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Date: October 21, 2025

To: Common Council

John Weidl, City Manager

From: Rachelle Blitch, Director of Financial and Administrative Services

Re: Stormwater Rate Increase

Background

The City established the Stormwater Utility on October 1, 2007, as outlined in Municipal Code Chapter 16.10. According to Section 16.10.070 – Rates and Charges, the value of one Equivalent Runoff Unit (ERU) is determined annually based on the applicable year's budget. However, stormwater rates have not increased since 2015.

During the budget amendment process in October 2024, cash flow projections for the Stormwater Utility indicated a potential negative balance. Upon review, it was discovered that Ehlers completed a long-range cash flow analysis in November 2020, which included a series of recommended rate adjustments for the utility (**see page 14 of the attached report**).

Those recommendations included:

- A 20.52% rate increase in 2022, and
- A 3% rate increase in 2024, 2026 and 2028.

It is unclear why these adjustments were not implemented at that time.

This issue was presented to the Finance Committee in December 2024, requesting approval for Ehlers to conduct a Stormwater Rate Case Study. The request was subsequently approved by the Common Council in January 2025.

Rate History

Year	Action	Rate per ERU
2007	Stormwater Utility established	$3.58
2011	Rate increase	$4.08
2013	Rate increase	$4.75
2014	Rate increase	$5.58
2015	Rate increase	$6.17

How Rates and Credits Are Calculated

Section 16.10.070 of the Municipal Code outlines the method for determining Rates and Charges, which include three components:

Rates

1. **Base Component** – administrative, management, and water quality costs.
2. **Operations & Maintenance (O&M) Component** – ongoing maintenance and operational expenses.
3. **Capital and Debt Service Component** – debt payments and capital project funding.

Credits

The Stormwater Credit Policy (attached) details how property owners may qualify for a reduction in ERUs. Currently, the City has:

- 94,382.4 base ERUs (annual), and
- 80,794.2 net ERUs (annual).

All properties are charged the base component, regardless of credits.

Properties that direct stormwater to privately owned and maintained detention or retention ponds may receive a credit of up to 50% of their total ERUs.

Example Calculation (Using Projected 2026 Budget)

Component	Calculation	Rate per ERU
Base	(\$593,724 – \$271,570 – \$25,000) ÷ 94,382.4 (Admin Exp) – (Debt service) – (ERF Transfer) / Base ERUs	**\$3.15**
O&M	(\$30,156 + \$4,727,517 + \$102,981 – \$4,658,600) ÷ 80,794.2 (Street cleaning exp) + (stormwater maintenance) + (compost site/yard waste) – (capital improvements) / Net ERUs	**\$2.50**
Capital & Debt Service	(\$271,570 + \$25,000) ÷ 80,794.2 (Debt service payment) + (capital equipment) / Net ERUs	**\$3.67**

Total Required Rate per ERU: \$9.32

Capital improvement costs are **not** included in this calculation unless they are funded directly from the utility's cash or fund balance. When financed through debt, they are accounted for under **debt service**.

Why This Project – Why Now?

There has been a misconception that the Starin Park Underground Detention Basin project is the reason for proposed rate increases. This is incorrect. As noted above, significant rate adjustments were recommended as early as 2020, but were never implemented.

While the Starin Park project is included in the 2026 budget, its feasibility depends on:

- Securing a Clean Water Fund Loan,
- Obtaining principal forgiveness, and
- Receiving financial participation from the university.

If funding is not secured in 2026, the City will reapply the following year in hopes of moving up on the priority list.

Rates will be revisited during the 2027 budget process and adjusted as necessary to cover future debt service associated with this or other stormwater projects.

As shown in the rate calculation section, **capital improvement costs were excluded**, as they are not being funded from the utility's existing balance.

Fee or Tax?

A tax is a mandatory contribution used to fund general public services—such as police, parks, or schools—and is not tied to the amount of benefit a taxpayer receives. A fee, on the other hand, is a charge for a specific service that benefits the payer directly or proportionally, and is set to recover the actual cost of providing that service.

Stormwater utility rates are user fees, not taxes. Revenue from these fees is dedicated solely to stormwater management activities—including runoff control, flood mitigation, and regulatory compliance—and does not flow into the City's General Fund. However, if the utility's finances are not adequately managed, any resulting deficit would ultimately become the responsibility of the General Fund.

Stormwater utilities are typically funded through user fees assessed to all properties that contribute runoff, based on the amount of impervious surface area they contain. Residential properties generally pay less under a stormwater utility than they would if stormwater costs were funded through the general tax levy. This is because fees are determined by each property's contribution to runoff, not by property value. As a result, commercial and industrial properties, which have significantly more impervious area, are assessed proportionally higher fees to reflect their greater impact on the stormwater system.

For comparison, property taxes fund general public services—such as Police and Fire/EMS—that benefit the community as a whole. Property owners pay these taxes even if they never require emergency assistance, because those services are supported collectively through tax revenue.

Consider a large multifamily property that provides on-site security, a pool, and a clubhouse. The rent charged (tax) includes access to all these amenities, regardless of whether tenants choose to use them. In addition, the property owner assesses a separate parking fee (user fee), which applies only to those who use parking facilities. The revenue from that fee is then used specifically to maintain and operate the parking lot.

Comparable Communities

We are still conducting a review of comparable communities to assess their stormwater utility rates. Delavan and Platteville do not operate stormwater utilities, meaning their stormwater-related expenses are funded through the General Fund. In contrast, Fort Atkinson, River Falls, Jefferson, and Weston each have established stormwater utilities. We are continuing to collect additional data and will present a more comprehensive comparison at the November 4th Common Council Meeting.