

Stormwater Rate Adoption and Public Hearing

February 14, 2023





Agenda



Overview

- January 31st overview
- Updates Since
- External resources versus rates
- Financial Plan
- Scenario detail
- Timeline
- Council Decision





January Summary of Scenarios

Proposed Rate							
	Current Rate	Apr-23	Jan-24	Jan-25	Jan-26	Jan-27	Jan-28
Scenario 1: Minimal CIP	3.74	4.68 25%	5.84 25%	6.08 4%	6.32 4%	6.57 4%	6.84 4%
Scenario 2: Recommended CIP with Grants	3.74	4.68 25%	5.84 25%	6.43 10%	7.07 10%	7.78 10%	8.05 10%
Scenario 3: Recommended CIP with Rates	3.74	4.86 30%	6.32 30%	7.58 20%	8.34 10%	8.64 3.5%	8.94 3.5%



Updates since January

Hwy 180 Project

- Eliminate Debt Funding of Hwy 180 Project
- Look to State Funding options instead
- Reduces ongoing debt service
- Continue to deliver project

Detention Maintenance

- Eliminate detention basin maintenance expense
- Seek State resources to fund operational expenses
- Reduces annual operating expense ~\$1.8M
- Risk if resources are not available after major event, or multiple events



External Resource vs Rate Funding

State funding opportunities

- Continue lobbying State Legislature!
- House Bill 2543, Transportation an Infrastructure Bill \$3M
- House Bill 2286, amendment was submitted on 01/23, \$8.9M

Federal and State support needed: grants?

General Fund Emergency Use

- Reserve General Fund resources as a last measure to deliver Hwy 180 and cover detention maintenance costs, instead of rates
- Impacts to the General Fund:
 - Limits budgeting capacity for multiple years
 - Ties up resources for items like fleet replacements, IT and facility infrastructure, as mentioned at February Budget Retreat



Financial Planning





Financial Planning 101

There are fundamentals to a fiscally sound plan

- Sufficient to cover operating costs
- Sufficient to cover debt service obligation/ coverage ratio requirements (1.20)
 - Debt service is calculated based on operating revenues and operating expenses from water, wastewater and stormwater
 - Ideally each fund should be self-sufficient
- Generate sufficient funds to meet reserve targets
 - Water Policy is 25% of Operating Revenue
- Contingency Funding – Previously set at \$300K, spent during events
 - Due to recent flooding event and potential continuation of events, we recommend \$2M
 - This is one-time funding, not annual



Stormwater Rate Assessment

Purpose of Rate Adjustment

- Increased fire and flood events over the past few years have made current infrastructure insufficient
- Increased fire and flood events have increased demand on operations – staffing and equipment
- Increased Mitigation costs in new flood areas, such as Spruce Wash and Schultz Creeks
- Construct some deferred Capital Improvement Projects
- Meet inflationary cost reality for construction projects.
- Completing critical capital projects reduces flood response - operations costs



Stormwater ERU

Stormwater rate based on Equivalent Rate Units (ERUs)

- 1 ERU = 1,500 square feet of impervious area
- Residential properties have a maximum of 5 ERUs
 - Average Residential property for the City of Flagstaff has 3 ERUs
 - **Policy change to maximum 10 ERUs for Residential Properties**
- Commercial properties do not have a maximum ERU

Impervious surfaces need to be reviewed for ERU adjustments.

- The City is completing a review based on 2021 ortho-imagery. Anticipated to be implemented in 2023-2024.



