

Keeping People Safe and Our Waters Healthy

Surface Water Management Utility Business Plan



Acknowledgements

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Executive Summary

This business plan was developed to address the imbalance between the service charges received by the Surface Water Management Utility and the cost of providing those services.

SWM Services

Surface Water Management (SWM) is a division of Snohomish County's Public Works Department. SWM uses utility service charges to reduce road and property flooding, water quality, and conditions for fish in unincorporated areas of the county.

SWM River and Road Flooding Services keep people, property and roads safe. Services include:

- Building, maintaining and repairing stormwater pipes, facilities and culverts
- Predicting and tracking large river flooding
- Helping residents with private property flooding

SWM Habitat and Water Quality Services keep rivers, lakes, streams and Puget Sound healthy. Services include:

- Maintaining 1,800+ stormwater facilities that improve water quality
- Building new infrastructure to improve water quality and fish passage
- Investigating, stopping and preventing water pollution
- Working with partners to recover salmon populations

How SWM Services are Funded

SWM's services are primarily funded by an annual \$90 utility service charge paid by residential property owners. Commercial property service charges are based on the size of the parcel and the amount of hard surfaces (such as buildings or pavement). Residential properties within urban growth areas (UGAs) pay an additional \$32 charge annually to fund further services in these areas.

SWM's service charges are one of the lowest in the region, particularly when compared to other jurisdictions facing similar water quality mandates. The low service charges, in addition to a decrease in revenue from other sources, has resulted in a financial challenge.



SWM services improve water quality by building new infrastructure and testing waters for pollutants.

SWM supplements ratepayer revenue by leveraging grants and other county funds. Ratepayers receive \$1.65 in services for every \$1.00 of utility service charge.

Out of 48 communities in the region surveyed, SWM is one of only four utility districts that had not increased stormwater service charges since 2009. In just the past two years alone, 37 of the 48 communities authorized increases.

Current Financial Challenge

SWM’s utility service charge has remained unchanged at \$90 for a single-family residential property since 2009. Inflation of goods, services, salaries and benefits over the past 10 years has impacted the value of SWM’s revenues and is a significant cause of SWM’s financial challenges. The Consumer Price Index (CPI) shows an 18 percent devaluation in SWM’s revenue from 2009 to 2017, which means SWM’s \$90 rate established in 2009 was worth only \$76 in 2017. Using a combination of price indices, SWM estimates that the impact of inflation on SWM service charges will continue at approximately 2.8 percent annually in the coming years. This means that SWM’s purchasing power for goods and services has been and will continue to be reduced.

In addition to the diminished value of SWM’s service charges, SWM has seen an increase in demand for services. For example, unfunded mandates from the county’s National Pollutant Discharge Elimination System (NPDES) stormwater permit have expanded since 2013 and require greater investments. From 2009 through 2017, the number of drainage facilities requiring annual inspection and maintenance nearly tripled. Aging infrastructure and the demand from ratepayers requesting services to address local flooding and water quality problems are also requiring more resources.

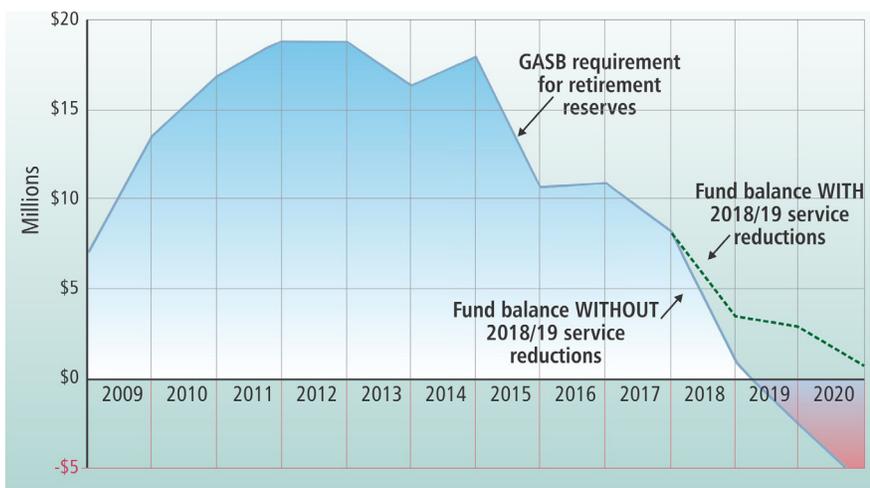


SWM builds new drainage pipes to reduce the risk of flooding.



Aging infrastructure.

SWM Year-End Fund Balance



On the other hand, the level of new and re-development occurring in Snohomish County can provide opportunities for increases in revenue. An analysis conducted by SWM on new growth, as well as the number of rate payment delinquencies, indicates SWM experiences a net average of approximately one-half percent increase in service charge revenue per year. The analysis also showed that this increase is offset by the cost of inspecting and maintaining new stormwater treatment facilities.

To supplement the reduction in the purchasing power while maintaining services ratepayers expect, SWM turned to its reserves to cover operating expenses. In 2015, SWM was required to set aside \$5.6 million for future pension liability. Since then, SWM has continued to use reserves for normal operating expenses. This has led to a steady decline in reserves and, without service reductions, reserves would be expended in 2019.

Service Reductions

It is clear that the revenue shortage is large enough that SWM can no longer provide the same level of service county ratepayers expect, and using reserves and improving efficiencies is not a sustainable solution. In response, SWM reduced services in 2018 by approximately \$1.1 million. SWM's proposed 2019 budget includes an additional \$1.5 million in service reductions. Continued service reductions will be required beyond 2019 absent a rate increase. By 2023, SWM estimates that up to \$8 million more in service reductions will be required, which includes layoffs of up to roughly one-third of SWM's staff.

Stakeholder Outreach

The County Executive convened an Ad Hoc Advisory Panel to provide input on SWM's services and develop recommendations for future service levels and utility service charges. The 16-member panel represented a broad range of stakeholders with varying interests. After months of work, the Panel recommended:

- Continue current SWM services
- Increase services by \$6.4 million per year
- Increase SWM service charges to fund the recommendations
- Implement annual service charge adjustments to address inflation

SWM also reached out to its approximately 95,000 ratepayers asking them to complete an online survey and inviting them to several open houses. More than 5,000 ratepayers completed the survey. More than half of respondents said SWM should do more, roughly a third said SWM should do about the same amount of work, and less than 10 percent said SWM should provide fewer services.

The ratepayers who completed the survey echoed the Advisory Panel's recommendations. Services highlighted as important by both include:

- Maintaining stormwater drainage systems
- Identifying and fixing water pollution problems
- Building projects that reduce local flooding
- Building projects to restore rivers, streams and lakes for fish and wildlife



Advisory panel members.

Service & Funding Options

Based on what was learned from stakeholders and ratepayers, SWM created alternative levels of service and determined how much revenue was required. SWM developed three service level categories for consideration to reflect options for SWM service delivery:

1. Current Services Enhanced – represents the Advisory Panel’s recommendation for SWM to do more projects such as replacing more failing drainage pipes and fish passage barriers
2. Current Services Maintained – proposes service and revenue alternatives that maintain SWM’s base services into the future
3. Current Services Reduced – reduces SWM’s ability to provide services valued by the community

This information is used to inform the County Executive and Council about SWM services and associated rates.

Summary

Snohomish County is blessed with natural resources that contribute to making our county a great place to live, work, and play and which provide the underpinning of the county’s economy. SWM provides a range of important surface water services that help keep people and property safe and that help preserve the county’s vital resources, including rivers, lakes, streams, and Puget Sound. Feedback received from the public and stakeholders consistently indicates strong support for the services SWM provides.

The majority of SWM’s services are funded by service charges paid by property owners within the county, though SWM leverages these revenues with grant dollars and other county funds. Given that SWM has one of the lowest surface water rates in the region and that these rates have not changed since 2009, SWM has insufficient funds to keep up with rising costs and to provide current levels of service. Even with service cuts in 2018 and proposed service cuts for 2019 that total \$2.6 million, SWM’s reserves continue to be depleted.

SWM developed this Business Plan to provide elected officials with different options for matching SWM revenues and services in the coming years. The Advisory Panel convened for this Business Plan recommended increasing SWM rates to continue existing services and to provide additional enhanced services. Without additional revenues, SWM will need to make significant cuts to core services and layoffs of staff in the coming years.

Section 1: Background

Surface Water Management is a utility district and a division of Snohomish County Public Works. SWM provides a wide range of road flooding, river flooding, water quality and habitat services throughout its district that are not duplicated in any other part of Snohomish County government.

The County is situated in a region of natural beauty, with saltwater beaches, fertile farmlands and an extensive system of lakes, rivers and small streams, some of which originate in the scenic Cascade Mountains. These natural systems are valuable to the local and regional economy and to the rapidly growing community. Residents expect roads that don't flood, drainage pipes that don't collapse, and water quality that allows fish to thrive and people to safely enjoy water-oriented recreation.

SWM has been challenged to provide services while addressing a funding shortfall that is largely a result of service charges that have not changed since 2009, a reduction in other revenues, and an increased demand for and cost of providing services.

Over the last few years, the utility managed the tight budget by increasing efficiencies, cutting back on services and reducing the capital program. As a result, the 2018 SWM budget was the smallest in the past six years. However, even after reducing costs and cutting services, SWM had to use reserves for the past four years to maintain current programs. Since SWM reserves are largely depleted, significant changes in revenues and/or services will be required in the coming years.

