



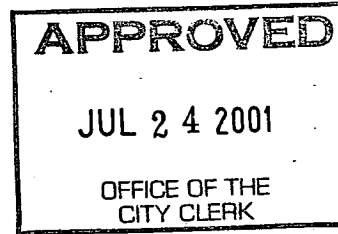
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Department of Utilities
Office of the Director

CITY OF SACRAMENTO
CALIFORNIA

1395 35th Avenue
Sacramento, CA 95822-2911
phone (916) 264-1400
fax (916) 264-1497/1498

July 16, 2001



City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT IMPACT FEES

LOCATION / COUNCIL DISTRICT: Citywide

RECOMMENDATION:

Staff recommends that City Council direct staff to continue to work with the Sacramento Regional County Sanitation District to develop an appropriate and equitable alternative to the existing impact fee that takes into consideration infill issues and provides equity to City customers.

CONTACTS: Jim Sequeira, Director of Utilities, 264-1407
Mike Stamper, Business Services Manager, 264-1468
Gary Reents, Engineering Services Manager, 264-1433

FOR COUNCIL MEETING OF: July 24, 2001

SUMMARY:

Staff has been working with Sacramento Regional County Sanitation (SRCSD) staff to investigate and develop options to the existing impact fee associated with new connections to the regional sewer system. While the SRCSD staff has constructed its own alternative to the current impact fee, City staff has developed three additional approaches. On July 25, 2001 SRCSD staff will present its alternative to its Board of Directors. Regional Sanitation District staff will ask the Board for direction and approval to conduct outreach on its alternative impact fee approach as well as consider other substitute approaches. City staff recommends that we continue working with SRCSD to develop a more equitable impact fee structure that reflects SMART growth policies and encourages infill development.



CITY OF SACRAMENTO
DEPARTMENT
OF UTILITIES

Making a Difference in Your Neighborhood

BACKGROUND:

"Impact fees" are collected to help pay the cost of constructing new facilities associated with new hookups while a "monthly user fee" pays for the costs associated with the subsequent operation, maintenance, replacement, and improvement to the system. This report deals with the SRCSD impact fee.

Following extensive testimony from community leaders and concerned citizens in opposition to a proposed impact fee increase, the SRCSD Board of Directors, at its February 14, 2001 meeting, directed its staff to evaluate potential alternative impact fee rate structures that would consider and encourage infill development.

Sacramento Regional County Sanitation District Staff Proposal. The SRCSD staff have now completed their research and have developed an option for an alternative impact fee structure to facilitate public input. Although City staff has not been provided a copy of the SRCSD's staff proposal at the time of drafting this report, we have been briefed as to its content. As we currently understand it, their proposal is as follows:

- ✓ Bifurcates impact fee into two components: Treatment and Conveyance (i.e. large pipelines that carry wastewater from local service areas to the Franklin Blvd treatment plant).
- ✓ Treatment component of fee would be the same for all new hookups whether they be located in infill or new growth areas.
- ✓ The conveyance component would be calculated based on how developed the given "sewershed"¹ that will serve the new hookup is.
- ✓ "Infill" sewersheds are defined as 50% built-out.
- ✓ One conveyance impact fee would be developed for "infill" sewersheds (\$1,940 estimated) and another for new developing areas (\$4,440 estimated) reflecting buy-in to existing conveyance infrastructure or the actual cost of new conveyance construction.

This proposal has two major advantages: It allows an area-by-area definition of infill and the sewersheds can be well defined and tracked. It is not clearly understood, however, what the basis of the discounted infill impact fee is or how this policy might apply to the City.

In addition, it appears that North Sacramento and South Natomas areas would be considered as "new development" rather than infill areas.

¹ Sewershed is defined as the local collection area as described in the SRCSD Interceptor Master Plan.

As mentioned previously, City staff has developed three additional approaches to the SRCSD impact fee. Each approach assumes that the treatment component of the SRCSD impact fee would be applied in like manner to both infill and new development. The conveyance element, however, would reflect the policy of encouraging infill over new development.

