



WASHOE COUNTY

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STAFF REPORT

BOARD MEETING DATE: March 24, 2015

DATE: February 25, 2015

TO: Board of County Commissioners

FROM: Ben Hutchins, Division Director, Finance and Administration
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Dwayne Smith, P.E., Division Director, Engineering & Capital Projects,
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THROUGH: Dave Solaro, Arch., P.E., Director
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SUBJECT: Introduction and first reading of an Ordinance revising the Washoe County requirements for stormwater drainage and flood control service within Washoe County by modifying the service area as well as the amount and basis for calculating stormwater management fees; and other matters properly relating thereto. This ordinance repeals Ordinance No. 1537. Public Hearing on the matter to be set for April 14, 2015 at 6:00 p.m. (Commission Districts 3 & 4.)

SUMMARY

The Board of County Commissioners (Board), at its February 25, 2014 meeting, directed staff to modify stormwater management fees related to the North Spanish Springs Floodplain Detention Facility (NSSDF) to fund the deficit in revenue required to pay operating expenses and debt service and to modify the related ordinance accordingly.

Staff gave presentations at the November 12, 2014 Citizen Advisory Board meeting and subsequently mailed educational information to all customers who would be affected by the modification of user rates and the modified service area. Additionally, invitations were separately mailed to all affected customers encouraging attendance at an informational public meeting that was held on February 19, 2015 (see Attachment A). Staff also mailed educational materials to all affected non-residential customers (commercial, industrial, governmental, nonprofit) and solicited comments pursuant to NRS 237 to assess if higher user rates would impose a direct and significant economic burden on their business or if such an increase would directly restrict the formation, operation or expansion of their business.

Staff has prepared revisions to the existing Stormwater Drainage and Flood Control Service Ordinance (no. 1537) (see Attachment B) by modifying the service area as well as the amount and basis for calculating stormwater management fees and is seeking approval and adoption of said revisions by the Board.

AGENDA ITEM # 16

County Goal supported by this item: Sustainability of our financial, social and natural resources.

PREVIOUS ACTION

On July 8, 2015, the Board held a public hearing and adopted ordinance 1537, revising the Washoe County requirements for stormwater drainage and flood control service within Washoe County by providing options for when an applicant may choose to pay required stormwater facility connection privilege fees.

On February 25, 2014, the Board evaluated an option to develop a stormwater utility for all unincorporated areas of the County to eliminate user rates currently being charged for the NSSFDF. The Board decided not to develop a stormwater utility and directed staff to adjust stormwater management fees in North Spanish Springs to fund the deficit in revenue required to pay operating expenses and debt service associated with the NSSFDF.

On January 11, 2011, the Board approved an early and final payment of \$2.7 million from the City of Sparks for its share of costs for the construction of Stormwater Drainage Facilities within unincorporated Spanish Springs.

On June 27, 2006, the Board adopted Ordinance No. 1305, by amending Ordinance No. 1197, to increase fees in the Spanish Springs Stormwater Drainage and Flood Control Service Area.

On June 15, 2006, the Debt Management Commission approved the County's proposal.

On June 13, 2006, the Board executed a Resolution of Intent to issue bonds in the amount of \$4.6 million to fund the construction of the NSSFDF and directed the Clerk to notify the Washoe County Debt Management Commission of the County's proposal to borrow money and issue the aforementioned bonds.

On October 18, 2005, the Board adopted an ordinance authorizing the issuance of bonds in the amount of \$6.5 million to fund the construction of the NSSFDF.

On March 22, 2005, the Board approved an Interlocal Agreement with the City of Sparks to share in the cost of the construction of Stormwater Drainage Facilities within unincorporated Spanish Springs.

On May 13, 2003, the Board adopted Ordinance No. 1197, establishing a stormwater drainage and flood control service area and fees in unincorporated Spanish Springs for the design, construction, and operation and maintenance of the NSSFDF.

On November 15, 2002, The Spanish Springs Citizen Advisory Board recommended the adoption of an ordinance creating the Spanish Springs Stormwater Drainage and Flood Control Service Area in Spanish Springs.

BACKGROUND

Following a Spanish Springs flood event in 1986 construction of flood control facilities in unincorporated Spanish Springs became a citizen led initiative. Following several years of planning flood facilities were approved by the Spanish Springs Citizen Advisory Board, and subsequently the Board of County Commissioners approved the Spanish Springs Stormwater Drainage and Flood Control Service Area in May 2003. The project construction was completed in 2008. The facility was designed to mitigate the effects of a high intensity 100 year storm in Spanish Springs, with a 24 hour duration. The flood facility captures, retains, and meters flood flows in Spanish Springs that eventually lead through the City of Sparks' stormwater drainage system and terminating in the Truckee River.

