



# CITY OF UNIVERSITY PLACE

City Manager Department

TO: Mayor Ken Grassi  
Mayor Pro Tem Gehring  
City Councilmembers

FROM: John Caulfield, Deputy City Manager

DATE: May 10, 2005

SUBJECT: *Sewer Services Strategy*

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This memorandum has been prepared in response to questions raised by the City Council at the May 2, 2005 study session regarding the sewer surcharge proposal, which recommends the following:

- Implement a \$5.54/month surcharge on current and future Pierce County Public Works and Utilities (PCPWU) customers in University Place to begin to address many of the sewer issues in University Place. The revenue would be set aside for investment into UP sewer extension projects in the PCPWU sewer service area that would be prioritized by a set of criteria, including requests from neighborhoods that suffer from failing septic systems and/or who wish to form ULIDs, but do not meet the assessment to benefit test. The surcharge would be collected only from PCPWU customers in University Place and sewer system extensions would only be constructed in the PCPWU service area within University Place. The surcharge would not be collected from Fircrest customers.
- The 2005 monthly sewer rate is approximately \$22.15 for a single-family residence. A \$5.54/month/ERU surcharge to \$27.69/month would raise approximately \$710,000 per year or \$14.2M over a 20-year period. Identification of projects and project prioritization would occur in Fall 2005 as part of the City's mid-biennial budget review.
- Mandatory connection ordinance. Unlike the previous recommendation (February 2004) where residents within a certain distance of a sewer line would be required to connect, we now recommend mandatory connection to sewer line extensions that are funded either wholly or partially with the new surcharge. Those properties that are within the service area of a newly constructed sewer line funded with surcharge revenue and are provided sewer service through the extension and installation of a side sewer stub will be required to abandon their septic system (functioning or failing) and connect to the new sewer line.

### Comparison of Sewer System Surcharge Options

Surcharge:			
Monthly rate	\$2.22/month	\$3.32/month	\$5.54/month
Revenue:			
Annual	\$280,000	\$420,000	\$710,000
20 years	\$5.7 million	\$8.5 million	\$14.2 million
Investment Opportunities:			
Sewer system extensions	1 neighborhood (10 lots @ \$15,000 each = \$150,000)	2 neighborhoods (20 lots @ \$15,000 each = \$300,000)	3 neighborhoods (30 lots @ \$15,000 each = \$450,000)
Debt financing (e.g., pump station)	1 pump station @ 35 <sup>th</sup> & 67 <sup>th</sup> = \$100,000 per year for 20 years	1 pump station @ 35 <sup>th</sup> /67 <sup>th</sup> = \$100,000 per year for 20 years	2 pump stations @ 35 <sup>th</sup> /67 <sup>th</sup> and Soundview = \$200,000 per year for 20 years
Side sewer repairs in ROW	2 averaging \$2,500 each	2 averaging \$2,500 each	4 averaging \$2,500 each
Hardship assistance & revolving loans	5 annual deferrals or revolving loans averaging \$5,000 each	3 annual deferrals or revolving loans averaging \$5,000 each	10 annual deferrals or revolving loans averaging \$5,000 each
Sewer Connections (estimated):			
Annual	10	20	30
20 years	200	400	600

1. Can a corresponding charge be applied to existing septic system owners within the Pierce County sewer service area in University Place to ensure “equity” between current ratepayers and future ratepayers?

Yes. We have identified 3 possible options, though we have not had an opportunity to discuss these options with either the Pierce County Sewer Utility or Tacoma-Pierce County Health Department (TPCHD):

- A. Create an On-site Wastewater Management Septic Monitoring System: Chapter 36.94 RCW provides counties with the authority to establish a program to monitor septic systems for which a fee can be charged (e.g., amount equal to the City’s proposed surcharge of \$5.54 per month). However, Pierce County would need to establish this program, which they may be unwilling to undertake. Assuming there are 1,833 septic systems in University Place, a \$5.54 monthly fee results in approximately \$120,000 annually, which would be used to finance the new monitoring program. **Not recommended at the present time.**
- B. Voter-Approved Utility Tax: The City currently levies a 6% utility tax on the following utilities: cable television, cellular telephones, natural gas, refuse services, storm drainage, and regular telephone services. The City has the authority to ask voters to approve a rate of higher than 6% on these utilities. Currently, each 1% utility tax levies approximately \$310,000 annually. The utility tax would have to be increased from 6% to 6.4% to raise an additional \$120,000 (assumes there are 1,833 septic systems in University Place, each with a corresponding \$5.54 monthly fee). **Not recommended.**
- C. Connection Fee/Capital Facilities Charge: Currently, the Pierce County Sewer Utility collects connection charges averaging approximately \$2,000 per parcel, which represents the cost of wastewater treatment plant capacity and the cost of collection system capacity.

The City could also request the Pierce County Council to enact a basin specific capital facilities charge equal to \$5.54/month or approximately \$67 per year to those University Place properties currently served by septic systems. The additional charge would then be added to the County's connection charges at time of connection whether it occur in 2006 or later. This charge would then be set-aside in the City's capital account along with the surcharge revenue collected from current ratepayers for investment in sewer extensions. For example, a current septic system property owner who decides to connect in 3 years would pay the connection charge required by the County at that time plus an additional \$201 (\$67 times 3 years) that would be deposited into the City's sewer capital account.

**Recommended alternative to pursue with County.**

2. Can there be differential sewer rates within UP sewer service area?

Yes. The Pierce County Council can enact differential rates so long as all ratepayers within a specified class are treated equally. For example, a surcharge of \$5.54/month or 25% applied to all University Place sewer ratepayers served by Pierce County as currently proposed may be requested by the City and enacted by the County.

