**Finance Administration**
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# AGENDA
# Council Finance & Audit Committee Hybrid Meeting
# February 23, 2024
# 1:00 - 3:00 pm
# CIC Room

Zoom Meeting https://zoom.us/j/8140111859

Approval of Minutes from the December 14, 2023, Council Finance Committee meeting.

| | | | |
|---|---|---|---|
| 1. | Scheduling & Chair for 2024-2025 Council Term | | T. Storin |
| | Discussion: | 15 mins. | |
| 2. | Utility Rate / Debt Forecast | | L. Smith |
| | Presentation: | 20 mins. | |
| | Discussion: | 40 mins. | |
| 3. | Laporte Multimodal Grant Match | | G. Hale<br>M. Martinez |
| | Presentation: | 10 mins. | |
| | Discussion: | 20 mins. | |

# Council Finance Committee

## 2024 Agenda Planning Calendar

**Revised 02/13/24 ts**

| Feb. 23rd | 2024 | | |
|---|---|---|---|
| | Scheduling and Chair for 2024-2025 Council Term | 15 min | T. Storin |
| | Utility Rate / Debt Forecasts | 60 min | L. Smith |
| | Laporte Multimodal Grant Match | 30 min | G. Hale<br>M. Martinez |

| March | 2024 | | |
|---|---|---|---|
| | 2024 Reappropriation | 15 min | L. Pollack |
| | 2050 Tax Appropriations for 2024 | 60 min | L. Pollack |
| | EPIC Home Loan Bank Renewal | 15 min | B. Tholl<br>G. Pease |
| | Poudre Fire Authority Intergovernmental Agreement | 30 min | D. Lenz |

| April | 2024 | | |
|---|---|---|---|
| | 2025-2026 Budget Process Review | 30 min | L. Pollack |
| | | | |

| May | 2024 | | |
|---|---|---|---|
| | | | |
| | | | |

Unscheduled Topics

Municipal Court Renovation and 215 N. Mason HVAC Update/Upgrade

September – Annual Adjustment Ordinance – Lawrence Pollack

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Council Finance Committee Zoom Meeting
December 14, 2023
4:00 - 6:30 pm

| | |
|---|---|
| Council Attendees: | Emily Francis, Kelly Ohlson |
| Members Absent: | Julie Pignataro |
| Staff: | Kelly DiMartino, Tyler Marr, Travis Storin, Jenny Lopez Filkins, Lance Smith, Marc Virata, Dave Lenz, Randy Reuscher, Dean Klingner, Sheena Freve, Monica Martinez, Jill Wuertz, Randy Bailey, Renee Reeves, Meaghan Overton, Jo Cech, Nina Bodenhamer, Jen Poznanovic, Kendall Minor, Victoria Shaw, Jill Wuertz, Zack Mozer, Carolyn Koontz |
| Others: | Kevin Jones, Chamber<br>Brian Duffany and Christian Carroll from Economic & Planning Systems;<br>Colin McAweeney from TischlerBise |

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Meeting called to order at 4:00 pm

Approval of minutes from October 5, 2023, Council Finance Committee Meeting.
Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion.
The minutes were approved unanimously via roll call by; Emily Francis and Kelly Ohlson.

## A. Utility Rate / Debt Forecasts
## 2023 Strategic Financial Plan for the Light & Power Utility

Lance Smith, Utilities Senior Director of Finance

**EXECUTIVE SUMMARY**

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

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

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

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

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

**BACKGROUND / DISCUSSION**

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

**Strategic Financial Planning Process**

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

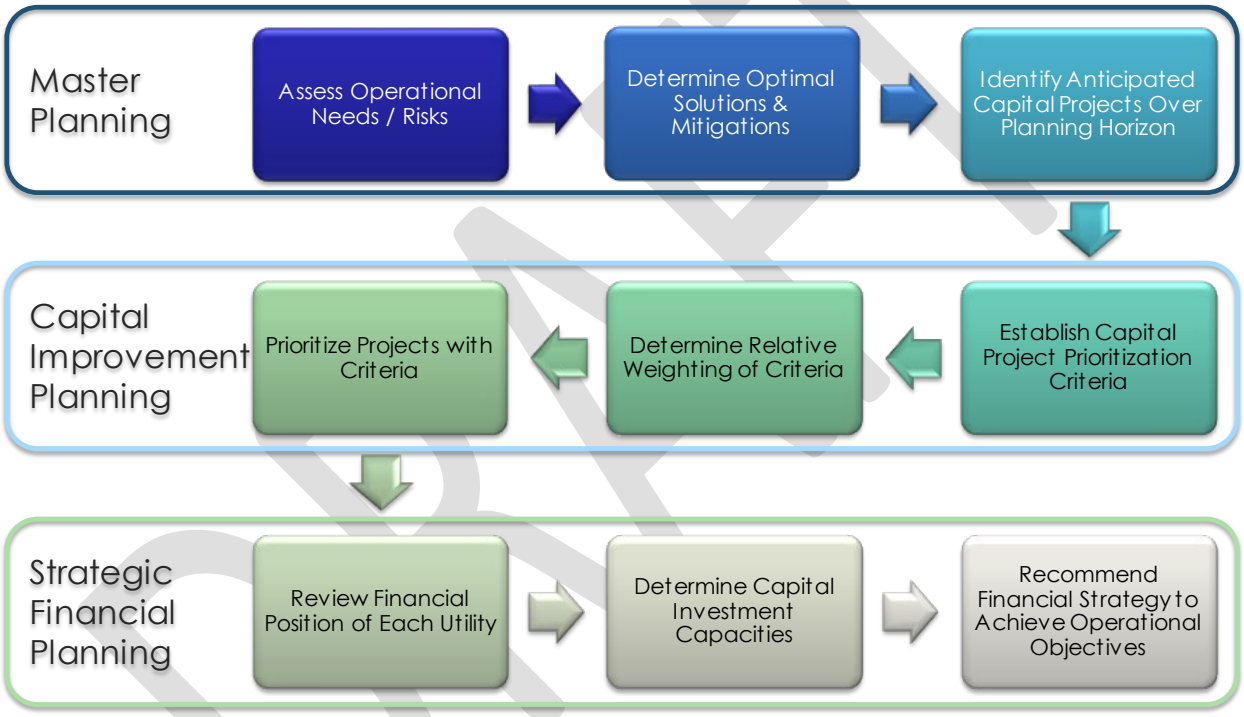
Whereas strategic planning sets the operational direction of where the utilities are going in the future, strategic financial planning provides a financial context for this movement. The strategic financial plans ensure the long-term operational and fiscal objectives and level of service targets for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

1. Operating Margin > 3.0%

2. Debt Coverage Ratio > 2.0

3. Annual Rate Adjustments < 5.0%

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




**2023 Strategic Financial Planning**

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

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.
- After the COVID-19 pandemic supply chain constraints created scarcity in some electric equipment, particularly transformers which has caused a 150-300% cost increase.
- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

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

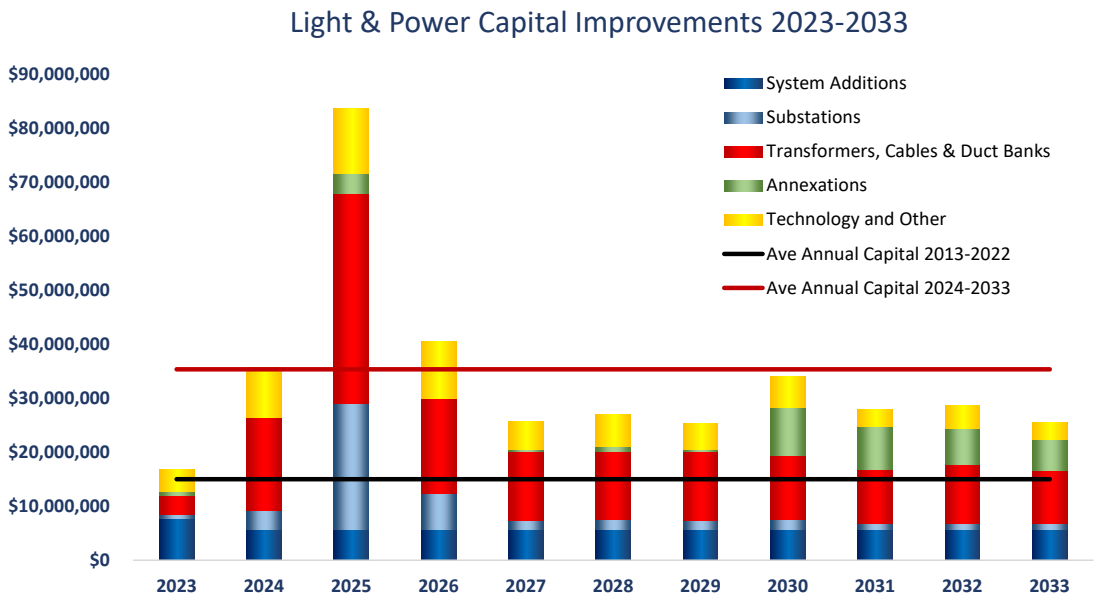
- Platte River Power Authority (PRPA) is finalizing a new Integrated Resource Plan which is expected to be filed with the State of Colorado sometime in 2024 leading to some uncertainty in the wholesale rate projections utilized in this effort.

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

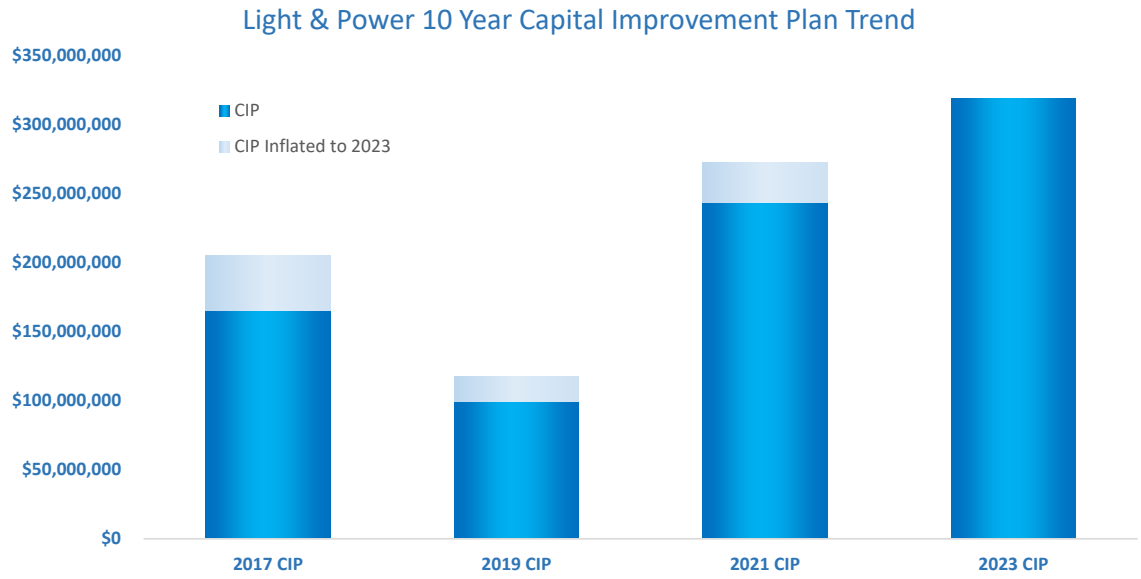
- Consistent with the 2021 Strategic Financial Plan, in October of 2023 a new debt issuance at a coupon rate of 5.000% for $59,400,000 providing the electric utility with $40,818,986 of new capital.

**2023 Capital Improvement Planning**

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

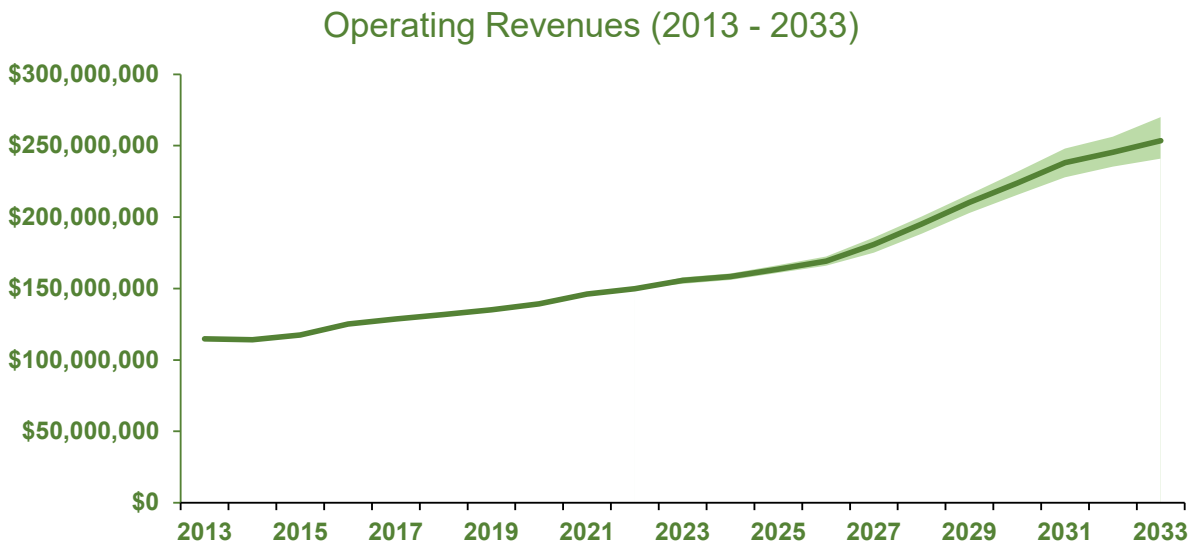


The graph below shows the evolution of the Light & Power CIP over the last 3 budget cycles compared to the 2023 CIP reflecting the impacts of some of the macro-economic challenges outlined above as well as updated planning and analysis. The growth of the number of projects in the CIP will require further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




**Light & Power Operations**

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



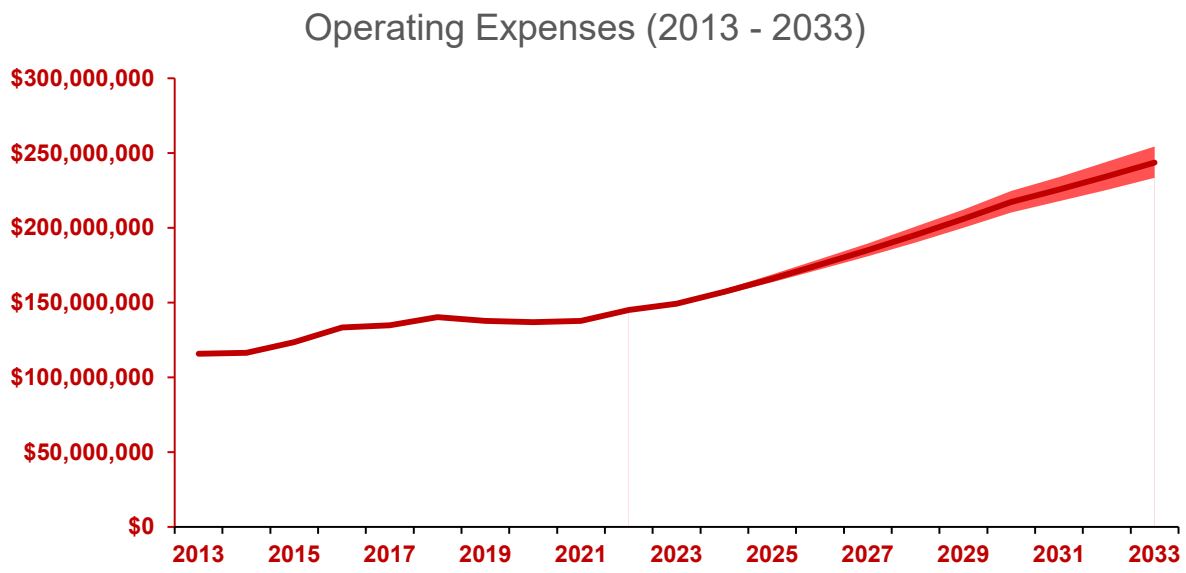

*The colored area represents the 95% confidence band around the expected operating expense.*

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

**FUND:**
501 - Light & Power Enterprise Fund

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

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



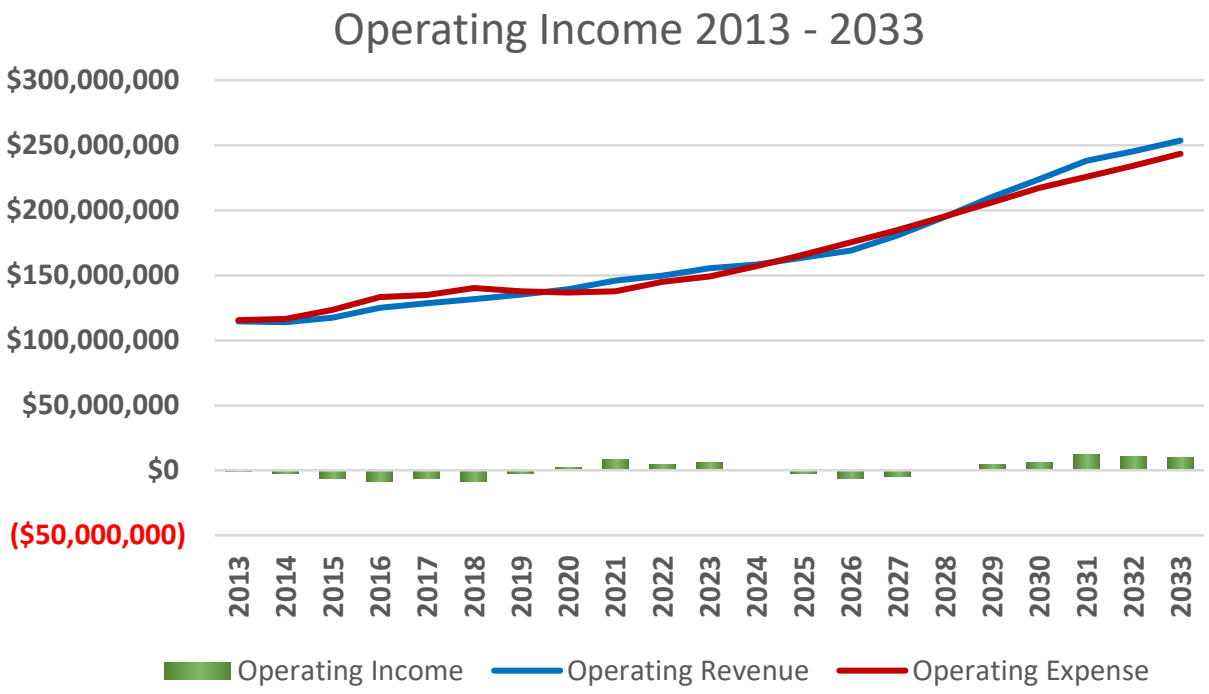

*The colored area represents the 95% confidence band around the expected operating expense.*

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

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

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

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



**Light & Power Rate and Debt Forecasts**

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

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

Conclusions 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. This allows the associated Strategic Financial Plan to be updated with a new financial path forward to meet the operational needs of each utility, the electric utility in this case.

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

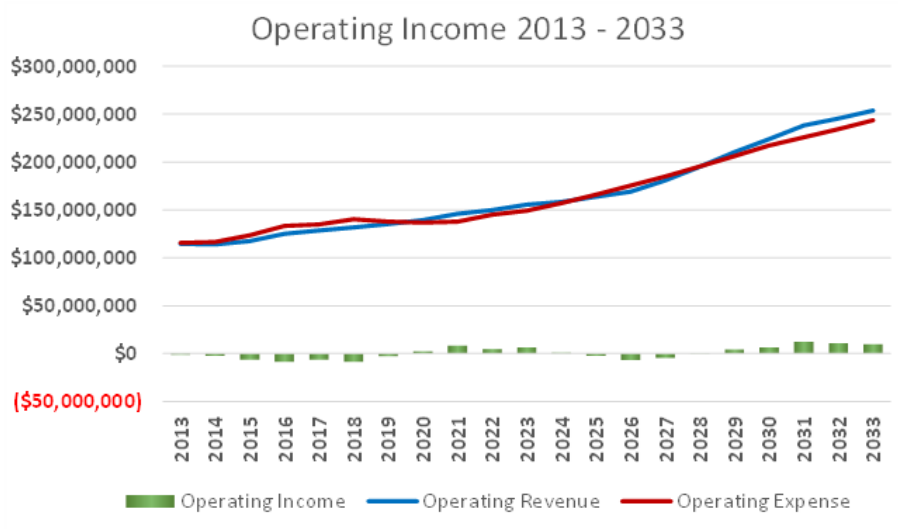
**GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

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

**DISCUSSION / NEXT STEPS;**

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

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




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

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

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

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



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

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

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

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

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

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

**EXECUTIVE SUMMARY**

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

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

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

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

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

**BACKGROUND/DISCUSSION**

*TCEF Program*

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

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

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

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

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

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

**DISCUSSION / NEXT STEPS;**

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

Marc Virata; you are correct - what happened again with Northfield, they did have a metro district and we were concerned about the potential for a double dip, and they provided affidavits from their metro districts that they

did not and would not reimburse the developer and if they did the city would be reimbursed. In this case with Waterfield, there is no metro district here for them to seek reimbursement. It was dissolved early on.

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

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

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

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

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

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

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

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

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

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

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

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

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

## C. Impact Fee Study Continued Discussion & Options

David Lenz, Director, FP&A - Financial Services
Marc Virata, Engineering - Planning, Development & Transportation
Randy Reuscher, Lead Rate Analyst - Utilities Finance

**EXECUTIVE SUMMARY:**
Staff have been working to update the Utility Development Fees, Transportation Capital Expansion Fees (TCEFs) and Capital Expansion Fees (CEFs). On October 5, 2023, Council Finance Committee meeting, staff presented the current status of the TCEF and CEF Study updates as well as the Utilities' Finance model updates of their plant investment fees (PIFs) and electric capacity fees. No action was taken in regard to adoption of fees for 2024 with a request to get further clarity to the proposed work program regarding the utilities Water Supply Fees, Excess Water Use and Water Allotments. **Currently, no rate adjustments are set to occur effective January 1, 2024.**
This update provides a review of the updated fee studies and schedules presented in October, an overview of the tentative Utilities water supply timelines and a recommended path for adoption of the fees presented at the October CFC meeting.

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

- What questions does the committee have related to the study updates, draft fee schedules or proposed timelines?

- Does the committee support the staff recommendation of bringing forward the TCEFs, CEFs, Utility PIFs and Electric Capacity Charge Fees for Council adoption during Q2 2024?

**BACKGROUND/DISCUSSION:**
During 2023, staff engaged consultant TischlerBise (TB) to update the Transportation Capital Expansion Fee study. Additionally, consultant Economic & Planning Systems (EPS) was contracted to update the Capital Expansion Fee study, while utilities' staff completed their biennial internal Fee Study model updates. The current schedule of updates and rate adjustments is highlighted below.

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital Expansion Fees (CEF) | Update | Step II | Step III | Inflation | Inflation | Inflation | Update | Inflation | Inflation | Inflation | Update |
| Transportation Expansion Fee (TCEF) | Update | Step II | | Inflation | Inflation | Inflation | Update | Inflation | Inflation | Inflation | Update |
| Electric Capacity Fee | Update | | Update | Inflation | Update | Inflation | Update | Inflation | Update | Inflation | Update |
| Water Supply Requirement | Update | | Update | Inflation | Update | Inflation | Update | Inflation | Update | Inflation | Update |
| Water, Wastewater, Stormwater PIFs | | Update | Update | Inflation | Update | Inflation | Update | Inflation | Update | Inflation | Update |

These study and model updates are summarized in the sections that follow below (with the full draft study reports included as Attachments 2 and 3). The Water Supply Requirement will be undergoing further updates during 2024.

**Water Supply Requirements:**
In the August 8, 2023, Council Work Session on Water Supply Fees, Excess Water Use and Water Allotments, a number of questions arose concerning the updated analysis of proposed fee levels. In response to these

questions, staff prepared a memorandum to Council dated October 25, 2023, which is included as Attachment 4. The primary outputs were the convening of an internal team to review and develop options balancing community and utility needs, the development of separate workstreams to address appropriate considerations, and project plan development utilizing a community-wide lens in providing options to Council.

The proposed timeline for 2024 meetings and outreach is highlighted below:

| | |
|---|---|
| April 9 | Council Work Session |
| June 6 | Water Commission Work Session |
| July 16 | Council Work Session |
| August 1 | Water Commission Work Session |
| August 15 | P&Z Work Session |
| Sept 10 | Council Work Session |
| Sept 19 | P&Z Hearing/Water Commission Hearing |
| Oct 15 | 1st Reading |
| Nov 5 | 2nd Reading |

**Utilities Development Fees Update:**
Staff updates development fee models every two years. In alternating years, when models are not updated, an inflationary adjustment is applied to utility development fees. Staff use the Engineering News Record (ENR) construction cost index to apply inflationary adjustments. In 2022, for 2023, staff increased development fees, including the Electric Capacity Fees, Water Plant Investment Fees, Wastewater Plant Investment Fees, and Stormwater Plant Investment Fees, by 9% as an inflationary adjustment.

Each model was updated this year to capture current inputs, including current escalation factors and each of the various drivers such costs, consumption, and future system needs. Utilities have experienced extreme cost pressures, especially on the electric side. Some items such as electric transformers have increased dramatically in price due to supply chain issues and higher material costs. The table below shows the proposed increase for 2024 for each of the development fees by fund.

| Utility Fee | Unit of Measure | 2024 Proposed Increase |
|---|---|---|
| Electric Capacity Fee (ECF) | $ / kW | 14.8% |
| Water Plant Investment Fee (PIF) | $ / GPD | 5.7% |
| Wastewater Plant Investment Fee (PIF) | $ / GPD | 4.1% |
| Stormwater Plant Investment Fee (PIF) | $ / acre of development | 7.0% |

There are many variables in calculating the impact of a development, particularly between residential and commercial. Shown in the table below is an example of a single-family residential house receiving all four services from Fort Collins Utilities. The 2023 amount is expected to increase by approximately $790 in 2024, from $11,120 to $11,911. This equates to an overall increase of 7.1% for these one-time fees.

| Residential Development Fee Example | | | | |
|---|---|---|---|---|
| | 2023 Fee | 2024 Fee | $ Change | % Change |
| 200-amp Electric Service | $ 2,286 | $ 2,625 | $ 339 | 14.8% |
| 3/4" inch Water PIF (6,000 sq ft lot) | $ 3,611 | $ 3,817 | $ 206 | 5.7% |
| 4" Wastewater PIF | $ 4,168 | $ 4,339 | $ 171 | 4.1% |
| Stormwater PIF (6,000 sq ft lot, 0.7 runoff coeff) | $ 1,055 | $ 1,130 | $ 74 | 7.0% |
| Total | $ 11,120 | $ 11,911 | $ 790 | 7.1% |

**Transportation Capital Expansion Fee Study Update**

TCEF's last program update was in 2017 by TischlerBise. The City again contracted with TischlerBise for the current study update. The 2023 TCEF study uses a combination of incremental expansion for roadways and plan-based methodologies to provide improvements for Active Modes. The methodology also utilized data from more updated sources:

- 2023 Transportation Capital Projects Prioritization Study
- 2022 Active Modes Plan
- 2022 Fort Collins Travel Diary Report
- The current anticipated 10-year buildout of additional lane miles through development
- The current City's Arterial Cost per Lane Mile ($2.0M), along with baseline data and projections from the North Front Range MPO

For residential development, updated amounts are based on square feet of finished living space. Garages, porches, and patios are excluded from the TCEF assessment. For nonresidential development, TCEFs are stated per thousand square feet of floor area, using three categories. The TCEF schedule for nonresidential development is designed to provide a reasonable fee amount for general types of development. There has been further emphasis on active modes and to provide further clarity the maximum supportable fee schedule is broken down by roadway capacity and active modes.

Summary fees are highlighted below and the TCEF Draft Report with full detail is included as Attachment 2.

| Residential | Unit | Roadway Fee | % of Total | Active Modes | % of Total | Update Total | Current Total | Change | % Change |
|---|---|---|---|---|---|---|---|---|---|
| up to 700 sq. ft. | Dwelling | $2,863 | 91% | $272 | 9% | $3,135 | $2,703 | $432 | 16% |
| 701-1,200 sq. ft. | Dwelling | $4,988 | 91% | $487 | 9% | $5,475 | $5,020 | $455 | 9% |
| 1,201-1,700 sq. ft. | Dwelling | $6,363 | 91% | $625 | 9% | $6,988 | $6,518 | $470 | 7% |
| 1,701-2,200 sq. ft. | Dwelling | $7,380 | 91% | $726 | 9% | $8,106 | $7,621 | $485 | 6% |
| over 2,200 sq. ft. | Dwelling | $8,191 | 91% | $809 | 9% | $9,000 | $8,169 | $831 | 10% |
| **Development Type** | **Unit** | **Roadway Fee** | **% of Total** | **Active Modes** | **% of Total** | **Update Total** | **Current Total** | **Change** | **% Change** |
| Commercial | 1,000 sq. ft. | $11,045 | 94% | $702 | 6% | $11,747 | $9,946 | $1,801 | 18% |
| Office & Other Services | 1,000 sq. ft. | $6,450 | 86% | $1,075 | 14% | $7,525 | $7,327 | $198 | 3% |
| Industrial | 1,000 sq. ft. | $2,897 | 75% | $944 | 25% | $3,841 | $2,365 | $1,476 | 62% |

**Capital Expansion Fee Study Update:**

The City has five separate Capital Expansion Fees (CEFs), related to neighborhood and community parks, and fire, police, and general government services. These fees were initially adopted in 1996 based on an internal study by City staff. External study updates were completed in 2013 and 2017 by Duncan Associates. The studies relied on the standards-based (or incremental expansion) methodology, which bases the fees on the existing levels of service. The new fees were adopted in 2017 and implemented over a three-year time period.

In the spring of 2023, the City solicited bids and contracted with Economic & Planning Systems, Inc. (EPS) to update the Capital Expansion Fee Study. The EPS Study Update adheres to the existing standard-based approach to fee calculation, continuing to use construction cost replacement valuations.

Highlighted below are the updated draft fee calculations for residential and non-residential properties compared to the current fee. More detailed information is included in the CEF Draft Report in Attachment 3.

| Residential | Unit | N'hood Park | Comm. Park | Fire | Police | Gen. Gov't | Update Total | Current Total | Change | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| up to 700 sq. ft. | Dwelling | $2,813 | $2,140 | $604 | $382 | $745 | $6,684 | $6,593 | $91 | 1% |
| 701-1,200 sq. ft. | Dwelling | $4,260 | $3,241 | $914 | $578 | $1,129 | $10,122 | $8,844 | $1,278 | 14% |
| 1,201-1,700 sq. ft. | Dwelling | $4,783 | $3,638 | $1,026 | $649 | $1,267 | $11,363 | $9,652 | $1,711 | 18% |
| 1,701-2,200 sq. ft. | Dwelling | $5,145 | $3,913 | $1,104 | $698 | $1,363 | $12,223 | $9,764 | $2,459 | 25% |
| over 2,200 sq. ft. | Dwelling | $5,848 | $4,448 | $1,254 | $794 | $1,549 | $13,894 | $10,880 | $3,014 | 28% |
| **Development Type** | **Unit** | **N'hood Park** | **Comm. Park** | **Fire** | **Police** | **Gen. Gov't** | **Update Total** | **Current Total** | **Change** | **% Change** |
| Commercial | 1,000 sq. ft. | | | $1,281 | $811 | $1,582 | $3,674 | $2,791 | $883 | 32% |
| Office and Other Services | 1,000 sq. ft. | | | $701 | $444 | $866 | $2,010 | $2,791 | ($781) | -28% |
| Industrial | 1,000 sq. ft. | | | $332 | $210 | $410 | $953 | $656 | $297 | 45% |

Almost all fee categories have increased from current 2023 fee levels. The biggest overall impact contributing to higher rates is the significantly higher asset valuations for police and fire services (and to a lesser extent, general governmental) outpacing the service population growth rates. These inflationary impacts have been realized locally in the higher cost of the City's purchases of goods and services, especially in the post-COVID environment. In this update, the Office and Other Services type has been broken out from Commercial and is aligned with TCEF categories based on differing demand impacts.

The study update had differing results for the neighborhood and community parks. The most recent neighborhood park builds (Bucking Horse, Cresent, Traverse) were all significantly more expensive to buildout on $/acre basis than prior facilities, leading to much higher fee calculations than for the community parks. A new maintenance facility also contributed to higher overall costs.

Overall, the residential fee amounts increase by 1% to 28% (approximately $100 - $3,000) based on size of property. This variable difference is attributed primarily to the relative changes in occupancy factors based on updated U.S. Census Bureau housing survey data. On the non-residential developments, increases to commercial and industrial types are driven by the underlying employees per square foot calculations based on Institute of Transportation Engineers (ITE) trip generation rates.

In March of 2022, staff provided the City Council with an analysis of the total costs of development activity as part of the total cost of building new housing stock. The table below updates the total fees component of that analysis, with current 2023 fees and the proposed 2024 study updates included for an 1,890 square foot residential property.

| City Charged Fees: Impact on One or Two-Family Residence - 1890 sq. ft | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Fee Type** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| Capital Expansion Fees | $ 6,038 | $ 7,630 | $ 8,591 | $ 8,824 | $ 8,992 | $ 9,764 | $ 12,223 |
| Transportation Capital Expansion Fees | $ 5,150 | $ 6,543 | $ 6,586 | $ 6,623 | $ 7,115 | $ 7,621 | $ 8,106 |
| Development Review, Permits, Infrastructure Fees | $ 2,532 | $ 2,532 | $ 2,532 | $ 3,314 | $ 2,792 | $ 2,792 | $ 2,792 |
| Utility Fees | $ 21,907 | $ 22,321 | $ 25,517 | $ 26,353 | $ 35,992 | $ 37,142 | $ 37,838 |
| **Combined Fees** | **$ 35,627** | **$ 39,026** | **$ 43,226** | **$ 45,114** | **$ 54,891** | **$ 57,319** | **$ 60,958** |
| **Percentage Change** | ***Baseline*** | ***9.5%*** | ***10.8%*** | ***4.4%*** | ***21.7%*** | ***4.4%*** | ***6.3%*** |

The total overall increase would be approximately $3,600 or 6.3%. As noted in the utility sections above, no increase in the water supply requirement is included in this comparison pending the outcome of that update.

**NEXT STEPS AND RECOMMENDATION**

Utilities' staff has provided their tentative 2024 work program and timeline as outlined earlier. Contemplation of the options for addressing the fee updates provided by the two consultant updates and the internal utilities' model updates consists of the following:

Option A:

Defer Decision on adoption of New Fee Structure until Water Supply Requirements are determined (for a January 1, 2025, implementation).

Option B:

Adopt New Proposed Fee Structure as presented for implementation in early Q2 2024 after the proposed Council Work Session in April 2024.

Option C:

Defer Decision on adoption of New Fee Structure until Water Supply Requirements are determined (for a January 1, 2025, implementation) and adjust current rates by the annual inflation index only in early Q2 2024.

Staff Recommendation is to proceed with Option B – adoption of the proposed fee updates as presented for implementation in early Q2 2024.

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

- What questions does the committee have related to the study updates, draft fee schedules or proposed timelines?

- Does the committee support the staff recommendation of bringing forward the TCEFs, CEFs, Utility PIFs and Electric Capacity Charge Fees for Council adoption during Q2 2024?

**DISCUSSION / NEXT STEPS;**

Emily Francis; do our fees match our values? I just don't understand how this presentation addresses the previous discussion. The amounts presented are the same as last time when we talked about this. Council Finance Committee gave clear direction that we were seeking a different approach to this.

Dave Lenz; both the studies have been updated by our consultants following methodologies that adhere to state statute and practice and our fees have been developed along those lines. Our code speaks to the fact that these fees are essentially cost recovery mechanisms and they should not discriminate or favor different classes of development. They are supposed to reflect the impact that either a resident or visitor to the extent that we can calculate that – not specific to any one resident, but a suite or average of those because we don't know how these developments will be inhabited over time. We have felt that these fees do reflect and adhere to state statue. There was a memo that was sent out that addresses the parameters of the law that we must operate within and if we are talking about adopting a different philosophy that would require a discussion with the full Council.

Travis Storin; we are a little bit hamstrung based on what TABOR tell us as well as statute around fee development and to what extent do we have to have an excel model behind the fee that states, here are the costs that we are trying to recover. We prove our costs and then we can attach a fee to the costs. We think we have stretched this still within the legal limits, but where judgement is allowed, we have gone to a more aggressive place of trying to be aligned with our current values with respect to how those costs get spread around different kinds of development. We do have some limitations on just how far we are able to go there.

Emily Francis; I do understand the limitation part, in the minutes, it does say that a Council Work Session was requested. It is acknowledged that this is a full Council discussion. Every single example is still based on single family development. It is hard to believe we are considering this as there are no multi-family development examples in this. What percent of the project cost is the city fee for multi-family development and how much has this changed over time? When we are looking at nominal costs for single family that seem palatable, but we look at our larger multi-family developments, what are those costs and how much are we increasing them? It becomes difficult to say we are doing this, but we are still provided with the same examples of a single-family development in our AIS materials and the presentations. Does the city consider the CEFs to be impact fees?

Travis Storin; yes, the whole umbrella is impact fees of which the expansion fees are a component.

Emily Francis; we are applying the same state statue to both types of fees (capital expansion and impact fees). I think we requested that this go to a work session to discuss and get information on more options and input from the full council.

Dave Lenz; given the calendar and given that we knew we had some study updates that were not available at the last Council Finance Committee meeting. Councilmember Olson was not present, so this was a chance for him to be present for the fuller discussion. We knew that there would be further discussion with the full Council to talk about the bigger picture. The timeline we laid out for water supply requirements, it is going to have a more holistic approach and policy discussion.

Emily Francis; I didn't understand from the materials the capital expansion or impact fees were part of the water supply requirement discussion that is scheduled. What are other municipalities doing in this space?

Travis Storin; implicit in the recommended option within today's materials, when that April Work Session comes up for the water requirements, can we essentially bolt on this discussion? A more comprehensive assessment of all of the fees. That will afford us the opportunity to research how other municipalities have interpreted TABOR and statue in this space. That has been the rub in how much judgement are we able to introduce to any fee components?

Dave Lenz; when the original work was done in March of 2022, we did include an example of multi family development. We can certainly update that example to show you the impact as a follow up item.

Emily Francis; that would be helpful. I don't think anyone at the last meeting suggested going outside of TABOR. I think we had a discussion regarding looking at what other municipalities are doing in this space. I do think this needs to go to the full Council.

Kelly Ohlson; I have curiosity and leanings toward the concerns that both Julie and Emily brought up. As a long time, defender of appropriate fees, I think we need to have that discussion and be ready to make a decision to be ready to make a decision and implement by January 1, 2025. That will give the council time to build on the fairness factor, the legalities of TABOR, but also city council and community values. I think it needs a deeper dive. I support that which is only 1 year and 1 month from now which is lightning speed for communities being able to move. In the interim, I don't want us to delay too much. I support staff's recommendation although my math is a little different on the calendar than theirs. It says we have a work session around the water issue in April and implement the fees in the 2nd quarter. I think these are ordinances and not resolutions. Then we are out to June – not early 2nd quarter. I don't know, other than bringing up the topic in April for this possible new way of looking at things. Combining fairness, legalities with community values to lay the groundwork and get the nods that we would like that to be explored. I would support that.

Emily Francis; Option B reads that it would be on the calendar for adoption after the work session. At the work session, we still ask council if they want to adopt the fees while we are working on this.

Kelly Ohlson; I heard numbers for the yearly costs for the fees that I thought would be helpful for council. When it went through how much it was costing for each month of the delay. The monthly numbers weren't adding up to the annual amount for me.

Dave Lenz; in TCEF and CEF combined we collected $11M in 2022. For each month that we delay the implementation, we estimate that we will lose approximately $140K per month on an $11M base. That equates to a 15% increase across the board.

Emily Francis; what is the financial impact if we went with Option C?

Dave Lenz; with Option C, if we put in an inflationary adjustment component, that comes out to $60K per month or $700K annually. That is a 6.35% increase weighted between the two inflationary indices.
We would be foregoing $58K if we didn't do inflation and foregoing $138K if we didn't implement the study.
The utilities is approximately $70K per month if they don't implement adopting the fee structure.

Emily Francis; that is if we don't do anything including adjusting for inflation, correct?

Dave Lenz. their inflationary adjustment is closer to the average that they show for an increase. If we did an inflationary adjustment for theirs, it would be less than the $70K.

Emily Francis; we are assuming that council supports adopting the new fee structure while we are working on it in May. We will lose out on everything until then.

Dave Lenz; we would lose out on the increase but not the existing base.

Emily Francis; what is the total loss versus Option C?

Randy Reuscher; for utilities, for 4 months you are looking at approximately $300K.

Dave Lenz; if we do the inflation adjustment for the whole year starting June 1st we would lose approximately $300K by not implementing on January 1st. If we went the whole year without increasing for inflation we would lose about $700K.

Kelly Ohlson; pretend we start as soon as we can inflation for the whole year – we might miss January. If we do inflation for those while we continue with a more holistic look including all values, fairness, legalities, and the community values. What is the difference between implementing all of the new rates versus just implementing the inflation factor?

Dave Lenz; the difference per month is $80K between an inflation adjustment and the full fee adjustments.

Randy Reuscher; for utilities, if we increased what we are proposing we would collect approximately $800K more for the year. Split that in half - $400K. If we only increased inflationary it would be half of that which would be $200K

Kelly Ohlson; we would want to start the inflationary factor as soon as we legally can and then we proceed from there.

Dave Lenz; if we instituted, we save or earn $600K. A total of $1.6M if we instituted the fees.
By not acting on the new fees but doing inflation immediately, we leave about $1M on the table.

Emily Francis; we would lose less money with six months of the newly adopted fees versus 1 year.

Dave Lenz; if we adopted the new fees in May, we would pull in about $1M.
Still a net loss even if we do the inflation immediately which would be $600K.

Travis Storin; if there is appetite for this to come forward to the full council for inflation only. We go straight to a regular meeting; we can clearly delineate the numbers that Dave just shared.

Kelly Ohlson; reasoning on this - valid questions that were raised at the last Council Finance Committee meetings. I am serious about exploring those. I don't know if there will be any serious changes but there may be – it is good to give a serious and not rushed look. I think long term, the loss of the money for calendar year 2024, it will build stronger support regardless of where it goes, we may discover some things that our community and council values that we can effect on smaller homes, multifamily and on redevelopment. It will build more long-term council support for fee increases if we take the time to do this right.

Emily Francis; I agree.

Dave Lenz; we will put together ordinances to take to council to adopt an inflationary adjustment as soon as practically possible. We will encapsulate the options in terms of adoption, delays, and costs of delays. Some qualitative assessment around the desire to have the fulsome discussion around how we structure our fees from a policy standpoint and values standpoint.

## D. Low-income Sales Tax Rebate

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

**EXECUTIVE SUMMARY**

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

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

Does Council Finance Committee support offering a benefited position for the Grocery Tax Rebate Coordinator position starting in 2024?

**BACKGROUND/DISCUSSION**

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

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

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

Outreach & promotion:

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

Ongoing program design goals:

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

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

Recent program results:

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

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

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

**DISCUSSION / NEXT STEPS;**

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

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

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

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

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

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

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

Nina Bodenhamer; those programs have been zeroed out.

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

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

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

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

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

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

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

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

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

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

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

Travis Storin; yes, I believe so.

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

## E. Change Management Resources

Tyler Marr, Deputy City Manager

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

**EXECUTIVE SUMMARY**

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

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

Does Council Finance Committee recommend moving the appropriation to the full Council in January?

**BACKGROUND/DISCUSSION:**

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

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

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

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

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

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

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

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

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

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

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

**DISCUSSION / NEXT STEPS;**

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

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

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

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

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

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

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

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

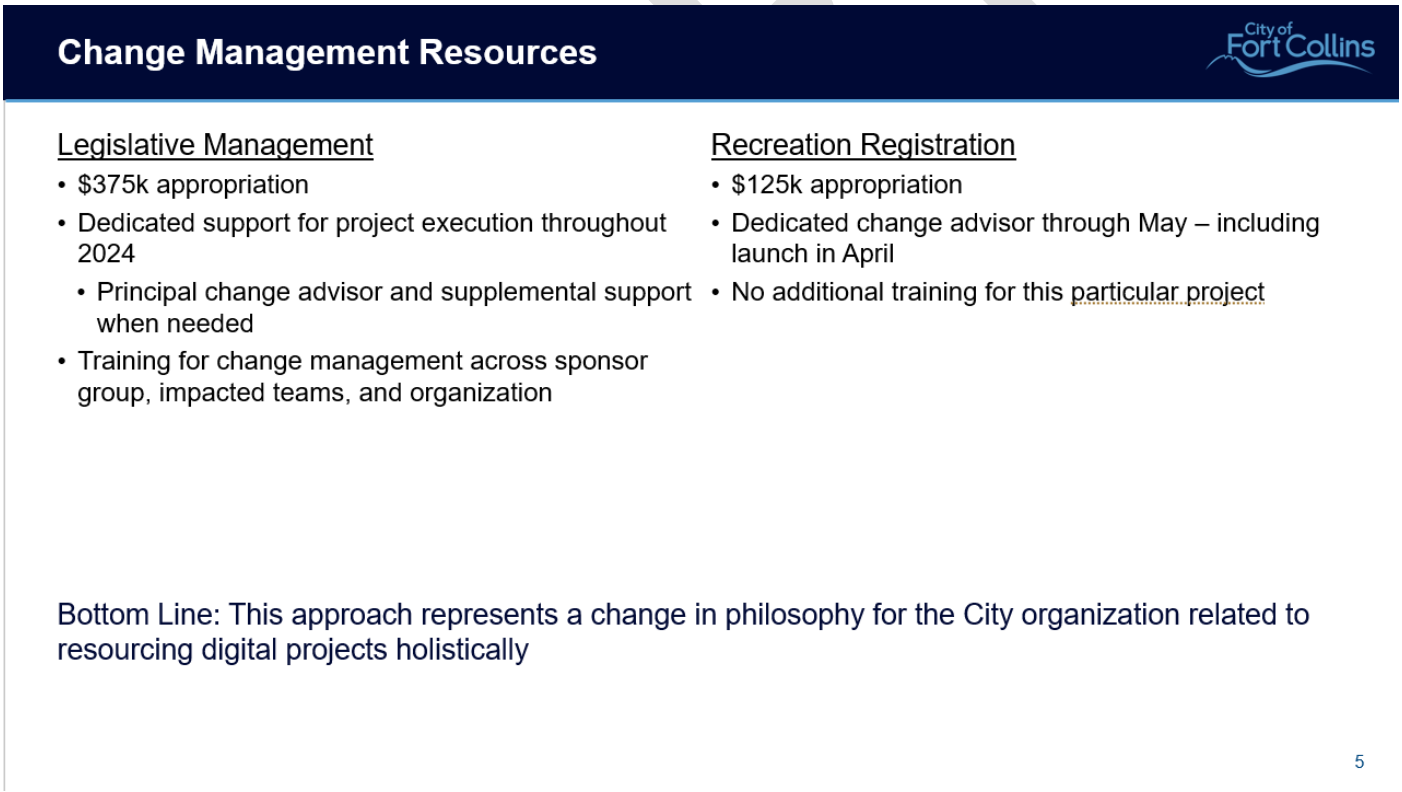
Travis Storin; criteria, etched in stone that we will have change management in the budget offers. when they come forward. These two projects came forward as offers before we embraced this as a priority. We are going all in on this for projects of a certain size or reach.

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

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

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

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




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

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

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

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

Kelly Ohlson; I am fine with this.

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

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

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

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

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

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

Emily Francis; that sounds like a good plan.

Meeting adjourned

# COUNCIL FINANCE COMMITTEE
# AGENDA ITEM SUMMARY
# February 23, 2023

**Staff:** Lance Smith, Utilities Senior Director of Strategic Finance

**SUBJECT FOR DISCUSSION –** Utilities 2023 Capital Improvement Plans and Strategic Financial Plan Updates for the Water, Wastewater and Stormwater 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, Wastewater and Stormwater Enterprise Funds. The Light & Power Enterprise Fund was presented for discussion last December. The 2023 Capital Improvement Plans (CIPs) and the 2024 Strategic Financial Plans for each utility are outlined and attached. The resulting investment projections set the basis for beginning the 2025-26 Budgeting For Outcomes (BFO) cycle. The overall 10-year rate projections for each utility is also presented here along with the forecasted debt issuance needs.

Recognizing that these utilities share customers, a more comprehensive view is also taken here of how the combined plans will impact what our community pays for utility services over the coming decade and the levels of service to be expected for such. The capital improvement plans are intended to maintain the current levels of service for each utility through sustainable asset renewal plans and targeted new infrastructure. This can be achieved through the higher than previously anticipated rate increases being planned, and timely debt issuances shown here.

For the 2025-26 Budgeting For Outcomes process the table below summarizes the impact of the proposed rate increases for the average residential customer.

| | 2023 | 2024 | | 2025 | | 2026 | |
|---|---|---|---|---|---|---|---|
| Residential Utility Cost | Baseline | % Change | Bill | % Change | Bill | % Change | Bill |
| Electric | $84.20 | 5.0% | $88.41 | 6.0% | $93.71 | 5.0% | $98.40 |
| Water | $51.00 | 4.0% | $53.04 | 7.0% | $56.75 | 9.0% | $61.86 |
| Wastewater | $35.61 | 4.0% | $37.03 | 6.0% | $39.26 | 8.0% | $42.40 |
| Stormwater | $22.42 | 3.0% | $23.09 | 6.0% | $24.48 | 6.0% | $25.95 |
| Total | $193.23 | 4.3% | $201.58 | 6.3% | $214.20 | 6.7% | $228.60 |

## GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

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

## BACKGROUND/DISCUSSION

This is a continuation of the discussion that began in December with the presentation of the Electric utility financial plan and associated rate and debt forecasts. With this presentation of the Water, Wastewater and Stormwater utility's financial picture, any feedback will be utilized in developing the initial 2025-26 budget offers. After discussing each of these utility services, the comprehensive picture is presented and the forecasted impacts on customer utility costs can be seen. The feasibility of the financial paths presented is then discussed.

**Strategic Financial Planning Process**

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

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

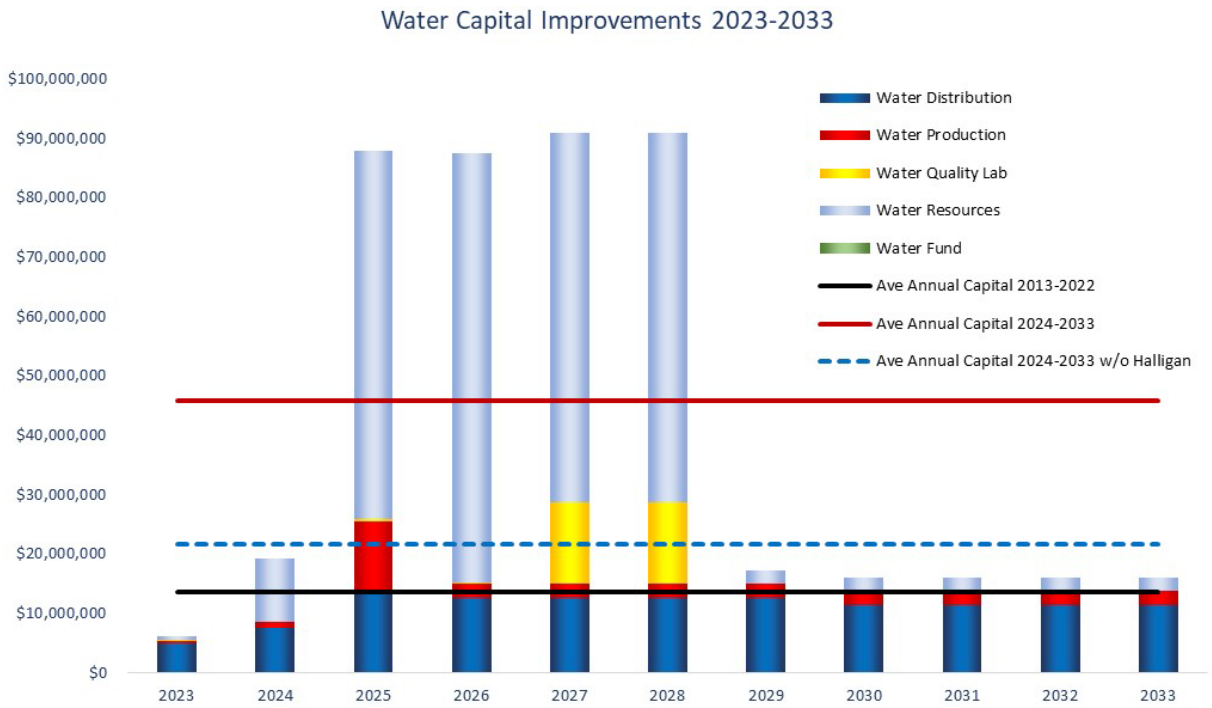
1. Operating Margin > 3.0%
2. Debt Coverage Ratio > 2.0
3. Annual Rate Adjustments < 5.0%

The confidence in the long-term financial modeling that is the basis of these forecasts depends on the assumptions used in the modeling. Some of those assumptions are macro-economic assumptions around long-term inflation, how inflation affects the cost of debt service through the associated interest rates and how well the economy is doing in general. The recent pandemic has stressed the economy with supply chain constraints, yet it has also highlighted the necessity for utility services as is reflected in the relatively stable revenues for such. Other assumptions are more micro-economic and, as such, depend on internal efforts to effectively manage operating costs along with capital and resource planning. The financial resiliency of each of these utility enterprise funds relies on active management of ongoing operating and maintenance expenses, as well as planning for large capital expenditures and strong leadership over the coming decade.

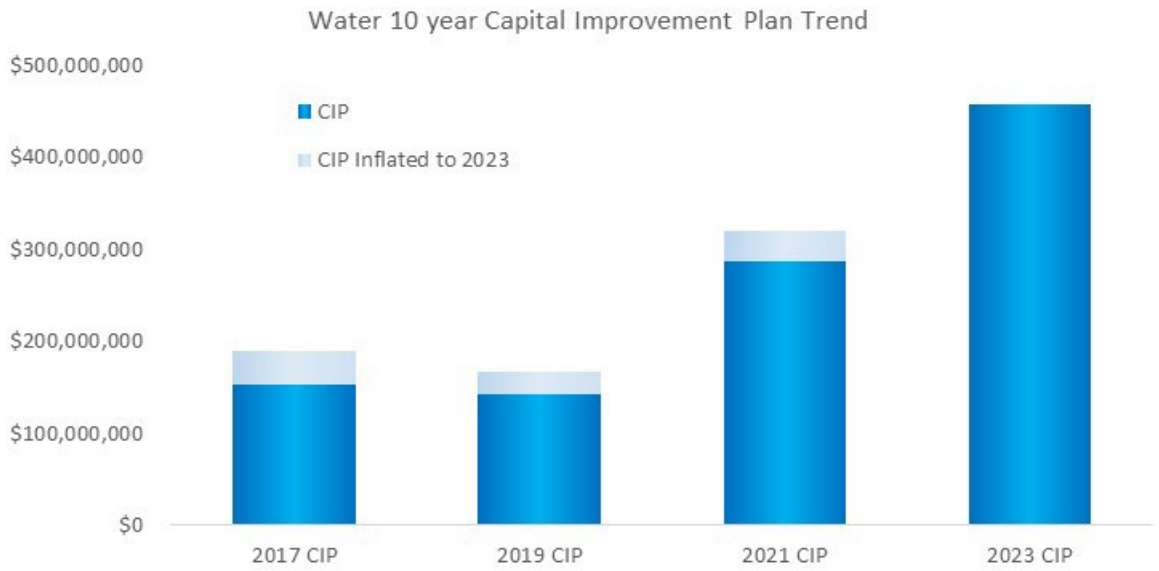
The capital investment required to maintain the current levels of service provided by each of the four utility services to the community requires a long planning horizon and consistent reevaluation and prioritization. Ahead of the biennial budget process beginning both the 10-year Strategic Financial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

## Water Enterprise Fund

The 10-year Capital Improvement Plan (CIP) for the Water Fund consists of projects needed to provide an adequate water supply such as Halligan Reservoir, a modern water quality laboratory, some improvements needed at the water treatment plant and asset renewal both at the plant and the water distribution infrastructure. It is anticipated in the CIP that it will take a few years to reach the targeted asset renewal rate of 1.0% per year.




The 2023 CIP for Water has $458M of capital investments through 2033. This is a 60% increase over the 2021 plan. The 2023 CIP includes significant additional funding needed for the Halligan Reservoir - $308M compared to $120M in 2021.



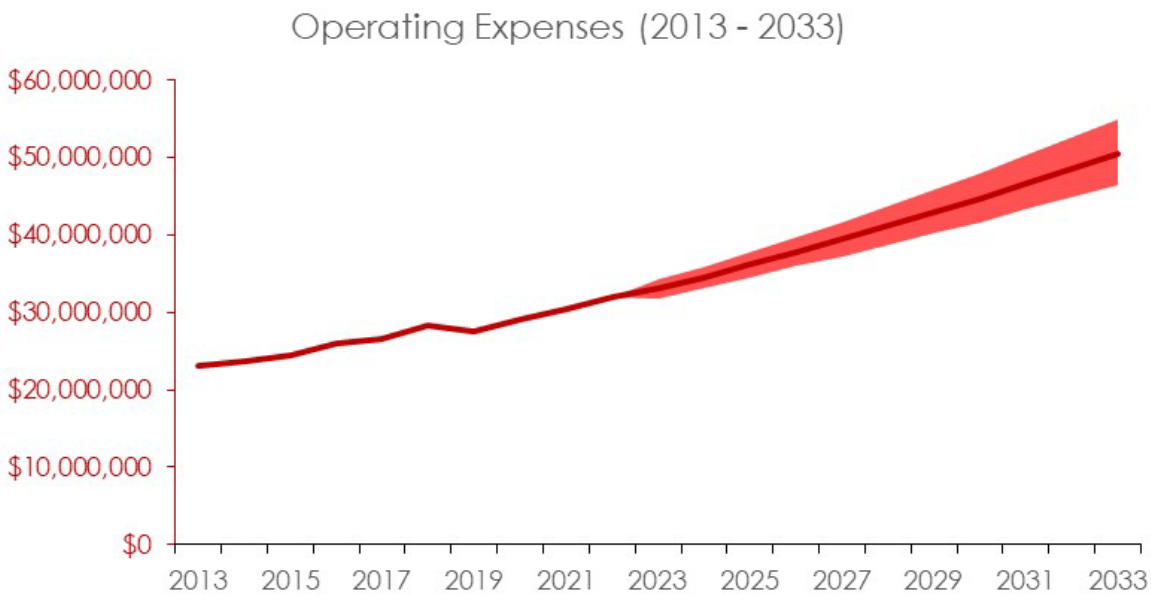

**Water Operations**

The financial modeling involved in updating the strategic financial plan analyzes operating revenues and expenses to determine the amount of operating income that can fund capital investment before issuing any new debt.

Operating revenues have grown modestly over the past decade through rate increases while total water sales have remained almost flat. Based on the projected revenue requirements for O&M and capital investment revenues are projected to grow at a rate significantly higher than the past decade at 7.9% compared to 1.9% since 2013.

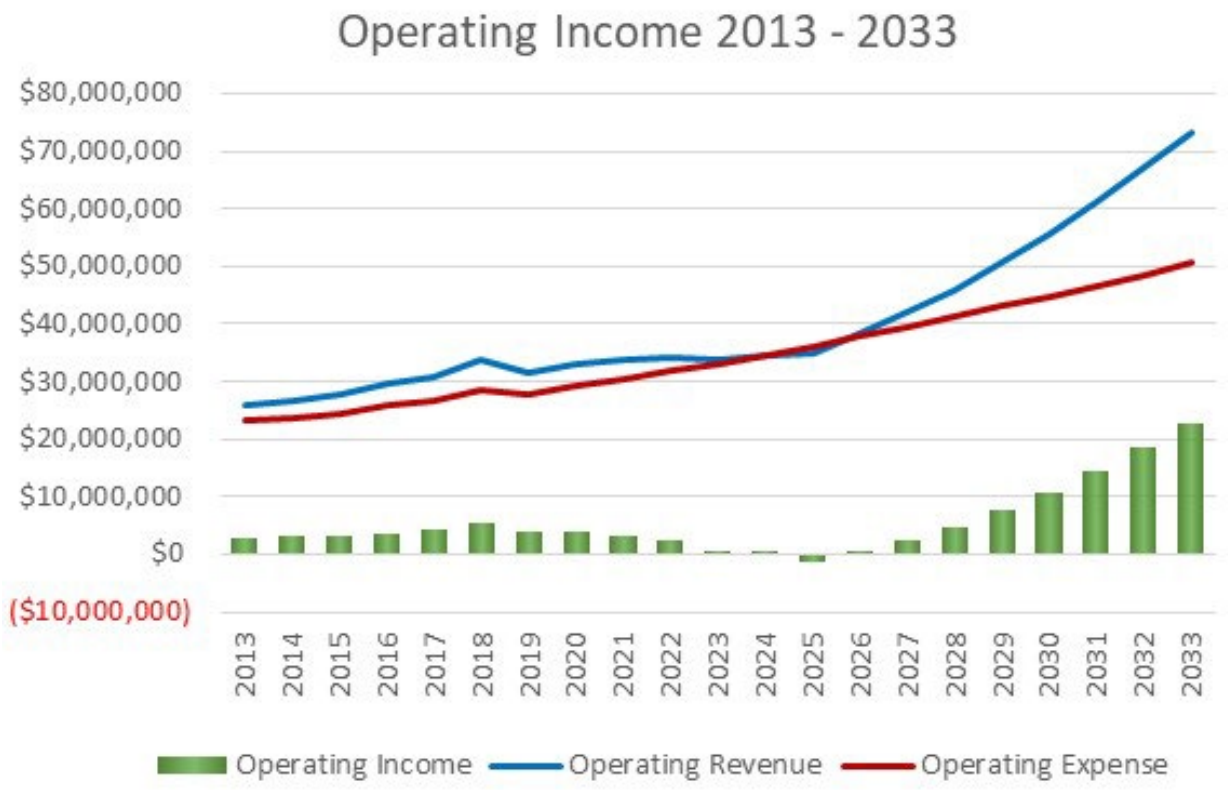

*The colored area represents the 80% confidence band around the expected operating revenue.*

Water O&M expenses have increased at an inflationary 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 close to the rate of inflation of 3.5% annually through 2033.




*The colored area represents the 80% confidence band around the expected operating expense.*

By limiting O&M to a more modest rate of growth than in the past 2 years it is expected that the Water Fund will generate sufficient operating income consistently to fund asset renewal investments at a level of 50-75% of the targeted levels. This will limit the amount of debt issuance that is necessary over the coming decade.




**Water Rate and Debt Forecasts**

Rate increases are anticipated to be significantly over inflationary pressures in the coming decade due to significant changes in the necessary capital investments which require higher 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, as well.

