

## STAFF REPORT

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**Date:** March 26, 2025

**To:** Mayor and City Council

**Through:** Jackie Bryant, City Manager

**Subject:** Ordinance Adoption Bill No. 7295 (For Possible Action): An Ordinance amending the Reno Municipal Code Title 12, “Public Works and Utilities,” Chapter 12.16 “Sewer Service,” article II, section 12.16.155, titled “Sewer Connection Fee Credit Policy,” to delete the expiration date for connection fee credits, amending Section 12.16.420 titled “Sewer User Fees When Vacant, Fire Damaged, or Demolished” and amending Section 12.16.430 titled “Termination of Charges” to remove the provisions regarding demolished properties, together with other matters properly relating thereto.

**From:** Ashley D. Turney, Assistant City Manager

**Department:** City Manager’s Office

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### **Summary:**

Given the current budget projections and rising building costs, the City is looking for opportunities to encourage growth and redevelopment for housing without impacting City finances. The current Reno Municipal Code (RMC) on sewer connection fee credits imposes a limitation of five years for a building to be demolished and then the site is redeveloped, while also utilizing the sewer connection fee credits before expiring. The original intent of this code was to prevent land holding and spur development. Due to various economic conditions, such as the delayed recovery from the Great Recession, COVID, rising interest rates and construction costs as well as shifts in local and national economic conditions, many of the properties with credits were not able to be developed in the timeframe prior to the credits expiring. This has now created a disincentive for property owners to clean up their blighted properties and utilize those sewer connection fees to redevelop land for housing projects within the City. This ordinance does not reduce, waive or subsidize fees and instead, extends the use of credits for fees that have already been paid on buildings that have been demolished. Staff is recommending Council adopt the Ordinance.

### **Alignment with Strategic Plan:**

- Economic and Community Development

**Previous Council Action:**

August 24, 2011 – Council adopted Ordinance No. 6197, amending RMC 12.16 and creating a sewer connection fee credit policy that limits sewer connection credits on demolished property of five years.

**Background:**

On August 24, 2011, Council adopted Ordinance No. 6197, which implemented a sewer connection fee credit policy. The policy was put in place to address properties where sewer connection fees had been paid and service had been provided, but the building had either been destroyed by fire or had been demolished. A limitation of five years was imposed to utilize the sewer connection fee credit. Once a building is demolished, the sewer connection fee credit must be utilized within five years or the credit goes away. One of the key reasons for the five year sewer connection fee credit limit was to try and encourage redevelopment. Due to a number of challenges including changes in market conditions, COVID, rising interest rates, rising construction costs, etc. it has become increasingly difficult to make development or redevelopment, specifically in the downtown area, occur. A policy that was once intended to provide an incentive for redevelopment, has turned out to be a barrier to redevelopment. Over the years, the City of Reno has also created blight initiatives, to encourage property owners to clean up rundown or abandoned buildings, graffiti and trash. Those same blight initiatives contributed to property owners demolishing buildings, which also started the five year clock to utilize the sewer connection fee credits. While property owners have been encouraged to clean up their blighted buildings, by demolishing the buildings they are also limiting the ability to utilize the sewer connection fee credits unless they were able to get redevelopment happening within a five year window. This discourages redevelopment on sites that have been vacant for more than five years. Unintentionally, the City created two initiatives that conflict with each other. While both aimed to clean up blighted properties and encourage redevelopment, the initiatives discourage property owners from wanting to demolish blighted buildings, because that starts the five year clock to redevelop a site and be able to utilize the sewer connection fee credits. The sewer connection fee credit runs with the building, and as long as the blighted building stands, the sewer connection fee credit is available for future use on that same site.

**Discussion:**

Considering the City's current budget projections and the uncertainty about escalating building costs, the City is looking for opportunities to help bring development forward. While the City does not have room in the budget to be able to waive, reduce or subsidize fees, staff looked at our existing policies and found a way to encourage property owners to clean up blighted property while also incentivizing redevelopment in key areas.

Sewer connection fees are a one time fee that is paid at the time of every building permit. The

fees are based on the type and size of the project. As an example, a single family home is charged a fee of \$12,434, and an apartment project is charged \$10,569 per unit. A typical apartment project with 100 units is paying over \$1 million in one-time sewer connection fees. The policy is currently written so that once a building is torn down, future redevelopment on that same parcel gets a credit for the sewer connection fees that were previously paid, but if nothing is redeveloped within five years of the building being demolished, the sewer connection credits go away. As long as redevelopment happens on that site within five years, the new project gets to utilize those sewer connection credits. This creates a significant financial incentive to develop a parcel with existing sewer connection fee credits.

For example, if a 50 unit apartment project is beyond its useful life and ready to be torn down, there would be a sewer connection fee credit associated with that site of (50 units X \$10,569) \$528,450. As long as a new project is built within five years, the new development is able to utilize that \$528,450 credit in sewer connection fees. They are still required to pay for any additional sewer connection fees that make up the difference between the old apartment site of 50 units and the new apartment site of hypothetically more units or a mixed-use project.

This ordinance would allow sewer connection fee credits to run with the property for longer than five years by removing the expiration date on credits. Removing the sewer connection fee credits expiration dates would help to provide another incentive to clean up the properties by encouraging demolition of blighted buildings and would provide a financial incentive for new development to occur within our key areas, many of these being in downtown. One of the Guiding Principles of the ReImagine Reno Master Plan is to create a thriving downtown. The Title 18 Zoning Code provides a number of incentives for development in the downtown including unlimited density, unlimited height, no parking requirements, the ability to fast track development and go straight to a building permit and the ability to bring most types of businesses to downtown with no public review process. However, even with all these land use incentives, developers are struggling to make projects in downtown financially pencil.

Extending credits for connection fees is not a new concept. In fact, both the Regional Road Impact Fees (RRIF) and the Police Facility Impact Fee (PFIF) are also one time fees that are paid at the time of a building permit and run forever with the property. This means that if a property is demolished, and no new buildings are constructed for decades, the credits are still tied to the property and the future developer, gets to utilize those original RRIF and PFIF credits on future development.

### **Financial Implications:**

The sewer connection fee credit only applies to fees that have already been paid. This extends the life of the sewer connection fee credits by removing the expiration date. This does not reduce, waive or in any way subsidize sewer connection fees.

**Legal Implications:**

Legal review completed for compliance with City procedures and Nevada law.

**Recommendation:**

Staff recommends Council adopt the Ordinance to remove the expiration date on sewer connection fees credits from demolished buildings.

**Proposed Motion:**

I move to approve staff recommendation.

**Attachments:**

Proposed Ordinance