

MEMORANDUM

TO: Chad Pelishek and Brandon Barlow
FROM: Jon Cameron, Senior Municipal Advisor/Managing Director
DATE: April 15, 2025
SUBJECT: Water and Sewer Capital Recovery Analysis

Introduction

The Village of Harrison engaged Ehlers to make recommendations for water and sewer utility capital recovery for assets benefitting new development in the Village. This memo will outline the historical methods of capital recovery for both utilities, the options for future capital recovery, and develop initial recommendations for revising the fee structures for both utilities for new development in the future.

Historical Methods of Capital Recovery

The Village has predominately relied upon water and sewer connection fees and special assessments to recover capital costs for new development.

Sanitary Sewer

The Village currently charges sewer connection fees to new development upon the issuance of the building permit. The connection fees were last updated in 2023, and prior to that were last updated in 2020. The connection fee study identifies four distinct zones, each with assets that benefit specific geographic areas within the Village as well as a portion of the City of Menasha. According to the 2023 study, Harrison Utilities is served by five separate lift stations as summarized below.

Table 2 – Harrison Utilities Lift Stations

| Lift Sta. No. | Location Relevant to Hwy. USH 10/STH 114 | Location Nearest Roadway | Discharges to |
|---------------|------------------------------------------|----------------------------------|------------------------------------------------------------------------------------|
| 1 | South of Highway | Fire Lane 2 | City of Menasha Sanitary Sewer System |
| 2 | South of Highway | Fire Lane 6 | LS #1 Service Area |
| 3 | South of Highway | North Shore Road | LS #2 / LS #1 Service Areas |
| 4 | North of Highway | Snowberry Way | Village of Fox Crossing Sanitary Sewer System |
| 5 | North of Highway | ABANDONED Winding Trail Drive | ABANDONED Originally Discharged to LS #3/#2/#1 Area Currently Flows to LS #6 |
| 6 | North of Highway | Connor Circle | LS #4 Service Area |

*Source; 2023 Sewer Connection Fee Study. Performed by Martenson-Eisele.

For purposes of the connection fees, the utility is divided into four areas summarized below. Each area has its own connection fee.

- Connection Fee 1:** Lift Station No. 1 Service Area –
Lakeshore Area South of USH 10/STH 114
- Connection Fee 2:** Lift Station No. 4 Service Area –
Properties located in the Village of Harrison
- Connection Fee 3:** Lift Station No. 4 Service Area –
Properties located in the Cities of Menasha
- Connection Fee 4:** Lift Station No. 6 Service Area

*Source; 2023 Sewer Connection Fee Study. Performed by Martenson-Eisele.

The connection fees by area recover the proportionate share of the capital costs of lift station upgrades and oversizing, or new lift station facilities needed to serve new development. Some of the connection fees also include oversizing of sewer mains over 8" in size. In addition to sewer connection fees, the utility has also historically imposed special assessments in specific areas of the utility service area.

Water

The water utility has also historically relied on a combination of water connection fees and special assessments for the recovery of capital costs benefitting new development. As will be discussed below, water connection fees are not permissible in Wisconsin due to Public Service Commission (PSC) rules. The PSC did require the Village to stop imposing water connection fees in 2019 as part of its last conventional water rate case. Currently the water utility is not imposing any connection fees. It is our understanding that that the Village also has imposed water special assessments in the past for specific projects benefitting individual sections of the water service area.

Options for Capital Recovery

There are several options available for the recovery of capital assets from new development under State law. This section will provide a brief overview of each option along with a listing of the pros and cons of each.

Sewer Connection Fees

A connection fee is a one-time fee generally imposed at the issuance of the building permit designed to recover the proportionate share of utility related infrastructure that has been installed to service new development. The section of State Statutes pertaining to connection fees is 66.0821. This is the same section of Statues that allow municipalities to impose user fees to fund all or a part of the cost of construction, operation and maintenance of utility systems. Many municipalities have sewer connection fees in place. In many situations these fees are calculated on a "buy-in" basis, whereby the utility is quantifying the capacity in the sewerage system. New development is "buying into" their fair share of that excess capacity when they connect to the sewer system.

- Pros
 - Is generally easy to calculate and quantify.

