



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Capacity Charge Study Update
From: Bret Uppendahl, Finance Director *BU*
Through: Paul Sellier for Ben Horenstein, General Manager *PS*
Meeting Date: October 24, 2024

TYPE OF ACTION: Action X Information Review and Refer

RECOMMENDATION: Receive an update on the District's Capacity Charge Study

SUMMARY: Capacity charges, also referred to as Connection Fees, are one-time fees paid by new developments to connect to the District's water system. Capacity charges are also paid by existing customers who have a change in property use that requires increased water usage through the existing water connection. The charge is levied to recover costs for the District's water system capacity needed to meet the water demands of new developments or increased demands of existing customers.

The District is working with Bartle Wells Associates, an independent public financial advisory firm, to evaluate the District's current capacity fee methodology and to recommend updates where appropriate. The District's capacity charge was last updated in 2018, and the capacity charge is currently \$44,098 per acre foot of estimated water demand.

DISCUSSION: The legal framework that governs capacity charges is set forth in Government Code Section 66000 *et seq.*, commonly referred to as the Mitigation Fee Act, which provides, in part, that local agency fees for water connections shall not exceed the estimated reasonable cost of providing service for which the fee or charge is imposed. Within this framework, public agencies can recover costs for existing or future facilities necessary to meet the new or increased water demands placed on the system.

Staff has been working with Bartle Wells Associates to review the current capacity charge methodology, update the underlying valuation of facilities and assets, and calculate the new cost per acre foot of capacity. Staff will be presenting a status update on the preliminary calculations for facilities and asset valuation as well as preliminary data for utilizing a meter size approach to allocate capacity charges.

ENVIRONMENTAL REVIEW: Not Applicable.

FISCAL IMPACT: The District currently budgets revenues of \$600,000 annually in capacity fee charges. Actual revenues depend on the level of development activity and have varied from \$300,000 to \$1,500,000 in recent years. All of the revenues received from capacity fees are deposited in the capital fund and are allocated to the District's Capital Improvement Program (CIP). Annually a full accounting of these funds is presented in the District Comprehensive Annual Financial Report (CAFR).

ATTACHMENT(S): None.