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

970.221.6788
970.221.6782 - fax
fcgov.com

AGENDA

Council Finance & Audit Committee
December 19, 2016
9:30 - 11:30 am
CIC Room - City Hall

Approval of Minutes from the November 21st Council Finance and URA meetings

1. Future Utility Debt Requirements - Water & Stormwater	45 minutes	L. Smith
2. Utility Plant Investment Fee Updates	45 minutes	L. Smith
3. Audit Findings Response Review	20 minutes	T. Storin

<u>OTHER BUSINESS</u>

1) Xcel Franchise update

Council Finance Committee & URA Finance Committee
Agenda Planning Calendar 2016
RVSD 12/13 mnb

Dec 15			
	Broadband Review – Financial, Economic, Social	90 min	A. Gavaldon J. Birks S. Kendall
URA			

Dec 19			
	Future Utility Debt Requirements – Water & Stormwater	45 min	L. Smith
	Utility Plant Investment Fee Updates	45 min	L. Smith
	Audit Findings Response Review	20 min	T. Storin
URA			

Jan 23			
	Revenue Diversification Outreach Update	30 min	T. Smith
	Water – Raw Water Fee or CIL	30 min	C. Webb
	Utility Time of Use Rate Pilot Results	30 min	L. Smith
	Water's Edge Residential Metro District	30 min	T. Leeson J. Birks
URA			

Feb 27			
	City Foundation		
URA			

Future Council Finance Committee Topics:

Strategy Map Metrics Review – QI 2017
Parking Garage Financing – QII 2017
BFO Discussion – one-time and on-going funding guardrails
County IGA – URA TIF Evaluation Process

Future URA Committee Topics:

Annual URA District Updates

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

970.221.6788
970.221.6782 - fax
fcgov.com

Council Audit & Finance Committee
Minutes
11/21/16
9:30 - 11:30 am
CIC Room

Council Attendees: Mayor Wade Troxell, Ross Cunniff, Gerry Horak

Staff: Darin Atteberry, Jeff Mihelich, Mike Beckstead, Travis Storin, Jackson Brockway, John Voss, Andres Gavaldon, John Duval, Noelle Currell, John Stokes, Mark Sears, Barb Brock Brad Yatabe, Kurt Friesen and Carolyn Koontz

Others: Dale Adamy (citizen), Kevin Jones (Chamber of Commerce), Joe Piesman, David Tweedale and Vicky McLane from the Land Conservation & Stewardship Board

Meeting called to order at 9:44 am

Gerry Horak moved to approve the minutes for the October 17th meeting. Ross Cunniff seconded the motion. Minutes were approved unanimously.

A. Natural Areas Budget Review

John Stokes, Natural Areas Director
Mark Sears, Natural Areas Manager
Barb Brock, Natural Areas Financial Coordinator

EXECUTIVE SUMMARY

The purpose of this discussion is to review the City's Natural Areas Department budget. Key topics that will be covered include: 1) long-term budget projections, including a description of how the Department manages the spending requirements of the ballot initiatives; 2) fund allocations to programs; 3) internal administrative charges and certain capital expenses. This memo provides a high-level overview of these topics.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1) What additional information or analysis would be helpful to the Finance Committee?
2) Are there questions, concerns or advice?

BACKGROUND/DISCUSSION

Funding Sources and the Blue/Green Split

The Natural Areas Department receives the vast majority of its funding from the County's Help Preserve Open Space Tax the City's Open Space Yes Sales Tax.

Open Space Yes (OSY) ballot language requires that 80% of revenues be spent for land and water conservation and restoration activities. The remaining 20% (or less) may be spent on capital improvements or operations.

Help Preserve Open Space (HPOS) is more flexible and may be spent on conservation or capital and operations activities.

To help track spending categories, staff characterizes funds as “green” or “blue”. Green funds are allocated to land conservation and restoration activities. Blue funds may be spent on any work of the Department but serve as the foundation for operation and capital activities. To meet the spending requirements of OSY, staff manages towards the 2030 end date of the OSY ballot. To date, green spending has exceeded the 80% OSY requirement by approximately $10.5 million. The exceedance has been achieved by using blue dollars for land acquisition. Staff’s approach is a soft landing in 2030 whereby the 80% requirement will be exceeded by a comfortable margin.

Action Items / Discussion;

Use different color for text on pie chart slides for higher contrast.

Add a revenue slide showing only where the money is coming from

Add a slide showing a chart going out to 2030 - include the plan to get there - helpful to have longer timeframe and overall spending on a slide

Gerry Horak; would be good to have a more specific understanding of the overall allocations - how is this done overall and what is the logic for this one verses another one

Ross Cunniff; would be helpful to include historical and projected at some reasonable land cost per acre – part of the equation - challenges we would have buying similar levels of land in 2030

Gerry Horak; staff approach - is there a policy position
John Stokes; the ballot language requires it - we have to spend 80% by 2030 - $5m can go up and down

Internal Charges and Capital Expenditures
Total internal charges $415k annually
.5 FTE of a City Attorney
1.5 FTE in Real Estate Services
And infrastructure

Gerry Horak; a concern has been voiced by citizens and members of your board regarding Natural Area funds being treated (allocations) differently from other SAs

Mike Beckstead; Natural Areas treated the same as all other Service Areas
Utilities pays for certain things as an example based on their unique needs (heavier need = more allocation)

Gerry Horak; we don’t have the data for allocations - it would be helpful for both the Land Conservation Board and Council

Ross Cunniff; closer analog would be the Capital type taxes - Natural Areas is not a fee driven enterprise like Utilities or Golf - Natural Areas is more citizen initiated and voter approved

Darin Atteberry; to Ross Cunniff's point - historically the practice has been that even though it was established via a tax it has been treated as an enterprise

Ross Cunniff; does this include city administrative costs? Have we considered the magnitude of opportunity - consciously chosen not to go after opportunity of Capital Impact fees for Natural Areas (alternative funding for the future)? It would be interesting to hear how that might be structured - Natural Areas as part of the city's asset portfolio. Would it be possible to just pencil it out?

Mike Beckstead: that hasn't come up in revenue diversification discussions - we haven't explored

Darin Atteberry; does this group want us to pursue this? 2 prongs 1) can that be done legally? Natural areas as a potential capital expansion fee and 2) what are the ramifications (financial implications) of that?

Gerry Horak; this would be something to look at - first blush - a one page memo - What would you do for other type of assets?
Mike Beckstead; if we did it - What would the fee look like? We could take a look at that for 2017.

Mayor Troxell; make sure we understand the question- it could potentially reduce the tax

Mike Beckstead; for clarification - a combination of what the fee revenue would be and what would a potential tax offset be if we have such a fee.

Gerry Horak; what does it look like past 2030 if there was no tax?
John Stokes; we haven't done that analysis - if the tax were to be renewed the 80% requirement would need to change. The County changed their taxes – more money for operations

John Stokes; back up slide showing acres conserved per capita over time - spike in 2004 due to acquisition of Soapstone Prairie Natural Area and Bobcat Ridge Natural Area –we have added some area since they - population continues to grow - 42k acres now - another 20k acres - 30 square miles - I don't see that happening - our focus has been in and around the edges of the City of Fort Collins and that was explicit in our Master Plan and was what Council directed us to do.

Ross Cunniff; I agree - unfair to use Soapstone or Bobcat Ridge as a precedent for planning - basis - we have discussed this - what if we did a general statement of in and around the City of Fort Collins - what would that look like as area conserved per capita over time?

John Stokes; we could probably go back to 2003 and take a look - take out the two big chunks (Soapstone and Bobcat Ridge).

Ross Cunniff; so that becomes a more reasonable value based metric - we would like to get to more metric based.

John Stokes; we keep a rolling tally of how we spend our green money - 50% for land conservation funds out the door every 3 years – sometimes it carries over because year to year we don't know if a deal is going to happen or not

Gerry Horak; does the county money have spending constraints?
John Stokes; it can be spent on anything our Master Plan contemplates.

Gerry Horak; looking long term - some financial considerations - if we don't want to go for a tax what are we going to do over the next 30 or 40 years? What level are you anticipating? What are you assumptions for the future for the maintenance and operations? (The county did this analysis)

John Stokes; Natural Areas Master Plan

Mayor Troxell; would be interested in looking at how it plays into other strategic areas of the city such as; Nature in the City, urban farming activity – how does this play into that?

John Stokes; that is contemplated in our projections - urban farming - lots of interesting stuff starting to germinate there

Gerry Horak; I want to thank you for the quarterly updates you are providing to Council regarding acquisitions - this information is very helpful. Does the Land Conservation Stewardship Board look at finances?

John Stokes; not much but the Board has looked at finances in the past - this is a perfect segway for our next meeting in January.

Mayor Troxell; I want to share a kudo from the State Division of Natural Resources (DNR) - had a conversation with someone on the street saying what a joy is it to work with you and your staff.

Next Steps;
Council Working Session in late January

B. Proposed Business Assistance Agreement in support of Project 1601

Josh Birks, Economic Health and Redevelopment Director

SUBJECT FOR DISCUSSION
A proposed Business Assistance Agreement in support of Project 1601.

EXECUTIVE SUMMARY
The purpose of this item is to present the Council Finance Committee with a proposed Business Assistance Agreement (the "Agreement") between the City of Fort Collins (the "City") and Project 1601. The project will include the retrofit of an existing building in the community allowing for the addition of Advance Manufacturing sector jobs. The project will include upgrades to the existing building's mechanical equipment resulting in reduced energy consumption thereby reducing the carbon footprint of the building.

The proposed Agreement provides assistance in the following forms: (1) a use tax rebate on manufacturing equipment purchased as part of the retrofit; (2) a business personal property tax rebate on the same equipment, (3) a use tax rebate on construction materials purchased as part of the retrofit, (4) extension of an existing utilities rebate program designed to encourage energy efficiency, and (5) investment in public infrastructure adjacent to the project to improve public safety and access. **Items #1, #2, and #3 above *relate to revenues the City would not otherwise collect if the retrofit did not occur in the City.*** The value of the assistance package is estimated at $1.1 million. Therefore, the leverage per public dollar invested through the Agreement is approximately $32:$1.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does Committee feel additional information is needed to fully evaluate the proposed Agreement?
2. Does the Committee feel the proposed Agreement is ready for consideration by the full City Council?

Project Description

The project proposes to retrofit an existing building to include significant upgrade to the façade and HVAC equipment (the "Project"). The retrofit will support the creation of jobs by supporting the strategic growth of an existing Advance Manufacturing sector business in the northern Colorado region.

Public Benefit

The Project meets numerous City Strategic Plan objectives, *City Plan* objectives, and Economic Health Strategic Plan objectives.

Action Items;

This project adheres to our framework and is focused on primary jobs with salary equal to county average (mean) wage or better

Project 1601 - Description

Retrofit of an existing building

- Upgrade to façade and HVAC equipment
- Will lead to a significant reduction in energy consumption

Advanced Manufacturing sector

Infill and Redevelopment Site

- Avoids the need to utilize raw land at the edge of the city

Touches a number of our plans and has a significant public benefit

City Strategic Plan - vitality of certain business districts

Energy conservation and transportation improvements

City Plan objectives

Economic Health - support job creation

Economic Health Strategic Plan

Public improvements

Engaging the business community in carbon reduction

Financial Assistance Overview

The opportunity to retrofit an existing building will support the continued growth of an existing Advanced Manufacturer in the region. This expansion will include the addition of new jobs to the community (assistance is based only on net new employees added) as well as additional private investment in the community. The proposed Project will generate significant positive economic impacts to the community (See Economic Impact Analysis Overview). As a result, the City Council will consider a Business Assistance Agreement (the "Agreement") providing the following forms of assistance: (1) a use tax rebate on manufacturing equipment purchased as part of the retrofit;

(2) a business personal property tax rebate on the same equipment, (3) a use tax rebate on construction materials purchased as part of the retrofit, (4) extension of an existing utilities rebate program designed to encourage energy efficiency, and (5) investment in public infrastructure adjacent to the project to improve public safety and access. The value of the Agreement is estimated at $1.1 million, summarized in **Table 1** below. Therefore, the leverage per public dollar invested through the Agreement is approximately $32:$1.

- Total Estimated Assistance - $1.1 million
- Use Tax & Business Personal Property Tax subject to employment performance
- Utility Rebates subject to energy conservation performance
- Public Improvements
- Existing Use Tax Rebate Program netted

	Amount
Use Tax Rebate	
Construction Materials	$337,500
Eligible Equipment	$112,500
Total Use Tax Rebate	**$450,000**
Business Personal Propert Tax Rebate	**$41,000**
Utility Performance Rebates	**$130,000**
Value of Public Improvements (Est.)	**$550,000**
Subtotal Assistance Value	**$1,171,000**
Less Existing Rebate Programs	*($75,000)*
Net Value of Assistance	**$1,096,000**

To clarify - this is the 2.25% non-dedicated general fund rate (none of the dedicated rate is included in this rebate)

Depreciation equally over 10 years - as we learn more about the equipment we may want to accelerate the depreciation as we did with Avago (equipment was so high tech) it was depreciated over a 3 year schedule.

Utility Performance Rebate program already exists within Utilities for HVAC and lighting equipment - traditionally the program has caps - we are asking Council to consider in this assistance package is removing those caps for this project so we can achieve the greatest amount of energy conservation (achieve best benefit)

Ross Cunniff; there are 2 caps on these programs; the per property cap and the Overall total $ cap

Josh Birks; we plan to ask Council if they would be willing to consider providing assistance that exceeds the cap due to use of an existing building - public improvement adjacent to the site

There are some public improvements that are being contemplated adjacent to the site that are considered Beneficial to the adjacent property owners - have shown full value of these improvements.

Josh Birks; we have within the Code today a manufacturing use tax rebate in the code - we figured out the value of that program for this company which is approx. $75 (limited to eligible equipment) - they could access the $75k today without Council taking action.

Retained Revenue

	Estimated Total Tax	Retained Revenue	Tax Rebate
Construction Materials	$577,500	$240,000	$337,500
Eligible Equipment	$150,000	$37,500	$112,500
Subtotal	**$727,500**	**$277,500**	**$450,000**
Less Exisitng Rebate Program			($75,000)
Total Assistance Package Value			**$375,000**

Use Tax $277,500
BPP $41,000

KFCG was not charged on eligible manufacturing equipment

Ross Cunniff; there is a better way to show this instead of as a negative number - line that includes less existing rebate program
Josh Birks; I will update that before the Council presentation

Employment Thresholds

Threshold	Amount	Percent
100 Net New Jobs	$ 150,000	31%
200 Net New Jobs	$ 300,000	61%
300 Net New Jobs	$ 450,000	92%
350 Net New Jobs	$ 491,000	100%

Josh Birks; The assistance will be accrued as they add jobs to our community / economy. For each job they add they will receive approximately $1,500 of the use tax assistance- they are not allowed to request it until they reach a defined job creation threshold

They will provide us with payroll activity data which will be back verified with the Quarterly Census Employment Wages (QCEW) – we will be looking for jobs that are new to this site that are not part of the company's jobs in the broader region. We will also be requiring that as they hit each threshold that all of the jobs the average wage exceed County mean currently approximately $51k
Josh Birks; I will confirm and have the specific existing mean salary for the Council presentation
The state uses 'mean' not the median in terms of performance in their assistance packages - we have not in the past used a wage level in conjunction to a job creation number - we think this is a positive evolution of how we put these packages together.

Mike Beckstead; clarifying existing agreement - to make sure the jobs are not counted in both agreements
Josh Birks; concerned that if we share too much information we won't preserve the confidentiality of the company's name - suffice to say when we say net new jobs - we mean at this site and in support of these strategic initiatives

Ross Cunniff; the verification and audit side is key to me
Josh Birks; the agreement gives us the ability to request and inspect a number of different kind of documents - We will be triggering off of strategic jobs being added in new lines of business other than their current regional activities. We want to make sure we have adequate audit potential to access documentation.

Economic & Fiscal Impacts

	Amount
Construction (One-Time)	
Jobs	312
Earnings	$18,502,963
Average Earnings per Job	$59,362
Operations (On-Going) *	
Jobs	1,616
Earnings	$52,053,554
Average Earnings per Job	$32,211

* NOTE: Represents total change in earnings during the first year of full employment

	Amount
Additional Benefits	$19,920,531
Additional Costs	(15,132,760)
Net Benefits	$4,787,711
Present Value of Net Benefits *	**$3,658,901**

* NOTE: Analysis assumes a 5 percent discount rate over a 10-year analysis period.

There will be some construction jobs - 312 jobs during period of construction

For the full Council presentation we will have the staff report and the sustainability assessment report. We are still getting specifics on the energy conservation / savings as well but will have that data for the full Council presentation.

Ross Cunniff; taking a triple bottom line analysis is not there yet - net inflow of population as a result of this redevelopment, impact on housing costs - I believe that the cost of housing is largely driven by supply & demand and market forces in the city - we will have fewer resources to address parts of the policy solution for affordable housing, the environmental aspects of ozone, impact on the natural areas / parks from the additional population, some clarity around what capital fees they would be paying and how those factor in, are they paying any transportation fee, I assume they are paying utility fees - some Council members have been frustrated at data they are not able to get

Josh Birks; because it is a retrofit of an existing building I think a lot of the capital expansions fees don't apply because the use isn't changing significantly. In the conversations we have had thus far - we have been operating under the assumptions that most of the Capital Expansion fees won't apply based on our code (building permit to modify an existing)

Ross Cunniff; My preference would be if a company wants us to provide assistance that they should be aware that they are in the public arena and that their name will be made public once it gets to a certain point - deliberation by the city's public boards - but that said, I will honor their request at this point -

Ross Cunniff; would like to understand where the intersections improvements would have been - the opportunity cost for doing these sooner vs other areas and try to compare the use tax rebate that we are talking about with other projects such as Avago and Forney - for example with Forney we helped them out with their sewer infrastructure - they moved anyway - we don't have the benefits of the city limits we thought we would have
Josh Birks; it was not transferrable from the site so Forney by moving from the sites forfeited the benefit.

Josh Birks; I can tell you that looking at all assistance packages excluding things like the tax increment Use tax rebates we have been closer to $7800 per job in assistance - this is closer to $1500 on the use tax rebate side up to $3k when you include utility rebates so we are significantly below that mean / average of the other assistance packages we have provided.

Ross Cunniff; that contextual data would be helpful – before we create the next Strategic Plan- it feels like we are still operating like we are in the depths of the great recession and we are chasing after jobs. Council's priority question is what should our policy be (bigger picture, later as we evolve), the actual costs and benefits- I remain concerned about growth in Fort Collins – reasonable, modest incentive package
The use of an existing building and the energy aspects are good - more data showing the rebate / use tax is modest compared with other projects - don't want to create the expectation among companies that want to redevelop or come in that we will always grant you a use tax rebate. Fairness issue

Gerry Horak; how do we factor in things like being on the transportation corridor with bus service – one of the focuses we are trying to do with Transit is to provide people ways to get to jobs and home - redeveloping sites - how does that fit in with our transportation policies and 365 day service?

Josh Birks; so the current framework talks about categories of evaluation criteria that we would use - I think Transportation is one of them.

Gerry Horak; looking at the CHFA model Colorado housing folks use - the criteria to make it - transportation based - if you don't meet the criteria then you don't qualify - Where should we really invest our funds? Objective criteria have their advantages; you have to meet A B C and D to even be considered. We have to look at the transit issue if we are serious about that.

Mayor Troxell; from a workforce perspective, advanced manufacturing is important / key for Fort Collins. As our community, we want to provide a cross section of businesses that provide a variety of different job opportunities and types - pressure on real estate right now - Northern Colorado housing discussion last week – robust discussion – bringing several things to light and challenging our state representatives to address at a state level - areas in our community that are in a transition and that is part of any dynamic community where there is always an evergreen element that is affordable - just maybe not in Old Town now - the reuse is important component of this project - I think this is ready to come to full Council for consideration.

Josh Birks will provide a memo in the interim to the members with the additional information as requested.

Next Steps;
Not going to Work Session with this item
Scheduled to go to Council on December 6th - the company name and location will be disclosed at that time.
Final numbers including energy conservation will also be included in the AIS for the full Council Meeting

C. Financial Policies Update - Revenue and Debt

John Voss, Controller

EXECUTIVE SUMMARY The Revenue and Debt Policies have not been updated since 2013. No changes are recommended to the Debt Policy. Changes recommended to the Revenue Policy relate to TABOR and the recent need for voter approval to keep the excess revenue associate with KFCG.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Concur with recommended changes?
Recommend bringing the City Council December 21, 2016?

Policies up for Review
- Financial Management Policy 2 - Revenue
- Financial Management Policy 5 - Debt
  Both were last modified and reviewed in 2013

Mike Beckstead; we are in the first round of the review and the updates- we are bringing 2 policies today - Revenue and Debt - we are on a rotating 3 year cycle - in 2017 we will look at 3 more - 9 polices so each will be reviewed periodically - John Voss will talk us through the proposed changes to the revenue policy which are largely TABOR driven. Not much changing in the Debt policy.

John Voss; it was asked in the past that we put these out on fcgov which we have done and we will match the external and internal website information to include; the date last reviewed and date last changed.

Policy 2 - Revenue
1. Limitations (TABOR)
2. Revenue Review, Objectives and Monitoring
3. Fees
4. Sales & Use Tax Distribution
5. Private Contributions

Recommend new sections that relate to TABOR, clarify several areas and delete a few redundant items

2.1 **Limitations under TABOR**

Add section C. TABOR Notice for New Tax or Tax Increase
- Develop revenue forecasts that are reasonable and factor in the implications of over collection.
- Review these forecasts with the appropriate leadership staff.

Add section D. Monitor New Tax Revenue
- Staff will monitor actual revenue against the forecast revenue disclosed in the TABOR notice.
- In the second year, confirm actual revenue to forecast and determine if any action is needed.

Add section E. TABOR Legislation and Judicial Decisions
- When such matters are discovered affecting the City, staff will confer to determine what actions, if any, the City should take in response.

Add section F. Maintain Records of 'Fiscal Year Spending'
- Calculate annually
- Maintain supporting records for at least 6 years
- Document which agencies, funds and revenues qualify under TABOR

2.2 C. Targets
- Currently no policy is set
- Recommend removing section

2.2 D. Monitoring Revenue Sources
- Set clearer standard

2.4 Sales & Use Tax Distribution

- Update listing of Sales & Use Tax portions
- Note that this section of policy is informational
- Add reference to City Code Chapter 25 for details on:
  - Rate
  - Taxable transactions
  - Permitted uses
  - Term of tax, if applicable

John Voss; 2.4 We want to keep it brief and add that all details are included in Chapter 25 of the Code - so as not to include duplicative information and to reduce the number of documents we need to update

Ross Cunniff; one key thing we should do after a tax is approved is to make it a policy that we always review the collections vs projections.

Mike Beckstead; I want to monitor it during the year as well as do a formal closeout - where did we land relative to the forecast and what if anything needs to happen next?

Gerry Horak; can we add under 2.1 that there will be a report sent to City Manager and Council so it is clear and Council is aware?

Mike Beckstead; that is our intent and we can certainly modify the second bullet under D to include that a report will sent to Council.

John Voss; since we debruced in 1997 this has not be happening - now if we get a new tax we need those for reference points for the TABOR notice at that time and the rebates and revenue forecasts.

Gerry Horak; so documenting what method is used and include which agencies, funds and revenues qualify under TABOR
John Voss; we will document which agencies, which funds are in and which are out

Policy 7 - DEBT

A. Purpose and Use of Debt
B. Types of Debt and Financing Arrangements
C. Debt Structure and Terms
D. Refinancing Debt
E. Debt Limitations and Capacity
F. Debt Issuance Process

We don't have any recommended changes

John Voss; we want to ask if we are ready to go to Council the 2nd week in December

Gerry Horak; I say yes and I appreciate the effort that has been put into getting these policies clearly documented and tightened up

Mayor Troxell; I agree – good work

Mike Beckstead; we have created an on line place for all Financial Policies

Ross Cunniff; I like the process

Mike Beckstead; we will bring this forward to Council and look for adoption on consent.

D. Anheuser-Busch Park and Recreation District Dissolution

Travis Storin, Accounting Director
Brad Yatabe, Assistant City Attorney
Kurt Friesen, Director of Park Planning

EXECUTIVE SUMMARY

Legal counsel from Anheuser-Busch contacted the City Attorney's Office in August 2016 to seek the City's consent in the dissolution of a park and recreation district formed in 2008. The Board of Directors believes the overhead costs of administering the district do not justify the benefits as originally anticipated.

State statute permits to dissolve without conducting an election if: A) the City Council and district board both consent and B) the district does not carry any outstanding financial obligations. Without Council consent, it is presumed that the District will conduct an election for which they would be the sole voter.

District Formation

- Approved via Resolution 2008-089; 18-acre District is wholly owned by Anheuser-Busch
- Consists of wildlife habitat area and softball field
- Authorized to impose a small mill levy of 5-10 mills for operations, in addition to user fees
- Original intention for district formation was for 1) legal protection, 2) preservation of facilities, and 3) ability to pursue funding resources unavailable to private entities

Request for Dissolution

- District Board believes original purposes are no longer needed and overhead costs do not justify the legal benefits
- CO Revised Statutes allow for dissolution without an election if:
    - A) District has no financial obligations or outstanding bonds, and
    - B) The District Board and Council both consent
- A-B anticipates land to still be used as ballfield and park

Implications to City

- No financial impact to City; A-B is solely responsible for paying operating costs of district
- No impact to Parks operations

Gerry Horak; I am good with this - why did it come to us?

Darin Atteberry; this came to the sub-committee when it was originally initiated -
- will the fields go away?

Travis Storin: the fields will not go away and they will continue to be open to the public

Ross Cunniff; were there financial considerations/ projections made in 2008 when this was adopted that we need to know about or Council should know about?

Mike Beckstead; we reviewed the original AIS with Kurt Friesen and Mike Calhoun and we didn't see anything of substance when this was originally brought forward. This came to me via the CAO - I use the Council Finance as a way to vet things before we go to Council.

Ross Cunniff; is there any record of public comment from 2008? Would be good to include that as well as the in the packet.

Mike Beckstead; we will include the AIS from 2008 in the Council packet and any public comments.

Mayor Troxell; there is some ability for public use - is there signage to indicate that?
This is in the city - I have heard some concerns from residents in the NE part of the community regarding parks and how we are not servicing them. For example, Richards Lake – we are not going to plant some trees – water issues, etc. I am wondering if we could get some commitment to Parks in the NE part of our community through this discussion funded in part by InBev / AB.

Darin Atteberry; there is a community park and a neighborhood park scheduled up there-
the concerns that have been expressed include some neighbors who have wanted us to put trees in - we aren't ready to do that yet as we don't have a neighborhood park design - Kurt or Travis - do you see any opportunity for leverage?

Kurt Friesen; if we have a facility open for public use than it is available and can be continued to be used as it is today so I see that as the opportunity.

Mike Beckstead; They had two options to dissolve; 1) they could take it to a ballot and they would be the single property owner that would vote for it or 2) the resolution route being less costly and more expedient than a vote so not sure what our leverage would be.

Mayor Troxell; as part of commitment to community - why did we enter into this in 2008? I was on the Council then and I vaguely remember – the intent - how do we service the NE part of the community (facilities and parks)?

Mike Beckstead; they came to us in 2008 to form this district around the liability question - we said yes to that process and now they are saying that the liability question is not a concern to them. We will explore if there is anything in the way of a commitment that could be had

Ross Cunniff; I see in the documentation - the non-developed area was not a legal liability issue - would like to understand the history and have this information in the Council packet to review.

Mayor Troxell; I would offer the opportunity as a good corporate citizen - consider improvement of parks in the NE part such as Richards Lake - getting some movement there - I think it is a rather weak argument as to why we can't plant some trees - do some initial planning as to where trees should be - not the full plan but would facilitate planting some trees today will have benefits when the park is finished out.

OTHER BUSINESS:

Mike Beckstead; Council involvement in Broadband - site visits are coming up

November 29-30th   Cedar Falls, IA and Wilson, NC

December 7th   Chattanooga, TN

Looking for Council's direction and thinking - see if there is any interest.

Gerry Horak; let's give Council members an opportunity to go - see if there is any interest
Or schedule a separate trip later on if people want to go - good to hear things directly - not to change the current schedule - just to give the folks who ultimately make the decision and recommendation to the community a chance to hear the same information.

Darin Atteberry; I will talk with Ray and Gino as they are the only two I have not talked with - I will let Mike know what they say.

Mike Beckstead; we would like to schedule a 90 minute Special Council Finance Committee meeting to get into detail of Broadband to be scheduled after the site visits and before the December 20th Council Work Session

Gerry Horak; looking at where we are headed - when staff has developed a recommendation to provide or ask Council members if they are interested in going to visit any city which is closest to the recommended model for feedback and direction.

Darin Atteberry; there is a Council Work Session on December20th - if they give direction at that Work Session to move forward with a retail model - pretty quick turnaround time

Ross Cunniff; what is the timing of the next Economic Development meeting?

Josh Birks; the next Economic Development Board meeting - they are scheduled for the 3rd Wednesday of the month - this topic is not currently on our agenda - we certainly could add it in January depending on what timing makes sense

Darin Atteberry; to Josh - if you could get this added to the agenda that would be great as this is a significant conversation

Darin Atteberry; Gerry mentioned to me that it would be good to encourage any Council Members who want to attend that special Finance Committee meeting. Darin will contact them.

Ross Cunniff; my other business items has to do with the Fees discussion – it looks like the Work Session is scheduled for the last day in March – I am wondering if we could pull this forward so this Council could take action if we decide to.

Mike Beckstead; we are still doing an inventory of all fees across the city - reviewing all fees a week from today – when I get a chance to look at all fees and which should they be updated as part of a single event per year - I will have a better answer for you after that conversation - that was put in as a placeholder and we will certainly move that forward when I have a chance to learn more.

