

STAFF REPORT

To: Board of Directors
From: Donna Silva, Director of Finance
Date: March 23, 2022
Subject: Retail Capital Facility Fee Update

RECOMMENDED ACTION

Adopt Resolution 22-06 approving proposed Retail Capital Facility Fees as described in Table 9 of the attached Capital Facility Fee Study Report and approving annual fee adjustments in line with the Construction Cost Index.

BACKGROUND

San Juan Water District's Ordinance #14000 establishes a connection fee, which includes, at a minimum, a capital facilities fee, annexation fee (if applicable), a meter installation inspection fee and a deposit for installing a service tap (as applicable). The ordinance specifies that the amount of fees and charges, shall be determined according to rates set by the Board of Directors and set forth in the District's current Schedule of Rates, Fees, Charges, and Deposits.

Government Code Section 66013 establishes that capital facility fees shall not exceed the estimated reasonable cost of providing the serve for which the fee is imposed, (unless approved by voters).

In the fall of 2018, the San Juan Water District contracted with The Reed Group, Inc., to conduct a Wholesale and Retail Capital Facility Fee Study. The Reed Group engaged Hildebrand Consulting as a subcontractor for the project. The overall purpose of the study was to review the District's existing Capital Facility Fees and update those fees as appropriate. The last comprehensive capital facility fee studies were conducted in 2006 (retail) and 2007 (wholesale).

After commencement of the study, it was concluded that the wholesale capital facility fees should be updated, but the retail capital facility fees should not be revisited until the District's completion of the next Retail Master Plan, which was planned to be completed in the near term. The Retail Master Plan would likely identify the need for projects that would have a material impact on the retail capital facility fees. As such, the wholesale fees were updated in 2018, but the retail capital facility fees were not.

Upon completion of the Retail Master Plan in 2020, the District re-engaged Hildebrand Consulting to complete the Retail Capital Facility Fee Study.

The results of the study were first presented to the Board and the public at the August 25, 2021 board meeting. Based on the estimates and calculations the fees were recommended to decrease by approximately 15%. The Board gave staff direction to re-evaluate the estimates used in the study and provide a comparison of fees charged by other local jurisdictions.

After evaluating the estimates and assumptions used, staff and the consultant recommend the following modifications:

- Remaining Existing Capacity:
There are several methodologies that can be utilized to calculate a capital facility fee. Because the District is substantially built out, but does have significant capital projects planned that will increase system capacity, the study utilizes a hybrid methodology that blends two approaches, the buy-in approach and the incremental approach. Under the buy-in method the fee is calculated by determining the current depreciated value of the existing system, to reimburse existing rate payers for the historical investments they have made in the system. Under the incremental method, the fee is based upon the portion of future planned projects that will increase the capacity of the system. A critical component of the hybrid method is the determination of the estimated remaining capacity in the existing system. The study presented to the Board on August 25, 2021 assumed the existing system has 15% remaining capacity. Calculating the number of additional connections that could theoretically be served with the District' existing capacity would require a very complex and expensive hydraulic flow analysis that is outside the scope of the current study. Based on input from the District's engineers, the rate consultant reduced his initial estimate of 15% remaining capacity to 10% remaining capacity. The consultant feels this is a reasonable estimate.
- Number of Equivalent Meters: The District has historically grouped all customers with a 1" meter or smaller into a single customer class. By recognizing that some of those meters are in fact 3/4" and 5/8" meters, the number of calculated equivalent meters in the existing system has decreased, which thereby increases the Buy-In methodology results (and consequently the Hybrid results as well).

CURRENT STATUS

The study, attached for review and consideration, recommends a 2.3% increase in the fee for most meter sizes. Hildebrand Consulting recommends annual inflationary increases to the fee, tied to the Construction Cost Index (CCI). The resolution presented for approval authorizes the new fees, as well as an annual inflation of the fees in accordance with the November CCI.

Resolution 17-02 directs the General Manager to annually adjust the wholesale and retail capital facility fees by the November Consumer Price Index. The consumer price index tracks the change in consumer prices for “a representative basket of goods and services” for urban consumers. The basket of goods and services includes a combination of food, beverages, housing, apparel, transportation, medical care, recreations, education and communication, and other goods and services. A better index that more specifically applies to capital infrastructure projects is the Construction Cost Index (CCI). CCI is calculated by Engineering News-Record (ENR) and tracks the change in prices for a specific combination of construction labor, steel, concrete, cement and lumber using data from 20 cities across the United States. This index is probably much closer to the actual costs that the District will pay for its future infrastructure projects than the CPI, and staff recommends using this index going forward to adjust both the wholesale and the retail capital facility fees.

Attachments:

Retail Capital Facility Fee Study – September 3, 2021
Resolution 22-06
Retail Capital Facility Fee Study Presentation



Retail Capital Facility Fee Study

Draft Revision Report

September 3, 2021



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1. INTRODUCTION AND BACKGROUND

In the Spring of 2021, the San Juan Water District (District) contracted with Hildebrand Consulting, LLC to conduct a Retail Capital Facility Fee Study (Study). Hildebrand Consulting engaged The Reed Group as a subcontractor for this project. The overall purpose of the study was to review the District’s existing Retail Capital Facility Fees which apply to new connections within the retail service area and update those fees as appropriate. **Table 1** summarizes the District’s current Retail Capital Facilities Fees.

Table 1 - Current Retail Capital Facility Fees

1" meter	\$15,726
1 1/2" meter	\$31,452
2" meter	\$50,323
3" meter	\$100,648
4" meter	\$156,191
6" meter	\$314,525
8" meter	\$566,157
10" meter	\$912,141
12" meter	\$1,352,485

The last comprehensive capital facility fee study for the Retail system was conducted in 2006. The District has generally adjusted the fees for inflation each year. With the recent development of the 2020 Retail Water Master Plan the District determined that it was time for a comprehensive review and update of the Retail Capital Facility Fees. Wholesale water system facilities are excluded from the analysis herein.

This report summarizes the analysis and recommendations of the Retail Capital Facility Fee update, including the legal requirements and the Study’s methodology for calculating the Capital Facilities Fees.

