

CAPITAL IMPROVEMENTS ADVISORY COMMITTEE
DRAFT FINDINGS
February 20, 2014

BACKGROUND

1. Legal Basis

- a. Impact fees may be adopted and collected under Chapter 395 of the Texas Local Government Code
- b. Impact fees are a framework for financing the capital improvements related to growth for water and sewer infrastructure.
- c. Impact fees are a one-time charge to fund the cost of building new infrastructure to serve new development. They may be collected only for capital costs. Costs for operations and maintenance are not eligible.
- d. Chapter 395 requires that impact fees must be updated every five years, for a ten year period.
- e. Chapter 395 of the L.G.C. requires utilities to calculate a rate credit for growth related CIP to be subtracted from the calculated impact fee.
- f. The credit is based on the amount of projected future rate revenues or taxes expected to be generated by the new development and used to pay for capital improvements identified in the CIP.
- g. Utilities can calculate the credit and apply it to the impact fee or apply a credit equal to 50% of the calculated impact fee.
- h. SAWS opted to calculate the rate credit.
- i. Chapter 395 requires the calculation of the maximum impact fee. It does not require that the maximum impact fee be charged.

2. Factual Basis

- a. The San Antonio Water System updated impact fees in May 2011.
- b. The Bexar Met Water System updated impact fees in June 2009.
- c. Senate Bill 341 set an election date for BexarMet ratepayers to vote on dissolving the utility. The measure passed by 74 percent of the vote, and the U.S. Department of Justice approved the results in late January 2012. SB 341 calls for full integration of BexarMet within five years.
- d. The Bexar Met impact fees will expire in June 2014, requiring that they be updated prior to expiring.
- e. SAWS is updating the impact fees as an integrated system. The revised Water Supply, Water Flow, and Water System Development impact fees will be based on the combined water service areas.
- f. In June 2013, SAWS approved a settlement agreement with the U.S. Environmental Protection Agency that will require additional work over the next 10 to 12 years to reduce sewer spills. SAWS will invest an additional \$492 million in its sewer system over 10-12 years. The additional capital cost is \$388.4 million.

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- g. SAWS updated its Water Management Plan in 2012 to address a changing population from the 2010 census, BexarMet integration, endangered species integration, and increased underground water storage in the Twin Oaks ASR.
- h. The changes to the water service areas from the 2011 impact fee update are largely due to the addition of five DSP service areas totaling 174,000 acres. In addition, SAWS driven changes located in the northwest portion of the county are due to a reduction in CCN application areas. One CCN application was reduced from 15,000 acres to 49 acres and a CCN application of 21,000 acres was withdrawn completely. SAWS was also granted a CCN application area that added 8,500 acres in the northeast portion of the SAWS service area. The net change in water service area is an increase of 146,549 acres.
- i. The changes to the wastewater service areas from the 2011 impact fee update are in the northwest and southeast portions of the wastewater service area. The changes in the northwest were due to reduced CCN application areas. One application was reduced from 62,000 acres to 24,000 acres and another application was reduced from 50,000 acres to 9,000 acres. The southeast area was reduced due to a CCN application area being amended from 30,000 acres to 22,000 acres. The net change in wastewater service area is a reduction of 87,000 acres.
- j. Chapter 395 of the L.G.C. allows for financing costs to be included in the calculation of impact fees.
- k. Financing costs for existing projects were included in the impact fee calculations.
- l. Financing costs for future projects were not included since SAWS reserves the option to fund growth projects with cash.
- m. Financing costs for existing and future projects were not included in the water supply impact fee calculation.
- n. Historically, the City of San Antonio has approved charging the maximum impact fee.
- o. Many other cities charge an impact fee that is less than the maximum impact fee. A comparison of other Texas cities' impact fees is in Appendix B.
- p. If less than the maximum is charged the difference must be made up from another source.

