



Harvey Economics ♦ 469 South Cherry Street, Suite 100 ♦ Denver, Colorado 80246
tel. 720.889.2755 ♦ fax 720.889.2752 ♦ www.harveyeconomics.com ♦ he@harveyeconomics.com

MEMORANDUM

TO: BOARD OF DIRECTORS, BLUE VALLEY METROPOLITAN DISTRICT

FROM: ED HARVEY AND JESSICA HARVEY

DATE: AUGUST 4, 2026

RE: ECONOMIC BASIS FOR WATER CONNECTION FEES INSIDE AND OUTSIDE
DISTRICT BOUNDARIES

BVMD Background and Request

Blue Valley Metropolitan District (BVMD or District) is a special district located in Grand County, Colorado, serving the Blue Valley Acres community. The District is located near Silverthorne, just north on State Highway 9 towards Green Mountain Reservoir. BVMD currently serves 127 homes with a total of 168 taps. The District provides potable water service and is responsible for the ownership, operation, maintenance, and long-term replacement of the community's water infrastructure. BVMD is governed by an elected Board of Directors and regularly undertakes planning and capital investment activities necessary to maintain reliable water service and regulatory compliance.

BVMD hired Harvey Economics (HE) to evaluate its current water connection fee structure, specifically the appropriate relationship between fees charged to new customers located within District boundaries (inside-district) versus those located outside (outside-district). BVMD wanted to know if the current fee structure for outside-district charges is justified, considering the value of existing system assets, planned future capital investments, and the financial obligations associated with serving new customers.

This memorandum summarizes HE's review of industry practices, Colorado comparables, and the economic rationale supporting connection fees and differential fee structures for BVMD customers.

HE Approach, Data Sources and Limitations

Our analysis relies on:

- BVMD financial and infrastructure information provided by the District;
- Previous capital planning work completed by Raftelis and District staff;
- Historical BVMD financial statements;

- Published tap fee, plant investment fee, system development fee, and connection fee schedules from water providers in Grand County, Summit County, and other areas of Colorado; and
- Guidance from the American Water Works Association (AWWA) concerning water rates, fees, and charges.

Considering the above information, HE applied its own knowledge and experience with water rate making and financial analyses for utilities to reach conclusions and recommendations for new customer fees and the differential for inside- and outside-district customers.

Basis for Connection Fees

New customer fees come under various names (i.e., connection fees, plant investment fees, water resource fees) but the basic concept is to charge new customers for the right to receive regular water service. These fees generally serve as buy-in payments for new customers toward the assets and infrastructure that have already been financed by existing customers. As relevant, the payments may also be applied to the costs for future system expansion, capacity improvements, and the replacement of existing infrastructure.

The American Water Works Association's Principles of Water Rates, Fees, and Charges (M1) identifies connection fees, system development charges, and related growth-related fees as established mechanisms for allocating utility costs fairly among customers to ensure that new customers contribute their share toward utility assets and future capital requirements.¹ This principle is particularly important for smaller districts with limited customer bases because infrastructure costs are often concentrated among relatively few users. AWWA guidance emphasizes cost-based approaches designed to recover both existing system investment and capacity-related costs associated with future growth: a *buy-in fee* approach captures the previous investment in water system assets; an *incremental* or *marginal cost fee* approach captures future costs for growth or capital replacement; and a *combined new customer fee* approach captures both. HE applied the combined fee method to this analysis of BVMD.

Buy-In Water Connection Charge

Any new BVMD water customer will benefit from previous investments the District has made, and these costs should be recouped at a minimum. At present, the 168 current tap holders have funded those investments. District build-out will be met with 18 future tap sales; five taps inside the District and 13 outside.²

According to the December 31, 2025, Statement of Financial Position for BVMD, the total undepreciated capital assets amount to \$1,476,377.³ Existing tap holders invested \$8,788 per

¹ AWWA Principles of Water Rates, Fees and Charges, ppg.321-339, 2025,

² Buck McNichols, BVMD President, May 2026.

³ Blue Valley Metropolitan District Financial Statements, December 31, 2025.

tap at one time for these assets. Over the years, the capital assets have depreciated; the net asset position after depreciation was \$1,167,477 as of year-end 2025, or \$6,949 per tap. This figure represents an accounting artifact and does not represent actual remaining life of District assets, suggesting the per tap value is higher.

However, existing customer investment and current system value is likely much higher than the per tap figures portray. Existing customers have also invested in resources and water rights which allow for continual service. They have invested in the management of all the District's assets over the years. Hence, the buy-in value embedded in the tap fees should be considerably higher than either the \$6,949 or \$8,788 figure.

Incremental Charge for Future Capital Outlays

The District faces capital requirements to keep the water system operating and make improvements where possible. A capital improvement plan (CIP) was prepared by Raftelis in 2021, which suggested that over \$2 million would need to be invested in the BVMD between 2021 and 2031.⁴ Presumably, certain items in the 2021 CIP have been completed or partially completed, which might reduce the total amount outstanding. However, the Raftelis analysis utilized annual inflation assumptions of approximately 3 percent. Since completion of that study, actual construction cost inflation across the utility sector has materially exceeded historical norms. Consequently, the replacement value of BVMD assets and future capital requirements are likely significantly higher when expressed in current dollars.

Although a more updated CIP was not available for this study, \$2 million in future capital requirements is still a reasonable starting assumption. To fund many of these capital needs, BVMD will presumably seek grant funding and loans from state agencies such as the Colorado Water Conservation Board or the Colorado Water Resource or Power Development Authority. The District will meet its financial obligations through water sales and connection fees or other available revenue mechanisms. Regardless, the tap holders and customers will need to meet the revenue requirements.