2. ACRONYMS

The acronyms used in this study include:

- CAFR Comprehensive Annual Financial Report
- CCI Engineering News Record’s 20-cities Construction Cost Index
- COP Certificate of Participation
- EM equivalent meter
- ENR Engineering News Record
- RCNLD Replacement cost new less depreciation

3. CAPITAL FACILITY FEE AUTHORITY

Capital facility fees are the one-time charges paid by new development for capacity in the water system. The District currently charges capital facility fees to both its retail customers and wholesale customers. California state law gives the District broad authority to charge for capital facilities. The limitations of that authority are encompassed by the requirement that charges on new development bear a reasonable relationship to the needs created by, and the benefits accruing to that development. California courts use that reasonableness standard to evaluate the constitutionality of exactions on new development, including capital facility fees.

Government Code Section 66013 (see **Appendix A**) contains specific requirements related to the imposition of capital facility fees (referred to as “capacity charges” in the code). In general, capital facility fees must not exceed the estimated reasonable cost of providing service.

4. INTRODUCTION TO FEE METHODOLOGIES

There are various methods that can be used to calculate capital facility fees. Each method has varying advantages and disadvantages, as well as applicability in a given situation. Within all of the available methodologies there are two primary approaches. Other methodologies are usually some variation or combination of these two methods. The two primary methods are described below to illustrate the different perspectives that can be used to determine appropriate fees.

4.1. SYSTEM BUY-IN METHODOLOGY

The system Buy-In method is based on the average investment in the capital facilities by current customers. The ‘Buy-In’ concept means that existing system users, through service charges and fees, have financed a valuable public capital facility. The charge is designed to recognize the previous investments into the capacity/condition of the system and equitably charge developers for “joining” the system. The Buy-In fee is calculated by establishing the system’s current fixed asset value (accounting for depreciation), adding applicable assets (such as cash reserves), and deducting relevant liabilities (long-term debt, loans, etc.). The number of available units of service is then divided into this value (considered to be the utility’s equity) to establish the capital facility fees. By calculating the capital facility fees in this manner, new development buys into the existing capital facilities on par with existing development. The cost of future repair and replacement of the existing assets are then shared equally by all customers going forward (through user rates). The system Buy-In methodology has four distinct advantages:

- The Buy-In methodology is a common and generally well accepted methodology for calculating capital facility fees. The method is popular with developers in part because it can result in lower fees than other methods (since the capacity that is being purchased has been partially depreciated).

- The Buy-In methodology is simple because it includes only the cost of existing facilities and excludes the costs of future or planned facilities; therefore, it does not require a formal capital improvement program.
- The Buy-In methodology includes only the cost of existing facilities and excludes the cost of future or planned facilities; it therefore does not require a formal capital improvement plan to support the fee calculation.
- Capital facility fees based on the Buy-In method are a reimbursement for past capital costs. Therefore, the use (as defined in the Government Code) of the fee is to reimburse the District. Once reimbursed, the District is able to spend fee revenue as it desires (normally on capital projects), and the requirement for detailed accounting of fee revenues is greatly simplified.

The system Buy-In method is best applied in areas that are largely buildout and with infrastructure already in place.

4.2. INCREMENTAL METHODOLOGY

The Incremental cost methodology is also a common approach for capital facility fees, particularly for communities experiencing considerable new growth. The approach is based on the cost of new or planned capital facilities. The cost of growth-related facilities is allocated to the new development to be served by the facilities. The assumption is that the existing system is being used at full capacity by existing customers and that any new development will necessitate expansion of the system. As such, new customers pay for the Incremental costs for expanding the system.

The Incremental methodology is based on the cost of adding new capacity, which is derived from the District's capital improvement plan. To the extent that expansion-related projects also rehabilitate or improve the existing system (e.g., an aging 4" line is replaced with a new 6" line or a new transmission line is added where no line previously existed but also provides some redundancy value to the existing system), a portion of the cost of the project should be borne by existing customers. As a result, it is fairly common for only a portion of new capital facility costs to be included in fee calculations. The amount of capacity that will be provided by those projects is either based on an engineering analysis of the cumulative capacity provided by the totality of the projects or simply based on the amount of growth that those projects are designed to serve.

Capital facility fees based on the Incremental cost methodology are subject to statutory accounting requirements because fee revenue must be accounted for until the specific capital improvements are constructed. For reference, Appendix A includes statutory requirements for accounting for capital facility fees.

4.3. HYBRID METHODOLOGY

Many capital facility fee approaches combine both existing and planned facilities into fee calculations. This is because new development frequently benefits from both surplus capacity in existing facilities, but also requires new facilities to provide required capacity. Many facilities are oversized when initially constructed in anticipation of future development, particularly infrastructure such as water supply facilities, water treatment facilities, and transmission. Other facilities, such as distribution pipelines, water storage tanks, and others are more easily added incrementally as development proceeds.

The hybrid approach recognizes that new customers are benefitting in part from the available facilities that are already in place and the additional capacity that will be built in order to accommodate them. As such, capital facility fees that are calculated using the hybrid method reflect the weighted average unit cost of the Buy-In methodology and the Incremental methodology.

5. RECOMMENDED STUDY METHODOLOGY

After considering the District's situation and the applicability of various methods, this Study recommends using the hybrid approach to calculate the Retail Capital Facility Fees. We recommend the hybrid approach because while some capacity remains available in the existing system to meet the needs of future users, the District's 10-year capital improvement plan (based on the 2020 Retail Master Plan) includes numerous projects which add capacity to serve that future growth. The hybrid approach fairly apportions the cost of both, and results in a reasonable fee which will ensure that existing users do not bear any part of the burden of providing capacity to new users.

6. SOURCE DATA

The following data was used for calculating the proposed Retail Capital Facility Fees:

- San Juan Water District Asset Search results as of June 30, 2020, Retail Assets (see Appendix B)
 - This report was used both to calculate the existing value of the District's Retail assets as well as to calculate the cumulative cost of growth-related projects since 2006.
- Financial report for FY 2020/21 ("3 - Detailed FY 20.21 Budget Retail Capital Fund 55 With Historical Budget and Actual and Project Totals")
- Engineering New Record -- 20-Cities Construction Cost Index through January 2021
 - Meter count per FY2019/20 billing data
- Debt service schedules for:
 - a. 2003 COP (refunding of 1993 COP)
 - b. 2003 COP (San Juan Project)

- c. 2012 Bond
- d. 2017 Bond (refunding of 2009 Bond)
- 10-Year Capital Improvement Plan (2021 to 2031) based on 2020 Retail Master Plan (“SJWD 10-yr CIP List_MP Based_4-26-21”)
- 25-Year Demand Forecast and Capacity Analysis, June 2020, Tully & Young
- Comprehensive Annual Financial Reports, FY 2005/06 through FY2019/20

7. CAPITAL FACILITY FEE CALCULATION

The following describes how both methodologies were specifically applied and then combined to form the hybrid approach.

