CITY OF SAN MATEO

DRAFT

STORMWATER FUNDING ANALYSIS

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EXECUTIVE SUMMARY

INTRODUCTION

The City of San Mateo, through its Public Works Department, operates and maintains various stormwater facilities and performs activities necessary to prevent flooding, preserve surface water quality, enhance recreation, and ensure compliance with all legal requirements. Facilities include Marina Lagoon and other creeks and channels, underground stormwater conveyance and pumping systems, and trash capture devices. Necessary activities include operations, maintenance, capital improvement master planning, infrastructure and green infrastructure construction, compliance with the Municipal Regional Stormwater Permit, and overall system management and administration.

Through the years of the City's growth and up to the early 1990s, the City's stormwater system was primarily viewed as a drainage system that collected rainwater and conveyed it away from developed areas. However, beginning in the early 1990s the City was required to comply with newly-enacted environmental laws that have evolved over the past three decades into a comprehensive set of regulations. These regulations, embodied by the Municipal Regional Stormwater Permit, have significantly changed how the City and private property owners approach land use decisions. This new paradigm has placed stormwater management at the leading edge of land use practices – on par with other community priorities such as transportation, housing, and major utility services. The result is that many municipalities across the state and nation are now considering stormwater as a major utility.

As the scope of stormwater management has grown, so, too, has the costs of these activities. Stormwater management has historically been funded through the City's General Fund – unlike the City's other utilities (water, wastewater and garbage) that all rely on separate, dedicated user fees to fund necessary activities. As the cost of stormwater management grows, it places greater stress on the General Fund where it must compete with a wide range of other priorities such as public safety and community services.

Among the stormwater management activities in the City of San Mateo, one has emerged as paramount: stewardship of Marina Lagoon. As the receiving body of most of the City's stormwater flows, the Lagoon has an important drainage role. In addition, it plays a large role as a recreational amenity for swimming, boating, and other water activities. However, both the drainage and recreational aspects are being degraded due to the accumulation of silt and sediment coming from upstream sources that are causing other environmental problems. In recognition of these challenges, the City conducted an analysis in 2018 that showed that dredging the Lagoon to its original state would cost as much as $85 million – more than all other stormwater capital needs combined.

FUNDING ANALYSIS

In response to this information, the City engaged the services of SCI to perform a funding analysis that will evaluate financial needs for stormwater activities and explore funding

options and sources for the dredging of Marina Lagoon as well as other stormwater system activities. This work was divided into three tasks:

1. Evaluation of Projected Financial Needs
2. Evaluation of Potential Funding Sources
3. Preparation of Preliminary Rate Structure and Recommendations for Funding Implementation

Future tasks (not part of this work) may include community polling, revenue report and action plan, funding implementation assistance, and community outreach and education.

FINANCIAL REVIEW

The City's Public Works Department ("Department") is organized into two sections: Environmental and Engineering. Both sections consist of several divisions and perform various stormwater program activities; there is no single section in Public Works that performs all stormwater-related activities. For the purpose of conducting this analysis, the SCI Team created a hypothetical stormwater utility that would fund the City's resources required to conduct all necessary and beneficial stormwater activities. Based on a review of the related financial accounts and in-depth interviews of various supervisory staff, the SCI Team developed planning level estimates of costs and the revenues required to fund the stormwater utility.

The financial review was done in three parts: 1) Establish current operating costs as a baseline; 2) Estimate additional operating needs; and 3) Estimate and amortize capital needs. For ***current operating costs***, the Team reviewed of 57 separate financial accounts across six of the City's funds (10, 21, 26, 28, 72, 82). The Team identified eight accounts – across three funds – that supported stormwater activities to some degree. Baseline operating costs were estimated at approximately *$3.01 million* for Fiscal Year 2021-22 ("FY 22").

The next step identified potential ***additional operating needs***, including basic operations and regulatory compliance that should be included in a future utility structure. The Team estimated that an additional *$625,000* would be needed annually by FY 22. When combined with current baseline operating costs, the total revenue required for basic operations and maintenance of the stormwater system is estimated to be $3.64 million for FY 22.

The final step identified ***capital costs*** using information from three primary sources: 1) The FY 21 Budget (Capital Improvement Program); 2) The 2018 Marina Lagoon Dredging Assessment; and 3) The 2004 Storm Drain Master Plan (where costs were escalated to 2020 values). The results were compiled into a single Capital Improvement Program ("CIP") totaling *$139 million*.

The most expensive project, by far, was the ***Marina Lagoon dredging***, programmed at $80 million.[1] This project has two distinguishing features: 1) It lends itself well to an incremental approach; and 2) It will need to be repeated on a periodic basis as sediments continue to accumulate. By applying a life-cycle approach to this unique project, analysis showed that an annual amount of $1.9 million[2] would be adequate to fund this ongoing capital maintenance project.

By converting the MLD project to an annual program, its large, one-time capital cost can be removed from the CIP resulting in an adjusted CIP of $68 million.[3] This amount was then incorporated into the 30-year financial model resulting in an annual capital cost beginning at approximately $2.9 million.

A summary of the financial analysis is shown in Table 1 below.

TABLE 1 – SUMMARY OF FINANCIAL ANALYSIS

in thousands	
Estimated FY 22 Revenue Needs	
Baseline Costs	$ 3,014
Additional Needs	625
Subtotal Operating Costs	$ 3,638
Marina Lagoon Dredging	1,900
Capital Improvement Program *	2,877
TOTAL Revenue Requirement	$ 8,415
** CIP is amortized over 30 years*	

STORMWATER UTILITY FUNDING SOURCE

A stormwater utility can be viewed as a fully self-supporting entity similar to most municipal water and sewer utilities, where all the services and programs are funded primarily by a user fee.[4] In municipal financial parlance, this is also called an enterprise fund. However, such user fees are governed by Proposition 218, which, in the case of stormwater fees, requires voter approval (unlike similar fees for water and sewer services).

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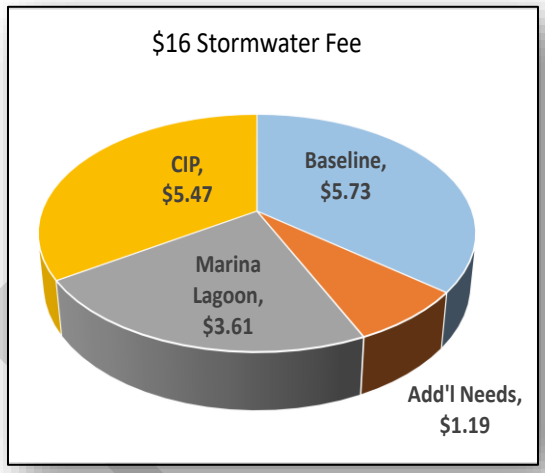
[1] The cost of the Marina Lagoon Dredging project is shown to be as high as $85 million in the 2018 analysis but was rounded down to $80 million in the FY 21 CIP Budget. This Report relies on the $80 million amount for CIP programming and financial forecasting.
[2] The annual amount would need to be escalated each year to keep pace with the cost of dredging. In addition, this cost assumes that dredging spoils cannot be accepted at the nearby landfill site (Ox Mountain) and would need to be transported to a more distant location. If Ox Mountain can accept the dredging spoils, the costs would be cut approximately in half (or $950,000 annually).
[3] The $68 million amount includes $9.7 million for the MLD dredging, which will enable the program to start without waiting for annual funding to accumulate.
[4] Refer to Appendix B for a detailed discussion of the effects of Proposition 218 and other potential funding mechanisms.

Stormwater fees are based on annual revenue requirements and a fair-share apportionment of costs to all properties according to the amount of their impervious surface.[5] Revenue requirements were estimated using a 30-year forecasting tool ("model") that included various escalation factors, establishing a 20% operating reserve balance, and, for some scenarios, allowances for debt costs (annual debt service, finance charges, and a debt reserve). The model required an initial rate revenue sufficient to support estimated operating costs and to fund the CIP over the 30-year planning horizon.

The initial revenue requirement of $8.4 million is projected to result in a user fee of approximately $16 per month for the average residential parcel. Fees for other types of parcels would vary depending on the amount of impervious surface. This is a planning level estimate and could vary by 10% to 20%. However, it is sufficiently accurate to use as a basis for a community survey.

The chart at right shows how the hypothetical stormwater fee would pay for the four stormwater cost elements.



ROADMAP FORWARD AND RECOMMENDATIONS

The path to establishing a stormwater utility has many steps. The final and necessary steps for establishing a stormwater fee are dictated by Proposition 218, and usually require four to eight months to complete. But there is much more work that is recommended before those final procedural steps are taken.

Because of the ballot requirement, a stormwater fee should be introduced to the community early in the process through stakeholder outreach, community opinion surveys, and other types of community engagement. At the same time, the City must clearly define the services the money will be spent on, perform a rigorous needs analysis, and, finally, prepare a rate study. Only then can a municipality make a solid case to the community through a Proposition 218 ballot measure.

Analysis shows that the full cost of the stormwater program is approximately $8.4 million per year (current value). A typical rate structure would require a fee as high as $16 per month (or $187 per year) for the average home to fund such a program – a rate that is higher than

[5] Impervious surfaces are those which do not allow rain to soak into the ground such as roofs, driveways, parking lots, sidewalks, and patios.

for most communities in the State.[6] Strategies for right-sizing the rate to as low as $10 per month are discussed in a later section.

Based on that, the SCI team makes the following recommendations:

- Update the 2004 Storm Drain Master Plan including a condition assessment to help fine-tune the system needs and cost estimates
- Conduct a thorough community engagement program, possibly involving the community in the Master Plan update and needs analysis
- Conduct a community survey to help determine the community's values and priorities, messaging focal points, and, ultimately, their willingness to pay such a fee
- Prepare a rigorous rate study
- Submit the proposed rates to a Proposition 218 ballot proceeding

This process will take at least 18 months to complete - possibly as much as two years depending on the level of community engagement. Because of the anticipated high level of financial need with its resulting rate levels, it is possible that the full cost of the Stormwater utility cannot be funded from a stormwater fee – at least initially. However, other potential funding sources to supplement a basic fee should be sought.

In summary, this is a substantial process involving planning, engineering, rate analysis, ballot proceedings, and community engagement. However, not only can it provide a funding source for these important stormwater services, but it can also be a community focal point that can benefit the City's residents' and business' quality of life.

[6] See Appendix C for examples of stormwater rates adopted by other cities.

1 – EVALUATION OF PROJECTED FINANCIAL NEEDS

The City's Public Works Department ("Department") is organized into two sections: Environmental and Engineering. Both sections consist of several divisions and perform various stormwater program activities; there is no single section in Public Works that performs all stormwater-related activities. For the purpose of conducting this analysis, the SCI Team created a hypothetical stormwater utility that would fund the City's resources required to conduct all necessary and beneficial stormwater activities. Based on a review of the City's stormwater services and related financial accounts as well as in-depth interviews of various supervisory staff, the SCI Team developed planning level estimates of costs and the revenues required to fund the stormwater utility.

In addition to basic drainage and flood control aspects of the stormwater program, the City is also required to comply with state and federal clean water regulations in accordance with the National Pollution Discharge Elimination System ("NPDES"); a framework of laws and regulations governed by the federal Clean Water Act. In the San Francisco Bay region, these regulations are embodied in the Municipal Regional Permit ("MRP")[7] which is issued to 76 cities on a five-year cycle.

The financial review was done in three parts: 1) Establish current operating costs as a baseline; 2) Evaluate additional operating needs and associated costs; and 3) Estimate and amortize capital needs. These costs were then used to develop a 30-year forecasting tool, or model, that would enable the Team to create various cost/revenue scenarios and perform various analyses.

1.1 – BASELINE OPERATING COSTS

For current operating costs, the Team reviewed 57 separate financial accounts across six of the City's funds (10, 21, 26, 28, 72, 82). From those, the Team identified eight accounts – across three funds – that supported stormwater activities to some degree. The expenditures on those accounts that relate to the hypothetical stormwater utility were compiled to form a baseline for operating costs, which were estimated at approximately $3.01 million for Fiscal Year 2021-22 ("FY 22").[8]

The SCI Team further analyzed stormwater finances: Project team member LWA evaluated the City's true costs of compliance with the MRP. This planning-level cost estimate includes a summary of prior year expenditures and current year and future implementation costs of the stormwater program. Based on that evaluation, LWA projected all associated costs out

[7] The MRP is the NPDES permit issued by the Water Board to all Phase 1 permittees in the San Francisco Bay area. The first MRP was issued in 2009. The second MRP was issued in 2015 and is referred to as MRP 2.0. A new MRP (3.0) is expected to be issued in late 2021 or early 2022.

[8] In this report, fiscal years are denoted by the year in which it ends. For example, FY 2021-22 would be denoted as FY 22.

to FY 30. This forms a solid foundation for the financial needs of the stormwater regulatory program, and is summarized in a technical memorandum dated April 23, 2020, which is attached as Appendix A of this Study.

The MRP compliance evaluation estimated the costs at $841,000 for FY 22.[9] It should be noted that these costs are included in the $3.01 million estimated for all operating costs; they are not additive. Therefore, the MRP compliance effort represents 27% of all baseline operating costs.

1.2 – Additional Future Operating Needs

The next step was to establish whether there were any additional needs that should be included in a future utility structure. These were reviewed on two fronts: Basic operations and MRP compliance. Critical information and data points were gathered during iterative interviews with staff, review of past planning documents, and guidance from the SCI Team. The estimated costs for these additional operating needs for FY 22 are summarized as follows:

- $288,200 for Operations and Maintenance[10]
    - 2.2 full-time equivalent Maintenance Worker II for creek and inlet cleaning
    - Green infrastructure maintenance (contract services)
- $225,200 for MRP Trash Capture Compliance[11]
- $111,300 for other MRP Compliance
    - Additional industrial / commercial inspections
    - Allowance for MRP renewal costs

The results of that analysis showed that approximately $625,000 additional funding would be needed annually by FY 22. This, combined with the baseline operating costs, would bring the total FY 22 operating budget to $3.64 million. These amounts are summarized in Table 2 below.

[9] From LWA memo, Appendix A, Table 2.
[10] Based on information from Operations staff in an email dated April 29, 2020.
[11] From LWA memo, Appendix A, Table 2

TABLE 2 – SUMMARY OF ESTIMATED OPERATING COSTS

in thousands

Program	Fund	Prog #	Sub-Prog	FY 21	FY 22
Stormwater Pollution	10	4676	1	$ 452	$ 466
Marina Lagoon	10	4677	1	497	499
Storm & Flood	10	4679	1	186	189
Waste Mgt- Disposal	21	4678	1	384	393
Waste Mgt - Special Events	21	4678	2	32	35
Envir Compl - Pollution Prev	72	4672	1	226	232
Sewer Mtce - Pump Repair	72	4675	3	307	312
Storm Sewer Mtce	72	4675	5	876	887
			Baseline Costs	$ 2,959	$ 3,014
			Additional Costs	$ 481	$ 625
			TOTAL COSTS	$ 3,440	$ 3,638

1.3 – CAPITAL IMPROVEMENT PROGRAM

Capital costs were evaluated using information from three primary sources: 1) The FY 21 Capital Improvement Program ("CIP"); 2) The 2018 Marina Lagoon Dredging Assessment; and 3) The 2004 Storm Drain Master Plan. Cost estimates for the latter were escalated from 2004 to 2020 using the Construction Cost Index published by the Engineering News Record.

