

SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET

ITEM NO: D-1

DATE: July 8, 2010

SUBJECT: Sewer General Facility Charge

CONTACT PERSON: Deborah Knight, City Administrator

ISSUE:

The issue before the council is to discuss increasing the sewer general facility charge (GFC) from \$11,282 to \$11,847 to “capture” the cost of the centrifuge installation.

With the installation of the centrifuge, the value of the sewer plant has increased (Attachment A). 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.

STAFF RECOMMENDATION:

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

SUMMARY:

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.

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 to include the value of short-term improvements at the waste water treatment plant and the six-year capital improvement plan.

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 evaluated to capitalize the new value of the city’s sewer system.

Attachment B is the fiscal analysis of the general facilities charge prepared by city staff using the spreadsheets provided by FSC Group to the city in 2007.

There are three steps to calculate the general facilities charge:

Step 1 - Calculate the value of the sewer system

Step 2 - Calculate the available equivalent residential units (ERU's) provided by the system and the value of proposed capital investments in the six-year CIP.

Step 3 – Calculate the GFC by dividing the value of the plant by the ERU's

Step 1 - Calculate the Value of the System

The value of the system is broken into three capital cost pools:

1. Plant in service + interest	\$25,071,361
2. WWTP improvements + interest	\$ 1,691,702
3. WWTP Phase I Upgrade capital assets + interest	<u>\$0</u>
Total	\$26,763,063

Step 2 - Calculate the ERU's Available

The customer base is calculated to determine the equivalent residential units (ERU's) available from the sewer system.

1. 2006 ERU's from 2006 Engineering Report	1,313
2. Future ERU's 6-Year Capital Improvement Plan	<u>946</u>
Total	2259

Step 3 - Calculate the General Facilities Charge

$$\mathbf{\$26,763,063/2259 = \$11,847}$$

BACKGROUND:

RCW 35.92.025 (Attachment B) 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 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.

Due to time constraints, the city council postponed discussion of the GFC at its April 8, 2010 and April 22, 2010 meetings and directed staff to include the GFC as a discussion item on May 13, 2010 agenda.

At the May 13, 2010 meeting, the city council directed staff to prepare a financial analysis of the revised general facility charge for council consideration.

The GFC was on the June 10, 2010 agenda for discussed. Staff requested postponing the discussion until July 8, 2010 to allow additional time to confirm the equivalent residential unit calculations.

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 but it will be used in the plant upgrade, 60% of the cost was allocated to plant expansion and 40% was allocated to 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 preparing an adopting ordinance to update the general facilities charge.

ALTERNATIVES:

1. Review the proposal to recalculate the sewer general facility charge (connection fee paid by new development) and direct staff to bring back an adopting ordinance for council consideration.
2. Review the proposal to recalculate the sewer general facility charge. Do not direct staff to bring back an adopting ordinance for council consideration. 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.

The city is in the process of updating the General Sewer Plan. The city has set aside funding in the 2010 budget to retain FCS Group to update the 2007 rate study and general sewer charge. The rate study is tentatively schedule for the fourth quarter of this year. The council may consider delaying the proposed increase and incorporate the work into the upcoming rate study.

RECOMMENDED ACTION:

Review the proposal to recalculate the sewer general facility charge and provide direction to staff.

