



City Council Report

Date: November 16, 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 2020/2021 Utility Rate Recommendations

PURPOSE AND RECOMMENDATION

The following information has been compiled and placed on file with the Mesa City Clerk in Compliance with Arizona State statute.

The attached information outlines recommended electric, natural gas, solid waste, wastewater and water utility rates, components, fees and/or charges to be presented to the City Council in association with the introduction of utility rate ordinances on November 16, 2020. This will be followed by the public hearing on December 1, 2020 as stated in the Notice of Intention to be published on September 21, 2020.

Discussions of these proposals to the full City Council occurred at the study sessions on September 17, 2020 and October 22, 2020. Additionally, Utility Enterprise forecast and utility rate recommendations were presented to the Audit, Finance and Enterprise Committee on August 27, 2020 and September 10, 2020. Subsequently, the results of these discussions are available online at the City of Mesa website, Mesaaz.gov, under City Hall, council agendas and minutes.

The purpose of this report is to provide staff recommendations for utility rate adjustments. The rate adjustments are recommended to be effective January 1, 2021.

The forecasted expenses for each utility are compared to the forecasted revenues based on the current rates. The increases in annualized revenues due to the

recommended rate adjustments are in the table below. Additionally, the table below shows the increases in operating and debt service expenses for each utility from FY 2019/20 to FY 2020/21:

<u>Utility</u>	<u>Revenue</u>	<u>Expenses</u>
Solid Waste	\$330,000	\$1,945,000
Electric	\$272,000	\$2,124,000
Natural Gas	\$428,000	\$6,066,000
Water	\$6,698,000	\$19,423,000
Wastewater	\$2,951,000	\$10,352,000

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 2020/21, the following rate adjustments are being recommended (see Attachment 1 for more detail):

Solid Waste:

- Residential barrel rates: no adjustment
- Bulk item pick-up: Increase by \$1.96, from \$23.04 to \$25.00
- Bulk Item Not Out Fee: Increase by \$13.21, from \$11.79 to \$25.00
- Front-load rates: Overall 3.5% increase
- Commercial Roll-Off rates: 1.0% increase

Electric:

- Residential: service charge increase of \$1.00 per month
- Residential: 1.0% Summer Tier 1 usage rate increase and 5.0% Winter Tier 1 and Tier 2 usage rate increase
- Establish new Standby Rate

Gas:

- Residential: service charge increase of \$0.25 per month
- Residential: 10.0% Summer and Winter Tier 2 usage rate increase
- Non-residential: service charge increase of \$2.00
- Non-residential: 3.0% Summer and Winter Tier 2 usage rate increase
- Non-residential: Adjust Tier 1 usage from 0-1,200 therms to 0-1,500 therms
- Establish new Economic Development Rate

Water:

- Residential: 1.50% increase to service and usage components
- Non-residential: 1.50% and 5.00% increases to usage and service components, respectively, across most customer classes
- Interdepartmental: no adjustment
- Continue with final residential water usage tier adjustment
- Continue with removal of final excess surcharge holiday

Wastewater:

Residential rate: 3.50% increase to service and usage components

Non-residential: 4.00% increase to service and usage components, across most customer classes

Establish Household Hazardous Waste \$0.41 per month rider for Leisure World customers

Interdepartmental: no adjustment

BACKGROUND AND DISCUSSION

Each utility is operated as a separate business center. As such, rate schedules are adjusted annually in a manner consistent with costs of capital, as well as the fixed and variable costs of operation and maintenance within each utility. Reserve balances are combined in the Utility Enterprise Fund and are managed to maintain a targeted ending reserve balance of at least 20% of the following year's estimated expenditures throughout the forecast period. The reserve balance allows for the smoothing of rate adjustments. This smoothing avoids large rate increases and minimizes the impact to customers in any single year.

The Utility Enterprise Fund Cash Flow Projections (Attachment 2) includes projections of growth. The Water, Wastewater, and Solid Waste utilities have a citywide service area and are expected to grow by an average of about 1.7% per year during the forecast. With the inclusion of the Magma service area, the Natural Gas utility is expected to grow by 770 accounts in FY 2020/21 fiscal year. The Electric utility, with a smaller and largely built out service area when compared to the other utilities, is expected to grow by 100 accounts in FY 2020/21.

The Utility Enterprise Fund Cash Flow Projections also include expenditures that are increased by inflationary factors in future years. Some inflationary factors are unique to the individual utilities, such as those used for chemicals or purchased water. Other citywide expenditure pressures that are included in the forecast are listed below.

