

STAFF REPORT

Date: January 11, 2023

To: Mayor and City Council

Thru: Doug Thornley, City Manager

Subject: **Staff Report (For Possible Action): Acceptance of Business Impact Statement and finding that the adoption of the Ordinance amending Reno Municipal Code Title 12 entitled "Public Works and Utilities, Chapter 12.16. Sewer Service, Section 12.16.290, dwelling unit or residential unit, and Section 12.16 300, industrial/commercial connection fee, to revise the connection fee rates for both residential and industrial/commercial, to establish the fees by service area, and to provide for an annual fee increase per the consumer price index-all urban consumers (cpi-u) for the west urban area, together with matters which pertain to or are necessarily connected thereto does not impose a direct and significant economic burden upon a business nor directly restrict the formation or expansion of a business.**

From: John Flansberg, Regional Infrastructure Administrator

Department: Regional Infrastructure

Summary:

The proposed ordinance amendments pertain to sewer connection fee rates for residential, industrial, and commercial uses; establishes the fees by service area; and provides for an annual fee increase per the consumer price index (CPI-U) for the west urban area. The existing sewer connection fee rates are not sufficient to pay for the future capacity needed at the Truckee Meadow Water Reclamation Facility (TMWRF), Reno Stead Water Reclamation Facility (RSWRF), and the respective sewer collection systems that carry the raw sewage from homes and businesses to these facilities.

Farr West Engineering (Farr West) was selected in December 2021 to conduct a Sewer Connection Fee Study (study) to review the capital improvements needed with their associated costs and determine the correct rate required to recover those costs for future growth of residential, industrial, and commercial uses based on the sewer capacity that they would consume. The result of the study is a significant increase in sewer connection fees that would nearly double the existing rate. The study also recommends an area specific rate over the existing uniform rate and adds a “micro-unit” multi-family fee and a very large single family

residential fee based on total fixture units. Staff recommends approval of the area specific rates for sewer connection fees to capture the cost of current and future infrastructure needed in those areas to provide for sewer capacity; inclusion of the “micro-unit” multi-family fee and large single family residential fee structure; and an annual CPI increase to the sewer connection fees beginning on July 1, 2024.

Alignment with Strategic Plan:

Infrastructure, Climate Change, and Environmental Sustainability

Previous Council Action:

There is no recent Council action relevant to this item.

Discussion:

Sewer connection fees are a one-time fee paid to connect to the sewer system either through a new or expanded existing use. These fees are used to pay for increased capacity improvements within the sewer collection systems or treatment at water reclamation facilities and for management of the resulting effluent. Connection fees are calculated based on the total of all capital improvement projects divided by the amount of remaining and future capacity created by constructing those improvements.

The existing sewer connection fee rates have not increased or had any adjustments since 2014 and are not sufficient to pay for the future sewer capacity needed at the treatment plants or sewer collection system to accommodate future growth. Per the City’s Master Plan, Reimagine Reno, 2.3B: Cost of Growth, required public improvements are to be paid by new development within the boundaries of that development; and a proportional share of the cost of public improvements outside the development boundaries that is directly attributable to that development. Sewer connection fees are a one-time charge to the developer based on the proportional share of the new or expanded use and meet this criteria within the master plan.

Farr West was selected in December 2021 to conduct a Sewer Connection Fee Study (study) to review the capital improvements needed with their associated costs and determine the correct rate required to recover those costs for future growth of residential, industrial, and commercial uses based on the sewer capacity that they would consume. Farr West divided the capital improvements into three sewersheds (TMWRF Central, TMWRF Lawton – Verdi, and RSWRF) to analyze the difference in cost between these three areas due to the unique challenges that TMWRF and RSWRF have. The result of the study shows that the TMWRF and RSWRF service areas are similar in fee but the TMWRF Lawton – Verdi area is higher due to the extensive cost of extending sewer to this area and future projects that will be needed downstream to flow the increased volume through the collection system to TMWRF.

