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#### COMMISSION

AGENDA MEMORANDUM Item No. 8g

ACTION ITEM Date of Meeting October 25, 2022

DATE : October 6, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Stephanie Jones Stebbins, Managing Director, Maritime Division; Director, Marine Stormwater Utility

Sarah Ogier, Director, Maritime Environment & Sustainability

Jane Dewell, Sr. Manager Environmental Programs/Marine Stormwater Utility

SUBJECT: Adoption of 2023 Marine Stormwater Utility Rates

Amount of this request: \$0

Total estimated project cost: \$0

#### ACTION REQUESTED

Request Commission authorization for the Executive Director to set 2023 Marine Stormwater Utility rates with an increase of 4.6% from 2022.

#### EXECUTIVE SUMMARY

The requested authorization will provide a 2023 rate structure to be adopted by the Marine Stormwater Utility (Utility), in support of Utility obligations to protect water quality, rehabilitate Port of Seattle (Port) stormwater assets, and support property managers and tenants in compliance with stormwater permit conditions. The proposed rate is a 4.6% increase from 2022. This rate is in line with the previous forecast presented to Commission on September 14, 2021.

#### JUSTIFICATION

A rate increase at the proposed level of 4.6% allows the Utility to improve water quality to meet the Port's Century Agenda environmental goals by:

1. Meeting or exceeding stormwater regulatory requirements;
2. Investing in streamlining processes to improve efficiency and reduce costs of meeting regulatory obligations; and
3. Maintaining significant level of investment to rehabilitate and increase the performance of the stormwater system to protect water quality in the Puget Sound.

#### 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. The Utility collects stormwater fees from the Port of Seattle, Northwest Seaport Alliance (NWSA), and

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tenants, and reinvests that 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 (City) were used to address City priorities and not priority stormwater needs at Port facilities. Benefits of Utility work include water quality protection in the Puget Sound as well as stormwater infrastructure that better supports Port tenants' stormwater investments. The Utility rates apply to all Port-owned maritime (non-aviation) 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. Rates are set to recover the cost of Utility operation and maintenance.

The Port Utility rates continue to be on average 24% lower than the City stormwater rates according to City Resolution 32000 (signed May 13, 2021).

The Utility rates are approved annually by the Commission. The Utility's internal leadership advisory committee reviews and approves rate recommendations for Commission consideration and approval. The advisory committee has recommended a 4.6% increase in 2023. This is consistent with rate analysis and projections provided to Commission last year.

#### Scope of Work

The Utility completed a full system assessment to obtain baseline conditions of the existing stormwater infrastructure at the end of 2019. As of mid-2022, over 70 urgent repairs of stormwater infrastructure have been completed since 2016, reducing hazards and allowing the conveyance system to function properly, which benefits overall water quality. Twenty-five tide

gates have been installed preventing the flow of tidal waters into the conveyance system, which is both a safety and an infrastructure improvement. Other completed work includes administrative efforts to create policies that guide Utility work, billing system, and support to tenants and Port business units to comply with stormwater regulations. Several capital projects were completed to replace poorly functioning stormwater infrastructure and to purchase large equipment (e.g., closed-circuit television truck, vacuum truck, grout truck) that support this work. In 2021, the Utility completed its first strategic plan, which included feedback from Port, NWSA, and external tenant stakeholders. The Strategic Plan memorializes a vision and mission for the Utility to prioritize our work for five years (2021-2025). This plan is intended to help better serve customers and ensure a resilient Utility while supporting the Maritime industry. There are six goals with strategies and specific tasks to support the guiding principles defined in the mission and vision statements. The projected expense and capital budgets in 2023 total approximately \$7 million, which will be necessary to:

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[Annotation] Ogier, Sarah

This could be interpreted to mean same rate. That is not the case. We are maintaining consistent rate increases & - maybe this should say maintain predictable rate growth or course?

[Annotation] Ogier, Sarah

Below we use words: steady predictable rate change &

[Annotation] Dewell, Jane

Added 'increase' to the bullet point to make it clear

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- Perform system assessments to monitor known conditions and be proactive in asset management, i.e., monitor and repair before failure;
- Repair damaged stormwater pipes and infrastructure;
- Perform required regulatory stormwater management activities such as catch basin inspections and sweeping;
- Perform additional stormwater management activities that enhance water quality protection, such as dock cleaning and plaza washing;
- Evaluate and implement two to three green or innovative stormwater treatment systems;
- Implement technology to support mobile field inspection solutions;
- Implement dashboard for real-time data analysis of Stormwater Infrastructure Asset Management System;
- Implement scoring matrix including equity, diversity and inclusion considerations to prioritize infrastructure work;
- Implement year 3 of the strategic plan;
- Initiate planning and research for in-depth climate change/resilience study of stormwater infrastructure;
- Complete the current capital program portfolio including pipe rehabilitation and drainage improvements; and
- Cover operational and administrative expenses including staff costs, utility taxes and Port allocations.

