

A large blue ribbon graphic with a 3D effect, featuring a darker blue shadow on the left side. The ribbon is oriented horizontally and contains white text.

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

City Council Study Session  
September 28, 2023

## Presented by:

Brian A. Ritschel – Management & Budget Director

Christopher Hassert – Water Resources Director

Scott Bouchie – Energy Resources Director

Sheri Collins – Solid Waste Director

# 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

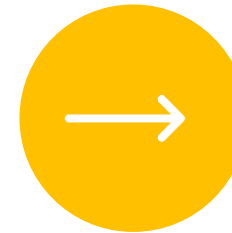
# Financial Principles



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

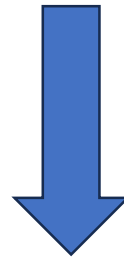
NET SOURCES AND USES	FY 17/18 Actuals	FY 18/19 Actuals	FY 19/20 Actuals	FY 20/21 Actuals	FY 21/22 Actuals	FY 22/23 Estimate
WATER	\$12,223	\$2,234	(\$3,107)	\$19,416	\$2,588	(\$3,391)
WASTEWATER	\$2,380	\$11,808	\$2,916	(\$8,878)	(\$5,311)	(\$8,080)
SOLID WASTE	\$2,645	\$1,755	\$1,534	\$5,612	(\$4,764)	(\$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
<b>TOTAL NET SOURCES AND USES</b>	\$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
<b>Ending Reserve Balance</b>	<b>\$111,749</b>	<b>\$132,613</b>	<b>\$136,773</b>	<b>\$151,261</b>	<b>\$144,572</b>	<b>\$131,418</b>
Ending Reserve Balance Percent*	<b>31.3%</b>	<b>34.9%</b>	<b>35.1%</b>	<b>33.9%</b>	<b>31.1%</b>	<b>26.1%</b>

\*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

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



**Reduced to 3 Projects  
due to Inflation**

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

# 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)
<b>TOTAL NET SOURCES AND USES</b>	<b>(\$13,153,827)</b>	<b>(\$33,986,550)</b>	<b>(\$13,663,502)</b>	<b>(\$14,030,134)</b>	<b>(\$9,806,082)</b>	<b>(\$5,141,357)</b>	<b>\$44,803</b>
Beginning Reserve Balance	\$144,571,686	\$131,417,859	\$97,431,309	\$83,767,807	\$69,737,673	\$59,931,590	\$54,790,233
<b>Ending Reserve Balance</b>	<b>\$131,417,859</b>	<b>\$97,431,309</b>	<b>\$83,767,807</b>	<b>\$69,737,673</b>	<b>\$59,931,590</b>	<b>\$54,790,233</b>	<b>\$54,835,037</b>
Ending Reserve Balance Percent*	<b>26.1%</b>	<b>18.9%</b>	<b>15.6%</b>	<b>12.0%</b>	<b>10.3%</b>	<b>9.2%</b>	<b>9.0%</b>

\*As a % of Next Fiscal Year's Expenditures

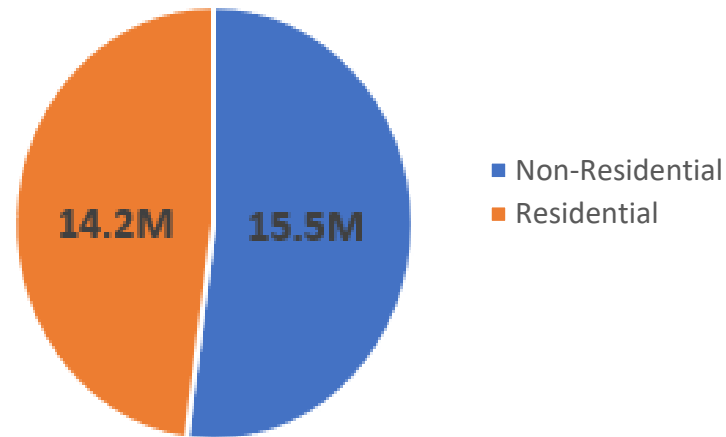


A blue ribbon graphic with a 3D effect, featuring a darker blue shadow on the left side. The word "Water" is written in white, sans-serif font in the center of the ribbon.

