General Facilities Charges

FCS GROUP
Solutions-Oriented Consulting

Today's Agenda

- **GFC Overview Presentation**
  - What's been adopted
    - In place today
    - Slated to be in place in March 2024
  - Feedback received to date

- **Discussion on Topics/Information for Review**
  - Want to hear from everyone

- **Set Next Meeting Time**

Spokane GFC History

- **GFCs are charges that new development pays to connect to our Water and Wastewater Systems; promote "growth-pays-for-growth" policies**

- **GFCs implemented over 20 years ago in Spokane;**
  - » Had never been updated and had no inflationary index
  - » Had been waived (meaning we have been generating reduced funds from growth related projects and relying on Utility rates instead).

- **Without a GFC (or waiving the GFC)**
  - » All growth-related costs are paid for by existing ratepayers only
  - » Rates are higher as a result

- **Setting the GFC Below the Actual Costs (or waiving charges)**
  - » Shifts the burden between the fees and the costs to existing ratepayers
  - » Probably resulting in higher debts and higher rates to support the debt

Why Now?

- **The Latah Valley Building Moratorium**
  - The Latah Valley moratorium was implemented to address infrastructure concerns around transportation and utilities.
  - To lift the moratorium timely, the City committed to updating General Facility Charges (GFCs) prior to the end of the moratorium.
- **Transition to a higher growth community.**
  - After many years as a low-growth community, our community and our neighbors are feeling the pressure of higher growth.
- **Construction Cost increases.**
  - Construction costs over the last 20 years have significantly outpaced the fee amounts being charged
  - i.e. SIA Tank on the West Plains: Eng Est was $9.3M; Bid came in at **$13.3M**
    - Water GFCs collected (and Waived) = $12.9M over FOUR years (2019-2022). GFCs actually collected = **$9.8M**
- **The Need for Housing.**
  - The City's ability to keep pace with needed housing will depend on the City's ability to pay for the needed capacity improvements

2023 Decisions

- **City Council approved an interim GFC through March 2024.**
  - » GFCs were increases by 66% -- to represent the inflation on the GFCs that were adopted in 2002.
  - » Projects with a building permit or a counter complete application for a building permit at the time of new rates were adopted would fall under the historic rate.
  - » Are in place through March 4, 2024.

- **Incentives in 2023:**
  - » ADUs in certain zones are exempt from GFCs until the end of 2024.
  - » GFCs are deferred or waived for affordable housing projects.
  - » PW & CED have been charged with developing a way to pay for incentives.

Additional Work on GFCs

- **Additionally, Council adopted GFC rates consistent with work to date**
  - Take effect on March 4, 2024
  - Seeking feedback on possible changes prior to that date

- **Additional Outreach**
  - Required in 2023.
  - Includes the Mayor's GFC Review Committee.
  - As well as presentations to additional groups, including Plan Commission, Equity Subcommittee, Sustainability Action Subcommittee and Housing Action Subcommittee.
  - Work is designed to consider options or changes to the rates that would go into effect in March 2024.

GFC Recommendation

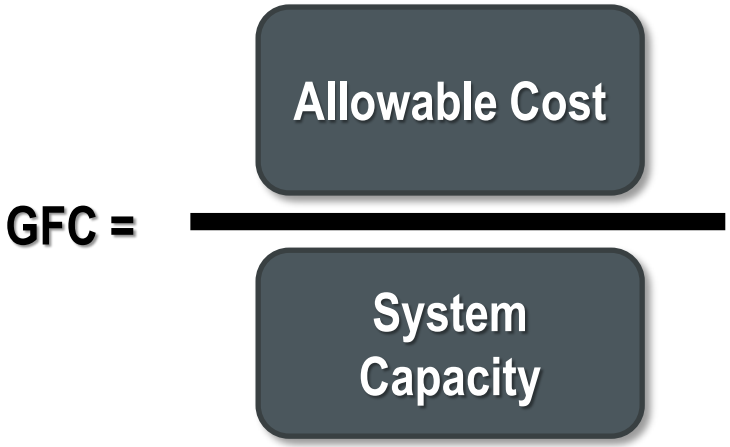
Staff recommendation:

- **A Citywide update to the GFCs** that represents current costs and anticipated projects over time and helps to keep monthly rates more affordable for everyone.
- Uses a **reasonable and rational approach** to assign costs.
- **Ties GFCs to an inflationary index** to avoid having the fees quickly get behind and avoid having to make such major changes in the future.
- **Supports certain types of development** with a dedicated funding source for GFCs.
- **Implements new costs over time** to allow our community time to adjust.
- Bases fees on meter sizes that **support City goals around water conservation.**

General Facility Charge Overview

- **One-time charge imposed as a condition for a new utility connection.**
- **Represents a proportionate share of the capital investment made to provide system capacity.**
- **Can be used to fund capital projects or related debt service; may not be used to fund operation and maintenance costs**
- **Governing state law:**
  - RCW 35.92.025: *In general, each connection shall bear a proportionate share of the cost of the system capacity required to serve it.*
- **Ensures future customers pay for the capacity that existing customers have already provided for them**

General GFC Methodology



Key steps:

- **Define the "cost of the system"**
  - » Existing assets (plus interest)
  - » Adopted Comprehensive Plan

Should only include costs funded by the utility

- **Define System Capacity**
  - » Establish "unit of capacity"
  - » Determine number of units that can be served

Spokane Historic GFCs

- **Water and Sewer GFCs assessed based on meter capacity equivalents (MCEs)**
  - » MCEs used are not currently aligned with flow-based capacity ratios

