Enterprise Fund Resources

February 6, 2017

City of Mesa

Presented by the Office of Management and Budget

What is a FUND?

A self-balancing set of accounts recording cash and/or other resources, together with all related liabilities, for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations.

Enterprise Funds

Natural Gas Utility

Water Utility

Wastewater Utility

Solid Waste Utility

District Cooling Utility

Electric Utility

Hohokam Stadium, Cubs Spring Training Facility

Golf Course, Mesa Convention Center

Enterprise Revenues

- Enterprises are operated like a business
  - Services are provided to customers as opposed to the public in general
  - Rates are established for each service being provided
- Enterprises tend to be more infrastructure or capital intensive
  - Meaning that there are usually substantial fixed costs to be covered such as the financing costs of a water plant or the capital costs of a fleet of trucks
- Consumption of, or demand for, services determine revenue levels. This demand is the focus of the City's forecasting as well as any rate adjustments required to meet that need.

Solid Waste - Cost Factors

Major Fixed Cost

- Fleet of large vehicles needing to be kept current
  - Recent move from diesel vehicles to CNG powered vehicles
- Minimal debt service related to CNG fueling station. Pending Household Hazardous Waste facility will also be funded with bonds

Major Variable Cost

- Cost of vehicle fuel, repairs and maintenance, and drivers
- Landfill charges

Solid Waste – Forecast Factors

- Rates are a flat amount per account for the service provided
  - Residential: Standard or Smaller Barrel, Black (trash) and Blue (recycling)
    - Green Barrel (yard waste) service is additional
  - Residential: Bin, Bulk item/Appliance Collection
  - Residential: Mesa Green and Clean Fee (Clean Sweep/Green Sweep and Household Hazardous Waste)
  - Commercial: Bin, Open market competition
  - Roll-off Service: Open market competition
- Number of accounts impact the revenue amount
- Density of account locations and distance to landfill impact the variable cost
  - As the delivery infrastructure is mobile, cost containment is dependent on efficient route scheduling

Solid Waste Services

Residential Services			Commercial Services		
	Number of Customers	Rate		Number of Customers	Rate
Black (trash) barrel	131,971	$27.79/ month for 90 gal 1xwk	Front Load bin service	2,481	Varies with size & quantity of bin and frequency of service
		$24.81/ month for 60 gal 1xwk			
Blue (recycle) barrel	128,124	Included with trash service	Rolloff boxes	1,212	Varies with size of rolloff box
Green (yard waste) barrel	41,117	$6.56/ month for 90 gal 1xwk			

Electric – Cost Factors

Major Fixed Cost

- Financed cost associated with the upgrade, replacement and enhancement of the distribution system

Major Variable Cost

- Cost of the electric commodity can fluctuate, however this cost is passed through to the customer

Electric – Rate Structure

- Rates have three components
  - Commodity cost that is passed through at cost to the City
    - EECAF = Electric Energy Cost Adjustment Factor
  - Flat service charge rate per account
  - Rate based on consumption
    - Different rates for Summer and Winter
- Different rates for Residential and Commercial
- Total consumer bill is benchmarked against Salt River Project (SRP)

Electric Utility Rate Highlight

Electric Residential Rates		
System Service Charge	**$9.50/ month**	
Usage Charge	**Summer**	**Winter**
0-1,200 kWh	$0.05128	
>1,200 kWh	$0.04822	
<800 kWh		$0.03765
>800 kWh		$0.01633
Plus EECAF		

