

Water Supply & Flood Protection Development Impact Fee Study

Board Policy & Monitoring Committee | March 17, 2026

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Study Background & Goals

2

- Direction from the Board in late 2018 to explore revenue alternatives
- **Development impact fees (DIF)**, also called **capacity fees** or **system development fees**, were identified as a potential source of new revenue
 - **Intent is new growth pays for its fair share of system capacity**, otherwise existing customers would incur these costs
- A key benefit of DIFs is that the revenue generated reduces future rate and charge increases
 - Positive impact to both retailers and direct customers

Phased Study Approach

Phase I

Determine how to calculate development impact fees.

Estimate what development impact fees could be.

Phase II

Would determine how to implement fees.

Would engage with all 15 Cities in Santa Clara County, the County of Santa Clara, Water Retailer's and the local development community

Mitigation Fee Act Background

- The Mitigation Fee Act (California Government Code sections 66010-66025) authorizes an agency to establish, increase, or impose fees as a condition for approval of a development project.
- The fees need to have a reasonable relationship between the amount of the fee and the cost of the public facilities attributable to the new development.
- The fees can only be used for the purpose for which the fee was collected.
- These fees may be imposed by a majority vote of the governing legislative body.

Because Valley Water does not approve development projects, impact fees would need to be done in collaboration with local government agencies in Santa Clara County who have land use authority.

General Methodology

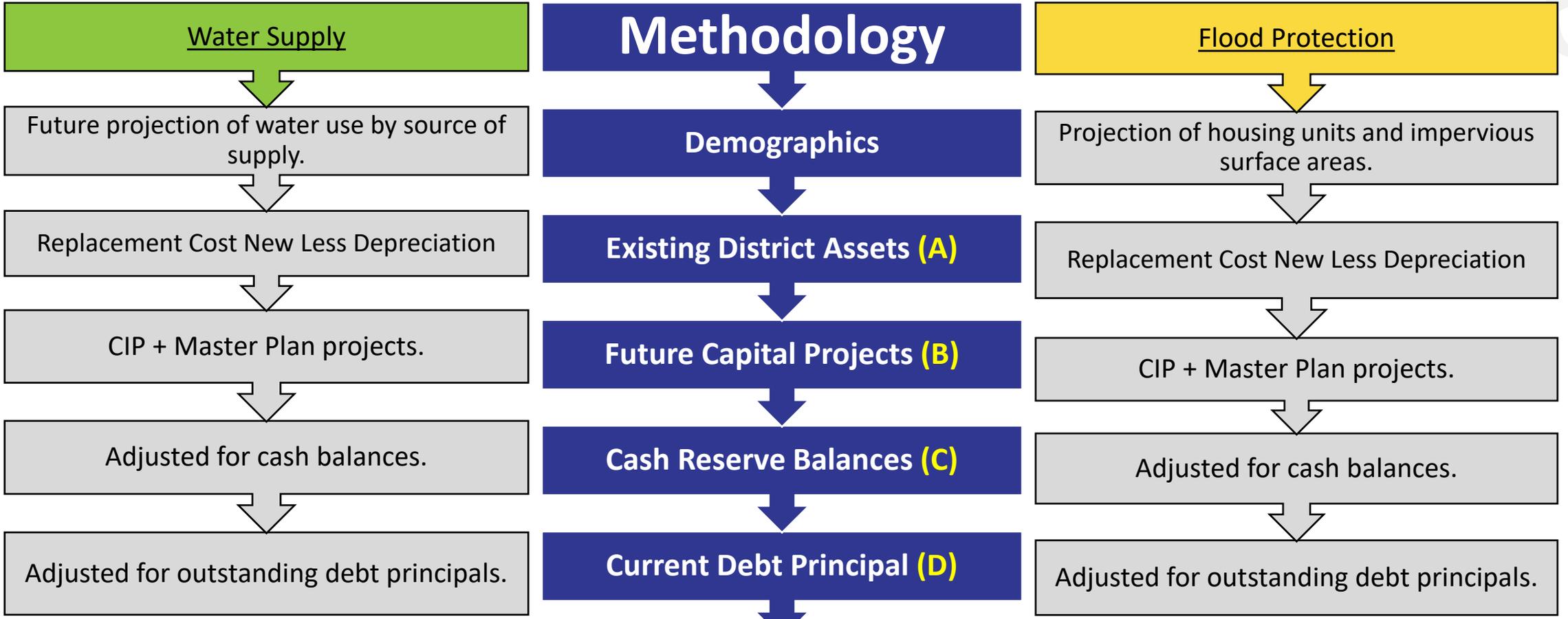
- In its simplest form, costs allocated to future development are divided by the number of units of new development.
- Costs allocated to future development can include portions of existing facilities available to new users and their fair share of planned future improvements.
- Many factors are considered in selecting the best methodology (incremental, buy-in, or a combination), including data availability, prior financing plans, and current capacity available for future users.

