

MEMORANDUM

Finance and Administrative Services Department

DATE: November 3, 2025

TO: City Council

FROM: Elliot Young, Principal 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 2024-25 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 proportionally 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, 2024		\$1,911,666
Water Capacity Charges	\$ 62,868	
Capital Project Refunds	1,576,000	
Investment Earnings	<u>294,245</u>	
Total Unaudited Revenues		1,933,113
Total Unaudited Expenditures		<u>(2,173,000)</u>
Unexpended/Available Balance, June 30, 2025		<u>\$1,671,779</u>

During Fiscal Year 2024-25, there were \$62,868 in charges deposited, \$1.6 million in capital project refunds, \$294,245 in investment earnings, and \$2.2 million in expenditures. As of June 30, 2025, there is an unexpended/available balance of approximately \$1.7 million. The expenditures of \$2.2 million provide funding for capital projects. These, 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 2024-25—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 2024-25 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)	\$4,656	\$ 359	\$ 3,830	\$ 444	9.5%	No
Water/Sewer Main Replacement Crossing 101 (16-61)	\$1,662	443	1,464	600	36.1%	No
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43)	\$29,758	51	3,328	86	0.2%	No
Misc. Water Main Repl. (19-21)	\$4,964	92	3,843	2,406	48.5%	No

	<u>Total Project Cost</u>	<u>FY 2024-25 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)	\$21,649	6,985	19,509	3,067	14.2%	No
Misc. Water Main/ Service Line Repl. (21-21)	\$4,260	198	2,834	600	14.1%	No
Annual Water Main/Service Line Repl. (23-08)	\$4,298	266	286	4,298	100.0%	No
Annual Water Main/Service Line Repl. (24-08)	\$1,576	-0-	-0-	1,576	100.0%	No
Annual Water Main/Service Line Repl. (25-08)	\$3,200	<u>-0-</u>	<u>-0-</u>	<u>1,802</u>	56.3%	No
TOTAL		<u>\$7,449</u>	<u>\$22,629</u>	<u>\$11,343</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. Construction is anticipated in Spring 2026 and is anticipated to be completed by Fall 2027.

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 was completed and accepted by the City Council in October 2025.

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. The project is currently in the construction phase, and the remaining funds are being used for design completion, construction, and construction support. Construction is anticipated in Spring 2026 and is anticipated to be completed by Fall 2027.

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 and accepted by the City Council in May 2025.

The Water & Sewer Replacement 101 at Two Locations, Construction (20-41), project was adopted in Fiscal Year 2019-20 and is partially funded with \$3.1 million 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 was completed and accepted by the City Council in October 2025.

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. This project remains active as there are additional components not funded by the Water Capacity Charges Fund, which is still ongoing. As a result, the project remains active for the City.

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. These funds are being used to complete the Old Middlefield Way, Alvin Street, Drucilla Drive, Carla Court, Bonita Avenue, Gretel Lane, and Barbara Avenue Water Main Replacement. Project design

has been completed. Construction is anticipated to begin in late 2025 and be completed in early 2027.

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. To accommodate the expanded scope, funding from the Annual Water Main/Service Line Replacement (24-08) was appropriated and transferred to the Annual Water Main/Service Line Replacement (23-08) to support construction.

The Annual Water Main/Service Line Replacement (25-08) project was adopted in Fiscal Year 2024-25 and is partially funded with \$1.8 million from the Water Capacity Charges Fund. These funds are being used to design the Pettis Avenue, Villa Street, Lauella Court, Whisman Station Drive, and Minaret Avenue Water Main Replacement. Project design is anticipated to be completed at the end of 2026 with construction to follow and completed early 2028.

