



Town of Chapel Hill

Pro Forma Business Plan – Utility-Based Stormwater Management Program

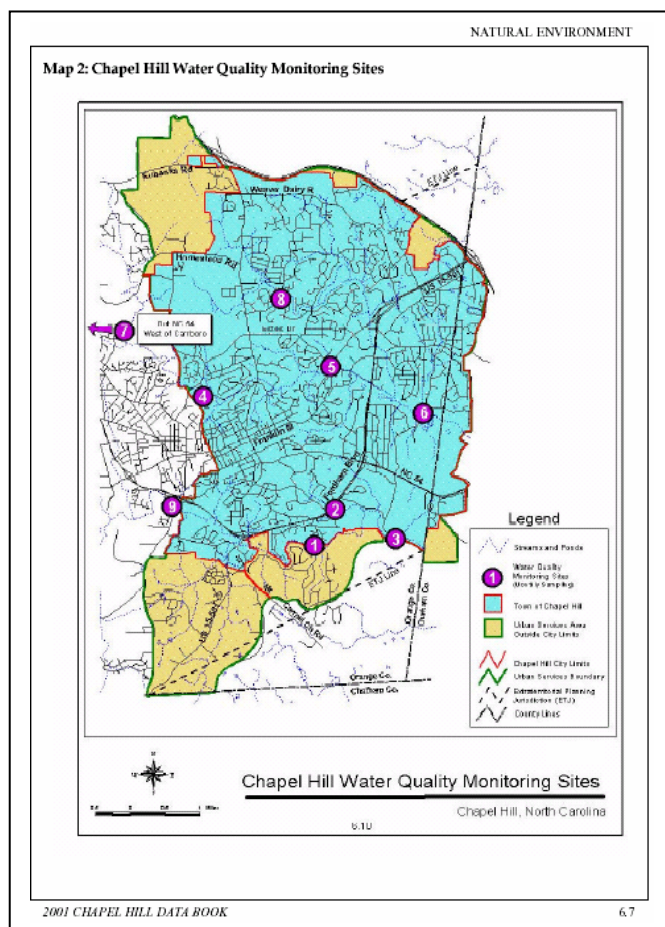
I-4 – Recommended Approach

Stormwater programs are comparable in many ways to more traditional municipal water supply and wastewater treatment utilities. Nearly all involve management of a complex system of natural and man-made physical structures, and demand continuing operational and regulatory programs as well as capital investment in the systems. Most provide a comprehensive program that addresses water quality as well as quantity (flood) control. However, no standard definition is adequate and no “cookbook” approach to funding stormwater programs exists.

Chapel Hill faces a “program development curve” in the next few years as administrative, operational, capital investment, and regulatory elements of stormwater management are formulated and carried out. It will take five to ten years before a comprehensive program is fully attained. Funding should be expected to evolve along with the program. Full implementation of the funding program associated with a comprehensive stormwater management program may therefore require ten years or more.

Based on our findings and validating the work of several Committees appointed by the Town of Chapel Hill over the past 10 years, it appears that a stormwater service fee is the most viable long-term funding method for the proposed program. A stormwater service fee offers stable and adequate revenue to meet the system service requirements and the opportunity to design a rate methodology that results in an equitable distribution of the cost of services and facilities.

Service fee rate structures typically are designed to distribute costs based on the demands placed on the stormwater systems and programs. There are several ways of augmenting a standard stormwater service fee that offer opportunities to enhance both equity and revenue sufficiency under the enterprise fund approach. Some are consistent with the “service demand” philosophy that prevails for fees, while others are more in tune with “direct and



special benefit” concepts associated with assessments or with the “tax” philosophy that is strictly related to revenue generation without concern for service demand or benefit.

Influence of Policy Recommendations on Implementation

A series of policy issues needs to be addressed if the Town of Chapel Hill decides to establish a stormwater management enterprise fund. The issues should be carefully documented since they directly impact the validity of Town Council actions related to the establishment of the enterprise fund and adoption of rates and other funding methods that might be associated with it. The following recommendations on specific funding issues are based on the experiences of other cities that have implemented stormwater management enterprise funds. They are the minimum that should be examined and documented. These issues will dictate to some degree how the implementation process will proceed if the enterprise fund approach is selected by Chapel Hill.

- 1) The Town should establish a stormwater management fund as a separate cost center encompassing the full range of services and facilities associated with stormwater quantity and quality management, ranging from flood control to water quality management. This cost center should be accounted for as either an enterprise or special revenue fund apart from the General Fund.
- 2) A stormwater management program should be funded primarily from service fees. The stormwater service fee should be on the same bill as the water and wastewater charges if possible, with the assistance of the Orange County Water and Sewer Authority (OWASA), and should appear as a separate line item.
- 3) The rate methodology for stormwater service fees should be fair and reasonable and result in charges that bear a substantial relationship to the cost of services and facilities.
- 4) Bonds should be used to pay for major capital improvements to the stormwater systems, but should be limited to projects and acquisitions that are beyond the capacity of the service fee to fund through its annual revenue stream.
- 5) Service fee credits should be provided for properties that have on-site stormwater management facilities, where practices are conducted that mitigate peak flow, total volume, and pollutant loading impacts on the public drainage systems, or where distinctly lower levels of service are to be provided as a matter of policy.
- 6) The Town should seek and accept state and federal funding in support of the stormwater management program only in instances where such funding is consistent with local objectives and practices and offers appropriate latitude to the Town in using such funds and its own resources.
- 7) The Town should determine if a service fee rate increase is desired after the initial start-up of the expanded program or if a higher initial rate should be adopted that would cover a longer period.

