
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Survey of Stormwater Funding Methods in Select California Cities

OVERVIEW

At the Budget and Finance Committee Meeting of January 15, 2008, the Office of the Independent Budget Analyst (IBA) presented a review of the Mayor's Five-Year Financial Outlook for FY 2010-2014. As part of this review, the IBA presented several hypothetical budget balancing scenarios using various combinations of corrective actions, including expenditure reduction and revenue enhancements, to illustrate how the projected General Fund deficits could be resolved.

One of the revenue enhancement corrective actions that was discussed in the IBA's review, and employed in several of the budget balancing scenarios, was a storm water fee. Over the last several years, funding for the City's storm water program has increased significantly as regulations under the Municipal storm water permit have increased and become more stringent. Much of the increased funding for storm water permit compliance has come from the General Fund. The City's current storm drain fee of \$0.95 per month (for single family residences) generates approximately \$6 million per year, in contrast to the \$48 million that was budgeted for Storm water programs in FY 2009.

During the discussion of the IBA's review at the January 15 meeting, Council member Faulconer inquired about the ways in which other cities in California funded their stormwater programs. In response, the IBA began conducting research on the storm water programs in other California cities, and the various methods by which these programs are funded. This report presents the results of that research.

FISCAL/POLICY DISCUSSION

Regulatory Background

The 1972 Clean Water Act established the National Pollutant Discharge Elimination System (NPDES) permit program to regulate the discharge of point source pollution into US waters. Until 1987, non-point source pollution from stormwater runoff was largely unregulated. However, the 1987 amendments to the Clean Water Act extended the NPDES permit program to stormwater runoff, effectively prohibiting non-stormwater discharges to municipal separate storm sewer systems, and implementing controls to reduce stormwater pollution to the maximum extent practicable.

In California, the State Water Resources Control Board implements and enforces the NPDES permit program through a system of Regional Water Quality Control Boards (RWQCB). The RWQCBs are responsible for issuing an NPDES Permit (also referred to as a Stormwater Permit or Municipal Permit) to stormwater dischargers within their jurisdictions. The NPDES Permit requires jurisdictions to implement programs and activities to reduce pollutants in stormwater and urban runoff. Since the program was established in 1987, stormwater regulations under the NPDES permit program have been significantly revised and expanded.

Stormwater Fees and Proposition 218

As stormwater regulations have increased over the past two decades, municipalities have sought means of funding their storm water compliance programs. Many cities began charging user fees to properties that utilized the municipal storm drain system in order to provide funding for regulatory compliance programs, and for maintenance and operation of storm drain infrastructure. However, as storm water regulations were less burdensome under early NPDES Permits, such fees were often modest.

In November 1996, California voters approved Proposition 218, imposing new constraints on how municipalities could impose property-related fees and charges. Among other regulations, Proposition 218 required that any new or increased property-related fee be subject to voter approval. This created a significant new hurdle for municipalities in levying charges for storm water management programs. Under Proposition 218, an exemption to the voter approval requirement was created for water, sewer and trash collection fees, and some municipalities adopted the position that storm water fees were akin to water or sewer fees, and thus exempt from the voter approval requirement. However, the 2002 court decision in *Howard Jarvis Taxpayers Association v. City of Salinas* established definitively that storm water or storm drainage fees are property-related fees subject to Proposition 218, and are not exempt from voter approval requirements. Based on this ruling, any new or increased storm water fee must be approved by voters.

Methodology

In conducting our research on storm water funding, we looked at nine of the 10 largest cities in California by population (San Diego being excluded) and three prominent coastal cities, for a total sample of 12 cities. The three coastal cities that we researched have relatively small populations, but they have similar characteristics to San Diego in that they border the Pacific Ocean and must face the challenges of mitigating storm water pollution that may have originated in inland areas.

