



OAK LODGE SANITARY DISTRICT

Protecting our valuable water resources

AGENDA
BOARD OF DIRECTORS SPECIAL MEETING
Systems Development Charges Workshop
May 26, 2009
5:00 p.m.

1. **Call to Order:** President Savas
2. **Systems Development Charges:** Brett Arvidson; Randy Goff, HDR Engineering
 - a. Methodology
 - b. Recommended SDCs
 - c. Implementation Issues
3. **Public Comment Period:**
Members of the public are invited to address the Board on any relevant topic. The Board may elect to limit the total time available for public comment or for any single speaker depending on meeting length.
4. **Adjourn Meeting**

* Denotes changes in the Agenda after mailing.



OAK LODGE SANITARY DISTRICT

STAFF REPORT

To: Board of Directors
From: Brett Arvidson
Agenda Item: Systems Development Charge Workshop
Item No.: 2
Date: May 26, 2009

Background:

The current Systems Development Charge (SDC) has been in effect since 1992. With Board acceptance of the schematic design cost estimate, the District needs to update this charge to accommodate new growth. Oregon Revised Statutes 223.297 through 223.314 establishes the methodology for calculating and implementing system development charges. SDCs can only be used to build new capacity, not to replace existing units.

The Schematic design anticipates \$50.9 million in capital costs. A large portion of this cost involves rehabilitating existing capacity, but the plant capacity will be nominally raised from a rated capacity of 4.0 to 4.7 mgd or 17%. This increased capacity justifies \$8.43 million in SDC eligible costs. The proposed methodology annualizes (including interest) the individual costs for Phase 1A and Phase 1B, and then apportions these costs over 20 years. The proposed SDC amount utilizes the District's historical growth rate of 100 equivalent dwelling units per year.

The attached report provides the basis for this recommendation for modifying the SDC.

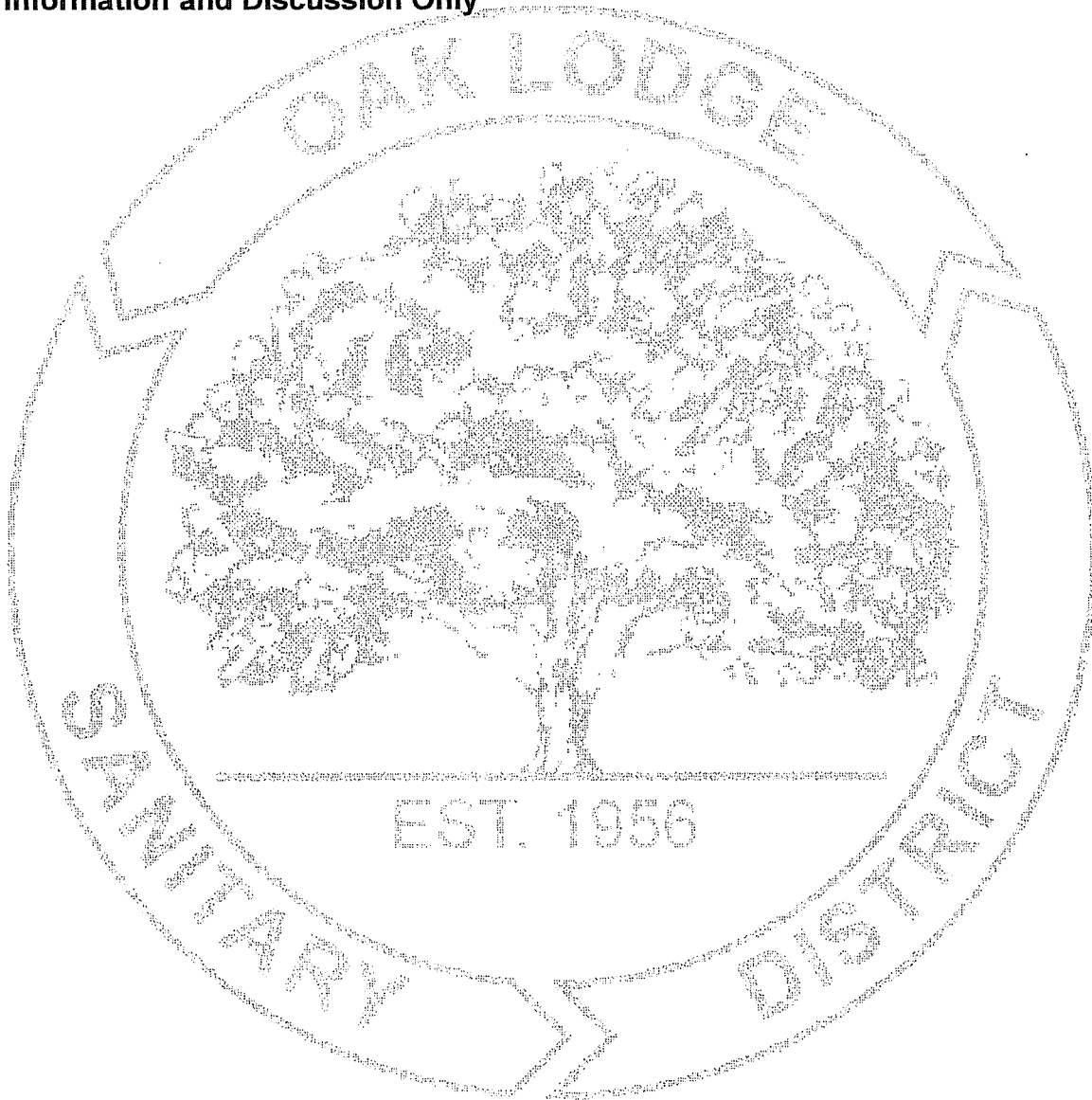
With the accounting requirements in the statute and the immediate construction of capacity related improvements, the District anticipates charging for actual construction costs. Based upon the report, the SDC will be raised in two steps. Initially the charge will be \$5023 per EDU to cover Phase 1A construction, then another increase to an estimated \$7059 at the beginning of Phase 1B. The final SDC amount will reflect the final cost of construction after Phase 1B, applicable to a 20 year period.