A stormwater management enterprise fund can be established even before the Town is ready to bill and collect stormwater service fees. By establishing a stormwater management program as an independent enterprise fund, before the extensive work of developing a master

account file and building the service fee calculation database, those and other costs can be shifted ultimately to the “ratepayers”, who in some cases will be different than the City’s “taxpayers”. Initial funding could be provided by an interfund loan to a stormwater management enterprise or special revenue fund from the General Fund or reserves in other funds, with repayment to be made from future stormwater service fee revenues. Several other cities have used this approach to meet the front-end expense of developing a master account file and other related systems.

The other stormwater management costs that might be funded initially through interfund loans could also include the acquisition of key pieces of operational equipment. This would “jump-start” the operating and capital improvement programs so they could be on-line by the time that service fee billings begin. Expediting correction of some of the more highly visible drainage problems around the Town in this way will demonstrate the value of the program to ratepayers even as the first billings are being sent out.

Expeditious and Efficient Implementation

The transition to a stormwater program funded primarily through service fees typically involves highly visible changes in the operating and capital investment programs and budgets. The experiences of other jurisdictions indicate that the implementation of a stormwater program service fee can be a costly and time-consuming process unless care is exercised in the approach selected. Key policy decisions made in formulating the funding and program concept dictate what must be done to implement the service fee funding mechanism, thus driving the expense and time required for implementation.

Because of the large revenue amount involved, time is potentially more costly than the added cost of expediting the work that must be done to implement a stormwater service fee. Until the potential revenue stream is actually realized there is an opportunity cost of lost revenue each day that service fees are not being billed. This tends to create an atmosphere of urgency once the decision to establish a funding program is reached. In some cases the daily cost of unrealized revenue has driven municipalities to employ fast, but very expensive, implementation options or to accept a lower level of quality and accuracy that portends higher future costs to resolve problems. Recognizing this, it is possible to take measures to spend the appropriate amount of time to ensure the utility goes on-line correctly and with a high level of quality.

Implementation Plan

It is imperative that the correct steps be taken if a utility is established. Shown below are some of the critical tasks and actions which, when timed correctly, will result in the formation of a comprehensive stormwater management program. This report does not contain sufficient details and staff input to form the enterprise fund without additional, detailed analyses. However, it does provide sufficient information to determine the merit in pursuing this approach to funding the stormwater management program.



The key steps in the process are:

1. Form a Stormwater Policy Review Committee to guide the policy process
2. At the same time, develop a Program Strategy, make policy decisions, with the Advisory Committee input
3. Develop data for establishment of a rate structure, including new aerial photography
4. Perform a Cost of Services Analysis
5. Establish Enterprise Fund and separate Cost Code Centers
6. Perform a Preliminary Rate Study
7. Implement Customer Service Programs, Public Information Program
8. Create the Comprehensive Stormwater Management Program (passage of program service ordinance)
9. Create Master Account File
10. Determine Credit Program
11. Revise Rate Study to match Account File and Credit Programs
12. Continue Implementation of Public Information Program
13. Create Billing Process
14. Create Rate-based Program (passage of rate ordinance)

We recommend a two-phase approach be taken. Phase I includes steps #1 through 7 above – the development of the program and the enterprise fund (program service ordinance). After being legally established, Phase II (Steps 8 through 13) includes undertaking the associated rate study (rate ordinance) and master account file development (billing system).

This approach offers several advantages. First, it allows several opportunities for the general public to provide input as the Town Council considers the new stormwater management program changes. Secondly, it separates the revenue generation consideration from the program/service development consideration.

Based on our experience, the Town is approximately 20-24 months away from implementing a user-fee based, comprehensive stormwater management program that would result in a bill being issued. The process can be shortened, but it will increase the risk that the establishment of the enterprise fund may not be on firm legal ground– increasing the overall problems, rather than helping to solve them. The above steps are translated into 15 tasks associated with formation of a stormwater enterprise fund user-fee. Shown below are the tasks, and a potential schedule.

	2 0 0 2					2 0 0 3					2 0 0 4									
	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F
Stormwater Policy Review Committee	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■					
Policy Issues & Identification	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■					
Rate Structure Analysis						■	■	■	■	■										
Cost of Services Analysis			■	■	■	■	■	■	■	■										
Data Updates and New Aerial Photography						■	■	■	■	■	■	■	■	■	■					
Budget & Cash Flow Analysis											■	■	■	■	■					
Rate Study																■	■	■	■	■
Ordinances																■	■	■	■	■
Public Information & Education	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Base Master Account File																■	■	■	■	■
Dates for Initial Billing & Errors Checking																■	■	■	■	■
Inquiry & Complaints Response Measures																			■	■
Billing System Maintenance Procedure																			■	■
Credit Manual																■	■	■	■	■
Program Implementation Assistance																				■

Based on the above layout of tasks, it will take at least 20 months to complete the necessary actions to form a stormwater enterprise fund and send a bill. If started in Fall 2002, we would anticipate that the program could be established and a bill could be sent in accordance with the Town's anticipated schedule of January 31, 2004. Depending on the implementation of the re-mapping strategy, it may be more realistic to anticipate a second quarter 2004 billing date.