City of McMinnville
WASTEWATER SERVICES

STAFF REPORT

DATE: March 6, 2024

TO: Stormwater/Wastewater Project Advisory Committee

FROM: Leland Koester, Wastewater Services Manager/Project Manager

SUBJECT: Stormwater Utility Analysis, Meeting No. 4

Report in Brief:

This staff report continues the stormwater utility policy questions discussed at the February 13, 2024, meeting. The City Council has scheduled a work session on April 17, 2024, to receive an update on the stormwater utility concept and recommendations from the Project Advisory Committee.

We've outlined policy issues and our understanding of the Committee's recommendations. We hope to finalize recommendations and work with the Committee to discuss how these will be presented to the City Council at the upcoming work session.

Pending policy questions:

Overall recommendations re: adopting a Stormwater Utility:

The Committee's overall recommendation concerning adoption of a stormwater utility has not been discussed.

Revenue sources:

Use of utility revenue alone or in combination with gas tax revenue will be discussed at the March 13, 2024, meeting. The text discussing this question is taken from the February 13, 2024, staff report.

Approximately $440,000 from the Street Fund is used for street sweeping, leaf pick up and emergency responses to localized flooding. The Street Fund's primary source of revenue is state gas tax. This funding is primarily dedicated to operating the transportation system as well as supporting pavement and other asset preservation efforts. A portion of this funding, coupled with ODOT Fund exchange monies, is the City's only revenue source for pavement preventative maintenance and preservation projects such as slurry seals, crack seals, overlays, and reconstruction.

Committee member Mark Davis has asked the Committee to consider recommending a portion of Street Fund revenue be retained to fund stormwater expenses as he explains in his Memorandum to the Committee (**Attachment 1**).

This is a policy question that centers around what parts of the City's infrastructure are considered transportation versus stormwater assets and what is the most equitable way of funding operation and maintenance for both asset groups. The approach used in development of stormwater revenue requirements considers curbs, gutters and catch basins as integral to the stormwater system. Street sweeping reduces solids that would otherwise discharge to waterways and potentially result in enforcement of state and federal water quality standards. Most stormwater utilities rely entirely on user fees as opposed to a combination of user fees and taxes for stormwater revenue. The majority (66%) of stormwater utilities fund street sweeping, catch basin cleaning and storm drain maintenance through user fees based on impervious areas.[1]

Pros: Retaining a portion of Street Fund revenue would offset costs that would otherwise be met through the Stormwater Utility and thereby reduce user fees for all customer classes.

Cons: Street funding is primarily dedicated to pavement asset management, specifically slurry seals, overlays, striping, and street repairs. The estimated need for a fully funded pavement management program is $2.2M per year. Current funding for this work is approximately $750,000 per year, about a third of what is needed. Retaining a portion of gas tax revenue to fund stormwater demands will not allow for a higher level of preventive maintenance and repairs of local and arterial streets. Over time gas tax revenue is expected to decline as more electric vehicles take a larger role in the transportation system.

Proposal: Staff propose the stormwater utility fund street sweeping and emergency response to localized flooding, consistent with industry practices, and that gas tax revenue be fully retained in the Street Fund for pavement management.

Minimum fund reserve

Adoption of a minimum reserve fund balance for emergencies has not been discussed with the Committee. Establishing a target operating, and capital reserve (minimum fund balance) is standard financial planning practice for governmental enterprise and general funds.[2] Specific reserve policies generally reflect various local considerations including capital funding structure (use of debt vs. cash funding), rate structure (reliance on fixed vs. variable rates), customer base, cash flow fluctuations, and risk from natural disasters and asset failure related to aging infrastructure. The Government Finance Officers' Association (GFOA) recommends:

> *...at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.*

For water resource-related utilities (water, wastewater, and stormwater), the American Water Works Association reports a range of operating reserves between two (2) and 12 months of operating expenses based on benchmark data.[3] The initial phasing strategy outlined in the following section includes reserves ranging from two (2) to four (4) months of total expenditures.

