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City of Hamlet, North Carolina

PUBLIC NOTICE

NOTICE OF INTENT TO ADOPT FY 2025-2026 WATER AND SEWER SYSTEM DEVELOPMENT FEES

NOTICE IS HEREBY GIVEN, pursuant to N.C.G.S. §162A, Article 8 – “System Development Fees,” that the CITY OF HAMLET intends to consider the adoption of updated Water and Sewer System Development Fees (SDFs) for Fiscal Year 2025-2026.

The City engaged Raftelis Financial Consultants, Inc. to prepare a System Development Fee Report dated October 23, 2025, which establishes cost-justified, equitable, and legally compliant one-time charges assessed to new water and/or sewer customers for their use of system capacity.

Availability for Public Review

The draft *System Development Fee Report* will be available for public inspection beginning November 13, 2025, and will remain open for review for a period of no less than forty-five (45) days. Copies may be viewed at:

- City Hall, 201 Main Street, Hamlet, NC 28345
- City Website: www.hamletnc.us (Home Page)

Public Comment Period

Written public comments will be accepted through December 30, 2025, and may be submitted to:

T. John Terziu, MA, CPM, CZO
City Manager
City of Hamlet
201 W. Main Street, Hamlet, NC 28345
Email: jterziu@hamletnc.us

All comments received will be reviewed and considered by City Council prior to final adoption.

Public Hearing and Council Consideration

Following the 45-day comment period, the City Council will hold a Public Hearing to consider adoption of the proposed FY 2025-2026 Water and Sewer System Development Fees on:

DATE: January 12, 2026

TIME: 6:00 p.m.

LOCATION: Hamlet City Hall Council Chambers, 201 W. Main Street, Hamlet, NC 28345

If adopted, the updated System Development Fees will take effect on January 12, 2026.

For more information, please contact the City Manager's Office at (910) 582-2651.

BY ORDER OF THE HAMLET CITY COUNCIL
T. JOHN TERZIU, MA, CPM, CZO CITY MANAGER
CITY OF HAMLET, NORTH CAROLINA

DATE OF PUBLICATION: November 13, 2025

October 23, 2025

Mr. John Terziu
City Manager
City of Hamlet
201 Main Street
Hamlet, NC 28345

Subject: FY 2026 Water and Sewer System Development Fees DRAFT

Dear Mr. Terziu:

Raftelis Financial Consultants, Inc. (“Raftelis”) has completed an evaluation to develop cost-justified water and sewer system development fees for fiscal year (“FY”) 2026 for consideration by the City of Hamlet (“City”). This report documents the results of the analysis, which was based on an approach for establishing system development fees set forth in North Carolina General Statute 162A Article 8 – “System Development Fees.” The purpose of this report is to summarize Raftelis’ conclusion related to cost justified water and sewer system development fees.

The preparation of this report was developed by Raftelis for the City based on a specific scope of work agreed to by both parties. The scope of Raftelis’ work consisted of completing a calculation of cost justified water and sewer system development fees using common industry practices and industry standards. We provide no opinion on the legality of the system development fees implemented by the City. It is the responsibility of the City to ensure compliance of the system development fees with North Carolina General Statute 162A Article 8 – “System Development Fees.”. The scope of work did not include any additional work other than the calculation associated with the system development fees, such as opinions or recommendations on the administration of these fees, the timing and use application of revenues from the collection of these fees, etc., as that is the responsibility of the City.

In developing the conclusions contained within this report, Raftelis has relied on certain assumptions and information provided by the City, who is most knowledgeable of the water and sewer system, its finances, etc. Raftelis has not independently verified the accuracy of the information provided by the City. We believe such sources are reliable and the information obtained to be reasonable and appropriate for the analysis undertaken and the conclusions reached. The conclusions contained in this report are as of the stated date, for a specific use and purpose, and made under specific assumptions and limiting conditions. The reader is cautioned and reminded that the conclusions presented in this report apply only as to the effective date indicated. Raftelis makes no warranty, expressed or implied, with respect to the opinions and conclusions contained in this report. Any statement in this report involving estimates or matters of opinion, whether or not specifically designated, are intended as such, and not as representation of fact.

