

System Development Charges

Portland Water Bureau



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Why SDCs are important.

System Development Charges (SDCs), also known as impact fees, provide revenue to utilities from new user hook ups to recover costs of existing and future capacity enhancing capital improvements. New customers' use of the existing water system infrastructure reduces existing capacity and may also lead to the need for construction of new facilities. A common objective of SDCs is to have "growth pay for growth." From an economic perspective this is true, but unfortunately in the case of construction of new facilities, the burden of paying for new facilities falls mainly on the existing ratepayers in the near term as new customers join the utility gradually over the life of those new facilities.

Why the Water Bureau charges SDCs

Current engineering studies, such as the Distribution Infrastructure Master Plan and the Water Management and Conservation Plan, show no significant constraints on future near term capacity. Therefore, the Bureau's SDCs are based on a "buy-in" to the water system (i.e., a reimbursement method) per Oregon Revised Statutes.

The Bureau pays for capital improvements in five ways:

- Uses cash on hand raised from user rates
- Sells bonds or debt financing
- Assesses SDCs for new development
- Requires up-front reimbursement from developers or customers who directly benefit from an improvement
- Uses interest earned on Construction Fund balances

SDCs are one-time charges paid by customers when they apply for a new water connection (or increase the size of an existing connection). By charging SDCs for new or larger connections to the system, the Bureau assigns the costs of capital improvements, at least in part, to those who may potentially cause an increase in demand rather than to existing customers through higher user charge rates. Money collected through SDCs from new customers for their share of the costs of capacity is more equitable than raising rates on all customers to pay for capital improvements that are needed primarily just to serve the new or increased demand. Although debt financing pushes repayment into the future, the repayment is still usually from user rates.

Description of Methodology

The Bureau's SDC is a reimbursement fee calculated in accordance with the language and intent of the Oregon state legislation as specified in ORS 223.297 to 223.314. The Portland Water Bureau's SDC adheres to the definition in ORS 223.299 (3) of a "Reimbursement fee means a fee for costs associated with capital improvements already constructed, or under construction when the fee is established, for which the local government determines that capacity exists."

The Bureau's buy-in SDC is essentially the "cost per equivalent meter unit" times the size of the meter (in equivalent units) added to the water system. Cost per equivalent meter unit is simply the net "value" of the water system divided by the total number of "equivalent meter units (5/8" meter = 1 equivalent meter unit)" served by the system.

The net value of the water system begins with the value of existing water facilities using estimated replacement cost, less accumulated depreciation (net replacement cost book value). Construction work in progress, current planned capital construction, and projected year-end fund cash balances, are added. Customer contributions and unpaid bond principal are deducted. The resulting total is the net "value" of the water system paid by ratepayers.

The equivalent meter unit is a ratio based on the capacity of larger meters as compared to the capacity of a base meter such as a typical residential customer's 5/8" meter (see details in Appendix).

Details of SDC Calculation

The details of the FY 2014-15 SDC reimbursement fee per Section 223-304 1(a) are as follows:

Net replacement cost book value of existing facilities *	853,847,916
Add Estimated cost of facilities in capital plan *	325,413,979
Less Contributions	(114,261,597)
Less Outstanding debt (principal only)	(566,410,000)
Add Fund cash balances (accrual)	118,868,928
Total System Net Value	617,459,226
Total Equivalent Meter Units *	286,742
Cost per Equivalent Meter Unit	\$2,153
Cost per Unit (including credit card fees)	\$2,185
* See Appendix for details	

In effect, every retail customer using the system today (with a 5/8" meter = 1 equivalent meter unit) has an investment value of \$2,185 in net replacement value terms for a share of the capacity of the system assets. Therefore, new customers pay a reimbursement fee that brings their investment in line with that of existing customers.

The next table lists the SDCs for 5/8" to 16" meters based on the unit cost and equivalency capacity ratios.

