

MEMO

To: John Larch, P.E., City of Fayetteville Stormwater Program Director
From: Jennifer Fitts, Project Manager
Keith Readling, P.E., Executive Vice President, Raftelis Financial Consultants
Date: July 27, 2018
Re: Stormwater Program Funding and FY 2019 Rate Increase Recommendation

The City of Fayetteville (City) engaged Raftelis Financial Consultants, Inc. (Raftelis) to determine how to accelerate the current plans to evaluate the City's plan to perform watershed studies and to determine the appropriate program funding increase. The program assessment project was contracted December 15, 2017 and was underway when this additional funding evaluation engagement was requested.

Raftelis presented preliminary recommendations to City Council May 17th, immediately following a stormwater budget presentation that was made by the Public Services Director. At that meeting, Raftelis presented a plan to accelerate the watershed studies which would include a \$1.00 per month rate increase and four subsequent \$0.25 per month annual increases, but Council requested a plan to fund the same efforts but with one increase effective July 1, 2018 followed by four years with no rate increase. The recommendations in this memo achieve that goal, but of course require a larger initial rate increase in FY2019 since the following four years would see no increases.

This funding evaluation effort does not constitute a financial plan or rate study, but is meant to inform a near-term choice on stormwater rates that could be effective July 1, 2018 and which could speed the funding of watershed studies that will forecast longer-term capital project needs. This memo documents the conclusions of this funding evaluation.

FUNDED PROGRAM ELEMENTS

In FY 2018, the City's stormwater budget was approximately \$8.8 million, from which \$7.83 million were generated through stormwater utility fees. These monies fund 40.5 full time equivalents (FTEs), as noted in the adopted FY 2018 budget, across Engineering (under which the Stormwater Program falls), Streets, and Public Services Administration. Currently, over half of the City's stormwater budget is spent on operating expenses, about a third is spent on PAYGO (rate-funded) capital project expenses, and the remainder services a small amount of remaining debt and other capital vehicle and equipment costs.

The budget for each year has tended to be established via an escalation from the prior year, plus a list of anticipated capital projects. Each year, the Finance Department receives a list of projects from Engineering in October that are anticipated for the following fiscal year. This list is

reconciled with the stormwater financial model, which reports on fund balance at the end of each year, and is refined over the remainder of the fiscal year.

FY2019 FUNDING EVALUATION

Raftelis conducted an independent evaluation to answer the following question posed by the City:

Without taking on a large upfront expense (such as the proposed \$8-million City-wide Stormwater master plan), how can the City accelerate its stormwater CIP program through watershed studies and what stormwater rate is required to meet the proposal.

The planned FY 2019 rate increase was 25 cents per month, so Raftelis originally considered a rate increase of \$1 per month to bring the monthly rate to \$5.25, followed by \$0.25 per month increases each year thereafter during the planning period. In response to Council's direction from the May 17, 2018 workshop, we have prepared a scenario that considers a larger rate increase, \$1.75 per month, in the first year (effective July 1, 2018) and no rate increase during the remainder of the five-year planning period. This scenario plans for completion of all watershed studies within four years, enhanced staffing, and additional capital project design in anticipation of debt issuance toward the end of the planning period.

Watershed Studies

To date, the City has been operating a highly reactive capital program, and it currently has a backlog of close to \$20 million in funded stormwater capital projects, and another approximately \$28 million in unfunded projects. These identified projects represent needs around the City that were largely identified through two watershed studies, two neighborhood studies and customer complaints and subsequent drainage investigations. As part of the effort to grow into a sustainable, proactive program, the City needs to evaluate its stormwater drainage needs before problems arise.

The City has the option to embark on either a City-wide stormwater master plan or a series of smaller individual watershed studies. There are several reasons to prefer the smaller watershed studies to the wider master plan. Each watershed study evaluates the drainage system and its current or potential opportunities for flow constriction, flooding, and exacerbation of downstream impacts. By their nature smaller and less expensive than the broader plan, the City can prioritize the studies and start receiving meaningful results in a relatively short timeframe, likely within 24 months. It is in the City's interest to generate as much information on capital needs as possible, as soon as possible, and to start to plan for constructing critical capital projects that are identified through these studies.