Background

System development fees are one-time charges assessed to new water and/or sewer customers for their use of system capacity and serve as an equitable method by which to recover up-front system capacity costs from those using the capacity. North Carolina General Statute 162A Article 8 (“Article 8”) provides for the uniform authority to implement system development fees for public water and sewer systems in North Carolina and was passed by the North Carolina General Assembly and signed into law on July 20, 2017, and has been modified since adoption. According to the statute, system development fees are required to be adopted in accordance with the conditions and limitations of Article 8, and the fees are required to conform to the requirements set forth in the Article. In addition, the system development fees must also be prepared by a financial professional or licensed professional engineer, qualified by experience and training or education, who, according to the Article, shall:

- Document in reasonable detail the facts and data used in the analysis and their sufficiency and reliability.
- Employ generally accepted accounting, engineering, and planning methodologies, including the buy-in, incremental cost or marginal cost, and combined cost methods for each service, setting forth appropriate analysis to the consideration and selection of an approach appropriate to the circumstances and adapted as necessary to satisfy all requirements of the Article.
- Document and demonstrate the reliable application of the methodologies to the facts and data, including all reasoning, analysis, and interim calculations underlying each identifiable component of the system development fee and the aggregate thereof.
- Identify all assumptions and limiting conditions affecting the analysis and demonstrate that they do not materially undermine the reliability of conclusions reached.
- Calculate a final system development fee per service unit of new development and include an equivalency or conversion table for use in determining the fees applicable for various categories of demand.
- Consider a planning horizon of not less than five years, nor more than 20 years.
- Use the gallons per day per service unit that the local government unit applies to its water or sewer system engineering for planning purposes for water or sewer, as appropriate, in calculating the system development fee.

This letter report documents the results of the calculation of water and sewer system development fees for FY 2026 in accordance with these requirements. In general, system development fees are calculated based on (1) a cost analysis of the existing or planned infrastructure that is in place, or will be constructed, to serve new capacity demands, and (2) the existing or additional capacity associated with these assets. Article 8 is relatively explicit in the identification of infrastructure assets that may be included as part of the system development fee calculation, as the Article defines allowable assets to include the following types, as provided in Section 201: *“A water supply, treatment, storage, or distribution facility, or a wastewater collection, treatment, or disposal facility providing a general benefit to the area that facility serves and is owned or operated, or to be owned or operated, by a local governmental unit. This shall include facilities for the reuse or reclamation of water and any land associated with the facility.”*

Therefore, the method used to calculate system development fees for the City included system facility assets that satisfied this definition.

Article 8 references three methodologies that can be used to calculate system development fees. These include the buy-in method, the incremental cost method, and the combined cost method. A description of each of these methods is included in the following paragraphs:

Capacity Buy-In Method:

Under the Capacity Buy-In Method, a system development fee is calculated based on the proportional cost of each user's share of existing system capacity. This approach is typically used when existing facilities can provide adequate capacity to accommodate future growth. The cost of capacity is derived by dividing the estimated value of existing facilities by the current capacity provided by existing facilities. Adjustments to the value of existing facilities are made for developer contributed assets, grant funds, and outstanding debt.

Incremental Cost Method:

Under the Incremental Cost (or Marginal Cost) Method, a system development fee is calculated based on a new customer's proportional share of the incremental future cost of system capacity. This approach is typically used when existing facilities have limited or no capacity to accommodate future growth. The cost of capacity is calculated by dividing the total cost of growth-related capital investments by the additional capacity provided as a result of the investments.

Combined Method:

Under the Combined Method, a system development fee is calculated based on the blended value of both the existing and expanded system capacity. As such, it is a combination of the Capacity Buy-In and Incremental Cost methods. This method is typically used when existing facilities provide adequate capacity to accommodate a portion of the capacity needs of new customers, but where significant investment in new facilities to address a portion of the capacity needs of future growth is also anticipated, or where some capacity is available in parts of the existing system, but incremental capacity will be needed for other parts of the system to serve new customers at some point in the future.

Based on a review of the data and discussions with City staff, the water treatment plant facilities have capacity to accommodate future growth. As such, it was determined the most appropriate methodology to use for the water system development fee is the *Buy-In* approach. On the sewer side, the City has reached maximum capacity in its current system, and is under state mandate to expand its wastewater treatment plant. Therefore, it was determined that the *Marginal Incremental* approach was most appropriate for the sewer system development fee methodology. The steps used to calculate the system development fees are provided below.

Fee Calculation – Existing System Value (Buy-In)

Step 1 – Estimate the Replacement Value of System Facilities and Apply Adjustments

A listing of fixed assets provided by the City, as of June 30, 2024, was reviewed and each individual asset was categorized into one of the categories shown in Table 1.