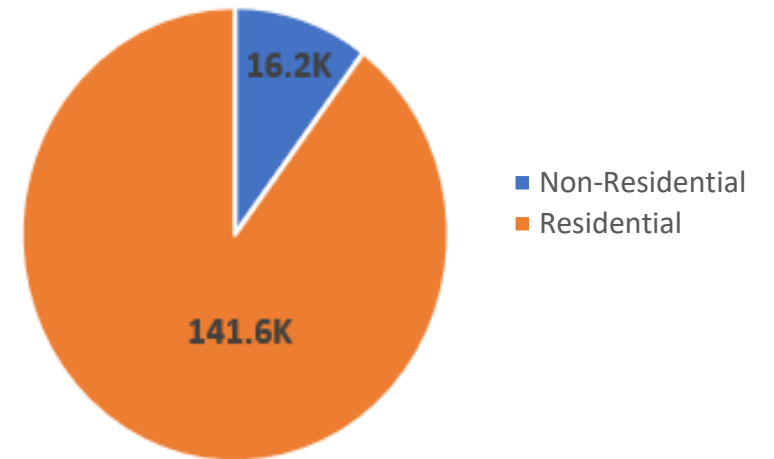
Water

# 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

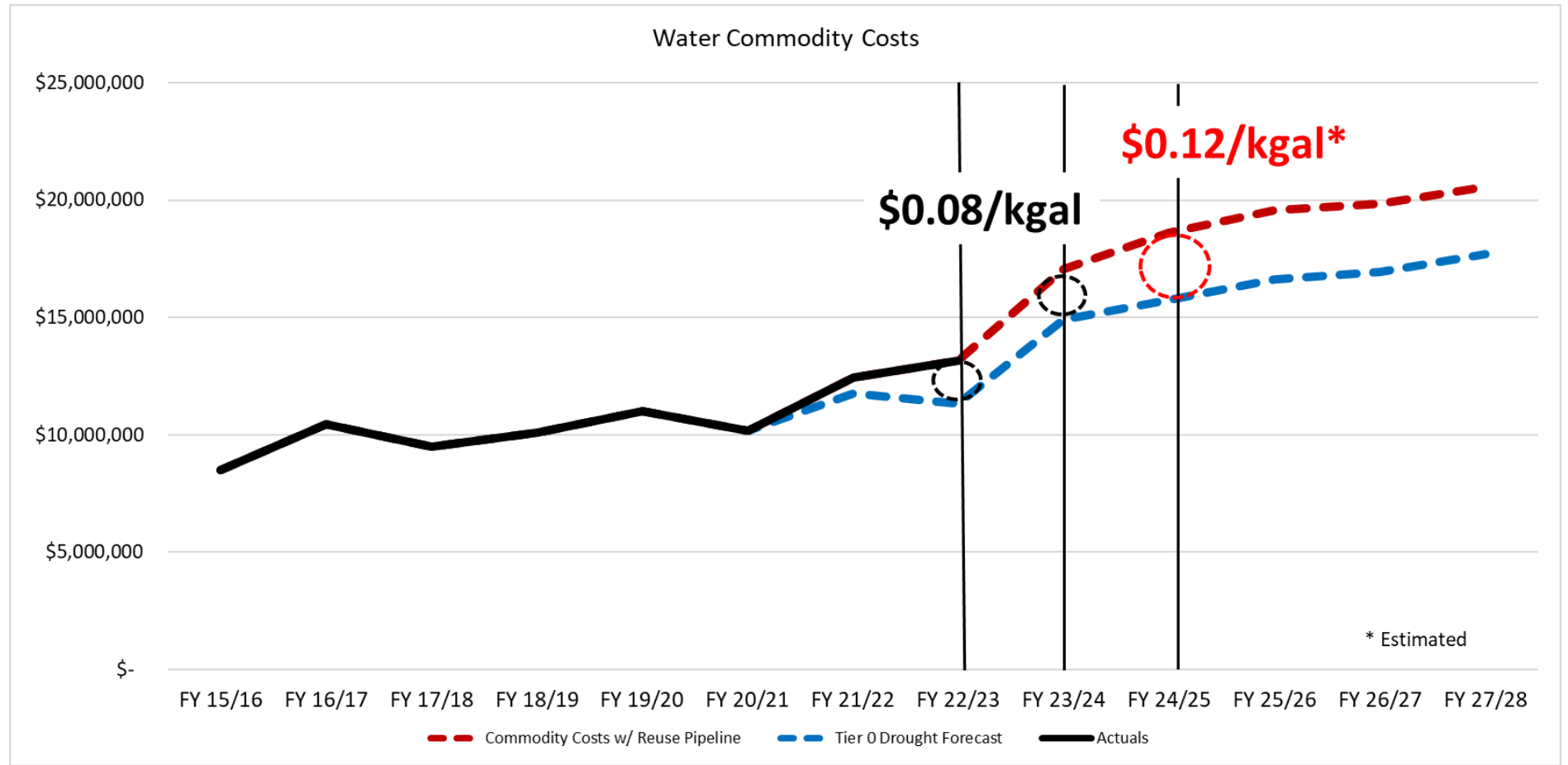
- **Operating Expenditures**

- Water Commodity Costs +\$3.8M
- Personnel +\$1.8M
- Treatment Plant Power Costs +\$0.8M
- Treatment Plant Chemical Costs +\$0.6M
- **Total** **+\$7.0M**

- **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

## Other Non-Residential 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 construction 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

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

A blue ribbon graphic with a 3D effect, featuring a darker blue shadow on the left side. The word "Wastewater" is centered in white text on the main blue surface.

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.