LAND USE ASSUMPTIONS PLAN

- 3. The Land Use Assumptions Plan is accepted and recommended for City Council approval.**
 - a. 10 year water Land Use Assumptions Plan = 95,817 EDUs
 - b. 10 year wastewater Land Use Assumptions Plan = 95,589 EDUs
 - c. A summary of the change in EDUs, CIP, and impact fees is in Appendix A.

CAPITAL IMPROVEMENTS PLAN

- 4. The water supply impact fee is based on the SAWS 50 Year Water Management Plan.**

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- a. The 50 Year Water Management Plan uses the drought of record as the guide to determine when projects are needed and the amount of Edwards Aquifer water that will be available based on projected pumping restrictions.
- b. The existing water supply projects used in the calculation are the Average Existing Edwards Aquifer, Local Carrizo, Trinity-WECO, Oliver Ranch, BSR, GBRA-Western Canyon, and Medina System Surface Water.
- c. The 2014 to 2023 projects used in the calculation are the Average New Edwards Aquifer, Regional Carrizo/SSLGC, Brackish Groundwater Desalination Phases 1 and 2, Expanded Carrizo Phases 1 and 2, and the portion of the integration line needed for the local Carrizo and Brackish Desalination projects over the next ten years. The Regional Water Project is not included in the 2014 to 2013 impact fees.
- d. SAWS determined the total amount of Edwards Aquifer water available as the average during a repeat of a 10-year Drought of Record, or similar conditions. This total amount was calculated to be 215,477 AF (or 614,109 EDUs) for its existing Edwards supply, and 7,106 AF (or 20,253 EDUs) for its future Edwards supply. Of this total 222,583 AF (or 634,362 EDUs), 210,157 AF (or 598,948 EDUs) was used for existing customers, while 8,642 AF (or 24,629 EDUs) was used for customers 2014-2023. The remaining 3,784 AF (or 10,785 EDUs) was used for customers beyond the year 2023.
- e. The \$2,796/EDU maximum water supply impact fee calculation does not cause new customers to subsidize existing BexarMet customers. However, the integration of the former Bexar Met Water System water supplies into SAWS water supplies reduced the amount of existing water supplies available for growth which increased the number of new EDUs using new supplies. The existing BexarMet customers using existing SAWS supplies increased the maximum impact fee by \$122/EDU, and the integration of existing and new BexarMet customers increased the maximum impact fee by \$482/EDU. The impact of the integration of the former Bexar Met Water System water supplies into SAWS water supplies is an increase of \$472 to the Water Supply impact fee.
- f.e. SAWS staff changed the assumption for debt financing the future Water Supply CIP from 100% debt financing to 50% debt financing, matching SAWS multi-year financial plan. This reduced the Water Supply rate credit and increased the impact fee.

5. The Water Delivery Capital Improvements Plan has lower existing infrastructure values for Water Flow and System Development.

- a. Corrections made to underlying assumptions used in 2011 have contributed to changes in the valuation of Water Flow and System Development infrastructure such as:
 - i. Exclusion of meters and services infrastructure values.
 - ii. Distance of transmission pipelines no longer influenced by Aquifer Storage & Recovery (ASR) pipeline distance.
 - iii. Impact Fee credits no longer included in infrastructure valuation.
 - iv. SAWS staff changed the assumption for debt financing the future Water Delivery CIP from 20% to 70 %, matching SAWS multi-year financial

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plan. This increased the rate credit and reduced the Flow and System Development impact fees.

6. The Wastewater Capital Improvements Plan has higher existing infrastructure values for Collection and Wastewater Treatment.

