

**CITY OF SANTA ROSA**

**2014 Water and Wastewater  
Demand Fee Study**

FINAL REPORT

August 11, 2014



**THE REED GROUP, INC.**

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## WATER AND WASTEWATER DEMAND FEES

### SUMMARY AND RECOMMENDATIONS

Demand fees are the one-time fees charged for new service connections to Santa Rosa's water and wastewater systems. The fees are intended to reflect the estimated reasonable cost of capacity in the systems and fee revenue is used to help pay for capacity needed in the systems to serve new development. The City of Santa Rosa retained The Reed Group, Inc. to assist the City with updating water and wastewater demand fees.

This report presents proposed water and wastewater demand fees, and describes the fee methodology and underlying data and assumptions used to calculate the fees.

Current water and wastewater demand fee calculations were last formally updated on 2007, with annual inflationary adjustments to the amount of the fees since then. This report provides updated calculations of the water and wastewater demand fees using a different methodology than that used in 2007 due to a variety of circumstances outlined below. Water and wastewater demand fees have been calculated using the proposed system buy-in methodology. This methodology provides:

- The system buy-in methodology is a common and generally well-accepted methodology for calculating capacity charges.
- The system buy-in methodology generally includes only the cost of existing facilities and excludes the costs of future or planned facilities; therefore, it does not require a formal capital improvement program or rely on planning documents.
- While capacity must be available to accommodate new service connections, the system buy-in methodology does not depend on an assessment of existing capacity availability; it therefore does not require the more detailed capacity analyses required to justify fees using other methodologies.
- Demand fees based on the system buy-in method are a reimbursement for past capital costs. Therefore, the *use* of the fees is to reimburse the utility for prior investments in facilities. Once reimbursed, the utility is able to spend fee revenue on any capital improvements within the utility. As a result, the accounting for demand fee expenditures is simplified.

**Exhibit 1** summarizes the proposed water and wastewater demand fee schedules. The proposed demand fees reflect the estimated reasonable cost of capacity in the water and wastewater systems for various types of new development. Proposed demand fees for residential development reflect updated information on water usage and wastewater generation from homes constructed since 2004. The updated information reflects newer plumbing codes and landscape requirements, which are generally resulting in more efficient water usage.

**Exhibit 1**  
**City of Santa Rosa**  
**Proposed Water and Wastewater Demand Fees**

Type of Development	Proposed Demand Fees		
	Water	Wastewater	Total
Single Family Residential			
Small Lot (6,000 sq. ft. and under)	\$ 2,391	\$ 5,594	\$ 7,986
Large/Medium Lot (over 6,000 sq. ft. to 1 acre)	\$ 4,685	\$ 6,375	\$ 11,060
Very Large Lot (over 1 acre)	\$ 6,734	\$ 7,416	\$ 14,150
Condos, Apartments, Mobile Homes	\$ 2,196	\$ 6,245	\$ 8,441
Second Unit or Senior Housing Units	\$ 1,098	\$ 4,684	\$ 5,782
Comm., Indus., Irrig. (per TGM) (1)	\$ 244	\$ 1,301	n/a (2)

**Notes:**

- (1) Water demand fee determined based on average day demand during peak month.  
Wastewater demand fee determined based on average dry weather flow (ADWF).
- (2) Based water and wastewater demand fees are not additive for non-residential uses since they are applied to different demand factors (see note 1).

Proposed water and wastewater demand fees are significantly lower than the current demand fees. Depending on the type of development, proposed water demand fees are 24 to 66 percent lower than current water demand fees, and proposed wastewater demand fees are 15 to 58 percent lower than current wastewater demand fees.

**Exhibit 2** summarizes the change in combined water and wastewater demand fees for various types of residential development. Combined water and wastewater demand fees for all new residential development will decrease under the proposed fee structure. The combined change in water and wastewater demand fees for non-residential development will depend on the unique water and wastewater demand characteristics of each proposed new development project. The non-residential base water demand fee would decrease by about 60 percent and the non-residential base wastewater demand fee would decrease by about 53 percent.

The balance of this report includes (1) the statutory requirements for demand fees as well as the demand fee methodology used herein, (2) underlying assumptions and information used in the calculations, (3) fee calculations and fee schedules, and (4) administrative and future update recommendations.

**Exhibit 2**  
**City of Santa Rosa**  
**Comparison of Current and Proposed Demand Fees**

Type of Development	Combined Water and Wastewater Demand Fees			
	Current	Proposed	\$ Change	% Change
Single Family Residential				
Small Lot (6,000 sq. ft. and under)	\$ 17,387	\$ 7,986	\$ (9,402)	-54.1%
Large/Medium Lot (over 6,000 sq. ft. to 1 acre)	\$ 24,248	\$ 11,060	\$ (13,188)	-54.4%
Very Large Lot (over 1 acre)	\$ 37,070	\$ 14,150	\$ (22,920)	-61.8%
Condos, Apartments, Mobile Homes	\$ 12,835	\$ 8,441	\$ (4,394)	-34.2%
Second Unit or Senior Housing Units	\$ 7,333	\$ 5,782	\$ (1,551)	-21.2%
Comm., Indus., Irrig. (per TGM)	█ (1)	█ (2)	█ (3)	█ (3)

**Notes:**

- (1) Current non-residential water demand fee is \$605/TGM of average demand in the peak month.  
Current non-residential wastewater demand fee is \$2,758/TGM of ADWF.
- (2) Proposed non-residential water demand fee is \$244/TGM, an decrease of about 60 percent.  
Proposed non-residential wastewater demand fee is \$1,301/TGM, a decrease of about 53 percent.
- (3) Change will depend on the demand characteristics of each proposed development.

**LEGAL REQUIREMENTS FOR WATER AND WASTEWATER DEMAND FEES<sup>1</sup>**

The City has broad authority to charge users for capital facilities. The limitations of that authority are encompassed by the requirement that capacity charges<sup>2</sup> imposed on new development bear a *reasonable relationship* to the needs created by, and the benefits accruing to that development. California courts have long used that *reasonableness* standard or *nexus* test to evaluate the constitutionality of exactions, including water and wastewater capacity charges.

Central to the City's authority to impose capacity charges is Government Code Section 66013. Government Code Section 66013 contains requirements specific to water and wastewater capacity charges, and states: "when a local agency imposes fees for water connections or sewer connections, or imposes capacity charges, those fees or charges shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed."

- <sup>1</sup> The Reed Group, Inc. is not a law firm, and the information contained in this section should not be considered legal advice. Information presented here represents our understanding of the legal framework by which capacity charges are calculated. The City should seek the advice of legal counsel regarding the specific statutory requirements for each type of capacity charge.
- <sup>2</sup> "Demand fee" is the City's term for fees paid by new development to provide capacity in water and wastewater system facilities necessary to accommodate the needs of new development. The terms "connection fee" or "capacity charge" are more typical terms used for this type of fee. This report uses the "capacity charge" when referring generally to this type of fee and "demand fee" when referring specifically to the City's fees.

