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Finance Committee Meeting Minutes  
July 7, 2022, 4-6 pm  
Zoom

Council Attendees: Kelly Ohlson, Emily Francis (Acting Chair), Susan Gutowsky

Absent: Julie Pignataro

Staff: Kelly DiMartino, Travis Storin, Tyler Marr, Carrie Daggett, John Duval, Teresa Roche, Clay Frickey, Rachel Rogers, Jennifer Poznanovic, Nina Bodenhamer, Terri Runyan, Ginny Sawyer, Victoria Shaw, Gerry Paul, Sheena Freve, Blaine Dunn, Amanda Newton, Jo Cech, Lance Smith, Dave Lenz, Zack Mozer, Erik Martin, Carolyn Koontz

Others: Jacy Marmaduke, Coloradoan  
Kevin Jones, Chamber  
Rachel Selby  
Jeff Byler, Manager, Pacific North Enterprises  
Tamara Seaver and Karlie Ogden, from Icenogle Seaver Pogue

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Meeting called to order at 4:00 pm

Approval of minutes from the June 2, 2022, Council Finance Committee Meeting. Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion. Minutes were approved unanimously via roll call by; Kelly Ohlson and Emily Francis.

**A. Rudolph Farms - Metro District**

Clay Frickey, Redevelopment Program Manager  
John Duval, Deputy City Attorney

**SUBJECT FOR DISCUSSION**

Inclusion of Paradigm property into Rudolph Farm Metro District

**EXECUTIVE SUMMARY**

The purpose of this item is to consider the inclusion of the Paradigm property into the Rudolph Farm Metropolitan District (Metro District) located at Prospect and I-25. The developer of the Paradigm property is also seeking through the City's land use process to change the land use mix for the Paradigm property. This inclusion would allow the District to levy on the Paradigm property a Debt Service Mill Levy of 50 mills and an Operations and Maintenance Mill Levy of 20 mills, or a total of 70 mills, which property taxes would be used by the Metro District to fund the construction, operation and maintenance of public improvements. There is already levied on the Paradigm property by the I-25/Prospect Interchange Metro District a 10 mill levy to be

used to reimburse the City for a share of the City’s funding of the recent CDOT improvements to the I-25/Prospect interchange. It is unclear what public improvements the Metro District would fund related to the Paradigm property.

## **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

Does the Council Finance Committee support the inclusion of the Paradigm property in the Metro District?

What additional information would be helpful when staff presents this item to City Council?

## **BACKGROUND/DISCUSSION**

On March 6, 2018, City Council approved a series of resolutions related to the funding of interchange improvements at Prospect and I-25. These resolutions resulted in the following:

- Approval and authorization of a Binding Agreement pertaining to the development of Interstate Highway 25 and Prospect Road Interchange and a related Capital Pledge Agreement
- Approval of the I-25/Prospect Interchange Metro District covering all properties adjacent to the I-25/Prospect interchange
- Approval of the Rudolph Farms Metro District at the northeast corner of Prospect and I-25
- Approval of the Gateway at Prospect Metro District at the northwest corner of Prospect and I-25
- Approval of the SW Prospect I-25 Metro District at the southwest corner of Prospect and I-25

Approval of these agreements and Metro Districts resulted in the City, the Colorado Department of Transportation (CDOT), the owners of the parcels of private property at the four corners of the interchange (Property Owners) and the Town of Timnath sharing in the costs to fund improvements to the I-25/Prospect interchange to be built concurrently with the expansion of I-25. By rebuilding the I-25/Prospect interchange at the same time as the I-25 expansion, the project was able to realize efficiencies that resulted in \$7 million in reduced project costs. This also accelerated the timeline for improvements to the interchange.

These actions also created the Metro Districts at each corner of the I-25/Prospect interchange with the exception of the southeast corner. The southeast corner of I-25/Prospect is known as the Paradigm property. The approved Metro Districts allow for funding of necessary infrastructure and public improvements to serve future development within the Districts. These Metro Districts pre-date the City’s Metro District policy requiring public benefits from Metro Districts where more than 10% of the assessed value is residential.

These actions also created the I-25/Prospect Interchange Metro District (Interchange Metro District). All of the Property Owners’ properties are included within the boundaries of the Interchange Metro District. The purpose of the Interchange Metro District is to generate tax and fee revenues from the Property Owners’ properties to reimburse the City for the Property Owners’ share of the costs to fund the CDOT improvements to the I-25/Prospect Interchange.

The estimated total project cost of the I-25/Prospect interchange improvements was \$31 million. Of this, \$24 million was for base design while the remaining \$7 million represents the City’s required urban design elements. CDOT shared in 50 percent of the base design portion, or \$12 million. The remaining \$19 million was split between the City, Property Owners, and Timnath at 43%, 43%, and 14%, respectively. Timnath’s share is based on traffic studies with the City and Property Owners splitting the remaining costs.

**Table 1**

### Partners Allocation of Costs (Millions)

Partners Share Allocation				
	Total	Fort Collins	Property Owners	Timnath
Overpass Cost	<b>\$19.00</b>	<b>\$8.25</b>	<b>\$8.25</b>	<b>\$2.50</b>
<i>% Share Cost</i>	<i>100%</i>	<i>43%</i>	<i>43%</i>	<i>13%</i>
Less ROW Credit	\$0.50	\$0.00	\$0.50	\$0.00
Less TCEF Credit	\$1.40	\$0.70	\$0.70	\$0.00
<b>Debt Obligation</b>	<b>\$17.10</b>	<b>\$7.55</b>	<b>\$7.05</b>	<b>\$2.50</b>
<i>% Share Payments</i>	<i>100%</i>	<i>44%</i>	<i>41%</i>	<i>15%</i>

On March 5, 2019, City Council adopted Ordinance No. 30, 2019, appropriating \$19,099,945 to fund all non-CDOT costs associated with the I-25/Prospect interchange improvements. The City would seek repayment from the Property Owners within the District and from the Town of Timnath. The Binding Agreement requires each party highlighted in the table above to pay its share of the costs associated with the interchange improvements. The Capital Pledge Agreement outlines the terms of repayment for the Owners' Share of the project costs to be paid, in effect, through the Interchange Metro District.

The Capital Pledge Agreement identifies the sources of revenue from the Interchange Metro District that will be used to reimburse the City for the Property Owners' share of the costs. These revenue sources include:

- Imposition of a property tax mill levy of 10 mills on all taxable property within the Interchange Metro District
- 0.75% public improvement fee (PIF) on all retail purchases made within the Interchange Metro District, net of any reasonable administrative fees for collection by the City
- Impact fee collected at the time of issuance of a vertical building permit based on land use within the Interchange Metro District

Per the Capital Pledge Agreement, the Property Owners' share is payable on or before December 1 of each year in twenty equal installments of \$479,000 beginning December 1, 2019. At the end each month, the property owners must remit any PIF or impact fees collected during the preceding month. In the event that the Property Owners are unable to pay \$479,000 by December 1, the deficit accrues interest at a rate of 4.25%. The current deficit of the Property Owners' share is \$958,622.

#### Rudolph Farms Background:

The Rudolph Farms property lies in three zone districts: General Commercial (CG), Industrial (I), and Urban Estate (UE). The Rudolph Farms Metro District Service Plan contemplates development that would conform to the permitted uses of those zone districts. Table 2 below shows the approved land use mix in the Rudolph Farms

Metro District Service Plan. The land use mix for Rudolph Farms in the I-25/Prospect Interchange Service Plan mirrors the land use mix shown in the Rudolph Farms Service Plan.

PNE Prospect Holdings LLC (PNE) acquired Rudolph Farms in 2021. PNE is looking to potentially acquire the Paradigm property for inclusion in the Rudolph Farms Metro District. In addition to including the Paradigm property, PNE contemplates changes to the land use mix and has two potential concepts in mind as per Table 2.

**Table 2 – Rudolph Farms Land Use Mix Comparison**

	<b>Service Plan</b>	<b>Concept 1</b>	<b>Concept 2</b>	<b>% Change - Concept 1</b>	<b>% Change - Concept 2</b>
<b>Retail</b>	107,850	121,904	127,900	13.03%	18.59%
<b>Hotel (Rooms)</b>	240	0	0	-100.00%	-100.00%
<b>Convenience</b>	5,350	0	0	-100.00%	-100.00%
<b>Office</b>	0	80,320	153,400	100.00%	100.00%
<b>Industrial</b>	831,150	440,500	300,500	-47.00%	-63.85%
<b>Residential (Units)</b>	60	563	685	838.33%	1041.67%
<b>Self Storage</b>	-	96,951	96,951	100.00%	100.00%

Paradigm Background:

On January 15, 2004, the Planning and Zoning Board approved the Paradigm Overall Development Plan (ODP). The purpose of an ODP is to establish general planning and development control parameters for projects that will be developed in phases with multiple submittals while allowing sufficient flexibility to permit detailed planning in subsequent submittals. The approved Paradigm ODP permits retail, drive-thru restaurant, hotel, convenience store with gas station, restaurant, office, and warehouse uses. The I-25/Prospect Interchange Metro District Service Plan contemplates Paradigm developing 114,000 square feet of retail and a 100-room hotel, mirroring the approved ODP.

