



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
June 17, 2019
10:00 am - noon
CIC Room - City Hall

Approval of Minutes from the May 20, 2019 Council Finance Committee meeting.

- | | | |
|---|------------|-------------------------------|
| 1. Mason Place Affordable Housing Fee Waivers | 30 minutes | N. Currell
S. Beck-Ferkiss |
| 2. 2020 Utility Rate Adjustments | 30 minutes | L. Smith |

Council Finance Committee
Agenda Planning Calendar 2019
RVSD 06/06/19 mnb

June 17th			
	Mason Place Affordable Housing Fee Waivers	30 min	N. Currell S. Beck-Ferkiss
	2020 Utility Rate Adjustments	30 min	L. Smith

July 15th			
	2018 Audit Results	30 min	T. Storin
	2018 Fund Balance Review	20 min	T. Storin
	Sports Complex Evaluation	30 min	W. Williams
	EPIC External Borrowing Terms/Details	30 min	J. Phelan S. Carpenter

Aug 19th			
	Comprehensive 2019 Fee Updates	30 min	J. Poznanovic
	2020 Budget Revision Review	30 min	L. Pollack
	Northfield Metro District Application	30 min	J. Birks
	Financial Policy Review & Updates	20 min	J. Voss

Sept. 16th			
	2019 Annual Adjustment Ordinance		

Future Council Finance Committee Topics:

- Development Fee Update - TBD
- New Potential Fees Discussion - TBD
- Park/Median Design Standards & Maintenance Costs - TBD
- Utility LTFP & CIP - Nov



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Finance Committee Meeting Minutes
05/20/19
10 am - noon
CIC Room - City Hall

Council Attendees: Mayor Wade Troxell, Ross Cuniff, Ken Summers

Staff: Darin Atteberry, Kelly DiMartino, Jeff Mihelich, Mike Beckstead, Travis Storin, Blaine Dunn, John Voss, Kevin Gertig, John Phelan, Terra Sampson, Theresa Connor, Sean Carpenter, Lance Smith, Randy Reuscher, Jennifer Poznanovic, Carol Webb, Jason Graham, Link Mueller, John Duval, Noelle Currell, Tyler Marr, Jo Cech, Katie Ricketts, Zach Mozer, Carolyn Koontz

Others: Joel Stewart, Milliman, Dale Adamy, R1ST.org

Meeting called to order at 10:14 am

Approval of Minutes from the April 15th, 2019 Council Finance Committee Meeting. Ross Cuniff moved for approval of the minutes. Ken Summers seconded the motion. Minutes were approved unanimously.

A. GERP Review

Travis Storin, Accounting Director
Blaine Dunn, Sr. Treasury Analyst

EXECUTIVE SUMMARY

The General Employee Retirement Plan "the Plan" was established in 1971 and was closed to new members in 1999. There are currently 392 total members left in the Plan including active employees, terminated vested employees, and employees receiving a benefit. In 2018 the total pension liability was \$66.2M and the fiduciary net position (FNP) for the Plan was \$43.1, leaving a net pension liability (NPL) of \$23.2M. This was an increase of \$12M from the 2017 valuation. Staff evaluated increasing the supplemental contribution to help lower the NPL. Through April 30, 2019, with strong investment returns driving a \$9.1M recovery, the NPL is down to \$14.1M. Currently staff recommends making no changes to the supplemental contribution.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does Finance support staff recommendation to hold 2019/2020 supplemental contribution at current level of \$1.12M?

Does Council Finance desire any additional information?

BACKGROUND/DISCUSSION

The Plan is overseen by the General Employees Retirement Committee (GERC). The GERC is comprised of 6 members, 1 from financial services, 4 current or former employees covered by the Plan, and 1 at large member. The GERC administers the Plan including setting the investment policy and making any changes to assumptions used in the actuarial valuations.

In 2018 the NPL increased by \$12M from 2017, there were three major factors driving this increase:

- In 2018 the GERC adopted a new mortality table to better reflect how long people are currently living. With the new mortality table there was an increase of \$2.9M to the NPL.
- In 2018 the Plan had losses of -4.97% which reduced the FNP and increased NPL by \$5.4M.
- With the above two changes the plan was projected to run out of money, creating a Depletion Date. When a Depletion Date occurs, the Plan must use a different discount rate than adopted by the GERC. The new discount rate is determined by Government Accounting Standards Board (GASB) standards and must be used for all years after the Depletion Date occurs creating a new hybrid discount rate for the Plan valuation. The use of this new discount rate increased the NPL by an additional \$4.0M.

Two factors will have the greatest impact on the Plan NPL moving forward: Supplemental contribution and investment returns. With so few employees left in the Plan, participant contributions make up a fraction of future obligations. In 2013 Council approved increasing the supplemental contribution to \$1.12M annually. This was to help reach full funding of the plan sooner than previously projected.

Based on the valuation ending December 31, 2018 the supplemental contribution would be needed into perpetuity because of the depletion of assets in the plan. However, through April 30, 2019 the Plan has experienced gains of 12.67%. The strong recovery leaves the NPL at an estimated \$14.1M, a decrease of \$9.1M vs. the valuation date. With this decrease in NPL it is estimated the last supplemental contribution will be made in 2041.

With strong investment returns to start the year staff recommends leaving the supplemental contribution at the current level. Staff will continue to monitor the plan and make a recommendation on future contributions following the next actuarial valuation.

DISCUSSION / NEXT STEPS

Mike Beckstead; over the last 7 years we have brought our assumed discount rate down from around 7% in 2012 to 6.25% which we feel is right for long term health of the assets - we are more conservative than other cities.

Governmental Accounting Standards Board - GASB rate is 5.56% on a blended basis - we are required to make a change due to a depletion date at end of 2042

Mike Beckstead; 73-75% range funded (75-80% is the targeted funding percentage) current unfunded is approximately 13% - Discount rate - earnings come down so our goal is to keep our unfunded percentage static

ACTION ITEM:

Ross Cuniff; please add a new column for future charts (side by side) reflecting the amount in today's dollars in addition to the years' dollars

Travis Storin; we think it is prudent to wait another year and hold where we are - if there is a change that needs to be made, we will contemplate that as part of the next 2021-2022 BFO cycle

\$1.3 - 1.8M is the range \$1.8 = hitting full funded status by the time our youngest member turns 65 years old. These amounts are spread across all funds depending on where the employee worked.

Mike Beckstead; I believe it is only a matter of time before a significant market correction - we would like to do this as part of the BFO cycle so everything is on the table -

Ross Cunniff; I agree that buying when we are in a rebound is not when we should do something but when we are at the bottom of the downturn - future growth. Could we anticipate / set aside half of that amount (\$250K) in the mid cycle budget -so that if things get bad, we have a bit of a cushion. This would be done with one-time revenue not on-going.

Mayor Troxell; Good presentation - it looks like a perfect storm situation - December 2018 market events drove a lot of the balances - I appreciate the look forward and I support bringing it to your analysis and recommendation

Darin Atteberry; this is a very conservative plan - we inherited some really good work - it was conservative in the first place - enrollments were stopped in 1999 - we are in really strong shape relative to the market of pensions. We are talking about the cost of catching up and staying up, but it is not a complete rethink of our business like we are seeing in other plans around the country.

ACTION ITEM:

Ross Cunniff; I am assuming PFA does a similar analysis of their new defined benefit plan - I would like a memo. City Finance is not involved with PFA.

Mike Beckstead; we will play with this in the revision process and we will be back next year to talk more.

B. EPIC Program Review – Capital Strategy – Energy Efficiency Loans

John Phelan, Energy Services Senior Manager

Sean Carpenter, Climate Economy Advisor

Travis Storin, Accounting Director

EXECUTIVE SUMMARY

This item will provide an update since the November 2018 presentation to Council Finance regarding the Epic Program and its capital strategy, including:

- Brief history of on-bill financing in Fort Collins;
- Program vision and objectives;
- Current status of the capital stack and;
 - Ongoing conversations with potential external lenders;
 - Next steps regarding securing and appropriation of third-party capital into a revolving loan fund.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does the Council Finance Committee desire additional information prior to proceeding with consideration of financial agreements?

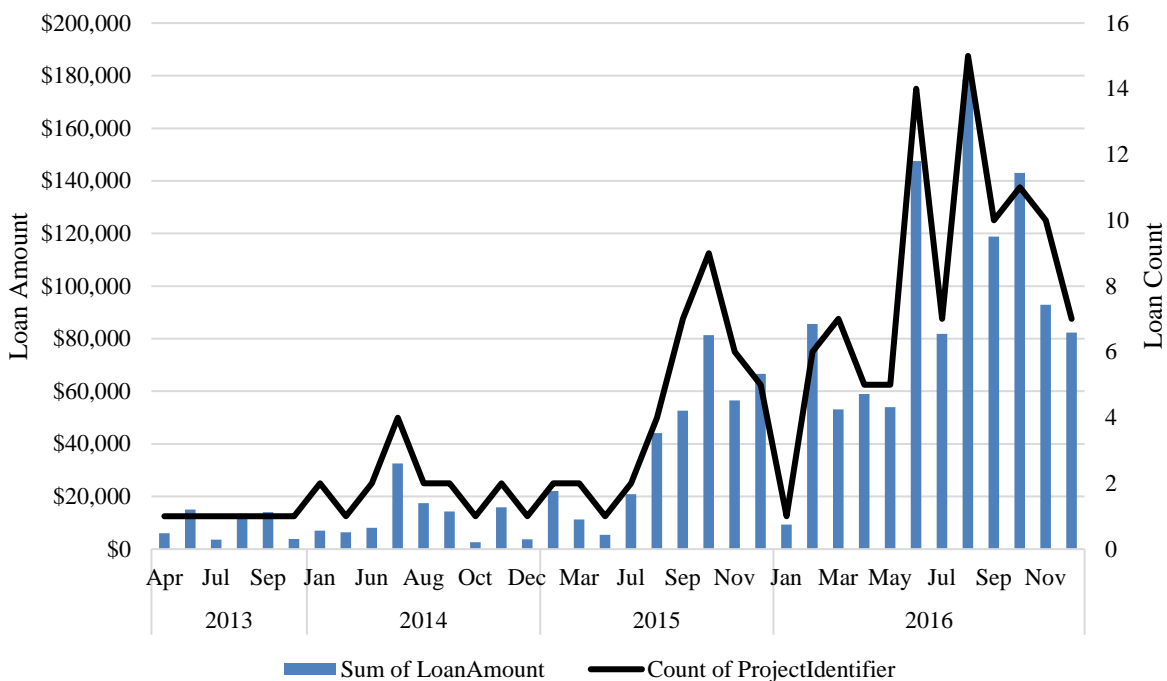
BACKGROUND/DISCUSSION

Fort Collins' innovative On-Bill Finance program supports a number of community and City Council priorities, including ambitious goals around energy efficiency and renewables, reduced greenhouse gas emissions and increased equity and wellbeing of all residents (see [Energy Policy](#) and [Climate Action Plan](#)). Meeting these objectives will require, among other activities, that greater numbers of property owners undertake comprehensive efficiency improvements in the coming years, particularly for older, less-efficient rental properties which make up a large percentage of the City's housing stock. An ongoing and attractive financing structure to support energy efficiency retrofits will be a critical element for success moving forward.

On-Bill Financing 1.0

The Home Efficiency Loan Program (HELP, aka OBF 1.0) operated from January 2013 through early 2017 when the maximum outstanding loan balance of \$1.6M was reached. During this period 160 loans were made with a median term of ten years, an average loan amount of \$8,900 and a zero-default rate. Program processes and interest rates varied over this time period, with a significant ramp up in 2016 with the Council directed interest rate of 2.5% over all loan terms (Figure 1).

Figure 1. OBF 1.0 Loan Count and Loan Amount



Elevations Credit Union

Elevations Credit Union was selected through an RFP process for energy loan financing in 2017. Elevations offers energy efficiency loans for credit union members with a range of interest rates, terms and qualifications, but their product offerings are not "on-bill financing". The Elevations loan continues to have Utilities staff qualify the efficiency project based on the rebate measures in the Efficiency Works Home program. However, the loan

origination and servicing are independent of Utilities programs. Uptake of the program has been minimal, with an average of three to five loans issued per month. With the implementation of Epic Loans, Elevations loans will continue to be an option for interested customers.

