

A large blue rectangular area with a darker blue geometric shape on the left side, resembling a folded corner or a stylized 'C' shape.

# City of Mesa FY 2022/23 Utility Fund forecast and Rates Recommendations

Audit, Finance & Enterprise Committee  
September 8, 2022

## Presented by:

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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

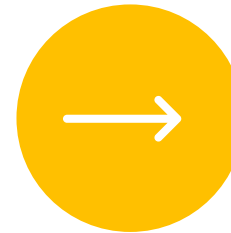
# Financial Principles



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



# Water

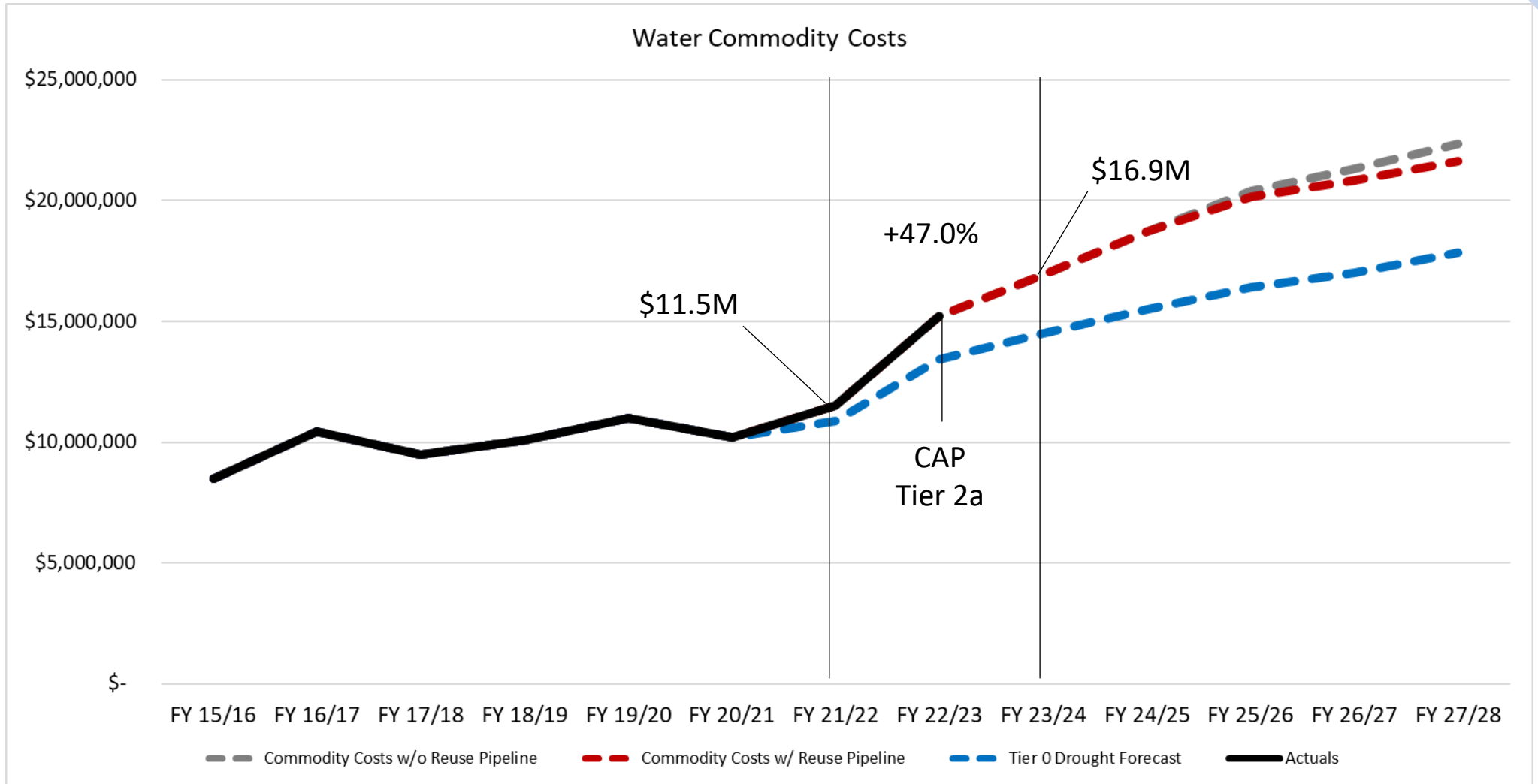
# Increasing Costs/Pressures on the Utility

## Water Utility



- Increases from FY 21/22 actuals to FY 22/23 budget
  - **Operating Expenditures**
    - Water Commodity Costs +\$3.7M
    - Treatment Plant Power Costs +\$0.8M
    - Treatment Plant Chemicals +\$0.6M

# Increasing Costs/Pressures on the Utility



# Drought Commodity Charge

## Water Utility



- **Drought Commodity Charge**
- \$0.08 surcharge on each kgal sold (first 3kgals excluded)
- Typical residential customer +\$0.24/mo (+2.88/yr)
- Separately applied (not a part of proposed rate increases)
- Considers increased costs related to shortage conditions
  - For example - CAP tiers 0 (normal) and 2a
    - Tier 0: \$13,412,783
    - Tier 2a: \$15,228,570
- Discontinued at end of shortage, but can be applied again if conditions change



# Increasing Costs/Pressures on the Utility

## Water Utility

Increases from FY 21/22 forecast to FY 22/23 forecast

### **Project Costs (Debt Service)**



	<u>Prior</u> <u>Estimate</u>	<u>Current</u> <u>Estimate</u>	<u>Difference</u>
Central Mesa Reuse Pipeline	\$72M	\$183M	+\$111M
East Mesa Water Interconnect	\$82M	\$290M	+\$208M
Signal Butte WTP Expansion	\$98M	\$201M	+\$103M

