



Fiscal Impact of New Storm Water Regulations

Natural Resources & Culture Meeting

October 16, 2013

Item 5

Overview



- On May 8, 2013 the new Municipal Storm Water Permit was adopted
 - Effectively consolidates storm water regulations, combining permit compliance and a variety of TMDL & ASBS requirements
- As anticipated, the new permit mandates more stringent regulations which will require a significant increase in municipal costs to address compliance

Overview



- The projected costs to comply with these regulations were presented to NR&C on May 15, 2013
- The costs at the time of the meeting were estimated at approximately \$2.34 billion, and were based on estimates in Comprehensive Load Reduction Plans (CLRPs)

Overview



- Our office was asked to determine how much the current storm water fee would need to be increased in order to recover these costs
- Since the May 15th NR&C meeting:
 - CLRPs were revised to reflect the most recent compliance estimates
 - Storm Water's Watershed Asset Management Plan (WAMP) was released in July 2013 and updated in September 2013
- Our office worked with staff & utilized costs in the Watershed Asset Management Plan in order to accurately include all future projected storm water costs

Storm Drain Fee



- The General Fund is the City's primary source of funding for Storm Water activities
- Greater strain is placed on the General Fund as new requirements are adopted
- The City's current storm drain fee partially reimburses the General Fund for these activities, however, the revenue from this fee is drastically short of full cost recovery

Storm Drain Fee



- The current storm drain fees were established in 1996
- Two-types of rates
 - Single family residences are charged \$0.95/month
 - Multi-family, commercial, industrial and other types of utility accounts charged \$0.0647 per hundred cubic feet (HCF) of water usage

FY 2014 Storm Water Budget



- Actual storm drain fee revenue collected in FY 2013 was \$5.7 million, and the division anticipates collections of the fee to remain relatively constant
- Storm Water's FY 2014 General Fund budget is \$35.1 million
- CIP Budget is \$25.9 million
- Anticipated storm drain fee revenues make up about 16.2% of the Division's FY 2014 General Fund operating budget

FY 2014 Storm Water Budget



Customer Type	Fee Type	Rate	Usage (FY 2013)	Revenue Generated (FY 2013)	Percentage of Total Revenue
Single Family Residential	Flat fee Per Single Family	\$0.95/month	226,955 Customers	\$ 2,587,287	45.2%
Commercial/Industrial/ Multi-Family	Per Hundred Cubic Feet (HCF)	\$0.0647/HCF	48,387,913HCF	\$ 3,130,698	54.8%
TOTAL				\$ 5,717,985	100.0%

- Of the \$5.7 million in revenue generated, approximately 45.2% is attributable to single family residences
- The remaining 54.8% is attributable to multi-family, commercial, industrial & other types of utility customers

Five-Year Outlook & Fiscal Impact



- Storm Water staff is able to project total costs for all storm water activities by utilizing the WAMP
- Cost estimates in the WAMP include funding for
 - Compliance activities and infrastructure
 - Flood risk management including the backlog of deferred capital storm drain assets

Five-Year Outlook & Fiscal Impact



STORM WATER DIVISION'S ESTIMATED FIVE-YEAR OUTLOOK						
	Current FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Fund	\$ 35,100,865	\$ 44,805,747	\$ 48,832,440	\$ 45,302,152	\$ 49,635,974	\$ 52,123,272
CIP Needs	\$ 25,960,000	\$ 80,901,958	\$ 94,815,311	\$ 120,899,939	\$ 162,770,345	\$ 182,159,545

- Staff has expressed that the need to ramp up funding beginning in FY 2015 for necessary capital projects is in response to upcoming 2018 compliance deadlines for water quality regulations

Fiscal Analysis



- Key assumptions of our analysis:
 1. The General Fund will continue to contribute the FY 2014 level of funding at \$35.1 million
 2. Parking citation revenue collections will remain constant
 3. All annual CIP needs are debt financed

Fiscal Analysis



4. There are 226,955 single family residences and no growth is anticipated over the outlook period
 - Constitutes approximately 45.2% of storm drain collections
5. Water usage is calculated at 48,387,913 HCF and no growth is anticipated over the outlook period
 - Constitutes approximately 54.8% of storm drain fee collections

Fiscal Analysis



- Required increase in General Fund contribution over the base year (FY 2014) is comprised of the operational budget increase and the debt service for the bond financed needs

