

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Surface Water Utility Discussion – Surface Water Commercial Facility Credit Program Options		
DEPARTMENT:	Public Works		
PRESENTED BY:	Mark Relph, Public Works Director Dan Repp, Utilities and Operations Manager		
ACTION:	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input checked="" type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

The Surface Water Utility (SWU) is an enterprise fund and as such, all revenues and expenditures remain within the fund. In addition, the SWU utilizes the most current version of the Surface Water Master Plan (SWMP) to set operational and capital goals, plus rate structures for the utility. Embedded within those goals are a couple of credit programs staff wants to discuss and seek Council direction on to confirm their purpose and discuss possible alternatives.

The SWU currently offers two major credits programs: the Education Fee Credit (EFC) Program for the Shoreline School District and the Private Stormwater Facility Credit (PSFC) program. The two credit programs represent a significant financial impact to the SWU.

This report provides background to the issue and some alternatives with pros and cons for the Council to consider. Any potential changes to these credit programs will influence the financial stability of the utility and could require Council direction to either realign the goals with the existing rate structure, or adjust the rate structure to meet the realigned goals. Ultimately, these types of financial policies guide how to allocate the rate structure in order to achieve the goals of the utility.

RESOURCE/FINANCIAL IMPACT:

The EFC and PSFC programs represent a total annual revenue forfeited to the Surface Water Utility of approximately \$547,074. The 2016 SWU projections in the six year CIP assumes revenues from the EFC (\$262,361 annually) will be available to the utility after the Ordinance No. 642 sunsets the credit in 2015.

RECOMMENDATION

Staff is recommending allowing the Educational Fee Credit (EFC) to sunset in 2015 as authorized in Ordinance No. 642. No further Council action is needed for this recommendation to occur. Staff is also recommending that the Private Stormwater Facility Credit (PSFC) be phased out over a period of two years beginning in 2016 (Alternative 2) and that the utility use the newly available revenue to pay debt service costs.

Approved By: City Manager ***DT*** City Attorney ***MK***

BACKGROUND

The City's Surface Water Utility is a self-supporting enterprise fund. As such, the stormwater fee is intended to fully fund all aspects of the Surface Water Utility, including:

- Operations and Maintenance
- Public Outreach and Education
- Technical Assistance and Code Enforcement
- Monitoring and Research
- Asset Inventory and Management
- Regulatory Compliance
- Basin Planning
- Administration and Management
- Capital Program

Surface Water Management (SWM) fees, also known as stormwater fees, are set based on the amount of impervious surface for a given property. For residential properties, an average impervious surface (i.e. hard surface) coverage is used, resulting in a flat annual rate for all residential property owners. This flat fee also applies to commercial properties with less than 10% impervious surfaces. Property owners who qualify as low-income senior citizens and persons with disabilities are exempt from the City's SWM fee pursuant to RCW 84.36.381.

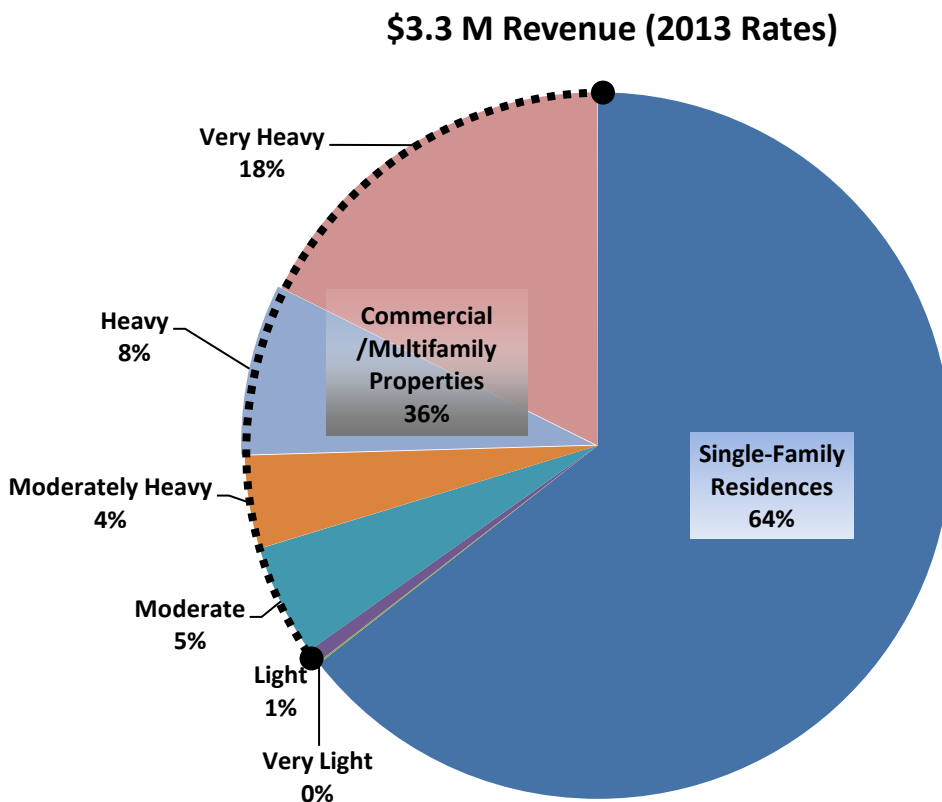
The City's current non-residential SWM fee rates are determined on an incremental scale based on the amount of impervious surfaces and the parcel size for each specific property (see Table 1). These rates are then applied (multiplied) to the total acreage of the parcel to result in the annual fee per parcel. Those parcels with a higher percentage of impervious surface are charged a higher rate per acre than those with little impervious surface on the property.

