at where the money goes. The District is short on balancing the Water Fund, needing an approximate \$15 monthly increase. However, the board wants to phase-in an increase in order to re-evaluate in summer 2021. At this time, DW1 is proposing a \$7.50 increase beginning November 30, followed by \$3.75 in July, and \$3.75 in early 2022. These 2021 & 2022 amounts could reduce, but the additional phase-in plan to meet the full \$15 is the worst case we want to disclose and as of now, plan on implementing. Next year increases beyond this \$7.50 are primarily dependent on what Lake Durango does with the \$15 acquisition fee, which will be determined with an updated rate study. Between now and summer we will know how much was spent on snow plowing, what we will need for short-term road repairs (patches & crack fill), and we'll have a full winter season of data showing how well the sewer plant performs over the first full winter since upgrades were complete. In 2017, sewer plant improvements were started so we could meet lower ammonia limits. So far, the plant numbers look very good, but cold months are more difficult and the Districts are operating under a first-time variance granted by the state in order to help financial burdens on smaller systems. There has been a nation-wide push by EPA and health departments to replace lagoons with mechanical plants; however, we are starting to see some shifts in opinions as lagoon technologies have modernized & improved. Mechanical plants can be financial nightmares for small populations. Without grants, if forced into mechanical sewer treatment, our costs would at least triple.

Over the past 10 years, DW1 fees have increased by 30.4%, Lake Durango fees have increased 35%, and DW2 sewer plant fees have increased 58.8%. Of the total dollars that constitute DW1's 30.4%, 41% of this has gone to sewer treatment, leaving DW1 with 14.4% left to cover Lake Durango's 35% increases. The math doesn't work, and the result is the hard decision to raise water rates.

DW1 funds each have separate financial statements, but they all interact, affecting total revenues needed. Transfers can be made between funds if one fund is short and the other is long, but we can't overspend what we don't have. DW1 and DW2 jointly own the wastewater treatment plant, but daily operations are managed by DW2. Unfortunately, sludge removal is very expensive, and it had been deferred for many years, resulting in large cost overruns to state required upgrades in 2017. Excess sludge costs forced the districts to borrow 900K, adding 15 years of debt. Both districts raised fees \$20, which kicked in all at once in 2017 and added a line item to our monthly fees. Not only was \$20 a lot of money, it also made DW1 board members too reluctant to follow up by adding \$3-\$4 each year into the water fund, which was the plan prior to the unanticipated \$20. Lake Dgo has raised rates 5% in 9 of the last 11 years beginning in 2010. DW1 cut back where we could, and wanted to build another house to help tide over the water fund until acquisition debt was paid and Lake Dgo performed an updated rate study. Although we have no guarantees how that rate study will end up allocating cost among wholesale and retail rate classes, we do know more money has been spent on retail versus wholesale, and now they have a THM problem that must be addressed to meet state standards. Lake Dgo now says they want to wait until 2022 to update the rate study, and it's become unavoidable for DW1 to put off raising revenues another two years.

Today all three entities (DW1, DW2, and Lake Dgo) are dealing with different facts than we all had in 2017. For DW1, building material costs have increased a lot between 2016 and 2020. We've had staff changes, lost our favorite builder, and the tennis courts had a substantial soil shifting disaster (of course, soils & dirt are conveniently excluded from our insurance coverage). Lake Dgo bought additional raw water and constructed a water line from Lake Nighthorse, and they've added another customer class, La Plata

West Water Authority. DW2 was stuck with unanticipated huge increases in the wastewater plant upgrades, and found their water fund was also going bankrupt requiring them to raise water rates quite a bit. Since we rely on DW2 for sewer, and Lake Dgo for water it's inevitable DW1 fees are highly tied to both entities.

DW1 has always historically needed about \$15-\$20 more than DW2 because our expenses are actually fairly similar, but we have 100 fewer customers (254 versus 362). The rate difference between the Districts is something residents have always questioned, but there are substantial differences in services, availability of well water, home values, customer numbers, more challenging snow plowing, road conditions and design, and DW1's original developer went bankrupt, DW2s did not. From 1978 to 1992 DW2 was building houses and reserves and DW1 was basically giving away lots to bring in monthly fees and was on the verge of total financial collapse. DW2 original debt was paid on schedule, DW1s developer debt was refinanced and extended another 20 years because we were in default. Then there was a decade of water litigation which DW1 paid for. We were eventually successful in recovering 75% of our legal fees, but during that decade, DW2 was rebuilding roads and reserves, DW1 was not. There are a lot of reasons DW2 fees have been \$10-20 lower pretty much since we were both formed, and this is not something DW1 can fix unless we reduce services or we grow by another 100 customers. Since the late 90s, DW1 has been building back and making up for lost time. When we look back, we've really come a long way, and we much to be proud of. The fee differences are not substantial, property values are strong, and the housing niche DW1 provides helps a lot of people enter into homeownership. Statistically, owning a home usually becomes a life-long financial benefit and a security blanket. DW1 has a lot of character, fun people, and our wide variety keeps life interesting. Most people are happy here, and those who are not take their equity with them when they sell. We wish we could lower fees, but we can't. We have kept increases to an average of about 3% annually, which is not too bad considering we are self-funded and self-sufficient.

