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**AGENDA**  
**Council Finance & Audit Committee**  
**December 1, 2021**  
**3:00 - 5:00 pm**  
Zoom Meeting <https://zoom.us/j/8140111859>

Approval of Minutes from the November 3, 2021 Council Finance Committee meeting.

- |   |          |                            |
|---|----------|----------------------------|
| 1. Utility Long-term Financial & Capital Improvement Plan (Part 2 of 2)<br>Water & Wastewater | 60 mins. | L. Smith                   |
| 2. Consideration of New Revenue Sources   | 30 mins. | J. Poznanovic<br>G. Sawyer |

Other Business

**Council Finance Committee**  
**Agenda Planning Calendar 2021-2022**  
**RVSD 11/24/21 ts**

<b>Dec. 1<sup>st</sup></b>	<b>2021</b>		
	Utility Long-term Financial Plan and Capital Improvement Plan (part 2/2)	60 min	L. Smith
	Consideration of New Revenue Sources	30 min	J. Poznanovic G. Sawyer

<b>Jan. 5<sup>th</sup></b>	<b>2022</b>		
	EPIC Home Loan Program	30 min	J. Phelan C. Conant
	Financial Policy Updates	30 min	B. Dunn

<b>Feb. 2<sup>nd</sup></b>	<b>2022</b>		
	2023 Development Review and Capital Expansion Fee Updates	25 min	D. Lenz

<b>Mar. 2<sup>nd</sup></b>	<b>2022</b>		
	Debt Offering: Hughes Land, Natural Areas, Golf	40 min	B. Dunn
	2023-2024 Budget Process Review	30 min	L. Pollack
	2022 Reappropriation	20 min	L. Pollack





Finance Committee Meeting Minutes  
November 3, 2021  
3:00 - 5:00 pm  
Zoom

Council Attendees: Julie Pignataro, Kelly Ohlson, Emily Francis, Shirley Peel

Staff: Blaine Dunn, Carrie Daggett, John Duval, Ryan Malarky, Kyle Stannert, Theresa Connor, Lance Smith, Jen Authier, Adam Bromley, Kraig Bader, Matt Fater, Teresa Roche, Tyler Marr, Amanda King, Amanda Newton, Victoria Shaw, Barb Brock, Aaron Harris, Erik Martin, Dave Lenz, Zack Mozer, Jo Cech, Renee Callas, Lawrence Pollack, Cody Forst, Jennifer Poznanovic, Ginny Sawyer, Molly Reeves, Javier Echeverria, SeonAh Kendall, Nina Bodenhamer, Josh Birks, Carolyn Koontz

Others: Kevin Jones, Fort Collins Area Chamber of Commerce  
Cara Neth, CSU  
Vicky McLane

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Meeting called to order at 3:00 pm

Approval of minutes from the October 6, 2021, 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.

**A. Utilities Long Term Capital Improvement Plan & Strategic Financial Plan Updates -  
For Light & Power and Stormwater Utilities**  
Lance Smith, Utilities Strategic Financial Director

**EXECUTIVE SUMMARY**

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the Light & Power and Stormwater Enterprise Funds. The Water and Wastewater Enterprise Funds will be presented for discussion in December. The 2021 Capital Improvement Plans (CIPs) and the 2021 Strategic Financial Plans for each utility are outlined. The resulting investment projections set the basis for beginning the 2023-24 Budgeting For Outcomes (BFO) cycle. The overall 10-year rate projections for both utilities are also presented here along with the forecasted debt issuance needs.

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



The Stormwater Enterprise Fund has a significant amount of capital investment required to complete the initial buildout of all the needed infrastructure. Given the high operating ratio (operating income / operating revenue) and the amount of capital investment needed, this utility will require the issuance of significant debt over the next 25 years as this initial infrastructure is built. Modest rate adjustments allow for some increase in the debt capacity of this Fund but not enough to accelerate the build out. Timely debt issuances will allow for rates to remain close to current rates while completing build out over the next 25 years. Funding the Stream Rehabilitation Program at a higher level of investment could allow for 25 years of such work to be completed in 16 years.

The electric utility portion of the Light & Power and Telecommunications Enterprise Fund has an increased level of capital investment primarily driven by anticipated annexations which will require a new substation and associated equipment. Tightly managing the operating expenses will be necessary going forward to ensure adequate operating income is being generated to meet system renewal needs with modest rate adjustments. The climate action goals set by both the City and Platte River Power Authority will require rate increases as well during this same time period. A single debt issuance is anticipated as being necessary ahead of beginning the Mulberry annexation conversion work.

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

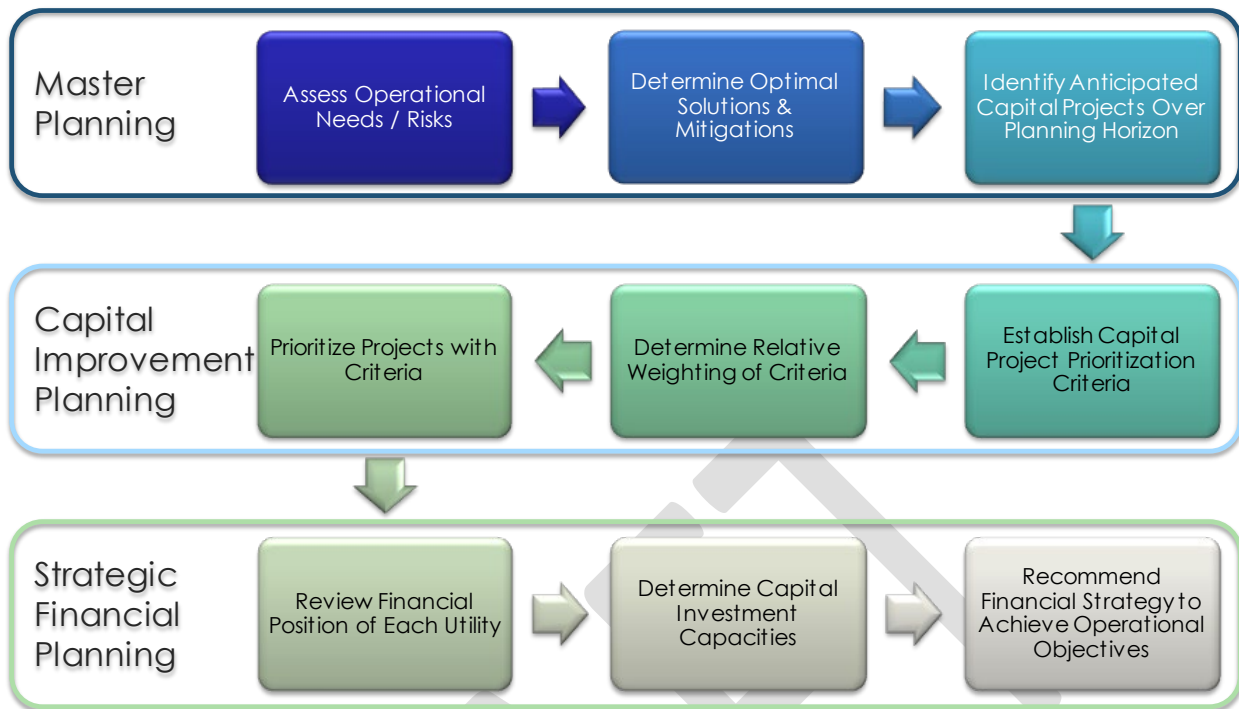
Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-42 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements.

#### **BACKGROUND/DISCUSSION**

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

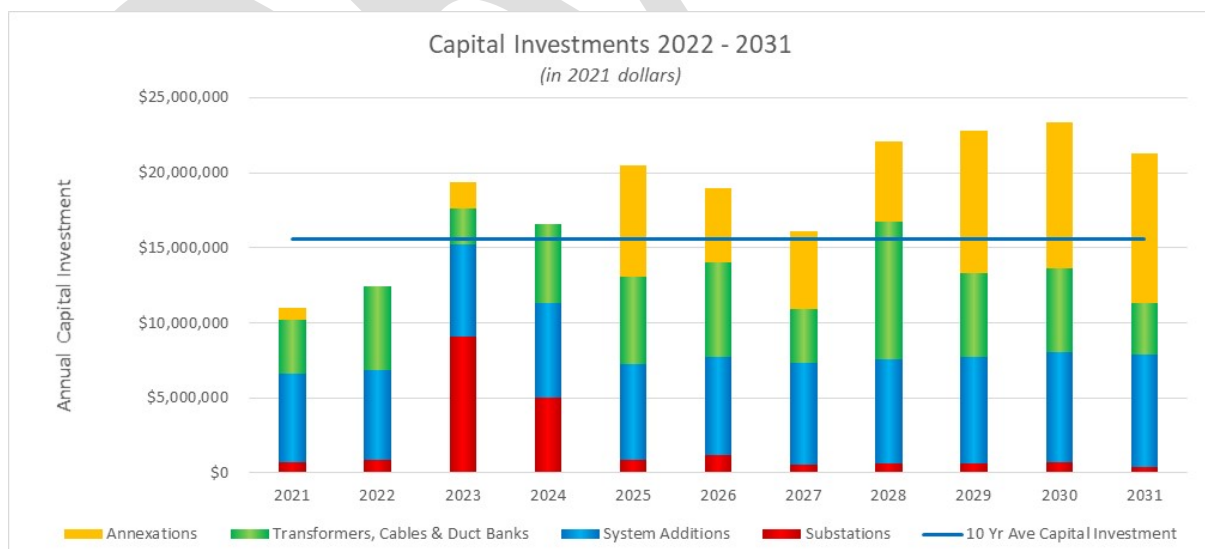
#### **10 Year Capital Improvement Plans**

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

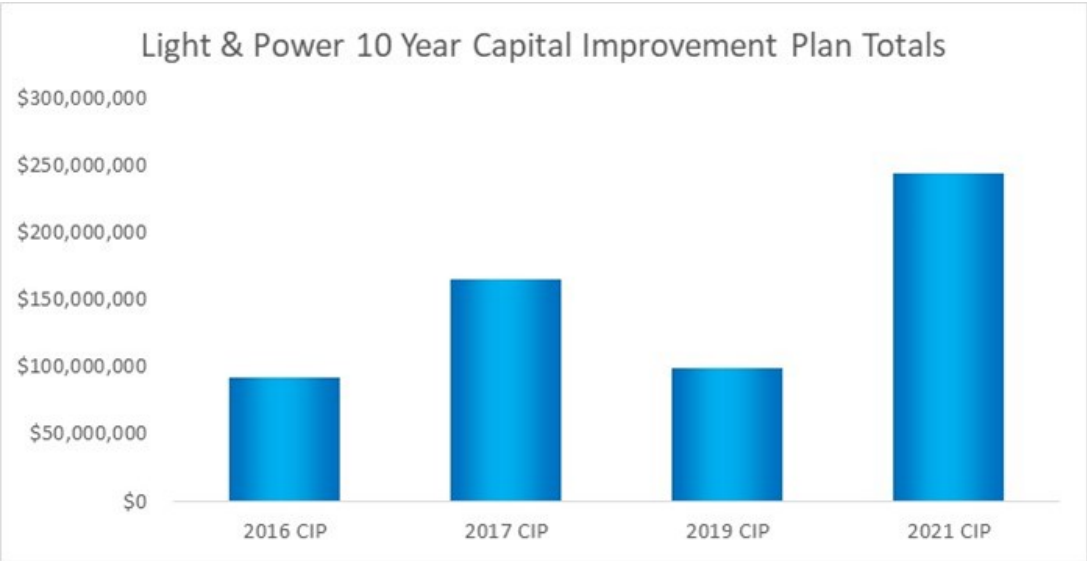


#### Light & Power Enterprise Fund

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



The 2021 CIP for Light & Power at \$221M includes a significant increase in identified capital work over the 2019 CIP. The 2017 CIP identified \$165M as being needed to meet the capital investments needed over the next decade. The 2019 CIP included \$99M of capital investments. This is due in part to new growth and load projections which are anticipated to require the addition of a new substation, as had previously been forecasted. A more stable 10-year capital investment plan will allow for more modest rate adjustments when required and efficient use of bond revenues.



**Light & Power Operations**

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



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

Strong revenue growth in residential sales have increased operating revenues and thereby operating income over the past decade. This revenue growth is being driven entirely by the rate increases as increased customer growth has been offset by increased efficiency. The operating revenue growth is slightly below the annual rate increases suggesting that it is not realistic to expect to fully realize the revenue growth of a proposed rate increase.

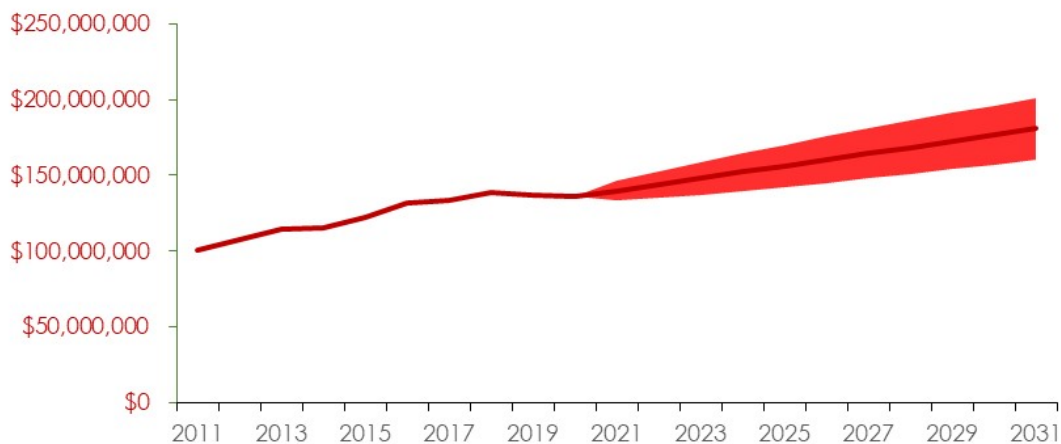
**FUND:**

501 - Light & Power Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Customers	77,741	1.61%	1.70%	1.94%	1.54%
Annual Rate Adjustment	3.00%	4.15%	3.69%	3.93%	5.00%
Residential Elec Services	\$ 53,070,000	4.85%	5.52%	6.38%	12.39%
Commercial Elec Services	\$ 43,450,000	2.89%	1.17%	0.42%	-3.35%
Industrial Charges for Services	\$ 33,230,000	4.66%	3.26%	-0.27%	-2.92%
Green Energy Program	\$ 340,000	-7.05%	-8.74%	-15.40%	-33.52%
PILOTs	\$ 7,810,000	4.09%	3.47%	2.64%	3.02%
Operating Revenue	\$ 137,900,000	4.10%	3.46%	2.65%	3.04%
Development Fees/PIFs/Contributions	\$ 2,895,000	8.46%	-5.48%	-15.22%	-4.21%
Interest Revenue	\$ 247,660	-7.51%	-6.76%	-2.67%	-11.84%
Transfers In					
Other Misc	\$ 1,155,000	-1.75%	-8.53%	-18.93%	-40.47%
Non-Operating Revenue	\$ 4,297,660	3.41%	-5.44%	-14.41%	-17.88%

Light & Power O&M expenses have increased at an unsustainable rate over the past decade. This has begun to be addressed through active management (a flattening of the curve can be seen in 2018-20). The rate and debt issuance forecasts in the plan assume that O&M will increase at a rate close to the rate of inflation.

Operating Expenses (2011 - 2031)



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

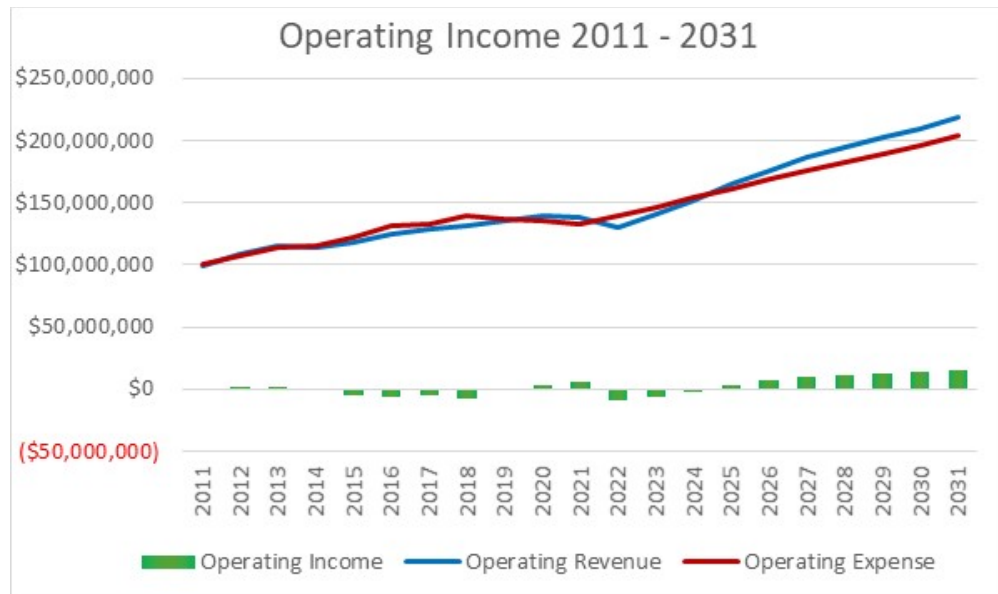
The table below shows the recent trends in expenses along with the relative size of each line through the 2021 budgeted expenses. Positive trends in purchased power expenses and L&P Operations are driving the overall trend. Fort Collins electric customers have benefited from lower wholesale purchased power increases the past few years due to some flattening of the overall load curve through load shifting under time-of-day rates as our contribution to the coincident peak has diminished.

FUND:

501 - Light & Power Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Annual Demand (KWH)	1,495,938,741	0.1%	-0.2%	-0.9%	-1.8%
Purchase Power -Tariff 1 PRPA	\$ 96,550,000	3.4%	1.7%	0.0%	-2.5%
Purchase Power - Renewables PRPA	\$ 1,900,000	0.4%	0.1%	0.0%	0.0%
Purchase Pwr - Community Renewables	\$ 2,257,900	36.3%	10.4%	17.7%	32.2%
L&P Operations	\$ 9,973,705	3.7%	1.5%	-1.0%	-1.3%
Energy Services	\$ 5,723,389	1.7%	-4.0%	-7.6%	-1.6%
PILOTS	\$ 7,810,000	4.1%	3.5%	2.6%	3.0%
Admin Services - CS&A	\$ 7,263,617	3.9%	6.8%	7.9%	16.1%
Admin Services - General Fund	\$ 1,090,628	1.4%	-5.1%	-0.8%	2.5%
Other Payments & Transfers	\$ 902,398	-2.4%	-7.6%	-16.2%	-8.5%
Depreciation	\$ 12,000,000	4.6%	5.7%	3.4%	-0.8%
Total Operating Expenses	\$ 145,471,637	3.6%	2.1%	0.6%	-0.5%
Debt Service	\$ 12,660	-12.0%	-58.2%	-76.7%	0.0%
System Addition/Replacement	\$ 5,559,120	-6.5%	-17.3%	-15.2%	-17.0%
Capital (other than Sys Add)	\$ 7,647,504	-7.1%	-4.5%	-23.2%	-29.6%
Total Non-operating Expenses	\$ 13,219,284	-6.8%	-14.2%	-22.9%	-24.0%
Total Expenses	\$ 158,690,921	2.6%	0.6%	-1.5%	-2.2%

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



### Light & Power Rate and Debt Forecasts

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

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	2.0%	3.0%	4.1%	4-5%	4-5%	3-5%	2-3%	2-3%	2-4%	2-5%
Debt Issued (\$M)		\$55.0								

The overall debt capacity of the fund is determined by the net pledged revenues and targeted debt coverage ratio. The table below shows the debt capacity at various coverage ratios as well as the current outstanding debt.

#### Debt Capacity Estimation

Interest Rate: 2.50%

Net Pledged Revenue (5yr ave): \$15,296,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$136	\$193	\$244
1.2	\$113	\$161	\$204
1.4	\$97	\$138	\$175
1.6	\$85	\$121	\$153
1.8	\$75	\$107	\$136
<b>2.0</b>	<b>\$68</b>	<b>\$96</b>	<b>\$122</b>
2.2	\$62	\$88	\$111
2.4	\$57	\$80	\$102
2.6	\$52	\$74	\$94
2.8	\$48	\$69	\$87
3.0	\$45	\$64	\$82

Outstanding Debt in 2021: \$129.6 M

### **Stormwater Enterprise Fund**

#### **Stormwater CIP**

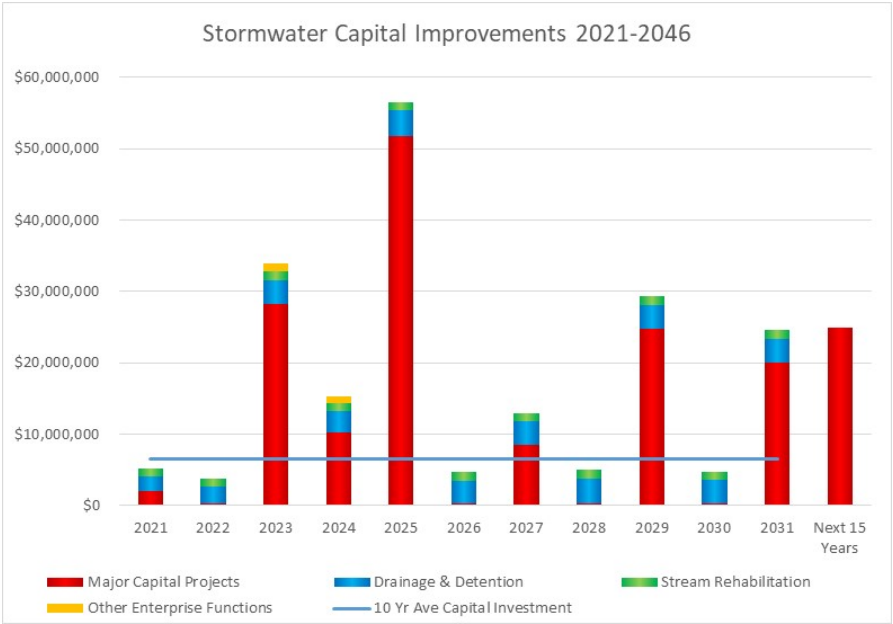
The Capital Improvement Plan for the Stormwater Fund includes new cost estimates for all anticipated initial buildout projects. Updating the cost estimates, along with some preliminary design refinements to some of the project requirements, increased the anticipated capital investment needed to build out the stormwater infrastructure from \$374M in the 2019 CIP to \$568M. Cost adjustments for stream restoration projects are also included in the model which now shows \$30M in stream restoration projects in addition to the water quality and flood protection projects. The CIP is now being proposed to be built over a 25-year period which as the graph below shows will still require investing almost 4 times as much each year in capital infrastructure than the previous decade's level of investment. In addition, City Council has established acceleration of the Stream Rehabilitation program as a priority. In 2016 when the Stream Rehabilitation Program was established 16% of the revenue was to be dedicated to Stream Rehabilitation Projects or \$650,000. The most recent CIP projections have been allocating \$800,000 per year. Because of the nature of these projects, that means some years \$3,100,000 is allocated for a project like in 2021 to and some years there is not an allocation like 2022. On average approximately \$800,000 per year is spent in the Stream Rehabilitation Program. The options to accelerate this program include:

1. Increase the allocation within the CIP by \$400,000 a year which would bring the total allocation to \$1,200,000 each year. This allows flexibility to address either larger projects or taking on concurrent projects depending on the size of the project.
2. Instead of doing one project every two years, do two projects every three years by having one in design while another is in construction. This may take additional staff resources to manage additional projects within the program.

The additional financial resources for Stream Rehabilitation can either be generated through a rate increase of 2.5 percent to generate the additional \$400,000 each year needed to cover those costs or the time period for the flood protection capital work can be extended. A modest 2.5% rate increase would not limit other suggested rate increases while remaining below the 5% ceiling in the next few years and would establish the incremental revenues going forward. Taking an additional \$400,000 from the current operating income allocation for the CIP would not necessarily delay any capital project but rather would more likely lead to issuing

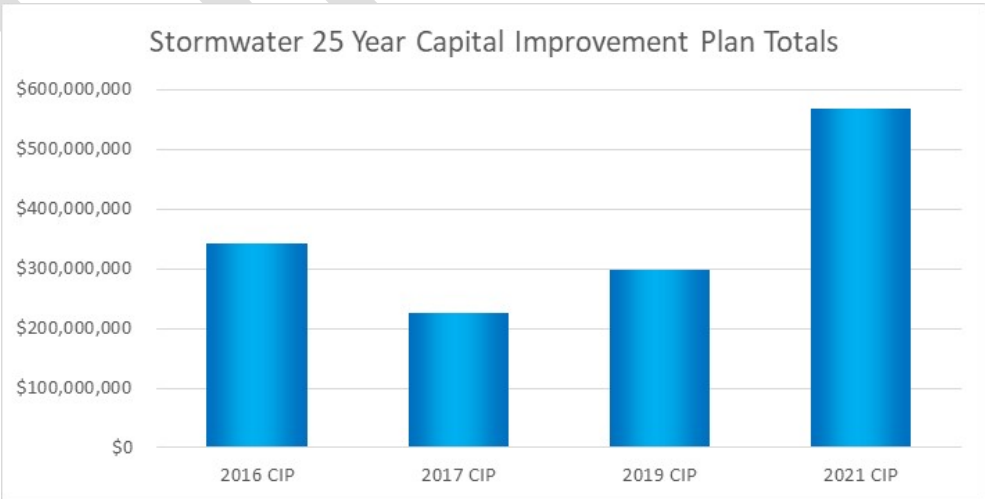
higher revenue bonds when an issuance is needed. Please see that attached memorandum on the Stream Rehabilitation program (Attachment 2).

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



The amount of anticipated capital investment is much greater than what has been made over the previous decade. This will require significant operational planning and project management to ensure that the bond revenue is utilized efficiently.

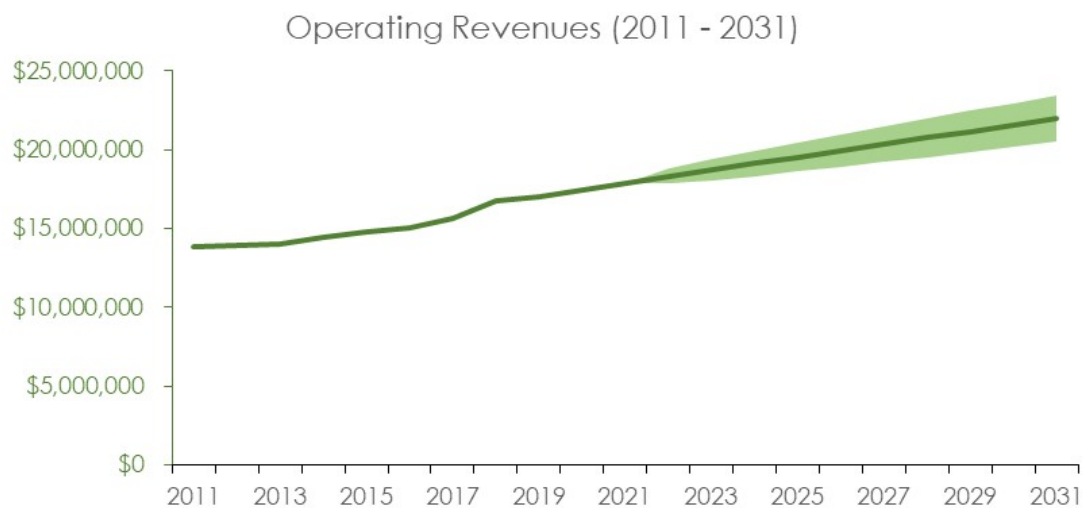
The trend in the anticipated capital investments is cautionary. With each review and update of the capital improvement plans there is an escalation of the estimated total investment required. This is being driven primarily by higher cost estimates for known capital projects rather than from new projects being identified.



**Stormwater Operations**

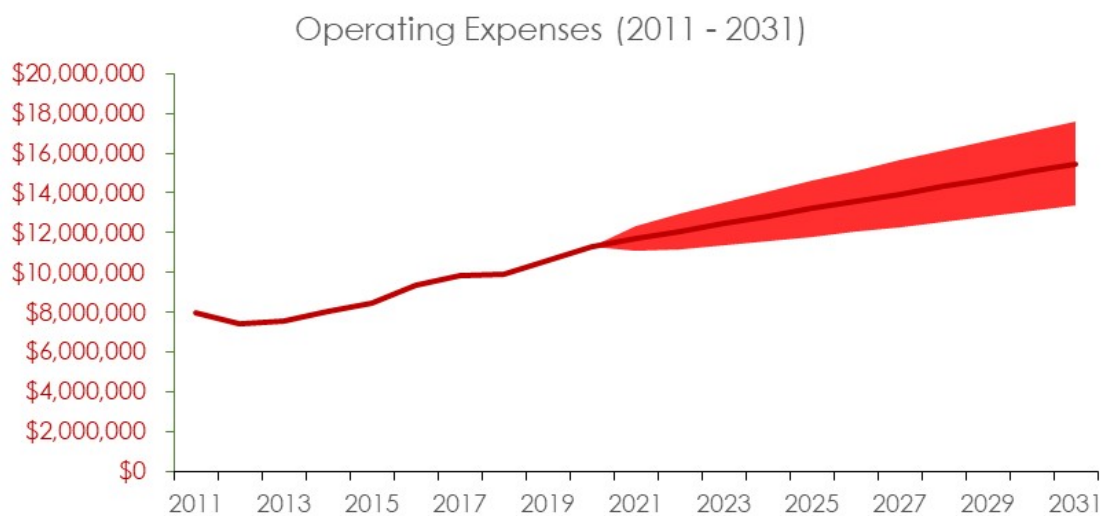


Operating revenues have grown modestly over the past decade primarily through annexations and infill development along with some modest rate adjustments.

