



AGENDA ITEM SUMMARY

City Council

STAFF

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SUBJECT

Items Relating to 2024 Utility Rates, Fee, and Charges.

EXECUTIVE SUMMARY

- A. First Reading of Ordinance No. 146, 2023, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Electric Rates, Fees, and Charges and Updating the Related Income-Qualified Assistance Program.
- B. First Reading of Ordinance No. 147, 2023, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Water Rates, Fees, and Charges.
- C. First Reading of Ordinance No. 148, 2023, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Wastewater Rates, Fees, and Charges.
- D. First Reading of Ordinance No. 149, 2023, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Stormwater Rates, Fees, and Charges.

The purpose of this item is to propose 2024 Utility Rates for Council consideration, which align with the 2024 City Manager's Recommended Budget. Monthly utility charges are proposed to increase 5% for electric customers, 4% for water customers, 4% for wastewater customers, and 3% for stormwater customers.

STAFF RECOMMENDATION





Staff recommend adoption of the Ordinances on First Reading.

Proposed Changes to Monthly Utility Rates

The revenues needed to support the ongoing operation and maintenance costs of providing each of the four essential services to customers are collected through monthly utility rates. As costs change over time, it is necessary to adjust rates to reflect those changes. Long-term financial planning is important to ensure revenues are adequate and reserves are available to maintain and replace infrastructure in a timely fashion to continue to provide high quality and reliable services to our customers. Frequent review and updating of the cost-of-service allocation models behind the monthly utility rates maintains equity across rate classes and helps to reduce the impacts on customers of higher utility rates by providing gradual, modest rate adjustments over time rather than less frequent and larger rate adjustments. These actions help ensure the delivery of current and future utility services occurs in a fiscally responsible manner, balancing both costs and levels of service with affordability and prudent planning and investments.



A summary of the proposed rate increases for the four utility services is shown in the table below:

| UTILITY | | 2024 PROPOSED INCREASE |
|--|--|------------------------|
|  ELECTRIC | | 5% |
|  WATER | | 4% |
|  WASTEWATER | | 4% |
|  STORMWATER | | 3% |

Electric

Staff are proposing a 5% retail rate increase for the electric utility enterprise fund in 2024. This increase is driven by a combination of a 5% increase in wholesale electric expenses in 2024, as well as an increase to cover distribution operating and maintenance costs and investments in capital projects. Roughly two-thirds of costs incurred each year to provide electric service are attributable to wholesale expenses (the largest part of which are power supply tariffs charged by Platte River Power Authority), while the other one-third is attributable to costs related to operating and maintaining the distribution system.

Staff have updated financial models to better understand future needs related to growing costs around operating and maintaining the distribution system, including the cost of capital projects. The outcome shows a need for a rate increase to cover future operating and maintenance costs and to continue to invest in updating the system for continued reliability and resiliency. The portion of the proposed 5% increase that is not applied to wholesale cost increases will be used to help fund distribution system needs.

