



UTILITY BOARD STAFF REPORT

Item 5
October 8, 2024
Regular Business

AGENDA ITEM INFORMATION

| | | |
|----------------------------|--|---|
| TITLE: | 2025 Storm Water Rate Discussion/Recommendation | <input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution |
| RECOMMENDED ACTION: | Accept the proposed Stormwater Utility rate for FY 2025. | |

| | |
|-------------------------|---|
| STAFF: | Ben Schumacher, Financial Analyst Matt Mornick, Finance Director |
| COUNCIL LIAISON: | Jake Jacobson |
| EXHIBITS: | 1. None |

SUMMARY

BACKGROUND

As part of the 2025-2026 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Storm Water Utility rate adjustment for the upcoming fiscal year. Staff recommends an 8.0% increase to the Storm Water Utility rates for fiscal year 2025 as proposed in the smoothed rate model.

The operating and capital budgets presented in this memo were released to the Public and City Council on September 26, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended Storm Water rate adjustment will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

2025-2026 OPERATING BUDGET

The operating budget for the Storm Water Utility is presented in the table below.

| Operating Expenditures (\$ in thousands) | 2023 | 2024 | 2025 | 2026 | Percent Change | |
|---|----------------|----------------|----------------|----------------|----------------|-------------|
| | Actual | Budget | Budget | Budget | 24-25 | 25-26 |
| Salary & Benefits | \$1,212 | \$1,180 | \$1,397 | \$1,468 | 18.4% | 5.0% |
| Contractual Services | \$687 | \$429 | \$535 | \$552 | 24.7% | 3.2% |
| Other Services and Charges | \$484 | \$478 | \$582 | \$601 | 21.7% | 3.2% |
| TOTAL | \$2,383 | \$2,088 | \$2,514 | \$2,620 | 20.4% | 4.2% |

Table 1

Some highlights from the operating budget:

- The combined total for salary and benefit costs in 2024 are increasing 18.4% as compared to the 2024 budget. The increase is a result of three factors, the first is a reallocation of staff time to more accurately reflect historical practices and anticipated needs of staff resources that will be charged to the Storm Water Fund. Second, in June 2024, the City Council adopted a new Compensation Plan (see

[AB 6491](#)) with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce (99 of 207 employees). The final factor is the current pace of inflation which has led to atypically high cost-of-living adjustments (COLA), per the City's collective bargaining agreements. The COLA in 2024 was 6.0% and is anticipated to be 4.2% for the 2025 budget.

- The salaries budget includes a portion of one new position, currently proposed as a Support Services Technician. There is also an increase in the total FTE (full-time equivalent) count being charged to the Storm Water Fund due to the reallocation mentioned above. Staffing of the Storm Water utility includes four FTEs in Public Works dedicated to the operation and maintenance of the storm water system, as well as administrative oversight, utility billing and customer service, utility inspections of private development, and GIS (geographic information system) support.
- Contractual services for 2025 reflect anticipated costs for Closed Circuit Television (CCTV) stormwater pipe video inspections, catch basin cleaning & repairs, storm pipe replacement & slip lining repairs. This contracted work is critical to comply with National Pollutant Discharge Elimination System (NPDES) requirements.
- Other Services and Charges include all other costs of operations including supplies, insurance, and City administration costs. Administration costs include the Storm Water Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance and Human Resources staff.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see [AB 6475](#)) was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Storm Water Utility.

SUMMARY CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2025 and 2026 is shown in the table below. Capital investment costs are the primary driver of the proposed Storm Water rate increases for 2025-2030.

