

MEMORANDUM

Finance and Administrative Services Department

DATE: November 12, 2024

TO: City Council

FROM: Grace Zheng, Assistant Finance and Administrative Services Director
Derek Rampone, Finance and Administrative Services Director

VIA: Kimbra McCarthy, City Manager

SUBJECT: **Fiscal Year 2023-24 Annual Compliance Report for Capacity Charges**

BACKGROUND

California Government Code (CGC) Section 66013(d) requires local agencies that establish Water and Sewer Capacity Charges pursuant to CGC Section 66013 to make certain information available to the public within 180 days after the last day of each fiscal year. This report provides the required information for the City's Water and Sewer Capacity Charges.

ANALYSIS

Capacity charges are governed by CGC Section 66013 and are a charge for existing public facilities or new public facilities to be acquired or constructed in the future that are of proportional benefit.

1. *Water Capacity Charges Fund*

Description of the Charges Deposited in the Fund—CGC Section 66013(d)(1):

The City retained a consulting firm, Bartle Wells Associates (Bartle Wells), to review the existing fee systems and recommend updates based on the current development patterns of infill, redevelopment, and land use intensification. On April 8, 2014, the City Council adopted Water Capacity Charges with an effective date of July 1, 2015. These fees are to capture the increased demand from all development projects by assessing a capacity-based charge that is calculated proportional to the increased demand each project places on the City's water system.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66013(d)(2)-(3):

Beginning Balance, July 1, 2023		\$4,596,380
Water Capacity Charges	\$1,273,327	
Capital Project Refunds	-0-	
Investment Earnings	<u>277,959</u>	
Total Unaudited Revenues		1,551,286
Total Unaudited Expenditures		<u>(4,236,000)</u>
Unexpended/Available Balance, June 30, 2024		<u>\$1,911,666</u>

During Fiscal Year 2023-24, there were \$1.3 million of charges deposited, no capital project refunds, \$277,959 of investment earnings, and \$4.2 million of capital project funding. As of June 30, 2024, there is an unexpended/available balance of approximately \$1.9 million. The expenditures of \$4.2 million provide funding for capital projects. This, as well as capital projects previously funded by these fees, are listed in the following section, and the funds will be expended over the life of the capital project.

Identification of Each Public Improvement on Which Charges Were Expended in Fiscal Year 2023-24—CGC Section 66013(d)(4)(A)-(B) (dollars in thousands):

The table below shows active project(s) during the reporting period that have been partially or fully funded by Water Capacity Charges.

	Total Project Cost	FY 2022-23 Expenditures	LTD Expenditures	Total Water Capacity Charges Funding	% of Project Funded by Water Capacity Charges	Project Completed
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design (16-58)	\$4,422	\$ 735	\$ 3,472	\$ 444	10.0%	No
Water/Sewer Main Replacement Crossing 101 (16-61)	\$1,662	213	1,021	600	36.1%	No
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43)	\$22,402	108	3,277	86	0.4%	No
Misc. Water Main Repl. (19-21)	\$4,964	3,264	3,751	2,406	48.5%	No

	<u>Total Project Cost</u>	<u>FY 2022-23 Expenditures</u>	<u>LTD Expenditures</u>	<u>Total Water Capacity Charges Funding</u>	<u>% of Project Funded by Water Capacity Charges</u>	<u>Project Completed</u>
Water & Sewer Replacement 101 at Two Locations, Construction (20-41)	\$19,794	6,764	12,524	2,696	13.6%	No
Misc. Water Main/ Service Line Repl. (21-21)	\$4,260	1,567	2,636	600	14.1%	No
Annual Water Main/Service Line Repl. (23-08)	\$2,797	20	20	2,797	100.0%	No
Annual Water Main/Service Line Repl. (24-08)	\$3,077	<u>-0-</u>	<u>-0-</u>	<u>3,077</u>	100.0%	No
TOTAL		<u>\$12,671</u>	<u>\$26,701</u>	<u>\$12,706</u>		

Identification of Each Public Improvement Anticipated to be Undertaken in the Following Fiscal Year—CGC Section 66013(d)(4)(C):

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design (16-58), project was adopted in Fiscal Year 2015-16 and is partially funded with \$444,000 from the Water Capacity Charges Fund. The project will design a reversible bus lane along with bicycle and pedestrian improvements along Shoreline Boulevard from Middlefield Road to Pear Avenue, including improvements to replace water and sewer mains along Shoreline Boulevard from Middlefield Road to south of U.S. 101. The project is currently in the construction phase, and the remaining funds are being used for design completion, construction, and construction support.