- a. The methods used to determine the value of the existing infrastructure has evolved further to provide a more accurate valuation.
- b. Large wastewater projects undertaken since 2011 have increased Wastewater Collection values (e.g. Medina River Sewer Outfall, C-33 Broadway Corridor, and C-01 Central Watershed Sewer Relief Line). Large wastewater collection projects have also increased in construction costs. Bids are coming in higher than the original cost estimate used in the 2011 impact fee study. The percent increase of estimated to actual costs for several projects ranges from 8% to 55%. Therefore all cost estimates for the wastewater collection impact fee projects expected to be constructed in the next 10 years were adjusted to reflect recent bids.
- c. More precise allocations of Construction Work-in-Progress (CWIP) capital projects also contributed to higher valuation of existing wastewater related infrastructure.
- d. In the 2011 update, the value of the existing wastewater collection infrastructure was based on the diameter and length. Additionally, SAWS assumed the growth between year 2011 and year 2020 would use 10% of any available capacity in the system. This 10% was applied to the equity for each of the six wastewater collection impact fee areas.
- e. In the 2014 update, the value of the existing collection infrastructure was provided by Finance. Master Planning proportionately assigned the values by impact fee area using diameter and length. This did not change from the 2011 study. However, the capacity used in the system for each pipe was determined using the wastewater hydraulic model. The total capacity for each impact area was calculated and then the percent used by each service area over the next 10 years was calculated using the change in EDUs from the 2014 LUAP. The percent of available capacity used by the 10 year EDU projection for each impact fee area ranged from 8% to 28%. These percentages were applied to the value of the equity in each service area. The value of infrastructure that crossed service areas was proportionately assigned to the respective service areas using the diameter and length of pipe in each service area. The upper impact fee service areas paid for their proportionate use of available capacity in downstream infrastructure over the 10 year period. This caused the value of existing capacity used to increase from the 2011 study.
- f. SAWS staff changed the assumption for debt financing the future Wastewater CIP from 20% to 70 %, matching SAWS multi-year financial plan. This increased the rate credit and reduced the Collection and Treatment impact fees.
- g. For wastewater treatment, the 2014 LUAP population projections for the next 10 years were applied at a rate of 90 gallons per capita per day (gpcd) to calculate the 10 year capacity. The 90 gpcd rate equates to 215 gallons per EDU (gal/EDU), which is less than the 2011 value of 240 gal/EDU. The ratio of the 10 year capacity over the total capacity of the Water Recycling Centers was applied to the

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known value of the existing WRCs to determine the value of the eligible equity in the impact fees.

- h. Many of the treatment projects from the 2011 impact fee study have been completed and the value moved to equity, thereby increasing the value of available capacity. The cost of new projects has increased slightly and the available new capacity has been reduced. The net impact of these variables is an overall increase in the Treatment impact fee.
- i. A summary of the change in EDUs, CIP, and impact fees is in Appendix A.

7. The Capital Improvements Plan is accepted and recommended for City Council approval.

- a. 10 year value of eligible water supply projects = \$282.4 million
- b. 10 year value of eligible water flow projects = \$121.5 million
- c. 10 year value of eligible water system development projects = \$73.7 million
- d. 10 year value of eligible wastewater treatment projects = \$86.7 million
- e. 10 year value of eligible wastewater collection projects = \$167.1 million
- f. Total 10 year value of all impact fee eligible projects = \$731.3 million

MAXIMUM IMPACT FEES

8. The CIAC accepts and recommends for City Council approval the maximum impact fees as shown below:

- a. Water supply impact fee = \$2,796
- b. Water flow impact fee = \$1,182
- c. Water System development impact fee
 - High = \$883
 - Middle = \$799
 - Low = \$619
- d. Wastewater treatment
 - Medio Creek = \$1,429
 - Dos Rios/Leon Creek = \$786
- e. Wastewater collection
 - Medio Creek = \$838
 - Upper Medina = \$1,565
 - Lower Medina = \$475
 - Upper Collection = \$2,520
 - Middle Collection = \$1,469
 - Lower Collection = \$719

