

Water Supply Requirements and Pre-1984 Non-Residential Water Allotments

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Council Work Session Purpose

1. Build shared understanding of the history and purpose of Water Supply Requirement fees and pre-1984 non-residential water allotments.
2. Share staff's analysis of potential methodologies for Water Supply Requirement fees and assigning pre-1984 non-residential water allotments.
3. Share staff's planned customer engagement for 2024, including a timeline and identification of impacted parties.
4. Answer Council questions and confirm direction and timing.



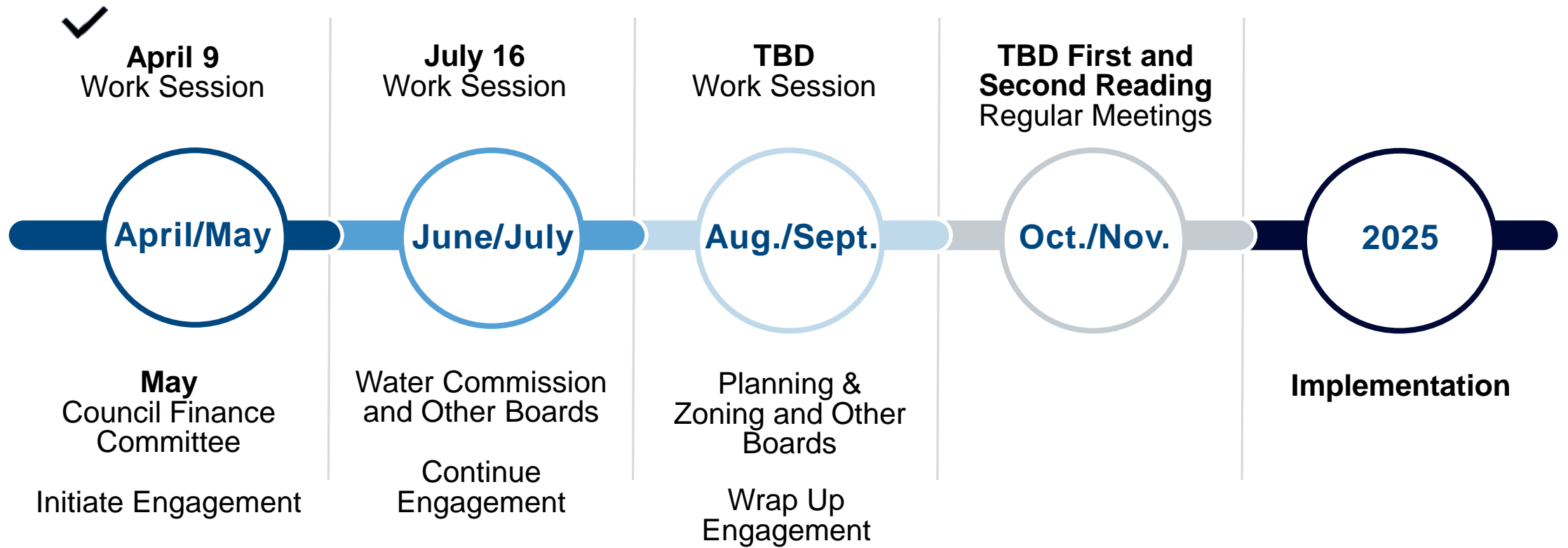
Purpose – Water Supply Requirements and Water Allotments



A form of Water Supply Requirements (WSR) and water allotments has been in place since the mid-1960s. The purpose is to:

- Ensure secure water sources and protect the watershed
- Provide a financial mechanism to ensure current and future assets are adequate to meet community water supply and service needs
- Balance current needs and supply and future potential needs and acquisitions

Timeline





August 2023 Work Session Summary

- Provide clarification on the need for additional future water rights
- Provide Council new options to consider
- Develop a City-wide team to analyze and develop a solution that reflects economic and community values
- Engage with Boards and Commissions and impacted parties to ensure the recommended path forward captures the community's concerns, challenges and opportunities



Current Project Plan

- Interdepartmental team created
- Develop options using various methodologies
- Additional analysis including future water rights needs
- Full outreach plan including feedback group

Water Supply Requirement

Fee paid by new development and some redevelopment to ensure adequate water dedication to serve.