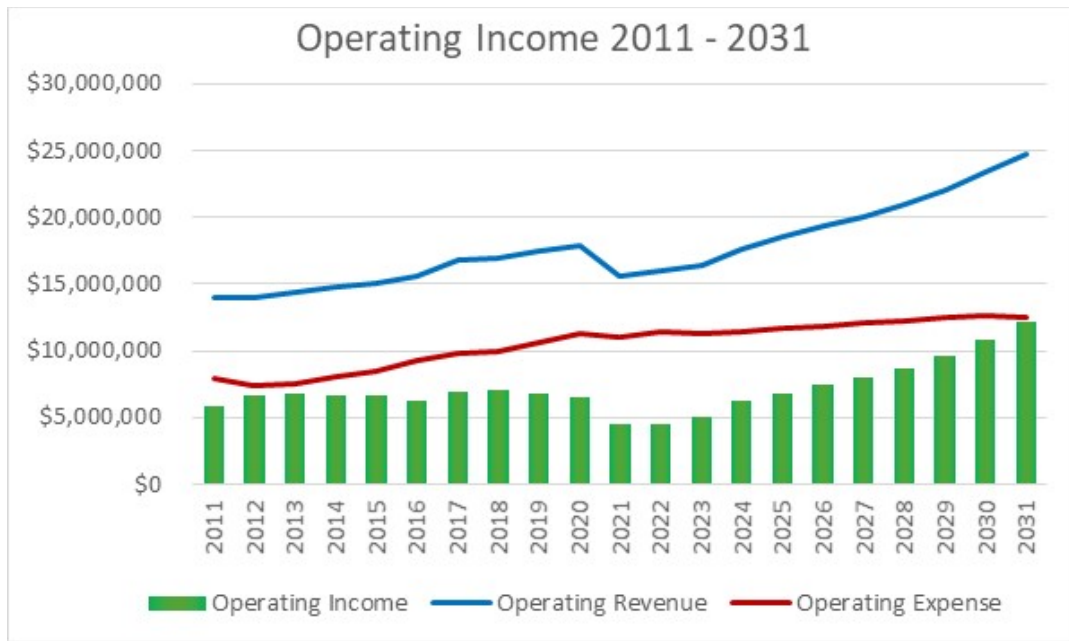


*The colored area represents the 95% confidence band around the expected operating expense.*

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



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



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

#### Stormwater Rate and Debt Forecasts

With the strong operating income being generated every year in this utility only providing a fourth of the anticipated capital investment required to fully build out the infrastructure for the community over the next 25 years it will be necessary to issue significant debt to complete the remaining flood mitigation infrastructure. Significant rate increases could be implemented rather than, or in conjunction with, issuing debt, however, the capital needs are not ongoing capital needs. Rates are usually adjusted to fund ongoing operational and capital needs. There is significant debt capacity in this fund that operates with an operating margin of 40%. Increasing rates would increase the operating margin but not necessarily allow for the initial infrastructure to be built on an accelerated schedule because of the relative scale of the capital investment compared to the operating revenues. The anticipated levelized annual capital investment required to complete the initial build out over the next 25 years along with minor capital investments required on existing infrastructure is \$20M per year. Infrastructure that is expected to last for at least 50 years into the future could be financed over that time period with those customers benefiting from the new investment paying for its cost rather than increasing rates substantially. The table below shows the amount of debt that would need to be issued over the next decade to establish this 25 year build out schedule while adhering the financial boundary conditions of gradual, modest rate adjustments, positive operating income, and a debt coverage ratio of at least 2.0.

As the table below shows, there will be the need to issue debt for several capital investments over the next decade. The first such issuance should be done in 2023 as part of the 2023-24 BFO cycle. Modest rate adjustments can be made to increase the net pledged revenues available for debt service as the debt is issued or more modestly over two or three years ahead of the next issuance.

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	3-5%	3-5%	3-5%	2-3%	2-3%	2-4%	2-5%
Debt Issued (\$M)			\$80.0				\$43.0			

#### Debt Capacity Estimation

Interest Rate: 2.25%

Net Pledged Revenue (5yr ave): \$12,011,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$107	\$152	\$192
1.2	\$89	\$126	\$160
1.4	\$76	\$108	\$137
1.6	\$67	\$95	\$120
1.8	\$59	\$84	\$107
<b>2.0</b>	<b>\$53</b>	<b>\$76</b>	<b>\$96</b>
2.2	\$48	\$69	\$87
2.4	\$44	\$63	\$80
2.6	\$41	\$58	\$74
2.8	\$38	\$54	\$69
3.0	\$36	\$51	\$64

Outstanding Debt in 2021: \$2.1 M

The debt capacity should be sufficient to meet the anticipated cost of the buildout of the protective infrastructure assuming a 25 year build out period rather than the 10-year schedule. The need to issue debt will drive some rate increases over the next 10 years in order to maintain the targeted debt coverage ratio of at least 2.0.

#### Conclusions and Next Steps

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

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

The Stormwater Enterprise Fund has a significant amount of capital investment required to complete the initial buildout of all the needed infrastructure. Given the high operating ratio (operating income / operating revenue) and the amount of capital investment needed, this utility will require the issuance of significant debt over the next 25 years as this initial infrastructure is built. Modest rate adjustments allow for some increase in the debt capacity of this Fund but not enough to accelerate the build out. Timely debt issuances will allow for rates to remain close to current rates while completing build out over the next 25 years. Funding the Stream Rehabilitation Program at a higher level of investment could allow for 25 years of such work to be completed in 16 years.

The electric utility portion of the Light & Power and Telecommunications Enterprise Fund has an increased level of capital investment primarily driven by anticipated annexations which will require a new substation and associated equipment. Tightly managing the operating expenses will be necessary going forward to ensure

adequate operating income is being generated to meet system renewal needs with modest rate adjustments. The climate action goals set by both the City and Platte River Power Authority will require rate increases as well during this same time period. A single debt issuance is anticipated as being necessary ahead of beginning the Mulberry annexation conversion work.

## **DISCUSSION / NEXT STEPS:**

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

Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-42 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements.

Kelly Ohlson; The \$568M showing in Stormwater – when was the last time Council had a look at what we are spending this money on?

Lance Smith; we typically do that ahead of the bi-annual budget process, so we would have done that in 2019 anticipating a 2020-2021 budget so that would have been the last time.

Kelly Ohlson; I would love to review those materials and what was agreed to as far as the \$58M. Downtown flood protection that I am not convinced of but am open to being convinced – concerned we may be overengineering a bit – if I approve rate increases, I want to feel comfortable with what it is we are doing.

Stream rehab – pleased that you are upping the game –in the last 9 years we have done 1 mile of stream restoration – if we have 18 miles to do ... timeframe -

Stream restoration – a lot of this was done with destructive practices – stormwater protection

Lance Smith; the follow up materials for the \$500M – I will come back to Council Finance next month to talk about the other two utilities and will try to wrap it all together and provide some of that detail behind what is in the CIPs

Theresa Connor; the first projects that we have done are definitely the most complicated and complex and the most severe erosion – we have learned a lot – stream rehab is a bit of an art to the local streams – react to local conditions and do it well – I think we can move faster as moving forward we may be able to combine projects – and they are less severe – we took some time to do it right and started with the most complex

Matt Fater; our priority system – we did the most extreme sections of the streams first – the 4 projects – from there we prioritize – less complex as we move through the program – the additional funding gives us the ability to combine sections of stream with our design and construction practices.

Kelly Ohlson; grateful that it made the list of council priorities – thank you for the additional information

Emily Francis; I actually have a question for Kelly - he alluded to something about downtown in the stormwater projects – can you provide some additional background

Kelly Ohlson; in the past we have had the chance to look at this a lot – some of the projects although not intentionally we spent \$10s of millions to make sure that someone didn't get water in their basement -real dollars – would like to be convinced of the need – in the past often times I was not convinced

**ACTION ITEM:** Emily Francis; one thing that would be helpful for me is to look at the projected increases for all utilities in one place so we can look at those together as a stack and what that will look like for our customers over time – for the second part of our conversation next month.

**ACTION ITEM:**

Julie Pignataro; would be helpful to see a layered map of all of the utilities and who gets what - GIS

Are we planning to put new programs in place or expand existing assistance programs to help community members who need help as these increases are rolled out – does this all come at the same time? I just want to make sure that when we talk about increases we are talking about this as well.

Lance Smith; that is certainly something we are always trying to be mindful of. There is some room in the rates – 5% ceiling – asking for 2-3% there could be additional funds that could help those customers.

**ACTION ITEM:** Julie Pignataro; interested in the standardized process you are developing to use to prioritize our capital investments – that could be a 1:1 meeting

Julie Pignataro; What happens if Council decided not to go forward with a proposed increase? Has that ever happened?

Lance Smith; I have been with the city for 10 years and two weeks into the job I was advocating for an 8.3% increase in electric rates and a 7% increase in wastewater and a 6% increase in water and Council did approve them but there was a lot of discussion – my takeaway was that we needed to do a lot more long-term planning to mitigate these larger increases by doing more long-term planning and maybe more frequent but smaller rate adjustments.

Julie Pignataro; in the materials it says;

‘The amount of anticipated capital investment is much greater than what has been made over the previous decade.’

Did something happen or not happen that makes this statement true?

Lance Smith; CIPs have increased partly in L&P is making it much more comprehensive, so there is work around the Mulberry Annexation that wasn't in previous CIPs. On the Stormwater side there is some capital work, but we are also recognizing that costs are increasing – it is kind of a combination.

Kelly Ohlson; piggybacking on what Julie said – I thought it said our plans for stormwater in 2019, \$374M and in 2021 it is \$568M – that is quite a change in 2 years

Lance Smith; that trend is cautionary – primarily increased costs of projects but there are some new projects in there

Matt Fater; a lot of the cost increase is related to increase in construction costs and we have been updating our master plans over the last few years – though that process, new projects are identified and are included in the CIP.

Julie Pignataro; do we expect because of climate emergency and with more intense storms there will be more pressure on our stormwater system?

Theresa Connor; we discuss this frequently – with our design storm which is pretty up to date with the local analytics from NOAA and others – with that 1% chance of occurrence - the statistics around it are fascinating – we haven't seen movement on increasing that design storm from what we have but what we see communities

doing because of the peaks and valleys and because the extremes are happening more often – we see them adding green infrastructure and LID (Low Impact Development) to add in some capacity to those design elements and make sure the community is protected through the unknowns of what will happen with climate change. That is how we see communities addressing the unknowns of what will happen with climate. You use that 100-year design storm and then add in some additional infiltration capacity through green infrastructure to help absorb the impacts.

Matt Fater; I will add that the design storm is really based on historical data and in the stormwater field there is discussion of what the next 50 years of data is going to look like - we are watching that as we update our statistics – there is some speculation that the design storm may increase over time.

Julie Pignataro; we have a 2% stormwater increase – 0% in 2022, 2% in 2023, 2% in 2024 and then moving forward it is 3-5% range - why wouldn't we do a consistent percentage increase like 2.5% in 2023 and 2024 instead of larger increase jumps - to smooth the burden

Lance Smith; we could smooth that out – rate smoothing – sometimes Council says let smooth rates and sometimes they say no

Julie Pignataro; annexation has come up a lot in different recent conversations – I think our direction to staff is that we are still in an exploratory phase but everything I see is that it is a foregone conclusion – I have yet to see anything come forward that shows this is a fantastic idea. Can Tyler or Kyle give me a brief rundown of where we are in terms of annexation?

Tyler Marr; because of the gravity of the decision, which is solely Council's to make around timing and scope – it is really about ensuring we have accurate information to plan for that - certainly not ever the intent that it be recognized as a foregone conclusion - it is just recognizing the burden it could place on various existing systems because we now are past the threshold in ability to annex - we can forecast with assumptions that are of course Council's prerogative to change.

Julie Pignataro; no need to change it – I just wanted to make sure I hadn't missed something.  
Question around stream rehabilitation, is part of what we need to rehab due to fires?

Theresa Connor; no, this is an urban area so these are our urban streams, activity can cause erosion, making sure the creeks are stabilized and provide good aquatic habitat for stream rehab- mainly the tributaries

Kelly Ohlson; construction costs / inflation - Could add inflation to the information requested year over year?

Lance Smith; I am planning to provide a rate forecast but also where rates have been – are you asking for us to do the same information for development fees?

Kelly Ohlson; If our rates are 2 and inflation is 3.5 - it is not like we are raising fees to make money to fund police or fire - look at inflation - it is not 1 to 1 – thought it would be helpful to add and wouldn't take much time to find.

## B. Natural Areas Land Acquisition Financing

Blaine Dunn, Accounting Director

November 23<sup>rd</sup> Work Session related to the Hughes land purchase.



### Objectives

2

- Review options for financing the acquisition of Hughes parcel
  - Financing Mechanism(s)
  - Source Fund(s)
- November 23 Work Session to review policy and engagement approach, inclusive of financing

Other concurrent priorities:

- Review additional Natural Areas acquisitions in the pipeline
- Financing of Golf irrigation improvements



### Ballot Language

3

"Shall the City enact an ordinance requiring the City Council of the City of Fort Collins to immediately rezone upon passage of the ordinance a 164.56-acre parcel of real property formerly home to the Hughes Stadium from the Transition District to the Public Open Lands District, and requiring the City to acquire the property at fair market value to use said property for parks, recreation, and open lands, natural areas, and wildlife rescue and restoration, and further prohibiting the City from de-annexing, ceasing acquisition efforts or subsequently rezoning the property without voter approval of a separate initiative referred to the voters by City Council, and granting legal standing to any registered elector in the City to seek injunctive and/or declaratory relief in the courts related to City noncompliance with said ordinance."

- Natural Areas funded through dedicated sales tax
  - City sales tax of 0.25% (Open Space Yes!) – Currently set to expire in 2030
    - \$9.25M– Current yearly projection of tax generated by quarter cent tax
  - County sales tax – Currently set to expire in 2043
    - \$5.0M – Current yearly projection of tax received through County
- Natural Areas purchases land parcels every year
  - 46,900 acres have been conserved to date
  - From 2004 through 2020 have spent between \$192k - \$19.7M per year on acquisition
- Previous Natural Area land purchases using debt financing
  - Bobcat Ridge Natural Area- \$6.0M
  - Soapstone Prairie Natural Area- \$13.5M

- Old Hughes stadium site
  - Purchasing from CSU per April 2021 ballot measure
  - Current agreed upon price is \$12.5M
  - ***Recommend splitting cost of land across City Funds based on prorated land usage***
    - Options include Open Space, Developed Parks Facilities, Tribal Nations Land Back, etc.
    - Anticipate a robust public engagement process to understand community expectations
- Second larger Natural Areas land purchase to consider
  - Currently in discussions with landowner
  - Projected cost of \$6M – \$7M to be paid over 3 years
- Irrigation improvements at Southridge Golf Course -- \$3M



- Option 1 – Cash financing
- Option 2 – Debt finance both purchases
- Option 3 – Hybrid cash and debt financing

Projected 2021 Fund Balances based on revenue and expense projections through September 2021

General Fund				
	2021	Appropriated, Min. Policy, or Scheduled	Available but with some Constraints	Available for Nearly Any Purpose
Non-Spendable	\$ 2.9	\$ 2.9		
Restricted	22.0	7.3	14.7	
Committed	0.6	0.4	0.2	
Assigned	51.6	50.2		1.4
Unassigned	10.4			10.4
	<b>\$ 87.5</b>	<b>\$ 60.8</b>	<b>\$ 14.9</b>	<b>\$ 11.8</b>
Natural Areas Fund				
	2021	Appropriated, Min. Policy, or Scheduled	Available but with some Constraints	Available for Nearly Any Purpose
Restricted	\$ 14.9		\$ 14.7	
Assigned	0.5	0.5		
	<b>\$ 15.4</b>	<b>\$ 0.5</b>	<b>\$ 14.7</b>	<b>\$ -</b>

Denotes Amounts Available to be used for Land Purchase

- Hughes property would be cash financed according to land usage
- Second land purchase would be cash financed by Natural Areas
- Golf would be deferred to a future debt issuance
- 50% / 50% scenarios would contribute \$6.25M each from General Fund and Natural Areas, true up once land use determinations are made
- Natural Areas covers full cost of second land purchase \$6-7M over 3 years with ongoing revenue

- \$22M – borrowed for Hughes, additional property, and golf irrigation; 20-year term debt
  - Larger offering can be more attractive in the market
  - General Fund would pay debt service for portion of Hughes purchase
  - Natural Areas would pay debt service for remaining Hughes balance and all of second property
  - Possibly include contingency in offering documents related to 2030 ballot renewal of Open Space Yes!
  - Recommend including Golf irrigation financing
- Debt Service
  - 20-year term
  - 2.31% interest rate (Current Aa rates + 0.5% buffer)
  - \$1,386k per year total debt service
    - \$787k for Hughes, funded by Natural Areas and/or General Fund
    - \$410k for additional parcel, funded by Natural Areas
    - \$189k from Golf

- \$11.5M – borrowed for Hughes property
  - Natural Areas and General Fund would each contribute \$2M cash
  - Remaining land debt service would be split between Natural Areas and General Fund
  - Include Golf irrigation financing

Additional land purchased by Natural Areas utilizing ongoing revenue

- Debt Service
  - 10-year term
  - 1.95% interest rate (Current Aa rates + 0.5% buffer)
  - \$1,277k per year total debt service
    - \$944k for Hughes funded from Natural Areas and/or General Fund
    - \$333k from Golf

Risks to depleting Natural Areas Department reserves

- Lack of funding for future priority land acquisitions, habitat conservation, restoration, asset management, and trail connections
- Compounds existing challenges within operations and maintenance funding

Costs to restore and open Hughes to the public

- Current low habitat value and compacted soils means higher than typical restoration costs (\$2.4 M/ 140 acres)
- Amenities to be determined by public engagement process
  - Typically provided- soft surface trail, vault toilet, trailhead kiosk, and parking lot (\$400k)
- These additional costs could be included in a debt financing

Risk to depleting General Fund reserves Council Priorities, Strategic Plan, etc.

Pursue hybrid financing option:

- Upfront payments toward Hughes from General Fund and Natural Areas at \$2M apiece
  - True up payments across Funds pending land use determinations
- 3-year payments from Natural Areas at \$2.2M per year
- Borrow \$11.5M at estimated 1.95% for 10-year term
  - Payments of \$1.277M per year
  - \$333K of payments from Golf
  - \$944K of payments from Natural Areas and General Fund pending land use determinations

#### DISCUSSION / NEXT STEPS;

Julie Pignataro; is Natural Areas a type of Open Space?

Zoe Shark: Natural Areas are defined - there is a specific definition in the 1041 regulations. - Open Space is a broader term and there is not a city definition. Part of the public engagement is clarifying 'when you said you wanted more open space, what does that look like to you, to the community?'

Julie Pignataro; so many people use these terms interchangeable – Are golf courses considered open public space?

Zoe Shark; Parks and golf courses are "Public Open Lands"

Julie Pignataro; Public open land is the zoning - I applaud how much engagement the city does.  
Do our golf courses pay for themselves?

Victoria Shaw; our golf courses are enterprise funded which means that they do fund themselves and they will repay the General Fund for any administrative services that we provide. In this case, we are adding in the bonding for the irrigation system at Southridge which will be repaid out of golf revenues. This was a need that was recognized several years ago in terms of needing financing for this and this is an attractive option with the right timing.

Blaine Dunn; in the past we have done similar things in the past with tagging golf course projects to other debt financing packages.

Julie Pignataro; are the irrigation upgrades going to save water?

Victoria Shaw: yes

Julie Pignataro; I don't want to delay the golf irrigation as we need to conserve water which is such a precious resource - I appreciate all of the information you have provided. I believe the other Councilmembers will have a lot to say about these options as well. Do we know how much debt the city has?

**ACTION ITEM:**

Blaine Dunn; we keep a very close eye on that, and I will follow up via a memo as we like to keep our enterprise and governmental debt separate both from a policy and from a disclosure standpoint. Governmental debt is roughly \$37M

Blaine Dunn; we were scheduled to bring our Debt and Investment Policies forward at this meeting for your review, but that topic was moved to accommodate this specific item. We do have some policies in place including that we won't have more than 4-5% of the General Fund committed at any time for the governmental side.

Kelly Ohlson; staff recommendation - 3 years payment from Natural Areas go to second land parcel – we would recommend no debt financing for the second parcel - funds will be made whole over time

Kelly Ohlson; We don't know what part of this will end up as part of the Natural Areas portfolio. I like the true up of funds based on land use determination and I want to make sure that is very clear and in writing when we move forward with this land deal. What are the 3-year payments from Natural Areas of \$2.2M per year if we are starting with the 50/50 option and then truing up later?

Blaine Dunn; we could have made that bullet more clear - the 3-year payments from the Natural Areas fund are purely to go to the 2<sup>nd</sup> land parcel purchase. If this is a hybrid option we would recommend not debt financing the 2<sup>nd</sup> land parcel at all - that Natural Areas would pay for the 2<sup>nd</sup> land parcel as they are planning to do now.

Kelly Ohlson; I am good

Emily Francis; next time, can you put all 3 options in a table so we can see that all at one time?  
I like the staff recommendation. Where are we using it for? Where is it coming from? We will need to talk about any trade-offs as a community.

Shirley Peel; what would a tribal land bank initiative actually look like?

Tyler Marr; that is partly why we have a work session scheduled on November 23<sup>rd</sup> – outlining what an engagement effort would look like for all stakeholders including the indigenous community, Recreation and Natural Areas stakeholders - including clarity and timing of what that might look like.

Blaine Dunn; we wanted to come to Finance Committee prior to the Work Session since it is a rather large \$12M purchase.

## C. 2022 Long Term Financial Plan

Zack Mozer, Analyst II, Financial Planning & Analysis

Dave Lenz, Director, Financial Planning & Analysis

### EXECUTIVE SUMMARY

The City updates the Long-Term Financial Plan (LTFP) outlook every two years as part of the Strategic Planning Process. The objective is to highlight potential challenges facing the City and aid in philosophical decision-making on strategies that span the longer term (5 – 10 plus years). Over the past two years, the City was faced with unprecedented levels of uncertainty related to the COVID-19 pandemic. As a result of numerous management activities that curtailed spending, and a quicker than anticipated economic bounce-back that kept revenue losses to manageable levels, the City's finances remain in excellent condition. Moody's just re-affirmed the City's Aaa credit rating in October.

In spite of the near-term conditions, the City still faces significant challenges to its' finances as it looks forward – primarily associated with future funds for park life cycle and maintenance costs; transit and other transportation infrastructure; affordable housing options and other asset management needs. This update to the LTFP will contemplate the impacts of taking on these additional expenses and explore options to fund these programs and services. The 2022 LTFP provides a Baseline Scenario and builds up three additional scenarios.

- Baseline Scenario:
- Scenario A: Adjust for Historic Budget Underspend
- Scenario B: Added Services, Life-Cycle and Maintenance Costs
- Scenario C: New Revenue Sources – Gap Closure

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

Does Council Finance Committee have any questions related to the 2022 Long-Term Financial Plan?

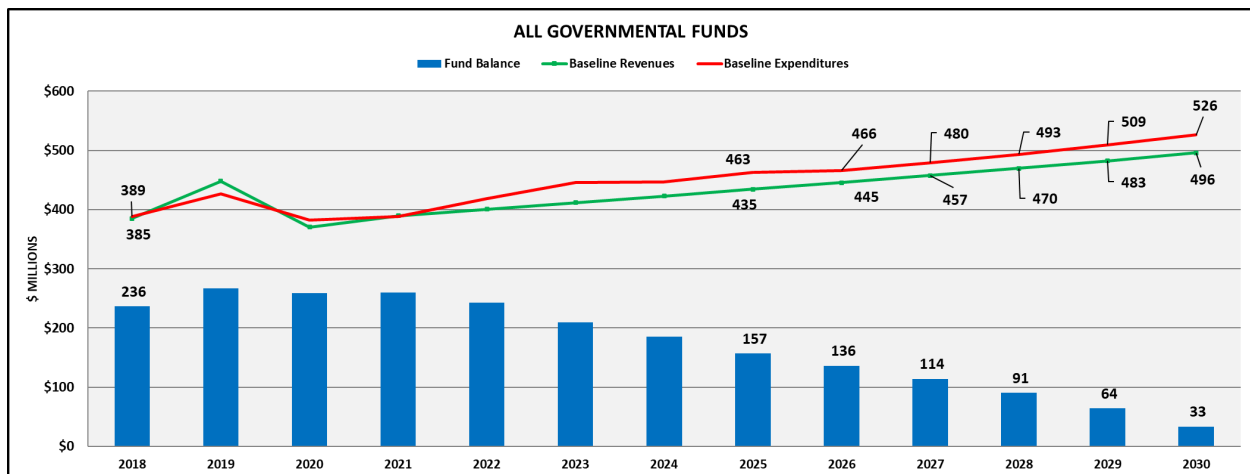
### BACKGROUND/DISCUSSION

The LTFP Baseline Scenario assumes current operating conditions and service level delivery, as well as no outlier impacts. The COVID-19 pandemic, a true, Black Swan event, has been one of these impacts but is not something that was "expected" to occur in long range planning models. However, the near-term impacts and City responses to the pandemic are factored into the current LTFP update. The underlying analysis utilizes historic data from the past 21 years, macroeconomic outlooks, correlation analysis and unique drivers at an organizational level to provide a view of what leadership needs to plan for the long-term growth of the city.

#### Baseline Scenario:

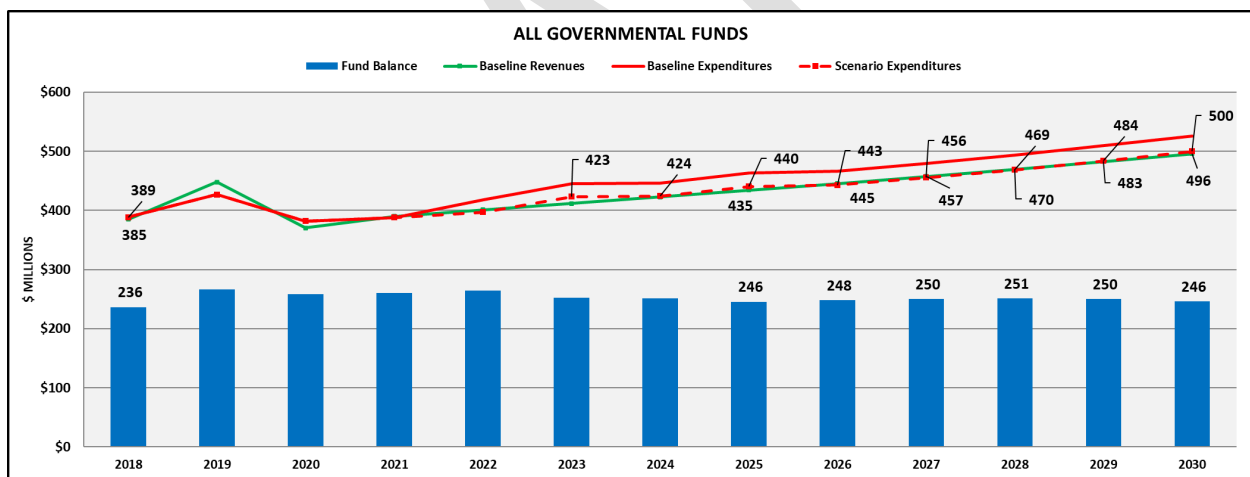
In comparing the prior 2020 LTFP with the current 2022 LTFP, there has been an improvement in overall fund balances which was primarily realized in the difference between the both the 2019 and 2020 forecasts vs. actuals results. This was caused by additional revenues in 2019, as well as the 2020 COVID-19 cost containment efforts that overcompensated for the actual revenue shortfall. Additionally, this established a new baseline from which to project estimates going forward, thereby improving the long-term outlook.

The Baseline Scenario also assumes underspend and higher revenues vs. the budget to maintain overall governmental fund balances by year-end 2021. 2022 utilizes the City Manager recommended budget for revenues and expenses as the starting point to forecast into the future. Presented below are the yearly revenue and expense projections, with the resulting year-end fund balances.



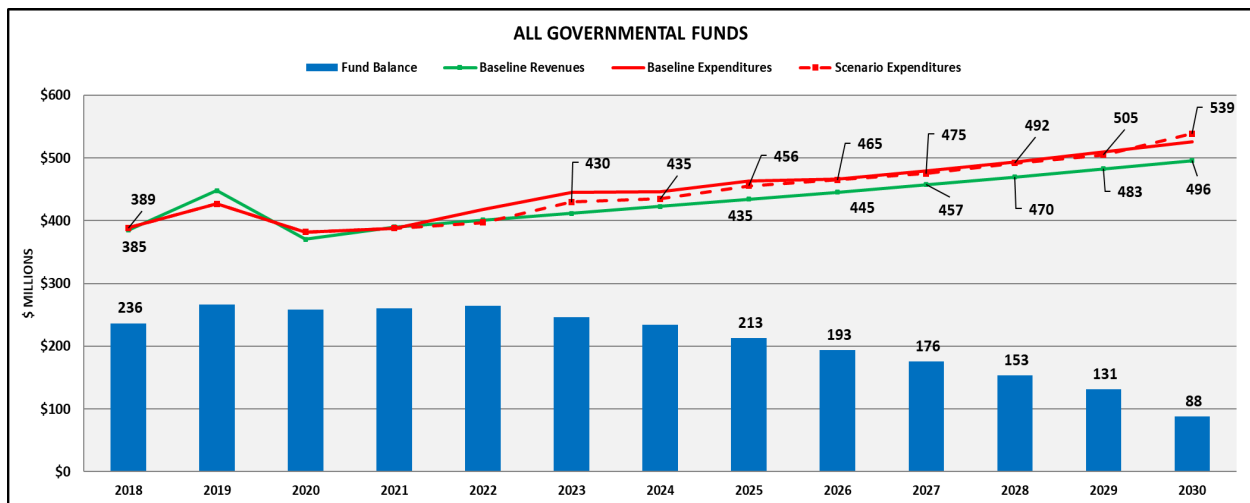
### Scenario A: Adjust for Historic Budget Underspend

In looking at the City's historical financial data, there has been an approximately 5% average underspend vs. budgeted expenses each year. Given the nature of our budgeting process, whereby we may not deficit spend above expected revenues and available reserves, this result is not unexpected. By removing this budgeted 5% from the analysis, the Baseline Scenario is adjusted, and the resulting fund balances are stabilized at much higher levels.



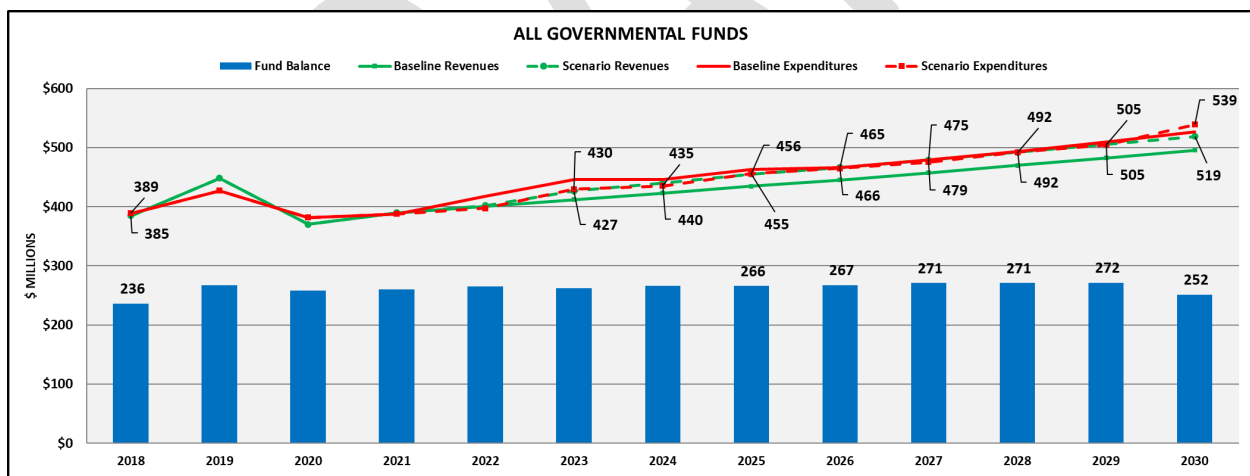
### Scenario B: Added Services, Life-Cycle and Maintenance Costs

As has been highlighted in the current 2022 Budgeting For Outcomes (BFO) process, significant offers for asset management, maintenance costs, capital refreshes and other initiatives were not all able to be funded. This scenario adds in specific project costs to account for identified needs such as parks refresh, transit additions, affordable housing, City Hall refresh and future commitments on new neighborhood parks and Community Parks. In total, these projects add approximately \$160 million in cumulative expenses by the year 2030.



