**ORDINANCE NO. 2017-05**

**AN ORDINANCE ADOPTING THE CITY OF LA PINE PROJECT LIST, SYSTEM DEVELOPMENT CHARGE METHODOLOGY, PHASING SCHEDULE, AND RATE TABLE.**

WHEREAS, a system development charge (SDC) has been determined to be an appropriate funding mechanism for generating revenues required to develop necessary water and sewer system facilities; and

WHEREAS, the City desires to update the project list upon which the SDC will be calculated; and

WHEREAS, the City desires to update the SDC methodology; and

WHEREAS, the City recognizes the need to phase in SDC increases to mitigate impacts on new development;

NOW, THEREFORE, THE CITY OF LA PINE ORDAINS AS FOLLOWS:

Section 1. The capital improvement plan is adopted as enumerated in Exhibit A.

Section 2. The SDC Methodology is adopted as enumerated in Exhibit B.

Section 3. The SDC rates are hereby established as set forth in Exhibit C. Rates are phased in from the current rates to the maximum defensible as enumerated in Exhibit B.

Section 4. This ordinance is effective immediately, with new SDC rates as established herein to be effective on July 1, 2017.

This Ordinance was PASSED and ADOPTED by the La Pine City Council by a vote of __ for and __ against and APPROVED by the mayor on this ___ day of _____, 2017.

Ayes: _____
Nays: _____
Abstentions: _____
Absent: _____
Vacancies: _____

_____
Dennis Scott, Mayor

ATTEST:

_____
Cory Misley, City Manager

# EXHIBIT A – PROJECT LIST

## Sewer System Capital Improvement Program Project List

| No | Description | Total Proj Cost | % Growth Related | % Existing Needs | Growth Related Costs | Existing Needs Costs | Projected Year of Construction |
|---|---|---|---|---|---|---|---|
| | **Collection System Improvements** | | | | | | |
| 1 | Cagle & Glenwood Collection System / Lift Station | $ 8,490,385 | 100% | 0% | $ 8,490,385 | $ - | 2022 |
| | **Treatment and Disposal System Improvements** | | | | | | |
| 2 | Existing Pump Station Modifications | $ 144,493 | 100% | 0% | $ 144,493 | $ - | 2020 |
| 3 | Septage Receiving Station | $ 361,231 | 100% | 0% | $ 361,231 | $ - | 2020 |
| 4 | Storage Lagoon | $ 794,709 | 100% | 0% | $ 794,709 | $ - | 2020 |
| 5 | Piping and Pivot Disposal System | $ 3,483,716 | 58% | 42% | $ 2,010,056 | $ 1,473,660 | 2020 |
| | TOTAL CAPITAL PROJECTS | $ 13,274,534 | 89% | 11% | $ 11,800,874 | $ 1,473,660 | |
| | Less: Anticipated Grants | $ 6,250,000 | 89% | 11% | $ 5,556,162 | $ 693,838 | |
| | NET CAPITAL PROJECT COSTS | $ 7,024,534 | | | $ 6,244,712 | $ 779,822 | |

## Water Capital Improvement Program Project List

| No | Description | Total Proj Cost | % Growth Related | % Existing Needs | Growth Related Costs | Existing Needs Costs | Projected Year of Construction |
|---|---|---|---|---|---|---|---|
| | **Supply System Improvements** | | | | | | |
| 1 | New Supply Well and Pump Station | $ 1,183,624 | 49% | 51% | $ 575,342 | $ 608,281 | 2022 |
| | **Storage Reservoir Improvements** | | | | | | |
| 2 | New Northside Reservoir and Transmission Line | $ 2,735,130 | 49% | 51% | $ 1,329,507 | $ 1,405,623 | 2022 |
| | **Distribution System Improvements** | | | | | | |
| 3 | Cagle and Glenwood Distribution System (Priority 1) | $ 4,519,290 | 100% | 0% | $ 4,519,290 | $ - | 2024 |
| 4 | 12-inch Highway 97 Connection Pipe (Priority 2) | $ 300,995 | 49% | 51% | $ 146,309 | $ 154,686 | 2024 |
| 5 | Miscellaneous Distribution System Improvements | $ 991,685 | 0% | 100% | $ - | $ 991,685 | 2024 |
| | TOTAL CAPITAL PROJECTS | $ 9,730,723 | 68% | 32% | $ 6,570,448 | $ 3,160,275 | |
| | Less: Anticipated Grants | $ 4,250,000 | 68% | 32% | $ 2,869,715 | $ 1,380,285 | |
| | NET CAPITAL PROJECT COSTS | $ 5,480,723 | | | $ 3,700,733 | $ 1,779,990 | |