Table 1. Surface Water Utility Fee and Impervious Surface Categories.

Rate Category Name	Rate Category	% Impervious	2015 Service Charge (SWM Rate) + Utility Tax	Per Unit	Rate reduction for approved facility (Reduction of one rate category)
Residential	1		\$154.59	Parcel	50.0%
Very Light	2	< /=10%	\$154.59	Parcel	50.0%
Light	3	11% to 20%	\$359.04	Acre	50.0%
Moderate	4	21% to 45%	\$741.74	Acre	51.6%
Moderately Heavy	5	46% to 65%	\$1,438.59	Acre	48.4%
Heavy	6	66% to 85%	\$1,822.54	Acre	21.1%
Very Heavy	7	86% to 100%	\$2,387.26	Acre	23.7%

Residential rate payers provide 64% of the revenue generated for the Surface Water Utility (Figure 1). The \$3.3M in revenue generated from the fee pays for SWU capital and operational programs administered by the City as presented in the adopted 2011 SWMP. The current SWM rates are shown in Shoreline Municipal Code (SMC) Chapter 3.01.400, Surface Water Management Table (Attachment B).

Figure 1. City of Shoreline SWM Fee Rate Payer Distribution



Education Fee Credit (EFC) Program

The EFC program provides a 100% rate reduction on all Shoreline School District property for an educational curriculum that promotes water quality and environmental awareness. The SWU administers the program by reviewing the Shoreline School District proposed curriculum on an annual basis. The City has approved the following topics as curriculum that can be used to obtain the EFC:

- The hydrologic cycle
- Rainfall and its function in the system
- Wetlands, streams, rivers, lakes and their ecological systems
- Effects of urbanization on surface water quality and quantity
- Water pollution from point and non-point sources
- Water pollution prevention
- Water testing/water chemistry
- Land use effects on runoff and surface water (impervious surfaces, pets, motor vehicles, gardening, etc.)
- Causes and effects of flooding

- Wetland wildlife (birds, amphibians, insects): their habitat requirements and role in the ecosystem
- Salmonids (salmon and trout):
 - Life cycle
 - Habitat requirements
 - Fisheries
- Wetland plants/native plants and their benefits
- Studies of the watershed or stream basin in which the school or district is located

The EFC program was discussed with the City Council on two previous occasions - April 2 and June 4, 2012. The staff report for the April 2 discussion can be found at the following link.

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/Council/Staffreports/2012/Staffreport040212-7e.pdf>

The staff report for the June 4 discussion can found at the following link.

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/Council/Staffreports/2012/Staffreport060412-7a.pdf>

On July 9, 2012, the City Council adopted Ordinance No. 642, which established the EFC. The adopted ordinance includes a provision to sunset the credit on July 1, 2015, which requires no further action by the City Council.

Private Stormwater Facility Credit (PSFC) Program

The City inherited its SWM fee rate structure and a commercial/private stormwater facility inspection program from King County at incorporation and its associated fee credit for those property owners that pass the City's maintenance inspections. When this program was formed by King County in the 1980's, its intention was to provide a financial incentive for the installation of required stormwater facilities (primarily flow control), which were never requirements prior to that time.

A few decades later, there have been many changes in stormwater regulations to reduce runoff and stormwater pollution that adversely affect water quality, and the higher runoff volumes that result when pervious surfaces such as vegetation are converted to impervious surface such as driveways, roads, and roofs. These stormwater regulation changes include more stringent water quality and flow control facility requirements as part of newer development and redevelopment projects.

