Stormwater Service Fees (Stormwater Drainage Enterprise)

Service fees are becoming an increasingly popular source of dedicated stormwater funding throughout the United States and Canada, specifically for public works infrastructure management.

Communities continue to evaluate and consider adoption of drainage fees by completing a feasibility study similar to the current Laramie project. Cody adopted an enterprise approach for funding their programs in the summer of 2022 and anticipate an update in rate structure and rates upon completion of a Rate Study, which is a component of their Stormwater Master Plan study underway.

An enterprise approach places the funding for stormwater services on the same footing as water, wastewater, and solid waste services. Public works operations are funded through dedicated resources.

The general principle applied to user fees is that the allocation of costs, through adopted rates, must be fair and reasonable with resultant charges bearing a substantial relationship to the cost of providing services. A local government has a great deal of flexibility in attaining such objectives in the context of local circumstances.

Wyoming Authority to Adopt a Drainage Charge: The following summary is quoted from the City's Recommended Budget Report for FY23 and FY24.

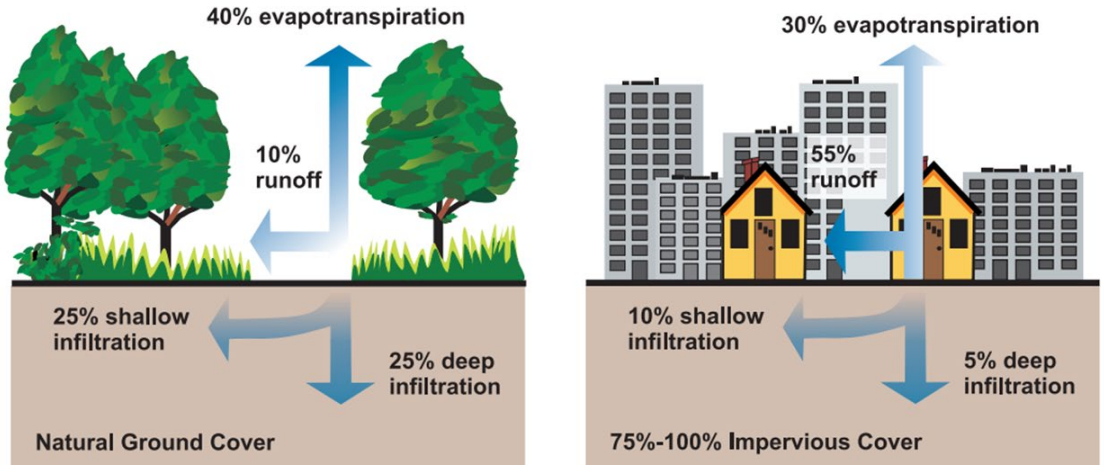
"Under Wyoming Statute (16-10-104), municipalities can form storm drainage utilities. Senate Enrolled Act 31 of the 2020 legislative budget session, amended W.S. 15-7-101(a)(iii.) and (b) to allow Cities to prescribe and regulate rates for storm drainage. The City can fund storm drainage through general or special revenue funds, revenue bonds or other bonded forms of indebtedness, service charges, or a combination of these sources. W.S 16-10-105 specifies that drainage service charges must pay the cost of designing, planning, constructing, reconstructing, acquiring, operating, improving, extending, and maintaining surface water drainage systems; provide an adequate depreciation fund; pay the principal and interest of any bond issues or indebtedness; and study surface water drainage requirements."

Foundational Principle for Stormwater Drainage Fee: Stormwater service fees provide a dedicated revenue that must be accounted for and expended on stormwater services only.

Service fee rate methodologies result in a balanced allocation of the cost of services and can provide an opportunity to shift a portion of the community's current stormwater management program costs from the General Fund.

Service fee rate structures are designed to distribute program costs based on a correlation between the need for a public drainage system triggered by the presence of impervious area features (developed property). Without development, stormwater runoff is managed by natural means of infiltration and evapotranspiration along with sustainable concentrated flows into streams and rivers.

It is the concentration of population that generates a need for a publicly managed infrastructure and related services to protect property, public health, and safety. Intensity of land use activities that interrupts the ability of the land to handle the runoff links the need for stormwater management to land development. Over the past 50 years of stormwater user-fee implementation, the rationale is solidly based on impervious area as the standard meter for distribution of cost.