# EXHIBIT B – SDC METHODOLOGY

## City of La Pine

## Final Report

# WATER AND WASTEWATER SYSTEM DEVELOPMENT CHARGE STUDY

## January 2017

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**January 27, 2017**

**Cory Misley, City Manager**
**La Pine City Hall**
**PO Box 2460**
**16345 Sixth Street**
**La Pine, Oregon 97739**

**Subject: Water and Wastewater System Development Charge Study**

**Dear Mr. Misley:**

**FCS GROUP is pleased to submit this report summarizing the results of the water and wastewater system development charges (SDCs) study for the City of La Pine. Our findings indicate that La Pine can adopt a water SDC of up to $3,871 per 5/8-inch by 3/4-inch meter capacity equivalent (MCE) and a wastewater SDC of up to $6,663 per 5/8-inch by 3/4-inch MCE.**

**It has been a pleasure to work with you and other La Pine staff on this effort. Please let me know if you have any questions or need additional information on this draft report. I can be reached at (425) 867-1802 ext. 225.**

**Yours very truly,**

**John Ghilarducci**
**Principal**

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# SECTION I: INTRODUCTION

**The City of La Pine is a small but growing city with increasing demands for water and wastewater services. The purpose of this study is to provide defensible water and wastewater system development charges that serves to recover existing and future investments in capacity without unduly burdening existing or future customers.**

**Consistent with these objectives, the following general approach was used to update the system development charges (SDC).**

- **Develop Policy Framework. We worked with City staff to identify, analyze, and agree on key policy issues.**
- **Technical Analysis. In this step, we worked with La Pine staff to resolve technical issues, isolate the recoverable portion of existing and planned facility costs, and calculate fee alternatives. The most important technical consideration involves the inclusion of capacity upgrades as they relate to the Cagle and Glenwood developments. The complete technical analysis is included as Appendix A.**
- **Documentation and Presentation. In this step, we wrote the report describing the resulting charge and participated in La Pine meetings.**

# SECTION II: SYSTEM DEVELOPMENT CHARGE METHODOLOGY

## A. LEGAL AUTHORITY AND CONCEPTUAL BASIS

**A system development charge is a one-time fee imposed on new development (and some types of re-development) at the time of development. The purpose of this fee is to recover a fair share of the cost of existing and planned facilities that provide the necessary capacity to accommodate future users.**

**Oregon Revised Statute (ORS) 223.297 - 223.314 defines SDCs and specifies how they shall be calculated, applied, and accounted. By statute, an SDC is the sum of two components:**

- **a reimbursement fee, designed to recover costs associated with capital improvements *already constructed or under construction*.**

> According to ORS 223.304, the reimbursement fee methodology must be based on "the value of unused capacity available to future system users or the cost of the existing facilities", and must further consider prior contributions by existing users and gifted and grant-funded facilities. The calculation must also "promote the objective of future system users contributing no more than an equitable share to the cost of existing facilities."
>
> Reimbursement fee proceeds may be spent on any capital improvements related to the systems for which the SDC is applied – i.e., water SDCs must be spent on water improvements.

- **an improvement fee, designed to recover costs associated with capital improvements *to be constructed in the future*.**

The improvement fee methodology must include only the cost of projected capital improvements or portions of improvements needed to increase system capacity for future users. In other words, the cost(s) of planned projects or portions of projects that correct existing deficiencies, or do not otherwise increase capacity for future users, may not be included in the improvement fee calculation.

