# System Development Charges

Portland Water Bureau



Prepared by: Eriko Shimada

Updated: March 13, 2023

Table of Contents

[System Development Charges 1](#_Toc129350707)

[Description of Methodology 3](#_Toc129350708)

[Details of SDC Calculation 4](#_Toc129350709)

[SDC Schedule for FY 2023-24 5](#_Toc129350710)

[Comparison of Water SDC Charges 6](#_Toc129350711)

[SDC Revenue Funds Capital Improvements 6](#_Toc129350712)

[Administrative Procedures 6](#_Toc129350713)

[Conclusions 7](#_Toc129350714)

[Appendix 8](#_Toc129350715)

**Why SDCs are important.**

System Development Charges (SDCs), also known as impact fees, provide revenue to utilities from new user hook ups to recover costs of existing system capacity. New customers’ use of the existing water system infrastructure reduces existing capacity and may also lead to the need for construction of new facilities. A common objective of SDCs is to have “growth pay for growth.” From an economic perspective this is true, but unfortunately in the case of construction of new facilities, the burden of paying for new facilities falls mainly on the existing ratepayers in the near term as new customers join the utility gradually over the life of those new facilities.

**Why the Water Bureau charges SDCs**

Engineering studies, such as the Distribution Infrastructure Master Plan and the Water Management and Conservation Plan, show no significant constraints on future near term capacity. Therefore, the Bureau’s SDCs are based on a “buy-in” to the water system (i.e., a reimbursement method) per Oregon Revised Statutes.

The Bureau pays for capital improvements in five ways:

* Uses cash on hand raised from user rates
* Sells bonds or debt financing
* Assesses SDCs for new development
* Requires up-front reimbursement from developers or customers who directly benefit from an improvement
* Uses interest earned on Construction Fund balances

SDCs are one-time charges paid by customers when they apply for a new water connection (or increase the size of an existing connection). By charging SDCs for new or larger connections to the system, the Bureau assigns the costs of capital improvements, at least in part, to those who may potentially cause an increase in demand rather than to existing customers through higher user charge rates. Money collected through SDCs from new customers for their share of the costs of capacity is more equitable than raising rates on all customers to pay for capital improvements that are needed primarily just to serve the new or increased demand.

# Description of Methodology

The Bureau’s SDC is a reimbursement fee calculated in accordance with the language and intent of the Oregon state legislation as specified in ORS 223.297 to 223.314. The Portland Water Bureau’s SDC adheres to the definition in ORS 223.299(3) of a “Reimbursement fee means a fee for costs associated with capital improvements already constructed, or under construction when the fee is established, for which the local government determines that capacity exists.”

The Bureau’s buy-in SDC is essentially the “cost per equivalent meter unit” times the size of the meter (in equivalent units) added to the water system. Cost per equivalent meter unit is simply the net “value” of the water system divided by the total number of “equivalent meter units (5/8” meter = 1 equivalent meter unit)” served by the system.

The net value of the water system begins with the value of existing water facilities using estimated replacement cost, less accumulated depreciation (net replacement cost book value). Construction work in progress, current planned spending capital construction through year-end, and projected year-end fund cash balances, are added. Customer contributions and unpaid bond principal are deducted. The resulting total is the net “value” of the water system paid by ratepayers.

The equivalent meter unit is a ratio based on the capacity of larger meters as compared to the capacity of a base meter such as a typical residential customer’s 5/8” meter (see details in Appendix).

# Details of SDC Calculation

The details of the FY 2023-24 SDC reimbursement fee per Section 223-304 1(a) are as follows**:**

|  |  |
| --- | --- |
| Net replacement cost book value of existing facilities \* | $1,982,967,541 |
| Add Estimated cost of facilities under construction in capital plan **\*** | 380,841,658 |
| Less Contributions | (164,504,955) |
| Less Outstanding debt (principal only) | (780,798,000) |
| Add Fund cash balances (accrual) | 268,705,512 |
|  |  |
| Total System Net Value | $1,687,211,746 |
|  |  |
| Total Equivalent Meter Units \* | 308,379 |
|  |  |
| Cost per Equivalent Meter Unit | $5,471 |
|  |  |
| **\*** See Appendix for details |  |

In effect, every retail customer using the system today (with a 5/8" meter = 1 equivalent meter unit) has an investment value of $5,471 in net replacement value terms for a share of the capacity of the system assets. Therefore, new customers pay a reimbursement fee that brings their investment in line with that of existing customers.

