



Municipal & Financial  
Services Group



# Village of Winnetka

## Storm Water Utility Feasibility Study



## Stormwater Funding Mechanisms Primer

November 13, 2012



# Agenda

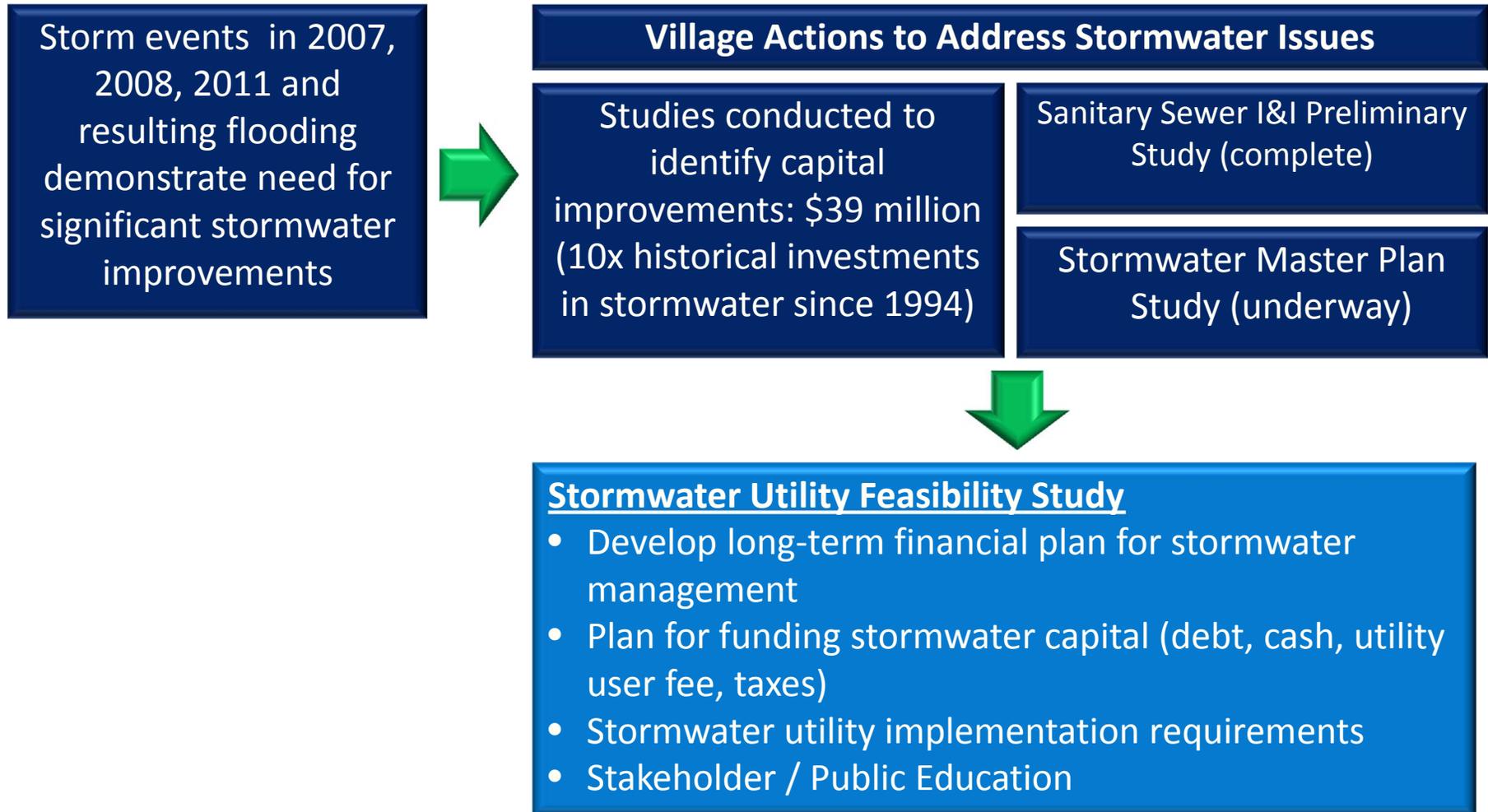
- ❑ Stormwater Utility Feasibility Study Overview
- ❑ Stormwater Funding
- ❑ Desired Outcomes / Considerations
- ❑ Discussion