“Combination” methodology used for purposes of this study

Impact Fee Methodology

6

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Updated Fee (E)

$$E = \frac{(A + B) - (C + D)}{\# \text{ of Projected Future Units}}$$

WATER SUPPLY Development Impact Fee Results

Water Supply DIF Calculation

System Asset Values Allocated to Future Development	
System Buy-In and Expansion Components	
Existing System Buy-In ¹	\$ 61,986,136
Future System Expansion ²	957,508,028
Subtotal: System Buy-In and Expansion Components	\$ 1,019,494,164
Adjustments to Cost Basis:	
Cash Reserves ³	\$ (50,513,856)
Outstanding Long-Term Debt (Principal) ⁴	(94,117,533)
Subtotal: Adjustments to Cost Basis	\$ (144,631,389)
Total: Cost Basis for New Development	\$ 874,862,774
Projected Water Supply (through 2040)	40,000
Water Supply Capacity Fee (Per AF)	\$ 21,900

Water Supply DIF & Revenue

ANNUAL REVENUE ESTIMATE	100% CIP	50% CIP
<i>Growth Estimate through 2040 (AF)</i>	40,000	40,000
<i>Years until 2040</i>	18	18
<i>Annual Water Supply Growth</i>	2,222	2,222
<i>Fee per Acre Foot</i>	\$21,900	\$9,900
<i>Typical Single Family Residential Fee *</i>	\$8,760	\$3,960
<i>Annual Capacity Fee Revenue Estimate</i>	\$ 48,666,667	\$ 22,000,000

* Typical Single Family uses 0.4 acre feet of water per year

FLOOD PROTECTION Development Impact Fee Results

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Flood Protection DIF Calculation

System Asset Values Allocated to Future Development	
<i>System Asset Values Allocated to New Development</i>	
Existing System Buy-In	\$ 45,409,156
Future System Expansion	237,561,049
Total: Existing & Future System Costs	\$ 282,970,205
<i>Adjustments to Cost Basis:</i>	
Cash Reserves	\$ (15,307,098)
Outstanding Long-Term Debt (Principal)	(7,262,354)
Total: Adjustments to Cost Basis	\$ (22,569,451)
Total Adjusted Cost Basis for New Development	\$ 260,400,754

Projected Growth of Impervious Surface Acres (ISA) through 2050	21,564
Maximum Base Capacity Fee per Impervious Acre	\$ 12,100

Typical Flood Protection DIF by Land Use

Land Use	% of Impervious Area per Acre	Typical Capacity Fee per Acre
SINGLE FAM RES & SML MULTI	49%	\$ 5,929
COMMERCIAL AND INDUSTRIAL	81%	\$ 9,801
DISTURBED RURAL, VCNT, AGRIC	4%	\$ 484
INSTITUTIONS AND APARTMENT	14%	\$ 1,694
MIXED ASSESSMENT	80%	\$ 9,680
RURAL UNDIST AG. BRUSH, FOR	2%	\$ 242
UNDISTRBD AGRIC, MARSH, PONDS	2%	\$ 242
WELL SITE	44%	\$ 5,324
Maximum Flood Protection Impact Fee Per Acre		\$ 12,100

Flood Protection DIF & Revenue

ANNUAL REVENUE ESTIMATE	50% CIP	100% CIP
<i>Growth Estimate through 2050 (ISA)</i>	21,564	21,564
<i>Years until 2050</i>	28	28
<i>Annual ISA growth</i>	770	770
<i>Fee per Impervious Acre</i>	\$ 6,600	\$12,100
<i>Typical Single Family Lot*</i>	\$ 594	\$1,089
<i>Annual ISA capacity fee revenue estimate</i>	\$ 5,082,839	\$ 9,318,539

* Typical Single Family Lot has 0.09 acres of impervious area. (8,000 sq ft per lot / 43,560 sqft/acre x .49 impervious area per acre)

