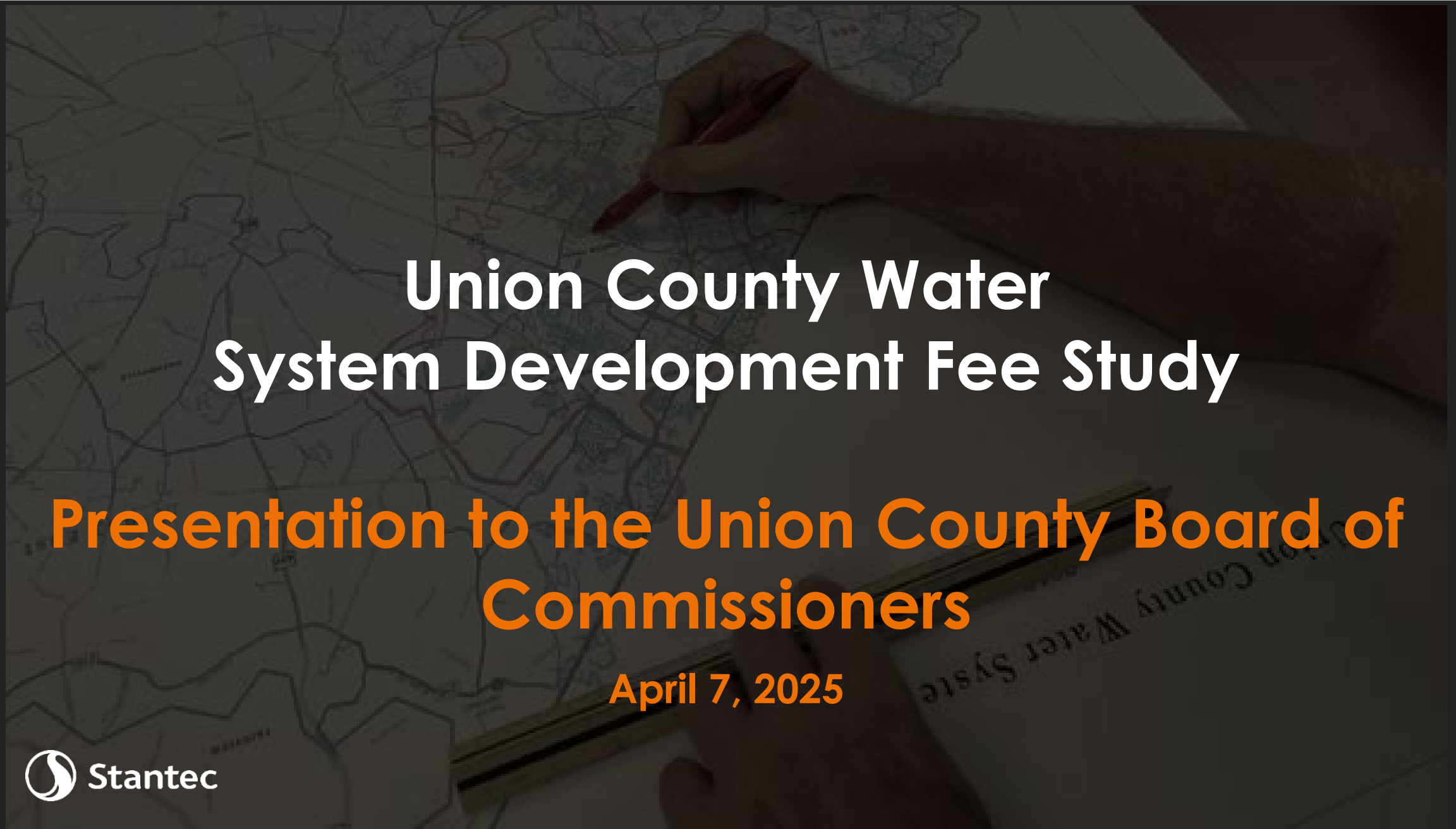


Union County Water System Development Fee Study

Presentation to the Union County Board of Commissioners

April 7, 2025

Stantec

Agenda

1. Union County SDF Background & 2023 Study Refresher
2. North Carolina Public Water & Sewer System Development Fee Act Overview
3. System Development Fee Methodologies & NC Practices
4. Union County 2025 SDF Update
5. Summary and Board Direction