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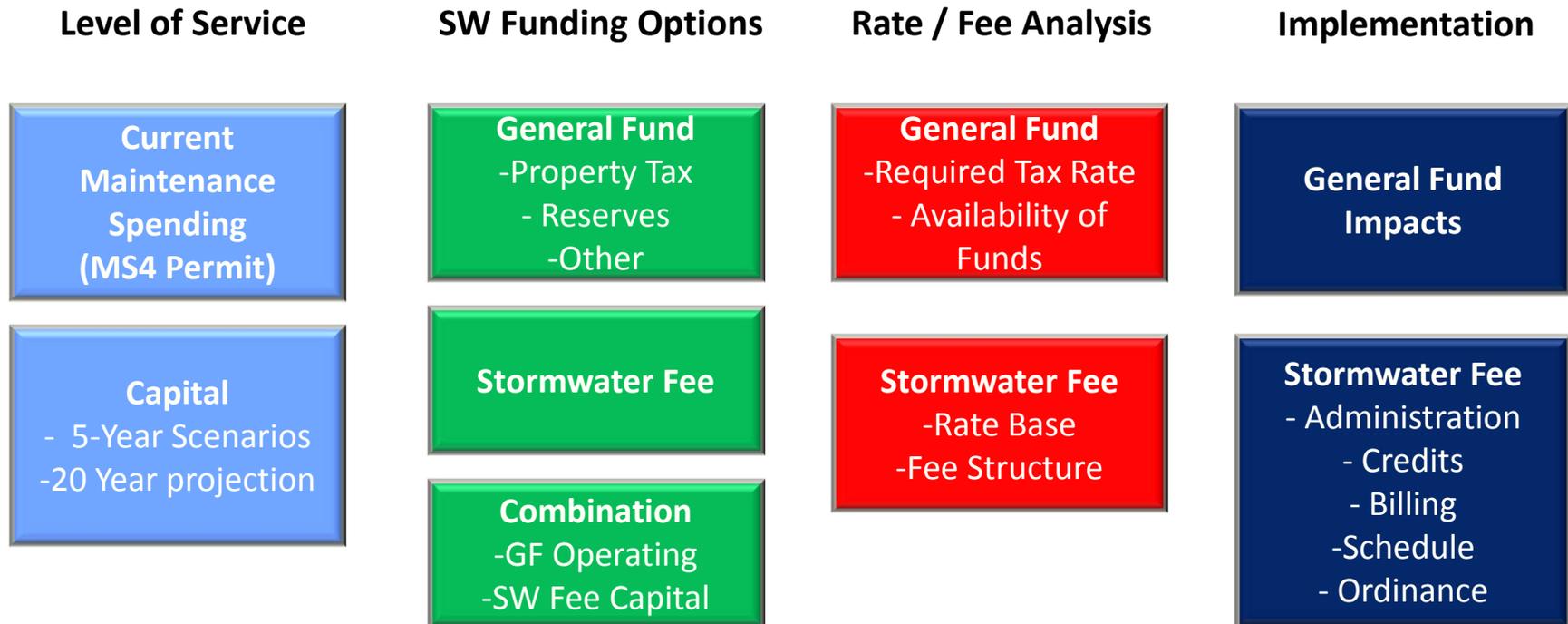
# Study Overview

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# Background



# Stormwater Utility Feasibility Overview



# Level of Service

Current Maintenance  
Spending  
(MS4 Permit)

Capital  
- 5-Year Scenarios  
- 20 Year projection

- Study will identify the full cost of providing stormwater service in the Village.
  - Documentation of existing and future operating and maintenance costs.
  - Detailed examination and development of multiple 5 year capital improvement scenarios
  - Development of 20 year capital improvement plan

# Stormwater Funding Options

**General Fund**  
-Property Tax  
- Reserves  
-Other

**Stormwater Fee**

**Combination**  
-GF Operating  
-SW Fee Capital

- Study will examine and develop multiple stormwater funding options.
  - Funding of stormwater operations and capital from General Fund or Stormwater Fee or Combination .
  - Development of financing plans including:
    - Debt issuance
    - Cash “pay-as-you-go” funding
  - Dynamic financial model to facilitate analysis

# Rate / Fee Analysis

## General Fund

-Required Tax  
Rate

- Availability of  
Funds

## Stormwater Fee

-Rate Base

-Fee Structure

- Based on the financial plans, determine the necessary tax rate and stormwater fee.
  - Examine availability of funds from GF and required property tax rate.
  - Full development of stormwater fees:
    - Rate Base - unit of measure for the fee (impervious area or other)
    - Fee Structure - how the fee is imposed (uniform fee for all, parcel by parcel, average or other)
  - Detailed documentation of property owner impacts.