Rate Criteria: The following criteria were used in considering the proposed 2023 rate:

1. Maintain adequate budget to meet or exceed stormwater regulatory requirements, the Port's Environmental Long-Range Plan, and Utility Charter responsibilities including rehabilitation of stormwater infrastructure.
2. Continue adequate funding to maintain and improve a high functioning stormwater system to benefit the water quality of the Puget Sound.
3. Maintain a 6-month fund reserve for financial prudence consistent with Port policy and best practices.
4. Maintain a consistent rate increase over the 6-year projection.

Schedule

The Utility advisory committee reviewed and approved the rate recommendation in early August 2022. This committee consists of Port and NWSA operations, real estate, property management and finance leaders. The Utility does not explicitly seek external input, consistent with other public drainage utilities, but relies on the committee's expertise to reflect customer needs and priorities. The public notice for Commission approval seeks public input similar to the City Council approval process for municipal utilities. If approved by the Commission, the 2023 rates will be adopted by the Utility effective January 1, 2023. The Utility notifies tenants of the upcoming rate

change following adoption. Tenants can dispute billing fees at any time by contacting Utility staff, and a decision would be made within 60 days of receipt of the dispute.

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[Annotation] Ogier, Sarah

Does this rate path meet objective of maintaining 6-month fund reserve? If not, should be noted?

[Annotation] Dewell, Jane

I think the last analysis run by Dave K the issue of dropping below the reserve went away, but I'll double-check

[Annotation] Dewell, Jane

Confirmed that latest analysis shows that 6-mo fund reserve is maintained - no dropping below

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#### ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Increase rates by 3%

Cost Implications: Projected revenue in 2023 will be \$6.97M

Pros:

(1) Lowest 2023 financial impact to tenants, NWSA and Port business units than preferred alternative.

(2) Continue lower rate to support economic recovery.

Cons:

(1) Higher average rate change compared to preferred alternative, projecting an average of 4.9% over a 6-year period. This alternative assumes a rate increase of 6.5% in 2024 to 2026 to meet increased capital spending, with a lower rate increase of 3.5% in 2027 and 2028.

(2) Not a consistent annual change, which may make it more difficult for customers to budget.

This is not the recommended alternative.

Alternative 2 – Increase rates by 4.6%

Cost Implications: Projected revenue in 2023 will be \$7.08M

Pros:

(1) Lowest average rate change over the next six years, projecting an average of 4.6% through 2028 to conduct our project stormwater work and maintain recommended fund reserve balance.

(2) Steady projected rate change of 4.6% over the next six years allows customers to better plan for budget changes.

(3) Funds critical capital investments to meet Century Agenda goals and exceed regulatory requirements.

Cons:

(1) Slightly higher fees for tenants, NWSA and Port business units in 2023 than alternative.

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 several positive implications including:

- Maintain funding for critical stormwater infrastructure improvements,
- Build a six-month fund reserve as sound fiscal policy consistent with standard Port procedure,

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- Reduce operating costs funded by Port business units and tenants by funding stormwater related maintenance activities, and

#### 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 paid back in full to the originating funds.

The stormwater utility will evaluate whether a periodic 2-to-3-year rate review and approval cycle would be more efficient than the current annual rate review and approval cycle. Currently the advisory committee meets annually to review and discuss proposed rate changes, which then go to Commission for approval. Changing the annual review to every 2 or 3 years, based on a 6-year rate evaluation, will be evaluated in 2023, and if prudent, be proposed as a change in future.

**ATTACHMENTS TO THIS REQUEST**

(1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

September 14, 2021 – The Commission approved Marine Stormwater Utility Rates for 2022.

October 27, 2020 – The Commission approved Marine Stormwater Utility Rates for 2021.

October 8, 2019 – The Commission approved Marine Stormwater Utility Rates for 2020.

October 9, 2018 – The Commission approved Marine Stormwater Utility Rates for 2019.

November 14, 2017 – The Commission approved Marine Stormwater Utility Rates for 2018.

November 18, 2014 – Commission approved Resolution No. 3696, as amended, Authorizing Stormwater Utility Formation, included utility rates for 2015 through 2017.

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