Residential and Non-Residential Customers

Water Allotment

A volume of water dedicated to a non-residential user.

Two-thirds of non-residential accounts have assigned allotments.

Based on WSR

Excess Water Use Surcharge

A charge assessed to non-residential accounts with allotments when they exceed their allotment.

Based on Allotment

- All regional water service providers have a version of a WSR development fee
- Total fee varies based on water rights portfolio, infrastructure and ability to support existing and future customers to meet community values
- Water scarcity and demand drive the cost of acquiring new water and impacts the value of our water rights portfolio

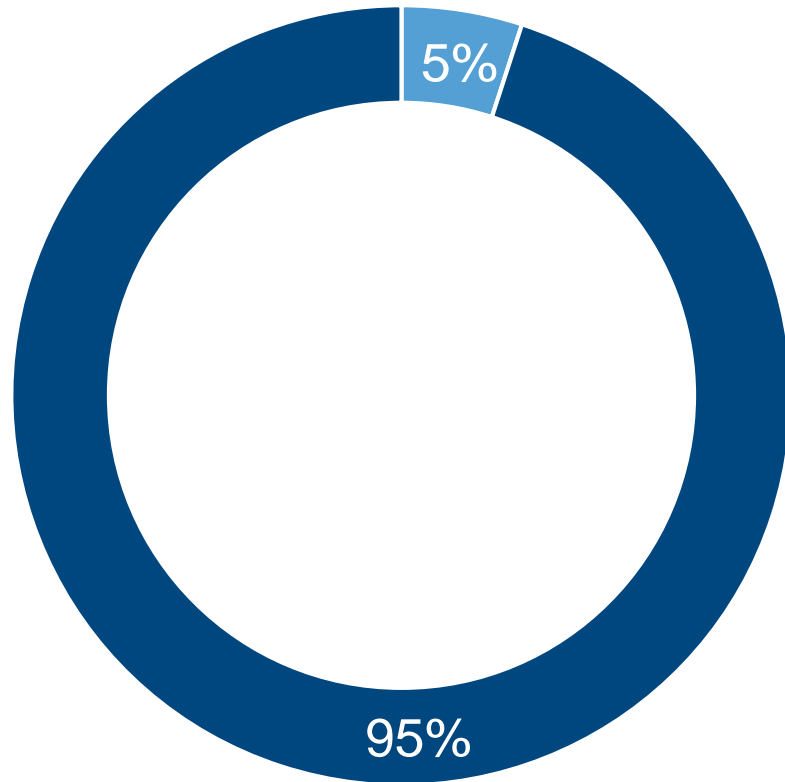


Development/Redevelopment Fees

New development and redevelopment within the water service area make up approximately 5%.

Water Utility Rates

Rates paid by existing customers make up approximately 95% of the water fund revenue.



Development/Redevelopment

The rate of development can be unpredictable and water costs can play a part in where development occurs.

Future Storage Cost

Future storage has been identified through the Halligan Water Supply Project. Costs estimates of this project have doubled.

Water Rights

Additional water rights necessary to meet 2065 projected demands.

Additional Storage

Storage is needed for existing and future use.

Water Supply Requirements

1. What questions do Councilmembers have on the potential methodologies and analysis of setting a WSR fee and associated surcharge?

Non-Residential Allotments

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?

Overall Plan and Timeline

4. What feedback do Councilmembers have on the overall plan and timeline for implementation?



WSR Pricing Methodologies

Jen Dial, Utilities Water Resources Manager

Full Buy-In

- Cost of the entire existing water supply system which is expected to serve all existing and future customers.
- Future customers buy in to the entire current system (total value of system/total yield).

Incremental

- Cost to expand the water supply system to serve future customers.
- Only reflects the cost of future water rights and infrastructure.