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 4.0% | 4.0% | 7.0% | 9.0% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% |
| Debt Issued ($M) | | | $154.0 | | | | | $43.0 | | | |

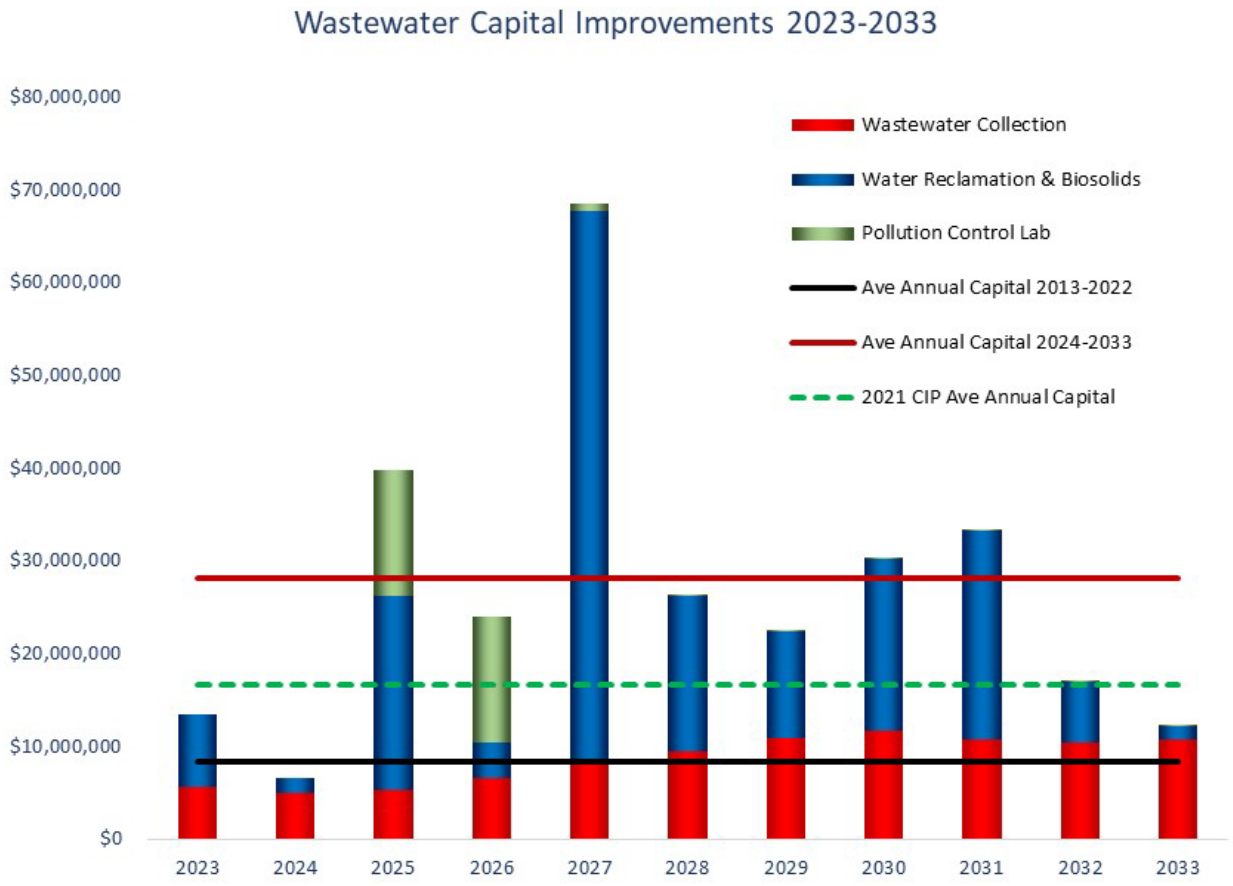
It should be recognized that actual revenues realized from a rate increase are not typically the full amount of the rate increase. There is some elasticity to rate adjustments. Additionally, most utility services are weather dependent, so it is possible to occasionally realize more or less revenue than anticipated in rate design for a given year although this weather variability is expected to balance out over an extended period.

| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Water | Adopted Rate Increase | 4.0% | 0.0% | 2.0% | 0.0% | 0.0% |
| | Realized Revenue Increase | -8.8% | 1.7% | 1.7% | 4.2% | -6.1% |

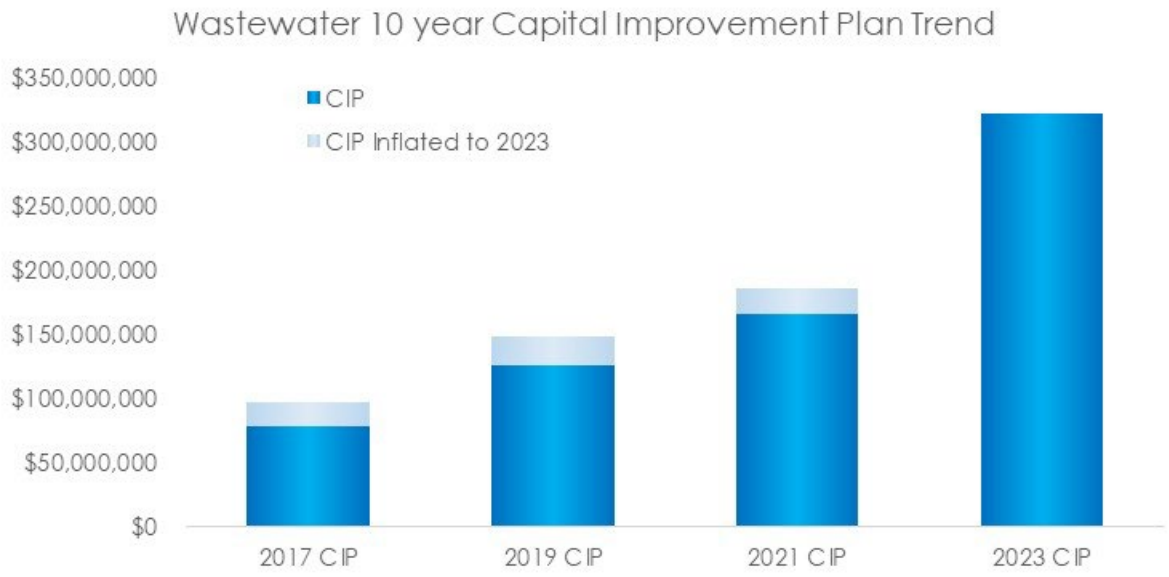
## Wastewater Enterprise Fund

**Wastewater CIP**

The Capital Improvement Plan for the Wastewater Fund includes improvements necessary at both water reclamation facilities, a modern pollution control laboratory and a ramping up of investment in asset renewal programs for the collection system. Prioritization of the capital projects will need to be considered before the 2025-26 budget process to ensure investments are made where needed the most.

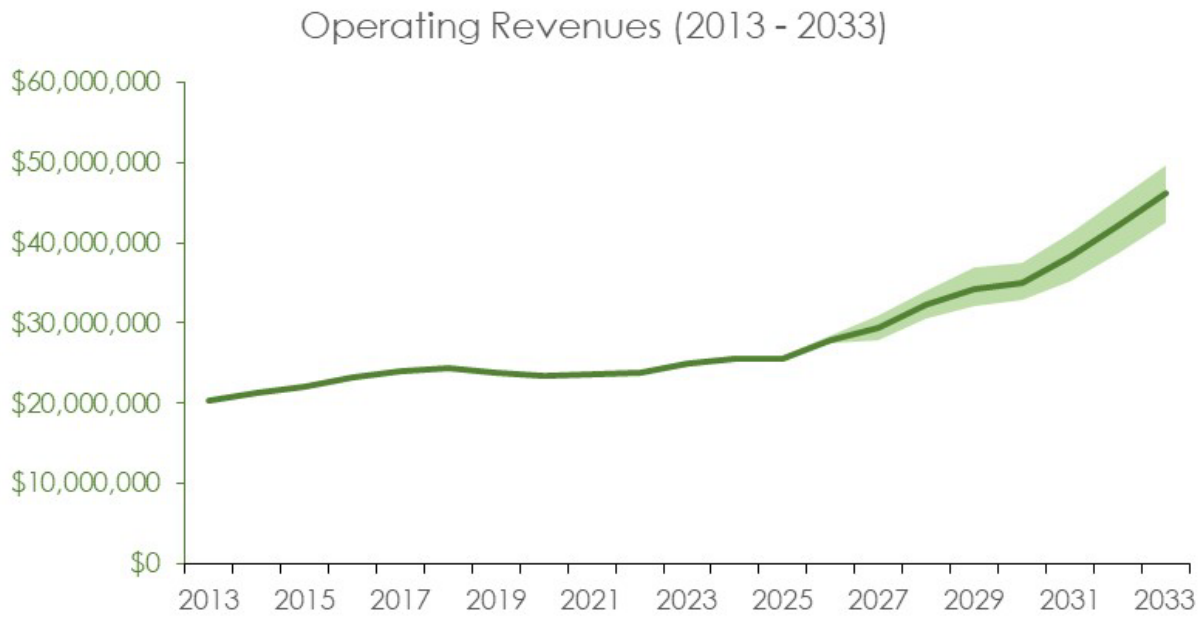



The amount of anticipated capital investment is greater than what has been made over the previous decade by a factor of over three, consistent with what has been seen in the other wet utilities in 2023. This will require significant operational planning and project management to ensure that the bond revenue is utilized efficiently.



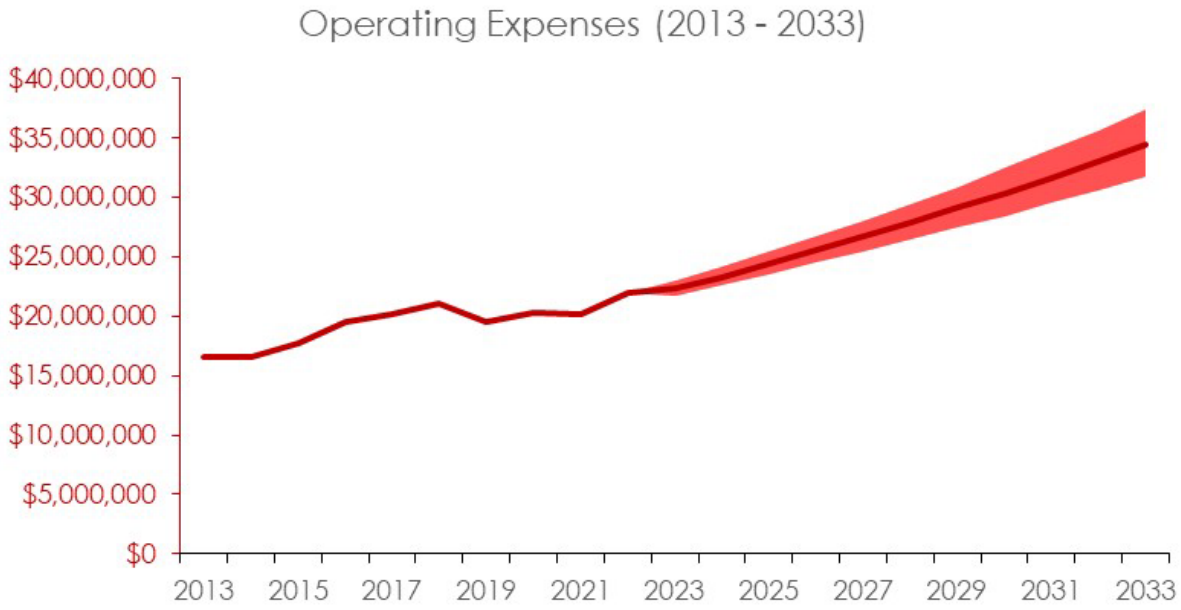

**Wastewater Operations**

Operating revenues have grown very modestly over the past decade at 1.9% annually after going through some larger rate adjustments through 2012. Moderate rate adjustments will be necessary going forward to increase revenues in this fund as wastewater services are not metered but rather depend on the amount of water being consumed by a customer. Conservation efforts on water usage can negatively impact revenues for the wastewater utility. Almost no revenue growth in residential services over the past decade combined with reduced commercial wastewater demands has put rate pressure on the wastewater utility.




*The colored area represents the 80% confidence band around the expected operating revenue.*

Wastewater O&M has increased modestly over the past decade as well and is expected to continue to grow modestly at around the historical inflationary level of 3-5%.




*The colored area represents the 80% confidence band around the expected operating expense.*

By limiting O&M to a more modest rate of growth in all departments it is expected that the Wastewater Fund will generate sufficient operating income consistently to fund asset renewal investments at 50-75% of the targeted levels. This will limit the amount of debt issuance that is necessary over the coming decade.


The growing difference between the operating revenue and operating expense allows for more asset renewal to be funded with less debt issuances than would be necessary without such operating income. Moderate rate adjustments will allow for pledged revenues to be sufficient for any anticipated debt issuances over the next few decades.

**Wastewater Rate and Debt Forecasts**

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 2025 as part of the 2025-26 BFO cycle. Moderate rate adjustments will be necessary to increase the net pledged revenues available for debt service as the debt is issued.

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 4.0% | 4.0% | 6.0% | 8.0% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% |
| Debt Issued ($M) | | | $59.0 | | | $52.0 | | | $59.0 | | |

Again, actual revenues realized from a rate increase are not typically the full amount of the rate increase. It is typical to realize more or less revenue than anticipated in rate design for a given year due to customer response to rate signals.

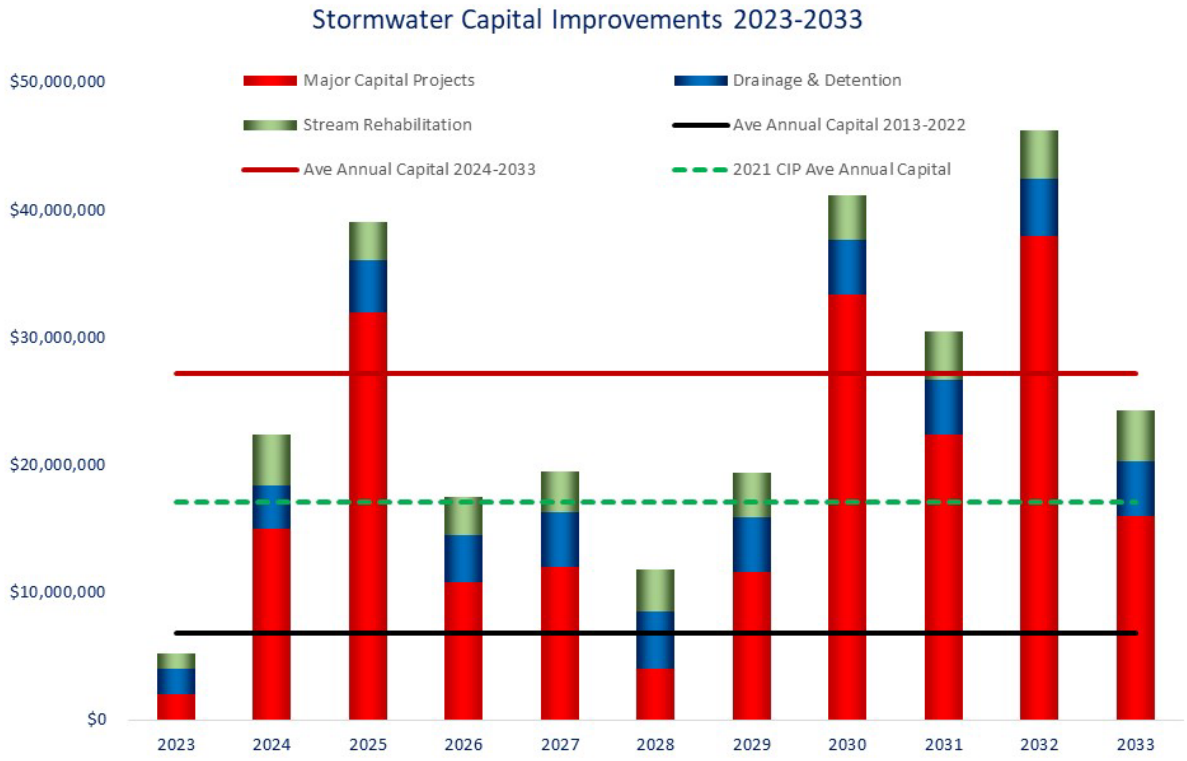
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Wastewater | Adopted Rate Increase | 4.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | Realized Revenue Increase | 2.7% | 1.1% | 7.3% | -1.9% | -2.0% |

## Stormwater Enterprise Fund

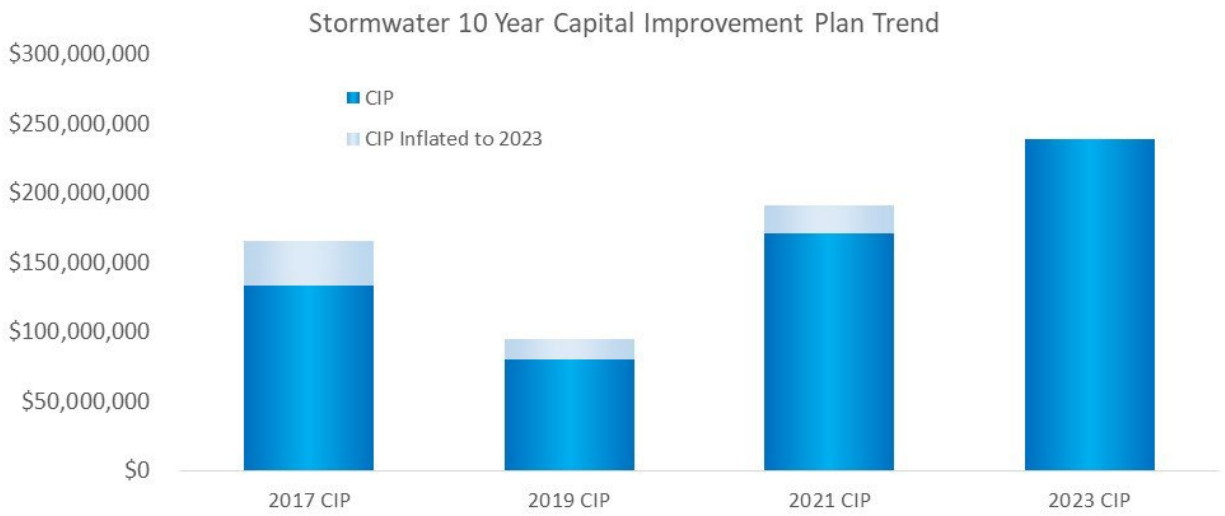
**Stormwater CIP**

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 10-year capital investment needed to build out the stormwater infrastructure from $171M in the 2021 CIP to $239M in the 2023 CIP. Cost adjustments for stream restoration projects are also included in the plan which now shows $35M in stream restoration projects in addition to the water quality and flood protection projects. The CIP will require investing almost 4 times as much each year in capital infrastructure than the previous decade's level of investment. This will require significant operational planning and project management to ensure that the bond revenue is utilized efficiently.

The CIP with the current projection of flood protection and stream rehabilitation work is shown below.




The trend in the anticipated capital investments seen in all 4 utility's CIPs is cautionary. With each review and update of the capital improvement plans there is an escalation of the estimated total investment required. This is being driven primarily by higher cost estimates for known capital projects but also from new projects being identified.

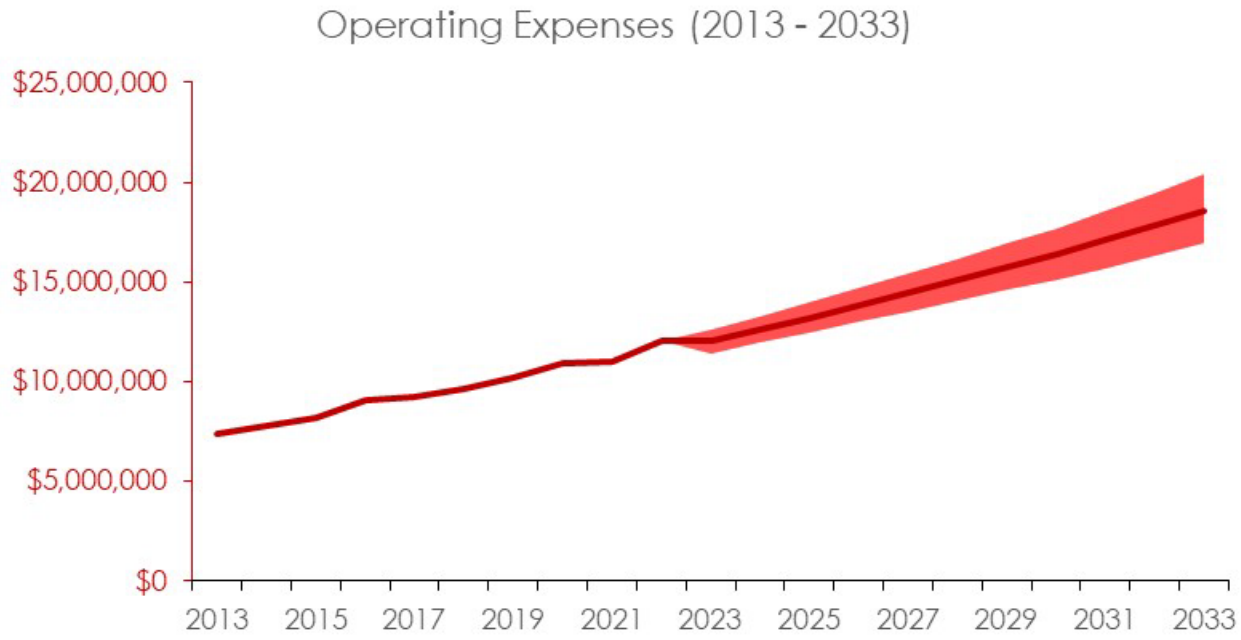



**Stormwater Operations**

Operating revenues have grown modestly over the past decade at an annual rate of 2.7% primarily through annexations and infill development along with some modest rate adjustments.

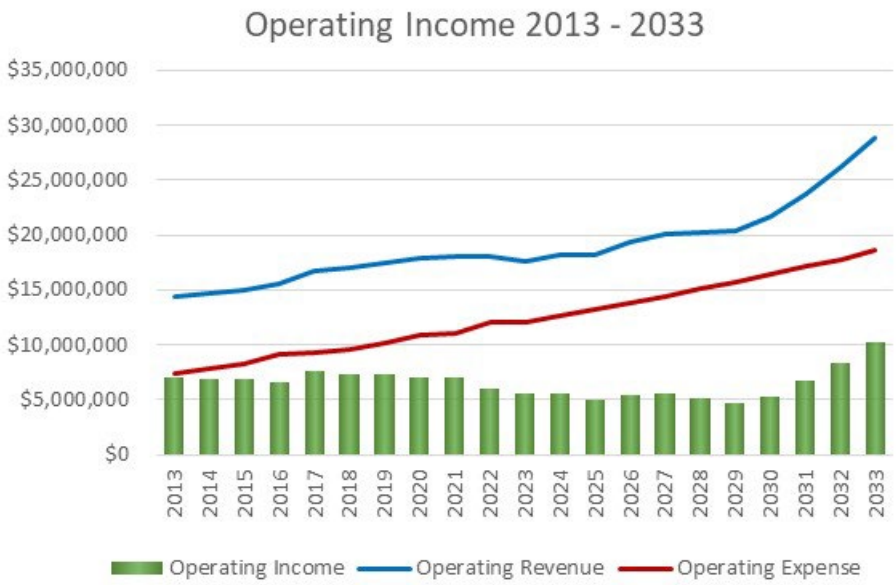

*The colored area represents the 95% confidence band around the expected operating revenue.*

Stormwater O&M has increased at a higher rate of 6.0% annually over the past decade as more infrastructure is built requiring more O&M. The financial forecast recognizes this but assumes that the growth can be managed to increase at the rate of inflation.




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

By managing O&M growth to a more modest rate of growth than in the past 2 years while increasing charges for stormwater services it is expected that the Stormwater Fund will generate sufficient operating income consistently to fund asset renewal investments at a level of 75-90% of the targeted levels. This will limit the amount of debt issuance that is necessary over the coming decade.




The growing divergence between the operating revenue and operating expense is necessary to increase the net pledged revenues necessary to cover the increased outstanding debt over the next few decades.

**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, it will be necessary to issue significant debt to complete the remaining flood mitigation infrastructure. The table below shows the amount of debt that is anticipated to be issued over the next decade. There will be the need to issue debt for several capital investments over the next decade. The first such issuance was done in 2023 as part of the 2023-24 BFO cycle. The next issuance is expected in 2026 as part of the 2025-26 BFO cycle. Moderate rate adjustments will be necessary to increase the net pledged revenues available for debt service as the debt is issued.

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 3.0% | 3.0% | 6.0% | 6.0% | 5-7% | 3-5% | 4-6% | 4-6% | 6-8% | 6-8% | 6-8% |
| Debt Issued ($M) | | | | $45.0 | | | $58.0 | | | $76.0 | |

As with the other utilities, actual revenues realized from a rate increase are not typically the full amount of the rate increase. Because customer growth has driven revenue increases in the recent past, this utility has seen a consistently higher growth in revenues than the associated rate increases.

| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Stormwater | Adopted Rate Increase | 3.0% | 0.0% | 0.0% | 2.0% | 2.0% |
| | Realized Revenue Increase | 4.6% | 0.0% | 0.7% | 2.7% | 2.6% |

## Conclusions and Next Steps

Over the past two meetings ten-year rate and debt forecasts have been discussed which indicate that the significant capital investments expected over the coming decade can be achieved for each utility independently. However, it is also necessary to look more holistically at the impact of these plans on our community. Because of significant increases on the CIPs, larger rate increases will be needed in the next budget cycle to fund capital investments. The longer-term rate projections shown above are subject to change as active measures are developed and taken to manage O&M expenses to more modest rates of growth than in the most recent few years. The table here shows a combined rate impact to our ratepayers that is larger than we have seen since 2012.

| | 2023 | 2024 | | 2025 | | 2026 | |
|---|---|---|---|---|---|---|---|
| Residential Utility Cost | Baseline | % Change | Bill | % Change | Bill | % Change | Bill |
| Electric | $84.20 | 5.0% | $88.41 | 6.0% | $93.71 | 5.0% | $98.40 |
| Water | $51.00 | 4.0% | $53.04 | 7.0% | $56.75 | 9.0% | $61.86 |
| Wastewater | $35.61 | 4.0% | $37.03 | 6.0% | $39.26 | 8.0% | $42.40 |
| Stormwater | $22.42 | 3.0% | $23.09 | 6.0% | $24.48 | 6.0% | $25.95 |
| Total | $193.23 | 4.3% | $201.58 | 6.3% | $214.20 | 6.7% | $228.60 |

**Attachments**

Attachment 1 - PowerPoint presentation
Attachment 2 – 2024 10-Year Strategic Financial Plan – Light & Power
Attachment 3 - 2024 10-Year Strategic Financial Plan - Water
Attachment 4 – 2024 10-Year Strategic Financial Plan - Wastewater
Attachment 5 – 2024 10-Year Strategic Financial Plan - Stormwater

- **Objective:**
  - Provide an update on the Capital Improvement Plans and Strategic Financial Plan for the Water, Wastewater and Stormwater Enterprises
  - Recommend strategic path forward to meet 10 year operational and financial objectives ahead of the 2025-26 Budget cycle
- **Direction Sought:**
  - Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2025-26 BFO cycle? In particular, the rate increases associated with the anticipated revenue required?
  -

- 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 through moderate, gradual rate increases

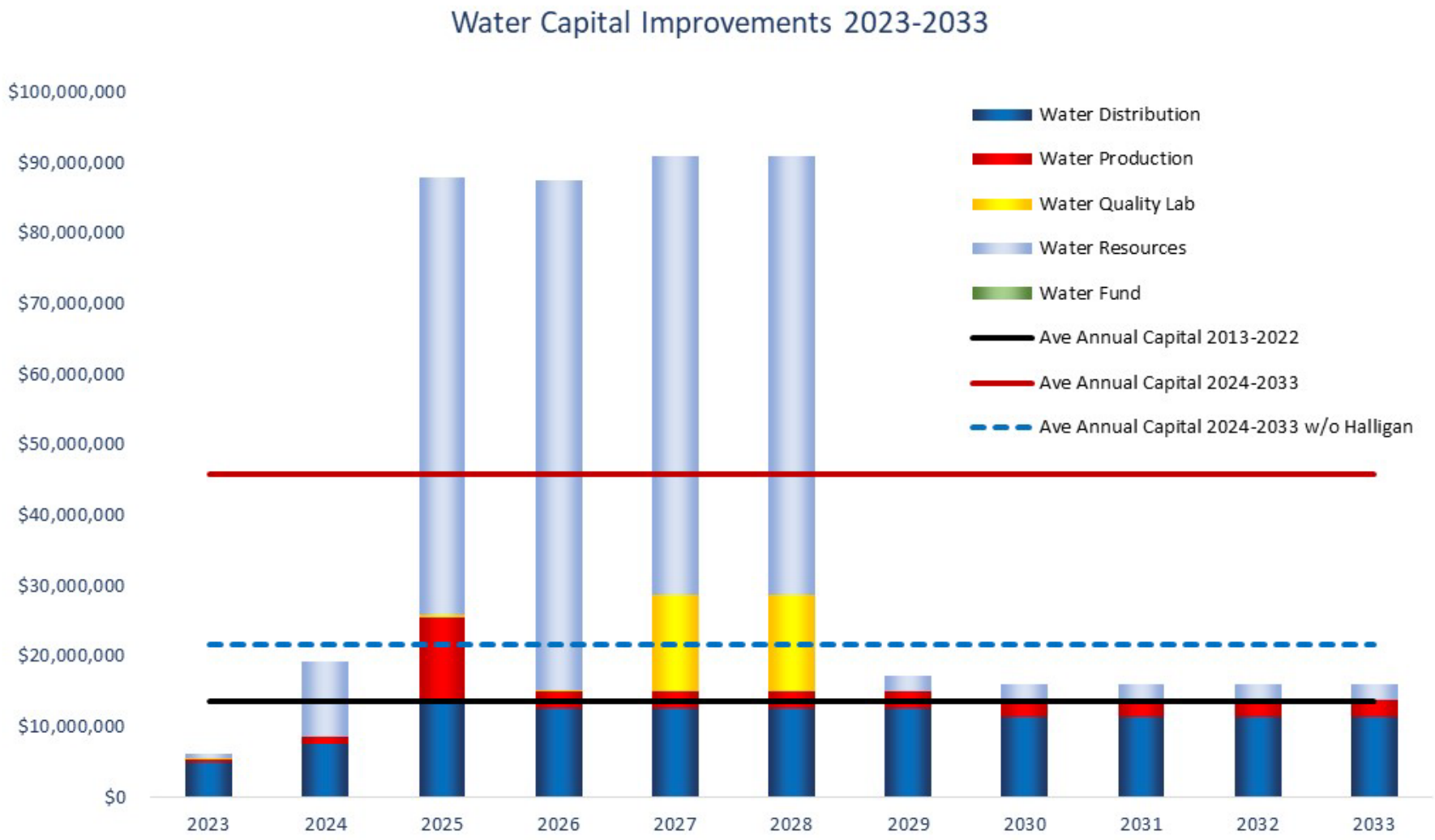
- Macro-economic changes:

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.
- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

- **Capital Improvement Plans:**

- **Total capital investments over the next 10 years have increased significantly for all utility enterprises**

# Water




2023 Operating Revenue was $31M

Water Rate Pressures:

- 2023 CIP is 60% higher than the 2021 CIP – 1% replacement goal; Poudre pipeline; Water Quality Lab
- Halligan debt issuances – 2021 CIP had $107M for Halligan vs. $240M in 2023 CIP
- Development fees declining – down $1.0M in 2023 from 2022
- Water revenues declined 8%, or $1.6M, in 2023 from 2022 despite a 4% rate increase

2021

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 2.0% | 2.0% | 1-3% | 1-3% | 1-3% | 2-3% | 2-3% | 2-4% | 2-4% |
| Debt Issued ($M) | | | $86.0 | | | $86.0 | | | |

These were increased to 4% in mid-year 2022 due to inflation

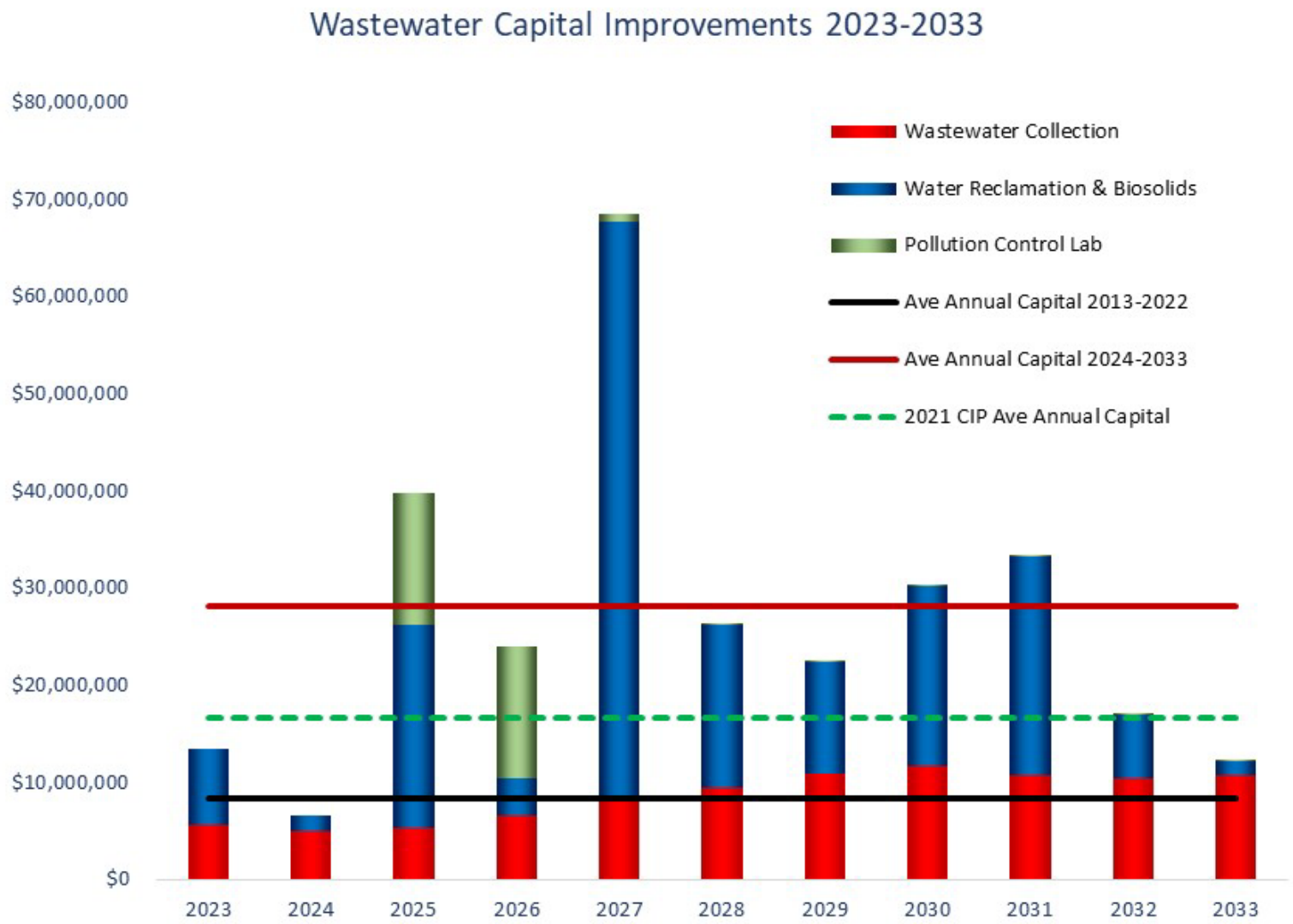
Driven by not meeting operating margin target (-8% in 2023) & DCR going forward

Ongoing prioritization and review of the CIP may lower these.

2024

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 4.0% | 4.0% | 7.0% | 9.0% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% |
| Debt Issued ($M) | | | $154.0 | | | | | $43.0 | | | |

# Wastewater




2023 Operating Revenue was $24.5M

Wastewater Rate Pressures:

- 2023 CIP is 94% higher than the 2021 CIP – Headworks; 1% replacement goal; Pollution Control Lab
- Larger debt issuances needed for CIP
- Development fees declining – down $1.1M in 2023 from 2022

2021

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 2.0% | 2.0% | 1-3% | 1-3% | 1-3% | 2-3% | 2-3% | 2-4% | 2-4% |
| Debt Issued ($M) | $33.0 | | | | $60.0 | | | $21.0 | |

These were increased to 4% in mid-year 2022 due to inflation

No debt was issued

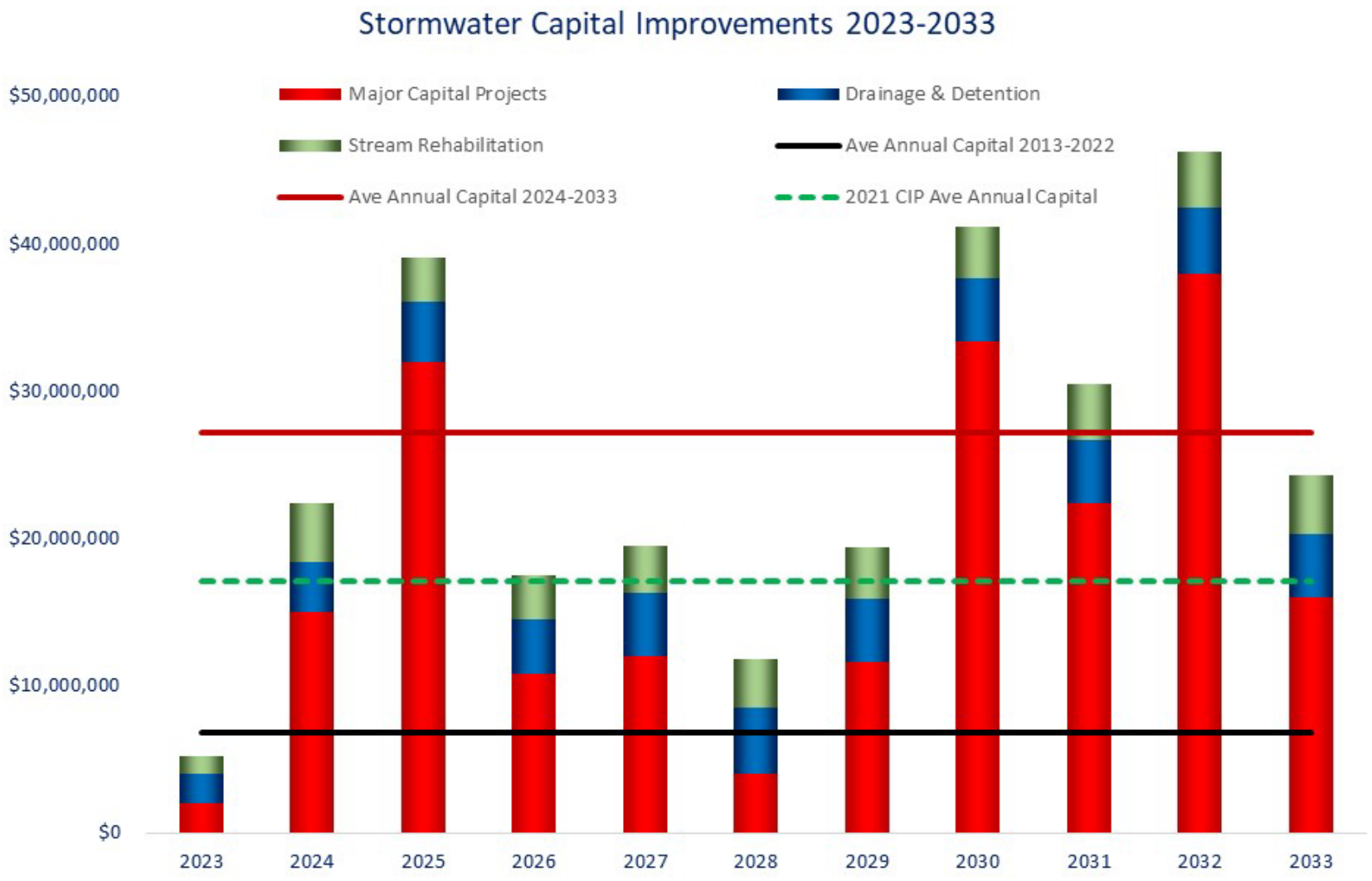
Driven by declining operating margin due to recent O&M growth & the need to meet Debt Coverage Ratio going forward

Ongoing prioritization and review of the CIP may lower these.

2024

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 4.0% | 4.0% | 6.0% | 8.0% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% |
| Debt Issued ($M) | | | $59.0 | | | $52.0 | | | $59.0 | | |

# Stormwater




2023 Operating Revenue was $18.9M

Stormwater Rate Pressures:

- 2023 CIP is 40% higher than the 2021 CIP – Magnolia Outfall / Maple Outfall; higher cost estimates
- O&M growth is highest among the Utilities at 6% annually the past decade and 10% in 2023
- Development fees declining

2021

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 2.0% | 2.0% | 3-5% | 3-5% | 3-5% | 2-3% | 2-3% | 2-4% | 2-5% |
| Debt Issued ($M) | | $80.0 | | | | $43.0 | | | |

These were increased to 3% in mid-year 2022 due to inflation

$40M in debt was issued

Driven by declining operating margin target due to recent O&M growth, increased debt service costs & DCR going forward

Ongoing prioritization and review of the CIP may lower these.

2024

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 3.0% | 3.0% | 6.0% | 6.0% | 5-7% | 3-5% | 4-6% | 4-6% | 6-8% | 6-8% | 6-8% |
| Debt Issued ($M) | | | | $45.0 | | | $58.0 | | | $76.0 | |

# Rates, Revenues, & Expenses 2014-2034



| Enterprise | Rate Increase (%/yr) | | Operating Revenue (%/yr) | | Operating Expenses (%/yr) | | Operating Margin (%/yr) | | Operating Income ($M/yr) | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fund | Historical 2014-2023 | Forecast 2024-2033 | Historical 2014-2023 | Forecast 2024-2033 | Historical 2014-2023 | Forecast 2024-2033 | Historical 2014-2023 | Forecast 2024-2033 | Historical 2014-2023 | Forecast 2024-2033 |
| L&P * | 3.2% | 5.7% | 3.0% | 5.6% | 2.2% | 5.6% | -0.2% | 1.6% | ($1.5) | $3.1 |
| Water | 2.0% | 8.5% | 1.9% | 7.9% | 2.6% | 4.3% | 10.2% | 15.6% | $3.3 | $7.8 |
| Wastewater | 1.9% | 8.5% | 1.9% | 7.6% | 1.6% | 4.5% | 16.1% | 18.7% | $3.9 | $6.6 |
| Stormwater | 1.2% | 7.5% | 2.7% | 8.1% | 6.0% | 4.4% | 39.8% | 39.4% | $7.6 | $10.1 |

* Reflects only financial information related to Light & Power (not including Connexion)

# Debt and Reserves 2014-2034



| Enterprise | Outstanding Debt Principal | | | Debt Issued | Available Reserves | | | Annual Capital Investment ($M/yr) | |
|---|---|---|---|---|---|---|---|---|---|
| Fund | 2013 | 2023 | 2033 | 2024-2033 | 2013 | 2023 | 2033 | 2014-2023 | 2024-2033 |
| L&P * | $13 | $41 | $78 | $120-150M | $16 | $77 | $5-15M | $14 | $37 |
| Water | $10 | $1 | $191 | $225-300M | $9 | $50 | $10-20M | $13 | $43 |
| Wastewater | $38 | $11 | $150 | $175-225M | $12 | $18 | $10-20M | $9 | $28 |
| Stormwater | $26 | $40 | $174 | $150-225M | $3 | $18 | $5-15M | $7 | $29 |

* Does not include Connexion debt (which will be at $93M at the end of 2033)

# Residential Rate Impact



| | 2023 | 2024 | | 2025 | | 2026 | |
|---|---|---|---|---|---|---|---|
| Residential Utility Cost | Baseline | % Change | Bill | % Change | Bill | % Change | Bill |
| Electric | $84.20 | 5.0% | $88.41 | 6.0% | $93.71 | 5.0% | $98.40 |
| Water | $51.00 | 4.0% | $53.04 | 7.0% | $56.75 | 9.0% | $61.86 |
| Wastewater | $35.61 | 4.0% | $37.03 | 6.0% | $39.26 | 8.0% | $42.40 |
| Stormwater | $22.42 | 3.0% | $23.09 | 6.0% | $24.48 | 6.0% | $25.95 |
| Total | $193.23 | 4.3% | $201.58 | 6.3% | $214.20 | 6.7% | $228.60 |

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  - Provide an update on the Capital Improvement Plans and Strategic Financial Plan for the Water, Wastewater and Stormwater Enterprises
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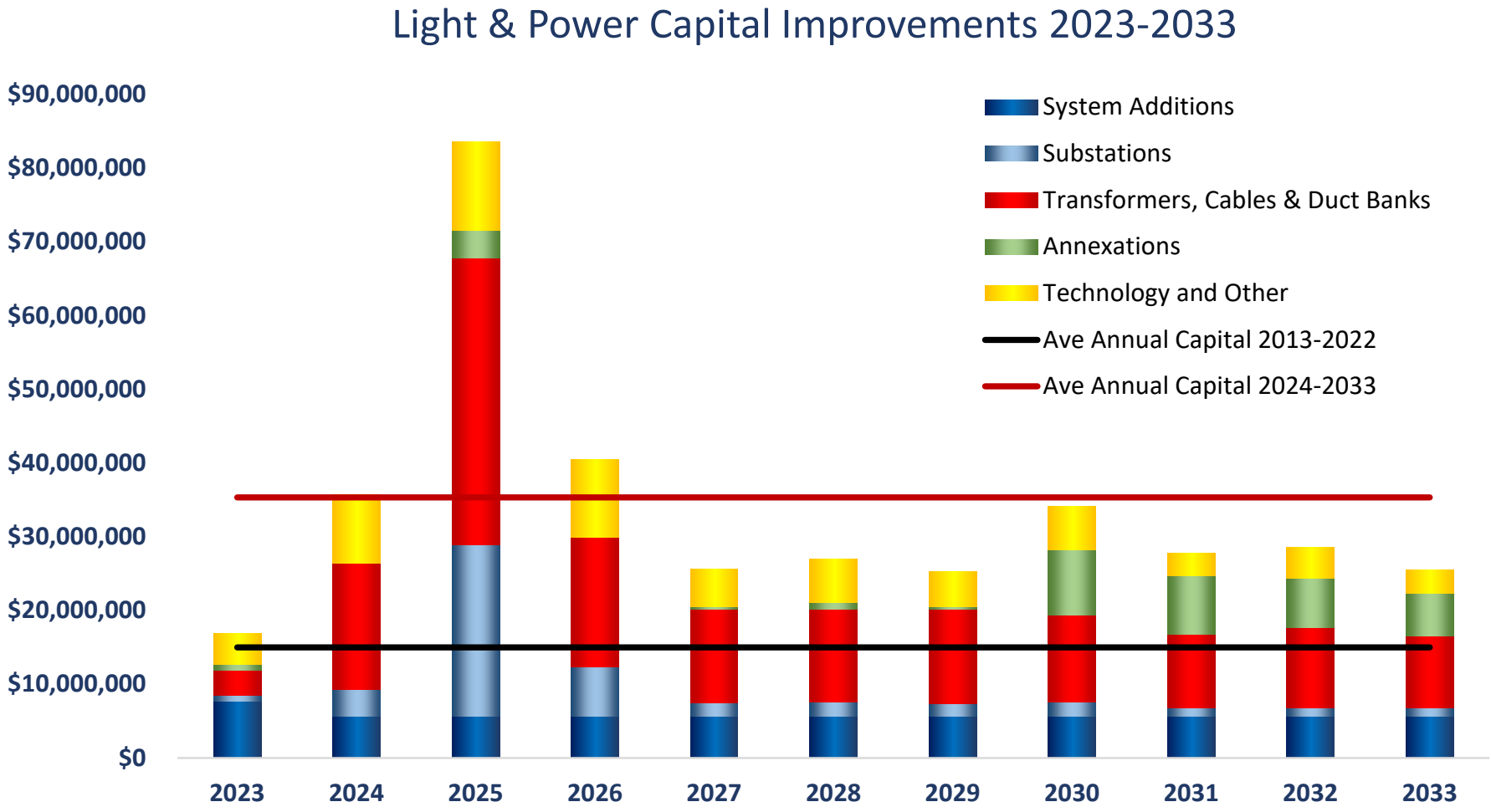
  - Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2025-26 BFO cycle? In particular, the rate increases associated with the anticipated revenue required?
  -

| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Light & Power | Adopted Rate Increase | 5.0% | 2.0% | 3.0% | 5.0% | 5.0% |
| | Realized Revenue Increase | 2.5% | 2.6% | 5.0% | 3.0% | 2.1% |
| Water | Adopted Rate Increase | 4.0% | 0.0% | 2.0% | 0.0% | 0.0% |
| | Realized Revenue Increase | -8.8% | 1.7% | 1.7% | 4.2% | -6.1% |
| Wastewater | Adopted Rate Increase | 4.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | Realized Revenue Increase | 2.7% | 1.1% | 7.3% | -1.9% | -2.0% |
| Stormwater | Adopted Rate Increase | 3.0% | 0.0% | 0.0% | 2.0% | 2.0% |
| | Realized Revenue Increase | 4.6% | 0.0% | 0.7% | 2.7% | 2.6% |

# Light & Power




2022 Operating Revenue not used for Purchased Power expense was $53M

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

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

# 2024 10-Year Strategic Financial Plan

*City of Fort Collins Utilities*

# *Light & Power*

## Table of Contents

## Purpose of the Strategic Financial Plans

The strategic financial plans are intended to provide a 10-year plan for the efficient and effective financial management of each utility in a manner that is consistent with the City's values and mission and aligned with the City's biennial Budget Process and Strategic Planning Process. Much of the long-term strategic direction for each utility requires significant capital investment spanning more than one budget cycle and while the magnitude of the required investment may be included in the capital improvement plans, the financial capacity and strategies to meet these challenges is beyond the scope of such plans. Capital improvement projects should be prioritized through an asset management program to ensure alignment with the City's strategic objectives and proper planning to achieve the targeted levels of service for each utility to our community.

Whereas strategic planning sets the operational direction of where the utilities are going in the future, strategic financial planning provides a financial context for this movement. The strategic financial plans ensure the long-term operational and fiscal objectives and level of service targets for each of the utilities are met in a financially sustainable and resilient manner. The strategic financial plans outline the projected financial health, long-term revenues and expenditures, debt position and recommended financial strategies necessary to achieve the operational objectives and targeted levels of service for each of the four utilities over the next 10 years.

There are three main financial strategies with associated metrics that are intended to maintain the financial health of each utility:

1) Generate a modest operating margin annually that is sufficient to fund asset renewal.
2) Maintain a debt coverage ratio adequate to ensure all future debt issued is rated as being investment grade debt.
3) Through long-term planning adjust rates as needed to meet revenue requirements through modest, gradual annual adjustments.

## 2023 Strategic Financial Planning

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

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.
- After the COVID-19 pandemic supply chain constraints created scarcity in some electric equipment, particularly transformers which has caused a 150-300% cost increase.
- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

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

- Platte River Power Authority (PRPA) is finalizing a new Integrated Resource Plan which is expected to be filed with the State of Colorado sometime in 2024 leading to some uncertainty in the wholesale rate projections utilized in this effort.
- Development has slowed considerably in 2023 resulting in significantly less Electric Capacity Fees (ECF) being received in 2023 than 2022 creating more uncertainty of future ECF revenue projections utilized in this effort.
- Consistent with the 2021 Strategic Financial Plan, in October of 2023 a new debt issuance was completed at a coupon rate of 5.000% for a par value of $59,400,000 providing the electric utility with $40,818,986 of new capital at a par value of $39,035,000.

With those headwinds as a background, the long-term financial model was updated with the most recent financial data and consideration given to how these challenges could impact the 10-year forecast. The result of the modeling is discussed below beginning with a review of the 2023 fiscal year followed by an analysis of revenues, expenses, operating income, capital investments, debt capacity and rates more monthly services. A financial risk register follows the ten-year rate and debt issuance forecast which is the final output from the model. The 10-year Capital Improvement Plan is included as an appendix to conclude the plan.

## 2023 Financial Overview

***Note: This enterprise fund consists of both an electric utility (a.k.a. Light & Power) and an internet utility (Connexion). With the exception of the revenue bonds, this report only speaks to the electric utility.***

Financially, 2023 was better than budgeted as operating income exceeded the budget by $6.4M primarily due to lower than anticipated operating expenses. As the table below shows, the metrics associated with the three main financial strategies from a long-term financial planning perspective were met in 2023. The operating margin, the excess in operating revenues after covering all operating expenses including depreciation, continued above the targeted level in 2023 driven by a 5.0% rate increase at the upper limit of the targeted range as well as limited growth in operating expenses. Challenges and uncertainty remain in operating expenses that will likely require rate adjustments in the next 10 years that exceed the targeted limit of 5.0% annually to maintain this positive operating margin.

| | Strategic Financial Plan Target | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Operating Margin | > 2.0% | 2.9% | 3.9% | 6.5% | 2.5% | -1.1% |
| Debt Coverage Ratio | > 2.00 | 1.6 | 2.9 | 3.1 | 3.4 | 3.0 |
| Rate Adjustment | < 5.0% | 5.0% | 2.0% | 3.0% | 5.0% | 5.0% |

$$\text{Operating Margin} = \frac{\text{(Operating Revenues from Monthly Charges) - (Operating Expenses including depreciation)}}{\text{(Operating Revenues from Monthly Charges)}}$$

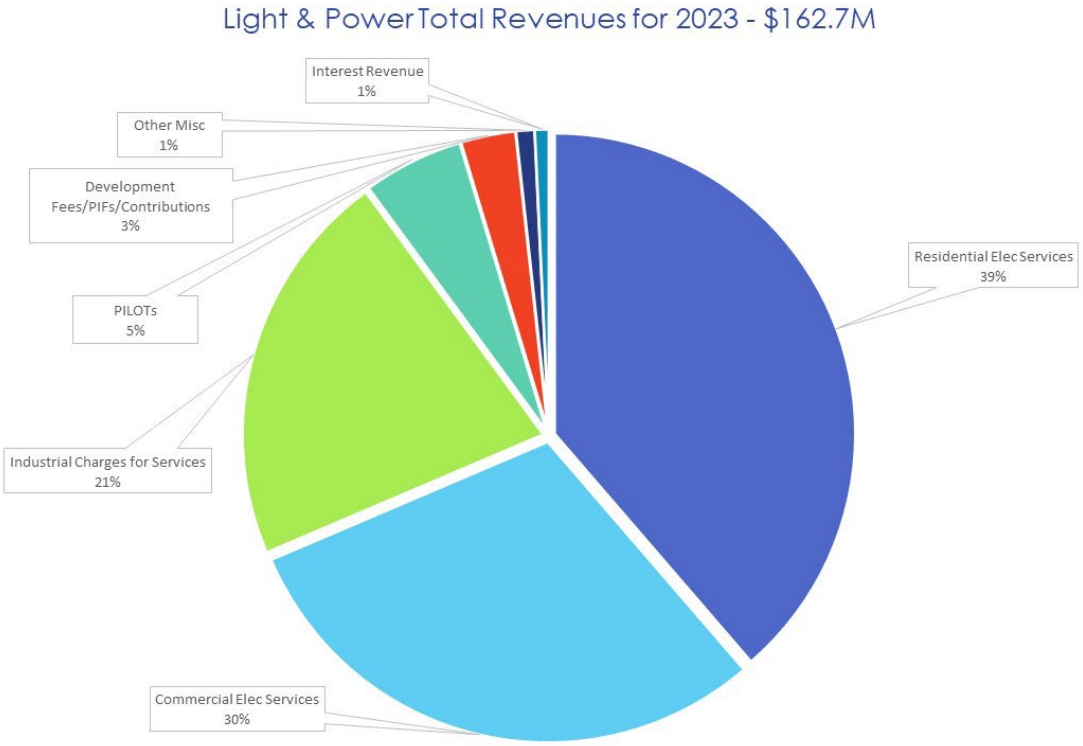
$$\text{Debt Coverage Ratio} = \frac{\text{(Operating Income before depreciation + Development Fees + Earned Interest)}}{\text{(Annual Debt Service Expense)}}$$

Operating revenues have grown at an annualized rate of 3.24% over the past decade through gradual, modest rate adjustments. This has driven revenue growth despite total energy sales being essentially flat over that period with modest customer growth offset by conservation efforts. The rate increases have allowed for the operating income to turn positive beginning in 2020 as operating expenses have grown at a slower rate. However, inflationary pressures being seen across the utilities for materials and labor resulted in Light & Power operating expenses growing at 5.4% in 2022 and 4.4% in 2023. The result of which has been a declining trend in the operating margin since 2021 making it more difficult to limit rate increases to less than 5.0% annually in the future.

It should be noted that in the table summarizing the strategic metrics above, the debt coverage ratio is shown as Light & Power covering all outstanding debt for this Enterprise Fund. This is because the Enterprise Fund itself is liable for all outstanding debt. The Enterprise Fund has outstanding debt of $145.3M at the end of 2023 related to Connexion, however, because it is not directly associated with electric infrastructure, it is not driving any rate adjustments for electric services in this analysis. A $59.40M debt issuance was completed in 2023 with the proceeds being divided between Connexion with $20.37M and the Light & Power utility receiving the $39.03M balance. The table shows that the Light & Power utility did not generate enough revenue to meet the targeted debt coverage ratio of 2.0 by itself. However, the combined electric and internet net pledged revenues are expected to be sufficient to maintain the targeted debt coverage ratio of 2.0 for the combined $188.40M of outstanding debt.

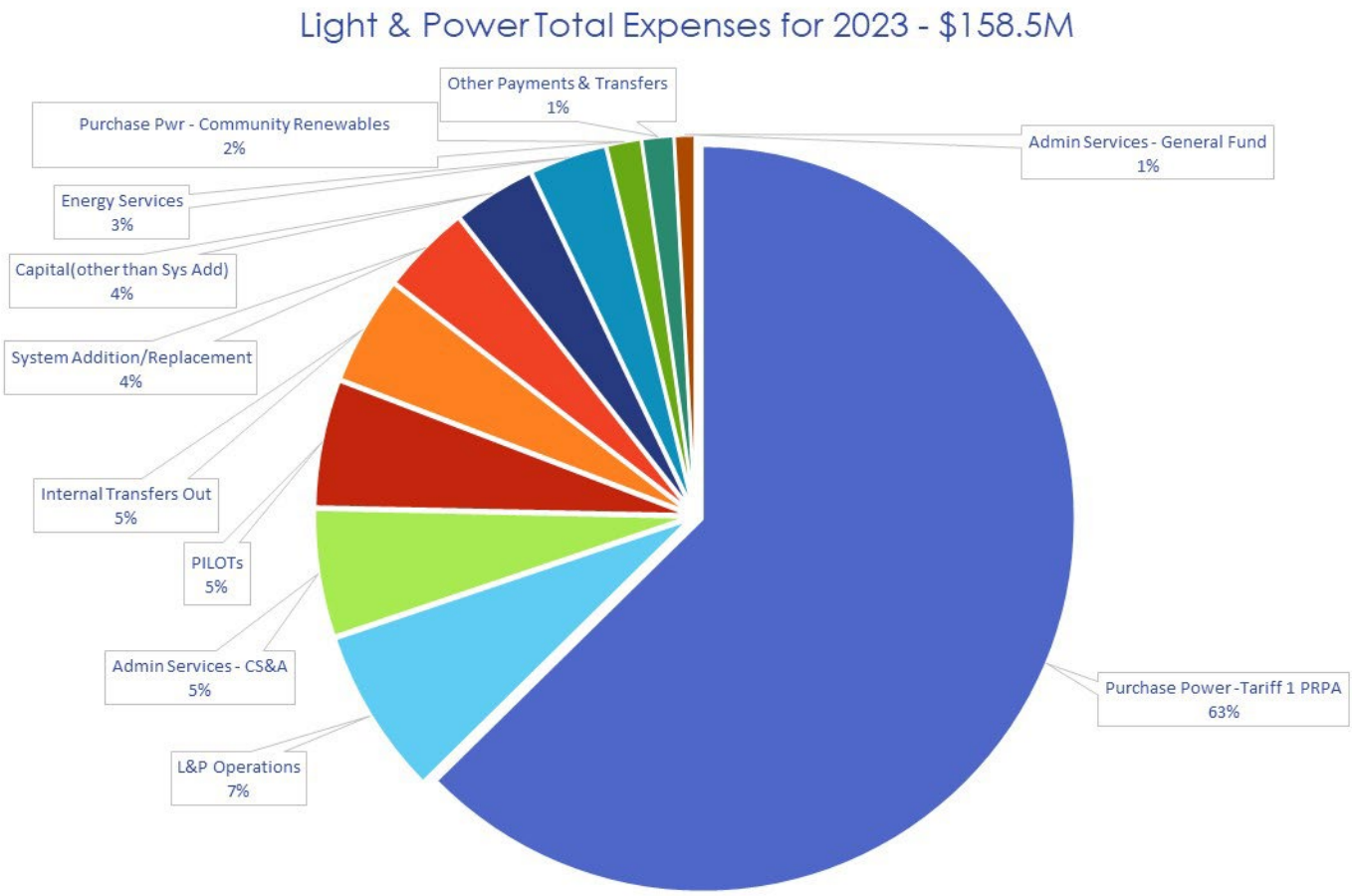
## 2023 Revenues

Total revenues associated with electric services grew by 1.23% in 2023 over 2022 despite operating revenues increasing by 3.49% due to less revenue from development fees. Revenues for residential services remain the largest revenue source at close to 40% of all revenues.



## 2023 Expenses

While operating expenses increased at a more reasonable rate of 4.4% in 2023, total expenses for electric services and capital investment grew 8.7% in 2023 over 2022. PRPA purchased power costs comprised 63% of total expenses with operating expenses associated directly with the Light & Power distribution system making up another 25%, capital investments 7% and the payment in lieu of taxes to the City's General Fund the remaining 5%.