A stormwater user fee rate study is the method to address operational policy and is part of an implementation strategy. Table 3 includes a range of policy questions that ultimately impact the structure of the program and user fee, as well as the stormwater fee rate. All these policy decisions are considered as part of a rate study.

Rate Options in Drainage Fee Development

Equivalency structure: Generally referred to as an "Equivalent Residential Rate (ERR)" or "Equivalent Rate Unit (ERU)." The Rate method establishes a common analysis to a land use, such as residential parcels. A value is set for the median amount of impervious area for single family residential properties and all other land uses are measured to determine how many "equivalent residential units" of impervious area are on each parcel.

Example ERU: if the median impervious area for residential parcels is determined to be 2000 square feet, all other parcels are measured to determine how many houses are represented on each parcel. With 20,000sf of impervious area on a gas station the number of billing units would be equivalent to 10 houses. This rate structure has been used across the US and Canada. Each residential property is billed one (1) unit of cost.

Equivalency structure with modifiers: Building off the analysis of the equivalent rate structure, modifiers are used to refine the residential charge, improving the equity of cost distribution. Most common is to assign the residential parcels to tiers, based on a correlating factor. To add a rate modifier, analysis is completed to ensure that the underlying principle of cost distribution is supported. Data on lot size is one approach used to create tiers within the single-family residential land use. Condominium,

townhomes, and apartments are not included in this modification. For example, analysis may show that Tier 1 is charged .5 billing unit, Tier 2 is charged 1 billing unit and Tier 3 is charged 1.5 billing units.

Fixed Unit of impervious area: this rate structure is used more frequently today and requires measured impervious area for each parcel regardless of land use. Similar to fees charged for water or solid waste collection, a fixed unit is established, and all parcels are charged on that basis (e.g., by container for solid waste; by 1,000 gallons for potable water, by 500 square feet of impervious area for stormwater.) Data for each parcel is maintained using a common factor (impervious area) and the unit for cost distribution is determined by applying the unit rate times the amount of units assigned to each parcel. For example, a home with 5,500 sf of impervious area would be charged 11 units time the rate-per-unit. Data availability to maintain a rate structure based on measured impervious area is required. The cost to obtain, analyze and assign billing units has made this option more feasible and cost effective, making this rate option attractive.

Table 3 – Policy Issues Impacting Stormwater Utilities

Policy Decisions Affecting Utility Rate and Structure

1. **Program:** Will all, or only part of the current program/service elements identified in the program evaluation be shifted to the Enterprise Fund?
2. **General Fund:** Will the enterprise fund be used to pay for services received from the GF such as general overhead? (Indirect Cost Allocation)
3. **Special Fees and Other Revenues:** What additional revenue sources will be used, or created, to support stormwater program functions (existing or future increases in fees for erosion and sediment control; fees for inspection of private BMPs; grants, etc.)?
4. **Financial Factors:** What is the fund balance test that must be maintained by the Enterprise Fund? Is interest earned by the cash generated from the utility credited to the Enterprise Fund? What is the "bad debt" factor (based on history of collecting fees)? Are fund balances appropriated in the following year?
5. **Reserves:** Will an emergency reserve be established to address catastrophic system failures? What level of operating reserve will be maintained?
6. **Bonds:** Will bonded debt or short-term bank financing be used to pay for the capital improvements program?
7. **Rate Allocation:** What is the basis for the rate? Impervious area? Other factors? Are their unique circumstances that must be accounted for in allocating the fee (e.g., diversity in housing types and impervious coverage ratios)?
8. **Exemptions:** Will exemptions be established other than those legally mandated?
9. **Credit Policy:** Will credits be adopted for those private properties that provide a public service (i.e., privately owned stormwater management facilities that treat and/or detain stormwater from a specific site or sites) under the program? Will the program only recognize credits related to real world benefits, or are soft benefits (such as public education) grounds for credits?
10. **Billing:** What portion of the billing administrative costs will be funded by the stormwater Enterprise Fund? What portion of customer service costs are funded?
11. **Rate Policy:** Is there a goal that the rate be held constant for 3 years? Or 5 years? Or will the rate be adjusted annually based on fiscal analysis of revenue vs. expenditures?
12. **Bill Receipt:** Who will receive the bill, owners or current utility customers (such as renters and leasers)?