



# Council Meeting

## Sewer Utility System Development Charge Update

Sergey Tarasov, Senior Project Manager

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# Agenda

- **Background**
- **System development charges (SDCs)**
  - » Overview
  - » Methodology
  - » Results
- **Next steps**
- **Questions / discussion**



# Background

## 2018 Rate Study

- **Sewer SDC changes deferred until completion of GSP**
- **Discussed eliminating class based SDCs, specifically industrial class**
  - » Independent study to be performed for any new industrial customers connecting to the City
- **Discussed assessing Sewer SDCs based on flow ERUs instead of meter size**
- **Consolidated area-based water SDC into system wide SDCs**

## Existing Charges

Class	South Area	North Area
<b>Residential</b>	\$ 2,493	\$ 4,420
<b>Commercial I</b>		
5/8"	\$ 2,493	\$ 4,420
3/4"	3,740	6,630
1"	6,234	11,050
1.5"	12,467	22,101
2"	19,948	35,361
3"	39,896	70,722
4"	62,337	110,503
6"	124,674	221,006
8"	199,478	353,609
<b>Commercial II</b>		
Flow (gallons)	\$ 12.61	\$ 22.84
BOD (lbs/day)	2,386	3,948
TSS (lbs/day)	904	1,495



# Overview

- **Revised Code of Washington (RCW) 35.92.025 grants Cities the authority to fix rates and charges for connecting to water & wastewater systems**
- **One time charge imposed on new development or expanded connection to system**
- **Represents a prorated share of the cost of providing system capacity**
- **Based on cost of system infrastructure investment**
  - » Allows for both existing and future costs
- **May not be used to fund operation and maintenance costs**



## Overview (continued)

- **Consists of two parts**
  - » ***Existing cost basis***: intends to recognize the current ratepayers' net investment in the original cost of the non-donated system
  - » ***Future cost basis***: intends to include future facilities needed to serve growth, as well as to provide for regulatory system improvements



# Methodology

$$\frac{\text{EXISTING COST BASIS}}{\text{CURRENT \& FUTURE CUSTOMERS}} + \frac{\text{FUTURE COST BASIS}}{\text{FUTURE CUSTOMERS}} = \text{SDC}$$

## Existing Costs

- Existing assets (original cost)
- Less: Contributions (developer/grants)
- Less: Net debt principal
- Plus: Interest (maximum 10 years)

## Future Costs

- Future capital
- Less: Ineligible projects
- Less: Repair and replacement projects



**SEWER SDC RESULTS**



# Existing Cost Basis

Calculation Component	Characteristics	Amount
1. Original Cost of Current Assets	Based on inventory of City assets through 2021.	\$82.8 million
2. Less: Contributions	Excluding assets that were funded by other entities.	\$(15.7) million
3. Less: Net Debt Outstanding	Avoids double counting of assets paid through rates and SDCs.	\$(14.9) million
4. Plus: Interest	RCW allows for inclusion of up to ten years of interest on each asset, not to exceed the original cost of the asset.	\$27.7 million
<b>Total Existing Cost Basis</b>		<b>\$79.9 million</b>





# Future Cost Basis

Calculation Component	Characteristics	Amount
1. Capital Improvement Plan (CIP)	Projects identified in the General Sewer Plan (GSP). All project costs in current day dollars.	\$66.5 million
2. Less: Ineligible Projects	No ineligible projects identified in sewer CIP	\$- million
3. Less: Renewal & Replacement Projects	Future cost basis includes only capacity enhancing projects. Deducting projects that will replace aging infrastructure.	\$(41.8) million
<b>Total Future Cost Basis</b>		<b>\$24.7 million</b>



