Stormwater Funding Policy Options

Prepared for Alexandria City Council
December 10, 2014

Introductions

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Agenda

I. Why are we here now?

II. What are our options to fund our stormwater needs?

III. Next steps

IV. Discussion

Why Discuss Stormwater Funding Now?

- Stormwater expenditures continue to increase over next 10-15 years
- Mandated stormwater expenditures will consume larger portion of General Fund (outside of dedicated 0.5 cent tax)
- <u>Create long-term sustainable solution</u>
  - Consider alternative funding that lessens General Fund impact

Stormwater Mandates

What are the Stormwater Mandates?

Driver: Chesapeake Bay TMDL
(Total Maximum Daily Load)

- Sets specific target reductions/loads for nutrient and sediment discharges
- Enforced through City's MS4 (Municipal Separate Storm Sewer System) Permit
- 15-year implementation
  - Three phases based on five-year permit cycles (2013 – 2028)
- Required reductions increase each cycle

Targets for Implementation

- Approximate acreage requiring stormwater treatment to meet mandates

MS4 Permit Cycle	***Portion of Total Reductions***	***Approx. Acres***
Phase I (2013 - 2018)	5%	120 - 130
Phase II (2018 - 2023)	35%	660
Phase III (2023 - 2028)	60%	1,450
Total All Phases	**100%**	**2,140**

How to Meet Mandated Targets

- Future Redevelopment
- Stormwater Retrofits
  - Upgrade existing regional stormwater facilities
  - Install new facilities on City properties
  - New facilities in the right-of-way

Cost Drivers in Operating and Capital Budgets

- Costs for new mandated infrastructure through FY 2028 estimated at $65 - 100 million
- Includes capital, and operating and maintenance of new infrastructure

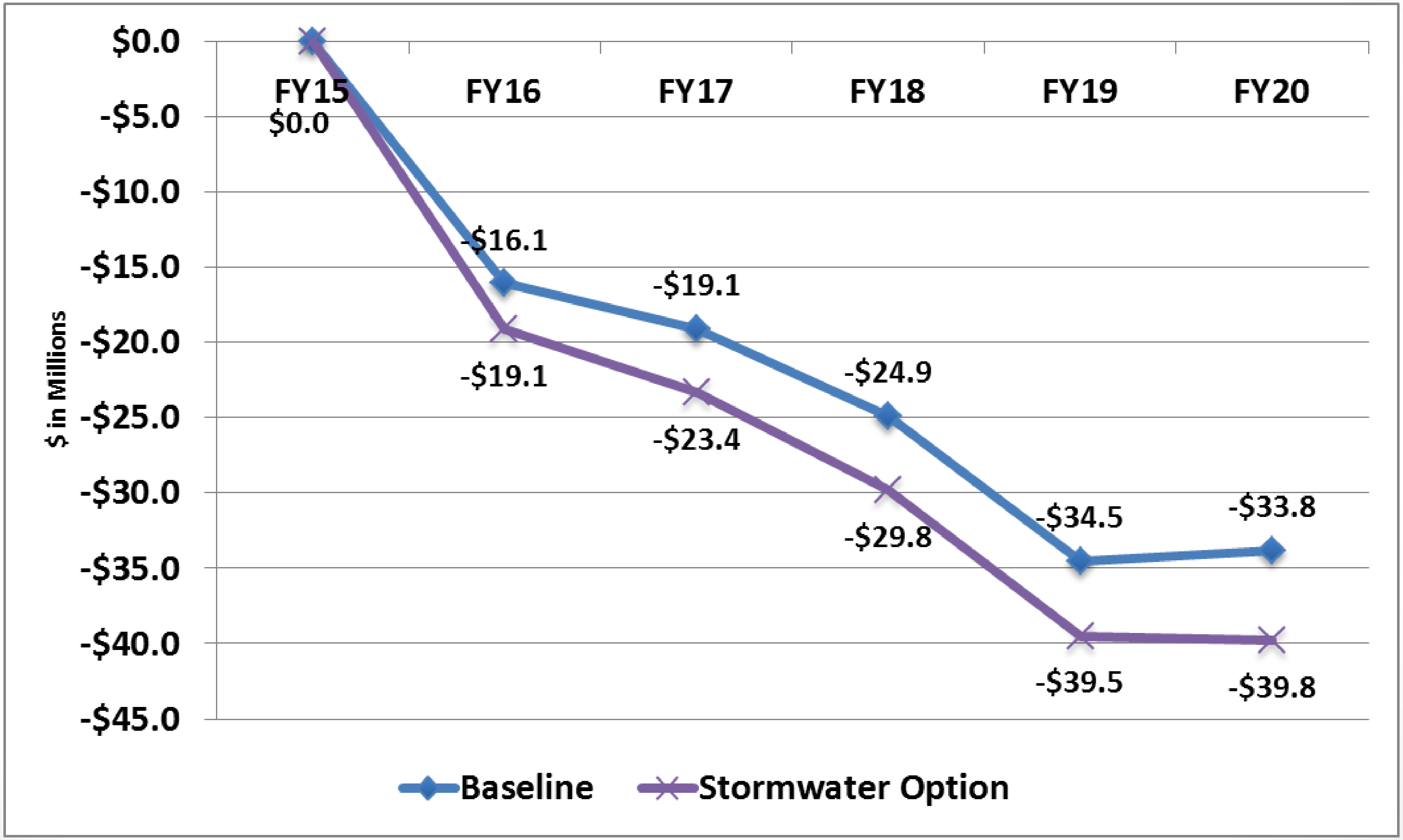
Stormwater and the Five-Year Financial Plan

