



CITY OF LOS ALTOS

STORMWATER FEE REPORT

SEPTEMBER 2018

PURSUANT TO THE ARTICLES XIII C & D OF THE CALIFORNIA CONSTITUTION,
AND THE GOVERNMENT CODE SECTIONS 38900 – 38901 ET AL.

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INTRODUCTION AND EXECUTIVE SUMMARY

OVERVIEW

The City of Los Altos (“City”) has engaged SCI Consulting Group to study, make recommendations, and assist in the implementation of a funding approach for its municipal separate storm sewer system¹ (“MS4”) including capital improvements, maintenance and operations, and compliance to all state and federal regulations associated with the National Pollutant Discharge Elimination System² (“NPDES”).

The City completed a Stormwater Master Plan in 2016 to better understand the condition and capacity of this critical infrastructure system. The most recent comprehensive master plan for the storm drain system had been in 1966 – 50 years earlier. Since that time, the City has grown substantially, and the runoff characteristics have changed. In addition, the City’s MS4 is now subject to an NPDES permit including a completely revamped approach to how stormwater management is integrated with all other aspects of the natural and built environments. The 2016 Master Plan outlined a Capital Improvement Program (“CIP”) that identified \$29 million of needed improvements to the current storm drainage system. This Master Plan lays the foundation for review of the storm drain system, development of funding strategies, public opinion surveys, and this Fee Report.

In 2017, the City embarked on a two-phase project to determine the feasibility of implementing a dedicated, sustainable revenue stream to fund the City’s storm drainage needs. Phase 1 included exploring potential funding sources, estimating user rate ranges for various budget scenarios, and conducting a public opinion survey of Los Altos residents and property owners to determine storm drain program priorities and willingness to pay. Phase 1 is complete, and the City Council has embarked on Phase 2, implementation of a funding mechanism. This Fee Report is the first task of Phase 2.

CITY’S FACILITIES

The City operates and maintains a storm drainage system, as empowered to do so per Government Code Sections 38900 and 38901, and it is comprised of an integrated system of storm drain pipes, culverts, ditches, dry wells and creeks. The City incorporated in 1952 and experienced most of its residential growth between 1950 and 1980. As the community grew, the storm drainage system was developed along with the neighborhoods and the business district while still maintaining many native creek segments. This development pattern resulted in Los Altos preserving its rural tone, and its storm drainage infrastructure is reflective of this rural character. This is evident by the many streets built without traditional suburban curbs and gutters as well as the large number of open creek segments still running

¹ In this report, the terms “storm sewer,” “storm drainage,” and “stormwater” are used interchangeably, and are considered to be synonymous.

² Created in 1972 by the Clean Water Act, the NPDES permit program is authorized to state governments by EPA to perform many permitting, administrative, and enforcement aspects of the program.

through the City's neighborhoods. Much of the City's storm drainage system is made up of pipes under City streets.

On average, the industry-standard life expectancy of a storm drain system is approximately 60 years. The majority of the City's storm drain pipes were installed approximately 50 or more years ago, and the system is approaching the end of its useful life. Moreover, some of the drainage system has inadequate capacity.

STORMWATER FUNDING BACKGROUND

The City historically has funded its storm drainage activity primarily through the General Fund. As a result, the capital expenditures have been very limited, and operations and maintenance activities have been kept to a minimum level of service, mostly responding to storm-related emergencies and basic regulatory compliance.

The scale and projected needs of the MS4 in a time of competing demands on the General Fund point toward the need for developing a separate, dedicated and sustainable funding stream. As with many other municipalities in California, the City is considering developing a separate financial entity, or enterprise fund, to track revenues and expenditures separately from other City functions – similar to an independent utility. This would also enable the City to better set goals and track progress toward those goals. The Fee Report would be the first step in that process, should the City decide to proceed.

This Report relies mainly on the 2016 Stormwater Master Plan for estimating the fiscal needs of the Capital Improvement Plan ("CIP") and Operations and Maintenance ("O&M") needs.

LEGAL REQUIREMENTS OF STORMWATER FEE

This Report calculates the Stormwater Fee as a property-related fee. Property-related fees are subject to the requirements of Articles XIIC and D of the State Constitution, which were approved by voters in 1996 through Proposition 218, as well as the Proposition 218 Omnibus Implementation Act (Government Code Sections 53750 – 53758).

FACILITIES AND SERVICES

The City operates and maintains a municipal separate storm sewer system (MS4) within the City's boundaries. The MS4 is made up of man-made drainage systems including, but not limited to, curbs and gutters, ditches, culverts, pipelines, manholes, catch basins (inlets), dry wells and outfall structures. The natural creek system that runs throughout the City serves as the backbone of the City's MS4; however, maintenance of those creeks is the responsibility of the Santa Clara Valley Water Department and is not considered part of the City's MS4 in this financial analysis. The service area for the City's MS4 is the entire City.

The primary storm drainage service provided by the City is the collection, conveyance, and overall management of the stormwater runoff from improved parcels. By definition, all improved parcels that shed stormwater into the City's MS4, either directly or indirectly utilize, or are served by, the City's storm drainage system. The need and necessity of this service are derived from property improvements, which historically have increased the amount of stormwater runoff from the parcel by constructing impervious surfaces such as rooftops, pavement areas, and certain types of landscaping that restrict or retard the percolation of water into the soil lens beyond the conditions found in the natural, or unimproved, state. To the extent that a property is in a natural condition or includes features that contain all increased runoff resulting from the property's development, that property is exempted from any MS4 service. As such, open space land (in a natural condition) and agricultural lands that demonstrate stormwater absorption equal to or greater than natural conditions are typically exempt.

The 2016 Stormwater Master Plan contains a thorough set of maps and lists of various elements within the MS4. Those descriptions are the basis for this Report.