The next table lists the SDCs for 5/8” to 24” meters based on the unit cost and equivalency capacity ratios.

# SDC Schedule for FY 2023-24

The cost per equivalent meter unit is multiplied by the equivalency ratio schedule.

|  |  |  |
| --- | --- | --- |
| **Meter Size** | **Equivalency Ratio Schedule** | **FY 2023-24**  **Calculation** |
| 5/8” | 1.0 | $ 5,471 |
| ¾” | 1.5 | $ 8,207 |
| 1” | 2.5 | $ 13,678 |
| 1 1/4”-1 1/2” | 5.0 | $ 27,356 |
| 2” | 8.0 | $ 43,770 |
| 3” | 15.0 | $ 82,068 |
| 4” | 25.0 | $ 136,781 |
| 6” | 50.0 | $ 273,562 |
| 8” | 80.0 | $ 437,698 |
| 10” | 143.8 | $ 786,763 |
| 12” | 231.3 | $ 1,265,495 |
| 16” | 412.5 | $ 2,256,882 |
| 24” | 750.0 | $ 4,103,423 |

Over the past 10 fiscal years, the SDC for a 5/8” meter has increased from $2,185 to $5,471.

|  |  |
| --- | --- |
| **Fiscal Year** | **Water SDC**  **(5/8” Meter)** |
| FY 2014-15 | $2,185 |
| FY 2015-16 | $2,337 |
| FY 2016-17 | $2,400 |
| FY 2017-18 | $2,577 |
| FY 2018-19 | $2,808 |
| FY 2019-20 | $3,062 |
| FY 2020-21 | $3,412 |
| FY 2021-22 | $3,699 |
| FY 2022-23 | $4,563 |
| FY 2023-24 | $5,471 |

# Comparison of Water SDC Charges

The FY 2023-24 Water SDC for a 5/8” meter ($5,471) is higher than the national average SDC rate of $4,281 reported in the AWWA 2021 Water and Wastewater Rate Survey (published semi-annually). The SDC rate is also less than rates charged by a sample of other Oregon municipal water utilities.

|  |  |  |
| --- | --- | --- |
|  | **Water SDC**  **(5/8” Meter)** | **Notes** |
| National average | $4,281 | (1) |
|  |  |  |
| West Linn, City of | $14,202 | (2) |
| Hillsboro, City of | $13,395 | (2) |
| Tigard, City of | $10,853 | (2) |
| Beaverton, City of | $10,329 | (2) |
| Lake Oswego, City of | $9,571 | (2) |
| **Portland, City of** | **$5,471** |  |
| Gresham, City of | $5,305 | (2) |
| EWEB (Eugene) | $2,276 | (2) |
|  |  |  |
|  |  |  |
| (1) RFC/AWWA 2021 Water and Wastewater Rate Survey | | |
| (2) City or Utility website or related fee schedule | | |
|  | | |

# SDC Revenue Funds Capital Improvements

Per ORS Section 223.307, SDC revenue is spent only on capital improvements associated with the water system. Details, including a description and forecast cost, of the capital improvements being funded with system development charge revenue are included in the capital improvement plan. The annual audit provides data on the cost of capital construction and capital funding sources.

