



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8b

ACTION ITEM

Date of Meeting October 9, 2018

DATE: October 2, 2018

TO: Stephen P. Metruck, Executive Director

FROM: Sandra Kilroy, Director, Maritime Environment and Sustainability; Director, Marine Stormwater Utility
Srini Pendikatla, Marine Stormwater Utility Program Manager

SUBJECT: 2019 Marine Stormwater Utility Rates

ACTION REQUESTED

Request Commission authorization for the Executive Director to increase Marine Stormwater Utility rates by 8.2 percent in 2019.

EXECUTIVE SUMMARY

The requested authorization will provide a 2019 rate structure to be adopted by the Marine Stormwater Utility (utility), in support of utility obligations to protect water quality, rehabilitate Port stormwater assets, and support property managers and tenants in compliance with stormwater permit conditions.

JUSTIFICATION

A rate increase at the proposed level of 8.2 percent allows the utility to meet short-term goals to complete the baseline condition assessments by the end of 2019, transfer funding of all stormwater management activities from business units to the utility by 2020, and maintain significant level of investment to improve the stormwater system to improve water quality to meet the port's Century Agenda environmental goals.

DETAILS

The utility was formed in 2014 to enable the port to provide services, facilities, systems, and programs for surface water and stormwater management and pollution control. A benefit of utility work is water quality protection in the Puget Sound. The utility collects stormwater fees from the Port of Seattle, Northwest Seaport Alliance (NWSA), and tenants and reinvests the income into maintaining and upgrading the stormwater infrastructure. Prior to creating the utility, the stormwater fees paid by the port and its tenants to the City of Seattle were diverted from the port properties to address city priorities. The port managed the expense of administering the stormwater compliance program to meet all applicable regulations without benefit of utility funds.

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The utility rates apply to all port-owned maritime property, which includes land managed by the NWSA. Tenants pay stormwater fees based on the area of their leaseholds. The stormwater fees for the remaining unleased land at a facility are paid by the operating business. The operating business is either the NWSA or the specific port business (Economic Development, Maritime Operations, Cruise, etc.) that oversees the unleased property.

The 2014 Utility Charter included rates for 2015 through 2017. The 2018 rates were approved by the commission in November 2017. Utility rates need to be approved by the commission annually.

Scope of Work

Since its formation, the utility has completed nearly 70 percent of a full system assessment to obtain baseline conditions of the existing stormwater infrastructure. During this process, nearly three dozen urgent repairs of stormwater infrastructure have been completed, reducing hazards and allowing the conveyance system to function properly. A dozen tide gates have been installed preventing the flow of tidal waters into the conveyance system. Additionally, the port won the Comprehensive Environmental Management award from the American Association of Port Authorities for the formation of the utility.

All revenue collected by the utility is separate from the port's general funds and must be spent on or for the benefit of the port stormwater system. The utility does not generate a profit. The majority of the work to date has been expense activities such as the assessments to obtain baseline data on stormwater lines, urgent repairs, and administrative costs including policy creation, billing, and assisting tenants and port business units comply with stormwater regulations. The projected expense and capital budget in 2019 is approximately \$6.5 million, which will be used to:

- Complete the system assessments,
- Repair severely damaged stormwater pipes and infrastructure,
- Perform existing stormwater management activities such as dock cleaning,
- Perform additional maintenance under the Utility such as sweeping properties covered by the municipal stormwater permit (currently expense under business units),
- Implement green stormwater infrastructure,
- Complete the current capital program portfolio including the Terminal 18 outfall renewal and replacement project, and
- Cover operational and administrative expenses including staff costs, utility taxes and allocations.

The following criteria were used in considering the 2019 rate:

- (1) Maintain adequate budget to meet the port's Environmental Long Range Plan and Utility Charter responsibilities including rehabilitation of stormwater infrastructure

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and covering budget of all applicable stormwater management activities of the stormwater compliance program by 2020.

- (2) Continue progress on Century Agenda goal to complete port-wide stormwater line assessments by end of 2019.
- (3) Maintain adequate funding to maintain and improve a high functioning stormwater system to benefit the water quality of the Puget Sound.
- (4) Build toward a six-month operations and maintenance expense reserve by 2023 for financial prudence consistent with port policy and best practices.

The Utility’s five-year projected rate path has been developed using the five-year budget forecast. The forecast includes sufficient spending to continue investment in the stormwater system, protecting water quality and meeting the port’s short-term and long-term environmental goals. The projected rate path assumes an annual increase of 8.2 percent through 2023, subject to annual commission approval, to build a financially stable and sustainable program for long-term operations. It also allows the utility to increase spending on the stormwater program, providing the improvements envisioned when first created while staying below the City of Seattle’s fee structure. The projected revenue growth keeps the port’s utility rates between 15 – 25 percent below the city over the five-year time period. The table below shows the comparison between the city and the port for the “very heavy” rate category, which is the highest of the five rate categories.