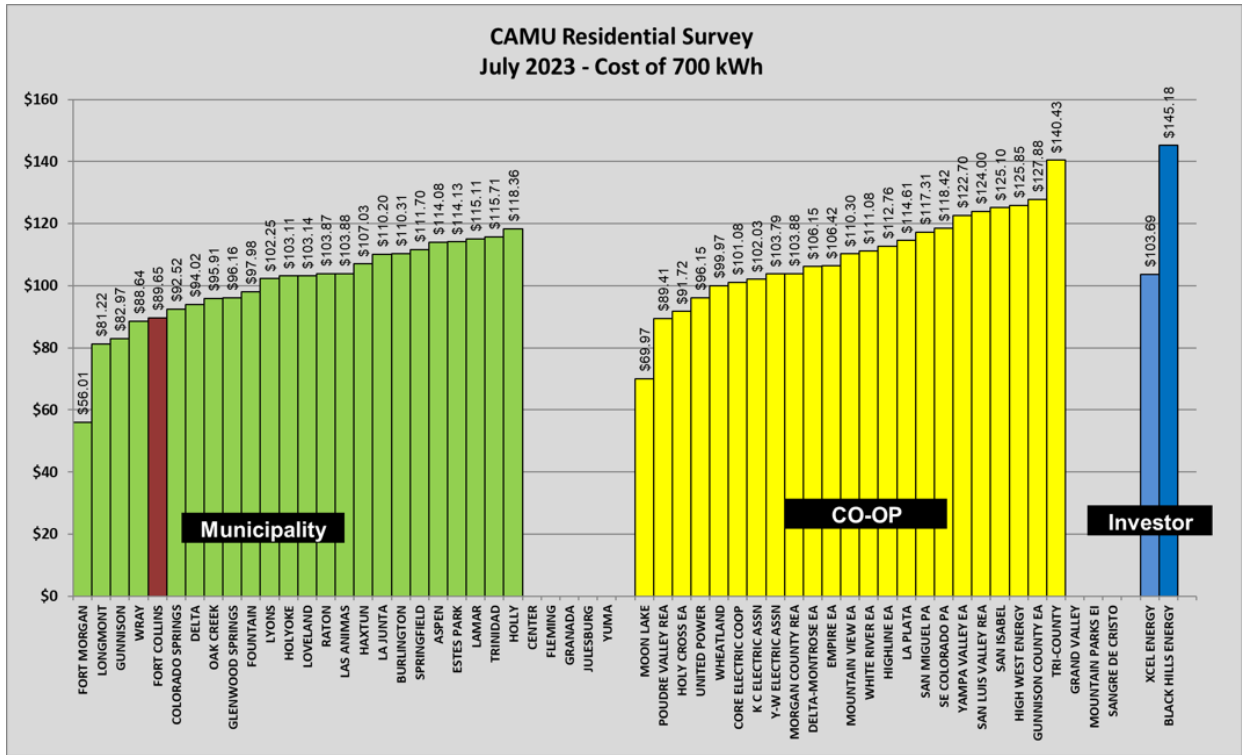
There are multiple capital projects necessary to meet future needs, some of which include feeder cable and transformer replacements, streetlighting upgrades, distribution automation, and demand response technology upgrades. Staff are also in the process of reviewing requirements and in contract negotiations to upgrade the utility billing system, which will occur over the next couple years.

Platte River Power Authority (PRPA) is planning to increase their wholesale blended rate (\$/MWh) by 5% in 2024. There is variability in how the increase is applied to individual component charges. The owner community charge (1.3% decrease) and transmission charge (0.6% decrease) will be slightly lower than 2023. The generation demand charge will increase 7.5% during the summer months and 7.0% during the non-summer. The fixed energy charge will increase 6.0% and the variable energy charge will increase 6.8%.

The current rate forecast for the electric fund is shown here:

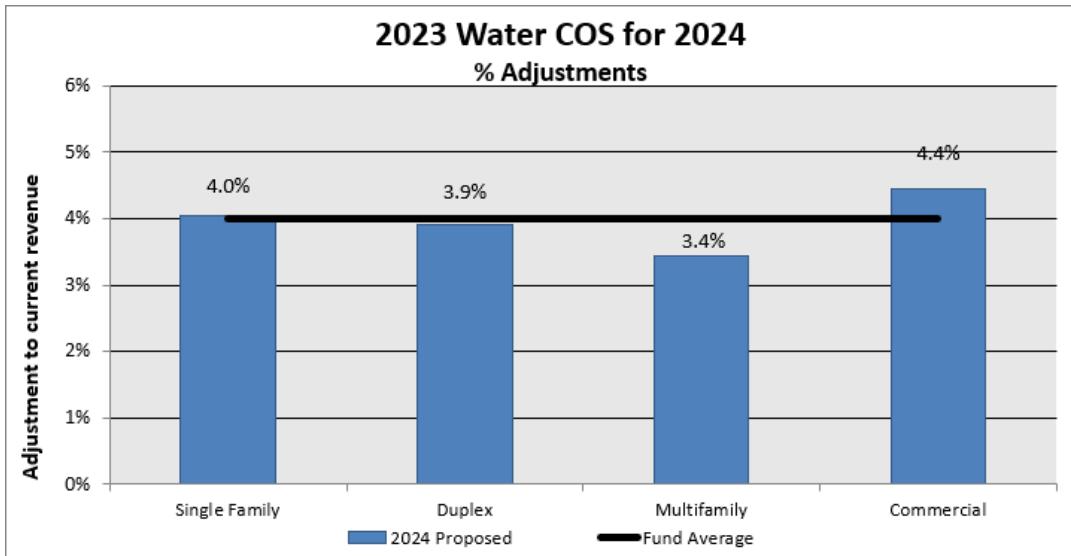
| Utility Rate Forecast | | | | | | | | | | |
|-----------------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Fund | Actual 2023 | Budget 2024 | Forecast 2025 | Forecast 2026 | Forecast 2027 | Forecast 2028 | Forecast 2029 | Forecast 2030 | Forecast 2031 | Forecast 2032 |
| Electric Fund | 5.0% | 5.0% | 4-5% | 4-5% | 4-6% | 6-8% | 6-8% | 6-8% | 4-7% | 4-7% |

Fort Collins Utilities participates in the Colorado Association of Municipal Utilities (CAMU) survey each year. Below are the residential electric rate comparisons for the electric utilities in Colorado that responded to the survey. Fort Collins is shown in the maroon colored bar within the graph. Based on the July 2023 survey, Fort Collins Utilities came in towards the lower end of average cost within the state, assuming 700 kWh of consumption in a month, at \$89.65, or 7th lowest overall.



Water

Staff are proposing a 4% retail rate increase for the water fund in 2024. In addition, the cost-of-service model for the water fund has been updated for 2024. Minor rate class specific adjustments are proposed for 2024 based on the model updates. Due to the higher costs of materials and impacts to the cost of borrowing, the amount of interest being paid on any revenue bonds that will be needed in the coming decade for infrastructure investments will increase.

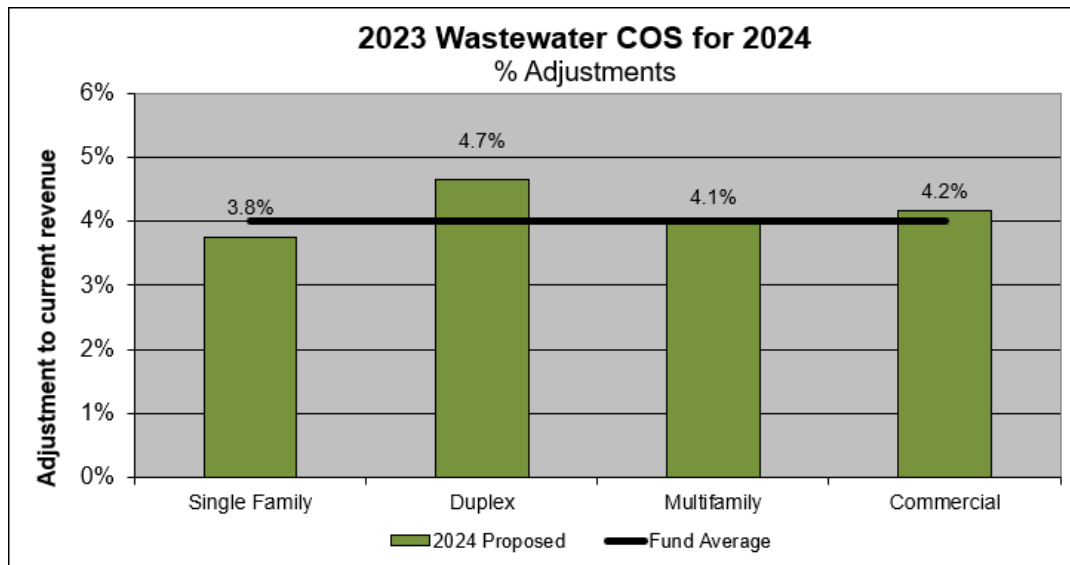


The long-term financial model has been updated for the water utility fund. The current rate forecast for the water fund is shown below. Just as for electric services, it may be necessary to have rate increases in the 5-8% range for a few years, if inflation stays above 5%, as seen the last few years.