# Administrative Procedures

The Portland City Council adopted Ordinance 183448 amending City Code to adopt uniform policies for partial and full exemptions of SDCs for qualified affordable housing developments on July 1, 2010. In addition, City Council adopted Resolution 36766, directing the suspension of SDCs for construction or conversion of structures to accessory dwelling units until June 30, 2013.  Since then, City Council has maintained the focus on affordable housing and increasing more affordable housing stock by extending SDC exemptions for ADUs.  City Council adopted Ordinance 189323, effective December 19, 2018 waiving SDCs for temporary service or mass shelters, short-term housing, and certain ADUs. Refer to Ordinance 189323 and Portland City Code Sections 30.01.095, 30.01.096 and 17.14.070 for more information.

In accordance with ORS 223-302 and 223-304, interested persons may either object to the calculations or challenge an expenditure of SDC revenues under the Bureau’s administrative review procedures.

The Bureau will maintain a list of interested parties. The Bureau may periodically delete names from the list, but at least 30 days prior to removing a name from the list, the Bureau shall notify the person whose name is to be deleted that a new written request for notification is required if the person wishes to remain on the notification list. Citizens on the list will receive notice of intent to modify the SDC at least 90 days prior to the first hearing. The methodology supporting the system development charge must be available at least 60 days prior to the first hearing.

Legal action intended to contest the methodology used for calculating a system development charge may not be filed after 60 days following adoption or modification of the system development charge ordinance or resolution by the City Council. A person requesting judicial review of the methodology used for calculating a system shall submit the request in writing to the Administrator.

To challenge SDC expenditures, interested parties must file with the Administrator of the Bureau within two years of the expenditure(s).

# Conclusions

System Development Charges (SDCs) are one-time capital charges for new customer hook ups to compensate a utility and its existing ratepayers for existing investments and/or costs of anticipated growth. The Portland Water Bureau’s SDC is a buy-in or reimbursement fee for all pertinent water infrastructure (including supply and transmission) because the water system continues to have unused capacity. Mainly for this reason and because Portland’s system tends to be older than that of many other communities in Oregon, water SDCs paid in Portland are lower than the average charge assessed by cities in Oregon. When the time comes for development of new supply and transmission assets or other significant facilities, future SDCs may include a component for an improvement fee SDC. SDC annual revenue forecast for FY 2023-24 to FY 2027-28 averages $3.9 million which is approximately $500,000 increase from previous five-year forecast**.**

# Appendix

**SDC Summary of Calculation**

|  |  |  |
| --- | --- | --- |
| Net book value of Existing Facilities (1. below) |  | $1,982,967,541 |
| Add Construction in Progress (1. below) | 284,164,315 |  |
| Add Cost of Facilities in Capital Plan (1. below) | 96,677,343 | 380,841,658 |
| Less Contributions |  | (164,504,965) |
| Less Outstanding Debt (principal only) |  | (780,798,000) |
| Add Fund cash balances (accrual) |  | 268,705,512 |
|  |  |  |
| Total System Net Value |  | 1,687,211,746 |
|  |  |  |
| Total Equivalent Meter Units (2. - 4. below) |  | 308,379 |
|  |  |  |
| Cost per Unit (System value/Equivalent Meters) |  | $5,471 |
|  |  |  |

1. The following table provides detail on the asset values. The cost basis of Existing Facilities is depreciated replacement cost. Assets under construction (WIP) and in the Current Capital Plan are at cost and estimated cost respectively. Contributions are inflated to current dollars.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Functional Description** | **Net book value** | **Construction Project in Progress** | **Facilities in Capital Plan under Construction** | **Current Contribution** |
| Bull Run Watershed | $124,606,145 | $10,989,351 | $2,554,468 | $- |
| Conduits | 105,103,453 | 23,148,252 | 20,130,828 | - |
| Customer/Billing Meters | 206,166 | - | 14,214,630 | - |
| Distribution Storage | 253,671,874 | 430,769 | 2,187,613 | - |
| Distribution Transmission | 20,014,326 | 45,646,872 | 28,613,352 | - |
| Distribution/Direct Fire | 118,712,040 | 1,145,833 | 1,459,200 | (17,950,332) |
| Groundwater | 55,879,371 | 2,513,368 | 1,864,344 | - |
| Indirect | 370,023,079 | 2,051,779 | 5,721,059 | - |
| Pipe | 588,054,899 | 41,097,260 | 15,977,799 | (146,554,633) |
| Pumping | 47,435,106 | 3,561,412 | 1,085,725 | - |
| Terminal Storage | 101,635,610 | 64,339,834 | 624,649 | - |
| Transmission | 1,692,925 | - | - | - |
| Treatment | 36,181,513 | 89,239,586 | 36,860 | - |
| Terminal PB | 159,751,033 | - | 2,206,817 | - |
| Total | $1,982,967,541 | $284,164,315 | $96,677,343 | $(164,504,965) |

