



# Indiana comparative rate study: stormwater

SUMMARY REPORT OF COMPREHENSIVE SURVEY

April 2022



*This study was made in partnership with Accelerate Indiana Municipalities (Aim).*

## Contents

This report summarizes a study of rates for stormwater provided by many municipally owned utilities in Indiana. The survey is based upon information provided by municipal utilities as of December 2021.

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## Preface

Baker Tilly Municipal Advisors, LLC has been a leader in municipal advisory services for governmental entities for more than 90 years. As one of the largest and most active independent municipal advisors and rate consultants to governmental units in Indiana, Baker Tilly Municipal Advisors are uniquely qualified to provide this analysis of municipal sewage rates and charges.

We are happy to provide this study because we feel it is a vital resource to local government decision-makers around Indiana. Accurately comparing local rates and charges with those of similar utilities is an important tool to assist utility managers and decisions-makers.

## Disclaimers

In our work, we are frequently asked how a community's stormwater rates compare to those in the next community. It is natural that both government officials and citizens ask this question, and this report will help answer it. This report and the question it answers, however, do have limitations.

Comparing a residential bill between two different utility systems tells you what a customer on each system pays but doesn't tell the complete story. Differences in operating characteristics, staffing, customer makeup, impervious area resulting in runoff, capital improvement needs, and many other factors all impact the utility's cost structure and, therefore, its rate structure as well. Without taking these factors into consideration, the user could reach incorrect conclusions regarding the differences in stormwater bills from one utility to the next.

Preparing this report requires collecting and analyzing rate data that to some extent is in a perpetual state of change. The information contained in this report is as accurate as we are able to make it as of the data collection cutoff date.



# American Rescue Plan Act (ARPA)

## Use of Coronavirus State and Local Fiscal Recovery Funds (SLFRF)

The American Rescue Plan Act (ARPA), signed into law on March 11, 2021, allocated \$350 billion in COVID-19 pandemic-related aid to states, territories, tribes and local governments. This included \$130.2 billion in state and local fiscal recovery funds to local governments, the interim final rule released by the Treasury Department in May 2021, which provided guidance as to the eligible uses of SLFRF dollars, has now been superseded by the final rule released on Jan. 6, 2022, and effective April 1, 2022. The final rule preserves the interim rule's focus on promoting a strong, equitable recovery by:

- Supporting COVID-19 response efforts
- Replacing lost public sector revenue
- Economically stabilizing impacted households and businesses
- Addressing the systemic public health and economic inequity borne by certain populations

The final rule also generally maintains previously authorized eligible uses:

- Respond to public health (COVID-19) and negative economic impacts
- Respond to workers performing essential work during the pandemic including premium pay
- Replace lost revenues for governmental services
- Make necessary investments in water, sewer (including stormwater) or broadband infrastructure

