

Water Demand Offset Policy, Fee Study, & Fees

Board of Public Utilities

March 17, 2022



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WDO Policy and Fees Public Outreach

Oct. 2021 - Letters to over 170 groups, individuals.
Oct. 14, 2021 - presentation to North Coast Builders
Oct. 20, 2021- WDO Policy info webpage published
srcity.org/WaterDemandOffset

Presentations at publicly noticed City meetings.

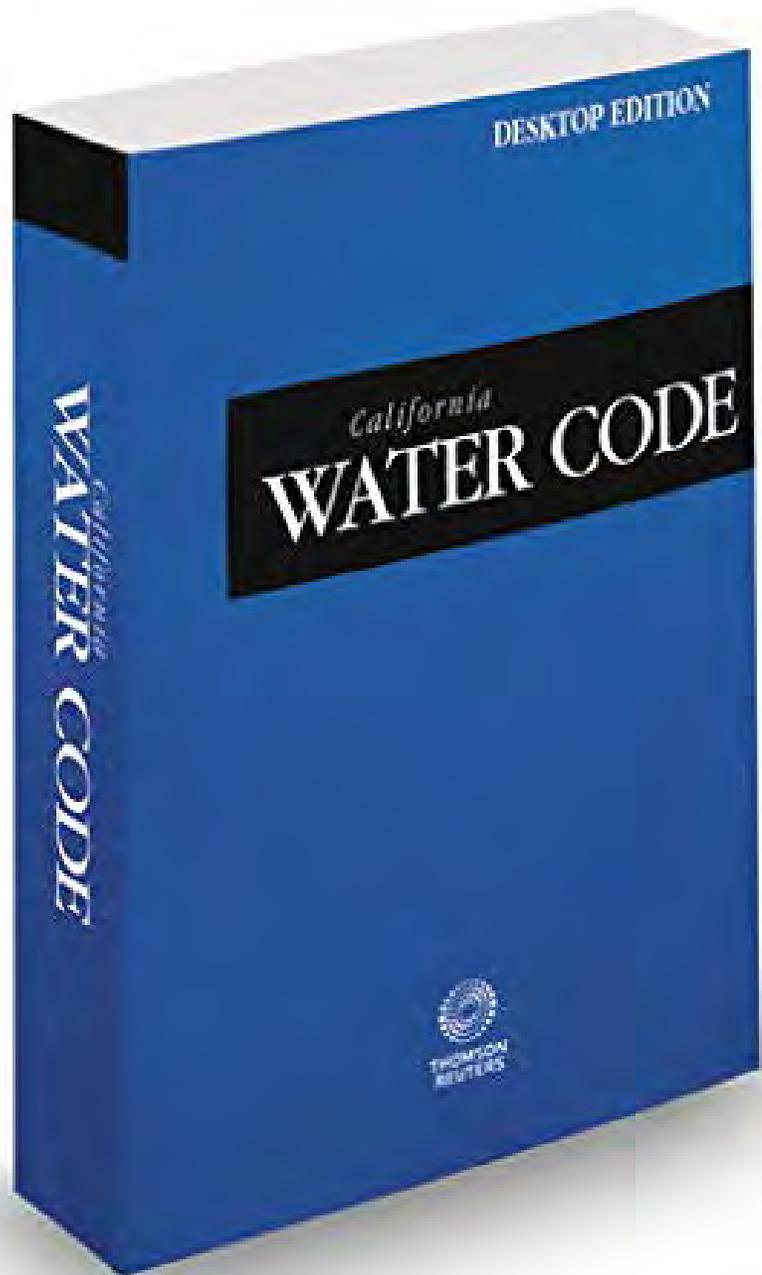
- Oct. 5, 2021 – City Council/Board of Public Utilities (BPU) Liaison Comm
- Oct. 7, 2021 – BPU study session
- Oct. 14, 2021 – Planning Comm study session
- Oct. 26, 2021 – City Council study session
- Nov. 18, 2021 – BPU report and resolution
- Nov. 30, 2021 – City Council public hearing



Water Shortage Contingency Plan (Shortage Plan)