Today, SWM is at a crossroads, as the future needs of the community and the revenue to support them can no longer be met through the existing business model. To address the future needs of the community, SWM has completed a business plans that provides alternatives to align future revenues with the different levels of service.

The SWM service area includes all of the unincorporated county except tribal lands and Hat Island.

What this report contains:

- *Section 1: Background*
- *Section 2: Overview of Current Services*
- *Section 3: Revenues and Fiscal Challenges*
- *Section 4: Outreach to Stakeholders and Community*
- *Section 5: Level of Service Alternatives*
- *Section 6: Next Steps*



The Snohomish River, one of the county's five largest rivers.

Section 2: Overview of Current Services

Snohomish County Surface Water Management provides essential services that protect the health and safety of residents, businesses, and the environment.

SWM's services are based on priorities identified by stakeholders, ratepayers, elected officials, regulations, county code, and the county's Comprehensive Plan. Important regulatory requirements SWM is subject to include the county's National Pollutant Discharge Elimination System (NPDES) permit and additional state regulations (fish passage barriers, shellfish, etc.). The county's Comprehensive Plan contains numerous policies that also guide SWM programs and priorities. Many of SWM's services involve managing stormwater to reduce the flooding of roads and private property and to reduce pollution and restore habitat in local rivers, lakes and streams.

SWM's Mission

"Work in partnership with the community to protect and enhance water quality and aquatic habitat, to minimize danger from flooding and erosion, and to preserve water resources for future generations."

SWM's services are organized under two major categories and four key program areas:

Keeping People, Property, and Roads Safe

- River Flooding Services
- Road Flooding Services

Keeping Rivers, Lakes, Streams, and Puget Sound Healthy

- Salmon, Shellfish and Marine Resource Services
- Water Quality Services

River Flooding Services

A primary goal of SWM's River Flooding Services is to reduce flood risks for people and properties. The county's flood-prone areas contain over 34,000 acres of valuable farmlands. In addition, there are roughly 15,000 residential parcels and over 200 miles of county roads that are threatened by flooding in these areas. With five dynamic rivers – the Sauk, Stillaguamish, Snohomish, Skykomish and Pilchuck – it's no surprise that Snohomish County is the second most flood-prone county in Washington State. Since 1962, there have been 18 floods in the county that have qualified as Presidentially Declared Disasters. In

What we do:



SWM provides surfacewater services to residents and businesses within unincorporated Snohomish County, focusing on protecting people, property and roads and keeping streams, rivers, lakes and Puget Sound healthy.



SWM's fish culvert replacement program identifies and prioritizes blocking culverts in greatest need of replacement.



SWM provides technical assistance to property owners upon request.

many cases these larger floods, as well as smaller floods, erode stream banks and threaten farmland, residential properties and county roads and levees.

A primary goal of SWM's River Flooding Services is to reduce flood risks for people and properties by:

Collaboration with FEMA

- Update FEMA Flood Insurance Rate Maps, which classify flood risk by location.
- Help willing homeowners find long-term solutions for their flood-prone properties, such as elevating their homes or receiving a federally-funded buyout.
- Coordinate the county's Community Rating System Program (CRS) to reduce flood risks and property damage and enable flood insurance premium discounts for county residents.

Flood Risk Analysis

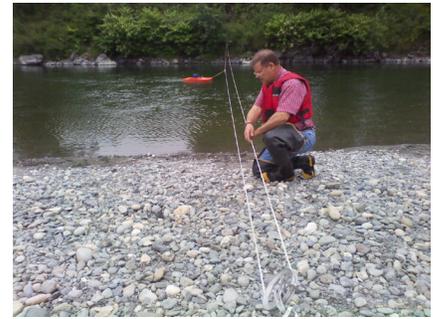
- Operate river gauges and a real-time flood information system, available online at www.snohomish.onerain.com.
- Identify areas with flooding and erosion hazards in order to develop recommendations to reduce current and future risks.
- Provide information about flood risks to county departments and the public.

Other Services

- Provide real-time information during flood emergencies to support state and federal agencies, diking districts and county departments.
- Maintain over 18 miles of county dikes to protect people, property and infrastructure from flood damage.
- Provide technical assistance to property owners living along rivers and streams regarding flood risks and erosion hazards.
- Provide design support for roadway and bridge maintenance and construction projects along county rivers.

Why These Services Are Important

- *Helps people before, during and after floods*
- *Protects roads, bridges, homes and businesses from flood damage*
- *Reduces the cost of flood damages and flood insurance*



SWM staff measuring the water depth and velocity of the Stillaguamish River at Arlington.



First floor of home is raised above the FEMA 100-year flood level.



Road flooding caused by Snohomish River flood.

Road Flooding Services

The goal of SWM's Road Flooding Services program is to address chronic flooding problems and failing drainage pipes along county roads, which consist of over 1,000 miles of stormwater drainage systems and approximately 3,200 road-crossing culverts. Each year, SWM responds to approximately 300 drainage complaints from residents. Many flooding complaints from the urban areas are resolved by maintenance or capital project improvements on the county's drainage system or by replacing failing drainage pipes.

Currently, SWM is evaluating culvert conditions and, to date, has found 849 culverts in poor condition with 90 culverts needing significant repair. Over the past ten years, SWM has completed over 140 drainage improvement projects to address chronic flooding problems and failing drainage pipes.

SWM Road Flooding services and activities include:

Stormwater Planning, Assessment and Evaluation

- Evaluate and prioritize flooding and drainage problems that impact county roads.
- Identify aging or failing drainage pipes.

Drainage Improvement Projects

- Design and construct projects that address chronic flooding problems and failing drainage pipes along county roads.

Outreach and Technical Assistance

- Provide technical guidance to help residents solve problems with standing water, flooding or other drainage issues on their property.

Why These Services Are Important

- *Keeps people and goods moving safely by keeping water off roads*
- *Keeps costs down by strategically installing or upgrading stormwater drainage systems*
- *Helps property owners reduce basement and property flooding*



Snohomish County and the City of Lynnwood are elevating Ash Way to reduce future flooding.



SWM staff responding to a drainage complaint.

Salmon, Shellfish & Marine Resource Services

The goal of SWM's Salmon, Shellfish and Marine Resource Services program is to protect and restore fish and wildlife habitat within county rivers, lakes, streams and Puget Sound. One of the key objectives is to work toward the recovery of salmon species listed in the Endangered Species Act (ESA). In Snohomish County, Chinook salmon and bull trout are listed as threatened and Coho salmon are listed as a species of concern. To survive, these salmon species rely on habitat along the 1,250 miles of salmon-bearing streams as well as the estuaries at the mouths of the Snohomish and Stillaguamish rivers. In 2018, recreational fishing was closed in sections of the Stillaguamish, Snohomish, Skykomish and Wallace Rivers due to critically low Chinook and Coho populations. Not only are these salmon important to the local culture and fishing industry, Chinook are an important food source for the endangered Puget Sound Killer Whale population.

Young salmon stay in county streams for up to two years before migrating back to Puget Sound. Unfortunately, much of the habitat juvenile salmon need has been impacted by development, flood control structures, erosion, and water quality. In addition, SWM has identified at least 270 culverts that impede fish passage.

Development has also impacted Puget Sound since rivers carry pollution to the Sound and since changes in shorelines have stopped normal erosion processes. This impacts forage fish, shellfish, Orcas and other wildlife. Forage fish, an important food source for young salmon, need sandy areas to reproduce. With 48 percent of the county's 36 miles of Puget Sound shoreline armored, not enough sand is getting to areas forage fish have historically used to reproduce.

While the county has only a small commercial shellfish industry, shellfish are an important resource for Tribes, provide a recreational opportunity for residents and help clean up water. Pollution can result in shellfish that make people sick so SWM works to keep water pollution from shellfish beds by managing the county's Shellfish Protection District.

SWM's Salmon, Shellfish and Marine Resources services and activities include:

Resource Recovery Planning

- Work with partners to recover salmon populations, improve conditions for shellfish and restore Puget Sound.
- Facilitate the Sustainable Land Strategy, a group whose goal is to maintain farmlands while enabling recovery of salmon populations.



The Smith Island Project is restoring 378 acres of historic tidal wetlands to provide habitat for threatened salmon species in the Snohomish River Basin. This picture shows the final excavation for the dike breach, with the tide still going out.



Anchoring of large pieces of wood along stream banks creates in-stream edge cover and habitat for salmon.



Planting of cottonwood live stakes. The stakes will root and grow into full-sized trees to provide shade which keeps streams cool for salmon.

- Coordinate the Marine Resource Committee (MRC), a group focused on marine resource protection and restoration.
- Evaluate the condition of river and stream habitat that is important for fish and wildlife, especially salmon.

Habitat Restoration Projects

- Design and construct fish passage culverts along county roads, replacing those that prevent salmon from accessing critical habitat.
- Design and construct projects to restore habitat for salmon.

Outreach and Technical Assistance

- Work directly with landowners to encourage better stewardship of their land.
- Conduct workshops that teach landowners about the importance of maintaining natural shorelines.

Why these Services are Important

- *Saves money by working with partners to share costs to recover salmon populations*
- *Encourages the community to help improve stream banks and marine shorelines*
- *Promotes partnerships with tribes and the agricultural community*
- *Restores rivers and streams so they can support fish and wildlife*

Water Quality Services

The goal of SWM's Water Quality Program is to protect and improve water quality in support of human and environmental health. Stormwater drains off urban, commercial, agricultural, rural, and industrial land, carrying with it many pollutants that can impact the health of local waterbodies and Puget Sound. These pollutants include nutrients, bacteria, metals, sediment, oils and various chemicals. These pollutants can create hazardous conditions that impact humans, fish and wildlife, such as toxic algae blooms in lakes that can kill fish, pets and make humans sick.

