Memo

To: Mayor and Hayden City Council

From: Dulci Kau

Date: November 20, 2026

Agenda Item: Consider Resolution Adopting Capitalization Fee Report

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Agenda Item Location
Old Business

Recommended Action or Motion
Staff recommends authorizing the Mayor to sign the attached resolution adopting the cap fee report adopting the methodology report establishing the fee for connecting to the sewer collection system.

Summary
The attached report provides the methodology and recommended rates for connection to the city's gravity sewer collection system. Council has already adopted the rate with the resolution adopting fees that became effective on October 1. This report provides the methodology for supporting that fee.

Fiscal Impact
This action contains no fiscal impact.

Budget Funding Source / Transfer Request
N/A

Attachment
Resolution

RESOLUTION NO._____

ADOPTING A SEWER CAPITALIZATION FEE UPDATE

WHEREAS Hayden Municipal Code Section 8-1-5 establishes a sewer capitalization fee to be adjusted by resolution; and

WHEREAS the City has accepted a large amount of sewer collection infrastructure and performed a Capitalization Fee Update report with FCS Group which is adopted into this Resolution and incorporated hereby as **Exhibit 1**; and

WHERAS the fee adopted hereby represents the value of share of system capacity tha the new user and/or redeveloping user will utilize; and

WHEREAS the Capitalization Fees shall be used for capital-related obligations only;

NOW THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF HAYDEN, that the sewer capitalization fee authorized by Hayden Municipal Code Section 8-1-5 is hereby established as follows, commencing October 1, 2026:

A. Residential - $13,500 per dwelling unit, including a non-commercial accessory building with a bathroom. The fee comprises $6,522 for collection (city portion) and $6,978 collected by the City that is paid to the Hayden Area Regional Sewer Board for treatment.
B. Commercial/Industrial – Minimum of $13,500 per 6 wastewater units. The fee comprises $6,522 for collection (city portion) and $6,978 collected by the City that is paid to the Hayden Area Regional Sewer Board for treatment.
    1. Flows over each increment of one wastewater unit will be rounded to the next wastewater unit, and will be charged an additional capitalization fee of $2,250, which consists of $1,087 for collection and $1,163 for treatment.

Any fee or Resolution inconsistent or in conflict with the provisions of this Resolution is hereby repealed or superseded to the extent of such conflict, on the effective date of this Resolution.

APPROVED BY THE CITY COUNCIL ON THIS _____ DAY OF _____, 2026

CITY OF HAYDEN

_____
Alan Davis, Mayor

ATTEST:

_____
Abbi Sanchez, Clerk

Exhibit 1

CITY OF HAYDEN

Sewer Collection System Capitalization Fee Update

Submitted by:

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Redmond, WA 98052

Submitted to:

City of Hayden
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October 2026

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Sewer Collection System Capitalization Fee Update

Introduction

The City of Hayden ("City") engaged FCS, a Bowman Company (FCS) to complete a sewer collection system capitalization fee update. The last update was completed in 2019. Since that time, the City has continued to make asset investments with the most significant being the addition of the H-6 sewer basin infrastructure (including the Hayden North and Hayden Canyon developments). These additions also increased the capacity of the sewer collection system. Both the additional investments and increased capacity make it an ideal time to update the capitalization fee.

Overview

Capacity fees are one-time fees for new, or redevelopment used to recover a proportional share of the value of facilities required to provide service. This fee has many names (e.g., capacity fee, new user facility fee, availability fee, equity buy-in fee, capitalization fee, hook up fee, etc.). Fees reflect the most recent asset infrastructure investment, to ensure ongoing equity between existing and new customers. It should be noted that capitalization fees are not intended to fund ongoing O&M expenses, only capital-related obligations. The City currently imposes a sewer collection capitalization fee based on dwelling units for residential and wastewater units (WUs) for commercial/industrial connections. A separate charge is imposed by Hayden Area Regional Wastewater Board for sewer treatment.

The following section discusses the various aspects of the process used to update the sewer collection system capitalization fee.

Approach

The methods used to complete the study are based on analytical principles and practices that are generally accepted and widely followed throughout the industry and State of Idaho – The ultimate goal is cost-based utility fees that represent the proportionate value of the system capacity that the new user will utilize.

Throughout the study, we worked with City staff to arrive at a fee that is representative of the infrastructure investment in the ground and providing service and that comply with legal requirements and adhere to industry best practices. Meetings were held with staff to validate input parameters and review interim findings.

