

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: D-6
DATE: April 8, 2010
SUBJECT: Sewer General Facility Charge
CONTACT PERSON: Deborah Knight, City Administrator

ISSUE:

The issue before the council is to discuss the sewer general facility charge (GFC). With the installation of the centrifuge, the value of the sewer plant has increased. The sewer general facility charge captures the value of the existing sewer system and is the charge to new customers to “buy-into” the system.

The council subcommittee (Flower, Pinson and Wiediger) met on March 11, 2010 to discuss the sewer general facility charge. The subcommittee directed staff to bring the issue forward to the full council for discussion.

STAFF RECOMMENDATION:

Review the proposal to recalculate the sewer general facility charge (connection fee paid by new development) and provide direction to staff.

SUMMARY:

RCW 35.92.025 (Attachment A) allows a city to charge a connection fee in addition to the actual cost of the connection.

The legislative body of the city or town is to determine what the additional charge shall be so that property owners connecting to the system bear their equitable share of the cost of the system.

Case law has made clear that this equitable share of the cost of the system is to be based on historical costs and not on future costs. This was the specific holding in the case *Boe v. Seattle*, 66 Wn.2d 152 (1965). The state supreme court concluded in that case that the city of Seattle could charge the property owner a reasonable fee for sewer connection that represents an equitable share of the cost of the sewer system. The court included a limitation that this cost should be based upon the historical costs of the system and not upon a replacement cost standard of what the system would cost to

construct in present dollars. Therefore, it appears that the historical cost may not be adjusted for inflation.

The city adopted a sewer general facility charge of \$10,518 effective September 24, 2007. Effective January 1, 2008 the facility charge increased to \$11,282 in accordance with Ordinance No. 956-07.

The facility charge is a one-time charge imposed on new development to promote equity between existing and new customers. In 2007, the city council revised the methodology for calculating the general facility charge to include future capital investments approved with the budget year.

In 2009, the city invested \$850,000 to replace the aging Somat solids handling system with a centrifuge system. In accordance with the city's current policy, the sewer general facilities charge should be increased to capital the new value of the city's sewer system.

Attachment B is the fiscal analysis of the general facilities charge prepared by FSC Group for the city in 2007.

FISCAL IMPACT:

The GFC includes the costs related to upgrade and expansion and the costs related to the existing system renewal and replacement. Since the centrifuge did not add capacity it falls into the category of renewal and replacement.

If the city makes a policy decision not to increase the general facility charge to capture the cost of the centrifuge, in effect, existing rate payers are carrying 100% of the cost for new development.

Since the GFC is based on the number of available equivalent residential units (ERU's) at the plant, and the centrifuge project did not add capacity, the centrifuge cost will need to be divided by the total existing customer base. In other words, the cost is not "diluted" or reduced by adding ERU's.

City staff are seeking direction from council before pursuing the analysis to update the general facilities charge. It may be possible to perform the analysis in-house using the spreadsheets from the 2007 sewer rate study provided by FSC Group.

ALTERNATIVES:

1. Review the proposal to recalculate the sewer general facility charge (connection fee paid by new development) and direct staff pursue updating the general facilities charge in accordance with current council policy. This alternative implies the council is prepared to understand the additional value of the city's investment in the solids handling equipment. Staff would return to council with the analysis for future discussion.

2. Review the proposal to recalculate the sewer general facility charge (connection fee paid by new development). Do not direct staff to pursue updating the general facilities charge in accordance with current council policy. This alternative implies the council is not prepared to make a change to the general facilities charge at this time.
3. Direct staff to delay discussion of the issue until a future date as determined by the council.

RECOMMENDED ACTION:

Review the proposal to recalculate the sewer general facility charge (connection fee) and provide direction to staff.

ATTACHMENT

A – RCW 35.92.025

B - General Facility Charge Elements – FSC Presentation to Council August 9, 2007

RCW 35.92.025

Authority to make charges for connecting to water or sewerage system — Interest charges.

Cities and towns are authorized to charge property owners seeking to connect to the water or sewerage system of the city or town as a condition to granting the right to so connect, in addition to the cost of such connection, such reasonable connection charge as the legislative body of the city or town shall determine proper in order that such property owners shall bear their equitable share of the cost of such system.

The equitable share may include interest charges applied from the date of construction of the water or sewer system until the connection, or for a period not to exceed ten years, at a rate commensurate with the rate of interest applicable to the city or town at the time of construction or major rehabilitation of the water or sewer system, or at the time of installation of the water or sewer lines to which the property owner is seeking to connect but not to exceed ten percent per year:

PROVIDED, That the aggregate amount of interest shall not exceed the equitable share of the cost of the system allocated to such property owners.

Connection charges collected shall be considered revenue of such system.

[1985 c 445 § 6; 1965 c 7 § [35.92.025](#). Prior: 1959 c 90 § 8. Formerly RCW [80.40.025](#).]