### Scenario C: New Revenue Sources – Gap Closure

In addition to cost containment, the potential solutions to the funding shortfalls from Scenario B include exploring new revenue streams. The City has put together a cross-functional working team to investigate the feasibility, impacts and timelines for a wide variety of alternatives. For illustrative purposes here, Scenario C below includes the impacts of an incremental 0.25% Sales Tax increase, a property tax mill addition and an added maintenance/improvement use fee to support ongoing maintenance for parks and neighborhood livability. The impacts from such measures provide greater stabilization of overall fund balances.



The City has significant, unfunded longer-term operating cost and capital needs. While the City has a long track record in successful delivery of world class services to its' stakeholders, it likely will require additional revenue streams to address some of the items highlighted above. Longer term degradation to service delivery is a risk if these needed investments continue to be deferred.



## **DISCUSSION / NEXT STEPS;**

Kelly Ohlson; I am assuming that we are going to get a lot more data at some point – for example with transit – we get some comparison of what we would do with additional money -routes - how much it costs per rider -we are a long way away from deciding what amounts, etc.

Dave Lenz; that is exactly true - along the way and going back multiple planning cycles we have identified certain things. I will look at Parks as an example - we have been identifying short falls and needed long term infrastructure support needs in that group but before we put forward anything to voters, any consideration that we will raise more money to support these things there will be much more hashed out with full detail – the whole process here is to help tee up the things to be discussed and identified from the Strategic Plan – this is on the front end of the Strategic Plan and then rolling into the full budget process. There are multiple iterations of vetting and process to come for prioritizations etc.

Kelly Ohlson; assuming you are not looking for even our 5% cursory thoughts on sales tax vs. property, vs maintenance and improvement - that is for many discussions to come – that you are not specifically looking for direction on those

Dave Lenz; that is correct – not looking for any A vs B in terms of solution today on revenue generation specifically, we will have another full kick off of that next month at Council Finance to start to frame those discussions and potential approaches - we are not proposing or advocating

Kelly Ohlson; it would help if we just said additional revenue sources will likely be required to fund long term service level delivery at ‘appropriate’ levels rather than ‘world class’ levels. We need to determine what is appropriate for our town – and that might be in most cases better than most comparable cities - those phrases set me off a bit. A wording change  
Also, the funding around neighborhood and community parks - I am assuming it is to move up construction but historically we do them fee based – so we build them as fees come in and accumulate to a certain level  
I am assuming this means you want to use the General Fund to build them earlier than we have ever done in the past.

Dave Lenz; a fee structure based on collections are meant to do exactly as you said - with a project that is out in the future - those construction cost / inflation impacts are greater in the near term - so some of those costs we talked about specifically – we are facing the same challenges as what Lance mentioned earlier on the utility side - in terms of timing and scope that is a project that has been slated in a schedule and is continually being revisited - we are realizing in our projections that there may be some cost pressures that are bigger than we had initially thought – the bigger part too is the maintenance and ongoing support for the continual refresh of the suite of assets, we have across the city – that is the pressure that is unfunded right now

Kelly Ohlson; to confirm understanding, historically we have built neighborhood and community parks when the fees have accumulated and we had the money in hand – you want us to explore the possibility, because of the cost pressures of accelerating the development and building of a park or two - that would be made whole by the fees that are coming in because you think we would save money in the long run because it would be cheaper to do now - I am not talking the refresh, I am talking construction of new parks.

Dave Lenz; we are not suggesting pulling something forward from its proposed schedule, that is not what we are suggesting here

Kelly Ohlson; ok, it is that they are going to cost more than we think they are, more than the fees will generate

Dave Lenz; potentially, and the issue is which is continually going to be looked at in terms of what those expectations are, the growth pressures and the timing of such. We are suggesting that those pressures are higher given the current inflationary environment that we see.

Blaine Dunn; I think Councilmember Ohlson is looking at the bullet at the top of page 77 of the packet (see last bullet below) build up schedule of new neighborhood and East Community Park.

- 
- **Increased Costs for Parks Life Cycle needs. Build up to \$7M in excess of baseline in 2026 and grow at 4% per year.**
  - **Additional Transit related costs. Build up to \$2.5M in excess of baseline in 2026 and growth at 4% thereafter.**
  - **Debt Service for Civic Center Campus (Block 32/42) assumed ~\$4M per year starting in 2025.**
  - **Affordable Housing assumed ~\$5M per year starting in 2023; growth at 3% per year.**
  - **Build up Schedule of new Neighborhood and East Community Park**

The build-up schedule - What is that bullet driving within the model – what are we looking at?

Zack Mozer; the intent was to build a neighborhood park every other year for approximately \$2.5M Every 10 years, a community park – based on the schedule that is in place right now – we are not advocating changing it in any fashion - incremental cost above the base line

Emily Francis; when we are talking about additional revenue sources such as increasing taxes - At what point do we talk about the trade offs between world class and appropriate service levels? Before we refer anything to the voters we need to understand what those differences are. When do we talk about those trade offs and what the differences look like?

Dave Lenz; this is part of the process of why this is done on the front end of the strategic planning discussion and updates and the cycle that leads into our biannual budget process so the whole intent of highlighting things in this format is to start that dialog about what are we going to focus on? What are the strategic objectives and other measures and bring that together with the council priorities? How are we going to address that equation as we go into both the strategic planning portion which is the 5-10 year look and the biannual budget that comes at the back end of that.

Kyle Stannert; this is definitely a level of service conversation. We are in the middle of the natural cycle of how we do budgeting – we have the priorities from the Council, and we are moving into strategic planning which will inform our budget and other decisions past that - a great question. In these conversations that will be coming to Council Finance and to the full Council and to work sessions as well.

Blaine Dunn; starting now for input and will start coming to Council in various forms early next year. Adoption date is March 15<sup>th</sup> but there will be multiple sessions / work sessions prior To get inputs to the plan.

Emily Francis; remembering level of service and what that actually means - Be clear on what we are talking about - Thinking about what that means between world class and appropriate sometimes get lost in that conversation.

Kelly Ohlson; Most of us want to do everything really well but in order to do that you have to raise sales tax, property tax and add fees to achieve world class. That is why we want to have this discussion on what is appropriate versus world class – the cost is much greater to lower income folks than it is to higher income folks.

Shirley Peel; thank you for this presentation – I know we have a plan and are going somewhere with it - so appreciate this.

Kyle Stannert; for those of us that are joining what would have been the middle of a two-year budget process – this is the conversation that helps frame that so that as you are looking at budget proposals you understand those tradeoffs and projections. We are on the cusp of getting back on track and I think that will be helpful for everybody.

Meeting Adjourned at 4:58 pm



## COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

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

**SUBJECT FOR DISCUSSION –** Utilities 2021 Capital Improvement Plans and Strategic Financial Plan Updates for the Water and Wastewater Utilities

### **EXECUTIVE SUMMARY**

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the Water and Wastewater Enterprise Funds. The Light & Power and Stormwater Enterprise Funds were presented for discussion in November. The 2021 Capital Improvement Plans (CIPs) and the 2021 Strategic Financial Plans for each utility are outlined. The resulting investment projections set the basis for beginning the 2023-24 Budgeting For Outcomes (BFO) cycle. The overall 10 year rate projections for both utilities is also presented here along with the forecasted debt issuance needs.

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

For the 2023-24 Budgeting For Outcomes process the table below summarizes the impact of the proposed rate increases for the average residential customer.

	2021		2022		2023		2024	
Residential Utility Cost	Baseline	% Change	Bill		% Change	Bill	% Change	Bill
Electric	\$78.14	2.0%	\$79.70		3.0%	\$82.09	4.1%	\$85.46
Water	\$49.03	0.0%	\$49.03		2.0%	\$50.01	2.0%	\$51.01
Wastewater	\$34.25	0.0%	\$34.25		2.0%	\$34.94	2.0%	\$35.63
Stormwater	\$16.78	0.0%	\$16.78		2.0%	\$17.12	2.0%	\$17.46
Total	\$178.20	0.9%	\$179.76		2.4%	\$184.16	2.9%	\$189.56

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

1. Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-42 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?

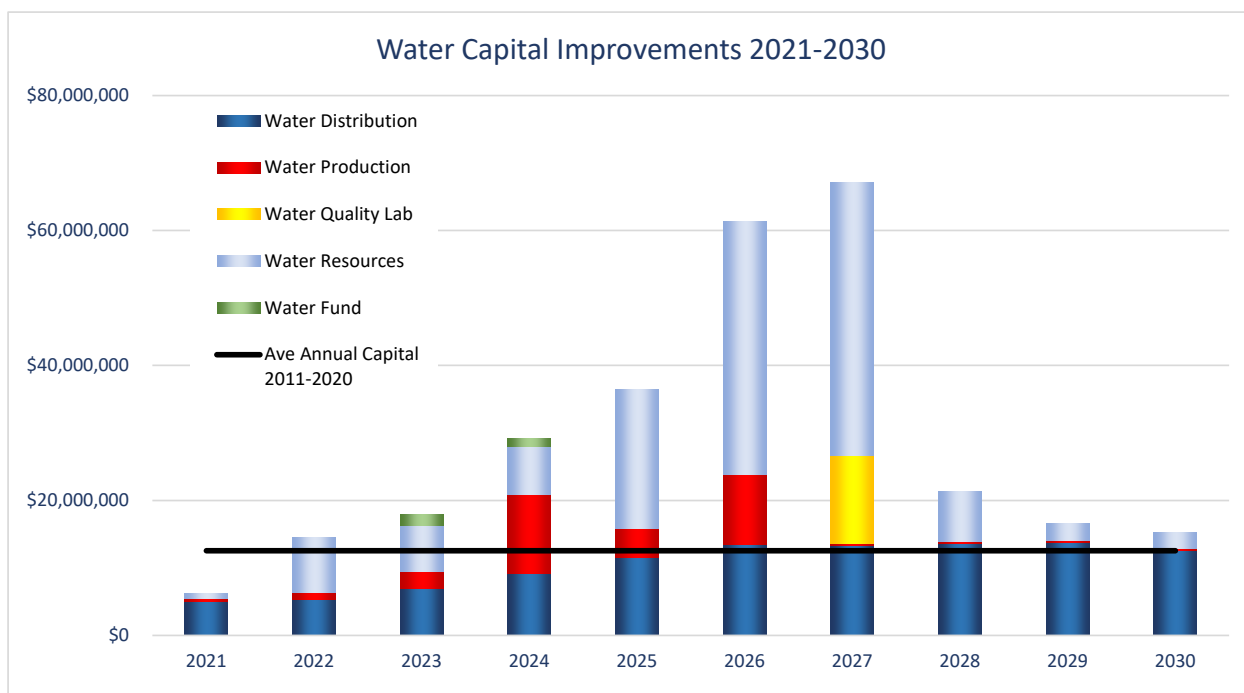
### **BACKGROUND/DISCUSSION**

This is a continuation of the discussion began last month with the presentation of the Electric and Stormwater utility financial plans and associated rate and debt forecasts. With this presentation of the Water and Wastewater utility financial picture, any feedback will be utilized in developing the initial 2023-24 budget offers. After discussing each of these two utility services, the comprehensive picture is presented and the forecasted impacts on customer utility costs can be seen. The feasibility of the financial paths presented is then discussed.

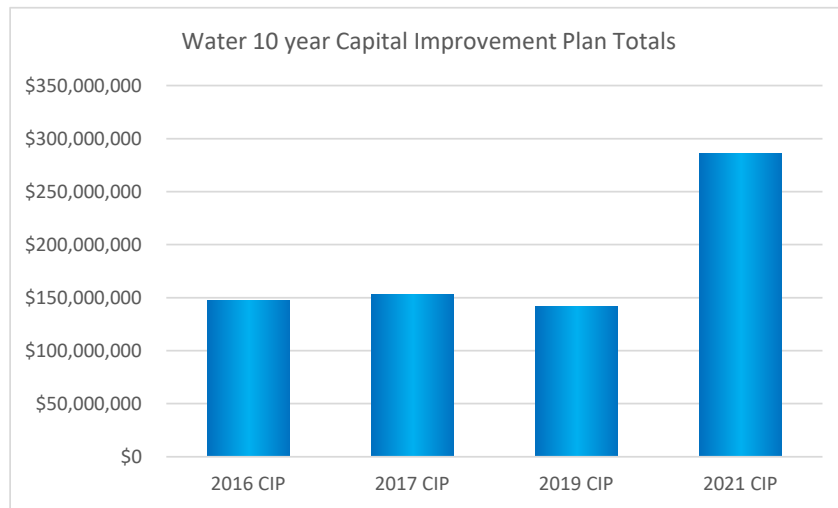
The confidence in the long term financial modeling that is the basis of these forecasts depends on the assumptions used in the modeling. Some of those assumptions are macro-economic assumptions around long term inflation, how inflation affects the cost of debt service through the associated interest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

## Water Enterprise Fund

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

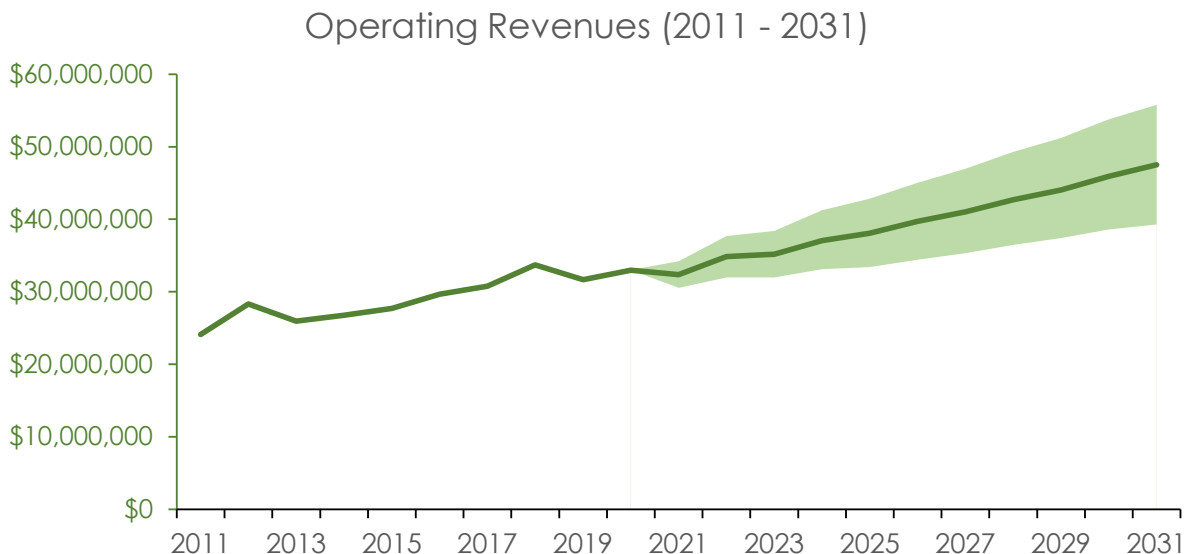


The 2021 CIP for Water has \$286M through 9 years and an additional \$72M beyond 2030. This is a significant increase in identified capital work over the 2019 CIP which had been stable to previous efforts. The 2021 CIP includes the additional funding needed for the Halligan Reservoir



## Water Operations

Operating revenues have grown modestly over the past decade through rate increases while total water sales have remained almost flat. Based on the projected revenue requirements for O&M and capital investment revenues are projected to grow at a rate slightly higher than the past decade at 3.9% compared to 3.6% since 2011.



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

Strong revenue growth in residential sales have increased operating revenues and thereby operating income over the past decade. This revenue growth is being driven mainly by rate increases as increased customer growth has been mostly offset by increased efficiency. The operating revenue growth is slightly below the annual rate increases suggesting that it is not realistic to expect to fully realize the revenue growth of a proposed rate increase.

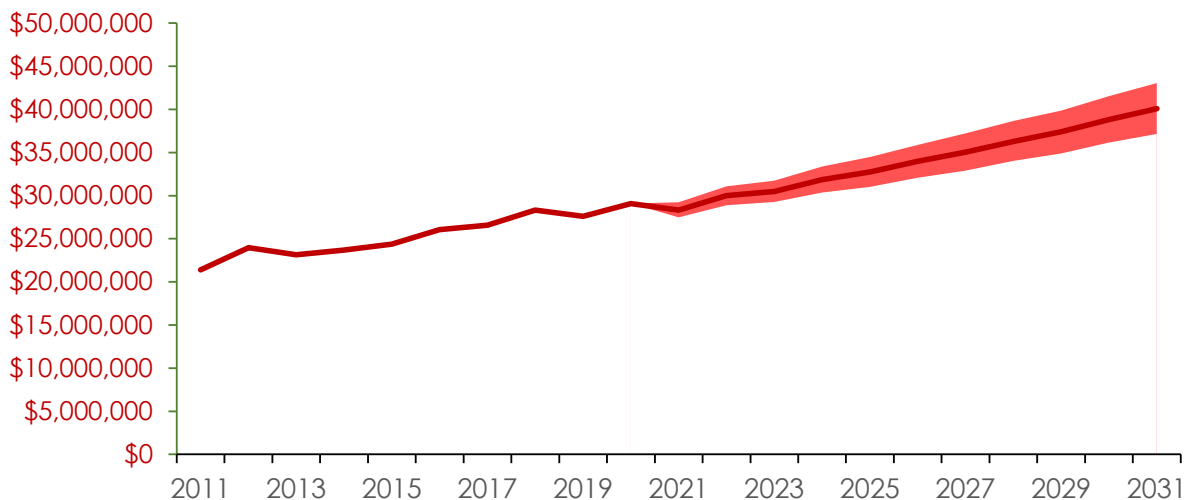
**FUND:**

502 - Water Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Customers	36,541	0.88%	0.71%	0.68%	0.65%
Annual Rate Adjustment	2.00%	2.70%	2.00%	1.67%	0.00%
Residential Water Sales	\$ 16,601,500	2.49%	3.28%	2.87%	7.15%
Com/Indl Water Sales	\$ 9,833,000	3.46%	3.05%	1.49%	1.35%
District Water Sales	\$ 1,890,100	8.19%	11.44%	8.52%	-7.59%
Other Water Sales	\$ 905,400	4.35%	2.56%	-5.94%	10.99%
PILOTs	\$ 1,701,000	2.84%	2.91%	2.19%	4.01%
Operating Revenue	\$ 30,931,000	3.13%	3.55%	2.35%	4.19%
Development Fees/PIFs/Contributions	\$ 1,780,000	-1.33%	-24.52%	-48.22%	-27.53%
Other Misc	\$ 255,000	5.03%	6.05%	-38.02%	5.99%
Internal Transfers In	\$ 250,000	7.11%	-14.30%	#DIV/0!	-45.78%
Non-Operating Revenue	\$ 2,902,155	-0.67%	-16.30%	-38.57%	-26.51%

Water O&M expenses have increased at an inflationary rate over the past decade. This has been achieved through active management. The rate and debt issuance forecasts in the plan assume that O&M will increase at a rate close to the rate of inflation of 3.5% annually through 2031.

### Operating Expenses (2011 - 2031)



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

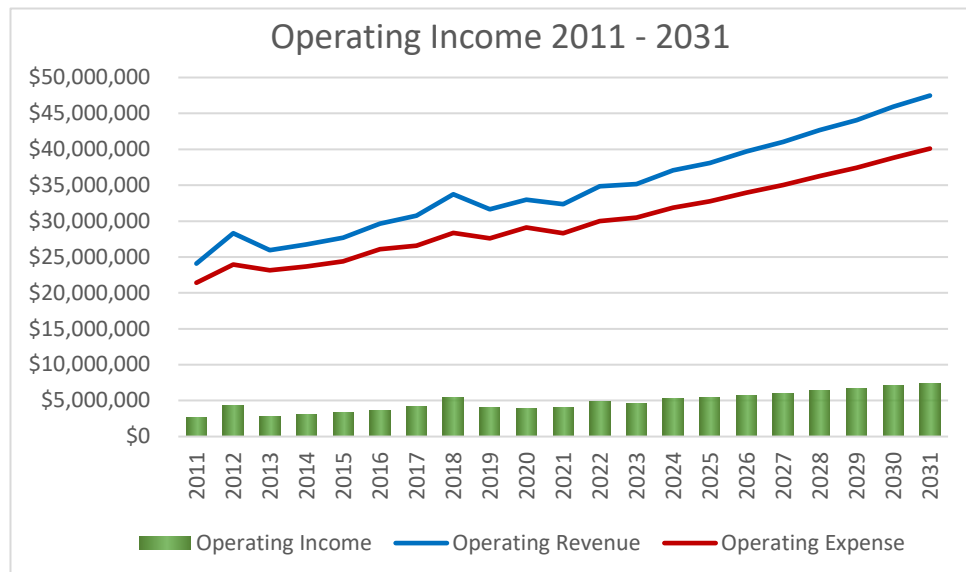
The table below shows the recent trends in expenses along with the relative size of each line through the 2021 budgeted expenses. Positive trends in engineering, metering and treatment are being offset by higher than inflationary increases in transmission and distribution as well as administrative expenses within the Utilities Service Area.



502 - Water Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Treated water delivered- acre feet	26,869		1.0%	-0.6%	4.5%
Water Treatment	\$ 10,524,490	1.7%	1.6%	-0.6%	-0.3%
Transmission & Distribution	\$ 3,063,802	3.0%	3.0%	6.0%	6.0%
Water Meters O&M	\$ 777,527	2.6%	0.8%	11.8%	2.9%
Engineering	\$ 955,161	17.2%	30.7%	-3.2%	-7.4%
Water Resources	\$ 3,623,845	6.6%	2.7%	-1.2%	0.7%
Water Conservation	\$ 1,117,086	12.8%	4.8%	4.8%	-4.4%
Water Quality Lab	\$ 1,103,031	2.4%	1.2%	2.5%	6.3%
PILOTs	\$ 1,701,000	2.8%	2.9%	2.2%	4.0%
Admin Services - CS&A	\$ 4,260,134	1.0%	7.5%	13.4%	15.9%
Admin Services - General Fund	\$ 871,248	0.2%	-0.1%	5.0%	2.5%
Other Payments & Transfers	\$ 1,336,228	-5.7%	-7.0%	-22.5%	-210.3%
Depreciation	\$ 7,500,000	4.4%	4.4%	2.8%	2.1%
<b>Total Operating Expenses</b>	<b>\$ 36,833,553</b>	<b>3.1%</b>	<b>3.6%</b>	<b>3.1%</b>	<b>5.5%</b>
Debt Service	\$ 188,224	-25.8%	-43.8%	-60.2%	-48.8%
Internal Transfers Out	\$ 415,206	#DIV /0!	13.3%	-7.5%	-0.4%
Minor Capital	\$ 2,341,433	5.4%	-13.2%	-17.3%	-6.3%
Major Capital	\$ 7,922,083	5.3%	-4.9%	-7.0%	34.2%
<b>Total Non-operating Expenses</b>	<b>\$ 10,866,946</b>	<b>0.8%</b>	<b>-9.2%</b>	<b>-13.7%</b>	<b>24.7%</b>
<b>Total Expenses</b>	<b>\$ 47,700,500</b>	<b>2.4%</b>	<b>-0.8%</b>	<b>-2.6%</b>	<b>9.9%</b>

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



## Water Rate and Debt Forecasts

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

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)				\$86.0			\$86.0			

The overall debt capacity of the fund is determined by the net pledged revenues and targeted debt coverage ratio. The table below shows the debt capacity at various coverage ratios as well as the current outstanding debt.

### Debt Capacity Estimation

Interest Rate: 2.50%

Net Pledged Revenue (5yr ave): \$17,729,600

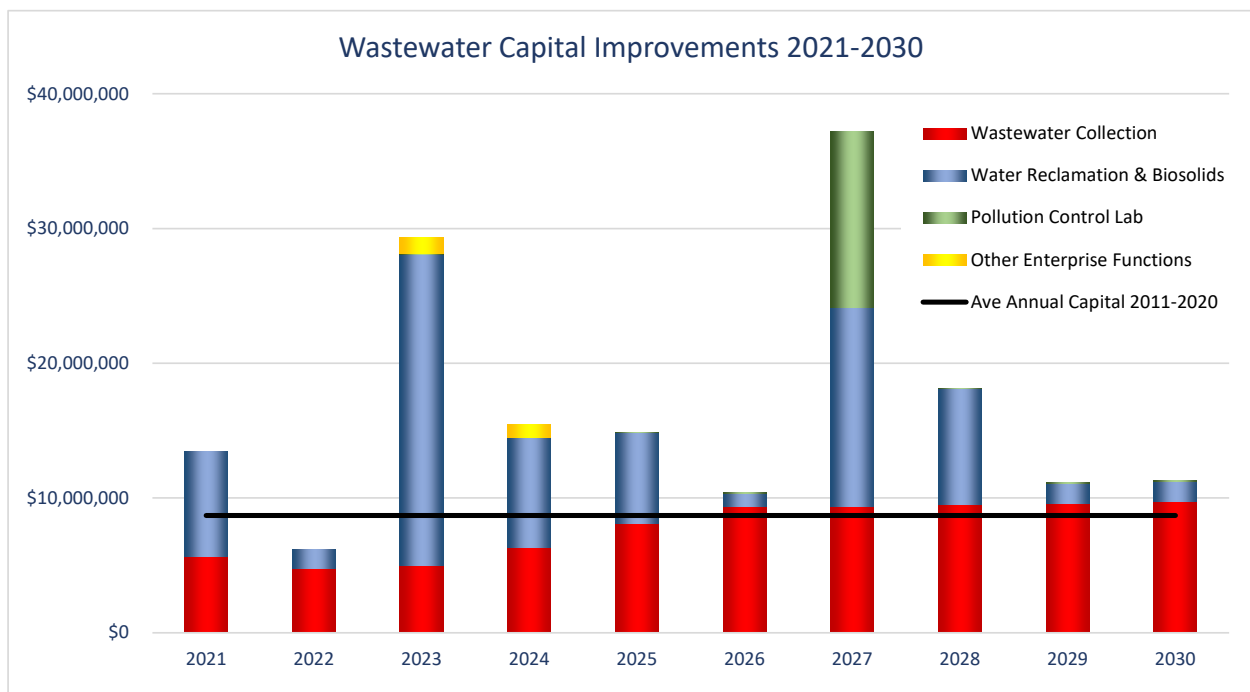
Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$155	\$219	\$277
1.2	\$129	\$183	\$231
1.4	\$111	\$157	\$198
1.6	\$97	\$137	\$173
1.8	\$86	\$122	\$154
<b>2.0</b>	<b>\$78</b>	<b>\$110</b>	<b>\$138</b>
2.2	\$71	\$100	\$126
2.4	\$65	\$91	\$115
2.6	\$60	\$84	\$106
2.8	\$55	\$78	\$99
3.0	\$52	\$73	\$92

Outstanding Debt in 2021: \$0.0 M

## Wastewater Enterprise Fund

### Wastewater CIP

The Capital Improvement Plan for the Wastewater Fund includes improvements necessary at both water reclamation facilities, a modern pollution control laboratory and a ramping up of investment in asset renewal programs for the collection system. Prioritization of the capital projects will need to be considered before the 2023-24 budget process to ensure investments are made where needed the most.



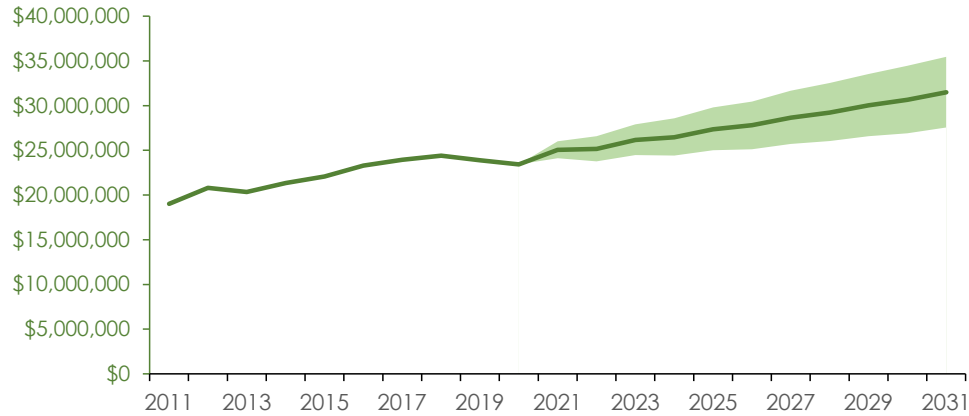
The amount of anticipated capital investment is greater than what has been made over the previous decade, consistent with what has been seen in the other utilities in 2021. This will require significant operational planning and project management to ensure that the bond revenue is utilized efficiently.



## Wastewater Operations

Operating revenues have grown very modestly over the past decade at 2.4% annually through some larger rate adjustments through 2012 followed by more modest and less frequent rate adjustments after 2012. Modest rate adjustments will be necessary to increase revenues in this fund as wastewater services are not metered but rather depend on the amount of water being consumed by a customer. Conservation efforts on water usage can negatively impact revenues for the wastewater utility.

Operating Revenues (2011 - 2031)



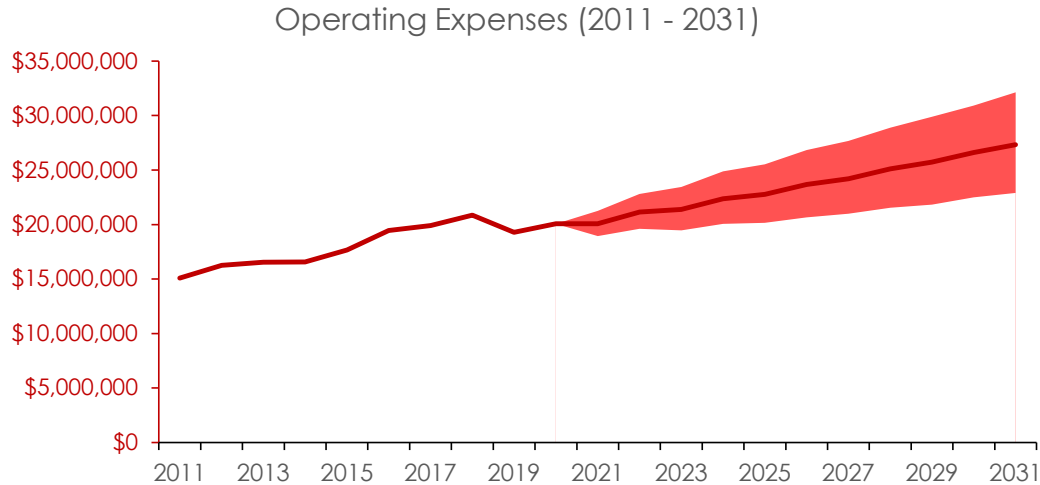
*The colored area represents the 80% confidence band around the expected operating expense.*

Almost no revenue growth in residential services over the past decade combined with reduced commercial wastewater demands has put rate pressure on the wastewater utility. The operating revenue growth is expected to increase only slightly in the coming decade through modest rate adjustments.

