



City of Mesa FY 2023/24 Utility Fund Forecast and Rates Recommendations

Audit, Finance & Enterprise Committee
September 7, 2023

Presented by:

Brian A. Ritschel – Management & Budget Director

Christopher Hassert – Water Resources Director

Scott Bouchie – Energy Resources Director

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Utility Operations

- Each utility is operated as a separate business center but treated as one fund
- Reserve balance provides a safety net for unforeseen conditions
- Reserve balance can be used to smooth rate adjustments year-to-year

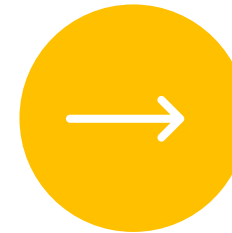
Financial Principles



BALANCE NET SOURCES
AND USES



20% OR HIGHER
RESERVE FUND
BALANCE



RATE ADJUSTMENTS
THAT ARE PREDICTABLE
AND SMOOTHED
THROUGHOUT THE
FORECAST



EQUITY BETWEEN
RESIDENTIAL AND NON-
RESIDENTIAL RATES



AFFORDABLE UTILITY
SERVICES

Utility Fund Forecast

Utility Fund: Historical Net Sources and Uses

NET SOURCES AND USES	FY 17/18 Actuals	FY 18/19 Actuals	FY 19/20 Actuals	FY 20/21 Actuals	FY 21/22 Actuals	FY 22/23 Estimate
WATER	\$12,223	\$2,234	(\$3,107)	\$19,416	\$2,588	(\$3,391)
WASTEWATER	\$2,380	\$11,808	\$2,916	(\$8,878)	(\$5,311)	(\$8,080)
SOLID WASTE	\$2,645	\$1,755	\$1,534	\$5,612	(\$4,764)	(\$4,455)
ELECTRIC	\$2,651	\$2,030	\$1,819	\$791	\$1,806	\$664
NATURAL GAS	\$2,805	\$6,265	\$5,034	(\$2,385)	(\$514)	\$2,153
DISTRICT COOLING	\$435	\$391	\$417	(\$68)	(\$495)	(\$46)
Subtotal: Utilities	\$23,139	\$24,483	\$8,613	\$14,488	(\$6,690)	(\$13,154)
NON-UTILITIES*	(\$4,118)	(\$3,619)	(\$4,452)	\$0	\$0	\$0
TOTAL NET SOURCES AND USES	\$19,021	\$20,864	\$4,161	\$14,488	(\$6,690)	(\$13,154)
Beginning Reserve Balance	\$92,728	\$111,749	\$132,613	\$136,773	\$151,261	\$144,572
Ending Reserve Balance	\$111,749	\$132,613	\$136,773	\$151,261	\$144,572	\$131,418
Ending Reserve Balance Percent*	31.3%	34.9%	35.1%	33.9%	31.1%	26.1%
*As a % of Next Fiscal Year's Expenditures						
Dollars in Thousands						

*Non-Utilities includes Convention Center, Cubs/Sloan Park, Hohokam, and Golf Course

Impacts of Inflation

Major Utility Projects	Fall 2021 Estimate
AMI, Reuse Pipeline, Signal Butte Expansion, and East Mesa Interconnect	\$312M



Reduced to 3 Projects
due to Inflation

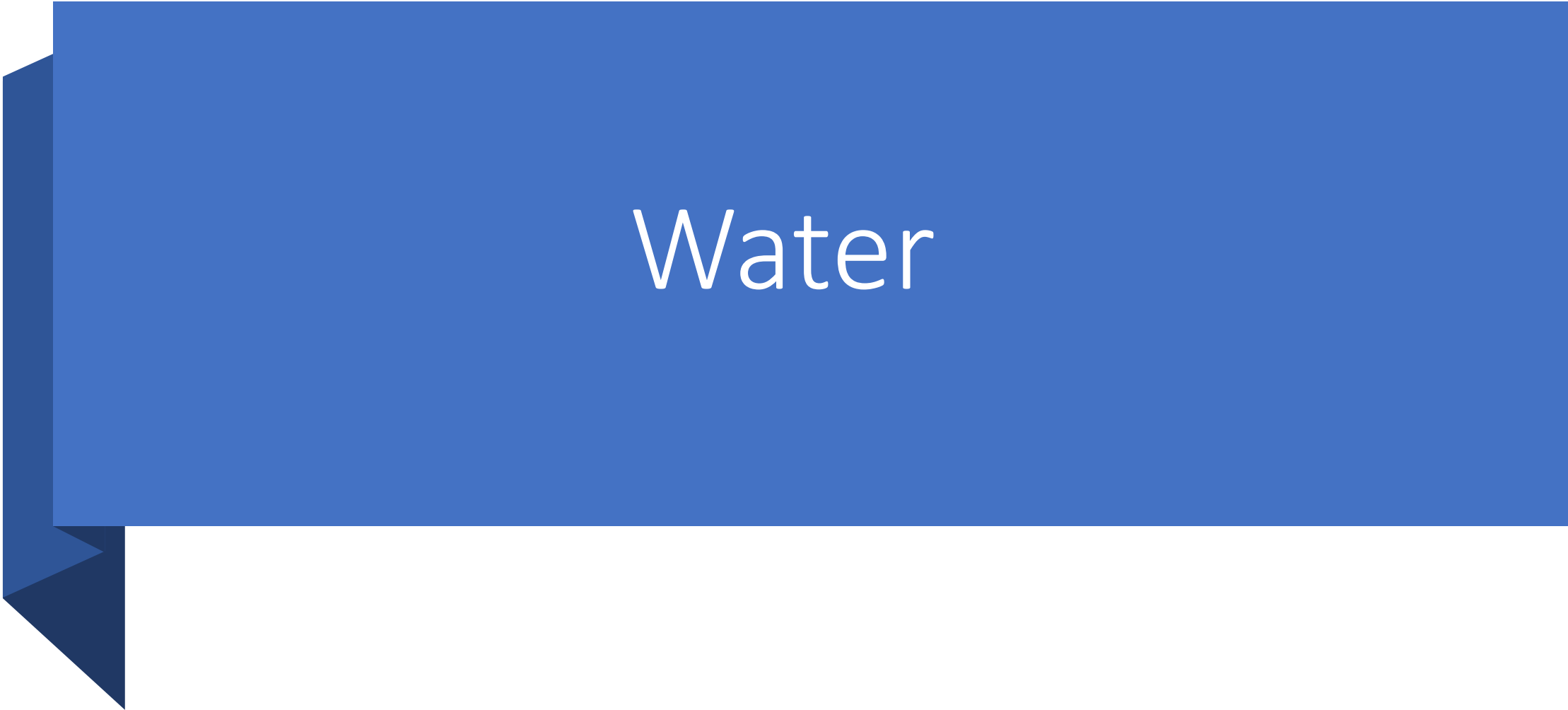
Major Utility Projects	Current Estimate
AMI, Reuse Pipeline, Signal Butte Expansion	\$384M