| Utility Rate Forecast | | | | | | | | | | |
|-----------------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Fund | Actual 2023 | Budget 2024 | Forecast 2025 | Forecast 2026 | Forecast 2027 | Forecast 2028 | Forecast 2029 | Forecast 2030 | Forecast 2031 | Forecast 2032 |
| Water Fund | 4.0% | 4.0% | 4-7% | 5-8% | 5-8% | 5-8% | 4-7% | 4-7% | 4-7% | 4-7% |

Wastewater

Staff are proposing a 4% retail rate increase for the wastewater fund in 2024, as well. In addition, the wastewater cost-of-service model was updated for 2024, which is driving the need for minor adjustments by rate class. There has been a trend in recent years of declining operating revenues for this utility. As this utility is not immune to the impacts of inflation on its operating costs, it is necessary to increase operating revenues through rate adjustments to offset these higher costs of providing this service to our community. At this point, the financial model does not indicate a need to exceed 5% in any given year.



The current rate forecast for the wastewater fund is shown here:

| Utility Rate Forecast | | | | | | | | | | |
|-----------------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Fund | Actual 2023 | Budget 2024 | Forecast 2025 | Forecast 2026 | Forecast 2027 | Forecast 2028 | Forecast 2029 | Forecast 2030 | Forecast 2031 | Forecast 2032 |
| Wastewater Fund | 4.0% | 4.0% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% |

Stormwater

Staff are proposing a 3% retail rate increase for the stormwater fund in 2024. This is 1% higher than the December 2021 forecast, which is a smaller incremental increase than what is being proposed for the other utilities. The reasons for this smaller adjustment to the proposed rate increase for this utility are that a larger portion of operating revenues are available in this fund for infrastructure investments than the other utilities. There will be a need to issue revenue bonds for the Oak Street stormwater improvement project this budget cycle.

The current rate forecast for stormwater services is shown here:

| Utility Rate Forecast | | | | | | | | | | |
|-----------------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Fund | Actual 2023 | Budget 2024 | Forecast 2025 | Forecast 2026 | Forecast 2027 | Forecast 2028 | Forecast 2029 | Forecast 2030 | Forecast 2031 | Forecast 2032 |
| Stormwater Fund | 3.0% | 3.0% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% | 3-5% |

The table below shows the impacts of the proposed rate change to the average residential monthly bill. Under the proposed rate changes, a residential customer’s total utility bill, for a customer receiving all four municipal utility services, would increase by 4.3%, or \$8.35 per month.

| Fort Collins Utilities Comparative Residential Monthly Bill | | | | | |
|--|------------------|------------------|----------------|-------------|--|
| Utility | 2023 | 2024 | \$ Change | % Change | |
| Electric | \$ 84.20 | \$ 88.41 | \$ 4.21 | 5.0% | |
| Water | \$ 51.00 | \$ 53.04 | \$ 2.04 | 4.0% | |
| Wastewater | \$ 35.61 | \$ 37.04 | \$ 1.42 | 4.0% | |
| Stormwater | \$ 22.42 | \$ 23.09 | \$ 0.67 | 3.0% | |
| Total Average Bill | \$ 193.22 | \$ 201.57 | \$ 8.35 | 4.3% | |

The table below compares typical residential electric, water, wastewater, and stormwater monthly utility bills across neighboring utilities along the Front Range, based on proposed 2024 suggested rate adjustments and charges. In total, Fort Collins Utilities comes in the lowest at \$201.57 for all four services. Including the proposed increases for 2024, Fort Collins will remain the lowest overall, as there are known increases proposed amongst the other utilities for the coming year, with some of them being substantially higher than the percentage increases proposed for our community.