Snohomish County has over 120 waterbodies that are known to have impairments of at least one, but often multiple pollutants. The most common problem is bacteria, which is caused by human and animal wastes. Many area lakes are seeing increases in nutrients which can lead to more toxic algae blooms.



Stream sampling for salmon.



SWM staff testing lake.

One tool used to manage stormwater is the National Pollutant Discharge Elimination System (NPDES) program, which is a rule from the federal Clean Water Act (CWA). The county has an NPDES permit that requires the county to monitor some of these waterbodies, identify and address discharges of pollutants, and build, inspect and maintain stormwater treatment facilities that remove pollutants from stormwater.

SWM's Water Quality services and activities include:

Stormwater Infrastructure Management

- Map the county's municipal drainage system.
- Inspect and maintain stormwater facilities and catch basins.
- Design and construct projects that provide improved water quality.

Water Pollution Response

- Find and stop water pollution.
- Inspect commercial properties and provide education on proper best management practices to prevent stormwater pollution.

Lake, River and Stream Health Assessment

- Evaluate the general health of rivers, streams, and lakes.
- Develop and implement plans to restore the health of rivers, streams and lakes.

Outreach and Technical Assistance

- Provide information to the public on the general health of rivers, streams and lakes.
- Coordinate workshops to help residents understand their septic systems.
- Provide education and outreach to build awareness and encourage behaviors at homes and businesses that protect water quality.

Why these Services are Important

- *Keeps stormwater infrastructure working as it should to remove pollutants*
- *Involves residents and businesses in stopping and preventing pollution*
- *Reduces the amount of pollution entering rivers, streams and lakes*



Mapping the county's storm water infrastructure.



Informational brochure given to businesses informing them how to prevent pollution.

Section 3: Revenues and Fiscal Challenges

Revenues

SWM Service Charges

The 2018 budget to deliver the services outlined in Section 2 is approximately \$36.4 million. SWM's primary revenue source comes from the annual service charges paid by property owners in the utility district, which includes most of unincorporated Snohomish County.

- Single-family homes countywide pay a base utility service charge of \$90.
- Single-family homes within the Urban Growth Area (UGA) pay a surcharge of \$32 a year on top of the base service charge for a total of \$122. The surcharge is used to design and construct projects within the UGA, and is set to expire at the end of 2021 under current county code.
- Commercial properties pay a base service charge on a sliding scale, based on the size of the parcel and the amount of hard surfaces (such as buildings or pavement) on the parcel. Commercial properties within the UGA also pay a proportionate surcharge.

Other Revenue Sources

In addition to service charge revenues, SWM receives funding from other sources. The amounts from these revenue sources fluctuate annually. The most common revenue sources include:

- Grants - SWM stretches revenues received from ratepayers by aggressively competing for state and federal grants.
- REET II – Real Estate Excise Taxes (REET). REET is a tax applied to the sale of real estate. The county uses REET II funds for planning, acquiring, constructing, repairing, or improving roads, surface water, or parks projects. SWM requests REET II funds annually during the budget process; there is no guarantee how much REET, if any, will be allotted to SWM.
- County Road Fund – SWM receives County Road Fund revenues annually for drainage projects in the road right-of-way and SWM programs that assist with protecting county roads, such as stream and river gauging.
- Shared Costs – SWM works with a number of cities and tribes on a variety of capital projects and programs that span jurisdictional boundaries. Many of our partners share in the costs for these projects.

Figure 1 shows SWM revenue sources. Figure 2 shows how SWM allocates those revenues to SWM services.

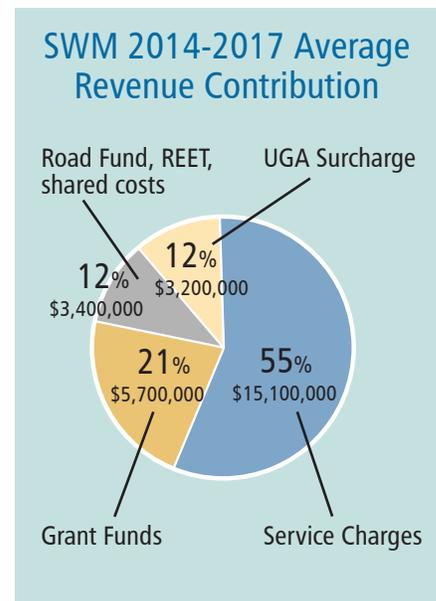


Figure 1: SWM 2014-2017 Average Revenue Contribution.

Surface Water Management 2018 Budget

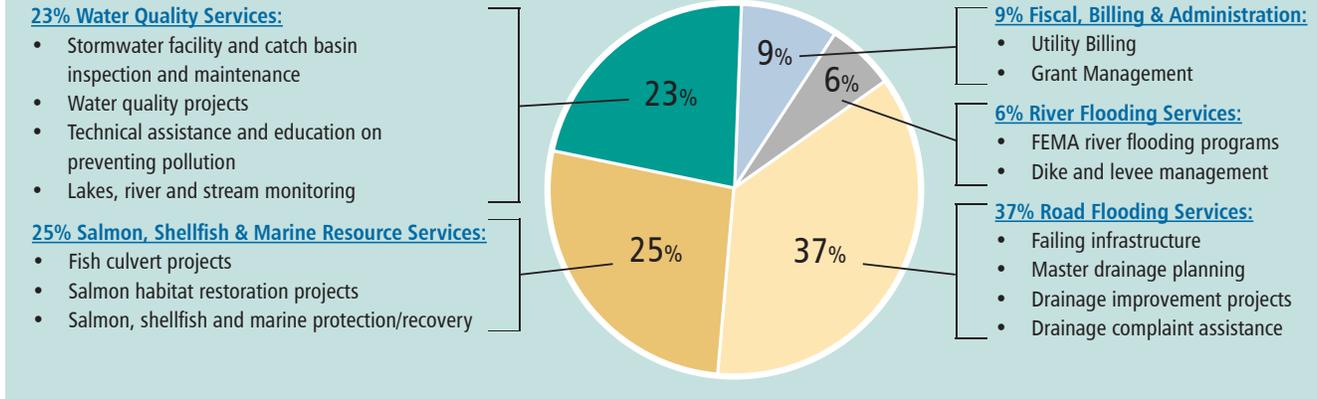


Figure 2: Surface Water Management 2018 Budget

Fiscal Challenges

SWM is currently facing a shortfall in revenue required to continue the services that federal regulations mandate and that ratepayers have come to expect and value. The combination of static utility rates since 2009, reductions in non-rate revenues, and inflation has put a significant strain on SWM’s reserves, which are declining rapidly, as shown in Figure 5.

Low Utility Rate - Unchanged for a Decade

In 2018, SWM surveyed utility rates for 48 Puget Sound-area surface water utility districts. Of the 48 communities surveyed, Snohomish County is one of only four that have not had a surface water utility rate increase since 2009 (Appendix 1). SWM’s rates rank among the lowest in the Puget Sound region and among the lowest of all Puget Sound-area Phase 1 NPDES permit holders (Figure 3).

Increased Costs of Doing Business

SWM’s base service charge and UGA surcharge have remained unchanged since 2009. In 2018, SWM expects to collect approximately \$19.7 million in service charges. Of that total, approximately \$16.3 million will be from the base utility charges countywide and \$3.4 million will be from the surcharge inside the UGAs.

While SWM utility rates have not changed since 2009, SWM service charge collections have increased. Driven by urban growth and an expanded utility district area (2016), actual service charge collections went from \$17.2 million in 2009 to \$19.3 million in 2017. At the same time, the Consumer Price Index

2018 Single Family Annual Surface Water Service Charges

City of Seattle	\$480 *
City of Tacoma	\$281 *
City of Everett	\$271 *
King County	\$240 *
City of Shoreline	\$202 *
City of Edmonds	\$187 *
City of Bothell	\$170 *
Pierce County	\$127 *
Snohomish County	\$90

* Rate increases implemented in the last 2 years

Figure 3: 2018 Single Family Annual Surface Water Service Charges



Figure 4: Declining Value of SWM Rate.

(CPI) went up by 17.84 percent. Based on the December 2017 index value (Figure 4), the same \$90 is now worth \$76.37 due to inflation. Accordingly, the \$19.2 million in revenues in 2017 is comparable to receiving \$16.3 million in 2009 dollars. This represents a loss in buying power of roughly \$1 million between 2009 and 2018.