The results were compiled into a single CIP totaling $139 million as shown in Table 3 below. The most expensive project, by far, was the Marina Lagoon dredging project estimated at $80 million. This project is discussed in more detail in the next section.

TABLE 3 – SUMMARY OF CAPITAL NEEDS

in thousands

Source	Project	Cost
Current CIP	Storm Drain Condition Assessment	$ 1,000
	Storm Drain Master Plan Update	115
	Pacific Blvd Drainage Channel Rehabilitation	600
	Creek & Lagoon Routine Maintenance Permitting	380
2018 Assessment	Marina Lagoon Dredging	80,000
2004 Storm Drain Master Plan	16th Avenue Drainage Area	9,521
	19th Avenue Drainage Area	11,972
	Laurel Creek Drainage Area	9,567
	Coyote Point Drainage Area	17,050
	Detroit Drive Drainage Area	5,728
	San Mateo Creek Drainage Area	2,620
TOTAL		**$138,553**

1.4 – MARINA LAGOON DREDGING PROJECT

One primary focus of this Stormwater Funding Analysis project was how to deal with the large capital costs for the Marina Lagoon Dredging ("MLD") project. The costs were drawn from an assessment conducted on behalf of the City by the firm of Moffat Nichol in 2018. The assessment identified five alternatives for the project with the following variables:

- Quantity of dredging
    - Full design depth, or minimum navigation depth, or shallow locations only
- Method of dredging
    - Mechanical or hydraulic
- Method of transport
    - Truck, or pump, or barge
- Disposal site
    - In-lagoon, or Ox Mountain landfill, or a more distant destination

The Moffat Nichol cost estimates varied widely, ranging from $8.6 million to $84.5 million. The costs were most sensitive to the disposal site variable. The nearest disposal site is the Ox Mountain landfill along Highway 92, approximately 15 miles away from Marina Lagoon. However, Ox Mountain has restrictions on the makeup of landfill soil it can accept, and it is possible that the MLD spoils will not meet those strict requirements. In that case, the spoils would need to be hauled to a distant landfill as yet unidentified. The unit costs of disposal varied accordingly: $77 per cubic yard for Ox Mountain versus $233 per cubic yard for a distant site. When incorporated into the full-scope costs for each alternative, the higher disposal cost effectively doubled the cost of the overall project for each alternative.

The next biggest impact on cost was the quantity of dredging. The largest alternative estimated 275,000 cubic yards while the smallest alternative estimated 77,500 cubic yards.

The MLD project is not a one-time project; ongoing deposit of silt (estimated at the rate of 5,781 cubic yards per year) will require this dredging work to be done periodically for the foreseeable future. Therefore, SCI conducted a life-cycle cost analysis using the Moffat Nichol cost parameters and consideration of all variables.

By approaching the MLD project on a life-cycle basis, three variables became insignificant:

- Quantity of dredging fell away as each project was based on dredging 5,781 cubic yards per year on average.
- The variations of transport and dredging methods were found to be minimal.

The final variable to deal with was the method of disposal, of which there are three: 1) Ox Mountain; 2) Distant landfill; or 3) Infill within the lagoon itself. The latter is, by far, the least

expensive. However, it can only be used for the smaller dredging amounts (space is limited). In addition, it can only be used for the first dredging cycle; for subsequent dredging cycles the infill locations would have been previously filled and all spoils would need to be hauled offsite. Therefore, the only significant variable for a life-cycle approach is the Ox Mountain versus distant landfill option – with its 2-to-1 cost ratio. For the purpose of the analysis, the higher cost option was used as shown in Table 4 below.

The life-cycle analysis involves three steps:

- Calculate the life of each project by dividing the cubic yards by the annual deposition rate of 5,871 cubic yards. *Example: The 275,000 cubic yard alternative works out to a 47.6-year life*.
- Adjust costs to reflect a no-infill option. Since disposing of the dredging spoils by filling in parts of the Lagoon can only be done once, that is not an option for an ongoing life-cycle approach. For the project alternatives that rely on the infill option for disposal (3a, 3b, and 4c), those costs were re-calculated for a haul-to-landfill option using Moffat-Nichols cost parameters.
- Divide adjusted project cost by its life. *Example: The $84.5 million, 47.6-year project works out to $1.78 million per year*.

TABLE 4 – MARINA LAGOON LIFE-CYCLE COST ANALYSIS

Alternative	2	3a	3b	4a	4b	4c	
Project	large	Medium		Small			
Volume (CY)	275,000	100,000		77,500			
Life (Years)	47.6	17.3		13.4			
Cost Estimates (in millions)							
Orig Proj Cost	$ 84.5	$ 9.5	$ 9.7	$ 25.6	$ 24.3	$8.6	
Adjusted Proj Cost	$ 84.5	$ 31.1	$ 33.0	$ 25.6	$ 24.3	$ 25.6	$ 24.3
Annual Cost	**$ 1.78**	**$ 1.80**	**$ 1.91**	**$ 1.91**	**$ 1.81**	**$ 1.91**	**$ 1.81**
Dredging Information							
Method	Hydr	Hydr	Mech	Mech	Hydr	Mech	Hydr
Transport *	Haul	*Pump **	*Barge **	Haul	Haul	*Pump **	
Disposal *	Landfill	*Infill **	*Infill **	Landfill	Landfill	*Infill **	

** Transport and disposal descriptions are for the original project.*
All Adjusted project costs are for haul to landfill disposal

The annual cost of all options,[12] as adjusted for to a no-infill disposal, varied only slightly, ranging from $1.78 million to $1.91 million. The minor variance is due to the variables of

[12] The Moffat Nichol Assessment included five alternatives. However, Alternative 1 was a do-nothing option with no costs, and Alternative 5 pointed to performing any of the other alternatives on an incremental basis (again with no costs stipulated). Therefore, only Alternatives 2, 3 and 4 are shown here.

dredging and transport methods remaining in the costs. Rounded off to the higher end of this range, the MLD project is assumed to cost the City $1.9 million annually (present value). As will be demonstrated in a later section of this Report, this approach provides the City much more flexibility in conducting the dredging work as well as provides prospective rate payers lower fees and more rate stability.

1.5 – Adjusted Capital Improvement Program

By treating the MLD project as an ongoing capital maintenance program, the CIP can be adjusted by eliminating (or greatly reducing) the MLD cost. If the MLD is reduced to $9.7 million, the overall CIP is then adjusted downward to $68 million. This would enable the City to perform the work identified in Alternative 3b (mechanical dredging of 100,000 cubic yards and barge transport to infill disposal locations). Subsequent dredging work could be done at regular intervals to maintain (or improve) the depth of water in the Lagoon using the $1.9 million annual set-aside funding.

Table 5 – Adjusted Capital Improvement Program

Source	Project	Cost	Tier 1	Tier 2	Tier3
			in thousands		
Current CIP	Storm Drain Condition Assessment	$ 1,000	$ 2,095		
	Storm Drain Master Plan Update	115			
	Pacific Blvd Drainage Channel Rehabilitation	600			
	Creek & Lagoon Routine Maintenance Permitting	380			
2018 Asmnt	Marina Lagoon Dredging	9,700		9,700	-
2004 Storm Drain Master Plan	16th Avenue Drainage Area	9,521	32,627		23,830
	19th Avenue Drainage Area	11,972			
	Laurel Creek Drainage Area	9,567			
	Coyote Point Drainage Area	17,050			
	Detroit Drive Drainage Area	5,728			
	San Mateo Creek Drainage Area	2,620			
TOTAL		**$ 68,253**	**$34,722**	**$ 9,700**	**$23,830**

The adjusted CIP shown in Table 5 includes three tiers of projects. Tier 1 ($34.7 million) includes the current CIP projects and the high-priority projects from the 2004 Master Plan. Tier 2 ($9.7 million) includes the MLD project as described above in Section 1.4. Tier 3 ($23.8 million) includes the medium- and low-priority projects from the 2004 Master Plan. Tiers 1, 2, and 3 total $68.2 million.

It is worth noting three significant variables associated with the CIP cost estimating that may ultimately affect the capital cost estimates:

- The first project is a condition assessment which will likely bring to light additional needs, thereby increasing costs.
- The second project is a master plan update, which would update the cost estimates for the last six projects. It is possible this may increase or decrease the scope (and funding needs) for these projects.
- The Marina Lagoon costs are based on worst-case disposal costs and could come in significantly lower. This variable would not affect the CIP estimates – it would only affect the $1.9 million annual amount for the MLD project. This could result in reducing that annual amount to approximately $950,000.

The first item is likely under-estimated, the second one could go either way, and the last item may be over-estimated. On balance, this information is offered as a reasonable planning-level estimate.

2 – EVALUATION OF POTENTIAL FUNDING SOURCES

2.1 – REVIEW OF UTILITY FEE STRUCTURES AND PROPOSITION 218 REQUIREMENTS

The legal requirements for establishing and increasing municipal utility fees are governed by Proposition 218. Fees for water, sewer, refuse collection (or solid waste) and stormwater services are defined as property-related fees. As noted above, the first three types of fees are not required to be approved by voters, while the latter is required to do so. This voter approval requirement creates a significant barrier for municipalities to set stormwater fees. As a result, municipalities typically look for other, non-balloted funding options to assist in the funding for stormwater activities. Various options are reviewed below.

2.2 – SUMMARY OF FUNDING OPTIONS

There is a wide array of options available for funding a stormwater program. There are several ways to categorize funding: Ongoing funding, one-time funding, or debt financing (one-time funds that are repaid in an ongoing manner). The difference between balloted and non-balloted is important, as any funding source that requires a ballot measure will obviously bring with it more challenges and risks. The matrix below helps to categorize these along two axes and illustrates a few examples of each.

	Sustainable / Ongoing	One-Time	Long-Term Debt
Balloted	Taxes, Fees & Assessments		GO Bonds *
Non-Balloted	Regulatory Fees Re-Alignment Developer Fees	Grants	COPs ** Revolving Fund

** General Obligation Bonds; ** Certificates of Participation*

A thorough description of the various funding sources is contained in Appendix B, which contains detailed discussions on the following types of funding:

- Ballot Approaches
  - Special Taxes
  - Property-Related Fees
  - General Obligation Bonds
  - Benefit Assessments
- Non-Balloted Approaches
  - Realignment of Stormwater Services
  - Regulatory Fees
  - Special Financing Districts
  - Development-Driven Approaches

- Partnerships

2.3 – Optimal Funding Strategies

Any funding analysis should include a broad overview of all funding options. This Analysis will highlight a few high-potential funding strategies. A technical memorandum that describes a wide variety of funding options for stormwater activities was written on February 24, 2020 and is included herein as Appendix B. A few of those options were considered optimal for the City, which are discussed below.

- Balloted Property-Related Fee
- Marina Lagoon Funding Options
- Re-Alignment
- Regulatory Fees
- Opportunistic Options
- Senate Bill 231 Approach

For other funding resources, the reader is referred to the Funding Resources web page[13] on the website of the California Stormwater Quality Association ("CASQA"). The reader is also directed to a handy stormwater funding matrix in Appendix B (also found on the CASQA website[14]).

2.3.1 – Balloted Property-Related Fee – Primary Options

The premise of this Financial Analysis was to create a hypothetical stormwater utility (or enterprise fund). In general, a municipal utility is a self-supporting government enterprise that provides services to the public for a fee. The City currently has enterprise funds established for wastewater service and a special fund for solid waste services. Each use a set of user fees as their primary funding source – fees that are categorized under Proposition 218 as property-related fees. In addition to being the most common, this type of user fee is recognized as legitimate by rate payers, is the most flexible in what it can fund (all enterprise-related costs), is legally stout, and is highly sustainable to meet future needs.

In the case of Stormwater, a property-related fee must be approved by voters as noted above. While this increases the difficulty and risk of enacting such a fee, it is the most common type of dedicated, sustainable funding source used by stormwater utilities throughout the State (indeed, throughout the Country). Other balloted mechanisms typically require a higher approval threshold (i.e., two-thirds majority). Non-balloted funding mechanisms can rarely generate the level of revenue required.

[13] https://www.casqa.org/resources/funding-resources
[14] https://www.casqa.org/sites/default/files/downloads/funding_matrix.pdf

For these reasons, SCI recommends the balloted property-related fee as the primary option to consider moving forward. However, other options should not be discarded. To the extent that other sources of revenue are established, the rate-payers' burden will be lessened. For that reason, a portfolio approach is typically recommended with multiple sources of revenue to the extent practical.

2.3.2– Marina Lagoon – Separate Funding Options

The dredging needs for Marina Lagoon present unique opportunities and challenges. The challenges are addressed in Section 1.4, but the opportunities for a separate approach to funding is addressed here.

Marina Lagoon functions not only as a drainage facility, but also as a recreational amenity for the community. There are three public beaches as well as many other public access points. Boating is allowed on this waterway, and there is one public boat launch ramp as well as many other access points for portable watercraft. Nearly all water frontage is held by private property owners, many of which have boat docks or piers. On the other hand, the high degree of siltation has made some areas of the waterway too shallow for certain types of boating, and maintaining swimmable water quality is a struggle.

Because of the recreational aspects, the cost of Lagoon maintenance can be funded by a benefit assessment, particularly when the benefits conferred are so localized (as in the case of the many private water frontages). Benefit assessments must also be approved through a ballot proceeding, but the voting (by property owners) requires only a simple majority for passage (with the ballots weighted by the amount of each property's assessment level).

An analysis was conducted of how a benefit assessment might be structured along with assessment rates that would likely be approvable by the property owners. The hypothetical annual assessment structure is summarized in the table below.

Table 6 – Marina Lagoon – Hypothetical Assessment

Zone	Parcels	Rate	Revenue
Frontage	943	$ 150	$ 141,450
Walkable	2,000	$ 50	$ 100,000
All Others	25,945	$ 10	$ 259,450
	28,888		**$ 500,900**

This analysis results in a possible annual revenue of approximately $501,000, which represents 26% of the annual costs of the MLD project. This will be considered further in the next section.

Other options could be considered for this recreational amenity such as a special tax or a community facilities district (CFD). However, both of those mechanisms would require a two-thirds majority in a ballot measure and would be less likely to pass than a benefit assessment.

2.3.3 – Re-alignment – Nexus between Stormwater and Other Utility

Realignment is the term used to describe how non-balloted-fee revenue can pay for certain stormwater functions. This is sometimes possible through an interpretation of Proposition 218 where property-related fees can pay for all associated activities that support the services provided under those fees. Re-alignment works best when both participating utilities are within the City's jurisdiction. These are discussed in more detail in Appendix B.

As part of the analysis, the City also examined current activities in Fund 21, the Solid Waste Fund, and Fund 72, the Sewer Enterprise Fund, to determine if any aligned with the scope of the hypothetical Stormwater Utility. Within both, staff found activities that combined stormwater efforts with those specific to each of the funds. For example, in the Solid Waste Fund, several of the currently funded positions work to prevent litter throughout the City through various programs and activities. Many of these trash reduction efforts benefit the stormwater system by keeping debris out of the system and allowing stormwater to flow cleanly and properly.

