

AGENDA ITEM SUMMARY

City Council



STAFF

Jen Dial, Utilities Water Resources Manager

SUBJECT

Items Relating to Water Supply Requirement Fee and the Excess Water Use Surcharge, and Pre-1984 Nonresidential Annual Allotments.

EXECUTIVE SUMMARY

A. First Reading of Ordinance No. 151, 2024, Amending Chapter 26 of the Code of the City of Fort Collins to Review Miscellaneous Water Fees and Charges, Including the Water Supply Requirement Fee and Excess Water Use Surcharge.

B. First Reading of Ordinance No. 152, 2024, Amending Chapter 26 of the Code of the City of Fort Collins Regarding Annual Water Allotments for Nonresidential Water Services.

The purpose of this item is to seek approval for both the adjustments to the Water Supply Requirement (WSR) fee amount and methodology and assignment of allotments to pre-1984 nonresidential accounts.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinances on First Reading.

BACKGROUND / DISCUSSION

Water Supply Requirement (“WSR”) Fee

Fort Collins Utilities has been proactive in securing and developing a high-quality, reliable water supply system since the late 1800s and has implemented policies to ensure the water supply system will support existing and future water customers through the 2065 planning horizon. Financial mechanisms to help achieve this priority include the WSR, previously known as the Raw Water Requirement (RWR), which is met with a cash payment (WSR fee) and the Excess Water Use surcharge (surcharge) assessed and nonresidential accounts where use exceeds the annual allotment. Term clarifications:

WSR fee A one-time variable development fee required for each new water service or replacement of an existing meter or service with a larger size.

Surcharge A volumetric charge for nonresidential customers who exceed their allotment during a 12-month period.

Allotment The volume of water a nonresidential account can use in a 12-month period before incurring a surcharge.

There are multiple ways to calculate the WSR fee. Utilities has been using a hybrid approach since 2018 which reflects a “buy-in” component of costs for those water rights and infrastructure already owned and an “incremental” component of costs for the construction of new infrastructure (primarily storage in an enlarged Halligan Reservoir) and additional water rights.

The “buy-in” component of the WSR fee can be valued with a market-based approach or a cost-based approach. The current methodology uses a market-based approach. The market-based approach factors in the current market value for the existing water rights portfolio and infrastructure based on recent transactions. The cost-based approach uses the original purchase price of the water rights and infrastructure escalated by the consumer price index to reflect their value in today’s dollars. The Ordinance presented, and staff recommendation, is to implement a cost-based method for the “buy-in” component.

Other factors that can be reflected in the WSR fee include a 30% contingency factor and a 20% safety factor, which are both included in the current methodology. The contingency factor represents uncertainties in the cost of future water rights and infrastructure and is not applied to the “buy-in” component of the WSR fee. The safety factor represents uncertainties in future water supply and demand needs such as potential impacts of climate change and type or rate of development and redevelopment and is applied to the entire WSR fee. The Ordinance presented, and staff recommendation, maintains both contingency and safety factors in the “incremental” component.

In August 2023, staff presented a revised hybrid methodology that would have significantly increased the current fee of \$68,200 per acre-foot to \$179,500 per are-foot. Following Council discussion, staff evaluated methodologies with different options of valuing the “buy-in” component. In April 2024 staff presented four options with a recommendation for a hybrid, cost-based methodology for the “buy-in” component that includes a 30% contingency factor and 20% safety factor. Staff found a cost-based approach for the “buy-in” component more appropriately reflects the investment Utilities made early on when the cost of infrastructure and water rights were lower. There was general Council support of this approach.

Following outreach and refinements to costs in the proposed methodology, staff presented at the July 9, 2024, work session with a recommended 2025 fee of \$63,8000 per-acre foot utilizing the hybrid, cost-based methodology. The fee will be reviewed and updated, if necessary, annually in October/November using the same methodology.