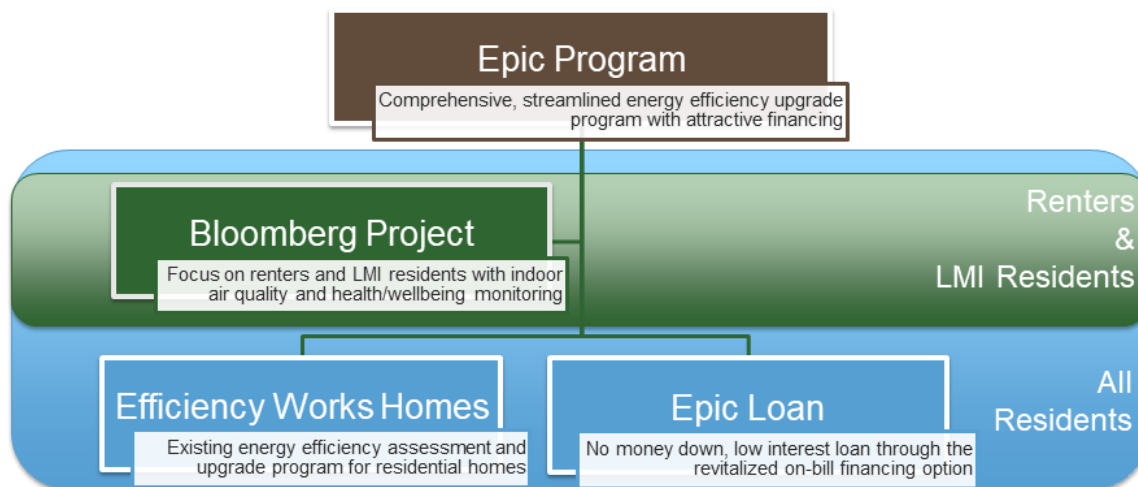
Mayors Challenge / Epic Program

The *Mayors Challenge* was a yearlong competition that challenged leaders across the United States to uncover and test bold, innovative ideas to confront the toughest problems faced by cities today (www.mayorchallenge.bloomberg.org). Three-hundred and twenty-four cities joined the competition, and nine were selected as winners of the 2018 *Mayors Challenge*. In January 2018 Fort Collins was selected as one of thirty-five “Champion Cities” in the first phase of the competition, winning \$100,000. In October 2018 Fort Collins won the final phase of the competition and the associated \$1M prize to implement the Epic Program.

The Epic Program was developed to improve energy efficiency of housing stock and the health, wellbeing and equity of all residents, including Low and Moderate Income (LMI) families who rent. In addition to energy efficiency upgrading, the Epic team is collaborating with Colorado State University to track and measure improvements in indoor air quality and qualitative health data from residents living in upgraded properties. In short, the Epic Program is trying to change how people think about the benefits of energy efficiency improvements. *It’s not about the houses, it’s about the people living in the houses.*

Fort Collins has an unusually large proportion of rental properties; approximately 50% of the City’s total housing stock are rentals, including approximately 25% of single-family homes. Much of our housing stock, particularly rentals, are older and could benefit from energy efficiency upgrades. The Epic Program leverages the existing Efficiency Works Homes program (administered in collaboration with Platte River Power Authority) and the revitalized on-bill financing, with the Bloomberg project focus on low-to-moderate income renters and indoor air quality and health / wellbeing improvements (Figure 2). The Epic Program team was inspired by new research and studies around “social determinants of health” and the impacts of housing on health and wellbeing. This project will address the “Climate Economy” via energy efficiency, and in so doing also address other important “human centered” issues in our Community. The program seeks to simultaneously develop solutions for indoor air quality and health / wellbeing, energy efficiency, the rental split incentive, on-bill financing, leveraging third party capital, developing important partnerships, and spreading innovation.

Figure 2. Epic Program Structure



The *Mayors Challenge* award has a three-year performance period for implementing the winning idea. The 2021 goals for the Epic Program are:

1. Epic will upgrade 360 rental properties and 2,000 total homes
 - a. 16% of projects will be financed with an Epic Loan
2. Epic will demonstrate improved health and wellbeing, related to indoor air quality and living environment
3. Savings from reduced energy use and lower utility bills will be available for other family priorities
4. Rental property owners will report financing is not a barrier to energy efficiency upgrades

On-bill financing, a critical piece of the Epic Program, was revitalized in August 2018 using the \$100,000 award from the champions phase of the *Mayors Challenge* to further develop the Epic Program idea. The Colorado Energy Office also provided a \$200,000 grant at that time to kick off the loan program. The grant agreement with Bloomberg Philanthropies was completed in February 2019 and the initial \$100,000 tranche of the \$1M was awarded. Another key milestone for setting up the Epic Loans are the revised financial officer's rules and regulations to allow simplified underwriting. Interest rates will be reassessed regularly and approved by the City CFO, including adjustments based on external capital rates and adding a modest administrative premium in the future. The loan interest rates, effective January 2019, are as follows:

Loan Term	Interest Rate
3 or 5 years	3.49%
7 or 10 years	3.99%
15 or 20 years	4.49%

Financial services for the Epic Loan are delivered by Impact Development Fund, which was selected through a competitive selection process in 2018. At a high level, the process relating to the efficiency and loan programs is:

- An efficiency assessment is conducted on the home by the EW-Home advisor/auditor.
- Opportunities for improved health, safety, comfort, and energy efficiency are identified and prioritized. Standardized pricing with estimated energy savings can be provided for recommended insulation/ air sealing improvements.
- If desired, the property owner can choose to pursue an Epic Loan, as follows:
 - Customer completes application for a loan to financial services provider
 - Epic Loan program manager reviews the project & provides initial loan approval
 - Upon approval, the homeowner and contractor(s) coordinate the timing and completion of the project
 - After final loan approval by the Epic loan program manager, and receipt of the project completion certificate, final inspections, and waiting the 72 hour right of rescission, loan funds are disbursed to contractor(s) by financial services provider
 - A UCC lien filing is recorded with Larimer County for the loan (by financial services provider)
 - Closing documents are provided from financial services provider to the Utilities Billing Department staff to set up the loan in the billing software
 - Loan payments are added to the customer's monthly utility services bill

Third Party Capital

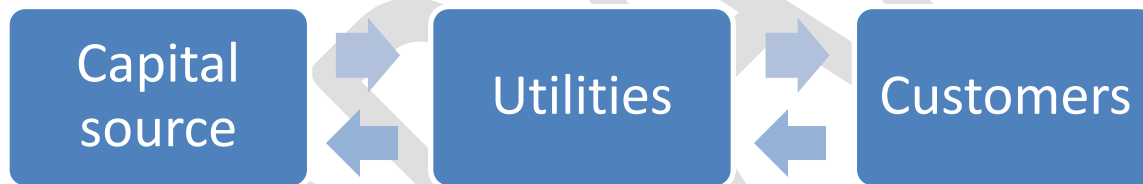
Leveraging external capital is critical to achieving the long-term vision of the Epic Loans. The program team seeks to design an "evergreen" revolving loan fund which:

- Supports residential energy efficiency upgrades for years to come;
- Scales to meet long-term efficiency objectives;
- Removes financial barriers to efficiency upgrades with attractive rates and terms;
- Aligns capital commitments with customer loan terms; and
- Minimizes the City and Utilities risk and administrative effort.

The Epic Loan is designed to balance the programmatic objectives and financial requirements of the City of Fort Collins, while also meeting the needs and expectations of capital providers and Utilities customers.

The City of Fort Collins completed an RFP for qualified firms to provide capital in support of the Epic Loan. The program team is currently in conversations with potential firms and hopes to finalize contracts in the near future. Third party capital offers a continuing source of funds to meet increasing customer demand for energy efficiency financing. Fort Collins Utilities will be the borrower and guarantor of the funds from capital providers, and Fort Collins Utilities will in turn service the repayments to its capital lenders using repayment obligations from customers to Utilities. In this on-bill financing model, capital providers will not be originating loans to, or otherwise engaging directly with, Utilities customers. Instead, capital providers will lend or grant funds to the City, and the City will undertake and / or oversee loan underwriting, origination and collections. Capital providers will therefore have recourse to the Epic fund and repayments for funds borrowed, but not to individual Utilities customers (Figure 3).

Figure 3. Capital and Repayment Structure



Capital sources for the Epic Loan need to align with the following high-level objectives:

- **Attractive:** The loan program must be able to provide attractive loan terms to customers, specifically attractive interest rates.
- **Scalable:** The program must be scalable in support of Fort Collins ambitious energy goals. It is anticipated that Fort Collins will upgrade thousands of homes in the coming years.
- **Simple:** The implementation and administration of the program must be as simple as possible for all parties, including customers, Utilities, and the capital partners.

Potential Size of Loan Portfolio

During OBF 1.0 from July 2015 to February 2017, the rate of loan activity was equivalent to approximately 120 loans and \$1M annually. To provide sufficient financing for the expected number of projects, the short-term (3-4 year) capital goal is \$7M to \$8M. This assumes \$1.5M to \$2M annually in energy efficiency project financing. The longer-term capital goal is up to \$16M in order to establish a self-sustaining revolving loan.

With a range of loan terms from 3 to 15 years, the expectation for a breakdown of necessary third-party capital amounts and terms would be:

Loan Term	Percentage of Portfolio
3 & 5 years	30%
7 & 10 years	40%
15 years	30%

Potential Financial Solution

Utilities intends to create a sustainable cycle of loans and repayments similar in concept to a revolving loan fund. Currently, the Epic Program team is engaged with the following capital sources and amounts, which will be blended to create attractive interest rates that are below market rates for customers:

Capital Type	Provider	Term	Rate	Amount	Status
Low or No Cost					
	Bloomberg Philanthropies – Champions Phase Award	N/A	0%	\$100,000	In hand or recently deployed
	Bloomberg Philanthropies - Award	N/A	0%	\$600,000	Committed
	Colorado Energy Office – Initial Grant	N/A	0%	\$200,000	In hand or recently deployed
	Colorado Energy Office – Grant or Loan	TBD	TBD	TBD	Under discussion
External Market					
	National Commercial Bank	5 & 10 year	3.95% - 4.25%	\$2,500,000	Under discussion
	National Commercial Bank	5 & 10 year	TBD	TBD	Under discussion
	National Green Bank	10 & 15 year	5.75%	\$2,500,000	Under discussion
	National impact investor	7 year	5-7%	\$2,500,000	Under discussion
Internal					
	Repayments of previously paid loans	N/A	0%	\$400,000	Committed

The City will blend capital sources and interest rates into loan offerings that recover the cost of capital and include a modest administrative premium to cover administrative costs in the future. The example in Figure 4 shows how capital sources and interest rates can be calculated to understand total funds and average interest rate, as well as broken down into short, medium and long-term rates and amounts. Figure 4 is an example of how capital sources will determine the rate offered to customers based on loan term.

Figure 4. Example Capital Stack and Loan Terms

Capital Sources		Principal	Rate
<u>Equity</u>			
Bloomberg (grant)	10%	\$ 700,000	0.00%
Colorado Energy Office Grant	3%	\$ 200,000	0.00%
L&P available cap	6%	\$ 400,000	0.00%
Mission-driven Capital	0%	\$ -	0.00%
<u>Debt</u>			
State of CO Loan	15%	\$ 1,000,000	1.75%
Nat'l Commercial Bank - 5 yr (Loan)	18%	\$ 1,250,000	3.95%
Nat'l Commercial Bank - 10 yr (Loan)	18%	\$ 1,250,000	4.25%
Nat'l Green Bank - 15 yr (Loan)	29%	\$ 2,000,000	5.75%
Total	100%	\$6,800,000	3.46%

Loans Offered	Tranche 1	Tranche 2	Tranche 3	Total
Cost of Capital	2.71%	2.85%	4.60%	3.46%
Amount available	\$1,820,000	\$2,480,000	\$2,500,000	\$6,800,000
Term offered	3-5 yr term	7-10 yr term	15 yr term	-
Rate offered	3.75%	4.25%	4.75%	4.30%

Flexible structures which minimize the need for the City to carry non-deployed debt capital, such as lines of credit versus term loans, are being proposed. Other key considerations include the Light & Power plans for a 2023 debt offering and the need to protect the AA- electric credit rating and Broadband's coverage covenants.

In all cases, Fort Collins Utilities would be the borrower, with the third-party funds being loaned to customers by Utilities. Fort Collins Utilities would be responsible for the repayment to the capital provider. In turn, Utilities customers carry the obligation for repayment of loans to the City via their utility bill. Utilities has various code-specified tools for recourse of delinquent utility bills that makes the risk profile for the Epic Loan portfolio extremely low. Third-party capital providers will have a senior pledge on customer loan repayments and second position on Electric Utility revenues, after the more senior pledge held by revenue bondholders.

Fort Collins Utilities recognizes that this proposed financing model is unique for a municipal-owned utility, and as such we are committed to working with capital providers to "co-create" a viable and scalable financing model that is workable and beneficial for all parties. We also intend to continually

search for new capital sources to add to the capital stack that provide the most desirable terms and conditions for customers and the City.

Next Steps

The Epic Program team is currently in discussions with third-party capital providers to develop lending agreements. The Epic Program team proposes the following review and approval process for lending agreements:

- Staff will continue to move forward with developing finalized scopes and terms.
- Leadership stakeholders, such as City CFO and Utilities FP&A Director, will review agreements.
- CAO, particularly internal legal counsel, will review agreements. Bond counsel is not engaged.
- City Purchasing will review agreements.
- The Finance Committee has an additional review of lending agreements.
- Staff proceeds with City Council consideration via ordinance with a target approval of August 2019. There will be a separate ordinance prepared for each lender.

The Epic Program team seeks guidance on the Finance Committee's desire for additional information before proceeding with City Council consideration of financial agreements.

DISCUSSION / NEXT STEPS

Mike Beckstead; solving for 10 year future – this is specific to solving for the 3 year future – coming up with a blended cost of capital – set the future aside and just focus on \$7-8M borrowing for today – dollar amount that will get a lot done during time frame – then in 2024 -2025 we will be back planning how to replicate

Capital Stack and Loan Terms - we are hoping to come back with offers from external lenders

Mayor Troxell; this looks good - thank you for all of the hard work! Some of this is out of the Energy Efficiency Works - you have had other communities' approach you with similar concepts -

John Phelan; we have been working with the Colorado Energy office - funds that have provided and plan to provide – their interest is looking at replication across the state. There was a Colorado Green Bank established late in the Hickenlooper administration. Bloomberg is interested in Fort Collins success as well as they are looking for scalability and replicability.

