



CITYWIDE COST RECOVERY POLICY

CITY OF FLAGSTAFF

MANAGEMENT SERVICES DIVISION

BUDGET SECTION

Council Adopted - January 6, 2026

I. Purpose

The purpose of this policy is to establish guidelines for the establishment and management of user rates, fees and charges for goods and services provided by the City of Flagstaff (City). This policy aims to ensure fairness, transparency, and sustainability in the collection and utilization of user fees while maintaining accessibility to essential services.

The objectives of this policy are:

- To generate revenue to cover the costs associated with providing goods and services.
- To ensure that user fees are reasonable and consistent with the cost-of-service delivery.
- To promote transparency in the establishment, revision, and collection of user fees.
- To regularly review and adjust user fees as necessary to reflect changing costs and financial conditions.
- To effectively communicate user fee information to stakeholders.

II. Definitions

Community Benefit: Services the City offers that provide all users with the same level of opportunity to access the service. The level of benefit is the same for all users.

Cost Allocation: The process of charging costs to a City division or section that receives the benefit of the goods or services provided from another City division or section, such as information technology or human resources.

Direct Costs: Costs which can be traced to the production of specific goods or services. These costs include labor (salaries and fringe benefits) and identifiable materials.

Enterprise Fund: An enterprise fund is used by the City to account for and manage specific business-like activities or services that are intended to be self-sustaining financially. Examples of activities accounted for by the City in an enterprise fund include Water Services, Solid Waste, and the Airport.

Indirect Costs: Costs that have been incurred for common purposes and cannot be readily identified with a particular service or activity. These costs include division costs not identified as a direct cost and can be incoming costs from central divisions, such as Information Technology, Finance, and Human Resources, determined through the cost allocation plan.

Individual Benefit Services: Services where the user primarily benefits. Enterprise funds are mostly categorized in this level.

Individual and Public Benefit Services: Services where the user receives a higher level of benefit than the general taxpayer. The taxpayer benefits because the service provides a more livable community.

Special Revenue Fund: A special revenue fund is used by the City to account for and report the proceeds of specific revenue sources that are legally restricted or committed to a particular purpose. The City's special revenue funds include funds such as library, BBB, street construction and maintenance and transportation-related improvements for the 4th Street and Lone Tree Overpasses.

Total Costs: The addition of direct costs and allocated indirect costs.

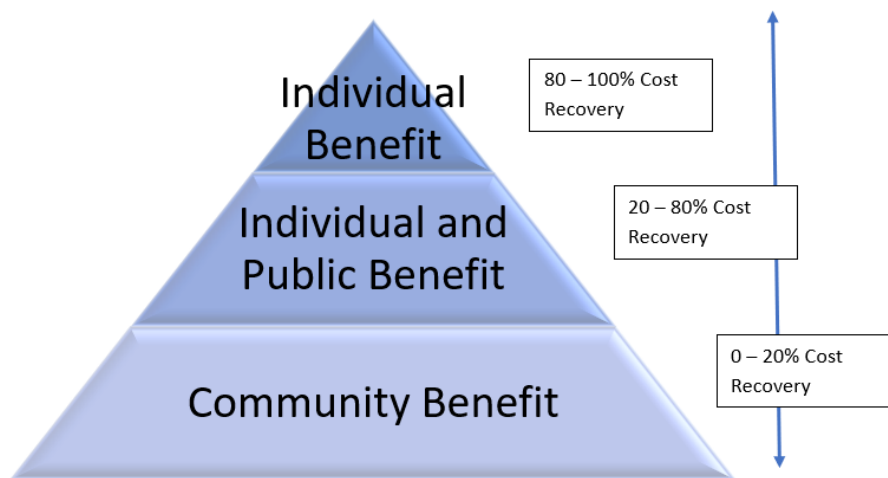
Users: An individual, group, or business utilizing city services.

User Fee: A charge or fee imposed on individuals, organizations, and other entities for using a specific service, facility, or resource provided by the City.

