

EXHIBIT A



CITY OF SANDY

Water and Sewer SDCs

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Contents

1 Project Overview	1
Background.....	1
Policy	1
State Statutes	1
Local Ordinance	2
United States Constitution.....	2
Calculation Overview.....	2
2 Water SDC Analysis	3
Growth	3
Unit of Measurement	3
Growth in Demand.....	3
Improvement Fee.....	4
Eligibility	4
Calculated Improvement Fee Cost Basis	4
Reimbursement Fee.....	5
Eligibility	5
Calculated Reimbursement Fee Cost Basis	6
Calculated Water SDC.....	6
3 Sewer SDC Analysis	8
Growth	8
Unit of Measurement	8
Growth in Demand.....	8
Improvement Fee.....	9
Eligibility	9
Calculated Improvement Fee Cost Basis	9
Calculated Sewer SDC.....	10
4 Implementation	11
Setting the SDC.....	11
Indexing.....	11
Comparisons.....	11

1 Project Overview

Background

The City of Sandy ("the City") is located in Clackamas County and serves almost 14,000 residents. The City is undergoing major improvements to both its water and wastewater systems to accommodate growth and to solve existing deficiencies in its systems. In 2024, the City contracted with FCS to update its water and wastewater system development charges (SDCs) to help provide partial funding for the construction of its planned facilities. This report documents the results of those SDC calculations.

Policy

SDCs are enabled by state statutes, authorized by local ordinance, and constrained by the United States Constitution.

State Statutes

Oregon Revised Statutes (ORS) 223.297 to 223.316 enable local governments to establish SDCs, which are one-time fees on development that are paid at the time of development or redevelopment that creates additional demand for system facilities. SDCs are intended to recover a fair share of the cost of existing and planned facilities that provide capacity to serve future users (growth).

ORS 223.299 allows for two types of SDC:

- » A reimbursement fee that is designed to recover "costs associated with capital improvements already constructed, or under construction when the fee is established, for which the local government determines that capacity exists"
- » An improvement fee that is designed to recover "costs associated with capital improvements to be constructed"

ORS 223.304(1) states, in part, that a reimbursement fee must be based on "the value of unused capacity available to future system users or the cost of existing facilities" and must account for prior contributions by existing users and any gifted or grant-funded facilities. The calculation must "promote the objective of future system users contributing no more than an equitable share to the cost of existing facilities." A reimbursement fee may be spent on any capital improvement related to the system for which it is being charged (whether cash-financed or debt-financed).

ORS 223.304(2) states, in part, that an improvement fee must be calculated to include only the cost of projected capital improvements needed to increase system capacity for future users. In other words, the cost of planned projects that correct existing deficiencies or that do not otherwise increase capacity for future users may not be included in the improvement fee calculation. An improvement fee may be spent only on capital improvements (or portions thereof) that increase the capacity of the system for which it is being charged (whether cash-financed or debt-financed).

In addition to the reimbursement and improvement fees, ORS 223.307(5) states, in part, that "system development charge revenues may be expended on the costs of complying" with state statutes concerning SDCs,

including “the costs of developing system development charge methodologies and providing an annual accounting of system development charge expenditures.”

Local Ordinance

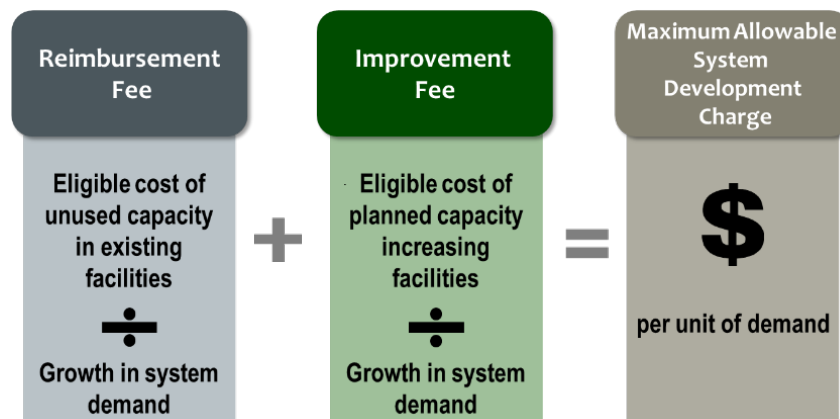
Chapter 15.28 of the Sandy Municipal Code authorizes and governs the imposition and expenditure of SDCs in Sandy. The City may need to modify its code to allow for the proposed changes to the SDCs.

