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AGENDA
Council Finance & Audit Committee
November 3, 2022
4:00 - 6:00 pm
Zoom Meeting <https://zoom.us/j/8140111859>

Approval of Minutes from the October 20, 2022, Council Finance Committee meeting.

- | | |
|--|--------------------|
| 1. General Employee Retirement Plan (GERP) Annual Report | B. Dunn |
| Presentation: 10 mins. | A. Newton |
| Discussion: 20 mins. | |
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| 2. Sustainable Funding - Transit | D. Brooks |
| Presentation: 15 mins. | |
| Discussion: 30 mins. | |
| | |
| 3. Sustainable Funding - Climate | H. Depew |
| Presentation: 15 mins. | J. Echeverria Diaz |
| Discussion: 30 mins. | |

Note: A copy of the Supplemental Appropriation: Meter Data Management presentation that Adam Bromley gave at the October 20th Council Finance Committee meeting is attached for your reference. (starting on page 27)

Council Finance Committee
2022 Agenda Planning Calendar
RVSD 10/26/22 ck

Nov. 3rd	2022		
	General Employee Retirement Plan (GERP) Annual Report	30 min	B. Dunn A. Newton
	Sustainable Funding - Transit	30 min	D. Brooks
	Sustainable Funding - Climate	30 min	H. Depew J. Echeverria Diaz

Dec. 1st	2022		
	Financial Policy Updates	30 min	B. Dunn
	TCEF Reimbursement – Path Forward	20 min	M. Virata M. Marinez
	Municipal Court Renovations	30 min	J. Hueser



Finance Committee October 20, 2022, 4-6 pm
Zoom

Council Attendees: Julie Pignataro, Kelly Ohlson, Emily Francis

Staff: Kelly DiMartino, Travis Storin, John Duval, Caryn Champine, Monica Martinez, Rebecca Everette, Megan Keith, Doug Burkes, Teresa Roche, Ginny Sawyer, Sylvia Tatman-Burruss, Jen Poznanovic, Nina Bodenhamer, Blaine Dunn, Randy Bailey, Trevor Nash, Renee Reeves, Jo Cech, Javier Echeverria-Diaz, SeonAh Kendall Gerry Paul, Erik Martin, Kendall Minor, Lance Smith, Adam Bromley, John Phelan, Heather Young, Shannon Ash, Meagan Keith, Dave Lenz, Sheena Freve, Kerri Ishmael, Zack Mozer, Carolyn Koontz

Others: Theresa Connor
Kevin Jones, Chamber
Molly Bohannon, Coloradoan

Meeting called to order at 4:00 pm

Approval of minutes from the September 1, 2022, Council Finance Committee Meeting. Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion. Minutes were approved unanimously via roll call by; Julie Pignataro, Kelly Ohlson and Emily Francis.

Travis Storin brought up the 2023 Council Finance Committee Meeting schedule. Asking Committee if they are in favor of continuing to be held on the 1st Thursday of each month from 4-6 pm via Zoom. He will bring this up again at the end of the meeting for discussion.

A. East Mulberry Potential Annexation: Opportunities & Tradeoffs

Rebecca Everette, Planning Manager
Megan Keith, Senior Planner
Sylvia Tatman-Burruss, Sr. Policy & Project Manager

EXECUTIVE SUMMARY

In August 2022, City staff presented detailed financial modeling scenarios for the East Mulberry Enclave Area based on a set of assumptions, including potential annexation timing and levels of investment for Utilities and general City Services. The Council Finance Committee requested a follow-up presentation outlining the potential opportunities and tradeoffs of annexing the existing East Mulberry enclave in relation to Council priorities, community feedback and priorities outlined in existing adopted plans.

For the October Council Finance Committee meeting, staff has prepared a presentation and an attachment that outline opportunities and tradeoffs within the East Mulberry area related to potential future annexation. This

summary is based on adopted Council priorities, community engagement conducted thus far, and priorities outlined in the Strategic Plan and City Plan. While the opportunities and tradeoffs highlighted in these materials are not meant to be an exhaustive list, they reflect the key takeaways for each “character area” within the broader East Mulberry Plan area. These opportunities and tradeoffs will be further explored and addressed within the upcoming East Mulberry Plan Update.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Do the materials presented adequately address requests from the August 1 Council Finance session?
2. Are there any additions or modifications staff should make before sharing similar materials at the November 8 Council Work Session?

BACKGROUND/DISCUSSION

Staff has been modeling financial scenarios related to potential future annexation of the East Mulberry enclave with an outside consultant, Economic Planning Systems, since late 2020. Staff has also been working on an update to the East Mulberry Plan, including extensive community engagement, since early 2021. Recent full Council discussions on this topic include:

- October 2021: Discussion of E Mulberry Plan Vision, possible annexation scenarios and a high-level presentation of financial modeling over a 20-year time horizon.
- April 2022: City Council and County Commissioner discussion of potential future annexation and the existing Intergovernmental Agreement for Growth Management.
- April 2022: Work session focused on overall community approach to annexation and growth management, including implications for the East Mulberry Enclave area

Next Steps:

- November 8, 2022: Council Work Session, which will include opportunities and tradeoffs for the East Mulberry Plan Area and a recap of the summary financial metrics and modeling for the East Mulberry Enclave.
- February 2023: Council Work Session focused on East Mulberry Plan Update (draft plan)
- February/March 2023: Consideration of adoption of the East Mulberry Plan Update
- *Note: There are currently no scheduled Council actions related to annexation timing or phasing.*

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT

- 1) Do the materials presented adequately address requests from the August 1 Council Finance session?
- 2) Are there any additions or modifications staff should make before sharing similar materials at the November 8 Council Work Session?

Julie Pignataro; the maps are super helpful, and I like that way this was laid out. The way you consistently went through the five areas made sense. I really like the tipping point concept you brought up and think that makes sense.. Do we anticipate using these five areas as the different sections that would be annexed or?

Rebecca Everette; we really did that for illustration purposes and more of a way to structure the conversation.

Julie Pignataro; for the transitional area we discussed – some of it could be housing development and if I understand correctly if we annexed it before there was a forced annexation we might have more say in what kind of development goes there.

Rebecca Everette; might benefit from a comparison of the land use and zoning for the county versus our plan. There are some business parks that are already approved and have lots. If they were to go through the county process, it might not trigger annexation into the city. The land use there is not a very high priority land use for the city in terms of our City Plan. There is a bit of a mismatch in what can be built out there versus what we think our community might need going into the future for employment and commercial and industrial development.

Julie Pignataro; without all of the complications involved, is it a possible place for mix used development?

Rebecca Everette: mixed use is certainly possible in that area – there are some fairly decent sized lots, lots of residential development. Mixed use would probably be driven by the market in that area. Probably more likely from a market perspective that we would see interest for light industrial space similar to what is in the air park already.

Kelly Ohlson; I like the fact that the city has more tools at our disposal for design and environmental quality. I am terrified of the additional costs that will come both ongoing and infrastructure. Are there any roads in the potential annexation area that fall under the category of private roads? If so, we are not responsible for the roadwork? Or would we be taking on all roads in the area as our responsibility?

Rebecca Everette; without looking at a map, I believe that we would consider most of the roads as public streets. There may be some small ones here and there that would be considered private. I know the county's road street maintenance strategy is to not maintain even some of the public streets and to focus on the bigger roadways and to leave neighborhoods to address street maintain on the lower street classifications. The city's standard approach would be to provide maintenance for all public streets which would probably cover the majority of the corridor area. There are other ways to approach street maintenance through special improvement districts or general improvement districts or even a change in strategy for how the city does maintenance on small or local streets.

ACTION ITEM:

Kelly Ohlson; a broad swipe at that information would be helpful when you bring this to the Council Work Session. Looking for ranges instead of me guessing.

Infrastructure for stormwater and roads - I made up a number of \$100M which is probably very low.

Can you refresh us at the Work Session with a broad brush, so we are not just talking theory but are talking dollars for roads and stormwater for the infrastructure - not even thinking of the electrical and wastewater additions. I am worried about the money. Another example, I think ten police officers is low – but even for ten officers for ten years would be approximately \$17M.

I think people would be far better served and the area would be better taken care of with us than with the county. I believe we will do a better job because of resources and philosophy. That doesn't mean I am for it because of the money.

I-25 Mulberry Gateway Area – Land Use code standards would apply upon annexation; city staff is focused on preservation of existing businesses – I am on board with that

I am looking at driving nobody away and I am not looking to keep anyone from expanding but if you get all of the good parts (stormwater, better road connections, etc.) then you have to follow most, if not all of our rules

including environmental building design. I don't mean going back and coming up to standard, that's amortization for lighting and sign code (which is standard). I am not expecting anyone to rebuild their buildings to come into compliance with existing codes. I am talking expansion and new buildings.

ACTION ITEM: response to above

Rebecca Everette: very helpful input - we were specifically targeting some of the agriculture related businesses in the area – thinking about land uses that aren't currently listed in our land use code. The idea being (based on previous council feedback) to not create non-conforming use situations in that area for some of the agriculture related businesses including a small meat processing facility that is a unique land use in that area that is not a land use permitted anywhere within the city limits right now. There are a couple land uses like that we want to look at and whether it makes sense to add those to the industrial zone district. We will not be looking for relief from development standards but more looking at more of those non-conforming use situations.

Julie Pignataro; was the intent for next work session to talk finances as well?

Rebecca Everette: we are planning on bridging - it has been a while since we had a touchpoint with the full Council. The last one may have been after last city / county meeting we had. We do want to bring the rest of Council along with some of the take aways from these conversations that have been occurring and bring in some of that financial piece and we are also looking for input and direction on the plan itself.

Travis Storin; the idea would be threading together the August financial discussion and the conversation today regarding opportunities and tradeoffs.





Emily Francis; I don't have any additional questions, but I do agree with committee members asking to include the numbers in the work session materials. I also like the tipping point idea – again, reading through this, there is no clear sub area that would make sense so looking at it from a different approach, looking at what would make sense to start that process? Great work and really helpful to work through tradeoffs.

B. 2023 Utility Rate Increases

Lance Smith, Utilities Strategic Finance Director

EXECUTIVE SUMMARY

In November, City Council will consider adopting the 2023 City Budget which includes operating revenues for each utility enterprise based on utility rates that include the following increases:

UTILITY		2023 PROPOSED INCREASE
	ELECTRIC	5%
	WATER	4%
	WASTEWATER	4%
	STORMWATER	3%

Last December staff presented the forecasted need for more modest rate increases than what is shown here. Those initially proposed rate increases for each of the utility enterprises were increased in June as inflation continued to increase throughout 2022 and the Federal Reserve responded by increasing the cost of borrowing, both of which adversely impacted the whole 10-year rate forecasts that were also presented last December. All budget discussions since June have included the proposed increases shown above.

These proposed changes will be presented to both the Energy Board and Water Commission for formal action in October. Minutes will be provided to the full City Council for First Reading.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does Council Finance Committee support bringing forward rate adjustments consistent with what has been discussed through the budget process for the full City Council's consideration?

BACKGROUND/DISCUSSION

Inflationary Pressures

The rate forecasts presented to the Council Finance Committee last December were developed assuming inflation over the next decade would be similar to the inflation experienced over the last decade. Inflation this year quickly exceeded those levels. The increased inflation realized in 2022 is likely to persist over the next few years before returning to more modest levels but for how long, and to what level, is not clear at this point.

Staff could not update the long-term financial models during the budget process in June but because of the recent increases in these inflationary pressures, increased rates 2% more in the Light & Power, Water and Wastewater monthly charges from what was previously shown last winter ahead of the budget process. There are similar pressures in the stormwater utility as well but there is more operating income available for infrastructure improvements in this fund than the other three enterprises, so staff increased that rate by an additional 1% in June, as well.

Staff has since been able to update the 10-year rate forecasts to reflect potential inflation by sampling from the past 60 years, instead of just the past decade. The updated long-term rate forecasts are included below as each utility's primary 2023 rate drivers are considered. There is a need to consider raising rates more than 5% in a given year, especially when inflation is more than 5% in consecutive years which may happen in the near-term.

Inflation is felt across the utilities but in different ways depending on which operating expenses are increasing more or less than other expenses. The table below shows how higher inflation in labor costs would impact the Customer Service & Administration (CS&A) internal services fund more than the enterprise funds. Similarly, higher inflation for material costs would impact the enterprise funds more than CS&A. The long-term financial model for each utility considers how inflation is impacting costs for each utility.

OpEx	Electric (no PP)	Water	Wastewater	Stormwater	Customer Service & Admin
Labor	30%	40%	35%	30%	65%
Materials	70%	60%	55%	55%	35%
Debt Service			10%	15%	

Electric

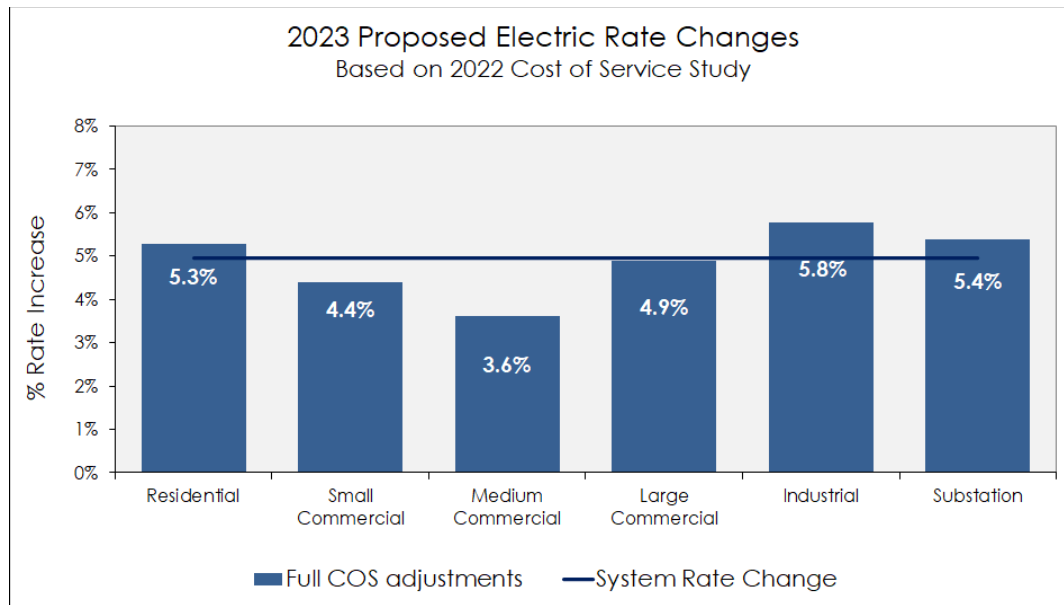
Every two years, or once each budget cycle, staff reviews and updates the cost-of-service models for each of the four utility services. In 2022, the electric cost of service model has been updated. Staff is proposing a 5% retail rate increase for the electric fund in 2023. This increase is driven by a combination of increases in wholesale electric expenses as well as distribution operating & maintenance costs and investments in distribution infrastructure.

Platte River Power Authority (PRPA) is planning to increase their wholesale blended rate (\$/MWh) by 5% in 2023. Roughly two-thirds of costs incurred each year to provide electric service to our community are attributable to wholesale purchased power expenses, while the other one-third is attributable to costs related to operating & maintaining the distribution system.

The impact to each of the four PRPA owner-communities will vary slightly from the 5% overall change in \$ / MWh, with Fort Collins Utilities projected to see a slightly lower \$ / MWh change than the other owner-communities. This result is driven largely by a more favorable load factor, as compared to Loveland, Longmont, and Estes Park. This more favorable load factor is due in part to demand-side management efforts that Fort Collins has collaborated on with commercial customers over the years, as well as the rollout of residential TOD rates in 2018. The lower relative impact for Fort Collins has been a financial benefit to utility customers in recent years, as wholesale rates are passed directly on to retail customers.

The electric cost of service model accounts for changes in consumption and costs to provide electricity to each rate class, or customer category. Given the frequency of these updates, there are generally relatively minor adjustments necessary. There are many factors that go into these updates, including how load factors change across rate classes, consumption increases or decreases, and average demand during coincident peak hours, which accounts for the wholesale demand cost allocations.

The updates proposed for each rate class for 2023 are shown in the graph below, which range from 3.6% to 5.8%, depending on the rate class. The dark horizontal line represents the average 5.0% increase for the electric fund.



The new 10-year rate forecast based on the larger dataset of real inflation data reflects the 5% wholesale increase forecasted through 2028. Note it will be necessary to exceed the 5% annual rate increase ceiling which has historically resulted in more gradual rate adjustments. This exceedance will be necessary for a few years due to inflationary pressures.

Electric	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	2.0%	5.0%	5.0%	4-5%	4-5%	4-6%	6-8%	6-8%	6-8%	4-7%	4-7%

Net-metering Solar Credit

Solar credit rates for residential customers are proposed to stay flat from 2022 to 2023. Maintaining a level solar credit rate, as retail rates increase over time, is Utility's gradual approach to transition to a sustainable solar financial model. This approach does not reduce the current benefit for existing solar customers and does not change the full retail value for self-consumed solar.

Staff is also proposing to modify the solar credit for generation pushed back to the grid for small and medium commercial solar customers. Currently, the credit only accounts for the wholesale energy component and going forward would include both the wholesale energy and wholesale demand component. This will increase the credit these customers get from ~4.2 cents / kWh to ~6.2 cents per kWh. Making this change will further incentivize solar installations for these commercial customers and help increase solar installations across the city.

Water

The cost-of-service model for the "wet utilities" (water, wastewater, and stormwater services) will be updated in 2023. Rate class specific adjustments will be proposed for 2024 based on those updated models. For 2023, the same rate increase is applied to all of the rate classes.

Staff is proposing a 4% retail rate increase for the water fund in 2023. This is higher than the initially proposed 2% increase due to the higher costs of materials and impacts to the cost of borrowing which will increase the

amount of interest being paid on any revenue bonds that will be needed in the coming decade for infrastructure investments.

The long-term financial models have been updated for the “wet utilities” as well as electric. The results to the ten-year rate forecast for water rates is shown below. Just as for electric services, it may be necessary to have rate increases in the 5-8% range for a few years, if inflation stays above 5%.

Water	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	0.0%	4.0%	4.0%	4-7%	5-8%	5-8%	5-8%	4-7%	4-7%	4-7%	4-7%

Wastewater

Staff is proposing a 4% retail rate increase for the wastewater fund in 2023, as well. There has been a trend in recent years of declining operating revenues for this utility. As this utility is not immune to the impacts of inflation on its operating costs, it is necessary to increase operating revenues through rate adjustments to offset these higher costs of providing this service to our community. At this point the financial model is not indicating a need to exceed the previous 5% rate limit although it is still driving higher rates than the December forecast contained.

The updated ten-year forecast for wastewater rates is shown here:

Wastewater	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	0.0%	4.0%	4.0%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%

Stormwater

Staff is proposing a 3% retail rate increase for the stormwater fund in 2023. This is 1% higher than the December 2021 forecast which is a smaller incremental increase than what is being proposed for the other utilities. The reasons for this smaller adjustment to the proposed rate increase for this utility are that a larger portion of operating revenues are available in this fund for infrastructure investments than the other utilities. There will be a need to issue revenue bonds for the Oak Street stormwater improvement project this budget cycle (Offer 4.2).

The updated ten-year rate forecast for stormwater services is shown here:

Stormwater	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	0.0%	3.0%	3.0%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%

Other Considerations

Staff is also in the process of selecting a vendor to provide a new, modern billing system, which will occur over the next few years. This investment in a new billing system will be shared by all four utility services. While the proposed increases for 2023 recognize the cost of this investment, the primary driver of the rate increases are inflationary pressures on operating costs with the secondary driver being the total 10-year capital investments of which the billing system is a one.

Customer Bill Impacts

The table below shows the impacts of the proposed rate change to the average residential monthly bill. Under the proposed rate changes, a residential customer's total utility bill, for a customer receiving all four municipal utility services, would increase by 4.3%, or \$7.98 per month.

Fort Collins Utilities Comparative Residential Monthly Bill					
Utility	2022	2023	\$ Change	% Change	
Electric	\$ 80.01	\$ 84.01	\$ 4.00	5.0%	
Water	\$ 49.03	\$ 50.99	\$ 1.96	4.0%	
Wastewater	\$ 34.25	\$ 35.62	\$ 1.37	4.0%	
Stormwater	\$ 21.74	\$ 22.40	\$ 0.65	3.0%	
Total Average Bill	\$ 185.04	\$ 193.02	\$ 7.98	4.3%	

The table below compares typical residential electric, water, wastewater, and stormwater monthly utility bills across neighboring utilities along the Front Range, based on 2022 charges. In total, Fort Collins Utilities comes in the lowest at \$185.04 for all four services. With the proposed increases, Fort Collins would move to second lowest, although there are known increases proposed amongst these other utilities for 2023, as well, with some of them being substantially higher than the percentage increases proposed for our community.

2022 Residential Average Monthly Utility Bill					
Utility	Electric	Water	Wastewater	Stormwater	Total
Ft Collins	\$ 80.01	\$ 49.03	\$ 34.25	\$ 21.74	\$ 185.04
Longmont	\$ 73.57	\$ 62.97	\$ 34.10	\$ 14.90	\$ 185.53
Loveland	\$ 82.42	\$ 54.95	\$ 39.61	\$ 18.86	\$ 195.84
Greeley	\$ 90.07	\$ 69.60	\$ 28.49	\$ 15.77	\$ 203.93
Boulder	\$ 90.07	\$ 58.31	\$ 42.70	\$ 22.00	\$ 213.08
Colorado Springs	\$ 109.39	\$ 93.26	\$ 29.85	N/A	\$ 232.51

Proposed Changes to Development Fees

Development fees are the mechanism for Utilities to recover the impact of adding new demand to the services Utilities provides, including electric, water, wastewater, and stormwater. Plant Investment Fees (PIFs) and Electric Capacity Fees (ECFs) are one-time charges for new development or re-development. These fees recover costs for excess capacity of infrastructure already in place to serve new customers based on the "buy-in" approach, where customers pay according to new demands they will put on the system and considers incremental costs of future infrastructure to serve them.