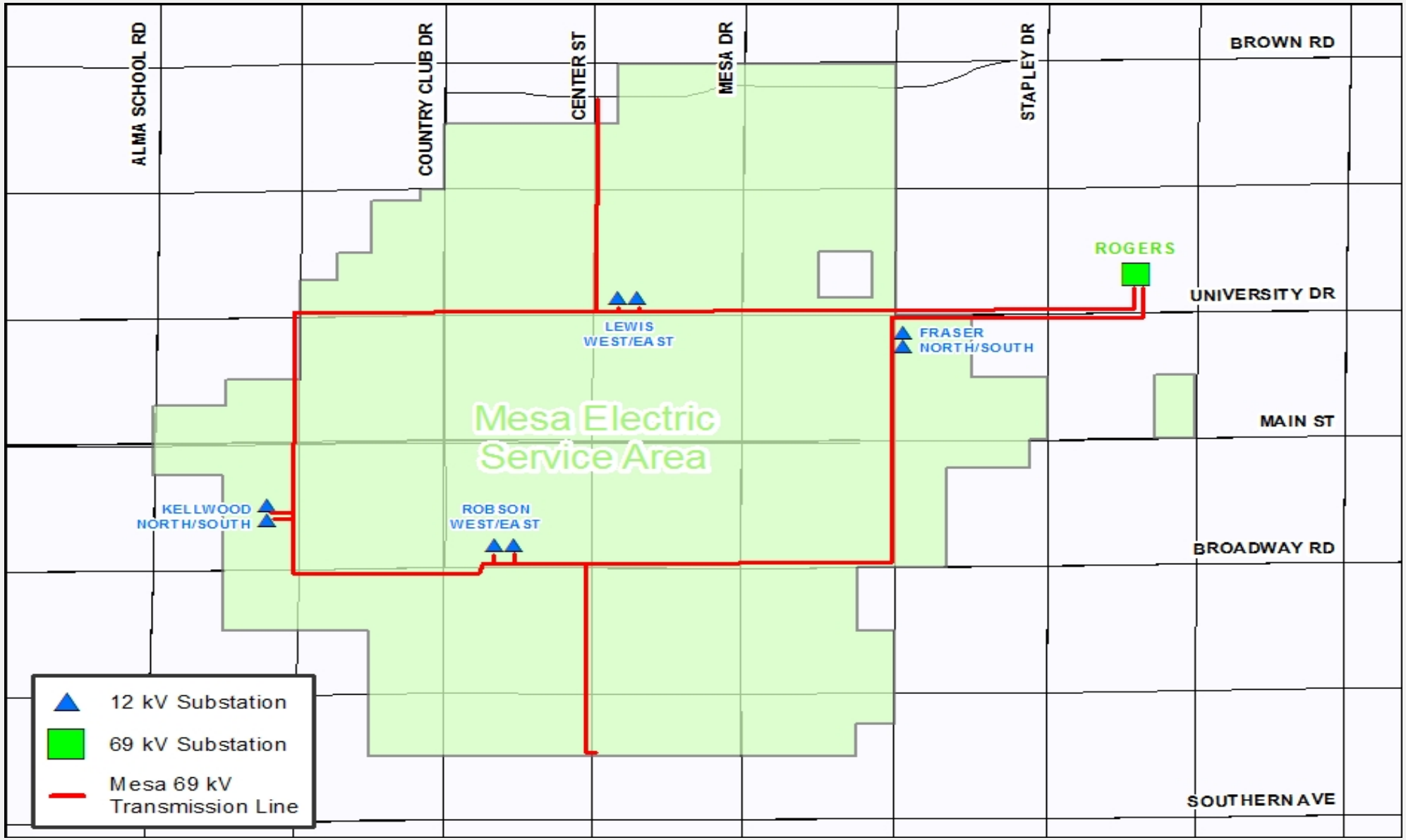
Residential monthly bills during calendar year 2015 (at FY 2016/17 Mesa rates) would be approximately $8.47 less per month than if served by SRP ($101.64 less per year)

Electric Consumption and Revenues

14,050 residential and 2,555 commercial customers

Residential customers kWh in FY 16/17		Commercial customers kWh in FY 16/17	
Budgeted consumption	132,873,765	Budgeted consumption	173,585,223
Budgeted revenue (excluding EECAF)	$7,526,575	Budgeted revenue (excluding EECAF)	$8,781,455

Electric Utility Service Area



Natural Gas – Cost Factors

Major Fixed Cost

- Financed cost associated with the upgrade, replacement and enhancement of the distribution system

Major Variable Cost

- Cost of the natural gas commodity can fluctuate, however this cost is passed through to the customer

Natural Gas – Rate Structure

- Rates have three components
  - Commodity cost that is passed through at cost to the City
    - PNGCAF = Purchased Natural Gas Cost Adjustment Factor
  - Flat service charge rate per account
  - Rate based on consumption
    - Different rates for Summer and Winter
- Different rates for Residential and Commercial
- Total consumer bill is benchmarked against Southwest Gas

Natural Gas Residential Rates

Residential Gas Bill Mesa		
	Summer	Winter
System Service Charge	$13.11 / month	$16.04 / month
Usage Charge	$0.6685 per Billed Therm. first 25	$0.6685 per Billed Therm. first 25
	$0.2167 per Billed Therm. >25	$0.4926 per Billed Therm. >25
Plus PNGCAF		

