



**DATE:** April 8, 2014

**CATEGORY:** New Business

**DEPT.:** Public Works and Finance and Administrative Services

**TITLE:** **Adopt an Ordinance Amending Chapters 28 and 35 of Mountain View City Code and Adopt a Resolution Amending Master Fee Schedule**

### **RECOMMENDATION**

1. Introduce an Ordinance Amending Chapter 28, Article V, Division 2 of the Mountain View City Code Relating to Utilities and Chapter 35, Article IV of the Mountain View City Code Relating to Connections and Connection Charges, to be read in title only, further reading waived, and set second reading for April 22, 2014 (Attachment 1 to the Council report).
2. Adopt a Resolution Amending the City of Mountain View Master Fee Schedule, to be read in title only, further reading waived (Attachment 2 to the Council report).

### **BACKGROUND**

The City levies development impact fees on new connections to the City's water and sewer systems to recover the costs of infrastructure benefitting new development. The City's current system of water and sewer development impact fees was designed in 1957, when growth consisted primarily of development of vacant property. These fees were last updated in 1989. Recognizing that development patterns have changed over the last several decades, the City recently retained a public finance consulting firm, Bartle Wells Associates (Bartle Wells), to review the existing fee system and recommend updates based on the current development patterns of infill, redevelopment, and land use intensification.

Based on the results of this recent study (Attachment 3), staff recommends replacing the City's current water and sewer development impact fees with new water and sewer capacity charges. A description of the current fees and proposed charges is provided in the following section, along with a comparison to neighboring agencies and potential costs for sample projects.

## **ANALYSIS**

### **Existing Methodology and Fees**

The current water and sewer development impact fees are based on the linear street frontage of each project and are referred to as “front-footage fees.” At the time this method to determine the fee was adopted, front-footage fees were commonly used by water and sewer agencies to recuperate costs related to new development. These fees are levied once for every parcel served by the City’s water and sewer systems, according to the amounts shown in Table 1. The current water and sewer fees for “existing facilities” are designed to recover capital costs associated with City-operated water and sewer mains and related infrastructure, and the current sewer fee for “off-site facilities” is designed to recover capital costs associated with the Palo Alto Regional Water Quality Control Plant (PARWQCP).

| Table 1<br>Current Water and Sewer Development Impact Fees |                                           |
|------------------------------------------------------------|-------------------------------------------|
| Fee                                                        | Fee Amount                                |
| Water                                                      |                                           |
| Water Main Existing Facilities Fee                         | \$91.33/linear street frontage per parcel |
| Wastewater                                                 |                                           |
| Sanitary Sewer Existing Facilities Fee                     | \$79.27/linear street frontage per parcel |
| Sanitary Sewer Off-Site Facilities Fee                     | \$317/net acre                            |

The current fees are only assessed once when a parcel initially develops, so they do not apply to redevelopment projects (e.g., infill or intensification), even if those projects place increased demand on the City’s water and sewer systems. For example, a commercial property that developed in the 1950s would have paid a fee based on the length of street frontage of the parcel. If that parcel redevelops today with high-density residential, no fee is paid regardless of how much additional demand is placed on the City’s system.

### **Proposed Methodology and Charges**

To capture the increased demand from all development projects, staff recommends replacing the current fees with new capacity-based charges that are calculated proportional to the increased demand each project places on the City’s water and sewer systems.

Bartle Wells evaluated three methodologies for calculating capacity charges, all of which were based on the capacity needs of individual development projects and all of which yielded similar results. These alternatives are:

System Buy-In Approach: In this approach, a cost per unit of capacity is calculated based on: (a) the total value of existing facilities; and (b) the total projected demands placed on each system through the year 2030 based on the 2030 General Plan land use assumptions. The average cost per unit of capacity is then applied to different types of connections to develop standard charges for specific residential and nonresidential developments. This is the recommended alternative.

Average Cost Approach (Through Build-Out): With this approach, the charge recovers the average cost of facilities, including existing infrastructure and future expansion-related improvements required to serve new development through projected build-out of the City. Compared with the System Buy-In Approach, this method recovers costs for additional facilities needed through build-out, but divides those costs by the higher level of capacity that future facilities will serve.

Buy-in + Expansion, Incremental Approach: Under this approach, new connections buy in for the remaining share of capacity in existing facilities available to serve growth, plus pay for future expansion-related improvements needed to meet the capacity needs of growth through projected build-out.

