

August 8, 2023



# WORK SESSION AGENDA ITEM SUMMARY

City Council

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## STAFF

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## SUBJECT FOR DISCUSSION

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**Water Supply Requirement and Excess Water Use Fee Increase.**

## EXECUTIVE SUMMARY

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As prices continue to rise for water supplies and the infrastructure to support them, Fort Collins Utilities (“Utilities”) determined it needed to re-examine its Water Supply Requirement (“WSR”) and Excess Water Use (“EWU”) fees. The WSR and EWU fees do not apply to customers or developers served by other water districts.

Based on a detailed consultant recalculation and recommendation, staff is proposing to increase fees substantially from \$68,200 per acre-foot to \$179,500 per acre-foot for the WSR, and \$16.67 per 1,000 gallons to \$43.87 per 1,000 gallons for EWU. These fee increases will apply to both commercial and residential development and redevelopment, as well as existing commercial customers with a water allotment who incur an EWU charge. These fees do not apply to redevelopment unless there is an increase in water service.

These fees will go to Council for approval in November with implementation on January 1. However, given the significant increase, we would like to consider options to help customers adjust to and pay for the increased fees.

## GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

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1. Does Council have any questions regarding the need and evaluation of WSR and EWU fees?
2. Does Council have any specific direction for outreach and implementation of the WSR and EWU fee increases?

## BACKGROUND / DISCUSSION

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Due to the scarcity of water in Northern Colorado, coupled with rising demands, water's cost has increased significantly. Additionally, storage project costs have continued to increase due to permitting and construction costs. In November 2022, the cost estimate for the Halligan Water Supply Project was projected at almost double the cost estimated in 2019. These combined increases prompted staff to reevaluate the WSR methodology and fee structure once again. Because the EWU fee is increased by the same percentage as the WSR, the EWU fee was also recalculated.

It is best practice to reevaluate WSR fees a minimum of every 2 years. WSR fees offset the costs to Utilities to provide new customers with water in perpetuity and assure development pays its own way when connecting to Utilities water service. This helps avoid impacts to current Utilities customers.

If allotment customers use more water than their tap is allocated annually, they pay EWU fees. This covers the cost for water above and beyond their allocation.