Stantec Financial Services

Focused on utilities

500+
Combined years of experience

1.5K+
Studies in the last 10 years

50+
Specialists in utility financial management

>600
Utilities in our benchmarking database

>400
Communities we have served

$4B+
Debt supported in past five years

10
Years serving Union County

System Development Fee Background

- Governed by General Statute
- Public Water and Sewer System Development Fee Act, also known as House Bill 436 (“HB 436”) was approved in July 2017 and amended in 2018 & 2020
- Some of the requirements include:

  - ✓ Documentation of all facts and data used in fee calculation
  - ✓ Identification of assumptions and limiting conditions
  - ✓ Calculation of fee per service unit (ERU) based on generally accepted eng./planning standards
  - ✓ Include a credit calculation of at least 25% of aggregate cost of “capital improvements”
  - ✓ Cover not less than 5 and no more than 20-year planning horizon
  - ✓ New fees should have 45 days of public comments period
  - ✓ Public hearing required prior to formal adoption
  - ✓ Calculation / analysis update at least every 5 years

Background – 2023 SDF Study

- Analysis completed in April 2023
- SDF studies governed by Public Water & Sewer System Development Fee Act
- Water SDF based on existing system, including construction works in progress
  - Included new Yadkin plant and offsetting principal
- Sewer SDF based on incremental costs/capacity
  - Based entirely on 12 Mile Creek Wastewater Treatment Plant Expansion

Union County Current SDF (3/4” Meter)	
Water Fee	Sewer Fee
$1,678	$6,412

SDF Calculation

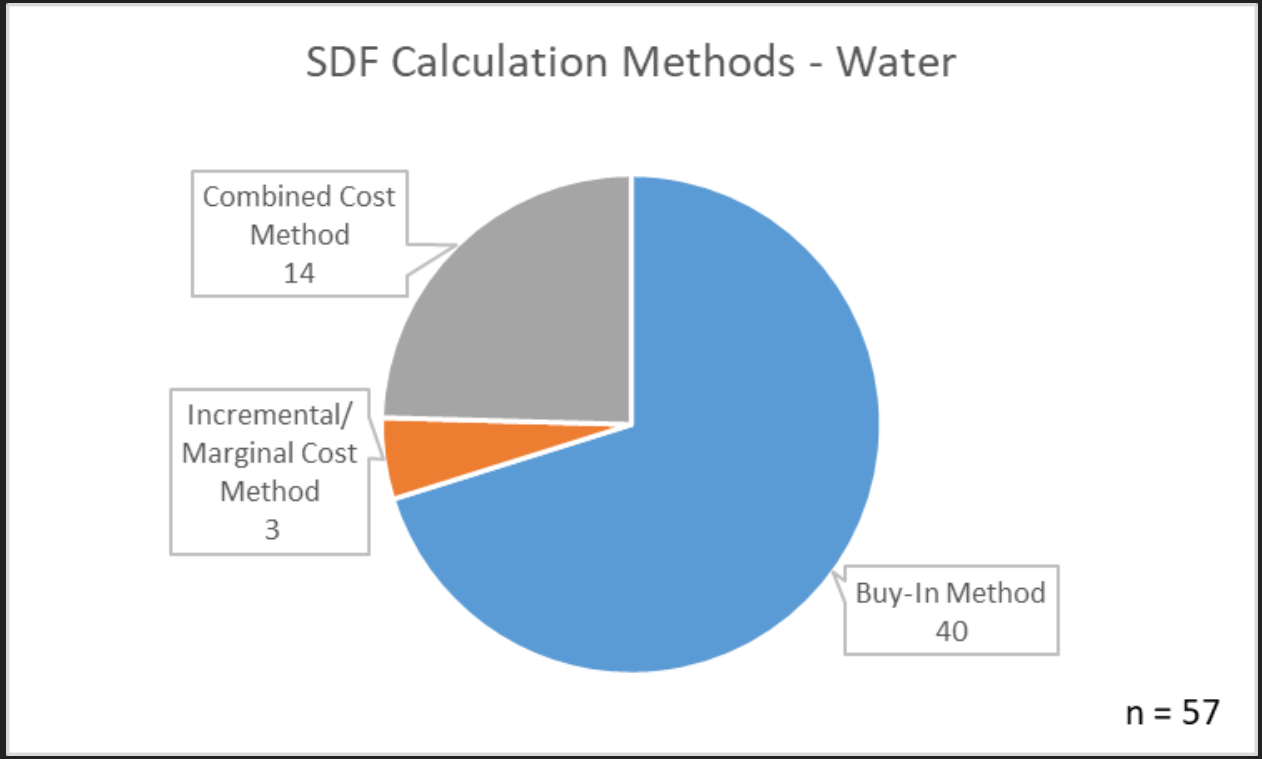
$$\text{System Development Fee} = \frac{\text{Value of System - Credit}}{\text{System Capacity}}$$

