Finance Administration
215 N. Mason
2nd Floor
PO Box 580
Fort Collins, CO 80522

970.221.6788
970.221.6782 - fax
fcgov.com

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, Jenny Lopez Filkins, Lance Smith, Marc Virata, Dave Lenz, Randy Reuscher, Dean Klingner, Sheena Freve, Monica Martinez, Jill Wuertz, Randy Bailey, Renee Reeves, Meaghan Overton, Jo Cech, Nina Bodenhamer, 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

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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. Utility Rate / Debt Forecasts
2023 Strategic Financial Plan for the Light & Power Utility
Lance Smith, Utilities Senior Director of Finance

EXECUTIVE SUMMARY

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the electric utility within the Light & Power and Telecommunications Enterprise Fund. The Water, Wastewater and Stormwater Enterprise Funds will be presented for discussion in February 2024. The resulting investment projections set the basis for beginning the 2025-26 Budgeting For Outcomes (BFO) cycle. The 2023 Capital Improvement Plan (CIP) and the 2023 Strategic Financial Plan is outlined here along with the overall 10-year rate projection for Light & Power and associated debt issuances. Through active management of O&M expenses, gradual, moderate rate adjustments and the issuance of some debt, the Light & Power Enterprise Fund is expected to be able to meet its operational objectives through targeted capital investments over the coming decade.

The electric utility portion of the Light & Power and Telecommunications Enterprise Fund has an increased level of capital investment primarily driven by the beneficial electrification which may require distribution asset renewals before the end of those asset's useful life as well as anticipated new growth and annexations which will require a new substation and associated equipment. Tightly managing the operating expenses will be necessary going forward to ensure adequate operating income is being generated to meet system renewal needs through moderate rate adjustments. The climate action goals set by both the City and Platte River Power Authority will require rate increases as well during this same period. Two additional significant debt issuances are anticipated as being necessary between now and 2030 to support.

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase	5.0%	6.0%	5.0%	5-8%	7-8%	7-8%	7-8%	3-5%	3-5%	3-5%
Debt Issued ($M)			$61.0			$76.0				

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2025-26 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?

BACKGROUND / DISCUSSION

The financial health of each utility Enterprise Fund depends on active management of ongoing operating and maintenance expenses as well as planning for large capital expenditures. The capital investment required to maintain the current levels of service provided by each of the four utility services to the community requires a long planning horizon and consistent reevaluation and prioritization. Ahead of the biennial budget process beginning both the 10-year Strategic Financial Plan and the associated 10-year Capital Improvement Plan are updated and presented to the Council Finance Committee for discussion to ensure that adequate operating revenues are expected to support the City Manager's Recommended Budget.

Strategic Financial Planning Process

The strategic financial planning process is intended to provide a long-term plan for the efficient and effective financial management of each utility in a manner that is consistent with the City's values and mission and aligned with the City's biennial Budget Process and Strategic Planning Process. Much of the long-term strategic direction for each utility requires significant capital investment spanning more than one budget cycle making a long-term capital improvement plan necessary to support the strategic plan.

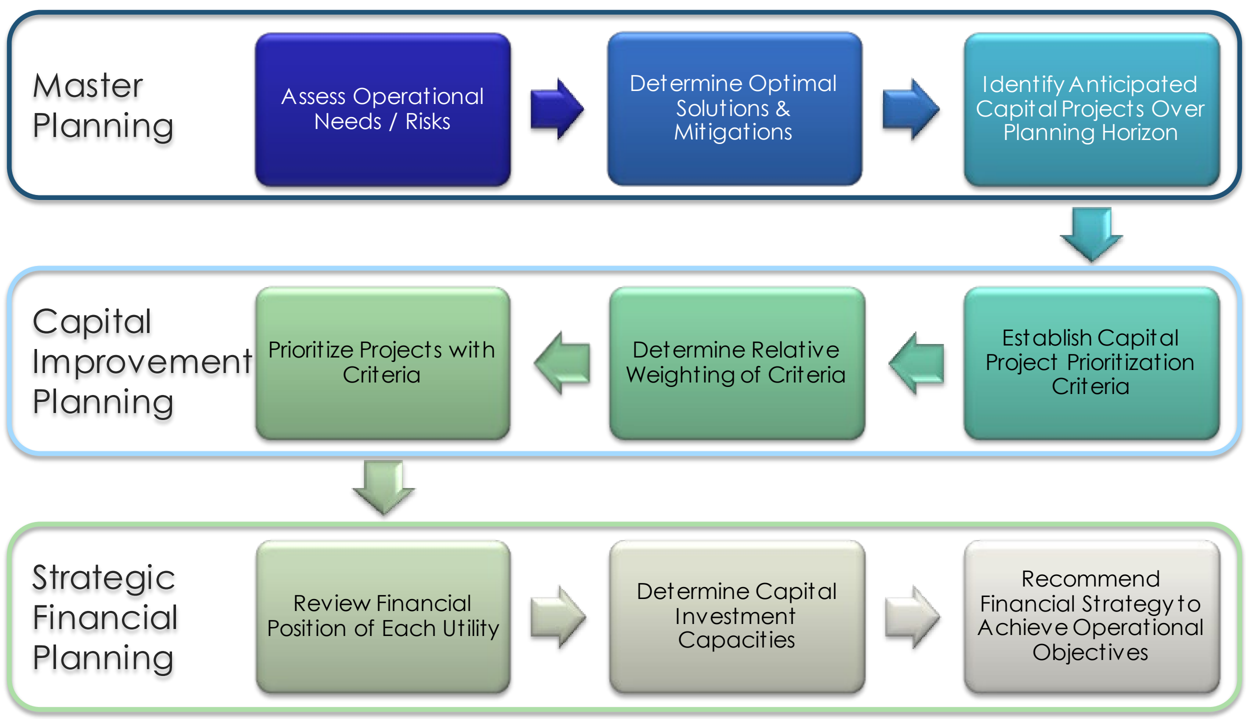
Whereas strategic planning sets the operational direction of where the utilities are going in the future, strategic financial planning provides a financial context for this movement. The strategic financial plans ensure the long-term operational and fiscal objectives and level of service targets for each of the utilities are met in a financially sustainable and resilient manner. The three main financial metrics from a long-term financial planning perspective are:

1. Operating Margin > 3.0%

2. Debt Coverage Ratio > 2.0

3. Annual Rate Adjustments < 5.0%

Strategic planning consists of Master Planning and Capital Improvement Planning. These plans assess current infrastructure for future needs and risks and review expected growth in customers and services delivered along with any new regulatory requirements. The Master Plans generate a list of recommended capital projects over the planning horizon which are then included in the Capital Improvement Plans (CIP). The respective engineering groups for each utility are developing a standardized process to prioritize the necessary capital investments. This prioritized list provides the associated annual capital investment which becomes an input into the long term Strategic Financial Plan. This list is updated ahead of the two-year BFO process and is prioritized using metrics intended to measure the levels of service that each utility is targeting to provide to the community. The financial position of each utility is also reviewed in this step with the output being a recommended path forward which involve rate adjustments and future debt issuances to achieve the operational objectives and needs of each utility.



2023 Strategic Financial Planning

The 2023 strategic financial planning process began with an assessment of what has changed since the previous plan. On a macro-economic scale these changes include:

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.

- After the COVID-19 pandemic supply chain constraints created scarcity in some electric equipment, particularly transformers which has caused a 150-300% cost increase.

- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

More specific to the Light & Power and Telecommunications Enterprise Fund changes that have an impact on the financial modeling for this plan are:

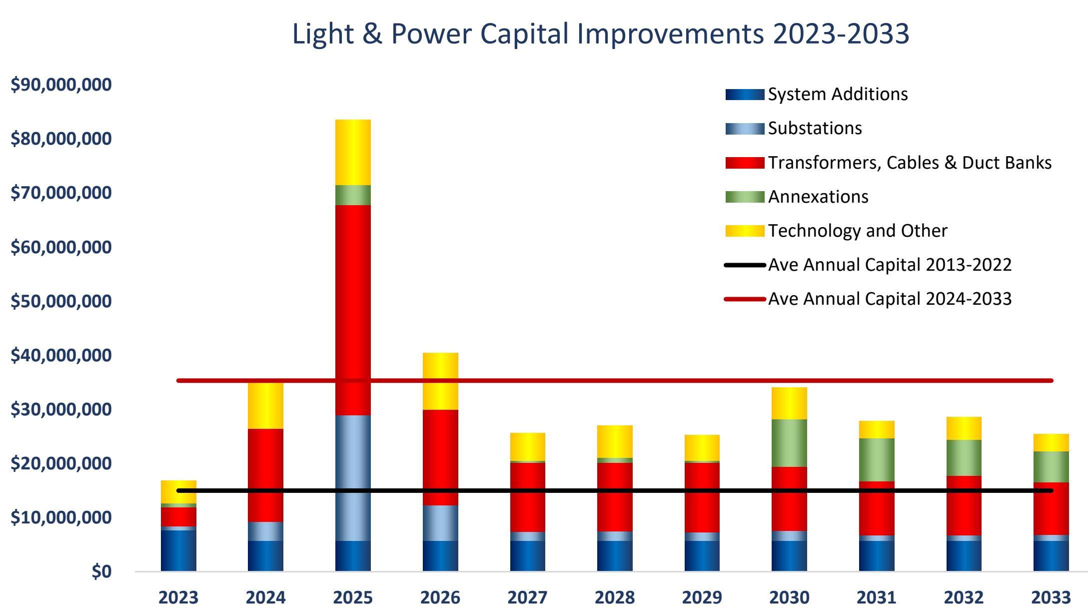
- Platte River Power Authority (PRPA) is finalizing a new Integrated Resource Plan which is expected to be filed with the State of Colorado sometime in 2024 leading to some uncertainty in the wholesale rate projections utilized in this effort.

- Development has slowed considerably in 2023 resulting in significantly less Electric Capacity Fees (ECF) being received in 2023 than 2022 creating more uncertainty of future ECF revenue projections utilized in this effort.

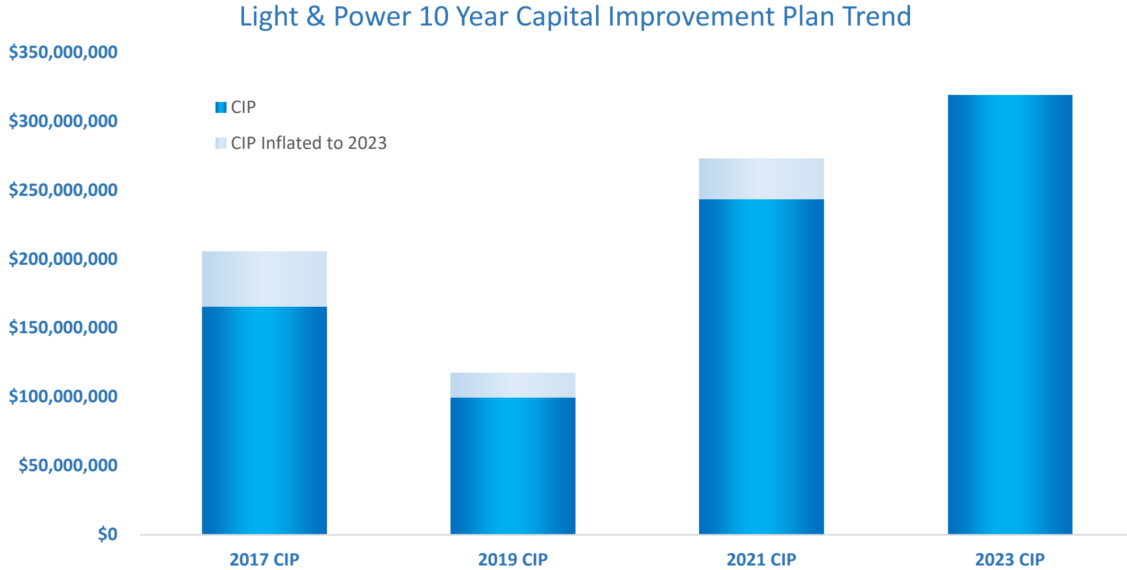
- Consistent with the 2021 Strategic Financial Plan, in October of 2023 a new debt issuance at a coupon rate of 5.000% for $59,400,000 providing the electric utility with $40,818,986 of new capital.

2023 Capital Improvement Planning

Operational goals for the Light & Power utility are focused on maintaining the current level of reliability while moving forward with achieving the carbon-reduction objectives of the City's Our Climate Future (OCF) plan through energy efficiencies and renewable generation through both utility-scale and distributed generation resources. Investment in distribution infrastructure is necessary to maintain the current level of reliability expected by our customers and to enable beneficial electrification throughout our community. The capital investments necessary to achieve the OCF objectives include supporting distributed energy generation and energy storage as well as beneficial electrification efforts such as electric vehicles and electric heating. In addition to supporting distributed energy generation and energy storage the 10-year Capital Improvement Plan (CIP) for the Light & Power Fund consists of projects needed to provide adequate substation and distribution capacity to developing areas of the City, anticipated annexations, operational technology improvements and system renewal of existing substations and underground distribution assets. The chart below shows the 2023 10-year Capital Improvement Plan (CIP) for Light & Power.