PIF revenues are a critical revenue stream to help fund new infrastructure but represent a small portion of the total revenues collected each year for each utility enterprise. The table below shows what percentage of total revenues is from development fees for each utility:

	PIF Revenue as % of Total Revenue
Electric	3%
Water	14%
Wastewater	9%
Stormwater	6%

Every other year, when models are not updated, an inflationary adjustment is applied to utility development fees. Staff uses the Engineering News Record (ENR) construction cost index to apply adjustments. With the current uncertainty in the economy driving higher than normal inflation across the board for most goods and services, staff is proposing a 9% increase to fees for 2023. These fees include the Electric Capacity Fees, Water Plant Investment Fees, Wastewater Plant Investment Fees, and Stormwater Plant Investment Fees. There has been some variability in the monthly ENR percentages, but the percentages have hovered close to 9% for most of 2022. Utilities has experienced even higher cost increases with various items, such as electric transformers, which have increased substantially due to supply chain issues and higher material costs.

Utility Fee	2023 Proposed Increase
Electric Capacity Fee (ECF)	9.0%
Water Plant Investment Fee (PIF)	
Wastewater Plant Investment Fee (PIF)	
Stormwater Plant Investment Fee (PIF)	

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT

Does Council Finance Committee support bringing forward rate adjustments consistent with what has been discussed through the budget process for the full City Council's consideration?

Kelly Ohlson; materials are clear and give us everything we need and not information we don't need - very well done. I fully support the rate increases – utilities have historically under asked – council and residents would prefer 0% increases across the board but that is not realistic. With inflation numbers and the cost of things as it is, I think you are going as high as you think you probably should but lower than you probably should have with the current inflation numbers.

2022 Residential Average Monthly Utility Bill					
Utility	Electric	Water	Wastewater	Stormwater	Total
Ft Collins	\$ 80.01	\$ 49.03	\$ 34.25	\$ 21.74	\$ 185.04
Longmont	\$ 73.57	\$ 62.97	\$ 34.10	\$ 14.90	\$ 185.53
Loveland	\$ 82.42	\$ 54.95	\$ 39.61	\$ 18.86	\$ 195.84
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Boulder	\$ 90.07	\$ 58.31	\$ 42.70	\$ 22.00	\$ 213.08
Colorado Springs	\$ 109.39	\$ 93.26	\$ 29.85	N/A	\$ 232.51

Kelly Ohlson; The information above is very helpful – we all think we pay the most – good to see peer community rates.

Do residential customers in any way shape or form in capital or ongoing monthly charges subsidize commercial or industrial users? (who benefits / who pays – we should all be paying our fair share)

Lance Smith; short answer is that the cost-of-service models that I talked about – that is what it does -it takes all of our costs – how much we need – then it allocates those costs based on the relative rate class usage which varies by rate class and that is intended to avoid any subsidization of one rate class by another. The short answer is no – there is not any subsidization.

Kelly Ohlson; did we improve that over the last 10-15 years?

Lance Smith, so, the cost-of-service models themselves are something that we update internally. On about a five-year cycle, we have an external subject matter expert look at it and give us their opinion.

Kelly Ohlson; I am good on this topic - well done

Emily Francis; we are projecting that every year out to 2032 we will have a 3-5% increase or some increase across all utilities every year?

Lance Smith; yes, some increase

Emily Francis; Historically we haven't increased all utilities at once but now we are projecting that we are going to.

Lance Smith; potentially, the challenge there is the timing of capital investments – it may shift exactly when we need the rate increase, but it does look like on average there will be an increase on each of the utilities.

Emily Francis; I am supportive, but not happy about it. I understand why we need to do it. This is just really hard for community members especially with inflation and everything else going on. A big increase compared to previous years.

Julie Pignataro; I wanted to thank you for agenda item #4 - Utilities Income-Qualified Assistance Program Structure - good to pare these topics

C. Supplemental Appropriation: Meter Data Management

Adam Bromley, Director of Electrical Engineering
Lance Smith, Utilities Strategic Finance Director

SUBJECT FOR DISCUSSION

Meter Data Management System Upgrade Appropriation Request

EXECUTIVE SUMMARY

The Meter Data Management System (MDMS) owned and operated by Utilities has been in place since the inception of the Advanced Meter Fort Collins implementation. It receives water and electric meter reads for all advanced meters across Fort Collins service territory throughout the day, performs quality checks on that data, and then at the end of the billing cycle it calculates the billing determinants for each customer that are necessary to generate individual customer bills.

Fort Collins has been utilizing the same version of the software, EnergyIP, since it was installed. For a number of reasons that will be described below, this software must be upgraded to a more current version and the upgrade cannot wait for the new budget cycle to begin (i.e., January 2023). Fort Collins staff will need vendor support to complete this major software version upgrade.

As the MDMS system supports both the water and electric utilities, the cost of the upgrade will be shared between them. Utilities has historically allocated costs for shared software based on customer counts a determined by the number of deployed meters to establish the cost share for each utility. Applying this method here, the Water Enterprise's share of this expense would be 31.6% and the Light & Power Enterprise's share would be 68.4%. The total supplemental appropriation being proposed for your consideration is for \$629,588, with the individual appropriations from each utility's reserves as specified below:

Light & Power	\$430,638
Water	\$198,950
Total Cost of MDMS Upgrade	\$629,588

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does Council Finance Committee support an off-cycle appropriation of Water and L&P reserves that will fund vendor support of a major version upgrade of the Utilities Meter Data Management System (MDMS)?

BACKGROUND/DISCUSSION

Fort Collins staff knew that a version upgrade to the MDMS was needed back in 2018 and had planned to complete the upgrade at that time with the use of internal resources only. Staff attended vendor training specific to this upgrade in order to support it. The staff that were identified to complete this upgrade in 2018 subsequently were taken from this project to devote their expertise on the Utilities Customer Information System (CIS) upgrade project that was a higher priority due to the immediate customer/billing needs for the new Connexion utility. This meant that the MDMS upgrade was put on hold, which may have benefited Utilities in the long run. This is because as other utilities utilizing the same MDMS implemented their own migrations to the newer versions, which included significant architectural changes, the vendor realized that these migrations were much too complicated without third-party assistance.

Now that the organization has stepped back from the engagement with the previous CIS vendor and is planning a new CIS upgrade projected to be initiated in 2023, staff and management identified the window of time prior to the CIS project to complete the previously delayed upgrade to MDMS. There are several reasons that completing this upgrade now is imperative which include:

- Functionality included in the new version will reduce manual work and customizations:
 - More robust data Validation, Editing, and Estimation (VEE) algorithm/process that greatly reduces manual action and intervention
 - Enables use and storage of more electric meter channels which provides billing determinant calculations for our largest Commercial & Industrial (C&I) customers; this is currently calculated in a third-party software which entails a high volume of manual work
 - Reports that were previously custom developed through an external program will now be included inherently to the software
- Existing version is extremely outdated; extended support for the current 7.2 version is not sustainable
- New version is much more stable and will eliminate many of the billing issues encountered on a monthly basis
- Current version of software relies on older versions of browsers (now unsupported) and other no longer supported software technologies which is a cyber security vulnerability
- Application servers (non-database) for this version are located on a very old version of Linux RedHat because it will not operate on more recent, supported versions
- The current version of Oracle being utilized will deprecate support at the end of 2022

Staff has engaged with vendor support companies and other users of the software to conclude that the most effective way to complete a successful upgrade is to utilize external support that has previously completed upgrades from our current version to the newest version of software. To complete this upgrade prior to the CIS upgrade project, staff has solicited for external support through an RFP process.

After completing an RFP process, staff has a better understanding of the full costs involved in obtaining external support. The provided quote for those services was approximately \$630K. As mentioned above in the summary, L&P and Water share the costs of this system depending on their respective meter counts. The total supplemental appropriation being proposed for your consideration is for \$629,588, with the individual appropriations from each utility's reserves as specified below:

Light & Power	\$430,638
Water	\$198,950
Total Cost of MDMS Upgrade	\$629,588

The following table shows where L&P reserves are and where they will be after this supplemental appropriation:

	Light & Power	Water
Year End 2021 Reserve Balance	\$64.6	\$84.3
Minimum Required	(\$8.1)	(\$5.8)
Appropriated Prior to 2022	(\$18.8)	(\$37.2)
2022 Connexion Appropriation	(\$20.0)	
2022 Transformer Appropriation	(\$3.6)	
2023-24 CMO Recommended Budget	(\$0.8)	(\$29.2)
Available Reserves Before This Request	\$13.3	\$12.1
MDMS Upgrade	(\$0.4)	(\$0.2)
Remaining Available Reserves	\$12.9M	\$11.9M

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does Council Finance Committee support an off-cycle appropriation of Water and L&P reserves that will fund vendor support of a major version upgrade of the Utilities Meter Data Management System (MDMS)?

Julie Pignataro; so, the RFP has gone out and you have selected a vendor, correct?

Adam Bromley; yes, RFP went out and vendor was selected

Quoted Costs through RFP

- Scope of Work #1 – On premise upgrade from version 7.2 to version 9.x with no historical data migration (less complex): ~\$587 K
- Scope of Work #2 – Consultation on level of effort to move Ft. Collins MDMS to the Cloud: ~\$43 K

Total Off-Cycle appropriation request: \$630K

- L&P fund share (68.4% of metering endpoints): ~\$431 K
- Water fund share (31.6% of metering endpoints): ~\$199 K



Julie Pignataro: how much support are they going to provide after the upgrade is complete?

Adam Bromley; (see timeline chart above)

They are going to help with configuration up front, planning and analysis

They will be with us through system integration testing, user acceptance testing.

While we start to point the data to the new system, we will be running the systems in parallel for a period of time to make sure the new system is operating as it should and it has enough historical data stored so we can use those new functionalities that I mentioned right off the bat. Some of the algorithms included in the new system require some historical data so we know if we need to estimate something.

30 days of post-production support is also included in the quote.

Julie Pignataro; we are calling this an upgrade, but it is a whole new system, right?

Adam Bromley; technically it is an upgrade of the software we have but the architecture changes are large enough that we are actually doing a greenfield implementation - 9.x software version so we don't have migration issues that they have seen in migrations from 7.x to 9.x version software.

It is a new implementation of that system - we are going to make sure that our customer data is inherently migrated over to the new system, so it is a new implementation acting like an upgrade.

Julie Pignataro; are our resources prepared to supply what is needed to make this implementation successful?

Adam Bromley; yes

Doug Burkes and one other resource from the Utilities IT team have attended the vendor approved certification process for this upgrade. We had staff that had gone through that back in 2018 when we were planning to do this ourselves. They went to that training because we thought we could still do it internally but as we talked with other it became clear that we would be more successful with the upgrade if we had vendor support. Our staff is very well versed in what they need to do in order to support the project.

Julie Pignataro; does the vendor supply a project manager and do we have one on our side too?

Adam Bromley; yes, we have one on both sides

Kelly Ohlson; historical – it really was advance meter wars - we were going to be spying on everyone - it wasn't pretty - concerns regarding inappropriate use of the advanced meter program

Adam Bromley; I have been here the whole time and from my opinion no, but I do remember that.

Emily Francis; no questions - this makes sense and I support it coming forward

D. Utilities Income-Qualified Assistance Program Structure

Heather Young, Utilities Community Engagement

Shannon Ash, Utilities Community Engagement

SUBJECT FOR DISCUSSION

Income-Qualified Assistance Program (IQAP) Update, Proposed Changes, and Program Adoption

EXECUTIVE SUMMARY

The Income-Qualified Assistance Program (IQAP) that provides income-qualified Fort Collins Utilities (Utilities) customers reduced rates on select Utilities services was introduced in October 2018 as a pilot program. The IQAP program bill adjustment effectively applies a 23% rate discount on electric, water, and wastewater services, and is due to expire December 31, 2022. In July 2021, City Council approved moving the program from an application-based, opt-in program to an auto-enroll, opt-out program, subject to participants' participation in the complementary state Low-income Energy Assistance Program (LEAP). At that time, City Council also requested an evaluation of the discounted rate percentage to ensure it was still sufficient to meet program objectives. Since July 2021, participation in IQAP has increased 128%. Staff are planning to provide City Council an update on the program on November 1, 2022, and will be seeking a motion from City Council to adopt the program.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Staff are seeking adoption of IQAP by City Council to transition the program from a pilot program to an ongoing program and are requesting an increase of the bill adjustment from 23% to 25% to ensure that low-income customers spend a similar percentage of household income on utilities as someone who makes 100% of Area Median Income (AMI).

- Does the Council Finance Committee support the continuation and adoption of IQAP as a regular initiative?
- Does the Council Finance Committee support increase the bill adjustment discount from 23% to 25%?

STAFF RECOMMENDATION

Staff recommends adopting IQAP as an ongoing program to support Utilities customers and increasing the program discount from 23% to 25% for participating customer bills. Adopting this program on a permanent basis aligns with existing community, City, and Utilities priorities and is an investment in our community.

BACKGROUND/DISCUSSION

The Income-Qualified Assistance Program was approved as a pilot by City Council and launched in October 2018. The program was designed to reduce utility burdens for qualifying low-income participants that opt-in to the

program by giving them a 23% discount on specific rate components of electric, water, and wastewater service bills. Utilities partnered with LEAP for income-eligibility verification for IQAP. LEAP eligibility is based on household size and an income threshold of 60% of State Median Income.

When IQAP launched, Utilities customers enrolled in the current or past LEAP season were eligible to complete an application to “opt-in” to participate in IQAP. Utilities sent bulk invites via mail or email to LEAP-enrolled customers annually to encourage them to apply for participation in IQAP. Customers could fill out an application at any time during the year to be enrolled in the program, provided their LEAP enrollment could be verified. Applications were completed online or via a paper form. Once an application was received by Utilities staff, the customer’s LEAP enrollment was verified, and their service bills were adjusted for the applicable services. In July 2021, City Council approved an extension of the pilot program and changed the enrollment structure from application-based, opt-in to auto-enroll, opt-out based on customers’ qualification and participation in LEAP. The intent of the opt-out approach was to increase overall participation while reducing administrative requirements for processing applications. The current pilot and associated discount are set to expire December 31, 2022, pursuant to City Code §26-724.

Utility Burden

One of the main reasons IQAP was implemented was to help offset the utility burden some customers experience. Utility burden is defined as the percentage of a household’s income that is spent on utility services such as electric, water, wastewater, and gas. Low-income households have been found to have disproportionately high utility burdens when compared to non-low-income households. Contributing factors include race, ethnicity, and low-quality housing.

Utility costs also continue to increase faster than income, both locally and nationally. Some customers are on a fixed income, especially seniors. Inflation means people have to spend more of their income on basic needs like utilities, and without access to heating, cooling, and water, unpaid utility bills can lead to dire health impacts. As temperatures increase due to climate change, customers use more energy. The cost of that energy also increases as the City and Platte River Power Authority work towards securing carbon-neutral energy sources.

Current Program Design

The IQAP pilot bill adjustment was designed as a multi-pronged approach to helping low-income households (at or below 60% AMI) achieve utility burdens that are more similar to those of households with 100% AMI. The IQAP 23% bill discount was designed to be combined with LEAP benefits and in-home conservation efforts to reduce participants’ utility burdens to more average levels (approximately 3.1% of income).

Utilities continues to partner with LEAP for income-eligibility verification to allow for auto-enrollment into IQAP. Utilities staff receives monthly lists of approved customers during the LEAP season. These lists are then verified by staff to confirm the customer is a Utilities account holder and if so, staff submits a billing rate adjustment request to the Billing office. The customer is mailed a confirmation letter informing them that they have been enrolled in IQAP for the year, along with conservation education materials and additional program information.

IQAP participants are encouraged to participate in no-cost conservation programs such as Larimer County Conservation Corps (LCCC) retrofits and/or Colorado Affordable Residential Energy Program (CARE) to make their dwellings more efficient and to help reduce utility costs further. They also receive the monthly Utilities Insights newsletter (fcgov.com/utilities/utilities-insights) that provides low- or no-cost tips and tricks for reducing utility use and costs. These ancillary program communications extend the reach of Utilities conservation and efficiency outreach efforts, delivering this key information to and improving user habits in households that historically are unlikely to participate in these efforts. Educating and creating incentives for conservation and efficiency shifts in these households allows the City and Utilities to more aggressively achieve our environmental goals in a progressive manner.

Program Update

Since the launch of IQAP, participation has continued to increase and additional intentional outreach into the community is expected to gradually increase enrollment.

2021 Participation	2022 Participation	2023 Estimated Participation
759	1,727	1,900*

**Anticipating a 10% increase from the previous year*

Estimated total reach is 10,000 households using a city-wide poverty rate of ~16%, based on 2021 Census Bureau data combined with controlling for the student population in Fort Collins (City Rebates Eval Report, 2019).

Utilities staff members have begun reaching out to partner agencies to discuss outreach opportunities. The goal is to increase awareness of LEAP and Utilities affordability programs. Utilities staff have identified underserved locations in the community using data from the Equity Office and will focus outreach opportunities in those areas.

According to current survey results, the majority of IQAP customers continue to be satisfied or very satisfied in the auto-enrollment process. The change from an application-based structure to auto-enrollment has increased program participation by approximately 128%.

Energy Use Analysis

At the launch of IQAP, an assumption was made that program participants would use less energy compared to those not in the program because participants were connected with CARE, LCCC, and other efficiency programs. Data analysis has shown that IQAP participants initially use slightly more energy (2.9% on average), but by year three of enrollment, energy use between IQAP and non-IQAP customers was similar. This can be attributed to customers being able to afford to heat and cool their homes at comfortable temperatures because it is more affordable. According to survey results, customers identify increased quality of life as a benefit of IQAP

Rate Reduction Evaluation

In July 2021, Council requested an evaluation to determine if the 23% rate reduction was still sufficient. Utilities staff conducted an analysis to determine the percentage that it would take for a low-income customer to spend a similar amount on utilities as someone who makes 100% AMI. For this evaluation, Utilities staff used the same methodology to estimate the necessary rate reduction amount using updated utility and income data. The analysis took the LEAP benefit and non-City gas bills into consideration and calculated the necessary discount rate to be 25%. Utilities staff expects the increased rate reduction will help offset the high energy burden and energy insecurity that continues to increase in our community and throughout the nation. This difference amounts to ~\$20/year/customer.

BOARD/COMMISSION FEEDBACK

As part of outreach for this program, Utilities staff visited or will visit Energy Board, Affordable Housing Board, Senior Advisory Board and Water Commission. To date, Energy Board and the Affordable Housing Board are supportive of this program adoption, based on feedback provided at their September/October regular meetings. This section will be updated as we receive additional feedback.

CITY FINANCIAL IMPACTS

Based on current enrollment numbers (1,727 participants), customers receive an average IQAP discount of \$220.50/year with a 23% rate reduction. The total annual cost to Utilities is ~\$392,000. With a 25% rate reduction, customers would receive an average discount of \$240/year. The total annual cost to Utilities would be ~\$415,000, or an annual increase of ~\$23,000. The total cost of this program is nominal relative to the annual operating budget of Utilities and would minimally impact other Utilities customers. Increasing the IQAP bill discount, as proposed, is not anticipated to significantly affect the Utilities costs nor contribute to the need for additional rate increases.

PUBLIC OUTREACH

Every year, participants in IQAP are offered an opportunity to complete a program survey. Participants are asked questions such as, "What has been the biggest benefit of receiving the IQAP utility bill discount?" and "Is there anything you would like to change about the Income-Qualified Assistance Program?" The overwhelming majority of participants report they are satisfied or very satisfied with the ease of enrollment and the discount they receive. They list increased quality of life, being able to save money for other expenses, decreased stress with paying bills, being educated on ways to conserve energy, and budgeting on a fixed income as some of the benefits because of IQAP. When asked about changes they would like to see to the program, a larger discount was listed repeatedly.

Utilities staff have scheduled outreach opportunities in the community for this upcoming LEAP season to increase awareness of the program and assist with applications. Several partner agencies throughout Fort Collins have agreed to host tabling events, which will allow Utilities staff to reach community members in locations they trust. These locations were selected to ensure accessibility to the community, from the north side to the south side of the city.

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Staff are seeking adoption of IQAP by City Council to transition the program from a pilot program to an ongoing program and are requesting an increase of the bill adjustment from 23% to 25% to ensure that low-income customers spend a similar percentage of household income on utilities as someone who makes 100% of Area Median Income (AMI).

- Does the Council Finance Committee support the continuation and adoption of IQAP as a regular initiative?
- Does the Council Finance Committee support increasing the bill adjustment discount from 23% to 25%?

Emily Francis; are we looking at additional programs to auto enroll folks in or just LEAP?

Heather Young; we don't currently do that right now. We have looked at other ways for folks to apply for the IQAP – not an auto enroll. We have talked about perhaps adding the IQAP to Get FoCo

Emily Francis; what is the barrier for auto enrolling via the Get FoCo app?

Heather Young; when this program was established we wanted to really leverage the LEAP benefit because it is a pretty significant benefit - it can be \$600+ per heating season. We really want people to apply for LEAP if they are eligible and that is built into the discount. The discount takes into consideration LEAP, so they are really meant to work in tandem. That being said if folks don't know about it, we want to give them a different avenue.

Shannon Ash; there are also some different income limits for different programs that are available We are hoping everything in the city can be streamlined at that 60% AMI so that the income qualification can be verified. LEAP handles the income verification so that is one less thing that our staff is doing – they are not taking any tax information – LEAP handles all of the income verification. They give us the list and all we have to do is change the rate for the customer.

Emily Francis; I would like to see the city still moving toward all programs putting less of a burden on the person applying. I understand that staff doesn't have to do it, but the resident still has to do it. I would like to see IQAP being rolled into our Get FoCo app. I understand that it is tied to LEAP but at least getting people enrolled - auto enrolled. I am very supportive of the program and am very happy that we are increasing the rebate and having a more regular cadence. How do we auto enroll and shift the burden and streamline those programs.

Kelly Ohlson; I am supportive of the program - Yes, yes and yes. To qualify for LEAP, is it all income based or is it wealth based? I am assuming that plays a role

Shannon Ash; It can, yes, when they are filling out the LEAP application, they are asking for types of income and if someone doesn't have a paycheck, they also look at disability income and there is another category for gifts or other such as significant savings or a loan from a parent or some other source of income so wealth, I would imagine would fall into that category. They ask, how are you able to pay your bill?

Kelly Ohlson; may want to follow up on that as scenarios come to mind - I can think of people who would qualify that shouldn't. I would like to take care of those who truly do need it. Methodologies are important and I am not sure we are using the right methodology – aim for low-income customers to spend a similar percentage on utilities as someone who is at 100% AMI - there are a bunch of fixed costs for anyone to live in this town or anywhere else and the more money you have often times the less impact some of those fixed costs have. Have you pursued or will you pursue what best practices are for methodology?

Heather Young; yes, absolutely - reevaluating the methodology is part of our ongoing process. When we did research on best practices, this is what was used elsewhere by some of our partner organizations. There are other options out there that we can continue to pursue. We are also looking at bringing more data in so we can understand who our customers are and the more we know who our customers are, the more refined we can have that evaluation.

