SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Steve Mack, General Manager

Meeting Date: July 9, 2009

SUBJECT: DISCUSSION/ACTION RE DISTRICT CAPACITY CHARGE

RECOMMENDED ACTION: Consider approval of methodology of changing the District Capacity Charge.

FISCAL IMPACT: Adoption of ordinance using recommended capacity charge methodology would have the financial impact of adding new connection share of existing and future loans to future capacity charges for new connections. Amount of new revenue is not expected to be substantial.

DISCUSSION:

Capacity charges are the charge for a new connection to buy into the District's infrastructure. Government Code §66013 defines capacity charge as "a charge for public facilities in existence at the time a charge is imposed or charges for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged, including supply or capacity contracts for rights or entitlements, real property interests, and entitlements and other rights of the local agency involving capital expense relating to its use of existing or new public facilities. A "capacity charge" does not include a commodity charge."

The District's current capacity charge, is based on repayment of the original bonds that were issued to purchase the Citizen's Utilities facilities and provide some level of upgrades. The current capacity charge is $3,665 and increases by $245 per year. The District has a one size fits all capacity charge – large commercial or multifamily projects get charged the same as a single family residence. Staff, in reviewing the current capacity charge noticed an inequity to the one size all fits all approach - larger projects are benefiting to the detriment of smaller projects and that the historic loans have the same benefit – funding capital infrastructure - to new projects as the bond payments do. As such, staff have investigated possible capacity charge approaches and are recommending changes. Exhibit A, Sweetwater Springs Water District Capacity Charge (Buy-in Fee) Investigation and Recommendations, July 2009, is the result of that investigation.

In summary, Exhibit A recommends keeping the general approach of using the bond payments, but also adding historical loan payments to the charge. We also recommend adding a meter multiplier to the base capacity charge to reflect the larger capacity needs of projects that need larger meters. The meter multiplier would not be added for fire protection needs. For example, single family residential projects that need a one inch meter for fire protection system capacity would be charged the base charge.

It is important to note that for the historical bond charges, if the charge for larger meters is to be increased, the charge for the base 5/8" meter needs to be adjusted downward to account for meter equivalents – there are more meter equivalents than there are meters in the system. For examples, a one inch meter is 2.5 5/8" meter equivalents and a 2 inch meter is 8 5/8" meter equivalents. For purposes of the analysis, the District has 3586 meters and 4160 meter equivalents, based on the 2007 Brelje and Race Water Rate Study Summary.

Exhibit A shows the calculation for the recommended capacity charge for FY 2010. For a project requiring a 5/8" meter the capacity charge would increase from $3,465 to $3,763.20 which reflects decreasing the historical charge to account for meter equivalents and adding the historical amount paid for District loans. For projects requiring larger meters, the base charge would be multiplied by the meter multipliers used for District commercial water rates.

This change will not result in substantial new revenues to the District. In a normal economy the District receives approximately 10 requests for new meters or meter upgrades per year. There are two large projects under consideration – the Guernewood Park Resort and Fife Commons Housing – that would be affected by the meter multiplier, but their eventual construction is not certain. The change will result in more equity for all District customers as new connections will be paying a fairer share for existing infrastructure.

With approval of the approach and methodology presented in Exhibit A, staff will return next month to introduce the recommended capacity charge changes as an ordinance. Upon adoption, the recommended changes would come into effect on projects being accepted by the District in October 2009.

Exhibit A. Sweetwater Springs Water District Capacity Charge (Buy-in Fee) Investigation and Recommendations
July 2009

Sweetwater Springs Water District owns and operates water facilities to serve its customers. The provision of such services involves substantial assets, including the capital assets that make up the District system. The District's capital assets include land, buildings, wells, treatment plants, pumping stations, reservoirs, and piping for distribution throughout the District's service area.

New customers of the water system are charged a capacity charge or "buy-in" fee upon connection or increase in the size of the metered capacity serving a property. This is in addition to the cost to install the physical connection to the system and any extension of the system that may be necessary to serve the new customer.

