

City of Woodland

STORMWATER UTILITY FORMATION & RATE STUDY

FINAL REPORT
December 2020

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FCS GROUP
Solutions-Oriented Consulting

December 23, 2020

Mr. Peter Boyce, City Administrator
City of Woodland, WA
230 Davidson Avenue
Woodland WA, 98674

Subject: Stormwater Utility Formation & Rate Study

Dear Mr. Boyce:

FCS GROUP is pleased to submit this draft report summarizing the results of the Stormwater Utility Formation and Rate Study for the City of Woodland. The table below summarizes the recommended initial rates and subsequent annual inflationary increases. These rates are projected to provide the utility with sufficient revenue to cover anticipated baseline level of service operating costs associated with the City’s stormwater infrastructure.

Baseline Monthly Rates						
Exclusive of City Utility Taxes	2021	2022	2023	2024	2025	2026
Residential	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43
Non-Residential, per ESU	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43

It has been a pleasure to work with you and other City of Woodland staff on this effort. If you have any questions, please feel free to contact us at (425) 867-1802.

Yours very truly,



John Ghilarducci
Principal



Andy Baker
Project Manager



Amanda Levine
Analyst

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Section I. INTRODUCTION

I.A. BACKGROUND

The City of Woodland's (City) stormwater system is comprised of publicly owned streets, ditches, culverts, pipes, swales, detention ponds and other facilities that collect and/or convey stormwater. As of 2020, although the Public Works crew at Woodland maintains and manages these facilities, funding for these stormwater related costs does not come from a dedicated stormwater utility source, but rather from the City's Streets fund.

From discussions with City staff, it is estimated that just over \$200,000 a year from the Streets fund is directed stormwater activities. As a result, the City has fallen behind on their street maintenance.

To preserve funding for street maintenance and to properly fund and maintain the City's stormwater program, the City engaged FCS GROUP to prepare a stormwater utility formation plan. FCS GROUP prepared two level of service options for consideration – a baseline level of service and a full level of service.

The stormwater utility formation and rate study were completed and study results presented to the Woodland City Council on June 15, 2020, with additional Council consideration of findings on November 16, 2020. On December 7, 2020, the City Council adopted the following Ordinances and Resolutions establishing the Stormwater Utility and supporting stormwater utility rates:

- Ordinance 1466 – Stormwater Utility
- Ordinance 1473 – Amend Public Utility Tax on Water to 10.87% and Establish a 12.5% PUT for the proposed Storm Water Utility
- Resolution No. 733 – Set stormwater rates

I.B. METHODOLOGY

The Stormwater Utility Formation and Rate Study consists of three distinct phases. The first phase is the creation of the policy framework necessary for the establishment of the stormwater utility, including recommendations regarding fiscal policies (reserve targets, system reinvestment funding, etc.), rate structure options, and effective dates. The second phase is the rate study itself, which involves defining a baseline Level of Service (LOS) and the associated revenue needed to continue to provide existing services without burdening the Streets fund. The third phase is determining a rate that would fully meet the operating and capital needs of the City's new stormwater utility. This result is described as the Full LOS rate.

Section II. POLICY FRAMEWORK

II.A. FISCAL POLICIES

The financial plan is based on a framework of fiscal policies that promotes the financial integrity and stability of the City's new stormwater utility. The following discussion provides a brief summary of the key policies addressed in this analysis.

II.A.1. Reserves

A municipal utility requires certain minimum levels of cash reserves to sustainably operate. These reserves address the variability and timing of revenues and expenses as well as occasional disturbances in activities. Given the City's responsibility to provide essential services to its customers at a certain standard, protection against financial disruption is essential. This report reviews the recommended reserve policies for the City's new stormwater utility.

II.A.1.a Operating Reserves

Operating reserves provide a liquidity cushion to ensure adequate cash working capital is maintained to deal with significant cash balance fluctuations. As examples, fluctuations could be the result of seasonal instabilities in billings and receipts, unanticipated cash expenses, or lower than expected revenue collections. The industry standard is to maintain a minimum balance in the Operating reserve between 30 to 90 days of O&M expenses. The lower end of the range is more appropriate for utilities with stable revenue streams and the higher end is more appropriate for utilities with significant seasonal or consumption-based fluctuations. It is assumed that any operating funds above the minimum balance are available for capital purposes.

Once the utility is established, stormwater revenue is anticipated to be stable, as it not subject to seasonal variation like water utility revenues. However, because the utility will be new – and resulting revenue predictions are inherently more uncertain – we recommend a slightly higher minimum balance target. This study assumes a target minimum balance of at least 45 days of cash operating expenses.

II.A.1.b Capital Reserves

A capital contingency reserve is an amount of cash set aside in the event a piece of equipment or a portion of the utility's infrastructure fail unexpectedly or to fund unanticipated capital needs. Industry practices range from maintaining a balance equal to 1 to 2 percent of fixed assets, an amount equal to a 5-year rolling average of CIP costs, or an amount determined sufficient to fund equipment failure (other than catastrophic failure). The final target level should balance industry standards with the risk level accepted by the City policy makers.

This target does not drive rates in the first years of the utility as the priority of the City is the initial formation of the stormwater utility, and to begin to recover the costs that are currently being funded from the Streets fund. As the utility infrastructure grows over time, the level of capital reserves should be re-evaluated to reflect evolving needs of the utility.

II.A.2. Capital Funding

There are a number of capital funding sources available to municipal stormwater utilities, including debt, grant funding, developer contributions, general funds, and rate revenues. However, for a newly formed utility, we recommend that the City plan for two primary capital funding sources:

- Rate revenues
- Grant revenues for capital improvement projects later in the forecast which may be available to the City for stormwater projects, including the Stormwater Financial Assistance Program, Stormwater Capacity Grants, and the Water Quality Combined Funding Program (which includes Clean Water Act Section 319 Federal grants, Centennial Clean Water Program grants, and Clean Water State Revolving Fund loans)

We do not recommend that the City plan on issuing debt during this planning period, without a history of strong financial performance for the stormwater utility. Additionally, we do not recommend that the City plan on relying on developer contributions or the availability of general fund revenues in its planning for capital funding due to the uncertainty of such funds.

II.A.2.a System Reinvestment Funding

The concept of system reinvestment funding entails funding long-term infrastructure replacement needs through a regular and predictable rate provision. A system reinvestment funding program can be structured to consider the defined funding source (rates), accumulation of funds when funding exceeds near-term needs, and augmentation of funds (e.g. through debt) when replacement needs exceed available cash resources.

Based on discussions with City staff to maintain the initial rates as low as possible, both the baseline level of service and full level of service scenarios do not include funding for system reinvestment. Funding of this strategy should be considered in the future after the utility has been in place and the details of initial operations have been established.

II.A.2.b Debt-Related Policies

As discussed above, we do not recommend planning for the use of debt for capital funding in the initial formation of the utility.

II.A.3. Summary of Fiscal Policy Recommendations

We recommend that the City consider the following fiscal policies for the utility:

Policy	Recommendation
Operating Reserve	45 Days
Capital Reserve	Average of Annual CIP
Capital Funding	Cash & Grants, No Debt
System Reinvestment	None

II.B. RATE STRUCTURE POLICIES

In order to ensure that the rates for the City’s new stormwater utility are aligned with the City’s objectives, FCS GROUP prepared an evaluation of possible rate structures. The following discussion provides a brief summary of the rate structure alternatives considered and the recommendation for the City’s stormwater utility.