Similarly, within the Sewer Enterprise Fund, the City has staff who accomplish important outcomes for both the stormwater system and the sanitary system through their activities. For example, the Environmental Compliance Inspectors educate and work with local businesses and property owners to ensure that sanitary sewer discharges are properly released, and that stormwater is protected from possible contaminants. The inspectors also work to eliminate sanitary sewer overflows through activities like identifying and correcting illicit connections to both stormwater and sanitary sewer systems. Within the Field Maintenance group, there are maintenance workers who conduct wet weather preparation work, such as cleaning creeks and storm drains, to make sure that storm drain systems are not clogged and thus that stormwater does not travel into the sanitary sewer system. In addition, staff share the maintenance of the storm drain pumps that help prevent flooding and ensure that stormwater does not end up in the wastewater collection system.

2.3.4 – Regulatory Fees (Prop 26 Fees)

Regulatory fees are those charged for specific services requested by the public. They typically appear in a city's master fee schedule. As they relate to stormwater activities, they usually include fees for plan reviews, plan checks, site inspections, and related administrative and enforcement activities. Fee amounts must be correlate to the actual cost of service; they cannot cover costs of other operations, maintenance, or capital expenses.

A review of the City's Comprehensive Fee Schedule shows that construction inspections and annual inspections for MRP compliance and investigation are already in place. Not found were any fees specifically for stormwater plan review or plan checking for new development or for encroachment activities. However, those activities are being performed and are included in various other fees. If the resources (staff or contractor) are paid from a non-stormwater source, then this fee structure is entirely appropriate. Since there is no actual stormwater utility at this time, there would not be any possible conflict. However, if a

stormwater utility were formed in the future, care should be taken to ensure that revenues for these activities flow to the financial division that pays for the resource.

2.3.5 – OPPORTUNISTIC OPTIONS

There are two primary types of opportunistic options to watch for: Grants and partnerships. While the City may not want to rely heavily on opportunistic options when designing a financial system or rate structure, it should keep abreast of these opportunities and be sure to take advantage to the extent possible.

GRANTS

Grant funding is typically applied to capital projects but can occasionally become available for other programmatic activities. These opportunities for stormwater have been rare in the past but are becoming more common. It is worth noting that grants often come with other financial requirements such as matching funds or requirements to fund post-project maintenance. For these reasons, an underlying revenue stream (e.g., user fee) is very important to have in place to leverage these opportunities.

PARTNERING

One of the most common forms of partnering is participation in multi-benefit projects such as street improvements where transportation funding can help pay for stormwater facilities such as pipeline upgrades or installation of green infrastructure. If stormwater features cannot be paid for by the primary funding source, there are usually other efficiencies that can make the stormwater elements less expensive than for stand-alone projects. Examples of efficiencies can include avoiding the cost of general project mobilization and management, demolition, restoration of surface improvements, or piggy-backing onto the expertise of design and construction resources.

Partnering opportunities are best applied when the stormwater elements are integrated into a project at the beginning – during the concept and planning phases. This requires the stormwater staff to be present early and often during the CIP planning process.

2.4 – SENATE BILL 231 POTENTIAL

Senate Bill ("SB") could be a significant game-changer by eliminating the voter-approval requirement for stormwater fees. SB 231 changed the Government Code by providing a definition for sewer that includes surface waters. In doing so, it opens the door to classifying fees for the stormwater activities as a type of sewer fee and would therefore be exempt from voter approval. Based on that, a municipality could move forward to establish a stormwater fee without a ballot measure.

However, SCI recommends great caution in this area. Prominent taxpayers' organizations object to the premise of SB 231 citing legislative limits on amending the State constitution (such as Proposition 218). As a result, any municipality that proceeds down that path can expect a legal challenge and possibly become a test case for the constitutionality of SB 231. In response to that likelihood, Senator Hertzberg (sponsor of SB 231) has created a working

group to help interested municipalities move forward strategically in an effort to shape any test case in a way favorable to intent of SB 231.

Based on this, SCI has been advising municipalities to not use the SB 231 path, but rather to move forward with a ballot measure. This is the recommendation for the City of San Mateo as well.

3 – PRELIMINARY RATE STRUCTURE AND RECOMMENDATIONS

Around the Country, a stormwater utility is the term used to describe a governmental entity in which a defined set of services within a defined geographical area are provided and paid for through a user fee structure. Examples are water and sewer utilities where the average property owner is accustomed to paying monthly or annual bills for those services. For California municipalities, another common term is an "enterprise fund," where revenues are kept separately from the municipality's general fund and other special funds, and proceeds from the user fees are used strictly for the defined services.

Proposition 218 provides additional clarity for such utility fees in the California Constitution, Article XIIID, Section 6 – property-related fees. This requires any property-related fee to be used only for the stated purpose, costs to be apportioned in a fair and reasonable manner, and the municipality to collect no more revenues than are required to provide the service. This Section also requires that new or increased property-related fees must be approved by property owners through a ballot proceeding. This requirement has proven to be a significant hurdle throughout the State, where fewer than 30 property-related fees have been submitted to voters since the 2002[15], and where approximately one-third of those attempts have failed at the ballot box. These examples are listed in Appendix D along with other current efforts either in progress or under consideration.

A stormwater utility may also consider other revenue mechanisms such as taxes. Taxes do not have the same strict requirements as property-related fees, but generally require a two-thirds majority voter approval.

In this section, the discussion will focus on the typical process required to establish a new stormwater utility, estimate rate levels for the City's stormwater program needs, look at various funding options, discuss the importance of community involvement, and make recommendations for moving forward.

3.1 – PROCESS OF FORMING A STORMWATER UTILITY

There are three primary procedural steps in forming a new stormwater utility:[16] Understanding your needs; preparing a rigorous rate study; and implementing a revenue mechanism. On a parallel track, community engagement and education steps are equally important. These two tracks are illustrated in the graphic below[17] with the procedural steps in green (left) and the community engagement in blue (right).

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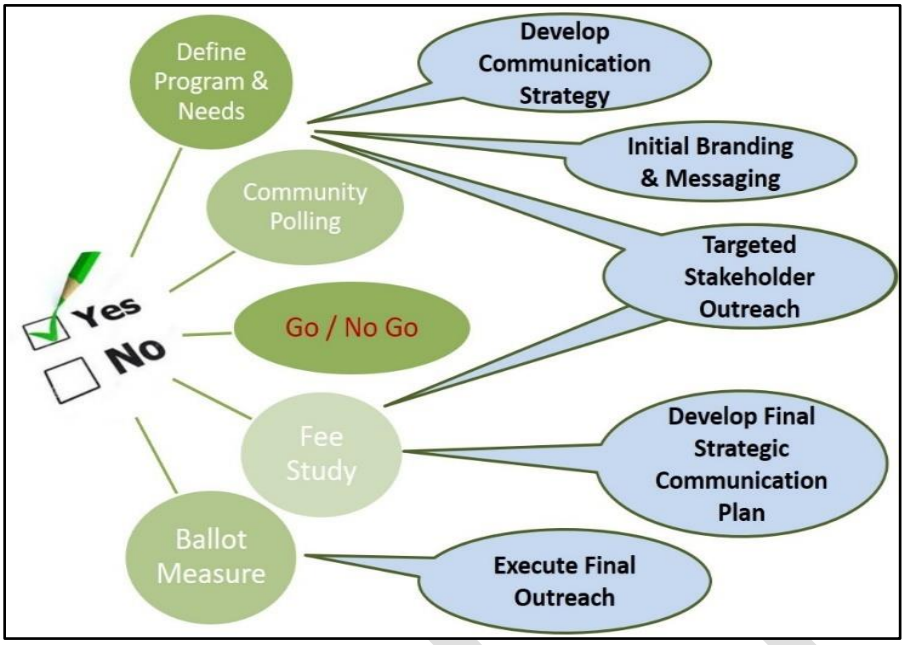
[15] In 2002, the State Court of Appeals, Sixth District, issued a decision in *Howard Jarvis Taxpayers Association versus the City of Salinas* affirming the requirement for voter approval for stormwater fees.

[16] The California Stormwater Quality Association (CASQA) has a thorough discussion of this process on its website at https://www.casqa.org/resources/funding-resources/creating-stormwater-utility.

[17] Utility formation process graphic is taken from the CASQA website.



UNDERSTANDING YOUR NEEDS - OVERVIEW

Any successful effort requires thorough preparation including the following:

- Storm Drain Infrastructure Needs: This often includes an up-to-date storm drain master plan, asset management plan, watershed management plan, or some other needs analysis of the capacity, condition, trouble spots and projected needs for operations, maintenance, and capital projects.
- NPDES Permit Compliance: This would evaluate the current and future needs for all the requirements of the City's NPDES Permit with projections of future requirements.
- Organizational Review: This affords an opportunity to review how the City's stormwater program is structured within the organizational chart and within the financial structure.
- Financial Analysis: This often flows from (or is included in) a master plan or asset management plan and identifies costs required to satisfy the infrastructure and regulatory needs.

Another important aspect of knowing your needs is to ask the community what they think. Since any revenue mechanism ultimately requires voter approval, it is important to assess the priorities of the community early in the process. The four bullet points above will help define what the City believes its needs are, but if they do not align with the priorities of the community a ballot measure may be doomed. Two early steps can help ascertain what the community's priorities are: stakeholder outreach, and community-wide opinion survey.

The City of San Mateo has a storm drain master plan prepared in 2004. While many of the needs identified in that plan may still be valid, the cost estimates will be out of date, some needs may have been fulfilled, and other needs may have arisen – particularly in light of a greater understanding of the impacts of climate change. Additionally, NPDES Permit requirements have escalated significantly in the past 16 years. It is typically recommended that an updated master plan or asset management plan be prepared. The CIP has already identified the need for a master plan update and a condition assessment, but they are not yet funded. By completing those two tasks prior to bringing the funding proposal to the community, it would help bolster both the City's understanding of its needs as well as the community's confidence in the City's planning and preparation.

Only when the infrastructure and financial needs have been ascertained can the City make informed decisions about which direction to proceed. In order to garner voter approval, the community will need to have confidence that the municipality has done its "homework", thoroughly understands its needs and has evaluated its options. This Analysis provides a roadmap of how the City might navigate all the necessary steps toward establishing a stormwater utility. It also includes specific recommendations to help it become prepared.

3.2 – RATE ANALYSIS

To estimate user rates for a property-related fee mechanism, two elements are considered: 1) Financial needs and revenue requirements; and 2) Apportionment of those costs across the various types of parcels in compliance with Proposition 218.

The financial needs expressed in the tables above must be converted to an annual revenue requirement. That calculation must account for other revenue sources such as the General Fund, developer contributions, transfers from other internal funds, and potential one-time contributions such as grants. In situations where there is a large capital improvement need, the way that need is financed must also be considered. The two primary options are pay-as-you-go ("PayGo") or debt financing. Under PayGo, the City would build projects as funds are accumulated to pay for them. Debt financing provides funds up front to build the projects early, and the debt is paid off over time. In the latter case, the debt service would replace the actual CIP costs in the annual revenue requirement calculation. This may not be determined ahead of time, but both options, or a blend of the two, should be considered.

3.2.1 – 30-YEAR REVENUE MODEL

Due to the relatively large CIP, a 30-year model was used. This planning horizon allows for evaluation of long-term debt options, which can smooth the rates while delivering major projects sooner. The model was designed to include a utility fund reserve equal to 20% of the annual operating expenditures.

The goal of the model is to complete the full CIP within the 30-year period. Several scenarios were developed including all three tiers of the adjusted CIP (Table 5) and various levels of debt versus PayGo. Recent sensitivity analyses have shown that the use of debt does not increase the rate levels more than 2% to 3%.

The graphic below shows the 30-year chart of revenues (blue bars) versus the four types of expenditures (O&M, Lagoon set-aside, PayGo and debt service). The scenario below requires an initial revenue of $8.415 million and funds the $68 million CIP using a $40 million (30-year) debt with the remainder funded with PayGo. A lower debt level would not decrease the overall expenditures significantly; it would primarily trade the debt service (gold) area for the PayGo (gray) area. The primary difference with a lower debt level would be a substantially slower delivery of capital projects.

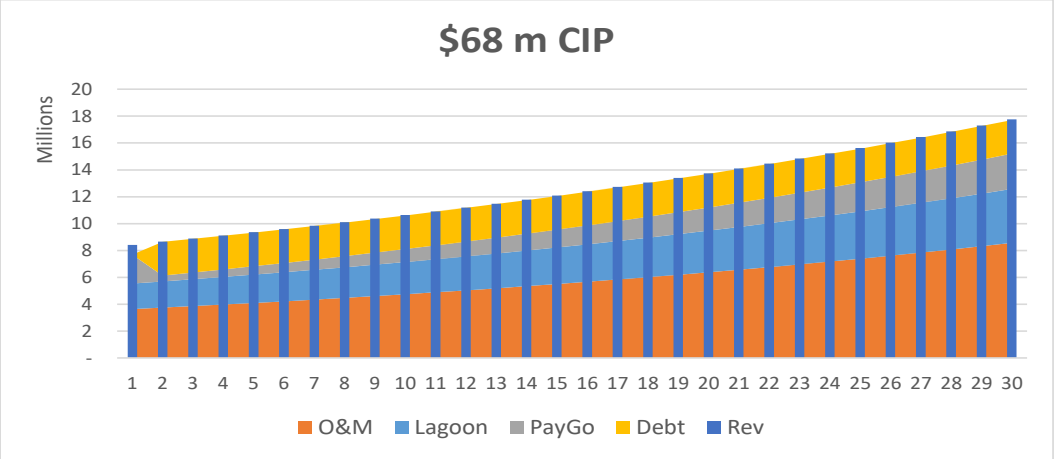


Table 7 below shows the net costs – and revenue requirement – for FY 22, the initial year of the 30-year model.

TABLE 7 – FY 22 REVENUE REQUIREMENT

Program Element	*in thousands* FY 22 Cost
Operations & Maintenance	$ 3,638
Lagoon Set-Aside	1,900
Capital Projects / Debt *	2,877
TOTAL FY 22 Expenditures	**$ 8,415**

** also includes first-year set aside to create a 20% operating reserve*

This revenue model makes several assumptions:

- Revenues are not ramped up in the early years; they are set only to escalate at a rate equal to the Consumer Price Index (assumed to average 2.6% annually).
- Expenses escalate at 3.0% annually.
- CIP project costs escalate 2.6% each year that they are not built (remaining balance on CIP).

3.2.2 – RATE CALCULATION

Stormwater utility rates are typically, and appropriately, based on impervious area of each parcel of land, although the approach and unique features can vary among municipalities and rate study professionals. The benchmark for user rates such as these is the average single-family home, defined here as the single-family equivalent[18] ("SFE"). Other types of land uses are calculated based on a multiplier of the SFE. A rate study will sum the SFEs for all parcels within the municipality, then divide the annual revenue requirement by that number to arrive at the SFE rate.

SCI has conducted a preliminary survey of parcels in the City of San Mateo and estimates the following:

- 28,694 parcels within the City
- ~ 28,586 eligible to be charged a fee[19]
- ~ 45,000 SFEs

Assuming an annual revenue requirement of $8.415 million[20], the annual SFE rate is expressed as,

$$SFE\ Rate = \frac{Annual\ Revenue\ Req't}{Total\ SFEs}$$

$$= \frac{\$8{,}415{,}000}{45{,}000}$$

$$= \$187 \text{ per Year}$$

$$(= \$16 \text{ per Month})$$

This is a planning level estimate that could vary by 10% to 20%. It is worth noting that $187 per year (or $16 per month) is relatively high for municipalities in California. Appendix E contains a list of adopted stormwater rates for various cities in the State.