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# Other Rate and Fee Recommendations

# Other Fee Recommendations



- 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

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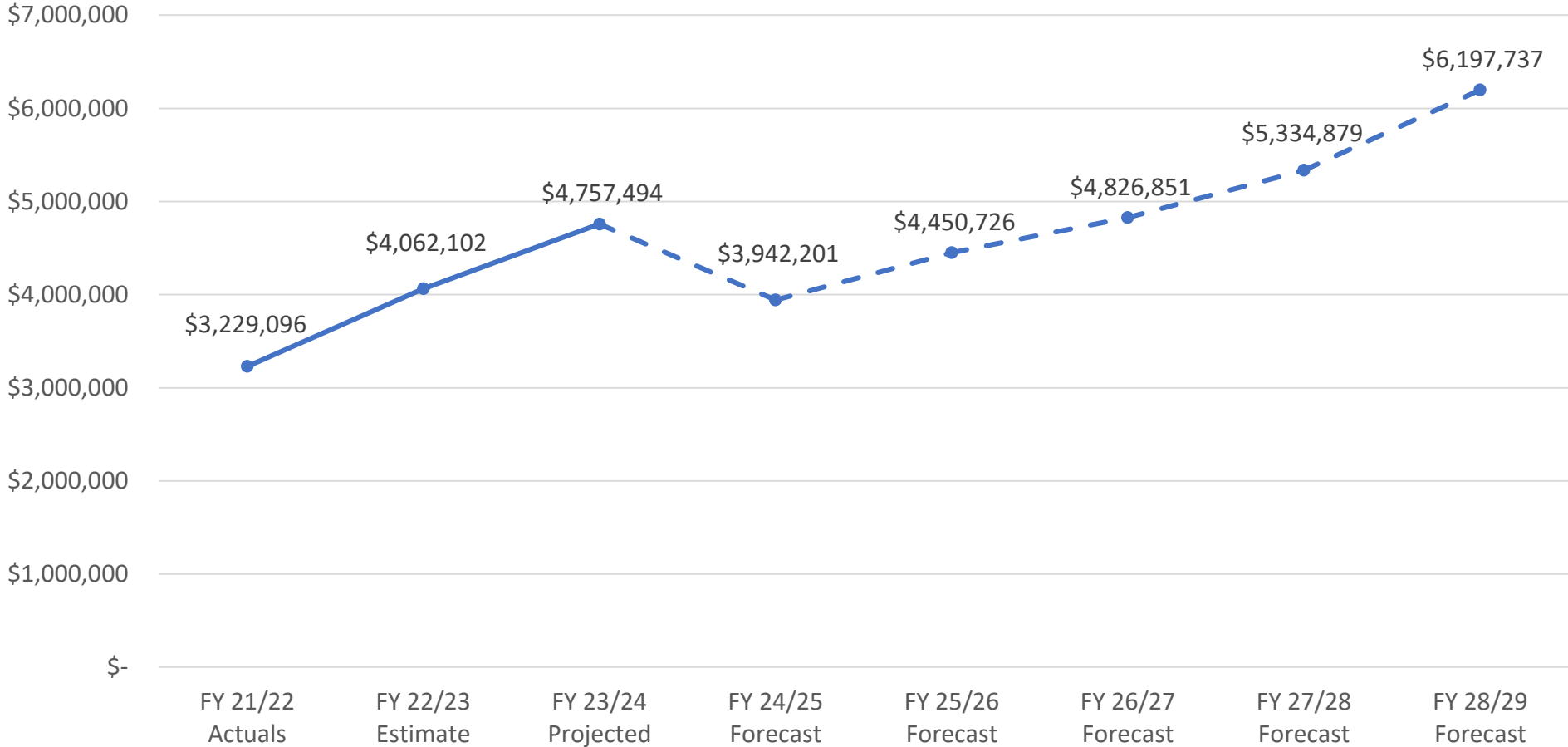
Electric

