

# Water Capacity Fee Application Process Guide

## What is a Water Capacity Fee?

A water capacity fee is a one-time fee paid when establishing a **new water service connection** that will receive treated water from the District's wholesale customers (Sunnyslope County Water District, City of Hollister, and eventually the City of San Juan Bautista). This fee helps fund capital improvements necessary to provide supplemental water to accommodate new growth within **Zone 6**. This fee is separate from any connection fee assessed by your local retail water provider.

## Who Must Pay This Fee?

You must pay a capacity fee if you are requesting a **new water service connection** for any property or facility within the District's **Zone 6** service area that will receive treated water service from the agencies listed above.

## Application Process

### Step 1: Determine Your Fee Amount

The capacity fee varies based on your water meter size. Note that most single-family residences will pay the 5/8" capacity fee rate if the building department requires the installation of a 1" meter to meet fire flow requirements.

#### Meter Size and Applicable Fee:

- 5/8" meter: \$12,327
- 3/4" meter: \$18,490
- 1" meter: \$30,817
- 1.5" meter: \$61,635
- 2" meter: \$98,616
- 3" meter: \$215,722
- 4" meter: \$388,300
- >4": Contact the District for pricing
- 

 **Note:** New single-family residences required to install a 1" meter for fire flow requirements will be charged at the 5/8" capacity fee rate of \$12,327

### Step 2: Submit Payment

 **Timing:** Payment must be made **in full prior to obtaining your building permit(s)** for your development project.

 **Where to Pay:** San Benito County Water District, 30 Mansfield Road, Hollister, CA 95023 either in person or via mail. Methods accepted are cash or check. We do not accept credit card payments at this time.

 **Important:** No property within **Zone 6** is eligible to receive treated water until all applicable capacity fees are paid in full.

### Step 3: Obtain Your Building Permit

Once your capacity fee is paid, you may proceed with obtaining your building permit from the appropriate agency.

## Important Information

### Annual Fee Adjustments

💰 Capacity fees are automatically adjusted each July 1st using the Consumer Price Index for the San Francisco Bay Area.

### Expired Building Permits

✘ If your building permit expires, the capacity fees you paid will **not be refunded**.

🏗️ If you seek a new building permit for the same parcel later, you must pay a capacity fee equal to the current rate minus what you previously paid.

### Appeals Process

If you wish to appeal any decision or determination regarding your capacity fee, you may file a written appeal with the Assistant General Manager within **15 days** of the decision.

### Contact Information

✉️ For questions or additional information:

#### San Benito County Water District

📍 30 Mansfield Road, Hollister, CA 95023 📞 (831) 637-8218 | 🌐 [www.sbcwd.ca.gov](http://www.sbcwd.ca.gov)

🌐 Visit the District website for the complete Water Capacity Fee Report and Ordinance No. 67



**SAN BENITO COUNTY WATER DISTRICT**  
**Water Capacity Fee Application Form**

30 Mansfield Road, Hollister, CA 95023 | (831) 637-8218 | www.sbcwd.ca.gov

**SECTION 1: APPLICANT INFORMATION**

Applicant Name \_\_\_\_\_  
Mailing Address \_\_\_\_\_  
Phone Number \_\_\_\_\_  
Email Address \_\_\_\_\_

**SECTION 2: PROJECT INFORMATION**

Project Name or Development Name \_\_\_\_\_  
Project Address (APN if available) \_\_\_\_\_  
Type of Development  Residential  Commercial  Industrial  
 Agricultural  
Number of Units or Buildings \_\_\_\_\_  
Expected Water Use (AFY or GPD) \_\_\_\_\_  
Description of Proposed Use \_\_\_\_\_

**SECTION 3: WATER SERVICE DETAILS**

New Meter Requested  Yes  No  
Meter Size Requested  5/8"  3/4"  1"  1.5"  2"  3"  4"  Other: \_\_\_\_  
Connection Type  Domestic  Irrigation  Fire  Other: \_\_\_\_

**SECTION 4: WATER CAPACITY FEE CALCULATION**

Description	Units	Rate	Total
5/8" meter	_____	\$12,327 ea	\$ _____
3/4" meter	_____	\$18,490 ea	\$ _____
1" meter w/Fire Exemption*	_____	\$12,327 ea	\$ _____
1" meter	_____	\$30,817 ea	\$ _____
1.5" meter	_____	\$61,635 ea	\$ _____
2" meter	_____	\$98,616 ea	\$ _____
3" meter	_____	\$215,722 ea	\$ _____
4" meter	_____	\$388,300 ea	\$ _____
Greater than 4"***	_____	\$ _____ ea	\$ _____

**Total Amount Due: \$ \_\_\_\_\_**

\*Applying for Single-Family Residence Fire Flow Exemption:  Yes  No

\*\*Greater than 4", please see district for pricing

(Fees are subject to change based on Board-approved rates. Please check current rates before submitting.)