ATTACHMENT

- A – General Facility Charge calculation
- B - RCW 35.92.025

City of Sultan

Sewer Utility Rate Study

GFC Summary

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	\$ 19,375,307	\$ 19,710,307	\$ 20,440,734	\$ 20,440,734
plus: Annual Additions	155,250	1,285,470	942,410	335,000	730,427	-	305,347
plus: Interest on Plant	5,070,008	5,441,216	5,696,054	5,971,942	6,262,848	6,586,501	6,910,153
Total Existing Cost Basis	\$ 22,217,435	\$ 23,874,113	\$ 25,071,361	\$ 25,682,249	\$ 26,703,583	\$ 27,027,235	\$ 27,656,235
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
plus: Interest on Phase 1 Additions	-	-	-	-	-	-	-
Total WWTP Basis	\$ -						
Customer Base							
Existing Equivalent Residential Units	1,313	1,313	1,313	1,313	1,313	1,313	1,313
Future Equivalent Residential Units (6-year CIP)	946	946	946	946	946	946	946
Total "Existing Cost" Customer Base	2,259						
Short Term Improvements Cust Base	2,259						
WWTP Customer Base	-	-	3,537	3,537	3,537	3,537	3,537
Charge per ERU							
Total Charge per ERU, Existing Cost Basis	\$ 9,835	\$ 10,568	\$ 11,098	\$ 11,369	\$ 11,821	\$ 11,964	\$ 12,243
Total Charge per ERU, Short Term Imp	687	718	749	780	810	841	872
Total Charge per ERU, WWTP Phase 1	-						
Total Charge per ERU	\$ 10,522	\$ 11,287	\$ 11,847	\$ 12,149	\$ 12,631	\$ 12,806	\$ 13,115

City of Sultan
Sewer Utility Rate Study
Capital Improvement Program

13,518,901

2,408,900 6,942,200

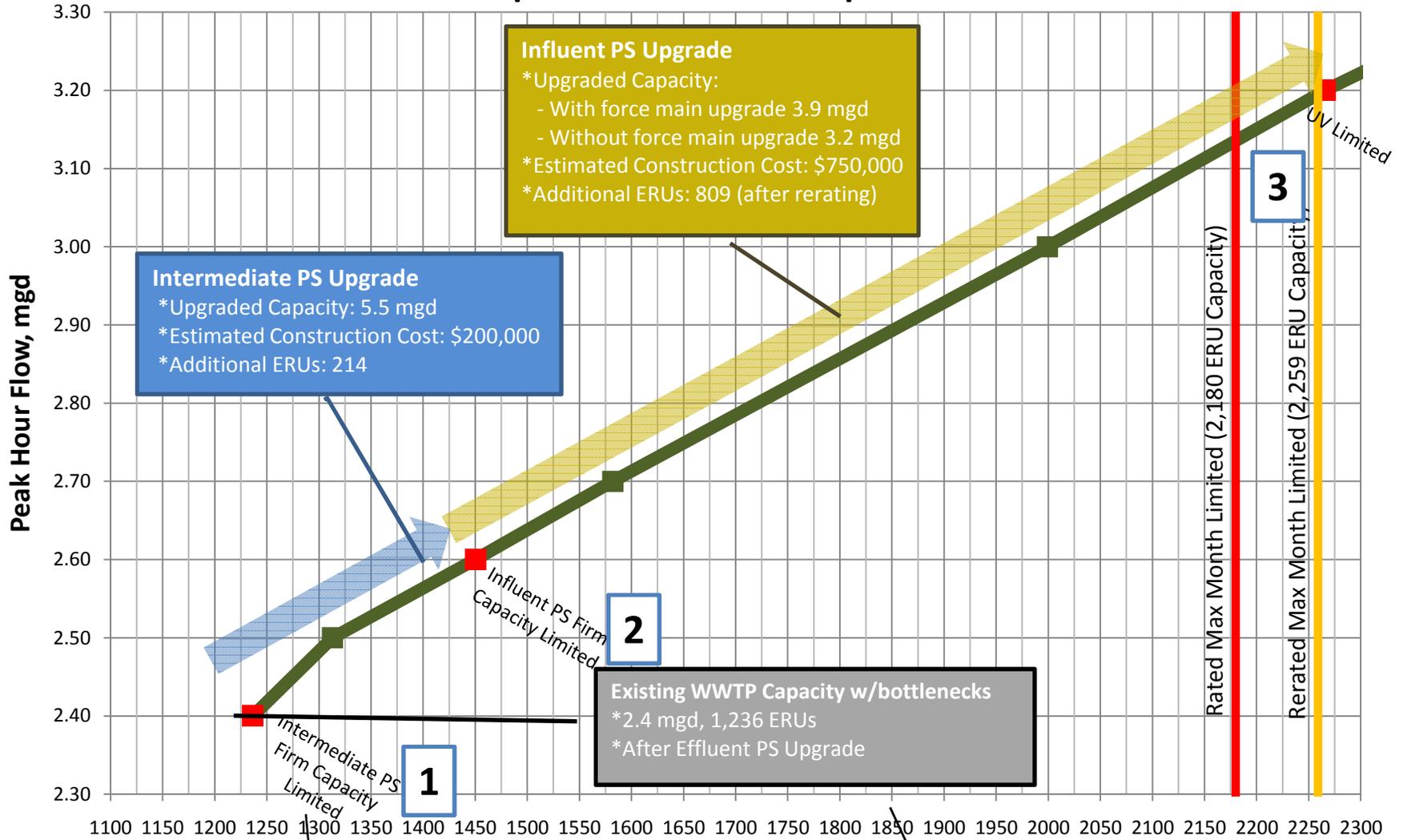
Project Costs and O&M Impacts in Year:

2006

(Project costs are escalated using Construction Cost Inflation assumptions)

No	Description	Current Cost	Year	Annual O&M Impact	Life in Years	For CFC Calculation		Specific Funding Source 1-Enterprise Fund, 2-Grants & Developer Donations	Upgrade / Expansion	R&R	TOTAL ESCALATED COSTS	
						% Upgrade / Expansion	% R&R					
	Short Term Improvements			-	50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	WWTP 2009 Portion (B&C)	0	2010	-	50	75%	25%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Waste Water Treatment Plant - MBR	0	2009	-	50	75%	25%	1	Enterprise Fund	\$ -	\$ -	\$ -
	WWTP 2007 Portion (B&C)	1,500,000	2007	-	50	75%	25%	1	Enterprise Fund	\$ 1,125,000	\$ 375,000	\$ 1,552,500
	WWTP 2008 Portion (B&C)		2008	-	50	100%	0%	1	Enterprise Fund	\$ -	\$ -	\$ -
				-	50	75%	25%	1	Enterprise Fund	\$ -	\$ -	\$ -
	WWTP 2008 Portion (B&C)	1,200,000	2008	-	50	100%	0%	1	Enterprise Fund	\$ 1,200,000	\$ -	\$ 1,285,470
	Short-Term Improvements			-	50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Centrifuge Project	850,000	2009	-	50	60%	40%	1	Enterprise Fund	\$ 510,000	\$ 340,000	\$ 942,410
				-	50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Intermediate Pump	200,000	2010	-	50	100%	0%	1	Enterprise Fund	\$ 200,000	\$ -	\$ 229,505
	Influent Pump (lift station)	135,000	2010	-	50	100%	0%	1	Enterprise Fund	\$ 135,000	\$ -	\$ 154,916
		615,000	2011		50	0%	100%	1	Enterprise Fund	\$ -	\$ 615,000	\$ 730,427
	Force Main River Crossing				50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Design	240,000	2013		50	100%	0%	1	Enterprise Fund	\$ 240,000	\$ -	\$ 305,347
	Construction	1,100,000	2014		50	50%	50%	1	Enterprise Fund	\$ 550,000	\$ 550,000	\$ 1,100,000
		250,000	2015	-	50	50%	50%	1	Enterprise Fund	\$ 125,000	\$ 125,000	\$ 250,000
					50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Annual I&I Rehab	150,000	2007		50	0%	100%	1	Enterprise Fund	\$ -	\$ 150,000	\$ 155,250
	Annual I&I Rehab	-	2008		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Annual I&I Rehab	-	2009		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Annual I&I Rehab	-	2010		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Annual I&I Rehab	-	2011		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Annual I&I Rehab	-	2012		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Annual I&I Rehab	-	2013		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
					50	100%	0%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Alder Street	-	2014		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
		-			50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Gohr Road	-	2016		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
		-			50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	135th-132nd	-	2017		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
		-			50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	330th	-	2020		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
		-			50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
	Dyer Rd	-	2025		50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
					50	0%	100%	1	Enterprise Fund	\$ -	\$ -	\$ -
					50	100%	0%		Select Source	\$ -	\$ -	\$ -
					50	100%	0%		Select Source	\$ -	\$ -	\$ -