# Increasing Costs/Pressures on the Electric Utility

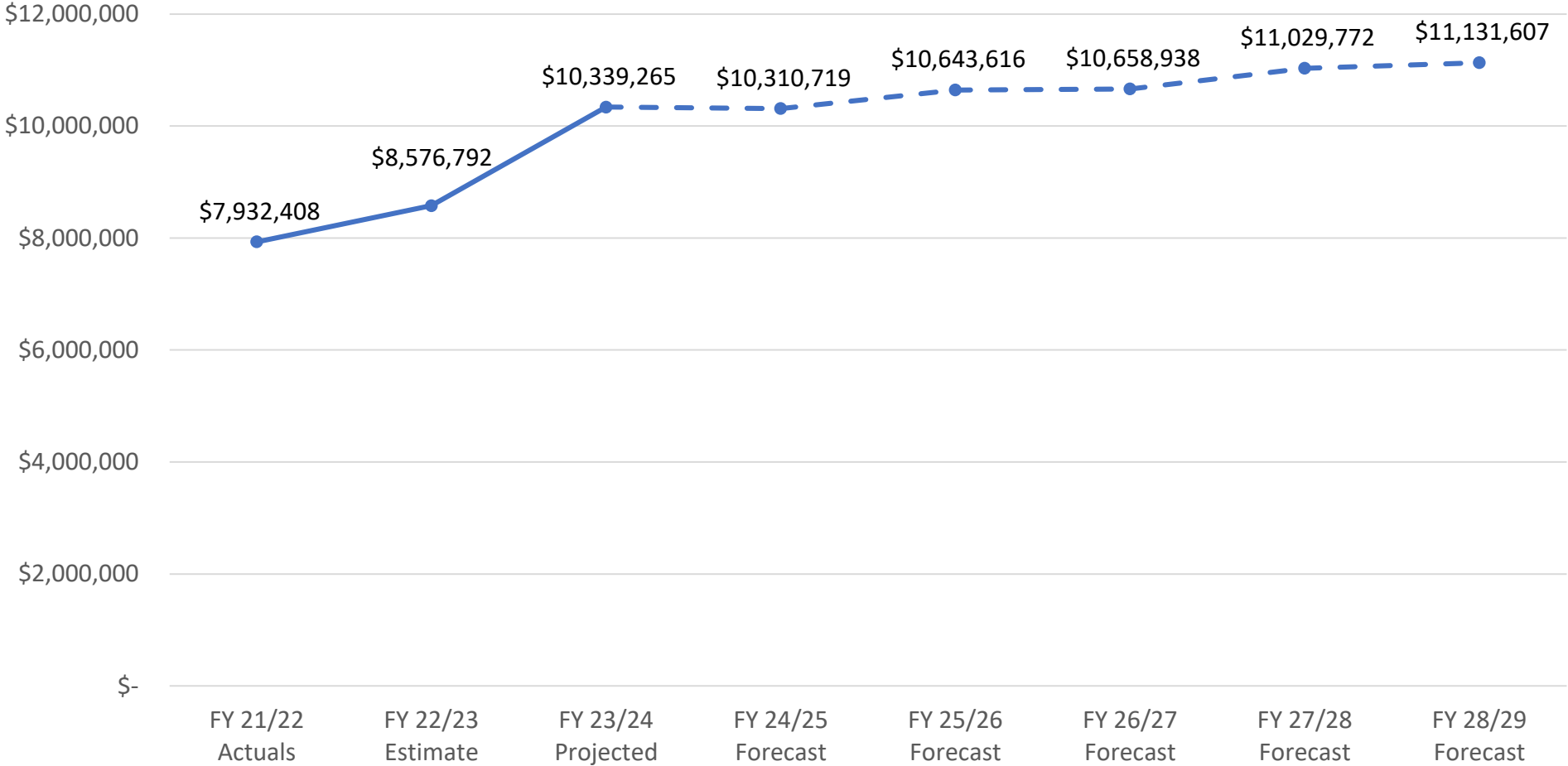
- Operating Budget
  - Higher than normal inflation on commodities and other services
  - Personal services increases
- Debt Service
  - Meeting growth demands in Downtown
  - Multi-department projects (Broadway Rd)
  - Reliability/Generation projects
    - Generation – Solar, Microgrid
    - 69 kV Looping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



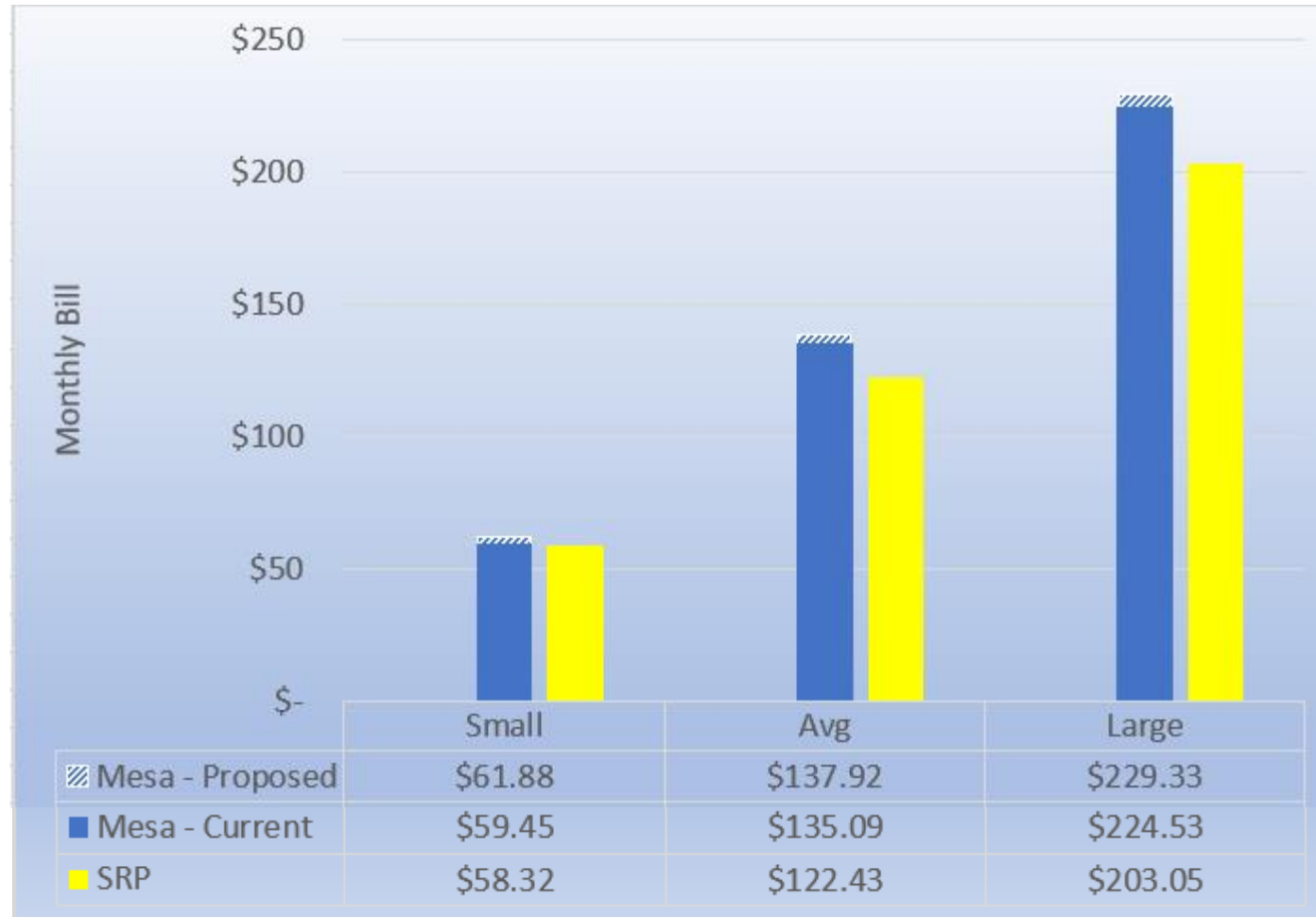
# Increasing Debt Service Costs on the Electric Utility



