



City of Chula Vista

Staff Report

File#: 15-0273, Item#: 16.

CONSIDERATION OF ACCEPTING THE 2015 SALT CREEK SEWER BASIN DEVELOPMENT IMPACT FEE STUDY AND AMENDING THE ORDINANCE FOR THE SALT CREEK SEWER BASIN DEVELOPMENT IMPACT FEE

- A. RESOLUTION NO. 2015-168 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA ACCEPTING THE 2015 SALT CREEK SEWER BASIN DEVELOPMENT IMPACT FEE STUDY
- B. ORDINANCE OF THE CITY OF CHULA VISTA AMENDING THE SALT CREEK SEWER BASIN DEVELOPMENT IMPACT FEE (FIRST READING)

RECOMMENDED ACTION

Council conduct the public hearing, adopt the resolution and place the ordinance on first reading.

SUMMARY

The current Salt Creek Sewer Basin Development Impact Fee (DIF) plan was prepared in 2004 (2004 DIF). Since that time, the City has had changes in planned development and wastewater flow projections. This 2015 Salt Creek Sewer Basin Development Impact Fee Update accounts for said impacts within the Salt Creek basin.

The "2015 Salt Creek Sewer Basin Development Impact Study" (2015 DIF), conducted on behalf of the City by Bartle Wells Associates and Infrastructure Engineering Corporation, ensures that a) fees are fairly and equitably distributed among the remaining properties within the benefit area; b) sufficient funding is available to complete the required improvements; and c) updated fund balance and land use projections are reflected in the program.

The 2015 DIF recommends maintaining the sewer fee at its current level of \$1,330 per equivalent dwelling unit (EDU). With this action, the City Council will consider:

- (i) Accepting the 2015 DIF;
- (ii) Modifying the DIF as recommended in the 2015 DIF.

The public hearing has been duly noticed.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the proposed actions are not a "Project" as defined under Section 15378(b)(4) of the State CEQA Guidelines because the activity consists of accepting the 2015 Salt Creek Sewer Basin DIF Study and modifying the DIF in

File#: 15-0273, Item#: 16.

accordance with the Study. Although environmental review is not necessary at this time, when projects covered by the DIF have been defined, environmental review will be required and a CEQA determination completed prior to commencing any of the improvements identified in the DIF.

BOARD/COMMISSION RECOMMENDATION

Not Applicable.

DISCUSSION

In the original 1994 basin plan, the proposed Salt Creek Interceptor was identified as more than 13.5 miles of sewer line to serve the benefit area, including the area now known as the Wolf Canyon Basin. The Salt Creek Interceptor generally begins just west of the Upper Otay Reservoir, and ultimately ties into the City of San Diego's Metro Sewer line just west of Interstate 5 near Main Street. The trunk line is divided into nine (9) sections or "reaches" which are points of slope change or connections with other major tributary sewer lines (Attachment 1).

Since establishing the DIF, all reaches of the Salt Creek Interceptor as defined in the original basin plan have been constructed. However, through additional studies completed since 1994, other facilities have been identified that will be needed to facilitate future development within the basin.

In 2004, the City updated the Salt Creek Development Impact Fee (DIF) to \$1,330 per equivalent dwelling unit (EDU) to ensure sufficient funding was available for the construction of the Salt Creek Interceptor and future Wolf Canyon sewer facilities. Since that time, the City has had various changes in planned development. In addition, reduced flows of approximately 10% due to water conservation efforts have had an impact on wastewater discharged. Therefore, a DIF update to include these additional improvements in the list of DIF eligible facilities was needed.

The City retained Bartle Wells Associates and Infrastructure Engineering Corporation to prepare the "2015 Salt Creek Sewer Basin Development Impact Fee Study" (2015 DIF) (Attachment 2) completed in April 2015. The 2015 DIF recommends: a) fees that are fairly and equitably distributed among the remaining properties within the benefit area; b) that sufficient funding is available to complete the required improvements; and c) that an updated fund balance and land use projections are reflected in the program.

Current Fee

In 2004, the City Council adopted Ordinance 2974 setting the Salt Creek DIF at \$1,330 per EDU. The 2004 DIF indicated \$36.9 million of costs associated with the Salt Creek Interceptor and estimated costs of future Wolf Canyon sewer facilities. The estimated net cost of \$34.1 million (\$36.9 million less \$2.8 million of available reserves) was spread among the 25,668 remaining benefited EDUs within the basin resulting in a fee of \$1,330/EDU.