Darin Atteberry; the goal is to get this done before the end of Q1 2017 - to have some resolution
Meeting adjourned by Mayor Troxell

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

970.221.6788
970.221.6782 - fax
fcgov.com

URA Committee
Minutes
11/21/16
11:30 am - 12:30 pm
CIC Room

Council Attendees: Mayor Wade Troxell, Ross Cunniff, Gerry Horak

Staff: Darin Atteberry, Jeff Mihelich, Mike Beckstead, John Duval, Jackson Brockway, Tyler Marr, Josh Birks, Patrick Rowe and Carolyn Koontz

Others: Dale Adamy, Kevin Jones

Meeting called to order at 11:40 am

Staff: Josh Birks, Economic Health Office Director
Patrick Rowe, Redevelopment Program Coordinator

Josh Birks; this is our first annual review - would like to know if this is the information you want to see or what additional information you would be interested in reviewing. Also, in the future we will make sure to bring the review to the URA Finance Committee prior to the Budget Review. The Budget review took place last week but we will make sure that scheduling is in the inverse in the future.

Patrick Rowe; House Bill #1348 was effective January 1, 2016 but is not applicable until there is a triggering event. Doesn't talk about how the special districts pick their representative - did clean up a few things in last cycle - PSD did name a representative, County - spoke with Linda Hoffman and they have not gone through the process to determine a designate, Library District has interest

URA Board - you had asked us to invite the URA Board - I think this only add one board member from Poudre School District – a couple questions

How do you want to move forward in regards to URA meetings?
And a triggering event - are we looking for a triggering event?

Mike Beckstead; I am hearing there should be a Council Work Session meeting so we are all clear on where we are headed - that is the first meeting which we need to resource with information about what others might be doing and what a triggering event might be - the authority of the URA Board vs the Council -
Then when we are clear on where we are going we schedule a multiple entity meeting

Darin Atteberry; Mike and I have the county wide URA meeting on December 2nd - maybe we should ask to add this as an agenda item since most districts will be there (Schools, Health) will be a public meeting all could attend - I have meeting with Linda Hoffman and will mention this

Darin Atteberry to Mayor Troxell, Gerry and Ross; since this hasn't been a point of discussion I am curious to know your thoughts
Gerry Horak; I am smart enough to know I don't enough right now - need to go back - no preconceived notion – need to learn more
Mayor Troxell; it aids in the communications with the county particularly -
Darin Atteberry; I will share with Linda today - see what she is hearing from their board

SUBJECT FOR DISCUSSION Urban Renewal Authority Annual Update

EXECUTIVE SUMMARY
The purpose of this item is to provide an annual Urban Renewal Authority (URA) update. The update focuses on the three tax increment financing (TIF) districts in addition to the broader authority.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
Does the committee have input or comment on the proposed 2017 URA strategies?

BACKGROUND/DISCUSSION
The Fort Collins URA is comprised of two plan areas –the North College Plan Area and the Midtown Plan Area – and three TIF districts which reside within the two plan areas –the North College TIF district, the Prospect South TIF district, and the Foothills TIF district (**Attachment 1 & 2**). The URA derives property tax increment from all three districts in addition to sales tax increment from the Foothills TIF district, with increment proceeds obligated and spent within each respective district.

2016 – Fort Collins URA
With the dramatic reduction in the size of the Midtown Plan Area that was undertaken in late 2015 in response to the URA Reform Bill (House Bill 2015-1348), no new plan areas, and with the North College TIF/Plan Area drawing nearer to its 25-year term, in general the URA saw a continued low level of new activity. That said, staff continues to look for appropriate new plan area opportunities (the former Kmart site is one such area that drew interest and consideration in 2016).

North College TIF District
The North College TIF District was formed in 2005, with its first collection in 2006 and its last scheduled collection in 2031.

Activities:
- URA Applications
    - **Hickory Commons** – An industrial and live-work development consisting of two (2) 11,000 square foot industrial buildings and one (1) 7-unit live/work condo building. The URA provided support of up to $74,211 for regional Stormwater improvements (approved late 2015)
    - **Lyric Cinema Café** – Relocation and expansion of the Lyric Cinema Café to 1209 N. College Ave. The expanded Lyric Cinema will feature three screens, 500 seats, a full restaurant, and a bike-in outdoor venue. The Lyric is seeking $209,000 in URA support to apply towards Stormwater improvements and landscaping (Pending; URA Finance Committee review for November 21, 2016).
- Redevelopment Agreement Compliance
    - **Aspen Heights** – Actively reviewing invoices and documentation of eligible expense prior to beginning reimbursement (awaiting final submittal from developer/owner)

- Rocky Mountain Innosphere – Engaged in finalizing staff review of eligible expenses with the aid of outside expertise in preparation of the refinancing to take place in early 2017

Strategies:

- ***Finish Strong North College*** – At nearly half term, the value of the Tax Increment Financing (TIF) revenue stream is diminishing, making significant investment in renewal projects more challenging. As such, the URA wants to optimize the use of TIF during the remaining life of the plan area to address remaining blight conditions and redevelopment opportunities. Staff proposes engaging with an economic development / planning consultant to develop a strategic investment plan for the URA North College Plan Area. Specifically, this would involve examining infrastructure deficiencies, other development constraints, and catalytic/high value investment opportunities.
- ***North College West Side Regional Stormwater*** – The east side of North College Avenue has employed a regional detention and water quality approach (the Northeast College Corridor Outfall) that supports development outcomes in the area. The west side of North College currently lacks a regional approach and arguably has greater challenges given the smaller average lot sizes and long-narrow lot configuration. Staff is presently exploring the potential of a regional detention and water quality approach that is similar to that on the east side. If the City's internal analysis indicates value in such an approach, staff may recommend using some portion of URA funds to support additional planning of such an approach.
- ***EPA Site Assessment Grant*** – The City received an Environmental Protection Agency grant in the amount of $500,000 for environmental site assessment work in support of redeveloping brownfield sites. This grant has been targeted for the North College area as well as the northern periphery of Old Town. City Staff is actively seeking private participants to make use of this grant in support of redevelopment outcomes and environmental cleanup. The City has use of this grant until fall 2018.

Josh Birks; this was the first year we were supposed to make a payment to Aspen Heights but they have not provided the required documentation so we could verify expense so no payment has been made.

West Side Regional Stormwater approach - west side of College - same approach as was used on east side of College being proposed - currently in value proposition phase - when we complete our staff assessment we will reach out to vet. Both Hickory Commons and Lyric are on the west side of College and their packages encompass Stormwater.

EPA Site Assessment Grant targeted for North College - $500k
3 year grant - nearly completed first year of grant - we continue to reach out to the brokerage and development communities to identify good uses of the grant money that is available to us

Financial Highlights/Summary:

North College District
Comparison of 2016 Budget with Current 2017 Budget

	2016 Budget	2017 Budget	2017 H/(L) 2016
Revenues	$ 1,537,520	$ 4,055,709	$ 2,518,189
Operating Expenses	**$ 286,133**	**$ 287,503**	**$ 1,370**
Debt Service	**$ 1,078,461**	**$ 3,580,600**	**$ 2,502,139**
Total Expenses	**$ 1,364,594**	**$ 3,868,103**	**$ 2,503,509**

- Tax increment collections continue to show modest increases as forecast.
- 2017 includes the anticipated Rocky Mountain Innosphere loan repayment, which in turn will be applied to the loan the City made to the URA for the same purpose.
- Positive fund balance throughout the life of the district sufficient to discharge all planned obligations and debt service.

For 2015, we closed with a $520K positive fund balance
Estimate for 2016 is $700K positive fund balance
Sum of money is meaningful and could be put to good use

Gerry Horak; west side North College - storm drainage project is a big limiter to what can be done
Are we taking a look at figuring out a way - property owners have to do part - there is currently no
Project to tie into so they are wondering if they can do something early and then repayments to it -
Natural Areas may be interested in properties on the back side by the river – explore how can we deal with this issue, improving by providing trails, water. That is a policy question for Council input.

Current status of staff analysis - will it be more cost effective for individual site owners to buy in a larger regional solution / solve on their sites – it is looking good that the answer will be yes – then the next step will be designing that system - part of the role that the URA could play - acting as financier - some early actions like what was done with Necco - helping to fund the acquisition of the 10 acres for major Stormwater retention / detention pond – it is early and we don't know what the system looks like yet -

If we stay on the path we are on right now and assuming a modest increase in annual property tax collections there could be a potential of a $5M fund balance

Gerry Horak; how to proceed - path to move ahead - is there a need for a Council work session on this?

Josh Birks; Last Tuesday the URA Board approved us using a portion of the fund balance to invest in what we are calling the 'Finishing Strong' strategy. There are the essential questions for the study and we can engage an outside consultant if we need help looking at Stormwater issues or others

The future fund balance we are looking at today is based on the mill levy as it stands today not post
That is a question we need to answer as we move forward in terms of cash flow, what impact it has positive or negative.

Ross Cunniff; confirming that one of the options is returning the fund balance to the tax payers.
Josh Birks; that is an option if we have met all of our objectives

Darin Atteberry; Josh - can you confirm that the highest priority is the Stormwater issue for west side of North College?
Josh Birks; yes, in addition the issue of the small and fractured ownership / small parcels in the area as opposed to on the east side we have more large parcels

Mike Beckstead; connection from College to Blue Spruce is funded - east of that is major and unfunded

Darin Atteberry; where is that in the Stormwater master plan? If that is scheduled in next 3-5 years maybe you are not looking at surplus URA dollars

Josh Birks; what we are talking about is a new capital asset that was not previously contemplated within our Stormwater Master Plan - we don't have a district wide solution on the west side currently in the master plan but we are talking about building out a solution that could then be put in the prioritization - equipped and funded with potential URA dollars

Patrick Rowe; there is a Stormwater Plan on the west side but it is scoped to deal with flooding issues and not development issues - more likely an increase in capacity in the system

Gerry Horak; what role cold Natural Areas play? What is going to happen as a follow up to this discussion?

Mike Beckstead; I am hearing that we need to develop a long term view of URA north with a lot of these options and topics in discussion and we need to come back and have another dialog

Prospect South TIF District

The Prospect South TIF District was formed in 2012, with its first collection in 2013 and its last scheduled collection in 2038.

Activities:

- URA Applications
    - **2105 S. College** (proposed – withdrawn) – A market rate apartment project proposed for a site located just north of Whole Foods. Size of increment request and market rate aspect of project resulted in staff recommendation of greater public benefits or reduced increment request
- Redevelopment Agreement Compliance
    - **Capstone** – Distributed the final reimbursement payment in mid-2016 based on leasing activity and other performance aspects of the redevelopment agreement

Strategies:

- **Continued Engagement** (Property Owners/Developer Community) – Staff will continue to engage with the brokerage and developer community – with an emphasis on under-utilized property and recent retail transfers – in order to be opportunistic and engage in development outcomes consistent with City plans and policy.

Financial Highlights/Summary:

Prospect South District
Comparison of 2016 Budget with Current 2017 Budget

	2016 Budget	2017 Budget	2017 H/(L) 2016
Revenues	$ 450,185	$ 463,312	$ 13,127
Operating Expenses	**$ 20,759**	**$ 23,259**	**$ 2,500**
Debt Service	**$ 365,102**	**$ 369,551**	**$ 4,449**
Total Expenses	**$ 385,861**	**$ 392,810**	**$ 6,949**

- Tax increment collections continue to show modest increases as forecast.
- Fund balance projection in 2016 is $217,034. The fund balance remains positive throughout the life of the district sufficient to discharge all obligations and debts.

City share-back of rate differential
Projections - it will be paid back 2 ½ years before close out of the district
Mike Beckstead; this is significant as we had a $1.7M gap - was down to $1.1m but appears the additional revenue growth has closed the gap

Foothills TIF District

The Foothills TIF District was formed in 2014, with its first collection in 2015 and its last scheduled collection in 2040.

Activities:

- **Pedestrian Underpass** – Staff continued to work with the developer to finalize design, construction timing, and manage cost overruns for the project
- **Monitoring Leasing Activity** – Staff met with the developer periodically throughout the year to discuss leasing activity and review construction progress – the last building on site (excluding the residential) is under-construction now
- **Redevelopment Agreement Compliance** – Working with outside consultant to ensure sustainability and other agreement requirements are complied with. Report will be produced upon completion of project.

Financial Highlights/Summary:

Foothills District
Comparison of 2016 Budget with Current 2017 Budget

	2016 Budget	2017 Budget	2017 H/(L) 2016
Revenues	$ 1,139,145	$ 4,078,120	$ 2,938,975
Operating Expenses	**$ -**	**$ 13,979**	**$ 13,979**
Debt Service	**$ 1,139,145**	**$ 4,053,867**	**$ 2,914,722**
Total Expenses	**$ 1,139,145**	**$ 4,067,846**	**$ 2,928,701**

- The Foothills TIF district acts as a pass-through entity for the funds it collects.

- A modest administrative charge will be withheld from property tax increment to offset staff and administrative costs to the Urban Renewal Authority

Approximately $130,000 exceeding the current program cap of $50,000 by $80,000. The proposed Agreement would contemplate asking City Council to providing additional funding to support these rebates. That additional funding would be subject to annual appropriation. A separate appropriation ordinance will be considered by City Council when the rebates are due.

Public Improvements
As a result of the Project, the City will invest in public improvements adjacent to the site. These projects will provide benefit to the Project as well as address traffic flow and public safety issues previously identified in the area. These improvements will facilitate a new point of access to the Project site enabling safer access for employees and shipments. Therefore, the value of these improvements has been included in the estimate of the total value of the Agreement. However, a portion of the improvements have been desired by the adjacent property owners for years. For this reason, the City is making the investment in these improvements.

Economic Impact Analysis Overview
The Project will generate economic impacts during construction and operations. The construction activities will generate one-time impact for construction workers and businesses in the area. The on-going operations of the firm will create annual economic impacts, employing workers in the community and supporting economic activity throughout the region.

The draft economic impact analysis (See **Attachment 1**) estimates the one-time impacts from construction will be approximately 312 jobs with $18.5 million in new earnings for average earnings of $59,362 per job. In addition, the analysis estimates the facility will support over 1,600 total workers, both employed on-site and throughout the community due to increased economic activity, with total estimated earnings of $52.1 million, see **Table 5**. These estimates assume that all on-going jobs on site will be new to the community and not transfers from existing business operations in the region.

Pedestrian Underpass to be completed – winter (after the first of the year) is the target – with overlay completed in the Spring - there is a path that connects all the way to McClellan (old alignment of the Larimer canal #2) and follows the canal along the north side and comes up to street level at Foothills Parkway. Also moving the existing pedestrian bridge so if you are heading southbound you will be able to continue to do that.

The Foothills district functions a bit differently from the others in that whatever increments it collects it remits to the Metro District.

Mike Beckstead; we are working on an analysis to present at a December 13th Mall Redevelopment Committee - Given the current leasing activity and when we think it will be fully leased as well as the impact on sales tax pledge and revenue.

Ross Cunniff; there is a myth out there that is the leasing doesn't meet sales tax pledge levels the city will have to use general fund

Mike Beckstead; that is a myth - our only obligation is above the $1.8m on the 2.25 rate

Gerry Horak; think it would be helpful to the Council if we have a few speaking points - a high level summary of what is happening - current status (implications from the paper are that it is falling apart)

Mike Beckstead; we will get a memo to Council on that

Mayor Troxell; the affordable housing is moving along
Josh Birks; yes, the first 200 housing units should be ready for occupancy next summer with other units following.

B. North College Urban Renewal Authority TIF Application - Lyric Cinema
Josh Birks, Economic Health Director
Patrick Rowe, Interim Redevelopment Project Coordinator

Owner, Ben Mosier present

EXECUTIVE SUMMARY
The Lyric Cinema Café (applicant) located at 300 E. Mountain Avenue proposes to relocate to 1209 N. College Avenue a location within the North College Tax Increment Financing (TIF) District. The applicant wishes to expand and construct a new theater facility. The applicant has submitted an application requesting tax increment financing (TIF) assistance to enable the project to occur. The application requests $209,000 from the North College TIF district. If approved, the TIF would be provided as a reimbursement for Stormwater improvement costs (including a detention pond) and landscaping costs. The TIF assistance would be paid out over time based on actual increment collected from the project, in keeping with URA policy.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
1. Does the URA Finance Committee concur with staff's recommended reimbursement approach (terms and timeline)?

2. Does the URA Finance Committee have questions, comments, or concerns that should be addressed before this item is presented to the URA Board?

3. Is there support for the inclusion of an additional reimbursement request (right-of-way repay)?

BACKGROUND/DISCUSSION
The Fort Collins URA received an application for TIF assistance from the owner/operator of the Lyric Cinema Café requesting support of a proposed relocation of the Lyric Cinema Café to 1209 N. College Avenue (Attachment 1, Location Map). The proposed development is located on a vacant parcel of land that is approximately 1.6 acres in size. The development will consist of a 10,000 square foot cinema center with a full restaurant and a bike-in outdoor theater venue. It will grow the Lyric from a 135 seat capacity theater to a three screen 500 seat capacity theater.

The TIF request is for a maximum of $209,000 for the reimbursement of costs related to Stormwater and landscaping improvements as follows:

Eligible Cost	Amount
Stormwater Improvements (including detention pond)	$149,603
Stormwater Contingency (10%)	$14,960

Landscaping	$44,437
TOTAL	$209,000

Tax Increment Summary

The information below is derived from a Larimer County Assessor's Office estimate of the increment to be generated.

Estimated Annual Property Tax Increment*	$38,981
Total Increment Generated Over District Life	$506,755
Requested TIF	$209,000
Requested TIF as percentage of estimated generated TIF	41.24%

*The estimate of annual property tax increment was provided by Larimer County

Financial Review ("But-For" Analysis)

The URA engaged a third party financial review firm to evaluate the applicant's financials and perform analysis to evaluate the need for URA support. The analysis undertaken by Economic and Planning Systems, Inc. (EPS) concluded an ROI without TIF assistance of 9% and an ROI with TIF assistance of 10%. It should be noted that these returns are based on a lower theater occupancy assumption than what the applicant provided to the URA. This lower occupancy assumption is supported by recent market analysis that EPS conducted in Lincoln, NE and is in keeping with EPS's expectations of a reduction in occupancy as the theater grows from 135 seats to 500 seats.

Additionally, the applicant's bank has represented and provided letter documentation indicating that the URA funds are critical to the applicant's loan application.

Project Benefit

Staff recognizes a number of benefits in enabling the Lyric Cinema Café project and would highlight the following:

- Development of a challenging site that is located within a challenging development area. Several challenges relate to Stormwater, access limitations, and the site's grade relative to adjacent property.
- Development of the site and the installation of Stormwater improvements and the dedication of rear access can benefit future developments in the immediate area.
- Unique and creative destination in North College that has the potential to draw new interest to the area.
- Expansion of a local business, resulting in new employment, commerce and activity in the area.

City Plan, EH 1.1. Supports Job Creation

The project grows an existing business and will result in additional job creation.

City Plan, *Principle EH 3*: The City will support local, unique, and creative businesses.

The business is a unique, creative, and local and many would argue an important destination in Fort Collins.

North College Urban Renewal Plan, LU 2.1 Complementary Uses. Different attractions 'across the river'.

The project has a great potential to provide an attraction to the area.

North College Urban Renewal Plan, FAD 2.1 Seek Leverage Opportunities. Set the state for additional development.

In addressing site conditions for Stormwater and making a dedication of right-of-way for the Mason Street alignment, the project is facilitating future development.

Proposed Terms

The following TIF assistance structure is proposed:

- Assistance will be provided as a reimbursement upon project completion for up to $209,000 of eligible costs. The property owner must submit appropriate documentation to verify such costs were incurred.
- The reimbursement will be paid over time based on actual tax increment collected from the project.
- The URA will pay 65% of the annual increment collected to the property owner each year, until the reimbursement obligation is paid in full or expiration of the TIF district, whichever occurs first.

Location - 1.6 acre vacant lost across the street from Jax

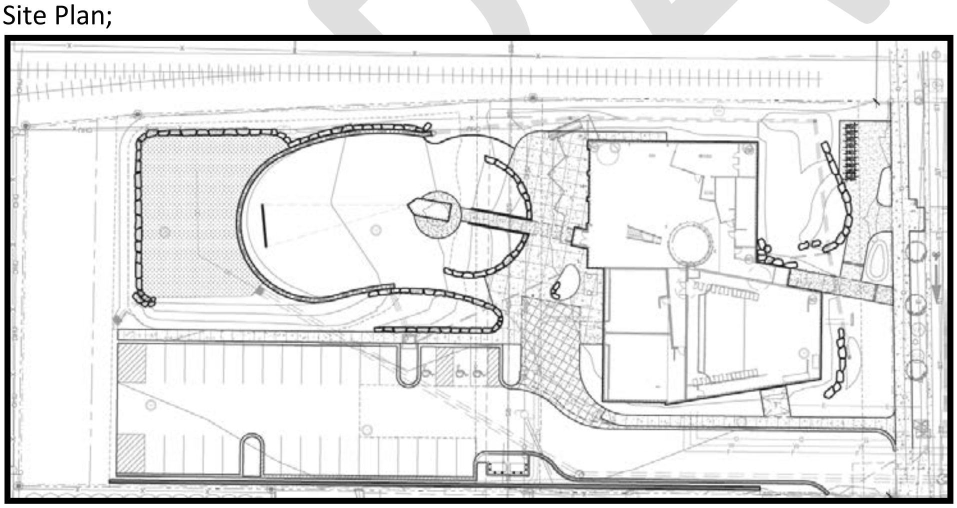
Existing conditions - small lot sizes - no rear access road - some Stormwater issues - site specific - site sits low - Stormwater shallow outfall on College - larger detention areas - site bounded by a railroad spur to the north - single shared access to the site on the south side

Lyric Cinema Café – Expansion/Relocation

- Three screen / 500 seat theater operation
- Full restaurant
- Bike-in outdoor venue

Applicant looking for artistic component - something that would be a show piece

Site Plan;



URA Request

Reimbursement of Stormwater detention pond and improvements, and landscaping costs up to an amount of $209,000 (paid over time as collected).

Stormwater Improvements	$149,603
Stormwater Contingency (10%)	$14,960
Landscaping	$44,437
TOTAL Reimbursement Cap	$209,000

TIF Summary;

Eligible Costs v. TIF Generation

Annual Property Tax Increment	$38,981
Total Increment Generated (13 yrs)	$506,755
Requested TIF	$209,000
Requested TIF as Percentage of Estimated Generated TIF	41.24%

Third Party Financial Analysis

ROI without TIF assistance	9%
ROI with TIF assistance	10%

Note: Third party reviewer relied on a lower occupancy rate than provided by applicant in materials. Lower rate was supported by recent market study. Return was highly sensitive to occupancy rate.

Complete analysis is included in today's packet - differential - highly sensitive to occupancy rate
This was a requirement and condition for financing for the loan - they were required to pledge the TIF financing - they have a letter from the bank stating that if this is not approved the loan will not be approved

Project Benefits

- Unique and creative destination
- Expansion of local business
- Development of challenging site
- Improvements benefit other future developments
- City Plan Connections
    - EH 1.1 Supports job creation
    - EH 3.3 Support of local and creative
    - Policy CPR 2.2 Build Identity
- North College Corridor Plan
    - LU 2.1 Complimentary Uses. Different attractions 'across the river'.
    - FAD 2.1 Seek Leverage Opportunities. Set stage for additional development…

Additional Reimbursement Request

- Additional reimbursement request of $45,000 to reimburse right-of-way repay requirement associated with North College Improvement Project.

Revised TIF Request	$254,000
TIF Request as Percentage of Total Generated TIF	50.12%

Total TIF request $254K and this amount is within the parameters that we are comfortable with

Reimbursement Structure

- Reimbursement of up to $209,000 (or $254,000) of eligible costs.
- Applicant receives 65% of increment collection until reimbursement amount paid (9-years of estimated payments).

Key Reimbursement Points

- Applicant must complete project and eligible improvements before receiving reimbursement payment.

- URA may pre-pay the reimbursement at any time.
- Reimbursement payments based on percentage of actual collections.

Josh Birks; we have done this in other instances, for example, the package we did with Jax was in part to fund repayment of right of way to Jerome which is a road that has yet to be constructed in addition to some minor façade reimbursement

Gerry Horak; how did this get missed or not included?
Patrick; my understand in talking with transportation planning was that this was included in the development notes early only in the conversations with the applicant and their consultants - there wasn't much detail regarding development fees -more up to applicant to do due diligence

Josh Birks; the development agreement has to be finalized to move forward - that was when the item resurfaced

Ross Cunniff; how many properties has an existing right of pay payments outstanding?
Josh Birks; great question - we don't have that information today but will provide as part of packet

Gerry Horak; financials didn't include $45K so how do we look at those to make sure the right numbers are included (city fees).
Josh Birks; they use the fee information that is published on our website

Gerry Horak; how are we going to do that - repays are not unusual in the parts of the city we are trying to redevelop - how do we do our due diligence?
Jeff Mihelich; we are aware and have recorded those

Josh Birks; we will improve the process
Gerry Horak; we did projections for revenue –we should also verify costs

Ross Cunniff; if the Lyric goes out of business and the property remains vacant for some time and the values decline - that is accounted for in the fact that we only do 50%

Josh Birks; if entity is sold or goes out of business - the repay can only be transferred based on approval of URA Board

Ross Cunniff; I am ok with projected TIF with an ask for the 50% payment terms

Gerry Horak; I think the use is great - I took a walk up North College - this use is substantially different from all other uses on the west side of the street - gets folks to go to North College for some other reason is a great use of the funds

Next Step:
Will bring forward to Council and URA Board on January 3, 2017

URA Meeting Adjourned by Mayor Wade Troxell at 12:36 pm

COUNCIL FINANCE COMMITTEE
AGENDA ITEM SUMMARY

Staff: Lance Smith, Utilities Strategic Financial Director

Date: December 19, 2016

SUBJECT FOR DISCUSSION: Future Utility Debt Requirements – Water & Stormwater

EXECUTIVE SUMMARY

The purpose of this agenda item is to continue the discussion with the Council Finance Committee which began in April with the 2016 Capital Improvement Plans (CIPs). This discussion comes after the 2017 rate ordinances which were required more for the 10 year financial plan as discussed in June than the 2017-18 budgets. In June the recommended paths forward for the Water and Stormwater Enterprise Funds involved the issuance of debt over the coming decade as well as modest rate adjustments. The expected use and timing of the debt financing is presented here for further direction from the Council Finance Committee.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support keeping these near term debt issuances in the Utilities Strategic Financial Planning recommendations and coming back with an updated analysis in 12-18 months?

BACKGROUND/DISCUSSION

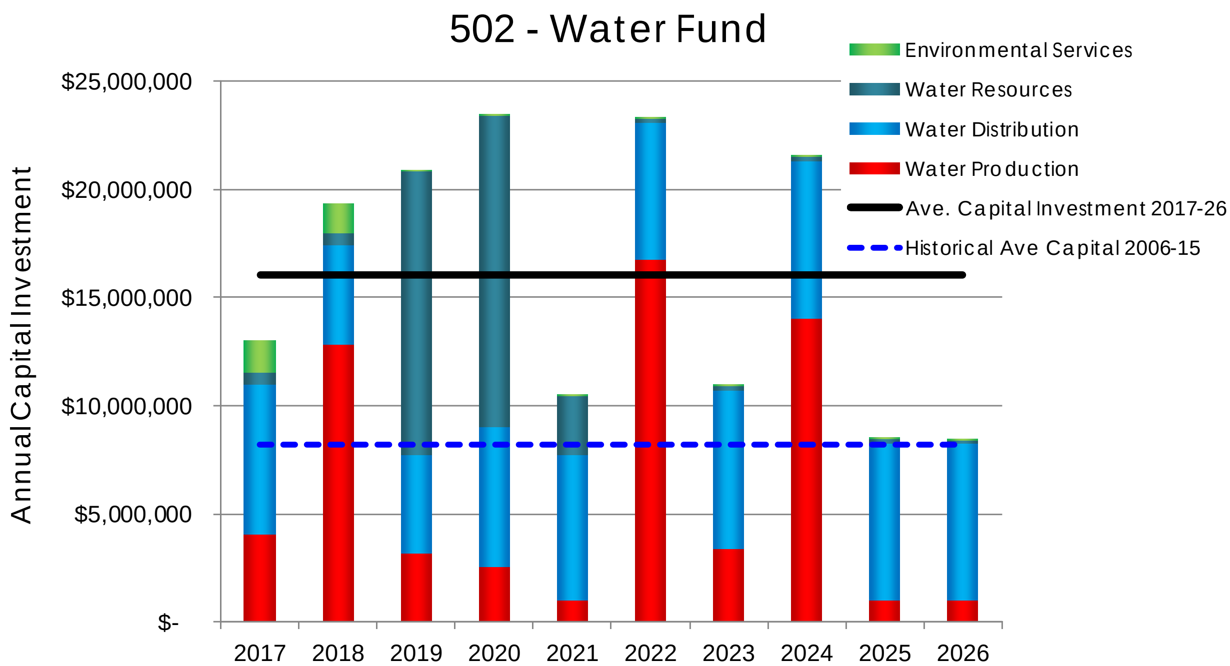
At the April 18, 2016 Council Finance Committee the "Utilities Capital Improvement Plan and Strategic Financial Plan Update" outlined the full planning process for capital projects beginning with the Master Planning efforts, including the prioritized CIPs and how the process continues with the Strategic Financial Plan being developed. That discussion showed why none of the utility funds have adequate Available Reserves[1] to achieve the proposed capital projects over the coming decade.

At the June 20, 2016 Council Finance Committee the "Utilities 2016 Strategic Financial Plan Update" outlined how each of the utility funds could finance the capital improvements necessary to continue providing the current operational levels of service in the future through gradual, modest rate adjustments and debt issuances. Specifically, the Water and Stormwater Enterprise Funds will require issuing debt over the coming decade to achieve the operational objectives while maintaining the financial health of these Funds.