Capital Investment

The City continues to place a high priority on infrastructure investment to attract and service future development. The FY 2020/21 capital improvement program (CIP) includes the planning for increased customer demand, maintaining system reliability and satisfying contractual obligations. The debt service on utility revenue bonds is funded through the utility rates paid by customers. The City issues bonds on an as-needed basis in order to minimize the interest cost. Anticipated future debt service has been included in the forecast and rate recommendations.

Review of the General Fund Contribution

Based on direction from the City Council, the Utility Enterprise Fund contribution to the

General Fund is now calculated based off of 30% of each utility's gross operating revenues. The amount of the transfer throughout the forecast period is adjusted based the gross operating revenue forecast. The adjustment for FY 2020/21 is projected to be a slight increase of \$1.1 million, moving from \$108.4 million to \$109.5 million.

SOLID WASTE UTILITY

Solid waste services are charged flat monthly rates for the various services provided.

Residential Rates

Staff is recommending no increase on all residential barrel rates.

Bulk Item Collection

Staff is recommending increasing the following bulk item rates:

Bulk Item Service: increase of \$1.96 per load, from \$23.04 to \$25.00.

"Not Out" Fee: increase of \$13.21, from \$11.79 per occurrence to \$25.00 per occurrence.

The projected annualized revenue increase is \$20,000

Commercial Front-Load

There are various rate factors related to Front-Load service. The Front-Load program serves customers in competition with private waste collection companies.

Staff is recommending increasing the base rate, multi-day factor, multi-bin factor and out-of-zone fees. In addition, staff is recommending implementing a set fee, removal fee, relocation fee and change in size fee. The projected overall increase for Front-Load Trash is 3.5%.

Increase base rates for all size bins by \$1.50

Increase out-of-zone fee by \$1.50, from \$15.00 to \$16.50

Increase multi-day and multi-bin discounts by 2 percentage points

Implement a Front Load Set Fee of \$80.00

Implement a Front Load Removal Fee of \$110.00

Implement a Front Load Relocation Fee of \$85.00 for the first bin and \$10.00 for each additional bin

Implement a Change in Size Fee of \$90.00

The projected increase in annualized revenue is expected to be \$220,000 for Front-Load Trash.

Commercial Front-Load Recycling

Staff is recommending eliminating Front-Load commingled recycling

Staff is recommending an increase to the base rate and multi-bin factor for commercial cardboard customers.

Base rate for cardboard:

Increase 2-yard by \$9.06, from \$36.00 to \$45.06

Increase 3-yard by \$9.82, from \$39.36 to \$49.18

Increase 4-yard by \$10.58, from \$42.72 to \$53.30

Increase 6-yard by \$12.84, from \$53.03 to \$65.87

Increase 8-yard by \$15.03, from \$63.09 to \$78.12

Increase multi-bin factor cardboard from a multiplier of 0.65 to 0.67

The projected increase in annualized revenue is expected to be \$70,000 for Front-Load Cardboard.

Commercial Roll-Off

The Roll-Off program serves residents and business customers in competition with private waste collection companies.

Staff is recommending the following Roll-Off rate adjustments:

Increase trash and green set fee by \$2.00, from \$58.00 to \$60.00

Increase trash per ton charge by \$0.20, from \$33.30 to \$33.50

Increase green waste per ton charge by \$7.45, from \$32.30 to \$39.75

Increase blocked, overloaded, and unserviceable charges by \$25.00, from \$65.00 to \$90.00

Implement a 24-hour cancellation charge of \$90.00

The projected roll-off increase in annualized revenue is approximately \$20,000 for Roll-Off containers.

Solid waste rates across Arizona range from \$10.00 to \$40.00 a month. Costs to provide this service varies depending on many factors such as, but not limited to, distance to the landfill from collection location and landfill costs. An informal survey of private hauler service for county island residents within the City of Mesa resulted in costs comparable to those proposed by staff for FY 2020/21, but the private haulers do not provide recycling service in all locations.

The projected annualized increase in revenue for all Solid Waste utility recommendations is approximately \$330,000.

ELECTRIC UTILITY

Rates for electric service are comprised of three major components: System Service Charge with a flat monthly rate, Energy Usage Charge based on units of consumption,

and the Electric Energy Cost Adjustment Factor (EECAF) which passes the cost of the purchase of the electric commodity to the customer.