II.B.1. Objectives

Working with City staff, FCS GROUP identified the following objectives for the stormwater utility rate structure:

- **Equity.** Stormwater rates should appropriately reflect differences in the character of use and the demands the customer places upon the stormwater system. For example, the charge for a customer with a typical single-family lot versus a commercial strip mall should be different and should be proportional to the impact each customer has upon the stormwater system. The industry standard used to determine rate equity in stormwater systems is the amount of impervious surface area. As the amount of impervious surface increases on a property, so too does the amount of surface water runoff to be managed by the stormwater system.
- **Data availability.** A key consideration for any new utility is that the data to support the rate structure must exist or be readily available. For this study, measured impervious surface area was not available. FCS GROUP instead accessed Cowlitz and Clark County Assessors GIS data to determine parcel counts by class (residential or non-residential) and the surface area (lot size) associated with each parcels. Based on the Woodland Comprehensive Flood Hazard and

Management Plan, developed residential parcels were estimated to be 33 percent impervious, and developed non-residential parcels were estimated to be 70 percent impervious.¹

- **Administrative ease.** Related to data availability, the rate structure chosen should not require a significant amount of staff time to maintain on an ongoing basis and should be able to incorporate into the City’s utility billing system.

II.B.2. Rate Structure Options

The Revised Code of Washington (RCW) 35.67.010 classifies a stormwater system as a system of sewerage. RCW 35.67.020 authorizes cities to set stormwater rates, with the requirement that the rates charged shall be uniform for the same class of customer or service and facilities, and cites the cost of service as the primary reason that a City may use for differentiating between customers. To that end, there are a number of stormwater rate structure options that are often considered as potential bases for recovering the costs of stormwater management:

- **Impervious Surface Area:** The most common approach is to charge customers based on impervious surface area. Impervious surface is the hard surface area that prevents or impedes the permeation of water into the ground. Impervious surface area is widely accepted as an appropriate measure of a property’s contribution of runoff, providing a rational nexus to service received from a stormwater program. Given the diversity of impervious surface area that exists, it is common to charge based on actual measured impervious surface area.

Utilities often follow a different procedure for single-family residences, as tracking parcel-specific measurements of impervious area for these customers would add considerable administrative effort and complexity to the rate structure. To this end, the most common practice is to impose a uniform rate on single-family residences based on an estimated average amount of impervious surface area. Though this approach may overcharge smaller residences and undercharge larger residences, it is widely considered to be an acceptable compromise between equity and practicality. This approach is often referred to as an Equivalent Service Unit (ESU) approach.

- **Density of Development:** An alternative measurement of runoff contribution involves applying “density factors” to adjust charges depending on the percentage of the parcel covered by hard surface. This approach can acknowledge that, for example, 3,000 square feet of impervious area on a 5,000 square-foot lot more directly impacts the public system than an equivalent impervious area on a one-acre lot. As with the approach based on impervious surface area, this approach is an appropriate charge basis because it adequately quantifies the relationship between the rate paid and the level of service received. However, because of the challenges inherent in grouping

¹ Woodland Comprehensive Flood Hazard and Drainage Management Plan, Table 5-2.

parcels into density of development classifications, there is a risk of inequity, where parcels at the threshold between bins will pay significantly different rates despite being very similar.

- **Runoff Coefficients:** This approach is similar to the “density of development” approach in that it can be used to adjust a parcel’s charge based on its runoff characteristics – however, it is more closely associated with a parcel’s physical properties. When applied to lot size, runoff coefficients are generally accepted as a measure of runoff contribution (and thus the share of costs to provide service). Implementing this approach requires information relating to the physical characteristics of the property (e.g. slope and soil type), land use, and lot size. Depending on slope variables and soil characteristics, an undeveloped parcel may also be subject to charges under this approach.
- **Land Use:** Alternatively, runoff characteristics can be linked to types of land use. For example, an industrial land use may have a more significant contribution to water quality problems from stormwater runoff than undeveloped land, thus justifying a proportionately higher industrial stormwater rate. This approach requires the least amount of data to establish rates, but the simplicity in this approach may carry a reduced level of equity because different industrial parcels may contribute to runoff at significantly different rates.
- **Trip Generation:** While most rate structure options focus on runoff contribution, a structure based on trip generation would attempt to relate automobile traffic to non-point-source pollution contributed by properties. The Institute of Transportation Engineers’ Trip Generation Manual assigns a number of daily trips to specific categories of land use – this information could be used to recover the costs of water quality activities within the stormwater program. Customer land uses and lot sizes would also be required in order to calculate equitable rates. This rate structure type is most appropriate for stormwater utilities whose public policy goals are substantially driven by water quality rather than water quantity-related activities.

II.B.3. Recommendation

It is recommended that the City consider a fee structure that is based on estimated impervious surface area, using the ESU approach.

- **Non-Residential.** The charge basis for all non-residential customer types is generally actual measured impervious surface area, expressed as a number of ESUs. The rate itself is most commonly calculated as a dollar amount per ESU.
 - **Pros:** This rate structure is highly equitable and administratively easy once in place.
 - **Cons:** The primary challenge is collecting the impervious surface area of all non-residential customers.

Until the City is able to measure the actual impervious surface area of non-residential parcels, the estimated ESU charge is from a developed parcel review and an industry standard calculation of 4,000 sf/ESU assumption. These calculations are discussed in Section IV. Developed non-residential parcels are assumed to be 70% impervious.

- **Residential.** For residential customers, a uniform rate for all single family residential customers is recommended, with each single family residential customer equal to one ESU.
 - **Pros:** Administrative ease as each single family residential customer is considered one ESU and all single family accounts will be assessed a uniform rate.

- **Cons:** As discussed above, although this approach may overcharge smaller residences and undercharge larger residences, it is widely considered to be an acceptable compromise between equity and practicality.

II.C. STORMWATER RATE CREDITS

Many stormwater utilities provide rate credits or adjustments for utility customers who mitigate their stormwater impacts on-site. The following is a discussion of the rational basis for such credits and a recommendation for their implementation in the future.

II.C.1. Alternatives

Many residential subdivisions and commercial developments provide on-site retention / detention facilities as a condition of development, often maintaining such facilities as well. There are several ways to structure a potential rate credit for on-site retention / detention, the following among them:

- **Performance against current standards.** Rate credits may be structured to reward customers who provide mitigation that exceeds current development standards, while offering lesser or no credits for mitigation that does not exceed current development standards.
- **Low-impact development, green building, and rainwater harvesting.** Low-impact development (LID) techniques, such as rainwater harvesting, permeable pavement, open space retention, bio-retention swales and rain gardens could also be worthy of credits. Other aspects of LID, such as green (vegetated) roofs, may change the effective impervious area of a development or home if properly maintained because they reduce and filter runoff.

A credit for low-impact development would recognize the fact that effective impervious area can be much smaller than the impervious surface area that is measured from aerial photographs (due to roof rainwater collection systems, permeable paving, vegetated roofs, etc.). An LID credit may be further supported by the fact that even when the effective impervious area of such a development is the same as other, conventional residential developments, other LID practices such as vegetation replacement typically result in reduced runoff from the property.

Permissive rainwater harvesting systems receive a specific citation under RCW 35.92.020(3), which dictates that any new or remodeled commercial building which utilizes a properly sized permissive rainwater harvesting system shall receive a credit of at least ten percent, and that a larger credit be considered based on the amount of the rainwater harvested.

- **Dedicated open space.** Developments may incorporate design techniques that concentrate residences or other buildings in a compact area of the development site (lot clustering) and provide open space and natural areas elsewhere, protected by an easement. Such techniques can reduce runoff and mitigate stormwater quality issues.