United States Constitution

The United States Supreme Court has determined that SDCs, impact fees, or other exactions that comply with state and/or local law may still violate the United States Constitution if they are not proportionate to the impact of the development. The SDCs calculated in this report are designed to meet all constitutional and statutory requirements.

Calculation Overview

In general, SDCs are calculated by adding an existing facilities fee component (called the reimbursement fee) and a future facilities fee component (called the improvement fee)—both with potential adjustments. Each component is calculated by dividing the eligible cost by growth in units of demand. The unit of demand becomes the basis of the charge. The diagram below summarizes the basic outline of an SDC calculation, and more detail is provided in the following bullets.



- **The eligible cost of capacity in existing facilities** is the cost of existing facilities that will serve growth. The cost of those facilities are usually found in a city’s schedule of fixed assets which records the original cost of assets purchased by the city. System capacity information, usually found in a comprehensive plan, can provide estimates of the available capacity in the system.
- **The eligible portion of capacity increasing projects** is the cost of future projects that will serve growth. Some projects are intended to only serve growth, some projects do not increase system capacity, and some serve the City’s current *and* future populations. Only the share that is allocable to growth is includable.
- **The growth in system demand** is the anticipated growth in the demand associated with each system. Growth is measured in different ways for different systems. For example, growth for water SDCs is measured in meter capacity equivalents. The unit of growth becomes the charging basis for the SDC.

Finally, summing the reimbursement fee and the improvement fee with a small allowance for compliances costs yields the full SDC.

2 Water SDC Analysis

This section describes the detailed calculations of the maximum allowable water SDC for the City of Sandy.

Growth

The calculation of projected growth begins with defining the units by which current and future demand will be measured. Then, using the best available data, we quantify the current level of demand and estimate a future level of demand. The difference between the current level and the future level is the growth in demand that will serve as the denominator in the water SDC calculation.

Unit of Measurement

For water SDCs, the meter size necessary for a development is broadly used as a measure of its potential water demand. To compare meters and calculate the total demand of the system, meters are often compared by their flow rates and measured by their meter capacity equivalents (MCEs). In this system, the smallest meter employed by the City is one MCE, and every larger meter is assigned a larger number of MCEs based on their relative flow rates. Flow rates are most often based on the American Water Work Association (AWWA) flow rates assuming either a 5/8" or 3/4" base meter. As the City will install both 5/8" and 3/4" meters, a 5/8" base for the MCE calculations was selected for the water SDC calculation.

Growth in Demand

According to the 2022 Water Master Plan (master plan), the 2023 peak season maximum day water demand is 2.59 million gallons per day (MGD). According to City staff, the repair of a large leak reduced that demand by 0.29 MGD, resulting in a 2023 demand of 2.30 MGD. That number serves as the measure of maximum water usage in 2023. It is assumed that as the number of customers measured in MCEs increases, system demand in MGD will increase proportionally. The planning period for water supply capacity extended through 2050, so 2050 was used as the planning horizon to allow for the inclusion of water supply projects. According to the master plan, demand is expected to increase to 4.21 MGD by 2050, or 3.92 MGD after adjusting for the leak.

Based on the City's water meter records, there is a total of 5,195 MCEs in 2023. If MCEs grow proportionally with peak season maximum day demand, the City will have 8,854 MCEs in 2050. That means that the total growth in demand will be 3,659 MCEs, which will serve as the denominator of the SDC calculation. In addition, growth's share of final demand will be 3,659 MCEs divided by 8,854 MCEs, or 41.33 percent. That proportion will be useful for the eligibility calculations of projects in the improvement fee cost basis.

