

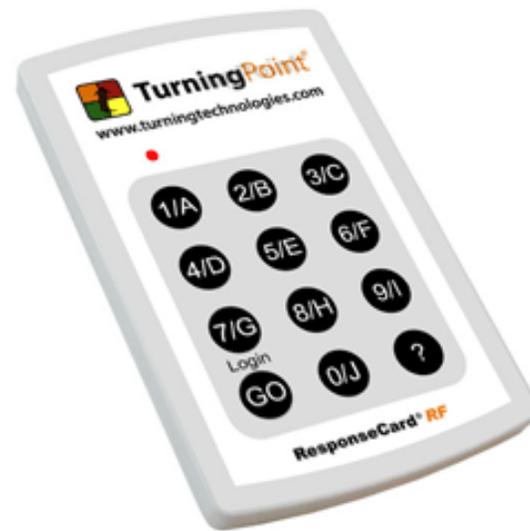


**Assuring Equity—Affordability—
Competitiveness in Setting SDCs**

May 9, 2014



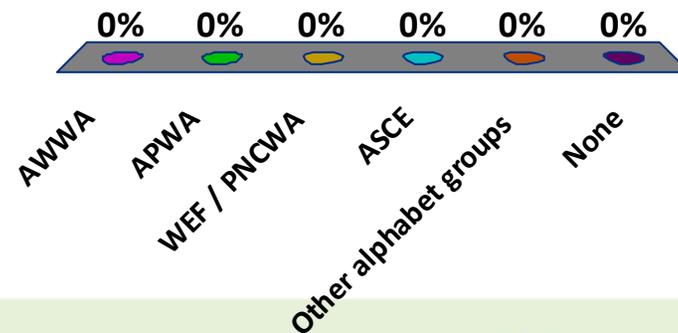
Who is in the room?



I am a member of:

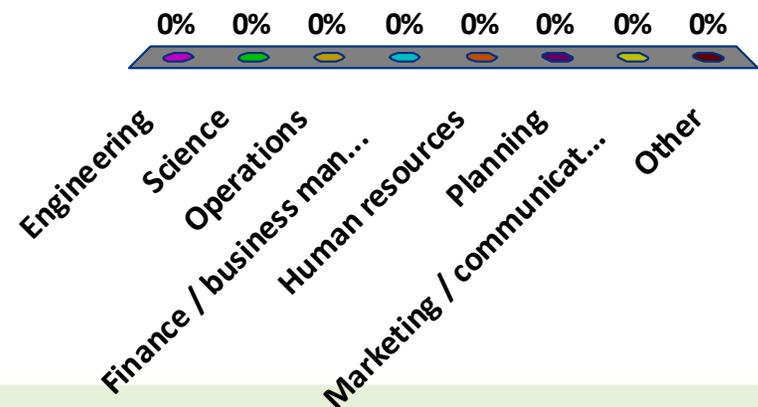
(multiple answers allowed)

1. AWWA
2. APWA
3. WEF / PNCWA
4. ASCE
5. Other alphabet groups
6. None



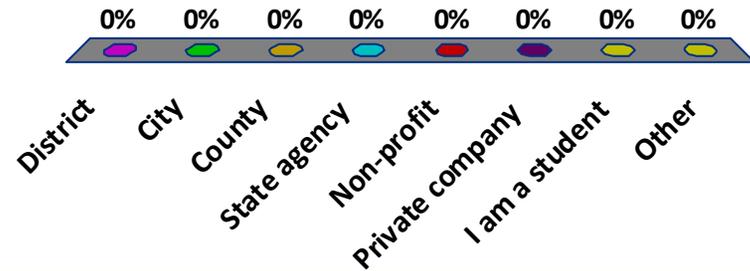
My work focuses on:

1. Engineering
2. Science
3. Operations
4. Finance / business management
5. Human resources
6. Planning
7. Marketing / communications
8. Other



I work for a:

1. District
2. City
3. County
4. State agency
5. Non-profit
6. Private company
7. I am a student
8. Other



Have you been involved in setting SDCs?

1. Yes
2. No



Has your utility recently raised SDCs?

1. Yes
2. No



Has your utility recently raised monthly rates?

1. Yes
2. No



The Hillsboro Experience



Our Public Engagement Philosophy

- ✓ Engage customers
- ✓ Understand customers' values and needs
- ✓ Build long-term trust

System Development Charge Advisory Group

Provide **advice on how costs** for needed system expansion and improvements **should be shared between** ratepayers and new or expanding development.