Utility Fund Forecast:

FY 23/24 Recommended Rate Adjustments

☒	Balanced Net S&U
☐	20% Fund Balance
☒	Smoothed Adjustments
☒	Equity Res. & Non-Res.
☒	Affordable Services

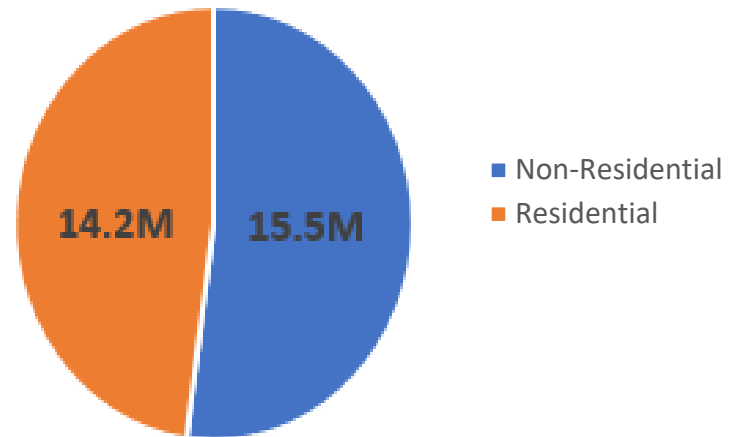
As of 08/22/2023	FY 22/23 Estimate	FY 23/24 Projected	FY 24/25 Forecast	FY 25/26 Forecast	FY 26/27 Forecast	FY 27/28 Forecast	FY 28/29 Forecast
WATER	(\$3,390,539)	(\$1,213,825)	\$824,968	(\$3,833,608)	(\$4,807,613)	(\$3,780,714)	(\$3,245,833)
WASTEWATER	(\$8,080,027)	(\$13,986,661)	(\$9,991,982)	(\$7,046,469)	(\$3,175,824)	\$2,203,698	\$877,990
SOLID WASTE	(\$4,455,062)	(\$7,390,204)	\$678,671	\$1,192,198	\$1,479,784	(\$239,847)	\$3,023,019
ELECTRIC	\$664,095	(\$1,990,443)	(\$718,719)	(\$842,119)	(\$558,839)	(\$714,081)	(\$1,361,963)
NATURAL GAS	\$2,153,284	(\$9,107,075)	(\$3,995,031)	(\$3,367,616)	(\$2,638,632)	(\$2,496,126)	\$863,070
DISTRICT COOLING	(\$45,576)	(\$298,342)	(\$461,410)	(\$132,520)	(\$104,958)	(\$114,287)	(\$111,479)
TOTAL NET SOURCES AND USES	(\$13,153,827)	(\$33,986,550)	(\$13,663,502)	(\$14,030,134)	(\$9,806,082)	(\$5,141,357)	\$44,803
Beginning Reserve Balance	\$144,571,686	\$131,417,859	\$97,431,309	\$83,767,807	\$69,737,673	\$59,931,590	\$54,790,233
Ending Reserve Balance	\$131,417,859	\$97,431,309	\$83,767,807	\$69,737,673	\$59,931,590	\$54,790,233	\$54,835,037
Ending Reserve Balance Percent*	26.1%	18.9%	15.6%	12.0%	10.3%	9.2%	9.0%
*As a % of Next Fiscal Year's Expenditures							



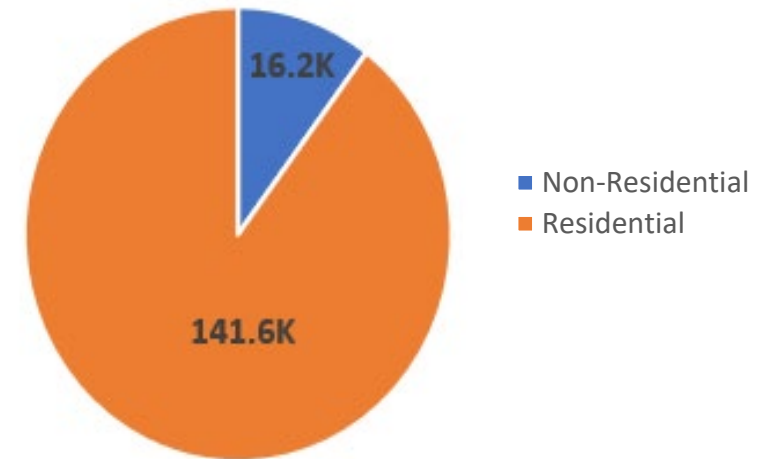
Water

Customer Profile

FY 22/23 Consumption by Customer Type
(in kgals)



FY 22/23 Accounts by Customer Type
(average accounts/month)