Improvement fee proceeds may be spent only on capital improvements, or portions thereof, which increase the capacity of the systems for which they were applied.

## B. REIMBURSEMENT FEE METHODOLOGY

**The reimbursement fee is the dollar value of unused, available, system capacity divided by the capacity it will serve. The unit of capacity used becomes the basis of the fee – e.g., meter equivalents, water fixture units, or equivalent dwelling units. Important factors in this calculation include:**

1. **Determining the appropriate reimbursement fee cost basis. ORS 223.304 requires that the reimbursement fee calculation consider, among other things, "the value of unused capacity available to future system users or the cost of the existing facilities." Within this framework, there are several alternative approaches for establishing the reimbursement fee cost basis:**

   **We use an *original cost* approach towards calculating the cost basis. The original cost approach uses the original cost of existing facilities at the time they were constructed. This approach fully compensates existing customers for their investments that serve growth and clearly considers the cost of the existing facilities.**
2. **Deductions from the reimbursement fee cost basis. The reimbursement fee should not include gifted or grant funded portions of assets since they do not relate to a direct investment by the rate payer. As such, their costs should be deducted from the reimbursement fee cost basis. In addition, we deduct outstanding debt principal from the reimbursement fee cost basis. Once connected, new customers will pay their share of debt service in monthly rates.**

## C. IMPROVEMENT FEE METHODOLOGY

**The improvement fee calculation is the total dollar cost of capacity-increasing capital projects divided by the capacity they will serve. Again, the unit of capacity used becomes the basis of the fee. The overriding issue to consider in the improvement fee calculation is the identification and separation of capacity-increasing capital costs.**

**For projects that serve existing and future capacity, it is important to allocate costs proportionately to the amount the project is related to growth. We use the most directly applicable measure of capacity demand as the basis for allocation (pumping capacity, treatment capacity, etc.).**

## D. CALCULATION SUMMARY

**An SDC is calculated by adding the reimbursement fee component to the improvement fee component. Each separate component is calculated by dividing the eligible cost by the appropriate measure of growth in capacity. The unit of capacity used becomes the basis of the charge. A sample calculation is shown below.**

**Equation II – 1: Simplified SDC Equation**

| Reimbursement Fee | | Improvement Fee | | SDC |
|---|---|---|---|---|
| Eligible cost of unused capacity in existing facilities / Growth in system capacity demand | + | Eligible cost of planned capacity-increasing capital improvements / Growth in system capacity demand | = | SDC ($ / unit) |

**Overall, increasing the eligible costs for existing and planned capacity will increase the per unit SDC. Meanwhile, increasing expected growth capacity will serve to decrease the per unit SDC.**

## E. SDC IMPROVEMENT FEE CREDITS

**The law requires that credits be provided against the improvement fee for the construction of qualified public improvements. Oregon Revised Statute 223.304 states that, at a minimum, credits shall be provided against the improvement fee for:**

> "the construction of a qualified public improvement. A 'qualified public improvement' means a capital improvement that is required as a condition of development approval, identified in the plan and list adopted pursuant to ORS 223.309 and either:
>
> (a) Not located on or contiguous to property that is the subject of development approval; or
>
> (b) Located in whole or in part on or contiguous to property that is the subject of development approval and required to be built larger or with greater capacity than is necessary for the particular development project to which the improvement fee is related."