SDC Schedule for FY 2014-15

The cost per equivalent meter unit is multiplied by the equivalency ratio schedule and adjusted to reflect additional credit card charges

Meter Size	Equivalent Capacity Ratio	FY 2014-15 SDC (includes credit card fees)
5/8	1	\$2,185
¾	1.5	3,277
1	2.5	5,462
1-1/2	5	10,925
2	8	17,227
3	15	32,300
4	25	53,834
6	50	107,668
8	80	172,269
10	143.8	309,653
16	412.5	888,261

Over the past 10 fiscal years, the SDC for a 5/8" meter has increased from \$1,600 to \$2,185 due to changes in methodology along with additional investments in the system.

Fiscal Year	Water SDC (5/8" Meter)
FY 05-06	\$1,600
FY 06-07	\$1,664
FY 07-08	\$1,787
FY 08-09	\$1,760
FY 09-10	\$1,793
FY 10-11	\$1,710
FY 11-12	\$1,732
FY 12-13	\$1,817
FY 13-14	\$2,183
FY 14-15	\$2,185

Comparison of Water SDC Charges

The 2014-15 Water SDC for a 5/8" meter (\$2,185) is below the national average SDC rate of \$2,903 reported in the AWWA 2012 Water and Wastewater Rate Survey (published every two years) The SDC rate is also less than rates charged by a sample of other Oregon municipal water utilities.

	Water SDC (5/8" Meter)	Notes
National average	\$2,903	(1)
West Linn, City of	\$9,542	(2)
Lake Oswego, City of	\$6,986	(2)
Tigard, City of	\$7,044	(2)
TVWD (Washington County)	\$6,355	(2)
Gresham, City of	\$4,153	(2)
Beaverton, City of	\$3,696	(2)
EWEB (Eugene)	\$2,754	(2)
Portland, City of	\$2,185	
(1) RFC/AWWA 2012 Water and Wastewater Rate Survey		
(2) City or Utility website or related fee schedule		

SDC Revenue Funds Capital Improvements

Per ORS Section 223.307, SDC revenue is spent only on capital improvements associated with the water system. Details, including a description and forecast cost, of the capital improvements being funded with system development charge revenue are included in the capital improvement plan. The annual audit provides data on the cost of capital construction and capital funding sources.

Administrative Procedures

The Portland City Council adopted ordinance 183448 adding and amending City Code to define and exempt qualified affordable housing projects from Water SDCs. Ordinance 183688 suspended Water SDCs (between April 15, 2010 and June 30, 2013) for accessory dwelling units. On December 5, 2012, Council adopted Resolution 36980 extending the SDC waiver for accessory dwelling units through July 31, 2016. Refer to Portland City Code Sections 21.16.170 and 30.01.095 for more information.

In accordance with ORS 223-302 and 223-304, interested persons may either object to the calculations or challenge an expenditure of SDC revenues under the Bureau's administrative review procedures.

The Bureau will maintain a list of interested parties. The Bureau may periodically delete names from the list, but at least 30 days prior to removing a name from the list, the Bureau shall notify the person whose name is to be deleted that a new written request for notification is required if the person wishes to remain on the notification list.

Citizens on the list will receive notice of intent to modify the SDC at least 90 days prior to the first hearing. The methodology supporting the system development charge must be available at least 60 days prior to the first hearing.

Legal action intended to contest the methodology used for calculating a system development charge may not be filed after 60 days following adoption or modification of the system development charge ordinance or resolution by the City Council. A person requesting judicial review of the methodology used for calculating a system shall submit the request in writing to the Administrator.

To challenge SDC expenditures, interested parties must file with the Administrator of the Bureau within two years of the expenditure(s).

Conclusions

System Development Charges (SDCs) are one-time capital charges for new customer hook ups to compensate a utility and its existing ratepayers for existing investments and/or costs of anticipated growth. The Portland Water Bureau's SDC is a buy-in or reimbursement fee for all pertinent water infrastructure (including supply and transmission) because the water system continues to have unused capacity. Mainly for this reason and because Portland's system tends to be older than that of many other communities in Oregon, water SDCs paid in Portland are lower than the average charge assessed by cities in Oregon. When the time comes for development of new supply and transmission assets or other significant facilities, future SDCs may include a component for an improvement fee SDC. SDC annual revenue forecast for FY 2014-15 to FY 2018-19 averages \$2.2 million – slightly more than the \$2.0 million from the previous five-year forecast.