Adjustments to the system service charge component of the electric rate allows for a more stable revenue source for the program and insulates customers from higher energy costs during peak demand periods such as the summer. Currently only 14% of the revenues (excluding EECAF) from electric customers are fixed revenues. The program is heavily reliant on consumption to cover fixed expenses. Rate adjustments applied to the system service charge allows for a movement toward a more balanced rate structure.

Additionally, the electric program is experiencing normal inflationary pressures on operating costs, as well as increased debt service expenses related to system infrastructure improvements.

The Electric Energy Cost Adjustment Factor (EECAF) component is adjusted monthly to “pass-through” increases and decreases in the costs of electric energy supplies acquired to meet our customers’ needs. This rate component has varied between \$0.03800 and \$0.05517 per kWh in the most recent twelve months.

Staff recommends the following rate adjustments:

Residential

Residential System Service Charge: increase of \$1.00, from \$12.00 to \$13.00
Residential Usage Charge: 1.0% increase in Summer Tier 1 usage charge, and 5.0% increase in Winter Tier 1 and Tier 2 usage charge

Average residential bill with customer charge, energy usage charge, and EECAF: from \$93.21 to \$95.05, 2.0%

Salt River Project (SRP) comparison:

Service Charge: \$20.00 per month \$7.00 more than Mesa’s proposed)

Mesa’s average residential customer:

Monthly bills during calendar year 2019 (at FY 2020/21 Mesa rates) were approximately \$14.10 less per month (\$169.20 less per year) than SRP.

The proposed increase results in an annual cost approximately 12.9% percent less than if served by SRP. Lower use customers’ bills (i.e. first quartile with an average consumption of 325.69 kWh per month) would be almost 20.6% less than if they were served by SRP.

Establishing a Standby Electric Rate

Energy Resources is proposing a Standby Electric Rate Schedule to provide electric utility service to customer(s) that are significantly different than our other electric utility

customers. Existing rate schedules do not ensure that the cost to extend and provide safe and reliable service to these customers are recovered in a timely and equitable manner.

Multiple projects are developing in our electric service area that differ from our existing customers in two significant ways:

- The developments have indicated they will meet a significant portion of their electric energy needs with electric generation within their developments (i.e. on-site generation); and
- Significant investments in electric infrastructure and equipment are still required to meet the developments' requests for Mesa's electric utility to meet their electric energy requirements when their on-site generation is not capable of doing so.

These customers have requested that Mesa's electric utility be able to meet all of their developments' electric energy needs when their on-site generation is unavailable to supply these requirements. Thus, electric distribution utility infrastructure and equipment will need to be installed to satisfy this request. Existing rate schedules recover investments made to extend electric infrastructure and equipment and provide electric service to new or expanding customers in a timely manner if the customers' billed energy consumption and associated revenues are sufficient to pay for those investments. A customers' reliance upon on-site generation and/or an unusually high investment in electric infrastructure and equipment will result in an unusual risk of costs for the electric distribution infrastructure and equipment not being fully recovered in a timely manner.

The proposed standby rate schedule ensures that the costs to extend electric infrastructure and provide service to customers who meet a significant portion of their energy needs with on-site generation are recovered in a timely and equitable manner. The proposed Standby Electric Rate also provides assurance to the Standby Customer that the electric utility will install the electric infrastructure and equipment and acquire the electric energy supplies to meet the customer's energy needs when on-site generation is not able to supply their electric energy requirements.

The key differences between the proposed Standby Electric rate and the existing rate schedule that other commercial or multifamily customers are served under are indicated in Table 1 below.

The key difference between rate/bill component in the Standby Electric Rate is the Facility Charge. The Facility Charge on a customer's bill will be determined by multiplying the Facility Charge rate (\$6.67/ kilowatt) by the demand (kW) that the City is expected to provide in case the customer's on-site generation is not available or sufficient to meet their requirements.