Capacity charges should also meet the reasonable relationship standard or nexus test mentioned earlier and should reflect consideration of the following criteria, which would likely be considered by a court in evaluating the validity of the fees:

- *Need* – Capacity charges should only be imposed on development that will need capacity in facilities provided by the City.
- *Benefit* – Improvements to be funded (or costs to be reimbursed) by capacity charges should satisfy service needs related to the development on which the charges are imposed.
- *Amount* – The amount of the capacity charges should reflect the estimated reasonable cost of providing service capacity and the share of the costs attributable to the service needs of new development.
- *Earmarking* – Revenue from capacity charges should be segregated from other funds and used solely to pay for the facilities for which the charge was imposed<sup>3</sup>.
- *Timely Expenditure* – Revenue from capacity charges should be expended within a reasonable time after it is collected.

Applying these criteria to the City’s situation requires an understanding of how improvement needs are established, how capacity is provided to new development, how costs are estimated and allocated, and how capital improvements are financed and paid for.

### DEMAND FEE METHODOLOGIES

There are numerous methods to calculate capacity charges. Each method has varying advantages and disadvantages and no method is universally recognized as the best. The methodology appropriate for any particular utility service is dependent on a number of issues including the availability of planning documents and a defined capital improvement program, the extent to which the utility’s infrastructure is built out, and availability of capacity within the existing utility systems. Any methodology used for calculating capacity charges should be:

- *Financially Stable* – Capacity charges should reflect the estimated reasonable cost of providing capacity to new development and should be effective in covering the costs of providing such additional capacity.
- *Equitable* – Capital improvement costs should be allocated on a proportional basis that is reasonably related to the needs that are created and the benefits that are received by new development.
- *Administratively Feasible* – Capacity charges should be administratively simple and easily explained and accepted by developers and the public.

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<sup>3</sup> In the case of capacity charges based on the system buy-in method, the use of the fees is to reimburse the utility for prior investments in facilities. Capacity charge revenue can then be used for any capital improvements within the utility. Earmarking is not required with this methodology.

- *Legally Justifiable* – Capacity charges must be developed in accordance with California statutes and court decisions.

Within all of the available methodologies there are two primary approaches – the system buy-in methodology and the incremental-cost methodology. Other methodologies are usually some variation or combination of these two methods. The two primary methods are generally described below to illustrate the different perspectives that can be used to determine appropriate fees. In addition, a third (and currently used) method is described which incorporates aspects of both primary methodologies.

### ***System Buy-In Method***

The system buy-in method is based on the average investment in the capital facilities by current customers. In short, the system buy-in fee is determined by taking the current value of assets (historical cost escalated to current dollars and adjusted for depreciation) divided by the current number of customers (expressed in equivalent residential units). By paying capacity charges calculated on this basis new development essentially *buys into* the existing capital facilities on par with existing users. Responsibility for new capital improvements is then shared by all customers. The system buy-in methodology has four distinct advantages:

- The system buy-in methodology is a common and generally well-accepted methodology for calculating capacity charges.
- The system buy-in methodology includes only the cost of existing facilities and excludes the costs of future or planned facilities; therefore, it does not require a formal capital improvement program or rely on planning documents.
- While capacity must be available to accommodate new service connections, the system buy-in methodology does not depend on an assessment of existing capacity availability; it therefore does not require the more detailed capacity analyses required to justify capacity charges using other methodologies.
- Capacity charges based on the system buy-in method are a reimbursement for past capital costs. Therefore, the *use* of the fees is to reimburse the utility for prior investments in facilities. Once reimbursed, the utility is able to spend fee revenue on any capital improvements within the utility. As a result, detailed accounting of capacity charge expenditures is simplified<sup>4</sup>.

The system buy-in method is best applied in areas that are largely buildout and with infrastructure largely already in place. It is also appropriate when the cost of providing additional capacity is believed to be similar to the costs incurred in acquiring existing capacity. At times, new development may be required to install facilities (e.g., extend pipelines into new

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<sup>4</sup> By accepting fee payments from new development the utility is indicating a willingness and ability to provide service. Therefore, it is recommended that capacity charge revenues be utilized for capital improvements that enhance service delivery capabilities.

development area) as a condition of service<sup>5</sup>. This does not preclude or invalidate a system buy-in capacity charge. However, if significant expansion of utility systems is required, and future costs may be significantly different from historical costs, then the system buy-in approach may not be the best approach.

### ***Incremental Cost Method***

The incremental cost methodology is a fairly common approach for capacity charges, particularly for utilities experiencing considerable new growth and/or needing to provide new system capacity. The approach is based on the cost of new or planned capital facilities. The cost of growth-related facilities is allocated to the new development to be served by the facilities. Allowances for existing capacity that may also serve new connections are often not made or only included on a limited basis. Under this approach, new customers pay for the incremental investment necessary for system expansion. The incremental approach is most commonly applied when new central or backbone facilities are required to provide capacity for new development.

The incremental cost methodology requires more detailed analyses in order to satisfy nexus requirements. First, the capacity requirements of new development must be defined using service level standards. Second, the amount of capacity provided by new facilities must be determined, and the capacity enhancements required to address existing deficiencies considered. To the extent that existing capacity does not provide the specified level of service to existing development, new facilities must be identified to correct these deficiencies; fees paid by new development cannot be used to correct existing deficiencies. As a result, it is fairly common for only a portion of new capital facility costs to be included in fee calculations.

The incremental cost methodology is simplified when all new infrastructure is required to serve new development areas. In this situation, service level standards are defined, new facilities identified, and costs are determined. The cost of facilities is then allocated (or spread) across all new development to be served by the facilities. Units of development must be defined as well as demand factors for different types of development. Capacity charges based on the incremental cost methodology are subject to statutory accounting requirements because fee revenue must be accounted for until specific capital improvements are constructed.

### ***Combined Methods***

Some capacity charge approaches combine both existing and planned facilities into fee calculations. This is because new development frequently benefits from both surplus capacity in existing facilities, but also requires new facilities to provide required capacity. Many facilities are oversized when initially constructed for economies of scale and in anticipation of future development. Examples are water supply facilities, treatment plants, transmission pipelines, etc. These major facilities are difficult and more costly to add incrementally. Other facilities, such as distribution pipelines, water storage tanks, and others can be added incrementally as development proceeds.

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<sup>5</sup> Santa Rosa, like other cities, requires new development to install new facilities to accommodate project-specific needs, as well as to size new facilities to accommodate General Plan growth.

One of the challenges in using a combined approach for capacity charges is to make certain that new development is not paying for needed capacity in both existing and new facilities. For example, it would be inappropriate to charge new development for capacity in both an existing and a new water treatment plant. It may be appropriate, however, to charge new development for new and existing facilities that are part of a broad system. For example, it may be reasonable to charge new development for proportionate share of costs associated with an existing water distribution system, as well as new distribution facilities that extend into newly developing areas. In this case, new development needs the new facilities but also benefits from the existing distribution system network, which serves to convey water to customers.