Current Project Status

Since 1994, all reaches of the Salt Creek Interceptor included in the original basin plan have been constructed. The last of the original DIF facilities such as Reaches 3, 4A, 5B, 6, 7, 8B and 9A were constructed by the City in 2004.

The 2004 DIF contemplated additional improvements within the Wolf Canyon basin that would be needed to serve the southwestern edge of the basin located west of the SR-125. These

File#: 15-0273, Item#: 16.

improvements are referred to as the Rock Mountain Road/Main Street and Heritage Road trunk sewers shown in Attachment 1. The alignment of Rock Mountain Road/Main Street is still being developed and Heritage Road is under construction at this time. The 2015 DIF updated the Rock Mountain Road/Main Street and Heritage Road trunk sewer costs with the most current information available.

More recent analyses by various land owners and staff have determined that the Rock Mountain Road/Main Street trunk sewer would be needed to serve the Village 4 and Village 7 properties. Current studies for Village 4 indicate that Rock Mountain Road/Main Street trunk sewer will be needed to serve this development. Additionally, while current studies for Village 7 contemplate a temporary sewer main through Village 8 West, the permanent solution to serve Village 4 and Village 7 developments would be the Rock Mountain Road/Main Street trunk sewer in Main Street. The Village 8 West sewer facility that would temporarily serve Village 7 would not be considered a DIF eligible facility.

The stretch of trunk sewer serving Village 11 is commonly referred to as the Hunte Parkway Extension (Extension). The Extension heads easterly along Hunte Parkway and south to the Salt Creek Interceptor. The 2015 DIF proposes to add said Extension. When the Salt Creek DIF was established in 1994, the Extension was expected to only serve the Village 11 development. During this update, it was determined that the Extension will actually serve Village 11 and a major portion of the EUC Millenia. Therefore, the Extension qualifies as a regional facility serving several developments within the basin and is eligible for inclusion in the 2015 DIF update.

A summary of the Salt Creek DIF facilities costs is shown below in Table 1.

Description	DIF Obligation
Completed Reaches	\$20,667,477
Future Projects Cost	
Rock Mountain Rd/Main St	\$4,838,512
Heritage Road	\$2,444,130
Hunte Parkway Extension	\$320,836
Total Cost of Facilities	\$28,270,955

Remaining Equivalent Dwelling Units

The 2004 DIF update identified 25,668 remaining benefited EDUs within the basin. The 2015 DIF analysis indicates a current total of 20,688 remaining benefited EDUs at buildout. This accounts for the development and revised land use since 2004 as well as the adjustments for the County and University sites described below.

County properties

The 2015 DIF does not include the areas in the County known as Village 13, 14 and 16 (County Areas). The County Areas were previously included in the 2004 DIF. The City will update the DIF to include the County Areas upon the City's approval of a Sewer Transportation Agreement and the required technical sewer studies. Based on an email sent by County staff on November 2014, the

County Areas represent 4,500 EDUs.

Future University and Regional Technology Park Sites

The future University site was included in the original 1994 basin plan; however, it was excluded in the 2004 DIF. This update will now include the University site and the area commonly known as the Regional Technology Park. The total EDUs planned for the University and Regional Technology Park sites is 2,005.

Comparison of DIF studies

The 2004 DIF included higher financing costs and lower available reserves to offset construction costs when compared with the 2015 DIF. The 2015 DIF includes higher project costs for the Rock Mountain/Main Street and Heritage Road Trunk Sewer lines and a new project - the Hunte Parkway Extension. The net decrease to the DIF costs is primarily the result of lower than anticipated financing costs. For this 2015 DIF, the cost of financing existing segments, upsizing existing facilities, and constructing future Salt Creek segments is estimated at approximately \$33.3 million, a decrease of \$3.6 million from the 2004 estimate. Table 2 provides more detail on the change in costs attributable to the Salt Creek DIF between 2004 and 2015. The fee is proposed to remain at the same current level of \$1,330 per EDU.

Description	2004 Study	2015 Study
Facility Cost/Original Princip	\$19,846,243	\$20,667,477
Developer Credits	\$553,472	\$0
Financing Cost	<u>\$10,788,873</u>	<u>\$3,907,952</u>
Outstanding Loan Payments	\$31,188,588	\$24,575,429

File#: 15-0273, Item#: 16.