In acquiring Paradigm, PNE looks to change the land use mix of Paradigm. On June 22, PNE met with City staff for a Preliminary Design Review about changing the land use mix for Paradigm. Preliminary Design Review is a pre-application meeting where City staff highlights potential issues with the proposed development prior to the applicant submitting a formal development application with the City. PNE proposes two hotels, two pad sites for fast casual restaurants, a convenience store, and a parcel for multi-family. There is not enough detail in the Preliminary Design Review application to compare the proposed land use mix with that approved in the Overall Development Plan and I-25/Prospect Interchange Service Plan.

Inclusion of Paradigm property into Rudolph Farms Metro District:

On June 7, 2022, legal counsel for PNE submitted a formal letter requesting inclusion of the Paradigm property into the Rudolph Farms Metro District. Per Section V(A)(4) of the Rudolph Farms Service Plan, inclusion of new property to the Metro District requires approval by City Council. Including Paradigm into the Rudolph Farms Metro District would allow the Metro District to issue bonds to fund public improvements required to serve the Paradigm property. The bonds would be repaid by placing a mill levy on the Paradigm property. The Rudolph Farms Service Plan projects the need for a Debt Service Mill Levy of 50 mills and an Operations and Maintenance Mill Levy of 20 mills, or a total of 70 mills. The inclusion of the Paradigm property into the Metro District would yield the following necessary updates to the Rudolph Farms Metro District:

- List of public improvements required to serve the Metro District inclusive of Paradigm
- Development summary
- Exhibits of public infrastructure required to serve Paradigm
- Financial plan

None of the amendments listed above require Council approval.

As mentioned above, Paradigm also contributes to the I-25/Prospect Interchange improvements. While the change in land use has little impact on the Rudolph Farms Metro District, these land use changes have more implications for the Interchange Metro District. The I-25/Prospect Interchange Service Plan contemplated the Paradigm property developing 114,000 square feet of retail and a 100-room hotel. The amended plans show two hotels, two pad sites for fast casual restaurants, a convenience store, and a parcel for multi-family. This presents some opportunities and potential risks for the City to collect the Property Owners' share of costs associated with the I-25/Prospect interchange improvements.

#### *Opportunities:*

- More feasible development plan – the updated development plans reflect updated development ideas to meet current market demand. Paradigm has sat vacant since approval of the ODP in 2004. This is an indication that the approved ODP is not well positioned to meet current market demands and may never come to fruition.
- Faster revenue generation – a more feasible development plan could yield faster revenue generation for the interchange improvements. There is already a sizable deficit for the Property Owners' share and this change to the land use mix could help the City recover some of its costs quicker.

#### *Risks:*

- Lower assessment rates – In Colorado, properties are taxed based on a percent of its assessed value. Commercial properties are taxed at 29% while residential properties are taxed at 7.15%. The updated plans for Paradigm would have 6.2 acres of residential uses. This means the residential component of Paradigm would need to have an assessed value four times that of a commercial property to yield the same revenue from the mill levy imposed by the Interchange Metro District.
- Lower PIF revenues – Another source of revenue in the Capital Pledge Agreement is the imposition of a 0.75% PIF on retail sales within the Interchange Metro District. Residential properties do not generate retail sales. By converting a portion of Paradigm property to residential from retail, the result will be less PIF revenue.

Without additional detail on how and when the Paradigm property might develop, it is uncertain how much the changes in Paradigm's land use mix will affect the City's ability to recover from the Property Owners their share of costs for the interchange improvements.

## **DISCUSSION / NEXT STEPS:**

### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

- Does the Council Finance Committee support the inclusion of the Paradigm property in the Metro District?
- What additional information would be helpful when staff presents this item to City Council?

Kelly Ohlson; the \$8.5M for the private sector share – if they don't pay that off in 10 -15 years, the value of the \$8.5M will be closer to \$3-4M. Do we have any kind of interest payment or escalating written in? Why would we not build that in?

Clay Frickey, Yes, that is built in, there is a 4.25% interest rate - payments were scheduled to started in 2019 – property owners share – accrues interest – no payments received to date

Travis Storin; payment don't start until PIF (Public Investment Fund) revenue starts

Kelly Ohlson; maybe it makes sense to start the payments when their share of improvements is 90% finished

John Duval; as soon as they start having development and the Mill levy starts getting generated – the development will start receiving that money – whatever the Metro District gets off of the Mill levy on any development, on any included properties and as PIF starts getting generated and there are some impact fees they are to collect

Kelly Ohlson; What I am concerned about in the future is that the private sector writes better agreements for their benefit than we do for ours. In some cases, it could be 10 years after the improvements are built and that money is not worth nearly as much.

John Duval; they do start paying property tax right away from the metro district to the city under the agreement - when development starts interest accrues at 4.64% rate unless or until payments are made.

Kelly Ohlson; I am not going to support this, but I think staff is playing under the rules established so it is fair that you are bringing this to us. Is there a recommendation included?

Clay Frickey; no, we wanted to get Council Finance Committee's perspective before making a recommendation.

Kelly Ohlson; I am not supportive of metro districts in general. I view them as fatally flawed, generally scams and in many cases corrupt.

Emily Francis; in layman's terms – Paradigm Property has a current plan of what should go there (the original). Rudolph Farms wants to incorporate Paradigm into their metro district and at the same time change what is going into Paradigm.

Clay Frickey; that is correct – there is a lot of information and moving pieces – so please feel free to ask for clarity.

Emily Francis; since this was originally adopted by Council, we have updated our metro district policies, so I am not in favor of absorbing another property (Paradigm) into this without it having to come up to our current, updated standards. Based on that, I am not in favor as we have gone through a process of updating our standards to align with the outcomes we are trying to achieve. I would say that Paradigm could go through the process and apply for their own metro district, but I don't think it is appropriate to just absorb a property because Rudolph Farms is purchasing it and then also changing the land use quite dramatically (getting rid of open space).

Is it typical for the city to zone multifamily dwelling units so close to a gas station?

Clay Frickey; I would have to take a look and see where gas stations are located – I can think of a couple examples where this is the case - this is not common but also not unheard of.

**ACTION ITEM:**

Emily Francis; I can see that being appropriate in the 80's when we didn't have as much information about the negative health consequences of living so close to a gas station. As a side note, could we see if that is still allowed in our land use code?

If Rudolph Farms wants to buy this they would need to go through the whole process.

Kelly Ohlson; referencing an editorial in Denver Post -Sunday, May 1, 2022 (see link below)

<https://www.denverpost.com/2022/04/28/metro-district-abuse-junior-bond-debt-house-bill-1363/>

HB 1363 would have shut down one of the most egregious abuses of taxpayer dollars when developers issue a small tranche of debt on the bond market with unfavorable terms with above market interest and then buy the debt themselves so future homeowners will end up paying the developer for decades through their property taxes for a completely unnecessary load of bad debt. HB1363 is simple and only a small part of the reforms needed for a deeply flawed state law that allows private, for-profit developers to spend millions in taxpayer dollars with no oversight of the spending from publicly elected officials, the only people who determine how the money is spent and how it will be paid by taxpayers are the developers and their employees who have a financial stake in the venture. Millions of Coloradoans are paying off the debt incurred by these developers with no ability to see what the money was spent on or whether the project was priced in a reasonable fashion, let alone bid in a competitive way to assure a good use of taxpayer dollars..... for so many homeowners, it is too late to protect themselves from a predatory developer with free rein over their tax money, but HB1363 offers hope that future homeowners won't have to suffer. There is so much more reform that needs to happen. Metro district mill levies should be disclosed on all MLS listings and in sales offices for new developments. Those serving as quasi- judicial officials for metro districts should not be able to vote if they have a conflict of interest and the state should require metro districts competitively bid and publicly post all expenditures.

I am not going to be complicate in the metro district game until state level reforms are made.

Emily Francis; the process we have in place is not perfect and doesn't address all issues with metro districts but that is why it is important to have any new metro district go through the process.

For presenting to Council, with these more confusing and nuanced items, I think we really need to watch our reading level of information we present so that our residents can follow along. Not everyone knows about bonds and metro districts – thinking about the public and their understanding of what we are talking about.