503 - Wastewater Enterprise Fund

		Budget				
Year		2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Average flow wastewater treated- million		15	#DIV /0!	-1.37%	-1.16%	0.00%
Annual Rate Adjustment		0.00%	3.20%	1.80%	1.00%	0.00%
Residential WW Sales	\$	15,750,000	3.29%	1.60%	0.58%	-0.26%
Com/Indl WW Sales	\$	6,200,000	-0.67%	0.24%	-4.16%	-7.17%
District WW Sales	\$	400,000	1.00%	2.00%	1.34%	0.61%
Other WW Sales	\$	200,000	2.37%	-1.86%	-0.08%	25.39%
PILOTs	\$	1,350,000	2.04%	1.28%	-0.76%	-2.03%
Operating Revenue	\$	23,900,000	2.05%	1.21%	-0.72%	-1.90%
Development Fees/PIFs/Contributions	\$	750,000	-5.13%	-11.98%	-28.03%	167.56%
Other Misc	\$	115,000	11.73%	25.56%	49.24%	497.86%
Interest Revenue	\$	369,638	-0.93%	2.26%	-2.62%	-36.78%
Non-Operating Revenue	\$	1,234,638	-2.41%	-6.20%	-18.35%	68.12%

Wastewater O&M has increased modestly over the past decade and is expected to continue to grow modestly at around the historical inflationary level of 3.2%.



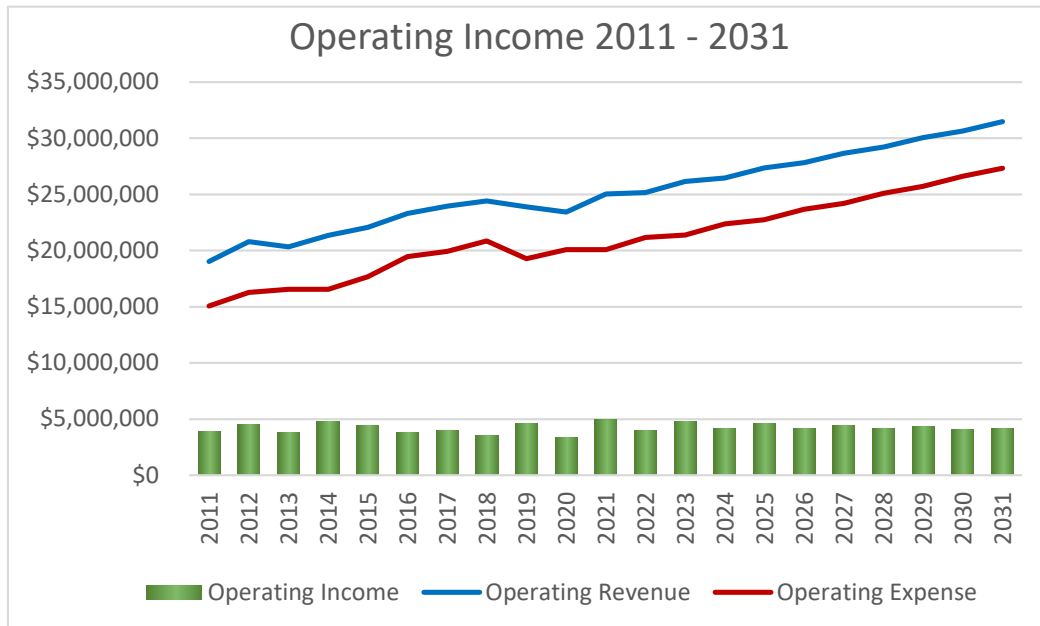
*The colored area represents the 80% confidence band around the expected operating expense.*

The table below shows the recent trends in expenses along with the relative size of each line through the 2021 budgeted expenses. Positive trends in engineering and treatment are being offset by higher than inflationary increases in trunk and collection as well as administrative expenses within the Utilities Service Area.

#### 503 - Wastewater Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Water Reclamation & Biosolids	\$ 5,768,036	2.1%	2.1%	0.1%	-2.4%
Trunk & Collection	\$ 1,643,171	1.6%	3.7%	1.7%	12.8%
Engineering	\$ 846,422	16.3%	27.5%	-2.5%	-11.6%
Pollution Control Lab	\$ 1,255,183	0.7%	1.3%	0.4%	3.6%
PILOTS	\$ 1,350,000	2.0%	1.3%	-0.8%	-2.0%
Administrative Services					
Admin Services - CS&A	\$ 2,541,579	1.4%	3.1%	-1.2%	19.1%
Admin Services - General Fund	\$ 636,389	-0.4%	2.5%	-3.4%	2.5%
Other Payments & Transfers	\$ 1,236,037	-9.2%	-6.5%	-9.4%	254.8%
Depreciation	\$ 6,500,000	6.7%	3.0%	2.2%	1.2%
<b>Total Operating Expenses</b>	<b>\$ 21,776,817</b>	<b>2.7%</b>	<b>2.6%</b>	<b>0.3%</b>	<b>4.1%</b>
Debt Service	\$ 2,213,700	-10.8%	-2.2%	0.2%	0.9%
Minor Capital	\$ 1,346,819	5.0%	-9.9%	-15.9%	-40.8%
Major Capital	\$ 13,827,736	-1.5%	-3.1%	1.3%	82.8%
<b>Total Non-operating Expenses</b>	<b>\$ 17,388,255</b>	<b>-3.9%</b>	<b>-3.2%</b>	<b>0.3%</b>	<b>50.2%</b>
<b>Total Expenses</b>	<b>\$ 39,165,072</b>	<b>-0.7%</b>	<b>-0.1%</b>	<b>0.3%</b>	<b>19.3%</b>

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



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

#### Wastewater Rate and Debt Forecasts

As the table below shows, there will be the need to issue debt for several capital investments over the next decade. The first such issuance should be done in 2023 as part of the 2023-24 BFO cycle. Modest rate adjustments can be made to increase the net pledged revenues available for debt service as the debt is issued or more modestly over two or three years ahead of the next issuance.

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)		\$33.0				\$60.0			\$21.0	

The overall debt capacity of the fund is determined by the net pledged revenues and targeted debt coverage ratio. The table below shows the debt capacity at various coverage ratios as well as the current outstanding debt.

### Debt Capacity Estimation

Interest Rate: 2.50%

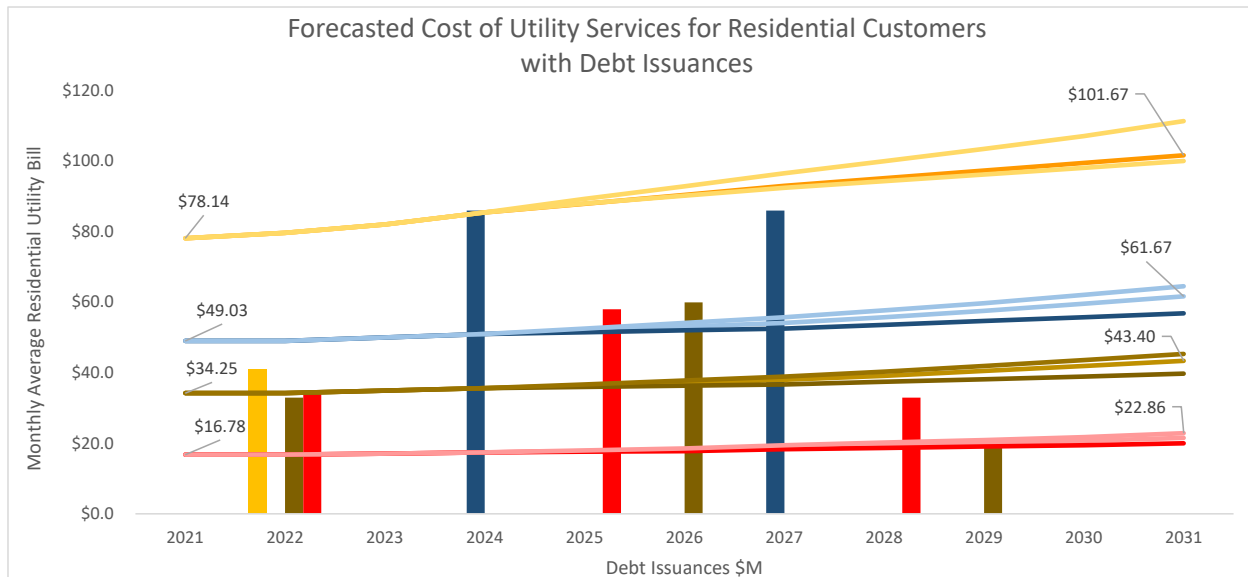
Net Pledged Revenue (5yr ave): \$13,086,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$115	\$162	\$204
1.2	\$95	\$135	\$170
1.4	\$82	\$116	\$146
1.6	\$72	\$101	\$128
1.8	\$64	\$90	\$113
<b>2.0</b>	<b>\$57</b>	<b>\$81</b>	<b>\$102</b>
2.2	\$52	\$74	\$93
2.4	\$48	\$68	\$85
2.6	\$44	\$62	\$79
2.8	\$41	\$58	\$73
3.0	\$38	\$54	\$68

Outstanding Debt in 2021: \$16.2 M

### Conclusions and Next Steps

Over the past two meetings ten year rate and debt forecasts have been discussed which indicate that the significant capital investments expected over the coming decade can be achieved for each utility independently. However, it is also necessary to look more holistically at the impacts on these plans on our community. By limiting rate increases annually to no more than 5.0% per utility in a given year, the overall cost of utility services for customers of receiving some or all of these services through the municipal utility will increase less than 5% annually, consistent with long term inflation.



To do so, the financial state of each utility is expected to change substantially from one of almost no outstanding debt today to one with significant outstanding debt with healthy operating margins to adequately meet debt service obligations while maintaining the good credit ratings on such debt. This increased level

of debt is manageable through expected revenue growth and cost containment resulting in significantly more capital investment being completed over the next decade than the previous decade. This increased capital investment will ensure that our community will continue to benefit from municipal utility services in the future.

Enterprise Fund	Rate Increase (%/yr)		Operating Revenue (%/yr)		Operating Expenses (%/yr)		Operating Income (\$M/yr)	
	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031
L&P *	4.1%	3 - 5%	3.8%	3.8%	3.4%	2.9%	(\$2)	\$7
Water	2.7%	3 - 5%	3.6%	3.9%	3.5%	3.5%	\$4	\$6
Wastewater	3.2%	2 - 4%	2.4%	2.3%	3.2%	3.1%	\$4	\$5
Stormwater	0.9%	3 - 5%	2.8%	2.8%	4.3%	4.2%	\$7	\$8

\* Series 2018A and 2018B outstanding for Connexion

Enterprise Fund	Outstanding Debt Principal			Debt Issued 2021 - 2031	Available Reserves			Annual Capital Investment (\$M/yr)	
	2011	2021	2031		2011	2021	2031	Historical 2011-2020	Forecast 2022-2031
L&P *	\$16M	\$0	\$25-30M	\$40-50M	\$16M	\$23M	\$66M	\$160M	\$270M
Water	\$26M	\$1M	\$140-175M	\$170-200M	\$9M	\$41M	\$71M	\$130M	\$440M
Wastewater	\$42M	\$16M	\$90-100M	\$110-120M	\$1M	\$19M	\$24M	\$90M	\$200M
Stormwater	\$34M	\$2M	\$100-110M	\$120-140M	\$2M	\$12M	\$13M	\$70M	\$240M

\* Series 2018A and 2018B outstanding for Connexion

The next steps down this path are focused on the 2023-24 Budget process. Offers will be developed and submitted consistent with the CIPs considered here after going through a prioritization process to ensure those projects that most impact the targeted levels of service are submitted for consideration. Some of those Offers will identify “Bond Proceeds” as the funding source which may require additional due diligence outside of the budget process. Submitting such capital projects through the 2023-24 budget process will allow for them to be considered in the larger context of all budget offers. Other, smaller capital projects to be considered for funding through anticipated revenues and available reserves will also be submitted with the anticipated revenues reflecting the proposed rate adjustments discussed here. Like the City Strategic Plan effort that begins each budget cycle, this financial strategic plan and the underlying CIPs are reviewed every two years to ensure alignment and reflect new considerations, strategic objectives and cost estimates.

## **Attachments**

Attachment 1 - PowerPoint presentation

Attachment 2 - Service Territory Maps for Water and Wastewater Services

Attachment 3 - Capital Improvement Plan Projects by Utility





# Utilities Long Term Financial and Capital Improvement Plans

Lance Smith – Utilities Strategic Finance Director

## Objective:

- Provide an update on the Capital Improvement Plans and Strategic Financial Plan for the Water and Wastewater Enterprise Funds
- Recommend strategic path forward to meet 10 year operational and financial objectives ahead of the 2023-24 Budget cycle for Light & Power, Water, Wastewater and Stormwater utility services

## Direction Sought:

- Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-24 BFO cycle? In particular, the rate increases associated with the anticipated revenue required?

5-7 years

## Master Planning

Assess Operational  
Needs / Risks



Determine Optimal  
Solutions &  
Mitigations



Identify Anticipated  
Capital Projects Over  
Planning Horizon



2 years

## Capital Improvement Planning (CIP)

Prioritize Projects with  
Criteria



Determine Relative  
Weighting of Criteria



Establish Capital  
Project Prioritization  
Criteria



2 years

## Strategic Financial Planning

Review Financial  
Position of Each Utility



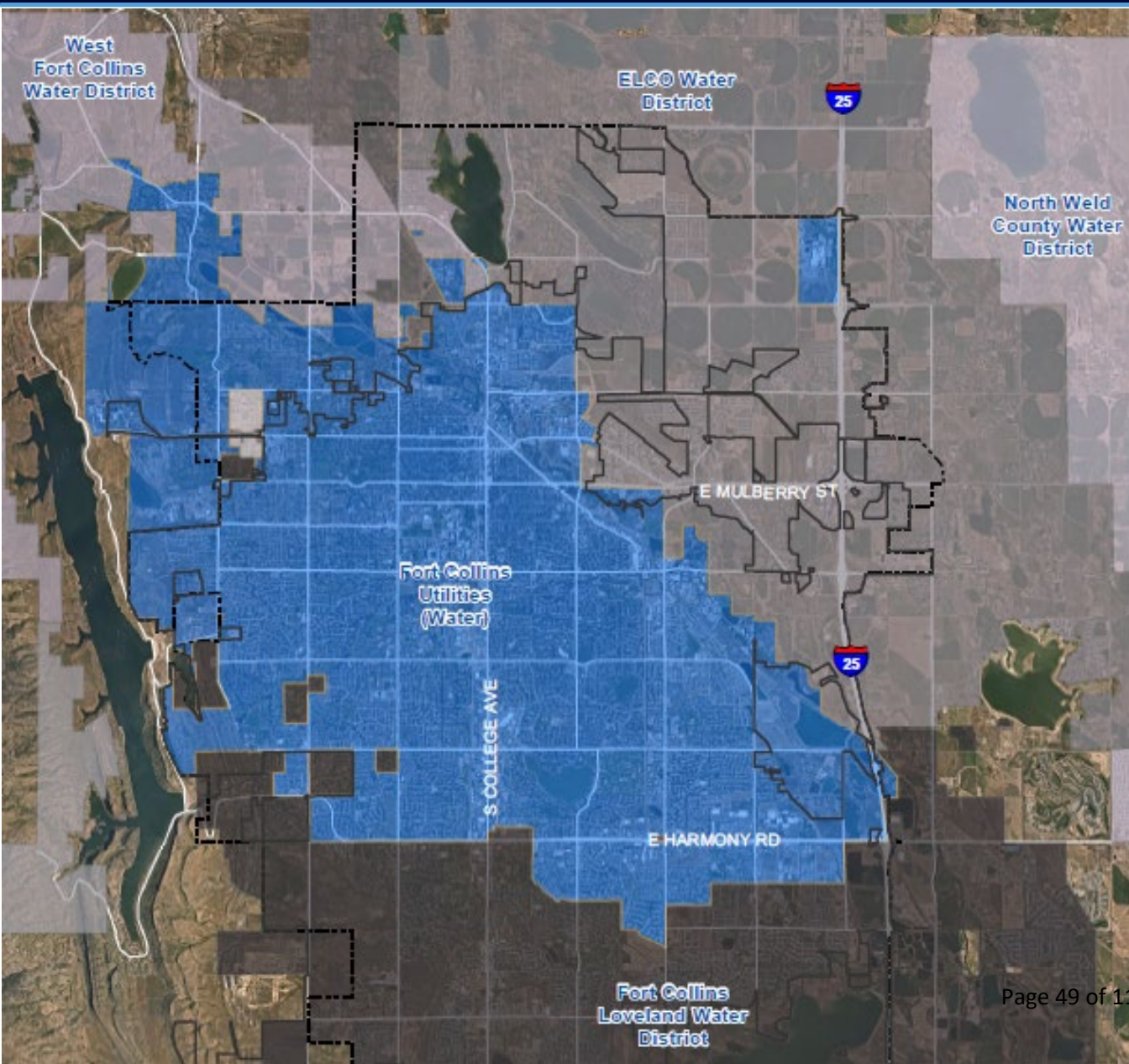
Determine Capital  
Investment  
Capacities



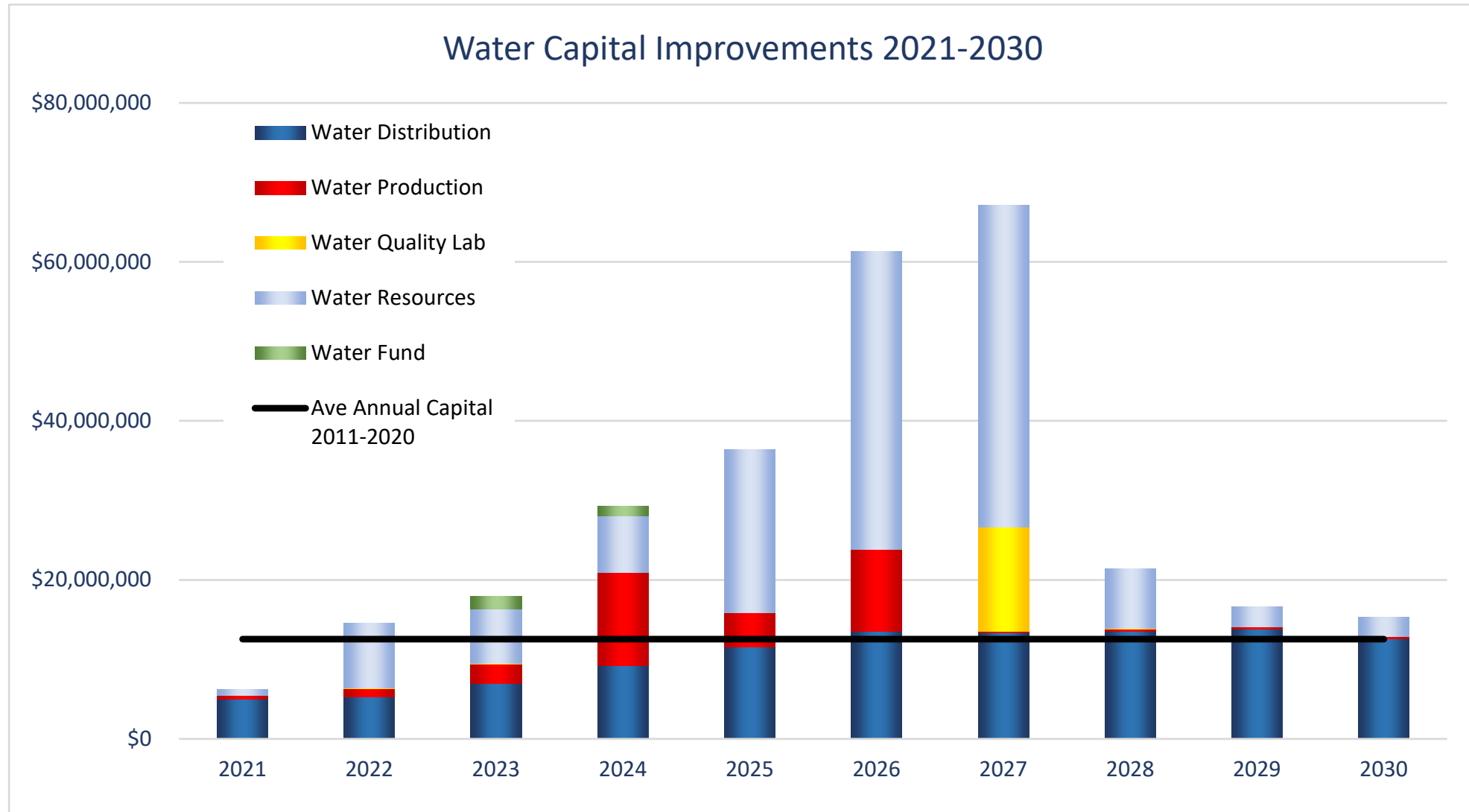
Recommend  
Financial Strategy to  
Achieve Operational  
Objectives

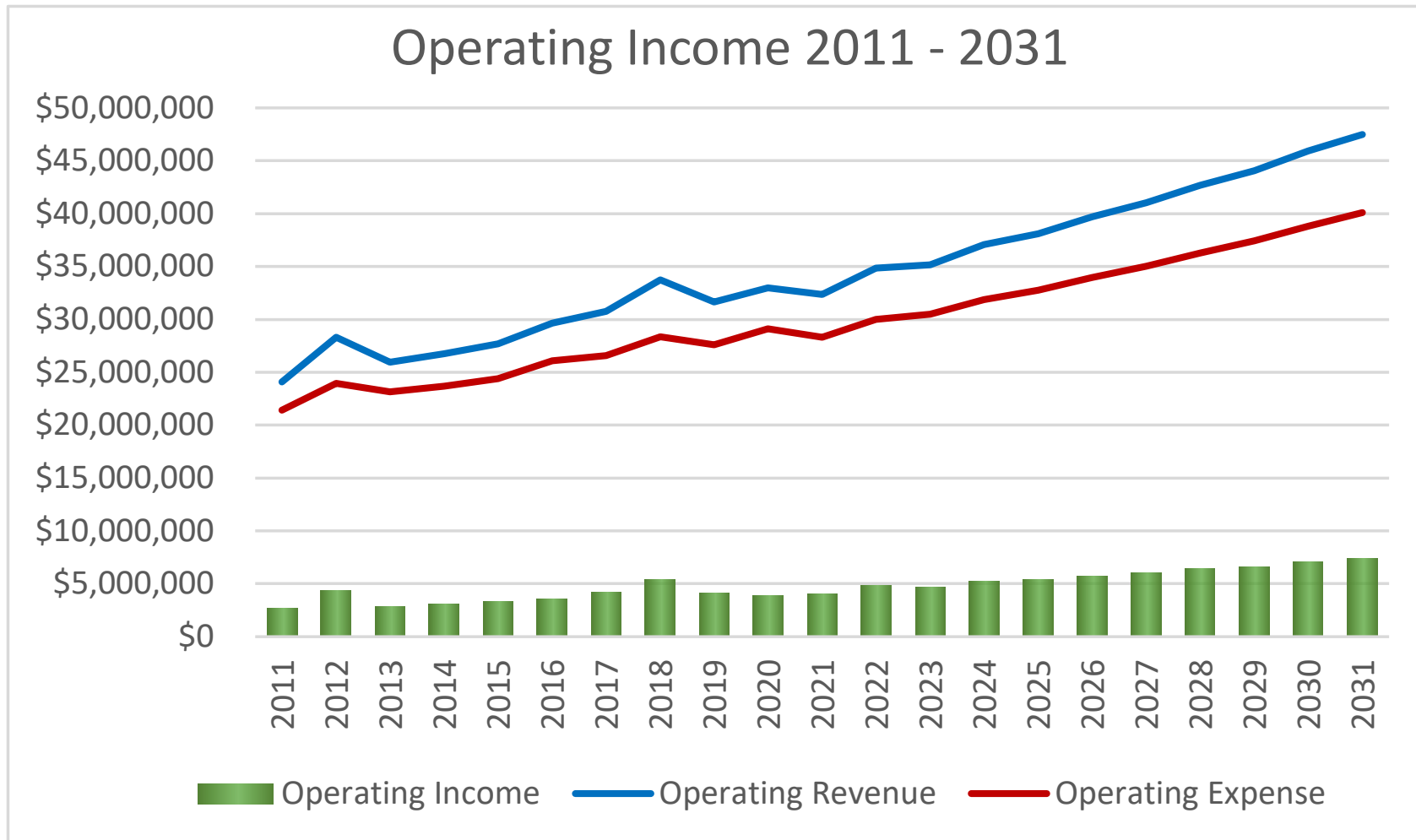
## Objectives

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



## Water Enterprise Fund

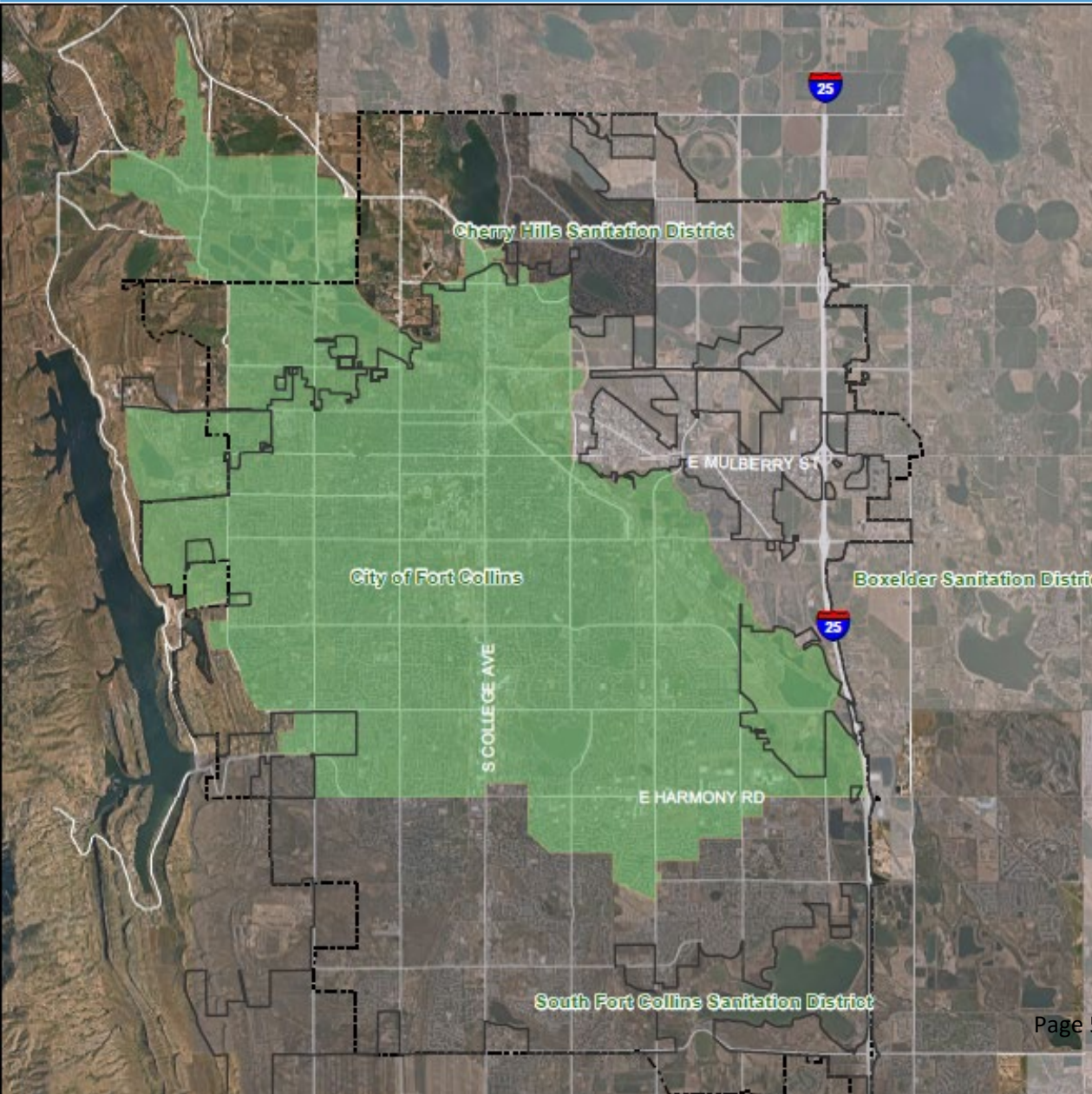




Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)				\$86.0			\$86.0			

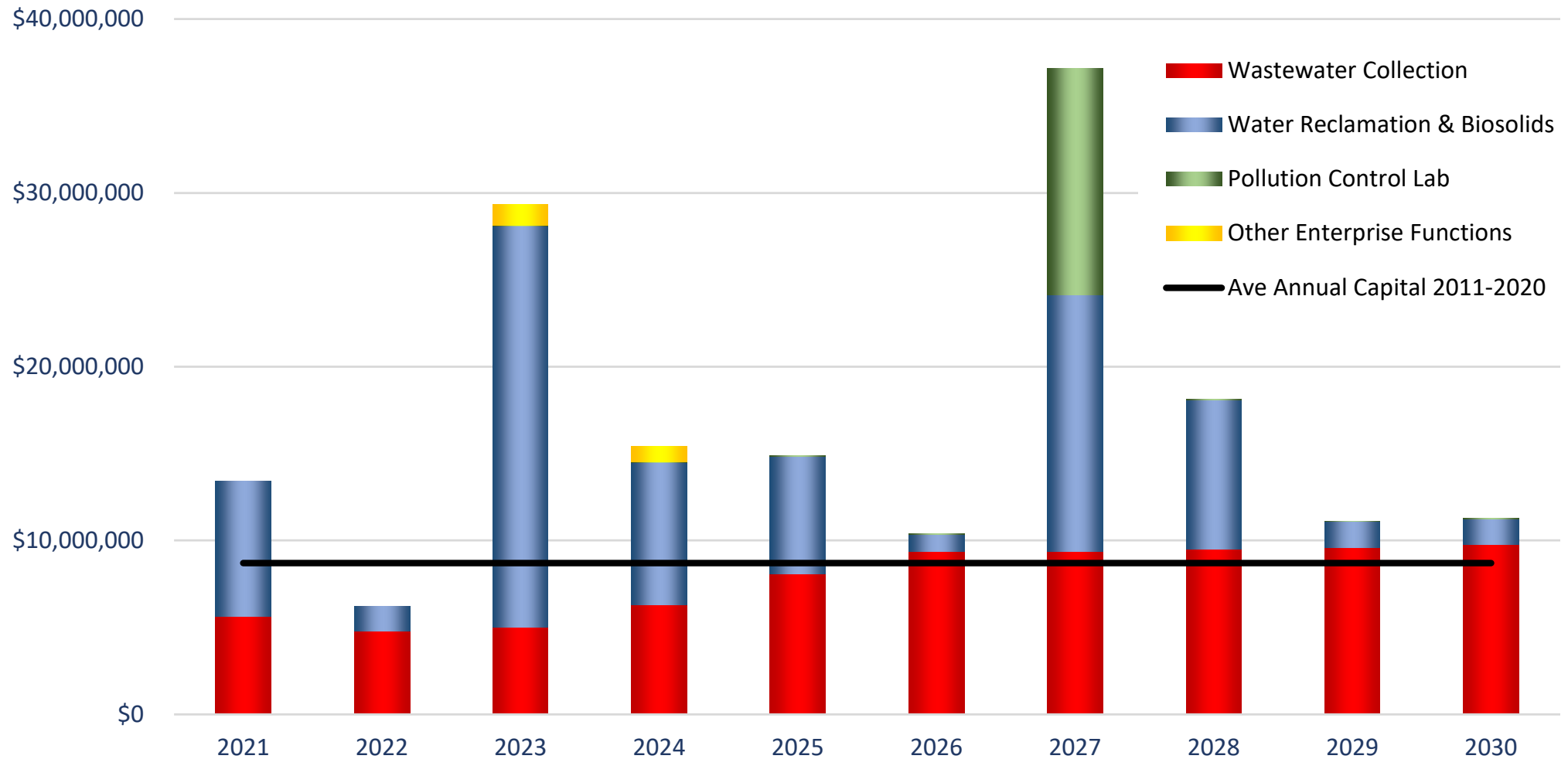
- Modest rate increases will be necessary to meet asset renewal targets and increased debt service
- Halligan is expected to begin construction in 2026
- \$1M of additional revenue would require a one time rate increase of 3.3%