**SECTION 5: SIGNATURE AND ACKNOWLEDGEMENTS**

By signing below, I certify that the information provided in this application is true and correct. I understand that capacity fees are non-refundable once paid and are required before water service activation or connection approval.

**Applicant Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

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**FOR DISTRICT USE ONLY**

<b>Field</b>	<b>Notes</b>
Application Received By	_____
Date Received	_____
Project Approved By	_____
Capacity Fee Paid (Date)	_____
Payment Method	<input type="checkbox"/> Check <input type="checkbox"/> Cash
Date Meter Installed	_____
Meter Reading	_____
Account Number	_____

**ORDINANCE NO. 67**

**AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE  
SAN BENITO COUNTY WATER DISTRICT  
(REPEALING AND REESTABLISHING CAPACITY FEES WITHIN THE  
DISTRICT'S ZONE 6 SERVICE AREA;  
ADDING CHAPTER 4.53 TO THE DISTRICT CODE)**

**BE IT ORDAINED BY THE BOARD OF  
DIRECTORS OF THE SAN BENITO  
COUNTY WATER DISTRICT THAT  
ORDINANCE NO. 67 IS ENACTED AS  
FOLLOWS:**

1. Repeal of Ordinance No. 66. The San Benito County Water District ("District") was alerted that it failed to provide prior notice of Ordinance No. 66 to authorized representatives of the Bay Area Building Industry Association ("BIA"), as required by Government Code section 66016(a). To address the risk of litigation by the Bay Area BIA, the District is repealing the capacity fees established by Ordinance No. 66, refunding any capacity fees collected since the Ordinance took effect, and reestablishing those capacity fees through adoption of Ordinance No. 67.
2. Authority. Pursuant to the Water Code Appendix sections 70-6 and 70-9.2, the District has the express authority to impose fees and charges for water service by any and every lawful act necessary for a sufficient water supply to be available for present and future beneficial use, and to establish such fees and charges by ordinance. District ordinances shall be adopted pursuant to the same procedures applicable to the County of San Benito. The District adopts this Ordinance to establish capacity fees for all new water service connections that will receive treated water from the District's wholesale water customers within the District's Zone 6 service area, as the boundaries of Zone 6 may be amended from time to time, including the Sunnyslope County Water District and the City of Hollister, as well as potential future customers in the City of San Juan Bautista, pursuant to sections 66013 and 66016 of the California Government Code.
3. Findings. The following findings are adopted by the Board.
  - a. The District owns water treatment plants in the Hollister Urban Area that deliver treated water to the District's wholesale water customers, which provide municipal and industrial water service within those customers' respective service areas. These wholesale customers include the Sunnyslope County Water District and the City of Hollister. The District contemplates that the City of San Juan Bautista may be added as a wholesale water customer.

- b. The District manages local and imported surface water through the San Benito River System and the San Felipe Distribution System in order to deliver imported Central Valley Project (“CVP”) water to the aforementioned retail water agencies.
- c. The District’s 2023 San Benito Urban Areas Water Supply and Treatment Master Plan Update states that current urban water demands are approximately 5,560 acre-feet per year (“AFY”), and that, due to anticipated urban growth, projected urban water demands will be approximately 12,500 AFY by 2045. Because existing water supplies cannot satisfy anticipated future demand, the 2023 San Benito Urban Areas Water Supply and Treatment Master Plan Update identifies potential future projects that can provide supplemental water supplies for new development.
- d. The District finds that new growth within the District’s Zone 6 which will receive treated water from District-owned treatment facilities should pay a fair share of the cost of future projects that can provide supplemental water supplies for new development and that existing customers should not subsidize the cost of providing supplemental water for new growth.
- e. The capacity fees established herein are for the purposes of funding capital projects and improvements necessary to provide supplemental water for new growth within the District’s Zone 6.
- f. Pursuant to Government Code section 66016.6, the District prepared a Water Capacity Fee Report (“Capacity Fee Study”) to evaluate capacity fees that can be charged to new development to fund the costs of supplemental water supplies that do not exceed the estimated reasonable cost of providing water service.
- g. Pursuant to Government Code sections 66016(a) and 66016.6, at least 14 days prior to the first reading of Ordinance No. 67, held on November 19, 2025, the District posted on its website, shared with interested stakeholders, and made available to at its district office, located at 30 Mansfield Road in Hollister, California, the Capacity Fee Study containing evidence that demonstrates the capacity fees do not exceed the estimated reasonable cost of providing service.
- h. The District’s decision to adopt capacity fees is not subject to environmental review under the California Environmental Quality Act (“CEQA”). First, the capacity fees, in and of themselves, do not have the potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment and therefore are not considered a

