General Facilities Charges

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Agenda

1. Introduction
2. Legal Background
3. Methodology Options
4. Sample Calculations
5. Policy Considerations
Introduction

Why are we talking GFCs?

- **What other sources of funding are available to cities to complete projects?**
  - Ensuring that cities are responsibly charging for development
  - Development paying for development

- **What is a General Facility Charge?**
  - Connection charge paid by the property owner seeking to connect to the utility system – the charge includes not only the physical connection to the system, but the "equitable share of the cost of such system".
  - Examples include – standard housing development, non-profit housing developments, industrial/commercial development

- **Political Resistance – Council, Commissioners, Development Community**

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General Facilities Charges

Key Characteristics

- General facilities charges are one-time charges, not ongoing rates.
- Properties which are already developed do not pay general facilities charges unless they “redevelop”.
- General facilities charges are for capital only, in both their calculation and in their use.
- General facilities charges may include both future and existing cost components.
- General facilities charges are for general facilities, not “local” facilities.
General Facilities Charges, AKA

- Impact Fees
- System Development Charges
- Capital Facilities Charges
- Connection Charges
- Plant Investment Fees
- Capital Investment Fees
- Improvement Charges

General Methodology

General Calculation Methodology

Connection Charge =

<table>
<thead>
<tr>
<th>Allocable Capital Cost</th>
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<tr>
<td>Applicable Customer Base</td>
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**Key Considerations**

**Numerator**

- **Allocable Capital Cost**
  - Existing Facilities Costs
    - Inclusion of interest – carrying, financing cost
    - Deduction of debt outstanding (rate portion)
    - Deduction of contributions (donated, grant-funded)
    - Exclusion of tax-funded facilities
    - Deduction of available cash balances
  - Future Facilities Costs
    - Future financing costs, interest
    - Deduction of other prospective funding (e.g., grants)
    - Planning period

**Denominator**

- **Applicable Customer Base**
  - Existing customers, growth only, total future
  - Planning period
    - Match numerator
  - Units
    - Water / Wastewater
      - Meter equivalents
      - Usage-based ERUs
      - Fixture units
    - Stormwater
      - Impervious surface (ESUs)
General Facilities Charge
Legal Background

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**Washington GFC Law**

**For Cities**

**RCW 35.92.025**

Authority to make charges for connecting to water or sewerage system -- Interest charges.

Cities and towns are authorized to charge property owners seeking to connect to the water or sewerage system in the city or town as a condition to granting the right to so connect, in addition to the cost of such connection, such reasonable connection charge as the legislative body of the city or town shall determine proper in order that such property owners shall bear their equitable share of the cost of such system. The equitable share may include interest charges applied from the date of construction of the water or sewer system until the connection, or for a period not to exceed ten years, at a rate commensurate with the rate of interest applicable to the city or town at the time of construction or major rehabilitation of the water or sewer system, or at the time of installation of the water or sewer lines to which the property owner is seeking to connect but not to exceed ten percent per year: PROVIDED, That the aggregate amount of interest shall not exceed the equitable share of the cost of the system allocated to such property owners. Connection charges collected shall be considered revenue of such system.

**Washington GFC Law**

**For Special Districts**

**RCW 57.08.005**

Powers.

(10) To fix rates and charges for water, sewer, and drain service supplied and to charge property owners seeking to connect to the district's systems, as a condition to granting the right to so connect, in addition to the cost of the connection, such reasonable connection charge as the board of commissioners shall determine to be proper in order that those property owners shall bear their equitable share of the cost of the system. For the purposes of calculating a connection charge, the board of commissioners shall determine the pro rata share of the cost of existing facilities and facilities planned for construction within the next ten years and contained in an adopted comprehensive plan and other costs borne by the district which are directly attributable to the improvements required by property owners seeking to connect to the system. The cost of existing facilities shall not include those portions of the system which have been donated or which have been paid for by grants. The connection charge may include interest charges applied from the date of construction of the system until the connection, or for a period not to exceed ten years, whichever is shorter, at a rate commensurate with the rate of interest applicable to the district at the time of construction or major rehabilitation of the system, or at the time of installation of the lines to which the property owner is seeking to connect...

