

8. Annexation & Growth

8.1 Purpose

This chapter establishes a practical framework for District annexation, sewer mainline extensions, and long-term system growth. The purpose is to help the Terrebonne Sanitary District expand service in a way that is technically feasible, financially sustainable, equitable to existing and future customers, and consistent with adopted District policy.

The District's first phase of infrastructure relies heavily on public funding, grant coordination, low-interest financing, and early customer participation. Future expansion will require the District to distinguish between shared system costs, localized extension costs, public health priorities, and improvements funded by developers, property owners, or groups of owners. The Preliminary Engineering Report recognized that Phase 1 infrastructure and the transmission main were planned with long-term system capacity in mind and that future growth would be supported through a combination of rates, SDCs, capital planning, and future extension decisions.

The Terrebonne Sanitary District was formed to provide reliable sanitary sewer service within the Terrebonne community and to support orderly future expansion where service is technically feasible, financially sustainable, and consistent with District policy. Because the initial Phase 1 system relies heavily on public grants and low-interest loans, the District must manage growth in a way that recognizes both the public investment already made and the practical reality that future extensions may require direct capital participation by developers, property owners, or groups of owners.

This chapter is a policy framework, not a final ordinance. Detailed rates, SDC credits, reimbursement agreements, assessment procedures, surcharge amounts, connection requirements, and affordability programs should be adopted separately by Board ordinance, resolution, agreement, SDC methodology, or other appropriate action.

8.2 Annexation Policy and Service Availability

Annexation is the legal process for adding eligible property to the Terrebonne Sanitary District boundary. Under the District's adopted Annexation Policy and Criteria, annexation is voluntary, subject to District Board approval, and available to property within the Terrebonne Unincorporated Community boundary because the District has determined that this area is within reason to eventually be served by District facilities. Annexation places property within the District service area boundary and prepares it to be served when a sewer main is available, but it does not guarantee sewer service within a specified timeframe. See Appendix C.

For District management purposes, annexation should be understood as a gateway step, not a construction commitment. Once annexed, property becomes part of the District's service planning area, may be considered in future mainline extension priorities, and may request sewer service through the applicable District extension pathway. Annexation also brings the property into the District's governance framework: residents who are legally qualified and registered to vote in Oregon and live within the District (whether connected to sewer or not) may vote in District elections under ORS Chapter 255, and District electors or property owners within the District may be eligible to serve on the Board under ORS 450.045.

Annexation does not determine who pays for a mainline extension. Before sewer service can be provided, the District must separately evaluate the applicable extension pathway, project sponsor, funding source, cost allocation method, capacity basis, easements, permits, customer connection

requirements, and Board approvals. The adopted annexation policy anticipates this distinction by stating that annexed property will be subject to District rules, regulations, SDC fees, and monthly sewer charges upon connection, and that vacant lots agree to connect at the time of new construction.

8.3 Growth and Cost Allocation Principles

Future sewer main extensions should be evaluated using a practical cost-allocation framework. Phase 1 customers provide the initial customer base needed to launch and stabilize the utility, while future customers may connect to a more mature system but may also face localized extension costs. The District should recognize these timing differences without creating either a subsidy expectation or a double-payment problem.

The District should avoid a case-by-case approach that leaves each outlying property to solve extension needs alone, because that can result in fragmented infrastructure, stranded parcels, inconsistent construction standards, and inefficient long-term operations. At the same time, the District should not commit limited operating revenues to systemwide extensions that cannot be supported by rates, SDCs, grants, reserves, assessments, or enforceable reimbursement agreements.

Future Board policy should provide a menu of tools, including developer extension agreements, group extension agreements among organized owners, pass-through credits that recover cost from later connecting properties, improvement-fee credits for qualified public improvements, targeted grants, District-installed infrastructure, and capital reserves. Local improvement district assessments should be reserved for the Septic Elimination Program described in Section 8.4.2 and used only if assessment authority is confirmed. Any credit, surcharge, reimbursement, or reserve program should be established only after legal, financial, and SDC methodology review. This DMP identifies the policy concepts; enforceable details should be adopted later by ordinance, resolution, methodology report, standard agreement, or other Board action.