II.C.2. Credit Analysis

When considering how to charge or credit different types of customers, it is important to remember that a stormwater rate is a fee for service, not a tax. As such, the level of a customer's charge must somewhat relate to that customer's proportionate share of the utility's costs. Credit policies have the potential to move a utility away from the rational linkage between service delivered and the fee amount, so the utility should bear in mind the equity and legal defensibility of any proposed credits.

A stormwater utility's service to its customers and the community it serves can be analyzed in two functional categories: controlling and reducing stormwater runoff (i.e. water quantity), and controlling and managing pollutants (i.e. water quality). The broader questions to address in establishing credits are:

1. Whether a rate payer helps the utility reduce its costs, or to avoid additional costs, by providing certain mitigation measures in these two functional areas; and
2. If yes, how much of a cost savings is provided?

II.C.3. Credit Policy Recommendation

Most of the stormwater program's costs are essentially "fixed" and do not decrease no matter what services customers provide on-site. As a first step, we recommend that the project team work to estimate the portion of program costs which can be reduced by the on-site activities of the customer base.

Once an allocation of program revenue requirements between fixed, or "base," program costs, and variable, or "use," program costs has been made, these component shares of the stormwater rate can be determined. The utility will then be able to determine whether the existing credits to customers exceed the use component of the charge.

The above recommendations ensure that properties subject to surface water rate credits would be reducing the average cost of utility operations, as well as possibly allowing the City to delay capital projects. As a result, the utility would be able to reduce its costs by implementing the recommended credit policies.

The following procedure is recommended to apply the resulting rate credit to the rate for a qualifying customer:

$$A = F \times C$$

Where:

A= the credit amount to be subtracted from the charge,

C=the percentage maximum credit, and

F= the total monthly charge without credit.

As this is a new utility, the number of property owners applying for a rate credit discussed above is not known. Due to this uncertainty, FCS GROUP did not make any assumptions with regard to the number of property owners that would apply, qualify for, or receive a stormwater rate credit as part of this rate study.

An appeal process will also be needed so that a nonresidential customer can appeal the impervious area assumption applied to their parcel. If the parcel is nonresidential and the measured impervious surface area on the parcel, as established by a licensed surveyor or engineer, is more than ten percent (10%) of an equivalent service unit greater than or less than the impervious surface area used in determining the charge, the corrected impervious area should be charged.

Pursuant to RCW 35.67.020(3), new or remodeled commercial buildings that utilize a permissive rainwater harvesting system properly sized to the available roof surface of the building are subject to a credit of a minimum of 10 percent, with credit in excess of that amount dependent upon the amount of rainwater harvested.

Section III. REVENUE REQUIREMENT

III.A. BACKGROUND

The revenue requirement is the amount of revenue that a utility's rates must generate to enable it fully to meet its various financial obligations. The rate revenue requirement is defined as the net difference between total revenue needs and the revenue generated through non-rate sources. Hence, the revenue requirement analysis involves defining and forecasting both needs and resources.

III.B. OPERATING FORECAST

Projected operating costs were developed through two primary sources:

- The City's Streets fund was evaluated to determine what stormwater costs are currently being paid for out of that fund, and how those costs should be assigned to the new stormwater utility. This provided a basis for the Baseline LOS.
- The City's Comprehensive Flood Hazard and Drainage Management Plan, with updates provided by City staff formed the basis of the full long term staffing, operations, and maintenance needs of the utility. This provided a basis for the Full LOS.

Once initial 2021 operating costs were developed, adjustments for inflation and any anticipated future changes (such as increases in programs or staffing levels) were applied to the forecast. This report focuses on the 6-year period from 2021 to 2026, although the CIP forecasts are from 2021-2030.

III.B.1. Fund Structure

The City desires to form a stormwater fund, which will account for all revenues and day-to-day operating and maintenance needs. For forecasting purposes and to clearly determine if operating and capital resources are meeting their separate needs, we have functionally divided this fund into operating and capital accounts.

The key assumptions and inputs used to develop the operating expense forecast are described below.

III.B.2. Economic Assumptions

The following major assumptions were applied in this rate forecast as applicable.

- General Cost Inflation – assumed to be projections from the King County Office of Economic and Financial Analysis ranging from 2.43% in 2021 to 2.61% in 2020.
- Construction Cost Inflation – assumed to be 3.0% per year based on historical data from the ENR Construction Cost Index (CCI) - 20 City Average Index, and confirmed with City staff.
- State B&O Tax: 1.5%

- Personnel Cost Inflation
 - Labor Cost Inflation – assumed to be 4.5% per year based on a 10-year historical average of the Employment Cost Index – Wages and Salaries Index, and confirmed with City staff.
 - Benefits Cost Inflation – assumed to be 6.0% per year based on discussions with City staff.
- Fund Earnings – ranging from 1.70% to 2.89% per year throughout the forecast period, from the Investment Pool, Nominal for Washington.
- Customer Growth – 0.50% per year based on discussions with the City.

III.B.3. Projected Operating Costs

After discussions with the City, stormwater-related costs were identified and isolated from the Streets fund for recovery in the stormwater rate. It was also determined that the City wishes to improve its stormwater system maintenance, and target a higher level of service and the costs associated with those items. These level of service additions go above and beyond what the City is currently able to fund from the Streets budget, and include items such as more frequent street sweeping, catch basin and dry well cleaning, and culvert & right-of-way maintenance.

Based on the above assumptions, two scenarios were developed: baseline and full levels of service. Full LOS shows the projected operating costs with the full levels of service built in, but phases over time to lessen the burden on rate payers. The phase in schedule is 0% in 2021-2022, and rises 25% each year from 2023-2025. In 2026, the city is projected to recover 100% of full level of service costs. The projected operating expenses of the new stormwater utility for both the baseline and full service levels are summarized in **Exhibit 1 and 2**, respectively.