“project” under CEQA. (Pub. Resources Code, § 21065; 14 Cal. Code Regs., § 15378, subd. (a).) Further, capacity fees are a government funding mechanism that does not involve any commitment by the District to any specific project which may result in a potentially significant physical impact on the environment. (14 Cal. Code Regs., § 15378, subd. (b)(4).)

- i. The capacity fees will not be levied as an incident of property ownership but are levied solely at the request of a property owner or its agency for the privilege of gaining access to water supplies from the District’s treated water system and related facilities.
  - j. The capacity fees for new connections do not involve rates, delivery charges, or fixed monthly charges for water delivery or treatment. The capacity fees are imposed only as a condition of receiving water service through new connections.
  - k. The capacity fees adopted by this Ordinance do not exceed the estimated reasonable costs of providing the services for which the fees or charges are imposed.
4. Adoption of Water Capacity Fee Report. The capacity fees reflected in the Capacity Fee Study are hereby adopted as the new capacity fees for all new water service connections that will receive treated water from the District’s wholesale water customers within the District’s Zone 6 service area, as the boundaries of Zone 6 may be amended from time to time, including the Sunnyslope County Water District and the City of Hollister as well as potential future customers in the City of San Juan Bautista.
5. Addition of Chapter 4.53 to the District Code. Chapter 4.53 shall be added to the District Code of Regulations setting forth the capacity fees adopted pursuant to this Ordinance, and shall read in full as follows:

### **Chapter 4.53 – CAPACITY FEES**

#### **4.53.010 – Purpose and intent.**

The purpose and intent of this Chapter is to set forth the rules and regulations that shall apply to capacity fees for new water service connections that will receive treated water from the District’s wholesale water customers within the Zone 6 service area, as the boundaries of Zone 6 may be amended from time to time, including the Sunnyslope County Water District and the City of Hollister, as well as potential future customers in the City of San Juan Bautista.

**4.53.020 – Applicability.**

The capacity fees established by this Ordinance shall apply to new water service connections that will receive treated water from the District’s wholesale water customers within the District’s Zone 6 service area, as the boundaries of Zone 6 may be amended from time to time, including the Sunnyslope County Water District and the City of Hollister, as well as potential future customers in the City of San Juan Bautista.

**4.53.030 – Effective date.**

The capacity fees shall take effect at 12:01 a.m. on the sixty-first day following the final Board action on the adoption of the capacity fee or an increase thereto.

**4.53.040 – Capacity fees.**

A capacity fee for the right of service in existing, proposed, and pending water supply, treatment, storage, transmission, and distribution facilities of the District shall be payable to the District for all new water service connections that will receive treated water from the District’s wholesale water customers within the District’s Zone 6 service area, as the boundaries of Zone 6 may be amended from time to time, including the Sunnyslope County Water District and the City of Hollister, as well as potential future customers in the City of San Juan Bautista. The capacity fees shall be in the amounts set forth in Appendix A of this Chapter, incorporated herein by reference.

**4.53.050 – Adjustment of capacity fees.**

The capacity fees shall be automatically adjusted each July 1 using the Consumer Price Index for the San Francisco Bay Area—All Urban Index for May of the then current year and May of the previous year.

**4.53.060 – Payment of all fees.**

No property or facility within the boundaries of the District’s Zone 6 service area, as the boundaries of Zone 6 may be amended from time to time, shall be eligible to receive treated water from the District’s wholesale water customers, including the Sunnyslope County Water District and the City of Hollister, as well as potential future customers in the City of

San Juan Bautista, until all applicable capacity fees are paid in full. The full payment of all applicable capacity fees shall be due prior to obtaining the respective building permit(s) for the development project.

