

System Development Charges

Focus Area: Operational Excellence
Strategic Objective: Effectiveness & Efficiency
Owner: Danielle Purnell

Summary of proposed concept

1. Establish System Development Charges (SDCs) requiring those undertaking new development projects to “buy in” to a share of the City’s existing water, wastewater and drainage utility systems.
2. Set SDCs at a level comparable to the charges of other jurisdictions in the region.
3. Focus SDC revenues back towards development to: a) foster growth and redevelopment where the City desires it; and b) more fairly distribute the costs of addressing system infrastructure requirements.

Description of the problem this action solves

Developer costs to address missing, substandard or at capacity utility system infrastructure (e.g. mains) in order to serve their development can be fiscally burdensome to individual developments and potentially inequitable. This is especially true with Seattle’s growth pattern of infill and redevelopment where: a) improvements are often required to address pre-existing deficiencies (substandard or at capacity systems); and/or b) the cost burden to address requirements falls entirely on the “first in” developer and later developments, who benefit equally from the improvement, pay nothing. The City desires to encourage growth and redevelopment in designated areas of the City and to assign cost burdens equitably. However, if developers don’t pay to address system infrastructure needs where they exist in developing areas then: ratepayers do; development happens but systems become more constrained; or development can’t proceed due to the fiscal burden of utility costs.

A system development charge (SDC) requires that all new development projects pay equally (based on their impact on the utility system) for connection and access to existing utility system infrastructure. These charges are typically in addition to a developer’s costs to bring the utility system to their property (if the main isn’t there) and connect utility services into the building.

SPU has only one SDC charge for water and none for wastewater or drainage system connections. SPU’s water charge is also the lowest in the Puget Sound area when compared with other local jurisdictions (e.g. Bellevue, Kirkland, Renton). SDC revenue could provide SPU with revenue to address development customer equity concerns without raising rates. Growth would more equitably pay for growth by using SDC revenues to offset some development costs to extend or upgrade infrastructure where it was needed to facilitate that growth.

More detailed description of the proposed action

SDC Charge Detail: The methodology used to establish SDC amounts is laid out in State law (RCW 35.92.025) and case law with City flexibility to set lower levels if desired. State law allows SPU to collect a more robust fee (than its nominal water charge) that reflects the full value of existing ratepayer assets less debt service as well as any future capital projects benefiting growth. Based upon SPU’s system assets and future capital projects, SDCs could be in a range of:

	Existing Charge (per ERU*)	Possible Charge (per ERU*)
Water SDC	\$1,063	\$3,500 to \$3,550
Wastewater SDC	n/a	\$1,200 to \$1,500
Drainage SDC	n/a	\$1,300 to \$2,000

*=Cost per Equivalent Residential Unit

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SDC Revenue Detail: The potential revenue stream from SDCs is variable since it depends on new growth each year. Based on past building trends, SDC revenue for the possible charge amounts above could be in a range of:

	Possible Revenue (per year)
Water SDC	\$3.3 M to \$4.5 M
Wastewater SDC	\$1.2 M to \$2.5 M
Drainage SDC	\$500 k to \$1.6 M

SDC Expenditure Options: SDC revenue could be focused on growth in a variety of different ways. Options for further exploration include:

1. **Cost Share Fund** – SPU *shares in %* of developer’s system improvement requirement.
2. **Opportunity Project Fund** – SPU *pays to add to a developer’s project* to meet an SPU need.
3. **Revolving Fund** – SPU pays for an opportunity project as part of a developer’s system requirement and along with the developer is repaid thru latecomers’ charges allocating project costs to all designated “benefitting parcels” if and when they later develop. SPU reinvests repayment back to development.
4. **Growth Fund** – SPU addresses substandard infrastructure, bottlenecks *ahead of development* in designated growth areas.

Benefits of the proposed action

- Provides compensation to SPU for new growth’s ability to connect to and utilize existing infrastructure systems.
- Aligns SPU charges with what most other jurisdictions in the region charge.
- Allows SPU to address development customer concerns (*re: equity of requirements, infrastructure constraints*) with developer-generated revenue rather than ratepayer-generated revenue.
- Fosters growth and redevelopment where the City desires it.
- By fostering growth, increases SPU rate revenue and developer asset contributions.

Implementation plan and timeline

	2014	2015	2016
Explore with Developer Advisory Panel	May		
Discuss with Mayor’s Office and Council whether and when to proceed.	Fall		
Introduce legislation and begin implementation		✓	✓

Plan for evaluating success or progress

- Track the number and \$ value of new infrastructure contributed by developments.
- Track the number and \$ value of infrastructure projects completed or supported with SDC revenue.
- Track the number of “benefitting” properties and/or developments.
- Track any “return on investment” or new development initiated due to infrastructure support.
- Survey developer customer satisfaction in terms of equity and related requirements concerns.