Exhibit 1: Projected 6-Year Operating Expenses – Baseline Level of Service

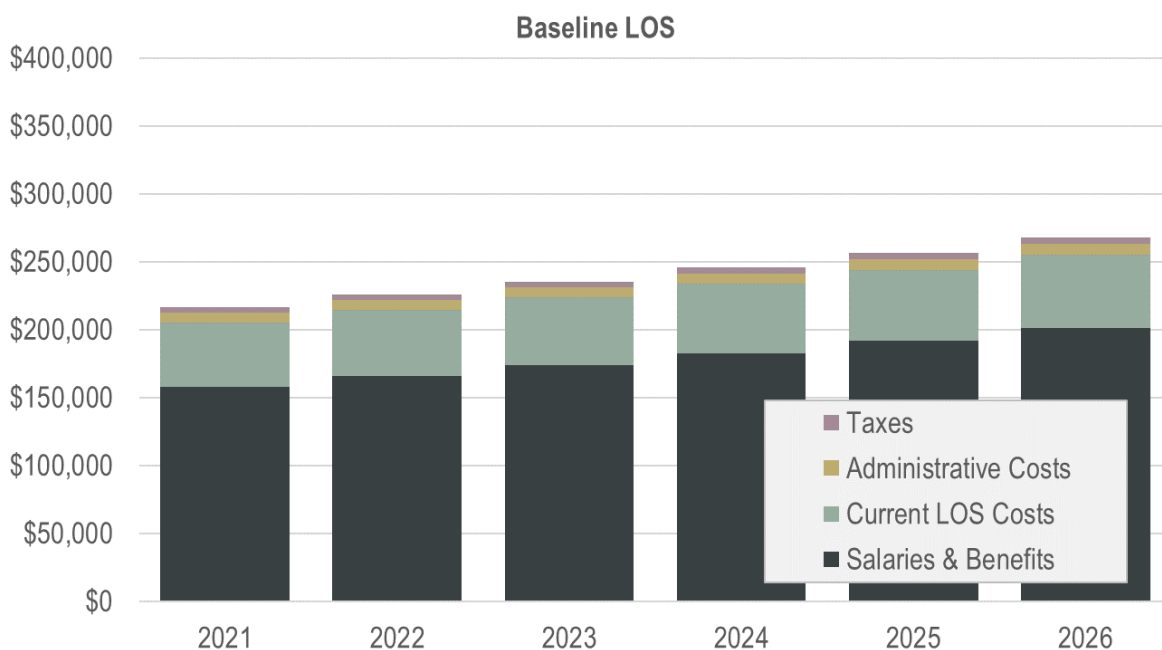
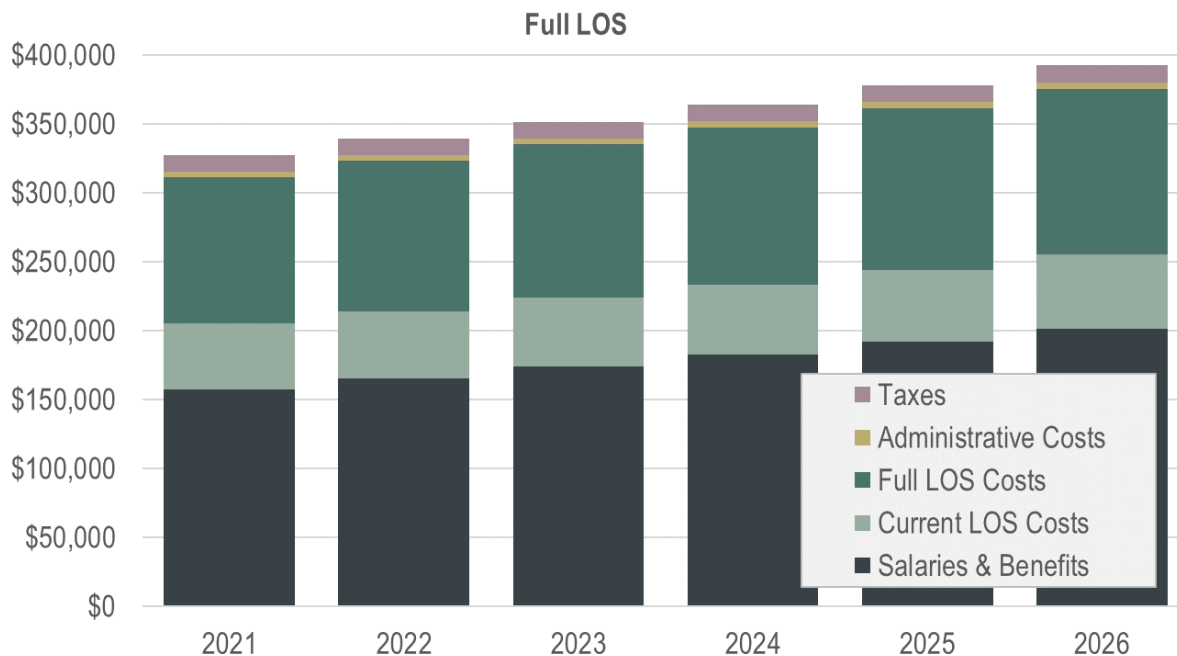


Exhibit 2: Projected 6-Year Operating Expenses – Full Level of Service



There are five categories of expenses:

- **Salaries & benefits** are the majority of the utility O&M expenses. Staffing includes the existing costs of engineering and field operators who will maintain, manage and administer the utility, and are currently paid out of the Streets fund. These estimates were provided by City staff and proposed to be removed from the City’s Streets budget.
- **Current LOS costs** include additional items that are currently being paid for by the streets fund and related to costs like current street cleaning efforts, professional services and pass through services.
- **Full LOS costs** include the City’s ideal service levels of street sweeping, catch basin and dry well cleaning. These estimates were developed and provided by City staff based on current maintenance levels.
- **Administrative costs** cover insurance, communication, and other miscellaneous costs associated with the administration of a utility. These costs were provided by the City staff.
- **Taxes** include the annual state Business & Occupation tax of 1.5% of revenue.

III.C. CAPITAL FORECAST

The capital forecast involves projecting annual capital expenditures and then developing a strategy to fund those expenditures. FCS GROUP and City staff compiled a list of capital projects for the new stormwater utility, summarized in **Exhibit 3**.

The proposed projects for the current level of service mostly comprise of ongoing annual catch basin and dry well repair and replacements at the current costs. Currently, it costs \$1,000-\$1,500 to repair and \$2,500 to replace the City’s catch basins, and they are being repaired at a rate of 10 per year.

Assuming all the catch basins are repaired, this gives the City their annual \$12,500 cost (between \$1,000-\$1,500 of costs multiplied by the repair rate). As for the City’s dry well repair and replacement, the City expects it takes \$10-15K to repair, and \$25-30K to replace their dry wells. Note that these dry wells are mostly concrete. Currently, the City is only replacing their dry wells once a year. This gives the City their annual project cost of \$30,000. In addition to these repair and replacements, the City also has a project for impervious area mapping that will better inform the ESU rates. Pipe repair and replacements costs are currently excluded from the baseline level of service capital programs as it was determined by the City these costs are “as needed only.”

The full level of service scenario also accounts for repair and replacement projects, but instead of repairing 10 catch basins a year, the City’s preference is to replace 15 a year. As for the dry wells, the City would like to replace three per year instead of one. Pipe repair and replacement would occur at the end of the planning period, with a goal of a 50 year cycle at \$5,000 per 30 ft. Based on the 38,232 ft of pipe from the City’s pipe data and a cost per foot of \$166, this results in an annual cost of \$127,443 starting in 2027.

In addition to a higher level of service (and higher costs) of repair and replacement ongoing capital expenditures, there is also the addition of specified CIP items. These include *SR 503 Stormwater Project for sidewalks*, the *Tie 2nd Ave & Loves into pipe at 2nd and Davidson* and the *30-36” Pipe replacement (80-100 years old) that is near SR 503 Roundabout*. These specified CIP items and repair and replacements will be phased in along with the maintenance additions to lessen the burden on rate payers (reaching 100% by 2026).

This amounts to a capital program cost of \$431,500 for the baseline level of service projects, and \$3,941,269 for the full level of service projects during the period of 2021-2030.

Exhibit 3: Annual Capital Projects (2020 \$)