III. Establishment of Cost Recovery Rates

Calculating the true cost of providing services is a critical step in the process of establishing user fees and corresponding cost recovery levels. Although it is an important factor, other factors must also be given consideration. Decision makers must consider the effects that establishing fees for services will have on the individuals utilizing those services, as well as the Flagstaff community. The following economic and policy issues should be considered:

- The level of user fee cost recovery should take into consideration the amount of community-wide versus individual benefit for each program or service. The chart below provides a classification method for determining the community benefit versus individual benefit of each program. Generally, as the classification moves up the pyramid, the greater the cost recovery through user fees.



- It may be a desired policy to establish fees at an affordable level to allow broad access to the services.
- While the City has sole responsibility for certain services within its boundaries, such as development-related services, other services, such as facility rental, are also provided by other communities or the private sector.

In establishing a cost recovery policy, all the above points must be considered as well as the following:

- Factors Favoring Lower Cost Recovery Levels (Community Benefit)
 - There is no intended relationship between the amount paid and the benefit received, or no intent to limit the use of the service.
 - There is an intention to drive more community utilization.
 - Collecting fees is not cost-effective or will notably impact the efficiency of delivering the service.

- The service is non-recurring, generally performed on a peak demand or emergency basis, cannot be reasonably planned for on an individual basis, and is not readily available from an alternate public sector source. For example, the fee related to reestablishing water service after disconnection related to non-payment.
- Collecting fees would adversely affect compliance with regulatory permits that City staff could not easily monitor. Many small-scale licenses and permits fall into this category. For example, fees for site plan reviews to help ensure that the developers comply with applicable regulations limiting risks to the community.
- Factors Favoring Highest Cost Recovery Levels (Individual Benefit)
 - The service is similar to services provided by the private sector, such as facility rentals.
 - Other private or public sector options could or do exist for the distribution of the service.
 - For equity or demand management purposes, there is a direct correlation between the amount paid and the level and cost of the service received.
 - The use of the service is specifically discouraged, such as false alarms.
 - The service is regulatory in nature and voluntary compliance is not expected, such as building development permits and plan reviews.
 - The fee is for a service provided by an enterprise fund and the fee is intended to sustain and support the enterprise fund's activities.
- Factors Favoring Medium Cost Recovery Levels (Individual and Community Benefit)
 - The services provided are critical to the well-being of the community.
 - The service contributes to the public good or addresses a specific community need. For example, classes provided at the Aquaplex.
 - The services provide benefits to families or individuals for health and safety benefits.

A listing of all City fees and the percentage of costs the fees are intended to recover is included in this policy as Appendix A.

IV. Periodic Reviews of User Fees

Periodic reviews of user fees help ensure transparency, equitability in fee structures, and sustainability of city services. Specifically, periodic reviews help ensure that fees are adequate for cost recovery, distributed fairly among users, and promote transparency by allowing stakeholders to understand how user fees are determined and used.

Reviews should be conducted every 5 years beginning with the year identified in Appendix B. However, changes in the cost structure such as 1) moving a fee and the related expenditures into or out of an enterprise fund, 2) significant increases or decreases in related costs, or 3) significant changes in demand may require a more immediate fee review. Additionally, the Division could determine that a review should be conducted at a different point in time. Factors that should be considered in when a review may be needed include changes in the City's cost structure, inflation, and feedback from users and stakeholders. The Division will present their determination to the Budget Section for consideration. After review, the request will be shared with the City Manager's Office to determine if we move forward with a fee review outside the schedule.

