MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson

FROM: Frank Lawson, CEO & General Manager; Karen Kelly, Chief Operations Officer; Deborah Hart, AGM/Chief Financial Officer

DATE: October 29, 2024 (November 12, 2024, Board Meeting)

SUBJECT: Water System Development Charges (SDCs) Policy Development

OBJECTIVE: Recommendation (General Commissioner Concurrence)

Issue

Management needs Commissioner guidance on the role of System Development Charges at EWEB in order to develop a Board Policy to align and clarify the legalities, purpose, and priorities used in the development and implementation of SDCs in the future.

Background

System Development Charges (SDCs) are one-time fees charged on new development, and certain types of redevelopments, to help pay for existing and planned infrastructure to serve the development. SDCs are one means of financing growth available to local governments. Although SDCs are not required, State law authorizes local governments to assess SDCs and specifies how, when, and for what improvements they can be imposed. Under ORS 223.297 – 223.314, SDCs may be used for capital improvements for water supply treatment and distribution. The fees may be a reimbursement by new development for a portion of unused infrastructure capacity and/or an improvement fee for planned infrastructure.

In September 2024, Staff presented the Board with an update on system capacity cost determinants, allocation, and collection methodology. The memorandum, with Water SDC Update Study from Galardi Rothstein Group attached, can be found at [LINK - SDC_Memo_Sept_2024]. Accordingly, because the SDCs had not been updated since 2016, during a time of significant increase in the cost/value of capacity, including significant un-used unreimbursed existing capacity, the proposed SDC fees increased dramatically. Additionally, the methodology for allocating and compensating for the value was restructured to align with other City of Eugene SDC criteria.

In October, Commissioners received correspondence [LINK - Oct 2024 Correspondence] highlighting a staff recommendation to develop an SDC Board Policy, which also included responses to questions posed by Commissioners at the September 2024 meeting.

Discussion

System Development Charges exemplify that there is value in system capacity, and when allocated that value is realized. Fundamentally, EWEB needs to decide who, when, and how that realized value is compensated for by answering the following question(s). In order to develop policy that provides long-term guidance, the following question(s) will need clarity at the November Meeting.

1. ***When a project requires/consumes system capacity, should the SDC-eligible value of that capacity be:***
    - ***paid as part of the project that needs the system capacity, thus adding value to the project, and likely passed on to the specific users/beneficiaries (i.e., tenants) of that project.***
    - ***paid for by the broader customer base, via rates, over time as the capacity is used.***
    - ***split between the project (direct beneficiaries) and the general customer base (X%/Y%).***
    - ***based on the category/type of the project, and whether the Board feels there is Social/Community value worth spreading across the broad customer base. (This may be challenging, if possible, to implement) In this scenario, specific criteria should be developed for qualifying projects and the legalities of categorical SDCs evaluated.) Are there categories the Board is willing rate-fund more aggressively?***

2. ***Should SDCs be used to favor some types of capacity-consuming development over others?*** *(Note: Historically, "Grants" have been used in special cases for "community good".)*
3. ***Do Commissioners concur that for development/project simplicity/clarity, EWEB approaches to SDCs should align with other jurisdictional (e.g. City of Eugene) processes?***

Recommendations

Staff is recommending the development of a Board Policy to align and clarify the legalities, purpose, and priorities used in the development and implementation of SDCs. Board Policy, by definition, survives a single Board and is an effective mechanism for establishing long-term direction, as is the case with SDCs. Normally, Board Policies are discussed in detail at/near year-end.

Staff also recommends that the policy be used to revise the results and recommendations presented in September 2024 for alignment with the 10-Year Water Master Plan, planned for publication in late Spring 2025.

Board Action

No Board Action is required currently. Management requests guidance from Commissioners relevant to the development of an SDC Policy.

Attachment A:
2024 SDC Proposed Changes – Staff Responses

Below are staff responses to questions raised by Commissioners during the September 3, 2024, EWEB Board Meeting.

1. ***Please add local comparators for other utilities charging SDCs – i.e. Springfield, Junction City, Corvallis, Albany, Cottage Grove and Corvallis.***

   The following provides a local comparison using a square-footage and per-meter basis.