Likewise, the Pierce County Council may allow a property specific surcharge to finance a particular property owner's fair share of sewer improvements. For example, to finance \$7,000 in capital costs, assuming a term of 20 years at 6%, the annual sewer fee would total \$610 or an additional \$51 per month for a total monthly sewer rate of \$78.69 (\$27.69 + \$51.00). However, we do not recommend at this time that the City request the County employ this option given that we will be focusing on no more than 30 properties annually. In addition, the administrative overhead to oversee this program could become quite burdensome.

3. Definition of "surcharge"?

A surcharge is defined as "an additional sum added to the usual charge." The definitions of surcharge do not insinuate a particular period of time or a particular purpose. The proposed change could be called a "University Place capital facilities charge" or "basin specific capital facilities charge" among other things.

4. Will this revenue source be in place in perpetuity or can a sunset provision be included?

As proposed, an end date is not included - once the surcharge is implemented (by the Pierce County Council at the request of the University Place City Council), the County shall continue to collect the surcharge at the enacted rate until officially requested otherwise by the City. However, the City Council can include a sunset provision establishing a termination date.

5. Can a ULID be used to finance private property improvements associated with sewer extensions and connections?

We received an opinion from bond counsel Nancy Neraas, Preston Gates Ellis in 2001 on this same inquiry. Her response was that typically, side sewers are owned and maintained by the property owner, and not the municipality, and therefore could not be financed by the municipality via a ULID. Municipalities may only finance public, and not private, improvements.

However, connection charges could possibly be financed through a ULID if it can be shown the improvements constructed specifically benefit the property. ULIDs are supposed to finance improvements that specifically benefit property and not improvements that provide general benefit because connection charges typically pay for

system-wide improvements that have already been constructed and those to be constructed in the future (e.g., expansion of wastewater treatment plant). A property owner might be able to successfully argue that connection charges cannot be financed through a ULID.

6. Can we establish a minimum financial contribution from each private property owner, which would cover private property/on-site costs before the City provides surcharge in support of project? Or can we establish a maximum financial contribution that the City will provide from the surcharge to fund sewer extensions, leaving the balance of costs to the homeowners?

The answer is yes; however such a minimum or maximum may impact the effectiveness of the program and may be more difficult to administer. The current proposal is to pay for construction within the public ROW with the surcharge and to require the private property owner to finance all on-site costs.

The following table illustrates the current proposal.

Current proposal: The surcharge revenue would **on average** provide 67% of the costs associated with extending sewers into unsewered areas. Private property owners would be required to finance the remaining 33%.

**Current Proposal**  
**Estimated Financial Impacts per ERU (\$5.54 Surcharge)**

Description	Estimated Financial Impact, \$/ERU
Unsewered Area	
Private Property (on-site costs)	
Pierce County connection charge and on-site costs (e.g., Pierce County fees and charges [\$2,000], side sewer plumbing, septic system pumping & filling, gravity building sewer installation, grinder pump installation [normal gravity side sewer or force main], and landscape restoration).	\$5,000 to \$7,000 (33% of total cost)
Construction costs (public R-O-W) funded with \$5.54/month surcharge	
(e.g., mobilization, grind existing pavement, trench excavation, sewer mainline and stubs, manholes, force main, pump/lift station, pavement restoration, traffic control, engineering & design, inspection, administration, and easements)	\$10,000 to \$13,000 (67% of total cost)
Total	\$15,000 to \$20,000
Monthly sewer rates (new Pierce County sewer customers in UP)	Increase from \$0 to \$27.69
Existing Pierce County Sewer Customers in UP	
Monthly sewer rates	Increase from \$22.15 to \$27.69

However, other options could include:

Option 1: Minimum contribution from property owner equaling the economic enhancement per property as determined by an economic appraisal. The Economic Enhancement/Feasibility Study for Proposed Sewer Expansion Project prepared by Macauley and Associates, LTD, in November 2001 concluded that on average this

economic benefit totals approximately \$8,000 to \$10,000 per parcel. This option may allow ULIDs to be more easily formed.

Option 2: Maximum contribution from City surcharge totaling no more than 50% of the total cost per parcel. This option would allow the use of ULIDs.

The following table compares how costs could be allocated **on average** across each option.

	<b>Current Proposal</b>	<b>Option 1</b>	<b>Option 2</b>
Average Parcel			
Private Property Owner	\$7,000 (33%)	\$8,000 (40%)	\$10,000 (50%)
Public Surcharge	\$13,000 (67%)	\$12,000 (60%)	\$10,000 (50%)
Total Cost per Parcel	\$20,000 (100%)	\$20,000 (100%)	\$20,000 (100%)

This next table compares how each option would work if applied to an existing neighborhood in need of sewers – Park Royal (49<sup>th</sup> Street West cul-de-sac) that consists of 11 parcels.

	<b>Current Proposal</b>	<b>Option 1</b>	<b>Option 2</b>
Park Royal Neighborhood (49 <sup>th</sup> Street West - 11 parcels)			
Private Property Owner	\$6,376 (28%)	\$8,000 (36%)	\$11,188 (50%)
Public Surcharge	\$16,000 (72%)	\$14,376 (64%)	\$11,188 (50%)
Total Cost per Parcel	\$22,376 (100%)	\$22,376 (100%)	\$22,376 (100%)
 Grand Total (11 parcels)	 \$246,136	 \$246,136	 \$246,136

**Staff recommends the minimum charges option (Option 1) to get at the intent of a ULID (fair-share cost participation) without mandating the more difficult ULID formation itself.**

cc: Bob Jean, City Manager  
Janean Polkinghorn, City Attorney  
Robin Ordonez, P.E., Wastewater Utility Engineering Manager, Pierce County