Presentation
Capacity Fee Study

Public Utilities

October 8, 2014

Hanover: People, Tradition & Spirit

Overview

- History
- Purpose of capacity fees
- Generally accepted methodologies
- Hanover's methodology
- Review major changes since last study
- Results of the study
- Recommendations

History

- Public Utilities previous capacity fee study was completed in March 2011
  - Between studies the ENR construction cost index is used
- During the FY15 Budget process the Board requested that Public Utilities update the study
- Public Utilities contracted with HDR Engineering
- On July 21, 2014 the Board's Finance Committee was briefed

Purpose of Capacity Fees

- Capacity fees are one-time charges new water and sewer customers pay to recover all or a part of the cost of system capacity constructed for their use

- Capacity fees are not used to fund operations
- Capacity fees are used to fund capital projects that increase the capacity of the system

Generally Accepted Methodologies

- There are three generally accepted methodologies for establishing cost-based capacity fees
  - Buy-In Method
    - Used when there is ample capacity to meet long term needs and new capacity is not required
  - Incremental Cost Method
    - Used when there is limited capacity to meet long term needs and new capacity is required
  - Combined Approach
    - Used when there is capacity available to meet immediate needs but capacity needs to be increased to meet long term needs

Hanover's Methodology

We use the "combined" methodology

- Both water and sewer systems have available capacity but we also plan to construct additional (future) capacity

System Value

- Valuation of existing assets
- Valuation of planned capacity related improvements

Existing and Future ERU's

- Planning horizon 30 years to 2044
- Future demand = existing ERU's grown at 2% rate annually
  - 2014 – 35,700 ERU's
  - 2044 – 64,700 ERU's

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Hanover's Methodology

Calculation of cost per ERU

Buy-in component:

- Value of existing assets ÷ 2044 ERU's

Incremental Cost component:

- Cost of future capacity improvements ÷ Additional ERU's added or ERU's served by improvement , whichever is larger

Debt Service Credit

- Credit for debt service anticipated to be collected through user fees

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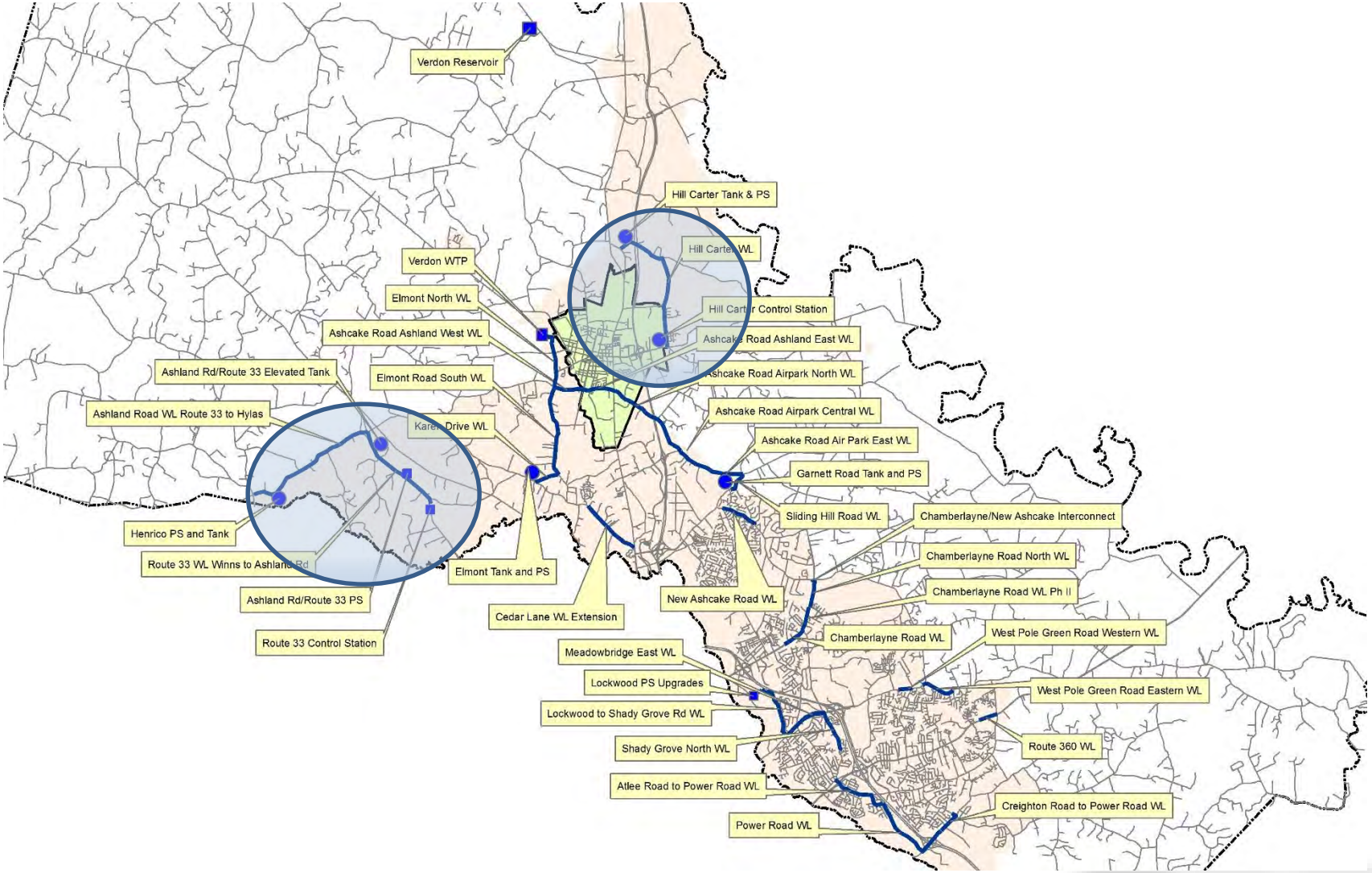
Major Changes