FINANCIAL NEEDS AND REVENUE REQUIREMENTS

STORMWATER MASTER PLAN NEEDS SUMMARY

CAPITAL IMPROVEMENT PROGRAM NEEDS

The 2016 Stormwater Master Plan identified a CIP totaling \$29 million worth of improvements and repairs, with \$3.8 million categorized as High-Priority and \$11.5 million as Moderate-Priority. These amounts have been adjusted in the three following ways:

- Increased 7.1% for inflation³,
- Increased 7% for program management costs⁴ (not included in the 2016 Master Plan), and
- Reduced to account for four High-Priority projects that have been funded through other sources.

The adjusted CIP is summarized in Table 1 below. More detailed information about the High- and Moderate-Priority projects is contained in Appendix A.

TABLE 1 – CAPITAL IMPROVEMENT PROGRAM COSTS

CIP Category	High Priority	Moderate Priority	Low Priority	Overall Cost
Conveyance	\$ 1,600,000	\$ 9,360,000	\$ 9,180,000	\$ 20,140,000
System Extension	-	510,000	3,860,000	4,370,000
Dry Wells	-	-	1,900,000	1,900,000
Problem Areas	1,130,000	3,210,000	840,000	5,180,000
Total Capital Needs	\$ 2,730,000	\$ 13,080,000	\$ 15,780,000	\$ 31,590,000

OPERATIONS AND MAINTENANCE PROGRAM NEEDS

Operations and Maintenance (“O&M”) needs include staff costs for day-to-day maintenance and engineering needs as well as the costs associated with regulatory compliance. The City currently budgets 0.5 full-time-equivalent (FTE) maintenance worker and 0.5 FTE engineer positions to operate and manage the MS4. The Master Plan also recommends increasing the net 1.0 FTE to at least 1.7 FTE in addition to other costs to meet the operational needs as well as the regulatory requirements in the State’s Construction General Permit and the EPA’s NPDES permit. In summary, the Master Plan estimates costs of \$490,000. These are summarized in Table 2 below. Again, these amounts have been adjusted for inflation⁵ from the Master Plan year (2016).

³ Based on the Engineering News Record’s Construction Cost Index increase for two years.

⁴ Program management is projected to be in the form of contracted staff augmentation. This is estimated at one-half fulltime equivalent at \$200 per hour for a duration of 5 years.

⁵ A 6.6% increase was estimated based on the San Francisco Bay Area Consumer Price Index for two years.

TABLE 2 – OPERATIONS AND MAINTENANCE PROGRAM NEEDS

Category	Cost
Engineering Staff	\$ 213,000
Maintenance Staff	181,000
Permit and Fees	107,000
Equipment	21,000
TOTAL Annual Cost	\$ 522,000

ANNUAL REVENUE REQUIREMENT

Based upon the 2016 Master Plan, annual revenues must include costs for O&M, CIP and establishing and maintaining an operational reserve⁶. In order to determine an annual Stormwater Fee amount, the financial needs must be expressed as an annual revenue requirement. For O&M needs, the cost estimates are already expressed in an annual format and can be assumed to increase at a predictable rate over time. The same applies for an operational reserve. However, the CIP needs are expressed as a series of lump sum present values and must be converted into an annual cost in order to form the basis for an annual Stormwater Fee. The user rates will vary depending on the financing approach taken. Since the City has not yet determined the precise financing approach to be used, this Report evaluates some alternatives for consideration.

DEBT-DRIVEN APPROACH

A typical way to fund capital projects is to incur debt to raise funds immediately to build the projects first and pay for them over time through debt payments. This accomplishes two critical objectives: Deficiencies in the infrastructure are addressed immediately, and the property owners paying the rates do not have to wait 10, 20 or 30 years to benefit from their years of paying for the improvements.

This requires several assumptions and must include the interplay between revenues, O&M costs and reserve amounts. One constraint on the overall analysis is that, due to the requirement to put rate increases to a ballot measure, revenues for a stormwater program are typically set at an initial level and increase at a predictable indexed rate⁷ over the life of the fee structure. For that reason, long-term debt – which is typically structured with a level annual debt service – complicates a 30-year plan. Shorter-term (10-year or less) debt issuances can level this out somewhat but can increase debt issuance costs. In some cases,

⁶ Operation reserves equal to 20% of annual operating costs (or O&M costs) are recommended.

⁷ Formulaic escalation such as annual increases based on the Consumer Price Index are allowed under the law, provided they are included in the original ballot measure.

long-term debt service can be structured to increase over time to better match the fiscal reality of an enterprise fund.

PAY AS YOU GO APPROACH

Another option is a pay-as-you-go (“PAYGo”) approach whereby capital projects are constructed as sufficient revenues are collected. While this avoids incurring debt or its associated costs, construction costs invariably increase over time – sometimes at rates higher than debt interest costs. One additional drawback to this approach is that not all projects are built at the beginning of the 30-year period, but rather construction is spread over that entire time. The costs of this factor are difficult to quantify – they are more qualitative.

HYBRID APPROACH

There are myriad ways to finance a complex CIP such as this. The single, long-term debt issuance is one extreme, and the PAYGo is the other extreme. A more likely scenario may be a hybrid option where the High-Priority CIP may be completed on a PAYGo plan (first five years) and a series of 10-year debt issuances combined with a modest PAYGo set of projects (years 6 – 25) and PAYGo for the remaining five years. This also provides a hybrid project delivery schedule – one that may better resemble the real-world capabilities of a small city to deliver a multi-million dollar set of projects.

COMPARISON OF APPROACHES

A comparative analysis was performed using a 30-year forecast horizon⁸. User rates were calculated to fund the O&M costs and complete the High-, and Moderate-Priority projects. Assumptions included the following:

- Only the High- and Moderate-Priority projects were included⁹,
- User rate increases based on the Consumer Price Index were assumed to increase 2.6% annually¹⁰,
- O&M costs were assumed to increase 3.0% annually¹¹,
- Capital costs (for uncompleted projects) were assumed to escalate at 2.6% annually¹²,
- Debt issuance costs are assumed to be 2% of net proceeds¹³,
- A debt reserve is maintained equaling one year’s debt service,
- Interest on debt is assumed to be 5%¹⁴, and

⁸ A 30-year financing horizon matches the financial analysis contained in the 2016 Master Plan.