**4.53.070 – Effect of Repeal or Amendment on Past Actions and Obligations.**

This Ordinance does not affect prosecutions for ordinance violations committed prior to the effective date of this Ordinance, does not waive any fee or penalty due and unpaid on the effective date of this Ordinance, and does not affect the validity of any bond or case deposit posted, filed, or deposited pursuant to the requirements of any ordinance.

**4.53.080 – Expiration of building permit.**

If a building permit expires, those capacity fees previously paid in relation thereto shall not be refunded. If a new building permit is subsequently sought for the same parcel, a capacity fee shall be paid prior to issuance of a new permit. The amount of the capacity fee shall be the current capacity fee less the prior amount paid.

**4.53.090 – Fee limitation.**

The capacity fees adopted by this Ordinance shall not exceed the estimated reasonable costs of providing the services for which the capacity fees are imposed. Any charges that exceed the reasonable costs of providing the service shall be refunded.

**4.53.100 – Record of fees.**

The District shall keep accurate records concerning the collection of capacity fees. Such records shall set forth the amount of capacity fees paid for each parcel of land, building, or improvement within the District’s Zone 6 boundaries.

**4.53.110 – Rounded fees.**

Capacity fees shall be rounded to the nearest dollar.

**4.53.120 – Appeals.**

An appeal from any decision or determination made pursuant to this Chapter may be made to the Board of Directors. Any such appeal shall be in writing and shall be filed with the District’s Manager of Administration, Finance, and Business Services within 15 days after the decision or determination. In the absence of such an appeal, the decision or determination shall be deemed final. In the event of such an appeal, the decision or determination appealed shall be final upon the final decision reached by the Board of Directors upon such an appeal.

6. Effective Date of Ordinance. Pursuant to Government Code section 66017(a), this ordinance shall become effective and in full force and effect at 12:01 a.m. on the sixty-first day after its final passage.
7. Publication. Within 15 days after its passage, this Ordinance shall be published once in a newspaper of general circulation in the County of San Benito, State of California, together with the names of the members of the Board of Directors voting for and against the same.

**PASSED AND ADOPTED** this 17<sup>th</sup> day of December 2025, by the San Benito County Water District Board of Directors by the following vote:

AYES:           DIRECTORS:

NOES:           DIRECTORS:

ABSENT:       DIRECTORS:

ABSTAIN:       DIRECTORS:

(Signature of presiding Board member  
Attested by Board Secretary  
Ordinance #67)

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Doug Williams  
President

ATTEST:

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Barbara L. Mauro  
Board Secretary

**APPENDIX A – WATER CAPACITY FEES**

A. RATE PER EQUIVALENT METER - \$12,327

B. WATER SUPPLY CAPACITY AT DIFFERENT METER SIZES

The table included herein sets forth the capacity fee for different meter sizes, from 5/8” to 4”. The District will charge new single family residences which are required to install a 1” meter for fire requirements at the 5/8” capacity fee.

Meter Size	Ratio	Fee, \$/mtr
5/8"	1.00	\$12,327
3/4"	1.50	\$18,490
1"	2.50	\$30,817
1.5"	5.00	\$61,635
2"	8.00	\$98,616
3"	17.50	\$215,722
4"	31.50	\$388,300

**Meters Larger than 4”:** The capacity fee for meters that are greater than 4” shall be set by the District upon request.



**SAN BENITO COUNTY WATER DISTRICT**  
**Water Capacity Fee Report**

**FINAL REPORT / MAY 7, 2025**







May 7, 2025

Mr. Brett Miller, CPA, CPFO  
Assistant General Manager  
San Benito County Water District  
30 Mansfield Road  
Hollister, CA 95023

**Subject: Water Capacity Fee Report – FINAL**

Dear Mr. Miller:

Raftelis is pleased to provide this Water Capacity Fee report for the San Benito County Water District (SBCWD) to develop a water capacity fee.

This report summarizes the methodology for calculating the fee and presents the recommended water capacity fee.

It has been a pleasure working with you, and we thank you and SBCWD staff for the support provided during the course of this study.

Sincerely,

A handwritten signature in black ink that reads 'Theresa M. Jurotich'.