# Interdepartmental Rate

## Water Utility



### **Interdepartmental Rate**

- 10 percent increase to usage component
  - \$2.65 kgal to \$2.92 kgal (both general & landscape)
- Part of 4-year plan to bring interdepartmental rates in line with the residential tier 1 rate

# Water - Typical Customer



	2022	2023	
Residential	\$39.19/mo.	Service Charge	2.75%
		Usage Charge	2.75%
		Drought Commodity Charge	\$0.08/kgal
		\$40.50/mo. (\$1.31/mo.) <i>Effective Increase</i>	3.3%
Commercial General	\$55.12/mo.	Service Charge	2.75%
		Usage Charge	5.50%
		Drought Commodity Charge	\$0.08/kgal
		\$57.76/mo. (\$2.64/mo.) <i>Effective increase</i>	4.8%
Commercial Landscape	\$138.08/mo.	Service Charge	2.75%
		Usage Charge	6.50%
		Drought Commodity Charge	\$0.08/kgal
		\$147.04/mo. (\$8.96/mo.) <i>Effective increase</i>	6.4%

# Wastewater

# Increasing Costs/Pressures on the Utility



- Wastewater Utility
- Increases from FY 21/22 actuals to FY 22/23 budget
  - **Operating Expenditures**
    - Treatment Plant Power Costs +\$0.4M
    - Treatment Plant Chemicals +\$0.1M

# Wastewater - Typical Customer



	2022	2023*	
Residential		Service Charge	4.25%
		Usage Charge	4.25%
	\$23.92/mo.	\$24.93/mo. (\$1.01/mo.)	
Commercial		Service Charge	4.50%
		Usage Charge	4.50%
		Surcharge	4.50%
	\$47.77/mo.	\$49.90/mo. (\$2.13/mo.)	

\* Same percentage adjustment as presented to the City Council on November 4, 2021

# Energy Resources

# Overview

- Upward Rate Pressure: Market cost increases
  - Balanced with ARPA funds
  - Customer Programs: SEA Program
- Pursue rate competitiveness with surrounding utilities
  - Transition to modern rate structures
    - Encourage electric peak power resource conservation
    - Better capacity utilization for natural gas
  - Address economic makeup of ESA



