

Memorandum

To: Mayor and Council

From: Tom Baker, Melody Harrison, and John Wenzel

Date: November 5, 2013

Re: Commercial EQR/Tap Fees

Purpose: The purpose of this memorandum is to review our interim approach to tap fees so that we can respond to any near-term requests as we comprehensively examine our EQR/Tap Fee requirements for water and wastewater.

Background: On September 3, 2013, Council had a preliminary discussion regarding Tap Fees and EQR. The following minutes from the September 3rd discussion:

Commercial Taps EQR Table: Preliminary Discussion

Town Administrator Baker said he and Engineer Simonson had been discussing the EQR issue, and had compared the fee schedule used by the town to other community's fees. They found that the way water taps were valued in other towns was similar to, or more stringent than New Castle in terms of EQR calculations. Administrator Baker asked the council if they thought the problem with the EQRs was because of the economy or a structural problem with the EQR table. The council agreed that at the time the EQR table was created, water-saving technology was not as advanced, and that the table anticipated a maximum number of customers. They also agreed that it would be appropriate to reconsider the EQR requirements for purposes of supporting local business. Engineer Simonson said that some of the EQR requirements had to do with ensuring adequate infrastructure at the time of development, but agreed they did not reflect water-efficient fixtures and equipment. Administrator Baker said staff would work on some of the ideas presented and bring it back to council for their consideration presented and bring it back to council for their consideration.

At the September 3rd meeting several ideas were discussed:

1. Review EQR standards to ensure we are not requesting excessive infrastructure. (This work is ongoing with SGM)
2. Review Tap Fee amounts. (This work is ongoing with SGM)

3. Create a payment plan for tap fees.
4. Require tap fees as part of Certificate of Occupancy.
5. Use the Water Service Rate Tier System as an alternative approach to off-set front-end cost of tap fees and recover the tap fees over time (and to understand how water efficient devices impact water use).

Discussion: The above ideas are being considered or under review.

- Ideas 1 and 2 are being reviewed with SGM.
- Idea 3 can allow for a monthly payments over 3 to 5 years, which will allow the business to eventually pay for required tap fees. Negotiate on a case by case basis for time and use some common benchmark for interest, e.g., prime plus X%. This idea will require a new line item in the monthly bill for tap fee payment.
- Idea 4 is our current procedure, which, in the current economy, is an obstacle to new restaurant business start-up.
- Idea 5 can allow a business that owns a tap(s) to open their business and pay the Water and Sewer Overage charges, plus a Capital Investment Fee on a monthly basis. The Town can apply 95% of these charges toward the purchase of addition, needed tap fees, see example below. (This is a variant of Idea 3 – monthly payment plan.)

Idea 5 Example - Assumptions:

- **68 seat restaurant requires 2.056 EQP/Taps**
- **1st EQR/Tap (addresses 24 seats)**
- **Each seat over 24 requires 0.024 EQR/Tap - 44 additional seats equals 1.056 EQR/Tap (0.024 x 44 = 1.056)**
- **Column 1: Describes the categories for water and wastewater charges for a monthly bill.**
- **Column 2: Identifies the charges if the business owns 1 EQR, but is required to own 2.056 (68 seat restaurant). The town bills the owner for 1 EQR. The town also adds a line item titled “Capital Investment Charge”, which is intended to allow the property owner to pay for the needed taps over time...95% of the Capital Investment Charge line item is credited to the property/business owner as tap fee purchase and is in place until all taps are acquired. If the business is discontinued or changes hands the taps acquired at the time of change are valid and stay with the property. (There are any number of ways to create the CIC. In our example, we calculated the difference between Column 2 and 3 for the following charges – Water and Sewer Basic Charges and Water and Sewer M&O – then we also added a \$50 charge to this line item.)**

- **Column 3: Identifies the billing charges for a business that owns all required EQRs (2.056 is this example).**

**Examples of Monthly Billing
Given Various EQR Assumptions**

Billing Category (24,700 gallon consumption example)	Assuming 1 EQR Purchased and 2.056 Required (\$)	Assuming 2.056 EQRs Purchased and 2.056 Required (\$)
Water (Basic charge \$23.55/EQR allows for 12,000 gallons of use/EQR)	23.55	48.42
Water Overage (Charge for usage over basic allowance)	34.45	0
Water M&O (\$4.20/EQR)	4.20	8.64
Sewer (Basic charge \$42.60/EQR allows for 6,000 gallons of use EQR)	42.60	87.59
Sewer Overage (Charge for usage over basic allowance)	112.02	74.28
Sewer M&O (\$3.52/EQR)	<u>3.52</u>	<u>7.24</u>
Subtotal	<u>220.34</u>	<u>226.17</u>
Capital Investment Charge	<u>128.02</u>	<u>0</u>
Total	348.36	226.17
Billing Category (40,000 gallon consumption example)		
Water (Basic charge \$23.55/EQR allows for 12,000 gallons of use/EQR)	23.55	48.42
Water Overage (Charge for usage over basic allowance)	123.00	34.43
Water M&O (\$4.20/EQR)	4.20	8.64
Sewer (Basic charge \$42.60/EQR allows for 6,000 gallons of use EQR)	42.60	87.59
Sewer Overage (Charge for usage over basic allowance)	203.66	165.93
Sewer M&O (\$3.52/EQR)	<u>3.52</u>	<u>7.24</u>
Subtotal	<u>400.53</u>	<u>352.25</u>
Capital Investment Charge	<u>128.02</u>	<u>0</u>
Total Monthly Bill	528.55	352.25

Conclusion and Recommendation: Ideas 3 and 5 are essentially the same. The difference between these ideas is Idea 3 has a specific period of time for tap fee payments as a way to calculate the monthly fee and Idea 5 allows the differential between Basic Charges and M&O to drive monthly costs and therefore time.

It is understood that ideas 1 and 2 continue to be reviewed and staff/SGM will return to Council in the future for a full discussion. Idea 4 may once again be town policy in the future, but during this interim period, at least for commercial uses, Council is exploring other alternatives.

Other questions that Council has raised are:

- How do past tap fee agreements with local residential developers influence our options going forward? (This can be addressed as part of the evaluation of idea 2.)
- The code requires the purchase of 0.024 taps per seat once a restaurant exceeds 24 seats. Can we determine if this is equitable? (This can be addressed as part of the evaluation of idea 1.)