CITY OF VENTURA

ADMINISTRATIVE REPORT

Date: September 18, 2013

Agenda Item No.:

Council Action Date: November 18, 2013

To: **Honorable Mayor and City Council**

From: **Mark D. Watkins, City Manager**
Shana Epstein, Ventura Water General Manager

Subject: **Water Dedication and In-Lieu Fee Ordinance and Resolution**

RECOMMENDATION

It is recommended that Council:

a. Introduce and waive first reading of the Ordinance, An Ordinance of the Council of the City of San Buenaventura Enacting Chapter 22.180 of the San Buenaventura Municipal Code to Establish Water Dedication and In-Lieu Fee Requirements for New or Intensified Development.

b. Accept the Evaluation of a Water Resource In-Lieu Fee report, prepared by Kennedy/Jenks Consultants, which establishes the cost basis for one-time in-lieu fees. The proposed fees are $10,686 per acre feet per year of additional demand for within Casitas District (Zone 1) and $15,538 per acre feet per year of additional demand for outside Casitas District (Zone 2).

c. Accept the Water Dedication and In-Lieu Fee Nexus Report, which outlines the relationship and rationale for the need of the proposed ordinance and in-lieu fees.

d. Receive the Resolution Establishing A Fee To Be Paid Under Certain Circumstances In Lieu of Dedicating Water Rights to the City for adoption at second reading of the Ordinance to Establish Water Dedication and In-Lieu Fee Requirements for New or Intensified Development.

e. Direct staff to submit a Notice of Exemption under Section 15273 of the California Environmental Quality Act Guidelines for the Ordinance to Establish Water Dedication and In-Lieu Fee Requirements for New or Intensified Development.

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f. Direct staff to return with revisions to the City's Water Connections Outside the City Limits Ordinance to incorporate changes from the proposed ordinance into the conditions of the water service policy for service outside the City limits.

PRIOR COUNCIL ACTION

June 10, 2013, the City Council approved the Final 2013 Comprehensive Water Resources Report (Report).

September 24, 2012, Council directed staff to prepare a draft water rights ordinance for new development inside or annexed into the City and to return to Council in January 2013 with options for a draft water rights ordinance for development outside of the City.

July 26, 2010, although not a formal Council action item, the concept of a water rights ordinance requiring the dedication of water rights or payment of an in-lieu fee was presented to the Council.

SUMMARY

Ventura's continued economic prosperity and vitality is based on our ability to provide quality water and wastewater services to our homes, businesses and industries. Over the past century, Ventura residents have invested over one billion in today's dollars in our extensive water and wastewater systems and facilities. As new homes, businesses and industries join our community, it is important that the impact on our water and wastewater systems is fully understood, appropriately and fairly assessed, and designed and constructed to support a thriving community. City policy requires that all new development funds the costs associated with its impact on the water and wastewater systems.

At the heart of the matter is how to best assess new development impacts to support the stability of our water supply, while encouraging development that sustains our economy and quality of life. In addition to matching development and capacity, securing adequate water rights is key to sustaining our local water supply and avoiding the significant costs of developing new more costly water supplies.

Based on a detailed analysis of the City's water supply and demands, the Final 2013 Comprehensive Water Resources Report, adopted in June 2013, concluded that the City's water supplies are currently being used at or near full capacity. Therefore, to assure that new development does not adversely affect the water supply or water supply reliability of the City's existing customers or approved new developments, it is proposed that new or intensified development provide supplemental water resources to the City's water systems in an amount proportional to the new demand created by the development.

The Ordinance to Establish Water Dedication and In-Lieu Fee Requirements for New or Intensified Development (Ordinance) and its associated resolution (Attachments A and B) establishes a mechanism whereby developers can dedicate adequate water supplies to support a proposed new or intensified development or pay an in-lieu fee so that the City can develop the necessary water supplies.

For clarification, the addition of dwelling unit(s) to an existing residential property (i.e. second unit) is considered intensified development, while additions to an existing residential dwelling unit (i.e. additional bathrooms or fixtures) would not be impacted by the proposed ordinance.

DISCUSSION

Water Supply Limitations

The relationship between Ventura's water systems and supplies is complex and continues to be impacted by changing conditions from year to year. Historically providing a third each of the City's water supply, our 100% local water sources from the Ventura River, Lake Casitas, and groundwater wells within the Mound, Oxnard Plain and Santa Paula Groundwater Basins are experiencing fluctuations due to seasonal, quality and operational constraints. For example, the recent low rainfall and corresponding drought conditions has caused a shift in our supplies to approximately 20% from the Ventura River, 50% from groundwater and 30% from Lake Casitas. Each water source is limited in amount and in certain instances, the service area in which the water can be delivered. While Ventura River water rights allow this source to be delivered city wide, its quantity varies seasonally. Lake Casitas water, delivered treated by the Casitas Municipal Water District (Casitas), is restricted to within its service boundaries – generally the Westside, Downtown and part of Midtown.

Groundwater is sourced from the Mound, Oxnard Plain and Santa Paula Groundwater Basins and supplies most of the City's Eastside demand. Although there are some interconnections and redundancy within the 380 miles of water pipelines, the water source closest to the customer primarily serves that area. Other factors that presently restrict water production and could potentially further limit future availability from each supply source include: physical resource availability, regulation restrictions, water quality, and legal constraints.

Analysis

Maintaining our current water rights, as well as acquiring new rights to offset new development impacts is crucial to maintaining a stable water supply and our long term sustainability. As new development is proposed, a consistent methodology is important to

secure water rights and project water demands. To help develop this methodology, Ventura Water retained Kennedy/Jenks Consultants to prepare an evaluation of a water resource in-lieu fee. The Evaluation of a Water Resource In-Lieu Fee details the estimated costs of obtaining water resources and bases the amount of the proposed in-lieu fee on the required capital cost and interest to develop additional water supplies to serve new development (Attachment C). In addition, the attached Water Dedication and In-Lieu Fee Nexus Report correlates the findings of the Kennedy/Jenks report with the Water Dedication and In-Lieu Fee Ordinance and the proposed fees (Attachment D).

In-Lieu Fee Basis

Based on the 2013 Final Comprehensive Water Resources Report, the evaluation identifies the three most feasible water sources for the development of additional supplies. This includes restoration of the Foster Park wellfield production capacity (Ventura River) and expansion of recycled water use, two sources that can be delivered city wide. The third source is water from Casitas, the use of which is restricted to within Casitas service boundaries. Due to this limitation, it is recommended that the City establish 2 geographical zones to levy the water resource in-lieu fee. One zone would encompass the area that can be served by Casitas (Zone 1) and the other zone would encompass the area outside Casitas (Zone 2). As additional water supply opportunities are identified or the development costs of the identified supplies are updated, it is recommended that the cost basis be revised to reflect any additional information.

Based on the calculations presented in the Evaluation of a Water Resource In-Lieu Fee, the recommended water resource in-lieu fees for 2013 are $10,686 per acre feet per year of additional demand for Zone 1 and $15,538 per acre feet per year of additional demand for Zone 2.

A recent article by WestWater Research entitled "Western Water Right Prices Stabilize Markets Show Sign of Rebounding," August 1, 2013, noted that water rights in California are expected to increase in coming months citing the recovery of the economy, dry conditions statewide and more increases in imported water costs in Southern California as contributing reasons. Recent sales of local water rights have ranged from $10,000 to $17,000 per acre foot.

Water Demand and Rights/Fee Calculation

The local water demand factors, established by the Final 2013 Comprehensive Water Resources Report, will be used to calculate the amount of water needed by each proposed new or intensified development project at the beginning of the process. For example, a proposed development of 85 residential homes with a density of 0-8 dwelling units per acre would be required to transfer 35.23 acre-feet of water to the City or pay an in-lieu fee of

$376,468, if built within the Casitas district, or $547,404, if built outside the Casitas district boundary (Attachment E).

