

2004 STORM DRAIN COMMITTEE REPORT

To The City Manager

The Storm Drain Committee is pleased to provide this Report recommending a package of storm drain system capital projects and enhanced storm drain maintenance and storm water quality operating expenditures to be paid for by increases in the Storm Drainage Fee. (Our final recommendations were approved by a vote of 7 to 2, with Richard Alexander and John Melton dissenting. Mr. Alexander dissented because he believes that storm drain system repairs should be entirely funded from the General Fund. Mr. Melton dissented because he wants the initial capital improvements completed within ten years rather than the twelve years set forth in the Committee recommendations.)

Background

The City's storm drain capital improvement, maintenance and water quality protection programs are funded through the Storm Drainage Fund, an enterprise fund established by Council in 1989. Revenue is generated by a Storm Drainage Fee, which is collected through monthly City utility bills. The fee, \$4.25 per month for a single-family residential parcel, has not been increased since 1994 and is insufficient to cover the program's operating costs. For the current year, the General Fund is providing \$800 thousand in supplemental funding to maintain a baseline level of service for storm drain maintenance and storm water quality protection. There is no funding provided for storm drain capital improvements, despite a backlog of capital needs.

The Storm Drainage Fee is a property-related fee subject to the provisions of Proposition 218, requiring a majority of property owners to approve a fee increase. The City conducted a property owner election in September 2000, seeking approval to increase the Storm Drainage Fee from its current level of \$4.25 per month up to \$9.00 per month to cover needed storm drain improvements. The ballot measure was unsuccessful, with an approval rate of only 37 percent.

Initial Storm Drain Committee Deliberations and Recommendations

On March 18, 2002, Council approved staff's recommended conceptual strategy for identifying a funding mechanism for future storm drain improvements, including the appointment by the City Manager of a Blue Ribbon Storm Drain Committee to review storm drain funding needs. The Committee consisting of fifteen residents had its first meeting on May 3, 2002 and met 15 times for a total of 37 hours. The Committee made a report to you dated October 22, 2002, and presented its findings to Council at a study session on November 12, 2002. We formulated recommendations addressing future storm drain program elements and funding. The recommended storm drain program included augmented maintenance activities, a specific set of prioritized capital improvements, and expanded storm water quality protection activities. We recommended funding the storm drain program on a pay-as-you-go basis by increasing the Storm Drainage Fee to \$13.90 per month. The Committee also addressed fee sunset provisions, the creation of an oversight committee, and other policy issues related to the City's storm drain program.

In light of the state of the City budget, the City Manager decided to suspend active discussion of storm drain funding in February 2003. Future consideration of the issue was deferred to the Finance Committee budget deliberations during Spring 2003 in order that storm drain needs could be reviewed in the larger context of the City budget and the multiple financial challenges facing the City. During the hearings for the FY 2003-05 budget, Finance Committee members directed staff to reexamine the alternatives for future funding of the City's storm drain program and to return to Council with an update. Staff analyzed alternative funding mechanisms and levels of service in an attempt to devise a storm drain program comprised of a downsized list of high priority capital projects and operational upgrades that could be funded with a smaller fee increase than the one recommended by this Committee. Staff presented a set of alternative levels of service and funding schemes for the Finance Committee to review on March 23, 2004. The Finance Committee did not take any formal action to select a storm drain funding alternative, but directed staff to reconvene the Storm Drain Committee to solicit input on the matter.

Reconvening of the Storm Drain Committee

Following the March 23, 2004 Finance Committee meeting, you asked the Storm Drain Committee to review the Staff's latest funding proposals and to advise you, the City Council, and most importantly, the citizens of Palo Alto on the need for storm drain capital improvements and enhanced maintenance and storm water quality protection programs. The Committee reconvened on June 11, 2004 and met three times for a total of six hours to review the proposal presented to the Finance Committee and to prepare comments and recommendations to you. Nine of the original fifteen Committee members were available to participate in the review process and vote on the recommendations contained in this report. We used our original November 2002 recommendations as the baseline scenario for our discussions. The attached matrix (Attachment C) provides a side-by side comparison of the Committee's 2002 recommendations, the Staff alternative presented to the Finance Committee in March 2004, and our current recommendations.

RECOMMENDATIONS

The Committee reached the conclusions and makes the recommendations set forth below. Items 5 through 9, 11, 12, 17, and 18 are unchanged from our prior recommendations.

