



Alameda County Water District

Board Workshop Presentation Development Charges Overview

February 22, 2018

Agenda

- » Financial Workshops Timeline
- » Development Charges:
 - Overview
 - Facilities Reimbursement Charge
 - Facilities Connection Charge
 - Preliminary Calculations
 - Multi-Year Adjustments
- » Next Steps

Financial Workshops Timeline

- » February 22: Development Charges Overview
- » April 26: Water Rates Overview
 - Water Rates 10 1/Cost of Service Requirements
 - Pricing Objectives
 - Fixed/Variable Revenue Allocation
 - Account Establishment Fees
 - State Water Project Override Property Tax
 - Development Charges Follow-up

Financial Workshops Timeline

- » May 22: Mid-cycle Budget Review
 - Operating Budget Amendments
 - 25 year CIP/Capital Budget Amendments
 - Reserve Policy Revisions
- » June 5: Water Rate Design Review
 - Financial Planning Model Updates
 - Water Rates Design
 - Tiered Rates for Single-Family Residential Customers
 - Tier Thresholds
 - Stage Rates
 - Service Charges for Meters Upsized for Fire Flows

Financial Workshops Timeline

- » July 26: Water Rate Design
 - Water Rates Design Follow-up
- » September 27: Financial Workshop (if Necessary)
- » December 6: Water Rates and Development Fees
 - Financial Planning Model Updates
 - Help on Tap Review
 - Set Proposition 218 Public Hearing
 - Set Mitigation Fee Act Public Hearing
- » February 14, 2019 (Board Meeting): Rate and Fee Adoption
 - Water Rates effective March 1, 2019
 - Development Charges effective May 1, 2019

Development Charges Agenda

- » Board Guidance
- » Development Charges Overview
- » Facilities Reimbursement Charge (FRC)
- » Facilities Connection Charges (FCC)
- » Development Charges Methodologies
 - Equity (modified), Incremental, or Hybrid
 - Preliminary Fee Calculations (for Discussion Only)
- » Multi-Year Adjustments

Board Guidance

- » Evaluate restructure of Facilities Reimbursement Charges
- » Evaluate whether residential Facilities Connection Charges should be based on unit type or meter size
- » Evaluate various development fees approaches:
 - Equity Buy-in
 - Incremental
 - Hybrid
- » Consider implementation of multi-year charge adjustments

Development Charges Overview

» What are Development Charges?

- One-time capital charges assessed against new development to cover a proportional share of capital facility costs that were constructed or will be constructed to accommodate growth
- Commonly known for water and sewer utilities as capacity charges, system development charges, impact fees, connection fees, etc.

Regulatory Requirements

- » **Assembly Bill (“AB”) 1600** (codified as California Government Code §66000-60025)
- » Pertinent to Water Connection and Capacity Charges: §66013, §66016, §66022, and §66023
- » **Development Fees MUST:**
 - Reflect the link between the fees and the benefits received by new customers
 - Not exceed the proportional share of costs associated with providing service

Current ACWD Development Fees

- » **Facilities Connection Charges (FCC)** are deposited to the Facilities Improvement Fund (FIF), which funds the growth-related portion of the District's Capital Improvement Program (CIP)
- » **Facilities Reimbursement Charges (FRC)** are deposited to the Installers Reimbursement Fund (IRF), which reimburses developers for certain costs that benefit other developers such as offsite facilities or oversized water mains

Development Charges Studies

- » Resolution No. 81 (1955)
 - “Growth pays for growth”
 - Has been amended per subsequent studies below
- » Hilton Farnkopf & Hobson (1998)
 - Consolidate Water Supply Charge with Facilities Acreage Charge
 - Eliminate Elevation Zone, Lot Size, and Municipal Irrigation Adjustments from Facilities Connection Charges
- » Bartle Wells Associates (2011)
 - Consolidate various charges to a single Facilities Connection Charge
 - Align Non-residential Facilities Connection Charges with American Water Works Association (AWWA) meter ratios
 - Consolidate various charges to a single Facilities Reimbursement Charge