The Ordinance details the actions in the development process which trigger the dedication of water rights and/or the payment of in-lieu fees. Specifically, the one-time in-lieu fee will be paid upon approval of the annexation of a parcel; when a project receives approval entitlement; or when construction or enlargement of any water service connection is approved.

In order to allow time for new development to incorporate the financial impact of the new fees, it is recommended that only new projects (that have not yet triggered the actions detailed in the Ordinance) be subject to the new requirements on the effective date.

Public Engagement

Community members were invited to attend a workshop to review the proposed ordinance and resolution on July 10, 2013, with approximately 25 people attending. Following a presentation by Kennedy/Jenks Consultants on the Draft Evaluation of a Water Resource In-Lieu Fee, a discussion was led by Ventura Water's General Manager to receive public feedback. A webpage on the City's website was established to provide the public access to the relevant materials, including Frequently Asked Questions (FAQs) which was also available at the workshop.

Concerns expressed at the workshop included additional clarity of the relationship between the proposed in-lieu fees and water connection fees. While the current water connection fees are based, in part, on costs associated with existing water supply, they do not include the capital costs of the identified new and expanded projects that are the basis for the proposed in-lieu fee. An update of the water connection fees is underway that will consider the new fees.

Also, the City has received a comment letter from Casitas responding to the Draft Evaluation of a Water Resource In-Lieu Fee. The letter outlines Casitas' concerns that the City recognizes that its water is limited to use within the district boundaries and that demand stress, outside of the district boundary by new development, is not transferred to Casitas' supply during the time period between the collection of in-lieu fees and new water supply projects coming online (Attachment F).

Next Steps

Ventura Water staff will update the existing Water Will Serve process for providing water to areas outside the City limits once the Ordinance is approved and finalized. The update will likely require revisions to the Water Connections Outside the City Limits Ordinance and its associated policies and procedures. Properties outside the City limits requesting water

service will be required to provide water rights or an in-lieu fee for the additional water demand created by their project in compliance with the proposed ordinance as part of the Water Will Serve process.

FISCAL IMPACTS

The proposed mechanism to secure water rights and/or generate funds will assist to mitigate the water demands of new development. The funds will be retained in a separate account and may be used as prescribed in the proposed ordinance, including the purchase of water rights or allocations or projects specified in the City's capital improvement program or demand reduction facilities.

Due to the varying pace of development, it is difficult to estimate the amount of funds that might be earmarked for new water supplies. For example, the estimated fee for a single family home would be $4,432 in Zone 1 and $6,444 in Zone 2, and for a 50-unit apartment complex the estimated fee would be $149,700 in Zone 1 and $217,700 in Zone 2. In comparison to the millions of dollars potentially needed for new water supply development, these funds represent a sharing of the financial burden to secure our water supply.

ALTERNATIVES

There a variety of options available to Council who may choose to:

- Maintain the existing policy and continue to absorb water supply costs of new development. Although state law allows cities to require that developers cover the cost of new development, it does not require cities to cause new development to completely fund the costs of their impact. Council could choose to subsidize the impact of development with the General Fund or require existing rate payers to absorb costs.

- Specify parameters to identify which projects are subject to the proposed requirements. For example, only burdening projects annexing into the City or conversely, exempting infill projects. This option may also include modifying the recommended time frame or adopting a phased-in approach for implementation.

- Direct staff to explore other alternatives to offset a development's water supply impact. The current proposal includes providing rights and/or the payment of in-lieu fees. Depending on the project, it may be possible to accept land or other types of exchanges equivalent to the value of the required water rights for the development. On a limited case-by-case basis, this approach may provide a variety of advantages to our system.

Prepared by Karen Waln, Management Analyst II for

_____
Shana Epstein
Ventura Water General Manager

Reviewed as to fiscal impacts

_____
Jay Panzica
Chief Financial Officer

FORWARDED TO THE CITY COUNCIL

_____
Office of the City Manager

ATTACHMENTS

A. Ordinance to Establish Water Dedication and In-Lieu Fee Requirements for New or Intensified Development
B. Resolution Establishing A Fee To Be Paid Under Certain Circumstances In-Lieu of Dedicating Water Rights to the City
C. Evaluation of a Water Resource In-Lieu Fee, September 2013
D. Water Dedication and In-Lieu Fee Nexus Report, September 2013
E. Sample Water Demand Impact Calculation
F. Casitas Municipal Water District Comment Letter, August 16, 2013

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ORDINANCE NO. 2013-_____

AN ORDINANCE OF THE COUNCIL OF THE CITY OF SAN BUENAVENTURA ENACTING CHAPTER 22.180 OF THE SAN BUENAVENTURA MUNICIPAL CODE TO ESTABLISH WATER DEDICATION AND IN-LIEU FEE REQUIREMENTS FOR NEW OR INTENSIFIED DEVELOPMENT

The Council of the City of San Buenaventura does ordain as follows:

Section 1. Findings.

A. New or intensified urban development places an increased demand for water upon the City's existing water supply.

B. The City's existing water consumption is currently near the City's existing water supply maximum.

C. There exists a need for additional water resources, and that need is caused by new or intensified urban development.

D. In order to mitigate the water resource impacts of new or intensified urban development, it is necessary and desirable for new or intensified urban development to provide supplemental water resources to the City's water system in an amount proportional to the new demand created by such development, or to pay an in-lieu fee based upon the cost of obtaining water supplies to meet the demand of new or intensified urban development.

E. The City has caused to be prepared a technical and economic evaluation of a water resource in-lieu fee which is on file with the City and which has been reviewed by the City Council. That evaluation establishes the estimated costs of obtaining water resources for various zones within the City and bases the amount of the in-lieu fee upon those costs.

F. The City has prepared a detailed nexus study titled "Evaluation of a Water Resource In-Lieu Fee" which is on file with the City Clerk and which has been reviewed by the City Council. The study, by substantial evidence, satisfies the requirements of California's "Mitigation Fee Act" (Government Code sections 66000 et. seq., including without limitation 66013) and applicable case law including *Nollan v. California Coastal Commission* 483 U.S. 825 and *Dolan v. City of* Tigard 512 U.S. 374. The study explains the need for specific, identified new water supplies and facilities to meet the water demand of new or intensified urban development. The study demonstrates that there is a reasonable

relationship between the water dedication requirements and in-lieu fees established by this Chapter and the impacts of new or intensified urban development. The study establishes that the dedication required and the cost of the in-lieu fees are reasonably related and roughly proportional to the demand for new water and the cost of providing water supplies and facilities needed to serve new or intensified development upon which the dedication requirement or fees are imposed.

G. The fee established in Section 22.180.040 is a "capacity charge" under Government Code section 66013(b)(3) because (a) it will be used to develop additional water capacity identified in the nexus study, and (b) payment of the fee or dedication of water pursuant to this Chapter will be required prior to connecting new or intensified urban development to the City water system.

H. The fee established in Section 22.180.040 is not a commodity charge under Government Code section 66013(b)(3) or a user charge because it is not payable as a result of the actual consumption of a particular volume of water, but rather it is payable because of the anticipated impacts that new or intensified urban development will have on City water resources.

Section 2. Chapter 22.180 of the San Buenaventura Municipal Code is added to read as follows:

Chapter 22.180 Water Dedication and In-Lieu Fee

Section 22.180.010 Purpose.

