



STAFF REPORT

Meeting Type: Board of Directors
Title: Adjustment of District Capacity Charges and consider Revised Board Policies No. 12 and 27 related to the collection of Capacity Charges
From: Bret Uppendahl, Finance Director
Through: Ben Horenstein, General Manager
Meeting Date: March 18, 2025

TYPE OF ITEM: X Action Information

RECOMMENDATION: 1) Adopt Ordinance No. 469 amending various provisions of the Marin Municipal Water District Code Pertaining to Capacity Charges (currently referred to as “Connection Fees”); 2) Adopt a Resolution Updating District Capacity Charges; 3) Approve revisions to Board Policy 12 (*Low Income/ Affordable Housing*) and Board Policy 27 (*Capacity Charge Installment Plan & Deferred Payment of Charges for Qualifying Affordable Housing Projects*)

SUMMARY: Capacity charges, also referred to as connection fees, are one-time charges paid by new customers in order to connect a new water service to the District’s water system. Capacity charges are also paid by existing customers who have changes in property use that require increased water capacity to meet the water service’s needs. The charge is levied to recover costs for the District’s water system capacity needed to meet the demands of new customers or increased demand of existing customers. These charges do not include service installation fees, which recover the costs of the physical piping and water meter as well as installation and labor.

District staff worked with Bartle Wells Associates, an independent public financial advisory firm, to evaluate the District’s current capacity charge methodology and to develop updated capacity charges, which were last updated in 2018. District staff previously presented updates on the Capacity Charge Study to the Finance and Administration Committee on August 22, 2024 and again on October 24, 2024.

Based on its review and discussions with District staff, Bartle Wells Associates prepared a Capacity Charge Study for the District identifying proposed updated charges, which study evaluating the proposed charges was posted on the District’s website on March 4, 2025. Staff will present to the Board of Directors for adoption proposed District Code changes, proposed Resolution updating the District’s capacity charges as well as proposed revisions to two Board policies related to the collection of the District’s capacity charges.

DISCUSSION: The District's capacity charge was last updated in 2018 and is currently \$44,098 per acre-foot of estimated water demand. Under the current capacity charge methodology, single-family customers' capacity charges currently vary based upon the estimated water usage within their area. Multi-family residential developments are assigned a portion of an acre-foot for each living unit; irrigation customers' water use is estimated through a landscape review process; and other customer classes' water usage is calculated based upon estimated water use for the specific business or development type.

The District worked with Bartle Wells Associates, an independent public financial advisory firm, to evaluate the District's current capacity charge methodology. The key objectives of the Bartle Wells Capacity Charge Study were to proportionally recover the reasonable costs of water system infrastructure that benefit new or expanded water connections in a manner that is consistent with industry standards and compliant with legal requirements. The legal framework for capacity charges is governed by Government Code Section 66000 *et seq.*, which prohibits local agency water capacity charges from exceeding the estimated cost of providing service for which the fee or charge is imposed. Within this framework, also referred to as the Mitigation Fee Act, public agencies can recover costs for existing or future facilities necessary to meet the new or increased water demands placed on the system.

Based on the results of the Capacity Charge Study, staff is recommending continued use of the current Buy-In methodology, with revisions to the facility valuation methodology to include replacement costs less depreciation for purposes of determining the overall costs to be allocated to new and increased service connections. Staff is also proposing the District calculate capacity charges using meter equivalent units (MEU's) that are based on the size of customer water meters.

Bartle Wells recommends that the District continue to use a Buy-In Method to calculate capacity changes. This method is typically used by agencies, such as the District, with water systems that are substantially built-out and where there is sufficient capacity in the existing system to serve current and future customers. Using this method, charges are calculated based on the value of existing facilities divided by the capacity of the water system to create a cost per unit of capacity.

Replacement Cost New Less Depreciation (RCNLD) accounts for the Replacement Cost of infrastructure in current dollars but adjusts those costs to account for accumulated depreciation and age of facilities. As detailed in the Capacity Charge Study, Bartle Wells Associates found that this approach best reflects the value of the remaining useful life of the District's infrastructure. Where appropriate and to most accurately reflect the remaining value of District assets, existing depreciated asset valuations were escalated by the Engineering News-Record (ENR) Construction Cost Index, the Bay Area Consumer Price Index (CPI), or actual costs from similar, recent construction projects.

The recommended change to MEU's uses the meter size as a proxy for determining the potential demand on the water supply and distribution system. The use of MEU's is consistent with industry standards, established by the American Water Works Association (AWWA) M1 Manual, and is a well-established method for proportionally allocating costs, as the meter size accounts for the full demand available to each customer. This proposed methodology change better reflects that water meters of the same size place similar demands on available water system capacity regardless of how much water is ultimately used by the customer and that all water systems must be sized to meet the peak demand of their customers.

Currently, as discussed above, new single-family residential customers are charged a capacity charge based on the projected water use within their local area. This results in varied capacity charges ranging from \$4,851 to \$89,519, with the median charge of \$10,584. The recommended change to MEU's will establish a single charge of \$16,740 for all single-family and duplex water connections with a meter size of up to 1 inch. Due to current plumbing code standards, many single family and duplex customers are required to install fire sprinklers, which requires at least a one inch water meter, when constructing a new structure or remodeling an existing one, even though most of these structures could be served with a 5/8 inch water meter and are anticipated to have similar demands to other single family and duplex residences with 5/8 inch water meters. Thus, in order to avoid disproportionately charging these residential services for the rare, if ever utilized, fire flow capacity and to ensure that these customers are only charged capacity charges for their normal maximum demand on the system, these customer classes (single-family residential and duplexes) will be charged the 5/8 inch water meter capacity charge for all water meters 1 inch and smaller. Single family and duplex water meters larger than 1 inch will be required to pay the standard capacity charge for the corresponding water meter size.