Governing Statutes

The capitalization fee method has had several court challenges that have allowed this method to become well-established. In the case of *Loomis v. City of Hailey (1991),* the Court ruled that the methodology used to determine the value of the system was reasonable. The connection fee was calculated by "dividing the net system replacement value by the number of users the system can support." In *Viking Const., Inc. v. Hayden Lake Irrigation District (2010)*, the Court decided that the statute permitted the district "to charge new users of the domestic water system a connection fee that used an amount equal to the value of that portion of the system capacity that the new user will utilize at that point in time." The Idaho Supreme Court affirmed both approaches again in *North Idaho Building Contractors Association (NIBCA) v. City of Hayden (2015).*

Methodology

The methodology and calculation used for the capacity fee update is based on the interpretation by the Court in the 2015 Idaho Supreme Court Case, *NIBCA v the City of Hayden*. Key components of the connection fee methodology include;

- Determine gross present day replacement value of the existing system.
- Determine net system present day replacement value by subtracting unfunded depreciation and applicable outstanding bond principal from the gross present day replacement value.
- Calculate connection fee by dividing the net system replacement value by the number of users the system can support.

A few key points to understand regarding the capitalization fee methodology include:

- The fee is limited in its calculation of cost to the capacity of replacing existing infrastructure. While any collected fee can be expended on facilities to support future capital investment, the calculation method prevents the City from including costs associated with future facilities not currently used and useful – in other words, constructed and providing service.
- Existing infrastructure is valued at current replacement cost (not original cost).
- The capitalization fee is to be calculated "by dividing the net system replacement value by the number of users the system can support" at that point in time. It is important to understand the system capacity of the current infrastructure in the ground providing service.
- The deduction for outstanding debt principal is made recognizing that new customers will pay for their share of debt service costs through ongoing service rates.

Exhibit 1 provides a summary of the capitalization fee methodology used for this study.

Exhibit 1. Capitalization Fee Methodology

	Gross Present-day Replacement Value of System
Less:	Bond Principal Outstanding
Less:	Unfunded Depreciation
=	Net System Replacement Value for the Current Year
÷	Number of Users Current System can Support
=	**Total Capitalization Fee per Dwelling Unit/Wastewater Unit (WU)**

Capacity Fee Calculation

The sewer collection system capitalization fee calculation used to establish the fee for the City includes the following key elements and data sources.

Gross Present-Day Replacement Value

The gross present day replacement value was determined by identifying all existing facilities utilized to provide sewer collection service to customers as of September 30, 2025. Important considerations for this part of the equation include:

- Sewer assets include land, lift stations, gravity & pressure pipe, and manholes.
- Accounting booked asset records reviewed and/or provided by City established original cost values.
- Collection system gravity pipe, pressure pipe and manhole detail (type, size, length, and year installed) provided by City. Analysis summarized and calculated current day replacement cost by type and year for the calculation.
- Eligible asset replacement cost values for each asset were calculated by applying an Engineering News Record (ENR) construction cost index (CCI) ratio to the original cost of the asset. The ENR CCI 2025 value was used to determine replacement cost. The difference in the CCI between the installation year and the 2025 value determines the multiplier applied to the original cost of the asset, ultimately deriving the current day replacement cost.

Total gross present-day sewer collection system replacement value = $133.1 million as shown in **Exhibit 2**.

Exhibit 2. Gross Present-day Sewer Collection System Replacement Value

Asset Type	Eligible Replacement Cost	
Land	$	1,334,300
Collection System	$	113,870,400
Lift Stations	$	17,890,300
Total	**$**	**133,095,000**

Bond Principal

The methodology allows a deduction for outstanding bond principal which represents the unpaid value of the system. Debt service is paid for through user fees and therefore should be deducted from the system replacement value, so it is not double charged – once in rates and once in the capitalization fee.

The City has one (1) outstanding Department of Environmental Quality (DEQ) loan. The outstanding bond principal as of 2026 is $9.6 million.

Unfunded Depreciation

Unfunded depreciation is another allowable deduction identified in the methodology. The Supreme Court ruling did not provide a specific definition for unfunded depreciation. The calculation that is commonly used to respond to this deduction is the original cost accumulated depreciation. This is a fairly conservative approach as it is unlikely that all accumulated depreciation is unfunded thus resulting in the largest deduction.

The annual depreciation is calculated using the actual booked or estimated original cost of each asset divided by the useful life of each asset. The result of this calculation is annual straight-line depreciation. Depreciation accumulates each year until the full original cost is reached. The useful lives used for system assets include collection pipes at 60 years, lift station structures at 40 years, and lift station equipment/pumps electrical at 10-20 years. Land values do not depreciate.

The original cost accumulated depreciation is estimated at $21.5 million.