Exhibit 2.1 below summarizes these calculations:

Exhibit 2.1 – Growth in Water Demand

	2023	2050	CAGR	Growth (2023-2050)	Growth Share
Peak Season Maximum Day Demand (MGD)	2.30	3.92	1.99%	1.62	41.33%
Total MCEs	5,195	8,854	1.99%	3,659	41.33%

Source: 2022 Water System Master Plan, (maximum day demand projections); City staff (2023 MCEs, leak adjustment of 0.29 MGD)

Improvement Fee

An improvement fee is the eligible cost of planned projects per unit of growth that such projects will serve. Since we have already calculated growth (denominator) above, we will focus here on the improvement fee cost basis (numerator).

Eligibility

A project's eligible cost is the product of its total cost and its eligibility percentage. The eligibility percentage represents the portion of the project that creates capacity for future users. Where possible, specific details about a project can provide an eligibility percentage. Such specific details were available for some of the projects on the project list. However, when this is not possible, projects can still be sorted into three broad categories.

The first category is for projects that do not provide capacity for future users. Such projects may be purely replacement projects, or they may be solving a deficiency in the water system. Projects in this category are zero percent eligible. The second category is for projects that are purely for future users, such as when new pipe is laid to provide for a new development. These projects are 100 percent eligible. Finally, projects that provide capacity that will be roughly equally shared between current and future users are eligible at the growth share percentage discussed in the previous section, or 41.33 percent.

For projects related to storage capacity, specific details were used to calculate the eligibility. The planned projects will together add 5.0 MG to the capacity of the system. Current demand for storage is 7.56 MG, meaning that the current capacity (4.75 MG) is insufficient, according to Table 4-1 of the master plan. Further, by 2050, demand will grow by 1.94 MG to 9.50 MG. So, growth's share of the increased capacity is 1.94 MG divided by 5.00 MG, or 38.80 percent. That will be the eligibility for projects related to storage.

The calculations for the eligibility of planned storage facilities are shown in **Exhibit 2.2** below.

Exhibit 2.2 – Growth's Share of Planned Storage Capacity Increase

	MG
Increase in Capacity	5.00
Current Demand (2023)	7.56
Final Demand (2050)	9.50
Growth in Demand from New Users	1.94
Growth's Share of Increased Capacity	38.80%

Source: Table 4-1 of the 2022 Water System Master Plan

Calculated Improvement Fee Cost Basis

Projects in the improvement fee cost basis were taken from the master plan. Each project was sorted into one of the three categories discussed above based on the descriptions provided in the master plan and discussions with staff; or, for storage projects, a more specific eligibility percentage of 38.80 percent was assigned.

Exhibit 2.3 below shows all the projects in the water system improvement fee cost basis. Costs are given in 2024 dollars and were escalated using the August 2024 value of the Engineering News-Record (Seattle, WA) Construction Cost Index (equal to 15,714.16) as compared to the November 2022 value used in the master plan (equal to 15,202.68). The eligibility for each project is shown in the SDC Eligibility column. Outside funding is noted in the following column, which assumes total debt funding of \$90.7 million and grant funding of \$180,000.

However, the outside funding for each project is assumed to apply to the ineligible portions of the project cost, and so no reduction in the SDC-eligible cost is made. Finally, the SDC Eligible Costs column shows that the full amount of the improvement fee cost basis is \$66.4 million.