Kelly Ohlson; I am looking at those who deserve this to get more money, not less.

I hope there is a constant process of 'do we have the porridge just right?'

I mean you keep up with the literature, talking with people, attending conference to see if there is a way that makes more sense. Is that a yes?

Heather Young, yes, absolutely

Julie Pignataro; I also have a question around the methodology – I am huge on the data, and I love how much data you provided. I am also thrilled with how many more people are enrolled in this program now. Where does the percentage match up with what we were just talking about? Also, with the increases we are going to see every year – how is that incorporated or is that two pieces of data?

Lance Smith; the discount percentage of 25% wouldn't increase but it would be from a larger number

Julie Pignataro; if we increase all four utilities 3% - Would we also want to increase the percentage that people are discounted?

Lance Smith; that is certainly something we could look at doing

Julie Pignataro; that is nothing that needs to come forward soon – just another way to look at the numbers.

Emily Francis; this is coming to Council soon since it expires 12/31. So, if you do want the methodology looked at - I agree with both of you – looking more closely as when we are doing rate increases what does that do to our rebate - I think that is a valid question to review before council looks at this for adoption.

Lance Smith; I want to make sure everyone is clear about is the program is going to expired 12/31 and these customers are going to see a 23% (really more like 1/3) increase in their utility costs if we don't adopt the program at that point. So, we are certainly open to exploring the methodology changes, but we are trying at this point hoping to make sure the program continues.

Julie Pignataro; if you could do a look at possibilities without compromising the expiration date of this program. If you can't – bring this forward anyway but keep in mind that we are asking you to look at it in the future. This should be an iterative program with constant checks and balances making sure we have the right people on, Making sure they are getting the right discount, etc. so, lump the methodology in with all of that.

Julie Pignataro; I think Emily might agree with me - I worry that the burden and cost of verification is not worth the number of bad players who would take advantage of programs like these. I would push our city to go away from the verification process to save money for ourselves and let karma do the rest.

Julie Pignataro; when retailers ask if you want to round up your purchase to the next dollar to benefit a charity – would that be possible to do this with our utility bills – to round up to next dollar to put money in a pool or fund. Could that legally be done or is there some restriction due to the kind of fund Utilities is -

Lance Smith; we do have that option - I don't think it is to round up to the nearest dollar, but you do have the option to make a monthly donation of \$5, etc.

John Duval; if people want to voluntarily do that -they can, and it could be put in this program.

Julie Pignataro; that is new to me - how would someone find out about that? We may want to get that out there

Heather Young; for our payment assistance fund, we do an annual bill insert and a social media campaign around the holiday giving season. We match those dollars 1:1 with Energy Outreach Colorado.

Julie Pignataro; I get my bills electronically, so I have not seen an insert. This might be worth mentioned when this comes to council. We should also mention this program when the rates increase.

Kelly Ohlson; thoughts on the future part of the program;

- 1) I am open to exploring in the future making it easier for people to apply –
- 2) maybe something between what we currently require but not wide open
- 3) I would like to have some consequences for bad players– there are bad players out there as we learned during Covid, but I am open to supporting Emily & Julie

OTHER BUSINESS:

Travis Storin; any tweaks needed for the 2023 Council Finance Committee Meeting schedule - Or should we continue with the current scheduling of the first Thursday of the month from 4-6 pm and continue with the Zoom format.

Kelly Ohlson; I defer to the other two committee members

Emily Francis; the timing and format have been working well for me

Julie Pignataro; me too - let's continue with the caveat that if at any time we need to – we can revisit it

Kelly Ohlson; I would shrink the presentations because the materials we get are outstanding and we come ready for prime time. We aren't at a work session where the public is watching.

Julie Pignataro; I think that is a very astute observation - everything we need is in the materials. – great idea

Emily Francis; I agree

Kelly Ohlson; it is a complement to the work, and I hope that gets communicated. The work is great! it can be a thing in process - this committee and staff come prepared. I would rather have more time unrushed for discussion. We would have the time to get to the questions and comments that are on council's mind.

Meeting adjourned at 6:00 pm



L&P and Water Reserves Off-Cycle Appropriation: MDMS

Adam Bromley, Director of Operations & Technology, Light & Power

10-20-2022

Does Council Finance Committee support an off-cycle appropriation of L&P and Water reserves that will fund vendor support of a major version upgrade of the Utilities Meter Data Management System (MDMS)?

Siemens' "EnergyIP" is the MDMS utilized by Utilities, it serves several vital functions for Utilities including:

- A database that stores historical energy usage and water consumption data for every Utilities customer
- Provides validation of the incoming data, as well as estimating and editing of that data when data is missing or incorrect; known as "VEE" process
- Uses the 15-minute interval energy usage data and water consumption data to create billing determinants for the CIS (Customer Information System)
 - These billing determinants are ultimately what's used to create an accurate bill for each customer, including the residential Time-of-Day electric rate
- Provides data exports to the three web portals (Franklin, WaterSmart, MV-Web for Commercial & Industrial) for customer consumption presentment
- Provides access to meter data and report creation
 - Example: The alerts to customers when there is a potential water leak in their home or business

Current Database

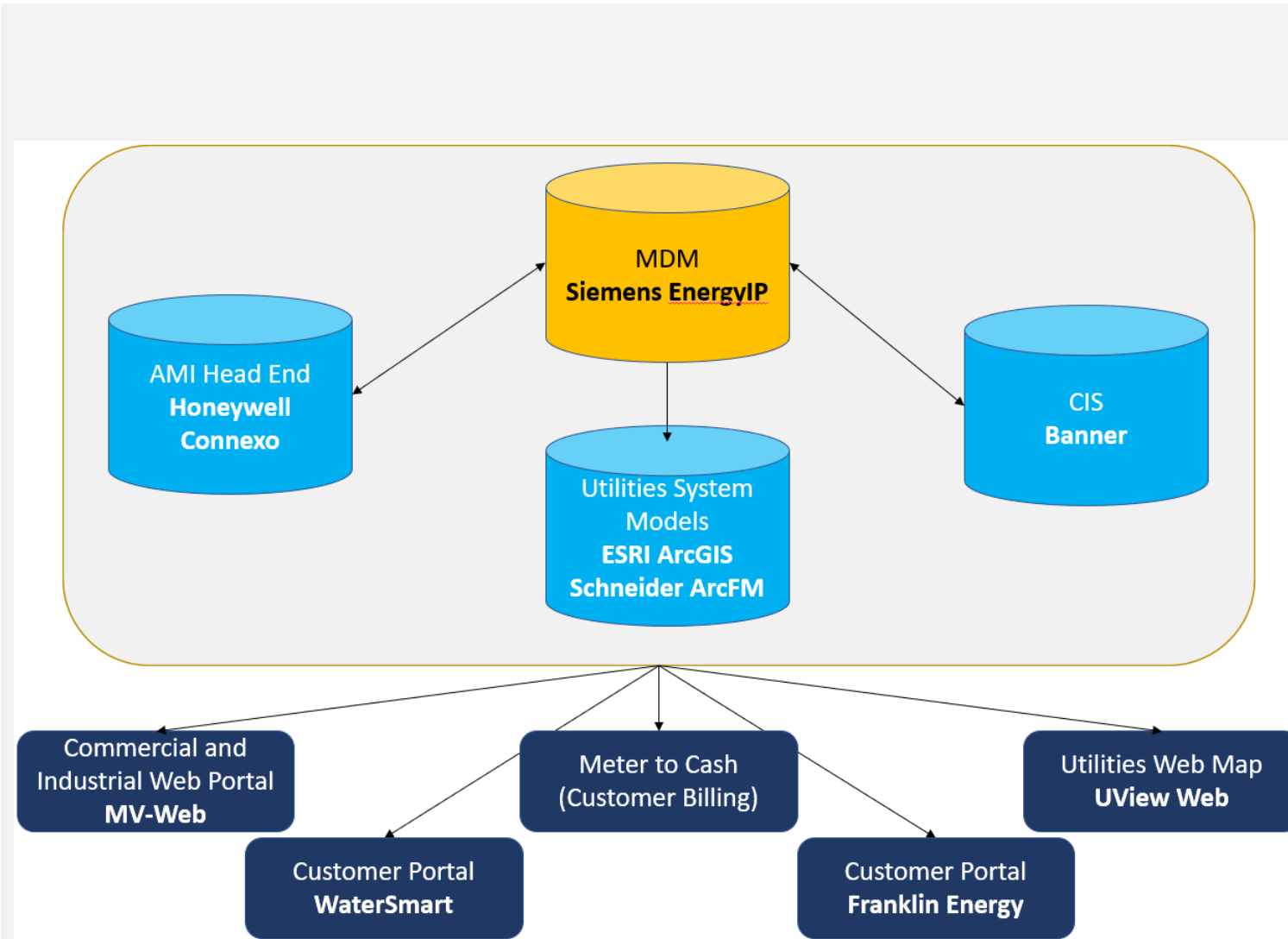
- Interval data back to 2013
- 9 TB with 30 TB backup files

Integrations

- CIS
- AMI
- GIS
- Customer web portals via exports

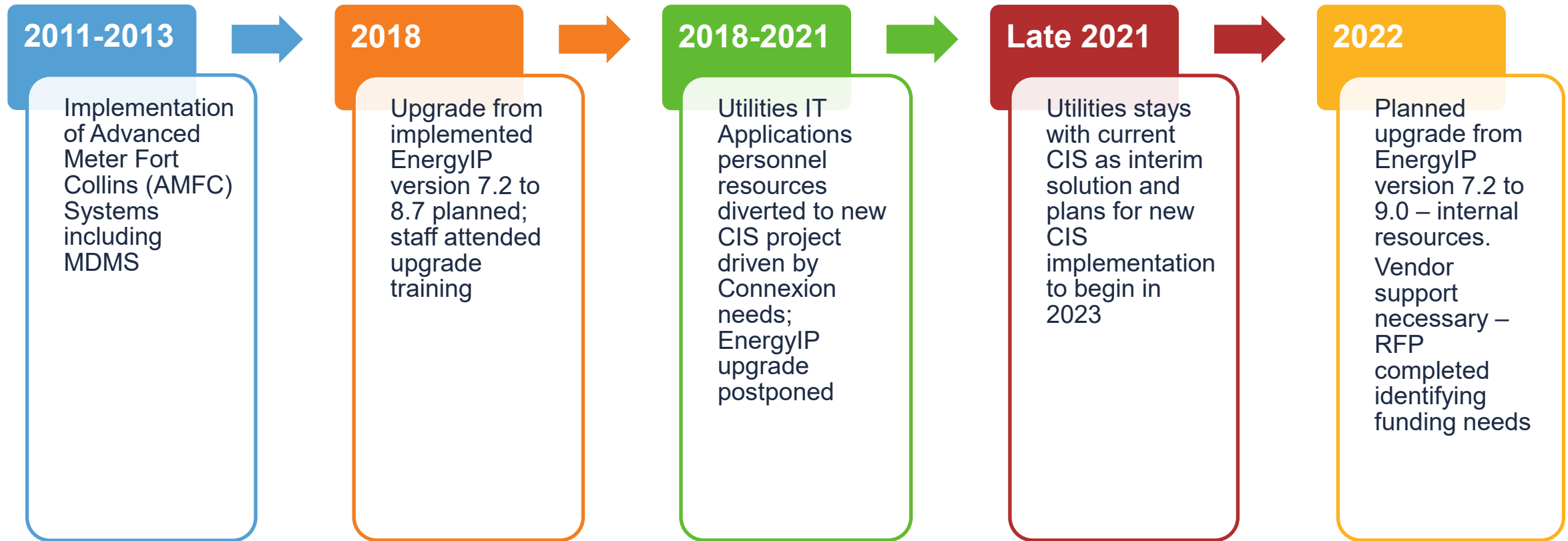
O&M of MDMS

- Utilities IT group
- Funded by all Utilities Enterprise Funds



- A more robust and automated VEE algorithm/process that greatly reduces manual action and intervention
- Ability to use and store more electric meter data channels (i.e. kVAR or power factor) that enables billing determinant calculations for largest C&I customers
 - This is currently done through a third-party software called MV-90 and the process entails a lot of manual work
- Some reports that were previously written externally are now included in base functionality



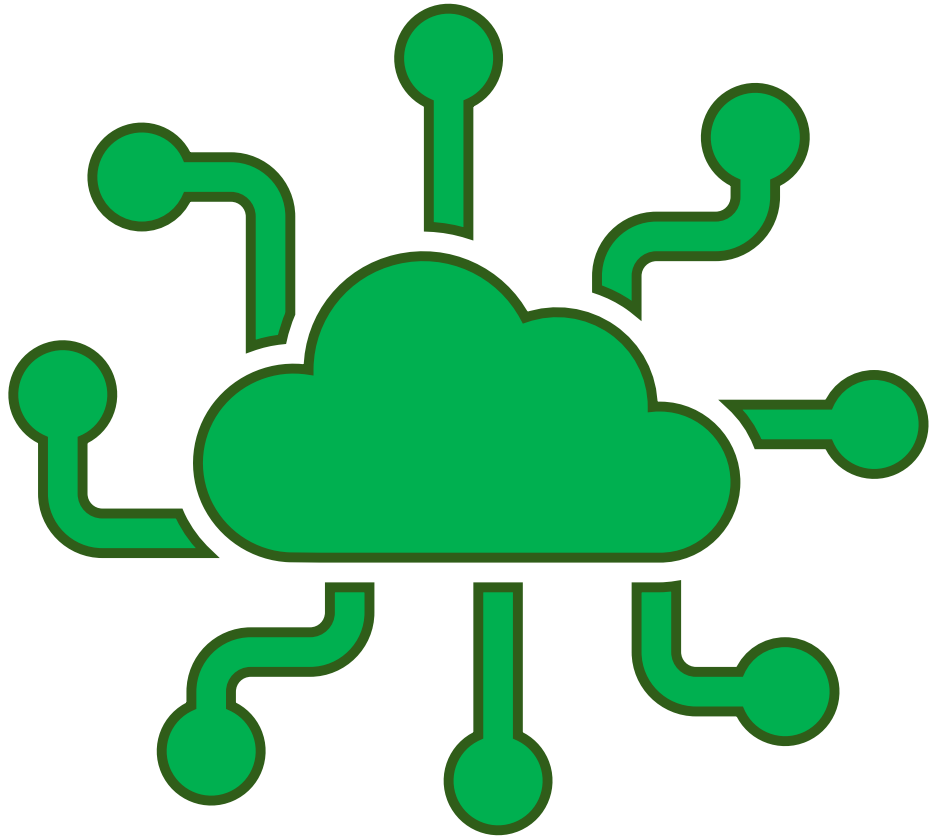


Why Now?

- Existing software is extremely outdated
- Extended support from Siemens for version 7.x is not sustainable
- EnergyIP v7.2 servers are on a very old version of Linux RedHat because it will not operate on more recent, supported versions – cyber security concerns

Dependencies

- Must be complete and stable before CIS upgrade starts
 - CIS RFP has been issued with implementation starting in 2023 – will require Utilities IT staff
- AMI Headend upgrade completion scheduled for December 2022
 - This upgrade is necessary to support AMI data collection hardware in field



Why an Off-cycle Appropriation?

- Utilities IT group, owner of system, is CS&A fund that does not support capital projects
- Original plan: All internal staff with little support from vendor
 - Upgrade Training: Realized the complexity of migrating to this new platform/version
 - Need more support than anticipated, which was not budgeted
- New plan: Issued RFP for third party support, selected the vendor, and now need the funding

Quoted Costs through RFP

- Scope of Work #1 – On premise upgrade from version 7.2 to version 9.x with no historical data migration (less complex): ~\$587 K
- Scope of Work #2 – Consultation on level of effort to move Ft. Collins MDMS to the Cloud: ~\$43 K

Total Off-Cycle appropriation request: \$630K

- L&P fund share (68.4% of metering endpoints): ~\$431 K
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Available Reserves Before This Request	\$13.3	\$12.1
MDMS Upgrade	(\$0.4)	(\$0.2)
Remaining Available Reserves	\$12.9M	\$11.9M

Does Council Finance Committee support an off-cycle appropriation of L&P and Water reserves that will fund vendor support of a major version upgrade of the Utilities Meter Data Management System (MDMS)?

Energy Board and Water Commission voted unanimously to support this appropriation.

COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

Staff: Blaine Dunn, Accounting Director
Amanda Newton, Sr. Treasury Analyst

Date: November 3, 2022

SUBJECT FOR DISCUSSION

General Employee Retirement Plan Review

EXECUTIVE SUMMARY

The General Employee Retirement Plan “the Plan” was established in 1971 and was closed to new members in 1999. There are currently 352 total members left in the Plan including active employees, terminated vested employees, and employees receiving a benefit. In 2021 the total pension liability was \$59.6M and the fiduciary net position for the Plan was \$54.6M, leaving a net pension liability of \$5.1M.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Inform and educate Council Finance Committee on the Plan

Does Council Finance desire any additional information?

BACKGROUND/DISCUSSION

The Plan is overseen by the General Employees Retirement Committee (GERC). The GERC is comprised of 6 members, 1 from financial services and 5 current or former employees covered by the Plan. The GERC administers the Plan including setting the investment policy and making any changes to assumptions used in the actuarial valuations. After studying the actuarial valuation report prepared by Milliman, an independent actuarial and consulting firm, the GERC decided to make no changes in the assumptions for 2022. The 15-year average return for the plan is currently 7.7%.

In 2013 Council approved increasing the supplementary contribution to \$1.1M annually. This was to help reach full funding of the plan sooner than previously projected. Based on the present value of future benefits (\$60.2M), the current market value of assets (\$54.6M), and the present value of future payroll contribution (\$1.0M), the shortfall of \$4.6M is anticipated to be funded through the annual supplemental contribution of \$1.1M over the next 5 years. Therefore, it is currently estimated the plan will meet full funding by 2026. This is when the City supplemental contributions will end. However, the full funding year might change year over year based on the actuarial valuation.

The current net pension liability of \$5.1M is the lowest amount the Plan has had since 2007. The current funding ratio of 91% is the highest the Plan has had since 2007 and compares favorably with other public sector plans. The Plan continues to be able to meet all obligations and overall is in a healthy financial status.

ATTACHMENTS

Attachment 1 - PowerPoint



11-03-2022

General Employee Retirement Plan Review

Blaine Dunn

Accounting Director

Amanda Newton

Sr. Treasury Analyst



Inform and educate on General Employee Retirement Plan (GERP)

Answer questions on information presented

- Established January 1, 1971
- Closed to new members January 1, 1999
- Defined Benefit
 - Years of service
 - 1.5% per year
 - Average of highest 5 consecutive years
 - Example: 20 years x 1.5% x \$55,000 = \$16,500 benefit per year

No COLA in retirement

General Employees Retirement Committee (GERC)

- Administers the Plan
- Composed of 6 members (1 from Financial Services, 5 current or former employees in GERP)

Year Ending	Actives	Terminated Vested	Retired / Beneficiary	Total
2021	28	51	273	352
2020	34	64	270	368
2019	42	70	271	383
2018	57	78	257	392
2017	70	89	242	401

Investment Return

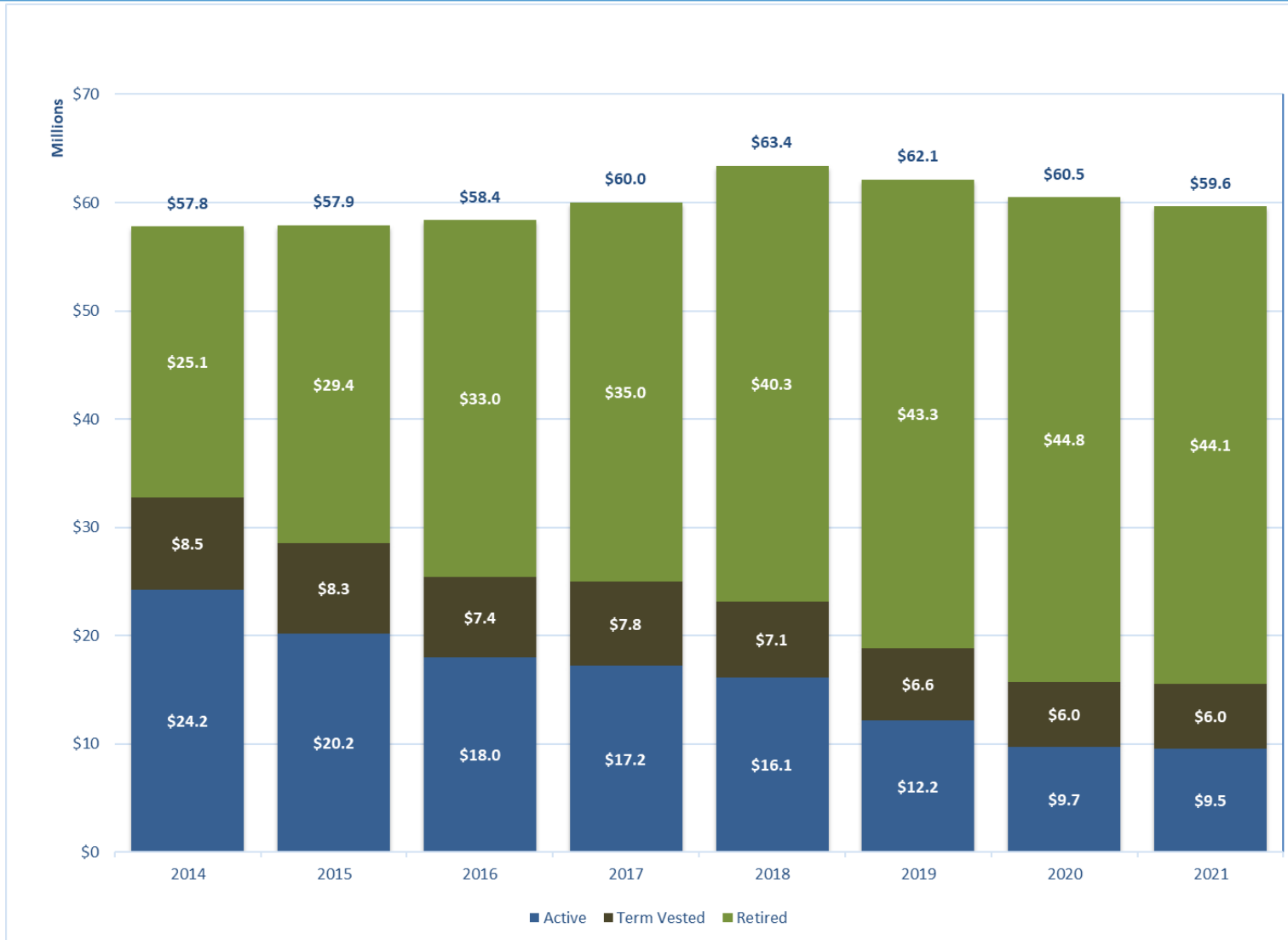
- 7.5% through 2010
- 6.8% 2011-2012 (\$3.7M increase to Net Pension Liability (NPL))
- 6.5% beginning 2013 (\$1.6M increase to NPL)
- 6.25% beginning 2018 (\$1.3M increase to NPL)
- 6.00% beginning 2021 (\$1.3M increase to NPL)

