



REPORT TO COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

Consent
April 7, 2009

Honorable Mayor and
Members of the City Council

Title: Supplemental Agreement: Update of Development Fees for Water, Sewer and Drainage (W14004700)

Location/Council District: City wide

Recommendation: Adopt a Resolution authorizing the City Manager to execute a Supplemental Agreement with Willdan Financial Services to modify the existing Professional Services Agreement for Phase 1 of the fee study project, to add the scope of services for Phase 2 of the project, and increase the contract not to exceed amount from \$8,000 to \$137,200.

Contact: David L. Brent, Engineering Services Manager, 808-1420, Robert D Armijo, Senior Engineer, 808-1411

Presenters: Not applicable

Department: Department of Utilities (DOU)

Division: Engineering Services

Organization No: 140001321

Description/Analysis

Issue: The City currently collects water, sewer and combined sewer system Development Impact Fees. These fee revenues are used to fund the utilities infrastructure necessary to support new development or growth. The City does not currently have a Development Impact Fee for storm drainage. Willdan Financial Services was selected by the Department of Utilities (DOU) through a RFQ process to perform a study to review the Impact Fee structures and provide recommendations for updating the fees (or in the case of storm drainage, adopting a fee) to properly support growth and development with adequate utilities infrastructure. A Professional Services Agreement was issued to Willdan to complete Phase 1 of the study project that included the review of DOU master plans and City growth data and developing a proposed technical approach to updating the development fees. This work has been completed, and the proposed Supplemental

Agreement is to implement the Phase 2 work plan to complete the study.

Policy Considerations: The development fee methodology will meet the requirements specified in State law for development impact fees. Any recommendations or proposals for changes to the City's current fees will require City Council approval.

Environmental Considerations: California Environmental Quality Act (CEQA): The creation of funding mechanisms such as development impact fees does not constitute a "project" requiring environmental review, under CEQA Guidelines Section 15378(b). Any capital improvement projects funded with impact fee revenues would be subject to CEQA review prior to project approval.

Sustainability Considerations: The project is consistent with the City's Sustainability Master Plan by developing a fee structure that is fair and practical.

Other: Not applicable

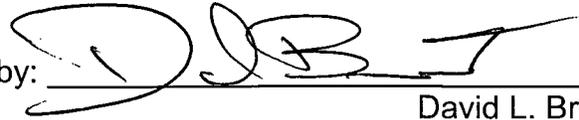
Commission/Committee Action: Not applicable

Rationale for Recommendation: The approval of the Supplemental Agreement with Willdan Financial Services to initiate Phase 2 of the development fee study project for the water, sewer, and drainage systems will assist the City in setting fee structures needed to fund infrastructure to support future development.

Financial Considerations: The agreement not to exceed amount will be increased from \$8,000 to \$137,200. There is sufficient funding available in W14004700 for this increase.

Emerging Small Business Development (ESBD): The project included a participation goal for emerging and small business enterprises (ESBEs) as required by Ordinance 99-007 and Resolution 99-055 relating to ESBD participation goals and policies, adopted by City Council on February 9, 1999. Willdan Financial Services will utilize the services of Ross Campbell Inc. with an ESBE participation of 9%.

Respectfully Submitted by:



David L. Brent
Engineering Services Manager

Approved by:



Marty Hanneman
ACM/Director of Utilities

Recommendation Approved:



Ray Kerridge
City Manager

Table of Contents:

Report pg. 1

Attachments

1 Background pg. 4

2 Location Map pg. 6

3 Resolution pg. 7

Attachment 1**Background**INTRODUCTION

The Utilities Development Impact Fees provide an integral funding mechanism to construct utility infrastructure to support new development and infrastructure improvements that support growth. Development fees can be contrasted with user rates which are applied to operation, maintenance, capital improvements and rehabilitation of the City's existing systems. These Development Impact Fee revenues support the planning, design and construction of water treatment plants, storage reservoirs, water transmission mains, sewer and drainage trunk mains, sewer and drainage pump stations, drainage detention basins, and other common facilities.

WATER SYSTEM DEVELOPMENT FEE:

For several years, the City has utilized the "average cost" method of determining development fees for its Water System. Under this method, fees are designed to derive the average investment per connection. This method is employed using the historical (original) value of the replacement value of the existing utility system, periodically adjusted to include capital additions and depreciation. In general, this method is most appropriate for utilities with available capacity in the existing system. However, this method suffers from a number of problems, including:

1. The value of the system is based on historical costs that do not reflect today's increased costs of constructing improvements, even when adjusted for inflation,
2. Many parts of the system are old, and substantial depreciation has occurred, which lowers the fee, and
3. Projecting the fees over build-out suggest that the City will not receive enough revenue to construct all planned water facilities.

The fee study will review the City's existing fee and provide recommendations for updating the fee methodology in accordance with applicable development fee requirements.

