

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Adoption of Facility Capacity Fee

DATE: July 27, 2015

Summary:

The Agency has worked on adopting a facility capacity fee off and on for the past five years. The purpose of this proposed Board action is to consider the Nexus Study (“Study”) and to formally adopt the fee that has been discussed on numerous occasions.

The Study prepared for the Board Hearing on July 27, 2015 has been updated as a result of the City of Calimesa revising its land use plans to increase planned industrial development from 412,000 square feet to 18,700,000 square feet by 2035 (“Calimesa Update”). The effect of this increase in industrial use demand for water has the effect of reducing the Facility Fee Component from \$177.64 per EDU to \$170.89 per EDU.

The Calimesa Update does not affect the ability of the Board to consider the adoption of the Findings and Facility Capacity Fee Study because its impact is to reduce the overall fee to all development and thus does not result in harm to potential new water users. The Study was revised and new calculations made to assure that the Facility Capacity Fee does not exceed the reasonable cost of providing the service for which the fee is charged.

As soon as the Calimesa Update was calculated to be included in the Study, the Riverside BIA was notified by email and a copy of the updated Study was sent to them on July 22, 2015.

Background:

The San Gorgonio Pass Water Agency Act empowers the Agency to adopt a facility capacity fee to fund infrastructure and additional water

supplies. This is similar to developer-based fees imposed by other public agencies, including water agencies, school districts, cities, and counties, throughout California. The need to adopt and implement such a fee is acute, as without it the Agency will not have sufficient funding to procure the additional water supplies needed to meet future water demands.

The Agency has considered various revenue generating options over the past two decades, including adopting a facility capacity fee and adopting a standby charge. Neither has been adopted by the Board, though the Board has discussed each of these over the years.

Approximately a year ago, the Board directed staff to update the previous capacity fee nexus study and to bring it to the Board for consideration. A workshop was held on June 26, 2014 to gather input from the public on the nexus study process. The Agency contracted with David Taussig & Associates, who produced an earlier facility capacity fee nexus study, to produce a new one that reflects current demographics and facility plans.

Detailed Report:

Details on the need for the fee and the nexus of the fee will be presented at the Board meeting. The fee is needed in order to fund procurement of additional long-term supplemental water supplies for the region. Most of the fee is in the cost of new long-term water rights. A small portion of the fee is associated with additional infrastructure needed to augment conveyance capacity to the region and storage of the additional water supplies.

Assuming the Board adopts the fee, the next step would be for staff to pursue cooperative agreements with either retail water agencies or land use planning agencies, as identified in the SGPWA Act, to enable the Agency to collect the fee on new construction. The cooperative agreements will include such issues as:

- Total water use for a new development would be calculated based on local retail water agency standards.
- Water purchased with funds from a particular project would be reserved for that project.

- Developers would receive credits upon payment to the Agency in the event of overlapping water supply capacity fees such that a developer would not have to pay twice for the same water.

Upon adoption of a cooperative agreement with another public agency, be it a city, county, or retail water agency, the Agency would ensure that future development within that entity's service area would be covered in the Agency's urban water management plan and that entity would have a right to expect future water supplies (subject to availability) to be provided by the Agency for that development.

The hearing of the Study has been noticed, published and made available to the public as required by law.

The nexus study identifies two components of the fee—a water supply component, based on the number of acre-feet that would be used by a new development, and a facility component. The amount of the facility component is approximately \$171 per equivalent dwelling unit (EDU). The infrastructure to be funded through the fee includes additional capacity in the Foothill Pipeline and a storage facility in the Beaumont Basin. Other facilities considered in previous versions of the nexus study have been deleted in this version.

For the water component of the fee, the amount identified in the study is \$6231 per acre-foot of new water. Thus, the amount of the fee for any new home would be based on the expected water use of that home and could vary depending on location, type of development, size of lot, number of bathrooms, etc. At this time, the average water use per single family home in the region is approximately 0.548 acre-feet per year. Using this as an average, the water component of the fee for a typical average home at this time would be approximately \$3415. As homes become more water-smart in the future, this figure could be reduced significantly.

Fiscal Impact:

Adoption of the fee would have a net positive impact on the Agency. It would enable the Agency, assuming that cooperative agreements are successfully negotiated, to augment its revenues so that infrastructure and new water supplies could be funded. The capacity

fee revenues would combine with revenues from water sales and general fund tax revenues to purchase additional long-term water supplies. Facilities would be constructed using capacity fees and general fund revenues. No funds from water sales would be used to construct or purchase capacity in facilities.

Relationship to Strategic Plan:

The strategic plan calls for the Agency to develop a regional financing plan for the future. The capacity fee has long been an integral part of a regional financing plan, and is thus an integrated part of the Agency's strategic plan and 2010 urban water management plan. In addition, the capacity fee and Study are consistent with the Agency's 2010 urban water management plan.

Recommendation:

Staff recommends that the Board adopt Resolution 2015-05 adopting a capacity fee and directing staff to negotiate cooperative agreements with local water districts and/or land use planning agencies.