⁹ Including the Low-Priority projects, increased user rates were far outside the range found acceptable in the community survey performed by SCI Consulting Group in 2018.

¹⁰ The average CPI since 1990 is 2.7%, but with an annual cap of 3% some of that will not be realized. Used 2.6% as default.

¹¹ Typical assumed inflation value for personnel, materials, equipment and utility costs.

¹² Equal to the average Construction Cost Index (Engineering News Record) since 1990.

¹³ From the Los Altos Stormwater Master Plan.

¹⁴ From the Los Altos Stormwater Master Plan.

- An operating reserve is maintained at 20% of O&M costs.

Table 3 below shows the comparative results of the three approaches. Details of these calculations are contained in Appendix B.

TABLE 3 – COMPARISON OF ALTERNATIVE FINANCING APPROACHES

Approach	Long-Term Debt	PAYGo	Hybrid
Beginning Rate * (average SFR**)	\$ 129	\$ 86	\$ 88
Ending Rate * (average SFR**)	\$ 185	\$ 181	\$ 185
Cummulative Revenue*** (millions)	\$ 59.2	\$ 49.4	\$ 51.7

* Beginning and ending rates are computed by dividing the revenue of each year (shown in Appendix B, Tables 9, 10 and 11) by the total number of SFEs (or 12,880)

** SFR stands for Single Family Residential

*** Cummulative revenue is the sum of revenues shown in Appendix B, Tables 9, 10 and 11

RECOMMENDED REVENUE REQUIREMENTS

It is preferable to establish a financial program that provides for stable user rates while funding O&M, CIP and operating reserves at the most efficient and understandable level. The long-term debt approach starts at a higher rate and requires more cumulative revenue overall. In addition, the user rate would be structured in a bifurcated manner resulting in more confusion to the rate payer. The PAYGo and hybrid approaches produced almost identical results with both employing a steady and understandable rate progression. The hybrid approach represents the most versatile structure, allowing the City to maneuver the financial marketplace most easily. For that reason, the revenue requirements for this Report will be based on the hybrid approach.

The combined High/Moderate CIP is estimated in 2018 dollars to cost \$15,810,000. From the hybrid analysis, that translates into an initial annual revenue requirement of \$611,000. The initial annual revenue requirement for O&M (including NPDES permit compliance costs) is \$522,000 from Table 2 above. The total revenue requirement for Fiscal Year 2018-19 is \$1,133,000. Table 4 below summarizes the revenue requirements.

TABLE 4 – ANNUAL REVENUE REQUIREMENTS FOR FY 2018-19

Element	Cost	Annual Revenue Req't	% of Annual Rev Req't
CIP - High / Moderate	\$ 15,810,000	\$ 611,000	54%
O & M	\$ 522,000	\$ 522,000	46%
TOTAL		\$ 1,133,000	

RATE STRUCTURE ANALYSIS

Proposition 218 states that the amount of a fee upon any parcel shall not exceed the proportional costs of the service attributable to the parcel. It also states that no fee may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property. As noted earlier, all properties that shed stormwater into the City's MS4 are served by that system. In compliance with Proposition 218, the Stormwater Fee will only be imposed on properties that shed water into the City's MS4 system. Additionally, the amount of use attributed to each parcel is proportionate to the amount of stormwater runoff contributed by the parcel, which is, in turn, proportionate to the amount of impervious surface area on a parcel (such as building roofs and pavements).

SINGLE-FAMILY RESIDENTIAL PARCELS AS BENCHMARK

The most widely used method of setting storm drainage rates¹⁵ is to use the average or median single-family residential parcel¹⁶ ("SFR") as the basic unit of measure, or benchmark, which is called the single-family equivalent, or "SFE." Since the metric for this fee structure is impervious surface area, a benchmark amount of impervious surface area ("ISA") must be established.

Los Altos has a wide range of sizes of SFR parcels, which have varying levels of percentage of impervious area ("%IA"). Generally, smaller parcels tend to have a higher proportion of impervious area than larger parcels which tend to have a lower percentage of impervious area. (This can be best visualized by the fact that larger residential properties tend to have a larger *proportion of pervious* landscaping, and therefore a smaller *proportion of impervious* area.) Therefore, the range of SFR was broken into four size categories as shown in Table 5 below with the medium category containing the largest number of parcels. A random sample of 213 parcels in that size category was selected, and the ISA of each sample parcel was measured using aerial photographs. The median ISA is 5,171 square feet, which will be used as the benchmark (1 SFE) for all other size categories and other non-residential land uses.

5,171 square feet of ISA = SFE

This becomes the basis for calculating the SFEs for all other types of land uses. In order to accomplish this, a representative sample of each land use category was studied through aerial photographs to measure the actual ISA, which was, in turn, used to calculate the %IA

¹⁵ *Stormwater Utility Survey*, 2017, page 2, Western Kentucky University.

¹⁶ The SFR category also includes multiplex parcels of two, three or four units, since the lot development characteristics do not vary significantly from the SFR parcels of similar size. In all, this includes the 73 multiplex parcels in the City, which were distributed to the same four parcel size categories as the other SFRs. Any residential structure with five or more units is categorized as multi-family residential ("MFR"), which is calculated separately.

for each land use category (see Appendix C). The SFE per parcel is a simple ratio of the median ISA for each category to the ISA (5,171 sf) for the benchmark category of medium-sized parcels as shown in the following formula:

$$SFE \text{ per Parcel} = \frac{\text{Median ISA}}{5,171}$$

SPECIAL NOTES ON CONDOMINIUMS

Condominium units are particularly difficult to categorize as they are often on very small individual parcels yet share larger common areas that are made up of landscaped (pervious) areas; parking lots and shared roofs (impervious); and other recreational uses (either pervious or impervious). The data for these variables is not readily available, so it is assumed that overall, their characteristics were most similar to the small lot makeup. Overall, condominium units are smaller than the average SFR, and may include two or more stories of residences in some cases. When combined with the various common areas (which were exempted from the SFE process), the overall effect would be less runoff impact than the median size SFR. Thus, the small SFR rate was used.

