

CENTRAL CONTRA COSTA SANITARY DISTRICT

Report Regarding the Capacity Fee Update May 1, 2023

INTRODUCTION

The Central Contra Costa Sanitary District (Central San) charges a Capacity Fee when properties are first connected to the public sewer or when an increase, expansion, or change of use occurs on a non-residential parcel which creates an added burden on the wastewater collection and treatment system. Each year this fee is updated based on changes to the value of Central San's assets and the number of Central San's customers. This memo summarizes the basis for the Capacity Fee and describes the calculation used for the fee update.

BACKGROUND

The total value of Central San's existing assets (approximately \$2.3 billion) is much greater than the value of future facilities expansion needed to accommodate future customers. While Central San's *FY 2022-23 Budget* lists \$1.4 billion in capital projects over the next 10 years, most of these projects are driven by renovation, regulatory compliance, replacement or upgrading of facilities to maintain capacity for both current and prospective customers. Central San believes that its facilities generally have adequate capacity to serve both existing and future customers.

The Water Environment Federation's (WEF) *Manual of Practice 27, Financing and Charges for Wastewater Systems* defines several methods for calculating System Development Charges such as Central San's Capacity Fee. Central San uses the Equity Buy-in method and has used this methodology since 2001. Under this approach, new customers are charged at the same equity position as existing customers, which is appropriate based on the level of assets, expansion, and capacity described above.

Section 66013 of the California Government Code defines Capacity Charges for water and sewer agencies as a charge for public facilities in existence at the time a charge is imposed that are of proportional benefit to the person or property being charged. The equity buy-in method defined by WEF and used by Central San conforms to the requirements contained in Section 66013.

Central San's Capacity Fee methodology and calculations were reviewed by consultants Black & Veatch in the fall of 2017. Their March 2, 2018 report titled *Wastewater Capacity Fee Review Study* included the following findings:

- The equity-buy-in methodology used by Central San is appropriate.
- Central San's use of Replacement Cost Less Depreciation (RCLD) is appropriate.
- The exclusion of contributed assets from the calculation is appropriate in order to avoid double recovery of asset values.

CALCULATION APPROACH

A significant change for FY 2023-24 is the elimination of the Pumped Zone Capacity Fee. Historically, Central San had charged this fee in recognition of the value of the additional assets within those portions of the district which use pump stations and force mains to convey wastewater to the treatment plant. The overall purpose of the Capacity Fee is to equalize the investment in Central San's assets among current and new users, thus ensuring that new users pay their fair share for facilities capacity and services. Increased capital spending on pump station projects led to a review and discussion of the fee methodology with staff, District Legal Counsel, and Raftelis Financial Consultants. A review of the pumped zone assets has indicated that the recent investments in those assets have generally been paid for by all Central San customers, not just those within the pumped zones and elimination of the Pumped Zone Capacity Fee was determined to be the most practical solution.

The Capacity Fee is typically adjusted each year to reflect annual changes in the value of Central San's assets. It is calculated using the equity buy-in approach which divides the value of Central San's assets by the current number of Residential Unit Equivalents (RUEs) to determine the fee. The calculated value of Central San's assets is determined as follows:

- Land: Rather than attempting to determine actual market value, the current value of investments in real property is estimated based on the opportunity value of like cash investments deposited in Central San's temporary investments at the time of each property purchase and held at interest to the present.
- Facilities: The current value of investments in physical facilities is estimated by escalating each year's facilities expenditures based on the change in the *Engineering News Record* Construction Cost Index for the San Francisco Bay Area (ENR CCI-SF) and then applying straight-line depreciation using the life cycles in Table 3. The depreciation schedule assumes no salvage value remaining at the end of the asset's useful life.

A category for "Mains (Renovation Program)" is included in the current value of facilities for determination of Capacity Fees. This category accounts for Central San's significant investment since 1988 in life-cycle replacement and renovation of sewers 10-inches in diameter and smaller. This work renews capacity in these smaller sewers for the benefit of both existing and new connectors and reduces future maintenance costs. (Note that developer-contributed mains are excluded from the total asset value to prevent double recovery of the asset value.)

- Fund Balance: Prior fiscal year ending balance for the Sewer Construction Fund, less the principal value of Central San's outstanding debt, is used. The inclusion of the Running Expense and Self Insurance Funds was reviewed by staff and District Counsel who determined that it was no longer appropriate to include

those two items in the fee calculation.

Contributed assets are generally not included in the calculation in order to avoid double recovery of costs, as described in WEF's *Manual of Practice 27*.

After estimating the current value for an asset category, the component of the Capacity Fee attributable to that category is calculated by dividing current value by the current number of customers as shown below. The number of customers is determined by calculating the number of RUEs.

$$\text{Equity Buy-in Fee} = \frac{\text{Value of Assets}}{\text{Number of Customers (RUEs)}}$$

RECOMMENDED CAPACITY FEE

Staff recommends that the Board adopt Capacity Fees for Fiscal Year (FY) 2023-24 by applying the valuation approach and facilities life cycles described above, resulting in updated fee as follows:

Current	Proposed
\$7,200 per RUE (Gravity Service)	\$8,182 per RUE (district-wide)
\$9,211 per RUE (Pumped Service)	

The change in the FY 2023-24 Capacity Fee represents a 13.6% increase from the prior year Gravity Service fee. Of this increase, approximately 8.7% (\$629) is due to the inclusion of the pumped zone assets and approximately 4.9% (\$353) is a result of the increase in asset values.