7.1. BUY-IN CALCULATION

The Buy-In portion of the Retail Capital Facilities Fees was calculated based on the District’s fixed asset records, retail customer information as found in the District’s billing data, historical and future debt financing costs, and existing reserves. Historical fixed asset costs were escalated to current values using the Engineering News Record’s 20-cities Construction Cost Index (CCI) and depreciated based on the age as reflected in the fixed asset records. The estimated service life of each asset was estimated by asset category as summarized in **Table 2**.

Table 2 - Estimated Useful Life by Asset Class

Asset Class	Estimated Useful Life (years)
Land	99
Intangible	100
Reservoirs	50
Pipelines	80
Water Treatment Plant	50
Pump Station	40
Vehicles & Equipment	10
Buildings	50
Improvements	50

Appendix B provides a comprehensive list of the assets that were included in the analysis. Wholesale water system assets were excluded from the analysis except in cases where assets are shared by the Retail and Wholesale systems.

It should be noted that, while the 2006 Retail Capital Facility Fee study considered assets funded by General Obligation bonds, which were repaid with property tax revenues, this current Study does not account for those bond payments or tax revenues because the bonds have been fully repaid and the assets that were purchased with those bonds are fully or nearly fully depreciated at this time.

Table 3 summarizes the Retail water system valuation used in capital facility fee calculations. The first column groups the District's assets into various asset classes based on the nature of each asset. The second column shows the original cost of all Retail system assets within those asset classes based on the data recorded in the District's asset register. The third column shows the calculated book value of the Retail assets based on the original cost, age, and estimated useful life of each asset (as shown in **Table 2**)¹. The fourth column shows the replacement cost of those Retail assets. The replacement cost values were calculated by inflating the original cost of each asset to present day dollars, using the CCI. The final column shows the "replacement cost new less depreciation" (RCNLD) of the District's assets. This value is a combination of the previous two columns by accounting for the increase in infrastructure costs (due to cost inflation) while also recognizing the depreciation of assets that have been in use for a certain period of time.

Table 3 - Summary of Retail Water System Fixed Assets as of June 2020

Asset Class	Total Original Cost ¹	Book Value ²	Replacement Cost ³	RCNLD
Retail				
Pipelines	\$47,977,000	\$35,538,000	\$94,445,000	\$64,895,000
Pump Station	\$11,234,000	\$8,078,000	\$16,068,000	\$10,489,000
Reservoirs	\$2,492,000	\$1,563,000	\$4,620,000	\$2,195,000
Vehicles & Equipment	\$1,653,000	\$457,000	\$2,131,000	\$508,000
Intangible	\$415,000	\$387,000	\$495,000	\$460,000
Land	\$166,000	\$106,000	\$478,000	\$301,000
Buildings	\$276,000	\$256,000	\$302,000	\$278,000
Improvements	\$95,000	\$60,000	\$166,000	\$100,000
Water Treatment Plant	\$16,000	\$9,000	\$31,000	\$17,000
Subtotals	\$64,324,000	\$46,454,000	\$118,736,000	\$79,243,000

¹ From District's fixed asset records for the fiscal year ended June 30, 2020

² Estimated book value based on original cost, purchase date and estimated useful life by asset

³ Replacement value based on the original value and escalated to 2021 value using ENR 20-cities

Table 5 completes the Buy-In calculation of the capital facility fee for 1" meter connections based on the following steps:

1. The Retail water system valuation (the RCNLD value from Table 3) was reduced by the outstanding principal on all existing debt related to general retail water system improvements.

¹ The book value shown in **Table 2** may not match the book value shown in the District's financial reporting because of differences in the estimated useful life of assets.

This includes the 2003 Certificate of Participation (San Juan Project), the 2017 Bond (which refunded the 2009 Bond), and the 2012 Bond (see Table 4).

Table 4 - Summary of Past and Existing Debt

Loan	Retail System Responsibility	Outstanding Principal*	Past Interest Expense*
2000 CEC Loan	75.0%	\$0	\$15,700
2003 COP (San Juan Project)	26.4%	\$2,480,000	\$2,612,500
2009 Bond	36.0%	\$0	\$768,600
2017 Refund of 2009 Bond	36.0%	\$8,433,000	\$1,440,900
2012 Bond	35.2%	\$3,028,000	\$1,785,700
		Total: \$13,941,000	\$6,623,000

* Retail System responsibility only

1. Historical debt interest costs related to Retail water system improvements, which includes the debts listed above in addition to the 2000 CEC Loan and the 2009 Bond (see Table 4).
2. Existing Retail enterprise capital reserves (Fund 55) were added to the water system valuation.
3. The adjusted Retail water system valuation is then divided by the estimated number of 1" equivalent meters (EM) derived from the District's customer account data from FY 2019/20 (11,300 EM). The resulting Retail Capital Facility Fee would be \$7,045 for a standard 1" water meter (rounded to the nearest dollar).

Table 5 - Buy-in Calculation of Capital Facility Fee for 1" Meter Connections

RCNLD of current assets:	\$79,243,000
Less outstanding principal on long-term debt:	-\$13,941,000
Plus past interest costs:	\$6,623,000
Plus existing Retail Fund capital reserves ¹ :	\$8,028,000
Total Retail System Valuation:	\$79,953,000
Divided by number of 1" Equivalent Meters ² :	10,400
Buy-In Methodology Capital Facility Fee for 1" Meter Connections:	\$7,688

¹ Per "Fund 55 Master FY21-22" and includes capital facilities fee reserves available for expansion projects

² Based on current number of active accounts multiplied by the meter equivalency schedule shown in Table 8.

7.2. INCREMENTAL CALCULATION

The Incremental portion of the Retail Capital Facilities Fees was calculated based on the District's 10-year capital improvement plan (as informed by the 2020 Retail Master Plan) and expected growth projections. Growth-related projects were identified and the costs for each individual project were split into "capacity" vs "repair, rehabilitation, and improvements" (see Table 6).