Mayor Troxell; SAR related to energy efficient Community Development Block Grant (CDBG) program - administer something like that through the Department of Energy

John Phelan, they developed something similar to CDBG during the Obama Administration (stimulus funding) Fort Collins received a formulaic distribution based on our population size - there was some discussion at the Mayor's Conference about reestablishing that - we looked at that and realized it was likely to be one time funds so we used that for a list of potential projects across the city. The 3rd party are probably the most scalable continue to look for grants – health angle – energy efficiency angle – we anticipate that part being a continual process.

Mike Beckstead; John just shared that we are looking at 3rd party external financing partners

Part of that is we want to borrow at a term that is at least greater than the term we lend at – we see pretty good activity in the 5-10 year term lending range but we are finding it more difficult to find financing partners who want to play in a 15-10 year term.

Biggest challenge has been getting the 15 year money in hand - we have a term sheet that goes out that far - we have 5 different term sheets in hand - we do have viable leads that go out that far and we are hoping to come back to Council Finance in July with 2-3 ready to proceed to contracts with by ordinance

Ken Summers; should we design a program for 5-10 year loans instead of longer term?

Mike Beckstead; we are trying to meet an objective to make projects more affordable for longer term investments - if you are putting solar on your house or buying a new furnace - something with a long life - having a 15-year loan would be helpful.

John Phelan; we have the flexibility to match the programmatic components with the financial components - we have done that out to 20 years - we are constantly looking at the whole picture trying to solve for all of these things simultaneously.

Mayor Troxell; very good

C. Fee Updates - Utility & Capital Expansion

Jennifer Poznanovic, Senior Manager, Sales Tax / Revenue

Lance Smith, Director, Utilities FP&A

Randy Reuscher, Lead Analysis, Utility Rate

SUBJECT FOR DISCUSSION

CEF & Utility Fee Update

EXECUTIVE SUMMARY

Coordination of Council approved fees began in 2016 to provide a more holistic view of the total cost impact. Previously, fee updates were presented to Council on an individual basis. After the 2019 fee update, fee phasing will be complete with regular two and four-year cadence updates beginning in 2021.

2019 fee updates include: Development Review fees, Electric Capacity fees, Water Supply Requirement fees, Wet Utility Plan Investment Fees and Step III of the 2017 Capital Expansion Fees.

Staff proposes the following fee changes:

- Wet Utility PIFs as proposed
- Electric Capacity Fees as proposed
- Water Supply Requirement Fee as proposed
- 100% of proposed 2017 Capital Expansion Fees (Step III)
- Transportation Capital Expansion Fees (inflation only)

Development Review Fees will be reviewed at the June Council Finance Committee meeting.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does Council Finance Committee support the proposed fee updates and outreach plan?

BACKGROUND/DISCUSSION

Since the fall of October 2016, staff has worked to coordinate the process for updating all new development related fees that require Council approval. Development related fees that are approved by Council are six Capital Expansion Fees, five Utility Fees and Building Development Fees.

Type of Fee	Fee Name
Capital Expansion	Neighborhood Park
Capital Expansion	Community Park
Capital Expansion	Fire
Capital Expansion	Police
Capital Expansion	General Government
Capital Expansion	Transportation
Utility	Water Supply Requirement
Utility	Electric Capacity
Utility	Sewer Plant Investment
Utility	Stormwater Plant Investment
Utility	Water Plant Investment
Building Development	Development Review & Building Permit Fees

Previously, fee updates were presented to Council on an individual basis. However, it was determined that updates should occur on a regular two and four-year cadence and fees updates should occur together each year to provide a more holistic view of the impact of any fee increases.

Impact fee coordination includes a detailed fee study analysis for Capital Expansion Fees (CEFs), Transportation Capital Expansion Fees (TCEFs) and Development Review Fees every four years. This requires an outside consultant through a request for proposal (RFP) process where data is provided by City staff. Findings by the consultant are also verified by City staff. For Utility Fees, a detailed fee study is planned every two years. These are internal updates by City staff with periodic consultant verification. In the future, impact fee study analysis will be targeted in the odd year before Budgeting for Outcomes (BFO). In years without an update, an inflation adjustment occurs.

Below is the current fee timeline:

	Phase 1		Phase 2		Phase 3	
	2016	2017	2018	2019	2020	2021
Capital Expansion Fees		Update	Step II	Step III		Update
Transportation CEFs		Update	Step II			Update
Electric Capacity Fees		Update		Update		Update
Water Supply Requirement		Update		Update		Update
Wet Utility Fees			Update	Update		Update
Development Review Fees				Update		Update
Fee Working Group		Active	Active			

Phase I of the fee updates included CEFs, TCEFs, Electric Capacity Fees, and Raw Water/CIL and were adopted in 2017. Phase II included Wet Utility PIFs and step II of CEFs and TCEFs, which were approved in 2018. Development review and building permit fees were originally included in Phase II but were de-coupled from the 2018 update.

Due to the concern in the development and building community around fee changes, Council asked for a fee working group to be created to foster a better understanding of fees prior to discussing further fee updates. In August of 2017, the Fee Working Group commenced comprised of a balanced group of stakeholders – citizens, business-oriented individuals, City staff and a Council liaison. The Fee Working Group met 14 times and was overall supportive of the fee coordination process and proposed fee updates.

The 2019 phase III update includes Development Review fees, Electric Capacity fees, Water Supply Requirement fees, Wet Utility Plan Investment Fees and Step III of the 2017 Capital Expansion Fees. After the 2019 fee update, fee phasing will be complete with regular two and four-year cadence updates beginning in 2021.

2019 Utility Fee Updates

The proposed changes to Utility Fees for a single-family, residential home include a 1.7% increase to the Electric Capacity Fee (ECF) and increases to the three Wet Utility Fees ranging between 1.5% and 6.7%. The Water Plant Investment Fee (PIF) is proposed to increase 6.7%, the Wastewater PIF is proposed to increase 1.5% and the Stormwater PIF is proposed to increase 3.3% from current fee levels.

The two main drivers for the increases include:

- New capital project spending, which increases the overall value of the system
- Annual increases in construction costs, which also increases the replacement value of existing system

The proposed change to the Water Supply Requirement increases the cost of 1 acre-foot of required raw water from \$17,300 to \$21,500, or 24%.

The primary drivers for this increase are:

- Updated construction cost estimates associated with the Halligan Water Supply Project
- Increasing costs of future water rights that will need to be acquired to optimize the water rights portfolio

The chart below summarizes the proposed Utility Fees for a single-family home, assuming an 8,600 square feet lot and 4 bedrooms:

Utility Fee	Current Charge	2020 Charge	\$ Change	% Change
Electric Capacity Fee	\$1,537	\$1,563	\$ 26	1.7%
Water PIF	\$ 3,826	\$ 4,084	\$ 258	6.7%
Wastewater PIF	\$ 3,537	\$ 3,590	\$ 53	1.5%
Stormwater PIF	\$ 1,548	\$ 1,600	\$ 52	3.3%
Water Supply Requirement	\$11,160	\$13,838	\$ 2,678	24.0%

2019 Capital Expansion Fee Updates

The chart below shows the current and proposed fee updates for CEFs:

Step III - Full fees proposed in 2017

Land Use Type	Unit	N'hood Park	Comm. Park	Fire	Police	Gen. Gov't	Current Total	Step III Total w Inflation	% Increase w Inflation
Residential, up to 700 sq. ft.	Dwelling	\$1,721	\$2,430	\$421	\$236	\$574	\$5,152	\$5,724	11%
Residential, 701-1,200 sq. ft.	Dwelling	\$2,304	\$3,253	\$570	\$319	\$774	\$6,911	\$7,679	11%
Residential, 1,201-1,700 sq. ft.	Dwelling	\$2,516	\$3,552	\$620	\$347	\$845	\$7,543	\$8,381	11%
Residential, 1,701-2,200 sq. ft.	Dwelling	\$2,542	\$3,589	\$630	\$352	\$858	\$7,630	\$8,478	11%
Residential, over 2,200 sq. ft.	Dwelling	\$2,833	\$4,001	\$701	\$392	\$955	\$8,502	\$9,447	11%
Commercial	1,000 sq. ft.	0	0	\$531	\$297	\$1,451	\$2,182	\$2,424	11%
Office and Other Services		0	0	\$531	\$297	\$1,451	\$2,182	\$2,424	11%
Industrial/Warehouse	1,000 sq. ft.	0	0	\$124	\$69	\$342	\$512	\$569	11%

Step III fees are an 11% increase from current fee levels (Step II). CEF fee increases are 100% of full fee levels recommended in 2017. The CPI-U index for Denver-Aurora-Lakewood is used for CEF inflation. An inflation estimate of 3.2% has been used, but an update will be available in August 2019.

Outreach Plan

In an effort towards better communication, outreach and notification of impact fee changes, staff plans to meet with 15 organizations across the City in the summer of 2019.

Organization	Staff
Affordable Housing Board	All
Building Review Board	All
Economic Advisory Commission	All
Fort Collins Board of Relators	All
Local Legislative Affairs Committee	All
Northern Colorado Homebuilder's Association	All
Super Issues Forum	All
Development Review Advisory Board	Dev. Review
Downtown Development Authority	Dev. Review
Housing Catalyst	Dev. Review
North Fort Collins Business Association	Dev. Review
Planning & Zoning Board	Dev. Review
South Fort Collins Business Association	Dev. Review
Energy Board	Utilities
Water Board	Utilities

Below is the 2019 fee roadmap:

	March	May	June	June/July	August	October	1/1/2020
Capital Expansion Fees		CFC		Outreach	CFC	Council	Effective
Transportation CEFs							
Electric Capacity Fees		CFC		Outreach	CFC	Council	Effective
Water Supply Requirement		CFC		Outreach	CFC	Council	Effective
Wet Utility Fees		CFC		Outreach	CFC	Council	Effective
Development Review Fees	CFC	CFC	CFC	Outreach	CFC	Council	Effective

DISCUSSION / NEXT STEPS;

Non BFO year - cadence starts with this year's work

This is a different Fee Working Group - focused on developers

Ross Cuniff; we had a Council liaison we didn't re-assign - Is this an Administrative group or a Council group?

Mike Beckstead; I haven't been too close to this as Tom Leeson and Noelle Currell pulled the team together based on customers they thought would be impacted. The development fees per code are approved administratively. I will get a list of who is on the committee and share that back.

Darin Atteberry; City Manager appointed with a Council liaison. Mike, let chat about the team makeup with Tom Leeson.

Mayor Troxell; Council priority as it relates to affordability - add a dimension of regulatory elements that play into affordability as it relates to some of the fees.

Jeff Mihelich; I hear you and I understand - we will be addressing this as a Council Priority

Mayor Troxell; we talk about Fee Stacking - more of the of the off costs that add to affordability

Randy Reuscher; Utility Fee slide - onetime fees for connection (buy-in) to the system - new development only Water - driven by peak day flow by each category and total consumption - GPD = Gallons Per Day

Jennifer Poznanovic; five Capital Expansion Fees - Step III - 11% increase which brings them to full fee level recommended in the 2017 study - Fee Roadmap - schedule - all fee categories updating in 2019 except Transportation

Mayor Troxell; good outreach scheduled between now and August - I think you are on a good path - Let's do the plan and after we hear about the outreach we will reassess where we are as it goes to Council

Ross Cunniff; are Building Review Fees administrative?

Mike Beckstead; historically some of them have gone to Council for approval even though code lists them as administratively approved.

Ross Cunniff; do we charge Development Review Fees based on cost or some average? I understand that conversation is coming

Mike Beckstead; that is correct - Tom Leeson and Noelle Currell - their intent is to craft fees that cover 100% of the cost of providing the service - no more - no less

ACTION ITEM:

Ross Cunniff; outreach - previous Fee Working Group provided a report. Are City Boards and Commissions provide a copy? Can they be provided a copy? Include Boards and Commissions who participate in the organized outreach.

Mayor Troxell; I am good

Ken Summers: I am good

D. Sidestream Treatment Project

Jason Graham, Director, Plant Operations

Carol Webb, Deputy Director, Utilities

Link Mueller, Special Projects Manager

EXECUTIVE SUMMARY

The purpose of this agenda item is to request an appropriation for additional funding for the Drake Water Reclamation Facility (DWRf) Sidestream Treatment Project. This request is necessary to complete the permit-required project within the required timeframe to meet DWRf's National Pollution Discharge Elimination System (NPDES) Phosphorus (P) Compliance Schedule deadline of December 31, 2020. Successful operation of this

infrastructure also will earn regulatory credits to delay future capital project expenses by upwards of 10 years. This request is an off-cycle request vs. a mid-cycle request due to the regulatory nature and schedule deadlines required by CDPHE.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Should staff move forward with this off-cycle appropriation request for the Sidestream Project?

BACKGROUND/DISCUSSION

The cost estimate at 60% project design, completed in January 2019, for the Sidestream Treatment project is greater than the approved budget. The purpose of this agenda item is to request Council's approval increase the project budget from \$4.3 million to \$5.4 million for an additional appropriation of \$1.1 million.