Current ACWD Development Charges*

Residential Type (by Unit)	FCC	FRC	Total
Single Family Dwelling	\$6,862	\$461	\$7,323
Multiple Dwelling Units	\$5,490	\$368	\$5,858
Residential Dormitory Units	\$4,119	\$276	\$4,395

*Effective May 1, 2018

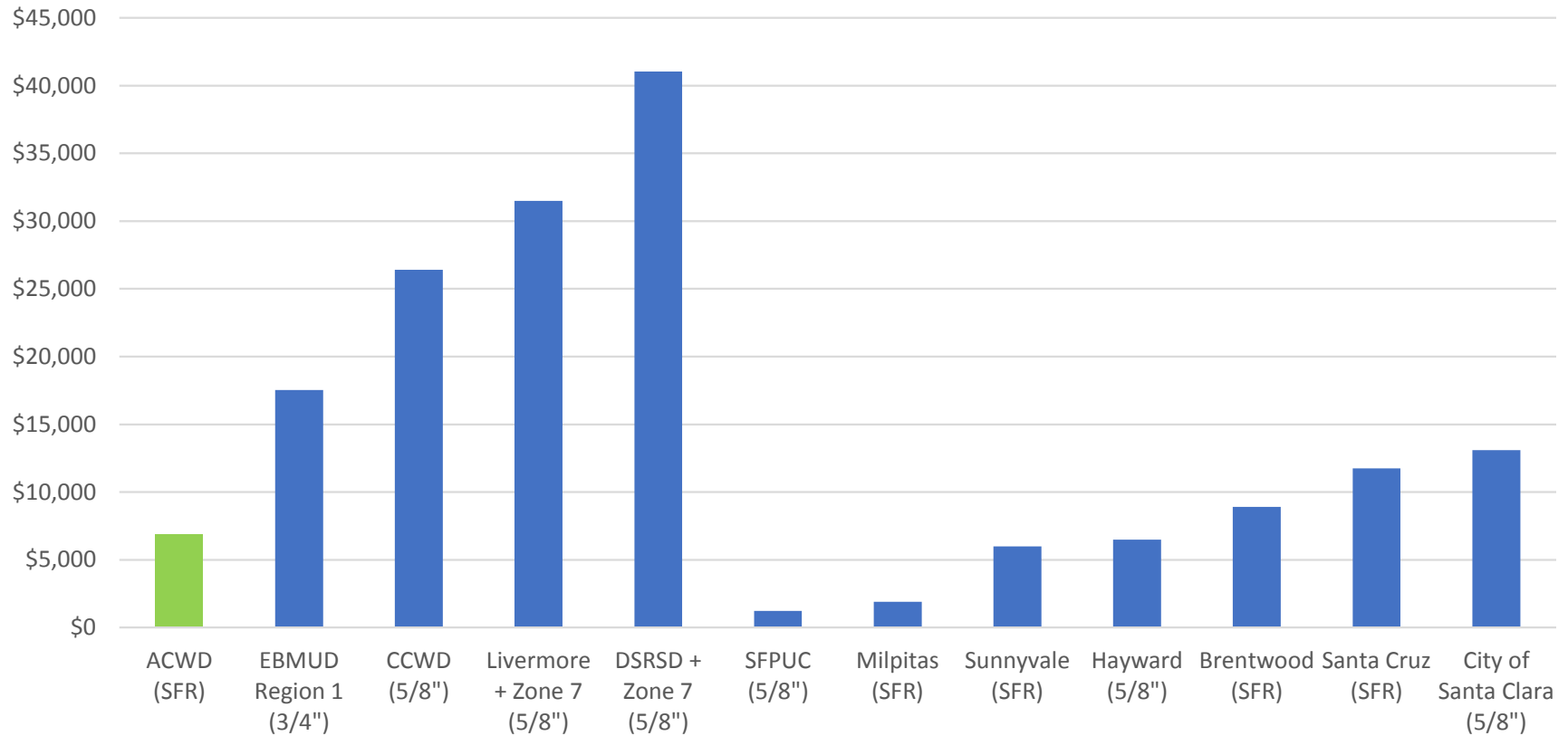
Current ACWD Development Charges*

Non-Residential (by Meter Size)	Capacity (GPM)	FCC	FRC	Total
3/4"	30	\$10,293	\$691	\$10,984
1"	50	\$17,153	\$1,152	\$18,305
1-1/2"	100	\$34,308	\$2,305	\$36,613
2"	160	\$54,892	\$3,688	\$58,580
3"	350	\$120,076	\$8,067	\$128,143
4"	600	\$205,845	\$13,830	\$219,675
6"	1,350	\$463,151	\$31,117	\$494,268
8"	1,600	\$548,919	\$36,880	\$585,799

*Effective May 1, 2018

Connection/Capacity Charge Survey

Single Family Residential*



*SFR – Charge based on Unit Type
5/8" or 3/4" – Charge based on Meter Size

Facilities Reimbursement Charge

- » FRC tailored for a period of rapid growth and area expansion that required reimbursable infrastructure that benefited other developers (offsite facilities, extensions, oversized mains, etc.)
- » Anticipated to have greater infill development in the future with less need for additional reimbursable infrastructure
- » RFC and staff recommend restructuring the FRC to align with current FCC methodology
- » Staff will present a recommended plan to restructure the FRC and provide preliminary results at a future workshop