- **City had not updated their GFCs since they were put in place until 2023**

Meter Size	Water GFC	Sewer GFC
1 inch or less	$1,232	$2,400
2 inches	$3,485	$6,787
3 inches	$6,402	$12,468
4 inches	$9,857	$19,194
6 inches	$18,108	$35,265
8 inches	$27,878	$54,299
10 inches	$38,961	$75,876
12 inches	$51,216	$99,753

Existing Cost Recovery

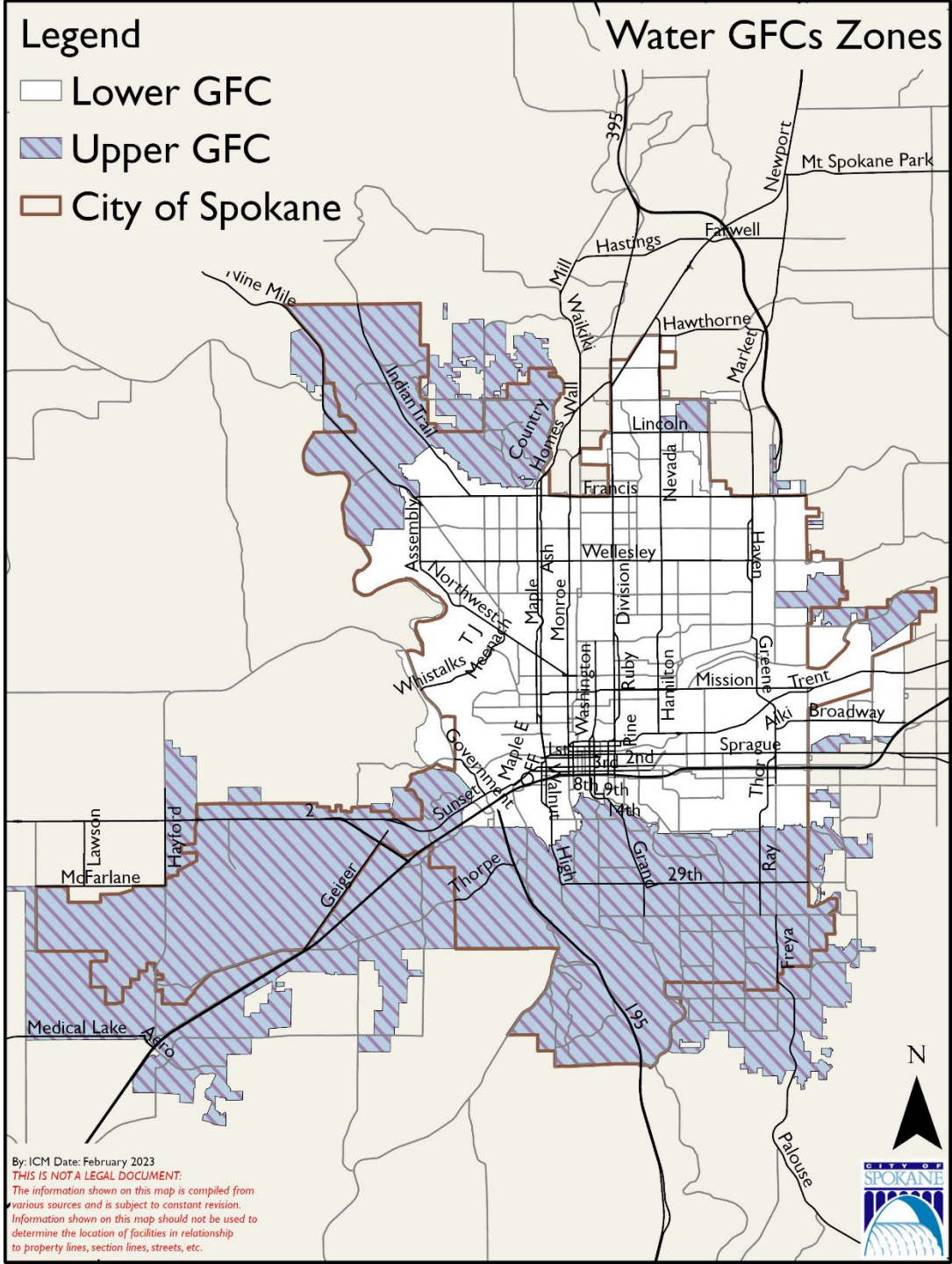
- **The City has historically provided waivers for GFCs in certain areas of the City**
- **Need to consider how to incentivize certain priorities—like affordable housing—in another way. Current funding exists; need a permanent source.**

Year	Collected	Waived	% Waived
2019	$2,315,342	$530,197	19%
2020	$2,455,644	$1,090,761	31%
2021	$2,447,261	$619,366	20%
2022	$2,567,149	$901,688	26%
Total	**$9,785,396**	**$3,142,012**	**24%**

