Water Capacity and Connection Fee Study

~Preliminary Findings~

Finance and Administration Committee

August 16, 2023

Schedule

May: Capacity & Connection Fee Study kickoff

June: Preliminary Results

Today: Preliminary Results with Raftelis – Review & Discuss as Appropriate

TBD: Capacity & Connection Fee Report

- F&A Committee
- Board

TBD: Implement Report via Legislative Code Update

- F&A Committee
- Board

Update has an impact on the Water Rate & Fee Study (Phase 2)

Water Capacity & Connection Fees

Single Family Residence				
	Today	Proposal	Fluctuation	
Application Fee	$ 191	$ 230	$ 39	20%
Meter Install	3,354	3,882	528	16%
SDCWA fees	5,859	5,859	-	0%
Water Storage Fee	1,967	-	(1,967)	-100%
Capacity Fee	9,471	6,953	(2,518)	-27%
Total	$ 20,842	$ 16,924	$ (3,918)	-19%

Directly reimburses costs incurred

Passthrough to Water Authority

Restricted: storage projects only

Replacement projects only

Working draft only. Subject to change.

RAMONA
MUNICIPAL WATER DISTRICT

RAFTELIS

Ramona Municipal Water District

Capacity Fee Presentation

August 16, 2023

Project Team

Ramona Municipal Water District Staff

Steve Gagnon, PE (AZ)

- 25 years of consulting experience
- 15 years rate setting experience in Southern California
- Chair, Financial Management Committee, American Water Works Association (AWWA) CA-NV Region

Richardson Irvine

- Analyst

Agenda

- Capacity Charge Basics
- Legislative Framework
- Capacity Fee Methodologies
- Capacity Fee Calculations

Capacity Fees

Go by many other names:

1. Development Impact Fees
2. Impact Fees
3. Public Facility Charges
4. System Development Charges
5. Plant & Facility Connection Charge
6. Many more……

Capacity Fee Basics

- Capacity fees are one-time charges assessed to new development, or those requiring increased capacity, to recover infrastructure costs
- Capacity fees should be used for capital expenses:
  - Debt service payments
  - Backbone facilities (treatment plant, transmission/distribution/collection mains, supply sources)
  - Put capacity fee revenue in a separate fund, track it and accrue interest in that fund
  - Not to be used for O&M Expenses
- Water and Wastewater Capacity Fee Accounting (Section 66013)
  - Revenue must be kept in separate fund, track it and accrue interest in that fund
  - Annual fund report requirements

Capacity Fee Basics

- Capacity fees strive to achieve equity in distributing costs by ensuring new users pay for facility costs required to serve them without burdening existing users
- Increases equity since it endeavors to get “growth to pay for growth”
- Existing customers don’t have to subsidize growth through their user charges/rates

Legislative Framework

- Proposition 218 applies to water rates
- Proposition 26 applies to capacity fees
  - Prop 26 defines what a tax is and has seven exceptions: “A charge imposed as a condition of property development”; and
  - Capacity charges are imposed as a condition of property development

Legislative Framework

- Charges should not exceed necessary costs
- Prop 26 modified Article XIII C to include:

> "The local government bears the burden of proving…. that the amount is not more than necessary to cover the reasonable costs of governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from the governmental activity."

Legislative Framework

- CA Government Code 66000:
  - Codified the Mitigation Fee Act (AB 1600)
  - Water and sewer capacity fees are treated differently than other fees under AB 1600 but are still subject to notice, legal challenge and audit requirements (Sections 66016, 66022, 66023 respectively)[1] and 66013
  - Section 66013 applies to water and sewer capacity fees
  - Requires public notice/hearing before implementation – two public notices in a newspaper, at least 5 days apart, with the first 10 days before the hearing

[1]League of California Cities Continuing Education Seminar, February 27, 2003 – A Short Overview of Development Impact Fees

Legislative Framework

- Section 66013 requires:
  1. Establish a separate capital facilities fund and accrue interest

  For each fiscal year describe:
  1. Beginning and ending balances,
  2. Capacity fee revenue collected that year,
  3. Project(s) or portion of a project(s) the funds were used for,
  4. Future fiscal year projects the funds will be used for,
  5. Any inter fund transfers from the capital fund and if any loans – the loan details,
  6. Can include this information in the annual financial report
  7. The above does not apply to debt service payments

Capacity Fee Methodologies

Capacity Fee Methodologies

Buy-in

- Backward-looking
- Used when there is facility capacity to serve current and future development
- Unit cost of capacity for new development