Hybrid

- Includes a “buy-in” component for the current water supply system and an “incremental” component for the future water system needs that have not yet been purchased or built.
- Acknowledges future customers will use portions of the current and future water supply systems.

WSR Historical Methodology

2002-2017



- › **\$6,500/AF**, based on Colorado Big-Thompson (CBT) prices

2018-2021



- › 2018: **\$17,300/AF** using hybrid method with market-based costing
- › 2020: **\$21,500/AF**, updated costing
- › 2021: **\$22,145/AF**, added 3% inflationary increase

2022-current



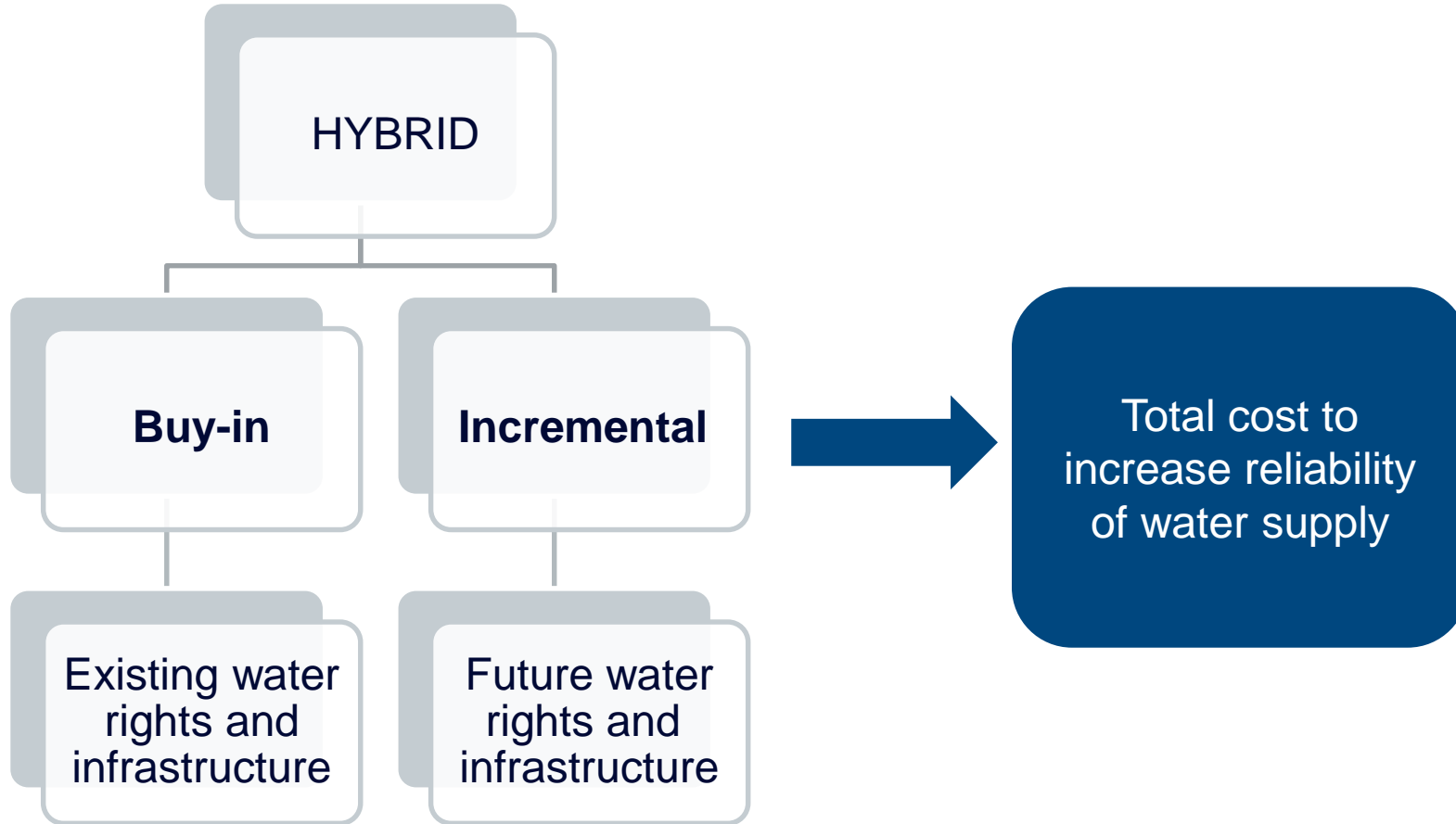
- › **\$68,200/AF**, same methodology with updated yields

