



**Finance Administration**

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**AGENDA**  
**Council Finance & Audit Committee**  
**January 27, 2020**  
**10:00 am - noon**  
**CIC Room - City Hall**

Approval of Minutes from the December 16, 2019 Council Finance Committee meeting.

- |  |          |                         |
|--|----------|-------------------------|
| 1. Utility LTFP & CIP - Water and Wastewater | 45 mins. | L. Smith                |
| 2. EPIC 15 Year Loan Program                 | 25 mins. | B. Dunn<br>S. Carpenter |

**Council Finance Committee**  
**Agenda Planning Calendar 2020**  
**RVSD 01/21/20 mb**

<b>Jan 27<sup>th</sup></b>			
	Utility LTFP & CIP – Water and Wastewater	45 min	L. Smith
	EPIC 15 Year Loan Program	30 min	B. Dunn S. Carpenter

<b>Feb 24<sup>th</sup></b>			
	Digital Equity Program Review	30 min	N. Bodenhamer
	2019 Re-appropriations	30 min	L. Pollack
	BFO – What to Expect	30 min	L. Pollack
	Affordable Housing Support Process (Fees)	20 min	S. Beck-Ferkiss V. Shaw

<b>Mar 16<sup>th</sup></b>			
	B-Dam Alternatives and Recommendation	30 min	T. Connor
	Prior BFO Headcount Addition Review	15 min	L. Pollack
	City Give Portfolio Process Review	30 min	N. Bodenhamer

<b>April 20<sup>th</sup></b>			

Future Council Finance Committee Topics:

- Park/Median Design Standards & Maintenance Costs - TBD
- Metro District Policy Update - TBD 2020
- BFO Assumptions Review - July 2020
- Annual Adjustment Ordinance - Sep 2020



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Finance Committee Meeting Minutes  
12/16/19  
10 am - noon  
CIC Room - City Hall

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

Staff: Darin Atteberry, Jeff Mihelich, Mike Beckstead, Travis Storin, Gerry Paul, Blaine Dunn, Jennifer Poznanovic, Kevin Gertig, Lance Smith, John Phelan, Kraig Bader, Zach Mozer, Jo Cech, Victoria Shaw, Theresa Connor, John Duval, Ryan Malarky, Katie Ricketts, Carolyn Koontz

Others: Kevin Jones, Chamber of Commerce  
Dale Adamy, R1st.org

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Meeting called to order at 10:01 am

Approval of Minutes from the November 18, 2019 Council Finance Committee Meeting. Ross Cunniff moved for approval of the minutes as presented. Mayor Troxell seconded the motion. Minutes were approved unanimously.

**A. Utilities 2019 CIP and Strategic Financial Plan Updates for L&P and Stormwater**

Lance Smith, Utilities Strategic Financial Director

**EXECUTIVE SUMMARY**

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the Light & Power and Stormwater Enterprise Funds. The Water and Wastewater Enterprise Funds will be presented for discussion in January. The 2019 Capital Improvement Plans (CIPs) and the 2019 Strategic Financial Plans for each utility are outlined. The resulting investment projections set the basis for beginning the 2021-22 Budgeting For Outcomes (BFO) cycle. The overall 10-year rate projections for both utilities are also presented here along with the forecasted debt issuance needs.

Through active management of O&M expenses, modest rate adjustments and the issuance of some debt, the Light & Power Enterprise Fund is expected to be able to meet its operational objectives through targeted capital investments over the coming decade.

The Stormwater Enterprise Fund has a significant amount of capital investment required to complete the initial buildout of all the needed infrastructure. Given the high operating ratio (operating income / operating revenue) and the amount of capital investment needed, this utility will require the issuance of significant debt over the next 25 years as this initial infrastructure is built. Modest rate adjustments allow for some increase in the debt capacity

of this Fund but not enough to accelerate the build out. Timely debt issuances will allow for rates to remain close to current rates while completing build out over the next 25 years.

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

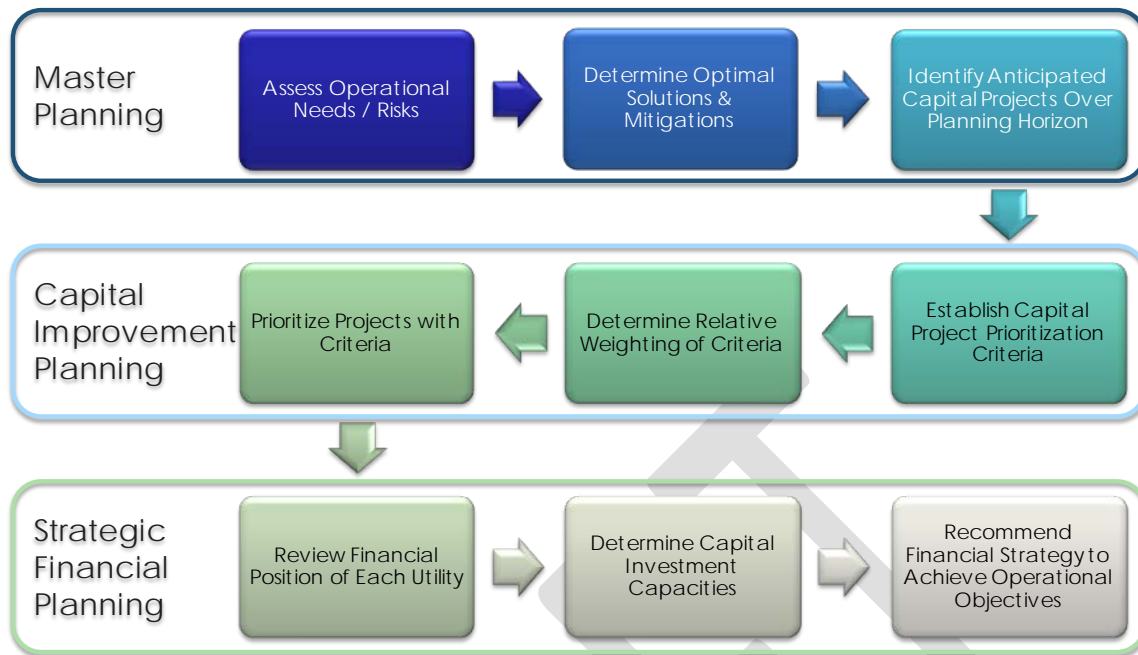
Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2021-22 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements.

### **BACKGROUND/DISCUSSION**

The financial health of each utility Enterprise Fund depends on active management of ongoing operating and maintenance expenses as well as planning for large capital expenditures. In some years it is expected that the capital investment alone may exceed the annual operating revenues for an Enterprise Fund even before considering operating expenses. Thus, the capital investment required to maintain the current levels of service provided by each of the four utility services to the community requires a long planning horizon and consistent reevaluation and prioritization. Additionally, the expected operating and maintenance expenses must be forecasted and managed so that the financial sustainability of each utility is ensured while continuing to provide the levels of service expected without large rate increases being necessary in any given year.

### **10 Year Capital Improvement Plans**

The capital improvement planning process begins with periodically developing and updating Operational Master Plans for each utility. These plans assess current infrastructure for needs and risks and review expected growth and regulatory requirements. The Master Plans generate a list of recommended capital projects over the planning horizon which are then included in the Capital Improvement Plans (CIP). The Utility Asset Management program has implemented a standardized process to prioritize necessary capital investments that has been in place since 2014. This prioritized list includes the associated annual capital investment which becomes an input into the long term Strategic Financial Plan. This list is updated ahead of the two-year BFO process and prioritized using metrics intended to measure the levels of service that each utility is targeting to provide to the community. The financial position of each utility is also reviewed in this step with the output being a recommended path forward which may involve rate adjustments and future debt issuances in order to achieve the operational objectives and needs of each utility.



### Light & Power Enterprise Fund

The 10 year Capital Improvement Plan (CIP) for the Light & Power Fund consists of projects needed to provide adequate substation and distribution capacity to developing areas of the City, anticipated annexations including the Mulberry Corridor, operational technology improvements and system renewal of existing substations and underground distribution assets.

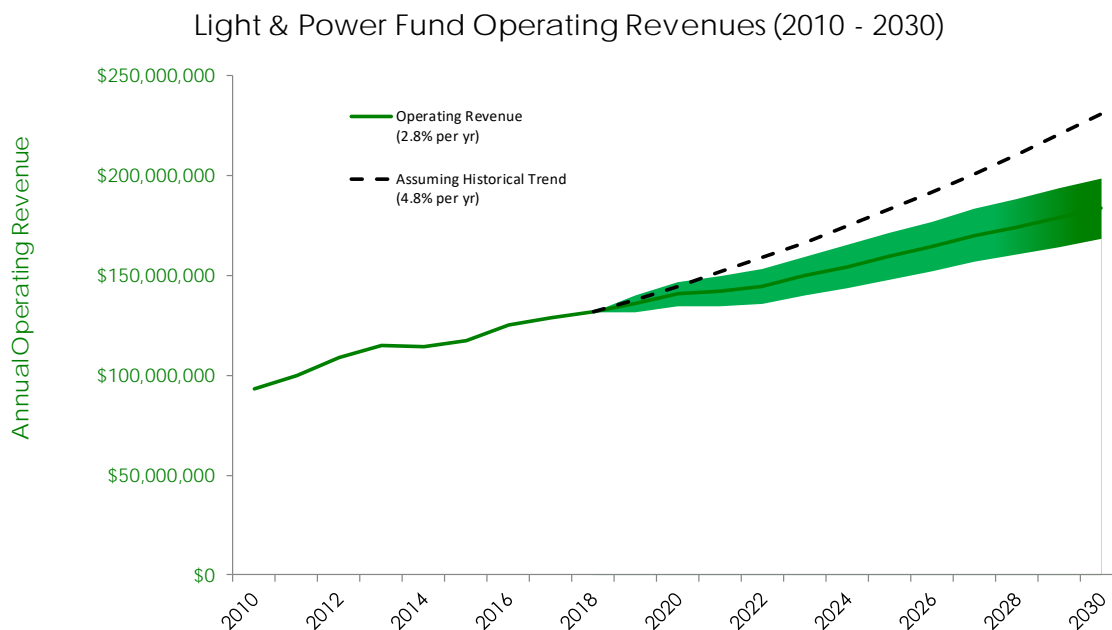
Light & Power Fund Capital Improvement Plan



The 2019 CIP for Light & Power includes a significant decrease in identified capital work over the 2017 CIP. The 2017 CIP identified \$165M as being needed to meet the capital investments needed over the next decade. The 2019 CIP includes \$99M of capital investments. This is due in part to new growth and load projections which are not anticipated to require the addition of 2 new substations as had previously been forecasted.

## Light & Power Operations

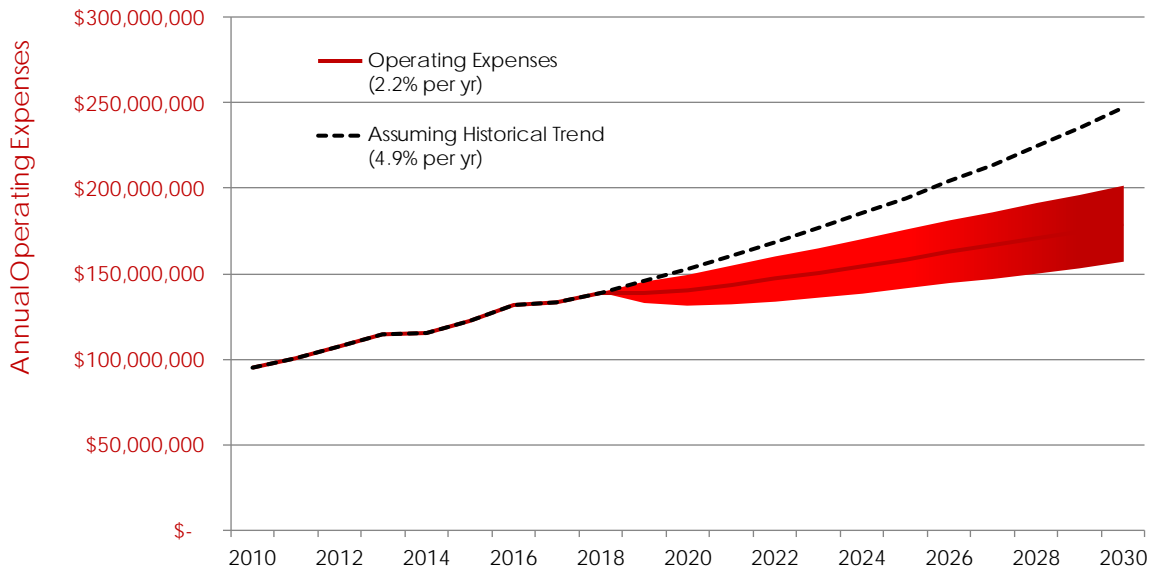
Operating revenues have grown significantly over the past decade through rate increases while total energy sales have remained flat. Based on the projected revenue requirements for O&M and capital investment revenues are projected to grow at a rate slower than the past decade.



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

Light & Power O&M expenses have increased at an unsustainable rate over the past decade. This will need to be addressed through active management. The rate and debt issuance forecasts in the plan assume that O&M will increase at a rate close to the rate of inflation.

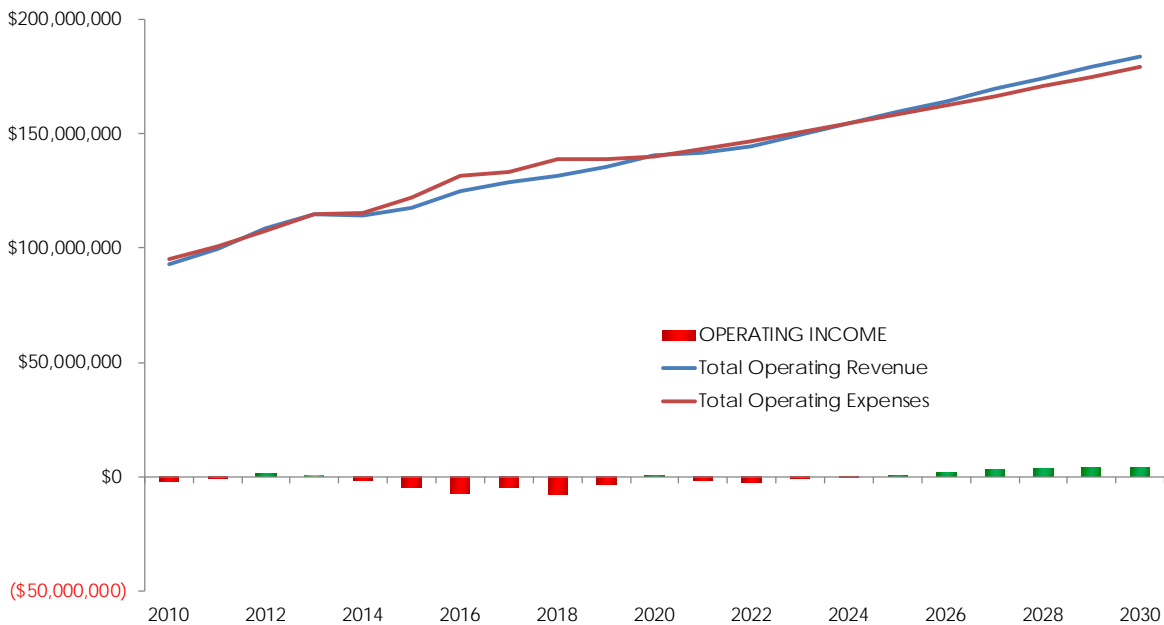
Light & Power Fund Operating Expenses (2010 - 2030)



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

By limiting O&M to a more modest rate of growth it is expected that the L&P Fund will generate positive operating income which will be available for capital investments. This will limit the amount of debt issuance that is necessary over the coming decade.

Light & Power Fund Operating Income (2010-2030)



#### Light & Power Rate and Debt Forecasts

Rate increases above those necessary to cover wholesale purchased power increases are not anticipated to be significant over the coming decade although any significant change in the necessary capital investments may require modest adjustments to ensure adequate operating revenue is generated to support the system renewal investments. Some debt is anticipated to be needed for capital investments over the next decade.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	5.0%	2%	2%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%
Debt Issuance \$M	-	-	-	\$10-15M	-	-	\$10-15M	-	-	-	-

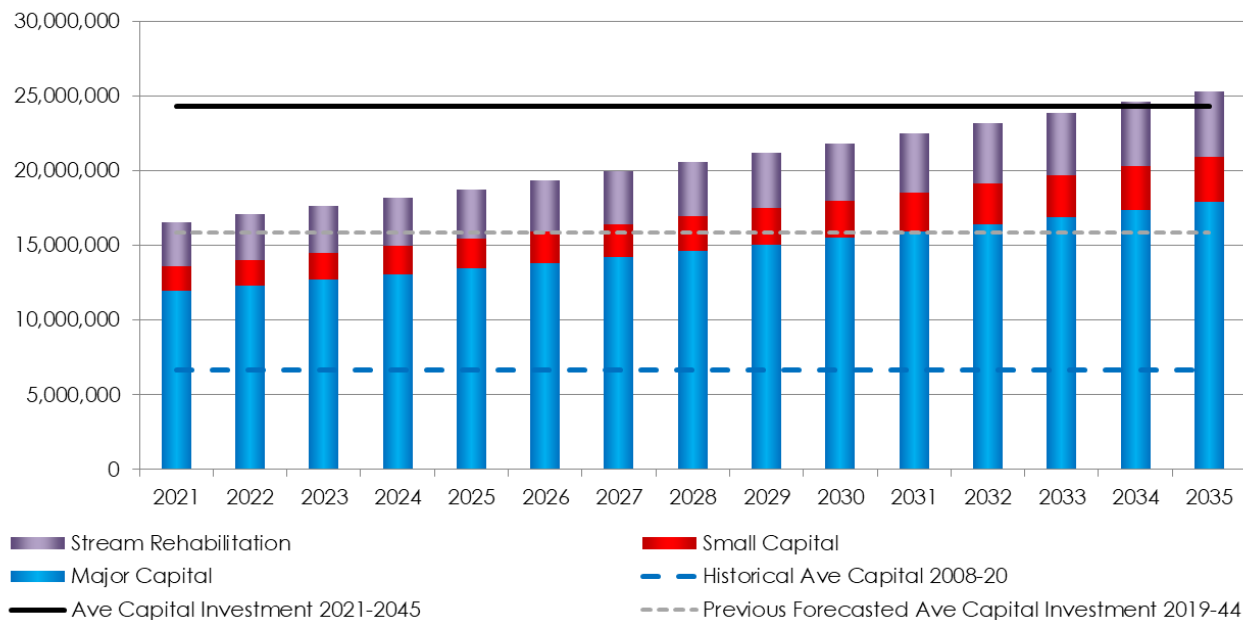
\$100M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations.

