



City of Phoenix

Stormwater Excise Tax Proposed Increase Information Report March 16, 2023

Introduction

The City of Phoenix (City) owns and operates a Phase I Municipal Separate Storm Sewer System (MS4) under a permit issued by the Arizona Department of Environmental Quality (ADEQ) under the federal Clean Water Act, 33 U.S.C. §§ 1251 *et seq.* This MS4 permit is required under federal and state law because discharges to protected surface waters are highly regulated. The City is required to comply with the terms of the MS4 permit.

To protect water quality and minimize the discharge of pollutants, the City established a comprehensive, multi-departmental Stormwater Management Program (Program) to adhere to the City's MS4 permit requirements. This effort includes but is not limited to:

- Maintaining legal authority to control discharges
- Regulating discharges associated with industrial activity
- Controlling discharge of pollutants from construction activity
- Prohibiting and investigating illicit discharges and illegal dumping
- Controlling spills, dumping, and disposal of materials other than stormwater
- Conducting inspections and monitoring to determine permit compliance
- Public education and outreach
- Employee training
- Compliance administration, reporting, and enforcement

The Program is supported by a Stormwater Excise Tax (Tax) that has been in place since 1993 and is currently codified in Phoenix City Code Section 37-65(B). The City is proposing an increase to the Tax for all City water service accounts. This increase is primarily the result of new and expanded permit requirements from the City's latest MS4 permit, which became effective July 1, 2021. This increase is projected to provide the additional revenue required for the Program through October 2028.

Excise Tax Summary

The Tax is levied monthly on the City Services Bill under the header “State and Other Taxes.” This line item also includes a State of Arizona tax, a Maricopa County freeway tax, a jail tax, and a Hazardous Waste Disposal Tax. An example is provided below.

Figure 1 – Phoenix City Services Bill Example

The image shows a sample of a Phoenix City Services Bill. A blue callout box highlights the 'Water and Sewer Service, Fees and Taxes' section, which includes:

- Water Base Fee** - Based on the customer's meter size, this fee includes 6 units/4,488 gallons from October - May and 10 units/7,480 gallons from June-September.
- Water Usage Fee** - This is the charge for each unit of water that exceeds the amount included in the Base fee.
- Environmental Mandates for Water and Wastewater** - Implemented in 1992, these fees support facility modifications and operations, as well as maintenance related to water or sewer services required to meet federal, state and county laws and regulations.
- City Services Tax** - This excise tax went into effect July 19, 2014, and is based on meter size.
- Sewer Fee** - This fee is for sewer service and is based on the customer's average monthly water usage billed during the preceding January, February and March, typically the lowest water use months.
- State Mandated Jail Costs** - This fee, based on meter size, helps the city pay Maricopa County to house inmates that are arrested in Phoenix, and helps pay the costs for State mandated jail sentences.
- City Sales Tax** - These fees include a Utility Services Tax and a Wastewater Removal Services Tax.
- State and Other Taxes** - These Fees include taxes from the State of Arizona, Maricopa County Freeway and Jail Taxes, a Hazardous Waste Disposal Tax, and Stormwater Fees based on meter size.

To the right, a table titled 'Amount Due' shows a total of \$83.69 due on 4/11/2019. Below that, an 'Account Summary as of 3/21/2019' table shows a total amount due of \$83.69. A detailed breakdown of charges for the period 2/23/2019 to 3/21/2019 is provided, with the 'City Services Tax' of \$1.50 highlighted in yellow. Other charges include Water Base Fee (\$5.56), Water Usage Fee (\$3.05), Environmental Mandates - Water (\$2.00), State Mandated Jail Costs (\$1.00), State and Other Taxes (\$1.52), Sewer Fee (\$32.00), Environmental Mandates - Sewer (\$6.90), and City Sales Tax (\$1.39), totaling \$56.84. Public Works/Solid Waste charges include Solid Waste Fee (\$26.80) and State Landfill Disposal Fee (\$0.05), totaling \$26.85. The total current charges for the period are \$83.69.

Background on Excise Tax

In 1993, the Tax was established to defray the costs associated with the US Environmental Protection Agency (EPA) issued MS4 permit and mandated Program (Ordinance G-3651). All single-family residential City Services bills were assessed \$0.15 per month. All other water accounts were charged a graduated rate by meter size using the equivalent dwelling unit methodology.

The Phoenix City Council approved an increase to implement revisions to the Program after the issuance of a new permit in 1997 (Ordinance G-4029). The single-family rate increased from \$0.15 to \$0.20 per month. All other water accounts continued to be charged a graduated rate by meter size using the equivalent dwelling unit methodology.

Based on EPA and ADEQ review, it was evident that the current funding structure was insufficient to implement the existing permit requirements and expanded 2009 MS4 permit requirements. The city completed an extensive review of the Program, calculated operating costs, and researched comparable city fees for stormwater programs. In 2010, City Council approved a third increase in 17 years to cover new positions and an additional \$3.0 million in operating expenses (Ordinance G-5491).