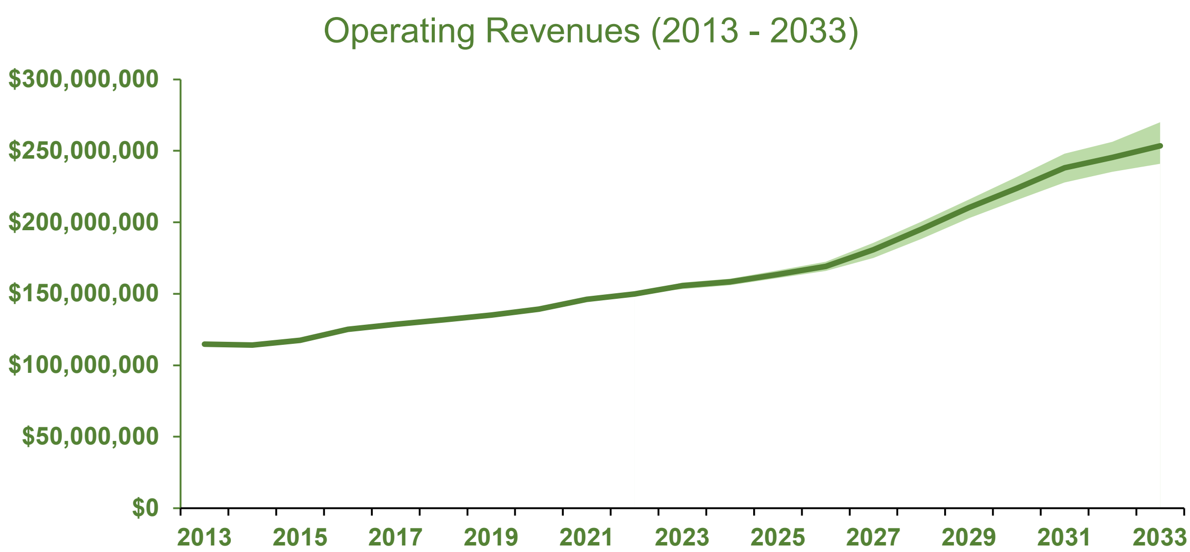


The graph below shows the evolution of the Light & Power CIP over the last 3 budget cycles compared to the 2023 CIP reflecting the impacts of some of the macro-economic challenges outlined above as well as updated planning and analysis. The growth of the number of projects in the CIP will require further consideration around how to fully resource these projects which could result in a more even distribution of capital required than what is shown in the chart above.



Light & Power Operations

The financial modeling involved in updating the strategic financial plan analyzes operating revenues and expenses to determine the amount of operating income that can fund capital investment before issuing any new debt. Operating revenues have grown significantly over the past decade through rate increases while total energy sales have remained flat. The need for continued rate increases between now and 2030 is being driven primarily by expected increases in the wholesale purchased power costs and the need to issue a significant amount of new debt to support the CIP. Based on the projected revenue requirements for operations and maintenance (O&M) and capital investment, operating revenues are projected to grow at close to an annual rate of 5.0% over the next decade.



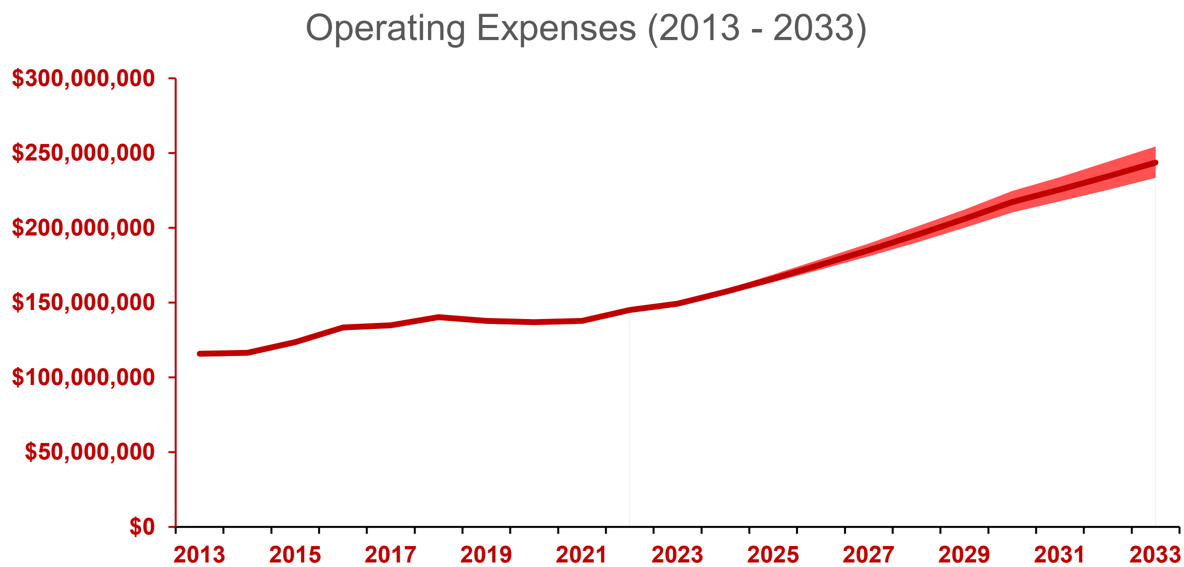
The colored area represents the 95% confidence band around the expected operating expense.

Strong revenue growth in residential sales has increased operating revenues and thereby operating income over the past decade. This revenue growth has been driven entirely by rate increases as increased customer growth has been offset by increased efficiency.

FUND:
501 - Light & Power Enterprise Fund

Year	Budget 2023	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Customers	79,994	1.56%	1.58%	1.22%	0.99%
Annual Rate Adjustment	5.00%	3.17%	3.36%	3.33%	2.00%
Residential Elec Services	$ 61,510,000	3.75%	5.01%	6.03%	1.59%
Commercial Elec Services	$ 46,920,000	2.87%	2.66%	2.87%	4.52%
Industrial Charges for Services	$ 35,920,000	3.15%	0.70%	0.45%	1.69%
Green Energy Program	$ 150,000	-9.94%	-16.03%	-22.90%	10.34%
PILOTs	$ 8,390,000	3.27%	3.08%	3.50%	2.47%
Operating Revenue	$ 152,890,000	3.27%	3.09%	3.52%	2.57%
Total Revenues	$ 158,040,390	3.11%	3.25%	4.42%	3.68%

Light & Power O&M expenses have increased at a rate exceeding inflation over the past decade. This has begun to be addressed through active management (a flattening of the curve can be seen in 2018-20). Unfortunately, inflation and delays in capital work since the COVID-19 pandemic due to resource constraints has resulted in some growth since 2020. The rate and debt issuance forecasts in the plan are based on a statistical analysis which shows that O&M will increase at a rate close to the 5.0% rate of revenue growth.



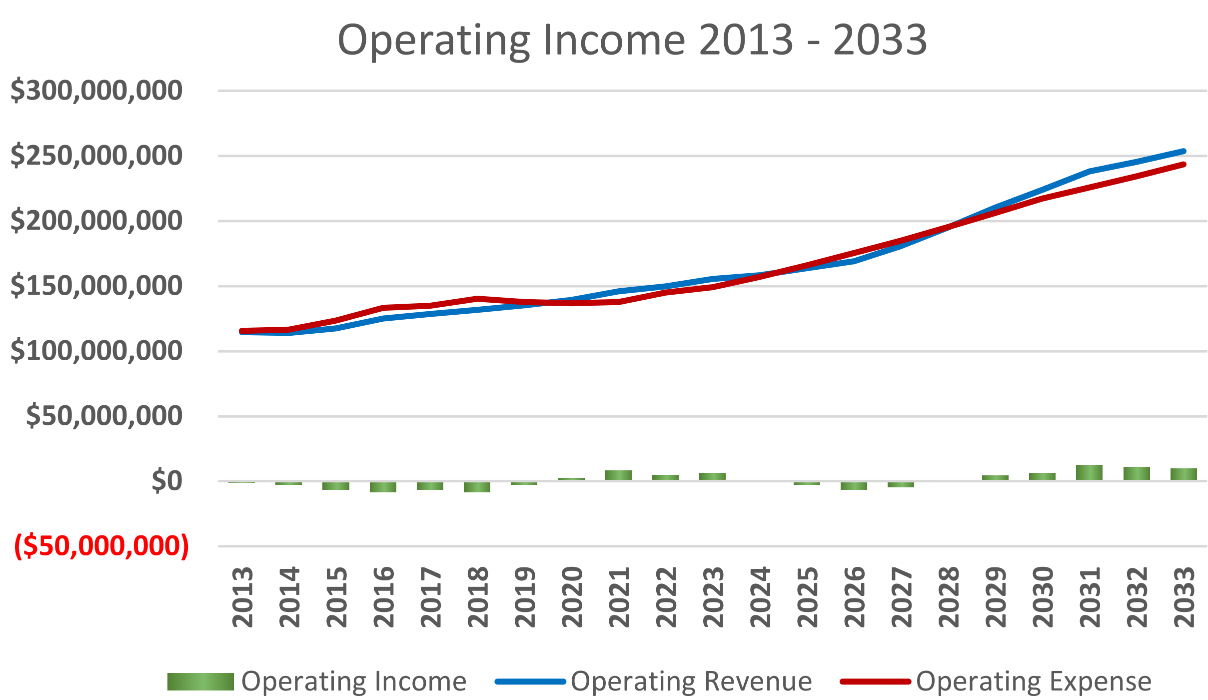
The colored area represents the 95% confidence band around the expected operating expense.