Table 5 below shows a summary of the SFEs for single-family residential parcels.

TABLE 5 – SUMMARY OF SINGLE-FAMILY RESIDENTIAL PARCELS

Lot Type	Parcel Size Range		# of	Acres *	Median ISA (sf) **	SFE per Parcel
	Acres	Square Footage	Parcels *			
Small	under 0.21	under 9,000	871	138.59	4,231	0.82
Medium	0.21 to 0.33	9,000 to 14,500	7,032	1,758.24	5,171	1.00
Large	0.34 to 0.45	14,500 to 20,000	973	376.06	5,895	1.14
Very Large	over 0.45	over 20,000	519	322.75	6,910	1.34
Condos	Considered to be same as Small Lots		1,053	37.86	na	0.82
TOTAL			10,448	2,633.50		

* # of Parcels and Acres do not factor into the basis of the SFE calculation; they are shown for informational purposes only.

** From Table 12, Appendix C.

NON-SINGLE-FAMILY RESIDENTIAL PARCELS

Unlike the SFR parcels, the non-SFR parcels can vary widely in size as well as characteristics. For this reason, the parcels have been grouped into land use categories according their %IA characteristics (as shown in Appendix C) so that the SFE-per-acre can be computed for each category using the following formula:

$$\frac{(43,560 \text{ sf} / \text{acre}) \times \% IA}{5,171 \text{ sf}} = SFE \text{ per Acre}$$

where 5,171 square feet is the amount of ISA in one SFE.

Table 6 below shows a summary of the non-single-family parcel SFEs for each non-SFR land use category.

TABLE 6 – SUMMARY OF NON-SFR PARCELS

Land Use Category	# of Parcels *	Acres *	% Imperv Area **	SFE per Acre
Multi-Family (Apartments)	22	22.30	77.2%	6.50
Commercial / Retail / Industrial	216	78.84	88.6%	7.46
Office	303	67.26	77.2%	6.50
Church / Institutional	25	64.70	60.1%	5.07
School	14	172.21		
Park	14	32.07	5.0%	0.42
Vacant (developed)	94	53.03	5.0%	0.42
Open Space / Agricultural	98	na		Exempt
TOTAL	786	490.41		

* Aggregate # of Parcels and Acres do not factor into the basis of the SFE calculation; they are shown for informational purposes only.

** %IA is from Table 12, Appendix C.

Each individual parcel's SFE is then calculated by multiplying the parcel size (in acres¹⁷) times the SFE/acre for that land use category, as shown in the following formula:

$$\text{Parcel Size (acres)} \times \text{SFE per Acre} = \text{SFE}$$

DEVELOPED VACANT PARCELS

Developed vacant parcels are distinguished from undeveloped vacant land by one of several characteristics. Typically, a developed vacant parcel has been graded to be ready for building construction (possibly as part of the original subdivision or adjacent street grading). In some cases, the parcel was previously improved, but the improvement has been removed. Although developed vacant parcels may have significant vegetative cover, the underlying soil conditions resulting from grading work can usually cause some rainfall to runoff into the storm drainage system. The %IA for developed vacant parcels is reasonably assumed to be 5%, which is also used as a minimum value of imperviousness for any property. Vacant parcels that have significant impervious paving remaining from prior improvements may be classified as Commercial or some other classification best representing the %IA of the parcel.

¹⁷ Parcel size for non-SFR parcels is calculated to the tenth of an acre or portion thereof.

OPEN SPACE AND AGRICULTURAL PARCELS ARE EXEMPT

The City's MS4 was developed in response to land development over the past several decades. Tracts of land that have not yet been developed, or have been used primarily for agricultural purposes, have not created an impact on the Drainage system beyond the natural condition, and are therefore considered to receive no service from the MS4. In practical terms, these parcels generate no additional storm runoff beyond the natural condition. For these reasons, open space and agricultural parcels are exempt from the Stormwater Fee.

Los Altos is a City with some open space land that may be situated on portions of developed parcels. For parcels that have a significant portion that is considered open space (or agricultural), those open space portions have been taken into consideration in the calculations of the %IA and SFEs.

- For SFR parcels, these open space lands have been included in the sampled lot size when calculating the average %IA, which produced a lower %IA for the extra-large parcels, and, thus, a lower SFE and Fee to accommodate the open space areas.
- For non-SFR parcels the fees are calculated on individual acreage. However, the open space portion has been deducted from the parcel's acreage prior to all analysis including %IA as well as SFE and fee calculations.

LOW IMPACT DEVELOPMENT AND POTENTIAL INCENTIVE PROGRAMS

The current NPDES Permit requires certain properties to construct stormwater treatment and attenuation facilities, also known as low impact development ("LID"). These facilities are typically designed to capture a portion of the storm flows, retain them, and enable them to infiltrate into the ground. While this is intended to help filter pollutants from the water, it also can reduce the parcel's stormwater runoff quantity to some extent, which in turn can reduce a parcel's impact on the City's storm drainage system. In addition to NPDES-required LID, other parcel owners may elect to follow LID guidelines voluntarily.

For parcels utilizing LID, it may make sense for the City to reduce a parcel's user fee by an amount commensurate with its reduced impact on the City's MS4. However, data is not yet available to correlate a parcel's LID to its effect on the MS4. In the coming year, the City will be developing its Green Infrastructure Plan, which may include data that could support a fee reduction calculation. Such a fee reduction could in turn become an incentive for non-regulated parcels to voluntarily implement LID, thereby further reducing the City's overall MS4 burden.