# Increasing Operating Costs on the Electric Utility



# Residential Electric Bill Comparison

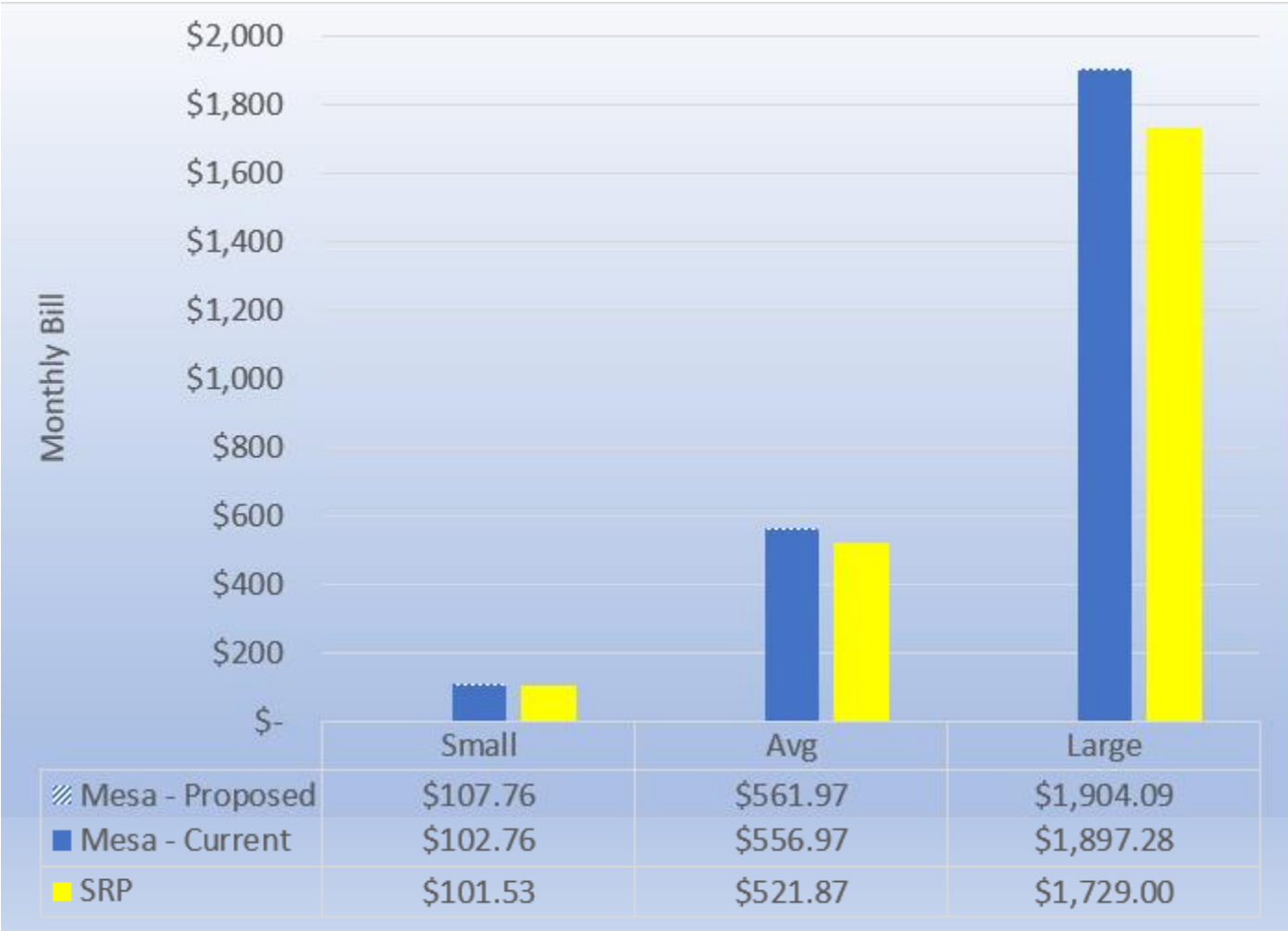


\*SRP amount includes proposed November rate increase

# Proposed Residential Electric Rates

<b>COMPONENT</b>	<b>CURRENT</b>	<b>PROPOSED</b>
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

