

AGENDA ITEM SUMMARY

March 7, 2017

City Council

STAFF

Meagan Smith, Water Resources Engineer

SUBJECT

First Reading of Ordinance No. 041, 2017, Establishing Rental Rates and Delivery Charges for Use of the City's Raw Water for 2017.

EXECUTIVE SUMMARY

The purpose of this item is to obtain City Council approval of rates and charges for the rental and delivery of Utilities' raw water supplies for 2017. These rates are used to invoice agricultural, contractual, and other raw water users. Similar to the past two years, the rates and charges for water from ditch and reservoir companies and the Colorado-Big Thompson Water Project are calculated using formulas that are based on the cost to the Water Utility. These rates and charges are generally slightly higher than last year due to increased annual assessments and other related fees imposed by the companies and the Northern Colorado Water Conservancy District. The rates and charges for the City's reusable and other "fully consumable" supplies are the same as last year.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BACKGROUND / DISCUSSION

The City is a shareholder in several local ditch and reservoir companies and also holds allotment contracts for the delivery of Colorado Big-Thompson Project (CBT) water. The main use for these raw water sources is the treatment and delivery of potable water for the Utilities' ratepayers. There are also delivery obligations to provide raw water for use by homeowners associations (HOAs), the Poudre School District, and several City departments. After these treated and raw water demands have been met, in most years there is surplus water that can be rented to other water users.

Consistent with recent historical practice, staff is proposing two categories for pricing raw water. The first category - rental rates - is used to set prices for surplus water. Typically there is demand for most of the City's raw water rental sources and there are active rental markets. The second category - delivery charges - sets prices for sources where the Utilities has an ongoing obligation to provide raw water that is used to irrigate some HOA greenbelts, Poudre School District fields, and City parks, golf courses, and cemeteries.

Each year prior to the irrigation season and after ditch and reservoir companies have established their annual assessments, City Council approves rental rates and delivery charges for the use of Utilities' raw water for the coming year. Staff uses these rates and charges for invoicing purposes. The attached tables show proposed calculations for determining rental rates and delivery charges (**Attachment 1**), assessment rates as set by the ditch and reservoir companies (**Attachment 2**), and raw water rates charged by Utilities for 2014 through 2016, with proposed rates for 2017 (**Attachment 3**).

ACTIVE RENTAL MARKETS FOR SURPLUS RAW WATER

North Poudre Irrigation Company (NPIC)

Rental Rates - Utilities expects to have surplus NPIC water available for rent. Each NPIC share has an agricultural (AG) component and a multiple-use (MU) component. The volume of water for each component varies annually and is set in April by the NPIC Board of Directors based on the company's water supply availability. Due to current legal constraints, the AG component can only be used on land served by the NPIC system and is rented to shareholders under that system. The MU portion of each NPIC share is available for Utilities' use and is largely comprised of NPIC-owned CBT water. When users in the NPIC system rent either AG or MU water, both components are delivered through the system in the same manner. Therefore, it is proposed both types of water be rented at the same rate per acre-foot. Beginning in 2015, a formula has been used to set the raw water rental rate, incorporating the NPIC assessment and share allocation to ensure the cost of the NPIC assessment was fully paid by the renter. This same method is proposed for 2017. The rental rate per acre-foot will be equal to the assessment divided by the sum of the April allocation of MU and AG water plus a \$2.00 per acre-foot administration fee, then rounded up to the nearest dollar. The actual rate will not be known until after the allocation is made in early April. In some years there is a special class of NPIC water available for agricultural users for a very limited time early in the irrigation season. This Early AG water has a limited rental market and thus warrants a significantly lower rate. If Early AG water is available in 2017, staff proposes a rental rate of \$15 per acre-foot to reflect its limited use.

Table 4A (**Attachment 4**) compares the calculated rates to rates approved by City Council for years 2011 through 2014. In most years, the two rates differed by only a few dollars. The exception was 2013 where the calculated rate would have been \$42.00 and the City Council-set rate was \$30.00. It should be noted that in 2013 very few NPIC rentals were made due to water restrictions imposed by the City related to water quality impacts of the High Park fire, coupled with low storage levels in the CBT system. Table 4B provides a possible range of calculated 2017 rental rates using the 2017 assessment of \$210 with different potential allocations.