The table below shows the recent trends in expenses along with the relative size of each line through the 2023 budgeted expenses. Significant growth in Purchased Power costs and L&P Operations, the two largest expense categories, are driving the overall trend. Fort Collins electric customers have benefited from lower wholesale purchased power increases since 2018 due to some flattening of the overall load curve through load shifting under time-of-day rates as our contribution to the coincident peak has diminished. However, this benefit has not offset the wholesale rate increases that have been realized over that same period.

Between now and 2030 PRPA will be shifting more and more generation to renewable sources. An updated Integrated Resource Plan is expected in 2024 which will likely lead to an updated wholesale rate forecast to reflect the higher demand for renewable resources.

Year	Budget 2023	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Annual Demand (KWH)	1,515,316	0.0%	-0.3%	-0.1%	0.6%
Purchase Power -Tariff 1 PRPA	$ 102,000,000	2.5%	1.2%	1.2%	5.8%
Purchase Pwr - Community Renewables	$ 2,390,291		24.2%	19.2%	13.4%
L&P Operations	$ 11,248,353	3.7%	1.5%	3.1%	5.7%
Energy Services	$ 7,561,590	3.8%	-1.1%	5.8%	16.0%
PILOTs	$ 8,390,000	3.3%	3.1%	3.5%	2.5%
Admin Services - CS&A	$ 8,710,000	5.3%	4.1%	4.1%	3.8%
Admin Services - General Fund	$ 1,215,482	0.6%	-6.2%	-2.9%	-3.9%
Other Payments & Transfers	$ 3,369,262	3.5%	6.8%	18.4%	29.1%
Depreciation	$ 11,500,000	2.7%	-0.4%	-4.3%	-5.8%
Total Operating Expenses	$ 156,384,977	3.0%	1.5%	1.7%	5.3%
Total Expenses	$ 160,535,716	2.1%	-0.5%	1.8%	7.2%

Positive operating income needs to be generated over the coming decade to increase the Net Pledged Revenues necessary to support higher debt service costs after considering the increased O&M expenses. This will likely require rate increases in excess of the strategic financial target of less than 5.0% annually. In the strategic financial model, it was necessary to consider rate increases as high as 8.0% in some years to meet the strategic financial targets.



Light & Power Rate and Debt Forecasts
In some years rate increases will need to exceed the strategic financial targeted ceiling of 5.0% to cover wholesale purchased power increases and significant capital investments in the distribution system over the coming decade to ensure adequate operating revenue is generated to meet increased debt service costs. The table below also shows the anticipated debt issuances needed for capital investments over the next decade.

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase	5.0%	6.0%	5.0%	5-8%	7-8%	7-8%	7-8%	3-5%	3-5%	3-5%
Debt Issued ($M)			$61.0			$76.0				

<u>Conclusions and Next Steps</u>
Updating the ten-year Capital Improvement Plans ahead of the budget cycle allows for an assessment of potential rate adjustments and debt issuances that may be necessary in the near future. This allows the associated Strategic Financial Plan to be updated with a new financial path forward to meet the operational needs of each utility, the electric utility in this case.

Through active management of O&M expenses, moderate rate adjustments and the issuance of $130M of new debt, the Light & Power and Telecommunications Enterprise Fund is expected to have the capital available to address the investments outlined in the CIP necessary to be able to meet its operational objectives over the coming decade.

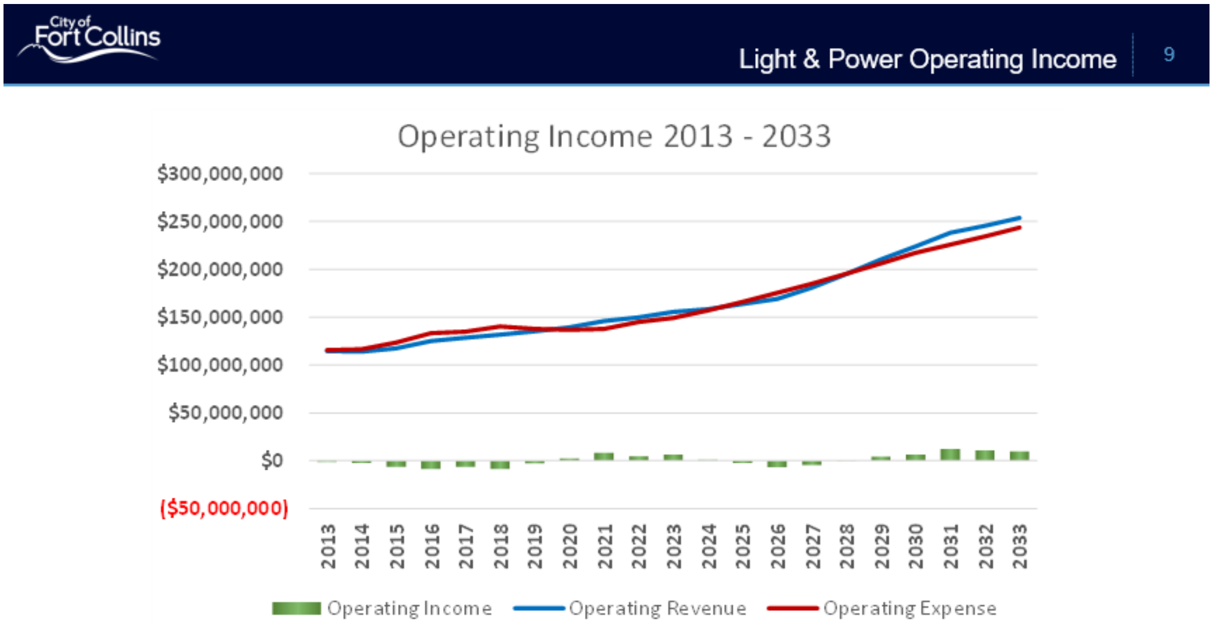
<u>GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED</u>

1. Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2025-26 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?

<u>DISCUSSION / NEXT STEPS;</u>

Kelly Ohlson; what would you say to Council and residents to explain what is contributing to the 6% and 5% – bullets such as increased costs of transformers, inflation, especially drivers as we look out to 7-8% in 28-30.

Lance Smith; the primary drive is going to be our wholesale energy purchase costs- based on what PRPA has been saying around it's integrated resource plan, as we try to acquire more renewable energy resources that they will need to raise wholesale rates higher than 5% - we are seeing rate pressures in terms of higher labor costs so in order to meet our increased operating expenses such as labor – there have been a lot of supply chain issues that hopefully will get resolved but in the near term, the impact is that all utilities are trying to procure transformers and cables – there are consumer inflation 7% - we are seeing inflation 150-200% inflation on transformer costs.



