



Utility Advisory Committee

Stormwater Rate Structure Project Update

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Title

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Recommended Action:

UAC Deliverable: No action; briefing only.

Report

Issue:

Receive a briefing on the Stormwater Utility's efforts to update the impervious surfaces associated with its current commercial stormwater accounts; the Utility's proposed new rate structure, and the Utility's proposed approach to communication and outreach of the proposed new Stormwater rate structure.

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Presenter:

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Background and Analysis:

Commercial Property Impervious Surfaces Update

Since the Stormwater Utility was created in 1990, commercial accounts (including multi-family, industrial and government properties) have been charged stormwater fees based on a property's quantity of impervious surfaces (e.g. roof tops, driveways, concrete paving, parking areas).

In 2016, the Stormwater Utility hired a consultant to map impervious surfaces throughout the City based on Light Detection and Ranging (Lidar) data. The purpose of this work effort was to evaluate land coverage by drainage basin and verify impervious surfaces for stormwater billing purposes.

When Utility staff compared the consultant's impervious surfaces data to the impervious surface's quantities billed to commercial customers, discrepancies in the amount of actual impervious surfaces located on individuals parcels versus quantities used for billing purposes were found. Such discrepancies resulted in instances of both overbilling and underbilling of commercial accounts.

Further analysis found billing errors occurred for the following reasons:

- Parcel boundaries and impervious surfaces are now mapped electronically. In the 1990s, when stormwater accounts were established, parcel boundaries and impervious surfaces were estimated. At the time, an appeal rates process was established in the municipal code.
- Initial Utility billing setup is done based on projections of impervious surfaces contained in development permit applications. In many cases, the impervious surfaces coverage provided by the applicant was not accurate.
- When new Stormwater Utility accounts are added to a property, the new account was not always reduced by the amount of impervious surfaces accounted for by an existing account, resulting in double-billing for the same impervious surfaces.
- When a property is subdivided, the impervious surfaces located on the new parcel was not always removed from the original parcel, resulting in double-billing for the same impervious surfaces.
- Multiple properties are paid for by a single account without proper documentation of what properties are included in the single account.
- When properties were sold, the new property owner never established a utility account and the previous owner continued to be billed.

Current Stormwater Rate Structure

The City of Olympia's stormwater rates vary by customer class (e.g. single family, multi-family, commercial, and industrial). Single-family residential customers (including duplexes) pay a flat rate that is discounted for plats approved after 1990 that have a signed maintenance agreement. All other customers pay a fixed administrative fee per account and a charge based on billing units according to the property's assigned rate category.

"Billing unit" means the same as "equivalent residential unit": Two thousand five hundred twenty-eight (2,528) square feet of impervious surface development on a parcel (OMC 13.16.010 B). This is the average amount of impervious surfaces found on a single-family residential parcel (hence the term Equivalent Residential Unit) within Olympia city limits in 1990.

Which of the rate categories applies to a property is defined by the property's development date (after 1990; 1980-1990; pre-1980). Stormwater management requirements for new development were increased in 1980 and 1990. Newer development is, therefore, assumed to provide a higher level of on-site stormwater management (flow control and treatment) thereby resulting in lower rate.

The attached Table 1 provides current rate information.

Challenges with the Stormwater Utility's current rate structure include:

- The development dates included in the rate structure do not necessarily correspond with actual levels of on-site stormwater mitigation.
- There is no acknowledgement of low impact development. When used, low impact development results in 100 percent of stormwater infiltrated onsite, thereby decreasing the need for stormwater conveyance capacity and regional stormwater facilities.

- The stormwater rates are perceived as not incentivizing retrofits of existing stormwater facilities. While city streets and facilities can be retrofitted to provide greater levels of stormwater mitigation, retrofitting existing private development is one of our greatest challenges to improving stormwater quality.

Proposed Rate Structure

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 costs of public services provided by the utility and the potential to reduce or eliminate costs as a result of innovation.

As part of the financial analysis for the 2019 Storm and Surface Water Plan (Plan), the Stormwater Utility requested its financial consultant, FCS Group, to evaluate alternative rate structures. The objective of this rate analysis included:

- To make the rate structure more equitable based on the actual level of on-site stormwater mitigation.
- To incentivize property owners to retrofit their properties to provide greater levels of on-site stormwater mitigation.
- To incentivize property owners to maintain the stormwater infrastructure they do have.

Key findings from FCS Group’s rate analysis include:

- A stormwater billing rate structure based on impervious surface area recognizes the relationship between different amounts of impervious surface area causing proportionately different impacts on the environment in terms of flooding, water quality and habitat degradation. With greater impervious surface area comes greater impact and greater associated costs to address such impacts.
- Two-thirds of the Stormwater Utility’s annual costs are fixed and do not vary with the amount of on-site mitigation provided on a property. The remaining one-third of annual costs can be attributed to on-site mitigation and can, therefore, be used to incentivize action. Fixed costs include repair and maintenance of stormwater infrastructure associated with roadways and regional facilities, the Stormwater Utility’s habitat program and National Pollutant Discharge Elimination System (NPDES) permit requirements such as spill investigations and erosion control enforcement.
- The Stormwater Utility could improve the equity of its single-family rate structure by moving to a tiered residential rate based on actual impervious surfaces but should consider the potential expense of generating parcel-specific impervious surfaces area measurements as part of its decision-making process before doing so.
- The Stormwater Utility should continue to charge commercial customers based on impervious surfaces to recover both fixed costs and costs that vary depending upon the amount or quality of stormwater runoff. While it would be possible to recover costs associated with the quality of stormwater runoff coming from a site through trip-generation charges, such charges are relatively uncommon in practice.