2025-future



- › Re-evaluating options within the hybrid methodology
- › Different from August proposal
- › Market vs. cost-based valuations
- › Analysis of current risk factors (contingency/safety)

Current Methodology Overview



Note: Future water supplies do not provide adequate reliability without existing portfolio



WSR = Existing Water + Future Water rights & Infrastructure

Buy-In

Existing Water Rights and Infrastructure

Can determine past purchase prices and costs.

Options on how to value:

- Market price in today's dollars
- Cost of what was paid plus an adjustment factor

Incremental

Future Water Rights and Infrastructure

Requires modeling and predicting costs of future water supply needs.

Options on how to value:

- Market-based
- Contingency
- Safety factor

Hybrid Method Pricing Options

Method	Cost	Considerations
Market-based 30% contingency* 20% safety factor**	\$116,500/AF	<ul style="list-style-type: none"> • Current approach with updated costs • Highest impact to developers
Market-based 30% contingency	\$97,100/AF	<ul style="list-style-type: none"> • Safety factor removed
Cost-based, 30% contingency 20% safety factor	\$71,800/AF	<ul style="list-style-type: none"> • Development costs reflect Utilities' investment in water rights proactively (since late 1800s)
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

*Contingency: Captures uncertainties in future costs

**Safety factor: Captures uncertainties in future demand and supplies (e.g., climate change, development types, etc.)

Multi-Family Total Water Supply Requirement (Indoor & Outdoor)