Increasing Costs/Pressures on the Utility

- Increases from FY 22/23 to FY 23/24

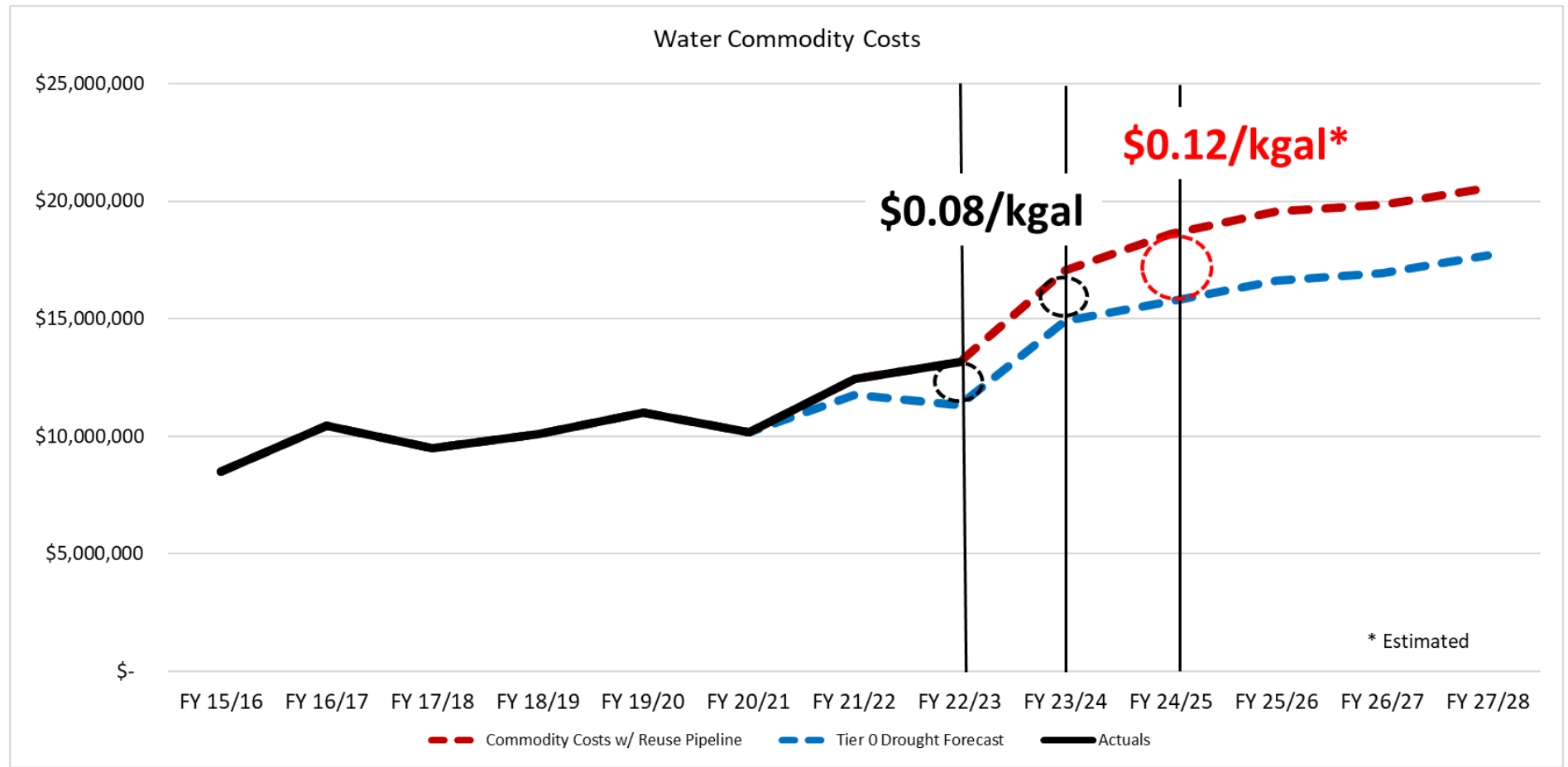
- **Operating Expenditures**

• Water Commodity Costs	+\$3.8M
• Personnel	+\$1.8M
• Treatment Plant Power Costs	+\$0.8M
• Treatment Plant Chemical Costs	<u>+\$0.6M</u>
• Total	<u>+\$7.0M</u>

- **Debt Service** **+\$2.9M**



Staff recommends no change to the Drought Commodity Charge for FY 23/24



Water Rate Proposal/Typical Customer

	2023	2024 (Proposed)	
Residential 6kgals	\$40.50/mo.	Service Charge Usage Charge Drought Commodity Charge	3.00%* 3.00%* \$0.08/kgal***
		\$41.70/mo. (\$1.20/mo.)	
Commercial (General) 9kgals	\$57.76/mo.	Service Charge Usage Charge Drought Commodity Charge	3.00%* 5.00%* \$0.08/kgal***
		\$59.97/mo. (\$2.21/mo.)	
Commercial (Landscape) 34kgals	\$160.43/mo.	Service Charge Usage Charge Drought Commodity Charge	3.00%* 7.50%** \$0.08/kgal***
		\$170.74/mo. (\$10.31/mo.)	

* Less than forecast for 2024 during the previous rate cycle.

** Same as forecast for 2024 during the previous rate cycle.

*** No change from the previous rate cycle.

Typical (Median) Customer (in kgal)

	FY 22/23
Residential	6
Interdepartmental - Landscape	7
Interdepartmental - General	9
Commercial – General	9
Multi-unit – General	21
Schools (PA) – General	33
Commercial - Landscape	34
Multi-unit – Landscape	53
Schools (PA) – Landscape	83

Additional Conservation Measures

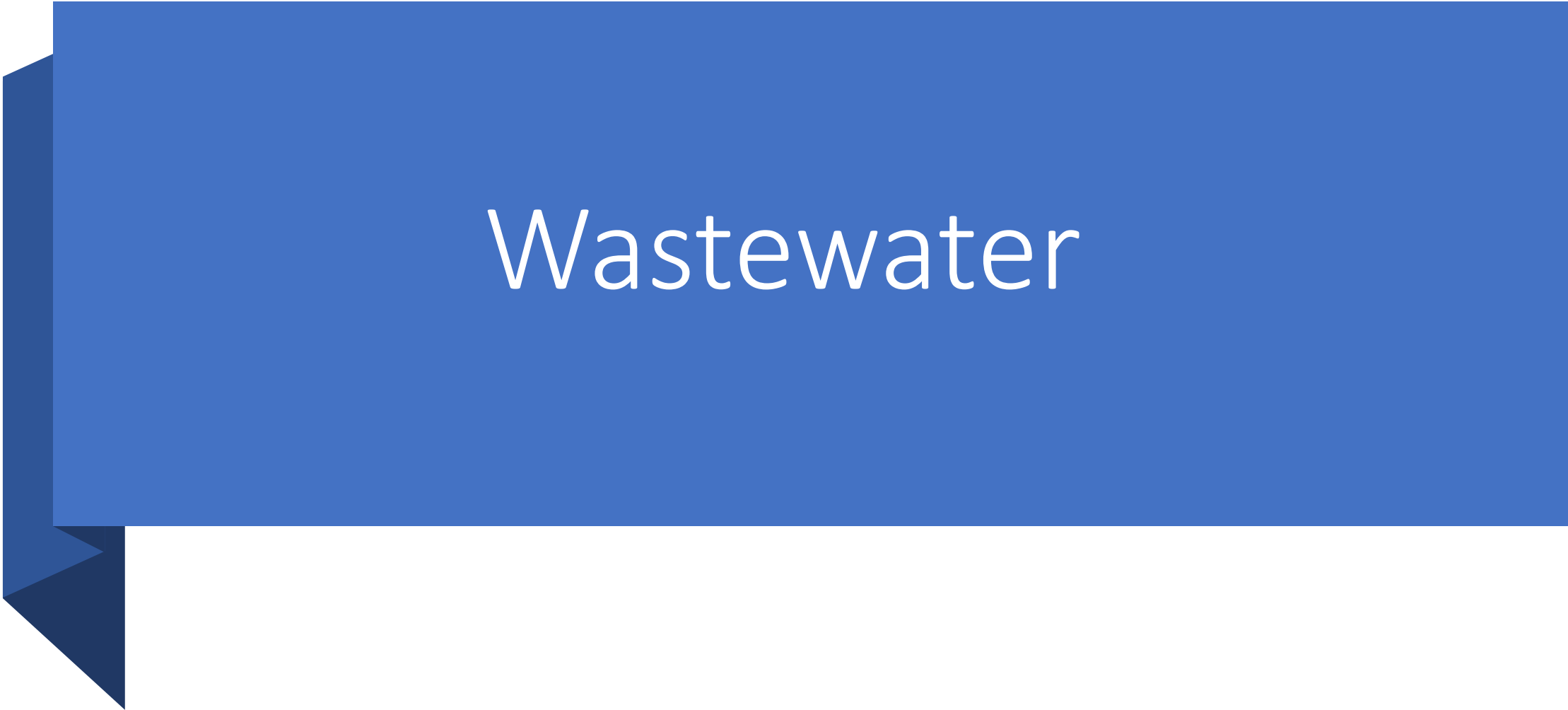
Residential Usage Tiers

- Lower the thresholds of tiers 1 and 2 by 1kgal each
 - From 7kgal to 6kgal and 15kgal to 14kgal, respectively
- Progressive increases to the upper tiers
 - 2 (3.50%)
 - 3 (4.00%), and
 - 4 (4.00%)