Similarly, new non-residential customers currently pay capacity charges based on the projected water use of the specific customer. The recommended change to MEU's will standardize the capacity charges for each water meter size, ranging from \$16,740 for 5/8-inch meters to \$3,348,000 for 10-inch meters. It should be noted that over half of the District's non-residential customers have meters that are 1-inch or smaller. Additionally, transitioning to MEUs for the calculation of these customers' capacity charges will eliminate the need for District staff to calculate a water entitlement for these customers. However, staff will continue to calculate a water budget and corresponding baseline utilizing current methodologies to be used for these customers' water rate billing purposes. This will ensure these customer classes do not experience any change to the water rates that they would pay as a result of the capacity charge revisions.

The capacity charges for each meter size are calculated using the following process. One Meter Equivalent Unit (MEU) represents the capacity needed to serve a connection with a 5/8-inch meter. As outlined in the AWWA M1 Manual, 1 MEU also represents the safe maximum operating capacity of a 5/8-inch meter. A one-inch meter has an equivalent ratio of 2.5 MEU's, while a six-inch meter is assigned 70 MEUs. The sum of all MEU's represents the total maximum service capacity of all the District's meters. The total water system capacity is then determined by applying a growth assumption to the existing mix of customer meters since the District water system has sufficient capacity to serve current and future customers. Bartle Wells used the District's Updated 2020 Urban Water Management Plan assumptions to project the total growth in MEU's by 2045. This calculation resulted in a total water system capacity of 95,360 MEUs. Dividing the net system value of \$1,596,282,086 by the projected MEU's of 95,360 yields a Capacity Charge per MEU of \$16,740.

Junior Accessory Dwelling Units (JADUs) and Accessory Dwelling Units (ADU's) are often exempt from paying capacity charges pursuant to state law and District Code. However, when a JADU or ADU is required to pay capacity charges, it is recommended that those charges be based on each unit's proportionate share of demand as measured by drainage fixture units. The study proposed a charge of \$507 per plumbing drainage fixture unit.

Additionally, as outlined in the proposed Resolution staff is recommending that the District account for future construction cost inflation by annually adjusting the proposed water capacity charges, beginning July 1, 2026, based on the annual change in the Engineering News-Record Construction Cost Index.

To implement the proposed capacity charges, Titles 11 and 13 of the District Code require updates, included in proposed Ordinance No. 469, to reflect alignment with industry terminology of “capacity charges” rather than the District’s past practice of “connection fees”. Additionally, Code changes were needed to reflect that adoption of a meter size based capacity charge would eliminate the need to calculate the annual estimated water use of a property, which historically the District referenced as a water entitlement that determined the capacity charge. However, District staff will continue to calculate a water budget using existing water use standards for non-residential customers for the purposes of billing to ensure that these customer’s water rate billings are not impacted by the proposed capacity charge changes.

Additionally, staff identified two Board policies- Board Policy 12 (*Low Income/ Affordable Housing*) and Board Policy 27 (*Capacity Charge Installment Plan & Deferred Payment of Charges for Qualifying Affordable Housing Projects*)- that had not been updated in several years. Therefore, staff took this opportunity to revise these policies to ensure compliance with current legal standards and remove duplicative provisions in the policies.

ENVIRONMENTAL REVIEW: The District currently provides water facilities and supplies water to the community and the water capacity charges shall be used to maintain current service levels and reimburse the District for prior capital expenditures and existing debt service. As such, the Board’s adoption of the proposed water capacity charges, as it relates to new water service connections within the District, is exempt from the provisions of the California Environmental Quality Act (CEQA) because the action consists entirely of the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges necessary to (1) purchase or lease supplies, equipment or materials, (2) meet financial reserve needs and requirements, and (3) obtain funds for capital projects necessary to maintain service within the District’s existing service area. (Public Resources Code § 21080(b)(8); 14 CCR §15273). The Board's adoption of these capacity charges is also exempt from the requirements of CEQA because there is no possibility that their adoption will have a significant effect on the environment. (14 CCR § 15061(b)(3)).

FISCAL IMPACT: All revenues received from capacity charges are deposited in the Capital Fund and are used exclusively to support the Capital Improvement Program. The District currently budgets \$600,000 annually in capacity charge revenues. The current median capacity charge of \$10,584 for single-family residential customers would increase to \$16,740, an increase of approximately 58 percent. Actual revenues will ultimately depend on the level and type of development activity within the District’s service area.

ATTACHMENT(S):

1. 2025 Bartle Wells Associates Capacity Charge Study

2. Proposed Ordinance No. 469
3. Proposed Resolution
4. Revised Board Policy 12- *Low Income/ Affordable Housing*
5. Revised Board Policy 27- *Capacity Charge Installment Plan & Deferred Payment of Charges for Qualifying Affordable Housing Projects*

DEPARTMENT OR DIVISION	DIVISION MANAGER	APPROVED
<p style="text-align: center;">Finance</p> <hr/>	 <hr/> <p style="text-align: center;">Bret Uppendahl Finance Director</p>	 <hr/> <p style="text-align: center;">Ben Horenstein General Manager</p>