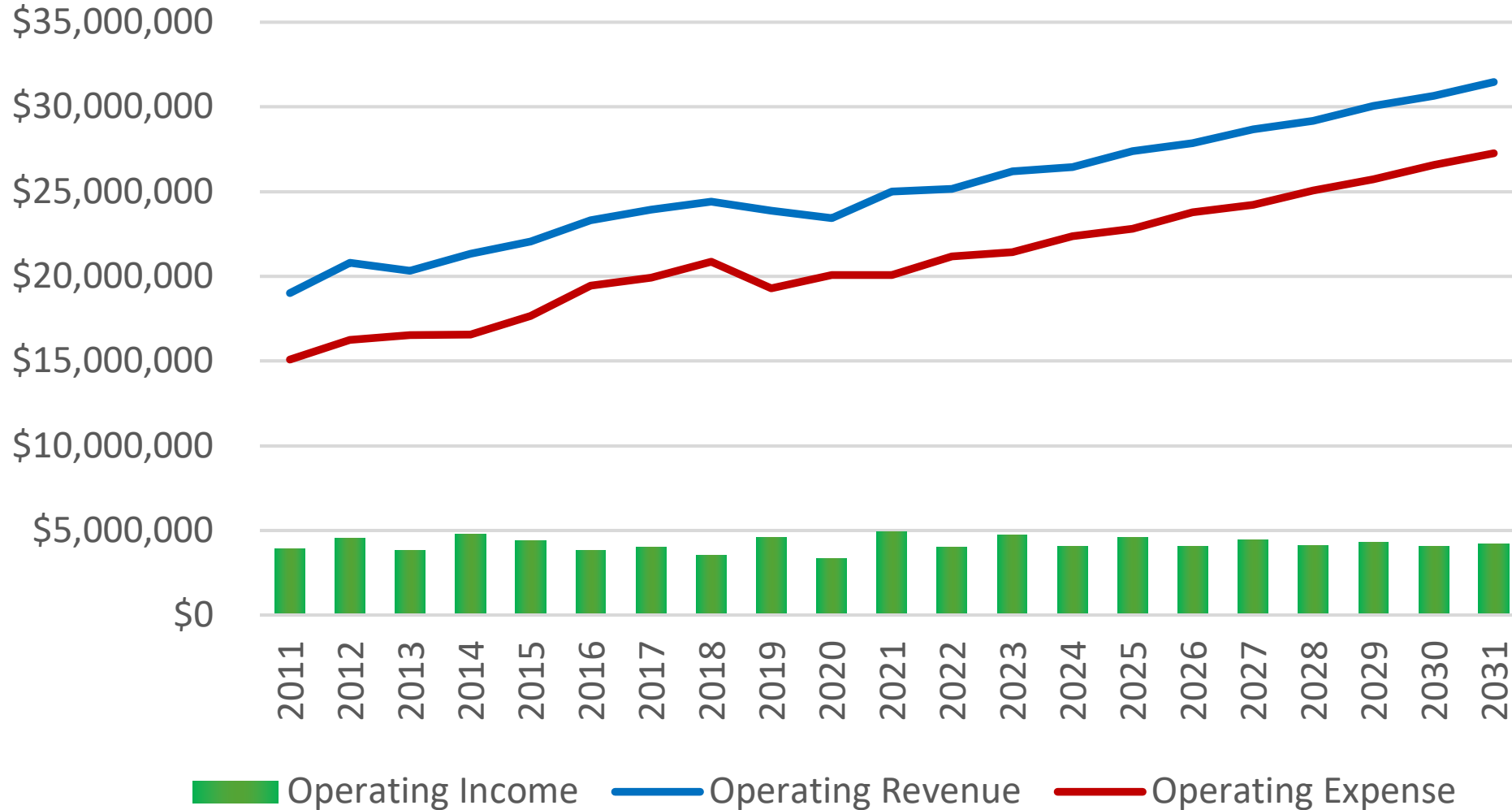


## Wastewater Enterprise Fund

### Wastewater Capital Improvements 2021-2030



## Operating Income 2011 - 2031



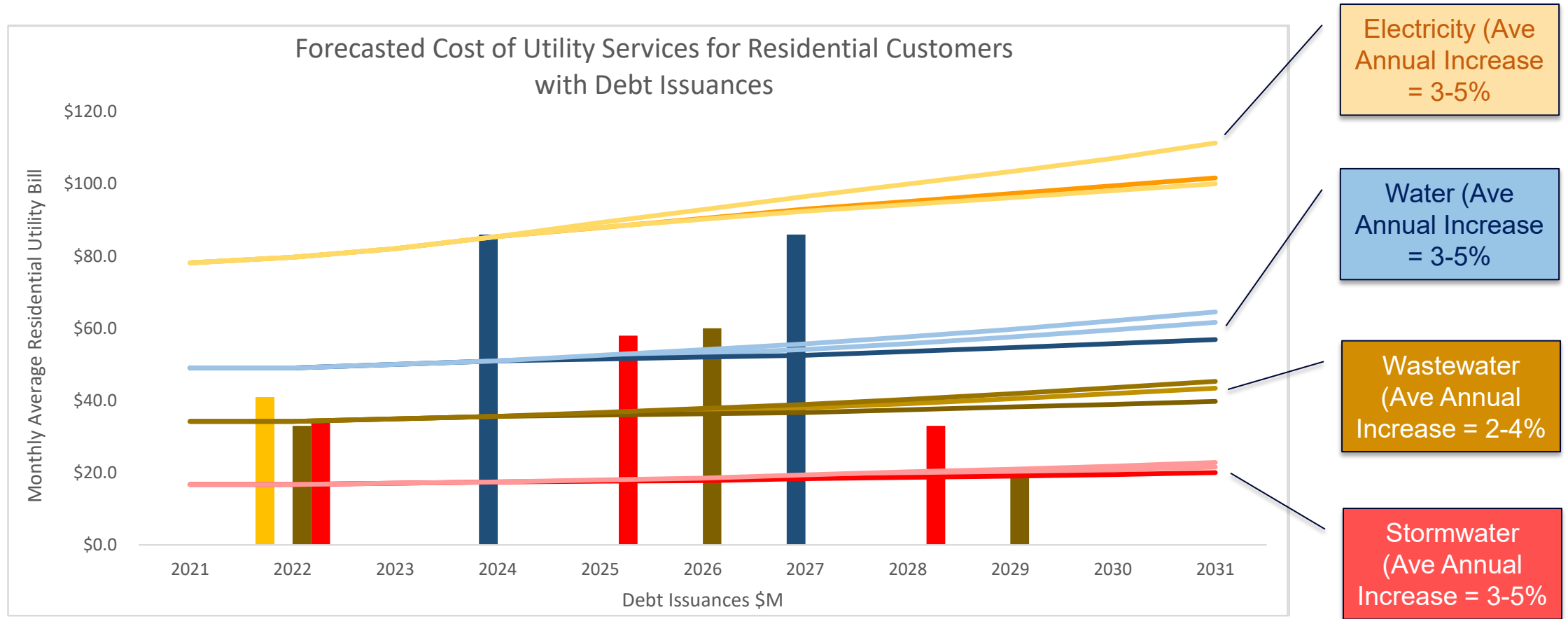
Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)		\$34.0				\$59.0			\$21.0	

- Near term capital needs are met with a debt issuance for 2023-24 BFO cycle
- Modest rate increases are necessary to offset O&M expense growth and the anticipated capital investments
- \$1M of additional revenue would require a one time rate increase of 4.25%

Pulling it all together ...

Light & Power	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	2.0%	3.0%	4.1%	3-4%	3-4%	3-4%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)		\$41.0								
Water	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)				\$86.0			\$86.0			
Wastewater	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)		\$33.0				\$60.0			\$21.0	
Stormwater	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	3-5%	3-5%	3-5%	2-3%	2-3%	2-4%	2-5%
Debt Issued (\$M)		\$34.0			\$58.0			\$32.0		

	2021	2022		2023		2024	
Residential Utility Cost	Baseline	% Change	Bill	% Change	Bill	% Change	Bill
Electric	\$78.14	2.0%	\$79.70	3.0%	\$82.09	4.1%	\$85.46
Water	\$49.03	0.0%	\$49.03	2.0%	\$50.01	2.0%	\$51.01
Wastewater	\$34.25	0.0%	\$34.25	2.0%	\$34.94	2.0%	\$35.63
Stormwater	\$16.78	0.0%	\$16.78	2.0%	\$17.12	2.0%	\$17.46
Total	\$178.20	0.9%	\$179.76	2.4%	\$184.16	2.9%	\$189.56



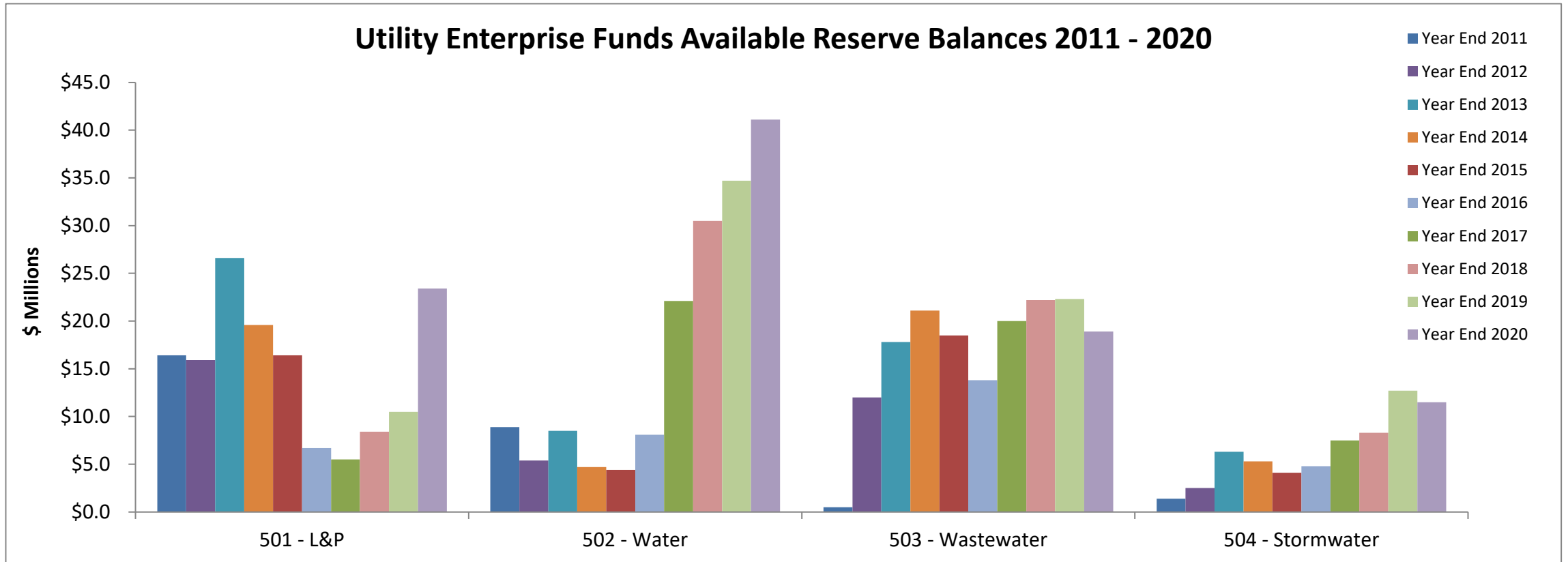


## Micro-economics

- O&M Costs
- CIP updates
- Resource / Project management
- Efficient use of capital

## Macro-economics

- Inflation
- Interest rates
- Infrastructure Funds



Enterprise Fund	Rate Increase (%/yr)		Operating Revenue (%/yr)		Operating Expenses (%/yr)		Operating Income (\$M/yr)	
	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031
L&P *	4.1%	3 - 5%	3.8%	3.8%	3.4%	2.9%	(\$2)	\$7
Water	2.7%	3 - 5%	3.6%	3.9%	3.5%	3.5%	\$4	\$6
Wastewater	3.2%	2 - 4%	2.4%	2.3%	3.2%	3.1%	\$4	\$5
Stormwater	0.9%	3 - 5%	2.8%	2.8%	4.3%	4.2%	\$7	\$8

\* Series 2018A and 2018B outstanding for Connexion

Enterprise Fund	Outstanding Debt Principal			Debt Issued 2021 - 2031	Available Reserves			Annual Capital Investment (\$M/yr)	
	2011	2021	2031		2011	2021	2031	Historical 2011-2020	Forecast 2022-2031
L&P *	\$16M	\$0	\$25-30M	\$40-50M	\$16M	\$23M	\$66M	\$160M	\$270M
Water	\$26M	\$1M	\$140-175M	\$170-200M	\$9M	\$41M	\$71M	\$130M	\$440M
Wastewater	\$42M	\$16M	\$90-100M	\$110-120M	\$1M	\$19M	\$24M	\$90M	\$200M
Stormwater	\$34M	\$2M	\$100-110M	\$120-140M	\$2M	\$12M	\$13M	\$70M	\$240M

\* Series 2018A and 2018B outstanding for Connexion

- **January 2022** - Finalize the prioritization of the CIPs for all Utility Enterprise Funds
- **January – March 2022** - Develop budget offers to support the asset renewal and CIP needs
- **March 2022** – Enter 2023 and 2024 revenue projections with rate adjustments as the first step in BFO 2023-24

## Objective:

- Provide an update on the Capital Improvement Plans and Strategic Financial Plan for the Water and Wastewater Enterprise Funds
- Recommend strategic path forward to meet 10 year operational and financial objectives ahead of the 2023-24 Budget cycle for Light & Power, Water, Wastewater and Stormwater utility services

## Direction Sought:

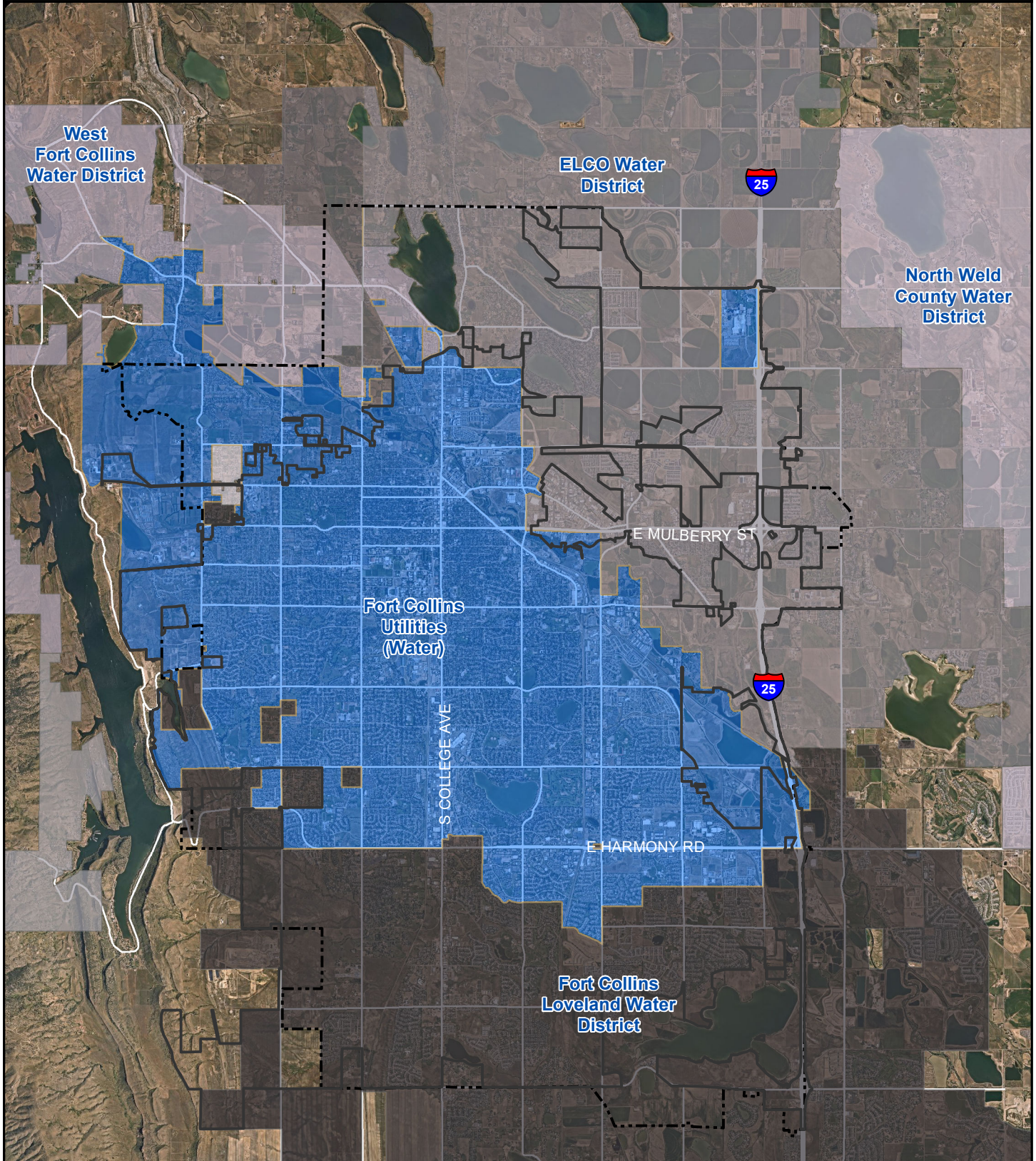
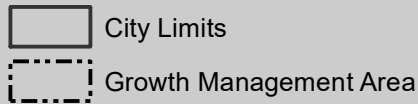
- Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-24 BFO cycle? In particular, the rate increases associated with the anticipated revenue required?

**THANK YOU!**



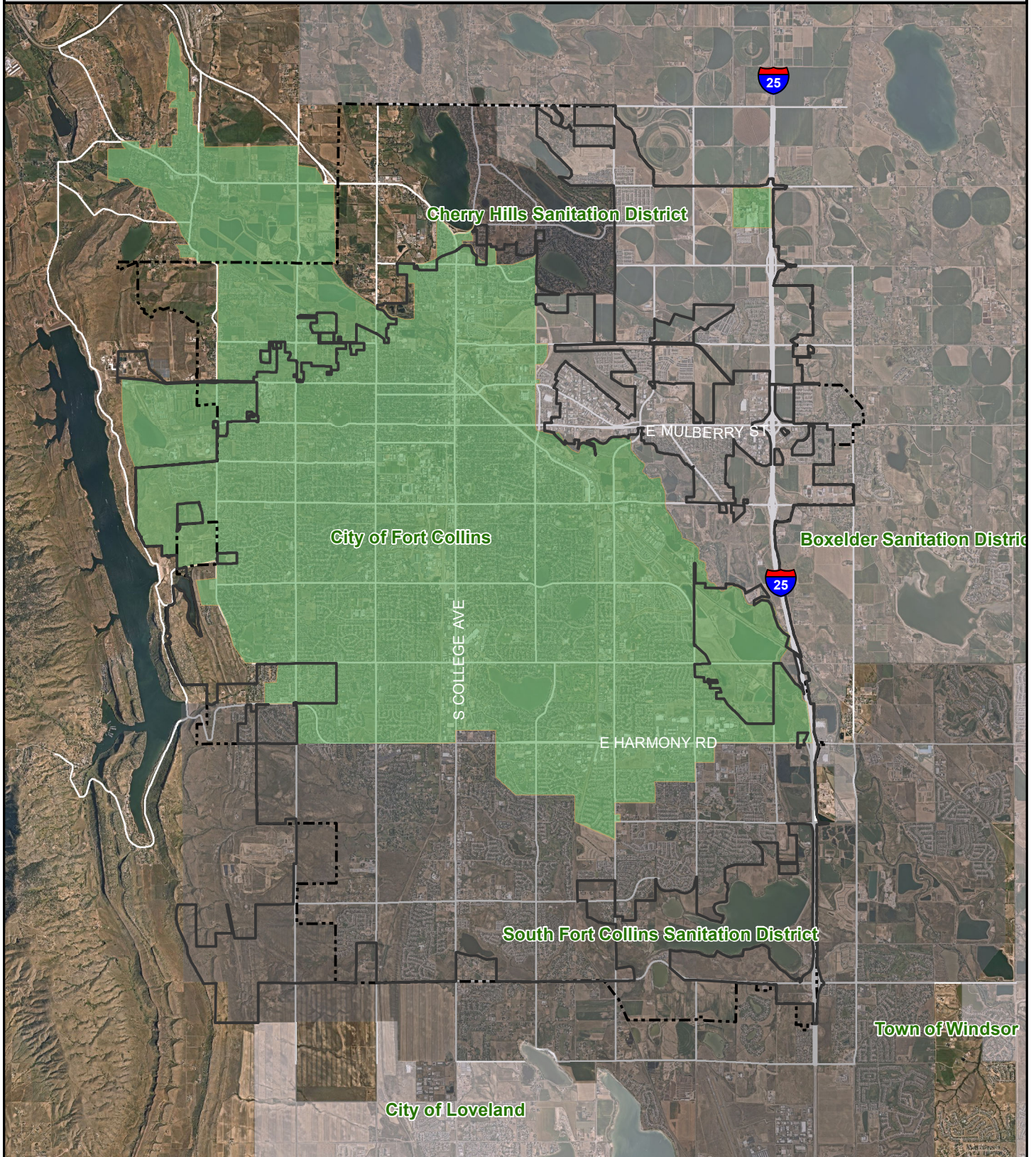
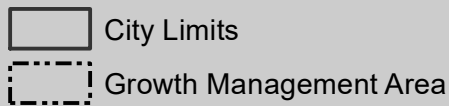


# Fort Collins Utilities Water District





# Fort Collins Utilities Wastewater Districts





Project Name	501 - Light & Power Utility 10-Year CIP Funding Recommendation										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1680 Subdivision Construction											
16800000 System Addition/Replacement	\$5,725,243	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000	\$5,700,000
501001 Substations											
501001A001 Battery Banks	\$20,000			\$59,000					\$20,000		\$20,000
501001A002 Battery Chargers			\$40,000			\$20,000			\$40,000		
501001A003 LTC (Load Tap Changer) Inspection and Repair	\$105,000						\$105,000	\$105,000	\$105,000		\$105,000
501001A004 Oil Containment Walls	\$70,000	\$70,000	\$70,000								
501001A005 Replace HVAC Units	\$44,000	\$44,000	\$44,000	\$22,000	\$22,000	\$22,000	\$22,000	\$22,000	\$22,000		\$22,000
501001A006 Transformer Radiator Replacements	\$78,000	\$103,000	\$103,000			\$78,000	\$78,000	\$78,000	\$78,000		\$78,000
501001A009 Feeder Relay Replacements	\$189,000		\$95,000								
501001A011 Transformer Re-turbishing		\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
501001A012 Install Capacitor Banks		\$80,000	\$80,000	\$80,000	\$80,000	\$80,000					
501001A013 Transformer Oil Filtration	\$170,000	\$170,000	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000
501001A014 Substation Security	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
501001A016 Install New 735 Power Quality Meters	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000					
501001A017 Substation Misc Capital	\$100,000	\$100,000	\$100,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
501001A018 Substation Baseline Walls				\$305,000	\$594,000						
501001A020 Equipment For CVR (Conservation Voltage Reduction)		\$75,000	\$75,000								
501001A021 PRPA Circuit Switcher Installations	\$40,000										
501001A022 New Northeast Substation		\$6,649,200	\$3,761,000	\$0							
501001A023 New Northeast Substation Land Acquisition		\$1,085,000									
501005 Feeders											
501005D004 Install circuit 936 to unload circuits 804, 834, and 906										\$514,000	
501005D011 Install circuit 324 to unload circuit 308	\$1,040,000										
501005D012 Install circuit 302 to serve Mulberry Annexation				\$2,160,000							
501005D055 Circuit 602 to serve NE Developments - Ph3 Mt Vista							\$1,300,000				
501005D060 Install circuit 624 to serve Developments in NE Ft. Collins									\$1,080,000		
501005D076 Install circuit 706 to unload circuits 704 and 738 (see also 501005D079)							\$500,000				
501005D077 Install circuit 322 to serve Mulberry Annexation	\$720,000										
501005D078 Circuit 628 to serve NE developments - Ph1 Mt Vista			\$1,300,000								
501005D079 Upgrade and Extend 722 to unload circuits 704 and 738 (see 501005D076)							\$1,050,000				
501005D080 Extend East Vine Circuit 622 - Railroad to 125		\$395,000									
501005D081 Circuit 324 Carriage pky ph1 - Prospect to fox grove	\$220,000										
501005D082 New Circuit 338 to serve Mulberry road developments				\$1,080,000							
501005D083 Circuit - NE Sub Ckt 1					\$528,000						
501005D084 Circuit - NE Sub Ckt 2					\$648,000						
501005D085 Circuit - NE Sub Ckt 3							\$628,800				
501005D086 Circuit - NE Sub Ckt 4						\$744,000					
501005D087 Circuit - NE Sub Ckt 5								\$744,000			
501005D088 Circuit - NE Sub Ckt 6									\$1,044,000		



Project Name	501 - Light & Power Utility 10-Year CIP Funding Recommendation										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
501005D089 Circuit - NE Sub Ckt 7											
501005D090 Circuit - NE Sub Ckt 8										\$888,000	\$1,044,000
501005D091 Circuit - Timberline 338 extension											
501008 Duct Banks											
501008D081 Duct Bank to serve NE FC Devel Ph 1			\$1,102,200								
501008D090 Duct Bank on Carriage Pkwy Phase 2 - Fox Grove to Forelock Dr (1X2 w/ 20% Contingency)			\$693,000								
501008D091 Duct Bank on Carriage Pkwy Ph 3 - Forelock Dr to Mulberry (1X2 w/ 20% Contingency)				\$140,000							
501008D093 Duct Bank on Mulberry -Timberline to Carriage Pkwy (2X4 w/ 20% Contingency)				\$2,239,200							
501008D094 Overland Trail Duct Bank Drake to Prospect (1X2 w/ 20% Contingency)						\$570,000					
501008D095 Duct Bank Extend East Vine Circuit 622 - Railroad to 125			\$825,000								
501008D096 Duct Bank on Carriage Pkwy Phase 1 - Prospect to Fox Grove			\$693,000								
501008D097 Duct Bank - NE circuit 1 & 2					\$352,800						
501008D098 Duct Bank - NE circuit 3							\$2,376,000			\$1,368,000	
501008D099 Duct - Timberline 338 Extension											
501012 System Cable Replacements											
501012C009 CAPITAL - Replacement Area 9 - Valley HI		\$149,000									
501012C012 CAPITAL - Replacement Area 12 - Woodlands PUD		\$86,000									
501012C013 CAPITAL - Replacement Area 13 - Village West 9th		\$207,000									
501012C016 CAPITAL - Replacement Area 16 - Parkwood East			\$130,000								
501012C017 CAPITAL - Replacement Area 17 - Trail West PUD			\$182,000								
501012C018 CAPITAL - Replacement Area 18 - Edora Acres		\$101,000									
501012C019 CAPITAL - Replacement Area 19 - Evergreen Park			\$69,000								
501012C020 CAPITAL - Replacement Area 20 - The Ridge PUD		\$117,000									
501012C021 CAPITAL - Replacement Area 21 - West Azalea			\$32,000								
501012C022 CAPITAL - Replacement Area 22 - Larkborough		\$131,000									
501012C023 CAPITAL - Replacement Area 23 - Village West 3rd			\$84,000								
501012C024 CAPITAL - Replacement Area 24 - Wagon Wheel			\$66,000								
501012C025 CAPITAL - Replacement Area 25 - Brown Farm 4th			\$58,000								
501012F020 Cable Replacements - Ongoing			\$690,000	\$690,000	\$690,000	\$690,000	\$690,000	\$690,000	\$690,000	\$690,000	\$690,000
501012F021 Feeder Cable Replacements - Ongoing		\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000
501014 Transformers											
501014F022 Distribution Transformer Purchases & Replacements	\$792,811	\$1,041,257	\$795,000	\$795,000	\$795,000	\$795,000	\$795,000	\$795,000	\$795,000	\$795,000	\$795,000
501004 Annexations											
501004C005 Clydesdale Park First & Second Annexations		\$1,011,000									
501004D001 Miller Enclave		\$277,000									
501004D002 Mulberry Enclave		\$324,000		\$6,529,000	\$4,322,500	\$4,322,500	\$4,322,500	\$7,551,700	\$7,551,700	\$7,551,700	\$10,572,000
501004D003 East Horsetooth (PVREA) Enclave											
501004D003 East Horsetooth (Xcel) Enclave											
501004D004 Taft Hill & Harmony Enclave											
501004E001 PVREA GMA Area											