Exhibit 2.3 – Improvement Fee Cost Basis

#	Category	Description	Timing	2024 Cost	SDC Eligibility	Outside Funding	SDC-Eligible Cost
R.1	Storage	5.0 MG Additional Storage	2029-2043	\$ 35,743,412	38.80%	\$ 18,870,294	\$ 13,868,444
R.2	Storage	Storage Siting Study	2028	186,056	38.80%	98,226	72,190
R.3	Storage	Reservoir Seismic and Condition Assessment	2029-2033	387,617	38.80%	204,637	150,395
PS.1	Pump Station	Terra Fern Pump Station Upgrades	2026-2030	806,242	41.33%	425,646	333,192
PS.2	Pump Station	Vista Loop Pump Station	2026-2030	1,467,775	41.33%	774,894	606,580
D.1	Distribution	Bluff Rd. Fire Flow Improvements	2032-2036	5,767,734	41.33%	3,045,004	2,383,604
D.2	Distribution	Hood St. Fire Flow Improvements	2032-2036	558,168	41.33%	294,678	230,671
D.3	Distribution	Mitchell Ct. Fire Flow Improvements	2028	268,747	41.33%	141,882	111,064
D.4	Distribution	Seaman Ave Fire Flow Improvements	2028	568,504	41.33%	300,135	234,943
S.1	Supply	Near-Term Alder Creek WTP Improvements	2024-2025	1,085,326	0.00%	572,985	-
S.2	Supply	Short-Term Alder Creek WTP Assessment	2025	248,075	41.33%	130,968	102,521
S.3	Supply	Alder Creek WTP Improvements	2026-2028	43,495,742	41.33%	22,963,042	17,975,281
S.4	Supply	PWB Filtered Water Supply Connection	2024-2028	40,742,115	41.33%	21,509,298	16,837,302
S.5	Supply	Long-Term Supply Study	2026	248,075	41.33%	130,968	102,521
M.1	Other	Water System Master Plan Update	2029-2030	227,402	41.33%	120,054	93,977
M.2	Other	Water Management and Conservation Plan	2026	113,701	41.33%	60,027	46,989
M.3	Other	Annual Replacement Budget	2034-2043	31,009,322	41.33%	16,370,990	12,815,077
M.4	Other	Water Service Meter Replacement	2034-2043	8,186,461	0.00%	4,321,941	-
M.5	Other	SCADA Master Plan	2026	155,047	41.33%	81,855	64,075
M.6	Other	SCADA Upgrades (Pelim. Budget Placeholder)	2026-2030	785,569	41.33%	414,732	324,649
Total				\$ 172,051,089		\$ 90,832,254	\$ 66,353,476

Source: 2022 Water System Master Plan, city staff

Reimbursement Fee

A reimbursement fee is the eligible cost of the water facilities available for future users per unit of growth that such facilities will serve. Since growth was calculated above, we will focus on the eligible cost of the water facilities available for future users. That is, we will focus on the cost of reimbursable water facilities.

Eligibility

To the extent that capacity remains in the water system and is available for growth, the original cost of the capacity (net of any outside funding or outstanding debt) can be collected in the reimbursement fee. For the water system reimbursement fee cost basis, such capacity was measured in terms of storage, supply, pumping, transmission and distribution, and for other system assets.

The master plan outlines storage deficiencies in its Table 4-1, meaning that there is no eligible cost related to storage. In addition, the water system is facing supply issues that will result in no capacity available for growth, as outlined in Figure 5-1 and discussed in Section 5.3 of the master plan.

The system has 4.68 MGD of pumping capacity, and growth is expected to add 1.62 MGD of demand for pumping capacity which increase total 2050 demand to 4.21 MGD. Since current capacity exceeds total future demand, all 1.62 MGD of demand for pumping capacity added by growth is already available in the system. So, the eligibility of the pumping capacity is 1.62 MGD divided by 4.68 MGD, or 34.62 percent.

Finally, for other assets and for transmission and distribution assets, it is assumed that there is sufficient capacity for the growth in demand outlined in the Growth section of this chapter. This means that the eligibility of such assets is 41.33 percent.

Calculated Reimbursement Fee Cost Basis

The City provided records for historical expenditures on its water system, which totaled \$18.5 million. These assets were sorted into the different functions of capacity described above. There were no records of outside funding or outstanding principal for these assets, meaning that there is no adjustment to the original cost. As shown in **Exhibit 2.4** below, multiplying the estimated capacity available for growth by the original cost of each function results in the reimbursable costs shown in the far-right column, which total to \$1.2 million.

Exhibit 2.4 – Reimbursement Fee Cost Basis

Function	Estimated Capacity for Growth	Original Cost Estimate	Reimbursable Cost
Storage	0.00%	\$ -	\$ -
Supply	0.00%	15,683,754	-
Pumping	34.62%	49,554	17,153
Transmission & Distribution	41.33%	2,101,530	868,489
Other	41.33%	682,570	282,082
Total		\$ 18,517,408	\$ 1,167,725

Source: 2022 Water System Master Plan, City's fixed asset schedules

Calculated Water SDC

This section combines the eligible cost from the improvement and reimbursement fee cost bases. It also includes a small cost basis of \$89,193 for the costs related to calculating the SDC and administering the SDC program. The estimate was based on the cost of the SDC methodology calculated and is assumed to occur once every five years from 2024 through 2050. **Exhibit 2.5** below summarizes the water SDC calculation.