Non-Residential Landscape

- Increase excess water surcharge 7.50%

Included in Service Charge		Kgal	Current	Proposed	
		1			
		2			
		3			
Tier 1		4			
		5	3%	3%	Median usage
		6			
		7			
Tier 2		8			
		9			
		10			Average usage
		11	3.5%	3.5%	
		12			
		13			
		14			
		15			
Tier 3		16			
		17			
		18			
		19			
		20	4%	4%	
		21			
		22			
		23			
		24			
		25			
Tier 4		26			
		27	4%	4%	
		28			
		29			
		30			



Wastewater

Increasing Costs/Pressures on the Utility

- Increases from FY 22/23 to FY 23/24



- **Operating Expenditures**

- Personnel +\$0.5M
- Treatment Plant Power Costs +\$0.4M
- Treatment Plant Chemical Costs +\$0.2M
- **Total** **+\$1.1M**

- **Debt Service** **+\$4.2M**

Wastewater Rate Proposal/Typical Customer



	2023	2024 (Proposed)
Residential 4kgal	\$24.93/mo.	Service Charge 4.75%** Usage Charge 4.75%** \$26.11/mo. (\$1.18/mo.)
Commercial 9kgal	\$49.90/mo.	Service Charge 5.00%** Usage Charge 5.00%** \$52.38/mo. (\$2.48/mo.)

** Same as forecast for 2024 during the previous rate cycle.



Other Rate and Fee Recommendations



- 6% increase to all other Non-residential (General) Water customers to create equity with Residential usage (tier 2)
 - Includes multi-unit, public authority, and hydrant usage
- 10% increase to Interdepartmental Water
 - Plan to be at residential usage tier 1 by 2026
- 12% increase to Large Commercial/Industrial Water usage
- Utility service request fees updated for the first time in 7 years
 - Updated to reflect CPI or “time and material”
 - Includes utility “turn-on” call-outs, meter installation, and late fees

Energy Resources

Overview

- Upward Rate Pressure:
 - High power supply costs
 - ARPA funds fully expended by Fall 2023
 - Increasing debt service
- Pursue rate competitiveness with surrounding utilities
 - Transition to modern rate structures
 - Encourage electric peak power resource conservation
 - Seek to balance rate increases among customer sizes

