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Council Finance Committee Zoom Meeting
December 14, 2023
4:00 - 6:30 pm

Council Attendees: Emily Francis, Kelly Ohlson

Members Absent: Julie Pignataro

Staff: Kelly DiMartino, Tyler Marr, Travis Storin, John Duval,
Dave Lenz, Lance Smith, Randy Reuscher, Marc Virata, Dean Klingner, Sheena Freve,
Brad Buckman, Monica Martinez, Jill Wuertz
Blaine Dunn, Randy Bailey, Renee Reeves, Meaghan Overton, Jo Cech,
Jen Poznanovic, Kendall Minor, Victoria Shaw, Jill Wuertz
Zack Mozer, Carolyn Koontz

Others: Kevin Jones, Chamber
Brian Duffany and Christian Carroll from Economic & Planning Systems;
Colin McAweeney from TischlerBise

Meeting called to order at 4:00 pm

Approval of minutes from October 5, 2023, Council Finance Committee Meeting.
Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion.
The minutes were approved unanimously via roll call by; Emily Francis and Kelly Ohlson.

A. Impact Fee Study Continued Discussion & Options

David Lenz, Director, FP&A - Financial Services
Marc Virata, Engineering - Planning, Development & Transportation
Randy Reuscher, Lead Rate Analyst - Utilities Finance

EXECUTIVE SUMMARY:

Staff have been working to update the Utility Development Fees, Transportation Capital Expansion Fees (TCEFs) and Capital Expansion Fees (CEFs). On October 5, 2023, at the Council Finance Committee meeting, staff presented the current status of the TCEF and CEF Study updates as well as the Utilities' Finance model updates of their plant investment fees (PIFs) and electric capacity fees. No action was taken in regard to adoption of fees for 2024 with a request to get further clarity to the proposed work program regarding the utilities Water Supply

Fees, Excess Water Use and Water Allotments. **Currently, no rate adjustments are set to occur effective January 1, 2024.**

This update provides a review of the updated fee studies and schedules presented in October, an overview of the tentative Utilities water supply timelines and a recommended path for adoption of the fees presented at the October CFC meeting.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED:

- What questions does the committee have related to the study updates, draft fee schedules or proposed timelines?
- Does the committee support the staff recommendation of bringing forward the TCEFs, CEFs, Utility PIFs and Electric Capacity Charge Fees for Council adoption during Q2 2024?

BACKGROUND/DISCUSSION:

During 2023, staff engaged consultant TischlerBise (TB) to update the Transportation Capital Expansion Fee study. Additionally, consultant Economic & Planning Systems (EPS) was contracted to update the Capital Expansion Fee study, while utilities’ staff completed their biennial internal Fee Study model updates. The current schedule of updates and rate adjustments is highlighted below.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Capital Expansion Fees (CEF)	Update	Step II	Step III	Inflation	Inflation	Inflation	Update	Inflation	Inflation	Inflation	Update
Transportation Expansion Fee (TCEF)	Update	Step II		Inflation	Inflation	Inflation	Update	Inflation	Inflation	Inflation	Update
Electric Capacity Fee	Update		Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update
Water Supply Requirement	Update		Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update
Water, Wastewater, Stormwater PIFs		Update	Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update

These study and model updates are summarized in the sections that follow below (with the full draft study reports included as Attachments 2 and 3). The Water Supply Requirement will be undergoing further updates during 2024.

Water Supply Requirements:

In the August 8, 2023, Council Work Session on Water Supply Fees, Excess Water Use and Water Allotments, a number of questions arose concerning the updated analysis of proposed fee levels. In response to these questions, staff prepared a memorandum to Council dated October 25, 2023, which is included as Attachment 4. The primary outputs were the convening of an internal team to review and develop options balancing community and utility needs, the development of separate workstreams to address appropriate considerations, and project plan development utilizing a community-wide lens in providing options to Council.

The proposed timeline for 2024 meetings and outreach is highlighted below:

- April 9 Council Work Session
- June 6 Water Commission Work Session
- July 16 Council Work Session
- August 1 Water Commission Work Session
- August 15 P&Z Work Session
- Sept 10 Council Work Session
- Sept 19 P&Z Hearing/Water Commission Hearing

Oct 15
Nov 5

1st Reading
2nd Reading

Utilities Development Fees Update:

Staff updates development fee models every two years. In alternating years, when models are not updated, an inflationary adjustment is applied to utility development fees. Staff use the Engineering News Record (ENR) construction cost index to apply inflationary adjustments. In 2022, for 2023, staff increased development fees, including the Electric Capacity Fees, Water Plant Investment Fees, Wastewater Plant Investment Fees, and Stormwater Plant Investment Fees, by 9% as an inflationary adjustment.