Strategies for lowering the annual fee level closer to the $100 level should be considered. These could include continuing the financial support from the General Fund, Solid Waste Fund, or Wastewater Fund, reducing CIP costs, or phasing in the rates over a period of time. Evaluating these and other strategies will be discussed in Section 3.5.3.

[18] Other names for this metric are the equivalent residential unit (ERU) or drainage measurement unit (DMU).
[19] Some parcels may not be charged a fee based on the land use or conditions of the soil.
[20] Based on a five-year accumulative total escalating at 3% per year.

3.3 – Multiple Funding Sources for Marina Lagoon

In an earlier section there was a discussion of funding a portion of the MLD project through a benefit assessment. The estimated rate and revenue calculation showed that most properties in the City would pay a $10/year fee with a few others paying more ($50 or $150) based on proximity to the Lagoon. If that funding mechanism were enacted, the stormwater fee-based revenues estimated above would be reduced by the same $501,000 resulting in an annual rate savings of $11 (using the same formula shown above). This appears to be a relatively even trade-off: Reduce fees by $11 and enact a $10 assessment.

On the downside, the benefit assessment would require an entirely separate city-wide ballot measure. This presents challenges in costs, logistics, messaging to the community, and political realities. Two ballot measures for the same (or similar) reasons might be confusing to voters. In addition, if only one of the measures passed there would be a financial void to fill. For no apparent financial gain (i.e., $11 trade-off) such a strategy would seem ill-advised unless some other unforeseen factor emerged that added credence to this strategy.

3.4 – Community Support and Engagement

As noted earlier, there are two parallel tracks recommended for a successful funding initiative: Procedural and community engagement. A robust community engagement process is critical to the success of any stormwater program for two basic reasons: Community members often do not understand how their stormwater infrastructure and pollution prevention program are important to their quality of life; and, with a ballot measure being the ultimate test of whether a funding initiative succeeds, informing and bringing the community along cannot be overlooked.

The California Stormwater Quality Association's website contains an excellent section on community engagement.[21] Some of the highlights include the following:

- Start with "Why:" What changes have caused the City to ask for support and funding? Focus on topics such as aging infrastructure whose upkeep has been long-deferred, local flooding that can be addressed, and environmental concerns that are important to the community.
- Branding: Most communities are unaware of what a stormwater program does and why it is important. Branding will help get the message out to the community – preferably BEFORE it is time to ask for support in a funding initiative.
- Public Opinion Survey: While an opinion survey is also incorporated into the "know your needs" section of the procedural track, it is an important community engagement tool. Opinion surveys can be done in multiple, iterative steps with early versions surveying for general community priorities (public safety, traffic, roads and environmental issues) to help gauge where stormwater concerns lie in the overall

[21] https://www.casqa.org/resources/funding-resources/creating-stormwater-utility/community-engagement

scheme. Later surveys can focus on specific stormwater program elements and willingness to pay.

- Stakeholder Outreach: Gathering feedback from stakeholders and opinion leaders in the community early in the process is valuable. It helps when they know they can influence the direction the City moves before a potential funding measure is finalized. Continuing stakeholder involvement can reinforce and bolster that value.
- Community Outreach: This refers to the more general outreach such as mailers, social media and townhall-type meetings. This often occurs later in the process once a funding initiative is in motion and program priorities and funding/fees are relatively set.

Any Proposition 218 process necessarily includes two direct mailings to the voting community at large: Notice of the proposed fees and public hearing; and a mailed ballot packet. These public contacts are inevitable, come near the end of the process, and may be considered "bad news" (i.e., asking to approve a new fee). Therefore, it is advantageous if the community has already heard of the stormwater program, has been exposed to its community importance, and had some objective interaction with the City prior to the "bad news" portion of community engagement.

3.5 – RECOMMENDATIONS AND NEXT STEPS

This Analysis inventories the City's current levels of service and associated costs for a stormwater utility. It goes on to forecast those costs using a 30-year model based on the information gathered from City staff as well as the consultant team's expertise in financial forecasting and MRP requirements. As such, this Analysis forms a solid foundation to move to the next step: Develop a communication strategy and conduct a community opinion survey. These and subsequent steps should be conducted with sights set on the goal of forming a stormwater utility and establishing a dedicated, sustainable revenue stream.

3.5.1 – COMMUNICATION STRATEGY

Prior to conducting a survey, the City should develop a strategic communication plan that includes several elements:

- Identify primary stakeholders and open a dialogue. Early input can help formulate messaging strategies. This can range from selected individuals to existing groups to the formation of a blue-ribbon committee. It could also include study sessions by the City Council or selected committees.
- Begin branding the stormwater program through existing media channels with information about the extent and value of the program. Branding is intended to allow the community to learn about this critical program, but without broaching the subject of a possible revenue measure. This could be as simple as periodic articles in the newsletters and on existing website and social media outlets.
- Develop messaging elements that can be tested in a community opinion survey.

3.5.2 – COMMUNITY OPINION SURVEY

Most successful ballot measures are preceded by statistically valid opinion surveys. Well-crafted surveys can scientifically calibrate several metrics simultaneously:

- Community values and priorities
- Effectiveness of messaging strategies
- Willingness to pay for various levels of service

As the nation struggles with the COVID-19 pandemic, it is more important than ever to measure a community's position on all these elements. What civic leaders thought they knew about public opinion may no longer be accurate in a post-COVID world. And while a survey can provide the City with valuable information, it will also be an opportunity to begin getting the stormwater "brand" out into the community – a valuable early step in this process.

3.5.3 – STRATEGIES FOR RIGHT-SIZING THE RATES

As noted above, stormwater rates sufficient to fund the full cost of the program would run as high as $16 per month for the typical home – higher than most other municipalities in the State making it difficult to obtain voter approval. The community survey would be an opportunity to test the community's cost-indexed priorities. In other words, the survey could test two or three rate scenarios paired to their respective levels of service or improvements.

To assist in this exercise, the cost components are presented in a slightly different format in Table 8 below.

- In the blue rows, the FY 22 operating costs from Table 2 are grouped by current funding source: Wastewater Enterprise Fund (72); Solid Waste Fund (21); and General Fund (10). (*These are shown in a different order than Table 2.*) The Additional Needs cost is also shown from Table 2 and 6.
- In the gray row, the annual set-aside cost for the Marina Lagoon Dredging is shown from Table 7 and as described in Section 1.4 of this Report.
- In the orange rows, the FY 22 capital funding from Table 7 is broken out by CIP tiers.

The monthly rate components corresponding to each cost element is shown in the right half of the table. These are simply the $16 monthly rate pro-rated to each group of cost elements.

From these components, three rate scenarios are built and are summarized below.

- $16.00 – This scenario is the full rate that includes all identified costs and services.
- $12.47 – This scenario reduces the rates by relying on the current funding from Funds 21 and 72 (light blue) thereby reducing the revenue requirement and rates.
- $9.99 – This scenario further reduces the revenue requirement by eliminating 1) the lower priority projects recommended in the 2004 Storm Drain Master Plan (Tier 1)

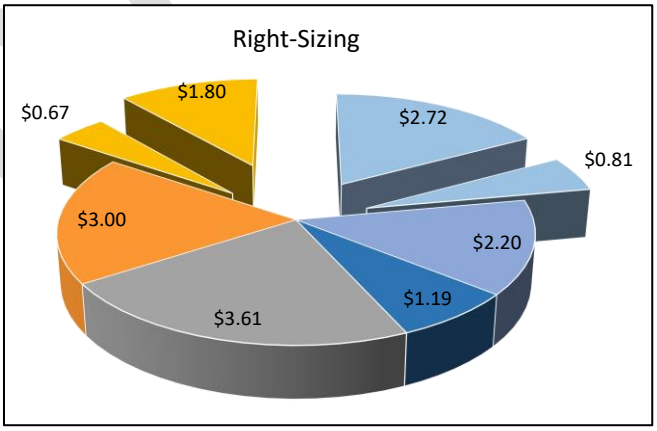
and 2) the $9.7 million Lagoon "kick-start" project (Tier 2). The latter would essentially defer the first lagoon dredging project by five years.

The $9.99 scenario represents the minimum level of service that could responsibly be recommended, although it would mean deferring several important CIP projects and rely on existing funding from the Wastewater and Solid Waste Funds.

TABLE 8 – RIGHT-SIZING THE RATES

Program	Fund	Cost (*in thousands*)	Monthly Rate Components		
Environmental Compliance	72	$ 232	$ 2.72		
Sewer Maintenance - Pump Repair	72	312			
Storm Sewer Maintenance	72	887			
Waste Mangement - Disposal	21	393	0.81		
Waste Management - Special Events	21	35			
Stormwater Pollution	10	466	2.20	2.20	2.20
Marina Lagoon	10	499			
Storm and Flood	10	189			
Additional Needs		625	1.19	1.19	1.19
Lagoon Set-Aside		1,900	3.61	3.61	3.61
CIP Tier 3		1,577	3.00	3.00	3.00
CIP Tier 2		355	0.67	0.67	
CIP Tier 1		945	1.80	1.80	
TOTAL		**$ 8,415**	**$ 16.00**	**$ 12.47**	**$ 9.99**

The prospective $16 rate is broken into its components in the pie chart below. The costs and respective rate components are color coded to assist in following the logic of this exercise.



These are offered as examples, but using the components shown are useful building blocks to construct other scenarios as the planning and implementation process advances.

Other strategies cold include pursuing supplemental revenue streams as identified above. Most of these can (and should) move forward regardless of the status of the stormwater utility funding initiative. Any additional revenue will only help to reduce the user rates needed to fund the stormwater utility. These include:

- Additional regulatory fees (plan review, inspections, etc.)
- Additional re-alignment opportunities

- Grants
- Partnering

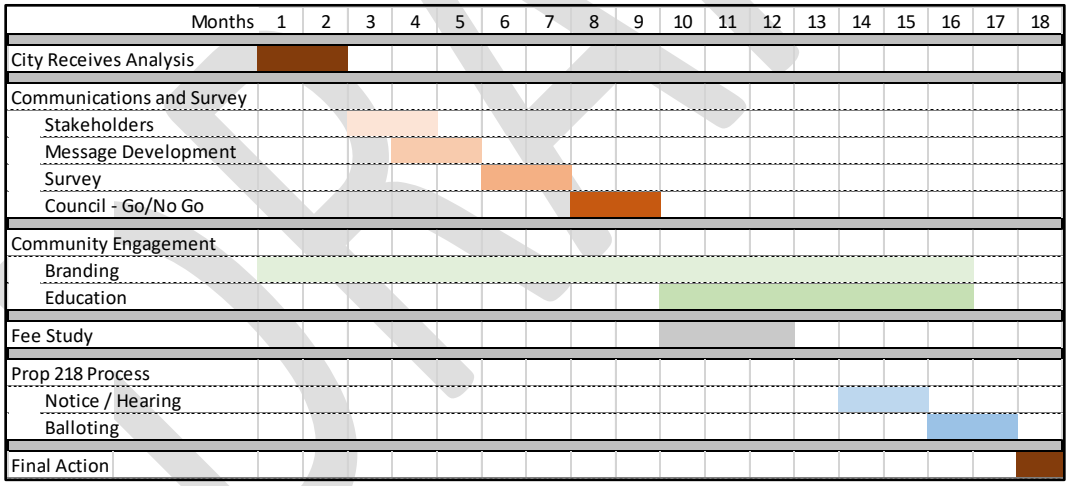
3.5.4 – Additional Planning Work

While this Analysis forms a solid foundation for any funding initiative, there are opportunities for the City to add to the information used for this planning effort. The most important opportunity is updating the 2004 master plan combined with a condition assessment. This effort will take considerable money and time to complete – both of which are in short supply currently. Nevertheless, being more confident in the City's needs will only help to bolster the community's confidence when it matters the most – at ballot time.

Another valuable piece of information is to learn whether Ox Mountain will be able to accept the dredging spoils from the MLD project. This would be a challenging task and will not erase all risk. But if this variable could be confirmed, it will further help the City to firm up the CIP costs (hopefully in a positive direction).

3.6 – Timeline

A detailed timeline cannot be formulated at this early stage. However, the City may want to allow for at least 18 months to complete the process. The preliminary timeline below shows an aggressive schedule. This could easily extend longer depending on time spent making policy decisions, additional public engagement, or calendar conflicts (e.g., general elections, holiday seasons).



APPENDICES

APPENDIX A – CLEAN WATER ACTIVITIES FUNDING ANALYSIS

On the following pages is a technical memorandum from Larry Walker Associates dated April 23, 2020 containing a planning-level cost estimate for the full costs of compliance with the current (and future) Municipal Regional Permit pursuant to the NPDES.

Memorandum

LARRY WALKER ASSOCIATES

DATE:	April 23, 2020
TO:	Sarah Scheidt, City of San Mateo
SUBJECT:	Storm System Activities Funding Analysis
Cc:	Matthew Zucca, City of San Mateo Jerry Bradshaw, SCI Consulting Group Kyle Tankard, SCI Consulting Group Karen Ashby, Larry Walker Associates

Airy Krich-Brinton
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1. INTRODUCTION

In the early 1990s, in response to the federal Clean Water Act (CWA) amendment of 1987 to address urban stormwater runoff pollution from Municipal Separate Storm Sewer Systems (MS4s) and the pending federal National Pollutant Discharge Elimination System (NPDES) regulations that would implement the amendment, the San Francisco Bay Regional Water Quality Control Board (Regional Water Board) issued municipal stormwater Phase I NPDES permits to the countywide urban areas of Santa Clara, Alameda, San Mateo and Contra Costa. These countywide areas had individual permits until 2009, when the Regional Water Board issued a Municipal Regional Stormwater Permit (MRP).[1] The MRP was subsequently reissued in 2015[2] and is anticipated to be renewed again in 2020-2021.

The MRP regulates stormwater discharges from municipalities in Alameda, Contra Costa, San Mateo, and Santa Clara counties, as well as the cities of Fairfield, Suisun City, and Vallejo in Solano County, and requires the following components, which includes a focus on specific pollutants/persistent water quality issues:

- C.1 Discharge Prohibitions and Receiving Water Limitations
- C.2 Municipal Operations
- C.3 New Development and Redevelopment
- C.4 Industrial and Commercial Site Controls
- C.5 Illicit Discharge and Elimination
- C.6 Construction Site Controls
- C.7 Public Information and Outreach

[1] Order R2-2009-0074, as amended by Order No. R2-2011-0083
[2] Order No. R2-2015-0049, as amended by Order No. R2-2019-0004

- C.8 Water Quality Monitoring
- C.9 Pesticides Toxicity Controls
- C.10 Trash Reduction
- C.11 Mercury Controls
- C.12 PCBs Controls
- C.13 Copper Controls
- C.14 Bacterial Controls
- C.15 Exempted and Conditionally Exempted Discharges
- C.16 Discharges to Areas of Special Biological Significance
- C.17 Annual Reports

The City of San Mateo (City) implements the stormwater program within its jurisdiction. Over the years, the range of actions and necessary level of effort to implement the stormwater program has increased in response to the evolving regulatory requirements and community needs. The City is able to offset some of the costs by participating in a comprehensive countywide effort, the San Mateo Countywide Water Pollution Prevention Program (SMCWPPP),[3] which was established in 1990. The program is a partnership of the City/County Association of Governments (C/CAG), each incorporated city and town in the county, and the County of San Mateo, which share a common NPDES permit, the MRP. As a result of the partnership, some of the MRP requirements are implemented directly by the municipalities, while others, such as public education and outreach and water quality monitoring, are addressed by SMCWPPP on behalf of the member agencies.