Required by Urban Water Management
Planning Act

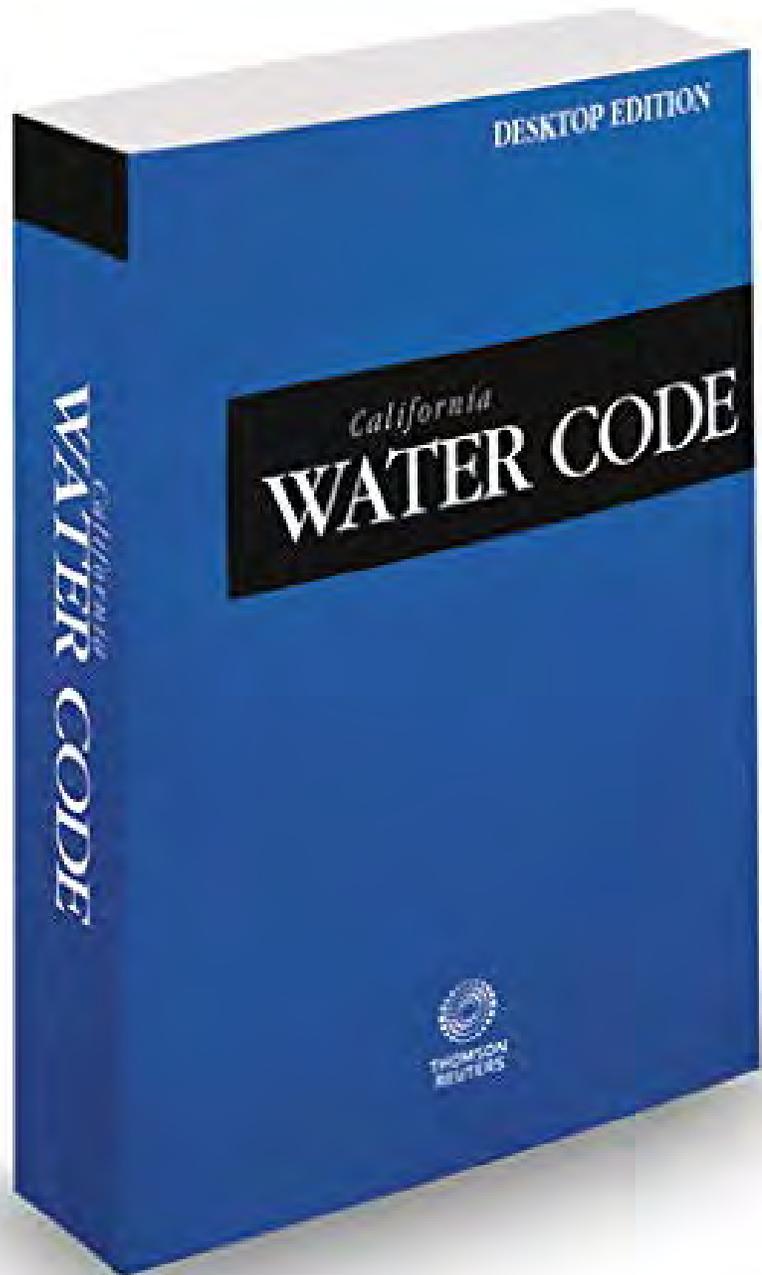
- Must be “Stand alone” plan.
- Must have clearly defined shortage levels.
- Must provide detailed road map to conserve water in each emergency stage.
- Purpose: Maintain sufficient supply for human consumption, sanitation, and fire protection throughout emergency.



CA Water Code

Section 350 – A water shortage emergency must be declared when the ordinary demand of water customers cannot be satisfied without depleting the water supply to the extent that there would be insufficient water for human consumption, sanitation, and fire protection.

Section 353 – During a shortage emergency, a water supplier must adopt regulations and restrictions on water delivery and consumption to conserve supply for the greatest benefit with particular regard to domestic use, sanitation, and fire protection.



CA Water Code

Section 356 – Regulations and restrictions may include denying applications for new or additional service connections and discontinuing service to consumers who willfully violate regulations and restrictions.

Section 357 - Restrictions in shortage emergency prevail over right of individual to receive water during water shortage emergency.



Case Law

Water supplier is empowered to anticipate water shortages and impose regulations and restrictions where, without controls, water supply will become depleted, and not sufficient to meet the needs of its existing consumers.

Landowners without water connection do not have a constitutional right to be treated same as existing water customers.

Water suppliers have discretion to determine how to respond to shortage emergencies – can impose rationing on existing customers and can ban new connections.

Santa Rosa Water Shortage Stages

Shortage Stage	Reduction Needed	Program Type
Stage 1	10%	Voluntary
Stage 2	15%	Mandatory
Stage 3	20%	Mandatory
Stage 4	25%	Mandatory
Stage 5	30%	Mandatory
Stage 6	40%	Mandatory
Stage 7	50%	Mandatory
Stage 8	Over 50%	Mandatory

Communitywide Shared Target

Individual Mandates (water allocations)

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Water Shortage Charges (temporary rate increases)

Communitywide Shared Target

Individual Mandates (water allocations)

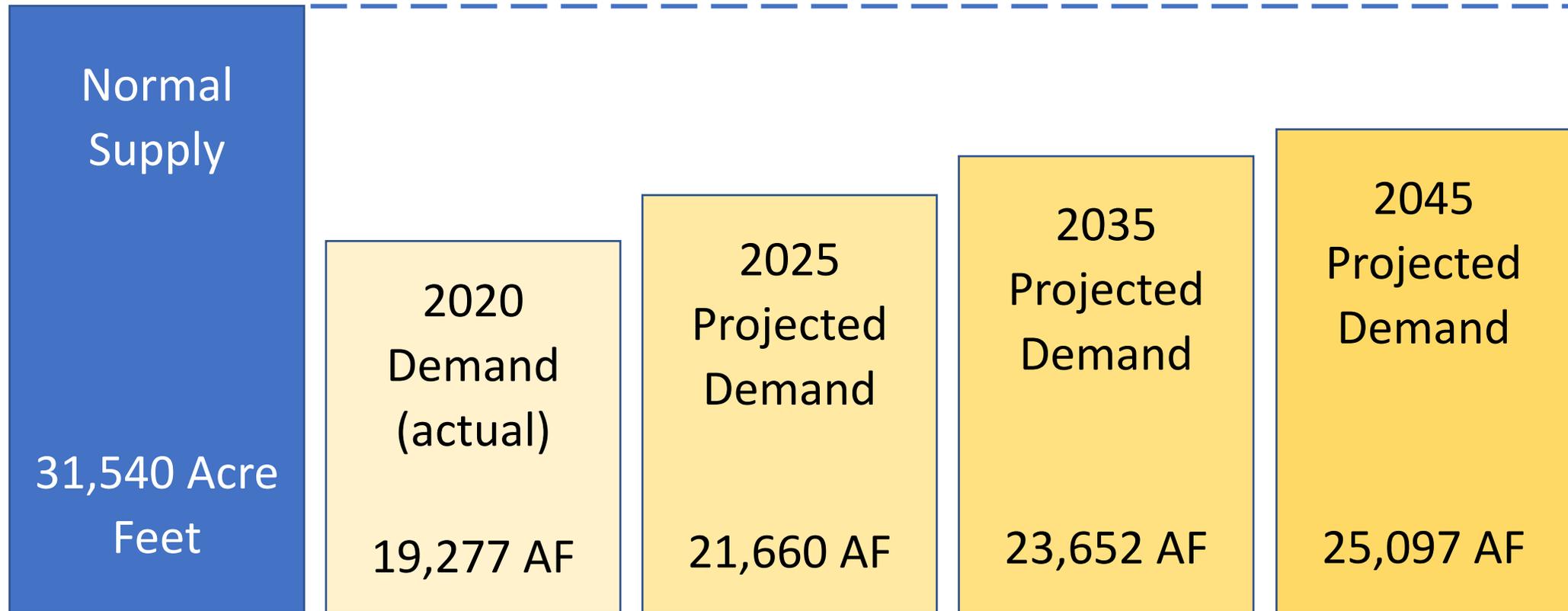
Customers must adhere to restrictions during shortages.