# Implementation

## General Fund Impacts

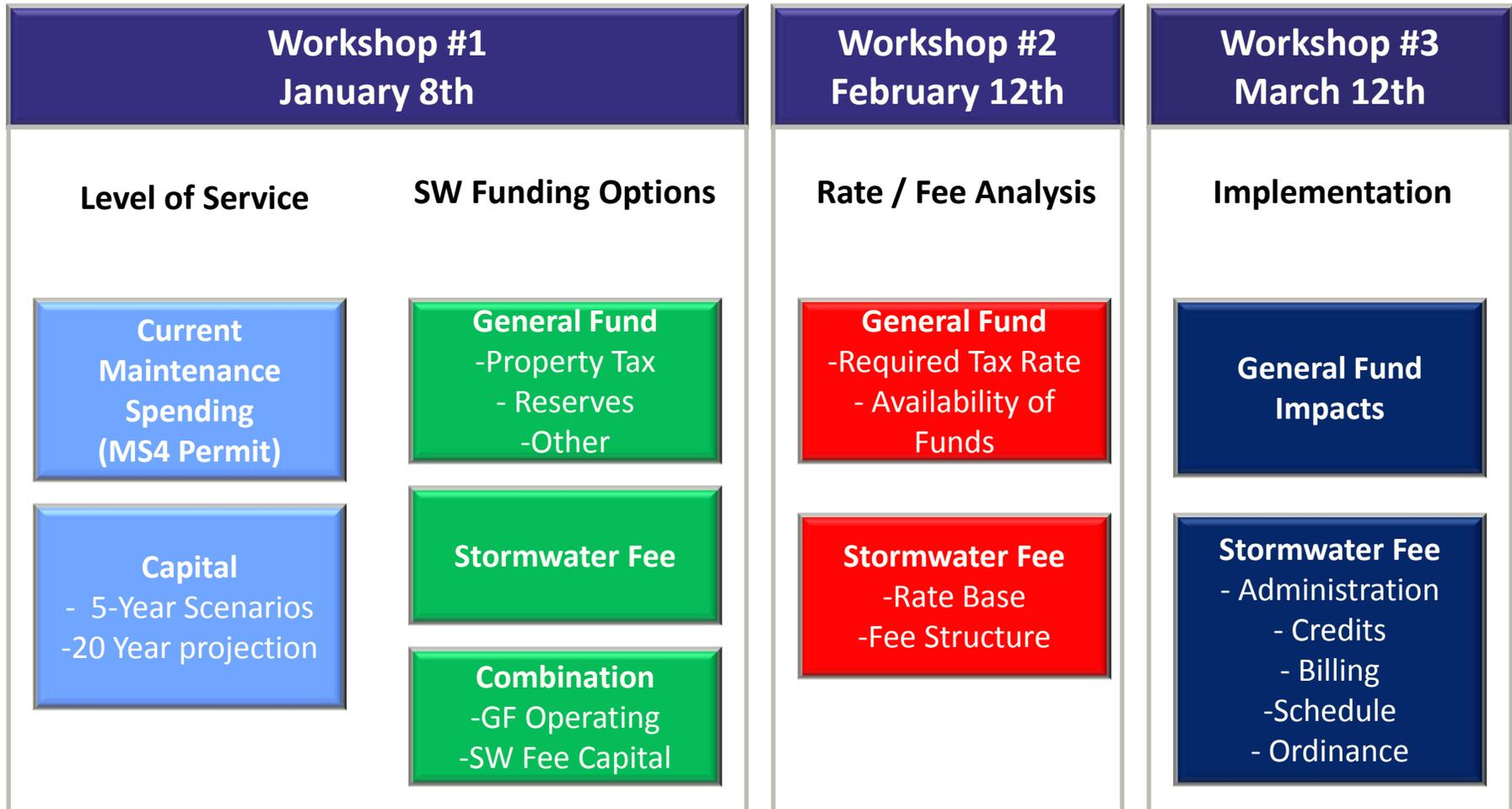
- The study will develop the necessary implementation materials to carry out the financial plan.