Appendix

SDC Summary of Calculation

Net book value of Existing Facilities (1. below)		853,847,916
Add Construction in Progress (1. below)	267,870,279	
Add Cost of Facilities in Capital Plan (1. below)	57,543,700	325,413,979
Less Contributions		(114,261,597)
Less Outstanding Debt (principal only)		(566,410,000)
Add Fund cash balances (accrual)		118,868,928
Total System Net Value		617,459,226
Total Equivalent Meter Units (2. - 4. below)		286,742
Cost per Unit (System value/Equivalent Meters)		\$2,153
Cost per Unit (including credit card fees)		\$2,185

- The following table provides detail on the asset values. The cost basis of Existing Facilities is depreciated replacement cost. Assets under construction (WIP) and in the Current Capital Plan are at cost and estimated cost respectively. Contributions are inflated to current dollars.

Functional Description	Net Book Value – Existing Facilities	Construction In Progress	Current – Capital Plan	Contributions
Bull Run Watershed	38,040,807	1,132,829	8,221,170	
Conduits	94,707,349	307,826	225,025	
Customer/Billing/Meters	2,084,989			
Distribution Storage	46,819,081	156,138,384	31,641,550	
Distribution Transmission	19,063,289	21,178,737		
Distribution/Direct Fire	47,566,904	631,520		(11,919,464)
Groundwater	58,017,669	585,071	385,994	
Indirect	79,402,751	69,205,896	11,581,008	
Pipe	427,264,314	7,144,307	5,488,953	(102,342,133)
Pumping	10,306,706	6,175,059		
Terminal Storage	11,998,841	4,515,934		
Transmission	4,413,243			
Treatment	14,134,186	854,716		
Other	27,787			
Totals	853,847,916	267,870,279	57,543,700	(114,261,597)

2. Detail on the number of meters by size of meter in the system as of April 25, 2013.

Meters by Size	Total number of Meters
5/8	139,854
¾	17,755
1	13,593
1 1/4-1 1/2	2,566
2	3,188
3	468
4	429
6	254
8	83
10	64
12	0
16	<u>4</u>
Total	<u>178,258</u>

3. Engineering estimates of the capacity ratio of different meter sizes.

Meters by Size	Equivalency Capacity Ratio
5/8	1.0
¾	1.5
1	2.5
1 1/4-1 1/2	5.0
2	8.0
3	15.0
4	25.0
6	50.0
8	80.0
10	143.8
12	231.3
16	412.5
24	750.0

4. Calculation showing numbers of meters (by size) times meter equivalency (by size) = Total equivalent meters.

Meters by Size	Total number of meters	Equivalent Unit Ratio	Total Equivalent Units (Meters X Ratio)
5/8	139,854	1.0	139,854
3/4	17,755	1.5	26,633
1	13,593	2.5	33,983
11/4-11/2	2,566	5.0	12,830
2	3,188	8.0	25,504
3	468	15.0	7,020
4	429	25.0	10,725
6	254	50.0	12,700
8	83	80.0	6,640
10	64	143.8	9,203
16	<u>4</u>	412.5	<u>1,650</u>
Totals	<u>178,258</u>		<u>286,742</u>

5. Final SDC schedule

Meter Size	Equivalency Ratio Schedule	FY 2014-15 calculation	FY 2014-15SDC (includes credit card fees)
5/8	1	\$2,153	\$2,185
3/4	1.5	3,230	3,277
1	2.5	5,383	5,462
11/4-11/2	5	10,767	10,925
2	8	17,227	17,227
3	15	32,300	32,300
4	25	53,834	53,834
6	50	107,668	107,668
8	80	172,269	172,269
10	143.8	309,653	309,653
16	412.5	888,261	888,261