## **B. Grocery Tax Rebate Program**

Nina Bodenhamer, Director, City Give

Jennifer Poznanovic, Sr. Manager, Sales Tax & Revenue

### **EXECUTIVE SUMMARY**

Established in 1972, the Grocery Tax Rebate is intended to provide financially insecure residents relief from City sales tax charged on purchased food. The program was expanded to include residents within the City's Growth Management Area in 2017.

Per a 2020 Performance & Program Evaluation, participation in Grocery Tax Rebate would benefit from:

- City-wide Centralization of Administration
- City-wide Coordination of Program Outreach
- Simplified Document and Income Verification
- Increased Alignment with Other City Benefit Programs

### **CURRENT STATE**

In 2021, 1,800 Residents applied and received the Grocery Rebate Tax. 89% of applicants are repeat participants from the prior year.

- 2022 Annual Benefit: \$69 Per Resident
- Eligibility: 50% Area Media Income

In spite of robust community outreach and investments in marketing, the Grocery Tax Rebate has historically lackluster enrollment.

Outreach and marketing efforts include but are not limited to:

- Spanish-language Translation of Outreach Materials and Application
- Direct mail, Community Promotion and Marketing
  - Community-wide Poster Distribution
  - Two (2) Ads Per Year, Coloradoan, Op-Ed
- 50+ Community Partners: Distribution of Applications & Promotion

### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

Council input and the findings of the 2020 Performance & Program Evaluation affirm a commitment to:

- Increase Participation in Income-qualified Programs
- Reduce Barriers to Enrollment
- Realize the Potential of the City's Investment in Get FoCo
- Embed Best Practices & Resident Input

Adjusting the income eligibility from 50% AMI to 30% AMI would reduce the overall pool of applicants. However, would the increased ease in income verification result in a higher response rate?

### **BACKGROUND/DISCUSSION**

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

- Revision to the Payment Definition to Allow Future Alternatives
- A Shift in Window of Service from Seasonal to Annual
- Adjusted Definition of "Households"
- Removed Federal Income Tax as the Sole Income Verification Source

Yet, the program continues to represent low participation rates. Four (4) options are presented with the rationale, risks and benefits of each:

- Option #1: Maintain Grocery Tax Rebate Income Eligibility at 50% AMI
  - Outstanding Benefit: An estimated resident pool of 18,000
  - Potential Risk: Income Tax Returns serve as the Sole Option for Income Verification: 30% - 50% AMI
- Option #2: Adjust Grocery Tax Rebate Income Eligibility to 30% AMI
  - Outstanding Benefit: Applicants Immediately Eligible for other City Benefits: Recreation, Spin Access, Reduced Cost Internet via Get FoCo
  - Potential Risk: A Reduced Participant Pool: 12,000 Eligible Residents
- Option #3: Adjust Grocery Tax Rebate Income Eligibility at 60% AMI
  - Outstanding Benefit: Income Verification Piggybacks on State Program
  - Potential Risk: Resident Familiarity with Low Energy Assistance Program (LEAP)
- Option #4: Adjust Grocery Tax Rebate Income Eligibility to 80% AMI
  - Via Household Addresses Linked to Affordable Housing Properties
  - Additional Financial, Technological and Operational Exploration Required

#### **DISCUSSION / NEXT STEPS:**

##### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

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Kelly Ohlson; I do prefer a higher number like 60% AMI. I have lived most of my life in that demographic so that is kind of a minimal number for me. I don't think we have put new taxes on food since the 80's. Can you confirm?

Travis Storin; yes, that is correct - Restaurant consumption is on the whole amount 3.85%

Kelly Ohlson; we are trying to balance that out - we get quite a bit of revenue from the base – I am interested in 60%. I don't follow at all how we are going to verify that

Nina Bodenhamer; the success of the Get FoCo app depends on piggybacking – so we are using federal, state, or regional benefit programs. A resident who is participating in SNAP has an EBT card. They log into their account while they are at Get FoCo – take a snapshot of that screen and the verification of that account tied to the resident verification qualifies them at 30% AMI. With the 60% AMI option, that is also the standard for LEAP – so someone who qualifies for LEAP would receive a notice from the Colorado Low-income Energy Assistance Program - they upload the LEAP confirmation letter they received via email and when the text reader sees it and they are established at 60%.

The other option is Income Qualified Assistance Program (IQAP) for Fort Collins Utilities which also uses LEAP as a 3<sup>rd</sup> party verification/ qualifier. The LEAP letter opens the door to city benefits. If they are enrolled in the reduced utility rate program, it is natural for them to enroll for the Grocery Store Rebate at the same time.

Kelly Ohlson; I am focused at the moment on Option 3. I am curious what staff would recommend.

Nina Bodenhamer; I am excited about the 60% AMI and my reason is for one it was illuminated by your and Emily's hard questions at Council. I love the challenge to come back with another pathway. My operational goal is to make the application process easy for residents and 60% accomplishes that. Increasing the ceiling and making it easy, means we may have many more applicants than the current budget plans for.

Jen Poznanovic; I would say it really depends on what the Council is looking for - the income tax returns are a big barrier, and we aren't seeing as many families participate. Historically, over 80-90% are repeat applicants, over 50% are 65 and older so typically folks who have more time on their hands and are used to the process of giving us their tax return as part of the application process.

Kelly Ohlson; if this is the direction a majority of Council approves then it is up to us to prioritize the budget because we do bring in a lot of money from sales tax on food maybe some of the revenue from food goes back to those who need it the most.

Travis Storin; when I think about the 18,000 residents who are eligible for today's program relative to the 1,800 who participate - we can do a lot better than that (10%). We have really reached our limit on outreach - we have done everything we can in terms of promotion and awareness of this program, yet we still see low participation rates. I support the conclusion that the application verification process itself is creating barriers to participation. The more we can peg our programs to state and regional programs like LEAP then we are making it easier for our resident and expedites the process. 30% AMI is easy street - 31-60% AMI tranches can be tricky but I think Option 3 is viable right out of the shoot and you can keep Option 4 in mind. Once we see the efficacy at 60% AMI the dollars do start to grow. It is a humble \$100K program today and we want to daylight for Council's consideration that it would come at a cost to drive to substantially higher participation. I think we can manage that at 60% and that would be a good place to monitor to see if we could do 80%.

Emily Francis; when we send a rebate it is city funds, correct.

Nina Bodenhamer, yes

Emily Francis; I don't understand why we make people prove to us they are low income. How much does it cost for us to administer this program?

Travis Storin; we have one staff member with a 25-hour part time schedule for 12 months. \$50K range - so relative to the \$100K of benefits going out it is costly.

Nina Bodenhamer; the current benefit is \$69 per resident. So, a single parent with 4 children would receive 5x \$69 (\$345)

Emily Francis; there are not a lot of people who would game the system for \$60.

As a city, we say we want to reduce barriers, yet we are still going to make you prove that you are low income. It is just counter intuitive to me. If we don't have state and federal limitations on how we administer the program, and the funds then why are we putting that on ourselves?

Travis Storin; I assess a different risk around the potential for abuse – they are people who qualify technically because a business can run on a different tax return, etc. A person can qualify on the face of the form but can actually be a person who has means. I would worry that by having no qualification, we would open ourselves up to larger levels of abuse.

Emily Francis; I just doubt that there would be enough abuse that we would need to warrant the staff time to do this. Which will cost us more, the 20 people who abuse it or having full time staff work on it. I don't understand how we say we want to remove barriers and we have complete control of these programs, yet we are still going to make people prove they are low income. I just think it is something for us to think about and consider.

My other question is related to the grocery bag waiver – why can't we just follow the same guidelines at the register and not charge them sales tax on food.

Nina Bodenhamer; this has come up with our Get FoCo partners as well - we aren't there yet with the technology. To address your other question regarding income verification – your philosophical position is that we may not be there yet as a city, yet it is the same direction we were heading with the development of Get FoCo. How do we make it easiest for our residents, non-threatening, warm, responsive, and not a burden in terms of time? So, right now the benefit of the Get FoCo app in its entirety is that when a resident establishes a need – that is a gateway to a host of other programs not just the grocery tax rebate. We have the recreation discount which is a gateway to reduced cost childcare so there is a lot that happens once someone does establish need. The reason we designed this app was to reduce repetitive proving of income, to reduce the uncomfortable cultural barriers that we place on residents. We are moving in a positive direction – we have made this easy – if you were applying for the recreation discount, to apply for the grocery tax rebate program would simply be a click on a box because your income is already verified. We have this whole section to quick apply for a list of programs. If I qualify for one then I qualify for all - so we are moving in this progression. In a future world, how else can that designation be used – for example the grocery tax - how do we create that space where we could eliminate the tax instead of rebating it?

