

WORK SESSION AGENDA ITEM SUMMARY

City Council



STAFF

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SUBJECT FOR DISCUSSION

Water Supply Requirements, Excess Water Use Charges, and Non-Residential Allotments.

EXECUTIVE SUMMARY

The purpose of this item is to provide Council and the community with an update on the project plan and analysis regarding three related items for Fort Collins Utilities (Utilities) water customers:

- Revisions to the Water Supply Requirement (WSR) fee methodology;
- Revisions to the excess water use surcharge (surcharge); and
- Assignment of annual water allotments (allotments) for non-residential customers, specifically, pre-1984 non-residential accounts (pre-1984 accounts) that currently do not have allotments.

The feedback from this Work Session will be considered and addressed at the July 16 Work Session.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. What questions do Councilmembers have on the potential methodologies and analysis of setting a WSR fee and associated surcharge?
2. What questions do Councilmembers have regarding assigning allotments to non-residential customers that do not currently have allotments?
3. What questions do Councilmembers have on the potential methodologies for calculating allotments for non-residential customers?
4. What feedback do Councilmembers have on the overall plan and timeline for implementation?

BACKGROUND/DISCUSSION

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. These efforts continue in support of Council's priority to *Protect Community Water Systems in an Integrated Way to Ensure Resilient Water Resources*

and Healthy Watersheds. Financial mechanisms to help achieve this priority include a WSR fee which is a one-time variable development fee required for each new water service; allotments which are assigned to non-residential customers based on a their WSR; and surcharges, a monthly charge, for non-residential customers who exceed their allotment during a 12-month period.

Over the past several years, the cost to develop Utilities' water supply has increased due to water scarcity, driven by climate change impacts such as drought and higher regional water demands/competition. Infrastructure costs have increased as well due primarily to inflation which contributes to the overall WSR development costs. This prompted staff to reevaluate the WSR fee and methodology, which was last evaluated in 2022 and set at \$68,200 per acre-foot (AF). In August 2023, staff presented Council a revised WSR fee methodology and a proposed WSR fee and surcharge increase. Following that work session, Council feedback included:

- Provide WSR options for Council to consider when this item is brought back for consideration.
- Provide clarification on the need for 500 AF of additional water rights.
- Develop a comprehensive City-wide team to analyze and develop a solution that reflects both the economic value of the WSR and the values of the community.
- Engage with multiple Boards and Commissions, and those directly affected to ensure the recommended path forward captures the concerns, challenges, and opportunities of all in the community.

The surcharge amount is determined by the WSR fee and non-residential customers with allotments are affected by higher surcharges if the fee increases. There are approximately 1,000 accounts (approximately 700 customers) that received a water tap before 1984 and do not have an allotment assigned. These customers can use as much water as they would like without being subject to a surcharge. Staff is recommending the assignment of allotments to these non-residential accounts to create consistency among customers and increase fairness by requiring all customers to be subject to a surcharge, and help customers more closely manage their water use.

Based on Council's comments at the Work Session staff has developed a project plan and an inter-departmental team dedicated to this project. Staff has begun:

- 1) Evaluating methods for calculating the WSR fee and the associated impacts.
- 2) Evaluating methods for calculating allotments and associated impacts.
- 3) Creating a strategic and thorough outreach plan.

WSR: Methodologies, Impacts, Communication and Engagement

Methodologies

According to the American Water Works Association's 'Seventh Edition of Water Rates, Fees, and Charges,' there are three basic methodologies for calculating a WSR fee. They are based on a water provider's water rights portfolio, infrastructure, and the ability of the current water supply system to serve existing versus future customers. These methods include:

- **Full Buy-In Method:** Values the entire existing water supply system, which is expected to service all current and future customers' water value. Future customers would then buy into the entire current system (total value of system/total yield).

- **Incremental Method:** Based on the cost to expand the water supply system to serve future customers. This fee only reflects the cost of buying water rights and paying for infrastructure needed to support future customers.
- **Hybrid Method:** Includes a buy-in component that is the portion of the current water supply system, and an incremental portion that is the portion of the system that has not been purchased or built yet. It acknowledges that future customers will use both current and future water supply systems and thus reflects the percentage of the total cost of the current and future system that will serve those customers.

Utilities has been using a hybrid approach since 2018 and recommends continuing with this approach. Utilities owns water rights that new customers will rely on, reflecting a “buy-in” portion of costs. Utilities also needs to build new infrastructure (primarily storage in Halligan Reservoir) and purchase an additional 500 acre-feet of water rights, reflecting an “incremental” portion of costs. Modeling indicates that the addition of 500 AF to our existing water rights portfolio along with storage in Halligan Reservoir provides the water supply needed to meet demands through build out in 2065.

The buy-in portion 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 uses the current market value for the existing water rights portfolio based on recent transactions of water rights. The cost-based approach uses the original purchase price of the water rights escalated by an inflation percentage to reflect their value in today’s dollars. The cost-based approach results in a lower WSR fee than the market-based approach because the water supplies were generally acquired long ago, before recent and significant water rights cost increases. The incremental portion of the fee uses the market-based approach to value the water rights that need to be purchased and the future infrastructure that needs to be constructed.