The single-family monthly rate was established at \$0.70 per month and intended to be sufficient until the next ADEQ permit was issued.

Table 1: Summary of Excise Tax (1993 to Present)

Water Meter Size (Inches)	1993	1997	2010 - Current
5/8"	\$ 0.15	\$ 0.20	\$ 0.70
3/4"	\$ 0.15	\$ 0.20	\$ 0.70
1"	\$ 0.38	\$ 0.51	\$ 1.46
1.5"	\$ 0.75	\$ 1.00	\$ 3.50
2"	\$ 1.20	\$ 1.60	\$ 4.85
3"	\$ 2.25	\$ 3.00	\$ 12.80
4"	\$ 3.75	\$ 5.00	\$ 19.75
6"	\$ 7.50	\$ 10.00	\$ 30.00

*5/8" and 3/4" water meters are typical single family residence water meter sizes

New Permit Requirements

A new permit was issued in January 2021 and became effective on July 1, 2021. The new MS4 Permit requires the implementation of new programs and practices and the expansion of existing program elements. New and expanded elements of the Program include: a new stormwater post-construction control program, retrofit feasibility study, increased public outreach requirements, expanded inspection and monitoring requirements, and expanded reporting and mapping requirements.

Non-compliance by the city with the MS4 permit would result in notices of violations, significant fines, and civil penalties up to \$25,000 per day per violation from ADEQ and the EPA. Other cities across the country who have failed to comply with their stormwater permit have ended up operating under a consent decree, and consequently more stringent and inflexible requirements.

The current Tax is not sufficient to implement the new and expanded permit requirements, therefore an increase to cover the expenses of those requirements must be pursued.

Proposed Increase

Single-family home residential customers would have an increase of \$0.25 per month, which adds up to \$3.00 per year. All other water account increases are calculated at a graduated rate by meter size using the equivalent dwelling unit methodology, in accordance with the current tax structure.

Table 2: Proposed Excise Tax Increase

Meter Size (Inches)	Proposed Increase per month
5/8	\$ 0.25
3/4	\$ 0.25
1	\$ 0.53
1.5	\$ 1.27
2	\$ 1.76
3	\$ 4.64
4	\$ 7.16
6 and larger	\$ 10.88

The cost of the new and expanded MS4 permit elements was calculated via a multi-step process. First, the framework for the new stormwater post-construction program required by the permit had to be developed. Once the framework was established, a reasonable estimate of program costs could then be calculated.

The current Program and expanded elements that are covered by the existing Tax were evaluated. Only those elements not currently supported by the existing Tax were evaluated for additional cost projection. The current number of projects and facilities being reviewed by the City were identified, along with the most recent estimated growth rate to forecast cost over time for these Program elements. The increase in education and outreach, inspections, and reporting requirements were evaluated against current and historic staff loads to identify additional personnel needs and levels. In addition, a cost evaluation of the storm system management improvements was completed.

Staff is confident that all reasonably foreseeable costs of the new and expanded Program elements have been captured by the Tax analysis, including forecasted estimates for cost escalations of equipment, supplies, personnel, database upgrades and support.

The City has worked to minimize the costs of new and expanded permit requirements in a variety of ways. For example:

- Although there are many locations for which local flooding and drainage concerns need to be investigated, the Tax increase limits the support to an investigation of up to 10 locations annually. Limiting this number allows the city to keep the Tax increase minimized. Expanding this investigation to more locations could occur if a proportional increase in the Tax were approved.

- The new stormwater post-construction program is being developed to avoid unnecessary implementation expenses in multiple ways, including utilizing existing programs and procedures wherever possible; siting the program in the Planning and Development Department to capitalize on existing expertise and plan review functions; and emphasizing owner-led inspections and submittal of compliance documentation to reduce program costs and minimize the tax increase.

These additional Program resources will enable the City to maintain compliance with the ADEQ-issued MS4 permit and will alert City staff on the status of the storm system to proactively, rather than reactively, identify and address concerns.

The tax will be used to implement these actions that are currently unfunded. It is estimated to supply a total of approximately \$2 Million in additional revenue annually needed for the Program elements detailed in Table 3 below.

