

City of Mesa

FY 2016/17

Utility Rate Recommendations

Audit, Finance and Enterprise Committee

March 14, 2016

Presented by the Office of Management and Budget
with the Environmental Management and Sustainability,
Energy Resources and Water Resources Departments



Enterprise Operations

Each utility is operated as a separate business center

Combined Ending Reserve Balance adheres to the adopted financial policy of at least 8-10% over the forecast period

Reserve balance can be used to smooth rate adjustments year-to-year

Reserve balance can be used to phase in new programs or changes in operations

Revenue Targets

Forecasted expenses are compared with forecasted revenues based on current rates and projected customer growth

In FY 2016/17, the following increase in revenues is needed to accommodate the estimated costs

Utility	Revenue
Electric	\$211,000
Natural Gas	\$605,000
Water	\$5,548,000
Wastewater	\$3,107,000
Solid Waste*	\$2,447,000
Total	\$11,918,000

* Household Hazardous Waste Revenue not included

Rate Adjustment Implementation

- Methods of implementation of rate adjustments can vary from year to year based on needs and goals of the individual utilities
- Impact on individual customers can vary based on the method of implementation and the customer consumption of services

Environmental Management and Sustainability Department



Solid Waste Utility Rate Recommendations

- 4% increase on all residential rates
 - Residential 90 gallon barrel rate: \$1.07 per month, from \$26.72 to \$27.79
 - Residential 60 gallon barrel rate: \$0.95 per month, from \$23.86 to \$24.81
 - Additional black barrel rate: \$0.50 per month, from \$12.62 to \$13.12
 - Residential green barrel service: \$0.25 per month, from \$6.31 to \$6.56

Solid Waste Utility Rate Recommendations

- Mesa Green and Clean Fee: \$0.10 per month, from \$0.74 to \$0.84
- Average residential customer increase: \$1.17 from \$27.46 to \$28.63
- 4.0% increase on bulk item and appliance collection for City of Mesa refuse customers
- Establishing a new bulk item and appliance collection for Non-City of Mesa refuse customers
- Commercial Front Load rates: no recommendations for adjustment at this time
- 4.9% increase on Commercial Roll Off rates

Energy Resources Department



Electric Utility Rate Recommendations

- Residential System Service Charge component: \$1.50 per month, from \$8.00 to \$9.50
- Consumption component of rate: No adjustment recommended
- Average residential customer: \$1.50 per month, from \$92.92 to \$94.42, 1.5% (Including commodity pass-through cost)
- Third proposed increase since FY 2003/04
- Non-residential rates: No adjustment recommended

Electric Utility Rate Recommendations

- Proposed System Service Charge of \$9.50 is:
 - \$10.50 per month less than SRP's monthly service charge of \$20.00
- Monthly bills during calendar year 2015 (at FY 2016/17 Mesa rates) would be approximately \$8.47 less per month than if served by SRP (\$101.64 less per year)
- Commodity costs for power are passed through to the customers and are not included in the annual rate review

Natural Gas Utility Rate Recommendations

- All customers System Service Charge: increase \$1.00 per month
 - Residential customers summer: from \$12.11 to \$13.11 per month
 - Residential customers winter: from \$15.04 to \$16.04 per month
- Average residential customer monthly bill: from \$33.83 to \$34.83, 3% (Including commodity pass-through)
- Monthly bills during calendar year 2015 (at FY 2016/17 Mesa rates) would be approximately \$0.72 less per month than if served by SW Gas (\$8.64 less per year)
- Commodity costs for natural gas are passed through to the customers and are not included in the annual rate review

Water Resources Department



Water Utility Rate Structure

- Over the last few years the City has focused on better aligning fixed revenues with fixed costs. Target is fixed revenues at 35-40% of total costs. FY 2016/17 estimated at 36.1%
- Water consumption per account has declined in recent years: more widespread use of water saving appliances, smaller number of people per household, less landscaping and more water conservation awareness
- The City implemented a fourth residential water tier last year to align the tiers with usage patterns and associated costs
- This year will be the second year of the five year implementation
- Decreases annual impact to customers and allows time for customers to continue assessing their water usage and apply conservation techniques if possible