As property within the City develops, or as new properties are annexed for development, agricultural and other land uses are likely to be converted to new or intensified urban land uses. The water rights associated with the property and/or wells that are now used by agriculture or other less intense uses will be needed to serve the new or intensified urban land uses. This chapter provides a mechanism by which those water rights will be dedicated to municipal use, or alternately, a fee paid in-lieu of dedicating those water rights when the available water rights either are not sufficient to meet the needs of the new or intensified land use, or the owner or developer cannot or will not dedicate the required water rights to meet the needs of the new or intensified land use. The purpose of the fee is to provide funds for projects to develop or acquire additional water rights or water resources to mitigate the added water demand caused by the new or intensified urban land development. This Chapter also includes a provision for the sharing of water rights for new or existing agriculture located on the remaining portion of any parcel of land that is being developed to assure that existing agriculture located on the parcel is not needlessly or prematurely converted due to the lack of water

or that viable new agriculture proposed to be located on the remaining portion of the parcel is not prohibited or restricted due to a lack of water.

Section 22.180.020 Definitions.

Unless a provision explicitly states otherwise, the following terms and phrases, as used in this Chapter, shall have the meanings hereinafter designated.

A. "Water Right" shall mean: 1) any right or allocation held on or after March 7, 1996 to pump ground water pursuant to the judgment in the case of *United Water Conservation District v. City of San Buenaventura* (Ventura County Superior Court Case No. 115611), and any subsequent amendment or restatement of the judgment; or 2) any such other water rights that may be available for permanent transfer including, but not limited to, any and all applicable groundwater pumping allocations, shares, and/or credits associated with the property to be served by the City and available from a management agency, associations, shareholder group or water rights such as but not limited to: Fox Canyon Groundwater Management Agency, Santa Paula Basin Pumpers Association, Alta Mutual Water Company and Farmer's Irrigation Company.

B. "Projected Demand for Water" shall mean the estimated annual quantity of water required to serve development approved by any permit or action in Section 22.180.030, as determined by the developer's engineer utilizing the City's current local water use demand factors and reviewed and approved by the General Manager of the water utility department known as Ventura Water.

Section 22.180.030 Dedication of water rights within City limits.

A. The owner or developer of any parcel of land within the City or being annexed to the City shall, prior to issuance of any building permit, or if no building permit is required at the times specified in this section, dedicate all transferable and exercisable water rights attached to the parcel to the City upon any of the following events:

1. Approval of annexation of the parcel to the City and pre-zoning under Government Code section 56375(a) in anticipation of new or intensified development of the property. Annexation to the City will generally result in new or intensified development because State law and Ventura County Local Agency Formation Commission policies and guidelines encourage annexation for urbanized development. The Ventura County Local Agency Formation Commission "Guidelines for Urban Development" provide that "applicants for land use permits or entitlements for urban uses shall be encouraged to apply to the City to achieve their development goals" and "prior to being developed for urban purposes or receiving municipal services, land should be annexed to the City";

2. Granting of any development entitlement by the City for any land use, other than agriculture, upon the parcel, including, but not limited to, approval of a general plan amendment, rezoning, conditional use permit, tentative map, parcel map, tract map, lot line adjustment building permit or any other development approval which creates a new or intensified land use;

3. Construction or enlargement of any water service connection to the parcel from the City Water Enterprise Fund.

B. In the event that any water rights attached to the parcel have been sold or transferred to anyone other than the City on or after March 7, 1996, the owner or developer of the parcel shall, to the extent feasible in the sole judgment of the General Manager of the water utility department known as Ventura Water, obtain at his or her sole expense, equivalent water rights and dedicate those rights to the City.

C. In the event that the water rights serve more land than the land or parcel to be annexed, developed or to receive a City water service connection, the water rights to be dedicated shall be determined by proration on the basis of the historical water usage of the various lands or parcels served. If it is not feasible, in the sole judgment of the General Manager of the water utility department known as Ventura Water to prorate the water rights on the basis of historical water usage, then the proration shall be made on the basis of the irrigated land areas of the various lands or parcels served.

D. In the event that the water rights are held by an association, water company or agency on behalf of the property owner or developer and that association, water company or agency cannot or in the sole judgment of the General Manager of the water utility department known as Ventura Water will not dedicate the required water rights to the City, the owner or developer of the parcel shall to the extent feasible, in the sole judgment of the General Manager of the water utility department known as Ventura Water, obtain at his or her sole expense equivalent water rights and dedicate those rights to the City.

E. In the event that the dedicated water rights are not sufficient to meet the projected demand for water, including the demand for water needed to serve any remaining agriculture as provided in subsection G. below, by the parcel or in the event that there are no water rights attached to the parcel, or in the event that in the sole judgment of the General Manager of the water utility department known as Ventura Water that it is not feasible to obtain equivalent water rights as required by subsections B. and D. above, the owner or developer shall pay a water resource in-lieu fee, as established pursuant to Section 22.180.040, to the City based upon that portion of the projected demand for water that is not met by the dedicated water rights.

F. In the event that the dedicated water rights exceed the projected demand for water by the parcel already within the City, a credit shall be issued against the various fees and charges due to the City Water Enterprise Fund under Chapter 22.110 Water Connections, Sec. 22.110.020 "Charges," of the San Buenaventura Municipal Code or, at the City's option, the dedicated water rights required by this chapter shall be prorated to meet the projected demand for water. The credit shall be equal to the value of the water rights actually dedicated in the sole judgment of the General Manager of the water utility department known as Ventura Water minus the in-lieu fee that would have been required pursuant to Section 22.180.040 if there had been no dedication of water rights.

G. In the event that the dedicated water rights are needed to continue to serve agriculture temporarily remaining on any undeveloped or residual portion of the land or parcel, until the land is converted to non-agricultural use, the City shall enter into an agreement with the property owner or developer for the shared use of the dedicated water rights until such time as the agricultural use is converted, provided the water is to be used only on such land or parcel and provided the quantity of water to be used and the type of agriculture to be served is reasonable and appropriate. The agreement shall include but not be limited to the amount of water rights available for the undeveloped property and the property owner or developer shall construct and pay for all facilities and pay for all City or third party administrative fees associated with the use.

H. In the event that the dedicated water rights are needed to supply water to a proposed non-potable water distribution system intended to supply water for irrigation purposes to public or private landscaping on the land, the City may enter into an agreement with the property owner or developer for the shared use of the dedicated water rights. The agreement shall include, but not be limited to, the amount of water rights available for the undeveloped property and the property owner or developer shall construct and pay for all facilities and pay for all City or third party administrative fees associated with the use.

Section 22.180.040 Water resource in-lieu fee imposed.

A. The City Council may establish a schedule of water resource in-lieu fees by resolution based upon the nexus study titled "Evaluation of a Water Resource In-Lieu Fee," and which may be amended from time to time, which schedule may include different zones for which the fees may vary based upon the cost of supplemental water supplies in those zones. The fees shall be imposed in accordance with this section and paid prior to issuance of any building permits. The proceeds of the fees shall be retained in a separate account and administered as required by Government Code section 66013. The fees shall be used to acquire and develop additional water resources or water rights for use by the City Water Enterprise Fund. Those projects may include, but are not limited to, the purchase of water rights or allocations or projects specified in the City's capital improvement program to the extent not covered by any connection or other capital charges. The fee proceeds may also be used to fund demand

reduction facilities. The General Manager of the Water Utility Department known as Ventura Water, shall calculate the projected water demand pursuant to Section 22.180.020 B. and implement the resulting fee. The fee will be based upon the weighted average per acre foot of the total cost of developing new water supplies and facilities needed to serve new or intensified development. The water resource in-lieu fee shall be in addition to all other fees and charges required by this Chapter or by the Municipal Code.