It's also important to understand water & sewer utilities nationwide, especially in western states, have seen larger increases than electric, gas, and cable. Water & sewer have historically been heavily supplemented by federal and state funds. If the public had to pay the true costs of water distribution & sewer treatment without help from larger government, it would almost be financially impossible without a big shift in our thinking about what we consider to be reasonable water & sewer rates. For most of the industrial age, water and sewer rates have been artificially low because of the investments our country has made into bringing clean water and sanitary conditions to most communities. Water/sewer projects qualify for 40-50 year no interest loans. Grants have been sharing the costs for decades. Lake Nighthorse is a good local example of Durango and tribe investments versus actual costs. Reductions in federal and state funds have trickled down to smaller systems. Most smaller governments & school systems have been forced to tighten their belts. The "lead in the water" crisis in Flint, Michigan has made a lasting impact on the EPA's focus toward drinking water, which is all affected by sewer discharge. It's understandable incoming and outgoing water is something most of us don't put much thought into. We don't fully appreciate water & sewer service until...a water break or sewer backup happens at your home.... Point is, the value of having infrastructure for clean water, central sewer, and paved roads is often underestimated. Small districts are not cheap to live in, but the trade-off is there when it comes to buying or selling. Mortgage lenders like the security & stability of central services. This is further enhanced when banks and appraisers see the legal structure of providing those services is a governmental entity.

There are two main expenses DW1 cannot control: Lake Durango Water Authority, and DW2. We have a board seat with 1 vote on Lake Durango, and we've established a good relationship working with DW2. Lake Dgo's board comprises of 1 member from each District, 2 members from the retail customers, and 1 "at large" member not allowed to be a customer. For the most part, the structure is highly cooperative and DW1 feels we've paid our fair share, and maybe plus some... The reason for the "at large" member is to help balance wholesale and retail disputes, which of course, always boil down to money - who should pay for what. An updated rate study is critical since it will be the first professional review of "cost of service" since 2010, which was prior to the authority having a history of financial operations, meaning the current rate structure includes numerous professional assumptions. Lake Dgo was somewhat unique due to the huge

amount of deferred maintenance and capital upgrades needed in the first few years, similar to starting a water company with new construction, except the assets purchased were mostly depreciated! State grants and loans helped a lot with several upgrades, so an updated rate study should help sort out what was funded by free money or paid by customer revenues. Then they'll look at what costs benefited retail or wholesale customers, or both. Rate studies are done by engineers or economists, or frequently both. Colorado Public Utilities Commission set up the original rate structure and allocations. We hope the Districts will both take an active role in the updated study in order to protect our interests. The plan is to protect wholesale rates to the best of our abilities, but a fair rate methodology will ultimately determine our future water rates, which are a big deal and large part of our budget, as our financial statements reflect. Water is expensive and we should not count on it becoming cheaper in the future. To keep perspective, there have been huge improvements made to Lake Dgo over the years, and very things in life are as important as safe water. We've had a few spells of "swampy" water, one was particularly memorable, but overall, the differences in water quality post-2009 versus pre-2009 are not even comparable. Things are definitely better at Lake Dgo. We also feel good about the wastewater plant and the direction it's going. DW2 has really improved communications with DW1 and we're working well together. Provided the sewer plant can meet standards and remain under our variance allowance, and prior odor issues become a distant memory, we are confident the state will allow us to keep a lagoon plant well into the future. This will literally save our customers millions over the next 20-40 years. So far, the plant seems to be very capable. Both districts share the goal of keeping the plant operating efficiently and the joint fund financially solid, while charging the lowest fees possible to our residents.

DW1 has three main funds: General, Water, and Sewer. General is the main governmental fund. Water & Sewer are enterprise funds. In theory, each fund should be self-sufficient by accurately allocating revenues & expenses, but inter-fund transfers are common. DW1 has used money from the Sewer & General funds to cover the Water fund, and we've used money that was made from developing houses for the past 10 years, which has kept fees artificially lower than they would have been. DW2 had more reserve funds built up because their developer did not go bankrupt, but they finally needed to raise water rates substantially within the past two years. The District's auditor has recommended raising water fees for several years.