## Stormwater Fee

- Administration
- Credits
- Billing
- Schedule
- Ordinance

- Document impacts to General Fund and any necessary actions.
- Develop materials required to implement a stormwater utility and fee.

# Study Timeline

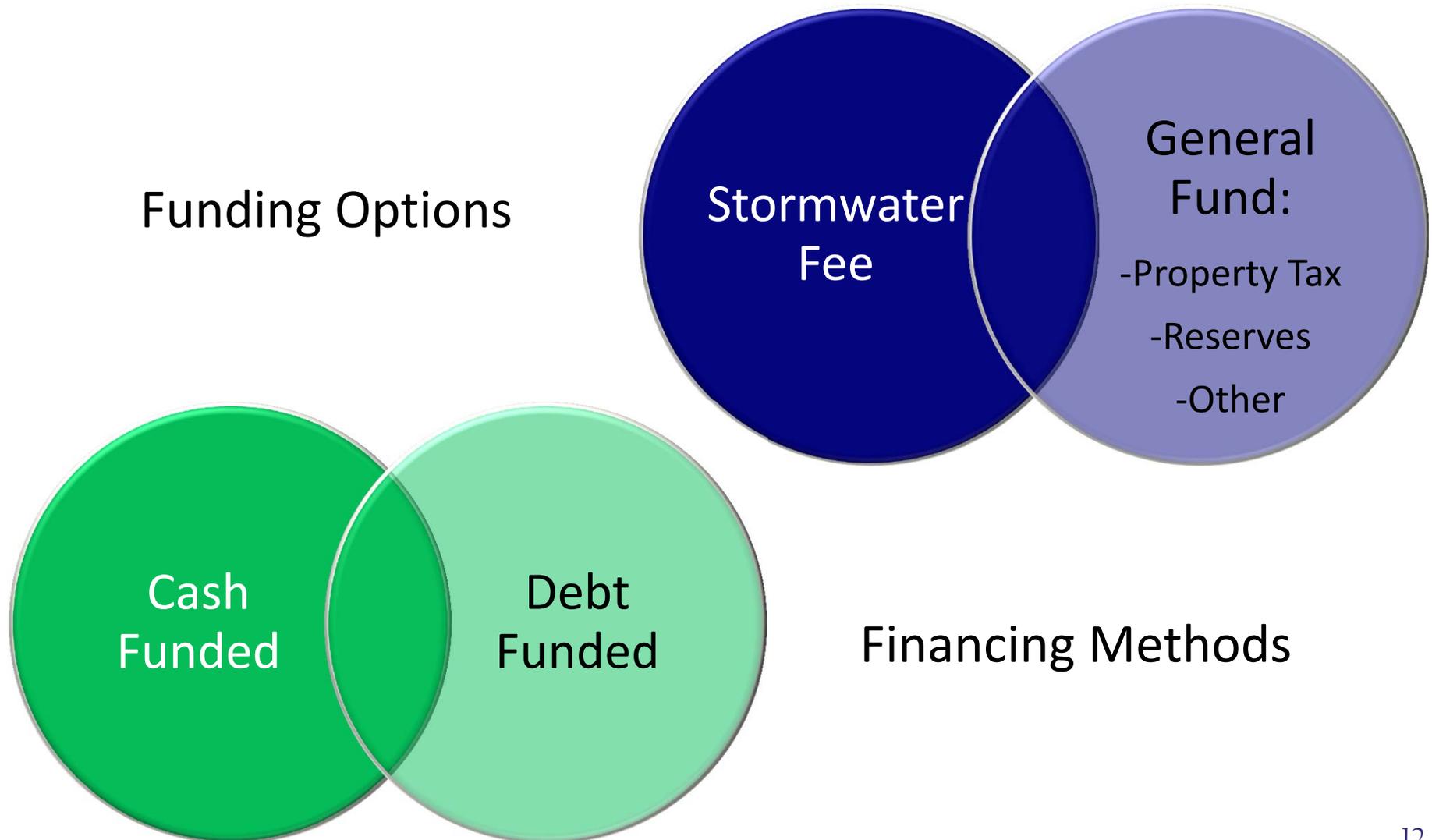


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# Stormwater Funding

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# Stormwater Funding



# Funding Option: Property Taxes

- ❑ The Village has historically funded stormwater maintenance and capital with property taxes on a cash “pay-as-you-go” basis
  