The purpose of this Technical Memorandum is to present the results of a planning-level cost estimate that has been developed to identify the full costs of implementing the stormwater program by the City over the next ten years. The results of this analysis may be used to support an evaluation of the need for and feasibility of a stormwater utility or other fee-based options. The cost estimate includes a summary of prior year expenditures (2018-2019) and current year (2019-2020) and future projected (2020-2021 – 2029-2030) implementation costs of the stormwater program.[4]

This memorandum is organized as follows:

1. Introduction
2. Approach
3. Results and Discussion
   3.1. Summary of Costs
   3.2. Detailed Costs

[3] https://www.flowstobay.org

[4] The City does not have a dedicated source of revenue for stormwater programmatic costs (i.e., regulatory, operations and maintenance). The City does have various potential sources of revenue for capital improvement project (CIP) costs, which are not detailed in this technical memorandum.

2. APPROACH

In order to understand the funding needs for the stormwater program, the costs for full implementation of the permit requirements must be understood and compiled. However, tracking and compiling staff time and resources across multiple departments and budget funds and accounts can be a complex and time-consuming process. To identify the implementation costs for the City as comprehensively and efficiently as possible, an interview was conducted with key staff that included structured questions and discussions regarding the agency's staffing, implementation approach(es) for the range of permit requirements, and the estimated costs for program implementation and compliance. *It should be noted that the costs described within this TM are for the regulatory, programmatic staff, and resource needs to comply with the MRP. These costs do not include ancillary operations and maintenance costs or capital improvement costs.*

The costs were compiled and organized by:

- Existing overarching program management costs (e.g., permit fees, CASQA, countywide efforts);
- Existing specific implementation costs related to MRP components (e.g., municipal operations, new development and redevelopment, construction); and
- Additional needs of the stormwater program (e.g., staff needs, future anticipated regulatory requirements).

Costs were then categorized by MRP provision, as applicable and feasible.

3. RESULTS AND DISCUSSION

A summary of the total City costs for full implementation of the stormwater program during the prior year (2018-2019), current year (2019-2020), and future years (2020-2021 through 2029-2030) is provided within this section. The information is presented in two ways: an overarching summary of costs (**3.1. Summary of Costs**) and a detailed breakdown of costs (**3.2. Detailed Costs**). The approach and assumptions used to develop each of these summaries are described below. All costs are in present-value dollars.

3.1. Summary of Costs

Costs for the existing and projected full implementation of the stormwater program were estimated based on budgetary and supplemental information provided by the City as well as best professional judgement regarding future, anticipated requirements. The approach used and assumptions made were as follows:

- Information used to determine existing costs was primarily provided by the City during the interview and follow-up communications.
    - Costs for the C/CAG countywide program are from the C/CAG Countywide Program Budget and were provided by the City for 2018-2019 and 2019-2020.

    - The stormwater permit fee is determined by the California Code of Regulations (CCR) Fee Schedule for NPDES Storm Water Fees.[5] The fee is based on the population from the most recently published United States (U.S.) census, which was 2010. The City is in one bracket (population between 75,000 and 99,999) based on the 2010 U.S. Census, but the most recent estimate (2018) places the City in the next bracket (population between 100,000 and 149,999).[6] Thus, it can reasonably be assumed that the City's fee will increase to $35,577 after the 2020 U.S. Census is published.

- Anticipated additional future costs included the following:
    - Provision C.10 requirements for trash - from the Draft Technical Memorandum, *Stormwater Trash Control Measures Cost-Benefit Evaluation* (December 2019).
    - Industrial and commercial inspections (Provision C.4) during 2019-2020 were identified by the City during the interview and follow-up conversations.
    - Costs associated with the renewal of the MRP were estimated using best professional judgment, assuming that the renewal would result in increased/new requirements that would require additional funds – estimated at 10% of the total existing costs beginning in 2021-2022.
- A 3% annual escalation factor (for personnel and equipment costs)[7] was included for the costs starting in 2019-2020.

Additional details regarding assumptions for potential cost increases related to specific Permit provisions are provided in **3.2. Detailed Costs**.

The total estimated costs for the previous year (2018-2019) and the current year (2019-2020), as well as the total projected future costs for the next ten years (2020-2021 through 2029-2030), are summarized in **Table 1** and **Figure 1**.

Below are a few key observations regarding the overall estimated costs:

- In 2020-2021, the estimated, total additional needs represent a 25% increase above the projected, total existing costs.
- In 2021-2022 through 2029-2030, the estimated, total additional needs represent a 40% increase above the projected, total existing costs for each year.
- Based on the information available and the assumptions made, between 2019-2020 and 2029-2030, the total cost of the stormwater program may increase significantly (i.e., from $758,000 to $1,482,000).

[5] 23 CCR § 2200. Annual Fee Schedules

[6] https://www.census.gov/quickfacts/sanmateocitycalifornia (Population, Census, April 1, 2010: 97,207; Population estimates, July 1, 2018: 105,025)

[7] Since the permit fee is based on the City's population from the most recently published U.S. Census, it is not subject to the percent increase.

Table 1. Overall Summary of Total Estimated Costs (Rounded) for Stormwater Program, by Cost Category and Fiscal Year

		Cost Category[a]		
Year Type	Year	Total Existing Costs[b]	Total Additional Needs[c]	Total Estimated Costs
Previous Year	2018-2019	$758,000	$0	**$758,000**
Current Year	2019-2020	$780,000	$0	**$780,000**
Future Years	2020-2021	$803,000	$203,000	**$1,006,000**
	2021-2022	$841,000	$337,000	**$1,177,000**
	2022-2023	$865,000	$347,000	**$1,211,000**
	2023-2024	$890,000	$357,000	**$1,247,000**
	2024-2025	$915,000	$368,000	**$1,283,000**
	2025-2026	$942,000	$379,000	**$1,320,000**
	2026-2027	$969,000	$390,000	**$1,359,000**
	2027-2028	$997,000	$402,000	**$1,399,000**
	2028-2029	$1,026,000	$414,000	**$1,440,000**
	2029-2030	$1,055,000	$426,000	**$1,482,000**

[a] All values rounded to the nearest thousand.
[b] Total existing costs include – overall program management (stormwater permit fee, CASQA/conference/training budget, and countywide program budget) and MRP program components.
[c] Total additional needs include – renewal of the MRP, industrial and commercial inspections, and trash implementation.

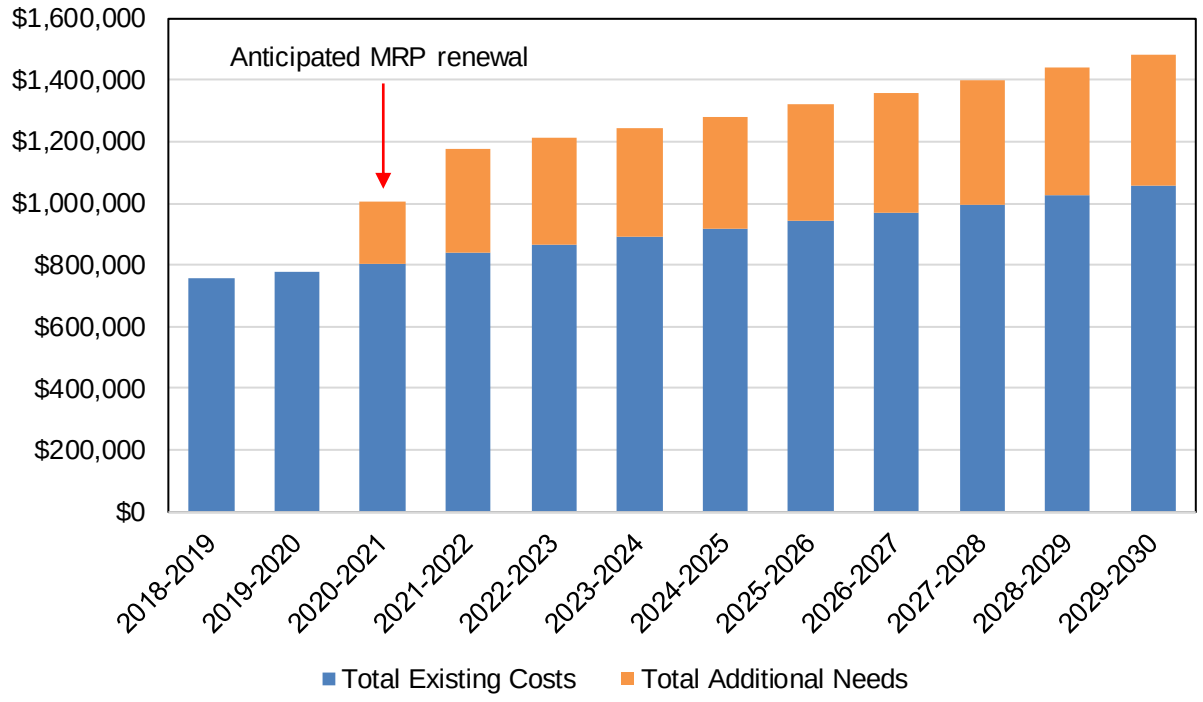

Figure 1. Summary of Total Existing Costs and Additional Needs, by Fiscal Year

3.2. Detailed Costs

Costs for stormwater program implementation for the MRP were estimated based on budgetary and supplemental information provided by the City, as well as estimates for the anticipated future costs.

The approach and assumptions used were as follows:

- Existing costs identified during interview with the City and/or follow up communications are shown in **Table 2**, organized by MRP provision.
- Additional future needs identified are shown in **Table 2** and are as follows:
    - Upon the renewal of the MRP, it is anticipated that there will be additional requirements that will need to be met. As such, it is assumed that there will be a 10% annual increase to the existing costs (estimated at $84,069, beginning in 2021-2022).
    - Beginning with fiscal year 2020-2021, costs for ongoing MRP implementation activities not included in existing costs were identified. These include:
        - Additional industrial/commercial inspection costs (Provision C.4), estimated at $26,499, beginning in 2020-2021;
        - Multiple trash-related requirements (Provision C.10), including ensuring full trash capture for private properties, enhanced street sweeping, enhanced public education, enhanced inspection, and additional creek and shoreline cleanups. These activities involve both one-time and ongoing costs.
    - One-time additional costs for specific trash-related activities were allocated to 2020-2021. These represent costs for one-time activities associated with implementing the current MRP provisions that are not included in existing costs. These one-time costs are higher in 2020-2021, then are reduced to a lower ongoing value for the following activities:
        - C.10 Trash: Full Capture Requirement for Private Properties
        - C.10 Trash: Enhanced Street Sweeping Program
- Future cost projections were based on the existing costs (from 2018-2019), additional annual costs (from the years they began, mainly 2021-2022), and an annual escalation factor of 3%, to account for inflation/cost of living increases. The costs that were affected by the 3% annual escalation factor are shown in green shading in **Table 2**.
    - No future cost projections were made for the one-time additional costs.

Table 2. Total Estimated Costs for Stormwater Permit Compliance, by Fiscal Year

	Cost Description	Assumptions	2018-2019	2019-2020[a]	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Existing Costs														
General Program Management														
	Stormwater Permit Fee	Fee based on 2010 U.S. Census; will increase after 2020	$21,344	$21,344	$21,344	$35,577	$35,577	$35,577	$35,577	$35,577	$35,577	$35,577	$35,577	$35,577
	CASQA/conference/training Budget		$4,000	$4,000	$4,120	$4,244	$4,371	$4,502	$4,637	$4,776	$4,919	$5,067	$5,219	$5,376
	C/CAG (Countywide Program Budget)	Includes costs for C.8, C.9, C.11, C.13	$103,697	$107,571	$110,798	$114,122	$117,546	$121,072	$124,704	$128,445	$132,299	$136,268	$140,356	$144,566
	Total General Program Management Costs		*$129,041*	*$132,915*	*$136,262*	*$153,943*	*$157,494*	*$161,151*	*$164,918*	*$168,799*	*$172,795*	*$176,912*	*$181,152*	*$185,519*
Existing Costs by MRP Provision														
PM	Program Management		$231,486	$238,431	$245,584	$252,951	$260,540	$268,356	$276,407	$284,699	$293,240	$302,037	$311,098	$320,431
C.2	Municipal Operations	Primarily accounted for in O&M activities	$29,057	$29,929	$30,827	$31,751	$32,704	$33,685	$34,696	$35,736	$36,809	$37,913	$39,050	$40,222
C.3	New Development and Redevelopment		$82,807	$85,291	$87,850	$90,486	$93,200	$95,996	$98,876	$101,842	$104,898	$108,045	$111,286	$114,625
C.4	Industrial and Commercial Site Controls	250 inspections annually	$24,978	$25,728	$26,499	$27,294	$28,113	$28,957	$29,825	$30,720	$31,642	$32,591	$33,569	$34,576
C.5	Illicit Discharge Detection and Elimination		$12,269	$12,637	$13,016	$13,407	$13,809	$14,223	$14,650	$15,090	$15,542	$16,008	$16,489	$16,983
C.6	Construction Site Control	Costs recovered by fees	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C.7	Public Information and Outreach													
	Clean-Up Events		$51,140[b]	$5,737	$5,909	$6,087	$6,269	$6,457	$6,651	$6,850	$7,056	$7,268	$7,486	$7,710
	Illegal Dumping		$156,572[c]	$161,269	$166,107	$171,090	$176,223	$181,510	$186,955	$192,564	$198,341	$204,291	$210,420	$216,732
	Materials		$25,000	$25,750	$26,523	$27,318	$28,138	$28,982	$29,851	$30,747	$31,669	$32,619	$33,598	$34,606
C.8	Water Quality Monitoring	Included in C/CAG	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C.9	Pesticides Toxicity Control	Some activities included in C/CAG	$3,584	$3,691	$3,802	$3,916	$4,033	$4,154	$4,279	$4,407	$4,540	$4,676	$4,816	$4,961
C.10	Trash Load Reduction		$2,531	$2,607	$2,685	$2,766	$2,849	$2,934	$3,022	$3,113	$3,206	$3,303	$3,402	$3,504
	Hauling waste for cleanups		$2,400	$2,472	$2,546	$2,623	$2,701	$2,782	$2,866	$2,952	$3,040	$3,131	$3,225	$3,322
C.11	Mercury Controls	Included in C/CAG	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C.12	PCBs Controls	Some activities included in C/CAG	$6,645[d]	$6,844	$7,050	$7,261	$7,479	$7,704	$7,935	$8,173	$8,418	$8,670	$8,930	$9,198
C.13	Copper Controls	Included in C/CAG	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C.17	Annual Reports	Accounted for in other elements	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Total MRP Provision Costs		*$628,470*	*$647,324*	*$666,744*	*$686,746*	*$707,348*	*$728,569*	*$750,426*	*$772,939*	*$796,127*	*$820,011*	*$844,611*	*$869,949*
Total Existing Costs (Rounded)			***$758,000***	***$780,000***	***$803,000***	***$841,000***	***$865,000***	***$890,000***	***$915,000***	***$942,000***	***$969,000***	***$997,000***	***$1,026,000***	***$1,055,000***

