



PUBLIC WORKS DEPARTMENT

MAYOR: Lauren McLean | DIRECTOR: Stephan Burgos

MEMO

TO: Mayor and City Council
FROM: Steve Burgos, Public Works Director
Heather Buchanan, Public Works Chief Administration Officer
DATE: May 10, 2024
RE: Water Renewal Connection Fees Updates

DESCRIPTION OF ISSUE:

Public Works (PW) recently completed a Cost-of-Service Study (COSS) for the Water Renewal (WR) utility. The COSS analyzes funding requirements for maintenance and operations (M&O) and capital costs for the utility, allocates costs to customer groups based on system usage, and establishes or updates utility rates to ensure funding requirements are met by revenues from each customer group. Together these concepts are referred to as full cost of service.

As a result of the COSS, both WR M&O rates and connection fees are being updated.

- M&O rates cover the cost of day-to-day utility operations. M&O rate adjustments to full cost of service began in FY2023 with phasing over three years.
- Connection fees recover the cost of investing in new WR infrastructure to serve growth. When a customer pays a connection fee, they essentially reserve WR system capacity needed to convey and treat their used water. The connection fee rate adjustments to full cost of service will begin in FY2025 with phasing over the next three years. This memo focuses on the coming connection fee updates.

BACKGROUND:

Connection fees are charged on both residential dwelling units and commercial facilities that are either new or experience increased used water discharge.

Connection fees have two components:

- A “treatment” fee that pays for capacity at the water renewal facilities. This fee covers the cost of treatment facilities and is based on the amount of used water and the removal of contaminants.
- A “trunk” fee that pays for the pipelines necessary for conveying the used water to the treatment facilities.

RESIDENTIAL CONNECTION FEES

Residential connection fees are paid for both single-family and multi-family dwelling units. Typically, residential developers pay a connection fee for each house built, which is then ultimately passed on to the home buyer in the price of the house. The current single-family total connection fee of \$3,575 equates to approximately 0.75% of a median home price. Connection fees were last updated in FY2014. If connection fees had been indexed by 3% to 4% annually since 2014, the calculated connection fee would be approximately \$4,950 to \$5,500 for FY2025.

Treatment Fee

With the implementation of the Modern Zoning Code (MZC) in December 2023, PW updated WR code sections related to dwelling types and restructured the residential connection fees. Historically, townhouse, condo, and duplex residential categories acknowledged smaller dwelling types (less square footage) with less used water discharge than single-family detached units. However, today, these dwelling types are similar in size and used water discharge to single-family detached units. Therefore, residential named categories were replaced with square footage categories in FY2024.

Beginning in FY2025, treatment connection fees for the square footage categories will increase at varying rates to acknowledge larger dwelling units have the potential to discharge more used water. The connection fee adjustments will transition to full cost of service over three years followed by regular updates thereafter.

The following table outlines the estimated treatment fee phasing to achieve full cost of service by FY2027.

Single-Family & Multi-Family	Existing	FY2025 Proposed	FY2026 Estimate	FY2027 Estimate	FY2025	FY2026	FY2027
Single-Family Treatment Fees							
ADU	\$ 1,142	\$ 1,290	\$ 1,458	\$ 1,647	13%	13%	13%
<700 sf	2,035	1,647	1,647	1,647	-19%	0%	0%
701 - 1,400 sf	2,035	2,321	2,647	3,019	14%	14%	14%
1,401 - 2,100 sf	2,035	2,321	2,647	3,019	14%	14%	14%
2,101 - 2,800 sf	2,035	2,485	3,035	3,706	22%	22%	22%
>2,800 sf	2,035	2,790	3,825	5,243	37%	37%	37%
Multi-Family Treatment Fees (per unit)							
<700 sf (per unit)	\$ 1,615	\$ 1,373	\$ 1,373	\$ 1,373	-15%	0%	0%
701 - 1,400 sf (per unit)	1,615	1,872	2,170	2,516	16%	16%	16%
1,401 - 2,100 sf (per unit)	1,615	1,872	2,170	2,516	16%	16%	16%
2,101 - 2,800 sf (per unit)	1,615	2,005	2,488	3,088	24%	24%	24%
>2,800 sf (per unit)	1,615	2,250	3,136	4,369	39%	39%	39%

Trunk Fee

Historically, single-family trunk fees have been assessed on a per unit basis and multi-family trunk fees were based on number of units per acre. Moving forward, both single-family and multi-family trunk fees will be based on number of units per acre to align with the MZC allowances for higher densities. As the number of units per acre increases, the fee per unit will decrease.

