Stantec

Stantec Consulting Services Inc.
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September 16, 2022

Attention: Nichol Bussey, Business Solutions and Support Manager
Castle Rock Water
175 Kellogg Ct.
Castle Rock, CO 80109

Dear Nichol,

Reference: Stantec Financial Review Services for Castle Rock Water's 2022 Rates and Fees Study, Volume 2 of 2, System Development Fees

As part of the 2022 Rates and Fees Study, Stantec Consulting Services Inc. (Stantec) was engaged by Castle Rock Water (CRW) to assist CRW staff with updating the modeling tools used in the study with current data as well as providing 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 included reasonableness of the data used, detailed discussions with engineering managers, and comparisons of financial policies 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 2022, Stantec and CRW staff completed in-depth capacity analyses of CRW's capital improvement program (CIP) projects. This activity resulted in more current estimates of capacities provided by utility functions. We recommend that CRW continue to work with its engineering managers to evaluate and refine additional capacities each project provides.

As in prior years, Stantec recommends that CRW continues to track changes in asset values and CIP costs used to calculate fees over time. The 2022 study identified at least one asset, a pump station, that had not been accounted for in the existing assets in the prior year. This had an impact on the water resources 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 estimates are evaluated and refined each year, CRW can better project expected changes in its SDFs as overall infrastructure values and capacities are updated.

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In previous studies, the calculated single family equivalents (SFEs) able to be served by each system function were based on level of service assumptions and total functional capacities. At times, the number of SFEs by function exceeded the expected new SFEs through buildout based on population estimates and current count of SFEs. In this study, Stantec and CRW staff limited the number of SFEs by function to the expected new SFEs through buildout. Theoretically, the calculated SDFs should recover the full cost of growth over the expected SFEs.

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. In 2022, to address trending changes in water rights acquisition costs and growth rates, CRW implement the calculated SDFs and DIFs in full. For 2023, Stantec and CRW staff proposed implementing SDFs that are limited to 10% over the current SDFs, followed by annual adjustments until the calculated fees are reached, or updated SDF calculations recommend a different level of fee.

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 intraclass equity.

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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,

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