

MEMORANDUM

TO: City Council
FROM: Brian Issa, Community Service Director
DATE: 3/4/2010
RE: Proposed Wastewater System Development Charge (SDC) and Rate Increases

Background

At the February 8th Council meeting, Don Ganer of FCS consulting presented the results of recent work to determine appropriate wastewater rates and SDC charges. His recommendations are summarized as follows:

- Increase the sewer SDC from \$3250 to \$4754 (a 46.2% increase)
- Increase sewer rates by 8.66% for the last quarter of 2010, with either annual increases of 2% or 3% thereafter

These increases are necessary to cover over \$9 million dollars in capital projects over the next 20 years as laid out in the adopted Waster Water Master Plan (2009).

Proposed SDC Increase

An increase from \$3250 to \$4754 is necessary to cover the portion of the projects on the CIP which are intended to expand capacity for future growth (as opposed to fixing existing deficiencies). At the Feb 8 meeting, the council asked for a comparison of Veneta's SDCs against other cities in Oregon. Attached for your review is a comparison with fifty other cities prepared for the City of Stayton in 2009. Before reviewing this comparison, please keep in mind that:

- **SDC rates are based on needed projects which vary based on system age, rate of growth, and other factors particular to the individual city. Comparing SDCs between cities only tells you whether one city's rate is higher or lower than another, not whether the proposed rate is appropriate or adequate.**
- **This list is derived from 2009 data which may not accurately reflect current SDC rates for all the cities listed, or for that matter, all cities in Oregon that collect SDCs. For instance, Prineville's SDCs now total \$14,856 rather than the \$9,167 shown.**
- **Very low SDC rates may reflect lack of updates more than anything. For instance, Cottage Grove, shown here with a total SDC of \$3,721 recently completed their first SDC review in many years and their consultant has recommended increases that would put them well over the \$14,000 mark.**

Proposed Rate Increase

FCS proposed two different scenarios. Option A was designed to prevent the necessity of issuing additional debt and therefore, has a higher rate designed to accumulate funds over time for use on needed capital projects. Option B was designed with future bonds as part of the mix, and therefore has a lower projected rate. It should be noted here that addition debt incurred for capital projects is repaid through user fees and will likely necessitate additional rate increases upon issuance. Both options propose maximum use of existing SDC funds to repay existing debt and construct capital projects in the near term. The current SDC balance of over two million dollars is projected to be fully expended by 2013-2014.

Staff recommends Option B for the following reasons:

- Rate increases in the near term are kept to a minimum
- Issuance of future debt is stable compared to counting on rate revenues to cover future project.
- The Council has often expressed the desire that “growth pay for itself”. Using proceeds from today’s rate payers to fund expansion projects in the future run counter to this idea. It would be more appropriate to have future rate payers (including the new residents who trigger the need for capital projects) pay.

In Option B, the consultants propose a total increase of 12.66% over the next three years, beginning with an 8.66% increase in April 2010. Staff believes that although the magnitude of the increase is necessary, it may be preferable to spread the increase out over the same time period. Staff’s proposed increase schedule would be as follows:

- April 1, 2010: 4%
- July 1, 2010: 4%
- January 1, 2011: 2%
- July 1, 2011: 2%
- Jan 1, 2012: 1%
- Each July 1 Thereafter 2%

This results in a 13% total increase over the same period of time. It may be possible to eliminate the January 2012 1% increase depending on the cost of projects in the near term.

Sewer rates for several nearby cities are shown below for comparison. The same caveats apply to rates that apply to SDCs apply here as well. An additional point to keep in mind is that many of these cities rates are volumetric, that is, they charge a set rate per unit of usage based on water consumption. As usage goes up, charges go up. Veneta currently has a flat rate that does not have a per unit charge.

City	Sewer Base Rate*
Junction City	\$ 38.01
Creswell	\$ 33.00
Cottage Grove	\$ 19.87
Florence	\$ 38.86
Harrisburg	\$ 33.70
Veneta Current	\$ 42.00
Veneta +10.66% ¹	\$ 46.48
Veneta +8% ²	\$ 45.36

*assumes 5000gal usage

¹Increase proposed by FCS to be achieved by 7/01/2010

²Increase proposed by staff to be achieved by 7/01/2010

Summary

The proposed water and SDC rates are tightly coupled and designed to generate sufficient revenue to meet the City’s capital construction, O&M, and debt service requirements over the

coming years. Staff recommends implementing Option B which includes issuance of future debt on the schedule outlined above starting with a 4% increase April 1 of this year.

Staff recommends adoption of the proposed SDC increase at a future date following public comment and review as required by statute. FCS is in the process of completing the final methodology which will be made available for review immediately upon receipt. The methodology and CIP must be available for public review at least 60 days prior to adoption, and it typically takes two council meetings to adopt non emergency matters. Unless adopted as an emergency, the earliest the new SDC would go into effect would be July 1, 2010

Requested Action(s)

- A motion to implement the proposed rate increases as laid out in Option B above and directing staff to prepare a resolution increasing sewer rates by 4% to be adopted at the March 22 Council meeting.
- A motion directing staff to make the SDC methodology available upon receipt by the City, and to prepare a resolution for adoption of the new SDC and CIP at a public hearing to be held at least sixty days thereafter.