- Average Daily Use
  - Water 271 GPD/ERU to 187 GPD/ERU
  - Sewer 271 GPD/ERU to 234 GPD/ERU
- Updated growth projections
- Updated existing asset valuation
- Updated cost estimates
- Modified the incremental cost methodology
- Updated planned projects based on the current Comprehensive Plan and input from Economic Development

Future Water Projects



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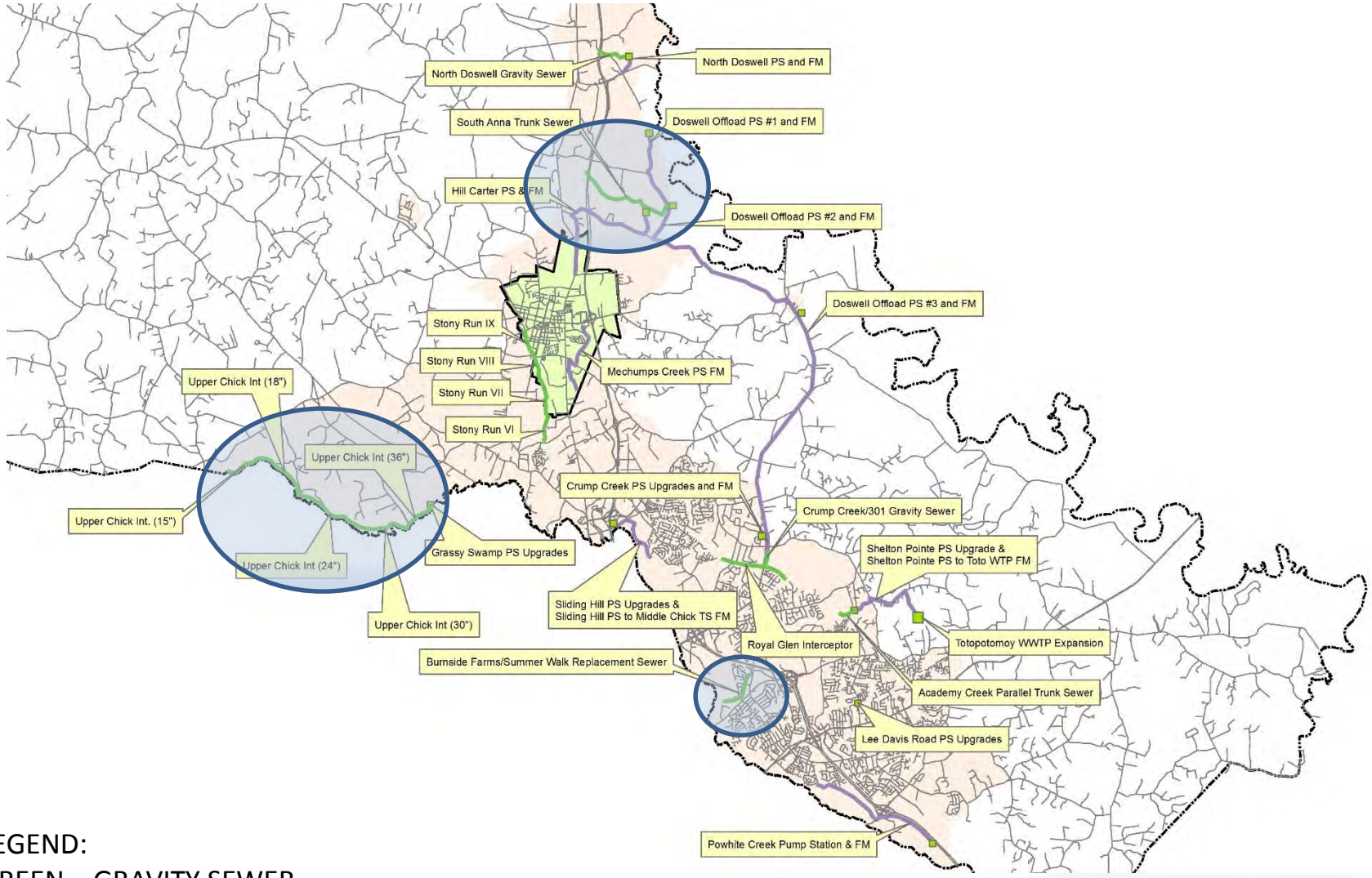
Future Wastewater Projects