Advisory Group Members

Residential customers

- Residential customer
- Member of Hillsboro Planning and Zoning Board
- Former City Council member

Industrial customers

- Intel

Developers

- Home Builders Association
- Builder/owner of multifamily and commercial space
- Local developer

Business customers

- Chamber of Commerce
- Downtown business owner

Low/fixed income customer representative

Advisory Group Process

- “Who pays” is a complex, important decision
- It greatly benefits from public input
- Only the most devoted activists are willing to give months—years of their time.
- Hillsboro formulated a short-lived process: well focused and timely.
- Only two meetings: June 4 & 12, 2013

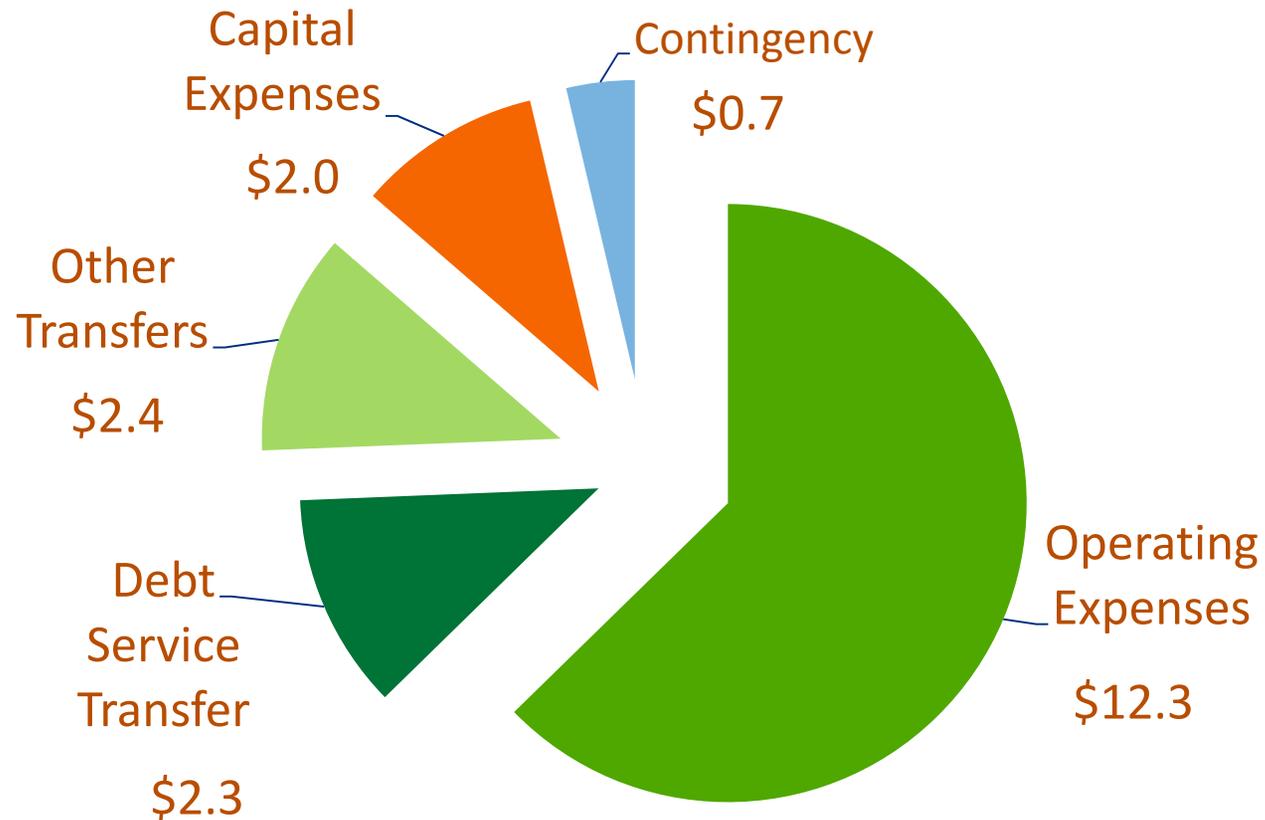
Tools:

- ✓ Group discussion guide
- ✓ Presentations
- ✓ Electronic Polling
- ✓ Worksheets

Result: High value feedback on a very complicated topic.

What does it cost to provide water to our community?