Water Utility Rate Structure Recommendation

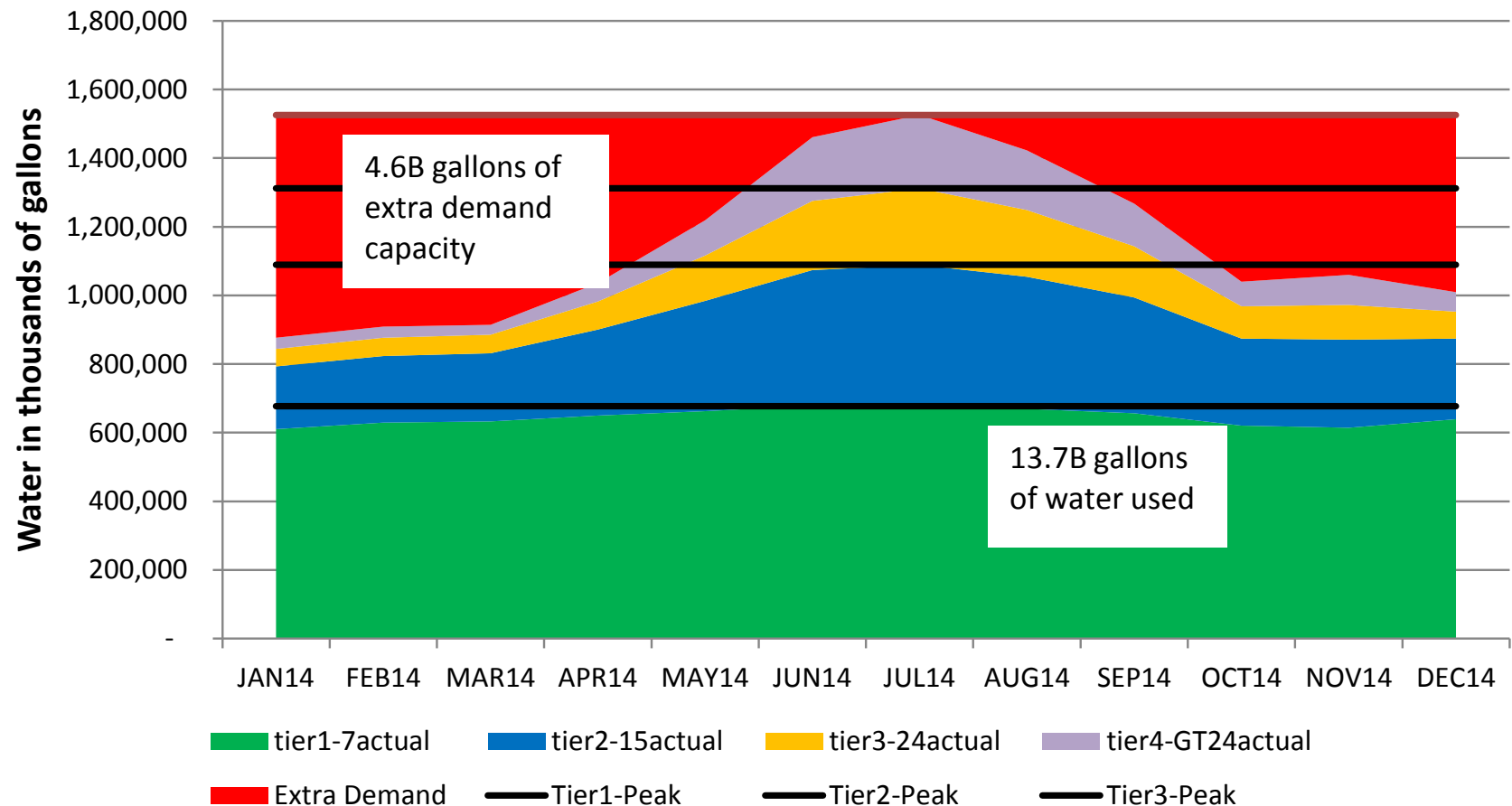
- Current Residential Tier Structure:
 - First 3,000 gallons included in service charge
 - 4,000 – 11,000 gallons; \$2.88 per 1,000 gallons
 - 12,000 – 22,000 gallons; \$4.32 per 1,000 gallons
 - 23,000 – 24,000 gallons; \$4.90 per 1,000 gallons
 - 25,000 gallons and greater; \$5.05 per 1,000 gallons
- Recommended Residential Tier Structure for FY 16/17:
 - First 3,000 gallons included in service charge
 - 4,000 – 10,000 gallons; \$3.02 per 1,000 gallons
 - 11,000 – 20,000 gallons; \$4.54 per 1,000 gallons
 - 21,000 – 24,000 gallons; \$5.23 per 1,000 gallons
 - 25,000 gallons and greater; \$5.54 per 1,000 gallons