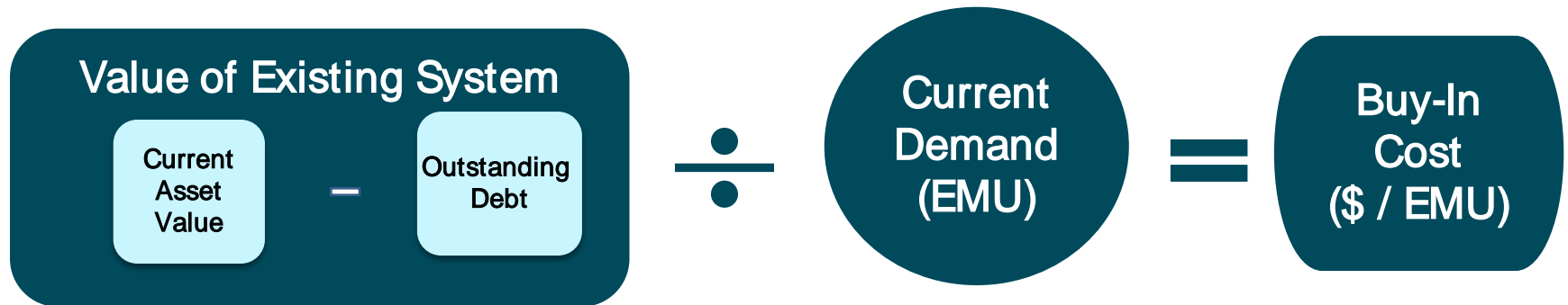
Development Charges Methodologies

- » Three different methodologies
 - Buy-in
 - Incremental
 - Hybrid

Equity Buy-in Method

Focuses on Total Value and Current Demand of Existing System

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

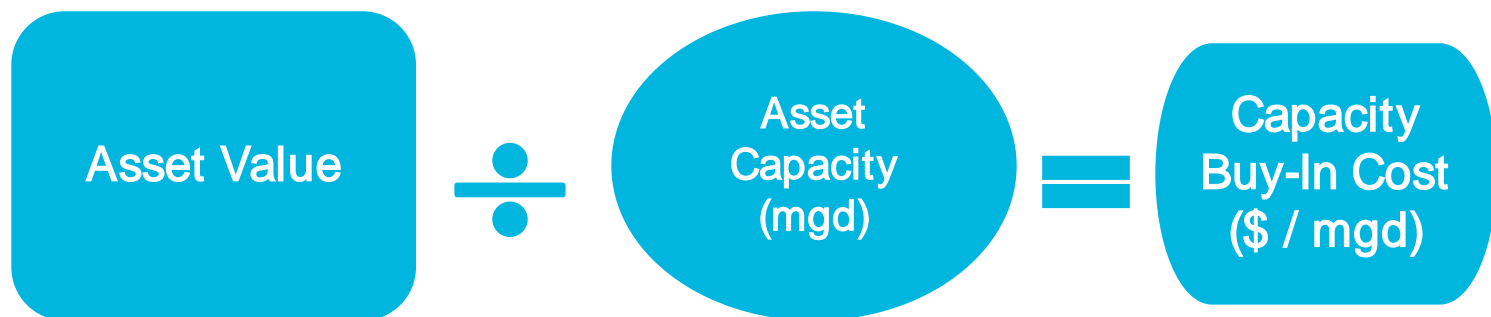


- * Did not include reserves in ACWD preliminary calculations
- EMU = Equivalent Meter Units

Capacity Buy-in Method

Focuses on Asset Values and Capacity of Each Asset

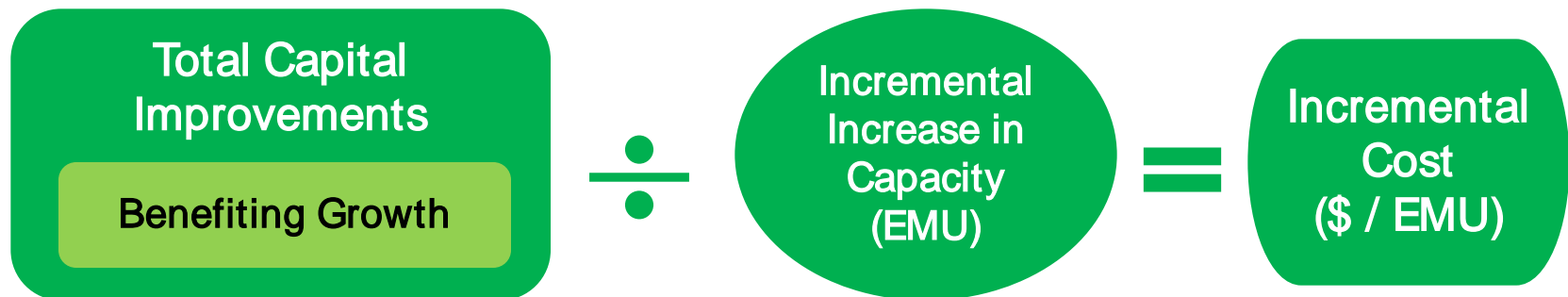
- » Based on the similar premise as the Equity Buy-In method except each major asset is divided by that asset's capacity



