

STAFF REPORT

Date: December 14, 2022

To: Mayor and City Council

Thru: Doug Thornley, City Manager

Subject: Staff Report (For Possible Action): Presentation, discussion and potential direction to staff regarding the Stormwater Utility proposed rates and program elements.

From: Trina Magoon, Utility Services Director

Department: Utility Services

Summary:

Since 2018, Council has directed staff to work towards establishing a Stormwater Utility to provide a dedicated funding source for flood reduction and drainage improvement projects in the City of Reno. Staff have been working with Raftelis Financial Consultants, initially to conduct a feasibility study and subsequently on implementation of the proposed Stormwater Utility. Under this current implementation phase, Raftelis refined their financial models with updated Capital Improvement Program (CIP) costs and developed program elements designed to address public outreach comments. Staff is seeking direction from Council on the financial models, rates and program elements.

Alignment with Strategic Plan:

Infrastructure, Climate Change, and Environmental Sustainability

Previous Council Action:

January 27, 2021: Council presentation, discussion, and approval of proposed Public Outreach and Communications Plan for Implementation of City of Reno Stormwater Utility.

August 26, 2020: Council approved an Agreement with Raftelis Financial Consultants in the amount of \$865,406 for Implementation of a City of Reno Stormwater Utility.

July 30, 2020 - Council directed staff bring an Agreement for Implementation of a City of Reno Stormwater Utility for Council's consideration at a future meeting.

March 13, 2019 - Keith Readling, Vice President Raftelis, presented Raftelis' findings from the

Stormwater Utility Implementation phase, including possible methods and rates.

July 25, 2018 - Council approved an Agreement with Raftelis for \$125,760 to conduct a feasibility study for formation of a stormwater utility for the City of Reno.

Background:

The concept of a stormwater utility is that virtually every property in a watershed contributes stormwater to storm collection and conveyance systems, and every property should support the operation and maintenance (O&M), repair and replacement of these facilities.

The proposed Stormwater Utility will collect a new fee for use from property owners that will provide a dedicated funding source for engineering and construction of new or replaced infrastructure to improve drainage and reduce flooding. These fees will also support compliance with National Pollutant Discharge Elimination System (NPDES) Municipal Separate Storm Sewer System (MS4) requirements and routine O&M of existing stormwater infrastructure.

Planning, design and construction of drainage improvement replacement and flood reduction projects are currently funded through the Sewer Fund. Associated O&M and environmental compliance costs are also funded through the Sewer Fund and other various sources. The new stormwater utility fee would cover the existing O&M functions, environmental compliance and address the backlog of stormwater and flood improvement CIP project costs.

Raftelis' feasibility study determined that the most defensible method to determine a property's contribution to the stormwater system is through impervious surface area and for properties to pay for a stormwater utility based on their contributing impervious area. Impervious area refers to land features that cannot absorb water, such as concrete, asphalt, compacted rock, and footprints of buildings, which thereby generate runoff. Raftelis developed a Geographic Information System (GIS) parcel based analysis of impervious areas within the City of Reno to determine the amount of runoff that would be generated by an average single-family residence. The average amount of impervious surface for a single-family property was calculated to be 3500 square feet. This amount was established as one (1) Equivalent Residential Unit (ERU). Each residential single-family property owner would pay their stormwater fee at the cost of one (1) ERU. Non-residential (NSRF) properties would pay according to how many ERU's the property occupies. For example, a non-residential property with 35,000 square feet of impervious surface would occupy ten (10) ERU's.

Raftelis' 2019 Feasibility Study determined the rate per ERU would need to be between \$8.50 and \$10.50 to accomplish the 20-year Capital Improvement Plan (CIP) developed for the study. Since 2019, cost of projects in the CIP have dramatically increased due to the inflation and supply chain issues. In 2022, Raftelis updated their financial model to account for these factors,

resulting in rates between \$12.20 and \$13.50 per ERU.