Table 6 - Capital Projects with a Growth Component 2021 - 2031

	Total Cost	Capacity-Related		Repair & Rehabilitation	
		Costs	Costs	Costs	Costs
Future Main Replacements (TBD based on condition and high No. of breaks)	\$7,150,000	35%	\$2,502,500	65%	\$4,647,500
5.0 MG Kokila Reservoir (Replace Hypalon w/ Concrete Tank)	\$7,469,000	60%	\$4,481,400	40%	\$2,987,600
Eureka Rd. 18" T-main (3925-LF, Barton to Aub-Fols; Steel)	\$4,000,000	60%	\$2,400,000	40%	\$1,600,000
Cavitt Stallman (Sierra Ponds to Blue Oak Ln, 4,300 LF of 12")	\$6,913,000	80%	\$5,530,400	20%	\$1,382,600
Hidden Lakes 12-in Main (950-LF, 15 Serv, 7960 W Hidden Lakes to Haley)	\$844,000	60%	\$506,400	40%	\$337,600
Douglas Pump Station & P6" to 12" Pipeline Improvements - Across AFR	\$798,000	60%	\$478,800	40%	\$319,200
Cavitt Stallman (Oak Pine to Sierra Ponds, 2,000 LF of 12")	\$1,545,000	80%	\$1,236,000	20%	\$309,000
Lakeland Dr from Douglas to East Granite (650-LF of 12-in)	\$619,000	60%	\$371,400	40%	\$247,600
Spahn Ranch Road Pipeline (2,980-LF of 8")	\$616,000	80%	\$492,800	20%	\$123,200
Cavitt Stallman (Mystery Creek to Oak Pines w/ PRS, 360-LF of 10")	\$441,000	80%	\$352,800	20%	\$88,200
Eckerman 8 inch tie-in to "The Park" Subdivision (100-LF of 8")	\$50,000	60%	\$30,000	40%	\$20,000
	\$30,445,000		\$18,382,500		\$12,062,500

The value of the capacity portion of the projects in Table 6 (\$18.4 million) was then divided by the estimated number of 1" equivalent meters that are expected to join the Retail system over the next 15 years (600 EMs). We use 15 years rather than 10 years (the span of the capital program) based on the assumption that some of the projects in the 10-year capital plan are designed to serve future growth. The resulting Retail Capital Facility Fee would be \$30,638 for a standard 1" water meter (rounded to the nearest dollar).

Table 7 - Incremental Calculation of Capital Facility Fee for 1" Meter Connections

Total Present Value Estimate of Growth-Related Costs	\$18,382,500
Planned new 1" equivalent meters ¹	600
Incremental Methodology Capital Facility Fee for 1" Meter Connections:	\$30,638

¹ Per Section 2.3.1.2 of "25-Year Demand Forecast and Capacity Analysis", June 2020, Tully & Young

7.3. HYBRID CALCULATION

The hybrid fee is calculated by taking the weighted average of the Buy-In approach and the Incremental approach. While the Buy-In approach described in Section 7.1 uses the value of all assets to calculate the value of an average existing connection, the number of *available* connections is limited to the amount of available capacity in the existing system. Calculating the exact amount of available capacity in a system is extraordinarily complex and beyond the scope of this study. Based on conversations with District staff, the author of this Study assumes that there is about 10% available capacity in the system. While arguably there may be slightly more than 10% capacity remaining the system, that capacity isn't technically available since it is important to leave some capacity cushion to account for changes in customer behavior.

This being said, the weight of both the numerator and the denominator for the Buy-In portion of the hybrid calculation is reduced by 90% as shown in Figure 1 below.

Figure 1 –Hybrid Calculation

$$\frac{(\$79,953,000 \times 10\%) + \$18,382,500}{(10,400 \text{ EM} \times 10\%) + 600 \text{ EM}} = \frac{\$26,377,800}{1,640 \text{ EM}} = \$16,084 \text{ per } 1" \text{ meter}$$

7.4. PROPOSED CAPITAL FACILITY FEE SCHEDULE

Table 8 presents the complete Retail Capital Facility Fee schedule for various size water meters (both proposed and current). Capital facility fees are assessed based on meter size, which reflects the potential demand each new service connections could place on the water system. The increase in cost between meter sizes is based on the meter equivalency schedule, which is an industry-standard factor used to represent the relative capacity associated with different types and sizes of meters. A meter equivalency schedule allows for indexing of each meter size in terms of multiples of the lowest common denominator (in this case a 1" meter). This Study has adopted a standard meter equivalency schedule taken from AWWA's M1 manual: Principles of Water Rates, Fees, and Charges as shown in Table 8.

Table 8 - Proposed and Existing Retail Capital Facility Fees

Meter Size	Meter Equivalency	Capital Facility Fee		Change
		Current	Proposed	
1" meter	1.0	\$15,726	\$16,084	2.3%
1 1/2" meter	2.0	\$31,452	\$32,168	2.3%
2" meter	3.2	\$50,323	\$51,469	2.3%
3" meter	6.4	\$100,648	\$102,938	2.3%
4" meter	10.0	\$156,191	\$160,840	3.0%
6" meter	20.0	\$314,525	\$321,680	2.3%
8" meter	36.0	\$566,157	\$579,025	2.3%
10" meter	58.0	\$912,141	\$932,873	2.3%
12" meter	86.0	\$1,352,485	\$1,383,226	2.3%

8. RECONCILIATION OF HISTORICAL SPENDING

In order to confirm whether the Capital Facility Fees that have been charged since 2006 to present were appropriate, we reviewed the District’s asset register for the cost of projects built since 2006 and we reviewed the District’s Comprehensive Annual Financial Reports (CAFR) for the capital facility fee revenue collected since 2006. The asset register indicates that approximately \$5.716 million expansion-related projects were built for the Retail system from FY 2005/06 through 2020/21. The CAFRs indicate that approximately \$6.562 million was collected in Retail Capital Facility Fees. Since the 2006 Incremental approach accounted for 80% of the fee, the portion of the revenue that was designated for new expansion projects was \$5.2 million, meaning that the revenues did not exceed the expenses and therefore fees were appropriate.