Flood Control Development Impact Fee Comparison for Selected Agencies

Agency	Basis for Fee	Fee (residential)	Fee Converted to 8,000 Sq. Ft. Residential Lot
Contra Costa Flood Control District	Impervious Area	Varies by Drainage Area, \$0.36 to \$2.59 per sq ft	\$5,783 <i>assumes fee of \$1.45/sq ft.</i>
Alameda County Flood Control & Water Conservation District, Zone 7	Impervious Area	\$1 per square foot	\$3,920
Sacramento Area Flood Control Agency	Damageable Square Footage	\$2.10 per square foot of damageable area (building sq. ft)	\$5,250 <i>assumes 2,500 sq ft residence.</i>
Los Angeles County Flood Control District, Antelope Valley Drainage Area	Residential Lots	\$5,500 per residential lot	\$5,500

Typical single-family residence has 0.09 acres of impervious area (based on an 8,000 square foot lot size), or about 3,920 square feet.

Findings

- Valley Water has the cost data required for impact fees.
- More effort would be needed to refine future water demands and future water users.
- Valley Water would need to rely on local government agencies to calculate and collect the impact fees.
- It would be best implemented if all the local government agencies approved implementing the impact fees.

Next Steps

- Provide feedback to Staff.
- Make recommendation(s), if any, to the Board.

QUESTIONS



Water Supply DIF Q&A

<p>What is future system expansion based on? Are Purified Water Projects included?</p>	<p>The study used FY 23 CIP. Purified Water Projects was included from WSMP 2040 (\$1.2B Palo Alto / Los Gatos Ponds)</p>
<p>Is inflation included on WSMP 2040 future projects? How is inflation factored into fee calculation overall?</p>	<p>No, future projects are in today's dollars. The value of the existing assets are based on replacement cost new less depreciation, so that value has been brought up to today's value.</p>
<p>How would actual Development Impact Fee be calculated for a new house, versus new Commercial and Industrial building, versus new multi-family housing building?</p>	<p>Fees are based on water demand for all customers.</p> <ul style="list-style-type: none"> - New single-family residential home – establish a typical amount of water used per year and base fee calculation on that. - New Commercial building – The planning department for the permitting agency would need to estimate the water demand for the new development and base fee calculation on water demand. - New multi-family building – Similar to single-family, establish a typical amount of water used per year per unit, and base fee calculation on that.
<p>How would the actual Development Impact Fee calculation work for an area in the County that is primarily served by SFPUC, or even partially served by SFPUC (such as Mountain View)?</p>	<p>If Valley Water did not provide the water, then the fee would not be applicable. This could pose a challenge at the City level, knowing when a fee would be applicable based on service address.</p>
<p>What would the fee be by Groundwater Benefit zone?</p>	<p>The DIF Study did a preliminary analysis on DIF by zone. To establish fees by Groundwater Benefit Zone (note, not by City) further work would need to be completed analyzing cost allocations and demand projections by zone.</p>
<p>Would there be a development impact fee levied by Valley Water for a new well?</p>	<p>In theory yes, for new groundwater use (or demand). A fee would not be charged for a replacement well.</p>
<p>What capital projects could the fee revenue be spent on?</p>	<p>The revenue could be used for all projects identified in the CIP or in the water supply master plan projects identified in the report (in alignment with the "Combination" method used to calculate the fee). An annual development fee report would be prepared and would need to include how much revenue was received, on which projects it was spent, along with the other financing sources for those projects.</p>