KEY PROJECT DRIVERS

The Sidestream Treatment project is necessary for DWRF to meet future nutrient water quality regulations by Colorado Department of Public Health and Environment (CDPHE). The DWRF National Pollutant Discharge Elimination System (NPDES) permit includes a phosphorus Compliance Schedule to ensure the City is successful in meeting the required phosphorus limits by January 01, 2021. The Sidestream Treatment project is a necessary addition required for DWRF to meet these proposed phosphorus standards.

Nutrient Removal Projects have been identified as part of the Utility's Capital Improvement Planning (CIP) and Master Planning efforts for the last ten years. The current CIP identified Nutrient Removal projects required to meet future nutrient limits by the Environmental Protection Agency (EPA) and CDPHE and have future potential costs of approximately \$70 million by 2028. The Wastewater Utility has been actively planning to minimize this cost as much as possible through participation in the CDPHE Nutrient Incentive Program and the AWWA Clean Water Partnership. Participation in these programs could provide the City both schedule and financial relief of up to 10 years.

A conceptual class 5 cost estimate of \$4.3 million was developed for the 2017-2018 BFO cycle based upon capacity, modeling, analogous projects and the available Sidestream Treatment technologies. As stated in the BFO offer, the design was based on a conceptual design and a complete design could result in an increase or decrease of the cost to meet the design deliverables. As designed progressed, additional detail, including equipment selection, and other specifications resulted in increased project costs. A contingency in the additional budget request has been included, appropriate for the current level of design. The following three major factors impacted the budget requiring this appropriation request:

1. A new sludge feed pump station was required in addition to other improvements increasing construction costs approximately \$625,000. It had been anticipated, but not feasible, that the existing sludge pumps could be used
2. Completion of the 60% design cost estimate (class 2) revealed an error in the original BFO class 5 estimate allowing the original BFO request to be approximately \$325,000 under-funded. In the future BFO offer estimates, including backup documentation will be provide to management staff for review
3. The retirement of the Utilities' lead programming engineer impacted the ability to self-perform all the process programming, integration, and operator interface requirements of the plants. Additional support from the equipment manufacturers and consulting engineers is required for process programming and integration costing approximately \$150,000

For the 2019-2020 BFO budget cycle, steps were taken to address the budgeting issues that occurred for this project. Larger projects will start with a “design only” phase so that better construction estimates can be obtained prior to appropriation.

The current DWRf discharge permit requires the City to be in compliance with nutrient regulations by January 1, 2021. The permit’s compliance schedule also indicates the construction must be started by December 31, 2019. It is critical to begin construction as soon as possible in 2019 in order to give facility staff adequate time to optimize the system to comply with required nutrient limits by the January 1, 2021 deadline.

ENVIRONMENTAL IMPACTS

In March 2013, the State of Colorado passed Regulation #85, requiring Publicly Owned Treatment Works (POTWs) with greater than 2 million gallons per day capacity to meet more stringent effluent water quality. The regulation mandates that existing POTWs limit their effluent discharge on a monthly median value of Total Phosphorus to 1.0 mg/L and Total Inorganic Nitrogen (TIN) of 15 mg/L. DWRf currently meets the TIN limit but the improvements installed with the Side Stream project are necessary to help meet the Total Phosphorus limit.

While phosphorus and nitrogen are building blocks of organic life, high concentrations in lakes, reservoirs and receiving waters can lead to lower dissolved oxygen levels, poison aquatic life, and eutrophication. POTWs are only one of three major sources of nutrient contamination of receiving waters (urban and agricultural non-point source run-off being the other two) but are the easiest to regulate being a point source contributor.

ALTERNATIVE ANALYSIS

As project design evolved and the need for additional funding became apparent, the project team evaluate the following project alternatives:

1. Value Engineering – The project team, including City staff, general contractor, and design engineer evaluated construction and design variables that could be eliminated and / or reduced and still deliver an effective project. While numerous items were removed or revised, this evaluation was not successful in bringing the overall project costs down to within the available budget.
2. Not complete the project – This alternative would jeopardize not only immediate regulatory compliance performance but future nutrient compliance issues as well.
3. Request \$1.1 M as a mid – cycle appropriation request – This alternative would jeopardize the City’s ability to comply with NPDES P Standard Compliance Schedule deadlines.
4. Request \$1.1 M as an off – cycle appropriation request – This is the preferred and recommended alternative by City Staff. This alternative is also recommended by the City’s Water Board.

CITY FINANCIAL IMPACTS

This O appropriate \$1,111,000 of Wastewater Fund Reserves for the DWRf Sidestream Treatment Project. Adequate funds exist in the Wastewater Fund reserves to cover this request for additional appropriations. In the latest 10-year Wastewater Capital Improvement Program (CIP), \$89M of capital improvements were identified and this is a relatively small increase. A rate increase beyond what is already planned will not be needed as a result of this request.

DISCUSSION / NEXT STEPS

The Water Board voted unanimously to recommend approval of this appropriation at their April 18th, 2019 meeting.

Ross Cuniff; this looks great - confirming that this an appropriation out of the Wastewater Fund.

Jason Graham; that is correct

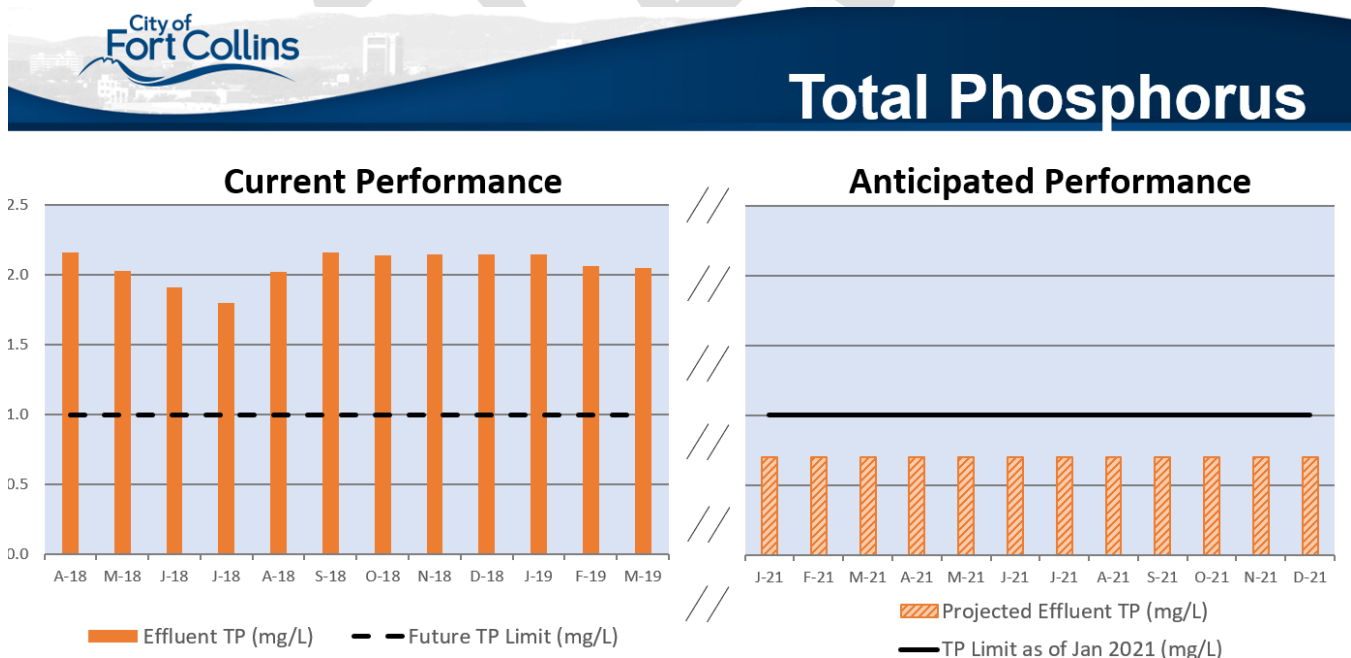
Ross Cuniff; what about the biosolids?

Jason Graham; the biosolids will continue to go to Meadow Springs Ranch which we have owned since the mid 90's - 26,600 acres - about 30 miles north of Fort Collins adjacent to Soapstone Prairie (this function used to be done at Prospect and I25). This project does not harvest biosolids as there isn't a market for it currently - but could be a potential revenue source in the future

Link Mueller; we are designing the system to be able to add on the harvesting aspect easily.

Ken Summers; slide 9 states - \$80 -100M of capital work is expected to be needed between 2017 and 2026 in addition to the current capital appropriations. What is current? not current? - what are some of those projects?

Jason Graham; we are discussing Regulation 85. Another regulation (31) comes in effect as of 2027 which has the potential to drive down the regulations even more with phosphorus and nitrogen - Associated with that level of compliance – this project does have the potential to offset the costs - we get credit for each year we are compliant / stay below the black line. (see below)



Carol Webb; I believe that the \$80-100M is the fund as a whole - we anticipate that much across the fund over the next ten years. We already have projects that Council has appropriated dollars for.

Mike Beckstead; every 2 years we bring the long-term capital plans for each of the four utilities to Council Finance. Anticipated capital spend and rate structure needed to support that We are planning to bring these plans forward in November of this year. We could copy you on the last long-term financial plan if you would like.

Mayor Troxell; You need the financing now to meet construction start.

Jason Graham; we are hoping to bring this to Council in June (schedule permitting). O&M will be absorbed by our staff – we have a contract for year 1 to maintain it as we start it up and get it going.

Meeting adjourned at 11:18 am

DRAFT

COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

Staff: Sue Beck-Ferkiss, Social Policy and Housing Programs Manager

Date: June 17, 2019

SUBJECT FOR DISCUSSION

Affordable Housing Fee Waiver Request for Mason Place, a permanent supportive housing community.

EXECUTIVE SUMMARY

Housing Catalyst (HC), formerly known as the Fort Collins Housing Authority, has requested that certain development and capital improvement expansion fees be waived for all 60 qualifying units at Mason Place. In March 2013, City Council limited the types of projects for which fee waivers may be requested and made these waivers discretionary. Eligible projects are those constructed for homeless or disabled persons, or for households whose income falls at or below 30% of the area median income of all City residents. HC is requesting fee waivers in the approximate amount of \$325,000 for the 60 qualifying units at Mason Place.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee (CFC) support granting the fee waiver request?
2. If CFC desires the Capital Expansion Fees to be backfilled, should this funding come from General Fund Reserves only, or from both General Fund Reserves and the Affordable Housing Capital Fund?

BACKGROUND/DISCUSSION

HC is seeking the waiver of certain development and capital improvement expansion fees for Mason Place, an affordable housing project as allowed by City Code and the Land Use Code. Mason Place is currently under development and will deliver 60 income restricted units, all of which will be targeted to households making no more than 30% of the area median income (AMI). The request from HC is attached as attachment 1. While HC will be the ultimate owner of the building, it is being developed by Housing Catalyst LLC and any fee waiver granted would be to Mason Place LLLP, which is the ownership entity for the tax credit partnership.

Fee Waiver history:

For many years, the City provided affordable housing fee waivers for some building permit fees, development review fees and some capital expansion fees as an incentive to encourage the development of affordable housing.

- In March 2013, City Council amended its policies on fee waivers for affordable housing to allow for more discretion in determining the kinds of housing projects for which City fees should be waived.
- This was after a large waiver was granted.
- By adopting Ordinance No. 37, 2013, City Council limited eligibility of fee waivers to the local housing authority and limited what types of units would qualify for fee waivers. Only projects that are constructed for homeless or disabled persons, or for households

whose income is no greater than 30% of the area median income of all City residents qualify.

- Furthermore, waivers were made discretionary by City Council upon a determination that the proposed waiver will not jeopardize the financial interests of the City or the timely construction of the capital improvements to be funded by the fees for which a waiver is sought.
- This policy was changed by City Council in 2017 so that any developer providing qualifying units is eligible to seek discretionary fee waivers.
- Staff has been working on improving the method of processing requests for fee waivers. In addition to working with the applicant to confirm fee amounts, the process allows for the percentage of eligible units to be approved even before the fee amounts are finalized. However, if the waiver request is processed when fee amounts are final, the waiver approval can be for both the percentage of qualifying units and the fee amount. The process allows the applicant to decide on the timing of the fee waiver request. This only makes a difference in how the City handles the reimbursement of capital expansion fees and does not influence the project being constructed.

Current Request:

Mason Place is a 60-unit affordable housing community being constructed at 3750 South Mason Street in Fort Collins. See attachment 2 for map of location. The developer is HC. The total development of 60 units, will be dedicated to households making no more than 30% AMI. This will be a permanent supportive housing development where people can live for an unlimited term and be provided on site supportive services to help tenants achieve and sustain housing stability. This is a best practice for housing persons experiencing chronic homelessness, most of whom have disabilities too.

HC is seeking the waiver of certain fees for those 60 qualifying units. The total fees for this \$18.7 million development project are estimated to be in excess of \$656,000. The request is for 100% of eligible fees, about \$325,000 (currently calculated at \$324,714), to be waived. Of that amount, about \$264,000 (currently calculated at \$263,244) are for capital expansion fees which the City has traditionally reimbursed. This project is adaptive reuse and not new construction, so the fees are offset with fees previously collected for this location and are therefore not as high as a new construction project would be. Because the plans for this development could still change slightly, HC has requested that Council approve the percentage to be waived at this time. The fee amounts are not expected to change significantly, but by approving the percentage, more time is provided to finalize the fee amounts.