Annually, the Budget Section will send a reminder to the applicable Divisions of the user fees that are planned for review for their area. Division staff will be responsible for reviewing the existing fees charged as well as bringing forward potential new fees to be developed. Budget staff will work with applicable Division staff to set expectations such as: schedules, timely responses for request of information, timely review of reports, level of effort required, responsible staff members and leads, Council adoption and implementation. Budget staff will also meet with Division staff for determining if an external contractor is needed to conduct the user fee review. The non-General Fund fee review the costs are the responsibility of the Fund/Division. In determining whether the user fee review should be outsourced, we should consider the complexity of the cost structure for the fees to be reviewed, such as the number of staff working in whole or in part on the activities related to the user fee and the number of facilities or locations where the service is provided; the availability of staff to conduct the user fee analyses; and staff expertise in conducting the analyses.

The Division, along with the Budget Section, should determine whether the proposed fee changes should include a staggered implementation to reach the cost recovery level, or an incremental fee increase to account for inflation. Each Division should review its fees and propose adjustments to ensure that the established fees meet the target cost recovery rates.

As a guide to completing fee reviews, this would be based on expected level of effort and time to complete the evaluation.

- Low effort, community involvement, short completion: 6-9 months
- Moderate effort, community involvement, medium length of completion: 9-12 months

- High effort, with extensive community involvement, long length of completion: 12-18 months

An administrative review of the Fee Schedule found in Appendix B, should be reviewed every 3-4 years by the Budget Section to assure we are completing timely reviews and adjusting based on current organization needs. The review and revisions will be discussed with the Leadership and City Manager's Office for consideration. A new fee schedule may be adopted administratively based on this information.

V. Data Elements for a Cost Analysis

When certain fees are being considered for review, there are several data elements the Divisions should be aware of and be able to provide as part of the review. Compiling the data and data accuracy for the review will be the responsibility of the Division staff. An example of a form to utilized for the fee analysis can be found in Appendix C – Cost Analysis Form.

- Activity Data. The Division should be able to compile the activity information for each fee, using actual data from the most recently completed fiscal year. If necessary, the Division should make appropriate adjustments to actual data for planned increases or decreases in the services provided.
- Cost Data. The cost data to be utilized in the review should be obtained from the most recently adopted budget. After the budget is finalized, the Division or Section should work with the Budget Section to obtain budgeted expenditures and the indirect cost rate that should be applied to the direct costs.

VI. Fee Establishment, Revisions, Collections, and Reporting

Equity

This policy supports equity and fairness as it requires those who personally benefit from a program or service, above what the general taxpayer receives, to pay for that benefit. The type of service and benefit received will directly determine the cost recovery level or pricing strategy to be used for the pricing of the services and products.

Additions, Revisions, and Eliminations of User Fees Outside of Schedule

Any proposal outside of the schedule to add, revise, or eliminate user fees must be submitted in writing to the Budget Section for evaluation and include a justification for the adjustments. The Budget Section will confer with the division to evaluate the ability to bring a fee adjustment forward outside the existing rotation of user fee reviews. The Division and Budget Section will present the request to the City Manager's Office for final approval. Once the Division and Budget Section have settled upon a proposed fee, the fee adoption will need to follow state requirement including the 60-notification, see Appendix D – Example Timeline for 60 Day Notice Process and Fee Adoption.

Fee Collection and Enforcement

Division in coordination with Management Services will establish clear procedures for the collection of user fees, including methods of payment, and deadlines as well as the processes related to non-payment.

Reporting and Accountability

Management Services will provide periodic reports to the Divisions showing revenues from user fees and division expenditures. Divisions are responsible for reviewing their revenue reports to assure fees are properly being collected and reported and should report discrepancies to Management Services. Management Services will provide training on what to look for and how to understand the reports.

Citywide Cost Recovery Plan Adoption and Updates

The Citywide Cost Recovery Plan is adopted by City Council. Clerical and minor amendments including adding or deleting fees from Schedule A or amendments to the Fee Review Schedule provided in Appendix B may be updated by the Management Services Director after review by the City Manager or designee. Material changes will be brought forward to be adopted by City Council.