9. ADMINISTRATION AND UPDATES

As previously discussed, when using the Incremental methodology, the District is responsible for reporting the use of the *Incremental portion* of the capital facility fee revenue to demonstrate that the revenue is being used to fund expansion-related capital projects (although not necessarily limited to the projects listed in Table 6). Given that the available assets associated with the Buy-In approach have a value of \$8.0 million (10% of \$79.95 million) as compared to the \$18.4 million value of the planned Incremental assets, we conclude that 70% of the capital facility fee revenue should be used to pay for expansion-related projects.

For reference, Appendix A includes the statutory requirements for accounting for capital facility fees. In short, the District should deposit the Incremental portion of the capital facility fee revenue in a separate designated fund and only expend those funds on expansion-related capital projects. On an annual basis the District should report the annual capital facility fee revenue, the use of funds, the

beginning and ending balance of the designated fund, and a description of the projects that were funded with the fees. Additional reporting requirements are listed in Government Code Section 66018.

It is recommended that the District annually adjust the capital facility fees for the effects of inflation using the CCI. The Capital Facility Fees presented in Table 8 have been indexed to a CCI value of 11,628 (January 2020).

It is further recommended that the District formally update the capital facility fee calculation at least once every three to five years. Capital asset additions, depreciation, interest payments on debt, outstanding principal on debt, capital reserves, and the cost of new capacity all evolve over time and periodically updating the calculation will help ensure that new development is paying fair and proportionate share of water system costs.

APPENDIX A – GOVERNMENT CODE SECTIONS 66013, 66016, 66022, AND 66023

66013. (a) Notwithstanding any other provision of law, when a local agency imposes fees for water connections or sewer connections, or imposes capacity charges, those fees or charges shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed, unless a question regarding the amount of the fee or charge imposed in excess of the estimated reasonable cost of providing the services or materials is submitted to, and approved by, a popular vote of two-thirds of those electors voting on the issue.

(b) As used in this section:

(1) "Sewer connection" means the connection of a structure or project to a public sewer system.

(2) "Water connection" means the connection of a structure or project to a public water system, as defined in subdivision (f) of Section 116275 of the Health and Safety Code.

(3) "Capacity charge" means a charge for facilities in existence at the time a charge is imposed or charges for new facilities to be constructed in the future that are of benefit to the person or property being charged.

(4) "Local agency" means a local agency as defined in Section 66000.

(5) "Fee" means a fee for the physical facilities necessary to make a water connection or sewer connection, including, but not limited to, meters, meter boxes, and pipelines from the structure or project to a water distribution line or sewer main, and that does not exceed the estimated reasonable cost of labor and materials for installation of those facilities.

(c) A local agency receiving payment of a charge as specified in paragraph (3) of subdivision (b) shall deposit it in a separate capital facilities fund with other charges received, and account for the charges in a manner to avoid any commingling with other moneys of the local agency, except for investments, and shall expend those charges solely for the purposes for which the charges were collected.

Any interest income earned from the investment of moneys in the capital facilities fund shall be deposited in that fund.

(d) For a fund established pursuant to subdivision (c), a local agency shall make available to the public, within 180 days after the last day of each fiscal year, the following information for that fiscal year:

(1) A description of the charges deposited in the fund.

(2) The beginning and ending balance of the fund and the interest earned from investment of moneys in the fund.

(3) The amount of charges collected in that fiscal year.

(4) An identification of all of the following:

(A) Each public improvement on which charges were expended and the amount of the expenditure for each improvement, including the percentage of the total cost of the public improvement that was funded with those charges if more than one source of funding was used.

(B) Each public improvement on which charges were expended that was completed during that fiscal year.

(C) Each public improvement that is anticipated to be undertaken in the following fiscal year.

(5) A description of each interfund transfer or loan made from the capital facilities fund. The information provided, in the case of an interfund transfer, shall identify the public improvements on which the transferred moneys are, or will be, expended. The information, in the case of an interfund loan, shall include the date on which the loan will be repaid, and the rate of interest that the fund will receive on the loan.

(e) The information required pursuant to subdivision (d) may be included in the local agency's annual financial report.

(f) The provisions of subdivisions (c) and (d) shall not apply to any of the following:

(1) Moneys received to construct public facilities pursuant to a contract between a local agency and a person or entity, including, but not limited to, a reimbursement agreement pursuant to Section 66003.

(2) Charges that are used to pay existing debt service or which are subject to a contract with a trustee for bondholders that requires a different accounting of the charges, or charges that are used to reimburse the local agency or to reimburse a person or entity who advanced funds under a reimbursement agreement or contract for facilities in existence at the time the charges are collected.

(3) Charges collected on or before December 31, 1998.

(g) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion imposing a fee or capacity charge subject to this section shall be brought pursuant to Section 66022.

(h) Fees and charges subject to this section are not subject to the provisions of Chapter 5 (commencing with Section 66000), but are subject to the provisions of Sections 66016, 66022, and 66023.

(i) The provisions of subdivisions(c) and (d) shall only apply to capacity charges levied pursuant to this section.

66016. (a) Prior to levying a new fee or service charge, or prior to approving an increase in an existing fee or service charge, a local agency shall hold at least one open and public meeting, at which oral or written presentations can be made, as part of a regularly scheduled meeting. Notice of the time and place of the meeting, including a general explanation of the matter to be considered, and a statement that the data required by this section is available, shall be mailed at least 14 days prior to the meeting to any interested party who files a written request with the local agency for mailed notice of the meeting on new or increased fees or service charges. Any written request for mailed notices shall be valid for one year from the date on which it is filed unless a renewal request is filed. Renewal requests for mailed notices shall be filed on or before April 1 of each year. The legislative body may establish a reasonable annual charge for sending notices based on the estimated cost of providing the service. At least 10 days prior to the meeting, the local agency shall make available to the public data indicating the amount of cost, or estimated cost, required to provide the service for which the fee or service charge is levied and the revenue sources anticipated to provide the service, including General Fund revenues. Unless there has been voter approval, as prescribed by Section 66013 or 66014, no local agency shall levy a new fee or service charge or increase an existing fee or service charge to an amount which exceeds the estimated amount required to provide the service for which the fee or service charge is levied. If, however, the fees or service charges create revenues in excess of actual cost, those revenues shall be used to reduce the fee or service charge creating the excess.

