



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: David Sykes

SUBJECT: SEE BELOW

DATE: 05-31-11

Approved

Date

6/7/11

COUNCIL DISTRICT: Citywide

SUBJECT: CONNECTION FEE STUDY FOR STORM DRAINAGE, SANITARY SEWER AND SEWAGE TREATMENT PLANT

RECOMMENDATION

Approval of the second amendment to the consultant agreement with Financial Consulting Solutions Group, Inc. for the Storm Drainage, Sanitary Sewer and Sewage Treatment Plant Connection Fee Study, extending the term of the agreement from June 30, 2011 to June 30, 2013 and increasing the amount of compensation by \$40,000, for the total agreement amount not to exceed \$348,000.

OUTCOME

Council approval of an amendment to the agreement will allow Financial Consulting Solutions Group, Inc. to complete the connection fee study services associated with the storm drainage and sanitary sewer connection fee study.

BACKGROUND

The City of San José has been collecting sanitary sewer and storm drainage connection fees since the 1950's and late 1960's. Prior to the mid 1950's, sewer construction was financed by the City's General Fund. In addition, in 1976, the City began requiring all developers, businesses, and individual property owners who applied for connection to the City's sanitary and storm sewer systems to pay a Sewage Treatment Plant (STP) fee. The collected fees are used to fund capital improvement programs and future capacity expansion of infrastructure for the respective utilities in accordance with projected growth within the General Plan.

The fees for storm drainage, sanitary sewer, and STP connections have not been evaluated for more than 20 years and have become incapable of funding the necessary system capacity expansion projects. In addition, the current STP connection fee structure does not include any components related to the South Bay Water Recycling (SBWR) program.

In June 2008, Council awarded a contract to Financial Consulting Solutions Group, Inc., (FCS) to evaluate and develop methodologies for determining equitable connection fees for the aforementioned utilities. In August 2009, FCS submitted a draft report, which included preliminary fee amounts. The draft report was distributed to various stakeholders within the development community. Comments received during the outreach period included recommendations to delay the fee implementation pending completion of the Sanitary Sewer Capacity Master Plan. Completion of the Master Plan would allow the proposed new fees to relate directly to growth areas identified in the Envision San José 2040 General Plan Update.

In December 2009, Council approved the First Amendment to extend the agreement with FCS to June 30, 2011, to allow for the fee study to incorporate the results of the Sanitary Sewer Master Plan. Staff is updating the Master Plan Study based on the land use scenario for the Envision San José 2040 General Plan. The scheduled date for City Council consideration for the 2040 General Plan is October of this year.

ANALYSIS

The guiding principle for developing and adopting connection fees is, "Growth pays for growth." In order for the City to better define the potential growth and refine the preliminary sanitary sewer connection fee and storm drainage fee amounts in connection with available capacity, it has been recommended by the development community that the City complete the Master Plans for both the sanitary and storm sewer collection systems. The recommendation during the outreach phase of the study was also supported by the San Jose Silicon Valley Chamber of Commerce.

In addition, the Mayor's March 2011 Budget Message provides direction on reviewing and reducing costs and taxes for private development. The two year time extension will allow FCS to complete the connection fee analysis once the City completes the Sanitary Sewer Master Plans and assisting staff with tasks relating to outreach. The second amendment to the agreement also provides \$40,000 in additional services for potential work such as developing local impact fees and assistance to City in developing a feasible or tiered implementation plan to encourage economic development.

Specific services associated with this second amendment include:

- Reevaluating the sanitary sewer connection fees based upon latest master plans
- Finalize report
- Attend public and stakeholder workshops

Staff considers the additional time and compensation as reasonable for the required scope of work.

EVALUATION AND FOLLOW-UP

The results of the fee study and recommendations for fee increases will be periodically presented to the Transportation and Environment Committee and presented to Council for discussion and approval after outreach with the development community has been completed.

POLICY ALTERNATIVES

Alternative #1: Perform the remaining portions of the study with in-house resources.

Pros: Increased work options for current staff.

Cons: Completion of the study will be delayed.

Reason for not recommending: Due to the specialized nature of the study, there is a lack of relevant experience among City in-house staff that will require significant time and training to gain the expertise required for a project of this magnitude and complexity. This would result in unnecessary project costs and delays.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

The approval of this amendment does not meet any of the criteria identified by the Sunshine Reforms Work Plan. This memorandum will be posted on the City's website for the June 21, 2011 Council agenda.

COORDINATION

This agreement and memorandum have been coordinated with the Planning, Building and Code Enforcement and Finance Departments, the City Attorney's Office, and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

This consultant agreement is consistent with the Council-approved Budget Strategy for Economic Recovery in that the consultant retained under this agreement will complete connection fee study services to continue with capital investments that will spur construction spending in our local economy.

1. AMOUNT OF RECOMMENDATION: \$110,000

2nd Amendment to Consultant Agreement	\$40,000
Consultant Agreement	<u>*308,000</u>
TOTAL AGREEMENT COSTS	\$348,000

* \$308,000 funding for the consultant agreement was already encumbered in Fiscal Year 2007-2008.

2. COST ELEMENTS OF AGREEMENT: Consultant services are reimbursed based on an hourly rate schedule in the master agreement for the involved consultant personnel.

3. SOURCE OF FUNDING: 469 – Storm Sewer Capital Fund
540 – Sanitary Sewer Connection Fee Fund

4. OPERATING COSTS: The proposed operating and maintenance costs of this project have been reviewed, and staff has determined that the project will have no significant adverse impact on the General Fund operating budget.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	RC #	Total Appn.	Amt. for 2 nd Amendment to Consultant Agreement	2010-2011 Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
540	4272	Miscellaneous Projects	148799	\$1,247,000	\$40,000	Capital V-71	10/19/10, Ord. No. 28829

CEQA

CEQA: PP10-066-Agreements/Contracts (New or Amended).

/s/

DAVID SYKES
Acting Director of Public Works

For questions please contact MICHAEL O'CONNELL, ACTING DEPUTY DIRECTOR, at 408-535-8300.