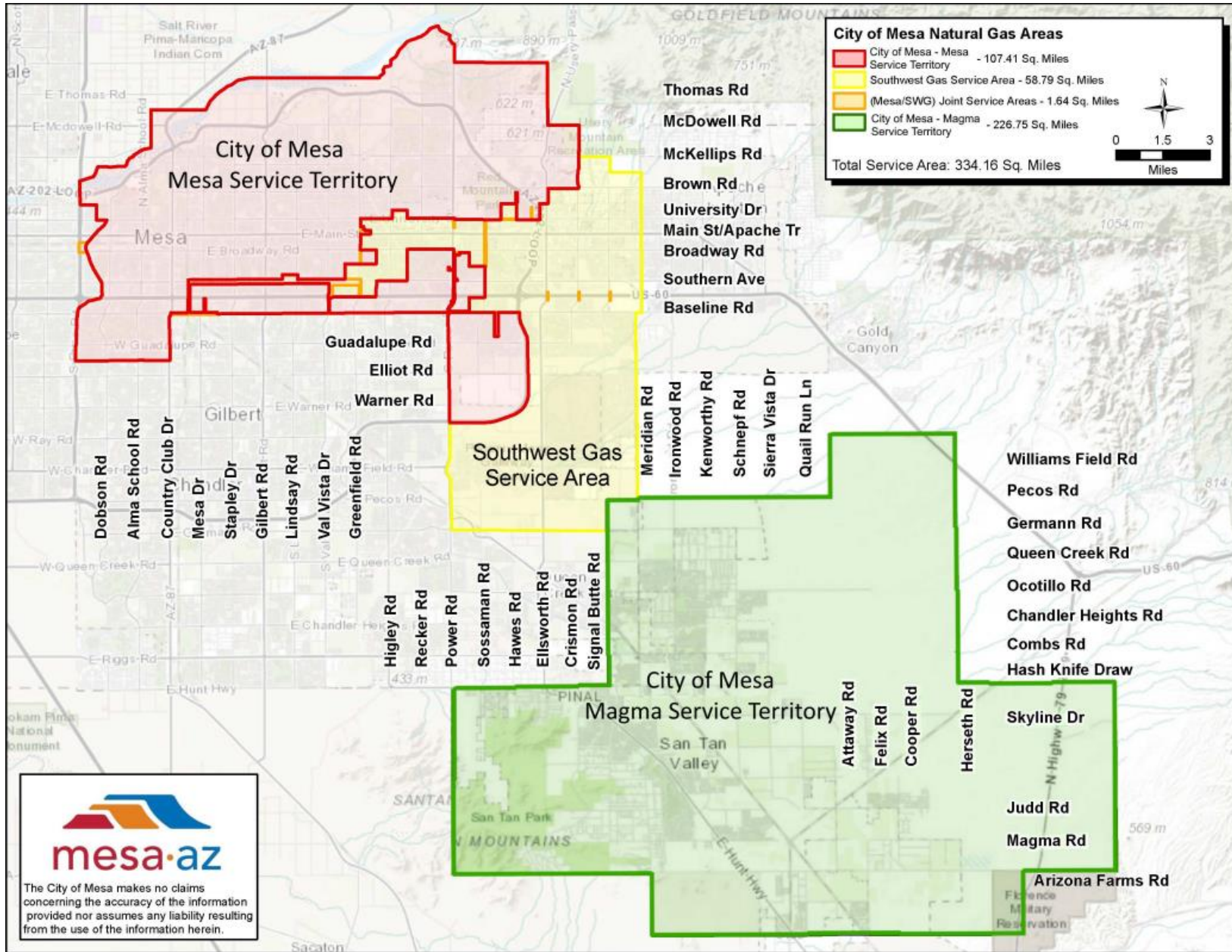


\*SRP amount includes proposed November rate increase

# Proposed Commercial Electric Rates

<b>COMPONENT</b>	<b>CURRENT</b>	<b>PROPOSED</b>
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

