

DATE ISSUED: June 2, 2004

REPORT NO. 04-121

ATTENTION: Honorable Mayor and City Council, Docket of June 8, 2004

SUBJECT: Water Capacity Charges

SUMMARY

Issue - Should the City Council adopt a resolution which increases the water capacity charge to a full cost recovery level beginning July 1, 2004, as derived in the Water 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 water capacity charge.

Fiscal Impact – The water capacity charge revenues would increase by approximately \$350,000 in Fiscal Year 2005 if the capacity charge is increased to a full cost recovery level assuming continuation of current activity levels.

BACKGROUND

Water Capacity Charges

Water 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 water system or when an existing user requires additional capacity. The City's present water 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 April 30, 2002, the City Council directed the City Manager to conduct a water cost of service study. The City once again retained the services of Black & Veatch to perform the work, and the study was completed and submitted to the Public Utilities Advisory Commission for review in October, 2003.

DISCUSSION

Proposed Revisions to the Water 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 water cost of service study (“Study”) suggested changes to the existing water 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 water capacity charge per EDU is \$2,550. 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

Water Cost of Service studies should be conducted periodically or when there are physical changes in the system that materially impact the allocation of costs between the utility’s applicable cost centers.

CONCLUSION

Adoption of the Water 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,

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Deputy City Manager

KAHLIE/CR

Attachment: [A. Public Utilities Advisory Commission Resolution Number PUAC-2004-05](#)