



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Carlson, Mital, Helgeson, Schlossberg and Brown
FROM: Sue Fahey, Assistant General Manager/CFO; Rene Gonzalez, Customer Solutions Manager; Jeannine Parisi, Customer Relationship Manager
DATE: September 19, 2019
SUBJECT: Water System Development Charge Policy
OBJECTIVE: Provide General Direction

Issue

Management requests Board consideration of updates to EWEB Customer Service Policy Appendix D – Water System Development Charges in support of modernization and affordability initiatives.

Background

System Development Charges (SDCs) are used to fund capital projects needed to meet increased demand on the water system caused by new users. EWEB’s Water System SDC’s were last updated in May 2016 to include an upper level charge reflecting the increased cost to serve customers at higher elevations in our water distribution system. The current policy is silent on the topic of EWEB grants to offset SDCs for low income development projects.

Discussion

Proposed policy updates are shown in the red-lined version included as Attachment A. The first amendment is in Section D - Schedule of Charges. The standard size for a new residential smart water meter is now three-quarter inch compared to the prior standard of five-eighth inch. This operational change is not anticipated to alter water infrastructure needs or customer usage patterns that would otherwise justify an increased SDC charge. Instead, Management recommends collapsing the two lower charges into a “less than 1 inch” meter size with a single SDC rate for residential meters which aligns with the change to residential basic charges approved by the Board last year.

The second recommended change supports EWEB’s core value centered on affordability, and is shown in Section E - Calculated Charges. This modification allows EWEB to calculate a lower SDC for housing units under 800 square feet (aka Accessory Dwelling Units (ADUs) and “tiny homes”). Recent changes to state law and local policy initiatives have been enacted to increase the supply of affordable housing. These smaller units create less demand on water infrastructure compared to a traditional home (e.g., lower occupancy, fewer water fixtures), and current SDC rates don’t distinguish this difference.

A review of consumption for ADUs with separate water meters in EWEB service territory indicates that usage is about half of a typical residential customer. This finding is consistent with the current SDC methodology that assumes half the water consumption in a single family home is for irrigation. A fifty-percent reduction of the residential SDC rates for ADUs is reasonable given these factors.

The last major update applies to waivers for low income housing projects. While it has been EWEB's past practice to provide grants to offset water SDCs for certain low income development projects based on surplus revenues, the current policy does not address such offsets. Management conferred with legal counsel on whether EWEB could waive the SDC, in whole or in part, to simplify administration. In summary, counsel advised that the Board could do so under the Charter's broad grant of authority. Counsel recommended EWEB craft criteria on the public purpose for an SDC waiver, define qualifying projects and whether qualification can be subsequently lost, and develop other findings to show this program is equitable to current and future users. Management proposes a new Section J - Conditional Waivers for Qualifying Development Projects.

As in the past, EWEB will continue to rely on the City of Eugene to determine initial eligibility for an SDC exemption, and compliance with that exemption over time, based on City Code. The recommended changes require General Manager approval for SDC waivers over \$50,000 for a single project or over \$100,000 in aggregate. For reference, a 50-unit low income apartment complex is typically assessed a water SDC of about \$45,000 (base level charge). All SDC waivers will be provided in the Community Investment quarterly reports to ensure transparency and to track financial metrics.

Recommendation

Management requests Board feedback on the proposed policy changes to align SDC charges with new meter standards, enable reduced SDCs for ADUs, and to formalize and streamline administration of an SDC waiver program.

Requested Board Action

No action is requested at this time. Proposed policy changes will be provided at the November Board meeting in conjunction with the Budgets and Price Proposals agenda item. Board action will be requested at the December 3 meeting.