[1] 2021 Stormwater Utility Survey Report, Black & Veatch Management Consulting, indicates that 66% of utilities surveyed include street sweeping in stormwater budgeting requirements.
[2] Government Finance Officers Association Best Practices: "Fund Balance Guidelines for the General Fund."
[3] *Cash Reserve Policy Guidelines*, American Water Works Association, 2018.

Pros: Including a minimum reserve is consistent with industry best practices and serves as a resource to fund unanticipated stormwater expenses and adds to the fund's stability as a self-funded enterprise activity.

Cons: Initially, funding a reserve reduces the extent of operating and capital investments that would otherwise be available. A reserve may be difficult to maintain until the stormwater utility matures.

Proposal: Staff propose the stormwater utility build an operating and capital reserve of $500,000 during the first year and approximately $1,000,000 in five years. This reserve represents approximately 25% of total annual expenses, consistent with industry reserve standards of two months minimum expenses.

Phasing, cash flow and rate survey update

A proposed cash flow and 3-year rate phasing option is outlined in **Table 1** (following page). A phasing plan proposal is included as a follow-up to the Committee's request at the February 13, 2024, meeting.

Table 1, Cash flow and rate phasing option

Stormwater Utility
Projected Phased Cash Flow

Item	Phase-In Period			Post-Master Plan	
	FY2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Beginning Balance	*$0*	*$500,000*	*$580,000*	*$660,000*	*$800,000*
Monthly Rate ($/ERU)	$9.50	$12.50	$15.50	$16.04	$16.60
Equivalent Residential Units (ERUs)[1]	21,692	21,801	21,910	22,019	22,129
Creditable ERUs[2]	(361)	(361)	(361)	(361)	(361)
Billable ERUs	21,331	21,440	21,549	21,658	21,768
% of Initial FY Effective[3]	92%	100%	100%	100%	100%
Estimated Sales Revenue	**2,229,121**	**3,215,964**	**4,008,070**	**4,169,442**	**4,337,309**
Other Revenue					
Other fees and charges	$0	$0	$0	TBD	TBD
Interest Income	-	5,000	5,800	6,600	8,000
System Development Charges[4]	-	-	-	TBD	TBD
Total Resources	***2,229,121***	***3,220,964***	***4,013,870***	***4,176,042***	***4,345,309***
Revenue Requirements[5]	*Minimum Service Level*	*Phased*	*Interim Service +*	*Post-Master Plan*	
Personnel	$308,565	$ 658,829	$ 1,009,094	$ 1,044,412	$ 1,080,967
Contractual Maintenance	305,000	393,526	482,051	498,923	516,385
Equipment	-	-	72,843	75,393	78,032
Equipment Maintenance		-	21,425	22,174	22,950
Billing - MWL	150,000	155,250	160,684	166,308	172,128
City Support Services	50,000	116,054	182,108	188,482	195,079
Interfund Loan	52,500	52,500	52,500	-	-
Franchise Fees[6]	133,747	192,958	240,484	250,167	260,239
Capital Outlay[4]	-	301,156	730,972	714,414	629,208
Professional Service			401,709	415,769	430,321
Master Planning	729,309	770,691	-	-	-
Total Requirements	**$1,729,121**	**$2,640,964**	**$3,353,870**	**$3,376,042**	**$3,385,309**
Ending Fund Balance	*$500,000*	*$580,000*	*$660,000*	*$800,000*	*$960,000*
Unreserved	-	-	-	-	-
Reserved (Contingency)[7]	500,000	580,000	660,000	800,000	960,000
Total Sources	*$2,229,121*	*$3,220,964*	*$4,013,870*	*$4,176,042*	*$4,345,309*
Total Uses	*$2,229,121*	*$3,220,964*	*$4,013,870*	*$4,176,042*	*$4,345,309*

[1] FY2024/25 based on analysis shown in Table 1 of 2/7/24 Staff Report; future years increase 0.5%

[2] 35% credit for private, permitted systems that do not drain to waterways not part of City's system. Credit program wi reviewed following completion of Stormwater Master Plan.