The 2019 income limits published by the U. S. Department of Housing and Urban Development for 30% of the Fort Collins AMI is \$18,350 for a household of 1 and \$20,950 for a household of 2. The units at Mason Place will be primarily one-bedroom units with a few two-bedroom units. Households at this income level are some of the City's most vulnerable residents. Most of the residents will be escaping homelessness and have disabilities. All units at Mason Place are eligible for fee waivers as established by City Code, and the Land Use Code.

The City has established affordable housing production goals in the 2015-2019 Affordable Housing Strategic Plan (Plan). The need for financial support for these goals to be met is also stated in the Plan. The annual production goal for the current 5-year plan is 188 units. This

project will deliver 60 units which is 32% of the City's current annual goal. Since the City does not develop housing, development partners are relied upon to bring this necessary housing product to the community. This project will increase the inventory of affordable rental units and is targeting special needs populations - which are two of the strategies listed in the Plan.

It is recommended that any capital expansion fees waived be subject to backfill by the City to reimburse city departments for fees if this waiver is granted, as has been the City's custom to date. Traditionally backfill of capital expansion fees occurred and has come from General Fund reserves. Alternatively, funds for this request could come from the Affordable Housing Capital Fund that was approved by the voters as part of the City Capital Improvements Program. This fund will accumulate \$4 million over ten years. While most of the current balance in this fund is already committed to this project, \$100,00 was withheld for the purpose of matching general fund reserves for fee waiver backfill. This project is the first to seek fee waivers this year.

Board and staff support:

- The Affordable Housing Board supports this waiver request. The City's waiver policy has greatly limited the types of projects that qualify for waivers. This policy recognizes that households earning no more than 30% AMI cannot afford market rate housing in our City at this time. The average rent is currently over \$1,200 a month. A one-person household at 30% AMI would need to pay 78% of their income to pay the average rent. Ideally, renters would never pay more than 30% of their income on housing. Developers need public subsidy to produce housing that this demographic can afford.
- Staff also supports granting this waiver request.

Next Steps

- This request is ready to be presented to Council after this committee's review.

ATTACHMENTS

1. Housing Catalyst's Waiver Request
2. Location map of Mason Place
3. Draft minutes of the Affordable Housing Board June 2019 meeting

May 15, 2019

Sue Beck-Ferkiss, Social Sustainability Specialist
Office of Social Sustainability
City of Fort Collins
22 Laporte Avenue
Fort Collins, CO 80521

Re: Mason Place Permanent Supportive Housing Development Fee Waivers

Dear Mrs. Beck-Ferkiss,

As a result of the ongoing collaboration between Housing Catalyst and the City of Fort Collins to estimate fees and waiver amounts for our Mason Place Permanent Supportive Housing project, I am writing to formally request fee waivers for the above referenced project under the City of Fort Collins City Council Ordinance: No. 037, 2013 and the associated intergovernmental agreement.

The total anticipated fees are estimated at \$656,000. The anticipated fee waiver amount is estimated at \$300,000, with 100% of the 60 units eligible for waiver. To assist in this fee waiver and reimbursement request, I have enclosed the following information:

1. Schedule of units at Mason Place that will be at or below 30% of the Fort Collins/Loveland adjusted median income (60 units).
2. Mason Place Development timeline.

Thank you for your time and attention to this request. Please contact me if you require additional information.

Sincerely,



Julie J. Brewen
Executive Director

Mason Place Project Overview

Mason Place will be located at 3750 S. Mason St in Fort Collins, at the current site of the Midtown Arts Center. Based on the Housing First, Harm Reduction and Trauma Informed Care models, Mason Place will provide affordable housing and onsite services to people with special needs who are experiencing homelessness, including homeless veterans. This permanent supportive housing community will have 60 new units of housing for homeless individuals at or below 30% of the Fort Collins/Loveland adjusted median income.

Target Population	
Number of Units	Area Median Income
60 units	0-30% AMI
60 units total	

Mason Place Development Timeline

Low Income Housing Tax Credit (LIHTC) Award – August 2018
 Project Development Plan Approval – June 2018
 Building Permit submitted to City of Fort Collins – May 31, 2019
 LIHTC Partnership Closing – September 2019
 Construction Start – September 2019
 Fee Waiver Request – May 2019
 Deferred Fees Due – December 1, 2019
 Construction Complete – October 2020
 Lease-up Complete – April 2021
 Construction – Permanent Loan Conversion – August 2021



MINUTES

CITY OF FORT COLLINS • BOARDS AND COMMISSIONS



AFFORDABLE HOUSING BOARD

REGULAR MEETING

June 6, 2019, 4:00-6:00pm
Colorado River Room, 222 Laporte Avenue

1. CALL TO ORDER: 4:03

2. ROLL CALL

- Board Members Present: Jen Bray, Catherine Costlow, Jeff Johnson, Kristin Fritz, Rachel Auldrige, Diane Cohn
- Board Members Absent: Curt Lyons
- Staff Members Present: Jennifer Poznanovic, Tom Leeson, Lance Smith, Noelle Currell, Sue Beck-Ferkiss, Brittany Depew
- Guests: None

3. PRESENTATIONS AND DISCUSSIONS

B. Consider Fee Waiver Request for Mason Place, Permanent Supportive Housing—Sue, Social Sustainability Department

Request from Housing Catalyst for the Mason Place waiver. There wasn't a fee worksheet included because we have been meeting with Housing Catalyst and Planning, Development, and Transportation (PDT) to work through the fees. There are 21 waivable fees; the rest are not waivable. We've created a process that gives the developer flexibility in when they request the waiver. The backfill amount is also moving around. In this case, the overall fees for the project will be about \$650k; the estimate for the waivable portion is \$325k with about 80% of that requiring backfill.

Comments/Q&A:

- Rachel: What is backfill?
 - Sue: In Fort Collins, because of the TABOR (Taxpayer Bill of Rights) amendment, our attorneys are concerned about absorbing funds without reimbursement, especially of capital expansion fees. We tell developers they don't have to pay, and we typically pull from general fund reserves to pay those fees.
- Diane: What is the total cost of the development?
 - Sue: \$18.7 million
- Sue: I would like to ask the board if you'd like to make a recommendation about this request.

Diane made a motion to support the fee waiver request for Mason Place.
Catherine seconded. Approved 5-0-1 (Kristin abstained)



Fee Waiver Request for Oakridge Crossing
Sue Beck-Ferkiss

Plan and Strategy Alignment

CITY PLAN

CITY STRATEGIC PLAN

AFFORDABLE HOUSING
STRATEGIC PLAN

Development Incentives

- Fee Waivers and Delays
- Priority Processing
- Density Bonus

Grants and Loans

- Acquisition, rehabilitation, construction
- Financing Support (PAB, etc.)
- Policy Guidance
- Community resource

- Historically, affordable housing projects received waivers of taxes and some fees
- Policy amended in March 2013
- Waivers now discretionary for limited types of projects
- Council expanded eligibility to all developers in 2017
- **Developers** may request waivers for:
 - Homeless
 - Disabled
 - 0-30% AMI
- Must not jeopardize financial interests of City

- Waivers amounts ranged from **\$125** to **\$509,896**
- Last waiver granted Oakridge Crossing for **\$91,000**
- First Fee Waiver request of 2019
 - New option to approve percentage now and come back for appropriation after amounts final

Income	Household Size	
	1	2
30%	\$18,350	\$20,950

Mason Place – 3750 South Mason Street.

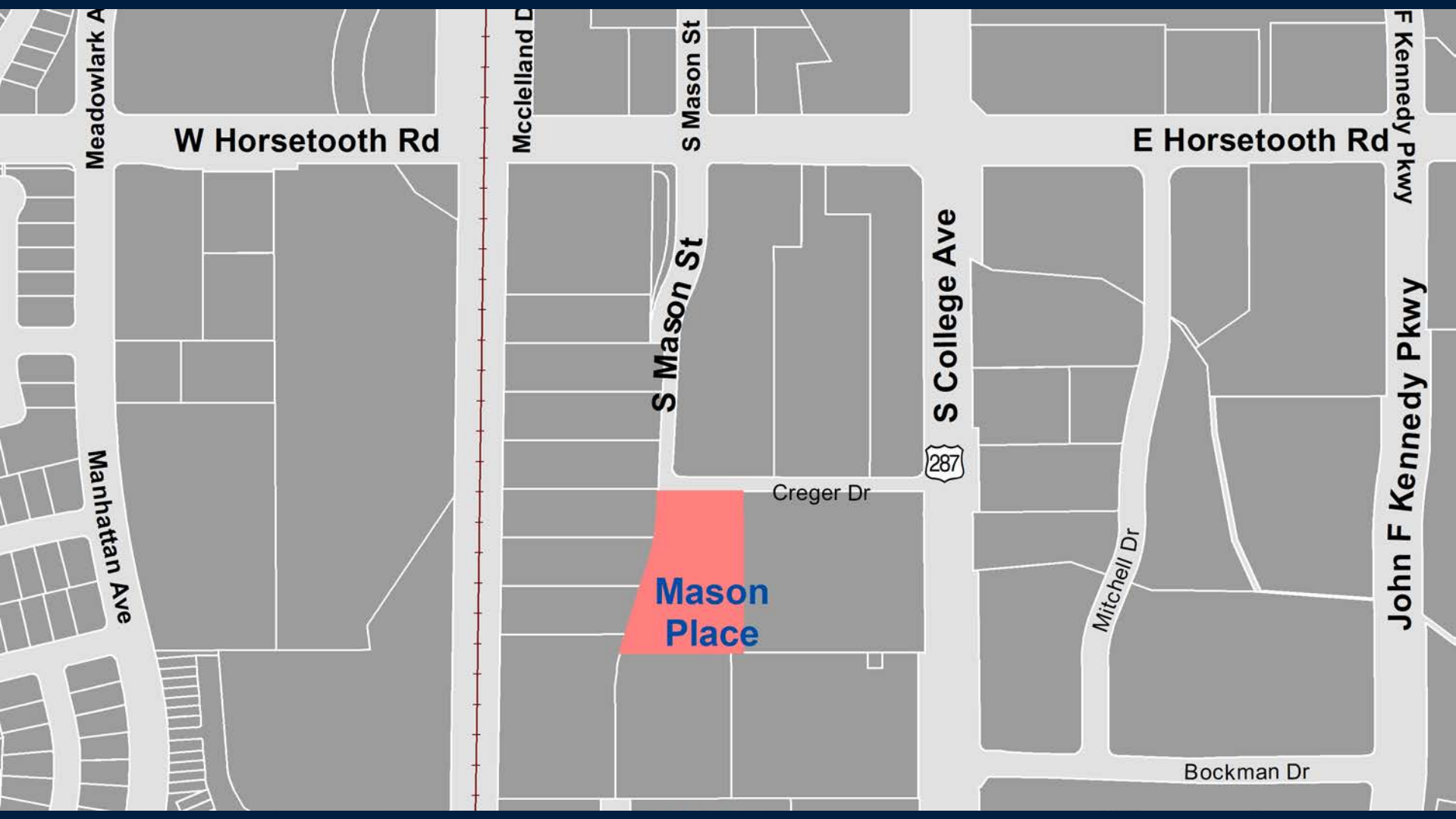
- Developed by the Housing Catalyst LLC
- \$18.7 M total development cost
- Permanent Supportive Housing
- 60 Affordable Units
 - **60 Units 30% AMI**



Affordable Housing Strategic Plan

- Increase the inventory of affordable rental units
- Increase Housing and Supportive Services for People with Special Needs

Annual production goal of 188 units – Mason Place = 32%



W Horsetooth Rd

E Horsetooth Rd

S Mason St

S College Ave

John F Kennedy Pkwy

Mason Place

Creger Dr

Mitchell Dr

Bockman Dr

287

Estimated Waiver Amount

	Fee Amount
Total Fees	at least \$656,000
Waivable Fees	About \$325,000
Backfill Amount	about \$264,000

Request before CFC is to approve 100% of Waivable Fees

Support for request:

- Affordable Housing Board
- Social Sustainability Staff

1. Does the Council Finance Committee (CFC) support granting the fee waiver request?
2. If CFC desires the Capital Expansion Fees to be backfilled, should this funding come from the General Fund or the Affordable Housing Capital Fund or from both?

<u>Fee</u>	<u>Waivable</u>	<u>Totals</u>
Building Permit Fee w/Subs	Yes	\$ 31,977
DCP Application		\$ 400
Demo Permit		\$ 50
Development Review Fee	Yes	\$ 4,706
Electric Capacity Fee		\$ 83,847
Erosion Escrow		\$ 14,513
Fire Capital Exp. (Res)	Yes	\$ 13,695
General Govt. Capt. Exp. (Res)	Yes	\$ 4,271
Larimer County Reg. Road (Res)		\$ 9,780
Mailings	Yes	\$ 204
Parkland: Community	Yes	\$139,560
Parkland: Neighborhood	Yes	\$ 98,820
PFA Development Review Fee		\$ 250
Plan Check Fee	Yes	\$ 15,397
Police Capital Exp. (Res)	Yes	\$ 7,698
Poudre School District (5 or mor...		\$ 51,300
Sewer Dev. Review	Yes	\$ 1,922
Sewer PIF		\$123,552
Sign Posting	Yes	\$ 50
Stormwater Dev. Review	Yes	\$ 992
Transportation Dev Review	Yes	\$ 3,500
Water Dev. Review	Yes	\$ 1,922
Water PIF		\$ 6,144
Water Right - WSR?		\$ 71,741
Total		\$686,291
Total Waivable		\$324,714
Amount Due to City		\$361,577

COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

Staff: Lance Smith, Utilities Strategic Finance Director

Date: June 17, 2019

SUBJECT FOR DISCUSSION

2020 Utility Rate Adjustments

EXECUTIVE SUMMARY

The revenue requirements to support the 2019-20 Biennial budget require increasing monthly charges for electric service by 5.0% and stormwater service by 2.0% in each of those years. This was done in 2019. The purpose of this discussion is to continue the dialogue with the Council Finance Committee ahead of bringing the appropriate rate Ordinances forward to the full City Council in November.