APPENDIX D – WATER SYSTEM DEVELOPMENT CHARGES

TABLE OF CONTENTS

A.	Background	78
B.	Application	78
C.	General Provisions and Requirements.....	78
D.	Schedule of Charges	79
E.	Calculated Charges	79
F.	Changes in Use and/or Occupancy.....	80
G.	Credits	80
H.	Exemptions	80
I.	Abandonment of Services	80
J.	<u>Conditional Waivers for Low-Income Housing Projects</u>	<u>XX</u>



A. Background

Effective July 1, 1997, EWEB will apply a Water System Development Charge (SDC) to fund capital improvements to meet increased demands on the system caused by new users. This SDC is separate and in addition to any applicable line extension charges, service and Meter installation fees.

EWEB's SDC consists of reimbursement, improvement, and administration charges. The reimbursement charge is based on the value of unused system capacity and is determined by establishing the existing water system plant value and the current system capacity available for future development. The improvement charge is based on the projected water demand necessary to serve future growth and the projected cost of corresponding system improvements identified in EWEB's Water System Capital Improvement Plan. The administration charge covers costs associated with accounting, billing, collection, and periodic review.

These SDCs have been developed and approved by EWEB in accordance with the requirements of ORS 223.297 to 223.314. EWEB's SDC methodology and calculations shall be formally reviewed no less than once every five years, and updated to reflect changes in capital requirements, growth projections, and other material factors that affect determination of the charge. Between each formal review cycle, the charges incorporated herein may be adjusted by application of an appropriate cost index to reflect annual increases in construction costs.

Copies of the technical methodology and other information concerning the basis for this charge are available for public inspection at the EWEB offices.

B. Application

An SDC shall apply to all new Water Services installed and additional demands placed on the water system on and after July 1, 1997 unless otherwise [waived or](#) exempted by the provisions of this policy. Assessment and collection of the charges [due](#) shall occur at the time a completed new service and/or Meter installation order is placed by the Property Owner, or in the case of a change in use or occupancy, at such time that a building permit is issued for an improvement or modification which results in a new or increased demand on the water system.

C. General Provisions and Requirements

The schedule of charges is based on the size of the Meter installed. The larger the Meter, the higher the cost since a greater demand is placed on the system. The SDC [methodology](#) is based on a standard 5/8 inch Meter having a typical peak day maximum



demand of 871 gallons per day. Charges for all other Meter sizes are determined on flow capacity equivalent to a 5/8 inch Meter.

Installation of Water Services and Meters will not proceed until all SDCs and other applicable charges have been billed to and/or paid by the Property Owner in accordance with EWEB’s established billing and collection procedures.

D. Schedule of Charges

~~The table below shows the adjusted SDC charges effective May 1, 2016.~~ EWEB is using an average index rather than a City specific index to provide a smoother trend, avoiding City specific susceptibility to price spikes.

Meter Size	Meter Equivalence	SDC (Base)	System Development Charge SDC (Upper Level)*
< 1”5/8	1”	\$ 2,276	\$ 3,063
3/4”	1.5	\$ 3,415.00	\$ 4,594.00
1”	2.33	\$ 5,691	\$ 7,657
1.5”	5	\$11,382	\$15,314
2”	8	\$18,211	\$24,502

* Service areas that are directly fed through pressure levels 800 or above will be charged the upper level SDC.
(Resolution No. 1613)

E. Calculated Charges

SDCs for Meter sizes above 2 inches will be calculated manually based on the estimated maximum day demand expressed in 5/8 inch Meter equivalents. EWEB reserves the right to calculate manually the SDC for any service or Meter size which in EWEB’s determination will exhibit demand characteristics inconsistent with assumptions made for purposes of establishing the above schedule of charges. Such instances may include, but are not limited to, [accessory dwelling units \(ADUs\) or equivalent dwellings \(800 square feet or less\)](#), individually Metered multi-family residential units, large irrigation services, and other applications which fall outside the typical use patterns of EWEB’s various Customer classifications.