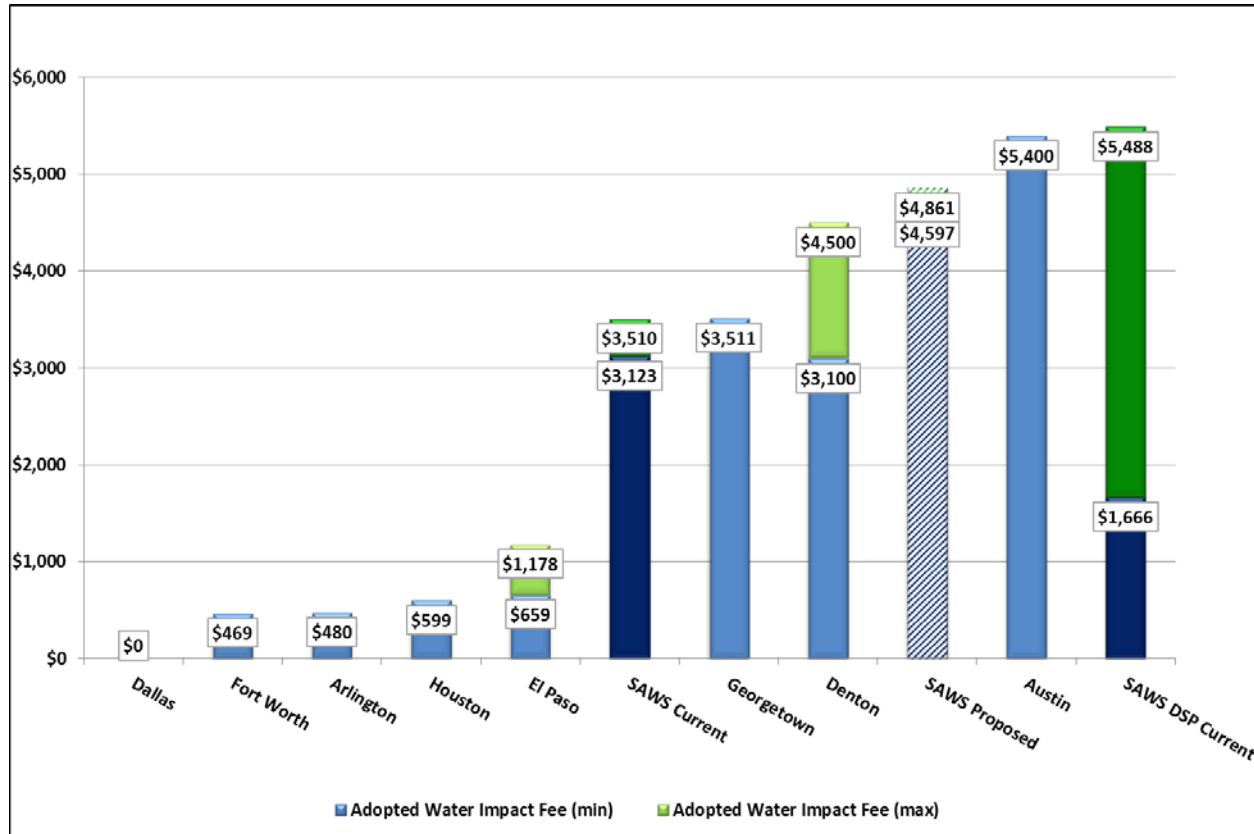
APPENDIX A: LUAP, CIP, and Impact Fee Summary (DRAFT)
As of 2/11/2014