2014 Water Budget (millions)



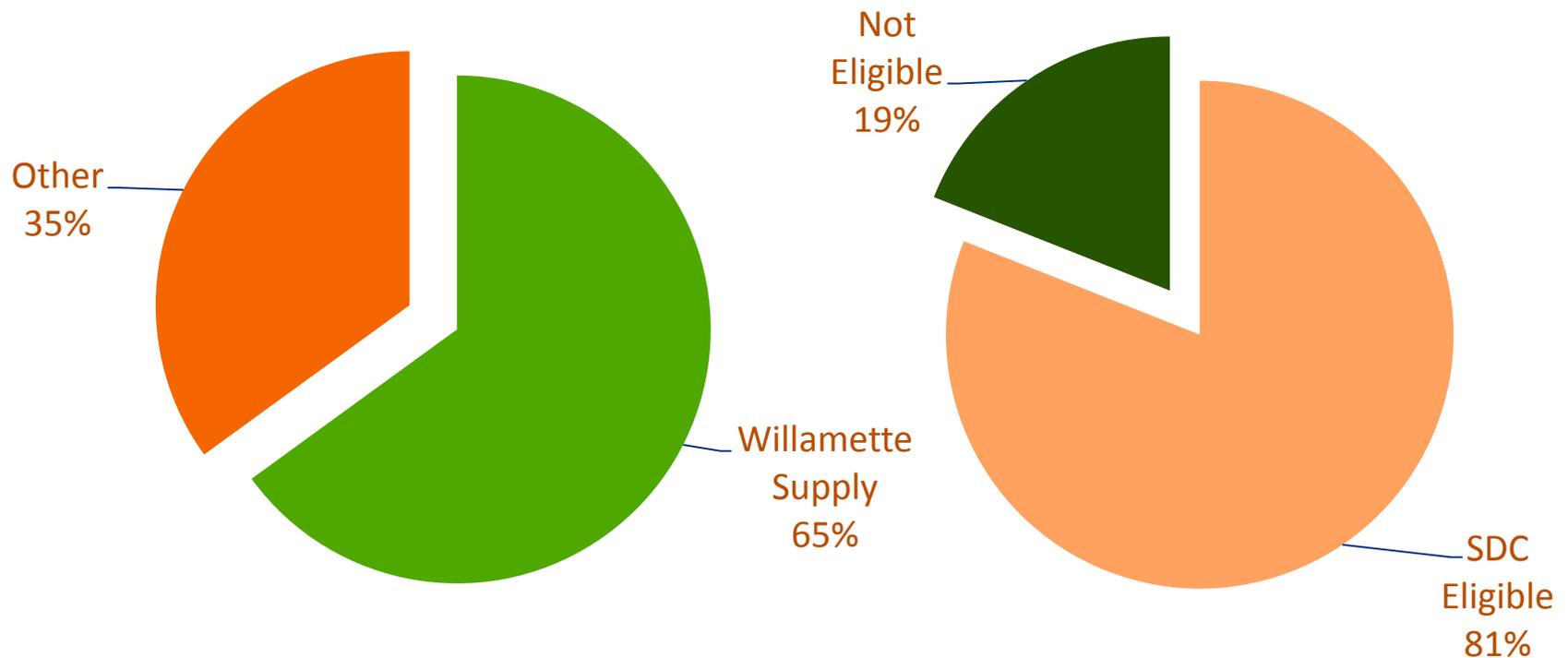
New Addition: Mid-Willamette River

- + Excellent finished water quality
- + Redundancy
- + Ownership / control
- + Year-round reliability
- + Better value



The new supply is 65% of planned \$515M capital improvements over the next 20 years

20-year Capital Improvement Program (\$515 M)



Water SDC last updated: 2006

2006 SDC-eligible projects: \$140M

How are capital construction projects paid for?

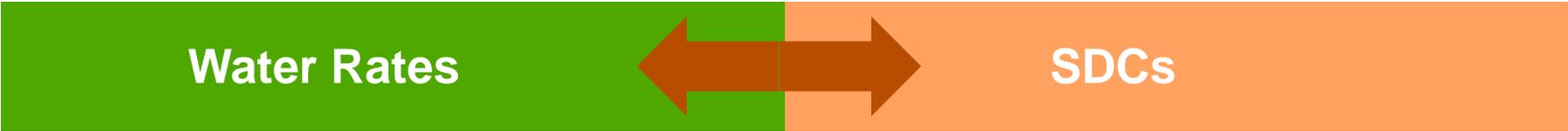
Water Rates



System Development Charges (SDCs)

- No property tax revenue or general fund dollars are used.
- Water SDC funds (paid by new development) can be used only for improvements that expand capacity.
- Water rate revenues can be used for any type of capital expense.
- Revenue bonds are issued to finance construction where the expense exceeds available cash resources.
- All debt service, regardless of the purpose of the capital project, must be covered exclusively from water rates.

What is the right balance of funding sources for Hillsboro?



Scenarios for balancing SDCs and rates

100% of allowable SDC



75% of allowable SDC



50% of allowable SDC



No change



(escalated to account for inflation)

Factors to consider in balancing SDCs and rates

Equity Is it fair to ask new customers to pay the maximum allowable SDC? Are there benefits to current water customers?

Competitiveness Will the SDCs or rates affect Hillsboro's ability to attract new jobs and housing?