<u>Water Enterprise</u>

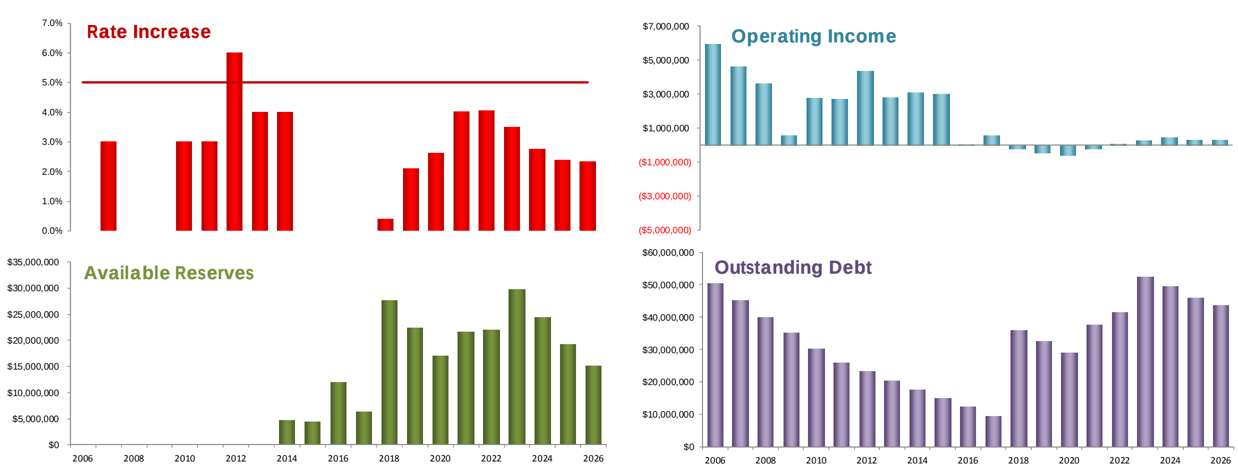
[1] Available Reserves are the portion of the Fund Balance that is not necessary to meet Bond covenants or the City's Minimum Reserve Financial Policy, and is not currently appropriated for another purpose.

The Water Enterprise Fund has a CIP with $160M which represents twice the historical average annual spend.



This utility also has low Available Reserves which limits short term financial agility. The CIP also ramps up quickly which together make it infeasible to have modest rate adjustments alone and achieve the operational needs through the CIP.

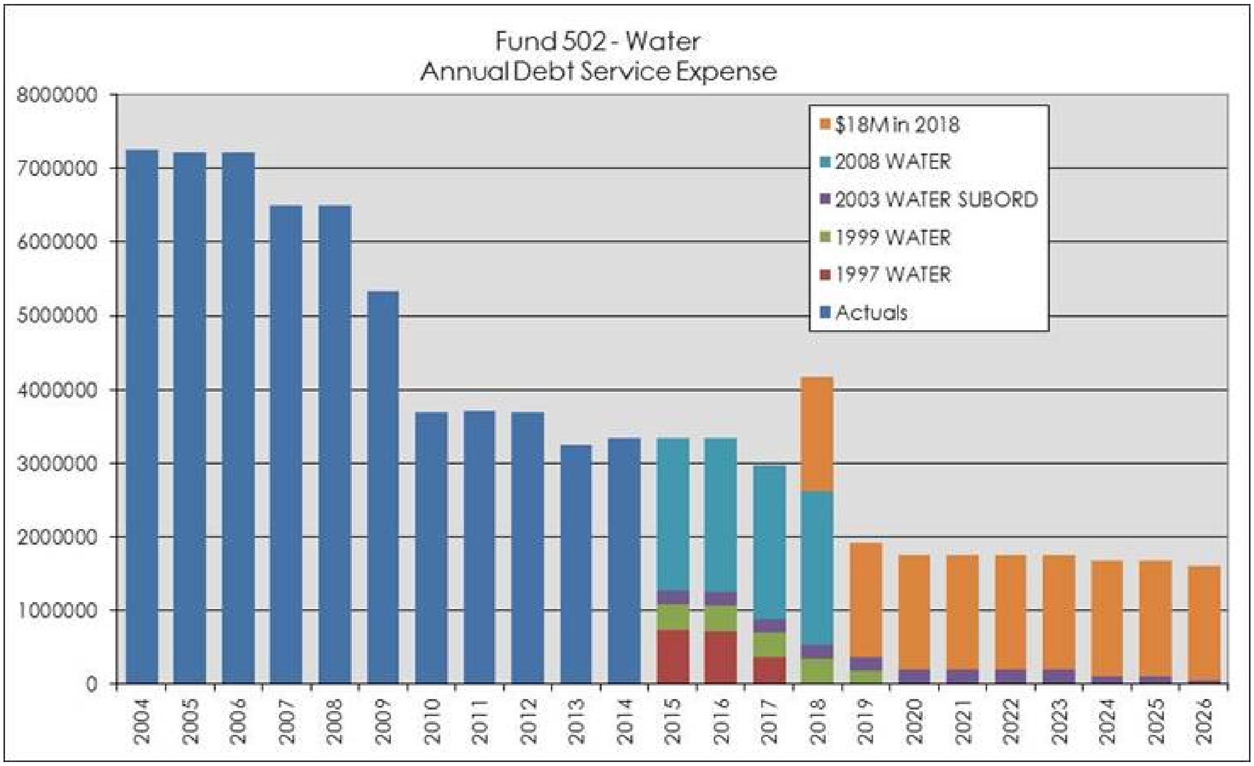
By smoothing the annual capital investment over the coming decade a recommended financial path was developed which respects the prioritization in the CIP and accomplishes the same infrastructure in 2026 as the CIP. The dashboard below shows how the forecasted rate adjustments and debt issuances result in positive operating income for the Enterprise without requiring large (> 5%) rate adjustments or the buildup of excessive Available Reserves.



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Rate Increase	0-5%	1-5%	1-3%	1-3%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%
Debt Issuance		$30M			$20-30M					$3-5M

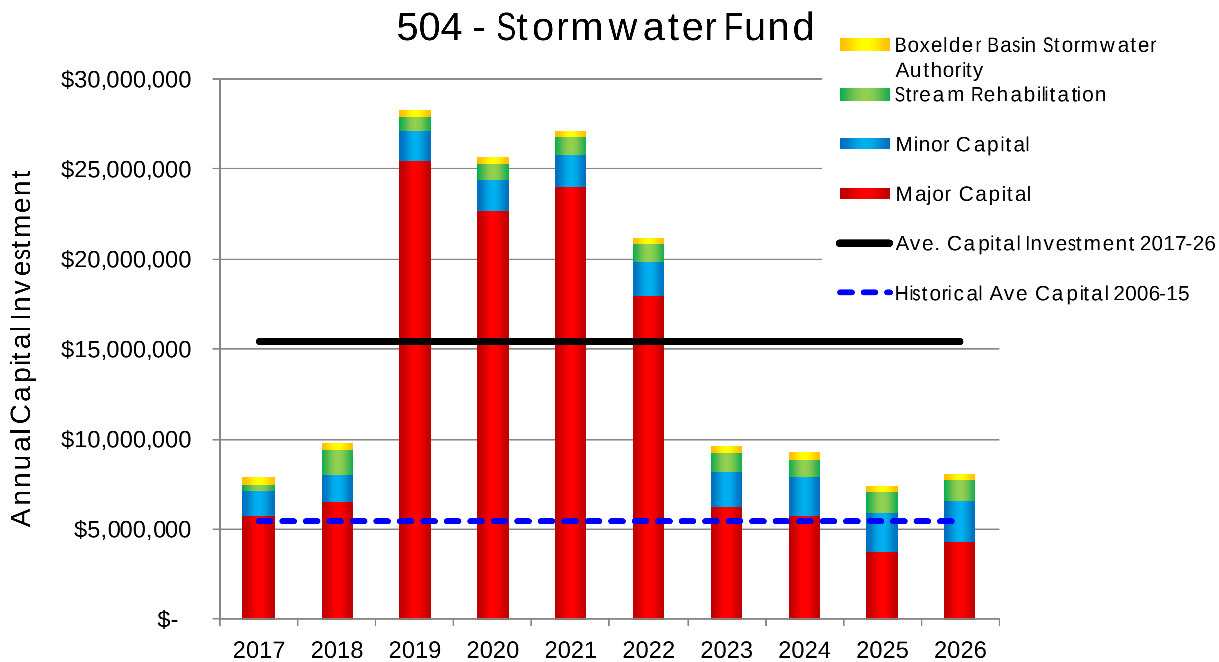
*$160M of capital work is expected to be needed between 2017 and 2026 NOT including Halligan.

The table above shows the need to issue $30M of debt in 2018. The actual amount may be less than $30M because it depends on what is found in the Poudre pipeline assessment and the Halligan permitting process. While there is some uncertainty at this point as to exactly how much debt may be needed some issuance will be necessary. For purposes of discussion here $18M of debt is assumed to be issued in 2018 for appropriation in the 2019-20 budget. The chart below shows the historical debt service and how it is anticipated to be much lower over the next decade than the previous decade.



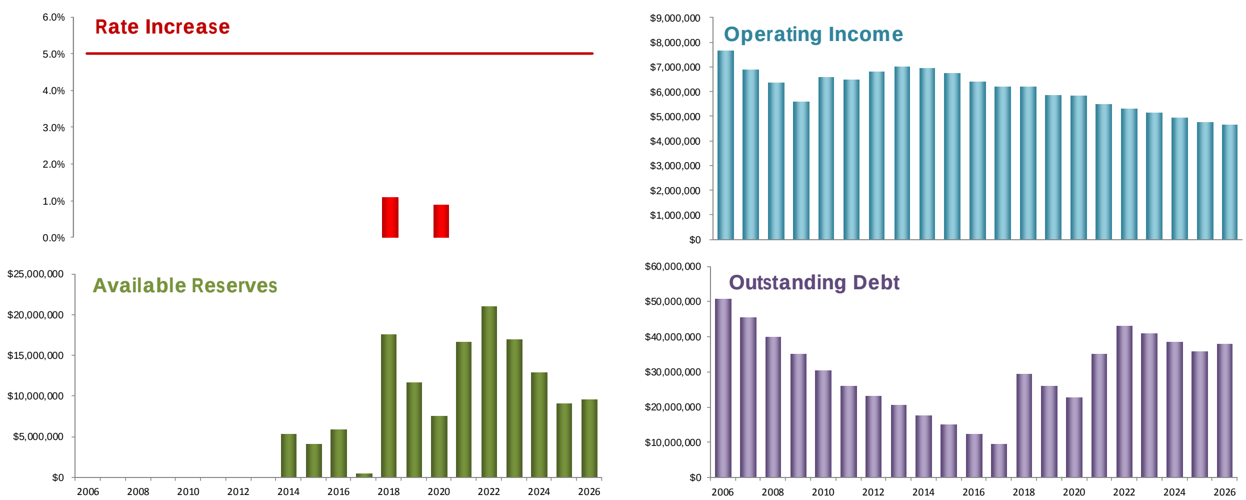
Stormwater Enterprise

The Stormwater Enterprise Fund has spent just over $5M per year on capital investments in the previous decade. The 2017-26 CIP requires just over $15M per year or 3 times the current rate of investment.



This utility also has low Available Reserves which limits the financial agility of the utility in the short term. The CIP is also heavily focused on the first 5 years ($71M invested in 2017-21 and $29M in 2022-26). Together these challenges make it infeasible to address the CIP goals through rates alone.

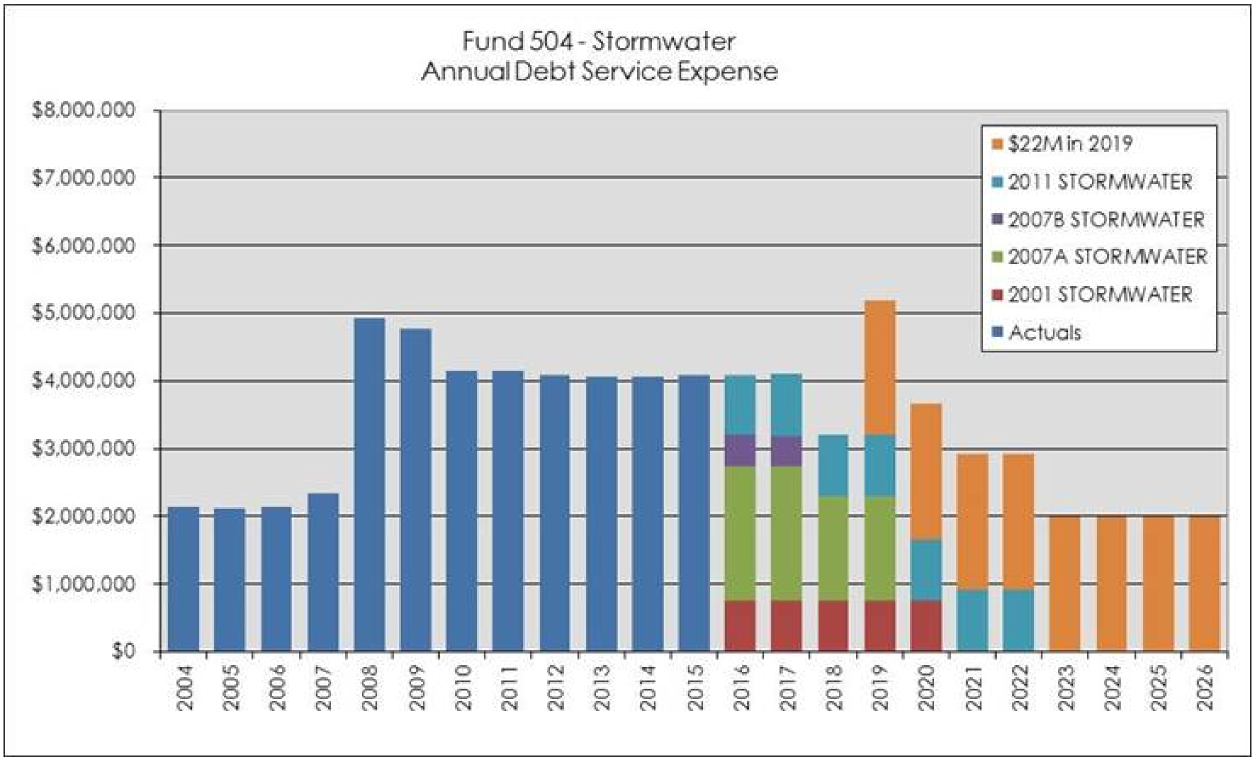
After some analysis it was determined that it will be necessary to reduce the average annual capital investment by extending the time frame for the initial buildout of the stormwater infrastructure from 10 to 15 years. The dashboard below shows how effective this approach is at achieving the financial objectives albeit over a longer time period.



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Rate Increase	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%
Debt Issuance		$20-25M			$20-25M					$5-10M

*$156M of capital work is expected to be needed between 2017 and **2031**.

The table above shows the need to issue $20-25M of debt in 2018. This will allow for the funding of the Magnolia Street Outfall Phase 1 and the Plum Corridor work to be done in 2019. The chart below shows the historical debt service and how it compares to what is projected for the next decade.



<u>Conclusion</u>

Staff will continue to keep the Council Finance Committee and the entire City Council informed of the biennial updates and any other changes to the Utilities Strategic Financial Plan.

ATTACHMENTS

Attachment 1 – AIS on "Utilities Capital Improvement Plans and Strategic Financial Plan Update" from April 18, 2016

Attachment 2 – CFC AIS on "Utilities 2016 Strategic Financial Plan Update" from June 20, 2016

Attachment 3 – PowerPoint presentation for this discussion

WORK SESSION
AGENDA ITEM SUMMARY TEMPLATE

Staff: Lance Smith, Utilities Strategic Financial Director

SUBJECT FOR DISCUSSION – Utilities 2016 Capital Improvement Plans and Strategic Financial Plan Update

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. The 2016 Capital Improvement Plans (CIPs) and the process behind them are outlined. The resulting investment projections set the stage for a follow up discussion in a few months on the long term Utilities Strategic Financial Plan.

The 2016 CIPs have been prioritized in a consistent, quantitative process for the water, wastewater and stormwater utilities. The 2016 CIP for the electric utility is based largely on a 20 year load assessment completed earlier this year with Leidos. It is expected that the quantitative prioritization process will be utilized for the electric utility ahead of the next budget cycle.

Each of these plans is projecting substantial capital investment being needed for each utility over the next decade. Because the projected levels of investment are not achievable through current operating revenues alone it will be necessary to further analyze the best means of achieving these operational needs without negatively impacting the financial integrity of the utilities while maintaining affordable utilities to the community. This analysis and the long term Utilities Strategic Financial Plan will be the focus of the follow up discussion in a few months.

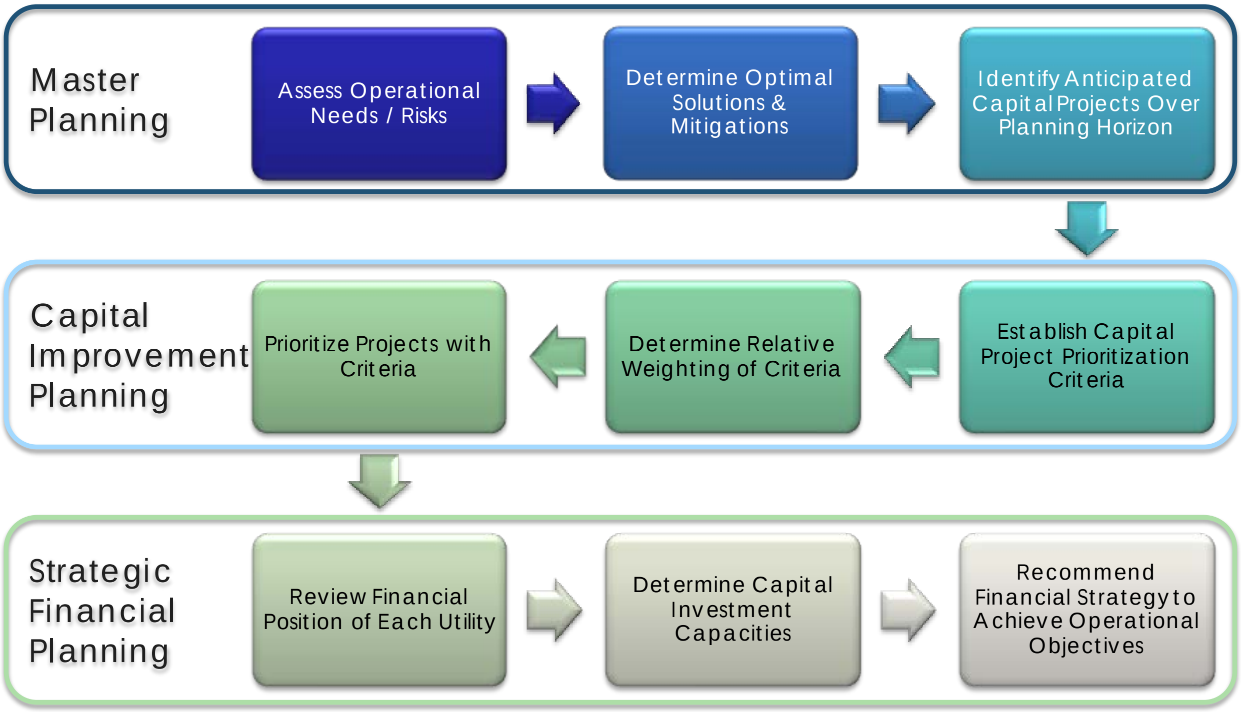
GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support proceeding with the analysis and publication of a long term Utilities Strategic Financial Plan for each utility within the next few months?

2. Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions?

BACKGROUND/DISCUSSION

The capital investment required to operate and maintain each of the four utility services provided by the City to the community requires a long planning horizon and consistent needs assessment and prioritization in order to ensure that the levels of service established are sustained well into the future. This process begins with periodically developing and updating Operational Master Plans for each utility. These plans assess current infrastructure for needs and risks and review expected growth and 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. The Utility Asset Management program has developed a rigorous process to identify and prioritize necessary capital investments. This prioritized list includes the annual capital investment which becomes an input into the long term Strategic Financial Plan. The financial position of each utility is also reviewed in this step with the output being a recommended path forward which may involve rate adjustments and future debt issuances in order to achieve the operational objectives and needs of each utility.



Capital Improvement Plans

Capital Improvement Plan Prioritization Process

The list of projects identified through the Master Planning process serve as a basis for the Capital Improvement Plans (CIPs) being presented here. These projects are prioritized through the process outlined in the following flow diagram:

This process involves many stakeholders throughout the Utilities organization from field and facility staff to the Executive Director. Throughout the Master Planning and CIP development quantitative analysis is utilized in the assessment of all capital projects. Industry benchmarking, engineering analysis, and Asset Management Plans are incorporated wherever possible in the processes.
In 2014, a Capital Project Review Committee (CPRC) was created within the Utilities Service Area to review the project prioritization prior to budget offers being submitted for the Budgeting for Outcomes process. The CPRC is composed of the following positions:

- Executive Director
- Utilities Strategic Finance Director
- Water Resources Treatment Operations Manager
- Water Engineering & Field Services Manager
- Light & Power Operations Manager

The CPRC is responsible for reviewing and approving the capital project prioritization for each enterprise fund prior to submitting funding requests to the City's bi-annual Budgeting for Outcomes (BFO) process.

The process outlined above was first utilized for the 10 year CIPs for the three wet utilities in 2014. This process has been utilized again for the 2016 CIPs for these utilities. While significant progress has been made in socializing asset management in the electric utility, there was first a need to complete a 20 year load and capacity study for the electric distribution system before implementing such a process in 2016. For the 2016 electric utility CIP preliminary allocations were made to asset categories for system renewal, known annexations were scheduled and the system capacity additions identified the Leidos study were included. It is fully expected that the process outlined above will be utilized for the electric utility ahead of the next budget cycle.

The CPRC has reviewed and approved the initial 2016 Capital Improvement Plans for each of the four utilities. While the 10 year assessment of available capital may require a change in the timing of some capital investments over the next few months as the Strategic Financial Plans are finalized, the most immediate capital needs will be submitted through the Budgeting For Outcomes process for the 2017-18 City Budget.

The prioritization criteria identified and weighted by management and a group of subject matter experts from the water, wastewater and stormwater utilities are:

	Relative Weights		
Operational Objectives	502 - Water Fund	503 - Wastewater Fund	504 - Stormwater Fund
Safety	38%	36%	52%
Regulatory Compliance	29%	24%	
Reliability	13%	24%	22%
Sustainability	4%	9%	16%
Customer Satisfaction	7%	7%	10%
Product Quality	9%		

Given the City's commitment to safety and regulatory compliance, these two criteria were weighted the most heavily in the project prioritization followed by reliability. The relatively low ranking of customer satisfaction and product quality reflect the previous efforts in both of these categories and the confidence that both will remain strong into the future mainly through operational practices rather than capital investments.

10 Year Capital Projections

The 10 year 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 including the Mulberry Corridor, operational technology improvements and system renewal of existing substations and underground distribution assets.

501 - Light & Power

Project or Program	2017	2018	2019	2020	2021
Substation Improvements	$ 445,000	$ 590,000	$ 750,000	$ 620,000	$ 605,000
Distribution System Improvements	$ 2,950,000	$ 2,536,000	$ 2,843,000	$ 3,452,000	$ 3,263,000
New Capacity	$ 4,654,000	$ 3,628,000	$ 1,034,000	$ 1,770,000	$ 2,970,000
Annexations	$ 140,000	$ 3,015,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
Operational Technology & Fiber	$ 3,150,000	$ 2,027,000	$ 159,000	$ 161,000	$ 163,000
Total	$11,339,000	$11,796,000	$ 7,786,000	$ 9,003,000	$10,001,000

Project or Program	2022	2023	2024	2025	2026
Substation Improvements	$ 440,000	$ 440,000	$ 440,000	$ 315,000	$ -
Distribution System Improvements	$ 1,785,000	$ 1,839,000	$ 1,894,000	$ 1,950,000	$ 2,008,000
New Capacity	$ 7,550,000	$13,370,000	$ 3,304,000	$ -	$ -
Annexations	$ 3,000,000	$ -	$ -	$ -	$ -
Operational Technology & Fiber	$ 165,000	$ 167,000	$ 169,000	$ 171,000	$ 173,000
Total	$12,940,000	$15,816,000	$ 5,807,000	$ 2,436,000	$ 2,181,000

The Mulberry Annexation is expected to cost this utility $15M in asset acquisition and integration costs over several years with some of the preliminary work potentially starting as soon as 2018 ahead of the annexation itself to minimize acquisition costs. Two new substations will also be required in 2022 and 2023.

The 10 year CIP for the Water Fund includes the construction of the Halligan Reservoir in 2019-20, an additional treated water storage facility in 2022 and significant renewal costs for the Poudre Pipeline in the Poudre Canyon potentially starting in 2018. It also includes significant investment in the distribution system throughout the City as the renewal rate for the distribution assets is increased. Significant investment has been made in the Water Treatment Facility since its expansion in 1999 allowing for more attention to be given to the source of supply and distribution systems over the coming decade.

502 - Water

Division	2017	2018	2019	2020	2021
Water Production	$ 4,046,000	$12,821,000	$ 3,174,000	$ 2,535,000	$ 1,000,000
Water Distribution	$ 6,957,000	$ 4,610,000	$ 4,537,000	$ 6,483,000	$ 6,757,000
Water Resources	$ 553,000	$ 555,000	$13,135,000	$14,417,000	$ 2,680,000
Environmental Services	$ 1,455,000	$ 1,350,000	$ 50,000	$ 50,000	$ 50,000
Total	$13,011,000	$19,336,000	$20,896,000	$23,485,000	$10,487,000

Division	2022	2023	2024	2025	2026
Water Production	$16,771,000	$ 3,395,000	$14,031,000	$ 1,000,000	$ 1,000,000
Water Distribution	$ 6,315,000	$ 7,311,000	$ 7,251,000	$ 7,251,000	$ 7,251,000
Water Resources	$ 216,000	$ 222,000	$ 228,000	$ 237,000	$ 183,000
Environmental Services	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Total	$23,352,000	$10,978,000	$21,560,000	$ 8,538,000	$ 8,484,000

The 10 year CIP for the Wastewater Fund consists of increased funding for replacement of the collection system assets over the next decade and some significant investments in asset improvements over the next few years at the Water Reclamation Facility. Not shown below are the expected costs associated with additional nutrient removal regulations that are anticipated just beyond the next decade but which are anticipated to cost between $70-90M soon thereafter. This expense will be included in the financial analysis incorporating this CIP.

503 - Wastewater

Division	2017	2018	2019	2020	2021
Water Reclamation	$ 7,810,000	$10,880,000	$ 5,733,000	$ 3,540,000	$ 3,050,000
Wastewater Collection	$ 2,050,000	$ 2,570,000	$ 3,202,000	$ 3,048,000	$ 2,907,000
Environmental Services	$ 355,000	$ 30,000	$ 50,000	$ 50,000	$ 50,000
Total	$10,215,000	$13,480,000	$ 8,985,000	$ 6,638,000	$ 6,007,000

Division	2022	2023	2024	2025	2026
Water Reclamation	$ 3,050,000	$ 2,050,000	$ 2,050,000	$ 2,259,500	$ 5,362,000
Wastewater Collection	$ 3,383,000	$ 3,276,000	$ 3,889,000	$ 4,123,000	$ 3,980,000
Environmental Services	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Total	$ 6,483,000	$ 5,376,000	$ 5,989,000	$ 6,432,500	$ 9,392,000

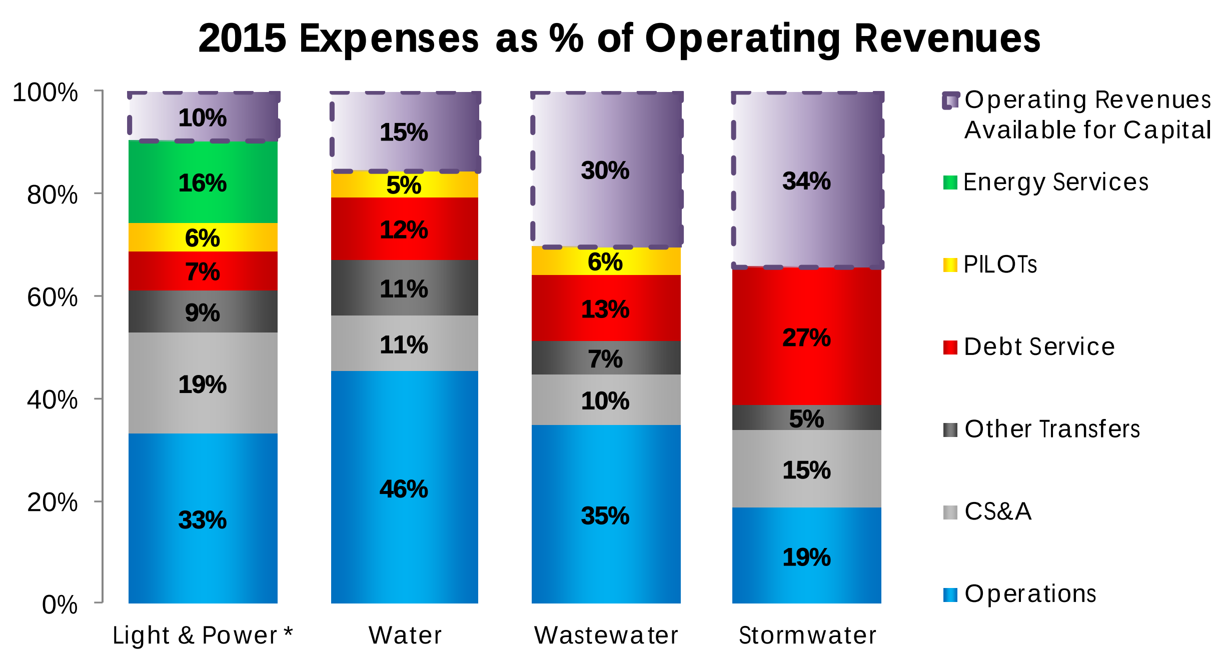
The 10 year CIP for the Stormwater Fund reflects several large infrastructure projects yet to be built, including over $100M in a 4 year timespan (2019-2022). It is unlikely that the financial position of this utility will accommodate such spend over 4 years so further analysis will need to be completed and the operational impacts of delaying some of this investment analyzed further.

