

July 14, 2025

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ACTION CALENDAR

SETTING CONNECTION FEES AND PROPERTY TAXES FOR FISCAL YEARS 2025-26 AND 2026-27

SUMMARY:

IRWD proposes setting new 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) 2025-26 are based on updates to IRWD's capital budget, developer projections, and adjustments to the Engineering News Record (ENR) construction cost index. The increase in connection fees for FY 2025-26 is attributed to the allocation of costs associated with Irvine Lake, including the proposed dam embankment improvements and the allocated costs that had previously been the responsibility of the Serrano Water District (25%). Changes to the connection fees proposed for FY 2026-27 are based on estimated construction cost increases of 3.0% for all Improvement Districts (IDs).

This item was initially presented to the Finance and Personnel Committee on June 2, and developers requested time to review the financial model components. Staff met with two local developers to review the factors influencing the model. Based upon those discussions, staff received additional information from the developers, which has led to a reduction in the initial connection fee presented at the June 2 Committee meeting.

During the Finance and Personnel Committee meeting on June 30, the Committee directed staff to model scenarios which would spread the connection fee increases over the two year rate setting cycle for ID's where development projections are shared with the District on an annual basis. Staff prepared two alternatives for IDs 112/212 and IDs 153/253 to address the Committee's request. Both developers are anticipating changes that will result in reduced connection fees in time and spreading the increase over the two-year rate setting cycle will limit potential spikes to the fees. Staff recommends that the Board approve the changes to the existing connection fees and property tax rates based on Alternative Two and adopt resolutions approving these revisions.

BACKGROUND:

The IRWD Board has a long-standing policy by which the costs associated with new capital facilities are shared equally between the connection fees paid by developers and property taxes paid by property owners: "the 50/50 split." In 2014, IRWD worked with key developers within its service area to create IRWD's Long-Term Capital Funding Plan (LTFP). The LTFP details the process used to generate rates for both connection fees and property tax rates. It also includes a comprehensive financial model that incorporates capital costs, debt funding, future development, growth rates, inflation, and other variables. This model currently reflects projected fund balances through FY 2059-60.

Connection fees were modeled for two alternatives along with a consolidated tax rate for both residential and commercial development. Staff updated IRWD's financial model for FY 2025-26 and 2026-27 connection fees and tax rate-setting to include the following:

- Updated capital improvement program based upon the FY 2025-26 and 2026-27 approved capital budget and updates that include the Santiago Dam Improvement Project, including:
 - The addition of Serrano Water District's former portion of costs associated with this project is deemed new capital to IRWD, and
 - The proposed dam embankment improvements that would allow the dam to meet IRWD's risk-informed decision-making criteria relative to risk and consequence;
- ENR estimated capital cost increase for FY 2025-26 (3.7%) and FY 2026-27 (3.0%);
- Fund balance adjustments through March 2025 with assumptions through fiscal year end;
- Updated assessed valuations; and
- Updated projections for development units.

Exhibit "A" provides a summary of two alternatives for proposed connection fees and property tax rates by ID, Exhibit "B" provides an analysis of changes from current values within each ID to Alternative 1, and Exhibit "C" provides ID activity over the next two fiscal years. Provided as 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" and Exhibit "I" represent two alternative proposed changes to the IRWD Schedule of Rates and Charges included in the District's Rules and Regulations. Exhibit "I" is staff's recommendation for Rates and Charges pertaining to Alternative 2.

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 are set separately.

City of Irvine / Great Park:

The recycled water connection fee for the Great Park that was approved by the Board in 2017, per an agreement with the City of Irvine, was updated. 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 placed into service. The Great Park will pay 100% of the planned recycled capital expenditures.

FivePoint Communities – Great Park Neighborhoods:

Two developers participate closely with the District in the connection fee rate setting process, providing a stronger representation of the development timeline. The Finance and Personnel Committee directed staff to provide two alternatives that consider the necessary rate increase to be captured within the two-year rate setting window:

- Alternative One: Full increase in FY 2025-26 and an increase with ENR in FY 2026-27
- Alternative Two: Split the consolidated increase over two years

Both alternatives result in the same outcome when the debt is extinguished. The costs are shared equally between the developer and the homeowner through connection fees and property tax rates.