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Capital Plan Scenarios



Scenario 1 (minimal CIP)	Scenario 2 (capital with grants)	Scenario 3 (capital with rates)
Rio de Flag Flood Control Project	Rio de Flag Flood Control Project	Rio de Flag Flood Control Project
Downtown Mile	Downtown Mile	Downtown Mile
Killip Detention Basin	Killip Detention Basin	Killip Detention Basin
Schultz Creek-Highway 180 Culvert Improvements	Schultz Creek-Highway 180 Culvert Improvements	Schultz Creek-Highway 180 Culvert Improvements
Side Drain Lateral North Downtown	Side Drain Lateral North Downtown	Side Drain Lateral North Downtown
Spruce Wash Resiliency - 4th and Butler	Spruce Wash Resiliency - 4th and Butler	Spruce Wash Resiliency - 4th and Butler
Killip Inlet	Killip Inlet	Killip Inlet
Spot Improvements	Spot Improvements	Spot Improvements
Wildwood Drainage Project	Wildwood Drainage Project	Wildwood Drainage Project
Spruce Avenue Wash Dortha Inlet	Spruce Avenue Wash Dortha Inlet	Spruce Avenue Wash Dortha Inlet
	Columbia Circle	Columbia Circle
These projects in red will be funded by debt in capital plan	Steves Wash at Soliere Ave (Soliere Project)	Steves Wash at Soliere Ave (Soliere Project)
	Fanning Drive Wash at Route 66	Fanning Drive Wash at Route 66
These projects in yellow are existing projects with grant funds, 25% City match	Fanning Wash at Steves Boulevard	Fanning Wash at Steves Boulevard
	Switzer Canyon Flood Detention Structure	Switzer Canyon Flood Detention Structure
These projects in green are anticipated to be funded with future grants, 25% City match	Fanning Wash Channel Capacity Improvements	Fanning Wash Channel Capacity Improvements
	Mobile Haven Drainage Ditch Improvements	Mobile Haven Drainage Ditch Improvements
Projects in white are rate-funded	Shadow Mountain-Monte Vista Drainage Improvements	Shadow Mountain-Monte Vista Drainage Improvements
	Smokerise Neighborhood Drainage Improvements	Smokerise Neighborhood Drainage Improvements



<- General Fund/State



Scenario 1: Minimal CIP Proposed Financial Plan

Rate Increase	6.0%		6.0%		6.0%		6.0%		6.0%		6.0%	
Rate Month Implemented	April		January		January		January		January		January	
	2023		2024		2025		2026		2027		2028	
Cash Position Opening Balance	\$	13,010,222	\$	5,341,043	\$	2,872,092	\$	2,629,333	\$	2,646,598	\$	2,999,096
Revenues												
Sale of Storm Service	\$	4,475,851	\$	4,862,661	\$	5,205,965	\$	5,573,506	\$	5,966,996	\$	6,388,265
External Funding for Basin Maintenance	\$	-	\$	1,800,000	\$	1,800,000	\$	1,800,000	\$	1,800,000	\$	1,000,000
Other Operating Revenue	\$	938	\$	961	\$	985	\$	1,010	\$	1,035	\$	1,061
Non-Operating Revenue	\$	29,232	\$	29,963	\$	30,712	\$	31,480	\$	32,267	\$	33,074
Interest on Fund Balance	\$	181,696	\$	101,120	\$	94,074	\$	91,841	\$	95,502	\$	106,568
Total Revenues	\$	4,687,716	\$	6,794,705	\$	7,131,735	\$	7,497,837	\$	7,895,800	\$	7,528,968
Operating Expenses												
Operating Expenses	\$	2,001,108	\$	4,288,668	\$	4,391,050	\$	4,497,229	\$	4,560,226	\$	3,781,159
Contingency			\$	2,000,000								
Current Debt Service	\$	623,894	\$	1,359,182	\$	1,358,232	\$	1,358,131	\$	1,357,863	\$	1,357,430
Proposed Debt Service	\$	-	\$	1,256,807	\$	1,256,807	\$	1,256,807	\$	1,256,807	\$	1,256,807
Total Operating and Debt Service	\$	2,625,002	\$	8,904,657	\$	7,006,089	\$	7,112,167	\$	7,174,897	\$	6,395,396
Net Revenues	\$	2,062,714	\$	(2,109,952)	\$	125,647	\$	385,670	\$	720,903	\$	1,133,572
Capital Expenditure												
Capital Expenditure	\$	9,746,708	\$	20,865,334	\$	1,958,405	\$	938,988	\$	1,203,168	\$	368,405
Borrowed Funds	\$	-	\$	16,000,000	\$	-	\$	-	\$	-	\$	-
External Funding for HWY 180			\$	4,366,334								
Grants	\$	14,815	\$	140,000	\$	1,590,000	\$	570,583	\$	834,763	\$	-
Cash	\$	9,731,893	\$	359,000	\$	368,405	\$	368,405	\$	368,405	\$	368,405
Net Income	\$	(7,669,179)	\$	(2,468,952)	\$	(242,758)	\$	17,265	\$	352,498	\$	765,167
Ending Balance	\$	5,341,043	\$	2,872,092	\$	2,629,333	\$	2,646,598	\$	2,999,096	\$	3,764,263
Reserve Percent of Operations (25% Policy)												
Reserve Percent of Operations (25% Policy)		115%		58%		50%		47%		49%		58%
Debt Service % of Operating Revenues (25% Max)												
Debt Service % of Operating Revenues (25% Max)		13%		53%		49%		46%		43%		40%
Coverage Ratio (1.25)												
Coverage Ratio (1.25)		4.26		0.26		0.35		0.45		0.57		1.04