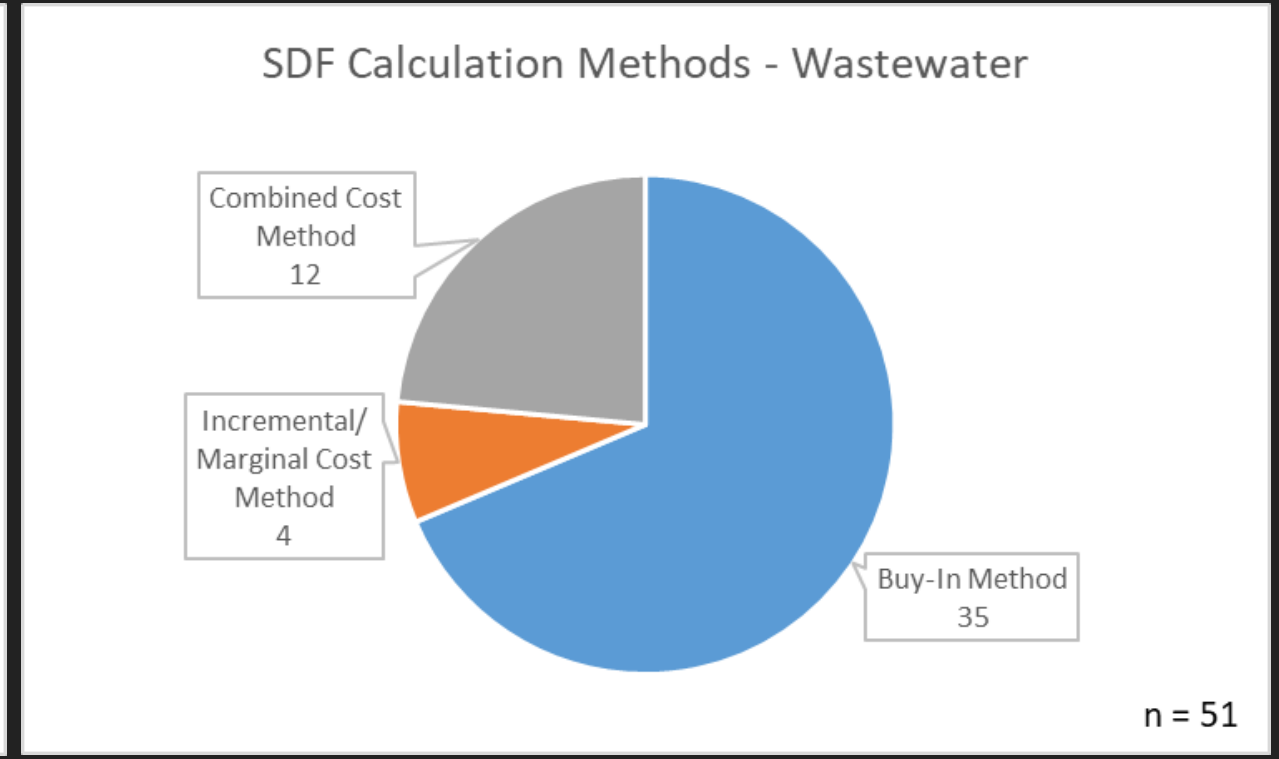
1) Value of Utility System
   - Depreciated value escalated to current replacement cost, and/or
   - Future capital investment
2) Credit
   - Outstanding principal on existing utility debt, grants, contributions
   - Minimum of 25% credit for future capital investment
3) System Capacity
   - Total capacity in utility system, and/or
   - Future capacity