**The law further states that credits "may be granted only for the cost of that portion of such improvement that exceeds the local government's minimum standard facility size or capacity needed to serve the particular development project or property."**

**The challenge is to design a credit approach that meets statutory requirements and assumed La Pine objectives for cash flow, prioritization of capital projects, and orderly but sustained development. We believe it is important for La Pine to retain as much control as possible over the prioritization and implementation of its capital plans. These plans are created to address total system needs – not just the needs of growth. Without control over how and when those needs are addressed, the re-prioritization of projects over time can leave important capacity needs unmet. To avoid this outcome, credits should:**

- **be only for the portion of the agreed-upon or planned cost of capacity *in excess of that needed to serve the particular development*;**
- **not be transferable to other developers;**
- **be for planned projects only; and**
- **be provided only upon completion of a "qualified public improvement".**

## F. INDEXING CHARGE FOR INFLATION

**Oregon law (ORS 223.304) allows for the periodic indexing of system development charges 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."

**We recommend that the City index its charges to the Engineering News Record (ENR) Construction Cost Index (CCI) for the City of Seattle, and adjust the charges annually as per that index. There is no comparable index for the Portland area.**

# SECTION III: SYSTEM DEVELOPMENT CHARGE CALCULATION

**The calculation of the proposed water and wastewater SDC is summarized below and provided in detail in the technical analysis (Appendix A).**

## A. CAPACITY BASIS

**Growth in system capacity demand is the denominator of the SDC calculation. We determined the growth in system capacity demand using Meter Capacity Equivalent units (MCEs)[1]. We used the Wastewater and Water System Studies[2] to estimate growth.**

- **The Water and Wastewater System Studies shows current system demand at 1,061 MCEs.**
- **Cagle and Glenwood will add 275 MCEs to the system.**
- **The Studies estimates 2.2% customer growth per year over the next 20 years**

**Applying the annual customer growth rate to current MCEs with the addition of Cagle and Glenwood results in an estimate of 1,004 total future additional MCEs over the next 20 years.**

## B. REIMBURSEMENT FEE

**The reimbursement fee takes the eligible cost of unused capacity in the existing system and divides it by the capacity basis of 1,004 MCEs.**

[1] One MCE is equivalent to the flow capacity of one 5/8 x 3/4" meter.
[2] Anderson Perry & Associates, *City of La Pine, Oregon Wastewater System Study Update, Water System Study Update*. 2016.

**The cost of unused capacity is equivalent to the portion of the cost of existing assets available for future users. Calculating the cost of unused capacity in the existing water and wastewater systems requires the following inputs:**

- **Original Cost of Utility Capital Assets**
  - **This provides the base value to calculate the reimbursement fee and includes construction work in progress. For water this is around $5.9 million and wastewater it is around $5.7 million.**
- **Utility Debt Principal Outstanding**
  - **Debt principal outstanding is subtracted from the original cost of fixed assets. Debt payment schedules show this to be about $2.1 million for water and zero for wastewater.**
- **Contributions in Aid of Construction**
  - **Total contributed assets are deducted from the original cost of fixed assets as well since they do not represent a true cost to the current ratepayers. This is approximately $1.3 million for water and wastewater each.**
- **Unused Capacity Available**
  - **This defines the percentage of assets not used to serve existing needs and thus available for the reimbursement fee. This is calculated by dividing total system capacity by the difference between existing demand and total capacity.**
    - **For water, this is based on storage capacity limitations as defined in the Water System Study. 0.8 million gallons (MG) of recommended necessary storage capacity divided by 1.2 MG of current capacity equates to 34.1% of capacity remaining**
    - **For wastewater, this is based on max day flow of 0.16 MG divided by flow capacity of 0.25 million gallons per day (MGD) for a remaining capacity of 35.6%.**

**Calculating the cost of unused capacity requires multiplying the unused capacity available by the allocable value of the existing system. A summary of the reimbursement fee cost basis calculation is provided below**

**Equation III-1: Cost of Unused Capacity Calculation for Water System**

| Description | Cost | % Unused | $ Cost Basis |
|---|---|---|---|
| Land | $33,500 | 34.1% | $11,417 |
| Water System | $5,582,856 | 34.1% | $1,902,823 |
| Equipment | $16,784 | 34.1% | $5,721 |
| Building | $219,953 | 34.1% | $74,967 |
| Master Plan | $28,507 | 34.1% | $9,716 |
| Subtotal | $ 5,881,600 | | $ 2,004,645 |
| Debt Principal Outstanding | ($2,121,864) | 34.1% | ($723,202) |
| Grants for Initial Water System | ($1,275,000) | 34.1% | ($434,563) |
| Subtotal | $ (3,396,864) | | $ (1,157,765) |
| Total | $ 2,484,736 | | $ 846,881 |