Incremental Cost Method

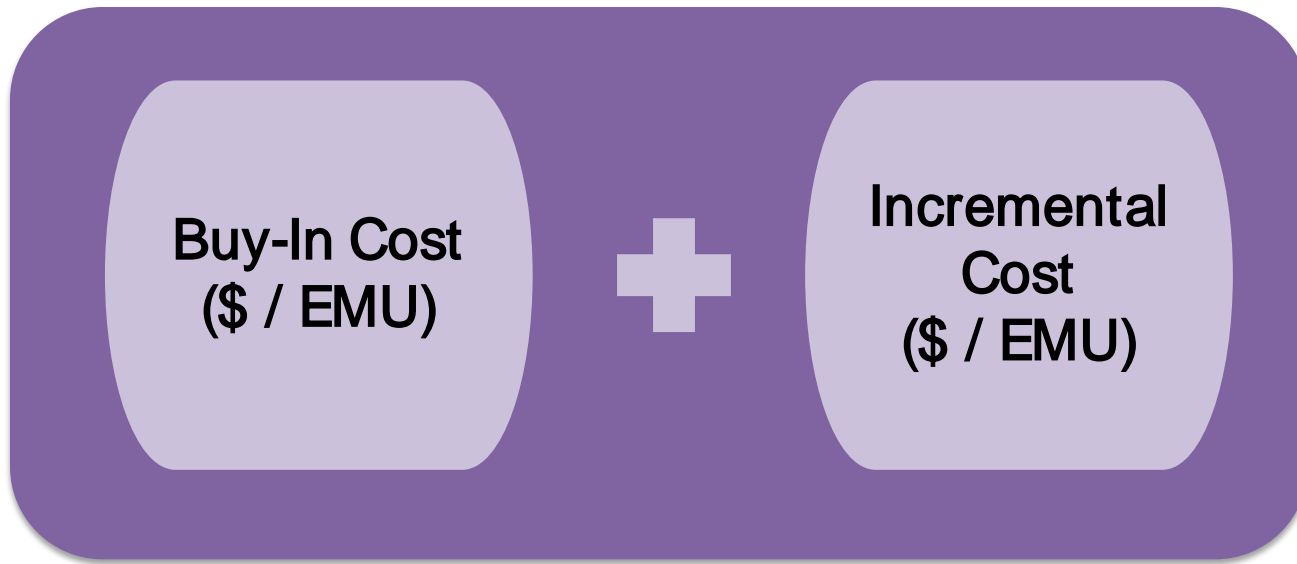
Recovers Growth Portion of Capital Plan

- » Focuses on the cost of additional facilities included in Capital Improvement Program (CIP)
- » New customers pay for additional capacity requirements



HYBRID METHOD

- » Combination of Buy-In and Incremental Methods



Capacity Fees Survey

» Santa Cruz

– Equity Buy-In

- Has some capacity remaining in its system, but has supply and systematic constraints. Largely built out and expect most projects will be infill.

» East Bay MUD

– Hybrid

- Have three sets of capacity costs, system-wide buy-in costs, regional facility specific buy-in costs, and future water supply costs.

Capacity Fees Survey

» Livermore

– Hybrid

- The fee covers the capacity cost of the current system as well as the cost of acquiring future water supplies.

» Dublin San Ramon Services District

– Hybrid

- Hybrid fee has three components: Capacity Buy-In Component, an Expansion Component, and Debt Service Component.

Capacity Fees Survey

» Contra Costa Water District

– Hybrid

- Some current facilities “have capacity available to serve future customers” and “growth in demand necessitates additional facilities in order to provide additional required capacity.”

» Brentwood

– Capacity Buy-In

- “Additional water facilities to serve new development through build-out of the City” are paid for through this fee. These facilities have already been built and have a substantial amount of capacity remaining (~80%).

Methodology Characteristics

Methodology	Characteristics
Equity Buy-In	<ul style="list-style-type: none">• Buying into all assets brings newcomers up to same level as long time rate payers• Funds collected can be used to off-set impacts to current infrastructure