Scenario 2: CIP with Future Grants Proposed Financial Plan

Rate Increase	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Rate Month Implemented	April	January	January	January	January	January
	2023	2024	2025	2026	2027	2028
Cash Position Opening Balance	\$ 13,010,222	\$ 5,381,840	\$ 3,162,650	\$ 3,038,495	\$ 2,946,861	\$ 2,330,271
Revenues						
Sale of Storm Service	\$ 4,519,948	\$ 5,144,141	\$ 5,715,141	\$ 6,349,522	\$ 7,054,319	\$ 7,837,348
External Funding for Basin Maintenance	\$ -	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	\$ 1,000,000
Other Operating Revenue	\$ 938	\$ 961	\$ 985	\$ 1,010	\$ 1,035	\$ 1,061
Non-Operating Revenue	\$ 29,232	\$ 29,963	\$ 30,712	\$ 31,480	\$ 32,267	\$ 33,074
Interest on Fund Balance	\$ 182,100	\$ 104,401	\$ 101,001	\$ 98,865	\$ 91,853	\$ 83,964
Total Revenues	\$ 4,732,217	\$ 7,079,466	\$ 7,647,840	\$ 8,280,877	\$ 8,979,473	\$ 8,955,447
Operating Expenses						
Operating Expenses	\$ 2,001,108	\$ 4,288,668	\$ 4,391,050	\$ 4,497,229	\$ 4,560,226	\$ 3,781,159
Contingency		\$ 2,000,000				
Current Debt Service	\$ 623,894	\$ 1,359,182	\$ 1,358,232	\$ 1,358,131	\$ 1,357,863	\$ 1,357,430
Proposed Debt Service	\$ -	\$ 1,256,807	\$ 1,256,807	\$ 1,256,807	\$ 1,256,807	\$ 1,256,807
Total Operating and Debt Service	\$ 2,625,002	\$ 8,904,657	\$ 7,006,089	\$ 7,112,167	\$ 7,174,897	\$ 6,395,396
Net Revenues	\$ 2,107,215	\$ (1,825,191)	\$ 641,751	\$ 1,168,709	\$ 1,804,576	\$ 2,560,051
Capital Expenditure						
Capital Expenditure	\$ 9,746,708	\$ 20,865,334	\$ 1,958,405	\$ 2,224,412	\$ 6,790,674	\$ 7,172,501
Borrowed Funds	\$ -	\$ 16,000,000	\$ -	\$ -	\$ -	\$ -
Grants	\$ 11,111	\$ 105,000	\$ 1,192,500	\$ 964,068	\$ 4,369,508	\$ 4,432,280
External Funding for HWY 180		\$ 4,366,334				
Cash	\$ 9,735,597	\$ 394,000	\$ 765,905	\$ 1,260,344	\$ 2,421,166	\$ 2,740,221
Net Income	\$ (7,628,382)	\$ (2,219,191)	\$ (124,154)	\$ (91,635)	\$ (616,590)	\$ (180,170)
Ending Balance	\$ 5,381,840	\$ 3,162,650	\$ 3,038,495	\$ 2,946,861	\$ 2,330,271	\$ 2,150,101
Reserve Percent of Operations (25% Policy)	114%	60%	52%	46%	33%	27%
Debt Service % of Operating Revenues (25% Max)	13%	50%	45%	41%	37%	33%
Coverage Ratio (1.25)	4.33	0.37	0.55	0.75	0.99	1.58



