



City of Sonoma

Agenda Item Summary

Meeting: City Council - Dec 16 2019

Department

Administration/Finance

Staff Contact

Cathy Capriola, City Manager
Sue Casey, Assistant City Manager

Agenda Item Title

Public Hearing and Consideration of a Resolution Adopting Water Connection Charges and Finding this Action to be Exempt from Environmental Review Under CEQA Guidelines Section 15273

Summary

In late 2017, the City began a comprehensive review of the City's water rates and water connection fees. In August 2018, the City Council adopted the 2018 Water Rate Study Update Report prepared by the consulting firm Raftelis and adopted water utility rates for FY 2018-19 to FY 2020-21 (Resolution 58-2018). This resolution did not address Water Connection Charges, and staff indicated that it would return with a further update and meanwhile any fees not addressed remain unchanged until updated by subsequent action.

The City's current Water Connection Charges were established in Resolution 56-2014. These charges are applied to new service connections as well as changed or expanded use. Water Connection Charges include components for a water capacity charge, front foot charge, meter and lateral installation charges.

The current water capacity charge is based on a methodology of single-family dwelling unit equivalencies. In 2019, City staff requested that Raftelis review water capacity charges and make recommendations regarding methodology and calculations in order to ensure best practices.

Raftelis calculated capacity charges using the equity buy-in methodology using Replacement Cost Less Depreciation (RCLD) to value City water assets. The equity buy-in methodology is appropriate in instances where infrastructure has been built in advance of growth and there is excess capacity available to serve new connections. Under the equity buy-in approach, new customers pay an amount equal to the net investment (asset value) made by existing users. The recommended capacity fee is based on meter size. Raftelis recommends that adjustments to the capacity charges be made periodically (approximately every five years) based on updates to the water asset inventory.

The front foot charge portion of the Water Connection Charges is codified in City Code Chapter 13.24, which specifies that "any new water customer, developer or subdivider connecting to existing mains constructed by the water utility or previous applicants shall pay a front foot charge based upon the footage that their property abuts the main." The current front foot charges are specified in Resolution 56-2014 at \$60 per linear foot of frontage on the existing main located in the street. Staff is proposing to eliminate this standard charge and authorize the City Manager to establish procedures for determination of front foot charges, based on actual costs. This will allow a case-by-case determination of the front foot charge as an amount to reimburse the City or a previous applicant who extended a City water main along the frontage for a fair share of a new water main extension. In most cases, there will be no front foot charge.

No changes are recommended to meter charges. These charges are based on the costs of materials, labor and equipment, plus an administrative charge. Meter charge amounts will be updated based on current costs of materials, labor and equipment.

Steve Gagnon from the consulting firm of Raftelis will be available to outline the methodology utilized in calculation of water capacity charges and to answer any questions.

Recommended Council Action

1. Hold a public hearing on the proposed resolution.
2. Adopt the Resolution

Alternative Actions

Council discretion

Financial Impact

Water connection fees are based on the amount of development that occurs. These funds are not built within the City's water rates, due to this variation. The new methodology will generally result in a lower cost for connecting to the City's water system.

Environmental Review

- Environmental Impact Report
- Negative Declaration
- Exempt
- Not Applicable

Status

- Approved/Certified
- No Action Required
- Action Requested

Attachments

[Attachment A - Resolution and Exhibit Approving Water Connection Charges FINAL](#)
[Attachment B - Raftelis Study Water Capacity Charge Memo FINAL \(1\)](#)

Alignment with Council Goals:

Not Applicable

Compliance with Climate Action 2020 Target Goals:

n/a

CC:

Steve Gagnon, Raftelis

City of Sonoma

RESOLUTION # ____ - 2019

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SONOMA ADOPTING WATER CONNECTION CHARGES AND FINDING THIS ACTION TO BE EXEMPT FROM ENVIRONMENTAL REVIEW UNDER CEQA GUIDELINES SECTION 15273

WHEREAS, pursuant to Sonoma Municipal Code sections 13.04.120 and 13.24.150 through 13.24.190, the City Council may, as it deems necessary and appropriate, set water rates, charges and fees, including connection and front footage charges, by resolution; and

WHEREAS, existing connection charges include capacity charges, meter and lateral installation charges, and a front foot charge (“Water Connection Charges”); and

WHEREAS, the City Council last adjusted Water Connection Charges in 2014 by Resolution No. 56-2014; and

WHEREAS, the City retained Raftelis Financial Consultants, Inc. to calculate updated capacity charges and to prepare a memorandum describing how those capacity charges are calculated; and

WHEREAS, the Raftelis memorandum, attached hereto as Exhibit B and incorporated by this reference, calculated draft capacity charges using the equity buy-in method with two methods to value assets – (1) Replacement Cost Less Depreciation, and (2) Replacement Cost; and

WHEREAS, the Raftelis memorandum notes that the most common method adopted by municipalities to calculate capacity charges is the Replacement Cost Less Depreciation method; and

WHEREAS, pursuant to Government Code section 66016(a), the City Council held a public hearing at its regularly scheduled December 16, 2019 meeting to consider adoption of the proposed Water Connection Charges; and

WHEREAS, pursuant to Government Code section 66016(a), the City made available to the public all data indicating the cost, or estimated cost, to provide the service for which these fees will be levied, and the revenue sources anticipated to provide the service, for at least 10 days before its regularly scheduled December 16, 2019 meeting.