Raftelis determined that these rate estimates are comparable and competitive with stormwater utilities already established in peer cities. The City of Sparks, Carson City, and limited parts of Washoe County are examples of Nevada communities that have already adopted a stormwater utility. Across the United States, forty-one states (82%) and over 2500 cities have established stormwater utilities to provide a funding mechanism to replace aging infrastructure, address water quality standards, and/or address the increase in storm frequency and intensity. The City of Reno is considered a medium sized city with approximately 270,000 residents while the average size community with a stormwater utility has a population of 208,000

As part of the proposed Stormwater Utility Implementation, Council approved a Public Outreach and Communications Plan in January of 2021. The plan, involved, consulted, and informed the public, specific stakeholders and groups about the development of the proposed Stormwater Utility and identified methods to participate in the process. The plan engaged stakeholders, helped identify goals and informed how the new fee would be implemented.

As part of the public outreach process, Staff:

- Held three (3) public meetings
- Presented at all five (5) Neighborhood Advisory Boards (NABs)
- Had eight (8) media stories/press releases published through local news agencies
- Developed a City of Reno Stormwater Utility website with an option to provide feedback
- Provided an informational mailer insert in all City of Reno Sewer Bills directing property owners to the website for more information and to provide feedback.
- Provided approximately thirty (30) other public outreach and education opportunities through numerous social media posts and videos and/or directing the public to the website for additional information and to provide feedback.

Feedback received from these efforts included 118 general public comments that primarily focused on one of the following topics:

- New development should pay for a Stormwater Utility
- Stormwater Utility should be funded by removing internal inefficiencies and the City should disallow any building in Flood Zones
- In favor of the Stormwater Utility
- Seeking clarification
- Perception that there are sufficient funds in sewer fund, that residents are overpaying on sewer rates, and the desire to cease sewer rate increases
- No new fees or taxes
- Fixed Income / Cost of living / Financial impact considerations

Because Stormwater Utilities can impact low/fixed-income populations disproportionately, and as a result of the comments received from the general public, Raftelis recommended that the City

create a stormwater utility income assistance program for low income or fixed income individuals that meet certain income criteria. In order to qualify, applicants would need to provide proof of residency in the City of Reno and have received, during the preceding fiscal period, benefits from one of the following sources: Nevada State Welfare Division Energy Assistance Program (EAP), Social Security Disability Income (SSD), Supplemental Social Security Income (SSSI), or the Veterans Administration Disability (VA).

In order to address properties that have significantly smaller (less than 2400 sqft of impervious surface) and significantly larger (greater than 5000 sqft of impervious surface), an additional program element of tiered rates was developed where residential properties would pay approximately 35% lower or higher rates, respectively.

In addition to the public outreach conducted, staff also presented to 13 targeted stakeholder groups, focusing on stormwater and the implementation of a proposed Stormwater Utility, including entities such as:

- Reno Tahoe Airport Authority (RTAA)
- National Association for Industrial and Office Parks (NAIOP)
- Builders Association of Northern Nevada (BANN)
- Nevada Resort Association
- Washoe County School District (WCSD)
- Nevada System of Higher Education (NSHE)
- Reno Sparks Indian Colony
- Chamber of Commerce
- Reno Sparks Association of Realtors
- others

Feedback received from the targeted stakeholder groups generally included comments or questions regarding:

- In favor / seeking general clarification
- Request for non-residential crediting options and rate ramp-up
- Homeowners Associations (HOAs) inquired whether individual homeowners within the HOA *and* the HOAs/drainage districts would be charged
- How the mechanism to charge fees was determined
- Credit allowances for non-residential properties that can demonstrate compliance with existing code for flood reducing or water quality drainage infrastructure.
- Credit allowances for Washoe County School District (WCSD) for implementation of a Stormwater Education Program.

Raftelis evaluated the fee rate with and without potential non-residential crediting options based on stakeholder comments. The following three (3) crediting scenarios were evaluated:

- Water quality/Water quantity Mitigation Crediting
 - Crediting for non-residential properties with stormwater, flood mitigation and water quality measures that reduce the volume and pollutant load from runoff and/or are in compliance with current code.
 - Non-Residential Crediting with a maximum of 30% reduction in fees
 - Non-Residential Crediting with a maximum of 50% reduction in fees
- School/Education Credit
 - K-12 educational institutions that provide watershed education or promote stormwater topics in support of the City's stormwater goals may earn credit with a maximum of 50% reduction in fees
- Airport Taxiway Credit
 - Similar to the City of Reno roadways and right of way, airport runways and taxiways would be exempt from Stormwater Fees. Other airport impervious areas would be subject to the stormwater fee based on the established impervious surface ERUs.