Project Name		501 - Light & Power Utility 10-Year CIP Funding Recommendation										
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
501004E002 Xcel GMA Area												
501002 Service Center												
501002B003 Cable Handling Facility for Cut-To-Length Program					\$1,575,000							
501002B004 700 Wood Street Backup Power and Dual Feed ATO		\$519,000										
501002B005 Overland Disaster Recovery Site for SCO		\$450,000										
501002B006 Warehouse Storage Yard Covered Structure					\$199,000							
1940 Minor Capital - Vehicles & Equipment												
19400000 Minor Capital - Vehicles & Equipment		\$929,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000
501009 CMMIS--Maintenance Management												
501009G002 Operational Technology - Maximo		\$300,000										
501015 Streetlights												
501015F023 Streetlight System Replacement		\$986,866	\$986,866	\$986,866	\$986,866	\$986,866	\$986,866	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
501015G009 LED Streetlight Control and Automation		\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
501016 Distribution Automation												
501016G010 Distribution Automation/FLISR		\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
501017 System Relocations												
501017J001 System Relocations - Road & Intersection Projects		\$230,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
501025 Advanced Metering Infrastructure												
501025S004 AMI Equipment and Tech Upgrade		\$650,300	\$664,000	\$10,700	\$10,700	\$10,700	\$10,700	\$10,700	\$10,700	\$10,700	\$10,700	\$10,700
501025G005 AMI Wide Area Network (WAN)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
501025G006 AMI Backhaul Network Hardware Tech Refresh		\$0	\$234,600		\$42,650							
501025G007 AMI Test Network Expansion			\$191,900									
501025G008 AMI New Technology Testing and Miscellaneous Capital		\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
501026 Demand Respond Technology Upgrade												
501026G013 Energy Services Peak Partners - DCU3 Refresh		\$435,500										
501026G014 Energy Services Peak Partners - GIWH		\$0	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500	\$1,402,500
501026G015 Energy Services Peak Partners - EVSE			\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
501026G016 Energy Services Peak Partners - PRO1 Thermostat Sunset			\$200,000									
501026G017 Energy Services Peak Partners - Inverter Supervision & Control					\$250,000							
501013 Operational Technology												
501013G001 ADMS Strategic Upgrades - Business Releases 3-6		\$450,000	\$580,000	\$970,106	\$660,951	\$714,254				\$351,797		
501013G003 eSCADA Hardware/Software		\$74,624	\$74,624	\$74,624								
501013G011 Radio System Upgrades		\$0	\$628,970	\$42,642	\$42,642	\$42,642	\$42,642	\$42,642	\$42,642	\$42,642	\$42,642	\$42,642
501013G012 GPS & Underground Facilities Visualization				\$127,926								
501013G014 L&P/Energy Services Systems Alignment			\$106,605	\$106,605	\$106,605							
501013G015 Utility Scale Energy Storage			\$150,000		\$2,000,000		\$2,000,000		\$2,000,000		\$2,000,000	
Utility Billing System Upgrade												
Total		\$17,326,344	\$24,838,521	\$21,903,168	\$25,160,114	\$21,266,262	\$19,469,208	\$21,128,142	\$23,690,339	\$21,200,542	\$21,185,542	\$22,486,842



Project Name	502 - Water Utility 10-Year CIP Funding Recommendation										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 and Beyond
Water Distribution Replacement Program	\$1,000,000	\$1,000,000	\$1,780,000	\$4,200,000	\$6,200,000	\$8,300,000	\$8,300,000	\$8,300,000	\$8,300,000	\$8,300,000	\$8,300,000
Water Distribution Master Plan Update			\$250,000		\$250,000				\$250,000		
Meter Capital Program	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000
Meter Crawlspace Conversion			\$250,000	\$500,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Small Cap Water	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Water Minor Capital	\$650,000	\$400,000	\$500,000	\$600,000	\$150,000	\$300,000	\$100,000	\$350,000	\$350,000	\$350,000	\$350,000
Water Meter Minor Capital		\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000
AMI Backhaul (Water Portion)			\$306,551.60								
Galvanized Service Replacement	\$500,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000		
2nd Horsetooth Reservoir Tower Inlet			\$500,000	\$2,000,000	\$3,000,000						
SOS 24" Poudre Pipeline Lining - Inside Canyon						\$10,000,000					
Water Treatment Facility Master Plan Update		\$600,000									
WTF Solids Belt Press Building - Construction				\$8,000,000							
WTF Finished Water Metering					\$1,000,000						
Water Treatment Facility T5/T6 Roof replace			\$1,500,000								
Concrete liner for the PVP Sed Basin				\$1,500,000							
SOS 24" Poudre Pipeline - Replace line from Canyon Mouth to Bellvue											\$15,000,000
SCADA System Replacements	\$362,500	\$362,500	\$302,500	\$72,500	\$217,500	\$187,500	\$187,500	\$187,500	\$187,500	\$187,500	
Watershed Protection	\$80,000	\$80,000	\$120,000	\$120,000	\$120,000	\$120,000	\$80,000	\$80,000	\$80,000	\$80,000	
Water Lab Construction							\$13,000,000				\$5,000,000
Laboratory Instrumentation	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000		
Water Rights Management Facilities			\$100,000	\$100,000	\$100,000						\$5,000,000
Water Rights Acquisitions	\$250,000	\$750,000	\$1,000,000	\$1,500,000	\$2,000,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$35,400,000
SOS Halligan Water Supply Project		\$4,934,000	\$5,800,000	\$5,500,000	\$18,400,000	\$35,000,000	\$38,000,000	\$5,000,000			
Environmental Learning Center Dam Reconstruction	\$500,000	\$2,500,000									
Utility Billing System Upgrade			\$1,600,000	\$1,200,000							
TOTAL	\$6,232,500	\$14,586,500	\$17,969,052	\$29,252,500	\$36,397,500	\$61,367,500	\$67,127,500	\$21,377,500	\$16,627,500	\$15,337,500	\$72,970,000

503 - Wastewater Utility 10-Year CIP Funding Recommendation													
Project Name		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 and Beyond	
Wastewater Collection Replacement Program		\$3,000,000	\$1,750,000	\$1,750,000	\$3,100,000	\$4,500,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	
Wastewater Collection Master Plan Update				\$250,000		\$250,000							
Small Cap Wastewater		\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	
WW CIPP Program		\$650,000	\$750,000	\$750,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	
WW WFO Minor Capital			\$300,000	\$250,000	\$200,000	\$350,000	\$350,000	\$350,000	\$500,000	\$350,000	\$750,000	\$400,000	
DWRF Headworks Improvements Phase 2 - 2021 (Construction)				\$12,000,000									
DWRF Digester 613 Lid Replacement				\$0					\$6,400,000				
DWRF Digesters 611 Mixer Improvements				\$1,400,000									
DWRF Digester 612 Mixer Improvements				\$0		\$1,400,000							
MMWRF Blower Replacements				\$3,500,000									
DWRF NPT - Clarifier Mechanism Replacement		\$6,200,000											
DWRF SPT - Final Clarifier Mechanism Replacement						\$3,200,000							
DWRF Carbon Addition Phase II								\$9,500,000					
MMWRF UV Disinfection System Replacement			\$400,000		\$3,500,000								
DWRF High Voltage Transformers - 1205 and Switchboards		\$275,000											
DWRF High Voltage Transformer and Switchboard Replacement - 1212				\$300,000									
DWRF 54-inch Influent Pipe Lining				\$0				\$1,300,000					
Facility Wide Glycol Loop Replacement				\$0	\$1,500,000								
WRB Replacement		\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,000,000	
SCADA System Replacements													
MSR Biosolids Equipment -				\$700,000		\$750,000							
DWRF Backup Power				\$4,000,000									
WRB HVAC Replacement					\$800,000								
DWRF Oil Storage Building HVAC Replacement					\$252,000								
MSR New Storage Building		\$300,000											
DWRF West Tunnel Boiler Replacement								\$2,500,000					
DWRF Non-potable Piping System (Eastside) Replacement					\$445,000								
MSR Semi - Truck				\$200,000									
WRB Master Plan Update					\$700,000				\$700,000				
Wastewater Utility Plan Update						\$400,000							
Water Lab Construction								\$13,000,000					
Laboratory Instrumentation				\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	
Utility Billing System Upgrade			\$1,200,000	\$900,000									
TOTAL		\$13,425,000	\$7,400,000	\$29,030,000	\$14,527,000	\$14,880,000	\$10,380,000	\$37,180,000	\$18,130,000	\$11,130,000	\$11,280,000	\$10,400,000	



Project Name		504 - Stormwater Utility 10-Year CIP Funding Recommendation											2031 and Beyond (2021 Costs)	
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030			
SW Small Capital Program		\$1,540,000	\$1,750,000	\$2,000,000	\$2,000,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000		
SW Minor Capital				\$750,000	\$500,000	\$850,000	\$450,000	\$550,000	\$800,000	\$550,000	\$550,000	\$650,000		
SW CIP Program		\$450,000	\$550,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000		
Stream Rehabilitation and Enhancement Program - Base Program		\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000		
Stream Rehabilitation and Enhancement Program - Enhanced Program		\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000		
Stormwater Master Plan Updates			\$225,000	\$225,000	\$225,000	\$225,000	\$225,000			\$225,000				
WQ BMP Projects		\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000		
Plum Corridor												\$10,310,000		
Oak Street Outfall Extension				\$28,007,760										
Magnolia Outfall												\$72,035,110		
Maple Street Storm Sewer						\$45,830,880								
Jefferson Street to Pine (Lincoln-Willow Ph2)								\$8,168,930						
Myrtle Street Storm Sewer									\$24,506,790					
Mulberry to Boxelder Creek - Culverts and Channel - COUNTY												\$21,207,654		
Lincoln Channel (reaches 2.3) - COUNTY												\$9,823,616		
Fossil Creek Parkway												\$5,150,000		
Boxelder Dams - COUNTY		\$257,500												
Fossil Ridge Drive												\$1,357,167		
No. College Ave. Property- buyout - COUNTY												\$3,387,454		
Poudre River Downtown Master Plan - Reach 2												\$4,919,495		
Harmony Road & I-25- road imps.												\$17,483,632		
North Mason Stormwater Project (River to just north of Hickory					\$9,888,000									
North Mason Hickory Pond						\$3,000,000								
DWRP Levee		\$1,500,000										\$1,500,000		
Lemay and Strachan												\$4,145,888		
Ziegler Pond												\$1,283,954		
Shield Street at Lang Gulch												\$4,206,999		
Dixon Creek Pond												\$1,275,212		
Poudre River Downtown Master Plan - Reach 6												\$1,721,823		
Poudre River Downtown Master Plan - Reach 4												\$1,721,823		
Poudre River Downtown Master Plan - Reach 5												\$1,721,823		
Oakridge Regional Detention Pond Spillway												\$2,927,416		
Stone Creek (North Trib) Pond and Outfall												\$1,951,610		
C&S Railroad No. 2 at Lang Gulch												\$1,486,109		
North Poudre Reservoir and Sod Farm Improvements (Group 5) - COUNTY												\$2,545,853		
Lake / Center Storm Sewer												\$1,472,996		
Poudre River Flow Consolidation at College Ave.												\$10,000,000		
Location M: Vine Drive Crossing						\$2,605,634								
C&S Railroad No. 3 at Lang Gulch												\$1,217,298		
Taft Hill Road at Lang Gulch												\$811,896		
C&S Railroad No. 4 at Lang Gulch												\$738,683		
Swift Pond Embankment												\$2,586,485		
Location A: PVLC Overflow at Overland Trail and Northwest Hollywood Irish Pond												\$5,827,977		

Project Name	504 - Stormwater Utility 10-Year CIP Funding Recommendation											2031 and Beyond (201 Costs)
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
Location B: Overland/Laporte Storm Drain (proposed in place of detention pond #303)												\$967,183
Location C: Laporte and Sunset Storm Drain												\$1,713,802
Location D: Hollywood/Irish Pond Modifications												\$1,036,784
Location E: West Vine Natural Area Pond and Shirley Heights Storm Drain												\$3,992,987
Location F: Southwest Regional Pond												\$8,074,491
Location I: Laporte Avenue and PSD Campus												\$5,452,161
Location J: Sanctuary Site Development												\$3,640,181
Location K: Liac Detention Pond												\$1,569,821
Location L: Puente Verde Regional Open Space Pond												\$19,213,633
Mulberry Street												\$6,594,000
Elizabeth												\$7,817,000
Clearview Channel												\$12,079,000
CI Channel												\$2,546,000
Manchester/Scatborough												\$14,061,000
College Avenue to Drake to Parkwood												\$5,330,895
Glass Doctor on S College Ave & Dellenbach Replacement												\$2,915,755
Foothills Channel West of Lenny												\$2,071,132
Meadowlark and Blue Mesa												\$2,952,037
Poudre River Floodplain Restoration at Riverbend Ponds and Cottonwood Hollow												\$22,336,096
Dry Creek Connection Channel (DC3) - COUNTY												\$1,639,091
Montava Regional Improvements (Group 3) - COUNTY												\$1,108,113
Cooper Slough Improvements - D/S of Vine Dr (Group 2) - COUNTY												\$942,964
No. 8 Outlet Ditch Imps (Group 4) - COUNTY												\$629,924
Utility Billing System Upgrade			\$1,200,000	\$900,000								
<b>TOTAL</b>	<b>\$5,247,500</b>	<b>\$4,025,000</b>	<b>\$34,182,760</b>	<b>\$15,513,000</b>	<b>\$56,761,514</b>	<b>\$4,925,000</b>	<b>\$12,966,930</b>	<b>\$5,050,000</b>	<b>\$29,531,790</b>	<b>\$4,800,000</b>	<b>\$328,402,024</b>	



## **WORK SESSION AGENDA ITEM SUMMARY TEMPLATE**

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

**SUBJECT FOR DISCUSSION** – Utilities 2021 Capital Improvement Plans and Strategic Financial Plan Updates for the Light & Power and Stormwater Utilities

### **EXECUTIVE SUMMARY**

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the Light & Power and Stormwater Enterprise Funds. The Water and Wastewater Enterprise Funds will be presented for discussion in December. The 2021 Capital Improvement Plans (CIPs) and the 2021 Strategic Financial Plans for each utility are outlined. The resulting investment projections set the basis for beginning the 2023-24 Budgeting For Outcomes (BFO) cycle. The overall 10 year rate projections for both utilities is also presented here along with the forecasted debt issuance needs.

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

The Stormwater Enterprise Fund has a significant amount of capital investment required to complete the initial buildout of all the needed infrastructure. Given the high operating ratio (operating income / operating revenue) and the amount of capital investment needed, this utility will require the issuance of significant debt over the next 25 years as this initial infrastructure is built. Modest rate adjustments allow for some increase in the debt capacity of this Fund but not enough to accelerate the build out. Timely debt issuances will allow for rates to remain close to current rates while completing build out over the next 25 years. . Funding the Stream Rehabilitation Program at a higher level of investment could allow for 25 years of such work to be completed in 16 years.

The electric utility portion of the Light & Power and Telecommunications Enterprise Fund has an increased level of capital investment primarily driven by anticipated annexations which will require a new substation and associated equipment. Tightly managing the operating expenses will be necessary going forward to ensure adequate operating income is being generated to meet system renewal needs with modest rate adjustments. The climate action goals set by both the City and Platte River Power Authority will require rate increases as well during this same time period. A single debt issuance is anticipated as being necessary ahead of beginning the Mulberry annexation conversion work.

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

1. Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-42 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements?

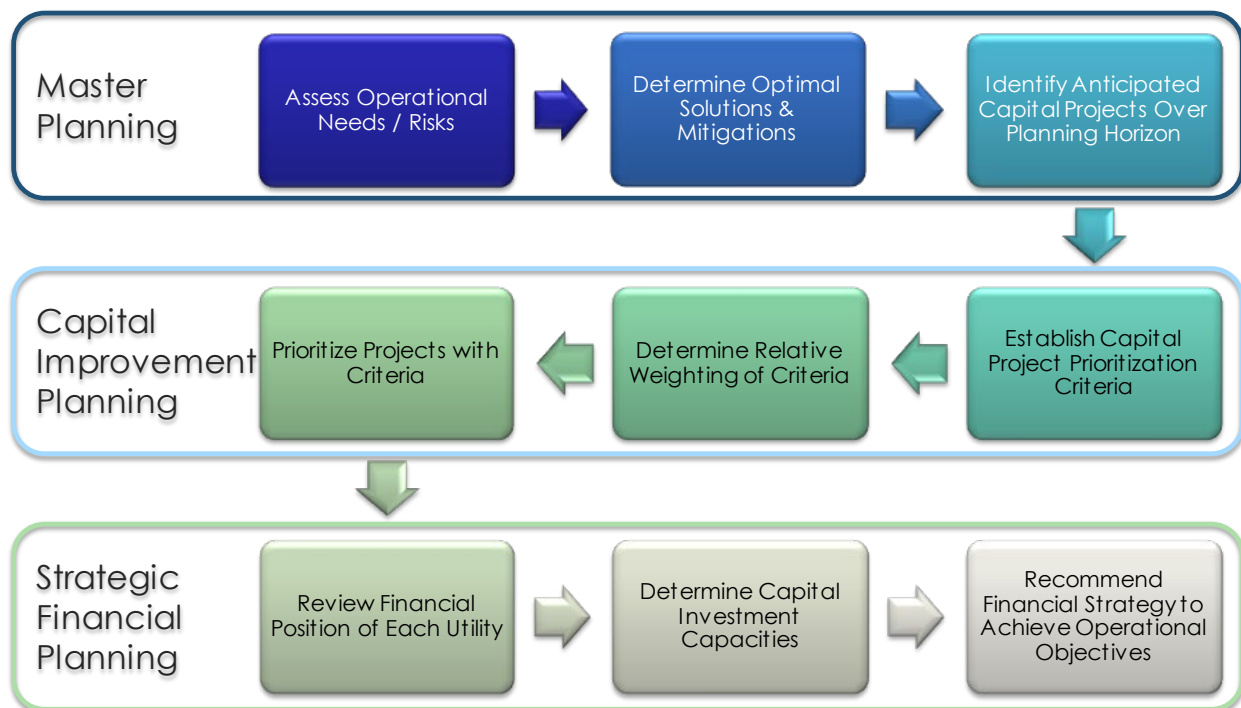
### **BACKGROUND/DISCUSSION**

The financial health of each utility Enterprise Fund depends on active management of ongoing operating and maintenance expenses as well as planning for large capital expenditures. In some years it is expected that the capital investment alone may exceed the annual operating revenues for an Enterprise Fund even before considering operating expenses. Thus the capital investment required to maintain the current levels of service provided by each of the four utility services to the community requires a long planning horizon and consistent reevaluation and prioritization. Additionally the expected operating and maintenance expenses must be forecasted and managed so that the financial sustainability of each utility

is ensured while continuing to provide the levels of service expected without large rate increases being necessary in any given year.

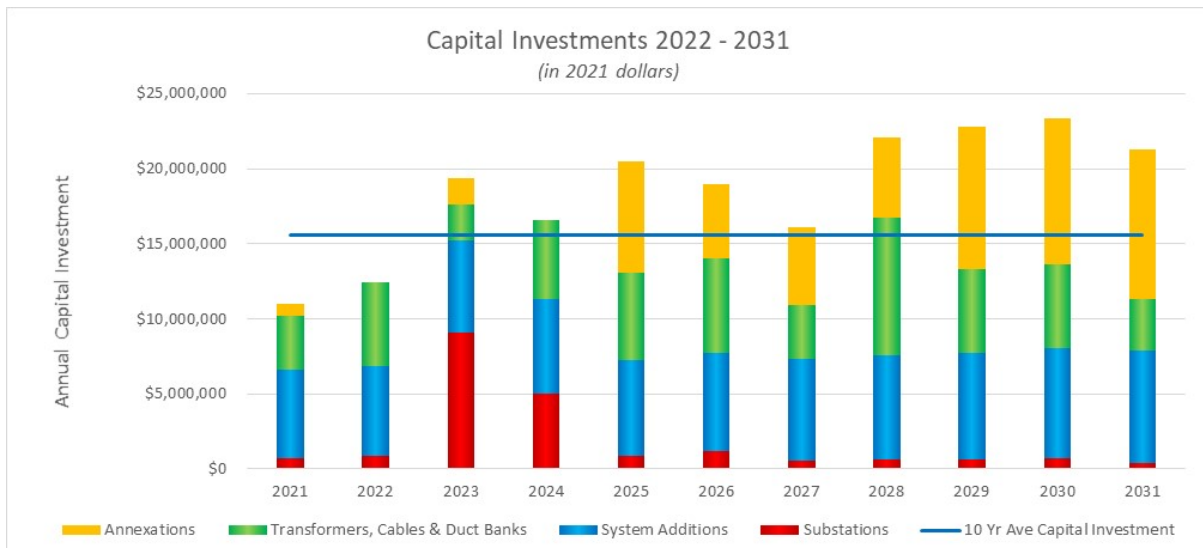
### **10 Year Capital Improvement Plans**

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



## Light & Power Enterprise Fund

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



The 2021 CIP for Light & Power at \$221M includes a significant increase in identified capital work over the 2019 CIP. The 2017 CIP identified \$165M as being needed to meet the capital investments needed over the next decade. The 2019 CIP included \$99M of capital investments. This is due in part to new growth and load projections which are anticipated to require the addition of a new substation, as had previously been forecasted. A more stable 10 year capital investment plan will allow for more modest rate adjustments when required and efficient use of bond revenues.



## Light & Power Operations

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



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

Strong revenue growth in residential sales have increased operating revenues and thereby operating income over the past decade. This revenue growth is being driven entirely by the rate increases as increased customer growth has been offset by increased efficiency. The operating revenue growth is slightly below the annual rate increases suggesting that it is not realistic to expect to fully realize the revenue growth of a proposed rate increase.

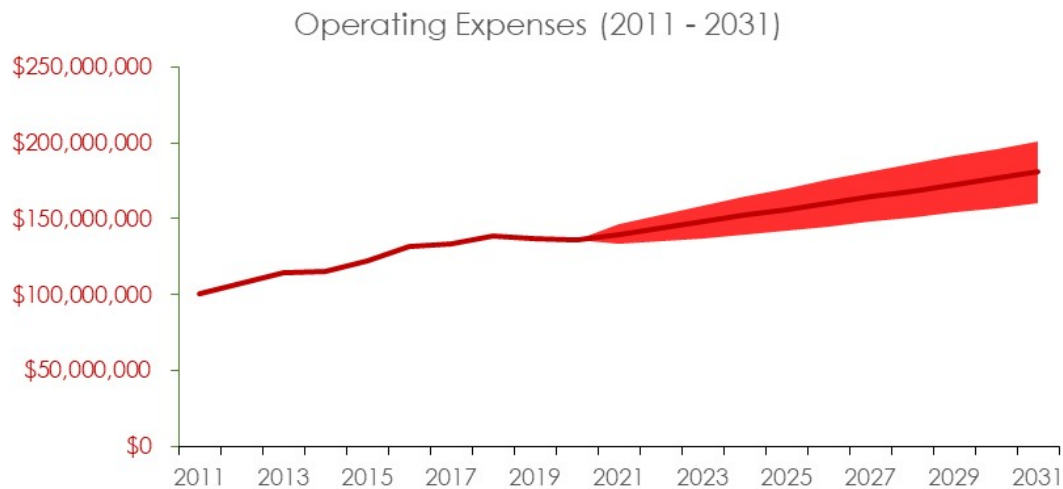
### FUND:

501 - Light & Power Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Customers	77,741	1.61%	1.70%	1.94%	1.54%
Annual Rate Adjustment	3.00%	4.15%	3.69%	3.93%	5.00%
Residential Elec Services	\$ 53,070,000	4.85%	5.52%	6.38%	12.39%
Commercial Elec Services	\$ 43,450,000	2.89%	1.17%	0.42%	-3.35%
Industrial Charges for Services	\$ 33,230,000	4.66%	3.26%	-0.27%	-2.92%
Green Energy Program	\$ 340,000	-7.05%	-8.74%	-15.40%	-33.52%
PILOTs	\$ 7,810,000	4.09%	3.47%	2.64%	3.02%
Operating Revenue	\$ 137,900,000	4.10%	3.46%	2.65%	3.04%
Development Fees/PIFs/Contributions	\$ 2,895,000	8.46%	-5.48%	-15.22%	-4.21%
Interest Revenue	\$ 247,660	-7.51%	-6.76%	-2.67%	-11.84%
Transfers In					
Other Misc	\$ 1,155,000	-1.75%	-8.53%	-18.93%	-40.47%
Non-Operating Revenue	\$ 4,297,660	3.41%	-5.44%	-14.41%	-17.88%

Light & Power O&M expenses have increased at an unsustainable rate over the past decade. This has begun to be addressed through active management (a flattening of the curve can be seen in 2018-20).

The rate and debt issuance forecasts in the plan assume that O&M will increase at a rate close to the rate of inflation.



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

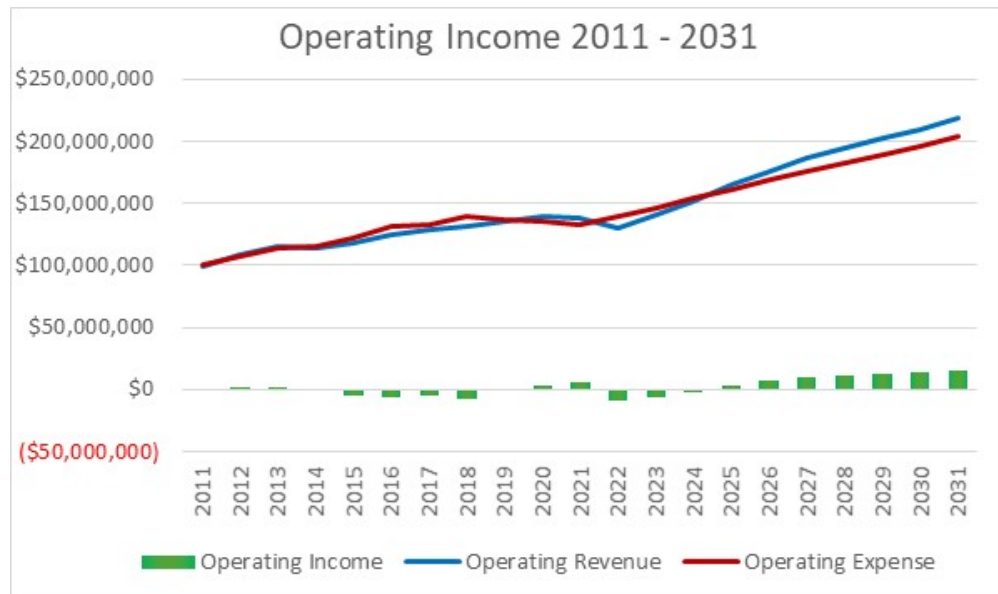
The table below shows the recent trends in expenses along with the relative size of each line through the 2021 budgeted expenses. Positive trends in purchased power expenses and L&P Operations are driving the overall trend. Fort Collins electric customers have benefited from lower wholesale purchased power increases the past few years due to some flattening of the overall load curve through load shifting under time of day rates as our contribution to the coincident peak has diminished.

FUND:

501 - Light & Power Enterprise Fund

Year	Budget				
	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Annual Demand (KWH)	1,495,938,741	0.1%	-0.2%	-0.9%	-1.8%
Purchase Power -Tariff 1 PRPA	\$ 96,550,000	3.4%	1.7%	0.0%	-2.5%
Purchase Power - Renewables PRPA	\$ 1,900,000	0.4%	0.1%	0.0%	0.0%
Purchase Pwr - Community Renewables	\$ 2,257,900	36.3%	10.4%	17.7%	32.2%
L&P Operations	\$ 9,973,705	3.7%	1.5%	-1.0%	-1.3%
Energy Services	\$ 5,723,389	1.7%	-4.0%	-7.6%	-1.6%
PILOTS	\$ 7,810,000	4.1%	3.5%	2.6%	3.0%
Admin Services - CS&A	\$ 7,263,617	3.9%	6.8%	7.9%	16.1%
Admin Services - General Fund	\$ 1,090,628	1.4%	-5.1%	-0.8%	2.5%
Other Payments & Transfers	\$ 902,398	-2.4%	-7.6%	-16.2%	-8.5%
Depreciation	\$ 12,000,000	4.6%	5.7%	3.4%	-0.8%
<b>Total Operating Expenses</b>	<b>\$ 145,471,637</b>	<b>3.6%</b>	<b>2.1%</b>	<b>0.6%</b>	<b>-0.5%</b>
Debt Service	\$ 12,660	-12.0%	-58.2%	-76.7%	0.0%
System Addition/Replacement	\$ 5,559,120	-6.5%	-17.3%	-15.2%	-17.0%
Capital (other than Sys Add)	\$ 7,647,504	-7.1%	-4.5%	-23.2%	-29.6%
<b>Total Non-operating Expenses</b>	<b>\$ 13,219,284</b>	<b>-6.8%</b>	<b>-14.2%</b>	<b>-22.9%</b>	<b>-24.0%</b>
<b>Total Expenses</b>	<b>\$ 158,690,921</b>	<b>2.6%</b>	<b>0.6%</b>	<b>-1.5%</b>	<b>-2.2%</b>

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



### Light & Power Rate and Debt Forecasts

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

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	2.0%	3.0%	4.1%	4-5%	4-5%	3-5%	2-3%	2-3%	2-4%	2-5%
Debt Issued (\$M)	\$55.0									

The overall debt capacity of the fund is determined by the net pledged revenues and targeted debt coverage ratio. The table below shows the debt capacity at various coverage ratios as well as the current outstanding debt.

#### Debt Capacity Estimation

Interest Rate:	2.50%
Net Pledged Revenue (5yr ave):	\$15,296,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$136	\$193	\$244
1.2	\$113	\$161	\$204
1.4	\$97	\$138	\$175
1.6	\$85	\$121	\$153
1.8	\$75	\$107	\$136
<b>2.0</b>	<b>\$68</b>	<b>\$96</b>	<b>\$122</b>
2.2	\$62	\$88	\$111
2.4	\$57	\$80	\$102
2.6	\$52	\$74	\$94
2.8	\$48	\$69	\$87
3.0	\$45	\$64	\$82

Outstanding Debt in 2021: \$129.6 M

## Stormwater Enterprise Fund

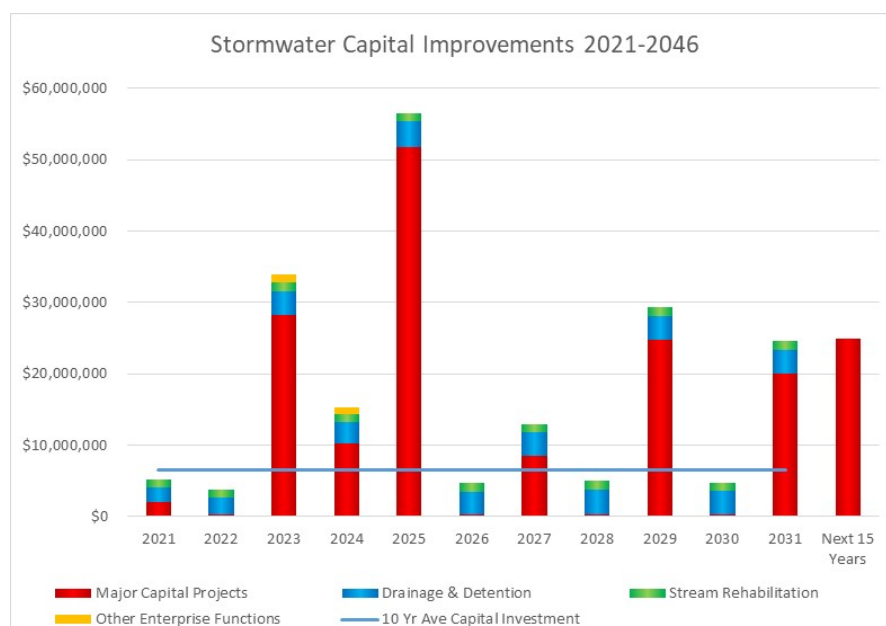
### Stormwater CIP

The Capital Improvement Plan for the Stormwater Fund includes new cost estimates for all anticipated initial buildout projects. Updating the cost estimates, along with some preliminary design refinements to some of the project requirements, increased the anticipated capital investment needed to build out the stormwater infrastructure from \$374M in the 2019 CIP to \$568M. Cost adjustments for stream restoration projects are also included in the model which now shows \$30M in stream restoration projects in addition to the water quality and flood protection projects. The CIP is now being proposed to be built over a 25 year period which as the graph below shows will still require investing almost 4 times as much each year in capital infrastructure than the previous decade's level of investment. In addition, City Council has established acceleration of the Stream Rehabilitation program as a priority. In 2016 when the Stream Rehabilitation Program was established 16% of the revenue was to be dedicated to Stream Rehabilitation Projects or \$650,000. The most recent CIP projections have been allocating \$800,000 per year. Because of the nature of these projects, that means some years \$3,100,000 is allocated for a project like in 2021 to and some years there is not an allocation like 2022. On average approximately \$800,000 per year is spent in the Stream Rehabilitation Program. The options to accelerate this program include:

1. Increase the allocation within the CIP by \$400,000 a year which would bring the total allocation to \$1,200,000 each year. This allows flexibility to address either larger projects or taking on concurrent projects depending on the size of the project.
2. Instead of doing one project every two years, do two projects every three years by having one in design while another is in construction. This may take additional staff resources to manage additional projects within the program.