## Stormwater Enterprise Fund

### Stormwater CIP

The Capital Improvement Plan for the Stormwater Fund includes new cost estimates for all anticipated initial buildout projects. Updating the cost estimates, along with some preliminary design refinements to some of the project requirements, increased the anticipated capital investment needed to build out the stormwater infrastructure from \$272M in the 2017 CIP to \$374M. Cost adjustments for stream restoration projects are also included in the model which now shows \$70M in stream restoration projects separate from the infrastructure projects. The CIP is now being proposed to be built over a 25-year period which as the graph below shows will still require investing almost 4 times as much each year in capital infrastructure than the previous decade's level of investment. It is shown below as being a levelized investment subject to inflation because the prioritization is not completed yet and the investments will require significant debt issuances to fund the major outfall projects that are still needed to complete the buildout.

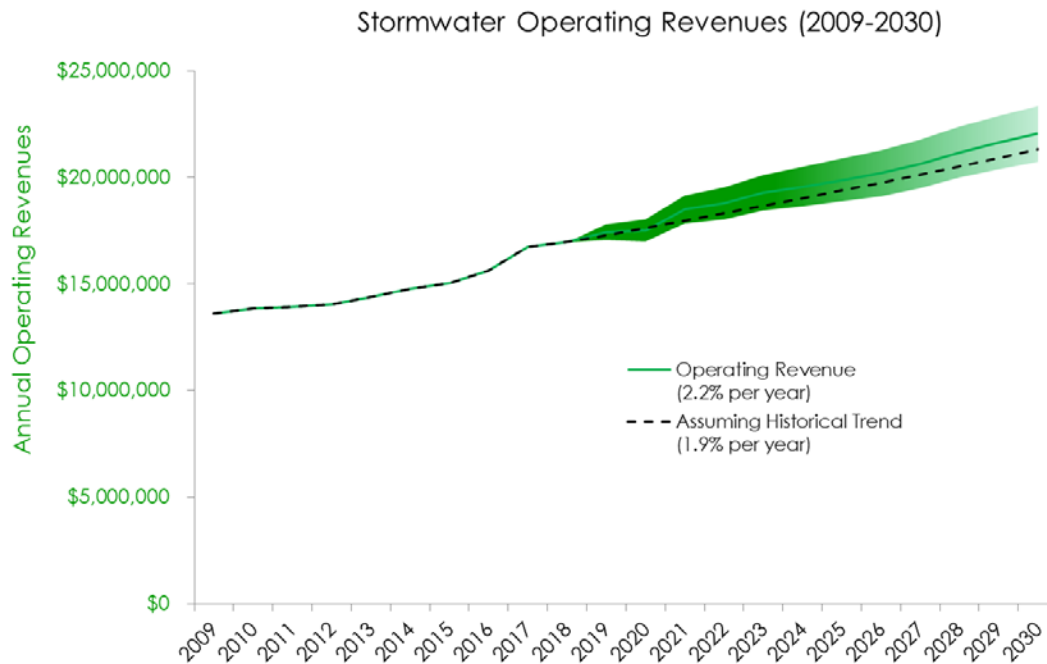
504 - Stormwater Fund Capital Investment





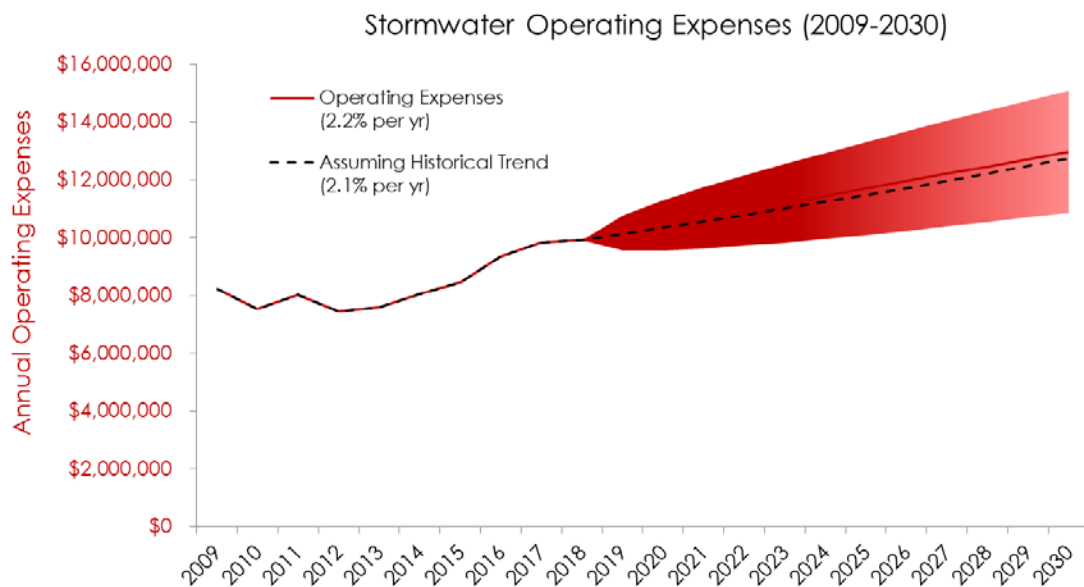
## Stormwater Operations

Operating revenues have grown modestly over the past decade primarily through annexations and infill development along with some modest rate adjustments.



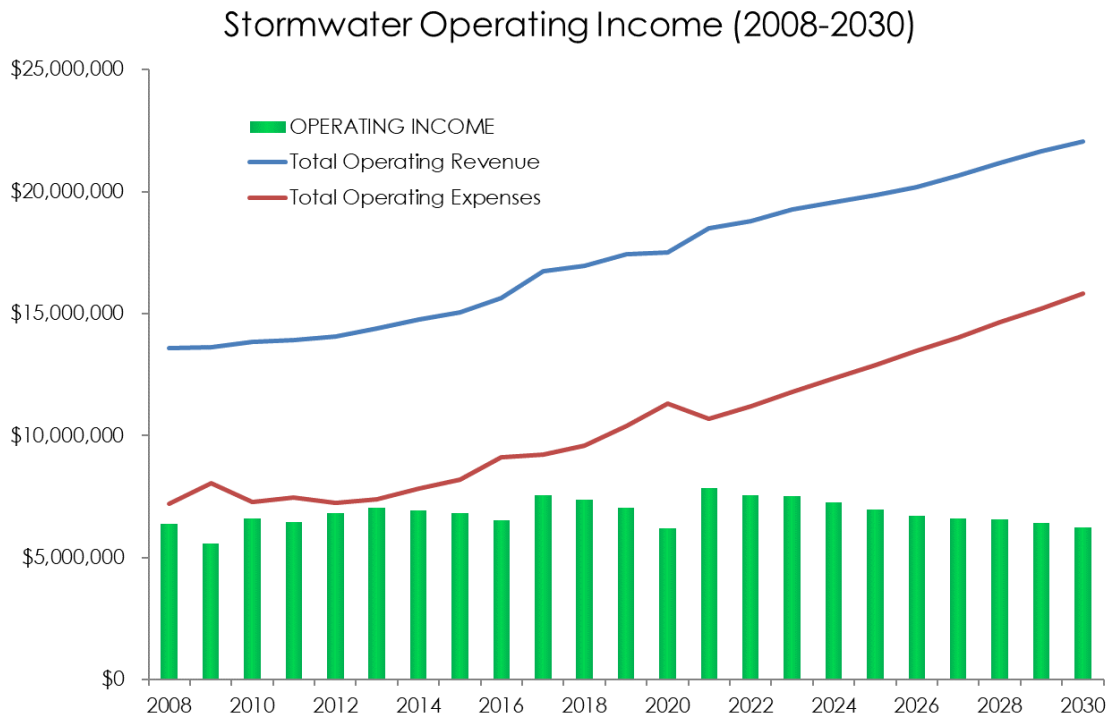
*The colored area represents the 95% confidence band around the expected operating expense.*

Stormwater O&M has increased as more infrastructure is built requiring O&M. The financial forecast recognizes this but assumes that the growth can be managed to increase at the rate of inflation. The largest increases were seen in engineering and administrative charges.



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

The combination of operating revenues increasing very modestly and O&M increasing at a faster rate will over time reduce the operating income being generated for this utility. However, operating income is expected to remain strong over the coming decade as shown in the graph below.



### Stormwater Rate and Debt Forecasts

With the strong operating income being generated every year in this utility only providing a fourth of the anticipated capital investment required to fully build out the infrastructure for the community over the next 25 years it will be necessary to issue significant debt to complete the remaining flood mitigation infrastructure. Significant rate increases could be implemented rather than, or in conjunction with, issuing debt, however, the capital needs are not ongoing capital needs. Rates are usually adjusted to fund ongoing operational and capital needs. There is significant debt capacity in this fund that operates with an operating margin of 40%. Increasing rates would increase the operating margin but not necessarily allow for the initial infrastructure to be built on an accelerated schedule because of the relative scale of the capital investment compared to the operating revenues. The anticipated levelized annual capital investment required to complete the initial build out over the next 25 years along with minor capital investments required on existing infrastructure is \$24M per year or 150% of the 2019 operating revenue. Infrastructure that is expected to last for at least 50 years into the future could be financed over that time period with those customers benefiting from the new investment paying for its cost rather than increasing rates substantially. The table below shows the amount of debt that would need to be issued over the next decade to establish this 25 year build out schedule while adhering the financial boundary conditions of gradual, modest rate adjustments, positive operating income and a debt coverage ratio of at least 2.0.

As the table below shows, there will be the need to issue debt for several capital investments over the next decade. The first such issuance should be done in 2022 so that the funds are available for the 2023-24 BFO cycle.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	2.0%	0.0%	0.0%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%
Debt Issuance			\$35-40M				\$35-40M			\$20-25M	

\*\$374M of capital work is expected to be needed between 2021 and 2045.

### Conclusion and Next Steps

Updating the ten-year Capital Improvement Plans ahead of the budget cycle allows for an assessment of potential rate adjustments and debt issuances that may be necessary in the near future. The Strategic Financial Plan provides a financial path forward to meet the operational needs of each utility.

Through active management of O&M expenses, modest rate adjustments and the issuance of some debt, the Light & Power Enterprise Fund is expected to be able to meet its operational objectives through targeted capital investments over the coming decade.

The Stormwater Enterprise Fund has a significant amount of capital investment required to complete the initial buildout of all the needed infrastructure. Given the high operating ratio (operating income / operating revenue) and the amount of capital investment needed, this utility will require the issuance of significant debt over the next 25 years as this initial infrastructure is built. Modest rate adjustments allow for some increase in the debt capacity of this Fund but not enough to accelerate the build out. Timely debt issuances will allow for rates to remain close to current rates while completing build out over the next 25 years.

### **Discussion / Next Steps: L&P FUND LTFP and CIP**

Ken Summers; selling the same amount of energy today as 10 years ago - that is great news - we need to mention this more than just in passing - conservation is working - that is a marker in terms of our conservation efforts.

Lance Smith: yes, we have had growth and an increased number of customers, but this has been offset by conservation over the last decade.

Mayor Troxell; from today going forward to 2030 goals – we talked about this with PRPA too - getting rates more aligned with desired outcomes – we have that with time of day and other things - what is the future state as built into the model? The renewable portfolio as part of the energy supply – up from 51% next year - I attended a gridCONNEX conference last week and as the future plays out more the distribution utility plays a key role in active management of the load - the urban context – basically underneath the substation - if there are 3 Teslas plugged in in a neighborhood that would oversubscribe the current in that neighborhood - the feeder - instead of energy which we will be purchasing and has been a net zero for the last ten years - there will be more demand charges - equipment that can accommodate more distributed energy resources in the load center – I am guessing that will be captured more in the demand charge than in the energy - also we might be paying for load curtailment - you are supplying to the system and it is beneficial to the system is no different than paying

PRPA for energy - solar wall or on your vehicle in the city garage – so, given the changing / transformation of how the electric system works - How is that built into the future state of the assumptions?

Lance Smith; that gets into the specifics of the Capital Improvement projects that they are looking to do - we were previously thinking we needed to add substations now we are thinking we do not need to add substations but we are looking to add a lot of circuits to add capacity to meet the demand component - There is a significant amount of additional capacity that will need to be deployed in the distribution system - you also mentioned the transformers - looking to upscale some of the distribution transformers in a targeted manner to meet demands - we are replacing transformers that have useful life today and we wouldn't necessarily need to - that is more included in the CIP itself - this is more of a plan where Tim is saying I need \$xM.

### **STORMWATER FUND LTFP & CIP**

Stormwater has a very large CIP - get the final buildout of the initial infrastructure

Mike Beckstead; if that different from the work session discussion last Tuesday? I got the impression that the \$170M was over 10 years - Is that a shift?

Lance Smith; there wasn't exactly a timeline laid out last Tuesday about the downtown improvements – the intent is that will happen over the next 15 years - we are trying to stagger – we have broken that into 4 different components approximately \$40-50M each - we would tackle those sequentially - what we talked about last week actually extended into the 2030s - it is consistent with what we are talking about today

We have \$5-7M positive operating income which is available for capital improvement directly or for issuance of debt and associated debt service. That is important because what we are proposing is a sequence of debt issuances to build out infrastructure and pay down the debt over the coming decade or so. We talk about generational equity - the idea that the generation who benefits from the investment should be the generation paying for it - realize the benefits of that investment.

Alternative scenario where we overrode the scenario - 2-3% rate increases every year and what might that do? Impacts were that instead of rates in 2030 being 7% higher than they are today they would be 28% higher and we would issue approximately \$30M less debt over the decade due to those rate increases - I think issuing debt instead of having continual rate increases is the way to go.

Ross Cuniff; I assume that for these very large projects that are targeted for a basin for example We spread payment out over the entire rate payer base group

Lance Smith; in past we have done it in a basin by basin basis so revenue collected stayed in the basin then about a decade ago the city decided to socialize the cost across all rate payers and allow us to tackle these bigger projects rather than waiting until that particular basin had provided enough revenue to proceed.

ACTION ITEM: Ross Cuniff: the objective was to achieve Old Town water project sooner.  
Request for follow up - was there any consideration given to a hybrid model at the time?  
Also, I like the concept of generational equity.

Lance Smith: I will follow up with Ross – that happened before I started. I will need to talk with some people to gain insight.

Ross Cuniff; Inflation - how much more in real dollars?

Lance Smith; that depends on how long we are talking – so here we are assuming a 25 year build out – you are paying about 2.5 times what you borrowed - north of \$600M in terms of real dollars to build that out over next 25 years.

ACTION ITEM: Ross Cunniff; Policy wise - some hybrid model - somewhat higher than what we are contemplating now to try to reduce overall net cost - exploratory questions around that - not sure I would change it - but would be interesting

January Council Finance - we will be back to talk about Water and Wastewater

**Direction Sought / Result:**

Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2021-22 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements.

Mayor Troxell; good - Ross brings up some interesting viewpoints to think about. We try to run it through a TBL lens - geography - more social equity - how that might impact it - at the planning stage - different lens - economic, environmental, social impacts.

Mike Beckstead; we will continue to explore this - how much debt vs. how much rate because that is the tension we are playing with - will look at some of the history - we will bring that forward in the next BFO cycle - Do we do 0% or 2-3% in or something in between in 2021?

## **B. Purchasing Policy Update**

Gerry Paul, Purchasing Director

Recommended revisions to the Municipal Code, Article IV, Purchasing and Contracting

### **EXECUTIVE SUMMARY**

Purchasing staff in collaboration with the City Attorney's Office has revised the Municipal Code, Article IV, Purchasing and Contracting to reflect current business needs including:

- Updated language, definitions, descriptions, and processes
- Updated timing of public disclosures
- Update thresholds of authority – minor purchases
- Excluded select contract types for the five (5) year term limit

The recommended revisions to the Municipal Code also expand on the appropriate use of alternative delivery methods for delivery of capital projects.

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

Does the Council Finance Committee support bringing the recommended revisions to the Municipal Code, Article IV to the full council for adoption?

## BACKGROUND/DISCUSSION

Staff periodically reviews and updates Article IV, Purchasing and Contracting to the Municipal Code, based on changing needs and conditions. The impetus for the update to the procurement code resulted from a cross-functional team evaluation of the Alternative Project Delivery System (APDS) utilized by Utilities. Based on this work, the opportunity was identified to update the procurement code to expand upon the appropriate use of all alternative delivery methods utilized City-wide to delivery capital construction projects. The revisions to the procurement code also address current business needs consistent with public procurement best practices.



### **Sec 8-110 - Procurement Application – Expanded Exemptions**

- Real property, grants awarded by the City, Museum exhibits
- Benefits – Eliminated ambiguity

### **Sec 8-158 – Competitive Sealed Proposals**

- Public disclosure of offerors after submittal deadline
- Name of firm awarded disclosed after the notice of award vs. after contract signing
- Benefits – Transparency & enhanced timeliness of communications

### **Sec 8-186 – Multi-year Contracts**

- Exclude select types of agreements from the 5-year term limit
  - Software licensing & maintenance agreements
  - Select financial services – credit card processing, retirement record keeping
  - Content for City-delivered video programming
- Benefits – Enhanced alignment of contract term and service type



### **Sec 8- 161 – Minor Purchases**

- Increase department threshold from \$5k to \$7.5k and \$10k to \$15k for pricing agreements
- Benefits - Efficiency

### **Sec 8- 161 – Construction Change Orders**

- Exempt capital projects using APDS from the 15% cumulative change order limit
- Benefits – Enhanced alignment of code with APDS (Cost Plus)

### **Defined Alternative Delivery Methods & Expanded on Appropriate Use**

- APDS use will be limited to Utility capital projects on a project-by-project basis
- Increase opportunities for competition and document material & subcontractor quotes

### Discussion / Next Steps:

Darin Atteberry; This will help minimize frustration with vendors – a 5-year term is not practical in some cases.

