

# City of Flagstaff, Arizona

## Environmental Management Fee Restructure Analysis Report



Management Services, Sustainability Section and Fire  
Department

April 2020

# Executive Summary

The City Management Services Division, in coordination with the Sustainability Section, is proposing a restructure of the Environmental Management Fee. This fee restructure analysis report was developed pursuant to City Council direction at the Fiscal Year 2020-21 Budget Retreat on February 4, 2020.

The City is proposing to replace the current flat \$4.00 fee per municipal services bill to a consumption-based fee. This restructure of the fee formula will result in greater equity in terms of paying fair share of the cost of environmental and natural resource management. In Fiscal Year 2019-20, the Environmental Management Fee generated an estimated \$1.02 Million. Under the restructure, the City protects that overall fee revenues will remain about the same but recommends that the fee be adjusted over time to account for inflation.

The Environmental Management Fee was established in 2002 and is authorized in the Solid Waste Code Section 7-04-001-0010 FEES. As defined in the Code, “a fee of \$4.00 per month per City utility bill shall be charged to fund citywide environmental programs, including, but not limited to, Environmental Management, Brownfield Land Recycling, Sustainability, Environmental Code Enforcement, and Conservation Education Programs”.

Today, the fee provides revenues for the majority of the Sustainability Section programs, which are further described on the City of Flagstaff website and in the annual adopted Budget of the City. The City is proposing to restructure the Environmental Management Fee so that the fee will be a percentage assessed on services provided from water, sewer, stormwater, trash and recycling services (“core services”). As a result, utility customers will have some ability to reduce or lower their monthly fee, by consuming less. Arizona laws allow cities and towns to charge fees for the provision of these core services. The Environmental Management Fees collected are used for protecting and enhancing our core services. The City Sustainability also provides additional services that are funded by the General Fund, grants, and other funding sources.

# Environmental Management Fee Restructure Analysis and Proposed Change

## Overview of Existing Fee Structure

The Environmental Management Fee is billed at a flat monthly rate of \$4.00 per City Municipal Bill. The fee was designed to fund a variety of city-wide environmental programs including but not limited to, environmental management, brownfield land recycling, sustainability, environmental code enforcement, and conservation education programs. These programs benefit all utility customers, including Northern Arizona University and the City as they are both major utility customers.

## Purpose for Restructured Environmental Management Fee

The intent for restructuring the fee is rooted in equitable distribution. Currently the fee is assessed per the monthly municipal services bill and is intended to correlate between the environmental impact and programming necessary to mitigate these impacts of the service address. However, in some instances, the correlation seems less equitable. For example, a single-family residence with four habitants, is assessed at \$4 monthly per bill. While a high occupancy housing unit with 150 habitants, is assessed at \$4 monthly per bill. A specific example is a high-density unit in Flagstaff with 900+ residents, that pays five municipal services bills, therefore paying only \$20 monthly toward the Environmental Management Fund. Also, currently we provide some services per contract and/or miscellaneous billings and these customers currently do not pay the Environmental Management Fee.

This fee restructure is intended to provide resources, educate, and mitigate impacts at each service address in an equitable manner.

## ***Environmental Management is about all City Resources***

Services funded through the fee span all City core services. Examples of this include materials management policy development to reduce materials delivered to the landfill in an effort to extend the life of the landfill. Recycling education to reduce contamination in the recycling stream and increase the value of the City's recycling stream. Resiliency planning in water and storm water to prepare the community and municipality for changing environmental conditions. Efficiency upgrades for municipal facilities, water production and water processing to reduce expenditures and create redundancy in services.