Prior to the City's National Pollutant Discharge Elimination System (NPDES) permit, the inspection program centered on providing information to support annual SWM billing. There was no requirement for the City to inspect these facilities. The City's NPDES permit now requires that the City inspect all facilities that were installed from the 1980's to the present. City staff is responsible for inspecting over 411 private stormwater facilities annually. The goal of the non-residential inspection program is to ensure the stormwater facilities are functioning as designed to meet the flow control and water requirements at that time when the facilities were permitted.

The commercial facility credit provides a one-rate category fee reduction for those facilities that pass a maintenance inspection. The City inspects those facilities that were inherited in the incorporation from King County, and newer facilities that have approved

stormwater maintenance and access covenants. The covenants require the property owner to maintain the private stormwater facilities to accepted maintenance standards and provide an enforcement mechanism for the City to ensure the facilities are maintained and operational per the City's approved stormwater manual.

DISCUSSION

To frame the discussion regarding both the EFC and PSFC programs, staff is suggesting the following questions for Council's consideration:

- The EFC Program sunsets in 2015 as authorized in Ordinance No. 642. No further Council action is required; however, does the City Council have any desire to revisit this issue?
- Should the City continue to have a PSFC program given its cost and limited benefit it provides to the SWU and ratepayers?
- If the City Council eliminates the PSFC program, how would the Council like the revenues used? Some examples include a reduction in rates, an increase in capital spending, or a paying down of debt service.
- If the City Council would like to continue to have a PSFC program, should it remain in its current form or should it be restructured to provide more benefit to the SWU and ratepayers?

There are two main issues surrounding the two credit programs: 1) the cost to the utility, and 2) the purpose or benefit of credit. First, the credit programs represent a significant financial impact to the SWU - approximately \$547,074 annually. The EFC program represents \$262,361 per year and the PSFC program represents \$284,713 per year. Continuing to provide at least the EFC credit will require the SWU to either reduce expenditures or raise rates of the other rate classes. If changes to the PSFC program were made to either reduce or eliminate the credit, the corresponding revenue could be used to lower future rate increases, pay capital debt, or even increase services. Regardless of which path is taken, the burden to maintain these programs falls to the remaining ratepayers.

The second issue concerns the purpose or benefit the two credit programs provide the SWU and its ratepayers. Ideally, fee credits should be structured as an incentive or reward for actions that benefits the utility and its ratepayers as whole. For example, an incentive program aimed at reducing the quantity of water entering the public drainage system could reduce the need for expensive capacity projects, thereby reducing costs for all ratepayers.

Neither the EFC nor the PSFC are structured to meet this level of tangible benefit to the SWU. The EFC provides up to a 100% rate reduction on all Shoreline School District property for an educational curriculum around water quality and environmental awareness. While educational programs are important in promoting environmental stewardship and changing behaviors, they generally do not provide easily quantifiable benefits to the SWU. Additionally, the SWU provides public education and outreach

programs as part of the City's NPDES Stormwater Permit requirements resulting in some duplication of effort between City and the School District.

The PSFC program provides a rate reduction for any parcel with an approved retention or detention facility maintained by the owner. The difficulty with this credit program is that it does not reward doing anything above and beyond the standards in place at the time the facility was installed. Many of the facilities receiving credits were designed and built several years ago using standards far less stringent than today's standards. Approximately 85% of private facilities were installed before 2008 when more stringent stormwater management standards became effective. Consequently, the older facilities with lower levels of performance receive the same credit as much higher performing new facilities. A credit program designed to encourage property owners to improve older systems and give a break to newer systems constructed using the most current standards would provide more equity in the program and ultimately reduce demand on the SWU.

ALTERNATIVES ANALYSIS

The 2016 SWU projections in the corresponding six-year CIP assumes revenues from the EFC will be available to the utility after the Ordinance No. 642 sunsets the credit in 2015. The proposed budget for the SWU assumes the PSFC remains unchanged at this point. This section of the staff report looks at alternatives for the future of both of these credit programs.

Education Fee Credit (EFC) Program

The Council can allow the EFC to expire as is outlined in Ordinance No. 642 by taking no further action. As is noted above, this alternative is assumed in the 2016 and beyond projections. The other alternative is to extend the EFC into the future, or keep it in place on a permanent basis. If the Council wishes to extend this credit, the value of the credit could be redistributed across the rate classes and represents approximately a 3% rate increase over a three year period beginning in 2016, or approximately \$12 per year for a single family residence.