B. In the event that a fee resolution has not been adopted, the General Manager of the Water Utility Department known as Ventura Water shall collect a deposit of $8,000 per acre-foot of projected annual water demand in excess of the water rights dedicated to the City. The deposit shall be applied to the fee upon adoption of a resolution. Any deposited amount in excess of the adopted fee shall be refunded to the person who paid the deposit.

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Section 3. CEQA Findings.

EXEMPTION FROM CALIFORNIA ENVIRONMENTAL QUALITY ACT. The City Council further finds that this Ordinance is exempt under Section 15061(b)3 of Title 14 of the California Code of Regulations (the "State CEQA Guidelines") in that the enactment of this Ordinance merely implements a regulatory process that will not foreseeably result in construction activities or other physical activities, either directly or indirectly. Accordingly, it can be seen with certainty that the enactment of this Ordinance does not have the potential to result in significant effects on the environment. This ordinance is further exempt under Section 15273 of the State CEQA Guidelines because the fees established are for the purpose of obtaining funds for capital projects necessary to maintain service within existing service areas.

PASSED and ADOPTED this ___ day of _____ 2013.

_____
Mike Tracy, Mayor

ATTEST:

_____
Cynthia M. Rodriguez, MMC
City Clerk

APPROVED AS TO FORM

By:_____
Ariel Pierre Calonne
City Attorney

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RESOLUTION NO. 2013-____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN BUENAVENTURA ESTABLISHING A FEE IN ACCORDANCE WITH SAN BUENAVENTURA MUNICIPAL CODE SECTION 22.180.040 TO BE PAID UNDER CERTAIN CIRCUMSTANCES IN LIEU OF DEDICATING WATER RIGHTS TO THE CITY

WHEREAS, San Buenaventura Municipal Code ("SBMC") Section 22.180.040 generally requires persons seeking approvals for annexation, development, or expansion of water service to dedicate water rights to the City. When that person does not have water rights, SBMC Section 22.150.040 allows the City Council to establish a fee that can be paid to the City in lieu of water rights; and

WHEREAS, pursuant to Government Code Section 66016, the City made data available regarding the cost, or estimated cost, of providing services for various fees ten (10) days before the public hearing held on September 23, 2013; and

WHEREAS, on September 23, 2013, the City Council heard public testimony and considered evidence in a public hearing held and noticed in accordance with Government Code Section 66016; and

WHEREAS, based upon the evidence submitted during the public hearing, including, without limitation, reports from City staff and information from recent published water sales, the Council finds that the proposed fee is based upon the amount equating to the value of one acre foot of water; and

WHEREAS, at the recommendation of the Water Utility Department known as Ventura Water and the City Manager, the City Council believes that it is in the public interest to establish the recommended fee in accordance with SBMC Section 22.180.040.

BE IT RESOLVED by the Council of the City of San Buenaventura as follows:

SECTION 1: Pursuant to SBMC Section 22.180.040, the City Council establishes fees can be paid to the City in-lieu of dedicating water rights as provided on Exhibit "A" to this Resolution which is incorporated by this reference.

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SECTION 2: This Resolution shall take effect on the 60th day following its passage and approval.

PASSED AND APPROVED this ___ day of October, 2013.

_____
Cynthia M. Rodriguez, MMC
City Clerk

APPROVED AS TO FORM

By:_____
Ariel Pierre Calonne
City Attorney

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ATTACHMENT C

Kennedy/Jenks Consultants

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Oxnard, California 93036
805-973-5700
FAX: 805-973-1440

Evaluation of a Water Resource In-Lieu Fee

3 September 2013

Prepared for

City of San Buenaventura
501 Poli Street, Room 120
Ventura, CA 93002

K/J Project No. 1289032*00

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Section 1: Introduction

This evaluation summarizes the economic basis and development of a water resource in-lieu fee. This recommended fee would apply to new or intensified development that requires an increase in water service but does not transfer sufficient water rights to serve the proposed development.

1.1 Background and Objectives

The City of San Buenaventura (City) owns and operates a water system that serves approximately 32,000 service connections, within and outside the City boundaries. Water is supplied through 3 main sources: local groundwater from the Mound, Santa Paula, and Oxnard Plain basins, treated water purchased from Casitas Municipal Water District (Casitas) and water diverted from the Ventura River. Water from Casitas can only be delivered to the City's customers that are within the boundaries of Casitas. Water service is provided to residential, commercial, industrial and irrigation customers, including fire protection users. Recycled water from the Ventura Water Reclamation Facility is also delivered to recycled water customers located along the existing distribution system alignment.

The City water system is a complex system of 16 pressure zones, 13 wells, 21 booster stations, approximately 380 miles of pipelines ranging from 4-inches to 36-inches in diameter, and a total storage capacity of approximately 52 million gallons (mg) in 32 tanks and reservoirs. The system delivers water from sea level to a maximum elevation of over 1,000 feet. The City operates three treatment facilities, including one membrane filtration treatment plant for surface water sources on the west side of the City, and two iron/manganese removal treatment plants for groundwater sources on the east side[1]. The City also maintains and operates the Ventura Water Reclamation Facility.

The City has previously prepared various water planning documents that address water demands and supplies. These documents include the 2005 General Plan documents, Amended 2010 Urban Water Management Plan, and 2011 Water Master Plan. Because these documents were prepared for specific and different purposes, the water demand and supply projections differ. Recently, the City prepared a Draft May 2013 Comprehensive Water Resources Report to compare the water demand and supply projections in the previous reports and compare the City's water demand projections with its available supplies. The Draft Report was approved by the City Council on June 10, 2013. Relevant conclusions of this report are summarized and form the basis for this evaluation.

To assure that new development does not adversely affect the water supply or water supply reliability of the City's existing customers, the City desires to implement a water rights dedication ordinance and water resource in-lieu fee. The objective of these actions would be to assure that adequate water supplies are available for proposed new or intensified developments without adverse impacts to the City's existing customers or approved new developments. Developers could dedicate adequate water supplies to support a proposed new or intensified development or they could pay an in-lieu fee so that the City could develop the necessary water supplies. Accordingly, this study addresses the technical basis for the water resource in-lieu fee.

[1] City of San Buenaventura Water Master Plan, 2011.

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1.2 Scope of Services

To develop the technical basis for the in-lieu fee, the following scope of services was developed:

1. Meet with City staff to establish appropriate water resource zones.
2. Identify potential additional water supplies for each zone.
3. Evaluate the probable cost of acquiring each of the identified potential water supplies.
4. Recommend a water resource in-lieu fee for each water resource zone.
5. Work with City staff and legal counsel to develop a water dedication ordinance.
6. Provide written comments to the draft ordinance.
7. Attend Community Workshop.

Section 2: Summary of Current Water Demands and Supplies

Based on a review of the previous water demand projections and a detailed evaluation of historical water demands in 2005, the Final 2013 Comprehensive Water Resources Report estimates that the CY 2012 water demand including a 6.5 percent water loss factor, per the City's 2010 Urban Water Management Plan, is 18,004 acre-feet per year (AFY). The recommended baseline water demand for existing conditions is 17,601 AFY and was based on the average of the City's most recent 5-years of demands, including the 6.5 percent water loss factor. Based on the estimated water demands of approved new developments, the Final 2013 Comprehensive Water Resources Report projects the near-term water demand to grow to 18,643 AFY which is expected to occur by 2019.

The Final 2013 Comprehensive Water Resources Report summarizes the City's current water supplies as 5,000 AFY from Casitas, 4,200 AFY from the Ventura River (Foster Park), 4,000 AFY from the Mound Groundwater Basin, 4,100 AFY from the Oxnard Plain Groundwater Basin, 1,600 AFY from the Santa Paula Groundwater Basin, and 700 AFY of recycled water. Accordingly, the City's current water supply portfolio totals 19,600 AFY.