Procedures - Utilities will continue to use a proportionate allocation method based on the requester's acreage, as has been done since 2008. This allocation method uses information provided by renters about their total land holdings served under the NPIC system. These requesting acreages are then added together and divided into the total volume of City-owned NPIC water available for rent in a given year. This acre-foot per acre ratio is then applied to each of the requesters' land holdings to determine the maximum amount of rental water available for each requester. This allocation method was developed at the request of NPIC renters in order to provide some water to all requesters each year.

Colorado Big Thompson Water (CBT)

Rental Rate - Utilities receives CBT water through allotment contracts with the Northern Colorado Water Conservancy District (Northern) and through its ownership of NPIC shares. To use CBT water from its NPIC shares, the MU portion of the share is transferred as CBT water into the Utilities' CBT account. Utilities typically holds some of the NPIC MU water for potentially high summer demands, then rents it to other (non-NPIC) renters later in the year if it was not needed. In the past, Utilities did not pay any fees on this type of transfer. However, beginning in 2015, Northern instituted a transfer fee for this type of operation. The transfer fee is based on the CBT allocation, which varies from year to year. The 2016 fee for this particular transfer was \$49.14 per acre-foot. Depending on the CBT quota, the fee for this transfer in 2017 will likely be closer to \$60 per acre-foot. The assessed transfer fee is added to the cost of the rental. This additional fee has resulted in a reduction in the number of CBT rentals made for each of the past two years. This year, staff again recommends rentals of CBT water be made at a rate equal to the calculated NPIC rate plus the cost of any transfer fees associated with the rental.

Procedures - Utilities will first meet the CBT delivery obligations to City departments and other entities with delivery agreements. Surplus CBT water will then be offered to water users on ditches that run through town. These ditches, known collectively as the "Southside Ditches", include the Arthur, New Mercer, Larimer No 2, and Warren Lake Reservoir. The Pleasant Valley Lake and Canal Company (PVLC) is also included in this tier.

Surplus CBT water will next be made available to other Poudre Basin water users. Finally, in the event any surplus CBT water remains, it will be offered to others within the entire Northern District.

Water Supply and Storage Company (WSSC)

Rental Rates - Water Supply and Storage Company shares can only be rented to water users under that system. This has been an active rental market and the recent historical rental rate of a WSSC share is \$1,000 over assessment. It is recommended this method be used to calculate the WSSC share rental rate for 2017, resulting in a rate of \$4,000 per share.

Procedures - Shares will be offered via lottery as in past years.

Reusable/Fully Consumable Sources

Utilities has occasional rental demand for reusable sources, as well as “fully consumable” sources (such as those decreed for augmentation and replacement uses) to satisfy State requirements for substitute water supply and augmentation plans. Utilities’ primary reusable sources are Joe Wright Reservoir water and reusable effluent from Utilities’ water reclamation facilities, but may also include water from Rigden Reservoir. It is proposed the rental rate for these sources be set at \$600 per acre-foot for 2017.

RAW WATER DELIVERY CHARGES

Poudre Valley and Lake Canal Company (PVLC) and the Southside Ditches Delivery Charges

This category sets charges for water delivered for use on City facilities, such as parks and golf courses, or water delivered for use by other entities having met the Utilities’ raw water requirement. Non-City entities with raw water delivery agreements are typically HOAs and the Poudre School District. It is proposed the delivery charges be set at 110% of the irrigation companies’ per share annual assessments. This is to help offset administrative costs.

Reusable Water Delivery Charges

Utilities has delivery obligations for reusable water where the Utilities’ raw water requirement has been met. For these obligations it is proposed to charge a fee of \$120 per acre-foot to help offset operational and administrative costs.

CITY FINANCIAL IMPACTS

Revenue from the rental and delivery of raw water is expected to be approximately \$500,000 for 2017. Revenues generated by rentals helps off-set the annual cost to Utilities of raw water ownership.