Stage	Prohibition/Restriction
All Stages	Water Waste Ordinance
Stage 1	Hose shut off nozzles required
	Prohibit washing hard surfaces with potable water
Stage 2	Institute Water Shortage Charges (5%-45%, Stages 2-8)
	Lodging linens washed only on request
	Restaurants serve water only on demand
Stage 3	Prohibit power washing, unless variance allowed
	Limit hours of irrigation to 8PM to 6AM
Stage 4	Prohibit operation of ornamental water features

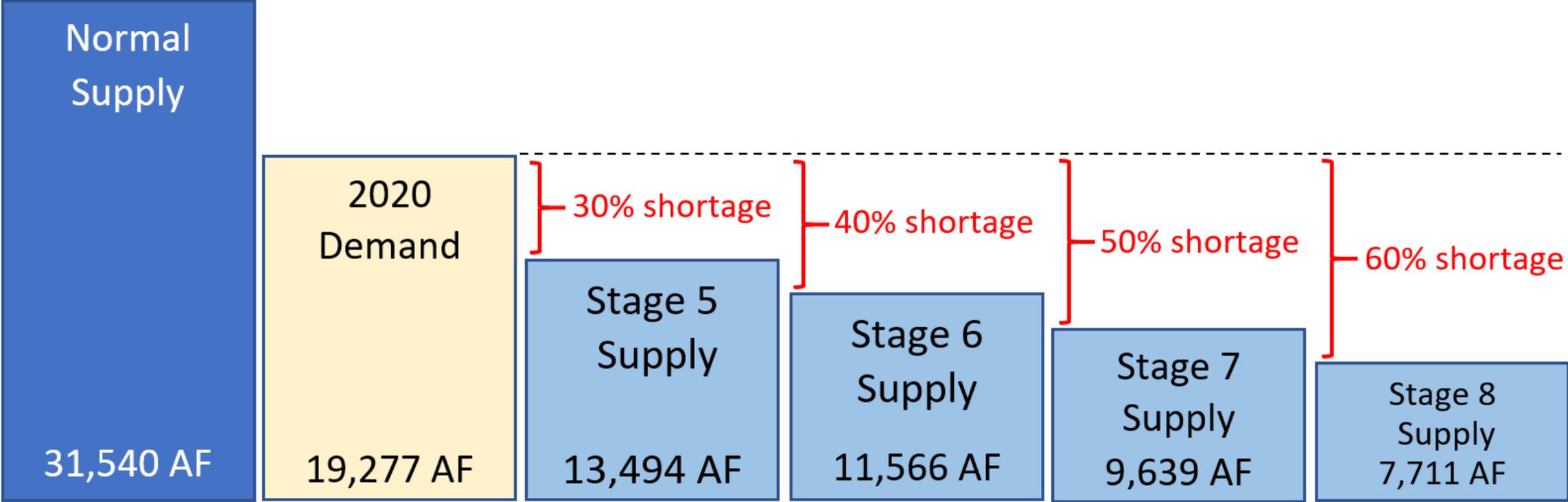
Customers must adhere to restrictions during shortages.

Stage	Prohibition/Restriction
Stage 5	Institute water allocations (water rationing) (Stages 5-8)
	Prohibit filling new pools
	Require use of recycled water (if available) for construction dust control
Stage 6	Prohibit filling/topping existing pools
	Prohibit installing landscaping at new construction
Stage 7	Prohibit replanting landscapes at existing sites
Stage 8	Prohibit all irrigation with potable water

