


July 24, 2023

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## ACTION CALENDAR

### SETTING CONNECTION FEES AND PROPERTY TAXES FOR FISCAL YEARS 2023-24 AND 2024-25

#### SUMMARY:

IRWD proposes to set connection fees for two fiscal years, consistent with its two-year budget cycle and the prior connection fee and tax rate setting schedule. The changes to connection fees proposed for Fiscal Year (FY) 2023-24 are based on updates to IRWD's capital budget, updated developer projections, and adjustments to the Engineering News Record (ENR) construction cost index. Changes to the connection fees proposed for FY 2024-25 are based on estimated construction cost increases of 3.5% for all improvement districts (ID). Staff recommends that the Board approve the changes to the existing connection fees and property tax rates and adopt resolutions approving these revisions.

#### BACKGROUND:

A fundamental concept in the District's Long-Term Capital Funding Plan (LTFP) is that the costs of new capital facilities are shared equally between the connection fees paid by the developer and property taxes paid by property owners (a 50/50 split). IRWD uses a comprehensive financial model to incorporate capital costs, debt funding, future development, growth rates, inflation, and other variables to determine connection fees. The model reflects projected fund balances through FY 2049-50.

Connection fees were modeled along with a consolidated tax rate for both residential and commercial development. Staff updated the District's financial model for FY 2023-24 and 2024-25 connection fees and tax rate-setting to include the following:

- Updated capital improvement program based upon the FY 2023-24 and 2024-25 approved capital budget and updates;
- ENR estimated capital cost increase adjusted for FY 2023-24 (13.0%) and FY 2024-25 (3.5%);
- Fund balance adjustments through April 2023 with assumptions through fiscal year end;
- Updated assessed valuations; and
- Updated projections for development units.

Exhibit "A" provides a summary of the proposed connection fees and property tax rates by ID, Exhibit "B" provides an analysis of changes within each ID, Exhibit "C" provides a Summary of Key Rate Setting Components by ID, and Exhibit "D" is a PowerPoint presentation summarizing the changes. The resolutions in support of staff's recommendations are provided as Exhibits "E", "F", and "G". Exhibit "H" provides proposed changes to the IRWD Schedule of Rates and Charges included in the District's Rules and Regulations.

IDs 112/212:

Three separate developments contribute to IDs 112/212: 1) the City of Irvine / Great Park, 2) the FivePoint Communities Great Park Neighborhoods, and 3) the County of Orange’s 100-acre parcel. Connection fees for these developments will be set separately.

*City of Irvine / Great Park*

The recycled water connection fee of \$28.85 million for the Great Park, per an agreement with the City of Irvine, was approved by the Board in June 2017. The estimated fee has been increased to approximately \$35.8 million. The City made the first recycled water connection fee payment of \$9.9 million in September 2017. The remainder will be paid as the parcels are put into service. The Great Park will pay 100% of the planned recycled capital expenditures.

*FivePoint Communities – Great Park Neighborhoods*

The Great Park Neighborhoods is the FivePoint Communities development within ID 112/212. Staff recommends increasing connection fees by \$1,285 for FY 2023-24 and \$270 in FY 2024-25 based on estimated ENR and estimated increases in capital projects.

The split between the water connection fee and the sewer connection fee was changed to reflect changes in capital spending. The consolidated water and sewer connection fee will increase from \$6,426 per unit to \$7,711 per unit in FY 2023-24 and to \$7,981 per unit in FY 2024-25. Staff recommends continuing the current consolidated tax rate of \$0.0475 per \$100 of land assessed value to meet debt requirements and maintain the 50/50 split.