Section 3: Potential Sources of Additional Water Supply Development

The Final 2013 Comprehensive Water Resources Report (2013 Report) also identifies future and potential additional future water supplies. Future water supplies include increased Casitas deliveries to approved developments within the Casitas service area, restoration of the Foster Park wellfield production capacity by 2,500 AFY, and increased recycled water deliveries by 700 AFY. These future water supplies would increase the future available supplies. Potential additional future water supplies identified in the 2013 Report include deliveries of imported water supplies from the State Water Project, Saticoy County Yard Well, recycled water from the Ventura Water Reclamation Facility (VWRF) and Ojai Valley Sanitary District (OVSD), ocean desalination, water conservation, and water rights ordinance.

Of the potential sources identified for new development, most of the potential additional future water supplies have uncertainties or complexities that limit their utilization as the basis for development of a water resource in-lieu fee. Currently, State Water is limited by the ability to deliver the water to the City. Although State Water can be wheeled through the Metropolitan Water District of Southern California and Calleguas Municipal Water District, it would be costly and the necessary agreements have not been negotiated. Concerns regarding the Saticoy County Yard Well have been raised by the Fox Canyon Groundwater Management Agency and United Water Conservation District and a Limitation and Tolling Agreement was in effect. It was determined that the 2004 County of Ventura Saticoy Operations Yard EIR was not sufficient for the anticipated operations of the Saticoy County Yard Well and, therefore, additional environmental review is warranted for operation of the well. Recycled water may be available from the OVSD; however, development of this supply is expected to be complex, difficult and costly. Although ocean desalination was preferred by the City's voters in 1993 over State Water deliveries, this potential additional future water supply has not been sufficiently developed to form the basis for the water resource in-lieu fee. Water conservation measures may help sustain existing water use and delay the need for new water supplies and the water rights ordinance includes the concept of a water resource in-lieu fee. For these reasons, the identified potential additional future water supplies are not included as the basis for the water resource in-lieu fee. However, as these potential additional future water supplies become more fully developed, they may become the basis for subsequent fees. The estimated amount of available potential future recycled water from the VWRF beyond the 700 AFY included as a future water supply was not addressed in the 2013 Report since the City was still determining the best uses of the treated effluent from the VWRF. However, a June 2013 Draft Recycled Water Feasibility Study identifies a recommended project. Accordingly, the water resource in-lieu fee is based on additional Casitas deliveries, restoration of the Foster Park wellfield production capacity, and increased recycled water deliveries from the VWRF.

Depending on local hydrology, other water sources and relative economics, the City currently uses approximately 5,000 acre-feet per year (AFY) of Casitas water for its current customers within the Casitas service area. Up to 8,000 AFY of Casitas water are available to the City subject to certain water supply conditions. In FY 2011-2012, Casitas delivered a total of 14,655 AF of water to its customers. The current cost of Casitas water is $426 per acre-foot (January 2012 dollars) and does not include the cost of infrastructure to deliver Casitas water to City proposed developments. These infrastructure costs would be borne by the developer or

paid though other City fees. As of mid-2012, the value of Casitas assets utilized to deliver water to the City (i.e. transmission, treatment plant and fish ladder) and its other customers was $ 70,578,260.

Production wells at Foster Park were destroyed in previous storm events and the Ventura River surface water diversion is not functional at this time. The current capacity from the Foster Park/Ventura River facilities is estimated to be 4,200 AFY. The City is planning new wells to increase the production capacity to 6,700 AFY. The estimated capital cost of these facilities is $ 28,000,000 (2013 dollars).

The City currently delivers approximately 700 AFY of recycled water from the VWRF for urban landscape irrigation. Based on the March 2013 Estuary Special Studies Phase 2: Facilities Planning Study for Expanding Recycled Water Delivery, the City has several recycled water options to reduce wastewater discharges and increase water supplies, including the Mound Basin Indirect Potable Reuse (IPR) or Direct Potable Reuse (DPR). Based on a memorandum dated July 15, 2013 from Susan Rungren of Ventura Water to Lynn Takaichi of Kennedy/Jenks Consultants, the Mound Basin DPR is utilized as the basis for the evaluation of the water resource in-lieu fee. The estimated capital cost of this alternative is $73,000,000 (2013) and would have an estimated annual delivery capacity of approximately 4000 AFY.

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Section 4: Recommended Water Resource Zones

The City appears to have limited opportunities for developing additional water resources for new development. Of the sources identified, water from Casitas is limited to City service within the boundaries of Casitas, restoration of the Foster Park wellfield production capacity can be utilized throughout the City, and recycled water can be applied directly or indirectly to benefit new development throughout the City. Accordingly, it is recommended that the City establish 2 zones to levy the water resource in-lieu fee. One zone would encompass the area that can be served by Casitas (Zone 1) and the other zone would encompass the area outside Casitas (Zone 2).

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Section 5: Economic Basis for Recommended Fees

The amount of the recommended water resource in-lieu fees is based on the required capital cost and interest to develop the additional water supplies to serve new development. Because the available additional water supplies differ for the two water resource zones, the recommended fees for each zone would also differ. As additional water supply opportunities are identified or the development costs of the identified supplies are updated, it is recommended that this analysis be updated to reflect any additional information.

To determine the appropriate charge for the in-lieu fee, the system buy-in approach is applied to currently available, but unused supply, in the City's existing water supplies and the incremental cost approach is applied to water supplies that are planned, but not yet developed. The system buy-in and incremental cost approaches are described in the City's Water and Wastewater Connection Fee dated June 2003. A similar approach is utilized to determine the recommended in-lieu fees.

In Zone 1, the additional water supplies available for new development are Casitas water, Foster Park groundwater, and Mound Basin DPR water. To estimate the unit capital cost of Casitas water, the value of Casitas' assets attributable to relevant water deliveries (i.e. water treatment plant, transmission and distribution, and fish ladder) were derived from Casitas' Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2012 and 2011. The asset value for mid-2012 is then adjusted by the ENR Index[2] to 2013. Interest attributable to the 1991 loan for $5,203,965 from the Department of Water Resources (DWR) to construct the water treatment plant is added to the asset value. To determine the unit value of the available Casitas water, the total is divided by Casitas' current water deliveries. To estimate the unit capital cost of Foster Park wellfield production capacity, the budgeted capital cost derived from the City's proposed Capital Improvement Plan for 2013-2019 and divided by the increased production capacity of the project. To estimate the unit capital cost of recycled water, the estimated capital cost of Mound Basin DPR water development is divided by the estimated delivery increase. The results of these analyses are weight-averaged based on the quantity of additional water that can be developed.

In Zone 2, only Foster Park wellfield capacity and Mound Basin DPR water is available for new development. Accordingly, the recommended fee is developed as described for Foster Park wellfield production capacity and recycled water in Zone 1.

The calculation of the recommended water resource in-lieu fees are presented in Appendices A and B.

[2] The ENR Index is a commonly used index of construction costs for each region of the United States and is used to adjust costs of prior periods to current dollars. The index for the Los Angeles region is utilized in this evaluation.

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Section 6: Recommended Water Resource In-Lieu Fees

Based on the calculations presented in Appendices A and B, the recommended water resource in-lieu fees for 2013 are $10,686 per AFY of additional demand for Zone 1 and $15,538 per AFY of additional demand for Zone 2. As additional opportunities or cost information is developed, the recommended fees should be updated and revised accordingly.