The Statute requires publishing the methodology and obtaining public comment. The May 12, 2009 Board Meeting constituted a public hearing for the methodology under ORS 223.309. The actual rate hearing implementing the new fee will take place at a later date, most likely during the July Board Meeting.

Staff has received a request from the Metro Homebuilders Association to delay or stage implementation of the proposed Phase 1A fee. Staff is prepared to discuss the implications or potential impacts of such a phased approach.

An alternative methodology for Systems Development Charges is to index the SDC so that it increases over time. Indexing is usually employed where the capital expansion program is ongoing and where the financing costs are not calculated into the SDC. Since the OLSD capital expansion program is finite and well known, and includes the cost of financing, the proposed SDC is not indexed.

Information and Discussion Only



OAK LODGE SANITARY DISTRICT



REPORT ON SYSTEMS DEVELOPMENT CHARGE MODIFICATION

March 30, 2009

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Report on Systems Development Charge Modification
Oak Lodge Sanitary District
March 30, 2009

Introduction

In accordance with ORS 223.297 to 223.314, the Oak Lodge Sanitary District intends to modify the District's System Development Charges (SDC). The District's current charges, initiated in 1991, have collected approximately \$2.796 million in revenues and completed over \$4 million in capacity related capital expenses.

The District engaged in capital planning program which has identified \$50.9 million in new capital projects over the next 6 years. A portion of these projects, mainly related to the District's treatment plant, involve providing new capacity. With this identified capacity cost, the District intends to increase the Systems Development Charge to accommodate future growth.

ORS 223.309 requires preparation of a plan for capital improvements financed by System Development Charges. In conjunction with the District's on-going capital planning efforts, the justification for the modified SDC is as follows.

Capacity Related Construction Projects

Since 2005, the District engaged in several engineering studies to determine the capital investment needs for the sanitary sewer program. Specific studies which identify future capital projects for the sanitary sewer program include:

- Sanitary Sewer Master Plan-Oak Lodge Sanitary District (CH2M-Hill January 2007)
- Project Definition Report-Wastewater Treatment Plant Predesign Oak Lodge Sanitary District (CH2M-Hill October 2008)
- Schematic Design Report-Wastewater Treatment Plant Predesign Oak Lodge Sanitary District (CH2M-Hill March 2009)

These studies identify capacity limitations at the treatment plant including influent pumping, preliminary screening and grit removal, aeration capacity, secondary clarification, disinfection and solids handling. The project costs and schedules identified in the *Schematic Design Report-Wastewater Treatment Plant Predesign Oak Lodge Sanitary District (CH2M-Hill March 2009)* represent the most recent study of capital needs. This study is hereby referenced as the schematic design report:

Appendix 1 contains a summary of the anticipated projects (*TM SD.01-Project Background, Objectives, and Summary*)

Apportionment of Capital Costs to Capacity Increasing Improvements

The schematic design report identifies \$50.9 million in capital improvements. Appendix 2 contains the schematic design report section describing the cost impacts (*TM SD.24-ProjectCost and Phasing Sequence*). Due to the treatment plant's age and condition, the anticipated projects involve both constructing new capacity and replacing existing capacity. ORS 223.304 requires a methodology to apportion new capacity from repair/replacement.

The schematic design report anticipates constructing the plant improvements in two phases, Phase 1A and Phase 1B. By funding capacity improvements with debt service, the District intends to provide equity by modifying the SDC concurrent with initiation of each individual phase (also avoiding calculating credits upon actual project costs and financing). With this debt service capitalization process, the District intends to annualize the SDC cost basis including interest expense (ORS 223.307(2)). SDC charges are based upon the District's historical growth rate of 100 equivalent dwelling units (EDU's) per year.

Both phases contain both repair/replacement and new capacity. Generally the new capacity reflects an increase of dry weather capacity from 4.0 MGD to 4.7 MGD or 17%. Table 1 describes the apportionment of new capacity by unit process for Phase 1A. Table 2 describes the apportionment of new capacity by unit process for both Phase 1A and 1B.