[3] Assumes July 1, 2024 billing and revenue lag.

[4] To be considered further following completion of Stormwater Master Plan.

[5] For detailed expense category descriptions see Attachment 2 to 2/7/24 Staff Report; future years increase 3.5%.

[6] Franchise fees calculated as 6% of annual revenue.

[7] Ranges from 25%-35% of annual operating costs.

Pros: Industrial, commercial, and institutional properties with large impervious areas will have substantial stormwater utility fees. Phasing in rates will allow customers, especially large non-residential customers, an opportunity to budget for a new utility bill over the phase in period. The interim rates would be in effect through completion of the stormwater master plan update, at which time a longer-term funding plan will be established to meet capital and operating needs.

Cons: Phasing of the stormwater utility fee will decrease the pace of high priority repairs and capital improvements. This may require continued reliance on the Wastewater and Street Funds until the phase in period is completed.

Proposal: Staff does not have a recommendation concerning phasing. Phasing in a rate structure is advantageous from a customer affordability perspective, but delayed revenue and deferred capital projects will postpone high priority capital improvements, repairs, and system planning. This is a key policy recommendation for the Committee.

Example rates for different customer classes over a 3-year phase in period are shown below in **Table 2.**

Table 2, Example monthly service charges by customer class

Monthly cost/ERU		
Phase 1 (2024)	$	9.50
Phase 2 (2025)	$	12.50
Phase 3 (2026)	$	15.50

Customer class	Impervious area (SQ FT)	ERUs (Rounded)	Minimum Level of Service (2024)	Phase 2 (2025)	Interim level of Service (2026)
Single Unit Residential	3,500	1.0	$9.50	$12.50	$15.50
Single Unit Attached (per Unit)	2,450	0.7	$6.65	$8.75	$10.85
Multi-Unit (Apartment Complex)	94,500	27.0	$256.50	$337.50	$418.50
Commercial (small)	28,000	8.0	$76.00	$100.00	$124.00
Commercial (large)	395,500	113.0	$1,073.50	$1,412.50	$1,751.50
Industrial (small)	45,000	13.0	$123.50	$162.50	$201.50
Industrial (large)	961,812	275.0	$2,612.50	$3,437.50	$4,262.50
Institutional	255,500	73.0	$693.50	$912.50	$1,131.50

Prior committee staff reports included a rate comparison of Oregon stormwater utilities residential rates. This rate comparison, **Figure 1**, has been updated to reflect an initial rate of $9.50/ERU in FY 24/25 and an interim service level rate of $15.50 in FY 26/27.