Each model was updated this year to capture current inputs, including current escalation factors and each of the various drivers such costs, consumption, and future system needs. Utilities have experienced extreme cost pressures, especially on the electric side. Some items such as electric transformers have increased dramatically in price due to supply chain issues and higher material costs. The table below shows the proposed increase for 2024 for each of the development fees by fund.

Utility Fee	Unit of Measure	2024 Proposed Increase
Electric Capacity Fee (ECF)	\$ / kW	14.8%
Water Plant Investment Fee (PIF)	\$ / GPD	5.7%
Wastewater Plant Investment Fee (PIF)	\$ / GPD	4.1%
Stormwater Plant Investment Fee (PIF)	\$ / acre of development	7.0%

There are many variables in calculating the impact of a development, particularly between residential and commercial. Shown in the table below is an example of a single-family residential house receiving all four services from Fort Collins Utilities. The 2023 amount is expected to increase by approximately \$790 in 2024, from \$11,120 to \$11,911. This equates to an overall increase of 7.1% for these one-time fees.

Residential Development Fee Example				
	2023 Fee	2024 Fee	\$ Change	% Change
200-amp Electric Service	\$ 2,286	\$ 2,625	\$ 339	14.8%
3/4" inch Water PIF (6,000 sq ft lot)	\$ 3,611	\$ 3,817	\$ 206	5.7%
4" Wastewater PIF	\$ 4,168	\$ 4,339	\$ 171	4.1%
Stormwater PIF (6,000 sq ft lot, 0.7 runoff coeff)	\$ 1,055	\$ 1,130	\$ 74	7.0%
Total	\$ 11,120	\$ 11,911	\$ 790	7.1%

Transportation Capital Expansion Fee Study Update

TCEF's last program update was in 2017 by TischlerBise. The City again contracted with TischlerBise for the current study update. The 2023 TCEF study uses a combination of incremental expansion for roadways and plan-based methodologies to provide improvements for Active Modes. The methodology also utilized data from more updated sources:

- 2023 Transportation Capital Projects Prioritization Study
- 2022 Active Modes Plan
- 2022 Fort Collins Travel Diary Report
- The current anticipated 10-year buildout of additional lane miles through development
- The current City's Arterial Cost per Lane Mile (\$2.0M), along with baseline data and projections from the North Front Range MPO

For residential development, updated amounts are based on square feet of finished living space. Garages, porches, and patios are excluded from the TCEF assessment. For nonresidential development, TCEFs are stated per thousand square feet of floor area, using three categories. The TCEF schedule for nonresidential development is designed to provide a reasonable fee amount for general types of development. There has been further emphasis on active modes and to provide further clarity the maximum supportable fee schedule is broken down by roadway capacity and active modes.

Summary fees are highlighted below and the TCEF Draft Report with full detail is included as Attachment 2.

Residential	Unit	Roadway Fee	% of Total	Active Modes	% of Total	Update Total	Current Total	Change	% Change
up to 700 sq. ft.	Dwelling	\$2,863	91%	\$272	9%	\$3,135	\$2,703	\$432	16%
701-1,200 sq. ft.	Dwelling	\$4,988	91%	\$487	9%	\$5,475	\$5,020	\$455	9%
1,201-1,700 sq. ft.	Dwelling	\$6,363	91%	\$625	9%	\$6,988	\$6,518	\$470	7%
1,701-2,200 sq. ft.	Dwelling	\$7,380	91%	\$726	9%	\$8,106	\$7,621	\$485	6%
over 2,200 sq. ft.	Dwelling	\$8,191	91%	\$809	9%	\$9,000	\$8,169	\$831	10%

Development Type	Unit	Roadway Fee	% of Total	Active Modes	% of Total	Update Total	Current Total	Change	% Change
Commercial	1,000 sq. ft.	\$11,045	94%	\$702	6%	\$11,747	\$9,946	\$1,801	18%
Office & Other Services	1,000 sq. ft.	\$6,450	86%	\$1,075	14%	\$7,525	\$7,327	\$198	3%
Industrial	1,000 sq. ft.	\$2,897	75%	\$944	25%	\$3,841	\$2,365	\$1,476	62%

Capital Expansion Fee Study Update:

The City has five separate Capital Expansion Fees (CEFs), related to neighborhood and community parks, and fire, police, and general government services. These fees were initially adopted in 1996 based on an internal study by City staff. External study updates were completed in 2013 and 2017 by Duncan Associates. The studies relied on the standards-based (or incremental expansion) methodology, which bases the fees on the existing levels of service. The new fees were adopted in 2017 and implemented over a three-year time period.