Water SDCs									
Square Foot Basis									
EWEB	Residential Service (base level)				General Service (base level)				
	<800 sq ft	801-1,500 sq ft	1,501-3,000 sq ft	>3,000 sq ft	1 inch	1 1/2 inch	2 inch	3 inch	4 inch
	$ 1,493	$ 2,558	$ 3,933	$ 6,592	$ 9,702	$ 21,657	$ 52,337	$ 138,542	$ 181,983
SUB	3/4 Inch Meter (base level - $2.37 per sq ft)				Larger Than 3/4 inch Meter (base level)				
	800 sq ft	1,500 sq ft	3,000 sq ft	4,000 sq ft	1 inch	1 1/2 inch	2 inch	3 inch	4 inch
	$ 1,896	$ 3,555	$ 7,110	$ 9,480	$ 11,840	$ 23,680	$ 37,888	$ 71,040	$ 118,401
Meter Basis									
		EWEB[1]	Albany[2]	Corvallis[3]	Cottage Grove	Lebanon	Roseburg	Salem	
	Typ. Residential	$3,933-$5,618	$4,500	$2,966-$11,035	$6,940	$3,019	$4,115	$11,977	
	<1"	$3,644	$4,737	Based on Water Supply Fixture Units	$6,940	$3,019	$4,115	$11,977	
	1"	$9,702	$7,910		$17,350	$7,545	$6,860	$20,360	
	1 1/2"	$21,657	$15,773		$34,700	$15,092	$13,721	$39,517	
	2"	$52,337	$25,247		$55,520	$24,145	$21,956	$63,468	
	3"	$138,542	$50,541		$111,040	$48,297	$48,028	$128,126	
	4"	$181,983	$78,961		$173,500	$75,023	$82,329	$199,973	
	[1] Average								
	[2] Albany uses $2.00 per sf for single dwelling unit (SDC shown is based on mean dwelling size of 2,250 SQ FT).								
	The SDC is $2,461 per dwelling unit for duplex/triplex/fourplex, and $1,941 per dwelling units in larger apartments.								
	[3] Corvallis's SDCs (updated in 2024) are based water supply fixture units and service level.								
	The SDC shown is for a typical single family dwelling with 28 fixture units.								

2. ***Consider a purely square foot basis in lieu of tiered rates.***

   The initial discussions included both a square foot and tiered approach. Staff recommends a tiered approach to limit the administrative burden and maintain alignment with the City of Eugene. The alignment of approach between EWEB and COE potentially reduces confusion among the developers as they interact with the two agencies.

3. ***Please provide some additional context to SDCs by responding to the following.***

   a. ***How much do we collect and spend annually on SDCs?***

      The revenue collect from SDCs varies annually, depending on the number and size of projects constructed during the year. As mentioned at the September Board meeting, the current SDC revenue is approximately $1M annually.

b. How many SDCs are collected for the various size meters typically.

The following shows how many projects collected SDCs segmented by meter size and elevation.

SDC Charge	Meter Size	2023 Counts	2024 Counts Thru Aug. 31
SDB1	<1" - Base	83	116
SDB3	1" - Base	7	10
SDB4	1.5" - Base	4	2
SDB5	2" - Base	5	2
SDB6	3" - Base	9	1
SDB7	4" - Base	2	2
SDL1	<1" - Upper Level	43	35
SDL3	1" - Upper Level	4	0
SDL4	1.5" - Upper Level	0	0
SDL5	2" - Upper Level	0	0
SDL6	3" - Upper Level	1	0
SDL7	4" - Upper Level	0	0
	Total	158	168

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c. For residential apartments served by large meters – how many units are served and what is cost per unit

Compared to single-family residential homes, multi-unit development reduces the SDC cost per unit as highlighted in the table below. For comparison, the SDC for a 1,200 square foot home is $2,558, and a 1,700 square foot home is $3,933, respectively.

