



REQUEST FOR PROPOSALS (RFP)

Understanding the Practices, Policies, and Impacts of System Development Fees and Upgrade Requirements (5302)

Date Posted

Monday, September 9, 2024

Due Date

Proposals must be received by 3:00 pm Mountain Time on Thursday, November 14, 2024

WRF Project Contact

Sydney Samples, ssamples@waterrf.org

Project Sponsors

This project is funded by The Water Research Foundation (WRF) as part of WRF's Research Priority Program.

Project Objectives

- Conduct a representative sample of system development fees under different utility ownership and governance structures (i.e. municipal utility vs. private utility, water vs. sanitary vs. storm).
- Outline which states have state-enabling legislation that dictates what they can do with system development fees.
- Investigate the different system development fee methodologies utilized by utilities and their impact on their existing ratepayers and new customer base.
- Evaluate the pros/cons of different methods of collecting funds from developers.
- Evaluate the differences in pay-as-you-go approaches vs. depreciation accounting and ratemaking practices (terminology differences, tax implications, etc.) and how this impacts the magnitude of development fees collected and practices used in the community to validate that the funds collected are used for growth related assets.

Budget

Applicants may request up to \$175,000 in WRF funds for this project.

Background and Project Rationale

The economic realities, state statutes, and case laws of communities across North America vary. With this comes great diversity in the policies and practices related to further developing communities. For water and wastewater utilities, this comes in the form of system development fees or requirements to construct infrastructure. These fees/requirements are

charged to help pay for costs of servicing new development. Utilities charge these fees to ensure that utility construction costs are borne by developers. Fees may also be collected from developers over a longer period to fund either new or upgraded infrastructure to secure long-term growth, or a developer may be required to construct or upgrade infrastructure and donate the asset to the utility in lieu of—or in addition to—a system development fee. This is where the term “Growth Pays for Growth” comes from. In theory, the fee(s) that utilities charge developers fully covers the utility’s cost of extending or upgrading the infrastructure necessary to meet the development’s needs. In practice, most system development fees are implemented quite differently, driven by local policy, and often not to the extent described above. There is no magic money; ultimately, the funds come from the community served either via increased rates, taxes, or embedded in the purchase price of developed property. Comprehensive financial planning is critical to establishing financial resilience to manage changes in the economic, operating, and regulatory environment.

This is a complicated issue, and there are many perspectives on how utilities should handle system development fees. To date, there is a considerable body of position papers coming out on this topic from the perspective of developers and affordable housing advocates, both in support of lower system development fees. For developers, lower development fees reduce the cost of doing business and incentivize economic growth. For affordable and workforce housing advocates, lower development fees may translate to lower costs of housing units. They advocate for the burden of the development to be stretched out across the entire community rate base, so the low-income residents are less impacted.

In addition, water conservation and infill development of existing communities has led to a less clear delineation of upgrades that are required to support growth in the community as the asset upgrades are often also aligned with infrastructure renewal within existing neighborhoods. This impacts the ability for a community to determine what a development fee should be and how it would be applied to an infill versus greenfield development parcel.

Research is needed on system development fees from the perspective of the utility and the impacts it has on their ratepayers (high, middle, and low-income). This research will fill a much-needed gap and provide utilities with information on the different approaches to enacting utility development fees and their impact on the developers and existing ratepayers. A framework will be developed that will help utilities determine which policy option best meets their community needs and values, and the impact of the policy on their ratepayers today and into the future. Environmental justice, in the form of customer equity, will be a major consideration of this project.

Research Approach

Proposers should describe how they will conduct the research to meet the objectives listed above. The following approach is intended as a starting point and describes the minimum requirements.

To gain an understanding of existing system development fees and infrastructure requirements, the proposers should 1) conduct a literature review to identify existing system development fee methodologies, 2) investigate state-enabled legislation for system development fees, and 3) collect utility data and survey responses on their utility's system development fees, infrastructure requirements, and rate structures. The proposers should strive to conduct a representative sample of system development fees under different utility governance structures (i.e. municipal utility vs. private utility and water vs. wastewater vs. stormwater) and of various sizes. Both infill and greenfield system development fees and requirements should be considered. Unique or novel approaches to system development fees and infrastructure requirements should be included. In-depth interviews should be performed on a smaller subset of survey respondents if additional information is needed. Proposers should consider not charging development fees to be one of the methodology types.

Once the range of system development fee methodology options is identified, the proposers should perform an analysis of the different methodologies and evaluate their impact on their existing ratepayer customer classes and new customer base. Each methodology evaluation should consider the financial, accounting, economic, ratemaking, customer equity, and legal implications of the policy. The investigation should also consider if the type of utility, utility governance structure, and/or utility size changes the fee's impact on existing and new customers. Proposers should also investigate the impact a utility's rate structure has on the impact of system development fees for low-income ratepayers. Based on the results, the proposers should identify the pros and cons of each methodology using the evaluation criteria and identify what situation the methodology would be optimally applied.

Additionally, the proposer should evaluate the pros and cons of different financial methods of collecting funds from developers and evaluate the differences in pay-as-you-go approaches vs. depreciation accounting and ratemaking practices (including investigating terminology differences and tax implications). Proposers should, at a minimum, investigate the following four methodologies:

1. Buy-In Approach: New customers pay a set amount per connection equal to the equity in the utility system attributable to existing customers.
2. Incremental Cost Approach: New customers pay their embedded share of expansion cost per connection.
3. Combined System or Hybrid Approach: New customers must pay the cost of their proportionate share of existing capacity (buy-in) and new capacity available to serve new growth (incremental).
4. No Fee Approach: The utility collects no direct system development fee, and the costs are spread across the existing rate base or state/federal funding is used to fund development.

