



# Water Acquisition Fee: Fee Escalator Presentation

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August 14, 2017

# Purpose of this Presentation

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- This is a follow-up to the Water Acquisition fee presentation on April 17, 2017
- Purpose and desired outcome:
  - The purpose is to provide information and obtain Council direction on the water acquisition fee annual inflator



# Background

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- When City prepared Long-Range Financial Plan in early 2000's, water for future City facilities was identified as a major unfunded future obligation
- In 2003 Ordinance 1402 established fee & set the annual fee escalation at 10% per year
- Fee currently frozen
- Escalator returns to 10% per year 2019-1-1

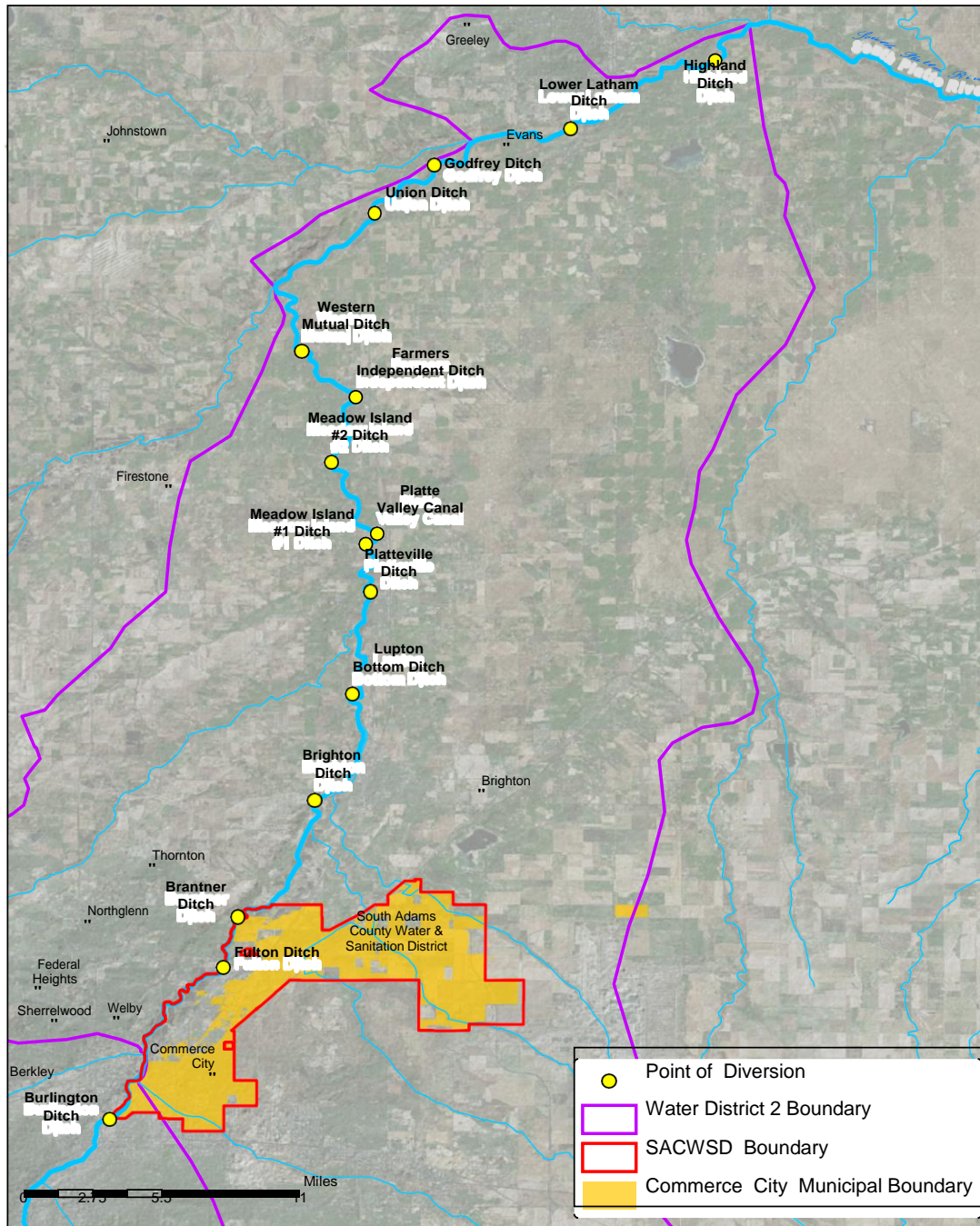


# 2017 Actions

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- April 17 recommendation, based on staff research, was to set escalator at 8.8%
- Council directed staff to engage outside firm to research and report on water rights purchases
- WestWater Research provided report that:
  - Examined historic pricing & appreciation rates
  - Assessed multiple published price indices for relevance to water rights appreciation rates





# Water Sales Research Findings

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- Research found:
  - Within South Platte, Water District 2, an active market for ditch company shares exists
  - Average of 944 acre-feet changed hands annually
  - 2003-2008 prices rose average 9.18% annually
  - 2009-2012 prices fell average 3.76% annually
  - 2013-2017 prices inflated 8.67% annually
  - Water rights closer to Denver sold at premium
  - Water rights from ditch companies with storage sold at premium



# Indices Research Findings

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- Research found:
  - Consumer Price Index – All Urban Consumers: the CPI-U has risen at compound annual rate of 2.09%
    - So CPI-U is not a valid index for water prices
  - S&P Case-Shiller Denver Home Price Index: is more volatile than water rights prices
    - 2012-2017 real estate prices rose 24.56%
    - 2013-2017 water rights prices inflated 8.67% annually
    - So S&P Case-Shiller Denver Home Price Index is not a valid index for water prices



# Indices Research Findings con't <sup>8</sup>

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- Research found:
  - Water Rights Price Index: compiles prices for water rights across Western United States from 12 actively traded markets in 8 western states, including South Platte River Basin
    - 2003-2015 Water Rights Price Index rose 9.17% annually
    - Water rights prices are highly localized
    - So Water Rights Price Index is not a valid index for water prices in South Platte River Basin





# Recommendations

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WestWater Research recommends a 7.75% annual escalator for the water rights acquisition fee

WestWater Research recommends Commerce City reassess the annual escalator every 3 years





# Discussion and Direction