- Commercial rate credits should focus on actual on-site mitigation rather than development date and offer a 20 percent rate credit for customers with partial onsite mitigation and a 50 percent rate credit for customers with full on-site mitigation. The current commercial rate structure reflects commercial credits of 62 percent for parcels developed after 1990 and 21 percent for parcels developed during the 1980s.
- The Stormwater Utility should periodically update its residential equivalent unit (ERU) definition based upon a random sampling of single-family properties in its service area.

Based upon the Rate Analysis, the Stormwater Utility proposes to revise its rate structure as follows:

Residential (including duplexes): Because current regulations (OMC 13.16.170) require all property owners to maintain privately-owned stormwater infrastructure, the Stormwater Utility proposes to remove the current rate incentive for plats having a maintenance agreement.

Duplex parcels will be charged 2 times the single-family rate.

Commercial: The Stormwater Utility proposes to revise its commercial account (including multi-family, industrial and government) rate categories from development date based to rate categories based upon actual on-site mitigation as summarized below:

- Category 1 - Low Impact Development: 100 percent infiltration, with no overflow pipe or land overflow
- Category 2 - Conventional Treatment or Flow Control provided on-site
- Category 3 - No Treatment or Flow Control provided on-site

Additionally, a “waterfront” discount is proposed to apply to commercial parcels which:

- Discharge 100 percent of stormwater runoff directly to a waterbody (i.e. stream or Budd Inlet), OR;
- Are under common ownership and discharge 100 percent of stormwater runoff directly to a contiguous waterfront/direct discharge parcel.

The intent here is to discount customers that do not benefit from the City’s stormwater infrastructure other than that associated with City streets.

Residential Equivalent Unit (ERU): The Stormwater Utility proposes to revise its residential equivalent unit, or commercial billing unit, from 2,528 square feet to 2,882 square feet. This is the median (middle value) amount of impervious surfaces currently found on a single-family residential parcel in Olympia city limits.

The attached Table 1 provides a comparison of current and proposed Stormwater rates.

Recent Code Changes: The following changes to the Olympia Municipal Code (OMC Chapter 13.16) were adopted in December 2019 to facilitate the proposed rate structure:

- Addition of definitions for “flow control” and “stormwater treatment”.
- Clarification of the process for a commercial property to apply for a lower rate category.

- Addition of a requirement that property owners are to inspect and maintain stormwater facilities to function as they were designed.
- Clarification that the city may revoke a storm drainage charge credit if it is found that the stormwater facility is not providing flow control or stormwater treatment.

Proposed Next Steps

Commercial Account Impervious Surfaces Update: Prior to implementing the proposed rate structure, the Stormwater Utility will verify the impervious surfaces on all commercial properties.

Proposed Rate Structure: To complete the new stormwater rate structure, the following general next steps will be completed.

- ***Finalize Commercial Account Rate Categories.*** Stormwater Utility staff will finalize its review of the level of stormwater management provided on all commercial parcels, thereby assigning all commercial parcels to a new rate category.
- ***Finalize On-Line Tools.*** An on-line stormwater account look-up tool (storymap) and appeal process will be completed and launched to provide commercial account holders the opportunity to look-up assigned rate categories and impervious surfaces and appeal this information prior to the new rate structure's effective date.
- ***Finalize Rate Structure.*** Our financial consultant, FCS Group, will review and offer recommendations on the proposed rate structure, including assignment of costs and the new ERU calculation.
- ***Outreach and Communication Material.*** It will be necessary to inform both residential and commercial customers of the proposed rate structure prior to its implementation. Key outreach and education material, in addition to the on-line tools described above, is expected to include:
 - "What You Get for Your Stormwater Rates" Storymap
 - 5 Things Article
 - E-Newsletter Articles
 - UAC follow-up meeting, including a request for support
 - Individual mailings to commercial accounts announcing the proposed rate structure and on-line look-up tool and appeals process
 - Council Review and Approval

Neighborhood/Community Interests (if known): The Utility conducted a survey as part of developing the Storm and Surface Water Management Plan. Survey results indicated more than 81 percent of respondents were willing to pay more to achieve the Utility's goals.

Options: None at this time. Briefing only.

Financial Impact: Although the rate structure will be result in minimal new revenue to the Stormwater Utility, individual property owners may see increased rates. Others may see decreased rates.

Attachments:

- Table 1
- FCS Group Issue Paper #2 Incentivizing Customer Implementation of Stormwater Best Management Practices, June 20, 2017
- Olympia Municipal Code (OMC) 4.24, Utility Charges
- OMC 13.16, Storm and Surface Water Management