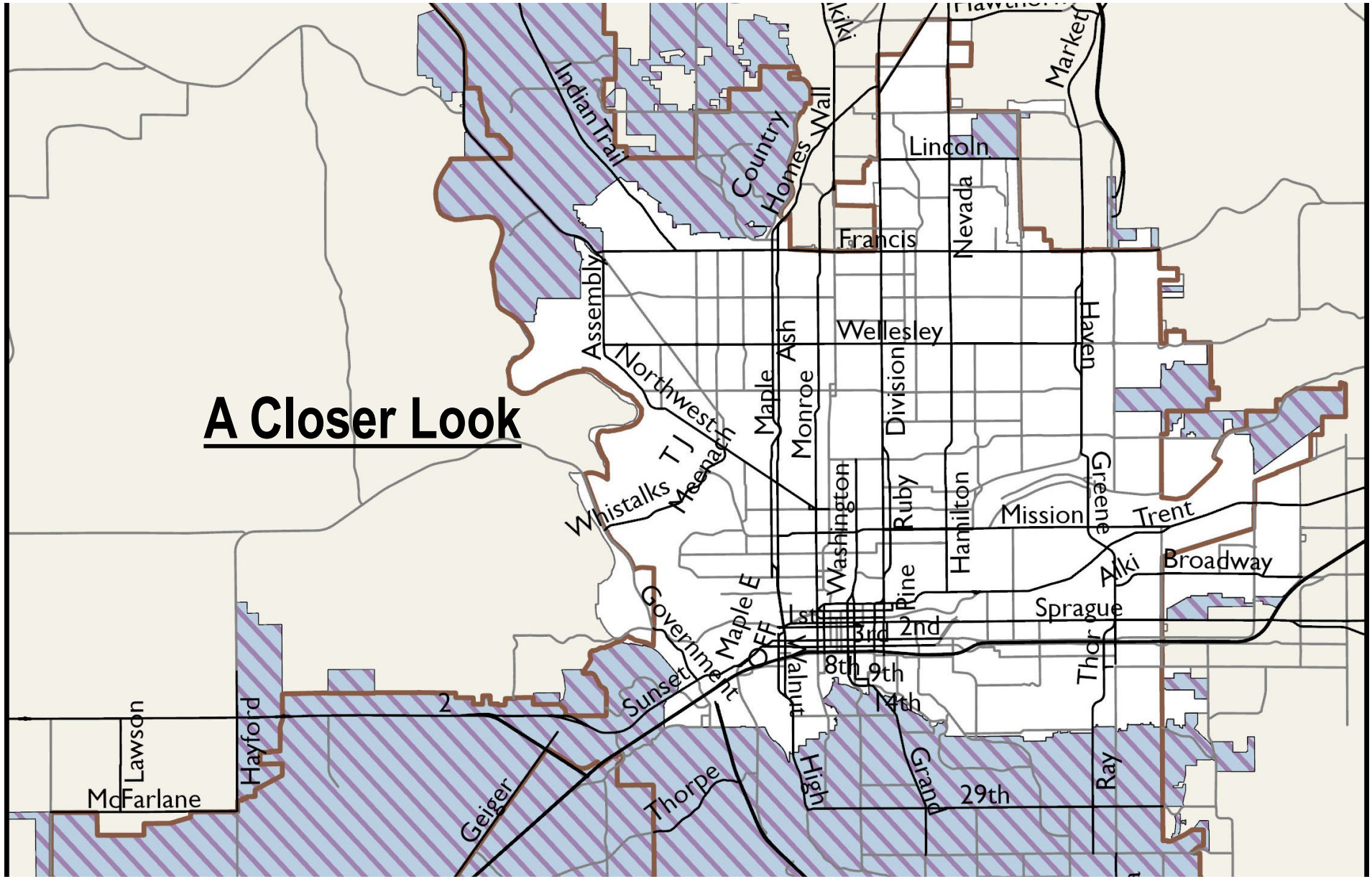
Water General Facilities Charge

Water GFC Methodology

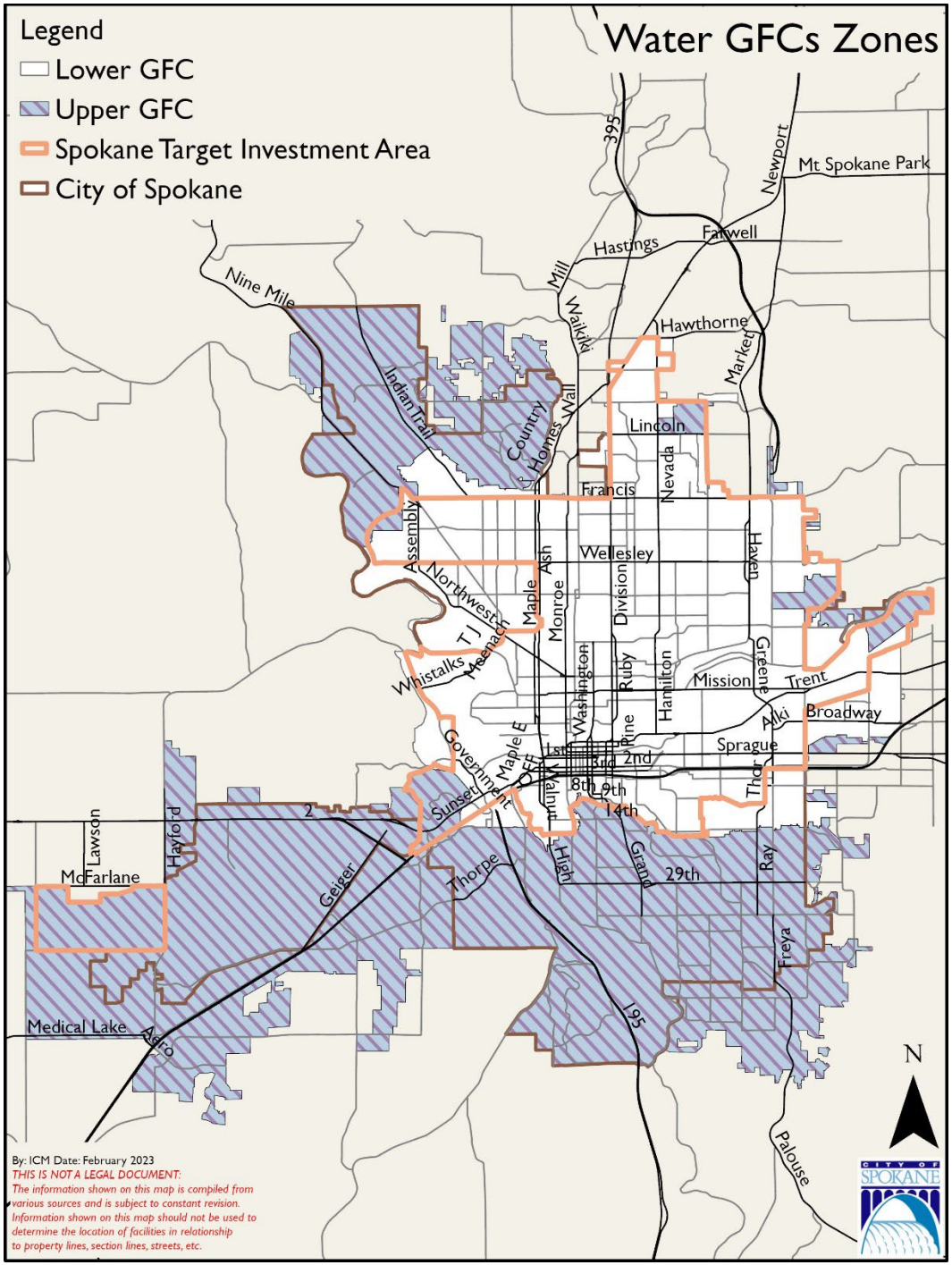
- **Have proposed two zones for water to reflect differing costs**
  - » Lower Zone
  - » Upper Zone



