



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

August 13, 2020

**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 2020 Rates and Fees Study, Volume 2 of 2, System Development Fees**

As part of the 2020 Rates and Fees Study, Stantec Consulting Services Inc. (Stantec) was engaged by Castle Rock Water (CRW) as a third-party reviewer of CRW's methodology and findings. In preparing review comments and recommendations, Stantec has relied on the information and data presented by CRW without independent verification. The intent of our review was to provide an outside perspective of CRW's work products and models, as well as financial policies, based on our experience and 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. For 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. This functionality allows CRW to update, review, and explain the SDF approach and results more easily.

The consolidated SDF model requires a capacity analysis of CRW's capital improvement program (CIP) projects. We recommend that CRW work with its engineering team, annually, to determine additional capacities each project provides.

With annual updates to its SDFs and DIFs, CRW can track changes in asset values used to calculate fees over time. Theoretically, assets should increase as CIP projects are completed, and decrease as existing assets are depreciated. CIP changes from year-to-year can also be tracked. As cost estimates are 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 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 2020 includes two expansions for PCWRA. While the calculated SDF for wastewater is higher than the 2019 fee, no increase in fees is being implemented for 2020.

In 2019, implemented increases in CRW's SDFs and DIFs were less 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. Stantec recommends that CRW evaluate the effect on SDF and DIF revenues over time of implementing fee adjustments that are less than calculated. Tracking adjustments to SDFs and revenues collected can be coordinated with CRW's annual financial planning process to determine if revenues collected from new customers are appropriately recovering the costs of growth.

In the past, Stantec has advised that utilities apply an escalation factor to calculated SDFs to account for increases in costs of materials and other inputs to the construction of capital improvements. In 2019, Stantec 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 practice of implementing fees that are, at times, less than the methodology-calculated result, Stantec agrees with escalating the fees annually at the rate of change in the Engineering News Record (ENR) Construction Cost Index (CCI) until the fees are recalculated during the next rates and fees study.

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



**Carol Malesky**  
Principal, Financial Services

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