



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: June 2, 2004 **REPORT NO.** 04-118
ATTENTION: Honorable Mayor and City Council, Docket of June 8, 2004
SUBJECT: Wastewater Capacity Charges

SUMMARY

Issue - Should the City Council adopt a resolution which increases the wastewater capacity charge to a full cost recovery level beginning July 1, 2004, as derived in the Wastewater Cost-of-Service Study?

Manager's Recommendation - Adopt the resolution.

Other Recommendations – The City of San Diego Public Utilities Advisory Commission (PUAC) recommends adoption of the increase in the wastewater capacity charge (See Attachment A).

Fiscal Impact – The wastewater capacity charge revenues would increase by approximately \$7 million in Fiscal Year 2005 if the capacity charge is increased to a full cost recovery level assuming continuation of current activity levels.

BACKGROUND

Sewer Capacity Charges

Sewer capacity charges are one-time fees used to recover some or all of the costs of providing the system capacity required when a new user connects to the sewer system or when an existing user requires additional capacity. The City's present sewer capacity charge is \$2,500 per equivalent dwelling unit (EDU), and has been in effect since 1996. For affordable housing units and residential units constructed in redevelopment districts, the City applies a reduced fee of \$1,500 per EDU. A single family residence is equal to one EDU and non-residential customers are charged based upon calculated usage or an inventory of plumbing components that are assigned a number of "fixture units" which are converted to EDU's using a conversion factor that equates 20 fixture units to one EDU.

Cost of Service Study

On October 16, 2001, the City Council directed the City Manager to determine the magnitude of a full cost recovery sewer capacity charge. The City retained the services of Black & Veatch to conduct a cost of service study which addressed this and other sewer-related issues. The study was completed in October 2003 and submitted to the Public Utilities Advisory Commission for review.

DISCUSSION

Proposed Revisions to the Sewer Capacity Charges

The primary objectives of establishing full cost recovery capacity charges are to achieve equity in distributing costs and to provide a mechanism by which new users can pay for the cost of the facilities required to serve them without burdening existing users. In short, the goal of full cost recovery capacity charges is to ensure that growth pays its own way. The wastewater cost of service study (“Study”) suggested changes to the existing sewer capacity charge which would fully recover the costs associated with providing additional facility capacity to new users and existing users requiring additional capacity. Specifically, the Study indicated that the full cost recovery sewer capacity charge per EDU is \$3,710. Should the Council adopt this change any additional revenue that is realized will be used to reduce the magnitude of future borrowings for capital projects.

The magnitude of the full cost recovery capacity charges described above was determined via an analysis which took into consideration the costs of existing facilities benefiting future users, outstanding principal on replacement debt, existing reserves, expansion related CIP projects and their associated total capacity, grants used for expansion projects, and interest on the debt used to finance expansion projects. These elements were identified and/or estimated to derive the unit capacity cost and capacity fee per EDU.

Future Cost Of Service Studies – Frequency and Rationale

Wastewater Cost of Service studies should be conducted periodically or when there are physical changes in the system or its operation that materially impact the allocation of operation, maintenance and replacement costs between the utility’s applicable cost centers. For example, the City is currently conducting a pilot test of a new secondary treatment technology (biological aerated filtration) at the Point Loma Wastewater Treatment Facility which should be completed in approximately one year. If the results of this test are positive, leading to a change in the treatment process at Point Loma, the Wastewater Cost of Service study should be updated to reflect the changes in costs and their allocation to capacity charges and sewer service charges.

CONCLUSION

Adoption of the Sewer full cost recovery capacity charge will enhance ratepayer equity by ensuring that growth pays its own way.

ALTERNATIVE

Do not approve the requested actions.

Respectfully submitted,

RICHARD MENDES
Deputy City Manager

KAHLIE/CR

Attachment: [A. Public Utilities Advisory Commission Resolution Number PUAC-2004-04](#)