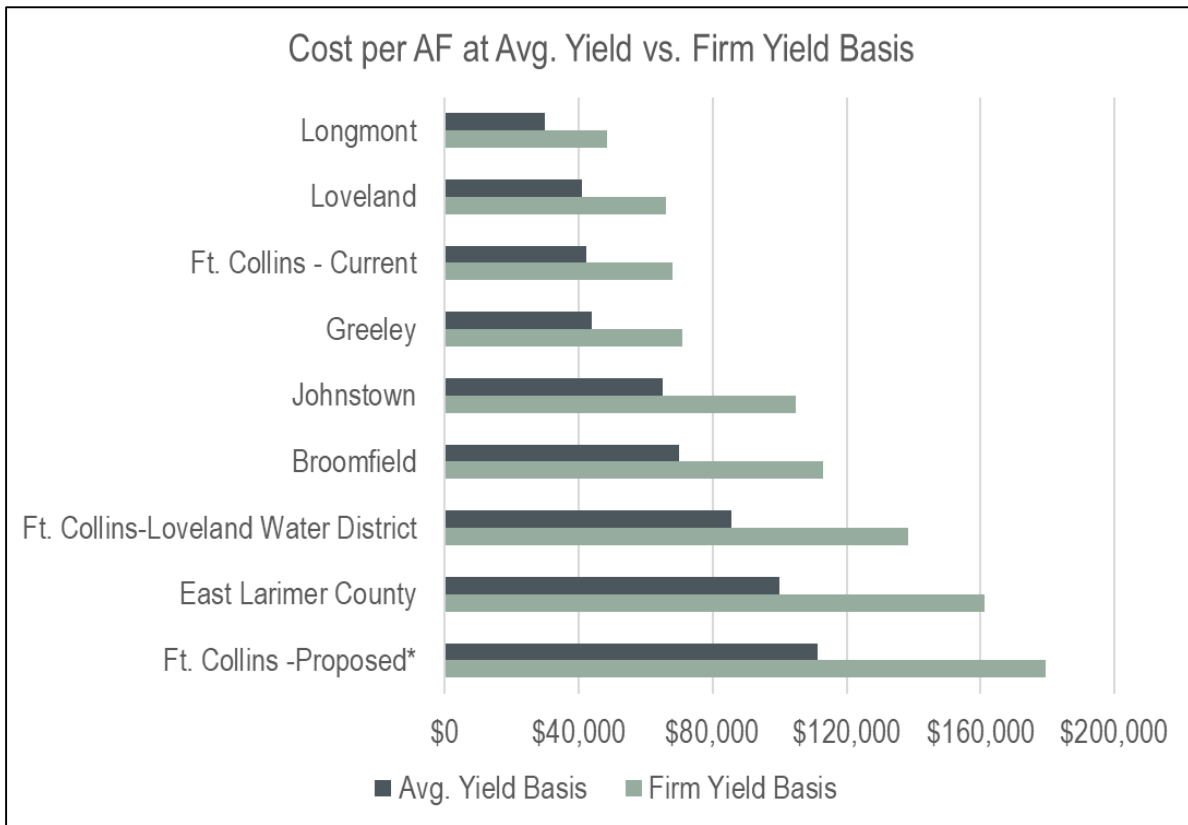
### WSR FEE CALCULATION

In early 2022, Utilities hired FCS Group to evaluate the WSR methodology and fee. The evaluation is specific to WSR which then determines how EWU fees are calculated. There are three ways the WSR (also referred to as 'cash-in-lieu' for some water providers) can be calculated: buy-in, incremental, or combined approach. FCS Group recommended Utilities use a 'combined approach' that considers the cost of the existing and future water supply system (infrastructure and water rights).

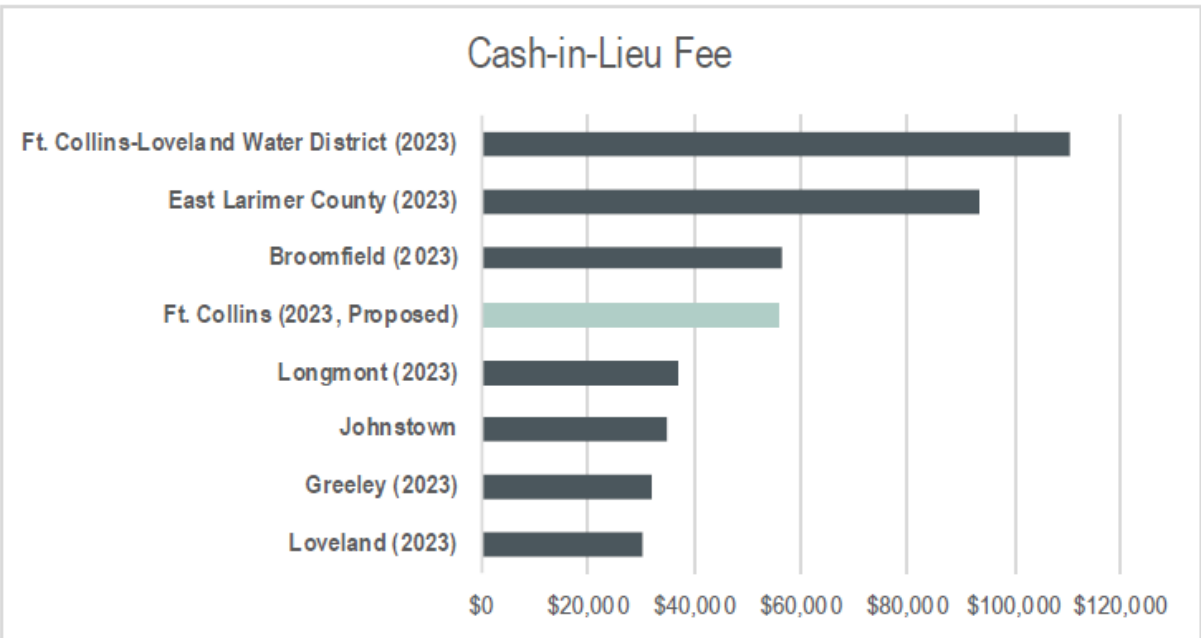
The cost of existing infrastructure is not included in the WSR calculation because the City's current infrastructure needs to be expanded to be able to serve future customers. Therefore, it's included in future water supply system costs. The WSR calculation includes the cost of future infrastructure (Halligan Reservoir expansion and capital improvement projects to expand the system's capacity), market value of existing water rights, and market value of expected future water rights acquisitions. This total cost is then divided by the firm yield of the water rights portfolio, which results in a cost of \$179,500/acre-foot to serve future development.