(b) Any action by a local agency to levy a new fee or service charge or to approve an increase in an existing fee or service charge shall be taken only by ordinance or resolution. The legislative body of a local agency shall not delegate the authority to adopt a new fee or service charge, or to increase a fee or service charge.

(c) Any costs incurred by a local agency in conducting the meeting or meetings required pursuant to subdivision (a) may be recovered from fees charged for the services which were the subject of the meeting.

(d) This section shall apply only to fees and charges as described in Sections 51287, 56383, 57004, 65104, 65456, 65863.7, 65909.5, 66013, 66014, and 66451.2 of this code, Sections 17951, 19132.3, and 19852 of the Health and Safety Code, Section 41901 of the Public Resources Code, and Section 21671.5 of the Public Utilities Code.

(e) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion levying a fee or service charge subject to this section shall be brought pursuant to Section 66022.

66022. (a) Any judicial action or proceeding to attack, review, set aside, void, or annul an ordinance, resolution, or motion adopting a new fee or service charge, or modifying or amending an existing fee or service charge, adopted

by a local agency, as defined in Section 66000, shall be commenced within 120 days of the effective date of the ordinance, resolution, or motion.

If an ordinance, resolution, or motion provides for an automatic adjustment in a fee or service charge, and the automatic adjustment results in an increase in the amount of a fee or service charge, any action or proceeding to attack, review, set aside, void, or annul the increase shall be commenced within 120 days of the effective date of the increase.

(b) Any action by a local agency or interested person under this section shall be brought pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure.

(c) This section shall apply only to fees, capacity charges, and service charges described in and subject to Sections 66013 and 66014.

66023. (a) Any person may request an audit in order to determine whether any fee or charge levied by a local agency exceeds the amount reasonably necessary to cover the cost of any product or service provided by the local agency. If a person makes that request, the legislative body of the local agency may retain an independent auditor to conduct an audit to determine whether the fee or charge is reasonable.

(b) Any costs incurred by a local agency in having an audit conducted by an independent auditor pursuant to subdivision (a) may be recovered from the person who requests the audit.

(c) Any audit conducted by an independent auditor to determine whether a fee or charge levied by a local agency exceeds the amount reasonably necessary to cover the cost of providing the product or service shall conform to generally accepted auditing standards.

(d) The procedures specified in this section shall be alternative and in addition to those specified in Section 54985.

(e) The Legislature finds and declares that oversight of local agency fees is a matter of statewide interest and concern. It is, therefore, the intent of the Legislature that this chapter shall supersede all conflicting local laws and shall apply in charter cities.

(f) This section shall not be construed as granting any additional authority to any local agency to levy any fee or charge which is not otherwise authorized by another provision of law, nor shall its provisions be construed as granting authority to any local agency to levy a new fee or charge when other provisions of law specifically prohibit the levy of a fee or charge.

RESOLUTION NO. 22-06

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE SAN JUAN WATER DISTRICT
ADJUSTING RETAIL CAPITAL FACILITY FEES**

WHEREAS, Ordinance 14000 establishes a connection fee, which includes, at a minimum, a capital facilities fee, annexation fee (if applicable), a meter installation inspection fee and a deposit for installing a service tap (as applicable; and

WHEREAS, the ordinance specifies that the amount of fees and charges, shall be determined according to rates set by the Board of Directors and set forth in the District's current Schedule of Rates, Fees, Charges, and Deposits; and

WHEREAS, Government Code Section 66013 states that capital facility fees shall not exceed the estimated reasonable cost of providing the service for which the charges are imposed; and

WHEREAS, as study to determine the estimated reasonable costs was last done in 2006; and

WHEREAS, the Board has received and considered the Retail Capital Facility Fee Update Study (the "rate study") prepared by Hildebrand Consulting, dated September 3, 2021 and

WHEREAS, as discussed in the rate study, the District's existing retail capital facility fees are insufficient to recover past and future capital facility needs related to development; and

WHEREAS, a significant portion of the costs to be recovered will occur in the future and the fee should be adjusted annually to reflect the rising cost of construction, as best estimated by the Construction Cost Index; and

WHEREAS, Resolution 17-02, adopted by the Board on January 25, 2017, directed staff to update the Wholesale Capital Facility fee in accordance with the November Consumer Price Index for all urban customers, Western Cities, all items, not seasonally adjusted, using the standard reference base (CPI); and

WHEREAS, the CPI tracks the change in consumer prices for a "representative basket of goods and services", while the Construction Cost Index (CCI) tracks the change in price for a specific combination of construction labor, steel, concrete, cement and lumber making it a better tool for estimating the rising cost of infrastructure projects;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the San Juan Water District as follows:

1. Approve Resolution 22-06 approving the following retail capital facility fees:

Meter Size	Retail Capital Facility Fee
1" meter	\$16,084
1 ½" meter	\$32,168
2" meter	\$51,469
3" meter	\$102,938
4" meter	\$160,840
6" meter	\$321,680
10" meter	\$579,025
12" meter	\$1,383,226

2. Direct the General Manager to update the Retail and Wholesale Capital Facility Fees annually to reflect the most recent November Construction Cost Index.

PASSED AND ADOPTED by the Board of Directors of the San Juan Water District on this 23rd day of March 2022 by the following vote:

AYES:

NOES:

ABSENT:

ATTEST:

By: _____

Kenneth Miller
 President, Board of Directors
 San Juan Water District

 Teri Grant
 Board Secretary



2021 Retail Capital Facility Fee Study

September **XX**, 2021



HILDEBRAND
CONSULTING

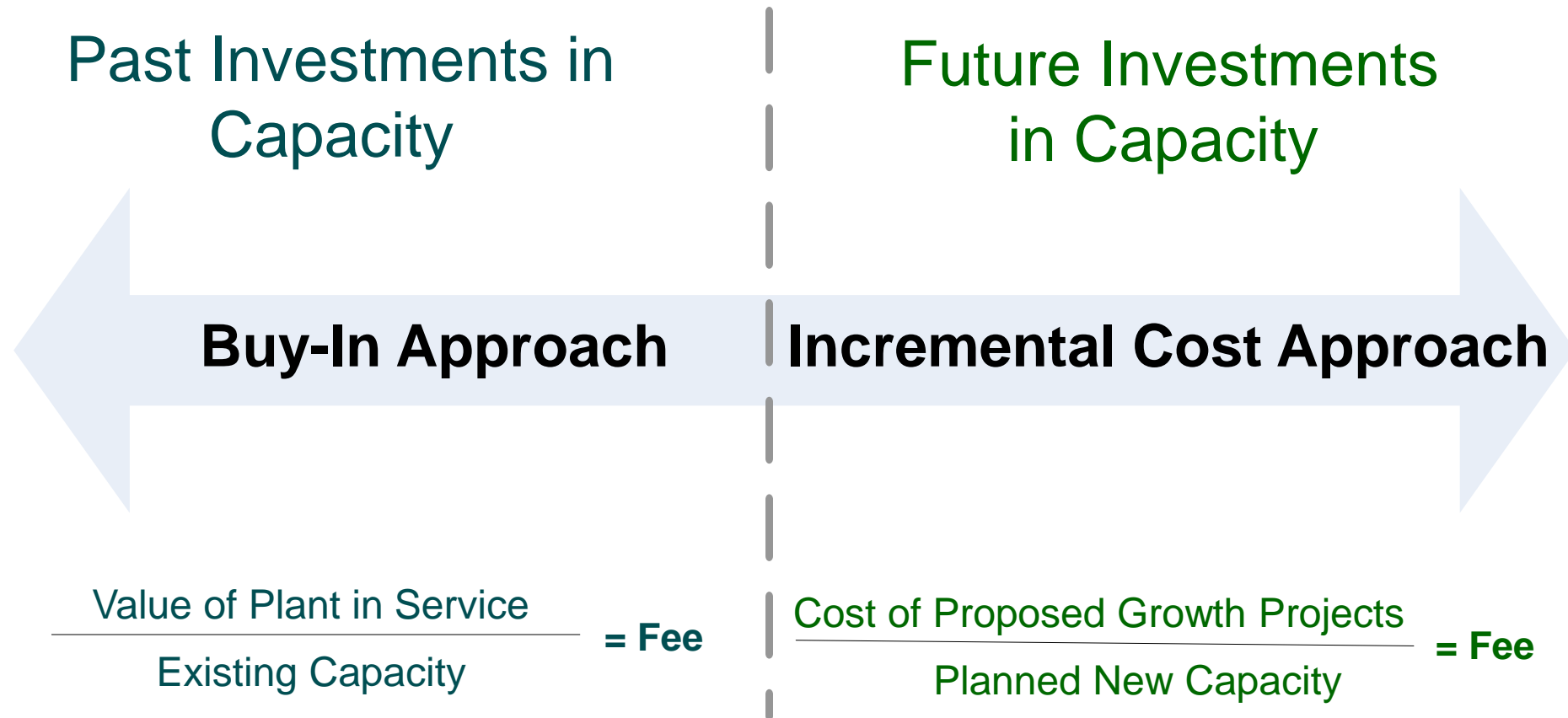
Capital Facility Fee

- Capital facility fees (capacity charges) are the one-time fees charged to new development for capacity in the water system.
- Fee calculations were last calculated in 2006; fee amounts have been adjusted annually for inflation.

Legal Standard

- Section 66013 of the Government Code states that capital facility fees shall not exceed the ***estimated reasonable cost*** of providing the service for which the charges are imposed.

Common Capacity Charge Approaches



Reviewing the 2006 Fees

This 2021 Retail Capital Facility Fee study has calculated a fee that is lower than the fee that was established (then escalated) in 2006.

- **Cause:**
 - The 2006 study was based on, in part, some planned expansion projects that were never built or that ultimately cost less than budgeted.
 - The 2006 study planned for some expensive planned growth-related capital projects which drove up the cost.
- **Confirmation of Costs**
 - In comparing the cost of expansion projects built since 2006 against the Incremental portion* of Capital Facility Fee revenue collected since that time, we found that the District has spent more on expansion projects than it has collected in fees.

* The incremental portion made up 80% of the fee

Changes in Assumptions from Previous Presentation

Since the last presentation, the analysis reflects the following modified assumptions:

- Remaining Existing Capacity – Calculating number of additional connections that could theoretically be served with the District's existing capacity would require a very complex (and expensive) hydraulic flow analysis that is outside of the scope of this study. Based on Staff engineers, the rate consultant's initial estimate of 15% remaining capacity was reduced to 10%.
- Number of Equivalent Meters - The District has historically grouped all customers with a 1" meter or smaller into a single customer class. By recognizing that some of those meters are in fact 3/4" and 5/8" meters, the number of calculated equivalent meters in the existing system has decreased, which thereby increases the Buy-In methodology results (and consequently the Hybrid results as well).

Buy-In Methodology – Retail System Value

Asset Class	Total Original Cost ¹	Book Value ²	Replacement Cost ³	RCNLD
<i>Retail</i>				
Pipelines	\$47,977,000	\$35,538,000	\$94,445,000	\$64,895,000
Pump Station	\$11,234,000	\$8,078,000	\$16,068,000	\$10,489,000
Reservoirs	\$2,492,000	\$1,563,000	\$4,620,000	\$2,195,000
Vehicles & Equipment	\$1,653,000	\$457,000	\$2,131,000	\$508,000
Intangible	\$415,000	\$387,000	\$495,000	\$460,000
Land	\$166,000	\$106,000	\$478,000	\$301,000
Buildings	\$276,000	\$256,000	\$302,000	\$278,000
Improvements	\$95,000	\$60,000	\$166,000	\$100,000
Water Treatment Plant	\$16,000	\$9,000	\$31,000	\$17,000
Subtotals	\$64,324,000	\$46,454,000	\$118,736,000	\$79,243,000

¹ From District's fixed asset records for the fiscal year ended June 30, 2020

² Estimated book value based on original cost, purchase date and estimated useful life by asset

³ Replacement value based on the original value and escalated to 2021 value using ENR 20-cities

Buy-In Calculation

RCNLD of current assets:	\$79,243,000
Less outstanding principal on long-term debt:	-\$13,941,000
Plus past interest costs:	\$6,623,000
Plus existing Retail Fund capital reserves ¹ :	\$8,028,000
Total Retail System Valuation:	\$79,953,000
Divided by number of 1" Equivalent Meters ² :	10,400
Buy-In Methodology Capital Facility Fee for 1" Meter Connections:	\$7,688