One combined methodology is the future system buy-in methodology. The future system buy-in method is based on a system-wide philosophy. That is, the entire (future) system is intended to benefit all customers equally, and all customers should bear responsibility for the entire system cost in proportion to the total number of users. The approach avoids the need to consider the precise impacts of individual projects or the specific capacity requirements of certain elements of the water or wastewater systems (e.g., wastewater disposal). The City's current water and wastewater demand fees utilize this methodology, but due to changes in development patterns and uncertainty related to future improvements, this approach is not as valid for Santa Rosa today as it was in 2007.

### **CURRENT DEMAND FEES**

The last comprehensive demand fee study occurred in 2007, when the City adopted new demand fees using a future buy-in methodology. The current fees include costs associated with both existing and anticipated new facilities, and considered what the utility systems were expected to be like at buildout. Since 2007 the water and wastewater demand fees have been adjusted annually for inflation. Current demand fees are about 21.9 percent higher than the fees adopted in 2007<sup>6</sup>, due to these annual inflationary adjustments. **Exhibit 3** presents the current water and wastewater demand fee schedules.

### **CHANGES SINCE THE 2007 DEMAND FEE STUDY**

The 2007 demand fee study recommended that the City formally update demand fee calculations at least every five years, as annual inflationary adjustments have their limitations and conditions change over time. Capital improvement plans, cost estimates, and financing terms all evolve over time, and economic conditions have changed dramatically since 2008. Periodically updating demand fee calculations helps ensure that new development continues to pay a fair and proportionate share of water and wastewater system costs.

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<sup>6</sup> Demand fees are adjusted annually based on changes to the *Engineering News Record's* 20-Cities Construction Cost Index (CCI).

**Exhibit 3**  
**City of Santa Rosa**  
**Current Water and Wastewater Demand Fees**

Type of Development	Current Demand Fees (1)		
	Water	Wastewater	Total
Single Family Residential			
Small Lot (6,000 sq. ft. and under)	\$ 6,353	\$ 11,034	\$ 17,387
Large/Medium Lot (over 6,000 sq. ft. to 1 acre)	\$ 9,076	\$ 15,172	\$ 24,248
Very Large Lot (over 1 acre)	\$ 19,967	\$ 17,103	\$ 37,070
Condos, Apartments, Mobile Homes	\$ 2,904	\$ 9,931	\$ 12,835
Second Unit or Senior Housing Units	\$ 1,815	\$ 5,518	\$ 7,333
Comm., Indus., Irrig. (per TGM) (2)	\$ 605	\$ 2,758	n/a (3)

**Notes:**

- (1) Effective January 1, 2014.
- (2) Water demand fee determined based on average day demand during peak month.  
Wastewater demand fee determined based on average dry weather flow (ADWF).
- (3) Base (\$/TGM) water and wastewater demand fees are not additive for non-residential uses since they are applied to different demand factors (see note 1).

The financial crisis in 2008 and the subsequent recession dramatically affected new development activity. Economic recovery is still underway. When the 2007 demand fee study was prepared, the City was experiencing a period of rapid growth and expected to need projects to increase water supply and wastewater treatment capacity sooner rather than later. However, conditions have changed. Since 2007, changes to master plans include elimination of a \$100 million Llano Trunk sewer line and slowed phasing of the Urban Reuse Project. The City also shifted efforts to address long-term rehabilitation and replacement needs of the water distribution and wastewater collection system.

Water and wastewater demands have declined significantly from pre-recession levels. Part of the decline has been due to vacant homes and constrained financial conditions, and part is also the result of conservation efforts, increased environmental awareness, recent drought conditions, and other factors. It is very difficult to tease out the affects of one factor from another. In addition, new development is being built to updated code standards that may also affect long-term demand patterns.

The *Water Master Plan* and *Wastewater Master Plan* are currently being updated to reflect changing conditions and needs. However, they are not complete and have not been fully updated since 2007. An update to the *Subregional Master Plan* is not yet started.

## **METHODOLOGY FOR THE 2014 DEMAND FEE UPDATE**

There are a number of factors to consider in how to update the demand fees in 2014. Several factors affect the demand fee calculation using the future system buy-in methodology, which was used in 2007. These include:

- Significant capacity expansion projects included in the 2007 study have been eliminated (e.g., Llano Trunk Sewer Line) or delayed and scaled back (e.g., Urban Reuse)
- The City is pursuing alternative financing (grants and low-interest loans) for the Urban Reuse project; absent that financing the project is uncertain
- The City's 5-year capital improvement plans now include significant water and wastewater pipeline replacement projects, and other system rehabilitation projects, not included in 2007
- New master plans have not been completed
- The pace of residential and commercial development has slowed significantly
- Estimates of capacity needs are changing based on shifting water use patterns and behavior changes; empirical evidence suggests sustained conservation may reduce ultimate supply and treatment capacity needs.

The City sized the existing water and wastewater systems based on the General Plan. The existing system, in most cases, has the capacity for any new infill development that is occurring. In addition, when proposed new development creates a situation where the existing system is impacted, the City requires the development to mitigate the impact (i.e., upsize downstream sewer lines or install additional water storage tanks, if needed). These project-specific system improvements occur outside of the demand fee program (i.e., they become conditions of development approval).

As a result of changing conditions, incomplete future plans, and shifting needs, City staff and consultant have evaluated the potential to update the water and wastewater demand fees using the traditional system buy-in methodology.

For reasons described earlier in this report, the system buy-in method provides a more conservative approach for determining demand fees. Under the system buy-in methodology, the demand fees would be based on the historical cost of water and wastewater system capacity, rather than a combination of historical and future costs. This methodology is commonly used and generally well accepted. It provides a reasonable estimate of the cost of capacity for new development to buy into the utility systems. As a reimbursement for prior investments, demand fees can be applied to any capital improvement costs. Finally, the system buy-in method does not rely upon uncertain future conditions and needs, or on planning documents (e.g., master plans).

### ***Water and Wastewater Demand Fee Structures***

A separate issue related to the demand fee update pertains to demand characteristics used to determine residential water and wastewater demand fees. Current residential water and wastewater demand fees vary with the type of development (single family and multi-family)

and the size of the lot for single family. City staff has been evaluating recent water use characteristics of single family and multi-family accounts.

Water demand fees are assessed based on peak month water demand. Irrigation water demand, and therefore lot size, is a significant contributor to peak month water demand and a factor determining the variation in water demand fees for residential development. New water demand analyses have resulted in changes in the variation in water demand fees between single family and multi-family development, and across lot sizes for single family homes.

