

MEMORANDUM

TO: Mayor and Council

FROM: W. Calvin Horton, Town Manager

SUBJECT: Information on Proposed Stormwater Management Utility

DATE: March 24, 2004

The purpose of this report is to provide the Council with further information about the proposed establishment of a Town Stormwater Management Utility. We also present the Manager's preliminary recommendation for an alternative to the first-year program recommended by the Policy Review Committee and the Consultant.

No formal Council action is being requested at tonight's meeting.

We will consider citizen comments and Council guidance received tonight in preparing final recommendations regarding the establishment of a Town Stormwater Management Utility and the program that it would support. We will present our final recommendations at the Council's regular business meeting on April 26, 2004, with the Manager's recommended budget.

In the interim, we will continue to receive and consider comments and questions from advisory boards that are presently reviewing information about the proposed establishment of a Town Stormwater Management Utility. We will also continue discussions with Orange County regarding billing and collection procedures and costs.

INTRODUCTION

The following materials are included with this report:

- Summary and responses to questions and comments from the February 16 Public Forum
- Comments and recommendations from Advisory Boards and citizens
- Summary of the stormwater management program proposed by the Policy Review Committee/Consultant/Staff work group
- Summary of an alternative first-year stormwater management program recommended by the Town Manager

- Discussion of fiscal and programmatic effects of removing Town roads and University properties from the Utility revenue base

BACKGROUND

On February 16, 2004, the Council held a Public Forum to discuss and receive public comment on the proposed establishment of a Stormwater Management Utility that would provide a stable source of revenue to fund a comprehensive stormwater management program. The comments and questions raised at the Public Forum, with our responses, are summarized in Attachment 8.

The materials presented to the Council at the February 16, 2004 Public Forum were distributed to all Town Advisory Boards for comments and recommendations. To date, we have received comments only from the Planning Board; however we expect to receive comments from other Advisory Boards prior to the Council's next discussion of the proposed Stormwater Management Utility at its April 26, 2004 regular meeting. Attachment 2 includes the Planning Board comments and recommendations; and Attachment 9 includes email correspondence we have received regarding the proposed Utility.

At the February 16, 2004 Public Forum, the Council requested suggestions from the Stormwater Utility Policy Review Committee regarding the makeup and responsibilities of a permanent Advisory Board to be established concurrently with the Utility. The Policy Review Committee recommendations have not yet been completed. We will include them with the Manager's recommendations to be presented at the April 26, 2004 Council meeting.

DISCUSSION

At the February 16 Public Forum, we presented background and reference information, including a Comprehensive Report prepared by the Town's Consultant, AMEC Earth and Environmental, about the proposed stormwater management program recommended by the Stormwater Utility Policy Review Committee and the Consultant. Attachment 3 is the Consultant's Planned Program Report that identifies specific program activities, scheduled over a five-year period, including the estimated costs of service associated with the stormwater management program recommended by the Policy Review Committee and the Consultant.

Based on Council discussions to date, and comments from citizens, we recommend an alternative first year program for the Council's consideration. The Consultant's Planned Program Report (Attachment 3) provides comparative discussion, details, and costs of the alternative first-year program. The alternative program would focus the first year of operations on program organization, master planning and public education/involvement activities; and would reimburse all of the Town's sunk costs for Utility development work and materials in the first year of the utility operation.

MANAGER'S ALTERNATIVE PROGRAM

As an alternative to the Committee/Consultant program recommendation, the Manager suggests that the Council consider a program with first year focus on: (1) program organization and

program master planning, (2) Public education and participation activities, (3) continuing existing stormwater management services and activities and providing new services mandated by law, (4) establishing a reserve for future capital improvement projects, (5) establishing a reserve for unexpected and/or emergency projects, (6) establishing a 10% fund balance, and (7) reimbursing the Town for sunk costs. This recommended alternative program is consistent with the Committee's recommended top priority of master planning. However, it would defer other program elements and activities to future years depending, on the final elements of the master plan.