Operating Income (see slide #9 above)
Kelly Ohlson; what is the $50M in red (above)?

Lance Smith; 2014-2019 we were not generating positive operating income. We had an operating shortfall. The $50M is indexing the Y axis. We had operating losses of $8-10M for a couple of years.
Going forward, we are trying to have operating income to generate 3% on roughly $150M of where we are today. So that is $4.5M we are trying to generate on an annual basis.

Kelly Ohlson; so, this is kind of what it is – I have to trust the work to a certain extent.

Emily Francis; recommended increases in 20-30 but then it drops rather significantly (see slide #11 below). Why wouldn't we take a more gradual approach to even out the rate increases for folks?

City of Fort Collins

Light & Power Rate and Debt Forecasts

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Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase	5.0%	6.0%	5.0%	5-8%	7-8%	7-8%	7-8%	3-5%	3-5%	3-5%
Debt Issued ($M)			$61.0			$76.0				

- Two debt issuances are necessary for electric infrastructure in 2026 and 2029
- Rate increases between 5% and 8% are expected to be necessary to meet operational objectives in this new economic environment

Lance Smith; that is a good suggestion, we are asking folks to look into their crystal balls to tell us what they anticipate 8 years out. We could look to smooth things out a bit, but I anticipate that the 3-5% probably changing once PRPA gets their 2024 Integrated Resource Plan updated. But absolutely, we can look to smooth things out a bit. PRPA's wholesale increases are projected at 5% per year out to 2030, then in 20231, they go down to 2% so that is being reflected.

Emily Francis; that makes sense, it is always more palatable to the community to have consistent increases that highs and lows. I understand that we don't always have all of the information, but it is preferable. I think this is ready.

B. TCEF Reimbursement Waterfield Fourth Filing Major Reimbursement No. 1

Marc Virata, Civil Engineer III
Monica Martinez, Manager, FP&A, PDT Finance

EXECUTIVE SUMMARY

The Waterfield Fourth Filing ("Waterfield") developer has constructed street improvements to Suniga Road, Vine Drive, and Merganser Street to City standards as part of its development requirements and identified as Phases 1-4 in Waterfield's approved development plans. The Waterfield developer has also dedicated right-of-way to Suniga Road to City standards as part of its development requirements. Per Section 24-112 of the City Code, the developer is eligible for reimbursement from Transportation Capital Expansion Fee (TCEF) funds for the oversized, non-local portion for both construction and right-of-way dedication. Staff is recommending appropriations totaling $1,495,605 from TCEF funds. As Waterfield has additional phases to construct, future major reimbursements are anticipated.

While this reimbursement is considered routine as part of the Code obligations under the TCEF Program, this request is coming before Council Finance Committee because of the large dollar amount outside of the typical 2-year budgeting process. TCEF reimbursements to development were formerly anticipated and appropriated through the 2-year budgeting process. As part of the process improvements identified first in the 2021 budget, the TCEF Program is now categorizing developer reimbursements as "Major" and "Minor" reimbursements, with "Major" developer reimbursements brought to Council individually rather than predicting what reimbursements are needed on a 2-year basis.

This proposed reimbursement is the second request under this new process with Council Finance Committee having reviewed the Northfield Development Suniga Road Major Reimbursement on December 1, 2022. As part of Council Finance Committee's input for Northfield, Council Finance Committee supported the major reimbursement for Northfield, supported major reimbursements to continue to appear before Council Finance Committee, and supported TCEF reimbursing Northfield for requested instead of Northfield's metro districts. Part of that reimbursement request included Northfield and its metro districts committing that the metro districts would not reimburse Northfield, meaning that Northfield would not "double dip" and be reimbursed twice for its costs. Unlike the Northfield Development Suniga Road Major Reimbursement, there is no metro district for Waterfield in which the developer may also seek reimbursement. City Council consented to the dissolution of Waterfield Metropolitan Districts Nos. 1-3 by adopting Resolution 2021-086 on September 21, 2021. The Larimer County District Court approved the dissolution of the Waterfield Metropolitan Districts Nos. 1-3 on November 8, 2021.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

- Does Council Finance Committee support an off-cycle appropriation of Transportation Capital Expansion Fee fund reserves to reimburse the Waterfield developer for its construction of Suniga Road, Vine Drive, and Merganser Drive; and dedication of Suniga Road right-of-way?

BACKGROUND/DISCUSSION

TCEF Program

The TCEF Program (formerly Street Oversizing), instituted by ordinance in 1979, was established to manage the construction of new arterial and collector streets, and is an "Impact Fee" funded program. The TCEF Program determines and collects impact fees from development and redevelopment projects. The collection of these impact fees contributes funding for growth's related share towards City Capital Projects, including the City's Active Modes Plan, and reimburses development for constructing roadway improvements above the local street access standards. Section 24-112 of the City Code allows for reimbursement to developers for the construction of collector and arterial streets.

This reimbursement is for the Waterfield developer's construction above the local street access standards as part of Phases 1-4 of the development, and for the dedication of Suniga Road right-of-way beyond the local access standard width for the overall development. Waterfield Phases 1-4 comprise of reimbursement for beyond the local access standards of Suniga Road, Merganser Drive, and Vine Drive as depicted in the "Waterfield Fourth Filing ROW Reimbursement Exhibit" by Northern Engineering, itemized between City (TCEF) and Post Modern (Developer) responsibility in the "City Reimbursement" spreadsheet by Crow Creek Construction, and summarized in the "Waterfield 4th Phases 1-4 TCEF Reimbursement Summary of Costs Exhibit". Roadway costs Reimbursement beyond the local access standards for Suniga Road includes landscape and irrigation, comprising of the full median landscape and irrigation costs, and a portion of the parkway on the south side of Suniga Road (the same eligible portion of parkway reimbursement on the north side of Suniga Road will be tied to a future reimbursement request.)

Reimbursement for Suniga Road right-of-way accounts for a 56%/44% split between the City (TCEF) and Developer for a total 295,000 square footage of dedicated Suniga Road right-of-way on the plat for Waterfield, with a land cost of $2.32/square foot, resulting in a City share of $381,276. This reimbursement for right-of-way includes the remaining portion of Suniga to be built to Timberline Road in a future phase.

Staff has reviewed the documentation provided by the Waterfield developer and agrees that the requested reimbursement meets the requirements under City Code Section 24-112 for appropriation from TCEF funds. There are presently adequate funds in TCEF to reimburse the developer and Staff recommends reimbursement in the amount of $1,495.605.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does Council Finance Committee support an off-cycle appropriation of Transportation Capital Expansion Fee fund reserves to reimburse the Waterfield developer for its construction of Suniga Road, Vine Drive, and Merganser Drive; and dedication of Suniga Road right-of-way?

DISCUSSION / NEXT STEPS;

Kelly Ohlson; I thought we decided last time that there would be no double dipping on the metro district and a reimbursement like this.

Marc Virata; you are correct - what happened again with Northfield, they did have a metro district and we were concerned about the potential for a double dip, and they provided affidavits from their metro districts that they did not and would not reimburse the developer and if they did the city would be reimbursed. In this case with Waterfield, there is no metro district here for them to seek reimbursement. It was dissolved early on.