WHEREAS, the City Council finds it necessary and appropriate to adopt the proposed Water Connection Charges for the City of Sonoma; and

WHEREAS, California Environmental Quality Act (CEQA) Guidelines section 15273 states that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits;
2. Purchasing or leasing supplies, equipment, or materials;
3. Meeting financial reserve needs and requirements;

4. Obtaining funds for capital projects, necessary to maintain service within existing service areas; or
5. Obtaining funds necessary to maintain such intra-city transfers as are authorized by city charter; and

WHEREAS, the proposed Water Connection Charges are for the first four of these purposes and, therefore, this adoption of this resolution is categorically exempt from CEQA; and

WHEREAS, the City Council finds, based on all evidence in the record, that the proposed Water Connection Charges, as described in Exhibit A, attached hereto and incorporated by this reference, do not exceed the estimated reasonable cost of providing the service.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Sonoma hereby declares the foregoing recitals are true and correct; and

BE IT FURTHER RESOLVED that the City Council of the City of Sonoma hereby adopts the Water Connection Charges set forth in Exhibit A; and

BE IT FURTHER RESOLVED, the City Council of the City of Sonoma hereby authorizes the City Manager to adjust water capacity charges annually effective each January 1st by the Engineering News Record (ENR) Construction Cost Index for the San Francisco Bay Area annual percent change from July to July averaged over the three prior years. Alternatively, water capacity charges may be adjusted periodically based on updates to the water asset inventory; and

BE IT FURTHER RESOLVED that the City Council of the City of Sonoma hereby authorizes the City Manager to establish procedures to determine Meter Charges and Front Foot Charges for each customer. Such charges shall not exceed the estimated reasonable cost of providing the service; and

BE IT FURTHER RESOLVED that the City Council of the City of Sonoma hereby determines all rates and charges set forth in this Resolution shall become effective on December 16, 2019 and shall remain in effect until changed by the City Council; and

BE IT FURTHER RESOLVED that the City Council of the City of Sonoma hereby determines all other rates, charges, fees, penalties, etc. not provided for in Exhibit A which are currently charged in connection with operation of the City of Sonoma Water Utility shall be unaffected by this Resolution and shall remain in effect; and

BE IT FURTHER RESOLVED that the City Council of the City of Sonoma hereby finds that the changes in rates and charges set forth in Exhibit A are statutorily exempt from the California Environmental Quality Act under section 15273 of the State CEQA Guidelines.

ADOPTED this 16th day of December 2019 by the following vote:

Ayes:

Noes:

Absent:

Amy Harrington, Mayor

ATTEST:

Rebekah Barr, City Clerk

EXHIBIT A

CITY OF SONOMA WATER CONNECTION CHARGES

Pursuant to the authority granted in Section 13.04.120 and Sections 13.24.150 through 13.24.190 of the Municipal Code, the rates and charges set forth below are adopted effective for connection charges paid to the City after the specified date.

Capacity Charge

The capacity charge applies to all customer classes and meters based on meter size. These rates are based on the capacity charge calculations prepared by Raftelis, based on the Replacement Cost Less Depreciation methodology for calculating the value of assets. There is no capacity charge for “fire service only” meters.

Capacity Fees by Meter Size (A)	Meter Capacity Ratio (B)	Charge by Meter Size (C)
5/8"	1.00	\$4,260
3/4"	1.00	\$4,260
1"	1.00	\$4,260
1 1/2"	2.00	\$8,520
2"	3.20	\$13,632
3"	6.40	\$27,264
4"	10.00	\$42,600
6"	20.00	\$85,201

Meter Charge

The water meter shall be furnished and installed by the City. Applicant shall pay a meter charge for the meter and installation cost of materials, labor and equipment plus an administrative charge as determined by the City at the time of installation.

The applicant shall make arrangements for an underground contractor licensed by the State of California to install the lateral and meter box and other appurtenant and required equipment and devices (such as a backflow prevention device if required by the City). The lateral shall be installed to meet City standards and shall extend from the water main to the meter. The size and materials used shall be approved by the City. The lateral shall terminate in a meter box at a location approved by the City.

Front Foot Charge

The applicant may be required to pay a front foot charge as determined by the City. This will allow a case-by-case determination of the front foot charge as an amount to reimburse the City

or a previous applicant who extended a City water main along the frontage for a fair share of a new water main extension. In most cases, there will be no front foot charge.

Adjustments

Water capacity charges may be adjusted annually effective each January 1st by the Engineering News Record (ENR) Construction Cost Index for the San Francisco Bay Area annual percent change from July to July averaged over the three prior years. Alternatively, water capacity charges may be adjusted periodically by resolution based on updates to the water asset inventory.