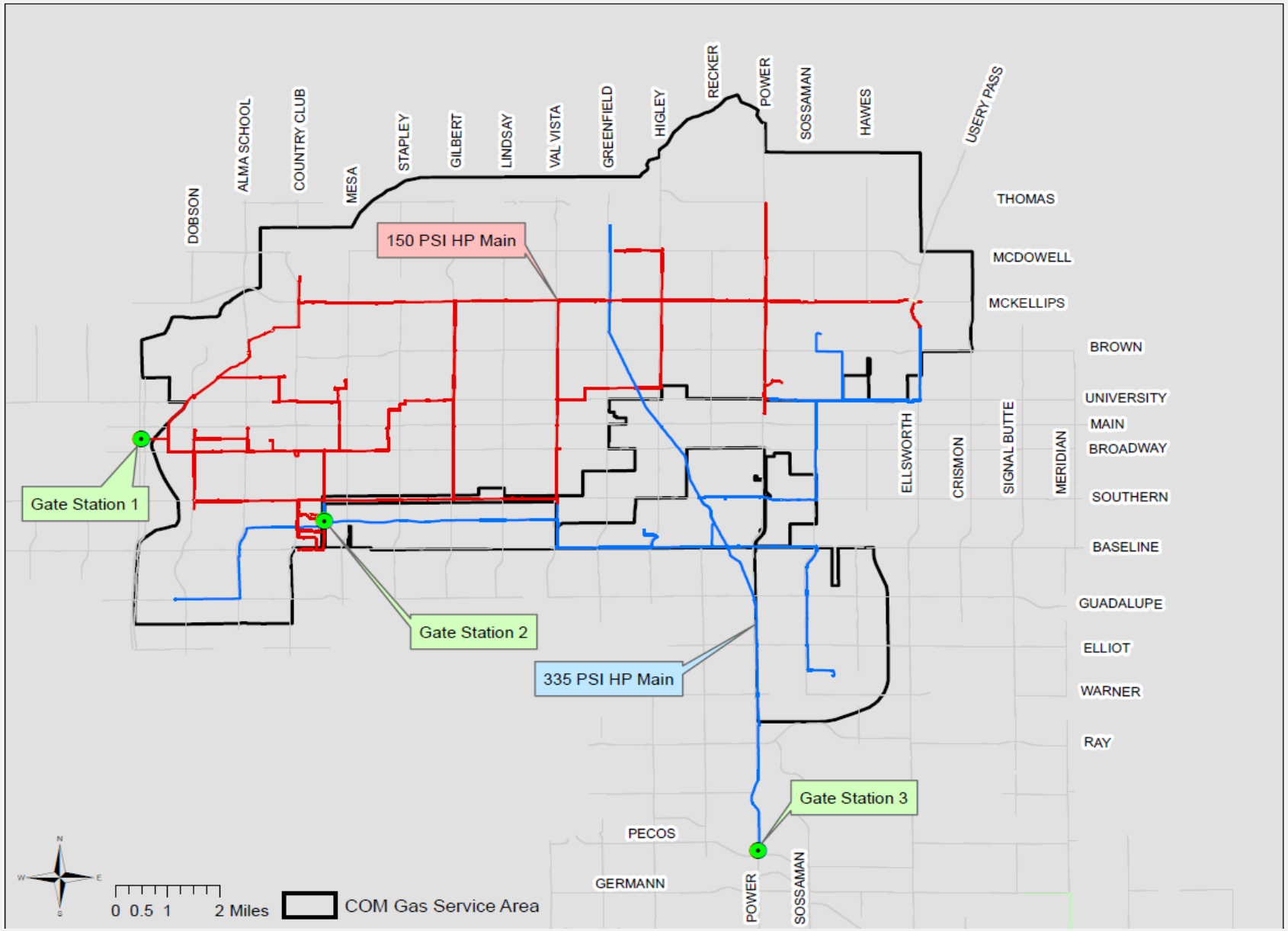
Monthly bills during calendar year 2015 (at FY 2016/17 Mesa rates) would be approximately $0.72 less per month than if served by SW Gas ($8.64 less per year)

Natural Gas Consumption and Revenues

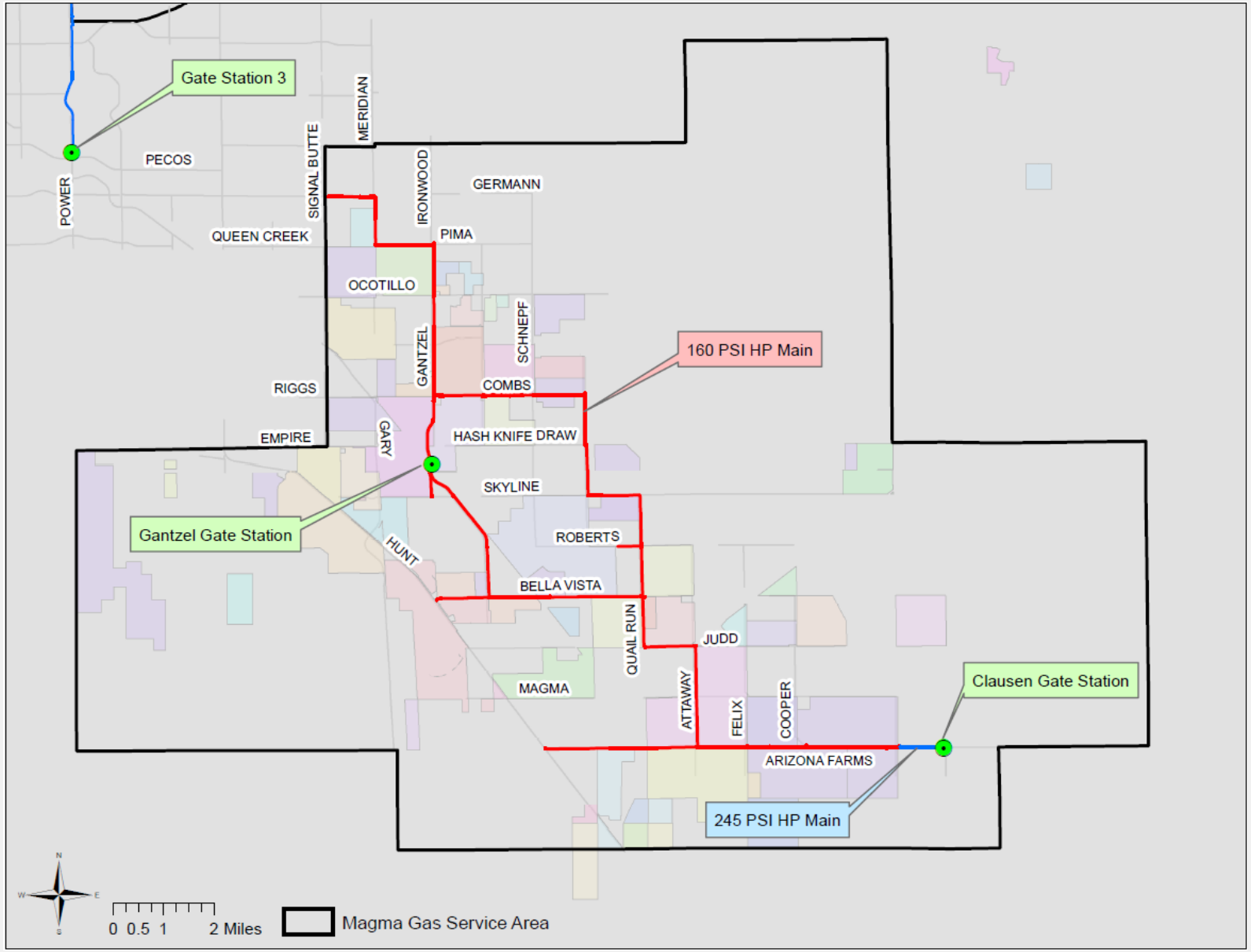
58,825 residential and 2,477 commercial customers

