

MEMORANDUM

Finance and Administrative Services Department

DATE: November 7, 2023

TO: City Council

FROM: Elliot Young, Senior Financial Analyst
Grace Zheng, Assistant Finance and Administrative
Services Director
Derek Rampone, Finance and Administrative Services Director

VIA: Kimbra McCarthy, City Manager

SUBJECT: Fiscal Year 2022-23 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 and discusses 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, 2022		\$5,122,223
Water Capacity Charges	\$1,741,315	
Capital Project Refunds	1,829,979	
Investment Earnings	<u>236,863</u>	
Total Unaudited Revenues		3,808,157
Total Unaudited Expenditures		<u>(4,334,000)</u>
Unexpended/Available Balance, June 30, 2023		<u>\$4,596,380</u>

During Fiscal Year 2022-23, there were \$1.7 million of charges deposited, \$1.8 million of capital project refunds, \$236,863 of investment earnings, and \$4.3 million of capital project funding. As of June 30, 2023, there is an unexpended/available balance of \$4.6 million. The expenditures of \$4.3 million provide funding for a capital project. 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 2022-2023—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
Misc. Water Main Repl. (16-21)	\$3,833	\$ 212	\$3,833	\$ 804	21.0%	Yes
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design (16-58)	\$4,015	221	2,737	444	11.1%	No
Water/Sewer Main Replacement Crossing 101 (16-61)	\$1,452	4	808	600	41.3%	No
Misc. Water Main Repl. (17-21)*	\$3,509	582	3,509	1,597	45.5%	Yes
Misc. Water Main Repl. (18-21)	\$21	5	21	21	100.0%	Yes

	<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>
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43)	\$16,402	684	3,168	86	0.5%	No
Misc. Water Main Repl. (19-21)	\$4,964	229	487	2,406	48.5%	No
Water & Sewer Replacement 101 at Two Locations, Construction (20-41)	\$19,779	3,949	5,760	1,537	7.8%	No
Misc. Water Main/Service Line Repl. (21-21)	\$4,260	316	1,069	600	14.1%	No
Annual Water Main/Service Line Repl. (22-08)	\$2,742	2,742	2,742	1,600	58.4%	Yes
Annual Water Main/Service Line Repl. (23-08)	\$2,797	<u>-0-</u>	<u>-0-</u>	<u>2,797</u>	100.0%	No
TOTAL		<u>\$8,944</u>	<u>\$24,134</u>	<u>\$12,492</u>		

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

The annual Miscellaneous Water Main/Service Line Replacement (16-21) project was adopted in Fiscal Year 2015-16 and was partially funded with \$804,000 from the Water Capacity Charges Fund. These funds were used to complete the design and provide construction support for the Leong Drive Water and Sewer Main Replacement. Project construction was completed and accepted by the City Council in October 2020. The project is closed as of June 2023.

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design (16-58), capital project was adopted in Fiscal Year 2015-16 and was 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 construction support.

The Water/Sewer Main Replacement Crossing Highway 101, Design (16-61) project was adopted in Fiscal Year 2015-16 and was 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. Design for the Macon Avenue water pipeline was completed in October 2019, and construction was accepted by the City Council in December 2020. Design for the water and sewer lines crossing U.S. 101 is in the bidding phase and anticipated to be completed by the end of 2024.

The annual Miscellaneous Water Main/Service Line Replacement (17-21) project was adopted in Fiscal Year 2016-17 and was partially funded with \$1,079,000 from the Water Capacity Charges Fund. On March 9, 2021, the City Council approved transferring the balance of Capital Project 20-21, Annual Water Main/Service Line Replacement, to this capital project, including the Water Capacity Charge funding of \$518,000. This project has been completed as of June 2023.

The annual Miscellaneous Water Main/Service Line Replacement (18-21) project was adopted in Fiscal Year 2017-18 and was partially funded with \$787,000 from the Water Capacity Charges Fund. The project has been closed as of June 2023.

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43), is partially funded with \$86,000 from the Water Capacity Charges Fund. Construction began in March 2021 and is anticipated to be complete by end of 2024.

The annual Miscellaneous Water Main/Service Line Replacement (19-21) project was adopted in Fiscal Year 2018-19 and was partially funded with \$1,640,000 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. The project is in the construction phase and anticipated to be completed summer 2024.

The Water & Sewer Replacement 101 at Two Locations, Construction (20-41), project was adopted in Fiscal Year 2019-20 and was partially funded with \$1,537,000 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. The project is in the bidding phase and 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 was partially funded with \$600,000 from the Water Capacity Charges Fund. These funds are being 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 is in the construction phase and anticipated to be completed November 2023.

The annual Water Main/Service Line Replacement (22-08) project was adopted in Fiscal Year 2021-22 and was partially funded with \$1,600,000 from the Water Capacity Charges Fund. The project budget will be proposed to be transferred to the annual Water/Main Service Line Replacement (23-08) project in the upcoming CIP budget process.