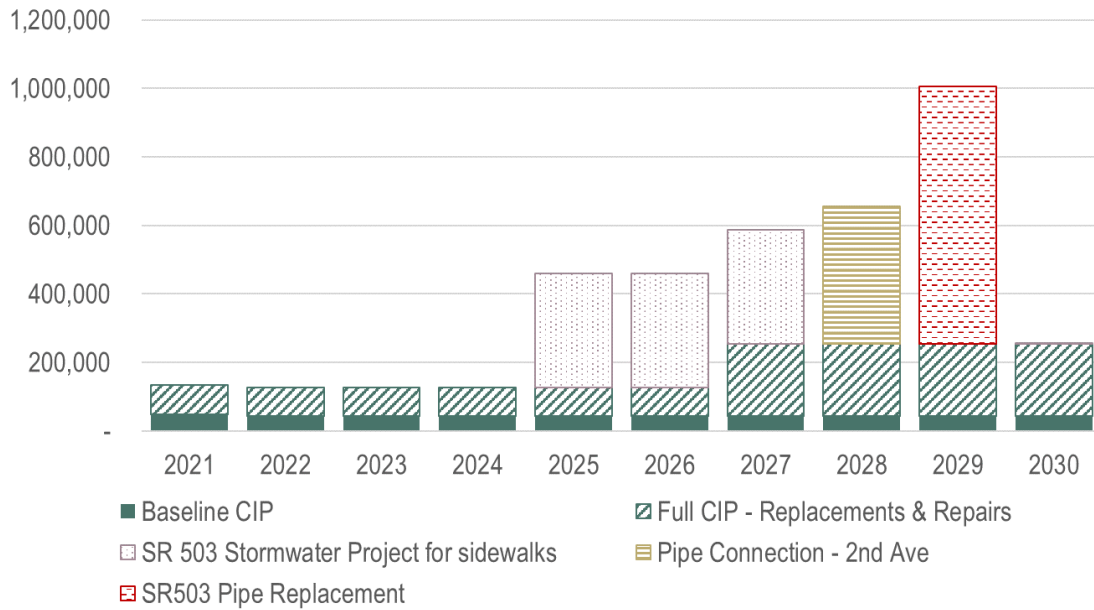
Capital Projects: Baseline LOS	Project Cost	Project Year
Catch Basins	\$125,000	2021-2030
Dry Wells	\$300,000	2021-2030
Impervious Area Mapping - Include in Baseline	\$6,500	2021
Total	\$431,500	

Capital Projects: Full LOS	Project Cost	Project Year
Catch Basins	\$375,000	2021-2030
Dry Wells	\$900,000	2021-2030
Impervious Area Mapping - Include in Baseline	\$6,500	2021
Pipes	\$509,770	2027-2030
SR 503 Stormwater Project for sidewalks	\$999,999	2025-2027
Tie 2nd Ave & Loves into pipe at 2nd and Davidson	\$400,000	2028
30-36” Pipe replacement near SR 503 Roundabout	\$750,000	2029
Total	\$3,941,269	

In collaboration with City staff, project timing was prioritized according to utility needs, and projects were staggered throughout the forecast period to minimize the annual impact on stormwater rates.

For example, the pipe replacements were scheduled after the other specified CIP items. The schedule of these annual capital costs in the CIP forecast period is shown below in **Exhibit 4**.

Exhibit 4: Capital Costs by Year (2020 \$)

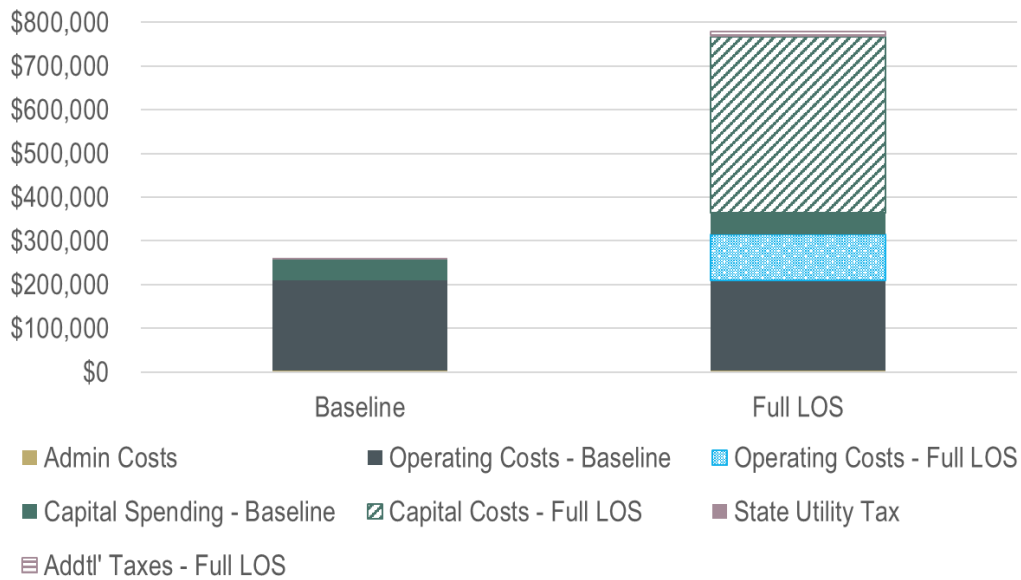


III.D. REVENUE REQUIREMENT

III.D.1. Annual Needs

The fiscal policies, operating needs and capital projects were combined to create the annual revenue requirement, shown in **Exhibit 5** for the first year of the new utility. This projection of revenue requirements for year 2021 is based on the best available information at the time of this study.

Exhibit 5: 2021 Projected Annual Revenue Requirement



Based on feedback from City staff and Council, minimizing the rate burden on their residents and businesses is essential to the success of the stormwater utility implementation. To achieve this, FCS GROUP was directed to establish the recommended costs for the baseline level of service. This is shown below in **Exhibit 6**.

Exhibit 6: Recommended Costs for 2021 Rate Recovery – Baseline Level of Service

Annual Costs	Full Cost	Rate Cost
Baseline Administrative Expense	\$ 7,030	\$ 7,000
Existing Costs incurred in Streets Fund	205,181	205,000
Estimated State Tax	3,442	3,000
Operating Minimum Balance Target	26,137	14,000
Baseline CIP	47,820	48,000
Total Revenue Requirement	\$ 459,858	\$ 277,000

Section IV. RATE DESIGN

As discussed above, based upon data limitations and the City’s policy objectives, a stormwater rate structure based on estimated impervious surface area and using the equivalent service unit (ESU) approach is recommended. The following section summarizes the analysis involved in developing the initial 2021 rate to fund the baseline revenue requirements described in the previous section.

IV.A. DETERMINATION OF BILLING UNITS

FCS GROUP relied on the following data sources to develop the billing units used in the initial rate calculation:

- Cowlitz County Assessor data and Cowlitz County Open GIS data for determination of developed Single Family and Non-Single Family parcels,
- Clark County Assessor data and Clark County Open GIS data for determination of developed Single Family and Non-Single Family parcels,
- City of Woodland *Comprehensive Flood Hazard and Drainage Management Plan* for assumptions regarding impervious area by land use type,
- City of Woodland water and sewer billing data for number of accounts participating in the City’s Low Income Discount program.

As described in Section II, under an ESU rate structure, all Residential (single family) parcels are billed a uniform rate of one ESU, with two exceptions. First, that parcels zoned as Single Family but which are undeveloped are not subject to a stormwater rate. Second, parcels owned by customers participating in the City’s Low Income Discount program will receive the same 25 percent discount on their stormwater charge – effectively being charged as 0.75 ESU each. The Residential billing units are summarized in **Exhibit 7**.

Exhibit 7: Residential Billing Units

	Undeveloped Residential Parcels	Low Income Discount Participants	Developed Residential Parcels	Total Residential Parcels
Clark Co. Parcels	0	0	15	15
Cowlitz Co. Parcels	86	40	1,300	1,426
Total Parcels	86	40	1,315	1,441
ESUs per Parcel		0.75	1.0	
Total Residential ESUs		30	1,315	1,345

Non-residential billing units are established based on the impervious surface area of each parcel. Because a comprehensive mapping of impervious surface area in the City has not yet been conducted at time of this study, determination of non-residential billing units relies on assumed densities by land use as established in the City’s *Comprehensive Flood Hazard and Drainage Management Plan*, to be used until the City is able to complete a mapping of each non-residential parcel for ESU determination purposes. Per Table 5-2 of the *Plan*, a range of 20 to 45 percent impervious is assumed for single family residential, 70 to 85 percent impervious for high density residential, 80 to 90 percent impervious for commercial and heavy industrial, and 80 percent impervious for light industrial. Based on these ranges, FCS GROUP used an average impervious of 33 percent for single family residential. This assumption is used to establish a determination of 4,000 square feet (sf) per ESU, as follows:

ESU Determination

$$= \frac{\text{Area of Developed Residential Parcels} \times \text{Average Imperviousness}}{\text{Number of Developed Residential Parcels}}$$

$$\text{ESU Determination} = \frac{17,327,156 \text{ sf} \times 33\%}{1,355 \text{ parcels}} \cong 4,000 \text{ sf}$$

Note: the ESU determination is rounded to 4,000 sf/ESU.