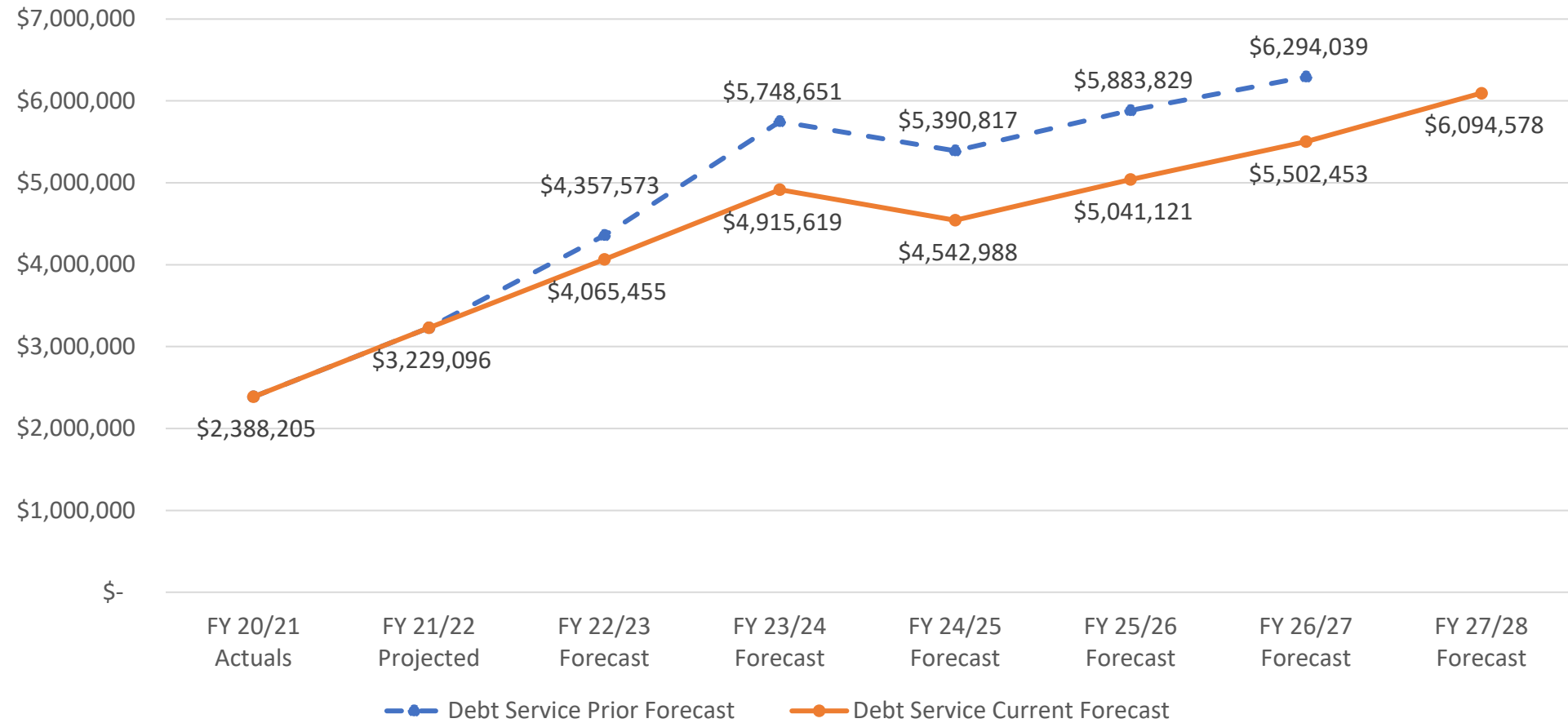


# Electric

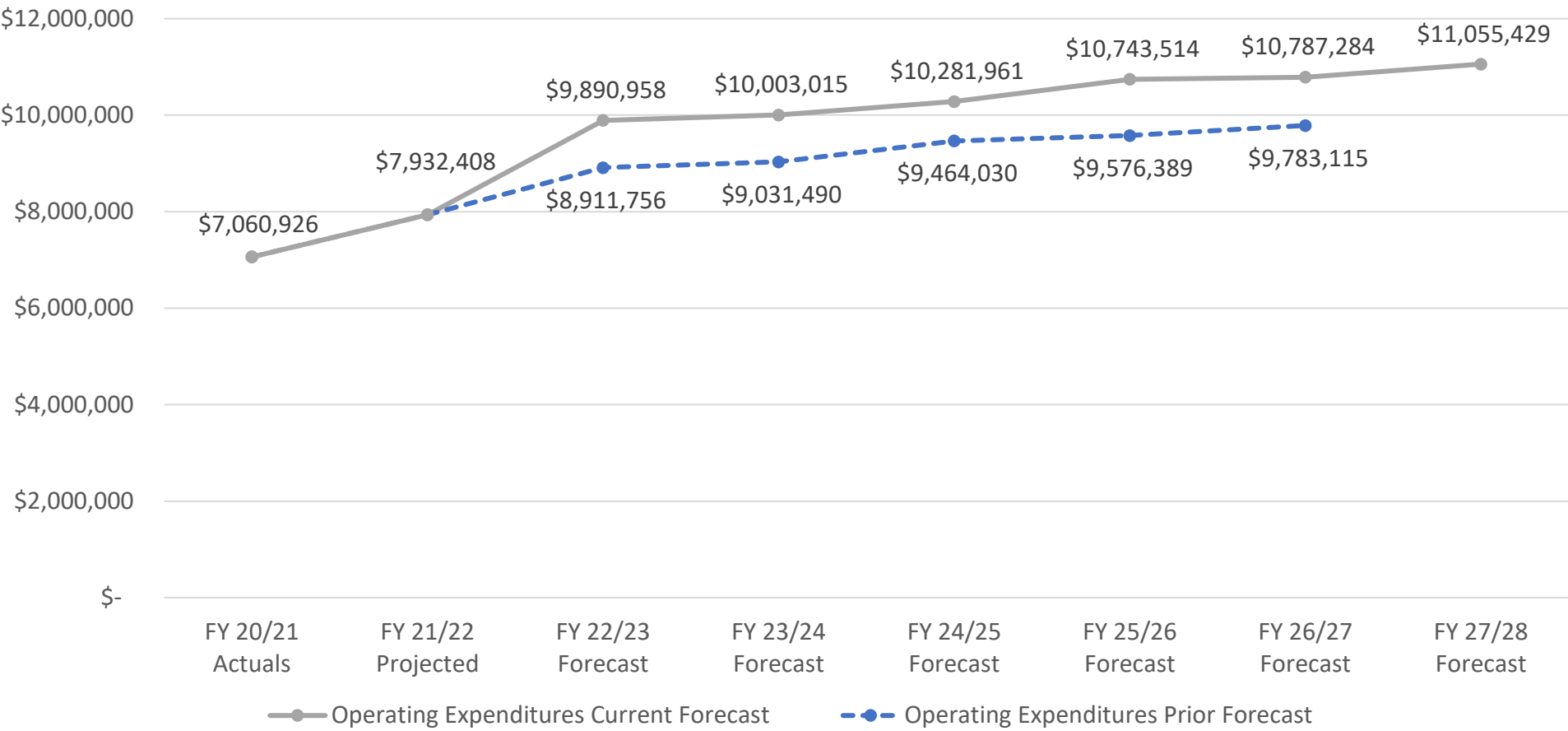
# Increasing Costs/Pressures on the Electric Utility