A Closer Look



The Water GFC Lower Zone overlays with the Target Investment Area



Water – Existing & Future Cost Basis

Existing Cost Basis	Lower Zone	Upper Zone	Total
Facilities in Service	$335.3 M	$30.2 M	$365.4 M
plus: interest on net assets	149.8 M	13.5 M	163.3 M
less: contributions in aid of construction	(53.3 M)	-	(53.3) M
Total Existing Cost Basis	**$431.7 M**	**$43.6 M**	**$475.4 M**

Future Cost Basis	Lower Zone	Upper Zone	Total
Total Project Costs	$426.1 M	$219.4 M	$645.5 M
less: Non-expansion related project costs	(200.1 M)	(80.7 M)	(280.8 M)
less: developer contributions/grants	(24.0 M)	(12.4 M)	(36.4 M)
Total Future Cost Basis	**$202.1 M**	**$126.3 M**	**$328.4 M**

Water – Future System Capacity

Capacity Analysis	Lower Zone
Water Supply Production Capacity	287.5 MGD
less: unsubscribable and intertie capacity	(13.87 MGD)
less: Existing Max Day consumption	(150.18 MGD)
Available Lower Zone Capacity	**123.45 MGD**
% available	*45%*

Capacity Analysis	Upper Zone
Water Supply Production Capacity	106.3 MGD
less: unsubscribable and intertie capacity	(7.87 MGD)
less: Existing Max Day consumption	(67.43 MGD)
Available Upper Zone Capacity	**31.01 MGD**
% available	*32%*

- **Water System capacity: represented in meter capacity equivalents (MCEs)**
  - » Existing Connections: 2021 detailed customer statistics and pressure zone analysis

System Capacity (MCEs)	Lower Zone	Upper Zone
Total Capacity (less interties)	246,513	58,606
less: Existing Connections	135,300	40,146
Available System Capacity (MCEs)	**111,213**	**18,461**
% of total	*45%*	*32%*

Water – Calculated GFC

Cost Components	Lower Zone	Upper Zone
Total Existing Cost Basis	$431.7 M	$43.6 M
Capacity of Existing Assets Available	*94%*	*31%*
Residual Existing Cost Basis	$407.4 M	$13.7 M
Expansion Related Future Cost Basis	202.1 M	126.3 M
Total Cost Basis Allocable to Growth	**$609.5 M**	**$140.0 M**
Future Capacity Available for Growth (MCEs)	**215,918**	**13,453**
Total Water GFC per MCE	**$2,823**	**$10,407**

Note: *MCE = Meter Capacity Equivalent based on AWWA M2 Manual - Safe Operating Flow Based on a ¾" Meter*

Water Calculated GFC for Lower Zone = $2,823 per MCE

Water Calculated GFC for Upper Zone = $10,407 per MCE

Historic and New Water GFCs

- Calculated charges represent total system costs
- Based on a 3/4-inch base meter size
- Supports Water Conservation and consistent with current meter sizes in the system
- Charges increase by meter size – with ratios tied to AWWA safe operating capacities
- Fire flow is built into the charges – no separate charge for a fire meter

Water GFCs

Meter Size	Historic Water GFC	66% increase – Adopted thru March 4th 2024	Adopted Low Zone March 2024	Adopted Upper Zone March 2024
¾ inch	$1,232	$2,045	$2,823	$10,407
1 inch	$1,232	$2,045	$4,705	$17,345
1.5 inch	$3,485	$5,785	$9,409	$34,690
2 inches	$3,485	$5,786	$15,055	$55,503
3 inches	$6,402	$10,627	$32,932	$121,413
4 inches	$9,857	$16,363	$56,455	$208,137
6 inches	$18,108	$30,059	$127,025	$468,309
8 inches	$27,878	To be calc.	To be calc.	To be calc.
10 inches	$38,961	To be calc.	To be calc.	To be calc.