City Staff Proposal #1. This proposal is based on the current infill policy relative to the City's water impact fee. This discount has been in existence for more than a decade and is simple in application. The approach can be summarized as follows:

- ✓ Two impact fee components: Treatment and conveyance.
- ✓ Creates infill criteria
 - Infill areas designated by SRCSD member's governing authority, or located in a redevelopment area or
 - The parcel in question meets the following:
 1. has water and sewer infrastructure immediately adjacent to site
 2. is surrounded by development which is contiguous on at least three sides
 3. Is located in a neighborhood where median year of housing construction is 1974 or earlier
- ✓ Waives conveyance component of impact fee to infill areas and increases conveyance impact fee for new development

This proposal has several advantages. Each community can develop its own infill policy specific to meet the needs of that community. If there is no designated community infill area, the SRCSD can determine if adequate infrastructure is already present so as to not to burden existing conveyance infrastructure.

City Proposal #2. This proposal utilizes a geographical approach to designating "infill" or developed areas. The approach is similar to mapping for Federal Emergency Management Agency (FEMA) flood plain designations for developed versus undeveloped areas. A map (see attached) has been prepared to illustrate how this designation might be applied parcel by parcel within the City of Sacramento. Application of this approach to areas outside the City might utilize aerial photography to determine developed and undeveloped areas. Highlights of this approach are as follows:

- ✓ Two impact fee components: Conveyance and Treatment
- ✓ Utilizes geographical mapping to determine infill (developed) and undeveloped areas
- ✓ One conveyance fee for infill and another for new development.

City Proposal #3. This proposal would define any areas served by existing sewer interceptors as infill. This approach would include:

- ✓ Two impact fee components: Conveyance and Treatment
- ✓ Treatment component of fee would be the same for all new hookups whether they be located in infill or new growth areas.
- ✓ Conveyance fee for infill based on fair share cost of constructed interceptors
- ✓ Conveyance fee for new development based on fair share cost of planned interceptors

Next Steps. As mentioned, the SRCSD staff will present its option to the Board of Directors on July 25th. The District has informed City Staff that they will not ask the Board for a decision on their particular approach but instead seek approval to develop an outreach program to meet with interested parties (building, development, environmentalists, businesses, government agencies, etc.) in a process to consider alternative options submitted by others. The SRCSD staff project that this effort will be completed by December of this year.

City staff suggests that testimony be provided at the July 25, 2001 SRCSD Board Meeting to indicate that there has not been adequate time given or information provided to fully evaluate the District's option and that we have developed three alternative approaches that should be analyzed and compared to each other and the SRCSD proposal before conducting outreach.

FINANCIAL CONSIDERATIONS

There is no direct financial impact to the City associated with this report.

ENVIRONMENTAL CONSIDERATIONS

There are no direct environmental implications associated with this report.

POLICY CONSIDERATIONS

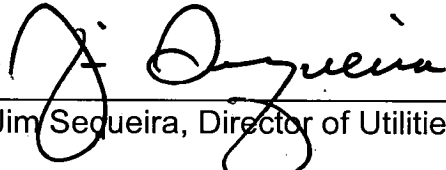
The intent of the proposed strategy associated with commenting on the SRCSD impact fee structure is consistent with current City Council policy relative to SMART growth and encouraging infill development.

City Council
July 24, 2001
Sacramento Regional County Sanitation District Impact Fees

ESBE CONSIDERATIONS

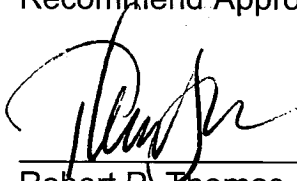
There are no services or goods being purchased as a result of this report and therefore the ESBE policy is not applicable.

Respectfully submitted,



Jim Sequeira, Director of Utilities

Recommend Approval:



Robert P. Thomas
City Manager



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Technology in balance with nature

10545 Armstrong Avenue

July 25, 2001

Mather
California
95655

Tele: [916] 876-6000

Fax: [916] 876-6160

Website: www.srcsd.com

TO: Honorable Board of Directors
Sacramento Regional County Sanitation District

FROM: Sacramento Regional County Sanitation District

SUBJECT: Alternative Sewer Impact Fee Structure

RECOMMENDATION:

It is recommended that your Board conduct a workshop regarding an alternative sewer impact fee structure and direct staff to meet with interested parties to obtain input on alternative sewer impact fee structures for the District.