The table below shows the cities that were researched along with a few statistical measures.

| City | 2008 Population* | Land Area (Sq. mi.)** | Pop. per Sq. Mile |
|------------------|---------------------|--------------------------|----------------------|
| Los Angeles | 4,045,873 | 469.1 | 8,624.8 |
| San Diego | 1,336,865 | 324.3 | 4,122.3 |
| San Jose | 989,496 | 174.9 | 5,657.5 |
| San Francisco | 824,525 | 46.7 | 17,655.8 |
| Long Beach | 492,642 | 50.4 | 9,774.6 |
| Fresno | 486,171 | 104.4 | 4,656.8 |
| Sacramento | 475,743 | 97.2 | 4,894.5 |
| Oakland | 420,183 | 56.1 | 7,489.9 |
| Santa Ana | 353,184 | 27.1 | 13,032.6 |
| Anaheim | 346,823 | 48.9 | 7,092.5 |
| Ventura | 108,261 | 21.1 | 5,130.9 |
| Santa Monica | 91,439 | 8.3 | 11,070.1 |
| Santa Barbara | 90,305 | 19.0 | 4,752.9 |

* CA Department of Finance estimate as of January 1, 2008

** As reported by www.city-data.com.

The City of San Diego's storm water program can essentially be divided into three components: maintenance and operation of storm drain infrastructure, storm water pollution prevention and Permit compliance, and street sweeping. Maintenance and operation of storm drain infrastructure involves the inspection, cleaning, maintenance and repair of over 70,000 storm drains, 800 miles of drainage pipeline and 15 storm water pump stations. The storm water pollution prevention component performs activities and programs to ensure compliance with the Municipal Storm Water Permit, including education and outreach, water quality monitoring, industrial inspections, code enforcement, watershed management and Best Management Practice development and implementation. Street sweeping provides collection and removal of street debris and hazardous particulate waste on over 2,700 miles of improved streets. As these three components make up the City of San Diego's storm water program, we attempted to account for all similar components in each of the cities that was researched.

Overall, the focus of our research was to determine the different funding methods employed by the survey cities in providing their storm water management programs. Where possible, we attempted to identify the funding source for each of the three storm water-related components described above, storm drain operation and maintenance, pollution prevention/Permit compliance, and street sweeping. This was often challenging, as most cities do not organizationally group together such programs into a single department or business center as San Diego does. However, for the most part we were able to determine the funding methods for the respective program components.

As mentioned, one of the challenges we faced in the course of our research was the disparate and disaggregated way in which storm water programs were organized and budgeted for. Each city that was researched had a different organizational structure for their storm water programs, often marked by different departments being responsible for different program components. As a result, we were not able to determine total storm water program expenditures for each city. This would be an appropriate topic for a future research, as such data would provide insight as to levels of cost recovery, and service level comparisons among different jurisdictions.

Summary Observations

The results of our research can generally be summed up into three notable conclusions. First, nearly every city that was surveyed had a dedicated source of funding for their stormwater programs other than the General Fund. In fact, of all the cities surveyed, only the City of Long Beach relied on the General Fund as a primary funding source for all of their stormwater-related programs. While other cities may utilize a degree of General Fund support for certain programs, it is not a primary source of funding for stormwater activities.

Second, there is significant variation across the cities that were researched in how stormwater programs are funded. While most cities are consistent in having a dedicated source of funding other than the General Fund, there is little consistency in what those funding sources are. The table below provides a summary of the primary funding sources employed by the cities that were surveyed.

| City | Storm Water Charge | Bond Funding | Sewer/ Water Charges | Refuse Fees | Property Tax Assess. | Develop. Inspect. Fees | Other Tax/ Charge | General Fund ¹ |
|----------------------------|--------------------|--------------|----------------------|-------------|----------------------|------------------------|-------------------|---------------------------|
| Los Angeles | ✓ | ✓ | | | ✓ | | | ✓ |
| San Jose | ✓ | | | | | | | |
| San Francisco ² | | | ✓ | | | | | ✓ |
| Long Beach | | | | | | | | ✓ |
| Fresno | | | | ✓ | ✓ | | | |
| Sacramento | ✓ | | | ✓ | | ✓ | | |
| Oakland | | ✓ | ✓ | | ✓ | | | |
| Santa Ana | | | ✓ | ✓ | | | | |
| Anaheim | | | ✓ | | | | ✓ | ✓ |
| Ventura | | | | ✓ | ✓ | ✓ | | |
| Santa Monica | ✓ | | | ✓ | | | ✓ | |
| Santa Barbara | | | | | | | ✓ | |

1. Of the cities listed under this category, only Long Beach uses the General Fund as a primary funding source for all of its storm water programs.