## **Proposed Restructured Fee**

### ***Services to Apply an Environmental Management Fee***

Staff is recommending that the restructured fee is applied to several city services that are billed to customers. Further we are not limiting the fee to those billed on a Municipal Services Bill as that bill does not capture all the services being provided. For example, some customers with special billing needs for trash services are being billed on a Miscellaneous Accounts Receivable statement. Therefore, those customers also have an impact to equity in billing and would be billed the Environmental Management Fee. The following table provides an estimate of the annual revenues from these services:

<b>Revenue Analysis</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Annual Revenues					
Refuse Charges Commercial	\$ 2,600,000	\$ 2,626,000	\$ 2,652,300	\$ 2,678,800	\$ 2,705,600
Commercial Recycling	490,000	494,900	499,800	504,800	509,800
Hoist and Haul	225,000	227,300	229,600	231,900	234,200
Refuse Charges Residential	3,900,000	4,095,000	4,299,800	4,342,800	4,386,200
Residential Recycling	2,000	2,000	2,000	2,000	2,000
Curbside Glass	43,000	43,400	43,800	44,200	44,600
Water Charges	9,700,000	9,797,000	9,895,000	9,994,000	10,093,900
Wastewater Charges	9,800,000	9,898,000	9,997,000	10,097,000	10,198,000
Reclaimed Water Charges	560,000	565,600	571,300	577,000	582,800
Stormwater Charges	2,600,000	2,626,000	2,652,300	2,678,800	2,705,600
	<u>\$ 29,920,000</u>	<u>\$ 30,375,200</u>	<u>\$ 30,842,900</u>	<u>\$ 31,151,300</u>	<u>\$ 31,462,700</u>

The Environmental Fee will be based on the annual estimated revenues from the above services. These services bill approximately \$30 Million annually through the Municipal Service Statement, Miscellaneous Accounts Receivable Statement, and at the Landfill.

### ***Proposed Fee***

The goal of the Environmental Fee restructure is to maintain the same level of annual revenues. The first step in this analysis is to look at what is currently projected from the flat \$4.00 per Municipal Billing Statement. The current fee is estimated to bring in approximately \$1,042,000 annual revenues and the five-year plan shows a 2% annual increase. This sets forth our baseline for the restructure of the fee.

Then next step is to consider which charges to include in the calculation of the restructured fee. Solid waste, water, wastewater, reclaimed water and stormwater charges are the basis of the new fee structure.

From there, we look at what time of fee would be needed to bring in as much or close to the same level of revenues. We calculate that an Environmental Management Fee would need to be set at \$0.035 of the charges being billed to customers. The following table demonstrates the fee setting calculations:

Revenue Restructure	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Current Fee</b>					
Current Fee per Municipal Bill	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
Estimated Annual Number of Bills	260,500	265,750	271,000	276,500	282,000
Estimated Annual Revenue	1,042,000	1,063,000	1,084,000	1,106,000	1,128,000
<b>Restructured Fee</b>					
Solid Waste Charges	\$ 7,260,000	\$ 7,488,600	\$ 7,727,300	\$ 7,804,500	\$ 7,882,400
Water Charges	\$ 9,700,000	\$ 9,797,000	\$ 9,895,000	\$ 9,994,000	\$ 10,093,900
Wastewater Charges	\$ 9,800,000	\$ 9,898,000	\$ 9,997,000	\$ 10,097,000	\$ 10,198,000
Reclaimed Water Charges	\$ 560,000	\$ 565,600	\$ 571,300	\$ 577,000	\$ 582,800
Stormwater Charges	\$ 2,600,000	\$ 2,626,000	\$ 2,652,300	\$ 2,678,800	\$ 2,705,600
Total Estimate Revenues	\$ 29,920,000	\$ 30,375,200	\$ 30,842,900	\$ 31,151,300	\$ 31,462,700
Fee Requirement	\$ 0.035	\$ 0.035	\$ 0.035	\$ 0.036	\$ 0.036
Estimated Annual Revenues	\$ 1,047,200	\$ 1,063,132	\$ 1,079,502	\$ 1,121,447	\$ 1,132,657
Change in Revenues	\$ 5,200	\$ 132	\$ (4,499)	\$ 15,447	\$ 4,657

Due to rounding of the rate, there will be a slight increase, it is projected to have a slight increase in the annual revenues. While there may be a need for a rate increase in Fiscal Year 2024-25, staff is not recommending including this rate increase in the adopted fee restructure.

