THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: July17, 2008 REPORT NO: 08 - 109

ATTENTION: Council President and City Council
Docket of July 23, 2008

SUBJECT: Otay Mesa Trunk Sewer: Supplemental Sewer Capacity Fees

REQUESTED ACTION:
Adopt the recommended changes to the Supplemental Sewer Capacity Fees (SSCF) for the Otay Mesa Trunk Sewer (OMTS).

STAFF RECOMMENDATION:
Adopt the changes to the SSCF for the Otay Mesa Sewer System, which will distribute the expense of planning, design and construction of the Otay Mesa Trunk Sewer (OMTS) amongst those parties identified in the 1984 Otay Mesa Master Plan Update and Alignment Study (OMMP) as beneficiaries of projects located within the entire Otay Mesa drainage basin.

SUMMARY:
The Otay Mesa area is one of the last remaining undeveloped areas within the City of San Diego, with great potential for commercial and residential development. In order to promote future growth in the Otay Mesa community, the City of San Diego adopted the 1984 OMMP. The Master Plan identified the need for the Otay Mesa Sewer System to provide sewage conveyance for the Otay Mesa drainage basin. The drainage basin is identified in Attachment 1. This drainage basin includes the City and parts of the County of San Diego. The Otay Mesa Sewer System is a multi-phased system designed to serve the Otay Mesa drainage basin. The major facilities include the existing Otay Valley Trunk Sewer and Pump Station 23T, the future Otay Mesa Trunk Sewer, and the upgrade and expansion of Pump Station 23.

In the mid- 1980's, the Otay International Center (OIC) constructed most of the existing sewer facilities. Other portions were built by the State of California, Border Business Park, Turnberry Associates, and the City of San Diego. The existing facilities are shown in Attachment 2. In the 1980's, the City adopted two SSCFs, one for gravity sewer facilities and the other for non-gravity sewer facilities, to provide a source of revenue to reimburse these entities for the cost of construction of these facilities that exceed their fair share. Currently, any development that connects to any portion of the Otay Mesa Sewer System pays a SSCF of $1,822 per equivalent dwelling unit (edu) for costs associated with design and construction of gravity sewers 18 inches or larger. In addition, any development that connects upstream of Pump Station 23T pays another SSCF of $1,806 per edu for costs associated with construction of this pump station.

The capacity of the existing Otay Mesa Trunk Sewer System is insufficient to handle the anticipated future need for sewage conveyance capacity in the Otay Mesa area. Thus, projected growth in Otay Mesa cannot occur until new facilities are constructed.

The City Council approved a participation agreement with Pardee Homes (Pardee) on December 3, 2001, Resolution No. R-295816, to provide a more detailed study for the Otay Mesa Sewer System as identified in the 1984 OMMP. Pardee submitted the Otay Mesa Trunk Sewer Master Plan Update and Alignment Study dated September 2003 (OMTSMP) to the City. This study showed that in order to adequately serve the Otay Mesa drainage basin, it will be necessary to construct approximately 14.7 miles of new and replacement sewer pipelines, and upsize existing Pump Station 23T. These upgrades are collectively referred to as the Otay Mesa Trunk Sewer (OMTS), see Attachment 3. The total cost of these improvements is estimated at $135,088,047 of which a total of $13,924,149 has been authorized and funded by the City of San Diego. The authorized funding was used to complete the OMTSMP, finalize the sewer alignment, complete the Environmental Impact Report (EIR), design and construct the OMTS Phases 2A1 and 2A2, and design Phase 2B1.

To recover the cost of these improvements, and to continue to reimburse entities who have already built portions of the OMTS System, the City is recommending changes to the existing SSCFs to obtain fees from future development identified in the OMMP as beneficiaries of the Otay Mesa Sewer System. These funds will reimburse any developer or other entity who constructs any part of the OMTS System as described in the OMMP. On January 20, 2004, the City Council adopted Resolution No. R-298803 and executed a consultant agreement with Berryman & Henigar Inc., now known as Bureau Veritas (BV), to develop a cost reimbursement fee to apportion the cost of the Otay Mesa Trunk Sewer System upon all properties benefiting from the improvements.