Look at Meter Sizes in our System

Meter Size	Existing Meters in Use	Percentage
3/4" or less	54,311	71%
1"	17,814	23%
2" & 1.5"	3,382	4%
3"	231	0.30%
4"	289	0.38%
6"	263	0.34%
8"	165	0.22%
10"	51	0.07%
	Total meters ->	76,506

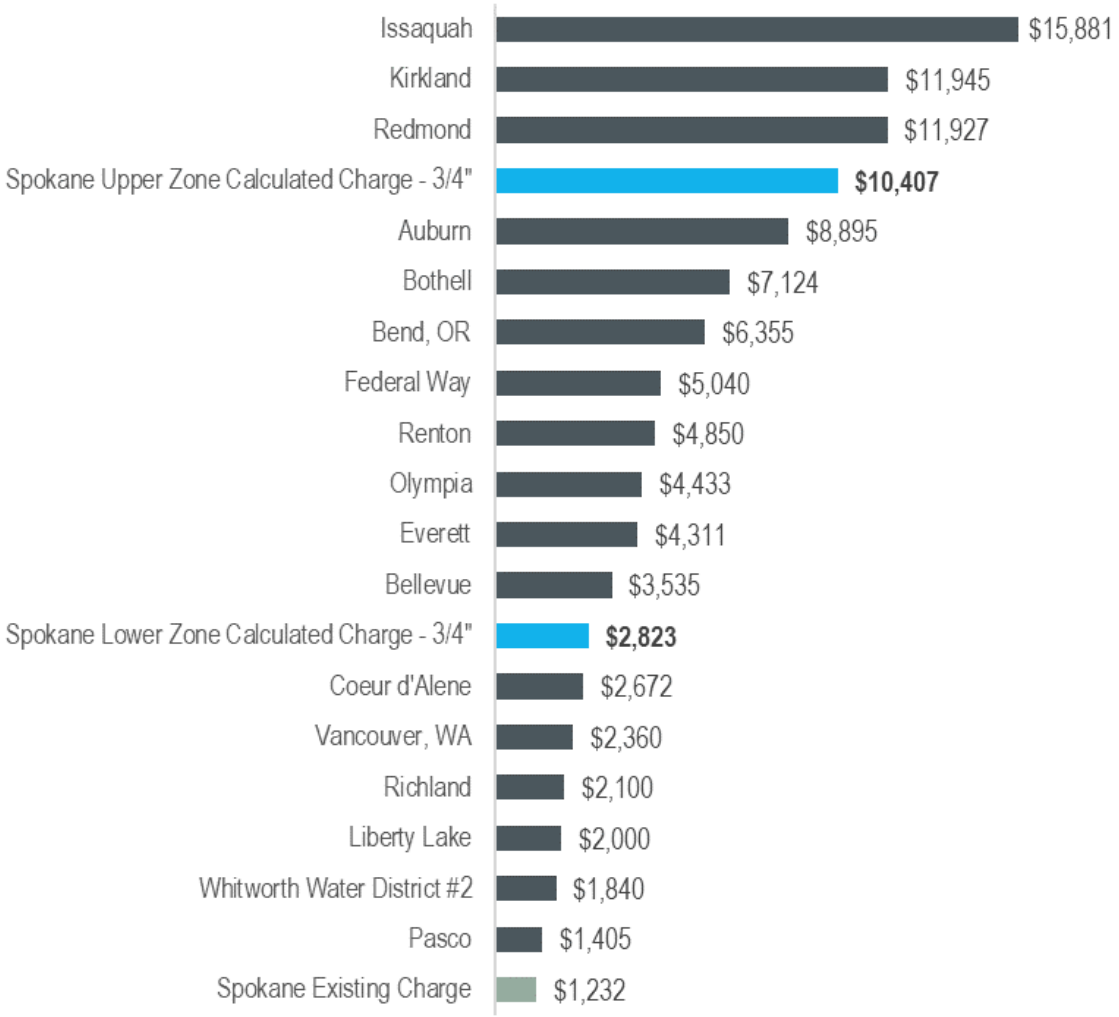
ENR Index – Inflationary Adjustment

- **Calculated charges must utilize today's dollars for future capital costs**

- **For future years, GFCs may be increased annually by an accredited index**
  - » Engineering News Record Construction Cost Index (CCI) is commonly used
  - » This annual CCI update aims to recognize construction cost inflation between more comprehensive GFC studies