Table 3: Permit Requirements and Needed Resources

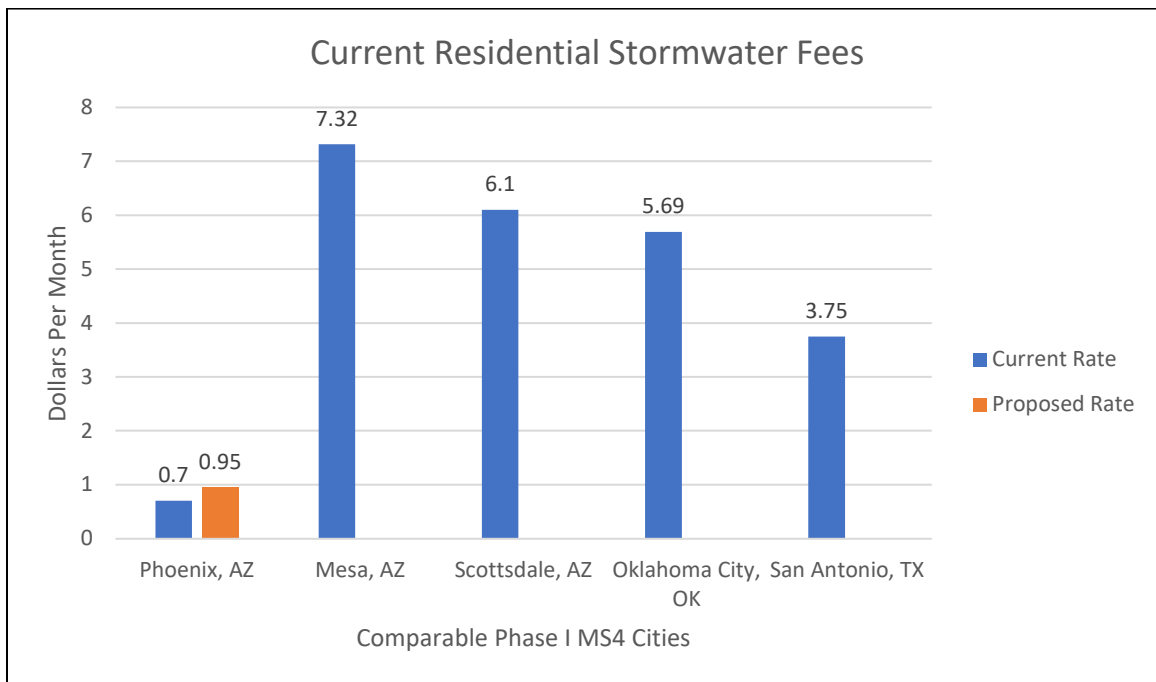
Department	MS4 Permit Actions and Programs	New Resources	Average Annual Financial Impact
Planning & Development	Develop and implement the new permit-required program to inventory, track, inspect and confirm adequate maintenance of post-construction stormwater controls for all private and public development and redevelopment projects.	<ul style="list-style-type: none"> • 5 new positions (phased in over 4 years) • Equipment, supplies, and database development • Training development and education/outreach to owners of post-construction controls • Contractual services 	\$900,000
Water Services	Support expanded permit requirements including public outreach messaging and program modification, increased reporting of non-filers and wet weather monitoring, stormwater management plan updates, tracking and reporting.	<ul style="list-style-type: none"> • 2 new positions • Database development, maintenance, and support 	\$300,000

Department	MS4 Permit Actions and Programs	New Resources	Average Annual Financial Impact
Street Transportation	Improve efficiency and effectiveness related to storm drain evaluation and maintenance.	<ul style="list-style-type: none"> • Develop storm drain asset management program • Support a citywide storm system assessment • Perform up to 10 site evaluations annually of local drainage issues. 	\$ 800,000

City Comparisons

A review of similar cities with Phase I MS4 permits (including Mesa, Scottsdale, Oklahoma City, San Antonio, and Austin) shows current residential storm water taxes and fees ranging from \$3.75 to \$18.06/month. Of the cities investigated, the closest equivalents to Phoenix for activities are Scottsdale, AZ, Mesa, AZ, San Antonio, TX, and Oklahoma City, OK. These cities have monthly residential stormwater fees or taxes ranging from \$3.75 to \$14.95/month. Oklahoma City rates increase by meter size and go up to \$658.92/month. City of Scottsdale, AZ has a flat stormwater fee of \$6.10 for all customers that supports stormwater and capital drainage and flood control projects. City of Mesa has a flat environmental fee of \$7.32 that supports stormwater, dust, and hazardous waste activities.

Graph 1: Comparable Phase I MS4 Cities



Public Outreach

The city plans to conduct public outreach through virtual and in-person community meetings, social media, and online outreach. Below is a schedule of meetings and opportunities to learn more about the proposed Tax increase.

Table 4: Schedule

Month	Activity
February 15, 2023	Notify Transportation and Infrastructure (TIP) Subcommittee
March 2023	Initiate Public Outreach
March - May, 2023	Village Planning Committee Meetings (Water Rate and Stormwater Tax Joint Meeting)
April 18, 2023	City Council Policy Meeting
April – May	Virtual Public Meetings (Water Rate and Stormwater Tax Joint Meeting)
April – May	In-Person Public Meetings (Water Rate and Stormwater Tax Joint Meeting)
May 16, 2023	Publish Notice of Intent with City Clerk and Public Venues
June 2023	Formal Phoenix City Council Meeting for Approval
July - Sept 2023	Public Notification
October 1, 2023	Tax increase goes into effect if approved

Public information on the proposed increase, along with the outreach schedule are available at <https://www.phoenix.gov/public-notice-tax-and-fee-changes>.

Any questions or comments about the excise tax increase can be sent to Wsd.esd.outreach@phoenix.gov and include the term “SW Excise Tax” in the subject line. Staff will respond to any questions posed.