BOARD / COMMISSION RECOMMENDATION

At its February 16, 2017 meeting, the Water Board unanimously voted to recommend City Council adopt the proposed formulas and fixed rates for the 2017 raw water rental rates and delivery charges as proposed by Utilities staff.

PUBLIC OUTREACH

Announcements were made at the NPIC and WSSC irrigation company annual meetings regarding the availability of rental water and the processes for making requests.

ATTACHMENTS

1. Proposed Rental Rates and Delivery Charges (PDF)
2. Water Assessments(PDF)
3. Water Rental Rates and Delivery Charges (PDF)
4. Calculated and Actual Rental Rates for NPIC water (PDF)
5. Water Board minutes, February 16, 2017 (draft) (PDF)

ATTACHMENT 1

Table 1
Proposed Rental Rates and Delivery Charges

Type of Water	Rental Rates/Charges
Surplus Rental Rates	
NPIC – Early AG (<i>per ac-ft</i>)	\$ 15.00
NPIC – AG or MU (<i>per ac-ft</i>)	\$ [Assessment/ (MU+AG Allocation)] +\$2.00
CBT (<i>per ac-ft</i>)	\$ Calculated NPIC rental rate plus any Northern transfer fees
WSSC (<i>per share</i>)	\$ Assessment +\$1000.00
Reusable Sources (<i>per ac-ft</i>)	\$ 600.00
Raw Water Delivery Charges	
Arthur Irrigation Co. (<i>per share</i>)	\$ (110 % of annual assessment)
Larimer County Canal No. 2 (<i>per share</i>)	\$ (110 % of annual assessment)
New Mercer Ditch Co. (<i>per share</i>)	\$ (110 % of annual assessment)
Pleasant Valley & Lake Canal Co. (<i>per share</i>)	\$ (110 % of annual assessment)
Warren Lake Reservoir Co. (<i>per share</i>)	\$ (110 % of annual assessment)
Sherwood Res. Co. (<i>per share</i>)	\$ (110 % of annual assessment)
Sherwood Irrigation Co. (<i>per share</i>)	\$ (110 % of annual assessment)
Reusable Sources (<i>per ac-ft</i>)	\$ 120.00

Notes:

- (1) Rental rates may be adjusted to reflect the remaining yield or the prevalent market price of the water stock being rented.
- (2) The April allocation will be used to set the NPIC AG/MU price.
- (3) Rates and charges are rounded up to the nearest dollar.
- (4) The transfer fee charged on CBT rentals will be based on the quota at the time of the transfer.

ATTACHMENT 2

Table 2
Water Assessments

	2015	2016	2017
CBT (NCWCD, \$/unit)	30.50	35.50	42.40
North Poudre Irrigation Co. (\$/sh)	200.00	200.00	210.00
Water Supply & Storage Co. (\$/sh)	2,900.00	2,900.00	3,000.00
Arthur Irrigation Co. (\$/sh)	20.00	57.00	50.00
Larimer County Canal #2 (\$/sh)	350.00	450.00	600.00
New Mercer (\$/sh)	450.00	450.00	750.00
Pleasant Valley & Lake Canal (\$/sh)	185.00	185.00	190.00
Warren Lake (\$/sh)	500.00	250.00	400.00
Sherwood Reservoir (\$/sh)	160.00	57.00	57.00
Sherwood Irrigation (\$/sh)	1,500.00	1,500.00	1,545.00
Reusable Sources (\$/ac-ft)	n/a	n/a	n/a

ATTACHMENT 3

Table 3
Water Rental Rates and Delivery Charges

Source	2015	2016	2017
<i>Surplus Water Rental Rates</i>			
CBT Water (\$/ac-ft)	59.00	45.00	<i>NPIC rate</i>
Transfer fee – NPIC CBT to City (\$/ac-ft)	41.43	49.14	<i>Determined in April</i>
NPIC – Early AG (\$/ac-ft)	15.00	15.00	15.00
NPIC – AG or MU (\$/ac-ft)	59.00	45.00	<i>Determined in April</i>
Water Supply & Storage Co (\$/sh)	3,500.00	3,900.00	4,000.00
Reusable Sources (\$/ac-ft)	600.00	600.00	600.00
<i>Raw Water Delivery Charges</i>			
Arthur Irrigation Co. (\$/sh)	22.00	63.00	70.00
Larimer County Canal #2 (\$/sh)	385.00	495.00	660.00
New Mercer (\$/sh)	495.00	495.00	825.00
Pleasant Valley & Lake Canal (\$/sh)	203.50	204.00	209.00
Warren Lake (\$/sh)	550.00	275.00	440.00
Sherwood Reservoir (\$/sh)	176.00	63.00	63.00
Sherwood Irrigation (\$/sh)	1,650.00	1,650.00	1,700.00
Reusable Sources (\$/ac-ft)	120.00	120.00	120.00