The number of Non-Residential ESUs is determined using the following steps:

1. Identify Developed Non-Residential parcels, based on County Assessor data.
2. For each individual parcel, apply the percent imperviousness assumption to the total area to estimate the impervious area. Using the ranges of percent imperviousness above, the most conservative assumption of 70 percent was applied.
3. Compute the ESUs for each parcel, based on the calculated impervious area and the ESU determination of 4,000 sf/ESU, rounded down to the nearest 0.1 ESU.

After this primary analysis, all parcels exceeding 20 ESUs were evaluated individually in a secondary analysis using County Assessor data, aerial imagery, and Google StreetView™ data to validate the reasonableness of the 70 percent imperviousness assumption. Following this process, 9.5 percent of developed Non-Residential parcels were excluded from the billing units. ESU determinations for those parcels will need to be established by on-site evaluation by City personnel or as part of the comprehensive impervious area mapping effort. A summary of the Non-Residential billing unit analysis is summarized in **Exhibit 8**. A complete list of developed Non-Residential Parcels and estimated ESUs is included in **Appendix A**.

Exhibit 8: Non-Residential Billing Units

	Undeveloped Non-Residential Parcels	Developed Non-Residential Parcels	Parcels Excluded based on secondary analysis	Total ESUs
Cowlitz County	553	510	47	3,742.4
Clark County	1	5	2	58.9
Total	554	515	49	3,801.3

The total number of billing units are summarized in **Exhibit 9**.

Exhibit 9: City of Woodland Stormwater 2021 Equivalent Service Units

Customer classification	Number of ESUs
Residential	1,315
Low Income Discount	30
Non-Residential	3,801
Total ESUs	5,146

IV.B. DETERMINING THE STORMWATER RATE

Using the revenue requirement determined in the previous section, a calculation of the initial 2021 required rate to be assessed on each ESU can be made as follows:

$$2021 \text{ Rate per ESU} = \frac{\text{Annual Revenue Requirement}}{\text{Total Number of ESUs}}$$

$$2021 \text{ Annual Rate} = \frac{\$277,000}{5,146 \text{ ESUs}} = \$53.83/\text{ESU}$$

The result may be divided again by twelve to convert it to a monthly charge of \$4.48 (\$53.83 divided by 12).

$$2021 \text{ Monthly Rate} = \frac{\$53.83/\text{ESU}}{12\text{months}} = \$4.48/\text{ESU/month}$$

IV.C. PROPOSED RATES

Based on the revenue requirement and rate design process we recommend a 6-year rate schedule as shown in **Exhibit 10**.

Exhibit 10: Proposed 6-Year Monthly Rate Schedule

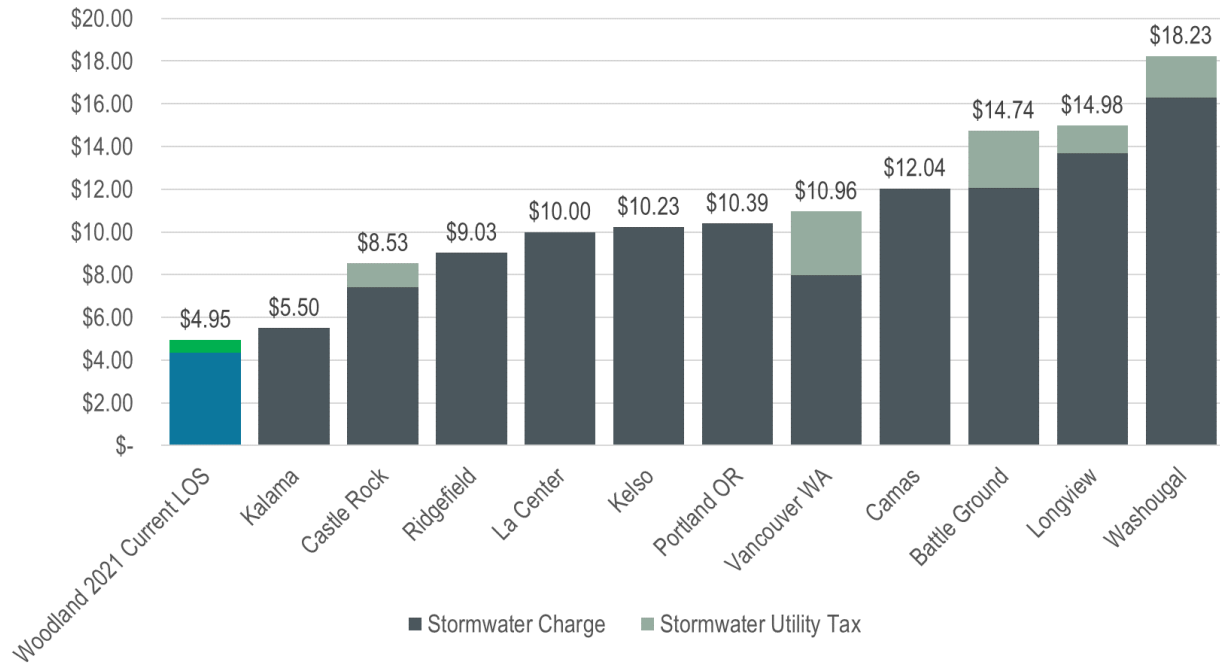
Baseline Monthly Rates Exclusive of City Utility Taxes	2021	2022	2023	2024	2025	2026
Residential	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43
Non-Residential, per ESU	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43

IV.D. RATE SURVEY

The following rate survey can be used as a comparison and benchmark for reasonableness of rates.

Exhibit 11 compares the proposed 2021 monthly single-family residential stormwater bills for Woodland and the current bills of eleven nearby jurisdictions.

Exhibit 11: Monthly Stormwater Residential Bill Comparison



Section V. RECOMMENDATIONS

The rate recommendations detailed in Section IV.C are based on the best available information at the time of the study. While the recommended rates shown below in **Exhibit 12** continue through 2026, we recommend that the City evaluate, over the course of 2021, both its overall revenues and the expenditures of its new stormwater utility, due to the uncertainty inherent in establishing a new utility. Based on the City’s desire to minimize burden on its ratepayers, we recommend that the City maintain its Baseline LOS In addition to keeping a close eye on revenues and expenditures throughout 2021, it is recommended that the City work to review the unassigned parcels to determine the appropriate stormwater class to apply and amend their billing database accordingly.

Exhibit 12: Proposed 6-Year Monthly Rate Schedule

Baseline Monthly Rates Exclusive of City Utility Taxes	2021	2022	2023	2024	2025	2026
Residential	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43
Non-Residential, per ESU	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43

It has been a pleasure working with City staff on this study evaluating the formation of a stormwater utility in 2021.

Section VI. APPENDIX

VI.A. RESOLUTION 733 – STORMWATER FORMATION

VI.B. RATES MEMORANDUM

RESOLUTION NO. 733

A RESOLUTION of the City Council of the City of Woodland establishing certain charges and fees relating to the city’s stormwater service.