Key elements included in year one of the alternative program are as follows:

- A stormwater management program master plan would be developed to identify program activities in future years, and to establish an implementation schedule including associated resource needs and costs.
- A comprehensive public education and participation plan would be developed to provide outreach services.
- Existing stormwater management services would be continued and required new services would be provided.
- A portion of the utility revenue would be reserved to establish a capital improvements project fund account (proposed at \$200,000 per year).
- A portion of the utility revenue would be reserved to establish an emergency fund account (proposed at \$50,000 per year).
- A portion of the utility revenue would be reserved to establish an annual 10 % fund balance for operational reserves and to meet Town accounting standards.
- A portion of the utility revenue would be used to reimburse the General Fund for all costs associated with the development and establishment of the Utility. Attachment 4 provides a summary of these reimbursable costs to date, totaling approximately \$402,000.
- The utility would be charged for costs incurred by the Town for providing stormwater management services. Based on town-wide staff and management interviews, the Town's estimated annual billable cost for stormwater management is approximately \$751,000. Attachment 5 provides a detailed summary table of current General Fund costs that we believe should be paid by the Stormwater Management Utility. The table identifies and differentiates General Fund costs that are either partially billable or fully billable.
- A tiered fee rate of \$4.03 per Equivalent Rate Unit (ERU) per month would be implemented, based on an ERU area of 2000 square feet. The first tier would be 200-2000 square feet of impervious surface area and the fee schedule would have

no cap on the number of ERUs per property. Each property owner would pay a fee based on the total square footage of impervious surface area found on the property, divided by 2000 square feet, to determine the number of ERUs present on the property. The number of ERUs multiplied by the monthly fee rate multiplied by twelve months would yield the annual Utility fee assessed to the property owner.

For example: The annual Stormwater Management Utility fee for a property with two ERUs (4000 square feet of impervious surface area) and a monthly fee rate of \$4.03 per ERU would be: $2 \times 4.03 \times 12 = \96.72 per year.

Attachment 6 is a tabulation of the number of ERUs (22,088) found on single-family and two-family residential properties in Chapel Hill. The distribution of properties and ERUs across the tiered fee structure is shown. Attachment 6 also provides a summary that tabulates the total number of ERUs (70,758) identified throughout Chapel Hill and distributes them over several land use classifications.

- The Utility rate base would not include assessment of fees for public streets and/or other public access ways owned and maintained by the Town or by the North Carolina Department of Transportation because public roads and streets collect and convey stormwater runoff as an integral part of the public drainage system infrastructure.
- Property owned by the University would not be included in making the initial estimate of total Equivalent Rate Units. It is our understanding of the law that the University would be subject to the Town's utility ordinance, including payment of applicable fees. However, the University has a different understanding of the relevant law. Therefore, we suggest that the Utility proceed without including any revenue from the University in the first-year revenue estimate; and that the Council request discussions with the University to determine how we can best move forward to a mutually acceptable outcome.

To accomplish the above objectives, the first year of the alternative program proposed by the Manager would involve primarily organizational, planning, and public information and participation activities, with new services limited to those mandated by State and Federal regulations. New services would be linked for the most part to implementation of the Town's National Pollutant Discharge Elimination System, Phase Two (NPDES-II) permit requirements.

The following discussion provides details of the key stormwater management program activities, general resource needs, and estimated expenses associated with the alternative program proposed by the Manager for 2004-05:

1. STORMWATER MANAGEMENT PROGRAM MASTER PLAN

A Stormwater Management Program Master Plan would utilize a holistic approach to identify and prioritize the short-term and long-term stormwater management needs of the Town by

integrating stormwater management practices, regulatory requirements, public education, land-use, restoration and resource protection, floodplain management and capital improvements. The master plan would map and schedule the Town's stormwater management program. It would include a prioritized, watershed-based strategy to develop individual basin plans focusing on water quantity and quality issues.

We would need the assistance of a consultant to achieve the objective of developing a Stormwater Management Program Master Plan within the first year of the Utility operation. We estimate that the first year costs for the development of a Program Master Plan would be \$200,000. Future costs to implement identified master plan activities (modeling, watershed assessments, basin plans, capital improvements, stream restoration, enhanced services, etc.) in future years would be significant. Activities and costs that might reasonably be expected are listed in the program tables and cost of service analyses in Attachment 3. However, the actual activities and costs would depend on the program master plan and schedule approved by the Council.

