

Resort Improvement District No.1

Impact Fee (Capacity Charge) Report

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Introduction:

Resort Improvement District No.1 (RID) provides a Utility Service Connection (Hookup) Fee schedule for individuals (residential) and businesses that wish to connect to RID's utility system and receive utility service within the Shelter Cove subdivision. RID provides electric power, water and sewer services (within the sewer district). Residential homes and businesses constructed outside of the sewer district require a permitted septic system to be installed. Residential homes and businesses may opt to go "off-grid" within the subdivision and not connect to the RID electric grid.

The Utility Service Connection (Hookup) Fee schedule can be broken down into two components: Capacity Charge & Connection Fee (See attachment A). The Connection Fee is the portion of the Utility Service Connection Fee schedule that pays for the cost of labor, materials and equipment for RID staff to make the utility connection with the residents or business. The Connection Fee rate was set by determining the historic average costs of labor, materials and equipment and applying the average cost to make a utility connection for each utility.

The Capacity Charge can be looked as the utility system "buy-in" fee. The Capacity Charge is collected so that RID may accrue additional funds for capital projects within each specific utility set at an amount that is in proportion to what the entire system costed and the number of individuals (residents & businesses) within the system.

Following the completion of a RID Rate Study (and assessment of District finances) and community conversation/discussion on the future and direction of Shelter Cove itself, RID's Board of Directors is considering adjustments to the Utility Service Connection Fee schedule (specifically for the Capacity Charge) and has directed RID staff to provide additional information and analysis to best inform the Board of Directors and community discussions on this issue and to prepare recommendations.

At multiple RID Board meetings in 2019 there was Board, staff and community discussion on adjustments to the Utility Service Connection Fee schedule (Capacity Charge) and the potential changes (to the rate of new home construction) that would or may follow. The RID Board has received public comment requesting the Board to consider reducing the Capacity Charge for each utility. Public comments and a presentation were also received by the RID Board requesting a reduction in the Capacity Charge to \$0. During this time the Board also received public comment stating that the Capacity Charge for each utility should not be reduced and disputed claims of the current Capacity Charge fee schedule's effect on the rate of new home construction.

Different viewpoints on Capacity Charge rates shared with the Board reflect the diverse public opinions and beliefs on how the current amount of the RID utility Capacity Charge influences new home/business construction within Shelter Cove.

The staff of RID recognizes the need for more utility customers within the District to realize the purposes of the District; to increase operating revenue; to decrease the individual cost of service; to strengthen the District and to sustain a healthy & vibrant community. RID's Utility Service Connection (Hookup) Fee schedule has remained the same since July 1st 2014 (See Appendix A). As RID staff formulated how to best strength and sustain the District and provide recommendations to adjust (or not) RID's Utility Service Connection (Hookup) Fee schedule for Board consideration three questions rise to the surface.

Three Questions:

#1 - Will reducing (or reducing to \$0) the RID's Utility Service Connection Fee schedule (Capacity Charge) increase the amount of new home/business construction within Shelter Cove above current building rates?

#2 – By reducing RID's Utility Service Connection (Capacity Charge) Fee schedule (or reducing it to \$0) will the amount of new home/business construction within Shelter Cove increase to a rate (or to an amount) whereas RID collects the needed amount of revenue (monthly utility bill and increase in tax assessments [of which 18% of 1% comes to RID]) for operations/maintenance and for needed and identified capital improvement projects?

#3 – Is RID compelled by state law to reduce Utility Service Connection (Capacity Charge) Fee schedule?

Three Answers with Additional Consideration:

#1 – It is possible that by significantly lowering (or reducing to \$0) the cost of each RID utility Capacity fee that the subdivision would see an increase in new home/business construction above current levels experienced. There are many factors that influence the building of new homes/businesses in Shelter Cove. These factors include and are not limited to: the economy of nation & state; travel & transportation – quality of primary (Briceland-Thorn & Shelter Cove Roads) and neighborhood roads; services offered (Shopping, Dining, Healthcare, School and Recreation); cost/process of (HumCo & CA Coastal) building permits; cost of home/business construction; appearance of area homes, properties, businesses and the area's culture & attitude.

RID staff cannot predict with accuracy the amount of new home/business construction that would increase (or increase above current levels) by significantly lowering (or reducing to \$0) the cost of each RID utility Capacity Charge.