The total cost of the flood facility in Spanish Springs was \$13.9 million of which \$11.1 million was funded by two bond issuances. User rates and fees are charged to residential/business owners within the Spanish Springs Stormwater Drainage and Flood Control Service Area to finance debt service payments and maintenance activities associated with the flood facilities; however, because of a slowdown in development over an extended period of time, user rates and facility connection fees are insufficient to pay debt service and maintenance costs.

On January 11, 2011, the Board approved a payment from the City of Sparks for \$2.7 million to fulfill their share of an Interlocal Agreement for the construction of the NSSFDF. This payment provided sufficient cash flow to temporarily service the debt and provide bond-related restricted cash reserves required under bond covenants, it additionally eliminated the need for rate increases during the height of the economic downturn; however, the cash has since been depleted.

SUMMARY OF FEES AND PAST FINANCIAL ASSUMPTIONS

The monthly residential bill for the facility was \$5.24 in May 2003; once project costs were known the monthly charge increased to \$7.34 in June 2006 with the assumption that \$279,625 in facility connection fees would be received annually from new development to supplement customer rate revenues to pay the annual debt service payment of \$792,360. There has not been a rate increase since June 2006 (just under nine years).

Annual revenue from customer rates between fiscal years 2007 - 2014 range from \$474,412 to \$504,744. Only \$5,612 in facility connection fees were received (in total) during five of the past eight fiscal years with a total deficit of projected facility connection fee revenue of \$1.62 million since the June 2006 assumption was made. Based on this trend, facility connection fees cannot be relied upon to fund debt service payments and maintenance services for the NSSFDF.

BOARD DIRECTION

On February 25, 2014, staff provided options to the Board and requested direction to address insufficient revenue from the stormwater management fund for NSSFDF obligations.

Option No. 1: Evaluate options to increase user rates and facility connection fees

Option No. 2: Eliminate user fees imposed in North Spanish Springs:

- use general funds currently used in the County's Roads/Storm fund to pay NSSFDF debt service;
- develop an Unincorporated Truckee Meadows Stormwater Utility to:
 - fund general stormwater drainage services through user rates (consistent with the Cities of Reno and Sparks) rather than general fund and gas tax revenues;
 - further enhance the overall funding level for road/storm services due to a 36% decrease in financial resources between fiscal year 2008 and 2014; and
 - replace the general funds used for the NSSFDF.

The Board directed staff to implement Option No. 1.

BASIS FOR IMPOSING FEES

While evaluating the stormwater management fees, an evaluation was also performed on the NSSFDF service territory and basis for charging fees.

It was determined that the hydrographic basin would be an appropriate boundary for the NSSFDF service area. The basin boundary well defines the customer base served by the NSSFDF. The hydrographic basin includes the unincorporated areas of Spanish Springs in addition to portions of the City of Sparks within Spanish Springs and is an appropriate service area since the City of Sparks benefits from and has funded 16.9% of, the NSSFDF, and all parcels within the unincorporated and incorporated areas of the hydrographic basin contribute to or benefits from the NSSFDF.

The current ordinance outlines a methodology to charge stormwater management fees for multi-family and non-residential parcels based on acreage; however, the use of an impervious surface method is the industry best practice and a proven and legally defensible method for imposing fees. The impervious surface method utilizes an average calculation of the built residential properties to determine how much impervious land coverage the average residential property creates. This is referred to as an Equivalent Residential Unit (ERU). Multi-family and non-residential parcels are then charged the ERU rate multiplied by the impervious surface of the commercial development. Each commercial property in Spanish Springs was reviewed for impervious surface area.

As outlined during the February 25, 2014, Board meeting, user rates need to be the primary source of revenue to fund debt service and facility maintenance due to the fact that facility connection fees are unstable and unreliable. It was originally estimated that monthly user rates would need to be increased from \$7.34 to approximately \$13.00 per ERU; however, due primarily to the modified service area, monthly user rates, if implemented by the May 2015 billing cycle, will be \$9.31 per ERU.

PUBLIC FEEDBACK

The February 19, 2015, public meeting was held at the Spanish Springs Library and was well attended by approximately 50 people. Staff gave presentations on the history and purpose of the NSSFDF and the related financial background and status. During the meeting three primary suggestions were provided by the public: increase developer facility connection fees (to reduce user rates); reduce user rates once the bonds are fully paid; and

provide some form of rate reduction for areas that have their own localized storm detention facilities.

Evaluation of Developer Facility Connection Fees

Subsequent to the February 25, 2014, Board meeting staff worked with FCS Group to evaluate developer facility connection fees. The outcome of this evaluation indicated that an increase in these fees is not warranted.