Category	2017	2018	2019	2020	2021
Major Capital	$ 5,750,000	$ 6,510,000	$25,500,000	$22,750,000	$24,050,000
Minor Capital	$ 1,400,000	$ 1,500,000	$ 1,600,000	$ 1,700,000	$ 1,800,000
Boxelder Basin Stormwater Authority	$ 350,000	$ 350,000	$ 350,000	$ 350,000	$ 350,000
Stream Rehabilitation	$ 350,000	$ 1,400,000	$ 800,000	$ 850,000	$ 900,000
Total	$ 7,850,000	$ 9,760,000	$28,250,000	$25,650,000	$27,100,000

Category	2022	2023	2024	2025	2026
Major Capital	$17,950,000	$ 6,250,000	$ 5,750,000	$ 3,750,000	$ 4,280,000
Minor Capital	$ 1,900,000	$ 2,000,000	$ 2,100,000	$ 2,200,000	$ 2,300,000
Boxelder Basin Stormwater Authority	$ 350,000	$ 350,000	$ 350,000	$ 350,000	$ 350,000
Stream Rehabilitation	$ 950,000	$ 1,000,000	$ 1,050,000	$ 1,100,000	$ 1,150,000
Total	$21,150,000	$ 9,600,000	$ 9,250,000	$ 7,400,000	$ 8,080,000

Operating Revenues Available for Capital Investment

Each utility collects operating revenues through monthly charges to its ratepayers. These revenues are used to operate and maintain each utility including making capital investments in system renewal and improvements. The chart below looks at the 2015 realized operating revenues for each of the four utilities and highlights the amount of operating revenue that was available for such capital investments.



The asterisk denotes that for the electric utility the portion of the operating revenue that is necessary to pay for the purchased power expenses from Platte River and the portion of the Payments In-Lieu of Taxes (PILOTs) associated with this expense have been removed to show how the remaining portion of the operating revenues available to Utilities was allocated. This represents 77% of the total operating revenues collected from electric customers, or $90.4M of the $117.5M total operating revenue. Platte River allocates those revenues across many of the same categories separately.

Shortfall of Forecasted Operational Revenues and Development Fees

As the chart above shows, within each Enterprise Fund's operating revenues there is some capacity to make capital investment in infrastructure. This is appropriate and necessary to ensure that infrastructure that has aged beyond its useful life can be renewed. Development fees, or Plant Investment Fees (PIFs), are also collected as new development occurs within the utility service area. PIFs cover both the additional cost of connecting the new customers to the existing infrastructure and the portion of existing or new capacity that will be utilized by the new customers. As the tables above from the CIPs show, capital investments can vary significantly more than operating revenues from one year to the next.

PIFs also fluctuate significantly from one year to the next. Debt service varies over time as debt is incurred or retired. Operational expenses also vary year over year depending on the amount of proactive replacement versus reactive replacement being done. For these reasons a ten year average is considered when estimating future availability of operating revenues and PIFs for capital investment.

10 Year Average Operating Revenues Available for Capital	$5,000,000	$3,600,000	$3,000,000	$4,600,000
10 Year Average PIF Revenues Available for Capital	$3,400,000	$4,000,000	$2,900,000	$700,000
10 Year Average Total Revenues Available for Capital	$8,400,000	$7,600,000	$5,900,000	$5,300,000

The tables below show how on a year by year basis the portion of operating revenues available for capital investments and the average annual PIFs are not sufficient to meet the projected capital investments needed for the utilities even when the current cash reserves are fully utilized above the minimum required reserves per City Financial Policies. A modest growth in operating expenses of 1.5% is assumed year over year which is why the amount available through operating revenues decreases over the 10 years.

The first two tables show the electric utility has sufficient capacity within its existing rates and cash reserve to support the capital investment needed for the first 6 years assuming no other appropriations are made for use of the reserves.

501 - L&P Fund	2017	2018	2019	2020	2021
Capital Investment from CIP	$ 11,340,000	$11,800,000	$7,790,000	$9,000,000	$10,000,000
Available through Operating Revenues & PIFs	$8,400,000	$8,270,000	$8,150,000	$8,030,000	$7,910,000
Annual Excess / (Shortfall)	($2,940,000)	($3,530,000)	$360,000	($970,000)	($2,090,000)
Available Working Capital	$15,000,000	$12,060,000	$8,530,000	$8,890,000	$7,920,000
Running Shortfall	$12,060,000	$8,530,000	$8,890,000	$7,920,000	$5,830,000

501 - L&P Fund	2022	2023	2024	2025	2026
Capital Investment from CIP	$12,940,000	$15,820,000	$5,810,000	$2,440,000	$2,180,000
Available through Operating Revenues & PIFs	$7,790,000	$7,670,000	$7,560,000	$7,440,000	$7,330,000
Annual Excess / (Shortfall)	($5,150,000)	($8,150,000)	$1,750,000	$5,000,000	$5,150,000
Available Working Capital	$5,830,000	$680,000	($7,470,000)	($5,720,000)	($720,000)
Running Shortfall	$680,000	($7,470,000)	($5,720,000)	($720,000)	$4,430,000

The next two tables look at the water utility. Because there is little unappropriated reserves currently available in this utility, the current rates are not sufficient to meet the anticipated capital needs in 2017. Over the next decade the shortfall is estimated to be $86M.

502 - Water Fund	2017	2018	2019	2020	2021
Capital Investment from CIP	$ 13,010,000	$19,340,000	$20,900,000	$23,490,000	$10,490,000
Available through Operating Revenues & PIFs	$ 7,600,000	$7,490,000	$7,370,000	$7,260,000	$7,150,000
Annual Excess / (Shortfall)	($5,410,000)	($11,850,000)	($13,530,000)	($16,230,000)	($3,340,000)
Available Working Capital	$3,000,000	($2,410,000)	($14,260,000)	($27,790,000)	($44,020,000)
Running Shortfall	($2,410,000)	($14,260,000)	($27,790,000)	($44,020,000)	($47,360,000)

502 - Water Fund	2022	2023	2024	2025	2026
Capital Investment from CIP	$23,350,000	$10,980,000	$21,560,000	$8,540,000	$8,480,000
Available through Operating Revenues & PIFs	$7,050,000	$6,940,000	$6,840,000	$6,730,000	$6,630,000
Annual Excess / (Shortfall)	($16,300,000)	($4,040,000)	($14,720,000)	($1,810,000)	($1,850,000)
Available Working Capital	($47,360,000)	($63,660,000)	($67,700,000)	($82,420,000)	($84,230,000)
Running Shortfall	($63,660,000)	($67,700,000)	($82,420,000)	($84,230,000)	($86,080,000)

The wastewater utility has a significant unappropriated reserve which will allow it to support the capital investments needed though the first 5 years without a need for a rate adjustment. However, anticipated new regulatory requirements for nutrient removal and temperature thresholds are expected to require an additional $60-70M just beyond the ten year planning horizon. This represents an anticipated capital investment equivalent to 3 years of operating revenue.

503 - Wastewater Fund	2017	2018	2019	2020	2021
Capital Investment from CIP	$ 10,220,000	$13,480,000	$8,990,000	$6,640,000	$6,010,000
Available through Operating Revenues & PIFs	$ 5,900,000	$5,810,000	$5,720,000	$5,640,000	$5,550,000
Annual Excess / (Shortfall)	($4,320,000)	($7,670,000)	($3,270,000)	($1,000,000)	($460,000)
Available Working Capital	$17,000,000	$12,680,000	$5,010,000	$1,740,000	$740,000
Running Shortfall	$12,680,000	$5,010,000	$1,740,000	$740,000	$280,000

503 - Wastewater Fund	2022	2023	2024	2025	2026
Capital Investment from CIP	$6,480,000	$5,380,000	$5,990,000	$6,430,000	$9,390,000
Available through Operating Revenues & PIFs	$5,470,000	$5,390,000	$5,310,000	$5,230,000	$5,150,000
Annual Excess / (Shortfall)	($1,010,000)	$10,000	($680,000)	($1,200,000)	($4,240,000)
Available Working Capital	$280,000	($730,000)	($720,000)	($1,400,000)	($2,600,000)
Running Shortfall	($730,000)	($720,000)	($1,400,000)	($2,600,000)	($6,840,000)

The stormwater utility has such a modest unappropriated reserve balance that the capital investment needed in 2017 immediately produces a funding shortfall.

504 - Stormwater Fund	2017	2018	2019	2020	2021
Capital Investment from CIP	$ 7,850,000	$9,760,000	$28,250,000	$25,650,000	$27,100,000
Available through Operating Revenues & PIFs	$ 5,300,000	$5,220,000	$5,140,000	$5,070,000	$4,990,000
Annual Excess / (Shortfall)	($2,550,000)	($4,540,000)	($23,110,000)	($20,580,000)	($22,110,000)
Available Working Capital	$2,000,000	($550,000)	($5,090,000)	($28,200,000)	($48,780,000)
Running Shortfall	($550,000)	($5,090,000)	($28,200,000)	($48,780,000)	($70,890,000)

504 - Stormwater Fund	2022	2023	2024	2025	2026
Capital Investment from CIP	$21,150,000	$9,600,000	$9,250,000	$7,400,000	$8,080,000
Available through Operating Revenues & PIFs	$4,910,000	$4,840,000	$4,770,000	$4,700,000	$4,630,000
Annual Excess / (Shortfall)	($16,240,000)	($4,760,000)	($4,480,000)	($2,700,000)	($3,450,000)
Available Working Capital	($70,890,000)	($87,130,000)	($91,890,000)	($96,370,000)	($99,070,000)
Running Shortfall	($87,130,000)	($91,890,000)	($96,370,000)	($99,070,000)	($102,520,000)

Is Growth Paying Its Own Way?

Given the forecasted shortfall for capital investment it is reasonable to ask if growth is paying for itself. Each Enterprise Fund assesses PIFs based on the actual cost of connecting new customers including the amount of system capacity being allocated to those customers. The determination of what is included in and how the PIFs are calculated is through a cost of service model similar to the cost of service models that are updated every two years for existing ratepayers. The PIF model utilized by the three wet utilities was last reviewed by an outside entity in 2009 and is based on industry best principles. In 2016 a consultant is being contracted to review and modify as necessary the existing Light & Power PIF model. The intention of all of the utilities' PIF models is that growth is paying its own way.

It is important, however, to recognize that capacity is normally built ahead of the new development requiring such capacity. This is done to both ensure that adequate capacity exists so as to not be a barrier to economic growth and because capacity is usually added in larger amounts than a single new customer may need so as to realize the economies of scale for such large capital investments. For example, the Water Treatment Facility was last expanded in 1999 to its present treatment capacity. This capacity is expected to be sufficient to serve all customers even through buildout of the water utility's service territory. That expansion was paid for through existing cash reserves, the portion of operating revenues available for capital investment and revenue bonds. As new customers are connected to the water system the PIFs assessed to those customers will recover the amounts paid by existing customers for the portion of that capital investment now being allocated to the new customers.

Next Step: Strategic Financial Planning

Estimated Rate Increases Required to Avoid Issuing Debt

Each of the four utilities show a shortfall in available funding for the needed capital investment at some point over the next decade with the water and stormwater utilities each showing a shortfall in every year. This is only the initial step in developing the Strategic Financial Plan. While it does show that there will need to be rate increases and debt issuances over the coming decade in order to achieve the capital investment necessary, a reasonable path forward will be developed for each utility and presented to the City Council for further consideration.

The next table shows the amount of annual rate increase that would be necessary to meet these shortfalls year by year for each utility. This assumes there is no debt issuance for any utility and operational expenses increases with inflation at 1.5% annually. Because capital investments fluctuate from one year to the next, rate decreases are also necessary from year to year to avoid building up excessive reserves. While the average annual rate change only exceeds 6% for the wastewater utility and the net 10 year rate increases are relatively small, the year over year volatility would not be acceptable to our community.

Utility	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	10 Yr Ave Annual Rate Change
Light & Power	-38%	81%	-11%	4%	3%	9%	8%	-25%	-11%	-1%	2%
Water	8%	29%	4%	6%	-28%	39%	-27%	32%	-29%	0%	4%
Wastewater	-53%	179%	-14%	-8%	-2%	2%	-4%	3%	2%	12%	12%
Stormwater	4%	26%	97%	-7%	4%	-16%	-37%	-2%	-9%	4%	6%

Relative Rate Increases

Fort Collins citizens and businesses benefit from the low cost of utility services along with many neighboring communities. Through long term planning and prudent operations, the City has maintained these competitive rates through a rate philosophy of gradual, modest rate adjustments. Below is a table comparing the recent rate increases of several neighboring communities to those of Fort Collins Utilities.

	Electric			Water		
	2014	2015	2016	2014	2015	2016
Ft Collins	2.0%	1.9%	3.2%	4.0%	0.0%	0.0%
Loveland	8.4%	0.9%	5.5%	19.0%	13.1%	9.0%
Longmont	8.2%	4.9%	0.0%	4.5%	0.0%	7.0%
Greeley	5.8%	6.6%	-4.4%	7.9%	3.7%	0.7%
Boulder	5.8%	6.6%	-4.4%	3.0%	3.9%	4.7%
Colorado Springs	0.0%	3.7%	5.7%	11.2%	11.7%	0.0%

	Wastewater			Stormwater		
	2014	2015	2016	2014	2015	2016
Ft Collins	3.0%	3.0%	3.0%	0.0%	0.0%	0.0%
Loveland	3.9%	11.1%	21.7%	0.0%	9.6%	9.6%
Longmont	16.7%	16.4%	15.1%	0.0%	68.0%	0.0%
Greeley	-2.1%	-0.7%	3.4%	0.0%	14.6%	0.0%
Boulder	5.0%	1.2%	27.5%	3.0%	2.9%	75.0%
Colorado Springs	0.0%	0.0%	0.0%	N/A	N/A	N/A

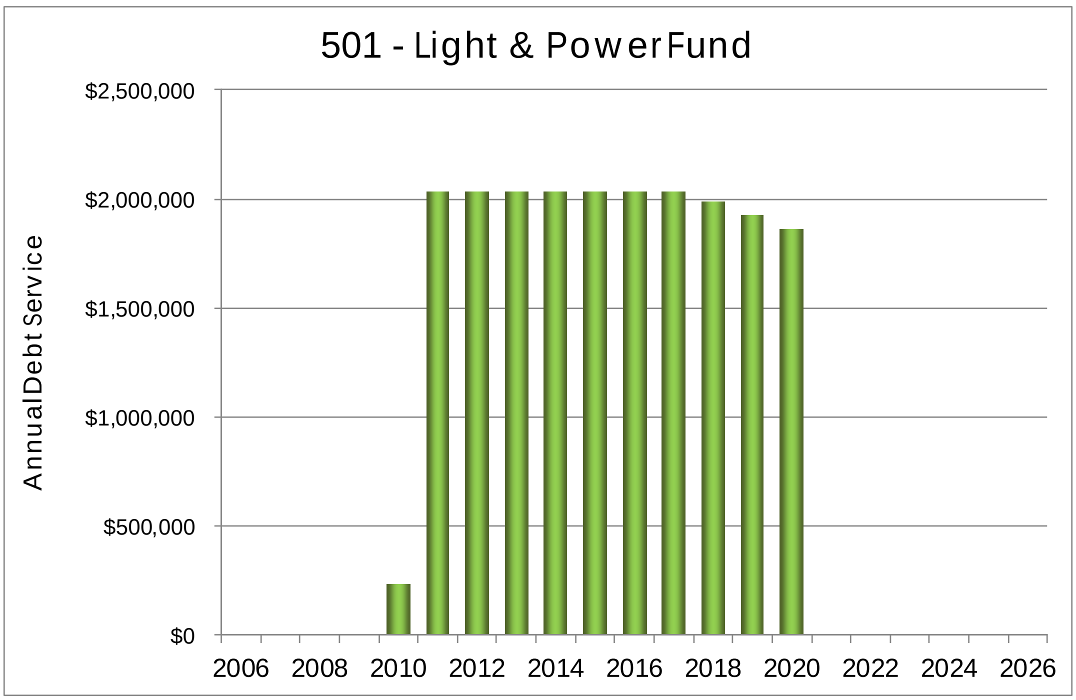
Relative rate increases can be misleading if not put into context of actual charges. The table below shows the actual charges for a typical residential customer.

	Electric	Water	Wastewater	Stormwater	Total
	2016	2016	2016	2016	2016
Ft Collins	$ 68.21	$ 43.57	$ 35.07	$ 14.26	$ 161.11
Loveland	$ 67.01	$ 34.00	$ 25.43	$ 12.48	$ 138.92
Longmont	$ 63.25	$ 31.47	$ 33.63	$ 13.05	$ 141.40
Greeley	$ 79.67	$ 51.35	$ 20.62	$ 6.45	$ 158.09
Boulder	$ 79.67	$ 35.84	$ 29.08	$ 13.46	$ 158.05
Colorado Springs	$ 85.46	$ 77.82	$ 31.27	N/A	$ 194.55

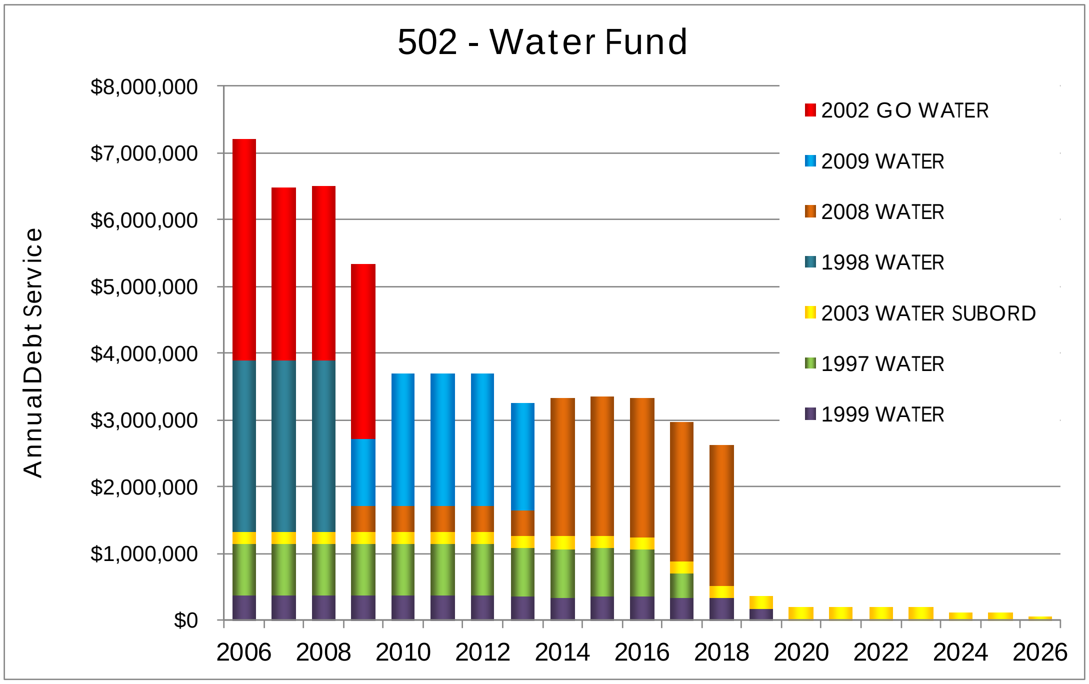
Debt Schedules

Given the anticipated funding shortfall to meet the expected capital investments required in the Enterprise Funds over the next decade and the variable nature of such capital investments, it will be necessary from time to time to issue revenue bonds in a prudent manner to minimize rate adjustments and still ensure that adequate capacity exists for new development and existing assets are renewed as needed to maintain the level of service and reliability expected by our community. Below are the annual debt service costs for all current debt by Enterprise Fund. The annual debt service costs depend on both the term of the debt issuance (typically 10 or 20 years) and the interest rate which in turn depends on the bond rating at issuance. Just for some context, a $10M debt issuance may cost $700-900K annually for a 20 year term or $1.1-1.3M for a 10 year term.

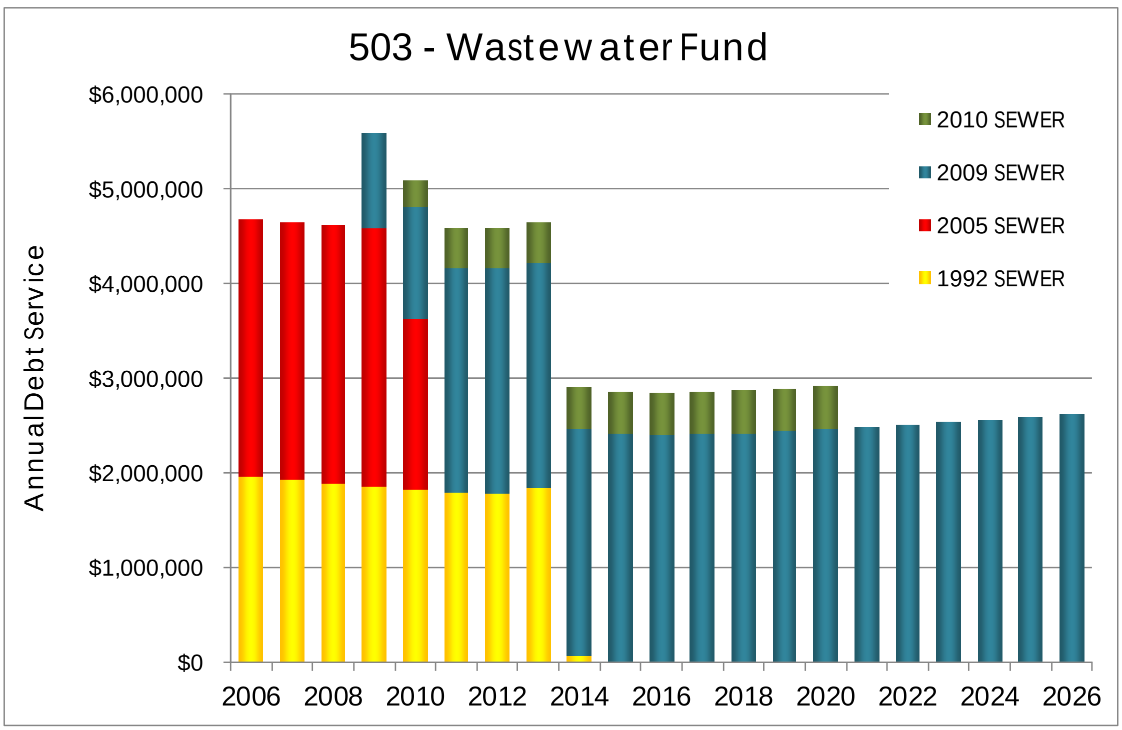
The Light & Power Fund issued its first debt in many years in 2010 to pay for the portion of the Advanced Meter Fort Collins project not covered through the matching federal grants. This debt has a current bond rating of AA- and will be retired in 2020.



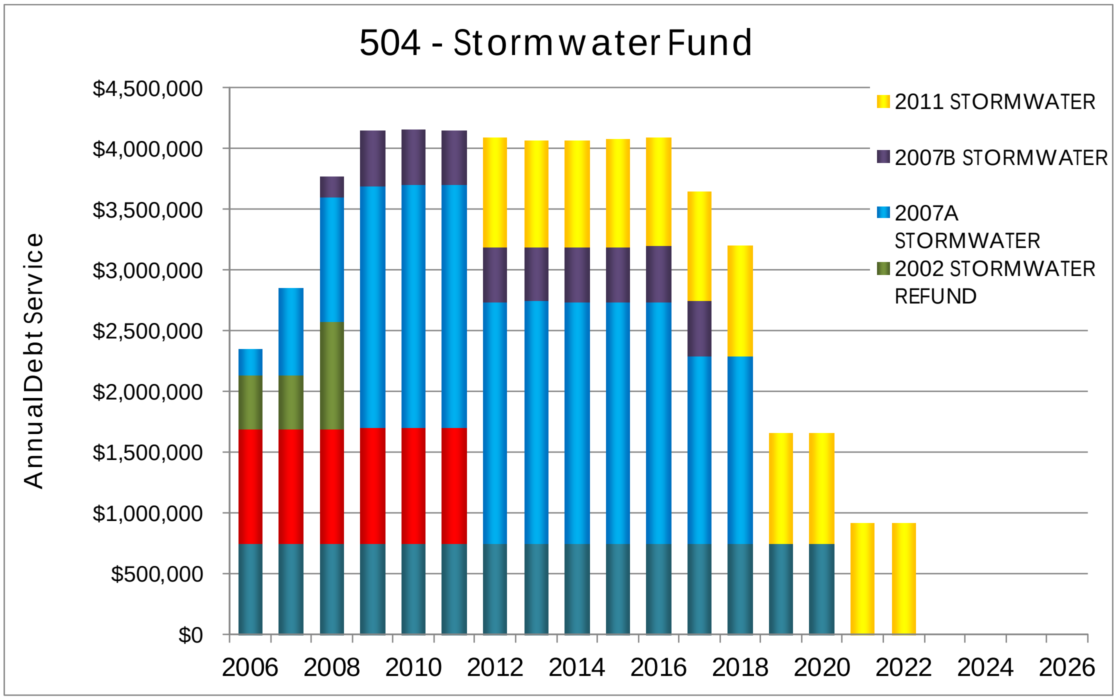
The Water Fund has a longer history of issuing debt for capital investment. In part because the size of some of the capital projects can exceed several years of operating revenue, making it difficult to have sufficient cash reserves for such large investments. The Water Enterprise Fund debt has a current bond rating of AAA. As the chart shows this Fund has carried significant debt service costs in the recent past and most of this debt will be retired over the next few years.



The Wastewater Enterprise Fund has issued several 20 year bonds. The bond rating for the Wastewater utility is currently AA+.



The Stormwater Fund has issued debt to support the initial build-out of the stormwater infrastructure. The bond rating for the Stormwater Fund is AA+, as well. The debt service costs for this Fund will be reduced over the next few years as existing debt is retired. This will modestly increase the amount of operating revenue available for either new debt service or directly for capital investments.



Conclusion

As shown there will be a need for considerable capital investment in each of the utility services in the coming decade. This is not unexpected given the growth of our community and the high levels of service required to support its economic development and sustainability. The low utility rates and high level of customer satisfaction are the results of City Leadership, both past and present, showing tremendous foresight and commitment to these municipal services and to the planning, operational and customer focused efforts of City staff. This update to the Council Finance Committee is intended to maintain this tradition through a long term Utilities Strategic Financial Plan.

Staff will continue the analysis from inputting the capital needs into the long term financial models for each utility. These capital investment needs along with the projected trends in operational costs and uncertainties in revenue and expense projections will be modeled to understand the rate implications and need for debt issuances over the next decade. The model inputs, methodology and outputs will then be presented to the Council Finance Committee within a few months including a recommended path for each utility for the 2017-18 City Budget being considered by the City Manager and the Mayor and City Council.

Attachments

Light & Power Enterprise Fund Capital Improvement Plan
Water Enterprise Fund Capital Improvement Plan
Wastewater Enterprise Fund Capital Improvement Plan
Stormwater Enterprise Fund Capital Improvement Plan

COUNCIL FINANCE COMMITTEE
AGENDA ITEM SUMMARY

Staff: Lance Smith, Utilities Strategic Financial Director

Date: June 20, 2016

SUBJECT FOR DISCUSSION Utilities 2016 Strategic Financial Plan Update

EXECUTIVE SUMMARY

The purpose of this agenda item is to provide the Council Finance Committee with an update on the 2016 Utilities Strategic Financial Plan as a follow up to the discussion on April 18, 2016 on each utility's Capital Improvement Plan (CIP). As stated in that Agenda Item Summary:

"Each of these plans [CIPs] is projecting substantial capital investment being needed for each utility over the next decade. Because the projected levels of investment are not achievable through current operating revenues alone it will be necessary to further analyze the best means of achieving these operational needs without negatively impacting the financial integrity of the utilities while maintaining affordable utilities to the community. This analysis and the long term Utilities Strategic Financial Plan will be the focus of the follow up discussion in a few months."

Recommendations for achieving the capital investments proposed in the CIPs while maintaining the financial health of each utility, along with the bond rating, through modest rate adjustments are discussed below and in the presentation. With the exception of the Stormwater Fund, the recommendation achieves these objectives within the next decade. The Stormwater CIP will require 15 years to complete the work targeted within the next decade in order to achieve these objectives.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support the Utilities Strategic Financial Planning recommendations?

BACKGROUND/DISCUSSION

At the April 18, 2016 Council Finance Committee the "Utilities Capital Improvement Plan and Strategic Financial Plan Update" outlined the full planning process for capital projects beginning with the Master Planning efforts, including the prioritized CIPs and how the process continues with the Strategic Financial Plan being developed. That discussion showed why none of the utility funds have adequate Available Reserves [1] to achieve the proposed capital projects over the

---

[1] Available Reserves are the portion of the Fund Balance that is not necessary to meet Bond covenants or the City's Minimum Reserve Financial Policy, and is not currently appropriated for another purpose.

coming decade. Thus it will be necessary to adjust rates and consider issuing debt before considering also delaying some of the capital projects beyond 10 years.

Several Next Steps were identified then which are being discussed herein. The Next Steps were to:

1. Incorporate the 10 year capital projections into the long term financial model for each utility

2. Perform scenario analyses to understand cash vs. debt funding impacts on rates, reserves, debt capacity and the financial position of each Enterprise Fund

3. Develop recommendations on rate increases and debt issuances to meet the expected needs of the Fund

<u>Incorporate the 10 Year CIP into Financial Models</u>

Since the meeting in April, the capital investment projections for 2017-2026 have been entered into a long term financial planning model for each utility. This model considers a 21 year horizon (2006 – 2026) beginning 10 years ago and projecting forward 10 years from today. The 10 years of historical analysis provides the basis for the 10 year forward projection for each revenue and expense.

<u>Perform Scenario Analyses</u>

There are several financial mechanisms available to cover the incremental capital investments. Any Available Reserves can be appropriated to the specific capital projects ensuring their adequate funding. Any operating income will increase the Available Reserves. Rate adjustments provide a direct way to increase operating income. Available Reserves can also be increased by issuing debt through revenue bonds. The balance between these mechanisms is the objective of the stochastic model.

The financial model has several financial objectives:

- Maintaining adequate Operating Income and Reserve Minimums are necessary.

- It is preferred that the City maintain, if not improve, its bond rating wherever possible including the Utility Enterprise Funds.