Applying these tools consistently depends on distinguishing between two different kinds of sewer infrastructure. A local main that makes a particular property or development serviceable is a cost of development or connection, comparable to the street, water line, and other infrastructure an applicant provides. Shared system capacity—backbone mains, transmission facilities, and other improvements identified on the District’s SDC project list—is what SDC revenue is collected to fund. A practical test is whether the District would have built the improvement anyway to serve future growth. If so, it is a qualified public improvement eligible for a credit or District participation. If it exists only because a particular applicant seeks service, it is a cost of development and no credit applies. The District’s adopted SDC project list is the instrument that answers this question in any specific case.

Future mainline extension decisions and cost allocations should be guided by the following principles:

Technical feasibility. Extensions should be consistent with available collection, transmission, and treatment capacity; District design standards; easement requirements; permitting requirements; and long-term O&M capability.

Financial sustainability. Extensions should not create unfunded capital obligations, operating burdens, or debt-service risks that cannot be supported by rates, SDCs, grants, reserves, or enforceable cost-recovery mechanisms.

Growth pays its fair share. New development and future connections contribute financially to the capacity and infrastructure needed to serve them.

Consistency with Oregon SDC law. System development charges must be established and administered in accordance with ORS 223.297 through 223.316, which govern SDC methodology, eligible capital uses, credits for qualified public improvements, separate accounting, and required notice and appeal procedures.

No double payment. A property should not pay twice for the same infrastructure capacity. Where an applicant funds and dedicates a qualified public improvement identified on the District's SDC project list, the District should provide a mechanism for cost recovery.

Predictability. Applicants should be able to understand whether a proposed extension is District-led, public-health driven, developer-led, group-led, or individual-owner led.

Equitable access. The District should not leave all future expansion challenges to individual property owners where doing so would create fragmented infrastructure, stranded parcels, inconsistent standards, or inequitable access to public sewer service.

8.4 Mainline Extension Scenarios

The flowchart in this chapter should be used as the central screening tool for future sewer mainline extensions. It identifies the most likely pathway for a proposed extension before the District evaluates detailed engineering, financing, agreements, and Board action. See Table 8-1 and Figure 8-1 below.

Before approval or acceptance, confirm capacity, funding, easements, permitting, construction standards, O&M readiness, customer agreements, and Board documentation. If these conditions are not satisfied, the District should defer approval, require modification, or identify conditions precedent before the extension proceeds.

Table 8-1 Mainline Extension Scenario Matrix

Scenario	Typical Sponsor	Who Pays Upfront	Primary Equity Tools	Best Fit
A. District-installed Infrastructure	District	District using grants, loans, reserves, or SDC-eligible funds	Baseline SDC; possible frontage/access surcharge; expansion reserve	Phase 1 backbone, pump stations, interceptors, planned public extensions
B. Septic Elimination Program	District, with agency partners	Blended grants, public health funding, District funds, and owner contribution if applicable	Targeted affordability strategy; mandatory connection trigger after line completion where legally adopted	Areas with documented public health, groundwater, or environmental risk due to on-site septic systems
C. Developer Extension Agreement	Developer	Developer	To-and-through frontage rule; SDC credits for qualified oversizing or public benefit; latecomer reimbursement	Subdivision, commercial, mixed-use, or multi-family development
D. Organized Group of Owners	Owner group or District-supported district	Participating owners, LID-type assessment for share of extension costs, or blended funding	LID-type assessment for share of extension costs; latecomer reimbursement	Neighborhood cluster of existing unserved parcels
E. Individual Property Owner Extension	Single owner	Individual owner	SDC credit subject to cap; to-and-through frontage rule; latecomer reimbursement	Isolated parcel requiring mainline extension to connect

*This chart is intended as a policy development tool, not a final ordinance.
Final eligibility and funding decisions will be made by the District Board in accordance with adopted policies, ordinances, and applicable law.*