2. The City and County of San Francisco operates a combined storm and sanitary sewer system.

Finally, most cities provide street sweeping as part of their sanitation and trash collection services, and commonly fund street sweeping through refuse fees. While cities certainly acknowledge the benefit that street sweeping provides in terms of storm water pollution prevention and NPDES Permit compliance, it is often linked organizationally with solid waste management. And while funding street sweeping through trash fees is an interesting approach, it is probably not an option that could be implemented in San Diego due to the People’s Ordinance.

Survey Results

The results of our research for each city are presented below, listed in order of population.

Los Angeles

The City of Los Angeles levies an annual Stormwater Pollution Abatement Charge (SPAC) of \$23 per Equivalent Dwelling Unit. The SPAC was adopted by the City Council in 1993 and generates approximately \$29 million per year. Revenue from the SPAC is deposited into the Stormwater Abatement Fund, and then allocated for various storm water-related activities. The largest allocation is to the Sanitation Fund, which funds refuse collection and disposal, sewer system operation and maintenance, storm drain operation and maintenance, and NPDES Permit compliance. It is indicated that expenditures related to stormwater permit compliance began to exceed revenue from the SPAC in FY 2004.

In addition to the Stormwater Pollution Abatement Charge, Los Angeles voters approved Position O in 2004, authorizing a \$500 million General Obligation bond to provide

funding for storm water management projects, including water quality protection; flood control and pollution runoff prevention; water conservation and source protection; and storm water capture, clean-up and reuse. These bonds are funded through a property tax assessment, estimated at \$35 per year on a \$350,000 home. Street sweeping is provided by the Bureau of Street Services, which received funding primarily from the General Fund, and from Gas Tax revenues.

San Jose

The City of San Jose levies two types of storm drain fees: a Storm Drainage Connection Fee and a Storm Sewer Service Charge. The Storm Drain Connection Fee is a one-time fee that is assessed on new development, and is based on property size and type. The charge for a typical single family residence (lot size less than 9,680 square feet) is \$270.

The Storm Sewer Service Charge is an annual fee paid by property owners based on the relative quality and quantity of stormwater runoff that is contributed to the system by the respective property. The annual charge for a single-family residence is \$70.56, or approximately \$5.88 per month, and is used to fund maintenance and operation of the storm drainage system, including storm water permit compliance activities and street sweeping. Interestingly, the City of San Jose does not seek voter approval to increase the Storm Sewer Service Charge, but rather, approves increases pursuant to a notification procedure as with increases to water and sewer fees. The current rate, approved for FY 2009 in response to increased stormwater permit requirements, represents a 30% increase over FY 2008 rate. It is estimated to generate approximately \$22.6 million in the current fiscal year.

San Francisco

Unlike most other cities in California, most of the storm water in the City and County of San Francisco (“City”) is collected in a combined storm and sanitary sewer system and treated prior to discharge in the San Francisco Bay and Pacific Ocean. As a result, the City’s stormwater program is funded through sewer charges. However, certain areas of the City have a separate storm sewer system, which is jointly managed by the Port of San Francisco and the San Francisco Public Utilities Commission (SFPUC) according to geographic location. Both the Port and the SFPUC prepare Storm Water Management Plans in accordance with the NPDES requirements, describing the efforts that each jurisdiction will take to minimize stormwater pollution.

Street sweeping in San Francisco is provided by the Bureau of Street Environmental Services, which is largely funded by the General Fund.

Long Beach

In the City of Long Beach, the Storm Water Drainage program is responsible for operation and maintenance of the storm drain system, including stormwater permit compliance activities. Approximately 95% of this program, budgeted at \$2 million in FY

2009, is funded by the General Fund, with remaining funding coming from various grant funds. In addition, street sweeping services are funded entirely by the General Fund. Due to limited funding, the City has been deferring maintenance projects and system upgrades, and has shifted certain costs to departments with other funding sources. To create a more sustainable funding source, the City has begun exploring the possibility of establishing a Storm Drain Management Fund and implementing a fee to support maintenance and water quality programs.

Fresno

Storm water permit compliance activities for the City of Fresno are primarily provided by the Fresno Metropolitan Flood Control District (District). The District was approved by voters in 1956 as a quasi-joint powers special district to provide storm water management and flood control services for the Cities of Fresno and Clovis, and the County of Fresno. The District is responsible for the design, construction and maintenance of flood control and urban storm water drainage facilities and infrastructure. Flood control infrastructure includes dams, reservoirs, detention basins and a network of streams and channels that collect flood waters from foothills before reaching urbanized areas.