The recommended fee calculation approach is a rational, practical, equitable and defensible method to determine the financial burden of new connections. A breakdown of the proposed Capacity Fees by asset category is presented in Table 1. Based on the review of information in Table 1, the increases are a result of Central San's continued capital improvement investment in its facilities. There is 7% change in the per-RUE asset values over the previous year for District-renovated Mains and a 5% change in the per-RUE asset values for the treatment plant. Table 2 shows a comparison of the proposed Capacity Fees to those fees charged by neighboring agencies. The useful service life assumptions for each asset category are included in Table 3.

CENTRAL CONTRA COSTA SANITARY DISTRICT

Report Regarding Capacity Fee Update

Table 1 - Capacity Fee Calculation FY 2023-24

(Equity buy-in. Asset values through 6/30/22)

Asset Category	Total Asset Value¹	less Contributed Assets^{1,2}	Net Asset Value¹	Net Asset Value per RUE³	FY 2022-23 Value per RUE	Change (\$)	Change (%)
Treatment Plant/Outfall	536,082,246	(148,435,317)	387,646,928	2,262	2,147	115	5.3%
Collection System							
Trunks and Interceptors	385,667,737	0	385,667,737	2,250	2,111	139	6.6%
Contributed Mains	658,442,000	(658,442,000)	0	0	0	0	
District-renovated Mains	314,216,036	0	314,216,036	1,834	1,717	117	6.8%
Pump Stations, Force Mains	107,848,185	0	107,848,185	629	2,011 ⁴	<i>note 5</i>	<i>note 5</i>
Recycled Water	45,112,564	(13,533,769)	31,578,795	184	177	8	4.3%
General Improvements (no land)	80,168,139	(24,046,970)	56,121,169	327	319	8	2.6%
Major Repairs	11,075,103	(3,322,531)	7,752,572	45	51	(6)	-11.4%
Land	57,171,437	(3,025,113)	54,146,325	316	315	1	0.4%
Sewer Construction Fund Balance	86,362,644	0	86,362,644	504	543	(39)	-7.2%
less Outstanding Debt (principle only)	(29,142,751)	0	(29,142,751)	(170)	(181)	11	-5.8%
TOTAL VALUES	2,253,003,340	(850,805,700)	1,402,197,640				
Capacity Fee	\$8,182 per RUE						

Notes:

1. Original cost escalated to current dollars less depreciation except land which is original cost escalated by opportunity cost
2. Contributed Assets include grant-funded, developer dedications, and capital contributions from City of Concord
3. Net asset value divided by total RUES unless otherwise noted
4. Prior years' methodology included a separate 'pumped zone' with asset value divided by RUES in the pumped zone
5. Comparison not meaningful due to change in methodology

CENTRAL CONTRA COSTA SANITARY DISTRICT

Report Regarding Capacity Fee Update

Table 2 – Comparison of Capacity Fees

AGENCY	CAPACITY FEE
Dublin San Ramon Services District	\$16,169
West County Wastewater District	\$10,244
Mt View Sanitary District	\$10,184
Current Central San Pumped Zone	\$9,211
PROPOSED Central San (district-wide)	\$8,182
Current Central San Gravity Zone	\$7,200
Concord	\$5,043
Antioch (Delta Diablo Sanitation District for Treatment)	\$5,033
Pittsburg (Delta Diablo Sanitation District for Treatment)	\$4,358
Bay Point (Delta Diablo Sanitation District for Treatment)	\$3,940

Based on publicly available data as of April 18, 2022

CENTRAL CONTRA COSTA SANITARY DISTRICT

Report Regarding the Capacity Fee Update

Table 3 - Average Useful Service Life

Gravity Sewers

Interceptors	150 years
Trunks	100 years
Mains (Renovated by District)	100 years

Treatment Plant & Pumping Station Facilities

Tanks/Foundations	100 years
Buildings	75 years
Mechanical, Electrical & Control Equipment	30 years

Recycled Water Facilities

Pipelines	50 years
Mechanical, Electrical & Control Equipment	30 years

General Improvements

Buildings	50 years
Mechanical/Electrical Equipment and Furnishings	25 years
Vehicles and other Equipment	10 years

Major Repairs/Replacements	10 years
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May 17, 2023
Ms. Danae Gemmell
Central Contra Costa Sanitary District
5019 Imhoff Place
Martinez, CA 94553

Subject: Review of Capacity Fees for FY 2023-24

Dear Ms. Gemmell:

Raftelis Financial Consultants, Inc. (Raftelis) has reviewed the report titled 2023-2024 Capacity Fee Report prepared by the District that documents the results of the capacity fee calculations.

We believe the report presents a reasonable analysis of the changes proposed for the capacity fees to be implemented for FY 2023-24. The equity buy-in method is commonly used to calculate fee for agencies such as Central San that have capacity in the existing system for new connections. The asset values are calculated using the replacement cost less depreciation method which is the standard method used in the industry for this purpose. In short, the methodology for the calculations is consistent with industry standards and regulatory requirements.

The implementation of a uniform fee for the whole district is reasonable given that the recent investments in the pumped zone assets have been paid by all district users.

In conclusion, it is our professional opinion that the capacity fee calculations meet industry standards and regulatory requirements.

Sincerely,

RAFTELIS FINANCIAL CONSULTANTS, INC.

A handwritten signature in blue ink, appearing to read 'Sudhir Pardiwala', written over a horizontal line.

By: _____

Sudhir Pardiwala
Executive Vice President