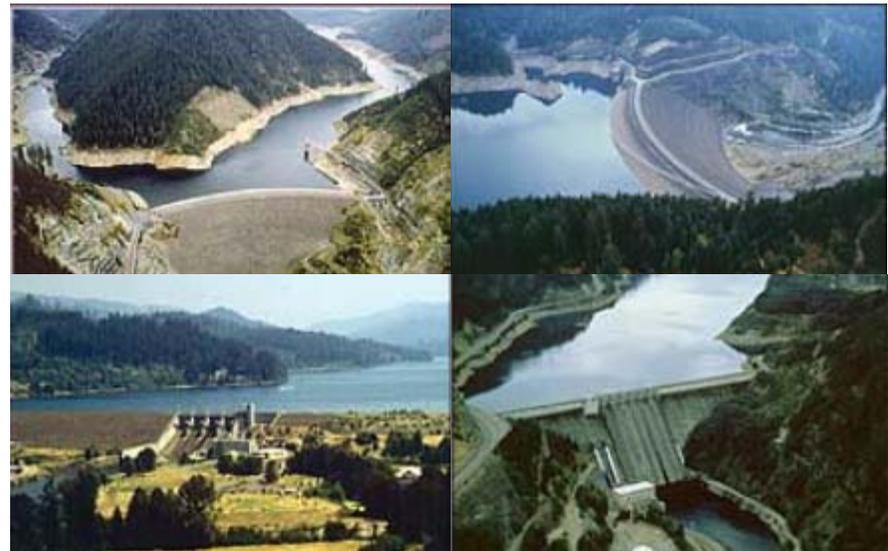
SDC Affordability Will charging the maximum allowable SDCs make new homes and businesses unaffordable?

Rate Affordability Will shifting costs to ratepayers make water unaffordable?

Equity

What are the possible benefits to current customers?

- ✓ Supports the community's economic vitality and viability
- ✓ Supports the region's plans for responsible growth
- ✓ Redundancy
- ✓ Reliability
- ✓ Resilience
- ✓ Excess Willamette Water Supply transmission line capacity



Reliability: thirteen dams in the upper Willamette basin make water available for release throughout the peak summer season.

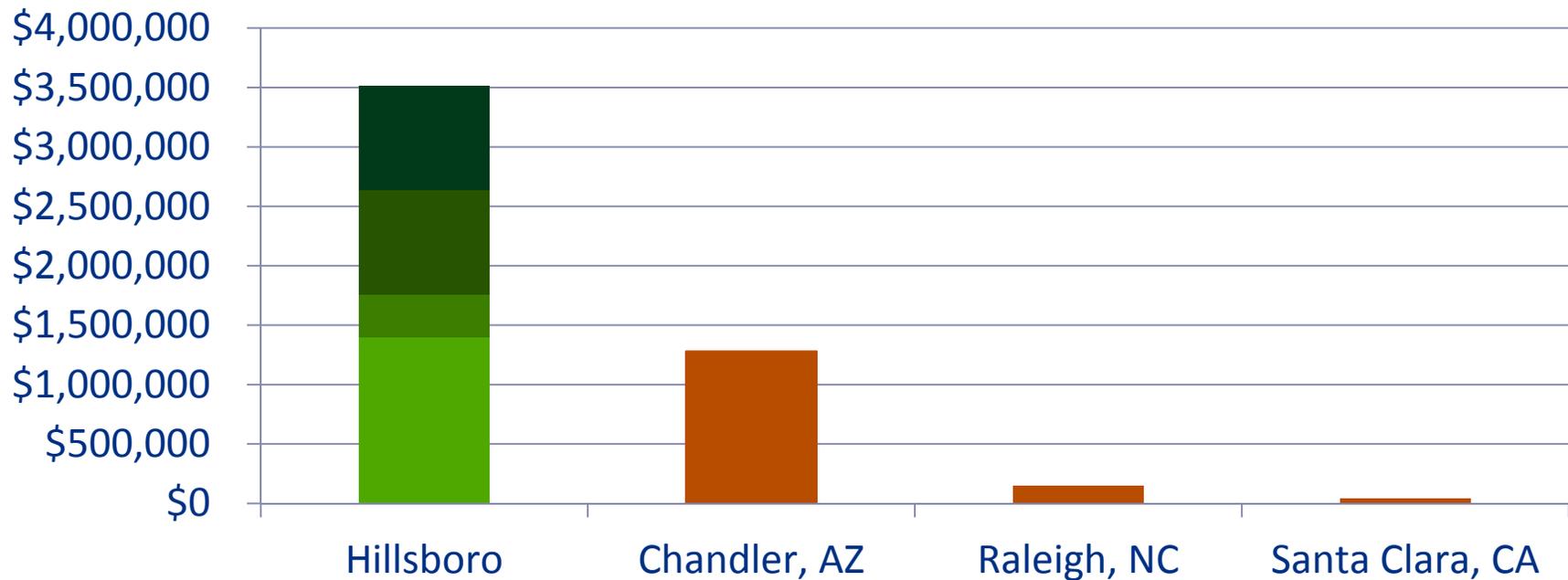
Discussion: **Equity**

Is it fair to continue to ask new customers to pay the maximum allowable SDC?