Table 1. Fixed Asset Categories

System Assets
Heavy Equipment
Infrastructure
Land
Light Equipment
Plants & Distribution System
Vehicles

Assets related to vehicles and other “non-core assets” were excluded from the calculation of system value as these assets were not specifically identified as allowable under Article 8. Excluded assets included those relating to administrative and miscellaneous type buildings, leases, and various types of equipment.

Next, the replacement value of existing assets in allowable categories was estimated. Each asset’s net book value was escalated to 2024 dollars based on the year the asset was purchased and the corresponding escalation factor for that year, resulting in the replacement cost new less depreciation (“RCNLD”) value of the system. Escalation factors for each year were developed using the Handy-Whitman index, which is an industry accepted method by which to value system facilities. The estimated RCNLD values for the water system assets allowable under Article 8 are summarized in Table 2.

Table 2. Water System Value (RCNLD)

System Descriptions	Water RCNLD
Heavy Equipment	\$61,928
Infrastructure	61,157
Land	123,857
Light Equipment	68,056
Plants & Distribution System	3,750,091
Vehicles	179,701
Total	\$4,244,790

As shown in Table 2, the RCNLD value of the water system was estimated to be approximately \$4.2 million. Several additional adjustments were considered to the estimated water system RCNLD value in accordance with Article 8, as described below.

Developer Contributed/Grant Funded Assets:

Assets contributed by or paid for by developers should be deducted from the calculation since these costs were not “paid” by the existing customers. Similarly, grant funded assets should also be excluded. There were no developer or grant funded assets in the fixed asset information provided, and therefore no adjustments were made.

Debt Credit:

Utilities often borrow funds to construct assets, and revenues from retail rates and charges can be used to make the payments on these borrowed funds. To ensure that new customers are not being double charged from these assets, once through the system development fee and again through retail rates and charges, a debt credit should be included in the calculation. The debt credit reflects the outstanding debt principal

associated with the water system facilities. Currently, the City has no debt service related to water projects and therefore no credit was applied.

The resulting adjustments to the water system RCNLD values are summarized in Table 3.

Table 3. Calculation of Existing Water System Value

Description	Water Amount
System Assets:	
System Facilities RCNLD	\$4,244,790
Less: Non-Core Assets	(309,685)
Less: Developer Contributed/Grant Funded Assets	(-)
Less: Outstanding Debt Principal	(-)
Net Water System Value	\$3,935,104

Step 2 – Calculate the Unit Cost of System Capacity

The cost per unit of system capacity was calculated by dividing the adjusted RCNLD value (derived in Step 1) by the system capacity. The City of Hamlet currently has a total water treatment capacity of 3.00 MGD. Therefore, the cost per unit of system capacity for the existing water system was calculated to be \$1.31 per gallon, per day (\$3.9 million ÷ 3.00 MGD). The results of the calculated unit cost of capacity for the water system is summarized in Table 4.

Table 4. Cost per Unit of Existing System Capacity (GPD)

Existing System	Water Amount
Net System Value	\$3,935,104
System Capacity (MGD)	3.00
Unit Cost of Capacity (\$ / gallon per day)	\$1.31

Fee Calculation – Future Capital Projects (Marginal-Incremental)

Step 1 – Identify Value of System Facilities that will Serve New Growth and Apply Adjustments

The City is at capacity for its sewer system and has planned a plant expansion in its 5-year capital improvement plan. The project includes the replacement of its existing 1 MGD treatment plant and building a new plant adjacent which would provide 2 MGD of capacity. The City expects the cost of the expansion project to be approximately \$17.6 million.

The City anticipates grant funding for this project to the amount of \$6.0 million. Therefore, this grant funded about is backed out of the project cost. On top of grant funding, the City also made adjustments for a “Debt Credit” as discussed below.

Section 207 of Article 8 states *“In applying the incremental cost or marginal cost, or the combined cost, method to calculate a system development fee with respect to capital improvements, the system development fee analysis must include as part of that methodology a credit against the projected aggregate cost of capital improvements. That credit shall be determined based upon generally accepted calculations and shall reflect a deduction of either the outstanding debt principal or the present value of projected water and sewer revenues received by the local governmental unit for the capital improvements necessitated by and attributable to such new development, anticipated over the course of the planning*

horizon. In no case shall the credit be less than twenty-five percent (25%) of the aggregate cost of capital improvements". The City has elected to use a credit of 25% of the aggregate cost of the expansion project for the calculation. The debt credit for sewer capital projects can be seen in Table 5 below.