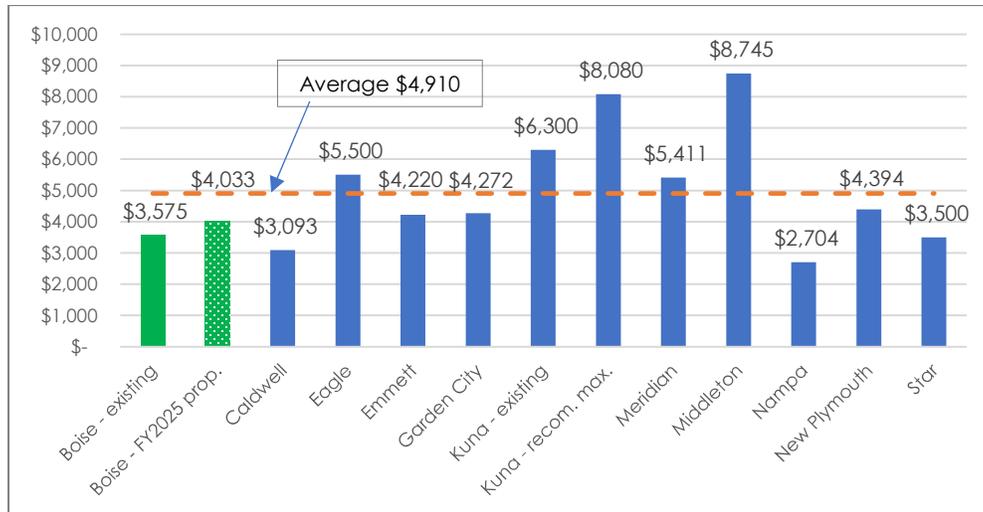


The following table outlines the estimated trunk fee phasing to achieve full cost of service by FY2027.

Single-Family & Multi-Family	Existing	FY2025 Proposed	FY2026 Estimate	FY2027 Estimate	FY2025	FY2026	FY2027
ADU Trunk Fees							
Low Density (<6 units/acre)	\$ 763	\$ 1,072	\$ 1,505	\$ 2,114	40%	40%	40%
Medium Density (6-15 units/acre)	763	809	857	909	6%	6%	6%
High Density (>15 units/acre)	763	254	254	254	-67%	0%	0%
Single Family Trunk Fees							
Low Density	\$ 1,540	\$ 1,712	\$ 1,902	\$ 2,114	11%	11%	11%
Medium Density	1,540	909	909	909	-41%	0%	0%
High Density	1,540	254	254	254	-84%	0%	0%
Multi-Family Trunk Fees							
Low Density	\$ 1,300	\$ 1,529	\$ 1,798	\$ 2,114	18%	18%	18%
Medium Density	700	764	833	909	9%	9%	9%
High Density	300	254	254	254	-15%	0%	0%

As an example, in FY2025, the treatment fee for a 2,100 square foot single-family home will increase from \$2,035 to \$2,321, while the trunk fee for a low-density lot will increase from \$1,540 to \$1,712. Therefore, the combined FY2025 fee will be \$4,033, reflecting a combined increase of 13%.

The following graph provides a comparison of water renewal (sewer) connection fees for neighboring municipalities.



COMMERCIAL CONNECTION FEES

Commercial connection fees are based on used water discharges from new commercial development or expansion of existing facilities. Beginning in FY2025, commercial connection fees will begin to adjust to the full cost of service, similar to the approach taken with residential connection fees.



Commercial	Existing	FY2025 Proposed	FY2026 Estimate	FY2027 Estimate
Trunk Fee (SFDE)	\$ 1,540	\$ 1,712	\$ 1,902	\$ 2,114
Treatment Fee (daily average)				
Flow (1,000 gallons/day)	\$ 2,280	\$ 3,037	\$ 4,046	\$ 5,390
Biochemical Oxygen Demand (lbs/day)	1,395	1,923	2,652	3,656
Total Suspended Solids (lbs/day)	765	1,071	1,499	2,098
Ammonia (lbs/day)	4,325	3,121	3,121	3,121
Total Phosphorus (lbs/day)	-	6,182	12,364	18,546

FY2025	FY2026	FY2027
11%	11%	11%
33%	33%	33%
38%	38%	38%
40%	40%	40%
-28%	0%	0%
n/a	100%	50%

BREWERY CONNECTION FEES

Breweries are a type of commercial business with the potential to discharge high waste strength used water requiring additional treatment at the WR facilities. Breweries are also unique because they can increase their used water discharge by simply increasing brewery production without adding plumbing fixtures. The recently completed COSS highlighted the need to update the connection fee methodology for breweries.

PW staff is evaluating each brewery's paid connection fees compared to current usage. Some breweries will owe additional fees due to production growth since fees were originally paid. The additional fees for current usage will be calculated at current rates. Any future increases in usage will be subject to the fees applicable at that time.

PW staff will meet with each brewery to explain the connection fee updates and answer questions regarding additional fees. Any brewery needing to pay additional fees may sign a connection fee deferral agreement to make payments over time.

NEXT STEPS:

- PW staff will communicate the connection fee updates and anticipated rate adjustments to developers and other key stakeholders.
- The outreach meetings for breweries will be scheduled for late May into early June.
- The first phase of the proposed fee adjustments will be included in the FY2025 Budget Development process.
- The three-year connection fee full cost phase-in will be FY2025 through FY2027. The FY2026 and FY2027 fees shown are estimates and will be evaluated prior to each fiscal year implementation.