- Rate spikes are undesirable because of the impact such adjustments can have on residential and commercial customers.

An order of preference is necessary when considering rates, Available Reserves and Debt in the model. Because rate adjustments provide the most direct communication with ratepayers that costs are increasing, rate adjustments were considered first by themselves. This is consistent with the assumption that rate adjustments will always be a consideration. Then because the CIP was prioritized to respect that prioritization it is necessary to also consider debt in the sources available to increase the Available Reserves. Lastly, adjustments to the capital investment over the next decade were considered if it just is not financially feasible to respect the prioritization of the CIP.

1. Scenario 1 – This scenario first considers if it is possible to complete the proposed capital projects within the next 10 years (2017 – 26) by only adjusting rates and not issuing any new debt. If this is achievable with modest rate adjustments then this is the recommended path for that specific utility.

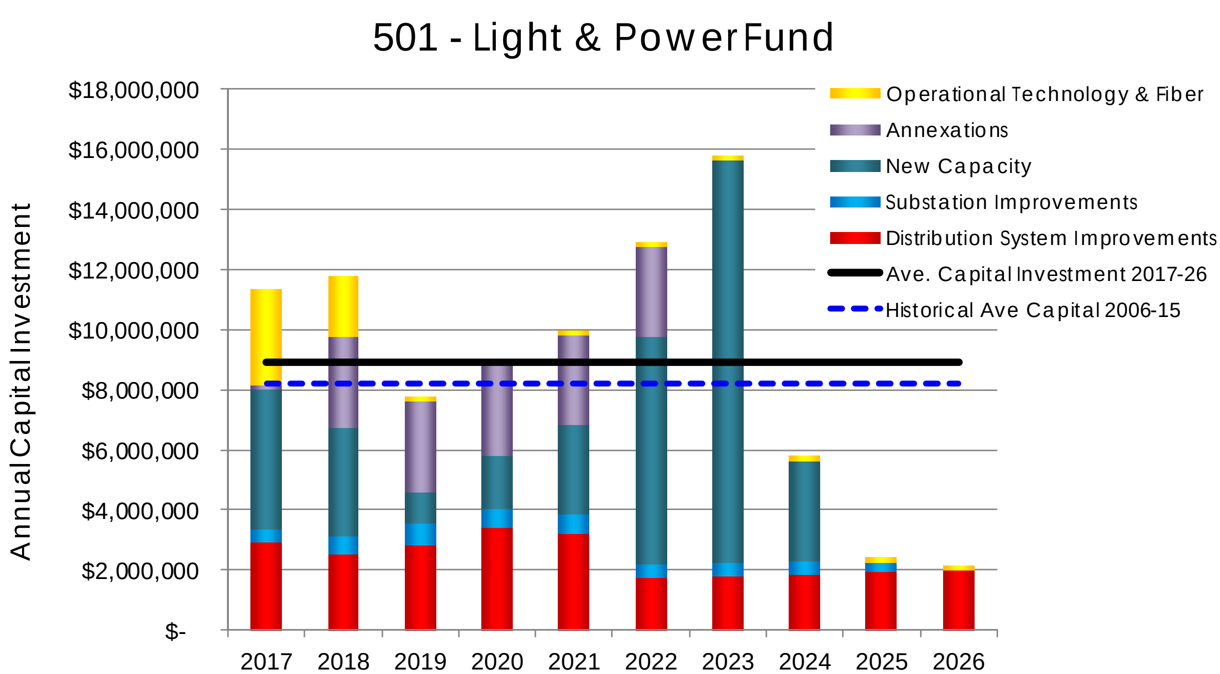
2. Scenario 2 – This scenario acknowledges that it may not be possible to achieve the objectives through Scenario 1 and considers also issuing debt to raise of the necessary capital. If this is achievable through manageable debt service costs and modest rate adjustments then it is the recommendation.

3. Scenario 3 – This scenario is considered when there is no combination of modest rate adjustments and serviceable debt issuances to achieve the capital projects and maintain the financial health of the utility. In this scenario adjustments to the 10 year capital spend are considered – either smoothing out the capital spend evenly across those 10 years or extending the time horizon out beyond 10 years.

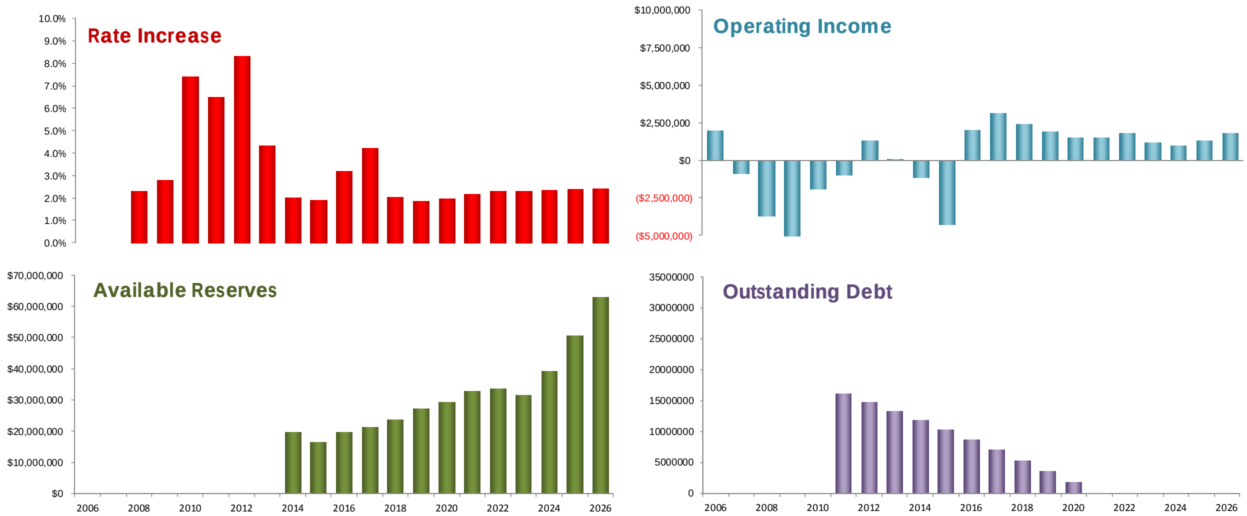
Develop Recommendations

Light & Power

The projected 10 Year CIP includes $90M of new capital needs for the anticipated system demands over the decade. This represents a 10-15% increase over the previous decade's capital investment.



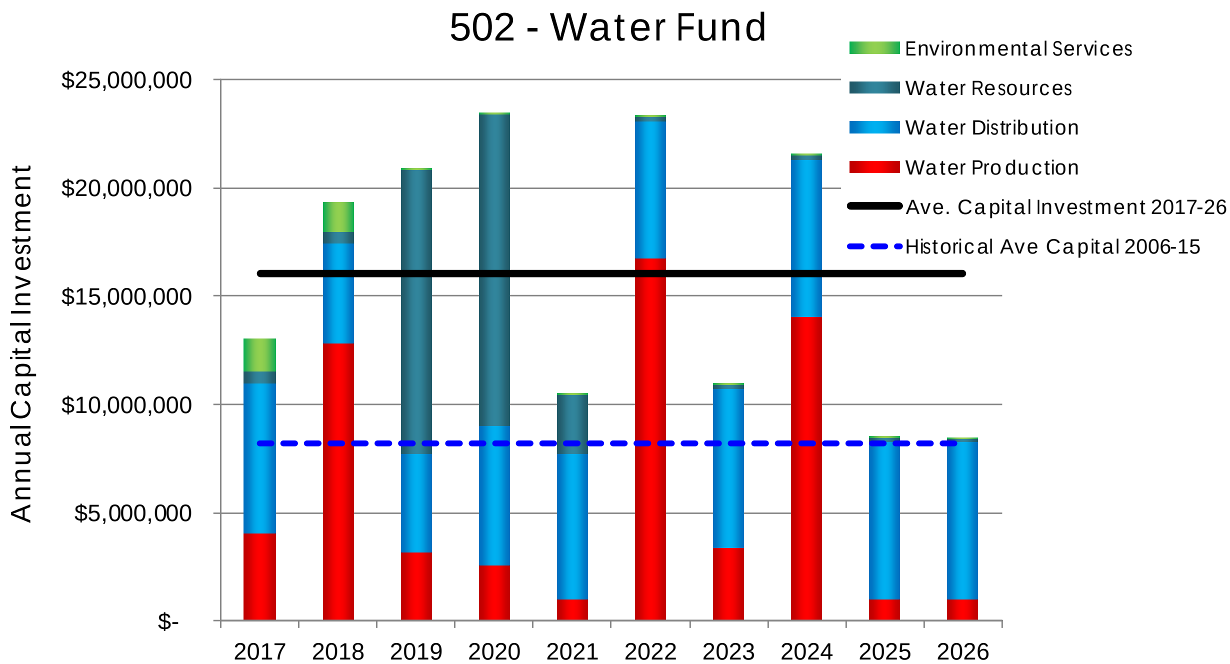
Such a change from recent history should be manageable through modest rate increases alone. The dashboard below shows how this is viable. The upper left corner is a chart showing potential annual rate increases as being less than 5%. The upper right corner is a chart showing the annual operating income for the fund. Each Enterprise is expected to have adequate operating income. The bottom right corner shows a chart of the total outstanding principal debt. In this analysis no additional debt was issued and the outstanding debt is fully retired in 2020. The bottom left corner shows the Available Reserves. Here the capital investment drops off significantly in the last few years resulting in an increased operating income which results in the Available Reserves building up quickly. This analysis will be updated every two years to monitor if any adjustments are necessary.



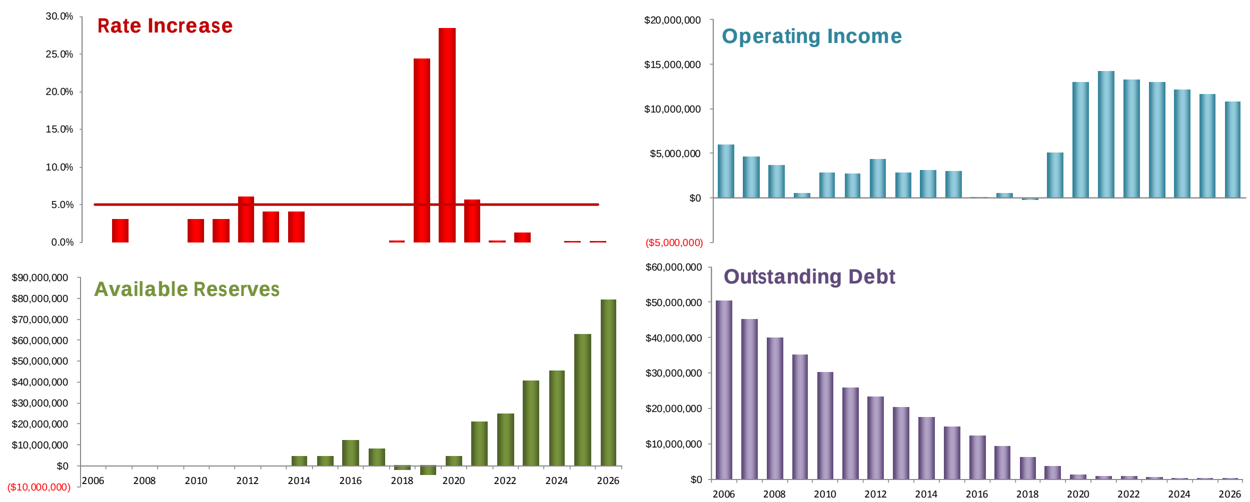
Recommendation: Scenario 1 will allow for the additional capital needs through modest rate adjustments without the anticipated need of issuing debt over the coming decade.

Water

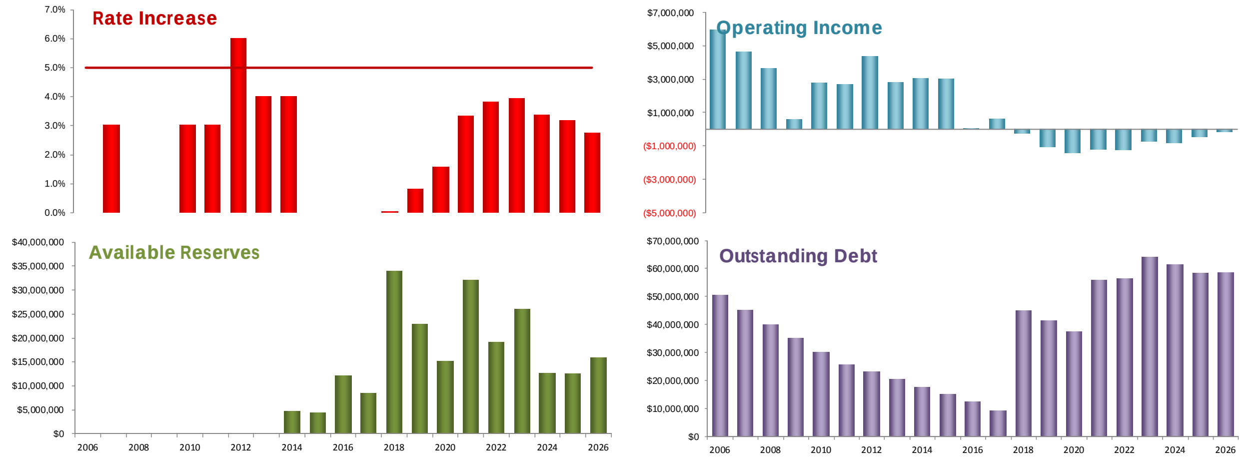
The Water Enterprise Fund has a CIP with $160M which represents twice the historical average annual spend has been.



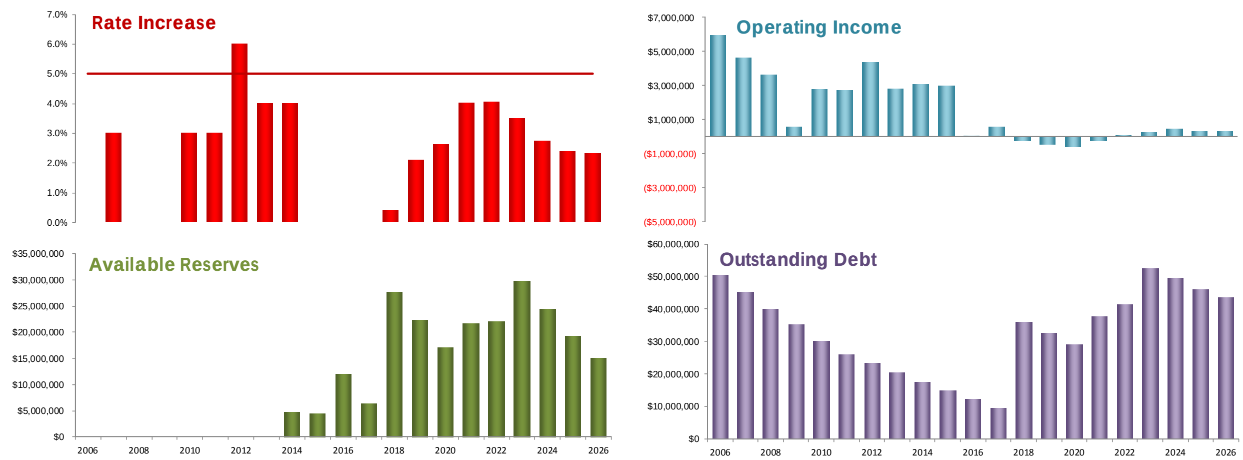
This utility also has low Available Reserves which limits short term financial agility. The CIP also ramps up quickly which together make it infeasible to have modest rate adjustments alone (Scenario 1) and achieve the operational needs for the CIP. The dashboard below shows the negative Available Reserves and large rate increases. The build-up of Available Reserves may make it necessary to adjust rates downward as well in the last few years.



Next, issuing debt along with modest rate increases was considered. This Scenario (Scenario 2) does result in a feasible path. However, as the dashboard below shows, operating income remains negative.



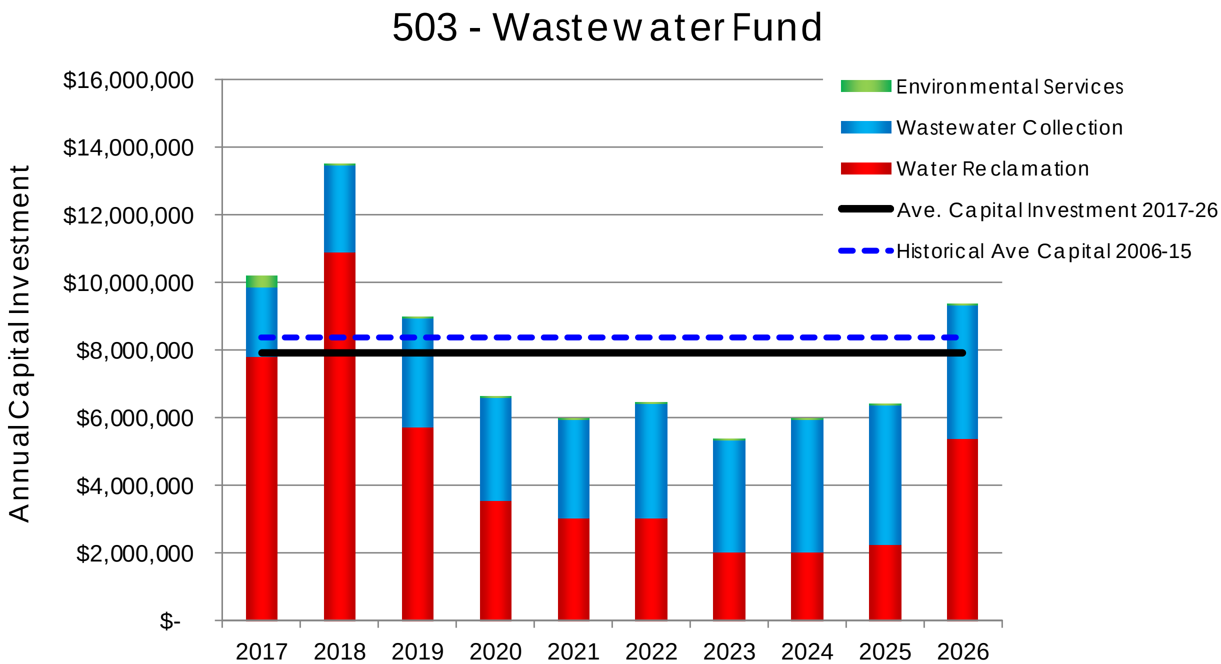
Next it was assumed that the annual capital spend over the coming decade can be smoothed to near the average annual spend each year (Scenario 3). This change respects the prioritization in the CIP and accomplishes the same infrastructure in 2026 as the CIP. The dashboard below shows how this change reduces the amount of debt needing to be issued from $55-70M to $50-60M and results in positive operating income.



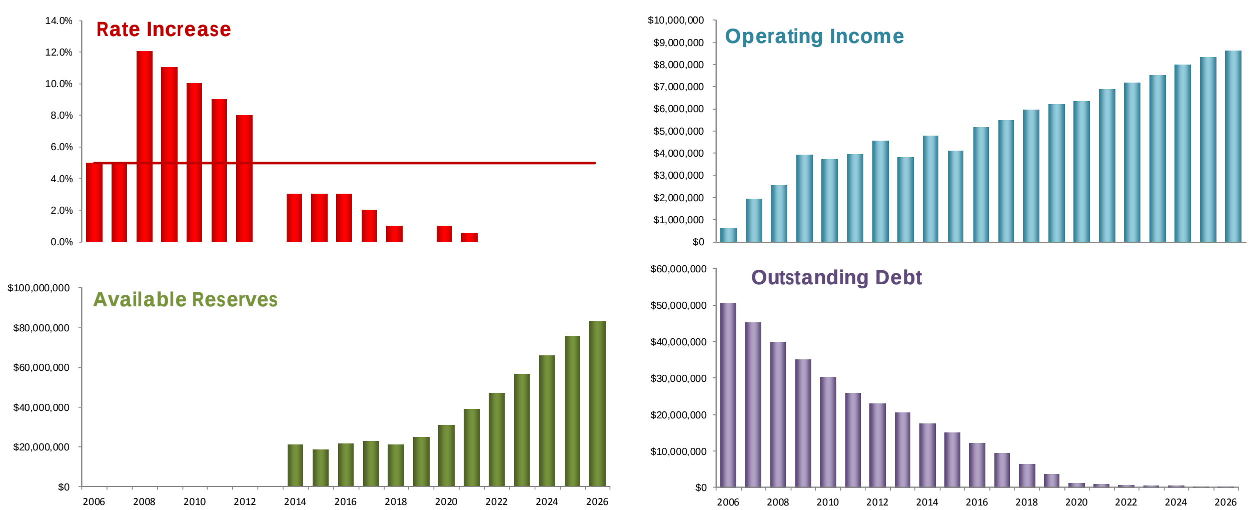
Recommendation: Scenario 3 (immediately above) which will accomplish the financial objectives while completing the CIP over the coming decade.

Wastewater

The slight reduction in the estimated capital investment over the coming decade compared to the previous decade is the result of the Mulberry rebuild.



The minor change in the average annual capital investment should be manageable through rate adjustments alone. This Fund also has healthy Available Reserves allowing for more financial agility if needed in an emergency. The dashboard below shows how Scenario 1 is sufficient to meet the operational needs and maintain the current levels of service.

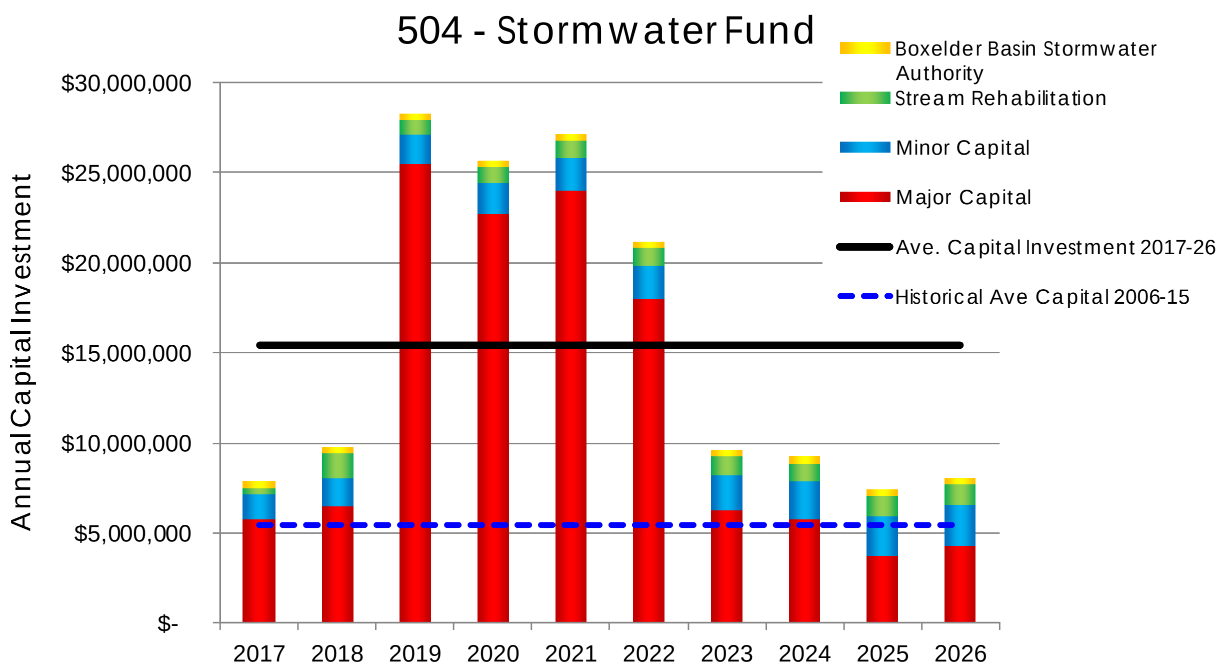


The bottom left corner shows a sizable build-up of Available Reserves over the next decade. This is intentional to address new nutrient removal and temperature regulations driven capital projects in 2027-30 estimated to cost $60-80M in addition to ongoing system renewal.

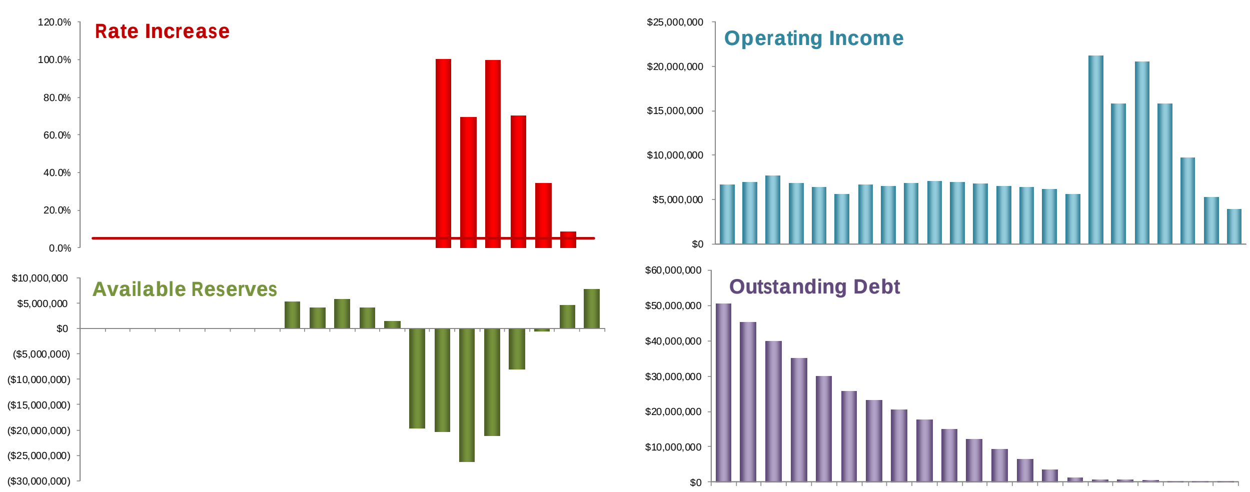
Recommendation: Modest rate adjustments should be sufficient to cover capital investment in the next decade without the need to issue additional debt for this fund.

Stormwater

The Stormwater Enterprise Fund has spent just over $5M per year on capital investments in the previous decade. The 2017-26 CIP requires just over $15M per year or 3 times the current rate of investment.

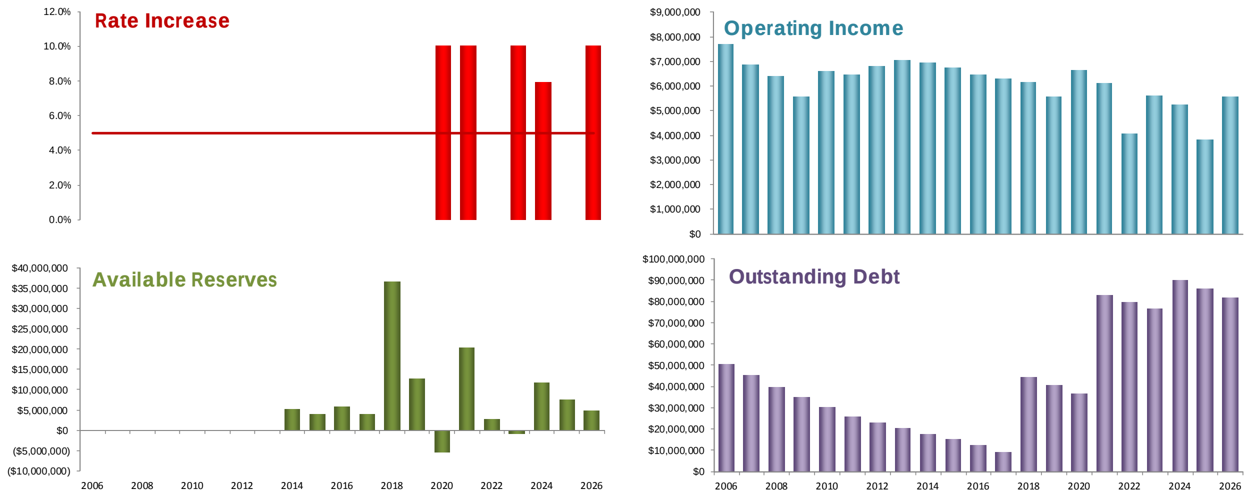


This utility has low Available Reserves which limits the financial agility of the utility in the short term. The CIP is also heavily focused on the first 5 years ($71M invested in 2017-21 and $29M in 2022-26). Together these challenges make it infeasible to address the CIP goals through rates alone. The dashboard below for this Scenario (Scenario 1) shows that Available Reserves immediately turn negative and operating income jumps with the large rate adjustments.

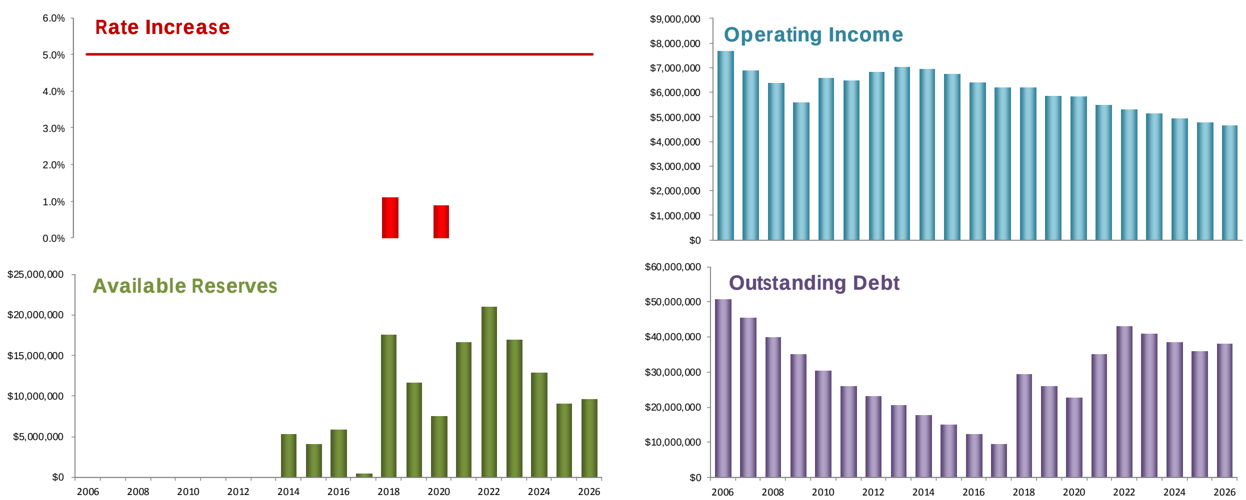


Rate adjustments are not effective in the situation this utility is in with high operating income, low Available Reserves, and annual operating revenues of just $15M, or the same amount of capital investment requested per year although it is tightly focused on 4 years in the middle.