Reduce User Rates Once Bonds are Fully Paid

Staff indicated that once the bonds were fully paid, an adjustment of user rates would follow. Language to this affect has been added to the Ordinance in Article 1.4.

Rate Reduction for On-site Storm Facilities

The service area was based upon a boundary that considers developed parcels that either contribute to or benefits from the NSSFDF (or both). The NSSFDF is a large regional facility that serves all customers within the service area boundary. Individual storm facilities provide some protection to various neighborhoods and businesses within the service area on a limited scale during typical storm events and may provide some reduction of the magnitude of the peak runoff which contributes to the overall Spanish Springs stormwater drainage and flood control system during a 100-year event. Although some parcels do not directly contribute to the stormwater runoff, they do receive the same service as many of the other customers within the NSSFDF area. These services include, but are not limited to, access of emergency vehicles, open local roads and access to Pyramid highway, the ability to continue commerce in Spanish Springs, protection from localized flooding, etc. These services vary depending on where people live and work; however, some or most of them are present in some form for all customers in the service area.

FINANCIAL EFFECTS OF USER RATE INCREASE

	AUDITED	AUDITED	PROJECTIONS					
	ACTUAL	ACTUAL	FY15	FY16	FY17	FY18	FY19	FY20
OPERATING REVENUES	504,744	496,568	566,138	839,123	839,123	839,123	839,123	839,123
INVESTMENT INCOME	1,080	12,060	9,295	10,000	10,750	11,500	12,250	13,000
FAC CONNECTION FEE REV.*	0	214,504	57,945	0	0	0	0	0
SUBTOTAL PLEDGED REV.	<u>505,824</u>	<u>723,132</u>	<u>633,378</u>	<u>849,123</u>	<u>849,873</u>	<u>850,623</u>	<u>851,373</u>	<u>852,123</u>
OPERATING EXPENSES	39,362	74,849	67,840	54,425	56,059	57,741	59,474	61,258
NET PLEDGED REVENUES	466,462	648,283	565,538	794,698	793,814	792,882	791,899	790,865
DEBT SERVICE	792,361	792,358	792,359	792,359	792,360	792,358	792,360	792,360
DEBT COVERAGE RATIO	0.59	0.82	0.71	1.00	1.00	1.00	1.00	1.00
CAPITAL IMP PROJECTS	0	0	0	0	0	0	0	0
TOTAL CASH @ JULY 1**	775,234	638,805	411,984	414,323	415,777	416,301	415,840	414,345

* Includes actual facility connection fee revenue through February 2015

** User rate & facility connection fee cash; FY13 and FY14 on accrual basis, FY15 - FY20 on cash basis.

The above financial projections include revenues from billing all customers within the hydrographic basin in Spanish Springs, excluding those billed by the City of Sparks.

The following assumptions were used in the County financial model:

- Increase in monthly Equivalent Residential Unit rate from \$7.34 to \$9.31
- Increase in rates effective with May 2015 billing cycle
- Meet bond covenant debt coverage ratio requirement of 1.0 in FY16
- No capital or expensed infrastructure repair and replacement projects
- No accumulation of reserves to fund depreciation or capital projects
- Approximate annual general maintenance budget of \$25,000
- Minimum cash reserve sufficient for at least one bi-annual debt payment
- Operating expenses exclude depreciation
- Phase-in of investment rate of return; gradual increase of 1.3% to 2.1%
- 3% annual increase in operating expenses
- No future growth

FISCAL IMPACT

The proposed ordinance, if adopted, would increase user-rate revenues by approximately \$340,000 annually and would bring the debt coverage ratio associated with the NSSFDF into compliance with bond covenants, on a per-utility basis, and insure debt service payments would be made as required.

RECOMMENDATION

It is recommended that the Board of County Commissioners hold the introduction and first reading of an Ordinance revising the Washoe County requirements for stormwater drainage and flood control service within Washoe County by modifying the service area as well as the amount and basis for calculating stormwater management fees; and other matters properly relating thereto. This ordinance repeals Ordinance No. 1537. Public Hearing on the matter to be set for April 14, 2015, at 6:00 p.m.

POSSIBLE MOTION

Should the Board agree with staff's recommendations, a possible motion could be:
"Move to hold the introduction and first reading of an Ordinance revising the Washoe County requirements for stormwater drainage and flood control service within Washoe County by modifying the service area as well as the amount and basis for calculating stormwater management fees; and other matters properly relating thereto. This ordinance repeals Ordinance No. 1537. Public Hearing on the matter to be set for April 14, 2015, at 6:00 p.m."