Notes:

- (1) Rates may be adjusted to reflect the remaining yield or the prevalent market price of the water stock being rented.
- (2) Charges for those who have satisfied the City's raw water requirements are set at 110% of the assessments charged by that company.
- (3) The transfer fee charged on CBT rentals will be based on the quota at the time of the transfer.

ATTACHMENT 4

Table 4A
Calculated and Actual Rental Rates for NPIC Water
(for years prior to using the calculated method)

	2011	2012	2013	2014
NPIC Assessments (\$/share)	110.00	110.00	120.00	130.00
April AG Allotment (acre-feet/share)2.00	1.00	1.00	2.00	
April MU Allotment (acre-feet/share)2.00	3.25	2.00	2.20	
Total April Allotment (acre-feet/share)	4.00	4.25	3.00	4.20
Assessment Cost (\$/acre-foot)	27.50	25.88	40.00	30.95
Administration Fee (\$/acre-foot)	2.00	2.00	2.00	2.00
Calculated Rental Rate (\$/acre-foot)	30.00	28.00	42.00	33.00
Actual Rental Rate Charged (\$/acre-foot)	30.00	30.00	30.00	35.00

Table 4B
Anticipated Range of NPIC Rental Rates for 2017

NPIC Assessment (\$/share)	210.00	210.00	210.00	210.00
April Ag Allotment (acre-feet/share)	1.25	1.50	2.00	2.50
April MU Allotment (acre-feet/share)	2.25	2.50	2.75	3.00
Total April Allotment (acre-feet/share)	3.50	4.00	4.75	5.50
Assessment Cost (\$/acre-foot)	60.00	52.50	44.21	38.18
Administration Fee (\$/acre-foot)	2.00	2.00	2.00	2.00
Calculated Rental Rate (\$/acre-foot)	62.00	55.00	47.00	41.00

Excerpt from Unapproved Water Board Minutes – February 16, 2017

2017 Raw Water Rental Rates and Delivery Charges

(Attachments available upon request)

The City is a shareholder in several local irrigation companies and also holds allotment contracts for delivery of Colorado Big-Thompson Project (CBT) water. Once treated and raw water demands have been met – to Utilities ratepayers, HOAs, Poudre School District, and several City departments – in most years surplus water exists that can be rented to other water users. Water Resources Engineer Meagan Smith summarized the rates and charges staff is proposing for 2017. The rates and charges are used to invoice agricultural, contractual, and other raw water users. The item is scheduled for two readings before City Council in March.

Discussion Highlights

Board members commented and inquired about various related topics, including the formulas used to determine proposed rental rates and delivery charges, raw water customers' reaction to the Rule 11 Transfer Fee (formula used to calculate the fee the City pays for all CBT water transferred out of the North Poudre Irrigation Company system), and the amount of total demand last year (26,000 af),

Board Member Steve Malers moved that Water Board recommend City Council adopt the proposed formulas and fixed rates for the 2017 raw water rental rates and delivery charges as proposed by Utilities staff.

