



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 26-197

Meeting Date: 4/7/2026

TITLE:

INTRODUCTION AND FIRST READING BY TITLE ONLY OF AN ORDINANCE AMENDING CHAPTER III OF TITLE 15 OF THE COSTA MESA MUNICIPAL CODE RELATING TO DRAINAGE AND ADOPTION OF DEVELOPMENT IMPACT FEES FOR STORM DRAINAGE AND ADOPTION OF A CAPITAL IMPROVEMENT PLAN AS PART OF THE NEXUS STUDY AND COMPLETION OF THE STORM DRAIN SYSTEM MASTER PLAN (SDSMP) UPDATE

DEPARTMENT: PUBLIC WORKS DEPARTMENT / ENGINEERING DIVISION

PRESENTED BY: RAJA SETHURAMAN, PUBLIC WORKS DIRECTOR

CONTACT INFORMATION: SEUNG YANG, P.E., CITY ENGINEER, (714) 754-5335

RECOMMENDATION:

Staff recommends the City Council:

1. Adopt the 2026 Storm Drainage Impact Fee Nexus Study ("Nexus Study") as the final component of the 2024 Storm Drain System Master Plan Update.
2. Adopt the storm drain Capital Improvement Plan (CIP) as provided in Appendix A (Table A-1) in the Nexus Study.
3. Adopt Resolution 2026-XX for the updated development impact fees for storm drainage, in compliance with governing California laws AB1600 (Mitigation Fee Act) and AB 602 (Development Impact Fees).
4. Introduce for first reading, by title only, Ordinance No. 26-XX of the City Council of the City of Costa Mesa, California, Amending Chapter III of Title 15 of the Costa Mesa Municipal Code Relating to Drainage and waive further reading.
5. Authorize staff to implement the updated fees sixty (60) days after adoption, in compliance with AB 1600 (Mitigation Fee Act).

BACKGROUND:

In 2006, the City Council amended Costa Mesa Municipal Code section 15-64 (Title 15, Chapter III) to identify and put into effect a Storm Drain System Master Plan (SDSMP) and its associated drainage impact fees. These impact fees are collected from new development and significant re-development projects as "one-time" charges to fund the impacts that future development will have on the City's storm drainage system.

The 2006 SDSMP analyzed the existing storm drain system throughout the City. The detailed "rational method" analysis aimed to model the effects of 25-year and 100-year design storms on the City's storm drain system. The 2006 SDSMP proposed storm drain upgrades and estimated storm

drain improvement costs throughout the City and included a fee study with target Storm Drain Impact Fees.

Prior to adoption of the 2006 Storm Drain Impact Fee, the City Council was presented with recommended target drainage fees that were calculated based on projected land use and estimated costs of proposed storm drain capital improvement projects. After several meetings, the City Council selected an alternative drainage fee that was reduced by roughly 50% from the target drainage fee by selecting fewer proposed storm drainage improvements.

The alternative drainage fee did not fund as many storm drain projects but would address those with the most favorable cost-benefit analysis. The City Council then chose to adopt a phased approach, whereby 50% of the alternate fees were initially adopted for two years starting January 1, 2007. After January 1, 2009, the drainage fees were increased to the full recommended amount that is still being collected today.

The following table provides the City's existing drainage impact fees that were adopted in 2006 (effective 2007) and increased to the full adopted amount listed below in 2009:

Existing Drainage Fee (per Acre)*

<u>Land Use Type:</u>	<u>Fee:</u>
Low-Density Residential	\$6,283
Medium-Density Residential	\$7,539
High-Density Residential	\$10,052
Commercial	\$11,308
Industrial	\$11,309

In addition to the drainage fee, the City also collects a Watershed Fee for proposed development located in a watershed that has deficiencies identified in the 2006 Storm Drain Master Plan and are not able to either:

- Detain water onsite, or
- Construct the associated storm drain upgrades in their affected watershed.

The Watershed Fee is a charge applied to new development to cover its fair share of storm drain construction costs. The fee varies by watershed, ranging from \$0 per acre in areas with no improvements identified in the 2006 SDSMP to as much as \$27,044 per acre in watersheds where improvements are required. Out of the City's thirty-seven (37) watersheds defined in the 2006 SDSMP, seventeen (17) have improvements identified.

On September 15, 2020, the City Council awarded a Professional Services Agreement (PSA) to Q3 Consulting (Q3) to complete an update to the City's SDSMP. Similar to the 2006 SDSMP, the current update has been divided into parts for a comprehensive and thorough analysis.