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. The project is in the RFP phase, with project design anticipated to be complete in spring 2025.

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

During Fiscal Year 2022-2023, a \$4.3 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—\$1.5 million Interfund Transfer

Project 23-08—Annual Water Main/Service Line Replacement—\$2.8 million Interfund Transfer

During Fiscal Year 2022-23, \$1.8 million was refunded from capital projects listed below and referenced in CGC Section 66013(d)(4)(A)-(C) above:

Project 16-21—Miscellaneous Water Main/Service Line Replacement—\$44,418 Interfund Transfer

Project 17-21—Miscellaneous Water Main/Service Line Replacement—\$164,560 Interfund Transfer

Project 18-21—Miscellaneous Water Main/Service Line Replacement—\$5,287 Interfund Transfer

Project 22-08—Annual Water Main/Service Line Replacement—\$1.6 million Interfund Transfer

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, 2022		\$8,318,273
Sewer Capacity Charges	\$4,450,055	
Investment Earnings	287,605	
Capital Project Refunds	<u>19,855</u>	
Total Unaudited Revenues		4,757,515
Total Unaudited Expenditures		<u>(2,250,000)</u>
Unexpended/Available Balance, June 30, 2023		<u>\$10,825,788</u>

During Fiscal Year 2022-23, there were \$4.5 million in charges deposited, \$287,605 in investment earnings, \$19,855 in capital project refunds, and \$2.3 million in transfers to capital projects. As of June 30, 2023, there is an unexpended/available balance of \$10.8 million. 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 2022-23—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)	\$4,015	\$ 221	\$ 2,737	\$ 148	3.7%	No
Water/Sewer Main Replacement Crossing 101 (16-61)	\$1,452	4	808	200	13.8%	No
Misc. Storm/Sewer Main Repl. (17-22)	\$533	20	533	200	37.5%	Yes
San Antonio Area Sewer Imp.— Design (17-50)	\$320	22	319	320	100.0%	No
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43)	\$16,402	684	3,168	358	2.2%	No
San Antonio Sewer Improvements, Construction, Phase II (19-45)	\$1,760	47	116	1,230	69.9%	No
Misc. Storm/Sanitary Sewer Main Repl. (20-22)	\$1,649	-0-	-0-	145	8.8%	No
Water & Sewer Replacement 101 at Two Locations, Construction (20-41)	\$19,779	3,949	5,760	500	2.5%	No
Middlefield and Moffett Sewer Replacement, Design (22-42)	\$750	187	87	750	100.0%	No
Annual Storm/Sanitary Sewer Main Replacement (23-09)	\$1,750	<u>-0-</u>	<u>-0-</u>	<u>1,750</u>	100.0%	No
TOTAL		<u>\$5,134</u>	<u>\$13,628</u>	<u>\$5,601</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), capital project was adopted in Fiscal Year 2015-16 and was 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 was 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 annual Miscellaneous Storm/Sanitary Sewer Main Replacement (17-22) project was adopted in Fiscal Year 2016-17 and was partially funded with \$200,000 from the Sewer Capacity Charges Fund. The project was closed as of June 2023.

The San Antonio Area Sewer Improvement, Design (17-50), project is fully funded from the Sewer Capacity Charges Fund. A utility easement has been obtained from the City of Palo Alto, and construction will begin winter 2023.

The Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43), project was approved with the Fiscal Year 2017-18 budget, and construction began in March 2021. The status of this project is identified in the North Bayshore Development Impact—Water section of this report.

The San Antonio Sewer Improvements, Construction (19-45) project was adopted in Fiscal Year 2018-19 and was partially funded with \$1,230,000 from the Sewer Capacity Charges Fund. Construction is anticipated to begin December 2023.

The annual Miscellaneous Storm/Sanitary Sewer Main Replacement (20-22) project was adopted in Fiscal Year 2019-20 and was partially funded with \$145,000 from the Sewer Capacity Charges Fund. The project budget will be proposed to be transferred to the annual Storm/Sanitary Sewer Main Replacement (23-09) project in the upcoming CIP budget process.

The Middlefield and Moffett Sewer Replacement, Design (22-42) project was adopted in Fiscal Year 2021-22 and was fully funded from the Sewer Capacity Charges Fund. This project will abandon the sewer main parallel to Stevens Creek and crossing at State Route 85 by redirecting sewage to south on Moffett Boulevard and west on West Middlefield Road. Project design is anticipated to be completed spring 2024.

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

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

During Fiscal Year 2022-23, \$19,855 was refunded from capital project Miscellaneous Storm/Sanitary Sewer Main Replacement (17-22).

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.

EY-GZ-DR/4/FIN

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cc: APWD—Arango, APWD—Au, APWD—Skinner, SMA—Goedicke, SMA—Doan