Current Funding

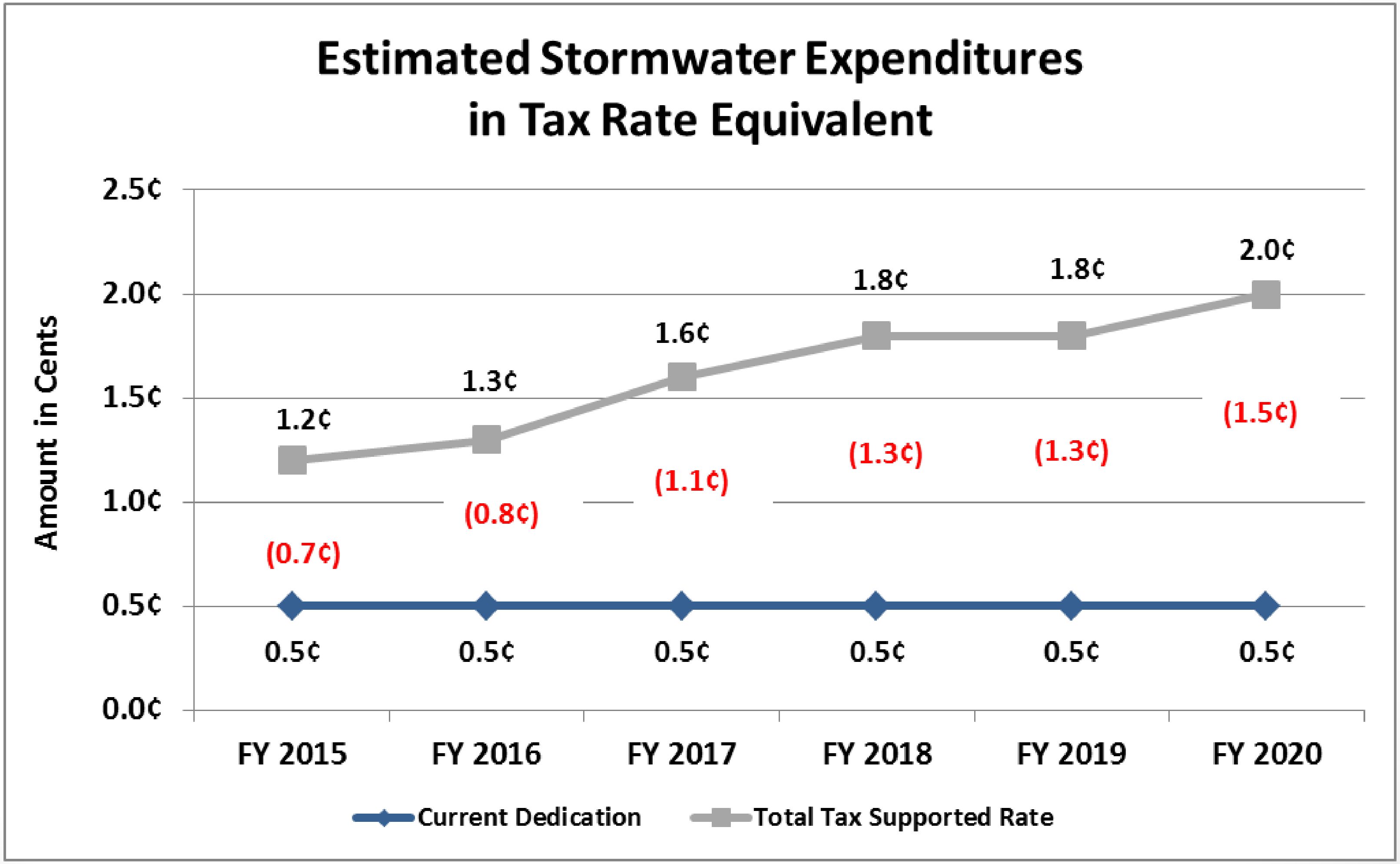
- 0.5 cents Real Estate Tax Rate dedication
- Additional General Fund contribution
  - Currently spend an additional 0.7 cents more than dedication (total 1.2 cents)
- Non-City Funding Sources
  - State Stormwater Local Assistance Fund (SLAF) Grant: Awarded $1.2M
  - Pursuing other grants; most are 50-50 match