#2 – If RID substantially reduces or reduces to \$0 the fee amount for the Capacity Charge, RID will in general not recover those specific capacity fees (for capital expenses) through other means. Other revenue sources (grants, increased tax revenue from property tax assessments [18% of 1%], monthly utility bills paid) may be used to supplement those revenues once realized through Utility Capacity Fees.

RID would not necessarily “lose” revenues from a lowering or elimination of the Capacity Charge concerning homes/businesses that would not have been built in the first place if not for the hypothetical “lowering or elimination” of the Capacity Charge.

RID staff with assistance from IG Service developed a District 5-year (water, sewer, electric) capital improvement plan in 2019 that identified major investments that will be required in the future to safely, legally, effectively and efficiently operate the water, sewer and electric utility systems. Some of these capital projects include: Constructing new water treatment plant (\$2-4 million) and undergrounding Electric Tie-Line (\$250,000 plus engineering, environmental and permitting costs.

#3 – RID staff has reviewed SB-167 Housing Accountability Act (2017) and SB-330 Housing Crisis Act of 2019. Upon completion of this RID staff review the following findings were made and highlighted below:

- SB-167 & SB-330 applies to agencies (cities and counties) with building and planning authority in California.
- In SB-167 & SB-330 there are no findings nor declarations nor amendments to code stated that are directed toward public utility providers. From SB-330, In SEC. 3. Section 65589.5 (B) (of Division 1 of Title 7 of, the Government Code) was amended and states, “(B) California housing has become the most expensive in the nation. The excessive cost of the state’s housing supply is partially caused by activities and policies of many local governments that limit the approval of housing, increase the cost of land for housing, and require that high fees and exactions be paid by producers of housing.”
- From SB 330: “(3) Except as provided in subdivision (o), nothing in this section shall be construed to prohibit a local agency from imposing fees and other exactions otherwise authorized by law that are essential to provide necessary public services and facilities to the housing development project or emergency shelter. Subdivision O states: (o) (1) Subject to paragraphs (2), (6), and (7), and subdivision (d) of Section 65941.1, a housing development project shall be subject only to the ordinances, policies, and standards adopted and in effect when a preliminary application including all of the information required by subdivision (a) of Section 65941.1 was submitted.

“If You Knew” - Three Questions/Answers Follow up:

During discussions on potential downward adjusting of each utility Capacity Charge with individual Board Directors and RID staff, I stated that if you (a Director) knew that by lowering (or reducing to \$0) the Capacity Charge for each utility would result in an increased rate of new home/business construction (above current levels and to an amount whereas revenue from utility bills and property tax revenues would meet the operating and identified capital costs over a specific period of time) then I as General Manger would recommend that the RID Board lower (or reduce to \$0) the Capacity Charge for each respective utility.

At this time, I do not know nor can I apply my speculation as fact. It is possible “to know” if RID were to receive a contract proposal from a company/contractor/builder (individual or group) that would demonstrate an increase in building activity above or to a certain amount current levels.

This Board and all future RID Boards should consider builder contract proposals whereas RID would reduce Capacity Charges for a specific return to the District and Shelter Cove community. For example, a “return” could be a certain number of homes constructed, specific location of homes built (to meet

other identified management purposes) and certain social policies (derived from State and County [housing] policy) met (low-income & workforce home construction).

More Consideration – Development Direction through Capacity Charge fees:

RID staff considered recommendations to the Board to reduce (or discount) utility Capacity Charges to encourage development in specific areas and in effect discourage development in other areas of the subdivision. Staff recognizes the operations and maintenance advantage to service new customers in close proximity to existing customers. Staff believes that policies and pricing encouraging development within the sewer district has an operations/maintenance advantage compared to septic zone.

In staff's opinion lowering (reducing to \$0) utility Capacity Charges and the unknown rate of building (and new utility connections) the would follow will not necessarily provide the long term revenue requirements sufficient to meet operational and capital needs. Especially if new development (at a rate higher than current rate) takes place in areas without existing customers in close proximity. Cost of service to new development on Puma Drive, Higgins Lane and Cedarwood Court (where currently no homes/businesses exist) would exceed the average cost of service to existing customers.