Rates and debt (Scenario 2) are shown in the dashboard below. Available Reserves are not sufficient even with the very large debt issuance ($80-90M within the first 5 years) and 10% rate increases.



Next it was considered how the CIP could be modified while respecting the prioritization of the investments. Because the increase in the average annual capital investment is increasing so much from $5M to $15M per year smoothing the investment evenly over the 10 years is not going to be adequate. Instead stretching the timeline from 10 years out to 15 years was considered (Scenario 3). The dashboard below shows how effective this approach is at achieving the financial objectives albeit over a longer time period.



Recommendation: Scenario 3 which reduces the near term debt issuance down from $80-90M to $40-50M by extending the time horizon out 5 years to 2031.

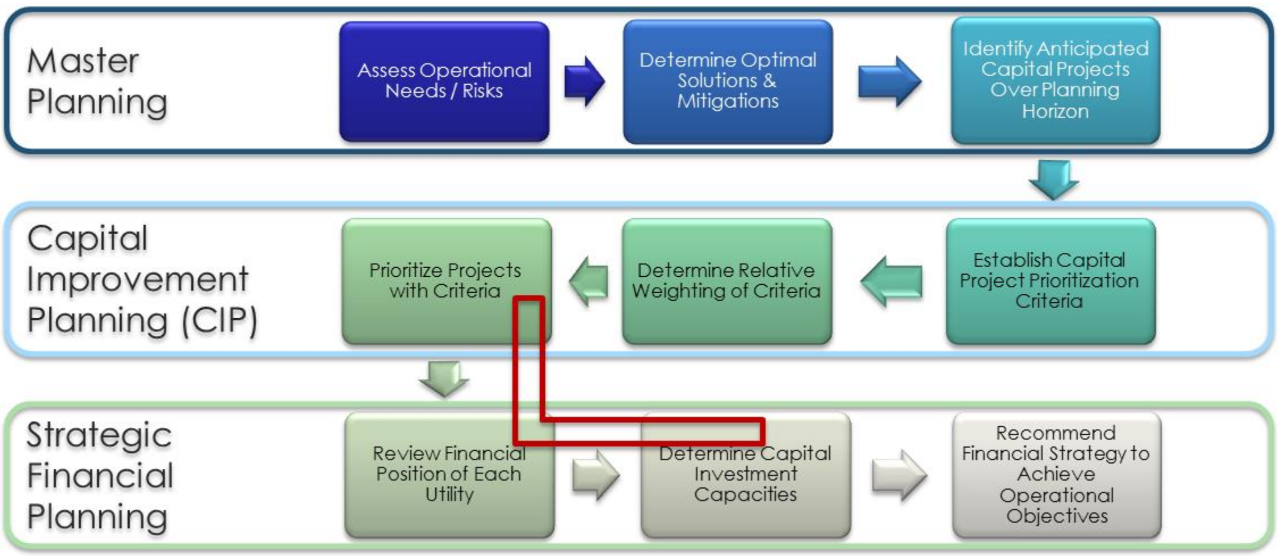
Where Are We In the Planning Process?

As the CIPs are incorporated into developing the 2016 Utilities Strategic Financial Plan there is a need for some back and forth discussions between the Utility Executive Director, Operations

Managers and Finance around what may be a manageable adjustment to the annual capital investment while maintaining the current levels of service being provided to the community. This is where we are at now in the whole planning process.

The Scenario Analyses suggested the preferred financial strategy to the CIP. Now the Operations Managers need to consider what this approach would mean in terms of impacts to the current levels of service and what may be adjustable or not. Subsequent modeling efforts may be needed if the preferred financial strategy is not operationally feasible.

On the version of the process map presented in April shown below the red loop represents where we are currently at in the planning process:



<u>Conclusion</u>

The 2016 CIPs included significant increases in anticipated capital investments for two of the utilities over the previous decade's investment level. These two utilities also are the same two utilities with low Available Reserves. Managing the financial health of these two utilities, Water and Stormwater, while maintaining the current levels of service will require rate adjustments, debt issuances and some adjustments to the CIPs.

Utility	Available Reserves (in $M)	2015 Operating Expenses (in $M)	Days Cash on Hand in Available Reserves	Capital Spend 2006-15 (in $M)	Capital Spend 2017-26 (in $M)	% Increase / (Decrease)
Light & Power	16.4	38.8	154	80.5	85	5.6%
Water	4.4	23.3	69	73.9	152.1	105.8%
Wastewater	18.5	15.8	427	87.7	84.8	-3.3%
Stormwater	4.1	9.9	151	56.3	156.5	178.0%

The other two utilities, Light & Power and Wastewater, are expecting modest rate adjustments may be necessary over the next 10 years, but there is not expected to be a need to issue debt in these two utilities over the next decade.

Staff will continue to keep the Council Finance Committee and the entire City Council informed of the biannual updates and other changes to the Utilities Strategic Financial Plan. The 2016 Utilities Strategic Financial Plan will be published once the current iterative step between Finance and Operations is agreed upon within the next few months.

ATTACHMENTS

Attachment 1 – CFC Presentation for June 20, 2016
Attachment 2 – CFC AIS on “Utilities Capital Improvement Plans and Strategic Financial Plan Update” from April 18, 2016

12-19-16

Future Utility Debt Requirements

Lance Smith, Utilities Strategic Finance Director

Purpose and Direction Sought

Objective:

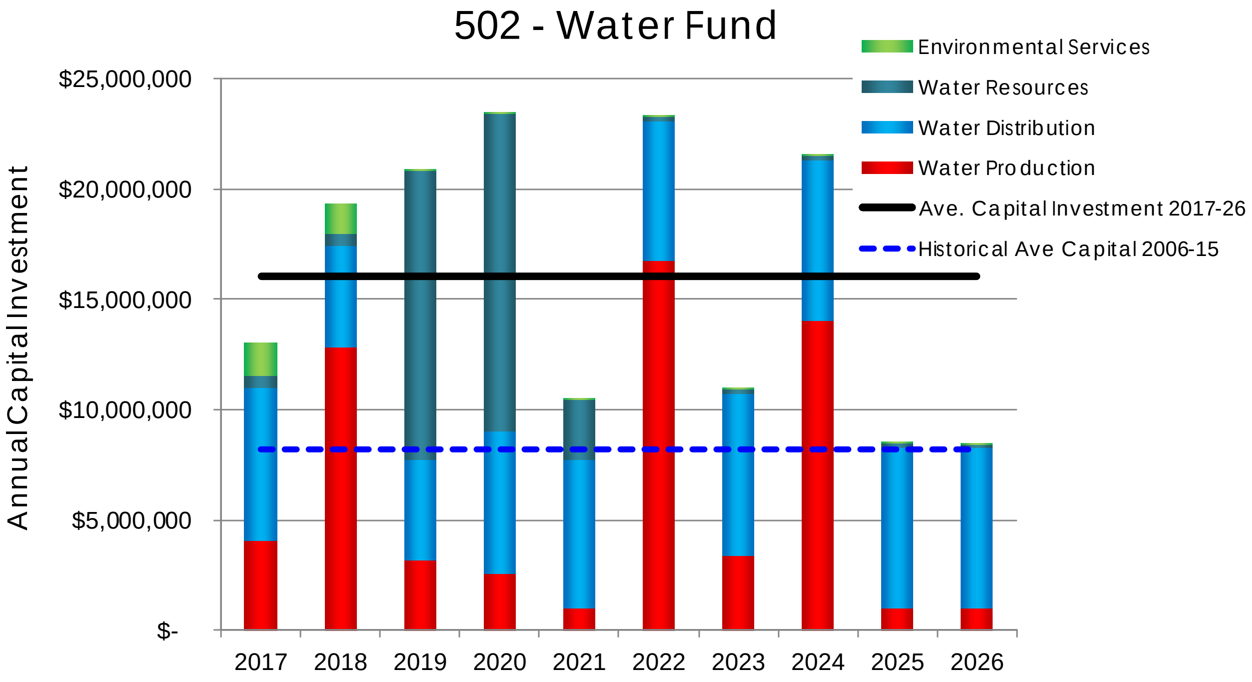
- Continue the discussion from April 18th and June 20th on the Strategic Financial Planning efforts for Utilities
- Provide an overview of the anticipated need for debt in the Water and Stormwater Funds

Direction Sought:

- Does the Council Finance Committee support keeping these near term debt issuances in the Utilities Strategic Financial Planning recommendations and staff coming back with an updated analysis in 12-18 months?

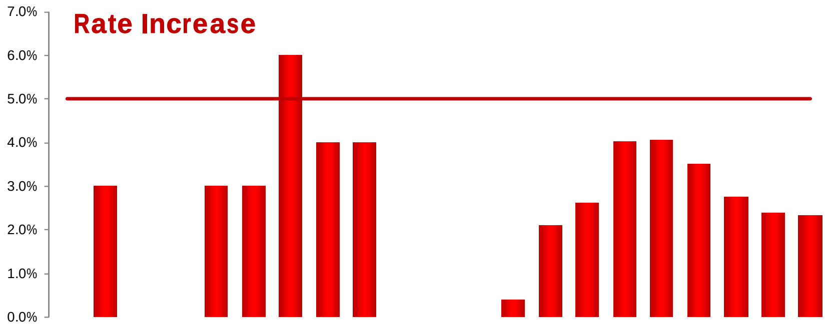
Water Enterprise Fund

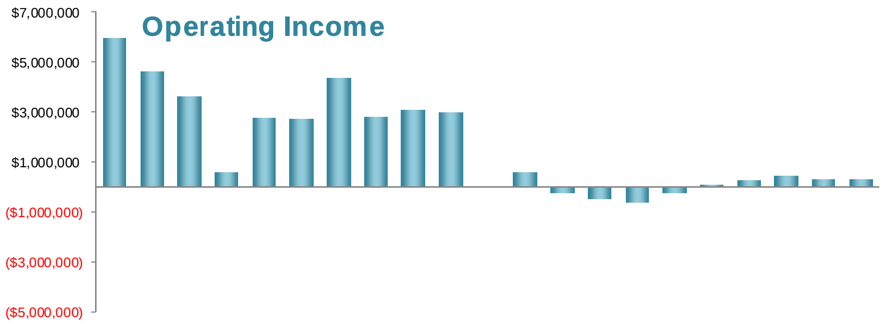
Water Fund CIP

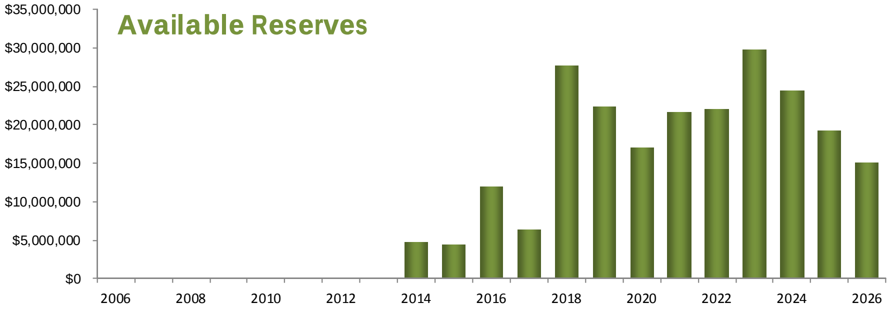


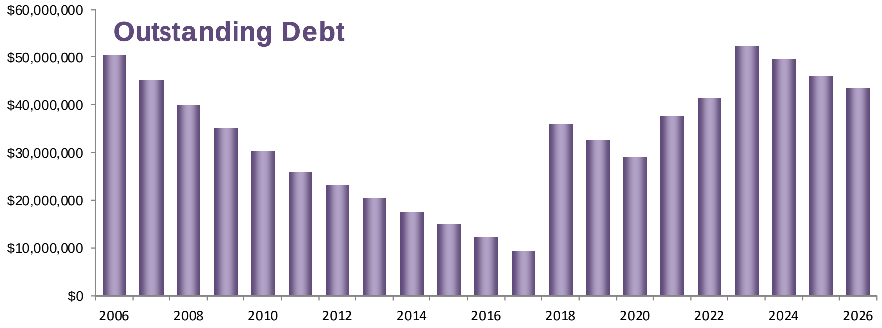
2015 Operating Revenue was $27.7M

Water
Scenario 3 – Rates, Debt and Timeline









Water Recommendation

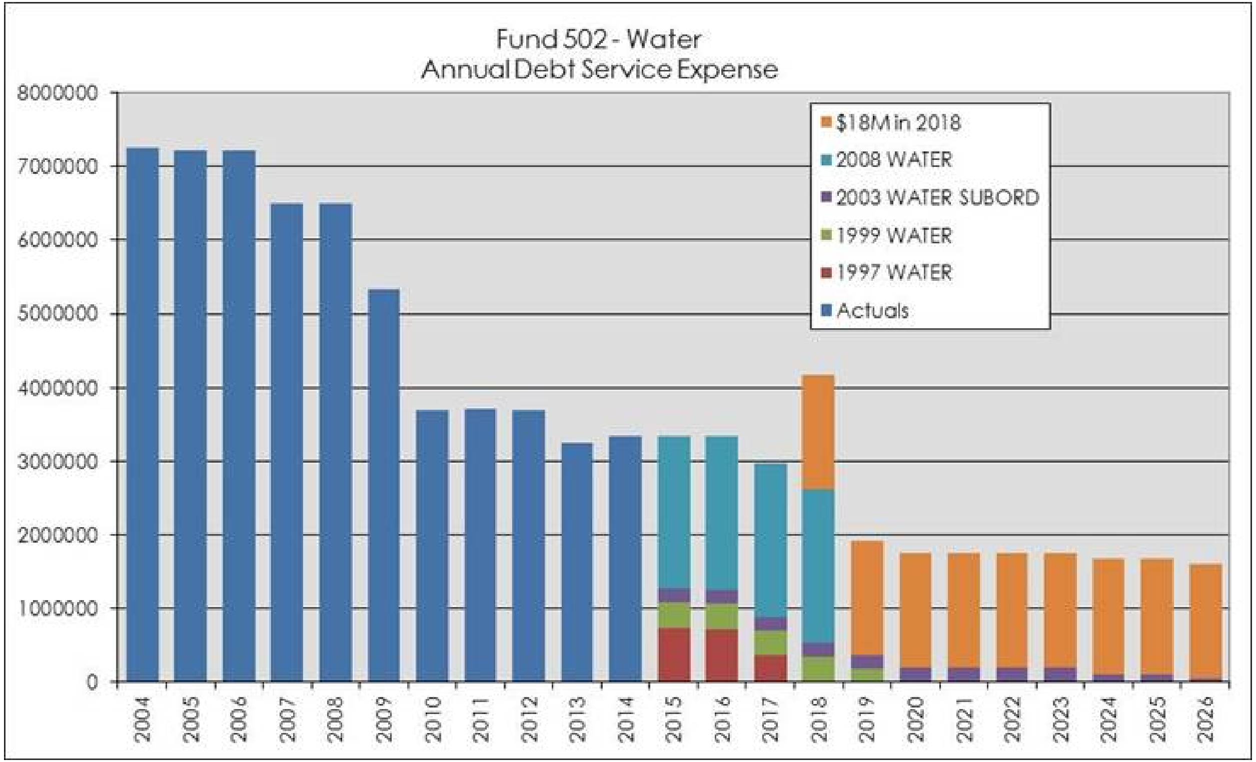
Recommended Strategy: Scenario 3

- Capital needs achievable through modest rate increases, debt issuances and smoothing capital spend over 10 year horizon
- Available Reserves are healthy but not excessive
- Operating Income is positive
- Debt issuance is less than Scenario 2

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Rate Increase	0-5%	1-5%	1-3%	1-3%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%
Debt Issuance		$30M			$20-30M					$3-5M

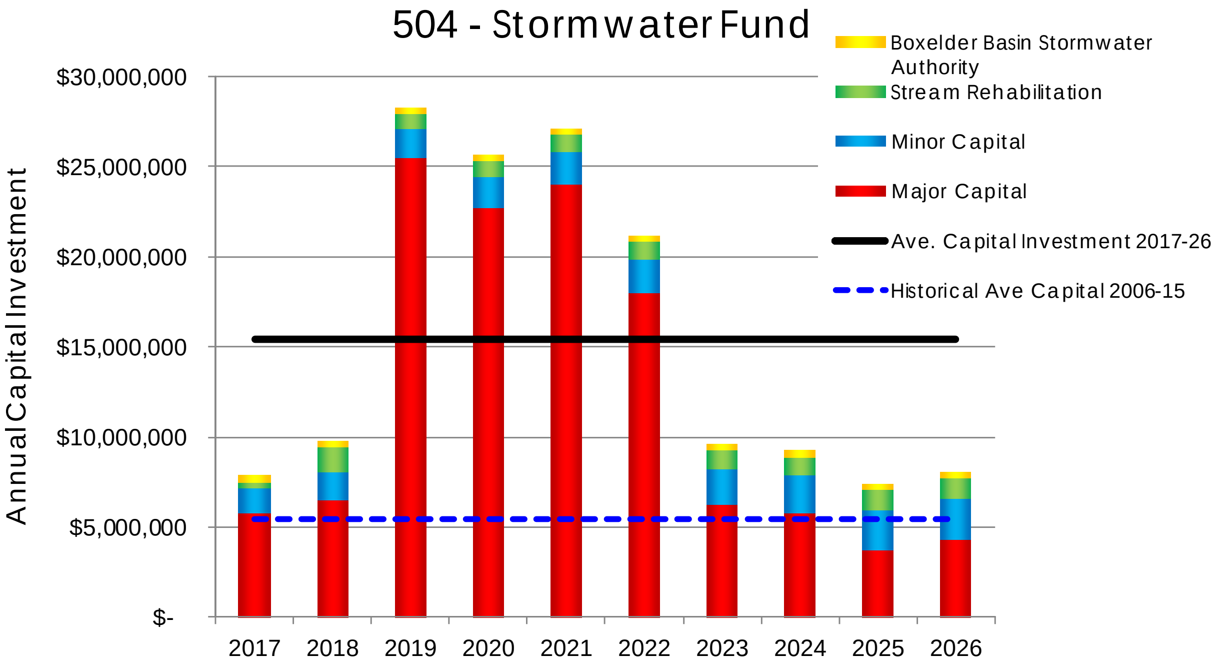
*$160M of capital work is expected to be needed between 2017 and 2026 NOT including Halligan.

Water Debt Schedule



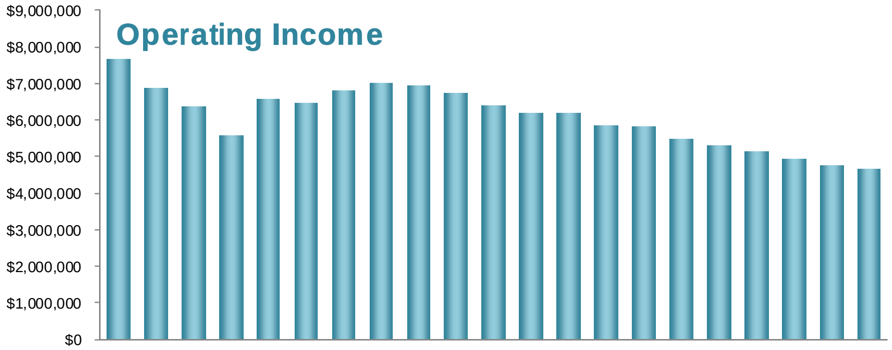
Stormwater Enterprise Fund

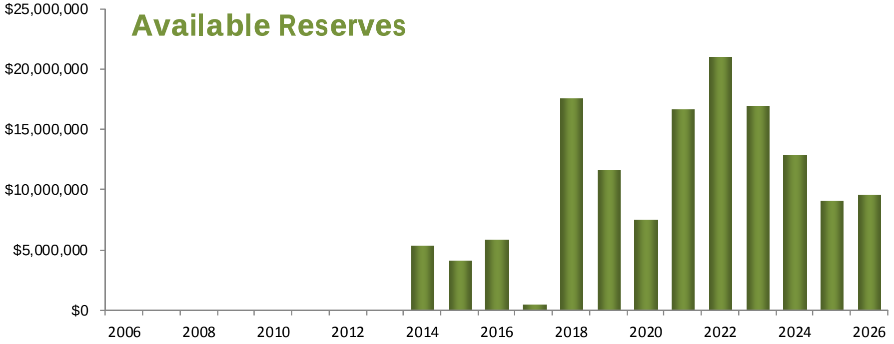
Stormwater Fund CIP

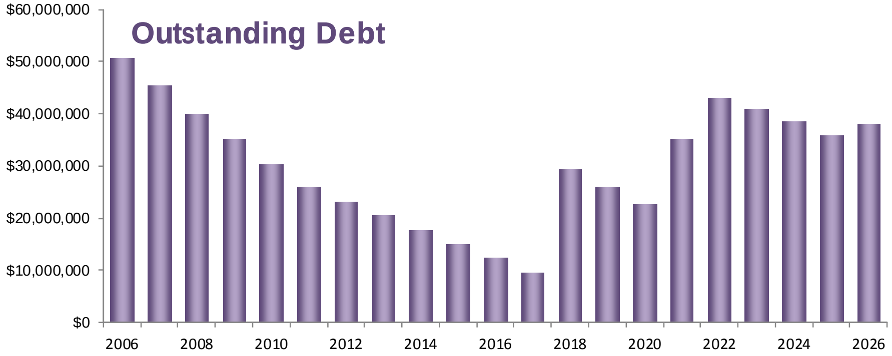


2015 Operating Revenue was $15.0M

Stormwater
Scenario 3 – Rates, Debt and Timeline







Stormwater Recommendation

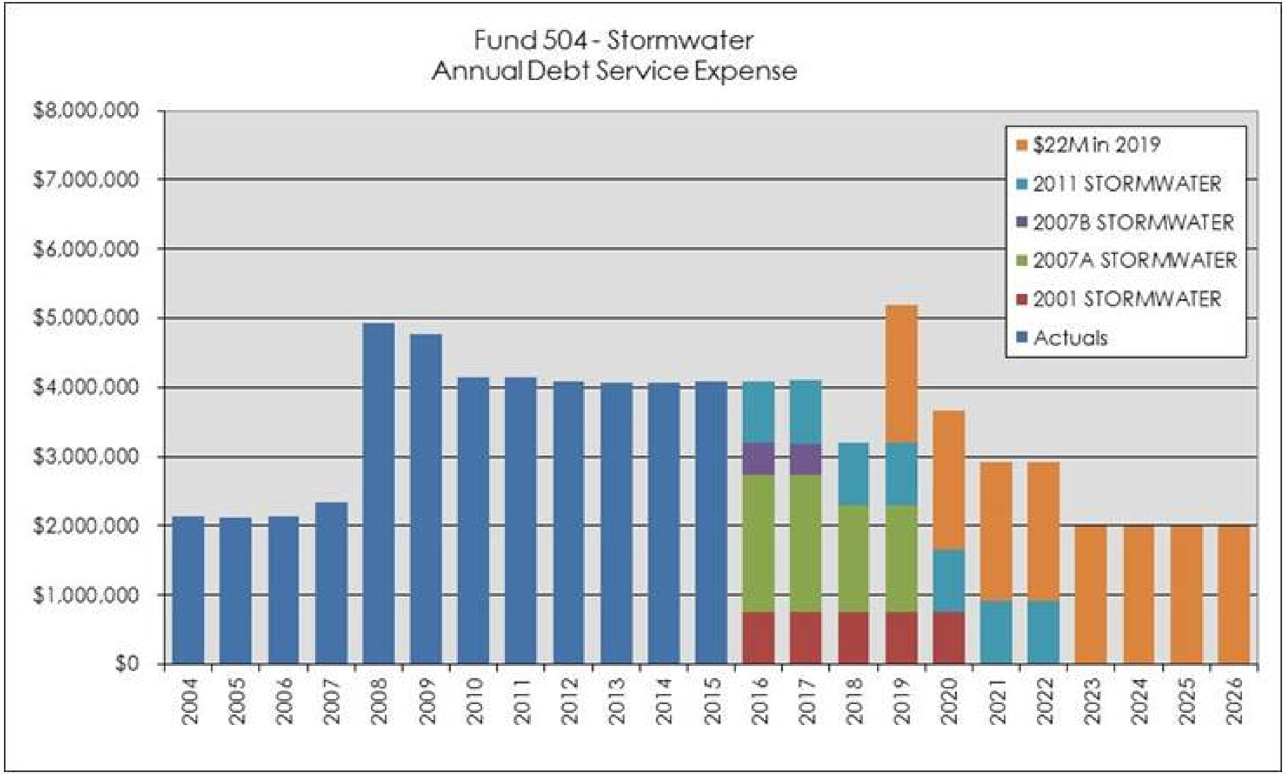
Recommended Strategy: Scenario 3

- CIP is achievable *over 15 years* rather than 10 years
- Operating Income and Available Reserves remain healthy
- $40-50M debt issuance is necessary in near term

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Rate Increase	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%	0-3%
Debt Issuance		$20-25M			$20-25M					$5-10M

*$156M of capital work is expected to be needed between 2017 and **2031**.

Stormwater Debt Schedule



Purpose and Direction Sought

Objective:

- Continue the discussion from April 18th and June 20th on the Strategic Financial Planning efforts for Utilities
- Provide an overview of the anticipated need for debt in the Water and Stormwater Funds

Direction Sought:

- Does the Council Finance Committee support keeping these near term debt issuances in the Utilities Strategic Financial Planning recommendations and staff coming back with an updated analysis in 12-18 months?


THANK YOU!

COUNCIL FINANCE COMMITTEE
AGENDA ITEM SUMMARY

Staff: Lance Smith, Utilities Strategic Financial Director

SUBJECT FOR DISCUSSION – Electric Plant Investment Fees

EXECUTIVE SUMMARY

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the current electric plant investment fees (PIFs) and review proposed changes to the current approach. The current method utilizes a planning model that is based on greenfield development. As the city experiences more redevelopment this current method fails to adequately assign capital costs to this new load. Staff proposes a change in methodology that uses actual system value to assign costs to new loads. This change would make the electric PIFs methodology consistent with the water and wastewater utilities.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support the change in methodology for the electric PIFs?

BACKGROUND/DISCUSSION

In 2016 Fort Collins Utilities hired NewGen Strategies to survey how PIFs are collected by other electric utilities and to provide assistance building a revised PIF model to allocate capital costs to new load on the system. This effort was led by Scott Burnham. Scott's expertise includes financial feasibility, cost of service and rate design analysis, asset valuation, and restructuring for electric utilities. Scott leads and manages rate studies, acquisition, privatization, and competitive assessment engagements for NewGen's clients.

Current Model
The current PIF is calculated by utilizing a system planning model that was originally developed in early 1980's and has been updated serval times to reflect changes in system design standards and policy. This underlying model assumes a certain system design and allocates the costs of this system design based on the square footage, the linear footage that abuts the public right of way, and demand (kilowatt or kW) of the new development. These components of the current electric PIF calculations for residential and commercial/industrial customers are explained as follows:

Residential
1) Square footage charge. This applies to the total area of a development, excluding dedicated streets and City owned park land. This charge pays for base (minimum) main feeder lines and local distribution circuits to general load areas. This includes related electrical equipment such as fuses and switches. The model for this is based on a main feeder circuit encompassing a 4 square mile area.
2) Front Footage Charge. This fee applies to all footage of property adjacent to dedicated City streets within a development, regardless of which side the primary line etc. is on, including that which is adjacent to open space and detention ponds. This pays for installation of primary lines, vaults, installation of distribution transformers (not the transformer itself), and switchgear on adjacent dedicated streets. Also included in this fee is a charge to pay for installation of streetlights along City streets.
3) Dwelling unit charge. This fee is based on the anticipated electric load (kW) of each dwelling unit. This pays for the proportional share of augmented main feeder lines required over the base main feeder system, and a proportional share of the substation and distribution transformers.

Commercial/Industrial
1) Square Footage charge. Same as residential above.

2) Front Footage charge. This fee applies to all footage of property adjacent to dedicated City streets within a development, regardless of which side the primary line etc. is on, including that which is adjacent to open space and detention ponds. This pays for the installation of primary lines and vaults on adjacent dedicated streets. Also included in this fee is a charge to pay for installation of streetlights along City streets. The commercial/industrial front footage charges are higher than residential due to more 3 phase lines, switchgear etc., and a higher lighting level is required for commercial.
3) Capacity. This charge is based on total amps of service capacity (NOT fuse size), and pays for:
    a. Augmented main feeder lines required over the base main feeder system (see Square Footage above).
    b. The distribution transformer(s) and the development's proportionate share of the substation transformer.

The current method has several challenges. The costs for these components (square footage, front footage, and dwelling units/capacity) are calculated through the use of visual basic code (VBA) to access databases that contain assembly information and cost data. As a result, it is cumbersome to update these calculations if changes need to be made to the underlying planning model. For example, it is difficult to modify the calculations so that the model includes mixed use developments or higher density developments. Additionally, the planning model has difficulty assigning costs for capital work required for redevelopment, such as adding a circuit for additional load.

Proposed Model

As a result of the trend toward higher density developments and redevelopments, and the dynamic nature of the electric system in general, staff recommends changing the methodology of the PIF model to address the concerns raised above. The proposed methodology is based on the "buy-in" method for PIFs outlined by the American Water Works Association (AWWA) and is conceptually similar with the PIF models for the water and wastewater utilities. This method takes the value of the utilized electric system, i.e. the amount of the system that is needed to serve the current load and no more, and divides this dollar value by the current kilowatt (kW) demand. This calculation results in the $/kW rate that was used to build the current system to meet the current demand. New load on the system would buy into the electric system at this $/kW rate. This simplifies the calculation and administration of the electric PIFs.