Ross Cunniff; for software licensing - automatic that purchasing is allowed to enter into contract over 5 years

Gerry Paul; 1-year agreement-could go up to 10 years but will be re-evaluated each year

Mike Beckstead; I would not describe it as automatic - that will be a judgement call based on procurement

Ross Cunniff; is it financially advantageous to the city to enter into longer-term agreements?

Gerry Paul; we always have option for Termination for convenience provision

Mike Beckstead; example - JDE support which is provided by a 3<sup>rd</sup> party related to Oracle.  
Why go through the competitive bid process every 5 years - not practical as we aren't moving away from them



APDS	CM/GC & CMAR	Design/Build	Design/Bid/Build	Service Agreement
Michigan Ditch Tunnel	Poudre White Water Park	<u>Connexion</u> Outside Plant	Fossil Creek Trail	Operations & Maintenance
Halligan Reservoir	<u>Horsetooth</u> & Prospect/College Intersections		North College Pedestrian Gap	Minor Water line replacement
DWRF Headworks	Sugar Beet Park		Riverside Bridge Replacement	Hydrants
Magnolia Outfall	Police Training Center		Sharp Point/Nancy Gray Connection	Pipe replacement
	Stormwater Levees		<u>Transfort</u> Bus Pad Construction	Electrical
	Water & Sewer Line Replacement		Paving Replacement & Rehabilitation	Pumps

- **Within Utilities, process engineering and project management resources have been supported by long term APDS contractors**

- Less work completed using APDS will require additional Utility internal resources to support process engineering and project management
- Key – should be cost neutral, these costs have historically been in the contractor project costs.
- More work will be competitively bid – adding workload to Purchasing

Mike Beckstead; APDS - one of our objectives is to establish clarity on when to use and when not - use of APDS is only appropriate in highly complex projects that don't have a clear answer. Example would be Michigan Tunnel, redoing the pipe down the Poudre River, Halligan and the speed with which we need to get the Horsetooth shut off up and running. Balancing that with having the best cost for city and citizens. I think we have come with an appropriate balance for that; Gerry Paul must be involved in a decision to use APDS - we will reserve this for highly complex projects.

Mayor Troxell; I am supportive. When we are talking about innovation, using the city as a platform - doing projects to help demonstrate things in partnership to help us learn and engage in future methods -there may be multiple companies providing something - there is a leave behind that might be gifted, it might be viewed as a demonstration. How do you visualize that happening within this framework?

Gerry Paul; If we handle it as a grant – there would be a competitive process but not necessarily within the procurement area - could be a team not just one company - typically one would take the lead -the flexibility is with the exemption - If not a grant but a purchase - we would need to navigate how the city is picking the winners and the losers. When we did DC power, we handled that as an exemption as it was unique.

Mayor Troxell; something durable left behind, not a boat anchor - some way to fund the ongoing - also, as it relates to City Give - trying to gain advantage in some way - mutual benefit to the city in a way that is demonstratable and provides transparency too. Exemption is still out there - city might be a partner with some \$\$ - support costs are real costs – it is not a turnkey project – it is really engagement costs too - there are mechanisms there that helps support that.

Gerry Paul; an example is the battery project at 222 Laporte.



Ken Summers; potential cost savings through IGAs, working with local communities – there are some examples of joint ventures such as Police Services Center, Airport. Purchasing side of things - applicability for that as a city of our size - something where we are helping some smaller communities – our joint purchasing agreements could benefit other municipalities.

Gerry Paul; cooperative purchases is where that comes in - we are the lead agency in a cooperative purchase for all snow removal materials that we utilize - I believe there are between 10-15 other municipalities that participate and share in that. Another great example is our vehicle purchases; we do this via a state procurement - we benefit with favorable pricing and can leverage larger volumes by joining in a cooperative the state level. Same thing with natural gas - where it makes sense, we do this where it is a good deal.

**Direction Sought / Results:**

Does CFC approve the recommended revisions to code for full council consideration?

**Results;** Mayor Troxell, Ross Cunniff and Ken Summers all support bringing the recommended code revisions to the full council for consideration.

**C. Sales Tax on Mobile Homes**

Jennifer Poznanovic, Sr. Revenue & Project Manager

**EXECUTIVE SUMMARY**

The purpose of this item is to discuss sales tax exemption options for mobile/manufactured home sales in the City of Fort Collins. Estimated sales tax collections have been roughly \$88k per year over the past two years.

The City of Fort Collins currently applies sales tax on all mobile/manufactured home sales, whereas the State of Colorado and Larimer County exempt all mobile/manufactured home sales from sales tax. Conventional (site-built) homes pay sales tax on materials used in construction and there is no sales tax for subsequent sales. All mobile/manufactured homes and site-built homes pay property tax based on the assessed value.

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

Does Council Finance Committee support option 2?

- Apply sales tax on initial purchase of new mobile/manufactured home and exempt all subsequent sales from sales tax
  - 50% exempt on initial sale
  - Update City code

**BACKGROUND/DISCUSSION**

Earlier this year City Council asked for sales tax data on mobile homes. The City does not exempt sales tax on mobile/manufactured homes sales. According to data from the Larimer County Assessor's Office, in 2017 and 2018 there were 181 mobile home sales in Fort Collins, an average of 90 per year. Sales tax over the two-year period was \$176k or roughly \$88k per year.

As of July 1, 2019, the State of Colorado and state collected jurisdictions (such as Larimer County) exempt all manufactured homes sales from sales tax (House Bill 18-1315).

City Code does not differentiate between mobile and manufactured homes (per Safety Standards Act of 1974) but are considered the same in practice regarding taxation. There are 1,400 mobile/manufacture homes in Fort Collins and 2,100 in the Growth Management Area (GMA).

Tax treatment (sales tax and property tax) varies for mobile/manufactured homes and site-built homes. A summary is provided below:

Sale Type	State Sales Tax	County Sales Tax	City Sales Tax	Property Tax
New manufactured home purchase	Exempt	Exempt	100% of purchase price	Per assessed value
New site-built home	100% of construction material	100% of construction material	100% of construction material	Per assessed value
Subsequent sales of mobile/manufactured homes	Exempt	Exempt	100% of purchase price	Per assessed value
Subsequent site-built home sales	No	No	No	Per assessed value

- The State and the County exempt mobile/manufactured homes from all sales tax (new and used)
- The City applies sales tax to the full purchase price on all mobile/manufactured home sales (new and used)
- Site-built homes pay sales tax on the materials used in new construction; there is no sales tax on subsequent sales
- All types of dwelling units pay property tax based on the assessed value

#### *Peer City Review*

In a review of eleven self-collected home rule cities, each one includes mobile homes in their definition of automotive vehicle, which suggests mobile homes be treated as automotive vehicles for tax purposes. This definition of automotive vehicle is a product of the Colorado Municipal League's (CML) organized effort engaging municipalities to adopt standard sales tax definitions, which the City participated in. However, in other cities' codes, there are various terms and definitions for these types of structures, such as manufactured home, factory-built housing, or factory built residential structures.

Five cities, including Fort Collins, do not have exemptions on mobile/manufactured homes. Those with exemptions:

- Either exempt after having been taxed once or;
- 48% exempt for first sale and subsequent sales are exempt

#### *Proposed Exemption Options:*

1. Exempt all mobile/manufactured home sales from sales tax
2. Apply sales tax on initial purchase of new mobile/manufactured home and exempt all subsequent sales (100% or a percentage)

Staff recommends Option 2 with a 50% exemption on the initial new purchase. The intention is for mobile/manufactured and site-built homes to be taxed similarly. Site-built homes require a 50% deposit of total estimated construction valuation. When the project is complete, the remaining tax liability is calculated using a project cost report available from the City.

Both options would require Code updates. The definition of “automotive vehicle” would likely need to be amended to exclude mobile homes, so that a new definition of mobile homes and/or manufactured housing could be created so that these structures can be treated uniquely in the sales tax ordinances. Amending the “automotive vehicle” definition would stray from CML standard definitions, which is within Council’s authority and discretion. The Code could be updated to include a definition for mobile or manufactured homes. The City currently treats mobile and manufactured homes the same in practice regarding taxation.

Using the term “mobile home” and defining it separately would likely be the least Code changes to address the issue of sales tax on mobile/manufactured housing. Another approach would be to add a definition for the new term “manufactured home.” Doing so may necessitate updating for consistency other parts of Municipal, Land Use and Traffic Codes, which also use the terms “mobile home” and “manufactured housing.” This process would include additional legal review and coordination with other City departments. Regardless of the term used, any amendment would include the addition of an exemption from sales tax for mobile homes/manufactured homes.

*Below is draft Code language for consideration, using the first approach discussed above. Depending on Council direction, this Code language would be subject to change:*

#### **Sec. 25-71. Definitions.**

*Automotive vehicle* shall mean any vehicle or device in, upon or by which any person or property is or may be transported or drawn upon a public highway, or any device used or designed for aviation or flight in the air. Automotive vehicle includes, but is not limited to, motor vehicles, trailers, or semi-trailers ~~or mobile homes~~. Automotive vehicle shall not include devices moved by human power or used exclusively upon stationary rails or tracks.

*Mobile home* means any preconstructed building unit or combination of preconstructed building units, without motive power, where such unit or units are manufactured in a factory or a location other than the residential site of the completed home, which is designed and commonly used for occupancy by persons for residential purposes, in either temporary or permanent locations, and which unit or units are not licensed as a vehicle. It does not include travel trailers, campers, camper buses or motor homes.

#### **New Exemption from Sales/Use Tax in Sales Tax Code**

#### **Sec. 25-73. Imposition of the sales tax and exemptions.**

(c) Transactions and items exempt from the sales tax. The following shall be exempt from the sales tax:

(25) Fifty percent (50%) of the purchase price on the first sale of a new mobile home for installation, use or storage in the City shall be exempt from taxation under this Code. For any subsequent sales of the mobile home, the entire purchase price is exempt from taxation under this Code.

**Discussion / Next Steps;**

Darin Atteberry; some context - Emily Gorgol also brought this up as an equity issue for folks who are living in these units.

Mike Beckstead; when Max Moss first started talking about Montava - he was planning on having a plant on-site to build manufactured units – there is an emerging gray market between the two types - where does that fit? Let's treat all homes the same - that way we don't have to decide.

Ross Cunniff; this has happened before in the 80's in Fort Collins at Horsetooth and Taft Hill – there was a factory that built homes. How was that taxed? Was that in the city limits?

Mike Beckstead; if the Code today was the Code then, it would have been taxed because we tax new and resell manufactured homes. We will do some research.

Ken Summers; there was some discussion - County Treasurer in terms of exempting manufactured homes from property tax - right now from a county perspective - not a huge impact  
I am not sure if it went beyond a personal conversation. Affordable housing space - this makes sense outside of that - supportive of that

Mayor Troxell; a home is a home is a home - common perspective - picking one or the other - trade - offs and the broader discussions - when we were in Austin at Community First we saw 3D printed houses – durable, not on wheels - it is an interesting space in how we treat - some level of equity and consistency with the notion of a domicile.

Mike Beckstead; secondary sales - I don't know there are a lot of new manufactured homes coming into town. Not a significant tax burden there.

Ross Cunniff; treat them all as homes to level the playing field, beyond that, it is a bigger policy discussion regarding do we subsidize? Do we want to exempt it? It should not be treated differently.

Darin Atteberry; this is an entree into a bigger conversation - from Emily's perspective - how it relates to affordable and attainable housing - tax policy

Ross Cunniff; be careful not to exclude recreational vehicles

**Direction Sought:**

Does Council Finance Committee support option 2?

- Apply sales tax on initial purchase of new mobile/manufactured home and exempt all subsequent sales from sales tax
  - 50% exempt on initial sale
  - Update City code

**Results:** Mike Beckstead; thank you for approving this to move forward likely on consent in a couple of months

## **D. Utility Off Cycle Budget Items**

John Phelan, Energy Services Senior Manager

Kraig Bader, Director, Electrical Engineering

Lance Smith, Director Financial Planning and Analysis

### **SUBJECT FOR DISCUSSION**

2020 Climate Action Plan Mitigation and Resilience Off-Cycle Appropriation for Light & Power

### **EXECUTIVE SUMMARY**

Staff recommends bringing forward an off-cycle appropriation package to City Council in early 2020 to address existing and emerging infrastructure demands and refocused investments in energy services programs.

This package supports resilience by improving electric system reliability and grid flexibility with additional Distributed Energy Resource (DER) program elements and carbon mitigation with additional support for commercial-scale solar. The Energy Services elements are a realignment of existing budget while the L&P distribution system elements can be funded from reserves based on 2019 underspend. The proposed package focuses on “no regrets” acceleration of planned activities of the L&P Capital Improvement Plan and 2030 climate and energy objectives.

The reliability scope also supports broadband services (3.7 Deploy reliable, high-speed internet) because the work is aligned with Connexion deployment as it creates new markets via annexations or pathways via spare conduits to deploy fiber in the electric system. Accelerating this investment is aligned with the recently published 2019 Capital Improvement Plan for Light & Power and the Connexion deployment schedule.

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

Does Council Finance support this off-cycle budget package for Council consideration in January 2020?

### **BACKGROUND/DISCUSSION**

#### ***Coordinated Planning and Implementation***

The electric industry is facing rapid change. Market disruption is happening at a pace we have not experienced before. Solar photovoltaics (PV) are commonplace and growing at increasing rates each year, battery storage is no longer a thought experiment, and the fastest production car on earth is fully electric and has the capability to drive itself. We can no longer plan in the traditional way we have done for decades, because our former load growth models no longer hold true.

Fort Collins Utilities Light & Power and Energy Services teams are collaborating closer than ever before on planning, implementation and operations in support of the community’s goals of 100% renewable electricity (100RE) in just ten years while maintaining our historic reliability and affordability.

This off-cycle budget proposal is a concrete example of this coordination. By bringing forward both customer program and distribution system investment funding proposals together, Utilities is

presenting an optimal short-term mix of investment which supports electric system resilience and carbon mitigation. The proposed package focuses on “no regrets” acceleration of planned activities of the L&P Capital Improvement Plan and 2030 climate and energy objectives as described below.

### ***Light & Power Proposed 2020 Scope***

During the Budgeting for Outcomes process for the FY2019/20 budget, there were revisions made in the City Manager’s recommended budget to enable the Climate Action Plan (CAP) opportunity package. One area of budget reduction was in the distribution transformer BFO offer (offer 8.70) in the amount of \$318,000. As a result, the ability to purchase transformers necessary to support system improvements was inhibited by the end of the second quarter of 2019. As part of this appropriation, the request is to first restore the funding to support distribution transformer purchases in 2020, which will also help to support system replacement projects and proactive outage mitigation activities. Capital projects in the following categories will also directly benefit from the appropriation of funds from the parent accounts.

- High priority electric distribution cable system replacement areas to aimed at improving distribution system reliability: As the electric distribution system ages, cable and cable accessory failure rates have been increasing. Specific areas have been identified for replacement based on probability of future failures, risk, and several other factors. Some of the identified replacement areas that do not have a spare conduit for fiber optic cables offer a synergistic benefit between Light & Power and Connexion if fiber is pulled in with the replacement power cables.
- Cable diagnostic testing equipment purchase: Thus far, our cable system prioritization efforts have been making use of statistical analysis drawn from past reliability and failure information. With the support from this off-cycle appropriation, we can purchase a cable diagnostic system that has the proven ability to assess the health of an existing circuit. Installed in a proper vehicle that allows access and effective application of the equipment, we can focus our cable system replacement investment based on forward-looking leading predictive maintenance indicators to supplement our statistical predictive failure models.
- Electric distribution system connection for annexation areas: Connecting the electric distribution system to annexed areas also provides an opportunity for Connexion to serve those customers via cooperative installation of conduit pathways that must be installed for electric service. These areas include Mail Creek Crossing, Strauss Cabin, Fox Hills, and Blehm Annexations.
- Conversion of overhead electric distribution system areas to underground: Consistent with Fort Collins’ legacy and with the City Council’s current priority to convert overhead electric lines to underground electric lines, there are nine projects that will replace the remaining overhead distribution lines in Light & Power’s service territory with underground infrastructure. Work to convert overhead electric distribution areas not only improves electric reliability, but also allows cooperative installation of conduit pathways for future Connexion customers.

Following the completion of capital projects in the 2019 Light & Power fund, underspend in the associated capital accounts has been identified which can be returned to the electric fund and be appropriated to support additional projects in 2020. Similarly, underspend in system additions and operations and maintenance (O&M) accounts that would otherwise be returned to the electric fund reserves can also be appropriated to support electric system reliability and resiliency. The projects

detailed above total \$6.22 million, with currently budgeted and appropriated funds providing for all but a gap of about \$3.10 million.

Appropriating funds for the identified capital projects will allow for better definition of the offers that will be put into the 2021 / 2022 BFO process. If funds returned to reserves are not appropriated, we must prioritize the projects, putting the higher priority replacement projects completed under funds already appropriated for 2020 and the remaining projects identified for funding in the 2021/2022 BFO cycle. As the underspend in L&P and Energy Services accounts represents enough to support all projects described here, this truly does represent a “no regrets” opportunity to support system reliability and resilience.

### ***Energy Services 2020 Funding Summary***

During the Budgeting for Outcomes process for the FY2019/20 budget, there were revisions made in the City Manager’s recommended budget to enable a scaled-down Climate Action Plan (CAP) opportunity package. In this package, commercial solar rebates (Offer 9.92) was funded at \$125,000 annually (25% of the original offer amount). As part of this appropriation, the 2020 commercial solar funding would be 73% of the original offer amount.

The following summarizes the external factors which driving the opportunity for maximizing benefit in 2020 with changes in Energy Services programs.