2. PUBLIC EDUCATION AND PARTICIPATION

The Public Education and Participation Program will be an important year one activity. This program would begin immediately upon implementation of the Utility. We believe that comprehensive and continuing public information and public participation activities will be critical to community acceptance of a utility-based stormwater management program and to the long-term effectiveness of such a program. This would require that we regularly disseminate clear and compelling information to the community concerning the importance of stormwater management as it affects both water quantity and water quality.

We also anticipate a significant increase in the volume of citizen requests-for-assistance and questions related to the new stormwater fee, how it is calculated and applied, and how the revenue is used. We would need to have the means to efficiently and effectively respond to citizens' questions and requests-for-assistance.

We anticipate that public information and public participation activities would include:

- Respond to citizens' requests-for-assistance and questions by phone and email
- Develop and manage a website including interactive "question and answer" capability
- Coordinate Orange County Big Sweep and implement other local stream cleaning and monitoring activities
- Establish and manage a Stormwater Utility Service Line
- Prepare and place multi-media advertisements
- Prepare and distribute brochures, posters, maps, and other materials to homeowners, businesses, schools, etc.
- Design and install stream and watershed information signs and maps
- Develop and participate in school education and student involvement programs

- Develop and present relevant materials at public speaking engagements and presentations
- Provide support and leadership in local and regional initiatives such as protection of Jordan Lake and the Cape Fear River Basin and the TJCOG clean water education partnership.
- Identify grant opportunities, write grant applications, and administer grant activities

To accomplish this work we would need a new, full-time staff position at an estimated annual salary and benefits cost of \$50,000, plus \$27,000 (\$0.50 per capita per year) for the cost of materials necessary to provide information and education services. The work of the new position would be coordinated by the Town Information Officer.

3. STORMWATER MANAGEMENT SERVICES

The Town's obligation to meet existing and new demands for stormwater management services must be addressed even if the utility is not established. Increasing and new demands for service resulting from Land Use Management Ordinance regulations, NPDES-II permit application requirements, Flood Hazard Mitigation Plan mandates, anticipated effects of the National Flood Insurance Program (NFIP) flood map revisions, and expected Total Maximum Daily Load (TMDL) mandates for the Upper Arm of Jordan Lake already exceed the capacity of existing staff to respond promptly and effectively to demands and responsibilities.

The following list identifies the primary stormwater management activities and services provided by the Town Engineering Department:

- a. National Flood Insurance Program (NFIP) Administration
- b. Project management services (Capital Improvements Program, Drainage Assistance Program, NC Big Sweep coordination, public education programs, etc.)
- c. Liaison with local, state, and federal officials (Federal Emergency Management Agency, NC Division of Water Quality, NC Division of Emergency Management, Orange County, neighboring communities, etc.) concerning erosion control, Total Maximum Daily Load planning, local watershed planning and public education programming
- d. Hazard Mitigation Grant Program projects
- e. Technical assistance to other Town staff, Manager and Attorney
- f. Reports for the Manager and Council
- g. NPDES Phase-II permit compliance and reporting
- h. Biological stream sampling, coordination and data management
- i. Ambient water quality sampling and data management
- j. Citizen requests for water quality and quantity questions and issues
- k. Development review (Zoning Compliance & Special Use Permits)
- l. Hazard Mitigation Plan development and implementation
- m. Geographic Information System (GIS) products and database
- n. Stream classifications/delineations
- o. Storm sewer infrastructure inventory
- p. Design Manual and Standard Detail provisions, engineering methods and technical details

- q. Stormwater Utility Program development
- r. Liaison with other local government staff and State staff
- s.

We need an additional staff engineer to provide an adequate level of service in responding to present and expected stormwater management demands. This position is necessary whether or not a Stormwater Management Utility is established.

The estimated annual salary and benefits cost of the new position is \$75,000.

4. CAPITAL IMPROVEMENTS PROGRAM RESERVE FUND

The Town currently has no reserve fund for capital improvements for drainage infrastructure. There is a current backlog of known capital projects that need attention. We anticipate that additional capital improvement needs will be identified as a result of master planning activities. The recommended program would establish a reserve fund allocation for capital improvement projects of \$200,000 per year starting in year one.