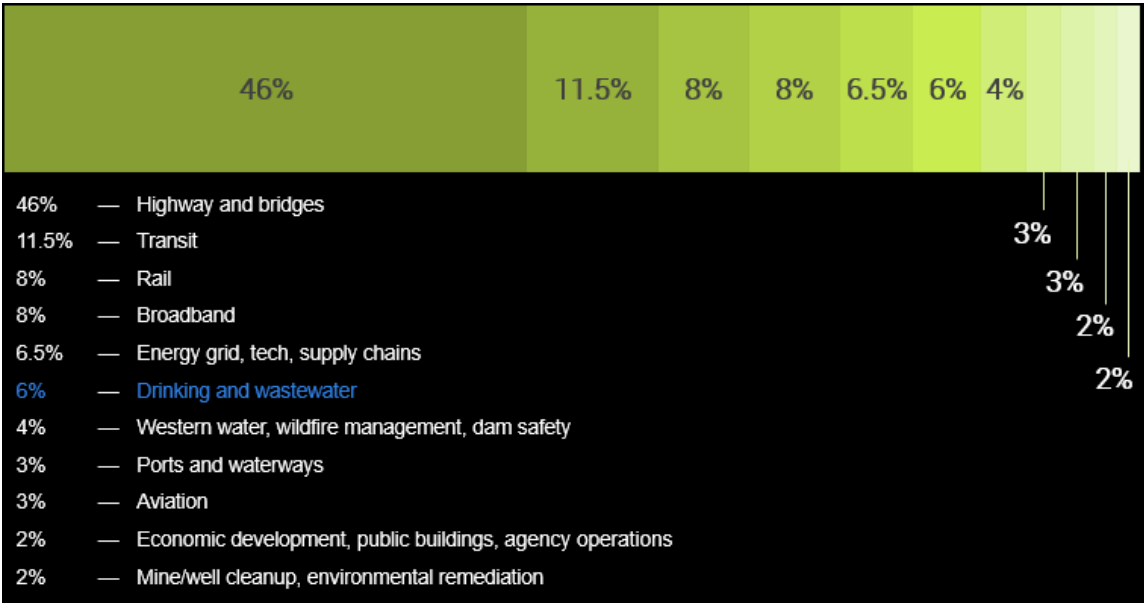
Is your stormwater utility already seeing rates higher than average, but also have a large project looming that you will not be able to pay with cash on hand? Or is there local pressure to keep rates as low as possible, but you also have large capital projects that need to be done immediately? SLFRF can be used to pay for or buy down some of the total project costs, which will effectively reduce the impact of the rate increase needed to fund those projects. Below is a list of capital projects related to stormwater utilities that SLFRF can pay for:

- Management and treatment of stormwater or subsurface drainage water
- Reuse or recycling of wastewater, stormwater or subsurface drainage water
- Repair, resizing and removal of culverts, replacement of storm sewers and additional types of stormwater infrastructure



# Infrastructure Investment and Jobs Act (IIJA)

President Biden signed into law the \$1.2 trillion bipartisan Infrastructure Investment and Jobs Act (IIJA) on Nov. 15, 2021. Of this amount, approximately \$650 billion represents the reauthorization of existing spending and \$550 billion represents new funding. The graph below illustrates the breakdown of funding over the next five years.



The IIJA represents a massive amount of new investment to address our country's aging infrastructure replacement needs, including much-needed water infrastructure. This includes a nearly \$14.7 billion investment in water infrastructure over the next five years. Indiana alone will be receiving an estimated \$751 million in funding specifically for water, stormwater and wastewater infrastructure projects focused on projects that involve economically distressed areas, small and disadvantaged communities, lead pipe remediation projects and lead contamination in school drinking water.



## Baker Tilly COMPASS

Given the sheer volume of funds being distributed and the numerous federal and state programs involved in administering those dollars, it becomes vital that local governments approach and plan for these dollars in a holistic and strategic way. Baker Tilly has developed an approach that we call COMPASS that focuses first on the municipality's driven goals and needs in order to identify and align the proper funding source with the project need. It takes into account all potential funding sources, including both competitive and noncompetitive ARPA and IIJA funds, state and local funds as well as debt financing. This approach is to ensure the municipality utilizes and leverages all resources available to it. The graph below illustrates the steps involved in COMPASS to help place the municipality on the road to success.







# Indiana comparative rate study: stormwater

## General stormwater information

### Charging for stormwater

You wouldn't think of operating a municipal water utility without charging for the water or billing a separate user fee to handle sanitary wastewater treatment. Similarly, initiating a charge for handling stormwater should also be considered. Historically, municipalities have often funded stormwater-related projects through wastewater utilities and other available funds. Now more than ever, municipalities are looking to identify the services local governments provide to residents and businesses, such as stormwater, and recapture the actual costs of providing each service.