In cases where the SDC is calculated manually, EWEB may review subsequent actual water demands of the Property Owner, and retroactively adjust the SDC charge up or down to reflect deviations from the estimated water demand used to determine the original SDC amount. Such adjustments will typically be made within 24 months of the service installation, unless a longer period is required to establish the Customer’s water use characteristics due to partial occupancy, operation, or production.



F. Changes in Use and/or Occupancy

When a new use or change in occupancy occurs that is an expansion or replacement of an existing development, the Property Owner shall pay an SDC for any increase in water demands placed on the system. Such charge shall be calculated and assessed on the additional increment of capacity required, or the incremental difference between the new larger service and the original service.

G. Credits

Credits against the improvement fee portion of the SDC will be granted for qualified public improvements. An example of a qualified public ying improvement would be when a Property Owner is required to install and pay for a water Main sized larger than necessary for that development to serve future system demands. The credit applies only to the improvement fee portion of the SDC, and cannot be larger than the original calculated improvement fee.

H. Exemptions

Unmetered fire lines, hydrant connections, and other Water Services installed solely for the provision of fire protection do not place routine demands on the water system, and therefore are not subject to an SDC.

Temporary Water Services of a short-term, transient nature shall not be assessed an SDC, until such time that they may be converted to service of a permanent nature, in which case the applicable SDC shall be assessed at that time. Water Services provided to vacant properties or unimproved parcels shall be considered temporary until such time buildings or other improvements associated with a permanent occupancy are constructed.

I. Abandonment of Services

When property has been previously served and the service has been abandoned, SDCs will not be assessed if the service being requested is the same size or smaller than the original service and the associated water demands are comparable. In this case, the Property Owner must demonstrate that either a previous SDC was paid, or that the original service was installed prior to implementation of this policy.

J. Conditional Waivers for Low-Income Housing Projects

EWEB may waive, in whole or in part, SDCs for low-income housing projects. To ensure Water Utility financial stability, working cash must be \$500,000 above the Board target. Low-income housing projects may include multi-family rental



developments, single family home ownership developments, accessory dwelling units, tiny homes, and other non-traditional housing developments with a common facility for water service.

EWEB will use the same criteria to determine eligibility for conditional waivers that the City of Eugene uses to determine eligibility for its SDC exemptions for low-income housing developments under Eugene City Code. Low-income housing projects must first receive approval from the City of Eugene through its SDC exemption program before EWEB may grant a conditional waiver under this subsection.

The amount of the SDC waiver granted to each low-income housing project will be determined by EWEB and may consider water usage characteristics, water system impacts, the aggregate dollar amount of waivers requested in any given year, the number of eligible projects requesting waivers in any given year, and other relevant factors, for the purpose of arriving at an equitable allocation of available SDC waivers among eligible projects.

SDC waivers over \$50,000 for a single project or over \$100,000 in aggregate annually will require General Manager or designee approval. Notwithstanding Section 2.3 of this policy, there shall be no right to appeal any decision by EWEB regarding the approval, denial, or amount of any waiver provided under this subsection.

In the event the property for which a waiver is granted ceases to be used for housing for low-income persons or is sold or transferred for use other than housing for low-income persons within five years from the date the waiver is granted, the individual or business to whom the waiver was granted shall be required to pay EWEB the amount of the waived SDCs, plus interest at the statutory rate for interest on a judgment from the date the waiver was granted. EWEB shall be entitled to seek payment and pursue all available remedies for SDCs due, including recording a lien against the title to the benefited property.

For the purpose of determining eligibility of a project for a conditional waiver under this subsection, the terms “low-income persons” shall have the same meanings as those terms are used by the City of Eugene for its SDC exemption.



REVISION HISTORY

Version	Section Revised / Description	Resolution No.	Approved	Effective
<u>1</u>	Adopted updated SDC rate methodology	No. 1613	04/05/16	05/01/16
<u>24</u>	Moved Water System Development Charges from Water Utility Policy into Customer Service Policy, Appendix D	No. 1816	06/05/18	06/06/18