BACKGROUND:

The Master Interagency Agreement (MIA) establishes the basis for development of sewer impact fees. Section 7A of the MIA states:

"... the present and future costs of providing regional services to users within Contributing Agencies shall be uniformly and equitably allocated among all users of Regional District treatment, conveyance, and disposal facilities without regard to their geographic location within Regional District;"

During the development of the District's Master Plans (the Sacramento Regional Wastewater Treatment Plant 2020 Master Plan and the SRCSD Interceptor System Master Plan) your Board requested staff to examine the possibility of an alternative impact fee structure. This request was driven by:

- ◆ The total cost of the Master Plans is \$1.3 billion over the next 20 years resulting in the need for substantial increases in rate and fees over the next five years.
- ◆ The desire to encourage infill development by offering reduced fees to customers in infill areas.

At the January 2001 hearings to increase sewer impact fees, your Board heard a substantial amount of public testimony regarding the need for a "two-tiered" impact fee system. Public testimony was strongly in favor of delaying the increase in sewer impact fees until a new methodology was adopted. Due to the fiscal impact of delaying the increases, your Board approved a fee increase from \$2,404 to \$3,500 per ESD. The increase was approved with a provision that any difference between the \$3,500 fee and any new lower sewer impact fee that may result from an alternative method of calculating sewer impact fees would be reimbursed.

Board of Directors

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District Engineer

Wendell Kido
District Manager

Marcia Maurer
Chief Financial Officer

Stan R. Dean
Plant Manager

DISCUSSION:

Discussions concerning a "two-tiered" impact fee began last fall upon completion of SRCSD's Master Plans. Based on those discussions, it became apparent that a variety of methodologies could be considered to develop a variable fee structure.

- Following are some basic criteria used in developing an alternative sewer impact fee structure.
1. The sewer impact fee will include a treatment plant component. This component would be the same for everyone, no matter where new or expanding development is located.
 2. The fee will include a conveyance component. This component would vary depending on the development location, have a technical basis, and include an equitable cost allocation.
 3. The total sewer impact fee will meet all legal requirements including the provisions of MIA and be legally defensible.

Based on these criteria, the key issue to be determined in a two-tier impact fee structure is how to determine the conveyance component. District staff has developed one option to address this issue.

Option

As discussed in the October 2000 financial planning session, the conveyance component of the sewer impact fee will be determined by whether development occurs in new or existing (infill) areas. The District has gone through extensive analysis to define new versus existing areas since the sewer impact fee will be determined by where the line is drawn on the map. Since these areas need to be clearly defined by parcel number, it has been decided to use District sewersheds that already exist in a Geographical Information System.

Three criteria have been used to determine which sewershed is considered infill versus new development.

1. The District analyzed two recent developments (Antelope and Laguna) to determine the rate of growth in a sewershed. Our projections show that it typically takes between 40 and 100 years for a sewershed to become fully built-out. Based on the averaged growth curve of these two areas, 50% of the buildout development in a sewershed occurs within the first 20 years. This growth rate is important because approximately 70% of the infrastructure cost is needed to serve those growth years. The growth occurring in the remaining years is accommodated by incrementally increasing the size of the improvements which account for the remaining 30% of the cost.
2. Either ESD's or acreage can be selected as a factor to measure development. The percentage of buildout ESD's connected to the sewer system within a sewershed measures the density of development. The District assumes a density of six ESD's per acre when designing its system and most new development is consistent with this development density. However, development in older areas was based on lower average densities. In those areas the amount of connected acreage has been used as a development measure because while the density may not meet the current District average, the area appears to be fully developed.
3. Another criteria considered important in defining development is the 1975 District boundary. This boundary was established when the District was formed in 1975 and was used as the basis to determine

where the conveyance (interceptor) system should be built, the capacity designed into the system, and who paid for the system. (Note: The amount of capacity was limited to 20 years based on requirements of the Clean Water Grant). All development that was connected to prior systems as of 1975 was "grandfathered in" to the current system. Since the costs for those interceptors have been paid primarily by developed areas within the 1975 boundaries, infill development occurring in those areas should only pay for incremental costs.