Wastewater demand fees are assessed based on the sewer cap, as generally determined from winter water use data. Previous analyses indicated a relationship between lot size and sewer cap, with homes on larger lots tending to have larger sewer caps. While lot size, in itself, does not affect wastewater flow, lot size may be an indicator of home size, and home size may be an indicator of household size, which affects wastewater flow. Recent water use data, however, suggest a shift in wastewater flow patterns, and the distinction across lot sizes is no longer as significant. As a result, updated wastewater demand fees include changes within the residential fee structure.

### *Recommended Methodology*

It is recommended that the City use the traditional system buy-in methodology for updating the City's water and wastewater demand fees, even though this will result in a reduction in the amount of the fees. Reduced demand fees will lead to a reduction in annual demand fee revenue for the utilities. However, development activity has been relatively low, and may continue at a reduced pace for the near-term. Reducing the amount of water and wastewater demand fees may help encourage development activity, thereby improving fee revenue.

At present, the vast majority of the City's water and wastewater capital improvement program is for repair and replacement projects. These costs would be borne by ratepayers even with no new development.

While the current methodology for determining water and wastewater demand fees was based on the best available information at the time, and reflected the City's plans for each of the utilities, continuing to use this methodology may be imprudent, given the changed circumstances. If and when new master plans identify and justify new large capital improvement projects intended to provide additional capacity demand fees should be re-examined with the intent to spread expansion-related costs to new development.

## **WATER AND WASTEWATER DEMAND FEE CALCULATIONS**

Water and wastewater demand fee calculations rely on data and information obtained from the City including:

- Water, wastewater, and subregional fixed asset records providing historical cost, age, and expected life of facilities and long-lived assets
- Existing and past long-term debt used to finance existing water, wastewater, and subregional facilities

- Financial information for the utilities identifying reserves specifically set aside for capital improvements
- Peak water system demand and average daily wastewater flow information

Specific components of the demand fee calculations are described below.

### *Value of Existing Facilities*

The first step to calculating demand fees is to estimate the value of the existing water, wastewater, and subregional system facilities. This is accomplished with the use of the City's fixed asset records. The value of the existing facilities can be determined using a variety of methods. However, the most common, and the one we recommend, is depreciated replacement cost.

The City's fixed asset records provide data for water, wastewater, and subregional assets including historical cost, date of acquisition, and accounting service life. This information is used for determining annual depreciation of utility assets. The depreciated replacement cost of these assets is determined by taking the historical cost of each asset escalating to a current value (replacement cost) using the *Engineering News Record's* 20-Cities Construction Cost Index (20-Cities CCI) and depreciating this value using the age and expected service life. The same result is obtained by escalating the book value of each asset to current value using the 20-Cities CCI. This calculation is performed for each asset item. Costs have been escalated to April 2014 using a 20-Cities CCI value of 9,750.

The City's fixed asset records include more than 3,000 individual assets within the water, wastewater, and subregional systems. These include many fully depreciated items that remain in service. Fully depreciated items have no value in the demand fee calculations even though they obviously still have value since they are still in active service. In this way, the proposed demand fee analysis is somewhat conservative.

**Exhibit 4** summarizes the valuation of existing water, wastewater, and subregional system assets as of June 30, 2013. The valuation summary includes original cost, net book value, replacement cost, and depreciated replacement cost. The last column, depreciated replacement cost, is used in demand fee calculations. **Appendix B** includes a complete listing of the water, wastewater, and subregional system fixed assets summarized in Exhibit 3. Data was extracted from two different financial accounting systems; hence two reports are included in Appendix B.

### *Past and Current Long-Term Debt Obligations*

The cost of acquiring and constructing existing facilities should also include the cost of long-term debt financing. Both issuance and interest costs associated with financing capital facilities are legitimate costs of the facilities, and are appropriately included in demand fee calculations.

**Exhibit 4**  
**City of Santa Rosa -- Department of Utilities**  
**Summary of Water, Wastewater, and Subregional System Fixed Assets**

	Original Cost	Net Book Value	Replacement Cost	Replac. Cost Less Deprec.
<b><i>Water System Fixed Asset Valuations</i></b>				
Land and Land Rights	\$ 1,155,575	\$ 1,155,575	\$ 16,839,176	\$ 16,839,176
Buildings	\$ 16,256,669	\$ 13,575,720	\$ 22,339,300	\$ 15,236,434
Capital Improvements	\$ 154,943,313	\$ 95,893,922	\$ 327,686,158	\$ 130,408,286
Equipment	\$ 27,174,372	\$ 13,414,858	\$ 33,812,464	\$ 15,188,677
Construction in Progress	\$ 10,418,280	\$ 10,418,280	\$ 11,840,393	\$ 11,840,393
Infrastructure Assets	\$ 1,235,562	\$ 1,045,724	\$ 1,441,724	\$ 1,184,491
<b>Water System Totals</b>	<b>\$ 211,183,771</b>	<b>\$ 135,504,079</b>	<b>\$ 413,959,215</b>	<b>\$ 190,697,457</b>
<b><i>Wastewater System Fixed Asset Valuations</i></b>				
Land and Land Rights	\$ 456,208	\$ 456,208	\$ 3,549,723	\$ 3,549,723
Buildings	\$ 15,794,093	\$ 12,389,894	\$ 31,598,351	\$ 14,728,100
Capital Improvements	\$ 179,402,362	\$ 103,834,978	\$ 461,292,205	\$ 147,063,427
Equipment	\$ 5,625,420	\$ 2,944,487	\$ 6,741,157	\$ 3,191,306
Construction in Progress	\$ 10,884,555	\$ 10,884,555	\$ 11,309,226	\$ 11,309,226
Infrastructure Assets	\$ 539,395	\$ 497,602	\$ 612,007	\$ 557,439
<b>Wastewater System Totals</b>	<b>\$ 212,702,034</b>	<b>\$ 131,007,725</b>	<b>\$ 515,102,669</b>	<b>\$ 180,399,222</b>
<b><i>Subregional System Fixed Asset Valuations</i></b>				
Land and Land Rights	\$ 11,825,228	\$ 11,825,228	\$ 22,780,555	\$ 22,780,555
Buildings	\$ 196,608,001	\$ 120,446,278	\$ 323,939,151	\$ 180,794,038
Capital Improvements	\$ 168,775,722	\$ 114,933,245	\$ 272,679,578	\$ 170,728,528
Equipment	\$ 54,245,230	\$ 19,184,550	\$ 72,734,623	\$ 20,823,842
Construction in Progress	\$ 25,105,454	\$ 25,105,454	\$ 29,504,884	\$ 29,504,884
Infrastructure Assets	\$ 428,195	\$ 376,149	\$ 546,512	\$ 477,612
<b>Subregional System Totals</b>	<b>\$ 456,987,829</b>	<b>\$ 291,870,904</b>	<b>\$ 722,185,303</b>	<b>\$ 425,109,458</b>

Long-term debt has predominately been used to finance the subregional system, although portions of both the water system and local wastewater system have also been debt financed. For purposes of demand fee calculations, historical interest payments for the past 18 years are incorporated into the demand fee calculation. Debt service payment information prior to FY 95-96 has not been included due to inaccessibility of information. Debt issuance costs have been included on all issues occurring since 1990. Since the most significant debt issues have occurred since the mid-1990s the omission of earlier interest and issuance costs is not likely to be significant, and makes the fee calculation a bit conservative.