The District's governmental accounting system is set up with various funds and follows GASB reporting rules.
 Main operating funds: General Governmental, Water Enterprise, and Sewer Enterprise, WWTP Enterprise
 Non-operating funds: Conservancy Trust (Lottery), Fixed Assets. A Bond Fund was retired in 2016

	Revenues	Expenses	Depreciation	Net Gain (Loss)
2018 General Fund	\$233,195	\$310,849	\$ 66,427	\$(21,227)
2018 Water Fund	\$201,400	\$246,361	\$ 14,670	\$(30,291)
2018 Sewer Fund	\$186,378	\$194,060	\$ 9,341	\$ 1,659
2018 Combined Gain (Loss)				\$(49,859)
2019 General Fund	\$173,358	\$259,014	\$ 66,759	(\$18,897)
2019 Water Fund	\$196,356	\$232,241	\$ 16,061	(\$ 19,824)
2019 Sewer Fund	\$186,806	\$191,285	\$ 9,072	\$ 4,593
2019 Combined Gain (Loss)				(\$34,128)

Notes: Losses in General fund include capital outlays of \$9,961 in 2018 and \$17,830 in 2019. The District is allowed to transfer monies between funds. Losses have been covered by reserve savings, which is not sustainable for any length of time. District assets are mostly depreciable, except for three lots the District purchased to resell or to develop. Investment into lots purchased is \$141,600

We've provided a few mouthfuls to digest in this longer summary, but we've posted financials, draft budget, and historical rate comparisons for residents interested in more details dealing with finances and water rates. Please see October Newsletter & Rates section: www.durangowest.org. To request further information or documents by email, please contact Janet Anderson, District Manager.

What has DW1 done and accomplished over the past 10 years? Since we're comparing rates from 2010 to 2020...

1) Paid off Road Bond Debt. 2016 is the first time since 1977 DW1 has been debt-free, 2) Placed Lake Durango under public ownership (blessing and a curse, but the alternative of dealing with the private owner was worse), 3) Forced DW2 to fully honor the 50% ownership clause in agreements dating back to 1977 thereby increasing our involvement in management and meaningful input to decisions, 4) Developed 6 homes in the lower section in key locations which has had a very positive impact on property values and neighborhood desirability, 5) DW1 decision to develop homes encouraged 4 additional private owners to replace dilapidated mobiles to assist in renewing the lower section, 6) Invested another 200K not from loaned funds into our roads, 7) Invested 80K into building and improving parks, 8) Invested in AMR meter reading system to ensure fair and accurate water metering with early leak detection, 9) Invested in equipment to provide in-house plowing and repairs which saves money and greatly increases response time and reliability of services, 10) Implemented mapping and camera inspections of all sewage lines to identify and repair weak spots prior to breaks, 11) Huge strides towards fire mitigation and improving wildfire risks. This will always be an ongoing need, but we're in fire mitigation maintenance mode now versus starting from fresh mode back in 2010, 12) Just installed infrastructure for a wonderful community garden with room to expand. After completing water tanks & irrigation, homeowners should have an easy to maintain garden to kick off 2021 growing season. 13) Implemented annual cleanups and more fire mitigation. The cleanups are hugely popular, they benefit fire mitigation, and help people keep their lots and storage areas looking neater.

What Projects & Goals are Ahead? 1) Mapping of confirmed by site locations of all water service lines & valves. Our old maps still contain some errors and holes in unknowns, preventing our abilities to find all the water lines and service connections, making repairs more difficult and less efficient. While we've made huge improvements, there is still quite a bit of work needed. 2) Completing the park. We needed to repair the damaged courts to qualify for additional grants. We're committed to completing the park as originally planned someday: all-purpose field, safe pathways, BBQ/covered pavilion area, adult swings. 3) Shifting water meter readings to a collector system versus drive-around. We've been very happy with our drive by meter reading system, it's basically worked flawlessly, but our data collector is over 10 years old now, and an upgrade unit is needed to work with software upgrades. Typical of technology, the water metering business has jumped on the bandwagon of securing future revenues by making older technology obsolete. It will cost almost as much to replace the drive by collector as purchasing an automatic main collector. Wireless/radio technology has improved since we first moved to AMR meters, and a propagation study shows we should be able to read over 93% of our meters without leaving the office. This also sets us up for the future where customers can look at their meter readings and usage data on the web. 4) DW1 needs to decide the best way to combine and separate homeowner & district issues in a clean, easily followed legal and manageable way. DW1 needs to protect homeowners without burdens of overkill and confusing rules. Re-writing covenants is the first step. We've learned most people really do want some neighborhood rules, without being stuffy about it. It's also human nature to want rules applied when it's beneficial, and an "exception circumstance" when it's not. This goal will be a royal pain to pull off, but our CCRs are 45 years old with the most recent amendment being 30 years old. It's past time to simplify all the combined covenants, let homeowners decide what they want from the district, & what they don't. We can figure this out while balancing individual freedoms, but it's a lofty goal and not likely to happen too soon. Everyone deserves a neighborhood they want to come home to – this project is a step in helping DW1 continue building a stable and solid future.