Discussion:

The City has a 20 to 30-year backlog of Capital Improvement Program (CIP) projects due to insufficient funding. As the City's stormwater infrastructure continues to age and our area continues to see an increase in intensity and frequency of storms, the City's ability to operate, maintain and/or replace critical stormwater and flood control infrastructure is significantly challenged. Under the current funding sources, the city accomplishes one small project every few years, and construction of larger projects typically require funds to be saved for multiple years. A dedicated stormwater utility fee would provide a stable revenue source to address the backlog of projects and meet the ever growing and challenging stormwater and flood control needs within our community.

Raftelis assisted the City in forecasting the funding requirements to meet both the O&M, environmental, and capital improvements need for our stormwater system. It is important that stormwater utility fees are sufficient to maintain and improve the current infrastructure while not overburdening customers. Using the impervious area / ERU as the basis for determining stormwater charges allows for equitable billing and is a best practice for managing future parcel and land use changes. Based on stormwater utility financial modeling analysis, Raftelis recommended a single-family property would pay approximately \$12.45 per month before any adjustments for water quality/quantity improvements, education, Airport runway/taxiway exemptions or income based assistance or crediting and with no bonding. Based on the modeling, this rate fee would allow for needed stormwater infrastructure improvements, maintenance, and environmental compliance for the next 20 years.

The financial model used estimated rates of inflation for CIP projects, O&M and environmental compliance costs as well as for the proposed user fees. Staff recommends that the fee be tied to the consumer price index, similar to the City's sewer rate user fees, so that as inflation increases, the stormwater utility does not lose purchasing power and can keep up with increasing costs.

Additionally, studies show that water/wastewater infrastructure costs consistently outpace the consumer price index.

Stormwater credits and incentives program can be a meaningful way to form cost sharing options and allow property owners interested in pursuing onsite stormwater management practices, schools to provide stormwater education, and provide equitability across the City. While these incentives provide a means for nonresidential users to have ownership in the improving the stormwater and flooding health of the City, these credit options can reduce the overall funding and affect the ERU rates.

The table below shows the 20-year capital improvement program with the various crediting options, with and without bonding for improvements, and the resulting effect rate per ERU/month:

20 Year Capital Improvement Program						
Model	Total CIP	Bond Amount	Base Model No Credits	NSFR 50% Crediting	NSFR 30% Crediting	NSFR 30% Schools & Airport Runways
20 YR. NO Bond	\$470M	\$0M	\$12.45	\$13.40	\$13.10	\$13.46
20 YR. \$25M Bond	\$470M	\$25M	12.20	\$13.25	\$12.90	13.25

As can be noted in the table above, neither the proposed program elements, nor bonding significantly increases the overall cost/ERU/month, however, we anticipate instances where capital expenditures exceed available funding for larger construction projects where bonding would be recommended. As we progress in time and the CIP continues to develop, those peak expenditures will become clearer. However, to ensure we capture the entire CIP we recommend the slightly higher rate without bonding as the base rate per ERU.

Given the Stormwater Utility financial models and crediting options, staff recommends the following:

- 20 year capital improvement program duration
- No initial bonding
- Residential Stormwater Utility income assistance program
- Non-residential credit up to 30% for qualifying properties
- K-12 School Stormwater Education Program credit up to 50%
- Exempt Airport taxiways and runways from the impervious area calculation
- 3 Year Rate Ramp-up for non-residential properties with greater than four (4) ERUs

- Rate tied to consumer price index, similar to the sewer user fees.

These recommendations result in a rate of \$13.46 per ERU per month.

Financial Implications:

None at this time.

Legal Implications:

Finance will bring forward a Resolution to create an enterprise fund for the Stormwater Utility, Staff and Legal will draft the ordinance, the Business Impact process will proceed, and the acceptance of the Business Impact Statement and first reading of the ordinance will be presented to Council.

Recommendation:

Staff recommends Council direct staff to move forward with the recommended rate fee, crediting options, and income assistance program plan as set for the above and move forward with drafting an ordinance and proceeding with the Business Impact process for the Stormwater Utility.

Proposed Motion:

I move to approve staff recommendation.

Attachments:

- Staff Presentation – Stormwater Utility (PDF)