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

During Fiscal Year 2024-25, a \$2.2 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—\$371,000 Interfund Transfer

Project 25-08—Annual Water Main/Service Line Replacement—\$1.8 million Interfund Transfer

During Fiscal Year 2024-25, a \$1.6 million refund from Capital Projects was made for the project listed below and referenced in CGC Section 66013(d)(4)(A)-(C) above:

Project 24-08—Annual Water Main/Service Line Replacement

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 proportionally 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, 2024		\$8,904,285
Sewer Capacity Charges	\$ 45,094	
Investment Earnings	462,184	
Capital Project Refunds	<u>-0-</u>	
Total Unaudited Revenues		507,278
Total Unaudited Expenditures		<u>(8,916,000)</u>
Unexpended/Available Balance, June 30, 2025		\$ <u>495,563</u>

During Fiscal Year 2024-25, there were \$45,094 in charges deposited, \$462,184 in investment earnings, no capital project refunds, and \$8.9 million in expenditures. As of June 30, 2025, there is an unexpended/available balance of approximately \$496,000. The expenditures of \$8.9 million provide funding for capital projects. These projects, 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 2024-25—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 2024-25 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)	\$4,656	\$ 359	\$ 3,830	\$ 148	3.1%	No
Water/Sewer Main Replacement Crossing 101 (16-61)	\$1,662	443	1,464	200	12.0%	No
Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (18-43)	\$29,758	32	3,328	391	1.3%	No
San Antonio Sewer Improvements (19-45)	\$6,753	2,230	2,454	6,223	92.2%	No
Water & Sewer Replacement 101 at Two Locations, Construction (20-41)	\$21,649	6,984	19,509	871	4.0%	No
Middlefield and Moffett Sewer Replacement, Design (22-42)	\$10,440	59	457	3,350	32.1%	No
Annual Storm/Sanitary Sewer Main Replacement (23-09)	\$6,640	264	264	3,675	55.3%	No
Annual Storm/Sanitary Sewer Main Replacement (25-09)	\$2,002	<u>7</u>	<u>7</u>	<u>2,002</u>	100.0%	No
TOTAL		<u>\$10,378</u>	<u>\$31,313</u>	<u>\$16,860</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 & 18-43), 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 \$200,000 from the Sewer Capacity Charges Fund. The status of this project is identified in the Water Capacity Charges section of this report.

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 \$391,000 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 \$6.2 million from the Sewer Capacity Charges Fund. The project consists of replacing and improving the sewer mains in the Sondgroth Way and Showers Drive area. Project design has been completed. Construction is anticipated to begin early 2026 and be completed by the end of 2026.

The Water & Sewer Replacement 101 at Two Locations, Construction (20-41), project was adopted in Fiscal Year 2019-20 and is partially funded with \$871,000 from the Sewer Capacity Charges Fund. The status of this project is identified in the Water Capacity Charges section of this report.

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 substantially completed, with pending sewer easement acquisition from other public entities. Construction will follow once the necessary sewer easement has been secured.

The Annual Storm/Sanitary Sewer Main Replacement (23-09) project was adopted in Fiscal Year 2022-23 and is partially funded with \$3.7 million 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 (25-09) project was adopted in Fiscal Year 2024-25 and is fully funded from the Sewer Capacity Charges Fund. These funds are being used to design the Pettis Avenue and Villa Street Sewer Main Replacement. Project design is anticipated to be completed at the end of 2026 with construction to follow and completed early 2028.

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

During Fiscal Year 2024-25, an \$8.9 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 18-43—Shoreline Boulevard Interim Bus Lane and Utility Improvements, Construction (Renamed to Shoreline Boulevard Active Transportation and Utility Improvements, Construction) —\$33,000 Interfund Transfer

Project 19-45—San Antonio Sewer Improvements, Construction—\$3.9 million Interfund Transfer

Project 20-41—Water & Sewer Replacement 101 at Two Locations, Construction—\$371,000 Interfund Transfer

Project 22-42—Middlefield and Moffett Sewer Replacement, Design—\$2.6 million Interfund Transfer

Project 25-09—Annual Storm/Sanitary Sewer Main Replacement—\$2.0 million Interfund Transfer

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.

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