



Revisions to District Code Provisions for CFCC Reduction and SSC Collection

Finance Committee
March 17, 2021



Overview

District Code



- Capital Facilities Capacity Charges (CFCCs)
 - Key Issue: Current District Code (Section 2.16.070) allows Board to grant 75% reduction in CFCCs for certain qualified developments with no caps
 - Because Ad Valorem Tax revenue must be used to offset any CFCC reduction, this reduces availability of tax revenue to meet other District financial needs
- Sewer Service Charges (SSCs)
 - Key Issue: Current District Code (Section 2.20.040[B]) requires start of SSC collection for new developments at point of application for District permit
 - Collection of initial SSCs despite potential significant delays in development connecting to District sewer system (i.e., not discharging)

Background – CFCC Adjustment District Code (Section 2.16.070)

- Board of Directors may reduce CFCCs by 75% for a new development if one or more of the following conditions have been satisfied:
 1. Used exclusively for physically or mentally [disabled] persons
 2. Received a density bonus or other incentive from the public agency with land use jurisdiction, or will be used for low-income housing
 3. Consists of senior citizen housing
 4. Used by a non-profit association as a child day care facility
- District may not cross-subsidize or use rate/fee revenue received from one customer class to subsidize fee reductions for another customer class (AB 1600, GC Section 66013)
- Only Ad Valorem Tax revenue may be used to restore loss of CFCC revenue if a reduction is granted by the Board
 - Limits availability of tax revenue to meet other District financial needs
- Key Issues: Significant reduction percent, no individual cap or annual aggregate limit

District Overview

Financial Drivers



- Financial Sustainability Guiding Principles
 - Ensure effective prioritization of a CIP that addresses **critical infrastructure needs**
 - Utilize a 5-year rate model to identify SSC revenue needed to meet cost projections **without sharp rate increases**
 - Maximize cash funding of CIP (vs. debt financing) to ensure lowest overall costs for District customers
- Investment in Critical Aging Infrastructure
 - New \$60 million capital project (Secondary Process Improvements) will exert significant pressure on 5-year SSC increase forecast
 - Staff is recommending revisions to District Code regarding CFCC reductions to ensure maximum utilization of Ad Valorem Tax revenue for infrastructure investment needs
 - \$3.1 million received in FY19/20; \$2 million budgeted in FY19/20, FY20/21

CFCC Adjustment

Proposed District Code Revisions



- **Existing Code:** Authorizes Board to approve 75% CFCC reduction with no caps for qualified developments; no aggregate annual limit
- **Alternative 1:** Eliminate CFCC reduction
 - Allows potential \$1,000,000 increase in annual WW revenue assumption for Ad Valorem Taxes for FY21/22; increasing in future years depending on tax revenue growth
- **Alternative 2:** 25% CFCC reduction, \$250,000 cap for an individual development, \$500,000 cap (set by Board resolution) for fiscal year total
 - Allows potential \$500,000 increase in annual WW revenue assumption for Ad Valorem Taxes for FY21/22; increasing in future years depending on tax revenue growth

Alternative 1 (Staff Recommendation)