The urban storm water drainage system consists of storm drains, pipelines, detention and retention basins, pump stations and various creeks and canals. As the owner of the storm water drainage system, the District has primary responsibility for the storm water quality management program, and maintaining compliance with the municipal storm water permit. The District is funded primarily through developer fees, grants, and a property tax assessment of \$0.11 per \$100 of assessed value. Street sweeping services are provided by the City of Fresno as part of the Community Sanitation Division, which is funded through a sanitation charge of \$6.23 per month.

Sacramento

The City of Sacramento charges a storm water utility fee of \$11.31 per month for single family residences. Revenues from this fee are deposited into the Storm Drainage Fund, which provides storm drain pumping operations, wet weather treatment and storage, storm water collection system maintenance and related engineering services, flood plain management, and storm drain system capital improvement. The stormwater utility fee also provides funding for the City's Stormwater Quality Improvement Plan (SQIP), which is comprised of various program elements and activities designed to reduce storm water pollution and comply with other regulations pursuant to the municipal storm water permit.

The storm water utility fee, which has not been increased since the passage of Proposition 218, is estimated to generate approximately \$32.5 million in FY 2009. However, due to increased regulatory requirements, it has been indicated that the Storm Drainage Fund could have a negative fund balance within two years. Street sweeping services are

provided by the Solid Waste Fund, which is primarily funded through refuse collection fees.

Oakland

Storm water programs in the City of Oakland are provided by the City itself, and through the Alameda Countywide Clean Water Program, a consortium of 18 local agencies designed to provide guidance and leadership of storm water management and NPDES Permit Compliance. The Clean Water Program consists of a General Program and Individual Programs. The General Program provides activities that have a common benefit to all member agencies, such as monitoring, public education, and program administration, and is funded through proportional contributions from the member agencies. Individual Programs are carried out by each member agency, and include activities that provide individual benefits, such as construction site controls, catch basin cleaning and code enforcement.

Oakland's Individual Program components such as storm drain operation and maintenance and creek and watershed improvement are primarily funded by the Sewer Service Fund, which derives revenue from a sewer surcharge on the East Bay Municipal Utility District bill. In addition, in 2002 voters approved Measure DD, authorizing a \$198 million General Obligation bond to fund water quality improvements; creek, waterfront and estuary restoration; park rehabilitation; construction and renovation of public recreational facilities; and open space acquisition and preservation. \$10 million from Measure DD was allocated for creek restoration and watershed preservation. Finally, Oakland provides street sweeping services through the Comprehensive Cleanup Fund, which derives revenue primarily from residential and commercial refuse collection fees.

Santa Ana

In 2002, the Santa Ana City Council adopted an ordinance creating the Federal Clean Water Protection Enterprise to fund various activities of the city's Storm Water Management Program, which includes storm drain systems operation and maintenance and pollution reduction under the NPDES permit. The primary source of revenue for this Enterprise is the NPDES Surcharge, which generates funds through a rate increase on water, sewer, refuse and building/development fees. The NPDES surcharge increased respective rates by the following amounts: Water - 3%; Sewer - 5%; Refuse - 1.6% and Building/Development - 26%. Revenue generated from each individual rate increment funds a different area in the program. For instance, revenue from the water rate increase is utilized to pay the permit fee charged to the City by the Regional Water Quality Control Board and two-thirds of the additional training and community outreach required under this permit. In FY 2008, these rates generated approximately \$2.5 million.

Anaheim

In the City of Anaheim, storm water program components are located in various divisions of the Public Works Department, including the Engineering Services and Public Works Operations. While some funding is supported through the General Fund, the primary funding source for the City's storm water activities are user charges that are placed on the utility bill. These user charges account for a majority of the program's funding (88%) and they include a both a Street Sweeping and a Wastewater System Maintenance fee. The Street Sweeping fee is currently \$2.33 per month for a single family resident, while the monthly Wastewater System Maintenance fee is \$4.81. Revenues from these fees are deposited into the Sanitation Enterprise Fund.

Ventura

In the City of Ventura, the largest revenue source for the city's Storm Water Quality Program is an additional levy from Property Taxes, referred to as a Benefit Assessment. The rate for a single family home is \$5.90 per year and average revenue collected per year totals approximately \$250,000. This revenue, which was implemented in the early 1990's, helps to fund requirements mandated by the NPDES Permit.