Normal Water Supply Sufficient for Growing Demand

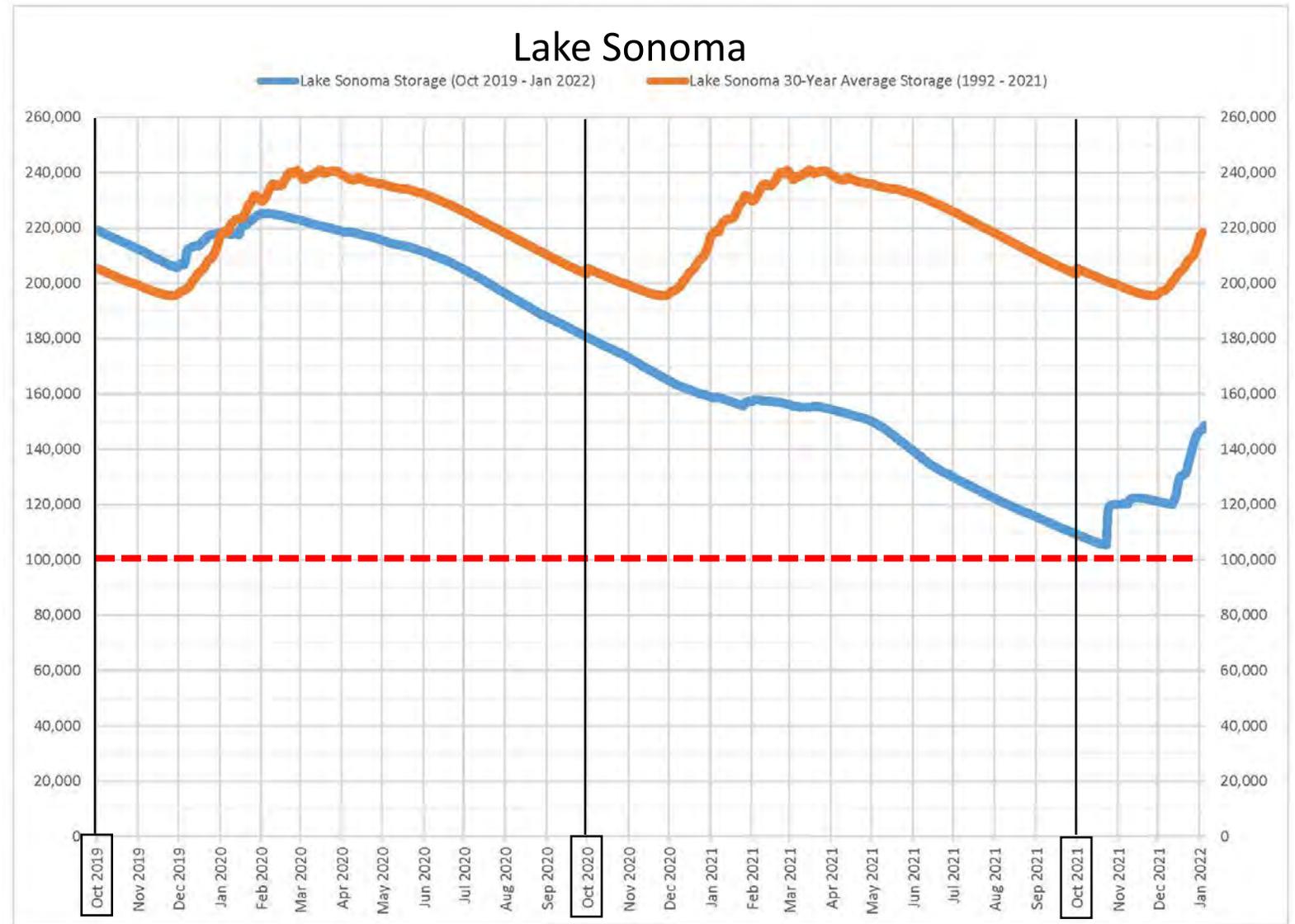


Supply Can't Meet Normal Demand During Severe Water Shortages (Stages 5-8)



Increasing Risk of Severe Shortages

- Lake Sonoma at 30-year historic low each month Dec 2020-Feb 2022.
- If storage drops below 100k acre feet, reductions of 30% or more can be required by State.
- Climate change likely to cause more frequent and more severe droughts.





Need for a Water Demand Offset (WDO) Policy

Average water years

- More than adequate supply for current and future needs out to at least 2045.

Water Shortage Emergencies

- Water supply can't meet normal demand.

Stages 5 through 8

- Water allocations: Ration supply among existing customers to maintain sufficient water for human consumption, sanitation, and fire protection throughout emergency.
- **No water available for new demand.**



Water Allocations (water rationing)

Severe shortages – Stages 5-8

- **Top priority:** Conserve water to maintain sufficient supply for human consumption, sanitation, and fire protection throughout emergency.
- **Individual mandate.** Each customer must adhere to site-specific, very restrictive monthly water allocation.

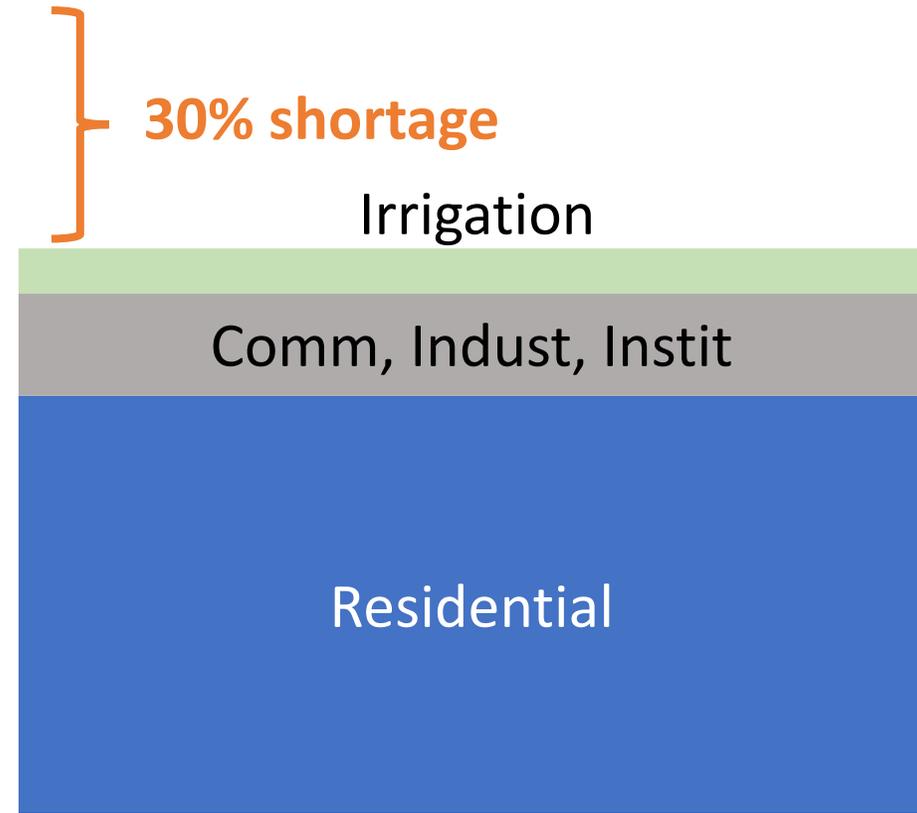
Stage 5 Water Shortage Emergency

Water rates increased in Stage 5 by 15% (Water Shortage Charge)