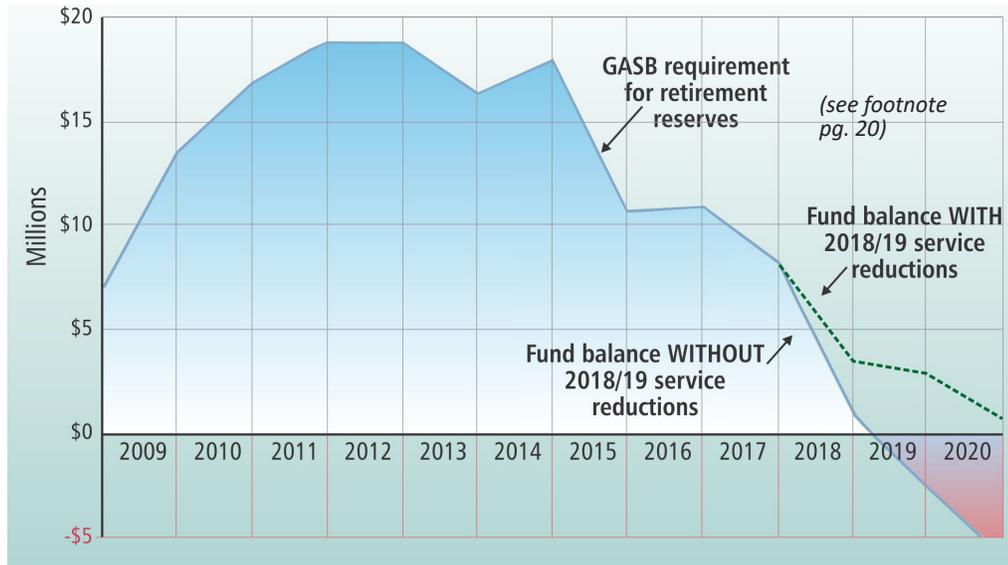


Figure 5: SWM Fund Balance

In other words, to provide the same level of service in 2018 that SWM did in 2009, SWM would have needed an additional \$1 million in revenue. Increases in the requirements of various mandated programs like NPDES, and the associated costs are higher today than they were in 2009. Thus, in addition to the reduced buying power, SWM is required to do more work in 2018 than in 2009.

Reduced Revenues

REET Funding Reduced After Recession

Prior to the national recession that started in 2008, SWM had historically received a larger portion of the county revenues collected from REET. From 2005 through 2008, SWM received over \$3 million annually in REET II revenues. SWM's portion of REET II funds dropped to zero by 2011 and then modestly increased in the following years.

While the economy has since recovered, resulting in more county revenue from REET, SWM's portion of this revenue has not rebounded to levels prior to the recession (Figure 6). SWM used its reserves to offset the reduction of REET II funds. In 2018, SWM was allocated \$1.2 million in REET II revenue.

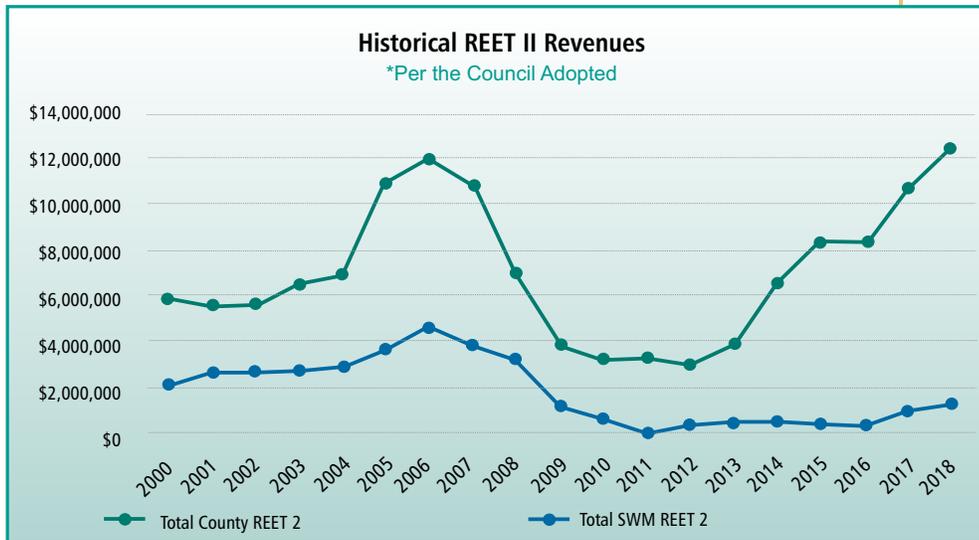


Figure 6: Historical REET II Revenues

Annexations

As annexations occur, SWM loses utility revenues from properties annexed into an incorporated city. There is potential cost savings to SWM due to reductions in services geographically tied to the annexation area (e.g., drainage and water quality complaints, infrastructure inventory, and maintenance of storm-water facilities). However, many of SWM's programs, services, and responsibilities are countywide in nature (e.g., NPDES compliance, salmon recovery, flood control, water quality, and regional capital projects). Savings resulting from a reduction in services in an annexation area are often eclipsed by the increase in cost to the remaining ratepayers for countywide programs, services and responsibilities.

A prime example of how annexations can impact SWM's budget occurred in 2010 when two large annexations went into effect for the City of Lake Stevens and the City of Marysville. The combined impact of these two annexations resulted in the loss of nearly \$2 million in SWM service charge revenues.

Exemptions and Credits to SWM Utility Service Charges

Exemptions and credits specified in Snohomish County Code for real property located in SWM's service area equate to revenues not received. All exemptions and credits total approximately \$2.2 million in unrealized SWM service charges.

County code provides an exemption for qualified low-income senior citizens or disabled persons from paying SWM service charges. The impact of this credit totals approximately \$300,000 in unrealized utility revenues.

County code provides a credit to public and private schools that provide water quality or watershed instruction. The impact of this credit totals approximately \$500,000 in unrealized utility revenues.

In 2013, the County Council adopted an ordinance that allowed property owners with individual NPDES permits addressing stormwater treatment for their site operations to receive a credit on their utility service charges. The NPDES credit reduces SWM utility revenues by approximately \$730,000 annually but does not reduce SWM's inspection and maintenance services required for the county's NPDES compliance.

County code also provides a credit to commercial ratepayers for maintenance of onsite storm and surface water facilities built to comply with the detention and water quality regulations and standards set forth in code. The impact of this credit totals approximately \$590,000 annually.

Lastly, pursuant to RCW 85.38.160, property owners within diking, drainage, or flood control districts receive a credit equal to the dollar value of the annual special district assessment. Under 36.89 RCW, SWM applies the special district assessment credit against the annual SWM service charges. In many cases, the required special district credits and open space credits have effectively exempted the majority of special district properties in the floodplain from SWM service charges. The open space and special district credits reduce SWM utility revenues by approximately \$100,000 annually.

Federal Delinquent Accounts

In 2011, Congress amended the federal Clean Water Act to clarify that federal agencies are responsible for paying service charges to local governments that provide surface water services, such as Snohomish County. While most federal agencies have paid their service charges to SWM, two agencies, the U.S. Navy and U.S. Forest Service are delinquent. The U.S. Navy has not paid their surface water service charges since 2011, while the U.S. Forest Service has not paid since 2012. The total delinquent amount will equal approximately \$1.7 million by the end of 2018.

Pension Liability Requirement

An immediate and unforeseen impact to SWM's reserves occurred in fiscal year 2015, when SWM was required to begin reporting a long-term pension (PERS) liability due to GASB 68¹. This new accounting standard, reduced SWM's formerly healthy fund balance by more than \$5.6 million. Complying with this requirement is different from a purchase, as the funds are essentially rendered "in reserve" to cover future retirement costs. This new regulation caused a significant, unplanned reduction in SWM's unrestricted fund balance that could not be moderated under the current rate structure.

¹ Government Accounting Standards Board, Statement No. 68, Accounting and Financial Reporting for Pensions, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Other Pressures Increased Service Demand and Costs

Since 2009, external pressures have contributed to an increased demand for SWM services. Compliance with the County's Phase I NPDES permit has resulted in increased costs associated with the inventory, inspection, maintenance, and repair of engineered drainage systems that convey, treat or manage stormwater runoff. New residential or commercial drainage infrastructure increases SWM's obligation to perform annual inspection and maintenance thereby increasing SWM's annual operating expenses. From 2009 through 2017, the number of drainage facilities requiring annual inspection and maintenance increased from 527 facilities in 2009 to 1,495 facilities in 2018.

The 2013 Phase I NPDES municipal stormwater permit contained a new requirement for stormwater planning. Between 2014 and 2017, Snohomish County spent over \$3 million to prepare a stormwater plan for the Little Bear Creek watershed to meet this new requirement. With no additional revenues to support this large unfunded expense, this required work resulted in a further drawdown of SWM's reserves over this period.

In 2015, the County Council adopted changes to stormwater regulations, effective in 2016. The new regulations require construction of low impact development (LID) systems when feasible. Construction of new LID systems has increased SWM inspection and maintenance costs because of the nature of how the systems are constructed. Traditional stormwater infrastructure for a residential subdivision has a large centralized system that treats and controls stormwater runoff for all the homes in the subdivision. SWM is required to inspect and maintain these stormwater facilities per NPDES permit requirements. With LID, each home may have a small bioinfiltration system, decentralizing the stormwater treatment. Instead of inspecting and maintaining one stormwater facility, SWM must inspect and maintain multiple smaller LID systems and write up individual work orders for each. Additionally, those systems generally require more coordination with residents to gain access. As more residential and commercial developments with LID systems are built, SWM's workload with inventory, tracking, inspection, and maintenance will increase.

Another significant external pressure is the threat of lawsuits related to whether SWM provides sufficient levels of service. The county recently faced a lawsuit from a private entity related to compliance with the NPDES permit. While the lawsuit is now settled, SWM and other county departments are committed to ensuring that their services adequately comply with these federal regulations.

In addition, Washington State recently faced a lawsuit in federal court over whether state highway and road culverts along fish-bearing streams allow



The county's NPDES permit required a study that cost SWM over \$3 million.



Example of a low impact development rain garden designed to channel water off pavement, remove pollution and allow the water to soak into the ground.

adequate fish passage. SWM manages a program to proactively identify, evaluate and prioritize county-maintained culverts for replacement. Inventory, assessment, and programming replacement of fish-passage culverts under county roads help to demonstrate progress on improved fish passage.