- Increase in energy efficiency funding from Platte River (\$390k): Platte River’s proposed 2020 budget for efficiency and demand side management is increasing to reflect their commitment to reach higher levels of savings. Fort Collins Utilities will continue to receive our load ratio share of these funds. The proposed budget will result in an increase of approximately \$390k for Fort Collins common efficiency programs. This increase in Platte River 2020 funding will “offset” an equivalent amount of funds from the approved 2020 budget (offers 9.80 and 9.90).
- Large-scale solar projects not moving forward (\$240k): Several incentives for large scale commercial solar projects were committed in 2018 and carried over into 2019 via purchase order. Customers have recently notified Utilities that these projects will not move forward due to various issues. The total incentive amount is \$240k. At the same time, staff has committed all of the 2019 funding and is tracking pending applications which will exceed current 2020 funding.
- Solar Power Purchase Program (SP3) (\$150k): 2019 funding for the SP3 included a mid-year anticipated start date of a new large system. Due to solar module federal tariffs and related delivery issues, the system was commissioned in mid-November. As a result, approximately \$150k of scheduled expenditures will not occur in 2019.
- Overall efficiency programs (\$1.5M): 2019 efficiency programs are on track for achieving savings targets but are currently forecast to meet the annual goals with a financial balance of approximately \$1.5M. This is primarily due to lower participation in business efficiency and shifts in 2019 funding under Efficiency Works with Platte River.

### ***Energy Services 2020 Proposed Scope***

Priorities for Energy Services with regards to 2020 are to leverage customer interest in distributed solar to meet the 2020 Energy Policy local renewable energy target and to lay the groundwork for 2030 energy and climate goals with customer offers related to grid flexibility and beneficial electrification.

The following projects are proposed for implementation in 2020.

- Appropriation of commercial solar 2019 funds for 2020 commercial solar projects, \$240k. This would bring the 2020 commercial solar incentive budget up to \$365k. The 2019 commercial solar incentives budget (\$125k) is fully committed to customer projects. Staff has project intent affidavits from multiple customers for 2020 for a total of \$180k of incentives and active inquiries from an additional eight customers which could total over \$360k in incentives.

These solar projects will add approximately one megawatt of solar capacity, directly reduce carbon emissions by up to approximately 800 metric tons starting in 2021 and support reaching the Energy Policy 2020 renewable energy target of 20 megawatts of local solar.

- Realignment of 2020 activities under existing Offers 9.80 and 9.90. Approved offers 9.80 and 9.90 include incentives which will receive additional support from Platte River in 2020. The new funding from Platte River allows for the realignment of 2020 resources without changing Utilities funding levels. Staff proposes the following for 2020 and that any ongoing costs associated with these projects will be incorporated into existing funding levels for 2021/2022:
  - Addition of Ecobee thermostats to the Bring Your Own Thermostat (BYOT) offer under the Peak Partners program. This will add the third most popular installed thermostat brand to the BYOT program (complementing Nest and Honeywell). 150 units would be added with a first-year cost of \$65,000 through the existing vendor Itron. Ongoing costs will be incorporated into the 2021/2022 demand energy resources management offer.
  - Demonstration of Grid Interactive Water Heaters (GIWH). Up to 20 GIWH would be installed in low income customer premises at no cost to the customer. The units will prioritize heat pump water heater technology wherever possible but may include some resistance units based on customer premises. This project will test options for transitioning 3G cellular communications, streamline the business processes needed for the field deployment of future units, provide a storage platform for storing excess renewable electricity and demonstration of optimal control strategies. This project will be delivered in partnership with Itron for a cost of \$130k.
  - Residential Battery Storage Demonstration. This project will engage existing battery customers with incentives for allowing utility monitoring and potentially control of behind the meter battery asset, install several residential behind the meter batteries for management by utilities and pilot an incentive for combining batteries with solar. This project will be delivered by existing Energy Services staff with a budget in 2020 of \$100k.
  - Development of Carbon-Based Incentive Structure. This project will provide funding for a collaborative effort with Sacramento Municipal Utilities District (SMUD) to customize a framework for carbon based incentives for efficiency, distributed generation and electrification. This framework will support the transition of incentives for reducing loads,



increasing loads and shaping loads to a common carbon metric. A preliminary cost estimate for this project is \$25k.

- Expansion and coordination of Beneficial Electrification Incentives. This project will provide initial funding to expand and coordinate beneficial electrification incentives, specifically targeting customer and trade ally requirements to advance installation of heat pumps for space and water heating to reduce both natural gas and electric resistance use. This project will be delivered by existing Energy Services staff with a budget in 2020 of \$70k.

Realignment of approved 2020 Energy Services funds and appropriation of commercial solar funds allows for improved definition of offers for the 2021 / 2022 BFO process. Without this realignment, it is likely that existing efficiency funds will not be fully utilized in 2020 and that priority changes towards grid flexibility and beneficial electrification requests will be considered for starting in 2021.

### **Off-cycle Budget Package**

The proposed funding described above will result in the following specific actions to be included in the Council ordinance (see attachment 1):

- Increase in System Improvements and Replacements (parent account 501012) by \$1,921,249.
- Increase in Annexations (parent account 501004) by \$268,585.
- Increase in System Conversions (parent account 501601) by \$909,925.
- Net reduction in Energy Services efficiency funding (business unit 13000000) by \$295,000. This will be offset by increased funding from Platte River
- Increase in Community Renewables funding for commercial solar incentives and for battery storage demonstration (business unit 11110000) by \$340,000. This will be funded from expiring purchase orders for past solar projects and from associated reductions in Energy Services.
- Increase in Demand Response funding for thermostats and grid interactive water heaters (business unit 135000000) by \$195,000. This will be funded from associated reductions in Energy Services.

### **Discussion / Next Steps;**

John Phelan; we presented this to the Energy Board last Thursday and they provided unanimous support.

Mayor Troxell; appreciate the thoughtful approach that you are bringing forward - we have tried to minimize mid cycle funding - I would say summing that all up – I am good with it coming forward with the caveats and concerns - this is a very good project going forward - I am supportive

Ross Cunniff; this has good rational and there is a sense of urgency on the timing with our climate action plan implications - we added \$5M to our reserves - this would propose spending 3 ¾ of that - what is the plan for the remaining amount?

Mike Beckstead; it goes back into Lance's LTFP and CIP and will be part of that discussion.

Ross Cunniff; think about the next budget cycle as we look at the study of our TOU rate success and pain points – if we can think of some program for customers who are burdened with TOU - provide tools that could help them reduce their energy bills and increase conservation.

Ken Summers; achieve undergrounding aspect - I like that - How does this factor in with L&P CIP, other projects - Council priorities - fine for me if we are pushing this up and doing it now. Is this going to be freed up funds for these capital improvement projects or Is it a matter of spending money now that is going to infringe on projects that are going to increase rates for rate payers?

Lance Smith; L&P is backing the debt that was issued for Broadband – we looked at scenarios with the modeling - worst case scenario - if there is no revenue from Broadband and we had to pay all of the debt service - maybe a .5% annual rate increase - we would issue a bit more debt (\$40-50M)  
Worst case scenario - L&P could weather that storm and it would have a minimal impact to rate payers. In response to Ken's other question - there is an opportunity here to get started - all of this is in the CIP - it is not separate from that.

Ken Summers; some of the dynamics between debt and Broadband - maintain and build some reserves

Mike Beckstead; Broadband books are separate from L&P and self-funded – with a backstop of L&P revenue if there was ever an issue with paying down the Broadband debt. I would want to think about that - - if we need to be doing something different due to the back stop - we don't want to have any adverse impact on rate payers.

Ken Summers; backstop in L&P - If you are leveraging the assets of L&P for Broadband - there is a nexus there

Darin Atteberry; we intentionally modeled the worst-case scenario - we completely build out and spend all funds and had zero dollars coming in – what is the risk? That is the worst case

Ross Cunniff; What is the contingency plan / action - What would we do?

Ken Summers; what keeps us in the most solid financial position relative to reserves

Darin Atteberry; we do have revenue coming in

Ken Summers; the test is going to be 10 years from now - we won't know the full success until we get to the full buildout stage - L&P was my concern - requirements for infrastructure we are talking about relative to things discussed earlier. What Mayor Troxell said - look at future needs relative to demand - want to make sure we are well positioned to address the fundamental infrastructure needs.

John Phelan; this is first time we have brought programmatic and infrastructure planning together in the same offer and incorporated into the CIP - this was partially triggered by our bi-annual budget cycle and the fact that Platt River has an annual budget cycle and they changed their budget - we are redeploying to the elements that we know we are going to have to do to achieve our 2030 goals as the Mayor said. Decrease in one business unit is offset by increases in others – neutral outcome.

Ken Summers; 2-year budget cycle - on an annual budget cycle – I am more concerned about what it will look like - then it becomes a matter of - if we have excess revenue in some of these enterprise areas, do we spend it or be more conservative - some degree of prudence to end 2020 with a higher than projected reserve by approximately \$2M - Important for us to have that perspective - making sure we are making a difference especially as it relates to future rate increases.

Mayor Troxell; appreciate the comments and thank you for the presentation

**Direction Sought:** Does CFC support moving to put this on the January full council agenda?

**Results:** Approved to go forward to full council

Mike Beckstead; thank you, we will bring this forward to council at some time in the future.

Meeting adjourned at 11:30 am.

## **COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY**

**Staff:** Lance Smith, Utilities Strategic Financial Director

**SUBJECT FOR DISCUSSION** – Utilities 2020 Capital Improvement Plans and Strategic Financial Plan Updates for the Water and Wastewater Utilities

### **EXECUTIVE SUMMARY**

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the Water and Wastewater Enterprise Funds. The Light & Power and Stormwater Enterprise Funds were presented for discussion last month. The 2020 Capital Improvement Plans (CIPs) and the 2020 Strategic Financial Plans for each utility are outlined. The resulting investment projections set the basis for beginning the 2021-22 Budgeting For Outcomes (BFO) cycle. The overall 10 year rate projections for all four utilities is also presented here along with the forecasted debt issuance needs for each Enterprise Fund.

The Water Fund has significant infrastructure investments over the coming decade. Through active management of O&M expenses, modest rate adjustments and the issuance of some debt, the Water Enterprise Fund is expected to be able to meet its operational objectives through targeted capital investments. Further preliminary design efforts during the 2021-22 budget cycle will refine project cost forecasts ahead of any debt issuance being requested.

The Wastewater Enterprise Fund is expected to need some rate adjustments along with \$25-35M of debt issued over the next decade as renewal of the collection system increases to a more sustainable level. Operating costs have been kept under control over the last decade in both of these Enterprise Funds which has served these utilities' customers well.

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

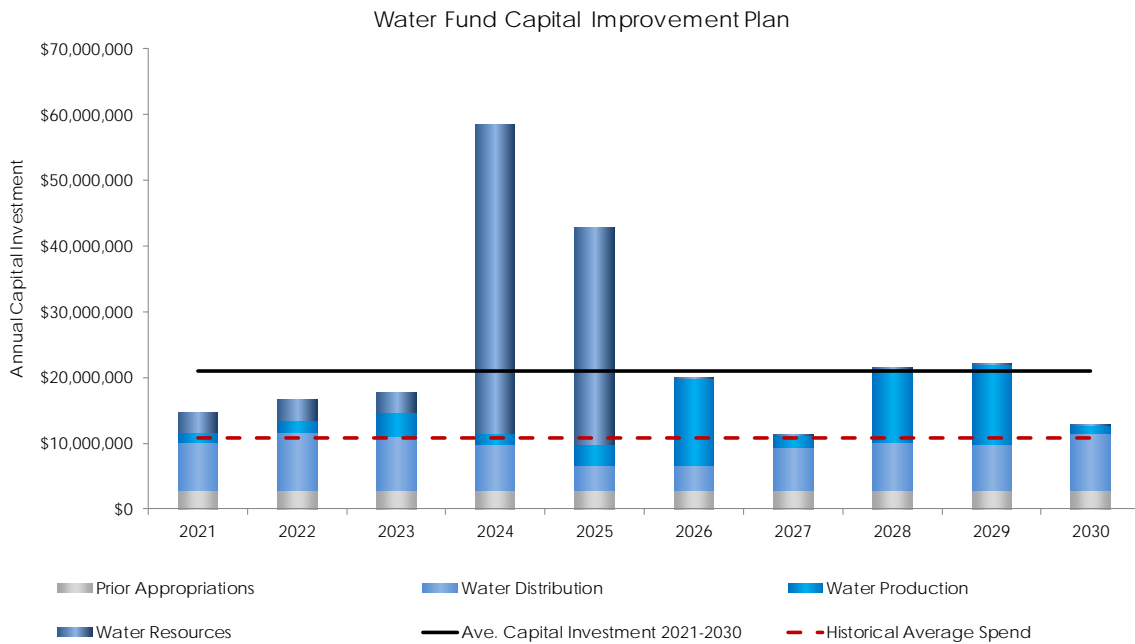
1. Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2021-22 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?

### **BACKGROUND/DISCUSSION**

The financial health of each utility Enterprise Fund depends on active management of ongoing operating and maintenance expenses as well as planning for large capital expenditures. In some years it is expected that the capital investment alone may exceed the annual operating revenues for an Enterprise Fund even before considering operating expenses. Thus the capital investment required to maintain the current levels of service provided by each of the four utility services to the community requires a long planning horizon and consistent reevaluation and prioritization. Additionally, the expected operating and maintenance expenses must be forecasted and managed so that the financial sustainability of each utility is ensured while continuing to provide the levels of service expected without large rate increases being necessary in any given year.

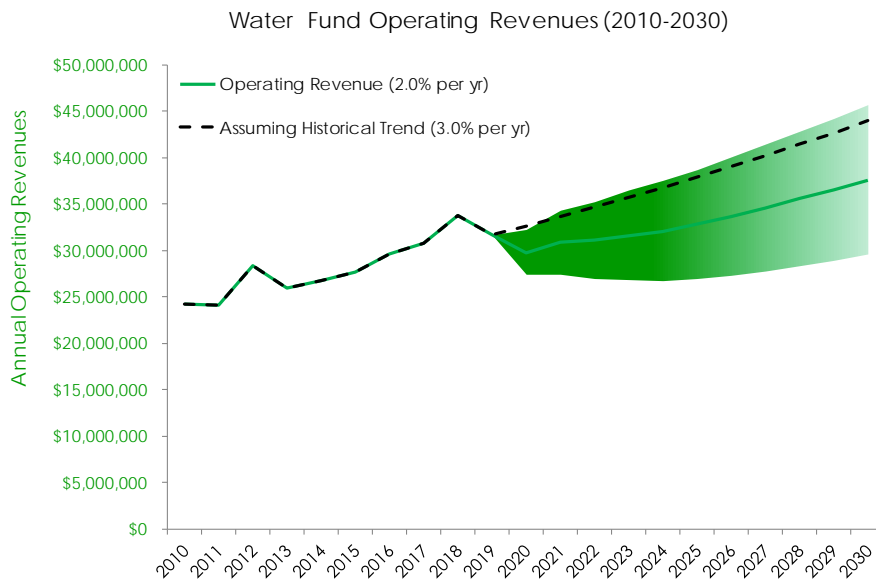
#### **Water Enterprise Fund**

The 10 year Capital Improvement Plan (CIP) for the Water Fund consists of projects needed to provide an adequate water supply, treatment facility improvements and an increase in the renewal of the distribution system to a more sustainable long term replacement rate. The Halligan Reservoir project is expected to begin physical construction in the 2023-24 BFO cycle with cost uncertainty being reduced through additional design and mitigation refinements.



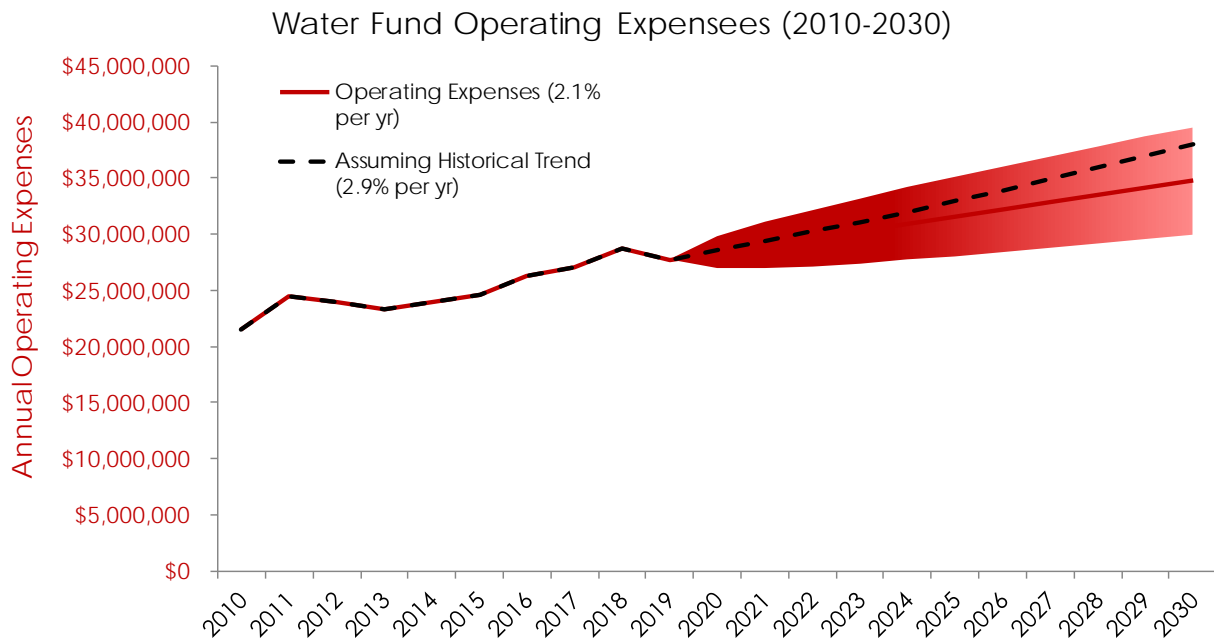
## Water Operations

Operating revenues have grown modestly over the past decade through rate increases while total water production has remained flat. Based on the projected revenue requirements for O&M and capital investment revenues are projected to grow at a rate similar to the past decade.