	LUAP (EDUs)		Eligible CIP (\$)		Impact Fee (\$/EDU)	
	<u>2011</u>	<u>2014</u>	<u>2011</u>	<u>2014</u>	<u>2011</u>	<u>2014</u>
Water Supply	80,343	95,817	\$ 115,660,971	\$ 282,391,017	\$ 1,297	\$ 2,796
Water Flow	80,343	95,817	\$ 107,071,131	\$ 121,466,247	\$ 1,247	\$ 1,182
Water System Development (total)	<u>80,343</u>	<u>95,817</u>	<u>\$ 64,278,453</u>	<u>\$ 73,696,321</u>		
High Elevation	18,818	8,783	\$ 18,749,685	\$ 6,574,789	\$ 966	\$ 883
Middle Elevation	41,501	45,265	\$ 33,332,491	\$ 34,596,341	\$ 774	\$ 799
Low Elevation	20,024	41,769	\$ 12,196,277	\$ 32,525,191	\$ 579	\$ 619
Wastewater Treatment (total)	<u>107,075</u>	<u>95,589</u>	<u>\$ 77,766,825</u>	<u>\$ 86,683,968</u>		
Medio Creek	17,234	8,838	\$ 25,542,728	\$ 13,385,880	\$ 1,379	\$ 1,429
Leon/Dos Rios Creeks	89,841	86,751	\$ 52,224,097	\$ 73,298,089	\$ 552	\$ 786
Wastewater Collection (total)	<u>107,075</u>	<u>95,589</u>	<u>\$ 139,872,333</u>	<u>\$ 167,093,734</u>		
Medio Creek	17,234	8,838	\$ 10,285,377	\$ 7,627,627	\$ 582	\$ 838
Upper Medina	14,224	18,744	\$ 6,705,155	\$ 21,475,227	\$ 1,053	\$ 1,565
Lower Medina	1,721	3,762	\$ 9,597,499	\$ 11,374,282	\$ 594	\$ 475
Upper Collection	50,727	35,689	\$ 34,328,678	\$ 39,431,580	\$ 1,795	\$ 2,520
Middle Collection	7,207	12,048	\$ 36,197,660	\$ 37,842,239	\$ 1,142	\$ 1,469
Lower Collection	15,962	16,508	\$ 42,757,964	\$ 49,342,780	\$ 552	\$ 719
Total			\$ 504,649,713	\$ 731,331,287		

Notes:

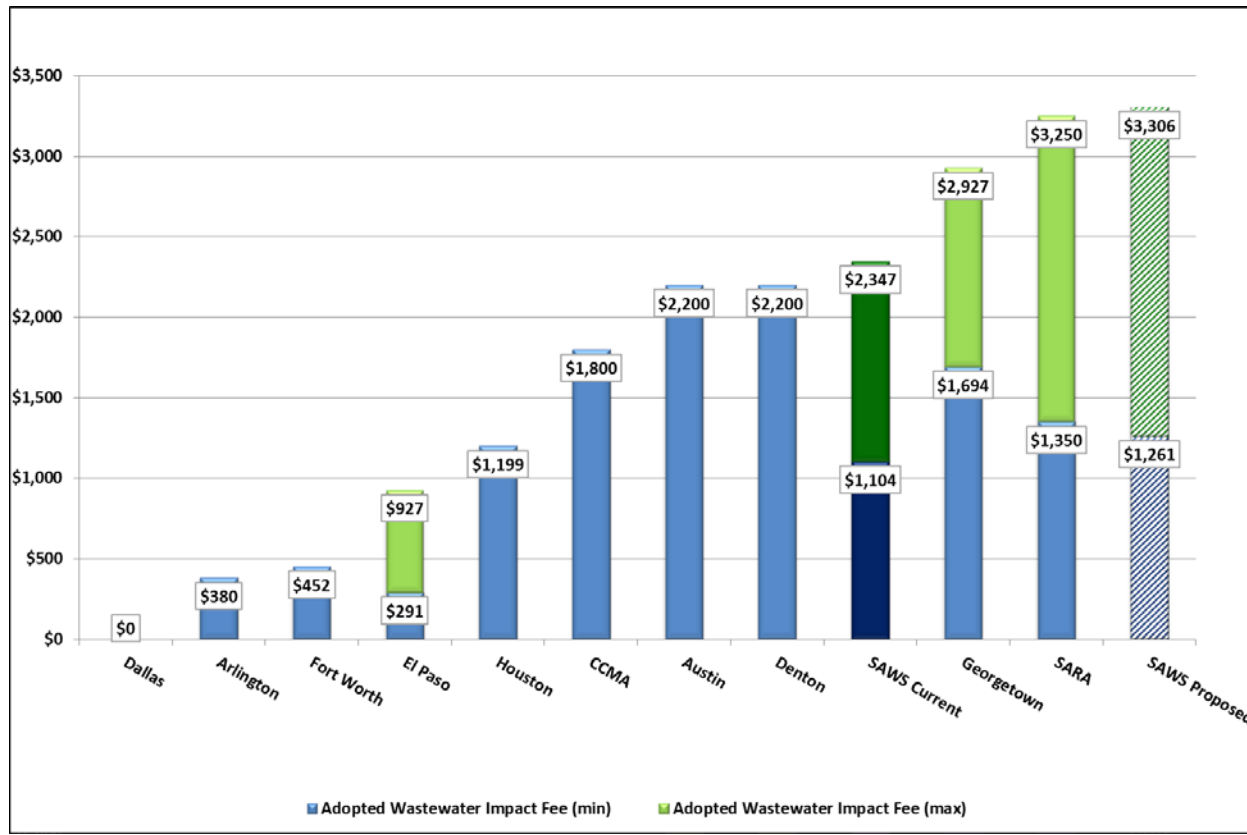
1. 2011 = Final Approved 2011 to 2020 impact fee program
2. 2014 = Draft Proposed to date 2014 to 2023 impact fee program
3. 2011 figures do not include BexarMet data.

