

This brief is being provided to inform the Board, staff and public of the details of an agenda item that requires action from the Board. The President of the Board will provide board members, staff, and the public the opportunity to ask questions about this topic when this agenda item is announced.

**Date:** 8 December 2022

**Originator:** General Manager

**Purpose:** To review the way forward for Capacity and User Fees

**Desired Action by the Board:** Authorize the GM & Treasurer to re-engage with Catherine Hansford (HEC) to guide the district through the process of adopting new Capacity and User Fees.

**Supporting Documents Included:** Yes

Attachment A: Current GMCSO SDC schedule

Attachment B: AB2536

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## 1. **Background:**

The District currently collects water and sewer revenues from four basic sources:

1. Water and sewer services rates – as approved in the recent Prop 218 rate study
2. Water consumption charges – as approved in the recent Prop 218 rate study
3. System Development charges (SDC) – based on the 2006 connection fee rate study and adjusted each January relative to the cumulative changes in the Engineering News-Record Construction Cost Index for the previous 12 months. (See attachment A).
4. User fees – under review, process governed by Prop 26

## 2. **Issue:**

SDC charges are no longer an appropriate vehicle and have been replaced by Capacity Fees and Connection Fees as regulated by CA state code 66013(a). Since completion of our rate study, AB2536 has strengthened the requirements of 66013(a) (See attachment B).

Per our rate study contract, HEC did a preliminary Capacity Fee study (Attachment C) recommending that we drop development fees and institute a Connection Fee and a Capacity Fee. The Connection Fee represents a user fee for the actual cost of connecting to the system including the cost of the water meter, associated labor, software, and materials, and would go into our operational revenues. A Capacity Fee is charged to pay for current and future District facilities that new customers will use, and like our current SDC, goes into our Capital Reserves (Capacity Fund).

Given the service charge rate increases being recommended in our Prop 218 study, HEC recommended shelving the Capacity Fee schedule as the community was already being asked to absorb significant increases. Given the recent legislation strengthening the requirements in this area, I'm recommending we reengage with HEC to complete this study.

According to prior Board member accounts, the 2006 connection fee study recommended significantly higher rates than ultimately approved. The rationale was that higher SDC rates would stifle development. HEC's preliminary study also recommends significantly higher

rates. The same rationale from 2006 that higher rates may stifle development have been voiced by a number of community members and may be a consideration.

As an added requirement, we should engage with HEC to guide us through approval of our current User Fee schedule to make sure we are fully compliant with the requirements of Prop 26. Attachment D is a draft list of proposed User Fees staff is working for presentation and approval.

We have HEC on a retainer, but we could also go out for a formal bid to complete these studies. Recommendation is we open discussions to get a better feel for what will be involved.

3. **Reason for Recommended Board Action - (Consider compliance, cost savings, fixing a problem):** Compliance with Government code regarding rates and fees is a complex process requiring expertise beyond that resident in the district. HEC has proven to be a reliable and competent resource in these matters. We need to take the next steps to ensure our rates and fees are in order.
4. **Anticipated Impacts to the District (negative and/or positive) - (Consider financial impact, change in procedures, customer and staff communication and effect if recommendations are not adopted):** Inaccurate or non-existent rates represent lost revenues to the District. It is important to develop a formal rate schedule of user fees to ensure the District is being appropriately compensated for services performed.

Capacity fees represent a double edge sword. Increasing fees can contribute materially to Capital Reserves, but increased fees can also slow development and reduce operational revenues. Any decisions on increasing Capacity fees need to be seriously considered.

5. **Anticipated Impacts to the Customer – Standby, Residential, Commercial:**

User fees will have negligible impact on most customers, except those that are late or request services over and above those normally provided.. Customers requesting additional services or support over, and above normal services will pay for such services going forward.

Increasing capacity fees could have significant impact on potential owner's decision to build or not to build. But even if the study recommends an increase in Capacity fees, the decision will remain with the Board.

6. **Recommendation (s):**

Reengage with HEC to complete the Capacity Fee study and provide guidance on completing an appropriate user fee rate schedule.