General Fund Shortfall

($ in millions)



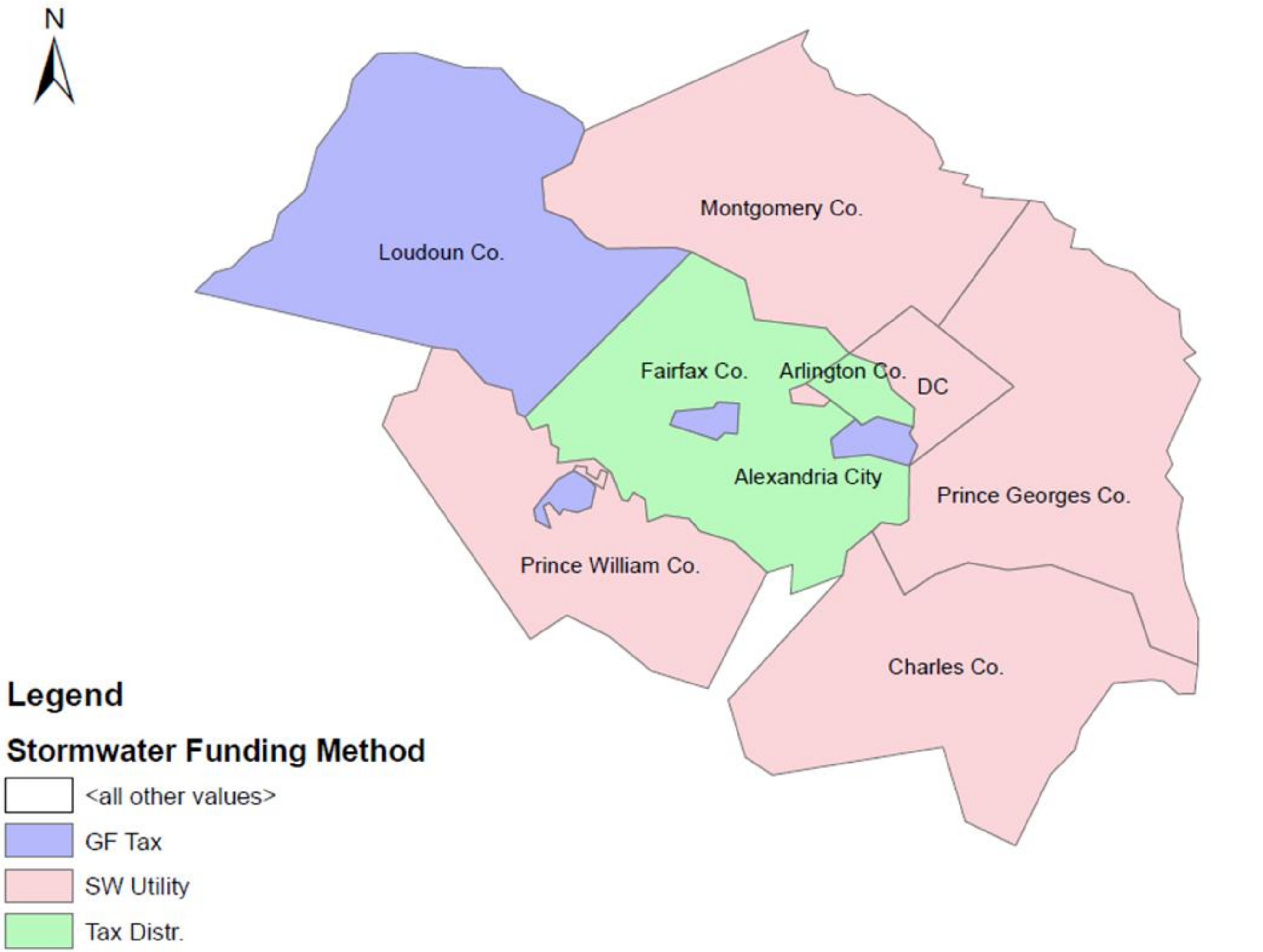
Estimated Tax Rate Impact Stormwater Expenditures