STORMWATER FEE CALCULATION

The primary metric in this analysis is the SFE as illustrated above. To arrive at the fee amount for the various land use categories, the total SFEs must be divided into the revenue requirement to arrive at the rate per SFE. Using the analysis above, that calculation is represented by the following formula:

$$\frac{\text{Annual Revenue Req't}}{\text{Total SFEs}} = \text{SFE Rate}$$

Or, using numbers from the analysis:

$$\frac{\$1,133,000}{12,880.000} = \$88.00 \text{ per SFE}$$

This SFE rate amount is then multiplied by the SFEs per parcel or acre for the various land use categories to arrive at the Stormwater Fee Rate Schedule shown in Table 7 below.

TABLE 7 – PROPOSED 2018-19 STORMWATER FEE SCHEDULE

Land Use Category	SFE Rate	Proposed Fee FY 2018-19	
Single-Family Residential *			
Small Under 9,000 sf	0.81822	\$ 72.00	per parcel
Medium 9,000 to 14,500 sf	1.00000	\$ 88.00	per parcel
Large 14,500 to 20,000 sf	1.14001	\$ 100.32	per parcel
Extra Large over 20,000 sf	1.33630	\$ 117.59	per parcel
Condominium	0.81822	\$ 72.00	per parcel
Non-Single-Family Residential **			
Multi-Family Residential	6.50420	\$ 572.37	per acre
Commercial / Retail / Industrial	7.46487	\$ 656.91	per acre
Office	6.50420	\$ 572.37	per acre
Church / Institutional	5.06523	\$ 445.74	per acre
School	4.17416	\$ 367.33	per acre
Park	0.42120	\$ 37.07	per acre
Vacant (developed)	0.42120	\$ 37.07	per acre
Open Space / Agricultural	exempt		

* SFR category also includes duplex, triplex and four-plex units.

** Non-SFR parcel size is calculated to the tenth of an acre or portion thereof.

The specific assumptions utilized in this Report, the specific CIP projects listed, and the division of revenues and expenses between the two primary categories (CIP and O&M) are used as a reasonable model of future revenue needs and are not intended to be binding on future use of funds.

ANNUAL COST INDEXING


The Stormwater fees are subject to an annual adjustment tied to the Consumer Price Index-U for the San Francisco, Oakland, Hayward Area as of December of each succeeding year (the "CPI"), with a maximum annual adjustment not to exceed 3%. Any change in the CPI in excess of 3% shall be cumulatively reserved as the "Unused CPI" and shall be used to increase the maximum authorized rate in years in which the CPI is less than 3%. The maximum authorized rate is equal to the maximum rate in the first fiscal year the Fee was approved adjusted annually by the lower of either 3% or the change in the CPI plus any Unused CPI as described above.

COLLECTION, MANAGEMENT AND USE OF STORMWATER FUNDS

The City may collect the Stormwater Fees in the same manner as the annual property taxes on each parcel subject to the fee. The City shall also deposit into a separate account(s) all Stormwater Fee revenues collected and shall appropriate and expend such funds only for the purposes authorized by this Report. The specific assumptions utilized in this Report, the specific CIP projects listed, and the division of revenues and expenses between the two primary categories (CIP and O&M) are used as a reasonable model of future revenue needs and are not intended to be binding on future use of funds.

Dated: September 28, 2018

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APPENDICES

APPENDIX A – LIST OF HIGH- AND MODERATE-PRIORITY CIP PROJECTS

Table 8 below lists the High- and Moderate-Priority projects from the 2016 Stormwater Master Plan that are used as the basis of the Stormwater Fee. The 2018 cost column includes an escalation factor of 7.1% plus an additional 7.0% added for program management costs not included in the 2016 Plan.

TABLE 8 – HIGH AND MODERATE PRIORITY CAPITAL IMPROVEMENT PROJECTS

Project Name	Location	Description	Project No.	2016 Cost	2018 Cost
HIGH PRIORITY		Remedy Significant Flooding to Protect Property and Commerce			
Milverton Road	600 block	770' Pipe, Drywells, Inlets	AD_PA_1002	\$ 410,000	***
Deodora		240' Pipe, Manhole	PS_CNV_001	220,000	\$ 250,000
Fremont		1,330' Pipe, Manhole	PS_CNV_002	950,000	1,080,000
Stonehaven		280' Pipe, 3 Manholes	PS_CNV_003	240,000	270,000
Woods Lane	Citation Dr	36" Trash Rack or Inlet	PS_PA_1001	220,000	250,000
Stonehaven	2100 block	Improve Channel, New Trash Rack	PS_PA_1002	770,000	880,000
Windimer	Sierra Ventura Dr	Ditch Improvements	PL_PA_1003	460,000	***
Trash Capture Devices	City-wide	Install Trash Capture Devices	RC_10	400,000	***
Green Infrastructure	Plan	GI Plan Development	RC_02	150,000	***
High Priority Subtotal				\$ 3,820,000	\$ 2,730,000

Table continues on following page

*** These projects have been previously funded by other sources, and are not included in the revenue needs for purposes of this report.

Project Name	Location	Description	Project No.	2016 Cost	2018 Cost
MODERATE PRIORITY		Reduce Less Significant Flood Risks During More Extreme Events			
Loucks		1,970' Pipe, 8 Manholes	AD_CNV_001	1,720,000	\$ 1,960,000
Shasta St		Concrete Pipe, Manhole	AD_EX_015	450,000	510,000
Summerhill	S. El Monte	200' Pipe, 2 Inlets	AD_PA_1000	200,000	230,000
Edith		5,270' Pipe, 20 Manholes	HA_CNV_002	410,000	470,000
Renetta		580' Pipe, 2 Manholes	HA_CNV_005	3,880,000	4,430,000
Springer Rd		370 Pipe, 5 Manholes	HA_PA_1000	240,000	270,000
Sunshine Dr		Reconstruct 2 Inlets	HA_PA_1001	150,000	170,000
Oakwood Ct		Replace Drywell, 880' Pipe, 5 Inlets, 5 Manholes	HA_PA_1002	490,000	560,000
Payne Dr		Replace 6 Drywells, 2,130' Pipe, 6 Inlets, 9 Manholes	PM_PA_1000	1,100,000	1,260,000
Loma Prieta Ct		Lower Inlet	PM_PA_1001	30,000	30,000
Arboretum		1,570' Pipe, 21 Manholes	PS_CNV_004	1,550,000	1,770,000
Oak Ave		880' Pipe, 7 Manholes	PS_CNV_005	640,000	730,000
Dallas Ct	1600 block	1 Inlet, 1 Manholes	PL_PA_1001	200,000	230,000
Ranchita Dr	Julie Ln	Replace Inlet	PS_PA_1004	110,000	130,000
Cedar Pl	Redwood Dr	480' Pipe, 2 Inlets, 3 Manholes	PS_PA_1005	140,000	160,000
Foothill Exp	El Cereno Ave	1 Inlet	ST_PA_1000	150,000	170,000
Moderate Priority Subtotal				11,460,000	\$ 13,080,000
TOTAL COST				\$ 15,280,000	\$ 15,810,000