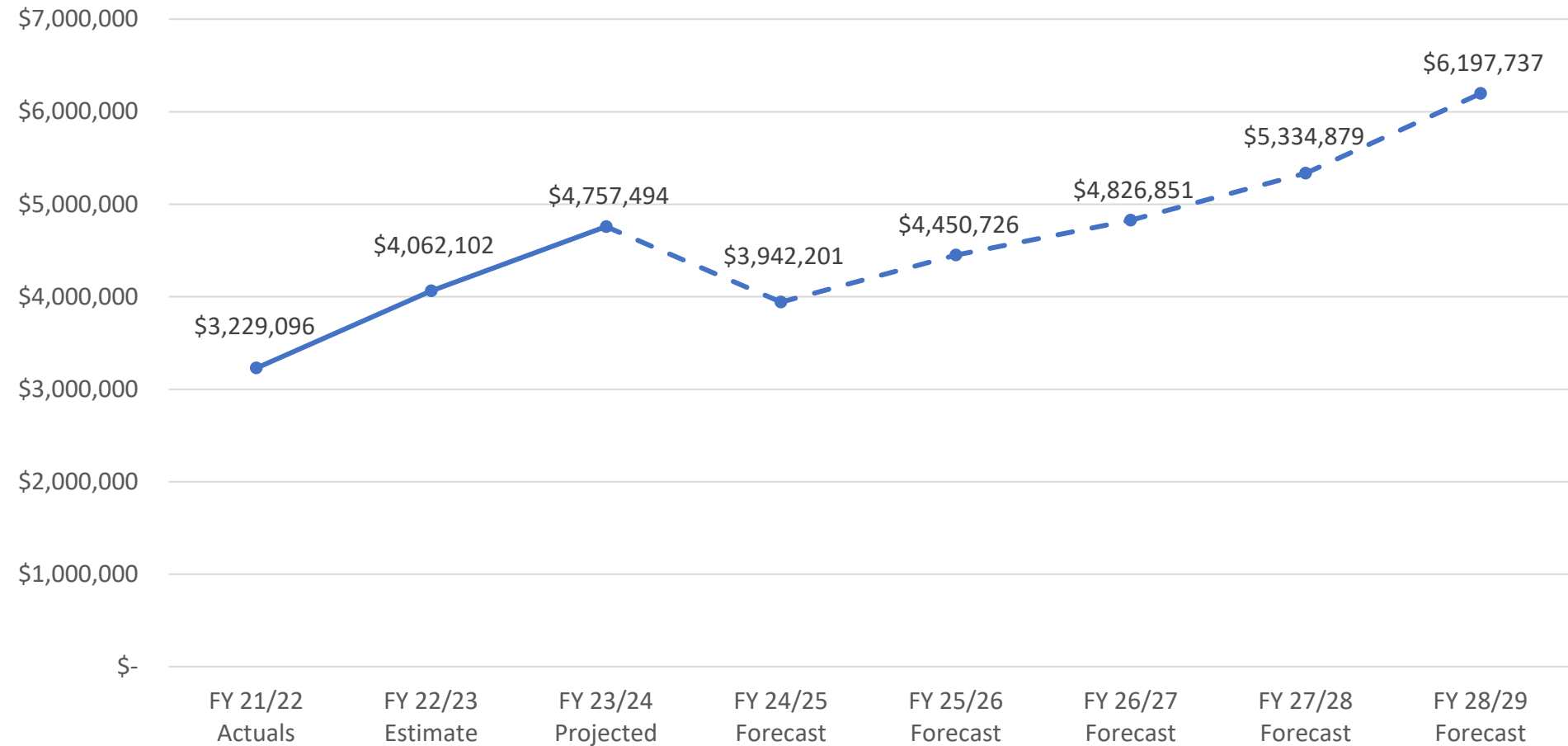


Electric

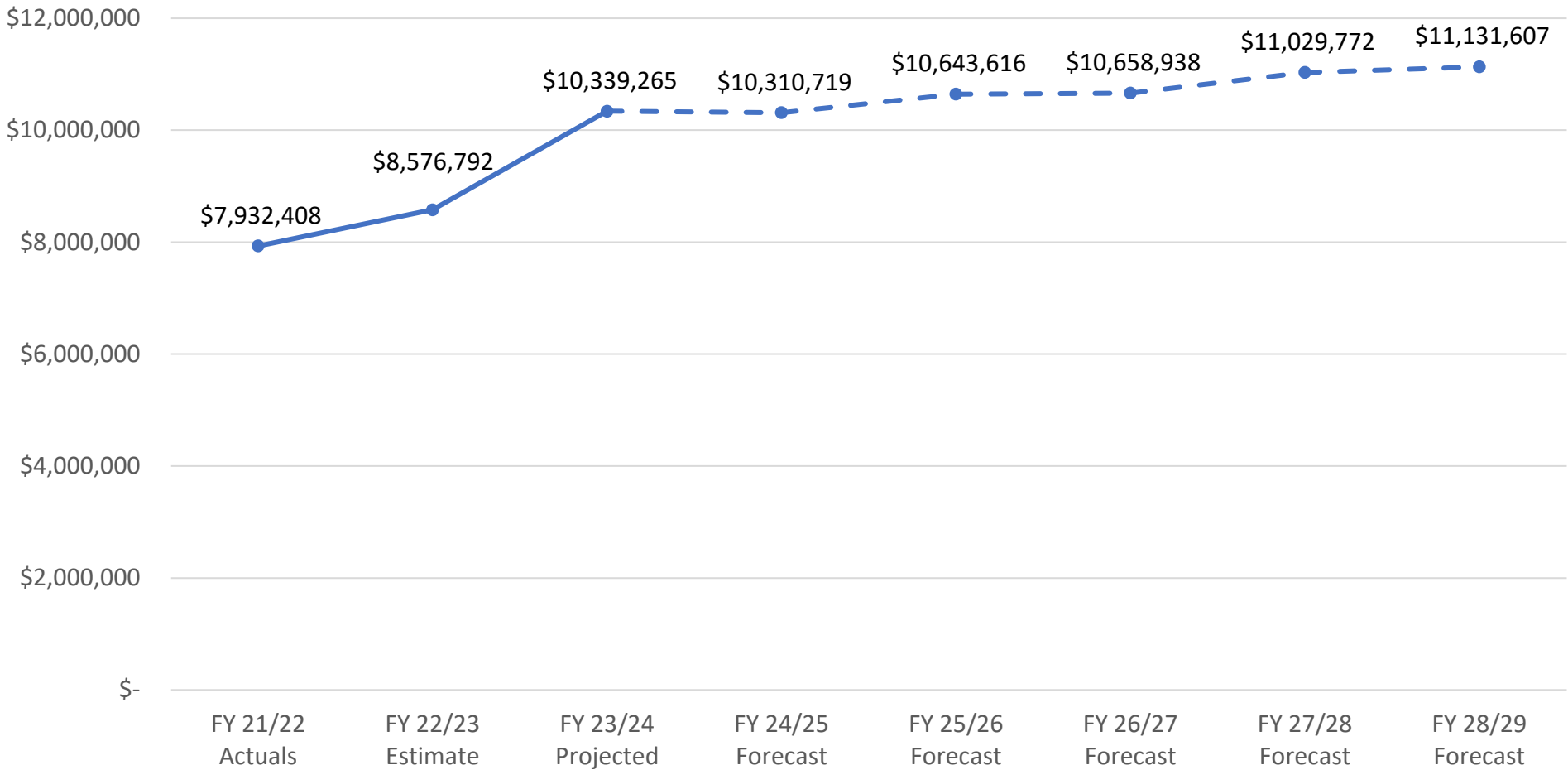
Increasing Costs/Pressures on the Electric Utility

- Operating Budget
 - Higher than normal inflation on commodities and other services
 - Personal services increases
- Debt Service
 - Meeting growth demands in Downtown
 - Multi-department projects (Broadway Rd)
 - Reliability/Generation projects
 - Generation – Solar, Microgrid
 - 69 kV Looping and AMI

Increasing Debt Service Costs on the Electric Utility



Increasing Operating Costs on the Electric Utility



Residential Electric Bill Comparison



*SRP amount includes proposed November rate increase

Proposed Residential Electric Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE	\$14.50	\$16.75
USAGE CHARGE SUMMER per kWh	Tier 1 - \$0.05231 Tier 2 - \$0.04822	Tier 1 - \$0.05231 Tier 2 - \$0.05027
USAGE CHARGE WINTER per kWh	Tier 1 - \$0.04151 Tier 2 - \$0.01800	Tier 1 - \$0.04317 Tier 2 - \$0.02502
MONTHLY BILL (Average Customers)	\$135.09	\$137.92
	(effective increase 2.1% or \$2.83/mo.)	

