COON CREEK WATERSHED DISTRICT
Request for Board Action

MEETING DATE: May 9, 2016
AGENDA NUMBER: 17
ITEM: Revenue Policies & Projections

AGENDA: Discussion

ACTION REQUESTED
1. Review, discuss and receive the report
2. Direct staff to review the changes in time and cost for review and inspection of permit application projects

BACKGROUND

Revenue Projections
The District Administrator is responsible for compiling all revenue estimates contained in the budget. Estimates are arrived at by studying relevant revenue history along with economic trends and indices when available.

Coon Creek Watershed District
Major Revenue Source Comparison

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Following are individual graphs of the major revenue sources over the last seven years. Included are brief descriptions of each source and explanations of any variances over the same time period.
General Property Taxes
Property taxes are a revenue source in the General and Special Revenue Funds. This revenue source is primarily used in the General Fund and is determined on the basis of the availability of other revenue sources and the expenditure level necessary to conduct District business in accordance with Board policy and directives. The original goal for the 2016 budget for property taxes was commitment to maintain the District Tax Rate Capacity in a manner consistent with the needs of the organization to ensure the long-term responsiveness, efficiency, staffing and capital requirements.

The Board, by recognizing the impact of growth on water and related resources and acknowledging community economic concerns, were able to move toward an appropriate baseline of District services.

Charges for Services
Charges for services comes from a variety of sources in the General and Special Revenue Funds; such as project engineering and permit review and inspection services to residential and commercial developers, drainage, mapping and inspection services to cities, and other miscellaneous charges for dedicated use of District staff. Over the past few years, the District has continued to grow and this is expected to continue in 2017 and beyond.
**Investment Income**

This revenue source is in all funds. Investment income is interest earned on investments managed by Anoka County and is allocated to the General Fund. Revenues from this source are dependent on interest rates and cash balances available for investment. The fact that yields in the market are so low on the investments the District is allowed by Statute to invest in.

**Special Assessments**

Special assessments are a revenue source in the Capital Projects Funds and typically assigned to specific ditches or used to reimburse the general fund or special revenue funds for specific projects. Current Special Assessments are used for reimbursement of capital projects financed internally. The 2016 budget is based on special assessment payment schedules and reflects early payoff by property owners of a five year special assessment for a culvert replacement and removal of an obstruction related to a private crossing of Ditch 58-6.
Grants
This revenue source is accounted for separately but may provide funds specific to activities covered by the grant. Grants may be Federal, State or Private. Grants received by the District address Administration of the State Wetland Conservation Act, Clean Water Partnership Grants, Natural Resource Block Grants and WRAP Grants. Since 2010, State Grants have operated largely on a reimbursement and performance basis. Depending on the size or length of time of the activity or project, floating District funds to accomplish grant objectives makes liquidity, fund balance management and the cost of application, as well as required modification of work methods and project reporting significant factors in the decision to apply.

Other Income
This revenue source stems largely from fund balances. Large fund balances existed prior to 2010 that were spent down and funded needed projects and intended to act as an emergency reserve. Severe weather straight line winds and tornados in 2009 and 2010 resulted in an exhaustion of those funds and a return to the need to budget specifically for non-routine maintenance. In 2016 work needed on specific ditch sections allowed the access of ditch project fund balances collected originally through ditch assessments and a redetermination of benefits in the late 1980s.
ISSUES/CONCERNS
The District has adopted eight policies relating to revenue and financing projects. The following is a review and discussion of progress on implementing or complying with those eight policies.

1. **Diverse and stable revenue sources:** The District will attempt to maintain a diverse and stable revenue system to shelter it from short run fluctuations in any single revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of economic downturns.

- Historically the District has pursued this policy through the use of ditch assessments and a combination of special revenue funds restricted to special uses such as data collection or ditch repair.

   The cost of implementing and administering a ditch assessment, plus the uncertainty of successfully completing the process required by the Drainage Law (103E & 103D) and actually conducting the project without the majority of cost going to overhead, created enough uncertainty that the District sought other methods, namely common benefit projects and the CIP that is part of the Districts’ approved Comprehensive Plan.

   Secondly, the benefits of water resource projects such as drainage, flood control, water quality need to be articulated and quantified for special assessments but are typically extremely integrated and extend well beyond where the actual work is being conducted. This fact often makes local payment for local projects impractical.