### EPA and IDEM mandates

Stormwater quality and pollution prevention may not be something your average constituent thinks about. The people in your community tend to take it for granted as part of the group of general services their municipality handles for them. But the costs of handling stormwater have increased as the EPA and Indiana Department of Environmental Management (IDEM) have mandated compliance with the Phase II Rule that requires Municipal Separate Storm Sewer System (MS4) entities to develop stormwater quality management programs and apply for stormwater permits. IDEM has designated more than 150 MS4s in Indiana, including cities, towns, counties and universities. It is likely your community may be among those designated. Even if it is not, your community may get drawn into it, plus more progressive communities have the opportunity to consider implementing stormwater services and fees. A complete list of the MS4 communities can be found on IDEM's website: <http://www.in.gov/idem/stormwater/2333.htm>

### Alleviate stress on your general fund budget

Your community, like many others, has probably experienced general fund reductions due to economic conditions or property tax caps. Additionally, there is a macro trend toward finding revenue sources to reduce reliance on property taxes. Before reducing services or overhead to balance budgets, consider implementing stormwater rates and charges to pay for the stormwater-related costs. Removing the MS4 mandate costs from the general fund budget can be a great help, freeing up funds for other budget expenditures such as police or fire.

**Removing MS4 mandate costs from the general fund can free up funds for other budget expenditures such as police or fire.**



## Indiana comparative rate study: stormwater

### General stormwater information (cont.)

#### Setting up the stormwater utility

There are several ways to set up a stormwater utility. Your community can set up a separate stormwater utility or district or use the existing sanitary sewage works or sanitary district to operate and fund the stormwater system as defined in further detail below. There are advantages and disadvantages to each. Depending on the set up of the utility, there is limited ability to pay for capital expenditures and debt service from property tax revenues due to statutory bonding capacity limits. Property taxes cannot be used to pay for operation, maintenance and repair expenses, so these costs need to be paid from stormwater user fees. Although the costs to provide stormwater services can be funded from a combination of property taxes and user fees, it is more common for all costs to be funded with stormwater user fees.





# Indiana comparative rate study: stormwater

## Funding mechanisms available

Once a plan and a budget are established, the community must now face the challenge of funding the budget. Currently, four main mechanisms are available to stormwater-affected communities. These mechanisms are the creation of a stormwater utility or district, use of the existing sewage utility or sanitary district, formation under city, town or redevelopment district, and involvement of a county drainage board. The paragraphs below contain a description of the mechanisms and a comparison illustrating the advantages and disadvantages of each.

### 1. Create a stormwater utility or district

This is a mechanism in which the community forms a separate stormwater utility or district that will provide the necessary stormwater services. It is established through ordinance, and the governing body depends on the type of entity formed. Once formed, a special taxing district may be established depending on the applicable territory. For a consolidated city, all territory of the county containing the consolidated city is usually included (Indianapolis and Marion County). For all other municipalities, all territory within the corporate boundaries of the municipality is usually included. For a county, all the territory in the county that is not located in a municipality is usually included.

The board of the entity is then given certain authorities so it may perform the duties of providing stormwater-related services. It must hold hearings following public notice, install and maintain the stormwater collection and disposal system, and make stormwater system improvements as needed. In order to fulfill these duties, the board is authorized to fund operations and improvements through proceeds from special taxing district bonds (supported by property taxes), user fees, revenue bonds (supported by user fees) and any other available funds.

### 2. Use an existing sewage utility or sanitary district

Instead of forming a new stormwater entity, a community may use an existing sewage works system or sanitary district for stormwater operations. It has the same duties and obligations as a newly formed stormwater entity. Stormwater operations and improvements may be funded through user fees, revenue bonds (supported by user fees) and proceeds of special taxing district bonds (sanitary districts only). Unlike a stormwater district or sanitary district, a sewage works does not have taxing authority.



## Indiana comparative rate study: stormwater

### Funding mechanisms available (cont.)

#### 3. Form under a city, town or redevelopment district

In addition to new stormwater entities or the use of existing sewage utilities, cities, towns and counties have various other funding options available to them, which may be used to fund stormwater requirements. However, these funding options typically fund general governmental operations, and stormwater needs are just one of these competing needs. Options available include property taxes, local option income taxes, TIF revenues, general obligation bonds, revenue bonds backed by TIF or local option income taxes, impact fees, cumulative capital funds, and redevelopment district leases or bonds. In the past, cities, towns and counties commonly used street department or general fund revenues to fund stormwater needs. While these are certainly options, they are subject to statutory constraints or competing needs and may not always be available in the future.