Using the three criteria listed above, each sewershed falls into one of three categories.

1. Sewersheds within the 1975 Boundary - Any sewershed that is 50% developed based on either connected acreage or existing ESD's will be considered infill.
2. Sewersheds outside the 1975 Boundary - Any sewershed that is 50% developed based on existing ESD's will be considered infill.
3. Specific exceptions within sewersheds - The old towns of Folsom and Elk Grove fall within the 1975 boundary, but otherwise do not qualify as infill. Since these areas were already connected in 1975, they have been defined as infill. In addition, the Delta Shores area within the City of Sacramento has been defined as new development while the remainder of the sewer shed has been considered infill.

All areas not considered infill would be considered new development for the purposes of calculating sewer impact fees. Attachment A lists each sewershed, whether it would be considered infill or new development, and a map that shows where the sewersheds are located. Under separate cover, County Counsel has provided an opinion on alternative sewer impact fee structures.

Financial Impact

The current sewer impact fee is calculated by taking the projected cost of capital improvements which benefit new customers and divide by the anticipated growth in ESD's. This process creates a regional fee for all new connections to SRCSD. In order to meet the basic requirements of the MIA, staff has also "regionalized" the development of the two-tier impact fees. The initial 70% of infrastructure cost allocated to new development has been used to create a "regional" new development sewer impact fee. Similarly, the incremental cost of 30% for providing infrastructure to infill development has been used to develop a "regional" infill impact fee. Using these assumptions, the approximate sewer impact fee per ESD would be:

	New *	Infill
Conveyance Component	\$4,440	\$1,940
Treatment Plant Component	\$1,660	\$1,660
Total Sewer Impact Fee	\$6,100	\$3,600

* - Current Projected Total Sewer Impact Fee as of 2002-03 is \$5,255.

These fees would be independent of the use of the Economic Development Treatment Capacity Bank. Bank fees would continue to be \$923 per ESD which is a substantial savings over our existing fees. However, no refunds would be made for connection permits issued for infill areas per the SRCSD

Connection Fee Ordinance effective April 28, 2001. It is anticipated these fees will be effective, except for inflation increases, through 2006.

Next Steps

Depending on direction from your Board, staff will conduct a series of meetings with contributing agencies, cities, and stakeholders this summer and early fall. During these meetings, attendees will be able to provide input on the District's option or present alternative options for consideration. The information from these meetings will be analyzed by a consultant, summarized and presented to your Board in early winter for consideration. Staff would recommend that March 2002 should be the earliest date for implementation of any change to the current system.

District staff acknowledges that the combined service area within the City of Sacramento is a unique situation. While it would initially fall within the definition of infill, District staff will work with the City of Sacramento staff to consider if a different method of impact fee and O & M charges should apply to this area.

CONCLUSION:

It is recommended that your Board conduct a workshop regarding an alternate method for sewer impact fee structure and provide direction to staff.

Respectfully submitted,

Marcia Maurer
Marcia Maurer
Chief Financial Officer

APPROVED:

Warren H. Harada, Administrator
Public Works Agency

By: *Robert F. Shanks*
Robert F. Shanks
District Engineer

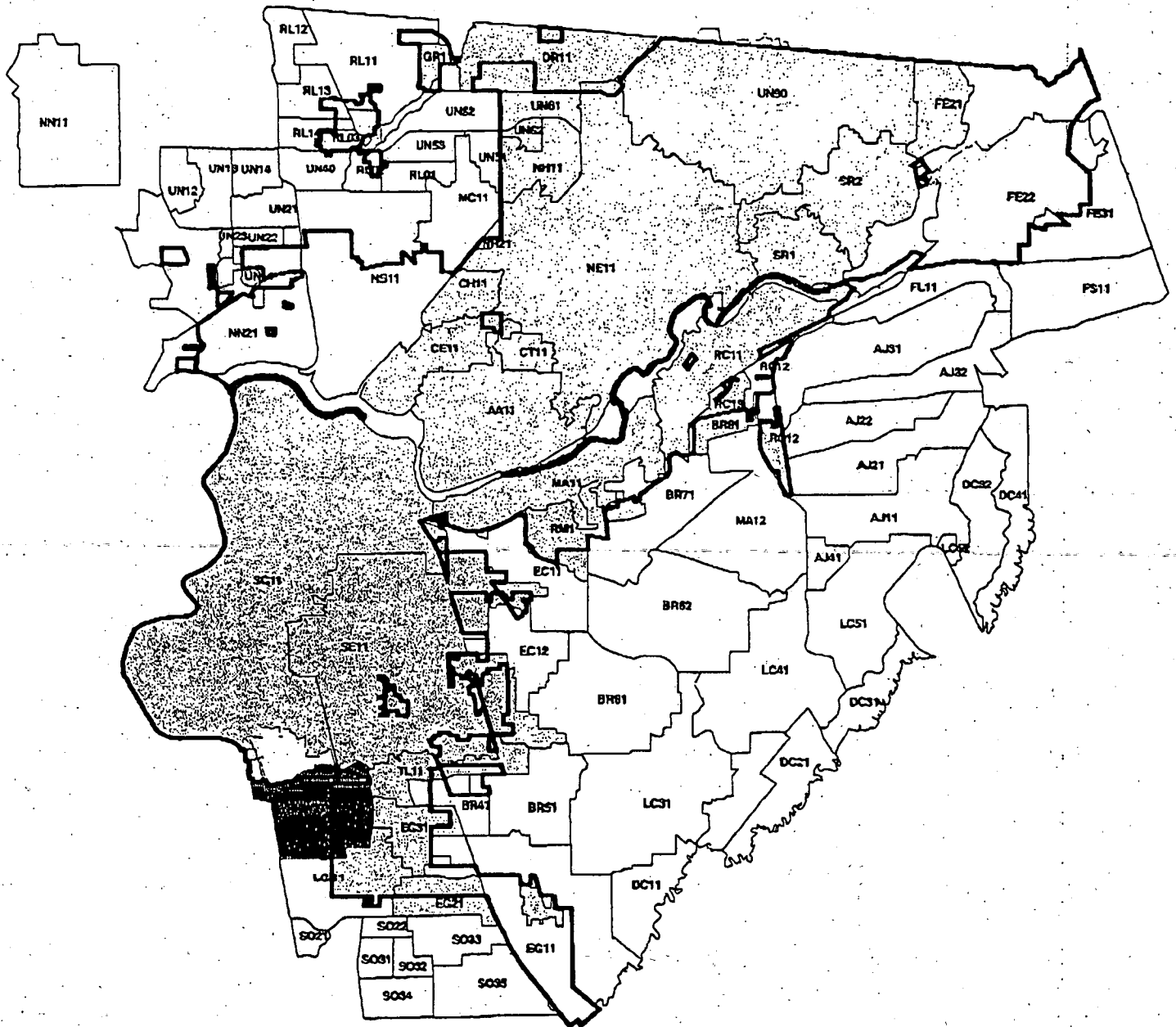
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

Contact for additional information:
Marcia Maurer
Chief Financial Officer
876-6116

ATTACHMENT A

INFILL SEWERSHEDS	NEW SEWERSHEDS	BOTH
AA 11	AJ 11	MC 11
BR 81	AJ 21	NN 11
CE 11	AJ 22	NN 21
CH 11	AJ 31	NS 11
CT 11	AJ 32	RL 01
DR 11	AJ 41	RL 02
EG 21	BR 41	RL 03
EG 31	BR 51	RL 11
FE 21	BR 61	RL 12
GR 11	BR 62	RL 13
MA 11	BR 71	RL 14
NE 11	DC 11	SO 21
NH 11	DC 21	SO 22
RC 13	DC 31	SO 31
RM 1	DC 32	SO 32
SC 11	DC 41	SO 33
SE 11	EC 11	SO 34
SR1	EC 12	SO 35
SR2	EG 11	UN 11
TL 11	FE 22	UN 12
UN 61	FE 31	UN 13
UN 62	FL 11	UN 14
UN 90	FS 11	UN 21
	LC 31	UN 22
	LC 41	UN 23
	LC 51	UN 40
	LC 52	UN 51
	MA12	UN 52
		UN 53

SRCSD Sewer Sheds



-  1975 SRCSD District Boundary
-  Infill Development Area
-  New Development Area