Mortality Tables

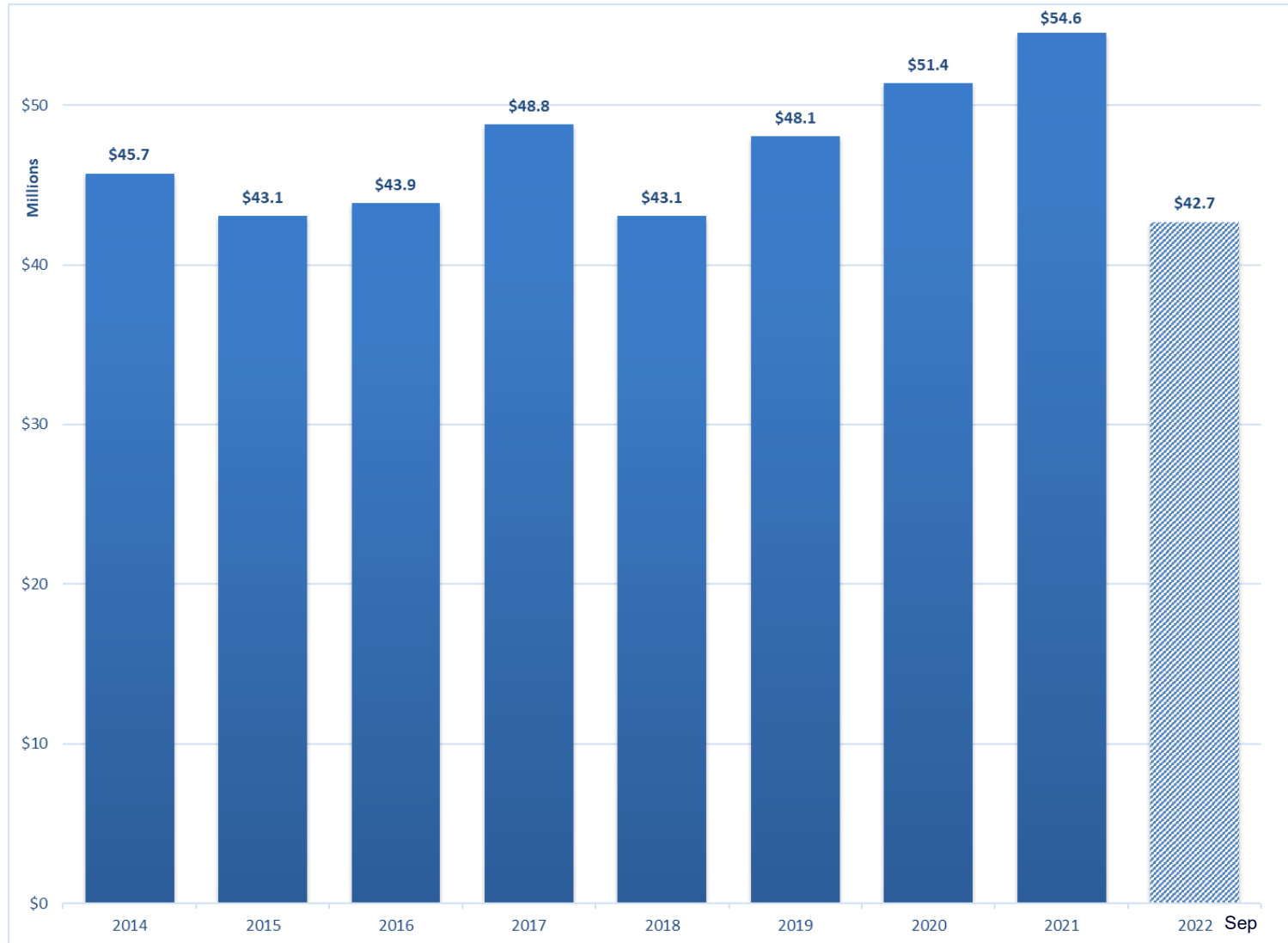
- In 2010 updated to most recent actuarial industry standard (\$1.3M increase to NPL)
- In 2014 applied generational scaling (\$830k increase to NPL)
- In 2018 updated to most recent actuarial industry standard (\$2.8M increase to NPL)
- In 2020 applied generation scaling (\$523k decrease to NPL)

Increased Supplemental Contribution from City to \$1.12M annually in 2013

No changes in assumptions for 2022



Total Pension Liability = Total benefits payable through the pension plan adjusted by accounting rules



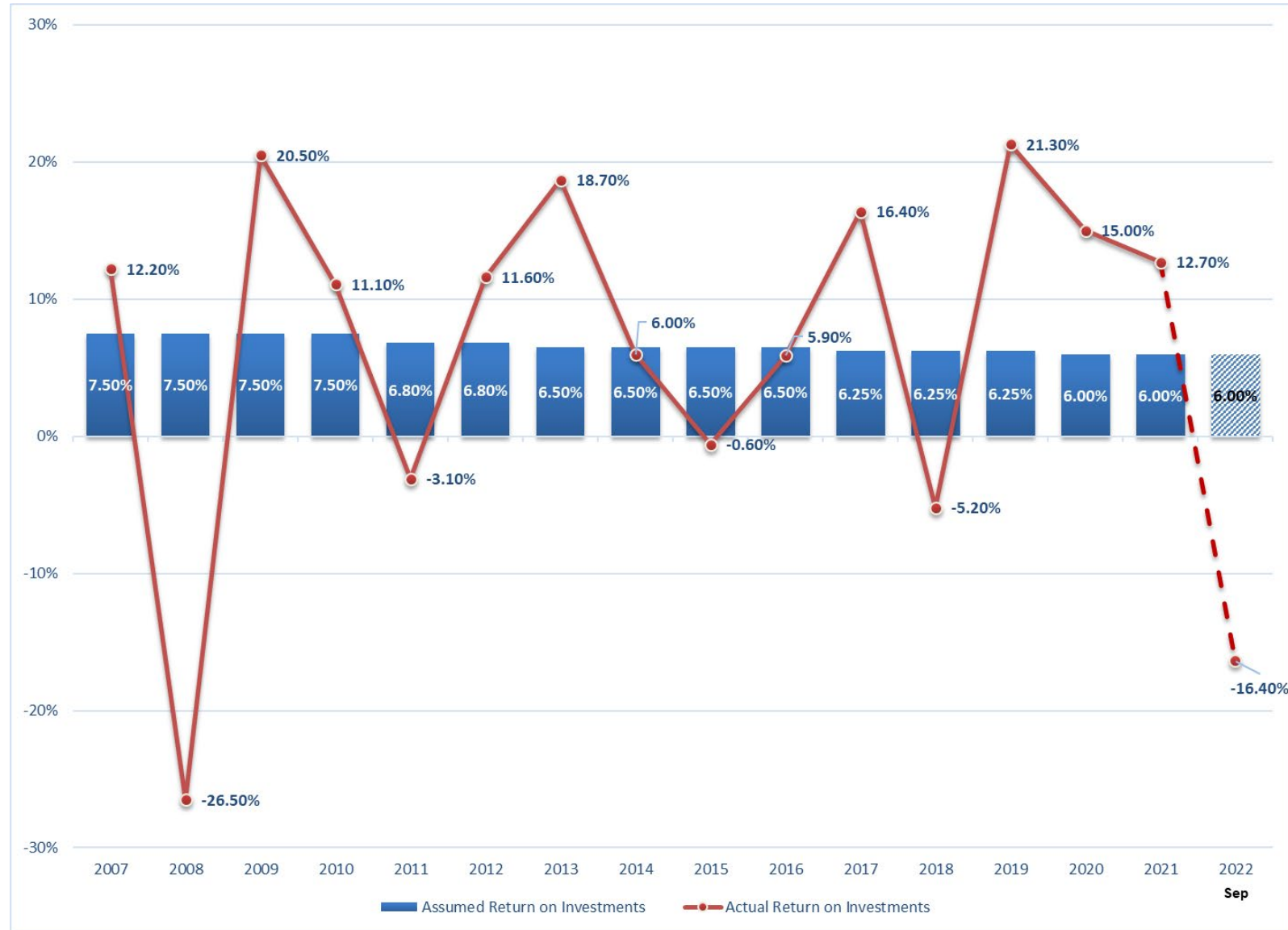
Fiduciary Net Position = Market Value of Assets



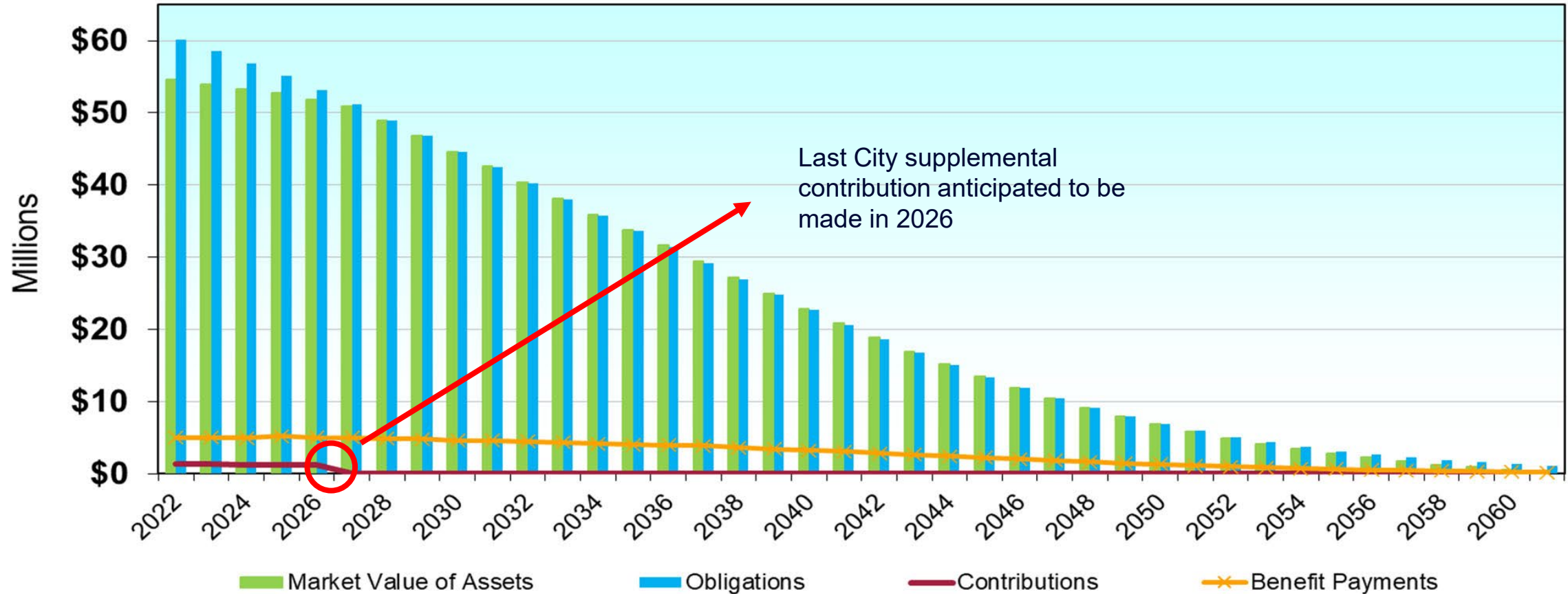
Net Pension Liability = Total Pension Liability – Fiduciary Net Position

	Minimum	Target	Maximum
Mutual Funds			
Domestic	35%	45%	55%
International	5%	15%	25%
Fixed Income/Bonds	30%	40%	50%
Total		<hr/> 100%	

Current portfolio distribution in red (approximate)



15yr Average Annual Rate of Return 7.73%



Assumes Market Value of Assets earns 6.0% per annum, and payroll contributions are 10.5% of compensation. Includes excess contributions of \$1,120,000 for 2022 - 2026.

	As of 2021	Through Q3 2022
Net Pension Liability	\$5.1M Lowest since 2007	\$17.0M \$3M higher than 15-year average
Funded Ratio	91% Highest since 2007	72% 4% lower than 15-year average
Full Funding* Target Year	Reach full funding in 2026 with current assumptions	Reach full funding in 2037 with current assumptions

* Supplemental contribution should end when full funding is reached

Does Finance Committee desire any additional information?

**COUNCIL FINANCE COMMITTEE
AGENDA ITEM SUMMARY**

Staff: Drew Brooks

Date: November 3rd, 2022

SUBJECT FOR DISCUSSION Sustainable Funding - Transit

EXECUTIVE SUMMARY (a brief paragraph or two that succinctly summarizes important points that are covered in more detail in the body of the AIS.)

This session is intended to provide an overview of work performed over the last year in development of the Transfort Funding & Fare Free Study. The presentation will include an overview of the project, a summary of the fare free analysis, updates to funding projections for operational and capital needs to buildout the Transit Master Plan (TMP), and a review of new possible transit revenue development and sources.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED
(Work session questions should be designed to gather direction from Council without requiring Councilmembers to make a decision.)

What questions do Councilmembers have regarding the information presented?
What additional information would aid in decision-making regarding sustainable funding for transit?

BACKGROUND/DISCUSSION (details of item – History, current policy, previous Council actions, alternatives or options, costs or benefits, considerations leading to staff conclusions, data and statistics, next steps, etc.)

In the Fall of 2021, Transfort & FC Moves staff conducted a competitive Request for Proposal (RFP) process to hire a consultant team to conduct a funding study for Transfort. The funding study was a key short-term priority of the Transit Master Plan (TMP), adopted in 2019. The TMP identified that significant new funding sources were needed to build and operate the projected new services adopted in the plan.

In December of 2021, work began with Fehr & Peers and their partners EPS and FHU. The study, which will be complete by the end of 2022, will include the following key deliverables:

- Public and partner engagement
- Review of current operations and revenue
- Update of expense projections from the 2019 TMP
- Development of future funding options
- Fare structure review including a fare free analysis
- Implementation plan

The following overview of completed and in process work from the study are illustrated in the presentation:

Fare Free Analysis

The analysis found that Transfort's current farebox recovery is quite low and the costs associated with fare collection are high. Excluding the contractual contribution towards fares with CSU (\$638,000 in 2021), under the current collection system, Transfort has a negative farebox recovery.

Benefits to remaining a fare free system include:

- Cost savings
- Increased equity and access
- Ridership growth (long-term)
- Ease of operations
- Fulfilling community transit, equity, and climate goals

There are also possible barriers to remaining fare free that require consideration, though mitigation strategies are possible:

Potential loss of CSU revenue	<ul style="list-style-type: none"> • Negotiate a partnership agreement uncoupled from fare-based • Create funding scenarios linked to service levels • Look to other national examples
Safety and security perception concerns	<ul style="list-style-type: none"> • Front door boarding only • Policy of destination-based use • Work with health and human community resource providers • Enhance transit security presence
Increased demand for paratransit	<ul style="list-style-type: none"> • Follow/update eligibility policies • Travel training to encourage fixed route use • Collaboration with human service transportation providers • Increase service levels and funding
Political concerns	<ul style="list-style-type: none"> • Educate on true farebox recovery • Articulate benefits of fare free • Link to established city priorities
Increased demand	<ul style="list-style-type: none"> • Quantify that large percentage of existing riders already ride free • Educate on off-peak ridership gains vs. peak ridership gains • Understand which routes ridership gains are likely (most have excess capacity)

Updated Revenue Needs

A complete update of the capital and operational expense projections associated with the TMP has been completed. These estimates are divided into three milestone categories with associated projects and service expansions:

Short Term Service Expansion (2022 – 2027)

- West Elizabeth BRT replaces Route 3 & 32
- Add vehicle on Route 6 for reliability
- Increase frequency on Drake from 30 to 15
- Increase frequency on North College from 30 to 15
- Increase off-peak frequency on Shields from 60 to 30
- Add new route with 30 minute frequency on Lemay/Trilby
- New southeast microtransit service
- Add additional trips to city of Boulder on the FLEX
- Add regional service to the town of Wellington

Midterm Service Expansion (2028 – 2033)

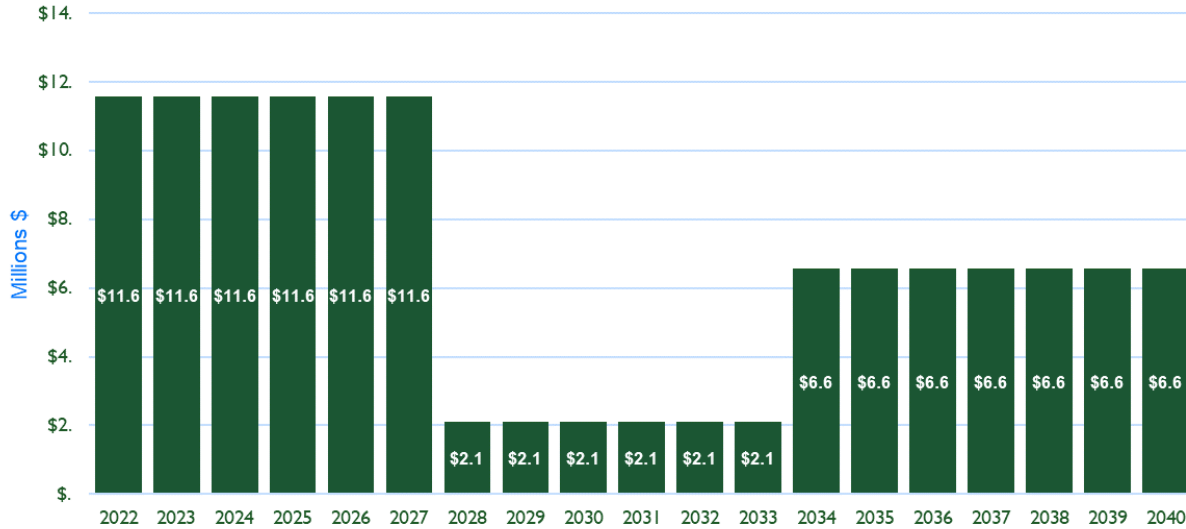
- North College BRT replaces Route 8
- Increase frequency on Route 5 from 60 to 30, realign
- Increase frequency on Taft/Laporte from 60 to 30 combine to new route
- Increase frequency for CSU-DT-Lincoln Route from 30/60 to 15
- Increase frequency on Horsetooth (Route 12) from 60 to 30, realign
- Increase frequency on Route 14 from 60 to 30, realign
- New southwest microtransit service

Long Term Service Expansion (2034 – 2040)

- Harmony BRT replaces Route 16
- Increase frequency on Timberline/Prospect from 60 to 15/30 – restructure route 18
- Add new route to Mountain Vista at 15/30 frequency
- Increase frequency on Shields from 30 to 15/30
- New northwest microtransit service
- Add Saturday FLEX Trips to Boulder
- Increase frequency on the Poudre Express
- Add regional service to the town of Laporte

It is important to note that many of the most expensive capital projects are slated in the short term category, resulting in an uneven distribution of capital funding needs over the 20-year plan:

Forecast TransfortAdditional Capital Needs (2022 Dollars)



Revenue Sources Under Consideration

The team performed a comprehensive analysis of all possible funding sources utilized by transit agencies nationwide. The current task is a detailed evaluation of all preferred tools using six key criteria:

Revenue Potential How much revenue can be generated?

- Tools that generate more revenue rank higher

Stability What are the chances and frequency of funding?

- Tools that provide ongoing/reliable revenue rank higher

Legal Parameters Can it be done under CO law? Vote required?

- Tools that are currently enabled under law and do not require a vote rank higher

Ease of Administration Can it be implemented with current resources?

- Tools that can be easily implemented with existing resources rank higher

Equity Who benefits? Who pays?

- Tools with more external funding or direct payment/benefit relationship rank higher

Viability What is the likelihood of adopting/using the tool?

- Tools with existing or likely potential rank higher

The comprehensive list of revenue sources is divided into three broad categories: Federal & State, Local Recurring, and Districts & Other. The current evaluation process is intended to

inform development of an overall funding strategy to be complete by the end of the year and to inform and augment Council's current sustainable funding discussions.

ATTACHMENTS (numbered Attachment 1, 2, 3,...)



TRANSFORT



Council Finance Committee: Sustainable Funding - Transit

Transit Funding & Fare Free Study

Drew Brooks, Transfort & Parking Services Director

Patrick Picard, Fehr & Peers; Rachel Shindman, EPS; Matthew Downey, FHU

November 3rd, 2022

What questions do Councilmembers have regarding the information presented?

What additional information would aid in decision-making regarding sustainable funding for transit?