*County of Orange 100-acre Parcel (ID 112/212a)*

Staff recommends applying the same percentage increase for FY 2023-24 and for FY 2024-25 to the connection fees, for the reasons discussed above, for the 100-acre development site owned by the County of Orange. As a reminder, this land has no tax base. The consolidated water and sewer connection fee will increase from \$11,821 to \$14,185 per unit in FY 2023-24 and to \$14,682 per unit in FY 2024-25. The property tax rate will remain at zero as long as the property is owned by the County.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
112/212 (Great Park Neighborhood)	\$6,426	\$7,711	\$7,981	\$0.0475	\$0.0475
112a/212a (County 100-acre Parcel)	\$11,821	\$14,185	\$14,682	\$0.0000	\$0.0000

IDs 113/213 – Former Tustin Marine Base:

For FY 2023-24 and 2024-25, staff recommends increasing the total water and sewer connection fees by \$1,198 and \$364 respectively due to increases in ENR and estimated increases in capital projects. This will increase the total water and sewer connection fee from \$9,219 per unit to \$10,417 per unit in FY 2023-24. The split between the water connection fee and the sewer connection fee was adjusted to reflect changes in capital spending. Connection fees will increase to \$10,781 per unit in FY 2024-25. Staff recommends continuing the current consolidated tax rate of \$0.0990 per \$100 of land assessed value to maintain the 50/50 split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
113/213	\$9,219	\$10,417	\$10,781	\$0.0990	\$0.0990

IDs 185/285 – Lake Forest Opportunity Study Area, Excluding Portola:

For FY 2023-24 and 2024-25, staff recommends increasing connection fees by \$1,732 and \$243 respectively due to increases in ENR and estimated increases in capital projects. The ID is primarily developed. The consolidated water and sewer connection fee will increase from \$5,200 per unit to \$6,932 per unit and to \$7,175 per unit in FY 2024-25. The split between the water connection fee and the sewer connection fee was changed to reflect changes in capital spending. Staff recommends continuing the current consolidated tax rate of \$0.0218 per \$100 of land-assessed value to meet debt requirements and maintain the 50/50 split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
185/285 (Opportunity Study)	\$5,200	\$6,932	\$7,175	\$0.0218	\$0.0218

IDs 188/288 – Portola – Portion of Opportunity Study Area:

For FY 2023-24 and 2024-25, staff recommends increasing connection fees by \$595 and \$181 respectively due to increases in ENR. The consolidated water and sewer connection fee will increase from \$4,582 per residential unit to \$5,177 per residential unit in FY 2023-24 and to \$5,358 per unit in FY 2024-25. Staff recommends maintaining the current consolidated tax rate of \$0.0394 per \$100 of land assessed value to meet debt requirements and maintain the 50/50 split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
188/288 (Opportunity Study)	\$4,582	\$5,177	\$5,358	\$0.0394	\$0.0394

IDs 153/253 – Developing IDs:

IRWD and the Irvine Company established future usage and related revenue from the sale of native water from Irvine Lake. A portion of the revenue produced by native water sales is applied to connection fees for the developing IDs 153/253. The amended Irvine Lake agreement, executed in July 2019, ensures that the Irvine Company pays its fair share of capital infrastructure (without overpaying), recognizing that future sales of native water will reduce the amount of connection fees. The native water assumption includes 3,800 acre-feet (AF) per year at a rate of \$347 per AF in FY 2023-24 with the cost of water escalating annually at 3% thereafter. The agreement also provides for a reconciliation every five years between the assumed and the actual native water revenue. The final reconciliation will occur at the end of 20 years in 2038.

For FY 2023-24, staff recommends a \$409 increase in the consolidated water and sewer connection fee due to increases in ENR. The split between the water connection fee and the sewer connection fee was changed to reflect changes in capital spending. For FY 2024-25, staff recommends increasing connection fees by \$124 based on estimated ENR. The consolidated water and sewer connection fee will increase from \$3,145 per residential unit to \$3,554 per residential unit in FY 2023-24 and to \$3,678 per unit in FY 2024-25. Staff recommends maintaining the current consolidated tax rate of \$0.0220 per \$100 of land assessed value to meet debt requirements and maintain the 50/50 split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
153/253 (Undeveloped ID)	\$3,145	\$3,554	\$3,678	\$0.0220	\$0.0220