TMWRF has unique challenges as it relates to sewage treatment and discharge. TMWRF is required to return the majority of the water treated back to the Truckee River or have replacement water rights available to offset the water not returned. The discharge permit has limitations on the total maximum daily loading (TMDL) for nitrogen, total dissolved solids or salts (TDS), and phosphorus to name a few. These limitations mean that the future capital improvement projects will need to remove a higher percentage of these nutrients from the effluent before returning it to the Truckee River. An example of this type of project is the UV Disinfection and filter building which will ultimately lower the amount of TDS in the effluent by removing the chlorination and de-chlorination treatment processes. The estimated cost for that project is \$20M. The total 20-year capital improvement program for capacity related projects at TMWRF is estimated at \$78.8M for Reno's proportional share of those projects.

RSWRF has different challenges including effluent management in a closed basin, but the effluent management also creates unique opportunities. The cost of water in the North Valleys has created an opportunity for treating the effluent to a higher standard for future potable use through the proposed Advanced Purified Water Facility. The high cost of water also creates a market for using effluent for parks, recreation, and common spaces during irrigation months for existing and future development. The capital improvement projects for RSWRF include the Advanced Purified Water Facility and the Red Rock Reservoir to assist with wintertime water storage and effluent management. It is anticipated that through the Advanced Purified Water Facility there will be water rights generated and revenue from water rights sales in the amount of \$80M which will be shared through a separate agreement with Truckee Meadows Water Authority (TMWA).

The RSWRF expansion from 2 million gallons per day (MGD) to 4 MGD is in its final completion stage. The upgrades and improvements are going through final testing. The plant will be limited in capacity (water in) until the Advanced Purified Water Facility is available to manage the effluent (water out). The RSWRF expansion project was \$55M, and was funded through a State Revolving Fund loan. Sewer Connection Fees are used to pay back the loan per the debt schedule. The anticipated growth will necessitate a future RSWRF expansion from 4MGD to 6MGD. The total capital improvement capacity projects at RSWRF are estimated at \$240M.

The Lawton-Verdi sewershed had expenses that were bonded including the interceptor project and extending the City sewer collection system lines out to the area. If the area specific rates are adopted, the Lawton Verdi sewershed will be paying a higher rate in order to pay back those bonded expenses. Additionally, in the future as development comes on in the Verdi area, the collection system through the City of Reno will have to be expanded in order to account for the higher flows to get the raw sewage from Verdi to the TMWRF treatment plant.

The City of Reno currently charges a flat sewer connection fee for single family residential and a separate flat sewer connection fee for multi-family residential. Industrial/Commercial users are charged based on the number of fixture units in their buildings, the type of waste that they are disposing, and the number of hours that they are in operation. Farr West used information provided by the Truckee Meadows Water Authority on winter time water use to determine the relationship between water use in single family and multi-family homes to verify previous assumptions and found that multi-family homes use approximately 85% of the water that a single family home uses. Therefore the sewer connection fee for a multi-family home is recommended to stay at 85% of the single family home rate.

The recommended rates per the Farr West Study, and adjusted for inflation, are shown in the table below. The recommendation also includes an annual Consumer Price Index (CPI) adjustment to be implemented on sewer connection fees like it is for sewer user fees. The CPI adjustment will account for the costs of inflation that will directly affect the costs of the capital improvement projects. Staff is recommending that the CPI adjustment be implemented beginning on July 1, 2024 and every July 1st thereafter. The table includes a 3% CPI adjustment per year which was used for comparison purposes based on a request from the development community to include a step up increase instead of implementing the proposed fee all at once.