Emily Francis; we spend so much time talking about how we operate to get to our goals – those processes aren't necessarily serving us – how do we get to the same end goal but in a different way. The 4 options are great, but they don't address the larger issue, the larger policy direction. So, with the 60% AMI – SNAP is one way but can be a pain to qualify for in the first place. I think it would be helpful to list all of the ways a person can qualify. During Covid with all the rent assistance, If you were a case manager for someone you could provide a letter saying someone was being paid in cash.

Nina Bodenhamer; right now, in the app, we accept the SNAP EBT card, Women, Infants and Children (WIC) card, American Connectivity Program formerly Emergency Broadband Benefit (EBB), a PSD free or reduced lunch program letter, LINK the income qualified assistance program in our own utilities Medicaid – we are warming up to – cards have no expiration date so that represents a separate issue but is a simple approach, a letter from a provider from county, state, or other benefit programs. And SPIN (bike and scooter share) community access pass and their verification is at 30% AMI. Their verification is through their own platform which was created by Code for America.

Emily Francis; we need to think about other verifications that aren't tied to government.

Nina Bodenhamer; I accept that challenge

Emily Francis; we could do a pilot with the grocery food tax rebate and see how it goes

Kelly Ohlson; that is where I am at -I would be open to what you are suggesting - a pilot using the grocery store tax rebate- I like to have some recourse to go after the cheaters and eliminate them from the system.

Nina Bodenhamer; I do think they are some important gates

I would like to leave today with a recommendation for verification. We have a team in place with rebate. The 60% option still leverages the Get FoCo app. What does the success rate look like when we just make it easy on applicants? What if we relieved the income verification? How does that operationalize? I am looking for direction today on a percentage with our idea of 60% AMI

Kelly Ohlson; let's put this in some type of resolution because players on Council change. Then we have it in writing with our idea at 60% AMI for a certain time period if we need to go through one full cycle to evaluate how the system recommended by staff works. Staff could at the same time work on alternatives for us to consider – that way we don't waste a year of the new system and then take 9 months – that they happen concurrently – so we consider after we see how this works.

Emily Francis; I think that would be fine – so, 60% AMI and the language that Kelly said.

I appreciate your teams work so much and our language around this is going to be easy – making it easier for some people- we are forgetting a lot of people who it is not easier for

Nina Bodenhamer; it will be easy for households who know how to navigate public systems, have internet access. I would like to see us Increase participation in that space.

Susan Gutowsky; reference to the open system - I think with any system there are always folks who will game it – looking at all of the recovery money that was distributed - lots of money with very little oversight and lack of accountability. I don't know how you would spot the people who not playing fairly unless you have some sort of check, some way of verification. It would make me very uncomfortable to have an open system and trust everyone to be honest. Once you verify your income,

it does open doors to other resources – it would benefit the city to have that done and don't think it would be a huge burden for those who want to apply. It is human nature across the board.

Travis Storin; summary

- Support for Option 3
- Fashioning this as a pilot and in parallel develop options that expand beyond the federal and state qualifications up to and including dropping the qualification entirely. We can capture that in the ordinance language that staff is continuing to study this and is not waiting for a year to start developing new programs
- Some reference to a timetable -appropriate amount of time to evaluate

Emily Francis; when this comes to Council, can you provide more information about the Medicaid part and other alternatives?

Kelly Ohlson; are these programs (Medicaid / SNAP for example) permanent? Do federal and state governments ever take people off these programs?

Nina Bodenhamer; the Medicaid card can be inactive - there is no date on the card, so you don't know if the card is active or not. SNAP / EBT – residents can log into their account, and it is an active account. Medicaid doesn't have that option.

Emily Francis; income verification for SNAP is done annually

Nina Bodenhamer; we haven't established what that cadence is yet for Get FoCo Qualified last year - We can adjust when they were last verified and track when they have been active and what they have qualified for. LEAP / IQAP – what does that do to our overall cross pollination of these programs? Get FoCo a gateway to multiple city benefits

## **C. Capital Projects – Inflationary Impact (All Projects)**

Sheena Frève, Senior Analyst, Financial Planning & Analysis

Gerry Paul, Director of Purchasing

### **EXECUTIVE SUMMARY**

Inflation is currently at historically high levels, with the consumer price index (CPI) increasing by 8.6% from May 2021 to May 2022. Inflation in the construction industry is increasing at even faster pace, rising by 10% to 17% over the past year. Adding to the problem, the supply chain is experiencing pressure caused by higher costs and much longer lead times. The impact on the City can be seen in recent requests for supplemental appropriations for capital projects by Community Services, Planning, Development & Transportation, and Utilities.

The City anticipates continued pressure and has identified projects at risk due to inflation. The expectation is that most funding shortfalls will be addressed through the 2023/2024 budget process or through changes in scope, decreased levels of service, or delays impacting implementation and future projects. At the same time, inflation is offset by higher City revenues through increased sales tax receipts and investment income. Over the next five years, the Bipartisan Infrastructure Law will allocate billions of dollars to the state and local governments in Colorado. This may cause increased pressure on construction costs.

Some mitigating strategies are available through the competitive procurement process and by selecting the project delivery method that will result in the best outcomes. However, inflationary headwinds will continue to limit the City's ability to control rising construction costs. Staff are planning to establish an inflationary reserve as part of the 2023/2024 budget submittal.

#### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

- What questions does Council Finance Committee have regarding the impact of inflation on capital projects?
- What questions does Council Finance Committee have regarding methods of procurement and project delivery?

#### **BACKGROUND/DISCUSSION**

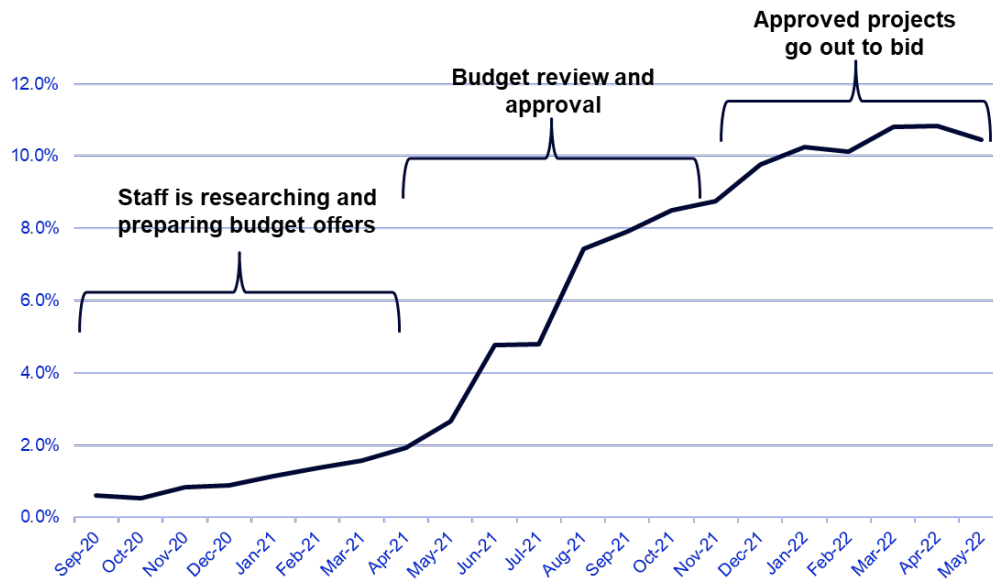
Inflation has risen by 8.6% from May 2021 to May 2022 according to the Consumer Price Index (CPI), the highest inflation rate since 1981 (Appendix I). Even so, inflation in the construction industry is rising at an even faster pace. The Engineering News-Record (ENR) construction cost index indicates that road and bridge construction has risen by 10% since May 2021 while construction on buildings has risen by 17% in the same period (Appendix II). This is confirmed by the 16% increase shown in the Colorado Construction Cost Index which tracks the costs of certain elements, such as asphalt and concrete, in projects bid and awarded by the Colorado Department of Transportation (Appendix III).

Several cost drivers are contributing to the rapid rise of inflation in the construction industry. Fuel is a major component of construction projects and gas prices have risen by 62% since June 2021 (Appendix IV). Labor costs as captured in the Employer Cost for Employee Compensation show a 4.8% increase for all civilian workers from March 2021 to March 2022 and a 6.2% increase for those in construction occupations (Appendix V). Right-of-Way (ROW) costs can be a major cost driver for projects requiring land or easements. ROW is driven by fair market value of real estate. Housing costs in Fort Collins have increased by 21% from the first quarter of 2021 to the first quarter of 2022, driving up the cost of ROW acquisitions (Appendix VI).