Net Present-Day Replacement Value

Exhibit 3 summarizes the net present day system replacement value by deducting applicable outstanding bond principal and original cost accumulated depreciation values. The net present day system replacement value is calculated at $102 million.

Exhibit 3. Net Present-Day Sewer Collection System Replacement Value

	Gross Present-day Replacement Value of System	**$ 133,095,000**
Less:	Bond Principal Oustanding	(9,572,900)
Less:	Unfunded Depreciation	(21,515,900)
=	**Net System Replacement Value for the Current Year**	**$ 102,006,200**

System Capacity

A key component of the connection fee calculation is determining the number of users the system can support. In Hayden, overall sewer collection system capacity is determined by the ability of the system to reliably deliver wastewater to the Hayden Area Regional Sewer Board treatment plant. Collection system capacity was determined by the most limiting component serving the basin which can be gravity piping upstream of a lift station, the firm pumping plant capacity of each lift station or the force main piping leading to the treatment plant. JUB Engineers provided the system capacity used in this analysis in the *June 2026 City of Hayden Sewer Collection System Capacity* letter. The end of calendar year 2025 sewer collection system capacity in Table 1 of the letter identified 1,874 gallons per minute average rated flow capacity. This translates to 2.699 million gallons per day or 15,646 equivalent resident (ER) units assuming a flow rate per ER of 172.5 gallons per day. Total system capacity in wastewater units (WUs) is 93,878 – one ER is equal to six (6) WUs.

The Supreme Court methodology references the connection fee calculation as "dividing the net system replacement value by the number of users the system can support." In other words, the capacity must be calculated based on the number of customers the existing system can serve. The existing system being defined as the infrastructure in the ground today and with any infrastructure limitations. **Exhibit 4** calculates the current system capacity.

Exhibit 4. Total Sewer Collection System Capacity

Existing System Capacity (MGD)	**2.699**
Flow per ER (gallons per day)	**172.5**
Total System Capacity (ERs)	**15,646**
Total System Capacity (WUs)	**93,878**

Total Capitalization Fee

The sewer collection system capitalization fee is calculated by taking the net present day replacement value and dividing it by the existing system capacity. The calculated capacity fee results in a maximum fee of $1,087 per WU or $6,522 per ER (6 WUs = 1 ER).

Exhibit 5. Calculated Maximum Sewer Collection System Capitalization Fee

Capitalization Fee		Total
Net System Replacement Value	$	102,006,200
Capacity		93,878
TOTAL CAPITALIZATION FEE PER WU	**$**	**1,087**
TOTAL CAPITALIZATION FEE PER ER*	**$**	**6,522**

The current capacity fee charged by the City is $874 per WU or $5,244 per ER. The calculated maximum charge of $1,087 per WU and $6,522 per ER is an increase of $213 and $1,278, respectively.

The analytical approach described above completes the capitalization fee update for the City. The calculated charge represents the legally defensible maximum fee that may be imposed for new connections to the sewer collection system. The City has the option to set the fee less than the maximum or consider a multi-year phase-in strategy to minimize fee impacts – however, not setting the fee to the maximum will result in less cash being available for capital purposes and not recovering the value of the infrastructure investments made to the system possibly shifting responsibility on existing users of the system.

It is strongly recommended that the City recalculate their capitalization fee upon completion of major projects to maintain full representation of system value as assets are placed into service.

City Council Resolution

On September 29, 2026, the City Council of the City of Hayden approved the sewer collection system capitalization fee under Resolution No. 2026-12 Schedule of Fees for Services Provided, effective October 1, 2026, as presented by FCS on September 22, 2026.

Appendix A | Summary of Capitalization Fee Calculation

Capitalization Fee

System Replacement Value		Total
Land	$	1,334,300
Collection System		113,870,400
Lift Stations		17,890,300
Gross Replacement Value	$	133,095,000
less: Outstanding Debt Principal		(9,572,900)
Original less: Original Cost Accumulated Depreciation		(21,515,900)
NET SYSTEM REPLACEMENT VALUE	**$**	**102,006,200**

Customer Base	Total
Collection System Capacity (MGD)	2.699
Definition of ER (gpd)	172.50
TOTAL CAPACITY (ERs)	**15,646**
TOTAL CAPACITY (WUs)	**93,878**

Capitalization Fee		Total
Net System Replacement Value	$	102,006,200
Capacity		93,878
TOTAL CAPITALIZATION FEE PER WU	**$**	**1,087**
TOTAL CAPITALIZATION FEE PER ER*	**$**	**6,522**

**ER charge = WU*6*