

CITY COUNCIL COMMUNICATION FORM

FROM: Jon Snyder, Public Works Director
THROUGH: Gary Suiter, City Manager
DATE: November 19, 2019
ITEM: Steamboat II Metro District Annexation of Steamboat Springs School District Property.

<input checked="" type="checkbox"/>	DIRECTION
<input checked="" type="checkbox"/>	INFORMATION
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<input type="checkbox"/>	PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

The Steamboat Springs RE2 School District has requested that the Steamboat II Metropolitan District annex the School District's "Barber" property into the Metro District in order to have access to water and sewer services. The Metro District has conditionally approved the annexation request upon the approval of the City to sell additional water to the Metro District in sufficient quantity to allow the Metro District to serve the School District, and confirmation that sufficient sewage treatment capacity is available at the City's wastewater treatment plant to serve the School District.

Staff seeks direction from Council as to whether or not Council is amenable to approving the Metro District's annexation of School District property and the terms under which water and sewer service would be provided by the City to the Metro District in order to serve the school.

Subject Property:

The subject property, commonly referred to as the "Barber" property, is a 45-acre collection of parcels owned by the School District abutting the Metro

District. It generally lies north of Highway 40 and west of County Road 42. It does not abut city limits, and it is approximately 4,000 feet west of the proposed West Steamboat Neighborhoods development.

Wastewater Service:

Under the current proposal, sewage generated at the school site would flow from the school, through the Metro District's collection system, to the City's wastewater treatment plant. The City's treatment plant treats sewage from the City as well as three other wholesale customers. Those three wholesale customers are the Mt. Werner Water and Sanitation District, the Tree Haus Metro District, and the Steamboat II Metro District. The three wholesale customers own and operate their respective sewage collection systems. The treatment plant is currently at 72% of capacity (as measured in terms of biochemical oxygen demand during a peak month), thus staff is confident that sufficient capacity exists at the plant to serve the proposed school.

Water Service:

The Steamboat II Metro District owns and operates their own water system, which consists of wells located near the Yampa River, a treatment system, a distribution network, and a 1MG water tank. 50% of this water tank is owned by the City. Through a 1993 agreement between the City and the Metro District, the Metro District has the right to purchase up to 150,000 gallons of water per day from the City. Water is delivered from the City to the Metro District through a 12"-diameter water main that runs from Downhill Drive westward to the Metro District. Thus, water within the Metro District comes from two sources: the Metro District's wells and the City's supplies.

The Metro District has stated that between their two water sources, they do not have enough water to service the new school, and in order to serve the new school, they have requested that the City sell the Metro District additional water above the 150,000 gallons per day that the District is currently able to purchase. In preparation for this decision, the School District commissioned a water demand analysis for the new school. This water demand analysis is included as attachment 2. City staff has reviewed the water demand analysis and concurs with the analysis' findings. Staff is confident that the City has sufficient supplies to sell additional water to the Metro District to serve the school, even when including anticipated additional demands from infill development and West Steamboat Neighborhoods.

II. SUMMARY AND ALTERNATIVES:

City Council has three general alternatives:

1. Do not approve the Metro District's annexation of School District property.

Under this alternative, it would be up to the School District to find an alternative way to provide water and sewer services to the new school. Options the School District may pursue include:

- a. Petitioning Council to be an out-of-district water and wastewater customer served directly by the City. Under this sub-alternative, the School District could directly tap the City's water line and bring water down County Road 42 into the school site, and build a sewage force main southward from the school site to the City's interceptor. The water service tap is viable. However, running a force main to the interceptor is not particularly viable, as it would include crossing Highway 40, obtaining easements from private property owners, going down a rather steep hill, going under the river, and then going under the railroad tracks in order to eventually connect to the City's interceptor. This alternative would include significant costs for the School District.
 - b. Construct their own onsite water system and wastewater septic system. This is not a particularly viable option as the wastewater leach field would have to be enormous, construction of a site-specific public water system is incredibly costly, and the School District does not currently own sufficient water rights. Furthermore, the sewage from the septic tanks would be hauled by truck to the City's wastewater plant anyway.
2. Approve the Metro District's annexation of School District property, but do not provide additional water supplies. Under this alternative, it would be up to the Metro District and the School District to find a way to provide water service to the new school, either through development of additional supplies, conservation of existing supplies, or a combination of the two. Metro District staff has indicated that this is not a viable alternative. Also under this alternative, wastewater treatment would still be provided by the City.
 3. Approve the Metro District's annexation of School District property and agree to provide the additional water supplies and wastewater treatment under negotiated terms.