Adding to the inflationary pressure and contributing challenges of its own, the supply chain is under increasing strain. The Global Supply Chain Pressure Index (GSPCI), produced by the Federal Reserve Bank of New York, tracks the state of the global supply chain using surveys and data from the transportation and manufacturing sectors, including pricing, delivery times, and backlogs. The GSPCI indicates an historically high level of pressure on the supply chain and its authors submit that recent trends suggest a stabilization of pressures at these historically high levels (Appendix VII).

These developments have created challenges for the City's capital projects, particularly those that were budgeted during a period of low inflation. Budget offers for the 2022 fiscal year were researched and prepared beginning in the fall of 2020 until the submission deadline in April 2021. During this period, the ENR construction cost index indicated inflation was at or below 2%. Construction inflation climbed over 2% beginning in May 2021 as the budget review and approval process began. Projects cannot go out to bid until the budget has been approved in November. By that time, construction inflation had climbed to near 9%.

### The Timing of the Budget Process Compared to Construction Inflation



As part of the competitive purchasing process, the City can use a number of cost mitigation techniques, which are addressed in Attachment 2, to manage costs. However, throughout the procurement process, projects are subject to market conditions.

Several appropriated projects have come before Council Finance Committee in recent months requiring a supplemental appropriation due, in part, to inflation and supply chain issues. Those projects are listed below.

### Inflation: Appropriated Projects Already Addressed

Project Description	Service Area	Original Budget	Budget Increase	Percentage Increase
East Park District Maintenance Facility	Community Services	\$5,800,000	\$1,200,000	21%
Southridge Golf Course Irrigation System Replacement	Community Services	\$5,000,000	\$1,200,000	24%
Linden Street	PDT	\$3,861,000	\$500,000	13%
South Timberline Corridor	PDT	\$8,723,228	\$2,148,000	25%
Vine/Lemay/BNSF Intersection	PDT	\$28,723,630	\$1,380,000	5%
Electric transformer replacement program	Utilities	\$792,811	\$1,432,000	181%
<b>Grand Total To-Date</b>		<b>\$52,900,669</b>	<b>\$7,860,000</b>	<b>14.8%</b>

Additional impacts on appropriated projects are expected (Appendix VIII). However, at this time it is anticipated that most affected projects will be addressed through the 2023/2024 budget process or by reducing the project scope or delaying other projects.

In the 2023/2024 budget cycle, inflation has created a high level of uncertainty for staff preparing budget offers. Capital project budget offers significantly impacted by inflation are listed below. Inflation escalators of 6 to 31% were built into many of these projects along with higher-than-average contingency, ranging from 15 to 25%. Some budget offers anticipate incorporating scope changes and value engineering to counter funding shortfalls.

## 2023/2024 Capital Project Budget Offers Impacted by Inflation

Service Area	Offer Name	Offer Total 2023	Offer Total 2024
Community Services	Recreational Trail Development	\$2,495,510	\$771,838
Community Services	Neighborhood Park Development	\$3,777,107	\$3,802,609
Community Services	Community Park Development	\$757,026	\$110,744
Community Services	Build Community Garden in Traverse Park	\$140,000	\$0
Community Services	9/11 Memorial at Spring Park	\$300,000	\$0
Community Services	CCIP - Southeast Community Center Construction	\$15,201,000	\$0
Judicial Services	Municipal Court Services - Court Remodel Option 1	\$13,000,000	\$0
Judicial Services	Municipal Court Services - Court Remodel Option 2	\$21,000,000	\$0
PDT	Power Trail at Harmony Road Grade-Separated Crossing and Trail Extension (Design and Construction)	\$4,400,000	\$0
PDT	Downtown Quiet Zone - Design of Wayside Horns	\$500,000	\$0
PDT	Siphon Bicycle/Pedestrian Overpass (Construction)	\$1,500,000	\$0
PDT	College and Trilby Intersection Improvements (Construction)	\$3,870,000	\$1,800,000
PDT	Turnberry Road and Suniga Road Extensions (30% Design)	\$300,000	\$0
PDT	Laporte Avenue Corridor Improvements (Construction)	\$0	\$1,572,500
PDT	Automated Wash Bay Facility Construction	\$2,710,000	\$0
PDT	Hoffman Mill Scale House Renovation	\$250,000	\$0
PDT	Americans With Disabilities Act (ADA) System Upgrades	\$3,570,000	\$0
Utility Services	Landfill Groundwater Remediation IGA	\$650,000	\$100,000
Utility Services	Utilities: Light & Power - Grid Integrated Water Heater Installations	\$193,000	\$655,000
Utility Services	Utilities: Light & Power - Direct Install Demand Response T-stat Replacement	\$119,000	\$185,000
Utility Services	Environmental Learning Center Flow Restoration Project	\$2,089,196	\$0
Utility Services	Utilities: Light & Power - Land Acquisition for New Electric Substation serving Northeast Fort Collins	\$1,085,000	\$0
Utility Services	Utilities: Light & Power - New Electric Substation serving Northeast Fort Collins	\$300,000	\$7,876,000
Utility Services	Utilities: Light & Power - Circuit 638 Extension and Circuit 608 Contingency	\$465,000	\$0
Utility Services	Utilities: Light & Power - Install Circuit 628	\$0	\$1,730,000
Utility Services	Utilities: Light & Power - Utility Network Migration & ADMS Enhancements	\$830,000	\$250,000
Utility Services	Utilities: Light & Power - Cable Handling Facility for Cut-To-Length Program	\$0	\$1,551,472
Utility Services	Utilities: Light & Power - System Relocations Due to Road, Intersection and Alley Improvements	\$400,000	\$400,000
<b>Grand Total</b>		<b>\$79,901,839</b>	<b>\$20,805,163</b>

Inflation, sometimes compounded by deferred maintenance, has also had an impact on budget offers for asset management projects (Appendix IX). Many ongoing asset management budget offers are insufficient to meet City needs. As a result, enhancement offers were submitted to achieve the desired replacement cycles and levels of service. In some cases, offers anticipate lowering the level of service if additional funds are not available. For example, the Street Maintenance program is only able to maintain roads every 21 years instead of every 16 years. Many offers have a 10 to 15% inflation cost escalator built into the project cost. Some offers have a 10 to 15% contingency on top of current pricing.

Long lead times for certain equipment have added another layer of volatility to the mix. Some equipment that previously was available off the shelf with travel time, arriving in a few weeks or a month, may now take thirty-five to sixty weeks. This is particularly challenging as buildings and equipment approach their end-of-life. On top of that, specific items, such as HVAC equipment are experiencing price increases of 25% to 300% and traffic signal pole pricing has increased by 90% this year.

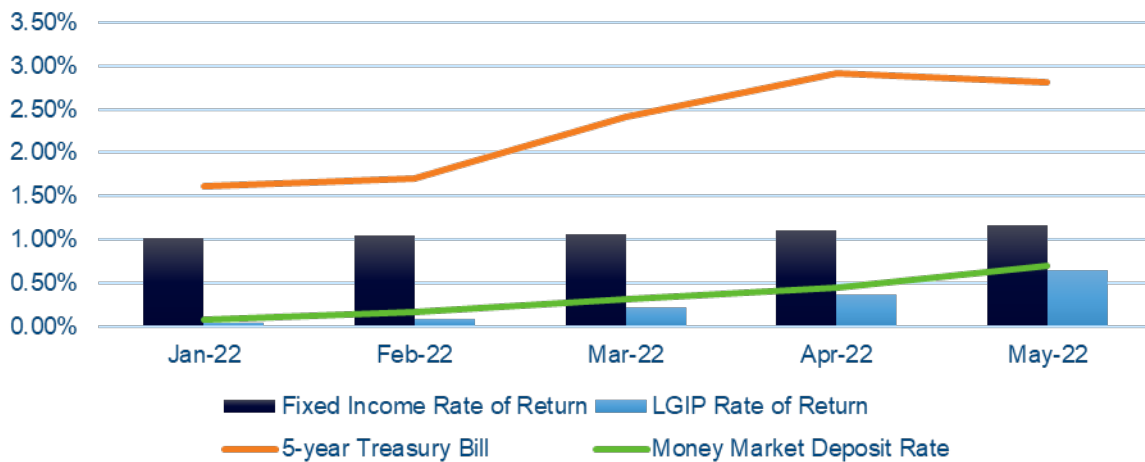
While inflation has created many challenges for the City, it has also provided some offsets in the form of increased revenues. During times of positive inflation, inflation is always adding to the City's sales tax receipts. In other words, as the price of goods rise, total taxable sales rise. Within the past year, as inflation grew by 8.6%, about \$5.5 million was added to the City's sales tax receipts that can be attributed to inflation, as detailed in the table below. That \$5.5 million is about 4% of the \$145.6 million collect from June 2021 through May 2022.