- Utilities are not restricted to the use of the funds. Connection fees can be used to help pay debt on specific assets, be used to help keep the utility's revenue requirement low, or to cash fund specific capital projects.
- Connection fees are not beholden to specific time periods to spend or refund the money as are impact fees described below.
- Cons
 - The revenue from connection fees is reliant on the issuance of building permits and connection to the sewerage system. Revenues from connection fees can rise and fall annually depending on the pace of new development. The facilities funded in part with connection fees are often debt financed and user rates may need to increase if sewer connection fee revenues are not adequate in a situation where the pace of development slows.

Water Connection Fees

The PSC establishes water user rates for utilities in Wisconsin. The PSC does not allow water connection fees as part of the user rate structure. Therefore, utilities in Wisconsin are precluded from establishing water connection fees.

Impact Fees (Water and Sewer)

Wisconsin Statute 66.0617 allows municipalities to impose impact fees for water and sewer facilities (among many other types of public facilities). Impact fees are one time fees also generally imposed at the issuance of a building permit and designed to recover the proportionate share of the capital costs of new, expanded or improved public facilities. Prior to imposing impact fees a municipality must complete a public facilities needs assessment which requires an inventory of existing public facilities, an identification of any existing deficiencies in those facilities based upon identifiable service level standards, an identification of new, expanded or improved facilities that will be required because of land development for which the fees will be imposed, including the identification of the costs of those facilities. Once the proposed impact fee is calculated an analysis must also be prepared to quantify the cumulative effect all existing and proposed impact fees have on housing affordability within the Village. A public hearing is required prior to the adoption of an impact fee. Once the fees are established a municipality has eight years to spend the fees collected in any one given year. Impact fees for sewer facilities can be granted an extension to 10-years in the case of a hardship situation.

- Pros
 - The needs assessment process is fairly prescriptive and transparent on how the fees are calculated and for which facilities they are recoverable. This can generally lead to fewer legal challenges assuming the fees are calculated properly.
 - This section of Statute along with special assessments are generally the two primary methods for funding water system improvements related to new growth.
- Cons
 - The eight-year period for collecting impact fees requires municipalities to be very thoughtful with what facilities will be included in the calculation. If municipalities do

not use the impact fees within the eight-year period they are required to refund the fees.

- Impact fees can generally only be used for the facilities specified in the public facilities needs assessment. This can require more frequent updates to the impact fee calculation, which isn't necessarily a negative in itself, but unlike connection fees, impact fees are more rigid in their specified use.
- While the PSC does not govern water impact fees, they will require water utilities that have them to provide detailed documentation on their use during conventional rate cases. They also will not allow utilities to recovery any portion of costs of facilities that are meant to be collected with impact fees regardless of how quickly the impact fee revenue comes into the utility. This requires water utilities to be very careful on which facilities are included in impact fee studies and the growth percentage assigned to each facility.
- As with connection fees, the revenues from impact fees are reliant on the issuance of a building permit. This generally puts more risk on the utility and municipality in conducting up front financing for facilities that are meant to partially serve new growth over their lifespan if the growth does not materialize.

Special Assessments

Wisconsin Statute 66.0703 allows the Village to levy and collect special assessments for limited and determined areas for water and sewer improvements. The Village must prepare a report that includes the preliminary or final plans and specifications, the estimate of the cost of the improvements, a statement that the property against which the assessments are proposed is benefitted and a schedule of the proposed assessments. The use of special assessments is generally considered a use of police power and constitutes a lien on the property. Often times municipalities offer the benefitting property owners the ability to pay the assessment at the time it is levied, or in annual installments over a period specified years, usually with interest. The use of special assessments is often times used for specific public improvements that benefit definable areas only. In many cases it can be used to pay for the base cost, which is often times the 8" equivalent cost of a water or sewer main with oversizing costs being recovered through other development fees (impact and/or connection fees).

- Pros
 - The assessment constitutes a lien on the property which gives increased security of the revenue source, as opposed to impact and connection fees which are paid at the issuance of a building permit.
 - Allows only the benefitting property owners to pay for the facilities vs. recovering them through user rates or other capital recovery methods that are spread out to all utility customers.
- Cons
 - If any assessments are deferred until the time of development and connection to the system, this can put a financial strain on the utility as any debt associated with these assets will need to be paid in the interim period of time.