#### 4. Involve a county drainage board

Another option is for the county to provide stormwater services. The drainage board has the same powers and funding options available as the others, and it can assess properties benefited for cost of stormwater operations and improvements. These assessments then could be used to secure bonds.

### Determining the cost of handling stormwater

As you begin considering how to set stormwater rates, you need to determine the actual costs of providing the service. Stormwater rates and charges are subject to the same statutory requirements as other utilities; they must be fair, just and nondiscriminatory.

The costs of MS4 mandates you will want to cover with a special rate include implementing best management practices to reduce stormwater runoff and pollution, such as street sweeping and stormwater inlet cleaning. Other costs include public education and outreach, reporting requirements, erosion and sediment control plan reviews, site inspections and illicit discharge inspections.



## Indiana comparative rate study: stormwater

### Control measures and stormwater user fees

#### Six minimum control measures

Many of the stormwater operational costs stem from the required best management practices and the achievement of measurable goals to satisfy each of the six minimum control measures as mandated by EPA and IDEM. Below are the required six minimum control measures:

- Public education and outreach
- Public involvement and participation
- Illicit discharge detection and elimination
- Construction site runoff control
- Post-construction runoff control
- Pollution prevention/good housekeeping

#### Stormwater user fees

There are many options for setting a stormwater utility fee. Some communities have adopted a flat fee for all users and properties, regardless of size or characteristic. This is more prevalent when setting initial rates and when the monthly fee is small. It is most common in Indiana to institute a flat monthly charge for all residential households (known as an equivalent runoff unit or ERU) and establish a nonresidential property charge based on the amount of impervious area. This is a fair way to assess costs since a large commercial building has more runoff than a residence. If you are worried about schools, industrial and commercial facilities and shopping malls paying large monthly stormwater bills, you can make credits available to large nonresidential properties that assist with public education or construct improvements to help reduce stormwater, such as sediment ponds, swales or detention or retention facilities.

#### **Most common in Indiana**

**One rate for residences**

**A second rate for nonresidential**



## Indiana comparative rate study: stormwater

### Statewide average rate and count of Indiana communities in study

#### What's a reasonable rate?

It is a good idea to benchmark your proposed stormwater rate to nearby communities and similar-sized municipalities. Baker Tilly has worked with many cities, towns and counties as they have implemented stormwater rates and developed stormwater projects.

Based on a sample size of 125 Indiana stormwater utilities, the average residential rate is \$5.74 per month, with residential rates ranging from \$1 to \$18.76 per month.