Policy Options to Consider

- **Real Estate Tax Funded Only**
- **Create fee-based Stormwater Utility**

Northern Virginia, D.C. and Maryland Jurisdictions



Other Jurisdictions Statewide

- The following jurisdictions fund through a Stormwater Utility
  - City of Charlottesville
  - City of Norfolk
  - City of Portsmouth
  - City of Richmond
  - City of Roanoke
  - City of Virginia Beach
  - City of Hampton
  - City of Newport News

Policy Option: Tax Funded

Status Quo,
Tax Rate Dedication, or
Special Tax District

Tax Rate Dedication or Special Tax District

- **Real Estate Tax Funded Only**
  - **Increase General Tax Rate (status quo)**
  - **Increase Tax Rate Dedication**
    - Currently 0.5 cent
    - Estimated need at 1.3 cents for FY 16
  - **Create a Special Tax District**
    - Estimated need at 1.3 cents for FY 16
    - Separate line on tax bill

Tax Rate Dedication or Special Tax District Pros and Cons

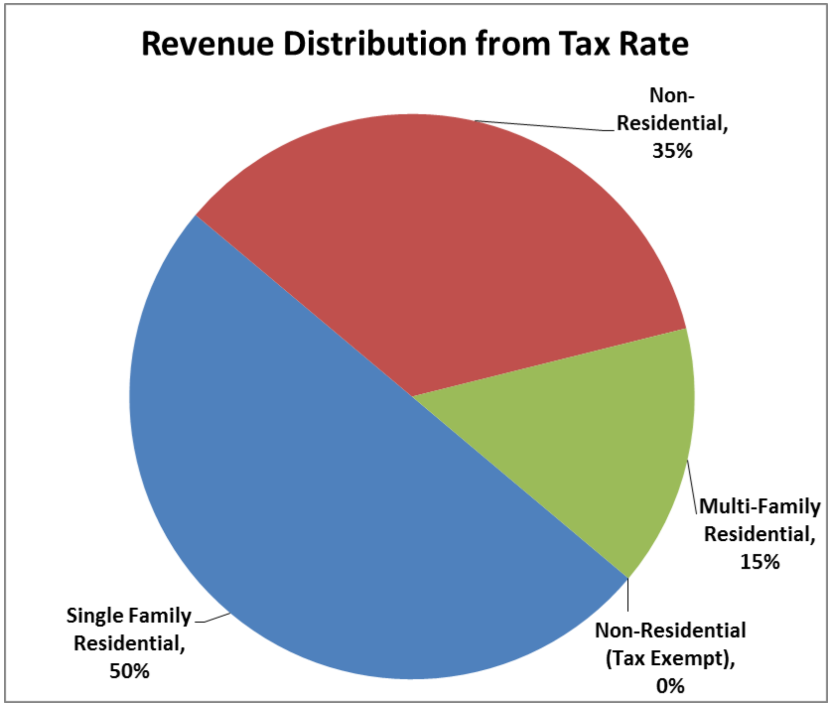
Pros	Cons
Ease of creating and administering	Does not capture all parcels that contribute to stormwater run-off
Borrowing at lower interest rates (General Obligation Bonds)	Competes against all other potential tax rate increases (status quo)
Tax deductible	Requires greater revenues from tax payers
Dedicated tax outside of the base tax rate (for Special Tax District)	Revenue fluctuations based on real estate assessments
	Debt issued will still count against City's debt ratios