Sultan WWTP Proposed Short-Term Improvements



ERUs

ERUs connected 2006: 1,313 + 466
ERU's allocated thru 2009 = 1,791

WWTP Rated Capacity 4,800 people
= 1,846 ERU @ 380 gpd/ERU

City of Sultan

Sewer Utility Rate Study

General Facilities Charge - Revised Methodology 2007

Existing Cost Basis		Notes
Plant in Service		
Utility Capital Assets - Year End (non WWTP)	\$ 16,992,177	Original cost of plant-in-service as of year end
plus: Additions from Approved CIP	155,250	
plus: Interest on non-WWTP assets	5,070,008	Interest on assets up to a maximum 10-year period
Total non-WWTP Cost Basis	22,217,435	
WWTP		
Short Term Improvements - Year End	-	
plus: Short Term Imp Additions	\$ 1,552,500	
plus: Interest on Short Term Improvement Assets	-	
TOTAL Short Term Cost Basis	\$ 1,552,500	
Phase 1 WWTP Capital Assets - Year End	-	
plus: Phase 1 WWTP-related additions	-	
plus: Interest on Phase 1 WWTP assets	-	
Total Phase 1 Cost Basis	\$ -	
Customer Base		
	ERU	Notes
Existing Equivalent Residential Units 2006	1,313	Existing ERUs as of 2006. From WWTP Upgrade Engineering Report, 2006, page 8-36
Future Equivalent Residential Units (Incremental)	946	ERU growth served by adopted 7-year CIP
Total Customer Base	2,259	From Sultan Wastewater Treatment Plant Upgrade - Engineering Report
Total ERU Count served by Phase 1 of WWTP	3,480	ERUs served by Phase 1 of WWTP Upgrade (from Engineering Report)
Total Charge per ERU, Existing Cost Basis	\$ 9,835	*NOTE: Phase 1 does not come online until 2009
Total Charge per ERU, Short Term Improvements	687	
Total Charge per ERU, WWTP Phase 1	-	
Total Combined Charge per ERU	\$ 10,522	

City of Sultan Sewer Utility Rate Study

General Facilities Charge - Revised Methodology 2008

Existing Cost Basis		Notes
Plant in Service		
Utility Capital Assets - Year End (non WWTP)	\$ 17,147,427	Original cost of plant-in-service as of year end
plus: Additions from Approved CIP	1,285,470	
plus: Interest on non-WWTP assets	5,441,216	Interest on assets up to a maximum 10-year period
Total non-WWTP Cost Basis	23,874,113	
WWTP		
Short Term Improvements - Year End	\$ 1,552,500	
plus: Short Term Imp Additions	-	
plus: Interest on Short Term Improvement Assets	69,601	
TOTAL Short Term Cost Basis	\$ 1,622,101	
Phase 1 WWTP Capital Assets - Year End	-	
plus: Phase 1 WWTP-related additions	\$ -	
plus: Interest on Phase 1 WWTP assets	-	
Total Phase 1 Cost Basis	\$ -	
Customer Base		
	ERU	Notes
Existing Equivalent Residential Units	1,313	Existing ERUs as of 2006. From WWTP Upgrade Engineering Report, 2006, page 8-36
Future Equivalent Residential Units (Incremental)	946	ERU growth served by adopted 7-year CIP
Total Customer Base	2,259	From Sultan Wastewater Treatment Plant Upgrade - Engineering Report
Total ERU Count served by Phase 1 of WWTP	3,480	ERUs served by Phase 1 of WWTP Upgrade (from Engineering Report)
Total Charge per ERU, Existing Cost Basis	\$ 10,568	*NOTE: Phase 1 does not come online until 2009
Total Charge per ERU, Short Term Improvements	718	
Total Charge per ERU, WWTP Phase 1	-	
Total Combined Charge per ERU	\$ 11,287	