Residential customers therms. in FY 16/17		Commercial customers therms. in FY 16/17	
Budgeted consumption	13,388,884 therms.	Budgeted consumption	19,041,035 therms.
Budgeted revenue (excluding PNGCAF)	$18,648,493	Budgeted revenue (excluding PNGCAF)	$9,134,753
Revenue Breakdown	Usage $8.3M Service Charge $10.3M	Revenue Breakdown	Usage $8.1M Service Charge $1.0M

Mesa Natural Gas Service Area



Magma Natural Gas Service Area



Water – Cost Factors

Major Fixed Costs

- Financing cost associated with the upgrade, replacement and enhancement of the distribution system
- Financing cost associated with the upgrade, replacement and enhancement of the processing system
- Intergovernmental Agreements with Phoenix for capacity at the Val Vista Water Treatment Plant

Major Variable Costs

- Water commodity
- Chemicals for processing
- Electricity for processing

Water – Rate Structure

Rates have two components

Flat service charge rate per account (includes 3000 gallons of water)

Rate based on how much water is used/consumed

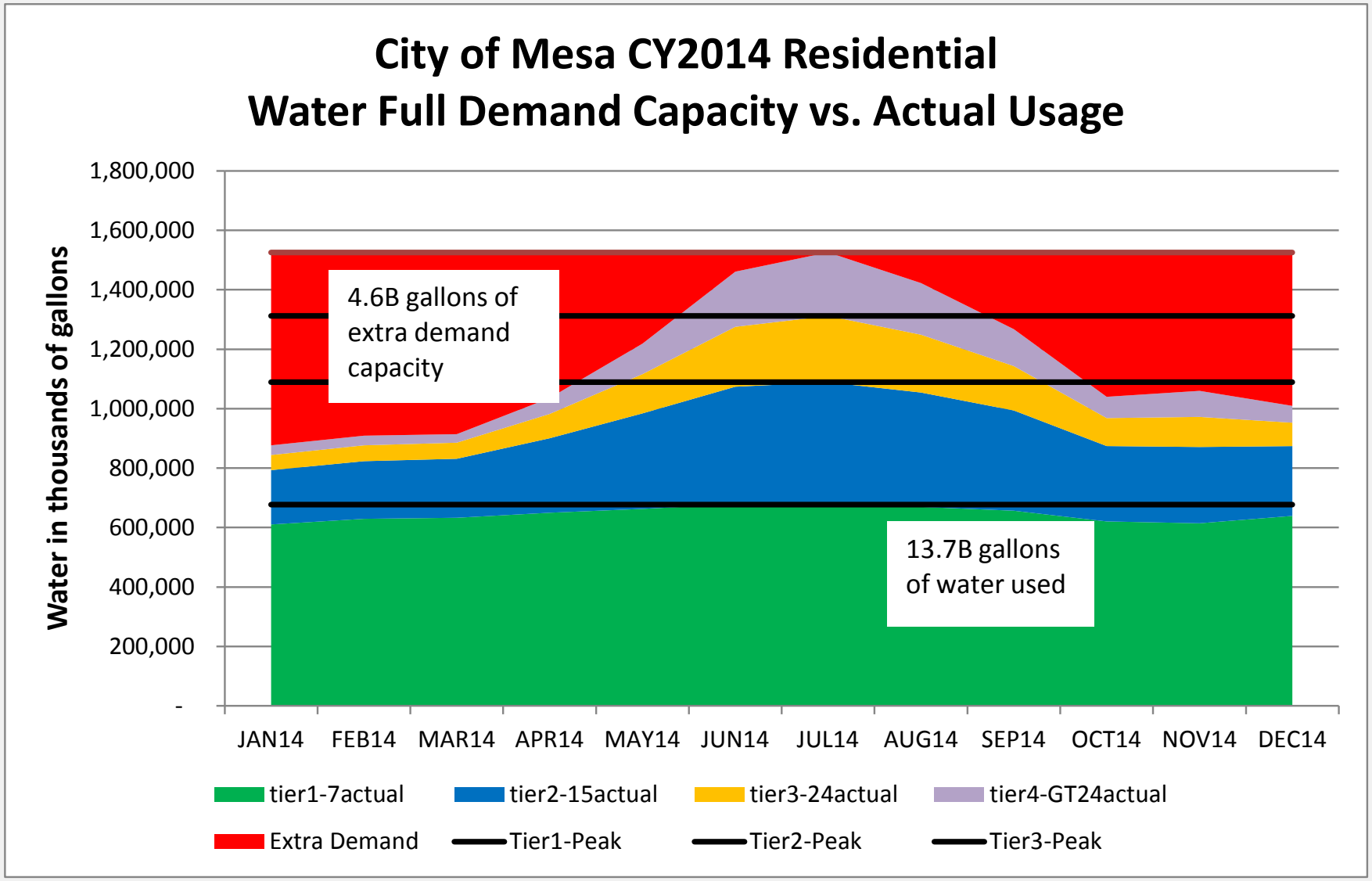
Commercial rates have one consumption based rate