Normal Demand



Stage 5 Supply



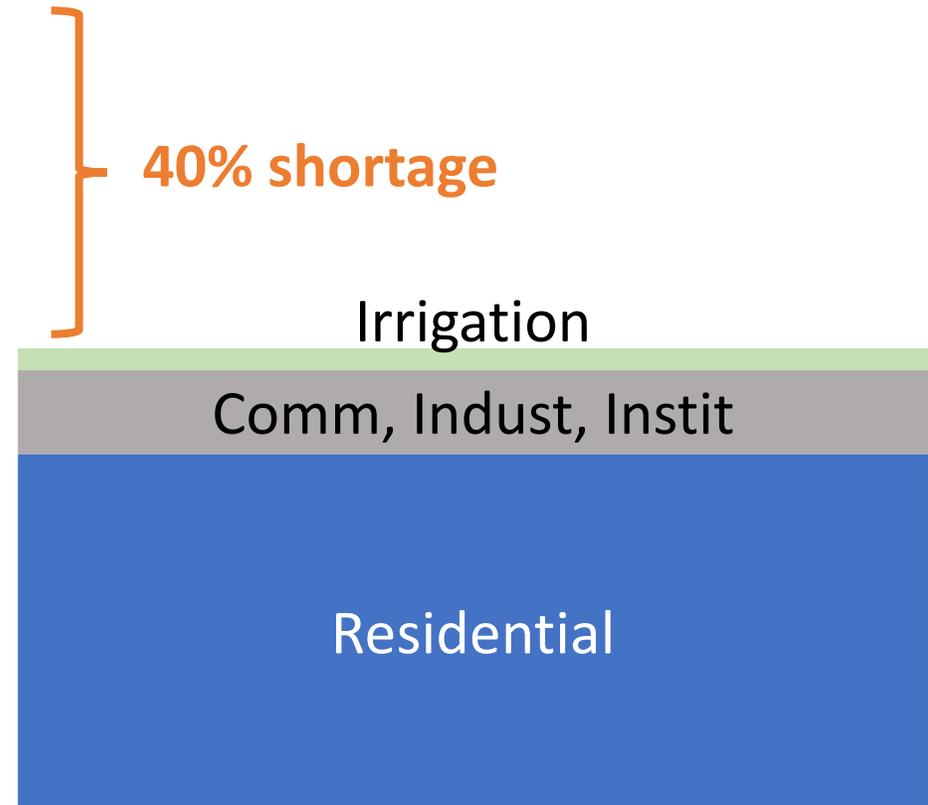
Stage 6 Water Shortage Emergency

Water rates increased in Stage 6 by 25% (Water Shortage Charge)

Normal Demand



Stage 6 Supply



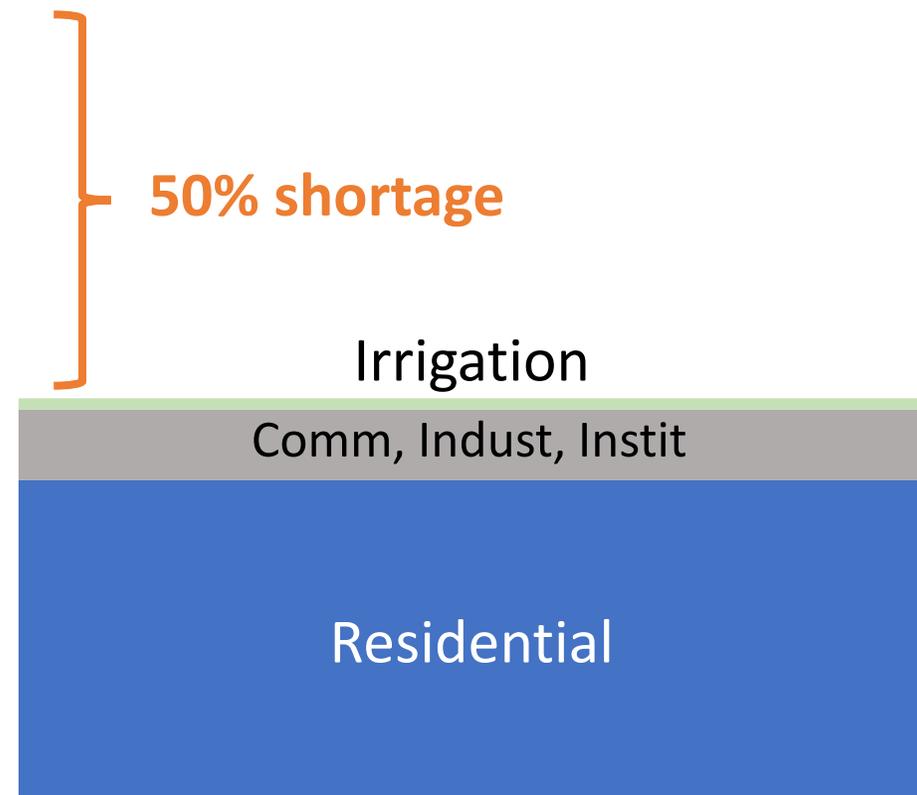
Stage 7 Water Shortage Emergency

Water rates increased in Stage 7 by 35% (Water Shortage Charge)