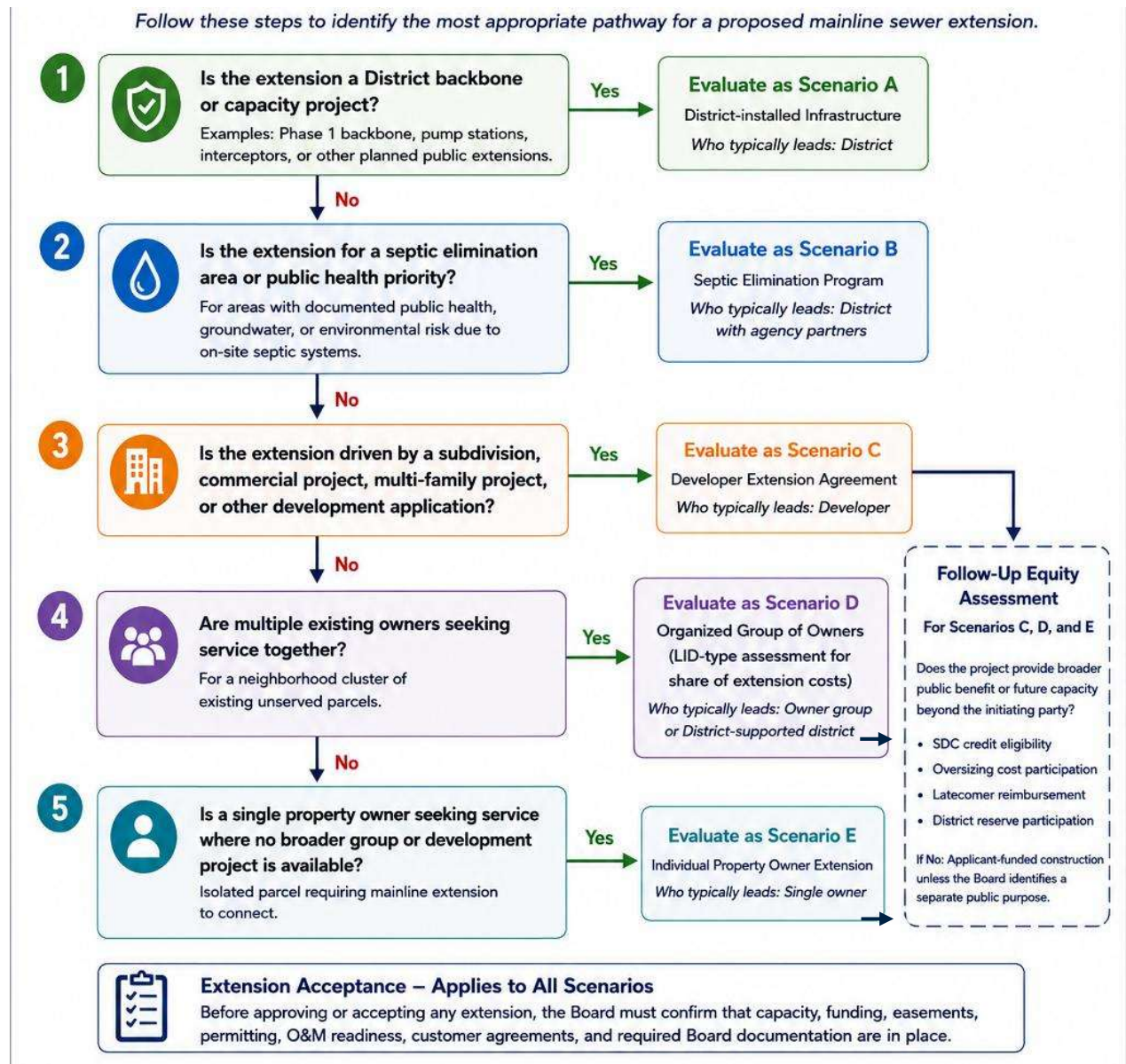


Figure 8-1 Mainline Extension Scenario Flowchart

One point should be made clear to applicants at the outset. Only the improvement fee portion of the District's SDC may be credited toward construction of a qualified public improvement such as a mainline extension. Based on current planning-level estimates, that portion is expected to fall in the range of roughly \$2,000 to \$4,000 per EDU, subject to the charge ultimately adopted through the SDC methodology. The reimbursement fee portion recovers the cost of capacity that has already been built and is not creditable. This distinction limits how much of any extension cost can realistically be offset through credits and should be explained early in every extension discussion.

8.4.1 Scenario A: District-installed Infrastructure

District-installed infrastructure includes backbone mains, Phase 1 mainlines, transmission or interceptor pipelines, pump stations, and other projects identified by the Board as necessary for orderly system development or system capacity.

