



Council Communication

Office of the City Manager

Date	October 27, 2008
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Agenda Item No.	47
Roll Call No.	<u>08-</u>
Communication No.	<u>08-661</u>
Submitted by: William G. Stowe, Assistant City Manager/Public Works/Engineering	

AGENDA HEADING:

Amendment to Municipal Code Section 118-275 to provide for a stormwater utility fee adjustment.

SYNOPSIS:

Recommend approving amending Municipal Code Section 118-275 to adjust the Equivalent Residential Unit (ERU) billing rate to increase the rate by 8 per cent beginning January 1, 2009 with additional increases of 8 per cent on January 1, 2010 and an additional 8 percent on January 1, 2011.

FISCAL IMPACT:

Amount: Additional revenue ranging from \$504,758 to \$1,390,026 annually over the next three years.

Funding Source: Operating Budget, EN301 Stormwater Utility Fund, PWK077001, page 301

ADDITIONAL INFORMATION:

The chart below provides detail of the proposed rate increase:

Fiscal Year	Currently Approved ERU Rate	Rate Change %	Projected Income	Proposed Rates	Rate Change %	Projected Income	Incremental Change in Revenue
2008-09	\$6.75	5%	\$12,520,213	\$7.29 on 1/1/09	8% on 1/1/09	\$13,024,971	\$504,758
2009-10	\$7.09	5%	\$13,159,370	\$7.87	8%	\$14,082,016	\$922,646
2010-11	\$7.44	5%	\$13,831,156	\$8.50	8%	\$15,221,182	\$1,390,026

Current rate increases are effective each July 1. Proposed rate increases are effective each January 1.

Each of the rate increases, as proposed, would be effective January 1 of each year. Having the increases start on January 1, the increase will be for half of each fiscal year. The significance of this change is that the revised rate structure will generate an average of \$565,000 per year less than the rate structure originally proposed, although the commitment to system operation and maintenance and capital projects has not been reduced. This revenue reduction will lessen the Stormwater utility's debt coverage and cash balances unless we are able to secure assistance to fund some of the planned capital projects. We will continue to aggressively pursue State and Federal grants and our success in securing the grants will determine the extent to which rates will need to be increased in the future.

The impact of the rate increase on the financing of capital projects remains uncertain. Of course, greater system revenues will aid the issuance of lower cost debt, but the modest reduction in coverage that results from the revised rate recommendation is difficult to translate into an impact on bond ratings and

interest rates. In a bond market as steeped in turmoil as currently exists, it is difficult to make any predictions. In addition, the rating agencies have been planning for several months to revise the municipal bond rating system to include private and public offerings on the same scale. If this change is implemented, we could expect to see an increase in the rating even with lower coverage. On another positive note, recent municipal bond sales have been very successful both in terms of bidders and rates, resulting from what has been termed as a “flight to safety”, and reflecting the relatively high level of security associated with municipal bonds. There is no certainty in the outcome, but we are prepared to approach the rating agencies and bond market next spring with the updated capital program, based on the revised rates.

The rain events and floods of 2008 demonstrated the need to improve the levee protection system and stormwater pumping capabilities. In addition, the events of this past year also showed a need to improve our ability to provide preventive maintenance in the sewer collection system.

A number of major initiatives have been proposed such as levees in the Des Moines and Raccoon Rivers and Downtown Closure Projects - \$12,000,000; Court Avenue Area Separate Storm Sewer and Pump Station - \$4,000,000; Pump Station Emergency Power Supply - \$2,500,000; Levee Rehabilitation at Clarkson/MLK - \$500,000 and other improvement in the system. In the next three to five years there are projects planned in the amount of \$19,620,000. Staff will be researching for State or Federal grants to assist in the payment of projects that are eligible to lessen the burden on Des Moines rate payers.

As important as the capital projects are, the continued maintenance of the sewer system is essential as well. In order to improve the maintenance effort, a number of programs will be implemented. They include remote televising of the sewer system to locate areas in need of repair, manhole and structure rehabilitation, and levee, basin and pump station maintenance. To implement the maintenance program, personnel will need to be added and specialized equipment purchased. Seven Full Time Equivalents (FTEs) will be added to the Stormwater and Sanitary Sewer divisions. Four FTEs will be paid for by Stormwater and three FTEs will be paid for by Sanitary. An equal number of FTEs will be reduced from other areas, resulting in no increase in staffing from this effort. Scheduled sewer cleaning and chemical application to control tree roots will be provided using contract services.

Equipment purchases will include a TV Van and equipment, 3 batwing mowers, 2 one ton trucks and other sewer cleaning and maintenance equipment. The total cost of personnel and equipment is estimated to be \$2,965,000. This total will be apportioned between the sanitary sewer and stormwater utilities. The sanitary utility's share is \$1,620,000. Present rates are sufficient to assume this cost without a rate change. The stormwater utility will be responsible for \$1,345,000 of the projected cost. Present rates are not at a level to be able to add the new personnel and equipment without a rate change. The portion of the cost that is part of the unfunded mandate under the Clean Water Act is \$1.3 million annually to satisfy staffing changes needed to comply with the Federal requirements.

January 1, 2009 the increase in stormwater will be 54 cents a month or \$6.48 a year for a property paying for 1 ERU. There is also a 6% increase in sanitary sewer planned for FY 2009 which will increase from \$3.96 per 1,000 gallons beginning on July 1, 2009 and another 6% increase on July 1, 2010 to bring the rate to \$4.20 per 1,000 gallons for an increase of 24 cents per 1,000 gallons of usage. There is not an increase planned for solid waste rates.

There will be some relief from the higher rates to Des Moines' lower income residents. The Des Moines Municipal Housing Agency is required by HUD to provide utility allowances for Section 8 and Public Housing residents who pay their own utilities. This allowance is for monthly expenses for natural gas,

electric, water, sewer, trash collection, storm water, water availability, and sewer availability. Specifically for the storm water fees, this allowance is reimbursed 100%. This utility allowance is for approximately 3,400 households the agency subsidizes. In addition, this utility allowance schedule is utilized by the majority of the approximately 3,000 low income tax credit units, and other subsidized housing providers for which tenants are responsible to pay the utilities.

The Des Moines Airport has the most impervious surface of any facility owned by the city. It is estimated that storm water fees will increase an average of \$30,000 per year. A \$30,000 increase will increase landing fees approximately 1 cent per thousand pounds of aircraft landed weight. As an example, a Boeing 737 landing fee today is \$259.08 based on today's landing fee of \$2.15 per thousand pounds. With an increase of \$0.01 (\$2.16) per thousand the landing for a Boeing 737 will increase \$1.20 to \$260.28.

It is important from a public policy perspective not to waive or reduce a particular class of user and treat them differently. The proposed rate increases do treat those who pay the fee same, as they each pay the same amount per ERU.

PREVIOUS COUNCIL ACTION(S):

Date: December 18, 2002

Roll Call Number: 02-3004

Action: Final consideration of ordinance above. Moved by Cownie that the rule requiring that ordinances must be considered, and voted on for passage at two council meetings prior to the meeting at which it is to be finally passed be suspended, that the ordinance be placed upon its final passage and that the ordinance do now pass, #14,194. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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