Step 2 – Calculate the Unit Cost of System Capacity

The expansion project will provide 2.0 MGD of treatment capacity to the sewer system and represents the incremental amount of capacity for the Marginal Incremental Approach. The cost per unit of system capacity for the sewer system was calculated by dividing the net sewer system value by the sewer system capacity. Therefore, the cost per unit of system capacity for the sewer system under the Marginal Incremental Approach was calculated to be \$3.59 per gallon, per day (\$7.18 million ÷ 2.00 MGD). The unit cost of future system capacity is summarized in Table 5 below.

Table 5. Cost per Unit of Future Sewer System Capacity (GPD)

5-Year Capital Plan	Sewer Projects
Growth Related Capital Projects	\$11,569,000
Less: Debt Credit	(4,392,250)
Costs of Expansion to be Recovered	\$7,176,750
Total Treatment Capacity (MGD)	2.00
Unit Cost of Capacity (\$ / gallon per day)	\$3.59

Step 3 – Estimate the Amount of Capacity Per Service Unit of New Development

Section 205 of Article 8 states that the system development fee calculation "...use the gallons per day per service unit that the local governmental unit applies to its water or sewer system engineering for planning purposes for water or sewer, as appropriate, in calculating the system development fee." For the water system, the City uses one ERU of peak day capacity for the water system to be 269.51 gallons per day ("GPD"). This was derived using the average daily use for the residential customer class, escalated by a peaking factor and water loss factor of the system. The calculation of the water ERU can be seen in Table 6 below.

Table 6. Calculation of Water ERU (GPD)

Equivalent Residential Unit	Calculation
Average Daily Use for Single-Family Residential Accounts (GPD)	126.57
System Peaking Factor	1.51
Water Loss Factor	1.41
Calculated Water System ERU (GPD)	269.51

For the sewer system, the City uses one ERU of sewer capacity as 225 GPD, following state guidelines.

Step 4 – Calculate the System Development Fee for One ERU

The system development fee for one ERU was calculated by multiplying the unit cost of capacity from Step 2 by the capacity demanded by one ERU from Step 3. The calculations are provided in Table 7.

Table 7. Calculation of Water and Sewer System Development Fees for One ERU

System Development Fee Calculation	Water	Sewer
<u>Calculation Approach</u>	<i>Buy In Approach</i>	<i>Incremental Approach</i>
System Buy-In	\$1.31	n/a
Marginal Incremental	n/a	\$3.59
Gallons per Day per ERU (GPD)	270	225
System Development Fee per ERU	\$354	\$807

Step 5 – Scale the System Development Fees for Various Categories of Demand

The system development fees for various categories of demand were scaled using water meter capacity ratios. The scaling factors were based on rated meter capacities for each meter size, as published by the American Water Works Association in Principles of Water Rates, Fees, and Charges, as shown in Table 8.¹

Table 8. Meter Capacities and Scaling Factors by Meter Size

Meter Size	Rated Meter Capacity (gpm*)	Scaling Factor
3/4"	30	1.0
1"	50	1.67
1-1/2"	100	3.33
2"	160	5.33
3"	320	10.67
4"	500	16.67
6"	1,000	33.33
8"	1,600	53.33

gpm = Gallons per minute

Maximum Cost Justified System Development Fees by Meter Size

The calculated water system development fee under the Buy-In Approach is \$354 and the calculated sewer system development fee under the Marginal Incremental Approach is \$807. As mentioned previously, the system development fees for various categories of demand are scaled by applying the water meter capacity ratios shown in Table 8. The resulting water and sewer system development fees shown in Table 9 represent the maximum cost justified level of system development fees that can be assessed by the City of Hamlet per Article 8. If the City chooses to assess fees that are less than those shown in the table, the adjusted fee amounts should still reflect the scaling factors by meter size, as shown in Table 8.

¹ Manual of Water Supply Practices (M1), Principles of Water Rates, Fees, and Charges, American Water Works Association, 7th Edition, Table VII.2-5 on p. 338.

Table 9. Water and Sewer System Development Fees by Meter Size

Meter Size	Water Fee	Sewer Fee
3/4"	\$354	\$807
1"	\$590	\$1,348
1-1/2"	\$1,180	\$2,689
2"	\$1,888	\$4,303
3"	\$3,776	\$8,615
4"	\$5,900	\$13,459
6"	\$11,800	\$26,910
8"	\$18,880	\$43,058

We appreciate the opportunity to assist the City of Hamlet with the calculation of its water and sewer system development fees. Should you have questions or need any additional information, please do not hesitate to contact me at 704-373-1199.

Sincerely,

RAFTELIS FINANCIAL CONSULTANTS, INC.

Melissa Levin,
Executive Vice President