



STAFF REPORT

Meeting Type: City Council Meeting
Meeting Date: November 18, 2024
From: Tyler Deems, City Manager
John Ghilarducci, FCS Group
Subject: Discussion: Updates to Water and Wastewater System Development Charges (SDCs)

DECISION TO BE MADE:

This meeting is an opportunity to review the initial draft results of the water and wastewater SDC updates and provide feedback on how Council would prefer to proceed. Feedback from this meeting will be considered as the City staff and consultants work to prepare the SDC methodology that will form the basis for a SDC resolution adopting modified SDC rates.

BACKGROUND / CONTEXT:

The City of Sandy (City) is facing increasing capital costs related to major improvements required for its water and wastewater systems. The City's current water and wastewater SDC methodologies do not reflect the forecasted costs of those major improvements. In the summer of 2024, the City of Sandy contracted with FCS to prepare updated SDC calculations using the City's 2022 Water Master Plan and 2019 Wastewater System Facilities Plan. FCS has already been heavily involved in the utility rate planning efforts for both water and wastewater, but this effort represented the first major update to the SDCs since at least 2019. With help from the City staff, the calculations also include more recent project cost information and system capacity data.

It is important to note that Sandy's wastewater SDC methodology was never updated following the adoption of the 2019 Wastewater System Facilities Plan. As the Council is aware, the City is currently engaged in a project to update the facilities plan, which is not yet complete. While it would have been possible to wait to update the sewer SDC methodology until after the plan amendment is finished, this new methodology based on the 2019 plan is being presented at this time for two reasons: (1) the City will benefit from beginning to collect greater wastewater SDC revenue without further delay, and (2) the Council for a number of months has expressed a desire to understand the total cost of all SDCs. Having an updated wastewater SDC figure, even though it is based on the previous facilities plan, will assist the Council in this analysis. Staff believes that any future methodology update based on an amended/updated Wastewater System Facilities Plan will not result in a substantial change to SDC rates, particularly because the proposed methodology is based on an escalated total capital cost of \$165 million.

KEY CONSIDERATIONS / ANALYSIS:

Water and Wastewater SDCs: The presentation (Exhibit A) shows the draft SDC calculations which reflect the City’s water and wastewater project list, system capacity, and expected demand. A calculation summary is also shown in the table below. The SDC calculations include three major elements.

The first element of the calculation is the improvement fee cost basis which represents the cost of capacity-expanding projects that will be used by growth. The projects and project costs come from City staff’s planning efforts, and the allocation to growth comes from industry-standard practices for determining growth’s share. As shown, the improvement fee cost basis is \$66.4 million for the water SDC and \$42.4 million for the wastewater SDC. These calculations assume that the City will be using SDCs to help pay for debt issued to fund the project list.

The second element of the calculation is the reimbursement fee cost basis. This cost basis represents the cost of unused capacity available for growth in the City’s water and sewer systems. The cost estimates came from the City’s fixed asset schedule, while the capacity remaining for growth comes from statistics provided in the City’s master plans. As shown, the reimbursement fee cost basis is \$1.2 million for the water SDC and \$0 for the wastewater SDC, given the lack of data supporting available capacity in that system. The improvement fee and reimbursement fee cost bases, together with a small provision for compliance with SDC law (\$89,193 for the water SDC and \$54,888 for the sewer SDC) form the numerators of the respective SDC calculations.

The final major piece of the calculation is the expected growth in system demand for each system. That growth is measured in meter capacity equivalents (MCEs) and forms the denominator of the SDC calculations. As shown in the table below, that expected growth is 3,659 MCEs for the water SDC calculation, and 2,841 for the sewer SDC calculation. That the growth estimates are different is partially explained by the fact that the planning period for the water SDC is through 2050, whereas the planning period for the sewer SDC is through 2040. In addition, the growth estimates provided in each master plan supported different project lists. To maintain the required nexus between the charge and the capacity it pays for, it is more defensible to use growth estimates specific to each service.

Finally, dividing the numerator (the total cost basis) by the denominator (growth in system demand) yields the SDC calculation for each utility. As shown below, that calculation results in a maximum SDC of \$18,477 for the water utility and \$14,952 for the sewer utility.

Calculated SDCs	Water		Sewer	
Improvement Fee Cost Basis	\$	66,353,476	\$	42,418,170
Reimbursement Fee Cost Basis		1,167,725		-
Compliance Costs		89,193		54,888
Total	\$	67,610,394	\$	42,473,058
Growth in MCEs		3,659		2,841
Improvement Fee per MCE	\$	18,134	\$	14,932
Reimbursement Fee per MCE		319		-
Compliance Fee per MCE		24		19
Total SDC per MCE	\$	18,477	\$	14,952

Total SDCs: There has been a great deal of interest in seeing all of the City’s SDCs side-by-side to gain a better understanding of the total charges imposed. Below is a table detailing the current

SDCs charge for each utility, as well as the maximum defensible charge for each utility. As a reminder, staff has also provided a table showing the current SDCs charges of neighboring cities in Clackamas County. This was previously provided in May 2024, and has not been updated to reflect any changes that may have occurred over the last few months.

City of Sandy SDCs:

	Maximum Defensible	Current Charge
Water	18,477	4,294.25
Wastewater	14,952	6,126.36
Transportation	39,800	9,716.00
Parks	31,333	12,117.67

Comparable Cities SDCs:

City	Water	Wastewater	Stormwater	Street	Park	Total	Notes
Canby	4,754	2,953	257	4,013	6,025	18,002	Canby Water
Estacada	7,715	6,035	1,225	4,131	6,676	25,782	
Gladstone	9,402	6,755	3,616	4,440	9,388	33,601	
Happy Valley	12,176	9,746	240	12,304	10,089	44,555	Water to be updated in near future
Lake Oswego	9,571	3,484	295	17,984	16,565	47,899	
Milwaukie	2,297	8,860	1,086	2,470	3,985	18,698	
Molalla	4,042	8,077	950	8,479	2,550	24,098	2020 Rates
Oregon City	14,022	2,973	1,186	13,939	7,912	40,032	
West Linn	8,184	3,283	1,144	9,208	10,014	31,833	
Wilsonville	12,089	6,929	2,327	16,823	14,000	52,168	Park SDC updated March 2024
Average	8,425	5,910	1,233	9,379	8,720	33,667	
Sandy	4,294	6,126	-	4,826	8,897	24,144	Does not include FIL
% over/under	-49%	4%	-100%	-49%	2%	-28%	

BUDGET IMPACT:

While the actual amount of growth and development in Sandy over the next 20 years is impossible to determine, the assumptions contained in supporting long-range planning documents and draft SDC calculations indicate the new rates would provide a positive impact on Sandy’s budget for water and wastewater system improvements over the next 20 years. If development occurs as projected in the SDC calculations and if the City adopts the proposed maximum SDCs, the proposed water SDC could generate as much as \$52 million in additional SDC revenue when compared with projections under the current SDC level. The proposed sewer SDC could generate as much as \$25 million in additional SDC revenue. The revenues could increase above those amounts if the City continues to adjust its SDC with inflation.

RECOMMENDATION:

Provide staff and FCS Group with input on what water and wastewater SDCs you prefer so that staff can prepare a future Council meeting to adopt the updated water and wastewater SDCs.

LIST OF ATTACHMENTS / EXHIBITS:

- FCS Presentation Slides