They should then determine how the chosen methodology impacts the magnitude of development fees collected and practices used in the community to ensure the funds are used for growth-related assets.

Expected Deliverables

- Research Report (must use WRF's [Research Report Template](#))
- Literature Review
- Case Studies
- Utility Survey Results
- Webcast

Other optional deliverables may include, but are not limited to:

- White paper
- Conference presentation(s)

Communication Plan

Please review WRF's [Project Deliverable Guidelines](#) for information on preparing a communication plan. Conference presentations, webcasts, peer-reviewed publication submissions, and other forms of project information dissemination are typically encouraged.

Project Duration

The anticipated period of performance for this project is 18 months from the contract start date.

References and Resources

The following list includes examples of research reports, tools, and other resources that may be helpful to proposers. It is not intended to be comprehensive, nor is it a required list for consideration.

2017. *Technical Report: M1 Principles of Water Rates, Fees and Charges Seventh Edition*. Denver, Colorado: American Water Works Association.

Proposal Evaluation Criteria

The following criteria will be used to evaluate proposals:

- Understanding the Problem and Responsiveness to RFP (maximum 20 points)
- Technical and Scientific Merit (maximum 30 points)
- Qualifications, Capabilities, and Management (maximum 15 points)
- Communication Plan, Deliverables, and Applicability (maximum 20 points)
- Budget and Schedule (maximum 15 points)

PROPOSAL PREPARATION INSTRUCTIONS

Proposals submitted in response to this RFP must be prepared in accordance with WRF's [Guidelines for Research Priority Program Proposals](#) and [Instructions for Budget Preparation](#). These guidelines contain instructions for the technical aspects, financial statements, indirect costs, and administrative requirements that the applicant must follow when preparing a proposal.

Proposals that include the production of web- or software-based tools, such as websites, Excel spreadsheets, Access databases, etc., must follow the criteria outlined for web tools presented in the [Technology Deliverables Guidance](#).

Eligibility to Submit Proposals

Proposals will be accepted from both U.S.-based and non-U.S.-based entities, including educational institutions, research organizations, governmental agencies, and consultants or other for-profit entities.

WRF's Board of Directors has established a [Timeliness Policy](#) that addresses researcher adherence to the project schedule. Researchers who are late on any ongoing WRF-sponsored studies without approved no-cost extensions are not eligible to be named participants in any proposals. Direct any questions about eligibility to the WRF project contact listed at the top of this RFP.

Administrative, Cost, and Audit Standards

WRF's research program standards for administrative, cost, and audit compliance are based upon, and comply with, Office of Management and Budget (OMB) Uniform Grants Guidance (UGG), 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and 48 CFR 31.2 Contracts with Commercial Organizations. These standards are referenced in WRF's [Guidelines for Research Priority Program Proposals](#) and include specific guidelines outlining the requirements for indirect cost negotiation agreements, financial statements, and the Statement of Direct Labor, Fringe Benefits, and General Overhead. Inclusion of indirect costs must be substantiated by a negotiated agreement or appropriate Statement of Direct Labor, Fringe Benefits, and General Overhead. Well in advance of preparing the proposal, your research and financial staff should review the detailed instructions included in WRF's [Guidelines for Research Priority Program Proposals](#) and consult the [Instructions for Budget Preparation](#).

Budget and Funding Information

The maximum funding available from WRF for this project is \$175,000. The applicant must contribute additional resources equivalent to at least 33% of the project award. For example, if an applicant requests \$100,000 from WRF, an additional \$33,000 or more must be contributed by the applicant. Acceptable forms of applicant contribution include cost share, applicant in-kind, or third-party in-kind that comply with 2 CFR Part 200.306 cost sharing or matching. The applicant may elect to contribute more than 33% to the project, but the maximum WRF funding

available remains fixed at \$175,000. Proposals that do not meet the minimum 33% of the project award will not be accepted. Consult the [Instructions for Budget Preparation](#) for more information and definitions of terms.

Period of Performance

It is WRF's policy to negotiate a reasonable schedule for each research project. Once this schedule is established, WRF and its sub-recipients have a contractual obligation to adhere to the agreed-upon schedule. Under WRF's [No-Cost Extension Policy](#), a project schedule cannot be extended more than nine months beyond the original contracted schedule, regardless of the number of extensions granted.

Utility and Organization Participation

WRF encourages participation from water utilities and other organizations in WRF research. Participation can occur in a variety of ways, including direct participation, in-kind contributions, or in-kind services. To facilitate their participation, WRF has provided contact information, on the last page of this RFP, of utilities and other organizations that have indicated an interest in this research. Proposers are responsible for negotiating utility and organization participation in their particular proposals. The listed utilities and organizations are under no obligation to participate, and the proposer is not obligated to include them in their particular proposal.

Application Procedure and Deadline

Proposals are accepted exclusively online in PDF format, and they must be fully submitted before 3:00 pm Mountain Time on Thursday, November 14, 2024.

The online proposal system allows submission of your documents until the date and time stated in this RFP. To avoid the risk of the system closing before you press the submit button, do not wait until the last minute to complete your submission. Submit your proposal at <https://forms.waterrf.org/cbruck/rfp-5302>.

Questions to clarify the intent of this RFP and WRF's administrative, cost, and financial requirements may be addressed to the WRF project contact, Sydney Samples at 571.384.2108 or ssamples@waterrf.org. Questions related to proposal submittal through the online system may be addressed to Caroline Bruck at 303.347.6118 or cbruck@waterrf.org.

Utility and Organization Participants

The following utilities have indicated interest in possible participation in this research. This information is updated within 24 business hours after a utility or an interested organization submits a volunteer form, and this RFP will be re-posted with the new information. **(Depending on your settings, you may need to click refresh on your browser to load the latest file.)**

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