Capacity Buy-In	<ul style="list-style-type: none">• Buying into existing capacity that has been preplanned for anticipated new development
Incremental (Current Approach)	<ul style="list-style-type: none">• Ties directly to new capacity or infrastructure solely needed for new development
Hybrid*	<ul style="list-style-type: none">• Many agencies use this approach• Good way to recover cost associated with current and new infrastructure

*Recommended Methodology with 5 year phase-in of Buy-in Component

Methodology Selection Matrix

Criteria	Equity Buy-In	Capacity Buy-In	Incremental	Hybrid
Capacity available to serve future growth; no new facilities planned	✓	✓		
No current capacity available to serve future growth; new facilities are already planned			✓	
Some capacity available, but some additional facilities are required to serve future growth				✓

» Considerations:

- Close to build-out?
- Remaining capacity?
- Available information on planned facilities?

Current Methodology

- » Incremental approach – “Growth pays for Growth”
- » Residential charges based on units
- » Non-residential charges based on meter size/capacity
- » Single Family Residential (SFR) – charged at the equivalent to 5/8” meter
- » Multi-Family Residential charged at 80% of SFR
- » Dormitory units charged at 60% of SFR

Option 1: Equity Buy-in

Approach 1: Equity Buy-In

Total Assets Value:	\$1,057,044,389
Total Outstanding Debt:	\$118,026,788
Value of Existing System:	<u>\$939,017,602</u>
Current Demand (EMUs)*	110,065
Equity Buy-In Capacity Fee (Per EMU)	\$8,531

* Capacity unit of one EMU is based on $\frac{3}{4}$ " meter.