In the spring of 2023, the City solicited bids and contracted with Economic & Planning Systems, Inc. (EPS) to update the Capital Expansion Fee Study. The EPS Study Update adheres to the existing standard-based approach to fee calculation, continuing to use construction cost replacement valuations.

Highlighted below are the updated draft fee calculations for residential and non-residential properties compared to the current fee. More detailed information is included in the CEF Draft Report in Attachment 3.

Residential	Unit	N'hood Park	Comm. Park	Fire	Police	Gen. Gov't	Update Total	Current Total	Change	% Change
up to 700 sq. ft.	Dwelling	\$2,813	\$2,140	\$604	\$382	\$745	\$6,684	\$6,593	\$91	1%
701-1,200 sq. ft.	Dwelling	\$4,260	\$3,241	\$914	\$578	\$1,129	\$10,122	\$8,844	\$1,278	14%
1,201-1,700 sq. ft.	Dwelling	\$4,783	\$3,638	\$1,026	\$649	\$1,267	\$11,363	\$9,652	\$1,711	18%
1,701-2,200 sq. ft.	Dwelling	\$5,145	\$3,913	\$1,104	\$698	\$1,363	\$12,223	\$9,764	\$2,459	25%
over 2,200 sq. ft.	Dwelling	\$5,848	\$4,448	\$1,254	\$794	\$1,549	\$13,894	\$10,880	\$3,014	28%

Development Type	Unit	N'hood Park	Comm. Park	Fire	Police	Gen. Gov't	Update Total	Current Total	Change	% Change
Commercial	1,000 sq. ft.			\$1,281	\$811	\$1,582	\$3,674	\$2,791	\$883	32%
Office and Other Services	1,000 sq. ft.			\$701	\$444	\$866	\$2,010	\$2,791	(\$781)	-28%
Industrial	1,000 sq. ft.			\$332	\$210	\$410	\$953	\$656	\$297	45%

Almost all fee categories have increased from current 2023 fee levels. The biggest overall impact contributing to higher rates is the significantly higher asset valuations for police and fire services (and to a lesser extent, general governmental) outpacing the service population growth rates. These inflationary impacts have been realized locally in the higher cost of the City's purchases of goods and services, especially in the post-COVID environment. In this update, the Office and Other Services type has been broken out from Commercial and is aligned with TCEF categories based on differing demand impacts.

The study update had differing results for the neighborhood and community parks. The most recent neighborhood park builds (Bucking Horse, Crescent, Traverse) were all significantly more expensive to buildout on \$/acre basis than prior facilities, leading to much higher fee calculations than for the community parks. A new maintenance facility also contributed to higher overall costs.

Overall, the residential fee amounts increase by 1% to 28% (approximately \$100 - \$3,000) based on size of property. This variable difference is attributed primarily to the relative changes in occupancy factors based on updated U.S. Census Bureau housing survey data. On the non-residential developments, increases to commercial and industrial types are driven by the underlying employees per square foot calculations based on Institute of Transportation Engineers (ITE) trip generation rates.

In March of 2022, staff provided the City Council with an analysis of the total costs of development activity as part of the total cost of building new housing stock. The table below updates the total fees component of that analysis, with current 2023 fees and the proposed 2024 study updates included for an 1,890 square foot residential property.

City Charged Fees: Impact on One or Two-Family Residence - 1890 sq. ft							
Fee Type	2018	2019	2020	2021	2022	2023	2024
Capital Expansion Fees	\$ 6,038	\$ 7,630	\$ 8,591	\$ 8,824	\$ 8,992	\$ 9,764	\$ 12,223
Transportation Capital Expansion Fees	\$ 5,150	\$ 6,543	\$ 6,586	\$ 6,623	\$ 7,115	\$ 7,621	\$ 8,106
Development Review, Permits, Infrastructure Fees	\$ 2,532	\$ 2,532	\$ 2,532	\$ 3,314	\$ 2,792	\$ 2,792	\$ 2,792
Utility Fees	\$ 21,907	\$ 22,321	\$ 25,517	\$ 26,353	\$ 35,992	\$ 37,142	\$ 37,838
Combined Fees	\$ 35,627	\$ 39,026	\$ 43,226	\$ 45,114	\$ 54,891	\$ 57,319	\$ 60,958
Percentage Change	<i>Baseline</i>	<i>9.5%</i>	<i>10.8%</i>	<i>4.4%</i>	<i>21.7%</i>	<i>4.4%</i>	<i>6.3%</i>

The total overall increase would be approximately \$3,600 or 6.3%. As noted in the utility sections above, no increase in the water supply requirement is included in this comparison pending the outcome of that update.

