CHAPTER 8
FINANCE

INTRODUCTION

The main sources of revenue for the City's Stormwater Enterprise Fund are the storm drainage service charge and the recently adopted General Facilities Charges (GFC or connection fee). The Stormwater Enterprise Fund provides funding for staff, maintenance, inspections, capital improvements, property acquisition, engineering, planning, administration, equipment, repair or replacement of existing systems, NPDES Phase II program and other items related to the stormwater utility. This Fund can also be used to repay debt service for loan or bond indebtedness for the stormwater utility. To date the City has not taken a loan or bond for the stormwater utility.

In accordance with Gig Harbor Municipal Code 14.20.120, the City requires a Drainage Permit for major site development projects, required connections to the existing storm system, grading activities that involve the movement of 100 cubic yards or more of earth, diversion of existing drainage courses and other grading or drainage related activities. Fees collected for the Drainage Permit is a minor source of revenue for the Enterprise Fund.

In February 2008, the City completed the General Facilities Charges and Rate Study that resulted in the adoption of the GFC and increase to the storm drainage service charge. This is discussed in detail later in this Chapter. Because the rate study was completed recently, a rate analysis was not included in this Stormwater Comprehensive Plan. A summary of the program costs is provided.

This chapter discusses methods of providing financing for the stormwater system's operation and maintenance program and capital improvement projects which were recommended in Chapter 7, Capital Improvement Plan. Adequate funding is essential for the implementation of the capital improvement plan and the NPDES Phase II program. The financial resources available to the City for the implementation of the capital improvement projects, beyond service charges and connection charges, include grant and loan funds, debt financing and local improvement districts.

This chapter provides a strategy for implementing the capital and non-capital recommendations identified in the Plan. This includes identification of the current surface water management fees and financing options for meeting the capital and operating needs of the stormwater system. A six-year proposed budget is also provided that identifies the overall revenue requirements compared to anticipated income.

STORM DRAINAGE RATES

The City formed a stormwater utility in 1984 by adoption of City Ordinance No. 448. In 1984, City Ordinance No. 449 established the rate structure policy for the storm drainage utility. At that time the monthly service charge was $2.10 per Equivalent Billing Unit (EBU). Since then the City has completed rate studies and increased the service charge accordingly. In 2008, the City adopted Ordinance No. 1135 increasing the monthly service charge to $11.12 per EBU in response to the increasing costs of providing services and maintaining the storm system. The latest increase was also to ensure that adequate funds would be available for the NPDES Phase II program. According to Ordinance No. 449, all properties are subject to the service charge except for rights of way owned by the City, Pierce County and the State of Washington. Table 8-1 summarizes the rate increases since the formation of the stormwater utility.

Table 8-1. Monthly Service Charge

Effective Year	Monthly Service Charge per EBU	Ordinance No.
1984	$2.10	449
1992	$3.43	638
1994	$3.60	662
1999	$7.20	811
2007	$8.64	1064
2008	$10.80	1121
2009	$11.12	1135

GENERAL FACILITIES CHARGE

The General Facilities Charges and Rate Study, dated February 2008 was completed for the City by Peninsula Financial Consulting. This study analyzed the City's water, sewer and stormwater utility facility costs to determine a connection fee. A water and sewer connection fee had been established previously and the study recommended an increase to provide services and maintenance to the growing systems. For the stormwater utility, this would be a new charge to supplement the monthly service charge as part of the stormwater enterprise fund. The study was based on a projected 10-year period with a 4.55% annual growth rate, existing facility costs and capital improvements. The NPDES Phase II program costs were not included in this analysis.

Based on the study, the City adopted Ordinance No. 1125 in March 2008, establishing a stormwater general facilities charge (GFC) and rate structure. The GFC would be a one-time fee to be paid by the property owner at the time new development is connected to the City storm system. The adopted stormwater GFC is $1,160 per equivalent residential unit as recommended by the study.

