

CITY COUNCIL COMMUNICATION FORM

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THROUGH: Gary Suiter, City Manager

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ITEM: Fiscal Sustainability – Stormwater Utility Introduction

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I. REQUEST/ISSUE & BACKGROUND INFORMATION:

The City of Steamboat Springs is responsible for conveying storm drainage across its community in a way that protects roads and infrastructure, that minimizes flooding, and that preserves the health of its rivers and streams.

The City's mandate to provide these functions stems from both community values (public safety and environmental protection) and regulations (FEMA floodplain rules and CDPHE Municipal Separate Storm Sewer System [MS4] permit.) Proper stormwater conveyance provides transportation, environmental health, and public safety services that must be sustained across the oscillations of general fund revenue. Providing these services can be costly and it is common for cities and towns in Colorado to finance these expenses through a user fee-based stormwater utility.

Stormwater utilities typically fund drainage facility maintenance and construction, regulatory compliance, and water quality protection. Activities typically included in a stormwater utility budget include:

- Flood Control
- Stream/Habitat Rehabilitation
- Water Quality Monitoring
- Public Education
- Street Sweeping
- Inlets/Outfalls Maintenance
- Culvert and bridge construction
- Permanent Water Quality Facility maintenance and inspection
- Green Infrastructure
- Illicit Discharge Detection & Elimination Programs
- Erosion & Sediment Construction and/or Post-Construction Monitoring
- Planning & Engineering
- Culvert Rehab and Replacement
- MS4 Permit Administration

There are 126 MS4 permitted jurisdictions (municipalities, counties, school districts, metro districts, colleges, utilities, and highway authorities) in Colorado, four of which are on the West Slope (Grand Junction, Durango, Montrose, and Steamboat Springs.) While many of these communities fund MS4 permit compliance and drainage infrastructure through stormwater utilities fees, several non-MS4 mountain communities, such as Silverthorne and Aspen, finance the activities listed above through a stormwater enterprise.

Stormwater Funding Mechanisms:

Municipalities have access to the following mechanism for generating revenue for stormwater activities:

- Property taxes
- Sales and use tax
- Bonding for capital projects
- Special assessments
- System development charges
- Special assessment districts
- Development impact fees
- Grants and loans
- Stormwater user (service) fees

All these mechanisms have tradeoffs, but the stormwater user fee is the most common mechanism for setting up a stormwater enterprise in Colorado. Local jurisdictions have the authority to establish stormwater user fees by ordinance as long as the revenue is segregated and dedicated to accomplishing the stated mission of the utility. Note that a stormwater "user fee" is not defined as a "tax"

in Colorado. Fee calculations can be based upon a flat fee or upon lot size, zoning, or imperviousness. Stormwater fees in Colorado range from \$3-20/month.

Stormwater operations and capital improvements are currently dispersed across multiple divisions and departments (Streets, Engineering, Parks & Rec, Facilities) and they are funded entirely out of the General Fund and the Capital Projects Fund with the exception of some grants. The major muscle movements performed by City staff related to stormwater program execution include Operations and Maintenance (O&M), Administrative efforts, and Capital projects. O&M is primarily work performed by the Streets Division within Public Works. This work includes work such as cleaning inlets, clearing culverts and ditches, providing sand and sand bags to residents prior to spring runoff, and replacement or installation of infrastructure that can be performed by City crews such as small culverts in advance of the paving program and the occasional significant culvert replacement when work schedules allow. Administrative costs are mostly performed by the Engineering Division and involves multiple FTE and periodic consultant contract support. The tasks include program coordination, infrastructure inspection, standards updates, technical studies, and State MS4 permit compliance efforts such as construction site inspections, permanent stormwater facility inspection and enforcement, review of development applications, public education and outreach, and annual training of municipal staff. Capital projects are those projects in excess of \$50,000 and require more extensive design and permitting efforts. Recently these projects have included replacement of infrastructure that has deteriorated to the point of failure wherein a roadway has become compromised and/or where additional flood protection can be provided through the upsizing or improvement to existing infrastructure. The Engineering Division largely oversees these efforts.

The costs to execute these program elements have been increasing over the past ten years and especially since the recommendations of the Stormwater Task Force were considered and adopted by the City Council in 2013. The Stormwater Task Force Report is attached to this communication form and provides a thorough summary of the considerations that were evaluated by the citizens committee at that time.

Over the past three years (2019-2021), the City spent or plans to spend between \$150-220k/year on O&M efforts, \$125-280k on Administrative efforts, and \$840k-1.5M on capital stormwater infrastructure projects. In order to provide a picture of the draw on the overall city budget, these costs include only those from the general and capital fund and do not include dollars expended from grant awards.

