



CITY OF ATASCADERO

CITY COUNCIL STAFF REPORT

Item G1

Department: Public Works
Date: 10/14/25
Placement: Public Hearing

TO: JAMES R. LEWIS, CITY MANAGER

FROM: NICK DE BAR, DIRECTOR OF PUBLIC WORKS/CITY ENGINEER

PREPARED BY: RYAN HAYES, DEPUTY DIRECTOR OF PUBLIC WORKS

SUBJECT: Adopting Wastewater Capacity Charges

RECOMMENDATION:

Council adopt Draft Resolution setting Sewer Capacity Charges for the Wastewater Division.

DISCUSSION:

BACKGROUND

The Atascadero Municipal Code provides a mechanism to adjust sewer capacity charges for new connections to the wastewater system, or existing connections where changes from development or occupancy require increased capacity (e.g. commercial unit changing from office to restaurant capacity). Wastewater capacity charges were last established in 2019, with annual adjustments since that time based upon the increase in the published Engineering News Record Construction Cost Index (ENR-CCI).

ANALYSIS

California Government Code (CGC) Section 66013 codified the term “capacity charge” to be applied to new connections for capacity charges that are one-time charges paid by new customers as a capital contribution for capacity in the wastewater system. These charges are similar to development impact fees and can be assessed to existing wastewater customers requiring increased capacity to serve changes in their development or use occupancy. The proceeds from capacity charges are a financing source for future wastewater facilities. Capacity charges allow new connections to “pay their fair share” of past capital costs that provide capacity in the wastewater system and to finance future upgrades and construction is a proportionate benefit to the person or property being charged. Another similar analogy is the meter fee charged by Atascadero Mutual Water Company for new or upsized connections.

Similar to the wastewater service charge, sewer capacity charges are based upon Equivalent Dwelling Units (EDUs), where one EDU is the basis for a single-family residence (SFR) service charge, based upon an estimated average daily flow of 240 gallons of wastewater and wastewater strength. Other connection users are assigned a multiple or fraction of an EDU based upon expected peak daily flow and strength of wastewater compared to that of SFR. This fixed rate methodology is used since the City is not the water supplier and does not have access to individual customer water consumption data.

The Council reviewed the 2025 Wastewater Rate Study at a regular meeting on April 22, 2025. Wastewater rates are comprised of sewer service charges and sewer capacity charges. The Rate Study

provided a determination of proposed wastewater rates to support the \$150+ million worth of wastewater capital costs planned in the next ten years or so.

The Rate Study recommends a capacity charge of \$8,856 per Single Family Residence (SFR), which equates to one Equivalent Dwelling Unit (EDU). This amount was determined by using industry standard methods and is based on the current value of the City’s existing wastewater facilities and includes the cost of future replacement facilities and future facilities that serve new development and connections. Table 14 from the Rate Study is included below and details the capacity charge for a SFR (EDU).

Calculation of Water Capacity Charge per EDU

Description	Total
Existing System Value	
Existing System Replacement Value [1]	\$75,408,190
CIP Replacement Improvements Value [2]	82,354,840
Capital Reserves Balance [3]	993,600
Total Existing System Replacement Value	\$158,756,630
Adjustment for Future Debt Principal [4]	(63,000,000)
Adjusted Cost Basis for Existing Customers	\$95,756,630
Existing and Growth EDU's	13,912.60
Replacement Value Charge per EDU	\$6,882.73
Growth-Related Value	
CIP Growth-Related Collection Improvements [2]	3,833,860
CIP Growth-Related Treatment Improvements [2]	49,200,000
Total Cost Basis for Future Customers	\$53,033,860
Adjustment for Future Debt Principal [4]	(42,000,000)
Adjusted Cost Basis for Future Customers	\$11,033,860
Future Equivalent Dwelling Units [5]	5,589.71
Growth-Related Value Charge per EDU	\$1,973.96
Capacity Charge per EDU	\$8,856.69

[1] From Table 12.

[2] From Table 13 and Table A-4 in the Appendix.

[3] From Table 2.