- ❑ Benefits of Property Tax Funding
  - Limits Change - Current practice
  - Administrative Simplicity
  
- ❑ Disadvantages
  - Limits on ability to generate sufficient funds to retire debt
  - Increases the Village’s outstanding debt (GO Bonds)

# Funding Option: Stormwater Fees

- ❑ Stormwater Fees and Utilities are becoming increasingly common in IL and across the US. **Why?**
- ❑ Improved Equity
  - Users contribute based on stormwater impact
  - Property value does not correlate to stormwater impact
  - Tax-exempt properties pay their fair share
- ❑ Fiscally accountable
  - Fees are driven by level of service and needs
  - Fees are exclusively used for stormwater needs
  - Establishment of enterprise fund

# Funding Option: Stormwater Fees

- ❑ Dependable revenue stream
  - Allows for pro-active management of system, resulting in lower life-cycle costs
  - Allows for issuance of revenue bonds
  - Allows for long-term planning
  
- ❑ Brings stormwater services to the forefront as a vital service to Village property owners
  - Fees increase public awareness of actual costs
  - Provides opportunity for education
  - Stormwater utility identifies costs easier
  - Motivates on-site stormwater management

# Taxes Vs. Stormwater Fees

	Property Taxes	Stormwater Fees
Administrative Simplicity	✓	X
Revenue Stability / Dependability	X	✓
Equity - Correlation between SW Generation and Individual Property	X	✓
All Property Owners Contribute	X	✓
Deductibility (Residential Property Owners)	✓	X
Fiscal Accountability / Transparency	X	✓
Community Awareness	X	✓
Encourages Onsite Stormwater Management	X	✓

# Financing Method: Debt

- ❑ The use of debt is common for stormwater capital projects
  - Magnitude of the projects often requires financing
  - Stormwater assets are long-lived / repayment matches life of asset
  - Does result in higher costs over life of project (issuance costs, interest)
- ❑ Home Rule Status means Village has no debt limit and quick market access
- ❑ Very low interest rate cycle
  - Bank qualification obtains lowest rates if debt annually limited to \$10,000,000
  - Proceeds must be spent within three years
- ❑ Repayment of Bonds
  - Property taxes or stormwater fees can be used to retire debt
  - If stormwater fee is implemented the Village could issue revenue bonds (pledge revenues of utility)

# Financing Method: Debt

- ❑ Revenue Bonds
  - Need stable, quantifiable revenues
  - Coverage requires excess revenues
  - Reserves require increased size
  - Rating likely to be lower than Aaa
  - Places additional requirements on the Village
    - Debt coverage requirements
    - Debt service reserve
  
- ❑ General obligation bonds
  - Aaa rating
  - Lowest cost
  - Taxes can be (partially) abated with fee revenue

# Financing Method: Cash - “Pay-As-You-Go”

- ❑ Typically used for:
  - Operations and maintenance of stormwater system
  - Short lived assets
  - Routine annual capital improvements
  - Small, one-time capital projects
  
- ❑ Fiscally traditional approach to funding stormwater
  - Results in higher taxes or fees in short-term but lower long-term
  
- ❑ Does not provide intergenerational equity (current property owners paying today for assets that will benefit future owners).

# Theoretical Example

- ❑ Village issues \$30 million in bonds to fund stormwater capital projects - results in annual debt service of \$2.1 million<sup>(1)</sup>

Theoretical Data			Results	
Property Type	Impervious Area (square feet)	Property Taxes	Annual Property Owner Bill Using: Taxes <sup>(2)</sup>	Annual Property Owner Bill Using: Stormwater Fee <sup>(3)</sup>
Residential A	3,500	\$20,000	\$416	\$300
Residential B	3,500	\$40,000	\$833	\$300
Commercial	7,000	\$30,000	\$625	\$600
Tax Exempt	3,500	\$ -	\$ -	\$300

(1) Assuming 20 year bond at 3.5%

(2) Assuming Village levied property taxes

(3) Assuming stormwater fee is assessed per 3,500 square fee of impervious area at \$25 per month

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# Desired Outcomes / Considerations