Appendix A
Cost Recovery for User Fees, Rates and Charges

Section	User Fees, Rates and Charges		Target Cost Recovery / Benefit Level
City Attorney			
Prosecution	<ul style="list-style-type: none"> • Police Videos 		80% to 100% Individual
City Engineering			
Engineering	<ul style="list-style-type: none"> • Engineering As-Builts • Grading and Drainage Field Inspection • Grading, Drainage, Paving Plan Review 	<ul style="list-style-type: none"> • Materials Testing Fee • Offsite Permits 	80% to 100% Individual
Communication and Civic Engagement			
Community and Civic Engagement	<ul style="list-style-type: none"> • Liquor Licenses • Off-Track Betting/Bingo • Partner Registry 	<ul style="list-style-type: none"> • Public Records Copy Request • Sexually Oriented Businesses 	80% to 100% Individual
Planning and Development Services			
Planning and Development Services	<ul style="list-style-type: none"> • Annexations • Building Permits • Conditional Use Permit • Development Agreement – Major • General Plan Amendment 	<ul style="list-style-type: none"> • Sidewalk Encroachment License • Subdivision Plat • Sign Permits • Temporary Use Permit • Zoning Variance 	80% to 100% Individual
Planning and Development Services	<ul style="list-style-type: none"> • Appeals • Continuance • Development Agreement - Minor • Heritage Preservation Review • Minor Improvements Permit 	<ul style="list-style-type: none"> • Site Plan Review • Subdivision – Lot Split/ Adjustments • Planning Fees, Development • Outdoor lighting • Zoning Map Amendment 	20% to 80%
Planning and Development Services	<ul style="list-style-type: none"> • Variance 		0% to 20%

Section	User Fees, Rates and Charges		Target Cost Recovery / Benefit Level
Economic Vitality			
Parking-ParkFlag	<ul style="list-style-type: none"> • Parking Fees 		80% to 100% Individual
Airport	<ul style="list-style-type: none"> • Fuel Flowage Fees • Ground Transportation • Landing Fees • Pay to Park Sales 	<ul style="list-style-type: none"> • Permits • Rental Car Agencies • Rental Fees 	80% to 100% Individual
Fire			
Community Risk Reduction	<ul style="list-style-type: none"> • Construction Fees • Operational Permits 	<ul style="list-style-type: none"> • Event Fees • Fire Protection Contracts 	80% to 100% Individual
Watershed Protection	<ul style="list-style-type: none"> • Water Resource & Infrastructure Protection Fee 		80% to 100% Individual
Management Services			
Revenue	<ul style="list-style-type: none"> • Business Licenses • City Privilege Tax License 	<ul style="list-style-type: none"> • Short Term Rental Licenses 	80% to 100% Individual
Municipal Court			
Municipal Court	<ul style="list-style-type: none"> • Boot Fee 	<ul style="list-style-type: none"> • Parking Fine 	80% to 100% Individual
Parks, Recreation, Open Space and Events (PROSE)			
Parks	<ul style="list-style-type: none"> • Cemetery Fees • Cemetery Lot Charges 	<ul style="list-style-type: none"> • Opening and Closing Charges • Perpetual Care 	80% to 100% Individual
Recreation and Events	<ul style="list-style-type: none"> • Adult Sports • Equipment Rentals • Special Event Rental and Permit • Ramada Rentals 	<ul style="list-style-type: none"> • Athletics Rentals • Indoor Rentals – Aquaplex • Memberships – Aquaplex • Skate Sharpening/ Maintenance 	20% to 80% Individual/ Public
Recreation and Events	<ul style="list-style-type: none"> • Youth Sports • Admissions/Day Pass • Memberships (Non-Aquaplex) 	<ul style="list-style-type: none"> • Indoor Rental (Non-Aquaplex) • Application Fees 	Up to 20% Public