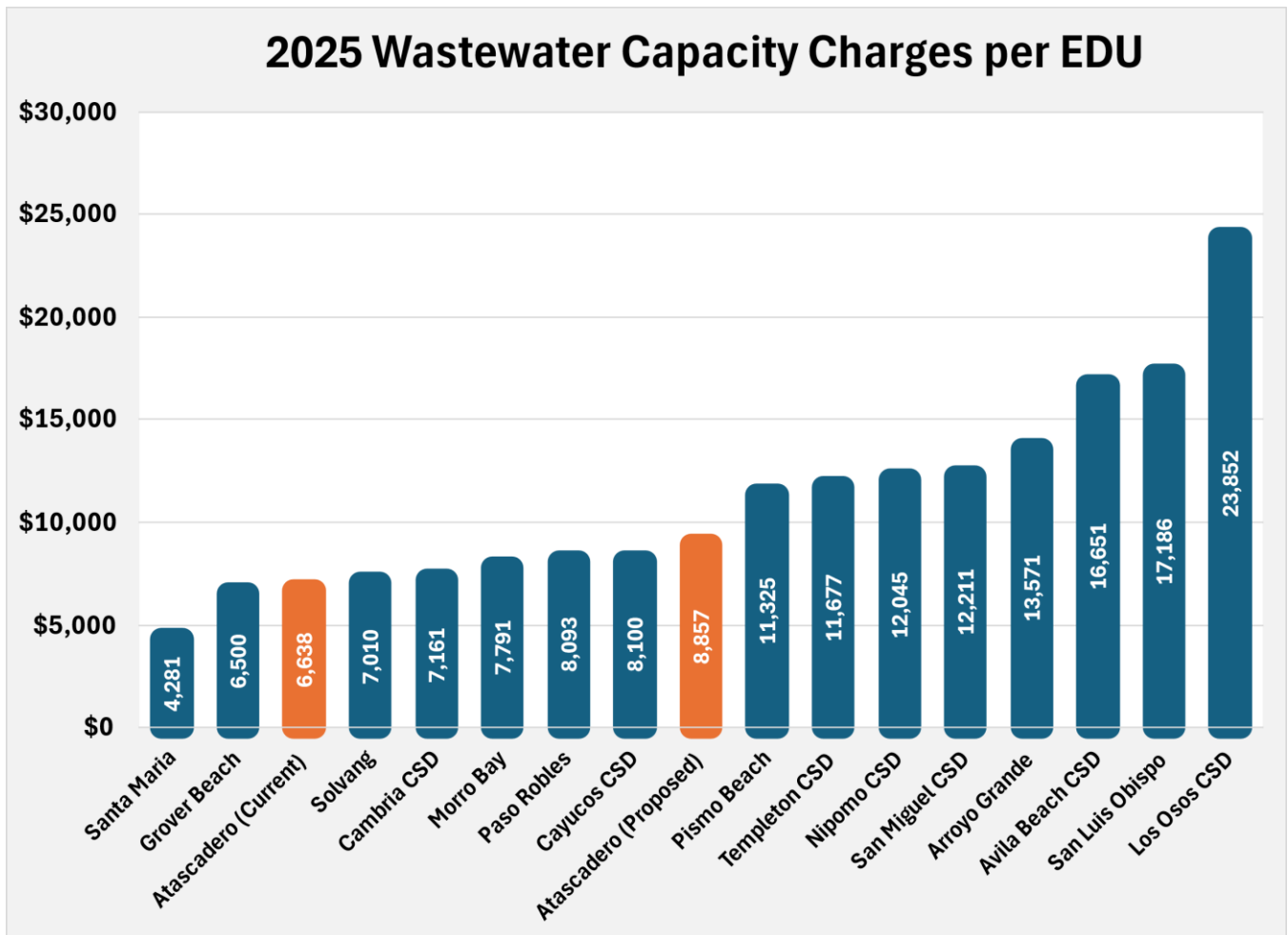
[4] Estimated debt principal issued to finance the treatment plant improvements.

[5] Number of additional EDU’s provided by the System at the end of the 10-year CIP plan period.

Using the SFR Sewer Capacity Charge of \$8,856 (rounded down) as the base value per EDU, the schedule of sewer capacity charges for other customer classifications can be determined. A comparison of the current and proposed sewer capacity charges can be found in Exhibit A to the Draft Resolution.

The proposed sewer capacity charges provide a reasonable and equitable cost allocation to the owners of new connections to the wastewater system and existing customers that require increased capacity due to changes from use or occupancy. Furthermore, the proposed sewer capacity charges provide a proportionate benefit to the person or property being charged for capacity in the wastewater system.

The proposed capacity charge increase for the City of Atascadero was compared to neighboring communities in San Luis Obispo County as of July 2025. The proposed capacity charge remains very competitive relative to the other communities within San Luis Obispo County, as shown below.



The Rate Study also recommends an annual adjustment to the capacity charge based upon the Engineering News Record Construction Cost Index (ENR-CCI). ENR publishes both a Construction Cost Index (CCI) and a Building Cost Index (BCI) that are widely used in the construction industry. The CCI is best used where labor costs are a high proportion of total costs, while the BCI is more applicable for structures. Section 3 of the Draft Resolution discusses the procedure and formula to calculate the annual adjusted capacity charge using the ENR-CCI publications.

The City Manager’s Task Force on Wastewater recently held a series of four meetings to learn about the wastewater system and challenges with new regulatory mandates, capacity issues, financial impacts, and funding challenges for the municipal wastewater treatment and collection systems. The Task Force recommended that the City should move forward with the sewer capacity charge increase and further adopted as one of its findings that new development should pay its fair share and not impact existing customers. Increasing this fee is consistent with this direction. Over the next one and one-half years, the City is planning to complete a Customer User Classification Study, perform preliminary engineering design for the WWPT Secondary Improvements Project, understand if regional partnerships are possible (ASH, Templeton CSD), and perform a wastewater rate study that incorporates information from these efforts including updated user classification schedules and cost estimates. The new wastewater rate study (estimated completion March 2027) will include new analysis for setting sewer capacity and service charge rates.

Regarding the City Manager’s Task Force on Wastewater, a more detailed report on their proceedings and findings will be given to the City Council in November 2025.

FISCAL IMPACT:

Adopting the Draft Resolution will have a significant positive fiscal impact on the Wastewater Fund. The Wastewater Rate Study assumes 35 new EDU connections annually, which equates to an increase of roughly \$310,000 in additional capacity charges collected each year if the proposed sewer capacity rates are implemented. This additional revenue is restricted and can only be used for upgrades and expansion of wastewater facilities.

It is important to note that the City is currently in negotiations with Atascadero State Hospital (ASH) for ASH to connect to the City’s Wastewater Treatment Facility. Although not yet secured, if an agreement is reached, one element of the compensation will be for ASH to pay the sewer capacity charges in effect at that time.


ALTERNATIVES:

The City Council could choose not to set new Sewer Capacity Charges for the Wastewater Division. Staff does not recommend this alternative because of the significant impact in recuperating costs for past wastewater capital projects and future-needed upgrades. The proceeds from capacity charges are a critical financing source to upgrade wastewater facilities in order to meet existing and future system capacity needs and comply with new State regulations.

REVIEWED BY OTHERS:

This item has been reviewed by the Administrative Services Director.

REVIEWED AND APPROVED FOR COUNCIL AGENDA



James R. Lewis, City Manager

ATTACHMENT(S):

1. Draft Resolution