### **Inflation Increases Sales Tax Collections Over Time**

<b>Month</b>	<b>CPI % Change</b>	<b>Compounded Sales Tax Receipts Attributable to Inflation</b>
June 2021	0.9%	\$101,474
July 2021	0.5%	\$176,142
August 2021	0.2%	\$181,913
September 2021	0.3%	\$236,912
October 2021	0.8%	\$341,965
November 2021	0.5%	\$382,878
December 2021	0.3%	\$391,477
January 2022	0.8%	\$655,559
February 2022	0.9%	\$549,860
March 2022	1.3%	\$651,070
April 2022	0.6%	\$899,097
May 2022	1.1%	\$935,185
<b>Change May 2021-May 2022</b>	<b>8.6%</b>	<b>\$5,503,532</b>

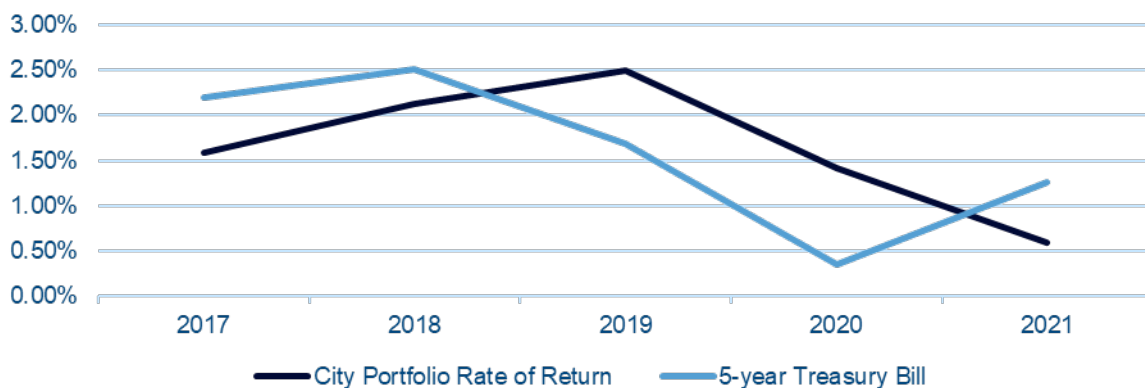
Another way in which inflation increases City revenues is through investment income. While not as immediate an impact as sales tax receipts, as the Federal Reserve raises interest rates to combat inflation, the rate of return for the City's investment portfolio gradually increases as well, as shown in the chart below. The Federal Reserve has increased the interest rate three times in 2022 as a response to inflation: by 25 basis points on March 17<sup>th</sup>, 50 basis points on May 5<sup>th</sup>, and 75 basis points on June 16<sup>th</sup>. An increase of 50 basis points applied to the City's entire portfolio could ultimately result in an additional \$3 million annualized. However, rising interest rates do not impact the City's entire portfolio immediately, but rather gradually over time.

## City of Fort Collins Investment Rate of Return vs. Market Rates



The City's Local Government Investment Pool (LGIP) rate of return responds to rising interest rates relatively quickly, closely following the market rate for money market deposits. The fixed-income rate of return is slower to respond and tracks slightly behind the five-year treasury bill, as shown below. About 20% of the City's portfolio is in LGIP; 75% is fixed income, divided between agency bonds and corporate bonds; and the balance of 5% is held in cash reserves to address the City's day-to-day financial needs. Interest rate hikes this year have contributed to interest income that is 23% higher than budgeted year-to-date.

## City of Fort Collins Historical Investment Rate of Return vs. Treasury Rates



In the coming year, staff anticipate continued effects from inflation. On the positive side, rising interest rates may cool the housing market. This could mean that fair market value for right-of-way acquisition may stabilize.

At the same time, as the Bipartisan Infrastructure Law (BIL) rolls out over the next five years, the construction industry may experience continued pressure due to the influx of federal funds. The BIL provides billions in funding for road and bridge projects, public transportation, water infrastructure, the electric vehicle network, environmental remediation, and more. Formula funding available to Colorado and new and expanded

competitive grant programs are shown in the tables below. With billions more in funding being awarded and distributed, projects may be bid up as federal funds are awarded to local governments throughout Colorado on the same timeline.

### Formula Based Funding Colorado Expects to Receive from the BIL

Program	Amount (CO)	Notes
Federal Highway Formula Funding for Roads and Bridges	\$4 Billion	29% increase
Formula Funding to reduce transportation related emissions	\$86 million	
Promoting Resilient Operations for Transformative, Efficient, and Cost-saving Transportation (PROTECT) Program (Formula Based)	\$98 million	New
FAST Act Transit Funding	\$950 million	29% increase

### New and Expanded Competitive Grant Programs Included in the BIL

Program	Amount (National)	Notes
Federal Highway Administration (FHWA) competitive grants for nationally significant bridges and other bridges	\$15.77 Billion	New
Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grants	\$15 Billion	Expanded
Safe Streets for All	\$6 Billion	New
Infrastructure for Rebuilding America (INFRA) Grant	\$14 Billion	Expanded
Federal Transit Administration (FTA) Low and No Emission Bus Programs	\$5.6 Billion	Expanded
FTA Buses + Bus Facilities Competitive Program	\$2 Billion	Expanded
Capital Investment Grants (CIG) Program for high-capacity transit	\$23 Billion	Expanded
MEGA Projects	\$15 Billion	New
Promoting Resilient Operations for Transformative, Efficient, and Cost-saving Transportation (PROTECT) Program (Competitive)	\$1.4 Billion	New
FTA All Station Accessibility Program	\$1.75 Billion	New
Charging and fueling infrastructure discretionary grants	\$2.5 Billion	New
FHWA Nationally Significant Federal Lands and Tribal Projects	\$1.78 Billion	Expanded
Strengthening Mobility and Revolutionizing Transportation (SMART) Grant Program	\$1 Billion	New

## DISCUSSION / NEXT STEPS

### GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

- What questions does Council Finance Committee have regarding the impact of inflation on capital projects?
- What questions does Council Finance Committee have regarding methods of procurement and project delivery?



### Budget Reserve for Inflation

- Staff has made a General Fund reserve assignment in the amount of \$4.0M
- Effectively, this withholds this amount from use in the 2023-2024 budget
- The balance can be utilized by Council at any time and for any governmental purpose
- Provides a cushion of approximately 2% of annual governmental expenditures
- Year-end 2021 Fund Balances (reserves) will be reviewed with the Finance Committee at its September 1, 2022 meeting, coinciding with delivery of the Recommended Budget on September 2.

Travis Storin; we are suggesting setting aside a General Fund reserve amount to serve as a cushion against inflation should any of our budget assumption prove to be incorrect - \$4M (2%) withhold it from use in the 2023-2024 Budget

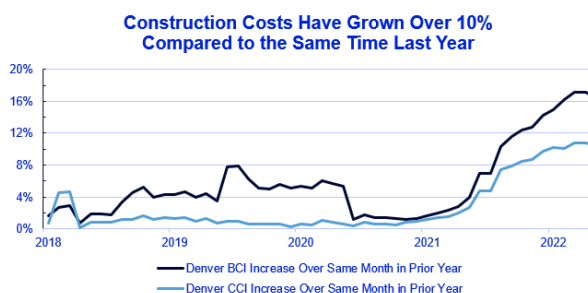
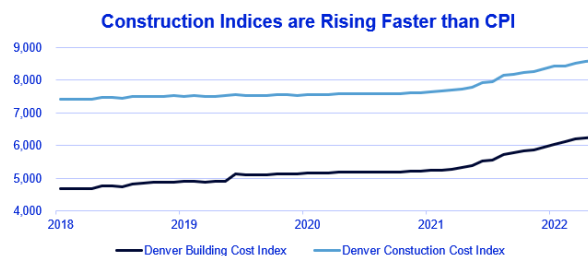
Kelly Ohlson; Slide #5 (see below)



### Construction Indices show increases beyond CPI

- The Engineering News-Record (ENR) Construction Cost Index (CCI) for Denver, which tracks horizontal construction, like streets and bridges, shows a **10% increase** since May 2021.
- The ENR Building Cost Index (BCI) for Denver, which tracks vertical construction, like buildings, shows a **17% increase** since May 2021.

