

November 18, 2025

AGENDA ITEM SUMMARY

City Council



STAFF

Jen Dial, Water Resources Manager

SUBJECT

Second Reading of Ordinance No. 183, 2025, Amending Section 26-149 of the Code of the City of Fort Collins Regarding Annual Water Allotments for Nonresidential Water Services with Permits Issued Before March 1, 1984.

EXECUTIVE SUMMARY

This Ordinance, unanimously adopted on First Reading on November 3, 2025, seeks approval for revising the methodology for how annual water allotments for nonresidential customers with permits issued before March 1, 1984, are calculated prior to applying excess water use surcharges (surcharges) for these customers on December 1, 2025. Annual water allotments (allotments) are a volume of water measured from December 1 to November 30 each year.

Nonresidential customers that received a tap prior to March 1, 1984, were not initially assigned an allotment, even after the City began assigning new nonresidential customers with allotments on March 1, 1984. Per Ordinance 152, 2024, allotments were assigned to these customers on December 1, 2024, using a hybrid methodology that assigned the greater of either the tap credit or average annual water use (based on historical use from years 2019 through 2023). Surcharges were not to be applied until December 1, 2025, allowing affected customers time to adjust water use to their allotment, if needed. It also allowed time for customers to ask questions and provide input to staff. After receiving and discussing feedback, staff is recommending revising the hybrid methodology in City Code Section 26-149 (e) to assign allotments based on the greater of the tap credit or average historical use *increased by one-half of a standard deviation* to account for variability in weather, patronage, revolving tenants, or other factors.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on Second Reading.

FIRST READING BACKGROUND / DISCUSSION

Applying Allotments

Allotments are intended to represent the anticipated annual amount of water needed per water nonresidential account. If a nonresidential account (commercial or irrigation-only taps on multi-unit or HOA properties) uses more water than the allotment in a year, it is subject to surcharges to incentivize customers to keep their water use at or below a volume consistent with what they paid for with the development's

Water Supply Requirement. From December 1 through November 30 of each year, account consumption is measured against the allotment.

Pre-1984 nonresidential allotments

Approximately 1,000 nonresidential accounts (700 customers) purchased water service prior to March 1, 1984, without an assigned allotment, according to policy at the time. Customers without an allotment were charged the same monthly rates as other nonresidential customers but were not subject to a surcharge if their use exceeded their allotment.

To improve consistency and fairness among all nonresidential customers and to encourage customers to more closely monitor water use, City staff proposed assigning allotments to these “pre-1984” nonresidential customers. Throughout the summer and fall of 2024, staff analyzed four methodologies for assigning allotments and collected feedback from Council, Boards and Commissions, and potentially impacted customers.

In November 2024, Council approved staff’s recommendation to calculate pre-1984 nonresidential customer allotments based on a hybrid methodology that assigned the greater of either the tap credit or average historical use. Staff committed to collecting feedback from customers for one year and addressing any concerns with this methodology prior to applying surcharges. Beginning on December 1, 2025, annual water use that exceeds the allotment will incur a surcharge on the excess volume.

Proposed revised methodology for assigning allotments to pre-1984 nonresidential customers

In 2025, staff engaged the impacted nonresidential customers through phone calls, emails, utility portal notifications, and one-on-one meetings, specifically focusing on those who were at risk for exceeding their assigned allotment based on past consumption. All customers assigned an allotment received written notice of the proposed change throughout 2024 and of the approved changes to their account through 2025. This allowed staff to collect feedback on the assignment of allotments and promote water conservation programs. While the majority of affected customers were understanding of the reasoning behind the change, there were two primary concerns raised:

- By including data from 2020 in the average, for some businesses that had to shut down or decrease hours during COVID, the assigned allotment was lower than their normal water use; and
- By including data from 2023 in the average, a year with above average precipitation, some customers with large irrigation uses received allotments that were lower than their normal water use.

Both of these scenarios could result in surcharges. Common suggestions from affected customers included adding or removing years from the 2019 to 2023 average to account for these “outliers”, or to use the maximum 2019 to 2023 annual use.

After discussing customer feedback and reviewing water use data, staff propose revising the original hybrid methodology for determining allotment size. The updated approach assigns each allotment as the greater of either the tap credit or the average historical use from 2019-2023, *plus one-half of the standard deviation calculated from the 2019-2023 use data*. This method keeps the historical data range the same but helps account for some variation in water use due to weather, patronage, revolving tenants, or other factors.

A standard deviation is a common statistical measure that quantifies the variability within a group of data. In other words, it measures how spread out a group of numbers is from its average. Because each customer’s water use varies year to year due to numerous factors, the standard deviation is a unique value for each customer. Thus, adding one-half standard deviation to the average historical use to calculate the allotment for each customer provides a methodology that is applied consistently but based on individual customer water use patterns. The average increase in a customer’s allotment would be 177,360 gallons results in a slightly larger allotment than originally adopted, and thus a lower financial impact to customers.

The table below shows an example of how an allotment would be calculated for a customer according to the proposed methodology.