RATE/BILL COMPONENT	TIER	E 3.1 (SUMMER 3 PHASE)	PROPOSED STANDBY
SYSTEM SERVICE CHARGE (\$/MON)	N/A	\$ 13.24	\$ 13.24
ENERGY CONSUMPTION CHARGE (\$/kWh)	0 -15,000 kWh	\$ 0.06491	\$ 0.06491
	15,001 – 75,000 kWh	\$ 0.04125	\$ 0.04125
	MORE THAN 75,000	\$ 0.02901	\$ 0.02901
DEMAND CHARGE (\$/kW PER MONTH)	0-50 kW	\$ 0.00	N/A
	MORE THAN 50 kW	\$ 3.9168	N/A
FACILITY CHARGE (\$/kW PER MONTH)	CONTRACT OR ACTUAL kW	N/A	\$ 6.67000
EECAF	ALL kWh	\$ 0.03483	\$ 0.03483

The demand (in kW) that will be used to determine the monthly bill is indicated in an agreement between the Customer and Mesa that will specify the capacity (Contract Demand also in kW) of the electric infrastructure and equipment that will be installed and dedicated to serving the customer if and when the customer’s on-site generation is unable to meet their energy requirements. In the event the actual demand of the development is greater than the “contract demand”, subsequent bills will be determined using the new Actual Demand. In addition to the Facility Charge, the developments/customers will also pay for any energy that is supplied by Mesa’s electric utility according to the rate components indicated in Table 1 above.

Four key goals for developing utility rates will be accomplished with the implementation of the proposed Electric Standby Rate:

1. Rates will align the recovery of fixed costs (such as electric infrastructure and equipment) through rates that are fixed and not a function of consumption.
2. Services to and rates/bills paid by these customers will not be subsidized by other customers. The investments in electric infrastructure and equipment that directly benefit these developments/customers will be recovered from them and not from other customers.
3. The risks of not recovering the investments in electric infrastructure and equipment to serve these new and uniquely different developments/customers in a timely manner will be minimized.
4. Revenue from the new developments/customers will be stable.

The projected annualized increase in revenue for all Electric utility recommendations is approximately \$272,000.

NATURAL GAS UTILITY

Rates for natural gas service are comprised of three components: System Service Charge with a flat monthly rate, Usage Charge based on units of consumption, and the Purchased Natural Gas Cost Adjustment Factor (PNGCAF) which passes the cost of the purchase of the natural gas commodity to the customer. Those customers that reside in the Magma service area also have a Magma adjustment factor rate component. The adjustment factor benchmarks the City's rates to the rates of Southwest Gas to ensure market equity.

Additionally, the natural gas program is experiencing normal inflationary pressures on operating costs, as well as increased debt service expenses related to system infrastructure expansion and improvements.

As the recommended system service charge increase is a flat amount, the dollar impact would be equal on each bill but the percentage impact would vary based on consumption. The higher the consumption, the lower the percentage impact would be. The Tier 2 Summer/Winter Usage increase would increase rates over 25 therms of usage and lessen the rate disparity for higher consumption.

Adjustments to the system service charge component of the natural gas rate allows for a more stable revenue source for the program and insulates customers from higher natural gas costs during peak demand periods such as the winter. Currently only 44% of the revenues (excluding PNGCAF) from natural gas customers are fixed revenues. The program is heavily reliant on consumption to cover fixed expenses. Applying the rate adjustments to the system service charge allows for a movement toward a more balanced rate structure.

The Purchased Natural Gas Supply Adjustment component has been adjusted monthly to "pass-through" increases and decreases in the costs of natural gas supplies acquired to meet our customers' needs. This rate component has varied between \$0.04000 and \$0.21379 per therm in the most recent twelve months.

Staff recommends the following rate adjustments:

Residential

Residential System Service Charge –summer: increase \$0.25, from \$15.06 to \$15.31

Residential System Service Charge –winter: increase \$0.25, from \$17.99 to \$18.24

Average monthly Mesa resident bill with customer charge, usage charge, and PNGCAF: from \$34.97 to \$35.44, 1.3%

Southwest Gas (SWG) comparison:

Mesa's average residential customer's monthly bill during calendar year 2019 (at FY 2020/21 Mesa rates) were approximately \$1.56 more per month (\$18.72 more per year) than if served by SWG.

Non-residential

Increasing the following system service charges and/or energy usage charges

Non-residential: increase system service charge \$2.00, from \$35.66 to \$37.66 (summer) and from \$45.34 to \$47.34 (winter)

Non-residential: 3.0% Summer/Winter Tier 2 usage rates and adjust Tier 1 usage from 0-1,200 to 0-1,500

Current average non-residential bill with customer charge, energy usage charge, and PNGCAF: from \$385.15 to \$387.15, 0.5% increase

Establish Gas Economic Development Rate

The Gas Economic Development Rate has been designed to attract and retain very large users of natural gas. The rate is structured with declining unit prices as the customer uses more natural gas, encouraging facility expansion to create jobs in Mesa. In order to qualify for the rate, the customer must invest \$25 million in new capital expenditures, hire 50 new employees and maintain a consumption of at least 36,000 therms per month.