Projected revenue if recommended rate increase is implemented	FY 23*	FY 24	FY 25	FY 26	FY 27
TMWRF					
Single Family	\$12,002	\$12,002	\$12,362	\$12,733	\$13,115
Multi-Family	\$10,250	\$10,250	\$10,558	\$10,875	\$11,201
Commercial	\$554	\$554	\$571	\$588	\$606
Lawton - Verdi					
Single Family	\$14,594	\$14,594	\$15,032	\$15,483	\$15,947
Multi-Family	\$12,463	\$12,463	\$12,837	\$13,222	\$13,619
Commercial	\$673	\$673	\$693	\$714	\$735
RSWRF					
Single Family	\$11,906	\$11,906	\$12,263	\$12,631	\$13,010
Multi-Family	\$10,168	\$10,168	\$10,473	\$10,787	\$11,111
Commercial	\$549	\$549	\$565	\$582	\$600
Revenue (TMWRF)	\$9,092,425	\$21,747,624	\$22,399,944	\$23,072,196	\$23,764,380

Revenue (RSWRF)	\$3,607,518	\$8,658,043	\$8,917,654	\$9,185,263	\$9,460,872
Total Revenue	\$12,699,943	\$30,405,667	\$31,317,598	\$32,257,459	\$33,225,252

*Assume 5 months at new rate

The following table includes an incremental step increase that would phase the new sewer connection fee rates over 3-1/2 years and would end with a “make-up” rate to collect the “lost revenue” over approximately 15 years. This step up rate structure was requested by the development community to ease the initial impact of the proposed sewer connection fees. The result of the step up rate structure is delayed revenue of \$12.8M which could delay capital improvement projects or require additional bonding for timely completion.

Step up fee schedule revenue predictions	FY 23*	FY 24	FY 25	FY 26	FY 27
TMWRF					
Single Family	\$9,500	\$9,500	\$11,000	\$12,500	\$13,467
Multi-Family	\$8,113	\$8,113	\$9,394	\$10,675	\$11,500
Commercial	\$439	\$439	\$508	\$578	\$622
Lawton - Verdi					
Single Family	\$12,092	\$12,092	\$13,592	\$15,092	\$16,299
Multi-Family	\$10,327	\$10,327	\$11,608	\$12,889	\$13,918
Commercial	\$559	\$559	\$628	\$698	\$753
RSWRF					
Single Family	\$9,424	\$9,424	\$10,912	\$12,400	\$13,188
Multi-Family	\$8,048	\$8,048	\$9,319	\$10,589	\$11,262
Commercial	\$435	\$435	\$504	\$572	\$609
Revenue (TMWRF)	\$7,196,963	\$17,272,710	\$19,999,980	\$22,727,250	\$24,484,819
Revenue (RSWRF)	\$2,855,755	\$6,909,065	\$7,935,970	\$9,018,148	\$9,590,975
Total Revenue	\$10,052,717	\$24,181,775	\$27,935,950	\$31,745,398	\$34,075,794

*Assume 5 months at new rate

Staff is recommending two new fees based on feedback from community and to create greater equity between housing types. The “micro unit” fee would be for multi-family housing for smaller apartments (such as a studio) where the size is 600 square feet or less and has up to 15 fixture units. The issue that is being addressed is based on a smaller living area that would house 1-2 people maximum and include a bathroom with toilet, sink, and shower/bath, a kitchen sink, a

small dishwasher, and small over/under washing machine/dryer combination totaling 15 fixture units thus having a lesser contribution to sewer flows. The large single family residential fee addresses houses with a large number of bathrooms, two kitchens or other uses or amenities that exceed the number of fixture units found in a standard house. A standard single family home with 2.5 baths, a standard kitchen, and washing machine totals 31 fixture units. Staff is recommending that new single family homes that exceed 31 fixture units pay an additional charge for each fixture unit over 31. A house that has 42 fixture units would pay the standard single family residential fee for the specific sewershed area plus the individual fixture unit fee times the 11 additional fixture units as the total sewer connection fee for that home.

Staff recommends approval of the area specific rates for sewer connection fees to capture the cost of current and future infrastructure needed in those areas to provide for sewer capacity; inclusion of the “micro-unit” multi-family fee and large single family residential fee structure; and an annual CPI increase to the sewer connection fees beginning on July 1, 2024.