System Improvements

1. The storm drain capital improvements listed in Attachment 1 should be implemented as the initial set of drainage improvements to be funded through an increased Storm Drainage Fee. The total cost of such projects is \$17 million (Year 2004 dollars). We expect that these improvements will protect previously flooded residences and businesses and “ponded” roadways from further damage from storms up to the 10-year level in the areas they serve. These improvements are also intended to reduce road/sidewalk/curb/gutter repair costs by reducing subsoil water saturation and to increase traffic safety during storms. These projects listed in Attachment 1 comprise a subset of a larger group of capital improvements needed to provide upgraded drainage service throughout the City, which were included in the Committee’s 2002 recommendations. The Committee believes that the remainder of the projects will need to be completed and that the City will probably have to seek property owner approval for funding of those projects approximately ten years from now.
2. The ongoing and enhanced maintenance and storm water quality improvement programs described on Attachment 2 should be funded through the Storm Drainage Fund. These items are reduced from our prior recommendation.

Payment for System Improvements

3. The capital improvements and storm drain programs described above would require an increase in the Storm Drainage Fee from its present \$4.25 per month for average single-family residential customers to \$10.00 per month (an increase of \$69 per year). Proposition 218 requires that this proposed increase be approved by a majority of property owners in a mail ballot election.
4. The storm drain capital improvements projects should be paid for on a pay-as-you-go, front loaded, basis over a period of approximately 12 years. This pay-as-you-go strategy will result in a lower monthly Storm Drainage Fee since there will be no bond financing costs, and the “front loading” will allow 35% of the capital improvements to be completed within three years. The “front loading” is proposed to be achieved by collecting the Storm Drainage Fees attributable to City-owned properties in advance. Specifically, City-owned properties are currently assessed a collective Storm Drainage Fee totaling approximately 2340 Equivalent Residential Units, based on the amount of impervious surface on those properties. By assessing the fees payable throughout the 12-year capital project implementation period up-front, approximately \$3.4 million can be generated to fund early implementation of storm drain capital projects. A spreadsheet showing these cash flows in more detail is Attachment 3 to this report.

5. In order to offset the effects of inflation, the City Council should have the discretion to increase the Storm Drainage Fee beyond the approved initial rate on an annual basis as part of the City budget process, but not to exceed the local rate of inflation or 6%, whichever is less.
6. The City's existing Rate Assistance Program (RAP), which provides a 20% discount to qualified low-income utility customers, should apply to the Storm Drainage Fee.
7. The Storm Drainage Fee rate structure for single-family residential properties should be modified to create three rate categories, based on parcel size (less than 6,000 square feet; between 6,000 and 11,000 feet; and greater than 11,000 square feet) while keeping the weighted average at \$10.00 per month.
8. The Storm Drainage Fee should be levied uniformly throughout the City of Palo Alto.
9. As is currently the case, a fee reduction appeal process to City staff should be in place for those property owners who can demonstrate that the run-off from their properties drains directly to a creek or another city's storm drain system and that they have complied with all applicable permit and other legal requirements for such drainage. In addition, this appeal process should apply to those property owners who can demonstrate that they have constructed improvements to their properties to retain storm runoff onsite. In keeping with the present policy, the reduction in fees would not apply to that portion of the monthly fee attributable to City-wide programs.

Sunset and Oversight Provisions

10. The increase in the Storm Drainage Fee should sunset twelve years from the date of the rate increase election (following completion of the initial set of recommended storm drain capital improvements).
11. An oversight committee should be appointed by the City Council to monitor and review the storm drain capital improvements and to insure that the money raised from the increased Storm Drainage Fee is spent in accordance with the statements made to the public in the property owner election. The Oversight Committee should report at least annually to the City Council.
12. The City Council should appoint a storm drain citizens committee to re-examine storm drain funding issues no later than five (5) years prior to the sunset date.

Policy Issues

13. Future General Fund subsidies to the Storm Drainage Fund should be discontinued, and the Storm Drainage Fund should operate solely as a fee-funded enterprise fund. Past General Fund subsidies to the Storm Drainage Fund should not be repaid. As noted above, since 1999 the existing Storm Drainage Fee of \$4.25 per month has not been sufficient to pay for the storm drain costs, and the remainder of those costs (equal to about \$1.75 per month in the Storm Drainage Fee) have been paid from the City's General Fund. Similarly, certain expenses advanced by the City's Wastewater

Treatment Fund, which more properly belong in the Storm Drainage Fund, should not be reimbursed.