Incremental Calculation

Total Present Value Estimate of Growth-Related Costs	\$18,382,500
Planned new 1" equivalent meters ¹	600
Incremental Methodology Capital Facility Fee for 1" Meter Connections:	\$30,638

¹ Per Section 2.3.1.2 of "25-Year Demand Forecast and Capacity Analysis", June 2020, Tully & Young

Hybrid Calculation

Value of Available Capacity

Cost of Future Expansion

$$\frac{(\$79,953,000 \times 10\%) + \$18,382,500}{(10,400 \text{ EM} \times 10\%) + 600 \text{ EM}} = \frac{\$26,377,800}{1,640 \text{ EM}} = \$16,084 \text{ per 1" meter}$$

Available Capacity of Existing System

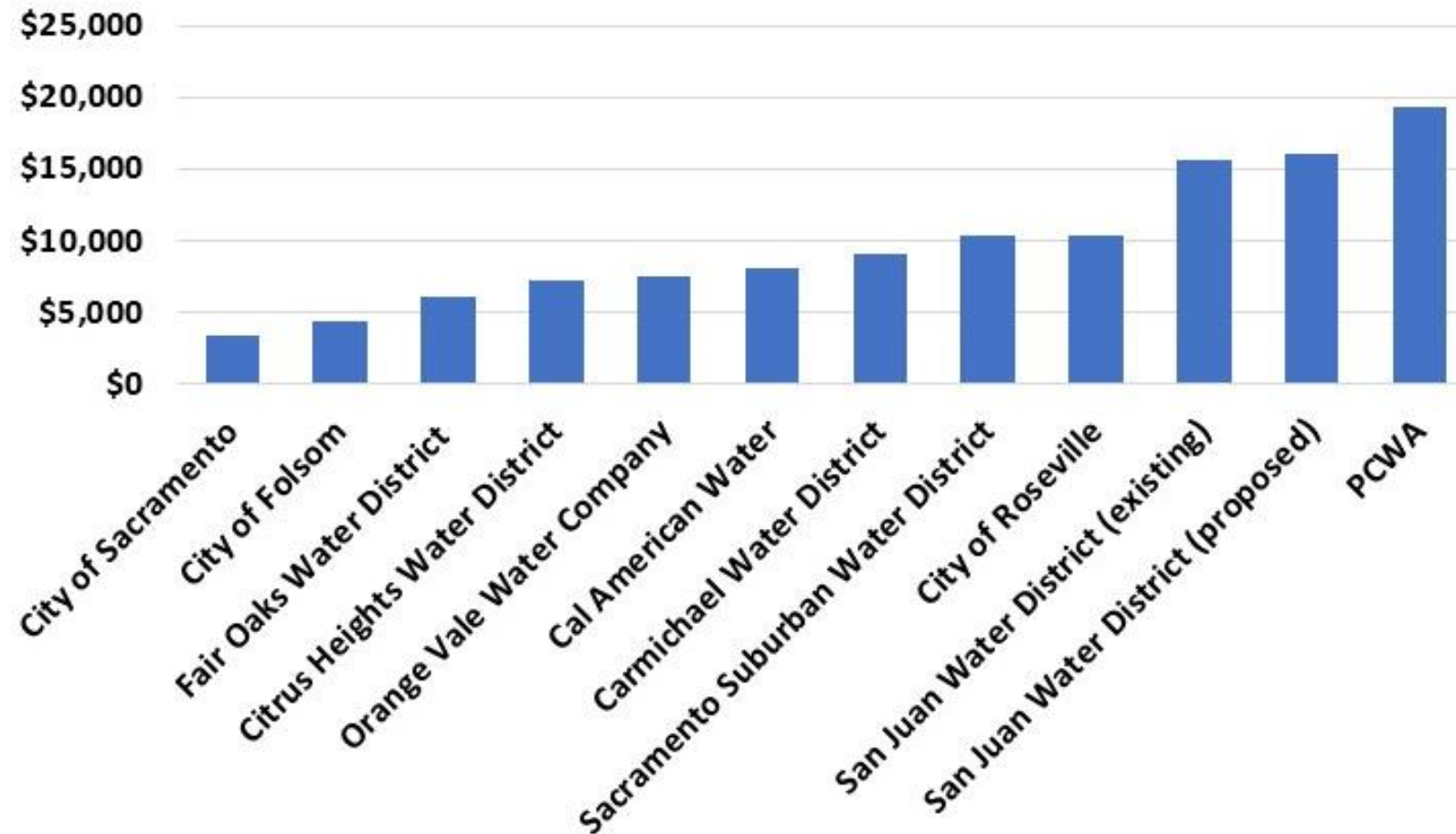
Planned Capacity Increase

The diagram illustrates the hybrid calculation for determining the value per unit of capacity. It features a central equation with four descriptive labels and arrows pointing to specific components. The labels 'Value of Available Capacity' and 'Cost of Future Expansion' are positioned above the equation, with arrows pointing to the first and second terms of the numerator, respectively. The labels 'Available Capacity of Existing System' and 'Planned Capacity Increase' are positioned below the equation, with arrows pointing to the first and second terms of the denominator, respectively. The final result of the calculation is stated as '\$16,084 per 1" meter'.

Proposed Retail Capital Facility Fee Schedule

Meter Size	Meter Equivalency	Capital Facility Fee		Change
		Current	Proposed	
1" meter	1.0	\$15,726	\$16,084	2.3%
1 1/2" meter	2.0	\$31,452	\$32,168	2.3%
2" meter	3.2	\$50,323	\$51,469	2.3%
3" meter	6.4	\$100,648	\$102,938	2.3%
4" meter	10.0	\$156,191	\$160,840	3.0%
6" meter	20.0	\$314,525	\$321,680	2.3%
8" meter	36.0	\$566,157	\$579,025	2.3%
10" meter	58.0	\$912,141	\$932,873	2.3%
12" meter	86.0	\$1,352,485	\$1,383,226	2.3%

Survey of Regional Capital Facility Fees for 1" meter connections



Next Steps

- Vote on proposed fees
- Consider authorizing General Manager to implement annual inflationary adjustments
- Fees would be effective **XXX**