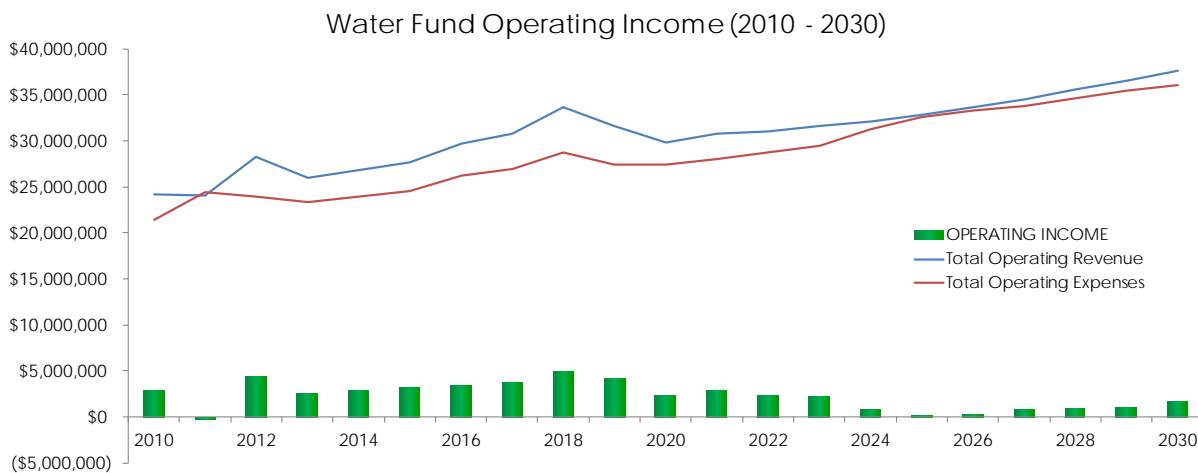
*The colored area represents the 95% confidence band around the expected operating expense.*

O&M expenses in the Water Fund have increased at a reasonable 2.9% annualized rate over the past decade. This has been achieved through active management. The rate and debt issuance forecasts in the plan assume that O&M will increase at a rate closer to the rate of consumer inflation over the coming decade.



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

By limiting O&M to modest rate of growth it is expected that the operating margin will decrease over the coming decade which will require modest rate adjustments to meet the expected increase in debt service related to significant infrastructure investments.



### Water Rate and Debt Forecasts

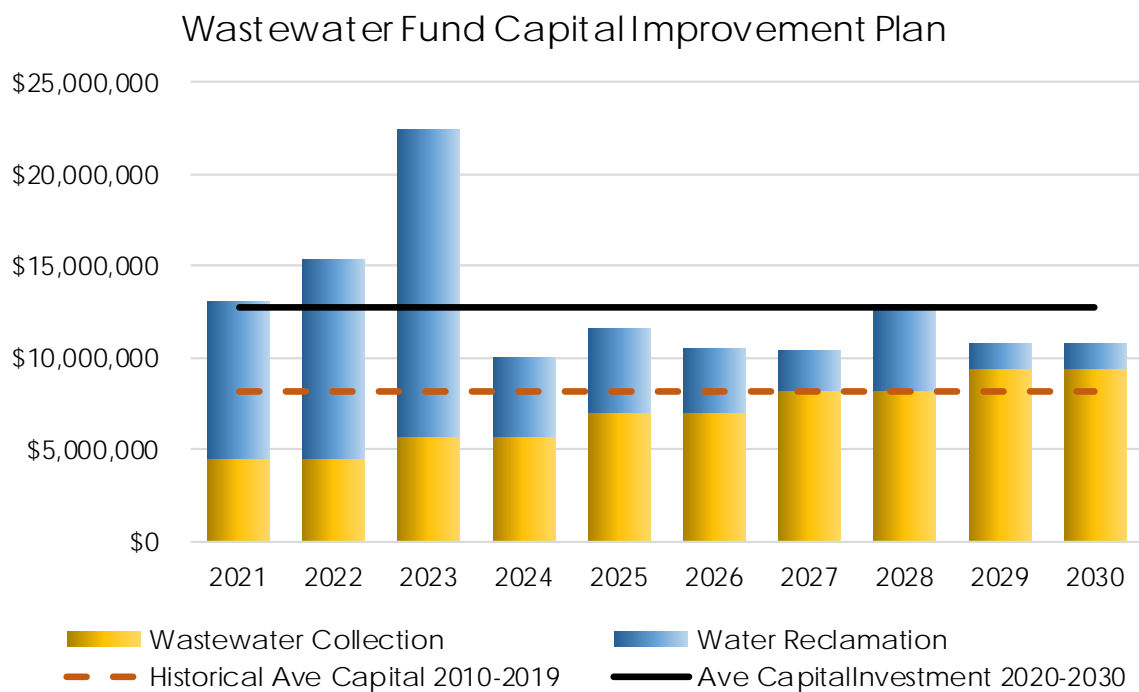
Rate increases are not anticipated to be significant over the coming decade although any significant change in the necessary capital investments may require modest rate adjustments to ensure adequate operating revenue is generated to support the system renewal investments. Some debt will be needed for capital investments over the next decade including a significant issuance ahead of beginning construction on the Halligan Reservoir.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	0%	0%	2%	0-2%	0-2%	0-2%	1-3%	1-3%	1-3%	2-4%	2-4%
Debt Issuance					\$55-65M			\$30-35M			
\$209M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations											

## Wastewater Enterprise Fund

### Wastewater CIP

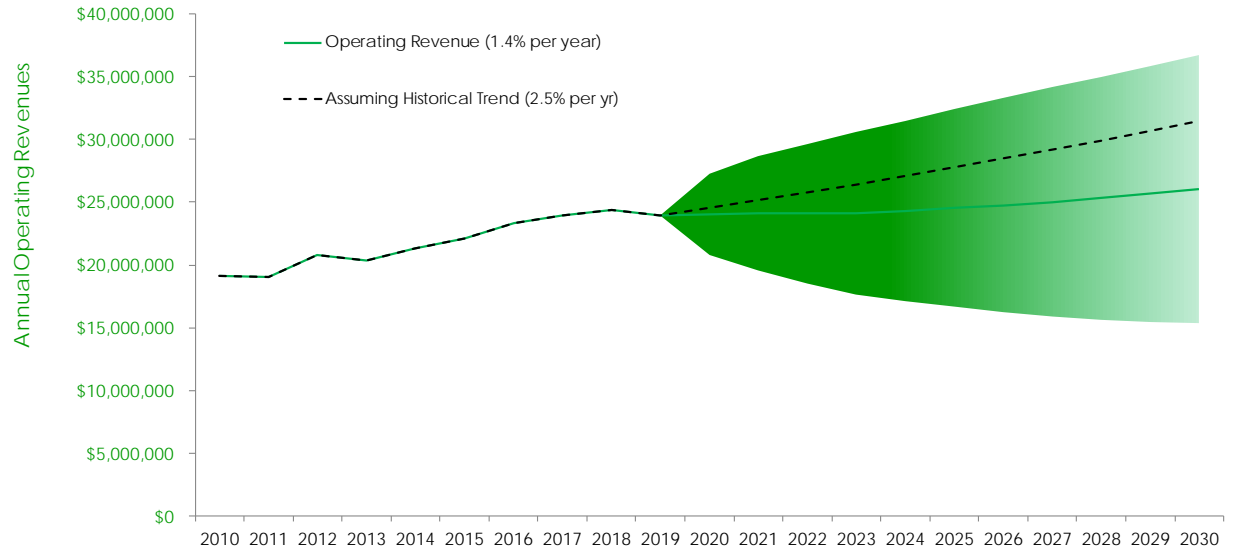
The Capital Improvement Plan for the Wastewater Fund includes capital improvements at the reclamation facilities as well as a significant increase in asset renewal of the wastewater collection system.



### Wastewater Operations

Operating revenues have grown modestly over the past decade with rate increases often not being fully realized. Modest rate adjustments will be necessary to increase revenues in this utility service.

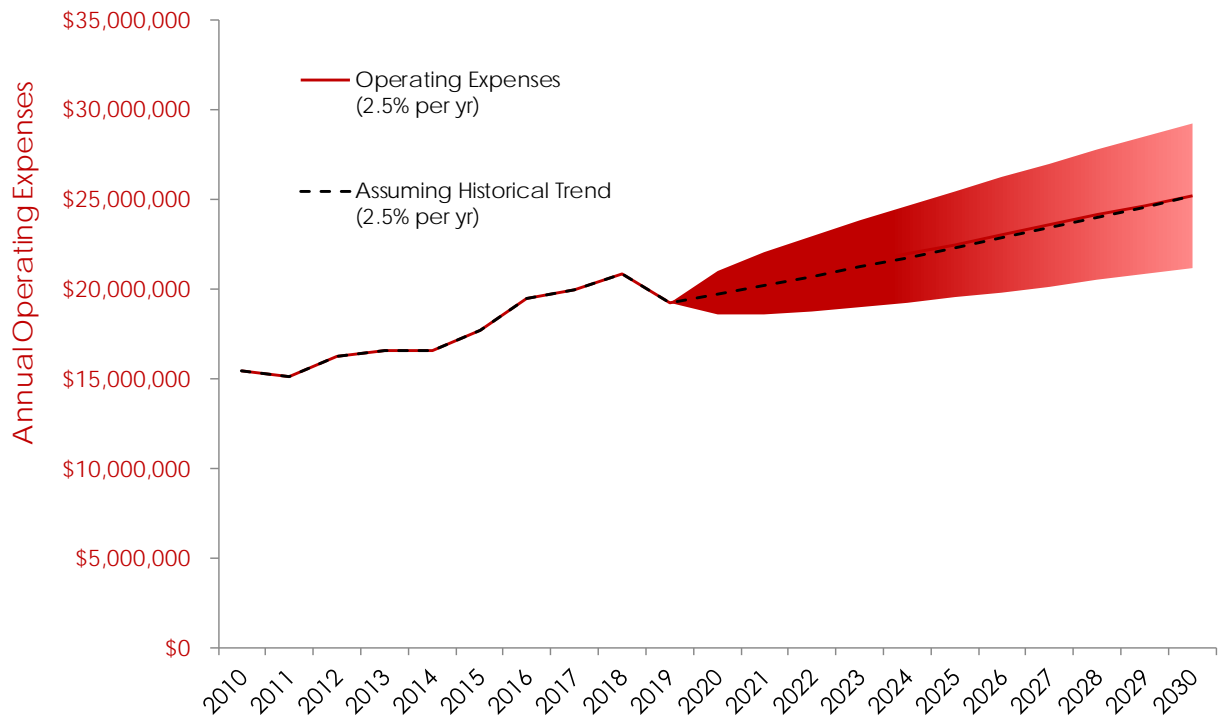
Wastewater Operating Revenues (2010-2030)



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

Wastewater Operations & Maintenance expenses have increased at 2.5% over the past decade. If this can be maintained over the coming decade, this Enterprise Fund will be well positioned to meet the anticipated increase in capital investments.

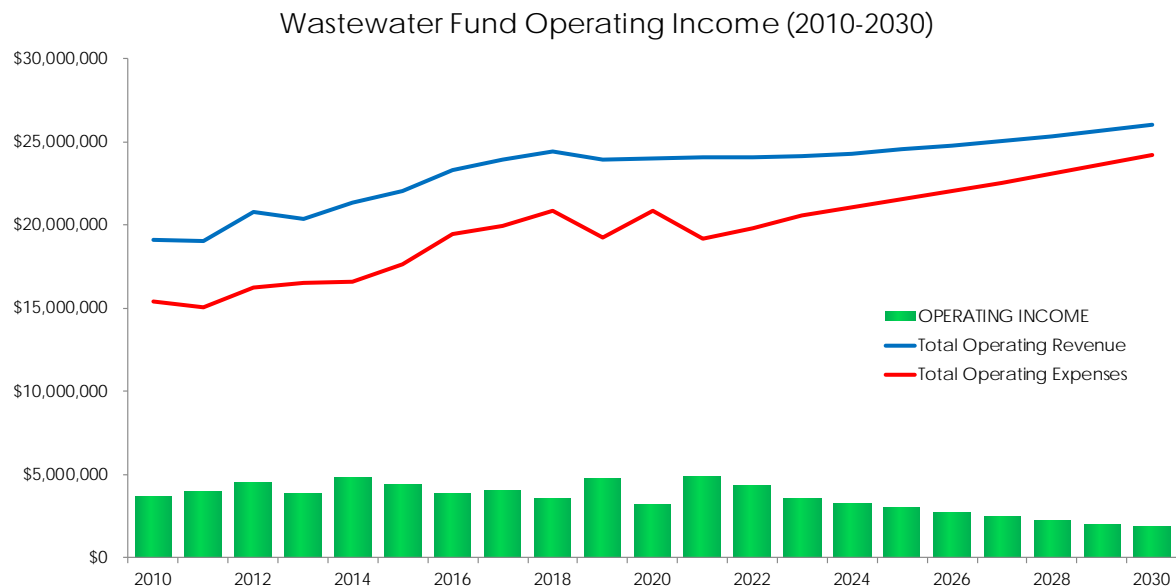
Wastewater Operating Expenses (2010-2030)



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



The combination of operating revenues increasing very modestly and O&M increasing at a slightly faster rate will over time reduce the operating income being generated for this utility. However, operating income is expected to remain adequate to meet all debt service needs without significant contributions being required from plant investment fees.



### Wastewater Rate and Debt Forecasts

As the table below shows, very modest rate adjustments are anticipated along with the issuance of \$25-35M of debt over the coming decade to provide adequate financial resources to complete the anticipated \$150-170M of capital improvements.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	0.0%	0.0%	0.0%	0-2%	0-2%	0-2%	0-2%	0-3%	0-3%	0-3%	0-3%
Debt Issuance \$M				\$10-15M			\$15-20M				
\$150-170M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations											

### Rate Impact to Residential Customers

Modest rate adjustments are being proposed for the Light & Power and Water Funds in the 2021-22 Budget cycle. The impacts of these proposed rate increases to the residential rate class is shown in the table below.

Fort Collins Utilities Comparative Residential Monthly Bill							
		2021			2022		
Utility	2020 Bill	Bill	\$ Change	% Change	Bill	\$ Change	% Change
Electric	\$ 78.52	\$ 80.09	\$ 1.57	2.0%	\$ 81.69	\$ 1.60	2.0%
Water	\$ 48.07	\$ 48.07	\$ -	0.0%	\$ 49.03	\$ 0.96	2.0%
Wastewater	\$ 34.24	\$ 34.24	\$ -	0.0%	\$ 34.24	\$ -	0.0%
Stormwater	\$ 16.04	\$ 16.04	\$ -	0.0%	\$ 16.04	\$ -	0.0%
Total Average Bill	\$ 176.88	\$ 178.45	\$ 1.57	0.9%	\$ 181.01	\$ 2.56	1.4%

### Conclusion and Next Steps

Updating the ten year Capital Improvement Plans ahead of the budget cycle allows for an assessment of potential rate adjustments and debt issuances that may be necessary in the near future. The Strategic Financial Plan provides a financial path forward to meet the operational needs of each utility.

The Water Fund has significant infrastructure investments over the coming decade. Through active management of O&M expenses, modest rate adjustments and the issuance of some debt, the Water Enterprise Fund is expected to be able to meet its operational objectives through targeted capital investments. Further preliminary design efforts during the 2021-22 budget cycle will refine project cost forecasts ahead of any debt issuance being requested.

The Wastewater Enterprise Fund is expected to need some rate adjustments along with \$25-35M of debt issued over the next decade as renewal of the collection system increases to a more sustainable level. Operating costs have been kept under control over the last decade in both of these Enterprise Funds which has served these utilities' customers well.

With the updated Strategic Financial Plans for the Light & Power, Water, Wastewater and Stormwater Enterprise Funds, the initial revenue projections for the 2021-2022 budget cycle can be developed. No debt issuances are anticipated for this budget cycle. The tables below summarize the proposed rate adjustments and debt issuances for each Fund.

Rate Adjustments										
Enterprise Fund	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
501 - Light & Power	2%	2%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%
502 - Water	0%	2%	0-2%	0-2%	0-2%	1-3%	1-3%	1-3%	2-4%	2-4%
503 - Wastewater	0%	0%	0-2%	0-2%	0-2%	0-2%	0-3%	0-3%	0-3%	0-3%
504 - Stormwater	0%	0%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%

Debt Issuances										
Enterprise Fund	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
501 - Light & Power			\$10-15M			\$10-15M				
502 - Water				\$55-65M			\$30-35M			
503 - Wastewater			\$10-15M				\$15-20M			
504 - Stormwater		\$35-40M				\$35-40M			\$20-25M	

### Attachments

Attachment 1 - Powerpoint presentation



Utilities Strategic Financial Plan & Recommendations  
Lance Smith, Utilities Strategic Finance Director

# Purpose and Direction Sought

## Objective:

- Provide an update on the Capital Improvement Plans and Strategic Financial Plan for the Water and Wastewater Enterprise Funds
- Recommend strategic path forward to meet 10 year operational and financial objectives ahead of the 2021-22 Budget cycle

## Direction Sought:

- Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2021-22 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?