ID 256 – Orange Park Acres (OPA) Sewer:

For FY 2023-24 and 2024-25, staff recommends increasing connection fees by \$848 and \$258 respectively due to increases in ENR and estimated increases in capital projects. The connection fees will increase from \$6,524 to \$7,372 per residential unit in FY 2023-24 and to \$7,630 in FY 2024-25. There is no bonding authority for this ID so there are no property taxes.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
156/256 (Undeveloped ID)	\$6,524	\$7,372	\$7,630	NA	NA

All Other IDs:

For FY 2023-24 and 2024-25, staff recommends increasing connection fees by 30% and 3.5% respectively due to increases in ENR and estimated increases in capital projects. Staff recommends maintaining the current consolidated tax rate of \$0.0280 per \$100 of land assessed value to meet debt requirements.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2023-24	Proposed FY 2024-25	Current	Proposed FY 2023-24 to 25
125/225(Developed)	\$6,198	\$8,058	\$8,341	\$0.0280	\$0.0280
125/240(Developed)	\$7,072	\$8,278	\$8,568	\$0.0280	\$0.0280
111/222 (Developed, no G.O. Authority) <sup>1</sup>	\$10,283	\$13,368	\$13,836	NA	NA

<sup>1</sup> Identifies the consolidated connection fee for a density between 5.9 to 10.8 dwelling units (DU) per acre.

**FISCAL IMPACTS:**

Total connection fees discussed above are included in the FY 2023-24 and 2024-25 Non-operating budgets.

**ENVIRONMENTAL COMPLIANCE:**

This item is not a project as defined in the California Environmental Quality Act (CEQA), Code of Regulations, Title 14, Chapter 3, Section 15378.

**COMMITTEE STATUS:**

This item was reviewed by the Finance and Personnel Committee on June 13, 2023 and July 13, 2023.

**RECOMMENDATION:**

THAT THE BOARD APPROVE REVISIONS TO CONNECTION FEES AND PROPERTY TAXES AS PRESENTED AND ADOPT THE FOLLOWING RESOLUTIONS BY TITLE:

**RESOLUTION NO. 2023 –12**

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE RANCH WATER DISTRICT, ORANGE COUNTY, CALIFORNIA ADOPTING CHANGES TO CONNECTION FEES AS SET FORTH IN THE SCHEDULE OF RATES AND CHARGES IN EXHIBIT “B” OF THE RULES AND REGULATIONS OF IRVINE RANCH WATER DISTRICT FOR WATER, SEWER, RECYCLED WATER, AND NATURAL TREATMENT SYSTEM SERVICE AND ADOPT THE FOLLOWING RESOLUTIONS BY TITLE:

**RESOLUTION NO. 2023 –13**

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE RANCH WATER DISTRICT, ORANGE COUNTY, CALIFORNIA ESTABLISHING *AD VALOREM* TAX REVENUES FOR FISCAL YEAR 2023-24

RESOLUTION NO. 2023 – 14

RESOLUTION OF THE BOARD OF DIRECTORS OF  
THE IRVINE RANCH WATER DISTRICT AMENDING  
ALLOCATION OF *AD VALOREM* PROPERTY  
TAXES TO DEBT SERVICE, SUBJECT TO PLEDGE

LIST OF EXHIBITS:

- Exhibit “A” – Proposed Connection Fees and Property Tax Rates
- Exhibit “B” – Analysis of Changes within IDs
- Exhibit “C” – Key Rate Setting Factors
- Exhibit “D” – Draft PowerPoint Presentation
- Exhibit “E” – Resolution Adopting Changes to Rates and Charges
- Exhibit “F” – Resolution Adopting Ad Valorem Property Tax Rates
- Exhibit “G” – Resolution Amending Allocation of Ad Valorem Property Taxes to Debt Service
- Exhibit “H” – IRWD Rates and Charges