Total may not add due to rounding

1. Detail on the number of meters by size of meter in the system as of March 8, 2023.

|  |  |
| --- | --- |
| **Meters by Size** | **Total number of Meters** |
| 5/8” | 135,768 |
| ¾” | 24,224 |
| 1” | 15,680 |
| 1 1/4”-1 1/2” | 2,922 |
| 2” | 3,353 |
| 3” | 655 |
| 4” | 551 |
| 6” | 275 |
| 8” | 80 |
| 10” | 66 |
| 12” | 0 |
| 16” | 4 |
| 24” | 1 |
| Total | 183,579 |

1. Engineering estimates of the capacity ratio of different meter sizes.

|  |  |
| --- | --- |
| **Meters by Size** | **Equivalency**  **Capacity Ratio** |
| 5/8” | 1.0 |
| ¾” | 1.5 |
| 1 | 2.5 |
| 1 1/4” -1 1/2” | 5.0 |
| 2” | 8.0 |
| 3” | 15.0 |
| 4” | 25.0 |
| 6” | 50.0 |
| 8” | 80.0 |
| 10” | 143.8 |
| 12” | 231.3 |
| 16” | 412.5 |
| 24” | 750.0 |

1. Calculation showing numbers of meters (by size) times meter equivalency (by size) = Total equivalent meters.

|  |  |  |  |
| --- | --- | --- | --- |
| **Meters by Size** | **Total number of meters** | **Equivalent**  **Unit Ratio** | **Total Equivalent Units (Meters X Ratio)** |
| 5/8” | 135,768 | 1.0 | 135,768 |
| ¾” | 24,224 | 1.5 | 36,336 |
| 1” | 15,680 | 2.5 | 39,200 |
| 1 1/4”-1 1/2” | 2,922 | 5.0 | 14,610 |
| 2” | 3,353 | 8.0 | 26,824 |
| 3” | 655 | 15.0 | 9,825 |
| 4” | 551 | 25.0 | 13,775 |
| 6” | 275 | 50.0 | 13,750 |
| 8” | 80 | 80.0 | 6,400 |
| 10” | 66 | 143.8 | 9,491 |
| 12” | 0 | 231.3 | 0 |
| 16” | 4 | 412.5 | 1,650. |
| 24” | 1 | 750.0 | 750 |
| Totals | 183,579 |  | 308,379 |

5. Final SDC schedule

|  |  |  |
| --- | --- | --- |
| **Meter Size** | **Equivalency Ratio Schedule** | **FY 2023-24**  **Calculation** |
| 5/8” | 1.0 | $ 5,471 |
| ¾” | 1.5 | $ 8,207 |
| 1” | 2.5 | $ 13,678 |
| 1 1/4”-1 1/2” | 5.0 | $ 27,356 |
| 2” | 8.0 | $ 43,770 |
| 3” | 15.0 | $ 82,068 |
| 4” | 25.0 | $ 136,781 |
| 6” | 50.0 | $ 273,562 |
| 8” | 80.0 | $ 437,698 |
| 10” | 143.8 | $ 786,763 |
| 12” | 231.3 | $ 1,265,495 |
| 16” | 412.5 | $ 2,256,882 |
| 24” | 750.0 | $ 4,103,423 |