Board Member Michael Brown seconded the motion

Vote on the motion: It passed unanimously 10-0

ORDINANCE NO. 041, 2017
 OF THE COUNCIL OF THE CITY OF FORT COLLINS
 ESTABLISHING RENTAL RATES AND DELIVERY CHARGES
 FOR USE OF THE CITY'S RAW WATER FOR 2017

WHEREAS, pursuant to Article XII, Section 4 of the City Charter, if at any time the water supply is greater than the immediate needs of the City and its inhabitants, the City Council may authorize the City Manager to permit the use of such surplus water by consumers outside the City at such rates as the City Council may prescribe, provided that no vested right shall accrue under such permits; and

WHEREAS, pursuant to Article XII, Section 6 of the City Charter, the City Council shall by ordinance from time to time fix, establish, maintain, and provide for the collection of such rates, fees, or charges for water furnished by the City as will produce revenues sufficient to pay the cost of operation and maintenance of the City's utilities in good repair and working order and to provide and maintain an adequate working capital fund for the day-to-day business operations of the utilities; and

WHEREAS, the Water Board discussed the rental program and the rates on February 16, 2017, and recommended that the rental rates and delivery charges set forth herein be prescribed; and

WHEREAS, City staff and the Water Board have made a recommendation to City Council regarding rental rates of surplus raw water for 2017, as set forth in the following table, to be made available to persons outside the City or persons who have not been deemed to have satisfied the City's raw water requirements:

RATES FOR RENTALS OF SURPLUS RAW WATER	
Type of Water	Rate Per Acre Foot
North Poudre Irrigation Company (NPIC): Early Agricultural Use Water	\$15.00 per acre foot
NPIC: Seasonal Agricultural Use and Multiple Use Water	(Annual Assessment for 2017 / (Sum of Allocation of Seasonal Agricultural Use and Multiple Use Water per share)) + \$2.00 per acre foot
Colorado-Big Thompson Water from the Northern Colorado Water Conservancy District (NCWCD)	Rate for NPIC: Seasonal Agricultural Use and Multiple Use Water + any NCWCD transfer fees calculated at the time of transfer
Reusable / Other "Fully Consumable" Sources	\$600.00 per acre foot
Type of Water	Rate Per Share
Water Supply and Storage Company	Annual Assessment for 2017 + \$1,000.00 share

; and

WHEREAS, City staff and the Water Board have made a recommendation to City Council regarding raw water delivery charges for 2017, as set forth in the following table, to be made available to persons deemed to have satisfied the City’s raw water requirements:

RAW WATER DELIVERY CHARGES	
Type of Water	Rate Per Share
Arthur Irrigation Company	110% of Annual Assessment for 2017
Larimer County Canal No. 2 Irrigating Company	110% of Annual Assessment for 2017
New Mercer Ditch Company	110% of Annual Assessment for 2017
Pleasant Valley and Lake Canal Company	110% of Annual Assessment for 2017
Warren Lake Reservoir Company	110% of Annual Assessment for 2017
Sherwood Reservoir Company	110% of Annual Assessment for 2017
Sherwood Irrigation Company	110% of Annual Assessment for 2017
Type of Water	Rate Per Acre Foot
Reusable Other “Fully Consumable” Sources	\$120.00 per acre foot

; and

WHEREAS, the rental rates and delivery charges will be rounded up to the nearest dollar, when necessary; and

WHEREAS, the rental rates and delivery charges will be adjusted by City staff, as necessary, to reflect the remaining yield or the prevalent market price of the water or shares being rented in order to prevent undue economic loss to the City; and

WHEREAS, City Council finds that the rates set forth herein are appropriate and will provide revenues sufficient to pay the cost of operation and maintenance of the City’s utilities in good repair and working order and to provide and maintain an adequate working capital fund for the day-to-day business operations of the utilities.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

Section 1. That the City Council hereby makes and adopts the determinations and findings contained in the recitals set forth above.

Section 2. That the rental rates and delivery charges set forth above are hereby approved as the City’s rental rates and delivery charges for 2017.

Section 3. The City Manager and the Utilities Executive Director are authorized to rent or deliver such raw water at the rental rates and delivery charges set forth above, provided that the rental rates and delivery charges set forth above may be adjusted by the Utilities Executive Director as he determines necessary to reflect the remaining yield for the prevalent market price of the water or shares being rented in order to prevent undue economic loss to the City.

Introduced, considered favorably on first reading, and ordered published this 7th day of March, A.D. 2017, and to be presented for final passage on the 21st day of March, A.D. 2017.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 21th day of March, A.D. 2017.

Mayor

ATTEST:

City Clerk