| Storm Water Utility Capital Program 2025-2026 | | | |
|--|--|----------------|----------------|
| <i>(\$ in thousands)</i> | | | |
| Project ID | Description | 2025 | 2026 |
| 90.35.0001 | Emergency SW Conveyance Replacement | \$50 | \$52 |
| 90.35.0002 | Street Related Storm Drainage Improvements | 150 | 156 |
| 90.35.0003 | Conveyance Condition Assessment | 100 | 104 |
| 90.35.0004 | Storm water System Improvements | 400 | 415 |
| 90.35.0005 | SW Monitoring Instrumentation | 60 | 62 |
| 90.35.0006 | WMW Culvert Replacements | 100 | 467 |
| 90.35.0007 | Watercourse Condition Update | 250 | |
| 90.35.0008 | SB 22.1& 25b.2 Watercourse Improvements | 380 | |
| 90.35.0009 | SB 46a.3 Watercourse Improvements | | 544 |
| 90.35.0014 | SB 23.2 Watercourse Improvements | 300 | |
| 90.35.0015 | SB 25b Neighborhood Drainage Improvements | 425 | |
| Storm Water Utility CIP Total | | \$2,215 | \$1,799 |

Table 2

STORM WATER RATE PROPOSAL

The 2025 Storm Water rate proposal is based on the 2025-2026 preliminary operating budget, the 2025-2030 Capital Plan, and the corresponding debt financing needs. The rate model proposes a smoothed rate increase of 8.0% for each year in 2025-2030. Staff recommends an 8.0% increase to the Storm Water Utility rates for fiscal year 2025 as proposed in the smooth rate model.

This rate increase will ensure that the Storm Water fund has adequate resources to complete the critical capital project work detailed above and into the future, as well as meet established fiscal policy guidelines. The Storm Water fund has an operating reserve target of 45 days of operating and maintenance costs, and a capital reserve target of 1.0 percent of capital assets. The proposed rate increase enables the fund to achieve its target for both established guidelines, as detailed in the table below.

Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential rate adjustments for fiscal year 2026 and beyond.

| Revenue Requirement | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Pre Rate Revenues | | | | | | | |
| Revenues | | | | | | | |
| Rate Revenues Under Existing Rates | \$ 2,661,152 | \$ 2,661,152 | \$ 2,661,152 | \$ 2,661,152 | \$ 2,661,152 | \$ 2,661,152 | \$ 2,661,152 |
| Non-Rate Revenues | 239,140 | 132,055 | 130,742 | 52,992 | 54,617 | 54,732 | 54,852 |
| Total Revenues | \$ 2,900,293 | \$ 2,793,207 | \$ 2,791,894 | \$ 2,714,145 | \$ 2,715,769 | \$ 2,715,884 | \$ 2,716,004 |
| Expenses | | | | | | | |
| Cash Operating Expenses | \$ 1,907,475 | \$ 2,328,651 | \$ 2,423,414 | \$ 2,434,302 | \$ 2,523,517 | \$ 2,616,195 | \$ 2,712,477 |
| Existing Debt Service | - | - | - | - | - | - | - |
| New Debt Service | - | - | - | 160,586 | 160,586 | 160,586 | 240,878 |
| System Reinvestment Funding | - | - | - | - | - | - | - |
| Total Expenses | \$ 1,907,475 | \$ 2,328,651 | \$ 2,423,414 | \$ 2,594,888 | \$ 2,684,102 | \$ 2,776,780 | \$ 2,953,356 |
| Net Surplus (Deficiency) | \$ 992,818 | \$ 464,557 | \$ 368,480 | \$ 89,623 | \$ 13,051 | \$ (89,440) | \$ (293,375) |
| Annual Rate Increase | | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| Cumulative Rate Increase | | 8.00% | 16.64% | 25.97% | 36.05% | 46.93% | 58.69% |
| Post Rate Revenues | | | | | | | |
| Revenues After Rate Increases | \$ 2,661,152 | \$ 2,874,045 | \$ 3,103,968 | \$ 3,352,286 | \$ 3,620,468 | \$ 3,910,106 | \$ 4,222,914 |
| Additional Taxes from Rate Increase | - | 3,726 | 7,749 | 12,095 | 16,788 | 21,857 | 27,331 |
| Net Cash Flow After Rate Increase | \$ 992,818 | \$ 673,723 | \$ 803,546 | \$ 798,296 | \$ 974,195 | \$ 1,166,201 | \$ 1,297,080 |
| Sample Monthly Residential Bill | \$ 23.22 | \$25.07 | \$27.08 | \$29.24 | \$31.58 | \$34.11 | \$36.84 |
| Monthly Increase (\$) | | \$1.86 | \$2.01 | \$2.17 | \$2.34 | \$2.53 | \$2.73 |