	Cost Description	Assumptions	2018-2019	2019-2020[a]	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Additional Needs														
	MRP costs (after renewal)	10% of Total Existing Costs, beginning in 2021-2022	$0	$0	$0	$84,069	$86,591	$89,189	$91,864	$94,620	$97,459	$100,383	$103,394	$106,496
C.4	Increased Ind/Comm Inspections	From 250 to 550	$0	$0	$26,499[e]	$27,294	$28,113	$28,957	$29,825	$30,720	$31,642	$32,591	$33,569	$34,576
C.10	Trash: Full Capture Requirement for Private Properties		$0	$0	$53,189[f]	$1,732	$1,784	$1,837	$1,893	$1,949	$2,008	$2,068	$2,130	$2,194
C.10	Trash: Enhanced Street Sweeping Program		$0	$0	$72,205[f]	$42,145	$43,409	$44,712	$46,053	$47,435	$48,858	$50,323	$51,833	$53,388
C.10	Trash: Enhanced Public Education		$0	$0	$50,930	$52,930	$54,518	$56,153	$57,838	$59,573	$61,360	$63,201	$65,097	$67,050
C.10	Trash: Enhanced Inspection Program		$0	$0	$0	$87,529	$90,155	$92,860	$95,645	$98,515	$101,470	$104,514	$107,650	$110,879
C.10	Trash: Additional Creek and Shoreline Cleanups		$0	$0	$0	$40,812	$42,036	$43,297	$44,596	$45,934	$47,312	$48,732	$50,194	$51,699
Total Additional Needs (Rounded)			***$0***	***$0***	***$203,000***	***$337,000***	***$347,000***	***$357,000***	***$368,000***	***$379,000***	***$390,000***	***$402,000***	***$414,000***	***$426,000***
Total Estimated Costs (Existing & Additional, Rounded)			**$758,000**	**$780,000**	**$1,006,000**	**$1,177,000**	**$1,211,000**	**$1,247,000**	**$1,283,000**	**$1,320,000**	**$1,359,000**	**$1,399,000**	**$1,440,000**	**$1,482,000**

[a] Green shading indicates that costs have been projected by an increase of 3% as an annual escalation factor.
[b] Estimated fully loaded rates for Recycling Programs Coordinator ($77), Recycling Coordinator ($77), Administrative Assistant ($50), and City Volunteer Coordinator ($77).
[c] Estimated fully loaded rates for Recycling Programs Coordinator ($77), Recycling Coordinator ($77), and Administrative Assistant ($50).
[d] Estimated fully loaded rate for Building/Planning Position ($77).
[e] The cost required to inspect 250 sites is $24,978 (375 hours). Because most of the overhead costs (e.g., new business review, quarterly meetings, and training) remain the same, the cost required to inspect and perform enforcement on 550 sites is anticipated to be $49,956 (750 hours), twice the original amount for 2018-2019. However, inspection of the additional 300 sites is assumed to begin in 2020-2021; therefore, it must be escalated by 3% twice (from $24,978 in 2018-2019 to $26,499 in 2020-2021).
[f] One-time cost.

APPENDIX B – EVALUATION OF POTENTIAL FUNDING SOURCES FOR STORMWATER COSTS

On the following pages is a technical memorandum from SCI Consulting Group dated February 24, 2020 containing an overview of various funding options for the City's hypothetical stormwater utility.

Date: February 24, 2020

To: Sarah Scheidt, Regulatory Compliance Manager
Public Works Department, City of San Mateo

Copy: Karen Ashby, Vice President, LWA.

From: Jerry Bradshaw, Senior Engineer

Subject: **Evaluation of Potential Funding Sources for Stormwater Costs**

SCI Consulting Group, in partnership with LWA ("SCI Team"), was engaged by the City of San Mateo to 1) analyze the true cost of delivering stormwater services to the City, 2) evaluate options for funding mechanisms to fund those costs, and 3) estimate the range of potential fees for service and plot a pathway forward. This memorandum summarizes the second task: Potential Funding Sources for Stormwater Costs.

This memorandum is intended to be a brief overview of stormwater funding options. For a more in-depth discussion of funding options, the City is referred to a report issued by the San Mateo Countywide Water Pollution Prevention Program: *Green Infrastructure Funding Nexus Evaluation*, October 2018. While that report was aimed at green infrastructure, it overlaps well with general stormwater funding. In particular, Appendix A of that report provides a matrix of funding options and includes pros and cons for each option. That appendix is attached to this memorandum for reference.

This memorandum is structured in the following way:

- Background
- Legal Landscape
- Overview of Funding Options for Stormwater Activities
    - Sorted by balloted or non-balloted
- Optimal Funding Approaches
- Other Revenue Mechanisms – Reasons for Not Considering
    - Consider as opportunities arise
    - Not practical
- Attachment: Matrix of Funding Options

BACKGROUND

The SCI Team is currently underway on Task 1 (true cost of stormwater services). While that effort continues, it is evident that the cost of delivering stormwater services to the properties in the City is significant, and would likely require a direct, property-related fee or tax to furnish the majority of that funding. It is also evident that such a substantial, dedicated funding source would require some restructuring of the financial and budgetary system currently in place; likely creating a new enterprise fund similar to the Sewer Fund. Our work is based on that assumption.

LEGAL LANDSCAPE

New sources of revenues for municipalities typically come in the form of taxes, fees, assessments and other charges, which are governed by two voter-approved initiatives: Propositions 218 and 26. Proposition 218 requires all taxes, fees and assessments to be approved through a ballot measure (with the exception of user fees for water, sewer and refuse collection services and a few other types of user fees as listed in Proposition 26). Obtaining voter or property owner approval through a ballot measure can be difficult and often puts many revenue mechanisms out of reach.

Proposition 218

Proposition 218, approved by California voters in 1996, addresses taxes, fees and assessments, with taxes and fees being pertinent to this Study. Most stormwater revenue mechanisms in the State are considered to be property-related fees under Proposition 218 (Article XIIID, Section 6). This category includes fees for water, sewer and refuse collection services, which must meet certain criteria to be in compliance:

- Revenues derived from the fee shall not exceed the funds required to provide the property-related service.
- Revenues derived from the fee shall not be used for any purpose other than that for which the fee was imposed.
- The amount of a fee upon any parcel or person as an incident of property ownership shall not exceed the proportional costs of the service attributable to the parcel.
- No fee may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees based on potential or future use of service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with the assessment section of the code.
- No fee may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to the property owners.

Proposition 218 imposes certain procedural requirements for imposing or increase property-related fees. There are two distinct steps:

1. A protest period that begins with a notice of the fee mailed to each property owner and a 45-day period where property owners may file a written protest culminating in a public hearing. If the owners of a majority of the parcels affected by the rates file a written protest, the agency cannot impose the fee. If a majority protest is not formed, the agency may move to the second step.
2. A ballot proceeding where the agency submits the fees to the electorate consisting of the owners of the affected properties. Based on each parcel counting as a vote, a fee is approved if more votes are cast for the fee than against it. Alternately, the agency may submit to the registered voters in the area affected in which case a two-thirds majority is required for passage.

Proposition 218 goes on to exempt fees for water, sewer and refuse collection from the second step. While there was no mention of stormwater fees in that list of exemptions, some municipalities considered stormwater (sometimes called “storm sewers”) to be in the category of sewers. The City of

Salinas was one of these municipalities and moved ahead with a stormwater fee in 1999 without submitting it to a ballot proceeding. A subsequent lawsuit was decided by the Sixth Appellate District against the City (2002), which established a legal requirement to submit stormwater fees to a ballot proceeding.

Senate Bill 231, passed by the California State legislature and signed by the Governor in October 2017, modified the Proposition 218 Omnibus Act, by adding a definition of sewer that included storm drainage. By doing this, stormwater fees would enjoy the same exemption from the ballot proceeding as do sewer fees. However, the legality of the statute will be tested by the sponsors of Proposition 218 (the Howard Jarvis Taxpayers Association) who have promised to sue any municipality that takes advantage of SB 231 by enacting or increasing stormwater fees without a balloting. So, unless a municipality is willing to risk becoming an SB 231 test case, it should continue to submit stormwater fees to a ballot measure.

Proposition 26

Proposition 26, approved by California voters in 2010, tightened the definition of regulatory fees. It defined a special tax to be "any levy, charge, or exaction of any kind imposed by a local government" with certain exceptions. Pursuant to law, all special taxes must be approved by a two-thirds vote of the electorate.

Regulatory fees are thus defined through the cited exceptions to the broad, all-encompassing assertion that all levies are taxes. The pertinent exception is "a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof." Hence, it seems that a portion of the City's stormwater costs (e.g., plan checks and inspections) may be funded through regulatory fees.

The other pertinent exception is, "assessments and property-related fees imposed in accordance with the provisions of Article XIIID." The Proposition goes on to state that, "the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity."

Overview of Stormwater Funding Options: Balloted versus Non-Balloted

In accordance with the legal requirements above, funding mechanisms are traditionally divided into two categories: balloted and non-balloted. Generally speaking, balloted approaches are less desirable because of the additional cost of the balloting and community outreach as well as the inherent risk of non-approval by the voters and the limitation on revenue associated with proposing a politically viable rate. Hence, non-balloted approaches generally should be researched, pursued and employed first as long as they can satisfy legal, administrative and other political requirements –unfortunately, California law requires balloted funding mechanisms in most cases. There are also other special financial mechanisms that are worth noting.

Balloted Mechanisms

There are two basic types of balloted measures appropriate for stormwater funding, namely, property-related fees and special taxes. Successfully implemented balloted approaches have the greatest capacity

to significantly and reliably fund stormwater management, but they are often very challenging to enact. Generally, the most important key to a successful ballot measure is to propose a project or program that is seen by the voting community to have a value commensurate with the tax or fee. The two greatest challenges are to craft a measure that meets this threshold, and then to effectively communicate the information to the community.

Since balloted funding mechanisms tend to be the most comprehensive, flexible, sustainable and defensible, they are often seen as underpinning an agency's entire program. Not only can they pay directly for services or projects, but a dedicated and sustainable revenue stream can also be leveraged to help secure grants, loans, partnerships, and many other opportunities that present themselves. Without such a dedicated revenue stream, those opportunities must often be missed. Ballot-based measures include:

- Property-related fees are similar to fees imposed for water, sewer and solid waste services. The primary difference between those fees and fees for stormwater services are that stormwater fees are required to be approved through a ballot measure in accordance with Proposition 218 where a simple 50% majority is required for passage (where one parcel equals one vote). In all other ways they are identical to the other utility fees: they require a fair-share apportionment of costs to rate payers as detailed in a rate study or other cost of service analysis; they cannot charge more than the proportionate cost of service (e.g., discounts or exemptions cannot be subsidized by other ratepayers); and all revenues must be spent only on the stormwater services. Property-related fees are the most common sustainable revenue mechanism employed by municipalities for stormwater management services.
- Special taxes are decided by registered voters and require a two-thirds majority for approval. Special taxes are well known to Californians and are utilized for all manner of services, projects, and programs. They are usually legally very stout and flexible and can support an issuance of debt such as loans or bonds in most cases. There are several types of special taxes, but the most common for stormwater services are parcel taxes. Other types of special taxes include sales, business license, vehicle license, utility users, and transient occupancy taxes. These types can also be implemented as a general (not special) tax, where they would only require a simple 50% majority for passage. But to qualify as a general tax, it must be pledged only for an agency's general fund with no strings attached, in which case any stormwater services must compete with other general funded services such as police, fire and parks. Although a general tax requires only a simple majority, voters tend to show better support for special taxes where the purpose of the tax is explicitly identified.
- General obligation bonds are familiar to the voting public. Such bond measures require a two-thirds majority for passage. Bonds are issued to raise funding up front and are repaid through a tax levied against property on the annual property tax bill. One primary restriction on GO bonds is that they can only be used for capital projects. While that includes land acquisition, planning, design and construction, the costs for maintenance and operations cannot be paid from the bond proceeds.

Challenges with balloted approaches extend beyond the requirement for voter approval; they include a lack of familiarity by stormwater professionals, the need for extensive community engagement and education, and a certain amount of political strategizing. Over the past 15 years, there have been fewer than three dozen community-wide measures attempted for stormwater throughout California, and the success rate is just over 50%.

	Property-Related Fee	Special Tax
Who Pays	Property Owners	Property Owners
Who Votes	Property Owners	Registered Voters
Vote Threshold	50%	66.70%
Votes When	Any Time	Established Voting Dates
Fairness of Rates	Strict Fairness Requirements	No Fairness Requirements
Other Features	* Tenants excluded from vote * No exemptions or discounts for low-income or seniors * Government and non-profit must pay * Each parcel gets a vote, unweighted	* Out-of-town owners excluded from vote * Exemptions or discounts allowed for low-income or seniors * Tax-exempt properties do not pay * Exemptions cut into revenues

Non-Balloted Mechanisms

Non-balloted funding mechanisms include regulatory fees, developer impact fees, and other opportunistic approaches to funding. While these funding approaches do not require voter approval, they still impact various segments of the community and therefore will be subject to the effects of local political forces.

Of these mechanisms, regulatory fees and realignment are the most applicable to the City in connection to compliance with the Municipal Regional Permit[1] ("MRP"), which is primarily a set of operational tasks (as contrasted with capital improvement projects).

- Regulatory fees are those which recover the actual cost of "issuing licenses and permits, performing investigations, inspections and audits, and the administrative enforcement and adjudication thereof."[2] In terms of the City's stormwater activities, this might include development plan checks and inspections, commercial and industrial inspections, and compliance with Senate Bill 205 requirements.
- Realignment is the term applied to reorganizing the internal workflow and/or financial tracking of revenues and expenditures of certain stormwater management activities that support other non-balloted fee structures (water, sewer and refuse collection). The most common examples are street sweeping and trash capture.
    - The MRP, as a stormwater pollutant reduction permit, requires the City to implement a trash load reduction plan. However, collecting trash/litter is a function of a community's solid waste collection system, whose fees do not require voter approval for increases. Therefore, the City could charge all of its trash capture expenses (capital, operations and maintenance, and administrative) directly to properties that contribute to the trash burden through an existing or new solid waste fee.

[1] The Municipal Regional Permit (MRP) is issued by the San Francisco Bay Area Water Quality Control Board pursuant to the National Pollution Discharge Elimination System (NPDES). The current permit is the second regional permit issues, and is known as MRP 2.0.

[2] Proposition 26, California Constitution, Article XIIIC, Section 1 (e)(3).

- Street sweeping is no longer required by the MRP, but the City continues that important function. However, street sweeping costs are already embedded into the City's solid waste rates, so no realignment is needed.

Grants and Loans

Grants and loans are typically one-time funds from an outside source. Because of their one-time nature, they are best suited for finite projects or programs (rather than ongoing and recurring operational and maintenance programs). Grants do not have to be repaid whereas loans do require repayment (usually with interest). Both require an agency to submit an application, which can be time-consuming and costly, and are usually competitive.