The proposed fee is \$4,400 per acre-foot less than the current fee which will result in financial impacts to existing rate payers. Approximately 95% of water fund revenue is collected from rates and 5% from development fees such as the WSR fee. The less revenue collected from development fees, the greater the impact on rates. Projected out over time, and not considering WSR fee increases, Utilities will see a 6.5% decrease in development fees, which would require roughly a half-percent increase in customer rates to recoup the difference.

Assignment of Pre-1984 Nonresidential Allotments

Allotments represent the anticipated annual amount of water needed per water nonresidential account. Although the WSR/RWR and annual allotments are related, the WSR/RWR is a development fee whereas the allotment is term of service that can be a different amount based on different assumptions and analyses.

Approximately 1,000 nonresidential accounts do not have an allotment (pre-1984 accounts). At previous Council work sessions, staff recommended assigning allotments to these customers to increase consistency and reduce inequities by requiring all customers to manage water efficiently and be subject to surcharges, thereby increasing the incentive for the efficient use of water supplies. Four methodologies have been considered and analyzed. The Ordinance presented and staff recommendation is to utilize a hybrid methodology for assigning allotments.

The hybrid method assigns the greater of either a tap size credit using values from 1989 or a 5-year historical average use. By assigning the higher allotment value the goal is to minimize overages and the incurrence of surcharges. The customers most likely to be impacted by surcharges are irrigation-only

accounts, including several City-owned properties, mixed-use strip malls, and restaurants. The potential impact is attributed to highly variable factors affecting these use types such as weather, patronage, and revolving tenants. There may be additional accounts with highly variable account uses, including large water users and large tap accounts, that may be impacted. Staff has and will continue to provide customer outreach and support to these accounts. Following work session discussions, Council expressed general support of the hybrid methodology to assign allotments to pre-1984 nonresidential customers.

Prior to Ordinance No. 18, 1965, customers were not required to provide water rights to the City and thus there is no water requirements information upon which to base a specific annual allotment. Customers with permits dating between Ordinance No. 18, 1965 and Ordinance No. 12, 1984 provided the City with water rights (or cash in lieu thereof) based on various assumptions that cannot be reliably translated into the annual allotments assigned to customers with permits received after Ordinance No. 12, 1984. The proposed hybrid methodology for assigning allotments takes into consideration actual water use over a representative and reasonable time-period for each account. Customer outreach has indicated that assigning allotments through this hybrid approach will not be meaningfully adverse and assigning such allotments will further the City's policy goals to help control water demands and conserve water supplies for the water utility.

The Ordinance presented proposes allotments be assigned on December 1, 2024, with no surcharges assessed until January 2026. Throughout 2025, customers will have time to adjust to an allotment and staff can collect feedback on any potential impacts and concerns. This also allows the opportunity to adjust the policy if needed prior to assessing surcharges.

CITY FINANCIAL IMPACTS

Annual revenue from development fees is directly tied to development and redevelopment within Utilities' water service area, which can vary greatly from year to year. Any changes to the WSR fee will impact the amount recovered for source of supply and storage projects in both the near term and long term. A change to the WSR is also directly tied to the amount collected in surcharges, and as customers exceed their allotment, it helps ensure recovery for undersized WSR received at time of development.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

- At the August 15, 2024, hearing, Planning and Zoning Commission recommended that Council approve the hybrid, cost-based methodology for WSR and assigning of allotments to pre-1984 nonresidential customers.
- At the August 1, 2024, work session, Water Commission recommended that Council approve the hybrid, cost-based methodology for WSR and assigning of allotments to pre-1984 nonresidential customers.

PUBLIC OUTREACH

Utilities reached out to customers and community members who could potentially be impacted by these decisions, including developers, community groups, Boards and Commissions, existing customers, and nonresidential customers who would be assigned an allotment. In general, the feedback received has been positive or neutral, with most groups interested in better understanding their specific situation.

Tactics for outreach included:

- [Our City](#) engagement website
- Direct email and mail
- Webinar for potential new allotment customers
- Internal staff lunch and learn

- Dedicated office hours appointments by request
- Chamber of Commerce
- Affordable Housing Providers

ATTACHMENTS

1. Ordinance A for Consideration
2. Ordinance B for Consideration