#### Average residential rate

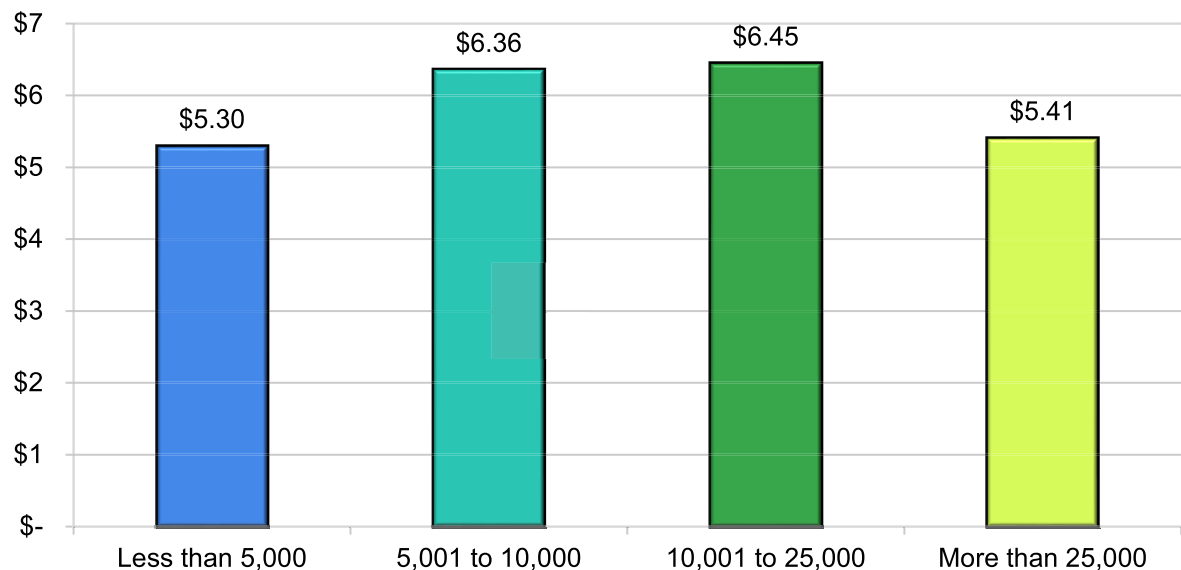
2012 = \$5 per month

2016 = \$5.36 per month

2019 = \$5.62 per month

2021 = \$5.74 per month

**Average monthly residential rate by population - 2021  
compared to statewide average (\$5.74)**



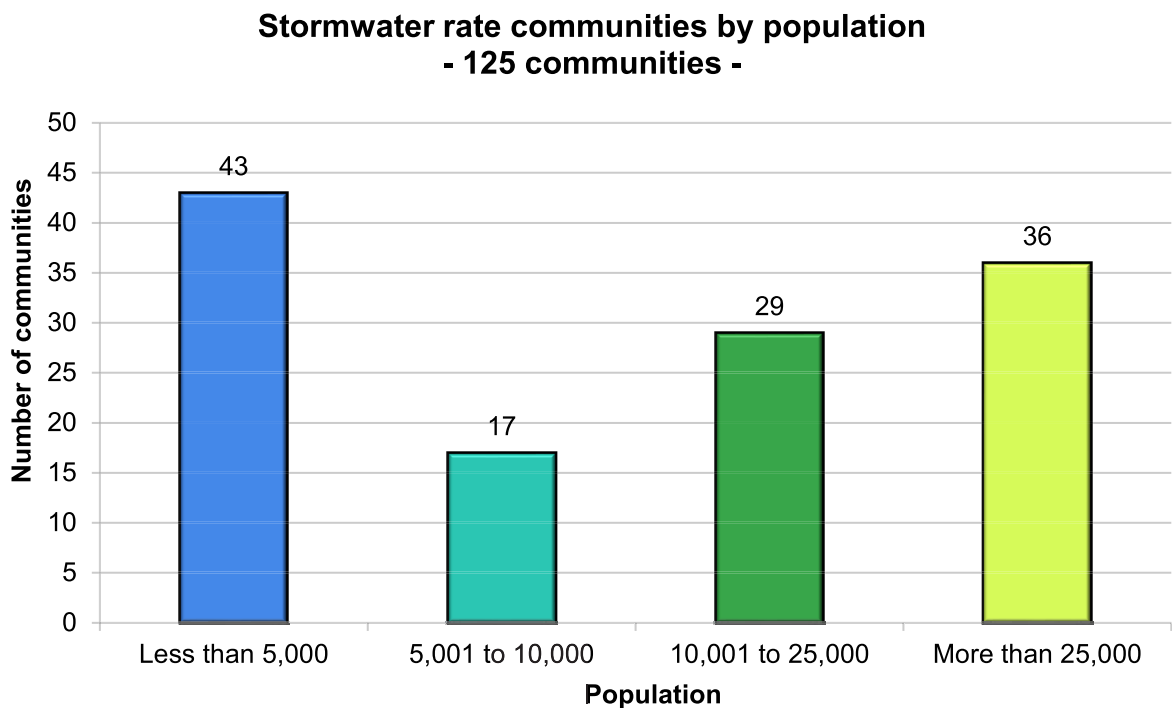


## Indiana comparative rate study: stormwater

### Statewide average rate and count of Indiana communities in study (cont.)

#### How many communities have stormwater rates?

Our study includes 125 municipalities in Indiana with stormwater rates, which is up from the 121 in our last study, based on our client base and research. The chart below shows these communities categorized by population.





