



CITY OF SAN MATEO

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Agenda Report

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TO: City Council
FROM: Christina Horrisberger, Interim City Manager
PREPARED BY: Public Works Department
MEETING DATE: July 17, 2023

SUBJECT:
Intent to Initiate Proposition 218 Process for Stormwater Fee; Balloting Procedures and Fee Report – Approval

RECOMMENDATION:
Adopt a Resolution to initiate a proceeding for the approval of a stormwater fee; adopt a Resolution approving ballot procedures; and approve the Stormwater Fee Report.

BACKGROUND:
The City operates and maintains a stormwater system, which provides vital services to safeguard neighborhoods from flooding and protects local waterways from pollution. The system consists of complex infrastructure including surface drains, underground pipes and conduits, pump stations, creeks and channels, and the Marina Lagoon, which captures approximately three-fourths of the City’s drainage before it enters San Francisco Bay.

The City’s stormwater system requires long-overdue improvements to address flood control limitations and aging infrastructure. Unlike the sanitary sewer system, the stormwater system does not have a dedicated funding source and relies on the General Fund. In 2019, the Public Works Department began working with SCI Consulting Group (SCI) on a financial analysis of the City’s stormwater activities to understand the funding needs and options for revenue generation. Staff presented an overview of stormwater activities to the Sustainability and Infrastructure Commission (SIC) in December 2020 and continued to work with SCI on the funding analysis. At the February 2021 SIC meeting, staff presented a draft Stormwater Funding Analysis Report. Along with feedback from the SIC, the Stormwater Funding Analysis Report was presented to the City Council on May 17, 2021. Council directed staff to proceed with the next steps towards implementing a potential stormwater fee.

SCI’s scope of work included tasks for public opinion surveys, development of a fee report, public outreach, and assistance with a potential mailed balloting effort pursuant to Proposition 218. Through a public opinion survey conducted earlier in 2023, two fee rates were tested: \$8 and \$19/month (for an average single-family home) to assess the community’s willingness to pay. The \$19/month fee would generate sufficient revenue to fully fund the stormwater needs, while the \$8/month fee would provide partial funding. The surveys indicated ballot support for a new stormwater fee at the rate of \$8 per month for an average single-family home, which would generate \$4 million annually.

The public support at the \$8/month rate is not adequate to create a fully funded, \$9 million-per-year enterprise. However, if the current stormwater funding of approximately \$3.2 million that is provided through other City sources remains in place, the net stormwater need would be \$5.8 million (\$9 million - \$3.2 million). While the \$4 million potential revenue falls short of the full amount, it would fund almost 70% of the shortfall. Staff presented the survey results to Council on June 5, 2023 and received direction to initiate the ballot process with the \$8/month fee.

Stormwater Fee Report

A fee report is necessary to meet Proposition 218 requirements and must be based on the final stormwater fee rate proposed in the mailed ballot proceeding. The Stormwater Fee Report (Attachment 1) completed by SCI updates the previous funding analysis work and serves as the basis for the Proposition 218 Property Related Fee Balloting. The revenues required to fund the proposed stormwater utility, including baseline Operations and Maintenance, additional operating needs, and annual capital projects are approximately \$9 million.

Based on the overall stormwater needs and community priorities and support levels, it is recommended that a FY 23-24 revenue stream of \$4 million be used as a basis of the proposed rate structure with a \$8/month fee. The Stormwater Fee Report illustrates that although the revenue falls short of the fully self-funded enterprise goal of \$9 million, it can accomplish many of the most important goals when combined with the existing funding structure of approximately \$3.2 million. This revenue requirement has the following advantages:

- Funding for additional Operations and Maintenance work
- Funding of the for critical infrastructure strengthening and improvements
- Funding of Marina Lagoon dredging

Rate Structure

The goal of implementing the stormwater rate is two-fold. First, to address the operating service level, capital improvement, and regulatory needs as described in the Stormwater Fee Report; and second, to ensure that the fee charged continues to reflect how properties within the City interact with the stormwater infrastructure. The proposed rate structure uses surveys conducted on property types, sizes and characteristics to develop a basic unit of measure, the single-family equivalent or “SFE” unit. This basic unit of measure is then used to calculate the units of measure for all types of land uses.

The annual revenue requirement for the utility is divided by the total SFEs to calculate the per- year and per-month cost for each SFE. The per-month, per SFE cost is then multiplied by the SFEs per parcel or per acre, for each land use category, to determine the stormwater rate for that parcel. The proposed rates included in the Stormwater Fee Report are summarized below.