To develop the changes to the SSCFs, BV performed an independent analysis of the fees paid by developers to date under the existing SSCFs and developed a revised fair share cost that developers must pay. In addition, BV reviewed projected wastewater generation for ultimate build-out in the Otay Mesa drainage basin, estimated to occur in 2030. The wastewater generated was based on development projections shown in the OMMP, which derived the edu's from approved tentative maps or calculations based on existing land use if no tentative map existed. The total number of edu's for the drainage basin at build-out is 93,712, of which 7,367 have been built, leaving a future edu count of 86,345. Several sewer conveyance surcharge rate alternatives were examined to develop a recommended alternative for the allocation of OMTS System costs.

Three alternatives were selected for final review as follows:

1. First Alternative: "Equal Sharing." In this alternative, all development pays equally for all improvements, gravity sewers 18 inches or larger and the major Pump Station 23 combined, regardless of where they are located in the area served by the OMTS System. The existing SSCF of $1,822 per edu would be increased by $1,565 per edu, for a new fee of $3,387 per edu. The separate SSCF for Pump Station 23T of $1,806 is eliminated.

2. Second Alternative: "Separation of Gravity and Non-gravity Sewer Facilities." In this alternative all development in the area served by the OMTS System pays for all the gravity sewers 18-inch or larger regardless of where in the area they are located. The existing SSCF for gravity sewers of $1,822 per edu would be increased by $625 per edu, for a new fee of $2,447 per edu. Those that flow through Pump Station 23 will pay an additional SSCF of $1199 per edu for a combined total fee of $3,646 per edu, see Attachment 4. ***Note: this reflects the existing methodology, and is the recommended alternative.***

3. Third Alternative: "Separation of East and West Sides." In this alternative, development downstream (west side) of Pump Station 23 will pay only towards the gravity sewers 18 inches or larger that have already been constructed, and any new gravity sewers 18 inches or larger that convey the west side flow. Development upstream (east side) of Pump Station 23 will pay towards all gravity sewers 18 inches or larger in the OMTS System (both east and west sides of Pump Station 23), in addition to Pump Station 23 and associated force mains. For development in the west side, the existing SSCF for gravity sewers of $1,822 per edu would be increased by $445 per edu, for a new fee of $2,267 per edu. For development on the east side, the existing SSCF for gravity sewers of $1,822 per edu would be increased by $661 per edu, for a new fee of 2,483 per edu. Development that flows through Pump Station 23 will pay an additional SSCF of $1,199 per edu for a combined total fee of $3,682 per edu, see Attachment 5.

The recommended alternative is Alternative 2 "Separation of Gravity and Non-gravity Sewer Facilities" because it distributes the responsibility for funding the infrastructure for all users in the most equitable manner, and because it allows for future community growth with the highest available funding throughout the duration of the project. The City Attorney's Office has serious reservations about Alternative 1, because it is inconsistent with the existing methodology, and would assess some developers for the cost of a major pump station that they do not utilize.

Based on an infrastructure cost balance of $6.1 million for existing facilities and $135 million for new facilities, and a future edu count of 86,345 for gravity and 67,670 edu for pump station and force mains (non-gravity sewer facilities), this will result in SSCFs of $2,447 per edu for gravity only, and $3,646 per edu for non-gravity in 2008 dollars. These SSCFs will be paid by users at the time of issuance of development permits, in addition to the existing City-wide sewer capacity fee of $4,124. An inflation factor will be placed on the new SSCF each year. The existing SSCFs annual 6% increase rate will be maintained, because the developers that constructed portions of the OMTS System are contractually entitled to interest on their reimbursement amounts.