The projected annualized increase in revenue for all Natural Gas utility recommendations is approximately \$428,000.

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 increased costs for debt service, payments in lieu of franchise fees, joint venture costs for the operation of the Val Vista Water Treatment Facility, power, commodity, and chemicals at City water treatment plants. Staff reviews and forecasts all costs each year to ensure rates are sufficient to keep up with expenses. This includes significant cost increases for operational (\$15.2M) and debt service (\$4.1M) costs from FY 2019/20 to FY 2020/21.

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. This was achieved in FY 2016/17 and is monitored on an ongoing basis. For FY 2019/20, revenues from the service charge component rate were 36.25% of total revenues. This trend is scheduled to continue into FY 2020/21, with revenues from

the service charge component forecasted to come in at 35.73% of total estimated revenues.

The variable rate component is based on water consumption rounded to 1,000 gallon increments. There are currently four tiers (or levels of usage). Each tier has a different rate. The tier structure allows for a demand based rate as customers with higher usage patterns create a greater demand for infrastructure and service capacity.

For FY 2020/21, staff recommends a 1.5% increase to all service charges, a 1.5% increase to residential usage charges, and implementing the final residential water tier adjustment. Below are the current and recommended changes to the residential rate structure:

Current Tier Structure

The first 3,000 gallons are included in the service charge
Tier 1: \$3.19 per 1,000 gallons, 4,000 – 9,000 gallons;
Tier 2: \$4.79 per 1,000 gallons, next 9,000 gallons;
Tier 3: \$5.77 per 1,000 gallons, next 6,000 gallons;
Tier 4: \$6.46 per 1,000 gallons, all additional 1,000 gallons;

Recommended Tier Structure

The first 3,000 gallons are included in the service charge
Tier 1: \$3.24 per 1,000 gallons, 4,000 – 7,000 gallons;
Tier 2: \$4.86 per 1,000 gallons, next 8,000 gallons;
Tier 3: \$5.86 per 1,000 gallons, next 9,000 gallons;
Tier 4: \$6.56 per 1,000 gallons, all additional 1,000 gallons;

Residential Water Consumer Impact:

Service Charge: \$0.42 increase per month, from \$28.10 to \$28.52
Usage Charges (typical monthly consumption of 6,000 gallons): \$0.15 per month, from \$9.57 to \$9.72
Total average monthly bill impact: \$0.57 per month, from \$37.67 to \$38.24

Arizona Water Company comparison:

Service Charge: \$22.34 per month
Usage Charges (typical monthly consumption of 6,000 gallons): \$16.66
Total average monthly bill: \$39.00

Non-Residential Water

Consistent with the direction promoting equity with residential rates and furthering conservation efforts, the City is focused on identifying necessary and discretionary water use. Additionally, FY 2019/20 continued the recent trend of higher usage for non-residential customers compared to residential customers. The impact of increased non-residential water usage impacts the amount of water and infrastructure needed to serve these customers.

Staff recommends a 5% rate increase to the usage and excess usage charges for non-residential water. Prior to FY 2019/20, the non-residential usage rate was aligned with the necessary usage tier. The 5% proposed increase continues to move the non-residential usage rate closer to the discretionary usage tier. Non-residential customers have a 1.5% increase in the service charge. As the recommended increase is higher for usage rates, the monthly bill increase will be decreased for customers that consume less water.

General Commercial typical monthly bill (consumption of 9,000 gallons): increase of \$1.49, from \$51.75 to \$53.24, or a 2.9% increase.

Commercial Landscape typical monthly bill (consumption of 31,000 gallons): increase of \$5.23, from \$126.11 to \$131.34, or a 4.1% increase

Excess Water Surcharge

For most non-residential customers (commercial, multi-unit dwelling, and public authorities), the excess water surcharge is currently operative eleven months of the year (January through November). For these customers, staff is proposing to establish consistency with its winter water average which operates twelve months a year and would further promote conservation. The excess water surcharge will be added to December.

The projected annualized increase in revenue for all Water utility recommendations is approximately \$6,698,000.