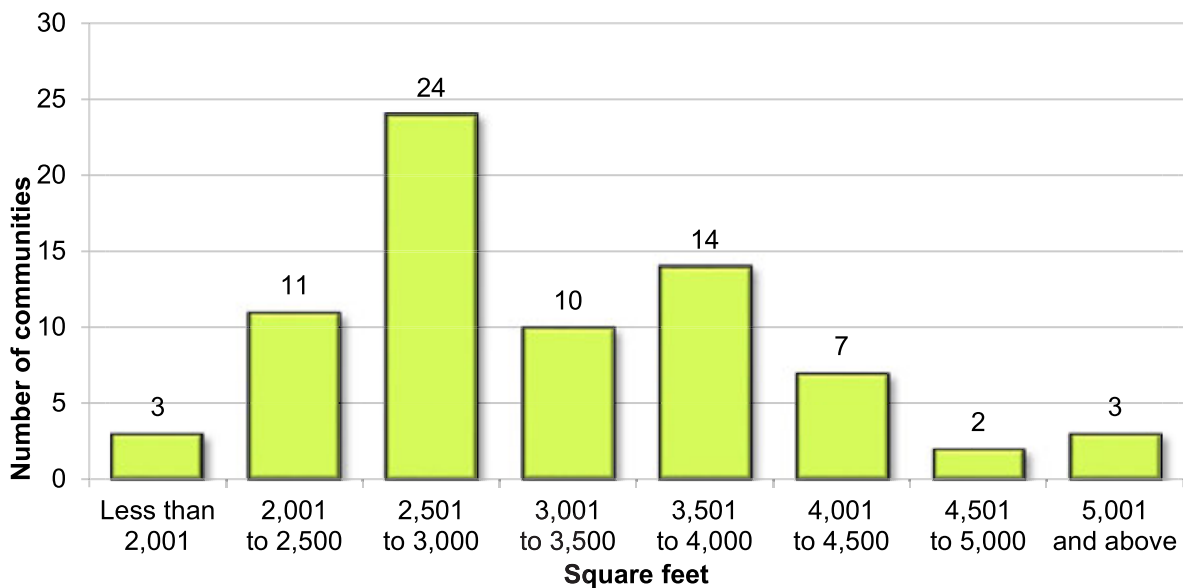
## Indiana comparative rate study: stormwater

### Impervious area and effective dates of stormwater rates

#### Impervious area

Seventy-four municipalities in our study have utilized impervious areas as a basis for determining stormwater rates. Residential impervious areas range from 1,650 square feet to 12,000 square feet. The average residential impervious area of the 74 municipalities is 3,370.