Unrelated News...no fall clean-up in 2020 – having a 2021 spring cleanup undecided at the moment... During the height of the Covid-19 shut down, we held a spring cleanup that ended up blowing our minds & budget. Resident participation was at an all-time high with so many of you home, either off work, or working in pajamas. Feeling stir crazy, residents went to town on cleaning up junk and overgrown areas. It was super impressive to see how hard people worked. We were thrilled & happy... but, the costs came in over 3x higher than averages. A normal clean-up uses 4-5 full-size dumpsters, a few hours of chipping, and 2-4 days of labor. This year, it was 19 dumpsters, plus days of chipping slash and organics. Bagged pine needles alone probably exceeded 700. On top of the volume, extra laborers worked for weeks. We are thankful to residents who offered to work – they did a great job. We know people love the cleanup, and we want to keep cleanups in our budget, but we're reconsidering how to avoid going broke while keeping the growing tradition going. What used to be annual is regularly requested every spring and fall. We promise a cleanup will be scheduled in 2021, but the decision on when is still up in the air. Anyone with an individual circumstance needing help with junk or organics, please call – we may be able to assist, but no guarantees. We are always happy to help folks who perform fire mitigation in common areas – there are too many spots for our staff to tackle them as often as we'd like. If you're into clearing up easements but need help with disposal, please give us a call.

Snow Season is closing in. or, for GOT fans... Winter is Coming!...

It's time to purchase a snow blower or replace worn out shovels, think about winter tires. We have small lots, limited parking & often more vehicles than adequately fit, leaving absolutely no room to move snow. Garages can be used for cars, too! We're looking over notes & complaints over the past few seasons to make contact with residents who become overwhelmed and frustrated with snow plowing efforts. It's possible a meeting with plow drivers and a board member could avoid some of the frustrations of chipping away at ice dams and lack of snow storage. If you have a specific issue with plowing, we encourage you to reach out now to arrange meeting with us before winter. We are pleased to announce a new addition to the board with many years of experience snow plowing and heavy equipment operating with La Plata County Road & Bridge. We'll look to her for guidance to make improvements on our end as well. We want to meet with you, do our part, and help make it easier for you to do your part. Mostly, we want to let residents know we're on your side, the plow is not the enemy. Working together is better than not – the plow is bigger.

Bears Preparing to Hibernate... We've done a great job limiting bear activity by coming down hard on trash raiding & more folks are using bear proof trash bins. For everyone's safety, please don't get lax on attracting bears. We've definitely reduced the number of trash raids & bear sightings - thank you!

A Message from your Board Members About Using Facebook... While freedom of speech and abilities to publicly share disagreement are what make a true democracy, we probably all agree social media can be good and bad. DW1 does not have a Facebook page – the page people are using is not moderated by DW1, is not regularly read by DW1, and board members highly discourage staff to chime in. We don't think it is professional or appropriate to engage staff in FB, and it can be a huge time waster. Some issues require various background for perspective, and some are too complicated to sort out on social media. There are times a board member may post a quick correction of facts, but overall, the board will rarely communicate with residents by Facebook. It's great for companies or agencies with official FB pages - they have public relations staff – we don't, and you don't want to pay for it if we did. If you want something addressed, please contact the office or a board member directly since FB will probably not bring a response, or at least not a timely one. We are clarifying DW1 does not consider the current FB page a serious or appropriate communication method for official District items unless it were professionally monitored. We love the fact social media can be a great way to get information distributed quickly, helps safety, and can be really good for neighborhood comradery – residents should go for it and make friends - just don't expect District involvement or think that items you see posted are 100% accurate. It's a wonderful way for strangers & neighbors to help each other with lost & found, share information & your thoughts. Lastly, please pause a moment to think about what you are posting. If your home were on the market, or if you were looking to buy, is what you are posting appropriate? Polite can still get the point across, & often more credibly.

Info coming from the District is posted on our website, up front, and/or delivered to your home - not on FB