- Commercial water consumption does not vary greatly during the year

Residential rates have four levels/tiers for consumption based rates

- Residential water consumption does vary greatly during the year
- The infrastructure is sized to meet the maximum demand for service occurring in the summer months

Residential Demand vs. Capacity



Water Residential Consumption

- Water consumption per account declined in recent years due to widespread use of water saving appliances, smaller number of people per household, less landscaping and more water conservation awareness

- The City approved a five-year phased approach to realigning the tier levels to better represent current consumption behaviors and introduced a fourth tier

Water Current Residential Rate Tiers

FY 16/17 was the second year of the five-year plan

Current Residential Tier Structure for FY 16/17	
First 3,000 gallons included in service charge	
Gallons	Cost per 1,000 gal
4,000-10,000	$3.02
11,000-20,000	$4.54
21,000-24,000	$5.23
25,000 and greater	$5.54

FY15/16 Major Water Customer Classes

	Rate Revenue	Consumption
Residential	$72.3M	13.6M kgals
Commercial	$24.6M	6.3M kgals
Multi-unit Dwelling	$16.6M	4.7M kgals
Public Authorities	$3.8M	1.0M kgals
Interdepartmental	$3.5M	1.1M kgals
Landscape & Other	$2.5M	0.8M kgals
Total	**$123.3M***	**27.5M kgals**

*$46.8M (38.0%) Service Charge

$71.5M (58.0%) Usage Charge

$5.0M (4.0%) Other

Wastewater – Cost Factors

Major Fixed Costs

- Financing cost associated with the upgrade, replacement and enhancement of the collection system
- Financing cost associated with the upgrade, replacement and enhancement of the processing system
- Intergovernmental Agreement for capacity at the 91st Ave Wastewater Treatment Plant