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

# Increasing Debt Service Costs on the Electric Utility



# Increasing Operating Costs on the Electric Utility



# Residential Electric Bill Comparison

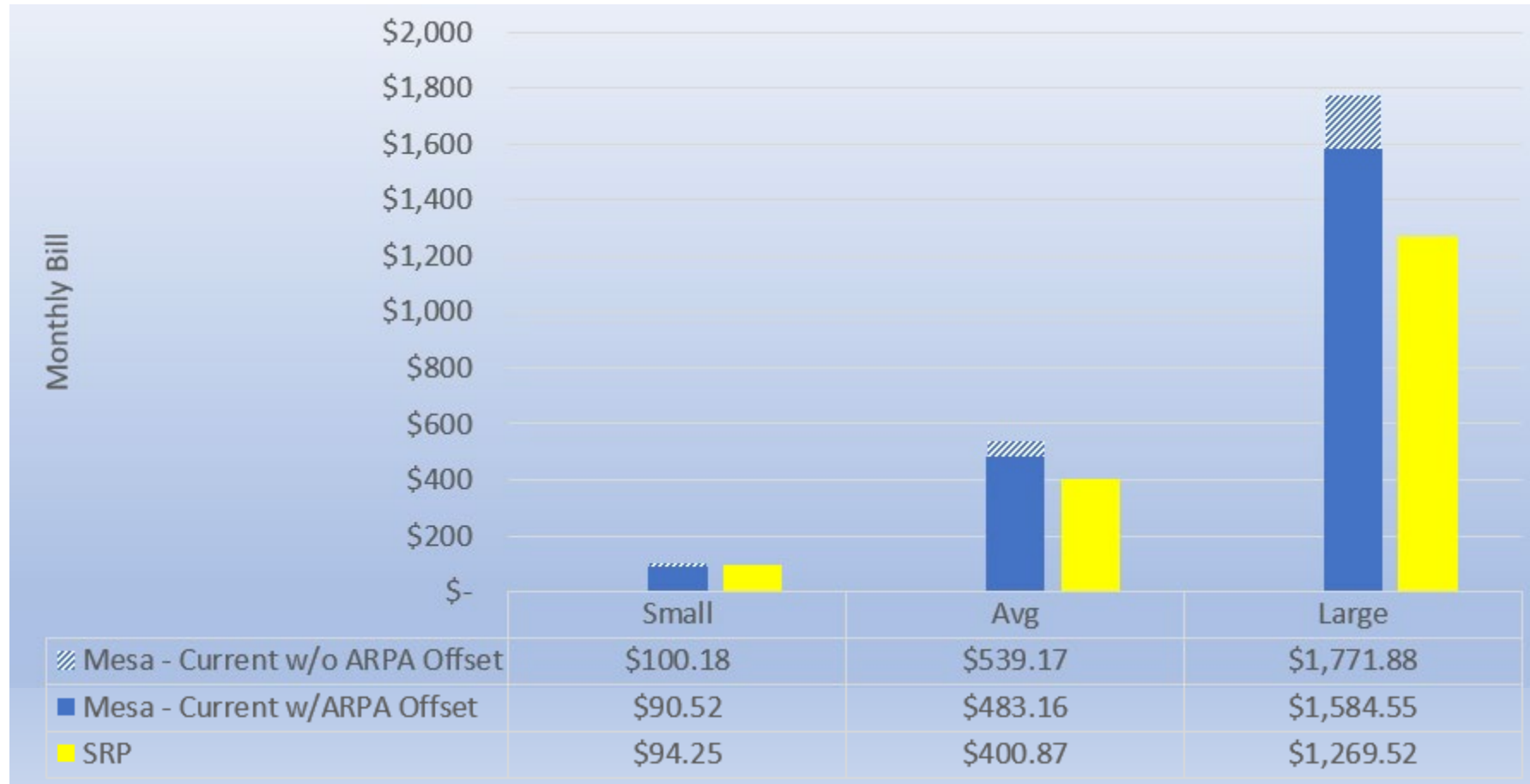
*Staff recommends no rate adjustments*



\*SRP amount includes proposed November rate increase

# Commercial Electric Bill Comparison

*Staff recommends no rate adjustments*



\*SRP amount includes proposed November rate increase

# Electric Vehicle Discount Rate

<b>System Service Charge</b>			\$14.50
<b>Nov-April</b>	Weekday	Weekend	
On Peak	5:00 AM – 8:59 AM		\$0.0443
Off Peak	5:00 PM – 8:59 PM	5:00 AM – 10:59 PM	\$0.0222
Super Off-Peak	9:00 AM – 4:59 PM 9:00 PM – 10:59 PM 11:00 PM – 4:59 AM	11:00 PM – 4:59 AM	\$0.0055
<b>May, Jun, Sept, Oct</b>			
On Peak	2:00 PM – 7:59 PM		\$0.1605
Off Peak	5:00 AM – 1:59 PM 8:00 PM – 10:59 PM	5:00 AM – 10:59 PM	\$0.0232
Super Off-Peak	11:00 PM – 4:59 AM	11:00 PM – 4:59 AM	\$0.0073
<b>July, Aug</b>			
On Peak	2:00 PM – 7:59 PM		\$0.1931
Off Peak	5:00 AM – 1:59 PM 8:00 PM – 10:59 PM	5:00 AM – 10:59 PM	\$0.0237
Super Off-Peak	11:00 PM – 4:59 AM	11:00 PM – 4:59 AM	\$0.0076

- Subject to meter availability and smart meter communications
- Customers must have a qualified Battery Electric Vehicle or Plug-in Hybrid
- Additional work required on CIS system