System Development Fee Methodologies

Methodology	Description	Use of System Dev. Fee Revenues	Appropriate For
Buy-In Method	New development shares in capital costs previously incurred that provided capacity for demand arriving with new development needs	Expansion and/or rehabilitation projects. Since the buy-in method reimburses the system for certain past investments, proceeds can be used for all types of capital projects	System with ample existing capacity to sell
Incremental Cost Method	New development share in capital costs to be incurred in the future that will provide capacity for demand arriving with new development needs	Professional services costs in development of new fees and expansion costs (construction costs, debt service, capital, etc.) related to new development only. If no capital projects in next five years, can be used for debt related to existing capital imp.	System with no/very limited existing capacity to sell
Hybrid Method	Fees are based on cost of existing system and planned capital improvements	May be expended for previously completed capital improvements for which capacity exists and for capital rehabilitation projects	System with existing capacity to sell and with significant growth-related capital projects

Survey of SDF Calculation Methodologies

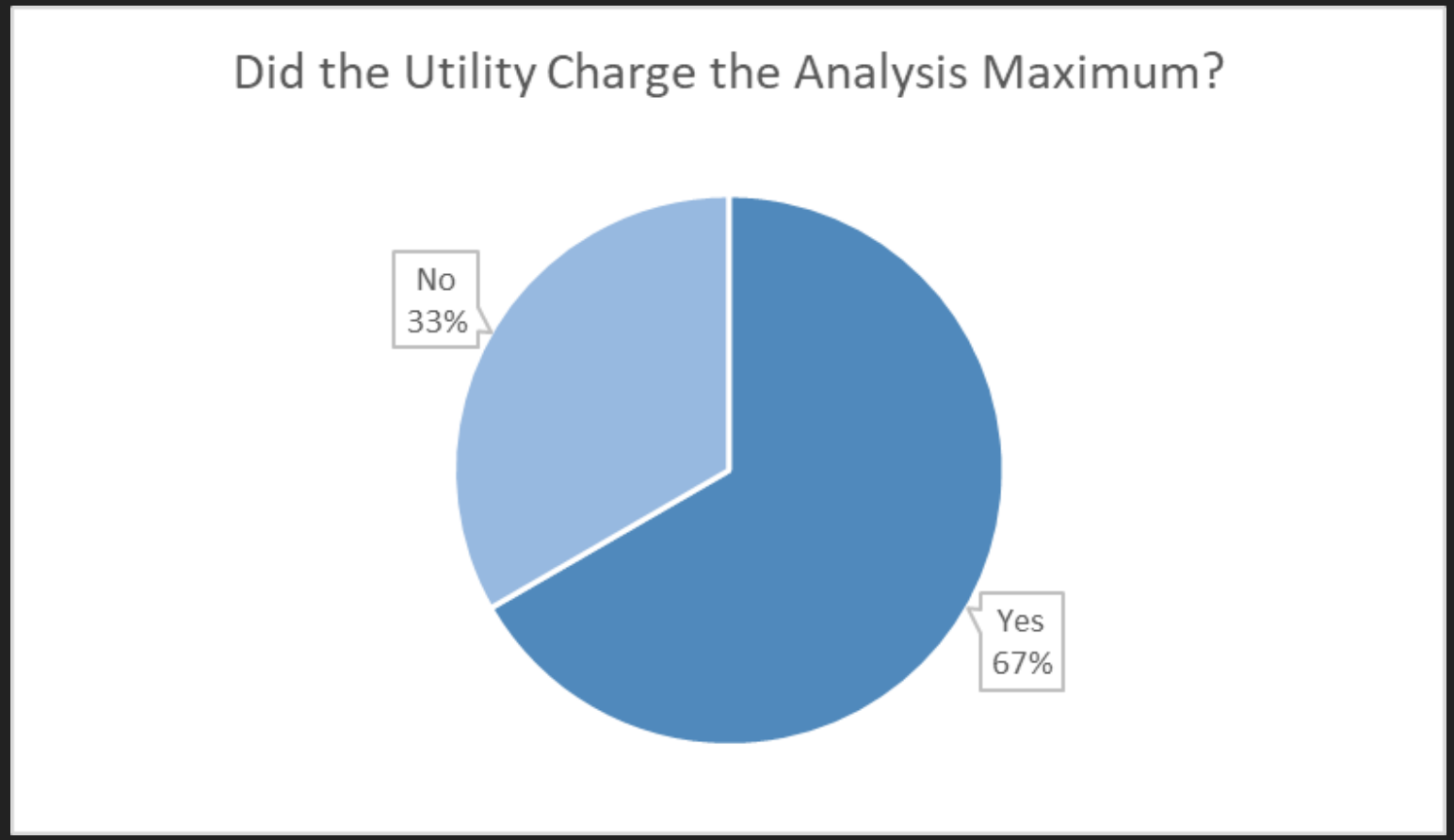




Union County currently uses the Buy-In Method for water and the Incremental Method for sewer

Source: UNC Environmental Finance Center, 2019 Report on System Development Fees in North Carolina

Survey of SDF Maximum Charges



Union County charged the analysis maximum

Source: UNC Environmental Finance Center, 2019 Report on System Development Fees in North Carolina

Union County 2025 SDF Update

Assumptions

- Updated cost basis
  - Assets as of 6/30/2024, plus construction in progress (CWIP)
  - Expansion-related capital from FY 2025 through FY 2031 (7-year CIP)
  - Outstanding debt principal of approximately $420M
  - Includes credit calculation of at least 25% of capital

- Updated system capacity
  - Water existing capacity from Catawba River and Yadkin WTPs – 32 MGD
  - Water incremental capacity from Catawba River WTP Expansion – 8 MGD
  - Sewer existing capacity Water Reclamation Facilities and 12 Mile Creek WWTP – 11.22 MGD
  - Sewer incremental capacity from 12 Mile Creek WWTP Expansion – 1.5 MGD