What benefits have value to current customers?

Competitiveness

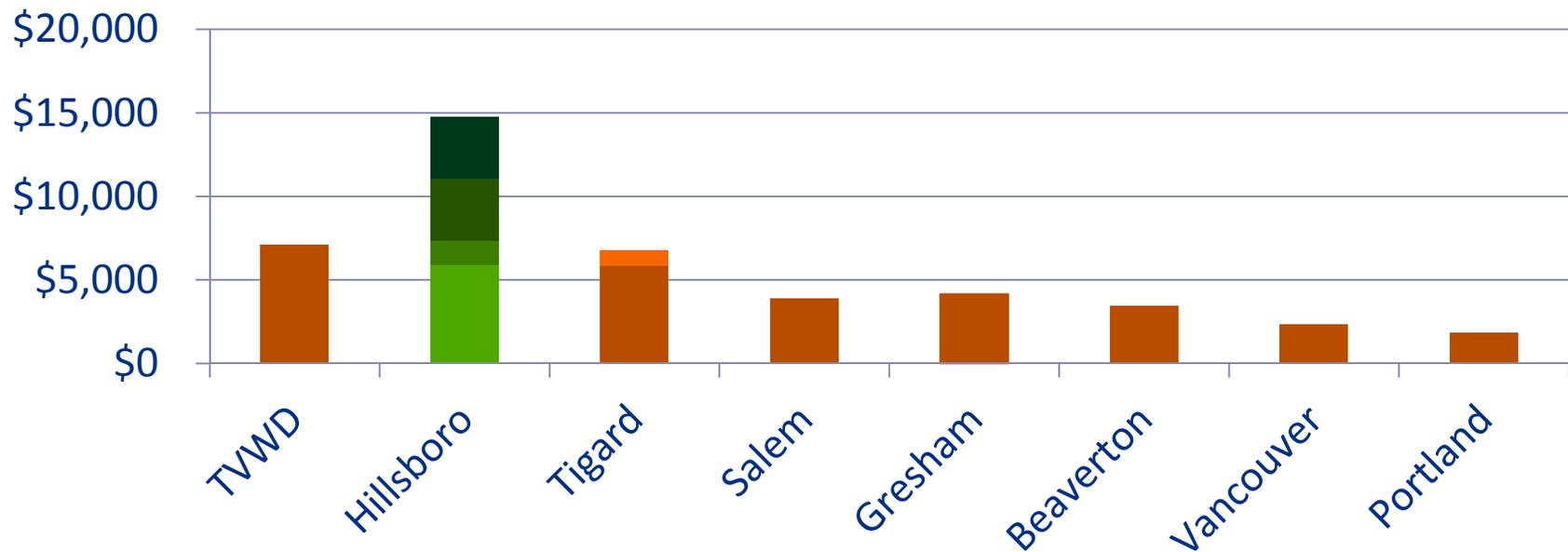
Industrial 8-inch meter
2013 SDC with 2014 scenarios



Cities Hillsboro competes with for new industrial customers.