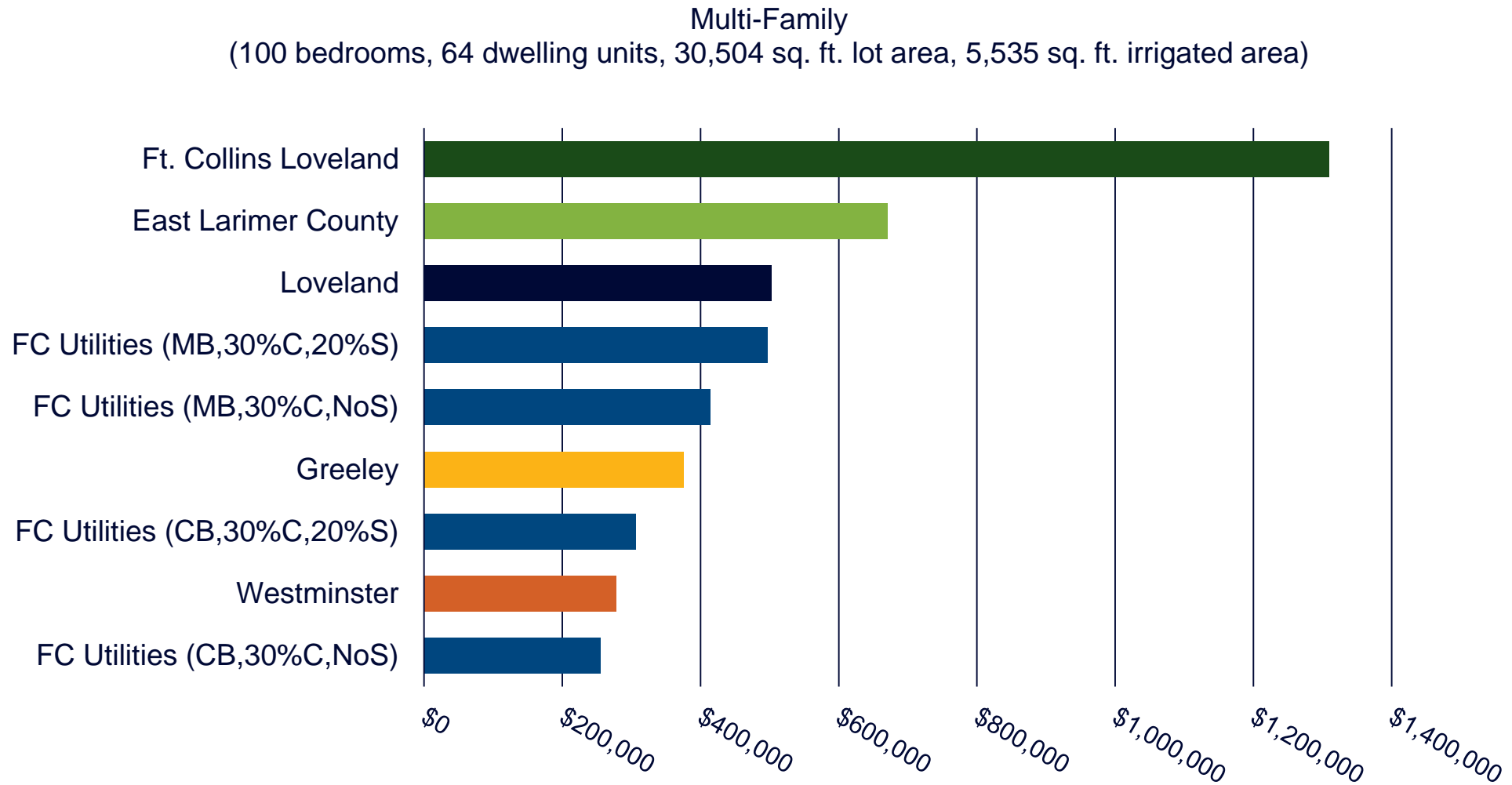


2024 Multi-Family			
100 bedrooms, 64 dwelling units, 30,504 sq. ft. lot area, 5,535 sq. ft. irrigated area			
Provider	Dedication Amount (acre-feet)	Water Fee (\$/acre-feet)	Cost
FC Utilities (CB,30%C,NoS)	4.27	\$59,900	\$255,800
Westminster	6.88	\$40,400	\$278,300
FC Utilities (CB,30%C,20%S)	4.27	\$71,800	\$306,600
Greeley	7.29	\$51,500	\$375,300
FC Utilities (MB,30%C,NoS)	4.27	\$97,100	\$414,600
FC Utilities (MB,30%C,20%S)	4.27	\$116,500	\$497,500
Loveland	10.62	\$47,380	\$503,200
East Larimer County	11.07	\$60,600	\$670,900
Ft. Collins Loveland	15.29	\$85,700	\$1,310,200

*MCS=Market-based, 30% contingency, 20% safety factor; CCS=Cost-based, Contingency, 20% safety factor; MC=Market-based, contingency, no safety factor; CC=Cost-based contingency, no safety factor