Source: Engineering News-Record, City Cost Index - Denver,  
[http://www.enr.com/economics/current\\_costs](http://www.enr.com/economics/current_costs)



I don't

I like the specificity of the construction cost index both vertical and horizontal. When we bring fees for capital adjustment fees and those relating to roads and building costs. It doesn't fee Council has to approve those fees, but we should see fee increases brought forward that closely correspond to what the market is doing. I don't believe that has been refined enough in the past to the detriment of the city organization. It doesn't mean we pass the full amount of the fees, but we know the fee increases are based on the best data. We can make other decisions and staff can make other recommendations, but we need to be comparing apples to apples. Very clear and very concise

### Inflation: Appropriated Projects Anticipating Inflation Impact

Project Description	Service Area	Current Budget	Contract Type	Project Phase	Impact of Inflation
Buckinghorse Neighborhood Park	Community Services	\$ 3,181,495	CM/GC	Breaking Ground end of June 2022.	Anticipating cost overruns that will be addressed during the 2023/24 budget process. Will also explore scope changes and value engineering.
Carnegie Center Renovation	Community Services	\$ 4,845,820	CM/GC	Design near 20% and CM/GC Contractor on board.	Project costs rose, creating a shortfall, but the City was able to fill in the gap with grant funding.
Southeast Recreation/Community Center	Community Services	\$ 17,561,000	CM/GC	Working to determine final site location and overall budget. Anticipating to post design RFP this fall of 2022.	Anticipating cost overrun of about \$15 million beyond 2023/24 budget request, due in large part to scope changes. Final project cost dependent on stakeholder partnerships.
Laporte Bridges	PDT	\$ 2,799,472	CM/GC	CM/GC Contract in place. Currently providing preconstruction services at 60% Design Documents.	Anticipated funding need of \$2.8 million addressed through 2023/24 bridge program budget offers.
College and Trilby	PDT	\$ 10,658,706	CM/GC	Draft RFP for CM/GC and 60% Design Documents.	Assumes Community Project grant funding. Anticipated funding need could be addressed with \$3.8 million request from the general fund and \$2 million from CCIP - Arterial Intersection funds in 2023/24 budget process.
Laporte Corridor	PDT	\$ 3,127,500	Undetermined	Design near 30% Design Documents.	Anticipated funding need addressed by \$1.6 million general fund request in 2023/24 budget process.
Siphon Bicycle/Pedestrian Overpass	PDT	\$ 4,805,050	Design/ Bid/ Build	30% Schematic Design Documents	Pending 2023/24 MMOF grant award of \$450,000. Anticipated funding need could be addressed by \$450,000 request from the general fund and \$600,000 from CCIP - Grade Separated Bicycle/Pedestrian Crossing funds in 2023/24 budget process.
Operations Services: Facilities Major/Minor Repair & Replacement	ES	\$ 3,840,484	Various	Various Stages	Some repairs/replacements may be delayed until next year. Funding gap reflected in 2023/24 enhancement offer.
Streetlight Replacement	Utilities	\$ 1,056,000	Performed In-House	Ongoing	LED conversion program may be extended.
Water Production Replacement Program (SCADA)	Utilities	\$ 515,000	T&M-Fixed Pricing	Ongoing	Minor projects may be delayed.
Water Distribution System Replacement	Utilities	\$ 1,000,000	T&M - Fixed Pricing	Ongoing	Reduction in pipe replaced in annual program.
Water Meter Replacement	Utilities	\$ 850,000	Performed In-House	Ongoing	Meters may stay in service beyond normal cycle.
Water Reclamation Replacement	Utilities	\$ 1,000,000	T&M+ Mark-Up - Fixed Pricing	Ongoing	Minor projects may be delayed.
Wastewater Collection System Replacement program	Utilities	\$ 1,750,000	T&M+ Mark-Up - Fixed Pricing	Ongoing	Reduction in pipe replaced in annual program.
Cured in Place Pipe program	Utilities	\$ 750,000	T&M - Fixed Pricing	Ongoing	Reduction in pipe lined in annual program.
<b>Grand Total</b>		<b>\$ 57,740,527</b>			

Kelly Ohlson; Slide 13 (see above)

What does it mean by 'current budget? What is the date of current budget?

Travis Storin; these appropriations are on a non -lapsing basis. Basically, they don't expire until the project is completed. I could see us adding a column to this table for 'year of origination' because it will vary

Kelly Ohlson; Would the current budget be from that date (date of origination)?

Travis Storin; these are the original amounts plus, any supplemental appropriations that have been done since then.

Kelly Ohlson; I might need some 1:1 time. In numerous places, it says the Impact of Inflation will be addressed in 2023-2024 Budget - not if Council has other priorities – it kind of assumes we will do what you recommend.

Travis Storin; meaning that staff is going to surface a request through the Budget. We are working through those executive dialogs right now in advance of delivery to Council. That is not a guarantee that staff would recommend it, let alone Council.

For the Southeast Recreation /Community Center – it says a \$15M cost overrun for a \$17.4M project Beyond the 2023-2024 Budget request due in large part to scope changes. We haven't approved a pool yet, right?

Travis Storin; no, the pool has not been approved. There is both a Finance Committee discussion and a Work Session scheduled. The Aquatics program as a dedicated topic is coming to the August 1<sup>st</sup> CFC and to an August 23<sup>rd</sup> Work Session. You are seeing very substantial expansion of the design and scope of that facility to the ballot measure that was approved in 2015.

Kelly Ohlson; the \$15M doesn't mean we are going to go for it. I am assuming that amount does include a pool.

Travis Storin; it does include a pool and it is also predicated upon participation from community partners and the discussions staff is exploring with the school district and the university.

Kelly Ohlson; Operations Services; Facilities Major/Minor Repair and Replacement - we have always underfunded this in every budget I have participated in. Some repairs / replacements may be delayed until next year. At some point, come Council has to get serious about that. We continue to get further behind every year.

Travis Storin; that is a very close reflection of the very conversations we are having as a staff around asset management this year. Some of the conditions out there are bending and others are breaking. As an overall general theme, asset management is going to play a huge part in the 2023-24 Budget.

Kelly Ohlson; on the Utilities - they are Enterprise Funds – are we getting major reductions in revenue? Why are those being affected? Generally, utilities don't have to take a hit as their revenues are consistent and going up at 2-4% per year but there seems to be some things listed that are going to be delayed or cut.

Travis Storin; this slide is cost side display around what is currently appropriated by current or previous Councils. It is expense driven. To your point, utilities has a wider array of options.

Kelly Ohlson; is it inflation?

Lance Smith; so, revenues are strong in Utilities, but this is the cost side on the capital investments. We are seeing inflation just like the rest of the city. We will spend \$1M in water distribution system replacement but because of inflation, we will get a little less done for that amount of money.

### 2023/2024 Capital Project Budget Offers Impacted by Inflation

Service Area	Offer Name	Offer Total 2023	Offer Total 2024
Community Services	Recreational Trail Development	\$2,495,510	\$771,838
Community Services	Neighborhood Park Development	\$3,777,107	\$3,902,609
Community Services	Community Park Development	\$757,026	\$110,744
Community Services	Build Community Garden in Traverse Park	\$140,000	\$0
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Community Services	CCIP - Southeast Community Center Construction	\$15,201,000	\$0
Judicial Services	Municipal Court Services - Court Remodel Option 1	\$13,000,000	\$0
Judicial Services	Municipal Court Services - Court Remodel Option 2	\$21,000,000	\$0
PDT	Power Trail at Harmony Road Grade-Separated Crossing and Trail Extension (Design and Construction)	\$4,400,000	\$0
PDT	Downtown Quiet Zone - Design of Wayside Horns	\$500,000	\$0
PDT	Siphon Bicycle/Pedestrian Overpass (Construction)	\$1,500,000	\$0
PDT	College and Trilby Intersection Improvements (Construction)	\$3,870,000	\$1,800,000
PDT	Turnberry Road and Suriga Road Extensions (30% Design)	\$300,000	\$0
PDT	Laporte Avenue Corridor Improvements (Construction)	\$0	\$1,572,500
PDT	Automated Wash Bay Facility Construction	\$2,710,000	\$0
PDT	Hoffman Mill Scale House Renovation	\$250,000	\$0
PDT	Americans With Disabilities Act (ADA) System Upgrades	\$3,570,000	\$0
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Utility Services	Utilities: Light & Power - System Relocations Due to Road, Intersection and Alley Improvements	\$400,000	\$400,000
<b>Grand Total</b>		<b>\$73,901,838</b>	<b>\$20,805,163</b>

### Impact of Inflation on 2023/24 Capital Project Budget Offers

- Inflation has created a high level of uncertainty.
- Many capital projects requested above average contingency, often from 15-25%.
- Inflation escalators were built into many projects, ranging from 6% to 31%.
- Some offers anticipate incorporating scope changes and value engineering to counter funding shortfalls.

Kelly Ohlson; Slide 14 (see above)

Are these in the budget that you will be bringing to us in a few months?

Travis Storin; these are offers under consideration for the 2023-224 Budget. The expectation is that for capital projects, it reflects their best estimate of cost inclusive of the inflationary environment.

