New options for stormwater financing

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OBSERVATION OF STORMWATER management programs and conditions in many areas of the U.S. indicates that two major obstacles stand in the way of achieving effective, comprehensive urban runoff control. First, a lack of administrative focus prevents most local agencies from having an effective program to address drainage problems and needs. No one agency or person is accountable for all elements of stormwater management in most cities and counties. It is often a secondary priority for those involved, something they do in addition to their "real" job during slack periods. Second, local governments have largely failed to address stormwater management financing. Rarely have they taken a long-range perspective and consistently provided adequate funding so that systems can be administered efficiently. Conventional municipal financing methods have failed miserably when it comes to stormwater management.

Stormwater management has only recently become a priority issue for many communities. The timing could hardly be worse. Inflation, revenue shortfall, tax revolts, and a seriously deteriorated economy have cumulatively stressed local government financing.

A recent analysis of future capital needs for public works indicates that public investment in roads, bridges, water, sewer, drainage, and other systems must soon be augmented by a massive reinvestment to preserve and rebuild public facilities. The reinvestment necessary for upgrading and/or replacing local drainage systems is not likely to be financed by federal or state funding, suggesting that the financing capacity and flexibility of local agencies must be modernized to meet these needs - preferably before crises develop.

A strategy for financing stormwater management in a city or county should provide an overall "game plan" so that the big picture is evident. The strategy should address the full range of program elements needed to achieve the long-term program with considerations such as timing and local geographical differences incorporated. To do this successfully, administrators must have a clear idea of what must be accomplished if the local drainage program is to be effective. One method of conceptualizing the drainage program in a form that is useful for financial analysis is to

define the problems, needs, and objectives in terms of the work activities required. This breaks down the drainage program into component parts so that the financing options can be evaluated in relation to various aspects of the long-range program. A mix of different financing methods is often found to be best for complex programs that include planning, maintenance, construction, and various other activities.

Few local drainage agencies can fully carry out all functions needed for a comprehensive program. A realistic timetable for implementing various program elements is important in developing financial strategy. Financing can be incrementally initiated in coordination with the program over several years.

Developing a good financing strategy is neither quick nor easy. The financing options must be identified and analyzed. Almost inevitably there are constraints that limit or modify both the program a community can accomplish and the financing methods it can employ. The time required for implementing a financing method may delay initiation of some part of the drainage program it is intended to finance. These typical conflicts and inconsistencies between the *vision* of the program and the *reality* of the financing must be resolved so that both are realistic and in tune with each other.

The financing options available to cities and counties include those which are explicitly authorized by state legislation, those available under Home Rule authority, and methods that might require authorizing legislative action at state level. Since both legislative and judicial actions may limit application of the various methods of drainage financing, these options require legal review by any jurisdiction considering them.

The range of financing options depicted in the accompanying table is a contrast to the limited number of funding sources that have been used in the past.

Whenever an effort is made to develop a new drainage program and/or a new financing concept for a municipal function as complex as stormwater management, some basis must be established for judging the various options. A financing strategy must provide a stable, adequate, and publicly acceptable source of funds that will support the entire program as efficiently and equitably as possible. Transition, growth, and future program requirements must be considered as well as immediate needs.

FINANCING OPTIONS

A. Revenue for Annual Operating Expenses

1. General Fund
2. Drainage Utility Service Charges
3. Interfund Loans to Drainage Utility (Transition only)

B. Funding for Major Capital Improvements

1. General Obligation Bonding Repaid by Property Taxes
2. Revenue Bonding Repaid by Utility Service Charges
3. Utility Tax Revenues
4. Community Development Block Grant Funds

C. Fees and Charges

1. Plan Review and Inspection Fees
2. On-site Detention/Retention System Inspection Fees
3. Impact Fees
4. System Development Charges
5. General Facilities Charges
6. In-lieu of Construction Charges
7. Latecomer Fees for Developer Extensions

D. Funding for Special Services and Projects

1. Local Improvement Districts
2. Utility Local Improvement Districts
3. Area of Special Benefit Financing
4. Special-purpose Taxing Districts

Financing strategy cannot be responsive only to the program needs, however. It must be consistent with the community's perceptions and resources. Based on experiences in cities and counties that have implemented innovative stormwater management financing and program strategies, the following criteria were selected as qualitative measures of financing options.

? *Perceived equity and public acceptance.* Public acceptance of a financing strategy and the mix of financing methods it incorporates are absolutely essential. It must be recognized that some members of the community will not wish to pay anything, through *any* financing method, to fund drainage control. In most cases, a larger segment of the population will understand the need and the necessity for paying for it. To these citizens, the critical issue is usually equity. Perfect equity is probably impossible technically or economically. However, public opinion will be based on "perceived equity" and an appearance of basic fairness in financing.

? *Flexibility.* A great deal of change is anticipated in stormwater management programs during the next decade. More effective regulation and maintenance of systems will probably be required. Water quality may become as important as flow control. A financing strategy should be responsive to growth needs of the program and to physical complexities of the drainage basins. It must provide a flexible approach that can grow incrementally with the program. To gain this flexibility, a mix of financing methods is likely to be needed.

? *Capacity*. Financing methods should be carefully evaluated to determine if they can generate sufficient revenue now and in the future to meet program needs. The public's "willingness to pay" may have limits beyond which they will not support even the most equitable financing system.

? *Cost of implementation.* The bottom line to many of the criteria is cost. An equitable financing method might be desirable and achievable except for development and maintenance cost. Absolute compatibility with other programs and policies may be unachievable in some cases, except at great cost. Flexibility may be limited in a financing strategy to avoid the expense of an excessively complicated mix of financing methods, or to limit complexity of needed rate structures.

? *Compatibility*. Whenever possible, financing methods for stormwater management should be compatible with existing policies, practices, and systems. This simplifies implementation and acceptance among the staff in other departments and minimizes costs. Special emphasis should probably be given to ensuring compatibility between policies pertaining to water and sewer utilities and those of a drainage utility. In some cases substantial changes may have to be made in existing systems. For example, drainage utility service charges might require that the utility billing system be altered to incorporate the additional billing.

? *Upkeep requirements.* Financing methods may have differing needs in terms of upkeep. Some require virtually no file or record maintenance; others demand constant updates. Fee systems can be set up in a variety of ways, which imply different upkeep procedures. Minimal upkeep costs are desirable, but this must be weighed against both equity and flexibility.

? *Balance.* A financing strategy must be balanced - no single element of funding should be completely depended upon. A single source is likely to provide most of the money, but an effort should be made to balance the dominant revenue source with complementary funds for special elements of the program.

? *Timing.* This is most important in terms of time required for implementation and whether it fits with the desired timing of the program development process. If possible, charges should be initiated during the rainy season when peoples' recognition of drainage problems is highest.

? *Geographical and jurisdictional consideriitions.* Unique geographical conditions should be incorporated into the evaluation, especially if there are numerous drainage basins in the city or county.