**Equation III-2: Cost of Unused Capacity Calculation for Wastewater System**

| Description | Cost | % Unused | $ Cost Basis |
|---|---|---|---|
| Collection | $ 1,000,974 | 35.6% | $ 356,347 |
| Treatment | 2,320,121 | 35.6% | 825,963 |
| Pumping | 233,166 | 35.6% | 83,007 |
| General Plant | 2,138,176 | 35.6% | 761,191 |
| Subtotal | $ 5,692,437 | | $ 2,026,508 |
| Sewer Interfund Loan Principal | $ (806,742) | 35.6% | $ (287,200) |
| EPA Grant for Lagoon Expansion | (433,700) | 35.6% | (154,397) |
| Crescent Creek Lift grant (County) | (117,000) | 35.6% | (41,652) |
| Subtotal | $ (1,357,442) | | $ (483,249) |
| Total | $ 4,334,995 | | $ 1,543,258 |

**Dividing the cost of unused capacity by the capacity basis of 1,004 MCE results in:**

- **Water – a reimbursement fee of $844 per MCE**
- **Wastewater – a reimbursement fee of $1,538 per MCE**

# C. IMPROVEMENT FEE CALCULATION

**The improvement fee takes the cost of capacity-increasing capital improvements over the planning period and divides this by the capacity basis. This analysis incorporates the cost of capacity-increasing capital improvements defined in the Water and Wastewater System Studies respectively. Important here is the need to remove costs of projects unassociated with capacity as well as reduce the cost of capacity-based projects by anticipated contributions, grants and existing SDC fund balance.**

## Water System Capacity Improvements and Fee Calculation

**The Water System Study identifies $9.7 million in planned capital improvements. Of these, approximately $6.5 million are related to growth in capacity. The existing SDC fund balance for the Water System is $0.66 million. La Pine is applying for $4.25 million in grants for future capital improvements; $2.87 million of which can be attributed to growth. Subtracting this fund balance and identified growth-related grant contributions leaves an improvement fee cost basis of approximately $3.03 million. Dividing this cost basis by the allocable customer base of 1,004 MCEs yields a recommended improvement fee of $3,027 per MCE.**

## Wastewater System Capacity Improvements and Fee Calculation

**The Wastewater System Study identifies $13.2 million in planned capital improvements. Of these, $11.8 million are attributable to growth. The existing SDC fund balance for the Wastewater System is $1.1 million. La Pine is applying for $6.25 million in grants for future capital improvements; $5.6 million of which can be attributed to growth. Subtracting this fund balance and identified growth-related grant contributions leaves an improvement fee cost basis of $5.14 million; this, divided by 1,004 MCEs yields a recommended improvement fee of $5,125 per MCE.**

# SECTION IV: RECOMMENDATIONS

**The recommended water and wastewater SDCs are the sums of the reimbursement fee and improvement fee for each service. This analysis shows the recommended fees based on an equivalent meter size of 5/8 inch x 3/4 inch, or one MCE. The final calculation is as follows:**

**Table IV-1: Total Water SDC per Meter Equivalent**

| | Water | Wastewater |
|---|---|---|
| **Reimbursement Fee Component** | | |
| **Total Costs** | **$ 846,881** | **$ 1,543,258** |
| **Allocable Customer Base** | **1,004** | **1,004** |
| **Reimbursement Fee per Unit** | **$ 844** | **$ 1,538** |
| **Improvement Fee Component** | | |
| **Total Costs** | **$ 3,037,526** | **$ 5,142,863** |
| **Allocable Customer Base** | **1,004** | **1,004** |
| **Improvement Fee per Unit** | **$ 3,027** | **$ 5,125** |
| **SDC Per Unit** | **$ 3,871** | **$ 6,663** |