Historical debt issuance and interest costs have been escalated to reflect the time value of money. Escalation has been made using the historical rate of return on Local Agency Investment Fund (LAIF) accounts. Just as fixed assets depreciate over time, losing value as they wear out, financing costs should also diminish over time. The calculation of debt issuance and

interest costs reflect the *depreciation* of these costs over a 50-year period, similar to the lives of the fixed assets that were financed.

**Exhibit 5** summarizes the present value of past interest payments on past and existing long-term debt obligations, including the allocation of interest to the water, wastewater, and subregional systems. **Exhibit 6** summarizes the present value of long-term debt issuance costs on all issues since 1990. The present value of debt issuance and interest costs is added to fixed asset values of existing water, wastewater, and subregional facilities as part of the demand fee calculation.

**Exhibit 5**  
**City of Santa Rosa**  
**Summary of Past and Existing Long-Term Debt of the Water, Wastewater, and Subregional Systems**

Fiscal Year	Annual Debt Service Totals (1)			Present Value of Past Interest Payments (2)			PV Factor (3)
	Principal	Interest	Total	Water System	Local WW Sys.	Sub-Regional	
FY 95-96	3,360,000	7,323,891	10,683,891	-	-	4,576,810	1.159
FY 96-97	3,670,000	7,753,415	11,423,415	-	-	5,100,243	1.131
FY 97-98	4,320,000	7,429,284	11,749,284	-	-	4,774,686	1.104
FY 98-99	4,515,000	7,217,556	11,732,556	-	-	4,533,180	1.075
FY 99-00	5,587,176	7,793,527	13,380,703	-	-	4,885,869	1.050
FY 00-01	6,257,554	9,347,403	15,604,958	-	-	5,862,199	1.021
FY 01-02	6,557,027	9,046,233	15,603,260	-	-	5,503,917	0.988
FY 02-03	7,567,925	9,207,372	16,775,297	-	-	5,614,035	0.980
FY 03-04	9,050,173	9,670,878	18,721,051	-	-	5,997,130	0.984
FY 04-05	12,058,747	11,138,370	23,197,118	296,359	225,969	7,106,416	0.994
FY 05-06	12,695,397	10,887,753	23,583,150	304,013	234,496	6,951,511	0.996
FY 06-07	72,210,839	10,486,985	82,697,824	286,481	218,980	6,616,351	0.982
FY 07-08	10,879,754	8,997,847	19,877,600	217,374	166,793	5,961,583	0.956
FY 08-09	13,368,575	11,501,506	24,870,081	1,451,743	584,406	6,385,107	0.936
FY 09-10	14,847,406	12,163,688	27,011,094	2,101,109	793,428	6,177,363	0.937
FY 10-11	15,426,384	11,636,105	27,062,489	2,100,801	784,632	5,912,136	0.951
FY 11-12	73,937,786	11,103,980	85,041,766	2,107,799	782,441	5,655,515	0.966
FY 12-13	16,688,002	10,897,436	27,585,438	2,111,199	776,273	5,949,985	0.983
FY 13-14	17,326,361	10,939,781	28,266,142	2,130,273	786,377	6,238,230	1.000
<b>Totals</b>	<b>597,803,000</b>	<b>397,610,000</b>	<b>995,413,000</b>	<b>13,107,000</b>	<b>5,354,000</b>	<b>109,802,000</b>	

**Notes:**

- (1) Includes debt service payments on the following issues: 1956, 1966, 1974, 1991A, 1992A, 1992B, 1992 Refunding, 1993A, 1996A, 1998A, 1998B, 2001A, 2001B, 2002 Refunding, 2002A, 2002B, 2004, 2007A, 2008, 2008A, 2012, SRF loans, and CEC loans.
- (2) Based on the use of debt proceeds from each issue to the water, local wastewater, and sub-regional systems. Interest costs are effectively depreciated over a 50-year period from the date of issuance, similar to the assets that were financed.
- (3) Depreciated present value factors based on annual LAIF interest rates and 50-year service life.

***Deduction for Outstanding Principal on Long Term Debt***

Outstanding principal on long-term debt is deducted from the valuation of the water, wastewater, and subregional systems. In effect, this represents the portion of the existing utility systems yet to be fully acquired. As of June 30, 2013 the outstanding principal on long-term debt was as follows:

**Exhibit 6**  
**City of Santa Rosa**  
**Summary of Historical Costs of Debt Issuance**

Year/ Issue	Cost of Issuance (1)	PV Factor (2)	PV Cost of Issuance	Distribution to Utilities (3)		
				% Water	% Loc. WW	% Sub-Reg.
1990A	\$ 678,460	1.299	\$ 881,574		34.0%	66.0%
1991A	\$ 625,791	1.245	\$ 778,834			100.0%
1992A	\$ 1,012,166	1.204	\$ 1,218,417			100.0%
1992 Ref.	\$ 801,685	1.204	\$ 965,046			100.0%
1992B	\$ 1,269,004	1.204	\$ 1,527,592			100.0%
1993A	\$ 759,180	1.185	\$ 899,390			100.0%
1996A	\$ 1,370,683	1.128	\$ 1,546,544			100.0%
1998A	\$ 513,950	1.075	\$ 552,428			100.0%
1998B	\$ 120,418	1.075	\$ 129,433			100.0%
2001A	\$ 440,551	0.991	\$ 436,374			100.0%
2001B	\$ 447,325	0.991	\$ 443,083	17.6%		82.4%
2002 Ref.	\$ 120,794	0.970	\$ 117,179			100.0%
2002A	\$ 767,000	0.970	\$ 744,044			100.0%
2002B	\$ 820,892	0.970	\$ 796,323	27.2%	27.7%	45.1%
2004A	\$ 638,176	0.978	\$ 623,933			100.0%
2004B	\$ 414,120	0.978	\$ 404,878	26.4%	26.4%	47.1%
2007A	\$ 454,164	0.959	\$ 435,626	6.1%	3.3%	90.6%
2008	\$ 190,000	0.933	\$ 177,349	100.0%		0.0%
2008A	\$ 241,450	0.933	\$ 225,374		32.2%	67.8%
2012	\$ 645,490	0.966	\$ 623,472	1.2%	1.3%	97.5%
<b>Totals</b>	<b>\$ 12,331,000</b>		<b>\$ 13,527,000</b>	<b>\$ 613,000</b>	<b>\$ 722,000</b>	<b>\$ 12,192,000</b>

**Notes:**

- (1) From Official Statements associated with each issue.  
(2) Present value factors based on annual LAIF interest rates and depreciated based on 50-year effective life.  
(3) Expenditures of debt proceeds to water, local wastewater, and sub-regional systems.