Private Stormwater Facility Credit (PSFC) Program

Providing some kind of facility credit or discount is a common practice used by most Surface Water Utilities in the region. Table 2 below shows the results from a 2012 survey listing local jurisdictions and the type of facility discount they provide. However, depending on how a fee credit program is structured, it may not provide a desired incentive and may also be unfair to other rate payers who don't enjoy the same credit. For example, the City's facility credit program rewards facility owners for keeping facilities maintained which is something they should be doing without a credit. Furthermore, the administrative costs for managing this credit program are paid for by all ratepayers who receive no direct benefit from the program.

Table 2. 2012 Surface Water Fee Credit Survey Results.

Jurisdiction	Fee Credit/Discount (Yes/No)	Details
Shoreline	Yes	Adopted King County's original fee credit structure
Lake Forest Park	Yes	Adopted King County's original fee credit structure
Bothell	Yes	1st reduction 25% if 1994 or greater standards; 2nd 25% reduction if maintained to standards
Kirkland	No	
Redmond	No	
Renton	No	
Bellevue	Yes	A one step drop in fee tier is offered
Seattle	Yes	Credit is based on percent impervious surface billed vs. what the facility treats
Burien	Yes	Adopted King County's original fee credit structure
King County	Yes/Modified	Modified in 2012/13 to credit based on types of facilities and areas treated
SeaTac	Yes	
Auburn	Yes	Credit is based on types of facilities/function
Sammamish	Yes	
Issaquah	No	
Covington	Yes	3-years of passing inspection to get credit/discount
Federal Way	Yes	Only facilities meeting current stormwater manual requirements are eligible; ineligible once newer requirements are in effect
Maple Valley	Yes	
Kenmore	Yes	Adopted King County's original fee credit structure

As part of the Utility Rate Discussion in August 2013, staff recommended modifying the PSFC program. Staff has identified three alternatives for Council's consideration:

- Alternative 1 - Status Quo: Maintain the existing PSFC program.
- Alternative 2 - Phase Out: Phase out the PSFC program in beginning in 2016.
- Alternative 3 - Amend the PSFC: Develop a credit program to incentive those facilities that provide greater storm water management function(s) such as flow control, water quality treatment, and/or application of low impact development practices.

Alternative 1 - Status Quo

The 2015 SWU budget and corresponding six year CIP assumes the PSFC program remains unchanged.

Pro

- Current non-residential ratepayers continue to receive the credit.

Cons

- The incentive provided by this credit does not improve the utility as a whole and is unfair to ratepayers not included in the credit program.
- A rate increase will likely be needed to offset revenues not realized because of the credit program.

Alternative 2 - Phase Out

This alternative would phase out the facility fee credit program starting in 2016. The City would continue to inspect the facilities in the program and enforce maintenance violations as necessary to achieve compliance with NPDES permit requirements.

Pros

- Eliminating this credit would result in additional revenue which could potentially be used to pay down debt, reduce utility rates, or fund additional capital improvements.
- Provides more fairness across all ratepayers.

Cons

- Facility owners would no longer receive a lower rate for performing regular maintenance. Many commercial properties pay SWM fees of thousands of dollars annually and any changes to remove or modify this discount program may result in a significant SWM fee increase for those property owners.

The SWU is planning on using debt financing (i.e., bond proceeds) to fund priority capital improvement projects. A \$2 million bond sale is proposed in the 2015 Budget and another \$2 million bond sale is proposed in 2017. Using potential revenues from the PSFC to pay the debt service costs is also a good option to consider. Table 3 below shows the impact that PSFC revenues could have on debt payments.

Table 3. Impact of Private Stormwater Facility Credit Revenues on Surface Water Utility Debt Payment.

Debt Service	2015	2016	2017	2018	2019	2020	Total
Public Works Trust Fund Loan	344,431	337,534	335,902	334,269	332,637	332,637	2,017,410
North Maintenance Facility	141,736	141,736	141,736	141,736	-	-	566,944
Stormwater Pipe Replacement	182,391	182,391	364,783	364,783	364,783	364,783	1,823,914
Total	668,558	661,661	842,421	840,788	697,420	697,420	4,408,268
Facility Credit	293,255	304,985	320,234	336,246	353,058	370,711	1,978,489
Credit Could Cover Part of the Debt Service	43.86%	46.09%	38.01%	39.99%	50.62%	53.15%	

Reducing SWU rates is another use for potential revenues from the PSFC. A rate decrease of this nature would be approximately 3% over three (3) years beginning in 2016 and equate to about \$12 per year for a residential ratepayer.

Phasing out the PSFC would increase surface water utility costs for the four hundred eleven (411) accounts currently receiving the credit. Table 4 summarizes the number of accounts receiving the credit by rate class. Table 4 also shows the total credit given and percent reduction for each rate class. The potential cost increase for a sample of private facility accounts is presented in Table 5. A smaller commercial building could expect an increase of approximately \$77 per year, while a larger shopping center could see an increase approaching \$2,500 per year (see Table 5).