   Thirdly, the arrival of the water quality era, the ubiquitous nature of the issue and the timing required by EPA and MPCA for compliance emphasize the need for stability of funding over diversity and a reliance on property tax.

   An alternative would be charging a runoff fee in the place of a property tax, much like a stormwater utility, spread the cost over tax forfeit properties and provide a reduction in fees for establishment and maintenance of Best Management Practices that support local water management goals. Conducting a thorough review of water management funding is part of the District’s long term work plan and is currently scheduled for 2018.

2. **Revenue Collection:** The District will follow an aggressive policy in collecting revenues

- This policy is best applied to the collection of review and inspection fees. At present applicants for District permits are charged direct time and materials plus overhead for staff reviewing and working on their project. Time is charged in
fifteen minute increments and a complete accounting of staff time and activities posted to a project is provided when the project is complete.

3. **Annual Review of Fees and Charges:** The District will review fees and charges annually in order to keep pace with the cost of providing the service or that percentage of the total cost deemed appropriate by the District, and will conduct a public hearing or adopt a policy, as required by law, prior to setting fees and charges.

- The current procedure for applying and collecting fees and charges is that applicants must have their account paid up prior to receiving either a review of their project. The amount collected is based on a review and standard costing of similar projects. Projects are charged direct time and materials plus overhead for review and inspection of their project. Time is charged in fifteen minute increments and a complete accounting of staff time and activities posted to a project is provided when the project is complete.

This policy was last reviewed and updated in 2013. Since that update the District has experienced an increase in the complexity and requirements for erosion and sediment control, flood control, water quality control and the need to be ever aware of the effect of stormwater on groundwater and public water supplies. The increase in requirements has increased to standard time used for calculating the typical project used for the review and inspection fee and should be reviewed as part of the 2017 budget process.

4. **Comparison of charges and rates to other water management Organizations:** The District will consider market rates and charges levied by other public and private organizations for similar services in establishing taxes, fees and charges.

- The District annually compares the tax capacities, levies and the levies per acre of the other watershed districts within the metropolitan area. Coon Creek is often near the bottom of all analysis except District tax capacity.
5. **Funding Projects and Services of common-benefit through District-wide revenues:** The district will allocate District-wide revenues to funds which provide services to the entire Watershed District

✓ As previously indicated, the majority of projects and services provided by the District are integrated enough that the time and effort required to separate out how much of a project is water quality versus flood control or how much a service benefits Fridley versus Ham Lake very quickly achieves the point of diminishing returns. For this reason most projects and services in the past decade have focused on the main stem and tributaries of the watershed and funded as common benefit projects.

6. **Accounting for Available Fund Balances:** All revenues, reasonably expected to be unexpended and unencumbered at the end of the year, will be anticipated as “available fund balance” in the budget the following year.

✓ Accounting for, and using available fund balances is embedded in the budget process. In recent years those balances have been so low that they do not account for or contribute as a meaningful revenue source. This is largely because of restrictions on the use of some of those funds or the reauthorization of budget items into the next year.

7. **Invest Cash Holdings:** The District will attempt to invest all cash holdings through Anoka County and maximize those holdings with an effective payment policy.

✓ In September 2015 the District Board met with Cory Kampf, Manager of the County Finance and Central Services Division. The purpose of the meeting was to conduct an in-depth review and explanation of the District’s investments and interest earnings and the opportunities and constraints of investing public funds.

The plan worked out is contingent on the District providing a cash management budget to the county coordinated with the receipt of tax revenues in July 2016

8. **Tax Locally for Local Projects:** To impose a localized tax to finance projects and programs, the demand for, or need is created by, and attributable to a localized, definable portion of the watershed. The tax shall be used only for those projects and programs for which the need is attributable to the area being taxed.

✓ With the implementation of the federal TMDLs for Coon, Sand Pleasure and Springbrook Creeks, the Board may want to consider a subwatershed approach. This approach may be the best fit and most prudent and equitable overall. At the same time, the Board can anticipate projects whose cost exceeds the practical ability to be paid for on a subwatershed basis even with grants.
PRIOR DECISIONS
n/a

OPTIONS
n/a

RECOMMENDATION
1. Review, discuss and receive the report
2. Direct staff to review the changes in time and cost for review and inspection fees of permit application projects