

UTILITIES INTEGRATED MASTER PLAN

Principles of Sound Water Management Water Policies Chapter



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City of Flagstaff - Utilities Division

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A. Finance

The City has an important responsibility to its citizens to carefully manage its Utilities finances wisely, account for public funds, and to plan for the adequate funding of services desired by the public including water and sewer services, reclaimed water uses and stormwater management. Therefore, the Water & Sewer Utility and the Stormwater Utility shall be financially self-supporting enterprises with all costs associated with each operation to be funded from revenues derived from the sale of potable water or reclaimed water or the fees for sewer and stormwater system services.

A1 Enterprise Funding: Water & Sewer Utility

Policy A1.1 The annual payment for debt service should not exceed 20% of total annual Operating Revenues.

Policy A1.2 The Water & Sewer Utility shall have a goal of maintaining more than 25% of the total estimated annual Operating Revenues in reserve for known future obligations plus an allowance for unbudgeted contingencies. This policy would not include Federal Support for disaster relief.

Policy A1.3 In the event that the City Council determines that there exists the need to set aside a minimum amount of water to be sold at a reduced rate or to grant some other forms of subsidy for users within the City's service area, the costs of such subsidies shall be from a non-utility source.

Policy A1.4 The City Council shall not enter into a development agreement for any purpose that permits the developer to pay (or otherwise offset) reduced water rates and/or reduced capacity fees unless such rates and/or fees are collected from a non-utility source.

Policy A1.5 The City's policies on the collection of payments for water and sewer capacity fees, water meter fees, service charges and other fees shall be applied consistently and as follows:

Strategy A1.5a A customer must provide proof that either a building or grading permit application was submitted to the Community Development Division prior to paying any fees.

Strategy A1.5b All fees must be paid in full at the time of payment. (*Flagstaff City Code, Section 7-03-001-0008*)

Strategy A1.5c If fees are scheduled to change, the customer has until one business day prior to the scheduled change to pay all fees under the current fee schedule. A customer may not use proof of an application submission prior to the fee schedule change to

pay fees under the previous fee schedule after the schedule change date.

Strategy A1.5d If a customer pays all fees but does not install the water meter and connect to City services before the building permit expires, the customer is subject to the latest fee schedule and any increase in fees will be assessed on the location. A decrease in fees will not be recalculated and refunded. The City should make an effort to contact the customer prior to the expiration of the building permit.

Strategy A1.5e If a customer changes the size of the water meter after all fees are paid, the customer is subject to the latest fee schedule and any increase in fees will be assessed on the location.

Strategy A1.5f All capacity fees are non-refundable and non-transferable from one parcel to another parcel.

A2 Enterprise Funding: Stormwater Utility

Policy A2.1 The Stormwater Utility shall collect revenues from properties with impervious surfaces according to an Equivalent Rate Unit (ERU) basis (See definition that follows). The Stormwater Utility shall have a goal of maintaining more than 10% of the total estimated annual Operating Revenues in reserve for known future obligations plus an allowance for unbudgeted contingencies.

Policy A2.2 The Stormwater Utility shall issue runoff credits for properties implementing eligible stormwater catchment systems as further described in the stormwater manual. (*Flagstaff City Code, Section 12-02-002-0005*)

A3 Rate Design Elements: Water & Sewer

Policy A3.1 Water and sewer rates should be set on a cost-of-service basis. Commodity charges should reflect the costs across all customer classes. Rate structures should be designed with the goal of encouraging water conservation. The design of recommended rates should include provisions that will provide a minimum of 25% of revenues from fixed costs and the remainder from commodity rates. The design should also anticipate a balance between conservation (commodity charges) and revenue stabilization (fixed rates). (*See Flagstaff City Code, Section 7-02-001-0038*)

Policy A3.2 Water and sewer rates shall be internally reviewed annually. Any anticipated changes in the rate structure should be implemented in a timely manner in order to avoid large-scale shifts in rates. A formal rate study will be performed every three (3) years.