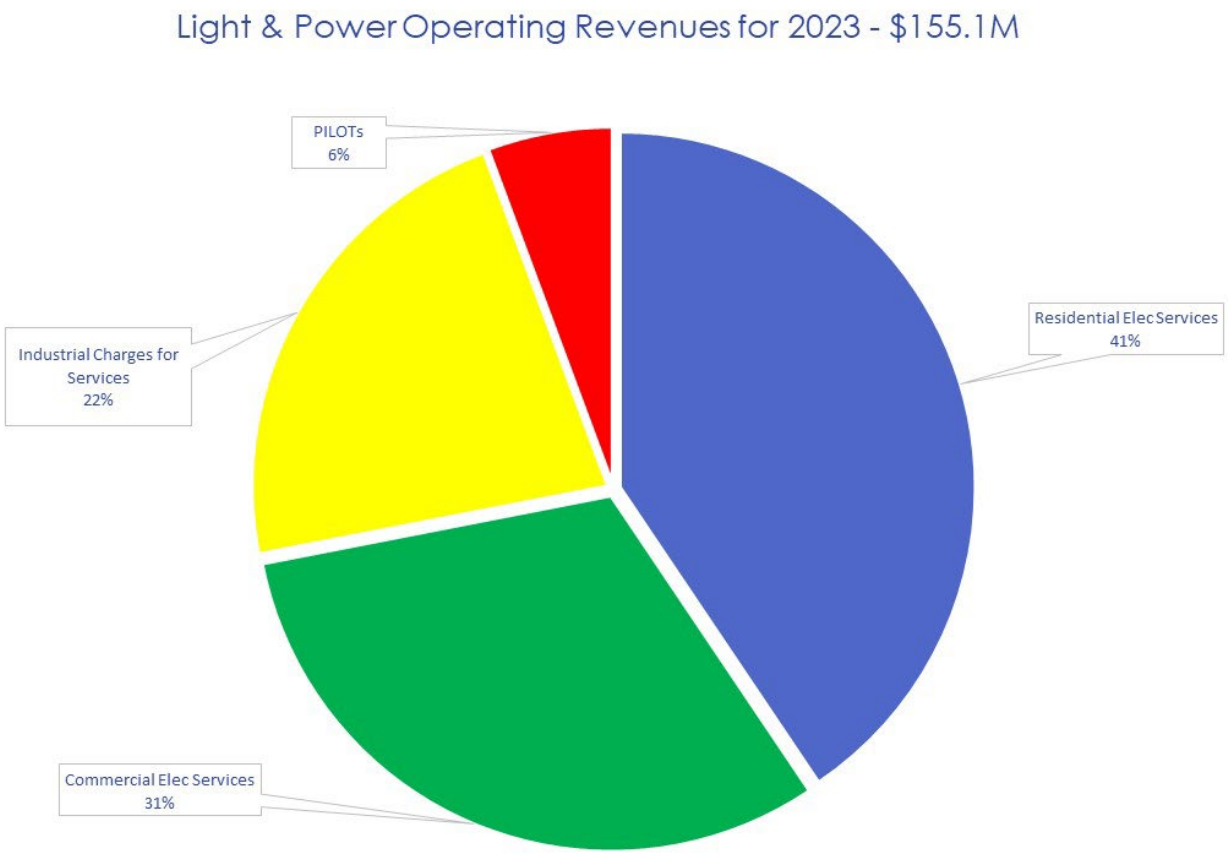

Operating expenses were below budget in 2023 by $5.5M primarily due to lower than anticipated energy purchases. The purchased power expense from Platte River Power Authority (PRPA) was $2.75M below budget which does not reflect any weather normalization. Aside from the PRPA generation and transmission expenses, Light & Power operations and administrative expenses were very close to budget. Administrative expenses are expected to be below budget before the financials are fully settled for 2023 over the next few months. PILOTs refer to the 6% transfer to the General Fund for payment in lieu of taxes (PILOTs) and exceeded budget based on realized operating revenues which themselves were higher than budgeted. Energy Services were $2.9M below budget, or $1.0M below the total investment made in 2022. Just as revenues are budgeted conservatively, expenses are budgeted adequately to ensure that the annual appropriations made by City Council are not exceeded according to the Municipal Code.

# Long-Term Financial Analysis

## Revenue Analysis

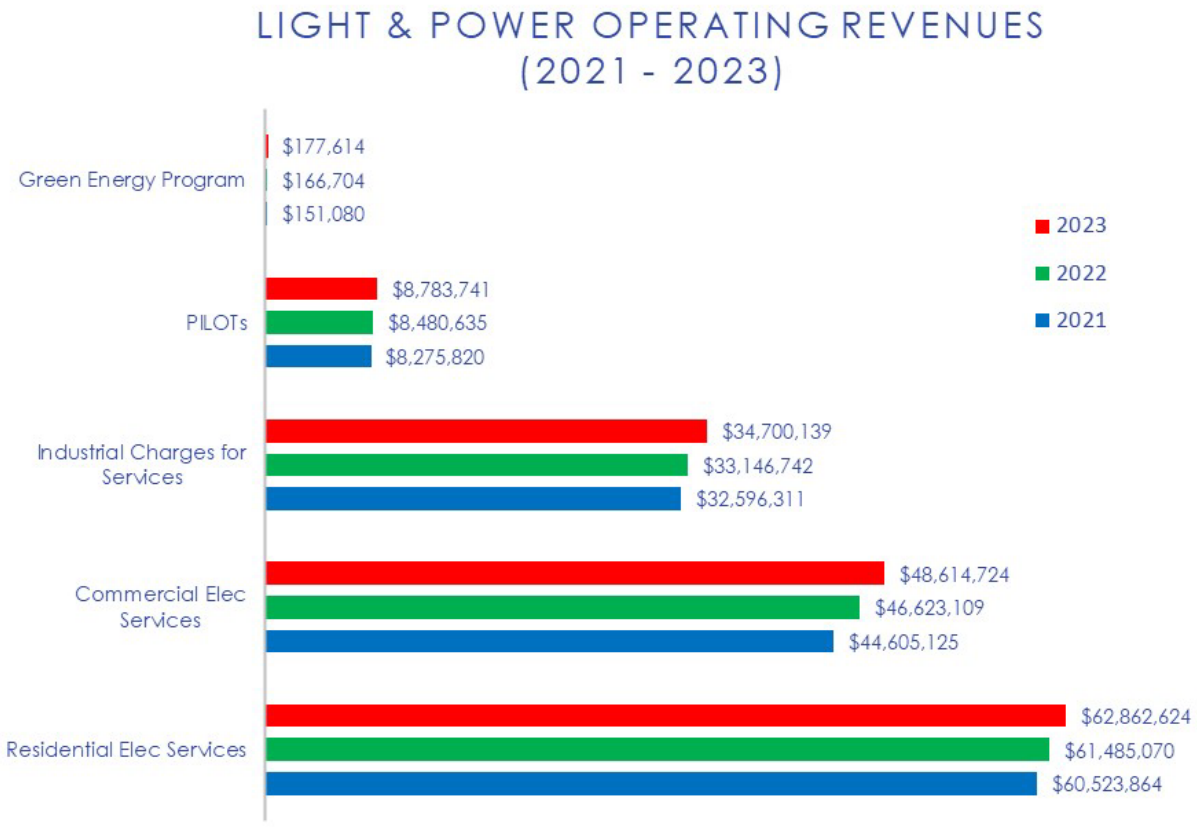
Light & Power revenues consist of operating revenues and non-operating revenues. Operating revenues are generated from monthly charges for services which includes a 6% payment in lieu of taxes (PILOTs) that is transferred to the General Fund of the City. Non-operating revenues, which comprise only 4.6%, or $7.6M, of total revenues, consist of development fees, interest revenue on cash reserves, and other miscellaneous revenues. Approximately 63% of these combined revenues are passed directly through to Platte River for generation and transmission charges and 6% of operating revenues attributable to PILOTs is transferred to the General Fund. The remaining 31% of revenues are available to the Light & Power Enterprise Fund for operational and capital expenses although, as a standing practice, non-operating revenue should not be relied upon for operational expenses. Energy conservation and renewable energy programs are also funded through this remaining 31%.

The pie chart here shows how operating revenues were generated in 2023.

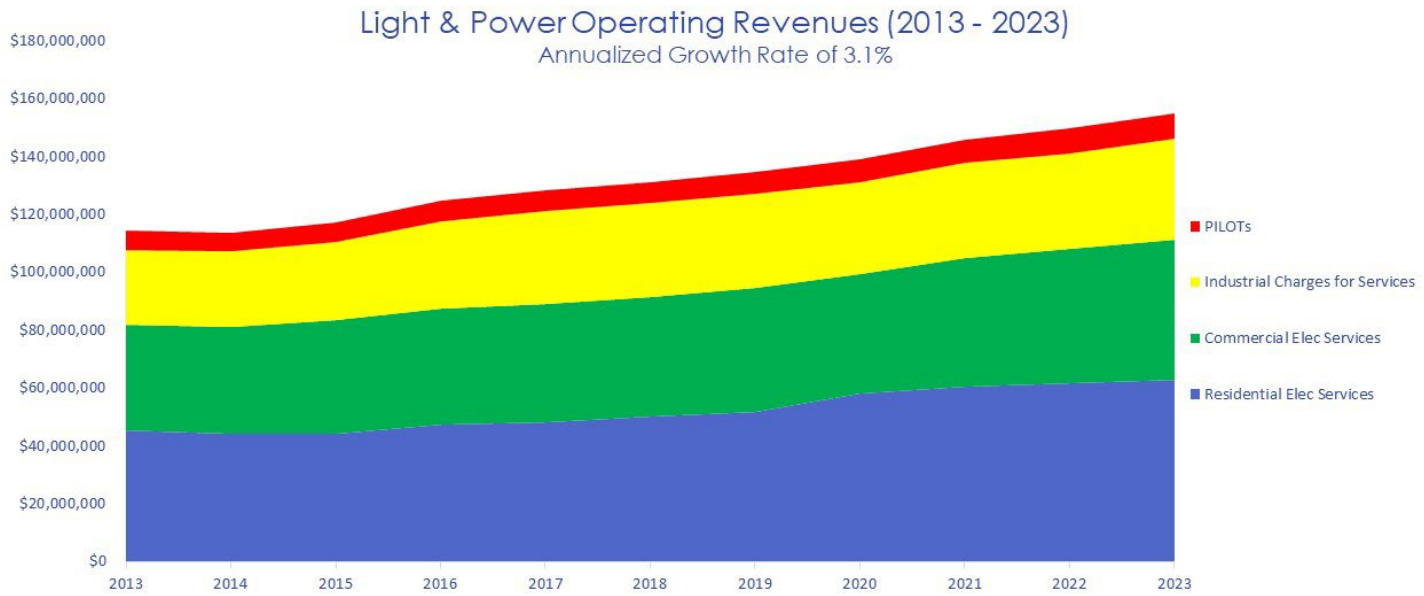



Operating revenues exceeded the budget by just $0.8M in 2023 primarily driven by continued growth in commercial sales. This reflects a shift back to historical levels from what was seen immediately after the COVID pandemic began in March of 2020 when there was a significant shift on commercial revenues to residential customers. Commercial and industrial combined revenues were closer to the budgeted amounts in 2023 than in 2022. Non-operating revenues from development fees were half what

was realized in 2022 and, as such, were inadequate to cover the system additions and replacements completed in 2023. Revenues are budgeted conservatively to account for weather variability and other uncertainties and the rather wet, mild weather in 2023 negatively impacted operating revenues.




From a longer-term perspective, operating revenues for this fund have grown substantially over the previous decade from $115M in 2013 to $154M in 2023 while the amount of energy consumed by the community has remained flat over the same period. Overall customer energy use due to customer count growth has just outpaced energy conservation efforts resulting in reduced energy use per customer but an overall 0.2% annual increase in total energy consumed. Thus, the significant growth in operating revenues is attributable entirely to rate increases that have occurred since 2013 and not growth in consumption.




The table below shows the annual revenues by major categories for the past 5 years. Residential revenues have been growing more steadily than commercial and industrial revenues over the last 5 years. (The data here is not adjusted for weather to accurately represent the revenues received.) The table also shows that the non-lapsing revenues over this same period have come mostly from development fees. Electric development fees peaked in 2022 and then decreased significantly in 2023. The volatility of development fees is much greater than that of operating revenues requiring caution before relying on development fee revenues for necessary capital improvements or forecasting revenues.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Customers | 75,656 | 76,821 | 77,681 | 78,450 | 79,458 |
| Annual Rate Adjustment | 5.00% | 5.00% | 3.00% | 2.00% | 5.00% |
| Residential Elec Services | $ 51,585,680 | $ 57,979,597 | $ 60,523,864 | $ 61,485,070 | $ 62,862,624 |
| Commercial Elec Services | $ 42,832,683 | $ 41,396,010 | $ 44,605,125 | $ 46,623,109 | $ 48,614,724 |
| Industrial Charges for Services | $ 32,700,560 | $ 31,746,182 | $ 32,596,311 | $ 33,146,742 | $ 34,700,139 |
| Green Energy Program | $ 363,727 | $ 241,815 | $ 151,080 | $ 166,704 | $ 177,614 |
| PILOTs | $ 7,648,671 | $ 7,879,394 | $ 8,275,820 | $ 8,480,635 | $ 8,783,741 |
| Operating Revenue | $135,131,321 | $139,242,998 | $146,152,200 | $149,902,260 | $155,138,842 |
| Development Fees/PIFs/Contributio | $ 3,492,813 | $ 3,345,800 | $ 6,586,157 | $ 8,690,197 | $ 4,773,111 |
| Interest Revenue | $ 478,827 | $ 431,580 | $ 376,089 | $ 778,429 | $ 1,216,764 |
| Other Misc | $ 2,075,589 | $ 1,231,444 | $ 1,841,472 | $ 1,375,669 | $ 1,591,841 |
| Non-Operating Revenue | $ 6,047,229 | $ 5,008,824 | $ 8,803,718 | $ 10,844,296 | $ 7,581,716 |
| Total Revenues | $141,372,407 | $144,251,822 | $154,961,355 | $160,746,556 | $162,720,558 |

Looking at revenues on an annual percent change basis shows a longer-term trend of 3% annual growth since 2013 with 2023 showing 3.49% growth in operating revenues but only a 1.23% growth in total revenues. The decrease in development fee revenues completely offset the increase in operating revenues in 2023. This re-emphasizes that revenue growth is being driven by rate increases and those rates for monthly charges have increased above the rate of inflation (0-2% prior to 2022) over each time horizon.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Customers | 1.48% | 1.27% | 1.13% | 1.28% |
| Annual Rate Adjustment | 3.24% | 4.00% | 3.33% | 5.00% |
| Residential Elec Services | 3.30% | 4.60% | 2.73% | 2.24% |
| Commercial Elec Services | 2.90% | 3.28% | 5.50% | 4.27% |
| Industrial Charges for Services | 2.95% | 1.44% | 3.01% | 4.69% |
| Green Energy Program | -6.69% | -14.12% | -9.77% | 6.54% |
| PILOTs | 3.06% | 3.34% | 3.69% | 3.57% |
| Operating Revenue | 3.06% | 3.33% | 3.67% | 3.49% |
| Development Fees/PIFs/Contributio | -0.59% | 2.10% | 12.57% | -45.07% |
| Interest Revenue | 11.07% | 23.14% | 41.27% | 56.31% |
| Other Misc | 8.01% | -1.86% | 8.93% | 15.71% |
| Non-Operating Revenue | 1.99% | 3.19% | 14.82% | -30.09% |
| Total Revenues | 3.01% | 3.32% | 4.10% | 1.23% |

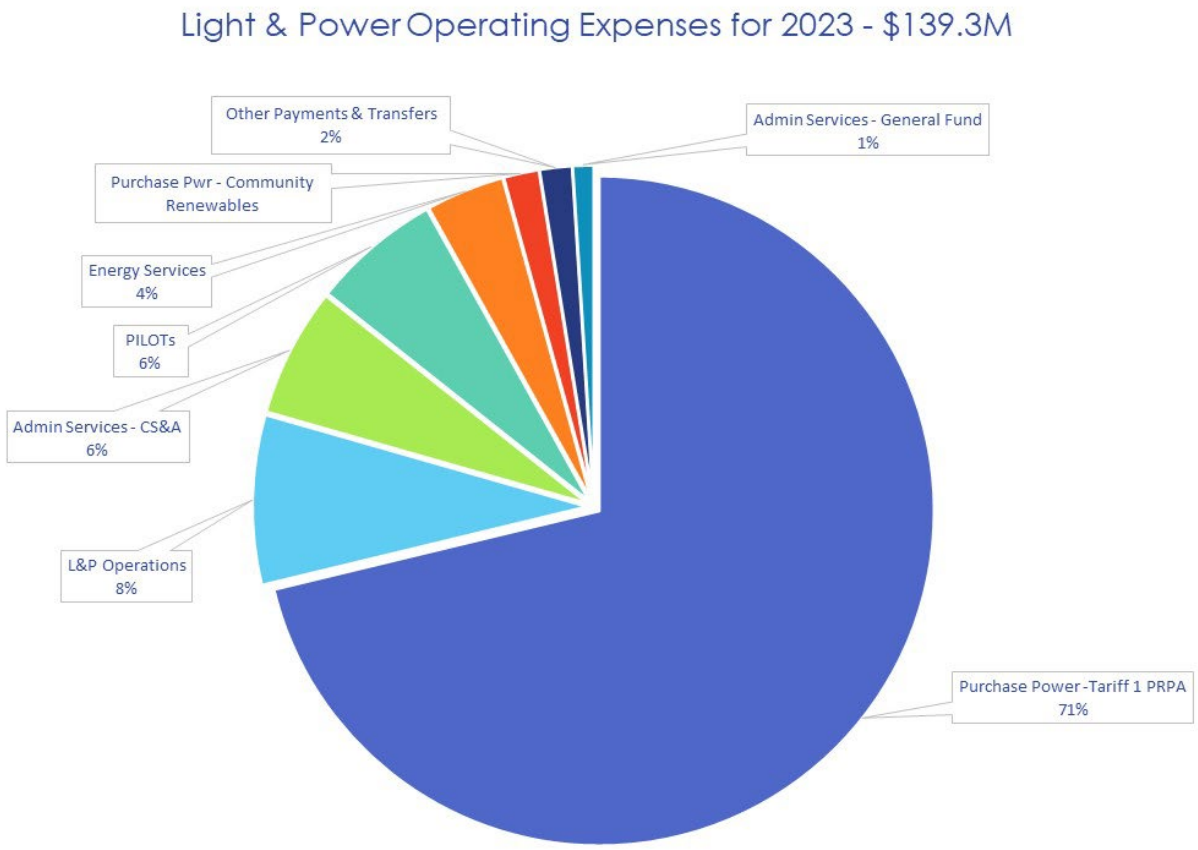
Taking all this historical perspective into account, the stochastic financial model considers the next ten-year horizon. Looking forward, revenues are expected to continue trending upward as customer growth continues and rate adjustments are implemented for Platte River Power Authority to meet the 2030 climate goals and the distribution system is renewed. Beneficial Electrification will be a focus in the coming decade which may increase energy sales and in turn revenues. The graph below shows a forecasted annual growth of 5.2% in future operating revenue (solid green line) which exceeds the 3.0% growth over the past decade. The green area shows the range of revenues considered in the stochastic analysis for the long-term financial model.


Non-operating revenues are expected to remain within the range seen over the past decade with modest inflation offsetting the impacts of redevelopment becoming more common requiring less development fees than "green field" development and investment policies remain conservative. The uncertainty in non-operating revenues over the next decade appears large due to the volatility of the development fees. Any unanticipated grant revenue would positively impact the financial health of the utility and as such is not modelled here although efforts are being made to find applicable federal or state grants. Non-operating revenues are expected to remain a relatively insignificant contributor to total revenues at less than 10% of total revenues in the coming decade.

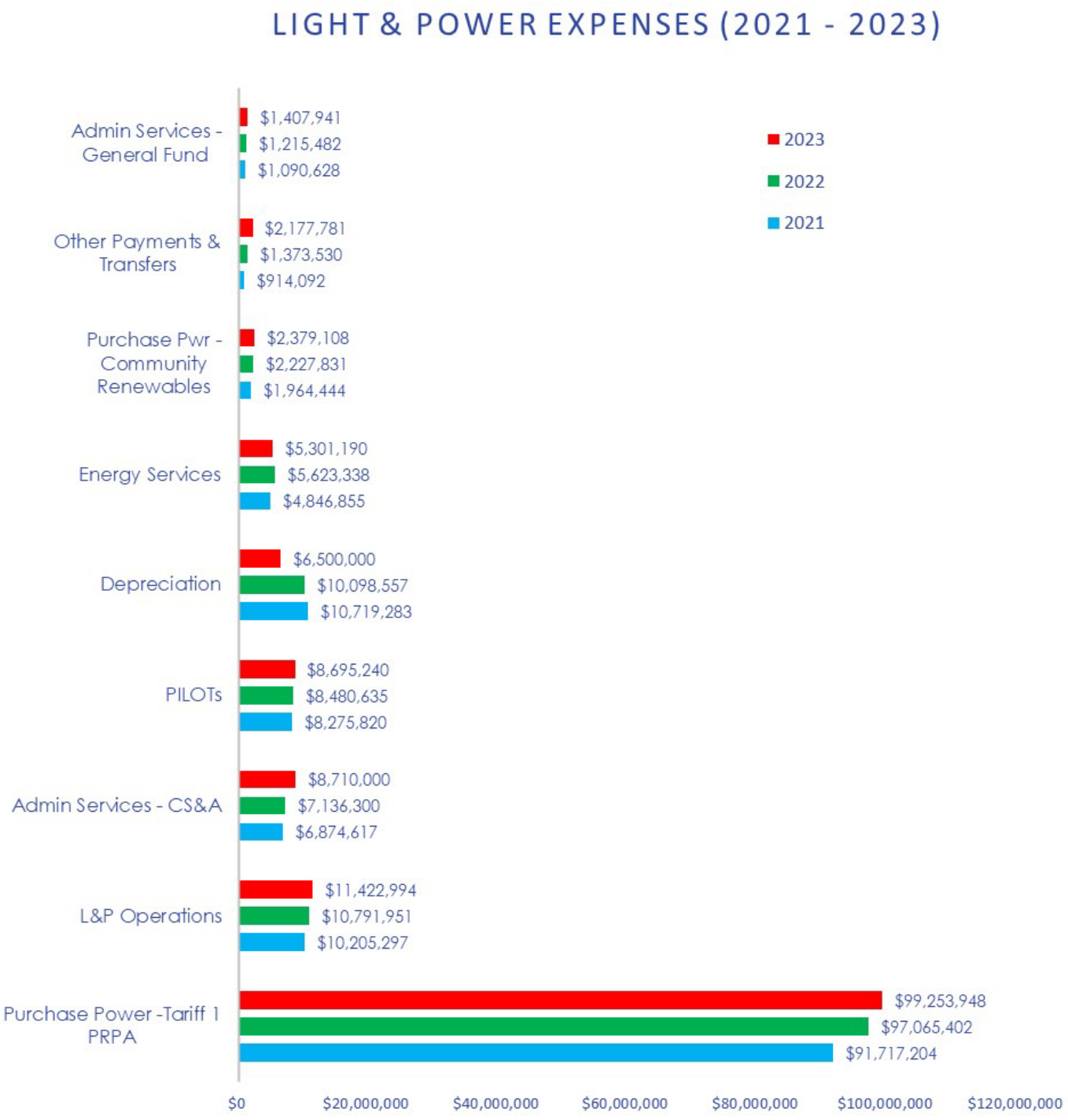
## Expenditure Analysis

Light & Power expenses consist of operating expenses directly incurred on the distribution system including labor and material expenses, as well as the purchase of energy from PRPA and indirect customer service and administrative costs, and non-operating expenses. Light & power non-operating expenses include capital investments made in renewing existing assets and adding additional distribution infrastructure to serve new customers.

The pie chart below shows operating expenses for Light & Power in 2023.

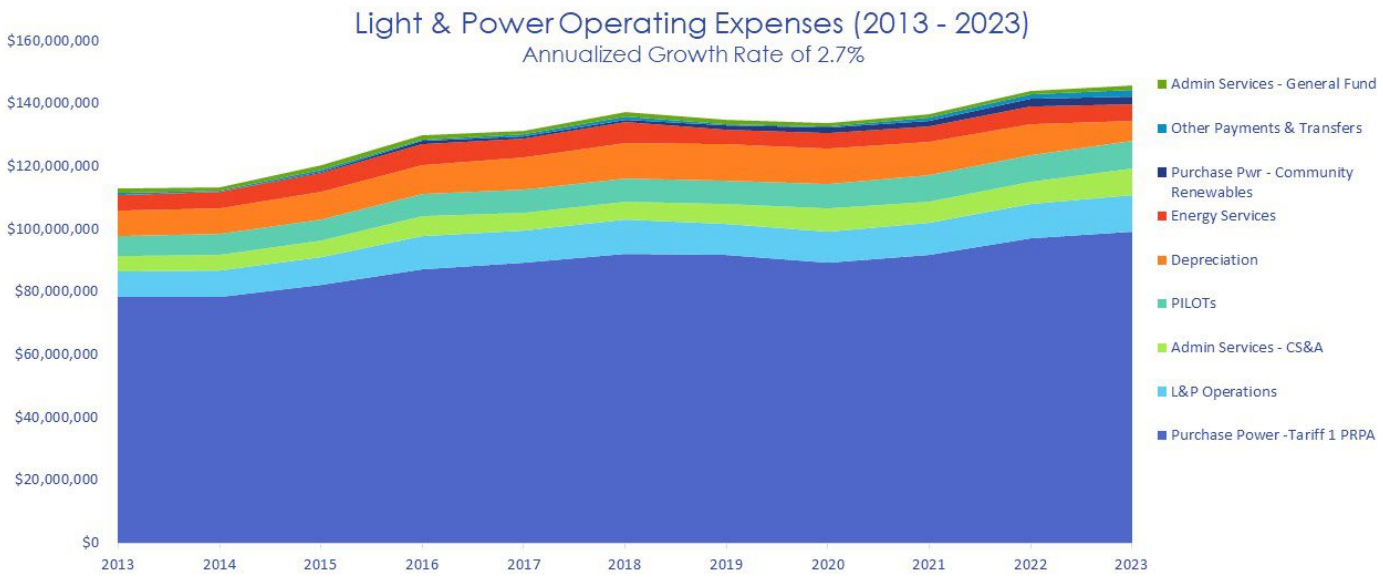



The table below reflects the most recent three years of expenses. Internal Transfers Out include the appropriations made for a new customer information and billing system. Purchased Power expenses continue to increase as PRPA moves forward with closing the coal-fired power plant and Rawhide before 2030 in support of the City's Our Climate Future goals and State requirements.




Light & Power operating expenses are shown below from a longer-term perspective in the categories consistent with the monthly financial operating report. Depreciation is a non-budgetary operating expense that is also included here as it represents the amount of value lost in existing assets. Ideally, this lost value represents a

minimal level of capital investment in the renewal of existing assets to ensure the long-term reliability of the system. Total operating expenses have grown at an annual rate of 2.7% over the past decade. Without depreciation and PRPA expenses considered, operating expenses have grown at an annual rate of 4.3% over the past decade. PRPA expenses have grown at a more modest rate of 2.4% over the previous decade but are anticipated to grow at a rate closer to 5-7% going forward. This rate of annual growth for all operating expenses is assumed to be tightly managed in the analysis and forecasts below.




Operating expenses in the Light & Power Fund have grown at the rate of inflation over the past decade. The most critical factor in the financial health of this Fund is to manage operational expenses with a targeted growth rate of 3.0% annually. The increased capital investments in system renewal should help with O&M labor expense, as the Connexion build-out has done since 2018, but significant attention will need to be given to operational expenses within each Business Unit to ensure adequate revenues to make these investments.

The table below shows operating and non-operating expenses by the major categories shown in the Monthly Financial Operating Report (MOR). Depreciation is estimated for 2023 in this table and analysis.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Purchase Power -Tariff 1 PRPA | $ 91,707,977 | $ 89,411,750 | $ 91,717,204 | $ 97,065,402 | $ 99,253,948 |
| Purchase Power - Renewables PRPA | $ 1,900,000 | $ 1,900,000 | $ - | $ - | $ - |
| Purchase Pwr - Community Renewables | $ 1,315,861 | $ 1,683,711 | $ 1,964,444 | $ 2,227,831 | $ 2,379,108 |
| L&P Operations | $ 9,857,112 | $ 9,726,245 | $ 10,205,297 | $ 10,791,951 | $ 11,422,994 |
| Admin Services - CS&A | $ 6,318,644 | $ 7,335,602 | $ 6,874,617 | $ 7,136,300 | $ 8,710,000 |
| Admin Services - General Fund | $ 1,107,453 | $ 1,135,139 | $ 1,090,628 | $ 1,215,482 | $ 1,407,941 |
| Other Payments & Transfers | $ 450,755 | $ 466,839 | $ 914,092 | $ 1,373,530 | $ 2,177,781 |
| PILOTs | $ 7,648,671 | $ 7,879,376 | $ 8,275,820 | $ 8,480,635 | $ 8,695,240 |
| Depreciation | $ 11,518,342 | $ 11,420,843 | $ 10,719,283 | $ 10,098,557 | $ 11,000,000 |
| Total Operating Expenses | $136,572,666 | $135,804,472 | $136,608,240 | $144,028,027 | $150,348,203 |
| Debt Service | $ 25,223 | $ 25,228 | $ 11,617 | $ 2,050 | $ - |
| Internal Transfers Out | $ 404,025 | $ 431,412 | $ 534,261 | $ 485,258 | $ 7,385,083 |
| Misc Non-operating Expenses | $ - | $ - | $ - | $ - | $ - |
| System Addition/Replacement | $ 4,564,438 | $ 3,788,231 | $ 6,291,363 | $ 7,190,422 | $ 6,119,944 |
| Capital(other than Sys Add) | $ 5,758,112 | $ 4,053,113 | $ 5,250,654 | $ 4,156,610 | $ 5,628,619 |
| Total Non-operating Expenses | $ 10,751,797 | $ 8,297,984 | $ 12,087,895 | $ 11,834,340 | $ 19,133,646 |
| Total Expenses | $147,324,463 | $144,102,456 | $148,696,135 | $155,862,367 | $169,481,849 |

**Purchased Power – Tariff 1** – Historically, increased purchase power costs have been offset immediately by increased operating revenues through rate increases each year. The upward trend is driven mainly by year-over-year wholesale rate increases from PRPA. As PRPA moves toward its 2030 goal of 100% renewable energy, it is expected that annual retail rate adjustments of 3-5% will be needed for this expense alone until 2030. These rate increases along with any adjustments needed to meet distribution operations and system renewal are included in the rate projections modeled here.

**Renewables PRPA** - A set amount of renewable energy (76,000 MWh / yr) has been purchased each year from Platte River toward internal renewable energy goals prior to 2021. These costs were rolled into the Tariff 1 purchased power costs beginning in 2021.

**Community Renewables** – The growth seen here over the past decade was driven primarily by the Solar Purchased Power Program (SP3) which took advantage of a State program allowing for any renewable energy purchased under certain conditions to count triple toward the Renewable Energy Standard for investments prior to 2015. This was accomplished through 20 year purchased power agreements at a fixed rate. Ongoing adoption of distributed generation will continue to increase this expense through similar purchased power agreements as well as rooftop solar excess energy purchases. The amount of energy purchased from community generators increased 6.8% in 2023 alone and has increased by 25% over the last 5 years.

**L&P Operations** – This line item represents the largest and most direct expenses associated with providing electric services to the community that is managed by Light & Power. These expenses have been managed tightly in recent years although there was an increase of 5.8% in these costs in 2023. Managing this growth to a more moderate level in the future will be very important to the financial success of this utility.

**Energy Services** – This expense category includes energy efficiency and conservation programs as well as customer rebates and incentives. As the table below shows, these expenses have been decreasing in recent years while the budget has remained closer to previous levels.

**Payments in Lieu of Taxes (PILOTs)** – This is a transfer to the General Fund set at 6% of operating revenues. As such, any increase in this expense is directly offset by higher operating revenues.

**Administrative Services** – Administrative Service expenses from the Utilities internal Customer Service and Administration areas increased significantly over the past few years. This is in part due to staffing issues related to upgrading the billing system and to higher consulting costs associated with having an interim Executive Director for almost two years. It will be important to limit growth in these expenses going forward. Administrative Services from the General Fund has seen more modest increases over this same period.

**System Additions and Capital** – The intermediate term downward trend reflects the extraordinary capital investments made 3-7 years ago which included deployment of the advanced metering infrastructure ($36M investment) and the construction of the new Customer Service building at 222 LaPorte (~$15M investment). The one-year change reflects the level of development seen in 2023 consistent with the significant decrease in development fees seen in the revenues in 2023 over 2022.

**Internal Transfers Out** – In 2023 a significant appropriation was made for a new Customer Information and Billing System. The transfer was made to the Utilities internal services fund as a one-time expense.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Purchase Power -Tariff 1 PRPA | 2.4% | 1.5% | 3.5% | 2.3% |
| Purchase Power - Renewables PRPA | -100.0% | -100.0% | -100.0% | |
| Purchase Pwr - Community Renewables | 77.0% | 25.3% | 12.2% | 6.8% |
| L&P Operations | 3.4% | 1.1% | 5.5% | 5.8% |
| Admin Services - CS&A | 6.4% | 8.2% | 5.9% | 22.1% |
| Admin Services - General Fund | 1.9% | 3.4% | 7.4% | 15.8% |
| Other Payments & Transfers | 8.6% | 12.0% | 67.1% | 58.6% |
| PILOTs | 3.0% | 3.1% | 3.3% | 2.5% |
| Depreciation | 3.2% | -0.4% | -1.2% | 8.9% |
| Total Operating Expenses | 2.7% | 1.6% | 3.4% | 4.4% |
| Debt Service | -100.0% | -100.0% | -100.0% | -100.0% |
| Internal Transfers Out | | 101.1% | 157.7% | 1421.9% |
| Misc Non-operating Expenses | | | | |
| System Addition/Replacement | -3.0% | 6.4% | 17.3% | -14.9% |
| Capital(other than Sys Add) | -5.7% | 0.4% | 11.6% | 35.4% |
| Total Non-operating Expenses | -0.6% | 13.0% | 32.1% | 61.7% |
| Total Expenses | 2.3% | 2.5% | 5.6% | 8.7% |

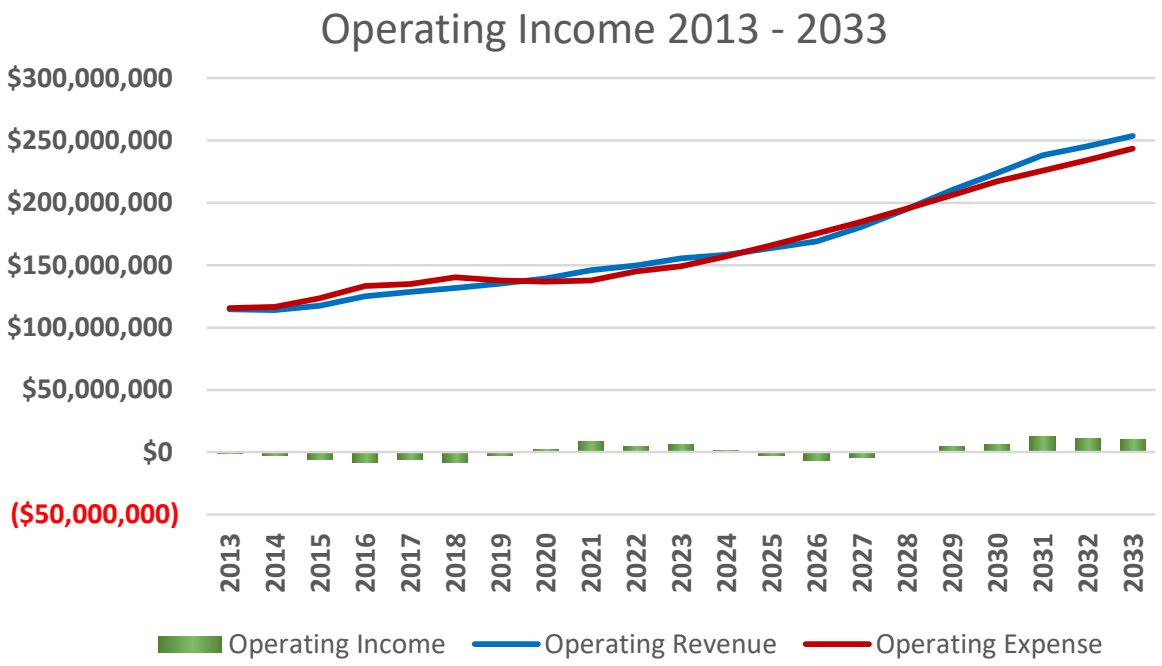
Light & Power O&M expenses have increased at inflation over the past decade but has seen more pressure in recent years. This has begun to be addressed through active management (a flattening of the curve can be seen in 2018-20). Unfortunately, inflation and delays in capital work since the COVID-19 pandemic due to resource constraints has resulted in some growth since 2020. Looking out over the next ten years through the long-term financial model, expenses will need to be tightly managed so as not to exceed the rate of inflation in total. This will be particularly challenging as most of the operating revenue goes to purchased power expenses which are expected to grow above the long-term rate of inflation – purchased power costs are assumed to increase at 5-7% annually. The dotted black line in the chart shows the current trend in operating expenses. The solid red line into the future assumes operating expenses other than PILOTs also grow at a rate of only 5.5% annually consistent with the historical growth. The uncertainty in operating expenses is large and highlights the importance of stochastic modeling rather than showing a single forecasted value a decade into the future.


## Operating Income Analysis

Looking at operating revenues and expenses on the same chart shows there is more year over year variability in operating expenses than revenues. This utility has a measurable seasonality and year-over-year weather driven variability that must be accounted for in the financial modeling. Early in the past decade operating expenses frequently exceeded operating revenues. However, that negative trend has been addressed in recent years.


Looking at the operating margin, the delta between the operating revenues and operating expenses illustrates the financial benefit to this utility from recent rate adjustments.


Looking back a little further though shows that the operating income for this Fund has been negative for 6 of the last 10 years. This was initially an intentional effort to draw down Reserves but because of continued negative operating income rate increases were necessary beginning in 2017 as part of the solution to address this ongoing shortfall. Operating income turned positive beginning in 2020 with the proposed rate increases before the pandemic and has increased through 2021 before leveling off through 2023. This trend is expected to continue provided operating expenses are controlled, including increases to purchased power from PRPA.

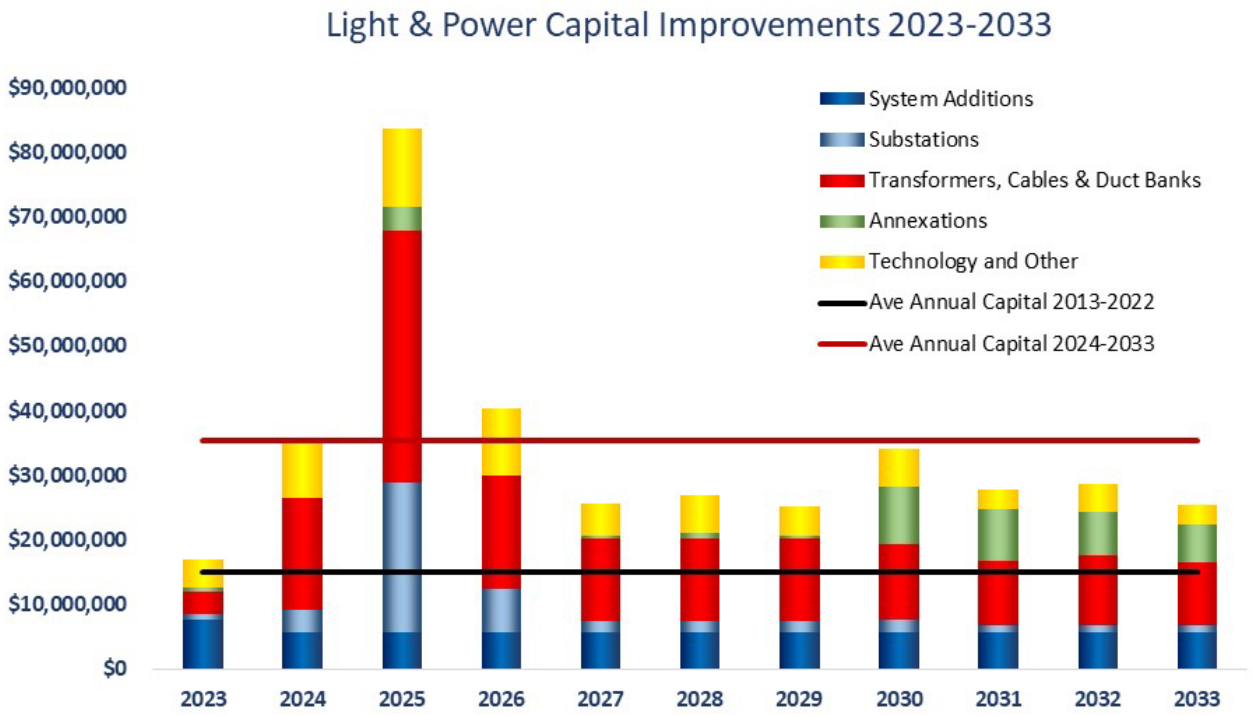



## Capital Planning and Expenditure Analysis

***Note: Appendix A shows the anticipated capital investments and expected year of investment.***

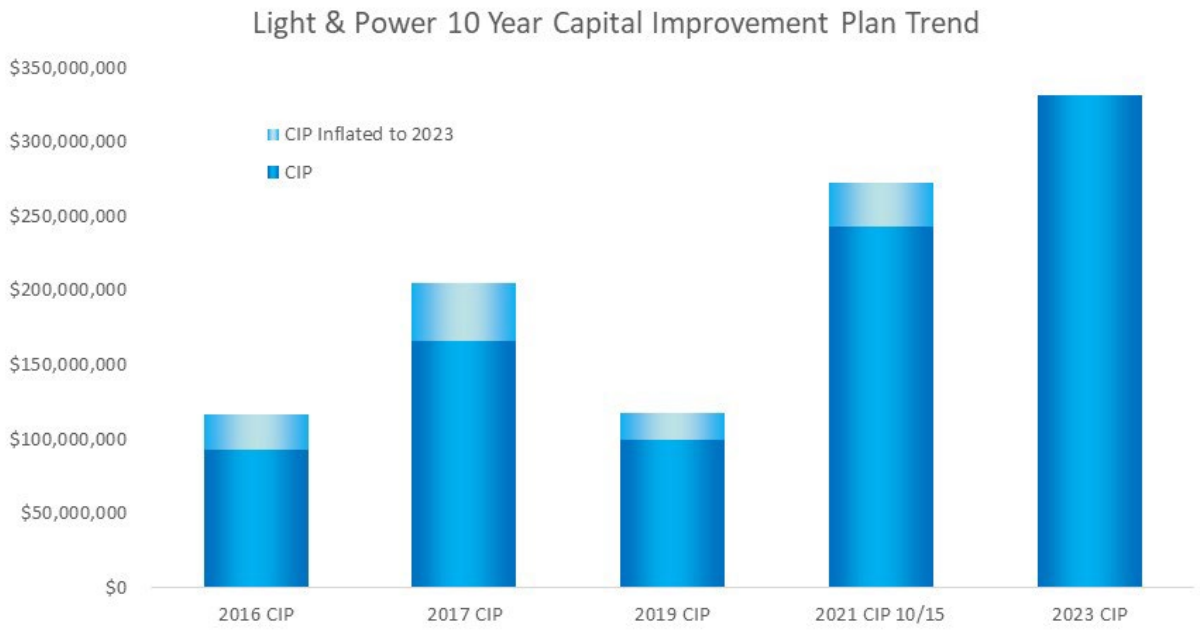
Operational goals for the Light & Power utility are focused on maintaining the current level of reliability while moving forward with achieving the carbon-reduction objectives of the City's Our Climate Future (OCF) plan through energy efficiencies and renewable generation through both utility-scale and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

The current 10 Year capital improvement plan (CIP) anticipates almost 150% more capital investment over the coming decade than was realized in the previous decade. The investments over the past decade involved significant work by outside labor including the Utility Customer Service Building and the deployment of smart meter infrastructure suggesting the amount of capital work intended to be done in house over the coming decade is much more than a 150% increase. This increase is largely driven by new capacity needs, anticipated annexations which require significant capital investment with no associated development fee revenue, a new substation, and asset replacement of aging infrastructure.



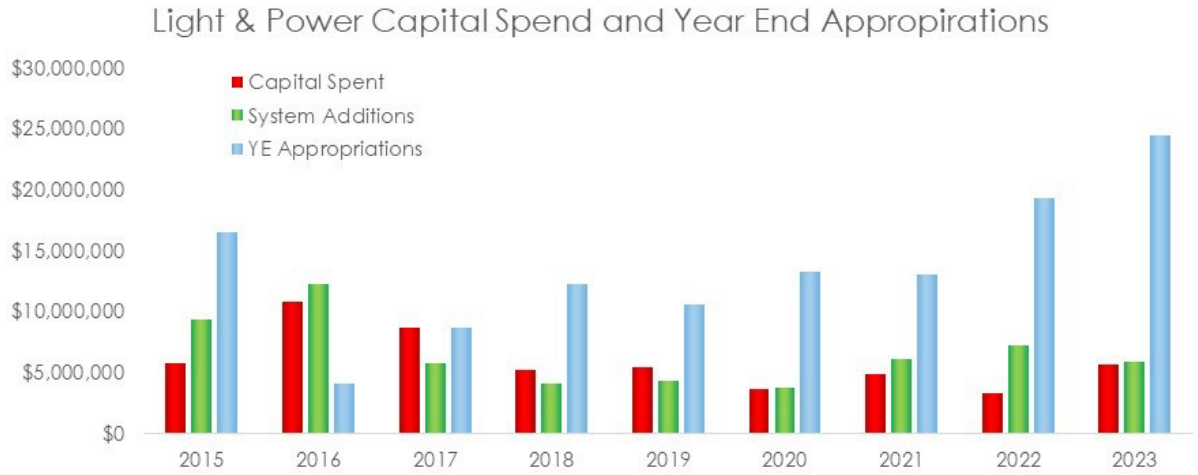

The development of prioritized CIPs is necessary to ensure efficient use of capital to optimize the levels of service being provided to our community. This prioritization has been an elusive goal since the first CIP was developed in 2016. Progress has been made on identifying the service level metrics for this utility but setting service level targets and the relative weights of those service levels remains to be done. Additionally, the 10-year CIPs have fluctuated significantly from one budget cycle to the next (every 2 years) which makes financial planning more challenging than more stable and refined CIPs would require for each utility including this one. This type of volatility in long-term planning efforts is very unsettling.

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




The current 10 Year CIP consists of $332M of identified capital investments which consists of $57M of new capital needs for the anticipated growth in system demands over the decade as well as $177M for system renewal investments, $57M for new technology, and $41M for substation investments. Annexations are not included here as the timing of when such investments will be necessary are not set or known yet. (All projects are identified in 2023 dollars so that a consistent inflation can be applied to all future projects.)

The following chart shows the annual capital investment made each year with the amount of approved capital investment remaining at the end of the year. In addition to the annual lapsing appropriation for System Additions / Replacements which is intended to provide adequate funding to meet all new infrastructure associated with new development, each year new capital appropriations are made for asset renewal programs and specific projects which add the capital investment remaining from previous years. The amount of capital appropriations remaining at the end of each year exceeds the realized annual capital investment made each year. At the end of 2023, the amount of capital appropriated from previous budget cycles was $24.5M. This $25M shown in blue will require more than two years to invest at the recent rate of investment without any additional capital appropriations being requested.



While there is some lead time related to capital investments because of the policy of fully funding each capital investment up front, this build-up of capital work reduces the agility to adapt capital investments as priorities may change. The capital improvement plan discussed below and included in Appendix A is recommending that an additional $120M be appropriated in the 2025-26 budget cycle for capital work. It is recommended that a long-term strategic resource plan be developed to execute all currently funded and future capital investments before any additional debt is issued for any capital investment.

The electric system is almost entirely an underground distribution system that has been built over the last 30-50 years. These underground assets have performed well over their useful life, allowing the community to benefit from a very reliable electric system, but based on the current CIP it is expected that significant capital investment will need to be made in the coming decades to renew this aging infrastructure. The need for asset lifecycle management strategies (from installation to replacement) for all major electric assets needs to be an area of focus for Asset Management and L&P Operations in the next few years so that the necessary investments are prioritized and adequate funding is available as needed in the future.

Annexations into the City limits typically result in this utility taking over service from a neighboring utility. This requires compensating the neighboring utility for stranded assets and sometimes for lost future revenue. Additionally, it involves reconfiguring and rebuilding the existing infrastructure without any development fee to offset the capital investment. Thus, annexations can be a significant expense for this utility. The Mulberry Annexation is the most significant contributor to the Annexations category as this annexation is estimated to cost electric ratepayers at least $50M to acquire and rebuild the infrastructure to meet standards as well as requiring the addition of a new substation to adequately serve these customers and other growth in the northeast corner of the growth management area.

## Debt Analysis

**Last Bond Rating:** **AA- (in 2023)**

While operating revenues are intended to cover all operating expenses, debt issuances are an important source of funding for capital investments for any utility. Debt issuances also establish generational equity by having the generation of customers benefiting from the investment funding the investment through the debt repayment rather than having current customers pay for investments that are necessary to serve future generations. Given the significant increase in capital investment that is expected over the next decade, significant levels of debt will be necessary even after the use of all available reserves and anticipated development fees.

The long-term financial modeling relies on objective criteria to drive financial decisions such as when to issue debt. The use of objective criteria allows for future debt issuances to be modeled and to provide clear reasoning as to why an issuance is needed in any given year based on the current CIP. Debt issuances are based on the following criteria.

1. If capital investments are anticipated to exceed available reserves over the next 3 years a debt issuance is assumed to be sufficient to cover the next 2 years capital investments and leave 125% of the minimum required reserve. This recommendation is presented to the Council Finance Committee ahead of the biennial budget cycle.

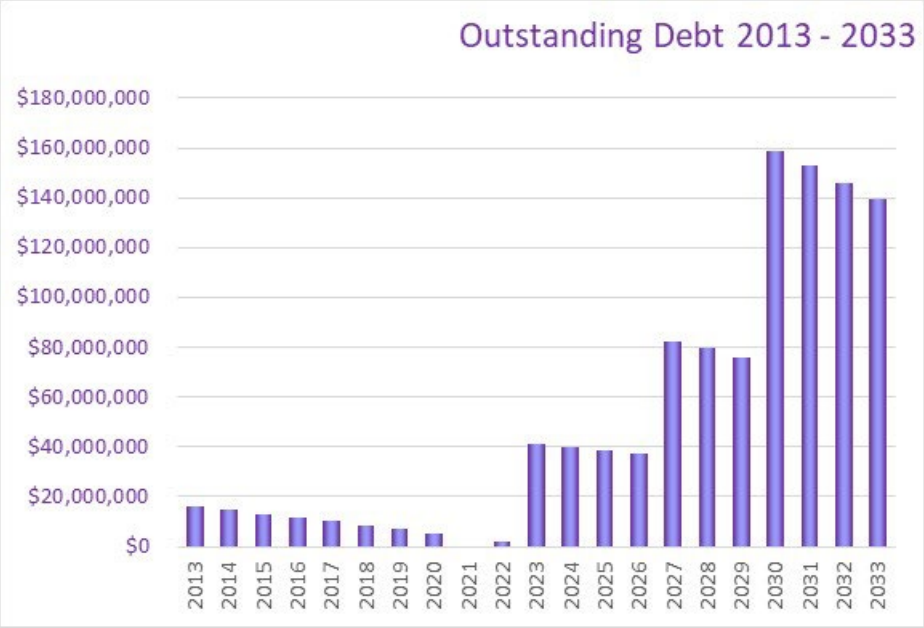
2. Because there are costs associated with debt issuances, a balance is struck between frequently issuing debt and making efficient use of the generated capital by limiting the frequency of debt issuances to no more than once every 3 years.

The electric utility had historically operated without any debt prior to 2010. While this was a very strong financial position, it was one that resulted in cross-generational subsidies as assets were bought by one generation of ratepayers and then effectively used by subsequent generations of the community. This should be revisited particularly when interest rates are extremely low which may not last much longer based on recent inflationary pressures.

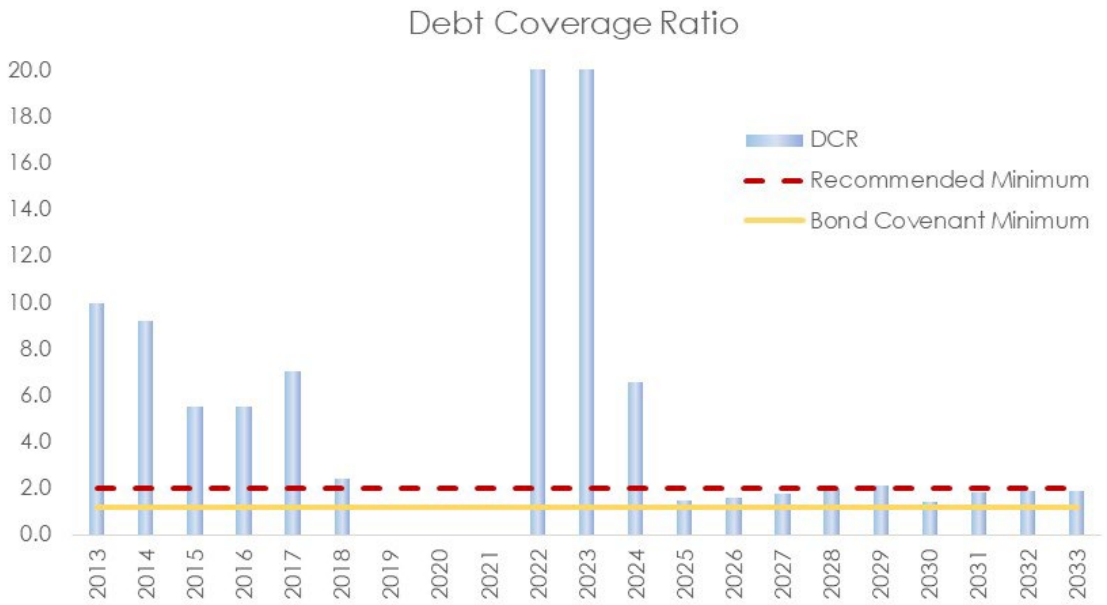
In 2018 this utility issued two revenue bonds totaling $142M in electric revenue bonds to support the ballet approved initiative to build Connexion. In 2023 an additional debt issuance was made for $60M, $40M of which is to be used for system renewal of the electric distribution system and the remaining $20M for the final build-out of the internet service area. Both issuances were initially rated and continue to be rated as investment grade debt with an AA- bond rating.

The 2018 debt issuances were reviewed by Standard and Poor's and Fitch again in 2023 which reaffirmed the debt's (AA-) bond rating based on the realized electric revenues and financial outlook. The output from the long-term financial model that is the basis of this plan was provided to the analysts for their revised bond rating. This modeling indicates that based on the most recent CIP it will be necessary to issue debt likely again in 2026 or 2027 to fund the anticipated $60M in capital investments over these two years.

The chart below shows the historical and future debt related with electric capital investments including a potential $61M issuance in the 2025-26 budget cycle. (This chart does not include the $145M outstanding debt related to Connexion which is tied through the bond covenants to electric revenues.)




The debt coverage ratio for this Fund has been well above the bond covenant minimum requirements of 1.15-1.2 as well as above the internally recommended ratio of 2.0 necessary to be viewed as favorably as possible by the rating agencies. This has been met even when recognizing the debt associated with Connexion (although the chart below does not include that debt). Meeting the recommended minimum debt coverage ratio may not be possible in the next few years due to a combination of uncertainties around development fees and broadband revenues and the increased debt service expense associated with the 2023 debt issuance.




The actual debt capacity for this utility Enterprise Fund is somewhat variable due to the large amount of revenues collected from development fees as well as the utility's operating income before depreciation. Despite this variability, necessary debt issuances are not expected to degrade the bond rating below the current (AA-) rating. The debt capacity of the Enterprise Fund is limited by the outstanding debt held by PRPA as the rating agencies recognize the proportional ownership of that debt by Fort Collins Utilities. The stochastic modeling assumes that future interest rates would fluctuate within a range between 3.0 and 6.0%.

Debt Capacity Estimation

Interest Rate: 5.00%

Net Pledged Revenue (5yr ave): $19,916,200

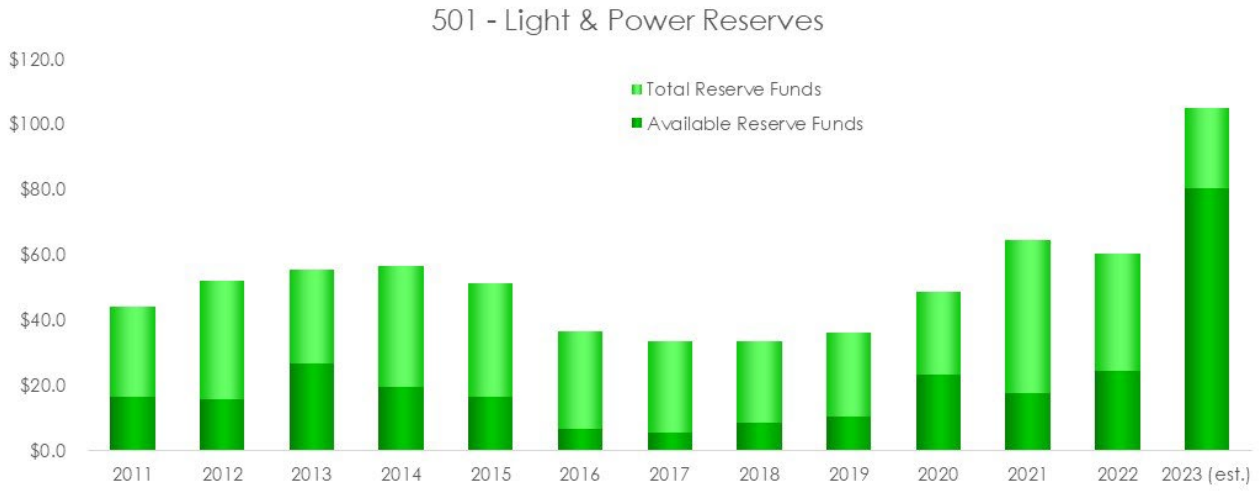
| Debt Coverage Ratio | Debt Capacity (10 yr Debt) | Debt Capacity (15 yr Debt) | Debt Capacity (20 yr Debt) |
|---|---|---|---|
| 1.0 | $154 | $207 | $248 |
| 1.2 | $128 | $172 | $207 |
| 1.4 | $110 | $148 | $177 |
| 1.6 | $96 | $129 | $155 |
| 1.8 | $85 | $115 | $138 |
| ***2.0*** | ***$77*** | ***$103*** | ***$124*** |
| 2.2 | $70 | $94 | $113 |
| 2.4 | $64 | $86 | $104 |
| 2.6 | $59 | $80 | $96 |
| 2.8 | $55 | $74 | $89 |
| 3.0 | $51 | $69 | $83 |

Outstanding Debt in 2023: $188.4 M

## Reserves Analysis

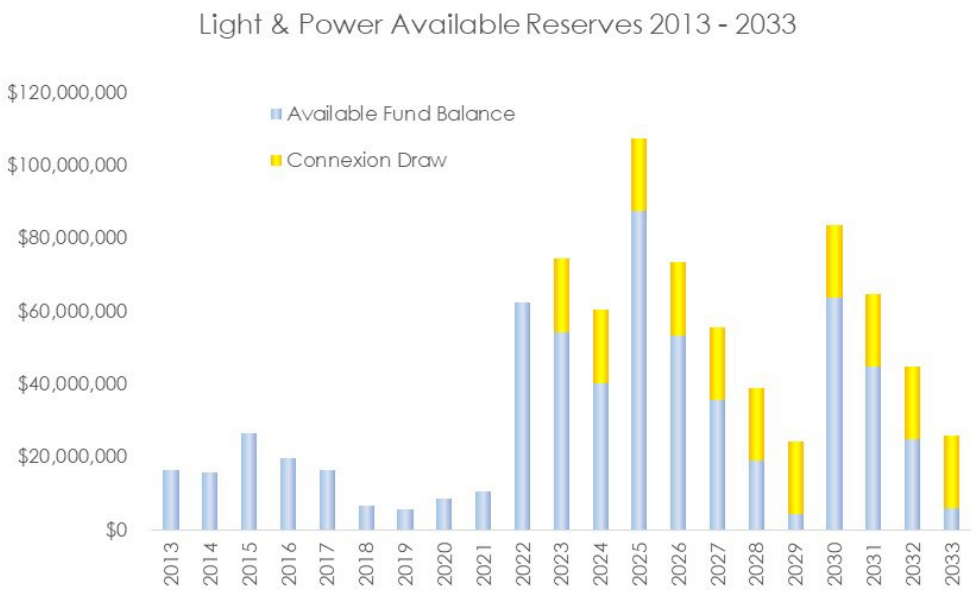
Financial Management Policy 5 specifies Fund Balance Minimums for Enterprise Reserves. It also states that additional reserves should be set aside for anticipated capital investments. The graph below reflects the total Fund Balance as well as the portion of that balance that is available for capital appropriations above and beyond the minimum required reserve balance and any existing capital appropriations. The long-term financial modeling objectively determines when additional capital investment should come from Available Reserves and when it should come through rates or more immediately through debt issuances.

Based on the actual financials compared to the 2023 budget where realized revenues exceeded realized expenses by $4.2M, it is estimated that over $44M was added to Available Reserves in 2023 including the $40M of bond proceeds.




The available fund balance is expected to continue to decrease due to the significant capital investment identified in the CIP requiring additional debt issuances over the next 3-5 years. The actual increase in Available Reserves reflected below is being driven by the timing of debt issuances and the capital investments in the unprioritized CIP. A more strategic approach would result in slightly lower rate increases and less debt issuances being needed to achieve the same capital investments.

In early 2022 it was determined that an additional $20M in funding was needed for Connexion to complete the initial build-out of the fiber infrastructure. After consideration of several potential financing approaches including issuing new debt, it was determined that use of Available Reserves within the shared enterprise fund was the best approach. Connexion will compensate the electric utility for the lost interest it would have earned on the Available Reserves. This intra-enterprise agreement was adopted by the City Council in March 2022. The chart below reflects this executed arrangement.

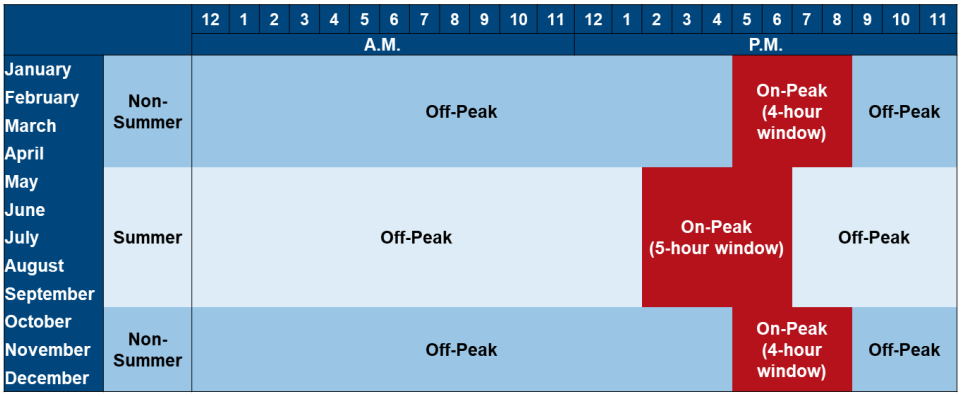



## Rate Analysis

The rate structure for residential customers has changed twice in the past decade. In 2012, a three-tiered, seasonal increasing block rate structure was adopted with the intent of encouraging energy conservation. This change from a flat, non-seasonal rate structure was implemented along with an 8.3% rate increase which resulted in significant community pushback that first year. The intent of the three-tiered residential rate structure was to promote energy conservation. Based on analysis done in 2013 comparing weather normalized residential use in 2011 and 2012 there was no measurable change in energy consumption.

Then in 2015, after the deployment of the advanced metering infrastructure, a twelve-month rate pilot study was done considering a seasonal, time-of-use residential rate as well as a seasonal, tiered, time-of-use residential rate. The result of this pilot was the adoption of the seasonal, tiered, time-of-use residential rate for all customers beginning in October of 2018. The result of this implementation was reviewed in 2019 and showed a statistically significant reduction of 1.9% in total energy consumption as well as a statistically significant reduction in the residential contribution to the coincident peak of 7.5%. Subsequent wholesale power increases have been less for Fort Collins residents than in the other PRPA cities due to these reductions and the resulting load curve.