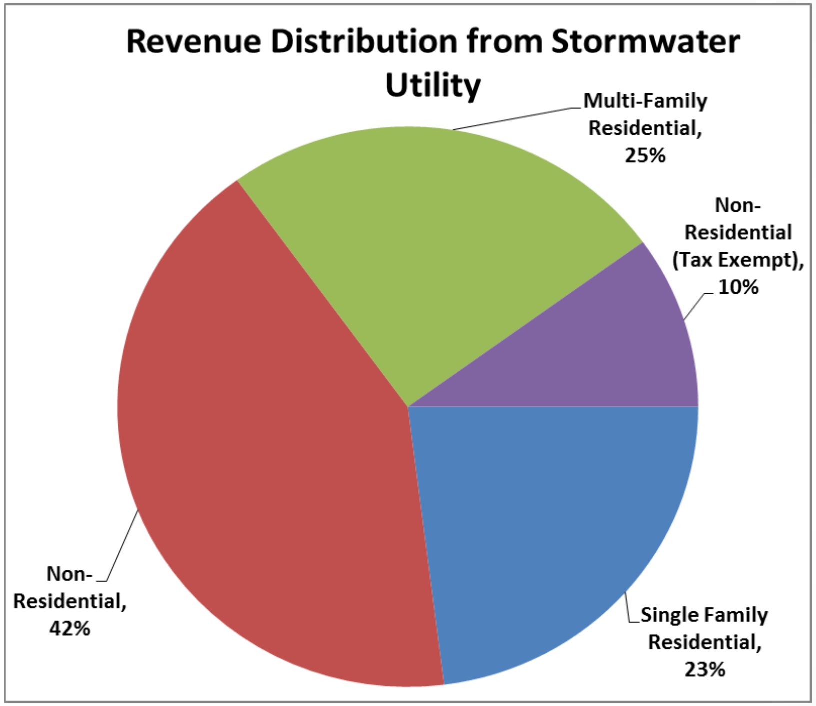
Policy Option: Fee Based Stormwater Utility

What is a Stormwater Utility?

- Provides a fair and equitable linkage between the amount of stormwater generated and the fee charged
- An Enterprise Fund self-supported by stormwater fees
- Fees calculated based on ERU (Equivalent Residential Units)
  - Average residential use = 1 ERU
  - Average commercial use = Varies

Revenue Distribution





Based on Taxable Assessed Property Values

User Fee Based

Stormwater Utility Pros and Cons

Pros	Cons
Based on measurable stormwater mitigation impact of property	Need for acceptable fee structure
Longer amortization of bonds, more in line with asset life	Need to establish cash reserves
Improved mix of cash and debt funding	Requires additional resources to administer and longer lead time for start-up
May reduce cost to customer through better cash flow	Not tax deductible for state and local income tax purposes
Debt may be removed from City debt policy consideration for Revenue Bonds	Debt may be included in rating agency calculations (if issuing Double Barrel Bonds)
Reduces impact to General Fund by taking expenditures off of the tax rate	

Next Steps

Next Steps—Tax Funded

(any of these options would occur as part of FY 2016 budget planning)

- Status Quo
  - Continue raising real estate taxes or reduce investments in other areas
- Tax Dedication
  - Raise the 0.5 cent dedication to meet need
- Special Tax District
  - Eliminate the 0.5 cent dedication
  - Create a special tax equivalent to need
  - Community Engagement
  - Legal review

Next Steps—Fee Funded

(work will begin in FY 2016)

- Update Utility Study
  - Determine rate needed
  - Create a credit policy
- Develop implementation plan
  - Identify resources needed
  - Create community outreach plan
  - Determine interim funding plan as utility will not be fully operationalized until FY 2018

Council Guidance

- Direct City staff to explore one or more of the policy options presented
- Direct City staff eliminate from consideration any of the Policy Options presented

Discussion, Questions, and Comments