SEWER SYSTEM DEVELOPMENT FEE:

The DOU maintains and operates about 70% of the sewer collection system within the City limits. Sacramento County's Sacramento Area Sewer District (SASD) operates the remainder (primarily the North and South Natomas and portions of the southeast, and eastern portions of the City). All sewage ultimately discharges into the Sacramento Regional Wastewater Treatment Plant (SRWTP) which is owned and operated by the Sacramento Regional County Sanitation District (SRCSD).

SRCSD collects a fee for impacts on its interceptor conveyance and treatment system due to development. In addition, SASD collects a fee for impacts on its collection

system due to development. The City collects a much lower fee for impacts on its collection system due to development. The combination of the fees paid to SRCSD and the City (or SASD) is intended to provide funding for the sewerage system to keep pace with growth and development in the City.

The Sewer Capital Improvement Program lacks sufficient funds from its Development Impact Fee component to fulfill its mission to provide infrastructure ahead of development or even keep pace with growth. This fact has inhibited development in the City's service areas. Similar to the Water System Development Fee, the City's Sewer System Development Fee is based on an outdated fee calculation methodology that does not yield enough revenue to fund its share of capital improvement projects. For comparison, the residential development impact fees charged by the City are about 7 times lower than the fees charged by SASD and the difference is even greater for other types of development.

COMBINED SEWER SYSTEM (CSS) DEVELOPMENT FEE:

The CSS Development Fee is more recent in origin than the water and sewer fees, as it was adopted by City Council in 2005. This fee was calculated based upon the average cost method to provide increased in-line storage to mitigate the impact on the CSS of the new development paying the fee. In-line storage is a common method to address impacts from the added sewer flow generated by development. The fee study will review the City's existing fee and provide recommendations for updating the fee methodology in accordance with applicable development fee requirements.

STORM DRAINAGE SYSTEM DEVELOPMENT FEE:

The City does not have a Development Impact Fee for its storm drainage system. Historically the majority of improvements to the City's drainage system were funded through a capital improvements program (CIP) funded by drainage rate revenues. This CIP program has effectively halted primarily due to these factors:

1. Drainage rates are no longer adequate to fund the CIP, in addition to O&M costs and the annual cost for federally mandated (but unfunded) water quality improvements, and drainage rates have not been adjusted since prior to the adoption of Proposition 218 in 1996. Increasing the drainage rates would require voter approval; and
2. The City lacks a Development Impact Fee for storm drainage.

Some common infill facilities to support development or growth have been financed directly by developers or through fee districts or ad-hoc fair share arrangements. Developer financing for these facilities also is halting.

The City's drainage utility is the only DOU business unit that lacks a Development Impact Fee; it should be noted that many other jurisdictions in our region impose this

fee, most notably Sacramento County. The implementation of a new impact fee is a crucial part to reactivating the City's drainage CIP that will modernize the City's aging drainage utility and enable the City to better serve development. The state of the City's Drainage System inhibits development in many parts of the City, and it may threaten the health, safety, and property of its residents if definite action is not taken to fix funding deficiencies.