The capacity charge allows customers who establish a new connection or upgrade an existing connection to "buy in" or purchase capacity in the existing water system and partially reimburses existing customers for a proportionate share of the capital expenses of the District, which existing customers have funded through payment of District monthly and annual fees and charges, and their own capacity charge at the time of connection. Upon payment of the capacity charge, new customers will appropriately be charged in accordance with the District's rate schedule as it applies to existing customers.

Historically, the District has calculated the capacity charge based on repayment of the bonds to purchase and upgrade the system. In other localities the capacity charge is typically based on some valuation of the agency's capital assets - depreciated value, undepreciated value, replacement value or some combination. The approach used by the District will yield a result similar to that of the other approaches because the District purchase was that of a depreciated asset and many of the District infrastructure improvements have been funded by the bonds that have made up the District's historical capacity charge.

A portion of the infrastructure improvements have been funded by loans, (entered into in 1995) that the District has incurred separate from the original bonding. It is consistent with the historical approach to add the annual loan payments (reimbursed through the Capital Debt Reduction Charge (CDRC) since 2006) to the capacity charge. Staff recommends continuing the approach of having the capacity charge based on repayment of bonds and adding the historical loan repayment amount to the calculation of the fee. Also, staff recommends continuing the practice of increasing the capacity charge on an annual basis, based on the bond and loan interest and principal repayments required each year.

The District historical approach has also included a one size fits all approach – the capacity charge has been meter based – one meter, regardless of size, is charged the identical capacity charge. If a development required multiple meters the capacity charge would be increased by that multiple.

Most agencies have a capacity charge policy whereby larger projects pay a larger capacity charge to better reflect the additional system capacity the larger project will use.

There are several approaches to determine the how to calculate the cost of increased capacity needs of larger projects. The Russian River Sanitation District uses a equivalent single dwelling (ESD) approach whereby a single family residence is the base amount and larger projects are evaluated in comparison to that use. Water agencies frequently use meter size as the multiplier – a straight-forward approach based on the capacity of the system to deliver water to the project. Meter sizing determinations for new projects are based on the same criteria for which the capacity charge applies – amount of system capacity needed for the project. Staff recommends using the meter size approach for determining the buy-in multiplier. The District currently uses the meter multiplier for its commercial and public bimonthly rates and will not need to establish a new and different evaluation methodology for determining capacity charges.

Because of the changes in methodology, the capacity charges need to be recalculated. Some beginning principles for capacity charge calculations:

- There is no capacity charge required for fire protection – single family homes have a multiplier of one regardless of meter sizing for fire protection.
- New projects get credit for prior use – for example, a project requiring a 2" meter going on a parcel that had a prior 1" meter would get credit for the earlier buy-in for the 1" meter.
- The capacity charge calculation will be based on a larger historical cost because of the inclusion of historical costs of loans which have not heretofore been included in the capacity charge calculation.
- With the exception of the historical cost addition above, this is a revenue neutral change. Because of the increase in capacity charges for projects with larger meters, the cost for single family homes is reduced.

Derivation of Capacity Charges

Total Flat Charge per meter since 1992 through FY 2009:	$3,420.00
Annual Increase:	$245.00
2010 Buy-in without change in policy:	$3,665.00
Total Meters in System[1]:	3586
Total Meter Equivalents[1]:	4160
2010 Buy-in adjusted for meter equivalents:	$3159.00

Historical Loan Payments (currently recaptured through the CDRC adjusted for meter size[1]:	$546.00
2010 Increase	$58.20

Total 2010 Buy-in for single family residence equivalent:	$3,763.20

Capacity charges based on Meter Multiplier:

Meter Size	Meter Multiplier	Charge
1 inch	2.5	$9,408.00
1.5 inch	5	$18,816.00
2 inch	8	$30,105.60

[1]Based on information from Water Rate Study Summary Report, Brelje and Race Consulting Civil Engineers, January 2007.