# A. RECOMMENDED SDC SCHEDULE

**The recommended SDC schedules are based on meter equivalents. These are calculated by multiplying the meter flow factors by the recommended MCE system development charge.**

**Table IV-2: SDC Schedule by Meter Size**

| Meter Size | Flow Factor | Water | Wastewater |
|---|---|---|---|
| 5/8 x 3/4" | 1 | $ 3,871 | $ 6,663 |
| 3/4" | 1.5 | $ 5,807 | $ 9,995 |
| 1" | 2.5 | $ 9,678 | $ 16,658 |
| 1.5" | 5 | $ 19,355 | $ 33,315 |
| 2" | 8 | $ 30,968 | $ 53,304 |
| 3" | 16 | $ 61,936 | $ 106,608 |
| 4" | 25 | $ 96,775 | $ 166,575 |

# B. CREDITS AND INDEXING

**We recommend that the City of La Pine provide credits against the improvement fee for future qualifying public improvements as described in Section II of this document. We also recommend that the City of La Pine annually adjust the SDCs recommended above as indexed by the Engineering News Record (ENR) Construction Cost Index (CCI) for the City of Seattle. There is no comparable index in the region.**

# EXHIBIT C – SDC PHASE-IN SCHEDULE

## Water

| 4-Year Phase-In | Current | 1/1/2018 | 7/1/2018 | 1/1/2019 | 7/1/2019 | 1/1/2020 | 7/1/2020 | 1/1/2021 |
|---|---|---|---|---|---|---|---|---|
| 5/8" x 3/4" Meter | $1,405 | $2,022 | $2,330 | $2,638 | $2,946 | $3,255 | $3,563 | $3,871 |
| 3/4" Meter | 2,108 | 3,032 | 3,495 | 3,957 | 4,419 | 4,882 | 5,344 | 5,807 |
| 1" Meter | 3,513 | 5,054 | 5,824 | 6,595 | 7,366 | 8,136 | 8,907 | 9,678 |
| 1 1/2" Meter | 7,025 | 10,108 | 11,649 | 13,190 | 14,731 | 16,273 | 17,814 | 19,355 |
| 2" Meter | 11,240 | 16,172 | 18,638 | 21,104 | 23,570 | 26,036 | 28,502 | 30,968 |
| 3" Meter | 22,480 | 32,344 | 37,276 | 42,208 | 47,140 | 52,072 | 57,004 | 61,936 |
| 4" Meter | 35,125 | 50,538 | 58,244 | 65,950 | 73,656 | 81,363 | 89,069 | 96,775 |

## Sewer System

| 4-Year Phase-In | Current | 1/1/2018 | 7/1/2018 | 1/1/2019 | 7/1/2019 | 1/1/2020 | 7/1/2020 | 1/1/2021 |
|---|---|---|---|---|---|---|---|---|
| 5/8" x 3/4" Meter | $5,700 | $5,941 | $6,061 | $6,182 | $6,302 | $6,422 | $6,543 | $6,663 |
| 3/4" Meter | 8,550 | 8,911 | 9,092 | 9,272 | 9,453 | 9,633 | 9,814 | 9,995 |
| 1" Meter | 14,250 | 14,852 | 15,153 | 15,454 | 15,755 | 16,056 | 16,357 | 16,658 |
| 1 1/2" Meter | 28,500 | 29,704 | 30,306 | 30,908 | 31,509 | 32,111 | 32,713 | 33,315 |
| 2" Meter | 45,600 | 47,526 | 48,489 | 49,452 | 50,415 | 51,378 | 52,341 | 53,304 |
| 3" Meter | 91,200 | 95,052 | 96,978 | 98,904 | 100,830 | 102,756 | 104,682 | 106,608 |
| 4" Meter | 142,500 | 148,519 | 151,528 | 154,538 | 157,547 | 160,556 | 163,566 | 166,575 |