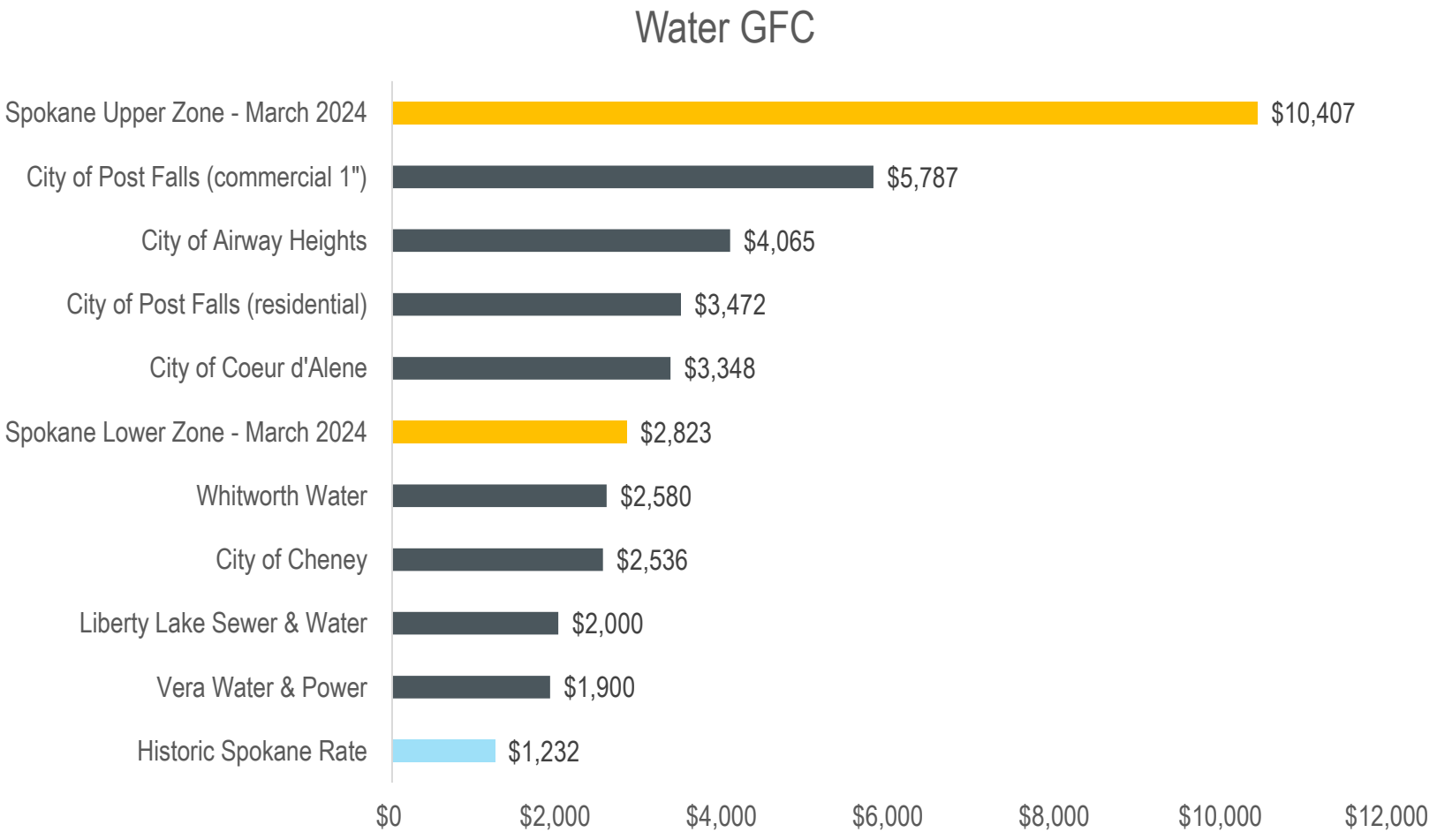
- **Historical increases have ranged from 1.6% to 7.1% over last ten years**
  - » Currently seeing higher than average construction inflation
    - – 2022 Full year: 7.1% (20-City Average)

Water – Jurisdictional Comparison



Note: *Assumes 3/4 inch or smallest meter size available*

Local Rate Comparison



Sewer General Facilities Charge

Sewer – Existing & Future Cost Basis

Existing Cost Basis	Treatment	Collection	Total
Facilities in Service	$520.0 M	$259.8 M	$779.8 M
plus: interest on net assets	151.8 M	69.3 M	221.1 M
less: contributions in aid of construction	-	(27.2 M)	(27.2) M
less: net debt principal outstanding	(120.5 M)	(39.5 M)	(160.0) M
Total Existing Cost Basis	**$551.3 M**	**$262.3 M**	**$813.7 M**

Future Cost Basis	Treatment	Collection	Total
Total Project Costs	$41.2 M	$64.0 M	$105.2 M
less: Non-expansion related project costs	(40.6 M)	(42.9 M)	(83.5) M
less: developer contributions/grants	-	(2.9 M)	(2.9) M
Total Future Cost Basis	**$0.6 M**	**$18.1 M**	**$18.8 M**

Sewer – Future System Capacity

Treatment

Capacity Analysis	Treatment
Next Level of Treatment - Permitted Capacity	50.0 MGD
less: Spokane County Reserved Capacity	(10.0 MGD)
less: Existing max month flow (less Spokane)	(33.0 MGD)
Available Treatment Capacity	**7.0 MGD**
% available	*18%*

Collection

Capacity Analysis	Collection
Interceptor Pipe Capacity	83.2 MGD
less: Spokane County Reserved Capacity	(6.4 MGD)
less: Existing peak hour flow (less Spokane)	(61.3 MGD)
Available Collection Capacity	**15.5 MGD**
% available	*20%*

- **Sewer System capacity: represented in meter capacity equivalents (MCEs)**
  - » Existing Connections: 2021 detailed customer statistics

System Capacity (MCEs)	Treatment	Collection
Total Capacity	120,096	123,998
less: Existing Connections	(98,989)	(98,989)
Available System Capacity (MCEs)	**21,107**	**25,008**
% of total	*18%*	*20%*

Sewer – Calculated GFC

Cost Components	Treatment	Collection	Total
Total Existing Cost Basis	$551.3 M	$262.3 M	$813.7 M
Capacity of Existing Assets Available	*18%*	*20%*	*18%*
Residual Existing Cost Basis	$96.9 M	$52.9 M	$149.8 M
Expansion Related Future Cost Basis	0.6 M	18.1 M	18.8 M
Total Cost Basis Allocable to Growth	**$97.5 M**	**$71.0 M**	**$168.6 M**
Future Capacity Available for Growth (MCEs)	**21,107**	**25,008**	
Total Sewer GFC per MCE	**$4,620**	**$2,841**	**$7,461**