### **Summary of Impacts to Customers**

The restructure of the Environmental Management Fee is estimated to have the following impact to customers. The fee proposed will be based on the amount of services consumed by our customers.

Residential Customers: Single family residential customers are billed monthly for trash, recycling, water, wastewater, and stormwater services. The variable to these customer classes is the water consumption and stormwater. For the following examples we assume the stormwater charge is for 1 equivalent runoff unit (1,500 square feet of impervious property).

Residential Customer Impacts	Current Bill	Proposed Bill	Change
<b>Customer 1: Average Monthly Consumption 3,500</b>			
Total bill w/o Environmental Fee	\$ 77.46	\$ 77.46	\$ -
Amount of Environmental Fee	\$ 4.00	\$ 2.03	\$ (1.97)
<b>Customer 3: Average Monthly Consumption 10,000</b>			
Total bill w/o Environmental Fee	\$ 161.10	\$ 161.10	\$ -
Amount of Environmental Fee	\$ 4.00	\$ 4.77	\$ 0.77

Commercial Customers: Commercial customers are different than residential customers because they have an option of municipal trash and recycling services. All other services apply to commercial customers. For the example below we used the assumptions of a 6 yard trash service picked up twice a week and a 4 yard recycling service picked up once a week and the stormwater charge is for 5 equivalent runoff unit (7,500 square feet of impervious property).

Commercial Customer Impacts	Current Bill	Proposed Bill	Change
Customer 1: Average Monthly Consumption 3,500			
Total bill w/o Environmental Fee	\$ 313.79	\$ 313.79	\$ -
Amount of Environmental Fee	\$ 4.00	\$ 4.77	\$ 0.77
Customer 3: Average Monthly Consumption 10,000			
Total bill w/o Environmental Fee	\$ 379.08	\$ 379.08	\$ -
Amount of Environmental Fee	\$ 4.00	\$ 12.39	\$ 8.39

# Environmental Management Fee Restructure

## Future Meetings

### Sustainability Commission and Water Commission Meetings

Staff will present the fee restructure to both the Water Commission (May 21,2020) and the Sustainability Commission (May 28, 2020) for review and feedback. Comments from both Commissions will be included during the fee adoption in June.

### Public Outreach Meetings

The Sustainability Section will coordinate with Fire Department and Water Services to develop and manage a public outreach effort, recognizing the reality of COVID-19 social distancing guidelines. Coordinated efforts will include a combination of social media platforms, list serves, monthly newsletters, community forum, community partners, direct/electronic mailing where possible (ex: notice in water bills), and volunteer corps (Master Recyclers, Sustainability Leaders, Community Stewards, Climate Leaders, and Climate Ambassadors) . Staff will provide a virtual roundtable for an open discussion. In addition, a series of short YouTube videos is being developed for public distribution and will be made available by mid-May.

### City Council Meetings

Per Arizona Revised Statute 9-511.01, the City is required to complete certain requirements. The first requirement is for the Council to adopt a Notice of Intent to raise water or wastewater rates or rate components, fees or service charges and set a date for a public hearing. On March 17, 2020 Council approved Resolution 2020-11 to adopt the Notice of Intent.

On May 12,2020, staff is planning to present the fee analysis to Council. Staff will be seeking Council direction on the proposed fees. Staff will utilize this direction for the fee adoption.

On June 2, 2020, at the Council meeting staff will present an ordinance along with the rate analysis information to the Council. Council could accept staff recommendation or adjust, such as increasing or decreasing the fee. Or the Council could choose to not read the ordinance the first time and direct staff to bring the item back with amendments. If Council completes the first read of the ordinance, on June 16, 2020 the Council will hold a public hearing and a second read to adopt the new fee structure. To meet the funding outlined in this analysis, the fee rates would need to be effective August 1, 2020.