Competitiveness

5/8" x 3/4" Residential Customer
2013 SDC with 2014 scenarios



Discussion: **Competitiveness**

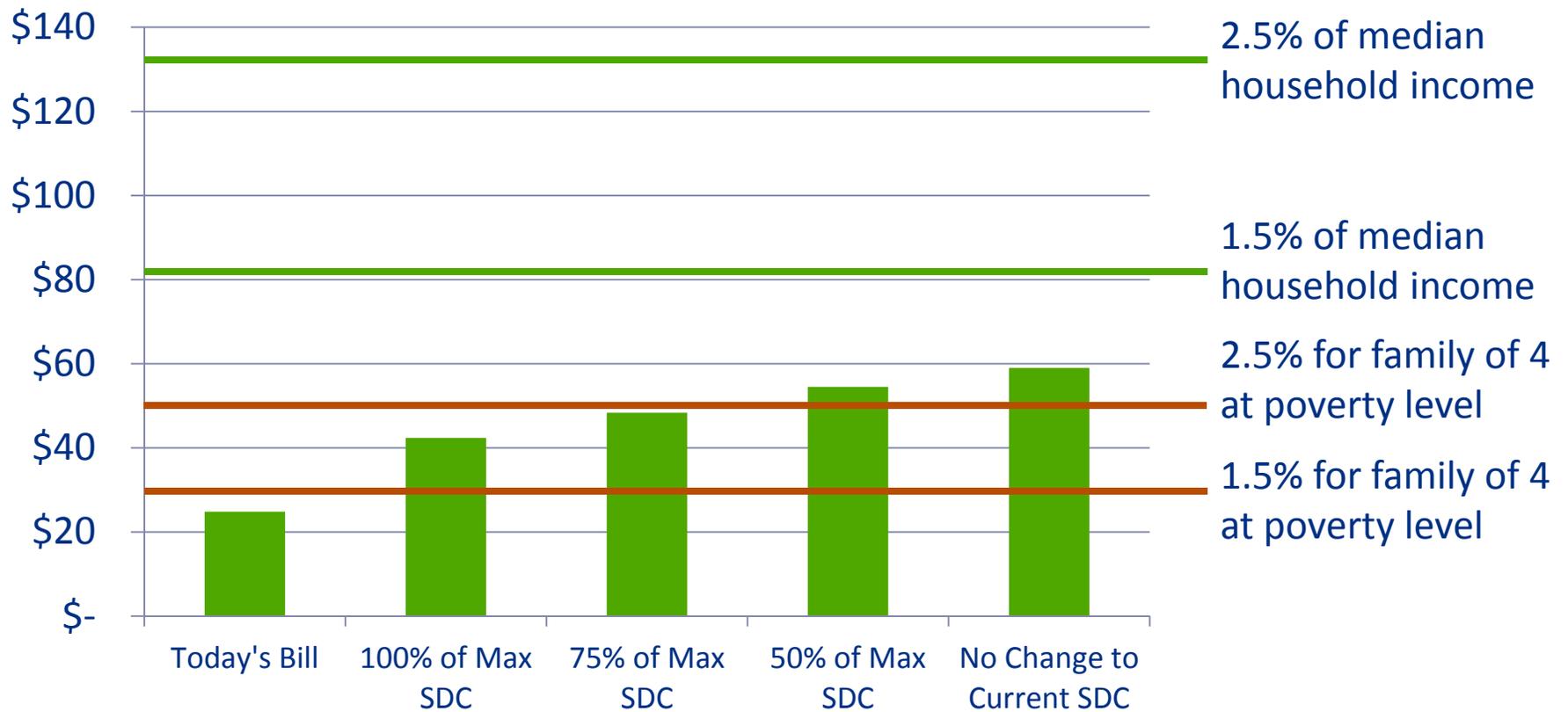
Will the SDCs or rates affect Hillsboro's ability to attract new jobs and housing?

Rate Affordability

- Affordability is a measure of ability to pay
- Often, affordability measures simply measure “community-wide” affordability
- Water and Sewer Utilities
 - Typically based upon local community’s **median household income** (MHI) and the % of MHI dedicated to utility bills
 - For a water or sewer utility, an affordability range can be **1.5% to 2.5%** of MHI (each utility)

Rate Adjustments and Bill Impacts

Comparison of 2026 typical residential bill to affordability criteria



Discussion: **Rate Affordability**

Will shifting cost to ratepayers make water unaffordable?

SDC Affordability

SDC's Impact on Affordability: Case Study

- In 2005 the SDC fees in Portland on a typical 2,000 sq ft single family home were \$8,875.
- In 2011 the SDC fees on the same home are \$20,268.*
- These SDC fees add over \$108 a month to a typical mortgage at 5% interest resulting in almost \$40,000 paid over the life of the mortgage.
- This is in addition to permit fees totaling almost \$10,000.

* *some area jurisdictions have SDC fees over \$35,000 per home (2)*



**Home Builders Association of
Metropolitan Portland**
System Development Charges
Policy Paper (5/26/11)

<http://www.hbapdx.org/wp-content/uploads/2011/06/HBA-Policy-Paper-SDCs.pdf>

Discussion: **SDC Affordability**

Will charging the maximum allowable SDCs make new homes and businesses unaffordable?

WHAT DID WE LEARN?

Supports the community's economic vitality and viability

0%	1. Not important
0%	2. ...
0%	3. ...
0%	4. ...
0%	5. ...
0%	6. ...
0%	7. Very important

