



MEMORANDUM

To: Fort Ord Reuse Authority
From: David Zehnder and Ellen Martin
Subject: Phase III Capital Improvement Program Analysis—Marina Coast Water District Voluntary Contribution; EPS #132143
Date: April 25, 2014

As part of the Phase III Capital Improvement Program (CIP) Review, the Fort Ord Reuse Authority (FORA) requested Economic & Planning Systems, Inc. (EPS) conduct a review of the voluntary contribution to the Marina Coast Water District (MCWD) currently included in the FORA CIP. The purpose of this review is to develop recommendations regarding whether or not the FORA CIP should continue to include this voluntary contribution, or if it should be eliminated as part of the Fiscal Year (FY) 2014/15 CIP process.

The FORA Developer Fee and Community Facilities District (CFD) Special Tax is computed based on the total costs included in the FORA CIP. As such, changes to the FORA CIP will have implications for the FORA Developer Fee and CFD Special Tax. These implications also are discussed in this memorandum.

Background/Context

To provide sufficient water for projected levels of future development, the Fort Ord Base Reuse Program identifies the need to implement a water augmentation program to improve and expand the former Fort Ord water and wastewater collections systems. The FY 2013/14 FORA CIP includes two line items related to water augmentation:

- California Environmental Quality Act Mitigation—\$23.5 million total.
- Voluntary Contribution—\$21.7 million total.

The \$23.5 million California Environmental Quality Act (CEQA) Mitigation reflects water augmentation improvements required to mitigate for environmental impacts associated with projected levels of future Fort Ord development. Future development on Fort Ord must contribute to these improvements to comply with CEQA mitigation requirements.

Including this cost in the FORA CIP and associated Developer Fee and CFD Special Tax meets these requirements.

The “Voluntary Water Contribution,” however, is not a CEQA requirement. Instead, including the Voluntary Water Contribution in the FORA CIP resulted from a 2005 MCWD study demonstrating that the construction of needed water augmentation improvements would result in significant increases to the MCWD capacity fee levied on new system connections. To ease the capacity fee burden, the FORA Board made a policy decision to increase the FORA CIP contribution to water augmentation projects beyond that required by CEQA mitigations.

MCWD subsequently issued a revised Financial Plan and Rate and Fee Study, dated September 2013. This study includes an update to the MCWD Capacity Fee, a one-time charge assessed when new connections are added to the water or wastewater system or when existing connections are increased in size. Computing the updated charge excludes the FORA Voluntary Water Contribution because MCWD does not have an assured collection agreement regarding the transfer of funds from FORA to MCWD; therefore MCWD does not have an identified revenue source. As a result, MCWD staff recommended a commensurate increase in their capacity charge, which is offset by significant reductions due to organizational efficiencies. Barring completion of a formal mechanism to transfer the funds, FORA proposes to lower the FORA Developer Fee and CFD Special Tax by roughly \$3,000, under the existing Phase II formula framework.¹

Analysis and Recommendations

The MCWD Financial Plan and Rate and Fee Study includes the full cost of needed Fort Ord water and wastewater system improvements. As new development proceeds and new connections are added to the system, builders will be required to pay the Capacity Fee in effect at that time. New development also will be required to pay the FORA Developer Fee and CFD Special Tax.

If the FORA Developer Fee and CFD Special Tax were to include the FORA Voluntary Water Contribution, there would likely be overlap between the costs funded by each program. Three potential solutions exist to address this potential overlap:

1. Provide credit against MCWD Capacity Fee to reflect payment of the FORA Developer Fee and CFD Special Tax.
2. Adjust MCWD Capacity Fee calculations to reflect FORA Voluntary Water Contribution.
3. Remove Voluntary Water Contribution from FORA CIP and adjust Developer Fee and CFD Special Tax accordingly.

¹ Note that other changes to the formula that will be implemented as part of the Phase III CIP review (e.g., updated development absorption assumptions and cost inflation) also will result in changes to the requisite Developer Fee and CFD Special Tax and may change the magnitude of the change attributable to the MCWD Voluntary Water Contribution.

Based on EPS's review of the situation, EPS recommends that FORA eliminate the Voluntary Water Contribution from the FY 2014/15 CIP. Each alternative and the basis for this recommendation are discussed further below.

Option 1—MCWD Credit (Not Recommended)

As mentioned previously, MCWD staff indicated that the intent is to issue a credit against the Capacity Fee to offset contributions made through payment of the FORA Developer Fee and CFD Special Tax.

At this time, it is not clear how such a credit would be calculated or when it would be implemented. Credits could be calculated based on the Voluntary Water Contribution as a percentage of total FORA CIP costs, before any other revenue sources are applied.² An alternative approach, however, would be to evaluate the share of total CIP costs constituted by the Voluntary Water Contribution after application of revenue offsets in the form of property taxes, land sale revenues, and other sources. No such analysis was conducted at the time the Voluntary Water Contribution was budgeted, nor were funds collected for that purpose. This approach would require additional analysis to determine how revenue offsets would be applied to individual CIP line items.

Option 2—MCWD Capacity Fee Adjustment (Not Recommended)

MCWD staff have indicated to FORA that implementation of a formal mechanism to transmit the FORA Voluntary Water Contribution would be necessary before adjustments to the Capacity Fee. Additional analysis would be required to ascertain how the FORA Voluntary Water Contribution would be applied to the improvement costs included in the Capacity Fee calculation and how the contribution would be distributed over existing and future development. It is unclear what the source of revenue would be to enable FORA to enter into such an agreement. Based on feedback from MCWD staff and discussions with FORA, it does not appear that this alternative is a viable approach to resolving these issues at this time.

Option 3—FORA CIP Adjustment (Recommended)

The final, and recommended, alternative is to remove the FORA Voluntary Water Contribution from the FORA CIP and associated Developer Fee and CFD Special Tax. Based on the Phase II FORA CIP analysis, if the \$21.7 million Voluntary Water Contribution is removed from the CIP, the Developer Fee and CFD Special Tax would be reduced by approximately \$3,000 per new residential unit.

This simplifying alternative presents the only avenue by which FORA independently can address this issue. Removal of the Voluntary Water Contribution from the FORA CIP would provide the development community with certainty regarding the costs they will incur through both programs, eliminating uncertainty associated with the timing of implementation of a collection agreement between MCWD and FORA and calculation of a credit against the MCWD Capacity Fee.

² Based on the FORA Phase II CIP review conducted by EPS, Voluntary Water Contribution costs constitute roughly 8 percent of total CIP costs.

In addition, because the FORA Voluntary Water Contribution is not required as a CEQA mitigation measure, its exclusion from the FORA CIP would not negatively impact new development's ability to meet environmental requirements. Any increase in MCWD's capacity charge for this purpose can be calibrated to a commensurate reduction in the FORA Developer Fee and CFD Special Tax. Inclusion of CIP contingency provisions can help to mitigate any remaining concerns regarding MCWD's ability to fund water and wastewater collection system improvements.

EPS looks forward to working with FORA through the Phase III CIP process. Please contact David Zehnder or Ellen Martin at (916) 649-8010 with any questions regarding this memorandum.