If the 18 new taps joined the existing tap-holders, there would be a total of 186 taps at build-out. Taking into consideration the \$2 million for future capital obligations, the per tap obligation for CIP items for all customers would be \$10,752 per tap, paid through connection fees and water rates.

Importantly, these calculations do not include:

- Water resources and water rights;
- Future system planning and management; or
- Regulatory compliance obligations.

⁴ Raftelis, "District Financial Plan and Water Rate and Fee Study Findings and Recommendations," December 13, 2021.

Accordingly, these per-tap estimates should be viewed as indicators of future obligations and are conservative measures of required future contributions.

Inside–Outside New Customer Fees for Other Water Providers in Colorado

The fee setting practices for new customers of other Colorado water providers can provide a benchmark for BVMD, keeping in mind that the service areas, capital needs, and customer bases of water providers vary widely. HE reviewed new customer fees for select Grand County and Summit County water providers and water providers elsewhere in Colorado.

Grand and Summit counties. Table 1 presents the most recent new customer fees for select water providers in Grand and Summit counties.⁵

Table 1.
New Customer Fees for Select Water Providers in Grand and Summit Counties

Water Provider	Inside-Boundary Tap Fees	Outside-Boundary Tap Fees	Outside/Inside Ratio
<u>Grand County</u>			
Grand County Water & Sanitation District No. 1	\$17,000	\$19,839	1.17
Tabernash Meadows Water and Sanitation District	\$14,000	*	
Town of Fraser	\$7,700	\$15,400	2.00
Valley at Winter Park Water District	\$6,500	No	
<u>Summit County</u>			
Mesa Cortina Water and Sanitation District	\$11,810	*	
Snake River Water District	\$12,000	\$18,000	1.50
Town of Breckenridge	\$19,815	\$24,769	1.25
Town of Dillon	\$12,084	\$24,168	2.00
Town of Frisco	\$10,475	\$15,713	1.50
Town of Silverthorne	\$9,476	No	

Note: * indicates the district has the right to charge a different tap fee for services outside district boundaries.

Sources: Colorado Information Marketplace, Map of Water and Sanitation Districts in Colorado, 2026; Individual Water District Websites, 2026.

Several observations can be offered from this table. First, the range of new customer fees from these providers varies from \$6,500 to \$19,815. Second, while some entities differentiate between inside- and outside-boundary customers, others only state they have the right to charge different fees for outside-boundary service. Still others simply do not offer service

⁵ Websites of Grand County and Summit County water providers, 2026.

outside of town boundaries. Third, the ratio of outside- to inside-boundary fees ranges from 1.17 to 2.

Published fee schedules vary considerably among utilities, and not every provider publicly reports separate in-district and outside-district fees. Consequently, the benchmark data should be viewed as representative rather than exhaustive.

Comparables elsewhere in Colorado. HE reviewed connection fees and inside-outside fee ratios, or multipliers, for several other water providers. Including Denver Water, the Town of Erie, South Adams County Water and Sanitation District, Dove Creek, and the Town of Eagle.⁶ Outside-district multipliers for these water utilities range from 1.15 to 2 times the inside-district fees. An average multiplier from these sample entities is between 1.5 or 1.6.

Summary. Based on our benchmark review, the practice of setting new water customer connection fees for inside and outside of service areas varies quite widely. Many utilities do differentiate these fees, whereas others do not make a distinction. An average multiplier of those districts HE reviewed falls in the 1.4 to 1.6 range. An outside-inside ratio, or multiplier, of 2.0 falls within the range observed among Colorado providers, albeit at the higher end.

Conclusions and Recommendations

To respond to the BVMD request to evaluate an inside-district/outside-district relationship with new customer connection fees. HE considered the basis for new connection fees and then examined present BVMD assets and future capital obligations. Existing depreciated assets are estimated to be \$6,949 per tap and future capital obligations are roughly estimated at \$10,752. The combined method of fee setting would sum this to \$17,701 per tap. This value is conservative as it fails to account for water resource value, past management, and potential future loan obligations. Of course, future grants and water revenues will offset these expenses to an extent as well. The current BVMD inside-district rate (\$12,000) and outside-district rate (\$24,000), or the average of those two (\$18,000), falls within the range of the combined method rate calculations.

HE also considered comparables to benchmark the inside-district/outside-district ratio or multiplier. Benchmarks found in our research of select water providers in the region and elsewhere in Colorado suggest a 1.5 to 2.0 multiplier, although the lower end of that range is more prevalent.

Based on the foregoing, HE believes the District has considerable flexibility in setting new customer fees across inside-outside customers. If raising inside-District fees is an option, In our opinion, two alternatives are equally justified:

⁶ Websites of various Colorado water providers, 2026.

1. Continue with the existing inside-outside fees of \$12,000 and \$24,000, respectively. These fees help recoup past system investments and future capital needs. The multiplier is evident in the region and elsewhere in Colorado.
2. Raise the in-District new customer fee to \$18,000 as justified by the past and future District investment and apply a 1.5 multiplier to derive an outside-district new customer fee of \$27,000. Current system value and future capital needs support the \$18,000 in-District fee and the 1.5 multiplier is quite common.

Both recommendations are supported by:

- Industry practice among Colorado providers;
- The substantial value embodied in existing BVMD infrastructure;
- Significant planned future capital needs; and
- The need to protect existing ratepayers from subsidizing new customers.

The District should also establish a formal inflation adjustment mechanism and periodically revisit fee levels to ensure that growth-related revenues keep pace with rising infrastructure and inflation costs. HE firmly believes that either path is justified and supports whichever recommendation the District chooses.