Section	User Fees, Rates and Charges		Target Cost Recovery / Benefit Level
Police			
Operations	<ul style="list-style-type: none"> • Background Checks • Car Impound Fee • Fingerprinting Fees 	<ul style="list-style-type: none"> • Pawn Fees • Police Reports • Police Video 	80% to 100% Individual
Operations	<ul style="list-style-type: none"> • Police Alarm Permit 	<ul style="list-style-type: none"> • Rabies Shot Fees 	20% to 80% Individual/ Public
Operations	<ul style="list-style-type: none"> • Bicycle Licenses 		Up to 20% Public
Public Works			
Facility Maintenance	<ul style="list-style-type: none"> • Facility Rentals-Non-Recreation 		80% to 100% Individual
Solid Waste - Collections	<ul style="list-style-type: none"> • Bin Sales-Taxable • Commercial Recycling • County Commercial Recycling • County Commercial Refuse • County Hoist & Haul Recycling 	<ul style="list-style-type: none"> • County Hoist & Haul Refuse • Curbside Glass Collection • Hoist & Haul • Recycling Revenue • Refuse Charges 	80% to 100% Individual
Solid Waste - Landfill	<ul style="list-style-type: none"> • Contracted Hauling • Contracted Revenue • County Landfill MR Fees • Dumping Fees • Freon Extraction Charge 	<ul style="list-style-type: none"> • Inert Materials Dump • Hazardous Waste • Miscellaneous • White Goods/Metals 	80% to 100% Individual
Street Construction	<ul style="list-style-type: none"> • Offsite Permit 		80% to 100% Individual
Sustainability			
Sustainability	<ul style="list-style-type: none"> • Environmental Service Fee 		80% to 100% Individual

Section	User Fees, Rates and Charges		Target Cost Recovery / Benefit Level
Water Services			
Reclaimed Water	<ul style="list-style-type: none"> • Reclaim Base • Reclaim Water Base 	<ul style="list-style-type: none"> • Reclaim Water Sales 	80% to 100% Individual
Regulatory Compliance	<ul style="list-style-type: none"> • Restriction Permits 	<ul style="list-style-type: none"> • Sewer Fines - Industrial 	80% to 100% Individual
Wastewater Treatment-Wildcat	<ul style="list-style-type: none"> • Impact Model – Sewer • Liquid Waste • Sewer Buy-ins • Sewer Connection Fees 	<ul style="list-style-type: none"> • Industrial Waste Discharge • Service Charges • Other Services 	80% to 100% Individual
Water Production	<ul style="list-style-type: none"> • Distribution System Connection • Fire Protection – Utilities • Impact Model – Water • Red Gap Ranch Grazing Lease • Restriction Permits • Restriction Surcharges 	<ul style="list-style-type: none"> • Service Charges • Water Base Charges • Water Buy-ins • Water Energy Surcharge • Water Meter Installations • Water Sales 	80% to 100% Individual

**Appendix B
Fee Review Schedule (*)**

Calendar Year/Division	Area of Review	Level of Effort	Year of Last Review with a Change
CY 2026			
Sustainability	All Rates and Fees	Moderate	2007
Communications and Civic Engagement	All Rates and Fees	Low	2007
Economic Vitality	Airport	Moderate	2011
Parks, Recreation, Open Space and Events	All Rates and Fees	High	2014
CY 2027			
Public Works	Solid Waste	High	2018
City Engineering	All Rates and Fees	Moderate	2017
Planning and Development	All Rates and Fees	Moderate	2017
Public Works	Streets	Low	2018
Economic Vitality	Library and BBB Funds	Low	2010
CY 2028			
Fire	Community Risk Reduction	Moderate	2017
Fire	Watershed Protection	Moderate	2020
Public Works	Facilities and Fleet	Low	2018
Police	All Rates and Fees	Moderate	2008
Municipal Court	All Rates and Fees	Low	2014
City Attorney	All Rates and Fees	Low	2015
CY 2029			
Management Services	All Rates and Fees	Low	2018
Water Services	Stormwater	High	2023
Water Services	Water	High	2024
CY 2030			
Water Services	Wastewater	High	2024
Water Services	Reclaimed Water	High	2024
Economic Vitality	ParkFlag	Low	2025

(*) Fee schedule subject to review every 5 years.