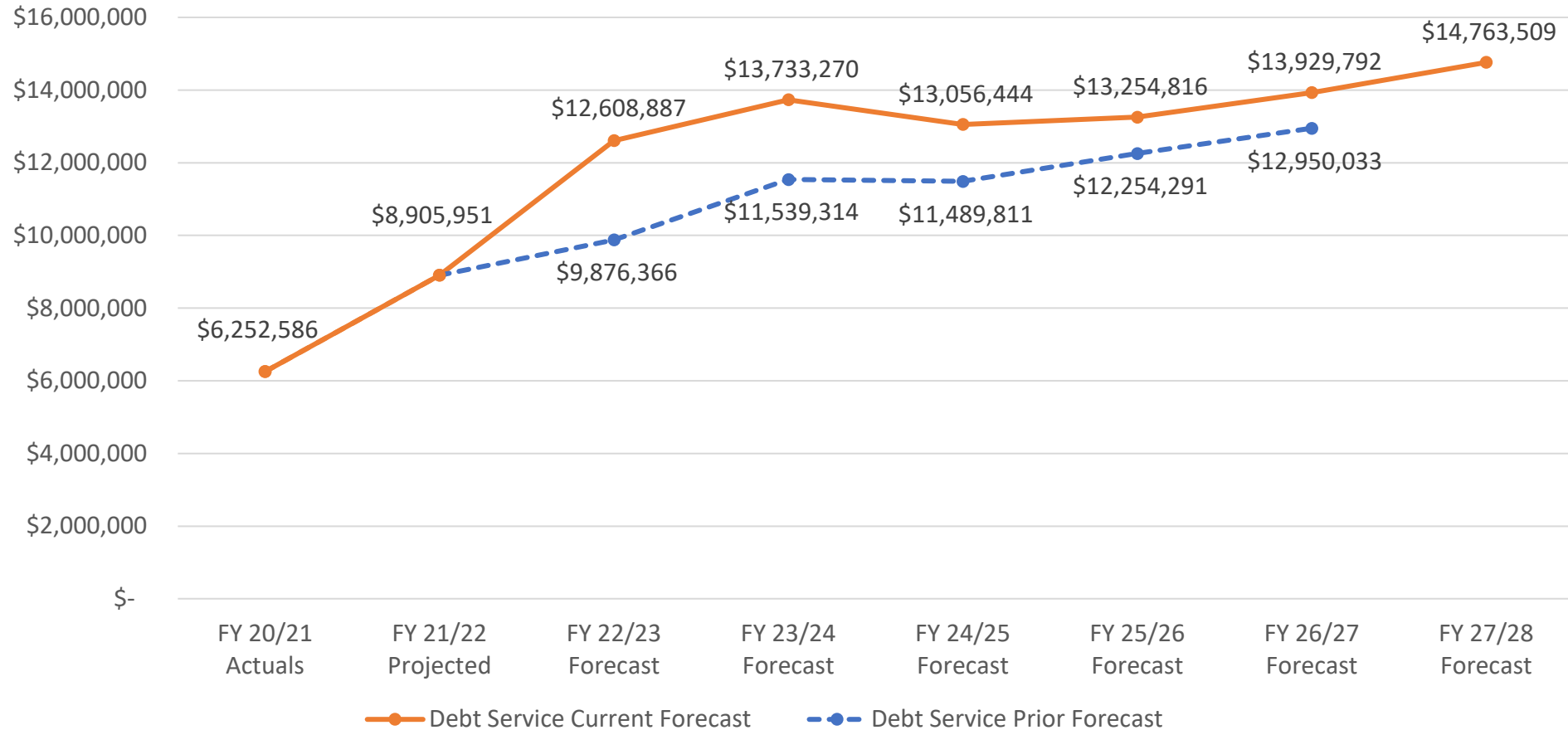
# Gas



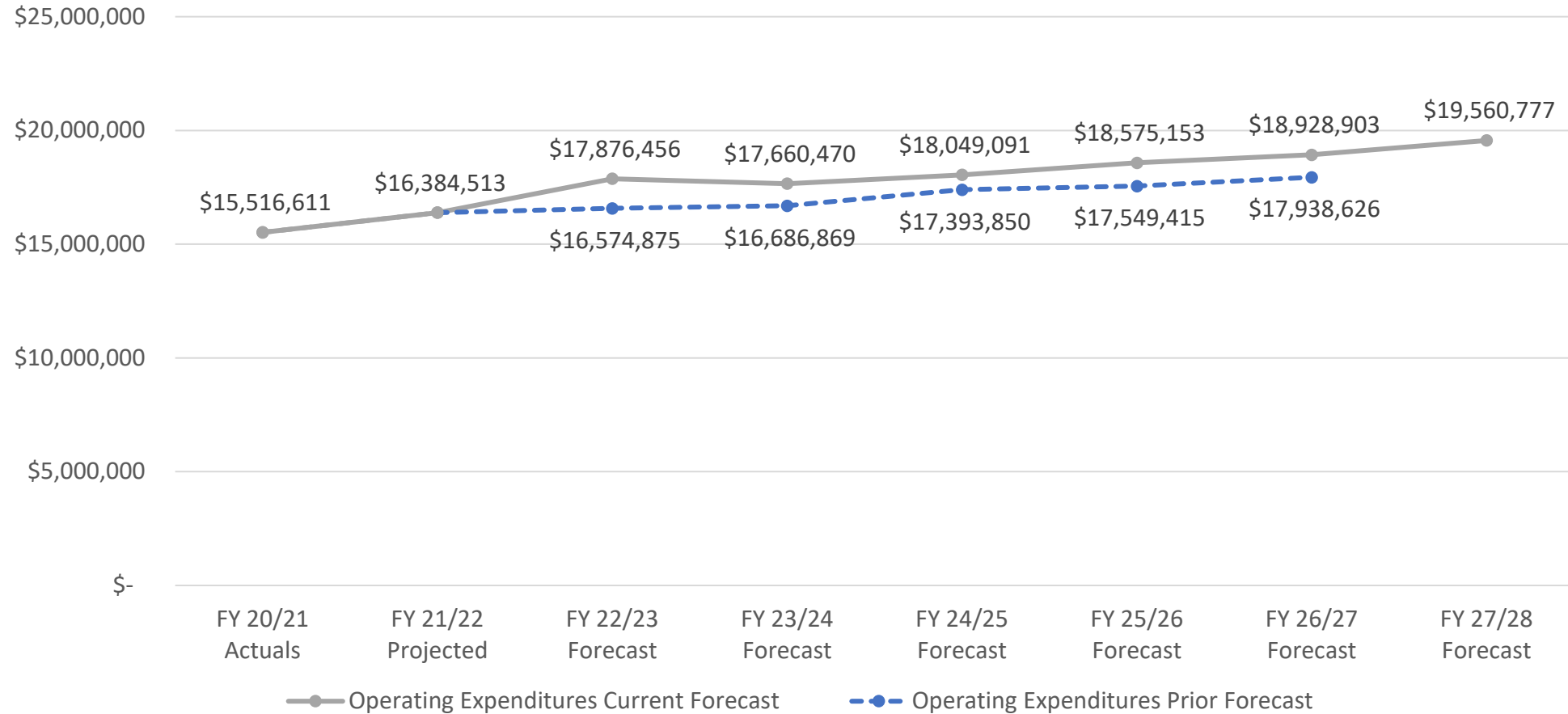
# Increasing Costs/Pressures on the Gas Utility