Water Utility	\$60,536,000
Local Wastewater Utility	\$29,171,000
Subregional System	\$215,099,000

**Capital Fund Reserves**

Moneys held within water, wastewater, and subregional utilities and earmarked for future capital improvements can be added to the system valuation. The City's FY 13-14 five-year capital improvement plan identifies monies available to fund current and future projects. The funds include remaining debt proceeds, previously collected demand fees, and a portion of user rate revenues. Available balances within each of the three utilities as of June 30, 2013 are summarized below. These funds have all been set aside specifically to pay for future capital improvements, and are added to the overall system valuations used to calculate demand fees.

Water Utility	\$27,056,000
Local Wastewater Utility	\$35,845,000
Subregional System	\$10,485,000

### *Water and Wastewater System Buy-In Demand Fee Calculations*

**Exhibit 7** summarizes the water and wastewater system buy-in demand fee calculations. The calculations are based on the information described in the previous pages and include present values of existing facilities, financing costs, and capital fund reserves, as well as the deduction for outstanding principal on long-term debt. Wastewater demand fees are comprised of a component for the local wastewater collection system and a component for the subregional treatment and disposal system. In summary, the water, wastewater, and subregional system valuations are as follows:

Water Utility	\$170,936,000
Local Wastewater Utility	\$193,148,000
Subregional System	\$342,491,000

Utility system valuations are then divided by the current demands that exist on each system. These current system demands were derived as follows.

- **Water Utility** – Water demand fees are determined based on the average water use during the peak month of the year. This occurs most typically in August or September, when irrigation demands are highest. Because water demands can vary from year to year for economic, weather, and water supply conditions, an average of the peak month average water demand over a four-year period was selected for this analysis. This four-year period, from 2010 through 2013 coincides with a period of relatively little new development, so the customer base was relatively stable during this period. The average day peak month water demand within the City of Santa Rosa was determined to be 23.00 million gallons per day (mgd) on this basis.
- **Local Wastewater Utility** – The local component of the wastewater demand fees are determined based on the average dry weather flow (ADWF) from the City’s wastewater collection system into the subregional treatment plant. This typically occurs during the dry season in late summer, when infiltration and inflow is a minor flow component. Similar to water demands, the ADWF was determined by taking an average over a four-year period (2010 through 2013). The ADWF from the City’s wastewater collection system during this period averaged 11.46 mgd.
- **Subregional System** – The subregional component of the wastewater demand fees are determined based on the total subregional ADWF. Following the same calculation of a four-year average ADWF, the current subregional system demand was determined to be 15.08 mgd.

**Exhibit 7**  
**City of Santa Rosa**  
**Water and Wastewater Demand Fee Calculations**

	Water System	Wastewater System	
		Local	Subregional
<b>Summary of Fixed Asset Valuation (1)</b>			
Land and Land Rights	\$ 16,839,000	\$ 3,550,000	\$ 22,781,000
Buildings	\$ 15,236,000	\$ 14,728,000	\$ 180,794,000
Capital Improvements	\$ 130,408,000	\$ 147,063,000	\$ 170,729,000
Equipment	\$ 15,189,000	\$ 3,191,000	\$ 20,824,000
Construction in Progress	\$ 11,840,000	\$ 11,309,000	\$ 29,505,000
Infrastructure Assets	\$ 1,184,000	\$ 557,000	\$ 478,000
<b>Current Value of Existing Facilities</b>	<b>\$ 190,696,000</b>	<b>\$ 180,398,000</b>	<b>\$ 425,111,000</b>
<b>Adjustments to Financial Valuation</b>			
Plus Present Value of Past Debt Issuance Costs	\$ 613,000	\$ 722,000	\$ 12,192,000
Plus Present Value of Past Debt Interest Costs	\$ 13,107,000	\$ 5,354,000	\$ 109,802,000
Minus Outstanding Principal on Debt	\$ (60,536,000)	\$ (29,171,000)	\$ (215,099,000)
Plus Capital Funds Available	\$ 27,056,000	\$ 35,845,000	\$ 10,485,000
<b>Total System Buy-In Valuation</b>	<b>\$ 170,936,000</b>	<b>\$ 193,148,000</b>	<b>\$ 342,491,000</b>
Current System Demands (mgd)	23.00	11.46	15.08
Buy-In Demand Fee (\$/tgd)	\$ 7,432	\$ 16,854	\$ 22,712
Buy-In Demand Fee (\$/TGM)	\$ 244	\$ 554	\$ 747
<b>Proposed Demand Fees (\$/TGM)</b>	<b>\$244</b>	<b>\$1,301</b>	
Change from Current Demand Fees	-60%	-53%	

The system buy-in water and wastewater demand fees shown near the bottom of Exhibit 7 were determined by dividing the total system valuations by the current system demands, resulting in a buy-in fee for each unit of demand. These are initially calculated in dollars per thousand gallons per day (\$/tgd), and the converted to be expressed in terms of dollars per thousand gallons per month (\$/TGM), consistent with the current fee schedule. The resulting standard system buy-in fees are: \$244/TGM for the water utility and \$1,301/TGM for the wastewater utility (\$554 for local wastewater plus \$747 for the subregional system).

#### ***Water and Wastewater Demand Fee Schedules***

Water and wastewater demand fee schedules, as well as comparisons with current demand fees, is presented below. Residential water use and wastewater flow factors have been revised to reflect updated information. No other changes are proposed in the fee structure.

#### ***Water Demand Fee Schedule***

The proposed water demand fee schedule is based on the unit water demand fee of \$244 per TGM (see Exhibit 7) and estimated water use factors for various types of residential development. Water demand fees for non-residential development (commercial, industrial, and irrigation) are based on estimated water demand for each new connection. **Exhibit 8** summarizes the water use factors used for various types of development within the City of

Santa Rosa. These use factors were determined by examining the water usage of connections to the water system occurring since 2004, when new standards affecting water usage were implemented. The use factors were compiled by averaging the peak month water usage over the four-year period from 2010 through 2013. Water demand fees are calculated based on the average day peak month water demand estimates for each type of residential development identified.

**Exhibit 8**  
**City of Santa Rosa**  
**Water Use Factors for Water Demand Fees (1)**

Type of Development	Avg. Day Demand During Peak Month	
	(tgd)	(TGM)
Single Family Residential		
Small Lot (6,000 sq. ft. and under)	0.322	9.8
Large/Medium Lot (over 6,000 sq. ft. to 1 acre)	0.631	19.2
Very Large Lot (over 1 acre)	0.907	27.6
Condos, Apartments, Mobile Homes	0.296	9.0
Second Unit or Senior Housing Units	0.148	4.5
Comm., Indus, and Irrigation (per TGM)	0.033	1.0

**Notes:**

(1) Based on analysis of peak month water usage from 2010 through 2013.