Other factors that can be reflected in the WSR fee include a 30% contingency factor and a 20% safety 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 portion 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 re-development and is applied to the entire WSR fee.

Staff has evaluated WSR fees using the current **hybrid** methodology with the different approaches of valuing the “buy-in” component (market/cost) and the inclusion/omission of a safety factor as described below. These approaches are proposed because they best reflect the value of the water supply system and community:

Method	Cost	Considerations
Market-based, 30% contingency, 20% safety factor	\$116,500/AF	<ul style="list-style-type: none"> • Current approach • Highest impact to developers
Cost Based, 30% contingency, 20% safety factor	\$71,800/AF	<ul style="list-style-type: none"> • Developments costs reflect Utilities investment in water rights proactively (late 1800's on)
Market-based, 30% contingency	\$97,100/AF	<ul style="list-style-type: none"> • Safety factor removed
Cost-based, 30% contingency	\$59,900/AF	<ul style="list-style-type: none"> • Safety factor removed • Lower than current fee • Highest impact to existing customers

Impacts

Future Development/Redevelopment

All water service providers in the region require some form of WSR for development or redevelopment. The methodologies used and the required water dedications differ making comparisons challenging. For most water providers, the cost required of developers depends on:

1. The fee per acre-foot of water (\$/AF)
2. The amount of water required (AF)

Where,

Total Cost=fee per AF of water x the amount of water required (AF)

Utilities currently has a higher *fee per acre-foot* compared to other water providers in the region. However, the *amount of water required for dedication* for different developments is sometimes less.

For example, applying the current WSR fee to the amount of water required for a multi-family development costs \$291,200 in Fort Collins Utilities service area compared to East Larimer County Water District at \$670,900 and Fort Collins-Loveland Water District at \$1,310,200 (see table below):

Multi-Family			
100 bedrooms, 64 dwelling units, 30,504 sqft lot area, 5,535 sqft irrigated area			
Provider	Dedication Amount (acre-feet) ✕	Water Fee (\$/acre-feet)	Cost (\$) =
Ft. Collins Loveland	15.29	\$85,700	\$1,310,200
East Larimer County	11.07	\$60,600	\$670,900
Loveland	10.62	\$47,380	\$503,200
FC Utilities (High Option)	4.27	\$116,500	\$497,500
Greeley	7.29	\$51,500	\$375,300
FC Utilities (Current)	4.27	\$68,200	\$291,200
Westminster	6.88	\$40,400	\$278,300
FC Utilities (Low Option)	4.27	\$59,800	\$255,400

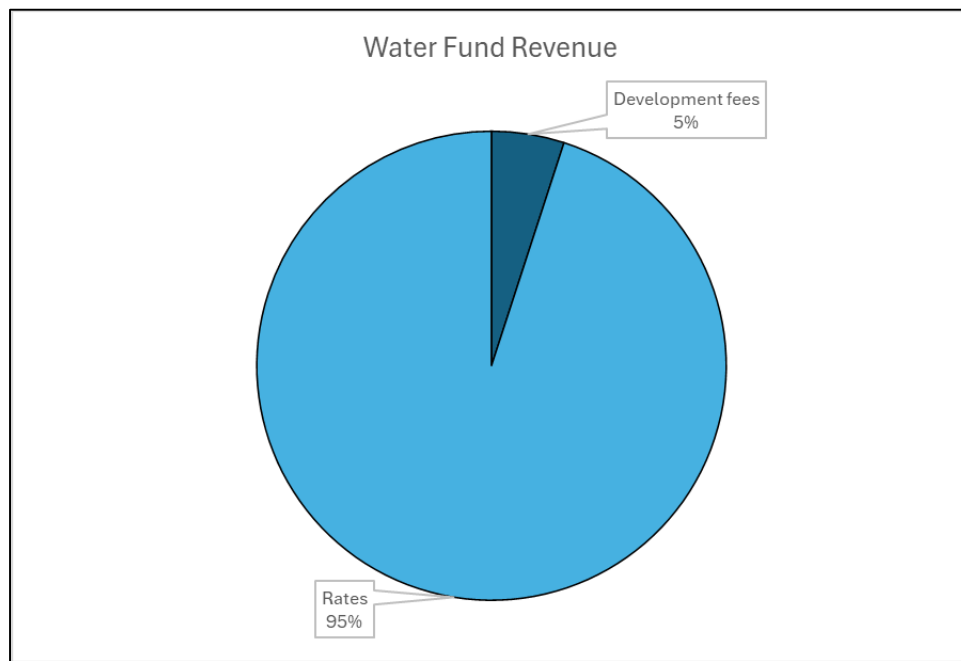
On the other hand, Utilities would require a median cost for an office building and higher costs for a typical restaurant compared to other water providers.

Existing Customers: Rates vs. Fees

Monthly water rates and development fees are the two main sources of revenue to the water fund. Currently, development fees are meant to support the value of growth paying it's on way. its own way Water development fees can be further broken down into:

- 1) WSR fee: One-time fees geared towards cost recovery of storage and source of supply projects.

