

# **OREGON WATER WONDERLAND II**

## **SYSTEM DEVELOPMENT CHARGE FOR THE WASTEWATER SYSTEM**

### **METHODOLOGY SUMMARY**

Oregon Water Wonderland II (OWWII) Sanitary District completed a Wastewater Facilities Plan in May 2001, and a Wastewater Facilities Plan Addendum in August 2002, both completed by Tye Engineering, Inc. Plans addressed deficiencies in the original OWWII subdivision wastewater system, and proposed improvements that would allow the District to continue operation under a Water Pollution Control Facility (WPCF) permit in accordance with regulations of the Oregon Department of Environmental Quality. The Wastewater Facilities Plans (hereinafter referred to as Master Plan), were utilized for obtaining approvals for the District to maintain operations, and for receiving funding for construction. Cost of the Facilities Plans were \$89,500. Construction funds in the amount of \$8,379,024 were obtained from the Rural Utilities Service, with \$3,650,724 in federal grants and \$4,728,300 in federal low interest loans received for the costs of the needed system upgrading. The grants do not require repayment, but the loans must be repaid over a 30-year amortization period. Construction of Phase I improvements included the Wastewater Facilities Plan, and wastewater treatment plant and collection system improvements. Some individual service line vacuum or pressure units that will be required for connection of vacant properties and some existing homes that are not presently served by the system. In addition, service was not provided to lots on the West side of the Deschutes River, and this service will eventually need to be extended. The District Board of Directors is cognizant of the fact that potential users are not contributing to the repayment of the outstanding indebtedness, or to operation and maintenance of the system. The Board has directed its engineering consultant, HGE Inc., Architects, Engineers, Surveyors & Planners to develop a methodology for calculating a system development charge for wastewater treatment and collection facilities. The policy established by the Board of Directors through this direction is that growth should be required to pay for its impact on the District's wastewater system.

Since the construction of the rehabilitated wastewater system, OWWII has imposed varying levels of connection fees for SDC's, and needs a consistent program that complies with Oregon statutes for SDC's. The District plans to implement both a reimbursement SDC fee and an improvement SDC fee. Plans for an improvement fee will involve the average cost for installation of service vacuum units for each new dwelling connection.

For this analysis, the Board of Directors has established a number of objectives:

- Review the basis for the charges and develop a consistent methodology for SDC's;
- Determine the most appropriate and defensible fee which ensures that new development and existing development that is not currently served by the wastewater system, is paying the full cost of proposed capital improvements;

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- That projections be based on a 2030 planning horizon;
  - Establish policy recommendations which make the charges as fair and equitable as possible; and
  - Provide clear and orderly documentation regarding the methodology, assumptions and costs supporting the proposed SDC.

### **SDC Legal Authority**

Systems Development Charges are authorized by Oregon Revised Statutes (ORS) 223.297-314 for wastewater collection, transmission, treatment and disposal. The statutes are specific in establishing the structure for SDC's, how they can be applied, how these funds can be used, and the means for their accounting. SDC's are a one time fee imposed on new development, intended to promote equity between new and existing users of public facilities, by recovering a proportionate share of existing and planned capital facilities which serve or will serve developing property within the District.

**ORS 223** further provides that the charge be calculated based on two fee components. These components are:

- Reimbursement - designed to recover costs associated with capital improvements already constructed or under construction; and
- Improvement - designed to recover costs associated with capital improvements to be constructed.

Under ORS 223, the **reimbursement fee** must consider the cost of existing facilities, prior contributions by existing users of those facilities, the value of the unused/available capacity, and generally accepted rate making principles. Legislation requires the reimbursement fee to be established by a resolution or ordinance setting forth the methodology to calculate the charge. This methodology must consider the cost of existing facilities, prior contributions by existing users, gifts or grants from federal or state government sources, or private individuals, the value of unused capacity available for future system users, rate-making principles utilized to finance the existing facilities, and other relative issues. The objective is to assure that future system users contribute no more than their fair share to the cost of existing facilities. Reimbursement fee revenues are restricted to capital expenditures for the specific system for which they are assessed, including debt service. Grant funding secured for wastewater system improvements are considered contributed capital (not paid by the District or its users) and is not recoverable through an SDC.

Methodology for establishing or modifying an **improvement fee** must give consideration to the projected costs of specified improvements addressed in a Master Plan, that are needed to provide system capacity to satisfy demands of new development. Revenues developed through improvement

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fees must be dedicated to the costs of capacity-increasing capital improvements, or the repayment of debt on such improvements. An increase in capacity is provided if an improvement increases the level of service provided by existing facilities, or provides new facilities.

**Improvement fee** proceeds can only be spent on capital costs or debt service related to planned capacity increasing improvements.

In most wastewater systems, growth needs will be met through a combination of existing available capacity and future improvements providing for new capacity. Total SDC's provide for a **combined fee** (reimbursement plus improvement).

Legislation for SDC's requires that a credit be provided against improvement fees for the construction of "qualified public improvements" This is intended for developer costs required as a condition of development approval, where improvements are constructed that follow the Master Plan, and are either not on or contiguous to the property being developed, or where sizing of facilities are increased beyond requirements for the property in order to comply with the Master Plan.

