



## Memorandum

Date: June 17, 2020  
To: Utilities Commission  
From: Stan Gryczko, PW Director – Utilities and Operations  
Adrienne Heinig, Management Analyst  
Subject: Item 6A - Stormwater Cost of Service Study Financial Plan Introduction

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### **Recommendation**

Receive informational presentation from Jerry Bradshaw of SCI Consulting Group on the development of the financial plan for the Solid Waste Utility, and review attached or linked documents as background for the discussion.

### **Background**

Established by the Commission during an update of the workplan in 2017, the cost of service rate study process was introduced to provide consistency and clear guidance for the Commission and staff in the cost of service studies conducted for each of the City's four utilities: Water, Wastewater, Solid Waste and Stormwater. The process is detailed below. For the purposes of this meeting, the Commission is on Step 4 (highlighted in the following list). The review of the Stormwater Utility has required additional steps in the process, as the Commission has not reviewed the utility before, and the rate approval process for Stormwater differs substantially from the other three utilities. During the Commission meeting in May, an informational item was presented on the challenges with the Proposition 218 process for Stormwater, and the calculations completed to develop the cost allocations for utility customers.

### **UC Rate Study Process**

#### *Utility Rate Study Recommendation Procedure*

1. Conduct a Special Meeting to review the background and relevant details of the Utility.
2. Review the draft Rate Study Request for Proposal (RFP) for content and requirements, recommend adjustments/changes.
  - a. Recommend one commission member to participate in consultant selection process.
3. Review Scope of Work from selected consultant, recommend scope changes, and recommend approval of Scope of Work to Council.
4. Review cost of providing services (financial plan) outlining funding requirements of utility. Ask questions/ provide feedback. No formal recommendation on needs of utility.
5. Review rate scenarios (developed per approved Scope of Work) developed after completion of financial plan. Recommend changes/ modifications to scenarios. No formal recommendation.

6. Review final draft cost of service report, including final rate scenarios. Formal action taken includes recommended adoption or other action for Council consideration.

### **Materials for Review**

The majority of the information provided to the Commission will be included in the presentation from SCI Consulting Group.

### *Budget Summaries*

To inform the presentation, budget summaries for Stormwater Funds 541, and 544 are included as Attachment 1. The summaries include the budget and actual accounting data for fiscal years (FY) 2017-2018, 2018-2019, and the budget for FY 2019-2020. The summaries include major sources of revenue for the utility broken out by fund, and expenditures shown by program within each fund, as well as past and current Capital Improvement Projects (CIPs) and debt service payments. These summaries present the baseline budget data to show a summary of current revenues and expenditures.

### *Capital Improvement Cost Summary*

Included as Attachment 2 is a list of CIP projects budgeted for FY 2020-2021 through 2040. The work is concentrated within the first ten years of the timeframe under review, as the work is mostly critical infrastructure upgrades that have been deferred already for a number of years. Future infrastructure needs are largely unknown at this time, as the completion of necessary studies (including the Citywide Drainage Study and the Needs Assessment) has also been deferred. Should the necessary rates be approved, and the work commence, it is anticipated that additional necessary infrastructure projects will be identified for future years.

### *Recommended Increases to Baseline Costs (Non-CIP)*

Rates for the Stormwater Utility have remained more or less static for roughly 15 years, and are insufficient to adequately maintain the Stormwater system. In addition to Capital Replacement needs that will be discussed in more detail through this financial plan review, there are staffing needs to be addressed within the Operations and Maintenance and Regulatory branches of the utility.

### **Operations and Maintenance Staffing**

In 2017, the City worked with the consulting firm West Yost to complete a Stormwater Evaluation Report (Attachment 3) on the operations and maintenance (O&M) activities of the utility. This report did not include an evaluation of the regulatory compliance side of the utility. This study was included in the Request for Funds (RFP) for the Stormwater Cost of Service Study for consultant reference. The report provided an assessment on the adequacy of the current staffing levels for necessary O&M activities. The perimeters for the review of staffing levels was captured within the following report purpose (page 7, 1.1 Purpose):

*An assessment of O&M staffing levels needed to meet the City's desired level of service. Staffing recommendations are compared against staffing levels within existing utilities of a similar size with varying degrees of maintenance needs.*

The staffing assessment is included as Section 3.0, which begins on page 27, and the staffing recommendations are included in Section 5.2, on page 36, 5.2 Staffing Level Recommendations. The cost associated with these recommendations is included in the Additional Needs section of the PowerPoint presentation, under Operations and Maintenance.

#### Stormwater Quality Permit Regulation Changes

Regulatory changes associated with the City's Phase II Small Municipal Separate Storm Sewer System (MS4) General Permit (Phase II Permit) by the State Water Resources Control Board (State Water Board) require the City to take on additional monitoring, enforcement, outreach and reporting, phased in over ten years. In an effort to understand the increased cost associated with the permit changes, Larry Walker Associates (LWA) has provided the City with a technical memo (Attachment 4) detailing the *current* additional needs for the City to comply (i.e. the costs in the near-term necessary to comply with the permit requirements), including additional staffing and the cost of permit fees. LWA also included estimates for costs associated with known *future* needs (i.e. programs or activities not yet required, but will be in future years based on permit requirements). The detailed breakdown of these costs is included in Table 2 in the document, on page 8. The costs associated with these recommendations is also included in the Additional Needs section of the PowerPoint presentation, under Stormwater Program.

#### Attachments

1. Budget Summaries
2. Capital Improvement Projects List (2020-2040)
3. Comprehensive Stormwater/Drainage Rate Study Technical Memorandum (2020) - Larry Walker Associates
4. Stormwater Evaluation Report (2017) - West Yost Associates