NPDES PHASE II PERMIT

In 2006, the NPDES Phase II Permit Application and Implementation Project was completed by HDR, Inc. for the City. The project scope consisted of evaluating the City's existing stormwater program for compliance with the permit requirements, providing recommendations and developing costs for the components of the Stormwater Management Program. Table 8-2 summarizes the anticipated annual cost of the City's Phase II program according to the 2006 HDR study. These costs were included in the CIP (see Chapter 7). In addition to the annual program cost for the various tasks included in the Permit components (public education and outreach, public involvement and participation, illicit discharge detection and elimination, controlling runoff from development and construction sites, pollution prevention and operation and maintenance for municipal operations) the annual NPDES Stormwater Permit fee for the City is $1,700.24 as discussed in Chapter 2.

Table 8-2. NPDES Phase II Program Costs

Year	Cost (2006 dollars)
2007	$194,535
2008	$205,385
2009	$214,940
2010	$168,905
2011	$155,355
2012	$174,325

Ref. 2006 NPDES Phase II Permit Application and Implementation Project, HDR Inc.

FUNDING SOURCE ALTERNATIVES

Following are description of possible sources of funding for the CIP projects and stormwater programs. The grant application and award process is competitive and can take up to a year in some cases to obtain the funding once awarded. It is important to research the funding program because the requirements and award amounts can change annually and some programs are eliminated due to cuts in budgets. It is also important to consider the payment schedule of the grant when scheduling the CIP project.

Grants and Loans

Within the State of Washington there are several grant and loan funds available for capital improvements. Among these are the Public Works Trust Fund (PWTF), Centennial Clean Water Fund (CCWF) and the State Revolving Fund (SRF). There are other state and federal agencies that offer funding for wetlands protection and flood control. These include the Flood Control Assistance Account Program (FCAAP) through the Department of Ecology and the Aquatic Lands Enhancement Account (ALEA) through the Department of Natural Resources. There are a variety of grant programs available for water quality and habitat improvement projects including the Salmon Recovery Fund and from the Puget Sound Partnership. The City is actively pursuing grant opportunities for the Donkey Creek Daylighting Project. The City has received $200,000 from the U.S. Environmental Protection Agency's Brownfields Cleanup Grant Program in 2007 for the Eddon Boathouse Project. These projects are described in Chapter 7 Capital Improvement Plan.

Following are descriptions of available grant and loan programs.

Phase II Municipal Stormwater Management Grants

The Washington State Department of Ecology recognizing the financial burden of complying with the NPDES Phase II program assisted in the development of legislation that provided $2.7 million to jurisdictions. This was passed by the 2005 Legislature. The City has received $75,000 from Ecology to be used for the Phase II elements required in the development of the stormwater management program. A post project assessment is required to determine the water quality benefits received from the project funded by this grant.

Public Works Trust Fund

The Public Works Trust Fund program is administered by the Public Works Board. Its purpose is to provide funds for repair, reconstruction, replacement, rehabilitation, or improvement of public works systems including stormwater. To be eligible, the local jurisdiction must adopt the one-quarter of one percent (1/4%) real estate excise tax and have in place a Comprehensive Plan prepared to meet the requirements of

the Growth Management Act. The attractiveness of the PWTF program is its low interest rates. The PWTF program offers 20-year maximum term loans, of up to $10,000,000 for construction, at interest rates between 0.5% to 2% depending on the level of local participation (5% minimum match). This program also provides funding for pre-construction, planning and emergencies.

Centennial Clean Water Fund

The Centennial Clean Water Fund (CCWF) administered by the Department of Ecology provides loans and grants for projects which enhance water quality. Eligible stormwater projects include water quality treatment facilities and projects or facilities that address non-point pollution problems. Projects which only address flood control or water quantity are not eligible under CCWF. Under the CCWF grant program, amounts vary from $250,000 to $5 million depending on the type of project and match amount. Recent loan terms have been 30% of average market rate for a repayment period of up to five years and 60% of the average market rate for a repayment period of more than five years, but no more than 20 years. For grants a match of up to 25% is required. No match is required for loans. Eligibility for grants is based on a rating system which includes such factors as seriousness of the water quality problem, public health impacts, and beneficial impact of the project on water quality.