...Revenues from connection charges excluding permit fees are to be considered payments in aid of construction as defined by department of revenue rule. Rates or charges for on-site inspection and maintenance services may not be imposed under this chapter on the development, construction, or reconstruction of property.
Washington GFCs

- City Law provides comparatively little in the way of a calculation framework.
  - 10 years of interest at prevailing rate on existing system costs.
  - What is an equitable share?
  - What is “such system”?
- District law is more specific -- explicitly allows for the inclusion of 10 years of future facilities costs.

Legal opinions support this process for cities:

- Project the overall cost of improvements;
- Project the capacity of the improvements;
- Determine the necessity of the improvements to serve new customers; and
- Demonstrate a direct linkage between the cost of improvements and the necessity of those facilities to serve the customers who are being charged for their development.
1. Average Existing Cost

Connection Charge = \[
\frac{\text{Existing System Cost}}{\text{Existing Customer Base}}
\]

Potential Applications:
- Built-out, mature system
- No future costs
2. Incremental Future Cost

2. Incremental Future Cost Approach

Connection Charge =

\[
\text{Future Project Costs: Capacity Expansion}^* + \text{Future Growth Served}
\]

* Only includes growth's proportionate share of common benefit project costs.

Potential Applications:
- Rapidly growing community
- No recoverable existing costs
- Common impact fee approach

3. Capacity Share

3. Allocated Capacity Share Approach

Connection Charge =

\[
\text{Existing System Costs: Unused Capacity} + \text{Future Project Costs: Capacity Expansion}
\]

Potential Applications:
- Requires good information/assumptions
- Equitable
- Good fit for many community types
- Oregon SDC Approach
4. Average Cost - Integrated

4. Average Cost – Integrated Approach

Connection Charge =

Existing System Cost* + Future Project Costs*

Existing Customer Base + Future Growth Served

* Assumes duplicate capacity removed.

Potential Applications:
- Simple, straightforward
- Requires less information
- Can over or under-estimate growth share, depending on cost mix
- Washington connection charges only

Sample Charge Calculation

Existing Component

1. Cost Basis
   Original cost of assets $7,916,832
   less: debt outstanding [1] $
   less: contributions [2] $5,277,888
   Initial Allocable Cost $2,638,944
   [a] Total Charge Basis $3,804,912

2. Capacity Basis
   [b] Total # of buildout ESUs 22,469

3. Charge Calculation
   [a] / [b] $169.34 per ESU

NOTES:
[1] Rate portion only
[3] Up to ten years of interest at the prevailing rate at the time of construction. See worksheet.
Sample Charge Calculation

Future Component

1. **Cost Basis**
   
   [c] Total planned project costs $8,463,840

2. [d] Total # of buildout ESUs 22,469

3. [c] / [d] $376.69 per ESU

Total Charge

Existing + Future Components $546.03 per ESU

5. Hybrid A (Integrated)

5. Hybrid A (Integrated) Approach

CC = $\text{Existing System Cost} + \text{Future Project Costs: Capacity Expansion}$

- Existing System Cost
- Future Project Costs: Capacity Expansion

Potential Applications:
- Existing infrastructure sized for growth
- Allocable project list
- Beware the double charge
Connection Charge
Policy Considerations

Key Policy Issues

1. Existing facilities cost basis
2. Future facilities cost basis
3. Unit bases for the charges
4. Credit approaches
5. Area-specific charges
6. Functional charges
## Area-Specific Charges

### Cost Basis

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<td>Basin 5 – North</td>
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### Uniform Citywide Charge

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<th>Area</th>
<th>SDC per ESU</th>
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<td>South Basins (1-4)</td>
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<td>Uniform Citywide Charge</td>
<td>$335 per ESU</td>
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## Functional Charges

### SFR, Duplex, Trailer Court, Public Authority

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<th>Size</th>
<th>Flow Factor</th>
<th>Customer</th>
<th>Fire-Base</th>
<th>Pre-Com</th>
<th>Storage</th>
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