The Great Park Neighborhoods is the FivePoint Communities development within ID 112 / 212. Alternative One increases the connection fees by \$3,272 for FY 2025-26 and \$338 in FY 2026-27 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 \$7,981 per unit to \$11,253 per unit in FY 2025-26 and to \$11,591 per unit in FY 2026-27. Staff recommends continuing the current consolidated tax rate of \$0.0475 per \$100 of land assessed value to maintain the 50/50 split.

Staff recommends Alternative Two, the increase in FY 2025-26 would be \$1,875 and the increase for FY 2026-27 would be \$2,316 per unit. The consolidated water and sewer connection fee will increase from \$7,981 per residential unit to \$9,856 per residential unit in FY 2025-26 and to \$12,172 per unit in FY 2026-27.

County of Orange 100-acre Parcel (IDs 112 / 212a):

Staff utilized the same two alternatives for this development. Staff recommends applying the same percentage increase for FY 2025-26 and for FY 2026-27 to the connection fees, for the reasons discussed above, for the 100-acre development site owned by the County of Orange. Because it is publicly owned, this land has no tax base. Under Alternative One, the consolidated water and sewer connection fee will increase from \$14,682 to \$22,611 per unit in FY 2025-26 and to \$23,289 per unit in FY 2026-27. 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 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
Alternative One					
112 / 212 Great Park Neighborhoods	\$7,981	\$11,254	\$11,592	\$0.0475	\$0.0475
112a / 212a County 100-acre Parcel	\$14,682	\$22,611	\$23,289	\$0.0000	\$0.0000

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2025- 26	Proposed FY 2026- 27	Current	Proposed FY 2025- 26 to 27
Alternative Two - Staff Recommendation					
112 / 212 Great Park Neighborhoods	\$7,981	\$9,856	\$12,172	\$0.0475	\$0.0475
112a / 212a County 100-acre Parcel	\$14,682	\$19,380	\$25,581	\$0.0000	\$0.0000

IDs 113 / 213 – Former Tustin Marine Base:

For FY 2025-26 and 2026-27, staff recommends increasing the total water and sewer connection fees by \$3,989 and \$444 respectively due to increases in ENR and estimated increases in capital projects. This will increase the total water and sewer connection fee from \$10,781 per unit to \$14,770 per unit in FY 2025-26. 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 \$15,214 per unit in FY 2026-27. 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 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
113 / 213 Former Tustin Base	\$10,781	\$14,770	\$15,214	\$0.0990	\$0.0990

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

For FY 2025-26 and 2026-27, staff recommends increasing connection fees by \$7,175 and \$431 respectively due to increases in ENR and estimated increases in capital projects. The ID is nearly fully developed. The consolidated water and sewer connection fee will increase from \$7,175 per unit to \$14,350 per unit and to \$14,781 per unit in FY 2026-27. The split between the water connection fee and the sewer connection fee was changed to reflect changes in capital spending. Staff recommends continuing the consolidated tax rate of \$0.0218 per \$100 of assessed land value in order to meet debt obligations and maintain the 50/50 funding split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
185 / 285 LF Opportunity Study	\$7,175	\$14,350	\$14,781	\$0.0218	\$0.0218

IDs 188 / 288 Lake Forest Opportunity Study Area, Portola Only:

For FY 2025-26 and 2026-27, staff recommends increasing connection fees by \$6,376 and \$352 respectively due to increases in ENR. The consolidated water and sewer connection fee will increase from \$5,358 per residential unit to \$11,734 per residential unit in FY 2025-26 and to \$12,086 per unit in FY 2026-27. Staff recommends decreasing the consolidated tax rate from \$0.0394 to \$0.0330 per \$100 of assessed land value in order to meet debt obligations and maintain the 50/50 funding split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
188 / 288 Portola	\$5,358	\$11,734	\$12,086	\$0.0394	\$0.0330

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 and tax revenue. The native water assumption includes 3,800 acre-feet (AF) per year at a rate of \$368 per AF in FY 2024-25 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 reconciliation is on hold until the Santiago Dam project is completed. The final reconciliation will occur at the end of twenty years in 2038.

