



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8c

ACTION ITEM

Date of Meeting October 8, 2019

DATE: September 20, 2019

TO: Stephen P. Metruck, Executive Director

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

SUBJECT: Adoption of 2020 Marine Stormwater Utility Rates

ACTION REQUESTED

Request Commission authorization for the Executive Director to set 2020 Marine Stormwater Utility rates with an increase of 8.2 percent.

EXECUTIVE SUMMARY

The requested authorization will provide a 2020 rate structure to be adopted by the Marine Stormwater Utility, in support of utility obligations to protect water quality, rehabilitate Port of Seattle stormwater assets, and support property managers and tenants in compliance with stormwater permit conditions. The proposed rate is an 8.2 percent increase from 2019. This is consistent with the forecast provided to the Commission in October 2018.

JUSTIFICATION

A rate increase at the proposed level of 8.2 percent allows the utility to improve water quality to meet the port's Century Agenda environmental goals by:

1. meeting short-term goals to transfer funding of all stormwater management activities from business units to the utility in 2020; and
2. maintaining significant level of investment to rehabilitate the stormwater system and increasing the performance of the 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. 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 used to address city priorities and not necessarily port needs. The port managed the expense of

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administering the stormwater compliance program to meet all applicable regulations without benefit of utility funds.

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. The utility has consistently delivered critical stormwater systems at a cost of about 50 percent less than would be realized if we were using the City utility. In addition, the utility has made smart and necessary investments into our own infrastructure.

Utility rates currently need to be approved annually by Commission.

Scope of Services

The utility is close to completing a full system assessment to obtain baseline conditions of the existing stormwater infrastructure. Over 50 urgent repairs of stormwater infrastructure have been completed, reducing hazards and allowing the conveyance system to function properly benefiting overall water quality. Seventeen tide gates have been installed preventing the flow of tidal waters into the conveyance system. Additionally, the Port of Seattle won two Environmental Improvements awards from the American Association of Port Authorities: the 2017 Comprehensive Environmental Management award for the formation of the utility and the 2019 Award of Excellence in Environmental Enhancement for Innovative Stormwater Operations and Treatment Techniques.

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. Most 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 to comply with stormwater regulations. The projected expense and capital budget in 2020 are approximately \$7.8 million, which will be used to:

- Perform ongoing system assessments and reassessments to monitor known conditions to be proactive in asset management, i.e. monitor and repair before failure,
- Repair damaged stormwater pipes and infrastructure,
- Perform existing stormwater management activities such as dock cleaning and sweeping,
- Perform additional maintenance such as catch basin and roof inspections 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

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- Cover operational and administrative expenses including staff costs, utility taxes and allocations.

Rate Criteria

The following criteria were used in considering the proposed 2020 rate:

- (1) Maintain adequate budget to meet the port’s Environmental Long-Range Plan and Utility Charter responsibilities including rehabilitation of stormwater infrastructure and covering budget of all applicable stormwater management activities of the stormwater compliance program in 2020.
- (2) Continue adequate funding to maintain and improve a high functioning stormwater system to benefit the water quality of the Puget Sound.
- (3) Build toward a six-month operations and maintenance expense reserve by 2023 for financial prudence consistent with port policy and best practices.

Schedule

Once approved by Commission, the 2020 rates will be adopted by the utility effective January 1, 2020. The utility notifies tenants of the upcoming rate change in the fall. 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 8 percent; meet regulatory goals

Cost Implications: Projected revenue in 2020 will be \$6.1 million with a projected expense and capital budget of \$7.1 million. Utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) The proposed rate increase of 8 percent is slightly lower than the original forecast of 8.2 percent.
- (2) The port rates would be on average about 16 percent lower than the City rates in 2020.

Cons:

- (1) The proposed maintenance budget eliminates some funding for assessment and repair work in 2020 which could risk meeting permit compliance.

This is not the recommended alternative.

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Alternative 2 – Increase rates by 13.2 percent; exceed regulatory goals with increased maintenance services above regulatory requirements

Cost Implications: Projected revenue in 2020 will be \$6.6 million with a projected expense and capital budget of \$8.1 million. Utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) Extra revenue would allow utility to exceed regulatory goals and provide a greater benefit more quickly for improved water quality.
- (2) The port rates would be on average about 10 percent lower than the City rates in 2020.

Cons:

- (1) The rate of 13.2 percent for 2020 is significantly higher than the 5-year rate path plan of 8.2 percent and could cause undue burden.
- (2) Imposes undue pressure on maintenance resources to meet a higher level of service consistently throughout all port properties in 2020.

This is not the recommended alternative.

Alternative 3 – Increase rates by 8.2 percent; status quo, meet regulatory goals and continue with original 5-year forecast presented in 2018

Cost Implications: Projected revenue in 2020 will be \$6.3 million with a projected expense and capital budget of \$7.8 million. Utility has a cash reserve of \$1.8 million to cover the difference.

Pros:

- (1) The proposed rate path is in line with previous forecast.
- (2) The port rates would be on average about 16 percent lower than the City rates in 2020.
- (3) The proposed maintenance budget includes funding for assessment and repair work in 2020.

Cons:

- (1) The work performed would only meet and not exceed regulatory goals compared to Alternative 2.

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 reserve as sound fiscal policy consistent with standard port procedure,
- Reduce operating costs funded by the port by funding all stormwater related maintenance activities from business units and select tenants, and

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- 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 paid back in full to the originating funds.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

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.