Federal Clean Water Act Section 319 Nonpoint-Source Grant

The Federal Clean Water Act Section 319 Nonpoint-Source Grant administered by the Department of Ecology provides grants for projects that address nonpoint source pollution and improve and protect water quality. Eligible stormwater projects include, but not limited to, stream and habitat restoration implementation, water quality monitoring and lake restoration efforts that focuses on pollution prevention. Water quality treatment facilities are not eligible for Section 319 funding. Under the Section 319 grant program, up to $500,000 is available for projects. A match of 25% is required.

State Water Pollution Control Revolving Fund

The State Revolving Fund (SRF) program will provide loans for stormwater related projects. The SRF program is administered by the Department of Ecology. Projects which are eligible for funding are water pollution control facilities and nonpoint source pollution control and comprehensive estuary conservation and management. Loan terms vary depending on the payback period. Recent loan terms have been 1.5% for a repayment period of up to five years and 3.1% for a repayment period of more than five years, but no more than 20 years. Loans can cover 100% of the project cost.

Stormwater Management Implementation Grants

The Stormwater Management Implementation Grants administered by the Department of Ecology provides grants for local agencies for municipal stormwater projects that include retrofitting existing stormwater projects where stormwater is a significant source of contamination, identifying and removing non-stormwater discharges into municipal storm systems, and Low Impact Development stormwater management projects. Maximum amount available for a project is $1 million with a 25% match required.

Flood Control Assistance Account Program

The Flood Control Assistance Account Program (FCAAP) was established by the state in 1984 to assist local jurisdictions with comprehensive flood planning and maintenance efforts to reduce flood damages. The program is administered through the Department of Ecology in association with the Department of Fish and Wildlife and County engineers. Maximum allowable funding available for each county is $500,000 per biennium. The required match varies from 25% to 75% depending on the project type. Flood plain management plans, flood hazard reduction technical studies, acquisition projects, mapping, fish habitat protection/enhancement projects associated with flood damage reduction benefits and flood warning systemare all eligible for grant assistance as long as the public entity has a certified comprehensive flood control management plan in place. The FCAAP are generally written through the County which means that the projects throughout the County are ranked and compete for the portion of the total FCAAP funds available to the County.

Aquatic Lands Enhancement Account Grants Program

The Aquatic Lands Enhancement Account (ALEA) was established in 1984 to provide grants to cities, towns, counties, and port districts for projects that involve the enhancement, improvement and protection of aquatic lands and access to aquatic lands. This program is administered by the Washington State Recreation and Conservation Funding Board. Funding limits vary from $500,000 to $1 million depending on the project type and the project must be adjacent to navigable waters of the state. The required match is 50%. A storm project which redirects or treats runoff and thus improves state-owned aquatic lands would be an eligible project under this program. In regards to the City, this program would only apply to those areas adjacent to Gig Harbor.

Debt Financing

Two forms of debt financing are available for capital improvements including general obligation (G.O.) bonds and revenue bonds. General Obligation bonds are backed

by the "full faith and credit of the City" and are paid for through property tax levies. These bonds require voter approval before they can be implemented. A less common means of financing capital improvements associated with stormwater projects is through the use of revenue bonds. The City, like other municipalities, is capable of issuing tax exempt bonds. The principal and interest of such bonds are repaid from revenue generated from a utility such as a water, sewer or stormwater utility. This type of funding may be offered without voter approval. However, in order to qualify to sell revenue bonds, the City must establish that its net operating income (gross income less expenses) is equal to or greater than its debt coverage factor. This amount is typically 1.3-1.4 times the annual principal and interest due for all outstanding bonded indebtedness. Essentially, utility rates have to be set high enough to insure revenue bond repayment. Debt financing is an expensive method of funding projects and will not be recommended in this plan.