The local developer participates closely with the District in this process and the two alternatives that consider the necessary rate increase be captured within the two year rate setting window was applied to these ID's as well.

In Alternative One for FY 2025-26, the consolidated water and sewer connection fee will increase by \$809 due to cost escalations in capital projects. The split between the water connection fee and the sewer connection fee was changed to reflect changes in capital spending. For FY 2026-27, connection fees increase by \$135 based on estimated ENR. The consolidated water and sewer connection fee will increase from \$3,678 per residential unit to \$4,487 per residential unit in FY 2025-26 and to \$4,622 per unit in FY 2026-27.

Staff recommends Alternative Two in which the increase in FY 2025-26 would be \$478 and the increase for FY 2026-27 would be \$540 per unit. The consolidated water and sewer connection fee will increase from \$3,678 per residential unit to \$4,156 per residential unit in FY 2025-26 and to \$4,696 per unit in FY 2026-27.

Staff recommends continuing the current consolidated tax rate of \$0.0220 per \$100 of assessed land value in order to meet debt obligations and maintain the 50/50 funding split.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
Alternative One					
153 / 253 Developing ID	\$3,678	\$4,487	\$4,622	\$0.0220	\$0.0220
Alternative Two - Staff Recommendation					
153 / 253 Developing ID	\$3,678	\$4,156	\$4,696	\$0.0220	\$0.0220

ID 256 – Orange Park Acres (OPA) Sewer:

For FY 2025-26 and 2026-27, staff recommends increasing connection fees by \$992 and \$259 respectively due to increases in ENR and estimated increases in capital projects. The connection fees will increase from \$7,630 to \$8,622 per residential unit in FY 2025-26 and to \$8,881 in FY 2026-27. There is no bonding authority for this ID so there are no property taxes.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
256 OPA	\$7,630	\$8,622	\$8,881	NA	NA

All Other IDs:

For FY 2025-26 and 2026-27, staff recommends increasing connection fees by 25% and 3.0% respectively due to increases in ENR and estimated increases in capital projects. Staff recommends continuing the current consolidated tax rate of \$0.0280 per \$100 of land assessed value in ID's 125 / 225 to meet debt requirements. Staff recommends reducing the current tax rate per \$100 of land assessed value in ID's 240 from \$0.01950 to \$0.0065 to meet debt requirements. The consolidated tax rate in this area (ID 125 / 240) will be \$.0150 per \$100 of land assessed value.

Improvement Districts	Connection Fees			Property Tax	
	Current	Proposed FY 2025-26	Proposed FY 2026-27	Current	Proposed FY 2025-26 to 27
125 / 225 Developed	\$8,341	\$10,426	\$10,739	\$0.0280	\$0.0280
125 / 240 Developed	\$8,568	\$10,775	\$11,099	\$0.0280	\$0.0150
111 / 222 Developed, no G.O. Bonding Authority ¹	\$13,836	\$17,295	\$17,814	NA	NA

¹ 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 2025-26 and 2026-27 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 30, 2025.

RECOMMENDATION:

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

RESOLUTION NO. 2025 –

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT
ADOPTING CHANGES TO CONNECTION FEES AS SET FORTH IN
THE SCHEDULE OF RATES AND CHARGES IN EXHIBIT “B” TO THE
RULES AND REGULATIONS OF IRVINE RANCH WATER DISTRICT
FOR WATER, SEWER, RECYCLED WATER, AND NATURAL
TREATMENT SYSTEM SERVICE
(EFFECTIVE AUGUST 1, 2025)

RESOLUTION NO. 2025 -

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT
ESTABLISHING AD VALOREM TAX REVENUES FOR
FISCAL YEAR 2025-26

RESOLUTION NO. 2025 -

RESOLUTION OF THE BOARD OF DIRECTORS OF
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 Improvement Districts
Exhibit “C” – Key Rate Setting Components
Exhibit “D” – Connection Fees and Property Taxes 2026 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” – Changes to IRWD Rates and Charges - Alternative One
Exhibit “I” – Recommended Changes to IRWD Rates and Charges - Alternative Two

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