Policy A3.3 Water and sewer fixed and variable rates for customers located outside the City corporate limits, including standpipe customers, shall always be over and above the charges to customers within City limits and will be set during a formal rate study as per Policy A.3.2. The purpose of the increased rates is to capture those hidden costs that customers within the City limits pay and non-residents do not such as fixed costs (e.g., water meter charges).

Policy A3.4 Capital projects which would require the utility to take on debt greater than Policy A1.1 are not financially sustainable due to their potential impact on existing rates and capacity fees. Financing for large projects may require funding support from such sources as the federal government, state government, new taxing district or authority, public-private partnership, sales tax, revenue bonds or a combination of these sources.

A4 Private Water Company Acquisition

Policy A4.1 The City of Flagstaff shall have a goal of becoming the sole water, sewer and reclaimed water provider within its incorporated boundaries. From time to time, the City may have opportunities to purchase other existing water delivery or sewer collection systems adjacent to or near the City's existing service area. The following criteria will be used to evaluate such opportunities:

- Strategy A4.1a The purchase must prove to be beneficial to the customers of the Utility.
- Strategy A4.1b The private water company must possess sufficient water supplies of sufficient capacity that meet applicable federal and state drinking water quality standards.
- Strategy A4.1c The components of the private water company's infrastructure (water production, pipelines, fire hydrants, etc.) should be constructed to existing City utility standards or be upgraded to those standards prior to acquisition.
- Strategy A4.1d The purchase of the private water company should not result in a net increase of costs to existing City water and sewer or customers.
- Strategy A4.1e The new service area shall be within existing City limits or be annexed into the City of Flagstaff prior to purchase.

Definitions:

Cost Recovery: The collection of sufficient revenues from charges, rates and capacity fees to meet the present and future operational, maintenance, capital and debt service obligations of the Utility.

Cost of Service: An evaluation process by which revenue requirements are used to generate a system of fair and equitable costs in proportion to the service received for each user classification.

Equivalent Rate Unit (ERU): The basic unit for the computation of stormwater service fees. All property in the City is subject to the periodic stormwater management utility service charge. The fee is based on number of ERUs; each ERU is equal to 1,500 square feet of impervious area.

Fund Balance: An account defined as the difference between the assets and liabilities of a fund. It is used as a measure of the amount available to budget or spend in the future.

Future Obligations: Previously identified capital improvement projects, including those approved capital projects contained in the five-year Capital Improvement Program.

Operating Revenues: Income derived from sources related to the Utilities everyday business operations. Operating Revenues consist of revenues from sales of a commodity (water, sewer, reclaimed water) and miscellaneous service revenues. For example, water sales and installation services generate on-going operating revenue, whereas the sale of City property is considered to be an unexpected, or "one-time," event.

C. Reclaimed Water

The State of Arizona is recognized as a national leader in the management and regulation of reclaimed water, which has led to its increased use across the State. Governor Brewer's Blue Ribbon Panel's Report on Water Sustainability published a report in 2010 that states reclaimed water has significantly increased in use over the past two decades. Reclaimed water now represents 3% of the total water used throughout the State. The City of Flagstaff is known within Arizona as a leader in reclaimed water use which now represents 20% of total water used within the City. In 2014, Governor Brewer's office and the Arizona Department of Water Resources published a report titled "Arizona's Next Century: A Strategic Vision for Water Supply Sustainability." That report identified the continued commitment to conservation and expanding the reuse of reclaimed water as the State's second highest strategic priorities towards achieving water supply sustainability. The treatment, delivery and use of reclaimed water is a significant water management tool and will continue to play a key role in the sustainability within the City of Flagstaff today and into the future.