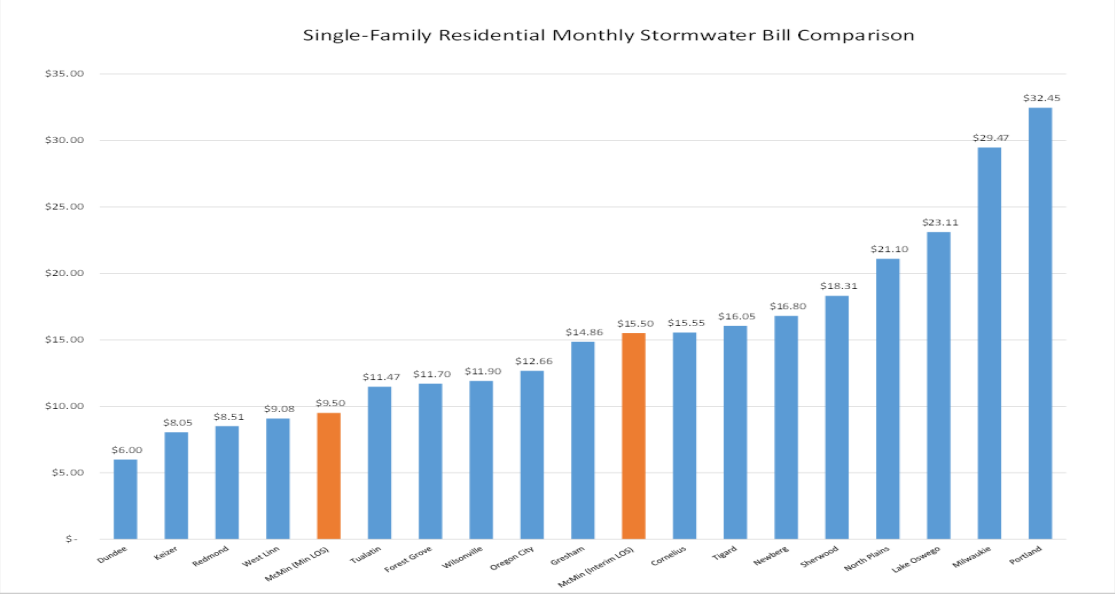

Figure 1, Single Family Residential Stormwater Rate Survey

Summary of Policy issues previously reviewed by the committee:

Financial:

Revenue requirements:

The Committee recommends revenue requirements begin with the minimum level of service and transition to interim revenue requirements over a three-year period.

Risk management:

The Committee recommends expenses required to meet water quality regulatory requirements be fully funded to meet community values and avoid enforcement penalties and potential third-party litigation.

Stormwater Master Plan Update

The Committee recommends updating the Stormwater Master Plan be a high priority for the Stormwater Utility and that it be completed within three-years of adopting the utility.

Franchise fee deferral

The Committee recommends the franchise fee be deferred for a minimum of three years and then considered as a dedicated transfer to the Street Fund.

Assistance to low-income households

The Committee recommends the Stormwater Utility participate in providing assistance to low-income households on a pro rata basis, similar to assistance provided by the Wastewater Fund.

Rate structure:

Single family residential rate

The Committee recommends single family residential properties be billed based on the median measured impervious area of 3,500 square feet (1 Equivalent Residential Unit, ERU)

Multifamily/Commercial/Industrial/Institutional rate

The Committee recommends billings for non-single family residential properties be based on measured impervious areas and expressed in ERUs.

Billing for city and McMinnville Water and Light properties

The Committee recommends that city and McMinnville Water and Light properties not be billed for stormwater service, similar to billing policies used for water and wastewater services.

Shift to tiered residential rate structure

The Committee recommends a single rate be used for single family residential properties initially. Upon completion of the Stormwater Master Plan Update, the Committee strongly supports moving to a tiered rate structure for single family properties as a more equitable billing structure.

Administrative appeal

The Committee recommends the implementing ordinance adopting the Stormwater Utility include a provision for administrative appeals to reconcile any errors or changes in measurement of impervious areas.

Discounts/credits

The Committee recommends a 35% discount be given to non-single-family dwellings that are fully self-contained, discharge to streams or rivers not maintained by the city and that are regulated by discharge permits from the State Department of Environmental Quality.

The Committee does not recommend discounts or credits for privately maintained stormwater systems be granted until further considered as part of the Stormwater Master Plan Update.

Billing:

Coordination with McMinnville Water and Light

The Committee recommends the city work with McMinnville Water and Light to incorporate Stormwater Utility billing in their monthly billing statements.

Minimum impervious area for non-residential billing

The Committee recommends a minimum billable impervious area of 500 square feet be used for billing non-single family residential properties.

Rounding for non-residential customers

The Committee recommends billing for non-single family residential properties be rounded up to the nearest whole ERU.

Next Steps:

The presentation to the April 17, 2024, City Council work session will include an update from staff and a presentation of the Committee's recommendations.

Following the April 17, 2024, City Council work session, staff will be hosting a community wide meeting in May 2024, to share the concept of a stormwater utility, rate equity, and revenue requirements. The purpose of the meeting is to share information, solicit questions, comments, and suggestions from the community. Staff will return to City Council for a follow-up work session in June 2024, to summarize outcomes of the community meeting and discuss next steps.