APPENDIX B – FINANCING SCENARIOS

TABLE 9 – HYBRID APPROACH

FY End	Begin Bal	Revenues	Expenses			End Bal	Remaining Capital Need	
		Revenue	O&M	Capital	Debt		High	Moderate
2019	-	1,133,440	522,000	507,040		104,400	2,730,000	13,080,000
2020	104,400	1,162,909	537,660	622,117		107,532	2,280,757	13,420,080
2021	107,532	1,193,145	553,790	636,129		110,758	1,701,764	13,769,002
2022	110,758	1,224,167	570,403	650,441		114,081	1,093,341	14,126,996
2023	114,081	1,255,995	587,516	397,325		385,235	454,416	14,494,298
2024	385,235	1,288,651	605,141	190,000	719,722	159,024	58,575	9,744,298
2025	159,024	1,322,156	623,295	-	719,722	138,163		9,802,710
2026	138,163	1,356,532	641,994	-	719,722	132,979		10,057,580
2027	132,979	1,391,802	661,254	11,000	719,722	132,805		10,319,077
2028	132,805	1,427,989	681,092	23,000	719,722	136,981		10,576,087
2029	136,981	1,465,116	701,524	40,000	719,722	140,851		10,827,468
2030	140,851	1,503,209	722,570	57,000	719,722	144,769		11,067,942
2031	144,769	1,542,293	744,247	74,000	719,722	149,093		11,297,226
2032	149,093	1,582,393	766,575	91,000	719,722	154,189		11,515,030
2033	154,189	1,623,535	789,572	106,000	719,722	162,430		11,721,055
2034	162,430	1,665,747	813,259	-	852,011	162,907		5,271,055
2035	162,907	1,709,056	837,657	15,000	852,011	167,296		5,408,102
2036	167,296	1,753,492	862,786	33,000	852,011	172,990		5,533,323
2037	172,990	1,799,082	888,670	53,000	852,011	178,392		5,643,331
2038	178,392	1,845,858	915,330	74,000	852,011	182,910		5,735,680
2039	182,910	1,893,851	942,790	93,000	852,011	188,960		5,808,884
2040	188,960	1,943,091	971,074	114,000	852,011	194,966		5,864,497
2041	194,966	1,993,611	1,000,206	136,000	852,011	200,361		5,900,010
2042	200,361	2,045,445	1,030,212	157,000	852,011	206,583		5,913,874
2043	206,583	2,098,627	1,061,119	180,000	852,011	212,081		5,906,553
2044	212,081	4,473,868	1,092,952	3,374,407		218,590		5,875,443
2045	218,590	2,209,174	1,125,741	1,076,876		225,148		2,566,063
2046	225,148	2,266,612	1,159,513	1,100,345		231,903		1,527,907
2047	231,903	2,325,544	1,194,298	1,124,289		238,860		438,678
2048	238,860	2,386,009	1,230,127	1,148,716		246,025		(703,437)

Table Notes:

- Interest and escalation factors are as listed on Page 6 of this Report.
- 10-yr Debt issuance in FY 2023-24 is for \$4.75 million in proceeds.
- 10-yr Debt issuance in FY 2033-34 is for \$6.45 million in proceeds.
- Revenue in FY 2043-44 is spiked upward as the bond reserve fund (not shown) is transferred into the operating fund.

TABLE 10 – PAY-AS-YOU-GO APPROACH

FY End	Begin Bal	Revenues	Expenses			End Bal	Remaining Capital Needs	
		Revenue	O&M	CIP High	CIP Mod		High	Moderate
2019	-	1,107,680	522,000	481,280	-	104,400	2,730,000	13,080,000
2020	104,400	1,136,480	537,660	595,688		107,532	2,307,187	13,420,080
2021	107,532	1,166,028	553,790	609,012		110,758	1,755,998	13,769,002
2022	110,758	1,196,345	570,403	622,619		114,081	1,176,807	14,126,996
2023	114,081	1,227,450	587,516	568,598	70,209	115,208	568,598	14,494,298
2024	115,208	1,259,364	605,141		648,402	121,028	-	14,799,115
2025	121,028	1,292,107	623,295	-	665,181	124,659		14,518,631
2026	124,659	1,325,702	641,994		679,968	128,399		14,213,640
2027	128,399	1,360,170	661,254		695,064	132,251		13,885,548
2028	132,251	1,395,534	681,092		710,475	136,218		13,533,436
2029	136,218	1,431,818	701,524		726,207	140,305		13,156,358
2030	140,305	1,469,046	722,570		742,266	144,514		12,753,334
2031	144,514	1,507,241	744,247		758,658	148,849		12,323,356
2032	148,849	1,546,429	766,575		775,389	153,315		11,865,380
2033	153,315	1,586,636	789,572		792,465	157,914		11,378,330
2034	157,914	1,627,889	813,259		809,892	162,652		10,861,098
2035	162,652	1,670,214	837,657		827,678	167,531		10,312,537
2036	167,531	1,713,639	862,786		845,827	172,557		9,731,466
2037	172,557	1,758,194	888,670		864,347	177,734		9,116,665
2038	177,734	1,803,907	915,330		883,245	183,066		8,466,878
2039	183,066	1,850,809	942,790		902,527	188,558		7,780,808
2040	188,558	1,898,930	971,074		922,199	194,215		7,057,116
2041	194,215	1,948,302	1,000,206		942,269	200,041		6,294,425
2042	200,041	1,998,958	1,030,212		962,744	206,042		5,491,312
2043	206,042	2,050,931	1,061,119		983,631	212,224		4,646,310
2044	212,224	2,104,255	1,092,952		1,004,936	218,590		3,757,909
2045	218,590	2,158,965	1,125,741		1,026,667	225,148		2,824,550
2046	225,148	2,215,099	1,159,513		1,048,831	231,903		1,844,628
2047	231,903	2,272,691	1,194,298		1,071,436	238,860		816,487
2048	238,860	2,331,781	1,230,127		1,094,488	246,025		(261,577)