On October 15, 2024, Part 1 of the Storm Drain System Master Plan was accepted by the City Council. It included the Existing Conditions Assessment Report (ECAR) and the Proposed Drainage & Water Quality Improvements Report. The reports can be found on the City's website at www.costamesaca.gov/storm <<http://www.costamesaca.gov/storm>>. The new SDSMP uses the

Direct Rainfall computer modeling method of analysis that combines topography, existing land use data, and hydrology modeling to analyze the City as only two distinct watersheds. Those watersheds are the Santa Ana River Drainage Basin to the west, and the Newport Bay Drainage Basin to the east.

The second and final part of the SDSMP is the City's Drainage Fee and Finance Nexus Study Update. This fee update is being conducted by a sub-consultant to Q3, Harris and Associates. Harris and Associates has derived the maximum justifiable fee based on the proposed improvements outlined in Part 1, current existing parcel land use types, and the City's 2035 land use plan types, which have been updated to incorporate the projected residential development. The fee update includes projected costs of upgrading regional flood control facilities and water quality facilities.

Proposed Drainage Fee (per Acre)

The City of Costa Mesa collects Development Impact Fees (DIFs) to ensure that new development and significant redevelopment projects pay their proportionate share for public storm drain infrastructure needed to serve growth, thereby preventing undue financial burden on existing residents and businesses.

The last update to the City's Storm Drainage Impact Fee (DIF) occurred in 2009 as part of a prescribed phased approach to implement the total fee that was established as part of the 2006 SDSMP. Since that time, infrastructure priorities and cost estimates for proposed storm drain improvements have changed significantly.

The new Storm Drainage Impact Fee Nexus Study (Attachment 1) is prepared to:

- Align storm drainage impact fees within the 2024 Master Plan's projects and cost estimates.
- Divide the City into two (2) drainage basins: Santa Ana Watershed and Newport Bay Watershed to clearly define a nexus between proposed storm drain improvements and future developments in each respective drainage basin.
- Comply with Assembly Bill 1600 (Mitigation Fee Act) and Assembly Bill 602 requirements, including identifying current and future levels of service, providing a detailed Capital Improvement Program (CIP), and making the findings necessary to retain a per-acre fee basis.
- Establish an updated Storm Drain Impact Fee to replace the current Public Works Drainage Fee and the City's Watershed Fee as detailed in the City's current Master Fee Schedule.

Public Outreach

In order to ensure that City stakeholders received advance notice and sufficient information regarding the proposed Storm Drain Impact Fees prior to City Council consideration, staff conducted multiple outreach meetings with interested parties, including Segerstrom and Sons, Sakioka Company LLC, South Coast Metro Alliance, Costa Mesa Chamber of Commerce, and the Building Industry Association (BIA) of Southern California.

On October 8, 2025, City staff and Harris & Associates held an informational meeting at City Hall with interested parties and vacant land stakeholders. The presentation included an overview of the proposed updated Storm Drain Impact Fees, fee methodology, and key findings from the Nexus Study.

On November 13, 2025, City staff conducted a meeting with BIA representatives via video teleconference to review the proposed fees along with an overview of the Nexus Study and the fee methodology.

No direct opposition to the proposed fees has been communicated by any of the stakeholders who participated in the outreach process.

ANALYSIS:

The two most common methods to calculate drainage impact fees are the *System Plan Method* and the *Planned Facilities Method*.

Under the *System Plan Method*, the fee is based on the combined value of existing facilities and planned, capacity-expanding projects. These costs are divided proportionally across the total impervious acres at buildout, ensuring:

- The maximum justifiable fee is calculated, allowing the City to set a final fee amount as a percentage of that maximum.
- Future development pays only its proportional share of system-wide, capacity-expanding improvements, without funding existing deficiencies.

The *Planned Facilities Method* was also considered since it was recommended and used to establish fees in the 2006 SDSMP. Under this approach, fees are based only on the proportional fair share cost of planned improvements related to growth divided by the increase in impervious area caused by new development. This method excludes existing system costs and assigns fees only to new growth's share of the planned improvements but does not account for new development's share of the existing system.

In 2006, using this method would theoretically fund approximately 23% of the proposed improvements. Today, the fees generated with this approach would cover less than 10% of the total improvements identified in the SDSMP, making it insufficient to meet funding needs. For these reasons, the *Planned Facilities Method* is not recommended and was not utilized as a method of analysis and fee calculation.

The following tables show the maximum justifiable drainage impact fees per acre, based on the recommended System Plan Method,

***System Plan Method (Proposed Maximum Justifiable per Acre Fee):**

<u>Land Use Type</u>	<u>Santa Ana River Watershed</u>	<u>Newport Bay Watershed</u>
Low-Density Residential	\$54,905	\$47,507
Medium-Density Residential	\$76,866	\$66,510
High-Density Residential	\$87,847	\$76,012
Commercial	\$98,828	\$85,513
Industrial	\$98,828	\$85,513

**Funds approximately 26% of proposed Santa Ana Watershed improvements and approximately 38% of proposed Newport Bay Watershed improvements.*

The City Council can adopt a lower fee based on a percentage of the proposed maximum justifiable fee, as part of final recommendations. However, utilizing a percentage of the proposed maximum will increase the City’s share of future drainage improvements.