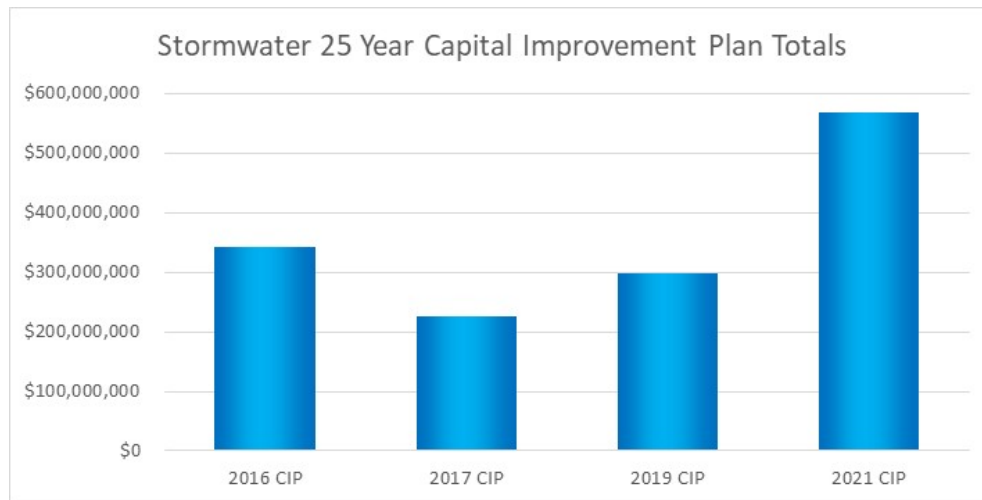
The additional financial resources for Stream Rehabilitation can either be generated through a rate increase of 2.5 percent to generate the additional \$400,000 each year needed to cover those costs or the time period for the flood protection capital work can be extended. A modest 2.5% rate increase would not limit other suggested rate increases while remaining below the 5% ceiling in the next few years and would establish the incremental revenues going forward. Taking an additional \$400,000 from the current operating income allocation for the CIP would not necessarily delay any capital project but rather would more likely lead to issuing higher revenue bonds when an issuance is needed. Please see that attached memorandum on the Stream Rehabilitation program (Attachment 2).

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



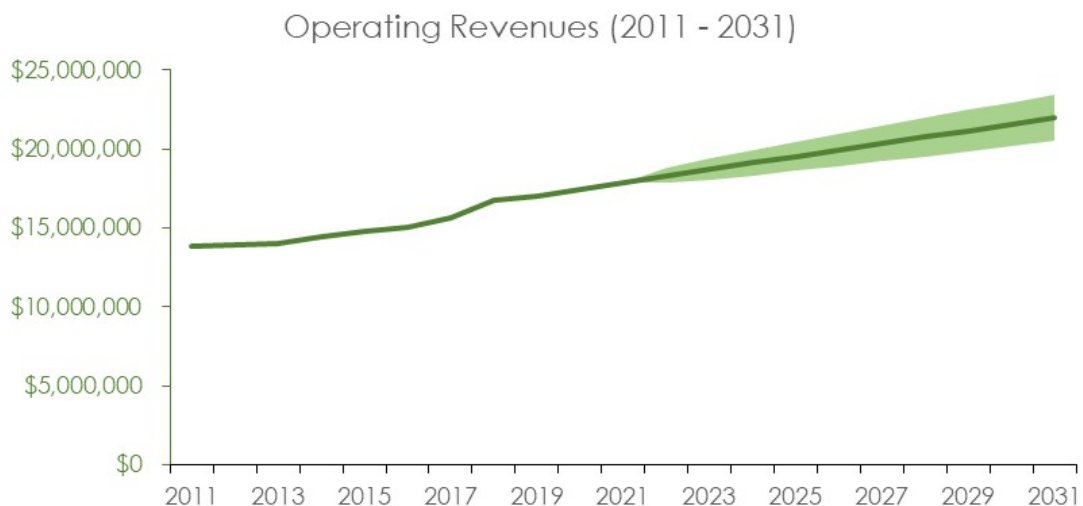
The amount of anticipated capital investment is much greater than what has been made over the previous decade. This will require significant operational planning and project management to ensure that the bond revenue is utilized efficiently.

The trend in the anticipated capital investments is cautionary. With each review and update of the capital improvement plans there is an escalation of the estimated total investment required. This is being driven primarily by higher cost estimates for known capital projects rather than from new projects being identified.



### Stormwater Operations

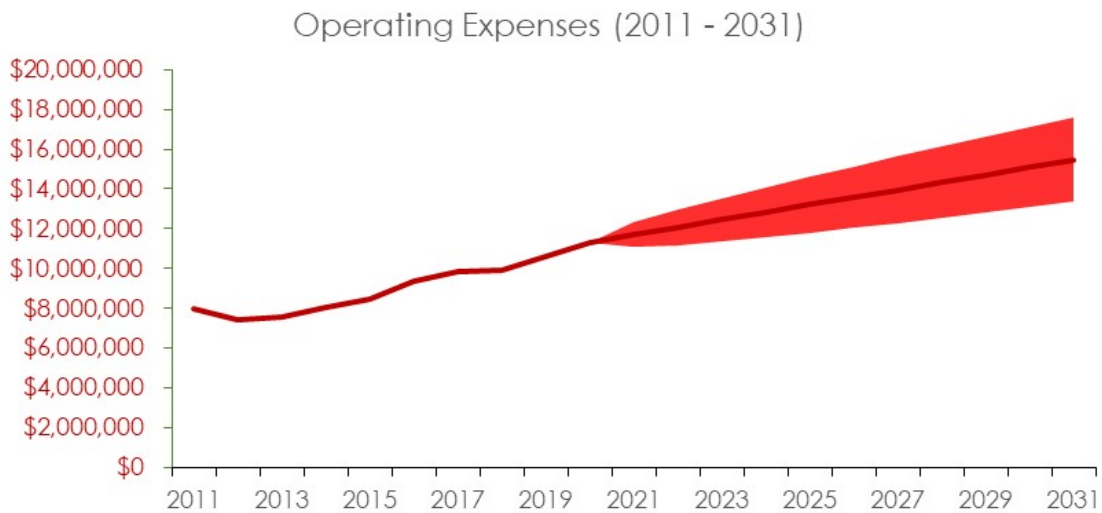
Operating revenues have grown modestly over the past decade primarily through annexations and infill development along with some modest rate adjustments.



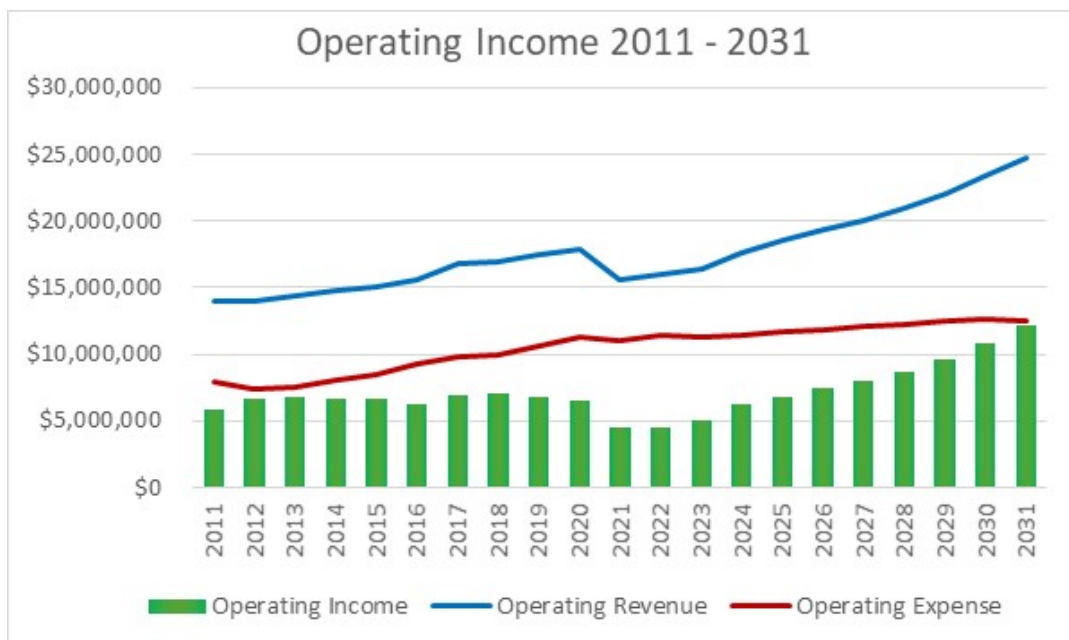
*The colored area represents the 95% confidence band around the expected operating expense.*

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





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



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

### Stormwater Rate and Debt Forecasts

With the strong operating income being generated every year in this utility only providing a fourth of the anticipated capital investment required to fully build out the infrastructure for the community over the next 25 years it will be necessary to issue significant debt to complete the remaining flood mitigation infrastructure. Significant rate increases could be implemented rather than, or in conjunction with, issuing debt, however, the capital needs are not ongoing capital needs. Rates are usually adjusted to fund ongoing operational and capital needs. There is significant debt capacity in this fund that operates with an operating margin of 40%. Increasing rates would increase the operating margin but not necessarily

allow for the initial infrastructure to be built on an accelerated schedule because of the relative scale of the capital investment compared to the operating revenues. The anticipated levelized annual capital investment required to complete the initial build out over the next 25 years along with minor capital investments required on existing infrastructure is \$20M per year. Infrastructure that is expected to last for at least 50 years into the future could be financed over that time period with those customers benefiting from the new investment paying for its cost rather than increasing rates substantially. The table below shows the amount of debt that would need to be issued over the next decade to establish this 25 year build out schedule while adhering the financial boundary conditions of gradual, modest rate adjustments, positive operating income and a debt coverage ratio of at least 2.0.

As the table below shows, there will be the need to issue debt for several capital investments over the next decade. The first such issuance should be done in 2023 as part of the 2023-24 BFO cycle. Modest rate adjustments can be made to increase the net pledged revenues available for debt service as the debt is issued or more modestly over two or three years ahead of the next issuance.

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	3-5%	3-5%	3-5%	2-3%	2-3%	2-4%	2-5%
Debt Issued (\$M)			\$80.0				\$43.0			

#### Debt Capacity Estimation

Interest Rate:	2.25%
Net Pledged Revenue (5yr ave):	\$12,011,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$107	\$152	\$192
1.2	\$89	\$126	\$160
1.4	\$76	\$108	\$137
1.6	\$67	\$95	\$120
1.8	\$59	\$84	\$107
<b>2.0</b>	<b>\$53</b>	<b>\$76</b>	<b>\$96</b>
2.2	\$48	\$69	\$87
2.4	\$44	\$63	\$80
2.6	\$41	\$58	\$74
2.8	\$38	\$54	\$69
3.0	\$36	\$51	\$64

Outstanding Debt in 2021:	\$2.1 M
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The debt capacity should be sufficient to meet the anticipated cost of the buildout of the protective infrastructure assuming a 25 year build out period rather than the 10 year schedule. The need to issue debt will drive some rate increases over the next 10 years in order to maintain the targeted debt coverage ratio of at least 2.0.

## Conclusions and Next Steps

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

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

The Stormwater Enterprise Fund has a significant amount of capital investment required to complete the initial buildout of all the needed infrastructure. Given the high operating ratio (operating income / operating revenue) and the amount of capital investment needed, this utility will require the issuance of significant debt over the next 25 years as this initial infrastructure is built. Modest rate adjustments allow for some increase in the debt capacity of this Fund but not enough to accelerate the build out. Timely debt issuances will allow for rates to remain close to current rates while completing build out over the next 25 years. Funding the Stream Rehabilitation Program at a higher level of investment could allow for 25 years of such work to be completed in 16 years.

The electric utility portion of the Light & Power and Telecommunications Enterprise Fund has an increased level of capital investment primarily driven by anticipated annexations which will require a new substation and associated equipment. Tightly managing the operating expenses will be necessary going forward to ensure adequate operating income is being generated to meet system renewal needs with modest rate adjustments. The climate action goals set by both the City and Platte River Power Authority will require rate increases as well during this same time period. A single debt issuance is anticipated as being necessary ahead of beginning the Mulberry annexation conversion work.

### **Attachments**

Attachment 1 - PowerPoint presentation

Attachment 2 – Memorandum to City Council on Stream Rehabilitation Program Update



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

**Staff:** Jennifer Poznanovic, Sr. Revenue Manager  
Ginny Sawyer, Sr. Project Manager

**Date:** December 1, 2021

**SUBJECT FOR DISCUSSION**  
Consideration of New Revenue Sources

### **EXECUTIVE SUMMARY**

The purpose of this item is to discuss specific identified revenue needs and potential funding options.

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

1. What questions does Council Finance Committee have on the identified revenue priorities?
2. Which revenue options should staff pursue?
3. Does Council Finance Committee have questions regarding upcoming election opportunities?
4. Does Council Finance Committee agree with staff proposed next steps?

### **BACKGROUND/DISCUSSION**

The three revenue needs identified through master plans include parks, transit, and housing. Annual shortfalls range from six to ten million per need. Parks and transit have specific operational plans and a focus on asset management. Housing continues to be a top Council and community priority.

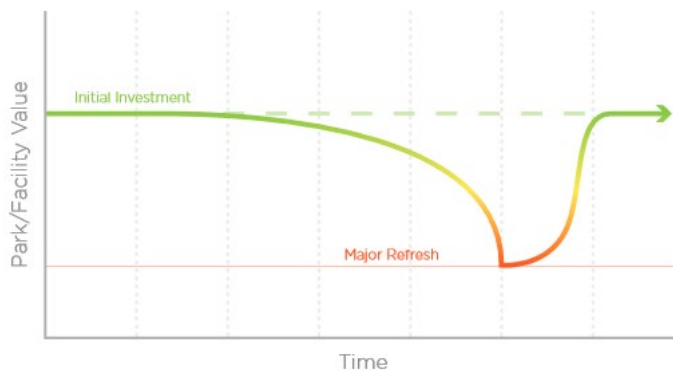
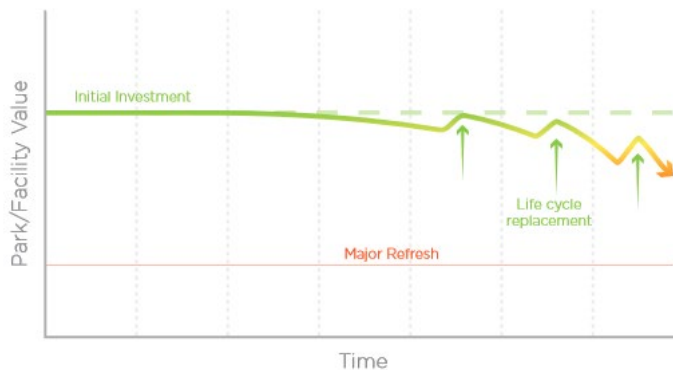
#### **Parks and Recreation**

The Parks and Recreation Master Plan was adopted on January 19, 2021, and incorporated a year of extensive staff, community and stakeholder participation. The funding section of the plan features a primary goal to enhance the financial sustainability of Parks and Recreation. While existing operations and maintenance budgets are close to what is needed, there are no dedicated funding sources for capital investment. The funding gap identified in the plan is captured in the table below:

<b>Funding Gap \$M per Parks and Recreation Master Plan (page 307)</b>				
	<b>Operations and Maintenance</b>	<b>Life Cycle Replacement</b>	<b>Minor Refresh</b>	
Parks	\$ 1.0	\$ 5.5	\$	2.7
Recreation	\$ -	\$ 0.1	\$	2.2
Planting Refresh			\$	0.6
<b>Total</b>	<b>\$ 1.0</b>	<b>\$ 5.6</b>	<b>\$</b>	<b>5.5</b>

- Operations and Maintenance - the daily tasks needed to keep parks and recreation facilities running and minor repairs to capital assets to keep them in a good state of repair.
- Life Cycle Replacement (Capital) - includes critical maintenance projects or repair of existing assets—when regular maintenance can no longer keep them in a good state of repair—safety and ADA (Americans with Disabilities Act) improvements, and existing debt service obligations. Many of these types of improvements typically require one-time funding and are not likely to increase annual operations and maintenance costs. In many cases, these types of projects may reduce annual operations and maintenance costs.
- Minor Refresh (Capital) - Minor refreshes include strategic changes to existing parks or recreation facilities to better meet the unmet needs of the community, including adding features such as play fields, shade structures, adult fitness equipment, covered picnic shelters, and trail loops to extend recreation opportunities. Minor refreshes may also include a refresh of plantings or other design elements within the framework of an existing, relevant site master plan. These types of improvements typically require one-time funding and may trigger slight increases in annual operations and maintenance costs, depending on the nature of the improvements.

The Parks and Recreation master plan identified primary goals of providing equitable access to parks and recreational experiences. By investing in ongoing life-cycle replacements and minor refreshes, community members will experience a more consistent level of service across existing amenities, while the City minimizes costs associated with the need for a major refresh.



## Transit

The Transit Master Plan (TMP), adopted by Council in April of 2019, outlines the vision and policies for expanding the transit system according to current and future demand. The costs over the next 20 years are significant and are not currently funded:

Investment	Cost
Capital Projects (pg. 73)	\$271 Million to \$308 Million
Operations and Maintenance in 2040	\$30.5 Million per year

*Table from page 85 of the Transit Master Plan*

The costs in the above table are expected to include federal grant funding to be matched by local dollars. Based on current federal allocations, the following assumptions have been made:

- **Capital Projects** - Expect 50% Federal Match
  - Local need over 20 years: **\$7.7 million annually**
- **Operations & Maintenance** - Expect 25% Federal Match
  - Local additional need at full build-out: **\$9.75 million annually**

It is important to note that the cost estimates outlined in the TMP were based on 2016 operating figures and assumptions. These projections did not account for the transition of the Transfort fleet from CNG to zero-emission vehicles, which have a significantly higher up-front cost, but an expected lower operating and maintenance cost over the life of the vehicle.

Staff have hired a consultant to conduct a comprehensive Funding Study for Transfort, which will include:

- Updated capital, operating and maintenance estimates for the 20-year span of the TMP
- Identification of a preferred, dedicated and permanent funding source or sources, including extensive public outreach
- Full analysis of the current fare structure and associated costs, as well as feasibility of a fare-free system

The Funding Study is expected to conclude no later than quarter 4 of 2022.

The TMP is an ambitious plan intended to transform mobility options throughout the City and region. This plan is also key to the City's Climate Action Plan. Plan highlights are described in the following graphic:

## Plan Highlights

### High frequency focus

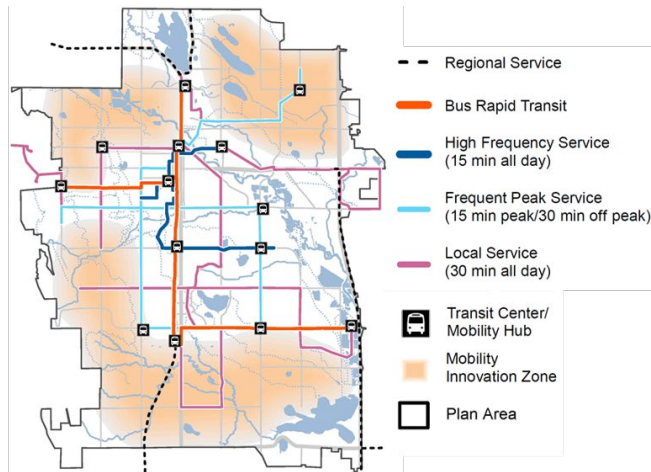
- 3 new Bus Rapid Transit routes
- 30 minute service or better throughout the system (other than BRT routes)

### ▪ Regional connections

### ▪ Mobility Hubs

### ▪ Innovation Zones

(on- demand service)



Projects in support of the TMP, which are currently in development include, but are not limited to:

- West Elizabeth Bus Rapid Transit (BRT) - This project is near completion of 30% design which will result in eligibility for Small Starts grant funding (the same program that helped complete MAX) as early as 2023, if local match can be secured. This project is currently in Project Development with the Federal Transit Administration (FTA)
- North College BRT extension – A transit-oriented development (TOD) study is currently being conducted and is expected to complete in quarter two of 2022.
- North Transit Maintenance Facility – Transfort has exceeded capacity at the Transit Maintenance Facility on Portner Road and further service expansion will require an additional facility. Staff are currently identifying potential locations for the new facility and will soon have a funding need to purchase this real estate. Once design is complete, staff will seek federal grant funding to build this project.
- Fleet Electrification Master Plan

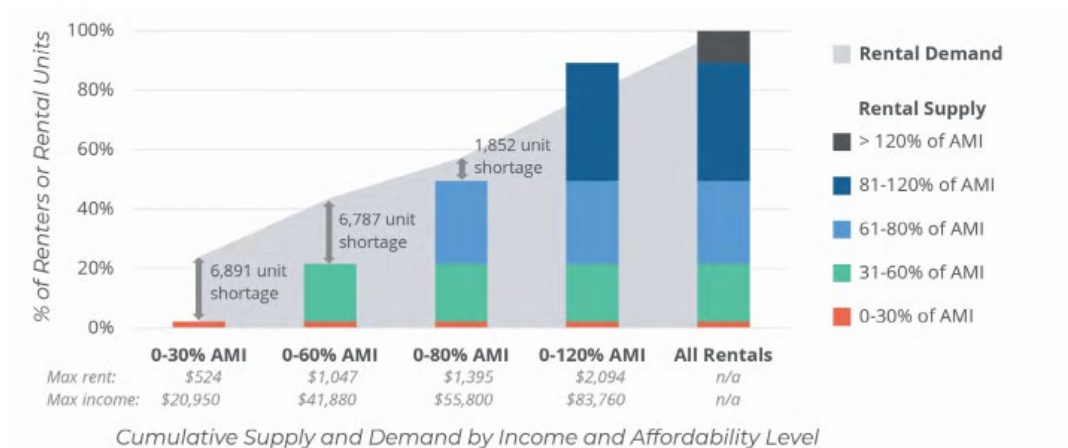
## Housing

Data compiled for the Housing Strategic Plan (HSP) illustrates that the housing needs in Fort Collins are concentrated at the lower end of the income spectrum. For renters, the need is greatest at 60% AMI and below (\$41,880 for a 2-person household); for owners, the need is greatest at 120% AMI and below (\$83,760 for a two-person household). However, it is important to acknowledge that there are also gaps in housing supply throughout the entire housing system. City Plan estimated a housing shortage of approximately 2,000 units by 2040, assuming that growth and housing production remained relatively consistent over time. In short, housing price escalation and limited availability of housing in Fort Collins will likely continue to worsen unless we can increase the overall supply of housing while also seeking to increase the community's inventory of deed-restricted, affordable housing.



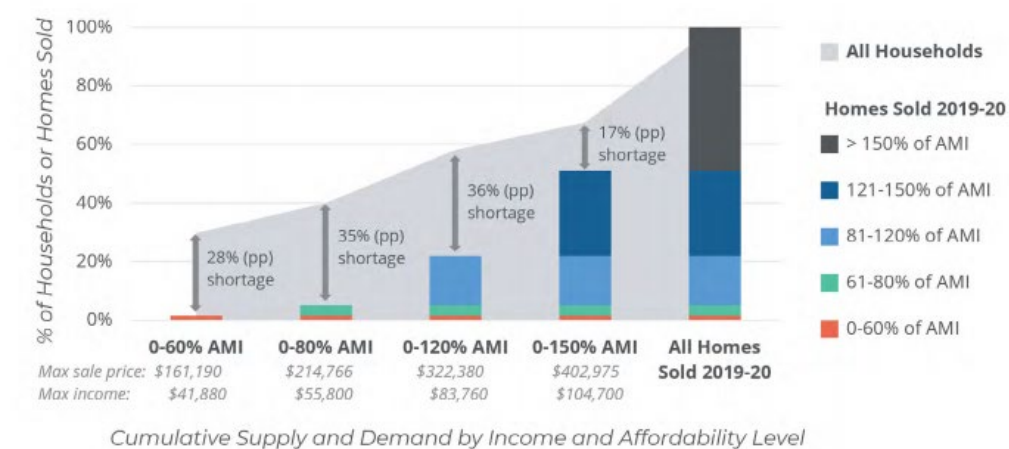
## Rental Affordability, Fort Collins, 2019

Note: Income limits assume a 2-person household and allow for 30% of monthly income for housing costs.  
Source: 2019 American Community Survey (ACS), HUD 2019 Income Limits, and Root Policy Research.

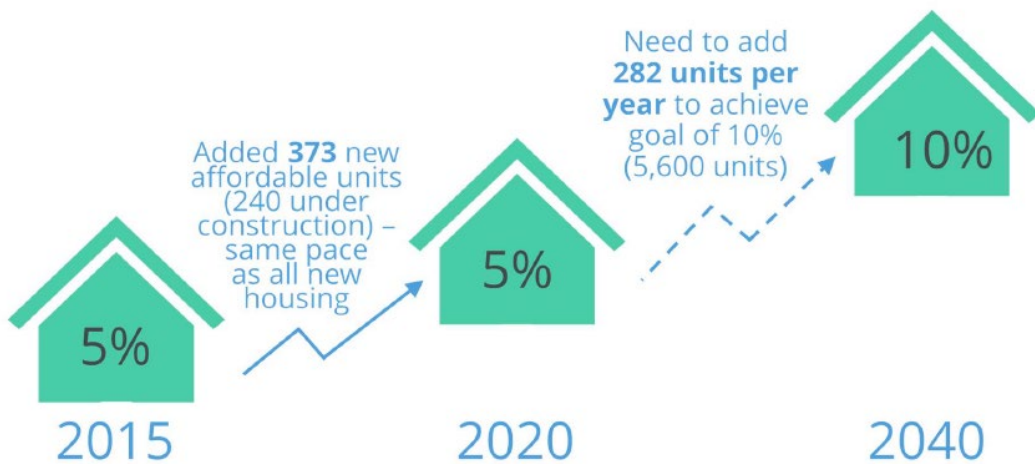


## Ownership Affordability, Fort Collins, 2019

Note: Shortage shown in percentage points (%pp). Income limits assume a 2-person household and allow for 30% of monthly income for housing costs including 30-year fixed mortgage with 4% interest rate and 5% down payment.  
Source: 2019 ACS, Larimer County Assessor Sales Database 2020, HUD 2019 Income Limits, and Root Policy Research.



In 2015, affordable housing made up 5% of the City's housing stock. Between 2015-2019, the City and its partners added 373 new affordable homes. In 2020 and 2021 to date, an additional 246 homes were added to the City's affordable housing inventory. However, the total number of housing units has also increased proportionally, which means that affordable units still make up only 5% of our overall housing stock. To get back on track to achieve our 10% goal by 2040, we need to increase the amount of affordable housing by 282 or more units every year from 2020 onward. This is more than double the City's average annual production of affordable housing.



Source: City of Fort Collins Housing Strategic Plan and Root Policy Research.

While the City has affordable housing incentives and provides between \$2 million to \$3 million in direct subsidy funding every year, these resources are not enough to meet the City's affordable housing goals. The City needs about 700 additional affordable units to meet our 2020 goal of 6% of all housing being affordable. Assuming a \$39,000 investment by the City yields one unit of affordable housing, the City would need to invest \$28,000,000 of direct subsidy funding to close the 2020 gap..

On an ongoing basis, the City's annual affordable housing production goal is 282 units or more of affordable housing each year. Again, assuming that a \$39,000 investment yields one unit of affordable housing, the estimated annual funding need for affordable housing is \$10-11.5 million per year (\$8-9.5 million above current levels). This calculation also assumes that federal subsidies for the development of affordable rental housing (Low Income Housing Tax Credits) remain steady, that there are enough tax-exempt government bonds (Private Activity Bonds, or PABs) available to support each project, and that private developers have the ability to deliver projects.

The strategy section of the Housing Strategic Plan includes recommendations for new and expanded tools and funding sources to better support achieving our housing goals. Strategy 11 specifically recommends creation of a new dedicated revenue stream for affordable housing:

- Revenue Options for Housing (Strategy 11 – Create a new dedicated revenue stream to fund the Affordable Housing Fund): Though Fort Collins invests \$2-3 million into affordable housing production and preservation annually, the HSP estimates that the total annual funding need is closer to \$10-11.5 million. Exploring a range of options (sales tax, impact fees, inclusionary housing fees-in-lieu, etc.) to generate consistent, dedicated, and flexible revenue for affordable housing will be a critical piece of HSP implementation. In addition, the current Community Capital Improvement Program quarter-cent sales tax that funds the Affordable Housing Capital Fund and other capital improvements will expire in 2025.

## Potential Revenue Options

Below is a list of potential revenue options for consideration:

	Option	Voter approval	Δ in governance	Resilient to recession	Precedent to residents	Stakeholder Impact
1	Increase the base rate	X			X	Resident, Individual
2	Dedicated sales tax	X			X	Resident, Individual
3	Repurpose ¼ cent dedicated taxes	X			X	Resident, Individual
4	Fees (parks, transit)			X	X	Resident
5	Property tax	X		X	X	Resident
6	Reconfigure capital expansion fees				X	Business
7	Tax on services	X				Resident, Individual
8	Tax on specific goods (marijuana, tobacco, alcohol, sugar beverages, etc.)	X				Resident, Individual
9	Fundraising				X	N/A
10	Special districts	X	X	X	X	Resident
11	Business occupational privilege tax	X				Business

Below are estimates of annual revenue projections for several potential revenue options:

Option	Annual Revenue Projection
Special district mill levy	\$11M+
¼ cent tax increase	\$9M+
Excise tax (ex: sugar beverages at \$0.02 per fluid ounce)	\$4M+
\$4 monthly occupational privilege tax (\$48/yr)	\$4M+
\$5 monthly fee (ex: transit, parks) (\$60/yr)	\$4M
3% tax on marijuana	\$3M
Reconfigure CEF parks fees	\$2M

Regarding Capital Expansion Fees (CEFs) it is important to note that per City Code, these fees collected are for the purpose of funding additional capital improvements required to address the impact of growth within the City as the City's population increases. They intend to regulate the use and development of land by ensuring that new growth and development in the City bear a proportionate share of the capital expenditures necessary to provide community parkland, police, fire protection, general government, neighborhood parkland and transportation capital improvements to address the impacts of growth. If Council Finance Committee chooses to further explore this option, staff will need to work with the City Attorney's Office, as reconfigured CEFs do not fall within the current standard models for CEF analysis. In addition, the imposition and calculation of CEFs, as impact fees, are legally constrained by certain constitutional and statutory requirements and limitations.