APPENDIX B: Impact Fee Survey of U.S. and Texas Cities (DRAFT)



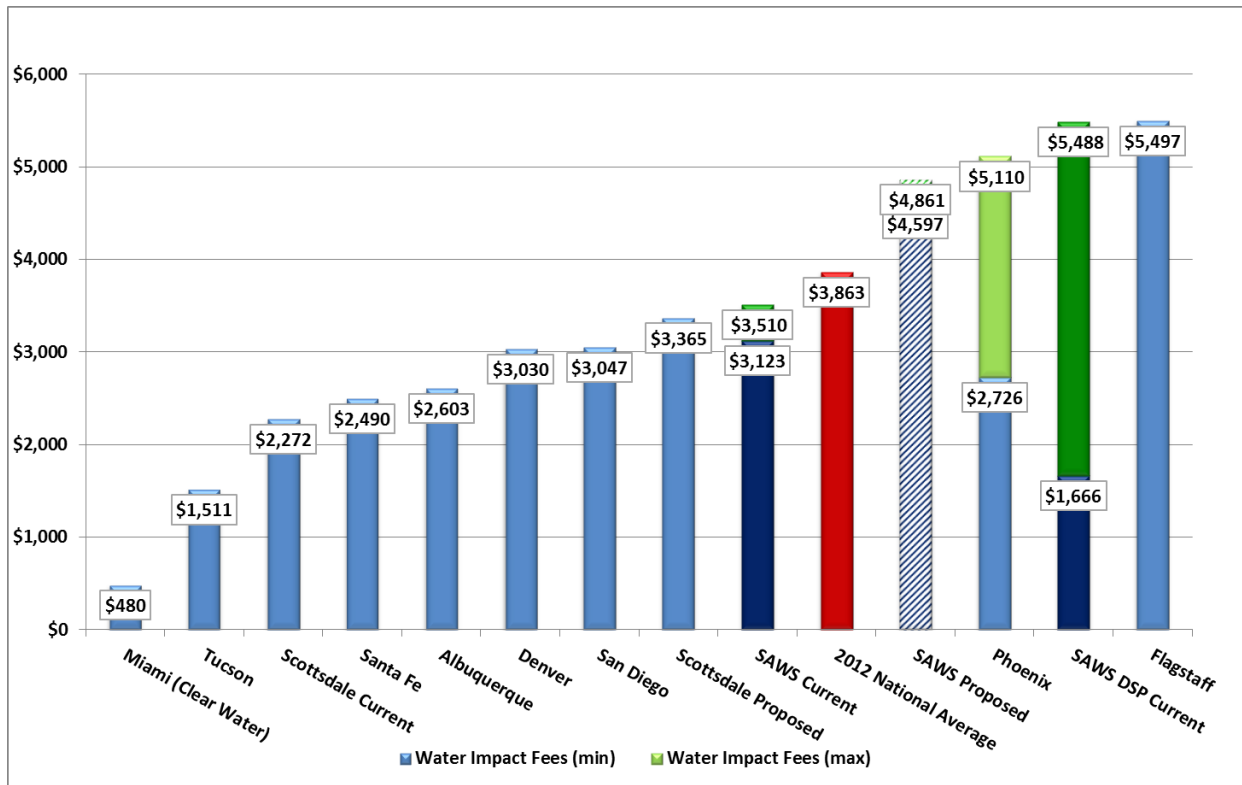
Comparison to other Texas utilities – water