5. EMERGENCY RESERVE FUND

An emergency reserve fund would provide for unexpected and emergency situations that require immediate response. The recommended program would establish a reserve fund allocation for emergencies of \$50,000 per year starting in year one.

6. REIMBURSEMENT OF COSTS INCURRED

The recommended program includes full reimbursement from the Utility to the General Fund of all costs incurred for the development and implementation of the stormwater management utility. This would include the cost of consulting services, advertising, committee meetings and other direct expenses associated with the Utility development.

We believe that the recoverable costs total about \$402,000. Attachment 4 provides the details of the reimbursement amount.

7. ESTABLISHMENT OF A TEN PERCENT (10%) FUND BALANCE

We recommend that the utility establish a ten percent (10%) fund balance. General financial management standards for local governments mandate positive fund balances and recommend that they be maintained in the range of 8-12%. It is the Town's practice to maintain a ten percent fund balance to ensure that operational reserves are in place to provide a stable operating cash flow and to provide for contingencies.

The estimated cost of establishing and maintaining a 10% fund balance is approximately \$188,000 for year one Please see Attachment 3, page 14 for the estimated five-year costs.

8. PURCHASE OF EXISTING SERVICES FROM THE GENERAL FUND

The costs of existing stormwater management related services that are provided by the Town, and that are currently paid for through the Town's General Fund, could be billed to the Stormwater Management Utility. These include costs of direct services provided by the Public Works, Inspections, and Engineering Departments in addition to indirect costs for general management, financial control and reporting and other services. We recommend the same charge as is made to other Funds, 13.55% of payroll costs. This is estimated to be \$27,000.

We estimate that General Fund direct costs (\$751,000) plus general overhead costs (\$27,000) that would be billable to the Stormwater Management Utility are approximately \$778,000 per year. Attachment 5 provides a detailed summary table of General Fund costs that we believe could be billed to the Stormwater Management Utility.

9. OFFICE SPACE NEEDS

If the Utility is established as proposed, and two new staff are hired in year one as recommended, we would require office space outside of Town Hall. Sufficient space is not available in Town Hall for two additional people with necessary furniture and equipment. We have evaluated the space needs and determined that approximately 1000 square feet of office space would be necessary for the four staff positions, and storage and conference space needed for the program. This work space estimate is consistent with comparable areas now serving similar functions in Town Hall.

The estimated cost for office space, furniture, phones, computers, supplies, and office equipment is \$76,500 in year one. Attachment 7 provides a summary of the relevant costs.

The total estimated first year cost for the recommended program is \$2,117,460. The following table summarizes five-year estimated program revenues and costs for the recommended program.

DESCRIPTION	2004-05 Estimate d Budget	2005-06 Estimate d Budget	2006-07 Estimate d Budget	2007-08 Estimate d Budget	2008-09 Estimate d Budget
TOTAL PROJECTED REVENUES	2,182,922	2,210,209	2,272,095	2,344,755	2,438,545
DEPARTMENT EXPENDITURES					
Personnel	632,210	852,322	940,828	1,013,934	1,061,874
Operations	645,250	820,109	790,402	800,926	811,797
Capital	250,000	350,000	350,000	400,000	400,000
Other (reimbursement, 10% balance)	590,000	188,346	189,900	194,786	201,214
TOTAL DEPARTMENT EXPENDITURES	2,117,460	2,210,777	2,271,130	2,214,860	2,474,885

BILLING AND COLLECTIONS

We recommend that billing and collections be managed through Orange County for properties located in Orange County, and through a private contractor for properties located in Durham County. We are currently negotiating the scope and costs of billing and collection services necessary to support the Utility. We estimate that first year costs for Orange County services would be approximately \$55-60,000 and contractor services would be \$5-10,000. We will continue billing and collection discussions.

RATE ANALYSIS

The program recommended by the Manager would involve a fee rate of \$4.03 per month per ERU. We anticipate that the cost of services could increase over time, primarily because of regulatory requirements. We believe it is prudent to establish an initial rate that could support the program over a period of several years.

The following table presents comparative fee rates for the program recommended by the Committee and for the alternative program recommended by the Manager, with adjustments for different billing scenarios.