The Capital Improvement Plans (CIPs) for each of the 4 traditional utility services (electric, water, wastewater and stormwater) will be updated yet in 2019. The updated CIPs will then feed into updating the long term financial models that serve as the basis for the Strategic Financial Plans for each utility. These updated plans along with the associated 10 year rate and debt issuance forecasts will be presented to the Council Finance Committee in November, ahead of the 2021-22 Budgeting For Outcomes process.

The electric rate increase in 2020 is being driven by the ongoing effort to increase operating revenues for this utility enterprise while managing operating expenses so as to generate positive operating income beginning in 2020.

The stormwater increase, as in 2019, is intended to raise operating revenues modestly to increase the debt capacity of the Enterprise in anticipation of significant debt being needed to meet future capital improvements necessary to complete the initial buildout of the stormwater infrastructure. Similar, modest adjustments of less than 3% may be necessary over the coming decade depending on the timing and scale of the necessary capital investments.

The Water and Wastewater cost of service studies are being updated for 2020 yet in 2019. It is preferable to make any cost of service adjustments in years when there is no overall rate increase for a given utility necessary in that same year. It is anticipated that there may be some adjustments between rate classes in order to meet the 2020 revenue requirements for these two utilities.

From a residential customer perspective the net increase to their 4 service utility bill is expected to be \$3.91 per month, or 2.3% more than they are paying in 2019.

Fort Collins Utilities Average Residential Monthly Bill				
Utility	2019	2020	\$ Change	% Change
Electric	\$75.56	\$79.34	\$3.60	5.0%
Water *	\$47.88	\$47.88	\$0.00	0.0%
Wastewater *	\$34.45	\$34.45	\$0.00	0.0%
Stormwater	\$15.73	\$16.04	\$0.31	2.0%
Total Average Bill	\$173.62	\$177.71	\$3.91	2.3%

* Water and Wastewater Cost of Service adjustments may be necessary in 2020.

As part of the City-wide effort to better align development fees, the plant investment fees associated with the 4 utility services are part of the 2019 Fee Update that is being presented to various boards and groups this summer. The table below summarizes the adjustments to these fees for the 4 existing utility services (*for an 8600 square foot lot with a new 4 bedroom single family home*).

Utility Fee	Current Charge	2020 Charge	\$ Change	% Change
Electric Capacity Fee	\$1,537	\$1,563	\$ 26	1.7%
Water PIF	\$ 3,826	\$ 4,084	\$ 258	6.7%
Wastewater PIF	\$ 3,537	\$ 3,590	\$ 53	1.5%
Stormwater PIF	\$ 1,548	\$ 1,600	\$ 52	3.3%
Water Supply Requirement*	\$11,160	\$13,838	\$ 2,678	24.0%

The most significant increase being to the Water Supply Requirement. Continued escalation in the price of water rights and the cost of building storage are driving this adjustment just 2 years after the previous significant increase. The Excess Water Use Surcharge that some commercial customers are subject is also being proposed to increase by 24% in 2020. The City Council approved the Allotment Management Program to begin in 2020 in an attempt to reduce those impacted by this increase.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does the Council Finance Committee support bringing the rate increases being proposed forward for consideration by the Mayor and City Council?

BACKGROUND/DISCUSSION

The 2016 Strategic Financial Plan for each utility was presented to this Committee through 3 meetings. The rate strategy that was developed as part of the Strategic Financial Plans provides for objective rate adjustments based on financial metrics. This strategy is included in the financial modeling for the plan and serves as the basis of the rate projections presented to Council since 2016.

Rate Strategy and Smoothing

The following criteria objectively determine when, why and how much rates should be adjusted to maintain the financial health of each utility:

1. Adjust electric rates sufficient to meet Platte River Power Authority wholesale rate adjustments.
2. If the previous 3 years have averaged negative operating income, raise rates next year to the lessor of 5% or the level sufficient to have offset the average operating loss.
3. If debt coverage is less than 2.0, increase rates the lessor of 5% and a level sufficient to raise the debt coverage ratio to 2.1 the next year.
4. If the Available Reserve fund balance is projected to be negative at the end of any year, increase rates the lessor of 5% and an amount sufficient to increase reserves to the minimum required reserve.
5. Add up all of the previous criteria driven rate adjustments and take the lessor of 5% and the sum as the recommended rate adjustment.

By limiting the annual increase to no more than 5.0% in any given utility, the average customer should not see an increase in their utility bill by more than 5% in one year. This constraint results in some smoothing of larger rate increases over 2 or more years. Moreover, because the total utility bill is considered, adjustments in one utility may be less than needed in order to smooth out the overall bill impact. In the 2017-18 Budget cycle, for example, water rates were adjusted up 5.0% in each year while wastewater rates were increased 3.0% each year.

Here the necessary electric rate increase is being smoothed out over the next 3 years. Also, because the water and wastewater rates are not being adjusted this budget cycle, it is being proposed to adjust stormwater rates in anticipation of significant debt issuances in the next decade.

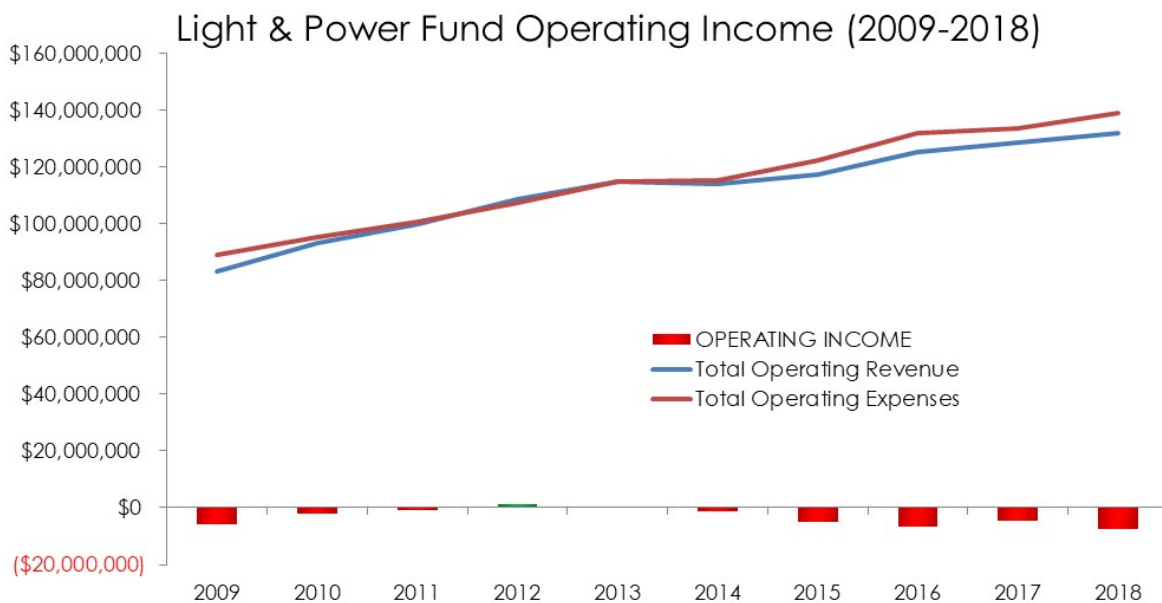
Electric Rate Increase

The ten-year rate forecast presented to this Committee last November included 5.0% rate increases in 2019 and 2020 followed by lesser increases in the subsequent years. That forecast served as the basis for the 2017 Strategic Financial Plan for the Light & Power Enterprise Fund and the subsequent revenue projections utilized in the development of the 2019-20 Budget cycle.

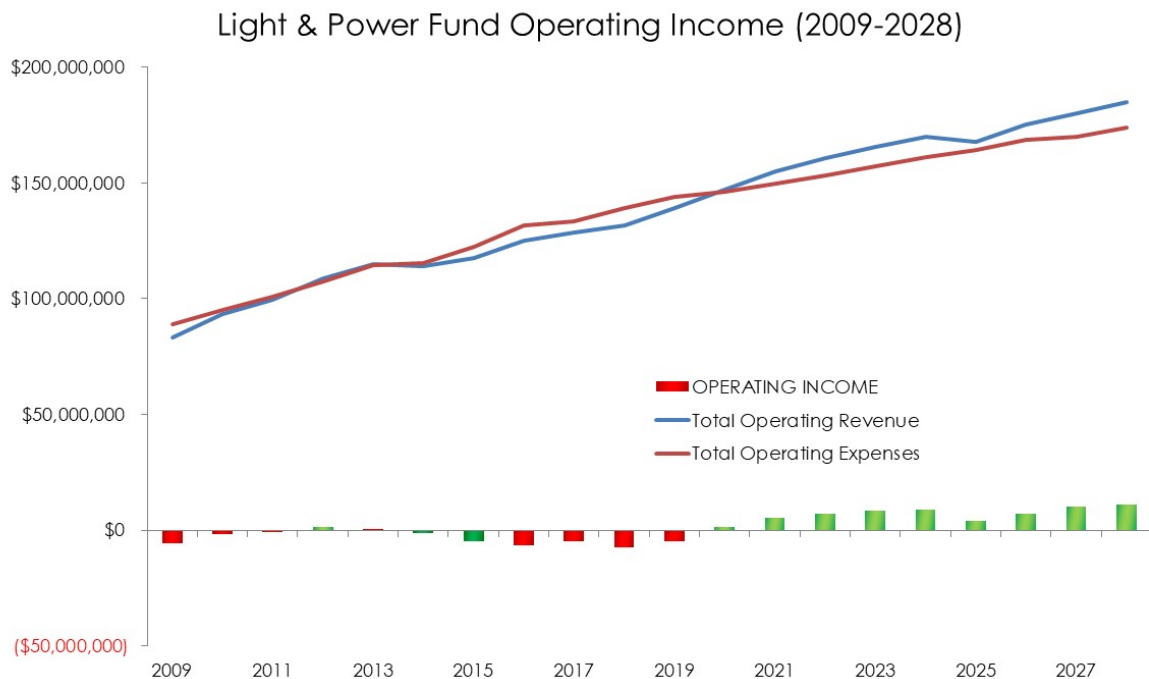
When this item was added to the Council Finance Committee agenda for June, the expectation was that Platte River Power Authority (PRPA) would have taken formal action on the proposed

2020 wholesale rate structure and rates at its May Board meeting. PRPA has since decided to not take formal action on the 2020 wholesale rates until its October Board meeting. Preliminary direction was given at the May Board meeting as to the expectation now that no wholesale rate increase will be proposed by PRPA for 2020. This will allow the 4 owning communities to adjust to the new wholesale rate structure without also realizing a rate increase in the same year.

Looking at the operating income since 2009 shows that this Fund has utilized reserves to offset operating losses. While this was an intentional draw down of reserves based on previous City Council direction, over the last 3 Budgeting For Outcomes cycles (2013-2018) \$41.7M has been appropriated from Reserves. Some of these appropriations have been offset by unanticipated revenues due to strong development. The Reserve balance has decreased from a peak in 2014 of \$56.5M to \$30.8M at the end of 2018.



The 5.0% increase proposed for 2020, along with the 3.6% increase in 2019, will generate additional revenue to remain within the distribution utility of the City and is expected to result in positive operating income being generated for this Enterprise beginning in 2020.