Future Pressures Will Continue to Increase Service Demand and Cost

In 2019, the Washington State Department of Ecology will reissue the Phase I NPDES municipal stormwater permit. Although many of the current permit requirements are likely to remain unchanged, preliminary permit language indicates that there will be increased costs for structural stormwater controls and basin planning and increased drainage inventory efforts in rural areas. SWM does not know the full implications or estimated cost for the new 2019 NPDES permit at this time. The SWM Business Plan alternatives do not account for any new 2019 NPDES permit costs.

The timely repair and replacement of aging and failing stormwater infrastructure (e.g., pipes and catch basins) protects against catastrophic road and drainage system failures. The preemptive identification and repair of aging and failing stormwater infrastructure is not part of SWM's currently funded program, and the costs of replacing aging and failing stormwater infrastructure are rising. Future pressure from the 2019 NPDES permit requirements and replacement of aging and failing stormwater infrastructure can and will significantly impact SWM programs and revenues. The extent these future pressures affect SWM services and costs are beyond the scope of the current SWM Business Plan and rate alternatives.

Short-term Adjustments

During the past five years, SWM has tried to offset rising service costs from inflation and external pressures by tapping into reserves, scaling back certain programs, and delivering core services more efficiently. Instead of raising rates as revenue became tighter, SWM has absorbed some of the increasing costs of the past decade by:

- Reallocating staff from other service programs to meet NPDES requirements
- Eliminating services and reducing capital projects
- Investing in technology

In 2013, SWM initiated a Service District Reassessment Study (SDRS). The purposes of this study was to evaluate SWM's existing services, identify future services and needs, and determine the corresponding increases in rates that would align with these increased responsibilities, expanded service area (geographic), and stricter state and federal mandates. The study included a



Fish blocking culvert.



Failing drainage pipe.

At this rate, if revenues are not increased, or service reductions are not implemented, SWM's reserves will be depleted in 2019.

public outreach campaign that generally showed strong support for SWM services by the public. However, SWM's fund balance between 2013 and 2015 was healthy, which limited the justification for an increase in SWM utility rates. Instead, Council approved expansion of SWM's service area boundaries to include floodplain areas and upland areas previously not assessed a utility service charge.

As a next step in addressing the increasing costs of services, SWM examined the utility's current business practices to ensure that SWM was delivering the current services most efficiently. SWM staff incorporated a new asset management system and process improvements that significantly increased the number of stormwater inspections each employee can do. SWM also consolidated three former utility districts into a single utility district, reduced or discontinued payments to other agencies and reduced the number of vehicles in SWM's fleet.

These actions helped SWM meet regulatory requirements and become more accountable to ratepayers. However, despite these efforts, revenues based on current utility rates will not be sufficient to cover existing services, including funding for large capital projects to maintain and improve stormwater infrastructure.

The increase in demand for SWM's services and the impact of annual inflation on SWM's revenues have made clear that SWM can no longer provide the same level of service that county ratepayers expect.

In response to financial challenges, SWM proactively reduced and eliminated services in 2018 and in the proposed 2019 SWM budget. Service reductions (Figure 7) will slow construction of projects, increase response times, and reduce payments to partners. SWM has also instituted a hiring freeze, starting in 2018, to help reduce spending.



The design of River habitat projects will be slowed down in 2018 and 2019.



The analysis of road flooding that leads to future drainage projects will be slowed down in 2018 and 2019.

2018-2019: Cuts Made or Proposed Across All SWM Programs

Programs and Examples	2018	2019
Water Quality Services <ul style="list-style-type: none"> Reduce programs to understand the health of lakes, rivers and streams Reduce outreach to ratepayers aimed at preventing water pollution 	\$ 146,000	\$ 500,000
Salmon, Shellfish & Marine Resource Services <ul style="list-style-type: none"> Complete river habitat projects slower 	\$ 598,000	\$ 389,000
Road Flooding Services <ul style="list-style-type: none"> Slower response to resolve road flooding 	\$ 247,000	\$ 347,000
River Flooding Services <ul style="list-style-type: none"> Increase risk of dike/levee failure 	\$ 100,000	\$ 140,000
Fiscal, Billing & Administration Services <ul style="list-style-type: none"> Reduce communications to our ratepayers 	\$ 45,000	\$ 89,000
Total	\$ 1,136,000	\$ 1,465,000

Figure 7: 2018-2019: Reductions Made or Proposed Across All SWM Programs

Section 4: Outreach to Stakeholders and Community

In 2017, SWM began re-evaluating its services and rates to formulate a new utility business plan. SWM retained a consultant (Tetra Tech and sub-consultants) to work with the utility and its stakeholders to develop a new business model that would balance its revenues and service in 2019 and into the future.

The purpose of the SWM Utility Business Plan is to:

- Clarify SWM's existing services and target levels of services
- Identify stakeholder and ratepayer expectations
- Align future revenues with those desired levels of service
- Identify the rates necessary to provide those levels of service

Service Expectations

A key step in developing this new business plan was to reach out to SWM ratepayers and ask them for feedback on current SWM services. SWM launched an extensive outreach campaign, inviting a wide range of stakeholders and partner organizations to provide input on SWM services. Over a six-month period, SWM solicited input from the community via multiple channels, including stakeholder and partner interviews, a Business Plan Advisory Panel ("the Panel"), a ratepayer survey, public open houses, and a newsletter to all of the approximately 95,000 ratepayers. The feedback SWM received is summarized below.

Stakeholders and Partners

SWM and its consultant team conducted interviews with 80 individual stakeholders, public agency staff, and groups representing a variety of environmental, business and agricultural interests. Interviewees were asked which SWM services are most important to them and which services they feel should be expanded, reduced or maintained at existing levels. The three most common responses were:

- SWM services should not be reduced.
- SWM should increase services that improve public safety by reducing risks associated with failing infrastructure and river flooding.
- SWM should plan ahead and proactively address fish passage issues and reduce pollution from stormwater runoff.



A newsletter highlighting SWM services was sent to ratepayers in January 2018.



Open houses were held in four locations across the county in February 2018.

Respondents were also asked for their input on potential service enhancements. The list that emerged was consistent with the messages above, and was provided to the Ad-Hoc Advisory Panel for consideration and refinement.

Business Plan Advisory Panel

In September 2017, Executive Somers convened his Ad Hoc Business Plan Advisory Panel for the SWM Utility Business Plan. The purpose of the panel was to provide input on SWM services and develop recommendations on future service levels and utility rates. The 16-member panel represented a broad range of stakeholders, including residential ratepayers, business owners, farmers, tribes, other utilities and non-profit organizations.

The panel met biweekly for five months, examining existing SWM services for environmental benefits, public health benefits, stakeholder priorities and cost. To help inform their work, the panel reviewed the results of stakeholder interviews, a list of potential service enhancements developed by SWM and other local jurisdictions' surface water services and rates.

The panel evaluated SWM's existing programs and 37 potential program enhancements. They were then given the cost and rate implications of potential changes to SWM's services. Originally, the Panel recommended 19 enhancements at an annual cost of \$9.9 million. The county then asked the Panel to reduce their recommendations. The Panel's final recommendations supported all of SWM's existing services and 15 additional enhancements (Figure 8), adding about \$6.4 million annually to SWM's budget.

Of these 15 enhancements, the three largest investments focus on top-priority capital investments to:

- Replace older pipes prior to failure to reduce risks to people, property and the environment
- Remove pollutants in stormwater runoff from Snohomish County roads
- Replace fish passage culverts at double the current rate to increase fish habitat and address some of the failing infrastructure problem

The Panel also recommended raising SWM rates over a three-year period to fund these enhancements as well as an ongoing gradual increase in SWM rates each year to keep up with the rising cost of inflation and prevent services from being reduced in the future.

Ratepayer Survey

On January 5, 2018, SWM mailed a letter to its approximately 95,000 ratepayers asking them to participate in an online survey.

The final Advisory Panel report is available at www.snohomishcounty.wa.gov/3950



The Ad Hoc Business Plan Advisory Panel.



The Advisory Panel recommended doubling the rate of replacing culverts to remove fish passage barriers.

Service	Enhancement Description	Annual Additional Cost*
1	Replace older pipes and culverts prior to pipe failure	\$2,000,000
2	Replace 3 to 5 additional fish passage barriers per year	\$2,000,000
3	Provide water quality treatment for county road drainage (2.5 miles/year)	\$1,000,000
4	Proactively identify and reinforce (levee) hazard areas before problems occur	\$300,000
5	Provide increased technical assistance to residents to implement practices to protect habitat/water quality for lakes, rivers, streams, and marine shorelines	\$240,000
6	Work with partners to fully implement Response Plan for shellfish bed downgrades to identify and correct water quality problems	\$200,000
7	Provide area or basin specific education and outreach	\$200,000
8	Identify and prioritize fish blockage culverts at all county roads and driveway culverts in ROW within 3 years	\$175,000
9	Assess older pipes and culverts every 10 years	\$125,000
10	Develop Steelhead recovery plans	\$70,000
11	Add 5-6 additional precipitation gauges and 3-5 additional river/stream gauges	\$60,000
12	Strategic planning of more habitat and floodplain capital projects	\$50,000
13	Update 1 county flood management plan (including climate change impacts) every 2-3 years	\$42,000
14	Upgrade 13 current gauges so all county gauges are real-time	\$6,000
15	Proactively screen for toxic algae at 5-6 problem lakes and post signs at those lakes	\$5,000
	Total	\$6,473,000

Figure 8: Advisory Panel's Recommended Service Enhancements

The survey asked ratepayers, the amount of work SWM should do in existing service areas, priorities for service enhancements and potential financial incentive programs.