All three of these methods are commonly used and result in reasonable estimates of the cost of capacity in infrastructure benefitting growth. Bartle Wells and staff recommend the System Buy-In Approach because:

- Most of the City's existing water and sewer infrastructure currently has capacity available to serve new development. The System Buy-In Approach best reflects this reality.
- The other two approaches rely on estimates of future growth and needed expansion. While estimates can be made for these factors, using such estimates for calculating capacity fees adds an additional level of uncertainty compared with the System Buy-In Approach.
- The System Buy-In Approach is one of the most widely used and accepted approaches used, particularly for systems with existing capacity available to serve growth.

## Water Capacity Charges

Table 2 lists the inputs used to calculate the cost per unit of capacity in the City's water system. This unit cost is multiplied by the estimated water demand for three residential classes and five nonresidential meter sizes to develop the standard charges shown in Table 3.

| Table 2<br>Calculated Cost per Unit of Water System Capacity                       |                     |
|------------------------------------------------------------------------------------|---------------------|
| Value of City Water System Facilities<br>(95% of the Water System Asset Valuation) | \$219,494,799       |
| City Water System Service Capacity<br>(through 2030)                               | 13,671,000 gpd      |
| <b>Unit Cost</b>                                                                   | <b>\$16.056/gpd</b> |

| Table 3<br>Proposed Water Capacity Charges                                |                              |                     |
|---------------------------------------------------------------------------|------------------------------|---------------------|
| Residential                                                               | Demand                       | Capacity Charge     |
| Class 1: <i>Single-Family Detached</i>                                    | 225 gallons per day<br>(gpd) | \$3,613             |
| Class 2: <i>Townhomes; Duplexes; Row Houses; Small-Lot, Single-Family</i> | 85% of Class 1               | \$3,071             |
| Class 3: <i>Apartments, Mobile Homes, Condominiums</i>                    | 65% of Class 1               | \$2,348             |
| Nonresidential                                                            | Demand                       | Capacity Charge     |
| <i>3/4" meter</i>                                                         | <i>375 gpd</i>               | <i>\$6,021</i>      |
| <i>1" meter</i>                                                           | <i>625 gpd</i>               | <i>\$10,035</i>     |
| <i>1.5" meter</i>                                                         | <i>1,250 gpd</i>             | <i>\$20,070</i>     |
| <i>2" meter</i>                                                           | <i>2,000 gpd</i>             | <i>\$32,112</i>     |
| <i>3" meter</i>                                                           | <i>3,750 gpd</i>             | <i>\$60,210</i>     |
| <i>Larger than 3" meter</i>                                               | <i>Case-by-case</i>          | <i>\$16.056/gpd</i> |

### Sewer Capacity Charges

The sewer capacity charges were developed to calculate costs for two components related to the sewer system:

1. A unit cost for City facilities (based on flow); and
2. A unit cost for PARWQCP treatment facilities (based on flow and strength). Strength is determined by estimating the biological oxygen demand (BOD) and suspended solids (SS).

These unit costs are multiplied by the estimated flow and strength demands for three classes of residential connections and four classes of nonresidential connections to develop the standard charges shown in Table 4.

| Table 4<br>Proposed Sewer Capacity Charges                                |                         |                                    |                                   |
|---------------------------------------------------------------------------|-------------------------|------------------------------------|-----------------------------------|
| Customer Type                                                             | Flow                    | Strength<br>(BOD/SS)               | Capacity Charge                   |
| <b>Residential</b>                                                        |                         |                                    |                                   |
| Class 1: <i>Single-Family Detached</i>                                    | 200 <i>gpd</i>          | 200/200 <i>mg/l</i>                | \$3,003                           |
| Class 2: <i>Townhomes; Row Houses; Duplexes; Small-Lot, Single-Family</i> | 90% of Class 1          | 200/200 <i>mg/l</i>                | \$2,703                           |
| Class 3: <i>Apartments, Mobile Homes, Condominiums</i>                    | 70% of Class 1          | 200/200 <i>mg/l</i>                | \$2,102                           |
| <b>Nonresidential</b>                                                     |                         |                                    |                                   |
| Commercial/Retail                                                         | 100 <i>gpd</i>          | 150/150 <i>mg/l</i>                | \$1,462 <i>per 1,000 sq. ft.</i>  |
| Office/R&D                                                                | 150 <i>gpd</i>          | 130/80 <i>mg/l</i>                 | \$2,139 <i>per 1,000 sq. ft.</i>  |
| Restaurant                                                                | 700 <i>gpd</i>          | 600/450 <i>mg/l</i>                | \$12,318 <i>per 1,000 sq. ft.</i> |
| Hotels and Motels                                                         | 90 <i>gpd</i>           | 200/200 <i>mg/l</i>                | \$1,351 <i>per room</i>           |
| Industrial/Other                                                          | \$13.083 <i>per gpd</i> | \$1.304/\$1.304 <i>per lb./yr.</i> | Case-by-case                      |