These projects are designed, managed, funded, and accepted by the District. Funding may include grants, loans, reserves, SDC-eligible revenues, intergovernmental contributions, or other lawful sources. This pathway is appropriate where the improvement is needed to serve the system as a whole, support phased system growth, or preserve capacity for planned public extensions.

Properties receiving service through District-installed infrastructure should pay the adopted baseline SDC at connection. If the Board later determines that some properties receive direct localized access without paying a localized extension cost, the Board may evaluate a frontage/access surcharge or similar tool. Any such charge should be legally reviewed, adopted through a public process, and coordinated with the District's SDC methodology to avoid double charging for the same improvement.

8.4.2 Scenario B: Septic Elimination Program

A Septic Elimination Program (SEP) applies to targeted areas where failing, inadequate, or constrained onsite wastewater systems create documented public health, groundwater, environmental, or community development concerns. This scenario should remain separate from general District-installed infrastructure because the policy basis is different: the District may be acting not only to expand capacity, but to address a documented public health or environmental need.

This pathway may be initiated by the District in coordination with Deschutes County, DEQ, public health authorities, environmental funding agencies, or other partners. Funding may include grants, public health or environmental mitigation funds, District reserves, eligible SDC revenues, owner contributions, or other lawful sources. The Preliminary Engineering Report describes the broader public health and environmental purpose of replacing onsite wastewater disposal with a community sewer system, including protection of groundwater and surface water resources and support for infill development within the unincorporated community boundary.

A Septic Elimination Program should include clear Board findings identifying the area, the public health or environmental basis, the funding strategy, the connection requirements, the affordability approach, and the timeline for implementation. If the Board determines that connection requirements are needed after a public main becomes available—for public health, environmental protection, or financial sustainability—those requirements should be adopted by separate ordinance or resolution and coordinated with any applicable exceptions, deferrals, hardship provisions, or phased-payment options.

Where a Septic Elimination Program area includes properties that would not participate voluntarily, the Board may consider a local improvement district (LID) to spread extension costs across all benefited properties. An LID allows costs to be assessed against each benefited property and, where authorized, repaid in installments. It also creates a lien against each property and requires a formal petition, notice, hearing, remonstrance, and assessment sequence. Use of an LID is contingent on confirmation by legal counsel that a sanitary district may levy and enforce assessments and offer installment financing. Because an LID reaches properties whether or not they develop, it is better suited to a documented public health program than to voluntary neighborhood extensions.

8.4.3 Scenario C: Developer Extension Agreement

Developer extension agreements (DEA) apply where sewer mainline expansion is driven by a subdivision, commercial project, mixed-use project, multi-family project, or other development application. The developer typically funds, designs, permits, and constructs the required extension under District engineering review, inspection, and acceptance procedures.

Developer extensions should generally follow a to-and-through frontage rule. The developer should extend the public main across the full development frontage or to a logical boundary needed to avoid short, stranded, or underbuilt mainline segments. After construction, testing, closeout, and acceptance, the completed public mainline is dedicated to the District – then it is ready to be placed into service.

If the District requires oversizing or infrastructure beyond the developer's proportional need, the incremental qualified public improvement may be eligible for an improvement-fee credit, direct District cash participation, or pass-through credits collected from later connecting properties under the mechanism described in Section 8.4.4. Because credit capacity is limited to the improvement fee portion of the SDC described in Section 6.3, oversizing that exceeds the available credit value will require cash participation, another lawful funding source, or a reduced scope. In deciding between a credit and cash participation, the Board should consider whether the added capacity primarily serves future growth, which supports a credit funded by SDC revenue, or the existing system, which supports cash participation from capital reserves. Whether a credit is legally required in a given case will be confirmed through the SDC methodology and legal review.

A developer differs from the applicants described in Scenarios B, D, and E in one important respect. A developer can recover extension costs through lot or project pricing, while an existing property owner extending a main for residential service generally recovers nothing once the main is dedicated to the District. The Board may weigh District participation more favorably where the applicant is an existing resident rather than a development applicant.

8.4.4 Scenario D: Organized Group of Owners

This pathway applies where a cluster of existing unserved properties seeks sewer service collectively. It is best suited for neighborhoods or groups of existing parcels where the cost of a mainline extension is too large for one property owner to carry alone. The project proceeds through a group extension agreement between the District and the participating owners.