A total of 5,174 individuals responded to the survey. This resulted in a 5.5 percent response rate, considered higher than typical survey response rates. Respondents reported that the area around their property is urban (7 percent), suburban (41 percent), rural (29 percent), or rural transitioning to suburban (23 percent). More than 70 percent of survey respondents indicated that SWM services are “very” or “extremely” important to them. The specific services that were rated as “very” or “extremely” important by the highest share of respondents are noted in the sidebar and are consistent with the feedback collected from stakeholder interviews and the Business Plan Advisory Panel.

Ratepayers were also asked if SWM should do more, less, or the same amount of work in each of its existing service areas. Survey respondents indicated the strongest support for repairing and replacing aging stormwater infrastructure, with 64 percent indicating that SWM should do more work in this area. In addition, 80 percent of respondents favored SWM maintaining and increasing work related to improving public safety and water quality. In general, about half of all respondents indicated they wanted SWM to do more work in each service area, with less than 10 percent indicating the opposite.

Attendees at Open Houses

In an effort to provide an opportunity for SWM’s ratepayers to provide in-person feedback, SWM held four open houses across the county. In addition to mailing a letter to ratepayers about the online survey, SWM mailed an educational newsletter to ratepayers describing SWM services and advertising the open houses. SWM also posted the dates and times on its website and sent email notifications to ratepayers who had received assistance with drainage or water quality issues in recent years.

The primary purposes of the open houses were:

- To help ratepayers understand what services SWM provides and what they pay for those services.
- To find out what ratepayers would be willing to pay for services.

Figure 9 presents feedback from ratepayers who attended the open houses regarding what they might be willing to pay for SWM services. Although this table only represents the views of about 50 people, the response showed strong support for SWM services, just as the online survey and stakeholder

KEY RATEPAYER SURVEY RESULTS

- 84% want SWM to continue to maintain stormwater drainage systems.
- 83% want SWM to continue to identify and fix water pollution problems.
- 80% want SWM to continue to maintain structures that remove pollution from stormwater.
- 79% want SWM to continue to help residents and businesses prevent water pollution.
- 77% want SWM to continue to build projects that reduce local flooding.
- 72% want SWM to continue to build projects to restore rivers, lakes, and streams for fish and wildlife.

The ratepayer survey results are available at www.snohomishcounty.wa.gov/3950



Snohomish public meeting: February 10, 2018.

interviews did. Overall, ratepayers at the four locations differed in terms of what they would be willing to pay for SWM services, but they all supported an average residential rate that is higher than SWM's current rate, including the charge paid by ratepayers within the UGA.

Open House Location and Date	Open House Attendees' Average Suggested Single Family Residential Charge per Month
Lynnwood – 2/6/2018	\$14.44/mo
Brightwater – 2/7/2018	\$12.82/mo
Arlington – 2/8/2018	\$11.01/mo
Snohomish – 2/10/2018	\$14.03/mo
AVERAGE	\$13.52/mo
Current SWM Single Family Residential Charge per Month	Rural = \$7.50 Urban (UGA) = \$10.00

Figure 9: Feedback from Open House Attendees Feb. 6, 2018 - Feb. 10, 2018



Brightwater public meeting:
February 7, 2018.

Section 5: Service Level Alternatives

Service Level Alternative Goals

After hearing from stakeholders and ratepayers about how they value and prioritize SWM services, SWM took the next step to determine sets of alternative levels of service and revenues for County Council and Executive consideration. SWM's consultant created a model that developed alternative levels of SWM services and revenues. These alternatives were developed for residential service charges only; a proportionate increase would be applied to service charges for commercial properties.

The goals SWM set for developing service level alternatives were to:

- Stabilize SWM's fund balance and build a 30-day reserve fund
- Address ratepayer, stakeholder and Advisory Panel recommendations
- Maintain compliance with federal, state and local regulations
- Provide alternatives for several service levels
- Develop a long term funding strategy

Base Services

Each alternative is based on SWM's 2017 Council-approved budget. Certain assumptions were made regarding capital programs and payments to external agencies. Additionally, large, one-time projects were excluded. Figure 10 lists the main types of services that are considered "base."

Base Services				
Fiscal, Billing and Administration	River Flooding Services	Road Flooding	Salmon, Shellfish and Marine Resources	Water Quality
<ul style="list-style-type: none"> • Ratepayer communication • Billing • Grant Management 	<ul style="list-style-type: none"> • Levee and dike inspection and maintenance • River gauging • Flood response • FEMA programs 	<ul style="list-style-type: none"> • New pipes, culverts and other infrastructure • Helping ratepayers with private property flooding • Master Drainage Planning 	<ul style="list-style-type: none"> • Salmon recovery • Culvert replacements • Nearshore marine projects • River restoration projects • Shellfish protection • Sustainable Lands Strategy 	<ul style="list-style-type: none"> • NPDES-required activities • Water quality capital projects • Pollution prevention • River, stream and lake health monitoring • Ratepayer education

Figure 10: SWM Base Services

Alternative Future Service Levels

Three service level categories (Figure 11) were developed for consideration, to reflect options for SWM service delivery. “Current Services Enhanced” represents the Advisory Panel’s recommendation for SWM to do more projects, such as building more water quality treatment facilities in the future. “Current Services Maintained” propose service and revenue alternatives that maintain the base services into the future. “Current Services Reduced” propose service reductions that reduce SWM’s ability to provide services valued by the community.

Current Services Enhanced	Current Services Maintained	Current Service Reduced
<ul style="list-style-type: none"> • Maintains current service levels • Implements some or all of advisory panel recommendations • Consistent with ratepayer input for SWM to provide more services • Proactively addresses failing drainage pipes • Replaces more fish passage culverts • Continues financial support to partners and stakeholders 	<ul style="list-style-type: none"> • Maintains current service levels • Financial support provided to partners and stakeholders. • Consistent with ratepayer input to at least maintain current SWM services 	<ul style="list-style-type: none"> • Reduces current service levels by either \$1.1 or \$1.5M in 2019 • At least \$8M in total service reductions by 2024. • Alternative 6 requires progressive staff layoffs • Service reductions impact all SWM programs • Eliminates most funding for partners and stakeholders • Inconsistent with ratepayer and advisory panel input and recommendations

Figure 11: Three Proposed SWM Service Level Categories

Two alternatives were created for each of the three service levels. Figure 12 identifies services in each category and the corresponding residential SWM service charge. The alternatives vary in options – such as whether or not they incorporate a higher rate for residents who live in the UGA, how much SWM services increase or decrease, and how much REET funding is allocated to SWM.

	SWM Services	2019 Annual Residential SWM Charge		UGA Surcharge	2019-2020 REET
Current Services Enhanced					
Alternative 1*	No reductions + \$6.5M/yr enhancements	\$153	\$185	Renewed	\$600K
Alternative 2*	No reductions + \$2.8M/yr enhancements	\$131	\$163	Renewed	\$600K
Current Services Maintained					
Alternative 3*	No change in service levels	\$113	\$145	Renewed	\$600K
Alternative 4*	No change in service levels	\$128	\$128	None	\$2.1M
Current Services Reduced					
Alternative 5*	Cuts of \$1.1M in 2019, no FTE cuts	\$122	\$122	None	\$2.1M
Alternative 6	Cuts of \$1.5M in 2019; 2020-2024 cuts totaling roughly \$8M, FTE cuts	\$90	\$122	Sunsets 2021	\$2.1M

Figure 12: Alternatives by Service Level

* Alternatives 1-5 assume a 2.8% annual COLA increase starting in 2020.

Current Services Enhanced

Current Services Enhanced represents current base services, plus additional services (enhancements) that are consistent with input from SWM's ratepayers, stakeholders and the Ad-Hoc Advisory Panel.

Alternative 1

The Advisory Panel recommended Alternative 1, which provides a wide range of increased services. This alternative incorporates funding for existing SWM programs and funding for additional services, such as increased treatment for stormwater from county roads, and establishes and maintains adequate financial reserves.

Beyond the base services, the Panel evaluated 37 potential enhancements and voted on whether or not SWM should try to fund those enhancements. While many members of the Advisory Panel supported a larger number of enhancements, given concerns about costs, the Panel limited their recommendation to 15 enhancements (Figure 13) which would cost \$6,473,000 more per year. The salmon, shellfish and marine resources category had the largest increase in terms of dollars, primarily due to the Panel's desire to increase the number of fish culverts SWM completed each year by \$2 million. The other high cost enhancement corresponds to spending \$2 million more to identify and repair or replace failing drainage infrastructure.

Under Alternative 1, the county would adopt a 2019 SWM residential service charge of \$153 for 2019 and the existing UGA surcharge of \$32 would be continued. While this may seem like a large rate increase, the rates would be less than the 2018 median rate (\$240) for other Phase I NPDES jurisdictions. (See Appendix 1).

Alternative 2

SWM developed Alternative 2 to address the County Council's concern over the impact of rising service charges on ratepayers. Alternative 2 proposes a more conservative approach that would allow SWM to rebuild depleted reserves and make progress on the Advisory Panel's priorities.

This alternative decreases the amount of recommended enhanced services by 57 percent to \$2,752,000 (Figure 13), eliminating some enhancements and reducing the size of others. Under this alternative, the two most expensive enhancements, fixing failing infrastructure and replacing more fish barriers, are reduced by \$1 million each.