Public Outreach and Information Overview

- Biweekly Project Management Team Meetings (ongoing)
 - Cross departmental Fort Collins staff representation
- Stakeholder Interviews (January 2022 – March 2022)
 - Over 10 stakeholder interviews with a variety of stakeholder from private, public, and non-profit sectors
- Presentations to City Advisory Boards and Committees (March 2022 – August 2022)
 - Transportation Board, DARTAC, Sustainable Revenue
- Community Survey on Fare Free Transit (upcoming in November 2022)



Results of Fare Free Analysis

Table 1. Estimated Net Farebox Recovery

Revenue & Expenses	Option 1: Maintain Old System with TVMs	Option 2: Convert to New POS System
2019 Farebox Revenue	\$1,201,000	\$1,201,000
Annual Cost of Fare Collection	\$551,000	\$328,000
Net Farebox Recovery (Average Annual)	\$640,000	\$873,000
Net Farebox Recovery Percent	3.6%	4.9%
Net Farebox Recovery Excluding Contributions	- \$53,000	\$180,000
Net Farebox Recovery Percent Excluding Contributions	-0.3%	1.0%

Key takeaway - If CSU funding partnership can be maintained, going fare-free is straight-forward decision, financially

BENEFITS

- Cost savings
- Increased equity and access
- Ridership growth (long-term)
- Ease of operations
- Fulfilling community transit, equity, and climate goals

BARRIERS

Potential loss of CSU revenue

Perceived safety and security concerns

Increased demand for paratransit

Political pushback

Meeting increased demand

Potential loss of CSU revenue

- Negotiate a partnership agreement uncoupled from fare-based
- Create funding scenarios linked to service levels
- Look to other national examples

Safety and security perception concerns

- Front door boarding only
- Policy of destination-based use
- Work with health and human community resource providers
- Enhance transit security presence

Increased demand for paratransit

- Follow/update eligibility policies
- Travel training to encourage fixed route use
- Collaboration with human service transportation providers
- Increase service levels and funding

Political concerns

- Educate on true farebox recovery
- Articulate benefits of fare free
- Link to established city priorities

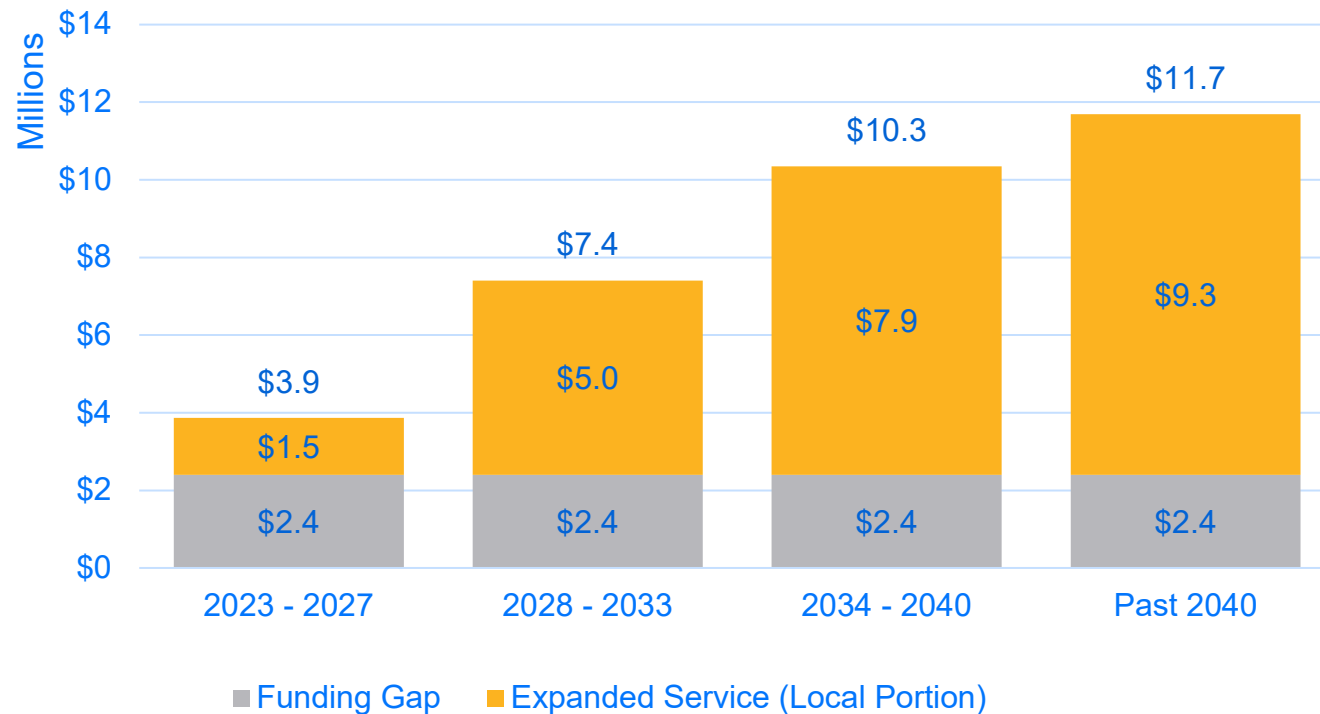
Increased demand

- Quantify that large percentage of existing riders already ride free
- Educate on off-peak ridership gains vs. peak ridership gains
- Understand which routes ridership gains are likely (most have excess capacity)



Updated Revenue Needs

New Local Annual Operating Funds Needed for Future Transit Service Expansion



- Average additional O&M need for Transfort shown by time horizon
- Totals are net of state and federal grants with assumed match ratios informed by historic rates and recent improvements to federal funding
- Funding gap is current unmet needs of Transfort to maintain existing service levels
- Does not include existing revenues (assumes these continue at 2023 levels)

Short Term Service Expansion (2022 – 2027)

- West Elizabeth BRT replaces Route 3 & 32
- Add vehicle on Route 6 for reliability
- Increase frequency on Drake from 30 to 15
- Increase frequency on North College from 30 to 15
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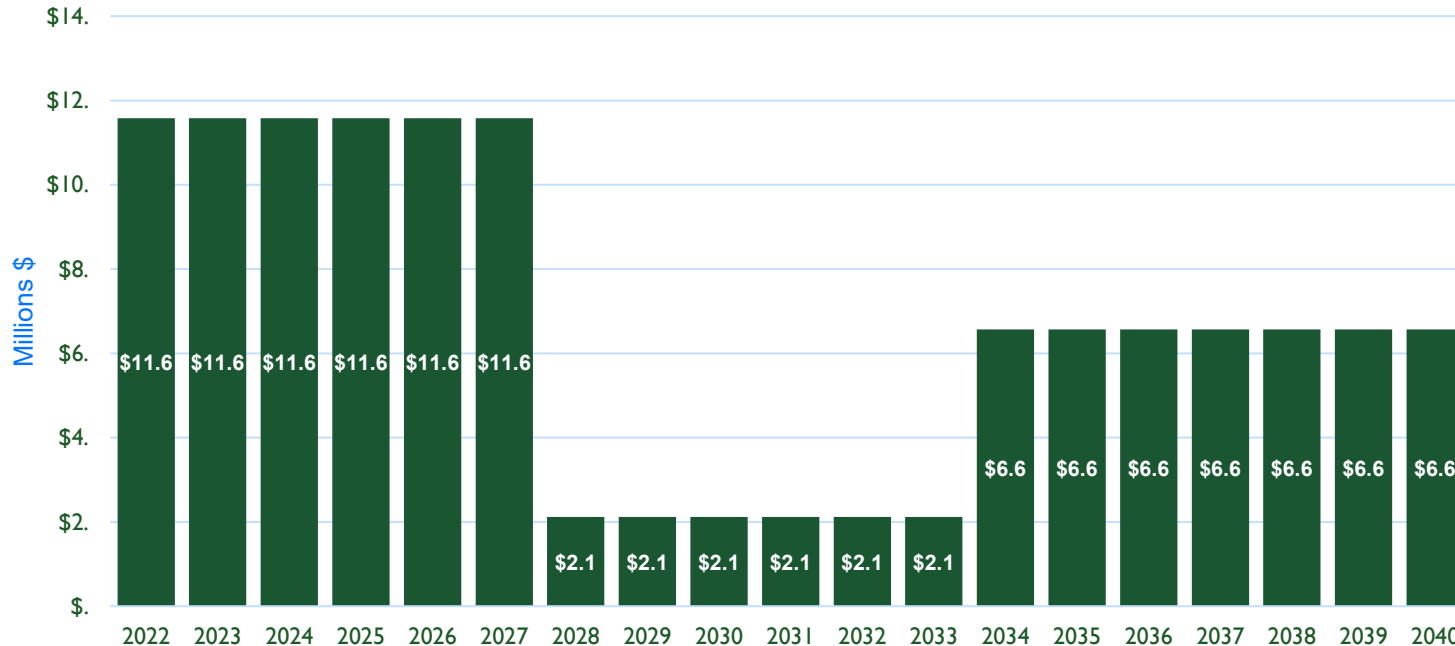
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- Add regional service to the town of Laporte



Fulfilling the vision of the
2019 Transit Master Plan

Forecast Transfort Additional Capital Needs (2022 Dollars)



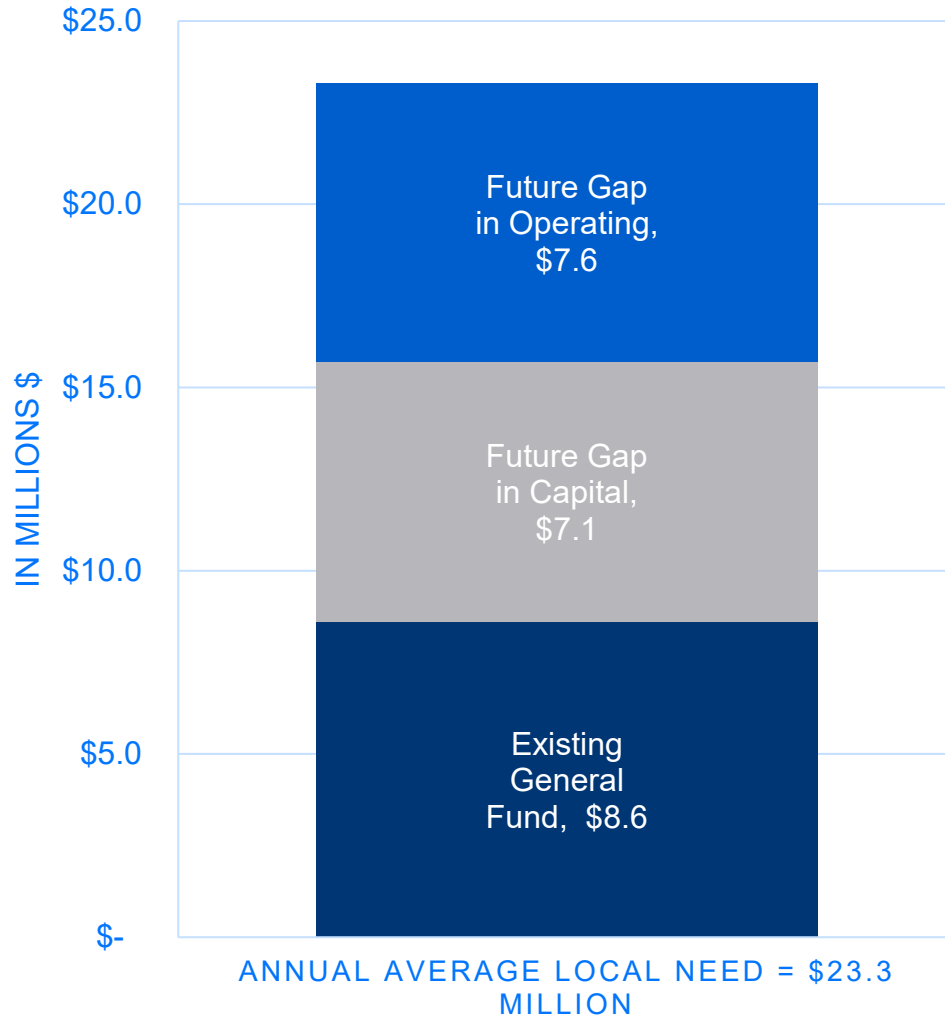
- Average additional capital need for Transfort shown by time horizon
- Totals are net of state and federal grants with assumed match ratios informed by historic rates and recent improvements to federal funding
- Needs are uneven due to anticipated project implementation
- Higher immediate needs may require either delayed implementation or use of financing tools

	Total Capital Need	Local Match (Current Dollars)	Local Match (w/ 3% Inflation)
Short term	\$188.3 million	\$69.5 million	\$75 million
Midterm	\$44.8 million	\$12.7 million	\$16.4 million
Long term	\$130.5 million	\$46 million	\$72 million
Total	\$363.5 million	\$128.2 million	\$163.4 million

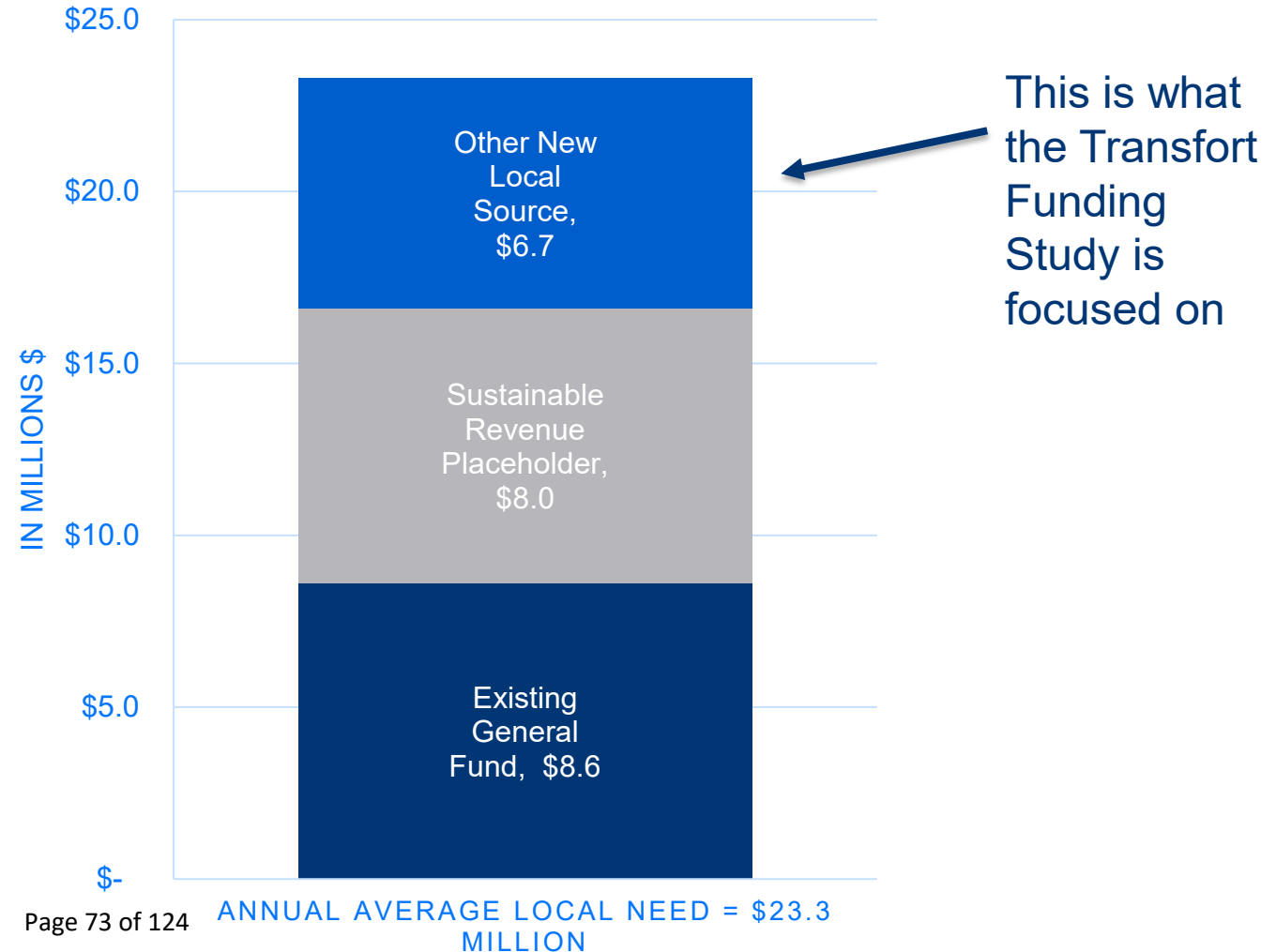
What the Additional Capital Funding Buys

Project Description	Implementation Cost (Master Plan Estimate)	Implementation Cost (Funding Study Update)	Assumed Local Match Percentage	Implementation Timeframe
Transit Fleet Expansion & Renewal	\$85 million - \$95 million	\$115 million	20%	Short/Mid/Long
Information Technology/Fare Integration Technology	\$10 million - \$20 million	\$10 million - \$20 million	20%	Short/Mid/Long
Operations & Maintenance Facility Expansion	\$20 million - \$30 million	Eliminated	-	-
North Transit Center	-	\$35 million - \$65 million	40%	Short
Downtown Transit Center Upgrades	\$3 million - \$10 million	Eliminated	-	-
Mobility Hubs	\$33 million	\$2.5 million	40%	Short to Mid
Bus Stop Enhancements	\$5 million	\$11 million	40%	Short/Mid/Long
North College BRT Corridor	\$10 million	\$21 million	40%	Mid to Long
West Elizabeth BRT Corridor	\$28 million	\$99 million	40%	Short
Harmony Road BRT Corridor	\$53 million	\$79 million	40%	Long
Speed & Reliability Improvements	\$10 million	\$5 million	40%	Short/Mid/Long
Total Costs of Items Above	\$271 million - \$308 million	\$343 million - \$383 million		

TRANSFORT LOCAL FUNDING NEEDS

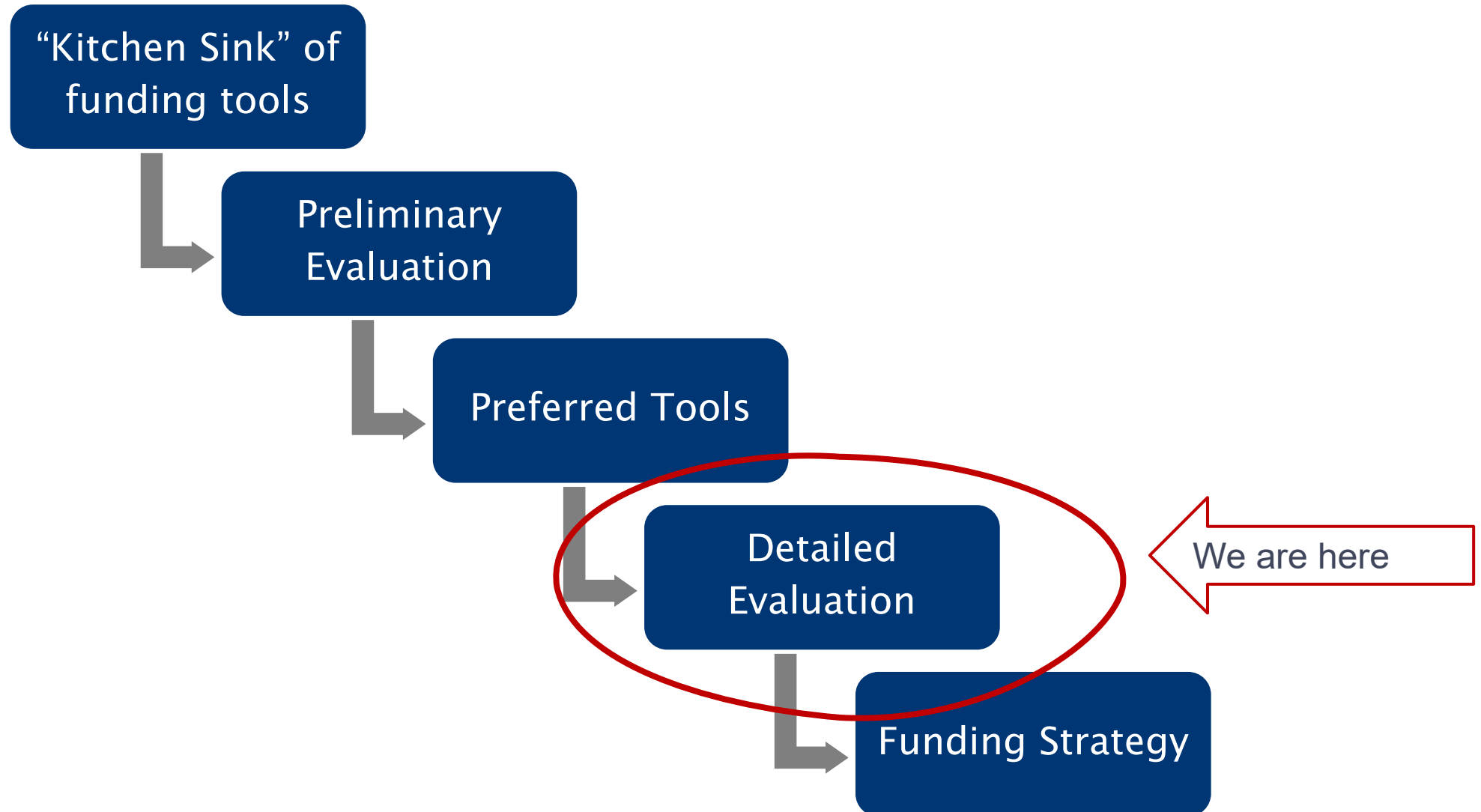


TRANSFORT LOCAL REVENUE POSSIBILITIES





Revenue Sources Under Consideration



Revenue Potential How much revenue can be generated?

- Tools that generate more revenue rank higher

Stability What are the chances and frequency of funding?

- Tools that provide ongoing/reliable revenue rank higher

Legal Parameters Can it be done under CO law? Vote required?

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Equity Who benefits? Who pays?

- Tools with more external funding or direct payment/benefit relationship rank higher

Viability What is the likelihood of adopting/using the tool?