NEXT STEPS AND RECOMMENDATION

Utilities’ staff has provided their tentative 2024 work program and timeline as outlined earlier. Contemplation of the options for addressing the fee updates provided by the two consultant updates and the internal utilities’ model updates consists of the following:

Option A:

Defer Decision on adoption of New Fee Structure until Water Supply Requirements are determined (for a January 1, 2025, implementation).

Option B:

Adopt New Proposed Fee Structure as presented for implementation in early Q2 2024 after the proposed Council Work Session in April 2024.

Option C:

Defer Decision on adoption of New Fee Structure until Water Supply Requirements are determined (for a January 1, 2025, implementation) and adjust current rates by the annual inflation index only in early Q2 2024.

Staff Recommendation is to proceed with Option B – adoption of the proposed fee updates as presented for implementation in early Q2 2024.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED:

- What questions does the committee have related to the study updates, draft fee schedules or proposed timelines?

- Does the committee support the staff recommendation of bringing forward the TCEFs, CEFs, Utility PIFs and Electric Capacity Charge Fees for Council adoption during Q2 2024?

DISCUSSION / NEXT STEPS:

Emily Francis; do our fees match our values? I just don't understand how this presentation addresses the previous discussion. The amounts presented are the same as last time when we talked about this. Council Finance Committee gave clear direction that we were seeking a different approach to this.

Dave Lenz; both the studies have been updated by our consultants following methodologies that adhere to state statute and practice and our fees have been developed along those lines. Our code speaks to the fact that these fees are essentially cost recovery mechanisms and they should not discriminate or favor different classes of development. They are supposed to reflect the impact that either a resident or visitor to the extent that we can calculate that – not specific to any one resident, but a suite or average of those because we don't know how these developments will be inhabited over time. We have felt that these fees do reflect and adhere to state statute. There was a memo that was sent out that addresses the parameters of the law that we must operate within and if we are talking about adopting a different philosophy that would require a discussion with the full Council.

Travis Storin; we are a little bit hamstrung based on what TABOR tell us as well as statute around fee development and to what extent do we have to have an excel model behind the fee that states, here are the costs that we are trying to recover. We prove our costs and then we can attach a fee to the costs. We think we have stretched this still within the legal limits, but where judgement is allowed, we have gone to a more aggressive place of trying to be aligned with our current values with respect to how those costs get spread around different kinds of development. We do have some limitations on just how far we are able to go there.

Emily Francis; I do understand the limitation part, in the minutes, it does say that a Council Work Session was requested. It is acknowledged that this is a full Council discussion. Every single example is still based on single family development. It is hard to believe we are considering this as there are no multi-family development examples in this. What percent of the project cost is the city fee for multi-family development and how much has this changed over time? When we are looking at nominal costs for single family that seem palatable, but we look at our larger multi-family developments, what are those costs and how much are we increasing them? It becomes difficult to say we are doing this, but we are still provided the same examples of a single-family development in our AIS materials and the presentations. Does the city consider the CEFs to be impact fees?

Travis Storin; yes, the whole umbrella is impact fees of which the expansion fees are a component.

Emily Francis; we are applying the same state statute to both types of fees (capital expansion and impact fees). I think we requested that this go to a work session to discuss and get information on more options and input from the full council.

Dave Lenz; given the calendar and given that we knew we had some study updates that were not available at the last Council Finance Committee meeting. Councilmember Olson was not present, so this was a chance for him to be present for a fuller discussion. We knew that there would be further discussion with the full Council to talk about the bigger picture. The timeline we laid out for water supply requirements, it is going to have a more holistic approach and policy discussion.

Emily Francis; I didn't understand from the materials the capital expansion or impact fees were part of the water supply requirement discussion that is scheduled. What are other municipalities doing in this space?

Travis Storin; implicit in the recommended option within today's materials, when that April Work Session comes up for the water requirements, can we essentially bolt on this discussion? A more comprehensive assessment of all of the fees. That will afford us the opportunity to research how other municipalities have interpreted TABOR and statute in this space. That has been the rub in how much judgement are we able to introduce to any fee components?

Dave Lenz; when the original work was done in March of 2022, we did include an example of multi family development. We can certainly update that example to show you the impact as a follow up item.

Emily Francis; that would be helpful. I don't think anyone at the last meeting was suggesting going outside of TABOR. I think we had a discussion regarding looking at what other municipalities are doing in this space. I do think this needs to go to the full Council.

