



Utility Advisory Committee

Storm and Surface Water Financial Incentives

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Title

Storm and Surface Water Financial Incentives

Report

UAC Deliverable:

Review and provide feedback to staff

Staff Contact:

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Background and Analysis:

The Utility Advisory Committee has briefly discussed the potential of incentivizing Storm and Surface Water Utility rates to better encourage contemporary best management practices and innovation. The incentives could foster commercial developments and residential homes to exceed current development regulations in exchange for a reduction in monthly utility charges.

Incentivizing utility rates is a complex issue dictated by State guidelines and public financial best practices. RCW 90.03.510 authorizes the City to “provide a credit for the value of stormwater control facilities or improvements that a person or entity has installed or located that mitigate or lessen the impact of storm water which otherwise would occur.” It does not explicitly define how to value those facilities or improvements. Incentives can be based on both the cost of public services provided by the utility and the potential to reduce or eliminate costs as a result of innovation.

The ongoing update to the Storm and Surface Water Plan provides the opportunity for a comprehensive financial evaluation of the Utility. This work is well underway by an independent financial consultant. The consultant is also investigating alternative rate structures and potential incentives. The incentives work is based on a cost of service analysis that delineates utility costs between “base costs” that do not vary with potential onsite mitigation and “use costs” that may vary with onsite mitigation. For example, onsite water quality treatment could reduce public costs to treat runoff downstream of the site.

For the past fifteen years or so, the Utility has used a tiered rate structure for residential and commercial accounts. The commercial tiers acknowledge that newer developments provide more onsite stormwater management of runoff volume and water quality than older developments. The tiers reflect the evolution of regulatory requirements for onsite management of stormwater and

associated escalating capital investment costs. Residential accounts include the option for a discount based on a homeowners association's successful maintenance practices. The attached table shows the information on the current tiers.

The cost of service analysis indicates that approximately 33 percent of Utility costs can be attributed to use costs (costs that may vary within onsite mitigation). This is the percentage of our annual budget that can be used to help incentivize actions. Based on past calculations, our current tiered system generates a 62 percent range of charges.

Our stormwater regulations, especially with the recent requirements for low impact development, are rigorous and based on the implementation of best practices. This level of performance is a given.

With this in mind, we could modestly restructure our residential and commercial rates to better reflect the performance of onsite stormwater facilities and acknowledge the increased capital cost of installing and maintaining contemporary facilities. We could consider moving away from the three age-based tiers to a more performance-based system - no onsite stormwater management, partial onsite mitigation, and full onsite mitigation/low impact development. With this approach our Category 1 tier would decrease from 330 accounts to 135 accounts. A very high level of low impact development implementation (e.g., 100% infiltration) could prompt higher incentives.

In general, it is challenging to create a Utility rate program that effectively incentivizes expending greater capital construction costs. Our ability to provide enough monthly rate incentive to compensate for higher construction cost is limited. Additionally, site developers are often not the same people that end up paying the Utility bill. We would also expect a commitment to adequate private maintenance of the best management practice.

At the April 6th UAC meeting, staff can help facilitate a UAC discussion of incentives and their pros and cons. Other tools to incentive investment can also be discussed.

Financial Impact:

None at this time. Recommendations regarding incentives can be incorporated into the UAC's annual utility rate correspondence with City Council in September.

Attachments:

Table