Section 7: Potential Implementation Issues

To implement the recommended fees, the City must have an accurate assessment of the potential water demands of proposed new development. Although the water demand factors of new development have been dropping due to the incorporation of water conservation measures, the City should be conservative in its application of water demand factors. Accordingly, it is recommended that the City utilize the City's current local water use demand factors approved by Council on June 10, 2013, as presented in the Final 2013 Comprehensive Water Resources Report, to the recommended water resource in-lieu fees for appropriateness and conservatism. In addition, it is recommended that the City continuously monitor its available water supplies so that new supplies are developed in a timely manner to serve potential new development.

Because the recommended fees have not been applied in the past, it is likely that imminent new development has not incorporated the recommended fees into its financing. Accordingly, it is recommended that the City consider an effective date that allows new development to incorporate the financial impact of the new fees.

The adoption of the recommended water resource in-lieu fees should be exempt from the California Environmental Quality Act (CEQA) under Section 15273 of the CEQA Guidelines. A draft Notice of Exemption has been submitted to the City.

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Appendix A: Calculation of the Water Resource In-Lieu Fee for Zone 1

Assumptions:

1. The mid-2012 asset value of water facilities used to deliver Casitas water to the City is $70,578,260.
2. Total interest on Casitas 1991 DWR loan is $9,152,040.
3. Casitas total water deliveries are 14,655 AFY.
4. Even though the projected demand for Casitas water is limited, the Casitas water available for new development is 3,000 AFY.
5. Capital cost of Foster Park Wellfield is $28,000,000 (2013).
6. Increased production capacity of the Foster Park Wellfield is 2,500 AFY of which 1250 AFY is allocated to new development in Zone 1.
7. Capital cost of Mound Basin DPR water development is $73,000,000 (2013).
8. The Mound Basin DPR water delivery capacity is 4,000 AFY of which 2000 AFY is allocated to new development in Zone 1.
9. ENR-LA Index is 10295.55 for July 2012 and 10276.68 for January 2013.

Calculation:

Unit Asset Value and Interest of Casitas Facilities (July 2012) = $70,578,260 +$9,152,040/14,655 AFY

= $5440/AFY

Unit Asset Value and Interest of Casitas Facilities (January 2013) = $5440/AFY * 10276.68/10295.55

= $5430/AFY

Unit Capital Cost of the Foster Park Wellfield (2013) = $28,000,000/2,500 AFY

= $11,200/AFY

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Unit Capital Cost of Mound Basin DPR Water (2013) = $73,000,000/4,000 AFY

= $18,250/AFY

$$\text{Weighted Average} = \frac{\$5{,}430/\text{AFY} * 3{,}000\text{AFY} + \$11{,}200/\text{AFY} * 1{,}250\text{AFY} + \$18{,}250/\text{AFY} * 2{,}000\text{AFY}}{3{,}000\ \text{AFY} + 1{,}250\ \text{AFY} + 2{,}000\ \text{AFY}}$$

= $10,686 /AFY

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Appendix B: Calculation of the Water Resource In-Lieu Fee for Zone 2

Assumptions:

1. Capital cost of Foster Park Wellfield is $28,000,000 (2013).
2. Increased production capacity of the Foster Park Wellfield is 2,500 AFY of which 1250 AFY is allocated to new development in Zone 2.
3. Capital cost of Mound Basin DPR water development is $73,000,000 (2013).
4. The Mound Basin DPR water delivery capacity is 4,000 AFY of which 2000 AFY is allocated to new development in Zone 2.
5. ENR-LA Index is 10295.55 for July 2012 and 10276.68 for January 2013.

Calculation:

Unit Capital Cost of the Foster Park Wellfield (2013) = $28,000,000/2,500 AFY

= $11,200/AFY

Unit Capital Cost of Mound Basin DPR Water (2013) = $73,000,000/4,000 AFY

= $18,250/AFY

$$\text{Weighted Average} = \frac{\$11200/AFY*1,250AFY+\$18,250/AFY*2,000AFY}{1,250\ AFY + 2,000\ AFY}$$

= $15,538 /AFY

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VENTURA WATER

www.venturawater.net

Memorandum

To: **Honorable City Council**
Mark D. Watkins, City Manager

From: **Shana Epstein, Ventura Water General Manager**

Date: **September 4, 2013**

Re: **Water Dedication and In-Lieu Fee Nexus Report**

To assure that new development does not adversely affect the water supply or water supply reliability of the City's existing customers, Ventura Water proposes to implement a water dedication and in-lieu fee ordinance and resolution. The objective of these actions would be to assure that adequate water supplies are available for proposed developments without adverse impacts to the City's existing customers or approved new developments. Developers could dedicate adequate water supplies to support a proposed development or they could pay an in-lieu fee so that the City could develop the necessary water supplies.

Background

The City of San Buenaventura (City) owns and operates a water system that serves approximately 32,000 service connections, within and outside the City boundaries. Water is supplied through 3 main sources: local groundwater from the Mound, Santa Paula, and Oxnard Plain basins, treated water purchased from Casitas Municipal Water District (Casitas) and water diverted from the Ventura River and treated for potable use. Water from Casitas can only be delivered to this City's customers that are within the boundaries of Casitas. Water service is provided to all residential, commercial, industrial and irrigation customers, including fire protection users.

The City water system is a complex system of 16 pressure zones, 13 wells, 21 booster stations, approximately 380 miles of pipelines ranging from 4-inches to 36-inches in diameter, and a total storage capacity of approximately 52 million gallons (mg) in 32 tanks and reservoirs. The system delivers water from sea level to a maximum elevation of over 1,000 feet. The City operates three purification facilities, including one membrane filtration treatment plant for surface water sources on the west side of the

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City, and two iron/manganese removal treatment plants for groundwater sources on the east side[1].

In addition, recycled water from the City's Ventura Water Reclamation Facility is delivered to recycled water customers in close proximity to the facility located in the Ventura Harbor. The City's existing Reclaimed Water Policy encourages the use of recycled water, and new development located near existing recycled water mains or within the defined recycled water focus area is required to use recycled water in lieu of potable water for irrigation and other uses as appropriate.

The City has previously prepared various water planning documents that address water demands and supplies. These documents include the 2005 General Plan, Amended 2010 Urban Water Management Plan, and 2011 Water Master Plan. Because these documents were prepared for specific and different purposes, the water demand and supply projections differ. Recently, the City prepared a Final 2013 Comprehensive Water Resources Report to compare the water demand and supply projections in the previous reports and compare the City's water demand projections with its available supplies. Relevant conclusions of this report are summarized and form the basis for this evaluation. These documents are available at www.cityofventura.net.

Impact from New Development

New urban development places an increased demand for water upon the City's water supply. The City appears to have limited opportunities for developing additional water resources for new development. Of the sources identified, water from Casitas is limited to City service within the boundaries of Casitas, restoration of the Foster Park wellfield production capacity can be utilized throughout the City, and recycled water can be applied directly or indirectly to benefit new development throughout the City. Dedication of available water rights will provide the City with access to water supplies that will serve and offset the demand of new or intensified urban development. In lieu fees will be used to develop capital facilities that will enable the City to increase water production to serve and offset the demand of new or intensified urban development.

Water Supply Capacity

The City's water supply is currently being used at nearly full capacity. Based on a review of the previous water demand projections and a detailed evaluation of historical water demands in 2005, the Final 2013 Comprehensive Water Resources Report estimates that the CY 2012 water demand including a 6.5 percent water loss factor is 18,004 acre-feet per year (AFY). The recommended baseline water demand for existing conditions is 17,601 AFY. Based on the estimated water demands of approved and yet unbuilt new developments as of December 31, 2012, the Final 2013

[1] City of San Buenaventura Water Master Plan, 2011.

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Comprehensive Water Resources Report projects the near-term water demand to grow to 18,643 AFY which is expected to occur by 2019.