Exhibit 2.5 – Calculated Water SDC

Calculated SDC	
Improvement Fee Cost Basis	\$ 66,353,476
Reimbursement Fee Cost Basis	1,167,725
Compliance Costs	89,193
Total	\$ 67,610,394
Growth in MCEs	3,659
Improvement Fee per MCE	\$ 18,134
Reimbursement Fee per MCE	319
Compliance Fee per MCE	24
Total SDC per MCE	\$ 18,477

Source: Previous tables

As shown above, the maximum allowable SDC is \$18,477 per MCE. The City may adopt any SDC up to that amount. The rate per MCE can be applied to the City's different meter sizes using the schedule shown in **Exhibit 2.6** below.

Exhibit 2.6 – Water SDC Schedule

Meter Size (Inches)	MCEs	Calculated SDC
5/8	1.00	\$ 18,477
3/4	1.50	27,716
1	2.50	46,193
1.5	5.00	92,387
2	8.00	147,819
3	16.00	295,638
4	25.00	461,935
6	50.00	923,870

3 Sewer SDC Analysis

This section describes the detailed calculations of the maximum allowable sewer SDC for the City of Sandy.

Growth

The calculation of projected growth begins with defining the units by which current and future demand will be measured. Then, using the best available data, we quantify the current level of demand and estimate a future level of demand. The difference between the current level and the future level is the growth in demand that will serve as the denominator in the sewer SDC calculation.

Unit of Measurement

For sewer SDCs, the meter size necessary for a development is broadly used as a measure of its potential water demand, and thus the potential sewage flow. In order to compare meters and calculate the total demand of the system, meters are often compared by their flow rates and measured by their meter capacity equivalents (MCEs). In this system, the smallest meter employed by the City is one MCE, and every larger meter is a larger number of MCEs based on their relative flow rates. Flow rates are most often based on the American Water Works Association’s (AWWA) flow rates assuming either a 5/8” meter or 3/4” base. As the City will install both 5/8” and 3/4” meters, a 5/8” base for the MCE calculations was selected for the sewer SDC calculation.

Growth in Demand

According to City staff, the population of Sandy is expected to grow at an annual rate of 2.80 percent per year. According to Portland State University, the population was 13,664 in 2024 and is therefore expected to grow to 21,255 by 2040 – which is the end of the planning horizon for the 2019 Wastewater System Facilities Plan (master plan). It is assumed that as the population increases, so will sewer flow.

Based on the City’s water meter records, there is an estimated 5,113 sewer MCEs in 2024. If MCEs grow proportional to population, the City will have 7,954 MCEs in 2040. That means that the total growth in demand will be 2,841 MCEs, which will serve as the denominator of the SDC calculation. In addition, growth’s share of final demand will be 2,841 MCEs divided by 7,954 MCEs, or 35.71 percent. That proportion will be useful for the eligibility calculations of projects in the improvement fee cost basis.

Exhibit 3.1 below summarizes these calculations:

Exhibit 3.1 – Growth in Water Demand

	2024	2040	CAGR	Growth	Growth Share
Population	13,664	21,255	2.80%	7,591	35.71%
Assumed Sewer MCEs	5,113	7,954	2.80%	2,841	35.71%

Source: City staff, Portland State University (population estimates)

Improvement Fee

An improvement fee is the eligible cost of planned projects per unit of growth that such projects will serve. Since we have already calculated growth above, we will focus here on the improvement fee cost basis.

Eligibility

A project's eligible cost is the product of its total cost and its eligibility percentage. The eligibility percentage represents the portion of the project that creates capacity for future users. Where possible, specific details about a project can provide an eligibility percentage. Such specific details were available for some of the projects on the project list. However, when this is not possible, projects can still be sorted into three broad categories, as discussed in the water SDC calculation. Projects related to the collection system and the outfall were assumed to be benefit both existing and future users proportionally and so were assigned the growth share of 35.71 percent.