Major Variable Costs

- Chemicals for processing
- Electricity for processing

Wastewater – Rate Structure

Rates have two components

Flat service charge rate per account

Rate based on average water used/consumed during the winter months

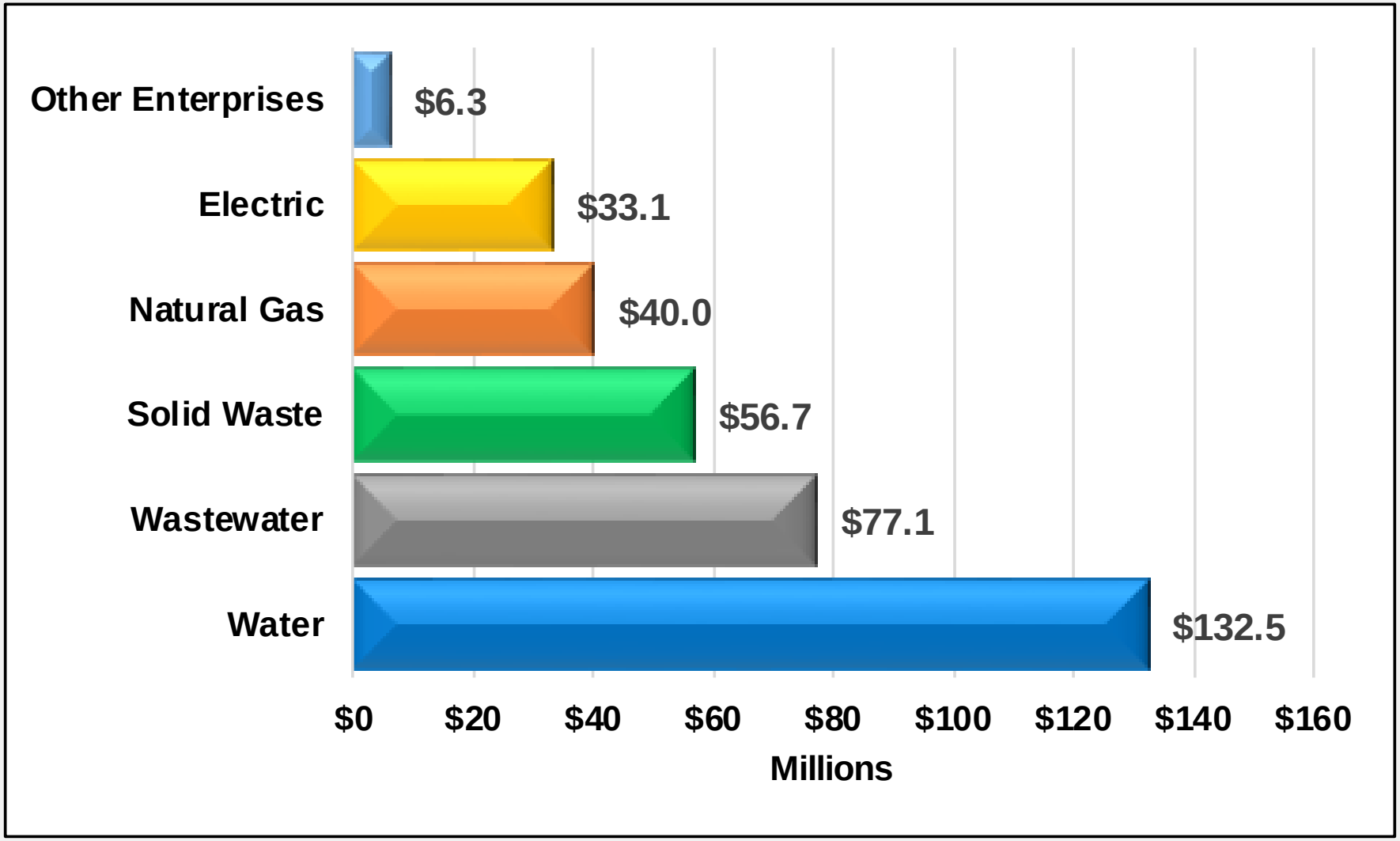
- Wastewater is not metered but is estimated based on the average water usage in the winter months of the individual residential customer
- Wastewater rates are not subject to seasonality. The monthly rate is adjusted annually when the residential winter water average usage is recalculated

FY15/16 Major Wastewater Customer Classes

	Rate Revenue	Consumption
Residential	$38.7M	8.2M kgals
Commercial	$14.8M	3.2M kgals
Multi-unit Dwelling	$17.2M	4.3M kgals
Total	**$70.6M**	**15.7M kgals**

FY16/17 Budget Revenues by Enterprise: $345.8M

(includes pass-through revenues)