In addition to these simplifications, the proposed methodology also uses actual data to allocate costs instead of a planning model. Demands, non-coincident peaks (NCP), for the residential and commercial/industrial customer classes are calculated from AMI data and are used to allocate the system costs proportionally to each class based on the class NCP. This allocation method provides a different $/kW buy in rate for each of these classes and is consistent with standard cost allocation practices in utility rate making. Due to the large variation in demands from the commercial class a sliding scale was implemented for the $/kW rate for commercial customers, as the load from a commercial customer increases the buy in rate increases as well to allocate the additional system costs required to serve large loads.

Lastly, this proposed method is flexible and adapts to changes in development by using actual system values and actual demands as opposed to the current method.

Comparison of the Model Results

Customer Type	Example Load	kW	Existing PIF ($)	Proposed PIF ($)	Difference ($)	Percent Change
Residential Single Family	150 Amp, 6000 sq. ft., 60 linear ft.	9	2,342	1,425	(917)	-39%
Large Commercial Building	600 Amp, 480Volt, 3 phase, 40,000 sq. ft., 175 linear ft.	185	43,830	71,244	27,415	63%
Commercial - Three Phase Office	200 Amp, 208Volt, 3 phase, 40,000 sq. ft., 175 linear ft.	27	13,824	9,672	(4,152)	-30%
Commercial - Single Phase Office	200 Amp, 240 Volt, 1 phase, 40,000 sq. ft., 175 linear ft.	18	12,133	6,357	(5,776)	-48%

CONCLUSION

Staff recommends changing the electric PIFs as proposed and seeks guidance on bringing the proposed changes forward to Council. The next step is to present the proposed new model to the Council at the January 10, 2017 Work Session and then to ring this forward with all of the fees at the February 14, 2017 Council Work Session for direction on when and how to implement the new fees.

Attachments

1. Presentation
2. Memorandum from NewGen Strategies & Solutions on the new model





December 19, 2016

PROPOSED PLANT INVESTMENT FEE MODEL REVISIONS

Fort Collins Utilities - Council Finance Committee

NewGen Strategies & Solutions

ECONOMICS STRATEGY STAKEHOLDERS SUSTAINABILITY

www.newgenstrategies.net

Agenda

- What is a Plant Investment Fee (PIF)?
- Existing PIF structure
  - Platte River Power Authority (PRPA) comparison
  - Other utilities
- Proposed PIF changes
  - American Water Works Association (AWWA) Manual
- Impacts to development community
- Recommendations

Plant Investment Fee (PIF)

- What is a PIF?
  - Electric capacity fee, development fee, impact fee
  - Fee charged to development to recover impacts of being added to the system
  - Common in water / wastewater industry
  - Some type of fee typical for electric utilities
    - May be recovered via monthly charges on bill

Plant Investment Fee (PIF)

- Why does Fort Collins have a PIF?
  - "Greenfield" development necessitated this in the past
  - Supports "Growth pays for Growth"
    - Chapter 26 section 473(b) of Code
  - Able to assign specific costs to serve new load

Plant Investment Fee (PIF)

- Why are we changing the PIF?
  - Fort Collins PIF based on older growth assumptions
  - Model is complex, challenging to update
  - Cumbersome to administer
  - Need to reflect new realities of the system and development in the community

Existing PIF Structure

- Residential Fee Structure
  - Square Foot Charge ($/sq. ft.)
  - Front Foot Charge (Linear - $/ft.)
  - Dwelling Unit Charge ($/dwelling)
- Commercial Fee Structure
  - Square Foot Charge ($/sq. ft.)
  - Front Foot Charge ($/ft.)
  - Capacity Fee (estimated usage $/kW)

Existing PIF Structure

- “Electric Capacity Fee”
  - $5.5 M in revenues through November 2016
  - Average $5 M in revenues over last 5 years

Existing PIF Structure

- Existing fee
  - Assumes “greenfield” development
  - Includes reduction “factor” for Commercial
    - 50% of the panel size
- New development / re-development
  - Occurs in areas of “re-development”
  - City close to “build-out”
  - Recognizes capacity paid through previous PIF for re-development

Existing PIF Structure – Other Utilities

- PRPA utilities
  - Longmont
  - Loveland
  - Estes Park
- Colorado Utilities
  - Colorado Springs
  - Xcel Energy (IOU)
  - United Power (Coop)
  - PVREA
- Provo, Utah
  - Similar to proposed “system value” fee

Proposed PIF

- “Buy-In Method”
- Results in similar charges by other PRPA members
- Methodology for electric utilities
  - Similar to approach by Provo, UT
- Equivalent to existing capacity “value”
  - $/kW basis
  - Different for Residential / Commercial

Current vs Proposed PIF Structure

- Residential Fee Structure
  - Current
    - PIF = [($/ft^2) x ft^2] + [($/LF) x LF] + [($ / du) x #du]
  - Proposed
    - PIF = $[\$/kW]_{res}$ X kW
- Commercial Fee Structure
  - Current
    - PIF = [($/ft^2) x ft^2] + [($/LF) x LF] + [($ / kW) x kW]
  - Proposed
    - PIF = $[\$/kW]_{com}$ X kW

Proposed PIF

+ System replacement cost (investment)
- Adjusted for portion "utilized"
- Adjusted for debt service (recovered in rates)

= System Value for PIF

- Allocated by demand to residential and commercial customers
- PIF Rate ($/kW) based on total demand by class
  - Residential PIF fee by anticipated demand (kW)
  - Commercial PIF by amperage and voltage

System Value	$ 197,753,000 (1)	PIF Rate ($/kW)
Residential Share	$89,351,500	$172.95
Commercial Share	$108,401,500	$398.30 (2)

(1) System Value subject to further review
(2) Average rate, see sliding scale

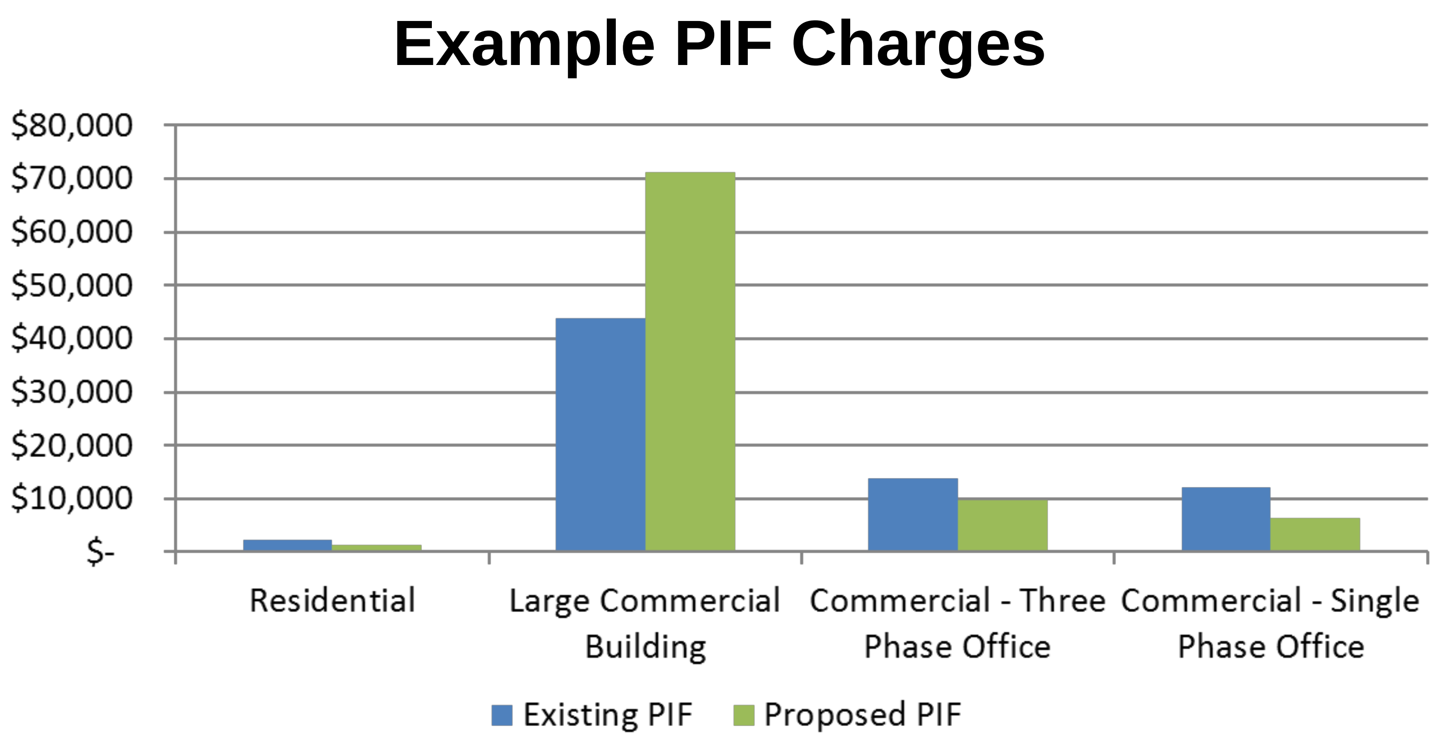
Impacts to Development Community

Example PIF Charges [1]

Customer Type	Example Load	kW	Existing PIF ($)	Proposed PIF ($)	Difference ($)	Percent Change
Residential Single Family	150 Amp, 6000 sq. ft., 60 linear ft.	9	2,342	1,425	(917)	(39%)
Large Commercial Building	600 Amp, 480 Volt, 3 phase, 40,000 sq. ft., 175 linear ft.	185	43,830	71,244	27,415	63%
Commercial – Three Phase Office	200 Amp, 208 Volt, 3 phase, 40,000 sq. ft., 175 linear ft.	27	13,824	9,672	(4,152)	(30%)
Commercial – Single Phase Office	200 Amp, 240 Volt, 1 phase, 40,000 sq. ft., 175 linear ft.	18	12,133	6,357	(5,776)	(48%)

(1) Note: Rounded

Impacts to Development Community



Recommendations/Direction

- Recommendation
  - Adopt updated modeling approach for PIF based on “buy-in” method
- Direction sought
  - What options should be presented to council
    - Phase in approach?

Questions?

Scott Burnham | NewGen Strategies & Solutions, LLC

Executive Consultant

Office: (720) 259-1762 | Mobile: (303) 902-9174

sburnham@newgenstrategies.net

Commercial PIF – Implementation Options

Charges by Demand

Commercial by kW	Secondary ($/kW)	Secondary Total ($)	Primary ($/kW)	Primary Total ($)
Installation Size				
10	$350.68	$3,507	$230.94	$2,309
30	$363.84	$10,915	$239.60	$7,188
50	$369.96	$18,498	$243.63	$12,182
70	$373.99	$26,179	$246.29	$17,240
90	$377.00	$33,930	$248.27	$22,344
200	$386.56	$77,312	$254.57	$50,913
400	$394.86	$157,945	$260.03	$104,013
600	$399.72	$239,831	$263.23	$157,938
800	$403.16	$322,531	$265.50	$212,399
1,000	$405.84	$405,837	$267.26	$267,259
2,000	$414.14	$828,276	$272.73	$545,452
3,000	$418.99	$1,256,983	$275.92	$827,772
4,000	$422.44	$1,689,758	$278.19	$1,112,771
5,000	$425.11	$2,125,560	$279.95	$1,399,764

Commercial PIF – Implementation Options

Charges by Amperage

Voltage Amps	208 Single Phase	240 Single Phase	208 Three Phase	240 Three Phase	480 Three Phase
10	$178	$206	$314	$364	$747
30	$555	$644	$980	$1,137	$2,330
50	$942	$1,092	$1,664	$1,929	$3,951
70	$1,335	$1,548	$2,356	$2,732	$5,595
90	$1,731	$2,008	$3,056	$3,544	$7,255
200	$3,955	$4,585	$6,977	$8,089	$16,551
400	$8,095	$9,385	$14,278	$16,551	$33,848
600	$12,307	$14,267	$21,700	$25,154	$51,426
800	$16,564	$19,201	$29,202	$33,848	$69,187
1,000	$20,855	$24,175	$36,762	$42,610	$87,083
2,000	N/A	N/A	$75,139	$87,083	$177,893
3,000	N/A	N/A	$114,125	$132,260	$270,110

NewGen Strategies & Solutions

225 Union Boulevard
Suite 305
Lakewood, CO 80228
Phone: (720) 633-9514

Memorandum

To: Justin Fields and Randy Reuscher

From: Scott Burnham

Date: December 14, 2016

Re: Revised PIF Model and Review

The City of Fort Collins (the City), and Fort Collins Utilities (referred to herein as the Utility or Utilities) retained NewGen Strategies and Solutions, LLC (NewGen) to assist with the review, development, and implementation of a revised electric Plant Investment Fee (PIF) model. The existing PIF model collects funds from developers for the costs associated with the necessary improvements to serve new electric load. The existing model and process to determine the PIF is cumbersome to update and is based on a historic approach that does not necessarily reflect changes that have occurred within the City in recent years. NewGen and Utilities have developed an updated PIF model that addresses these issues. The purpose of this memorandum is to provide a detailed description of the issues facing Utilities with respect to recovering its system investments and the methodology proposed for the revised PIF model.

Background

Like most utilities in the country, the Utility currently charges fees to developers to extend or expand existing electric service to new customers and/or new load. The Utility charges developers for the materials and the associated installation labor costs required to provide electricity to the new load. Some of the materials required are considered “on-site” (this is equipment unique to the customer, such as service drops to the customer’s premise). “Off-site” equipment is that which is located further from the customer premise and includes items such as switch gear, conductor, and other distribution system equipment. The Utility currently bills the customer directly for the costs of the on-site equipment and labor. The off-site equipment and labor form the basis for the existing PIF charge.

Fees similar to the PIF are common in the water and wastewater utility industry. Given the large fixed costs associated with the installation of conveyance structures and associated pumping stations, these costs have been quantified and charged to new development by most water and wastewater utilities in the country. In fact, the Utility has existing water and wastewater PIF charges that are based on the value of the investments it has made to provide these services. Such fees have historically been less common for electric utilities, as costs of expanding and maintaining the electric system have typically been recovered through the sale of electricity to the end users (via an energy or $/kilowatt hour (kWh) charge.) This approach results in all customers paying for the costs of new development. However, many electric utilities do have some type of investment fee recovery mechanism, which may be referred to as a line extension policy, electric service connection fees, customer / electrical connection charge, electrical connection fee, account initiation charge, system development charge, or impact fee. By charging the developer an upfront fee, the utility is able to ensure that new development is paying all, or at least a portion, of the costs of being added to the system.

Existing Model / Load Growth

The existing Utility electric PIF model was designed for a period of infrastructure growth primarily driven by "greenfield" or newly developed areas. As the City has grown, the potential locations for greenfield development have decreased and more development is occurring in areas of existing infrastructure (such as buildings, roads, City-services, etc.). These "brownfield" or "redevelopment" areas may or may not require updated or additional electric infrastructure on behalf of the Utility to serve the new load. When a redevelopment requires no additional infrastructure to be served, there is no PIF charge.

This change in development patterns within the City has resulted in increased density, including multi-story commercial / residential developments, as well as other high-load applications. The result is that the existing electric system as a whole requires a variety of investment in capital improvements to maintain reliability and serve the increased load. However, the existing PIF methodology does not adequately recover the Utility's costs or reflect the value associated with these system-wide capital improvements. Because of the method in which the existing PIF is calculated, the result is that the PIF charge is not consistent with the City's stated policy objective of having "growth pay for growth".

Proposed Model

NewGen and the Utility have jointly developed a proposed PIF model designed to recover system costs associated with the existing system. The proposed model is consistent with the Utility's approach for its water and wastewater impact fees, and is based, in part, on guidance provided by the American Water Works Association (AWWA). The proposed PIF model utilizes a system value approach that recognizes the use of the system by existing customers as the basis for the PIF for new load. This approach suggests that the costs associated with load growth for future customers is similar to the average, or embedded, costs of the system. New customers are "buying-in" to the existing system via the PIF charge. The model determines a PIF based on a $/kilowatt ($/kW) charge for residential and combined "general service" applications (the Utility's three general service customer classes will have the same $/kW PIF charges).

The system value was determined by the Utility utilizing a replacement cost approach. This system value was reduced by the outstanding debt, which is included in the retail rates and is intended to recover a certain portion of the fixed costs of the system. As the Utility invests in the system via its Capital Improvement Plan (CIP), as well as other non-capital (equipment that is expensed) programs, the system value will be updated on an annual basis. The load (kW) is the existing peak load (or demand) of the respective class (residential or combined general service). Additional detail on the methodology utilized to develop the proposed PIF is provided in the attached Appendix A-1. The system value and class loads are then used to arrive at a $/kW charge for each customer class.

Study Results

The results of the proposed model PIF charges compared to the existing PIF charges by example loads for each customer class is provided is provided in Table 1 below:

Table 1
Example PIF Charges

Customer Class Group	Example Load	Existing PIF	Proposed PIF	Difference
Residential	150 amp, 6,000 sq. ft., 60 linear ft., 9 kW	$2,342	$1,425	($917)
General Service	600 amp, 480 v, 3 phase, 40,000 sq. ft., 175 linear ft., 166 kW	$43,800	$71,244	$27,415

*Note: Rounded

The differences in the existing and proposed PIF charges reflect the differences between the investment costs to be collected. The proposed approach is based on allocating the utilized capacity within the existing system on a $/kW basis by class to future load. The existing PIF model is based on an outdated concept relative to costs for infrastructure required to serve four square miles based on a planning model (which is why the example load in Table 1 includes the square feet and linear feet of the new development). The existing PIF methodology does not recognize the changes in development, such as increased density, mixed use projects, and changes in customer demands, or the changes in capital required to serve these projects. The proposed PIF methodology recognizes these changes and is based on a methodology whereby "growth pays for growth." This approach is consistent with industry best practices in the water / wastewater utilities and is becoming increasingly adopted in the electric utility industry (see Appendix A-2 for a review of other electric utility approaches to similar fees, and Appendix A-3 for details on the Utility's existing PIF structure).

Summary

The existing PIF model and charges have served the City and Utilities well during a period of expanding its services and greenfield growth. However, in recent years the growth in the City has turned inward, resulting in redevelopment and higher load density projects and applications. The result is that the Utility's PIF model needs to be updated to reflect these realities and to recover infrastructure costs associated with the entire system, not just the costs defined by the City over 20 years ago. This proposed change in the PIF model methodology will serve the City by collecting the portion of historic costs invested to build the excess capacity of the existing system. Further, the proposed changes will allow the City to better align its PIF methodology with its policy objectives of having growth pay for growth.

Appendix A-1

The City imposes an impact fee on developer's requesting water and wastewater utility services. The structure for these fees has been in place since approximately 2006. These impact fees are designed to recover costs associated with the capacity of their entire utility system, as well as selected improvements associated with their capital improvement plans. This approach follows the guidance provided by AWWA, as described in detail below. Utilities indicated that the existing water/wastewater impact fee structure is preferred to the existing electric impact fee structure as it is easier to update, does not require detailed modeling results from other Utilities departments, and is defensible.

AWWA Approach

As indicated above, the Utility's water/wastewater fees follow the guidance provided in the AWWA M1 manual. The M1 manual is recognized as the industry best practices and provides details on the modeling methodologies. The M1 manual describes several mechanisms for the development of System Development Charges (SDC) for one-time charges paid by a new water system customer for system capacity. The following is a summary of the AWWA approaches, as well as how they may apply to the Utility's electric PIF development.

The calculation of the SDC is, in very basic terms, the total value of each utility function divided by the appropriate units (in the AWWA manual, the units are typically gallons) to develop a per unit charge. The AWWA methods include the Buy-In Method, the Incremental Cost Method, and the Combined Cost Approach. The Buy-In Method is typically used where there is sufficient capacity in the existing system to meet both near-term and long-term needs. Utilizing this approach allows a developer to "buy" a proportional share of capacity at the value of the existing facilities. This approach is based on the principle of achieving capital equity between existing and new customers. The value of the existing system can either be at a depreciated original cost or a replacement cost. Using replacement costs reflects the cost of providing new expansion capacity to customers as if the capacity was added at the time the new customer connected to the system.

Proposed PIF Approach for Fort Collins

Working with Utility staff, NewGen has developed a revised approach to the electric PIF model. Looking ahead toward build-out of the City, the Utility expects to see more growth in areas of redevelopment as the City's "greenfield" areas disappear. Additionally, the Utility believes that the capacity of the existing systems (with some CIP and other non-capital investments) can meet the load of these redevelopment areas. Thus a Buy-In approach was developed for the Utility's new PIF model. This approach has been incorporated into a revised electric PIF fee model, iterations of which have been provided to Utilities for review. The following provides a summary of the methodology employed to develop and the mechanisms used within the revised PIF model.

- **Existing System Valuation** – the model relies on an estimate of the valuation of the existing electric system, based on input from Utilities. This valuation represents a replacement cost approach, which was provided by Utilities and was not independently validated. As Utilities implements its Asset Management System, it will be important to update the Existing System Valuation in the revised PIF model accordingly.
- **Credit for Outstanding Debt Principal** – the model includes a line item for the outstanding debt principal associated with financing for the existing system value. This line serves as a credit to the total system value for PIF. This line item follows the guidance provided by the AWWA M1 manual and ensures that the debt issued for the existing system is recovered fully from retail rates (and not the PIF).

- **System Usage Data** – the model utilizes the Non-Coincident Peak (NCP) of the system (and customer classes) by which the total system investment is divided. The NCP is the sum of each customer class' NCP, which represents the peak demand (in kW) for that class whenever it occurs.
- **System / Customer Class** – the revised PIF develops a unit fee ($/kW) based on the entire system as determined by customer classes (residential and commercial).

Appendix A-2

NewGen has developed a detailed comparison of how other utilities recover fixed costs through PIF charges and/or other comparable mechanisms. For this comparison we have reviewed the practices of the other Platte River Power Authority (PRPA) members (Loveland, Longmont, and Estes Park). Additionally, we have reviewed the practices of selected municipal, investor-owned and cooperative utilities in Colorado and other states.

Platte River Power Authority Members

The three other PRPA members vary in their approach to comparable PIF charges. Both Loveland and Longmont have fee structures in place; however, Estes Park does not. The Longmont fee structure is based on the amperage rating of the customer's panel, as well as type of service (Residential, Commercial) to determine the Electric Community Investment fee. Proceeds from this fee are dedicated to growth related electric utility capital improvement projects. The Longmont fee ranges from $310 to $1,858 for residential applications and $619 to $128,546 for commercial applications.

The City of Loveland has a Plant Investment Fee that varies by customer class. Their PIF provides for the "additional electric transmission, substation and distribution facilities made necessary by the extension of electric service to new connections". For residential applications, the fee is $1,450 for service size of 150 amps or less and $1,860 for service size of greater than 150 amps. For commercial applications, the Loveland PIF varies by each class, but is based on the energy utilized on a monthly basis (monthly bill) and ranges from $0.00587 to $0.00570 per kWh. Rather than collecting all of the costs of new development upfront, Loveland collects it through monthly charges. For a commercial (general service) customer with a peak demand of 166 kW and usage of 60,000 kWh/month, the fee would be approximately $4,200/year. The City of Loveland has recently proposed a new rate schedule, which includes an increase to its PIF by approximately 4%.

Other Industry Approaches

NewGen conducted a review of selected utility development charges for this assignment. There does not appear to be an "industry standard" for service fees for development. However, most utilities have some type of line extension policy that provides customers with a detailed assessment of the costs to be incurred for additional service. Some of the utilities provide a credit either in the form of a Construction Allowance or a revenue credit over a certain period of time, based on future sales. Additionally, most utilities offer some form of rebate to original applicants who install facilities that are subsequently utilized by new customers (within a specific period of time).

This review included an assessment of these types of charges within the State of Colorado (for municipal, cooperative, and investor owned electric utilities), as well as selected utilities in Utah and California. Table A-2 provides a summary of the findings from our review:

Table A-2
Summary of Findings

Name	Utility Type	Fee Type	PIF	Year	Refund Period	Comments
United Power (Coop)	Co-op	$/Extension by Class	$/amp, per phase	2004	5-year	Overhead standard
Public Service Company of Colorado (Xcel Energy)	IOU	$/Customer or $/kW	N/A	2014	10-year	Construction Allowance; Fee's based on COS; Overhead standard.
Colorado Springs	Municipal	Revenue Guarantee	N/A	2016	5-Year	Overhead standard. Fees for Underground in tariff by length, type, customer
Poudre Valley REA (Coop)	Co-op	$/kVA	System Capacity	2016	5-Year	Contribution In Aid required; fee for larger service
Provo City	Municipal	$/kVa	Impact Fee	2008	N/A	Fee by Amp (Service Size) and service phase / voltage

Individual Results

United Power (Cooperative)

United Power (United) is a cooperative that is served wholesale power by Tri-State Generation and Transmission (Tri-State). United has several fees for Residential and Non-Residential (Commercial and Industrial) customer types that are based on its costs for designing line extensions for future service. In addition to the design fees, United charges a "Subdivision Line Extension" fee based on per extension plus a per lot charge. United also charges a Plant Investment Fee that is $150 per 100 amps, which is intended to recover current or future increases in United's transmission or distribution system plan investment necessitated by Line Extensions and/or new loads. United does not include any cost sharing for joint trenching, whereby an underground trench designed for an electric line or facility may be shared with another utility (communications, water, wastewater, etc.). However, United does include a provision in its policy that allows for a proportional refund to original applicants if future applicants connect to an existing line extension within a five-year period.

Xcel Energy (IOU)

Public Service Company of Colorado (aka Xcel Energy), an investor-owned utility (IOU), provides a construction allowance to customers requiring a line extension that is based in part on the allocated costs per customer for various components derived from its most recent cost of service (COS) filing with the Colorado Public Utilities Commission. The company allows for a 10-year period in which original applicants can obtain a partial refund for new applicants utilizing the line extensions paid by the original applicants.

Xcel defines two types of line extension: A Service Lateral portion and a Distribution portion. The Service Lateral is for facilities installed by Xcel between its distribution line and the point of delivery for the customer, which provides service exclusively for the individual customer's use. The Service Lateral investment charge is similar to the "on-site" Building Site Fee charged by Utilities (See Appendix A-3), subject to the construction allowance. The construction allowance is derived from the gross, embedded, lateral plant investment per customer, as indicated in the Company's most recent rate filing.

Distribution line extension facilities include primary and secondary distribution lines, transformer costs, and all appurtenant facilities, excepting service laterals necessary to supply service to the applicant. The construction allowance is derived from the gross, embedded distribution plant investment per customer (or per kilowatt demand, for demand customers).

Xcel identifies some extensions as "uneconomic", to which a construction allowance is not applicable, and applicants are required to pay all construction costs. Uneconomic extensions are those greater than 0.5 miles from existing facilities or those for which a construction allowance would be less than 8% of the total construction costs.

Xcel provides tariff pricing for its construction allowance that differentiates by Service Lateral and Distribution portion by class type: Residential, Commercial and Industrial, and Lighting. Such pricing is then differentiated by rate schedules within retail classes. The Service Lateral portion is a fixed allowance and the Distribution portion is based on future load ($/kW, depending on rate schedule).

Colorado Springs

Colorado Springs Utilities (CSU), a municipally-owned utility, defines their line extension policy in terms of utility and customer provisions and service limitations as applied to primary and main distribution lines. CSU installs, owns, and maintains the equipment for line extensions, based on an overhead service drop (service line) to a customer's premises. No PIF is charged upfront, instead the associated costs are socialized across the rate class through on-going monthly charges. Customers are required to pay in the form of a contribution in aid-of-construction if they wish to underground these facilities, which varies by linear foot depending on length and type of line and customer class (single phase primary, three-phase main line for residential and non-residential) per CSU's tariff schedule. Customers pay a design fee to CSU for the proposed facilities, as well as for inspection and connection services.

CSU requires a revenue guarantee or deposit for three-phase main line extensions greater than 0.5 miles long. If the revenues anticipated in each year, over a five-year period, are less than 30% of the total cost, CSU may bill the customer for the revenue shortfall. CSU uses the five-year period to determine if additional customers to an existing extension would result in a reduction in deposits to existing customers. If additional customers result in a greater deposit, it will result in a separate new extension.

Poudre Valley REA (Cooperative)

Poudre Valley REA (PVREA) is a cooperative served by Tri-State in areas adjacent to the City of Fort Collins. PVREA has a line extension policy that provides for service to new customers in its service territory. Costs are paid by the applicant based on the costs of constructing, installing, or upgrading the line extension and facilities necessary to serve the new load. The costs paid are considered "Contribution-in-Aid-of-Construction" (CAIC), and including all costs to PVREA and its power supplier (Tri-State). The CAIC does not include additional capacity, size or strength in excess of what is actually necessary to meet the requirements of the applicant. However, if the applicant's requested level of service exceeds 50 kVA (1 phase), 100 kVA (2 phase), or 150 kVA (3 phase), PVREA imposes an additional charge of $5.00 / kVA. Additionally, PVREA may impose a fixed charge per month per customer for new service in sparsely populated areas. Residential customers are eligible for rebates for a period of five years depending on the number of additional customers utilizing the previous investments made.

Provo City (Municipal)

Provo City, Utah, is a municipal electric provider that charges an impact fee in a fashion similar to the PIF fee Utility employs for its water utility. Provo's impact fee is based on the current value of selected assets (transmission and substation facilities), as well as the projected value of the improvements (from their capital plan) for these assets. Provo does not provide a credit for past contributions and the value is not adjusted for existing debt (as its debt is related to generation and non-impact fee facilities). Provo determines the average fee on a dollar per kW (estimated demand) and then applies a diversity factor and a utilization factor. The diversity factor applied reflects the ratio of the systems actual peak demand to the sum of the individual customer peak demands. The utilization factor is applied to the customer's panel size (where they take service) as it relates to actual usage (rated capacity of the customer's panel compared to demand utilized by the customer). Both the diversity factor and the utilization factor serve to reduce the value of the impact fee. Provo publishes its fee schedule as a range by service (voltage and phase) and the requested rating of a customers' panel (in amperage).