### Financial Objectives

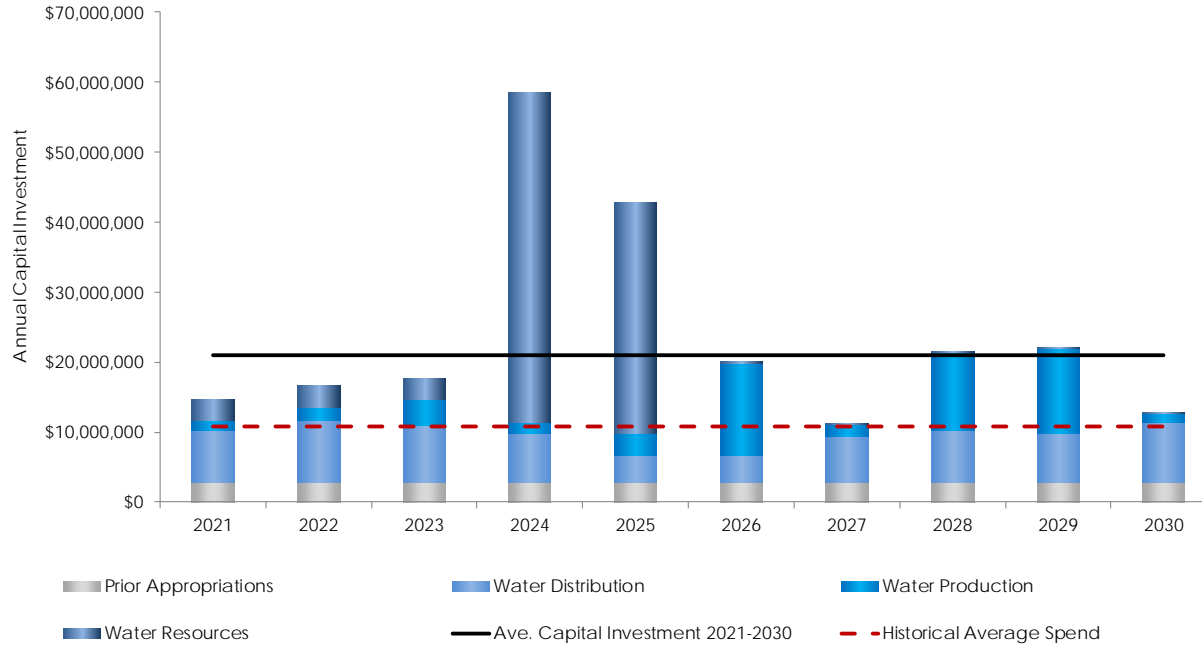
- Maintain adequate reserve balances such that:
  - Meet Minimum Reserves Policy
  - Reserves and revenues adequate to cover near term capital requirements
- Maintain current credit ratings for each Enterprise Fund and the City
- Avoid rate spikes by limiting rate increases to no more than 5% annually

### Operational Objectives

- Provide adequate funds for anticipated capital investments
- Maintain adequate reserves to meet unanticipated capital investments and any debt service expense

# Water Enterprise Fund

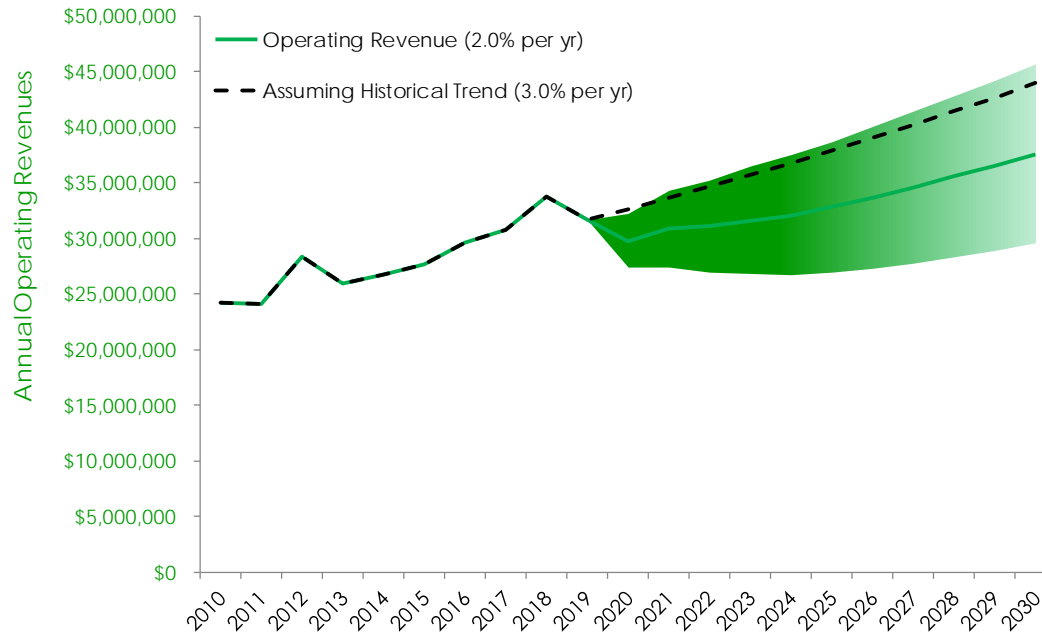
Water Fund Capital Improvement Plan



2019 Operating Revenue was \$32M

# Water Operating Revenue

Water Fund Operating Revenues (2010-2030)

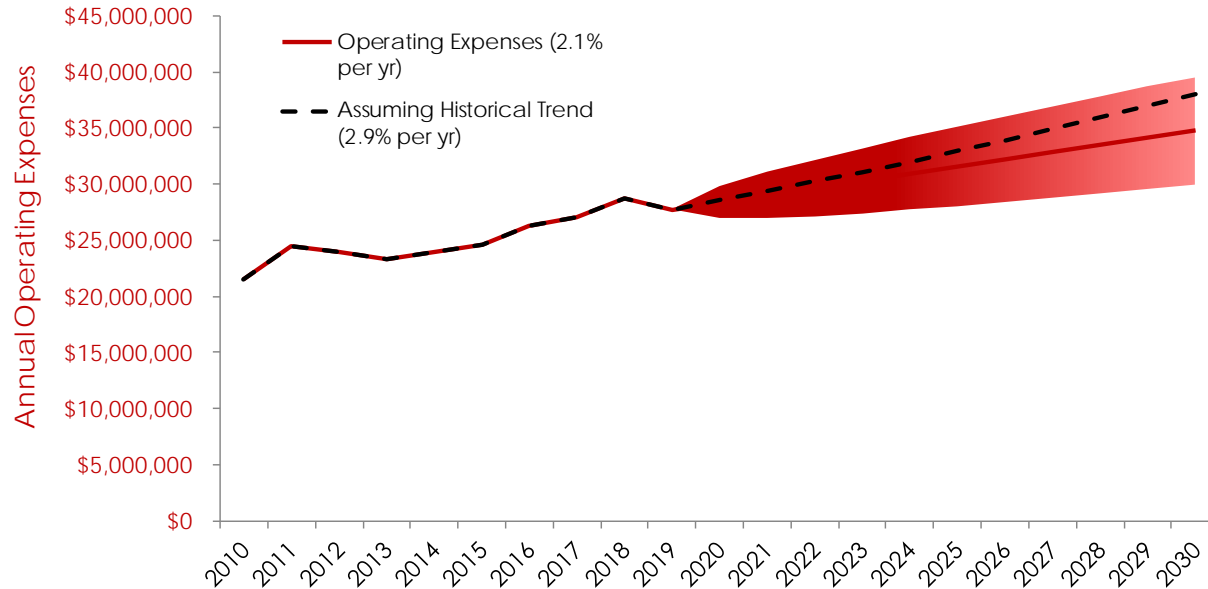


- Expect revenue growth < 3% on average



# Water Rate Pressures

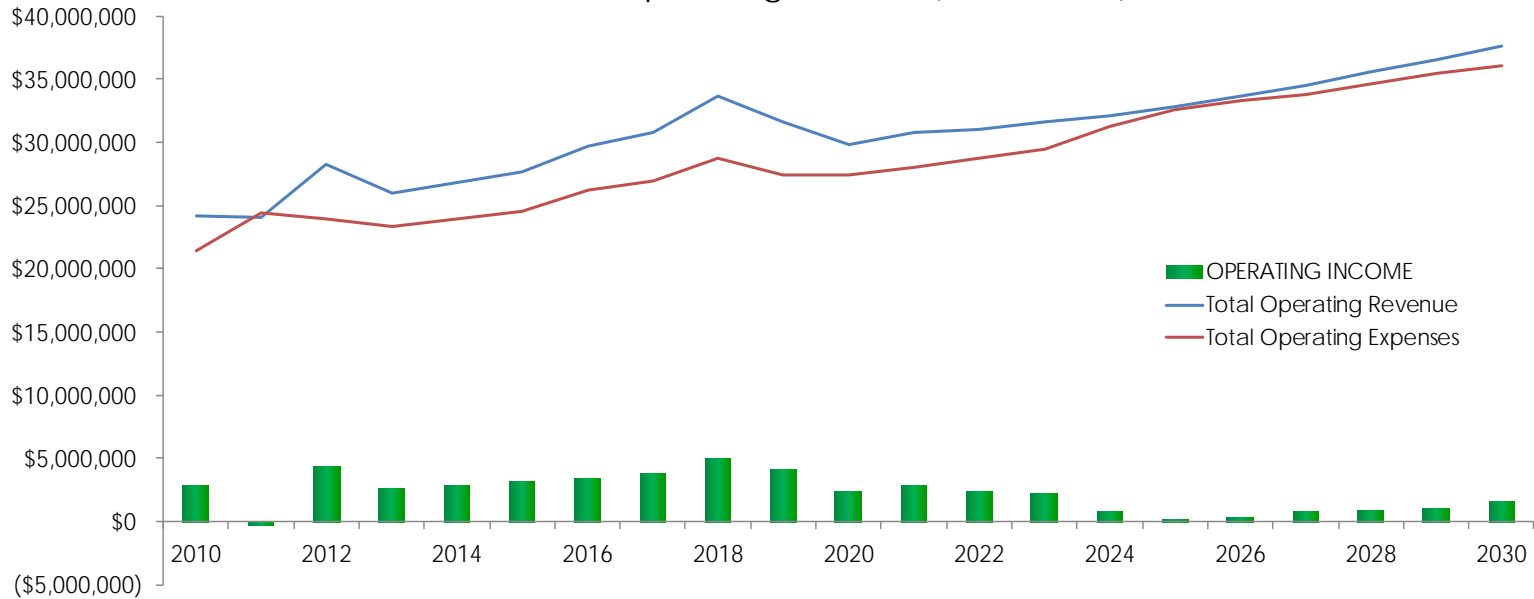
Water Fund Operating Expenses (2010-2030)



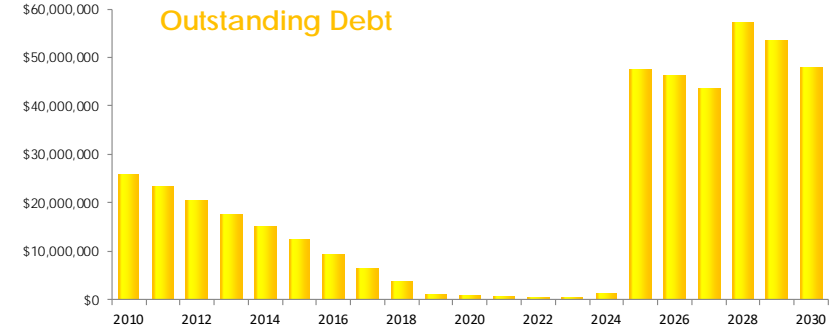
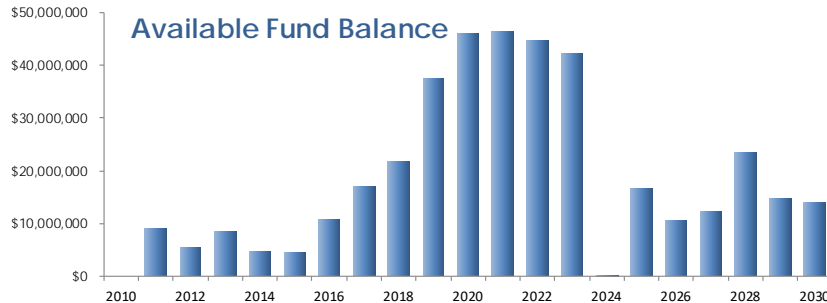
- Limit O&M inflation to 2%:
- CIP

# Light & Power Operating Income

Water Fund Operating Income (2010 - 2030)



# Water Financial Health Forecast



# Water Rate & Debt Forecasts

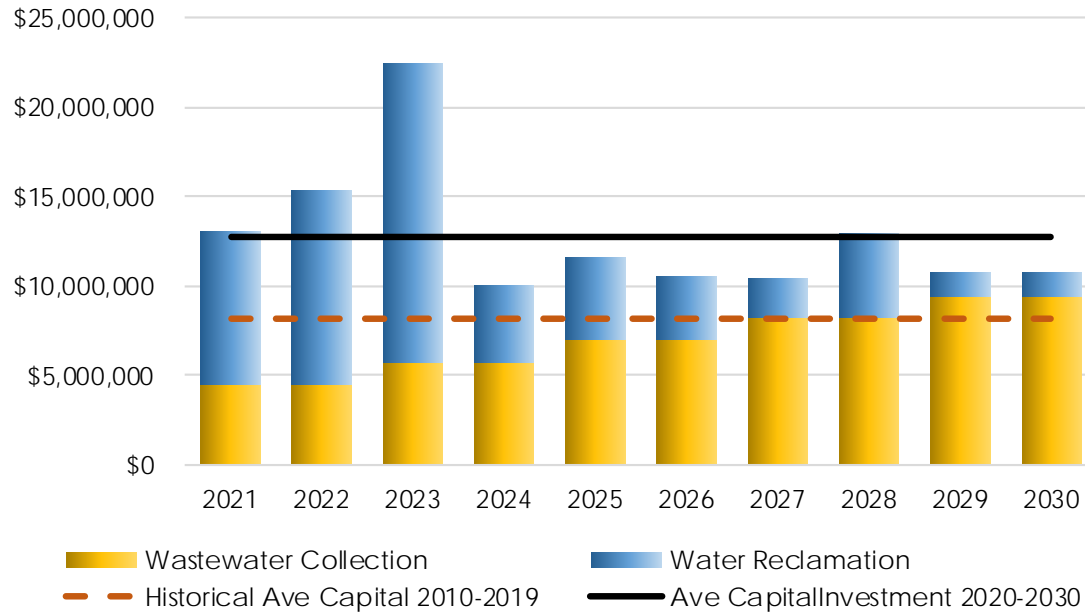
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	0%	0%	2%	0-2%	0-2%	0-2%	1-3%	1-3%	1-3%	2-4%	2-4%
Debt Issuance					\$55-65M			\$30-35M			

\$209M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations

- Modest rate adjustments will be necessary over the coming decade
- Operating Income diminishes in the future
- Two debt issuances are expected to be necessary for significant infrastructure improvements over the coming decade

# Wastewater Enterprise Fund

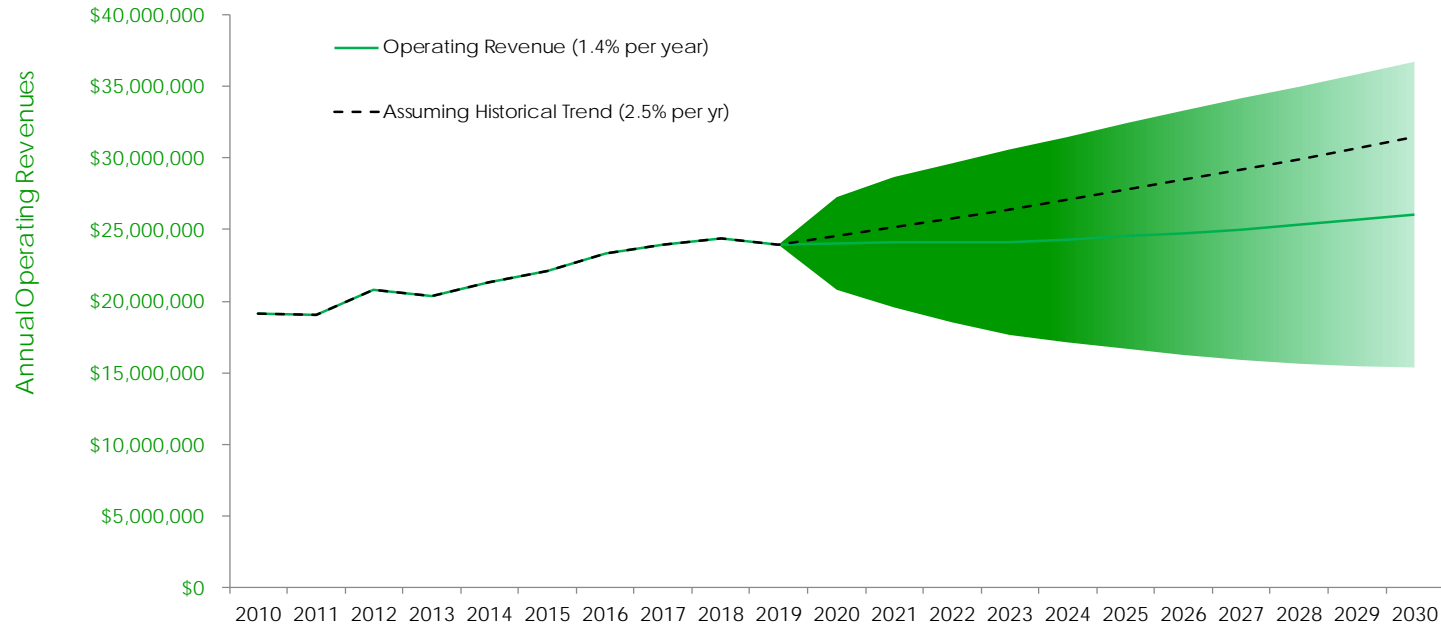
Wastewater Fund Capital Improvement Plan