Mean =

Advisory Group Response

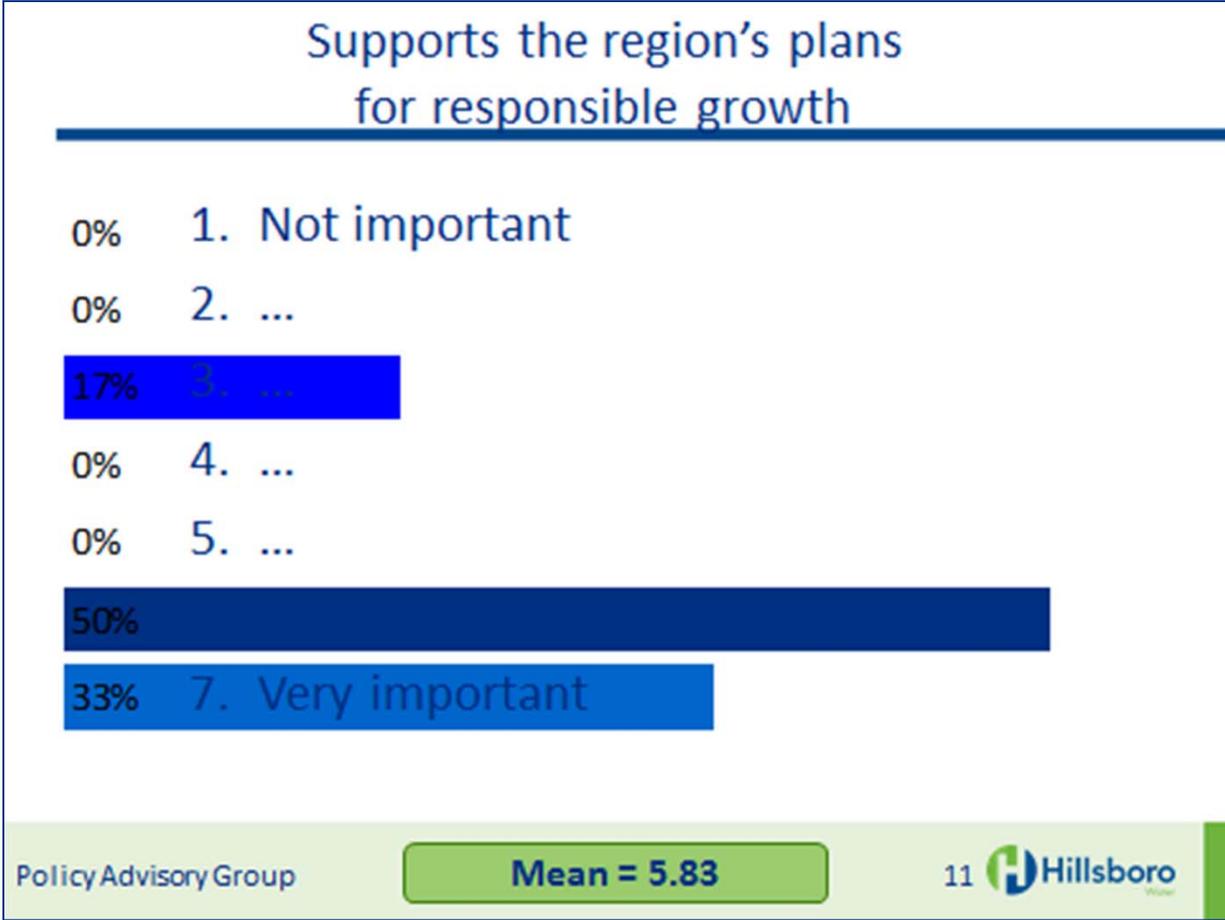


Supports the region's plans for responsible growth

- 0% 1. Not important
- 0% 2. ...
- 0% 3. ...
- 0% 4. ...
- 0% 5. ...
- 0% 6. ...
- 0% 7. Very important