City of Sultan

Sewer Utility Rate Study

General Facilities Charge - Revised Methodology 2009

Existing Cost Basis		Notes
Plant in Service		
Utility Capital Assets - Year End (non WWTP)	\$ 18,432,897	Original cost of plant-in-service as of year end
plus: Additional Capital Investment	942,410	
plus: Interest on non-WWTP assets	5,696,054	Interest on assets up to a maximum 10-year period
Total non-WWTP Cost Basis	25,071,361	
WWTP		
Short Term Improvements	\$ 1,552,500	
plus: Short Term Imp Additions	-	
plus: Interest on Short Term Improvement Assets	139,202	
TOTAL Short Term Cost Basis	\$ 1,691,702	
Phase 1 WWTP Capital Assets - Year End	\$ -	
plus: Phase 1 WWTP-related additions	-	
plus: Interest on Phase 1 WWTP assets	-	
Total Phase 1 Cost Basis	\$ -	
Customer Base		Notes
Existing Equivalent Residential Units	1,313	Existing ERUs as of 2006. From WWTP Upgrade Engineering Report, 2006, page 8-36
Future Equivalent Residential Units (Incremental)	946	ERU growth served by adopted 7-year CIP
Total Customer Base	2,259	From Sultan Wastewater Treatment Plant Upgrade - Engineering Report
Total ERU Count served by Phase 1 of WWTP	3,480	ERUs served by Phase 1 of WWTP Upgrade (from Engineering Report)
Total Charge per ERU, Existing Cost Basis	\$ 11,098	*NOTE: Phase 1 does not come online until 2012
Total Charge per ERU, Short Term Improvements	749	
Total Charge per ERU, WWTP Phase 1	-	
Total Combined Charge per ERU	\$ 11,847	

City of Sultan

Sewer Utility Rate Study

General Facilities Charge - Revised Methodology 2010

Existing Cost Basis		Notes
Plant in Service		
Utility Capital Assets - Year End (non WWTP)	\$ 19,375,307	Original cost of plant-in-service as of year end
plus: Additional Capital Investment	335,000	
plus: Interest on non-WWTP assets	5,971,942	Interest on assets up to a maximum 10-year period
Total non-WWTP Cost Basis	25,682,249	
WWTP		
Short Term Improvements - Year End	\$ 1,552,500	
plus: Short Term Imp Additions	-	
plus: Interest on Short Term Improvement Assets	208,803	
TOTAL Short Term Cost Basis	\$ 1,761,303	
Phase 1 WWTP Capital Assets - Year End	\$ -	
plus: Phase 1 WWTP-related additions	-	
plus: Interest on Phase 1 WWTP assets	-	
Total Phase 1 Cost Basis	\$ -	
Customer Base		ERU
Existing Equivalent Residential Units	1,313	Existing ERUs as of 2006. From WWTP Upgrade Engineering Report, 2006, page 8-36
Future Equivalent Residential Units (Incremental)	946	ERU growth served by adopted 7-year CIP
Total Customer Base	2,259	From Sultan Wastewater Treatment Plant Upgrade - Engineering Report
Total ERU Count served by Phase 1 of WWTP	3,480	ERUs served by Phase 1 of WWTP Upgrade (from Engineering Report)
Total Charge per ERU, Existing Cost Basis	\$ 11,369	
Total Charge per ERU, Short Term Improvements	780	
Total Charge per ERU, WWTP Phase 1	-	
Total Combined Charge per ERU	\$ 12,149	

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](#).]