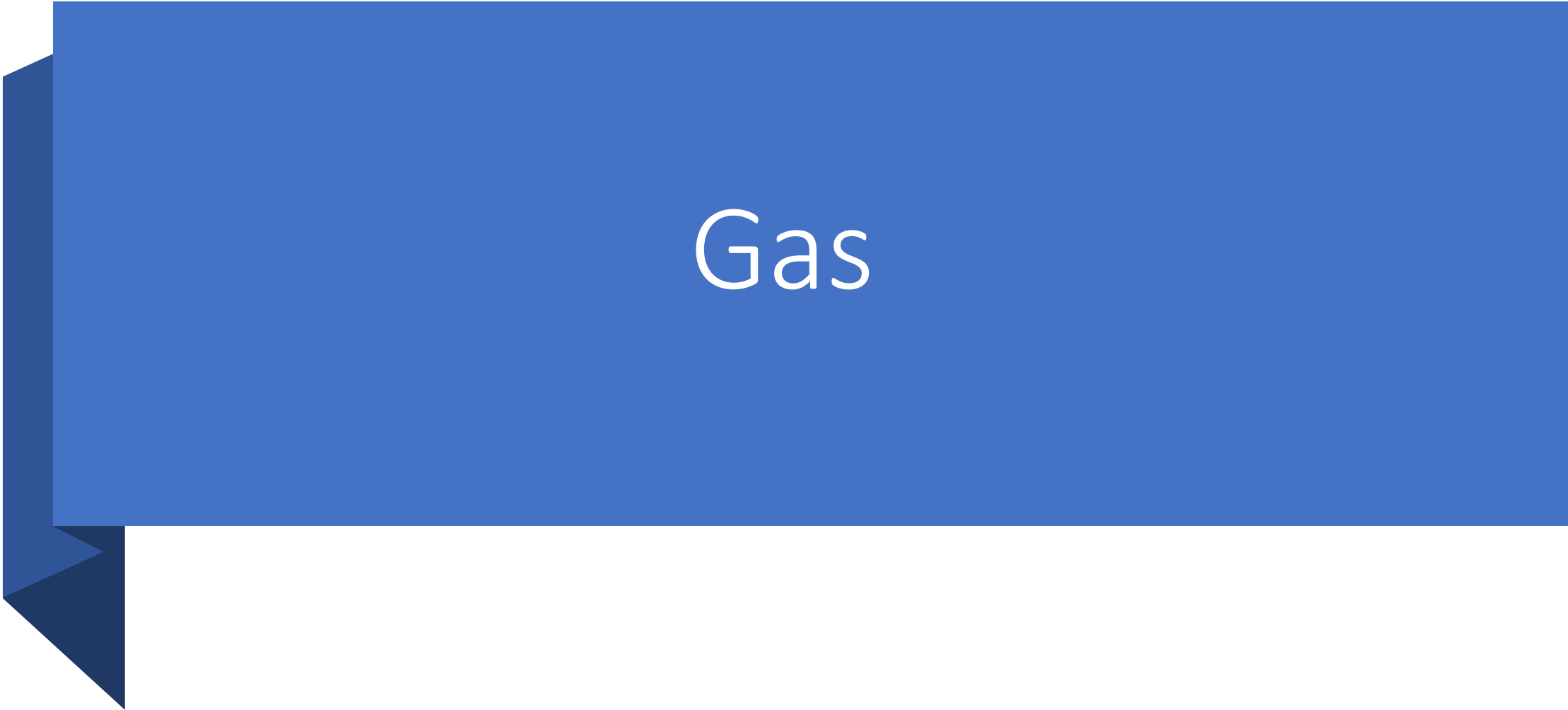
Commercial Electric Bill Comparison



*SRP amount includes proposed November rate increase

Proposed Commercial Electric Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE	Single Phase - \$9.72 Three Phase - \$15.74	Single Phase - \$14.72 Three Phase - \$20.74
USAGE CHARGE SUMMER per kWh	Tier 2 - \$0.04331	Tier 2 - \$0.04591
USAGE CHARGE WINTER per kWh	Tier 2 - \$0.03877	Tier 2 - \$0.03915
MONTHLY BILL (Average Customers)	\$556.97	\$561.97
	(effective increase 0.9% or \$5.00/mo.)	