For projects related to the treatment plant and associated capacity, specific details were used to calculate the eligibility. The existing capacity is 7.00 MGD, and existing demand is already more than that at 9.45 MGD. The City is planning major improvements to the existing treatment plant. The proposed capacity of the improved treatment plant is 11.50 MGD. It is expected that growth will increase demands to above that amount. Therefore, growth's share of the capacity expansion is the difference between 11.50 MGD and 9.45 MGD, or 2.05 MGD, taken as a share of the final capacity of the improved plant, or 11.50 MGD, which equates to 17.83 percent.

Calculated Improvement Fee Cost Basis

Projects in the improvement fee cost basis were taken from a capital improvement program being developed by City staff and are summarized in **Exhibit 3.2** below, with costs in 2024 dollars. The eligibility for each project is shown in the SDC Eligibility column. Outside funding is noted in the following column. Total grant funding is \$8.3 million and is applied to non-eligible portions of the projects. While the City is also expecting to issue debt to fund its improvements, it plans to use sewer SDCs to pay for that debt and so no reduction is made. Finally, the SDC-Eligible Costs column shows that the full amount of the improvement fee cost basis is \$42.4 million.

Exhibit 3.2 – Improvement Fee Cost Basis

Project ID	Completion Year	Adjusted Costs (2024 Dollars)	SDC Eligibility	Outside Funding	SDC-Eligible Cost
Outfall to Sandy River					
A1330	2026	\$ 4,469,554	35.71%	\$ 228,474	\$ 1,596,298
A1340	2029	8,380,472	35.71%	418,312	2,993,079
A1350	2031	53,703,277	35.71%	2,680,603	19,180,084
Existing WWT Facility Upgrades					
A1360	2030	\$ 83,804,724	17.83%	\$ 4,183,120	\$ 14,941,470
A1370	2026	9,567,911	17.83%	477,583	1,705,854
A1380	2024	-	17.83%	24,958	-
Collection System Improvements					
A1210	2031	\$ 131,384	35.71%	\$ 6,558	\$ 46,924
A1250	2025	400,000	35.71%	19,966	142,860
A1490	2024	-	35.71%	2,496	-
A1500	2025	1,435,187	35.71%	71,637	512,576
A1510	2025	191,358	35.71%	9,552	68,343
A1520	2024	-	35.71%	998	-
A1530	2025	478,396	35.71%	23,879	170,859
A1540	2026	2,288,623	35.71%	114,237	817,380
A1550	2026	574,075	35.71%	28,655	205,030
A1560	2024	-	35.71%	3,744	-
A1570	2031	104,756	35.71%	5,229	37,413
Total		\$ 165,529,716		\$ 8,300,000	\$ 42,418,170

Source: City staff

Calculated Sewer SDC

For the sewer SDC, no reimbursement fee was calculated. The City is facing numerous capacity problems across its system, and as such has little if any unused capacity to include in a reimbursement fee. This section calculates the sewer SDC using the improvement fee cost basis and a small additional cost basis of \$54,888 for the costs related to calculating the SDC and administering the SDC program. The estimate was based on the cost of the SDC methodology calculated and is assumed to occur once every five years from 2024 through 2040. **Exhibit 3.3** below summarizes the sewer SDC calculation.

Exhibit 3.3 – Calculated Sewer SDC

Calculated SDC	
Improvement Fee Cost Basis	\$ 42,418,170
Reimbursement Fee Cost Basis	-
Compliance Costs	54,888
Total	\$ 42,473,058
Growth in MCEs	2,841
Improvement Fee per MCE	\$ 14,932
Reimbursement Fee per MCE	-
Compliance Fee per MCE	19
Total SDC per MCE	\$ 14,952

Source: Previous tables

As shown above, the maximum allowable SDC is \$14,952 per MCE. The City may adopt any SDC up to that amount. The rate per MCE can be applied to the City's different meter sizes using the schedule shown in **Exhibit 3.4** below.