- 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
    - Meridian Rd
  - Quarter Section Renewal Projects
  - AMI

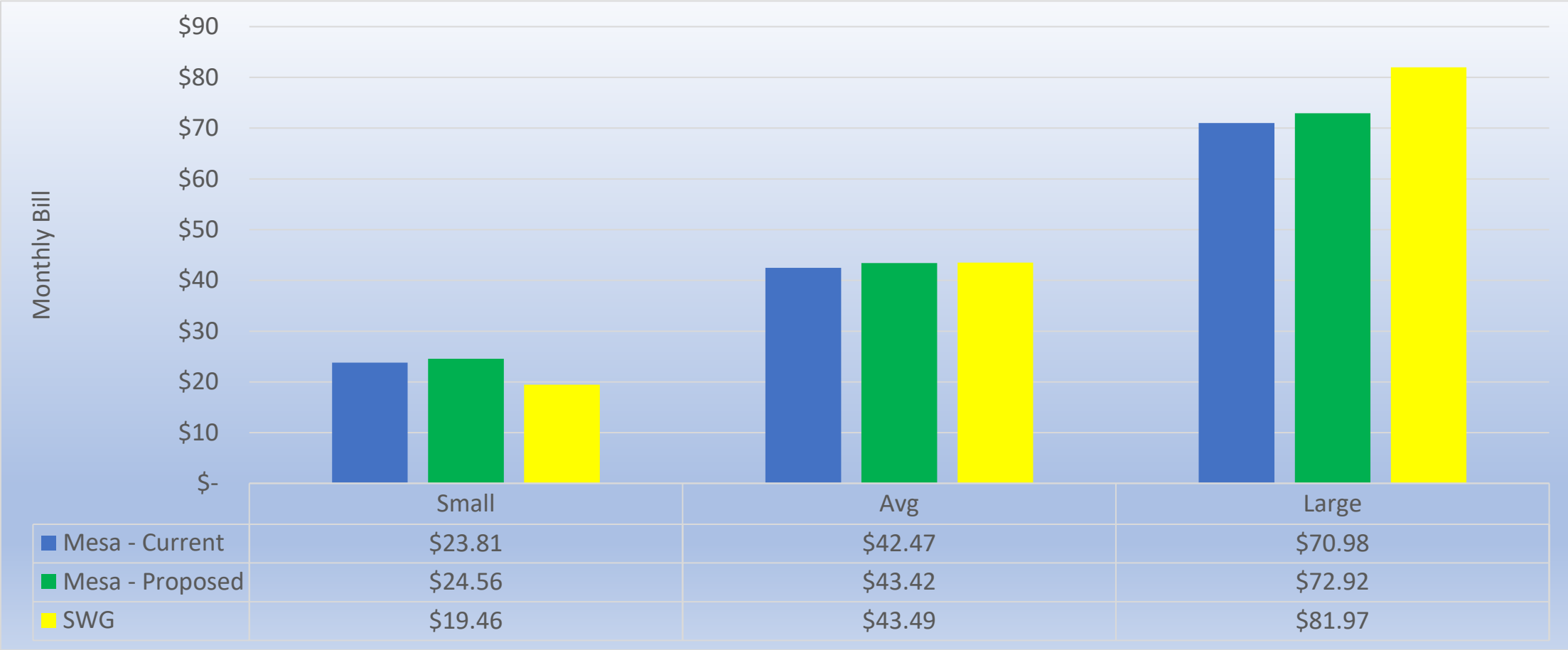
# Increasing Debt Service Costs on the Gas Utility