Table Notes

- Interest and escalation factors are as listed on Page 6 of this Report.

TABLE 11 – LONG-TERM DEBT APPROACH

FY End	Begin Bal	Revenues			Expenses		End Bal
		O&M Rev	CIP Rev	TOTAL Rev	O&M	Debt Pmt	
2019	-	521,833	1,140,566	1,662,399	522,000		104,400
2020	104,400	540,792	1,140,566	1,681,358	537,660	1,140,566	107,532
2021	107,532	557,016	1,140,566	1,697,581	553,790	1,140,566	110,758
2022	110,758	573,726	1,140,566	1,714,292	570,403	1,140,566	114,081
2023	114,081	590,938	1,140,566	1,731,504	587,516	1,140,566	117,503
2024	117,503	608,666	1,140,566	1,749,232	605,141	1,140,566	121,028
2025	121,028	626,926	1,140,566	1,767,492	623,295	1,140,566	124,659
2026	124,659	645,734	1,140,566	1,786,300	641,994	1,140,566	128,399
2027	128,399	665,106	1,140,566	1,805,672	661,254	1,140,566	132,251
2028	132,251	685,059	1,140,566	1,825,625	681,092	1,140,566	136,218
2029	136,218	705,611	1,140,566	1,846,177	701,524	1,140,566	140,305
2030	140,305	726,779	1,140,566	1,867,345	722,570	1,140,566	144,514
2031	144,514	748,583	1,140,566	1,889,148	744,247	1,140,566	148,849
2032	148,849	771,040	1,140,566	1,911,606	766,575	1,140,566	153,315
2033	153,315	794,171	1,140,566	1,934,737	789,572	1,140,566	157,914
2034	157,914	817,996	1,140,566	1,958,562	813,259	1,140,566	162,652
2035	162,652	842,536	1,140,566	1,983,102	837,657	1,140,566	167,531
2036	167,531	867,812	1,140,566	2,008,378	862,786	1,140,566	172,557
2037	172,557	893,847	1,140,566	2,034,412	888,670	1,140,566	177,734
2038	177,734	920,662	1,140,566	2,061,228	915,330	1,140,566	183,066
2039	183,066	948,282	1,140,566	2,088,848	942,790	1,140,566	188,558
2040	188,558	976,731	1,140,566	2,117,296	971,074	1,140,566	194,215
2041	194,215	1,006,032	1,140,566	2,146,598	1,000,206	1,140,566	200,041
2042	200,041	1,036,213	1,140,566	2,176,779	1,030,212	1,140,566	206,042
2043	206,042	1,067,300	1,140,566	2,207,865	1,061,119	1,140,566	212,224
2044	212,224	1,099,319	1,140,566	2,239,884	1,092,952	1,140,566	218,590
2045	218,590	1,132,298	1,140,566	2,272,864	1,125,741	1,140,566	225,148
2046	225,148	1,166,267	1,140,566	2,306,833	1,159,513	1,140,566	231,903
2047	231,903	1,201,255	1,140,566	2,341,821	1,194,298	1,140,566	238,860
2048	238,860	1,237,293	1,140,566	2,377,859	1,230,127	1,140,566	246,025

Table Notes

- Interest and escalation factors are as listed on Page 6 of this Report.
- Debt Reserve Fund balance (not shown) is used to make 30th debt payment.
- Capital expenses are off-budget and are assumed expended in the first few years with minimal interest earnings.

APPENDIX C – PERCENTAGE OF IMPERVIOUS AREA SAMPLING RESULTS

For most land use categories, a sample of parcels was analyzed using aerial photography and other data to determine the average percentage of impervious area (“%IA”). Table 12 below shows the results of that analysis.

TABLE 12 – PERCENTAGE OF IMPERVIOUS AREA SAMPLING RESULTS

Land Use Category	# of Parcels	# Parcels Analyzed	Total Acres Sampled	Total Acres	
				Impervious Area	Impervious Area ^A
Single-Family Residential					
Small <i>Under 9,000 sf</i>	871	27	4.20	2.47	4,231 sf
Medium <i>9,000 to 14,500 sf</i>	7,032	213	54.23	25.64	5,171 sf
Large <i>14,500 to 20,000 sf</i>	973	40	15.83	5.64	5,895 sf
Extra Large <i>over 20,000 sf</i>	519	40	29.30	7.02	6,910 sf
Condominium ^B	1,053		not sampled		
Non-Single-Family Residential					
Multi-Family Residential	22	18	9.61	7.42	77.21%
Commercial / Retail / Industrial	216	41	26.00	23.04	88.62%
Office ^C	303		not sampled		
Church / Institutional	25	14	60.32	36.27	60.13%
School	14	11	144.88	71.79	49.55%
Park ^D	14		not sampled		
Vacant (developed) ^D	94		not sampled		
TOTAL	11,136	404	344.37	179.29	na

A For Residential, impervious area is the median value of all parcels analyzed. For Non-Residential, impervious area is expressed as a percentage of parcel area (Total IA/Total Acres sampled).

