File #: 25-772 **Agenda Date:** 6/4/2025 **Agenda #:** 28.

DATE: June 4, 2025

TO: Honorable Mayor and City Councilmembers

FROM: Water Utilities Department

TITLE: **INTRODUCTION OF AN ORDINANCE AMENDING CHAPTER 29 OF THE OCEANSIDE CITY CODE TO ESTABLISH WASTEWATER SYSTEM CAPACITY BUY-IN FEE ADJUSTMENTS AND INTRODUCTION OF AN ORDINANCE AMENDING CHAPTER 37 OF THE OCEANSIDE CITY CODE TO ESTABLISH WATER SYSTEM CAPACITY BUY-IN FEE ADJUSTMENTS**

RECOMMENDATION

Staff recommends that the City Council introduce an ordinance amending Chapter 29 of the Oceanside City Code to establish wastewater system capacity buy-in fee adjustments; introduce an ordinance amending Chapter 37 of the Oceanside City Code to establish water system buy-in fee adjustments; and direct staff to implement the capacity buy-in fee adjustments.

BACKGROUND AND ANALYSIS

The Oceanside Water Utilities Department (Department) provides water and wastewater services to residential, commercial, industrial, and institutional customers throughout the City. These services are delivered through a complex network of infrastructure that includes treatment plants, pump stations, lift stations, and an extensive water distribution system and wastewater collection system of pipelines and appurtenances.

Customers who require a new service connection for water and sewer services (essentially, a new or upsized meter, not an existing connection that is being taken over) provided by the Department must pay the appropriate water and/or wastewater capacity buy-in fees. These fees account for the cost of providing the necessary capacity to provide service, as well as a pro-rated portion of the cost of building the water and wastewater systems to avoid shifting these new burdens to existing rate payers.

The Department recently secured the services of Carollo Engineers to update these fees, which have not been updated since 2015. The final fee study from Carollo Engineers supporting the revised fees is Attachment D to this staff report. To comply with Government Code section 66016.6, this study was posted on the City's website for the public to view at least 14 days prior to this hearing.

Wastewater and Water System Capacity Buy-in Fees

System capacity buy-in fees are charged to new developments or modifications to existing developments resulting in a property requiring additional water or wastewater system capacity. The proposed wastewater and water system capacity buy-in fees were determined by calculating the value of each system's existing and planned assets and dividing that value by the ultimate capacity of the system over the study period. For this study, the fees were determined based on a 10-year study period from 2025 through 2035. The 2035 capacity of the system was calculated by applying SANDAG's projected population growth for the City of Oceanside (approximately 5.2%) to the current number of customers within each system. The value of available capacity within the water and wastewater systems is defined as:

- The value of the existing assets less outstanding debt principal and contributed capital (grants and developer contributions) plus the cost of new capital for future users.

Available capacity is defined as:

- The total number of meter equivalents served by the system.

The City's previous master planning efforts identified potential Capital Improvement Program (CIP) projects for the water and wastewater systems through 2050. Ongoing internal capital planning has identified detailed projects through 2035, and a new master planning effort is scheduled to be completed in the next few years. Many of the projects will provide benefits to both existing and future users. The proposed increase in wastewater and water system capacity buy-in fees will generate revenue needed for construction and expansion of facilities to accommodate growth and projects without shifting growth-related costs to rate payers. The table below summarizes the CIP projects that have been considered.

CIP Benefitting New and Existing Users through Planning Period (2035)				
Project Type		**Water ($Millions)**	**Wastewater ($Millions)**	**Total ($Millions)**
Pipeline Replace	Existing Users	$ 42.20	$111.59	$153.79
	Future Users	2.31	4.08	6.40
Recycled Water	Existing Users	83.28	0.00	83.28
	Future Users	4.57	0.00	4.57
Other Projects (tr plant, pumping, s facilities, etc.)	Existing Users	73.29	285.56	358.85
	Future Users	2.97	13.11	16.08
Total CIP	**Existing Users**	**198.77**	**397.15**	**595.92**
	Future Users	**9.85**	**17.19**	**27.04**
Grand Total		**$208.63**	**$414.34**	**$622.97**

To ensure a fair and legally compliant rate structure, the City calculated the proposed capacity buy-in fees in accordance with the principles outlined in Government Code Section 66013. This statute governs fees related to water and sewer service connections, including capacity charges and connection fees.

Under Section 66013, public agencies are required to ensure that such fees:

- Do not exceed the estimated reasonable cost of providing the service or facility for which the fee is charged, and
- Are based on a reasonable relationship between the fee charged and the burden imposed by the development project or customer.

