MEMORANDUM

TO: Members, SDC Committee

FROM: Raymond J. Bartlett

DATE: August 5, 2014 Meeting

RE: Food & Beverage Tax Impact on Sewer SDC

The Committee asked if the sewer SDC can be reduced because after 2023 the current sewer debts will have been repaid but the Food & Beverage tax revenues continues. This action is inadvisable as explained below.

The cost basis for the Sewer SDC is primarily the improvement fee portion—$1.833/sq. ft. The reimbursement fee portion is relatively small at $0.195/sq. ft. The improvement fee is based on the Sewer Master Plan that has 3 sets of priority projects:

Priority	Time Line	2012 $'s	SDC qualified	%		Included in Update	Rate Payers Other
1	2012 – 2020	$10,791,000	$3,263,430	30%	Yes	$3,263,430	$7,527,570
2	2020 – 2030	$16,713,000	$5,753,920	34%	Yes	$5,753,920	$10,959,080
3	Beyond 2030	$5,799,000	$5,153,000	89%	No		$5,799,000
Totals		$33,303,000	$14,170,350	43%		$9,017,350	$24,285,650
%		100%	43%			27%	73%

Of the $33.3 million of planned improvements about $14.2 million (43%) is attributable to expanding capacity to accommodate growth. Because of the uncertainty of growth associated Priority 3 capital improvements, these improvements were excluded from the proposed update of the SDC. This reduced the cost basis for the improvement fee from $14.2 million to $9.0 million. The remaining $24.3 million will have to be paid by rate payers and from the Food & Beverage Tax.

In Table 14.1 (Comprehensive Sanitary Sewer Master Plan, 2012) the annual debt service exceeds the expected amount of revenue from the Food & Beverage Tax in each year of the forecast except the first year, leaving nothing to off-set the amount of the proposed SDC. The current debt of approximately $11 million will be fully repaid in FY 2023. However, over the next five years, the City plans to issue an additional $8 million for Priority 1 capital improvements. That leaves approximately $19.5 million of Priority 1 and 2 projects that will be paid from additional borrowing, or from the accumulation of net sewer rate revenues, SDCs, and Food & Beverage Tax revenues. Table 14.1 ends in FY 2020 but capital improvements are schedules out beyond 2020. These projects will require more revenue than the Food & Beverage Tax alone will produce. Also, Table 14.3 forecasts the sewer rate will increase 86% by 2020.

In summation, the SDC is already proposed at a level that excludes Priority 3 projects, most of which are growth related. Beyond 2023, the City will issue more debts to pay for Priority 1 and 2 projects that will be repaid from sewer rate revenues and from the Food & Beverage Tax. Reducing the SDC would shift more of the cost of growth-related capital improvements onto rate payers who are already facing substantial rate increases.