The chart below shows the weekday residential TOU rate schedule. Weekends and holidays are considered off-peak.



Prior to the 2015-16 budget cycle rate adjustments were subjectively determined. Beginning with the 2015-16 budget cycle objective financial metrics were established to determine necessary rate adjustments. This change allowed for future rate adjustments to be modeled and to provide clear reasoning as to why a rate adjustment is needed in any given year. There are three financial metrics which drive the need for a rate adjustment.

1. Operating Income – If the combined operating income for the previous two years was negative, a rate increase is made in the next year sufficient to generate enough operating income in the coming two years to offset those losses. The two-year period allows for some weather or economic variability and is consistent with the City's biennial budget cycle.

2. Debt Coverage Ratio – A debt coverage ratio is recommended by the bond rating agencies to support the current enterprise fund bond ratings. This debt coverage ratio is well above the minimum specified in the bond covenants which could trigger bondholders to request a rate increase on their behalf. If the debt coverage ratio is forecasted to drop below 2.0 in the coming year, a rate increase sufficient to raise the debt coverage ratio to 2.1 is assumed in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

3. Available Reserves – If an enterprise's reserve balance is anticipated to drop below the minimum required reserve level in the next year, a rate increase sufficient to maintain the minimum required reserve is made at the beginning of that year in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

The sum of these three rate adjustments is the needed rate adjustment for the following year. In addition to these three objective criteria for rate adjustments, a 5.0% ceiling is imposed in any given year, consistent with the stated objective of "gradual, modest rate adjustments", which may require smoothing such an increase over the two years of a budget cycle to not have a large rate increase one year and then no rate adjustment the next. These same objective criteria are applied to the other 3 utility's financial models.

It needs to be recognized that actual revenues realized from a rate increase are not typically the full amount of the rate increase. That is to say, there is some elasticity to rate adjustments. Additionally, most utility services are weather dependent, so it is possible to occasionally realize more revenue than anticipated in rate design for a given year although this weather variability is expected to balance out over an extended period.

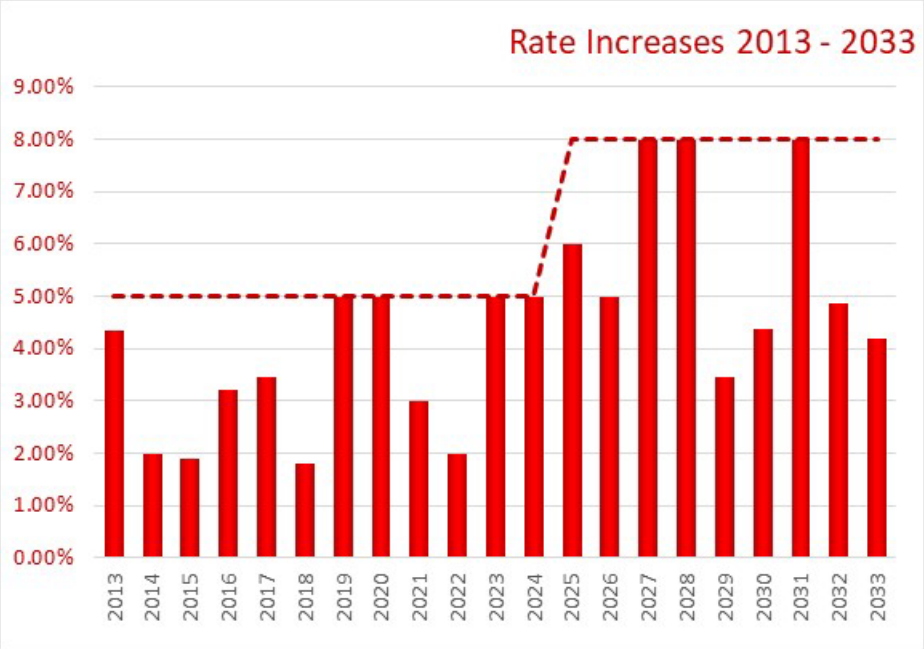
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Light & Power | Adopted Rate Increase | 5.0% | 2.0% | 3.0% | 5.0% | 5.0% |
| | Realized Revenue Increase | 2.5% | 2.6% | 5.0% | 3.0% | 2.1% |

For this enterprise fund there is also a need to adjust rates to offset any wholesale purchased power rate increases from PRPA. As purchased power expenses are approximately 70% of annual operating expenses, 70% of any wholesale rate increase needs to be made to retail rates to offset this cost increase. This is included within this rate analysis.

The results of the financial modeling which applies the same objective strategies for raising rates and issuing debt as the other utilities are presented below along with the forecasted debt issuances in 2026 and 2029. This ten-year rate forecast is shared with the community to be open and accountable to the ratepayers.

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

Higher rate adjustments will be necessary for at least some years in the coming decade of approximately 7-8% to offset anticipated PRPA wholesale rate increases toward their 100% renewable by 2030 goal. Additional rate increases will be necessary for distribution investments as well to fund the anticipated capital needs of the distribution system. The combination of these two rate pressures will require either limiting capital investment on the distribution system which will likely decrease system reliability and performance or exceedance of the 5.0% rate ceiling. The graph below assumes that it will be necessary to increase rates as much as 8.0% in some future years.




In 2019 a pilot rate was implemented for low-income customers called the Income Qualified Assistance Program (IQAP). This program is intended to reduce the utility burden for these customers to the same portion of household income as a customer with the median area household income by providing a discount of approximately 25% on their electric, water and wastewater monthly charges. In 2021, IQAP customers' average monthly electric bill was $57.02 compared to other residential customers who paid $76.26 on average. This pilot program was adopted as a new rate for qualified customers in 2022.

## Financial Risk Assessment

Below is a list of identified financial risks for this utility. Each risk is preliminarily categorized as high, medium or low according to both the likelihood and consequence of it being realized. Further assessment of these financial risks, particularly with operational input, may change the likelihood and consequence of each and may identify other significant financial risks. This additional assessment should be done as part of the biennial budget cycle. These financial risks are associated with operational management and anticipated capital needs and highlight the need for close collaboration between the financial and operational departments within Utilities as well as the importance of having a refined, prioritized 10-year capital improvement plan rather than an a more exhaustive list of potential capital needs that may or may not be necessary.

| | | Risk Realization | | | |
|---|---|---|---|---|---|
| Risk ID | Risk | Likelihood | Consequence | Mitigation Needed? | Risk Description |
| LPFR1 | CIP Volatility | High | High | Yes | Long-term financial planning requires planning for uncertainties with more uncertainty requiring more conservative planning to achieve expected financial metrics; significant volatility on long-term capital plans increases uncertainty in the actual capital investment needs leading to inefficient use of capital, higher rate increases and less financial agility to meet operational needs |
| LPFR2 | Undefined Service Level Metrics / Targets / Weights | Medium | High | Yes | The impact of high CIP volatility can be lessened by optimizing such investments to meet expected levels of service through an objective, quantitative prioritization methodology based on predefined service level metrics with established targets and relative weights; not having these tools to optimize capital investment poses a significant financial risk to the utility |
| LPFR3 | Operating Expense Increases | Medium | High | Yes | OpEx assumed to not exceed 3.0%; exceedance would limit funds for capital needs and drive further rate increases |
| LPFR4 | PRPA 100 % by 2030 costs | Medium | Medium | Beyond Control | Wholesale increases are expected annually of 2-3% through 2030; higher increases will limit room for increases to meet distribution needs and contribute to rate fatigue |
| LPFR5 | Retail Rate Fatigue | Medium | Medium | Beyond Control | Annual rate adjustments will be necessary to meet both wholesale and distribution needs; rate fatigue would require a financial reassessment of ability to meet operational targets |
| LPFR6 | Higher Debt Service Costs | Medium | Medium | Beyond Control | As bond coupon rates increase, debt capacity decreases for a given level of net pledged revenues |
| LPFR7 | Unidentified Capital Projects | Medium | Low | No | As service level targets are established and asset management plans developed and Beneficial Electrification is implemented unanticipated capital needs may require more capital investment than currently planned |
| LPFR8 | Municipal Broadband Financial Support | Low | Medium | No | Any additional financial support from electric ratepayers will limit capital for L&P needs |
| LPFR9 | System Reliability | Low | Low | No | A real or perceived decline in service reliability could accelerate system renewal investments and lead to less efficient use of capital |
| LPFR10 | Resource Constraints on Capital Projects | High | Medium | Yes | Internal and external labor and material constraints could delay execution of funded capital projects |

## Appendix A: Capital Improvement Plan

Below is a list of identified capital projects expected to be completed over the next decade. These projects are grouped into the following categories:

**System Additions** – infrastructure that will be necessary to serve new growth areas

**Substation Improvements** – system renewal costs for substation infrastructure as well as an additional substation to serve the northeast portion of the community

**Transformers, Cables and Duct Banks** – system renewal costs for existing distribution transformers, cables and duct banks

**Annexations** – anticipated annexation areas will require acquisition of existing infrastructure from neighboring utility providers as well as upgrading that infrastructure to the City's standards

**Technology and Other Improvements** – improvements to existing buildings used to house staff and warehouse stock as well as capital projects associated with updating / adopting new technologies

| Capital Category | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | TOTALS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| System Additions | $5,725,243 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $62,725,243 |
| Substations | $3,523,000 | $23,222,900 | $6,637,841 | $1,747,254 | $1,815,572 | $1,659,639 | $1,870,013 | $1,057,052 | $1,081,414 | $1,136,056 | $1,060,988 | $44,811,731 |
| Transformers, Cables & Duct Banks | $17,192,509 | $38,907,935 | $17,621,816 | $12,698,215 | $12,671,368 | $12,824,445 | $11,833,821 | $9,974,287 | $10,941,906 | $9,693,906 | $10,148,602 | $164,508,811 |
| Annexations | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Technology and Other | $9,227,441 | $12,057,113 | $10,508,139 | $5,028,947 | $5,900,262 | $4,703,693 | $5,806,246 | $3,158,926 | $4,161,740 | $3,164,695 | $2,167,798 | $65,885,000 |
| ASSET RENEWAL (2023 Debt Issuance) | $3,308,754 | $23,670,129 | $6,049,522 | | | | | | | | | $33,028,406 |
| Totals | $38,976,947 | $103,558,078 | $46,517,318 | $25,174,417 | $26,087,202 | $24,887,777 | $25,210,081 | $19,890,265 | $21,885,060 | $19,694,658 | $19,077,388 | $370,959,191 |

| | FY2223 | FY2526 | | FY2728 | | FY2930 | | FY3132 | | FY3334 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Row Labels | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | |
| **1680 Subdivision Construction Total (System Additions)** | | | | | | | | | | | | |
| 16800000 System Addition (Subdivisions and Others) | $5,725,243 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $5,700,000 | $62,725,243 |
| **1680 System Additions (Subdivision Construction) Total (System Additions)** | **$ 5,725,243** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 5,700,000** | **$ 62,725,243** |
| **501001 Substations Total (Substations)** | | | | | | | | | | | | |
| 501001A001 Battery Banks Repair/Replacement | $20,000 | | | $60,000 | | | $60,000 | | | $60,000 | | $200,000 |
| 501001A002 Battery Chargers Repair/Repalcement | $40,000 | $40,000 | $40,000 | | | $40,000 | | | $40,000 | | | $200,000 |
| 501001A003 LTC (Load Tap Changer) Repair/Maintainence | $105,000 | | $105,000 | | | | $50,000 | | $50,000 | | $50,000 | $360,000 |
| 501001A005 HVAC Units Repair/Replacement | $44,000 | $44,000 | $44,000 | | $25,000 | | $25,000 | | $25,000 | | $25,000 | $232,000 |
| 501001A006 Transformer Radiator Repair/Replacements | $78,000 | $103,000 | $103,000 | | | $100,000 | | $100,000 | | $100,000 | | $584,000 |
| 501001A011 Transformer Repair/Refurbishing | $250,000 | $257,500 | $265,225 | | $100,000 | | $100,000 | | $100,000 | | $100,000 | $1,172,725 |
| 501001A017 Substation Misc Capital | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $1,100,000 |
| 501001A018 Substation Basalite Walls - NEW | | | $500,000 | $550,000 | $605,000 | $665,500 | $732,050 | | | | | $3,052,550 |
| 501001A020 Equipment For CVR (Conservation Voltage Reduction) | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $75,000 | $825,000 |
| 501001A013 Transformer Oil Filtration | $140,000 | $144,200 | $148,526 | $152,982 | $157,571 | $162,298 | $167,167 | $172,182 | $177,348 | $182,668 | $188,148 | $1,793,091 |
| 501001A014 Substation Security & Surveillance | $250,000 | $250,000 | $300,000 | $15,000 | $15,450 | $15,914 | $16,391 | $16,883 | $17,389 | $17,911 | $18,448 | $933,385 |
| 501001A010 Wildlife Mitigation | $100,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $600,000 |
| 501001A012 Preventative Maintenance | $100,000 | $103,000 | $106,090 | $109,273 | $112,551 | $115,927 | $119,405 | $122,987 | $126,677 | $130,477 | $134,392 | $1,280,780 |
| 501001A009 Substation Modernization | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $2,750,000 |
| 501001A009 Relay Upgrades/Replacements | $189,000 | $350,000 | $350,000 | | | | | $100,000 | | $100,000 | | $1,089,000 |
| 501001A013 Substation Maintence Equipment | $250,000 | $300,000 | $300,000 | $300,000 | $200,000 | | | | | | | $1,350,000 |
| 501001A016 Power Quality Systems | $15,000 | $30,000 | $30,000 | $15,000 | $15,000 | $15,000 | $15,000 | | | | | $135,000 |
| 501001A019 Substation Basalite Walls - Harmony Repair | $1,407,000 | $1,407,000 | | | | | | | | | | $2,814,000 |
| 501001A012 Capacitor Banks - New/Replacements | $40,000 | | $40,000 | | $40,000 | | $40,000 | | | | | $160,000 |
| 501001A004 Oil Containment Walls (12 transformers) | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $770,000 |
| 501001A022 New Northeast Substation | | $6,649,200 | $3,761,000 | | | | | | | | | $10,410,200 |
| 501001A023 New Northeast Substation Land Acquisition | | $1,500,000 | | | | | | | | | | $1,500,000 |
| 501001A024 PRPA Drake Upgrade/Move Request | | $11,500,000 | | | | | | | | | | $11,500,000 |
| **501001 Substations Total (Substations)** | **$ 3,523,000** | **$ 23,222,900** | **$ 6,637,841** | **$ 1,747,254** | **$ 1,815,572** | **$ 1,659,639** | **$ 1,870,013** | **$ 1,057,052** | **$ 1,081,414** | **$ 1,136,056** | **$ 1,060,988** | **$ 43,750,743** |
| **ASSET RENEWAL (2023 Debt Issuance)** | **$1,407,000** | **$21,056,200** | **$3,761,000** | | | | | | | | | |
| **501005 Feeders Total (Transformers, Cables & Duct Banks)** | | | | | | | | | | | | |
| 501005D004 Install circuit 936 to unload circuits 804, 834, and 906 | | | | | | | | | | | | $0 |
| 501005D011 Install circuit 324 to unload circuit 308 (Active in 2023) | $1,040,000 | | | | | | | | | | | $1,040,000 |
| 501005D012 Install circuit 302 to serve Mulberry Annexation | | | | | | $2,160,000 | | | | | | $2,160,000 |
| 501005D055 Circuit 602 to serve NE Developments - Ph3 Mt Vista | | | | | | $1,300,000 | | | | | | $1,300,000 |
| 501005D060 Install circuit 624 to serve Developments in NE Ft. Collins | | | | | | | | | $1,080,000 | | | $1,080,000 |
| 501005D076 Install circuit 706 to unload circuits 704 and 738 (see also 501005D079) (Transfort chargers) | | | | | | | $500,000 | | | | | $500,000 |
| 501005D078 Circuit 628 to serve NE developments - Ph1 Mt Vista (Montava) | | $1,300,000 | | | | | | | | | | $1,300,000 |
| 501005D079 Upgrade and Extend 722 to unload circuits 704 and 738 (See 501005D076) (Transfort chargers) | | $1,292,000 | | | | | | | | | | $1,292,000 |
| 501005D080 Extend East Vine Circuit 622 - Railroad to I25 | | | | $395,000 | | | | | | | | $395,000 |
| 501005D081 Circuit 324 Carriage pky ph1 - Prospect to fox grove | $220,000 | | | | | | | | | | | $220,000 |
| 501005D082 New Circuit 338 to serve Mulberry developments | | | $1,080,000 | | | | | | | | | $1,080,000 |
| 501005D083 Circuit - NE Sub Ckt 1 | | | | | $528,000 | | | | | | | $528,000 |
| 501005D084 Circuit - NE Sub Ckt 2 | | | | | $648,000 | | | | | | | $648,000 |
| 501005D085 Circuit - NE Sub Ckt 3 | | | | | | | $628,800 | | | | | $628,800 |
| 501005D086 Circuit - NE Sub Ckt 4 | | | | | | $744,000 | | | | | | $744,000 |
| 501005D087 Circuit - NE Sub Ckt 5 | | | | | | | | $744,000 | | | | $744,000 |
| 501005D088 Circuit - NE Sub Ckt 6 | | | | | | | | | $1,044,000 | | | $1,044,000 |
| 501005D089 Circuit - NE Sub Ckt 7 | | | | | | | | | | $888,000 | | $888,000 |
| 501005D090 Circuit - NE Sub Ckt 8 | | | | | | | | | | | $1,044,000 | $1,044,000 |
| 501005D091 Circuit - Timberline 338 extension | | | | | | | | $612,000 | | | | $612,000 |
| 501005D092 Balance Ckt 822 | | $528,000 | | | | | | | | | | $528,000 |
| 501005D093 Extend Circuit 638 to unload circuit 608 | $696,000 | | | | | | | | | | | $696,000 |
| 501005D094 Circuit Tie Harmony 536 to 526 | | | | $3,370,000 | | | | | | | | $3,370,000 |
| 501005D095 New Ckt 314 from Timberline to unload Ckt 332 - | | $226,000 | | | | | | | | | | |
| 501005D096 New Ckt 538 from Harmony to unload 548 | | | | | | | | | $300,000 | | | |
| 501005D097 New Circuit 566 from Harmony to unload Harmony 534 | | | | | $328,000 | | | | | | | $328,000 |
| 501005D098Extend Linden circuit 722 to 700 Wood St for second ATO circuit | $270,000 | | | | | | | | | | | |
| 501005D099 New Circuit 806 to unload 822 (New Development) | | | | $879,000 | | | | | | | | |
| **501005 Feeders Total (Transformers, Cables & Duct Banks)** | **$2,226,000** | **$3,346,000** | **$1,080,000** | **$4,644,000** | **$1,504,000** | **$4,204,000** | **$1,128,800** | **$1,356,000** | **$2,424,000** | **$888,000** | **$1,044,000** | **$22,169,800** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | **$528,000** | | | | | | | | | | |

| Capital Category | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | TOTALS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **501008 Duct Banks Total (Transformers, Cables & Duct Banks)** | | | | | | | | | | | | |
| 501008D081 Duct Bank to serve NE FC Devel Ph 1 (Montava) | | | $1,102,200 | | | | | | | | | $1,102,200 |
| 501008D090 Duct Bank on Carriage Pkwy Phase 2 - Fox Grove to Forelock Dr (1X2 w/ 20% Contingency) (501004D005 Clydesdale Park Annexation) | | | | | | | | | | | | $0 |
| 501008D091 Duct Bank on Carriage Pkwy Ph 3- Forelock Dr to Mulberry (1X2 w/ 20% Contingency) | | | | | $140,000 | | | | | | | $140,000 |
| 501008D093 Duct Bank on Mulberry -Timberline to Carriage Pkwy (2X4 w/ 20% Contingency) | | | | | $2,239,200 | | | | | | | $2,239,200 |
| 501008D094 Overland Trail Duct Bank Drake to Prospect (1X2 w/ 20% Contingency) | | | | | | $570,000 | | | | | | $570,000 |
| 501008D095 Duct Bank Extend East Vine Circuit 622 - Railroad to I25 | | | | $825,000 | | | | | | | | $825,000 |
| 501008D096 Duct Bank on Carriage Pkwy Phase 1 - Prospect to Fox Grove (501004D005 Clydesdale Park Annexation) | | | | | | | | | | | | $0 |
| 501008D097 Duct Bank - NE circuit 1 & 2 | | | | | $352,800 | | | | | | | $352,800 |
| 501008D098 Duct Bank - NE circuit 3 | | | | | | | $2,376,000 | | | | | $2,376,000 |
| 501008D099 Duct - Timberline 338 Extension (Bloom Ciruit) | | $1,368,000 | | | | | | | | | | $1,368,000 |
| **501008 Duct Banks Total (Transformers, Cables & Duct Banks)** | **$0** | **$1,368,000** | **$1,102,200** | **$825,000** | **$2,732,000** | **$570,000** | **$2,376,000** | **$0** | **$0** | **$0** | **$0** | **$8,973,200** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501012 System Cable Replacements & Repairs Total (Transformers, Cables & Duct Banks)** | | | **8 1/0 projects** | **8 1/0 projects** | **8 1/0 projects** | **4 1/0 projects** | **4 1/0 projects** | **4 1/0 projects** | **2 1/0 projects** | **2 1/0 projects** | **2 1/0 projects** | |
| 501012C009 CAPITAL - Replacement Area 11 - Scotch Pines | $125,162 | | | | | | | | | | | $125,162 |
| 501012C012 CAPITAL - Replacement Area 12 - Woodlands PUD | $106,874 | | | | | | | | | | | $106,874 |
| 501012C014 CAPITAL - Replacement Area 14 - Village West 9th - Rossborough | $120,238 | | | | | | | | | | | $120,238 |
| 501012C016 CAPITAL - Replacement Area 16 - Parkwood East | $164,118 | | | | | | | | | | | $164,118 |
| 501012C017 CAPITAL - Replacement Area 17 - Trail West PUD | $242,485 | | | | | | | | | | | $242,485 |
| 501012C018 CAPITAL - Replacement Area 18 - Edora Acres | $136,152 | | | | | | | | | | | $136,152 |
| 501012C019 CAPITAL - Replacement Area 19 - Evergreen Park | 0 | $90,106 | | | | | | | | | | $90,106 |
| 501012C020 CAPITAL - Replacement Area 20 - The Ridge PUD | $140,972 | $0 | | | | | | | | | | $140,972 |
| 501012C021 CAPITAL - Replacement Area 21 - West Azalea | | $42,158 | | | | | | | | | | $42,158 |
| 501012C023 CAPITAL - Replacement Area 23 - Village West 3rd | | $111,397 | | | | | | | | | | $111,397 |
| 501012C024 CAPITAL - Replacement Area 24 - Wagon Wheel | | $88,936 | | | | | | | | | | $88,936 |
| 501012C025 CAPITAL - Replacement Area 25 - Brown Farm 4th | | $75,780 | | | | | | | | | | $75,780 |
| 501012F020 Cable Replacements - Ongoing | | $700,000 | $1,131,071 | $1,198,935 | $1,270,871 | $654,678 | $693,959 | $735,596 | $378,936 | $401,672 | $425,772 | $7,591,490 |
| 501012F021 Feeder Cable Replacements - Ongoing | $400,000 | $412,000 | $538,000 | $570,280 | $604,497 | $640,767 | $679,213 | $719,965 | $763,163 | $808,953 | $857,490 | $6,994,328 |
| Cable Repairs (Splices) | | $67,500 | $67,500 | | | | | | | | | $135,000 |
| **501012 System Cable Replacements Total (Transformers, Cables & Duct Banks)** | **$1,436,001** | **$1,587,876** | **$1,736,571** | **$1,769,215** | **$1,875,368** | **$1,295,445** | **$1,373,171** | **$1,455,562** | **$1,142,099** | **$1,210,625** | **$1,283,263** | **$16,165,196** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501014 Transformers** | | | | | | | | | | | | |
| 501014F022 Distribution Transformer Purchases (Ongoing) | $8,320,000 | $6,850,000 | $5,365,000 | $5,400,000 | $6,500,000 | $6,695,000 | $6,895,850 | $7,102,726 | $7,315,807 | $7,535,281 | $7,761,340 | $75,741,004 |
| 501014F023 Distribution Transformer Replacements (307 1Ph) | $1,505,532 | $1,656,085 | $1,821,694 | | | | | | | | | $4,983,311 |
| 501014F024 Distribution Transformer Replacements (34 3Ph) | $336,222 | $369,844 | $406,829 | | | | | | | | | $1,112,895 |
| 501014F024 Distribution Voltage Regultaors | $60,000 | $60,000 | $60,000 | 60000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $660,000 |
| **501014 Transformers Total (Transformers, Cables & Duct Banks)** | **$10,221,754** | **$8,935,929** | **$7,653,522** | **$5,460,000** | **$6,560,000** | **$6,755,000** | **$6,955,850** | **$7,162,726** | **$7,375,807** | **$7,595,281** | **$7,821,340** | **$82,497,210** |
| **ASSET RENEWAL (2023 Debt Issuance)** | **$1,901,754** | **$2,085,929** | **$2,288,522** | | | | | | | | | |
| | | | | | | | | | | | | |
| **501004 Annexations Total (Annexations)** | | | | | | | | | | | | |
| 501004C001 Mail Creek Crossing 2nd Filing (2029) | | | | | | $380,937 | | | | | | $380,937 |
| 501004C002 Strauss Cabin Enclave (2028) | | | | | $144,387 | | | | | | | $144,387 |
| 501004C003 Fox Hills Annexation (2030) | | | | | | | $131,654 | | | | | $131,654 |
| 501004C004 Blehm_(REA) Annexation (2027) | | | | $386,804 | | | | | | | | $386,804 |
| 501004C004 Blehm_(Xcel) Annexation (2027) | | | | $39,150 | | | | | | | | $39,150 |
| 501004D005 Clydesdale Park First & Second Annexations (2031) | | | | | | | | $2,148,251 | | | | $2,148,251 |
| 501004D007 Riverwalk (2032) | | | | | | | | | $579,694 | | | $579,694 |
| 501004D008 Arapahoe (2032) | | | | | | | | | $347,021 | | | $347,021 |
| 501004D006 Southwest Annexation - Phase 4 (2027) | | $3,690,000 | | | | | | | | | | $3,690,000 |
| 501004D001 Miller Enclave (2028) | | | | | $370,688 | | | | | | | $370,688 |
| 501004D002 Mulberry Enclave (2028, 2030-2037) | | | | | $433,585 | | $8,737,275 | $5,784,480 | $5,784,480 | $5,784,480 | $10,105,878 | $36,630,178 |
| **501004 Annexations Total (Annexations)** | **$0** | **$3,690,000** | **$0** | **$425,953** | **$948,661** | **$380,937** | **$8,868,929** | **$7,932,731** | **$6,711,195** | **$5,784,480** | **$10,105,878** | **$44,848,764** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **1940 Minor Capital - Vehicles & Equipment Total (Technology and Other)** | | | | | | | | | | | | |
| 19400000A04 Vehicles and Equipment- Clear backlog from supply chain issues | $1,000,000 | | | | | | | | | | | $1,000,000 |
| 19400000 Minor Capital - Vehicles & Equipment | $400,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $3,900,000 |
| 19400000A05 Technician & Crew Vehicles | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $450,000 | $4,950,000 |
| 19400000A03 Existing Vehciles Upgrades | $25,000 | $25,000 | 25000 | $25,000 | $25,000 | $25,000 | $25,000 | $25,000 | $25,000 | $25,000 | $25,000 | $275,000 |
| 19400000A05 Tools and Equipment Uupgrades/Replacements | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $550,000 |
| 19400000A06 Underground Boring System | $500,000 | | | | | | | | | | | $500,000 |
| 19400000A07 Underground Pulling System | $450,000 | | | | | | | | | | | $450,000 |
| 19400000A09 Computer Hardware/Software- Ipads for all crew members, AVL software needs, PCs, OT EE needs | $50,000 | $50,000 | | | | | | | | | | $100,000 |
| **1940 Minor Capital - Vehicles & Equipment Total (Technology and Other)** | **$1,925,000** | **$925,000** | **$875,000** | **$875,000** | **$875,000** | **$875,000** | **$875,000** | **$875,000** | **$875,000** | **$875,000** | **$875,000** | **$1,875,000** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |

| Capital Category | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | TOTALS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **501002 Service Center Total (Technology and Other)** | | | | | | | | | | | | |
| 501002B003 Cable Handling Facility for Cut-To-Length Program | | | $1,575,000 | | | | | | | | | $1,575,000 |
| 501002B004 700 Wood Street Backup Power and Dual Feed ATO | | $519,000 | | | | | | | | | | $519,000 |
| 501002B005 Disaster Recovery Site for SCO | $400,000 | | | | | | | | | | | $0 |
| 501002B006 Warehouse Storage Yard Covered Structure | | | | | $199,000 | | | | | | | $199,000 |
| 501002B008 Minor Renovations, Space Planning | $40,000 | $42,000 | $44,100 | $46,305 | $48,620 | $51,051 | $53,604 | $56,284 | $59,098 | $62,053 | $65,156 | $568,271 |
| 501002B008 USC Asphalt Maintenance | | $80,000 | $80,000 | $80,000 | | | | | | | | |
| **501002 Service Center Total (Technology and Other)** | **$440,000** | **$641,000** | **$1,699,100** | **$126,305** | **$247,620** | **$51,051** | **$53,604** | **$56,284** | **$59,098** | **$62,053** | **$65,156** | **$2,861,271** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501009 CMMS–Maintenance Management Total (Technology and Other)** | | | | | | | | | | | | |
| 501009G002 Operational Technology - Maximo | $380,000 | | | | | | | | | | | $380,000 |
| **501009 CMMS–Maintenance Management Total (Technology and Other)** | **$380,000** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$380,000** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501013 Operational Technology Total (Technology and Other)** | | | | | | | | | | | | |
| **501013G001 ADMS / OMS** | $1,000,000 | $1,500,000 | $1,000,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $5,500,000 |
| **501013G003 eSCADA Hardware/Software - Conversion/Maintenance** | $75,000 | $75,000 | $75,000 | | | | | | | | | $225,000 |
| **501013G011 Radio System Upgrades** | $628,970 | $42,642 | $42,642 | $42,642 | $42,642 | $42,642 | $42,642 | $42,642 | $42,642 | $42,642 | $42,642 | $1,055,390 |
| **501013G012 GPS & Underground Facilities Visualization** | | | $127,926 | | | | | | | | | $127,926 |
| **501013G014 L&P/Energy Services Systems Alignment** | $106,605 | $106,605 | $106,605 | | | | | | | | | $319,815 |
| **501013G016 OT, Meter Shop and Substation Commissioning Lab** | $400,000 | $300,000 | $300,000 | | | | | | | | | $1,000,000 |
| **501013G015 Utility Scale Energy Storage** | $150,000 | | $2,000,000 | | $2,000,000 | | $2,000,000 | | $2,000,000 | | | $8,150,000 |
| **501013G015 Utility Scale DER & EV Programs (Study/Pilot/Adopt/Support)** | $500,000 | $500,000 | $1,000,000 | $1,000,000 | | $1,000,000 | | $1,000,000 | | $1,000,000 | | $6,000,000 |
| **501013 Operational Technology Total (Technology and Other)** | **$2,860,575** | **$2,524,247** | **$4,652,173** | **$1,292,642** | **$2,292,642** | **$1,292,642** | **$2,292,642** | **$1,292,642** | **$2,292,642** | **$1,292,642** | **$292,642** | **$22,378,131** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501015 Streetlights Total (Technology and Other)** | | | | | | | | | | | | |
| 501015F023 Streetlight System Replacement | $986,866 | $986,866 | $986,866 | $250,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $3,910,598 |
| 501015G009 LED Streetlight Control and Automation | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $120,000 | $1,320,000 |
| **501015 Streetlights Total (Technology and Other)** | **$1,106,866** | **$1,106,866** | **$1,106,866** | **$370,000** | **$220,000** | **$220,000** | **$220,000** | **$220,000** | **$220,000** | **$220,000** | **$220,000** | **$5,230,598** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501016 Distribution Automation Total (Technology and Other)** | | | | | | | | | | | | |
| 501016G010 Distribution Automation/Monitoring/Sensing/FLISR/Efficiency | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $3,850,000 |
| 501016G011 Dbl Ckt Feeder Monitoring | $60,000 | $60,000 | $60,000 | | | | | | | | | $180,000 |
| **501016 Distribution Automation Total (Technology and Other)** | **$410,000** | **$410,000** | **$410,000** | **$350,000** | **$350,000** | **$350,000** | **$350,000** | **$350,000** | **$350,000** | **$350,000** | **$350,000** | **$4,030,000** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501017 System Relocations Total (Technology and Other)** | | | | | | | | | | | | |
| 501017J001 System Relocations - Road & Intersection Projects | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $2,750,000 |
| | | | | | | | | | | | | |
| **501017 System Relocations Total (Technology and Other)** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$250,000** | **$2,750,000** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501025 Advanced Metering Infrastructure Total (Technology and Other)** | | | | | | | | | | | | |
| 501025G004 AMI Equipment and Tech Upgrade | $650,000 | $650,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 | $1,435,000 |
| 501025G005 AMI Wide Area Network (WAN/Connexion) | $100,000 | $100,000 | | | | | | | | | | $200,000 |
| 501025G006 AMI Backhaul Network Hardware Tech Refresh | $250,000 | | $50,000 | | | | $100,000 | | | | | $400,000 |
| 501025G007 AMI Test Network Expansion | $200,000 | | | | | | | | | | | $200,000 |
| 501025G008 AMI New Technology Testing and Miscellaneous Capital | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $100,000 | $1,100,000 |
| **501025 Advanced Metering Infrastructure Total (Technology and Other)** | **$1,300,000** | **$850,000** | **$165,000** | **$115,000** | **$115,000** | **$115,000** | **$215,000** | **$115,000** | **$115,000** | **$115,000** | **$115,000** | **$3,335,000** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **501026 Demand Respond Technology Upgrade Total (Technology and Other)** | | | | | | | | | | | | |
| 501026G013 Energy Services Peak Partners - DCU3 Refresh | $0 | | | | | | | | | | | $0 |
| 501026G014 Energy Services Peak Partners - GIWH | $355,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | | | | | $6,355,000 |
| 501026G015 Energy Services Peak Partners - EVSE | | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 | | | | | $1,500,000 |
| 501026G016 Energy Services Peak Partners - PRO1 Thermostat Sunset | $200,000 | $100,000 | $100,000 | $100,000 | $100,000 | $150,000 | $150,000 | | | | | $900,000 |
| 501026G017 Energy Services Peak Partners - Inverter Supervision & Control | | | | $300,000 | $200,000 | $150,000 | $150,000 | | | | | $800,000 |
| **501026 Demand Respond Technology Upgrade Total (Technology and Other)** | **$555,000** | **$1,350,000** | **$1,350,000** | **$1,650,000** | **$1,550,000** | **$1,550,000** | **$1,550,000** | **$0** | **$0** | **$0** | **$0** | **$9,555,000** |
| **ASSET RENEWAL (2023 Debt Issuance)** | | | | | | | | | | | | |
| **Grand Total** | **$38,976,947** | **$103,558,078** | **$46,517,318** | **$25,174,417** | **$26,087,202** | **$24,887,777** | **$25,210,081** | **$19,890,265** | **$21,885,060** | **$19,694,658** | **$19,077,388** | **$370,959,191** |

# 2024 10-Year Strategic Financial Plan

## *City of Fort Collins Utilities*

# *Water*

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## Purpose of the Strategic Financial Plans

The strategic financial plans are intended to provide a 10-year plan for the efficient and effective financial management of each utility in a manner that is consistent with the City's values and mission and aligned with the City's biennial Budget Process and Strategic Planning Process. Much of the long-term strategic direction for each utility requires significant capital investment spanning more than one budget cycle and while the magnitude of the required investment may be included in the capital improvement plans, the financial capacity and strategies to meet these challenges is beyond the scope of such plans. Capital improvement projects should be prioritized through an asset management program to ensure alignment with the City's strategic objectives and proper planning to achieve the targeted levels of service for each utility to our community.

Whereas strategic planning sets the operational direction of where the utilities are going in the future, strategic financial planning provides a financial context for this movement. The strategic financial plans ensure the long-term operational and fiscal objectives and level of service targets for each of the utilities are met in a financially sustainable and resilient manner. The strategic financial plans outline the projected financial health, long-term revenues and expenditures, debt position and recommended financial strategies necessary to achieve the operational objectives and targeted levels of service for each of the four utilities over the next 10 years.

There are three main financial strategies with associated metrics that are intended to maintain the financial health of each utility:

1) Generate a modest operating margin annually that is sufficient to fund asset renewal.
2) Maintain a debt coverage ratio adequate to ensure all future debt issued is rated as being investment grade debt.
3) Through long-term planning adjust rates as needed to meet revenue requirements through modest, gradual annual adjustments.

## 2023 Strategic Financial Planning

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

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.
- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

More specific to the Water Enterprise Fund changes that have an impact on the financial modeling for this plan are:

- The Halligan Reservoir cost estimate has increased significantly to just over $300M since the previous plan. In 2021 the cost estimate was $120M. With the Environmental Impact Study being released in late 2023 construction is now anticipated to start as soon as 2025.
- Development has slowed considerably in 2023 resulting in significantly less Plant Investment Fees (PIFs) being received in 2023 than 2022 creating more uncertainty of future PIF revenue projections utilized in this effort.
- While development has slowed, the cost of needed capital investments has increased so much that it is anticipated that the level of annual capital investment will be 3.5 times in the coming decade compared to the last decade.
- The Water Supply Requirement was updated in 2023 to reflect the current cost of water rights and storage using the previous methodology. The fee has not been increased yet as more discussion will be had throughout 2024 on the methodology and the cost for new development.
- Challenges and uncertainty remain in operating expenses that will require rate adjustments in some years over the next decade that significantly exceed the targeted limit of 5.0% annually to meet the strategic financial targets.

With those headwinds, the long-term financial model was updated with the most recent financial data and consideration given to how these challenges could impact the 10-year forecast. The result of the modeling is discussed below beginning with a review of the 2023 fiscal year followed by an analysis of revenues, expenses, operating income, capital investments, debt capacity and rates more monthly services. A financial risk register follows the ten-year rate and debt issuance forecast which is the final output from the model. The 10-year Capital Improvement Plan is included as an appendix to conclude the plan.

To begin the financial planning, some context is appropriate given the amount of capital investment being requested for the coming decade. The Water Enterprise Fund generates $35-40M annually in revenues and spends $20-25M annually on operations before depreciation and another $8-12M on capital investments. The proposed capital improvement plan for the next decade has $438M in proposed investments, or $44M annually. To provide adequate revenues to meet this level of investment means either doubling rates for monthly services and doubling development fees immediately or issuing significant debt and raising rates and fees over the next few years to cover the increased debt service and some capital investment. While this may be possible, it is not recommended for our customers. Additional revenues must be found through state or federal grants and a prioritization of the capital work needs to be done to ensure the most critical capital investments are being made while other investments are deferred beyond the 10-year horizon. The model shows that just making 50-75% of the proposed capital investments will require rate and fee (Water Supply Requirements) increases of 7-10% annually over the next few budget cycles.

## 2023 Financial Overview

Financially, 2023 was very challenging as operating revenues were $1.6M below budget while operating expenses continued to increase. Operating expenses were $2M higher than in 2022 while operating revenues were $3M below 2022 despite a 4% rate increase As the table below shows, two of the three metrics associated with the three main financial strategies from a long-term financial planning

perspective were met in 2023. However, the operating margin, the excess in operating revenues after covering all operating expenses including depreciation, dropped precipitously below the targeted level in 2023 driven by an 8.9% decrease in operating revenues attributed a wet and mild irrigation season.

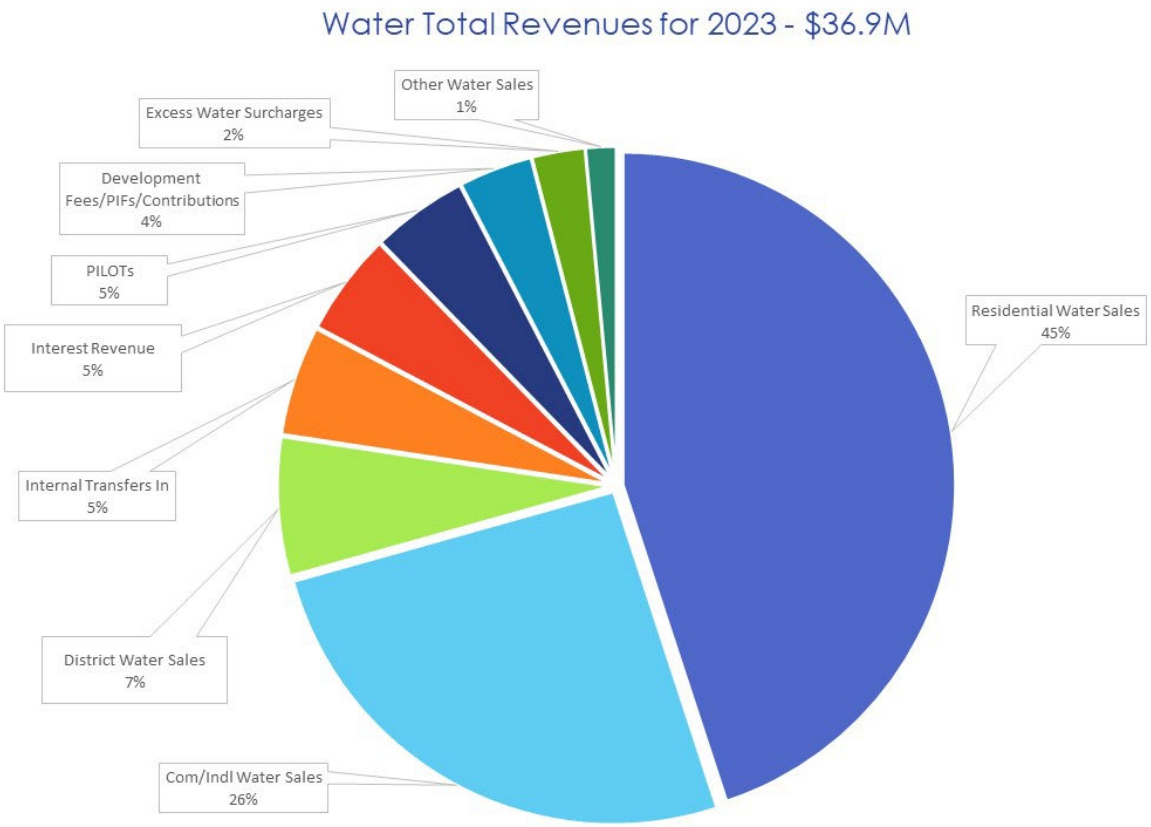
| | Strategic Financial Plan Target | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Operating Margin | > 2.0% | -8.0% | 6.7% | 9.5% | 11.8% | 12.9% |
| Debt Coverage Ratio | > 2.00 | 1.6 | 2.9 | 3.1 | 3.4 | 3.0 |
| Rate Adjustment | < 5.0% | 5.0% | 2.0% | 3.0% | 5.0% | 5.0% |

$$\text{Operating Margin} = \frac{\text{(Operating Revenues from Monthly Charges) - (Operating Expenses including depreciation)}}{\text{(Operating Revenues from Monthly Charges)}}$$

$$\text{Debt Coverage Ratio} = \frac{\text{(Operating Income before depreciation + Development Fees + Earned Interest)}}{\text{(Annual Debt Service Expense)}}$$

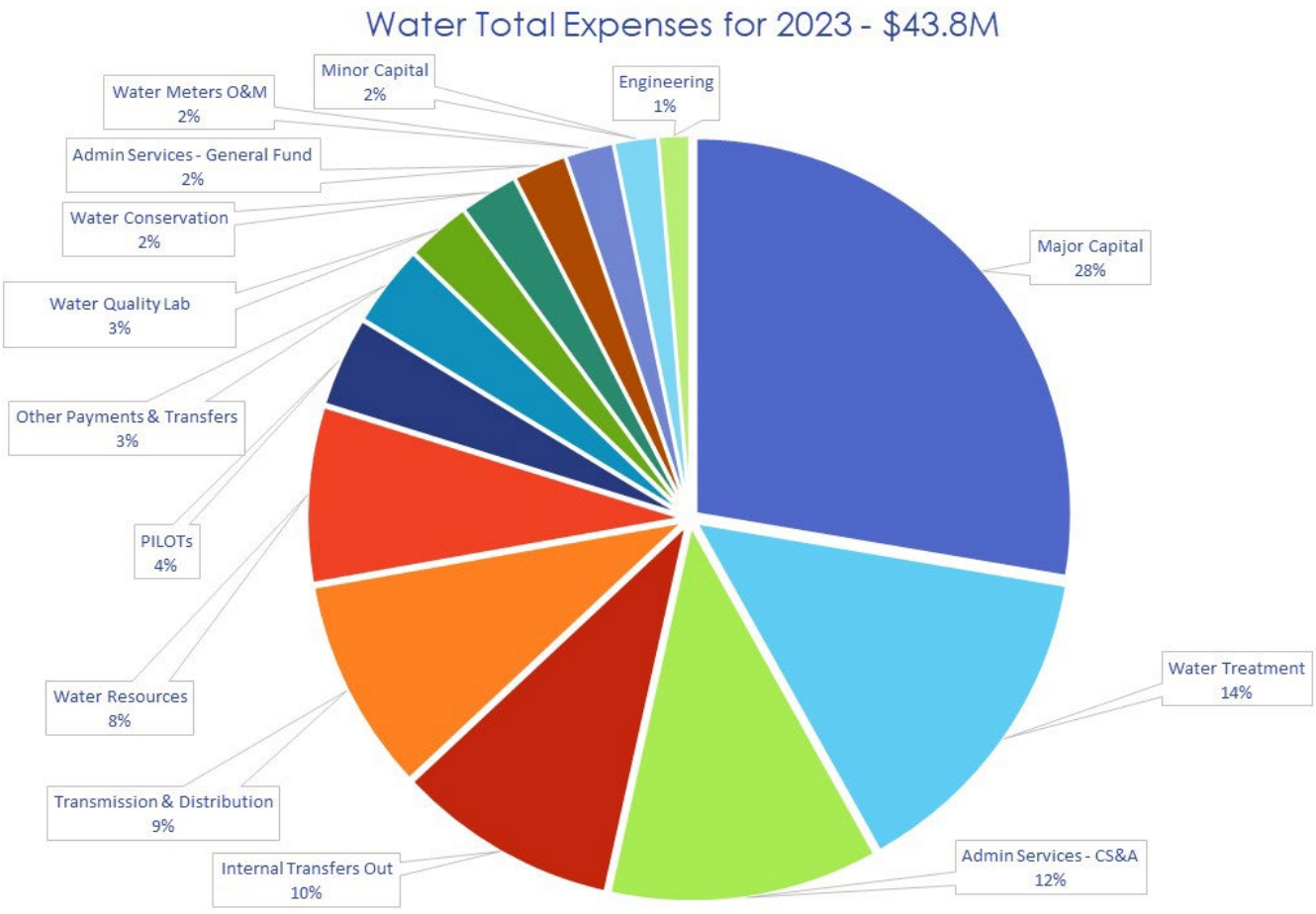
## 2023 Revenues

Total revenues associated with water services declined by 7.2% in 2023 over 2022 primarily driven by operating revenues decreasing by 8.1% as well as less revenue from development fees. This drop in operating revenues occurred despite a 4.0% rate increase implemented at the start of the year. Revenues for residential services remain the largest revenue source at close to 45% of all revenues.



### 2023 Expenses

Operating expenses have increased at an accelerating rate in recent years with 2023 seeing a 6.6% annual growth. Total expenses for water services and capital investment grew 11.1% in 2023 over 2022. This large increase included a one-time transfer of funds for a new customer service and billing system. Major capital comprised 28% of total expenses with operating expenses associated directly with water treatment making up 14% and administrative expenses 12% of total expenses. The pie chart below breaks down all cash expenses in 2023.

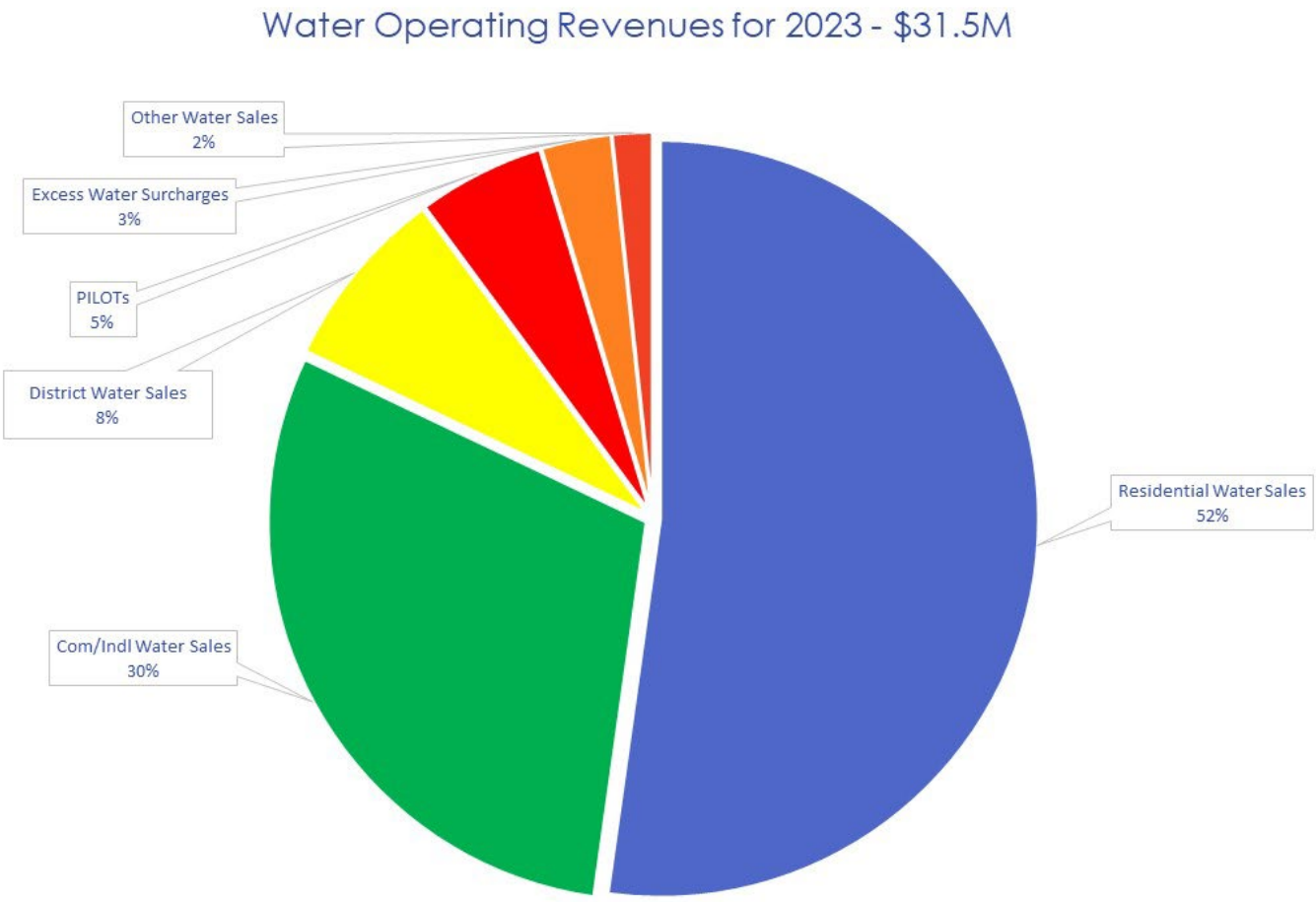



## Long-Term Financial Analysis

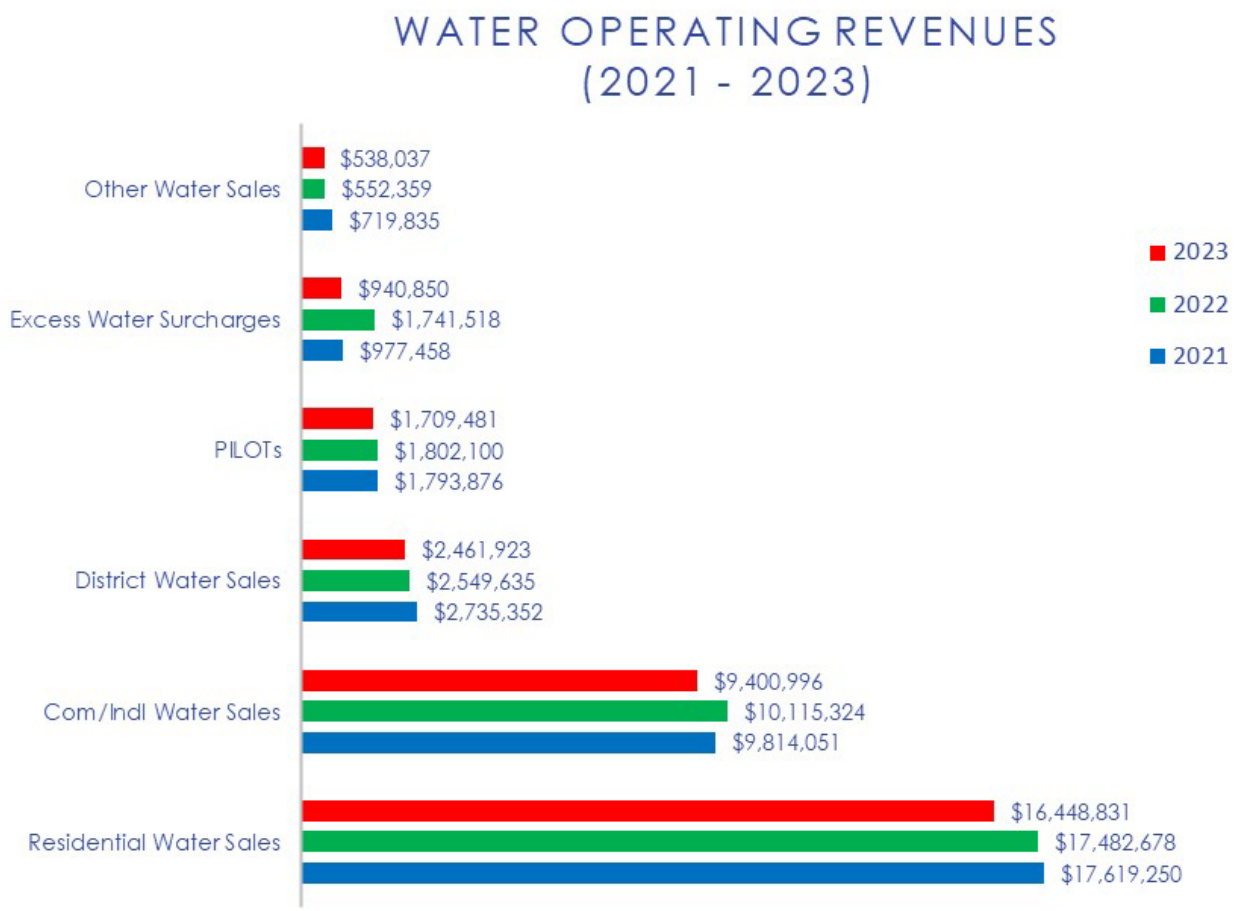
### Revenue Analysis

Water revenues consist of operating revenues and non-operating revenues. Operating revenues are generated from monthly charges for services which includes a 6% payment in lieu of taxes (PILOTs) that is transferred to the General Fund of the City. Non-operating revenues, which comprised 10.1%, or $3.5M, of total revenues, consist of development fees, interest revenue on cash reserves, and other miscellaneous revenues. While 2023 may have been an anomaly, it does draw attention to the sensitivity of operating revenues to climate variability.

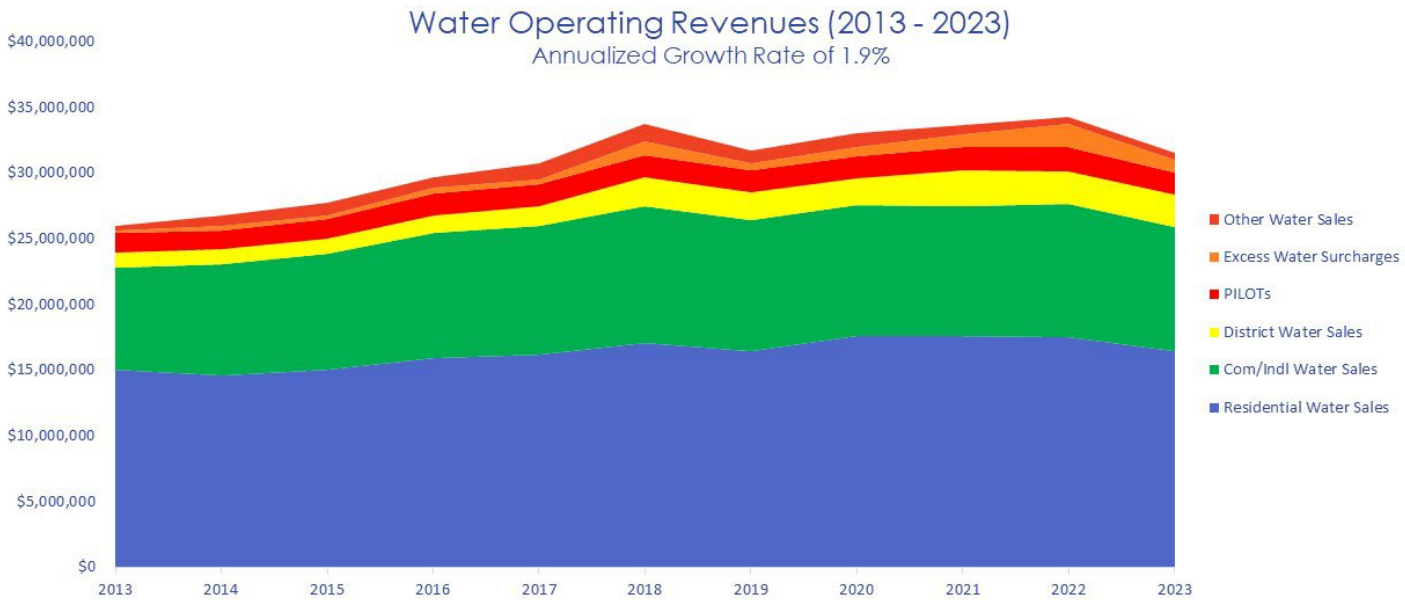
The pie chart here shows how operating revenues were generated in 2023.




Operating revenues declined in every category in 2023 from 2022 as shown by the graph below. Non-operating revenues from development fees were down 26% from what was realized in 2022. Revenues are budgeted conservatively to account for weather variability based on historical demands and other uncertainties. The decrease in water demand due to the wet, mild weather in 2023 exceeded what has been seen in at least 10 years.




From a longer-term perspective, operating revenues for this fund have grown modestly over the previous decade from $25.6M in 2013 to $33.7M in 2022 before declining to $30.9 in 2023. This decline may be partly attributable to water conservation efforts and water efficiency efforts which are both difficult to predict, however, 2023 was a very wet year leading to a significant decrease in irrigation use of potable water. The net effect being that while rates for water service have increased at an annualized rate of 2.0% over the past decade, actual operating revenues for water service have only increased at an annualized rate of 1.92% over that period.