5 Year Implementation – Monthly Bill Variance

	VAR\$ -MONTHLY BILL						VAR% - MONTHLY BILL					
	YR1	YR2	YR3	YR4	YR5	YR6	YR1	YR2	YR3	YR4	YR5	YR6
30 kgal	\$10.29	\$11.31	\$12.42	\$13.62	\$13.89	\$9.38	8.2%	8.3%	8.4%	8.5%	8.0%	5.0%
29 kgal	\$9.84	\$10.82	\$11.89	\$13.05	\$13.27	\$9.02	8.1%	8.3%	8.4%	8.5%	8.0%	5.0%
28 kgal	\$9.39	\$10.33	\$11.36	\$12.48	\$12.65	\$8.66	8.1%	8.2%	8.3%	8.5%	7.9%	5.0%
27 kgal	\$8.94	\$9.84	\$10.83	\$11.91	\$12.03	\$8.30	8.0%	8.1%	8.3%	8.4%	7.8%	5.0%
26 kgal	\$8.49	\$9.35	\$10.30	\$11.34	\$11.41	\$7.94	7.9%	8.1%	8.2%	8.4%	7.8%	5.0%
25 kgal	\$8.04	\$8.86	\$9.77	\$10.77	\$10.79	\$7.58	7.8%	8.0%	8.2%	8.3%	7.7%	5.0%
24 kgal	\$7.59	\$8.37	\$9.24	\$10.20	\$10.17	\$7.22	7.7%	7.9%	8.1%	8.3%	7.6%	5.0%
23 kgal	\$6.80	\$8.04	\$8.90	\$9.84	\$9.79	\$6.90	7.2%	8.0%	8.2%	8.4%	7.7%	5.0%
22 kgal	\$6.01	\$7.71	\$8.56	\$9.48	\$9.41	\$6.58	6.7%	8.0%	8.3%	8.4%	7.7%	5.0%
21 kgal	\$5.80	\$6.80	\$8.22	\$9.12	\$9.03	\$6.26	6.8%	7.4%	8.4%	8.6%	7.8%	5.0%
20 kgal	\$5.59	\$5.89	\$7.88	\$8.76	\$8.65	\$5.94	6.8%	6.7%	8.5%	8.7%	7.9%	5.0%
19 kgal	\$5.38	\$5.67	\$6.85	\$8.40	\$8.27	\$5.62	6.9%	6.8%	7.7%	8.8%	8.0%	5.0%
18 kgal	\$5.17	\$5.45	\$5.82	\$8.04	\$7.89	\$5.30	7.0%	6.9%	6.9%	8.9%	8.1%	5.0%
17 kgal	\$4.96	\$5.23	\$5.59	\$6.88	\$7.51	\$4.98	7.1%	7.0%	7.0%	8.1%	8.2%	5.0%
16 kgal	\$4.75	\$5.01	\$5.36	\$5.72	\$7.13	\$4.66	7.3%	7.2%	7.1%	7.1%	8.3%	5.0%
15 kgal	\$4.54	\$4.79	\$5.13	\$5.48	\$5.83	\$4.34	7.4%	7.3%	7.3%	7.2%	7.2%	5.0%
14 kgal	\$4.33	\$4.57	\$4.90	\$5.24	\$5.58	\$4.08	7.6%	7.4%	7.4%	7.4%	7.3%	5.0%
13 kgal	\$4.12	\$4.35	\$4.67	\$5.00	\$5.33	\$3.82	7.8%	7.6%	7.6%	7.6%	7.5%	5.0%
12 kgal	\$3.91	\$4.13	\$4.44	\$4.76	\$5.08	\$3.56	8.0%	7.8%	7.8%	7.8%	7.7%	5.0%
11 kgal	\$2.33	\$3.91	\$4.21	\$4.52	\$4.83	\$3.30	5.1%	8.1%	8.1%	8.0%	7.9%	5.0%
10 kgal	\$2.19	\$2.25	\$3.98	\$4.28	\$4.58	\$3.04	5.0%	4.9%	8.3%	8.3%	8.2%	5.0%
9 kgal	\$2.05	\$2.11	\$2.23	\$4.04	\$4.33	\$2.78	5.0%	4.9%	5.0%	8.6%	8.5%	5.0%
8 kgal	\$1.91	\$1.97	\$2.08	\$2.20	\$4.08	\$2.52	5.0%	4.9%	5.0%	5.0%	8.9%	5.0%
7 kgal	\$1.77	\$1.83	\$1.93	\$2.04	\$2.15	\$2.26	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
6 kgal	\$1.63	\$1.69	\$1.78	\$1.88	\$1.98	\$2.08	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
5 kgal	\$1.49	\$1.55	\$1.63	\$1.72	\$1.81	\$1.90	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
4 kgal	\$1.35	\$1.41	\$1.48	\$1.56	\$1.64	\$1.72	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
3 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
2 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
1 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
0 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Residential Demand vs. Actual Usage

