



WORK SESSION MEMORANDUM

Work Session Date: March 20, 2017 at 6:00 p.m.
City Council Chambers
448 East 1st Street, Room 190
City of Salida, Colorado

To: Mayor and City Council

Re: City Council Work Session

- I. **Salida Business Alliance Discussion**
- II. **Salida Dump Station Lease Discussion**

MEMO

March 15, 2017

To: Salida City Council
From: Guy Patterson, City Administrator
Re: NRCDC RV Dump Station

Background

On February 8, 2017, the City received the following email from Ron Mazzeo, NRCDC Board President:

Mr. Mayor.....

Per the commercial property lease for the outlot and dump station, the NRCDC hereby is giving written notice to the City of Salida that the lease will terminate in 60 days. The NRCDC is open to negotiations for a new lease to take affect after April 8, 2017 with possible rent increases. A new lease will have to take into consideration improvements and changes discussed during our meeting of February 6, 2017.

Please contact me to set a date for new contract negotiations if the City wishes to continue using the outlot beyond the termination deadline.

As noted in the above email, the renewal of the lease would be contingent on the City making improvements to the site. On March 15, 2017, Ron Mazzeo, President of the NRCDC, provided an email to City staff detailing the requirements for a new lease:

1. Improvements to the facility as stated in on-site meetings must be made (and paid for) by the City.

These improvements include....

- a. Paving and sloping the area to provide a wash down area.
- b. Making the facility HC accessible.
- c. Removing all fences and enclosures.
- d. Reconfiguring drive to accommodate large vehicles and multiple lanes.
- e. Making facility conform to government standards as discussed.

2. The facility must also be a "free" service. This includes water and dump fees. The City will not charge for these fees. The NRCDC believes this will deter illegal dumping in Chaffee County.

3. The City must maintain the facility and inspect (and clean) the facility daily.

4. In any new lease the NRDC will retain the option to terminate the lease for any reason with 60 day notice to City.

5. Any new lease will be prepared by the NRDC.

The email concluded by indicating that if the terms are met, the lease will remain \$1 per year. If the City does not agree with these changes then the NRDC Board will decide if the facility should permanently close or there should be a substantial rent increase. A “back of the napkin” assessment of the requested improvements to the facility would be over \$8,000.

Attached is a summary review of capitalized expenditures, revenues and expenses (as of December 31, 2016) for the RV dump station. In 2014, the City spent a combined \$135,866 on new water and sewer line infrastructure. In 2015 an additional \$5,250 was expended for a total of \$141,116.

The facility, constructed in 2014, was placed into service in January, 2015. It’s first year it netted a total profit of \$3,914. In 2016 it netted \$7,319. Assuming no increases in associated operational costs (credit card fees, maintenance fees, electricity, etc), and also assuming that 2016 is close to an “average” year in terms of profit, the facility will need nearly two decades to break even. This does not include the depreciation of the equipment.

That said, any and all discussions of cost recovery become essentially moot under a renegotiated lease as one of the central requirements of any new agreement is that the facility be free to the end-user.

It should be noted that closing the City facility would not remove the last remaining RV dump facility in the area. There is a facility at the welcome center in Poncha Springs with very similar services and technologies. Below is a breakdown of services and end-user costs between the two facilities:

Service	Cost	Notes
Sewer Dump	\$7 for Poncha Springs \$10 for City	Poncha Springs has Sani-star credit card technology with locking access exactly the same as the City site. Both credit card only.
Non-potable water	Free at both locations	n/a
Potable water	\$5 donation for Poncha Springs. \$6 minimum charge, \$6 per 1,000 gallons at City site.	Poncha Springs has a space for cash donations. City site is credit card only

Options

Considering the termination notice issued by NRCDC and follow-up communications detailing the parameters of a new lease, the City has essentially two options:

1. Comply with the termination notice and remove all equipment and ground improvements from the property. The equipment could then be stored, donated or sold.
2. Renew lease with NRCDC and make the upgrades requested in the termination notice.

At the time of this memo, the NRCDC has not indicated if the rent increase contemplated in their termination notice will take place, and if so, how much it would be. Again, the relevance of such a number is diminished due to the demand for a “free” service.

