



Council Report

Date: May 19, 2014
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Candace Cannistraro, OMB Director
Subject: Increase to Environmental Compliance Fee
Citywide

Strategic Initiatives



Purpose and Recommendation

The purpose of this report is to recommend that the City Council increase the Environmental Compliance Fee (ECF) \$1.94. This would result in a change from \$5.38 to \$7.32 per utility account per month. The projected cost of meeting Federal and State environmental mandates for fiscal year 14/15 is \$14.4 million. An additional \$3.8 million in funding is necessary to meet the environmental mandates. Neither the Federal nor the State government provides funding for these environmental mandates.

Background

In 2011, City Council approved full funding of the cost to comply with Federal and State environmental mandates through the Environmental Compliance Fee. Previously, the fee had only partially funded these activities. The Environmental Compliance Fee has not been updated since then. All costs have been affected by inflationary pressures over the years. The contract costs to maintain the stormwater basins have increased the greatest, experiencing a dramatic increase during this last year. The forecasted costs for all compliance activities in 14/15 are greater than the forecasted revenues.

The Environmental Compliance Fee is a flat amount that is applied to each utility account customer. If a customer has multiple services at the same location, the fee is applied only once. Anticipated growth in utility customers during the 14/15 fiscal year has been incorporated into the revenue forecast. The revenues from the fee are restricted for use on environmental compliance expenses. The fee is reviewed on an annual basis.

Discussion

The current fee is estimated to generate \$10.6 million in 14/15. The forecasted cost of compliance is summarized in the following categories:

Air Quality	\$ 894,000
Stormwater	
Street Cleaning	\$ 2,441,000
Basin Maintenance	\$ 6,453,000
Storm Drain Maintenance	\$ 1,850,000
Hazardous Material/Asbestos	\$ 1,219,000
Other Compliance Areas, Oversight, Enforcement	\$ 1,538,000
	<u>\$ 14,395,000</u>

The stormwater category contains the maintenance of the stormwater basins which has experienced the greatest increase in cost. The total estimated expenses are greater than the estimated revenues leaving a \$3.8M funding gap. An additional \$1.94 per account/per month is needed to fully fund the environmental compliance needs for 14/15.

Alternatives

The City Council could choose to not increase the fee or approve less of an increase. This would cause a funding gap in the 14/15 proposed budget. The funding gap would need to be covered by the local streets sales tax (LSST) for those expenses that are eligible and by the general fund for the remainder. Use of LSST funds would result in less funding available for street maintenance such as seal coating and street overlay programs. The general fund does not have capacity to accommodate additional expenses. The result would most likely be a combination of reduced maintenance of basins and deferring/reducing of general fund budgeted items to create capacity.

If the basins are not maintained to operate as originally designed, they will not effectively remove pollutants before stormwater leaves our system. The City has minimum requirements that must be met for street sweeping and storm drain maintenance. If these requirements are not met, the Arizona Department of Environmental Quality (ADEQ) or the Environmental Protection Agency (EPA) could fine the City up to \$27,500/day/violation. The City is required to report our activities yearly to the ADEQ.

Fiscal Impact

Increasing the fee will mean that the City will recover the anticipated full costs of compliance with Federal and State environmental regulations. The additional revenue impact is \$3.8M in 14/15.

Coordinated With

Development & Sustainability, Parks, Recreation, & Commercial Facilities, Fleet Maintenance and Transportation Departments

FEE RECOMMENDATION SCHEDULE

Department: Development & Sustainability
Environmental & Sustainability

Document of Change: Resolution

Description of Services:	Current Fee/Charge	Unit	Proposed Fee/Charge	Date Last Revised	FY 14/15 Fiscal Impact	Notes
Federal & State Environmental Compliance Fee	\$5.38	Per Account/MONTH	\$7.32	08/01/11	\$ 3,836,000	Increase fee by \$1.94 per monthly billing to reach total of \$14.5 million.

Plus Transaction Privilege (Sales) Tax, where applicable