The Otay Mesa Community Plan is currently being updated by the City Planning & Community Investment (CPCI) Department. Wastewater and CPCI staff are working together to coordinate any changes in land uses that could impact edu calculations, capacity, phasing and fee structure associated with wastewater and sewer. Should any adjustments be necessitated through the update process, information will be distributed and discussed with the Otay Mesa Community Planning Group and interested stakeholders.

FISCAL CONSIDERATIONS:
The City authorized and front funded $13,924,149 of sewer revenue funds for this project. The supplemental sewer capacity fees will be used to reimburse the City.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
Project approval Resolution number R-295816 adopted on December 3, 2001
Project approval Resolution number R-298803 adopted on January 20, 2004
This project is expected to be presented at the NR&C meeting of July 23, 2008.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
The OMTS project was presented to the San Ysidro Planning and Development Group on January 24, 2004 and October 17, 2006.

On November 17, 2004, and September 21, 2005 progress meetings were held with the Otay Mesa Community Planning Group (OMCPG).

On January 13, 2005, members of the Otay Mesa Planning Coalition Steering Committee (Coalition), an association of developers for the Otay Mesa area, participated in a workshop to review the methodology and alternatives. The "Equal Sharing" alternative was the most favored among the Coalition members.

On May 10, 2006, an update was presented to the Coalition that included the updated Alternative 1 "Equal Sharing" and 2 "Separation of Gravity and Non-gravity Sewer Facilities," and the newly added alternative 3 "Separation of East and West sides" requested by Pardee. The Coalition voted to support Alternatives 1 and 2.

On April 16, 2008, these three alternatives were presented to the OMCPG. The Planning Group requested that staff hold an outreach community forum to present the alternatives to property owners. On June18, 2008, the fee alternatives were present to the OMCPG and property owners and the OMCPG voted 9-4-1 to recommend approval of the second alternative. The OMCPG and interested stakeholders will be included in any adjustments and impacts based on any land use changes associated with the community plan update process.

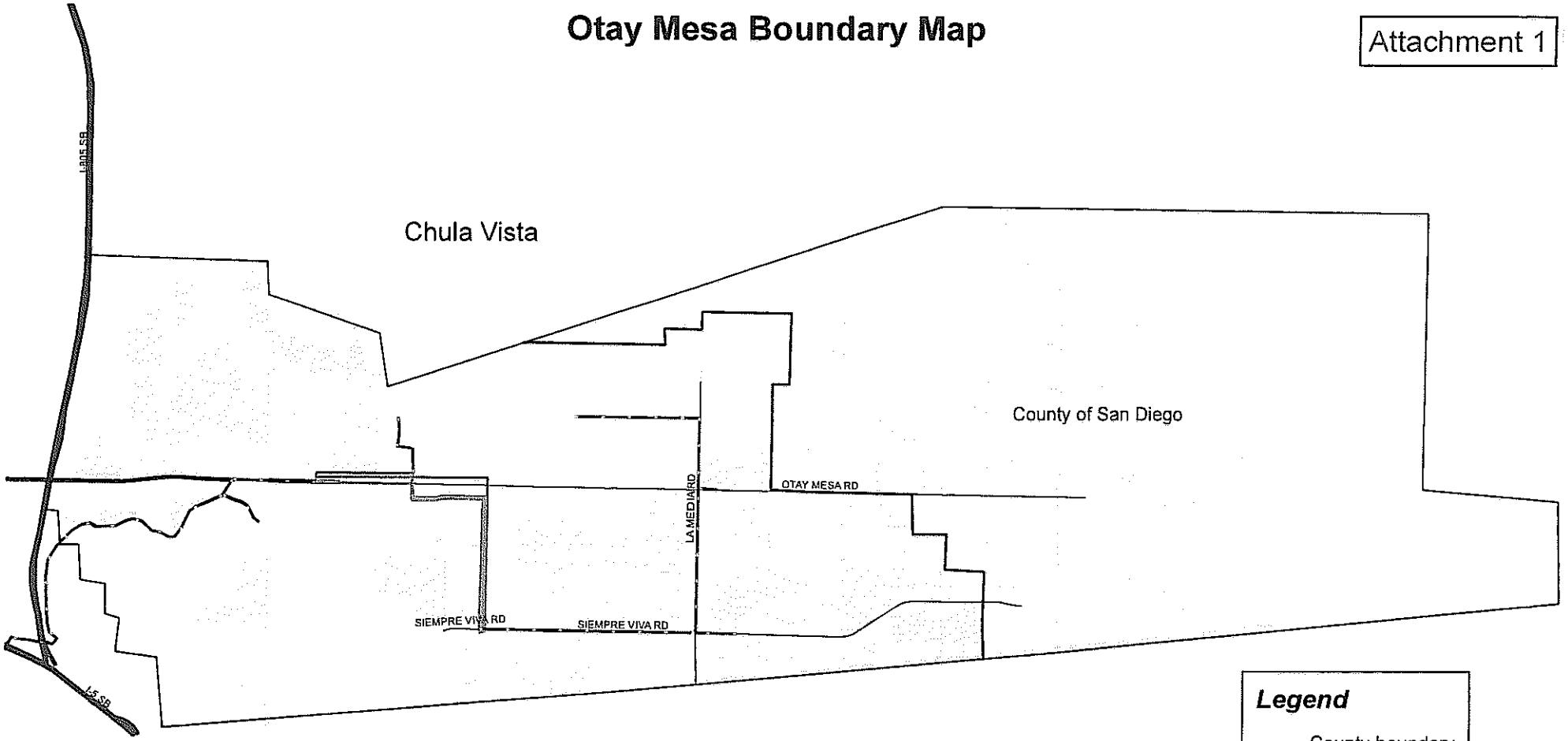
KEY STAKEHOLDERS AND PROJECTED IMPACTS:
Otay Mesa Community Planning Group, County of San Diego, Otay Mesa property owners