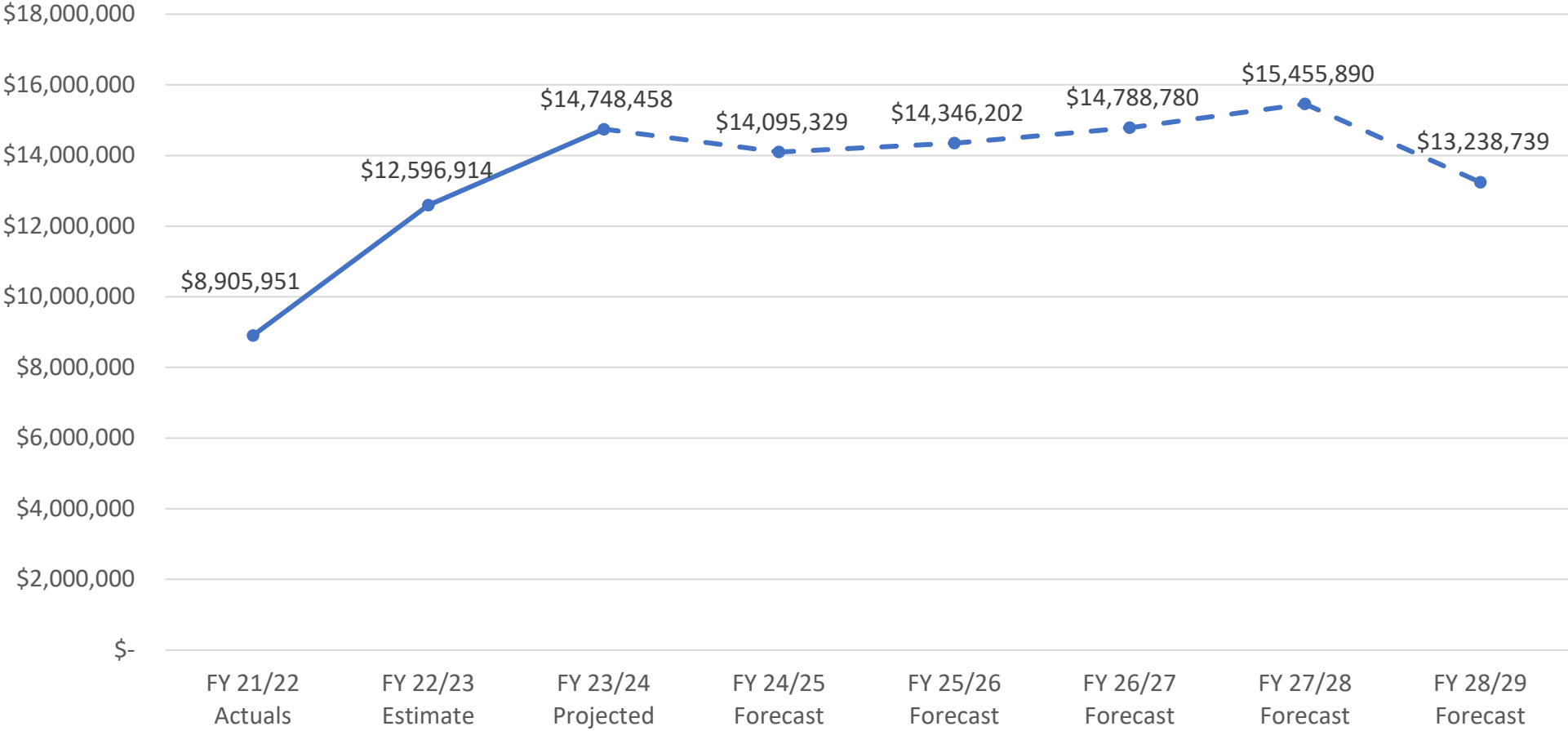


Gas

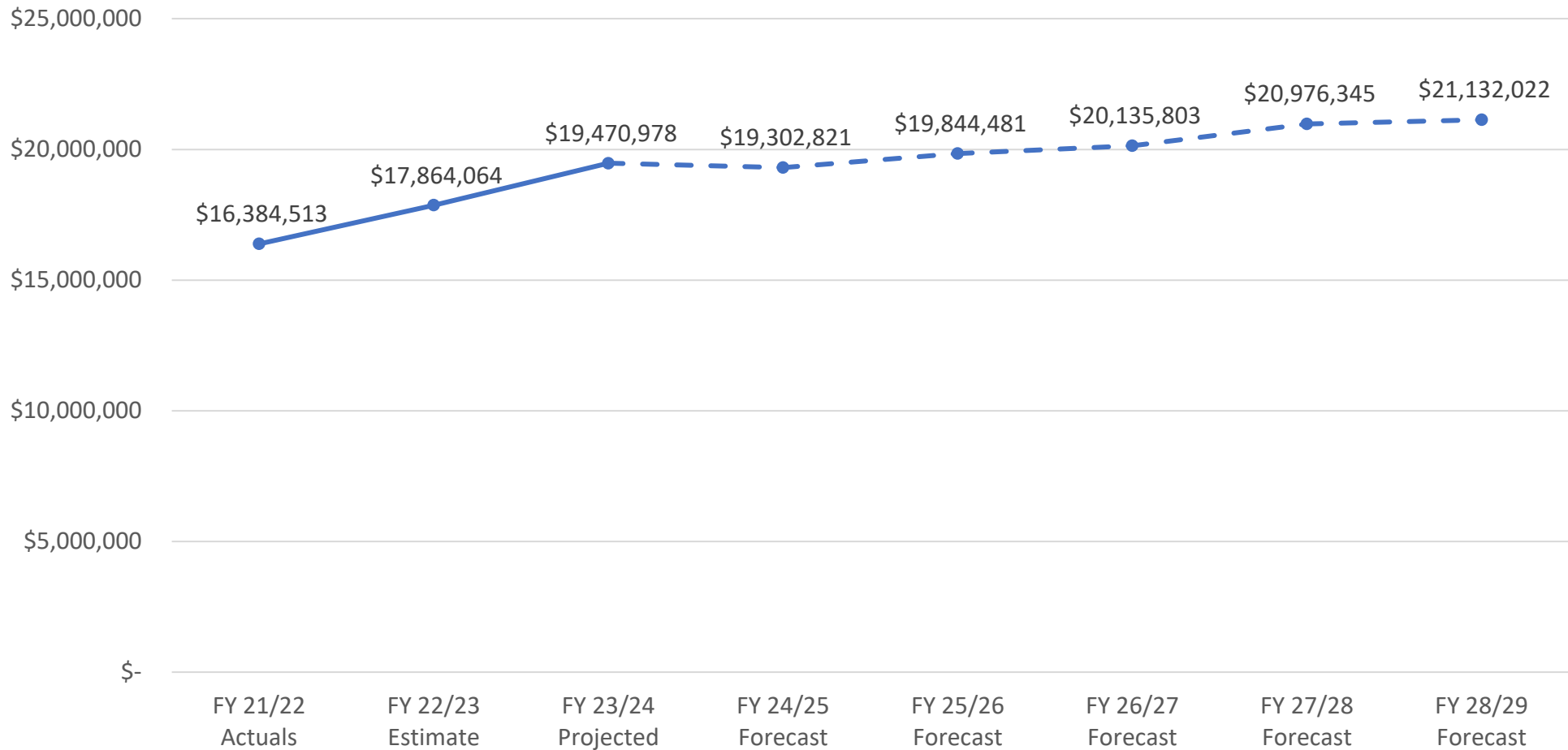
Increasing Costs/Pressures on the Gas Utility

- Operating Budget
 - Higher than normal inflation on commodities, services, and contracts
 - Personal services increases
- Debt Service
 - Meeting growth demands in Magma service territory
 - New Gate Station
 - Gantzel Rd
 - Quarter Section Renewal Projects
 - AMI

Increasing Debt Service Costs on the Gas Utility



Increasing Operating Costs on the Gas Utility



Residential Gas Bill Comparison



Proposed Residential Gas Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE		
SUMMER	\$16.56	\$17.31
WINTER	\$19.49	\$20.24
USAGE CHARGE		
SUMMER per therm	Tier 1 - \$0.6685 Tier 2 - \$0.2884	Tier 1 - \$0.7019 Tier 2 - \$0.3202
USAGE CHARGE		
WINTER per therm	Tier 1 - \$0.6685 Tier 2 - \$0.6557	Tier 1 - \$0.7019 Tier 2 - \$0.7019
MONTHLY BILL (Average Customers)	\$45.68	\$47.32
	(effective increase 3.6% or \$1.64/mo.)	

Commercial Gas Bill Comparison



Proposed Commercial Gas Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE SUMMER WINTER	\$39.66 \$49.34	\$41.66 \$51.34
USAGE CHARGE SUMMER per therm	Tier 1 - \$0.5333 Tier 2 - \$0.3359	Tier 1 - \$0.5439 Tier 2 - \$0.3493
USAGE CHARGE WINTER per therm	Tier 1 - \$0.5775 Tier 2 - \$0.4852	Tier 1 - \$0.5891 Tier 2 - \$0.5046
MONTHLY BILL (Average Customers)	\$541.85	\$549.27
	(effective increase 1.4% or \$7.42/mo.)	

Other Changes

- Adjustment of utility service fees
- Revision of outdated electric utility rules and regulations
- Customer Optional Renewable Energy Program – Opening enrollment period