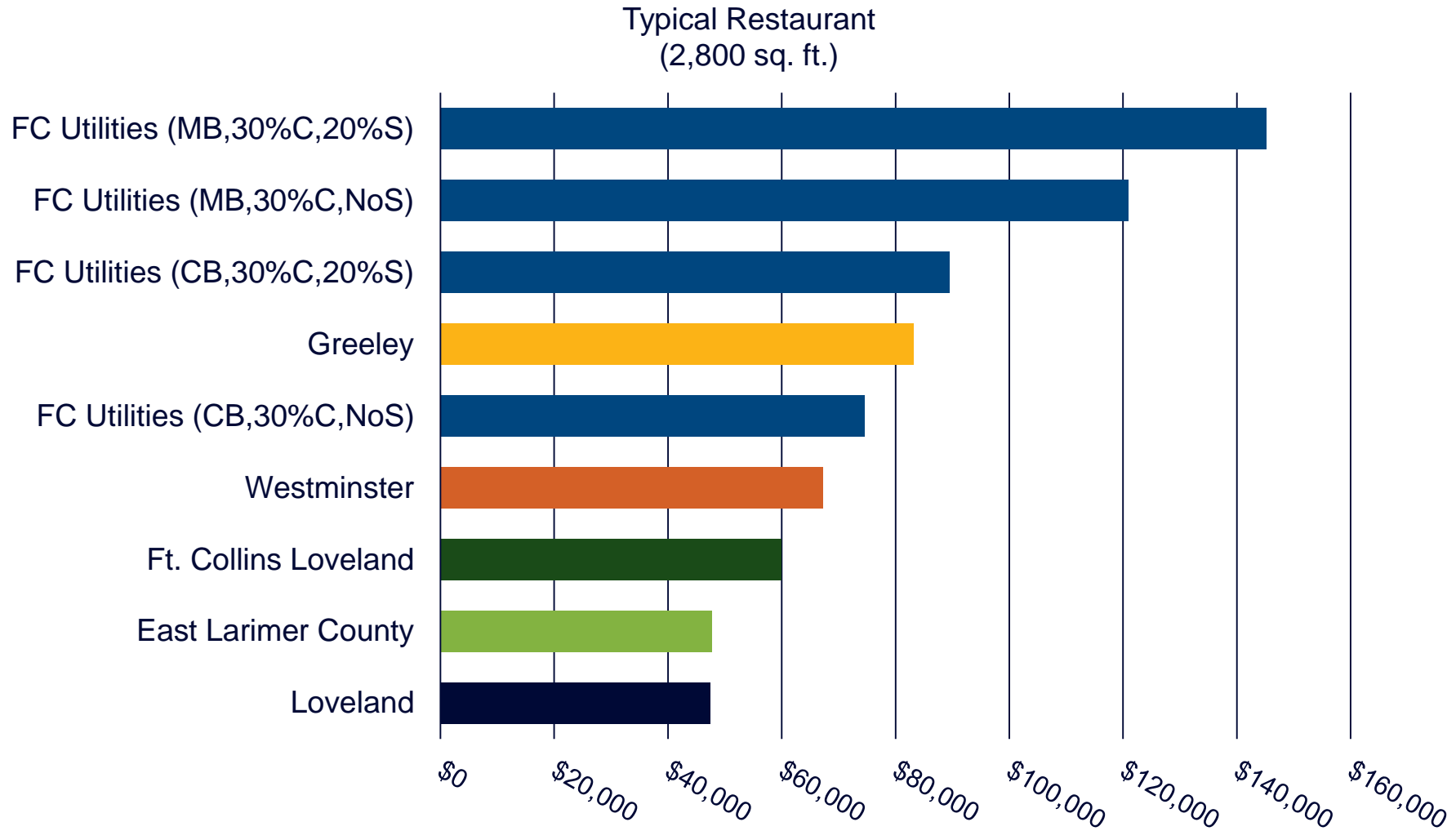
**For larger developments, East Larimer County Water District only allows 30% of its WSR to be met with cash and the remainder must be met with acceptable water rights, thus the cash equivalent listed here is based on the market value of acceptable water rights.

Comparison to Other Providers



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Summary: Hybrid Method Pricing Options

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01

What questions do Councilmembers have on the potential methodologies and analysis of setting a WSR fee?





Methodology for Assigning Remaining Non-residential Water Allotments

Jen Dial, Utilities Water Resources Manager

Water Allotment Overview

1965-1984



- Required volume of water based on acre of land served
- No allotments were assigned

1984



- Required volume based on tap size
- Began to assign allotments to non-residential accounts

2022



- Allotments based on business type
- Assigned allotments to new development and any redevelopment
- Requirement was burdensome and revised to only apply to those with additional water service

2024



- Proposing to assign allotments to ~1,000 accounts that do not have one (1/3 of total)
- Not proposing additional WSR costs
- Allow time to adjust use to avoid surcharges

Why Update Now?