The Final 2013 Comprehensive Water Resources Report summarizes the City's current available water supplies as 5,000 AFY from Casitas, 4,200 AFY from the Ventura River (Foster Park), 4,000 AFY from the Mound Groundwater Basin, 4,100 AFY from the Oxnard Plain Groundwater Basin, 1,600 AFY from the Santa Paula Groundwater Basin, and 700 AFY of recycled water. Accordingly, the City's current water supply portfolio totals 19,600 AFY.

Additional Water Resources for New Development

There exists a need for additional water resources, and that need is caused by new or intensified urban development. The Final 2013 Comprehensive Water Resources Report identifies future and potential additional future water supplies. Future water supplies include increased Casitas deliveries of 390 AFY to areas within the Casitas service area (based on estimated growth from approved projects located within the Casitas service area as of December 31, 2012), restoration of the Foster Park wellfield production capacity by 2,500 AFY, and increased recycled water deliveries by 700 AFY. These future water supplies would increase the future available supplies to 24,590 AFY. Potential additional future water supplies include deliveries of imported water supplies from the State Water Project, Saticoy County Yard Well, recycled water from the Ventura Water Reclamation Facility (VWRF) and Ojai Valley Sanitary District (OVSD), and ocean desalination.

Of the potential additional future water supply sources of water identified for new development, several have uncertainties or complexities that limit their utilization as the basis for development of a water resource in-lieu fee. Currently, State Water is limited by the ability to deliver the water to the City. Although State Water can be wheeled through the Metropolitan Water District of Southern California and Calleguas Municipal Water District, it would be costly and the necessary agreements have not been negotiated. Concerns regarding the Saticoy County Yard Well have been raised by the Fox Canyon Groundwater Management Agency and United Water Conservation District and a Limitation and Tolling Agreement is in effect. Although recycled water development beyond the additional 700 AFY is included in the Final 2013 Comprehensive Water Resources Report as an additional potential future water supply, the City is still determining the best uses of the treated effluent from the VWRF. Recycled water may also be available from the OVSD; however, development of this supply is expected to be complex, difficult and costly.

Although ocean desalination was preferred by the City's voters in 1993 over State Water deliveries, this potential additional future water supply has not been sufficiently developed to form the basis for the water resource in-lieu fee. For these reasons, the

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identified potential additional future water supplies are not included as the basis for the water resource in-lieu fee. However, as these potential additional future water supplies become more fully developed, they may become the basis for subsequent fees. Accordingly, the water resource in-lieu fee is based on additional Casitas deliveries, restoration of the Foster Park wellfield production capacity, and increased recycled water deliveries.

Depending on local hydrology, other water sources and relative economics, the City currently uses approximately 5,000 acre-feet per year (AFY) of Casitas water for its current customers within the Casitas service area. Up to 8,000 AFY of Casitas water are available to the City subject to certain water supply conditions. In FY 2011-2012, Casitas delivered 14,655 AF of water to all of its customers. The Final 2013 Comprehensive Water Resources Report estimates that deliveries could increase by 390 AFY (based on estimated growth from approved projects within the Casitas service area as of December 31, 2012). The current cost of Casitas water is $426 per acre-foot (January 2012 dollars) and does not include the cost of infrastructure to deliver Casitas water into the Ventura Water system. These infrastructure costs would be borne by the developer or paid though other City fees. As of mid-2012, the value of Casitas assets utilized to deliver water to the City (i.e. transmission, treatment plant and fish ladder) and its other customers was $ 70,578,260.

Production wells at Foster Park were destroyed in previous storm events and the Ventura River surface water diversion is no longer functional. The current capacity from the Foster Park/Ventura River facilities is estimated to be 4,200 AFY. The City is planning new wells to increase the production capacity to 6,700 AFY. The estimated capital cost of these facilities is $ 28,000,000 (2013 dollars).

The City currently delivers approximately 700 AFY of recycled water from the VWRF for urban landscape irrigation. Based on a 2007 study of the potential recycled water market within the City, the Final 2013 Comprehensive Water Resources Report estimates that an additional 700 AFY of recycled water can be delivered from the VWRF. The 2013 Estuary Special Studies Phase 2: Facilities Planning Study for Expanding Recycled Water Delivery evaluated recycled water alternatives to reduce discharges to the Santa Clara River Estuary. A specific alternative was not identified pending additional evaluations. Accordingly, because only 700 AFY of additional recycled water development was included in the Final 2013 Comprehensive Water Resources Report, the Mound Basin Direct Potable Reuse (DPR) is utilized as the basis for the evaluation of the water resource in-lieu fee The estimated capital cost of this alternative is $73,000,000 (2013) and it would have an estimated annual delivery capacity of approximately 4000 AFY.

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Mitigation of New Development Water Resources Impacts

In order to mitigate the water resource impacts of new urban development, it is necessary and desirable for new or intensified urban development to provide supplemental water resources to the City's water system in an amount proportional to the new demand created by such development. This can be accomplished by dedication of water rights where available. The amount of the recommended water resource in-lieu fees is based on the required capital cost and interest to develop the additional water supplies to serve new development. Because the available additional water supplies differ for the two water resource zones, the recommended fees for each zone would also differ.

Evaluation of a Water Resource In-Lieu Fee Report

The City has retained Kennedy/Jenks Consultants to prepare an Evaluation of a Water Resource In-Lieu Fee. That evaluation establishes the estimated costs of obtaining water resources and basis the amount of the in-lieu fee on those costs. The amount of the recommended water resource in-lieu fees in the report is based on the required capital cost and interest to develop the additional water supplies to serve new development. Because the available additional water supplies differ for the two water resource zones, the recommended fees for each zone would also differ. As additional water supply opportunities are identified or the development costs of the identified supplies are updated, it is recommended that this analysis be updated to reflect any additional information.

In Zone 1, the additional water supplies available for new development are Casitas water, Foster Park groundwater, and recycled water. To estimate the unit capital cost of Casitas water, the value of Casitas' assets attributable to relevant water deliveries (i.e. water treatment plant, transmission and distribution, and fish ladder) were derived from Casitas' Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2012 and 2011. The asset value for mid-2012 is then adjusted by the ENR Index[2] to 2013. Interest attributable to the 1991 loan for $5,203,965 from the Department of Water Resources (DWR) to construct the water treatment plant is added to the asset value and the total is divided by Casitas' water deliveries. To estimate the unit capital cost of Foster Park wellfield production capacity, the budgeted capital cost derived from the City's proposed Capital Improvement Plan for 2013-2019 is divided by the increased production capacity of the project. To estimate the unit capital cost of recycled water, the estimated capital cost of additional recycled water development is divided by the estimated delivery increase. The results of these analyses are weight-averaged based on the quantity of additional water that can be developed.

[2] The ENR Index is a commonly used index of construction costs for each region of the United States and is used to adjust costs of prior periods to current dollars. The index for the Los Angeles region is utilized in this evaluation.

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In Zone 2, only Foster Park wellfield capacity and recycled water is available for new development. Accordingly, the recommended fee is developed as described for Foster Park wellfield production capacity and recycled water in Zone 1.The calculation of the recommended water resource in-lieu fees are presented in Appendices A and B of the report.

