



Legislation Text

File #: 16-259, **Version:** 1

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SUBJECT: Residential Water Connections and Right-of-Way Purchases

REPORT IN BRIEF

Consider approving Purchase and Sales Agreements to acquire public right-of-way and amending the Merced Municipal Code to allow water connection fees to be financed over a 20-year period.

RECOMMENDATION

City Council - Adopt a motion:

- A. Introducing **Ordinance No. 2462**, an Ordinance of the City Council of the City of Merced, California, Amending Section 15.40.110, "Payment" of the Merced Municipal Code Regarding Water Main Extensions; and,
- B. Authorizing the City Manager to execute Purchase and Sales Agreements for Water Service Connections, acting on the City's behalf in acquiring the necessary right-of-way and authorizing payment of all costs; and,
- C. Authorizing the City Manager to execute all necessary documents.

ALTERNATIVES

- 1. Approve, as recommended by staff; or,
- 2. Approve, subject to conditions as outlined by Council; or,
- 3. Deny; or,
- 4. Refer to staff for reconsideration of specific items; or,
- 5. Continue to a future meeting.

AUTHORITY

Merced Municipal Code (MMC), Chapter 15.40 - Water Main Extensions.

MMC Section 15.40.110 - Payment.

Applicants subject to the charge identified in Section 15.40.070 shall pay such charge prior to obtaining the permit to connect the property to the water line, except that if the line and/or laterals are installed by the city and the applicant is to connect a single-family residence to the water line and the residence is, or will be owner occupied by a median-income family as determined by the income limits established by the U.S. Department of Housing and Urban Development or its successor, then the applicant may elect to pay the charge in ten annual installments, plus interest thereon on the

unpaid balance. Interest shall be calculated on an annual basis based on the previous year's average interest rate earned on city investments. Applicants who make the election shall execute a promissory note and deed of trust evidencing the debt to the city.

CITY COUNCIL PRIORITIES

Not applicable.

DISCUSSION

In January 2014, the Governor of California declared a drought state of emergency. The City of Merced has experienced exceptionally dry years consecutively and due to the drought, more and more private water wells are going dry within the City Limits. The City has experienced an increase in residents requesting to connect to the City's water service as a result.

In order to connect to a City water main, property owners are required to pay two separate fees, including water frontage fees and water facility charge, as well as a water connection deposit. The water frontage fees are based on Merced Municipal Code Section 15.40 - Water Main Extensions, and are calculated based on the length of the frontage of their property and the actual cost of the water main extension. Water facility charges are established by the Merced Municipal Code, and are flat rate charges based on the service size. The water connection deposit is a deposit based on actual cost of the water connection from the main to their new water service; the deposit is reimbursed to the applicant if the actual cost is less, however, the applicant may be required to pay more if the actual cost is higher than the deposit.

A typical water connection, including the fees listed above, costs anywhere from \$10,000 to over \$30,000. This is based on a 1-inch service and a City (not developer) installed water main. As the code is written now, the property owner is required to either pay this in full prior to hook-up, or finance the cost over a ten-year period if the property is a median-income, owner-occupied residence. This cost doesn't factor in their monthly water service bill, or the costs they pay privately to a contractor to install any plumbing or demolish the well on their property. To understate the issue, the costs associated with connecting to City water is just simply not feasible for some residents.

Currently, residents within the City limits are being impacted by wells running dry and are faced with being unable to afford the water connection costs. In 2013, the City experienced a similar situation where multiple residences near Childs Avenue were left suddenly without running water due to their wells running dry. At the November 4, 2013 meeting, Council confirmed that the Childs Avenue Water Main Extension Project was of urgent necessity, and authorized the City Manager to execute Purchase and Sales Agreements with the property owners within this area. The Purchase and Sales Agreements allowed the property owners to deed the City right-of-way along their property frontages in exchange for the cost of the frontage fees (anywhere from 6 to 30 thousand dollars, depending on their lot size). This allowed individuals without water, who were unable to pay the connection fees, to lower their out of pocket expense and also allowed the City to acquire right-of-way for future improvements along Childs Avenue.

The City has been working on extending water mains throughout Merced over the past couple of years, ensuring that when wells run dry that the residents have the ability to hook up to City water. Unfortunately, the recent recession has left some property owners unable to unexpectedly pay thousands of dollars to connect to water service. In order to allow disadvantaged residents to afford

the cost of water connection, while still allowing the City to remain “whole” in funding, it is staff’s recommendation to authorize the City Manager to enter into Purchase and Sales Agreements to exchange frontage fees for needed right-of-way.

An appraisal must be obtained to determine the fair market value for the right-of-way exchange. The property owner will be responsible for the cost of the appraisal.

Unfortunately, this right-of-way option may not be applicable to every situation. As a secondary option, staff recommends amending Merced Municipal Code Section 15.40.110 - “Payment” to allow owner-occupied residences to finance their payments over a twenty (20) year period. Currently, property owners can finance their payments over a ten (10) year period. By lengthening the re-payment term, it makes the payments more feasible for low to moderate income families. As part of the finance terms, the property owner is required to execute a promissory note and deed of trust evidencing the debt to the City. If, within the proposed 20-year period, the property is sold, the remaining financed balance would be paid in full.

To best serve the citizens of Merced, keeping in mind the current drought and recent recession, it is staff’s recommendation that Council authorize the City Manager to execute Purchase and Sales Agreements regarding water connections and approve amending the Merced Municipal Code to allow a 20-year finance term for water connection fees.

IMPACT ON CITY RESOURCES

By exchanging frontage fees for right-of-way, the City will remain whole in funding. When future improvements are installed, the water fund would be reimbursed from the applicable Capital Improvement Project fund for the costs associated with the right-of-way exchange.

Lengthening the finance period from 10 to 20 years will not negatively impact the City, as annual interest is applied to offset inflation costs over a 20 year period.

ATTACHMENTS

1. Proposed Ordinance