The nexus study also establishes the maximum justifiable fee the City may collect to cover new development’s “fair share” of the proposed Citywide storm drain improvements. For properties developed from raw land to a finished use, this updated fee is significantly higher than the prior adopted fees. However, in other cases, the drainage fee will be reduced or not applied at all. For example, redevelopment from higher density to lower density will result in no drainage fee being charged, as there is no net increase in impervious area.

The following is a summary table of when fees are paid:

		FUTURE LAND USE				
Land Use		Low Density Residential	Medium Density Residential	High Density Residential	Commercial	Industrial
CURRENT LAND USE	Vacant	Fee paid.	Fee paid.	Fee paid.	Fee paid.	Fee paid.
	Low Density Residential	No fee paid. Unless above impervious threshold.	Difference in fee paid.	Difference in fee paid.	Difference in fee paid.	Difference in fee paid.
	Medium Density Residential	No fee paid.	No fee paid. Unless above impervious threshold.	Difference in fee paid.	Difference in fee paid.	Difference in fee paid.
	High Density Residential	No fee paid.	No fee paid.	No fee paid. Unless above impervious threshold.	Difference in fee paid.	Difference in fee paid.
	Commercial	No fee paid.	No fee paid.	No fee paid.	No fee paid. Unless above impervious threshold.	No fee paid. Unless above impervious threshold.
	Industrial	No fee paid.	No fee paid.	No fee paid.	No fee paid. Unless above impervious threshold.	No fee paid. Unless above impervious threshold.

Many of the City’s recent development projects involve the conversion of existing industrial uses into new residential development. These conversions from higher density land use to lower density land use will not be charged any drainage fee under the provisions set forth in the Storm Drainage Impact Fee Nexus Study. To implement the proposed fees, staff proposes the following:

- A resolution adopting updated fees calculated using the *System Plan Method* and the approval of an annual increase based on the California Construction Cost Index (CCI) (Attachment 2).
- An ordinance amending Chapter III of Title 15 of the Costa Mesa Municipal Code (Attachment 3) to:
 - Incorporate updated drainage impact fee schedules.
 - Revise definitions, applicability, and administrative provisions for fee collection.
 - Align City code language with current state law and the nexus study.

If adopted, the updated fees would take effect sixty (60) days after the updated drainage fee resolution and ordinance are approved (Attachment 2).

With the acceptance of the 2026 Storm Drainage Impact Fee Nexus Study and the Adoption of the updated Storm Drain Impact fees, the City's Watershed Fees (Storm Drain Cost for Apportioned Share to Construct) shall no longer be collected.

ALTERNATIVES:

The City Council may adopt the recommended "Maximum Justifiable Fees" based on the System Plan Method or set lower fees. Adopting lower fees will increase the share of other funds for the implementation of the Storm Drain Master Plan. The City Council may also direct staff to revise the analysis and bring a new drainage fee proposal for approval. This alternative will require additional funding for the analysis and will further delay implementation of required storm drain improvements. Staff does not recommend this alternative.

FISCAL REVIEW:

At the existing drainage fee (per-acre) rate, the City has collected an average of approximately \$120,000 per year, over the past three fiscal years from FY 2023-24 through FY 2025-26. Revenues are estimated to increase proportionally to percentage increase of the updated rate; however, the full fiscal impact of updating the City's drainage fees will be dependent on the pace of future development throughout the City. Drainage fees collected are recorded in the Drainage Fees Fund (Fund 209), which has an uncommitted (available) fund balance of approximately \$200,000, at the time of the City Council date. All funds collected will be used to fund eligible capital improvements identified in the nexus study and the 2024 Storm Drain System Master Plan Update.

LEGAL REVIEW:

The City Attorney's Office has reviewed this staff report, resolution and ordinance, and approves them as to form.

CITY COUNCIL GOALS AND PRIORITIES:

The Storm Drain System Master Plan Update works toward achieving the following City Council goals:

- Maintain and Enhance the City's Facilities, Equipment and Technology
- Strengthen the Public's Safety and Improve the Quality of Life
- Advance Environmental Sustainability and Climate Resiliency

CONCLUSION:

Staff recommends the City Council:

1. Adopt the 2026 Storm Drainage Impact Fee Nexus Study (“Nexus Study”) as the final component of the 2024 Storm Drain System Master Plan Update.
2. Adopt the storm drain Capital Improvement Plan (CIP) as provided in Appendix A (Table A-1) in the Nexus Study.
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