- Tools with existing or likely potential rank higher

Federal and State Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
Federal						
1 RAISE Grant	High	Low	High	Medium	High	Medium
2 New Starts Capital Investment Grant	High	Low	High	Medium	High	Low
3 Small Starts Capital Investment Grant	High	Low	High	Medium	High	High
4 Core Capacity Investment Grant	High	Low	High	Medium	High	Low
5 Expedited Delivery Program for CIG Pilot Program	N/A	Low	High	Medium	High	Medium
6 * Buses and Bus Facilities Grant	Medium	Medium	High	High	High	Currently Used*
7 Transportation Infrastructure Finance and Innovation Act	N/A	High	High	Medium	High	Low
8 Private Activity Bonds	N/A	High	High	Medium	High	Low
9 Grant Anticipation Notes (GANS)	N/A	High	High	Medium	High	Low
10 Immigrant Investor Program EB-5	Medium	Low	High	Low	High	Low
Federal/State						
11 Surface Transportation Block Grants	Medium	Low	High	High	High	High
12 * Congestion Mitigation and Air Quality Improvement Program	Medium	Medium	High	High	High	Currently Used*
13 * Enhanced Mobility of Seniors & Individuals with Disabilities	Low	Medium	High	High	High	Currently Used*
14 Urbanized Area Formula Grants	High	Medium	High	High	High	Currently Used*
State						
15 FASTER Transit Grants	Low	Medium	High	High	High	High
16 Colorado High Performance Transportation Enterprise (CTIO)	Unknown	N/A	High	Medium	High	Low
17 Revitalizing Main Streets Grant Program	Low	Medium	High	High	High	Medium
18 Multimodal Transportation and Mitigation Options Fund	Medium	Medium	High	High	High	High
19 Volkswagen Settlement Trust Bus Replacement Program	Medium	Low	High	High	High	Medium
20 Clean Transit Enterprise	Low	Medium	High	High	High	Medium

Current work:

- Identify grants & programs that correspond to project and operations needs
- Understand revenue potential of various grants & programs
- Determine local funding needs if grants & programs are utilized

* Currently used for transit funding

** Currently used for non-transit funding

Local Recurring Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
21 *General Fund	Low	High	High	High	Medium	Low
22 *Community Capital Improvement Program	High	High	High	High	Medium	High
23 * Agreements and Partner Contributions	Medium	Medium	High	High	High	High
24 Transportation Utility Fee	High	High	High	Medium	Medium	Medium
25 Parking Charges	Medium	High	High	Low	Low	Medium
26 Motor Vehicle Registration Fee	Low	High	Medium	Medium	Low	Low
27 Climate Action Plan Tax	Low	Medium	Medium	Medium	Low	High
28 ** Special Purpose Sales Tax	High	High	Medium	High	Medium	High
29 **Property Tax	Medium	High	Medium	High	Medium	High
30 ** Transportation Capital Expansion Fee	Medium	Medium	Medium	High	High	Low
31 Excise Tax/Fee	Medium	Medium	Medium	Medium	High	High
32 Occupational Privilege Tax	High	High	Medium	Low	Low	Medium
33 Road Usage Charge/Vehicle Miles Traveled Tax	Low	Medium	Medium	Low	Low	Low
34 Marijuana Tax	Low	High	Medium	Medium	Low	High
35 Rideshare Fees	Low	Medium	Medium	Low	Medium	High
36 Scooter/Bikeshare Fees	Low	Medium	High	Medium	Medium	High

Current work:

- Calculate revenue potential of high priority tools
- Compare revenue potential to funding needs (one-time and ongoing)
- Understand different impacts of new and existing revenue tools, as well as those currently under consideration for citywide strategies

* Currently used for transit funding

** Currently used for non-transit funding

Local District Tools Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
37 Regional Transportation Authority	High	High	High	Low	Medium	High
38 Local Improvement District (LID)	Medium	High	High	Low	Medium	Low
39 ** General Improvement District (GID)	Medium	High	High	Medium	Medium	Medium
40 Transportation Reinvestment Zones (TRZ)	Low	Low	Low	Low	High	Low
41 Tax Allocation District	Low	Low	Low	Low	High	Low
42 TOD/Multi-Station TIF District	Low	Low	Low	Low	High	Low

Current work:

- Determine revenue potential of various district and financing tools
- Consider how funding and financing tools can be combined into a comprehensive strategy

Other Local Tools Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
43 ** Certificates of Participation	N/A	High	High	High	N/A	High
44 Public-Private Partnerships	Medium	High	High	Low	High	Low
45 Naming Rights/Sponsorship	Low	Low	High	Medium	High	Medium
46 Joint Development & Sale/Lease of Assets	Low	High	High	Low	High	Low
47 TIF & Value Capture Concepts of TOD	Low	Medium	High	Low	High	Medium

* Currently used for transit funding

** Currently used for non-transit funding

Ongoing Efforts

- Baseline of existing funding commitment, minimum \$5 million annually from new citywide strategy
- Determine revenue generation potential for shortlist of revenue tools
- Understand potential of general purpose bond as a financing strategy
 - Case study research (Oklahoma City, Wyoming, Denver)
- Package funding sources and financing strategies

What questions do Councilmembers have regarding the information presented?

What additional information would aid in decision-making regarding sustainable funding for transit?



THANK YOU!

For Questions or Comments, Please Contact:

Drew Brooks

dbrooks@fcgov.com

TRANSFORT



COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

Staff: Honore Depew, John Phelan, Javier Echeverría Díaz, Megan Valliere

Date: November 3, 2022

SUBJECT FOR DISCUSSION Sustainable Funding – Climate Options

EXECUTIVE SUMMARY

The purpose of this item is to respond to the requests at the September 1, 2022, Council Finance Committee (CFC) meeting and provide several models for climate revenue generation for consideration. Five options for generating climate-focused revenue are summarized, along with the current revenue built into Utilities' electricity rate structure that supports climate initiatives.

The options presented include:

- 1) Sustainable Revenue – for parks, transit, housing and climate (in alignment with the ongoing CFC discussions)
- 2) OPTION 1: Dedicated Sales Tax – specifically for climate initiatives
- 3) OPTION 2: Natural Gas – excise tax
- 4) OPTION 3: Natural Gas – as proxy fee for emissions
- 5) OPTION 4: Large Emitter Fee

These options are summarized based on initial research and case studies of peer municipalities. If directed, extensive additional legal and policy analysis will be needed for those options selected to be explored further in 2023. Given the additional time needed to conduct in-depth analysis for further consideration of each option, staff is requesting to know which approaches CFC members would like to remove from consideration at this time. Staff recommends exploring Options 1 & 2 further. Greater detail on future revenue use will be part of the December 13 Council Work Session.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. **Which climate revenue generating approaches would CFC members like to see prioritized for further analysis in 2023 and which should be removed from consideration?**

BACKGROUND/DISCUSSION

Over the last year, City staff have identified and presented to Council Finance Committee (CFC) various revenue generation mechanisms to provide necessary resources for parks, housing, and transit. Since the conversation began, CFC has indicated a desire to see climate funding included as the “fourth corner” of the dedicated funding discussion. During the September 1, 2022, CFC meeting, staff presented a brief and general overview of potential revenue generation mechanisms for ongoing climate funding. After the staff presentation, which included only brief remarks on fees for large emitters, staff heard a clear request by committee members to present

additional research and data exploring ways to both generate climate revenue and drive changes to systems and behaviors.

The analysis contained in this agenda item summary details the high-level, conceptual research in this area for CFC review. Should CFC desire more information about any of these options, it will require more in-depth policy and legal analysis in 2023 to determine how they would be implemented in the context of the City of Fort Collins, our existing finance and revenue generation tools, and the suite of options being presented to Council for sustainable revenue for parks, housing, transit, and climate.

The options detailed below and included in an attached summary table (See *Appendix 1*) are divided into two categories - *Core, Ongoing Climate Funding* and *Acceleration Opportunities / Enhancements to Core*. Staff considers *Core Funding* to include funding from the existing Utilities rate structure and possible new funding from the outcomes of the broader Sustainable Revenue project. Potential *Acceleration Opportunities* include options that would generate dedicated climate revenue while also working toward Our Climate Future goals using financial incentives and disincentives that encourage systems and behavior change within the community. The options are summarized below with detailed discussion available in the attached Appendix 2. The summaries include a brief overview of the funding mechanism (i.e., description, potential uses of funding, revenue potential (when available), flexibility of funds) and key policy considerations (equity considerations and implementation notes).

Core, Ongoing Climate Funding

Core Funding includes revenue from the existing Utilities electricity rate structure and possible new funding from the outcomes of the broader Sustainable Revenue project.

Existing Revenue (Utilities)

Overview

The existing electrical rate structure generates funds directly from customers to help manage community electricity use and carbon emissions. Current electric use would be 21% higher without this funding, which has been in place since 2005. A portfolio evaluation of Utility programs confirmed that for every \$1.00 invested, Utility efficiency programs recognized \$1.80 in local community benefits.

- **Uses:** Program resources are available for residential, commercial and industrial customers and are closely coordinated with Platte River Power Authority. The funds are used to support a range of climate initiatives, including energy efficiency, increased renewables, and enhanced grid flexibility.
- **Revenue:** Fort Collins Utilities generates more than \$6 million annually from the existing rate structure. City Council approves the Utility customer electric rate structure by ordinance annually or when needed.
- **Flexibility:** Funds are allocated through the Fort Collins Budgeting for Outcomes (BFO) process. As a result, the funds can be used for a wide array of purposes that align with the Fort Collins Utility charter.

Key Policy Considerations

- **Equity:** The BFO process and staff program design can support equitable distribution of the funds. Past examples include Epic Homes focus on rental properties, the Larimer County Conservation Corp Energy and Water Program and targeted small business lighting incentives.
- **Other Considerations:** These ongoing and evolving programs have a proven track record of positively impacting environmental, social, and economic conditions in Fort Collins and contributing to the outcomes of the Our Climate Future plan.

Sustainable Revenue (Climate, Transit, Housing, Parks)

Overview

The New Revenue Core Team has presented and discussed the pursuit of sustainable revenue via a repurposed sales tax, property tax, excise tax, user fee, or other mechanisms identified and discussed in past CFC meetings. Splitting this revenue between parks, transit, housing, and climate will provide ongoing funding for all four areas, enabling targeted spending on climate initiatives that will support the City and community in reaching our climate mitigation and resilience goals.

- **Uses:** A wide range depending on the structure of the revenue funding model which could support residential, commercial, and industrial structures and users.
- **Revenue:** Depends on the chosen structure.
- **Flexibility:** Since any of the revenue generation mechanisms included in past discussion can be written broadly to allow for a wide variety of investments and last for as many years as the Council and community would like, this revenue will provide for both flexibility and consistency in our approach.

Key Policy Considerations

- **Equity:** These mechanisms affect a broad swath of the community and collect revenue from most individuals in the city. Depending on structure, this approach will likely be regressive (having a proportionally greater impact on low-income community members). Equity considerations should be built in to these revenue options to reduce the impact on specific community populations.
- **Implementation:** These mechanisms, aside from user fees, require voter approval.

Acceleration Opportunities / Enhancements to Core

Potential *Acceleration Opportunities* include options that would generate dedicated climate revenue while also working toward Our Climate Future goals using financial incentives and disincentives that encourage systems and behavior change within the community.

OPTION 1: Dedicated Sales Tax for Climate Initiatives

Overview

This option could be considered separately from or as part of the new sustainable revenue package being developed for parks, housing, transit, and climate funding. One possibility would be to put forth a voter-approved tax for climate (inclusive of parks, housing, and/or transit) to

help accomplish Our Climate Future goals, or it could be an additional dedicated tax separate from the package of new revenue tools discussed above. Examples include Denver’s Climate Protection Fund and the Portland Clean Energy Community Benefits Fund (both are described in detail in the attached *Appendix 2*).

- **Uses:** Both Denver and Portland’s funds can be applied to a wide range of allowable uses, including: buildings, renewables, workforce, transportation, environmental & climate justice, regenerative agriculture, green infrastructure, adaptation & resiliency, future innovations, and administration.
- **Revenue:** Denver’s fund generates \$40 million annually and Portland’s generates \$30 to \$60 million depending on the source. Local revenue generation would depend on the rate and applicability of the tax and should be expected to be significantly lower given the population differential between Fort Collins and Denver/Portland.
- **Flexibility:** A dedicated sales tax can be written to have a wide range of allowable uses, as in the Denver and Portland case studies. Staff views this potential revenue source as highly flexible as well. As in the case of core new revenue, this funding could last as long as Council and the community would like, and it would impact the entire community as well as visitors who enter the City and pay sales tax as part of their purchases while in town.

Key Policy Considerations

- **Equity:** Sales taxes are inherently regressive, but Denver has found a way to distribute resources generated from their tax equitably. Denver’s ordinance creating the Climate Protection Fund (CPF) states that it “should, over the long term, endeavor to invest fifty percent (50%) of the dedicated funds directly in the community with a strong lens toward equity, race and social justice.” Portland only assesses a surcharge on gross revenues from large retailers due to their outsized impact on climate change. Small retailers were excluded to minimize impacts on small- and medium-sized businesses within the community.
- **Implementation:** A dedicated sales tax requires voter approval.

OPTION 2: Natural Gas Excise Tax

Overview

One policy option that could both raise revenue and disincentivize emissions is an excise tax on natural gas use. A new tax could be assessed on the delivery of natural gas and charged directly to the entities that deliver natural gas (e.g., Xcel Energy). The delivery entity would have discretion on how to pass the cost along to customers. A local example is Boulder’s experience in environmental revenue generation through a similar tax structure (for a detailed description of the current and proposed Boulder approaches see the attached *Appendix 2*).

- **Uses:** In Boulder, the revenue collected from their existing climate taxes has been put toward rebates and incentives to help residents and businesses reduce energy usage and implement solar solutions, piloting innovative technologies, implementing local policies, lobbying and advocacy for regulatory changes at other levels of government, and other initiatives related to reaching the City’s clean energy goals. Their proposed natural gas excise tax includes allowable uses for revenue such as direct cash assistance for energy

efficiency, microgrid energy storage, building electrification, transportation infrastructure electrification, natural climate solutions, and wildfire resilience.

- **Revenue:** Revenue generation locally will vary depending on how it is structured and could be one of the higher-impact options to consider. Because staff expects the community to slowly phase out its dependence upon natural gas, revenue generated from an excise tax of this type will likely endure for greater than ten years and into the foreseeable future. In Boulder, the combined total of average annual revenue for their existing two taxes is roughly \$3.9 million per year and could increase to \$6.5 million per year with their tax consolidation proposal this November.
- **Flexibility:** The Council can structure allowable uses for the tax as broadly as it would like in the ballot language, therefore, this revenue generation mechanism could be highly flexible.

Key Policy Considerations

If Council is interested in pursuing this option, staff will need to conduct additional research and analysis to determine estimates for implementation and administrative costs.

- **Equity:** Staff would classify this mechanism as regressive since the City maintains little control over how natural gas providers pass costs onto their customers and because an excise tax on a utility will likely impact low-income customers to a greater degree than middle- and high-income customers. Boulder is pursuing options to enhance the equitable application of the tax.
- **Implementation:** A new excise tax requires voter approval. There may be several legal complexities with implementing a general tax on natural gas providers that is then passed onto consumers, especially given the City's current contract with Xcel Energy. The City currently maintains a franchise fee agreement with Xcel Energy which grants them the nonexclusive right to use City streets, public utility easements, and other City property for the purpose of providing natural gas service in exchange for a fee, which they pass down to consumers. More information about the City's franchise agreement with Xcel Energy can be found below.

OPTION 3: Natural Gas as Proxy Fee

Overview

When considering potential revenue from medium-sized emitters (entities not required to report to the EPA because they are under the 25k MT CO₂e/year) natural gas consumption could be used as a proxy for emissions, and a fee could be charged to medium-sized emitters. This option is the least-well understood due to staff's inability to find local, regional, or other peer examples of this type of program.

- **Uses:** The use of these funds would need to be tied to the actions or behavior of the feepayer limiting the ability to achieve broader Our Climate Future goals and objectives.
- **Revenue:** For the same reason as the previous option, staff believes that revenue generated from this mechanism will endure for greater than ten years and into the foreseeable future.
- **Flexibility:** Fees must legally have a narrower use that applies these recovered dollars to the cost of programs that address shortfalls imposed by feepayers. The use of revenue generated via this mechanism would be restricted to a greater degree than a voter-

approved tax. Council and City Staff would need to brainstorm creative ways to use revenue to target emissions in a way that ties the fee revenue to the costs incurred due to activities related to GHG emissions by the City's largest emitters.

Key Policy Considerations

Since the City does not supply natural gas, staff does not currently have access to consumption levels by account within the community. Should Council be interested in pursuing this type of revenue generation, staff will need to invest time and resources into understanding the legal and policy-related complications that may arise from the use of a fee-based mechanism. Researching how staff will collect data on the largest natural gas emitters in the community will present an additional hurdle for this option.

- **Equity:** Since the fee would directly target the community's largest emitters, it would be levied equitably. Nonetheless, Council and staff would still need to make intentional investments of fee revenue in ways that are both legal and equitable to enhance the community-wide impact of the revenue.
- **Implementation:** A fee does not require voter approval. The largest barrier to this type of program is determining exactly which consumers would be subject to the fee (i.e., the top 50 or 100 consumers, consumers above a certain threshold, etc.) and how the City would collect that information. At this time, staff does not have an estimate of the implementation/administrative costs of a natural gas proxy fee, in part due to a lack of peer examples in this space.

OPTION 4: Large Emitter Fee

Overview

A "large emitter" would be defined as those entities reporting more than 25,000MT CO₂e annually, as reported to the EPA. The recommended fee would be based on the Social Cost of Carbon, which is priced at \$51/MT of carbon emitted. At this level of carbon emissions, there are three facilities within City limits to which the fee would apply, Broadcom, Colorado State University, and Anheuser Busch (details on emissions available in the attached *Appendix 2*).

- **Uses:** Fees require the organization to use the recovered revenue in pursuit of programs and policies that connect to the issue caused by the behavior or actions of the feepayer. Consequently, the safest investment of fee revenue would result in the City providing programs or rebates that earmark funding for these entities to address large sources of emissions and their impact on climate and environment in our community.
- **Revenue:** Assuming a fee of \$51/MT of carbon emitted this revenue mechanism could generate as much as \$10.9 million annually (details of the revenue calculation available in the attached *Appendix 2*). As with many behavior-based policy interventions, revenue is expected to decrease over time as emitters align their behavior with the expectations of the policy in an attempt to reduce their overall costs.
- **Flexibility:** Fees must legally have a narrower use that applies these recovered dollars to the cost of programs that address shortfalls imposed by feepayers, the use of revenue generated via this mechanism would be restricted to a greater degree than a voter-approved tax. Council and City Staff would need to brainstorm creative ways to use revenue to target emissions in a way that ties the fee revenue to the costs incurred due to activities related to GHG emissions by the City's three largest emitters.

Key Policy Considerations

Further staff analysis is necessary to understand the resource-intensiveness of this approach in terms of administrative costs as staff is unaware of other analogous programs for comparison. In terms of equity, staff's evaluation is that this mechanism is generally more progressive in nature than other options since it targets the highest emitters in the community. Nonetheless, it also creates an arbitrary line between emitters that are required to report to EPA and those just under the threshold of 25MT, potentially creating equity issues between entities just above and below the line.

- **Equity:** Since the fee would directly target the community's largest emitters, it would be levied equitably. Nonetheless, Council and staff would still need to make intentional investments of fee revenue in ways that are both legal and equitable to enhance the community-wide impact of the revenue.
- **Implementation:** Because this revenue generation strategy is not a traditional tax, it does not require voter approval via ballot initiative. This may ultimately lessen the procedural hurdles toward implementation. CSU is a separate governmental entity unlike the other two private enterprises, the likelihood of legal complexity is relatively high according to analysis by the City Attorney's Office.

Additional Lever – Natural Gas Franchise Fee

The City assesses a tax called an occupational privilege gas service tax paid by Xcel Energy to the City in exchange for the non-exclusive right of the company to use City streets, public utility easements, and other City property for the purpose of providing utility service to the City and residents. The franchise agreement specifies that Xcel must collect the fee via a surcharge upon City residents who are customers of the company. The fee is then remitted to the City in monthly installments.

Allocation of Existing Franchise Fee Revenue

The revenue generated from this tax averages nearly half a million dollars per year (historical detail available in the attached *Appendix 2*), all of which is then funneled directly into the general fund.

The franchise fee was originally instated in 1987, and several updated agreements between the City and Xcel have been executed in the decades since. The latest agreement was signed in 2018 and stipulates the terms of the franchise fee, including the maximum surcharge to be collected from customers, which is set at 3%. The current franchise agreement is set to terminate in 2038.

While franchise fees can provide reliable and sustainable revenue for the general fund which can then be allocated flexibly based upon the needs of the greater organization (as is currently the case in Fort Collins, Greeley, Thornton, Lakewood, and Frisco, CO) some municipalities have leveraged these funds creatively in pursuit of climate and environmental health goals (examples are available in the attached *Appendix 2*).

Importantly, redirecting the use of franchise fee revenue at its currently negotiated level of 3% for climate-related goals, policies, and programs does not constitute new revenue generation in the context of the present sustainable revenue conversation.

Renegotiation of Franchise Fee

While redirecting the use of current franchise fees solely to climate-related programs does not create new revenue, Council could endeavor to reopen and renegotiate the terms of the current agreement to raise the surcharge on customers. If, for example, the surcharge was doubled to 6%, the City could generate an additional \$300k - \$500k per year on average. This could raise the annual revenue to a total yearly average of between \$600k - \$1M which could be leveraged in pursuit of GHG reduction goals outlined in Our Climate Future plans.

Staff Recommendation and Next Steps

Staff recommends further legal and policy analysis of Options 1 & 2 as part of the broader Sustainable Revenue conversation. These tax-based options for climate revenue generation are anticipated to have longer timeframes, higher flexibility for use of funds, and fewer legal complications compared with (fee-based) Options 3 & 4.

Next steps for this process will be:

- Take CFC guidance on which options to investigate further
- Provide a timeline to the full City Council at the December 13 Sustainable Funding Work Session that includes future analysis of the selected revenue generation strategies

The December Work Session will also be an opportunity to go deeper into what new revenue may be used for. As shared in the recent OCF Work Session, there will be many investments needed to achieve adopted climate and waste goals, in alignment with the OCF Pathways and the Council OCF Action Roadmap.