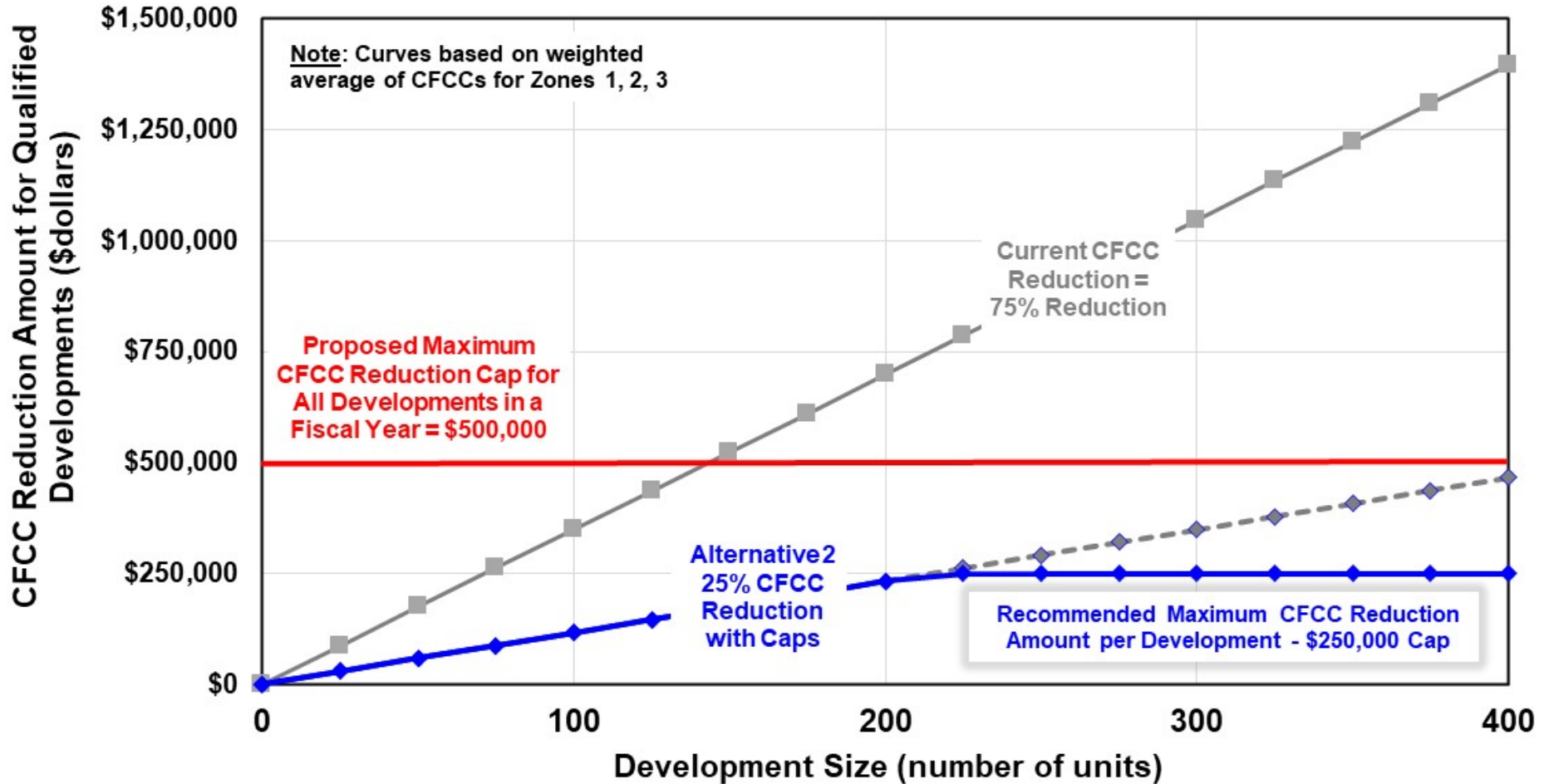
Eliminate CFCC Reductions

- Limited utilization of CFCC reduction provisions over last ten years
- Uncapped nature of code language creates financial revenue uncertainty
- Significant benefit to all ratepayers
 - Allows an increased amount (\$1 million) of Ad Valorem Tax revenue to be used for other District expenses that may otherwise need to be recovered through SSC increases
- State financial incentives, low-interest loans are available to support these development categories
- Currently, state law does not require a CFCC reduction for these development categories

Alternative 2

25% CFCC Reduction with Caps

CFCC Reduction for Developments by Total Qualified Units
Alternative 2 - 25% CFCC Reduction



CFCC Adjustment

Proposed District Code Revisions



- **Existing Code:** Authorizes Board to approve 75% CFCC reduction with no caps for qualified developments; no aggregate annual limit
- **Alternative 1:** Eliminate CFCC reduction (Recommended)
 - Allows potential **\$1,000,000** increase in annual WW revenue assumption for Ad Valorem Taxes for FY21/22; increasing in future years depending on tax revenue growth
- **Alternative 2:** 25% CFCC reduction, \$250,000 cap for an individual development, \$500,000 cap for fiscal year total
 - Allows **\$500,000** increase in annual WW revenue assumption for Ad Valorem Taxes for FY21/22; increasing in future years depending on tax revenue growth

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SSC Collection

District Code (Section 2.20.040[B])

- District Code currently requires collection of SSCs for new developments at point of application for District permit (along with payment of CFCCs)
 - In practice, SSCs and CFCCs are collected at point of District permit issuance, but prior to a physical connection to the sewer
- Collection of SSCs despite potential significant delays in development sewer connection (i.e., not discharging)
- Staff recommends revising District Code:
 - Initiate SSC collection once District Engineer has confirmed sewer connection satisfies code requirements and passes inspection
 - Revised approach is more common among peer wastewater agencies

Recommendations

- Receive comments and input from Finance Committee Chair
- **Recommend deleting Section 2.16.070 to eliminate CFCC reductions (Alternative 1)**
- **Recommend amending Section 2.20.040[B] to require collection of initial SSCs after District Engineer confirms sewer connection satisfies Code requirements and passes inspection**
- Recommend that the Board consider introducing an ordinance on 3/25; if introduced, the Board could consider adopting the ordinance on 4/14
 - Board would need to adopt an ordinance to make any changes to District Code sections