The Water/Sewer Main Replacement Crossing Highway 101, Design (16-61), project was adopted in Fiscal Year 2015-16 and is partially funded with \$600,000 from the Water Capacity Charges Fund. This project is to design the replacement of a new water and sewer main to cross under U.S. 101 south of Shoreline Boulevard as well as a new water main under U.S. 101 at Macon Avenue to improve water service reliability to North Bayshore. Construction for the Macon Avenue water pipeline was completed and accepted by the City Council in December 2020. Construction for the water and sewer lines crossing U.S. 101 began in March 2024 and anticipated to be completed by the end of 2024.

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43), project was approved with the Fiscal Year 2017-18 budget and is partially funded with

\$86,000 from the Water Capacity Charges Fund. The project will construct the interim reversible bus lane along with bicycle and pedestrian improvements along Shoreline Boulevard from Middlefield Road to Pear Avenue, including improvements to replace water and sewer mains along Shoreline Boulevard from Middlefield Road to south of U.S. 101. The construction phase began in 2021 and is anticipated to be complete in 2025. Construction delays have occurred due to cancellation of a construction contract and phasing of project elements that caused additional design work.

The Annual Miscellaneous Water Main/Service Line Replacement (19-21) project was adopted in Fiscal Year 2018-19 and is partially funded with \$2,406,000 from the Water Capacity Charges Fund. These funds are being used to complete the Thaddeus Drive, Emmons Drive, Whitney Drive, Whitney Court, Parker Court, Alison Avenue, Begen Avenue, and North Whisman Road Water Main Replacement. Construction was completed in June 2024 and is anticipated to be accepted by Council by the end of 2024.

The Water & Sewer Replacement 101 at Two Locations, Construction (20-41), project was adopted in Fiscal Year 2019-20 and is partially funded with \$2,696,000 from the Water Capacity Charges Fund. This project is for the replacement of a new water and sewer main to cross under U.S. 101 south of Shoreline Boulevard as well as a new water main under U.S. 101 at Macon Avenue to improve water service reliability to North Bayshore. Construction for the Macon Avenue water pipeline was completed and accepted by the City Council in December 2020. Construction for the water and sewer lines crossing U.S. 101 began in March 2024 and is anticipated to be completed by the end of 2024.

The Annual Miscellaneous Water Main/Service Line Replacement (21-21) project was adopted in Fiscal Year 2020-21 and is partially funded with \$600,000 from the Water Capacity Charges Fund. These funds were used to complete the San Antonio and Miramonte Avenue Water Main Replacement Projects. The San Antonio Water Main Replacement Project was completed and accepted in September 2021. The Miramonte Avenue Water Main Replacement was completed and accepted in June 2024.

The Annual Water Main/Service Line Replacement (23-08) project was adopted in Fiscal Year 2022-23 and is fully funded from the Water Capacity Charges Fund. Project design is anticipated to be complete in spring 2025 with construction to follow in summer 2025.

The Annual Water Main/Service Line Replacement (24-08) project was adopted in Fiscal Year 2023-24 and is fully funded from the Water Capacity Charges Fund. The scope of work for the Annual Water Main/Service Line Replacement (23-08) project was increased, and the plan is to use funding from the Annual Water Main/Service Line Replacement (24-08) for construction.

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66013(d)(5):

During Fiscal Year 2023-24, a \$4.2 million Interfund Transfer was made to Capital Projects for the projects listed below and referenced in CGC Section 66013(d)(4)(A)-(C) above:

Project 20-41—Water & Sewer Replacement 101 at Two Locations, Construction—\$1.1 million Interfund Transfer

Project 24-08—Annual Water Main/Service Line Replacement—\$3.1 million Interfund Transfer

During Fiscal Year 2023-24, there were no refunds.