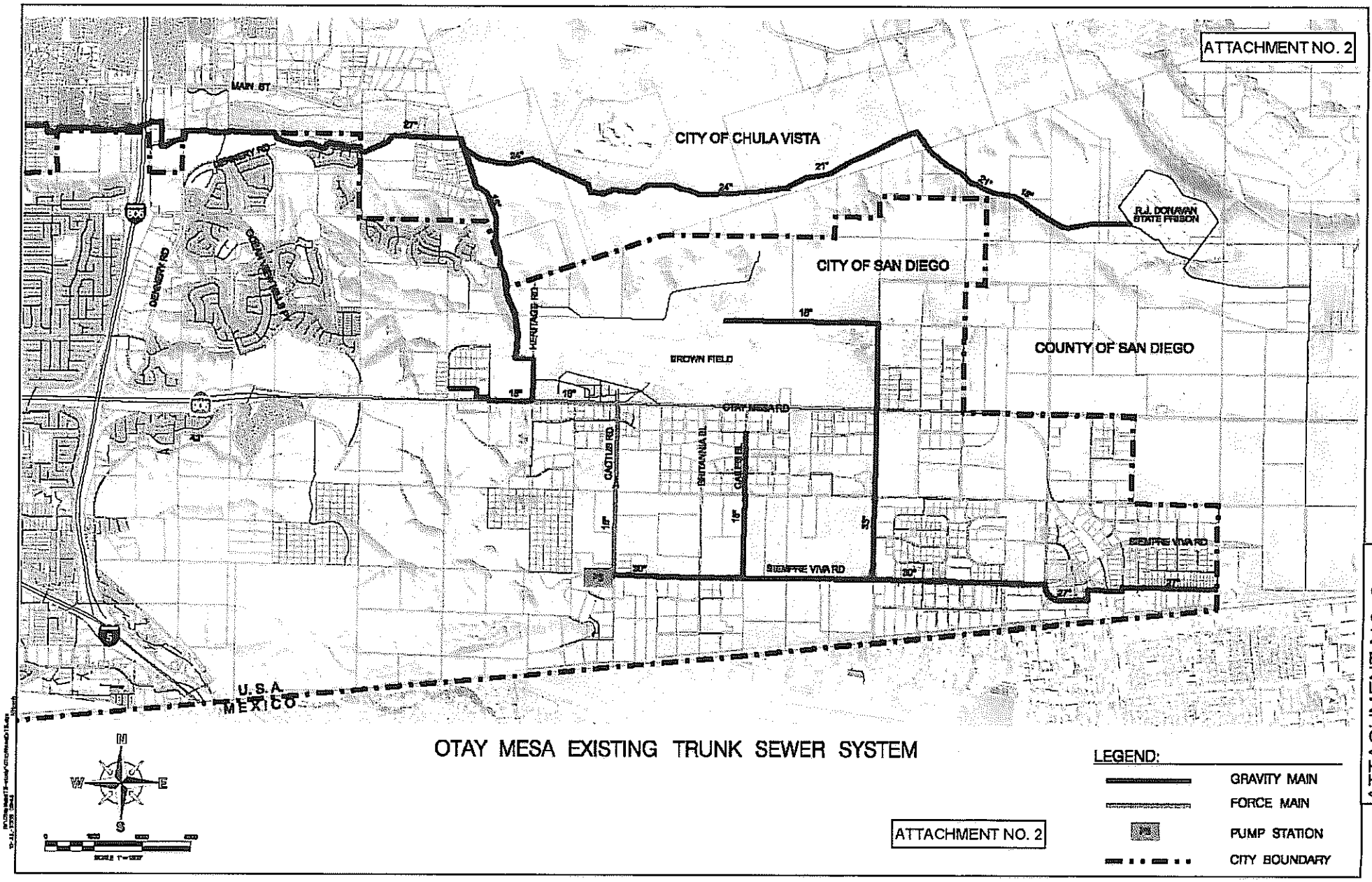
for Robert J. Ferrier
Metropolitan Wastewater Assistant Director