# SDC Calculation

Cost Basis		Applicable Customers	Total
Existing Cost Basis (\$79.9M)	÷	Current & Future Customers (20,500 MCEs)	\$3,900
			+
Future Cost Basis (\$24.7M)	÷	Future Customers (6,150 MCEs)	\$4,010
<b>Total System Development Charge per MCE</b>			<b>\$7,911</b>
<i>Current Residential SDC per MCE – South Shore</i>			<i>\$2,899</i>
<i>Current Residential SDC per MCE – North Shore</i>			<i>\$4,420</i>

**Note:** MCE = Meter Capacity Equivalent (3/4" meter)

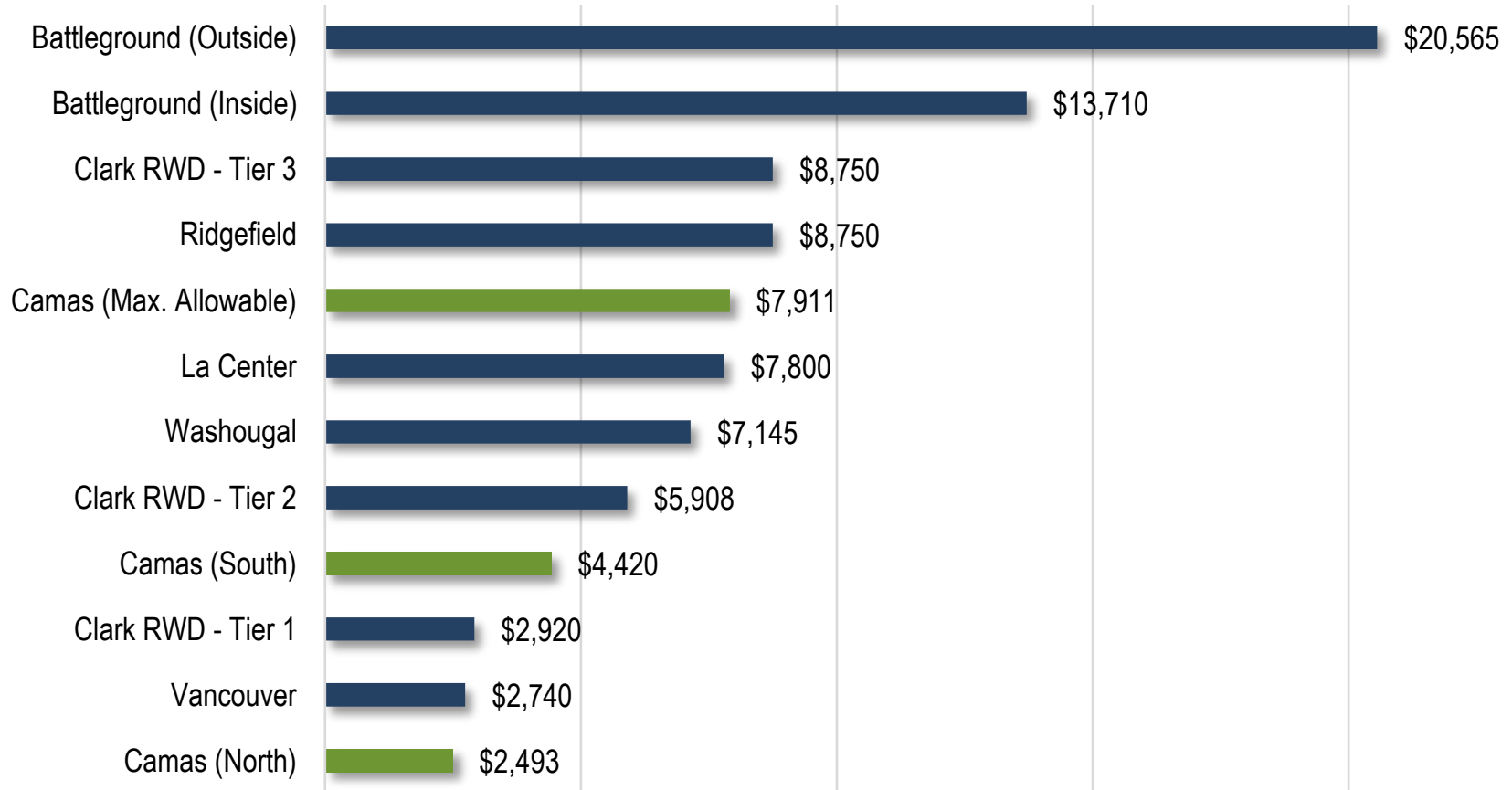


# SDC Results

Summary	Flow Factors	One System	Existing SDCs		\$ Difference	
			South	North	South	North
<b>Residential</b>		\$ 7,911	\$ 2,493	\$ 4,420	\$ 5,418	\$ 3,491
<b>Commercial I</b>						
3/4"	1.00	\$ 7,911	\$ 3,740	\$ 6,630	\$ 4,171	\$ 1,281
1"	1.67	13,184	6,234	11,050	6,950	2,134
1.5"	3.33	26,369	12,467	22,101	13,902	4,268
2"	5.33	42,190	19,948	35,361	22,242	6,829
3"	10.00	79,106	39,896	70,722	39,210	8,384
4"	16.67	131,843	62,337	110,503	69,506	21,340
6"	33.33	263,686	124,674	221,006	139,012	42,680
8"	53.33	421,898	199,478	353,609	222,420	68,289

- **Calculated charges are “maximum allowable”**
  - » By policy may set below maximum allowable
    - Rates make up the difference
  - » May be adjusted annually by an accredited inflation index (e.g., ENR CCI)

# SDC Survey



**Note:** Clark RWD Tier 1 – Tributary to Westside Treatment Plant | Tier 2 – Tributary to Salmon Creek Treatment Plant | Tier 3 – Tributary to Ridgefield Treatment Plant.



# Alternative SDC Consideration

- **Estimate Demand: based on average demand (gallons per day) per *Equivalent Residential Unit (ERU)***
  - » Based on estimated “actual” demand