**Theresa Jurotich, P.E. (KS, WA), PMP**  
Manager

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# 1. Executive Summary

## 1.1. Background

San Benito County Water District (SBCWD) manages the water resources within San Benito County and is the Groundwater Sustainability Agency for the county. SBCWD provides retail and wholesale potable water services as well as groundwater replenishment and recycled water. SBCWD owns two surface water treatment plants and manages local and imported surface water through the San Benito River System and the San Felipe Distribution System, respectively. A portion of the drinking water delivered to the Sunnyslope County Water District and City of Hollister becomes recycled water (from the City of Hollister’s reclamation plant) that is used for irrigation. The imported water improves overall water quality as the groundwater pumped from local aquifers has varying levels of salts and high mineral content.

## 1.2. Background of the Study

SBCWD is developing a capacity fee for the purpose of funding potential water supply projects to accommodate future growth in municipal customers. This report documents the resultant findings, analyses, and proposed SBCWD water capacity fees. The capacity fees documented in this report are in accordance with the rules and regulations of California State Government Code Section 66013. This report is the formal technical documentation in support of adoption of the water capacity facility fees within SBCWD’s service area including data sources, methodology, results, and comparisons.

The major objectives of the study include the following:

- Develop capacity fees to fund the proposed water supply expansion projects being developed by the SBCWD;
- Ensuring capacity fees are fair to both future users and to existing users who have invested, and reinvested, in the water supply system.

## 1.3. Capacity Fees

Capacity fees are also commonly known as developer fees, development impact fees, connection fees, and system development charges, among others. This report uses the term capacity fees reflecting the nomenclature most common in California. Capacity fees are one-time capital charges assessed against a new development to recover the proportional share of capital facility investment necessary to accommodate growth. Capacity fees are codified in the California Government Code Sections 66013-60025. Capacity fees must reflect the link between the fee imposed on, and the benefit received by, a new connection to the system. The fee charged may not exceed the estimated reasonable cost of providing the service for which the fee is charged.

Broadly, utilities use one of three different methodologies to calculate capacity fees: Buy-In, Incremental, and Hybrid; with variations of each dictated by local community and system characteristics, as well as policy objectives. Utilities have broad latitude in the method and approach used to calculate fees provided the fees do not exceed the estimated reasonable cost for providing service for which the fee is charged.

## 1.4. Recommended Fees

Since SBCWD is capacity constrained, the Raftelis Team recommends using the incremental method. Raftelis worked closely with SBCWD staff and referenced the Final San Benito Urban Areas Water Supply and Treatment Master Plan Update (October 25, 2023) to determine the estimated cost of proposed water supply expansion projects and the estimated number of new equivalent single family dwelling units (EDU) that could be supported by the proposed water supply expansion projects. In an email from HDR on May 2, 2025, an EDU was defined as a 5/8” meter (equivalent meter (EM)).

The capacity fee is \$12,327/EM. The fee for other meter sizes is determined based on AWWA safe operating capacities. This fee will be adjusted annually each July 1 using the Consumer Price Index for the San Francisco Bay Area – All urban index for May of the then current year and May of the previous year.

## 2. Background

For publicly owned systems, most of the assets are typically paid for by the contributions of existing customers through rates, charges, securing debt, and taxes. In service areas that incorporate new customers, the infrastructure developed by previous customers is generally extended towards the service of new customers. Existing customers' investment in the existing system capacity allows newly connecting customers to take advantage of unused surplus capacity. To further economic equality among new and existing customers, new connectors will typically "Buy-In" to the existing and pre-funded facilities based on the existing assets, effectively putting them on par with existing customers. In other words, the new users are buying into the existing system based on the replacement costs of existing assets to continue to provide the same level of service to new customers through repairs, expansions, and upgrades to the system.

The basic economic philosophy behind capacity fees is that the costs of providing service should be paid for by those that receive utility from the product. To achieve fair distribution of the value of the system, the charge should reflect a reasonable estimate of the cost of providing capacity to new users and not unduly burden existing users through a comparable rate increase. Accordingly, many utilities make this philosophy one of their primary guiding principles when developing their capacity fee structure.