All Other Charges

All other rates, charges, fees, penalties, etc. not provided for herein shall be based on Resolution No. 58-2018 and Resolution No. 56-2014 until updated by subsequent action.

MEMO

To: Cathy Capriola, Michael Colantuono

From: Steve Gagnon, PE (AZ), Sanjay Gaur, Raftelis

Date: 11-13-2019

Re: Proposed Capacity Charge Calculations for City of Sonoma Consideration

Per the City's request, Raftelis calculated capacity charges using the equity buy-in methodology using Replacement Cost Less Depreciation (RCLD) to value City water assets. The equity buy-in methodology is appropriate in instances where infrastructure has been built in advance of growth and there is excess capacity available to serve new connections. Under the equity buy-in approach, new customers pay an amount equal to the net investment (asset value) made by existing users.

While there are four methods recognized to value assets:

- 1) Original Cost (OC),
- 2) Original Cost Less Depreciation (OCLD),
- 3) Replacement Cost (RC), and
- 4) Replacement Cost Less Depreciation (RCLD),

the most common methodology is RCLD as it is argued that this best represents the value of the assets today while acknowledging that the assets are not new. Asset value for the *equity* buy-in can include reserve fund balances (though there are none included in this instance) and divides by the *current "in-service"* system capacity, also known as equivalent meters. To avoid double counting, it excludes the principal portion of debt because debt service is typically recovered through water rates. Therefore, to avoid double charging customers, we remove outstanding debt principal.

RCLD calculates the cost to build the asset in today's dollars and subtracts depreciation to reflect the fact that the asset is not new. With RCLD, the original cost of each asset is depreciated using straight line depreciation based on the estimated life of the asset and number of years since acquisition. Then the assets, other than land, are inflated by the Engineering News Record Construction Cost Index (ENR CCI) from the acquisition year to the current year to get today's cost to construct the asset. Note that we used the ENR CCI for the San Francisco Bay Area, not the nationwide 20-City ENR CCI. In lieu of any available recent land appraisals, land values were inflated by two percent per year, consistent with the maximum annual allowable increase in assessed value under Proposition 13. (This assumption is likely conservative.) However, no depreciation is assumed for land.

Note that these asset valuations are based on the latest available water enterprise asset list, which was updated January 4, 2019 by the City to fiscal year end 2018. We are using non-vehicle assets for the updated calculations.

Equity Buy-in Using Replacement Cost Less Depreciation

RCLD uses the original cost of assets, subtracts accumulated depreciation, and then inflates the remaining original value (also known as book value) to current dollars using the ENR CCI. Assets with zero remaining “book value” after depreciation are deemed worthless. (Note that assets with zero value after depreciation for accounting purposes may still be functional). Table 1 shows the buy-in calculation using RCLD. Table 2 shows the capacity fee by meter size. Appendix A shows the equivalent meter calculation as well as the asset valuation by asset function.

Table 1: Buy-In Calculation Calculated with RCLD

Buy-In Capacity Charge	
Asset Valuation	\$23,799,306
Less Outstanding Debt Principal	\$1,285,000
Total	\$22,514,306
Divided by Number of Equivalent Meters	5,285
Buy-In Capacity Charge	\$4,260

Table 2: Capacity Fee by Meter Size using RCLD

Capacity Fees by Meter Size (A)	Meter Capacity Ratio (B)	Charge by Meter Size (C)
5/8"	1.00	\$4,260
3/4"	1.00	\$4,260
1"	1.00	\$4,260
1 1/2"	2.00	\$8,520
2"	3.20	\$13,632
3"	6.40	\$27,264
4"	10.00	\$42,600
6"	20.00	\$85,201

Per our understanding, all capacity charge revenue should be segregated into a separate fund to be used solely for capital improvements and are subject to annual reporting requirements.

The City can charge the fee shown or any fee that is lower than the calculated fee. The City can also adjust capacity fees using the ENR CCI yearly. However, doing so does not capture major asset additions, therefore Raftelis recommends recalculating capacity fees every 5 years or so based on a current asset inventory.

APPENDIX A: Equivalent Meter Calculation

Meter Size	Inside Meters (A)	Outside Meters (B)	Total Meters (C)	Rated Capacity (gpm) (D)	Meter Capacity Ratio (E)	Equivalent Meters (F)
5/8"	279	3	282	20	1.00	282
3/4"	2,656	206	2,862	30	1.00	2,862
1"	1,217	100	1,317	50	1.00	1,317
1 1/2"	131	12	143	100	2.00	286
2"	89	5	94	160	3.20	301
3"	22	1	23	320	6.40	147
4"	7	0	7	500	10.00	70
6"	1	0	1	1000	20.00	20
Total	4,402	327	4,729			5,285

Asset Summary	RCLD
Water Supply	\$542,202
Treatment	\$0
T&D	\$14,990,519
Storage	\$4,363,695
Meter Service	\$195,106
Billing & Collection	\$0
Admin/General	\$3,707,784
TOTAL	\$23,799,306