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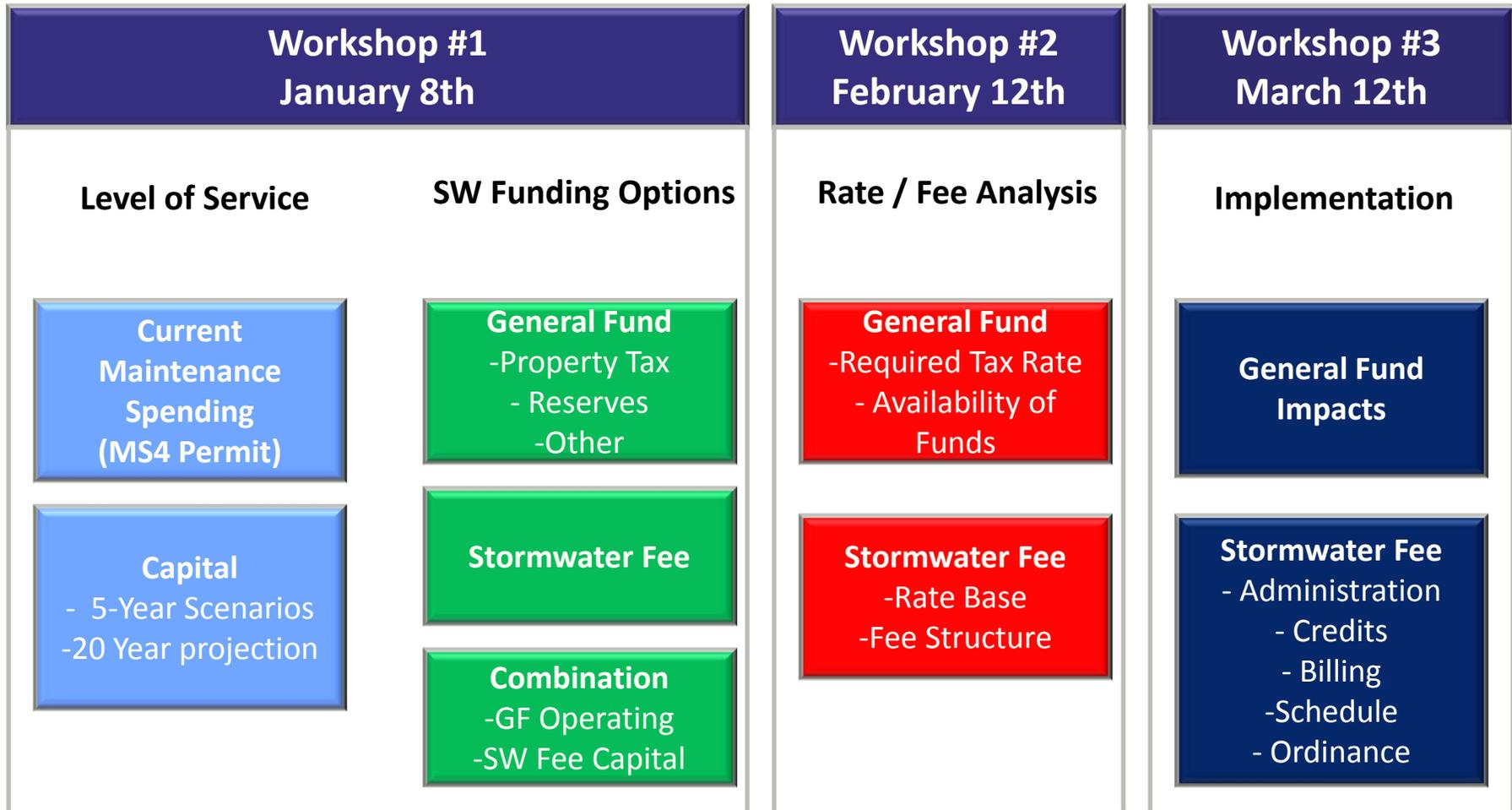
# Desired Outcomes

- The study will develop:
  - The full cost of providing stormwater service in the Village (maintenance and capital)
  - Financial plans for funding stormwater (taxes, stormwater fees or combination)
  - The necessary tax rate, stormwater fee and document the impact on property owners
  - Implementation materials (GF actions, materials to implement stormwater utility and fee)

# Considerations

- What are the Council's key concerns related to:
  - The study
  - Funding of stormwater improvements
  - Other
  
- What potential obstacles exist for the study?

# Study Timeline Recap



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## Questions / Discussion

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