The philosophy that service should be paid for by those that receive utility from the product is often referred to as "growth-should-pay-for-growth." The principal is summarized in the American Water Works Association (AWWA) Manual M26: Water Rates and Related Charges:

*"The purpose of designing customer-contributed-capital system charges is to prevent or reduce the inequity to existing customers that results when these customers must pay the increase in water rates that are needed to pay for added plant costs for new customers. Contributed capital reduces the need for new outside sources of capital, which ordinarily has been serviced from the revenue stream. Under a system of contributed capital, many water utilities are able to finance required facilities by use of a 'growth-pays-for-growth' policy."*

This principle, in general, applies to water, wastewater, and storm drainage systems. In the excerpt above, customer-contributed-capital system charges are equivalent to capacity fees.

Values shown in report tables and figures are rounded to the digit shown. Therefore, any manual reproduction of the calculations shown may not match the precise results displayed in the report.

# 3. Methodology Overview

A capacity fee is a one-time charge paid by a new water system customer for the cost of backbone facilities and incremental expansion necessary to provide water system capacity to that new customer. However, it is also assessed to existing customers requiring increased water system capacity. Backbone facilities refers to those components of the system that are necessary to provide service to all customers, inclusive of supply, treatment and transmission lines. Revenues generated by this charge are used to pay for growth-related water facilities.

## 3.1. Capacity Fee Methodologies

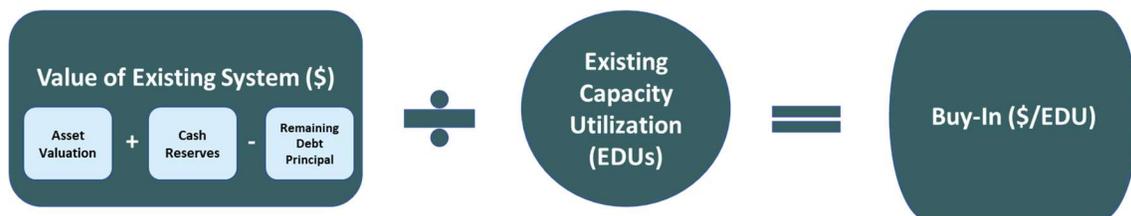
The method for calculating capacity fees generally utilizes one of the following three approaches: Buy-In, Incremental, or Hybrid. The Buy-In approach is designed to recover the historical costs of plant investment in proportion to the amount of built capacity, some of which is available for new growth. The Incremental approach is designed to recover the costs of future growth-related projects and the additional capacity those projects will yield. The Hybrid approach is appropriate where some remaining capacity is available in the existing system and where new, future facilities are required for development.

### 3.1.1. Buy-In Method

The Buy-In Method is based on the premise that new customers are entitled to service at the same cost as existing customers. Under this approach, new customers pay only an amount equal to the current system value, either using the original cost or replacement cost as the valuation basis and either netting the value of depreciation or not. This net investment, or value of the system, is then divided by the current capacity utilization on the system by existing users to determine the Buy-In cost per unit.

For example, if the existing system has 100 equivalent dwelling units and the new connector uses an equivalent unit, then the new customer would pay 1/100 of the total value of the existing system. By contributing this capacity fee, the new connector has “bought in” to the existing system. The new user has effectively acquired a financial position on par with existing customers and will face future capital re-investment on equal financial footing with those customers. This approach is suitable when: (1) an agency has built most or all of their facilities and only a small, or no, portion of future facilities are required for build-out development, (2) an agency does not have a detailed adopted long-term capital improvement plan, or (3) an agency’s “build-out” date is so far out in the future that it is difficult to accurately project growth and required facilities with precision. Figure 3-1 shows the framework for calculating an Equity Buy-In capacity fee.

Figure 3-1: Formula for Equity Buy-In Approach



### 3.1.2. Incremental Cost Method

The Incremental-Cost Method states that new development (new users) should pay for the additional capacity and expansions necessary to accommodate them. This method is typically used when there are specific capital improvements needed to furnish growth for new development. Under the Incremental-Cost Method, growth-related capital improvements are allocated to new development based on their estimated usage or capacity requirements, irrespective of the value of past investments made by existing customers.

For instance, if it costs X dollars (\$X) to provide water supply for 100 additional equivalent dwelling units and a new connector uses one of those equivalents, then the new user would pay \$X/100 to connect to the system. In other words, new customers pay the incremental cost of capacity based on the estimated cost of the new facility projects. This method is generally used when detailed facilities are identified for the capacity required to serve new customers and little to no existing system capacity is available for development. While California Code 66013 (b)(3) does not define a specific period over which to include future projects, these periods can be as long as a master planning period. Figure 3-2 shows the framework for calculating an incremental cost capacity fee.

