



Agenda Date: 9/19/2018

Agenda Placement: 8B

Napa Sanitation District Board Agenda Letter

TO: Honorable Board of Directors

FROM: Jeff Tucker - Director of Administrative Services/CFO
NS-Administration

REPORT BY: Jeff Tucker, Director of Administrative Services/CFO - 707-258-6000

SUBJECT: First Reading of Ordinance Amending District Code 5.02.030 Capacity Charge Calculation and Section 5.02.060 Change in Fees to Decrease the Capacity Charge

RECOMMENDATION

Conduct first reading of an ordinance amending District Code 5.02.030 Capacity Charge Calculation and Section 5.02.060 Change in Fees to decrease the capacity charge and change the annual inflation escalator.

EXECUTIVE SUMMARY

The last capacity charge study was completed in 2009. The Board of Directors instructed staff to perform an update to the capacity charge study in its most recent Strategic Plan Update (Spring 2017). Staff hired Carollo Engineers to complete a study and make recommendations regarding the capacity charge fee and the calculation methodology.

On August 1, 2018, Jennifer Ivey from Carollo Engineers presented the capacity charge study findings. In the study, she outlines six methodologies that are allowable and acceptable under the Water Environment Federation Manual of Practice No. 27 "Financing and Charges for Wastewater Systems" and consistent with California State Law and associated legal precedents. After evaluating the pros and cons associated with each method and approach, Ms. Ivey recommended that the Buy-in Approach using the Replacement Cost New Less Depreciation Method was the most appropriate for NapaSan. The study was presented to the Board for acceptance at the September 5, 2018 Board Meeting on the Consent Calendar.

The recommended method and approach results in a calculated capacity charge of \$9,199 per Equivalent Dwelling Unit. This calculation is based on data for fiscal year end June 30, 2017, with updated depreciation analysis through June 30, 2018. Ms. Ivey noted that it would be acceptable and appropriate to increase this calculated number by an annual escalation factor for use during FY 2018/19.

The Carollo study also recommends that NapaSan change its basis for making annual escalations of the fee. The current code uses the Engineering News Record Construction Cost Index (ENR-CCI) for San Francisco. The study recommends that NapaSan change to the Engineering News Record Construction Cost Index for the 20-City Average, also referred to as the national average. The study recommends this change because the 20-City average is more appropriate for Napa, and that while the San Francisco index tends to be relatively consistent with the 20-City Average, it also lags behind it.

In looking at the two indexes, it is noted that the February 2017-to-February 2018 ENR-CCI for San Francisco would increase the capacity charge by 3.49% (to \$9,520), while the 20-City Average would increase the charge by 5.91% (to \$9,743). Because the San Francisco index results in a lower annual fee, this is the escalator recommended at this time, with the 20-City Average used in future years starting July 1, 2019.

The Ordinance changes the District Code as follows:

- | Documents the current capacity charge fee as \$9,624
- | Reduces the capacity charge fee to \$9,520 (which is the \$9,199 recommended fee, increased by the ENR-CCI for San Francisco)
- | Change the annual escalator index to the ENR-CCI 20-City Average, beginning July 1, 2019

The Ordinance also eliminates language in Section 5.02.060 Change in Fees that was applicable in prior years regarding projects "deemed complete", but expired at the end of 2016 and is no longer relevant.

Staff recommends that the Board approve the first reading of Ordinance, by Title, amending District Code Section 5.02.030 Capacity Charge Calculation and Section 5.02.060 Change in Use to reduce the capacity charge fee and revise the annual escalator.

FISCAL IMPACT

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| Is there a Fiscal Impact? | Yes |
| Is it currently budgeted? | Yes |
| Where is it budgeted? | Revenue projections for capacity charges are included in the FY 2018/19 Annual Budget. |
| Is it Mandatory or Discretionary? | Discretionary |
| Discretionary Justification: | The Board had directed the development of this policy. |
| Is the general fund affected? | Yes |
| Future fiscal impact: | The change in fee will have a small negative impact on capacity charge revenue in future years by establishing a lower fee in the current fiscal year. |
| Consequences if not approved: | The fee amount will not change and will remain at \$9,624 per EDU. |
| Additional Information: | None. |

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of

Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

None.

SUPPORTING DOCUMENTS

A . Ordinance - Redline Version

B . Ordinance - Clean Version

Napa Sanitation District: Approve

Reviewed By: Jeff Tucker