Kelly Ohlson; do we ever verify in the future that there wasn't a double dip, or do we just trust?

Marc Virata; that is a great question - we took affidavits from the metro districts, and I don't claim to be an expert. I think the metro districts have to take formal actions which would be part of the public record. We could look at that. I would look to others here who might have a good perspective on metro districts.

Kelly Ohlson; we can do follow-up if needed / appropriate.

Kelly Ohlson; how closely do we examine the accuracy of the numbers on reimbursable requests to make sure it is inline? Do we spend some real time on it? This one is $1.5M.

Marc Virata; I did spend quite a bit of time reviewing this. You are seeing the end product. There was quite a bit of work that goes into the review of these.

Kelly Ohlson; Historically, some things weren't built to standard, then when the warranty expires the city has to pick up the responsibility for the streets or the landscaping.

Marc Virata; when the work is under construction – 2-year warranty then there is a walk through before we put it under final approval– code allows you to hold on to in case you have catastrophic issues – my hope if that we are taking infrastructure that is inspected before it becomes a city asset.

Emily Francis; we do so much due diligence during this process – when would be a time that we would not support reimbursement?

Marc Virata; if there are not sufficient funds to do the reimbursement – the code that says if we can only reimburse 50 cents on the dollar, they have to take it – Montava and Waters Edge have metro districts – those future reimbursements – will be brought to you – Council might prefer to reimburse from a metro district instead of from TCEF.

Emily Francis; I know we do a lot of due diligence and I know we don't want to double dip.

Kelly Ohlson; in the future I would be curious – I forgot that in code, it was Council's discretion. How do we know that we have the porridge just right – doesn't the development cause part of the pressure on the local portion of the project – do they pay their fair share – oversizing – is that how the fairness issue is? Ther are contributing to the overall capacity issue not just local – what am I missing there?

Marc Virata; all of these projects have been collecting and paying their capital expansion fees – when Northfield was in discussion last year - they had paid $2.5M and the reimbursement they were seeking was $2M – sometimes it works in opposite ways – fee schedule – you may be entitled to a greater reimbursement – the fee is growth related infrastructure which includes building the bike lanes, wider sidewalks is that growth related infrastructure. Every development is responsible for their local portion, what fronts their property, that is their minimum base line. If we didn't have a TCEF, all we could make developers build would be 30-foot-wide streets with no bike lanes. Then every arterial would have to be a capital project. The intent of TCEF is to be that bridge to bigger infrastructure. By the time they pay it, it may be utilized across town in another development.

Emily Francis; ready for Council, appreciate your thoughtful responses.

C. 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, 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	1st Reading
Nov 5	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, Cresent, 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	***Baseline***	***9.5%***	***10.8%***	***4.4%***	***21.7%***	***4.4%***	***6.3%***

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 statue. 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 with 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 statue 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 the 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 statue 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 suggested 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 that 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 is 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 did 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 on January 1st. If we went the whole year without increasing for 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.

D. Low-income Sales Tax Rebate

Jennifer Poznanovic, Sr. Revenue Manager
Nina Bodenhamer, City Give Director

EXECUTIVE SUMMARY
In October 2022, City Council amended City Code to align income eligibility from 50 percent area median income (AMI) for the applicable household size to 60 percent AMI. In collaboration with the City-wide consolidation of income-qualified programs and the Get FoCo application, staff committed to returning to Council Finance Committee to discuss the effectiveness of the updates on program participation after approximately a year.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
Does Council Finance Committee support offering a benefited position for the Grocery Tax Rebate Coordinator position starting in 2024?

BACKGROUND/DISCUSSION
Established in 1972, the Grocery Tax Rebate is intended to provide financially insecure residents relief from City sales tax charged on purchased food.

Over the past years, revisions to the Code language which govern the Grocery Tax Rebate have been made to demonstrate responsiveness to resident input and program design:

- Expanded to include residents within the City's Growth Management Area in 2017
- Property tax and utilities rebates sunset in 2021
- Expanded window of service: from seasonal to annual (2023 first full year)
- Online applications available via Get FoCo in 2022
- Adjusted definition of "households"
- Removed Federal Income Tax as the sole income verification source
- Updated to the payment to allow future alternatives
- Increased eligibility from 50% AMI to 60% AMI

Outreach & promotion:

- Leverage all City outreach platforms
- Spanish-language translation of outreach materials and application
- Direct mail, community promotion and marketing
    - Community-wide poster distribution
    - Two (2) ads per year, Coloradoan
- 50+ community partners: applications & promotion

Ongoing program design goals:

- Increase participation
- Reduced barriers to enrollment
- Improve the resident experience

- Leverage best-practices in program design for financially insecure residents
- Realize the potential of the city's investment in Get FoCo

Recent program results:

Year	Applications	Household Members	Grocery Rebate	Repeat	%	65+	%	Single HH	%	GetFoco	%
2020	**1006**	**1890**	**123,435**	886	**88%**	509	**51%**	641	**64%**	N/A	N/A
2021	**948**	**1758**	**117,987**	844	**89%**	446	**47%**	588	**62%**	N/A	N/A
2022	**1281**	**2626**	**181,186**	857	**67%**	486	**38%**	686	**54%**	614	**48%**
2023 YTD Nov	**1664**	**3986**	**303,353**	773	**46%**	405	**24%**	765	**46%**	1296	**78%**

- Second year partnering with Get FoCo
    - Nearly 80% of applications now online
- Record number of qualified applications - over 1600
- Greater reach to participants under 65 and household sizes greater than one
- Record high grocery rebate $304k (with one month to go)
    - 2023 budget $150k
    - Appropriation for additional expense will require Council approval

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
Does Council Finance Committee support offering a benefited position for the Grocery Tax Rebate Coordinator position starting in 2024?

DISCUSSION / NEXT STEPS;

Kelly Ohlson; what percentage of eligible households are benefitting from the grocery rebate program?
I love the new app. I want us to continue moving forward.

Nina Bodenhamer; who is our target audience – if we look at 60% AMI I think that represents 11-12% of our population (I will confirm that). Our target has been 8K households. Get FoCo has 4K households in our database. I will get you those firm numbers. That is the measure of our success in creating a one stop shop. When the position was just grocery store, they managed paper applications. While they represent the grocery rebate, they are talking with residents about the full Get FoCo programs. They do outreach and work with financially insecure households. They are enrolling folks into Get FoCo.

Kelly Ohlson; this makes sense to me. I support in the last few years, this Council has transitioned a lot of people who have been high functioning hourly folks for years to classified employees. 10 of them in Natural Areas – we want to be fair to employees.
Question regarding reduced recreation programs. Does that include Treatsylvania at the Farm at Lee Martinez Park? Are there things that don't qualify?

Nina Bodenhamer; there are things that do not qualify. It is not a percentage decrease on all recreational activities, but it is a benefit on dedicated services such as childcare. It also gives families day passes to Aztlan or seniors to the Senior Center. For a family, all recreation programs track within your rec id – if you enroll in ice skating, pottery, childcare, the discount is automatically applied. It is a very sensitive and respectful program for our lower income households. Flat rate ticket events such as Treatsylvania are outside the program.

Emily Francis; I would say that events like Lights and the Gardens and Treatsylvania should be offered at discounted rates.