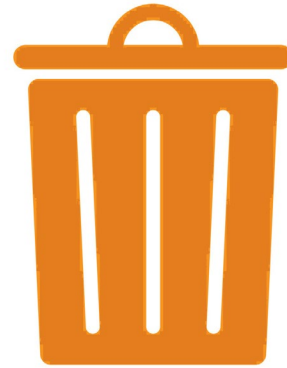
Solid Waste

Increasing Cost Pressures On The Utilities



Personal Services - \$1.0M

- Market Adjustment/Step Pay increases
- 5 positions added



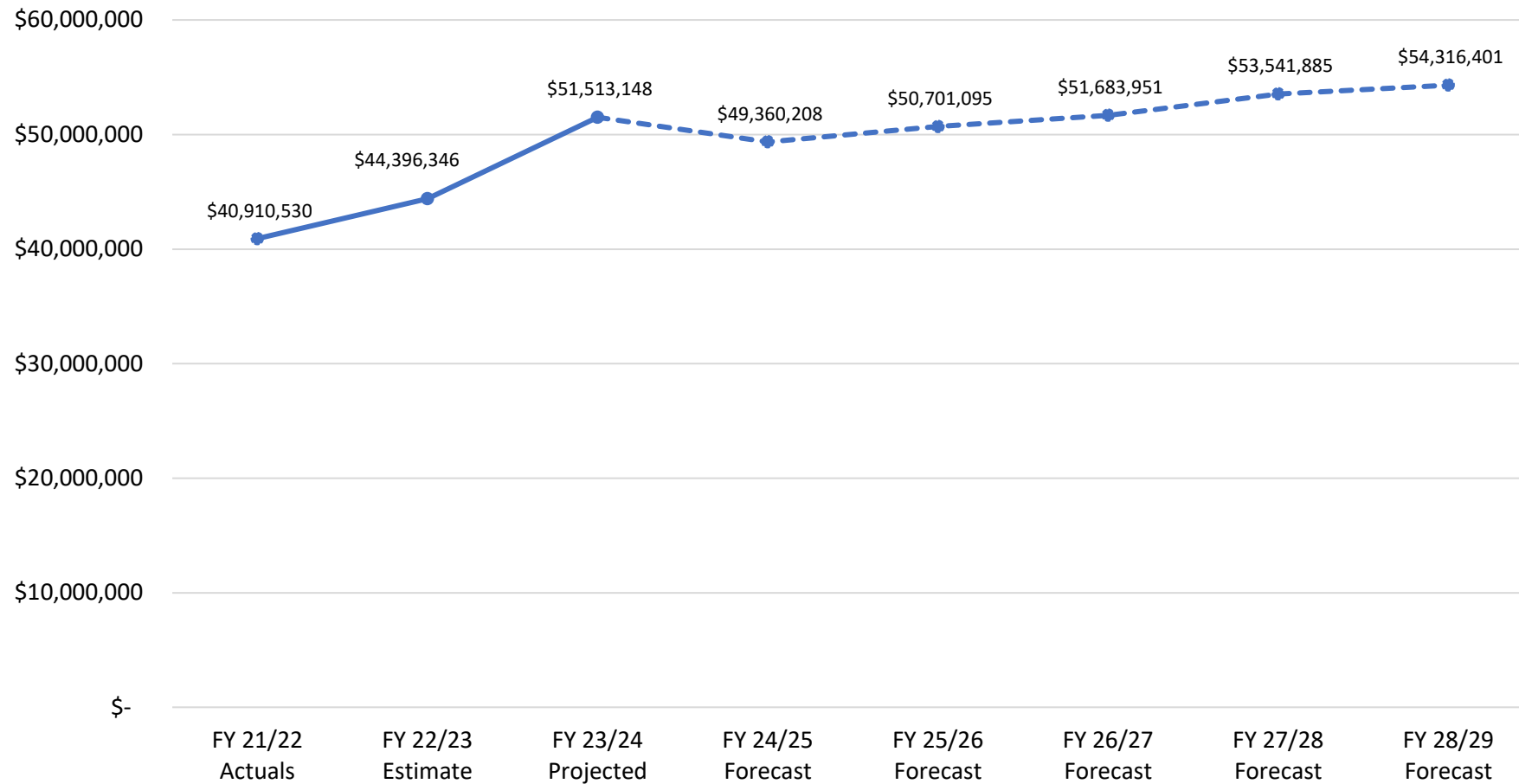
Disposal Fees - \$900k

- CPI Western Region



Fleet Costs - \$1.8M

Increasing Operating Costs on Solid Waste



Solid Waste Residential Rate Recommendation

	CURRENT	PROPOSED INCREASE	PROPOSED TOTAL
90-gallon Trash Barrel	\$30.52	\$0.92	\$31.44

COMPARISON TO OTHER CITIES	
Phoenix	\$35.17
Mesa	\$31.44
Tempe	\$30.32



Commercial Front Load Trash Recommendations

- Increase base rate by 5.0%
 - 6-yard bin increase from \$109.24 to \$114.80
- Increase fee for out-of-zone collection from \$20.00 to \$25.00
- Decrease multi-day discount from 15% to 10%
- Increase additional weight charge by 8.9%
 - 12 customers
- Increase compactor base rate by \$16.25 for 6 yard
 - 2 customers



Commercial Front Load Cardboard Recommendations

- 6-yard bin increase from \$73.22 to \$97.38



Commercial Roll Off Recommendations

- Increase tonnage rate to follow landfill increase
 - Increase trash tonnage rate from \$37.44 to \$42.20
 - Increase green waste tonnage rate from \$44.35 to \$49.90
- Increase set fee by \$10.50
 - Increase from \$139.50 to \$150.00



Commercial Roll Off Recommendations

- \$25.54 increase for a one-time trash customer
 - 30-yard box increase from \$394.82 to \$420.36
- \$28.13 increase for a one-time green waste customer
 - 30-yard box increase from \$415.55 to \$443.68



Utility Fund Forecast Review

Utility Fund Forecast:

FY 23/24 Recommended Rate Adjustments

As of 08/22/2023	FY 22/23 Estimate	FY 23/24 Budget	FY 23/24 Projected
TOTAL NET SOURCES AND USES	(\$13,153,827)	(\$31,877,914)	(\$33,986,550)
Beginning Reserve Balance	\$144,571,686	\$124,757,696	\$131,417,859
Ending Reserve Balance	\$131,417,859	\$92,879,782	\$97,431,309
Ending Reserve Balance Percent*	26.1%	18.7%	18.9%
*As a % of Next Fiscal Year's Expenditures			
WATER Residential (Tier 1 usage)	2.75%	3.50%	3.00%
WATER Commercial (usage)	5.50%	5.50%	5.00%
WASTEWATER Residential	4.25%	4.75%	4.75%
WASTEWATER Non-Residential	4.50%	5.00%	5.00%
SOLID WASTE Residential	2.00%	3.00%	3.00%
SOLID WASTE Commercial	4.50%	3.00%	7.50%
SOLID WASTE Rolloff	7.75%	3.00%	6.50%
ELECTRIC Residential - svc charge	\$0.00	\$2.50	\$2.25
ELECTRIC Non-Residential - svc charge	\$0.00	\$2.50	\$5.00
GAS Residential - svc charge	\$0.75	\$0.75	\$0.75
GAS Non-Residential - svc charge	\$2.00	\$2.00	\$2.00

Non-Residential Water Usage Rate Proposal

General Usage	Proposed
Commercial – General	5%
Large Commercial/Industrial – General	12%
Other Non-Residential – General*	6%
Excess Surcharge – General	6.5%

Landscape Usage	Proposed
Non-Residential (All) – Landscape	7.5%
Excess Surcharge – Landscape	7.5%

*Includes multi-unit, public authority, etc.

Schedule for FY 2023/24 Utility Rates Adjustment Recommendation

- Sept 28** – City Council Discussion of Utility Rates
- Oct 2** – City Council Action on Notice of Intent
- Nov 20** – Introduce Utility Rate Ordinances
- Dec 4** – City Council Action on Utility Rates
- Feb 1** – Effective date for Utility Rate changes



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