Developer Fees

The City may require stormwater improvements for service to a property within new plats or commercial developments to be financed by the developer. Alternatively, the City may offer the developer the opportunity to pay a fee into a fund dedicated to the construction of stormwater facilities. The developer, for example, may be required to construct detention facilities in accordance with City standards or pay into a fund for construction of an off-site regional stormwater facility to service multiple properties. The alternative approach allows the City to develop facilities in a planned and cost effective manner. However, several developments are generally required before the City has available funds to construct a regional facility. The City would have little control over the scheduling of such facilities unless alternative funding sources such as service charge revenues are utilized on a short term basis to fund initial construction and are then repaid as developer fees are collected.

Improvement Districts and Special Assessments

Levying of special assessments on benefited properties has been used throughout the state for stormwater improvements. Projects funded through special assessments must have an identifiable benefit to the properties included in the assessment area, and charges for each parcel must be consistent with the relative benefit to each property. In Washington, municipalities can establish a local improvement district (LID) or utility local improvement district (ULID). These approaches require an assessment against benefited property owners within the district boundaries. In order to establish the district and implement this approach, a majority percentage of property owners within the proposed district must vote their approval.

The use of LIDs to fund stormwater projects is complicated by the difficulty in quantifying benefits for individual property owners. For water and sewer improvements, for

example, the benefits are generally easy to identify. With drainage improvements, however, upstream or hillside properties which may contribute significantly to runoff may actually benefit little from improvements because of their protected location. One result may be to narrowly establish the boundaries of the LID, which then may be counterproductive to comprehensive stormwater management.

CAPITAL IMPROVEMENT FUND

The City maintains a Capital Improvement Fund that is to be used for Public Works Projects including storm projects. In recent years these funds have been used primarily for road improvement projects. In the 2008 Annual Budget, a stormwater capital fund was developed and $229,000 was transferred to this fund in 2009. The stormwater service charges and other miscellaneous revenue sources are placed in the stormwater operating budget. Previously, the annual ending fund balance was placed back into the operating fund. A percentage of the balance can now be placed in the capital fund to build a budget for the CIP projects discussed in Chapter 7.

For the next four years the highest capital expense will be to fund the NPDES Phase II Program. In 2009, the Program is estimated to cost $215,000 which will leave $14,000 for the various annual programs such as culvert replacements. Studies and small capacity improvement projects can be completed in the next six year period. Larger projects will have to be scheduled for the long range period. This will allow time to seek other funding opportunities such as grants for the Donkey Creek Daylighting Project and other projects. Some of the capacity improvement projects could be completed in conjunction with road improvement projects or other utility projects.

Chapter 3 includes a service charge revenue projection based on equivalent billing units (EBU). By the year 2015, using the current service charge of $10.80 per EBU, revenue of $960,000 is projected. Based on the revenue and operating budget needs, it is recommended that a percentage of the ending fund balance be transferred to the capital fund every year. Growing the capital fund over the next five years will allow for the construction of the 38th Avenue NW Storm Drainage Improvement Project by 2013 or this project could be completed in conjunction with the pedestrian improvements planned for 38th Avenue NW. As described in Chapter 7 this project is a City priority.

By 2013, the City's NPDES Phase II Program will be established and the cost of maintaining the program is anticipated to be less than $100,000. This will allow for additional funds to be used for capital projects in the future. This will be dependent on Ecology's requirements for the next NPDES permit cycle.

OPERATION AND MAINTENANCE PROGRAM

The annual cost of the operation and maintenance program is currently estimated at $556,080. Details of the program costs are discussed in Chapter 9, Operations and Maintenance. These costs are expected to increase as the NPDES Phase II Program is developed and the storm system expands due to private and public projects, and annexation. The development and implementation of a properly operated maintenance program is critical to controlling costs.