Why Consider a Growth Charge?

From October 16, 2001 Board Letter p.3

“Addressing New Demands. The Proposal addresses the impact of new demands on the cost of water supply through the tiered rate structure. Agencies that have increasing demands on Metropolitan would pay more, since they would purchase a greater share of the water sold at the higher Tier 2 rate. In addition, the Proposal provides that a mechanism to recover costs for Metropolitan's infrastructure associated with increasing system demands will be developed and in place by 2006.” (Emphasis added)
Different words, but the same meaning

- Infrastructure Facility Fee
- Capital, Demand or Growth Charge
- Connection Fee
- Impact Fee
- Development Access Charge
- System Development Fee
- Development Infrastructure Fee

A One-time Fee used to Fund Growth-related Capital Costs

Legal Framework: AB 1600

- Allows public utilities to charge for growth-related capital
- Public utilities need to establish a nexus between the fees being charged and the needs created by the user paying the fees
- Revenue collected needs to be in a separate account
**Basic Framework**

- Nexus between the fee and benefit
  - The cost for connecting to the water system
- Can fund only growth-related capital
  - Cannot fund deficiency-related capital
  - Cannot fund O&M expense
- Rates can fund both growth and deficiency-related capital and O&M expense
  - Can use rates to offset growth, but not vice versa

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**Methodology of Connection Fees**

Hybrid

- Equity Buy-in
- Available capacity
- Incremental Cost
- new capacity

capacity available for growth
Examples of Infrastructure Fees

- San Diego County Water Authority
  - Based on meter size within each member agency
- Castaic Lake Water Agency
  - Based on land use type
- Metro Wastewater Reclamation District – Denver, CO
  - Charge assessed for each new connection in member agency service area – by water meter / service line size
- Seattle Public Utilities
  - Based on usage over a base allowance for each member agency

Policy Principles for Consideration

- Local Resource and Infrastructure Development
  - Infrastructure Fee should recover the cost of growth
  - Infrastructure Fee should provide an appropriate signal for local decision making
- Local Agency Choice
  - Recognize unique physical and political characteristics of member agencies
  - Allow agency choice in how cost of infrastructure charge is recovered
Policy Principles for Consideration

- Rate Equity – an Infrastructure Fee should:
  - Improve rate equity?
  - Should recognize past contributions to system capacity development?
    - Annexations
    - Outstanding Debt
    - Future contributions to R&R of existing system capacity

Other Potential Principles: Reconciling Existing System Differences

- How would the present differences between existing connected capacity and utilized capacity among the member agencies be reconciled?

- Should growth charges be retroactive to recapture the cost of growth since membership in Metropolitan?

- Should member agencies’ past payments to Metropolitan that were used to build facilities for growth in other parts of the service area be accounted for in future growth payments?
Basic Calculation

\[
\frac{\text{Growth-related Capital ($)}}{\text{Increment of growth (EDUs)}} = \text{Cost per EDU}
\]

Challenge
- Identifying growth-related capital?
- Where is capacity in the system?
- How do we measure growth?
- Rate ramification
- Policy implication of preferential rights?

Defining Growth
- What Constitutes Growth?
  - Increasing water demand?
  - Increasing water demand on Metropolitan?
  - Increasing population?
  - Increasing connected capacity?
Growth Concerns

- Are all new facility costs growth-related?
- How are increases in reliability recognized?
- How do you distinguish between growth and increased redundant capacity and reliability?
- What role do individual member agencies have in determining the need for increased Metropolitan facilities to service growth in their service area?

Schools of Thought – #1

- “Growth” Equals Increased Deliveries
  - Advantages
    - Administratively easy
    - Proportionality
  - Challenges
    - Demand fluctuation due to weather conditions, conservation programs and/or due to hydrological conditions
      - Normalize data
    - Growth during drought conditions
Schools of Thought – #2

“Growth” Equals Increased Connections

- Advantage
  - Demand fluctuation is not a concern

- Challenges
  - How do we recognize different dependence on Metropolitan and encourage local supply development?
    - Proportionality based on a rolling average on the percent dependent on Metropolitan for total supply
  - Administrative burden

Schools of Thought – #3

“Growth” Equals Growth Related Capital Projects - Projects will be negotiated with each Member Agencies

- Advantage
  - Strong nexus link
  - Equity
  - Encourage local development

- Challenges
  - Administrative burden
  - Does not address existing capacity available for growth
Impacts on Rates and Charges

- Depending on where growth-related capital is identified in the service function, it will affect the outcome of rates and charges as currently developed in the Cost-of-Service analysis.

### Evaluation of Growth Charge

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<th>Growth = Increased Connection</th>
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0 = Meets Requirements
+ = Exceeds Requirements
- = Does not meet requirements
Questions and Discussion