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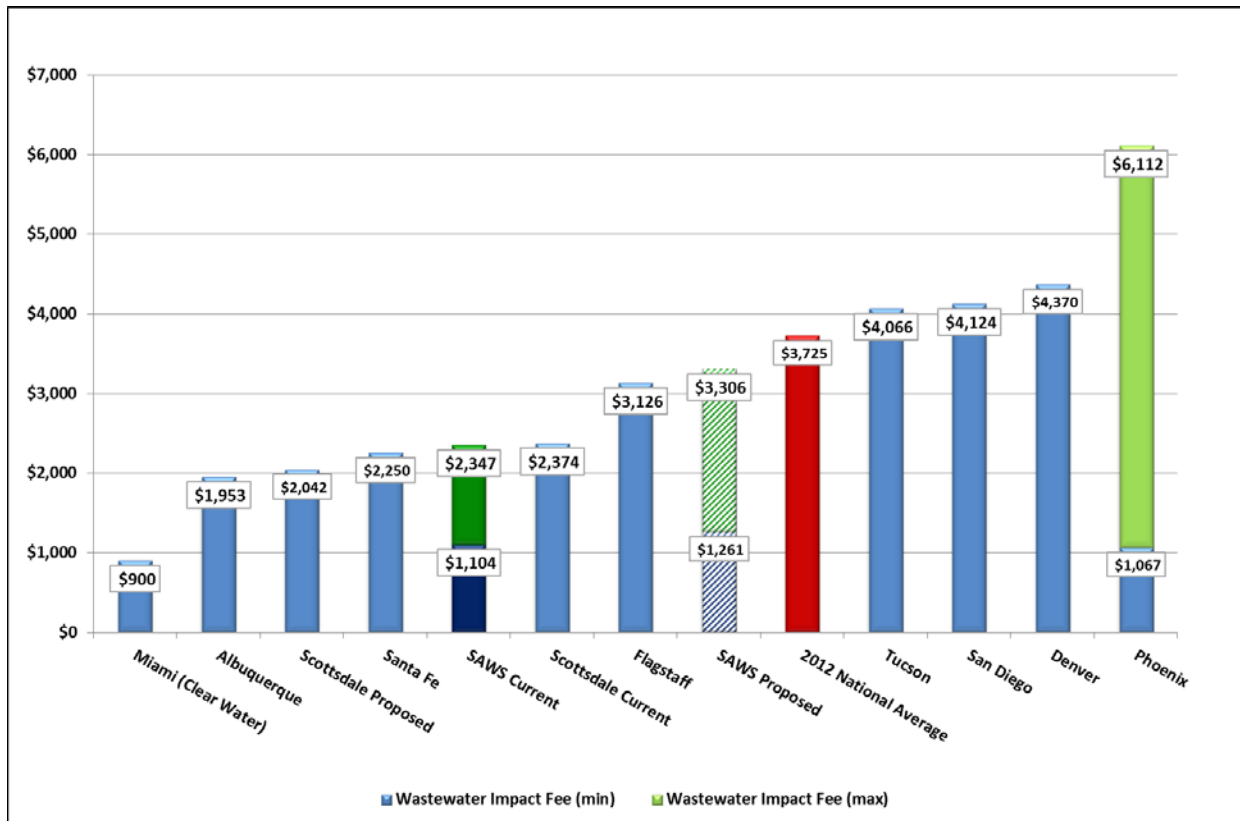
Comparison to other Texas utilities – wastewater