Definitions

- i. Direct Reuse: In accordance with Arizona Administrative Code (A.A.C.) R18-9-701, Direct Reuse means the beneficial use of reclaimed water for a purpose allowed by State law. The delivery of this water supply is accomplished via a separate distribution system, commonly colored purple. The uses of reclaimed water are listed in A.A.C. R18-11-309-Table A, as amended from time to time. Direct Reuse does not include water for potable consumption at this time. However, when technology, regulations and public acceptance allow, Direct Reuse may include water for potable consumption.
- ii. Groundwater Recharge: In accordance with Arizona Revised Statutes, groundwater recharge is conducted utilizing either a Constructed (§45-802.01.4) or a Managed (§45-802.01.12) Underground Storage Facility (USF) that has the intent to store water underground. In general, a Constructed USF is an engineered and designed recharge facility while a Managed USF simply utilizes the natural channel of a stream (e.g., Rio de Flag) to recharge the groundwater aquifer.
- iii. Indirect Reuse: In accordance with industry standards, and for the purposes of this policy, Indirect Reuse means the use of reclaimed water that has been previously recharged and stored underground; that has been co-mingled or mixed with the natural groundwater system; then withdrawn or recovered via water supply wells. This co-mingled mix of water meets all Safe Drinking Water Act requirements.
- iv. Out of City Reclaimed Water Customer: For the purposes of this policy, an Out of City Reclaimed Water Customer means any customer located outside the City of Flagstaff corporate limits who uses reclaimed water outside the

City of Flagstaff corporate limits, regardless of whether delivery of the reclaimed water is accepted by that customer inside or outside the City of Flagstaff corporate limits.

- v. Reclaimed Water: In accordance with A.A.C. R18-9-701, Reclaimed Water means water that has been treated or processed by a wastewater treatment plant or an on-site wastewater treatment facility.
- vi. Recovery: In accordance with Arizona Revised Statutes, recovery of stored water is the withdrawal of a water supply (e.g., reclaimed water) that has been previously recharged underground pursuant to applicable state law (§45-831.01 - §45-836.01).

C1 Charges

Policy C1.1 The City shall have a goal of a minimum of full Cost Recovery for reclaimed water that is delivered within and outside of the City's incorporated limits. To the extent the City Council determines whether these charges discourage the use of reclaimed water, the charges for reclaimed water shall be adjusted to encourage its use. The adjusted charge will be subsidized by the water rate customers.

C2 Water Quality and Education

Policy C2.1 The Utilities Division should design and construct water reclamation facilities that treat and produce reclaimed water to the highest water quality standards permitted by Federal and State law. Reclamation facilities shall be designed to permit the use of reclaimed water for either Direct Reuse or Indirect Reuse and shall be monitored in accordance with each facility's permit. Additionally, the Utilities Division should evaluate the economic costs, feasibility and environmental and health-risk benefits of implementing new technologies as may be appropriate from time to time. *(See Flagstaff City Code, Section 7-02-001-0003)*

Policy C2.2 The Utilities Division should remain engaged in regional, state and national discussions on the use and regulation of reclaimed water, including the management and quality of the reclaimed water supply and the state of the science of treatment technologies. This should be accomplished by remaining active at a minimum in the national WaterReuse Association and its Arizona chapter (WaterReuse Arizona), Water Environment Federation, and the national American Water Works Association and its Arizona section (AZ Water).

Policy C2.3 The Utilities Division should maintain an educational program that focuses on reclaimed water, its safety, quality, public perception and beneficial uses.

C3 Reclaimed Water Agreements

Policy C3.1 The Utilities Division shall require each user to have a direct delivered Reclaimed Water Agreement which may be modified from time to time by mutual agreement of the parties. These Agreements should contain at a minimum: user name, address, place of use, point of delivery, delivery schedule (i.e., maximum peak day, maximum monthly and annual volume), price, termination date, and other applicable information and contract terms as appropriate. Reclaimed water will be considered and allocated on a first come, first serve basis, but entering a Reclaimed Water Agreement shall remain solely within the City's discretion. Any proposed modifications to the terms of an existing Reclaimed Water Agreement (e.g., change of intended use, place of use, delivery schedule or other modifications) will require the applicant to obtain a new Reclaimed Water Agreement which may be entered into or denied within the City's sole discretion. *(See Flagstaff City Code, Section 7-02-001-0023)*

