

# DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: December 9, 2009

Board Item: V-D-1

## Adoption of 2010 System Development Charges

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Action by Consent

Action

Information

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Denver Water uses a system development charge (SDC) to recover a portion of the costs for new capacity-related assets required to meet demand growth. New customers connecting to the system, and existing customers seeking to increase their existing tap size, must pay a SDC. The capacity-related costs recovered via SDCs include source-of-supply facilities, treatment plants, pump stations, backbone transmission and distribution facilities, and distribution reservoirs.

During the period 2003 - 2008, annual SDC receipts ranged between \$19.1 million (2008) and \$26.5 million (2005). Estimated 2009 SDC receipts and budgeted 2010 SDC receipts are both approximately \$8 million.

### **Results of Full 2010 SDC Study**

The building development community was provided with an early warning of potential 2010 SDC increases on July 16, 2009. This early warning, which was based on preliminary capital and debt financing plans, estimated 2010 SDCs would increase by approximately **10% - 13%** as compared to currently effective 2009 SDCs. This conclusion was preliminary and not based on a full SDC study.

Staff has completed the full 2010 SDC study based on the finalized capital and debt financing inputs contained in the 2010-2019 10-Year Financial Plan. The results of this study indicate, if water rights are valued at a replacement cost of \$9,000 AF, 2010 SDCs would increase by **14.03%** over currently effective 2009 SDCs.

The estimated 2010 SDC increase exceeds the 2010 early warning because the early warning analysis over-estimated the debt service adjustment used in the SDC calculation. To avoid double counting, debt principal payments are subtracted from the cost of the capacity-related assets paid for by the SDC because this cost is recovered in the water rate revenue requirement.

As compared to the currently effective 2009 SDCs, key drivers of the required 2010 increase include:

- A \$114.4 million increase in the value of source-of-supply facilities created by increasing the replacement cost of water rights from \$8,500 to \$9,000 per AF, and the inclusion of \$75 million dollars of projected expenditures for the WISE project.
- A \$56.8 million increase in the value of distribution reservoirs due to the Ashland and Hillcrest distribution reservoir reconstruction projects.

Attachment A is a 2010 SDC pricing schedule featuring a 14.03% increase with water rights valued at \$9,000 per AF.

**Alternative Calculation of 2010 SDCs with Water Rights at \$8,500 per AF**

If water rights are kept at their current replacement cost value of \$8,500 per AF, 2010 SDCs increase **11.85%** over currently effective 2009 SDCs. This falls within early warning range provided to the building development community in July 2009. Attachment B is a 2010 SDC pricing schedule featuring an 11.85% increase with water rights valued at \$8,500 per AF.

**Estimated 2011 SDC Increase if 2010 SDCs Remain Unchanged**

If the Board elects to keep 2009 SDC pricing in place during 2010, the required SDC increase in 2011 is estimated to be approximately **20%** if no changes are made to the existing 10-year capital plan and water rights are valued at \$9,000 per AF. This large estimated 2011 increase reflects the "catch-up" to full cost SDC's in 2011.

**Discussion**

The Board has adjusted SDCs approximately every twelve to eighteen month since 1998. Since 2003, the Board has also increased the replacement value of water rights in each SDC study to move closer to a value aligned with actual market conditions. Attachment A presents 2010 SDC pricing consistent with these policies (14.03% increase using water rights valued at \$9,000 per AF). Attachment B presents 2010 SDC pricing without an adjustment to the value of water rights (11.85% increase using water rights valued at \$8.500 per AF).

**Recommendation:**

It is recommended the Board adopt the 2010 SDC pricing schedules identified as either Attachment A or Attachment B. The effective date of new 2010 SDC pricing will be February 8, 2009.

Respectfully submitted,



H. J. Barry, Manager

**Approvals:**



David LaFrance, Director of Finance