The table below shows the annual revenues by major categories for the past 5 years. (The data here is not adjusted for weather to accurately represent the revenues received.) The non-lapsing revenues over this period have come mostly from development fees although higher interest rates in 2023 resulted in more revenue from interest on cash reserves than development fees. The volatility of development fees is much greater than that of operating revenues requiring caution before relying on development fee revenues for necessary capital improvements or forecasting revenues. Interest revenue from cash reserves will decline going forward as reserves will be drawn down for capital investments, particularly the Halligan Reservoir project.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Customers | 35,769 | 36,002 | 36,050 | 36,201 | 36,300 |
| Annual Rate Adjustment | 0.00% | 0.00% | 2.00% | 0.00% | 4.00% |
| Residential Water Sales | $ 16,436,947 | $ 17,612,518 | $ 17,619,250 | $ 17,482,678 | $ 16,448,831 |
| Com/Indl Water Sales | $ 9,947,200 | $ 9,973,087 | $ 9,814,051 | $ 10,115,324 | $ 9,400,996 |
| District Water Sales | $ 2,124,767 | $ 1,963,548 | $ 2,735,352 | $ 2,549,635 | $ 2,461,923 |
| Excess Water Surcharges | $ 538,241 | $ 653,510 | $ 977,458 | $ 1,741,518 | $ 940,850 |
| PILOTs | $ 1,660,661 | $ 1,727,223 | $ 1,793,876 | $ 1,802,100 | $ 1,709,481 |
| Operating Revenue | $ 30,707,816 | $ 31,929,887 | $ 32,939,987 | $ 33,691,256 | $ 30,962,081 |
| Development Fees/PIFs/Contributio | $ 2,075,905 | $ 1,504,342 | $ 5,177,228 | $ 1,769,053 | $ 1,307,501 |
| Interest Revenue | $ 1,468,422 | $ 1,009,459 | $ 568,170 | $ 1,122,897 | $ 1,826,360 |
| Other Misc | $ 476,863 | $ 505,411 | $ 651,832 | $ 531,451 | $ 334,211 |
| Non-Operating Revenue | $ 4,021,190 | $ 3,019,212 | $ 6,397,231 | $ 3,423,401 | $ 3,468,071 |
| Total Revenues | $ 34,735,460 | $ 35,522,129 | $ 39,346,314 | $ 37,114,656 | $ 34,430,152 |

Looking at revenues on an annual percent change basis shows how significant the revenue decrease was in 2023 as total revenues were less than any of the previous 9 years. Again, the only bright spot being interest revenue due to the amount of cash being held in reserve for future capital need.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Customers | 0.85% | 0.37% | 0.28% | 0.27% |
| Annual Rate Adjustment | 2.00% | 1.20% | 2.00% | 4.00% |
| Residential Water Sales | 0.88% | -0.73% | -2.25% | -5.91% |
| Com/Indl Water Sales | 1.93% | -2.09% | -1.95% | -7.06% |
| District Water Sales | 8.00% | 2.91% | 7.83% | -3.44% |
| Excess Water Surcharges | 17.54% | -0.95% | 12.92% | -45.98% |
| PILOTs | 1.73% | -0.33% | -0.34% | -5.14% |
| Operating Revenue | 1.92% | -0.88% | -1.02% | -8.10% |
| Development Fees/PIFs/Contributio | -12.72% | -16.70% | -4.57% | -26.09% |
| Interest Revenue | 10.65% | 9.17% | 21.85% | 62.65% |
| Other Misc | -1.01% | -36.14% | -12.88% | -37.11% |
| Non-Operating Revenue | -5.54% | -14.49% | 4.73% | 1.30% |
| Total Revenues | 0.58% | -2.94% | -1.04% | -7.23% |

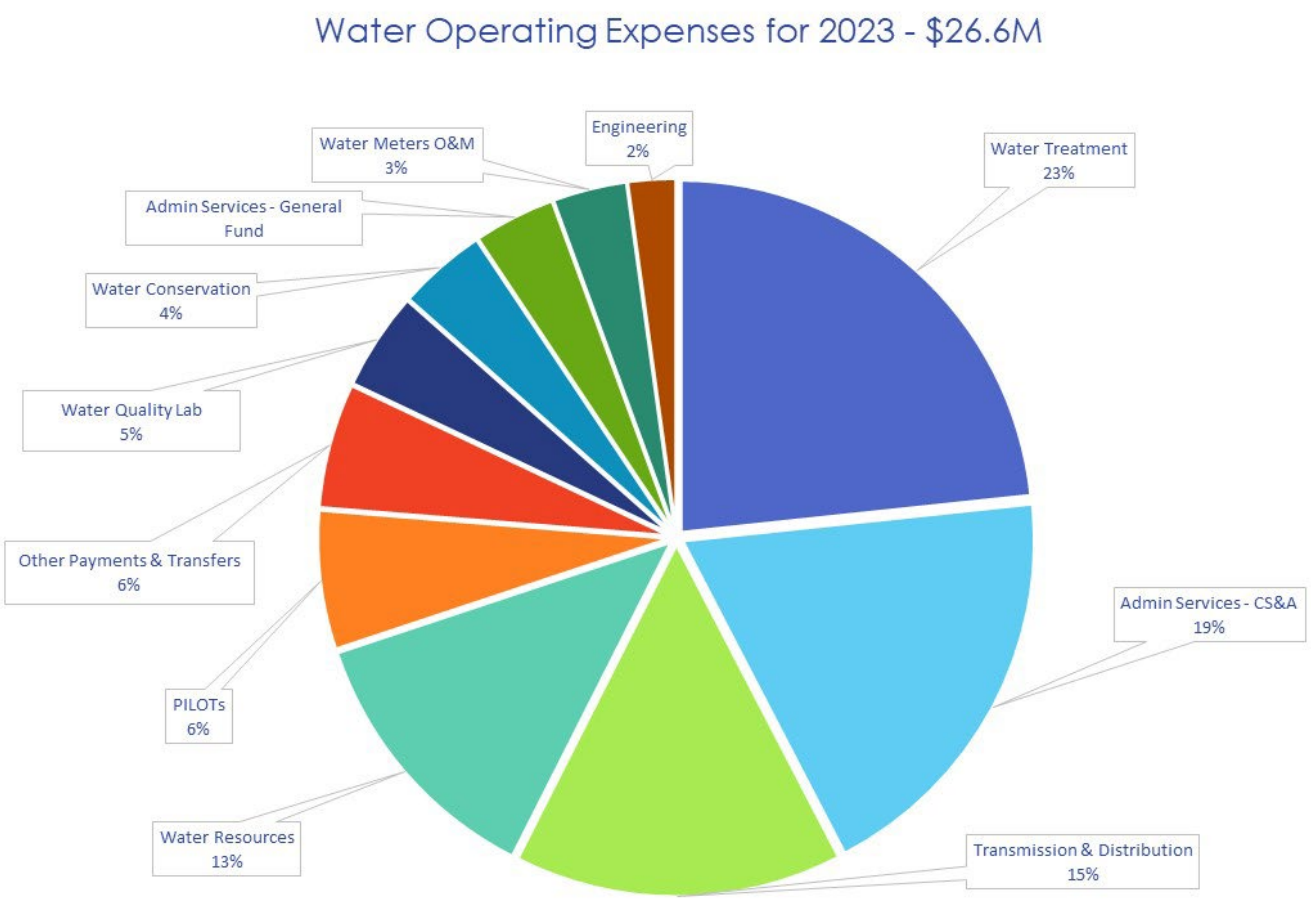
Taking all this historical trending and perspective into account, the stochastic financial model considers the next ten-year horizon. Looking out over the next decade, revenues will need to increase significantly to service anticipated debt that will need to be issued to complete even 50% of the planned capital investments. The graph below shows a forecasted annual growth of 7.9% in future operating revenue (solid green line) which greatly exceeds the 1.92% annualized growth over the past decade. The green area shows the range of revenues considered in the stochastic analysis for the long-term financial model.


Non-operating revenues are expected to grow considerably from the range seen over the past decade through adjustments to the water supply requirement and plant investment fees, both of which are assumed to grow at an annualized rate of 10-25%. Any unanticipated grant revenue would positively impact the financial health of the utility and as such is not modelled here. Non-operating revenues are expected to remain a relatively insignificant contributor to total revenues at less than 10% of total revenues in the coming decade.

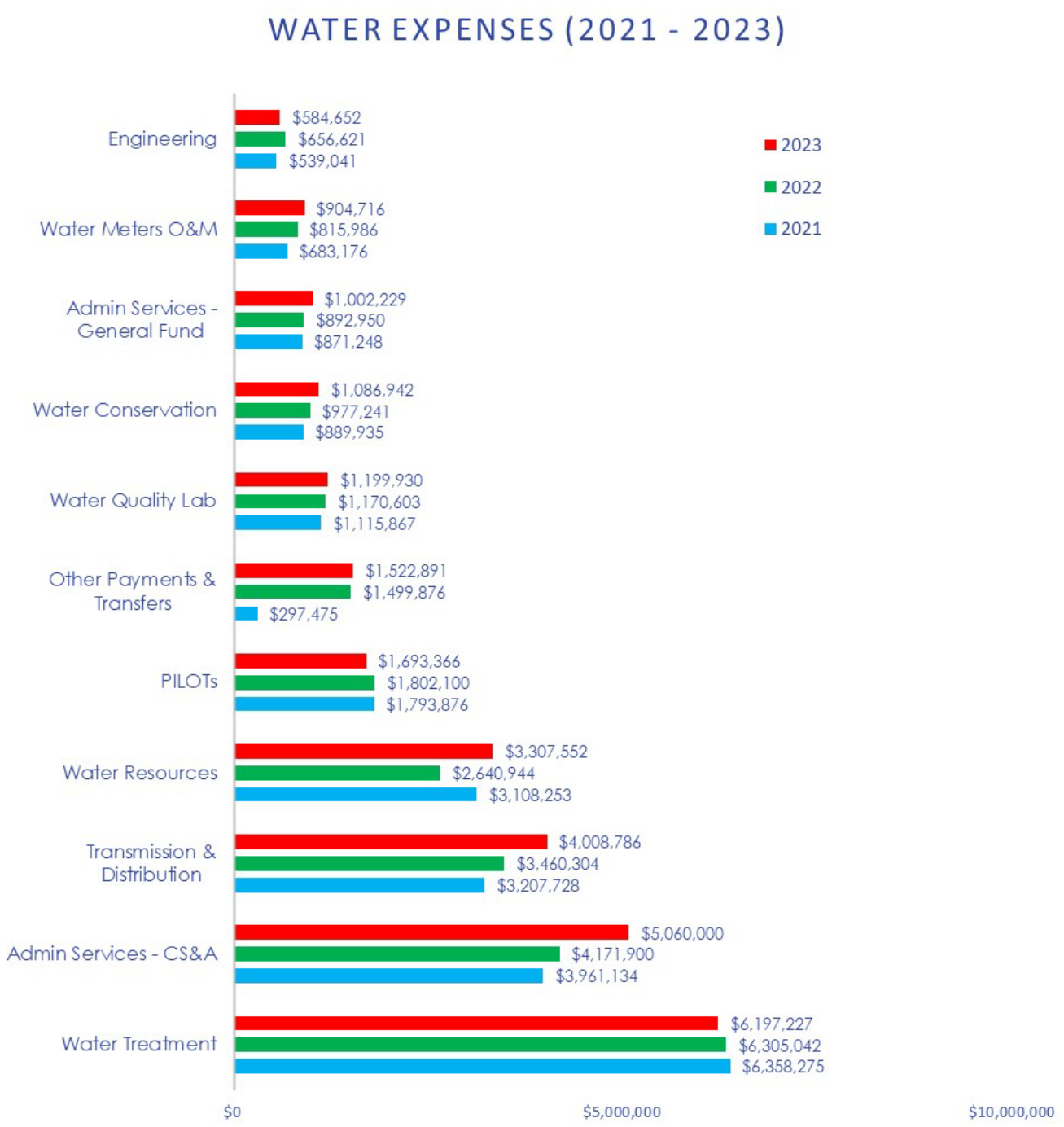
## Expenditure Analysis

Water expenses consist of operating expenses directly incurred for sourcing, treatment and distribution including labor and material expenses and indirect customer service and administrative costs, and non-operating expenses. Water non-operating expenses include capital investments made in renewing existing assets and adding additional storage as well as renewing existing source of supply infrastructure.

The pie chart below shows all operating expenses for the Water utility in 2023.

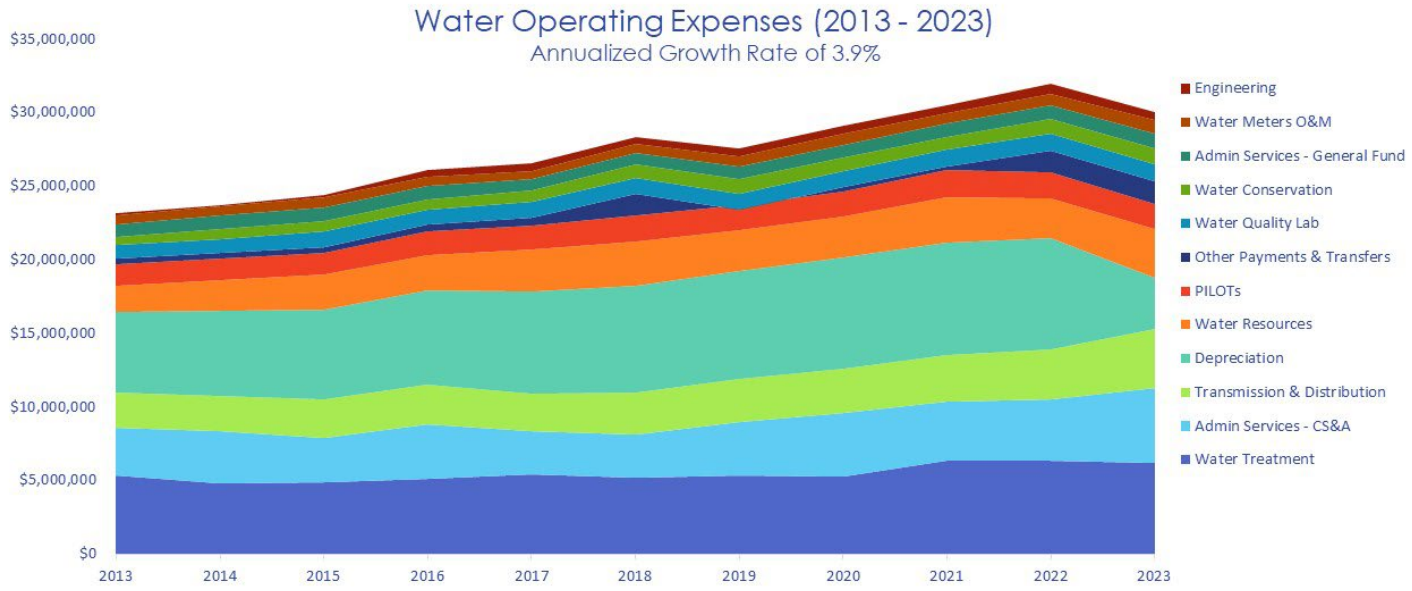



The table below reflects the most recent three years of expenses. The significant growth in CS&A administrative expenses reflects the creation of the One Water Director department within this internal services fund.




Water operating expenses are shown below from a longer-term perspective in the categories consistent with the monthly financial operating report. Depreciation is a non-budgetary operating expense that is also included here as it represents the amount of value lost in existing assets. Ideally, this lost value represents a minimal level of capital investment in the renewal of existing assets to ensure the long-term reliability of the system. Total operating expenses have grown at an annual rate of 3.9% over the past decade. However, more recent inflationary pressures have caused operating expenses to increase by 5.4% over the past 3 years including a realized increase

of 6.6% in 2023. This rate of annual growth for all operating expenses is assumed to be tightly managed in the analysis and forecasts below.




Operating expenses in the Water Fund have grown above the rate of inflation over the past decade. The most critical factor in the financial health of this Fund is to manage operational expenses to grow more modestly going forward. The increased capital investments in system renewal could help with O&M labor expense but significant attention will need to be given to operational expenses within each Business Unit to ensure adequate revenues are generated to make these investments.

The table below shows operating and non-operating expenses by the major categories shown in the Monthly Financial Operating Report (MOR). Depreciation is estimated for 2023 in this table and analysis.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Water Treatment | $ 5,297,349 | $ 5,283,967 | $ 6,358,275 | $ 6,305,042 | $ 6,197,227 |
| Water Resources | $ 2,740,568 | $ 2,758,721 | $ 3,108,253 | $ 2,640,944 | $ 3,307,552 |
| Water Quality Lab | $ 1,071,659 | $ 1,139,701 | $ 1,115,867 | $ 1,170,603 | $ 1,199,930 |
| Transmission & Distribution | $ 2,874,822 | $ 3,046,669 | $ 3,207,728 | $ 3,460,304 | $ 4,008,786 |
| Water Meters O&M | $ 731,864 | $ 753,014 | $ 683,176 | $ 815,986 | $ 904,716 |
| Engineering | $ 548,202 | $ 507,376 | $ 539,041 | $ 656,621 | $ 584,652 |
| Water Conservation | $ 950,841 | $ 909,387 | $ 889,935 | $ 977,241 | $ 1,086,942 |
| Admin Services - CS&A | $ 3,699,988 | $ 4,288,116 | $ 3,961,134 | $ 4,171,900 | $ 5,060,000 |
| Admin Services - General Fund | $ 853,221 | $ 874,551 | $ 871,248 | $ 892,950 | $ 1,002,229 |
| Other Payments & Transfers | $ (232,853) | $ 256,845 | $ 297,475 | $ 1,499,876 | $ 1,522,891 |
| PILOTs | $ 1,660,661 | $ 1,727,223 | $ 1,793,876 | $ 1,802,100 | $ 1,693,366 |
| Depreciation | $ 7,392,558 | $ 7,547,293 | $ 7,637,172 | $ 7,554,001 | $ 7,500,000 |
| Total Operating Expenses | $ 27,588,881 | $ 29,092,864 | $ 30,463,181 | $ 31,947,567 | $ 34,068,291 |
| Debt Service | $ 366,552 | $ 187,613 | $ 187,582 | $ 187,549 | $ 187,926 |
| Internal Transfers Out | $ 328,639 | $ 338,191 | $ 401,896 | $ 405,399 | $ 4,161,878 |
| Misc Non-operating Expenses | $ - | $ - | $ - | $ - | $ - |
| Minor Capital | $ 900,556 | $ 843,903 | $ 944,331 | $ 914,643 | $ 817,354 |
| Major Capital | $ 6,671,649 | $ 8,952,128 | $ 11,389,111 | $ 12,743,239 | $ 12,068,403 |
| Total Non-operating Expenses | $ 8,267,397 | $ 10,321,835 | $ 12,922,920 | $ 14,250,831 | $ 17,235,561 |
| Total Expenses | $ 35,856,278 | $ 39,414,699 | $ 43,386,101 | $ 46,198,398 | $ 51,303,852 |

**Water Treatment** – These expenses are related directly to the transportation of water at the Water Treatment Facility. While these expenses to vary due to fluctuations in the cost of chemicals, the modest decline in the amount of water being treated has kept these expenses to a modest growth of just 3.7% over the previous 5 years.

**Water Resources** – Thes expenses include assessments paid to the ditch companies for the right to deliver water to the plant. Water assessments have increased significantly in the past few years causing these costs to increase at an annual rate of 6.2% over the past three years. The increase seen in 2023 is the result of some labor being charged incorrectly to this business unit.

**Water Quality Lab** – The lab expenses are primarily labor and chemicals. These expenses have grown at a very modest 2.5% over the past decade, and only increased 1.7% annually over the last three years.

**Transmission and Distribution** – This line item represents the most direct expenses associated with providing potable water services to the community. These expenses have been growing at an unsustainable rate particularly over the past 3 years which has seen an annualized increase of 9.6% including an increase of 15.9% in these costs in 2023 alone. Managing this growth to a more moderate level in the future will be very important to the financial success of this utility.

**Water Metering** – This expense category includes expenses associated with both meter repair and manual meter reading. Because the number of manual reads needed has increased considerably in the past few years, these costs have also increased at an annualized rate of 6.3% over the last 3 years, and 10.9% in 2023 alone.

**Engineering** – This expense category includes expenses associated with engineering services primarily associated with project management but also includes some engineering contracted services. Because of vacancies, these costs decreased by 11.0% in 2023 but have increased at an annualized rate of 5.5% over the last 5 years.

**Water Conservation** – This expense category includes expenses associated with conservation programs and outreach. Recent years have seen more emphasis placed on water conservation and expenses have grown at an annualized rate of 6.1% over the past 3 years, including a 11.2% increase in 2023 over 2022 expenses as outreach increased after the pandemic.

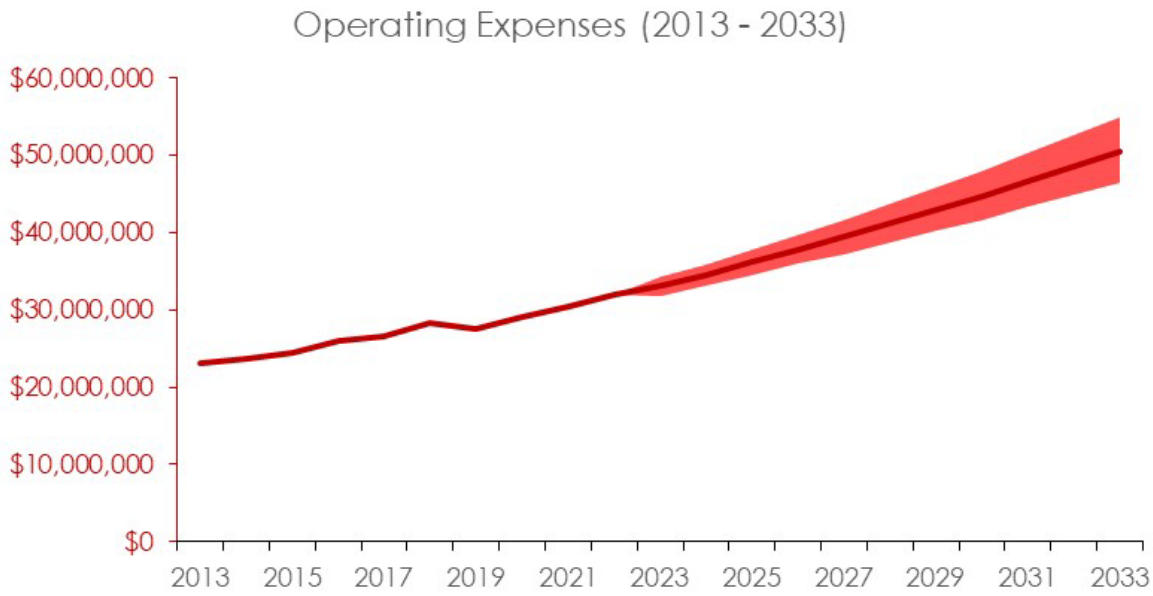
**Administrative Services** – Administrative Service expenses from the Utilities internal Customer Service and Administration areas increased significantly over the past few years, particularly in 2023, with the addition of the One Water Director's business unit in this internal services fund.

**Payments in Lieu of Taxes (PILOTs)** – This is a transfer to the General Fund set at 6% of operating revenues. As such, any increase in this expense is directly offset by higher operating revenues.

**Internal Transfers Out** – In 2023 a significant appropriation was made for a new Customer Information and Billing System. The transfer was made to the Utilities internal services fund as a one-time expense.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Water Treatment | 1.5% | 3.7% | 5.5% | -1.7% |
| Water Resources | 6.6% | 1.6% | 6.2% | 25.2% |
| Water Quality Lab | 2.5% | 2.1% | 1.7% | 2.5% |
| Transmission & Distribution | 5.2% | 6.9% | 9.6% | 15.9% |
| Water Meters O&M | 4.0% | 7.3% | 6.3% | 10.9% |
| Engineering | 19.0% | 5.5% | 4.8% | -11.0% |
| Water Conservation | 6.9% | 2.5% | 6.1% | 11.2% |
| Admin Services - CS&A | 4.7% | 11.2% | 5.7% | 21.3% |
| Admin Services - General Fund | 1.5% | 5.3% | 4.6% | 12.2% |
| Other Payments & Transfers | 14.0% | 1.2% | 81.0% | 1.5% |
| PILOTs | 1.6% | -0.5% | -0.7% | -6.0% |
| Depreciation | 3.1% | 0.8% | -0.2% | -0.7% |
| Total Operating Expenses | 3.9% | 3.7% | 5.4% | 6.6% |
| Debt Service | -24.7% | -40.9% | 0.1% | 0.2% |
| Internal Transfers Out | | 58.0% | 130.9% | 926.6% |
| Misc Non-operating Expenses | | | | |
| Minor Capital | -3.4% | -6.6% | -1.1% | -10.6% |
| Major Capital | 1.5% | 3.9% | 10.5% | -5.3% |
| Total Non-operating Expenses | 1.6% | 4.0% | 18.6% | 20.9% |
| Total Expenses | 3.1% | 3.8% | 9.2% | 11.1% |

Water O&M expenses have increased at a rate exceeding inflation over the past decade. This has begun to be addressed through active management (a flattening of the curve can be seen in 2018-20). Unfortunately, inflation and delays in capital work since the COVID-19 pandemic due to resource constraints has resulted in some growth since 2020. Looking out over the next ten years through the long-term financial model, expenses will need to be tightly managed so as not to exceed the rate of inflation in total. The dotted black line in the chart shows the current trend in operating expenses. The solid red line into the future assumes operating expenses other than PILOTs also grow at a rate of 4.3% annually consistent with recent inflationary pressures. The uncertainty in operating expenses is large and highlights the importance of stochastic modeling rather than showing a single forecasted value a decade into the future.



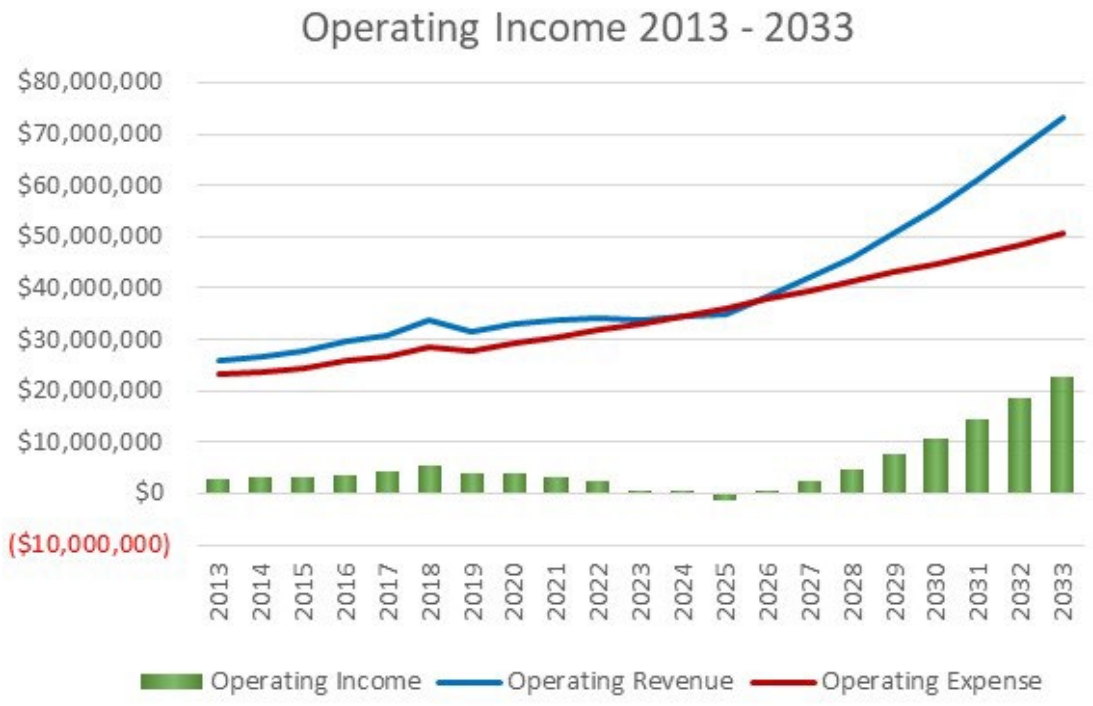

## Operating Income Analysis

The chart below shows operating revenues and expenses together. This utility has a measurable seasonality and year-over-year weather driven variability that must be accounted for in the financial modeling.


Looking at the operating margin, the delta between the operating revenues and operating expenses, illustrates the financial impacts to this utility from recent operating expense increases. The significant drop in operating revenues in 2023 is not expected to continue year after year but does highlight the need to be able to adjust operating expenses in such years.


Operating revenues have grown at a very modest annualized rate of 1.92% over the past decade through gradual, modest rate adjustments. The rate increases allowed for the operating income to remain at a healthy, positive level prior to 2023 although it had been declining as operating expenses have grown at a slightly faster rate of 3.9% over the past decade. Inflationary pressures being seen across the utilities for materials and labor resulted in Water operating expenses growing at 5.4% annually over the most

recent 3-year period. The result of which has been a declining trend in the operating margin since 2018 which will make it extremely difficult to limit rate increases to less than 5.0% annually in the future.

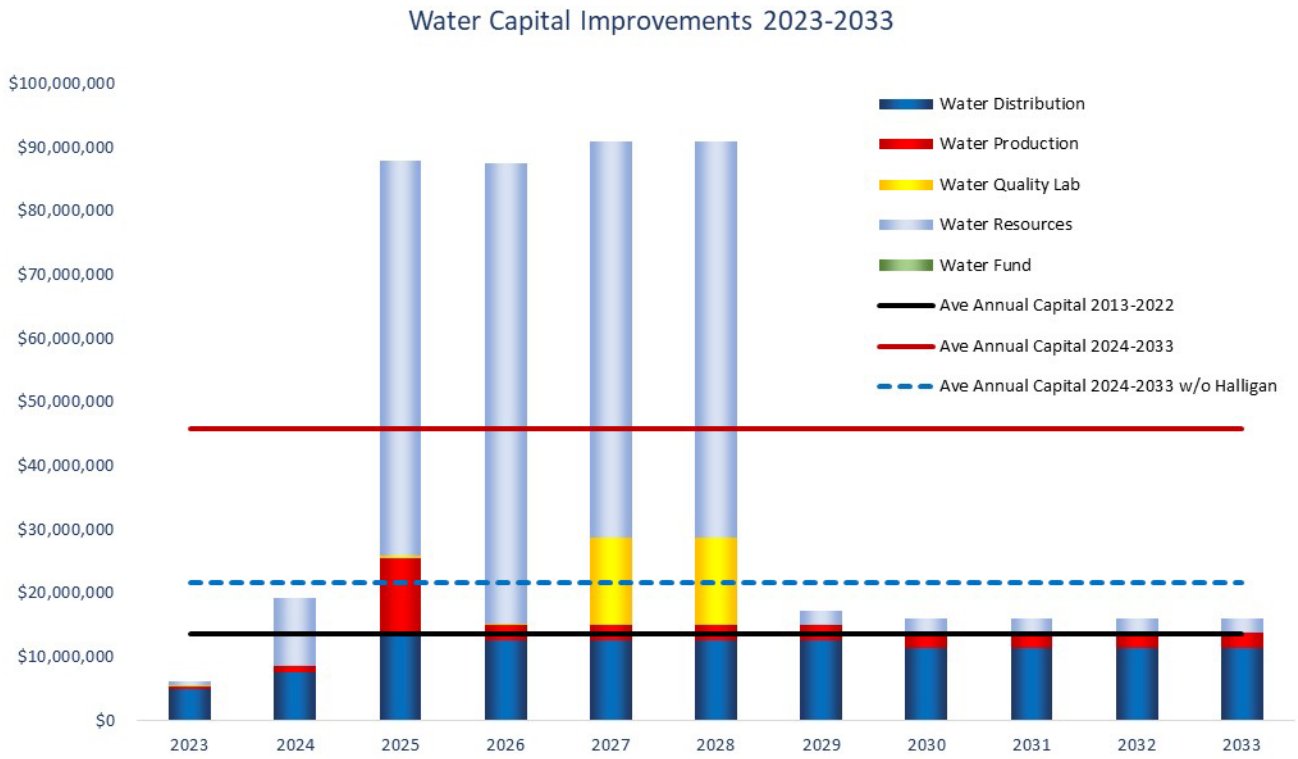



## Capital Planning and Expenditure Analysis

***Note: Appendix A shows the anticipated capital investments and expected year of investment.***

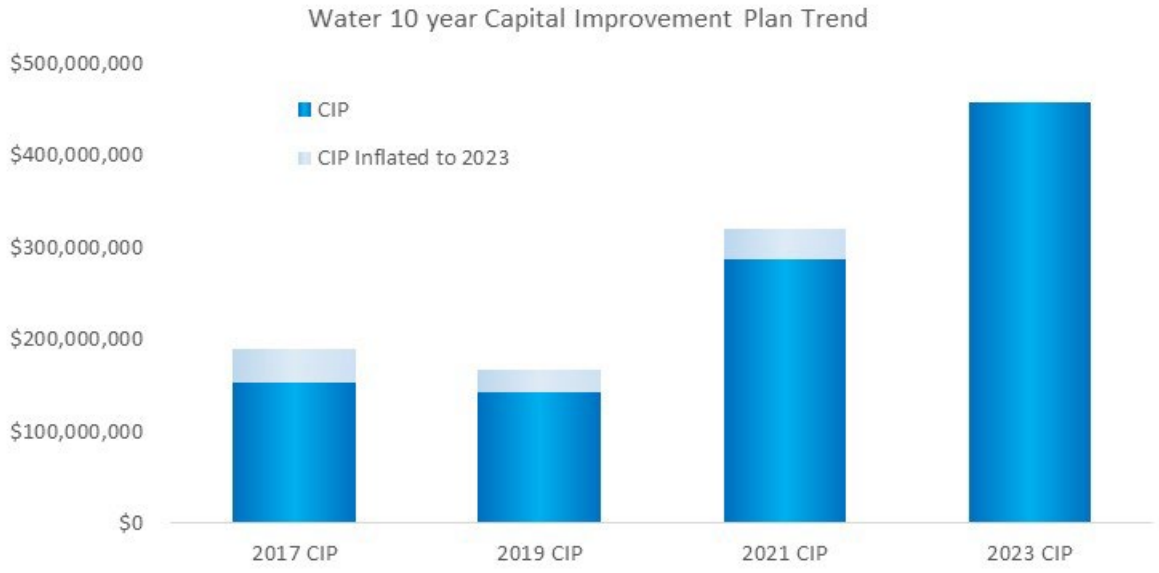
Operational goals for the Water utility are focused on maintaining the current level of reliability while moving forward with securing existing water supplies through the addition of storage. Investment in distribution infrastructure is necessary to maintain the current level of reliability expected by our customers. The financial models require a review of the 10-year capital investment plans and a need to re-prioritize the anticipated projects along with any new investments. An updated CIP was developed in October 2023 ahead of discussions with the Council Finance Committee.

The current 10 Year capital improvement plan (CIP) anticipates a three-fold increase in annual capital investment over the coming decade than was realized in the previous decade. This increase is largely driven by the Halligan Reservoir storage project with a projected cost of $300M. The 2021 CIP estimated Halligan to be a $120M project so this increase alone is a major change in the long-term financial outlook for this utility. Construction is expected to begin in 2025 which leaves little time to adjust rates enough to increase debt capacity ahead of the project. Additionally, uncertainty in how the water supply requirement may change makes it difficult to forecast the anticipated additional non-operating revenues from this development fee.



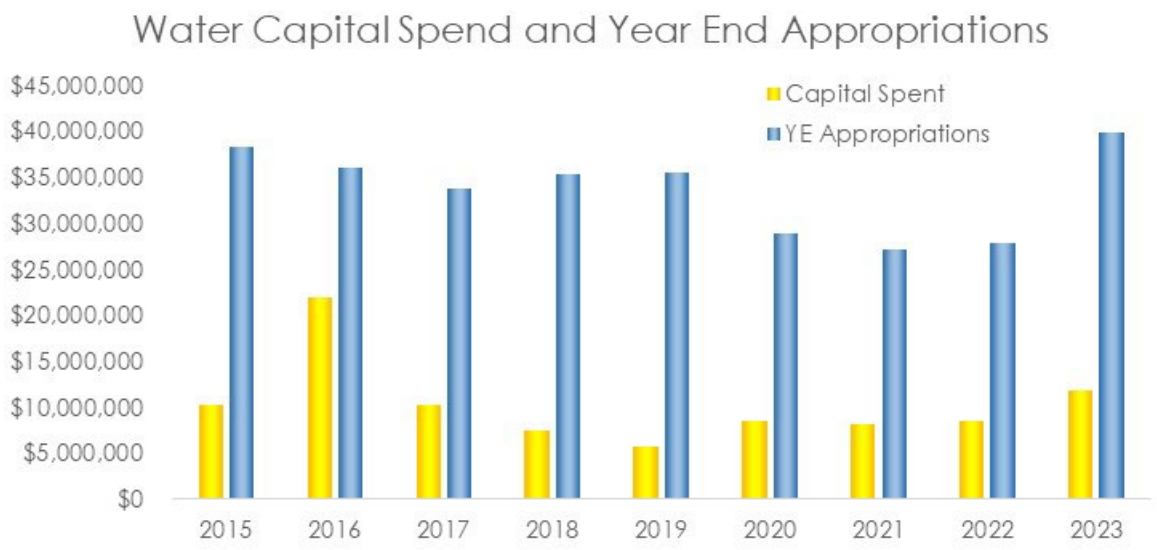

The development of prioritized CIPs is necessary to ensure efficient use of capital to optimize the levels of service being provided to our community. This prioritization has been an elusive goal since the first CIP was developed in 2016. Progress has been made on identifying the service level metrics for this utility but setting service level targets and the relative weights of those service levels remains to be done. Additionally, the 10-year CIPs have fluctuated significantly from one budget cycle to the next (every 2 years) which makes financial planning more challenging than more stable and refined CIPs would require for each utility including this one. This type of volatility in long-term planning efforts is very unsettling.

The graph below shows the evolution of the Water CIP over the last 3 budget cycles compared to the 2023 CIP reflecting the impacts of some of the macro-economic challenges outlined above as well as updated planning and analysis. The lack of a consistent senior leadership team throughout Utilities has also impacted the CIPs as new leaders bring new perspectives and ideas but change too quickly to refine the CIPs. The growth of the number of projects in the CIP will require further consideration around how to fully resource these projects which could result in a more even distribution of capital required than what is shown in the chart above.




The current 10 Year CIP consists of $438M of identified capital investments which consists of $109M for distribution renewal, $32M for water treatment renewal, $28M for a new water quality lab and equipment, and an additoinal $270M for water resource infrastructure. (All projects are identified in 2023 dollars so that a consistent inflation can be applied to all future projects.)

The following chart shows the annual capital investment made each year with the amount of approved capital investment remaining at the end of the year. Each year new capital appropriations are made for asset renewal programs and specific projects which add to the capital investment remaining from previous years. The amount of capital appropriations remaining at the end of each year exceeds the realized annual capital investment made each year. At the end of 2023, the amount of capital appropriated from previous budget cycles was $39.8M. This $39.8M shown in blue will require more than three years to invest at the recent rate of investment without any additional capital appropriations being requested.




While there is some lead time related to capital investments because of the policy of fully funding each capital investment up front, this build-up of capital work reduces the ability to adapt capital investments as priorities may change. The capital improvement plan discussed below and included in Appendix A is recommending that an additional $176M be appropriated in the 2025-26 budget cycle for capital work. It is recommended that a long-term strategic resource plan be developed to execute all currently funded and future capital investments before any additional debt is issued for any capital investment.

## Debt Analysis

**Last Bond Rating:** **AAA (prior to 2013)**

While operating revenues are intended to cover all operating expenses, debt issuances are an important source of funding for capital investments for any utility. Debt issuances also establish generational equity by having the generation of customers benefiting from the investment funding the investment through the debt repayment rather than having current customers pay for investments that are necessary to serve future generations. Given the significant increase in capital investment that is expected over the next decade, significant levels of debt will be necessary even after the use of all available reserves and anticipated development fees.

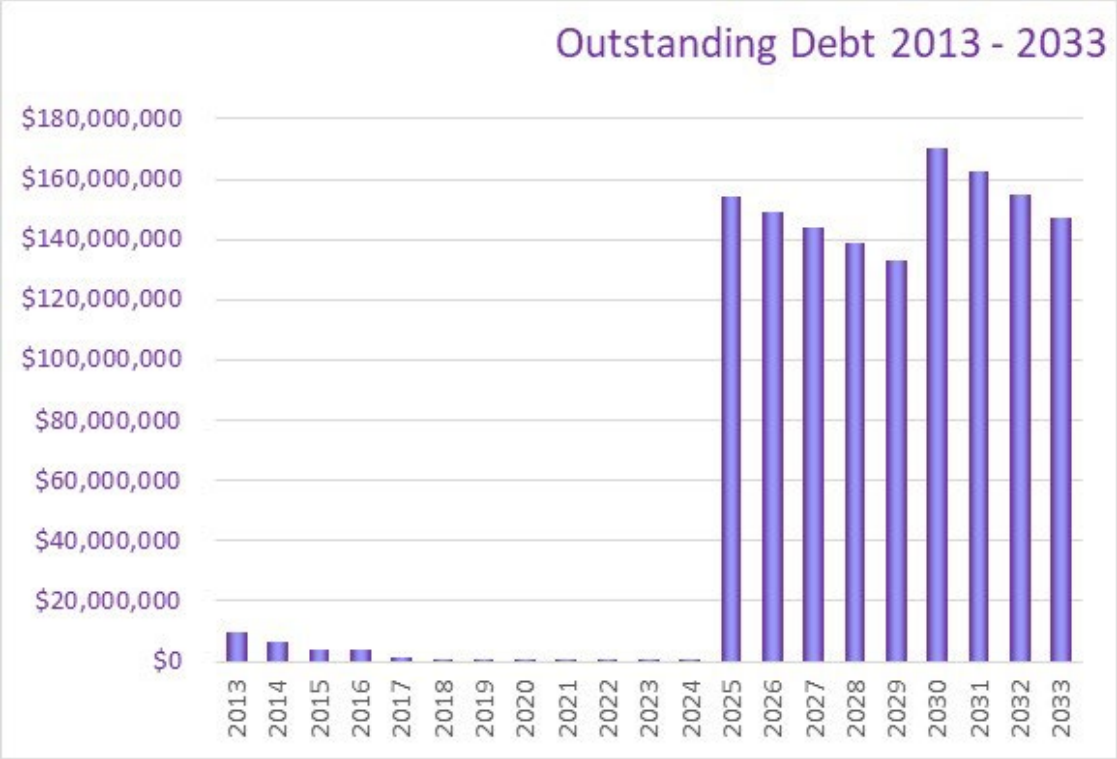
The long-term financial modeling relies on objective criteria to drive financial decisions such as when to issue debt. The use of objective criteria allows for future debt issuances to be modeled and to provide clear reasoning as to why an issuance is needed in any given year based on the current CIP. Debt issuances are based on the following criteria.

1. If capital investments are anticipated to exceed available reserves over the next 3 years a debt issuance is assumed to be sufficient to cover the next 2 years capital investments and leave 125% of the minimum required reserve. This recommendation is presented to the Council Finance Committee ahead of the biennial budget cycle.

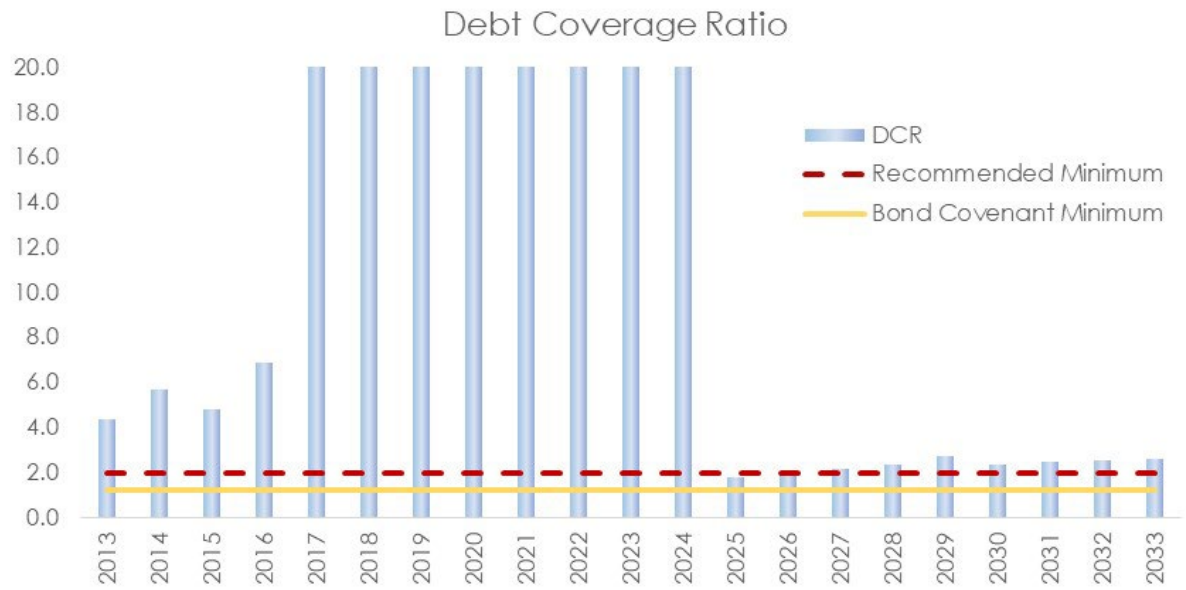
2. Because there are costs associated with debt issuances, a balance is struck between frequently issuing debt and making efficient use of the generated capital by limiting the frequency of debt issuances to no more than once every 3 years.

The water utility has not issued any revenue bonds in the past decade making it difficult to determine how new revenue bonds will be rated. The main need for new issuance is the Halligan Reservoir. Low interest revenue bonds are available through the State of Colorado State Revolving Fund and, as such, should be pursued when it is necessary to issue debt. These bonds have favorable terms beyond the low interest rate making them even more attractive to the water utility.

The chart below shows the historical and future debt related with water capital investments including a potential $154M issuance in the 2025-26 budget cycle.




Because there has been little outstanding debt over the past decade, the debt coverage ratio for this Fund has been well above the bond covenant minimum requirements of 1.15-1.2 as well as above the internally recommended ratio of 2.0 necessary to be viewed as favorably as possible by the rating agencies. Meeting the recommended minimum debt coverage ratio may not be possible in the next few years due to a combination of uncertainties around development fees and the increased debt service expense associated with the anticipated debt issuance.




The actual debt capacity for this utility Enterprise Fund is somewhat variable due to the variability seen in operating revenues. Despite this variability, necessary debt issuances are expected to be rated as investment grade debt. The debt capacity of the Enterprise Fund is limited by the recent fluctuation in net pledged revenues. It may not be necessary to include unrealized losses in the Net Pledged revenue calculations. The stochastic modeling assumes that future interest rates would fluctuate within a range between 3.0 and 4.5%.

Debt Capacity Estimation

Interest Rate: 5.00%

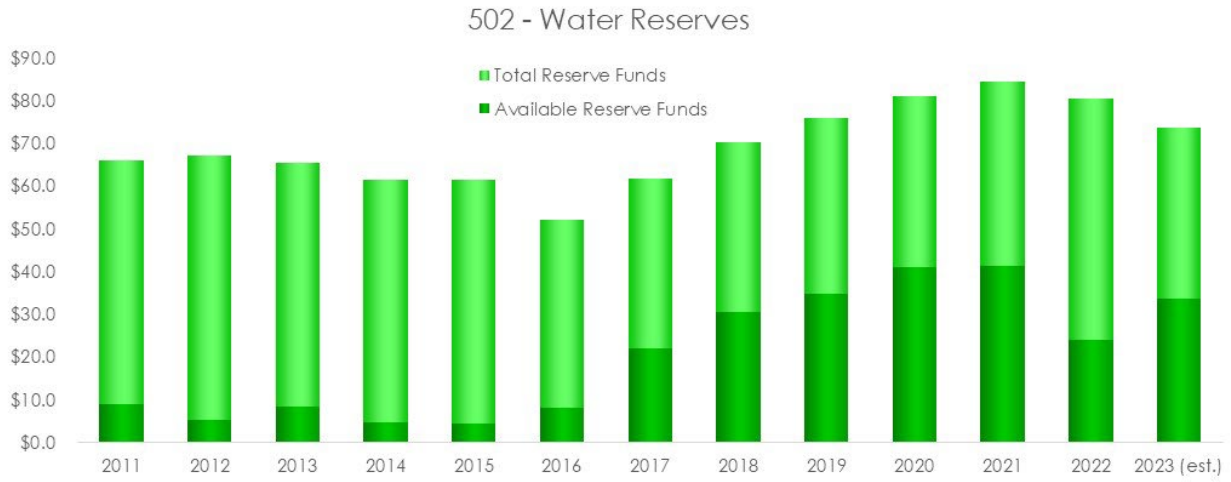
Net Pledged Revenue (5yr ave): $12,502,400

| Debt Coverage Ratio | Debt Capacity (10 yr Debt) | Debt Capacity (15 yr Debt) | Debt Capacity (20 yr Debt) |
|---|---|---|---|
| 1.0 | $97 | $130 | $156 |
| 1.2 | $81 | $108 | $130 |
| 1.4 | $69 | $93 | $111 |
| 1.6 | $60 | $81 | $97 |
| 1.8 | $54 | $72 | $87 |
| ***2.0*** | ***$48*** | ***$65*** | ***$78*** |
| 2.2 | $44 | $59 | $71 |
| 2.4 | $40 | $54 | $65 |
| 2.6 | $37 | $50 | $60 |
| 2.8 | $35 | $46 | $56 |
| 3.0 | $32 | $43 | $52 |

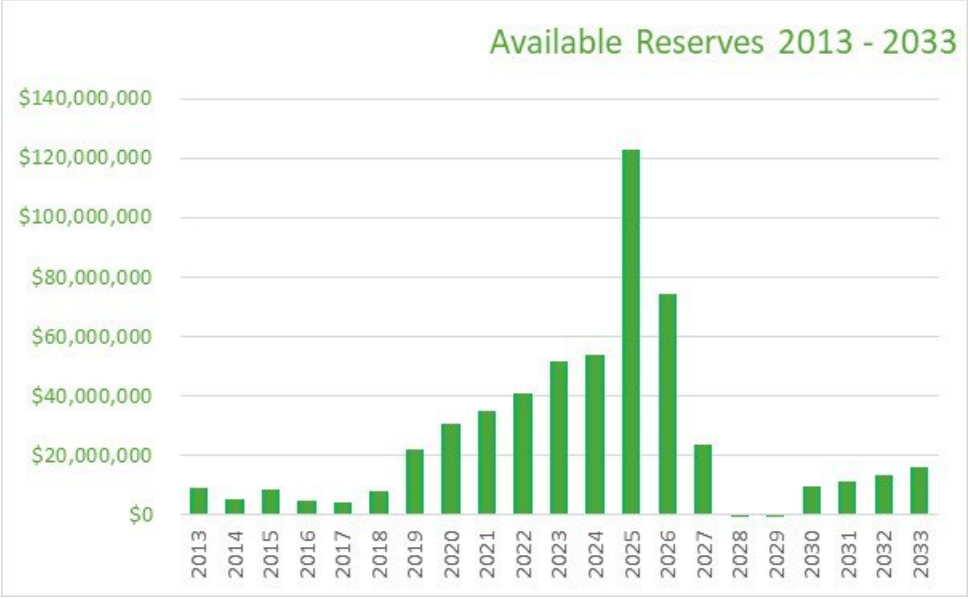
## Reserves Analysis

Financial Management Policy 5 specifies Fund Balance Minimums for Enterprise Reserves. It also states that additional reserves should be set aside for anticipated capital investments. The graph below reflects the total Fund Balance as well as the portion of that balance that is available for capital appropriations above and beyond the minimum required reserve balance and any existing capital appropriations. The long-term financial modeling objectively determines when additional capital investment should come from Available Reserves and when it should come through rates or more immediately through debt issuances.

Based on the actual financials for 2023, it is estimated that $6.8M was taken from Available Reserves in 2023.




The available fund balance is expected to continue to decrease due to the significant capital investment identified in the CIP requiring additional debt issuances over the next 3-5 years. The actual increase in Available Reserves reflected below is being driven by the timing of debt issuances and the capital investments in the unprioritized CIP. A more strategic approach is necessary as not all capital investments can be funded over this decade without significantly higher rate increases and more debt issuances being needed to achieve the proposed capital investments.



## Rate Analysis

Prior to the 2015-16 budget cycle rate adjustments were subjectively determined. Beginning with the 2015-16 budget cycle objective financial metrics were established to determine necessary rate adjustments. This change allowed for future rate adjustments to be modeled and to provide clear reasoning as to why a rate adjustment is needed in any given year. There are three financial metrics which drive the need for a rate adjustment.

1. Operating Income – If the combined operating income for the previous two years was negative, a rate increase is made in the next year sufficient to generate enough operating income in the coming two years to offset those losses. The two-year period allows for some weather or economic variability and is consistent with the City's biennial budget cycle.

2. Debt Coverage Ratio – A debt coverage ratio is recommended by the bond rating agencies to support the current enterprise fund bond ratings. This debt coverage ratio is well above the minimum specified in the bond covenants which could trigger bondholders to request a rate increase on their behalf. If the debt coverage ratio is forecasted to drop below 2.0 in the coming year, a rate increase sufficient to raise the debt coverage ratio to 2.1 is assumed in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

3. Available Reserves – If an enterprise's reserve balance is anticipated to drop below the minimum required reserve level in the next year, a rate increase sufficient to maintain the minimum required reserve is made at the beginning of that year in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

The sum of these three rate adjustments is the needed rate adjustment for the following year. In addition to these three objective criteria for rate adjustments, a 5.0% ceiling is imposed in any given year, consistent with the stated objective of "gradual, modest rate adjustments", which may require smoothing such an increase over the two years of a budget cycle to not have a large rate increase one year and then no rate adjustment the next. These same objective criteria are applied to the other 3 utility's financial models.

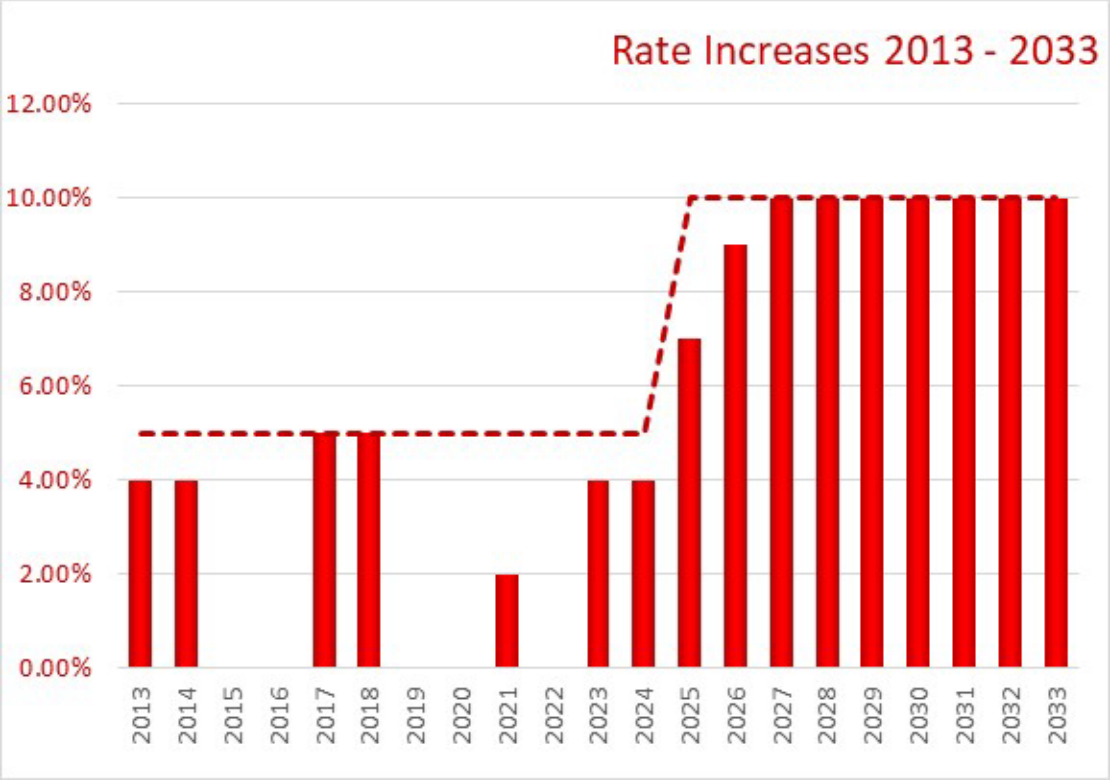
It needs to be recognized that actual revenues realized from a rate increase are not typically the full amount of the rate increase. That is to say, there is some elasticity to rate adjustments. Additionally, most utility services are weather dependent, so it is possible to occasionally realize more revenue than anticipated in rate design for a given year although this weather variability is expected to balance out over an extended period.

| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Water | Adopted Rate Increase | 4.0% | 0.0% | 2.0% | 0.0% | 0.0% |
| | Realized Revenue Increase | -8.8% | 1.7% | 1.7% | 4.2% | -6.1% |

The results of the financial modeling which applies the same objective strategies for raising rates and issuing debt as the other utilities are presented below along with the forecasted debt issuances in 2025 and 2030. This ten-year rate forecast is shared with the community to be open and accountable to the ratepayers. It is recommended that rates are increased at levels higher than the strategic metric ceiling because of the significant increase in the CIP between 2021 and 2023.

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 4.0% | 4.0% | 7.0% | 9.0% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% | 7-10% |
| Debt Issued ($M) | | | $154.0 | | | | | $43.0 | | | |

Modest rate adjustments will not be sufficient to generate adequate revenues for the proposed capital investments over the coming decade. This was unanticipated with the previous plan and is driven by the 60% increase in the cost of the CIP between 2021 and 2023. The 2023 CIP is more than triple what was proposed in 2019 and 60% higher than what was proposed just two years ago in 2021. This level of increase in such a short period does not allow for gradual, modest rate adjustments unfortunately. The graph below assumes that it will be necessary to increase rates as much as 10.0% in several consecutive years.



## Financial Risk Assessment

Below is a list of identified financial risks for this utility. Each risk is preliminarily categorized as high, medium or low according to both the likelihood and consequence of it being realized. Further assessment of these financial risks, particularly with operational input, may change the likelihood and consequence of each and may identify other significant financial risks. This additional assessment should be done as part of the biennial budget cycle. These financial risks are associated with operational management and anticipated capital needs and highlight the need for close collaboration between the financial and operational departments within Utilities as well as the importance of having a refined, prioritized 10-year capital improvement plan rather than an a more exhaustive list of potential capital needs that may or may not be necessary.

| | | Risk Realization | | | |
|---|---|---|---|---|---|
| Risk ID | Risk | Likelihood | Consequence | Mitigation Needed? | Risk Description |
| WFR1 | CIP Volatility | High | High | Yes | Long-term financial planning requires planning for uncertainties with more uncertainty requiring more conservative planning to achieve expected financial metrics; significant volatility on long-term capital plans increases uncertainty in the actual capital investment needs leading to inefficient use of capital, higher rate increases and less financial agility to meet operational needs |
| WFR2 | Undefined Service Level Metrics / Targets / Weights | Medium | High | Yes | The impact of high CIP volatility can be lessened by optimizing such investments to meet expected levels of service through an objective, quantitative prioritization methodology based on predefined service level metrics with established targets and relative weights; not having these tools to optimize capital investment poses a significant financial risk to the utility |
| WFR3 | Operating Expense Increases | Medium | High | Yes | OpEx assumed to not exceed 3.0%; exceedance would limit funds for capital needs and drive further rate increases |
| WFR4 | Halligan Reservoir | Medium | Medium | Beyond Control | The construction costs and potential mitigation costs along with potential delays in construction could significantly increase costs even more which would require additional rate increases and debt issuances |
| WFR5 | Retail Rate Fatigue | Medium | Medium | Beyond Control | Annual rate adjustments will be necessary to meet utility needs; rate fatigue would require a financial reassessment of ability to meet operational targets |
| WFR6 | Higher Debt Service Costs | Medium | Medium | Beyond Control | As bond coupon rates increase, debt capacity decreases for a given level of net pledged revenues |
| WFR7 | Unidentified Capital Projects | Medium | Low | No | As service level targets are established and asset management plans developed unanticipated capital needs may require more capital investment than currently planned |
| WFR8 | Declining development fees | High | Medium | No | As development fees decline the length of time it takes to recover capital from previous investments for future use increases |
| WFR9 | System Reliability | Low | Low | No | A real or perceived decline in service reliability could accelerate system renewal investments and lead to less efficient use of capital |
| WFR10 | Resource Constraints on Capital Projects | High | Medium | Yes | Internal and external labor and material constraints could delay execution of funded capital projects |

## Appendix A: Capital Improvement Plan

Below is a list of identified capital projects expected to be completed over the next decade. These projects are grouped into the following categories:

**Distribution Infrastructure** – infrastructure that will be necessary for transmission and distribution of treated water to customers

**Production** – capital investments necessary to maintain the current level of service for treating raw water into potable water

**Water Quality Lab** – investments needed in either the lab facility or instrumentation used in the laboratory

**Resources** – capital investments in either sourcing or storing raw water

| Project Name | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Water Meter Minor Capital | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 | $70,000 |
| Water Meter Replacment | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 | $850,000 |
| Watershed Protection | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 | $200,000 |
| WTF Minor Capital | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 | $1,400,000 |
| WTF Replacement | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 |
| WQL Replacement | $100,000 | $100,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 |
| Water Distribution Improvements | $2,000,000 | $3,500,000 | $5,000,000 | $6,500,000 | $8,000,000 | $8,805,470 | $8,805,470 | $8,805,470 | $8,805,470 | $8,805,470 | $8,805,470 |
| Cathodic Protection Improvments | $0 | $700,000 | $700,000 | $700,000 | $700,000 | $700,000 | $700,000 | $700,000 | $700,000 | $700,000 | $700,000 |
| Galvanized Service Replacement | $1,200,000 | $1,200,000 | $1,200,000 | $1,200,000 | $1,200,000 | | | | | | |
| Water Acquistions | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 | $2,000,000 |
| Meter Crawlspace Conversion | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 |
| SOS Halligan Water Supply | $60,000,000 | $60,000,000 | $60,000,000 | $60,000,000 | | | | | | | |
| Water Lab Construction | | | $13,500,000 | $13,500,000 | | | | | | | |
| Poudre Pipeline Lining - Inside Canyon | | $10,000,000 | | | | | | | | | |
| Water Plant Filter Replacement | | | | | | | | | | | |
| College Waterline Replacement | $5,300,000 | | | | | | | | | | |
| Oak Street Waterline Phase 2 | $1,172,600 | | | | | | | | | | |
| SCADA PLC Replacements | $200,000 | $200,000 | $200,000 | $200,000 | | | | | | | |
| GIS Utility Network Improvements | $400,000 | | | | | | | | | | |
| WTF T5/T6 Roof Replacement | $1,500,000 | | | | | | | | | | |
| Training Software | $50,000 | | | | | | | | | | |
| Goat Hill T1 Fiber Replacement | $1,200,000 | | | | | | | | | | |
| Water Treatment Facility Belt Press Building | $8,487,200 | | | | | | | | | | |
| Filter Valve Actuators Replacement | | | | | | | | | | | |
| Rapid Mixers Replacement | | | | | | | | | | | |
| Meter Program | | | | | | | | | | | |
| | $88,129,800 | $82,220,000 | $87,180,000 | $88,680,000 | $16,480,000 | $16,085,470 | $16,085,470 | $16,085,470 | $16,085,470 | $16,085,470 | $16,085,470 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Distribution | $13,122,600 | $7,250,000 | $8,750,000 | $10,250,000 | $11,750,000 | $11,355,470 | $11,355,470 | $11,355,470 | $11,355,470 |
| Production | $12,387,200 | $2,400,000 | $2,400,000 | $2,400,000 | $2,400,000 | $2,400,000 | $2,400,000 | $2,400,000 | $2,400,000 |
| WQL | $300,000 | $300,000 | $13,760,000 | $13,760,000 | $60,000 | $60,000 | $60,000 | $60,000 | $60,000 |
| Resources | $62,200,000 | $72,200,000 | $62,200,000 | $62,200,000 | $2,200,000 | $2,200,000 | $2,200,000 | $2,200,000 | $2,200,000 |
| | $88,009,800 | $82,150,000 | $87,110,000 | $88,610,000 | $16,410,000 | $16,015,470 | $16,015,470 | $16,015,470 | $16,015,470 |

# 2024 10-Year Strategic Financial Plan

## *City of Fort Collins Utilities*

# *Wastewater*

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## Purpose of the Strategic Financial Plans

The strategic financial plans are intended to provide a 10-year plan for the efficient and effective financial management of each utility in a manner that is consistent with the City's values and mission and aligned with the City's biennial Budget Process and Strategic Planning Process. Much of the long-term strategic direction for each utility requires significant capital investment spanning more than one budget cycle and while the magnitude of the required investment may be included in the capital improvement plans, the financial capacity and strategies to meet these challenges is beyond the scope of such plans. Capital improvement projects should be prioritized through an asset management program to ensure alignment with the City's strategic objectives and proper planning to achieve the targeted levels of service for each utility to our community.

Whereas strategic planning sets the operational direction of where the utilities are going in the future, strategic financial planning provides a financial context for this movement. The strategic financial plans ensure the long-term operational and fiscal objectives and level of service targets for each of the utilities are met in a financially sustainable and resilient manner. The strategic financial plans outline the projected financial health, long-term revenues and expenditures, debt position and recommended financial strategies necessary to achieve the operational objectives and targeted levels of service for each of the four utilities over the next 10 years.

There are three main financial strategies with associated metrics that are intended to maintain the financial health of each utility:

1) Generate a modest operating margin annually that is sufficient to fund asset renewal.
2) Maintain a debt coverage ratio adequate to ensure all future debt issued is rated as being investment grade debt.
3) Through long-term planning adjust rates as needed to meet revenue requirements through modest, gradual annual adjustments.

## 2023 Strategic Financial Planning

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

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.
- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

More specific to the Wastewater Enterprise Fund changes that have an impact on the financial modeling for this plan are:

- Development has slowed considerably in 2023 resulting in significantly less Plant Investment Fees (PIFs) being received in 2023 than 2022 creating more uncertainty of future PIF revenue projections utilized in this effort.
- While development has slowed, the cost of needed capital investments has increased so much that it is anticipated that the level of annual capital investment will be 3.5 times in the coming decade compared to the last decade.
- Challenges and uncertainty remain in operating expenses that will require rate adjustments in some years over the next decade that significantly exceed the targeted limit of 5.0% annually to meet the strategic financial targets.

With those headwinds, the long-term financial model was updated with the most recent financial data and consideration given to how these challenges could impact the 10-year forecast. The result of the modeling is discussed below beginning with a review of the 2023 fiscal year followed by an analysis of revenues, expenses, operating income, capital investments, debt capacity and rates more monthly services. A financial risk register follows the ten-year rate and debt issuance forecast which is the final output from the model. The 10-year Capital Improvement Plan is included as an appendix to conclude the plan.