Scenario 3: CIP with Rates Proposed Financial Plan

Rate Increase	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Rate Month Implemented	April	January	January	January	January	January
	2023	2024	2025	2026	2027	2028
Cash Position Opening Balance	\$ 13,010,222	\$ 5,404,110	\$ 3,330,211	\$ 3,478,209	\$ 3,274,545	\$ 8,124,542
Revenues						
Sale of Storm Service	\$ 4,541,996	\$ 5,287,554	\$ 5,981,281	\$ 6,766,025	\$ 7,653,727	\$ 8,657,896
External Funding for Basin Maintenance	\$ -	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	\$ 1,000,000
Other Operating Revenue	\$ 938	\$ 961	\$ 985	\$ 1,010	\$ 1,035	\$ 1,061
Non-Operating Revenue	\$ 29,232	\$ 29,963	\$ 30,712	\$ 31,480	\$ 32,267	\$ 33,074
Interest on Fund Balance	\$ 182,320	\$ 106,280	\$ 107,014	\$ 106,463	\$ 152,466	\$ 159,232
Total Revenues	\$ 4,754,486	\$ 7,224,758	\$ 7,919,992	\$ 8,704,978	\$ 9,639,496	\$ 9,851,264
Operating Expenses	\$ 2,001,108	\$ 4,288,668	\$ 4,391,050	\$ 4,497,229	\$ 4,560,226	\$ 3,781,159
Contingency		\$ 2,000,000				
Current Debt Service	\$ 623,894	\$ 1,359,182	\$ 1,358,232	\$ 1,358,131	\$ 1,357,863	\$ 1,357,430
Proposed Debt Service	\$ -	\$ 1,256,807	\$ 1,256,807	\$ 1,256,807	\$ 1,706,807	\$ 1,706,807
Total Operating and Debt Service	\$ 2,625,002	\$ 8,904,657	\$ 7,006,089	\$ 7,112,167	\$ 7,624,897	\$ 6,845,396
Net Revenues	\$ 2,129,484	\$ (1,679,899)	\$ 913,903	\$ 1,592,810	\$ 2,014,599	\$ 3,005,867
Capital Expenditure	\$ 9,746,708	\$ 20,865,334	\$ 1,958,405	\$ 2,224,412	\$ 6,790,674	\$ 7,172,501
Borrowed Funds	\$ -	\$ 16,000,000	\$ -	\$ -	\$ 9,000,000	\$ -
Grants	\$ 11,111	\$ 105,000	\$ 1,192,500	\$ 427,937	\$ 626,072	\$ -
External Funding for HWY 180		\$ 4,366,334				
Cash	\$ 9,735,597	\$ 394,000	\$ 765,905	\$ 1,796,475	\$ (2,835,398)	\$ 7,172,501
Net Income	\$ (7,606,112)	\$ (2,073,899)	\$ 147,998	\$ (203,664)	\$ 4,849,997	\$ (4,166,634)
Ending Balance	\$ 5,404,110	\$ 3,330,211	\$ 3,478,209	\$ 3,274,545	\$ 8,124,542	\$ 3,957,908
Reserve Percent of Operations (25% Policy)	114%	62%	57%	48%	104%	45%
Debt Service % of Operating Revenues (25% Max)	13%	48%	43%	38%	39%	35%
Coverage Ratio (1.25)	4.37	0.42	0.65	0.91	1.06	1.64



Revised Summary of Scenarios

Proposed Rate							
	Current Rate	Apr-23	Jan-24	Jan-25	Jan-26	Jan-27	Jan-28
Scenario 1: Minimal CIP	3.74	3.96 6%	4.20 6%	4.45 6%	4.72 6%	5.00 6%	5.31 6%
Scenario 2: Recommended CIP with Grants	3.74	4.11 10%	4.53 10%	4.98 10%	5.48 10%	6.02 10%	6.63 10%
Scenario 3: Recommended CIP with Rates	3.74	4.19 12%	4.69 12%	5.25 12%	5.88 12%	6.59 12%	7.38 12%



Rate Impact



Average Monthly Increase - Residential (3 ERUs)

	Year 1	Year 6
Scenario 1	\$0.66	\$4.71
Scenario 2	\$1.11	\$8.67
Scenario 3	\$1.35	\$10.92

Average Monthly Increase - Restaurant (14 ERU)

	Year 1	Year 6
Scenario 1	\$3.08	\$21.98
Scenario 2	\$5.18	\$40.46
Scenario 3	\$6.30	\$50.96

Average Monthly Increase - Big Box (220 ERU)

	Year 1	Year 6
Scenario 1	\$48.40	\$345.40
Scenario 2	\$81.40	\$635.80
Scenario 3	\$99.00	\$800.80

Future Impact on Rates

Responsibility for Flood
Mitigation lies with City
Stormwater Section

*Long term mitigation
costs less than repeated
flood response*



• Factors to Consider

- Grant Success – or not!
- Outside Agency Assistance
 - Coconino County Flood Control
 - Federal and State Programs
- Internal Assistance
 - General Fund Contributions
- Fire Threat
 - Camping, Fire Restrictions on Forest
- Weather
- Last rate increase in 2018, debt funded Rio de Flag Project
 - CPI Increase since 2018 = 17%
- Risk of relying on outside resources



Rate Timeline 2023



Staff Recommendation:

Council Adopts one of the three options in the Rate Proposal -Recommended

- Public Hearing and First Read February 14
- Second Read- Ordinance Adoption February 21
- Rates Effective April 1

- Continued lobbying (State/Federal) Ongoing
- Future adjustments (lack of funding) Future rate changes possible

Action is needed now. Maintenance and flood response is not discretionary.



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Questions?