Participating owners fund design, permitting, and construction of the public main, which is built to District standards and subject to District review, inspection, testing, acceptance, and dedication. At connection, each participating owner receives an improvement-fee credit against the improvement fee portion of that owner's SDC, up to the eligible value of the qualified public improvement. Before the project proceeds, the District should define the benefited area, the preliminary cost estimate, the allocation method among participants, payment terms, connection timing, and the term of the agreement.

A non-participating property that later connects to the group-funded main pays a pro-rata share of the original construction cost at the time of connection. The District collects that share as a condition of the connection permit and remits it to the original group under the terms of the agreement. This pass-through credit is the District's primary cost-recovery tool for group extensions because it operates entirely within the SDC and connection process. It requires no lien, no bonding, no assessment roll, and no petition or hearing sequence, and the District controls the collection point because a property cannot receive service without a connection permit.

The District's role is to provide technical standards, review, inspection, acceptance, and clear cost-allocation documentation, and to administer the pass-through collection. The District does not guarantee that the participating owners will be made whole, because recovery occurs only if and when other properties connect. That risk remains with the participating owners and should be stated plainly in the agreement.

8.4.5 Scenario E: Individual Property Owner Extension

This pathway applies where a single property owner seeks service and must extend a public main through right-of-way or easement before connecting.

The owner typically funds design, permitting, construction, inspection, and closeout unless the Board identifies a separate public purpose for District participation. The owner should extend the main to the logical boundary needed to avoid a short or stranded segment, particularly where adjacent parcels may reasonably connect in the future.

The District may credit the improvement fee portion of the owner's SDC against the qualified public improvement portion of the work, subject to the adopted methodology and Board policy. If other properties later connect to the owner-funded main, the District should collect a pro-rata share at connection and remit it to the original owner through the same pass-through credit mechanism described in Section 8.4.4.

Credits should not exceed the value of the eligible public benefit, should not reduce required charges below any Board-adopted minimum contribution, and should not impair debt service, reserves, or the District's ability to operate the system.

8.5 Board Approval and Acceptance Criteria

The flowchart identifies the likely extension pathway, but it does not by itself authorize an extension. Before approving, accepting, or placing any extension into service, the Board should confirm that the project satisfies the District's acceptance criteria.

For each annexation-related extension, the Board should document:

- the applicable extension scenario and project sponsor;
- the parcels, area, and estimated EDUs to be served;
- the capacity basis, including collection, transmission, and treatment capacity;
- the funding plan and cost allocation method;
- any SDC credit, surcharge, assessment, reimbursement, or District participation assumptions;
- required easements, permits, and intergovernmental approvals;
- construction standards, inspection requirements, testing requirements, and record drawing requirements;
- O&M responsibilities and readiness;
- customer agreements and connection requirements; and
- schedule, phasing, and conditions precedent.

8.6 Relationship to Future Policy Development

This chapter establishes the DMP-level framework for annexation, mainline extension pathways, and equitable system growth. The District should implement the details through future Board action, including ordinances, resolutions, agreements, SDC methodology updates, standard forms, and/or brochures.

Future policy work should address:

- Updates to annexation policy and application (if needed) to reflect updates to related requirements;
- capacity evaluation and phasing methodology;
- developer extension agreement templates;
- customer-generated infrastructure agreement templates;
- group extension agreement templates and cost-allocation methods;
- pass-through credit procedures, pro-rata calculation, and duration limits;
- SDC credit assignability, transfer, and duration, including credits held by a developer against obligations incurred by later lot purchasers;
- confirmation of LID assessment and installment financing authority for the Septic Elimination Program;
- SDC credit criteria for qualified public improvements;
- frontage/access surcharge methodology, if pursued;
- Septic Elimination Program criteria and connection triggers;
- affordability or hardship procedures, if adopted;
- accounting and eligible uses for any dedicated expansion or capital participation fund the Board establishes; and
- prioritization among multiple eligible extension areas.

9. Plan Review & Updates

9.1 Annual review

9.2 Triggers for updates (rate changes, expansion, incidents)

9.3 Board adoption and amendment process