To begin the financial planning, some context is appropriate given the amount of capital investment being requested for the coming decade. The Wastewater Enterprise Fund generates $25-27M annually in revenues and spends $13-15M annually on operations and another $8-12M on capital investments. The proposed capital improvement plan for the next decade has $322M in proposed investments, or $32M annually. To provide adequate revenues to meet this level of investment means either doubling rates for monthly services and doubling development fees immediately or issuing significant debt and raising rates and fees over the next few years to cover the increased debt service and some capital investment. While this may be possible, it is not recommended for our customers. Additional revenues must be found through state or federal grants and a prioritization of the capital work needs to be done to ensure the most critical capital investments are being made while other investments are deferred beyond the 10-year horizon. The model shows that just making 50-75% of the proposed capital investments will require rate and fee increases of 6-8% annually over the next few budget cycles.

## 2023 Financial Overview

Financially, 2023 was better than budgeted as operating income exceeded the budget by $2.0M despite wastewater operating revenues being just $0.6M over budget. The operating income exceeded the budget due to lower than anticipated operating expenses. The operating margin decreased again in 2023 as operating revenues increased only $0.8M while operating expenses increased by $1.3M. As the table below shows, the three metrics associated with the three main financial strategies from a long-term financial planning perspective were still met in 2023.

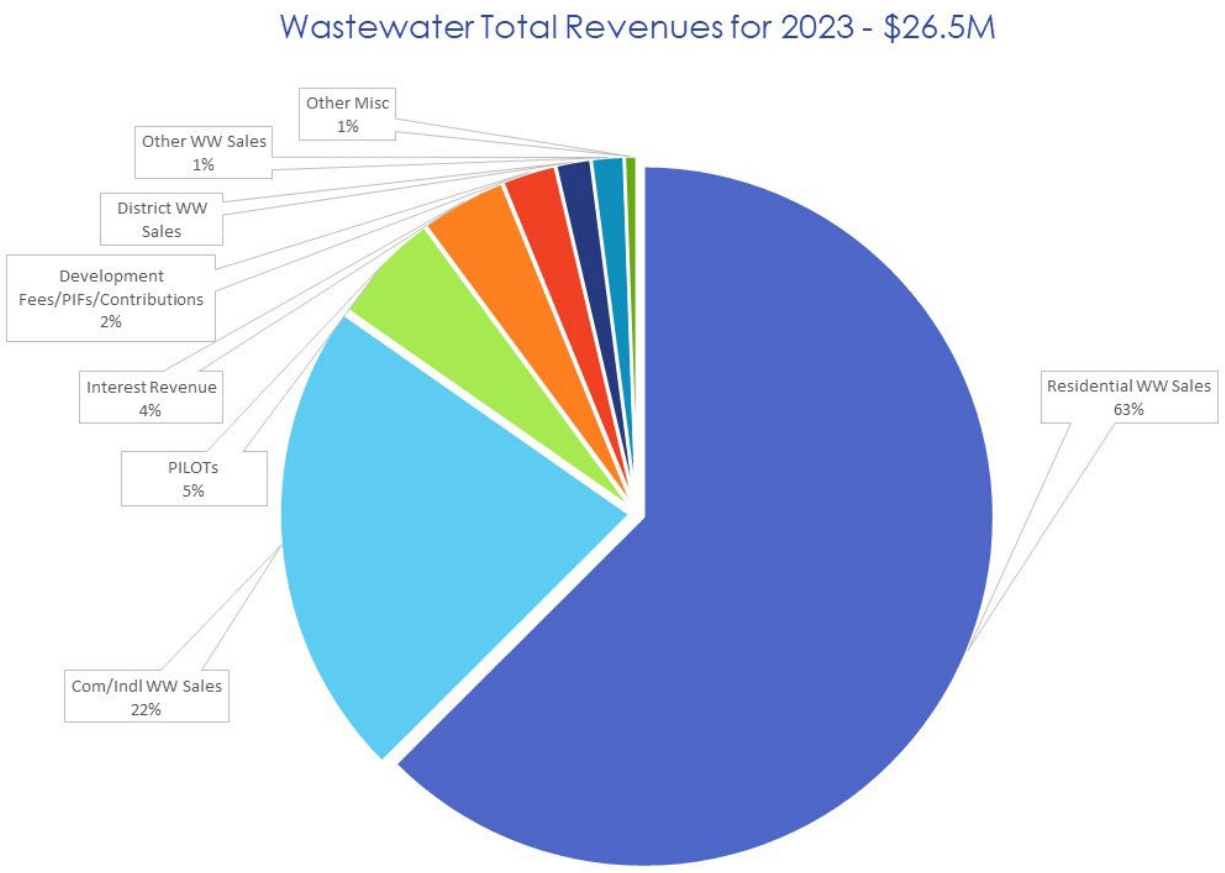
| | Strategic Financial Plan Target | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Operating Margin | > 2.0% | 8.5% | 10.4% | 15.5% | 14.4% | 19.3% |
| Debt Coverage Ratio | > 2.00 | 4.6 | 3.8 | 4.4 | 4.9 | 4.9 |
| Rate Adjustment | < 5.0% | 4.0% | 0.0% | 0.0% | 0.0% | 0.0% |

$$\text{Operating Margin} = \frac{\text{(Operating Revenues from Monthly Charges) - (Operating Expenses including depreciation)}}{\text{(Operating Revenues from Monthly Charges)}}$$

$$\text{Debt Coverage Ratio} = \frac{\text{(Operating Income before depreciation + Development Fees + Earned Interest)}}{\text{(Annual Debt Service Expense)}}$$

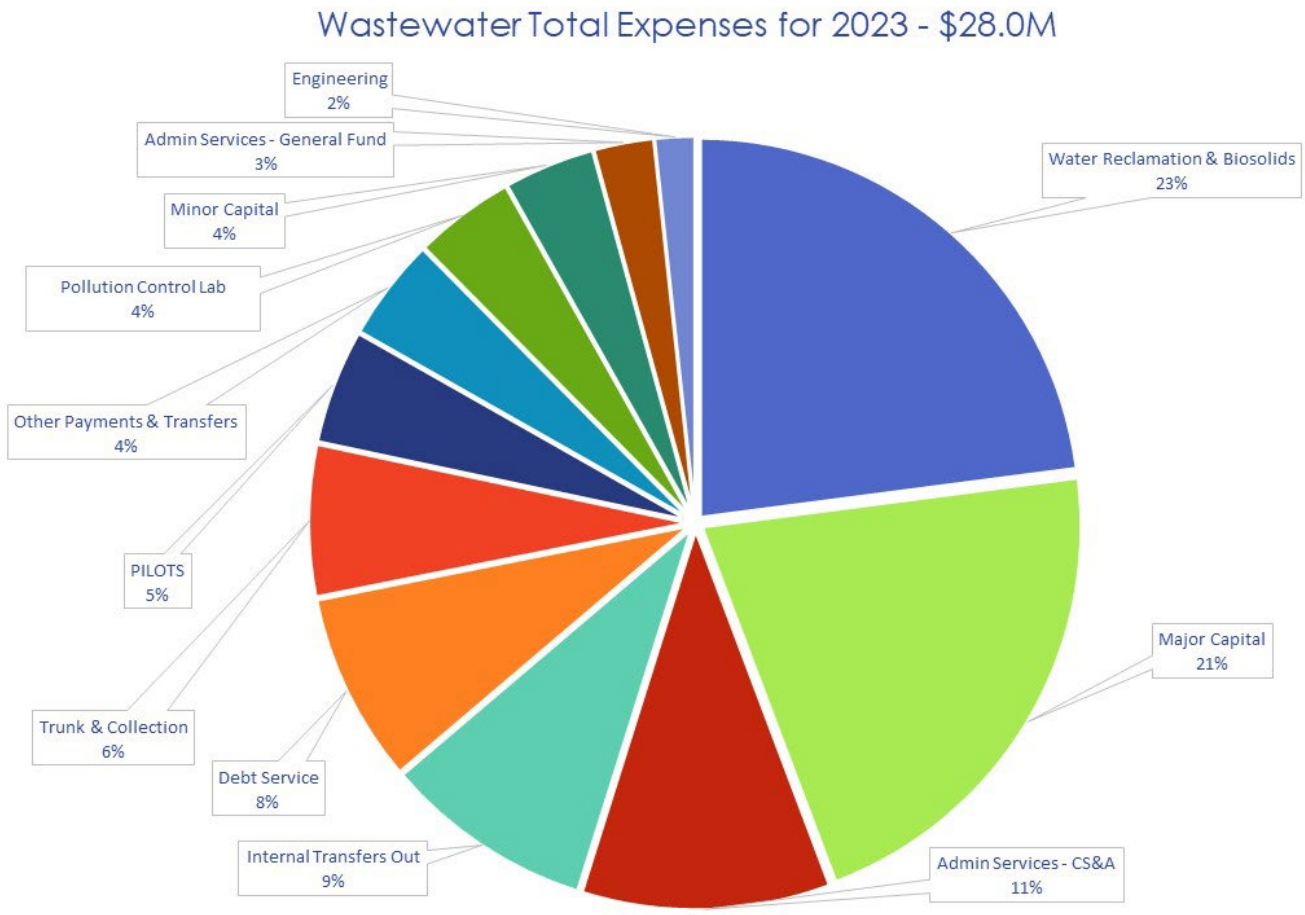
## 2023 Revenues

Total revenues associated with wastewater services grew very slightly by 0.39% in 2023 over 2022 despite operating revenues increasing by 3.27% due to less revenue from development fees which declined 63% year over year. Operating revenues were flat in 2023 despite a 4.0% rate increase implemented at the start of the year. Revenues for residential services remain the largest revenue source at close to 63% of all revenues.



### 2023 Expenses

Operating expenses have increased at an accelerating rate in recent years with 2023 seeing a 6.1% annual growth. Total expenses for wastewater services and capital investment grew 13.4% in 2023 over 2022. This large increase included a one-time transfer of funds for a new customer service and billing system. Major capital comprised 21% of total expenses with operating expenses associated directly with water reclamation making up 23% and administrative expenses 11% of total expenses. The pie chart below breaks down all cash expenses in 2023.

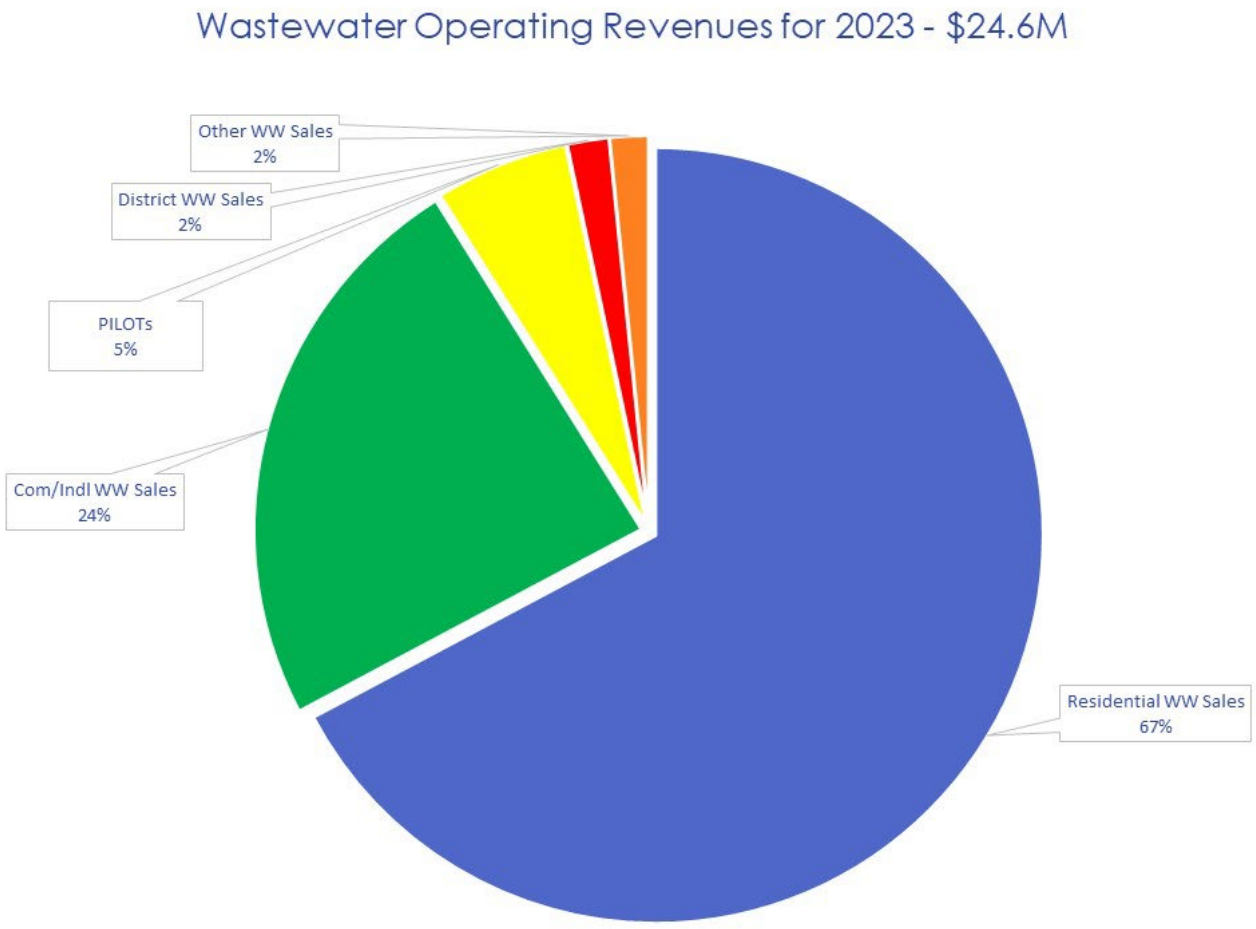



## Long-Term Financial Analysis

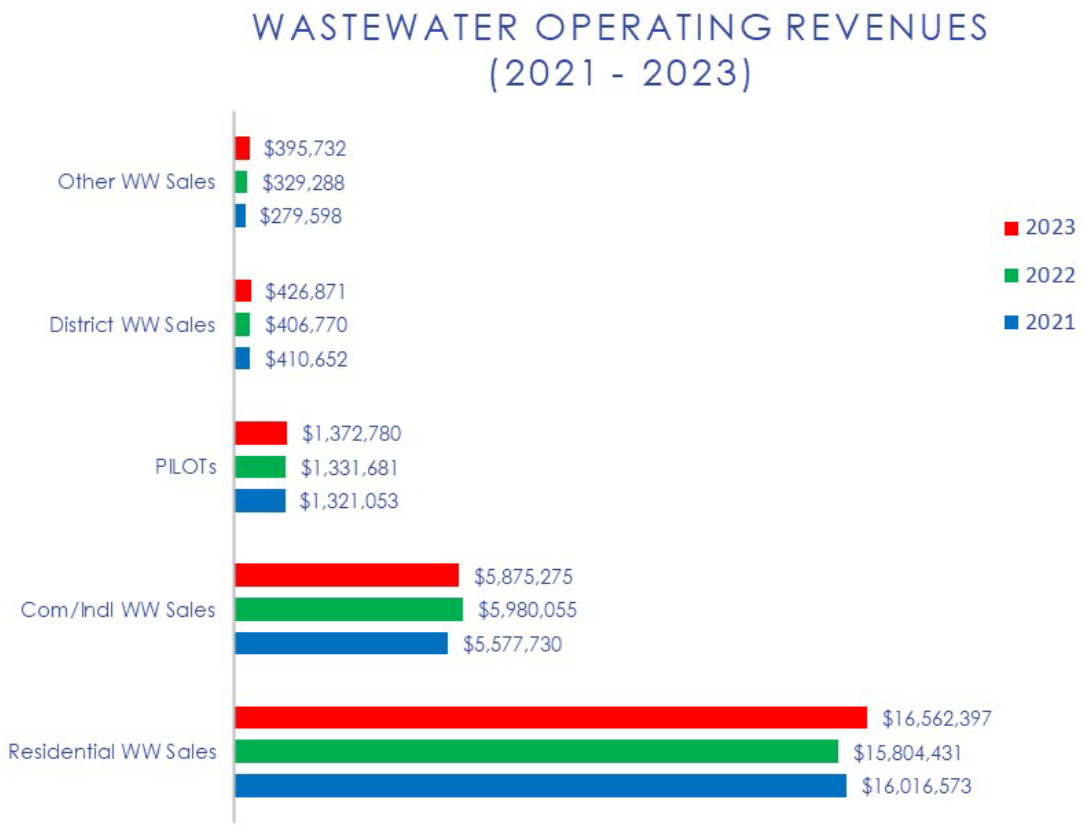
### Revenue Analysis

Wastewater revenues consist of operating revenues and non-operating revenues. Operating revenues are generated from monthly charges for unmetered and metered services which includes a 6% payment in lieu of taxes (PILOTs) that is transferred to the General Fund of the City. Non-operating revenues, which comprise 7.0%, or $1.9M, of total revenues, consist of development fees, interest revenue on cash reserves, and other miscellaneous revenues.

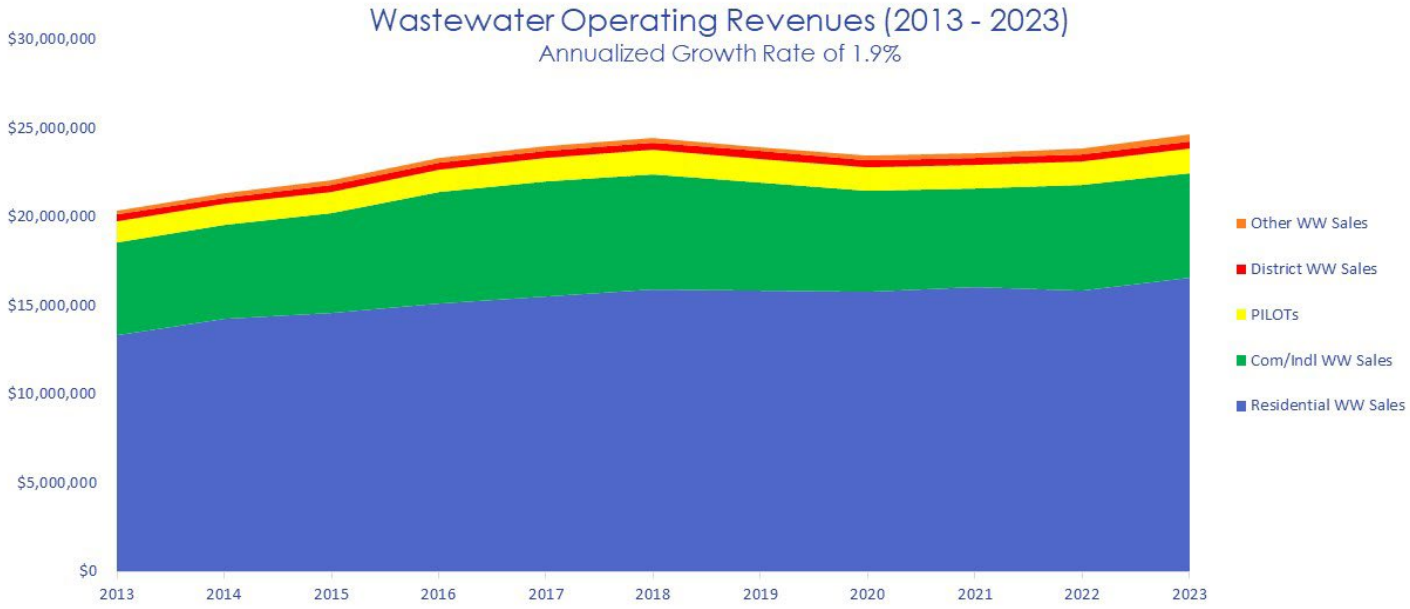
The pie chart here shows how operating revenues were generated in 2023.




Operating revenues increased in every category in 2023 from 2022 except commercial services as shown by the graph below. Non-operating revenues from development fees were a third of what was realized in 2022. Revenues are budgeted conservatively to account for weather variability based on historical demands and other uncertainties.




From a longer-term perspective, operating revenues for this fund have grown very modestly over the previous decade from $20.3M in 2013 to $24.5M in 2023. The net effect being that while rates for wastewater services have increased at an annualized rate of 2.0% over the past decade, actual operating revenues for wastewater service have increased at an annualized rate of 1.93% over that period.



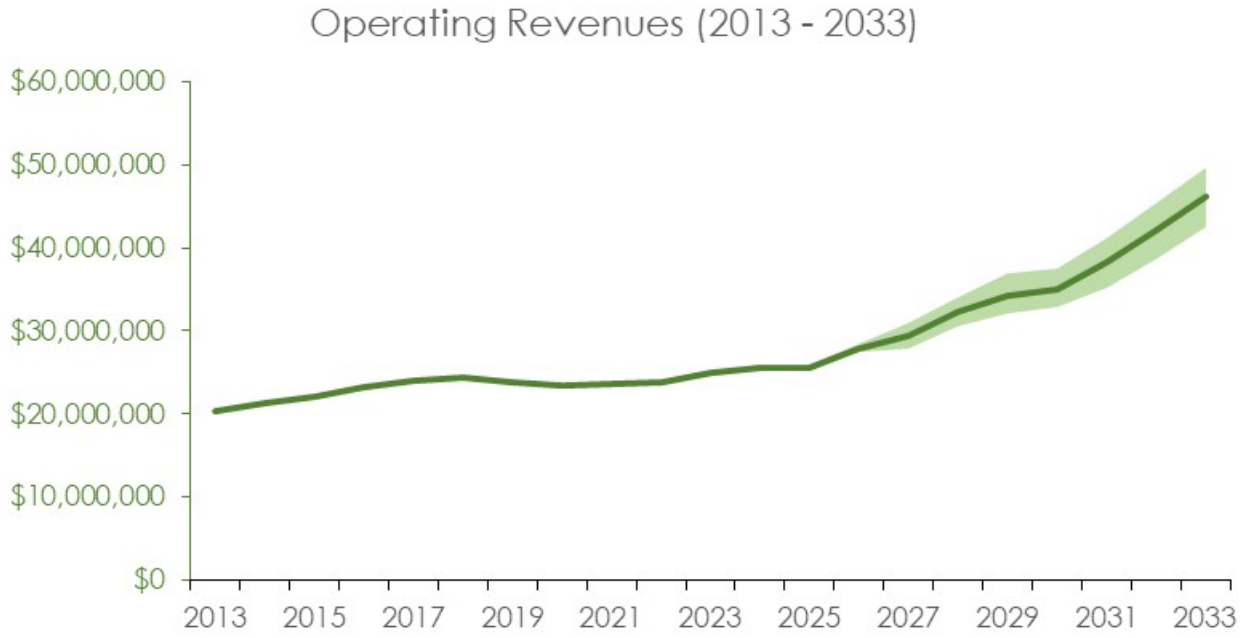
The table below shows the annual revenues by major categories for the past 5 years. (The data here is not adjusted for weather to accurately represent the revenues received.) The non-lapsing revenues over this period have come mostly from development fees until 2023 when interest revenues were strong. The volatility of development fees is much greater than that of operating revenues requiring caution before relying on development fee revenues for necessary capital improvements or forecasting revenues. Interest revenue from cash reserves will decline going forward as reserves will be drawn down for capital investments, particularly the Halligan Reservoir project.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Customers | 35,769 | 36,002 | 36,050 | 36,201 | 36,300 |
| Annual Rate Adjustment | 0.00% | 0.00% | 2.00% | 0.00% | 4.00% |
| Residential WW Sales | $ 15,816,202 | $ 15,775,168 | $ 16,016,573 | $ 15,804,431 | $ 16,562,397 |
| Com/Indl WW Sales | $ 6,119,149 | $ 5,680,279 | $ 5,577,730 | $ 5,980,055 | $ 5,875,275 |
| District WW Sales | $ 412,491 | $ 415,027 | $ 410,652 | $ 406,770 | $ 426,871 |
| Other WW Sales | $ 199,538 | $ 250,193 | $ 279,598 | $ 329,288 | $ 395,732 |
| PILOTs | $ 1,339,806 | $ 1,312,632 | $ 1,321,053 | $ 1,331,681 | $ 1,372,780 |
| Operating Revenue | $ 23,887,186 | $ 23,433,299 | $ 23,605,607 | $ 23,852,226 | $ 24,633,054 |
| Development Fees/PIFs/Contributio | $ 538,797 | $ 1,441,578 | $ 1,505,670 | $ 1,793,187 | $ 657,247 |
| Interest Revenue | $ 857,329 | $ 541,991 | $ 291,201 | $ 590,753 | $ 1,048,572 |
| Other Misc | $ 101,594 | $ 534,449 | $ 246,815 | $ 151,233 | $ 150,788 |
| Non-Operating Revenue | $ 1,497,720 | $ 2,518,018 | $ 2,043,686 | $ 2,535,172 | $ 1,856,608 |
| Total Revenues | $ 25,384,906 | $ 25,951,317 | $ 25,649,293 | $ 26,387,398 | $ 26,489,662 |

Looking at revenues on an annual percent change basis shows how realized operating revenue growth has almost kept pace with the annualized rate increases. Again, the main bright spot in 2023 being interest revenue due to the amount of cash being held in reserve for future capital need.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Customers | 0.85% | 0.37% | 0.28% | 0.27% |
| Annual Rate Adjustment | 2.00% | 1.20% | 2.00% | 4.00% |
| Residential WW Sales | 2.18% | 0.79% | 1.64% | 4.80% |
| Com/Indl WW Sales | 1.19% | -1.94% | 1.13% | -1.75% |
| District WW Sales | 0.62% | 1.27% | 0.94% | 4.94% |
| Other WW Sales | 5.67% | 10.42% | 16.51% | 20.18% |
| PILOTs | 1.90% | 0.08% | 1.50% | 3.09% |
| Operating Revenue | 1.93% | 0.18% | 1.68% | 3.27% |
| Development Fees/PIFs/Contributic | -12.07% | -22.68% | -23.03% | -63.35% |
| Interest Revenue | 9.80% | 7.00% | 24.60% | 77.50% |
| Other Misc | 1.54% | -7.42% | -34.41% | -0.29% |
| Non-Operating Revenue | -4.43% | -11.12% | -9.66% | -26.77% |
| Total Revenues | 1.31% | -0.93% | 0.69% | 0.39% |

Taking all this historical trending and perspective into account, the stochastic financial model considers the next ten-year horizon. Looking out over the next decade, revenues will need to increase significantly to service anticipated debt that will need to be issued to complete even 60% of the planned capital investments. The graph below shows a forecasted annual growth of 7.3% in future operating revenue (solid green line) which greatly exceeds the 1.93% growth over the past decade. The green area shows the range of revenues considered in the stochastic analysis for the long-term financial model.

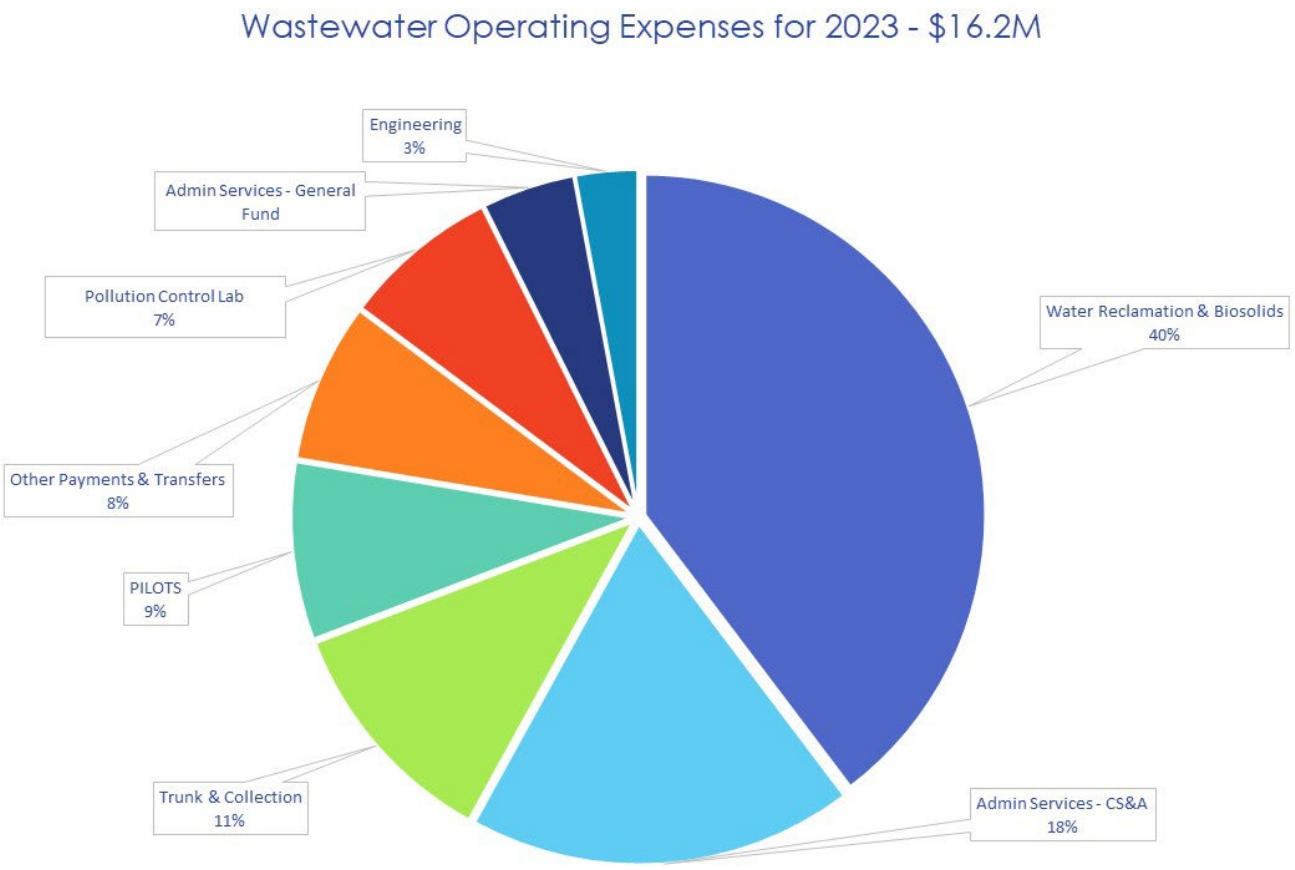


Non-operating revenues are expected to grow modestly from the range seen over the past decade through adjustments to the plant investment fees which are assumed to grow at an annualized rate of 5-10%. Any unanticipated grant revenue would positively impact the financial health of the utility and as such is not modelled here. Non-operating revenues are expected to remain a relatively insignificant contributor to total revenues at less than 10% of total revenues in the coming decade.

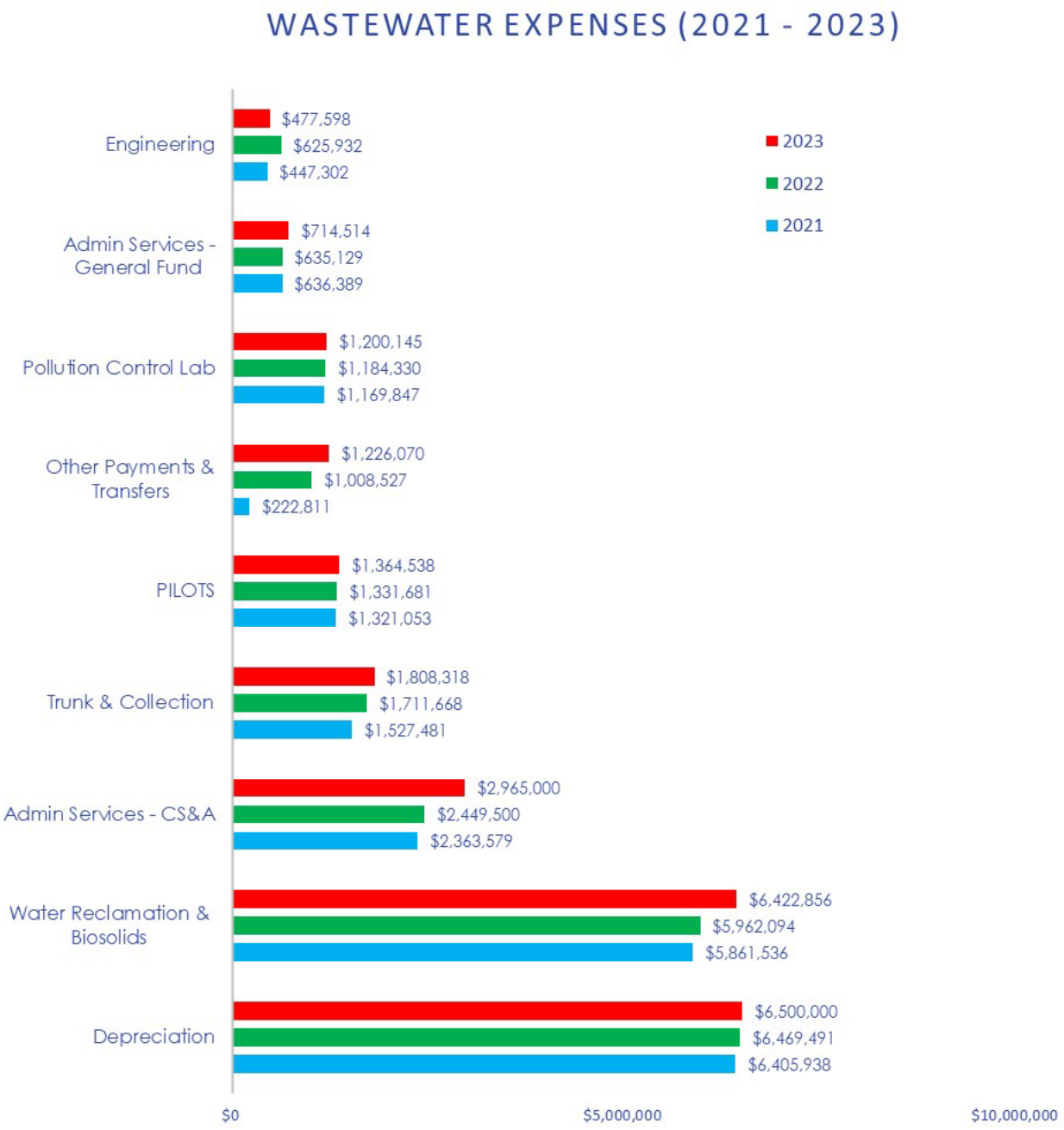
## Expenditure Analysis

Wastewater expenses consist of operating expenses directly incurred for sewage collection and water reclamation including labor and material expenses and indirect customer service and administrative costs, and non-operating expenses. Wastewater non-operating expenses include capital investments made in renewing existing assets as well as renewing existing infrastructure.

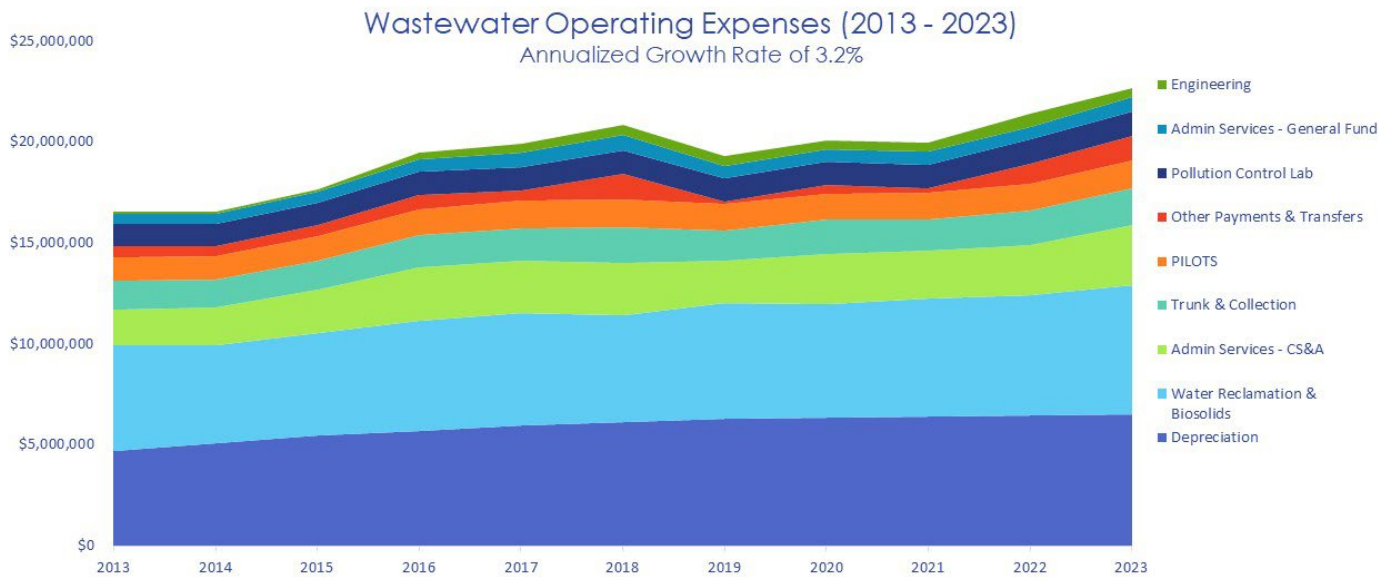
The pie chart below shows all operating expenses for the Wastewater utility in 2023.




The table below reflects the most recent three years of expenses. The significant growth in CS&A administrative expenses reflects the creation of the One Water Director department within this internal services fund.




Wastewater operating expenses are shown below from a longer-term perspective in the categories consistent with the monthly financial operating report. Depreciation is a non-budgetary operating expense that is also included here as it represents the amount of value lost in existing assets. Ideally, this lost value represents a minimal level of capital investment in the renewal of existing assets to ensure the long-term reliability of the system. Total operating expenses have grown at a very modest annual rate of 3.2% over the past decade. However, more recent inflationary pressures have caused operating expenses to increase by 6.1% in 2023. This rate of annual growth for all operating expenses is assumed to be tightly managed in the analysis and forecasts below.




Operating expenses in the Wastewater Fund have grown at about the rate of inflation over the past decade. The most critical factor in the financial health of this Fund is to continue to manage operational expenses to grow no more than this modest rate. The increased capital investments in system renewal could help with O&M labor expense but significant attention will need to be given to operational expenses within each Business Unit to ensure adequate revenues are generated to make these investments.

The table below shows operating and non-operating expenses by the major categories shown in the Monthly Financial Operating Report (MOR). Depreciation is estimated for 2023 in this table and analysis.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Water Reclamation & Biosolids | $ 5,755,866 | $ 5,616,163 | $ 5,861,536 | $ 5,962,094 | $ 6,422,856 |
| Pollution Control Lab | $ 1,121,551 | $ 1,162,170 | $ 1,169,847 | $ 1,184,330 | $ 1,200,145 |
| Trunk & Collection | $ 1,479,408 | $ 1,668,068 | $ 1,527,481 | $ 1,711,668 | $ 1,808,318 |
| Engineering | $ 462,486 | $ 408,819 | $ 447,302 | $ 625,932 | $ 477,598 |
| Admin Services - CS&A | $ 2,113,894 | $ 2,517,116 | $ 2,363,579 | $ 2,449,500 | $ 2,965,000 |
| Admin Services - General Fund | $ 627,337 | $ 643,020 | $ 636,389 | $ 635,129 | $ 714,514 |
| Other Payments & Transfers | $ 112,506 | $ 399,203 | $ 222,811 | $ 1,008,527 | $ 1,226,070 |
| PILOTS | $ 1,339,806 | $ 1,312,632 | $ 1,321,053 | $ 1,331,681 | $ 1,364,538 |
| Depreciation | $ 6,266,408 | $ 6,340,847 | $ 6,405,938 | $ 6,469,491 | $ 6,500,000 |
| Total Operating Expenses | $ 19,279,262 | $ 20,068,038 | $ 19,955,936 | $ 21,378,352 | $ 22,679,039 |
| Debt Service | $ 2,496,795 | $ 2,518,209 | $ 2,070,970 | $ 2,095,470 | $ 2,264,700 |
| Internal Transfers Out | $ 286,681 | $ 207,405 | $ 173,080 | $ 559,526 | $ 2,503,423 |
| Misc Non-operating Expense | $ - | $ - | $ - | $ - | $ - |
| Minor Capital | $ 850,077 | $ 503,558 | $ 689,026 | $ 930,776 | $ 1,084,506 |
| Major Capital | $ 6,170,605 | $ 11,264,727 | $ 4,588,916 | $ 5,450,901 | $ 5,970,715 |
| Total Non-operating Expenses | $ 9,804,158 | $ 14,493,899 | $ 7,521,992 | $ 9,036,672 | $ 11,823,345 |
| Total Expenses | $ 29,083,419 | $ 34,561,937 | $ 27,477,927 | $ 30,415,024 | $ 34,502,383 |

**Water Reclamation & Biosolids** – These expenses are related directly to the reclamation of water at the Water Reclamation Facilities before it is returned to the river. These expenses have increased at a faster rate in recent years due to inflationary pressures, including a 7.7% increase in 2023.

**Pollution Control Lab** – The lab expenses are primarily labor and chemicals. These expenses have grown at a very modest 1.0% over the past decade, and only increased 1.3% in 2023 over 2022 expenses.

**Trunk and Collection** – This line item represents the most direct expenses associated with providing wastewater collection services to the community. These expenses have been growing at a reasonable rate particularly over the past 5 years which has seen an annualized increase of 0.7% although most recently there was an increase of 5.6% in these costs in 2023 alone. Managing this growth to a moderate level in the future will be very important to the financial success of this utility.

**Engineering** – This expense category includes expenses associated with engineering services primarily associated with project management but also includes some engineering contracted services. Because of vacancies, these costs decreased by 23.7% in 2023 but have increased at an annualized rate of 5.3% over the last 3 years.

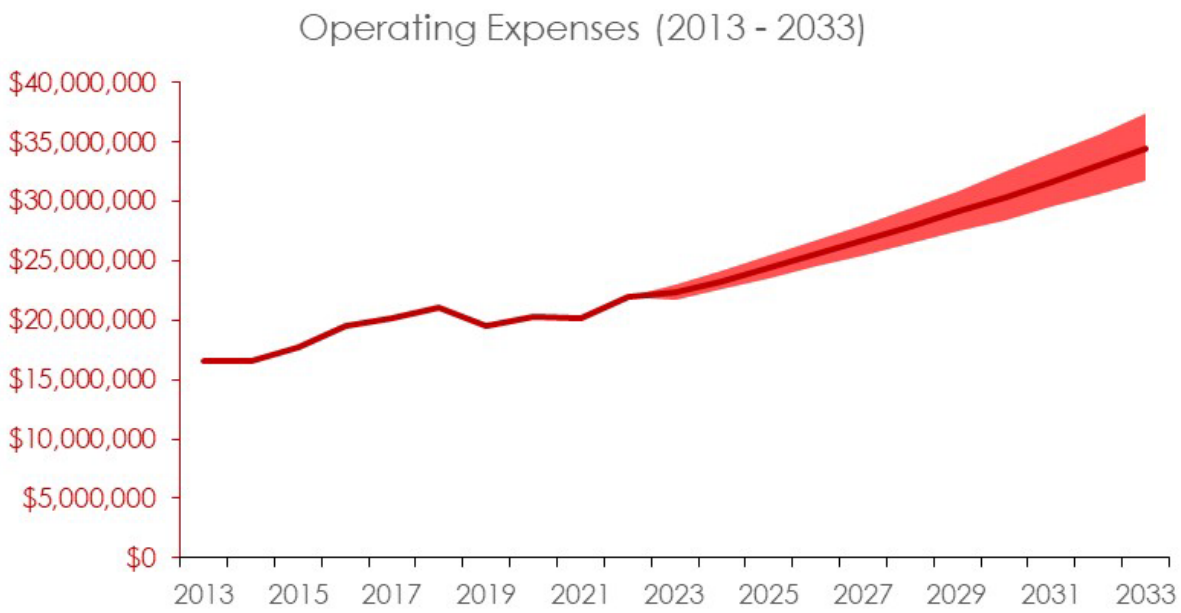
**Administrative Services** – Administrative Service expenses from the Utilities internal Customer Service and Administration areas increased significantly over the past few years, particularly in 2023, with the addition of the One Water Director's business unit in this internal services fund. Managing these costs better will be important in the coming years.

**Payments in Lieu of Taxes (PILOTs)** – This is a transfer to the General Fund set at 6% of operating revenues. As such, any increase in this expense is directly offset by higher operating revenues.

**Internal Transfers Out** – In 2023 a significant appropriation was made for a new Customer Information and Billing System. The transfer was made to the Utilities internal services fund as a one-time expense.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Water Reclamation & Biosolids | 2.0% | 4.0% | 4.6% | 7.7% |
| Pollution Control Lab | 1.0% | 0.5% | 1.1% | 1.3% |
| Trunk & Collection | 2.2% | 0.7% | 2.7% | 5.6% |
| Engineering | 16.6% | -2.2% | 5.3% | -23.7% |
| Admin Services - CS&A | 5.6% | 2.5% | 5.6% | 21.0% |
| Admin Services - General Fund | 3.8% | -0.5% | 3.6% | 12.5% |
| Other Payments & Transfers | 7.4% | -0.8% | 45.4% | 21.6% |
| PILOTS | 1.8% | 0.0% | 1.3% | 2.5% |
| Depreciation | 3.3% | 1.2% | 0.8% | 0.5% |
| Total Operating Expenses | 3.2% | 1.7% | 4.2% | 6.1% |
| Debt Service | -6.8% | -2.3% | -3.5% | 8.1% |
| Internal Transfers Out | | 65.6% | 129.4% | 347.4% |
| Misc Non-operating Expense | | | | |
| Minor Capital | 12.2% | 4.7% | 29.1% | 16.5% |
| Major Capital | 5.6% | -7.7% | -19.1% | 9.5% |
| Total Non-operating Expenses | 3.5% | -1.1% | -6.6% | 30.8% |
| Total Expenses | 3.3% | 0.7% | -0.1% | 13.4% |

Wastewater O&M expenses have increased at a rate just above inflation over the past decade. This has been attributed to active management (a flattening of the curve can be seen in 2018-21). Unfortunately, inflation and delays in capital work since the COVID-19 pandemic due to resource constraints has resulted in some growth since 2021. Looking out over the next ten years through the long-term financial model, expenses will need to be tightly managed so as not to exceed the rate of inflation in total. The solid red line into the future assumes operating expenses other than PILOTs also grow at a rate of 4.4% annually consistent with recent inflationary pressures. The uncertainty in operating expenses is large and highlights the importance of stochastic modeling rather than showing a single forecasted value a decade into the future.




## Operating Income Analysis

Looking at operating revenues and expenses on the same chart shows there is more variability in operating revenues than expenses. This utility has a measurable seasonality and year-over-year weather driven variability that must be accounted for in the financial modeling.


Looking at the operating margin, the delta between the operating revenues and operating expenses illustrates the financial impacts to this utility from recent operating expense increases. The sustained decline in the operating margin suggests rate increases will be necessary to meet this strategic metric going forward.

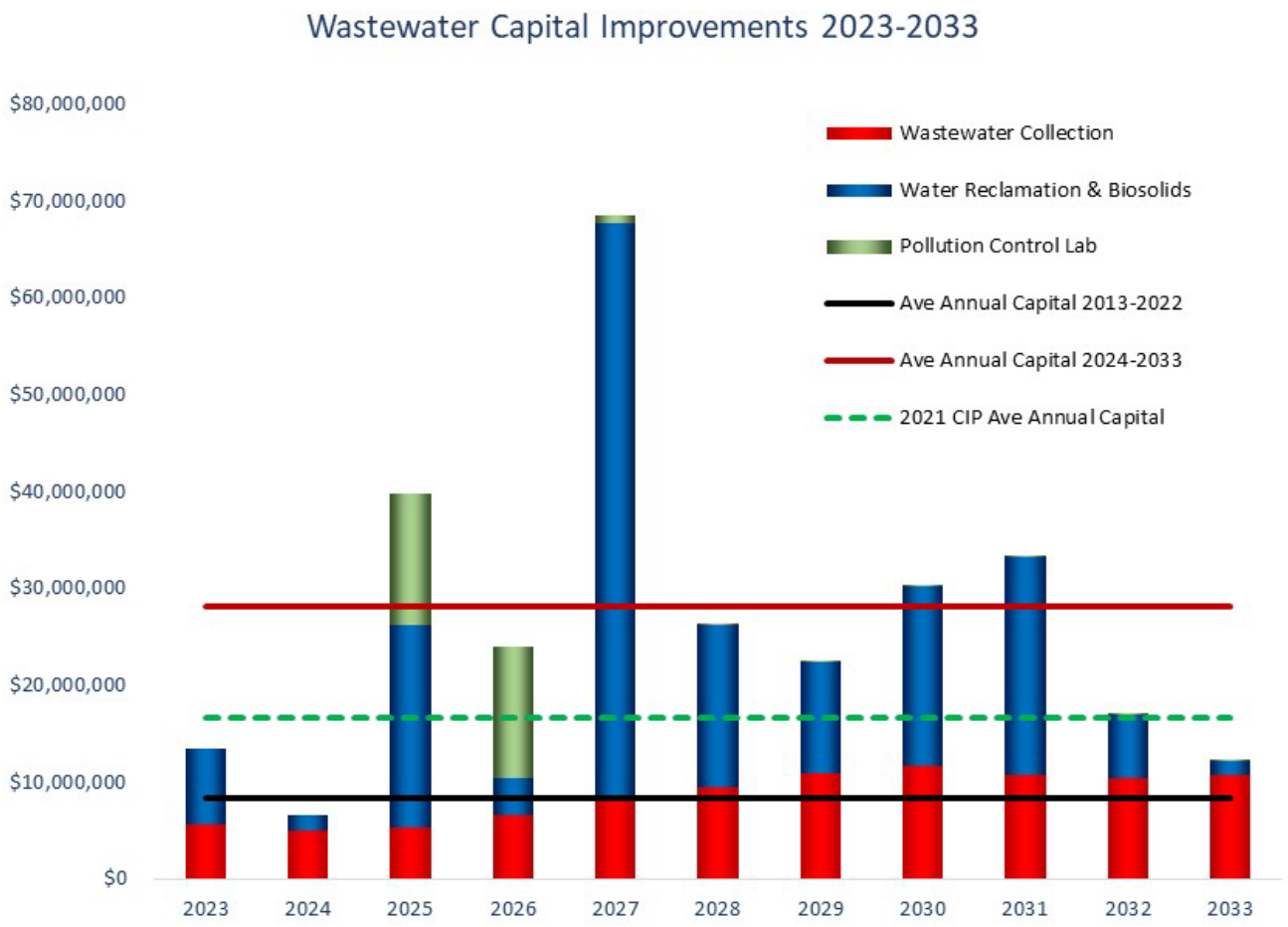

Operating revenues have grown at a very modest annualized rate of 1.93% over the past decade through gradual, modest rate adjustments. The rate increases allowed for the operating income to remain at a healthy, positive level although it has been declining as operating expenses have grown at a slightly faster rate of 3.2% over the past decade. Inflationary pressures being seen across the utilities for materials and labor resulted in Wastewater operating expenses growing at 4.2% annually over the most recent 3-year period. The result of which has been a declining trend in the operating margin since 2014. This trend will change as rates are raised to meet debt service needs but in order to maintain operational levels it will be difficult to limit rate increases to less than 5.0% annually in the future even at 60% of the proposed level of capital investment.


## Capital Planning and Expenditure Analysis

***Note: Appendix A shows the anticipated capital investments and expected year of investment.***

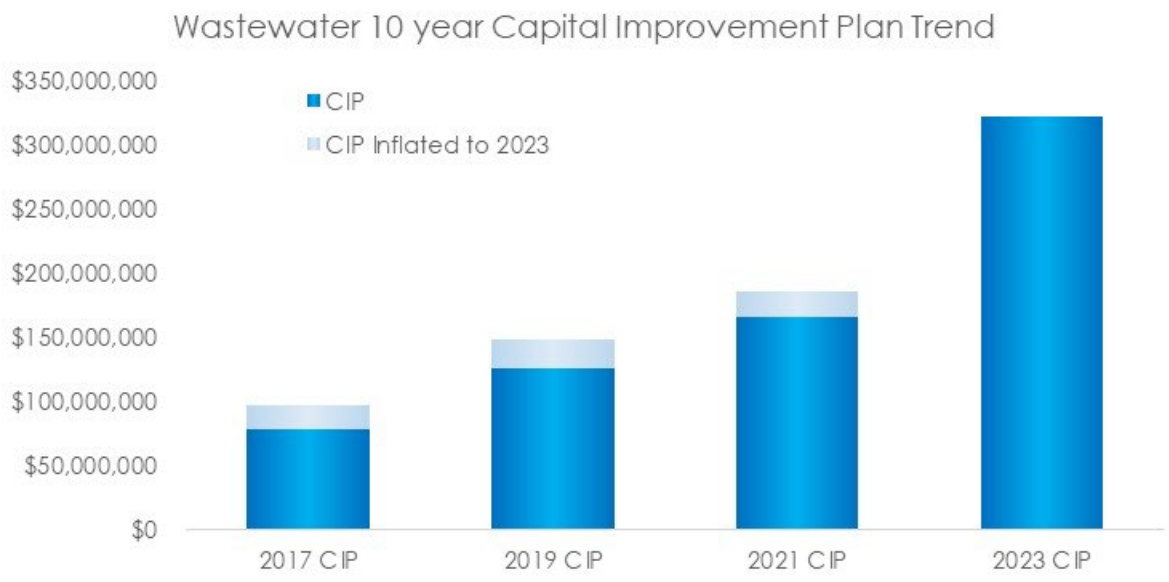
Operational goals for the Wastewater utility are focused on maintaining the current level of reliability while moving forward with modernizing the intake infrastructure at the Drake reclamation facility. Investment in collection infrastructure is necessary to maintain the current level of reliability expected by our customers. The financial models require a review of the 10-year capital investment plans and a need to re-prioritize the anticipated projects along with any new investments. An updated CIP was developed in October 2023 ahead of discussions with the Council Finance Committee.

The current 10 Year capital improvement plan (CIP) anticipates a three-fold increase in annual capital investment over the coming decade than was realized in the previous decade. This increase is largely driven by investments in reclamation and biosolid infrastructure as well as a desire to get to a more sustainable replacement cycle on the collection system.



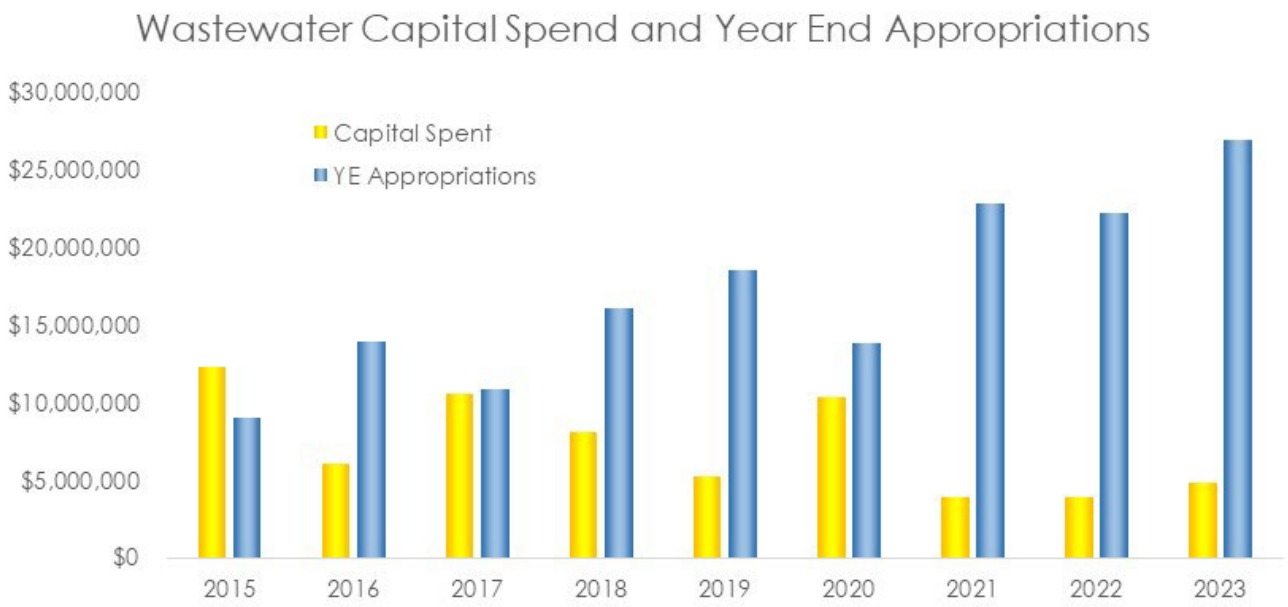

The development of prioritized CIPs is necessary to ensure efficient use of capital to optimize the levels of service being provided to our community. This prioritization has been an elusive goal since the first CIP was developed in 2016. Progress has been made on identifying the service level metrics for this utility but setting service level targets and the relative weights of those service levels remains to be done. Additionally, the 10-year CIPs have fluctuated significantly from one budget cycle to the next (every 2 years) which makes financial planning more challenging than more stable and refined CIPs would require for each utility including this one. This type of volatility in long-term planning efforts is very unsettling.

The graph below shows the evolution of the Wastewater CIP over the last 3 budget cycles compared to the 2023 CIP reflecting the impacts of some of the macro-economic challenges outlined above as well as updated planning and analysis. The lack of a consistent senior leadership team throughout Utilities has also impacted the CIPs as new leaders bring new perspectives and ideas but change too quickly to refine the CIPs. The growth of the number of projects in the CIP will require further consideration around how to fully resource these projects which could result in a more even distribution of capital required than what is shown in the chart above.




The current 10 Year CIP consists of $322M of identified capital investments which consists of $116M for renewal of the collection system, $29M for a new pollution control lab and equipment, and $177M for water reclamation infrastructure. (All projects are identified in 2023 dollars so that a consistent inflation can be applied to all future projects.)

The following chart shows the annual capital investment made each year with the amount of approved capital investment remaining at the end of the year. Each year new capital appropriations are made for asset renewal programs and specific projects which add to the capital investment remaining from previous years. The amount of capital appropriations remaining at the end of each year exceeds the realized annual capital investment made each year. At the end of 2023, the amount of capital appropriated from previous budget cycles was $26.9M. This $26.9M shown in blue will require more than three years to invest at the recent rate of investment without any additional capital appropriations being requested.




While there is some lead time related to capital investments because of the policy of fully funding each capital investment up front, this build-up of capital work reduces the ability to adapt capital investments as priorities may change. The capital improvement plan discussed below and included in Appendix A is recommending that an additional $71M be appropriated in the 2025-26 budget cycle for capital work. It is recommended that a long-term strategic resource plan be developed to execute all currently funded and future capital investments before any additional debt is issued for any capital investment.

## Debt Analysis

**Last Bond Rating:** **AA- (prior to 2013)**

While operating revenues are intended to cover all operating expenses, debt issuances are an important source of funding for capital investments for any utility. Debt issuances also establish generational equity by having the generation of customers benefiting from the investment funding the investment through the debt repayment rather than having current customers pay for investments that are necessary to serve future generations. Given the significant increase in capital investment that is expected over the next decade, significant levels of debt will be necessary even after the use of all available reserves and anticipated development fees.

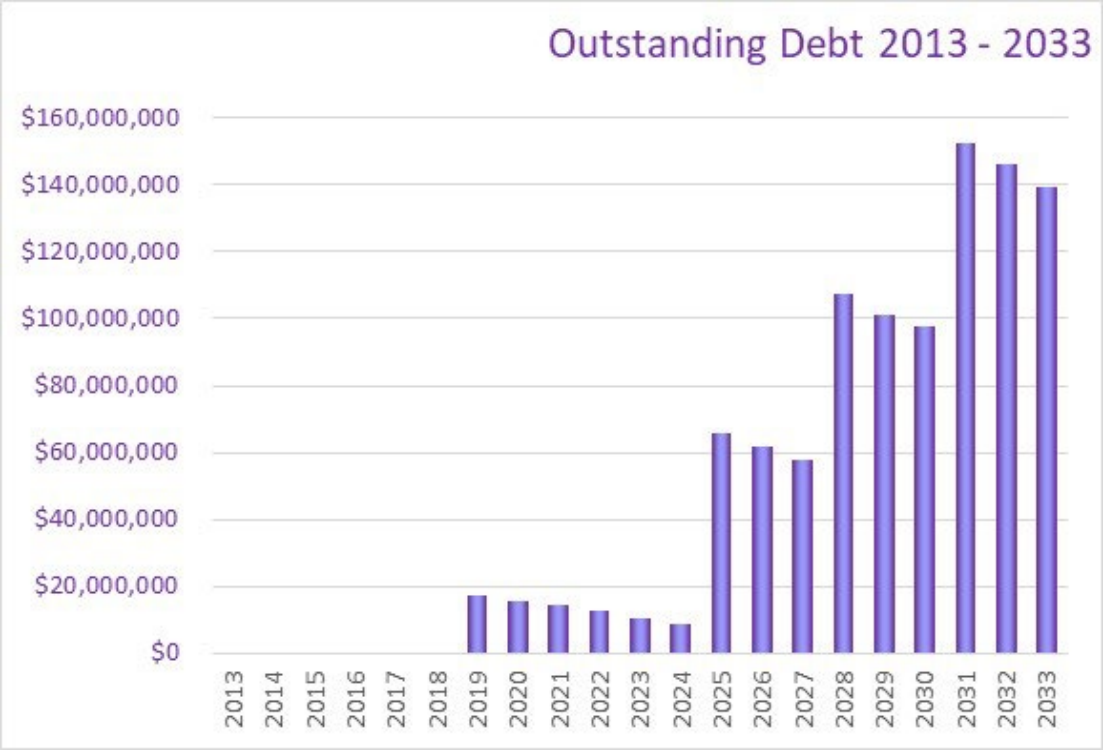
The long-term financial modeling relies on objective criteria to drive financial decisions such as when to issue debt. The use of objective criteria allows for future debt issuances to be modeled and to provide clear reasoning as to why an issuance is needed in any given year based on the current CIP. Debt issuances are based on the following criteria.

1. If capital investments are anticipated to exceed available reserves over the next 3 years a debt issuance is assumed to be sufficient to cover the next 2 years capital investments and leave 125% of the minimum required reserve. This recommendation is presented to the Council Finance Committee ahead of the biennial budget cycle.