# Increasing Operating Costs on the Gas Utility



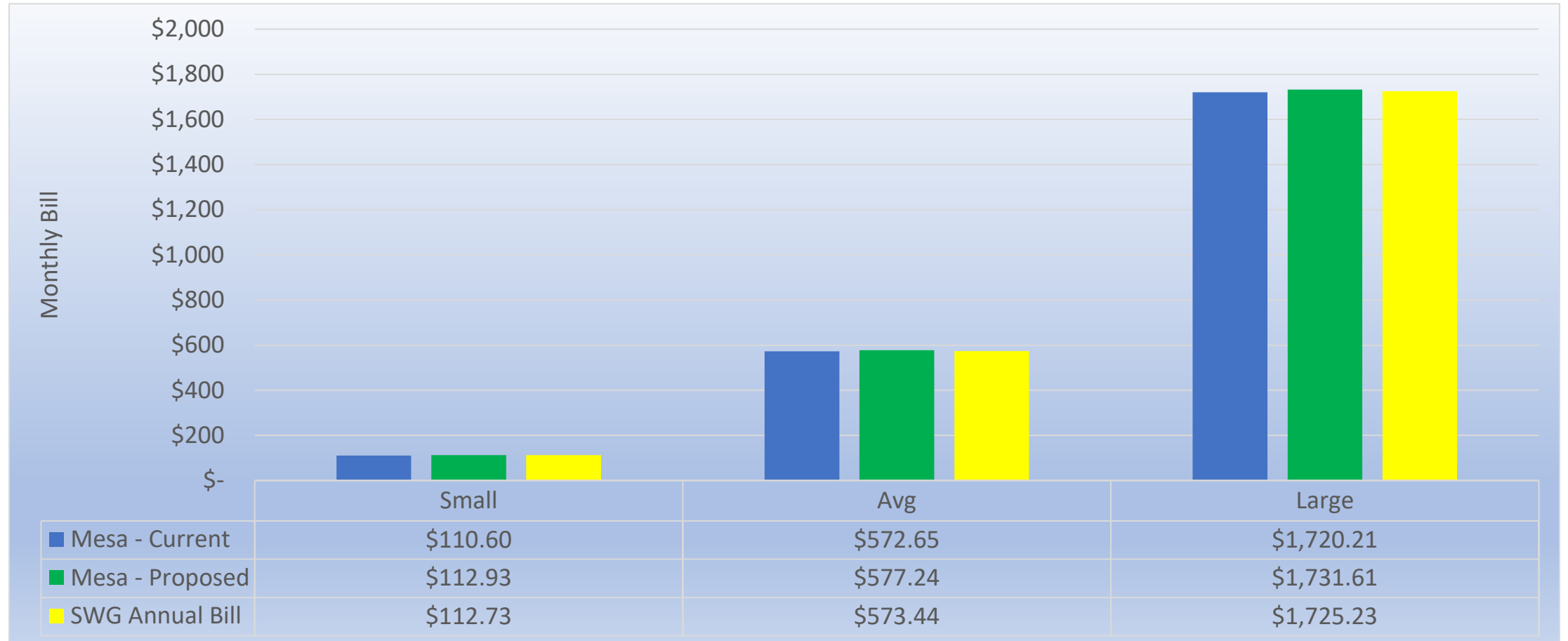
# Residential Gas Bill Comparison



# Proposed Residential Gas Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE SUMMER WINTER	\$15.81 \$18.74	\$16.56 \$19.49
USAGE CHARGE SUMMER per therm	Tier 1 - \$0.6685 Tier 2 - \$0.2622	Tier 1 - \$0.6685 Tier 2 - \$0.2884
USAGE CHARGE WINTER per therm	Tier 1 - \$0.6685 Tier 2 - \$0.5961	Tier 1 - \$0.6685 Tier 2 - \$0.6557
MONTHLY BILL (Average Customers)	\$42.47	\$43.42
	(effective increase 2.2% or \$0.95/mo.)	

# Commercial Gas Bill Comparison



# Proposed Commercial Gas Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE SUMMER WINTER	\$37.66 \$47.34	\$39.66 \$49.34
USAGE CHARGE SUMMER per therm	Tier 1 - \$0.5280 Tier 2 - \$0.3261	Tier 1 - \$0.5333 Tier 2 - \$0.3359
USAGE CHARGE WINTER per therm	Tier 1 - \$0.5718 Tier 2 - \$0.4711	Tier 1 - \$0.5775 Tier 2 - \$0.4852
MONTHLY BILL (Average Customers)	\$572.65	\$577.24
	(effective increase 0.8% or \$4.59/mo.)	

# Other Changes

- Removal of electric direct access service (residential & commercial)
- Eliminate the following natural gas rates (10+ years no customers):
  - Lamp rate
  - AC rate
  - Seasonal service
  - Irrigation pumping service