The City implemented new landscape requirements for certain residential development. Those requirements are intended to help reduce water demands by limiting irrigation requirements. The new requirements appear to have resulted in lower average peak usage as well as lower peaking factors for large residential parcels. It is recommended that the City continue to monitor the water use characteristics of residential parcels developed under the new requirements to determine if average demands are reduced and peak demands attenuated. If so, this could affect the demand fee calculation in the future.

**Exhibit 9** summarizes the proposed water demand fees, as well as the current water demand fees, for comparison. With the proposed change in the demand fee methodology, all water demand fees will be lower than current fees. The reduction in the amount of water demand fees will vary from 24 to 66 percent, depending on the type of development.

**Exhibit 9**  
**City of Santa Rosa**  
**Current and Proposed Water Demand Fees**

Type of Development	Current Water Demand Fee	Proposed Water Demand Fee
Single Family Residential		
Small Lot (6,000 sq. ft. and under)	\$ 6,353	\$ 2,391
Large/Medium Lot (over 6,000 sq. ft. to 1 ac)	\$ 9,076	\$ 4,685
Very Large Lot (over 1 acre)	\$ 19,967	\$ 6,734
Condos, Apartments, Mobile Homes	\$ 2,904	\$ 2,196
Second Unit or Senior Housing Units	\$ 1,815	\$ 1,098
Comm., Indus, and Irrigation (per TGM) (1)	\$ 605	\$ 244

**Notes:**

(1) Applied to estimated average day demand during peak month in TGM for each non-residential water connection.

Wastewater Demand Fee Schedule

The proposed wastewater demand fee schedule is based on the unit wastewater demand fee of \$1,301 (see Exhibit 7) and estimated wastewater flow factors for various types of residential development. Wastewater demand fees for non-residential development (commercial and industrial) are based on estimated wastewater ADWF for each new connection. **Exhibit 10** summarizes the wastewater flow factors used for various types of development within the City of Santa Rosa. These use factors were determined by examining the winter water usage (sewer cap) of connections to the local wastewater system occurring since 2004, when new standards affecting water usage were implemented. The flow factors were compiled by averaging the sewer caps over the four-year period from 2010 through 2013. Wastewater demand fees are calculated based on the wastewater flow estimates for each type of residential development identified, as determined by the sewer cap.

**Exhibit 10**  
**City of Santa Rosa**  
**Wastewater Flow Factors for Wastewater Demand Fees (1)**

Type of Development	Average Dry Weather Flow (1)	
	(tgd)	(TGM)
Single Family Residential		
Small Lot (6,000 sq. ft. and under)	0.141	4.3
Large/Medium Lot (over 6,000 sq. ft. to 1 acre)	0.161	4.9
Very Large Lot (over 1 acre)	0.187	5.7
Condos, Apartments, Mobile Homes	0.158	4.8
Second Unit or Senior Housing Units	0.118	3.6
Commercial and Industrial (per TGM)	0.033	1.0

**Notes:**

(1) Based on analysis of winter water usage (sewer cap) from 2010 through 2013.

**Exhibit 11** summarizes the proposed wastewater demand fees, as well as the current wastewater demand fees, for comparison. With the proposed change in the demand fee methodology, all wastewater demand fees will be lower than current fees. The reduction in the amount of wastewater demand fees will vary from 15 to 58 percent, depending on the type of development.

#### DEMAND FEE ADMINISTRATION AND UPDATES

While not reviewed in detail, we believe that the City follows required steps for accounting for demand fee revenues and expenditures. For reference, **Appendix A**, at the end of this report, includes statutory requirements for accounting for capacity charges.

It is recommended that the City of Santa Rosa continue to annually adjust the demand fees for the affects of inflation using the *Engineering News Record's* 20-Cities CCI (20-cities CCI). The demand fees presented herein have been indexed to a 20-cities CCI value of 9,750 (April 2014). The 20-cities CCI is a broadly accepted construction cost index that attempts to reflect the monthly changes in general construction costs. Adjusting demand fees annually using this index helps the City maintain fees commensurate with inflationary cost changes between periodic comprehensive updates.

**Exhibit 11**  
**City of Santa Rosa**  
**Current and Proposed Wastewater Demand Fees**

Type of Development	Current Wastewater Demand Fee	Proposed Wastewater Demand Fee
Single Family Residential		
Small Lot (6,000 sq. ft. and under)	\$ 11,034	\$ 5,594
Large/Medium Lot (over 6,000 sq. ft. to 1 ac)	\$ 15,172	\$ 6,375
Very Large Lot (over 1 acre)	\$ 17,103	\$ 7,416
Condos, Apartments, Mobile Homes	\$ 9,931	\$ 6,245
Second Unit or Senior Housing Units	\$ 5,518	\$ 4,684
Commercial and Industrial (per TGM) (1)	\$ 2,758	\$ 1,301

**Notes:**

(1) Applied to estimated average dry weather flow (ADWF) in TGM for each proposed non-residential wastewater connection.

It is recommended that the City formally update demand fee calculations at least once every three to five years. Fixed asset records, debt obligations, capital improvement plans, cost estimates, development patterns, and demand projections all evolve over time and periodically updating the calculations will help ensure that new development is paying fair and proportionate share of water and wastewater system costs.

Finally, annual demand fee revenues are subject to the fluctuations in the pace of new development. Demand fees are primarily a means of equitably assigning costs of capacity to new development. However, they are often also used as a primary source of capital improvement revenue. Caution should be exercised when relying upon demand fee revenue as a predictable revenue source. In addition, while demand fee revenue can be used to make debt service payments, relying on the revenue for debt payments is risky. Santa Rosa does not rely on demand fee revenue to calculate debt service coverage requirements associated with long-term debt obligations.

## APPENDIX A - GOVERNMENT CODE SECTIONS 66013, 66016, 66022, AND 66023

**66013.** (a) Notwithstanding any other provision of law, when a local agency imposes fees for water connections or sewer connections, or imposes capacity charges, those fees or charges shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed, unless a question regarding the amount of the fee or charge imposed in excess of the estimated reasonable cost of providing the services or materials is submitted to, and approved by, a popular vote of two-thirds of those electors voting on the issue.

(b) As used in this section:

(1) "Sewer connection" means the connection of a structure or project to a public sewer system.

(2) "Water connection" means the connection of a structure or project to a public water system, as defined in subdivision (f) of Section 116275 of the Health and Safety Code.

(3) "Capacity charge" means a charge for facilities in existence at the time a charge is imposed or charges for new facilities to be constructed in the future that are of benefit to the person or property being charged.

(4) "Local agency" means a local agency as defined in Section 66000.