Water Land Use Demand Factors

The Final 2013 Comprehensive Water Resources Report refined water land use demand factors to be more consistent with local experience and water efficiency, and to provide more accurate estimates. Staff will utilize these factors to determine the impact of development on the water supply and to calculate the amount of water right and/or in-lieu fee required to offset new water demand. Below are the water land use demand factors to be utilized from Table 3-3 of the report:

Water Use Demand Factors

Land Use	Demand Factor
Residential	
Residential 0 - 8 du/acre	370 gpd/du
Residential 9 - 20 du/acre	250 gpd/du
Residential 21+ du/acre	250 gpd/du
Commercial/Retail/Industrial/Hotel Public/Institutional	265 gpd/ksf
Hospital/Assisted Living	545 gpd/bed
Park/Landscape/Irrigation	2,000 gpd/acre

gpd/du – gallons per day per dwelling unit
gpd/ksf – gallons per day per thousand square feet

Conceptual project applications will use the above land use categories. For those projects that do not define the residential density, the highest density demand factor will be used. Industrial, commercial, and retail will assume square footage reflecting the highest and best use of the acreage. As a project is revised, further defined, density decreased or density increased, the water demand for the project will be required to be revised. See attached Exhibit A: Sample Water Demand Impact Calculation as an example of how the demand factor will be used to calculate the required water right allocation and/or in-lieu fee to be paid. These demand factors establish the relationship between the amount of water rights to be dedicated or the amount of any in lieu fee to be charged and the impacts of new or intensified urban development.

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Nexus between New Development and Proposed Ordinance

There is a reasonable relationship between the water dedication requirements and in-lieu fees established by this Ordinance and the impacts of new urban development because the amount of water to be dedicated and the amount of any fees to be collected is, based upon the water use demand factors and Kennedy/Jenks report, directly proportional to the impacts of the new urban development upon which the dedication requirement or fees are imposed.

Conclusion and Recommendations

Based on the calculations presented in Appendices A and B, the recommended water resource in-lieu fees for 2013 are $10,686 per AFY of additional demand for Zone 1 and $15,538 per AFY of additional demand for Zone 2. As additional opportunities or cost information is developed, the recommended fees should be updated and revised accordingly.

To implement the recommended fees, the City must have an accurate assessment of the potential water demands of proposed new development. Although the water demand factors of new development have been dropping due to the incorporation of water conservation measures, the City should be conservative in its application of water demand factors. Accordingly, it is recommended that the City review the water demand factors that would be applied to the recommended water resource in-lieu fees for appropriateness and conservatism.

In addition, because the recommended fees have not been applied in the past, it is likely that imminent new development has not incorporated the recommended fees into its financing. Accordingly, it is recommended that the City consider an effective date that allows new development to incorporate the financial impact of the new fees.

The adoption of the recommended water resource in-lieu fee is exempt from the California Environmental Quality Act (CEQA) under Section 15273 of the CEQA Guidelines because the fees established are for the purpose of obtaining funds for capital projects necessary to maintain service within existing service areas. A Notice of Exemption will be submitted upon City Council approval of the Water Dedication and In-Lieu Fee Ordinance and Resolution.

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Exhibit A: Sample Water Demand Impact Calculation

To provide predictability and consistency, a Water Demand Impact Calculation is proposed to summarize a project's water demand impact and to calculate the amount of water right to be transferred to the City and/or the amount of the in-lieu fee to be paid.

Sample Development Project Zone 1

Water Demand Impact Calculation

Land Use Type	Units	*Water Use Demand Factor	Total Average Demand	AFY Demand
Residential (0-8) du/ac	85	370 gpd/du	21.84 gpm	35.23
			Transferable Water Right (AFY)	35.23
			or	
			**In-Lieu Fee Zone 1 (AFY x $10,686)	$376,468

Sample Development Project Zone 2

Water Demand Impact Calculation

Land Use Type	Units	*Water Use Demand Factor	Total Average Demand	AFY Demand
Residential (0-8) du/ac	85	370 gpd/du	21.84 gpm	35.23
			Total Project Water Right (AFY)	35.23
			or	
			**In-Lieu Fee Zone 2 (AFY x $15,538)	$547,404

***Water Use Demand Factor** – See Table 3-3, City of Ventura Final 2013 Comprehensive Water Resources Report, June 2013.

** **In-Lieu Fee for Zone 1 and 2** – See Appendices A and B , Evaluation of a Water Resource In-Lieu Fee, Kennedy/Jenks Consultants, September 3, 2013.

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ATTACHMENT E

Attachment E: Sample Water Demand Impact Calculation

To provide predictability and consistency, a Water Demand Impact Calculation is proposed to summarize a project's water demand impact and to calculate the amount of water right to be transferred to the City and/or the amount of the in-lieu fee to be paid.

Sample Development Project Zone 1

Water Demand Impact Calculation

Land Use Type	Units	*Water Use Demand Factor	Total Average Demand	AFY Demand
Residential (0-8) du/ac	85	370 gpd/du	21.84 gpm	35.23
			Transferable Water Right (AFY)	35.23
			or	
			**In-Lieu Fee Zone 1 (AFY x $10,686)	$376,468

Sample Development Project Zone 2

Water Demand Impact Calculation

Land Use Type	Units	*Water Use Demand Factor	Total Average Demand	AFY Demand
Residential (0-8) du/ac	85	370 gpd/du	21.84 gpm	35.23
			Total Project Water Right (AFY)	35.23
			or	
			**In-Lieu Fee Zone 2 (AFY x $15,538)	$547,404

***Water Use Demand Factor** – See Table 3-3, City of Ventura Final 2013 Comprehensive Water Resources Report, June 2013.

** **In-Lieu Fee for Zone 1 and 2** – See Appendices A and B, Evaluation of a Water Resource In-Lieu Fee, Kennedy/Jenks Consultants, September 3, 2013.

ATTACHMENT F

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CASITAS Municipal Water District

August 16, 2013

Shana Epstein, General Manager
Ventura Water
P.O. 99
Ventura, California 93002-0099

RE: Comments – Evaluation of a Water Resource In-lieu Fee – 1 July 2013

Dear Shana,

As requested by you, Casitas has reviewed the above referenced document and is respectfully providing to you the following comments for your consideration.

Comment 1: The District understands from Section 3, Page 5, last paragraph, that the City's basis for the in-lieu fee is to generate funding from new development for water supply projects at the Foster Park well field and the Mound Basin DPR. The evaluation's reference to Zone 1 is represented by the area of the City that is within the boundaries of the Casitas Municipal Water District. The in-lieu fee would be charged to new development based on Zone and efficient water demand projections. In Sections 1.1, 2 and 4 of the evaluation, the City does recognize that water purchased from Casitas is limited to use within the Casitas district boundaries (Zone 1), as provided in Water Code Section 71611.

Comment 2: There appears to be an inconsistency between the City's Zone 1 future water demand estimates and the in-lieu fee concept that 3,000 acre-feet from Casitas will be available to new development in Zone 1. Ventura Water's Final 2013 Comprehensive Water Resources Report (RBF Consulting, page 4-9), estimates a 390 acre-foot increase in water demands in Zone 1 between 2015 and 2025, only a 13 percent increase, not 3,000 acre-feet as proposed in the in-lieu fee calculation. The Report's estimated 390 acre-feet of new development water demands in Zone 1 will amount to approximately $4.6M, not the $36M based on 3,000 acre-feet from the Casitas supply. Zone 2 appears to be the likely source of new development and the remaining $110M in-lieu fees.

Comment 3: How does the City mitigate the lag time between the collection of the in-lieu fee from a new development (along with the issuance of a will-serve letter, providing a water connection and delivery of water) and the eventual attainment of the financial means to proceed with the water supply projects at the Foster Park well field and Mound Basin DPR that are needed to serve that new development? What measures or methods are in place to assure that the City does not further stress the existing water supply with the new development while waiting for the funding for the Foster Park well field and Mound Basin DPR projects? As City recognizes in Sections 1.1, 2, and 4 of the Evaluation, the water demand stress caused by Zone 2 development may not be answered by transferring the water demand stresses to the Casitas supply.

If you have any questions in this regard, or can clarify the inconsistency, please contact me.

Sincerely,

Steven E. Wickstrum
General Manager

Ventura Water
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