14. Financial support for the San Francisquito Creek Joint Powers Authority and San Francisquito Watershed Council and funding for curb & gutter repairs should be paid from City sources other than the Storm Drainage Fund. The Committee believes that these programs are valuable to the community and worthy of strong consideration for ongoing annual funding as part of the City's budget.
15. A portion of the Storm Drainage Fee, not to exceed \$125,000 per year, should be used to fund innovative projects that reduce the amount of storm runoff and environmental pollutants entering the storm drain system. The Committee suggests that staff seek grant funding for such innovative projects to supplement the funds allocated from the Storm Drainage Fee.
16. The Storm Drainage Fund election should be held in the winter of 2004-05 in order to coincide with the rainy season.

Administrative Matters

17. The Public Works Department should collect and monitor data on the performance of the storm drain system, noting where the problem areas are and updating the existing performance model in order that upgrades and repairs can then be reprioritized as necessary.
18. The City should encourage Santa Clara County to take steps to alleviate the frequent flooding of the Oregon Expressway underpass at Alma.

Storm Drain Committee Members participating in 2004 program review

Larry Klein, Chair
Richard Alexander
Vivian Blomenkamp
Walt Hays
Leannah Hunt
Stephony McGraw
John Melton
Trish Mulvey
Susan Rosenberg

September 7, 2004
Palo Alto, California

ATTACHMENT 1

STORM DRAIN COMMITTEE'S RECOMMENDED LIST OF STORM DRAIN IMPROVEMENT PROJECTS

Project Name	Location	Cost (2004\$M)
Construct pump station at 96" outfall to San Francisquito Creek	North Palo Alto	\$4.50
Parallel/Replacement pipelines on Channing & Lincoln Aves. (From Channing/Heather to Lincoln/Alma)	Green Gables/ Community Ctr./ Professorville	\$4.60
Southgate neighborhood drainage	Southgate	\$2.00
Extend Gailen Ave./Bibbits Dr. outfall to Adobe Pump Station	Charleston Terr.	\$0.65
Connect Clara Drive drains to Matadero Pump Station	De Anza	\$0.90
Improve Matadero Pump Station and install parallel/ replacement pipelines leading to the pump station	Midtown	\$3.00
Improve drainage along southbound Alma Street	Alma Street	<u>\$1.50</u>
	SUBTOTAL =	\$17.15

ATTACHMENT 2

STORM DRAIN COMMITTEE'S RECOMMENDED LIST OF STORM DRAIN ENHANCED MAINTENANCE AND WATER QUALITY OPERATING EXPENDITURES

Enhanced Maintenance

1. Annual funding of \$500,000 should be added to the Storm Drainage Fund budget to fund replacement/rehabilitation of deteriorated components of the City's storm drain system (e.g. pipelines, manholes, catch basins). This funding is needed to address the existing backlog of known storm drain system defects, as well as future defects that will appear as the system continues to deteriorate with age.
2. Annual funding of \$90,000 should be added to the Storm Drainage Fund budget to fund additional storm drain maintenance resources (either staff or contract services).

Environmental Programs

3. Annual funding of \$100,000 should be added to the Storm Drainage Fund budget to pay for existing services related to storm water quality protection currently funded through the Wastewater Treatment Fund. The Wastewater Treatment Fund budget should be reduced by \$100,000 so that there is no net increase in overall City spending for these existing services.
4. Annual funding of \$125,000 should be added to the Storm Drainage Fund for innovative projects that reduce the amount of storm water runoff and environmental pollutants entering storm drains and creeks.

Capital Improvement Related

5. Funding for one additional staff engineer (\$115,000 per year) should be added to the Storm Drainage Fund in order to implement the recommended capital improvements.

**ENHANCED PROGRAMS DEFERRED FROM INITIAL PROGRAM
RECOMMENDATION**

Future System Replacement

6. For prudent financial planning purposes the storm drainage system should have “sinking funds” built in to its rate structure so that funding will be available to replace parts of the system as they wear out. Sinking funds were thus part of our 2002 recommendations. In an attempt to keep the Storm Drainage Fee at a reasonably low amount, these sinking funds have been deleted from our present recommendation. However, we believe that sinking funds do constitute good long-term planning for the City’s storm drain system and hope they can be included in the next round of storm drain financing.