Methodology for establishing or modifying reimbursement or improvement fees must be available for public review. In addition, the District must maintain a list of the public who have made a request for notification prior to the adoption or amendment of such fees. Notification requirements for changes to the methodology of SDC's, or to the establishment of SDC values, require 90-day written notice prior to a public hearing, with the SDC methodology to be made available for review 60 days prior to the public hearing.

**Future changes** to SDC's related to application of a published cost index that considers the average costs in materials, labor, or real property, and is not specifically related to SDC's, and improvement costs for materials, labor, or real property provided in the Master Plan are not considered "modifications" to the SDC. As such, the District could make future upgrades without following the notification procedures for increases due to inflation, if a specific index is followed. It is recommended that the established SDC value be updated on an annual basis on April 1 of each year by application of the Engineering News Record construction index to the current ENR index value of 8836. The future value will be a simple proportion of values at any future date with the current index value.

**Requirements for Establishment of SDC's** must follow the written legislation, as follows:

- Preparation of a capital improvement plan, or Master Plan, prior to the establishment of an SDC, that includes a list of the improvements, timing, cost projections, and percentage of eligible costs that the District intends to collect funds for, in whole or in part, with revenues from an improvement fee.
- Deposit of SDC revenues into dedicated accounts, with an annual accounting of revenues and expenditures from the fund, including a list of costs for each SDC project funded.
- Creation of an administrative appeals procedure, by ordinance or resolution, in accordance with the legislation, whereby a citizen or other interested party may challenge an expenditure

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of SDC revenues. Provisions of the legislation are invalidated if they are construed to impair the local government's bond obligations or the ability of the government to issue new bonds or other financing. SDC enactment is not a land use decision.

### **Reimbursement Fee Determination for Oregon Water Wonderland Sanitary District**

The reimbursement fee determination for OWWII should be based on the value of available capacity in the system that can be utilized for growth. Expanded wastewater facilities in 2004 were constructed for service to all of the existing lots in OWWII East of the Deschutes River. Federal grants and loans were utilized for construction, and the grant money was provided to benefit all of the potential users of the system, with no requirement that the District would repay any of the grant dollars. In this instance, only the cost of Wastewater Facilities Planning, bond issue loan cost, and purchased equipment, for the system capacity provided for growth, will be utilized in calculations for the reimbursement fee, and no historical ratepayer investment for improvements prior to the latest ratepayer investment has been utilized for SDC calculations.

OWWII has a limited service area with a total of 987 current usable residential lots in the service area. Growth at a minimum rate of less than 1% annually will fill all of the vacant lots within the planning period. Zoning limits usage of the lots to single family residential purposes, so each lot should be considered on an equal basis.

Total Wastewater Facilities Planning and bond issue loan costs for the wastewater improvement project totaled \$ 4,817,800 expressed in 2004 dollars. Planning and loan costs amounted to \$4,881.26 per lot served, based on costs in 2004. Purchased vacuum system costs of \$82,800 occurred in November 2006, for a per lot cost of \$83.89. Using the ENR index for inflation, the index was 7109 in June of 2004, 7911 in November of 2006, and 8836 in September of 2010. Actual wastewater costs for each lot served, in 2010 dollars, would be  $8836/7109 (\$4,881.26) + 8836/7911 (\$83.89) = \$6,160.77$ .

### **Improvement Fee Determination for Oregon Water Wonderland Sanitary District.**

No major capital construction costs were planned in the Master Plan for OWWII. However, the construction funding was very limited for the 2004 improvement project, and complete individual services, pressure pumping or vacuum systems were only installed for residents desiring service at that time. Service laterals were provided with the construction on the East side of the Deschutes River, but financial limitations prevented the remaining vacuum system and pressure pumping installations from being completed. Each pressure pumping or vacuum system is currently costing \$4,500 to install (2010 costs), and the plan is to serve 1 or 2 houses with each vacuum unit provided, and a single home with each pressure pumping system installed. Current estimates for needed vacuum or pressure pumping systems are for a total of 73 houses, with 54 individual pumping or vacuum units. A total improvement cost of \$243,000 is anticipated to provide connections for the remaining lots to all be served East of the Deschutes River, expressed in 2010 dollars. In addition, service to 7 existing lots that remain unserved on the West side of the Deschutes River will need

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to be provided in the future. An Engineer's report was prepared in 2007 that outlined the scope of the needed improvements, and the project is now estimated to cost \$150,000 in 2010 dollars. Lots which currently are not connected to the sewer system on either side of the river total 225 lots. Total improvement costs of \$393,000 are anticipated for the 225 remaining lots to be served, and the improvement SDC fee should be \$ 1,746.77 per lot. The ENR index should again be applied for inflationary increases to adjust for future year construction, on a proportional basis to the current ENR Construction Index of 8836.

### **Total Wastewater System SDC Determination**

Together, the reimbursement and improvement fees recover costs equal to growth's capacity needs. Reimbursement costs of \$ 6,160.77, and improvement costs of \$ 1,746.77 should apply to all future connections to the wastewater system. The value of existing system capacity is added to the cost of future improvements for growth to determine the total SDC cost, based on an individual cost per lot served. The capital cost for wastewater system reimbursement and investment fees needed for the wastewater system is \$7,907.44 per lot, expressed in 2010 dollars. There are currently 225 individual lots which are not served, and are anticipated to come on line through the planning period. The total Wastewater System SDC should be established at \$7,907.00 per lot.