Incremental

- Forward-looking
- Future facilities that add capacity for new development
- When existing system has little or no capacity for new development

Hybrid

- Backward and forward-looking
- Current and future facilities
- Combined facilities to serve current and future development

Methodology Selection Matrix

- Considerations:
  - Close to build-out
  - Remaining Capacity
  - Available Information

Criteria	System Buy-In	Equity Buy-In	Incremental	Hybrid
Capacity available to serve future growth	✓	✓		
No capacity available to serve future growth			✓	
Some capacity available but additional facilities also required to serve future growth				✓

Utility System Valuation

Methods to value a utility system for capacity fees:

1. Original Cost (OC, or Book Value)
2. Original Cost Less Depreciation (OCLD)
3. Replacement Cost (RC) – Uses Engineering News Record - Construction Cost Index to inflate historical costs or use current construction cost estimates
4. Replacement Cost Less Depreciation (RCLD)

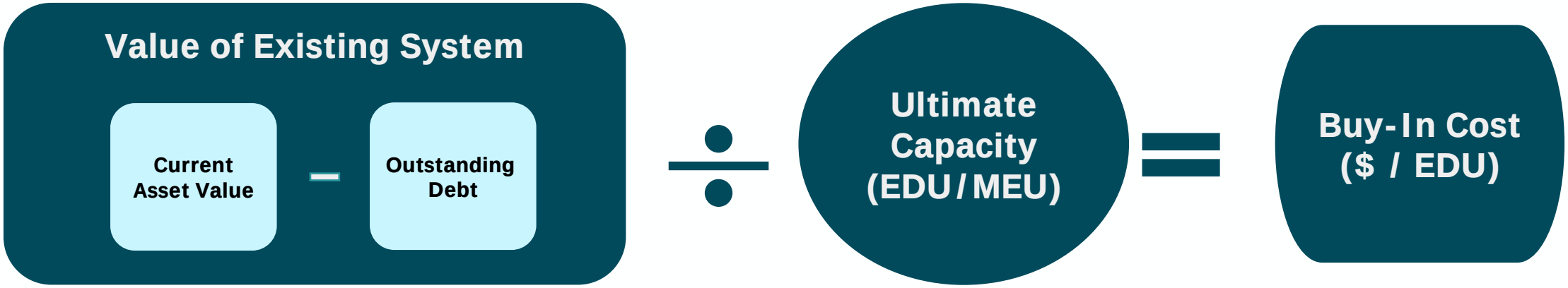
Methods used to value a utility in anticipation of a transaction (sale):

5. Comparable Valuations
6. Discounted Cash Flow (very difficult to do for public agencies since they are non-profit)

System Buy-In Method

Recognizes that existing users have developed and maintained a utility system that can accommodate growth

1. Subtract debt because it will be paid for through rates and don't want to double charge customers
   a. Want to value the equity in the system
2. Note we are using ultimate capacity of the plant/system in the denominator



Equity Buy-In Method

- Similar to System Buy-in except:
  1. Adds current reserve balances on the basis that reserves are part of the system valuation and benefit future users by lowering future rates
  2. Divides by current “in-service” plant/system capacity

Valuation (Equity Buy-in)

	OC	OCLD	RC	RCLD
Water System Value	$83,080,575	$34,206,607	$177,294,433	$60,690,858
+ Available Reserves	$20,975,000	$20,975,000	$20,975,000	$20,975,000
- Outstanding Debt Principal	($2,688,000)	($2,688,000)	($2,688,000)	($2,688,000)
Net System Value	**$101,367,575**	**$52,493,607**	**$195,581,433**	**$78,977,858**

Water Capacity Fee – Equity Buy In

	Equity Buy-in RCLD
Water System Value	$60,690,858
+ Available Reserves	$20,975,000
- Outstanding Debt Principal	($2,688,000)
Net System Value	**$78,977,858**
÷ Current Equivalent Units	11,359
Water Buy-In Capacity Fee per Equivalent Meter	**$6,953**

Current Capacity Fee per Equivalent Meter	**$9,471**

Water Capacity Fee – By Meter Size

Meter Size	AWWA Capacity Ratio	Capacity Fee	Current Capacity Fee
3/4" or smaller	1.00	$6,953	$9,471
1"	1.67	$11,588	$15,785
1 1/2"	3.33	$23,177	$31,570
2"	5.33	$37,083	$50,512
3"	11.67	$81,119	$110,495
4"	21.00	$146,015	$198,891
6"	43.33	$301,301	$410,410
8"	93.33	$648,955	$883,960
10"	140.00	$973,433	$1,325,940
12"	176.67	$1,228,380	$1,673,210