    - May also be assessed on fixture units, number of seats in restaurants, chairs in schools
  - » Pros
    - Flexibility for larger customer – more granular charges
    - Appropriate for large volume non-peaking accounts
  - » Cons
    - Based on estimated demand, should true-up
    - Higher level of complexity and understandability



# Estimated Demand SDC Comparisons

- Based on water data and updated ERU of 195 gallons per day (gpd)
  - » 1 MCE (3/4" meter) = 1 ERU

## EXAMPLE ONLY

Summary	Flow Factors	One System
<b>Residential</b>		\$ 7,911
<b>Commercial I</b>		
3/4"	1.00	\$ 7,911
1"	1.67	13,184
1.5"	3.33	26,369
2"	5.33	42,190
3"	10.00	79,106
4"	16.67	131,843
6"	33.33	263,686
8"	53.33	421,898
<b>SDC \$/ERU</b>		<b>\$ 7,911</b>

Meter Size	2"	2"	2"
# of ERUs	3	5	200
Meter Based SDC	\$ 42,190	\$ 42,190	\$ 42,190
ERU Based SDC	\$ 23,732	\$ 39,553	\$ 1,582,116

- **Notes:**
  - » Based on historical data, avg. 2" commercial account is 5.6 ERUs
  - » Highest industrial 2" account may exceed 200 ERUs



## Next Steps

- **Incorporate feedback**
  - » Consolidate area specific charges?
    - Consistent with water SDCs and other impact fees
  - » Adopt maximum allowable charges?
  - » Escalate annually to account for inflation?
    - Consistent with water SDCs and other impact fees
  - » Keep meter-based charges?
    - Estimated demand (ERU) based?
- **SDCs go into effect January 1<sup>st</sup>, 2023**



**Questions/Discussion**



# Thank you!

**Sergey Tarasov | Senior Project Manager**

**425.867.1937**

**[sergeyt@fcsgroup.com](mailto:sergeyt@fcsgroup.com)**

**[www.fcsgroup.com](http://www.fcsgroup.com)**