Normal Demand



Stage 7 Supply



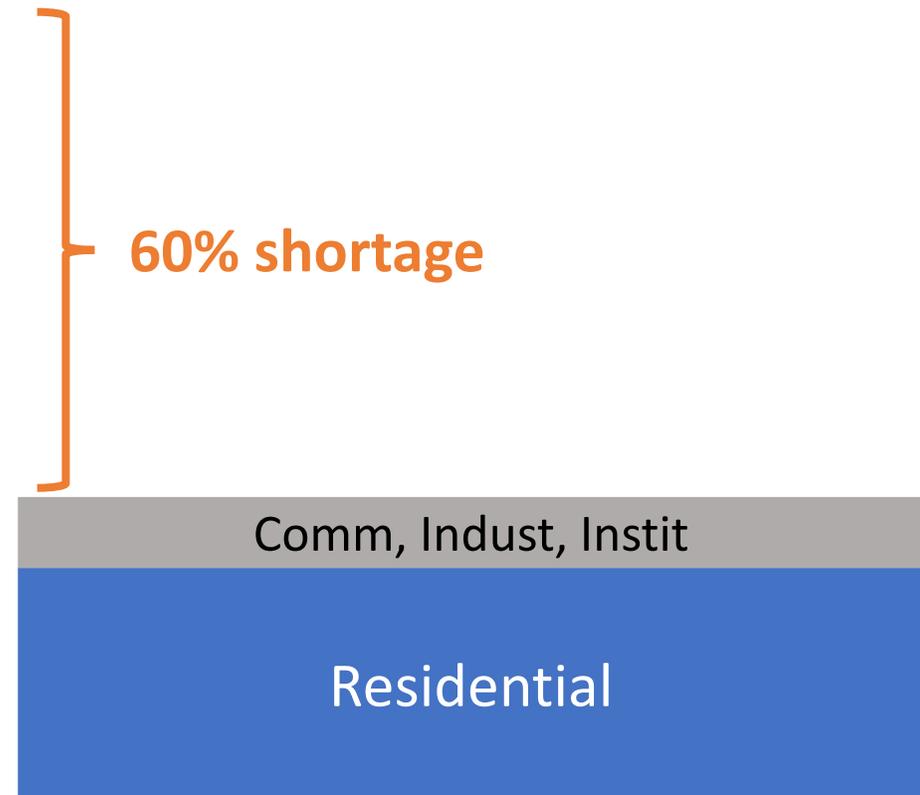
Stage 8 Water Shortage Emergency

Water rates increased in Stage 8 by 45% (Water Shortage Charge)

Normal Demand



Stage 8 Supply



Development of WDO Policy

Urgency

- Without a WDO policy, there is no water for new demand in severe water shortages (Stages 5-8).
- Lake Sonoma remains at historic low.
- Severe shortages more likely, due to climate change.

Interdepartmental team

- Planning, Economic Dev, Building, Development Services, City Attorney's Office, & Water Resources.
- May-Oct 2021, with assistance from consulting firm Woodard & Curran (policy) and Hildebrand (fee study).

Purpose of policy

- Ensure City can manage severe water shortages while continuing to support housing and development.



WDO Fee Study includes the following:

- Method for determining water demand for each major type of development
- Water savings for three known water conservation programs
- Costs to implement these programs
- Costs to achieve water offsets for new demand
- WDO fee schedule calculated using above information



WDO Fee Schedule

Type of Development	WDO Fee
Residential (per housing unit)	
Single Family Residential	
Small Lot (6,000 sq ft and under)	\$ 1,964
Large/Medium Lot (over 6,000 sq ft to 1 acre)	\$ 2,782
Large Lot (over 1 acre)	\$ 5,047
Multi Family Residential	
Duplex and Triplex	\$ 1,649
Condos, Apts, Mobile Homes with separate irrig meter	\$ 1,259
Condos, Apts, Mobile Homes without separate irrig meter	\$ 1,498
Eligible ADUs, SROs, Senior Housing, High Density Housing	\$ 868
Commercial, Industrial, Institutional (CII) and Irrigation	
CII - Per thousand-gallon unit (TGAL) per month	\$ 415
Irrigation only - Per average TGAL per month	\$ 415

Implementation ~ Applicability

Pertains to construction projects that

- Need a building permit, and
- Subject to new/increased connection fees.

Developer submits WDO application.

- Submit with building permit application.
- **Can propose alternative to WDO fee.**

WDO Agreement signed.

- Developer has certainty about cost, timing, and applicability.
- Appellate process available.

Building permit issued.

- Project proceeds.



Implementation ~ Due date

WDO Fee (or completed approved alternative) due when requesting final inspection or occupancy of any type.

Potential for good news:

Requirement waived if City is not in a declared water shortage emergency that requires water allocations (rationing) at that time.



Implementation

~ Offset projects

- Any collected WDO fees to be deposited in separate WDO account.
- Fees used exclusively to implement WDO projects to achieve water offsets for new demand.
- Costs and activities to achieve offsets for each development to be tracked separately from other funds and programs.
- Budget for WDO project based on activities needed to achieve required offsets quickly for development that paid fee.





WDO Project Budget

Example 1: Senior Housing

Example based on: 3575 Mendocino project

(Project not subject to WDO policy; used for illustration purposes only.)

- 94 senior housing units
- \$56.61 million estimated cost to build
- \$81,592 WDO fee (\$868/unit x 94 units)
- 0.14% of est. cost to build (less than $\frac{1}{5}$ of 1%)
- Approx. 2% of total City fees

WDO Project Budget

Example 1 - Senior Housing

94 Units x \$868 = \$81,592 WDO Fee

WDO Project Budget	Cost per Bathroom Conversion	Conversions to achieve offset	Total Budget	Percent of Budget
City labor	\$79	104	\$8,627	10%
Plumber's fees, materials	\$684	104	\$71,136	87%
Graphic design, ad buys	\$21	104	\$2,2189	3%
Total			\$81,592	



WDO Project Budget

Example 2: Affordable Housing

Example based on: 5173 Highway 12 project

(Project not subject to WDO policy; used for illustration purposes only.)