In FY 2007, the City implemented user fees for conducting NPDES Inspections of various facilities. Rates for inspecting automotive facilities are \$141 per year and inspections of Food Service Facilities and Industrial Facilities are \$146 per year. Site inspections for land use development and compliance with the City's Storm Water Quality Urban Impact Mitigation Plan (SQUIMP) includes a one-time fee of \$552 (for land less than one acre) and \$1,625 (for land more than one acre). Revenue from the implementation of user fees brings in, on average, \$100,000 to \$120,000 per year and helps fund program administration and reporting. Street sweeping activities are funded through revenue collected from an additional trash bill fee, which was implemented in 2005. Total revenue from this collection totals \$400,000 per year.

Santa Monica

In 1997 the City of Santa Monica approved a storm water management user fee to pay for the operation, maintenance, administration, improvement environmental restoration and replacement of the storm drainage systems; improving the quality of storm water; and complying with local, state, and federal stormwater regulations. The storm water management user fee is levied on all parcels of property which discharge to or are served by the City's storm drain system, and is equivalent to \$36 per year for a single family residence. Revenues from this fee are deposited in the Stormwater Management Enterprise and Utility Fund. In FY 2009, this fee generated approximately \$1.4 million.

In November 2006, Santa Monica voters approved Measure V, imposing an annual parcel tax of \$84 per year for a singly family residence in order to supplement the existing stormwater management user fee. Revenue from the Measure V parcel tax is deposited in the Clean Beaches and Ocean Parcel Tax Fund to support the City's Watershed

Management Plan. The goals of the Watershed Management Plan are to reduce urban runoff pollution, reduce urban flooding, increase water reuse and conservation, increase recreational opportunities and open space, and increase wildlife and marine habitat. The urban runoff management and pollution prevention activities of the plan assist the City in complying with storm water permit requirements. In FY 2009 the Clean Beaches and Ocean Parcel Tax is estimated to generate approximately \$2.4 million. Together with the stormwater management fee, the total monthly charge for a single family residence is \$10 per month.

Finally, street sweeping services in Santa Monica are provided by the Solid Waste Management Fund, which is primarily funded through refuse fees.

Santa Barbara

The City of Santa Barbara funds much of its storm water permit compliance activities through a dedicated transient occupancy tax (TOT) increment. In November 2000, Santa Barbara voters approved Measure B, increasing the TOT rate from 10% to 12%. This 2% increase is deposited in the Creeks Restoration and Water Quality Fund, and is used to fund storm water quality improvement programs, creek restoration improvements, and other projects and programs to improve onshore and offshore water quality. In FY 2009, the 2% TOT increment is estimated to generate approximately \$2.9 million.

In addition to the TOT levy for creek restoration and water quality improvement, the City of Santa Barbara funds storm drain maintenance and operation through the Streets Fund, which receives revenue from the City's 6% Utility User Tax (50% goes to the General Fund and 50% to the Streets Fund), as well as various state and federal grants. Street sweeping services are partially funded by the Creeks program and through revenues from street sweeping parking violations.

CONCLUSION

This report presents the findings of the IBA's research on the means by which other California cities fund their storm water management programs, as inquired by Council member Council member Faulconer at the January 15, 2008 meeting of the Budget and Finance Committee. In conducting this research, we examined nine of the 10 largest California cities by population (San Diego excluded), as well as three smaller coastal cities. To maintain consistency with San Diego's storm water program, the research attempted to determine the funding source and methods for three primary storm water program components: storm drain operation and maintenance, storm water pollution prevention and NPDES permit compliance, and street sweeping.

The results of this research yield three notable conclusions. First, the General Fund is not widely utilized as a primary funding source for most storm water programs. Only the City of Long Beach relied on the General Fund as the primary funding source for all of their storm water programs. While other cities may use a degree of General Fund support for certain program, all have dedicated funding sources other than the General Fund. Second, there is significant variation and little consistency in the methods of funding storm water programs. Some cities utilize dedicated storm water or storm drain fees, while other cities rely on surcharges to water and sewer utility bills. A few cities have used voter-approved bond proceeds, and others levy special taxes or assessments. Finally, street sweeping programs are commonly provided as part of broader solid waste management programs. As such, street sweeping is often funded through refuse collection and sanitation fees, an interesting funding approach that cannot currently be implemented in San Diego due to the People's Ordinance.

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