- Consistency
 - Same requirement for all customers
- Fairness
 - Customers without allotments can use as much water as they desire without surcharges
 - Does not capture costs for water supply system use that is above what was paid for through a WSR fee
 - A higher WSR fee and surcharges increases the inequity between customers who are subject to surcharges and those who are not
- Conservation
 - Programs and incentives for customers that would regularly go over their allotment

Allotment Methodology Overview

Method	Description	History	Impacts
Hybrid (Tap and Avg. Use)	Selects the greater between average historical use and tap credit	Have not assigned this way	<ul style="list-style-type: none"> • Lowest impact • Could assign a higher allotment than needed making it difficult to identify inefficiencies
Tap Credit	Assigns a volume based on meter size	Most current allotments assigned with this methodology	<ul style="list-style-type: none"> • Could underestimate allotment resulting in potential unwarranted surcharges
Average Historical Use	Assigns a volume based on average historical water use per tap (e.g., 5 years)	Have not assigned this way	<ul style="list-style-type: none"> • Could assign a lower allotment compared to the volume received with a tap credit, undervaluing WSR • Could assign a higher allotment than customer needed making it difficult to identify water use inefficiencies
Business Type	Assigns based on business type and specific use (e.g., # rooms in hotel, square footage of restaurant, landscape details, etc.)	Current methodology for setting allotments	<ul style="list-style-type: none"> • Best reflects actual water use need • Limited data to fully evaluate impacts (44 customers assigned this way) • Time-intensive process

Potential Impacts

	Tap Credit	Average Historical Use	Hybrid (greater of tap credit or average historical use)
# of accounts with excess water use	181 (18%)	1,026 (99.5%)	181 (18%)
# of accounts over \$20,000 in EWU surcharge	12	15	7
Average annual EWU surcharge (per account)	\$8,200	\$2,800	\$5,200
Potential total impact	Up to \$1,500,000	Up to \$2,900,000	Up to \$940,000

Impact calculated using current EWU surcharge of \$16.67 per 1,000 gallon and estimating future water consumption using maximum annual use in past 7 years for each account.

02

What questions do Councilmembers have regarding assigning allotments to non-residential customers that do not currently have one?

03

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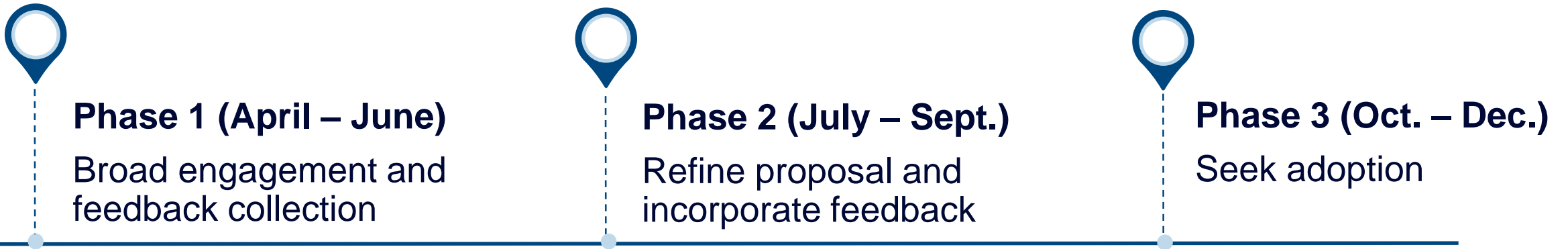


Customer Engagement

Heather Young, Utilities Community Engagement Manager

Work Directly with Impacted Parties

- Involve impacted parties in developing and refining alternatives for:
 - WSR
 - EWU surcharges
 - Allotment assignments
- Goals:
 - Keep impacted parties informed of project timeline, how to be involved, and decisions made
 - Seek input on potential impacts to customers and community members



- Market-rate developers
- Affordable housing developers
- Water-intensive businesses (breweries, restaurants, etc.)
- Homeowner's Associations
- Commercial real estate
- Commercial water customers
 - With allotments
 - Without allotments
 - Irrigation only