ADDITIONAL REQUIRED FUNDING TO REIMBURSE THE GENERAL FUND					
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Increase in GF Operational Budget	\$ 9,704,882	\$ 13,731,575	\$ 10,201,287	\$ 14,535,109	\$ 17,022,407
GF Debt Service for Bond Financed CIP Needs	\$ 5,598,249	\$ 12,159,274	\$ 20,525,301	\$ 31,788,675	\$ 44,393,741
Additional Required Funding (Over FY 2014 Levels)	\$ 15,303,132	\$ 25,890,849	\$ 30,726,588	\$ 46,323,784	\$ 61,416,148

Fiscal Analysis



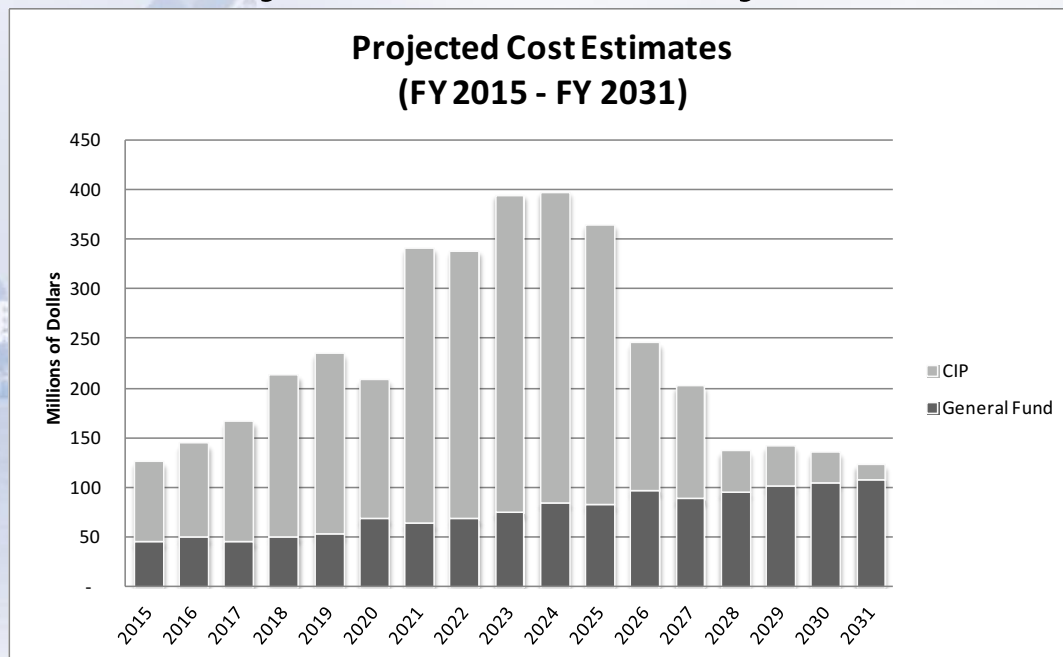
- The storm drain fee revenue that would need to be collected is based on the calculated required General Fund contribution

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Additional Annual Funding Required <i>(Over FY 2014 Levels)</i>	\$ 15,303,132	\$ 25,890,849	\$ 30,726,588	\$ 46,323,784	\$ 61,416,148
<i>Single Family Residential Customer Rates</i>					
Total Customers	226,995	226,995	226,995	226,995	226,995
Allocation of Required Revenue	\$ 6,917,015	\$ 11,702,664	\$ 13,888,418	\$ 20,938,350	\$ 27,760,099
Annual Single Family Rate Increase	\$ 30.47	\$ 51.55	\$ 61.18	\$ 92.24	\$ 122.29
Monthly Single Family Rate Increase	\$ 2.54	\$ 4.30	\$ 5.10	\$ 7.69	\$ 10.19
Current Rate	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95
Total Monthly Rate	\$ 3.49	\$ 5.25	\$ 6.05	\$ 8.64	\$ 11.14
<i>Commercial/Industrial/Multi-Family Customer Rates</i>					
Total Water Usage (HCF)	48,387,913	48,387,913	48,387,913	48,387,913	48,387,913
Allocation of Required Revenue	\$ 8,386,116	\$ 14,188,185	\$ 16,838,170	\$ 25,385,433	\$ 33,656,049
Rate Increase	\$ 0.17	\$ 0.29	\$ 0.35	\$ 0.52	\$ 0.70
Current Rate	\$ 0.0647	\$ 0.0647	\$ 0.0647	\$ 0.0647	\$ 0.0647
Total Rate for Water Usage per HCF	\$ 0.24	\$ 0.36	\$ 0.41	\$ 0.59	\$ 0.76