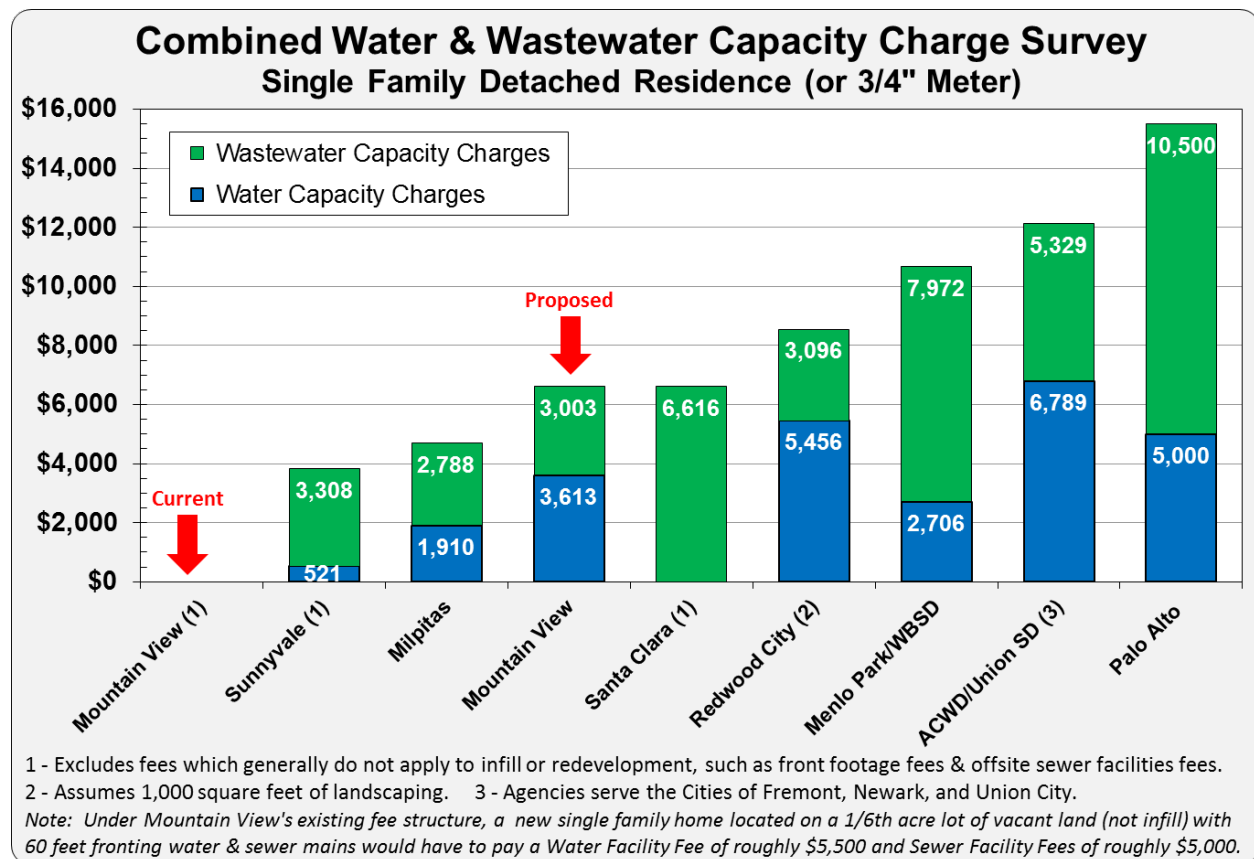
BOD = Biological Oxygen Demand  
SS = Suspended Solids

### Credit for Existing Site Improvements

Credit would be given for the demand associated with buildings/uses that previously existed on the site, so the capacity charges shown in Tables 3 and 4 would only be applied to the incremental increase in demand associated with the new development. In other words, if a single-family home were replaced with a single-family home, there would be no charge. If a single-family home were replaced with three single-family homes, the charge would reflect the demand associated with the two additional homes.

### Comparison to Neighboring Agencies

Figure 1 shows the City's current fees and proposed charges for a new single-family detached home on a redeveloping parcel compared to water and sewer (wastewater) charges for neighboring agencies. With the proposed updates, the City's combined charges would fall in the lower range compared to other neighboring agencies.