| 2024 Residential Average Monthly Utility Bill | | | | | | |
|---|-----------|----------|------------|------------|-----------|--|
| Utility | Electric | Water | Wastewater | Stormwater | Total | |
| | 2024 | 2024 | 2024 | 2024 | 2024 | |
| Ft Collins | \$ 88.41 | \$ 53.04 | \$ 37.04 | \$ 23.09 | \$ 201.57 | |
| Longmont | \$ 82.56 | \$ 69.33 | \$ 41.33 | \$ 18.85 | \$ 212.07 | |
| Loveland | \$ 89.76 | \$ 61.16 | \$ 43.04 | \$ 24.88 | \$ 218.84 | |
| Greeley | \$ 100.63 | \$ 73.90 | \$ 36.99 | \$ 18.61 | \$ 230.13 | |
| Colorado Springs | \$ 99.92 | \$ 96.95 | \$ 30.53 | N/A | \$ 227.40 | |
| Boulder | \$ 100.63 | \$ 66.72 | \$ 48.43 | \$ 27.10 | \$ 242.89 | |

Utilities Affordability Programs

Utilities staff are proposing improving access to the City's Utilities affordability programs. In November 2022, Council requested that staff review affordability programs to ensure they are accessible to the target customers, to reduce barriers to apply, and to add additional ways for customers to apply for the Income-Qualified Assistance Program (IQAP).

Council adopted the IQAP program in 2022. Currently, customers who are approved through the state's Low-income Energy Assistance Program (LEAP) are automatically enrolled in IQAP. While most customers who meet the income requirements are eligible to apply for LEAP, there are two populations that have been identified who are either not eligible to receive LEAP even though their income is within appropriate range, and those who may not be able to take advantage of the program due to additional household assistance they receive. Customers impacted are those where households with members who are not documented U.S. citizens, and renters who have HUD Housing Choice Vouchers (formerly Section 8) with heat included in their rent. Providing alternative income verification entry points for these customers who have Fort Collins Utilities accounts in their name will allow them to access IQAP, separate from the LEAP income verification process. Staff currently anticipates approximately 400 households impacted by this update. These changes would require amending Secs. 26-724.b, c, and e to remove the LEAP enrollment requirement.

As of August 2023, 1,636 customers were enrolled in IQAP. The average discount customers receive is \$240 per year. Due to fluctuations in the number of customers enrolled, the cost to Utilities has been approximately \$393,000 to \$415,000 per year. Increasing the number of participants to 2,000 could increase the annual cost to Utilities to approximately \$480,000.

CITY FINANCIAL IMPACTS

The 2024 City Manager's Recommended Budget includes these proposed increases in revenues available for the budget. The electric utility rate increase would offset increased wholesale costs for 2024, as well as contribute to increasing distribution system operating and maintenance and capital costs. The water, wastewater, and stormwater rate increases would contribute to operating and maintenance costs, as well as assist in funding future capital costs incorporated in the most recent capital plan update.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

Discussion of the proposed changes to the Utility water, wastewater, and stormwater rates, fees, and charges was scheduled for discussion at the Water Commission's September 21, 2023, meeting, which was ultimately cancelled. This item has been rescheduled for October 19, 2023. An excerpt of the Commission minutes will be included in a future Council packet for Second Reading.

Discussion of the proposed changes to the Utility electric rates, fees, and charges is scheduled for discussion with the Energy Board at its October 12, 2023, meeting. An excerpt of the Board minutes will be included in a future Council packet for Second Reading.

PUBLIC OUTREACH

The required postcard notice to electric utility customers outside city limits was mailed in early October and a notice was posted in the Coloradoan. Rates and fee presentations were provided to the Council Finance Committee on October 5, 2023, and will be shared at the Business Accounts meeting for all commercial customer accounts on October 24, 2023.

ATTACHMENTS

1. Ordinance A for Consideration
2. Ordinance B for Consideration
3. Ordinance C for Consideration
4. Ordinance D for Consideration
5. Presentation