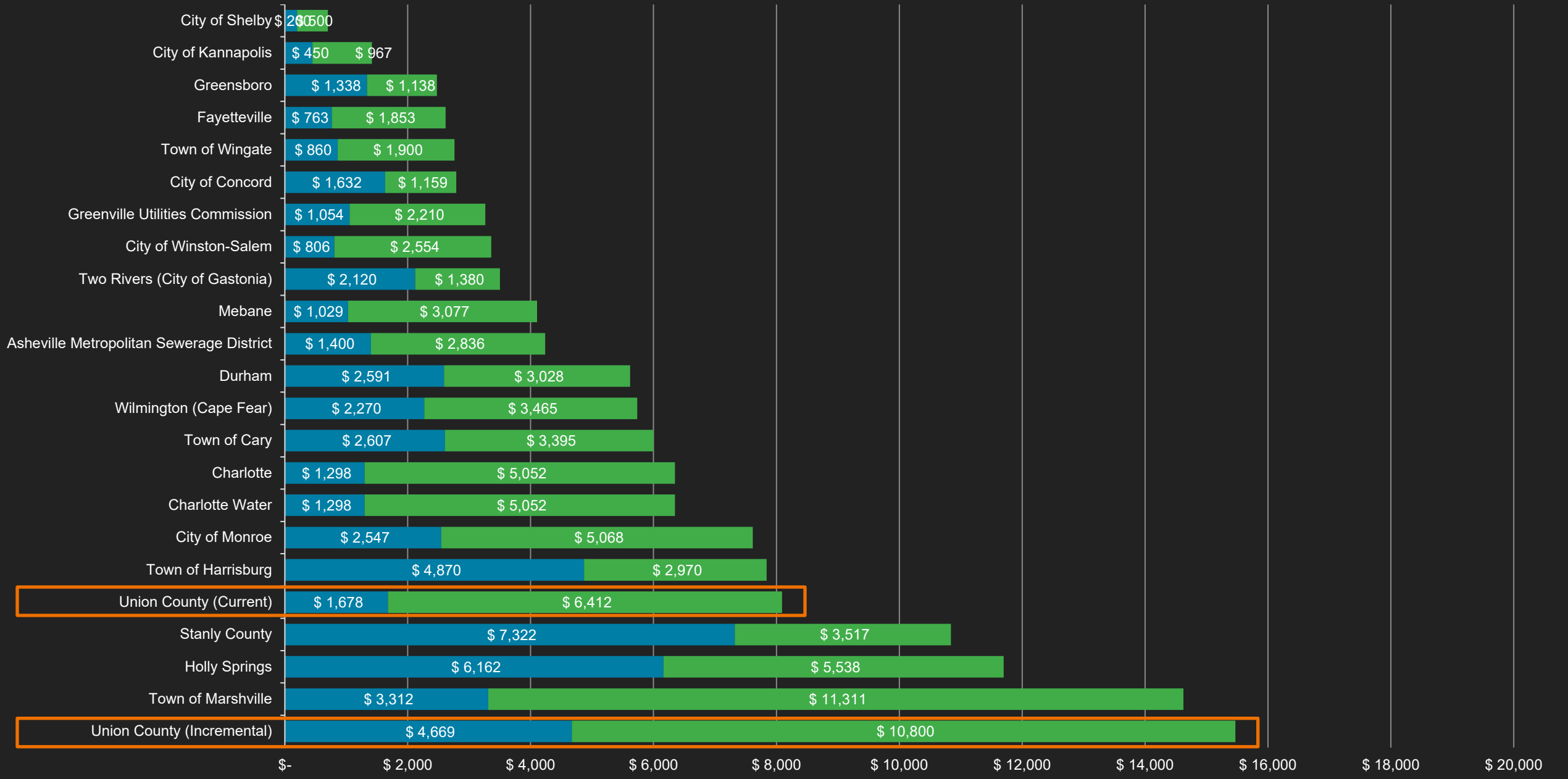
** Note that due to timing, the cost/capacity relating to the 12 Mile Creek WWTP Expansion (7.5 MGD to 9 MGD) has been included as CWIP in the Buy-In and Hybrid methodologies, and future expansion-related capital in the Incremental methodology.*

SDF Calculation: Summary & Recommendation

	Current	Buy-In	Hybrid	Incremental
Water	$1,678	$2,003	$2,414	$4,669
Sewer	$6,412	$4,731	$4,936	$10,800

- Based on the magnitude of expansion-related capital within the current CIP, the incremental method is recommended for both water and sewer
- Incremental method based on the percentage growth provided by major transmission / collection projects, including:
  - East Fork Interceptor Improvements
  - 853 West Zone Transmission Main Phases 3 – 6

Local SDF Survey



Summary & Board Direction

1. Current fees were implemented in 2023 and have been updated based on current system values and capacity.

1. Multiple methodologies were considered. The Incremental method is recommended based on the magnitude of upcoming growth-related capital.

2. UC Water is seeking Board approval on recommended methodology to determine final calculations to include in report:

   - ✓ New fees should have 45 days of public comments period
   - ✓ Public hearing required prior to formal adoption

Questions & Discussion

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