- 99 affordable housing units
- \$71.03 million estimated cost to build
- \$124,641 WDO fee (\$1,259/unit x 99 units)
- 0.18% of est. cost to build (less than $\frac{1}{5}$ of 1%)
- Approx. 3% of total City fees

WDO Project Budget

Example 2 - Affordable Housing

99 Units x \$1,259 = \$124,641 WDO Fee

WDO Project Budget	Cost per Bathroom Conversion	Conversions to achieve offset	Total Budget	Percent of Budget
City labor	\$79	159	\$112,639	10%
Plumber's fees, materials	\$684	159	\$108,756	87%
Graphic design, ad buys	\$21	159	\$3,246	3%
Total			\$124,641	

WDO Project Budget

Example 3: Market Rate Apartments



Example based on: 325 Yolanda Ave project

(Project not subject to WDO policy; used for illustration purposes only.)

- 248 market rate units
- \$38.83 million estimated valuation
- \$312,232 WDO fee (\$1,259/unit x 248 units)
- 0.80% of estimated valuation ($\frac{8}{10}$ of 1%)
- Approx. 5% of total City fees

WDO Project Budget

Example 3 – Market Rate Housing

248 Units x \$1,259 = \$312,262 WDO Fee

WDO Project Budget	Cost per Bathroom Conversion	Conversions to achieve offset	Total Budget	Percent of Budget
City labor	\$79	397	\$31,558	10%
Plumber’s fees, materials	\$684	397	\$272,162	87%
Graphic design, ad buys	\$21	397	\$8,512	3%
Total			\$312,232	



Single-Family Homes

Comparison based on: \$697,498 home value*
(Current projects not subject to policy; for illustration purposes only.)

WDO Fee

- Small Lot: \$1,964
 - 0.28% of home value (less than $\frac{1}{3}$ of 1%)
- Lg/Med Lot: \$2,782
 - 0.39% of home value (less than $\frac{1}{2}$ of 1%)
- Large Lot: \$5,047
 - 0.72% of home value (less than $\frac{3}{4}$ of 1%)

* Average of Jan 2022 values published by Redfin.com, Zillow.com, and Realtor.com

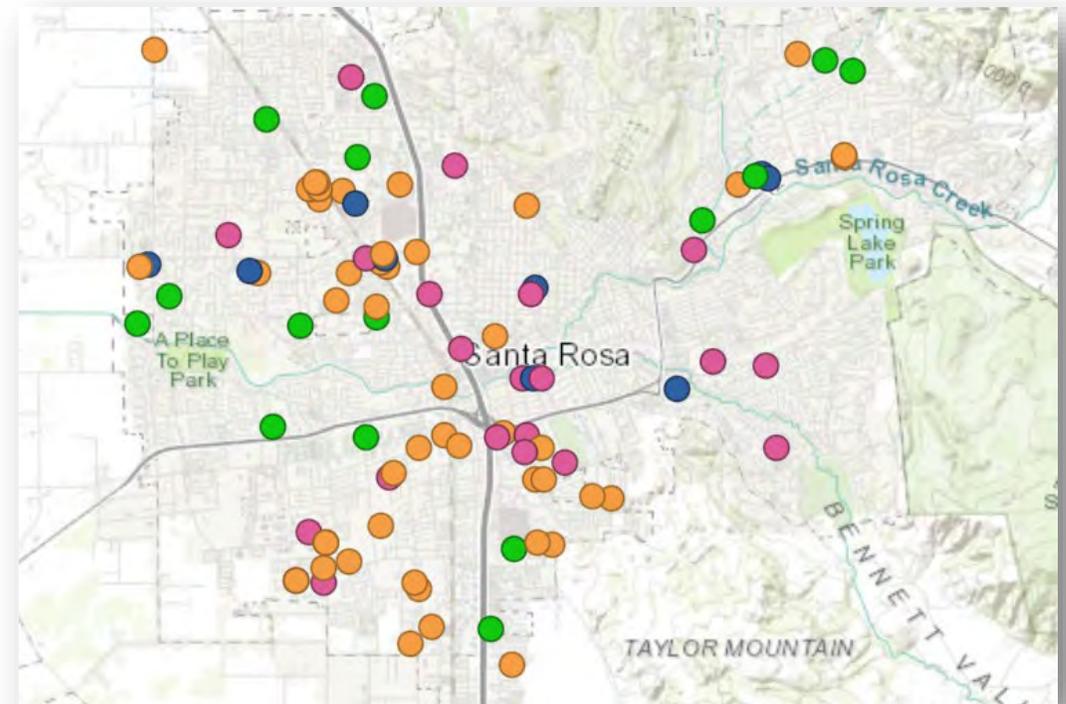
Affordable Housing Rent Calculations

Affordable Housing Program – 5,000 units

- Participant rent based on household income and size. Capped at approx. 30% of household income.

Section 8 Program – 2,000 households

- Participant rent based on income. Capped at approx. 30-40% of household income.



Alternatives

- 7 alternatives discussed during Council study session in October and public hearing in November.
- 3 additional alternatives have been identified.
- Proposition 218 prohibits some alternatives.



Proposition 218 prohibits some alternatives.

Voter approved (1996) - California constitutional amendment establishing requirements related to local taxes and fees.

Restricts use of property related fees, including those for water and sewer service.