Exhibit 3.4 – Sewer SDC Schedule

Meter Size (Inches)	MCEs	Calculated SDC
5/8	1.00	\$ 14,952
3/4	1.50	22,428
1	2.50	37,380
1.5	5.00	74,759
2	8.00	119,614
3	16.00	239,229
4	25.00	373,795
6	50.00	747,590

4 Implementation

This section addresses practical aspects of implementing SDCs and provides comparisons to other jurisdictions.

Setting the SDC

The maximum legally defensible SDCs for each service as calculated in the previous sections are shown in **Exhibit 4.1** below. The City has the liberty to set the SDC for each service at any level up to the maximum defensible charge by resolution. The City may also decide to phase in either or both SDCs to the maximum or a lower target charge over a period of time.

Exhibit 4.1 – Calculated SDCs

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

Indexing

ORS 223.304 allows for the periodic indexing of SDCs for inflation, as long as the index used is:

- (A) A relevant measurement of the average change in prices or costs over an identified time period for materials, labor, real property or a combination of the three;
- (B) Published by a recognized organization or agency that produces the index or data source for reasons that are independent of the system development charge methodology; and
- (C) Incorporated as part of the established methodology or identified and adopted in a separate ordinance, resolution or order.

In accordance with Oregon statutes, we recommend that the City index its charges to the *Engineering News Record* Construction Cost Index for the 20-City Average and adjust its charges annually. This will help to mitigate – if not fully eliminate – the burdens of construction cost inflation. The December 2024 value of that index was 13,632.41.

Comparisons

Exhibit 4.2 and **Exhibit 4.3** below show a comparison of water and sewer SDCs calculated for single-family homes for some relevant jurisdictions. As shown, if the City adopted the maximum defensible SDC, its charge would exceed many of the relevant comparison jurisdictions.

Exhibit 4.2 – Water SDC Comparisons

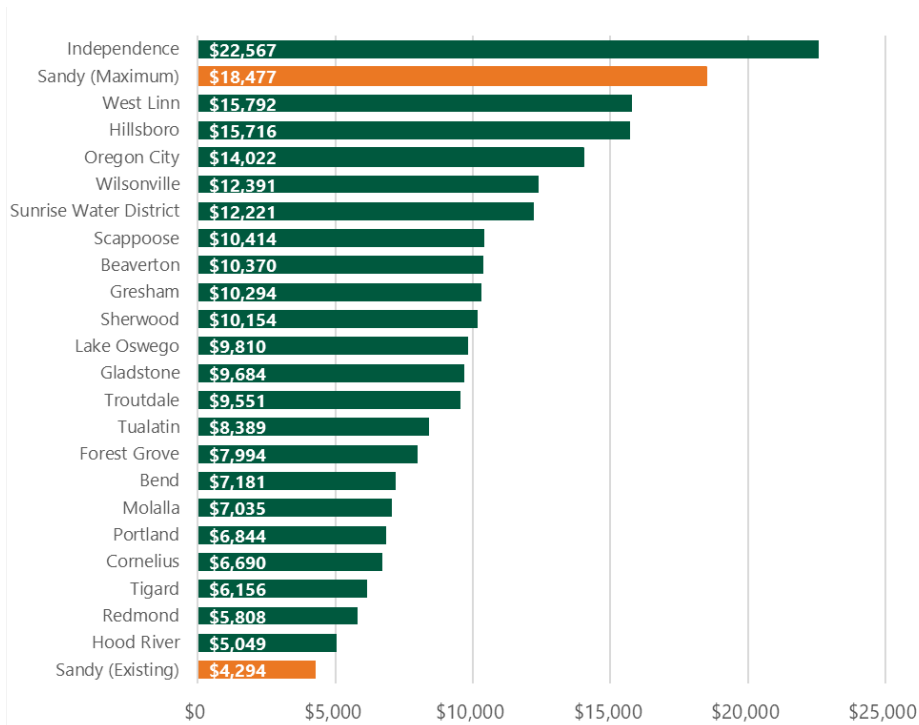


Exhibit 4.3 – Sewer SDC Comparisons