It is recommended to use the 'firm' yield (which is the current method), as opposed to 'average' yield. Firm yield is the amount of water the City can depend on assuming a 50-year drought. Firm yield is contingent on storage and infrastructure to capture and deliver those water rights. For example, the firm yield with the current Halligan Reservoir is much less than with an enlarged Halligan Reservoir because there is not the ability to capture water rights during high flows and store it for use during future droughts.

The following graph illustrates the cost comparison per acre-foot in WSR compared to other water providers in the region.



While the City’s proposed fee would be the highest in the region, these comparisons are not apples to apples because there is not a consistent methodology used among water providers. Additionally, each water provider has a different dedication requirement. For instance, the City requires 0.31 acre-feet per four-bedroom single-family home, which equates to \$53,850 per residence. Fort Collins-Loveland Water District requires 0.80 acre-feet for a similar home, which equates to \$110,000 per residence. (The graph below illustrates a comparison of the cost for a four-bedroom, 5,200 square foot outdoor area residence.) This discrepancy also applies to commercial developments.



## IMPACTS

The WSR fee increase will impact development, redevelopment, and existing customers but to different extents. Because there is not much developable land left within the Utilities water service area, there is likely to be less impact to new development. According to the 2017 Fort Collins City Plan Trends and Forces Report, approximately 25% of the new development that will occur within the Growth Management Area will be within Utilities service area, with the remaining 75% serviced by surrounding water districts. Currently, there are 821 developers in some phase of the development review process that could be financially impacted if they are not able to pay their WSR ahead of January 1, 2024.

Redevelopment is expected to continue and will also be impacted by an increase to WSR fees. Particularly in Downtown, near Colorado State University, and along the College Avenue corridor, there are opportunities for infill and redevelopment expected in the coming years, but the exact amount is unknown at this time.

As for EWU charges, up to 260 customers per year have paid those fees since 2012. This amounts to between \$500,000-\$1.7 million in annual collection. The number of customers is not expected to change unless the City sees more customers deciding to increase their allotment by paying an additional WSR. While customers have the option to pay a WSR fee to increase their allotment, many find it more financially feasible to pay a smaller annual EWU fee than a large one-time WSR fee. With increasing WSR costs, it is unknown how that might change.

The WSR and the EWU fees ensure that the Water Utility is not burdening the existing rate payers with the cost of new development. For Affordable Housing, any subsidy would require the Water Utility to be fairly compensated.

## NEXT STEPS & RECOMMENDATIONS

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Water is expensive and rising costs are outside the City's control. The population in Fort Collins is expected to continue to grow and Utilities is charged with finding a way to pay for future water demands. If developers are not required to pay the market cost of the water rights and infrastructure needed to provide service for future customers, these costs would inequitably fall on existing customers. Therefore, staff recommends implementing the proposed \$179,500 per acre-foot WSR fee and \$43.87 per 1,000 gallons EWU fee starting January 1, 2024.

### Options for implementation include:

- Move forward with staff recommendation at projected pace and implement fees January 1, 2024.
- Evaluate different payment options for:
  - Current development review customers
  - Small businesses
  - Most marginalized customers
  - Affordable housing development
- Enhance conservation programs to help offset the price of water.
  - Xeriscape Incentive Program (XIP) which assists customers in removing grass for more native plants that decrease water demand in the long term.
  - Allotment Management Program (AMPP) provides eligible Utilities customers with a temporary waiver from their EWU fees if they meet certain qualifications.

Given the substantial increase to the WSR and EWU fees, staff acknowledges the importance of communication and engagement with Council, Boards and Commissions, the community, and internal colleagues.

**Staff intends to:**

- Meet with internal staff, Water Commission, Planning and Zoning Commission, Chamber of Commerce, Economic Advisory Board, and Development Review Executive Team (**mid-August - early October**).
- Email developers with projects in the development review process and assist in their payment of WSR ahead of the fee increase (**August**).
- Email customers who have incurred EWU charges so they can consider paying a WSR to increase their allotment (**August - September**).
- Fort Shorts e-newsletter (internal staff) (**August**).
- Update City website (**August**).
- Lunch and Learn or Open House for development community (**October**).
- Communicate with the Affordable Housing Board and Building Review Commission (**September**).
- City News e-newsletter (**September**).
- Building Services e-newsletter (**September**).
- Fort Collins Area Chamber of Commerce e-newsletter (**September/October**).

**ATTACHMENTS**

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1. Presentation