

Hayden Lake Recreational Water and Sewer District

Proposed Rate and Fee Schedule Change

Informational Brief

Please attend the public hearing on April 26, 2017 at the Scottish Rite Masonic Center (8999 N. Strahorn Road in Hayden Lake) at 5:30 pm for further information.

The District is currently evaluating its rates and fee schedule to adequately fund operation and maintenance expenses, assess capitalization fees for new users, and update other pertinent District-operation fees. The following is a brief discussion of the proposed rate and fee schedule changes. *It is important to note that these rates and fees are **not** part of the LID No. 7A assessment.*

Operation and Maintenance Rate

Current Rate: \$44.00 per month (\$88.00 bi-monthly)

Proposed Rate: \$53.00 per month (\$106.00 bi-monthly)

1. Why is the District considering a rate increase?

In the process of evaluating the existing rates and fee schedule, the District has concluded that the current operation and maintenance (O&M) rate does not cover its O&M expenses. While the District is continually working to reduce operational costs and increase efficiency of its operations, its O&M fund has become severely depleted.

The most recent O&M rate adjustment was in 2011 when it was changed from \$37.50 per month to \$44.00 per month. Due to rising expenses associated with providing sewer services, the District must consider an additional rate increase after six years (2011-2017) without any increase in the O&M fee. Additionally, now that the District has completed its LID for the sewer treatment plant and collector system, it desires to protect that significant investment by fully funding maintenance of District assets.

2. What other sources of revenue are available for the District?

It is important to understand that the District has limited sources of revenue in comparison to cities or other entities. These sources consist primarily of O&M rates and capitalization fees (assessed to new users/growth, discussed below). Revenue from property taxes is minor. Growth and capitalization fees have funded the reserve account for the District in the past (see next page for further discussion). However, without much growth occurring in the District, these revenue sources likely cannot be relied upon as a constant revenue source.

Capitalization Fee and Future Rate Changes

Current Fee: \$12,400

Proposed Rate: \$12,515

1. What is a capitalization fee?

A capitalization fee is assessed to new users of the system to “buy in” to the existing system. The capitalization fee is based upon the system’s current value (accounting for depreciation¹, replacement costs, capacity and current reserve funds), divided by that portion of the system that the new user or property owner can use. For residential properties, this unit is known as a “Residential Unit” or “RU.”

The District recently prepared an evaluation of the capitalization fee to account for the recent LID No. 7A projects. The updated capitalization fee was calculated to be \$12,515. Further information regarding the capitalization fee calculation will be provided at the hearing.

2. What is a capitalization fee used for?

The capitalization fee is typically used to replace depreciated components as their useful life ends (for example, the useful life of an industrial pump used in a sewer lift station is typically 10-15 years). As indicated above, the District’s growth has slowed significantly in the last 10 years, so the incoming revenue from the sale of capitalization fees has decreased. Thus, the District is considering other methods of funding depreciation/replacement projects (see Item 3 below).

3. How can we avoid a future LID?

The recent LID No. 7A projects (in the collection system) were mainly to address system depreciation. The District is currently evaluating future incremental rate increases for upcoming years to fund depreciation. Funding depreciation through O&M rates is the alternative to LID-funded projects. It is no different than the way a homeowner might save money over time to replace a roof with a useful life of 30 years. If no money has been saved to replace the roof, when it nears failure (or fails), the owner is required to borrow money at greater expense to fund the repair.

Other proposed fee changes will be presented at the hearing.

¹ Depreciation is an approximation for the reduced value for an asset/component with the passage of time, due to wear and tear.