Calculated System Wide GFC for Sewer = $7,461 per MCE

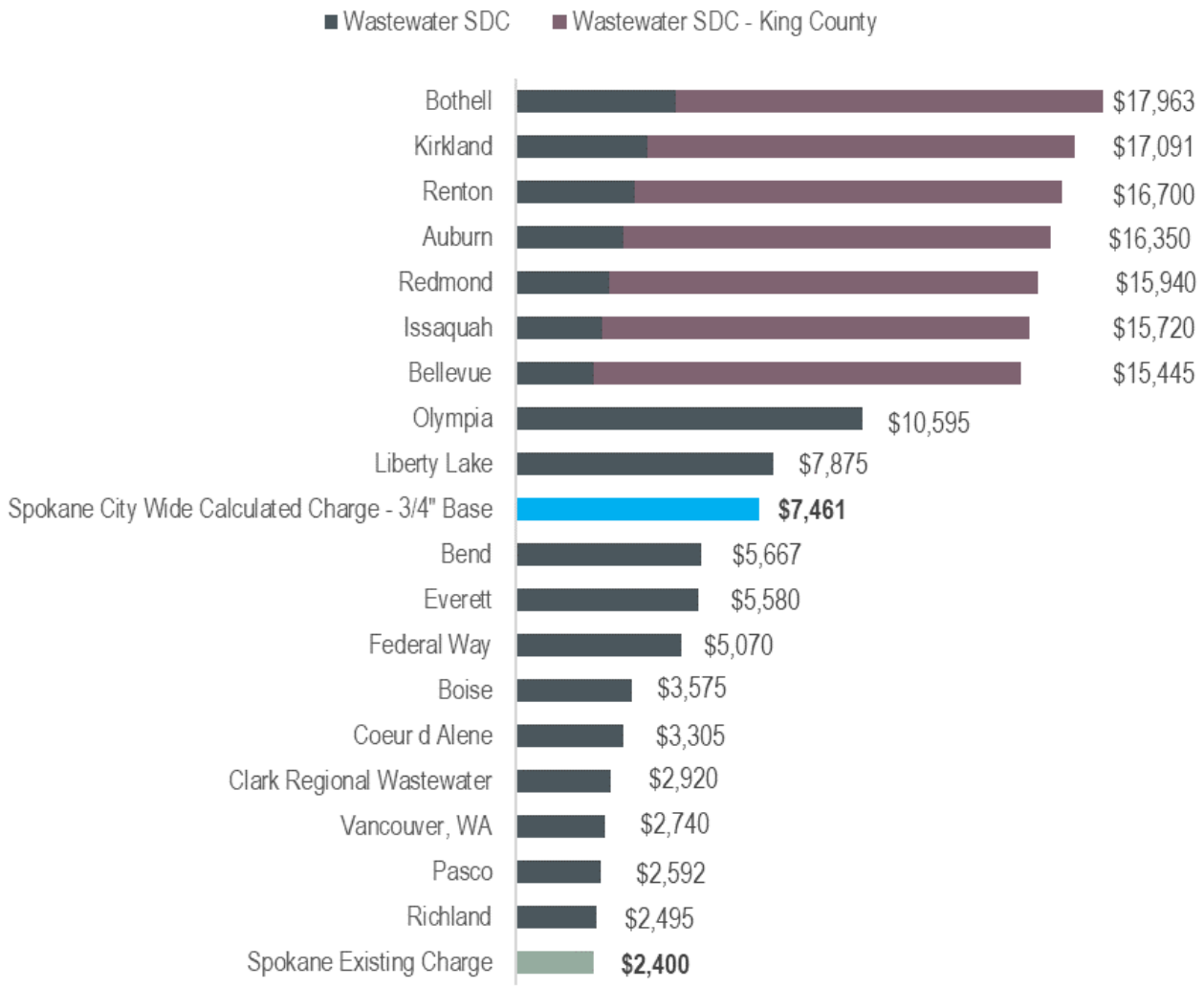
Based on a ¾-inch meter

Stormwater projects are removed

Wastewater GFCs

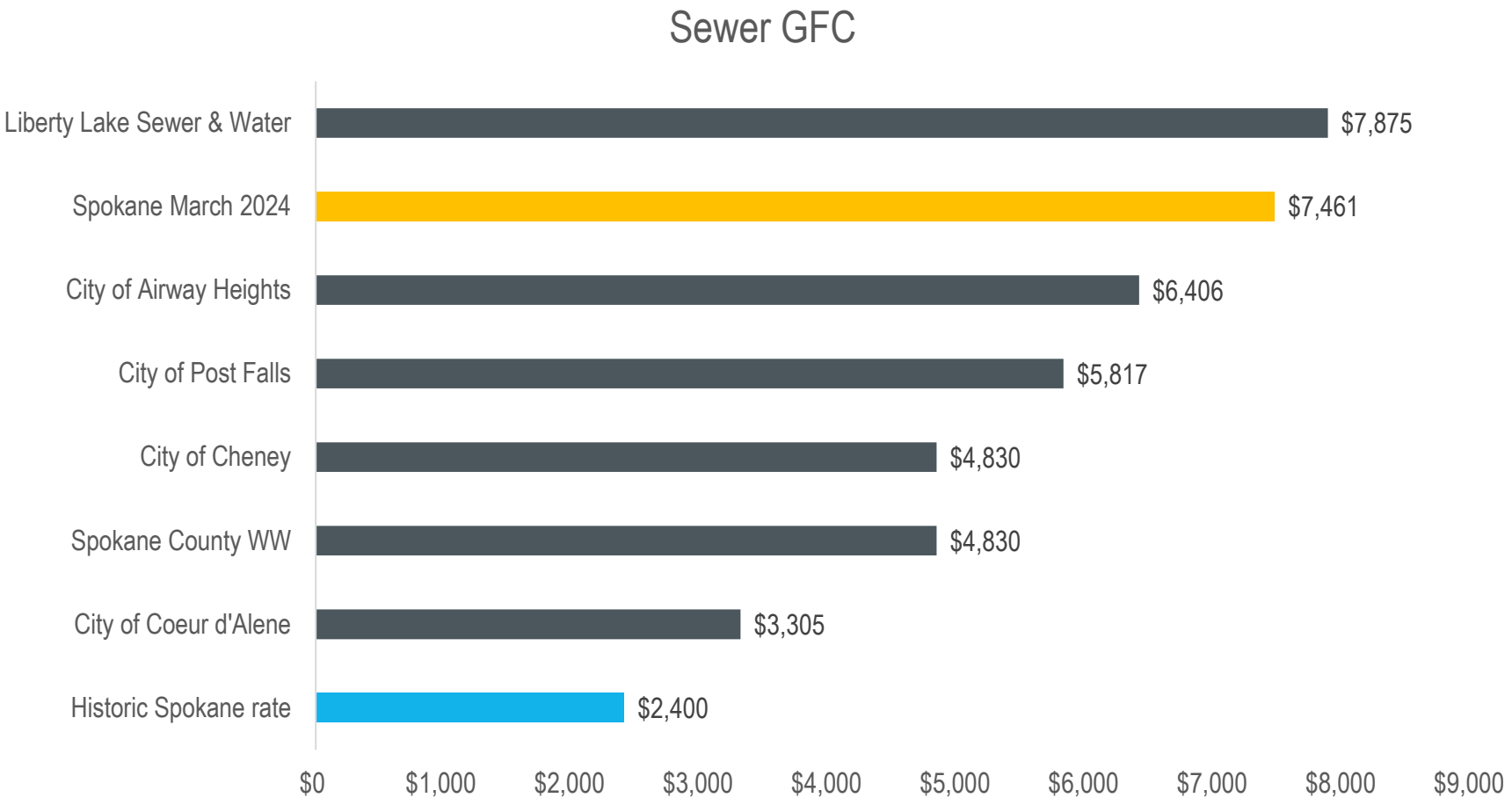
Meter Size	Historic Sewer GFC	66% increase – Adopted thru March 4th 2024	Adopted for March 2024 and beyond
¾ inch	$2,400	$3,984	$7,461
1 inch	$2,400	$3,984	$12,435
1.5 inch	$6,787	$11,266	$24,870
2 inches	$6,787	$11,266	$39,792
3 inches	$12,468	$20,697	$87,046
4 inches	$19,194	$31,862	$149,221
6 inches	$35,265	$58,540	$335,747
8 inches	$54,299	To be calc.	To be calc.
10 inches	$75,876	To be calc.	To be calc.

Sewer – Jurisdictional Comparison



Note: *Assumes 3/4 inch or smallest meter size available*

Local Rate Comparison



People have asked about…

- **Growth v. Rates**
  - » GFCs pay for increased capacity.
  - » Monthly bills pay for operations plus capital projects to replace/maintain existing infrastructure.
  - » Can/should monthly bills cover a portion of growth needs?
- **Water GFC – Two zones or one?**
  - » Can change to a single citywide water GFC rate.
  - » Also can explore refining boundaries of the proposed zones.
- **Supporting certain development (Waivers)**
  - » What do we want to incentivize? How do we do that?
- **Understanding the Calculation**
  - » Interest. Use of original project costs. Determining new capacity. 1” v.s. ¾”

People have asked about…

- **Growth Projections – SRTC model**
  - » Can explore how growth expectations create need for investment.
- **Capital Planning – What's included?**