If stormwater utilities are common among comparable cities, especially ones that also have MS4 Permit coverage, then why has the City of Steamboat Springs not created its own stormwater utility?

2013 Stormwater Master Plan & The Stormwater Task Force:

The City commissioned a comprehensive Stormwater Master Plan in 2012 that identified \$20-50 million in needed stormwater improvements, including updates to the City's MS4 Stormwater Program. The master plan recommendations warranted significant increases in spending and staffing to implement, so the City convened a citizen-based Stormwater Task Force (STF) in 2013 to evaluate the findings and to make a recommendation to City Council regarding management of floodplains, stormwater quality and drainage conveyance. The STF evaluated various funding options, including the establishment of a stormwater utility, and determined that the City should increase general fund spending on stormwater operations while reprioritizing capital expenditures and evaluate progress periodically. It also recommended adding a 1.0 FTE Water Resources Manager to administer the program.

Since the STF report was finalized in 2013 (see attached), the City created the Water Resources Manager position in 2014, but it split the position and its duties across the Engineering (General Fund) and Water (Utility Fund) Divisions. The City also increased Streets Division spending on stormwater maintenance activities, it increased its stormwater capital improvement program, and it dedicated Engineering FTE's to administration of the Stormwater Program. The scope of these services will be reduced in 2021 to address revenue shortfalls associated with COVID impacts. The state issued a more demanding MS4 permit in 2016 and water quality impairments, such as stream temperature and excessive nutrient loads, have emerged since 2016. To address these impairments, among other watershed health risks associated with development, drought, and climate change, the City completed the 2018 Yampa River Health Assessment & Streamflow Management Plan that set priorities and projects, such as riparian forest restoration, to address stream health concerns on the Yampa River and its tributaries. The City also implemented several grant-supported capital improvement projects to capture and treat stormwater runoff from the downtown corridor prior to discharging to the Yampa River.

Due to aging infrastructure, a changing regulatory environment, and community priorities related to watershed health, the increasing costs of stormwater management is a strain on the General Fund and the Capital Projects Fund. The need for a sustainable funding mechanism to support all aspects of stormwater management by the City may be warranted. This presentation is intended to describe the purpose, mechanisms, and legal considerations for a typical stormwater utility, the current budget and scope of the City's stormwater program, and how comparable communities have

financed drainage-related infrastructure and activities. Establishing a stormwater utility will require an approximately 18-24 mos. process to clearly define objectives, needs, and costs and the optimal method for establishing rates. Should City Council decide to pursue a stormwater utility concept, Staff anticipate holding several work sessions, contracting an engineering firm that specializes in stormwater utility formation, and seeking public participation through a robust outreach and education strategy.

II. SUMMARY AND ALTERNATIVES:

City Council has two general alternatives:

1. Pursue the possibility of establishing a stormwater utility and direct staff to bring back more information.
2. Elect not to pursue the establishment of a stormwater utility.

III. STAFF RECOMMENDATION:

In support of City Council's fiscal sustainability goal, staff recommends Alternative number 1: pursue the possibility of establishing a stormwater utility and direct staff to bring back more information.

IV. FISCAL IMPACT:

There is no fiscal impact at this time, although a stormwater utility could generate on the order of \$1-2 million annually to maintain drainage infrastructure, water quality, and regulatory compliance, and thereby free up an equivalent amount of money in the General Fund and Capital Projects Fund. A Stormwater User Fee Analysis conducted by an engineering/financial consulting firm will be necessary for the creation of a stormwater utility. This report would likely cost \$50-100k and would require a supplemental to the 2021 Budget if Council would like to pursue this in 2021.

V. LEGAL ISSUES:

Utilities established on a "Fee-for-Service" basis are commonly used by Colorado municipalities. City Council may enact a fee and stormwater utility by ordinance. A stormwater utility would qualify as an enterprise under TABOR, and therefore would not be subject to TABOR's revenue, spending, and bonding limitations. Water utilities are recognized by statute as exempt from TABOR, but the City should also explicitly designate the utility as an enterprise in its enabling ordinance.

(C.R.S. 37-45.1-102(3); C.R.S. 37-45.1-103(1)).

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

There are no conflicts or environmental issues specifically pertaining to this agenda item. However, there are substantial environmental benefits associated with water quality and air quality stemming from a sustainably funded and well-run stormwater utility.

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

Fiscal Sustainability: Focus on diversification of city revenues; regular monitoring of revenues and expenses; maintenance of quality of life including attainable housing; economic development, including broadband infrastructure, business retention, expansion, and recruitment; and dedicated funding mechanisms.

ATTACHMENTS:

Attachment 1: Staff Presentation

Attachment 2: 2013 Steamboat Springs Stormwater Task Force Report