



City Council Report

Date: February 10, 2020
To: City Council
Through: Michael Kennington, Chief Financial Officer
Kari Kent, Assistant City Manager
John Pombier, Assistant City Manager
From: Candace Cannistraro, Management and Budget Director
Scott Bouchie, Environmental Management and Sustainability Director
Frank McRae, Energy Resources Director
Jake West, Water Resources, Director
Subject: Fiscal Year 2019/2020 Water Utility Rate Recommendations

PURPOSE AND RECOMMENDATION

The purpose of this report is to provide staff recommendations for water utility rate adjustments. The rate adjustments are recommended to be effective April 1, 2020.

The forecasted expenses for the water utility are compared to the forecasted revenues based on the current rates. The increase in annualized revenues needed to accommodate the increased costs for the water utility are:

<u>Utility</u>	<u>Revenue</u>
Water	\$2,030,000

The method of implementation of rate adjustments can vary from year to year based on the needs and goals of the individual utilities. The impact on individual customers can vary based on the method of implementation and the customer consumption.

For FY 2019/20, the following rate adjustments are being recommended (see Attachment 1 for more detail):

Water:

Residential customers: no rate or tier adjustment

Non-residential customers: 6% increase on usage rates, no adjustment to the fixed service charge

Interdepartmental: no rate adjustment

WATER UTILITY

Rates for water service are comprised of two components: Service Charge, with a flat monthly rate based on the water meter size and Usage Charge, based on units of water consumption.

The water utility forecast includes debt service associated with projects that address customer demand and system reliability that was presented to City Council on October 7, 2019. Significant costs within the utility are the cost of purchasing water, chemicals, and electricity, and the agreement with the City of Phoenix for the operation of the Val Vista Water Treatment Facility. Staff reviews and forecasts all costs each year to ensure rates are sufficient to keep up with expenses.

Over the last few years the City has concentrated on aligning its fixed revenues with fixed costs. The goal is to achieve revenues from the service (fixed) charge at 35% to 40% of overall revenues. For FY 2018/19, revenues from the service charge component rate were 37.18% of total estimated costs. This trend is scheduled to continue into FY 2019/20, with revenues from the service charge component forecast to come in at 36.07% of total estimated costs.

Non-Residential Water

Consistent with the direction of the Drought Management Plan and furthering conservation efforts, the City is focused on identifying necessary and discretionary water use. Staff recommends separating non-residential landscape accounts from general non-residential accounts. Additionally, FY 2018/19 non-residential water usage was higher than residential water usage for the first time. The impact of increased non-residential water usage impacts the amount of water and infrastructure needed to serve these customers.

Staff recommends a 6% rate increase to the usage and excess usage charges. Currently, the non-residential usage rate is aligned with the necessary usage tier. The 6% proposed increase moves the non-residential usage rate closer to the discretionary usage tier. There will be no increase to the service charges. As the recommended increase is only on usage rates, the monthly bill increase will be decreased for customers that consume less water.

General Commercial typical monthly bill (consumption of 11,000 gallons): \$84.90 to \$86.53, 1.9% increase

Landscape Commercial typical monthly bill (consumption of 44,000 gallons): \$215.77 to \$225.25, 4.4% increase

The projected increase in annualized revenues is approximately \$1,814,000.

Excess Water Surcharge

For most non-residential customers (commercial, multi-unit dwelling, and public authorities), the excess water surcharge is currently operative ten months of the year (February through November). For these customers, staff is continuing the implementation of establishing consistency with its winter water average which operates twelve months a year and would further promote conservation. The excess water surcharge was added to February beginning in FY 2018/19. The next step of this implementation will add January in FY 2020/21, and December in FY 2021/22.

The projected increase in annualized revenues is approximately \$216,000.

The total projected increase in annual water revenue for is approximately \$2,030,000.

Attachments:

1. FY 2019/20 Water Utility Rate Adjustment Recommendation Summary

City of Mesa, Arizona Water Utility Rate Adjustments Recommendations for FY 19/20

as of 2/3/2020

Water (per month billing)						
Residential: no rate or tier adjustments						
examples: kgal/mo		FY 18/19	FY 19/20	change		
6	\$	37.67	\$ 37.67	\$ -		0.0%
10	\$	52.03	\$ 52.03	\$ -		0.0%
15	\$	75.98	\$ 75.98	\$ -		0.0%
25	\$	131.43	\$ 131.43	\$ -		0.0%
non-residential: 6% increase for usage charges only						
examples: kgal/mo		FY 18/19	FY 19/20	change		
Landscape 44	\$	215.77	\$ 225.25	\$ 9.48		4.4%
Non-Landscape 11	\$	84.90	\$ 86.53	\$ 1.63		1.9%