ATTACHMENTS

1. PPT – Sustainable Funding: Climate Options
2. Appendix 1 – Climate Revenue Options Summary Table
3. Appendix 2 – Climate Revenue Options Research and Discussion

Key Considerations	Core, Ongoing Climate Funding		Acceleration Opportunities / Enhancements to Core			
	Existing revenue (Utilities)	Sustainable Revenue (Climate, Transit, Housing, Parks)	OPTION 1: Dedicated Sales Tax for Climate Initiatives	OPTION 2: Natural Gas Excise Tax	OPTION 3: Natural Gas as Proxy Fee	OPTION 4: Large Emitter Fee
Flexibility of funds use	Med	Highest	Higher	High	Low/Med	Low
Voter approval required	N	Y	Y	Y	N	N
Estimated revenue generated / yr*	\$6.5M	\$\$	\$\$	\$\$ / \$\$\$	\$\$	\$\$ / \$\$\$
Implementation resources needed	13 FTE (embedded in biannual budget)	TBD	TBD Denver admin costs limited to 5% of revenue; Portland considering increase for admin costs from 5 to 12%	TBD Boulder FTE costs up to 33% of revenue (14-16 FTEs including existing)	TBD	TBD
Duration	Ongoing	Ten years + unless permanent adoption	Ten years + unless permanent adoption	Ten years+	Ten years+	< 5 years
Number of entities affected	Community-wide (all electric utility customers)	Community-wide	Community-wide	Taxing natural gas industry (passed down community-wide)	5-100 largest emitters	3 entities reporting to EPA
Equity considerations**	Balanced	Regressive	Regressive	Regressive	Progressive	Progressive
Example applications from other communities	<ul style="list-style-type: none"> Energy Efficiency Programs Solar and storage customer programs Grid Flexibility programs 	N/A (Tailored discussion for Fort Collins-specific deficits)	Denver (\$40-50M / yr); Denver allowable uses: <ul style="list-style-type: none"> Sustainable Transportation Workforce Development Resilience Buildings Renewables 	Boulder (\$6.5M / yr) Allowable uses: <ul style="list-style-type: none"> Direct cash assistance for energy efficiency Microgrid, energy storage, building 	N/A (Staff is not aware of peer communities instituting a fee of this type)	N/A (Staff is not aware of peer communities instituting a fee of this type)

Key Considerations	Core, Ongoing Climate Funding		Acceleration Opportunities / Enhancements to Core			
	Existing revenue (Utilities)	Sustainable Revenue (Climate, Transit, Housing, Parks)	OPTION 1: Dedicated Sales Tax for Climate Initiatives	OPTION 2: Natural Gas Excise Tax	OPTION 3: Natural Gas as Proxy Fee	OPTION 4: Large Emitter Fee
			<ul style="list-style-type: none"> Climate Justice Portland (1% sales tax on large retailers, annual revenue of about \$30 \$60M); Portland allowable uses (grant funding): <ul style="list-style-type: none"> Renewable energy & efficiency Job training, apprenticeships, & contractor support Regenerative agriculture & green infrastructure Innovation 	electrification <ul style="list-style-type: none"> Transportation infrastructure electrification Natural climate solutions Wildfire resilience 		
Next Steps	Ongoing budget processes (Existing revenue source)	Work with CFC and Council during Dec. work session to further solidify desired revenue generation approaches and allocation of dollars to climate work	Further analysis of implementation strategies and resources necessary to administer this kind of tax/program (FTEs, administrative costs, etc.)	Further analysis of the legality of maintaining a franchise agreement alongside a general occupational privilege tax that acts as a natural gas excise tax. Further analysis of resources necessary to administer the program.	Extensive legal and policy analysis of the practicality of pursuing a fee-based mechanism, how to obtain information about top 5-100 natural gas users, how to structure the fee, and the administrative resources necessary.	Extensive legal analysis of fee to program dollar nexus, greater understanding of CSU/Broadcom/Anheuser Busch efforts to reduce emissions below EPA required reporting level, and further study on administrative resources necessary.

*For this conceptual analysis, potential revenue generated are rough estimates, corresponding to the following amounts:

Key Considerations	Core, Ongoing Climate Funding		Acceleration Opportunities / Enhancements to Core			
	Existing revenue (Utilities)	Sustainable Revenue (Climate, Transit, Housing, Parks)	OPTION 1: Dedicated Sales Tax for Climate Initiatives	OPTION 2: Natural Gas Excise Tax	OPTION 3: Natural Gas as Proxy Fee	OPTION 4: Large Emitter Fee

- \$ = \$1 – \$5 million
- \$\$ = \$5 – \$10 million
- \$\$\$ = greater than \$10 million

**Equity considerations can be more nuanced than a simple categorization of “regressive” or “progressive” – we provided these simplified labels to indicate the general slant of each mechanism. That said, there are several modifications that can be made to any of the options labelled as “regressive” that address equity concerns. For example, a certain percentage of revenue generated from dedicated sales taxes can be earmarked for investments in low-income communities or programs for income-qualified customers of City services. Similarly, a natural gas excise tax could “kick in” only at a higher baseline level of consumption to mitigate impacts for low-income consumers. Even those mechanisms that are generally labelled as “progressive” require intentional investments and program design elements that focus equity and environmental justice. As a result, none of these revenue generation opportunities are regressive or progressive on their own; they each require deliberate decisions that encourage equitable outcomes in terms of how taxes and fees are levied and how their revenues are invested.



Seeking direction from CFC:

- Which climate revenue generating approaches would CFC members like to see prioritized for further analysis in 2023 and which should be removed from consideration?

<u>Type of Funding</u>	<u>Description</u>
Core, Ongoing Climate Funding	Existing revenue (Utilities)
	Sustainable Revenue (Climate, Transit, Housing, Parks)
Acceleration Opportunities / Enhancements to Core	OPTION 1: Dedicated Sales Tax for Climate Initiatives
	OPTION 2: Natural Gas Excise Tax
	OPTION 3: Natural Gas as Proxy Fee
	OPTION 4: Large Emitter Fee



Key Considerations for Each:

- Flexibility for use of funds
- Voter approval required
- Estimated annual revenue generated
- Implementation resources needed
- Duration
- Number of entities affected
- Equity considerations
- Examples from other communities
- Next Steps

Flexibility of funds use	Annual estimated revenue	Implementation resources needed	Duration	Number of entities affected	Equity considerations	Example applications from other communities	Voter approval required
Low	\$\$ / \$\$\$	TBD	< 5 years	3 entities reporting to EPA	Progressive	N/A (Staff is not aware of peer communities instituting a fee of this type)	NO

Additional information:

- “Large emitter” = entities reporting more than 25k MT CO₂e annually to the EPA
- Social Cost of Carbon = \$51/MT CO₂e
- Three facilities in city limits: Broadcom, Colorado State University, and Anheuser-Busch

Next steps would include:

- Extensive legal analysis of fee-to-program dollar nexus
- Greater understanding of efforts to reduce emissions below EPA required reporting level
- Further study on administrative resources necessary

Flexibility of funds use	Annual estimated revenue	Implementation resources needed	Duration	Number of entities affected	Equity considerations	Example applications from other communities	Voter approval required
Low/Med	\$\$	TBD	Ten years+	target largest emitters (e.g top 100)	Progressive	N/A (Staff is not aware of peer communities instituting a fee of this type)	NO

Additional information:

- Natural gas consumption could be used as a proxy for emissions from medium-sized emitters
 - entities under the EPA reporting threshold of 25k MT CO₂e/year
- Least understood option
 - Lack of local, regional, or peer city examples of this type of program

Next steps would include:

- Extensive legal and policy analysis of the practicality of pursuing a fee-based mechanism
- How to obtain information for the largest natural gas users (e.g. top 100)
- How to structure the fee, and the administrative resources necessary.

Flexibility of funds use	Annual estimated revenue	Implementation resources needed	Duration	Number of entities affected	Equity considerations	Example applications from other communities	Voter approval required
High	\$\$ / \$\$\$	TBD <ul style="list-style-type: none"> Boulder FTE costs up to 33% of revenue (14-16 FTEs including existing) 	Ten years+	Community -wide	Regressive	Boulder (\$6.5M annually) <ul style="list-style-type: none"> The above assumes that voters will pass a \$6.5M tax this November to consolidate and replace existing Climate Tax and Utility Occupation Tax. 	YES

Additional information:

- Both raises revenue and disincentivizes emissions.
- Could be assessed on the delivery of natural gas and charged directly to the entities that deliver natural gas (e.g., Xcel Energy).
- Delivery entity would have discretion on how to pass the cost along to customers.
- Boulder allowable uses would be:
 - direct cash assistance for energy efficiency, microgrid energy storage, building electrification, transportation infrastructure electrification, natural climate solutions, wildfire resilience

Next steps would include:

- Legal analysis of maintaining a franchise agreement along with a general occupational privilege tax that acts as a natural gas excise tax; analysis of resources necessary to administer the program

Flexibility of funds use	Annual estimated revenue	Implementation resources needed	Duration	Number of entities affected	Equity considerations	Example applications from other communities	Voter approval required
Higher	\$\$	TBD <ul style="list-style-type: none"> Denver admin costs limited to 5% of revenue Portland considering increase for admin costs from 5 to 12% 	Ten years + unless permanent adoption	Community-wide	Regressive	<ul style="list-style-type: none"> Denver (1/4 cent sales tax = \$40-50M annually) Portland (1% sales tax on large retailers = \$30-60M annually) 	YES

Additional information:

- Dedicated sales tax to advance climate initiatives
 - Separate from or part of the Sustainable Revenue package
- Denver and Portland have similar; allowable uses for their funds include:
 - buildings, renewables, workforce, transportation, environmental & climate justice, regenerative agriculture, green infrastructure, adaptation & resiliency, future innovations and administration

Next steps would include:

- Further analysis of implementation strategies and resources necessary to administer this kind of tax/program (FTEs, administrative costs, etc.)

Flexibility of funds use	Annual estimated revenue	Implementation resources needed	Duration	Number of entities affected	Equity considerations	Fort Collins applications	Voter approval required
Highest	\$\$	TBD	Ten years + unless permanent adoption	Community-wide	Regressive	N/A (Tailored discussion for Fort Collins-specific deficits)	YES

Additional information:

- Could include a repurposed sales tax, property tax, excise tax, user fee, or other mechanisms discussed in past CFC meetings
- Shared revenue for Parks, Transit, Housing, and Climate will provide ongoing funding for all four areas
 - Targeted spending on climate initiatives to reach climate goals

Next steps would include:

- Council Work Session (Dec. 13) to discuss revenue generation approaches and use of funds

Recommended funding options	Flexibility of funds use	Legal complications	Time-frame
Sustainable Revenue (Climate, Transit, Housing, Parks)	Higher	Low	Longest
OPTION 1: Dedicated Sales Tax for Climate Initiatives	Higher	Low	Longest
OPTION 2: Natural Gas Excise Tax	High	Low/Med	Long
OPTION 3: Natural Gas as Proxy Fee	Low	High	Medium
OPTION 4: Large Emitter Fee	Lowest	Highest	Short/Med

Seeking direction from CFC on how to best utilize Council Work Session:

- Which climate revenue generating approaches would CFC members like to see prioritized for further analysis in 2023 and which should be removed from consideration?

Additional Information

Flexibility of funds use	Annual estimated revenue	Implementation resources needed	Duration	Number of entities affected	Equity considerations	Fort Collins applications	Voter approval required
Med	\$6.5M	13 FTE (embedded in biannual budget)	Ongoing	Community-wide (Utility electric customers)	Balanced	<ul style="list-style-type: none"> Energy Efficiency Programs Solar and storage customer programs Grid Flexibility programs 	NO

Additional information:

- Part of current electrical rate structure; existing revenue source since 2005
- Helps customers manage community electricity use and carbon emissions
- Current electric use would be 21% higher without this funding
- For every \$1.00 invested, Utility efficiency programs recognized \$1.80 in local community benefits

Existing Xcel Energy Franchise Fee

- 3% of revenue, approximately \$430k annually
- Revenue is included in general fund resources
- Future considerations
 - Dedicate funds for climate efforts (no new revenue)
 - Renegotiate franchise fee for higher amount or additional services
 - Several Colorado community examples

Upcoming Council Work Session

- December 13th

Council Finance Meeting

- February 2023 to determine preferred election cycles



Appendix 1: Sustainable Funding – Climate

Council Finance Committee

Key Considerations	Core, Ongoing Climate Funding		Acceleration Opportunities / Enhancements to Core			
	Existing revenue (Utilities)	Sustainable Revenue (Climate, Transit, Housing, Parks)	OPTION 1: Dedicated Sales Tax for Climate Initiatives	OPTION 2: Natural Gas Excise Tax	OPTION 3: Natural Gas as Proxy Fee	OPTION 4: Large Emitter Fee
Flexibility of funds use	Med	Highest	Higher	High	Low/Med	Low
Voter approval required	N	Y	Y	Y	N	N
Estimated revenue generated / yr*	\$6.5M	\$\$	\$\$	\$\$ / \$\$\$	\$\$	\$\$ / \$\$\$
Implementation resources needed	13 FTE (embedded in biannual budget)	TBD	TBD Denver admin costs limited to 5% of revenue; Portland considering increase for admin costs from 5 to 12%	TBD Boulder FTE costs up to 33% of revenue (14-16 FTEs including existing)	TBD	TBD
Duration	Ongoing	Ten years + unless permanent adoption	Ten years + unless permanent adoption	Ten years+	Ten years+	< 5 years
Number of entities affected	Community-wide (all electric utility customers)	Community-wide	Community-wide	Taxing natural gas industry (passed down community-wide)	5-100 largest emitters	3 entities reporting to EPA
Equity considerations**	Balanced	Regressive	Regressive	Regressive	Progressive	Progressive
Example applications from other communities	<ul style="list-style-type: none"> Energy Efficiency Programs Solar and storage customer programs Grid Flexibility 	N/A (Tailored discussion for Fort Collins-specific deficits)	Denver (\$40-50M / yr); Denver allowable uses: <ul style="list-style-type: none"> Sustainable Transportation Workforce Development Resilience Buildings 	Boulder (\$6.5M / yr) Allowable uses: <ul style="list-style-type: none"> Direct cash assistance for energy efficiency Microgrid, energy storage, 	N/A (Staff is not aware of peer communities instituting a fee of this type)	N/A (Staff is not aware of peer communities instituting a fee of this type)

Appendix 1: Sustainable Funding – Climate

Council Finance Committee

Key Considerations	Core, Ongoing Climate Funding		Acceleration Opportunities / Enhancements to Core			
	Existing revenue (Utilities)	Sustainable Revenue (Climate, Transit, Housing, Parks)	OPTION 1: Dedicated Sales Tax for Climate Initiatives	OPTION 2: Natural Gas Excise Tax	OPTION 3: Natural Gas as Proxy Fee	OPTION 4: Large Emitter Fee
	programs		<ul style="list-style-type: none"> Renewables Climate Justice <p>Portland (1% sales tax on large retailers, annual revenue of about \$30 \$60M); Portland allowable uses (grant funding):</p> <ul style="list-style-type: none"> Renewable energy & efficiency Job training, apprenticeships, & contractor support Regenerative agriculture & green infrastructure Innovation 	<p>building electrification</p> <ul style="list-style-type: none"> Transportation infrastructure electrification Natural climate solutions Wildfire resilience 		
Next Steps	Ongoing budget processes (Existing revenue source)	Work with CFC and Council during Dec. work session to further solidify desired revenue generation approaches and allocation of dollars to climate work	Further analysis of implementation strategies and resources necessary to administer this kind of tax/program (FTEs, administrative costs, etc.)	Further analysis of the legality of maintaining a franchise agreement alongside a general occupational privilege tax that acts as a natural gas excise tax. Further analysis of resources necessary to administer the program.	Extensive legal and policy analysis of the practicality of pursuing a fee-based mechanism, how to obtain information about top 5-100 natural gas users, how to structure the fee, and the administrative resources necessary.	Extensive legal analysis of fee to program dollar nexus, greater understanding of CSU/Broadcom/Anheuser Busch efforts to reduce emissions below EPA required reporting level, and further study on administrative resources

Appendix 1: Sustainable Funding – Climate

Council Finance Committee

Key Considerations	Core, Ongoing Climate Funding		Acceleration Opportunities / Enhancements to Core			
	Existing revenue (Utilities)	Sustainable Revenue (Climate, Transit, Housing, Parks)	OPTION 1: Dedicated Sales Tax for Climate Initiatives	OPTION 2: Natural Gas Excise Tax	OPTION 3: Natural Gas as Proxy Fee	OPTION 4: Large Emitter Fee
						necessary.

*For this conceptual analysis, potential revenue generated are rough estimates, corresponding to the following amounts:

- \$ = \$1 – \$5 million
- \$\$ = \$5 – \$10 million
- \$\$\$ = greater than \$10 million

**Equity considerations can be more nuanced than a simple categorization of “regressive” or “progressive” – we provided these simplified labels to indicate the general slant of each mechanism. That said, there are several modifications that can be made to any of the options labelled as “regressive” that address equity concerns. For example, a certain percentage of revenue generated from dedicated sales taxes can be earmarked for investments in low-income communities or programs for income-qualified customers of City services. Similarly, a natural gas excise tax could “kick in” only at a higher baseline level of consumption to mitigate impacts for low-income consumers. Even those mechanisms that are generally labelled as “progressive” require intentional investments and program design elements that focus equity and environmental justice. As a result, none of these revenue generation opportunities are regressive or progressive on their own; they each require deliberate decisions that encourage equitable outcomes in terms of how taxes and fees are levied and how their revenues are invested.

Appendix 2

Detailed Research and Discussion of Climate Funding Options

Core, Ongoing Climate Funding

Core Funding includes revenue from the existing Utilities electricity rate structure and possible new funding from the outcomes of the broader Sustainable Revenue project.

Existing Revenue (Utilities)

The existing rate structure for Fort Collins Utilities electricity customers generates more than \$6 million annually for staffing and programs that directly support climate initiatives by funding energy efficiency, increased renewables, and enhanced grid flexibility. Despite a growing population, these programs have helped strategically manage community electricity use and carbon emissions; electric use would be 21% higher without these programs being in place since 2005. In addition, a portfolio evaluation of Utility programs confirmed that for every \$1.00 invested, Utility programs recognized \$1.80 in local community benefits. Program resources are available for residential, commercial and industrial customers and are closely coordinated with Platte River Power Authority.

Utility programs have traditionally been vetted through the Fort Collins Budgeting for Outcomes (BFO) process. Utilities enterprise funds traditionally fund these programs, with several smaller historical exceptions using Utilities reserves and/or general fund dollars. The costs of these programs are recovered through the Utility customer electric rate structures, which City Council approves by ordinance annually or when needed. From an equity perspective, customer contributions are proportional to use by all customers and funds are expended in approximate proportion to sectors. Business programs that are generally lower cost support a portfolio that includes higher cost residential programs for a balanced. Individual programs also utilize ongoing review processes to continuously improve equitable outcomes.

These ongoing and evolving programs, which are a primary contributor to the outcomes of the Our Climate Future plan, have a proven track record of positively impacting environmental, social, and economic conditions in Fort Collins.

Sustainable Revenue (Climate, Transit, Housing, Parks)

A key revenue source for ongoing climate work as identified in Our Climate Future work plans will be dollars generated from Council's pursuit of sustainable revenue via a repurposed sales tax, property tax, excise tax, user fee, or other mechanisms identified by the New Revenue Core Team and discussed in past CFC meetings.

Splitting this revenue between parks, transit, housing, and climate will provide ongoing funding for all four areas, enabling targeted spending on climate initiatives that will support the City and community in reaching our climate mitigation and resilience goals. Continuing to include climate as one of the "four corners" is a critical, core move in addressing the organization's climate goals.

Key Considerations of the Sustainable Revenue Option

Based on staff's understanding of Council's intention to utilize new revenue in part for climate work, this funding is framed as highly flexible and enduring in duration. Since any of the above-mentioned revenue generation mechanisms can be written broadly to allow for a wide variety of investments and will last for as many years as the Council and community would like, this revenue will provide for both flexibility and consistency in our approach. These mechanisms generally affect a broad swath of the community and collect revenue from most individuals in the City. Depending on how Council decides to pursue this revenue, it will most likely be regressive and have a proportionally greater impact on low-income community members. Thus, equity is being considered and will need to be built in to ensure these revenue options do not further impact specific community populations. The revenue could be applied to climate work in a variety of ways depending on how Council decides to move forward with policy goals stated in the Our Climate Future plan. These mechanisms, aside from user fees, require voter approval.

Acceleration Opportunities / Enhancements to Core

Potential *Acceleration Opportunities* include options that would generate dedicated climate revenue while also working toward Our Climate Future goals using financial incentives and disincentives that encourage systems and behavior change within the community.

OPTION 1: Dedicated Sales Tax for Climate Initiatives

This option could be considered separately from or as part of the new sustainable revenue package being developed for parks, housing, transit, and climate funding. One possibility would be to put forth a voter-approved tax for climate (inclusive of parks, housing, and/or transit) to help accomplish Our Climate Future goals, or it could be an additional dedicated tax separate from the package of new revenue tools discussed above.

Example: Denver's Climate Protection Fund

The best example of this type of dedicated tax focused on climate initiatives in our region is [Denver's Climate Protection Fund](#). In November 2020, Denver voters overwhelmingly approved Ballot Measure 2A to raise approximately \$40 million per year dedicated to climate action. As stated in the ballot measure, the intent of this fund is to:

"Fund programs to eliminate greenhouse gas emissions and air pollution and adapt to climate change. Funding should maximize investments in communities of color, under-resourced communities, and communities most vulnerable to climate change."

The Climate Protection Fund was referred to the ballot by the Denver City Council on the recommendation of the Climate Action Task Force, which urged Denver to eliminate 100% of greenhouse gas emissions (GHG) by 2040. This plan formally establishes that as Denver's goal, and it also sets a science-based target of a 65% reduction in emissions by 2030 from a 2019 baseline. This new target represents Denver's fair share of carbon reductions necessary to meet the Paris Agreement commitment of keeping warming to 1.5 degrees Celsius.

The revenue generated from the quarter-cent sales tax has several diverse allowable uses, including buildings, renewables, workforce, transportation, environmental & climate justice, adaptation & resiliency, and administration.ⁱ

The following graphic depicts the Climate Protection Fund's 2021 Committed Dollars.



Example: Portland Clean Energy Community Benefits Fund

In addition to Denver's efforts, Portland, Oregon provides another example of a dedicated climate tax. Portland's model levies a 1% surcharge on gross revenues from retail sales on all large retailers within the City, defined as those retail corporations with over \$1 billion in national sales plus over \$500,000 in local sales each year. Passed by voters in 2018, the Clean Energy Surcharge tax generates an estimated \$30 – \$60 million each year depending on the government document/source consulted.^{iii, iv}

The revenue raised by the tax is deposited in a dedicated Portland Clean Energy Community Benefits Fund. A grant committee of nine members then reviews proposals by nonprofit entities, either alone or in partnership with government entities or private businesses, for potential grant funding awards. The grant program's allowable uses include the following categories:

Renewable Energy & Energy Efficiency Programs (40-60% of total Fund)	Job Training, Apprenticeships & Contractor Support (20-25% of total Fund)	Regenerative Agriculture & Green Infrastructure (10-15% of total Fund)	Future Innovations (5% of total Fund)
<ul style="list-style-type: none"> At least half of the grants in this category should specifically benefit low-income people and people of color. 	<ul style="list-style-type: none"> Intended to support economically disadvantaged and traditionally underrepresented workers. 	<ul style="list-style-type: none"> Promote the broader adoption of such practices, with a particular focus on low-income communities and communities of color. 	<ul style="list-style-type: none"> Provides flexibility to fund a project that does not directly fall under one of the other categories, but which furthers the goals of the measure under the discretion of the Grant Committee.

Key Considerations of Option 1

Because a dedicated sales tax can be written to have a wide range of allowable uses, as in the Denver and Portland case studies, staff views this potential revenue source as highly flexible as well. As in the case of

core new revenue, this funding could last as long as Council and the community would like, and it would impact the entire community as well as visitors who enter the City and pay sales tax as part of their purchases while in town.