Raftelis recommends initiating individual watershed studies over a three-year period, and ramping up capital spending to both catch up on the backlogged projects and begin to address additional needs identified through these studies. Table 1, below, outlines the watershed studies and the years in which Raftelis believes they could be begin under the funding scenario presented. The cost is estimated for each to be evenly distributed across two years, the year it begins and the following year, since the studies are expected to each take 18 to 24 months to complete. The actual flow of funding will vary somewhat, though this approximates the spending pattern at a high level.

Table 1. Watershed Study List, Costs Estimated by Stormwater Program

Study Area	Size (SQ MI)	Size (Acres)	Cost Study (estimated @ \$110K/SQ MI)	Improvements needs (estimated @ \$2.5M/SQ MI)
Underway				
Beaver Creek 2	8.2	5,269	\$ 902,000	\$ 20,500,000
Beginning FY 2019				
Beaver Creek 1	10.6	6,767	\$ 1,166,000	\$ 26,500,000
Beaver Creek 3	3.4	2,200	\$ 374,000	\$ 8,500,000
Blounts Creek	11.6	7,392	\$ 1,276,000	\$ 29,000,000
Cape Fear 1	5.8	3,731	\$ 638,000	\$ 14,500,000
Cape Fear 2	3.1	2,005	\$ 341,000	\$ 7,750,000
Beginning FY 2020				
Carvers Creek	4.3	2,765	\$ 473,000	\$ 10,750,000
Little Rockfish Creek 1	8.2	5,229	\$ 902,000	\$ 20,500,000
Little Rockfish Creek 2	1.8	1,132	\$ 198,000	\$ 4,500,000
Stewarts Creek	2	1,287	\$ 220,000	\$ 5,000,000
Beginning FY 2021				
Bones Creek	8.2	5,262	\$ 902,000	\$ 20,500,000
Cross Creek	10.5	6,716	\$ 1,155,000	\$ 26,250,000
Little Cross Creek	7.2	4,634	\$ 792,000	\$ 18,000,000

The watershed studies are planned for two-year durations such that half of the cost of studies beginning in FY2019 is funded in FY2019, and the second half is funded in FY2020. Half of the cost of studies beginning in FY2020 is also funded in FY2020, and the second half is funded in FY2021, and so on. Table 2 (below) accordingly shows the total cost of all the studies spread across four years, FY2019 through FY2022.

Enhanced Staffing

Paired with this additional effort identifying potential capital needs, Raftelis believes that an increase in staffing is needed to provide project management services. As will be more fully discussed in the broader program assessment report, the project management function is short-staffed. Project management is a role shared between several stormwater staff and in many cases outsourced to third parties, who themselves require some oversight by the City. Given that watershed studies will ramp up beginning in FY2019 and capital spending will increase under the recommended scenario beginning in FY2020, the need for additional in-house dedicated project managers is critical. The modeled scenario includes three additional staff people, beginning in the second quarter of FY2019. The personnel costs include base salary of \$62,000 and a conservative 50% of base salary for employment tax and benefits.

Capital Project Design and Construction

The modeled scenario includes a small increase in cash-funded capital spending in FY2020 and beyond. Prior to modeled debt issuance in FY2022, those funds are anticipated to be used for project design. If projects are prioritized, designed and bid prior to FY2022, bond proceeds could be put to use toward shovel-ready projects immediately upon their receipt.

Modeled Scenario

The modeled scenario for FY 2019 and beyond is included as Table 2, below. Raftelis' work at this time does not represent a full rate study, which is highly recommended for the City in the coming years. It does reflect an approximation of what could be achieved during FY2019 with a \$1.75 rate increase to \$6.00 per month.

This scenario includes issuing debt in FY2022, either in the form of revenue bonds or general obligation bonds, the proceeds from which would fund stormwater capital projects and the debt from which in either event would be serviced through stormwater revenues. This scenario is not an implicit recommendation that debt be issued. Rather, debt issuance is one of the many factors that should be reviewed during the rate study and financial planning recommended in the near term.

In the Revenue Requirements section of the table below, revenue requirements from the City's current stormwater model are in black font. Additional modeled revenue requirements are shown in green font. Both existing and new costs are included in the Total Revenue Requirement. Capital spending is modeled as a separate Capital Fund, distinct from the Operating Fund as a repository for bond proceeds until they can be used. Though the accounts need not be separated in reality, modeling them as such ensures that bond proceeds are not unintentionally planned to subsidize operating expenses.