Number of municipalities by impervious area





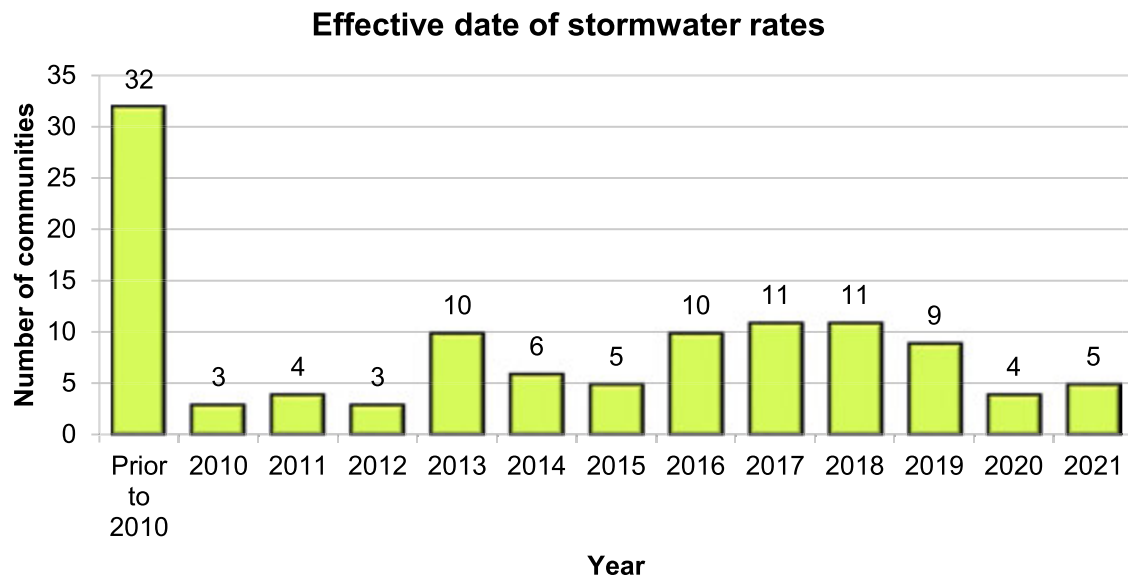


## Indiana comparative rate study: stormwater

### Impervious area and effective dates of stormwater rates (cont.)

#### Effective date of stormwater rates

The chart below shows the effective dates of stormwater rates for 113 of the 125 municipalities included in our research. Of the 113 municipalities, 35% have adopted new stormwater rates within the last five years.



#### Need help?

Please connect with us if you would like assistance with:

- Working as a team with your staff and consulting engineers to create a financial plan for stormwater projects and to comply with MS4 mandates
- Relieving the stress in your wastewater or general fund budgets
- Assistance with stormwater utility management options
- Recognizing the actual costs for stormwater
- Identifying funding options for stormwater projects
- Creating a stormwater rate structure



## About Baker Tilly

### Baker Tilly Municipal Advisors

Baker Tilly's strategic combination with Springsted and Umbaugh in 2019 has created one of the nation's largest municipal advisory practices. Our team of Value Architects™ collaborates with public sector organizations to help resolve financial issues to improve operations and build stronger communities. Baker Tilly Municipal Advisors (BTMA) is a leader in providing municipal advisory services related to the planning and financing of capital projects through the issuance of long-term municipal bonds.

BTMA is a top ranked national practice in debt management and municipal bond issuances. In 2020, we were the third-ranked municipal advisory firm by number of municipal bond transactions. Our professionals work with numerous sophisticated issuers and have the experience and expertise needed to tackle complex financings of any size.

We are municipal advisors to:





## About Baker Tilly

### Baker Tilly Municipal Advisors (cont.)

#### Municipal advisory services



#### Connect with us

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## About Baker Tilly

### Independence

BTMA is an independent municipal advisory practice. Our role is distinguished from others in the working group due to our fiduciary responsibility – advocating for our clients with no competing interest. Baker Tilly, along with its legal advisors, have carefully researched MSRB And SEC regulations and professional accounting standards and concluded that municipal advisory and accounting services, absent special circumstances, can be provided to a client. This proven approach has not hindered the marketability of an issuer's bonds.

### Baker Tilly

Baker Tilly US, LLP (Baker Tilly) is a leading advisory CPA firm, providing clients with a genuine coast-to-coast and global advantage in major regions of the U.S. and in many of the world's leading financial centers. Baker Tilly is a member of Baker Tilly International, a worldwide network of independent accounting and business advisory firms in 148 territories, with 36,000 professionals and a combined worldwide revenue of \$4 billion.

Baker Tilly has a specialized public sector practice whose dedicated professionals guide government entities through an ever-changing environment. Our team helps governments, utilities and school districts pursue growth goals, meet financial obligations and build stronger communities with effective accounting, audit, tax, municipal advisory, financial management, performance optimization, talent management, executive recruitment and economic development services.



**This study was made in partnership with  
Accelerate Indiana Municipalities (Aim).**

**Indiana comparative rate study: sewer (April 2022)**

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