Jen Poznanovic; fewer repeats – program used to also include utilities and property tax and we have had some folks not come back with those two pieces were outside the program. We have a larger number of new applicants.

Emily Francis; do folks have to do an application for this and another application for utilities?

Nina Bodenhamer; those programs have been zeroed out.

Jen Poznanovic; it has been several years since we have had those two rebates; they were smaller rebates which are more impactful going to the county instead of coming through the city – no longer through the city but more beneficial to go through the county. One of the qualifications is that applicants for property tax and utilities had to be 65 years or older.

Emily Francis; how many new folks do we have since we went from 50% to 60% AMI?
How many new folks are due to our increased eligibility.

Travis Storin; the essence of the question, by going from 50 to 60% AMI - X number of people participated who were not eligible before. How much is because of the app and how much is because the app made applying easier and how much is due to the funnel getting bigger?

Jen Poznanovic; a little bit of both.   It has been hard to get families. A lot of 65 and older folks participate and know how it works. We are able to reach some of the folks – didn't want to take the time to fill out the application.

Travis Storin; we can take this offline and see what the data shows us and then send a memo to Council if we are able to determine this quantitatively.

Emily Francis; even a change in demographics from 2020 – 2023 of who we are seeing apply. How that has changed since rolling out the app. See what the shifts are.
What are the other sources of income verification?

Nina Bodenhamer; income verification can be established via SNAP, Medicaid, LEAP
We very much want to drive our residents to LEAP for county and CHIP + and PSD free and reduced lunch programs.

Emily Francis; we don't really have any non-government program.

Nina Bodenhamer; we don't have a program outside of government. We don't have a community or regional verification of need program outside of government. With our partnership with PSD and our family liaisons – their location and needs – in the homes. They can upload on behalf of a family they are working with.

Travis Storin; eligibility requirements and rebate amounts all come from code.

Emily Francis; so Council could adopt additional items for income verification options.

Travis Storin; yes, I believe so.

Emily Francis; this is one program I would really like to see some progress in. I think we are missing out on folks who are enrolled in federal programs. I think we need to look outside these programs for income verification.
I support this.

E. Change Management Resources

Tyler Marr, Deputy City Manager

Appropriation request regarding change management resources for two digital transformation projects.

EXECUTIVE SUMMARY
Staff is recommending a one-time appropriation totaling $500,000 from General Fund Reserves to support dedicated change management resources for two digital transformation projects - Legislative Management Software and Recreation Registration Software replacements. The split is $375,000 for Legislative Management and $125,000 for The Recreation Registration project. These resources will go directly to contracted change management resources with PROSCI, whose methodology the City is using for a broader Enterprise Change Management effort.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
Does Council Finance Committee recommend moving the appropriation to the full Council in January?

BACKGROUND/DISCUSSION:
The City organization is actively pursuing at various stages a number of projects that seek to modernize our digital footprint for the community and the internal operations of the organization. These projects span many city services, including:

- Customer information system for utility billing
- Licensing, permitting, and inspection software
- Recreation registration system
- Legislative management software - including council agenda packets
- Enterprise Resource Planning

Taken individually, each of these projects represent different degrees of resourcing, both in terms of dollars and staff time, complexities and process or operational changes that will be required to be successful. A critical component staff believes applies to each project is our ability to effectively manage the change from current state operations to the future state under new tools and systems. Previous examples where we have not invested in adequate change management support and a holistic project management approach have resulted in suboptimal outcomes. While the City has invested in staff capacity and in creating positions for change practitioners to some degree, it is leadership's opinion that each of the projects above will require dedicated change management support which simply does not exist in the organization today.

Both the Recreation registration and legislative management systems are near term projects reaching critical milestones that have significant change requirements not currently able to be absorbed in the project costs that were originally budgeted primarily for software costs alone. Both projects are detailed below in addition to what the appropriation would provide for.

Recreation Registration (Daysmart)
The City's current recreation registration software – known as RecTrac – is a pain point in resident experience when it comes to accessing the City's class and program offerings across facilities and offering type. Council appropriated $89k in funds to replace the software in the 2023/2024 budget and staff has completed a Request for Proposals (RFP) and selected Daysmart as the new vendor who will provide that software.

Given the change a new system represents to the community and staff, and the vast amount of public interaction that our residents have with this particular system, executive staff selected the project as one that should receive dedicated change management support, especially to meet the timeline of working to launch for the April registration process. The appropriation request amount of $125,00 would cover dedicated support for a change practitioner provided through Prosci to assist in project execution alongside the City's project manager.

Legislative Management Software (LMS)
Legislative management software is a tool to improve efficiencies and transparency of the legislative process which includes Council agendas and minutes, in addition to materials for boards and commissions and Council subcommittees. Council approved a 2023-2024 Budget Offer for $300k ($150k in each '23 and '24) to fund implementation of a new LMS. This proposal was included in the larger Digital Transformation RFP to include a new citywide website. Staff wanted to consolidate multiple applications into a single, streamlined resident and community experience. Staff are currently in the final stages of selecting a vendor.

Executive leadership felt that this project was a critical one to provide dedicated change management support to; given the scale of the project, the number of staff that interact with the LMS, the critical functions pertaining to agenda management, record keeping, and the associated risks to public trust if the project does not go successfully.

The requested appropriation of $375,000 includes dedicated support for project execution, training in change management to upskill impacted groups across the organization and building capability in change management execution for the organization more broadly.

For both projects, staff is planning on exercising an existing contract option with Prosci to provide these services. Prosci is a locally based global thought leader in the practice of organizational change management. With over twenty years of research backing its industry leading methodology, their advisors have extensive experience both leading change initiatives and developing organizational capabilities related to organizational change management to successfully deliver results for organizations. The proposals Prosci has provided the City offers project execution support to successfully implement solutions that will assist staff and the community in engaging with City organization. In addition, the experienced Prosci Change Advisors will develop staff's ability to manage change on an ongoing basis through coaching and training. This additional service supports the City's enterprise wide capability in organizational change management.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
Does Council Finance Committee recommend moving the appropriation to the full Council in January?

DISCUSSION / NEXT STEPS;

Tyler Marr; I did have a conversation with Julie Pignataro earlier and she did offer that I could share some of that with you.

She asked, 'Why Prosci specifically?' Prosci is a world leader in this, and we do have an existing relationship with them, but we know they aren't the only provider. We have a different company providing change management resources for the CIS Utilities Billing System project and we would anticipate for both ERP and licensing, permitting and inspection software because we have more runway and will be going through a full RFP process with that instead of using this toggle option.
We also talked through the sticker shock and the shifting philosophy in these projects.
I don't want to put words in her mouth, but I think she was more comfortable with it. She is hoping that we, as an organization are investing resources so that staff can do this ourselves instead of using third party vendors. That is a separate but parallel workstream here, that we are investing in staff to understand our change management philosophy and principles so they can provide some of these resources. When we look at best practices, especially around software implementation,
some of these bigger ones will probably always need some supplemental change management.

Emily Francis; I think it is smart to invest in our people, especially with software updates, making sure our folks are comfortable using them. This provides good services to our residents. There is quite a bit of sticker shock with this.
Why is this coming out of the General Fund and not out of the strategic area of government where we normally fund these type of things?

Travis Storin; when we talk about the two projects in question; The Recreation project for Daysmart - that fund is not equipped with the reserves needed for this appropriation.