Year	Address	# Units	Proposed General Service SDC	SDC Charge Per Unit	Property Valuation (COE Permit Records)
2" Meters					
2022	3060 River Rd	70	$52,337	$748	$5,599,044
2022	172 Oakleigh Ln	39	$52,337	$1,342	$4,727,160
2023	995 Umpqua Ave	24	$52,337	$2,181	$1,459,132
2023	1080 Umpqua Ave	48	$52,337	$1,090	$2,586,129
2023	1390 Umpqua Ave	40	$52,337	$1,308	$2,598,778
	AVG	44.2		$1,334	$3,394,049
3" Meters					
2022	1491 Umpqua Ave	253	$138,542	$548	$2,586,129
2022	1291 Umpqua Ave	224	$138,542	$618	$2,586,129
2022	355 E 5th Ave	130	$138,542	$1,066	$37,777,000
2022	500 Ferry St	116	$138,542	$1,194	$15,953,064
2022	601 Country Club Rd	76	$138,542	$1,823	Not available
2023	1840 Garden Ave	65	$138,542	$2,131	$6,500,000
2023	871 E 13th Ave	103	$138,542	$1,345	Not available
2023	754 E 13th	122	$138,542	$1,136	$22,750,000
	AVG	136.1		$1,233	$14,692,054
4" Meters					
2022	475 E Broadway	238	$181,983	$765	$66,802,303
2023	435 Alexander Loop	184	$181,983	$989	$27,788,999
2023	155 Fairway Loop	162	$181,983	$1,123	Not available
	AVG	194.7		$959	$47,295,651
			Avg for large Appartment Complex	$1,175	

4. Consider separating out residential for the large 4" meters serving apartments.

Existing EWEB Customer Service Policy defines residential and general service and "all separately metered single-family residences, mobile homes, duplexes, triplexes, quads, townhouses and multifamily structures with less than four Living Units" are defines as residential and "… multifamily structures with four or more Living Units served through one Meter…" are defines as General Service. Separating out residential from general service for large apartment complexes would require a policy change that could have unintended consequences including changes to many other rate schedules for both utilities. In addition, given the relatively low SDC Charge per apartment unit (average approximately 33% less than lowest residential charge) as shown in attachment tab Q3.c, there is little to no benefit to changing the policy. As such, we recommend keeping the residential and general service definitions as shown in the current Customer Service Policy.

5. ***Give examples around town that commissioners might be familiar with and show SDC cost vs. overall project cost.***

   Although not the total project cost, property valuation for the projects are listed above in response to Question 3 (c).

6. ***Consider a longer phase in for the meters.***

   Staff will be proposing that the phase in period be part of future Board Policy development.

7. ***Consider pulling out second source from the project list as principal driver is redundancy.***

   The Water Master Plan, required by statute, determines the growth capacity needs for each system function (e.g., source, storage, pumping). The SDCs determine the value of capacity needed for growth by function based on the 10-year capital improvement plan and existing facilities, which is exclusive of facilities to be decommissioned. Second Source is a part of "source" costs which collectively provide capacity for future growth. As is the case in the current 2016 SDC methodology, which also includes the second treatment plant, growth is allocated to a portion of Second Source costs given its capacity in proportion to future projected total water supply capacity needs (where growth is estimated to represent about 21%.) As noted above, Second Source has been included in the project list since 2016, and since it will contribute to capacity in the future staff recommend it remain in the project list.

8. ***How is capacity determined for specific projects (e.g. Santa Clara Reservoir)?***

   The Water Master Plan, required by statute, determines the growth capacity needs for each system function (e.g., source, storage, pumping). The SDCs determine the value of capacity needed for growth by function based on the 10-year capital improvement plan and existing facilities and as mentioned in the previous item, is exclusive of facilities to be decommissioned. For example, the existing 20MG Santa Clara Reservoir is an existing facility to be decommissioned, and as such is not included in the SDCs. However, the replacement storage, although less storage, still provides capacity for growth and is eligible for inclusion in the SDCs.

9. ***Compare the Auxiliary Dwelling Unit (ADU) charge now to <800 square ft charge of the future and explain why it is less.***

   The current ADU charge is lower than the less than 800 square foot charge because an ADU development typically does not result in an increase in irrigation demand. Instead, ADUs potentially reduce irrigation demand because they are occupying space, and therefore have a different impact on the system than a standalone, less than 800 square foot, premise.

10. ***Explain how the total revenue we are seeking is calculated and what happens if we take projects off the list and can't collect that revenue?***

    If EWEB collected less SDCs, then the difference is funded with retail rates. In the 2025 budget, EWEB is assuming an incremental increase of 20% on roughly $1M in revenue. If SDCs are increased, general rate relief may be realized. Conversely, limiting or reducing SDCs in the future could bring rate pressures.

11. Explain savings already realized for SDCs using a smaller meter now because of technology allowing greater capacity.

The change in meter technology results in higher flows per meter size classification (e.g. “3/4-inch meter”). Therefore, developers that previously required 4-inch meters to serve their demand, now may require a 3-inch meter. This incremental flow per meter size provides a value for developers that is not easily quantified but exists.