**ATTACHMENT F**

Stantec

**Stantec Consulting Services Inc.**
370 Interlocken Boulevard Suite 300, Broomfield CO 80021-8012

September 14, 2021

**Attention: Anne Glassman, Business Solutions Manager**
Castle Rock Water
175 Kellogg Ct.
Castle Rock, CO 80109

Dear Anne,

**Reference: Stantec Financial Review Services for Castle Rock Water's 2021 Rates and Fees Study, Volume 2 of 2, System Development Fees**

As part of the 2021 Rates and Fees Study, Stantec Consulting Services Inc. (Stantec) was engaged by Castle Rock Water (CRW) to update the modeling tools used in the study with current data as well as provide review and feedback during the study of CRW's methodology and findings. In updating the modeling tools, Stantec has relied on the information and data presented by CRW without independent verification. During the course of the study, discussions with CRW staff focused on reasonableness of the data used, as well as financial policies and comparisons with best practices in the industry.

The approaches followed by CRW in calculating the water, water resources, and wastewater system development fees (SDFs), and the stormwater development impact fee (DIF), adhere to industry best practices. Both the American Water Works Association (AWWA) and Water Environment Federation (WEF) endorse these methods as acceptable approaches to calculating growth-related fees. By applying the hybrid approach for the three SDFs (water, wastewater, and water resources), CRW ensures new connections are paying for their share of existing available capacity (buy-in approach), in addition to paying for capital projects intended to provide additional capacity for new connections (incremental approach). This approach achieves intergenerational equity by placing new and existing customers on even footing, in terms of equity in CRW's systems. This approach also complies with the Colorado Revised Statutes on impact fees (CRS 29-20-104.5).

CRW has followed a consistent approach to calculating its SDFs and DIFs for many years. In 2020, Stantec provided a consolidated SDF for the water, water resources, and wastewater systems. The consolidated model evaluates SDFs following the same methodology as the individual models, with simpler modeling for a more intuitive approach. We used this same approach to update, review, and discuss the SDF approach and results.

As discussed in the 2020 study, SDFs require capacity analyses of CRW's capital improvement program (CIP) projects. We recommend that CRW continue to work with its engineering managers to evaluate and refine additional capacities each project provides.

Stantec also recommends that CRW continues to track changes in asset values and CIP costs used to calculate fees over time. The 2021 study data reflected a change in the Town of Castle Rock Finance Department tracking of certain assets, which had an impact on the SDF calculations. Tracking changes over time allows CRW to better explain changes in SDFs over time. Theoretically, assets should increase as CIP projects are completed, and decrease as existing assets are depreciated. As CIP projects and cost

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estimates are evaluated and refined each year, CRW can better project expected changes in its SDFs as overall infrastructure values and capacities are updated.

In determining the Treatment Fee Component of the Wastewater SDF, the methodology uses the growth-related component of investments made in the Plum Creek Water Reclamation Authority (PCWRA) treatment plant. These investments are based on costs to expand and improve the system and are adjusted only when new expansions or improvements to the plant are needed. The Treatment Fee Component for 2021 includes the 2019 expansion costs and a second expansion for PCWRA. The calculated SDF for wastewater is actually lower than the calculated 2020 fee due to lower actual 2019 expansion costs. The 2020 fee was not implemented; however, Stantec recommends CRW adjust its Treatment Fee Component over the next five years to align the calculated fee with the implemented fee and our recommendations outlined below.

In past years, implemented increases in CRW's SDFs and DIFs were different than the model calculated fees. Calculated fees represent a defensible range of fees that could be implemented to recover the growth-related investments in CRW's systems. Implementing lower fees or no change in fees is a policy decision; however, this has long-term impacts on Castle Rock's balance between revenue sources and uses from new customers versus existing customers. Stantec recommends that CRW consider implementing annual increases to its SDFs over a five-year period to achieve the calculated SDFs and DIFs.

We also propose that CRW actively track SDFs sources (revenues) and uses (expenses) of funds separately from operating funds. Working on the flow of funds during CRW's annual financial planning process will help determine if revenues collected from new customers are appropriately recovering the costs of growth.

Stantec often advises utilities to apply an escalation factor to calculated SDFs to account for increases in costs of materials and other inputs to the construction of capital improvements. Stantec has previously recommended adjusting the fees only if necessary, during the annual rates and fees study when material changes are made to CRW's fixed assets and/or CIP. Given the current recommendation of implementing annual increases to the fees that achieve the methodology-calculated result over five years, Stantec advises adjusting the schedule if cost changes indicate the need to update the fees during subsequent rates and fees studies.

Finally, CRW's routine update of the Customer Characteristics report continues to provide clarity as to appropriate meter equivalency factors, thereby promoting intra class equity.

Stantec's specific recommendations for CRW's SDFs and DIF are found in the Summary of the Volume 2 of 2 System Development Fees Report.

We enjoyed the opportunity to work with you and your staff on this study. Please contact me at (330) 271-9125 if you have any questions.

Regards,

**Reference: Stantec Financial Review Services for Castle Rock Water's 2021 Rates and Fees Study, Volume 2 of 2, System Development Fees**

**Carol Malesky**
Principal, Financial Services

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