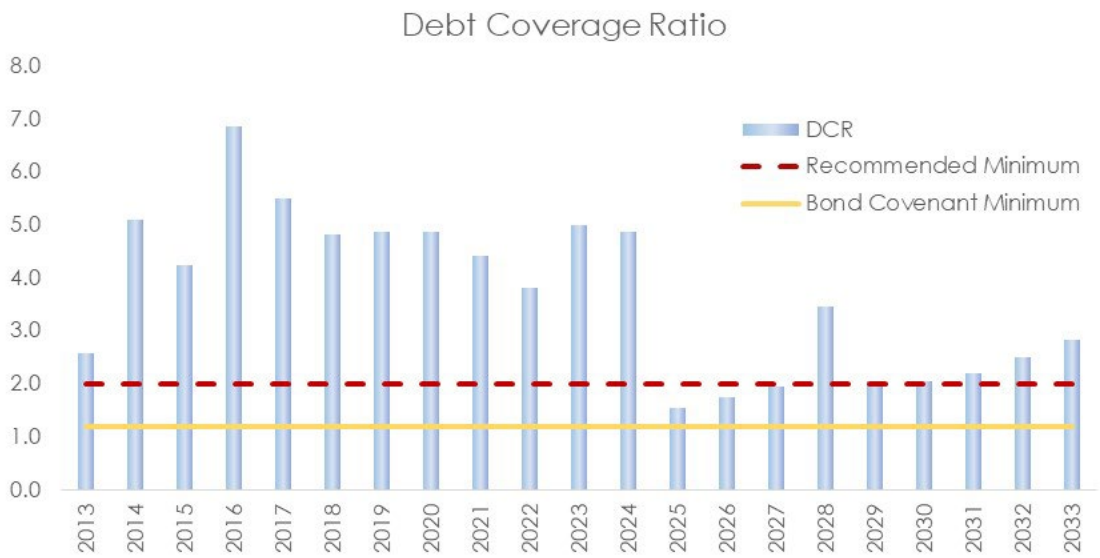
2. Because there are costs associated with debt issuances, a balance is struck between frequently issuing debt and making efficient use of the generated capital by limiting the frequency of debt issuances to no more than once every 3 years.

The wastewater utility has not issued any new revenue bonds in the past decade making it difficult to determine how new revenue bonds will be rated. The only outstanding debt from 2009 has been refinanced a few times over the past decade as coupon rates were favorable.

The chart below shows the historical and future debt related with water capital investments including a potential $59M issuance in the 2025-26 budget cycle.




Because there has been little outstanding debt over the past decade, the debt coverage ratio for this Fund has been well above the bond covenant minimum requirements of 1.15-1.2 as well as above the internally recommended ratio of 2.0 necessary to be viewed as favorably as possible by the rating agencies. Meeting the recommended minimum debt coverage ratio as well as the recommended minimum should be possible over the coming decade.




The actual debt capacity for this utility Enterprise Fund is fairly stable due to the consistency seen in operating revenues. Necessary debt issuances are expected to be rated as investment grade debt. The debt capacity of the Enterprise Fund is sufficient to meet anticipated debt issuances. The stochastic modeling assumes that future interest rates would fluctuate within a range between 3.0 and 6.0%.

Debt Capacity Estimation

Interest Rate: 5.00%

Net Pledged Revenue (5yr ave): $10,984,200

| Debt Coverage Ratio | Debt Capacity (10 yr Debt) | Debt Capacity (15 yr Debt) | Debt Capacity (20 yr Debt) |
|---|---|---|---|
| 1.0 | $85 | $114 | $137 |
| 1.2 | $71 | $95 | $114 |
| 1.4 | $61 | $82 | $98 |
| 1.6 | $53 | $71 | $86 |
| 1.8 | $47 | $63 | $76 |
| ***2.0*** | ***$42*** | ***$57*** | ***$69*** |
| 2.2 | $39 | $52 | $62 |
| 2.4 | $35 | $48 | $57 |
| 2.6 | $33 | $44 | $53 |
| 2.8 | $30 | $41 | $49 |
| 3.0 | $28 | $38 | $46 |

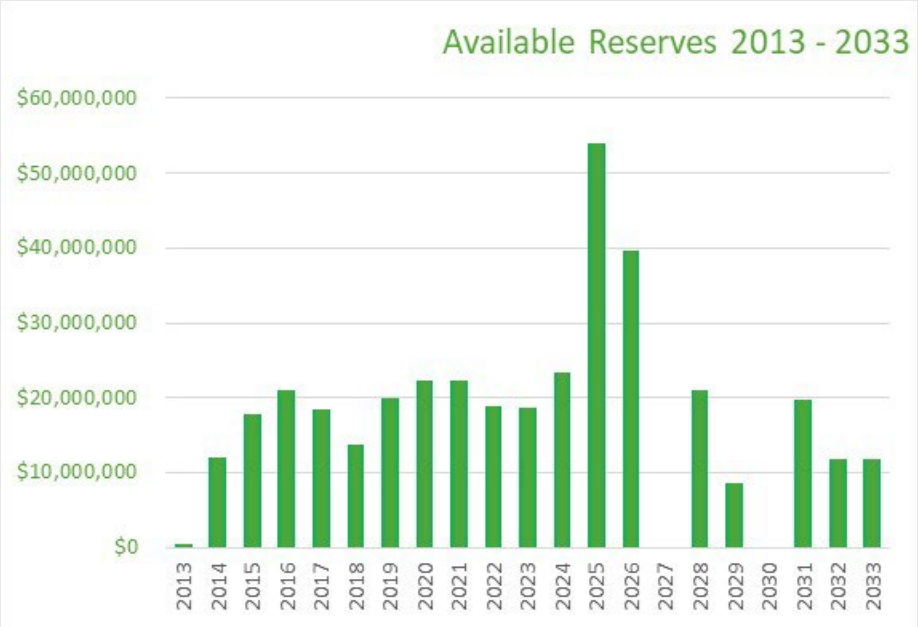
Outstanding Debt in 2023: $10.6 M

## Reserves Analysis

Financial Management Policy 5 specifies Fund Balance Minimums for Enterprise Reserves. It also states that additional reserves should be set aside for anticipated capital investments. The graph below reflects the total Fund Balance as well as the portion of that balance that is available for capital appropriations above and beyond the minimum required reserve balance and any existing capital appropriations. The long-term financial modeling objectively determines when additional capital investment should come from Available Reserves and when it should come through rates or more immediately through debt issuances.

Based on the actual financials for 2023, it is estimated that $0.9M was taken from Available Reserves in 2023.


The available fund balance is expected to continue to decrease due to the significant capital investment identified in the CIP requiring additional debt issuances over the next 3-5 years. The actual increase in Available Reserves reflected below is being driven by the timing of debt issuances and the capital investments in the unprioritized CIP. A more strategic approach is necessary as not all capital investments can be funded over this decade without significantly higher rate increases and more debt issuances being needed to achieve the proposed capital investments.




## Rate Analysis

Prior to the 2015-16 budget cycle rate adjustments were subjectively determined. Beginning with the 2015-16 budget cycle objective financial metrics were established to determine necessary rate adjustments. This change allowed for future rate adjustments to be modeled and to provide clear reasoning as to why a rate adjustment is needed in any given year. There are three financial metrics which drive the need for a rate adjustment.

1. Operating Income – If the combined operating income for the previous two years was negative, a rate increase is made in the next year sufficient to generate enough operating income in the coming two years to offset those losses. The two-year period allows for some weather or economic variability and is consistent with the City's biennial budget cycle.

2. Debt Coverage Ratio – A debt coverage ratio is recommended by the bond rating agencies to support the current enterprise fund bond ratings. This debt coverage ratio is well above the minimum specified in the bond covenants which could trigger bondholders to request a rate increase on their behalf. If the debt coverage ratio is forecasted to drop below 2.0 in the coming year, a rate increase sufficient to raise the debt coverage ratio to 2.1 is assumed in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

3. Available Reserves – If an enterprise's reserve balance is anticipated to drop below the minimum required reserve level in the next year, a rate increase sufficient to maintain the minimum required reserve is made at the beginning of that year in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

The sum of these three rate adjustments is the needed rate adjustment for the following year. In addition to these three objective criteria for rate adjustments, a 5.0% ceiling is imposed in any given year, consistent with the stated objective of "gradual, modest rate adjustments", which may require smoothing such an increase over the two years of a budget cycle to not have a large rate increase one year and then no rate adjustment the next. These same objective criteria are applied to the other 3 utility's financial models.

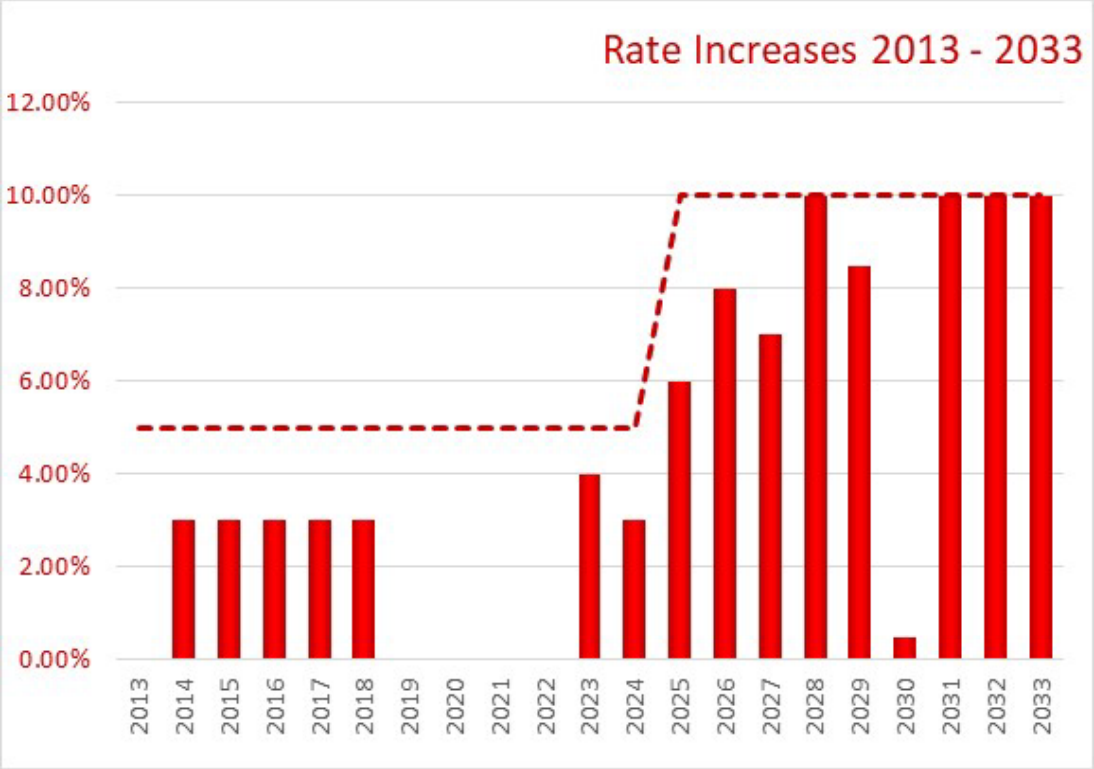
It needs to be recognized that actual revenues realized from a rate increase are not typically the full amount of the rate increase. That is to say, there is some elasticity to rate adjustments. Additionally, most utility services are weather dependent, so it is possible to occasionally realize more revenue than anticipated in rate design for a given year although this weather variability is expected to balance out over an extended period.

| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Wastewater | Adopted Rate Increase | 4.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | Realized Revenue Increase | 2.7% | 1.1% | 7.3% | -1.9% | -2.0% |

The results of the financial modeling which applies the same objective strategies for raising rates and issuing debt as the other utilities are presented below along with the forecasted debt issuances in 2025 and 2030. This ten-year rate forecast is shared with the community to be open and accountable to the ratepayers. It is recommended that rates are increased at levels higher than the strategic metric ceiling because of the significant increase in the CIP between 2021 and 2023.

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 4.0% | 4.0% | 6.0% | 8.0% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% | 6-8% |
| Debt Issued ($M) | | | $59.0 | | | $52.0 | | | $59.0 | | |

Modest rate adjustments will not be sufficient to generate adequate revenues for the proposed capital investments over the coming decade. This was unanticipated with the previous plan and is driven by the 94% increase in the cost of the CIP between 2021 and 2023. This level of increase in such a short period does not allow for gradual, modest rate adjustments unfortunately. The graph below assumes that it could be necessary to increase rates as much as 10.0% in some years and at an annual rate of 6-8% through 2023.


Rate Increases 2013 - 2033
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033

## Financial Risk Assessment

Below is a list of identified financial risks for this utility. Each risk is preliminarily categorized as high, medium or low according to both the likelihood and consequence of it being realized. Further assessment of these financial risks, particularly with operational input, may change the likelihood and consequence of each and may identify other significant financial risks. This additional assessment should be done as part of the biennial budget cycle. These financial risks are associated with operational management and anticipated capital needs and highlight the need for close collaboration between the financial and operational departments within Utilities as well as the importance of having a refined, prioritized 10-year capital improvement plan rather than an a more exhaustive list of potential capital needs that may or may not be necessary.

| | | Risk Realization | | | |
|---|---|---|---|---|---|
| Risk ID | Risk | Likelihood | Consequence | Mitigation Needed? | Risk Description |
| WWFR1 | CIP Volatility | High | High | Yes | Long-term financial planning requires planning for uncertainties with more uncertainty requiring more conservative planning to achieve expected financial metrics; significant volatility on long-term capital plans increases uncertainty in the actual capital investment needs leading to inefficient use of capital, higher rate increases and less financial agility to meet operational needs |
| WWFR2 | Undefined Service Level Metrics / Targets / Weights | Medium | High | Yes | The impact of high CIP volatility can be lessened by optimizing such investments to meet expected levels of service through an objective, quantitative prioritization methodology based on predefined service level metrics with established targets and relative weights; not having these tools to optimize capital investment poses a significant financial risk to the utility |
| WWFR3 | Operating Expense Increases | Medium | High | Yes | OpEx assumed to not exceed 3.0%; exceedance would limit funds for capital needs and drive further rate increases |
| WWFR4 | Retail Rate Fatigue | Medium | Medium | Beyond Control | Annual rate adjustments will be necessary to meet utility needs; rate fatigue would require a financial reassessment of ability to meet operational targets |
| WWFR5 | Higher Debt Service Costs | Medium | Medium | Beyond Control | As bond coupon rates increase, debt capacity decreases for a given level of net pledged revenues |
| WWFR6 | Unidentified Capital Projects | Medium | Low | No | As service level targets are established and asset management plans developed unanticipated capital needs may require more capital investment than currently planned |
| WWFR7 | Declining development fees | High | Medium | No | As development fees decline the length of time it takes to recover capital from previous investments for future use increases |
| WWFR8 | System Reliability | Low | Low | No | A real or perceived decline in service reliability could accelerate system renewal investments and lead to less efficient use of capital |
| WWFR9 | Resource Constraints on Capital Projects | High | Medium | Yes | Internal and external labor and material constraints could delay execution of funded capital projects |

## Appendix A: Capital Improvement Plan

Below is a list of identified capital projects expected to be completed over the next decade. These projects are grouped into the following categories:

**Collection System Infrastructure** – infrastructure that will be necessary for the collection and transmission of sewage to the reclamation facilities

**Reclamation & Biosolids** – capital investments necessary to maintain the current level of service for treating raw sewage and properly disposing solid waste

**Pollution Control Lab** – investments needed in either the lab facility or instrumentation used in the laboratory

| Project Name | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| WRB Minor Capital | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,300,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| WRB Replacement Program | 1,000,000 | 1,000,000 | 2,000,000 | 2,000,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| PCL Replacement | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 |
| Wastewater Collection Improvements | 2,500,000 | 4,000,000 | 5,500,000 | 7,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 |
| Wastewater Collection Minor Capital | 35,000 | 350,000 | 350,000 | 500,000 | 350,000 | 750,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| Wastewater CIPP Program | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| DWRF Septage Receiving Constructions | 5,000,000 | | | | | | | | | | |
| Wastewater Lab Design and Construction | 13,500,000 | 13,500,000 | | | | | | | | | |
| Wastewater Collection System Masterplan | 250,000 | | 250,000 | | 250,000 | | 250,000 | | 250,000 | | 250,000 |
| Drake Prelimary (Headworks) Improvements Design | 5,000,000 | | | | | | | | | | |
| Drake Prelimary (Headworks) Improvements Construction | | | 50,000,000 | | | | | | | | |
| DWRF Sidestream P Removal (Harvester) | 7,000,000 | | | | | | | | | | |
| Wastewater Utility Plan Update | | 250,000 | | | | | | | | | |
| GIS Utility Network | 400,000 | | | | | | | | | | |
| Redundant Ethernet PLC Communication Rings MWRF and DWRF | | | 675,000 | | | | | | | | |
| DWRF Anaerobic Digester Improvement Program | | | | 5,000,000 | | 5,000,000 | | 3,000,000 | | | 3,000,000 |
| DWRF NPT Blower Replacment | 2,500,000 | 2,500,000 | | | | | | | | | |
| Biosolids Treatment Improvements | | | | | | 10,000,000 | | | | | |
| DWRF NPT Air Piping Replacment and Recoating | | | 2,000,000 | | | | | | | | |
| MWRF Blower Replacements | | | | | | | | | | | |
| DWRF Reg. 31 | | | | | | | 20,000,000 | | | | |
| SCADA PLC Replacements | 390,000 | 325,000 | 65,000 | | | | | | | | |
| DWRF Carbon Addition Phase II | | | | | | | | | | | 10,000,000 |
| 54" DWRF Influent Pipe Lining | | | 2,500,000 | | | | | | | | |
| DWRF Backup Power | | | | 5,000,000 | | | | | | | |
| Transformers / Secondary Switchboard Replacements | | | 500,000 | | | | | | | | |
| DWRF West Tunnel Boiler Replacement | | | 2,500,000 | | | | | | | | |
| DWRF FCRID Outfall Improvements | | | | | | 2,000,000 | | | | | |
| DWRF CLPR Outfall Improvements | | | | | 5,000,000 | | | | | | |
| DWRF Flare Replacement | | | | | | | | 2,000,000 | | | |
| DWRF-MWRF Tie Line Relining | | | | | 5,000,000 | | | | | | |
| DWRF Odor Control System Improvements | | | | 2,000,000 | | | | | | | |
| DWRF Polymer System Improvements | | | | 2,000,000 | | | | | | | |
| DWRF West Tunnel Improvements | | | | 750,000 | | | | | | | |
| Training Software Platform | 50,000 | | | | | 1,000,000 | | | | | |
| DWRF NPT Process Lab Replacement | | | | | | | 1,000,000 | | | | |
| DWRF SPT Process Lab Replacement | | | | | | | | | | | |
| Facility Wide Glycol Loop Replacement | | | | | | | | | | | |
| Drake Water Reclamation Non-potable Piping System (Eastside) Replacement | | | | | | | | | | | |
| | 39,715,000 | 24,015,000 | 68,430,000 | 26,340,000 | 22,490,000 | 30,340,000 | 33,290,000 | 17,040,000 | 12,290,000 | 12,040,000 | 25,290,000 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Collection | 5,235,000 | 6,600,000 | 8,100,000 | 9,500,000 | 10,900,000 | 11,750,000 | 10,700,000 | 10,450,000 | 10,700,000 | 10,450,000 | 10,700,000 |
| Reclamation & Biosolids | 20,890,000 | 3,825,000 | 59,565,000 | 16,750,000 | 11,500,000 | 18,500,000 | 22,500,000 | 6,500,000 | 1,500,000 | 1,500,000 | 14,500,000 |
| Pollution Control Lab | 13,590,000 | 13,590,000 | 765,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 |
| | 39,715,000 | 24,015,000 | 68,430,000 | 26,340,000 | 22,490,000 | 30,340,000 | 33,290,000 | 17,040,000 | 12,290,000 | 12,040,000 | 25,290,000 |

# 2024 10-Year Strategic Financial Plan

*City of Fort Collins Utilities*

# *Stormwater*

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## Purpose of the Strategic Financial Plans

The strategic financial plans are intended to provide a 10-year plan for the efficient and effective financial management of each utility in a manner that is consistent with the City's values and mission and aligned with the City's biennial Budget Process and Strategic Planning Process. Much of the long-term strategic direction for each utility requires significant capital investment spanning more than one budget cycle and while the magnitude of the required investment may be included in the capital improvement plans, the financial capacity and strategies to meet these challenges is beyond the scope of such plans. Capital improvement projects should be prioritized through an asset management program to ensure alignment with the City's strategic objectives and proper planning to achieve the targeted levels of service for each utility to our community.

Whereas strategic planning sets the operational direction of where the utilities are going in the future, strategic financial planning provides a financial context for this movement. The strategic financial plans ensure the long-term operational and fiscal objectives and level of service targets for each of the utilities are met in a financially sustainable and resilient manner. The strategic financial plans outline the projected financial health, long-term revenues and expenditures, debt position and recommended financial strategies necessary to achieve the operational objectives and targeted levels of service for each of the four utilities over the next 10 years.

There are three main financial strategies with associated metrics that are intended to maintain the financial health of each utility:

1) Generate a modest operating margin annually that is sufficient to fund asset renewal.
2) Maintain a debt coverage ratio adequate to ensure all future debt issued is rated as being investment grade debt.
3) Through long-term planning adjust rates as needed to meet revenue requirements through modest, gradual annual adjustments.

## 2023 Strategic Financial Planning

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

- In 2022 inflation returned to levels not seen in 40 years which has adversely affected operating costs as well as the costs of materials and labor for capital projects.
- The Federal Reserve has responded to the growth in inflation by raising interest rates in a short time, which in turn is increasing the cost of capital.

More specific to the Stormwater Enterprise Fund changes that have an impact on the financial modeling for this plan are:

- The cost of needed capital investments has increased by 40% from the CIP proposed in 2021 and tripled from the 2019 CIP. This increase is so much that it is anticipated that the level of annual capital investment will be 4 times in the coming decade compared to the last decade.

With those headwinds as a background, the long-term financial model was updated with the most recent financial data and consideration given to how these challenges could impact the 10-year forecast. The result of the modeling is discussed below beginning with a review of the 2023 fiscal year followed by an analysis of revenues, expenses, operating income, capital investments, debt capacity and rates more monthly services. A financial risk register follows the ten-year rate and debt issuance forecast which is the final output from the model. The 10-year Capital Improvement Plan is included as an appendix to conclude the plan.

To begin the financial planning, some context is appropriate given the amount of capital investment being requested for the coming decade. The Stormwater Enterprise Fund generates $19-21M annually in revenues and spends $7-9M annually on operations before depreciation and another $5-7M on capital investments. The proposed capital improvement plan for the next decade has $239M in proposed investments, or $24M annually. To provide adequate revenues to meet this level of investment means either doubling rates for monthly services and doubling development fees immediately or issuing significant debt and raising rates and fees over the next few years to cover the increased debt service and some capital investment. While this may be possible, it is not recommended for our customers. Additional revenues must be found through state or federal grants and a prioritization of the capital work needs to be done to ensure the most critical capital investments are being made while other investments are deferred beyond the 10-year horizon. The model shows that just making 50-75% of the proposed capital investments will require rate and fee increases of 6-8% annually over the next few budget cycles.

## 2023 Financial Overview

Financially, 2023 was better than budgeted as operating income exceeded the budget by $2.6M despite stormwater operating revenues being just $0.3M over budget due to lower than anticipated operating expenses. The operating margin decreased in 2023 over 2022 as operating revenues increased just $0.8M while operating expenses increased $1.2M from 2022 levels. As the table below shows, all three metrics associated with the three main financial strategies from a long-term financial planning perspective were met in 2023. The operating margin, the excess in operating revenues after covering all operating expenses including depreciation, remained well above the targeted level in 2023. Challenges and uncertainty remain in operating expenses that will likely require rate adjustments in the next 10 years that exceed the targeted limit of 5.0% annually to meet the strategic financial targets.

| | Strategic Financial Plan Target | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Operating Margin | > 2.0% | 29.9% | 33.2% | 38.9% | 39.1% | 41.6% |
| Debt Coverage Ratio | > 2.00 | - | - | 11.4 | 8.8 | 3.7 |
| Rate Adjustment | < 5.0% | 3.0% | 0.0% | 0.0% | 2.0% | 2.0% |

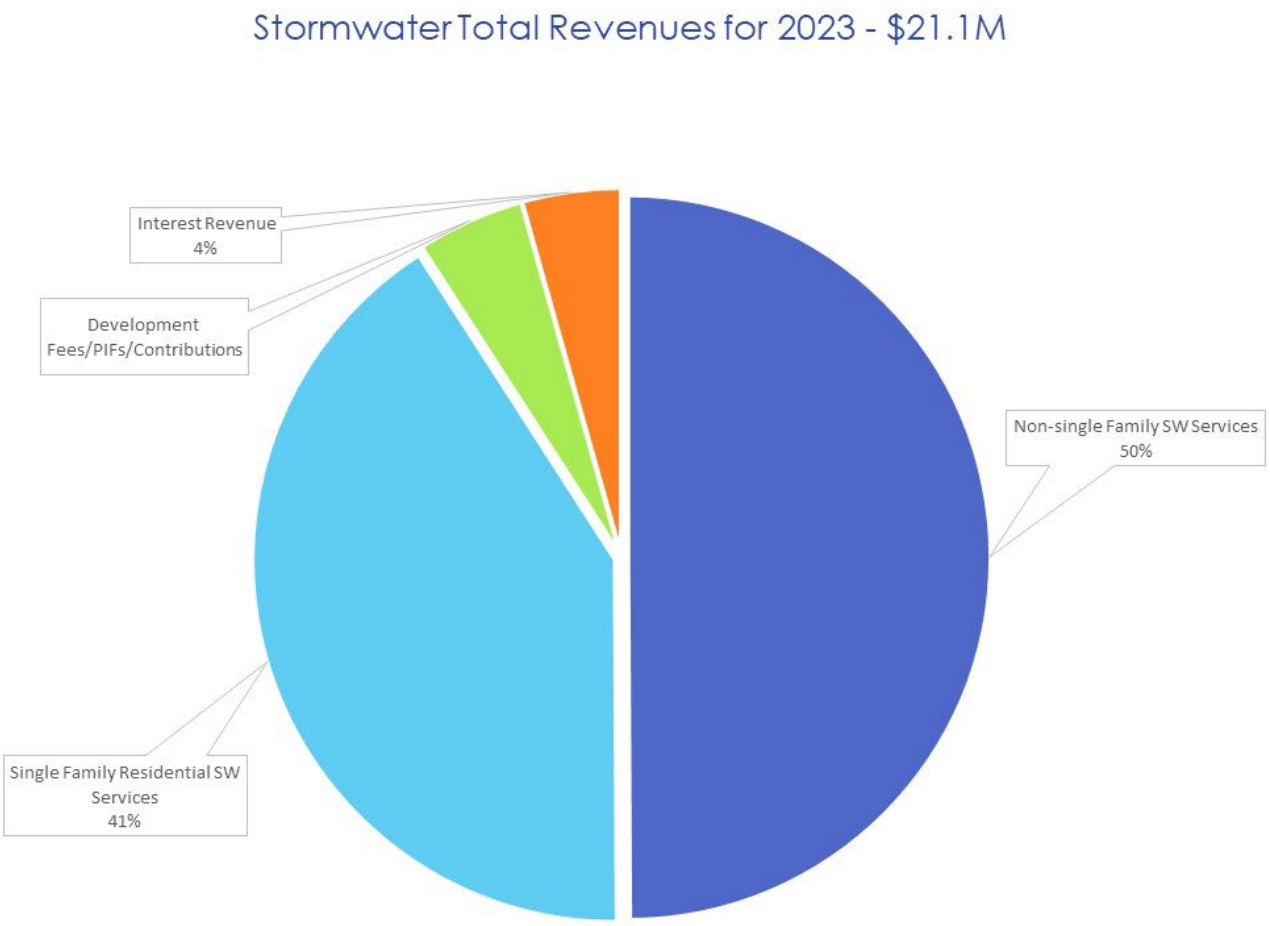
$$\text{Operating Margin} = \frac{\text{(Operating Revenues from Monthly Charges) - (Operating Expenses including depreciation)}}{\text{(Operating Revenues from Monthly Charges)}}$$

$$\text{Debt Coverage Ratio} = \frac{\text{(Operating Income before depreciation + Development Fees + Earned Interest)}}{\text{(Annual Debt Service Expense)}}$$

Operating revenues have grown at a very modest annualized rate of 2.72% over the past decade through customer growth and gradual, modest rate adjustments. The rate increases allowed for the operating income to remain at a healthy, positive level prior to 2023 although it had been declining as operating expenses have grown at a much faster rate of 6.1% over the past decade. Inflationary pressures being seen across the utilities for materials and labor resulted in Stormwater operating expenses growing at 6.8% annually over the most recent 3-year period and 10.3% in 2023. The result of which has been a declining trend in the operating margin which will make it extremely difficult to limit rate increases to less than 5.0% annually in the future.

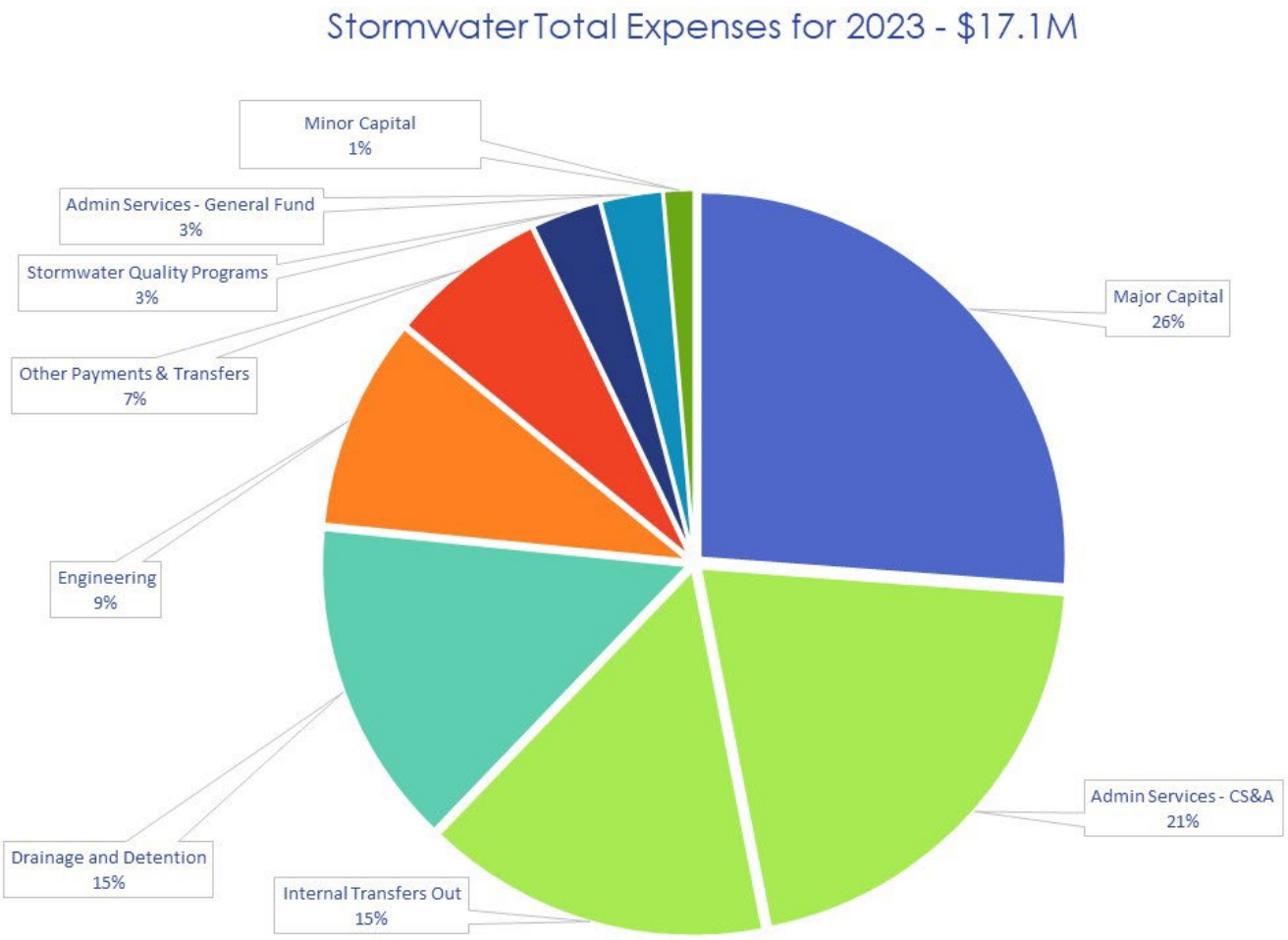
## 2023 Revenues

Total revenues associated with stormwater services increased by 7.8% in 2023 over 2022 primarily driven by a 3.0% rate increase, a steady 1% annual customer growth rate and higher interest earnings on cash reserves as well as steady revenue from development fees. Revenues for non-single family customers remain the largest revenue source at close to 50% of all revenues.




## 2023 Expenses

Operating expenses have increased at an accelerating rate in recent years with 2023 seeing a 10.3% annual growth over 2022. Total expenses for stormwater services and capital investment grew 8.8% in 2023 over 2022, in part due to a one-time transfer of funds for a new customer service and billing system. Major capital comprised 26% of total expenses with administrative expenses accounting for 21% and drainage and detention operations making up 15% of total expenses. The pie chart below breaks down all expenses in 2023.

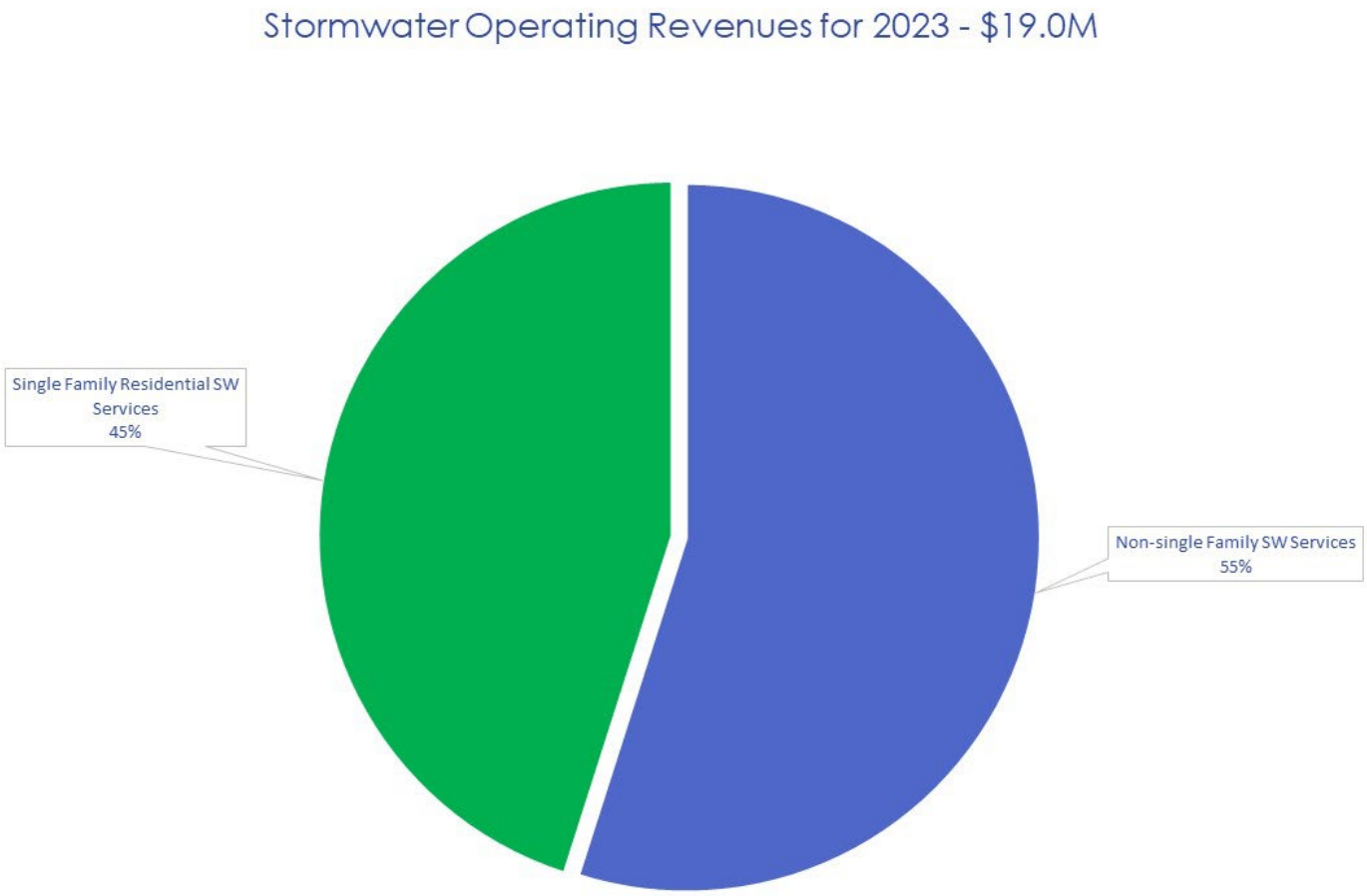



# Long-Term Financial Analysis

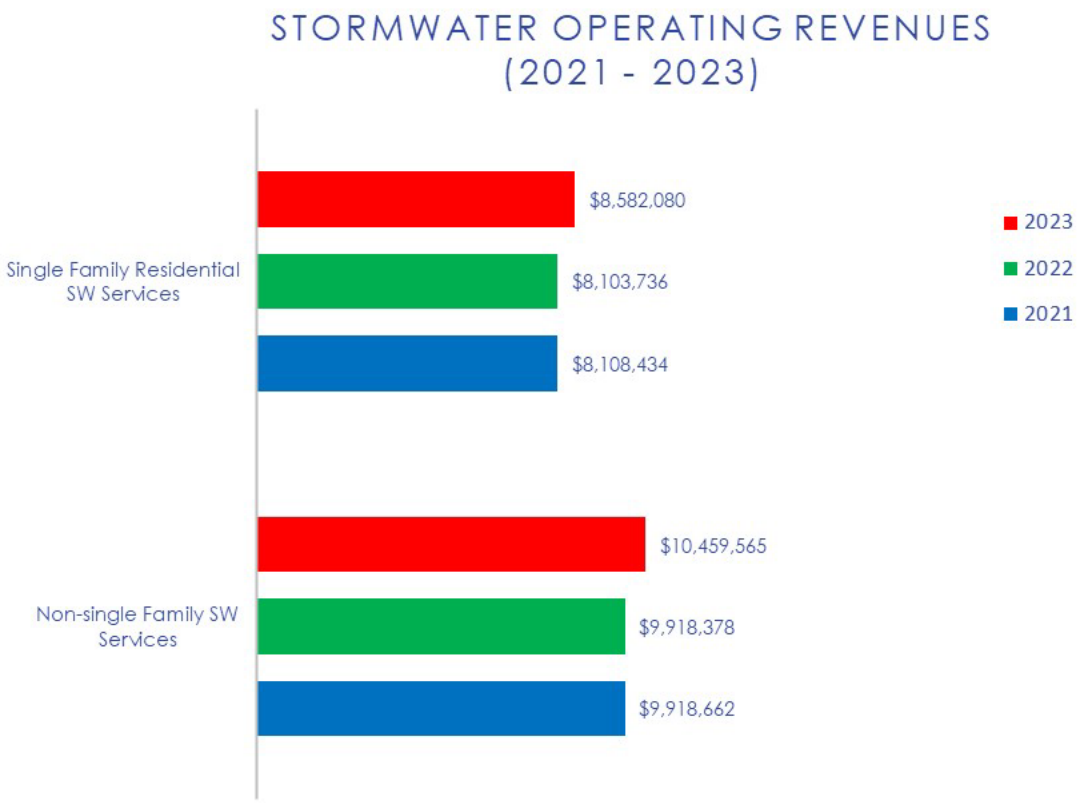
## Revenue Analysis

Stormwater revenues consist of operating revenues collected through monthly fees for stormwater services and non-operating revenues. Non-operating revenues, which comprise 9.4%, or $2.0M, of total revenues, consist of development fees, interest revenue on cash reserves, and other miscellaneous revenues

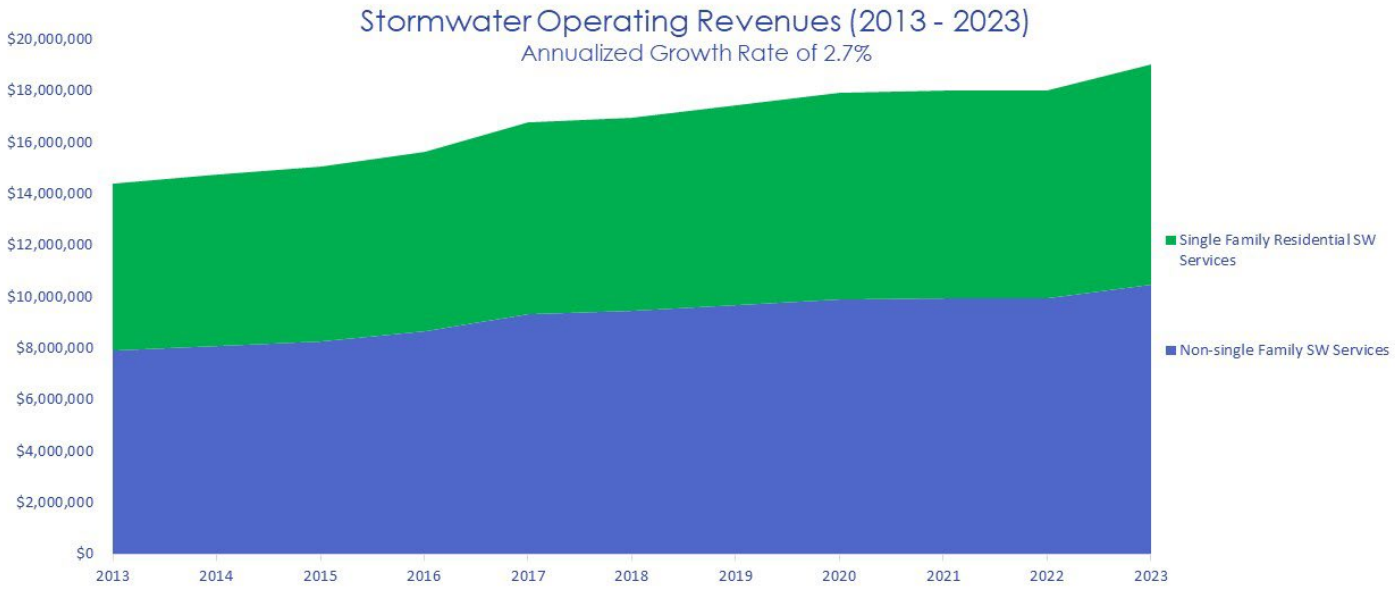
The pie chart here shows how operating revenues were generated in 2023. Operating revenues consist of just two categories of stormwater fees.




Operating revenues increased in both categories in 2023 from 2022 from a 3.0% rate increase as shown by the graph below. Non-operating revenues from development fees were 19% higher than what was realized in 2022 reflecting the development happening outside of the water and wastewater service territories within City limits. Revenues are budgeted tightly in stormwater as there are no volumetric components to these fees.




From a longer-term perspective, operating revenues for this fund have grown modestly over the previous decade from $14.4M in 2013 to $19.0M in 2023 while monthly rates have only increased at an annualized rate of 1.2%. Thus, most of the growth in operating revenues is attributable to customer growth.



The table below shows the annual revenues by major categories for the past 5 years. Operating revenues are fairly even between single family residential customers and non-single family residential customers. The table also shows that the non-lapsing revenues over this same period have come mostly from development fees but as interest rates increase so does the interest earned on cash reserves.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Customers | 46,847 | 47,186 | 47,920 | 49,685 | 49,685 |
| Annual Rate Adjustment | 2.00% | 2.00% | 0.00% | 0.00% | 3.00% |
| Single Family Residential SW Service: | $ 7,753,510 | $ 8,014,266 | $ 8,108,434 | $ 8,103,736 | $ 8,496,084 |
| Non-single Family SW Services | $ 9,687,617 | $ 9,895,468 | $ 9,918,662 | $ 9,918,378 | $ 10,354,146 |
| Operating Revenue | $ 17,441,127 | $ 17,909,734 | $ 18,027,096 | $ 18,022,114 | $ 18,850,230 |
| Development Fees/PIFs/Contributio | $ 709,900 | $ 840,615 | $ 1,420,098 | $ 836,158 | $ 998,420 |
| Interest Revenue | $ 453,376 | $ 306,656 | $ 189,977 | $ 420,241 | $ 913,158 |
| Other Misc | $ 48,624 | $ 35,734 | $ 33,697 | $ 41,318 | $ 66,680 |
| Non-Operating Revenue | $ 1,211,900 | $ 1,183,005 | $ 1,643,773 | $ 1,297,717 | $ 1,978,258 |
| Total Revenues | $ 18,653,028 | $ 19,092,739 | $ 19,670,869 | $ 19,319,830 | $ 20,828,488 |

Looking at revenues on an annual percent change basis shows a longer-term trend of 2.7% annual growth since 2013 with 2023. The increase in non-operating revenues is at a higher annualized rate but is only being realized on 9.4% of total revenues. This re-emphasizes that revenue growth is being driven by modest rate increases along with customer growth, and those rates for monthly charges have increased at the rate of inflation (0-2% prior to 2022) over each time horizon.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Customers | 1.51% | 1.41% | 1.74% | 0.00% |
| Annual Rate Adjustment | 1.20% | 1.40% | 1.00% | 3.00% |
| Single Family Residential SW Service: | 2.73% | 2.48% | 1.97% | 4.84% |
| Non-single Family SW Services | 2.72% | 1.83% | 1.52% | 4.39% |
| Operating Revenue | 2.72% | 2.12% | 1.72% | 4.60% |
| Development Fees/PIFs/Contributio | 1.71% | -1.03% | 5.90% | 19.41% |
| Interest Revenue | 16.84% | 17.55% | 43.87% | 117.29% |
| Other Misc | 9.90% | 3.29% | 23.11% | 61.38% |
| Non-Operating Revenue | 6.43% | 5.48% | 18.69% | 52.44% |
| Total Revenues | 3.02% | 2.41% | 2.94% | 7.81% |

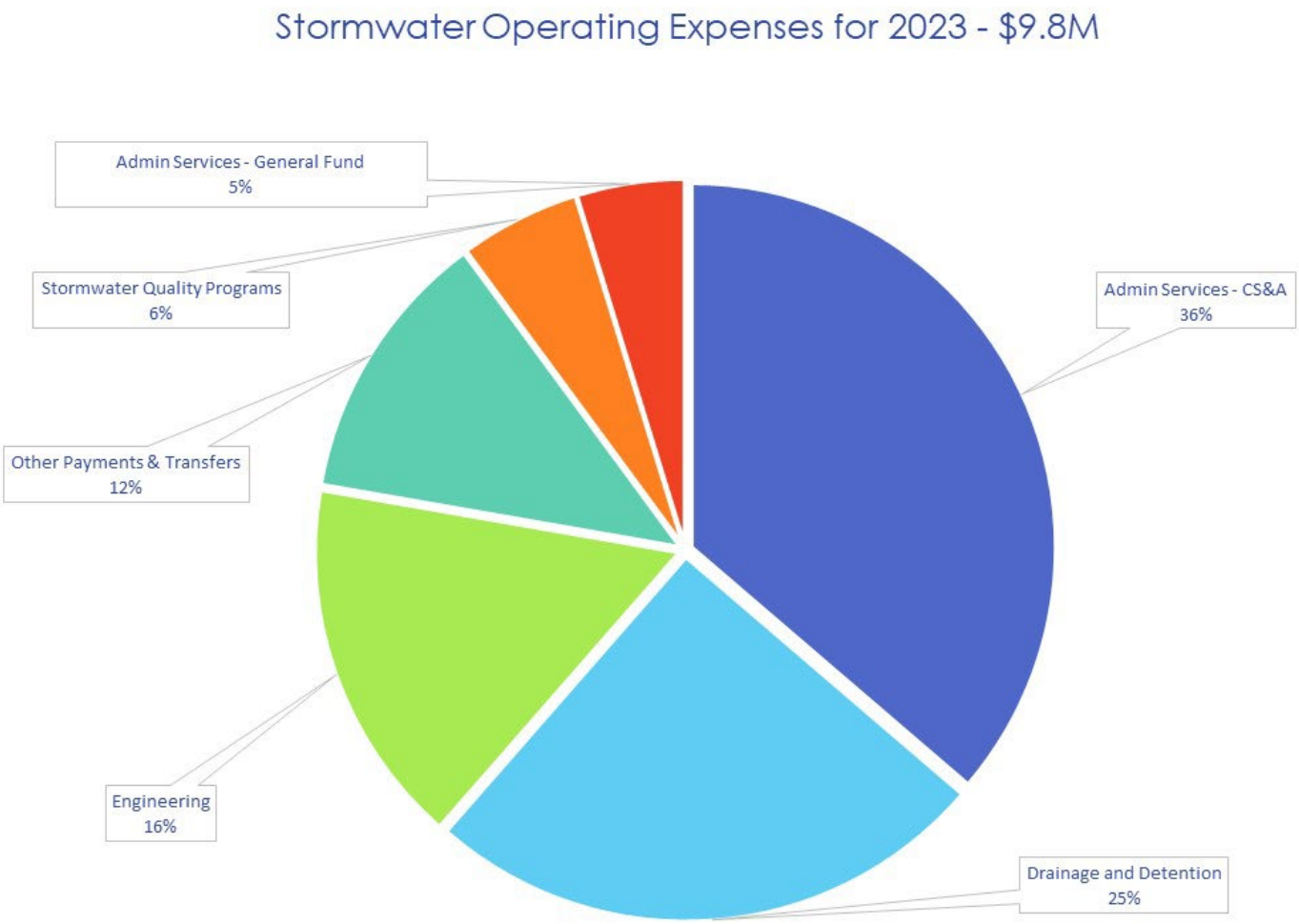
Taking all this historical perspective into account, the stochastic financial modeling considers the next ten-year horizon. Looking out over the next ten years, revenues are expected to continue trending upward as customer growth continues and loss modest rate adjustments of 6-8% annually are implemented. The graph below shows a forecasted annual growth of 8.2% in future operating revenue (solid green line) which exceeds the 2.72% growth over the past decade. This is necessary to make significant capital investments in stormwater infrastructure over the coming decade. The green area shows the range of revenues considered in the stochastic analysis for the long-term financial model. It is a fairly tight band as these revenues are quite stable and predictable.


Non-operating revenues are expected to remain within the range seen over the past decade. Any unanticipated grant revenue would positively impact the financial health of the utility and as such is not modelled here. Non-operating revenues are expected to remain a relatively insignificant contributor to total revenues at less than 10% of total revenues in the coming decade.

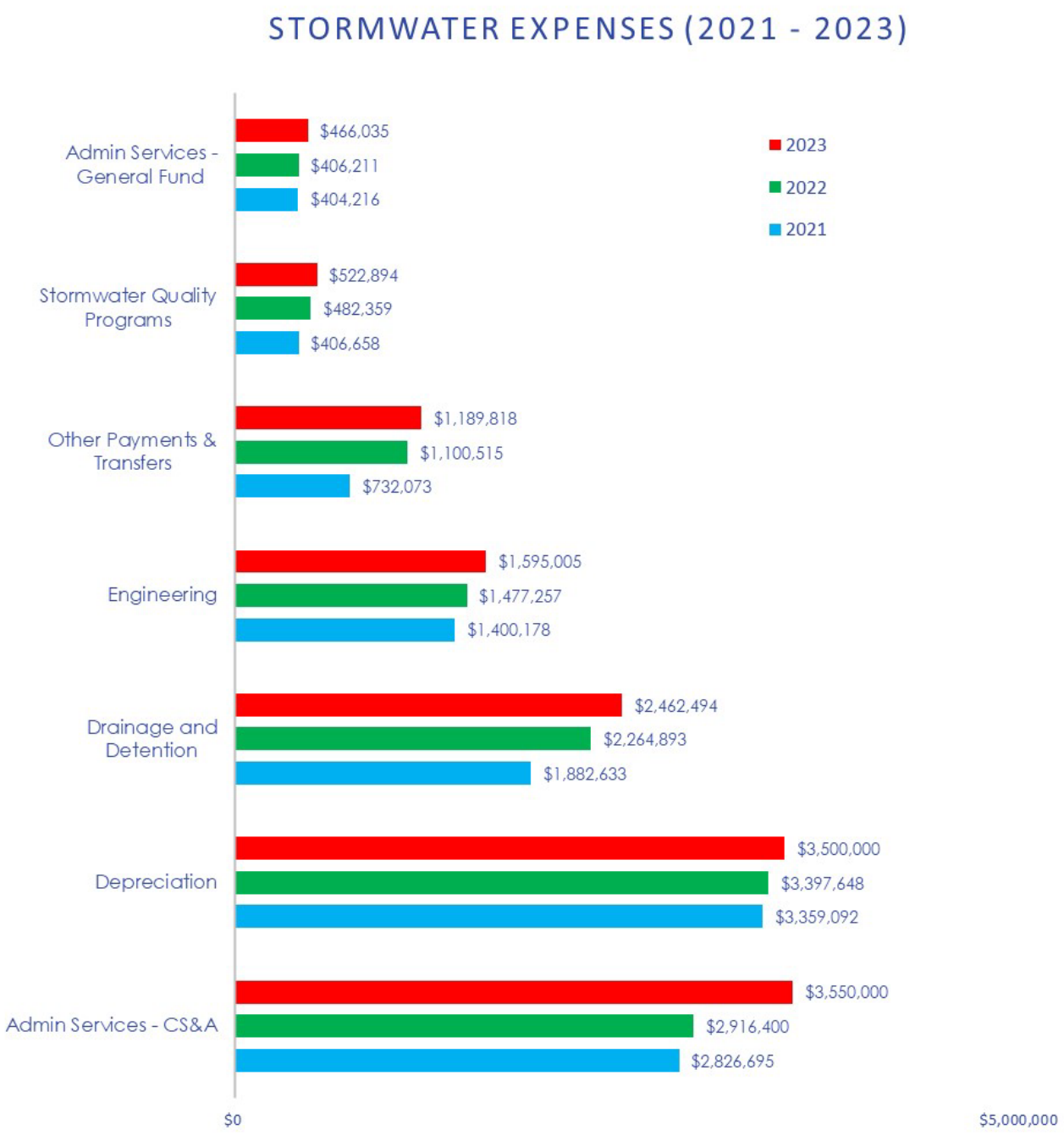
## Expenditure Analysis

Stormwater expenses consist of operating expenses directly related to storm runoff collection in the storm basins and indirect customer service and administrative costs. Non-operating expenses include capital investments made in renewing existing assets and adding additional storm drainage infrastructure throughout the City.

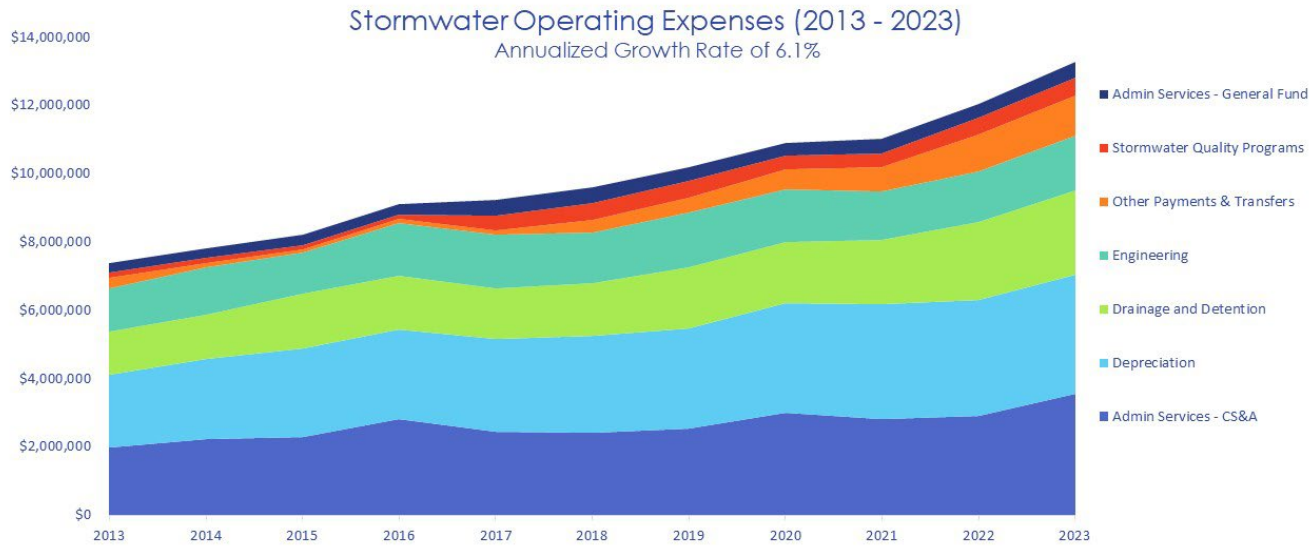
The pie chart below shows all operating expenses for Stormwater in 2023.




Operating expenses have increased in recent years as shown in the table below. Just as revenues are budgeted conservatively, expenses are budgeted adequately to ensure that the annual appropriations made by City Council are not exceeded according to the Municipal Code.




Stormwater operating expenses are shown below from a longer-term perspective in the categories consistent with the monthly financial operating report. Depreciation is a non-budgetary operating expense that is also included here as it represents the amount of value lost in existing assets. Ideally, this lost value represents a minimal level of capital investment in the renewal of existing assets to ensure the long-term reliability of the system. Total operating expenses have grown at an annual rate of 6.1% over the past decade. This rate of annual growth for all operating expenses is assumed to be tightly managed in the analysis and forecasts below.




Operating expenses in the Stormwater Fund have grown above the rate of inflation over the past decade. The most critical factor in the financial health of this Fund is to manage operational expenses to grow more modestly in the future. Drainage and Detention have grown at the fastest rate over the 3, 5 and 10-year timeframes. The significant increase in administrative services from the CS&A internal services fund reflects the creation of the One Water Director's Office in 2023.

The table below shows operating and non-operating expenses by the major categories shown in the Monthly Financial Operating Report (MOR). Depreciation is estimated for 2023 in this table and analysis.

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Drainage and Detention | $ 1,784,132 | $ 1,818,397 | $ 1,882,633 | $ 2,264,893 | $ 2,462,494 |
| Engineering | $ 1,607,446 | $ 1,526,331 | $ 1,400,178 | $ 1,477,257 | $ 1,595,005 |
| Stormwater Quality Programs | $ 497,358 | $ 372,310 | $ 406,658 | $ 482,359 | $ 522,894 |
| Admin Services - CS&A | $ 2,519,370 | $ 2,997,457 | $ 2,826,695 | $ 2,916,400 | $ 3,550,000 |
| Admin Services - General Fund | $ 379,748 | $ 389,242 | $ 404,216 | $ 406,211 | $ 466,035 |
| Other Payments & Transfers | $ 436,275 | $ 606,204 | $ 732,073 | $ 1,100,515 | $ 1,189,818 |
| Depreciation | $ 2,960,096 | $ 3,196,413 | $ 3,359,092 | $ 3,397,648 | $ 3,500,000 |
| Total Operating Expenses | $ 10,184,426 | $ 10,906,354 | $ 11,011,546 | $ 12,045,282 | $ 13,286,246 |
| Debt Service | $ 3,279,269 | $ 1,706,667 | $ 1,363,283 | $ 962,436 | $ - |
| Internal Transfers Out | $ 409,371 | $ 412,149 | $ 448,170 | $ 440,312 | $ 2,608,579 |
| Misc Non-operating Expenses | $ - | $ - | $ - | $ - | $ - |
| Minor Capital | $ 191,632 | $ 363,474 | $ 114,422 | $ 878,183 | $ 230,941 |
| Major Capital | $ 7,070,060 | $ 6,178,202 | $ 5,703,930 | $ 4,610,471 | $ 4,473,533 |
| Total Non-operating Expenses | $ 10,950,331 | $ 8,660,492 | $ 7,629,805 | $ 6,891,402 | $ 7,313,053 |
| Total Expenses | $ 21,134,757 | $ 19,566,846 | $ 18,641,351 | $ 18,936,684 | $ 20,599,300 |

**Drainage and Detention** – These operating expenses are directly related to providing stormwater services to the community. In 2022 these expenses increased by $380,000 over 2021 and then increased another $200,000 in 2023 resulting in an annualized growth rate of 7.1% over the past decade which is considerably higher than

inflation over that period. Active management of these costs will help maintain the operating margin that is necessary to fund capital investments in this fund.

**Engineering** – Engineering services have grown at a modest rate over the past decade although the one-year increase of 8.0% is higher than inflation. These costs are primarily personnel costs so this rate of increase is likely tied to filling a vacancy.

**Stormwater Quality Programs** – These programs are a vital part of the stormwater services provided to the community. Annual expenses fluctuate from year to year but have returned to pre-COVID levels in 2023.

**Administrative Services from Customer Service & Administration** – These support service expenses have grown at an annual rate of 6.0% over the past decade. The 21.7% increase realized in 2023 is largely attributable to the creation of the One Water Director's Office in the internal services fund in 2023.

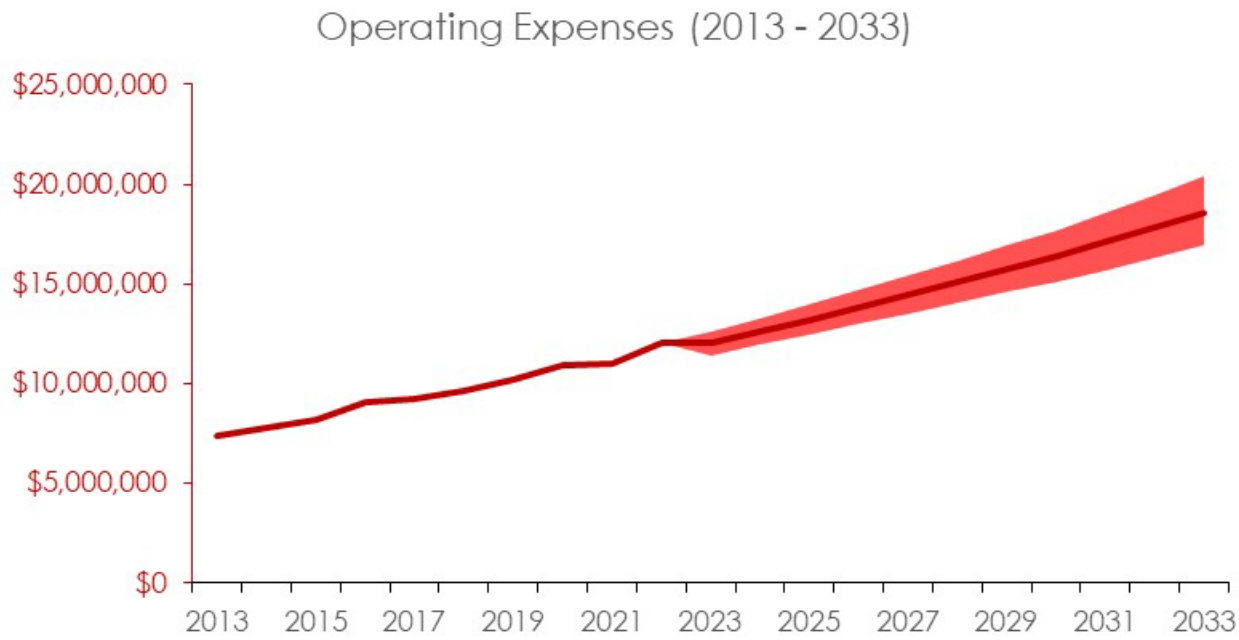
**Administrative Services from the General Fund** – These support services are primarily legal support. Annual growth is not expected to be large going forward as most of these costs are personnel costs.