**Figure 1**

### **Proposed Charges for Sample Projects**

To provide a sense of how different projects may be affected by the proposed charges, Table 5 shows the approximate water and sewer capacity charges for four sample projects. Examples include townhomes, single-family homes, apartments, and an office building.

| Table 5<br>Combined Capacity Charges for Sample Projects     |                  |                                   |                      |                                 |
|--------------------------------------------------------------|------------------|-----------------------------------|----------------------|---------------------------------|
| New Improvements                                             | Capacity Charges | Existing Improvements             | Credits for Existing | Net Additional Capacity Charges |
| 24 townhomes<br>- 1" domestic meter<br>- 1" irrigation meter | \$140,000        | 26,000 sq. ft.<br>warehouse       | \$58,000             | \$82,000                        |
| 3 single-family homes                                        | \$19,800         | 1 single-family home              | \$6,600              | \$13,200                        |
| 50 apartment units                                           | \$220,000        | 10,000 sq. ft.<br>office building | \$41,000             | \$179,000                       |
| 100,000 sq. ft. office building                              | \$220,000        | 35,000 sq. ft.<br>office building | \$95,000             | \$125,000                       |
| Note: All estimates are preliminary and rounded.             |                  |                                   |                      |                                 |

### **Use of Funds Generated**

The funds generated with the proposed charges would be used to fund capital projects associated with providing and maintaining capacity in the City's water and sewer systems. Examples include replacement of end-of-life water and sewer mains, relining end-of-life sewer trunk mains, and upsizing undersized mains. These costs are estimated at \$28 million over just the next five years.

### **Outreach**

Staff sent the attached letter (see Attachment 3) to more than 200 civil engineers, land surveyors, real estate firms, and developers with information on the proposed charges. Staff held an information meeting on March 26, 2014, to introduce the proposed charges, answer questions, and get input. No one attended the meeting.

Staff has received feedback from several developers, and the common theme in their feedback is a request that the charges should not apply to developments already in the development process because the charges are potentially significant and would be unplanned.

### **IMPLEMENTATION**

If approved, staff recommends payment of the charges be required prior to issuance of a building permit as this is the practice for most current fees. Because the proposed charges are new for redevelopment projects in the City and many current projects are well into the entitlement process without having anticipated these charges, staff recommends Council take the actions required to adopt the charges but delay implementation for any building permit issued prior to July 1, 2015. This grace period would allow projects that are in the final planning review process time to obtain a building permit and not be subject to these new charges. This delay would also allow developers of newer projects the opportunity to plan for the charges. Under this scenario, developments that receive building permits prior to July 1, 2015 would not be subject to the charge, and those receiving building permits after that date would.

### **FISCAL IMPACT**

Revenues generated from the proposed charges would vary significantly depending on the amount of development activity in any given fiscal year. Staff estimates that during very active development periods, revenues could be as high as \$6.5 million per year while during an economic downturn, when development activity tends to slow, revenues could be less than \$1.0 million per year. The funds collected would be used to fund capital improvements associated with providing and maintaining capacity in the water and sewer systems. Such projects historically have been funded primarily through monthly water and sewer charges to residents and businesses, when surpluses have accumulated in the fund, or occasionally, through revenue bonds issued for major projects such as Graham Reservoir.

While staff does not expect the recommended charges to be sufficient to reduce water and sewer rates, future rate increases could likely be less than what would otherwise be necessary as these revenues become available to help fund capital projects.

This is a development impact fee (per AB 1600) and, therefore, it is necessary to report on the funds annually. This will be added to the annual report prepared by the Finance and Administrative Services Department with other development impact fees.



## **CONCLUSION**

To ensure that existing capacity remains available in the future, staff recommends that City Council approve the (1) the introduction of an ordinance amending Chapter 35 of the Mountain View City Code, relating to water and sewer capacity charges; and (2) adopt a resolution amending the City's Master Fee Schedule and require new development buy-in to the existing water and sanitary sewer systems.

## **ALTERNATIVES**

1. Do not adopt the recommended charges.
2. Adopt charges lower than recommended.
3. Approve a different implementation date, such as July 1, 2014 or January 1, 2015.
4. Phase implementation of the new charges by, for example, levying a reduced charge (say 50 percent) the first year, escalating to the full charge the second year.
5. Provide other direction.

## **PUBLIC NOTICING**

Notice for this item was posted with the agenda and mailed to parties on file with the City Clerk to receive notice of meetings related to new or increased fees or service charges. A letter regarding the proposed charges was sent to more than 200 firms and a public outreach meeting was held on March 26, 2014 to provide additional information and answer questions from local developers. An ad was placed in the *Mountain View Voice* announcing the City Council item. A copy of the report was forwarded to Chamber of Commerce and Tri-County Apartment Association Tri-County Division.

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EF-JAS/5/CAM  
703-04-08-14CR-E

- Attachments:
1. Ordinance Changes (with and without redlines)
  2. Resolution Amending the City of Mountain View Master Fee Schedule
  3. Letter Sent on March 18, 2014 to Developers, Civil Engineers, and Real Estate Professionals