2019 Operating Revenue was \$23.9M

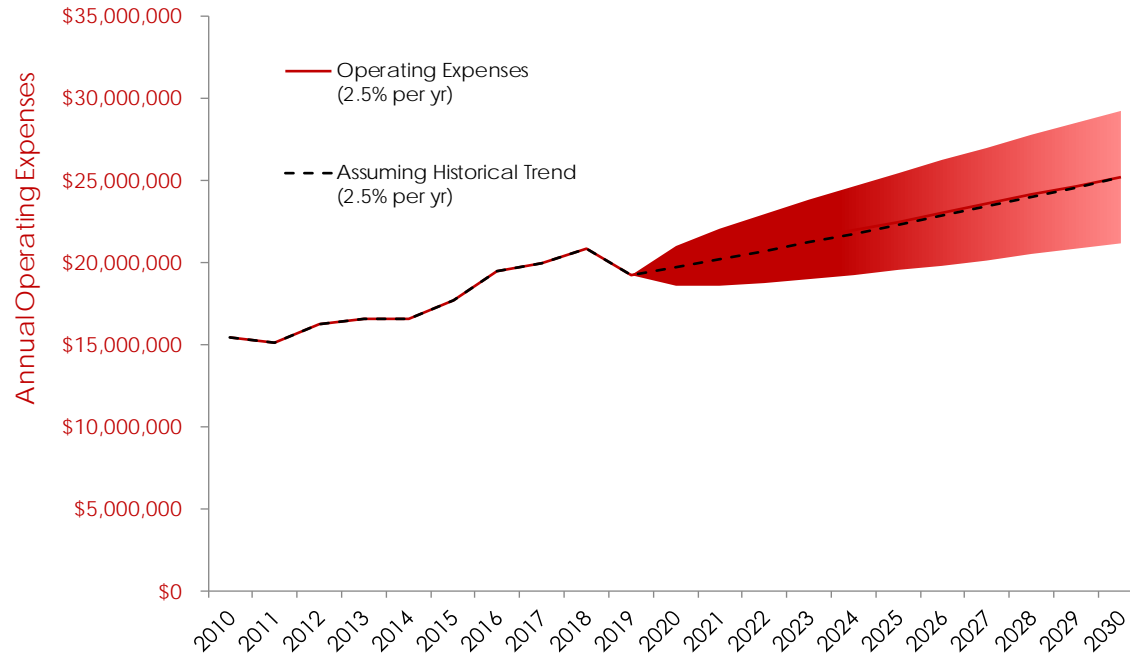
# Wastewater Operating Revenue

Wastewater Operating Revenues (2010-2030)



# Wastewater Operating Expenses

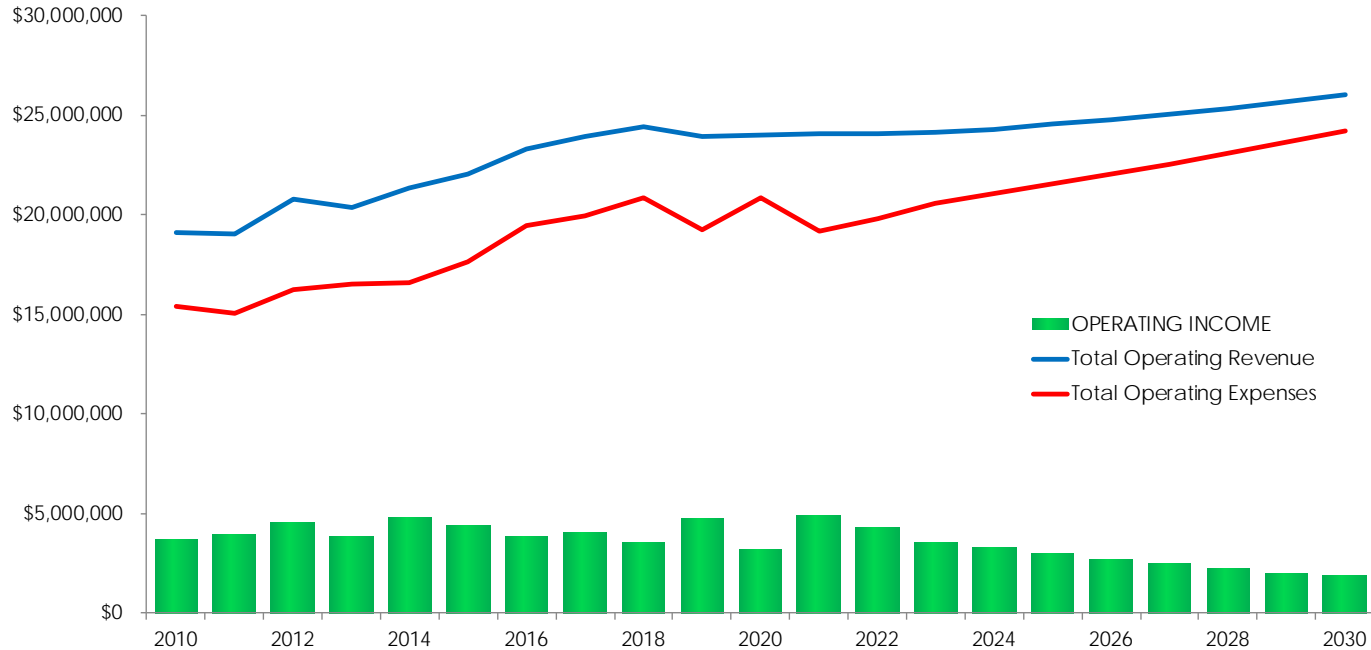
Wastewater Operating Expenses (2010-2030)



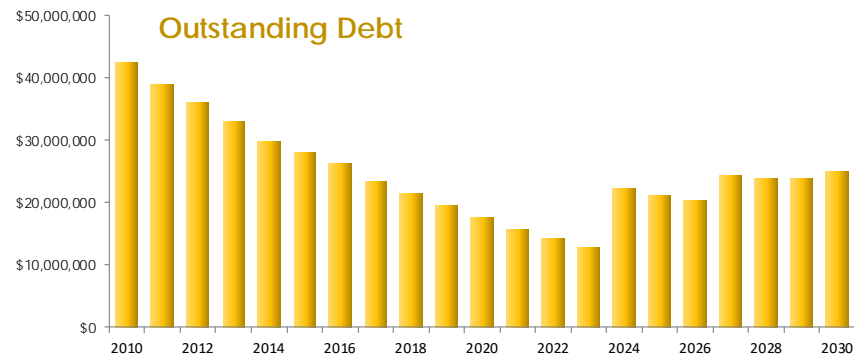
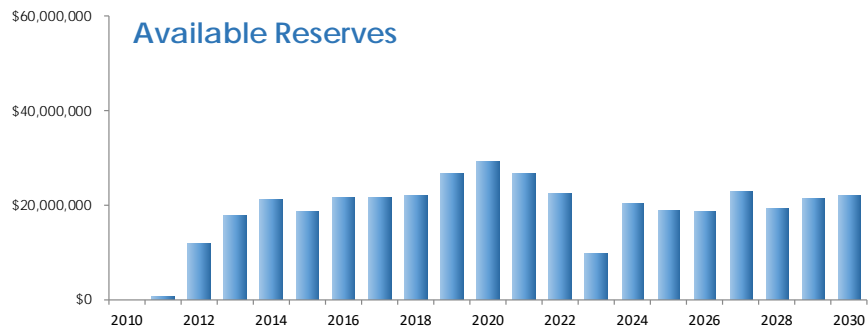
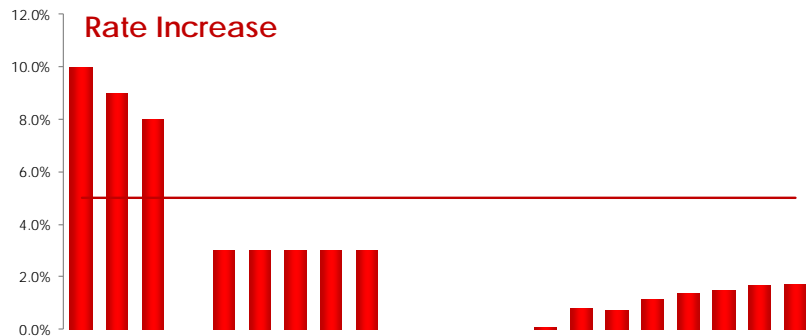


# Wastewater Fund Operating Income

Wastewater Fund Operating Income (2010-2030)



# Wastewater Fund Financial Health Forecast



# Wastewater Rate & Debt Forecasts

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	0.0%	0.0%	0.0%	0-2%	0-2%	0-2%	0-2%	0-3%	0-3%	0-3%	0-3%
Debt Issuance \$M				\$10-15M				\$15-20M			

\$150-170M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations

- Near term capital needs are met with debt issuance in 2023 for the 2023-24 BFO cycle and again in 2027
- Total debt issued between 2020 and 2030 is \$25-35M

# Residential Rate Impacts

Fort Collins Utilities  
Comparative Residential Monthly Bill

		2021			2022		
Utility	2020 Bill	Bill	\$ Change	% Change	Bill	\$ Change	% Change
Electric	\$ 78.52	\$ 80.09	\$ 1.57	2.0%	\$ 81.69	\$ 1.60	2.0%
Water	\$ 48.07	\$ 48.07	\$ -	0.0%	\$ 49.03	\$ 0.96	2.0%
Wastewater	\$ 34.24	\$ 34.24	\$ -	0.0%	\$ 34.24	\$ -	0.0%
Stormwater	\$ 16.04	\$ 16.04	\$ -	0.0%	\$ 16.04	\$ -	0.0%
Total Average Bill	\$ 176.88	\$ 178.45	\$ 1.57	0.9%	\$ 181.01	\$ 2.56	1.4%

- January 2020 - Finalize the prioritization of the CIPs for all Utility Enterprise Funds
- March 2020 – Enter 2021 and 2022 revenue projections into BART as the first step in BFO 2021-22

# Purpose and Direction Sought

## Objective:

- Provide an update on the Capital Improvement Plans and Strategic Financial Plan for the Water and Wastewater Enterprise Funds
- Recommend strategic path forward to meet 10 year operational and financial objectives ahead of the 2021-22 Budget cycle

## Direction Sought:

- Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2021-22 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?



# THANK YOU!



# Light & Power Rate & Debt Forecasts

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	5.0%	<b>2%</b>	<b>2%</b>	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%
Debt Issuance \$M	-	-	-	\$10-15M	-	-	\$10-15M	-	-	-	-

\$100M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations.

- Modest rate adjustments will be necessary over the coming decade
- Operating Income becomes positive and Available Reserves increase
- Some debt issuances are expected to be necessary for electric infrastructure over the coming decade



# Stormwater Rate & Debt Forecasts

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	2.0%	0.0%	0.0%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%
Debt Issuance			\$35-40M				\$35-40M			\$20-25M	

\*\$374M of capital work is expected to be needed between 2021 and 2045.

- Near term capital needs are met with debt issuance in 2022 for the 2023-24 BFO cycle
- Initial buildout of infrastructure to be completed by 2045
- 2030 rates are projected to be 7% higher than 2019
- Total debt issued between 2020 and 2030 is \$90-105M

## **COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY**

**Staff:** Sean Carpenter and Blaine Dunn

**Date:** January 27, 2020

**SUBJECT FOR DISCUSSION:** Epic Homes 15-Year Capital

### **EXECUTIVE SUMMARY**

This item will provide updated details to Council Finance regarding the proposed Epic Homes 15-year capital sources. Staff will present on two capital agreements with attractive terms and no associated City financial policy exceptions. One agreement is for a fixed-interest rate loan up to \$2.5M with a Denver-based bank and the other is for an \$800k interest-free loan from the Colorado Energy Office.

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

- Does the Committee support presentation of the proposed 15-year capital agreements to the Electric Utility Enterprise Board?

### **BACKGROUND/DISCUSSION**

#### **Epic Homes**

In October 2018, Fort Collins became a winner of the 2018 Bloomberg Mayors Challenge and the associated \$1M prize. The 2018 Bloomberg Mayors Challenge involved over 300 cities proposing ideas to address important issues in their community. The City's proposal, Epic Homes, was selected as a winner for its innovative approach to providing health and equity benefits to residents, specifically for low-to-moderate income renters, by improving the energy efficiency of rental homes. Residential property owners can take advantage of Epic Homes' easy streamlined steps to make their homes more comfortable, healthy and efficient. Partnering with Colorado State University, Fort Collins is also establishing a research study which links the health and well-being indicators of improved indoor environmental quality.

Epic Homes provides non-energy benefits in addition to efficiency, such as increased comfort, health and safety. In nearly every energy assessment, energy advisors identify a health and safety hazard in need of attention. This could vary from a back-drafting water heater, to air leakage pollutants entering the home from the garage or crawlspace, to combustion appliances that need tuning or replacing producing excess carbon monoxide. Loans are available for over 25 different types of efficiency measures, including replacing an old furnace with a new efficient furnace that has important safety features, such as sealed combustion with intake and exhaust to the outside.

#### **Epic Loans**

Fort Collins' On-Bill Finance program (previously also known as Home Efficiency Loan Program or HELP, and now called the Epic Loan Program), a component of the Epic Homes portfolio (Attachment 1), supports a number of community and City Council priorities, including ambitious goals for energy efficiency and renewables, reduced greenhouse gas emissions and increased equity and well-being for residents. Meeting these objectives will require, among other activities, greater numbers of property owners to undertake comprehensive efficiency

improvements in the coming years, particularly for older, less-efficient rental properties which make up a significant percentage of the City’s housing stock.

The original On-Bill Finance program issued loans from 2013 through 2016 when the maximum outstanding loan balance funded through Light & Power reserves was reached (\$1.6 million). On-Bill Finance was revitalized as the Epic Loan Program in August 2018 during the Champions Phase of the Bloomberg Mayors Challenge. The City has been awarded grants from the Colorado Energy Office (\$200,000) and from Bloomberg Philanthropies (\$688,350) for the Epic Loan Program. The Electric Utility Enterprise has also entered into a \$2.5M line of credit loan agreement with U.S. Bank to provide up to 10-year capital for the Epic Loan Program.

Staff has been working to develop third-party capital agreements to scale impact for owners and renters in Fort Collins. This has included presentations with the Council Finance Committee to discuss the Request for Proposals for third-party capital providers, discuss the capital strategy and review proposed capital agreement terms. The proposed ‘capital stack’ is provided below in Table 1 and the customer interest rates based on third-party capital terms are provided in Table 2.

An ongoing and attractive financing structure to support energy efficiency retrofits will be a critical element for success moving forward. Through 2019, Fort Collins Utilities has serviced 211 on-bill loans to support energy efficiency upgrades in residential homes and overcome financial barriers for making these important upgrades. Detailed information regarding the Epic Homes program and loan terms can be found at [fcgov.com/epichomes](http://fcgov.com/epichomes).

Table 1. Epic Loan Capital Stack Summary

<b>Capital Type</b>	<b>Provider</b>	<b>Term</b>	<b>Rate</b>	<b>Amount</b>
<b>Internal &amp; Grant</b>				
	Previously authorized Light & Power reserves	Ongoing	0%	\$1,600,000
	Bloomberg Philanthropies	Grant	0%	\$688,350
	Colorado Energy Office – Grant	Grant	0%	\$200,000
	<b>Internal Subtotal</b>			<b>\$2,488,350</b>
<b>External Market</b>				
	Colorado Energy Office – Loan	15 year	0%	<b>\$800,000</b>
	U. S. Bank	5 & 10 year	76% of Prime (3.99% Currently)	<b>Up to \$2,500,000</b>
	Denver Based Bank	15 year	10-year US Treasury + 2.75% (4.55% Currently)	<b>Up to \$2,500,000</b>
	<b>External Subtotal</b>			<b>\$5,800,000</b>
<b>Total</b>				<b>\$8,288,350</b>

Table 2. Customer Interest Rate

<b>Loan Term</b>	<b>Customer Rate (Effective Aug. 2019)</b>
<b>3 or 5 years</b>	3.75%
<b>7 or 10 years</b>	4.25%
<b>15 years*</b>	4.75%

\*The 15-year loan option is currently paused until external capital is secured.

### **Council Finance Meetings Review**

An overview of Council Finance Committee presentations and discussions related to Epic Homes is provided below in Table 3.

Table 3. Overview of Council Finance Committee Items Related to Epic Homes

<b>Date</b>	<b>Topic</b>	<b>Outcomes</b>
November 2018	Program background and issuing an RFP for third-party capital sources	<ul style="list-style-type: none"> <li>• City issued RFP #8842 in December 2018</li> <li>• Staff pursued conversations and negotiations with respondents and other potential capital providers</li> </ul>
May 2019	Capital strategy, potential capital sources and next steps for bringing capital agreements to Council	<ul style="list-style-type: none"> <li>• Staff continued negotiations with potential capital providers (including a locally managed national bank, a regional bank, Colorado Clean Energy Fund, and the CEO)</li> <li>• Received Legal and Purchasing review of draft contracts</li> </ul>
July 2019	Capital agreement terms	<ul style="list-style-type: none"> <li>• Staff directed to bring two of the three capital sources to full Council for consideration (<i>US Bank Loan authorized by Electric Utility Enterprise Board in Ordinance 007 &amp; 008, 2019</i>)</li> <li>• Staff directed to provide additional information on interest rate swaps and 15-year capital to Council Finance</li> </ul>
August 2019	15-year capital and interest rate swaps	<ul style="list-style-type: none"> <li>• Staff directed to bring third capital source to full Council for consideration (<i>Staff reached impasse in terms with capital provider and is proposing new 15-year capital sources</i>)</li> </ul>

### **Importance of 15-year Capital**

During prototyping for the Bloomberg Mayors Challenge, rental property owners reported that no-money-down, affordable monthly payments are critical considerations, in particular for owners with multiple units. OBF 1.0 (also known as HELP) proved these factors are also important for owner-occupied properties, where many homeowners preferred longer term loans

which often allow for more comprehensive projects and/or solar installations with affordable monthly payments. In 2016, Fort Collins Utilities implemented the Efficiency Works Neighborhood pilot, with nearly 60 long term loans issued totaling over \$750,000. Additionally, of those that used a loan during the pilot, 80% of customers stated they would not have done a project without the attractive on-bill loan option.

Throughout the on-bill financing history (2013-2016 and 2018-2019), 50% of customers have used longer loan terms to reduce monthly payments and/or undertake more comprehensive energy efficiency projects (Table 4). As a result, the longer-termed loans account for a larger percentage of the on-bill loan portfolio value, at 60%. Longer term loans are generally used for bigger, more comprehensive projects that can generate increased benefits for the people who live in and own those homes, as well as positively impacting overall City goals.

Table 4. Summary of On-Bill Financed Projects by Loan Term

<b>Loan Terms</b>	<b>3 &amp; 5 year</b>	<b>7 &amp; 10 year</b>	<b>15 (&amp; 20) year</b>	<b>Total</b>
Projects Using OBF by Term	41	71	99	<b>211</b>
Percentage of Total	19%	34%	<b>47%</b>	<b>100%</b>

In order to keep monthly payments low and make energy retrofit projects attractive, longer loan terms are required. The average on-bill long-term loan amount is \$13,000, with monthly payments of \$101. Heating, ventilation and cooling (HVAC) projects are an example of higher cost projects where longer loan terms are more attractive. The average HVAC project loan in Epic Loans is \$14,000. With a 10-year loan, the monthly payment is \$143; however, with a 15-year loan, the monthly payment is \$109, a 30% lower monthly payment that is much more attractive and feasible. These attractive monthly payments are critical for overcoming cost barriers for home and rental property owners considering energy upgrades.

