MASTER BUILDERS ASSOCIATION
of King and Snohomish Counties

June 9, 2004

City Council
City of Sultan
PO Box 1199
Sultan, WA 98294

RE: Water and Sewer Facilities Charge

Dear Honorable Council Members:

On behalf of the more than 3,600 members of the Master Builders Association of King and Snohomish Counties, I would like to thank you for the opportunity to comment on the proposed range of options to increase Sultan's water and sewer connection fees.

At this early stage we would like to offer preliminary suggestions for the council to consider as you deliberate on this important issue. Specifically, these comments relate to the importance of vesting, and concerns about the impact of the dramatic increases proposed in the staff report. In addition, we have several questions about the methodology used in the staff report to council dated June 1.

The Importance of Vesting

It is noted in the staff report that, "The historic cost method of calculating facilities charges implies that the calculation can be updated each year." Because of the frequent nature of this increase, it is important for the city to increase the certainty of the fee cost by allowing vesting. Vesting establishes a reasonable point in the process at which the total fee is determined and cannot be changed by subsequent increases to the fee. We recommend that the city include a provision in the final ordinance that establishes the water and sewer facilities charge at the time a development application is deemed complete.

Vesting is crucial from a lending standpoint and its inclusion in the final water and sewer facilities charge is critically important to our members. The primary activity banks perform when entertaining a loan request is to identify risk and then mitigate and manage

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that risk. For development projects, the two basic "risks" are development risk (can the developer construct the project on schedule and on budget?) and marketing risk (can the developer sell the units, lots or houses at a profitable margin and with optimal velocity or absorption?) By far the greater of the two risks from the lender's standpoint is development risk.

Anything that adds uncertainty to a project or its costs adversely impacts the lender's willingness to provide financing. A tenet that all lenders employ is that all costs associated with completing the development are to be known at the time the loan is underwritten, approved and closed. The lender will make one loan covering the entire development which is established with the developer before construction commences. Based on underwriting the perceived risks, the developer will be required to bring cash equity to cover a percentage of the overall estimated budget – ranging from 15% to 25% or more. The more the uncertainty, the higher the equity requirement. This can quickly drive the equity requirement up to hundreds of thousands of dollars or more and limit the pool of developers or property owners capable of meeting these cash requirements.

Vesting of fees and mitigation payments at the time of application or preliminary approval has long provided comfort to lenders that the budget they use to structure a loan is reflective of the ultimate costs necessary to complete the development. Erosion of this principal makes underwriting a loan more challenging and less enticing.

Water and Sewer Facilities Charge Increase

The range of fees proposed in the staff report would dramatically increase the water and sewer facilities charge paid by new development.

For water connection, the fee would increase from $4,400 to between $5,254 and $7,847 per unit. For reference, the comparison chart of neighboring jurisdictions provided by staff shows the average water connection fee is $3,621.

For sewer connection, the fee would increase from $4,496 to between $6,860 and $10,010. The average sewer connection fee for neighboring jurisdictions is $5,177.

The Master Builders Association is not against impact fees, but we ask that they represent a fair allocation of the costs of infrastructure associated with new development. State law is clear on the subject of changes of this nature. RCW 35.92.025 allows a reasonable connection charge so that new homes "bear their equitable share of the costs of such a system." Further, any charges imposed on new development must be strictly tied to their direct impacts and cannot be tied to existing system deficiencies. The dramatic nature of the range of fee increases being proposed for new homes in Sultan raises concerns about fairness, as well as the impact this fee would have on housing availability and affordability in the city.

Fee Methodology
We have several questions that were raised after analyzing the staff report on the proposed fee increase. We feel that answers to these questions would ensure that our members, as well as the council, fully understand the impact of this fee increase.

1. *Will the money collected go toward payment of debt on existing facilities, or toward the expansion of capacity?*
2. *If the fee is being used for the expansion of capacity, what is the projected cost of these facilities?*
3. *What is the remaining capacity of the city's current system?*
4. *What percentage of the cost of facilities is paid for with connection fees compared to ongoing customer charges?*
5. *What is the long-term benefit to the system from a new home (connection fee and ongoing charges combined)?*

Thank you for the opportunity to share our initial comments on the water and sewer facilities charge increase proposal. I look forward to continuing to work with the city on this important issue. If you have any questions, please don't hesitate to contact me directly at (425) 460-8240.

Sincerely,

Brian D. Parry
South Snohomish County Manager
Master Builders Association
Of King and Snohomish Counties

cc: Mr. Rick Cisar, City Administrator
Ms. Connie Dunn, Public Works Director