Alternative 1:

- *No service reductions*
- *\$6.5 million/year in enhancements to 15 services*
- *\$153/year non-UGA single family residential rate, starting in 2019*
- *\$185/year UGA single family residential rate*
- *Annual COLA increase*

Alternative 2:

- *No service reductions*
- *\$2.8 million/year in enhancements to 9 services*
- *\$131/year non-UGA single family residential rate starting in 2019*
- *\$163/year UGA single family residential rate*
- *Annual COLA increase*

Under Alternative 2, the county adopts a 2019 SWM residential service charge of \$131 for 2019 and the UGA surcharge of \$32 is continued. Alternative 2 provides the resources needed to address the county's aging drainage infrastructure and ensure clean water for residents and wildlife, although not as comprehensively as Alternative 1.

Enhancement Description	Alternative 1	Alternative 2
Replace older pipes and culverts prior to pipe failure	\$2,000,000	\$1,000,000
Replace 3 to 5 additional fish passage barriers per year	\$2,000,000	\$1,000,000
Provide water quality treatment for county road drainage (2.5 miles/year)	\$1,000,000	
Proactively identify and reinforce (levee) hazard areas before problems occur	\$300,000	
Provide increased technical assistance to residents to implement practices to protect habitat/water quality for lakes, rivers, streams, and marine shorelines	\$240,000	
Work with partners to fully implement Response Plan for shellfish bed downgrades to identify and correct water quality problems	\$200,000	\$100,000
Provide area or basin specific education and outreach	\$200,000	\$200,000
Identify and prioritize fish blockage culverts at all county roads and driveway culverts in ROW within 3 years	\$175,000	\$175,000
Assess older pipes and culverts every 10 years	\$125,000	\$125,000
Develop Steelhead recovery plans	\$70,000	
Add 5-6 additional precipitation gages and 3-5 additional river/stream gages	\$60,000	\$60,000
Strategic planning of more habitat and floodplain capital projects	\$50,000	\$50,000
Update 1 County flood management plan (including climate change impacts) every 2-3 years	\$42,000	\$42,000
Upgrade 13 current gages so all County gages are real-time	\$6,000	
Proactively screen for toxic algae at 5-6 problem lakes and post signs at those lakes	\$5,000	

Figure 13: The Panel's 15 enhancement recommendations

Current Services Maintained

This set of alternatives maintains SWM's 2017 base program (Figure 10). Under Alternatives 3 and 4, SWM retains current staffing levels and adds one new staff person every three years to keep pace with NPDES compliance activities required with new development.

One concern with only maintaining base services is that, given the age of the county's infrastructure, more pipes, culverts and facilities will start to fail. SWM would need to either reduce/eliminate other priority services or find additional resources to cover repairs.

Alternative 3

This alternative maintains base services under SWM's current rate structure. Increased revenues would primarily be generated by an increase in SWM service charges.

The county would adopt a 2019 residential SWM service charge of \$113 and the UGA surcharge of \$32 is continued. This alternative assumes SWM receives \$600,000 per year from REET, or another county revenue source which would help preserve REET funds for other county priorities.

Alternative 4

This alternative maintains base services by changing SWM's rate structure.

The county would adopt a 2019 residential SWM service charge of \$128, but the UGA surcharge would be discontinued at the time of this rate increase. This alternative assumes SWM receives \$2.1 million annually from REET, or another county revenue source, in 2019-2020 to help stabilize SWM's reserve fund. Without the additional REET revenues, the service charge would be higher than \$128.

Alternative 3:

- *No service reductions*
- *\$113/year non-UGA single family residential rate, starting in 2019*
- *\$145/year UGA single family residential rate*
- *REET II in the amount of \$600,000 in 2019 and 2020*
- *Annual COLA increase*

Alternative 4:

- *No service reductions*
- *\$128/year single family residential rate, starting in 2019*
- *REET II in the amount of \$2.1 million in 2019 and 2020*
- *Annual COLA increase*

Current Services Reduced

Alternatives 5 and 6 propose no or minimal increase in SWM's annual service charge. Under these alternatives, SWM services would be reduced.

Alternative 5

Alternative 5 is based on a combination of a modest increase in SWM service charges and moderate cuts to SWM services.

The county would adopt a minor increase in the annual residential service charge to set it at \$122 for 2019, and the UGA surcharge of \$32 would be eliminated, thus creating a uniform, countywide rate. This alternative assumes SWM receives \$2.1 million from REET, or other county revenue source, in 2019-2020 to help stabilize SWM's reserve fund. Without the additional REET revenues, the service charge would be higher than \$122.

This alternative requires service reductions totaling \$1.4 million, impacting Water Quality services the most. Service reductions include eliminating payments to partners, reductions in the Lakes program and elimination of the inspection and maintenance of some non-NPDES County-owned stormwater facilities. In addition to specific reductions to programs, SWM would continue a hiring freeze initiated in 2018.

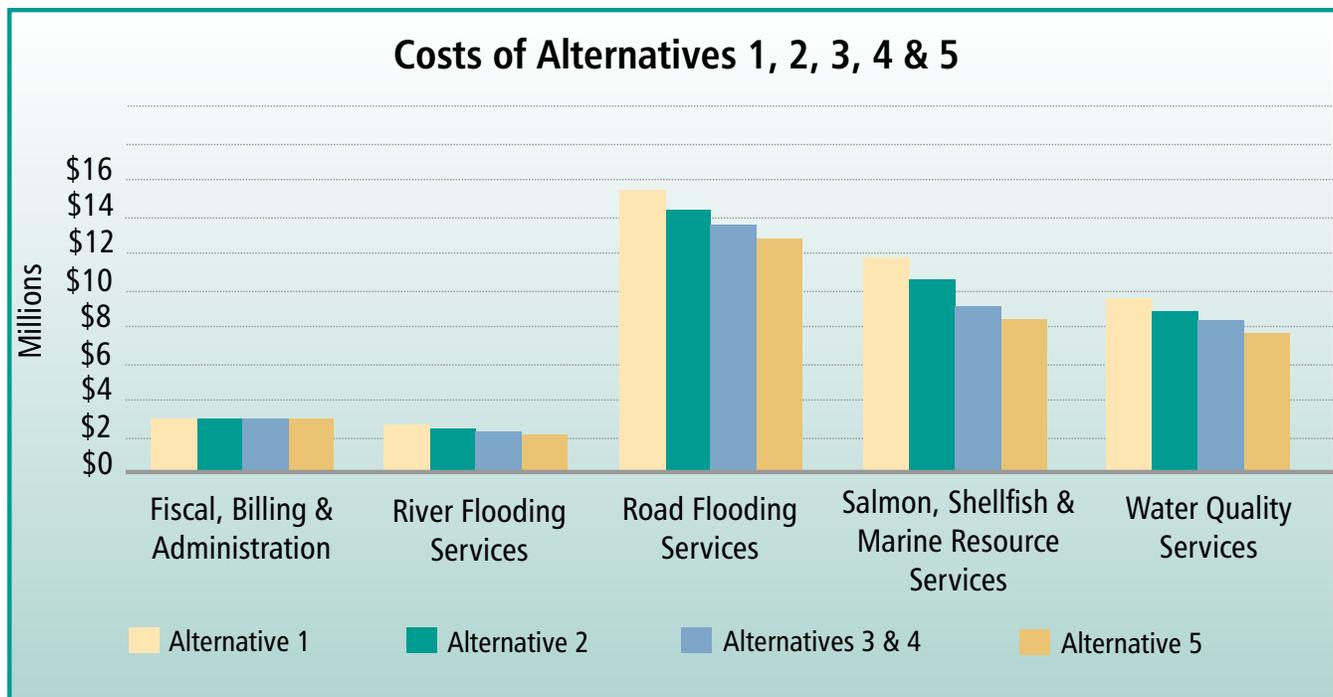


Figure 14: Costs of Alternatives 1-5

Figure 14 shows the breakdown for the cost of service levels for Alternatives 1,2,3,4, and 5. Alternative 6 is not shown because it is a No Action alternative.

Alternative 6

Alternative 6 is the “no action” alternative, meaning that SWM’s rates would remain unchanged and would not increase with inflation. This alternative assumes that SWM receives \$2.1 million from REET, or another county revenue source in 2019-2020 to help lessen the full extent of cuts needed. Alternative 6 assumes there will be a reduction of \$1.5 million of REET II funds starting in 2021. Additionally, Alternative 6 assumes the UGA surcharge will sunset at the end of 2021 resulting in a reduction of \$3.4 million annually starting in 2022 (Figure 15). Without any additional utility revenues, existing SWM programs and projects (base services) would be reduced by approximately \$8 million by the end of 2023 (Figure 16). Roughly one-third of SWM’s full time staff positions would also be eliminated under this option, as services are eliminated or significantly reduced (Figure 17).

This alternative may compromise SWM’s long-term ability to maintain a necessary Level of Service (LOS) and investment identified in the Snohomish County Comprehensive Plan and Capital Facilities Plan. These plans require a commitment that SWM invests a minimum of \$8.35 million of surface water-related projects within a six-year period. The county and SWM must also ensure NPDES permit compliance and meet the ongoing costs for implementing this permit as a priority.

Future Concerns

Two concerns relating to the successful future implementation of any of the alternatives need to be acknowledged in the decision making process.