Another option is to consider these needs as existing dedicated taxes are set to expire and new measures are developed. Both the quarter cent street maintenance and Community Capital Improvement Program (CCIP) dedicated taxes are set to expire in December of 2025. Each quarter cent tax raises an estimated nine million per year.

## Timeline

Below is the current timeline for Council Meetings along with potential election opportunities:



## Proposed Next Steps

After direction from Council Finance Committee, staff plans to kick-off the project with the team comprised of executive sponsors, a core team, financial analysts and subject matter experts. Staff plans to discuss findings and an engagement outreach plan with Council during a work session in quarter two of 2022.

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

1. Consideration of New Revenue Sources (PPT)
2. [Parks and Recreation Master Plan](#)
3. [Transit Master Plan](#)
4. [Housing Strategic Plan](#)
5. Other Known Priorities and Funding Needs





## Consideration of New Revenue Sources

### Council Finance Committee

Travis Storin, Ginny Sawyer & Jennifer Poznanovic

12-01-2021

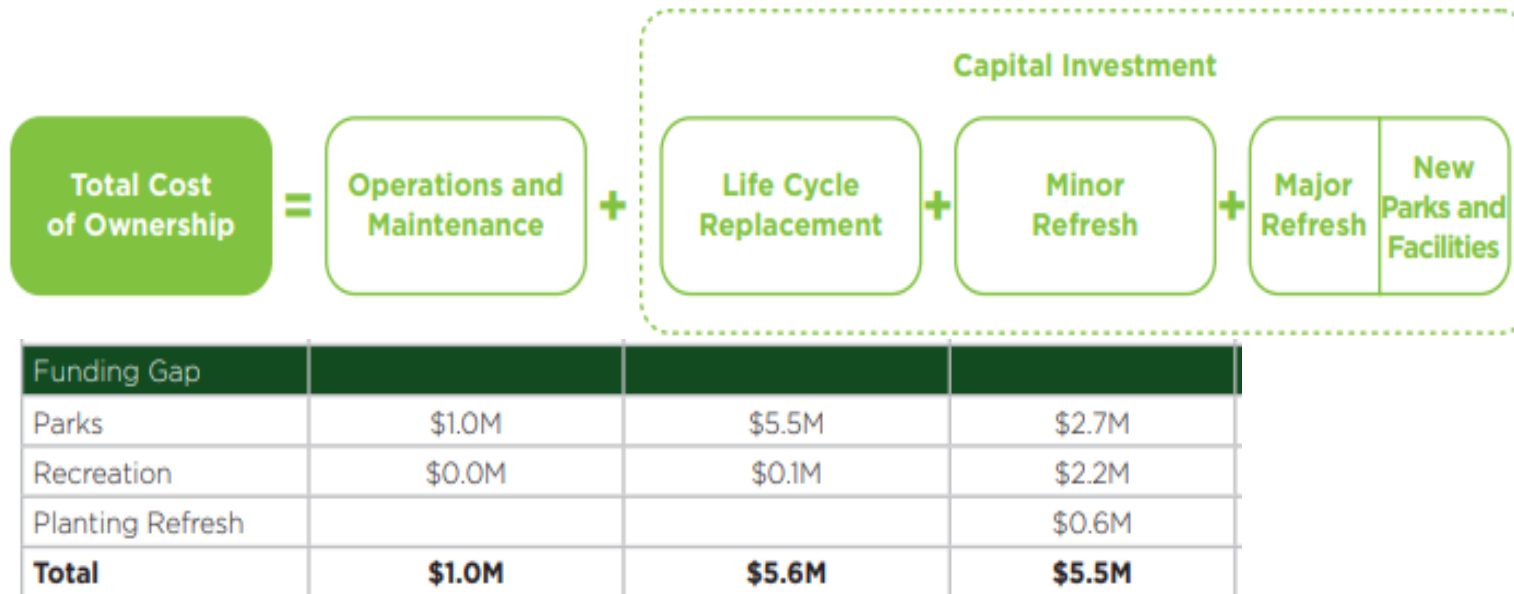


## New Revenue Consideration

Revenue needs identified through master plans

- **PARKS - \$6M to \$9M** annual shortfall (*Parks & Recreation Master Plan*)
- **TRANSIT - \$8M to \$10M** annual shortfall (*Transit Master Plan*)
  - Funding study underway – results expected October 2022
- **HOUSING - \$8M to \$9.5M** annual shortfall (*Housing Strategic Plan*)

- Aim to close **\$6M to \$9M** annual shortfall with emphasis on asset management
- Funding gaps by area identified in Parks and Recreation Mater Plan:



- Goal to provide equitable access to parks and recreational experiences

- **Average annual funding: \$2 million - \$3 million a year**
  - Competitive Process (CDBG/HOME) funding – \$1.5-2.5 million (Federal)
  - Affordable Housing Capital Fund (CCIP) – \$4M (sales tax; expires 2025)
- **Average affordable housing City subsidy, 2015-2020: ~\$39,000 per unit (CCIP/Federal)**
  - Expected yield given current average funding: 38-77 units per year
  - Annual affordable housing production goal: 282+ units per year
- **Total funding need: \$10-11.5 million annually**
  - Estimated annual ongoing need: \$10-11.5 million (additional \$8-9.5 million from current)
  - 700 units behind 2020 goal



***CLIMATE***

- Adopted goals for 2030 and 2050 and implementation of Our Climate Future Need to intensify efforts in next decade with funding needs for critical pathways
- Currently conducting peer research

***CULTURE AND ART***

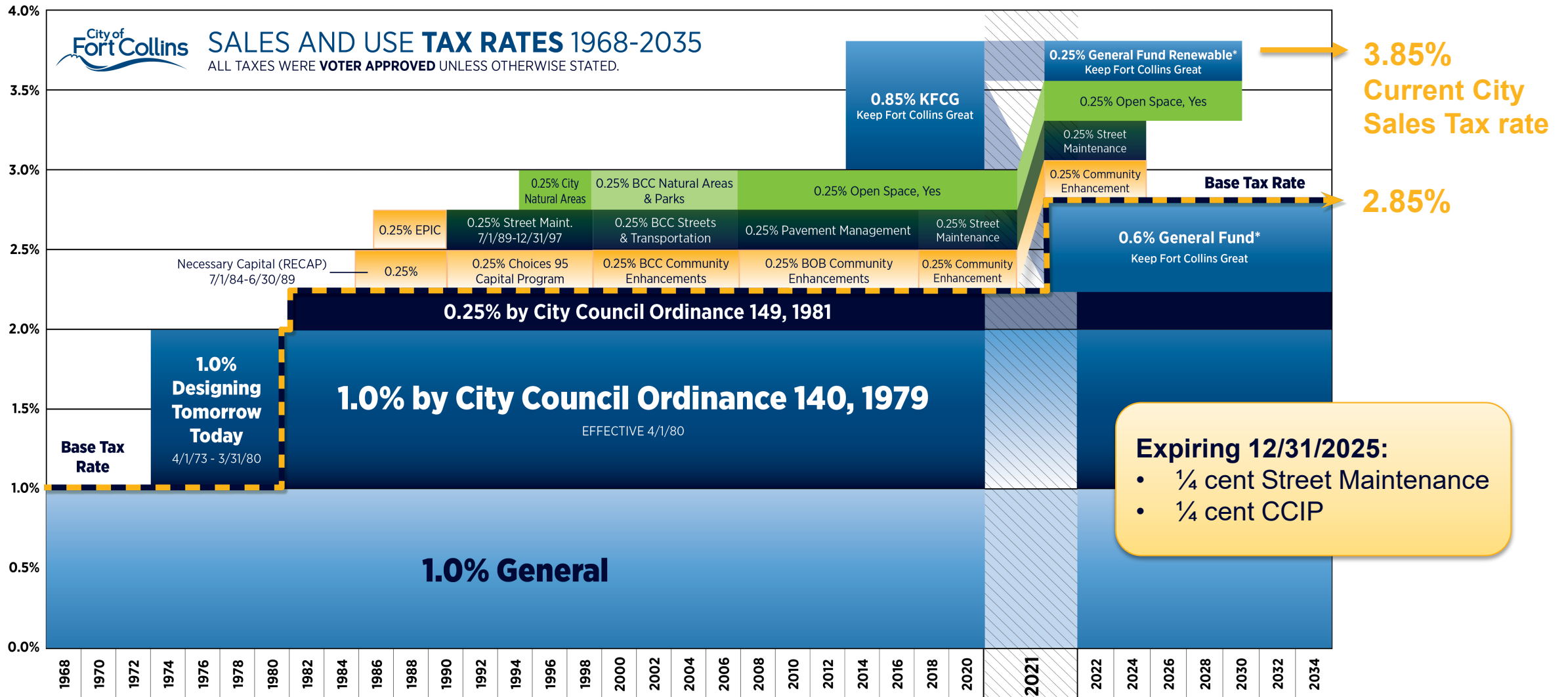
- Future capital needs estimated at \$2M per year to maintain facility portfolio

***CHILDCARE***

- Coordination with County-wide initiative
- Council Priority
- Public funding need (COVID recovery and beyond)

***REGIONAL TRANSPORTATION***

- Regional transit & trails
- Regionally significant corridors (Shields, Taft, SH 1, East Prospect, SH 14/Mulberry)



REVISED FEB 2021

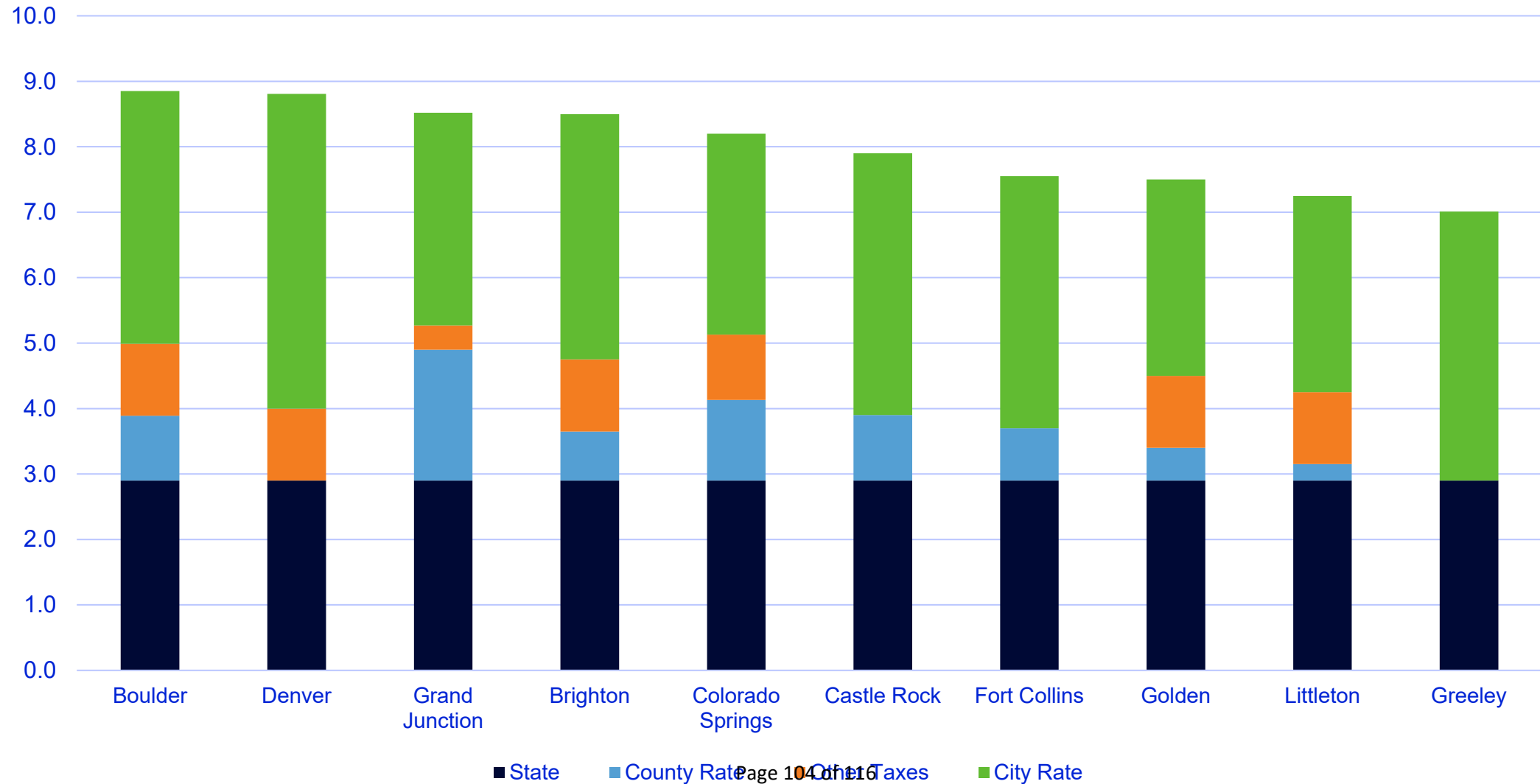
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\* KFCG revenue replacement will continue the 0.85% tax by increasing the on-going tax rate by 0.60% and adding a renewable 0.25% tax through 2030.

County	Population	Total County Mill Levy	State Rate	County Rate	Other Sales Taxes	City Rate	Seat	*Total Seat Rate
El Paso County	730,395	7.692	2.90	1.23	1.00	3.07	Colorado Springs	8.20
Denver County	715,522	--	2.90	0.00	1.10	4.81	Denver	8.81
Arapahoe County	655,070	13.013	2.90	0.25	1.10	3.00	Littleton	7.25
Jefferson County	582,910	24.578	2.90	0.50	1.10	3.00	Golden	7.50
Adams County	519,572	26.897	2.90	0.75	1.10	3.75	Brighton	8.50
Larimer County	359,066	22.458	2.90	0.80	0.00	3.85	Fort Collins	7.55
Douglas County	357,978	19.274	2.90	1.00	0.00	4.00	Castle Rock	7.90
Boulder County	330,758	24.771	2.90	0.99	1.10	3.86	Boulder	8.85
Weld County	328,981	15.038	2.90	0.00	0.00	4.11	Greeley	7.01
Mesa County	155,703	11.703	2.90	2.00	0.37	3.25	Grand Junction	8.52

\*All counties except Douglas and Larimer have other taxes that include transportation, culture and public safety

Total Tax Rates



	Option	Voter approval	Δ in governance	Resilient to recession	Precedent to residents	Stakeholder Impact
1	Increase the base rate	X			X	Resident, Individual
2	Dedicated sales tax	X			X	Resident, Individual
3	Repurpose ¼ cent dedicated taxes	X			X	Resident, Individual
4	Fees (parks, transit)			X	X	Resident
5	Property tax	X		X	X	Resident
6	Reconfigure capital expansion fees				X	Business
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9	Fundraising				X	N/A
10	Special districts	X	X	X	X	Resident
11	Business occupational privilege tax	X				Business

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\$5 monthly fee (ex: transit, parks) (\$60/yr)	\$4M
3% tax on marijuana	\$3M
Reconfigure CEF parks fees	\$2M

## Additional Considerations

Reconfigure taxes set to expire in 2025:

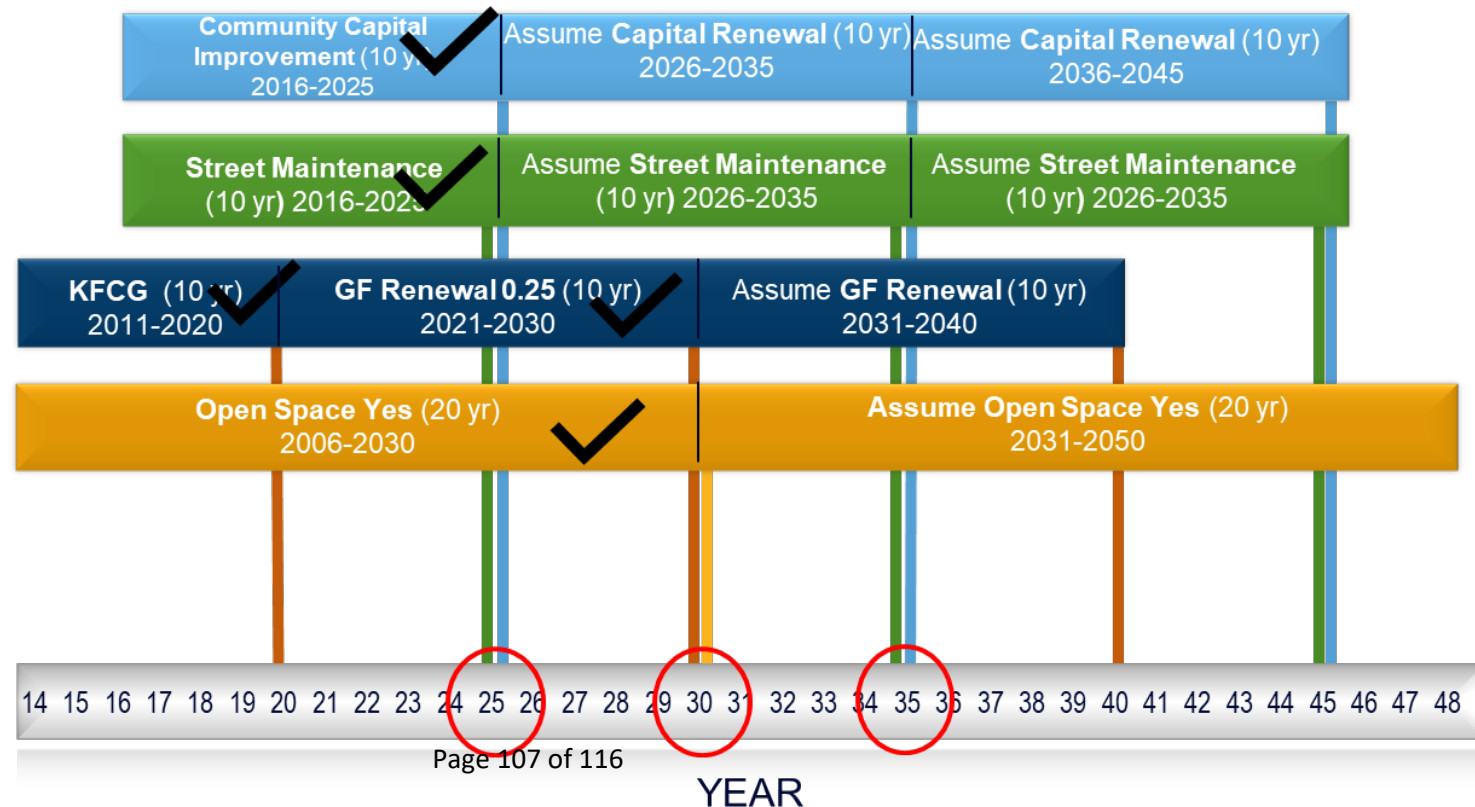
- ¼ cent Street Maintenance
- ¼ cent CCIP



# Long-term Look at Possible Tax

## Renewals

ASSUMES 10 YEAR  
TERMS



## **Executive Sponsors**

- Kelly, Kyle, Tyler, Travis

## **Core Team**

- Project Management
  - Ginny, Jennifer, Dean, Travis, Amanda, Nina

## **Financial Analysts**

- PDT, Sustainability, Community Services
  - Monica, Javier, Victoria

## **Subject Matter Experts**

- PDT, Sustainability, Community Services
  - Carrie, Jackie, Caryn, Seve, and associated staff



## **Staff team project kick-off:**

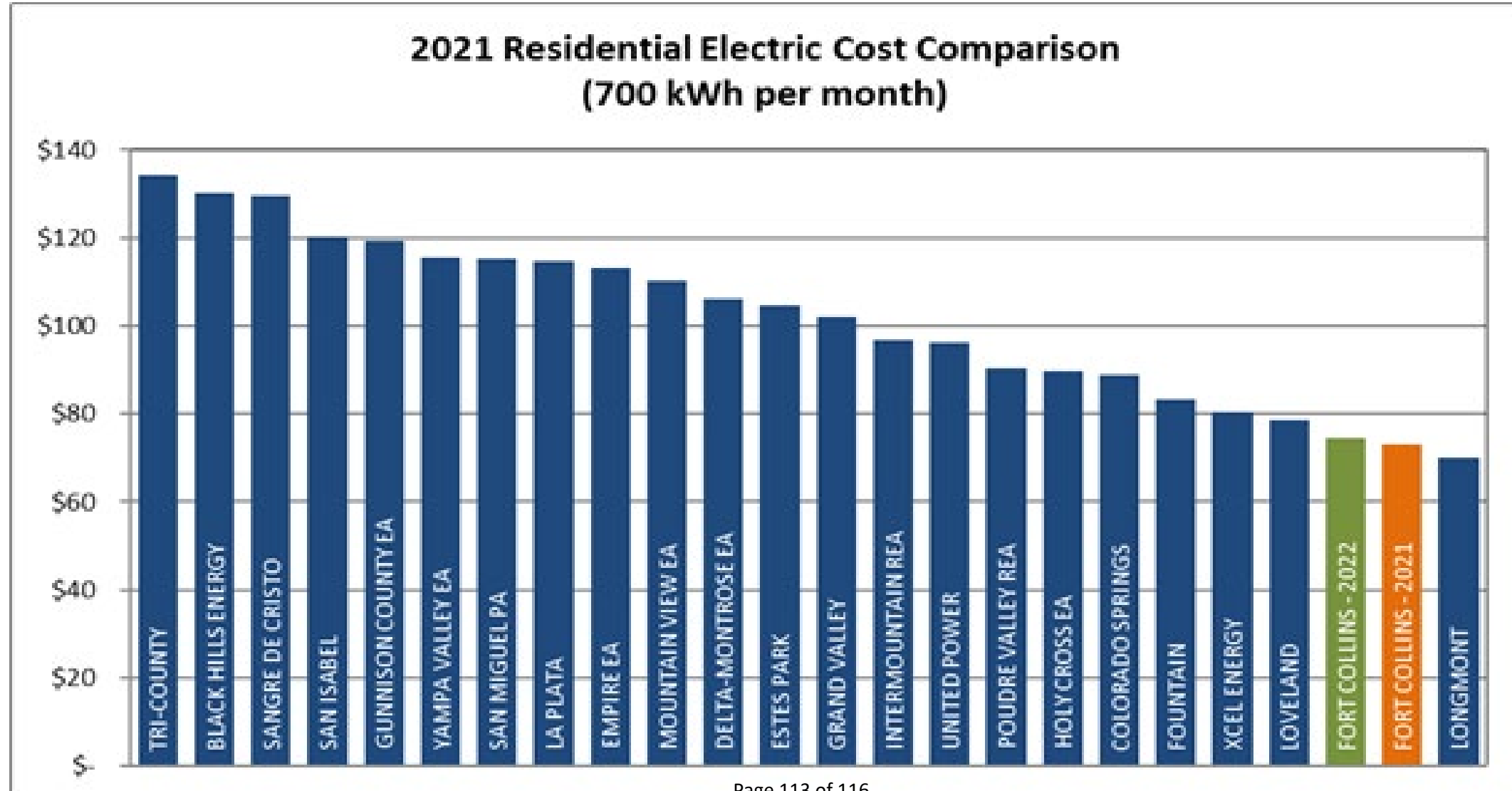
- Official project team kick-off after direction from CFC
- Council Work Session in Q2 2022
- Develop engagement outreach plan

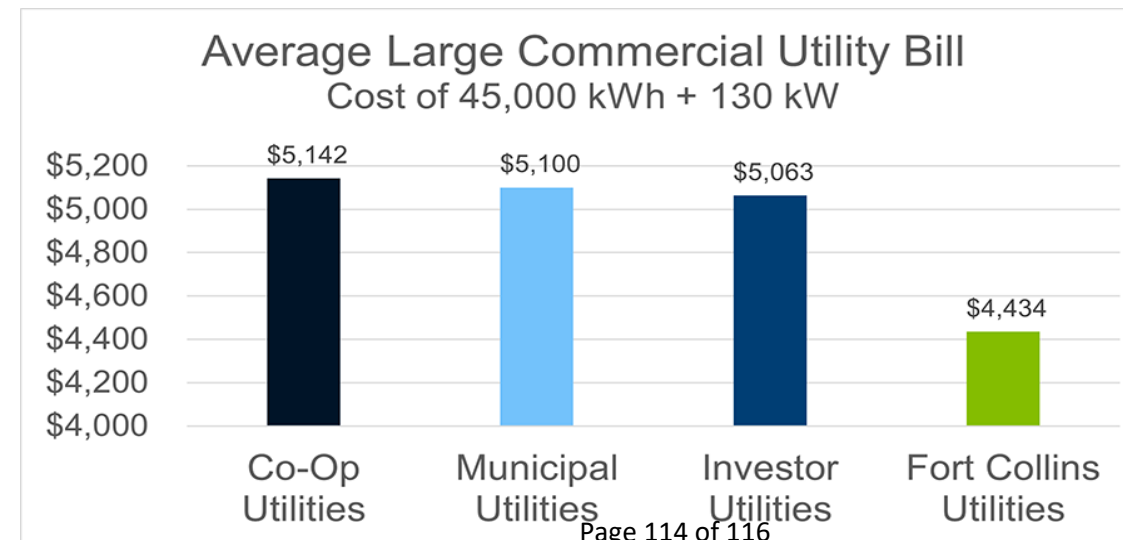
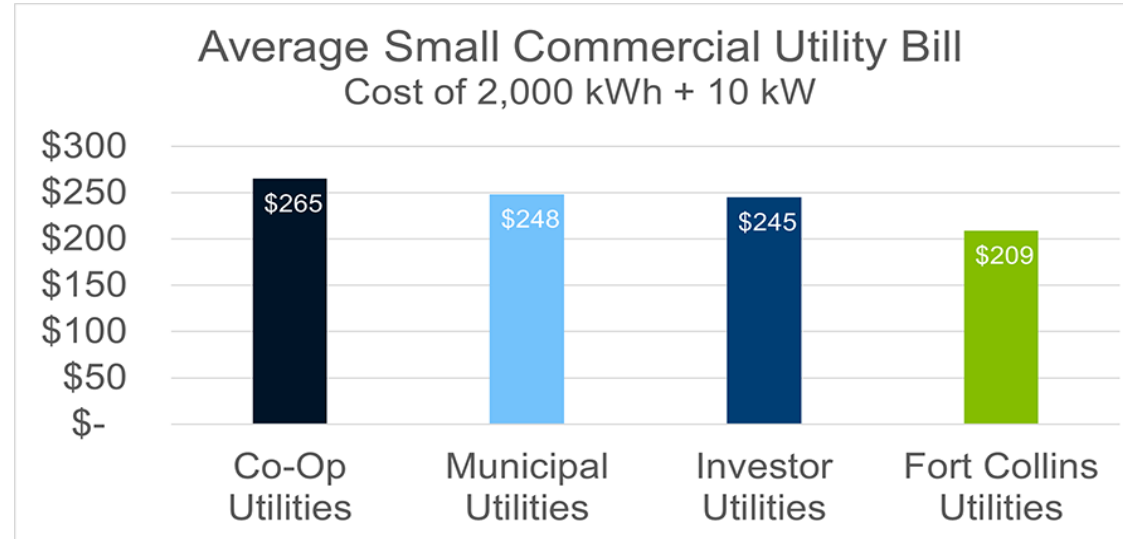
## Questions and suggestions from Council Finance Committee?

- 1) Questions on the identified revenue priorities?
- 2) Which revenue options should staff pursue?
- 3) Questions regarding upcoming election opportunities?
- 4) Agreement with staff proposed next steps?



# Backup





## **Other Known Priorities & Funding Needs**

### *Climate*

Having achieved the most recent greenhouse gas (GHG) emissions reduction target set by Council (20% drawdown by 2020), staff and the community are setting sights on 2030. Achieving an 80% reduction in GHG emissions by 2030 will require transformational leadership across sectors including significant new financial investments. Three "critical pathways" to our 2030 emissions reduction goal are 1) switching to 100% renewable electricity, 2) greatly increasing transit ridership, and 3) ensuring access to universal composting. Combined, these three initiatives will help us reach halfway to the 2030 target. Adopted Council Priorities as well as the Big Moves and Next Moves in Our Climate Future (OCF) begin to lay out additional strategies to accelerate progress on the climate emergency.

A sustainable, dedicated funding source for climate action is one way that communities around the country are filling the gap between what is currently feasible and their aspirations for a sustainable future. Regional examples include voter-approved excise taxes in Boulder (2006) and Denver (2020) that dedicate investments for climate action generating from \$1.7M up to \$40M, annually. Further analysis of peer communities will be conducted if this is an area that Council Finance Committee wishes staff to explore, including projecting cost estimates for the critical pathways and other strategies to reach 2030 goals.

### *Culture and Art*

The cost of maintaining major assets within the Cultural Department facilities are not on a budgeted replacement schedule. Addressing the needs and associated future financial impacts are paramount. Examples include: the catering kitchen and Magnolia Theater seats at The Lincoln Center, exterior furniture and structures at the Gardens such as the outdoor kitchen and classroom, green roof structure, Everitt Pavilion and the plant collection; exhibit displays, technology and the Digital Dome Theater at the Museum.

### *Childcare*

Within the Economic Health Strategic Outcome, City Council identified as a priority affordable, quality, and accessible childcare infrastructure with a focus on workforce development/retention, and to expand the City's support for system-level childcare projects. A county-wide approach may be best the method for a systems-level approach. Earlier this year, a community led proposal recommended that the Larimer County Board of County Commissioners refer a county-wide sales and use tax quarter cent increase question to voters for the purpose of supporting working parents, children, and early care and education programs in Larimer County. The initiative did not move forward but estimated that a quarter cent county-wide tax could raise \$17M per year.

### *Regional Transportation*

The City of Fort Collins plays a critical role in the transportation system of the Northern Colorado region. Working collaboratively with our regional partners to identify solutions to regional transportation issues will be critical to triple- bottom-line success for the City and the region (environmental, economic, and social health).

Regional transportation corridors have significant funding needs to improve safety, reduce congestion, and add travel options. Specific needs include improvements to regionally significant

corridors, development of a regional transit strategy, improved regional multi-modal trails, and a regional approach to travel demand management and other trip reduction strategies.

This work is aligned with Policies identified in City Plan including the following:

- Policy T 4: Pursue Regional Transportation Solutions
- Policy T 4.1 – Regional Transportation Planning
- Policy T 4.2 – Partnerships for Interstate Travel
- Policy T 4.3 – Efficient Mobility
- Policy T 4.4 – Regional Connections
- Policy T 4.5 – Partnerships for Multimodal Travel
- Policy T 4.6 – Use of Existing Railroad Rights-of-Way
- Policy T 4.7 – Future Passenger Rail
- Policy T 4.8 – Regional Transit