WHEREAS, the City Council received a briefing on the options for forming a stormwater utility on June 15, 2020;

WHEREAS, management of stormwater runoff is critical to protecting property from surface and roadway flooding, preventing excessive erosion, and protecting the health of rivers and streams;

WHEREAS, the City Council received subsequent briefings on a citywide rate study, including stormwater rates, on July 6, 2020, August 3, 2020, August 17, 2020, and on September 8, 2020;

WHEREAS, the City Council adopted Ordinance 1466 establishing a new stormwater utility;

WHEREAS, the City Council has determined that a new equivalent service unit (ESU) based rate structure best meets the current and future needs of the community in providing reliable storm and surface water management services; and,

WHEREAS, following a duly advertised public hearing held on November 16, 2020 the city council directed staff to prepare documents establishing stormwater rates.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WOODLAND that the following rates, charges and fees applicable to the city’s water service be and hereby are fixed and imposed, effective February 16, 2021 [billed on April 2021].

(1) Equivalent Service Unit Definition:

A. One Equivalent Service Unit (ESU) is established at four thousand (4,000) square feet of impervious surface area. For the purpose of computation of service charges, the number of Equivalent Service Units shall be rounded to the nearest tenth (0.10 units).

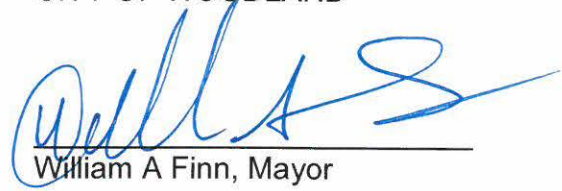
(2) Stormwater Service Charge:

A. A monthly charge, per Equivalent Service Unit

Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
\$ 4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23

PASSED this 7th day of Dec, 2020.

CITY OF WOODLAND




William A Finn, Mayor

ATTEST:



Mari E. Ripp, Clerk/Treasurer

APPROVED AS TO FORM:



Frank F. Randolph, City Attorney

To: Pete Boyce, City Administrator
Tracey Coleman, Public Works Director
Mari Ripp, Finance Director

Date: September 21, 2020

From: Martin Chaw, Project Manager

CC: Angie Sanchez Virnoche, Principal

RE: City of Woodland – Council Approved Utility Rates for inclusion in rate ordinances

This memorandum memorializes the new rates based upon our corresponding financial rate studies and as approved by Council.

Council action: Tuesday, September 8, the City Council endorsed new cost-of-service based rates for the Water and Sewer utilities, and approved initial rates to support formation of a new Stormwater utility. The Council approved Water Option #3, Sewer Option #3, and Stormwater Option #2 – see attached appendix. The Council also approved moving to monthly billing.

These new rates become effective February 16, 2021, the first day of the second billing cycle in 2021. We understand that the Council is expected to approve these rates at their regular meeting on or about November 16, 2020. Once the new rate ordinances are adopted, please send to us signed copies for our files.

Utility taxes: The rates presented are exclusive of City utility taxes. Utility taxes in our modeling is a pass-through expense. If the City Council approves the reduction in the City Water Utility tax, as assumed in our rate study from 12.50% to 10.87%, this can be achieved without affecting the presented rates.

Assessment charges: Also included below are the updated Water and Sewer connection charges. These charges represent the maximum amount that the City can defensibly charge to new utility connections. The City may elect to charge less, but should not charge more than the amounts shown.

Table 1. Water Utility Monthly Fixed Charges

Meter Size	\$ / Monthly Fixed Charge					
	Existing	2021	2022	2023	2024	2025
Inside						
5/8 or 3/4	\$ 24.57	\$ 25.00	\$ 29.77	\$ 35.28	\$ 37.54	\$ 39.92
5/8 or 3/4 - Discount	-	18.75	22.33	26.46	28.15	29.94
1.0"	58.99	62.50	74.43	88.20	93.85	99.80
1.5"	68.83	125.00	148.86	176.41	187.70	199.61
2.0"	95.86	200.00	238.17	282.25	300.32	319.37
3.0"	294.94	400.00	476.34	564.50	600.63	638.74
4.0"	368.68	625.00	744.28	882.03	938.49	998.03
6.0"	540.73	1,250.00	1,488.56	1,764.05	1,876.98	1,996.05
Multi-Family	24.57	n/a	n/a	n/a	n/a	n/a
Outside						
5/8 or 3/4	\$ 36.86	\$ 37.50	\$ 44.66	\$ 52.92	\$ 56.31	\$ 59.88
5/8 or 3/4 - Discount	-	28.13	33.49	39.69	42.23	44.91
1.0"	88.48	93.75	111.64	132.30	140.77	149.70
1.5"	103.24	187.50	223.28	264.61	281.55	299.41
2.0"	143.80	300.00	357.25	423.37	450.48	479.05
3.0"	442.41	600.00	714.51	846.75	900.95	958.10
4.0"	553.02	937.50	1,116.42	1,323.04	1,407.73	1,497.04
6.0"	811.10	1,875.00	2,232.84	2,646.08	2,815.47	2,994.08
Multi-Family	36.855	n/a	n/a	n/a	n/a	n/a

Table 2. Water Utility Monthly Volumetric Charges (Monthly Usage Tiers)

Class	\$ / cf					
	Existing	2021	2022	2023	2024	2025
Single Family						
Inside						
Block 1 (0 - 500cf)	\$ 0.0296	\$ 0.0306	\$ 0.0364	\$ 0.0431	\$ 0.0459	\$ 0.0488
Block 2 (501 - 700cf)	n/a	0.0382	0.0455	0.0539	0.0574	0.0610
Block 3 (701 - 1,150cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
Block 4 (1,150+cf)	n/a	0.0611	0.0728	0.0862	0.0918	0.0976
Outside						
Block 1 (0 - 500cf)	\$ 0.0444	\$ 0.0458	\$ 0.0546	\$ 0.0647	\$ 0.0688	\$ 0.0732
Block 2 (501 - 700cf)	n/a	0.0573	0.0682	0.0809	0.0860	0.0915
Block 3 (701 - 1,150cf)	n/a	0.0688	0.0819	0.0970	0.1032	0.1098
Block 4 (1,150+cf)	n/a	0.0917	0.1092	0.1294	0.1376	0.1464
Inside - Discount						
Block 1 (0 - 500cf)	n/a	\$ 0.0229	\$ 0.0273	\$ 0.0323	\$ 0.0344	\$ 0.0366
Block 2 (501 - 700cf)	n/a	0.0286	0.0341	0.0404	0.0430	0.0457
Block 3 (701 - 1,150cf)	n/a	0.0344	0.0409	0.0485	0.0516	0.0549
Block 4 (1,150+cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
Outside - Discount						
Block 1 (0 - 500cf)	n/a	\$ 0.0344	\$ 0.0409	\$ 0.0485	\$ 0.0516	\$ 0.0549
Block 2 (501 - 700cf)	n/a	0.0430	0.0512	0.0606	0.0645	0.0686
Block 3 (701 - 1,150cf)	n/a	0.0516	0.0614	0.0728	0.0774	0.0823
Block 4 (1,150+cf)	n/a	0.0688	0.0819	0.0970	0.1032	0.1098
Non-Single Family						
Inside	\$ 0.0296	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798
Outside	0.0444	0.1197	0.1197	0.1197	0.1197	0.1197
Commercial						
Inside	\$ 0.0296	\$ 0.0300	\$ 0.0357	\$ 0.0423	\$ 0.0450	\$ 0.0479
Outside	0.0444	0.0450	0.0535	0.0635	0.0675	0.0718