- Property must be “specially benefitted” by improvements or services for which fee is imposed.
- Amount of fee or charge may not exceed proportional cost of service attributable to parcel.



Alternatives previously discussed

1. Take no action. Maintain status quo.

- De facto moratorium. No water for new demand in Stages 5-8.
- Negative impact on housing development and economic vitality.
- Feasible but not recommended by staff.

2. Revise policy. Require moratorium in Stages 5-8.

- Moratorium. New demand prohibited in Stages 5-8.
- Negative impact on housing development and economic vitality.
- Feasible but not recommended by staff.



Alternatives previously discussed

3. Adopt policy. Subsidize WDO fee with General Fund.
 - Feasible but competing needs, interests. Council purview.
4. Adopt policy. Subsidize WDO fee with existing rate payer funds.
 - Not feasible: Violates Prop 18. Property paying fee must “specially benefit” from service or improvement being funded.
5. Adopt policy. Subsidize WDO fee w/ cell tower revenue.
 - Currently used to help low-income water customers in the Help to Others (H2O) Program.
 - Feasible but not recommended by staff.



Alternatives previously discussed

6. Revise policy to allow developers to propose alternative to achieve offsets, instead of paying WDO fee.
 - Developer may prefer to implement a water conservation project at existing water customer site(s) in City's jurisdiction or provide the City with a fully permitted public water supply.
 - Could be expensive and challenging for developers.
 - Would be subject to service fee for City to evaluate proposal and conduct inspections, analyses, or other actions to verify approved alternative meets standards and achieves offsets.
 - **Draft WDO Policy has been revised to include this option.**



Alternatives previously discussed

7. Adopt policy. Subsidize WDO fee with Excess Use Penalties.

- Not expected to accrue sufficient funds to subsidize offsets.

Stage 5 Analysis: Single Family Home (85% of water services).

- Avg home not reducing use = \$15 penalty/month.

Ongoing non-compliance is prohibited and would result in water service shut off.

- To subsidize offset for 1 MFR unit = 58 to 84 penalties.
- To subsidize offsets for 250 MFR units = 14,500 to 21,000 penalties.
- Not likely to be viable. Not recommended by staff.



Additional Alternatives

8. Adopt policy. Subsidize by adding new WDO fee to water rates.

- Not feasible: Violates Prop 218.

9. Revise Policy. Institute smaller WDO fee on all dev'mt, all the time, to gradually accrue funds for all offsets.

- Not feasible. Violates Mitigation Fee Act. No “essential nexus” between impact of development and mitigation requirement most of the time (no mitigation required except in shortage Stages 5-8).

10. Revise Shortage Plan. Reduce allocations for existing customers to create allocation for new development.

- Further reduce water allocated to existing customers during emergencies.
- May not be sufficient for all new demand. Could delay projects.
- Feasible but not recommended by staff.



Summary of Alternatives

1. Take no action. Maintain status quo. De facto moratorium.	Feasible
2. Revise policy. Require moratorium in Stages 5-8.	Feasible
3. Adopt policy. Subsidize WDO fee with General Fund.	Feasible
4. Adopt policy. Subsidize WDO fee with existing ratepayer funds.	Not feasible
5. Adopt policy. Subsidize WDO fee with cell tower revenue.	Feasible
6. Revise draft policy to allow alternative to WDO fee.	Included in policy
7. Adopt policy. Subsidize WDO fee with Excess Use Penalties.	Not likely viable
8. Adopt policy. Subsidize by adding WDO fee to water rates.	Not feasible
9. Adopt policy. Subsidize with small WDO fee for all dev'mt.	Not feasible
10. Revise Shortage Plan. Allocate water for new development by reducing allocations for existing customers.	Feasible

Feasible Options

Notes

A. Take no action. Maintain status quo.

De facto moratorium in Stages 5-8.

B. Revise policy. Require moratorium in Stages 5-8.

Moratorium in Stages 5-8. Requires Shortage Plan amendment.

C. Adopt policy. Subsidize WDO fee with Genl Fund.

Council purview. Could be limited to specific types of development, geographic regions, etc.

D. Adopt policy. Subsidize WDO fee with cell tower revenue.

Currently helps low-income residents in Help to Others (H2O) program.

E. Revise Shortage Plan. Allocate water for new demand by reducing rations for existing customers.

Impacts existing residents, businesses, etc. May not be sufficient supply for all new demand (would delay projects). Requires policy revision.

F. Adopt policy

Council can institute subsidies at any point in the future (e.g., when declaring Stage 5-8 shortage).

If Council wishes to subsidize WDO fees with General Fund

Could institute subsidies at any point (e.g., now or at such time that water conditions warrant declaring Stage 5, 6, 7, or 8).

Council could limit eligibility for WDO subsidies:

1. Projects anywhere in City
 - a) Only housing projects
 - b) Projects citywide that are “100% affordable” housing
 - c) Projects citywide with some “affordable housing”
 - d) Only the “affordable housing” units within projects
2. Projects located in Priority Development Areas
 - a) Only housing projects
 - b) Projects citywide that are “100% affordable” housing
 - c) Projects citywide with some “affordable housing”
 - d) Only the “affordable housing” units within projects



Recommendation

It is recommended by Santa Rosa Water that the Board of Public Utilities, by motion, reaffirm its recommendation that Council :

- 1) adopt the Water Demand Offset Policy;
- 2) adopt the Water Demand Offset Fee Study;
- 3) adopt the Water Demand Offset Fees; and
- 4) authorize the Water Demand Offset Fees to be adjusted on an annual basis to account for inflation at the beginning of the calendar year (January 1) starting in 2023, using the Engineering News Record's 20-Cities Construction Cost Index.

QUESTIONS



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