RID may be able to set Capacity Charge fees to manage for targeted development. RID is not a planning and building agency that typically is charged with managing development but with the uniqueness of Resort Improvement District designation, its open to legal interpretation if RID can set Capacity Charges to manage for targeted (location) or social (workforce housing) development within Shelter Cove. RID staff has engaged with Humboldt County, Planning & Building Department, Long Range Planning staff specifically about the 2019 Housing Element Update (that states the need for sixty-nine [69] lower income homes for Shelter Cove – See Attachment D. NOTE: Accessory Dwelling Units (ADUs – discussed in next section) may be able to achieve 2019 Housing Element.

More communication with Humboldt County, Planning & Building Department, Long Range Planning staff would be needed in addition to a legal opinion from District council if the Board wishes to pursue adjusting Capacity Fees to meet Humboldt County Building & Planning objectives set forth in the 2019 Housing Element plan and/or its own set of management objectives.

More Consideration – Accessory Dwelling Units (ADU):

Responding to recent California State law, Humboldt County is revising its Accessory Dwelling Unit (ADU) codes and soon will allow for property owners with a developed, permitted primary structure to be able to apply for an ADU permit and construct an ADU structure that is in compliance with the ADU County code. California State law requires that Humboldt County ADU Building code to adopt the following language: "An accessory dwelling unit shall not be considered to be a new residential use for the purposes of calculating connection fees or capacity charges for utilities, including water and sewer service, unless the accessory dwelling unit was constructed with a new single-family dwelling."

With changes to ADU requirements, significantly reducing or lowering the Capacity Charges to \$0 could potentially result in double water/sewer use without revenue security to meet District identified capital

expenses. NOTE: RID could require separate utility connections for certain ADUs constructed and set a respective Capacity Charge fee.

Valuation of RID Utility Service:

RID staff also performed a valuation of RID utility service. See Attachment B. This valuation shows the audited total amount of fixed asset investment (and subsequent depreciation) for the electric, sewer and water utilities; the number of active utility customers within each utility and the value for each customer.

For Electricity: There was an investment of 7.78 million with 625 active customers setting the customer value to approximately \$12,500.

For Sewer: There was an investment of 8.45 million with 496 active customers setting the customer value at approximately \$17,000.

For Water: There was an investment of 7.55 million with 624 active customers setting the customer value at approximately \$12,100.

NOTES: Inflation is not accounted for in the audited total amount of fixed asset investment per utility. A past version of an RID utility valuation (Attachment C) was completed in 2006 by Board Director Roger Boedecker. Cost to construct water, sewer and electric utility infrastructure in today's dollars would greatly exceed the fixed assets total of \$23.79 million.

Recommendations:

RID Staff recommends the following:

- At this time lacking, any actual proposed developer contract/agreement with guarantees for development that meet specific, identified and measurable outcomes (that meet the purpose of the District), RID staff does not recommend any downward (or upward) adjustment to each utility Capacity Charges.
- Staff recommends that the Board consider policies to allow for multi-year payment "buy-in" for residential home and business utility connections to space out payments for terms up to four (4) years. RID staff would need to develop policy additions for accountability and to handle "multi-year buy-in connections for late payments, change in ownership, default on payment and service disconnect from non-payment.
- Staff recommends that the Board and RID staff address and work to improve the condition of the other heavily weighted factors that influence building of homes and businesses within the District. Workable, creative solutions through coordination and collaboration to improve the condition of roadways (Humboldt County Department of Public Works & Cal Trans); improve the appearance and condition of properties and structures (Humboldt County Code Enforcement) and work to remove/transition all non-conforming structures; and improve the lack of law enforcement by working with Humboldt County Sheriff Office.
- RID staff also see a great need to improve our outreach and website and to better "sell" the District. Our RID utility service is top notch in California. RID staff's on-call response time, service record and auto backup generators (among other RID owned equipment/infrastructure) is

worth the investment of Capacity Charges at current rate. And a return on the Capacity Charge investment is realized by all residential and business customers within the District.

Attachment A – Current Utility Service Connection (Hookup) Fee schedule (Ordinance 72).

Attachment B – RID Valuation of Utility Service “Capacity” Fee

Attachment C – 2006 Memo - Capacity Charge Study

Attachment D – 2019 Housing Element Letter