Emily Francis; when I think of change management, it is like training staff. We have staff training and development funds allocated in High Performing Government. So, I am wondering why this is coming out of the General Fund?

Tyler Marr; in terms of the parallel path that is, how do we get staff better at this and certify staff, that is traditionally, where we would look to training budgets first, and then if needed supplement. Because these projects came out of the General Fund, and these are supplemental resources do the projects we just kept the same path there.

Emily Francis; in the future when we have software changes, will the budget offers include this change management, if we think it meets the criteria?

Tyler Marr; I think we are setting an expectation that this is how we will budget projects moving forward is considering and making part of an RFPs, change management is a key component and it will also include things like staff backfill when needed to maintain two systems at the same time until we are ready for launch. I do think it is a wholesale philosophy shift and we are in the infant stages of figuring out what that looks like.

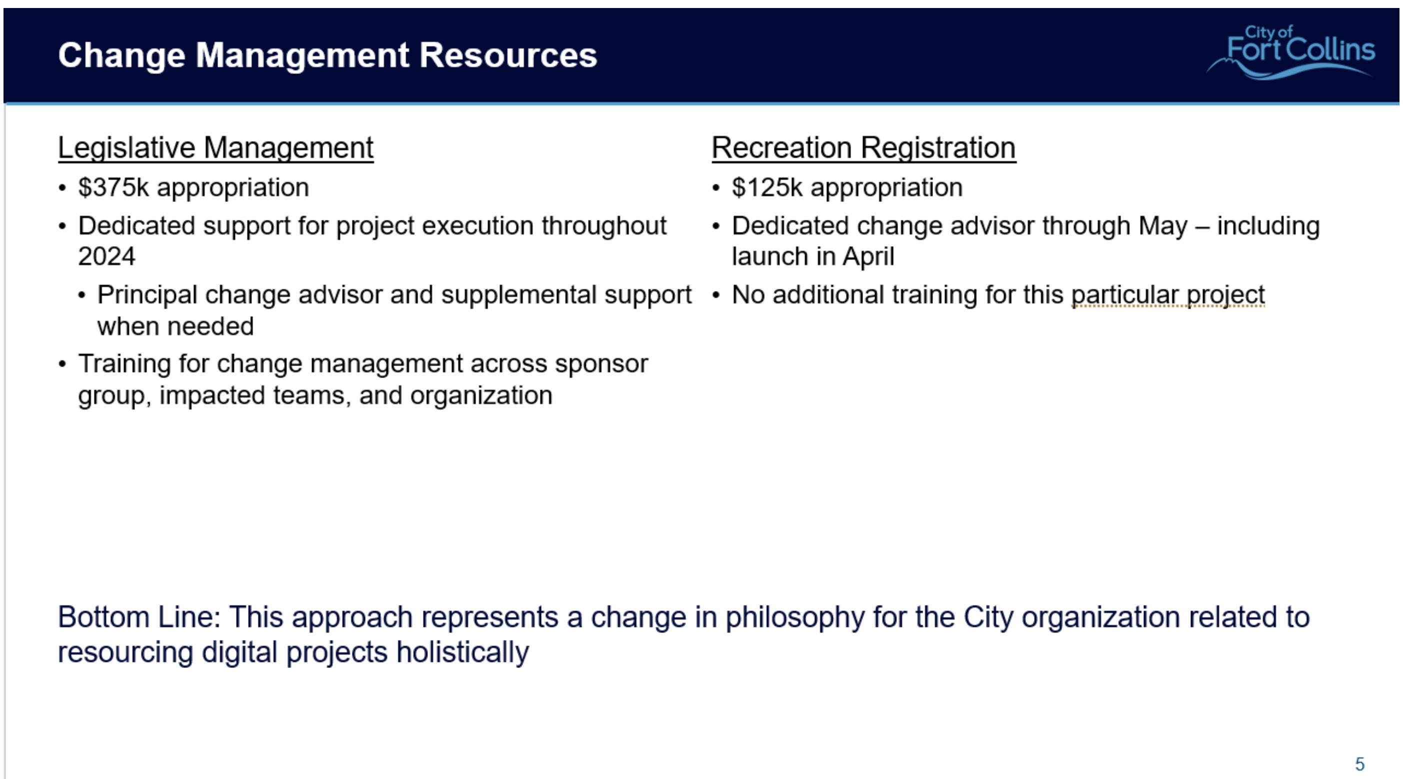
Travis Storin; criteria, etched in stone that we will have change management in the budget offers. when they come forward. These two projects came forward as offers before we embraced this as a priority. We are going all in on this for projects of a certain size or reach.

Kelly Ohlson; legislative management software - Utilities is a big part of the organization and its enterprise funds – why aren't the enterprise funds contributing to the cost instead of all General Fund? Tyler Marr; I don't' think we have thought through this with that level of detail, but I will commit to is that before bringing this forward as an appropriation, having a conversation with Travis and the Utilities folks. We will see if we can come up with a proportional component of the software, if that is something the committee is interested in.

Kelly Ohlson; it is not a make for break for me, but I think it is a valid question as I think we usually break things out that way. We break some management salaries out that way – between Utilities and General Fund.

Travis Storin; there is something to unpack there, I would say that the Utilities are ahead of the rest of the organization in terms of change management. They have a person on staff

Kelly Ohlson; slide 5 (see below) Can you translate the Bottom Line for me?



Tyler Marr; historically, we have brought you the costs that a new software package would entail. It might have some implementation dollars, but likely will just be ongoing subscription costs and then staff would absorb the time and resources needed to get that across the finish line.
For projects that meet that big criteria and represent legacy, multi decade system that take years (and not these two projects) but could take millions of dollars to shift. We think the risk is too

great to only focus on the software itself. The change in philosophy is saying, what else is required to make these projects work, given that there is a good track record in the city organization.
We need project management, change management and staff backfill capacity.
We hope they are few and far between, but we know we have a few of them.

Kelly Ohlson; does our website search engine fall into this category?

Tyler Marr; because we are going with the single vendor approach, I anticipate we will get some co benefits out of the resourcing for the legislative software. We are actively working on changes there too.

Kelly Ohlson; I am fine with this.

Tyler Marr; I viewed these numbers as caps, given that they are on different timelines, we will only spend what is needed which is a general operating assumption.

Kelly Ohlson; my trust level is very high with the organization -I know when you bring these items, you are presenting the best and most accurate information – trust does matter to me in this role.

OTHER BUSINESS:
Travis Storin; next year – coming off of all of the sustainable funding work and kind of splitting at the ballot box across the two revenue initiatives.

We did have two others for renewals that the staff will be looking to surface in 2024.
1) ¼ cent capital tax CCIP formally known as BOB
2) Streets pavement quality and pavement management program

Those would be in November of 2024 if the council agrees to refer them to the ballot.
We would be looking to add some work session time with the full council early in 2024.

½ cent sales tax that did pass - We are looking at an internal process similar to BFO but a mini BFO. Departments who are eligible for that funding; Transit, Climate, Parks & Recreation. We plan to bring that to Council Finance in March or April to review what is above and below the line.
Dollars will start to flow in 2024 as the sales tax goes into effect. That process will be in the spring. There will be considerable committee time on both topics. There is some really nice compatibility. with some of the early year Council priority setting in January and February – we are looking for a work session to start the topic and get full Council input to guide our committee level work for the year.

Emily Francis; that sounds like a good plan.

Meeting adjourned