Appendix C
Example Cost Analysis Form

Division: _____
Section: _____
User Fee: _____

ACTIVITY DATA

Description of Activity Measured: (e.g., licenses issued, number of rentals, etc.)	
Actual Activity for the Prior Fiscal Year	
+/- Projected Increases/Decreases	
= Activity Used to Calculate User Fee	

COST DATA

Salaries and Benefits:

Position Title	Number of FTEs	Annual Salary Plus Benefits	Percent of Time Spent on (User Fee) Activity	Salary Costs for Activity
Total Salary and Benefit Charges				\$

Direct Expenses:

Add any supplies, contracts, etc. that are directly related to the user fee activity.

Description	Fiscal Year Expenditure/Expense Total
Printing Expenses	
Contract	
xxx	
Total Direct Expenses	\$

Division Overhead:

Represents a proportionate share of the Division's overhead costs. These are costs that would not be included in the City's Indirect Cost rate but relate to the activity associated with the user fee. This would include the Division Director's salary and the salaries of any support staff and expenses that are not

directly related to any of the Sections within Division. Accumulate these costs and then allocate to each activity based on an equitable distribution basis, such as the number of FTEs in each Section or subsection.

Section Overhead:

If the user fee activity, represents only a portion of a Section, you would also need to include a proportionate share of Section overhead. The costs would be similar to Division-level costs and include the Section Head’s salary and related expenses. These costs would be allocated to each activity based on an equitable distribution basis, such as the number of FTEs for each activity.

City Overhead:

Obtain the City’s indirect cost rate from the Budget Section. Multiply the indirect cost rate by the total expenditures, including the allocated share of Division and Section overhead. The total expenditures used for the indirect cost rate calculation should exclude equipment, capital expenditures, and the portion of any subawards in excess of \$25,000.

CALCULATE TOTAL COSTS:

Direct Salaries and Benefits	
Direct Expenses	
Allocated Division Overhead	
Allocated Section Overhead	
Department Indirect Costs	
Total Costs	

COST PER ACTIVITY AND CALCULATED FEE

CALCULATE THE PER ACTIVITY COST:

Total Costs Divided by Number of Activity Occurrences during the fiscal year (e.g., licenses issued, rentals, etc.)

Total Costs	
Number of Activity Occurrences	
Per Activity Cost	

CALCULATE THE USER FEE:

Per Activity Cost x Target Cost Recovery Rate from Appendix A

Per Activity Cost	
Target Cost Recovery Rate	
Calculated User Fee	

Appendix D

Example Timeline for 60 Day Notice Process and Fee Adoption

Meeting or Due Date	Action	Notes
TBD	Develop Timeline	
TBD	Develop Fee Review	
TBD	Community Outreach	
8/20/2024	Staff Summary Due - Notice of Intent	Water Service Only
8/27/2024	CM-Preliminary Agenda Review	Water Service Only
9/3/2024	CM-Notice of Intent (1st or 3rd Tuesday)	Water Service Only
9/6/2024	Fee Analysis Report Completed	
9/13/2024	60 Day Public Notice	
TBD	Commission Presentation Completed	
TBD	Commission Meeting	If associated with a commission
10/13/2024	Newspaper Notice	Water Service Only
TBD	Community Outreach	
10/25/2024	Presentation Due	
10/29/2024	Staff Summary Due - 1st Read	
11/5/2024	CM-Preliminary Agenda Review	
11/12/2024	CM-Public Hearing, Ordinance 1st Read	
11/13/2024	Updates to Staff Summary Due	
11/19/2024	CM-Preliminary Agenda Review	
11/26/2024	CM-Public Hearing, Ordinance 2nd Read	
12/26/2024	Fee Effective (Min. 30 days after adoption)	

Fee Adoption effective date takes about 16 to 19 weeks to complete after rate analysis/report is completed.