Year	City Rates	City Rate % increase	Port Rates *	Port Rate % Increase *	Port Rate % Lower than City Rate
2018	\$134.85	9.69%	\$116.52	7.75%	15.73%
2019	\$147.26	9.20%	\$126.07	8.20%	16.80%
2020	\$161.54	9.70%	\$136.41	8.20%	18.42%
2021	\$177.53	9.90%	\$147.60	8.20%	20.28%
2022	\$191.56	7.90%	\$159.70	8.20%	19.95%
2023	\$200.56	4.70%	\$172.80	8.20%	16.07%

*Note: 2018 rates are approved and rates for 2019 through 2023 are proposed.

The city rate was approved by Seattle City Council in November 2017 per Resolution 31760. The future increases shown are a projected average increase across all rate structures. The city’s final dollar amount in future years is an estimate and may vary based on the city’s rate adoption methodology. Port rates for years 2020-2023 are also provided as projections based on current conditions and are subject to annual commission approval.

Schedule

Once approved by the commission, the 2019 rates will be adopted by the utility effective January 1, 2019. The utility notifies tenants of the upcoming rate change in the fall consistent

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with past practices. Tenants can dispute billing fees at any time by contacting utility staff. A decision will be made within sixty days of receipt of the dispute.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Increase rates by 2%; maintain expenses similar to 2018

Cost Implications: Projected revenue in 2019 will be \$5,476,236 with a projected expense of \$6,172,171. The utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) Full system assessments will be completed by end of 2019.
- (2) Lowest 2019 rate increase of rate setting scenarios that still allows for adequate spending to improve water quality.
- (3) Lower rate increase than in previous years.
- (4) Port rates will be on average about 25 percent lower than city drainage rates in 2019.

Cons:

- (1) Greater rate increase necessary in future through 2023 (projected up to 15 percent) to meet six-month reserve and maintain adequate spending to benefit water quality.

This is not the recommended alternative.

Alternative 2 – Increase rates by 9 percent; increase expenses to cover stormwater compliance program in 2019

Cost Implications: Projected revenue in 2019 will be \$5,852,056 with a projected expense of \$6,964,354. Utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) Full system assessments will be completed by end of 2019.
- (2) Funding of stormwater compliance program accomplished in 2019, one year earlier than goal of 2020.
- (3) Port business units will have reduced expenses for non-leased properties and common areas.
- (4) Port rates will be on average about 17 percent lower than city drainage rates in 2019.

Cons:

- (1) Highest initial rate increase of all rate scenarios.
- (2) Higher rate increase than in previous years.
- (3) Increased short-term spending results in higher average rate increase over five-year projections than recommended alternative.

This is not the recommended alternative.

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Alternative 3 – No change in rates (0 percent increase); maintain expense similar to 2018, delay utility administering of stormwater compliance program until 2021, and decrease maintenance expenses in 2020

Cost Implications: Projected revenue in 2019 will be \$5,368,859 with a projected expense of \$6,163,516. Utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) Full system assessments will be completed by end of 2019.
- (2) No change in expense to tenants, NWSA and port business units in 2019.
- (3) Port rates will be on average about 28 percent lower than city drainage rates in 2019.

Cons:

- (1) Reduction in maintenance expenses reduces ability to benefit water quality and meet the environmental goals of the stormwater program.
- (2) Greater rate increase in future through 2023 (projected up to 16 percent) to meet six-month reserve and build to adequate spending levels to benefit water quality.
- (3) Goal to administer the stormwater compliance program delayed by one year to 2021.

This is not the recommended alternative.

Alternative 4 – Increase rates by 8.2 percent; increase expenses to administer select activities of stormwater compliance program one year early

Cost Implications: Projected revenue in 2019 will be \$5,744,679 with a projected expense of \$6,485,598. The utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) Full system assessments will be completed by end of 2019.
- (2) Projected expense and capital spending levels allow utility to continue investing in stormwater system to benefit water quality.
- (3) Port business units will have reduced expenses for property maintenance due to utility funding additional activities of the stormwater compliance program.
- (4) Future rate changes are projected to be stable at 8.2 percent through 2023.
- (5) The average rate increase over the five-year projected path is the lowest of all alternatives.
- (6) Port rates will be on average about 18 percent lower than city drainage rates in 2019.

Cons:

- (1) Higher rate increase than in previous years.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

All revenue collected by the utility is separate from the port's general funds and must be spent on or for the benefit of the Port stormwater system. The proposed rate increase has a number of positive implications including:

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- Maintain funding for critical stormwater infrastructure improvements,
- Build a six-month reserve as sound fiscal policy consistent with standard port procedure,
- Reduce operating costs funded by the port by funding additional maintenance activities (sweeping) from business units and select tenants, and
- Keep rates lower than the City of Seattle.

ADDITIONAL BACKGROUND

The utility maintains a separate accounting fund, known as the stormwater utility fund, to conduct all business. This fund is separate from the port general funds and cannot be used for any purpose other than administering, operating, maintaining, and improving the port's stormwater system. The utility may borrow money from the port funds as needed, provided that such funds are payed back in full to the originating funds.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

November 14, 2017 – Approval of Maritime Stormwater Utility Rates for 2018.