Option 2: Incremental

Approach 2: Incremental Cost

Total Growth CIP:	\$191,062,110
(LESS) FIF Fund Balance:	<u>\$41,461,500</u>
Growth EMUs (2018 - 2041)*	<u>16,726</u>
Incremental Cost Capacity Fee (Per EMU)	\$8,944

* Capacity unit of one EMU is based on $\frac{3}{4}$ " meter.

Option 3: Hybrid

Approach 3: Hybrid Approach

Equity Buy-in Fee (Per EMU)	\$8,531
Incremental Cost Fee (Per EMU)*	\$8,944
Hybrid Capacity Fee	\$17,476

* Capacity unit of one EMU is based on $\frac{3}{4}$ " meter.

Preliminary Development Charges (Residential based on Unit Type)

Residential Type (by Unit)	Equity Buy-In	Incremental	Hybrid
Single Family Dwelling	\$5,688	\$5,963	\$11,651
Multiple Dwelling Units (80%)	\$4,550	\$4,770	\$9,320
Residential Dormitory Units (60%)	\$3,413	\$3,578	\$6,991

Preliminary Development Charges (Non-Residential based on Meter Size)

Non-Residential (by Meter Size)	Capacity (GPM)	Buy-in	Incremental	Hybrid
3/4"	30	\$8,531	\$8,944	\$17,475
1"	50	\$14,219	\$14,907	\$29,126
1-1/2"	100	\$28,438	\$29,814	\$58,252
2"	160	\$45,501	\$47,702	\$93,203
3"	350	\$99,534	\$104,349	\$203,883
4"	600	\$170,630	\$178,884	\$349,514
6"	1,350	\$383,917	\$402,489	\$786,406
8"	1,600	\$445,012	\$477,024	\$932,036

Preliminary Development Charges (based on Meter Size)

Meter Size	Capacity (GPM)	Buy-in	Incremental	Hybrid
5/8" (not currently applicable)	20	\$5,688	\$3,659	\$9,347
3/4"	30	\$8,531	\$5,489	\$14,020
1"	50	\$14,219	\$9,148	\$23,367
1-1/2"	100	\$28,438	\$18,295	\$46,733
2"	160	\$45,501	\$29,272	\$74,773
3"	350	\$99,534	\$64,033	\$163,567
4"	600	\$170,630	\$109,770	\$280,400
6"	1,350	\$383,917	\$246,983	\$630,900
8"	1,600	\$445,012	\$292,721	\$747,733

Preliminary Development Charges (Residential Five Year Phase-in)

Residential Type (by Unit)	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Single Family Dwelling	\$7,100	\$8,238	\$9,375	\$10,513	\$11,651
Multiple Dwelling Units (80%)	\$5,680	\$6,590	\$7,500	\$8,410	\$9,320
Residential Dormitory Units (60%)	\$4,260	\$4,943	\$5,625	\$6,308	\$6,991

Preliminary Development Charges (Non-Residential Five Year Phase-in)

Non-Residential (by Meter Size)	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
3/4"	\$10,650	\$12,356	\$14,062	\$15,768	\$17,475
1"	\$17,750	\$20,594	\$23,438	\$26,282	\$29,126
1-1/2"	\$35,501	\$41,189	\$46,876	\$52,564	\$58,252
2"	\$56,802	\$65,902	\$75,002	\$84,102	\$93,203
3"	\$124,255	\$144,162	\$164,069	\$183,976	\$203,883
4"	\$213,010	\$247,136	\$281,262	\$315,388	\$349,514
6"	\$479,272	\$556,055	\$632,839	\$709,622	\$786,406
8"	\$566,026	\$655,028	\$744,031	\$833,033	\$922,036

Preliminary Development Charges (Meter Size Five Year Phase-in)