Table 3. Sewer Utility Monthly Fixed Charges
 (Assumes Year Round Average Winter Billing)

Customer Class	\$ /Monthly Fixed Charge 2021-2025					
	Existing	2021	2022	2023	2024	2025
Inside						
Single Family	\$ 32.69	\$ 33.83	\$ 35.01	\$ 36.24	\$ 37.51	\$ 38.82
Single Family - Discount	24.52	25.37	26.26	27.18	28.13	29.12
Non-Single Family	32.69	31.34	30.06	28.73	27.36	25.94
Commercial	32.69	33.83	35.01	36.24	37.51	38.82
Outside						
Single Family	\$ 49.03	\$ 50.74	\$ 52.52	\$ 54.36	\$ 56.26	\$ 58.23
Single Family - Discount	36.77	38.06	39.39	40.77	42.20	43.67
Non-Single Family	49.03	47.01	45.09	43.10	41.04	38.90
Commercial	49.03	50.74	52.52	54.36	56.26	58.23
Industrial						
Columbia River Carbonates	\$ 211.55	\$ 223.71	\$ 236.58	\$ 250.18	\$ 264.57	\$ 279.78
Hamilton Materials	16.35	17.28	18.28	19.33	20.44	21.62
Monitored Customers	32.69	33.83	35.01	36.24	37.51	38.82

Table 4. Sewer Utility Monthly Volume Charges
 (Assumes Year-Round Average Winter Billing)

Customer Class	\$ /cf Variable Charges 2021-2025					
	Existing	2021	2022	2023	2024	2025
Inside						
Single Family	\$ 0.0587	\$ 0.0605	\$ 0.0626	\$ 0.0648	\$ 0.0670	\$ 0.0694
Single Family - Discount	0.0587	0.0453	0.0469	0.0486	0.0503	0.0520
Non-Single Family	0.0587	0.0605	0.0626	0.0648	0.0670	0.0694
Commercial	0.0881	0.0912	0.0944	0.0977	0.1011	0.1046
Outside						
Single Family	\$ 0.0881	\$ 0.0907	\$ 0.0939	\$ 0.0972	\$ 0.1006	\$ 0.1041
Single Family - Discount	0.0881	0.0680	0.0704	0.0729	0.0754	0.0781
Non-Single Family	0.0881	0.0907	0.0939	0.0972	0.1006	0.1041
Commercial	0.1320	0.1368	0.1416	0.1465	0.1516	0.1570
Industrial						
Columbia River Carbonates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hamilton Materials	0.0441	0.0466	0.0493	0.0522	0.0552	0.0583
Monitored Customers	0.0883	0.0903	0.0903	0.0903	0.0903	0.0903

**Table 5. New Stormwater Utility Monthly Rates per Equivalent Service Unit
 (Assumes 4,000sft per ESU)**

Baseline Monthly Rates Exclusive of City Utility Taxes	2021	2022	2023	2024	2025	2026
Residential	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43
Non-Residential, per ESU	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43

Table 6. Water Assessment Charge on New Connections

Meter Size	Current	Proposed
5/8" or 3/4"	\$3,241	\$4,246
1"	\$4,283	\$10,615
1-1/2"	\$7,177	\$21,230
2"	\$11,113	\$33,968
3"	\$22,574	\$67,936
4"	\$38,433	\$106,150

*Proposed charges use AWWA meter capacity standard ratios. Proposed charges represent the maximum defensible charge. The City can elect to charge equal to or less than, but not more.

Table 7. Sewer Assessment Charge on New Connections

Meter Size	Current	Proposed
5/8" or 3/4"	\$4,920	\$5,243
1"	\$6,078	\$13,106
1-1/2"	\$9,261	\$26,213
2"	\$13,603	\$41,941
3"	\$26,336	\$83,883
4"	\$44,858	\$131,068

*Proposed charges use AWWA meter capacity standard ratios. Proposed charges represent the maximum defensible charge. The City can elect to charge equal to or less than, but not more.

Appendix: Council Options Reviewed on September 8, 2020

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Utility Rate Adjustment Options

Water: 2020: \$50.95/mo (700cf usage; ¾ inch water meter)

- **Option 1: \$54.52** (maintain historical rate increases; keep existing rate structure)
 - o Reduce CIP
 - by 90% (10% of CIP completed); assuming no new debt or
 - by 50% (50% of CIP completed); assuming \$8M new debt
 - o Implement no utility billing
 - o No cost-of-service based rates; SFR customers would be paying more than their equitable share of costs

- **Option 2: \$57.66** (starting with Option 1, add equivalent savings from Sewer and apply to Water; keep existing rate structure)
 - o Reduce CIP
 - By 30% CIP funded (70% of CIP completed); assuming \$11M new debt
 - o Implement no utility billing
 - o Uniform 25% low income discount
 - o No cost-of-service based rates; SFR customers would be paying more than their equitable share of costs

- **Option 3: \$53.13/mo** (fully funds capital and implements cost-of-service rates to ensure all classes pays equitable share of costs)
 - o 100% CIP funded; \$17.8M new debt
 - o Implement no utility billing
 - o Uniform 25% low income discount
 - o Implement cost-of-service based rates (phased in over 2 years); SFR customers would be paying their equitable share of costs
 - o **FCS GROUP recommendation**

Sewer: 2020: \$83.00/mo (700cf usage)

- **Option 1: \$88.81/mo** (maintain historical rate increases; keep existing rate structure)
 - o 100% CIP funded; No new debt needed
 - o Implement no utility billing
 - o Uniform 25% low income discount
 - o No cost-of-service based rates; SFR customers would be paying more than their equitable share of costs

- **Option 2: \$85.67/mo** and move bill savings over Option 1 (\$3.14) to Water (see Option 2)
 - o 100% CIP funded; \$7.5M new debt
 - o Implement no utility billing
 - o Uniform 25% low income discount
 - o Implement cost-of-service rates; SFR customers would be paying their equitable share of costs

- **Option 3: \$85.67/mo** (fully funds capital and implements cost-of-service rates to ensure all classes pays equitable share of costs)
 - o 100% CIP funded; \$7.5M new debt
 - o Implement no utility billing
 - o Uniform 25% low income discount
 - o Implement cost-of-service rates
 - o **FCS GROUP Recommendation**



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Stormwater: 2020: No stormwater utility

- **Option 1: \$0/mo Status Quo (do not form new stormwater utility)**
 - o Maintain current level of service
 - o Continue funding stormwater needs out of streets budget
 - o Semi-annual street sweeping; as-needed repairs and replacement; culvert / right-of-way maintenance
- **Option 2: \$5.03/mo Form stormwater utility and fund baseline level needs**
 - o Semi-annual street sweeping; as-needed repairs and replacement; culvert / right-of-way maintenance
 - o Street projects funded (see below)
- **Option 3: \$7.73/mo Form stormwater utility at full level of service needs**
 - o SR 503 stormwater project and pipe replacement
 - o Pipe connection 2nd avenue
 - o Fully fund CIP replacement and repairs
 - o Street projects funded (see below)

List of Street projects that can be funded if stormwater utility is formed (applies only to options 2 and 3)

- CDBG Sidewalks city portion about \$87k
- Pacific Sidewalk project was about \$60k
- Hoffman sidewalks city portion about \$40k
- In 2018 the city hall roof repair was about \$53.5k under general fund (001-518-30-48-00) – thus this is funds that could be used in streets
- The small works road repairs run between \$10k-\$20K per year
- West Scott Pacific to RR will have City funds of \$125,866
- West Scott/Guild RR to Schurman, City funds \$125,433
- Lakeshore, city funds \$131,936