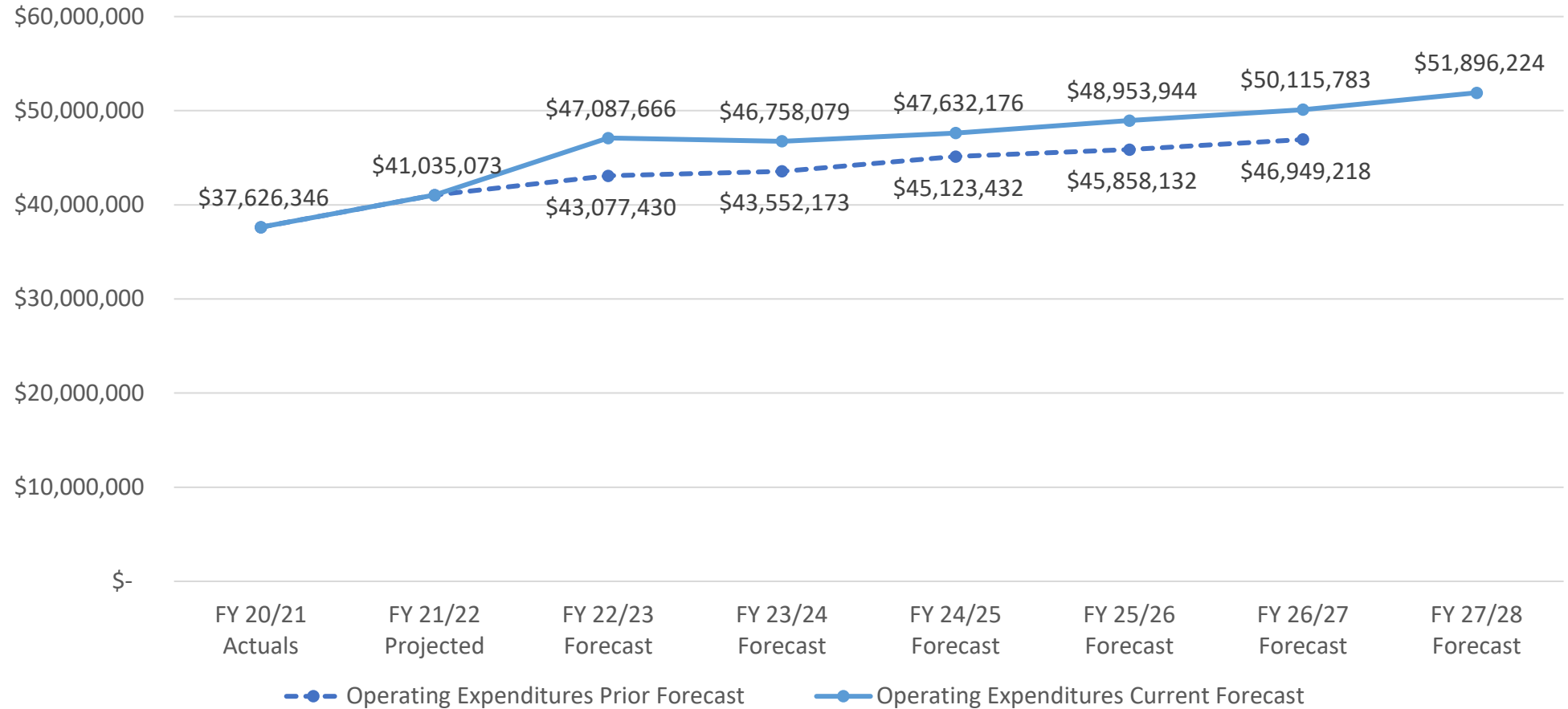


# Solid Waste

# Increasing Cost Pressures On The Utilities

- Personal Services - \$1.6M
- Disposal Fees - \$600K
- Barrel/Bin Price Increase - \$400K
- CNG Cost Increase - \$280K

# Increasing Operating Costs on Solid Waste



# Solid Waste Residential Rate Recommendation

	CURRENT	PROPOSED INCREASE	NEW TOTAL
90-gallon Trash Barrel	\$29.92	\$0.60	\$30.52
Green & Clean Fee	\$ 0.89	\$0.07	\$ 0.96
Total Residential	\$30.81	\$0.67	\$31.48

## COMPARISON TO OTHER CITIES

Phoenix	\$34.48
Mesa	\$31.48
Tempe	\$30.32

# Bulk Item and Homeowner's Landfill

- Bulk Item
  - Per load increase from \$28.00 to \$29.00
- Homeowner's Landfill
  - Per trip increase from \$13.00 to \$15.00

# Commercial Front Load Trash Recommendations

- Increase base rate by 2.5%
  - 6-yard bin increase from \$106.58 to \$109.24
- Increase fee for out-of-zone collection from \$19.00 to \$20.00
- Decrease multi-day and multi-bin service discounts by 1%

# Commercial Front Load Trash Recommendations

- Increase installation fee for casters from \$34.14 to \$76.44



# Commercial Front Load Cardboard Recommendations

- Average base rate increase of 2.7%
  - 6-yard bin increase from \$70.87 to \$73.22
- Decrease multi-bin service discount by 1 percentage point
- Special pick-up increased to \$60 to agree to Front Load Trash



# Commercial Roll Off Recommendations

- Increase set fee by \$6.50
  - Increase from \$83.00 to \$89.50
- Increase haul fee by \$3
  - 30-yard box increase from \$140.00 to \$143.00
- Increase tonnage rate by 6.22% to follow landfill increase
  - Increase trash from \$35.25 to \$37.44
  - Increase green waste from \$41.75 to \$44.35

# Commercial Roll Off Recommendations

- \$16.07 increase for a one-time trash customer
  - 30-yard box increase from \$328.75 to \$344.82
- \$17.30 increase for a one-time green waste customer
  - 30-yard box increase from \$348.25 to \$365.55

# Utility Fund Forecast

# Utility Fund Forecast:

## FY 22/23 Recommended Rate Adjustments

As of 08/29/2022	FY 21/22 Actuals	FY 22/23 Projected	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast	FY 26/27 Forecast	FY 27/28 Forecast
TOTAL NET SOURCES AND USES	(\$8,185,182)	(\$25,899,119)	(\$20,031,529)	(\$11,755,692)	(\$10,885,526)	(\$9,437,499)	(\$5,664,952)
Beginning Reserve Balance	\$151,261,238	\$143,076,056	\$117,176,937	\$97,145,407	\$85,389,716	\$74,504,190	\$65,066,691
<b>Ending Reserve Balance</b>	<b>\$143,076,056</b>	<b>\$117,176,937</b>	<b>\$97,145,407</b>	<b>\$85,389,716</b>	<b>\$74,504,190</b>	<b>\$65,066,691</b>	<b>\$59,401,739</b>
Ending Reserve Balance Percent*	<b>30.1%</b>	<b>24.4%</b>	<b>20.0%</b>	<b>16.7%</b>	<b>13.5%</b>	<b>11.8%</b>	<b>10.4%</b>

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

WATER Residential	2.50%	2.75%	3.50%	3.50%	3.50%	3.50%	3.50%
WATER Non-Residential (usage)	5.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
WASTEWATER Residential	3.00%	4.25%	4.75%	4.75%	4.75%	4.75%	4.75%
WASTEWATER Non-Residential	4.00%	4.50%	5.00%	5.00%	5.00%	5.00%	5.00%
SOLID WASTE Residential	2.00%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
SOLID WASTE Commercial	3.75%	4.50%	3.00%	3.00%	3.00%	3.00%	3.00%
SOLID WASTE Rolloff	3.50%	4.25%	3.00%	3.00%	3.00%	3.00%	3.00%
ELECTRIC Residential - svc charge	\$1.50	\$0.00	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
ELECTRIC Non-Residential - svc charge	\$2.50	\$0.00	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
GAS Residential - svc charge	\$0.50	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
GAS Non-Residential - svc charge	\$0.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00



No change to rate adjustment compared to adopted budget forecast.



Recommended rate adjustment decrease compared to adopted budget forecast.

# Schedule for FY 2022/23 Utility Rates Adjustment Recommendation

- Sept 15** – City Council Discussion of Utility Rates
- Sept 19** – City Council Action on Notice of Intent
- Nov 21** – Introduce Utility Rate Ordinances
- Dec 1** – City Council Action on Utility Rates
- Jan 1** – Effective date for Utility Rate changes



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