California Utilities

The big three investor owned utilities in California (Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric) all have similar line extension policies. The applicant is typically responsible for excavation, substructures and conduits and protective structures, or the utility may charge the applicant for such work. The utility will furnish and install cables, switches, transformers, and other distribution facilities. The utilities will complete a line extension without charge, provided the total cost is not greater than the construction allowance. The allowance is based on the ratio of the net revenues from the customer to a cost of service factor, which is defined in their rate filings. The current allowance for residential line extensions ranges from approximately $2,400 to $3,400, depending on the utility.

Municipal utilities in California vary in their approach to line extension fees. Most municipal utilities have some cost sharing between the applicant and the utility, either through a construction allowance (Los Angeles Department of Water and Power), a flat fee for certain types and lengths of distribution equipment investment (Glendale Water and Power), or charges for specific construction related costs, such as trenching, conduits or backfilling (Sacramento Municipal Utility District).

Appendix A-3 - Existing PIF and Related Charges for Fort Collins

The Utility charges fees to developers of electric load that reflect the actual costs associated with development. There are currently two types of fees specific for residential and commercial electric customers. These fees are referred to as an Electric Capacity Fee and a Building Site Charge.

The Electric Capacity Fee for Residential applications includes a Square Footage Charge, a Front Footage Charge, a Dwelling Unit Charge and a Primary Service Charge (typically, Residential customers do not apply for primary service, so this charge is not always applicable). These charges all recover costs associated with new service as well as a proportional share of existing investments associated with the new load. The commercial application of the Electric Capacity Fee has a similar Square Footage Charge, Front Footage Charge, and a Capacity charge (based on transformer costs).

The residential Building Site Charge is based on an "average" length of service from the transformer to the electric meter. The commercial Building Site Charge includes a Primary Service Charge, and a Transformer installation charge (in a commercial application, the customer is responsible for installing secondary service equipment). These are referred to as "on-site charges" and are not considered part of the PIF.

Only the Square Footage Charge, the Front Footage Charge and the Capacity Charge (for commercial customers) are considered in the Utility's calculation of its PIF. Collectively, these "off-site" charges are referred to as Electric Capacity Fees. The "on-site" charges (collectively the Building Site Charges) are unique to each property and include specific equipment requested in the application, and as such are not included in the commercial PIF.

For ease of understanding, Table A-3 provides a summary of the applicable charges and fees for the Utilities. The Electric Capacity Fees are considered in the calculation of the PIF fee, as indicated in bold below.

Table A-3
Fort Collins Light and Power Development Charges

Customer Type	Fee Type	Fee
Residential	**Electric Capacity Fee**	**Square Footage Charge**
	Electric Capacity Fee	**Front Footage Charge**
	Electric Capacity Fee	**Dwelling Unit Charge**
	Building Site Charge	**Primary Service Charge***
	Building Site Charge	Secondary Service Charge
Commercial	**Electric Capacity Fee**	**Square Footage Charge**
	Electric Capacity Fee	**Front Footage Charge**
	Electric Capacity Fee	**Capacity**
	Building Site Charge	Primary Service Charge
	Building Site Charge	Transformer

Note: Additional charges may apply for unusual circumstances, as determined by Utilities. Only the Electric Capacity Fees are included in the Utilities Plant Investment Fee. * Primary Service Charge is typically not applicable to Residential (see text).

COUNCIL FINANCE COMMITTEE
AGENDA ITEM SUMMARY

Staff: Travis Storin, Accounting Director

Date: December 19, 2016

SUBJECT FOR DISCUSSION

City response to findings included in:

- Independent Auditors' Report on 2015 Financial Statements
- Independent Auditors' Report on Compliance for Major Federal Programs

EXECUTIVE SUMMARY

In July 2016, RSM presented the *Report to the City Council.* This report covered the audit of the basic financial statements and compliance of the City of Fort Collins for year-end December 31, 2015.

The City received unqualified or "clean" opinions for both reports. Incidental to these audits, McGladrey identified certain control deficiencies that they recommend we rectify prior to the 2016 audit. All deficiencies identified were of the lowest severity on a scale of one to three.

City staff has implemented process improvements throughout 2016 to respond to these seven control deficiencies. Corrective action is already either in motion or complete in all cases.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Staff seeks input on areas of priority or concern, other than those established in this Report to the City Council, for matters of recordkeeping and/or the City's internal control environment.

BACKGROUND/DISCUSSION

Every year the City is required to be audited in compliance with *Government Auditing Standards*. McGladrey finalized its financial statement audit on June 14, 2016 and compliance report on June 14, 2016 and the firm reported the results of the audit to those charged with governance.

Subsequent to the auditor's communication, City Staff responds at CFC with its proposed plan for addressing any findings.

ATTACHMENTS

1. 2015 Audit Response.pptx
2. Report to the City Council (soft copy only, distributed originally at July CFC)

Corrective Actions: 2015 Auditor Findings

Travis Storin, Accounting Director

12-19-16

Summary of 2015 Fiscal Year Audit

- Unqualified/clean opinion of Financial Statements
- Unqualified/clean opinion on Compliance with Major Federal Programs (Single Audit)
- Received 30th consecutive GFOA Certificate of Achievement for Excellence in Financial Reporting
- Two control deficiencies identified; corrective action is in motion and implementation is complete

Audit Findings Terminology

Control Deficiency (2)

- Least severe finding
- The design or operation of a control does not allow management or employees to prevent, or detect and correct misstatements during the normal course of their duties

Significant Deficiency (0)

- A deficiency, or combination of deficiencies, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of financial reporting
- Remains on our audit reports for two years and defaults City to “high risk auditee” status

Material Weakness (0)

- Most severe finding
- A deficiency, or combination of deficiencies, such that there is a *reasonable possibility* that a *material misstatement* of the City’s financial statements will not be prevented, or detected and corrected, on a timely basis
- Jeopardizes whether a “clean”, or unqualified, audit opinion is issued

Deficiency #1: Cash Reconciliations

Audit Finding:

"… Cash reconciliations provided during the audit had unreconciled differences between the bank statements and general ledger…We recommend the City establish procedures to prepare and review cash reconciliations timely and accurately to reconcile the bank balance to the book balance with no significant unreconciled differences"

Staff Discussion:

- Carryover finding from prior year; at time City Staff had successfully reconciled 24 of our 25 cash and investment accounts.
- Remaining account was a large deposit account where virtually all City receipts are processed.
- Deficiency can be attributed to a period of substantial staff turnover.

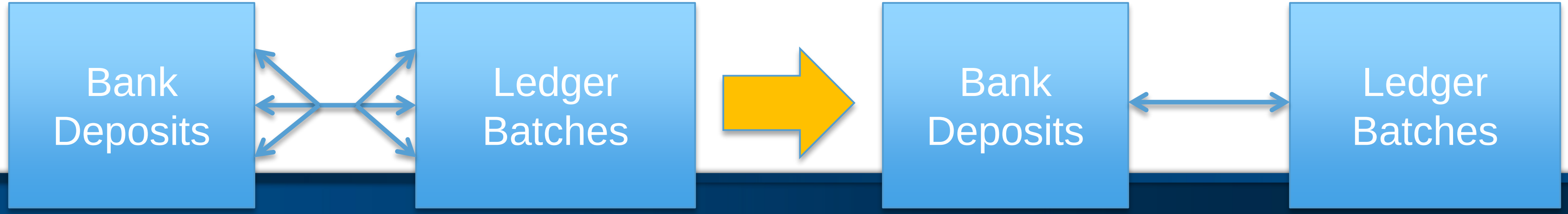
Deficiency #1: Cash Reconciliations

Staff Response Actions:

- Process has been restored and improved substantially
- **All of 2016 transactions are reconciled**; clean-up work remains in researching 2014-2015 transactions; anticipate completion in time for next audit in Spring 2017
- Process improvements have reduced the cycle time from approximately 3 weeks every month to 2-3 workdays per month while improving accuracy. Improvements include:
  - New process heavily leverages Excel-based analytical tools
  - Revised bank deposit procedures are a critical enabler of the new process
  - Work is documented in detail and multiple staff are trained to back up one another

Formerly Many-to-Many

Now One-to-One



Deficiency #2: FTA Grant Programs

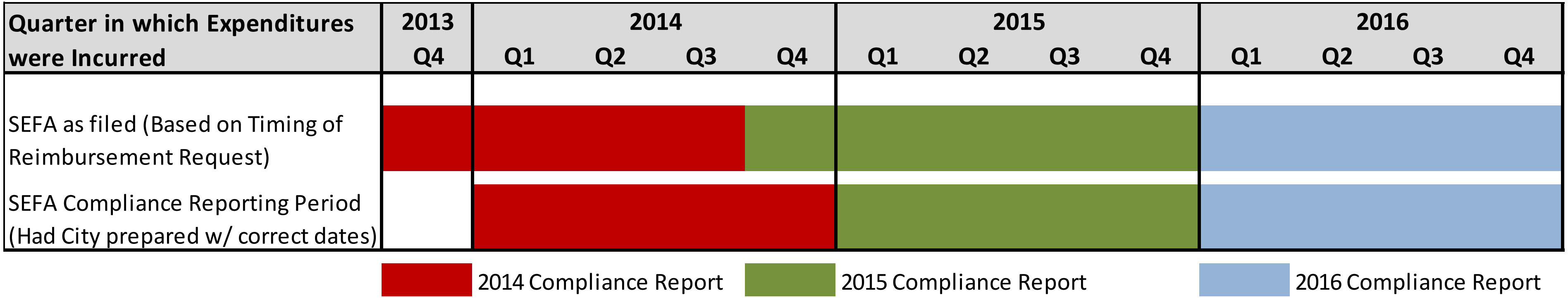
Audit Finding:

"… The City does not have an adequate process to reconcile expenditure accruals recorded in the general ledger against the Schedule of Expenditures of Federal Awards (SEFA). As a result, FTA expenditures were reported on the 2015 SEFA that belonged on the 2014 SEFA, consistent with the financial statements …"

Deficiency #2: FTA Grant Programs

<u>Staff Discussion:</u>

- Carryover finding from prior year, 2014 report had already been issued when deficiency was identified, thus Q4 expenditures of 2014 were included on 2015 SEFA to "catch-up" the life-to-date activity and correct the deficiency before the 2016 fiscal year ends.
- Expect deficiency to be resolved for year-end 2016.



Closing Remarks and Council Discussion

City of Fort Collins, Colorado

Report to the City Council
June 14, 2016

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

RSM US LLP

555 17th St
Suite 1000
Denver, CO 80202

T +1 303 298 6400
F +1 303 298 6401

www.rsmus.com

June 14, 2016

To the Honorable Mayor and
Members of the City Council and City Manager
City of Fort Collins, Colorado
Fort Collins, Colorado

We are pleased to present this report related to our audit of the basic financial statements of the City of Fort Collins, Colorado (the City) for the year ended December 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City of Fort Collins, Colorado.

RSM US LLP

Contents

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and provisions of the Uniform Guidance and OMB's Compliance Supplement have been described to you in our arrangement letter dated March 10, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. In the current year, the City adopted the following Governmental Accounting Standards Board (GASB) Statement: • GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The adoption of this Statement required the City to recognize its long-term obligation for pension benefits related to the General Employees' Retirement Plan (GERP) as a liability within their financial statements, as well as, to more comprehensively and comparably measure the annual costs of pension benefits. This statement also enhances the accountability and transparency through revised and new note disclosures and required supplementary information. As a result of implementing this new Statement, the City restated (reduced) its beginning net position of the governmental activities, business-type activities, each major enterprise fund and the aggregate remaining fund information to record a net pension liability relating to GERP by \$2.5 million and \$5.9 million for governmental activities and business-type activities, respectively.

Area	Comments
	Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
Audit Adjustments	There were no audit adjustments proposed by us that were made to the original trial balance presented to us to begin our audit.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Accounting Pronouncements	Please refer to the attachment for new accounting pronouncements that have been recently issued that may affect the City's financial statements in future periods.
Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	We have separately issued a report on internal control over financial reporting and on compliance and other matters based on our audit of the financial statements and major awards, as required by the *Government Auditing Standards* and the Uniform Guidance. This communication is included within the compliance report of the City for the year ended December 31, 2015.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the City, including the representation letter provided to us by management, are attached as Exhibit A.

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's December 31, 2015 basic financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Depreciable Useful Life of Capital Assets	The depreciable useful life of capital assets is set at the estimated useful life of the related asset.	The determination is made at the time the asset is placed into service and involves various judgments and assumptions based on prior experience.	We tested the propriety of information underlying management's estimates. Based on our procedures, we concluded that management's estimates are reasonable.
Incurred But Not Reported (IBNR) Property Liability, Worker's Compensation, Health Dental and Vision	The City records an estimated reserve for workers' compensation and other risk management liabilities based on actual and estimated claims outstanding as of year-end, and calculations performed by a specialist and include numerous assumptions and estimates.	The assumption factors to estimate the year-end liabilities include historical experience, general market experience and claims lag timing. An actuary is hired by the City to compute the year-end estimate and the results are reviewed by management.	We tested the information provided to the actuary and obtained the actuarial reports. We believe the process used by management of the City and the estimates are reasonable.
Fair Value of Investments	The City records its investments at the estimated fair value.	Investment securities are based on quoted market prices.	We tested the proprietary of information underlying management's estimates, including the use of a third-party independent pricing source. Based on our procedures, we conclude that management's estimate is reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Allowance for Doubtful Accounts	The allowance for doubtful accounts is based on management's estimate of collectability of identified receivables, as well as aging of customer accounts.	The allowance is adjusted as information and specific accounts become available. The City also compares current allowance amounts to prior-year collection or write-off experience.	We tested the underlying information supporting this allowance, including the most recent aging reports and collection experience. We concluded that management's estimate is reasonable.
Net Pension Liability	The City's net pension liability and related deferred inflows and outflows of resources and pension expenses from the General Employees' Retirement Plan are recorded in the financial statements in accordance with GASB Statement No. 68.	The City uses an actuary to calculate the net pension liability/asset and expense based on assumptions and estimates established by the Plan's Board and management from past history and investment returns. City management reviews the actuarial results and considers the appropriateness of the assumptions used by the Plan.	We analyzed management's methodology, tested the underlying data, obtained the calculation and actuarial report and had an internal specialist review the significant assumptions and conclusions. We concluded that the process used by management and the estimates are reasonable.
Other Postemployment Benefit Plan (OPEB) Assumptions	The difference between the annual required contribution and actual contributions is recorded as a liability in the government-wide and proprietary fund financial statements of the City.	The City utilizes the services of an actuary to determine the City's annual required contribution. Management and the actuary determines the appropriateness of the actuarial assumptions to be utilized. The actuary's calculation is reviewed and approved by management.	We tested the information provided to the actuary and obtained the actuarial valuation report. We believe the estimates and processes used by management of the City are reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Assets Held for Sale	The assets held for sale are recorded at the lower of cost or fair value.	The assets held for sale are initially recorded at cost and evaluated by management on an annual basis for any declines in the value of the property based on fair value. Fair value is the sale price of the property when it eventually sells, less selling costs.	We tested the underlying information supporting this estimate and concluded that the estimate and the process used by management is reasonable.
Modified Approach Infrastructure	The City has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its streets pavement system. These assets are not required to be depreciated, but the City is required to estimate the annual amount to maintain and preserve the assets at the established condition assessment level.	The City's pavement management program conducts condition assessment surveys on a three-year cycle. Based on the information obtained for these surveys, the City uses a pavement condition index (PCI) which is a nationally recognized index, in order to compute the estimate.	We tested the underlying information supporting this estimate and concluded that the estimate and the process used by management is reasonable.

Summary of Uncorrected Misstatements

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the basic financial statements and to the related basic financial statement disclosures. Following is a summary of those differences.

	Debit (Credit) to Correct the Misstatements				
Governmental Activities	Assets	Liabilities	Net Position	Revenue	Expense
Description:					
Carryover impact from previous years	$ -	$ -	$ 1,154,000	$ (1,041,000)	$ (113,000)
Current misstatement, factual:					
Overstatement of current year expenses from capital asset correcting entry	-	-	325,000	-	(325,000)
To correct the unreconciled bank to book cash balances	352,000	-	-	(244,000)	(108,000)
Subtotal	$ 352,000	$ -	1,479,000	$ (1,285,000)	$ (546,000)
Effect of current year passed adjustments on net position			(1,831,000)		
Total			$ (352,000)		

	Debit (Credit) to Correct the Misstatements				
Aggregate Remaining Fund Information	Assets	Liabilities	Fund Balance/ Net Position	Revenue	Expense/ Expenditure
Description:					
Carryover impact from previous years	$ -	$ -	$ 401,000	$ (288,000)	$ (113,000)
Current misstatement, factual:					
To correct the unreconciled bank to book cash balances	352,000	-	-	(244,000)	(108,000)
Subtotal	$ 352,000	$ -	401,000	$ (532,000)	$ (221,000)
Effect of current year passed adjustments on fund balance			(753,000)		
Total			$ (352,000)		

	Debit (Credit) to Correct the Misstatements				
Business-Type Activities	Assets	Liabilities	Net Position	Revenue	Expense
Description:					
Carryover impact from previous years	$ -	$ -	$ (164,000)	$ -	$ 164,000
Current misstatement, factual:					
Correction of errors recorded in prior years relating to inappropriately capitalized interest for the Halligan Water Supply Projec	-	-	962,000	-	(962,000)
Entry to record capitalized interest	1,646,000	-	-	-	(1,646,000)
Subtotal	$ 1,646,000	$ -	798,000	$ -	$ (2,444,000)
Effect of current year passed adjustments on net position			(2,444,000)		
Total			$ (1,646,000)		

Summary of Uncorrected Misstatements (Continued)

Water Fund	Assets	Liabilities	Net Position	Revenue	Expense
		Debit (Credit) to Correct the Misstatements			
Description:					
Carryover impact from previous years	$ -	$ -	$ (164,000)	$ -	$ 164,000
Current misstatement, factual:					
Correction of errors recorded in prior years relating to inappropriately capitalized interest for the Halligan Water Supply Projec	-	-	962,000	-	(962,000)
Entry to record capitalized interest	460,000	-	-	-	(460,000)
Subtotal	$ 460,000	$ -	798,000	$ -	$ (1,258,000)
Effect of current year passed adjustments on net position			(1,258,000)		
Total			$ (460,000)		

Light and Power Fund	Assets	Liabilities	Net Position	Revenue	Expense
		Debit (Credit) to Correct the Misstatements			
Description:					
Carryover impact from previous years	$ -	$ -	$ -	$ -	$ -
Current misstatement, factual:					
Entry to record capitalized interest	448,000	-	-	-	(448,000)
Subtotal	$ 448,000	$ -	-	$ -	$ (448,000)
Effect of current year passed adjustments on net position			(448,000)		
Total			$ (448,000)		

Wastewater Fund	Assets	Liabilities	Net Position	Revenue	Expense
		Debit (Credit) to Correct the Misstatements			
Description:					
Carryover impact from previous years	$ -	$ -	$ -	$ -	$ -
Current misstatement, factual:					
Entry to record capitalized interest	477,000	-	-	-	(477,000)
Subtotal	$ 477,000	$ -	-	$ -	$ (477,000)
Effect of current year passed adjustments on net position			(477,000)		
Total			$ (477,000)		

Storm Drainage Fund	Assets	Liabilities	Net Position	Revenue	Expense
		Debit (Credit) to Correct the Misstatements			
Description:					
Carryover impact from previous years	$ -	$ -	$ -	$ -	$ -
Current misstatement, factual:					
Entry to record capitalized interest	261,000	-	-	-	(261,000)
Subtotal	$ 261,000	$ -	-	$ -	$ (261,000)
Effect of current year passed adjustments on net position			(261,000)		
Total			$ (261,000)		

Recently Issued Accounting Standards

The GASB has issued several statements not yet implemented by the City. The City's management has not yet determined the effect these statements will have on the City's financial statements. However, the City plans to implement all standards by the required dates. The standards which will impact the City are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	This Statement, issued June 2015, will be effective for the City beginning with its fiscal year ending December 31, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.
GASB Statement No. 77, Tax Abatement Disclosures	This Statement, issued August 2015, will be effective for the City beginning with its fiscal year ending December 31, 2016. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.
GASB Statement No. 79, Certain External Investment Pools and Pool Participants	This Statement, issued December 2015, will be effective for the City beginning with its fiscal year ending December 31, 2016. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.
GASB Statement No. 80, Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14	This Statement, issued January 2016, will be effective for the City beginning with its fiscal year ending December 31, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirement for certain component units. This Statement establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies to all state and local governments. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. This Statement does not apply to component units included in the financial reporting entity pursuant to the provision of Statement No. 39. This Statement amends Statement No. 14.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*	This Statement, issued March 2016, will be effective for the City beginning with its fiscal year ending December 31, 2017. The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues.

Exhibit A—Significant Written Communications between Management and Our Firm

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

970.221.6782 - fax
fcgov.com

June 14, 2016

RSM US LLP
555 17th Street, Suite 1000
Denver, CO 80202

This representation letter is provided in connection with your audit of the basic financial statements of the City of Fort Collins, Colorado (the City) as of and for the year ended December 31, 2015 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of June 14, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated March 10, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with component units for which the City is accountable, other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete, joint ventures in which the City has an interest, and jointly governed organizations in which the City participates, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following have been properly recorded and/or disclosed in the financial statements:
   a. Arrangements with financial institutions involving restrictions on cash balances.
   b. Net positions and fund balance classifications.
   c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
   d. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
   e. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
9. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the GASB Accounting Standards Codification.
10. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.
11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
12. We agree with the findings of specialists in evaluating the City's investment valuations, self-insurance liabilities and other postemployment benefits liability under GASB Statement No. 45, and pension related obligations and disclosures, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
13. We have informed you of all uncorrected misstatements as of and for the year ended December 31, 2015. We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the opinion units of the financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

	Debit (Credit) to Correct the Misstatements				
Governmental Activities	Assets	Liabilities	Net Position	Revenue	Expense
Description:					
Carryover impact from previous years	$ -	$ -	$ 1,154,000	$ (1,041,000)	$ (113,000)
Current misstatement, factual:					
Overstatement of current year expenses from capital asset correcting entry	-	-	325,000	-	(325,000)
To correct the unreconciled bank to book cash balances	352,000	-	-	(244,000)	(108,000)
Subtotal	$ 352,000	$ -	1,479,000	$ (1,285,000)	$ (546,000)
Effect of current year passed adjustments on net position			(1,831,000)		
Total			$ (352,000)		

Aggregate Remaining Fund Information	Assets	Liabilities	Fund Balance/ Net Position	Revenue	Expense/ Expenditure
	Debit (Credit) to Correct the Misstatements				
Description:					
Carryover impact from previous years	$ -	$ -	$ 401,000	$ (288,000)	$ (113,000)
Current misstatement, factual:					
To correct the unreconciled bank to book cash balances	352,000	-	-	(244,000)	(108,000)
Subtotal	$ 352,000	$ -	401,000	$ (532,000)	$ (221,000)
Effect of current year passed adjustments on fund balance			(753,000)		
Total			$ (352,000)		

Business-Type Activities	Assets	Liabilities	Net Position	Revenue	Expense
	Debit (Credit) to Correct the Misstatements				
Description:					
Carryover impact from previous years	$ -	$ -	$ (164,000)	$ -	$ 164,000
Current misstatement, factual:					
Correction of errors recorded in prior years relating to inappropriately capitalized interest for the Halligan Water Supply Projec	-	-	962,000	-	(962,000)
Entry to record capitalized interest	1,646,000	-	-	-	(1,646,000)
Subtotal	$ 1,646,000	$ -	798,000	$ -	$ (2,444,000)
Effect of current year passed adjustments on net position			(2,444,000)		
Total			$ (1,646,000)		

Water Fund	Assets	Liabilities	Net Position	Revenue	Expense
	Debit (Credit) to Correct the Misstatements				
Description:					
Carryover impact from previous years	$ -	$ -	$ (164,000)	$ -	$ 164,000
Current misstatement, factual:					
Correction of errors recorded in prior years relating to inappropriately capitalized interest for the Halligan Water Supply Projec	-	-	962,000	-	(962,000)
Entry to record capitalized interest	460,000	-	-	-	(460,000)
Subtotal	$ 460,000	$ -	798,000	$ -	$ (1,258,000)
Effect of current year passed adjustments on net position			(1,258,000)		
Total			$ (460,000)		

Light and Power Fund	Assets	Liabilities	Net Position	Revenue	Expense
	Debit (Credit) to Correct the Misstatements				
Description:					
Carryover impact from previous years	$ -	$ -	$ -	$ -	$ -
Current misstatement, factual:					
Entry to record capitalized interest	448,000	-	-	-	(448,000)
Subtotal	$ 448,000	$ -	-	$ -	$ (448,000)
Effect of current year passed adjustments on net position			(448,000)		
Total			$ (448,000)		

Wastewater Fund	Assets	Liabilities	Net Position	Revenue	Expense
	Debit (Credit) to Correct the Misstatements				
Description:					
Carryover impact from previous years	$ -	$ -	$ -	$ -	$ -
Current misstatement, factual:					
Entry to record capitalized interest	477,000	-	-	-	(477,000)
Subtotal	$ 477,000	$ -	-	$ -	$ (477,000)
Effect of current year passed adjustments on net position			(477,000)		
Total			$ (477,000)		

Storm Drainage Fund	Assets	Liabilities	Net Position	Revenue	Expense
	Debit (Credit) to Correct the Misstatements				
Description:					
Carryover impact from previous years	$ -	$ -	$ -	$ -	$ -
Current misstatement, factual:					
Entry to record capitalized interest	261,000	-	-	-	(261,000)
Subtotal	$ 261,000	$ -	-	$ -	$ (261,000)
Effect of current year passed adjustments on net position			(261,000)		
Total			$ (261,000)		

14. We believe the implementation of GASB Statement No. 68 is appropriate, and its effect is properly disclosed in the basic financial statements of the City.

Information Provided

15. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
18. We have no knowledge of allegations of fraud or suspected fraud, affecting the City's financial statements involving:
    a. Management.
    b. Employees who have significant roles in internal control.
    c. Others where the fraud could have a material effect on the financial statements.
19. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators or others.
20. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
21. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
22. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
23. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.
24. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

25. With respect to supplementary information presented in relation to the financial statements as a whole:

    a. We acknowledge our responsibility for the presentation of such information.

    b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

    d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

26. With respect to Management's Discussion and Analysis, pension and postemployment information and the modified approach for City Streets Infrastructure capital assets, presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:

    a. We acknowledge our responsibility for the presentation of such required supplementary information.

    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.

    c. The methods of measurement or presentation for the pension schedules have changed from those used in the prior period, due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*

27. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Compliance Considerations

28. In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

    a. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.

    b. Is not aware of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

    c. Is not aware of any instances, that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

    d. Is not aware of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

    e. Is not aware of any fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.

f. Has a process to track the status of audit findings and recommendations.

g. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

29. In connection with your audit of the City's federal awards conducted in accordance with Subpart F of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we confirm:

a. Management is responsible for complying, and has complied, with the requirements of the Uniform Guidance.

b. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

c. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

d. Management has prepared the schedule of expenditures of federal awards in accordance with the Uniform Guidance and has included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance.

e. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance compliance audit.

f. Management has identified and disclosed to the auditor the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

g. Management has made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.

h. Management is not aware of any amounts questioned or known noncompliance with the direct and material compliance requirements of federal awards.

i. Management believes that the auditee has complied with the direct and material compliance requirements.

j. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

k. Management has provided to the auditor its interpretations of any compliance requirements that are subject to varying interpretations.

l. Management has disclosed to the auditor any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

m. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit.

n. Management has provided the auditor with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

o. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stating that there were no such known instances.

p. Management is not aware of any changes in internal control over compliance or other factors that might significantly affect internal control.

q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

r. The copies of federal program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

s. Management has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.

t. If applicable, management has issued management decisions timely after their receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and has ensured that subrecipients have taken the appropriate and timely corrective action on findings.

u. If applicable, management has considered the results of subrecipient audits and has made any necessary adjustments to the auditee's own books and records.

v. Management has charged costs to federal awards in accordance with applicable cost principles.

w. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance.

x. The reporting package does not contain protected personally identifiable information.

y. Management will accurately complete the appropriate sections of the data collection form.

City of Fort Collins, Colorado

Mike Beckstead, Chief Financial Officer

John Voss, Controller

Travis Storin, Accounting Director

RSM US LLP

555 17th St
Suite 1000
Denver, CO 80202

T +1 303 298 6400
F +1 303 298 6401

www.rsmus.com

June 14, 2016

To the Honorable Mayor and
Members of the City Council and City Manager
City of Fort Collins, Colorado

In planning and performing our audit of the financial statements of the City of Fort Collins, Colorado (the City) as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when *(a)* a control necessary to meet the control objective is missing, or *(b)* an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Cash Reconciliations
The City did not reconcile all bank accounts in a timely manner throughout the year ending December 31, 2015. Cash reconciliations provided during the audit had unreconciled differences between the bank statements and general ledger of approximately $352,000. We recommend the City establish procedures to prepare and review cash reconciliations timely and accurately to reconcile the bank balance to the book balance with no significant unreconciled differences.

Reconciliation of Federal Transit Administration (FTA) grant expenditures

During 2015, the City performed monthly reconciliations of the FTA drawdowns requested/received to the amounts recorded in the general ledger. The City utilized these drawdown requests to populate the year-end schedule of expenditures of federal awards (SEFA). The City does not have an adequate process in place however, for also reconciling expenditure accruals recorded in the general ledger subsequent to year-end, to the SEFA to ensure these expenditure accruals are recorded properly in the SEFA. As a result of this, FTA expenditures were reported on the 2015 SEFA that should have been reported on the 2014 SEFA, consistent with the expenditure recognition in the financial statements. We recommend the City develop an adequate process to reconcile year-end expenditure accruals to the SEFA to verify that federal expenditures for the FTA grants are reported in the proper period.

This communication is intended solely for the information and use of management, City Council, others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

RSM