The table below summarizes the implementation of the rate strategy for the electric utility:

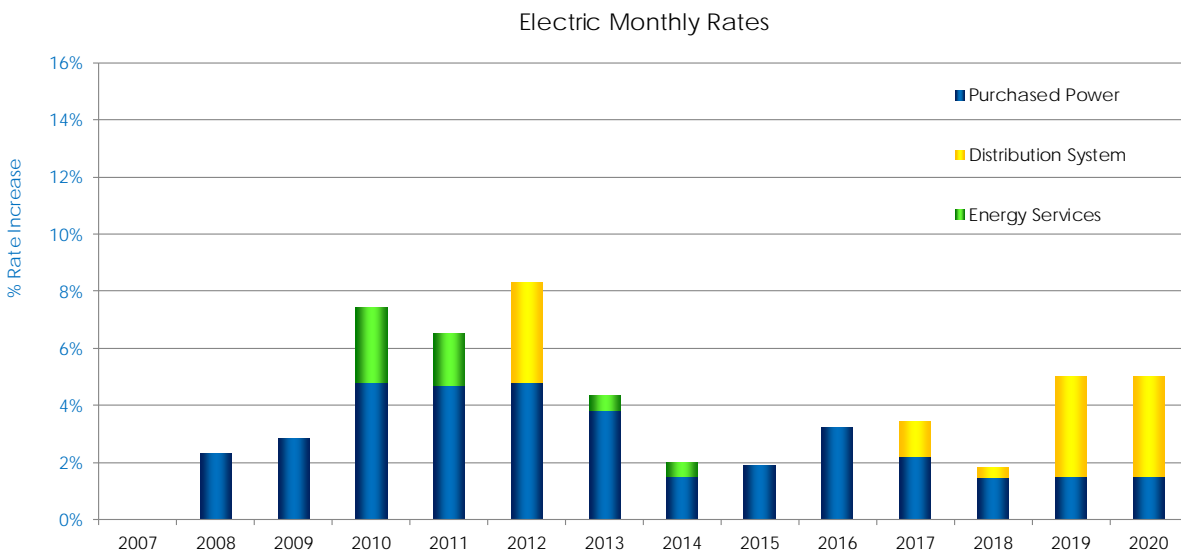
Criteria	Oct '18		CURRENT	
	2019	2020	2020	2021
		1.4%	1.4%	0.3%
1. PRPA wholesale energy costs	1.4%	1.4%		1.4%
2. 3 yr ave Operating Income < 0	5.0%	3.0%	3.9%	TBD
3. Debt Coverage Ratio < 2.0				TBD
4. Available Reserves less Capital Need < 0				TBD
Sum of Above	6.4%	5.8%	5.3%	
5. Lesser of 5.0% or the sum of above	5.0%	5.0%	5.0%	TBD
Increase Carried Forward	1.4%	0.8%	0.3%	TBD

TBD - to be determined in the 2021-22 Budget cycle

While PRPA is no longer proposing a wholesale rate increase for 2020, the 3 year average operating loss increased from \$5.4M from 2015-17 to \$6.3M for the 3 year period 2016-2018. The net effect of these two changes is that it is still being proposed to increase electric rates 5.0% in 2020 with only 0.3% being carried forward into 2021.

The electric cost-of-service (COS) model is updated every two years, with the last update occurring in 2018. The next scheduled update is in the summer of 2020 to be effective in 2021. Therefore, the proposed electric rate increase will be the same for all rate classes in 2020.

Below is a chart showing the adjustments to rates that have been done since 2007 along with the forecasted rate adjustments being proposed in this budget. The table below the chart shows the rate adjustments that are anticipated to be necessary over the next 10 years to provide adequate revenues to maintain the financial health as determined by the bond rating agencies criteria for assessing new debt issuances. This table will be updated along with the CIPs and presented to the Council Finance Committee in November.

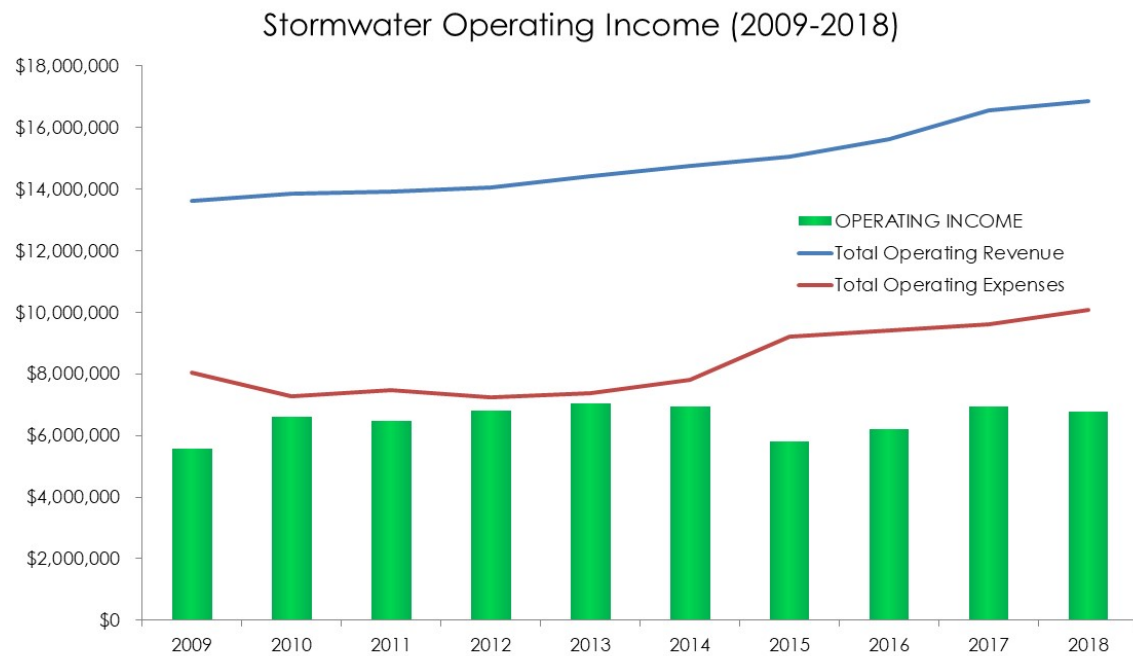


	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Rate Increase	3.45%	1.8%	5.0%	5.0%	2-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%
Debt Issuance \$M	\$20.0											
\$165M of capital work is expected to be needed between 2017 and 2026 in addition to the current capital appropriations.												

Stormwater Rate Increase

The ten-year rate forecast presented to this Committee in February 2018 included rather modest rate increases in 2019 and 2020 followed by even smaller increases in the subsequent years. That forecast served as the basis for the revenue projections utilized in the development of the 2019-20 Budget cycle.

Looking at the operating income of this utility shows a healthy operating margin. This criterium is not expected to drive any rate increases over the next decade at least.



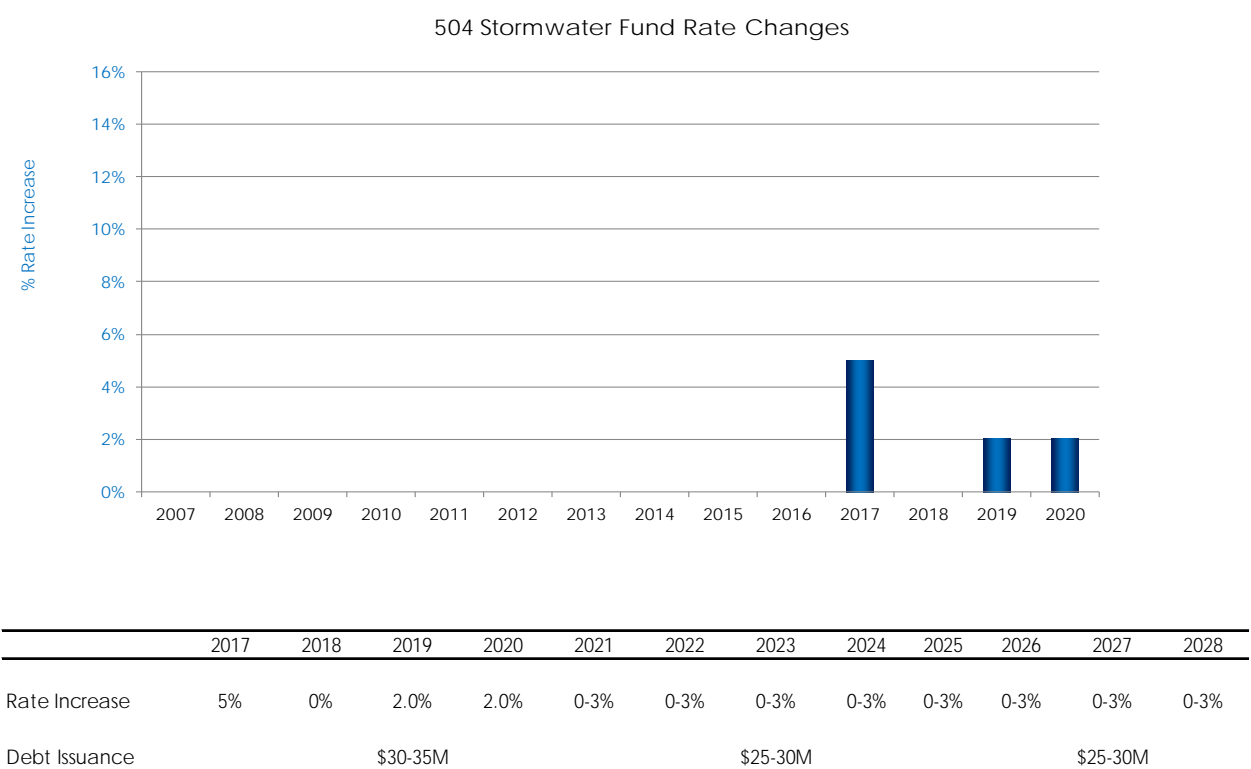
As staff completes the updating and prioritizing of the latest iteration of the capital improvement plan for this utility, the very significant amount of capital investment required to fully buildout the stormwater system throughout the whole community is expected, hence, there is expected to be a need to increase the debt capacity of this utility. A modest adjustment is being proposed here to help with smoothing any larger future increase that may be necessary as the capital improvements are prioritized.

Criteria	2019	2020
1. 3 yr ave. Operating Income < \$0	-	-
3. Debt Coverage Ratio < 2.0	-	-
4. Available Reserves less Capital Need < 0 *	2.0%	2.0%
Sum of Above	2.0%	2.0%
5. Lesser of 5.0% or the sum of above	2.0%	2.0%

* This is an estimate in lieu of the capital improvement plan being prioritized. It will be necessary to increase revenues to support the significant capital needs for this utility

The 2% stormwater increase for 2020 is intended to raise operating revenues modestly to increase the debt capacity of the Enterprise in anticipation of significant debt being needed to meet these future capital needs. Similar, modest adjustments of less than 3% may be necessary over the coming decade depending on the timing and scale of the necessary capital investments.

As shown below few rate adjustments have been made since 2007. The table below the chart shows the rate adjustments that are anticipated to be necessary over the next 10 years to provide adequate revenues to maintain the financial health as determined by the bond rating agencies criteria for assessing new debt issuances. Again, these tables will be updated and presented to the Council Finance Committee later this year ahead of the next Budgeting For Outcomes cycle begins.



*\$272M of capital work is expected to be needed between 2019 and 2044.
 \$70M of stream restoration work has also been identified here.

ATTACHMENTS
 Attachment 1 – PowerPoint presentation

2020 PROPOSED RATES

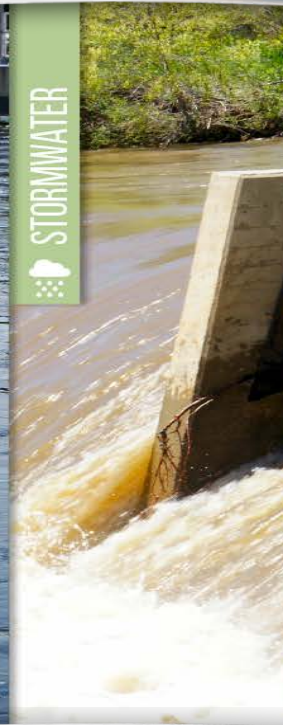
WATER



WASTEWATER



STORMWATER



LIGHT & POWER



Lance Smith, Utilities Strategic Finance Director

Purpose and Direction Sought





Objective:

- Provide an explanation for the 2020 rate increases being proposed for Electric and Stormwater monthly services in the 2019-20 Budget For Outcomes process

Direction Sought:

- Does the Council Finance Committee support bringing the rate increases being proposed forward for consideration by the Mayor and City Council?

2020 Rate Summary

UTILITY	2020 PROPOSED INCREASE	NOTES
 ELECTRIC	5%	Same for all rate classes
 WATER	0%	
 WASTEWATER	0%	
 STORMWATER	2%	Same for all rate classes

2020 ELECTRIC RATES



Financial Criteria for Rate Adjustments

Criteria	Oct '18		CURRENT	2021
	2019	2020	2020	
		1.4%	1.4%	0.3%
1. PRPA wholesale energy costs	1.4%	1.4%		1.4%
2. 3 yr ave Operating Income < 0	5.0%	3.0%	3.9%	TBD
3. Debt Coverage Ratio < 2.0				TBD
4. Available Reserves less Capital Need < 0				TBD
Sum of Above	6.4%	5.8%	5.3%	
5. Lesser of 5.0% or the sum of above	5.0%	5.0%	5.0%	TBD
Increase Carried Forward	1.4%	0.8%	0.3%	TBD

TBD - to be determined in the 2021-22 Budget cycle

2020 STORMWATER RATES



Financial Criteria for Rate Adjustments

Criteria	2019	2020
1. 3 yr ave. Operating Income < \$0	-	-
3. Debt Coverage Ratio < 2.0	-	-
4. Available Reserves less Capital Need < 0 *	2.0%	2.0%
	<hr/>	
Sum of Above	2.0%	2.0%
5. Lesser of 5.0% or the sum of above	2.0%	2.0%

* This is an estimate in lieu of the capital improvement plan being prioritized. It will be necessary to increase revenues to support the significant capital needs for this utility