  - » Review of Water System Plan projects & Wastewater (Comp Plan update) projects
- **Methodology**
  - » Meter Capacity Equivalents v. Equivalent Residential Units.
- **Phase-in Approaches**
  - » Take a fresh look at phase-in approaches
- **DISCUSSION:**
  - » What would Committee Members like to review?

Next Meeting

- **Determine time for the next meeting.**

Questions/Discussion

1” Base vs. ¾” Base

- **Current practice is to use a 1” base – treats all meters from 1” and below as the same flow rate**
- **Moving towards a ¾” base would reduce charges for the lower meter sizes, but would align the ¾” meter with their lower flow rate**

Proposal # 1 – **No** ¾” vs. 1” Differentiation

Meter Size	Lower Zone	Upper Zone
¾ inch	$3,711	$13,683
1 inch	$3,711	$13,683
1.5 inches	$7,423	$27,367
2 inches	$11,877	$43,787
3 inches	$25,980	$95,783
4 inches	$44,538	$164,200

Proposal # 2 – **With** ¾” vs. 1” Differentiation

Lower Zone	Upper Zone
$2,823	$10,407
$4,705	$17,345
$9,409	$34,690
$15,055	$55,503
$32,932	$121,413
$56,455	$208,137

1” Base vs. ¾” Base

- **Similar to water, current practice is to use a 1” base – treats all meters from 1” and below as the same flow rate**
- **Moving towards a ¾” base would reduce charges for the lower meter sizes, but would align the ¾” meter with their lower flow rate**

	Proposal # 1 **No** ¾” vs. 1” Differentiation	Proposal # 2 **With** ¾” vs. 1” Differentiation
Meter Size	**1” Base**	**¾” Base**
¾ inch	$8,509	$7,461
1 inch	$8,509	$12,435
1.5 inches	$17,017	$24,870
2 inches	$27,228	$39,792
3 inches	$59,560	$87,046
4 inches	$102,103	$149,221