THE DEVELOPMENT IMPACT FEE STUDY

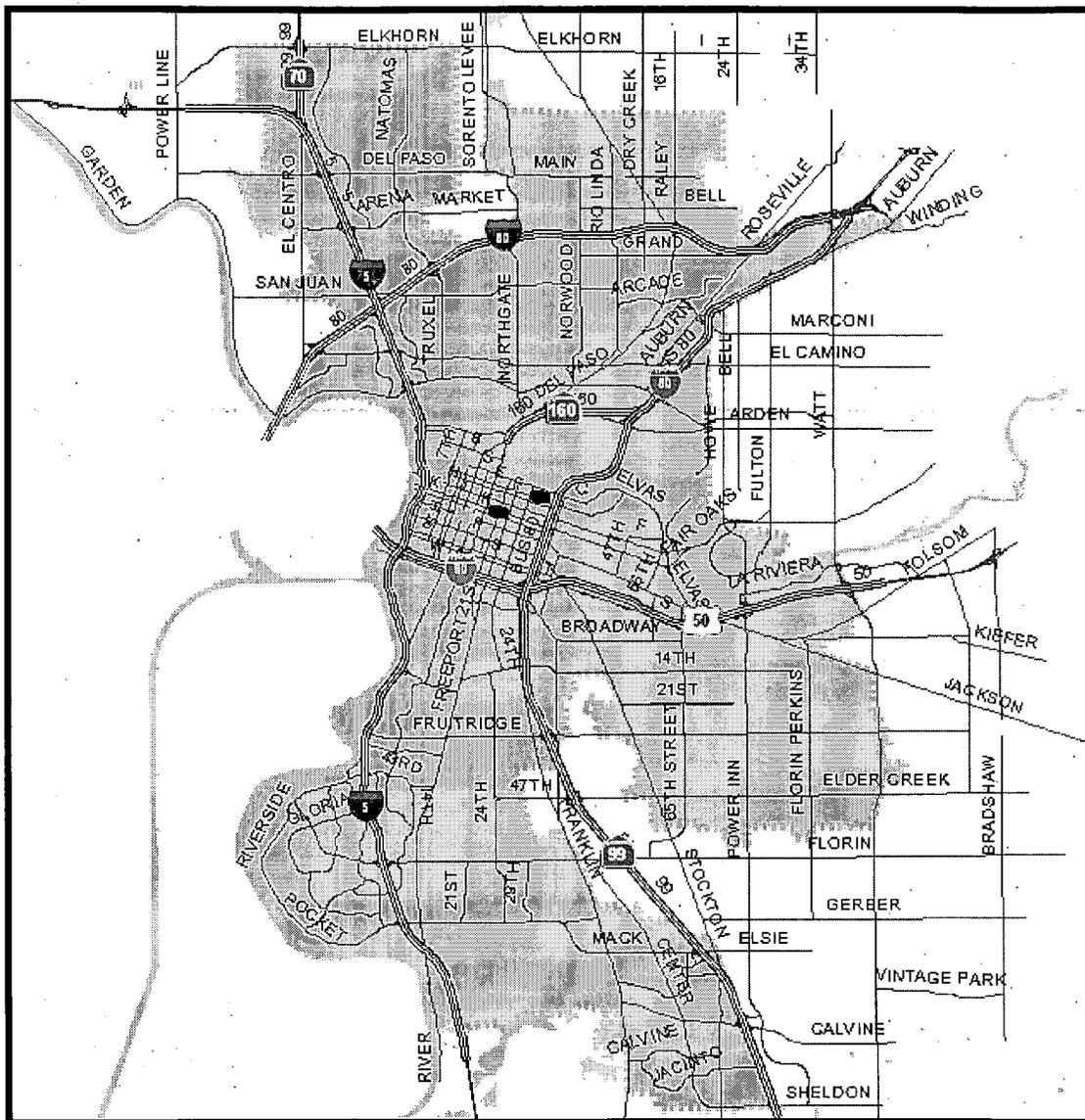
A Request for Qualifications (RFQ) was advertised on July 16, 2008 and the following nine firms submitted written Statement of Qualifications (SOQ's) prior to the submittal deadline. (One firm submitted a SOQ after the deadline and was disqualified):

- RW Beck
- Cogan Consulting Corp.
- Red Oak Consulting
- Economic And Planning Systems
- Willdan Financial Services
- Tischierbise, Inc
- Harris and Associates
- David Taussig and Associates
- FCS Group

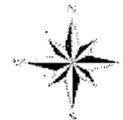
A panel consisting of DOU and outside agency staff reviewed the SOQ's and the top four firms, Willdan Financial Services, Red Oak Consulting, FCS Group, and RW Beck were invited to interview. The panel selected Willdan Financial Services and a professional services agreement was issued for the Phase 1 scope of work for not to exceed fee of \$8,000. The Phase 1 scope of work included the review of DOU master plans and City growth data and developing a proposed technical approach to updating the development fees. This work has been completed, and the proposed supplemental agreement will implement the Phase 2 work plan to complete the study for an additional amount of \$129,200, increasing the contract not to exceed amount from \$8,000 to \$137,200

Attachment 2

LOCATION MAP FOR
DEVELOPMENT FEES WATER, WASTEWATER, COMBINED SEWER AND
DRAINAGE UPDATE



Map Prepared By
City of Sacramento
Department of Utilities



Note 1: SASD sewer service, Sac Suburban and other Utilities Providers areas not shown

Attachment 3

RESOLUTION NO.

Adopted by the Sacramento City Council

APPROVE SUPPLEMENTAL AGREEMENT WITH WILLDAN FINANCAIL SERVICES FOR
UPDATE OF UTILITY SYSTEM DEVELOPMENT FEES

BACKGROUND

- A. The City currently collects water, sewer and combined sewer system Development Impact Fees. These fee revenues are used to fund the utilities infrastructure necessary to support new development or growth. The City does not currently have a Development Impact Fee for storm drainage.
- B. Willdan Financial Services was selected by the Department of Utilities (DOU) through a RFQ process to perform a study to review the Impact Fee structures and provide recommendations for updating the fees (or in the case of storm drainage, adopting a fee) to properly support growth and development with adequate utilities infrastructure. A Professional Services Agreement was issued to Willdan to complete Phase 1 of the study project that included the review of DOU master plans and City growth data and developing a proposed technical approach to updating the fees.
- C. This work has been completed, and City staff has negotiated a Supplemental Agreement for Willdan to implement the Phase 2 work plan to evaluate the current fee structures and propose fair and equitable Development Impact Fees for each utility.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

- Section 1. The City Manager is authorized to execute the Supplemental Agreement with Willdan Financial Services for the Development Impact Fee Study – Water, Sewer and Drainage (W14004700), increasing the contract not to exceed amount to \$137,200.