Future Project & Other Co:		
Rock Mountain Road/Main	\$4,460,000	\$4,838,512
Heritage Road	\$1,256,000	\$2,444,130
Hunte Parkway Extension	\$0	\$320,836
Environmental Mitigation	\$0	\$1,000,000
DIF Administration	<u>\$0</u>	<u>\$120,000</u>
Total	\$36,904,588	\$33,298,907
Available Reserve	<u>(\$2,771,042)</u>	<u>(\$5,805,114)</u>
Total	\$34,133,546	\$27,493,793
EDUs Total	25,668	20,668
DIF (Cost/EDU)	\$1,330	\$1,330

DIF Construction Cost Index Adjustment

Since it is likely that the timing of payments received from the DIF will not exactly match the timing of expenditures to provide for facilities, the fee needs to be adjusted annually to reflect the time value of money. The intent is that the fee be equal to the required investment as if the construction were to occur at the time of contribution.

DIF fees should be adjusted regularly to prevent them from falling behind the costs of constructing new facilities. Several methods can be used for the adjustments, including:

- 1 ENR Construction Cost Index: Engineering News-Record (ENR) magazine publishes construction cost indices monthly for Los Angeles. This index can be used to estimate the change in the construction cost of facilities. If the ENR Index has increased by three percent since the last capacity fee adjustment, the capacity fee should be increased by three percent.
- 2 U.S., California, or regional consumer price index.
- 3 Interest rate and borrowing costs: The interest and borrowing costs for debt issued to finance sewer capital projects can be added to the capacity fee annually.

The ENR Construction Cost Index for Los Angeles (ENRCCI) is currently being used as the yearly adjustment indicator for the City's DIF programs and it is considered a good standard. This is the most appropriate index because it directly reflects construction costs in the regional economy. Staff recommends adjusting the DIF fee annually based on the year-over-year (from July to July) change in the ENRCCI, to be effective each October 1st. This change is reflected in the ordinance presented for the City Council's consideration with this item.

Coordination with the Development Community

From the initial stages of this project, staff and consultants have stressed the importance of transparency and to make sure that the development community's concerns are heard and responded to as comprehensively as possible. Staff and consultants met with BIA and attended a regular meeting of the Development Oversight Committee to brief developers of the proposed DIF fee. As follow-up, City staff addressed developers' concerns and comments via e-mail. A final draft of the 2015 DIF was sent to major developers on October 2014.

Recommendations

To provide adequate funding for the Salt Creek Basin facilities and to promote equity between customers who have already connected to the system and future customers, Staff recommends the following:

- Maintain the current Salt Creek DIF of \$1,330 per EDU
- Add the Hunte Parkway Extension project cost to the DIF
- As DIF funds are available, transfer funds from the Salt Creek DIF to the Trunk Sewer Capital Reserve Fund to pay off the DIF's outstanding loans
- Adjust the Salt Creek DIF by the annual change in the Engineering News Record's Construction Cost Index for Los Angeles

DIF fees will be reviewed in detail every five years or when updated information is available regarding the actual costs of building all the remaining DIF facilities.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council and has found Council Member John McCann has real property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, pursuant to California Code of Regulations Title 2, sections 18700 and 18705.2(a)(11), this item presents a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 8700, et seq.) for the above-identified member.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The 2015 DIF supports the Economic Vitality goal in the City's Strategic Plan. It provides funding for planning sewer infrastructure of new development, which is a key City function in supporting new growth.

CURRENT YEAR FISCAL IMPACT

Consultant and staff costs incurred preparing this report were offset by Salt Creek Sewer DIF funds. No additional impacts to the Salt Creek Basin Sewer DIF fund or the General Fund are anticipated to result from this action.

ONGOING FISCAL IMPACT

Wastewater Capital Improvement Projects resulting from the 2015 DIF will be budgeted as part of the City's annual Capital Improvement Program and funded from the Salt Creek Basin Sewer DIF funds.

Adopting an updated DIF, including authority for annual index based adjustments, supports the collection of funding for wastewater collection system upgrades and expansion needed to accommodate future development within the Salt Creek basin.

ATTACHMENTS

- Attachment 1: Salt Creek basin map
- Attachment 2: 2015 Salt Creek Sewer Basin DIF Study

File#: 15-0273, Item#: 16.

Staff Contact: Luis Pelayo, Acting Senior Civil Engineer