Table 1 – Stormwater Fee Schedule

Land Use Category			Proposed Monthly Fee FY 2024-25	
Residential *				
Small	Under 0.11	ac	\$	5.55 per parcel
Medium	0.11 to 0.17	ac	\$	8.00 per parcel
Large	0.18 to 0.23	ac	\$	9.92 per parcel
Extra Large	Over 0.23	ac	\$	11.08 per parcel
Condominium - 1 Level			\$	5.35 per parcel
Condominium - 2+ Levels			\$	2.71 per parcel
Non-Residential **				
Commercial / Industrial			\$	100.50 per acre
Office / Apartment / Institutional			\$	81.82 per acre
Institutional w/ Field			\$	71.24 per acre
Park			\$	5.53 per acre
Vacant (developed)			\$	5.53 per acre
Open Space / Agricultural				not charged
* Single-Family Residential category also includes du- tri- and four-plex units				
** Non-SFR parcels size is calculated to a hundredth of an acre				

Rate Credits: Low Impact Development

The City’s Stormwater National Pollutant Discharge Elimination System permit requires that certain properties be designed to capture stormwater onsite, reducing runoff and pollutants from entering the stormwater system. This type of design, also known as low impact development (LID), reduces a parcel’s stormwater runoff, which in turn reduces the interaction of that parcel with the stormwater infrastructure. As part of the Stormwater Fee Report, parcels that meet the strict criteria for LID, would receive a 25% credit of their stormwater fee.

Consumer Price Index-U (CPI-U), or Annual Cost Banking

Under state law, rate structures may be developed with annual increases when tied to CPI, or other price indexes. Staff has confirmed this following discussion at the prior study session. Part of the recommendation from SCI includes the concept of CPI “banking.” The stormwater fee would be subject to an annual adjustment tied to the CPI-U for the San Francisco Bay Area in December each year. The maximum adjustment would not exceed 3% in any year. However, if CPI-U banking was utilized, for the years that the CPI-U exceeds 3%, the amount over would be “banked” as unused CPI and could be used to offset occasions when the annual CPI-U increase was below 3%. As an example, if the CPI-U is 4% one year, the increase for the rate would only be the maximum allowed of 3%. The 1% over the maximum would be “banked” and in a future year where the CPI-U was only 2% the City could use the “banked” 1% and increase the rate the maximum of 3% if the fund update showed the need for the additional 1% in revenue.

Compliance with Proposition 218

In 1996, California Voters passed Proposition 218, also the “Right to Vote on Taxes” Act. Proposition 218 requires that the City mail a written notice of any proposed stormwater fee increases to affected property owners at least 45 days prior to a scheduled public hearing, during which time, property owners may submit written protests opposing proposed rate increases. At the public hearing, currently scheduled for October 16, 2023, Council will consider all protests related to the proposed rates. If a majority of parcel owners protest the rate increases, the new fee cannot be approved.

Additionally, Proposition 218 requires that jurisdictions obtain voter approval (by a majority vote) for new or increased property related fees, unless those fees are for sewer, water or refuse collection services. Fees associated with sewer, water, and refuse collection services can be enacted through a majority protest process. However, stormwater system fees continue to be treated differently than sewer, water, and refuse fees, requiring a majority approval vote from property owners prior to the implementation of fees, and this is unlikely to change within the timeframe that implementation of a City-wide stormwater fee is needed.

Next Steps

After receiving approval from Council, the Proposition 218 Notice will be distributed, initiating the rate setting process for the coming fiscal years. In order to provide a minimum 45-day review period, the required Proposition 218 public hearing is tentatively scheduled for the October 16, 2023 Council regular meeting, at which time the Council will determine whether a majority of parcel owners protest the proposed rate increases. A summary of the next steps is below:

1. Return to City Council in mid-October for a Public Hearing, and if a majority protest is not received, potential authorization to initiate a mail balloting process pursuant to Proposition 218.
2. Mail the ballots in Late October/Early November 2023.
3. Return to Council in January 2024 with results.

If the mailed ballot proceeding is successful, the final fee approval would be in January 2024 with fees levied on tax bills in fall 2024.

BUDGET IMPACT:

If the proposed rates are approved, the annual stormwater fee revenues will be approximately \$4,000,000 in the first year.

ENVIRONMENTAL DETERMINATION:

This action is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed Resolution Initiating Fee Process

Att 2 – Proposed Resolution Adopting Prop 218 Balloting Procedures

Att 3 – Stormwater Fee Report

STAFF CONTACT

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