Attachments:

1. Memorandum from Committee member Mark Davis to the Committee

Attachment 1 – Memorandum from Committee member Mark Davis

To: Stormwater Project Advisory Committee
From: Mark Davis
Date: January 22, 2024

Subject: Stormwater Charge Methodology

At our last meeting I expressed some reservations about the fairness of the allocation of the stormwater charge based on the sample of 400 properties used by the consultant. Based on the map in our packet it did not appear that properties sampled included a representation of older properties in the downtown area where I live. I was also concerned that having a single charge to all property owners unfairly required the property owners with smaller impervious areas (generally with lower incomes) to subsidize those with larger impervious areas (generally with higher incomes).

After the meeting Chip sent around a more detailed map and a spreadsheet listing the 399 residential properties used by the consultant to establish the statistical representation of the ERU (Equivalent Residential Unit). After looking at the map and the listing of properties I agree that the sample appears to represent properties in all parts of the City.
I went a step further, however, and cross-referenced the spreadsheet the consultant provided with the list of over 11,000 properties developed last year as part of the process to expand the City's Urban Growth Boundary (UGB). I was especially interested in why there were so many single family houses with impervious areas over 7000 square feet, twice the median size from the sample.

With the use of the UGB spreadsheet, Google Maps and Yamhill County Assessor property tax records I was able to determine that 13 properties in the sample spreadsheet were not even in the City limits (i.e., they were rural properties often with barns and sheds that increased the impervious square footage). There were another two rural properties just inside the City limits with outbuildings whose drainage went into local waterways, not the storm system.
On the attached spreadsheet that the consultant provided I have added a column with my notes identifying these properties. At the bottom I have shown the calculations from the original spreadsheet and what they would be if the rural properties were excluded from the sample. The median drops from 3512 sq ft to 3497 sq ft and the means declines from 3838 to 3686 sq ft. I have also included a calculation for Mobile Home lots (often owned by low-income residents) to show that they are smaller than the proposed standard ERU and should be granted a discount in the same manner as is proposed for Single Family Attached (SFA). There are many more mobile home lots in the city than SFA lots, so that only seems fair.

Another concern I have from looking at the maps is the number of waterways coursing through the City. Many of the residential properties located along these streams, especially in the older part of town, send their storm water into the creek without ever touching the storm drain system. In my neighborhood, for example, the only way for a resident to get stormwater into the City's drainage system would be to pump it uphill, which obviously no one is doing.
While the new sections of town send most of their rainfall into the storm drain system, that was not typical when the housing was developed in the downtown core. Downspouts there often go into the ground on the lot, not the streets. In heavy rain perhaps some of that rain does

percolate into the storm drain system, but it hardly seems fair that we are assuming all rain that falls on the roofs and driveways in these areas should be charged as if they were draining like the newer sections of town.

The final concern I have about the methodology proposed is that it assumes that all requirements of the stormwater utility are generated due to the impervious surfaces of the homes and businesses, so all the funding is supposed to come from them. In fact, about a third of the impervious surfaces in the city are the roads themselves; further, looking at the reasons for creating a stormwater utility, several relate to the pollution generated by vehicular traffic. This is most fairly captured through use of the gas tax, so I would favor keeping a portion of the gas tax similar to what is currently budgeted in the Street Fund to support stormwater activities. I don't see justification for using wastewater funding for stormwater activities, with the exception of any remaining capital projects to separate combined storm and wastewater pipes.
In summary, the statistical support for the plan to charge everyone $12.50 per month is weak. There are so many exceptions and special circumstances that it is going to be very challenging to devise a plan that is simple to administer and fair to all citizens, especially those who contribute less stormwater to the system. I prefer some sort of plan that continues to use gas tax revenue for part of the funding and reduces the monthly charge overall with further reasonable reductions for those with a limited overall impact on the stormwater system