III. STAFF RECOMMENDATION:

Staff believes that sufficient capacity at the wastewater treatment plant exists to serve the school, and sufficient water supplies exist to serve the school. Therefore, staff's recommendation is number 3 above: approve the Metro District's annexation of School District property under negotiated terms and conditions. Staff proposes the following terms as a starting point in the discussion:

- a. Wastewater service charges and wastewater tap fees as established in the Municipal Code for wholesale wastewater customers, which may be modified by City Council from time to time.

- b. Sell water to the school through the Metro District at the City's commercial rate as established in the Municipal Code, which may be modified by City Council from time to time. For reference, the City's commercial rate is the rate that the School District currently pays for its existing facilities.
- c. The sale of additional water above 150,000 gallons per day not to exceed the June 19, 2019 water demand analysis prepared by Resource Engineering Inc. (attachment 2).
- d. Water tap fees for the school property in accordance with the terms of the 1993 agreement (discussed under Legal Issues below), which equal one half of the water tap fee payable if the property were located within the City's service area boundary.
- e. A sunset provision related to closure or substantive change to the school.

Under these terms, there are no anticipated City subsidies to offset Metro District or School District costs. The school project would be paying its own way. Staff would appreciate any feedback Council may have and any terms Council may wish to include in future negotiations.

IV. FISCAL IMPACT:

City water service and City wastewater service is financed through a TABOR enterprise fund, and as such no tax dollars go toward the provision of these services. Services are funded through plant investment fees (also known as tap fees) and service charges (monthly customer bills). The City commissions comprehensive and detailed rate studies every three years. These rate studies, which are performed by accountant consultants that specialize in utility rate setting, dive deep into the City's operations, finances, and capital plans to ensure that utility rates are set at an amount that achieves 100% cost recovery while also being fair and equitable to its customers.

Wastewater plant investment fees and service charges for the Steamboat II Metro District are set at Council's sole discretion and are designed to offset 100% of the City's costs. Water plant investment fees and service charges for commercial accounts are also set at Council's sole discretion, and they too are designed to offset 100% of the City's costs. Therefore, if the City provides water supplies to the Metro District for the new school at the prevailing commercial account rates, and if the City provides wastewater treatment to the Metro District under the wholesale customer rates, then there should be no negative financial impact to the City for providing these additional services.

V. LEGAL ISSUES:

In 1993 the City and the Steamboat II Water and Sanitation District, later to become the Steamboat II Metropolitan District, entered into an agreement that

governed the sale of water by the City to the Metro District. This agreement is included as attachment 3. Section N of the agreement stipulates that the City and Metro District shall both approve any expansion of District boundaries or any out-of-District service. Therefore, the Metro District cannot annex the School District property or serve the School District property as an out-of-district customer without the City's consent, which if it is Council's desire, would be done by ordinance.

Steamboat II Metro District is a wholesale wastewater customer of the City's and therefore City Council has sole discretion in establishing the Metro District's wastewater service charges and wastewater plant investment fees.

The 1993 Agreement for the Sale and Purchase of Water does not have a sunset provision, and the terms of the agreement were reaffirmed in a 2003 settlement agreement (attachment 4). This agreement gives the Metro District the right to purchase up to 150,000 gallons per day. Section G gives the Metro District the ability to purchase additional water "upon terms and conditions to be negotiated between the City and the District at the time of such purchase." Therefore, the sale of additional water by the City to the Metro District to serve the new school and at what price is subject to Council's discretion in negotiating proper terms.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

None at this time.

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

None at this time.

ATTACHMENTS:

Attachment 1: PowerPoint Presentation

Attachment 2: Water Demand Analysis

Attachment 3: 1993 Agreement for the Sale and Purchase of Water

Attachment 4: Steamboat II Metro District Settlement Agreement