



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

02-335

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

AGENDA:

SYNOPSIS -

JUNE 17, 2002

Second Reading on the Final Connection Fee Ordinance for the Southeast Airport Trunk Sanitary Sewer.

SUBJECT:

FISCAL IMPACT -

SECOND READING
ON FINAL
CONNECTION FEE
ORDINANCE FOR
SOUTHEAST
AIRPORT TRUNK
SANITARY SEWER

Funding for this project is provided for in the Capital Improvements Program (CIP), account number 377960, Fund EN104, Organization ENG990000, Project/Grant SAE079.

RECOMMENDATION -

Approval.

TYPE:

BACKGROUND -

RESOLUTION
ORDINANCE
RECEIVE/FILE

On May 19, 1997, by Roll Call No. 97-1731, the City Council authorized the City Manager to proceed with the Southeast Airport Trunk Sanitary Sewer project. On January 5, 1998, by Roll Call No. 98-077, the City Council established a connection fee ordinance for a benefited district known as the Southeast Airport Trunk Sanitary Sewer System Benefited District. On June 28, 1999, by Roll Call No. 99-2089, the City Council established a revised connection fee ordinance for the modified Southeast Airport Trunk Sanitary Sewer System Benefited District. The connection fee was revised from \$3,566.49 per acre to \$3,416.31 per acre. The final cost to design and construct the portions of the Southeast Airport Trunk Sanitary Sewer System designed to serve the Southeast Airport Area Trunk Sanitary Sewer System Benefit District is \$1,524,700.52 for a \$2,968.02 per acre connection fee for each of the 513.71 benefited acres within the modified benefited district.

SUBMITTED BY:

JEB E. BREWER, P.E.
CITY ENGINEER

On June 3, 2002, by Roll Call No. 02-1445, the City Council held a public hearing on the final connection fee. At the public hearing, a

question was asked about the interest rate being charged on the connection fee. The proposed Final Connection Fee Ordinance provides for the collection of interest at the rate of 9 percent per annum, simple interest on the initial connection fee, and establishes a connection fee schedule reflecting an annual interest adjustment to the connection fee amount on July 1 each year through year 20. The 9 percent rate of interest is the maximum allowed by Iowa State Code Section 74A.1 et seq., and 384.60(3), and has been applied to all four of the previously approved final connection fees. The 9 percent rate of interest is applied as a simple interest factor to yield an effective annual percentage rate of 5.17 percent over a 20-year period. With simple interest, fixed tables for each area can be developed showing future rates and the variability and negotiating is eliminated at the time of application.

An example of a connection fee calculation structure may include a property owner in this connection fee area who wants sanitary sewer service to their property after July 1 of the first year the connection fee is initiated. The proposed connection fee of \$2,968.02 per acre would apply through June 30 of the first year without any interest adjustment to the connection fee. A second example may include a property owner who wants service to their property in the tenth year after the connection fee was initiated. The connection fee after July 1 of the tenth year would be \$5,372.11 per acre, after the interest adjustments using 9 percent simple interest; this marks an increase of \$2,404.09 over the base connection fee rate. The calculated compounded interest rate for this amount is 6.11 percent.

If the City Council elects to modify the rate structure for the Southeast Airport Trunk Sanitary Sewer System Benefited District, then the readings should be delayed and the property owners noticed of another public hearing to review the revised connection fee program for this district. Consideration should be given to the impact of adjusting the interest rate in one area and maintaining the higher rate in other portions of the community. It may be necessary to adjust the final connection fees in the four districts that have already been established as final rates and currently are growing at a rate of 9 percent simple interest.