City of Mesa CY2014 Residential Water Full Demand Capacity vs. Actual Usage



Water Utility Rate Recommendations

- All customers: 5% increase on all rate components
 - With phased adjustments in residential tiers 3 and 4
- Residential Service Charge: \$1.27 per month, from \$25.35 to \$26.62
- Residential average monthly seasonal consumption total bill: \$2.23, from \$45.03 to \$47.26
- The City average monthly consumption is about 9,000 gallons however seasonality takes into account high demand summer months that experience some water consumption in tier 2. The resulting impact is greater than a straight 9,000 gallons per month.
- Lowering the eligibility for the Commercial and Industrial Large Water Service rate (W31.1) from 8,500 kgal per month to 6,000 kgal per month

Wastewater Utility Rate Recommendations

- All customers: 5% increase on all rate components
- Residential Service Charge: \$0.86 per month, from \$17.22 to \$18.08
- Residential average monthly consumption total bill: \$1.24, from \$24.77 to \$26.01
- Wastewater rates are not subject to seasonality. The monthly rate is adjusted annually based on the winter water average usage of the individual customer

Summary



Average Residential Customer Impact

Utility	Monthly	Annual
Solid Waste	\$1.07	\$12.84
Water	\$2.23	\$26.76
Wastewater	\$1.24	\$14.88
Total	\$4.54	\$54.48
Electric	\$1.50	\$18.00
Natural Gas	\$1.00	\$12.00

Enterprise Fund Fiscal Impact

The FY 2016/17 recommended utility rate/structure adjustments are anticipated to meet the revenue increase target of \$11,918,000

Utility	Revenue
Electric	\$211,000
Natural Gas	\$605,000
Water	\$5,548,000
Wastewater	\$3,107,000
Solid Waste*	\$2,447,000
Total	\$11,918,000

* Household Hazardous Waste Revenue not included

Enterprise Fund Reserves

	Actuals FY 14/15	Estimate FY 15/16	Forecast FY 16/17	Forecast FY 17/18	Forecast FY 18/19
Beginning Reserve Balance	\$45,251,990	\$46,631,854	\$48,840,885	\$47,185,611	\$38,513,374
Total Sources	\$325,531,829	\$336,226,149	\$342,603,720	\$360,888,488	\$379,977,022
Total Uses	\$314,920,541	\$334,017,118	\$344,258,994	\$369,560,724	\$383,651,403
Ending Reserve Balance	\$55,863,278	\$48,840,885	\$47,185,611	\$38,513,374	\$34,838,994
Ending Reserve Balance Percentage*	16.3%	14.2%	12.8%	10.0%	8.8%

*As a % of Next Fiscal Year's Expenditures

Schedule for FY 2016/17 Utility Rate Consideration

April 14 – City Council Discussion of Utility Rates

May 2 – Introduce Utility Rate Ordinances

May 16 – City Council Action on Utility Rates

July 1 – Effective date for Utility Rate changes