RECOMMENDED RATE STUDY

Raftelis recommends that the City soon conduct a thorough cost of service and rate study to meet a number of objectives. Most importantly, those objectives include re-establishing the functions, or portion of functions within the City that are allocable to stormwater, calculating a defensible rate that is closely tied to the true cost of stormwater service, and confirming the feasibility of debt issuance to cover capital costs. This study might best be done in FY 2020.

CONCLUSION

A \$1.75 increase in the monthly stormwater rate represents about an additional \$3.2 million, or more than a 40% increase, in stormwater fee revenue. Jump-starting the watershed studies, which in turn will jump start a proactive capital program, and enhancing key staffing roles can greatly improve service delivery and protect vulnerable parts of the City from persistent flooding issues. A rate study during the planning period will ensure that future rate changes and debt issuances are done responsibly. Fayetteville's stormwater program will achieve important planning and capital successes and begin a shift toward proactive system management through this rate increase.

Table 2. Modeled Scenario for FY 2019 to FY 2023

	FY18	FY19	FY20	FY21	FY22	FY23
Rate Base (Units)	161,959	161,959	163,578	165,214	166,866	168,535
Collection Rate	95%	95%	95%	95%	95%	95%
Revenue Requirements						
Operating Costs	\$ 4,471,348	\$ 4,362,075	\$ 4,492,938	\$ 4,627,726	\$ 4,766,558	\$ 4,909,555
Additional Staffing		\$ 209,250	\$ 287,370	\$ 295,991	\$ 304,871	\$ 314,017
Debt Service	\$ 913,086	\$ 917,081	\$ 920,214	\$ 917,642	\$ 914,443	\$ 920,539
Additional Debt Service		\$ -	\$ -	\$ -	\$ 442,075	\$ 884,151
Additional Studies		\$ 1,996,500	\$ 2,854,500	\$ 2,282,500	\$ 1,424,500	\$ -
Transfer to Capital Fund	\$ 3,615,543	\$ 2,517,222	\$ 3,699,378	\$ 3,850,080	\$ 3,435,620	\$ 2,942,382
Additional Transfer to Capital Fund		\$ -	\$ 250,000	\$ 200,000	\$ 250,000	\$ 1,500,000
Revenue Offsets	\$ (196,673)	\$ (152,932)	\$ (143,232)	\$ (144,520)	\$ (143,877)	\$ (143,596)
Total Revenue Requirements	\$ 8,803,304	\$ 9,849,196	\$ 12,361,168	\$ 12,029,419	\$ 11,394,191	\$ 11,327,047
Fund Balance Drawdown	\$ 970,000	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -
Monthly Rate	\$ 4.25	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Anticipated Revenue	\$ 7,846,898	\$ 11,077,973	\$ 11,188,753	\$ 11,300,641	\$ 11,413,647	\$ 11,527,783
Surplus (Deficit)	\$ (956,406)	\$ 1,228,777	\$ (1,172,414)	\$ (728,778)	\$ 19,456	\$ 200,736
Operating Fund Balance	\$ 694,500	\$ 1,923,277	\$ 750,863	\$ 22,084	\$ 41,541	\$ 242,277
Transfer from Operating Fund	\$ 3,615,543	\$ 2,517,222	\$ 3,949,378	\$ 4,050,080	\$ 3,685,620	\$ 4,442,382
Bond Proceeds to Capital Fund		\$ -	\$ -	\$ -	\$ 10,000,000	\$ -
Total Contributions to Capital Fund	\$ 3,615,543	\$ 2,517,222	\$ 3,949,378	\$ 4,050,080	\$ 13,685,620	\$ 4,442,382
Planned Capital Spending	\$ 3,615,543	\$ 2,517,222	\$ 3,699,378	\$ 3,850,080	\$ 3,435,620	\$ 2,942,382
Additional Capital Projects	\$ -	\$ -	\$ 250,000	\$ 400,000	\$ 3,300,000	\$ 3,300,000
Total Capital Spending	\$ 3,615,543	\$ 2,517,222	\$ 3,949,378	\$ 4,250,080	\$ 6,735,620	\$ 6,242,382
Capital Fund Balance	\$ -	\$ -	\$ -	\$ (200,000)	\$ 6,750,000	\$ 4,950,000