

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Discussion D 4
DATE: April 22, 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](#).]