Option #1: The City initially invested over \$141,000 in enterprise funds into this project. If the Council chooses this option it will lose the vast amount of this investment because it is infrastructure in the ground that would be cost prohibitive to remove and re-sell. There will also be a cost incurred in the removal of the equipment (for instance an electrician will be needed to remove some of the equipment), the removal of the concrete, capping the water and sewer lines, removing the fencing, etc. That said, there is always a market for the Sani-star hardware so a small cost recovery will occur if the council decides to sell the items. The NRCDC made it clear they have no desire to own and operate the facility.

Option #2: Any contemplation of this option needs to begin and end with the idea that the NRCDC will require the facility be free (or donation funded) to the end-user and therefore there will be no substantial cost recovery available to recover the investment made in the facility out of the water/sewer enterprise fund. It will become a free-to-the-end-user service subsidized by water and sewer fees. These fees are generally used for current maintenance and future capital needs for the water and sewer system and not for the subsidization of “free” public facilities.

The rough cost of performing more work on the facility is roughly \$8,000. Obviously more annual costs would be associated with the facility in terms of daily maintenance along with the current operating costs detailed in the accompanying spreadsheet. If 2016 can be considered a “typical” year for expenses, the City is looking at approximately \$10,000 annually in operating expenses- again with no cost recovery to offset these expenses save for any donations.

Direction:

There are few options realistically available to the City Council regarding this facility. Unfortunately, due to the parameters of a new lease outlined in the NRCDC's communications, there are no options available that would allow for a timely recovery of the initial cost of installation due to the funding being changed to a "donation" system at best. In addition, the lease would still have a "60 day out" provision so at any point in time the leased land may be reclaimed by the landlord.

Staff requests direction on this issue and will inform and plan with the NRCDC as appropriate. The NRCDC has indicated they would consider extending the lease an additional month in order to make whatever necessary changes come to pass.

RV Dump Station and Potable Water Station
Location: 5580 Cleora Road
Summary Review of Capitalized Expenditures, Revenues and Expenses
31-Dec-2016

2/10/2017

			2014	2015	2016	Notes
Capitalized Purchases & Improvements						(1)
New Water Lines & Other Infrastructure	20-30-6018-3		82,341	2,939		-
New Sewer Lines / Infrastructure	21-30-6018-3		53,525	2,311		-
Revenues						(1)
Potable Water Station Sales	20-00-4132-0		-	1,725	4,056	
Sewer Dump Station	21-00-4117-0		-	6,954	11,660	
	Total Revenue		0	8,679	15,716	
Expenses						
Estimated annual equipment replacement costs			-	-	2,300	(2)
Estimated annual general maintenance costs			-	-	1,000	(3)
Flowpoint software annual maintenance Fee	21-35-5224-0			795	795	
Sani-star monthly maintenance Fee	21-35-5556-0			2,700	2,700	
USALive CC Service/Processing Fees	20-15-5503-0		-	215	331	
USALive CC Service/Processing Fees	21-15-5503-0		-	575	805	
Electricity - Xcel Energy	21-35-5420-0			480	465	(4)
	Total Expense		0	4,765	8,397	
Total Income (Deficit)			0	3,914	7,319	

Notes:

- (1) Facility was constructed in 2014; placed in service January 2015. Amounts from Fixed Asset records for Asset ID #'s 815, 818.
- (2) Estimated equipment replacement costs (i.e., set aside) utilizing depreciation of above-ground components only as a proxy, from DL. Actual equipment costs will be incurred only when equipment has reached life expectancy. [$\$35,000/15y = 2,333$ approx for above ground]
 Notice: Full disclosure, given potential changes in operations - the full annual depreciation expense = \$6,953
 Difference of \$4,653 between full depr and proxy used above for approx of actual annual costs. If used full depr, Total Income = \$2,666 for 2016.
- (3) Estimated conservative general maintenance costs, like site grading, etc., from David L.
- (4) Xcel Energy (electricity) *estimated for 2015 at \$40/month = \$480*. Actual costs from monthly billing shown for 2016.
- (5) This location is not in our utility billing system; we have no meter readings for gallons used.
- (6) No effort to capture indirect costs, direct labor by City EE's, nor utilities other than electricity (e.g., internet, water, sewer, ?) associated with this facility.