J. M. Barrett
Director of Public Utilities

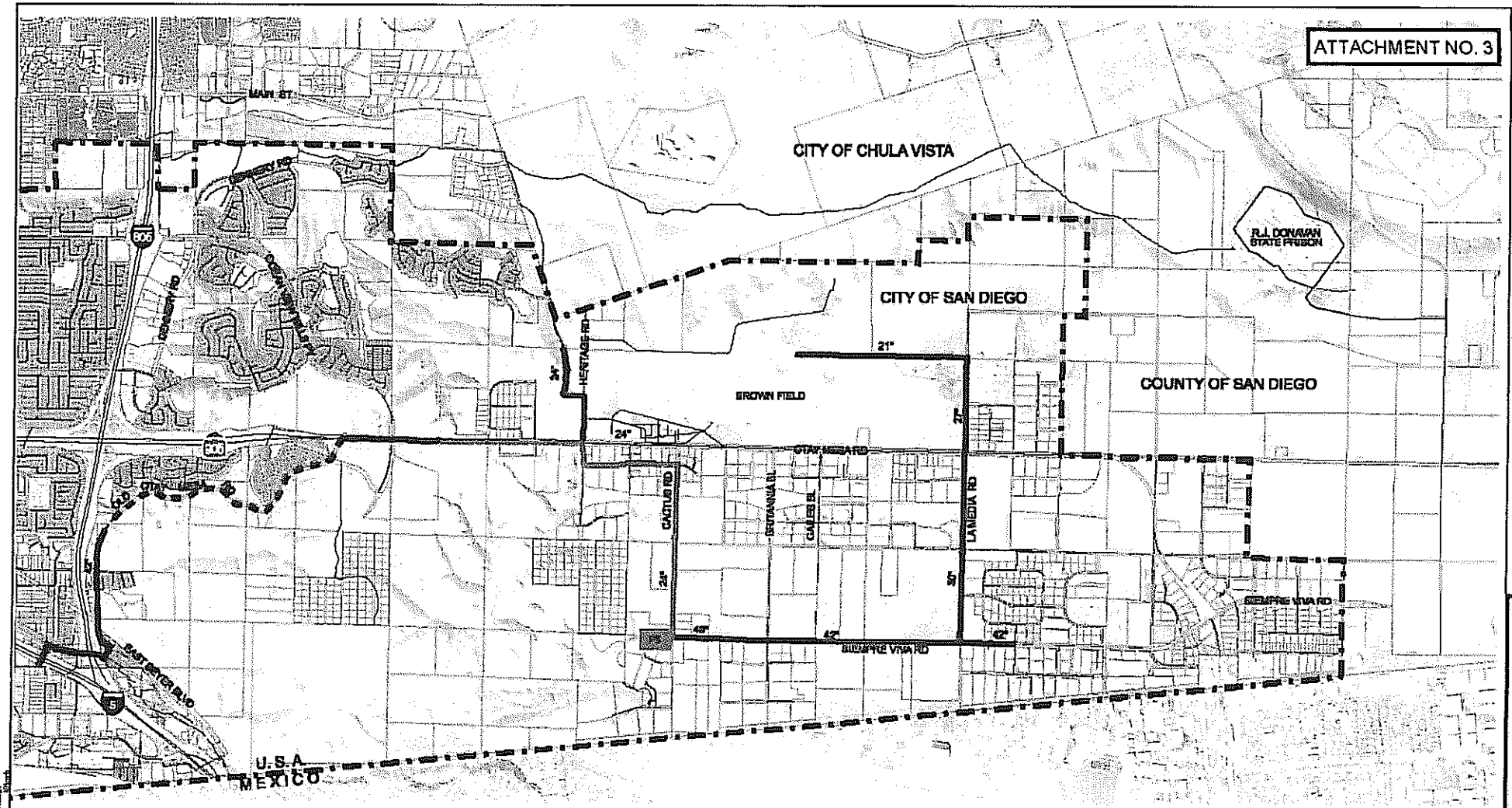
Otay Mesa Boundary Map

Attachment 1




ATTACHMENT NO. 2
MAIN ST
CITY OF CHULA VISTA
OTAY LAKES RD
OLYMPIC PKWY
R.J. DONOVAN STATE PRISON
CITY OF SAN DIEGO
HERITAGE RD
COUNTY OF SAN DIEGO
BROWN FIELD
OTAY MESA RD
CACTUS RD
BRITANNIA BL
SIEMPRE VIVA RD
U.S.A.
MEXICO
N
W
E
S
OTAY MESA EXISTING TRUNK SEWER SYSTEM
LEGEND:
GRAVITY MAIN
FORCE MAIN
PUMP STATION
CITY BOUNDARY
ATTACHMENT NO. 2
ATTACHMENT NO. 2

ATTACHMENT NO. 3



PROPOSED OTAY MESA TRUNK SEWER

LEGEND:

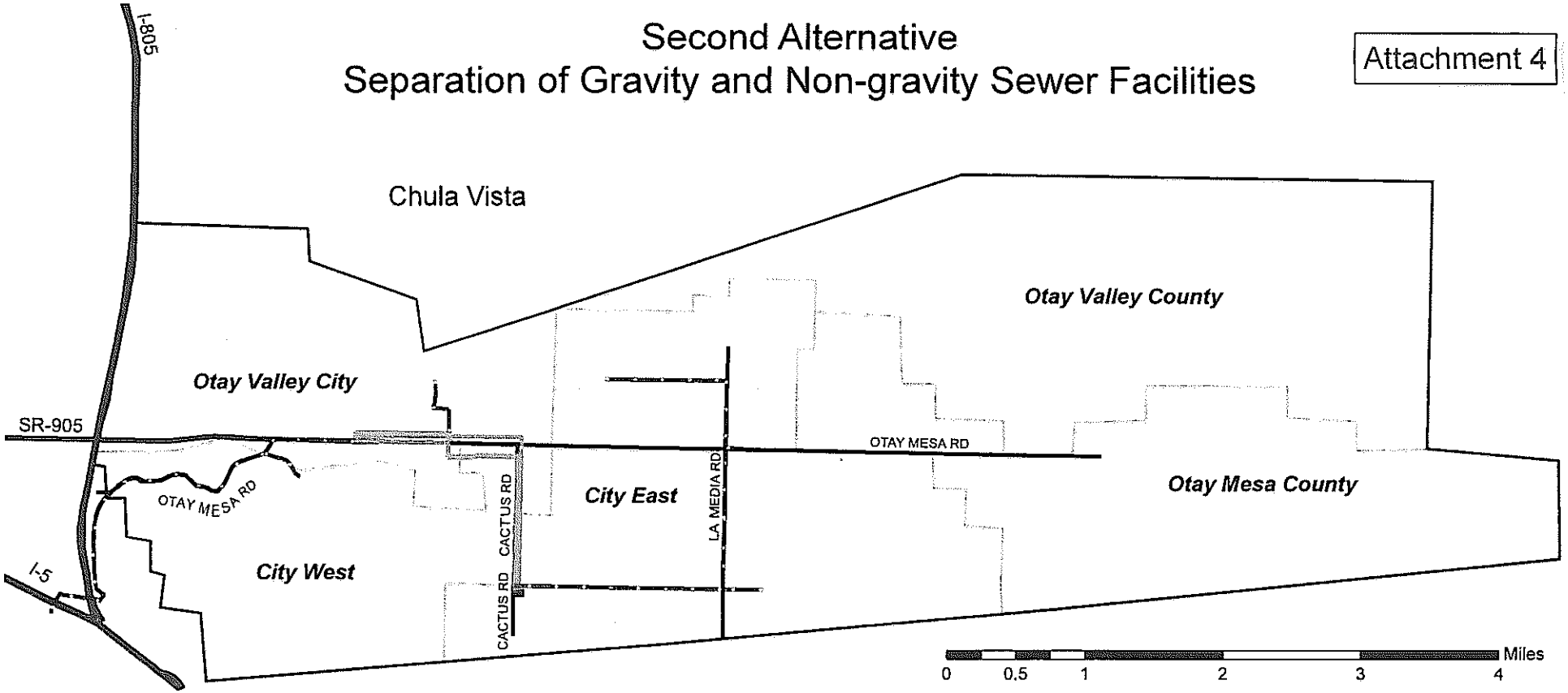
- PROPOSED GRAVITY MAIN
- PROPOSED FORCE MAIN
- PUMP STATION
- CITY BOUNDARY

ATTACHMENT NO. 3

ATTACHMENT NO. 3

Second Alternative
Separation of Gravity and Non-gravity Sewer Facilities

Attachment 4



MEXICO

Legend

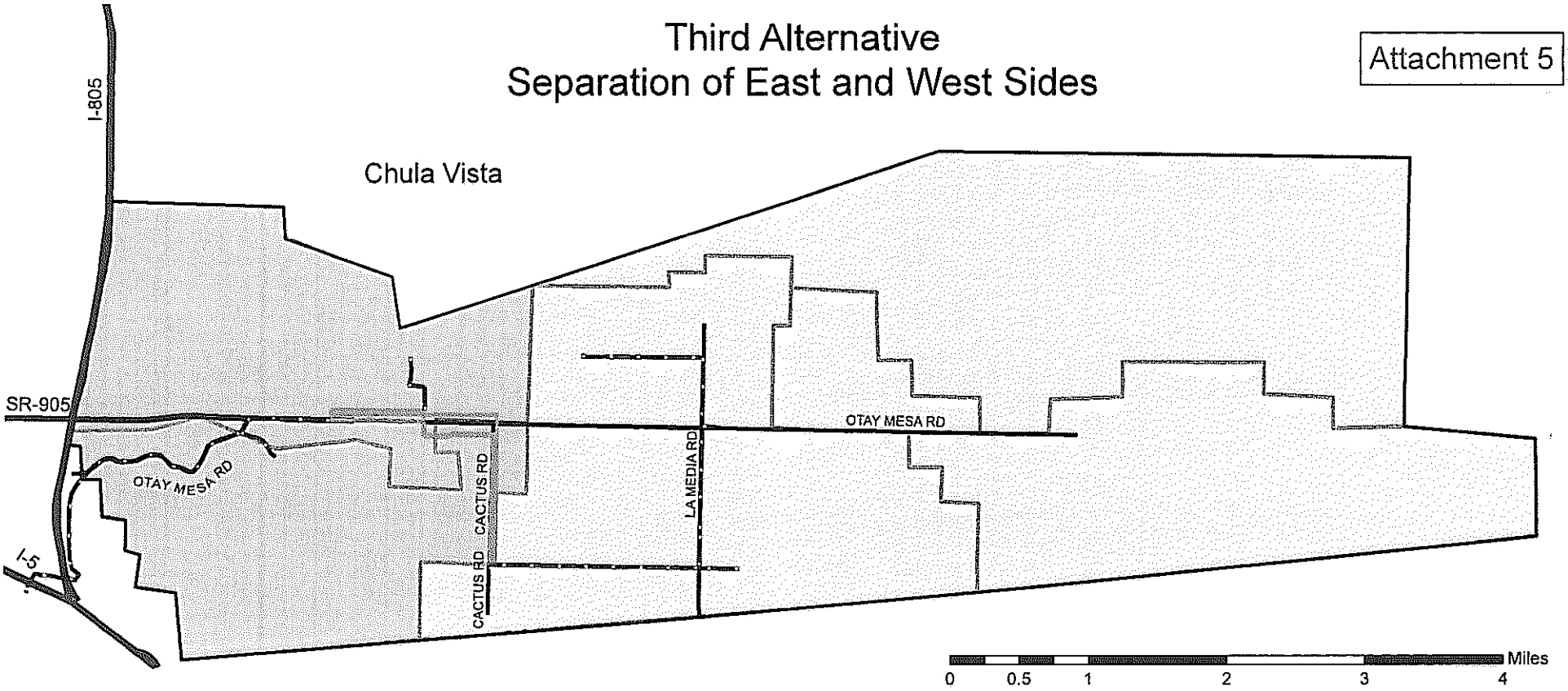
- Gravity Lines
- Non-gravity Lines
- Freeways
- Roads
- Boundary
- Sub-Areas

Calculation of the Otay Mesa Supplemental Sewer Capacity Fee
Alternative 2: Separation of Gravity and Non-gravity Sewer Facilities

Year 2008 Existing Surcharge (Per EDU)		$1,822
New Facilities		
Gravity Facilities	$53.9 Million	
Future EDUs	86,345	$625
Existing and New Gravity Facilities Surcharge (Per EDU)		$2,447
Non-gravity Sewer Facilities	$81.2 Million	
Future EDUs	67,670	$1,199
Total Existing, Gravity and Non-gravity Facilities Surcharge (Per EDU)		$3,646

Third Alternative
Separation of East and West Sides

Attachment 5



Legend

- Gravity Lines
- Non-gravity Lines
- Freeways
- Roads
- Boundary
- Sub-Areas
- East
- West

Calculation of the Otay Mesa Supplemental Sewer Capacity Fee
Alternative 3: Separation of East and West Sides

	West	East
Year 2008 Existing Surcharge (Per EDU)	$1,822	$1,822
Gravity Facilities Surcharge	$445	$661
Existing and New Gravity Facilities Surcharge (Per EDU)	$2,267	$2,483
Non-gravity Sewer Facilities Surcharge (Per EDU)		$1,199
Total Existing, Gravity and Non-gravity Sewer Facilities Surcharge (Per EDU)		$3,682