While grants and loans cannot be relied upon for the backbone funding for stormwater activities, they should be considered as a way to augment any other source of funding as opportunities arise.

Special Financing Districts

Special financing districts are financial structures created by local agencies for the purpose of levying taxes, fees or assessment for specific improvements and/or services provided. While most special financing districts require voter or property owner approval, they are often employed with new development projects when all the properties (and votes) are controlled by one entity (the developer). As such, the balloting becomes an administrative function with an assured outcome. To create a special financing district in established areas or neighborhoods would be much more politically challenging due to the balloting becoming a true ballot measure.

There are four basic types of special financing districts that apply to MRP activities: Benefit assessments; community financing districts (CFDs, or Mello-Roos); business improvement districts (BIDs); and enhanced infrastructure financing districts (EIFDs). Each of these can be used to support debt service. And each is examined below:

- Benefit assessments are relatively restrictive in that they must account for any general benefit to property not within the district, which in turn cannot be included in the assessment calculation for the properties. With stormwater, the general benefits could be considerable thereby diluting the funding potential for this option. This option requires a simple 50% majority (with ballots weighted by the amount of the assessment), and public or tax-exempt properties cannot be exempted. Since stormwater services are typically considered necessary rather than simply beneficial, they are usually viewed as a utility with user fees instead of an optional service that benefits property. Thus, benefit assessments have not been widely used to fund stormwater costs.
- CFDs utilize a tax (not an assessment) and are the most flexible. There is no "general benefit" restriction, and there is flexibility in exempting various types of properties (government, tax exempt, etc.). As a special tax, a two-thirds majority is required for approval. As with benefit assessments, these are most often used in new developments where the only voter is the developer.
- BIDs are limited to business districts, and some can be inclusive of a specified residential area/district. They can be used to assess property owners and/or business owners for certain improvements and services. Stormwater features can function as aesthetic improvements that are popular with business districts (e.g., permeable pavers on streets, bioswale bulb-outs, and rain gardens). A recent use of a BID in relation to stormwater activities is a "Green Benefits

District," which has been successfully pioneered by the City of San Francisco/SFPUC. Because they are limited to business areas or local neighborhoods, they are usually viewed as supplemental funding sources.

- EIFDs are a form of tax increment financing that captures the increase in property tax as properties within the district are developed to a higher assessed value (similar to the now-defunct redevelopment agencies). This is a relatively new mechanism (signed into law in 2014) and has only been implemented a handful of times around the state. The proceeds are intended to be used to enhance the properties within the district, usually through infrastructure improvements, which, in turn, fuels the property assessment increase. The most common infrastructure enhancements have been in the areas of transportation and parks, but utilities have also benefited. There is a potential for using this mechanism for stormwater infrastructure, although there hasn't been a successful implementation along those lines yet. One challenge is that EIFD funds cannot be used for operations and maintenance activities.

Development

Stormwater funding opportunities from the development community happen in one of two ways: Impact fees and/or in-lieu fees. Both pathways are heavily influenced by the MRP and do not usually become a significant revenue stream in a built-out community like San Mateo. They are discussed below.

- Impact fees must be crafted carefully to comply AB 1600 with a rigorous nexus to the type of development assessed the fee. For stormwater, most significant develop is governed by Provision C.3 which requires most new development to incorporate low impact development features on site. This results in development projects that typically do not create significant impacts on the City's stormwater infrastructure. Often, the result is that the new development has less burden on the stormwater system than the previous land use.

- In-lieu fees can be imposed either on a case-by-case basis or through an adopted program. The concept is that some developments cannot mitigate their impacts or meet their conditions of approval on-site and must mitigate off-site or contribute financially to the City's project or program that meets those requirements in lieu of the developer. An in-lieu program must be based on a City-sponsored project or program that can meet those requirements on behalf of certain development projects, and then monetize the impacts in some way. For stormwater requirements these usually involve the C.3 requirements mentioned above, and the City projects or programs are identified in the Green Infrastructure Plan (adopted in 2019). At this time, the City has not developed any such projects or programs.

Partnerships

By teaming up with other entities, an agency may not generate additional funding directly, but partnerships offer many other benefits that can aid in the overall resources needed to deliver stormwater projects and programs. These can come in the form of economy-of-scale savings or multi-benefit projects that can achieve multiple goals for a single price. Strategies include the following:

- Multi-agency Partnerships: These can create economies of scale and provide access to additional funding and other resources.

- Transportation Opportunities: Multi-benefit projects can deliver more outcomes cost-effectively. In some cases, transportation projects can provide all the funding for the stormwater elements.

- Public-Private-Partnerships (P3): These typically require a dedicated revenue stream to finance the project, but a P3 can create cost efficiencies as well as import needed expertise and other resources.
- Volunteers and Not-for-Profits: Some stormwater tasks such as trash capture and minor watershed stewardship can be performed by outside groups. Often these can be done for little or no cost (other than supervisory). When a n-f-p group charges for their skilled labor, the costs are often less than market rate.

Optimal Approaches for the Program

The funding needs of the City's stormwater program are a blend of operational, regulatory, and capital costs. Therefore, not all of the potential funding approaches listed above are practical. Some funding approaches might work well with certain aspects of the program, while others are more difficult to match to a funding mechanism. This section identifies the most practical approaches and identifies the pros and cons of each.

Property-Related Fee – Balloted

The most common funding mechanism for stormwater activities is the property-related fee. In accordance with Proposition 218, it would need to be balloted and voted on by all affected property owners.

Features

- Requires ballot proceeding. A 50% majority is required, with each parcel equal to a vote.
- Must allocate costs in a fair manner, usually documented in a cost of allocation analysis or fee study.
- Revenues can be used for all stormwater program costs such as operations, maintenance, capital improvements or equipment, and administration.

Pros

- Common fee mechanism.
- Legally stout.
- Flexible, can be used for any or all stormwater expenses.
- Can be used to secure debt.

Cons

- Must be approved in a ballot measure.
- Would require significant community outreach effort.
- Increasing or adding to existing fees is unpopular with property owners.
- Proposition 218 ballot process is unfamiliar to property owners.

Re-alignment

The two most common opportunities for re-alignment is in the area of trash or solid waste collection: Trash load reduction (MRP mandate); and street sweeping. The latter is already funded through the City's solid waste fees. Trash load reduction has two cost elements: Capital costs for purchasing and installing trash capture devices, and annual maintenance of those devices. The capital costs have been funded through a grant associated with the solid waste fund, but the annual maintenance will be an ongoing burden on the City. It is this last element that is an opportunity for realignment.

Annual maintenance costs of keeping the trash capture devices clear and operational will be considerable. These costs can justifiably be embedded into the existing solid waste fee mechanism or can be the basis for a stand-alone fee. These activities are considered refuse collection, and therefore a fee to fund these activities would not be required to go to the ballot. Instead, it would be subject to the same process as the existing solid waste fees.

Features

- If costs are added to the existing solid waste fee mechanism, they could be included at the next rate setting process.
- If costs are the basis for a stand-alone fee, rate setting must follow the same Proposition 218 process as the existing solid waste including the following:
    - Mailed notice of public hearing to all rate payers.
    - Conduct public hearing on proposed rates.
    - A majority protest can stop the rate setting process.
- Revenues can be used for all associated trash load reduction costs such as operations, maintenance, capital improvements or equipment, and administration.

Pros

- Common fee mechanism (similar to water & sewer rate setting).
- Balloting not required for refuse collection enterprise.
- Legally sound.
- Flexible, can be used for any or all expenses.
- Can be used to secure debt.

Cons

- Increasing or adding to existing fees is unpopular with property owners.
- Would require significant community outreach effort.
- Likely limited to only funding trash related activities.
- Few examples of a stand-alone fee for trash and litter in waterways.

Regulatory Fees

Proposition 26 limits regulatory fees to cost recovery only. As such, a rigorous cost of service study is recommended. A municipality should look closely at any and all costs associated with regulating private properties under the MRP such as plan checks, construction inspections, and ongoing certification of structural BMPs.[3]

Features

- A cost of service study is recommended to validate the amount of the fees and compliance with Proposition 26.
- Adoption by governing board.
- Usually included in a municipality's master fee schedule.
- Limited to cost recovery only.

Pros

- Balloting not required.
- Legally stout.

Cons

- Can only cover the cost of regulation; cannot cover costs of operations, maintenance, or capital expenses.
- Collecting inspection fees for post-project structural BMPs is difficult as the property owner has no more permits to obtain.

Other Revenue Mechanisms – Reasons for Not Considering

Below is a summary of reasons why various funding mechanisms are not good candidates for funding MRP tasks. These are broken into two categories: May be applicable as opportunities arise; and not applicable or practical.

Applicable as Opportunities Arise

- Grants
    - As one-time money, they can be very useful for funding projects or programs as applicable or available.
    - They cannot be relied upon for dedicated and sustainable revenue.

[3] BMP is an acronym that stands for best management practices. In the context of the MRP, BMPs are specific measures set forth in the permit and various guidance documents. Structural BMPs refer to permanent treatment controls such as bioswales, rain gardens, and retention/detention facilities.

- They typically require matching funds and post-project obligation for additional operations and maintenance activities and costs.

- General Obligation Bonds
  - GO Bonds are only used for capital projects; operations and maintenance cannot be funded with bond proceeds.
  - The two-thirds voter requirement make this approach impractical for MRP-related activities.
  - Repayment of bonds require a dedicated and sustainable revenue stream.
- Development (Impact or In-Lieu Fees)
  - Most developer-paid fees for stormwater impacts or facilities are usually overshadowed by their MRP requirements and do not usually result in the need for off-site or regional mitigation.
  - If any developer fees become feasible, they would most likely revolve around a focused project or program such as a Green Infrastructure program. As such, it could be handled off-budget from a stormwater enterprise financial structure.
- Special Financing Districts (BID or CFD)
  - BIDs and CFDs are typically applicable to local neighborhoods or new developments. These are usually formed to cover a variety of costs (not just stormwater).
  - They should be considered on a case-by-case basis with stormwater costs being part of the discussion.
- EIFD
  - EIFDs are not authorized to fund operations and maintenance activities.
  - The effort to study and implement an EIFD takes considerable resources.
  - An EIFD is geared toward self-improving an area, and MRP tasks do not usually directly support that objective.
  - If an EIFD is considered, MRP activities including drainage and watershed management and green infrastructure should be included as appropriate.
- Partnerships
  - The various partnerships approaches do not typically furnish funding directly.
  - As available, any help furthering the MRP goals and objects would be helpful.

Not Applicable or Practical

- Special Taxes
  - The two-thirds voter requirement make this approach impractical for MRP-related activities.

- Senate Bill 231 Path
    - The risk of litigation until it has been judicially confirmed makes this approach currently impractical.
- Benefit Assessments
    - Any general benefits must be funded by other sources such as the General Fund.
    - Stormwater services are more suited for a property-related fee instead of benefit assessment.

ATTACHMENT – MATRIX OF FUNDING OPTIONS

The attached matrix was developed by the California Stormwater Quality Association (CASQA) as is found on their website (link shown below). It provides a summary matrix of funding options and includes pros and cons for each option.

https://www.casqa.org/sites/default/files/downloads/funding_matrix.pdf

Stormwater Funding Matrix

2018

Summary Matrix Contents

Stormwater Funding Matrix

2018

Funding Category	Applicability	Requirements	Pros	Cons	Staff	Planning	Capital	O&M
Traditional Mechanisms								
1.01 Parcel Taxes	Can fund all or any parts of a stormwater program as stipulated in the ballot question and authorizing ordinance	Usually a 2/3 majority of voters (general taxes require only 50% majority, but can only go to General Fund)	* Flexible and legally stout; * Debt can be issued in most cases; * Most voters are familiar with Parcel Taxes	* Requires voter approval at the 2/3 level; * Must compete with other ballot measures	X	X	X	X
1.02 Other Special Taxes	* Business License Tax; * Vehicle License Fees; * Sales Tax; * Utility Users Tax; * Transit Occupancy Tax	Typically require a 2/3 voter approval	* Most are flexible in how they can be used; * 50% threshold can be used if a general tax;	* 2/3 voter approval is diffucult to attain; * Ballot measure can be expensive; * If a general tax, then stormwater must compete with other General Fund needs; * Must compete with other ballot questions	X	X	X	X
1.03 Property-Related Fees	Establishes Storm Drainage as a separate utility service and can fund all or any parts of a stormwater program	Prop 218 compliance; * Rigorous rate study; * Must define services and service area; * Property owners approval for non-Water, -Sewer, and -Garbage	* Flexible and legally stout; * Debt can be issued in most cases	* Ballot measure required if for a Storm Drain service - usually voted on by property owners (Not registered voters); * Ballot measure requires significant public outreach; * Public not familiar with balloted property-related fees	X	X	X	X
1.04 General Obligation Bonds	Can fund Capital Projects through debt taken on by municipality	* Voter approval at 2/3 level; * Will need Financial Advising Consultant	* Can fund capital projects or programs with debt paid back over time through property taxes; * Typically easier to pass than a parcel tax; * Taxes based on property value, so annual obligation of individual prop owner is vague	Can only be used for capital costs - Cannot be used for O&M or staff costs		X	X	
1.05 Senate Bill 231	Allows for adoption of property-related fees without having to go to ballot	* Cost of Service Analysis * Rate Study * Prop 218 Protest Hearing	Avoids the cost and risk of a ballot measure	* Taxpayers groups vow to sue on grounds of consititution / court provisions * Governing boards will still have political pressure to not raise rates	X	X	X	X
1.06 Regulatory Fees	Fees and charges for performing administrative activities related to GI	Cannot exceed the actual cost of performing activies such as permit issuanc, inspections, on-site mitigation, etc.	* No voter approval is needed; * Usually included in Master Fee Schedule; * Most municipalities already have these in place	Does not pay for capital improvements or O&M	X			
1.07 Developer Impact Fees	Could incorporate fees for mitigating stormwater impacts - Would not relieve developer of NPDES requirements	Must comply with AB 1600 and include a rigorous nexus study	Could help fund projects and programs	* Requires a nexus study, often times by a consultant; * Nexus study must demonstrate connection between development and GI need; * Administration of funds requires resources; * AB 1600 requires 5-year window for programming funds;		X	X	