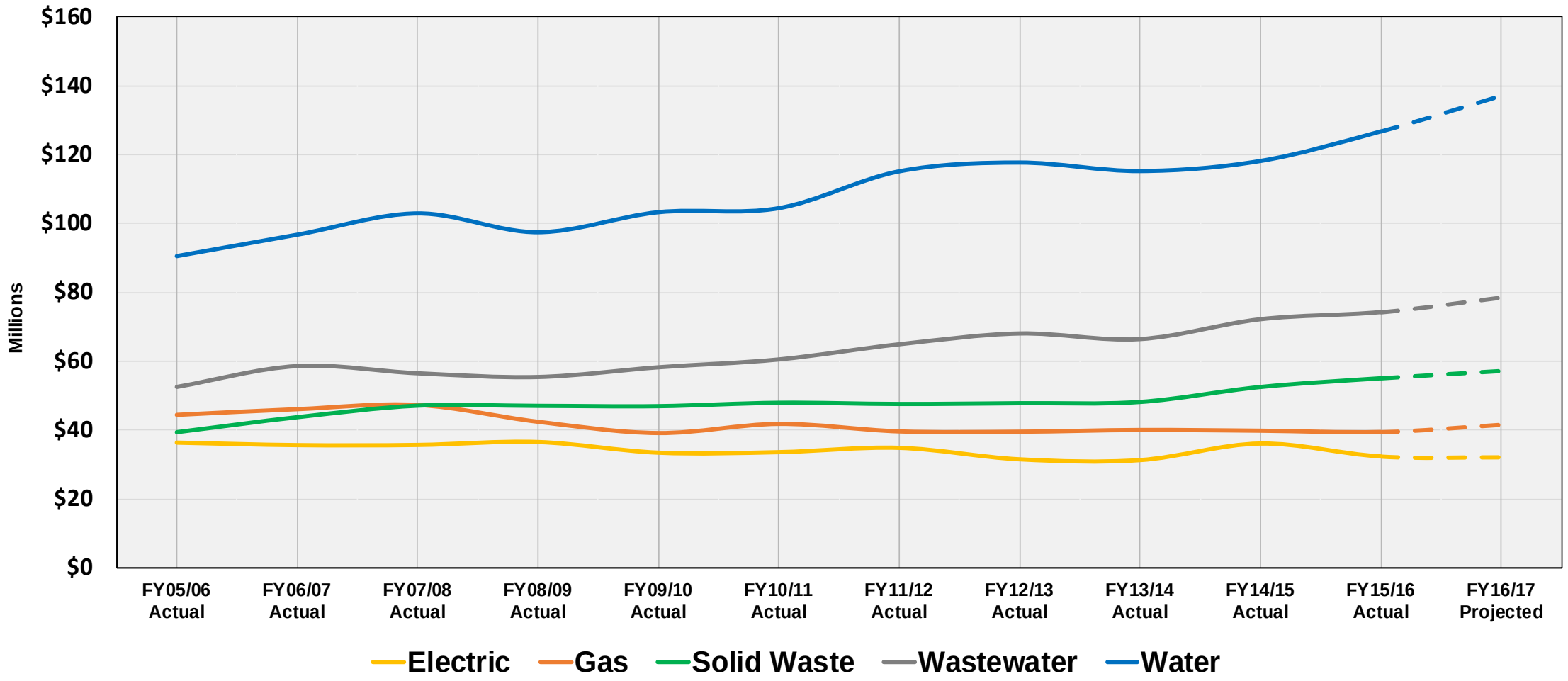
Total Enterprise Revenues

	FY 15/16 Actuals	Change from FY 14/15	FY 16/17 Budgeted	FY 16/17 Projected	Change from FY 15/16
Electric	**$32.3**	-10.2%	**$33.1**	**$32.2**	-0.5%
Natural Gas	**$39.4**	-0.8%	**$40.1**	**$41.3**	4.8%
Solid Waste	**$55.0**	4.8%	**$56.7**	**$57.2**	3.9%
Wastewater	**$74.5**	3.3%	**$77.1**	**$78.4**	5.3%
Water	**$127.0**	7.5%	**$132.5**	**$136.9**	7.8%
Other Enterprises	**$7.3**	4.0%	**$6.3**	**$6.3**	-13.7%
Total	**$335.5**	3.1%	**$345.8**	**$352.3**	5.0%

(as of Dec 2016) **Dollars in millions**

Includes pass-through revenues

All Utility Service Revenues - Historical



Management of the Enterprise Fund

- All of the enterprises are managed as one fund
- The City forecasts expenses, revenues and reserve balances over a multi-year period
- The City's financial policies call for maintaining a fund/reserve balance of at least 8-10%. This policy is applied to all years of the forecast
- The reserve balance allows the City to react to increased expenses by smoothing necessary rate increases over multiple years, therefore avoiding rate spikes. Sometimes a reserve balance greater than 10% is carried due to this rate stabilization philosophy

Example: Enterprise Forecast from Last Year

TOTAL ENTERPRISE FUND

Sources of Funding	FY 14/15 Actuals	FY 15/16 Estimate	FY 16/17 Forecast	FY 17/18 Forecast	FY 18/19 Forecast	FY 19/20 Forecast
Revenues	$325,531,829	$336,226,149	$345,106,935	$363,020,604	$381,874,114	$401,826,856
Total Sources	$325,531,829	$336,226,149	$345,106,935	$363,020,604	$381,874,114	$401,826,856
Uses of Funding						
Operating Expenditures	$118,323,738	$128,608,988	$136,703,631	$139,830,493	$145,812,319	$151,186,020
Capital Transfer	$3,330,000	$4,448,822	$6,195,489	$8,800,485	$3,619,064	$4,448,681
Debt Service Transfer	$61,315,124	$55,131,104	$67,336,264	$79,790,006	$87,922,959	$88,911,727
Expenditure Subtotal	$211,398,541	$214,507,892	$236,765,776	$257,019,796	$267,011,617	$275,083,031
General Fund Transfer	$95,700,000	$99,671,000	$103,861,130	$106,976,964	$110,186,274	$113,491,861
Lifecycle/ Infrastructure Transfers	$6,287,000	$6,598,100	$6,630,562	$6,991,990	$7,367,024	$7,763,911
Economic Investment Fund Transfer	$1,535,000	$2,890,167	$2,356,581	$2,421,727	$2,489,255	$2,535,878
BABS Transfer		$1,383,347				
Total Uses	$314,920,541	$325,050,506	$349,614,049	$373,410,476	$387,054,169	$398,874,680
Net Sources and Uses	$10,611,288	$11,175,643	($4,507,114)	($10,389,872)	($5,180,055)	$2,952,176
Beginning Fund Balance	$45,251,990	$46,631,854	$57,807,497	$53,300,383	$42,910,511	$37,730,455
Ending Fund Balance	**$55,863,278**	**$57,807,497**	**$53,300,383**	**$42,910,511**	**$37,730,455**	**$40,682,631**
Ending Fund Balance Percent*	**17.2%**	**16.5%**	**14.3%**	**11.1%**	**9.5%**	**9.8%**