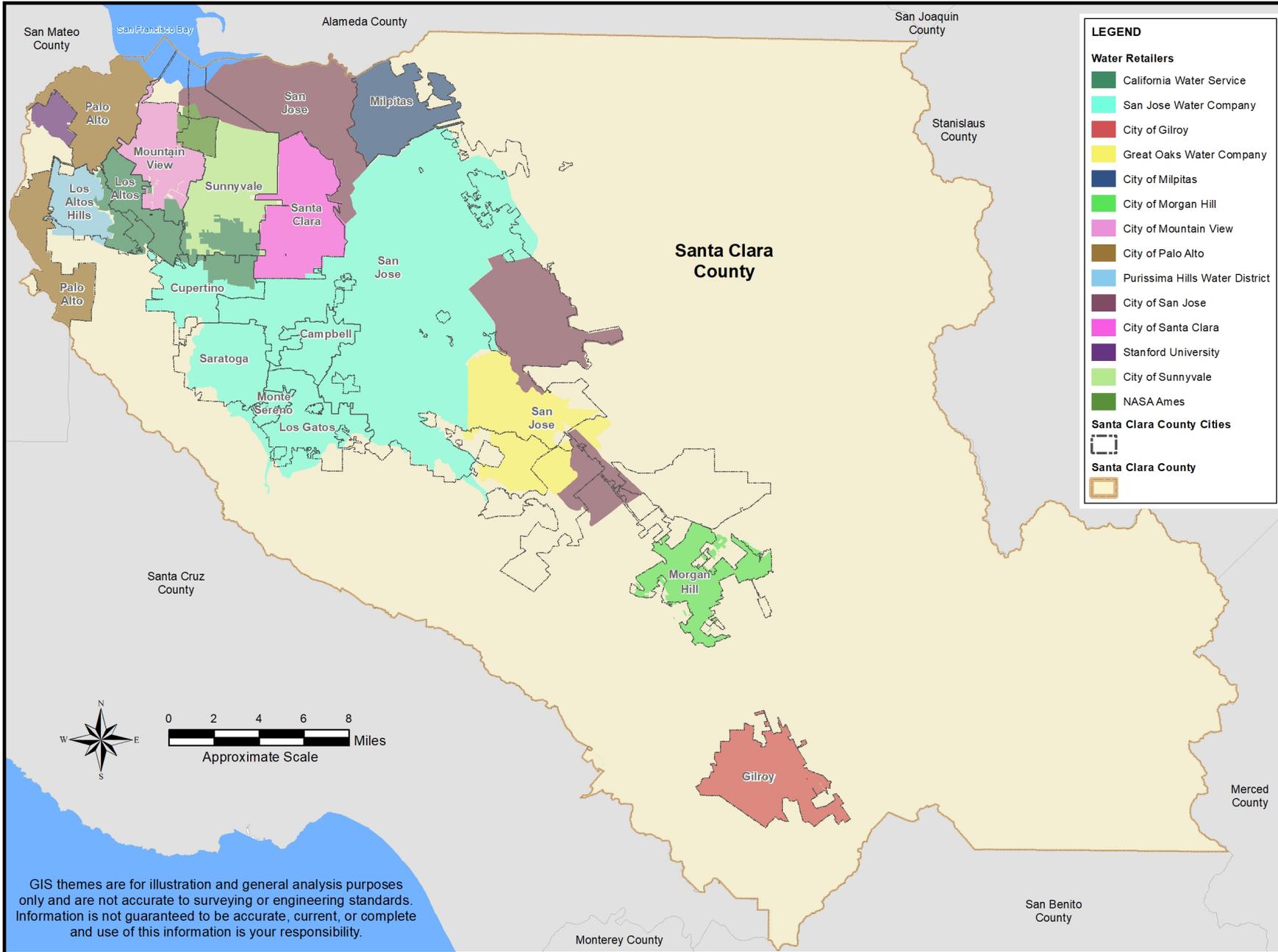
Flood Protection DIF Q&A

<p>How would actual Development Impact Fee be calculated for a new house, versus new Commercial and Industrial building, versus new multi-family housing building?</p>	<p>The fee is based on the amount of impervious area in square feet. New single-family residential home – the fee would be easiest to administer if a typical lot size is defined and the impervious area calculation followed (at 49% of impervious area per acre). New Commercial building – The planning department for the permitting agency would need to determine the impervious area of the new development. New multi-family building – Same methodology as commercial.</p>
<p>Would the fee be applicable in an area that is already well protected against floods or would it apply to entire county?</p>	<p>The fee would be applicable to the service area of Valley Water.</p>
<p>What capital projects could the fee revenue be spent on?</p>	<p>The revenue could be used for projects identified in the CIP as part of the fee calculation. An annual development fee report would be prepared and would need to include how much revenue was received, on which projects it was spent, along with the other financing sources for those projects.</p>
<p>What projects were considered in the future system expansion and how are USACE partnered projects factored in?</p>	<p>The analysis did not consider USACE or any outside funding sources. If we anticipate some type of grant funding, that would need to be considered in the analysis. The fee calculation is based on Valley Water’s local portion of the UWACE partnered projects.</p>
<p>Recently a NAFSMA member agency discussed something similar with a higher focus on commercial related fees and lower on residential fees. Is a non-uniform fee schedule allowable (or typical)?</p>	<p>For defensibility, the unit cost should be the same on an impervious area basis. That said, the Board could charge less than the full calculated cost, but it would be problematic to charge commercial or residential development at different rates.</p>
<p>Why are Valley Water projected fees per residential lot smaller than the selected comparator agencies?</p>	<p>That can be a function of several factors, including the amount of projects expected, grant funding, and/or the last time the fee was calculated.</p>

Water Retailers in Santa Clara County



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Valley Water

Clean Water • Healthy Environment • Flood Protection