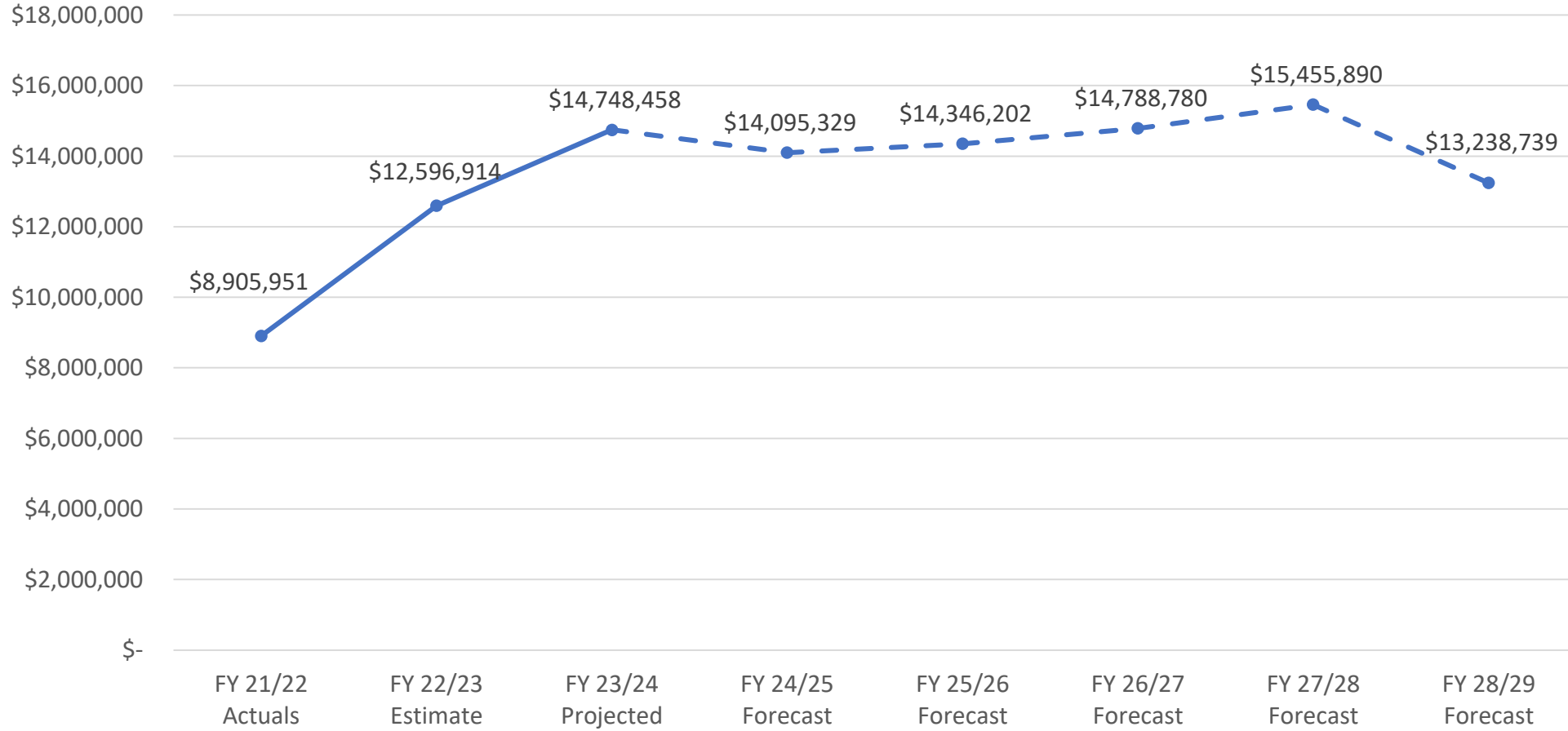




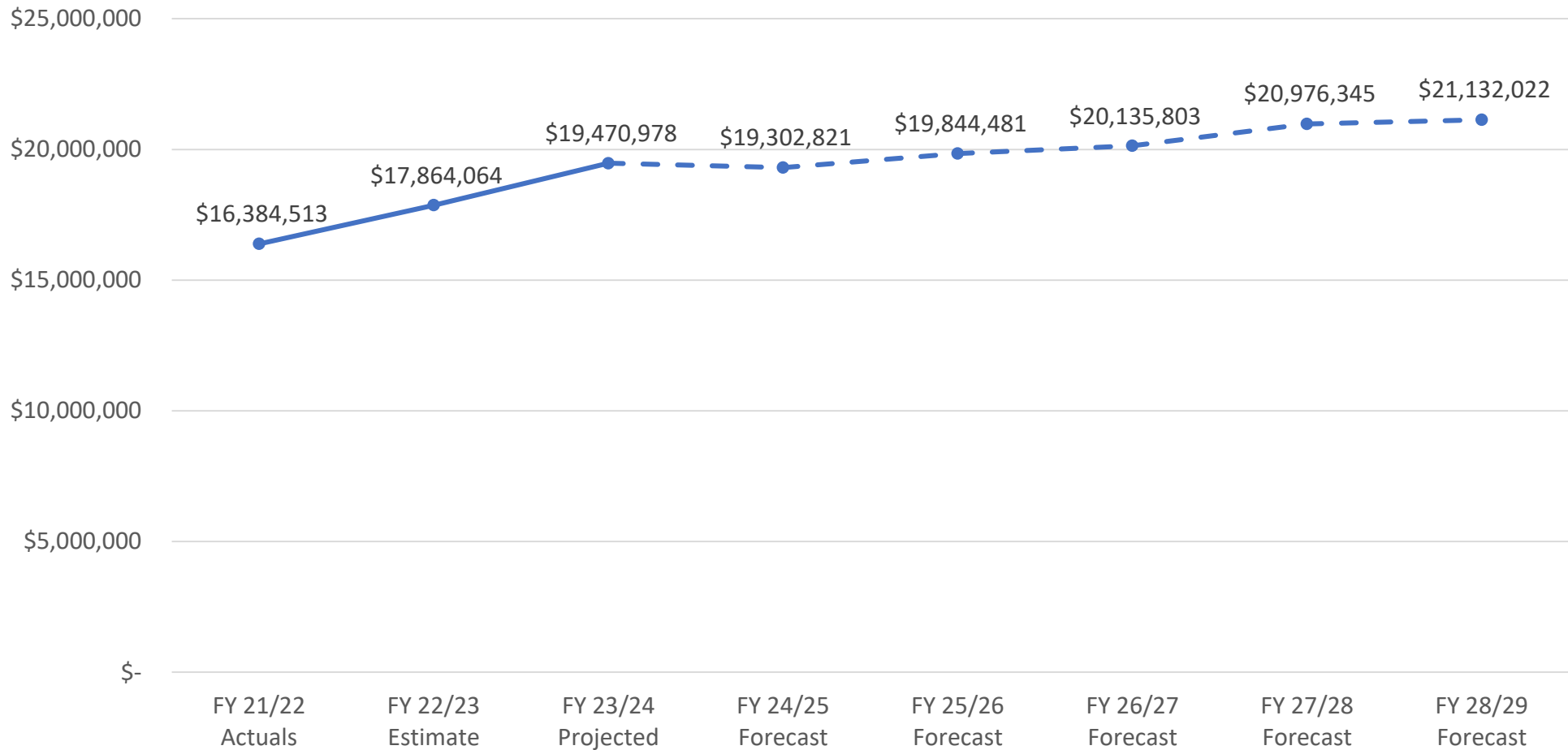
# Increasing Costs/Pressures on the Gas Utility