C4 Reclaimed System Capacity

Policy C4.1 The Utilities Division will review requests for reclaimed main extensions using the following criteria:

Strategy C4.1a Determine if capacity is available and stipulate any necessary requirements for the extensions. Any new service or change in use that will result in increased demands for reclaimed water must consider that the change may require additional improvements to the City's reclaimed water system at the owner's/developer's expense. *(Flagstaff City Code, Section 7-02-001-0023)*

Policy C4.2 Reclaimed Water System Capacity Allocation Program: The Utilities Division shall track and monitor existing and proposed peak day and average annual reclaimed water deliveries in order to prevent exceeding the City's ability to meet contracted for demands. When system capacity has been approached or there are supply limitations for any reason, the Utilities Director will stop issuing any new Reclaimed Water Agreements until such time that additional reclaimed water supplies are available. In the event of a reclaimed water shortage, the shortfall will be spread equitably across all reclaimed water customers.

C5 Out of City Deliveries

Policy C5.1 Charges for out of City reclaimed water deliveries shall always be over and above the charges to customers within City corporate limits as defined in Policy C1.1. *(Flagstaff City Code Sections 2-04-001-0007; 2-04-001-0008; 2-04-001-0009)*

Policy C5.2 The City has complete discretion to decide whether to enter Reclaimed Water Agreements with potential customers outside the City's corporate boundaries. (*Flagstaff City Code Sections 2-04-001-0007; 2-04-001-0008; 2-04-001-0009*)

C6 Recharge and Recovery

In order to ensure groundwater supplies are sustainable and resilient to the impacts from prolonged drought, the City should be involved in the recharge of its unused renewable water supplies. In addition, the City should plan and implement strategies to recover those renewable water supplies that are stored underground to meet its customers contracted-for or long-term water needs.

Policy C6.1 The Utilities Division should develop a Groundwater Recharge & Recovery program that is in compliance with applicable State laws (Arizona Revised Statutes Title 45, Chapter 3.1, Underground Water Storage and Replenishment). The purpose of this program would be to optimize the management and use of the City's reclaimed water.

Policy C6.2 The City should continue to develop local water recharge and recovery initiatives. These initiatives should:

- a. Maximize the storage of the City's unused reclaimed water underground (recharge) by developing, constructing and permitting City-owned Underground Storage Facilities, where appropriate, through the Arizona Department of Water Resources.
- b. Capture and recover the stored reclaimed water through water supply wells located down-gradient and permitted as Recovery Wells through the Arizona Department of Water Resources.

Policy C6.3 The City should remain engaged, informed and involved in state-wide and regional discussions regarding groundwater use, recharge and recovery.

C7 Uses, Allocation and Priority

Policy C7.1 The Utilities Division should continue to recommend updates to policies and ordinances that encourage the Direct Reuse of reclaimed water where appropriate and consistent with State and Federal laws.

Policy C7.2 Golf courses, other large turf areas (e.g., schools, parks, etc.) and amenity lakes shall use Direct Reuse of reclaimed water.

Policy C7.3 The priority uses or future allocations of reclaimed water are:

- a. Renewal of Reclaimed Water Agreements with Existing Users. First priority shall be given to those users that already have a valid Reclaimed

Water Agreement for the delivery of reclaimed water. If requested by such existing user, the Utilities Division shall renew a Reclaimed Water Agreement provided that all applicable financial and legal requirements of City, State and Federal laws have been met. These Agreements shall be binding upon any successors and assigns who acquire the property that is benefitted by the Reclaimed Water Agreement and shall not be transferred or assigned without the City's written consent, which shall not be unreasonably withheld.

b. Water Conservation. Conserve potable water through the Direct Reuse of reclaimed water by converting existing uses of potable water to reclaimed water, where allowed by State Law.

c. Public Benefit. The Direct or Indirect Reuse of reclaimed water should be encouraged as a significant water management tool to sustain or promote economic vitality, augment the City's water supply (e.g., Groundwater Recharge and Recovery), and support contracted for deliveries for riparian habitat, wetlands or ponds.