Beyond the Five-Year Outlook

- Storm Water staff provided 18 years of cost estimates through FY 2031
- The need for funding does not decrease in future fiscal years beyond the five-year outlook

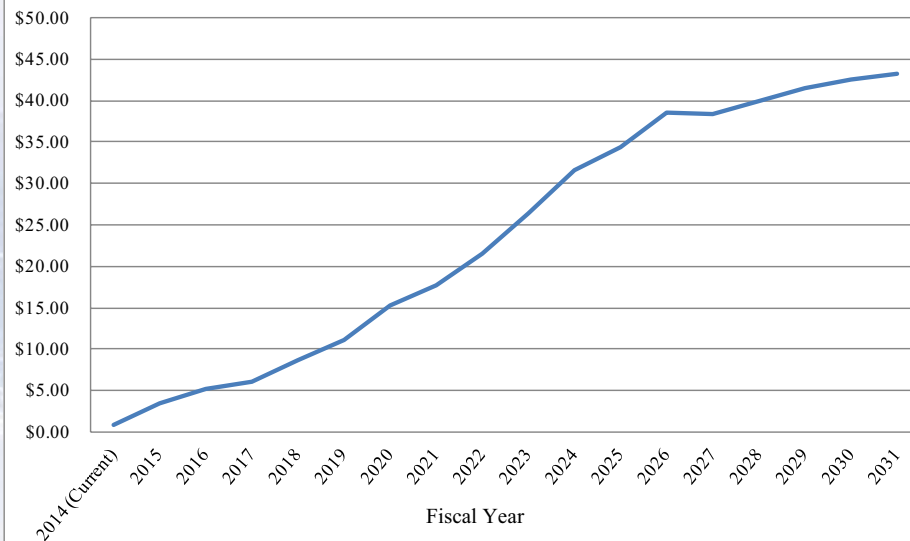




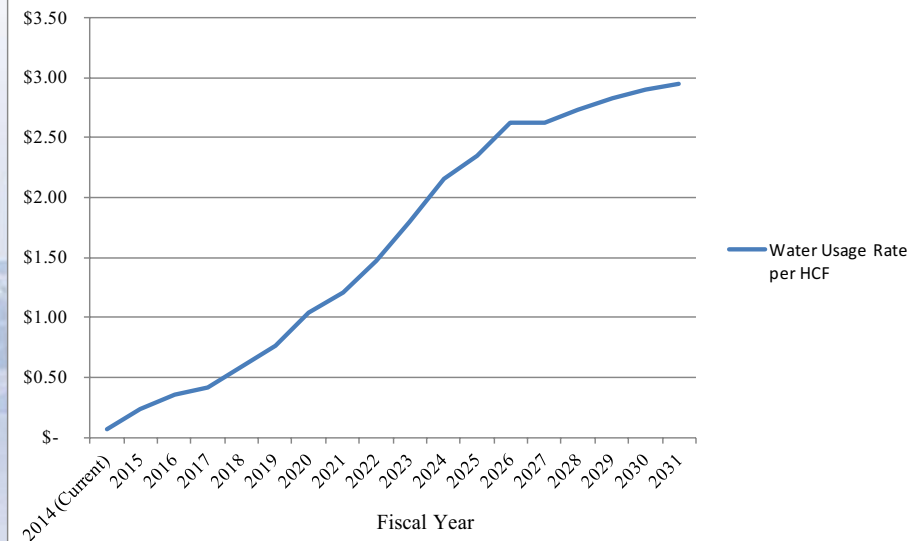
Beyond the Five-Year Outlook

- As these cost estimates continue to rise, the storm drain fee would also need to rise accordingly

**Estimated Total Monthly Storm Drain Fee
For Single Family Residences**



**Estimated Total Storm Drain Fee
For Commercial/Industrial/Multi-Family**



Changes to Regulations & Technology



- Potential changes to regulations and technology in future years may result in decreased costs
- Regulations and technology are constantly evolving
- The Division continues to negotiate for more favorable standards