Rate Adjustments

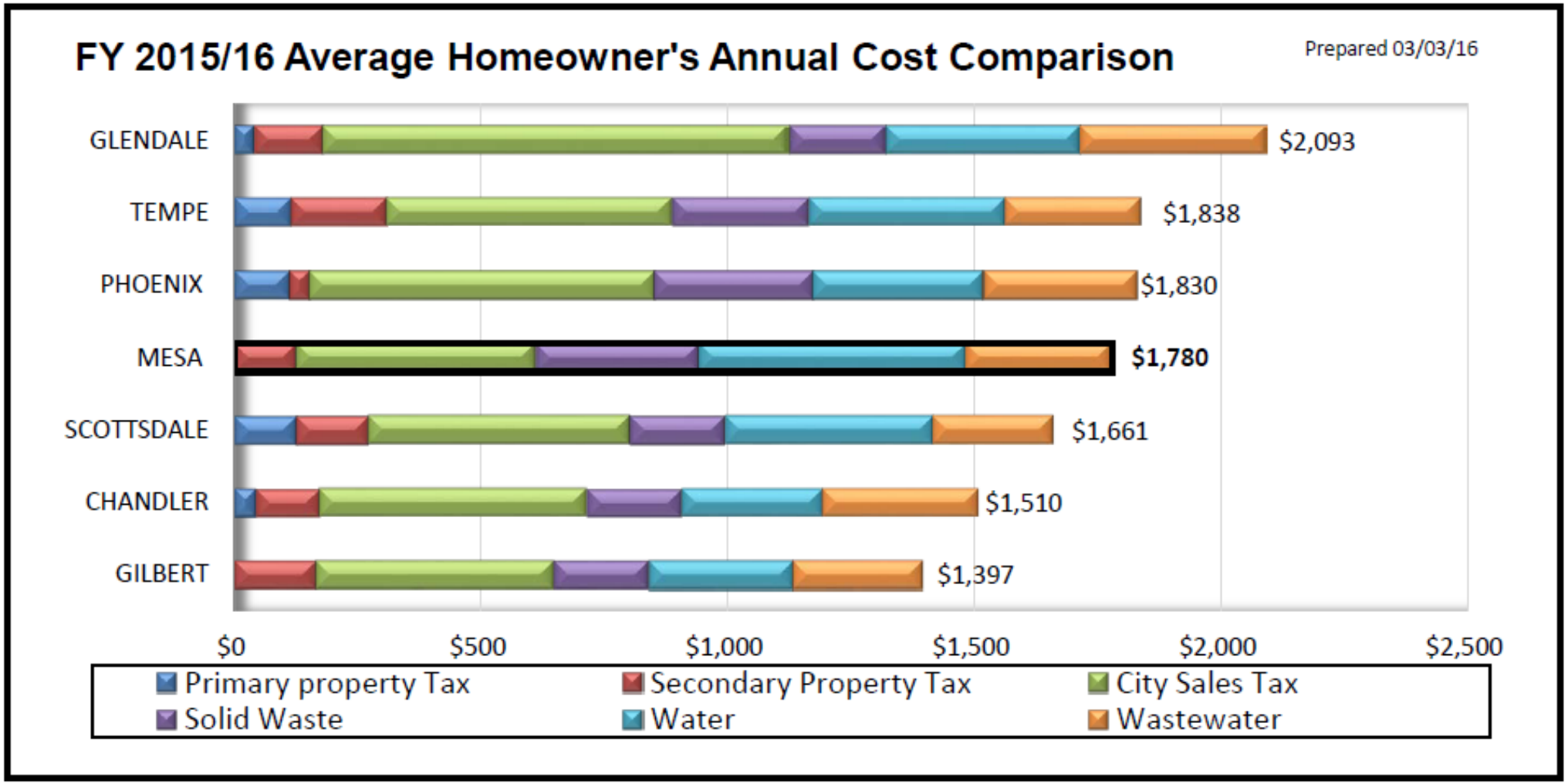
Methods of implementing rate adjustments can vary from year to year based on needs and goals of the individual utilities

Impact on individual customers can vary based on the method of implementation and the customer consumption of services

All rate adjustments are balanced between the needs of the individual utility, the needs of the overall fund and the impact to the resident

Impact of service rates for the average household in Mesa is compared to rates in neighboring communities to ensure that costs remain comparable

Homeowners Comparison



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