Mean =

Advisory Group Response

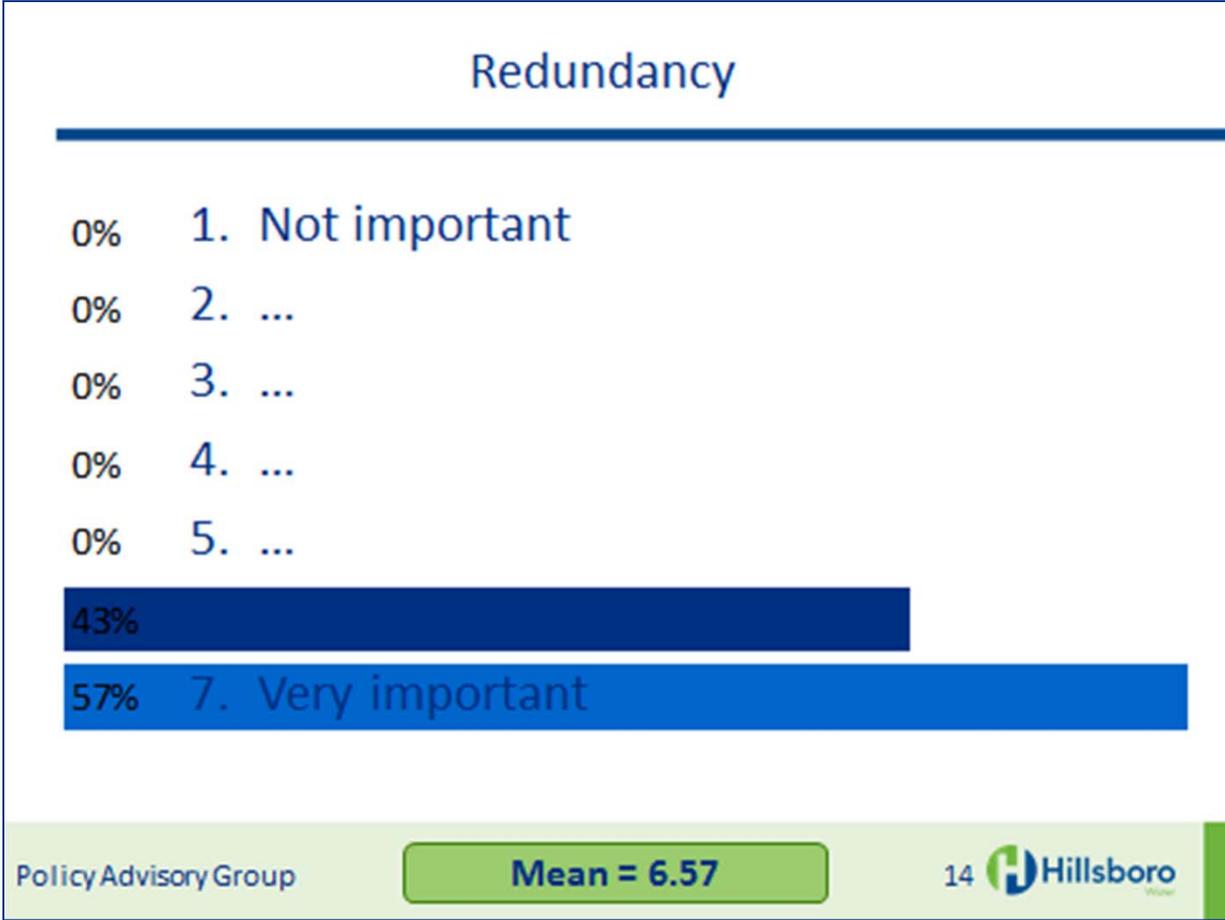


Redundancy

0%	1. Not important
0%	2. ...
0%	3. ...
0%	4. ...
0%	5. ...
0%	6. ...
0%	7. Very important

Mean =

Advisory Group Response



Scenarios for balancing SDCs and rates

100% of allowable SDC



75% of allowable SDC



50% of allowable SDC



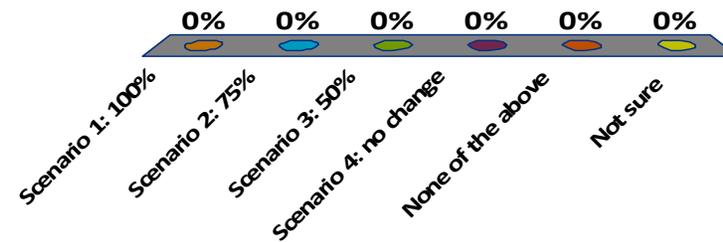
No change



(escalated to account for inflation)

Which scenario do you think is best for Hillsboro?

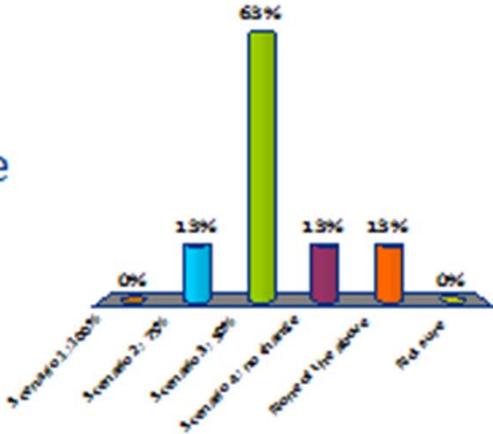
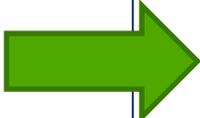
1. Scenario 1: 100%
2. Scenario 2: 75%
3. Scenario 3: 50%
4. Scenario 4: no change
5. None of the above
6. Not sure



Advisory Group Response

Which scenario do you think is best for Hillsboro?

- 1. Scenario 1: 100%
- 2. Scenario 2: 75%
- 3. Scenario 3: 50%
- 4. Scenario 4: no change
- 5. None of the above
- 6. Not sure



How did it turn out?

- Success!
- Letter of support from Home Builders Association
- No public opposition
- Updated financial information to be shared with Advisory Group



Hillsboro Water SDC Will Not Increase as Much as Planned

Posted on December 19, 2013 by Justin Wood

Earlier this year I posted that the City of Hillsboro was poised for a significant water SDC increase. This increase was based on additional capacity needs to service new housing and development. This increase was set to take effect in February of next year.

Five Things to Remember

1. Start building relationships now
2. Trust is a two-way street
3. Be honest
4. Present information fairly and objectively
5. A shorter process can be better for volunteers and the utility