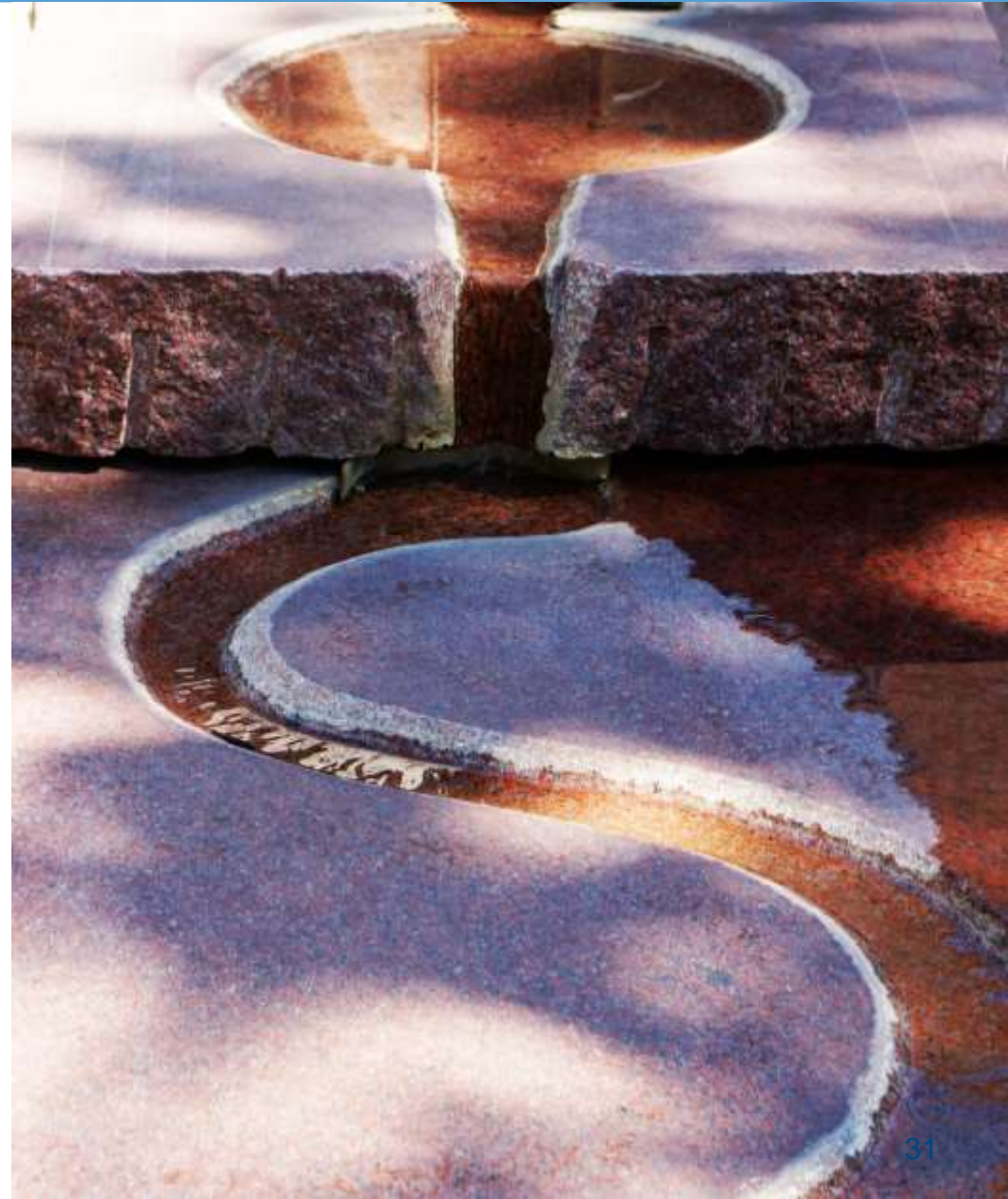
Planned Communications and Engagement Opportunities

- Council Work Sessions
- Boards and Commissions
- Email communication
- Existing e-newsletters
- Seek input from community groups at existing meetings
- Community Engagement Group
- Business meetings
- Webinar for impacted allotment customers



04

What feedback do Councilmembers have on the overall plan and timeline for implementation?





Summary

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Questions?