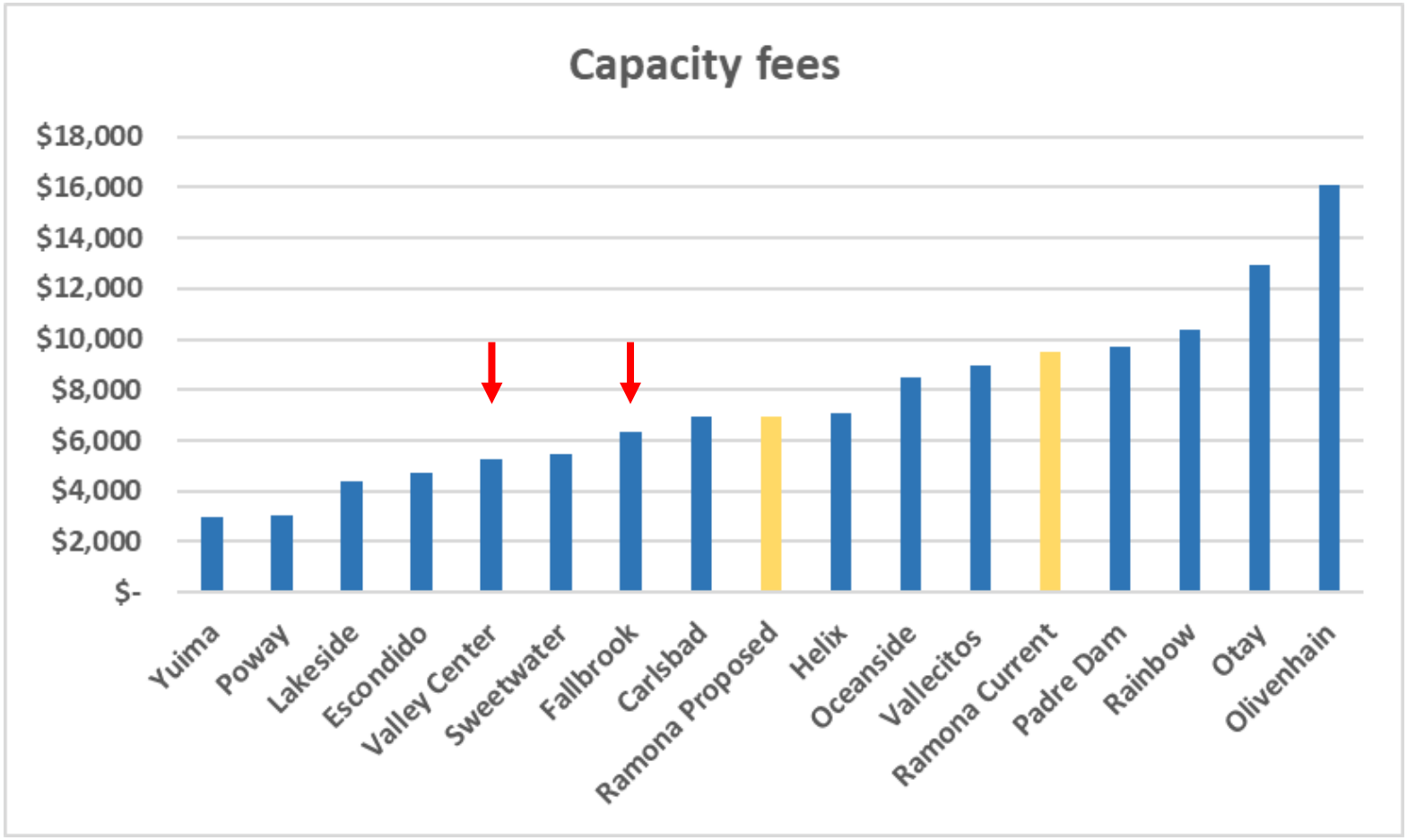
Water Capacity Fee – System Buy In

	System Buy-in RCLD
Water System Value	$60,690,858
+ Available Reserves	$0
- Outstanding Debt Principal	($2,688,000)
Net System Value	**$58,002,858**
÷ Current Equivalent Units	12,439
Water Buy-In Capacity Fee per Equivalent Meter	**$4,663**

Current Capacity Fee per Equivalent Meter	**$9,471**

Single Family Water Capacity Fee Survey

- Most agencies shown use equivalent meters for capacity fees




Q&A

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Thank you!

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Recommendation

Review and discuss as appropriate.