2. *Sewer Capacity Charges Fund*

Description of the Charges Deposited in the Fund—CGC Section 66013(d)(1):

The City retained a consulting firm, Bartle Wells, to review the existing fee systems and recommend updates based on the current development patterns of infill, redevelopment, and land use intensification. On April 8, 2014, the City Council adopted Sewer Capacity Charges with an effective date of July 1, 2015. These fees are to capture the increased demand from all development projects by assessing a capacity-based charge that is calculated proportional to the increased demand each project places on the City's sewer system.

Beginning and Ending Balances, Amount of Charges Collected, and Interest Earned—CGC Section 66013(d)(2)-(3):

Beginning Balance, July 1, 2023		\$10,825,788
Sewer Capacity Charges	\$ 553,967	
Investment Earnings	387,331	
Capital Project Refunds	<u>4,055,199</u>	
Total Unaudited Revenues		4,996,497
Total Unaudited Expenditures		<u>(6,918,000)</u>
Unexpended/Available Balance, June 30, 2024		<u>\$8,904,285</u>

During Fiscal Year 2023-24, there were \$553,967 in charges deposited, \$387,331 in investment earnings, \$4.1 million in capital project refunds, and \$6.9 million of capital project funding. As of June 30, 2024, there is an unexpended/available balance of approximately \$8.9 million. The expenditures of \$6.9 million provide funding for capital

projects. This, as well as capital projects previously funded by these fees, are listed in the following section, and the funds will be expended over the life of the capital project.

Identification of Each Public Improvement on Which Charges Were Expended in Fiscal Year 2023-24—CGC Section 66013(d)(4)(A)-(B) (dollars in thousands):

The table below shows active project(s) during the reporting period that have been partially or fully funded by Sewer Capacity Charges.

	<u>Total Project Cost</u>	<u>FY 2022-23 Expenditures</u>	<u>LTD Expenditures</u>	<u>Total Sewer Capacity Charges Funding</u>	<u>% of Project Funded Sewer Capacity Charges</u>	<u>Project Completed</u>
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design (16-58)	\$4,422	\$ 735	\$ 3,472	\$ 148	3.4%	No
Water/Sewer Main Replacement Crossing 101 (16-61)	\$1,662	213	1,021	200	12.0%	No
San Antonio Area Sewer Imp.— Design (17-50)	\$320	1	320	320	100.0%	Yes
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43)	\$22,402	108	3,277	358	1.6%	No
San Antonio Sewer Improvements (19-45)	\$2,843	107	223	2,313	81.4%	No
Misc. Storm/Sanitary Sewer Main Repl. (20-22)	\$1,649	-0-	-0-	145	8.8%	Yes
Water & Sewer Replacement 101 at Two Locations, Construction (20-41)	\$19,794	6,764	12,524	500	2.5%	No
Middlefield and Moffett Sewer Replacement, Design (22-42)	\$750	210	398	750	100.0%	No
Annual Storm/Sanitary Sewer Main Replacement (23-09)	\$1,750	-0-	-0-	1,750	100.0%	No
Annual Storm/Sanitary Sewer Main Replacement (24-09)	\$1,925	-0-	-0-	1,925	100.0%	No
Sondgroth/Showers/Martens Sewer Alignment (24-40)	\$3,910	<u>-0-</u>	<u>-0-</u>	<u>3,910</u>	100.0%	Yes
TOTAL		<u>\$8,138</u>	<u>\$21,235</u>	<u>\$12,319</u>		

Identification of Each Public Improvement Anticipated to Be Undertaken in the Following Fiscal Year—CGC Section 66013(d)(4)(C):

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design (16-58), project was adopted in Fiscal Year 2015-16 and is partially funded with \$148,000 from the Sewer Capacity Charges Fund. The status of this project is identified in the Water Capacity Charges section of this report.

The Water/Sewer Main Replacement Crossing Highway 101, Design (16-61), project was adopted in Fiscal Year 2015-16 and is partially funded with \$600,000 from the Water Capacity Charges Fund. The status of this project is identified in the Water Capacity Charges section of this report.

