



INDIAN RIVER COUNTY, FLORIDA DEPARTMENT OF UTILITY SERVICES

Date: October 29, 2018
To: Jason E. Brown, County Administrator
From: Vincent Burke, P.E., Director of Utility Services
Prepared By: Cindy Corrente, Utility Finance Manager
Subject: Uniform Septic to Sewer Policy

BACKGROUND

On December 20, 2016, the Indian River County Board of County Commissioners (BCC) approved several items related to the North County Septic to Sewer (S2S) Phase 1 project. One of those items included conducting an updated rate study. On July 18, 2017, the BCC approved awarding two Professional Service Agreements with Raftelis Financial Consultants, Inc. The first agreement described services in order to conduct a Comprehensive Water, Wastewater, and Reclaimed Water Rate Study. A key element in that first scope of services was to develop a uniform S2S policy. The second agreement was to conduct a Water and Sewer Impact Fee Study.

ANALYSIS

The BCC has made cleaning the Indian River Lagoon (Lagoon) one of their focal points. Many symposiums on the health of the Lagoon have addressed the potential impacts from existing septic systems. Therefore, Indian River County Department of Utility Services (IRCDUS) has taken a lead role in evaluating the feasibility of bringing centralized sewer services into areas currently serviced by septic tanks. IRCDUS worked with two engineering firms, Masteller and Moler, Inc. (M&M) and Schulke, Bittle, and Stoddard (SBS) Inc. to conduct two Sewer Feasibility Studies. M&M concentrated on the North County area while SBS looked at the entire county. Ultimately, a final ranking by area was created. The areas were ranked on several factors, including population density, proximity to surficial water including the Lagoon and Sebastian River, soil conditions, and the age of the septic systems in these areas. The first S2S project to come to fruition was the North County S2S Phase 1 project. This project is currently nearing completion.

IRCDUS has several goals related to S2S projects. They include:

- Working with regulatory agencies, residents, and other stakeholders to develop and implement the countywide S2S plan
- Providing safe, reliable water and wastewater service in the urban service area

- Pursuing grant dollars and alternative funding sources for S2S projects
- Developing a uniform S2S policy

Staff worked with the rate consultant to develop the uniform S2S policy. In developing the policy, several factors were considered. First, governmental utility facilities, such as IRCDUS, typically follow the general principal that treatment and major transmission facilities are constructed by the utility and funded through a combination of resources consisting of debt, impact fees, and grants. The more localized facilities are either contributed to the utility by the land developer, extended and funded by the property owner, or installed through a benefit assessment program. Since costs for localized facilities are generally unique to each location, there can be significant cost differences for such projects, and those costs are the responsibility of the benefiting properties.

A second utility principal is that customer growth typically results in economies of scale. This principle provides an opportunity for the utility to create financial incentives to connect to a centralized wastewater system without any undue burden on the utility's existing customer base. The key to providing an incentive is to create a uniform S2S policy that encourages connections through incentives for the property owners who participate in the programs. The added environmental benefit is that septic tanks are abandoned in lieu of connection to the centralized sewer system.

There are two sets of costs affiliated with the S2S projects. First is the construction cost. This is typically passed onto benefitting properties through the assessment portion of a project. Second is the impact fee. This is also born by the benefitting property owners. Currently, there is no recommendation to modify the existing sewer impact fee of \$2,796 per equivalent residential unit (ERU). Therefore, a single-family home can expect to fund \$2,796 for a sewer impact fee in addition to their share of the construction costs. The creation of a uniform S2S policy recognizes that each project will be unique with its own set of constraints including costs; however, the policy provides for assessing the financial responsibility for each project on a uniform basis.

In developing a uniform policy, it was important to be consistent with the County's 2030 Comprehensive Plan. Chapter 3A, the Sanitary Sewer Sub Element, describes ranking of S2S projects, goals to complete S2S projects and funding the projects. Several key concepts had to be incorporated into the policy. First, the benefitting property owners must be responsible for a portion of the construction costs. Their share of costs will be considered the assessment portion of the project. Second, S2S projects are typically quite costly on a per ERU basis. Therefore, in order to make the projects affordable, alternative funding sources must be included in the funding mechanism. Policy 5.6 of Chapter 3A of the Comprehensive Plan states that the County shall identify and pursue opportunities for State and Federal funding for the improvement and expansion of utility services, including S2S projects. It should be noted that some grants now require mandatory connection as a condition of the grant. The third concept included in the policy is to create incentives for early connection in order to maximize participation. Some of the potential funding sources are described below.

Community Development Block Grants Program (CDBG) -This is a federal program that provides funding for housing and community development activities that meet one of three national objectives. They are to benefit low- and moderate-income persons, eliminate slum or blight, and address an urgent need that poses a serious threat to people living in that area. While many grants only fund portions of the construction costs, sewer hookups can be paid through these funds.

State Revolving Fund (SRF) Clean Water Fund/Small Community Wastewater Grant - The FDEP administers the SRF loan program for financing public sewer infrastructure projects. Funds are available for planning, design, and construction. Financing rates vary but are typically less than half the market rate and repayment terms are usually 20 years.