Table 3

| Fund Balance | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Reserve | | | | | | | |
| Beginning Balance | \$ 4,728,509 | \$ 235,168 | \$ 287,094 | \$ 299,236 | \$ 301,075 | \$ 312,610 | \$ 324,614 |
| plus: Net Cash Flow after Rate Increase | 992,818 | 673,723 | 803,546 | 798,296 | 974,195 | 1,166,201 | 1,297,080 |
| less: Transfer of Surplus to Capital Fund | (5,486,158) | (621,798) | (791,404) | (796,457) | (962,660) | (1,154,196) | (1,284,584) |
| Ending Balance | \$ 235,168 | \$ 287,094 | \$ 299,236 | \$ 301,075 | \$ 312,610 | \$ 324,614 | \$ 337,110 |
| Actual Days of O&M | 45 days | 45 days | 45 days | 45 days | 45 days | 45 days | 45 days |
| Capital Reserve | | | | | | | |
| Beginning Balance | \$ 24,694 | \$ 3,627,602 | \$ 2,221,760 | \$ 1,051,205 | \$ 2,153,124 | \$ 1,160,216 | \$ 419,582 |
| plus: Transfers from Operating Fund | 5,486,158 | 621,798 | 791,404 | 796,457 | 962,660 | 1,154,196 | 1,284,584 |
| plus: Revenue Bond Proceeds | - | - | - | 2,000,000 | - | - | 1,000,000 |
| plus: Interest Earnings | 988 | 108,828 | 44,435 | 10,512 | 21,531 | 11,602 | 4,196 |
| Total Funding Sources | \$ 5,511,840 | \$ 4,358,228 | \$ 3,057,599 | \$ 3,858,174 | \$ 3,137,315 | \$ 2,326,014 | \$ 2,708,363 |
| less: Capital Expenditures | (1,884,238) | (2,136,467) | (2,006,395) | (1,705,050) | (1,977,099) | (1,906,432) | (2,118,820) |
| Ending Capital Fund Balance | \$ 3,627,602 | \$ 2,221,760 | \$ 1,051,205 | \$ 2,153,124 | \$ 1,160,216 | \$ 419,582 | \$ 589,543 |
| Minimum Target Balance | \$ 137,304 | \$ 158,669 | \$ 178,733 | \$ 195,784 | \$ 215,554 | \$ 234,619 | \$ 255,807 |
| Combined Beginning Balance | \$ 4,753,203 | \$ 3,862,770 | \$ 2,508,854 | \$ 1,350,441 | \$ 2,454,198 | \$ 1,472,826 | \$ 744,197 |
| Combined Ending Balance | \$ 3,862,770 | \$ 2,508,854 | \$ 1,350,441 | \$ 2,454,198 | \$ 1,472,826 | \$ 744,197 | \$ 926,653 |

Table 4

Table 5 provides a summary comparing proposed rates from the most recent rate model updates (2020-2023) as compared to the current rate recommendation that is presented in the bottom row.

| Description | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2020 Rate Update | 3.20% | 3.20% | | | | | | |
| 2021-2022 Rate Update | 5.50% | 5.50% | 5.50% | 5.50% | | | | |
| 2023-2024 Rate Update | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | | |
| 2025-2026 Rate Proposal | | | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |

Table 5

CONCLUSION

Staff will be available at the Utility Board meeting to answer questions regarding the proposed 2025 Storm Water Utility rate increases.

The 2025 Storm Water Utility rate adjustment is on the City Council planning schedule for review and adoption on December 3, 2024 as part of the City's Master Fee Schedule annual update. Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2026 and beyond.

RECOMMENDED ACTION

Accept the proposed Stormwater Utility rate for FY 2025.