The San Antonio Area Sewer Improvement, Design (17-50), project was adopted in Fiscal Year 2017-18 and is fully funded from the Sewer Capacity Charges Fund. A utility easement has been obtained from the City of Palo Alto to replace the Alma Recorder. Construction has begun and is anticipated to be completed by the end of 2024.

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43), project was adopted in Fiscal Year 2017-18 and is partially funded with \$358,000 from the Sewer Capacity Charges Fund. The status of this project is identified in the Water Capacity Charges Fund section of this report.

The San Antonio Sewer Improvements (19-45) project was adopted in Fiscal Year 2018-19 and is partially funded with \$3,313,000 from the Sewer Capacity Charges Fund. The project consists of replacing and improving the sewer mains in the Sondgroth Way and Showers Drive area. The design is anticipated to be completed in spring 2025 with construction to follow in the summer 2025.

The Annual Miscellaneous Storm/Sanitary Sewer Main Replacement (20-22) project was adopted in Fiscal Year 2019-20 and is partially funded with \$145,000 from the Sewer Capacity Charges Fund. The project was closed as of June 2024 and funding returned to funding sources.

The Middlefield and Moffett Sewer Replacement, Design (22-42) project was adopted in Fiscal Year 2021-22 and is fully funded from the Sewer Capacity Charges Fund. This project will abandon a sewer main that parallels Stevens Creek and crosses State Route 85 by redirecting sewage to south on Moffett Boulevard and west on West Middlefield Road. The project design is anticipated to be completed by spring 2025 with construction to follow upon acquitting the necessary sewer easement from other public entities.

The Annual Storm/Sanitary Sewer Main Replacement (23-09) project was adopted in Fiscal Year 2022-23 and is fully funded from the Sewer Capacity Charges Fund. Project design is anticipated to be completed spring 2025 with construction to follow in summer 2025.

The Annual Storm/Sanitary Sewer Main Replacement (24-09) project was adopted in Fiscal Year 2023-24 and is fully funded from the Sewer Capacity Charges Fund. The scope of work for the Annual Storm/Sanitary Sewer Main Replacement (23-09) project was increased, and the plan is to use funding from the Annual Storm/Sanitary Sewer Main Replacement (24-09) for construction.

The Sondgroth/Showers/Martens Sewer Alignment (24-40) project was adopted in Fiscal Year 2023-24 and is fully funded from the Sewer Capacity Charges Fund. The proposed work in the Sondgroth Way and Showers Drive area is included in the San Antonio Sewer Improvements project (19-45), and the Martens Avenue work is included in the Annual Storm/Sanitary Sewer Main Replacement project (23-09) to maximize design efficiency. Therefore, the Sondgroth/Showers/Martens Sewer Alignment (24-40) project was closed in June 2024 and the funding returned to the Sewer Capacity Charges Fund.

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66013(d)(5):

During Fiscal Year 2023-24, a \$6.9 million Interfund Transfer was made to Capital Projects for the projects listed below and referenced in CGC Section 66013(d)(4)(A)-(C) above:

Project 19-45—San Antonio Sewer Improvements, Construction Phase II—\$1.1 million Interfund Transfer

Project 24-09—Annual Storm/Sewer Main Replacement—\$1.9 million Interfund Transfer

Project 24-40—Sondgroth/Showers Sewer Realignment—\$3.9 million Interfund Transfer

During Fiscal Year 2023-24, \$4,055,198.75 was refunded from capital projects for the projects listed below and referenced in CGC Section 66013(d)(4)(A)-(C) above:

Project 17-50—San Antonio Area Sewer Improvement, Design—\$198.75 refunded

Project 20-22—Misc. Storm Sewer Main Replacement—\$145,000 refunded

Project 24-40—Sondgroth/Showers Sewer Realignment—\$3,910,000 refunded

CONCLUSION

The Water and Sewer Capacity Charges are in compliance with CGC Section 66013 for annual reporting regarding the collection and use of capacity charges.

GZ-DR/6/FIN

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cc: PWD(A), APWD—Au, SMA—Goedicke, SMA—Doan