Sales taxes are inherently regressive, but Denver has found a way to distribute resources generated from their tax equitably. Denver's ordinance creating the Climate Protection Fund (CPF) states that it "should, over the long term, endeavor to invest fifty percent (50%) of the dedicated funds directly in the community with a strong lens toward equity, race and social justice."^{vi} Denver Climate Action, Sustainability and Resiliency (CASR) interprets this statement to mean that at least half of the funding issued through the CPF should go toward projects that directly benefit people of color and Indigenous people, low-income households, people living with chronic health conditions, children, older adults, and others most impacted by climate change. Fort Collins could incorporate this type of equity requirement into a dedicated sales tax if desired.

Similarly, Portland only assesses a surcharge on gross revenues from large retailers due to their outsized impact on climate change due to long supply chains and the high amount of GHG emissions involved in producing and distributing their products. Small retailers were intentionally excluded to minimize impacts on small- and medium-sized businesses within the community. Moreover, the allowable uses for Portland's climate revenue address equity concerns, and they require that workers on grant-funded projects earn no less than 180% of the minimum wage to support living wages for workers in the climate sector.

OPTION 2: Natural Gas Excise Tax

One policy option that could both raise revenue and disincentivize emissions is to develop an excise tax on natural gas use. Boulder's experience as a statewide peer city in environmental revenue generation provides a great deal of information in this policy space.

While the model that staff proposes for CFC's consideration more closely mirrors the Climate Action Plan tax that Boulder is referring to voters on November 8, 2022, the municipality's policy history provides important context. From 2006-2022, Boulder has used a combination of two types of taxes to fund most of its climate-related investments. These include their current Climate Action Plan (CAP) tax and Utility Occupation Tax. The combined total of average annual revenue for these two taxes is roughly \$3.9 million per year. While Boulder receives additional revenue from other sources such as their trash tax, solar grants, disposable bag fee, etc., these two taxes directly target GHG emissions.

Existing City of Boulder Approach

The first tax, their CAP tax, targets energy use on residential, commercial, and industrial properties based upon their levels of electric consumption. Boulder's CAP tax was first approved by voters in 2006, and it is set to expire in March 2023.^{vii} The amount of the tax varies by account type as a function of kilowatt hours used, as enumerated in the Boulder Municipal Code Chapter 12 § 3-12-2.^{viii} N

Alongside the CAP tax, voters in the city approved a Utility Occupation Tax (UOT) in 2010, which is assessed on electric and natural gas utility providers, in this case Xcel Energy, and passed onto ratepayers. The UOT raises just over \$2 million annually for climate investments. In Boulder, the UOT exists to replace a franchise fee and to tax "the occupation of delivering electricity and natural gas within the city."^{ix} In

essence, the UOT acts like a franchise fee in the absence of a franchise agreement between Boulder and natural gas/electricity providers.

The revenue collected from these taxes has been put toward rebates and incentives to help residents and businesses reduce energy usage and implement solar solutions, piloting innovative technologies, implementing local policies, lobbying and advocacy for regulatory changes at other levels of government, and other initiatives related to reaching the City’s clean energy goals.^x Both taxes are collected by Xcel Energy and remitted to the City on a monthly basis.^{xi} These interventions (alongside other policies and programs) have contributed to Boulder’s overall reduction in carbon emissions – in the CAP tax’s first six years, the City achieved 11.2% of commercial and energy use reduction targets stated in the 2006 CAP Report.^{xii}

Proposed Revised City of Boulder Approach

Boulder is currently attempting to repeal these tax initiatives in pursuit of a new tax that will raise revenue and more clearly help them achieve their GHG reduction goals. The proposed change is subject to voter approval (November 2022 ballot measure) and would result in the following adjustments to the annual costs for customers, separated by account type:

<i>Customer Type</i>	<i>Current Annual Cost (CAP + UOT)</i>	<i>Proposed Annual Cost (Proposed Climate Tax on Nov. Ballot)</i>
Residential	\$42.95	\$49.66
Commercial	\$292.42	\$487.37
Industrial	\$1,084.11	\$1,806.85
<i>Total Revenue for Climate Efforts</i>	\$3.9 Million	\$6.5 million

Their reasons for asking voters to consider a new consolidated tax include:^{xiii}

- The two taxes may appear duplicative to customers, and consolidation allows the City to unify its strategy across the organization
- The CAP tax will expire in March 2023 unless renewed, and the UOT tax will expire in 2025 if not renewed
- Taxing electricity using kilowatt hour consumption as the grid becomes cleaner creates inconsistencies as the City continues to tax electricity as they encourage consumers to move toward electrification
- The tax is regressive since it is a fixed rate per kWh used regardless of income
- The CAP tax is currently inequitably structured between account types, with commercial and industrial facilities producing 75% of the community’s energy-related emissions but only contributing 37% of revenue at the current tiered rates

The new tax will be assessed on Xcel Energy because delivering electricity and natural gas was deemed by their City Council as “the exercise of a taxable privilege,” and the City does not have direct control over how the utility provider passes the cost of the tax to customers through the utility billing process. As a

result, desired policy features such as a floor level of consumption prior to the tax kicking in or other equity-based applications of the tax will be incumbent upon natural gas providers.

There may be several legal complexities with implementing a general tax on natural gas providers that is then passed onto consumers. The City of Fort Collins currently maintains a franchise fee agreement with Xcel Energy which grants them the nonexclusive right to use City streets, public utility easements, and other City property for the purpose of providing natural gas service in exchange for a fee, which they pass down to consumers. It may be duplicative to maintain both a franchise agreement and to levy a tax on “the taxable privilege” of delivering natural gas within the community. Thus, the legal complexities of this type of excise tax, should Fort Collins decide to levy it in the way Boulder has modeled, will require additional research and analysis. More information about the City’s franchise agreement with Xcel Energy can be found below.

Key Considerations of Option 2

Given that the City can structure allowable uses for the tax as broadly as it would like in the ballot language, staff views this revenue generation mechanism as highly flexible. It can also generate variable amounts of revenue depending on how it is structured and could be one of the higher-impact options to consider. If Council is interested in pursuing this option, staff will need to conduct additional research and analysis to determine estimates for implementation and administrative costs, though Boulder reports that their 14-16 FTEs who support this program (both new and existing) will cost the City about 33% of its revenue from this tax if passed by voters this November.

Because staff expects the community to slowly phase out its dependence upon natural gas, revenue generated from an excise tax of this type will likely endure for greater than ten years and into the foreseeable future. In general, staff would classify this mechanism as regressive since the City maintains little control over how natural gas providers pass costs onto their customers and because an excise tax on a utility will likely impact low-income customers to a greater degree than middle- and high-income customers. That said, Boulder is pursuing options to enhance the equitable application of the tax, including potential exemptions for customers participating in income-qualifying energy assistance programs, setting a minimum level of use before the tax is triggered, and allowing lower-income residents to receive an energy tax rebate.^{xiv}

The greatest area of concern for further staff and legal analysis, should Council be interested in pursuing an excise tax on natural gas that taxes providers who then pass the costs to consumers, is how this type of tax would interact with the City’s current franchise agreement with Xcel Energy. This question will require greater legal scrutiny to understand the implications of implementing this type of program on the current revenue we collect from the City’s franchise fee.

OPTION 3: Natural Gas as Proxy Fee

When considering potential revenue from medium-sized emitters (entities not required to report to the EPA because they are under the 25k MT CO₂e/year) natural gas consumption could be used as a proxy for emissions, and a fee could be charged to medium-sized emitters.

This option is the least-well understood due to staff's inability to find local, regional, or other peer examples of this type of program. The largest barrier to this type of program is determining exactly which consumers would be subject to the fee (i.e., the top 5 or 100 consumers, consumers above a certain threshold, etc.) and how the City would collect that information. Since the City does not supply a natural gas utility, staff does not currently have access to consumption levels by account within the community. The data that staff would need to investigate a natural gas consumption proxy fee will require either partnerships with natural gas providers or other steps such as legal reporting requirements enacted through ordinance.

Moreover, because a fee does not require voter approval and serves as a more restrictive type of revenue generation mechanism, there are additional considerations regarding how the City would legally be able to spend fee revenue. Ultimately, fees should be charged by local government as a cost-recovery exercise to recuperate money lost as a result of the actions or behavior of the feepayer. In comparison to the large emitter fee option described in greater detail below, this type of fee would likely have a broader nexus with potential application for measures that reduce business emissions as a whole rather than finding a way to use recovered funds more narrowly to address costs associated with the City's three largest emitters.

Key Considerations of Option 3

This revenue source would be the second to most restrictive one the City could pursue from the present suite of options given its structure as a fee. Pursuing this option presents a tradeoff between ease of implementation (since voter approval is not required) and the flexibility of allowable uses (which will be constrained by the use of a fee instead of a voter-approved tax). At this time, staff does not have an estimate of the implementation/administrative costs of a natural gas proxy fee, in part due to a lack of peer examples in this space. Should Council be interested in pursuing this type of revenue generation, staff will need to invest time and resources into understanding these costs as well as the legal and policy-related complications that may arise from the use of a fee-based mechanism. Researching how staff will collect data on the largest natural gas emitters in the community will present an additional hurdle for this option.

For the same reason as the previous option, staff believes that revenue generated from this mechanism will endure for greater than ten years and into the foreseeable future. Since the fee would directly target the community's largest emitters, it would be levied equitably. Nonetheless, Council and staff would still need to make intentional investments of fee revenue in ways that are both legal and equitable to enhance the community-wide impact of the revenue.

OPTION 4: Large Emitter Fee

In this scenario, a "large emitter" would be defined as those entities reporting more than 25,000MT CO₂e annually, as reported to the EPA. The fee can be set based on a target revenue or a standard reference value. The example below is based on the Social Cost of Carbon, which is priced at \$51/MT of carbon emitted. At this level of carbon emissions, there are three facilities within City limits to which the fee would apply. Their total annual reported emissions and the corresponding annual revenue are reported in the following table:

Facility	Total Reported Emissions (MT CO2e)	Revenue (\$51/MT)
Broadcom	125,000 MT (2021 updated figure decrease from 139,671)	\$6.4M
Colorado State University	47,771 MT	\$2.4M
Anheuser Busch	42,068 MT	\$2.1M
Total	214,839 MT	\$10.9M

This type of fee structure requires several considerations on behalf of Council should they decide to pursue their climate goals with this mechanism. These include:

Advantages	Context
1. No voter approval necessary	Because this revenue generation strategy is not a traditional tax, it does not require voter approval via ballot initiative. This may ultimately lessen the procedural hurdles toward implementation.
2. Revenue generation	If the fee structure is based upon the social cost of carbon, this mechanism could generate substantial revenue at these facilities' current levels of GHG emissions.
Other Considerations	Context
1. More restrictive than a traditional tax	Because fees must legally have a narrower use that applies these recovered dollars to the cost of programs that address shortfalls imposed by feepayers, the use of revenue generated via this mechanism would be restricted to a greater degree than a voter-approved tax. Council and City Staff would need to brainstorm creative ways to use revenue to target emissions in a way that ties the fee revenue to the costs incurred due to activities related to GHG emissions by the City's three largest emitters.
2. Potential legal issues imposing fees on CSU	Because CSU is a separate governmental entity unlike the other two private enterprises, the likelihood of legal complexity is relatively high according to analysis by the City Attorney's Office.
3. Diminishing returns	As with many behavior-based policy interventions, revenue is expected to decrease over time as emitters align their behavior with the expectations of the policy in an attempt to reduce their overall costs.
4. Smaller scope	The facilities that this revenue generation mechanism targets, in combination, produce about 13% of Fort Collins' carbon emissions. If this were the sole mechanism Council chose to implement from the present suite of options, it would miss about 87% of the community's GHG emissions.

Key Considerations of Option 4

This revenue source is the least flexible one in this suite of options. Because the fee would be levied on only three entities, it requires a much narrower nexus and application of revenue recovered through the fee. Essentially, staff understanding is that fees require the organization to use the recovered revenue in pursuit of programs and policies that connect to the issue caused by the behavior or actions of the feepayer. Consequently, the safest investment of fee revenue would result in the City providing programs

or rebates that earmark funding for these entities to address large sources of emissions and their impact on climate and environment in our community.

Levying a fee on three entities results in relative simplicity in terms of the data that the City needs to pursue this type of revenue generation. The data already exist and are publicly available through the EPA. Nonetheless, the duration of this revenue source is likely limited due to large emitters' financial incentives to get below the EPA carbon emissions threshold for public reporting. Moreover, legal complexities involved with levying a fee on a separate governmental entity (CSU) continue to present challenges for this revenue generation mechanism.

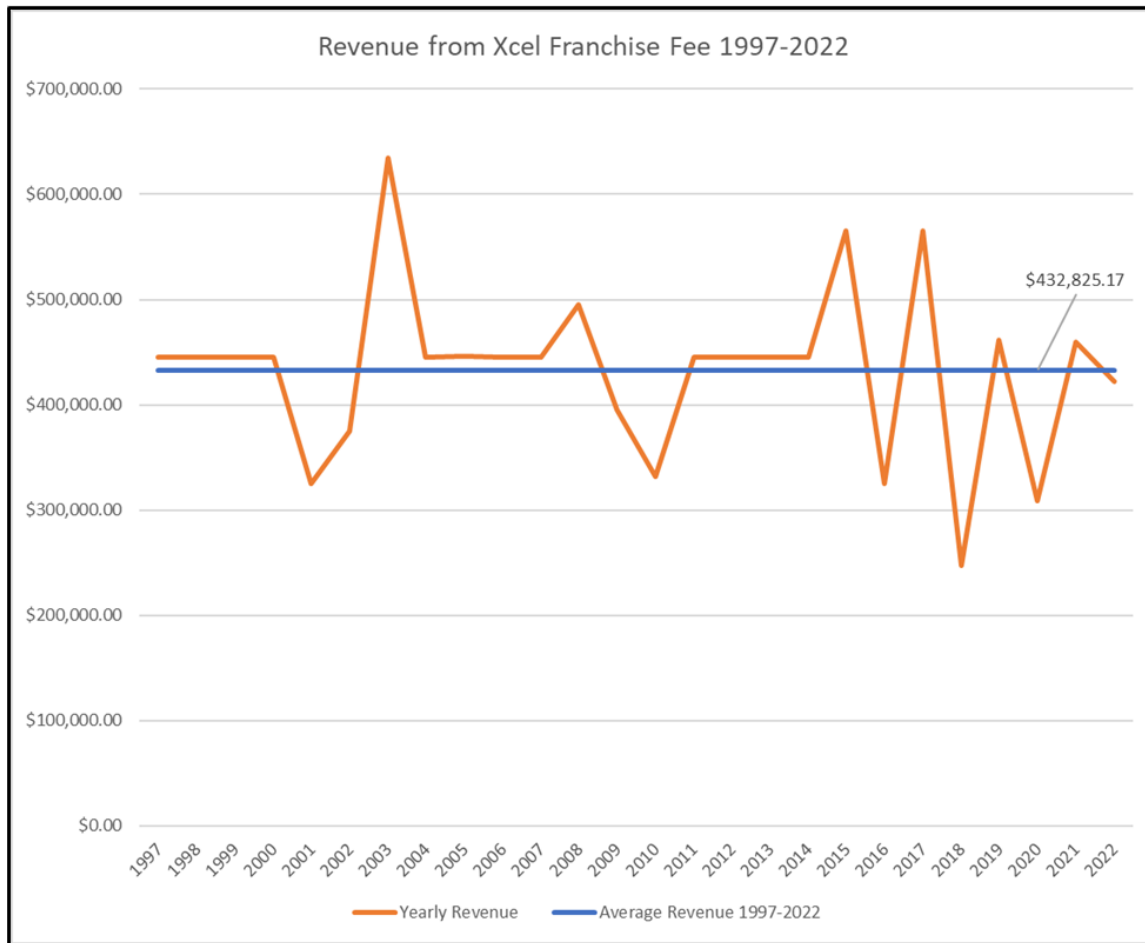
Further staff analysis is necessary to understand the resource-intensiveness of this approach in terms of administrative costs as staff is unaware of other analogous programs for comparison. In terms of equity, staff's evaluation is that this mechanism is generally more progressive in nature than other options since it targets the highest emitters in the community. Nonetheless, it also creates an arbitrary line between emitters that are required to report to EPA and those just under the threshold of 25MT, potentially creating equity issues between entities just above and below the line.

Additional Lever – Natural Gas Franchise Fee

The City assesses a tax called an occupational privilege gas service tax paid by Xcel Energy to the City in exchange for the non-exclusive right of the company to use City streets, public utility easements, and other City property for the purpose of providing utility service to the City and residents. The franchise agreement specifies that Xcel must collect the fee via a surcharge upon City residents who are customers of the company. The fee is then remitted to the City in monthly installments.

Allocation of Existing Franchise Fee Revenue

The revenue generated from this tax averages nearly half a million dollars per year (see below), all of which is then funneled directly into the general fund.



The franchise fee was originally instated in 1987, and several updated agreements between the City and Xcel have been executed in the decades since. The latest agreement was signed in 2018 and stipulates the terms of the franchise fee, including the maximum surcharge to be collected from customers, which is set at 3%. The current franchise agreement is set to terminate in 2038.

Examples of Creative Ways to Leverage the Franchise Fee

While franchise fees can provide reliable and sustainable revenue for the general fund which can then be allocated flexibly based upon the needs of the greater organization (as is currently the case in Fort Collins, Greeley, Thornton, Lakewood, and Frisco, CO) some municipalities have leveraged these funds creatively in pursuit of climate and environmental health goals.

Municipality	Creative Franchise Fee Allocation
City of Arvada	Arvada maintains a franchise agreement with Xcel Energy in an amount equal to 1% of revenues collected on utility sales within the City. These funds are available for the undergrounding of utilities that are specified by the City.. ^{xv}
City and County of Denver	Denver’s franchise agreement with Xcel was last negotiated and approved by voters in 2006. The agreement that voters approved at that time dedicates \$2 million of

	franchise agreement revenue to the Energy Efficiency Assistance Fund administered through the Denver Office of Nonprofit Engagement each year over the life of the 20-year agreement. The fund supports energy efficiency efforts that benefit low-income residents and non-profits that serve that population. The rest of the revenue from the franchise agreement is routed to the general fund.. ^{xvi}
City of San Diego	The City of San Diego maintains a franchise agreement with San Diego Gas & Electric (SDG&E). As part of this agreement, SDG&E is dedicating \$10 million of shareholder funds over the next ten years to provide eligible, low-income customers with financial assistance to install solar panels on their homes.. ^{xvii}

Importantly, redirecting the use of franchise fee revenue at its currently negotiated level of 3% for climate-related goals, policies, and programs does not constitute new revenue generation in the context of the present sustainable revenue conversation.

Key Considerations for Renegotiation of Franchise Fee

While redirecting the use of current franchise fees solely to climate-related programs does not create new revenue, Council could endeavor to reopen and renegotiate the terms of the current agreement to raise the surcharge on customers. If, for example, the surcharge was doubled to 6%, the City could generate an additional \$300k - \$500k per year on average. This could raise the annual revenue to a total yearly average of between \$600k - \$1M which could be leveraged in pursuit of GHG reduction goals outlined in Our Climate Future plans.

ⁱ Denver Office of Climate Action, Sustainability, and Resiliency. (n.d.). *Climate Protection Fund Five-Year Plan*. Retrieved October 6, 2022, from https://denvergov.org/files/assets/public/climate-action/cpf_fiveyearplan_final.pdf

ⁱⁱ Denver Office of Climate Action, Sustainability, and Resiliency. (2021). *Office of Climate Action Sustainability & Resiliency Annual Report: 2021*. Retrieved October 6, 2022, from https://denvergov.org/files/assets/public/climate-action/documents/cpf/cpf_annualreport_63022.pdf

ⁱⁱⁱ *Portland Clean Energy Initiative*. (n.d.). The City of Portland Oregon. <https://www.portlandoregon.gov/revenue/78324>

^{iv} Portland Clean Energy Fund Coalition. (n.d.). *Portland Clean Energy Initiative*. <https://portlandcleanenergyfund.org/s/PCEI-Flow-Chart.pdf>

^v Portland Clean Energy Fund Coalition. (n.d.).

^{vi} DENVER, CO., REVISED MUNICIPAL CODE art. XIX, div. 2, § 2-405 (2020).

^{vii} Rivera-Vandermyde, N., Meschuk, C., Koehn, J., Gichon, Y., Elam, C., KenCairn, B., Harkins, J., Lehrman, M., Sandoval, E., & Sandine, H. (2022, February 22). *Study Session for February 2, 2022 Financial and Revenue Strategies for Climate Work*. City of Boulder. <https://documents.bouldercolorado.gov/WebLink/DocView.aspx?id=178587&dbid=0&repo=LF8PROD2>

^{viii} BOULDER, CO., MUNICIPAL CODE ch. 12, § 3-12-2 (2015). https://library.municode.com/co/boulder/codes/municipal_code?nodeId=TIT3RETA_CH12CLACPLEXTA_3-12-2IMCLACPLEXTA

^{ix} BOULDER, CO., MUNICIPAL CODE ch. 13, § 3-13-2 (2010).

^x Rivera-Vandermyde et al., 2022, p. 9.

^{xi} BOULDER, CO., MUNICIPAL CODE ch. 12, § 3-12-4 (2012).

^{xii} Rocky Mountain Institute. (2012, May 21). *City of Boulder Climate Action Plan Analysis Report*. https://rmi.org/wp-content/uploads/2017/05/RMI_Document_Repository_Public-Reperts_2012-04_BoulderClimateActionPlan.pdf

^{xiii} Rivera-Vandermyde et al., 2022, p. 9-10.

^{xiv} *Climate Tax Frequently Asked Questions*. (n.d.). City of Boulder. Retrieved October 5, 2022, from <https://bouldercolorado.gov/climate-tax-frequently-asked-questions>

^{xv} City of Arvada. (2020). *2021-2022 Biennial Operating and Capital Budget*. <https://arvada.org/source/Finance/2021-2022%20Biennial%20Operating%20and%20Capital%20Budget/For%20Website%20PDF/2021-2022%20Beinnial%20Operating%20and%20Capital%20Budget%20Final%20with%20Bookmarks%20for%20Online%201.pdf>

^{xvi} Energy Efficiency. (n.d.). *City and County of Denver*. Retrieved September 29, 2022, from <https://www.denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Human-Rights-Community-Partnerships/Divisions-Offices/Office-of-Nonprofit-Engagement/Energy-Efficiency>

^{xvii} San Diego Gas and Electric & Center for Sustainable Energy. (2019). *Providing San Diego Residents with Access to Solar*. San Diego Solar Equity Program. Retrieved September 29, 2022, from <https://sdsolarequity.org/>