Figure 3-2: Formula for Incremental Cost Method



### 3.1.3. Hybrid Method

The Hybrid Method is typically used where some capacity is available to serve new growth, but additional expansion is still necessary to accommodate new development. Under the hybrid method, the capacity fee is based on a weighted average of the existing capacity value and the costs of necessary expansions (i.e., the Buy-In component and the Incremental-cost component).

Capital improvements that are required to serve existing users and expand system capacity to serve future customers may be included proportionally to the percentage of the cost specifically required for expansion of the system.

### 3.1.4. Recommended Methodology

Since SBCWD is capacity constrained, the Raftelis Team recommends using the incremental method.

## 3.2. Asset Valuation Options

Four principal methods are used to estimate the value of existing facilities: original cost, replacement cost, original cost less depreciation, and replacement cost less depreciation.

### 3.2.1. Original Cost

The principal advantages of original cost valuation are relative simplicity and stability since the recorded costs of fixed assets are held constant. The major criticism levied against the original cost method is that it

disregards changes in the time value of money, and future capital costs, which are attributable to inflation and other factors. As evidenced by history, prices tend to increase rather than to remain constant or decrease. This situation may be exacerbated since most water and sewer systems are developed over time on a piecemeal basis as demanded by the customer base and service area growth. Consequently, each asset addition is paid for with dollars of different purchasing power. When these outlays are added together to obtain a plant value, the result can be misleading. Additionally, original cost does not account for the depreciation of facilities and other assets as they age, which may not be representative of the state of the systems. We discuss depreciation in further detail below.

### **3.2.2. Replacement Cost**

Changes in the value of the dollar over time, represented by cost inflation, is recognized by the replacement cost valuation. The replacement cost represents the cost of duplicating the existing water and sewer facilities (or duplicating their functions) at current dollars. Unlike the original cost approach, the replacement cost approach recognizes price level changes that have occurred since plant construction and subsequent investments. The most accurate replacement cost valuation requires a physical inventory and appraisal of plant components in terms of their replacement costs at the time of valuation. However, with original cost records available, a reasonable approximation of replacement cost plant value can be easily derived by trending historical original costs. This approach employs the use of cost indices to express actual capital investment by the utility in current dollars. An obvious advantage of the replacement cost approach is that it accounts for changes in the value of money over time. However, just like original cost it does not account for the depreciation of facilities and other system assets.

### **3.2.3. Original Cost Less Depreciation**

The current value of water and sewer facilities is materially affected by the effects of age. All assets have estimated useful lives, which vary by type. For example, pumps may have a 20-year life, buildings 50 years, and pipelines 40-80 years depending on the material of construction. Each year an asset is revalued by the fraction of its useful life relative to its original cost. This is referred to as straight line or linear depreciation. At the end of an asset's useful life, it is worth zero dollars on paper, though it may still be in service. Depreciation accounts for estimated devaluation in system assets caused by wear and tear, decay, inadequacy, and obsolescence. To provide appropriate recognition of the effects of depreciation on existing water and sewer systems, the original cost valuation can be expressed as net of depreciation to yield the original cost less depreciation. Accumulated depreciation is computed for each asset and reduces the valuation based on age or condition, from the respective total original cost.

### **3.2.4. Replacement Cost Less Depreciation (RCLD)**

The RCLD is identical to the original cost less depreciation valuation method, with the exception that asset cost and asset depreciation is expressed in today's dollars rather than the value of the dollar when the asset was placed in service. Original cost and depreciation are inflated using historical indices to reflect today's dollars. Replacement cost depreciation is then subtracted from the replacement cost of the asset to yield replacement cost less depreciation. RCLD allows for an accounting of system assets in present value while also accounting for proportional devaluation via depreciation. To reiterate from Section 3.2.2, replacement cost is the common nomenclature; however, in the context of this study it is not a process to appraise or receive bids on replacing each existing asset or facility; it is instead a method of approximating the replacement cost of existing facilities based on historical construction cost increases.

### **3.2.5. Recommended Asset Valuation Method**

Raftelis recommends using the RCLD method to account for today's replacement cost for system improvements while acknowledging the remaining useful life of the system facilities. This valuation approach ensures that future users' investment represents a fair share of the system in both the accounting sense and the level of service these future users are purchasing.