Table 4. Distribution of Private Stormwater Facility Accounts by Rate Class

Rate Class	Total Accounts	Facility Credit Accounts	Facility Credit	SWM Rate 2015	% Reduction
1 Residential	18,084	184	\$13,831.71	\$154.59	0.5
2 Very Light	36	3	\$22,677.11	\$154.59	0.5
3 Light	24	5	\$2,812.03	\$359.04	0.5
4 Moderate	110	22	\$84,754.99	\$741.73	0.52
5 Moderately Heavy	161	31	\$42,580.53	\$1,438.59	0.48
6 Heavy	193	57	\$27,767.64	\$1,822.54	0.21
7 Very Heavy	388	109	\$90,289.07	\$2,387.26	0.24
Total	18,996	411	\$284,713.08		

Table 5. Cost Impacts to Sample Private Stormwater Facility Accounts

Type of Business	Location	Rate without Credit	Rate with Credit	Potential Cost Increase
Office Building	Ballinger Way NE	\$152	\$75	\$77
Church	NE 175th Street	\$3,855	\$1,988	\$1,867
Church	2nd Avenue NW	\$5,804	\$4,581	\$1,223
Shopping Center	Richmond Beach Road	\$10,522	\$8,033	\$2,489

Alternative 3 - Amend the PSFC

If the Council would like to keep a PSFC program, then redesigning it so that it would incentivize greater levels of stormwater management with the intent to further reduce runoff volumes and increase levels of water quality treatment would help address the issues noted above. Reducing runoff volumes and improving water quality would benefit the SWU (and therefore all ratepayers) by potentially reducing the need and therefore cost for capacity and water quality related capital projects. A fee credit program of this type might include some of the following elements:

- Rate reduction for new facilities that meet current standards
- Rate reduction for retro-fitting older stormwater management facilities to meet current standards
- Rate reduction retro-fitting sites without stormwater management facilities to meet current standards
- Rate reduction for partial retro-fits, such as adding pervious pavements, biofiltration, and/or other low impact development practices.

Pros

- If structured correctly, this alternative would benefit the entire utility and therefore all ratepayers by providing incentives for a higher level of on-site stormwater management. This could potentially reduce the need for capacity and water quality related capital projects.

Cons

- This alternative would reduce the amount of revenue received by the SWU. A rate increase may be needed to meet capital needs.

How this new credit is quantified and how it is applied to a facility should be based on design and performance criteria. In addition, any new credit program should, by design, include a maximum credit amount which is less than a 100% reduction. In other words, all credit-worthy facilities still pay some minimum amount regardless of how well the on-site system functions. It would be staff's recommendation to target the total amount of all rate reductions to be equal or less than the value of the current credit, or roughly \$285,000. This approach would maintain the current utility rate projections and would not require any additional rate increase.

Developing the method(s) for calculating a new performance based credit would be a work plan item for 2015 and would include a public participation process to solicit public input prior to any formal presentation and decision by the City Council.

CONCLUSION

As noted in our survey of other cities in the region, the PSFC program has multiple approaches by area cities. It is staff's opinion that phasing out the PSFC program as opposed to amending it may have more merit for Shoreline for a couple of reasons. First, there is the practical application of a modified credit program and whether or not property owners would actually take on the technical challenge and cost to improve their facility if it is below the current standard. If they are, then it becomes a question of cost versus the amount of the credit. Unless the ownership of these facilities lies with informed and sophisticated owners, staff questions if there will be enough sites making the improvements to justify the program.

This leads to the second concern - the cost to create a modified program and the annual cost to administer the program. Staffing resources are always a challenge, but if Council decided they had interest in a modified PSFC program (Alternative 3), then staff would suggest a more detailed analysis of the cost to administer the program and then

compare to other work plan priorities within the utility. It is for those reasons that staff recommends phasing out of the PSFC program (Alternative 2).

As well, as has been noted previously, staff recommends the sunseting of the EFC Program as is proposed in the adopted ordinance, which requires no further Council action.

COUNCIL GOAL(S) ADDRESSED

The SWU facility credit discussion is related to Council Goal 2: "Provide safe, efficient, and effective infrastructure to support our land use, transportation, and surface water plans." Increased revenues are necessary to fund and complete the high priority basin plan projects, including the pipe replacement projects from the completed basin plans, and those pipe replacement projects expected to be identified in the upcoming basin plans (McAleer/Ballinger Creek, Puget Sound Drainages).

RESOURCE/FINANCIAL IMPACT

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RECOMMENDATION

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