General Facility Charge (GFC) Elements

- One time charge imposed on new development to promote equity between existing and new customers
- Current City Methodology
 - ✓ Includes only existing assets (interceptors, laterals, treatment)
 - ✓ Maximum 10 years of interest to existing assets allowed
 - ✓ Deduct grant contributions
 - ✓ Does not include future facilities
- Proposed revised methodology: Update GFC each year to include future capital approved within the budget year
- Short term capital improvements include capacity for 2,260 ERUs, WWTP Phase I includes capacity for 3,537 ERUs

Summary of 2007-2013 Capital Costs

Project	Cost (2006\$)	Year	Upgrade/ Expansion	Renewal/ Replcmt	2007	2008	2009	2010	2011	2012	2013
WWTP 2007 Portion (B&C)	\$1,500,000	2007	75.00%	25.00%	\$1,552,500						
Annual I&I Rehab	\$150,000	2007	0.00%	100.00%	\$155,250						
WWTP 2008 Portion (B&C)	\$3,471,100	2008	75.00%	25.00%		\$3,718,329					
River Crossing	\$250,000	2008	50.00%	50.00%		\$267,806					
First Ave Extension	\$800,000	2008	60.00%	40.00%		\$856,980					
Annual I&I Rehab	\$150,000	2008	0.00%	100.00%		\$160,684					
WWTP - MBR	\$3,471,100	2009	75.00%	25.00%			\$3,848,471				
Annual I&I Rehab	\$150,000	2009	0.00%	100.00%			\$166,308				
WWTP 2009 Portion (B&C)	\$5,767,800	2010	75.00%	25.00%				\$6,618,683			
Annual I&I Rehab	\$150,000	2010	0.00%	100.00%				\$172,128			
339th Ave SE	\$480,000	2010	100.00%	0.00%				\$550,811			
SE 132nd St	\$864,000	2010	100.00%	0.00%				\$991,460			
Trout Farm	\$864,000	2011	100.00%	0.00%					\$1,026,161		
Trout Farm	\$1,100,000	2011	100.00%	0.00%					\$1,306,455		
Annual I&I Rehab	\$150,000	2011	0.00%	100.00%					\$178,153		
4th Street	\$615,000	2012	0.00%	100.00%						\$755,992	
Annual I&I Rehab	\$150,000	2012	0.00%	100.00%						\$184,388	
7th Street	\$240,000	2013	100.00%	0.00%							\$305,347
US 2 East	\$1,100,000	2013	50.00%	50.00%							\$1,399,507
Annual I&I Rehab	\$150,000	2013	0.00%	100.00%							\$190,842
Total	\$21,573,000				\$1,707,750	\$5,003,799	\$4,014,778	\$8,333,083	\$2,510,769	\$940,380	\$1,895,696
											<i>Total Escalated Construction Costs</i> \$24,406,255

- 71% [\$17.3 million] of costs related to upgrade expansion
- 29% [\$7.1 million] of costs related to existing system renewal & replacement

Example GFC Calculation for Future Years

Cost Basis	2007	2008	2009	2010	2011	2012	2013
Plant in Service							
Utility Capital Assets (beginning of year)	\$ 16,992,177	\$ 17,147,427	\$ 18,432,897	\$ 18,599,205	\$ 20,313,604	\$ 22,824,373	\$ 23,764,753
plus: Annual Additions	155,250	1,285,470	166,308	1,714,399	2,510,769	940,380	1,895,696
plus: Interest on Plant	5,070,008	5,441,216	5,696,054	5,937,148	6,255,101	6,685,616	7,158,290
Total Existing Cost Basis	\$ 22,217,435	\$ 23,874,113	\$ 24,295,259	\$ 26,250,752	\$ 29,079,474	\$ 30,450,369	\$ 32,818,739
WWTP							
Short Term Improvements							
plus: "Short Term Improvements"	\$ 1,552,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
plus: Interest on Short Term Improvements	-	69,601	139,202	208,803	278,405	348,006	417,607
Total Short Term Improvements Cost Basis	\$ 1,552,500	\$ 1,622,101	\$ 1,691,702	\$ 1,761,303	\$ 1,830,905	\$ 1,900,506	\$ 1,970,107
Phase 1							
plus: Phase 1 Additions	\$ -	\$ 3,718,329	\$ 3,848,471	\$ 6,618,683	\$ -	\$ -	\$ -
plus: Interest on Phase 1 Additions	-	-	166,699	505,931	1,141,890	1,777,849	2,413,808
Total WWTP Basis	\$ -	\$ 3,718,329	\$ 7,733,499	\$ 8,072,731	\$ 8,708,690	\$ 9,344,649	\$ 9,980,607
Customer Base							
Existing Equivalent Residential Units	1,485	1,485	1,485	1,485	1,485	1,485	1,485
Future Equivalent Residential Units (Incremental)	775	775	775	775	775	775	775
Total "Existing Cost" Customer Base	2,260						
Short Term Improvements Cust Base	2,260						
WWTP Customer Base	-	-	3,537	3,537	3,537	3,537	3,537
	2007	2008	2009	2010	2011	2012	2013
Total Charge per ERU, Existing Cost Basis	\$ 9,831	\$ 10,564	\$ 10,750	\$ 11,615	\$ 12,867	\$ 13,474	\$ 14,522
Total Charge per ERU, Short Term Imp	687	718	749	779	810	841	872
Total Charge per ERU, WWTP Phase 1	-	-	2,166	4,154	4,333	4,513	4,693
Total Charge per ERU	\$ 10,518	\$ 11,282	\$ 13,685	\$ 16,548	\$ 18,011	\$ 18,828	\$ 20,086

GFC based on full capital costs. Charge lower if eliminated
WWTP Phase I projects

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