Use of Previously Collected SDC Funds

Since beginning collection of SDC amounts in 1991 the District has collected \$2.796 million in revenues. At the end of fiscal year 2008/2009, these funds were expended on the following projects:

Project	Amount	Portion Capacity Eligible
Secondary Clarifier Upgrades	\$1.2 million	50%
New Outfall Diffuser	\$1.097 million	50%
New Solids Building	\$2.235 million	50%
Pump Station Upgrades	\$3.010 million	25%
SCADA System	\$1.877 million	50%
District Master Plan	\$0.450 million	17%
District Predesign	\$1.2 million	17%

With the historical level of investment (approximately \$4.4 million) in new capacity exceeding revenues, the credit for past SDC revenues is zero.

Capital Improvement Plan

As described in the schematic design report, the District intends to embark on a capital improvement program for the treatment plant. The schematic design report describes the

projects and the related costs. Tables 1 and 2 describe the relative portion of the project related to new capacity. Table 3 describes the Districts Sanitary Capital Program for till 2015.

Recommendation for SDC Amount

Based upon the District's intention to provide new capacity as part of the Phase 1A and 1B projects, the following SDC amounts are recommended:

1. Upon initiation of Phase 1A raise the SDC to \$5023/EDU.
2. Upon initiation of Phase 1B, raise the SDC to \$7059/EDU or an amount that more closely reflects the District capacity costs at that time.

**Table 1
SDC Apportionment and Resulting Rate-Phase IA Only**

Cost Item	Capital Cost	Apportionment to Repair/Replacement	Apportionment to New Capital	New Capacity Cost Estimate
General Conditions	920000	0.83	0.17	158400
Preliminary/Influent Pumping	6096000	0.83	0.17	1036320
Secondary Treatment	6555000	0.83	0.17	1114350
Disinfection	0	0.83	0.17	0
Solids Stabilization	0	0.83	0.17	0
Odor Control	353000	0.83	0.17	60010
Support Facilities	61000	1	0	0
Electrical/IC	1609000	0.83	0.17	273530
Site/other	3599000	0.83	0.17	611630
Subtotal	\$ 19,193,000			\$ 3,252,440

Contingency 20%	3,838,600			650,488
Contractor Overhead at 17%	3915372			663498
Cannibal Direct purchase	1730000	0.83	0.17	294100
EAL at 25%	7169243			1141606
Total Project Cost	\$ 35,846,215			\$ 6,002,132

Estimated Annual New Capacity Cost	\$ 502,254
Estimated New EDU's per Year	100
Phase 1A Estimated SDC/EDU	\$ 5,023

- Notes**
1. Apportionment assumes a dry weather capacity increase from 4.0 to 4.7 mgd or 17%
 2. Annual capacity cost assumes 20 year revenue bonds at 5.5%

**Table 2
SDC Apportionment and Resulting Rate-Phase IB Only**

Cost Item	Capital Cost	Apportionment to Repair/Replacement	Apportionment to New Capital	New Capacity Cost Estimate
General Conditions	417000	0.83	0.17	70890
Preliminary/Influent Pumping	0	0.83	0.17	0
Secondary Treatment	3109000	0.83	0.17	528530
Disinfection	1491000	0.83	0.17	253470
Solids Stabilization	941000	0.83	0.17	159970
Odor Control	0	0.83	0.17	0
Support Facilities	469000	1	0	0
Electrical/IC	319000	0.83	0.17	54230
Site/other	1879000	0.83	0.17	319430
Subtotal	\$ 8,625,000			\$ 1,386,520

Contingency 20% 1,725,000 277,304
 Contractor Overhead at 17% 1759500 282850
 Cannibal Direct purchase 0 0
 EAL at 25% 3027375 486669

Total Project Cost \$ 15,136,875 \$ 2,433,343

Estimated Annual New Capacity Cost \$ 203,620
 Estimated New EDU's per Year 100
 Phase 1B Estimated SDC/EDU \$ 2,036
 Total Phase 1A&1B SDC/EDU \$ 7,059

- Notes
 1. Apportionment assumes a dry weather capacity increase from 4.0 to 4.7 mgd or 17%
 2. Annual capacity cost assumes 20 year revenue bonds at 5.5%

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Table 3
Oak Lodge Sanitary District
Sanitary Capital Improvement Plan
2009 to 2015

Fiscal Year	Project	Total Capital Cost	New Capacity Cost
2009/2010	Design Phase 1A, Start Phase 1A construction, Revenue Bond	\$ 5,000,000	\$ 850,000
2010/2011	Phase 1A construction	\$ 16,000,000	\$ 2,720,000
2011/2012	Complete Phase 1A Construction	\$ 16,000,000	\$ 2,720,000
2012/2013	Design Phase 1B, Revenue Bond Financing	\$ 2,200,000	\$ 374,000
2013/2014	Phase 1B construction	\$ 8,800,000	\$ 1,500,000
2014/2015	Phase 1B construction	\$ 7,600,000	\$ 1,290,000