## 4. Capacity Fee Development

The incremental method capacity fee is based on the cost of potential water supply expansion projects divided by the additional capacity provided by those projects. Potential water supply expansion projects have been identified by SBCWD’s engineering consultants, HDR<sup>1</sup>.

Table 4-1 shows the steps to determining the estimated number of single-family residential (SFR) dwelling units that can be served by the proposed water supply expansion projects. Per HDR, the average annual yield of the North Area Groundwater Phase 1 is anticipated to be approximately 1,000 AF, and the average yield of the BF Sisk project is anticipated to be approximately 1,500 AF<sup>2</sup>. Due to mixing of water sources to meet quality requirements, each unit of demand for new developments will be met with an 81/19 percent mix of new water source to current water source. This in effect increases the average annual yield to 3,086 AF. The presumed average demand per single-family residential dwelling unit is 0.33 AF<sup>3</sup>. Dividing 3,086 AF of capacity by 0.33 AF of demand per unit results in an estimated 9,353 single-family equivalent units that can be served by the new capacity. The equivalent meter (EM) size associated with an EDU is a 5/8” meter per an email from HDR on May 2, 2025.

**Table 4-1: Estimated New Units Served by Growth Projects**

Line Item	Average Annual Yield,		Unit
	AF	Growth	
North Area Groundwater Phase 1	1,000	100%	1,000
BF Sisk growth-related capacity, AF	1,500	100%	1,500
Total additional capacity, AF			2,500
% of New Demand met through New Sources			0.81
Adjusted additional capacity, AF			3,086
Demand (AF)/SFR unit			0.33
Estimated new units (5/8" meters)			9,353

Table 4-2 shows the development of the growth-related capital cost to be recovered by the capacity fee. The capital cost for the two growth projects in February 2021 dollars as developed by HDR is \$64.1 million<sup>4</sup>. Those costs were escalated to 2025 dollars using the Engineering News Record Construction Cost Index for San Francisco between February 2021 and February 2025. In addition to the capital costs, costs associated with financing the projects have been included. The discounted value of the cost of issuance on debt funding and debt interest have been added. The discounted value of the interest earnings on a debt reserve fund associated with planned debt issues have been subtracted. The cost of issuance and interest earnings on the debt reserve fund are discounted using a 0.5 percent discount rate, which is the presumed interest earnings rate. The debt interest has been discounted using an estimated real rate of 2.2 percent, which is calculated as the debt interest rate (5.6 percent) less the 5-year average Consumer Price Index for San Francisco (3.4 percent). The adjusted capital cost is \$115.3 million.

<sup>1</sup> Kennedy, Holly, et al., “Final San Benito Urban Areas Water Supply and Treatment Master Plan Update”, HDR, Folsom, California, October 25, 2023.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

**Table 4-2: Adjusted Capital Cost**

Basis of Proposed Water Supply Capacity Fees	
Growth Capital Projects	\$74,364,246
Cost of Issuance, Discounted	\$458,746
Debt Interest, Discounted	\$40,972,149
Debt Reserve Interest Earnings Applied towards last payment, Discounted	-\$500,207
<b>Adjusted Capital Cost</b>	<b>\$115,294,935</b>

Table 4-3 shows the calculation of the new water supply capacity fee on an equivalent meter basis. The fee is the adjusted capital cost divided by the estimated equivalent meters that can be served by that capacity. This fee will be adjusted annually each July 1 using the Consumer Price Index for the San Francisco Bay Area – All urban index for May of the then current year and May of the previous year.

**Table 4-3: Water Supply Capacity Fee**

Line Item	Value
Adjusted Capital Cost	\$115,294,935
Equivalent Meters	9,353
<b>Capacity Fee, \$/EM</b>	<b>\$12,327</b>

Table 4-4 shows the initial capacity fee at meter sizes from 5/8” to 4”. SBCWD plans to charge new single family residences that have to install a 1” meter for fire requirements at the 5/8” capacity fee. As the base meter size fee is adjusted annually, the other meter sizes will be adjusted according to the ratios shown in Table 4-4.

**Table 4-4: Water Supply Capacity at Different Meter Sizes**

Meter Size	Ratio	Fee, \$/mtr
5/8"	1.00	\$12,327
3/4"	1.50	\$18,490
1"	2.50	\$30,817
1.5"	5.00	\$61,635
2"	8.00	\$98,616
3"	17.50	\$215,722
4"	31.50	\$388,300