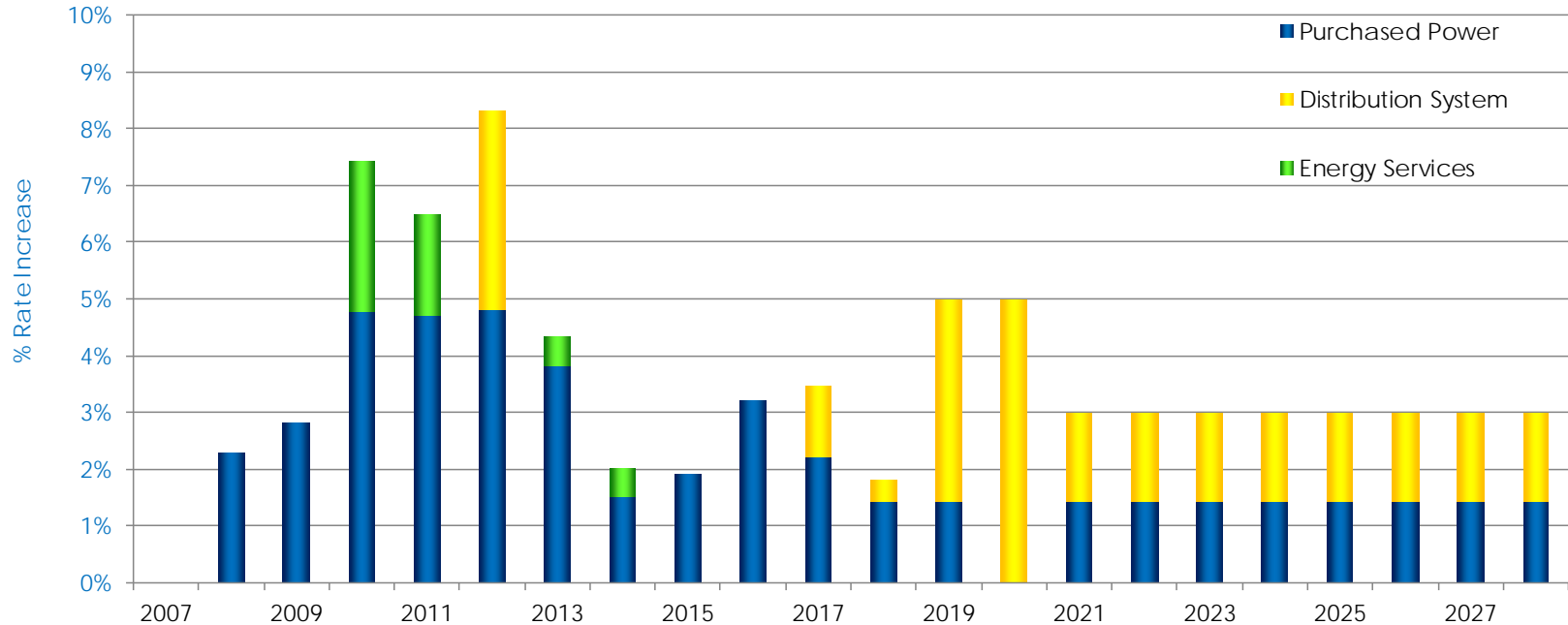
RATE FORECASTS

These forecasts will be updated along with the long term strategic financial plans for all 4 current utility services and presented to this Committee in November.

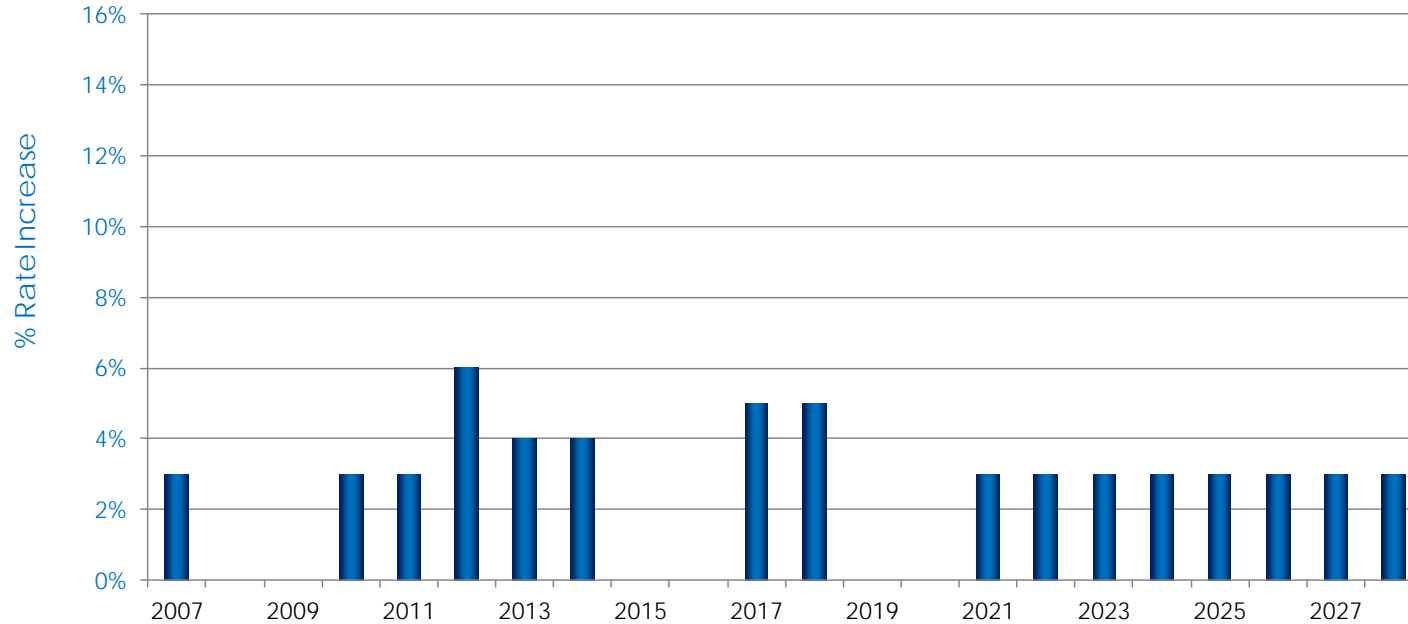


Electric Rate History / Forecast

Electric Monthly Rates

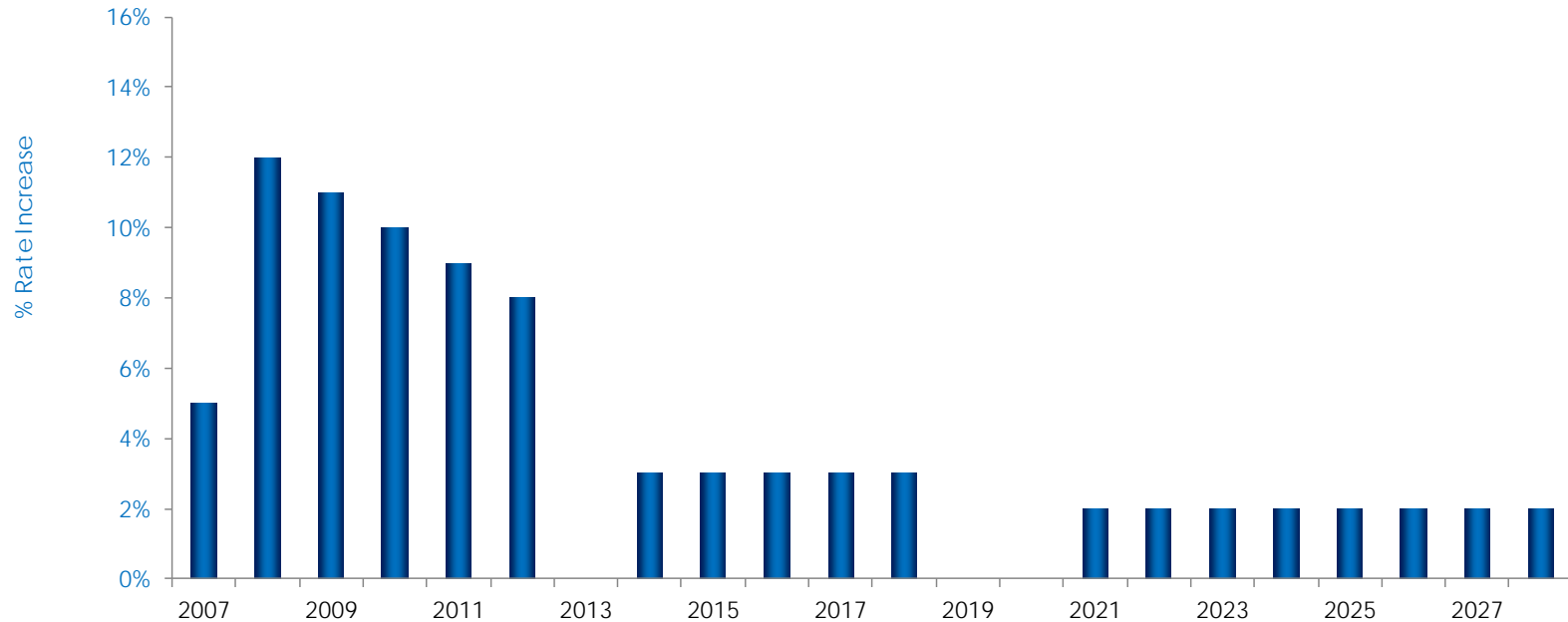


Water Fund Annual Rate Changes



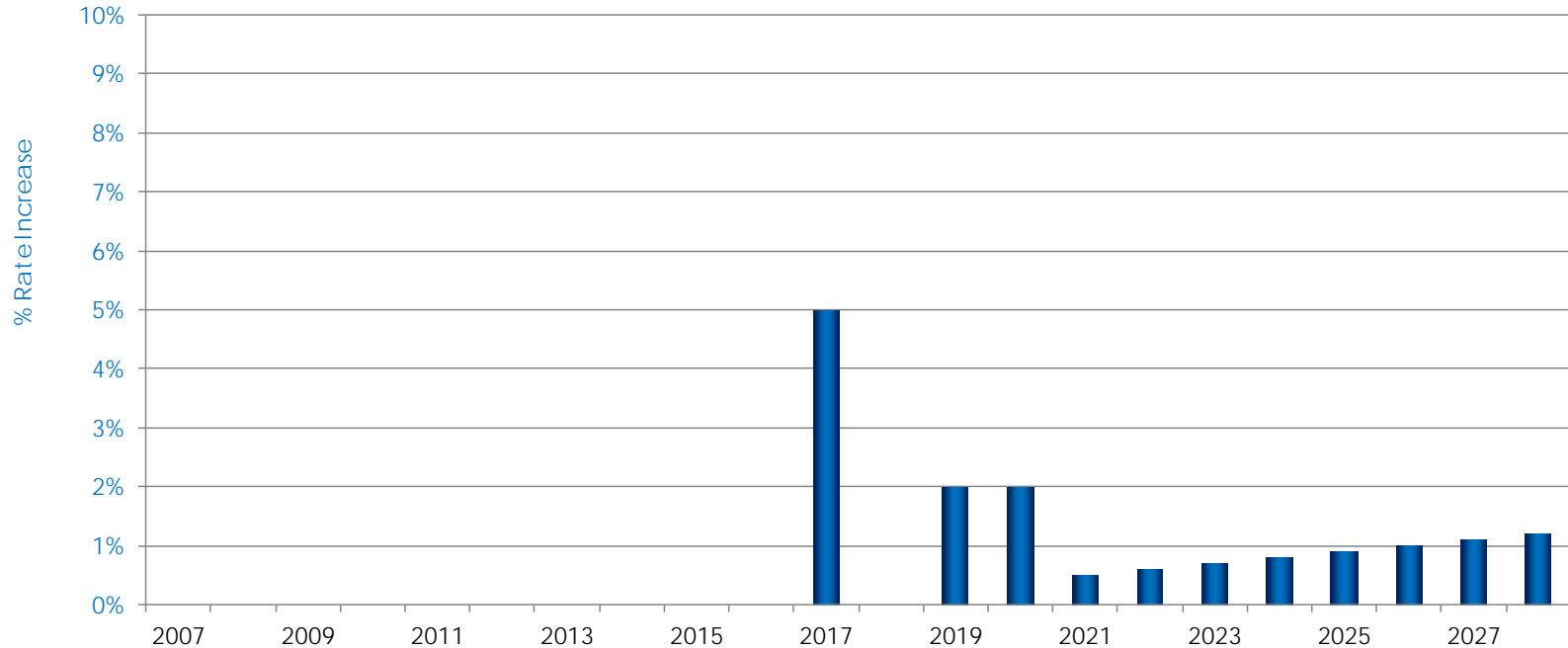
Wastewater Rate History / Forecast

503 - Wastewater Fund Rate Changes



Stormwater Rate History / Forecast

Stormwater Monthly Rate Changes



Residential Bill Impact

Proposed 2019 Residential Average Bill

Fort Collins Utilities Average Residential Monthly Bill				
Utility	2019	2020	\$ Change	% Change
Electric	\$75.56	\$79.34	\$3.60	5.0%
Water *	\$47.88	\$47.88	\$0.00	0.0%
Wastewater *	\$34.45	\$34.45	\$0.00	0.0%
Stormwater	\$15.73	\$16.04	\$0.31	2.0%
Total Average Bill	\$173.62	\$177.71	\$3.91	2.3%

* Water and Wastewater Cost of Service adjustments may be necessary in 2020.

- Energy Board – July (general rate strategy discussion)
- Capital Improvement Plans updated – September
- PRPA 2020 wholesale rates adopted – October
- Strategic Financial Plans presented to CFC – November
- City Council 1st / 2nd Reading of 2020 Rate Ordinances – November
- Rates effective - Jan 2020

Purpose and Direction Sought

Objective:

- Provide an explanation for the 2020 rate increases being proposed for Electric and Stormwater monthly services in the 2019-20 Budget For Outcomes process

Direction Sought:

- Does the Council Finance Committee support bringing the rate increases being proposed forward for consideration by the Mayor and City Council?