First, the Advisory Panel and SWM both recommend incorporating an annual rate adjustment of 2.8 percent to keep up with rising costs from inflation. The 2.8 percent is based on an analysis of inflation over the last five years. Alternatives 1 through 5 incorporate this annual rate adjustment, but Alternative 6 (the no action alternative) does not. If an annual rate adjustment is not included, SWM’s buying power will continue to be reduced, ultimately resulting in reduced services.

Second, events that are difficult or impossible to predict may occur and could affect service levels. Some examples are higher-than-anticipated increases in the cost of meeting requirements of the upcoming 2019 NPDES permit, or a potential emergency situation arising from failed infrastructure or river flooding. Some of the alternatives offer a bit more flexibility to address issues such as these, while others do not.

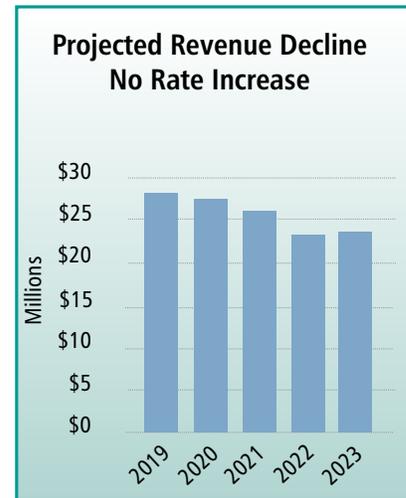


Figure 15

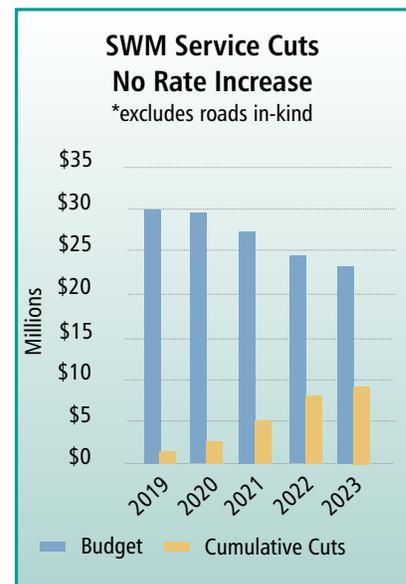


Figure 16

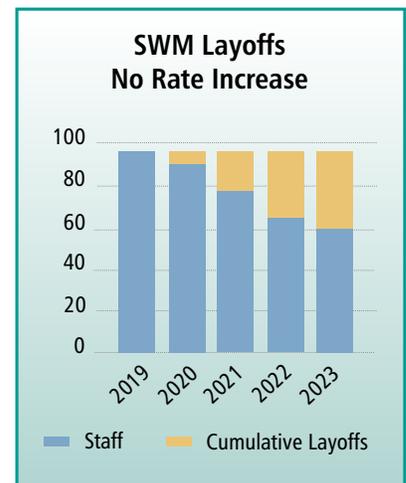


Figure 17

Section 6: Summary

SWM provides a range of vital programs and services that reduce road and property flooding and help ensure Snohomish County's rivers, streams and lakes are healthy for people and wildlife. SWM is addressing a revenue shortfall caused by an increased need for services, an increase in the cost of services, a decrease in non-rate revenues, and a utility rate that has remained unchanged since 2009. Over the years, SWM has taken steps to increase efficiency and reduce waste, however, further efficiencies will have only a minor impact on SWM's financial position. In the long-term, pathways to address SWM's fiscal challenge come down to reducing valued services and/or increasing the annual SWM service charge.

SWM reached out to an Ad-hoc Advisory Panel, stakeholders and ratepayers through the Business Plan process to learn about the public perspective on the range of SWM services and the value these services bring to our community. This effort revealed a general consensus that SWM should:

- Continue the services SWM has been providing
- Implement new, or enhanced services in 15 areas including:
 - Replace more failing drainage pipes
 - Replace more fish passage barriers
 - Remove pollutants from county road runoff
- Increase SWM service charges to fund the recommendations
- Implement annual rate adjustments to address inflation

This Business Plan identified three service level categories. The categories are increasing, maintaining or decreasing levels of service. Each category for level of service provides two alternative approaches. Alternatives 1 and 2 increase levels of service; Alternatives 3 and 4 maintain base levels of service; and Alternatives 5 and 6 decrease levels of service. SWM's base services were defined as consisting of most of the programs and services included in the Council-approved 2017 budget.

In order for Alternatives 1 through 5 to be successful, SWM would need to have a long-term stable funding strategy that includes annual rate adjustments. The annual rate adjustments allow SWM's revenues to keep pace with rising costs of inflation over time. Without an annual rate adjustment, SWM's



Preserving the county's resources for future generations.



SWM, working with the Lake Ketchum community, helped restore Lake Ketchum so families can safely play and enjoy the lake.



The Smith Island estuary restoration project included the removal of several thousand feet of dike and excavation of 18 channel connections to a tidal channel in the Snohomish estuary.

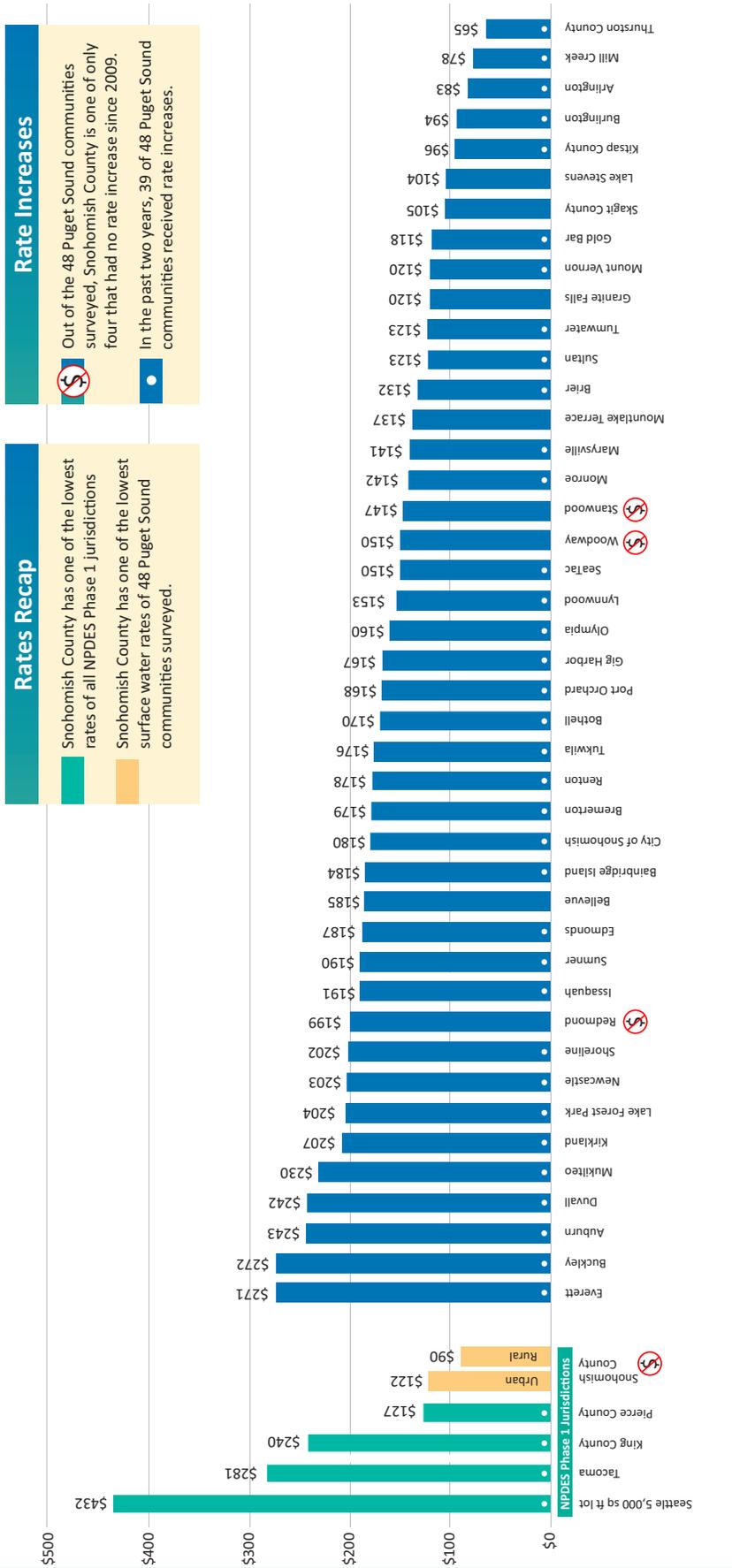


revenue will begin to lose purchasing power by about 2.8 percent per year beginning one year after a rate increase. This will require SWM to take actions to evaluate and cut services and eventually request additional rate increases.

Without additional revenues, SWM will implement Alternative 6, which will require significant cuts to SWM services and layoffs of staff in the coming years.

Appendix 1

2018 Single Family Annual Surface Water Service Charges 48 Puget Sound Communities (January 2018)



Rates Recap

Snohomish County has one of the lowest rates of all NPDES Phase 1 jurisdictions

Snohomish County has one of the lowest surface water rates of 48 Puget Sound communities surveyed.

Rate Increases

Out of the 48 Puget Sound communities surveyed, Snohomish County is one of only four that had no rate increase since 2009.

In the past two years, 39 of 48 Puget Sound communities received rate increases.

NPDES Phase 1 Jurisdictions Current Snohomish County rates Rates not increased since 2009 Rate increases in past 2 years