B Condominium – Not sampled as explained on Page 9 of this Report.

C Office – Parcels in the Office category tended to be very large or very small in size. Furthermore, many of the large parcels were subdivided into office condominiums. For these reasons, a statistical approach was not considered representative. The SFE / Acres of 6.5 found in Table 6 was estimated based on other municipalities of similar makeup.

D Park and Vacant – Park and Vacant parcels were estimated to have a 5% impervious area based on other similar municipalities.

APPENDIX D – STORMWATER RATES FROM OTHER MUNICIPALITIES

There have been relatively few voter-approved local revenue mechanisms in the past 15 years to support Stormwater programs in California. A summary of those efforts plus some others in process or being studied is shown in Table 13 on the following page, in roughly chronological order. Amounts are annualized and are for single family residences or the equivalent.

TABLE 13 – RECENT STORM DRAIN BALLOT MEASURES

Municipality	Status	Annual Rate	Year	Mechanism
San Clemente	Successful	\$ 60.15	2002	Balloted Property-Related Fee
Carmel	Unsuccessful	\$ 38.00	2003	Balloted Property-Related Fee
Palo Alto	Unsuccessful	\$ 57.00	2003	Balloted Property-Related Fee
Los Angeles	Successful	\$ 28.00	2004	Special Tax - G. O. Bond
Palo Alto	Successful	\$ 120.00	2005	Balloted Property-Related Fee
Rancho Palos Verde	Successful , then recalled and reduced	\$ 200.00	2005, 2007	Balloted Property-Related Fee
Encinitas	Unsuccessful	\$ 60.00	2006	Non-Balloted Property-Related Fee adopted in 2004, challenged, balloted and failed in 2006
Ross Valley	Successful, Overturned by Court of Appeals, Decertified by Supreme Court	\$ 125.00	2006	Balloted Property-Related Fee
Santa Monica	Successful	\$ 87.00	2006	Special Tax
San Clemente	Successfully renewed	\$ 60.15	2007	Balloted Property-Related Fee
Solana Beach	Non-Balloted, Threatened by lawsuit, Balloted, Successful	\$ 21.84	2007	Non-Balloted & Balloted Property-Related Fee
Woodland	Unsuccessful	\$ 60.00	2007	Balloted Property-Related Fee
Del Mar	Successful	\$ 163.38	2008	Balloted Property-Related Fee
Hawthorne	Unsuccessful	\$ 30.00	2008	Balloted Property-Related Fee
Santa Cruz	Successful	\$ 28.00	2008	Special Tax
Burlingame	Successful	\$ 150.00	2009	Balloted Property-Related Fee
Santa Clarita	Successful	\$ 21.00	2009	Balloted Property-Related Fee
Stockton	Unsuccessful	\$ 34.56	2009	Balloted Property-Related Fee
County of Contra Costa	Unsuccessful	\$ 22.00	2012	Balloted Property-Related Fee
Santa Clara Valley Water District	Successful	\$ 56.00	2012	Special Tax
City of Berkeley	Successful	varies	2012	Measure M - GO Bond
County of LA	Deferred	\$ 54.00	2012	NA
San Clemente	Successful	\$ 74.76	2013	Balloted Property-Related Fee
Vallejo San & Flood	Successful	\$ 23.00	2015	Balloted Property-Related Fee
Culver City	Successful	\$ 99.00	2016	Special Tax
Palo Alto	Successful	\$ 163.80	2017	Balloted Property-Related Fee Reauthorization of 2005 Fee
Town of Moraga	Unsuccessful	\$ 120.38	2018	Balloted Property-Related Fee
City of Berkeley	Successful	\$ 42.89	2018	Balloted Property-Related Fee
City of Los Altos	In Process	NA	NA	Balloted Property-Related Fee
County of San Joaquin	Studying	NA	NA	Balloted Property-Related Fee
City of Sacramento	Studying	NA	NA	Balloted Property-Related Fee
City of Salinas	Studying	NA	NA	NA
City of Santa Clara	Studying	NA	NA	Balloted Property-Related Fee
County of San Mateo	Studying	NA	NA	NA
County of El Dorado	Studying	NA	NA	NA
County of Orange	Studying	NA	NA	NA
County of Ventura	Studying	NA	NA	NA

In addition to the agencies listed above in Table 13 that have gone to the ballot for new or increased Stormwater Fees, there are several other municipalities throughout the State that have existing Stormwater Fees in place. Some of these rates are summarized in Table 14 below. Amounts are annualized and are for single family residences or the equivalent.

The City's proposed \$88 SFR rate is well within the range of Stormwater rates adopted by other municipalities.

TABLE 14 – SAMPLE OF RATES FROM OTHER MUNICIPALITIES

Municipality	Annual Rate	Type of Fee
Bakersfield	\$ 200.04	Property-Related Fee
Culver City	\$ 99.00	Special Tax
Davis	\$ 84.94	Property-Related Fee
Elk Grove	\$ 70.08	Property-Related Fee
	\$ 190.20	Property-Related Fee
Hayward	\$ 28.56	Property-Related Fee
Los Angeles	\$ 27.00	Special tax
Palo Alto	\$ 136.80	Property-Related Fee
Redding	\$ 15.84	Property-Related Fee
Sacramento (City)	\$ 135.72	Property-Related Fee
Sacramento (County)	\$ 70.08	Property-Related Fee
San Bruno	\$ 46.16	Property-Related Fee
San Clemente	\$ 60.24	Property-Related Fee
San Jose	\$ 91.68	Property-Related Fee
Santa Cruz	\$ 109.08	Special Tax
Stockton *	\$ 221.37	Property-Related Fee
Vallejo Sanitation and Flood Control District	\$ 23.64	Property-Related Fee
West Sacramento	\$ 144.11	Property-Related Fee
Woodland	\$ 5.76	Property-Related Fee

* This is the calculated average rate for the City of Stockton, which has 15 rate zones with rates ranging from \$3.54 to \$651.68 per year.