Plant investment fees: One-time fees geared towards recovery of the water treatment plant and distribution system. A significant portion of water fund revenue is collected from monthly utility rates, equating to roughly 95% of total revenue each year on average. The remaining 5% is from development fees and surcharges, although there are variations in this ratio, and fluctuations are tied to development projects (or redevelopment) that occurs in Utilities service territory.



Routine updates to the WSR fee, as well as the excess water use surcharge, will help the Utility keep pace with increasing costs and provide a recovery mechanism for both current and future source of supply and water storage projects. The methodology being considered to calculate the WSR fee will have an impact to existing rate payers, both now and into the future.

Assigning New Allotments to Pre-84 Non-residential Customers

As noted above, staff recommends assigning allotments to pre-84 non-residential customers that do not have one. This will:

- Provide better consistency across non-residential customers.
- Provide increased fairness by requiring all customers to manage water efficiently and be subject to a surcharge if they do not: as WSR and surcharges increase, the gap between those with allotments and those without will grow.
- Promote water conservation by assigning appropriate allotments and focusing water efficiency programs to customers that use over that allotment.
- Address these assignments now rather than in the future when WSR and surcharges could be greater and more challenging for customers to manage.

Important considerations:

- Staff is not recommending that additional WSR be met with the assignment of an allotment.
- Customers will need time to understand their allotment, how they use water, and how to budget their water within their allotment.
- This does not re-evaluate existing allotments.

Methodologies and Impacts

After evaluating a variety of methods for assigning allotments, staff is recommending the Hybrid approach.

Pros and cons from the evaluation are listed below.

1) Tap Size

- a. Assigns allotment based on meter size (method used to assign allotments from 1984-2022).
- b. Some customers would receive a smaller allotment than they currently use subjecting them to surcharges.
- c. 181 accounts (18%) would exceed their allotment based on their 7-year maximum use.
- d. Consistent with code prior to 2022.

2) Average Use

- a. Assigns an allotment based on average historical water use per tap (e.g. average annual use from past 5, 7, or 10 years of use).
- b. Reflects actual water use but doesn't always reflect or identify inefficiencies in use.
- c. Lower impact from surcharges. Unless there's significant growth or changes in business use and function, annual consumption is expected to be around the allotment.
- d. 1,026 accounts (99.5%) would exceed based on their 7-year maximum use.
- e. Inconsistent with current and historical codes.

3) Hybrid

- a. Assigns an allotment based on the greater of the tap credit or average consumption.
- b. Could assign a higher allotment than needed making it difficult to address or identify inefficiencies in water use.
- c. Lowest impact to pre-84 customers.
- d. 181 accounts (18%) would exceed based on their 7-year maximum use, but the magnitude of the impact would be less.
- e. Inconsistent with historic and current code.

4) Business Type

- a. Allotments are assigned based on the specific use (e.g. # of rooms in a hotel, square footage of a restaurant, outdoor water demands based on landscape details, etc.).
- b. More accurate but cannot evaluate the potential impacts to customers without collecting the data necessary to assign the allotment.
- c. Consistent with current code, but inconsistent with majority of existing allotments (only 44 accounts have been assigned this way since 2022).

Communication and Engagement

Utilities plans to communicate with customers and impacted community members so people can provide input during the project's decision-making process. New development and redevelopment will be impacted directly by increases to the WSR fee, whereas allotment assignments and surcharges will impact current customers. Our goal is to capture questions, concerns, and feedback so interested parties are informed in advance of a potential fee increase, and Utilities and Council can consider a variety of impacts.

Staff developed a detailed plan to engage City Council, multiple boards and commissions, existing customers, developers, and affected City departments (see Attachment '2024 WSR Engagement Timeline').

- Phase 1 (April – June 2024): Broad engagement and feedback collection
- Phase 2 (July – September 2024): Refine proposal and incorporate feedback.
- Phase 3 (October – December 2024): Seek adoption and plan for implementation.

Specific Engagement Goals Include:

1. Educate and inform stakeholders on WSR, surcharges, and allotments
 - Provide opportunities for stakeholders to ask questions and learn more
 - Provide time for behavior change (purchasing more WSR, participating in conservation programs, etc.)
2. Involve stakeholders in decision-making process
 - Stakeholders can provide feedback on alternatives or propose others that meet objectives before adoption, and weigh in on project implementation
 - Seek out multiple perspectives and consider equity in decision making
 - Consider different formats for implementation (e.g. grace period such as assigning allotments Jan. 1, 2025 and waive surcharges until Jan 1, 2026, allow customers to purchase more WSR under the current cost until Jan 1, 2026)
3. An updated fee structure is adopted by Council
 - Provide Council education and resources to understand this topic
 - Council adoption

NEXT STEPS

- 1) Collect feedback from communication and engagement efforts for WSR fees and assignment of allotments.
- 2) Evaluate feedback from Council and communication efforts.
- 3) Present additional analysis or information based on feedback to Council at the July 16 Work Session.

ATTACHMENTS

1. 2024 WSR Engagement Timeline
2. Presentation