- 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

<b>COMPONENT</b>	<b>CURRENT</b>	<b>PROPOSED</b>
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	\$39.66	\$41.66
WINTER	\$49.34	\$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



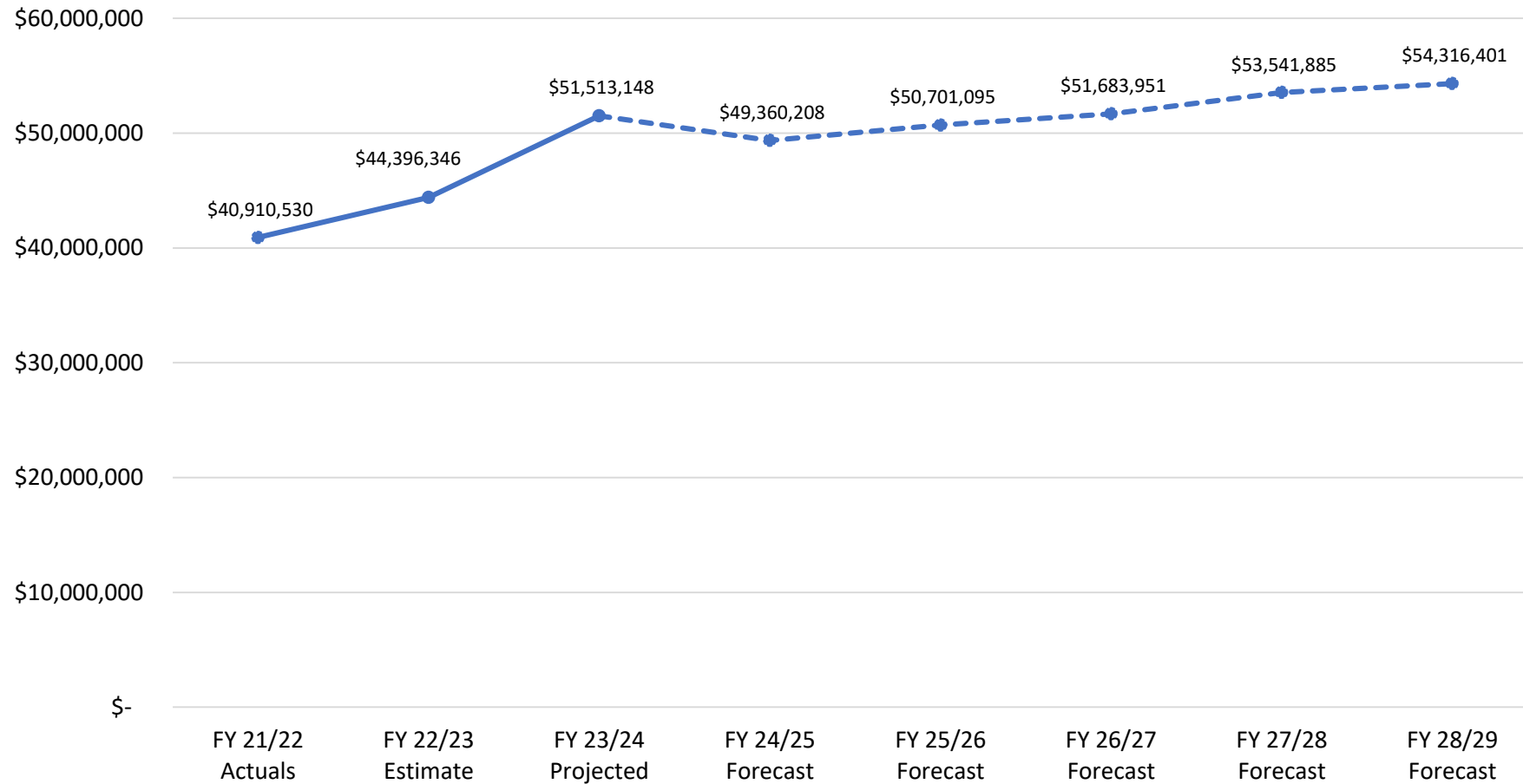
## **Disposal Fees - \$900k**

- 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
<b>Ending Reserve Balance</b>	<b>\$131,417,859</b>	<b>\$92,879,782</b>	<b>\$97,431,309</b>
Ending Reserve Balance Percent*	<b>26.1%</b>	<b>18.7%</b>	<b>18.9%</b>
<small>*As a % of Next Fiscal Year's Expenditures</small>			
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

- 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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