To meet these requirements, staff applied the same rigorous methodology used in developing other utility rates. This included a cost-of-service analysis that allocates the value of existing and future infrastructure capacity across projected system usage, using a transparent and data-driven approach. The analysis accounts for only those costs that are attributable to new or expanded service demands, ensuring that the fees are proportionate and justified.

By following this approach and complying with Section 66013, the proposed capacity buy-in fees are structured to recover no more than the City's actual cost of providing additional water and sewer system capacity to new or upsized connections.

Wastewater System

New single-family residences are required to have fire sprinklers, which typically require a 1-inch meter for fire flow, but a typical single-family residence would generally require a ¾-inch meter based on fixture unit count, they are billed according to their estimated domestic water use which is a ¾-inch meter

The current and proposed wastewater system capacity fees by meter size are shown as follows:

Wastewater System Capacity Buy-in Fees-Single Family Residential				
Meter Size	**Current Fee**	**Proposed Fee**	**Increase**	**Percentage**
All meter sizes	$7,794	$9,800	$2,006	25.73%

All wastewater buy-in fees, including single family residential, multi-family and commercial, are proposed to increase by 25.73%.

In addition to this increase for customers with typical (normal strength) wastewater discharge, industrial and other high-strength users are assessed capacity charges based on strength of their wastewater. High-strength discharges are defined as flows exceeding 300 parts per million (ppm) for biochemical oxygen demand (BOD) or total suspended solids, or more than 25 ppm for ammonia. Because these users place a greater demand on treatment plant processes, the calculated fees are based on the proportionate use of treatment capacity. The table below shows the proposed capacity buy-in fees for each of these loading parameters:

Proposed Wastewater System Capacity Buy-in Fees for Industrial and High-Stre		
Parameter	**Current Buy-in Cost**	**Proposed Buy-in Cost**
Per meter equivalent (custor	$143.78	$180.78
Per hundred cubic feet (748 Discharged	60.90	76.57
Per pound of Biochemical O Discharged	8.31	10.45
Per pound of Total Suspend	4.44	5.58
Per pound of Ammonia Disc	5.59	7.03
(1) Applies to higher-than-normal-strength wastewater		

Water System

As noted above, the average single-family residence with fire sprinkler system would require a 1-inch meter. However, the actual domestic water demand based on fixture count would generally only require a ¾-inch meter. To account for this, the water capacity buy-in fee for new single-family residences will be based on the 3/4-inch meter fee, with an additional charge to cover the incremental cost of 1-inch meter equipment and installation.

Attachment 2 provides a comparison of water system capacity buy-in fees across other jurisdictions in San Diego County. Oceanside's proposed fees fall within the upper third of the agencies reviewed.

The current and proposed water system capacity fees for a typical single-family residence is shown below:

Water System Capacity Buy-in Fees				
Meter Size	**Current Fee**	**Proposed Fee**	**Increase**	**Percentage**
3/4-inch	$8,520	$10,525	$2,005	23.53%

All water buy-in fees, including single family residential, multi-family and commercial, are proposed to increase by 23.53%.

The proposed rate and system capacity buy-in fee increases are exempt from California Environmental Quality Act requirements. As provided by SB 330, new housing development projects that file valid preliminary applications under SB 330 are subject to the buy-in fees in effect when the preliminary application was submitted.

FISCAL IMPACT

The proposed increase in wastewater and water system capacity buy-in fees are projected to generate the necessary revenue to support the construction and expansion of system infrastructure.

Based on FY 2023-24 development activity, the increased fees are projected to generate an additional $350,000 in wastewater revenue for a total of approximately $1,740,000. Similarly, the water system is anticipated to gain an additional $370,000 for a total of $1,960,000. Charging appropriate buy-in fees ensures that new development contributes its fair share of costs, reducing the financial burden on existing ratepayers. These fees are used to replace, expand, and upsize the City's water and wastewater systems to meet increased demand from growth.

To maintain alignment with rising construction costs, staff recommends that capacity buy-in fees be indexed annually to the *Engineering News-Record (ENR) 20-City Average Construction Cost Index*. Without these adjustments, the Water Utilities Department would not have sufficient revenue to fund the additional capacity needed to accommodate future development.

COMMISSION OR COMMITTEE REPORT

The Utilities Commission approved staff's recommendations at its regularly scheduled meeting on May 20, 2025

CITY ATTORNEY'S ANALYSIS

The Ordinances have been reviewed by the City Attorney and approved as to form.

Prepared by: John McKelvey, Principal Management Analyst
Reviewed by: Michael Gossman, Assistant City Manager
Submitted by: Jonathan Borrego, City Manager

ATTACHMENTS:
1. Staff Report
2. Comparison of Buy-in Fees for Local Agencies
3. Wastewater Buy-in Fees Ordinance
4. Water Buy-in Fees Ordinance
5. 2025 Capacity Fee Report