### **Denver Based Bank Overview**

Staff previously presented a 15-year capital source with a Midwest-based commercial bank through the Colorado Clean Energy Fund, which included some uncommon terms for City loan agreements, such as a required collateral deposit and variable interest rate resulting in the need for a derivative instrument. After presentation of this capital source to the Council Finance Committee, staff reached an impasse in terms with the capital provider as the terms became unfavorable for the City. Staff was able to find a new source for 15-year capital from an in-state commercial bank with highly desirable terms, including a fixed interest rate at the time of closing, no collateral requirements, and no debt policy exceptions needed.

Staff has reviewed a draft loan agreement with the Denver Based bank for 15-year capital. The terms include:

- Amount: Up to \$2,500,000
- Length: 17-years inclusive of draw period
- Draw period: Up to 2 years, with draw timing and amounts based on program / customer demand

- Fixed rate: 10-year US Treasury + 2.75% (4.55% Currently); Rate set at time of loan closing
- Collateral: None
- Pre-pay: City may pre-pay in whole or in part after 2027 with no penalty. No prepayment is allowed prior to 2025, and between 2025 and 2027 there is a 1% prepayment fee.
- Repayment position: Senior pledge on customer loan repayments and subordinate position on Electric Utility revenues, after the more senior pledge held by revenue bondholders

### **Colorado Energy Office Overview**

The Colorado Energy Office (CEO) showed support of Epic Loans in 2018 with a \$200,000 grant. Staff have also negotiated a \$800,000 loan from CEO. Terms of the agreement include:

- Amount: \$800,000
- Length: 15-years
- Draw period: None
- Fixed Rate: 0%

The principal will be due at the end of the 15-year period and any program income may be used for administrative expenses and/or issuing new loans. Any unused program income will also be due at the time of principal repayment.

### **Next Steps**

Staff seeks approval from Council Finance to proceed for Electric Utility Enterprise Board consideration of the proposed 15-year agreements. If supported, staff is scheduled to present the 15-year agreements on February 18, 2020.

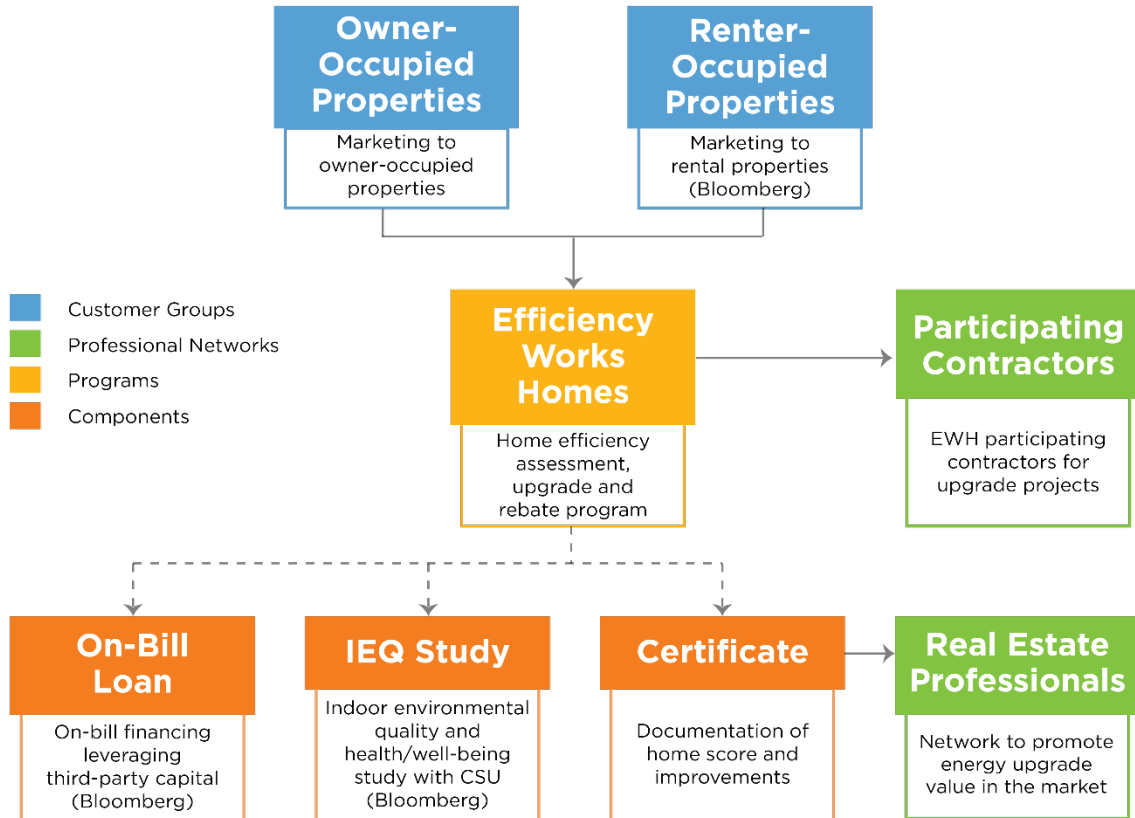
### **ATTACHMENTS**

Attachment 1: Epic Homes Structure and Components Diagram

Attachment 2: Epic Homes 15-year Capital Agreements Presentation 1-27-20

# EPIC**HOMES**

A comprehensive portfolio for single-family home performance.



*For internal use only.*



## **Epic Homes 15-Year Capital**

Sean Carpenter, Climate Economy Advisor

Blaine Dunn, Sr Treasury Analyst



Does the Committee support presentation of the proposed 15-year capital agreements to the Electric Utility Enterprise Board?

# Review & Updates from Previous Council Finance Meetings

## Nov. 2018, May 2019, Jul. 2019, & Aug. 2019 Finance Committee

- Reviewed history of On Bill Finance / Bloomberg Mayors Challenge / Epic Homes
- Reviewed short term (3-4 year) and long term (5+ year) capital objectives
- Approved staff to negotiate draft agreements with potential capital providers
- Finance Committee in-depth review of drafted terms
- Approval for presentation to City Council for consideration of 2 of 3 agreements
- Discussion of National Green Bank 15-year capital option and associated interest rate swap and policy exception

## January 2020 Finance Committee

- Discussion of proposed 15-year capital sources with improved terms; if approved by Council Finance, staff to present to EUE Board for consideration

## Why 15-year Loan Terms?

- Long term loans account for:
  - 50% of on-bill loans
  - 60% of on-bill loan dollars
    - More comprehensive projects often use longer term loans
- A low monthly payment often makes the difference between making efficiency upgrades or choosing minimum efficiency equipment
  - Average HVAC loan is \$14,000
    - Loan with 15-year term = \$109
    - Loan with 10-year term = \$143
    - 30% lower payment with 15-year term



## What has changed from August 2019 CFC Meeting?

- Negotiations on previous agreement reached an impasse
- New Denver-based 15-year capital provider identified, offering superior terms and lower costs than previous bank
- Continued progress with CEO in negotiating \$800K zero-interest loan

## Positive Changes

- ✓ Fixed rate at time of closing; no variable rate period
- ✓ No debt policy exceptions needed
- ✓ No collateral required

**Amount:** \$2,500,000

**Length:** 17-years inclusive of draw period

**Draw period:** Up to 2 years, with draw timing and amounts based on program demand

**Fixed Rate:** 10-year US Treasury + 2.75% (4.55% Currently);  
Rate set at time of loan closing

- City may pre-pay in whole or part with no penalty starting in 2027
  - No prepayment prior to 2025
  - Between 2025 and 2027 1% prepayment fee

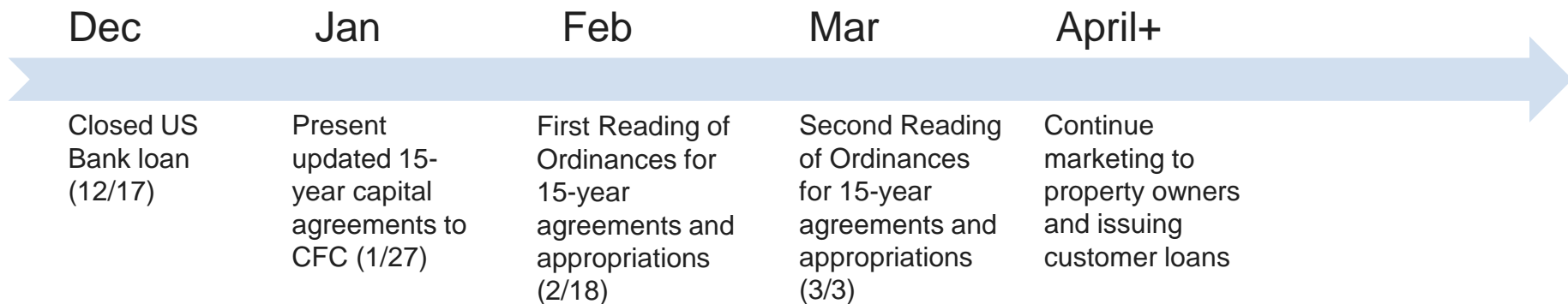
**Amount:** \$800,000

**Length:** 15-years

**Draw period:** None

**Fixed Rate:** 0%

- Principal due at end of 15-year period
- Program income may be used for administrative expenses and/or issuing new loans
  - Any unused program income will be repaid with principal



## Next steps

- Pending support, present to EUE Board February 18 for approval of capital agreements and related items
- Develop recurring framework for updated annual cash flow projections and reporting

Does the Committee support presentation of the proposed 15-year capital agreements to the Electric Utility Enterprise Board?



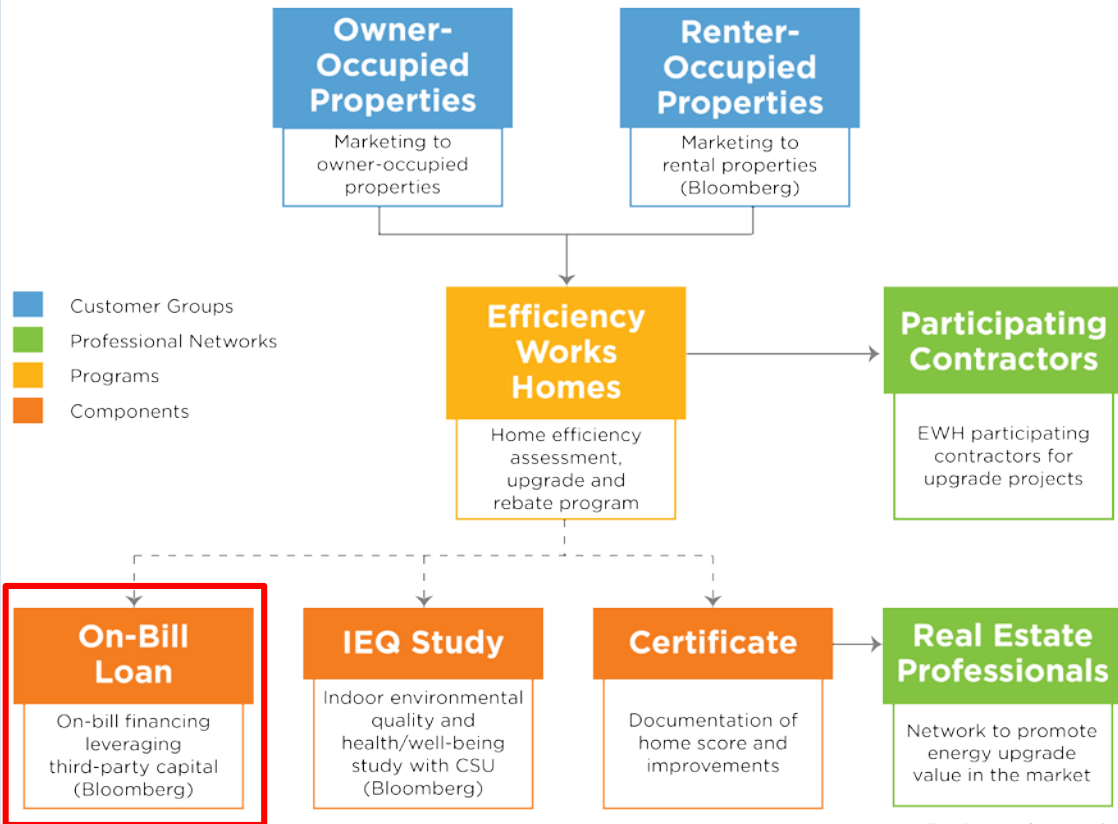
# Backup Slides

# Capital Stack Summary

Capital Type	Provider	Term	Rate	Amount
<b>Internal &amp; Grant</b>				
	Previously authorized Light & Power reserves	Ongoing	0%	\$1,600,000
	Bloomberg Philanthropies	Grant	0%	\$688,350
	Colorado Energy Office – Grant	Grant	0%	\$200,000
	<b>Internal Subtotal</b>			<b>\$2,488,350</b>
<b>External Market</b>				
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	U.S. Bank	5 & 10 year	76% of Prime (3.99% Currently)	Up to \$2,500,000
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	<b>External Subtotal</b>			<b>\$5,800,000</b>
<b>Total</b>				<b>\$8,288,350</b>

# EPIC**HOMES**

A comprehensive portfolio for single-family home performance.



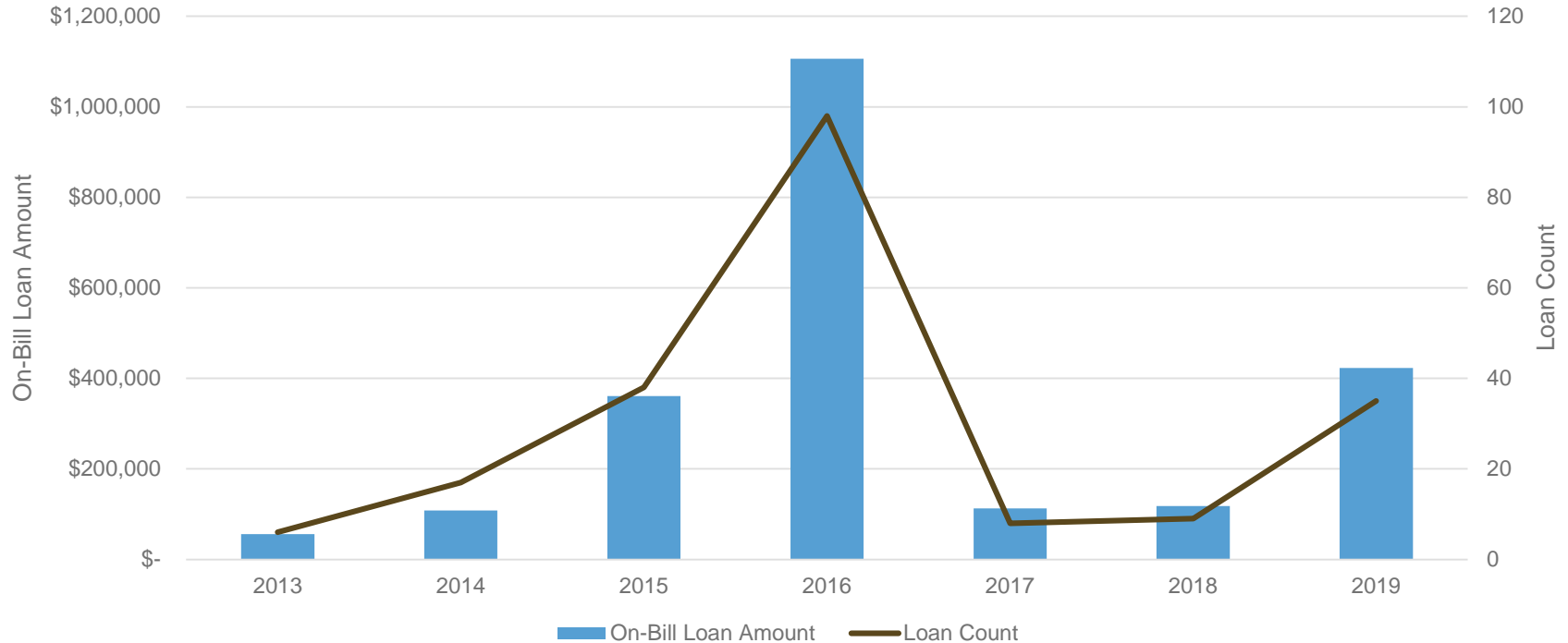
*For internal use only.*

## Epic Loan Retail Rates

Loan Term	Customer Rate (Effective Aug. 2019)
3 or 5 years	3.75%
7 or 10 years	4.25%
15 years*	4.75%

*\*15-year option currently paused until external capital is secured*

# Historic On-Bill Loan Stats



# Core Tenets and Guardrails

## Loan portfolio management

- Total target for capital for next 3-4 years: \$7M - \$8M
- Interest rate target: blended cost of capital, plus admin and risk premium
- Annual loans issued / originated: \$1.5M - \$2.0M
- Parity in length of term borrowed vs. length of term loaned

## Other critical considerations

- No negative impact on Light & Power planned 2023 debt offering
- Protect Utilities credit rating & broadband's coverage covenants

# Non-Energy Impacts from Efficiency

## Home Energy Efficiency Interventions

Air Sealing

Insulation

Window replacement

Improved Heating System

Improved Cooking System

Appliance replacement

Improved ventilation

## Possible Impacts on Exposure Determinants

(-) energy cost burden

(+) perception of home

(+) thermal control

(+) sleep environment

(-) infiltration of outdoor air

(-) indoor air emissions

(+) indoor pollutant removal

## Social & Environmental Exposures Impacted

(-) psychosocial stress

(+) quality of life

(-) heat/cold

(+) sleep quality

(-) indoor air pollution

(-) ambient air pollution

## Possible Physiological & Psychological Health Outcomes Impacted

(-) cardiovascular risk

(-) respiratory risk

(-) cancer risk

(+) mental health

(+) subjective well-being