What is billed?	Committee's Rcmd. Program (Cap of 3 Units)	Manager's Rcmd. Alternative (Cap of 3 units)
All developed property	\$3.10/month \$37.20/year	N/A
All developed property EXCEPT roadways	\$3.72/month \$44.64/year	N/A
All developed property EXCEPT roadways and UNC	\$4.14/month \$49.68/year	\$4.26/month \$51.12/year
What is billed?	Committee's Rcmd. Program (No Cap on Units)	Manager's Rcmd. Alternative (No Cap on units)
All developed property	N/A	\$2.91/month \$37.20/year
All developed property EXCEPT roadways	N/A	\$3.49/month \$41.88/year
All developed property EXCEPT roadways and UNC	N/A	\$4.03/month \$48.36/year

The recommended program would exempt State and Town public rights-of-way from assessment of fees because public roads and streets collect and convey stormwater runoff as an integral part of the public drainage system infrastructure. The program also would not bill University properties for fee assessments until such time that a credit system is established that is acceptable to both the Town and the University.

ESTABLISHING ORDINANCE

Attachment 1 is a draft ordinance that would establish a Chapel Hill Stormwater Management Utility and a Stormwater Management Utility Advisory Board. It also includes establishing the relevant definitions and the enterprise fund.

ADVANTAGES AND DISADVANTAGES

The main advantages of using a utility as a funding source for a comprehensive stormwater management program are: (1) the utility would provide a stable source of revenue upon which the program can be designed to accommodate current and future needs; and (2) it provides a uniform means of assessing property owners for service demands placed on the Town's drainage system, based on impervious surface area.

The disadvantages of a stormwater utility are (1) it results in additional costs to citizens; and (2) it could be argued that use of property taxes would more equitably distribute costs. In that case, however, tax exempt properties would not pay for the demands they place on the stormwater management system.

CONCLUSION

We think that the first year of a utility-based stormwater management program must focus primarily on organizational and master planning activities to establish a solid basis upon which to implement program activities in an orderly and effective manner.

We believe that the recommended program retains the basic elements and intentions of the program goals and objectives developed by the Policy Review Committee while allowing sufficient time for thorough program organization and master planning.

We think that developing and implementing a comprehensive public education and participation program, continuing existing stormwater management services, and providing new services in response to federal and state mandates must all be accomplished in year one as well. The program includes the addition of two (2) new staff positions in the Engineering Department and the lease of office space.

Finally, we think that the preparation of a detailed master plan for the Town's stormwater management program would allow the program activities and work elements originally identified and recommended by the Committee and Consultant to be undertaken in an orderly sequence and on a reasonable schedule, if adequate resources are provided. Program work would include new and increasing compliance activities relating to State and Federal mandates.

NEXT STEPS

Following tonight's forum, we will continue to consider comments from the Council, citizens, and advisory boards and will revise our recommendations and the draft ordinance as necessary. We will return to the Council at its April 26, regular meeting with final recommendations regarding establishment of a Town stormwater management utility and the program that it would support, for consideration as a part of the 2004-05 budget.

Additional opportunities for Council discussion will be available on May 12, 2004, at the Budget Public Hearing and on May 19, at a budget work session.

MANAGER'S RECOMMENDATION

That the Council review the information provided tonight and offer comments for revisions it wishes to see and/or questions it wishes to have answered in the next report scheduled for the April 26, 2004 regular Council meeting.

ATTACHMENTS

1. Draft Ordinance establishing the stormwater management utility and Advisory Board (p. 12).
2. Planning Board Comments and Recommendations 3/16/04 (p. 20).
3. Consultant's Planned Program Report (p. 22).
4. Reimbursable costs for the utility development (p. 36).
5. Billable costs to the enterprise fund (p. 37).
6. Equivalent Rate Unit (ERU) Tabulation (p. 38).
7. Estimated year one office lease space costs (p. 39).
8. Summary of Questions and staff comments from the February 16 Public Forum (p. 40).
9. Citizens' email correspondence (p. 45).

Additional information is available through the Town's website as follows:

For past reports to the Town Council:

http://townhall.townofchapelhill.org/stormwater/stormwtr_utility.html#reports

For supplemental background information:

http://townhall.townofchapelhill.org/stormwater/stormwtr_utility.html#background