Financial Implications:

The proposed ordinance change would increase the sewer connection fees by approximately 88% of the current fee. The current sewer connection fee for a single family home is \$6,376. The current connection fee for a multi-family home is \$5,445. The proposed sewer connection fee for a single family home for the TMWRF sewershed is \$5,626 more than the current fee. The proposed sewer connection fee for a multifamily home in the TMWRF sewershed is \$4,757 more than the current fee. The individual fixture unit fee in the TMWRF sewershed is \$259 more than the current fee. The proposed sewer connection fee for a single family home for the TMWRF Lawton-Verdi sewershed is \$8,218 more than the current fee. The proposed sewer connection fee for a multifamily home for the TMWRF Lawton-Verdi sewershed is \$6,960 more than the current fee. The proposed individual fixture unit fee for the TMWRF Lawton-Verdi sewershed is \$378 more than the current fee. The proposed connection fee for the RSWRF sewershed is \$5,530 more than the current fee for a single family home. The proposed multifamily home connection fee for RSWRF is \$4,675 more than the current fee. The proposed individual fixture unit fee for RSWRF is \$254 more than the current fee.

The financial implication for builders/developers is that new development and re-development will have to pay higher rates for sewer connection fees in order to fund capital improvement projects to allow for continued growth.

The financial implications of the fee increase are less impactful to the development community than the alternative of the City running out of sewer capacity. If the City does not raise sewer connection fees and does not collect the revenue to be able to fund the capital improvement projects to increase sewer capacity, then there will not be sewer capacity available in the future to allow for growth or development. Without sewer capacity, builders/developers will not be able to continue to conduct business in the City of Reno.

The financial implications of adopting the proposed ordinance and new fees will allow the City to start collecting the necessary rate for sewer connection fees to fund the capital improvement projects over the next 20 years. The new sewer connection rate will allow for the City to collect the appropriate amount for each sewershed area to cover the costs of capacity projects for each sewer area and not have certain sewershed areas subsidizing the costs for other sewershed areas. Including the annual CPI adjustment will account for inflationary costs that will impact the cost of capital improvement projects.

Legal Implications:

Nevada Revised Statutes require local governments to consider whether any action they take will significantly burden businesses. Before a governing body adopts a proposed rule, the governing body must determine whether the proposed rule will: (1) impose a direct and significant economic burden upon a business; or (2) directly restrict the formation, operation or expansion of a business. In compliance with NRS 237.080, a notice was published in the Reno Gazette Journal and direct mailings were completed to targeted businesses. The notice and the draft proposed ordinance amendment were also posted on the City of Reno website. Further, public outreach to the business community was conducted. A meeting was held at City Hall in Council Chambers on November 10, 2022. Comments were received from businesses with regard to a business impact.

In accordance with NRS 237.090 a business impact statement was prepared and made available for public inspection with the Clerk prior to the adoption of the proposed ordinance. A copy is attached hereto. NRS 354.613 provides that a local government which is increasing a fee imposed for the purpose for which an enterprise fund was created must determine that the increase is not prohibited by law; the increase is necessary for the continuation or expansion of the purpose for which the enterprise fund was created; and that the fees that are deposited in the enterprise fund are used solely the purpose for which the fees are collected. As set forth in the Discussion section above, the requirements are met.

Recommendation:

Acceptance of the Business Impact Statement and finding that in compliance with NRS 237.080, a Business Impact Statement was prepared and in accordance thereto, the Reno City Council hereby finds that this Ordinance does not impose a direct and significant economic burden upon a business nor directly restrict the formation or expansion of a business.

Proposed Motion:

Move to accept the Business Impact Statement and find that in compliance with NRS 237.080, a Business Impact Statement was prepared and in accordance thereto, the Reno City Council hereby finds that this Ordinance does not impose a direct and significant economic burden upon a business nor directly restrict the formation or expansion of a business.

Attachments:

Business Impact Statement