Kelly Ohlson; I have curiosity and leanings toward the concerns that both Julie and Emily brought up. As a long time defender of appropriate fees, I think we need to have that discussion and be ready to make a decision to be ready to make a decision and implement by January 1, 2025. That will give the council time to build on the fairness factor, the legalities of TABOR, but also city council and community values. I think it needs a deeper dive. I support that which is only 1 year and 1 month from now which is lightning speed for communities being able to move. In the interim, I don't want us to delay too much. I support staff's recommendation although my math is a little different on the calendar than theirs. It says we have a work session around the water issue in April and implement the fees in the 2nd quarter. I think these are ordinances and not resolutions. Then we are out to June – not early 2nd quarter. I don't know, other than bringing up the topic in April for this possible new way of looking at things. Combining fairness, legalities with community values to lay the groundwork and get the nods that we would like to be explored. I would support that.

Emily Francis; Option B reads that it would be on the calendar for adoption after the work session. At the work session, we still ask council if they want to adopt the fees while we are working on this.

Kelly Ohlson; I heard numbers for the yearly costs for the fees that I thought would be helpful for council. When it went through how much it was costing for each month of the delay. The monthly numbers weren't adding up to the annual amount for me.

Dave Lenz; in TCEF and CEF combined we collected \$11M in 2022. For each month that we delay the implementation, we estimate that we will lose approximately \$140K per month on an \$11M base. That equates to a 15% increase across the board.

Emily Francis; what is the financial impact if we went with Option C?

Dave Lenz; with Option C, if we put in an inflationary adjustment component, that comes out to \$60K per month or \$700K annually. That is a 6.35% increase weighted between the two inflationary indices. We would be foregoing \$58K if we didn't do inflation and foregoing \$138K if we didn't implement the study. The utilities are approximately \$70K per month if they don't implement adopting the fee structure.

Emily Francis; that is if we don't do anything including adjusting for inflation, correct?

Dave Lenz. their inflationary adjustment is closer to the average that they show for an increase. If we made an inflationary adjustment for theirs, it would be less than the \$70K.

Emily Francis; we are assuming that council supports adopting the new fee structure while we are working on it in May. We will lose out on everything until then.

Dave Lenz; we would lose out on the increase but not the existing base.

Emily Francis; what is the total loss versus Option C?

Randy Reuscher; for utilities, for 4 months you are looking at approximately \$300K.

Dave Lenz; if we do the inflation adjustment for the whole year starting June 1st we would lose approximately \$300K by not implementing it on January 1st. If we went the whole year without increasing inflation we would lose about \$700K.

Kelly Ohlson; pretend we start as soon as we can inflation for the whole year – we might miss January. If we do inflation for those while we continue with a more holistic look including all values, fairness, legalities and the community values. What is the difference between implementing all of the new rates versus just implementing the inflation factor?

Dave Lenz; the difference per month is \$80K between an inflation adjustment and the full fee adjustments.

Randy Reuscher; for utilities, if we increased what we are proposing we would collect approximately \$800K more for the year. Split that in half - \$400K. If we only increased inflationary it would be half of that which would be \$200K

Kelly Ohlson; we would want to start the inflationary factor as soon as we legally can and then we proceed from there.

Dave Lenz; if we instituted, we save or earn \$600K. A total of \$1.6M if we instituted the fees. By not acting on the new fees but doing inflation immediately, we leave about \$1M on the table.

Emily Francis; we would lose less money with six months of the newly adopted fees versus 1 year.

Dave Lenz; if we adopted the new fees in May, we would pull in about \$1M. Still a net loss even if we do the inflation immediately which would be \$600K.

Travis Storin; if there is appetite for this to come forward to the full council for inflation only. We go straight to a regular meeting; we can clearly delineate the numbers that Dave just shared.

Kelly Ohlson; reasoning on this - valid questions that were raised at the last Council Finance Committee meetings. I am serious about exploring those. I don't know if there will be any serious changes but there may be – it is good to give a serious and not rushed look. I think long term, the loss of the money for calendar year 2024, it will build stronger support regardless of where it goes, we may discover some things that our community and council values that we can effect on smaller homes, multifamily and on redevelopment. It will build more long-term council support for fee increases if we take the time to do this right.

Emily Francis; I agree.

Dave Lenz; we will put together ordinances to take to council to adopt an inflationary adjustment as soon as practically possible. We will encapsulate the options in terms of adoption, delays and costs of delays. Some qualitative assessment around the desire to have the fulsome discussion around how we structure our fees from a policy standpoint and values standpoint.