We are alerting Council to some of the pressures we are facing. The inflation and the upward pressure that each of these projects are experiencing and that is baked into the offers essentially drives a higher sticker price than the offer would otherwise and necessitates other trade-offs. Essentially fewer projects or examining other ongoing programs because we have a fairly fixed amount of revenue that is assumed in the budget at this point in time. This is just a flag for your general awareness of a pressure that we are experiencing.

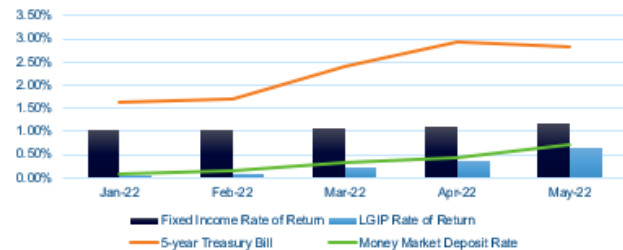
## Rising Interest Rates

- The Federal Reserve has raised the interest rate to combat inflation:

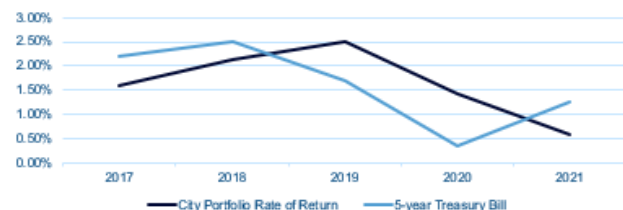
March 17	25 basis points
May 5	50 basis points
June 16	75 basis points

- Over time, this will lead to a higher yield on investments. The City's Local Government Investment Pool (LGIP) responds to changing market conditions more quickly than the rest of the portfolio.
- Interest rate hikes this year have contributed to interest income that is 23% higher than budgeted year-to-date.

City of Fort Collins Investment Rate of Return vs. Market Rates



City of Fort Collins Historical Investment Rate of Return vs. Treasury Rates



Kelly Ohlson; Slide 17 (see above) interest income is 23% higher than budgeted year to date. What does that mean in real dollars?

Sheena Freve; we budgeted \$1.4M YTD and we have received \$1.7M YTD so it is \$300K over budget

## Design/Bid/Build (DBB)

- Traditional method for delivering capital projects
- Sequential process with design completed by City or Consultant based on time & materials
- Construction bid awarded to lowest responsive and responsible Contractor
- Construction contractor "owns" delivery including risk
- City "owns" design

### Advantages

- Design consultant selection primarily based on qualifications
- City maintains control of design
- Market based selection of construction contractors with competitive pricing
- Firm-fixed price construction contract

### Limitations

- No contractor input during design may negatively impact cost
- Linear process may extend time
- Low bid may lead to delays, poor quality, and other adverse outcomes
- Changes in scope subject to change orders

### Examples

- Timberline Underpass for Trail System
- Siphon Overpass for Trail System
- Concrete Maintenance Phases I, II, III
- Transfort Bus Stop Upgrades

Kelly Ohlson; examples on slide 20 (see above) How often do we go back and evaluate so we know which process is the best? Do we use a rating system? What did we learn from this? So that we learn which process is the best. Do we do anything in hindsight?

Gerry Paul; Our engineering group does a really good job of that. Lessons learned after major projects. I don't know that we have institutionalized that around the city. A good point to follow- up on. We don't have a formal rating system. It is more of a lesson learned approach.

### Construction Manager/General Contractor (CM/GC)

- Design completed by City or Consultant based on time & materials
- Construction contractor contracted early in the design process (~30%)
- Guaranteed Maximum Price (GMP) established at ~90% design
- Competitively quote materials and subcontracts & Independent Cost Estimate (ICE)
- Construction contractor "owns" delivery including risk
- City "owns" design

#### Advantages

- Early construction contractor involvement – definitive input can have positive impact
- Design consultant selection primarily based on qualifications
- City maintains control of design
- Guaranteed Maximum Price (GMP) & open book negotiations
- Lump sum & unit price-based pricing

#### Limitations

- Price risk due to single source construction contract negotiations
- Requires trust between City, consultant, and construction contractor
- Innovation can add or reduce cost and/or time

#### Examples

- Utilities Administration Building – 222 Laporte Ave.
- Police Training Center
- College and Trilby Intersection
- Vine/Lemay/BNSF Intersection

Kelly Ohlson; Slide 21 (see above) Examples listed – those would be good ones to cut off – to develop some kind of process for the future. I didn't say that every project we do for the rest of eternity just the projects that make sense to do.

What lessons did we learn in general?

## Procurement and Project Delivery Methods

Distinguishing Factors	Design/Bid/Build	CM/GC	Design/Build	APDS
Early Supplier Involvement		X	X	X
Complexity & Innovation		X	X	X
City "Owned" Design Risk	X	X		X
City "Owned" Construction Risk				X
Construction Contractor Selection Primarily Price Based	X			
Firm-Fixed Price Cost	X			
Guaranteed Maximum Price (GMP)		X	X	
Open Book Financials		X	X	X

Kelly Ohlson; Slide 23 (see above) We have a column titled Design / Build but no slide.

Gerry Paul; I apologize as I did not include it in the presentation. It is in the AIS – we rarely use that method, so we didn't include it in the presentation. Under that principal, you have a lot less control of the design.

Emily Francis; for the Aquatic topic, is that just the Southeast Recreation center or aquatics as a whole?

Travis Storin; the item is intended to address only the Southeast Recreation center.

Emily Francis; I am concerned about specifically focusing on one pool instead of looking at the broader picture when we have a lot of pools to fund. That is a lot of dollars over budget. We need to stop considering it in a vacuum and look at all – overall aquatics.

We keep delaying maintenance and now we are at an issue with parks. I think we need to stop kicking the can down the road. We need to start addressing a lot of these issues and stop delaying the projects especially because they are only getting more expensive. While the city has had increased revenue, our costs are going up. We need to look at what do we can trim. Operations and maintenance of these things is an essential service to the city. I think we cannot continue doing this and look at what things do we need to stop doing in order to provide essential services. I am not sure how we measure success in our programs. I know we have our Strategic Plan and some metrics. I am not sure how accurate and helpful those metrics are and whether they actually tell a story of what success for the city is. How we cut things that don't serve us anymore.

Travis Storin; we do rely heavily on our measurements both the ones in the Strategic Plan as well as our Strategic Maps underneath the Strategic Plan with some 400 different measurements. If a given program is not meeting the desired outcome – we ought to consider that program and whether it continues to exist. Historically we have not done a great job with a 'stop doing' list. We need to have an earnest stop doing list in the face of cost pressures.

Emily Francis; with over 400 indicators you can link any project to anything – when you look at the picture of what is success – What are the core goals the city is trying to advance and how is our programming achieving that? I think we have a lot of data, but I am not sure how we are using that to advance – we need a stop doing list – things are changing – probably a bigger discussion

Kelly Ohlson; we create an evaluation process not only for individual projects (some number per year). We don't have that many Lemay Vine overpasses type projects. Then micro to that, I would like senior management to evaluate - maybe one design build is working much better than the other, so it is not just what one department likes or is comfortable with. There is so much interesting, good, and well-presented information in this. Could at least the slides be sent to out to the whole Council?

Travis Storin; this entire packet goes out in the Thursday Council packet. It may a decent idea, if Kelly DiMartino agrees to call it out in Monday's Leadership Planning Team minutes and just point people to the slide numbers you are referring to – we could also include them in some of the presentation materials when the budget is delivered to Council.

#### **OTHER BUSINESS;**

Travis Storin; One other business item for your consideration. Last week when we shared the budget preview, one of the slides was Revisions to our Utilities Rate Increases. Those are due to come forward for adoption in November. I wanted to extend the opportunity to the committee if you would like to spend any agenda time on that this fall (October or November timeframe).

Emily Francis; they are rather high

Travis Storin; yes, all four utilities did go up and most predominately in L&P on the wholesale purchase power Agreement with PRPA. The wet utilities are also going up versus what we previously communicated to you.

Kelly Ohlson; yes, Council Finance can ask all of the tough questions.

Emily Francis; have the rates changed since our last presentation?

Lance Smith; it has changed because of this inflation - much of what is being supported by those rate increases is not ongoing operational costs but it is anticipated capital projects, so this inflation is driving the higher rate increases.

Travis Storin; I believe we talked about this in December for what we were projecting in the Long-Term Utility Capital Plan and so we have done a June update to projected increases for 2023-24. That is what I wanted to alert you to

Emily Francis; I think it would be helpful to add it over time

Meeting Adjourned at 6:15 pm