	Annual Use (gallons)
2019	2,650,600
2020	2,417,700
2021	2,032,300
2022	2,317,300
2023	2,484,500
Average Use	2,380,480
Standard Deviation (S.D.)	229,342
Proposed new allotment (Average use + 0.5 S.D.)	2,495,151

Alternative methodologies were considered, such as omitting or adding certain years or using the 2019 to 2023 maximum annual use. Omitting or adding years did not significantly decrease the number of customers impacted by a surcharge; it only shifted the type of business/customer that was impacted. For example, omitting the year 2020 due to COVID benefited some restaurants but not customers with large irrigation water needs. Using the maximum annual water use during 2019 to 2023 is not representative of use in most years and defeats the purpose of a surcharge to incentivize the efficient use of water because a customer's use in most years would be expected to stay below the maximum annual use. Neither of these methods provide a consistently applied, individualized approach that is accomplished by adding one-half standard deviation to the average historical use.

Impacts to Customers

The information below illustrates how the changes in the allotment size calculation could impact customers financially. The new proposed method achieves the original goals of improving fairness among customers and promoting efficient water use, while also mitigating some of the potential financial impact to the affected customers.

Under the current method, 995 accounts (93%) were assigned an allotment based on tap size and 70 accounts (7%) were assigned an allotment based on average historical use. Table 1 illustrates the number of accounts that would have been impacted and what those financial impacts would have been based on 2024 water use data.

Table 1: Impact to pre-1984 nonresidential customers based on 2024 water use and their current allotment

	# Accounts that would have paid a surcharge in 2024	Average annual surcharge	Annual surcharge per account	Total 2024 surcharges
Tap Credit	15 (1.4%)	\$3,200	\$3,200 to \$25,000	\$48,600
Average Historical Use	49 (4.6%)	\$6,200	\$200 to \$64,000	\$300,100

Using the proposed method, 980 accounts (92%) would be assigned an allotment based on tap size and 85 accounts (8%) would be assigned an allotment based on average historical use increased by one-half of a standard deviation. Table 2 illustrates the number of accounts that would have impacted and what those financial impacts would have been based on 2024 water use data. Under this proposed methodology the number of customers impacted by a surcharge decreased by 16 and the amount of total surcharges decreased by \$109,000.

Table 2: Impact to pre-1984 nonresidential customers based on 2024 data and the proposed revised methodology for calculating allotments

	# Accounts that would have paid a surcharge in 2024	Average Annual surcharge	Annual surcharge per account	Total 2024 surcharges
Tap Credit	15 (1.4%)	\$3,200	\$3,200 to \$25,000	\$48,600
Average Historical Use + 0.5 S.D.	33 (2.4%)	\$5,800	\$30 to \$47,600	\$191,100

The impacts to customers under the proposed methodology are less than those experienced by the approximately 1,800 nonresidential accounts that have an allotment assigned based on the policy at that time of permit issuance which has varied since 1984 (Table 3). This is to be expected since the proposed method allows for greater variability through the addition of a 0.5 S.D. However, it still meets the goal to improve fairness through assigning an allotment while limiting financial impacts to customers who have never had to manage their water use against one.

Table 3: Impacts to post-1984 nonresidential customers using 2024 data

	# Accounts that paid a surcharge in 2024	Average Annual surcharge	Annual surcharge per account	Total 2024 surcharges
Post-1984 customers	264 (15%)	\$7,000	\$9 to \$74,100	\$1,840,000

CITY FINANCIAL IMPACTS

Revenue from surcharges is used for recovering costs from past development-driven water projects and the purchase of future water supplies and storage projects that are necessary to meet current and future water demands. Revenue from surcharges varies year to year but is on average approximately 2.5% of the total Utilities Water Fund revenue. Based on 2024 use data, the proposed change (5-yr historical average + 0.5 standard deviation) would mean some of the pre-1984 customers receiving new allotments would benefit by having a lower chance of exceeding their allotments than with the originally proposed method (5-yr historical average). This would lower the total annual revenue slightly compared to the original method; however, the main objective of assigning allotments to these pre-1984 customers is not revenue generation, but rather to increase fairness amongst nonresidential customers. Prior to assigning allotments, customers who used more than they originally paid in water supply requirements, did not generate any surcharge revenue because there were no limitations on water use.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

None.

PUBLIC OUTREACH

Below outlines the outreach planned for those approximately 1,000 customers that received an allotment in December 2024 and will be subject to surcharges beginning January 1, 2026, as well as targeted outreach to those customers that will receive a revised allotment.

Late October:

- Letters will be mailed to all accounts that had an allotment assigned in 2024, describing the proposed change in method used to assign the allotment and what the new allotment would be if approved by Council. Communication would include reiterating allotments and excess water use surcharges will be active beginning 2026.
- Staff will follow up with additional communications to all account holders who had requested so throughout 2025.

December 2025:

- Letters will be mailed to all accounts that had an allotment assigned in 2024, describing a summary of 2025 consumption, resources for water conservation, and status of proposed method change, with final allotment amount, following Council decision.
- In-person meeting invitations will be extended to allotment assigned customers with EWU surcharge in 2024/2025. These meeting invitations will continue into January and throughout 2026.

ATTACHMENTS

First Reading attachments available in November 3, 2025, agenda materials at the following link:
<https://fortcollins-co.municodemeetings.com/>.

1. Ordinance No. 183, 2025