Stormwater Funding Matrix

2018

Funding Category	Applicability	Requirements	Pros	Cons	Staff	Planning	Capital	O&M
1.08 Re-Alignment	Stormwater services that support groundwater recharge, diversion to wastewater treatment, or trash capture can be incoporated into existing property-related fee structures without need for ballot measure	Prop 218 compliance for realignment to Water, Sewer or Garbage - must demonstrate applicability	* Existing non-balloted fee mechanisms can help pay for stormwater services; * Enhances integration of stormwater into other muncipal activities; * Causes other utilities to recognize the value of stormwater programs	* Limited to activities attributable to other funded revenue centers; * Prop 218 hawks could challenge; * Outside revenue center will need to raise rates to fund GI activity - politically unpopular; * Has not been widely used; * May be unpopular with Water, Sewer and Garbage managers; * Water or sewer may be handled by separate agencies, making realignment impossible	X	X	X	X
1.09 Grants	One-time infusion of funds for qualifying projects from State or other granting authority	* Project concept must conform to grant requirements; * Most grants are competetive with limit funding available	* Grants are outside sources of funding that do not need to be repaid; * Readiness is a plus, so can benefit a project or program that is well developed and possibly designed; * Some State Revolving Fund loans can be converted to grants through forgiveness clauses	* Projects must be tailored to grant requirements, possibly causing scope and schedule creep; * Most grants require matching funds from other sources; * Most grants require commitment to post-project O&M, but do not fund those activities; * Little control over timing - can be difficult to coordinate with other funding sources; * Competitive nature lowers chances of obtaining grant; * Applying for grants can be time-consuming and require outside help from a grant writer; * Grant administration requires significant resources	X	X	X	???
1.10 Loans	Debt instruments can help accelerate project deliver while paying off debt over time	* Must have dedicated revenue stream to pay off debt; * Must have adequate credit rating to secure reasonable interest rates; * Some Bonds require voter approval	* Can leverage a modest revenue stream by borrowing money up front for rapid project delivery while paying off debt over longer periods of time; * Accelerates project delivery and makes coorination with other funding or projects easier	* Must have dedicated revenue stream to service debt; * Some debt mechanisms require voter approval (GO Bonds, Revenue Bonds, EIFD Bonds)	???	X	X	

Stormwater Funding Matrix

2018

Funding Category	Applicability	Requirements	Pros	Cons	Staff	Planning	Capital	O&M
Special Financing Districts								
2.01 Benefit Assessments	Can fund the construction and maintenance of stormwater projects and programs	Prop 218 compliance; * Rigorous Engineer's Report; * Must deduct general benefit from special benefit; * Property owners approval is required through a ballot proceeding (weighted voting); * Works best with new development due to voting requirement	* Flexible and legally stout; * Can fund both construction and maintenance; * Can use bonded indebtedness	* General Benefit must be separated and paid for by other sources; * Votes are weighted by assessment amount, favoring large land owners		X	X	X
2.02 Community Facilities District	Can fund the construction and maintenance of stormwater projects and programs	Requires vote by majority of landowners or 2/3 majority of registered voters	* Usually formed by developer, so only one ballot is cast; * Very flexible - can fund all aspects; * Subsequent annexation is simple; * Tax rate can be tiered to allow for retirement of debt yet continue with O&M; * Annual administration is more streamline than benefit assessments	* Difficult to form in an existing community due to 2/3 majority requirement; * Known as a Mello-Roos tax - which can have a negative connotation		X	X	X
2.03 Business Improvement Districts	Business and property owners tax themselves to build and maintain stormwater improvements	Formed by a municipality through a notice and protest hearing process.	* Flexible and legally stout; * Can fund both construction and maintenance; * Local improvements can generate local support and involvement * Stormwater improvements can also be amenities; * Can enhance sense of ownership and pride in the neighborhood when results are visible	* Cannot use debt financing; * Opposing businesses can disrupt the progress; * Can burden businesses & property owners so they are unwilling to support other funding measures		X	X	X
2.04 Enhanced Infrastructure Financing Districts (EIFD)	Captures property tax increment similar to redevelopment (RDA) for building and maintaining infrastructure	<u>With No Debt</u>: * Establish a Public Finance Authority; * Adopt a Financing Plan; * Resolution(s) from participating agencies <u>With Debt</u>: * All of the above; * Get approval from at least 55% of voters in District	* Can fund many types of projects; * Does not require a vote (unless debt is part of the plan, then a 55% majority is required); * Can include multiple municipalities and special districts, so area can be tailored to needs (e.g. watersheds, high legacy pollutant areas, countywide); * Does not require a blight finding; * Can overlap with former RDA areas; * Works well with master planned community with a single land owner; * Planning costs can be paid for from proceeds (with limitations); * EIFD can go for up to 45 years	* Education districts are not permitted to participate, so revenues would be much less than RDA; * If overlapping a former RDA area, then cannot proceed until RDA is issued a finding of completion from the State; * Stormwater is only a small piece of what an EIFD can do - it may take a back seat to other, larger community concerns; * Some agencies (i.e. special districts) may not agree to their portion of tax increment to be diverted thereby reducing revenue potential	???	X	X	X

Stormwater Funding Matrix

2018

Funding Category	Applicability	Requirements	Pros	Cons	Staff	Planning	Capital	O&M
Alternative Compliance								
3.01 Alternative Compliance	Allows developers who cannot meet on-site LID requirements to build (or pay for) off-site construction of LID elements	Municipality would need to have alternative projects ready - could bedone case-by-case	* Enables higher density development in certain areas (such as TOD and PDA); * Enables LID in public spaces that private developers would not normally participate in; * Funds can be pooled to finance larger or regional projects that can be more effective; * Post-project O&M can be added in the form of a cash payment or other consideration; * Municipality can be flexible in enforcement to allow hybrid compliance;	* Ad hoc negotiation with developers can be challenging * Agency will need to have off-site or regional projects ready to bring to negotiation	X	X	X	X
3.02 In-Lieu Fee Challenges	Allows developers who cannot meet LID requirements to pay into fund that would finance off-site or regional projects	Municipality would need to estimate the costs of mitigation - could be done case-by-case	* Enables higher density development in certain areas (such as TOD and PDA); * Enables LID in public spaces that private developers would not normally participate in; * Funds can be pooled to finance larger or regional projects that can be more effective; * Municipality can be flexible in enforcement to allow hybrid compliance; * Municipality may consider informal fee process, negotiating each individual developer through COA; * Funds can be leveraged for grants or loans	* Case-by-case approach can be difficult; * Developers will try to evade costs; * May need to comply with AB 1600	X	X	X	X

Funding Category	Applicability	Requirements	Pros	Cons	Staff	Planning	Capital	O&M
3.03 Credit Trading Programs	Creates LID Credit program for developers and others to trade GI responsibilities to others who have better capability to meet LID goals	A municipality (or regional entity) must create credit trading program including: * Definition of LID Credits; * Relative Value of Credits; * Timing of responsibilities; * Eligibility	* Allows developers who cannot meet NPDES or LID requirements to buy credits created by other entities; * Encourages developers or other entities who have greater LID capacity to over-build LID in order to sell credits in future; * Present value of future O&M costs can be incorporated into credit value; * Allows for flexibility to guide LID to areas with greater pollutant loading need; * May save developers money	* Very few Programs (to use as an example) have been implemented - particularly in California; * Credits may need to stay within same watershed; * Overbuilding LID in some areas may not help other areas; * Overbuilding LID can lead to overlapping LID zones; * Unclear if developers are willing to overbuild on speculation of future sale of credits; * Unclear how value of credits would be established; * Unclear if municipality would be credit broker, or if developers can deal directly with each other; * May be difficult to apply credits to public rights of way; * Costing future O&M is difficult		X	X	X
Partnerships								
4.01 Multi-Agency	Encourages partnerships with non-Stormwater agencies to explore GI co-benefits in their work	Examples may include: * Spreading basins for groundwater agencies; * GI project sites on school grounds; * GI on housing authority sites	* Can generate credits for Credit Trading Program; * Expands GI potential and awareness; * Flexible; * Can leverage limited GI funding to greater benefit	* Not cookie-cutter; requires customization; * May be diffucult to find partners	X	X	X	???
4.02 Transportation	Encourages partnerships with transportation agencies to explore GI co-benefits in their work and take advantage of Complete Streets or Green Streets programs	Examples may include: * Permeable pavements; * Roadside rain gardens; * Cisterns	* Most municipalities are also transportation agencies, so internal project coordination more likely; * Can generate credits for Credit Trading Program; * Expands GI potential and awareness; * Can leverage limited GI funding to greater benefit; * Recent increase in Gas Tax may make more room for GI elements	* Not cookie-cutter; requires customization; * May be diffucult to find partners; * Road condition woes prevail, making it difficult to shift funding to GI and other amenity-type elements; * Transportation grants may preclude using funds for GI	X	X	X	???
4.03 Caltrans Mitigation	Caltrans looks for opportunities for off-site mitigation of stormwater impacts of their highways	Local municipalities may enter in a cooperative agreement with Caltrans to build GI as a way for them to mitigate stormwater impacts of their highways	* Caltrans may furnish funding for local or regional projects that help them meet their obligations; * Locals can propose solutions that benefit both Caltrans and the local agencies	* Caltrans cooperative agreements can be cumbersome and bureaucratic; * Projects that work for Caltrans may be difficult to develop		X	X	???

Stormwater Funding Matrix

2018

Funding Category	Applicability	Requirements	Pros	Cons	Staff	Planning	Capital	O&M
4.04 Public-Private ("P3")	Private enterprises can provide overall solutions to GI programs through better access to resources and capital	P3 is primarily a deliver system for projects where debt provides near-term funding and project acceleration	* Bypasses some of the bureaucracy; * Can make existing funding sources work more efficiently; * Draws on private sector expertise and financing; * Debt may be tax-exempt; * Debt accelerates project delivery; * Can include design, build, finance, operate; * Debt is private - may not affect public ageny's debt capacity	* Does not provide additional funding; * Dedicated revenue stream is needed - cash flow is an important element		X	X	X
4.05 Financial Capability Assessment	Can allow an agency to delay compliance with certain NPDES permit requirements	Follow EPA guidelines for application	Allows a qualifying agency to defer compliance with certain Permit compliance requirements	* Not a source funding - only can grant time extenstions to Permit compliance; * Communities must meet several criteria such as poverty rates, income distibutions, bond ratings, etc.				
4.06 Volunteers	Volunteer groups can be a resource for certain stormwater operations and maintenance (O&M) as well as program planning	* To be effictive, volunteers need organization and oversight; * Can be used to supplement paid contractors, or perform entire projects	* "Free" labor; * Some volunteers provide needed expertise; * Increases awareness of stormwater program; * Some non-profit organizations have ready-made volunteer groups that are trained and organized; * Can build public support for dedicated revenue mechanism such as a fee; * Education program for community	* Requires significant staff resources to recruit, organize, train and plan & supervise the work; * Can be unreliable - hard to build schedule and cost forecasts around volunteer work force; * Can create conflict with prevailing wage requirements; * Difficult to incorporate into project construction work		X	???	X

APPENDIX C – RECENT STORMWATER BALLOT MEASURES

TABLE 9 – RECENT STORMWATER BALLOT MEASURES

Municipality	Status	Annual Rate	Year	Mechanism
San Clemente	Successful	$ 60.15	2002	Balloted Property Related Fee
Carmel	Unsuccessful	$ 38.00	2003	Balloted Property Related Fee
Palo Alto	Unsuccessful	$ 57.00	2003	Balloted Property Related Fee
Los Angeles	Successful	$ 28.00	2004	Special Tax - G. O. Bond
Palo Alto	Successful	$ 120.00	2005	Balloted Property Related Fee
Rancho Palos Verde	Successful , then recalled and reduced	$ 200.00	2005, 2007	Balloted Property Related Fee
Encinitas	Unsuccessful	$ 60.00	2006	Non-Balloted Property Related Fee adopted in 2004, challenged, balloted and failed in 2006
Ross Valley	Successful, Overturned by Court of Appeals, Decertified by Supreme Court	$ 125.00	2006	Balloted Property Related Fee
Santa Monica	Successful	$ 87.00	2006	Special Tax
San Clemente	Successfully renewed	$ 60.15	2007	Balloted Property Related Fee
Solana Beach	Non-Balloted, Threatened by lawsuit, Balloted, Successful	$ 21.84	2007	Non-Balloted & Balloted Property Related Fee
Woodland	Unsuccessful	$ 60.00	2007	Balloted Property Related Fee
Del Mar	Successful	$ 163.38	2008	Balloted Property Related Fee
Hawthorne	Unsuccessful	$ 30.00	2008	Balloted Property Related Fee
Santa Cruz	Successful	$ 28.00	2008	Special Tax
Burlingame	Successful	$ 150.00	2009	Balloted Property Related Fee
Santa Clarita	Successful	$ 21.00	2009	Balloted Property Related Fee
Stockton	Unsuccessful	$ 34.56	2009	Balloted Property Related Fee
County of Contra Costa	Unsuccessful	$ 22.00	2012	Balloted Property Related Fee
Santa Clara Valley Water District	Successful	$ 56.00	2012	Special Tax
City of Berkeley	Successful	varies	2012	Measure M - GO Bond
County of LA	Deferred	$ 54.00	2012	NA
San Clemente	Successful	$ 74.76	2013	Balloted Property Related Fee
Vallejo San & Flood	Successful	$ 23.00	2015	Balloted Property Related Fee
Culver City	Successful	$ 99.00	2016	Special Tax
Palo Alto	Successful	$ 163.80	2017	Balloted Property Related Fee Reauthorization of 2005 Fee
Town of Moraga	Unsuccessful	$ 120.38	2018	Balloted Property Related Fee
City of Berkeley	Successful	$ 42.89	2018	Balloted Property Related Fee
County of Los Angeles	Successful	$ 83.00	2018	Special Tax
Town of Los Altos	Unsuccessful	$ 88.00	2019	Balloted Property Related Fee
City of Cupertino	Successful	$ 44.42	2019	Balloted Property Related Fee
City of Alameda	Successful	$ 78.00	2019	Balloted Property Related Fee
City of Del Mar	Studying	NA	NA	Balloted Property Related Fee
City of Davis	Studying	NA	NA	TBD
City of Hillsborough	Studying	NA	NA	TBD
City of Sacramento	Studying	NA	NA	Balloted Property Related Fee
City of Salinas	Studying	NA	NA	Balloted Property Related Fee
City of San Clemente	Studying	NA	NA	Balloted Property Related Fee
City of San Mateo	Studying	NA	NA	TBD
City of Santa Clara	Studying	NA	NA	TBD
County of El Dorado	Studying	NA	NA	NA
County of Orange	Studying	NA	NA	NA
County of San Joaquin	Studying	NA	NA	Balloted Property Related Fee
County of San Mateo	Studying	NA	NA	NA
County of Ventura	Studying	NA	NA	NA

APPENDIX D – COMPARABLE STORMWATER RATES

TABLE 10 – SAMPLE OF RATES FROM OTHER MUNICIPALITIES

Municipality	Annual Rate	Type of Fee
Stockton *	$ 221	Property-Related Fee
Bakersfield	$ 200	Property-Related Fee
Palo Alto	$ 164	Property-Related Fee
West Sacramento	$ 144	Property-Related Fee
Sacramento (City)	$ 136	Property-Related Fee
Santa Cruz	$ 109	Special Tax
Culver City	$ 99	Special Tax
San Jose	$ 92	Property-Related Fee
Davis	$ 85	Property-Related Fee
Los Angeles County	$ 83	Special tax
Elk Grove	$ 70	Property-Related Fee
Sacramento (County)	$ 70	Property-Related Fee
San Clemente	$ 60	Property-Related Fee
San Bruno	$ 46	Property-Related Fee
Hayward	$ 29	Property-Related Fee
Los Angeles	$ 27	Special tax
Vallejo Sanitation and Flood Control District	$ 24	Property-Related Fee
Redding	$ 16	Property-Related Fee
Woodland	$ 6	Property-Related Fee

* This is the calculated average rate for the City of Stockton, which has 15 rate zones with rates ranging from $3.54 to $651.68 per year.