LEGEND:
GREEN – GRAVITY SEWER
PURPLE – FORCE MAIN

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Results Of The Study

	Modified Incremental Cost	Traditional Incremental Cost	Current Capacity Fees
Water	$5,982	$7,947	$5,290
Sewer	$6,149	$6,168	$8,034
Combined	$12,131	$14,115	$13,324

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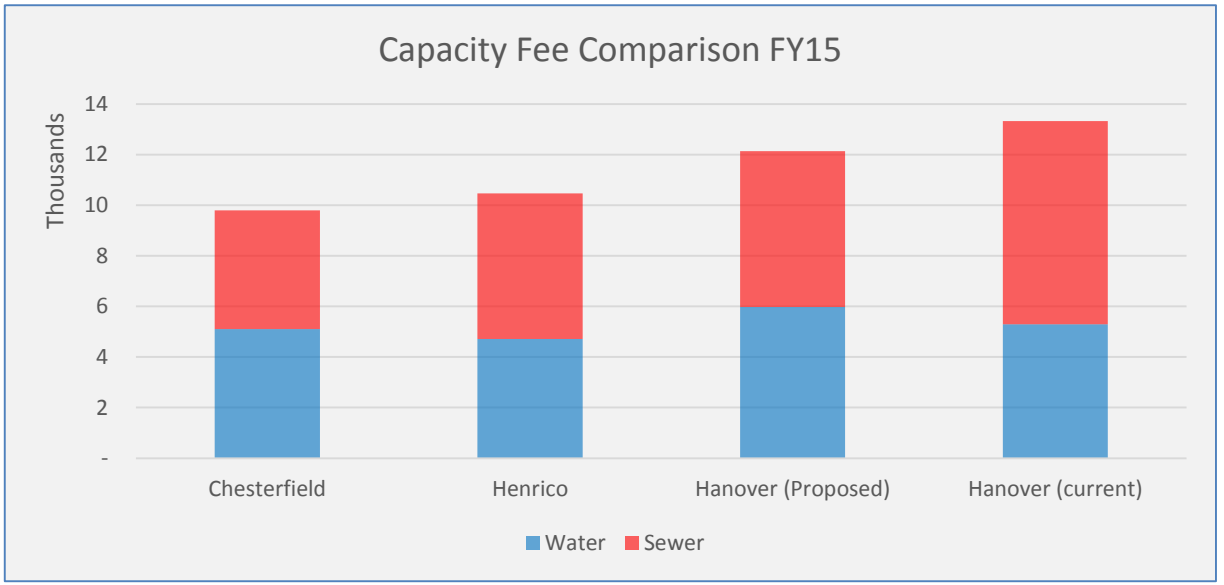
Recommendation



Capacity Fees FY15			
	Water	**Sewer**	**Total**
Chesterfield	$ 5,100	$ 4,700	$ 9,800
Henrico	$ 4,710	$ 5,755	$ 10,465
Hanover (proposed)	**$ 5,982**	**$ 6,150**	**$ 12,131**
Hanover (current)	$ 5,290	$ 8,034	$ 13,324

Recommendation

Combined Capacity Fees By Meter Size					
Meter Size	Multiplier	Hanover Current	**Hanover Proposed**	Henrico	Chesterfield
5/8"	1	$ 13,324	**$ 12,131**	$10,465	$9,800
1"	2.5	$ 33,309	**$ 30,327**	$39,280	$24,500
1 1/2"	5	$ 66,618	**$ 60,655**	$78,500	$49,000
2"	8	$ 106,588	**$ 97,047**	$155,520	$78,400
3"	16	$ 213,177	**$ 194,096**	$312,225	$156,800

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Recommendation

- Authorize the advertisement of a Public Hearing for November 12, 2014 on Ordinance 14-08 amending Sections 20 and 23 of the Hanover County Code to revise the County's water and sewer capacity fees

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