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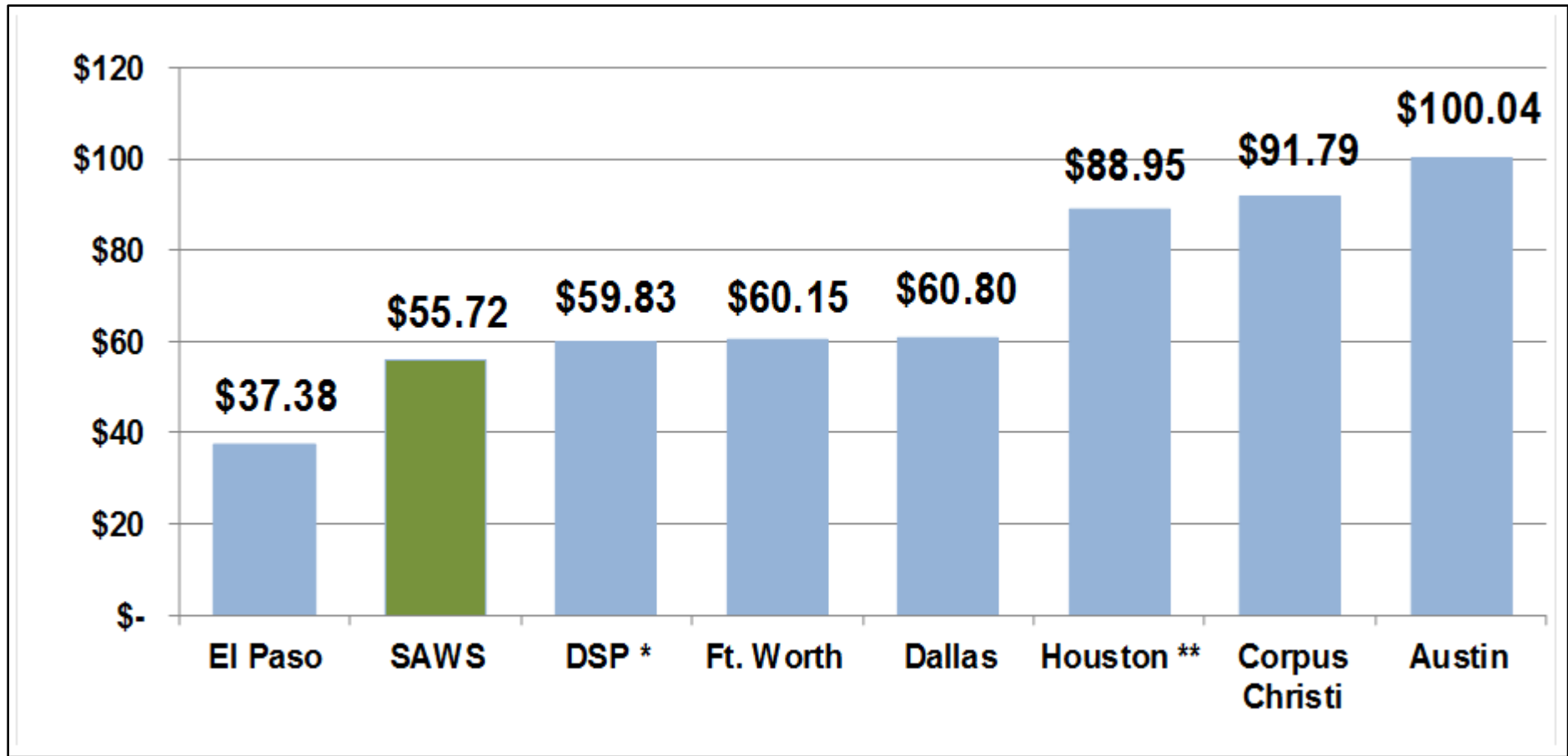
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Comparison to other U.S. utilities – wastewater

APPENDIX C: SAWS Average Residential Bills Compared to Major Texas Cities



Monthly charges as of January 2014, Based on 7,788 Gal. Water (Standard)/6,178 Gal. Wastewater. Includes EAA and TCEQ Fees.

* DSP monthly charge total includes \$33.03 in DSP water charges and \$26.80 in SAWS sewer charges

** Houston wastewater charges based solely on water usage