(5) "Fee" means a fee for the physical facilities necessary to make a water connection or sewer connection, including, but not limited to, meters, meter boxes, and pipelines from the structure or project to a water distribution line or sewer main, and that does not exceed the estimated reasonable cost of labor and materials for installation of those facilities.

(c) A local agency receiving payment of a charge as specified in paragraph (3) of subdivision (b) shall deposit it in a separate capital facilities fund with other charges received, and account for the charges in a manner to avoid any commingling with other moneys of the local agency, except for investments, and shall expend those charges solely for the purposes for which the charges were collected.

Any interest income earned from the investment of moneys in the capital facilities fund shall be deposited in that fund.

(d) For a fund established pursuant to subdivision (c), a local agency shall make available to the public, within 180 days after the last day of each fiscal year, the following information for that fiscal year:

(1) A description of the charges deposited in the fund.

(2) The beginning and ending balance of the fund and the interest earned from investment of moneys in the fund.

(3) The amount of charges collected in that fiscal year.

(4) An identification of all of the following:

(A) Each public improvement on which charges were expended and the amount of the expenditure for each improvement, including the percentage of the total cost of the public improvement that was funded with those charges if more than one source of funding was used.

(B) Each public improvement on which charges were expended that was completed during that fiscal year.

(C) Each public improvement that is anticipated to be undertaken in the following fiscal year.

(5) A description of each interfund transfer or loan made from the capital facilities fund. The information provided, in the case of an interfund transfer, shall identify the public improvements on which the transferred moneys are, or will be, expended. The information, in the case of an interfund loan, shall include the date on which the loan will be repaid, and the rate of interest that the fund will receive on the loan.

(e) The information required pursuant to subdivision (d) may be included in the local agency's annual financial report.

(f) The provisions of subdivisions (c) and (d) shall not apply to any of the following:

(1) Moneys received to construct public facilities pursuant to a contract between a local agency and a person or entity, including, but not limited to, a reimbursement agreement pursuant to Section 66003.

(2) Charges that are used to pay existing debt service or which are subject to a contract with a trustee for bondholders that requires a different accounting of the charges, or charges that are used to reimburse the local agency or to reimburse a person or entity who advanced funds under a reimbursement agreement or contract for facilities in existence at the time the charges are collected.

(3) Charges collected on or before December 31, 1998.

(g) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion imposing a fee or capacity charge subject to this section shall be brought pursuant to Section 66022.

(h) Fees and charges subject to this section are not subject to the provisions of Chapter 5 (commencing with Section 66000), but are subject to the provisions of Sections 66016, 66022, and 66023.

(i) The provisions of subdivisions(c) and (d) shall only apply to capacity charges levied pursuant to this section.

**66016.** (a) Prior to levying a new fee or service charge, or prior to approving an increase in an existing fee or service charge, a local agency shall hold at least one open and public meeting, at which oral or written presentations can be made, as part of a regularly scheduled meeting. Notice of the time and place of the meeting, including a general explanation of the matter to be considered, and a statement that the data required by this section is available, shall be mailed at least 14 days prior to the meeting to any interested party who files a written request with the local agency for mailed notice of the meeting on new or increased fees or service charges. Any written request for mailed notices shall be valid for one year from the date on which it is filed unless a renewal request is filed. Renewal requests for mailed notices shall be filed on or before April 1 of each year. The legislative body may establish a reasonable annual charge for sending notices based on the estimated cost of providing the service. At least 10 days prior to the meeting, the local agency shall make available to the public data indicating the amount of cost, or estimated cost, required to provide the service for which the fee or service charge is levied and the revenue sources anticipated to provide the service, including General Fund revenues. Unless there has been voter approval, as prescribed by Section 66013 or 66014, no local agency shall levy a new fee or service charge or increase an existing fee or service charge to an amount which exceeds the estimated amount required to provide the service for which the fee or service charge is levied. If, however, the fees or service charges create revenues in excess of actual cost, those revenues shall be used to reduce the fee or service charge creating the excess.

(b) Any action by a local agency to levy a new fee or service charge or to approve an increase in an existing fee or service charge shall be taken only by ordinance or resolution. The legislative body of a local agency shall not delegate the authority to adopt a new fee or service charge, or to increase a fee or service charge.

(c) Any costs incurred by a local agency in conducting the meeting or meetings required pursuant to subdivision (a) may be recovered from fees charged for the services which were the subject of the meeting.

(d) This section shall apply only to fees and charges as described in Sections 51287, 56383, 57004, 65104, 65456, 65863.7, 65909.5, 66013, 66014, and 66451.2 of this code, Sections 17951, 19132.3, and 19852 of the Health and Safety Code, Section 41901 of the Public Resources Code, and Section 21671.5 of the Public Utilities Code.

(e) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion levying a fee or service charge subject to this section shall be brought pursuant to Section 66022.

**66022.** (a) Any judicial action or proceeding to attack, review, set aside, void, or annul an ordinance, resolution, or motion adopting a new fee or service charge, or modifying or amending an existing fee or service charge, adopted by

a local agency, as defined in Section 66000, shall be commenced within 120 days of the effective date of the ordinance, resolution, or motion.

If an ordinance, resolution, or motion provides for an automatic adjustment in a fee or service charge, and the automatic adjustment results in an increase in the amount of a fee or service charge, any action or proceeding to attack, review, set aside, void, or annul the increase shall be commenced within 120 days of the effective date of the increase.

(b) Any action by a local agency or interested person under this section shall be brought pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure.

(c) This section shall apply only to fees, capacity charges, and service charges described in and subject to Sections 66013 and 66014.

**66023.** (a) Any person may request an audit in order to determine whether any fee or charge levied by a local agency exceeds the amount reasonably necessary to cover the cost of any product or service provided by the local agency. If a person makes that request, the legislative body of the local agency may retain an independent auditor to conduct an audit to determine whether the fee or charge is reasonable.

(b) Any costs incurred by a local agency in having an audit conducted by an independent auditor pursuant to subdivision (a) may be recovered from the person who requests the audit.

(c) Any audit conducted by an independent auditor to determine whether a fee or charge levied by a local agency exceeds the amount reasonably necessary to cover the cost of providing the product or service shall conform to generally accepted auditing standards.

(d) The procedures specified in this section shall be alternative and in addition to those specified in Section 54985.

(e) The Legislature finds and declares that oversight of local agency fees is a matter of statewide interest and concern. It is, therefore, the intent of the Legislature that this chapter shall supersede all conflicting local laws and shall apply in charter cities.

(f) This section shall not be construed as granting any additional authority to any local agency to levy any fee or charge which is not otherwise authorized by another provision of law, nor shall its provisions be construed as granting authority to any local agency to levy a new fee or charge when other provisions of law specifically prohibit the levy of a fee or charge.

**APPENDIX B - FIXED ASSET LISTINGS FOR  
THE WATER, WASTEWATER, AND  
SUBREGIONAL SYSTEMS AS OF 6/30/2013**

37 pages are included in a separate file