Total Maximum Daily Load (TMDL) Water Quality Restoration Grants - These grants provide funding for best management practices including S2S projects. The applicant must provide a minimum of 50% matching funds for the total project cost.

St. Johns River Water Management District (SJRWMD) Cooperative Funding - SJRWMD provides cost sharing for projects that benefit the District's core missions, which include water quality nutrient loading reduction. The annual available funds are limited, and there is a lot of competition for these grants. Secondly, funding is limited to a maximum of 33% of construction costs. The County has received up to \$825,000 from this source for the West Wabasso Phase II sewer project.

Federal Department of Environmental Protection (FDEP) 319 Grant - These grants can be used to implement projects or programs that will help reduce non-point sources of pollution. This includes septic tanks.

Optional Sales Tax Dollars - The County currently sets aside 20% of its optional sales tax funds for Lagoon projects.

The uniform S2S policy identifies funding mechanism options for S2S projects and provides incentives in order to maximize participation in the projects. The financial feasibility of these projects will be dependent on obtaining grant funds to offset the costs.

Any alternative funding sources shall be sought in order to offset the project costs. Many grants provide for a maximum of 33% of the construction cost. Even if a third of the construction costs are covered by grants, other funding sources including those listed above shall be sought as well. Although the precise source of other funds would remain to be determined, in order for a S2S project to be successful, the goal has to be to obtain enough alternative funding sources to make the project financially feasible and to maximize customer participation thereby maximizing the net environmental benefits to the Lagoon. It is important that the project be economically feasible in order for it to make sense to pursue the project. Therefore, the policy shall be to seek 67% funding of the total costs from other sources. Utility reserve funds shall not be considered as a viable source of funding since the utility fees that generated such funds are supposed to be used to benefit the parties contributing to those funds. Thus, one group of utility customers' fees shall not be used to support another group of customers.

Second, the benefiting property owners shall be responsible for a minimum of twenty percent of the project costs. This portion will be treated as an assessment program.

An example of the customer's monthly cost breakdown for a sample project is listed below. Assume a total project cost of \$1,000,000 with 50 benefitting property owners, which equates to a cost of \$20,000 per parcel. Grant funds were obtained for 67% of the costs of the project. The current BCC financing rate is 5%. The assessment portion of the project will be amortized at 2.5%. The benefitting property owner will be responsible for \$4,000 in construction costs financed at 2.5% over 20 years. The impact fee cost

will vary based upon the owner’s commitment to connect. The table below depicts costs for a customer that **did not** take advantage of any of the early connection incentives. For those that did, their obligation will be decreased by the \$52.76 impact fee loan amount.

Description	Years 1-5	Years 6-20	Years 21 and beyond
Impact Fee Loan	\$52.76	\$0.00	\$0.00
Assessment Loan (Divided into monthly costs)	\$21.38	\$21.38	\$0.00
Average bill of 5,000 gallons of water and sewer service	\$50.66	\$50.66	\$50.66
Total Monthly Costs	\$124.80	\$72.04	\$50.66

Third, provide a discounted financing rate for S2S projects. Rather than utilize the interest rate that is adopted by the BCC annually, a discounted rate is proposed. This rate would be the greater of two percent, or half of the BCC adopted rate that is in effect at the time the project is approved by the BCC. The BCC’s current rate is 5%. Therefore, a project being approved today would be financed at 2.5%.

Fourth, extend the amortization period from the ten-year term utilized for assessment projects to a twenty-year term. It is recommended that staff work with the Indian River County Tax Collector to add the annual assessment fee to the property tax bill in order to assure a more consistent reimbursement cash flow for the project. Unlike a lien that gets cleared during a property sale, the S2S assessment would remain on the property tax bill until satisfied. The feasibility of this program is yet to be determined. However, neighboring counties such as Martin County have found this method to be successful. It should be noted that this method would also involve additional costs in the form of an administrative fee pass through for the services of the Tax Collector.

Last, provide a credit of 100 percent of the sewer impact fee to those property owners who commit to connect to the sewer system prior to the service being made available at the property’s location. For those property owners that connect within one year after service availability, provide a credit of 50 percent of the impact fee. These credits would have to be funded from one of the grant sources that allow funding for expenses other than construction costs. Note, CDBG funds may be utilized for this purpose.

RECOMMENDATION

Staff recommends the Board of County Commissioners create a septic to sewer (S2S) policy and direct staff to:

1. Require benefiting property owners to pay a minimum of 20% of project costs
2. Solicit alternative funding options, which include various grants, to cover the remaining project costs
3. Use optional sales tax dollars as needed, not to exceed 25% of project costs
4. Establish a S2S financing interest rate to be the greater of either the maximum of 2% or half of the current BCC approved rate. Current rate is 5% so the S2S rate would be 2.5%.

5. Extend the amortization period from ten years up to a 20-year term and direct staff to work with the Indian River County Tax Collector to add the annual assessment fee to the property tax bill in order to assure a more consistent reimbursement cash flow for the project
6. Offer a S2S impact fee credit of 100% for those property owners who commit to connect to the sewer system before sewer is available to the property. For those property owners that connect within one year from service availability, provide a credit of 50% of the impact fee.