Meter Size	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
5/8" (no currently applicable)	\$4,796	\$5,934	\$7,071	\$8,209	\$9,347
3/4"	\$7,195	\$8,901	\$10,607	\$12,313	\$14,020
1"	\$11,991	\$14,835	\$17,679	\$20,523	\$23,367
1-1/2"	\$23,982	\$29,670	\$35,357	\$41,045	\$46,733
2"	\$38,372	\$47,472	\$56,572	\$65,672	\$74,773
3"	\$83,939	\$103,846	\$123,753	\$143,660	\$163,567
4"	\$143,896	\$178,022	\$212,148	\$246,274	\$280,400
6"	\$323,766	\$400,549	\$477,333	\$554,116	\$630,900
8"	\$381,723	\$470,725	\$559,728	\$648,730	\$737,733

Case Studies

385 Multi-Family Residential development (multiple master meters)

Per Unit	Meter Size
385 MFR units x \$9,320 = \$3,588,200	2" meter (x35): \$74,773 x 35 = \$2,617,055 2" meter (irrigation) = \$74,773 Total = \$2,691,828

15 Single Family Residential + 12 unit Multi-Residential mix development (individually metered)

Per Unit	Meter Size
15 SFR units x \$11,651 = \$174,765 12 MFR units x \$9,320 = \$111,840 Total = \$286,605	1" meter (x15): \$23,367 x 15 = \$350,505 1" meter (x12): \$23,367 x 12 = \$280,404 Total = \$630,909

*Assumes full phase-in charges

Case Studies

Existing Single Family Residential upsized from 3/4" to 1"

Per Unit	Meter Size
No Fee	3/4" meter: \$14,020 1" meter: \$23,367 Difference = \$9,347

15 Single Family Residential development with charges adjusted for fire flows (individually metered)

Per Unit	Meter Size
15 SFR units x \$11,651 = \$174,765	3/4" meter (x15): \$14,020 x 15 = \$210,300

*Assumes full phase-in charges

Unit Type/Meter Size Approach Considerations

Unit Type	Meter Size
Based on understood residential capacity impact	Based on meter capacity –potential impact on the system
Consistent with how District facilities are sized (based on water demands and fire flows)	Consistent methodology for all service types
Applicant maintains responsibility for meter size with District applying a reasonableness test	Consistent with how the District's bimonthly service charges are calculated
No impact to meters upsized for fire flows	Can adjust meter size assessment to account for fire flows
Fees are independent of metering configuration	Fees vary by number and size of meters

Unit Type/Meter Size Approach Considerations

Unit Type	Meter Size
Not all single-family residential properties place the same demand on the water system	Commercial and Residential customers have different water use patterns
Maintains current policies and procedures	Administrative process to implement methodology
Requires periodic recalibration between SFR, MFR, and non-residential demands	Workload impact as applicants propose reduced sizes and numbers of meters
Consistent with District standard to individually meter residential units	Simplifies fee setting process and approach used by 7 of 11 surveyed agencies

Staff Recommendation

- » Restructure FRC to align with FCC methodology
- » RFC and staff recommend implementing the Hybrid methodology with a five year phase-in of buy-in component
 - Buy-in component recognizes value of system that helps serve new connections
 - Incremental component continues “growth pays for growth”
- » Soft recommendation of transitioning to meter size for all connection charges, but both approaches have merit
 - If Board interest in this approach, staff will follow up with administrative considerations at a future workshop

Multi-Year Adjustments

- » Development Charges are not typically sensitive to annual changes in customer demands as water rates
- » M1 manual recommends reviewing development charges at least every five years
- » A few of the surveyed agencies index development charges to Engineering News-Record (ENR) Cost Construction Index (CCI)
 - San Francisco Public Utilities Commission
 - Contra Costa Water District
 - Dublin San Ramon Services District
- » RFC and staff recommend Facilities Connection Charges be adjusted annually based on the ENR CCI

Next Steps

- » Recap of today's discussion
 - Facilities Reimbursement Charge
 - Restructure
 - Facilities Connection Charge
 - Per unit vs. meter size for residential development charges
 - Development charge methodology
 - Multi-Year Adjustments
- » Follow up at April Financial Workshop

thank
YOU