Items for Consideration



- *Consequences of Deferring Compliance and Flood Risk Management*
 - Deferring compliance activities may put the City at risk of non-compliance
 - Penalties for non-compliance can amount up to \$37,500 per day per violation
 - Deferring flood risk management creates a high risk of asset failure
 - May potentially result in sinkholes and/or damage to private property

Items for Consideration



- *Implementation Issues for Increasing the Storm Drain Fee*
 - Prop 218 was approved in 1996 and restricts property-related fees
 - Any modification to the storm drain fee must meet Prop 218 requirements
 - Exceptions in Prop 218 for sewer, water and refuse collection do not apply to the storm drain fee
 - An increase in the fee would require voter approval by a majority of property owners or 2/3 of the general electorate

Items for Consideration



- *Alternative Revenue Sources in Comparable California Cities*
 - IBA Report 09-13 explored other funding methods in comparable California cities
 - Most cities have dedicated funding sources other than their General Fund
 - Many of the funding sources varied city to city
 - For San Diego, many of the sources identified have significant hurdles for implementation

Items for Consideration



- *Alternative Revenue Sources in Comparable California Cities*
 - Some of the funding sources highlighted in Report 09-13:
 1. Storm water fees in place prior to Prop 218, most of which were higher than San Diego's fee
 2. Voter approved bonds, property taxes, or other approved taxes which require a two-thirds vote
 3. Fees collected in conjunction with water/sewer fees
 4. Street sweeping activities funded by refuse collection fees

Addressing Infrastructure Issues



- *Backlog of Deferred Capital & Needed New Infrastructure*
 - Storm Water forecast significantly increases the City's infrastructure backlog
 - In February 2012, the City's backlog was estimated at about \$898 million in deferred capital - \$235 million was estimated for storm drain infrastructure
 - Staff have revised this estimate from \$235 million to \$146 million, however Citywide deferred capital backlog is expected to increase

Addressing Infrastructure Issues



- *Backlog of Deferred Capital & Needed New Infrastructure*
 - Note that this backlog estimate does not include needed new infrastructure
 - The Storm Water five-year forecast increases the City's needed new infrastructure by about \$500 million

Addressing Infrastructure Issues



- *Five-Year Deferred Capital Funding Plan*
 - The City's Five-Year Deferred Capital Funding plan provides a mix of lease revenue bond and cash funding for both capital projects and ongoing maintenance & repair
 - The first two Deferred Capital Bonds provided about \$24.2 million for storm water projects
 - About \$26 million is anticipated to fund Storm Water projects in FY 2014 via DC 2a and DC 3

Addressing Infrastructure Issues



- *Limitations of Lease Revenue Bonds*
 - Lease revenue bonds are an important source of funding for deferred capital and new infrastructure
 - However, since bonds are backed by the General Fund, each time this type of debt is issued, a long-term obligation is added to the City's General Fund
 - There is also a limit to General Fund-backed debt service, known as "lease burden"
 - Rating agencies consider 10% above average or high
 - If the Deferred Capital Funding Plan is implemented as approved, the lease burden will grown to about 6%

Addressing Infrastructure Issues



- *Multi-Year Capital Improvements Plan & Financing Strategy for Infrastructure*
 - The significant storm water needs identified in the WAMP underscore the importance of a Multi-Year Plan
 - It will ultimately identify needs that lack an existing funding source so a financing strategy can be developed

Addressing Infrastructure Issues



- *Multi-Year Capital Improvements Plan & Financing Strategy for Infrastructure*
 - For example, the City may want to consider a General Obligation Bond program and/or Public Private Partnerships to more comprehensively address infrastructure needs
 - Given the sheer size of infrastructure problems in the City, tight budgetary constraints, and competing needs, it is critical that the City take a holistic and methodical approach to addressing infrastructure needs

Addressing Infrastructure Issues



- *City's Capacity to Deliver Projects*
 - Effective implementation of an infrastructure program and financing strategy requires strong staff capacity
 - Right-sizing is important for all departments involved in the Capital Improvements Program process including Public Works/E&CP, Financial Management, Debt Management and Equal Opportunity Contracting

Conclusion



- The City will need to find a dedicated funding source for storm water activities as mandated regulations become more stringent
- If no funding is identified, the required General Fund contribution for compliance will increase, reducing funding for other priorities and services

Conclusion



- This analysis is an illustration of the magnitude of future costs
- Our office does not recommend solely relying on the storm drain fee to recover additional costs
- Other revenue options should be considered in conjunction with a potential increase in the storm drain fee