**Internal Transfers Out** – In 2023 a significant appropriation was made for a new Customer Information and Billing System. The transfer was made to the Utilities internal services fund as a one-time expense.

| Year | 10 Yr Annualized Trend | 5 Yr Annualized Trend | 3 Yr Annualized Trend | 1 Yr Annualized Trend |
|---|---|---|---|---|
| Drainage and Detention | 7.1% | 9.9% | 10.6% | 8.7% |
| Engineering | 2.3% | 1.5% | 1.5% | 8.0% |
| Stormwater Quality Programs | 14.0% | 1.3% | 12.0% | 8.4% |
| Admin Services - CS&A | 6.0% | 8.0% | 5.8% | 21.7% |
| Admin Services - General Fund | 4.9% | -0.3% | 6.2% | 14.7% |
| Other Payments & Transfers | 14.1% | 26.2% | 25.2% | 8.1% |
| Depreciation | 5.1% | 4.4% | 3.1% | 3.0% |
| Total Operating Expenses | 6.1% | 6.7% | 6.8% | 10.3% |
| Debt Service | -100.0% | -100.0% | -100.0% | -100.0% |
| Internal Transfers Out | 28.4% | 53.2% | 85.0% | 492.4% |
| Misc Non-operating Expenses | | | | |
| Minor Capital | 4.7% | 2.8% | -14.0% | -73.7% |
| Major Capital | 4.5% | -8.8% | -10.2% | -3.0% |
| Total Non-operating Expenses | 0.0% | -7.6% | -5.5% | 6.1% |
| Total Expenses | 3.4% | 0.1% | 1.7% | 8.8% |

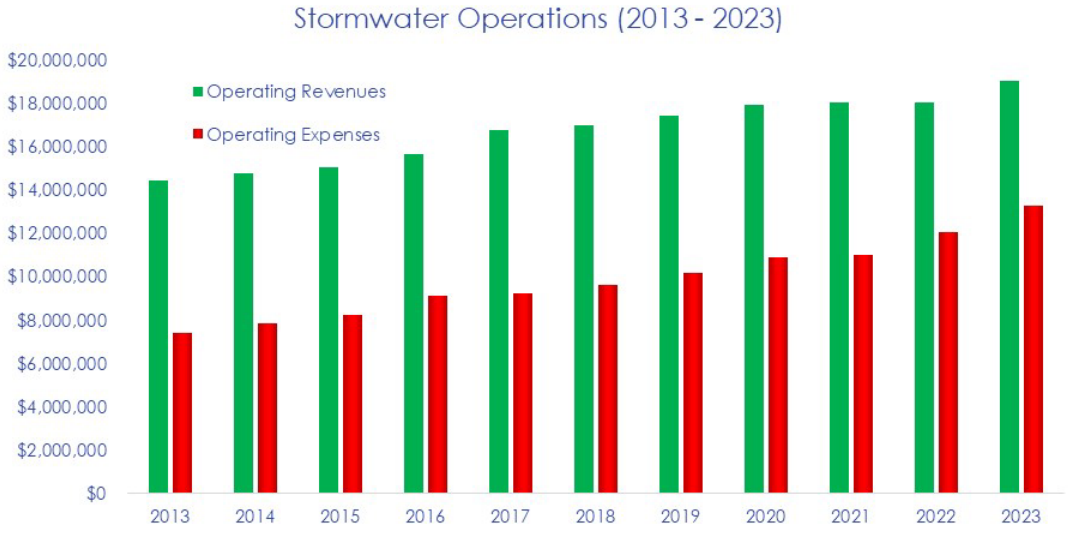
Stormwater O&M expenses have increased at a rate exceeding inflation over the past decade. This will need to be addressed through active management. Looking out over the next ten years through the long-term financial model, expenses will need to be tightly managed so as not to exceed the rate of inflation in total. The solid red line into the future assumes operating expenses grow at a rate of only 4.4% annually consistent with the historical

growth. The uncertainty in operating expenses is large and highlights the importance of stochastic modeling rather than showing a single forecasted value a decade into the future.



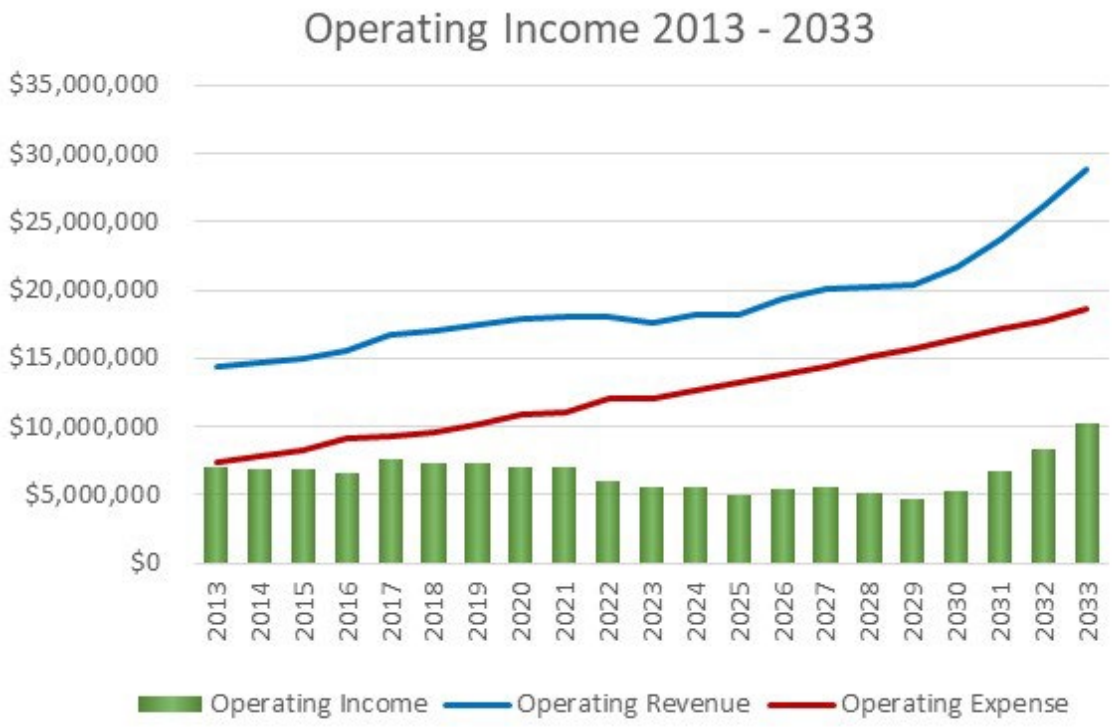

## Operating Income Analysis

Looking at operating revenues and expenses on the same chart shows there is more variability in operating expenses than revenues although both are fairly stable. This utility has no measurable seasonality or year-over-year weather driven variability in operating revenues that must be accounted for in the financial modeling.



Looking at the operating margin, this Fund has a significant operating margin for a municipal utility. This has been intentional from the utility's inception to fund infrastructure investment through a combination of cash reserves and debt issuances. This delta between the operating revenues and operating expenses has shown a steady declining trend as operating expenses have grown faster than customer and revenue growth.


This trend of declining operating margin is expected to continue in the near term before being changed provided operating expenses are controlled.

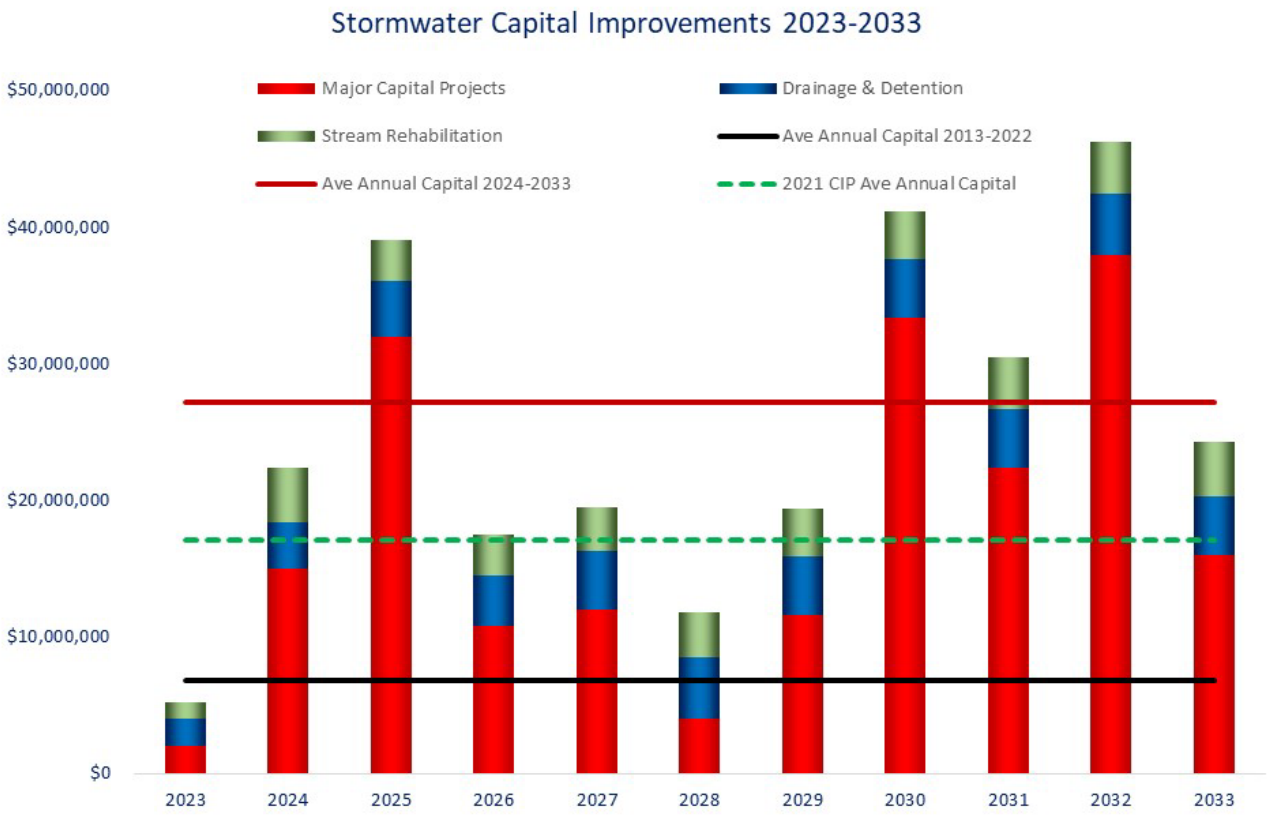



## Capital Planning and Expenditure Analysis

***Note: Appendix A shows the anticipated capital investments and expected year of investment.***

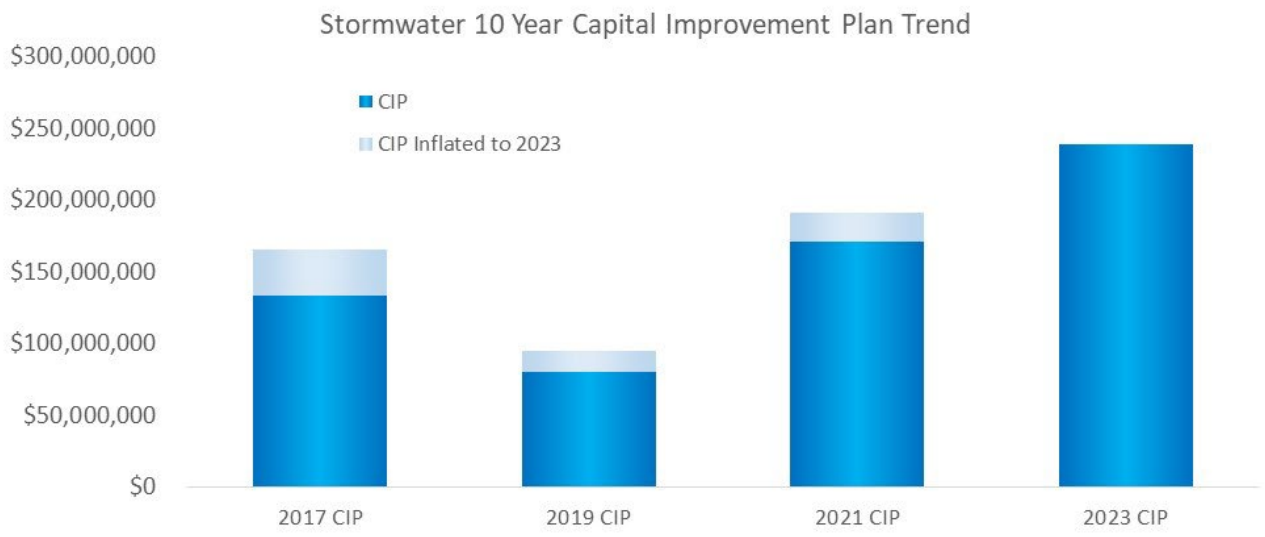
Operational goals for the Stormwater utility are focused on build out of stormwater infrastructure throughout the City. While the City has a very favorable Community Rating for flood mitigation, there remain pockets of flood prone areas which require additional storm drainage investments. The financial models require a review of the 10-year capital investment plans and a need to re-prioritize the anticipated projects along with any new investments.

The current 10 Year capital improvement plan (CIP) anticipates 400% more capital investment over the coming decade than was realized in the previous decade. This increase is not financially feasible without much larger rate increases than what is being considered in this analysis. This analysis suggests that there could be sufficient funding to double the historical capital investment over the coming decade and then use the additional operating margin into the future to complete the build-out within a foreseeable timeline.



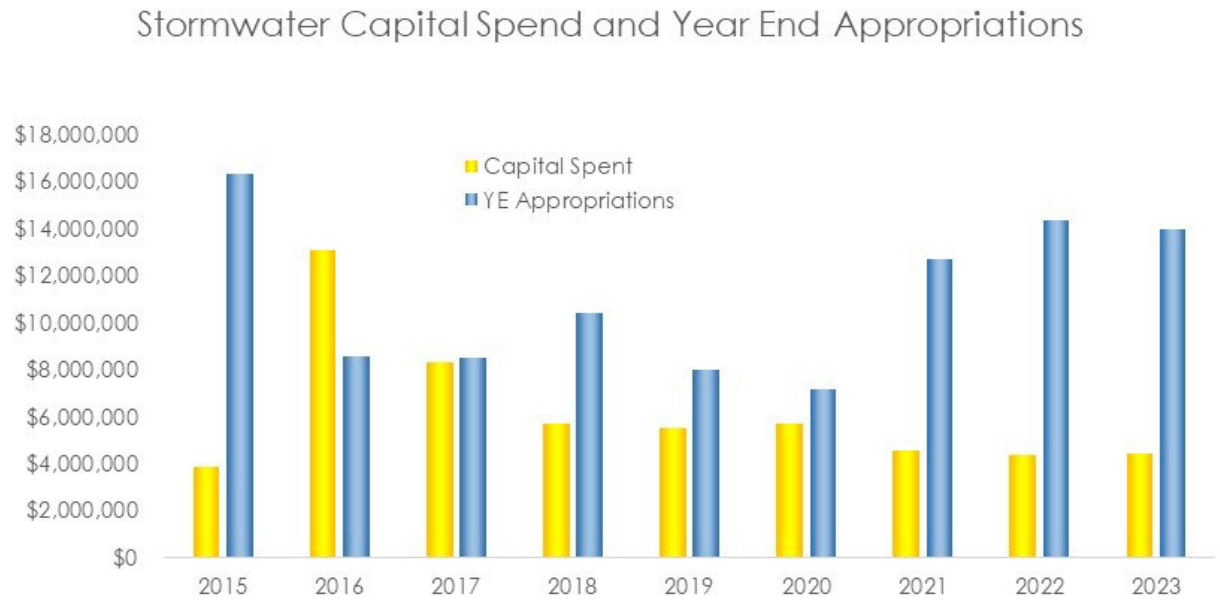

The development of prioritized CIPs is necessary to ensure efficient use of capital to optimize the levels of service being provided to our community. This prioritization has been an elusive goal since the first CIP was developed in 2016. This Fund has prioritized previous CIPs using a multi-attribute decision analysis tool but the needed capital has not been appropriated for more than a few of the highest priority projects. Progress has been made on identifying the service level metrics for this utility but setting service level targets and the relative weights of those service levels remains to be done. Additionally, the 10-year CIPs have fluctuated significantly from one budget cycle to the next (every 2 years) which makes financial planning more challenging than more stable and refined CIPs would require for each utility including this one. This type of volatility in long-term planning efforts is very unsettling.

The graph below shows the evolution of the Stormwater CIP over the last 3 budget cycles compared to the 2023 CIP, reflecting the impacts of some of the macro-economic challenges outlined above as well as updated planning and analysis. The lack of a consistent senior leadership team throughout Utilities has also impacted the CIPs as new leaders bring new perspectives and ideas but change too quickly to refine the CIPs. The growth of the number of projects in the CIP will require further consideration around how to fully resource these projects which could result in a more even distribution of capital required than what is shown in the chart above.




The current 10 Year CIP consists of $239M of identified capital investments which consists of $35M for stream rehabilitation investments and $204M in flood control structures. (All projects are identified in 2023 dollars so that a consistent inflation can be applied to all future projects.)

The following chart shows the historical annual capital investment made each year with the amount of approved capital investment remaining at the end of the year. Each year new capital appropriations are made for specific projects which add to the capital investment remaining from previous years. The amount of capital appropriations remaining at the end of each year exceeds the realized annual capital investment made each year. At the end of 2023, the amount of capital appropriated from previous budget cycles was $13.9M. This $13.9M shown in blue will require more than two years to invest at the recent rate of investment without any additional capital appropriations being requested.



While there is some lead time related to capital investments because of the policy of fully funding each capital investment up front, this build-up of capital work reduces the agility to adapt capital investments as priorities may change. The capital improvement plan discussed below and included in Appendix A is recommending that an additional $32.5M be appropriated in the 2025-26 budget cycle for capital work. This would be in addition to the special appropriation made in early 2024 for the $40M Oak Street Outfall which will require two years to complete construction. It is recommended that a long-term strategic resource plan be developed to execute all currently funded and future capital investments before any additional debt is issued for any capital investment.

## Debt Analysis

**Last Bond Rating:** **AA+ (in 2023)**

While operating revenues are intended to cover all operating expenses, debt issuances are an important source of funding for capital investments for any utility. Debt issuances also establish generational equity by having the generation of customers benefiting from the investment funding the investment through the debt repayment rather than having current customers pay for investments that are necessary to serve future generations. Given the significant increase in capital investment that is expected over the next decade, significant levels of debt will be necessary even after the use of all available reserves and anticipated development fees.

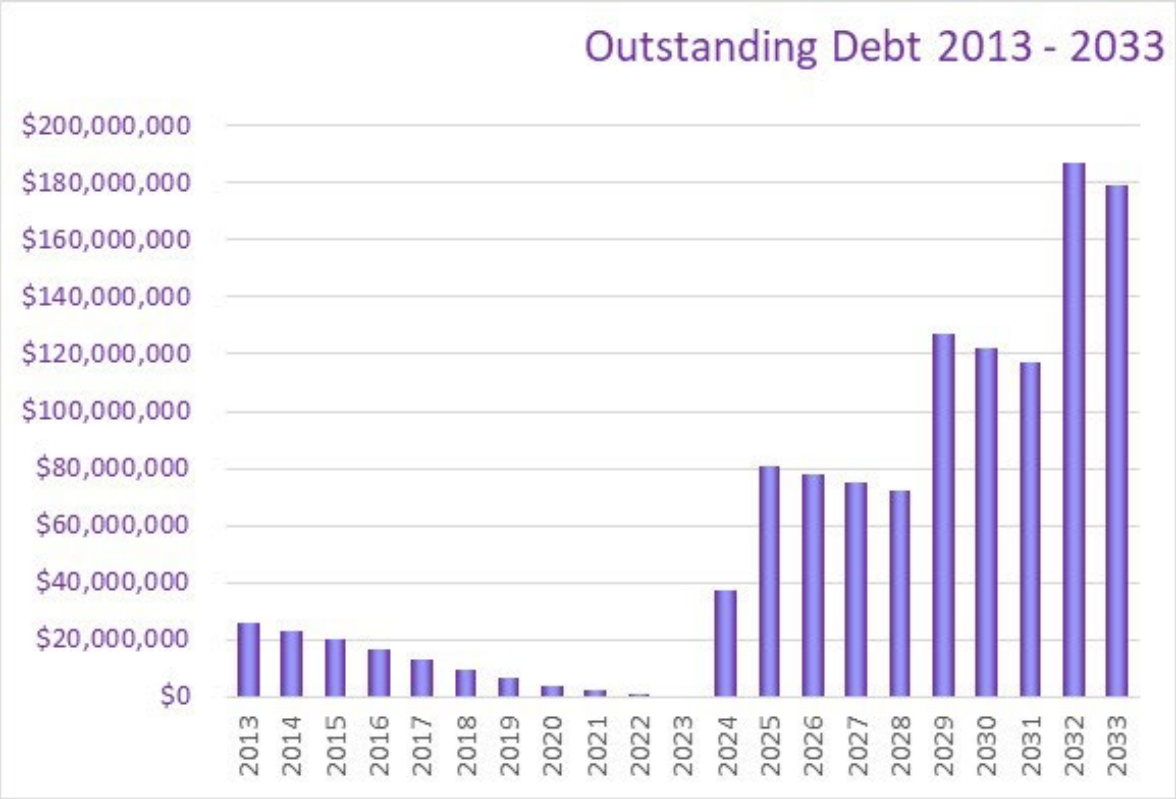
The long-term financial modeling relies on objective criteria to drive financial decisions such as when to issue debt. The use of objective criteria allows for future debt issuances to be modeled and to provide clear reasoning as to why an issuance is needed in any given year based on the current CIP. Debt issuances are based on the following criteria.

1. If capital investments are anticipated to exceed available reserves over the next 3 years a debt issuance is assumed to be sufficient to cover the next 2 years capital investments and leave 125% of the minimum required reserve. This recommendation is presented to the Council Finance Committee ahead of the biennial budget cycle.

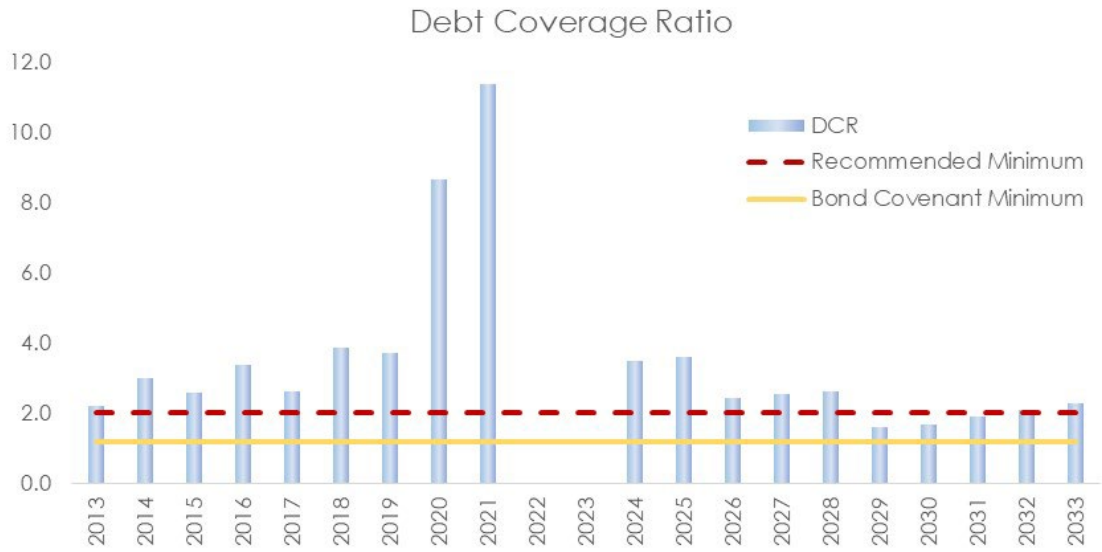
2. Because there are costs associated with debt issuances, a balance is struck between frequently issuing debt and making efficient use of the generated capital by limiting the frequency of debt issuances to no more than once every 3 years.

In 2023 this utility issued a revenue bond totaling $38.245M in par value at a coupon rate of just below 5.000%. This issuance was done for a specific capital project, the Oak Street Outfall. The debt issuance was reviewed by Standard and Poor's and Fitch with a AA+ bond rating. The output from the long-term financial model that is the basis of this plan was provided to the analysts for their revised bond rating.

The chart below shows the historical and future debt for this Fund including a potential $45M issuance in the 2025-26 budget cycle and another issuance in the 2029-30 budget cycle.




Historically the debt coverage ratio for this Fund has been at or above the internally recommended ratio of 2.0 necessary to be viewed as favorably as possible by the rating agencies. Meeting the recommended minimum debt coverage ratio may not be possible in the next few years due to a combination of uncertainties around development fees and the increased debt service expense associated with the 2023 debt issuance.




The debt capacity of the Stormwater Enterprise Fund is stable because of the relatively low volatility of net pledged revenues which are primarily drawn from the large operating margin. Any necessary future debt

issuances are expected to be rated at AA+ or better. The stochastic modeling assumes that future interest rates would fluctuate within a range between 3.0 and 6.0%.

Debt Capacity Estimation

Interest Rate: 5.00%

Net Pledged Revenue (5yr ave): $10,997,000

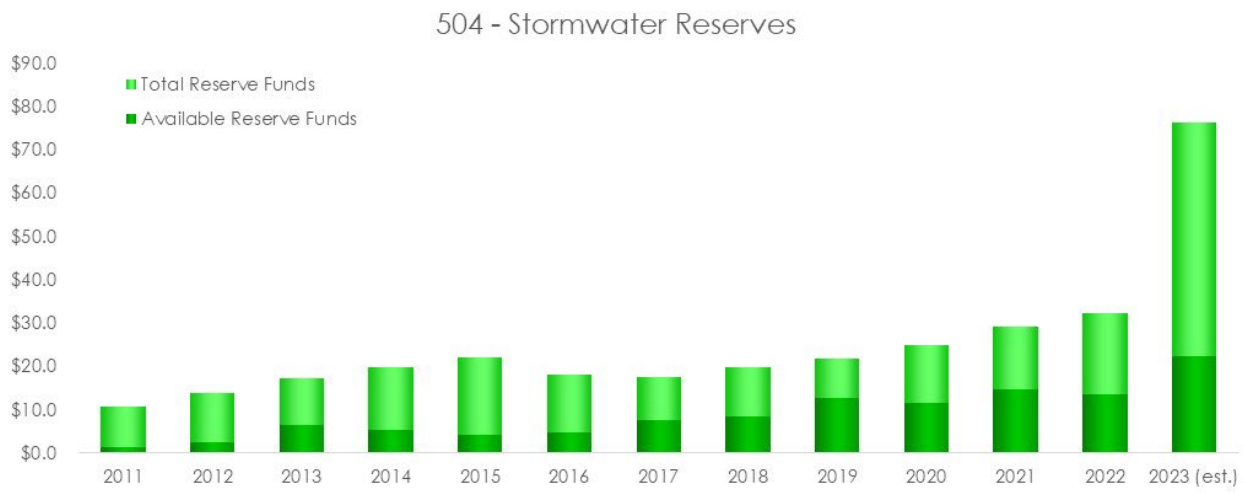
| Debt Coverage Ratio | Debt Capacity (10 yr Debt) | Debt Capacity (15 yr Debt) | Debt Capacity (20 yr Debt) |
|---|---|---|---|
| 1.0 | $85 | $114 | $137 |
| 1.2 | $71 | $95 | $114 |
| 1.4 | $61 | $82 | $98 |
| 1.6 | $53 | $71 | $86 |
| 1.8 | $47 | $63 | $76 |
| ***2.0*** | ***$43*** | ***$57*** | ***$69*** |
| 2.2 | $39 | $52 | $62 |
| 2.4 | $35 | $48 | $57 |
| 2.6 | $33 | $44 | $53 |
| 2.8 | $30 | $41 | $49 |
| 3.0 | $28 | $38 | $46 |

Outstanding Debt in 2023: $40.0 M

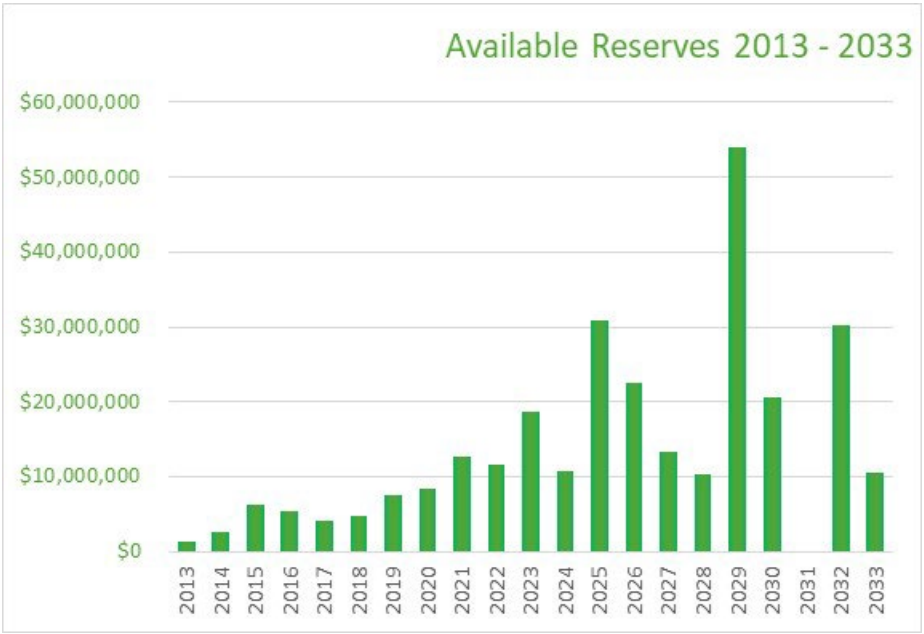
## Reserves Analysis

Financial Management Policy 5 specifies Fund Balance Minimums for Enterprise Reserves. It also states that additional reserves should be set aside for anticipated capital investments. The graph below reflects the total Fund Balance as well as the portion of that balance that is available for capital appropriations above and beyond the minimum required reserve balance and any existing capital appropriations. The long-term financial modeling objectively determines when additional capital investment should come from Available Reserves and when it should come through rates or more immediately through debt issuances.

Based on the actual financials compared to the 2023 budget where realized revenues exceeded realized expenses by $4.4M, it is estimated that over $44M was added to Available Reserves in 2023 including the $40M of bond proceeds.




The available fund balance is expected to continue to decrease due to the significant capital investment identified in the CIP requiring additional debt issuances over the next 3-5 years. The actual increase in Available Reserves reflected below is being driven by the timing of debt issuances and the capital investments in the unprioritized CIP. A more strategic approach is necessary as not all capital investments can be funded over this decade without significantly higher rate increases and more debt issuances being needed to achieve the proposed capital investments.




## Rate Analysis

Prior to the 2015-16 budget cycle rate adjustments were subjectively determined. Beginning with the 2015-16 budget cycle objective financial metrics were established to determine necessary rate adjustments. This change allowed for future rate adjustments to be modeled and to provide clear reasoning as to why a rate adjustment is needed in any given year. There are three financial metrics which drive the need for a rate adjustment.

1. Operating Income – If the combined operating income for the previous two years was negative, a rate increase is made in the next year sufficient to generate enough operating income in the coming two years to offset those losses. The two-year period allows for some weather or economic variability and is consistent with the City's biennial budget cycle.

2. Debt Coverage Ratio – A debt coverage ratio is recommended by the bond rating agencies to support the current enterprise fund bond ratings. This debt coverage ratio is well above the minimum specified in the bond covenants which could trigger bondholders to request a rate increase on their behalf. If the debt coverage ratio is forecasted to drop below 2.0 in the coming year, a rate increase sufficient to raise the debt coverage ratio to 2.1 is assumed in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

3. Available Reserves – If an enterprise's reserve balance is anticipated to drop below the minimum required reserve level in the next year, a rate increase sufficient to maintain the minimum required reserve is made at the beginning of that year in the financial modeling and is recommended to the Council Finance Committee ahead of the biennial budget cycle.

The sum of these three rate adjustments is the needed rate adjustment for the following year. In addition to these three objective criteria for rate adjustments, a 5.0% ceiling is imposed in any given year, consistent with the stated objective of "gradual, modest rate adjustments", which may require smoothing such an increase over the two years of a budget cycle to not have a large rate increase one year and then no rate adjustment the next. These same objective criteria are applied to the other 3 utility's financial models.

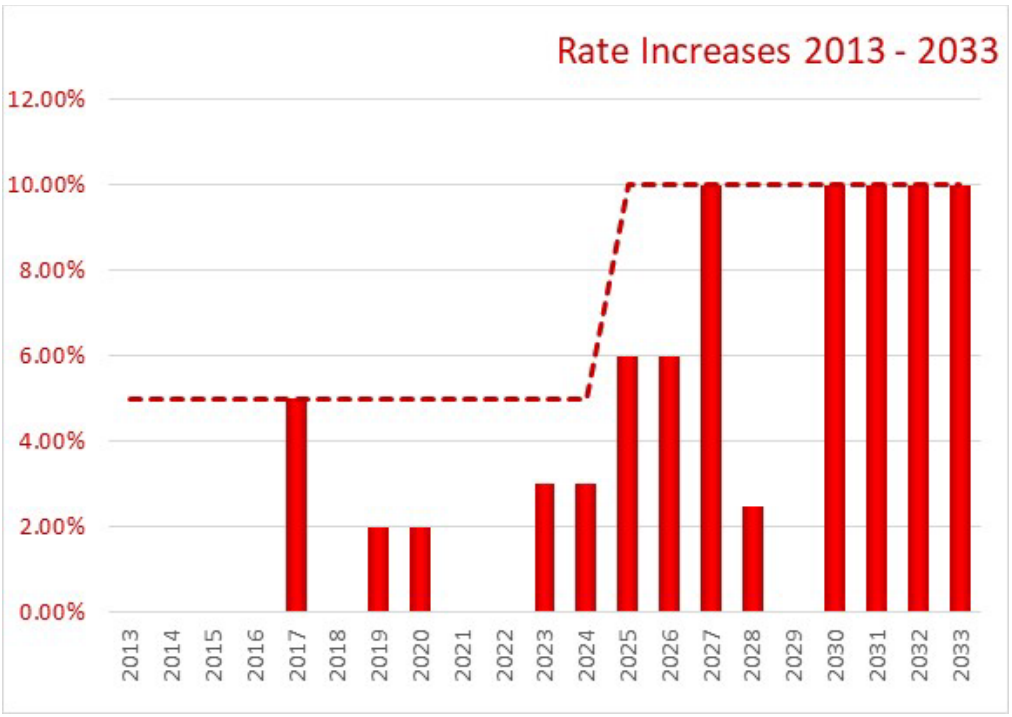
It needs to be recognized that actual revenues realized from a rate increase are not typically the full amount of the rate increase. That is to say, there is some elasticity to rate adjustments.

| | | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Stormwater | Adopted Rate Increase | 3.0% | 0.0% | 0.0% | 2.0% | 2.0% |
| | Realized Revenue Increase | 4.6% | 0.0% | 0.7% | 2.7% | 2.6% |

The results of the financial modeling which applies the same objective strategies for raising rates and issuing debt as the other utilities are presented below along with the forecasted debt issuances in 2026 and 2029. This ten-year rate forecast is shared with the community to be open and accountable to the ratepayers. In order to do more than 50-70% of the proposed ten-year CIP rate increases of 6-8% will be required along with additional debt issuances.

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Increase | 3.0% | 3.0% | 6.0% | 6.0% | 5-7% | 3-5% | 4-6% | 4-6% | 6-8% | 6-8% | 6-8% |
| Debt Issued ($M) | | | | $45.0 | | | $58.0 | | | $76.0 | |

Rate adjustments of up to 6-8% will be necessary each year in the coming decade to fund 50% of the proposed CIP. While this is not ideal, a sustained level of investment significantly higher than historical investment will be possible after this initial decade with more modest rate adjustments. The graph below assumes that it will be necessary to increase rates as much as 10.0% in some future years.


Rate Increases 2013 - 2033
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033

## Financial Risk Assessment

Below is a list of identified financial risks for this utility. Each risk is preliminarily categorized as high, medium or low according to both the likelihood and consequence of it being realized. Further assessment of these financial risks, particularly with operational input, may change the likelihood and consequence of each and may identify other significant financial risks. This additional assessment should be done as part of the biennial budget cycle. These financial risks are associated with operational management and anticipated capital needs and highlight the need for close collaboration between the financial and operational departments within Utilities as well as the importance of having a refined, prioritized 10-year capital improvement plan rather than an a more exhaustive list of potential capital needs that may or may not be necessary.

| | | Risk Realization | | | |
|---|---|---|---|---|---|
| Risk ID | Risk | Likelihood | Consequence | Mitigation Needed? | Risk Description |
| SWFR1 | CIP Volatility | High | High | Yes | Long-term financial planning requires planning for uncertainties with more uncertainty requiring more conservative planning to achieve expected financial metrics; significant volatility on long-term capital plans increases uncertainty in the actual capital investment needs leading to inefficient use of capital, higher rate increases and less financial agility to meet operational needs |
| SWFR2 | Undefined Service Level Metrics / Targets / Weights | Medium | High | Yes | The impact of high CIP volatility can be lessened by optimizing such investments to meet expected levels of service through an objective, quantitative prioritization methodology based on predefined service level metrics with established targets and relative weights; not having these tools to optimize capital investment poses a significant financial risk to the utility |
| SWFR3 | Operating Expense Increases | Medium | High | Yes | OpEx assumed to not exceed 3.0%; exceedance would limit funds for capital needs and drive further rate increases |
| SWFR4 | Climate change | High | Medium | Beyond Control | As climate changes are realized it could lead to more severe flooding that requires additional capital investment beyond what is in the CIP |
| SWFR5 | Retail Rate Fatigue | Medium | Medium | Beyond Control | Annual rate adjustments will be necessary to meet utility needs; rate fatigue would require a financial reassessment of ability to meet operational targets |
| SWFR6 | Higher Debt Service Costs | Medium | Medium | Beyond Control | As bond coupon rates increase, debt capacity decreases for a given level of net pledged revenues |
| SWFR7 | Unidentified Capital Projects | Medium | Low | No | As service level targets are established and asset management plans developed unanticipated capital needs may require more capital investment than currently planned |
| SWFR8 | Resource Constraints on Capital Projects | High | Medium | Yes | Internal and external labor and material constraints could delay execution of funded capital projects |

## Appendix A: Capital Improvement Plan

Below is a list of identified capital projects expected to be completed over the next decade. These projects are grouped into the following categories:

**Flood Control** – infrastructure that will be necessary to reduce community flood risks

**Stream Rehabilitation** – capital investments with the primary objective of restoring natural streams which are a utilized for stormwater conveyance

| Project Name | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | (2023 Costs) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stormwater Master Plan Updates | | $225,000 | $225,000 | $225,000 | $500,000 | $500,000 | $550,000 | $550,000 | $400,000 | $400,000 | $600,000 | $300,000 | $600,000 | $400,000 | |
| SW Small Capital Program | $1,540,000 | $1,750,000 | $2,000,000 | $2,000,000 | $2,500,000 | $2,500,000 | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | $2,500,000 | |
| Stream Rehabilitation Program | | | | | $3,000,000 | $3,000,000 | $3,250,000 | $3,250,000 | $3,500,000 | $3,500,000 | $3,750,000 | $3,750,000 | $4,000,000 | $4,000,000 | |
| SW CIPP Program | $450,000 | $550,000 | $500,000 | $500,000 | $750,000 | $750,000 | $750,000 | $750,000 | $750,000 | $750,000 | $750,000 | $750,000 | $750,000 | $500,000 | |
| SW Minor Capital | | | $750,000 | $500,000 | $850,000 | $450,000 | $550,000 | $800,000 | $550,000 | $550,000 | $550,000 | $800,000 | $550,000 | $550,000 | |
| Regional WQ & BMP Projects | $300,000 | $300,000 | $300,000 | $300,000 | $300,000 | $300,000 | $300,000 | $300,000 | $300,000 | $400,000 | $400,000 | $400,000 | $400,000 | $400,000 | |
| GIS Utilility Network Transition / $400k each utility | | | | | $400,000 | | | | | | | | | | |
| Training Coordinator and platform | | | | | $50,000 | | | | | | | | | | |
| Utility Billing System Upgrade | | | $1,200,000 | $900,000 | | | | | | | | | | | |
| College Avenue and Drake Road to Parkwood Lake | | | | | $3,000,000 | $2,655,547 | | | | | | | | | |
| North Mason Hickory Pond | | | | | $3,182,700 | | | | | | | | | | |
| North Mason Stormwater Project (River to N of Hickory | | | | | | $7,837,929 | | | | | | | | | |
| Magnolia Outfall (Old Town Basin Master Plan) | | | | | | | $2,000,000 | $1,200,000 | | $32,000,000 | $22,000,000 | $21,514,710 | | | |
| Plum Channel / Corridor (Canal Importation Basin) | | | | | | | $1,500,000 | $2,500,000 | $10,266,354 | | | | | | |
| Jefferson Street to Pine (Lincoln-Willow Ph2)(Old Town Basin) | | | | | | | $8,168,930 | | | | | | | | |
| Poudre River Flow Consolidation at College Ave. -- Poudre River Downtown Master Plan Reach 2 | | | | | | | | | $1,000,000 | $1,000,000 | | $16,000,000 | $12,000,000 | | |
| Maple Street Storm Sewer (Old Town Basin Master Plan) | | | | | | | | | | | | | $2,000,000 | $2,000,000 | $46,080,640 |
| Lake / Center Storm Sewer (Spring Creek Basin Master Plan) | | | | | | | | | | | | | $1,562,701 | | |
| Location L: Puente Verde Regional Open Space Pond (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $22,422,118 |
| Myrtle Street Storm Sewer (Old Town Basin Master Plan) | | | | | | | | | | | | | | | $26,779,231 |
| Location I: Laporte Avenue and PSD Campus (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $6,362,617 |
| Mulberry to Boxelder Creek - Culverts and Channel - COUNTY | | | | | | | | | | | | | | | $22,499,200 |
| Clearview Channel (Canal Importation Basin Master Plan) | | | | | | | | | | | | | | | $11,784,253 |
| Fossil Creek Parkway | | | | | | | | | | | | | | | $5,463,635 |
| Location M: Vine Drive Crossing (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $3,040,749 |
| Mulberry Street (Canal Importation Basin Master Plan) | | | | | | | | | | | | | | | $9,417,541 |
| Cooper Slough Improvements - D/S of Vine Dr (Group 2) - COUNTY (Boxelder and Cooper Slough Basin Master Plan) | | | | | | | | | | | | | | | $1,000,391 |
| Fossil Ridge Drive | | | | | | | | | | | | | | | $1,439,818 |
| Harmony Road & I-25- road imps. | | | | | | | | | | | | | | | $18,548,385 |
| Location D: Hollywood/Irish Pond Modifications (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $802,421 |
| Location E: West Vine Natural Area Pond and Shirley Heights Storm Drain (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $4,659,775 |
| Location F: Southwest Regional Pond (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $9,422,850 |
| Location G: Soldier Creek Rehabilitation (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $2,869,205 |
| Location H: Westland Water Quality Outfall (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $320,896 |
| Montava Regional Improvements (Group 3) - COUNTY (Boxelder and Cooper Slough Basin Master Plan) | | | | | | | | | | | | | | | $1,108,113 |
| Stone Creek (North Trib) Pond and Outfall | | | | | | | | | | | | | | | $1,951,610 |
| Strachan and Lemay (Foothills Basin Master Plan -- 10-Year) | | | | | | | | | | | | | | | $2,856,832 |
| Location K: Lilac Detention Pond (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $1,440,941 |
| Foothills Channel at Oak Brook Apartments (Foothills Basin -- 10 Year) | | | | | | | | | | | | | | | $174,592 |
| Manchester/Scarbourgh (Canal Importation Basin Master Plan) | | | | | | | | | | | | | | | $13,073,834 |
| Swift Pond Embankment (McClelland Basin Master Plan) | | | | | | | | | | | | | | | $2,586,485 |
| Location A: PVLC Overflow at Overland Trail and Northwest Hollywood Irish Pond (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $6,410,775 |
| Location B: Overland/Laporte Storm Drain (proposed in place of detention pond #303) (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $1,063,902 |
| Location C: Laporte and Sunset Storm Drain (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $1,885,183 |
| Location J: Sanctuary Site Development (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $4,004,199 |
| Location N: PVL Canal Conveyance Improvements (West Vine Basin Master Plan) | | | | | | | | | | | | | | | $766,157 |
| Oakridge Regional Detention Pond Spillway | | | | | | | | | | | | | | | $2,927,416 |
| Poudre River Floodplain Restoration at Riverbend Ponds and Cottonwood Hollow | | | | | | | | | | | | | | | $22,336,096 |
| Canal Importation Channel (Canal Importation Basin Master Plan) | | | | | | | | | | | | | | | $3,993,160 |
| Horsetooth at The Landings (Foothills Basin 10 Year) | | | | | | | | | | | | | | | $1,051,799 |
| Poudre River Downtown Master Plan - Reach 4 | | | | | | | | | | | | | | | $1,721,823 |
| Poudre River Downtown Master Plan - Reach 5 | | | | | | | | | | | | | | | $1,721,823 |
| Poudre River Downtown Master Plan - Reach 6 | | | | | | | | | | | | | | | $1,721,823 |
| Dry Creek Connection Channel (DC3) - COUNTY | | | | | | | | | | | | | | | $1,639,091 |
| No. College Ave. Property- buyout - COUNTY | | | | | | | | | | | | | | | $3,387,454 |
| DeClair Road and College Avenue (Foothills Basin -- 10 Year) | | | | | | | | | | | | | | | $2,318,562 |
| Foothills Channel West of Lemay (Foothills Basin -- 10 Year) | | | | | | | | | | | | | | | $2,071,132 |
| Meadowlark and Blue Mesa (Foothills Basin -- 10 Year) | | | | | | | | | | | | | | | $2,952,037 |
| Swallow Road to Lemay (Foothills Basin -- 10 Year) | | | | | | | | | | | | | | | $856,952 |
| Ziegler Pond | | | | | | | | | | | | | | | $1,283,954 |
| C&S Railroad No. 2 at Lang Gulch | | | | | | | | | | | | | | | $1,486,109 |
| C&S Railroad No. 3 at Lang Gulch (Fossil Creek Basin | | | | | | | | | | | | | | | $1,217,298 |
| C&S Railroad No. 4 at Lang Gulch (Fossil Creek Basin | | | | | | | | | | | | | | | $738,683 |
| Lincoln Channel (reaches 2,3) - COUNTY | | | | | | | | | | | | | | | $9,823,616 |
| Shield Street at Lang Gulch | | | | | | | | | | | | | | | $4,206,999 |
| Taft Hill Road at Lang Gulch (Fossil Creek Basin) | | | | | | | | | | | | | | | $811,896 |
| Tanglewood Drive (Foothills Basin Master Plan -- 10-Year) | | | | | | | | | | | | | | | $774,112 |
| No. 8 Outlet Ditch Imps (Group 4) - COUNTY (Boxelder and Cooper Slough Basin ) | | | | | | | | | | | | | | | $629,924 |
| North Poudre Reservior and Sod Farm Improvements (Group 5) - COUNTY Boxelder and Cooper Slough Basin | | | | | | | | | | | | | | | $2,545,853 |
| Dixon Creek Pond | | | | | | | | | | | | | | | $1,275,212 |
| **FLOOD CONTROL SUBTOTAL** | **$2,290,000** | **$2,825,000** | **$4,975,000** | **$4,425,000** | **$11,532,700** | **$14,993,476** | **$16,818,930** | **$9,100,000** | **$16,266,354** | **$38,100,000** | **$27,300,000** | **$42,764,710** | **$20,862,701** | **$6,350,000** | **$303,729,175** |
| **STREAM REHABILITATION PROGRAM SUBTOTAL** | | | | | **$3,000,000** | **$3,000,000** | **$3,250,000** | **$3,250,000** | **$3,500,000** | **$3,500,000** | **$3,750,000** | **$3,750,000** | **$4,000,000** | **$4,000,000** | |

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

**Staff:** Gunnar Hale, P.E., Engineering – Civil Engineer I
Monica Martinez, Planning Development & Transportation Finance Manager

**Date:** February 23rd, 2024

**SUBJECT FOR DISCUSSION**
Laporte Multi-Modal Grant Match – Transportation Alternative Program Grant Appropriation

**EXECUTIVE SUMMARY**

Laporte Avenue between Fishback Avenue and Sunset Street is a two-lane arterial roadway and most of the roadway within the Project limits lacks adequate bicycle and pedestrian facilities including sidewalk, bike lanes, curb and gutter. The City was awarded a $2,500,000 Transportation Alternative Program grant from the North Front Range Metropolitan Planning Organization (NFRMPO) to fund construction of the Laporte Avenue Multi-Modal Improvement Project. The grant award requires a 20% local match of $2,500,000. It is suggested that CCIP Bike, CCIP Pedestrian, TCEF program funds, Transportation Services Fund Reserves and General Fund, be used for the local match portion, as well as an additional $50,000 in overmatch funds. The City will be required to contribute 20% of the local match funds as well as the local overmatch funds. The City's financial commitment to fund construction will be $625,750 in local funds and $50,000 in local overmatch funds for a total of $675,750 to complete the $3.175M construction.

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

- Is Council Finance supportive of an out of cycle supplemental appropriation for the Transportation Alternative Program (TAP) and required local match to fund construction for the Laporte Avenue Multi-Modal Improvement Project.

**BACKGROUND/DISCUSSION**

TAP Background

In June 2023, the NFRMPO awarded the City with a TAP grant for the construction of the Laporte Avenue Multi-Modal Improvement Project

The approved funding breakdown is as follows:

| | |
|---|---|
| • TAP grant | $2,500,000 |
| • Local Match (City) | $625,750 |
| • Local Overmatch (City) | $50,000 |
| • Total | $3,175,750 |

The total local match request from the City is $675,750. Suggested local match breakdown is as follows: Transportation Capital Expansion Fee (TCEF) ($225,000), CCIP Bike ($122,727), CCIP Pedestrian ($102,273), Transportation Services Fund Reserves ($750) and General Fund ($225,000) be used to support this supplemental appropriation request.

Laporte Corridor Background

The Laporte Corridor within the project limits of Fishback Avenue and Sunset Street currently lacks adequate bicycle and pedestrian facilities including sidewalk, bike lanes and curb and gutter.

- The roadway experiences heavy bicycle and pedestrian traffic especially with Poudre High School, many residential neighborhoods, and businesses located adjacent to the project limits.
- Several near misses and at least one serious vehicle-pedestrian accident have occurred.
- The corridor currently experiences a higher-than-expected volume of traffic accidents due to the lack of adequate infrastructure

Laporte Avenue is master planned to be on the City's low-stress bicycle network. The Project will address the safety concerns and lack of multi-modal infrastructure.

Laporte Corridor Project Status

- TAP Grant submitted – 2020
  - $750,000 awarded.
- MMOF Grant submitted – 2020
  - $250,000 awarded.
- Revitalizing Main Street Grant awarded – 2021
  - $1,437,500 awarded.
- TAP Grant Submitted – 2023
  - $2,500,000 awarded.
- East Segment 100% Design – Completed Fall 2023
- West Segment 90% FOR Design – January 2024
- East Segment Construction – March 2024
- West Segment Construction – June 2024

Staff is recommending appropriation of the City's construction local match and overmatch for several reasons.

- In line with guiding themes and principles of the City Strategic Plan:
  - Multimodal Transportation

**ATTACHMENTS**

1. Council Finance PowerPoint Presentation

February 23rd, 2024

# Laporte Multimodal – Council Finance Committee

Gunnar Hale, Monica Martinez

# Direction Sought

- Are Finance Committee Members supportive of an out of cycle supplemental appropriation for the Transportation Alternative Program (TAP) local match to fund construction for the Laporte Avenue Multi-Modal Improvement Project?

# Where We Are

## Design - Horrocks

- 100% Design East Segment Laporte Corridor (Fishback to Stodgy Brewing)
- 95% Design West Segment Laporte Corridor (Taft Hill to Sunset)
- Finish Late Q2 2024

## Project Rating System

- Envision

TAP Grant Awarded Q3 2023

- 20% Local Match

## Construction - SEMA

- East Segment on track to begin in April
- West Segment will start after school lets out in June

# Where We Are

**Previous Grants**

- TAP (Transportation Alternative Program)
  - $750,000 awarded in 2020
- MMOF (Multimodal Transportation and Mitigation Options Fund)
  - $250,000 awarded in 2020
- Revitalizing Main Street
  - $1,437,500 awarded in 2021

**Previous Local Funds**

- TCEF (Transportation Capital Expansion Fee)
  - $389,142 appropriated in 2021
- Transportation Services Fund (292)
  - $858 appropriated in 2021
- CCIP (Community Capital Improvement Program)
  - $300,000 awarded in 2023

# Next Steps

IGA

- Currently Finalizing with CDOT

CFC/City Council – February/March 2024

- Local Match appropriation – construction
- IGA Approvals

Design

- Complete design of West Segment (Taft Hill to Sunset)

Construction

- Negotiating construction cost with CM/GC contractor for the West segment

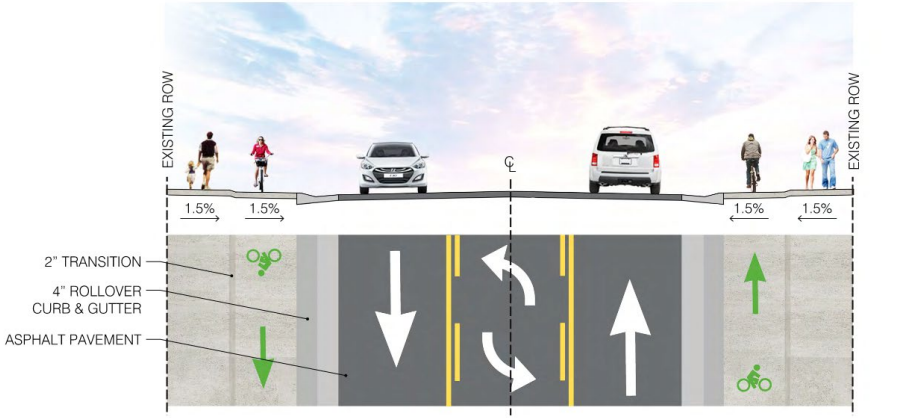
# Laporte Corridor Project

- Funding required for completion of construction planned for 2024
- 20% local match with overmatch split between TCEF, Transportation Services Fund Reserves Bike and Pedestrian CCIP and General Fund
- This is coming to CFC because General Fund is being requested

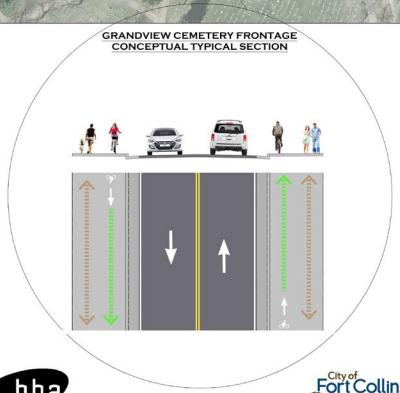
| Proposed Funding Details | |
|---|---|
| Transportation Alternative Program (TAP) Grant Funds | $2,500,000 |
| Community Capital Improvement Program (CCIP) Bike Program | $122,727 |
| Community Capital Improvement Program (CCIP) Pedestrian Program | $102,273 |
| Transportation Capital Expansion Fee (TCEF) Funds | $225,000 |
| General Fund | $225,000 |
| Transportation Services Fund Reserves | $750 |
| Total Funds to be Appropriated per this Action | $3,175,750 |
| | |
| Transfer to Art in Public Places | $4,500 |
| | |
| Total Project Funds | $6,303,250 |

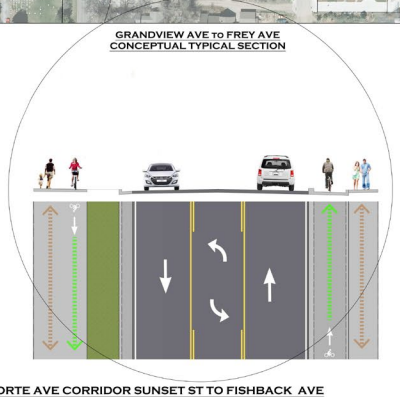
# Key Metrics

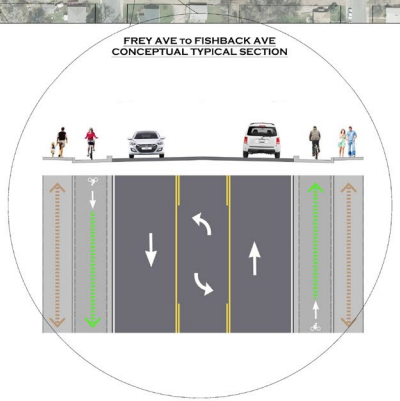
- Enhanced Safety – separating the bike lanes from the vehicular roadway
- Reduction in vehicle/bicycle accidents
- Improve connecting walkways, bikeways
- Increase bicycling and/or walking activity
- Increase economic opportunities along the corridor

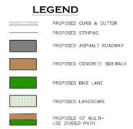


# Laporte Corridor East Segment Aerial



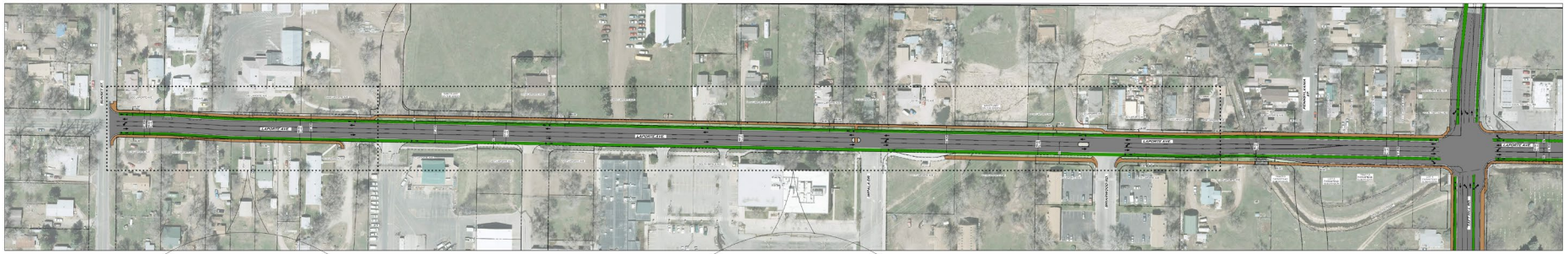



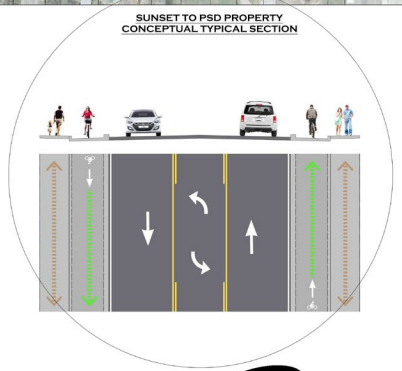



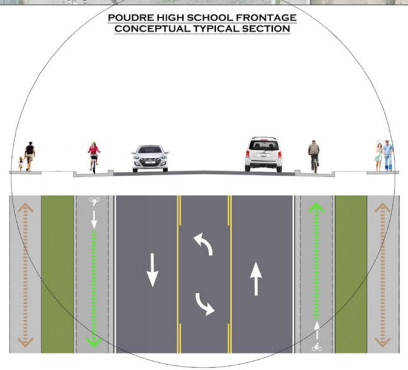




LAPORTE AVE CORRIDOR SUNSET ST TO FISHBACK AVE

# Laporte Corridor West Segment Aerial







FOX TUTTLE HERNANDEZ TRANSPORTATION GROUP

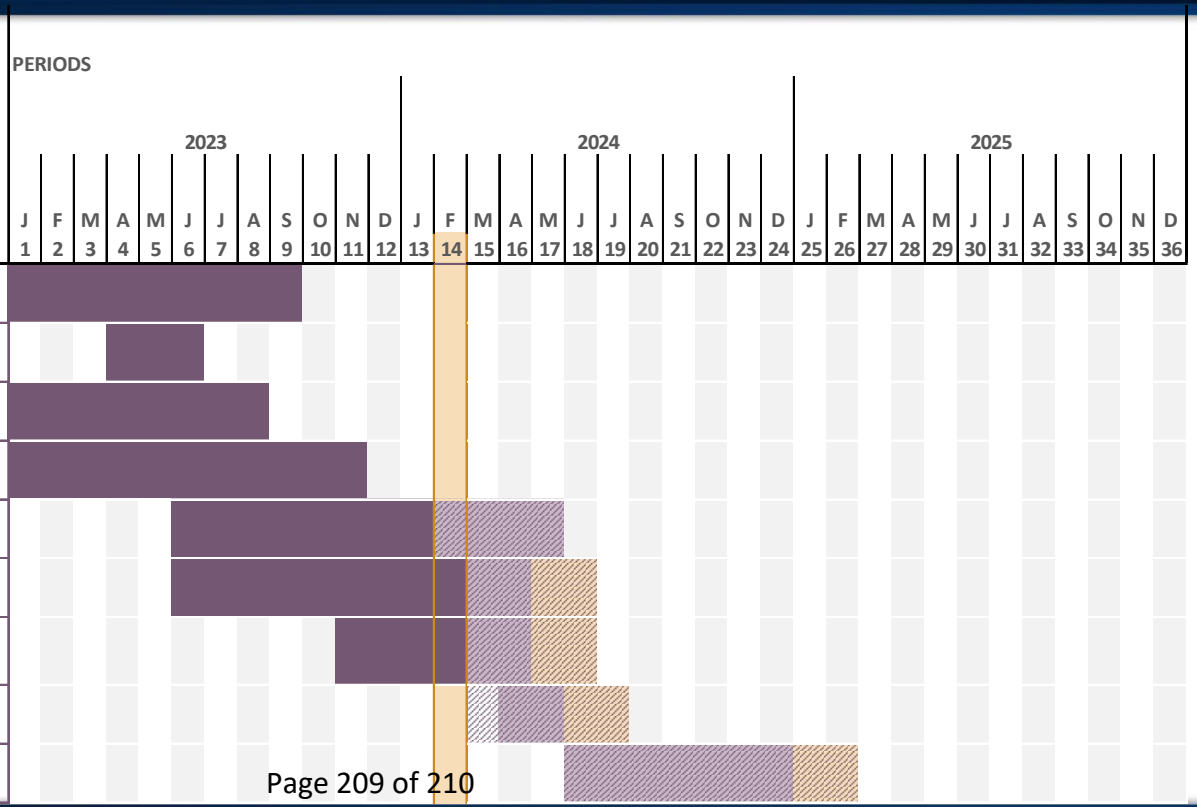
bha

City of Fort Collins

LAPORTE AVE CORRIDOR SUNSET ST TO FISHBACK AVE
10/09/19 OPEN HOUSE CONCEPT PLAN

# Project Schedule

| ACTIVITY | PERCENT COMPLETE |
|---|---|
| East Segment Design | 100% |
| TAP Grant Round 2 | 100% |
| Utility Clearance | 100% |
| NEPA CatEx | 100% |
| West Segment | 70% |
| ROW Clearance | 70% |
| Cost Estimating & Negotiation | 60% |
| Construction East Segment | 0% |
| Construction West Segment | 0% |



# Direction Sought

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