- Assessments require additional administrative work to administer on an annual basis and track over their lifespan.
- Depending on the magnitude of the assessment, the fees can be burdensome for property owners.

Proposed Capital Recovery Model

Sanitary Sewer

The proposed method for capital recovery is two-pronged utilizing sewer connection fees and special assessments. Continuing to utilize zone specific connection fees for larger regional lift station facilities and the oversizing of mains in new growth areas is preferred by Village and utility staff. The existing sewer connection fees were recently updated, and utility and Village staff is used to working with them. In addition, the fees are separated by zone such that new development is only paying for the lift station or oversizing improvements that benefits their geographic area. Utilizing connection fees by zone is also beneficial to the property within the City of Menasha that is connected to Harrison Utilities to be able to demonstrate to those property owners that they are only paying for facilities they will benefit from. The Village may chose to formally review the connection fees and possibly do away with, or updating zone 1 summarized on page 1 of this report as the capital facilities benefitting this zone have largely been recovered. Other lift station projects in the recently completed Sanitary Sewer and Lift Station Feasibility Study by Martenson & Eisele may be incorporated into future drafts of the report.

Levying special assessments in situations where the Village might be required to construct and install 8" (or smaller) main improvements for benefitting property owners is appropriate. In certain new development situations the developer may also be required to install these main improvements and pass the cost onto benefitting property owners, however in situations where the Village is installing these improvements, it may choose to levy these assessments onto the benefitting property owners. It is important to note that if the Village would special assess for a project, these property owners would also be subject to the connection fee for their specific zone of development. The special assessments can be levied as projects occur within benefitting areas of the Village.

Water

Similar to sewer, a two-pronged approach to capital recovery is also recommended for the water utility. With connection fees no longer being an option, implementing a water impact fee for regional facilities would be appropriate. The Village would need to go through the same public facilities needs assessment process it went through for its existing impact fees (parks, fire, police and transportation facilities). State Statutes allow for a municipality to implement area specific impact fees, which may be a beneficial option given the different zones on the sewer side. The Village and utility would need to weigh whether facilities benefit the utility as a whole and are applicable to all new development, or if they only benefit certain geographic areas of the Village. In reviewing the Village's 5-year Capital Improvement Plan (CIP) for the water utility, there are limited water projects identified that benefit new development. However, if the Village were to identify capital projects for new growth, these items could be evaluated during a formal impact fee study to determine an appropriate water impact fee in the Village.

The Village can also utilize water special assessments like what is proposed for the sewer utility for the 8" equivalent (or less) for water main improvements. The water utility also has a water main extension rule as part of its existing water tariff that does require either a special assessment in a water main extension situation, or where the utility is unwilling or unable to assess, the developer installs the mains and recovers that cost over a 10-year period. The special assessments can be levied as projects occur within benefitting areas of the Village.

Next Steps and implementation

Sanitary Sewer

The following recommendations are made for sewer capital recovery:

- Continue with the imposition of area specific sewer connection fees. The Village may chose to update the fee calculations to consolidate specific zones where warranted as well to as add additional projects from the recently completed Sanitary Sewer and Lift Station Feasibility Study.
- Consider levying special assessments in situations where the Village is required to extend 8" equivalent sewer mains into areas of new development. These assessments can be evaluated and implemented on a situational basis.

Water

The following recommendations are made for water capital recovery:

- Consider adopting a water impact fee for regional assets. The Village and the utility would need to first identify future water assets that are intended to be installed and have a benefit to new development. A public facilities needs assessment identifying existing facilities, quantifying existing deficiencies in facilities based on identifiable service level standards, identifying new assets to be recovered through impact fees, calculating effect on housing affordability would also need to be conducted. The Village through the impact fee study can also choose whether the water impact fees are area specific or applicable to the entire Village.
- Consider levying special assessments in situations where the Village is required to extend water mains into areas of new development. These assessments can be evaluated and implemented on a situational basis.

As it pertains to special assessments, the Village may choose to implement a special assessment policy. The policy can be a guide to current and future staff and Village Board members as to what situations special assessments will be considered and the desired methods for calculating special assessments.