WASTEWATER UTILITY

Rates for residential wastewater service are comprised of two components: Service Charge with a flat monthly rate, and Usage Charge based on wastewater demand volume. Wastewater volume is calculated for each customer based on 90% of the average monthly water use for the three lowest water usage months from December through March (also known as the “winter water monthly average”). This approximates indoor household usage and the resulting demand on the wastewater system. A City-wide winter water monthly average is used for new customers until an individual customer average can be determined.

The wastewater utility forecast includes increased costs for debt service associated with the expansion of the Greenfield Water Reclamation Facility, with start-up costs beginning

in FY 2019/20 and fully expanded operations beginning in FY 2020/21. Significant costs within the utility are the cost of chemicals, electricity, and the cost of ownership, operation, and maintenance of the 91st Avenue Wastewater Treatment Facility, a joint venture with the cities of Glendale, Phoenix, Scottsdale, and Tempe. Staff reviews and forecasts costs each year to ensure rates are sufficient to keep up with expenses. The debt service costs increased \$3.9M and operational costs increased \$6.4M from FY 2019/20 to FY 2020/21.

Staff recommends a 3.5% increase to the service charge and the usage charge for residential customers, and a 4.0% increase to the service charge and the usage charge for non-residential customers.

Residential Wastewater Consumer Impact:

Service Charge: \$0.67 increase per month, from \$19.27 to \$19.94
Usage Charges (based on winter water average consumption): \$0.12 increase per month, from \$3.16 to \$3.28
Total average monthly bill impact: Approximately \$0.79 per month, from \$22.43 to \$23.22

Liberty Utilities comparison:

Service Charge: \$52.40 per month
Usage Charges: \$2.34
Total average monthly bill: \$54.74

Johnson Utilities comparison:

Service Charge: \$39.24 per month
Usage Charges: \$0.00
Total average monthly bill: \$39.24

General Commercial Wastewater Consumer Impact:

Service Charge: \$0.83 increase per month, from \$20.67 to \$21.50
Usage Charge (based on water consumption): \$0.07 increase per month, from \$1.65 to \$1.72
Surcharge (based on water consumption): \$0.12 increase per month, from
Total average monthly bill impact: Approximately \$0.79 per month, from \$22.43 to \$23.22

Household Hazardous Waste Rider

Staff recommends a \$0.41 per month rider to customers in Leisure World. This rider to resident's wastewater accounts will allow Leisure World customers to utilize the City of Mesa's Household Hazardous Waste Facility and protect the City's sewer system.

Interdepartmental wastewater rates are recommended to be held constant.

The total projected annualized increase in wastewater revenue is approximately \$2,951,000.

ALTERNATIVES

Modify the FY 2020/21 utility rate adjustment proposal. Examples include but are not limited to: increase, reduce or eliminate a recommended percentage.

The budgetary impact would need to be calculated by staff based on the modification requested.

FISCAL IMPACT

The projected annualized increase in revenues in the Utility Enterprise Fund from the recommended utility rate adjustments is \$10,679,000. The projected increase by individual utility is as follows:

<u>Utility</u>	<u>Amount</u>
Solid Waste	\$330,000
Electric	\$272,000
Natural Gas	\$428,000
Water	\$6,698,000
Wastewater	\$2,951,000

The projected ending reserve balance for the Utility Enterprise Fund with similar adjustment to rates each year is:

<u>Fiscal Year</u>	<u>Ending Reserve Balance</u>
20/21	31.6%
21/22	28.1%
22/23	25.2%
23/24	22.8%
24/25	20.9%
25/26	20.0%

The projected increase on the typical residential customer for by individual utility is:

<u>Utility</u>	<u>Monthly</u>	<u>Annual</u>
Solid Waste	\$0.00	\$0.00
Electric	\$1.84	\$22.08
Natural Gas	\$0.47	\$5.64
Water	\$0.57	\$6.84
Wastewater	\$0.79	\$9.78

Attachments:

1. FY 2020/21 Utility Rate Adjustment Recommendation Summary
2. City of Mesa Utility Enterprise Fund Cash Flow Projections

City of Mesa, Arizona Utility Rate Adjustments Recommendations for FY 20/21

as of 09/10/20

<p>Electric</p> <p>Residential connections</p> <p>\$ 1.00 flat amount per month in the base rate</p> <p>Summer Tier 1: 1% increase; Winter Tiers 1 & 2: 5% increase</p> <p>examples: Current Recommended change pct change</p> <p> low \$ 42.38 \$ 43.70 \$ 1.32 3.1%</p> <p> average \$ 93.21 \$ 95.05 \$ 1.84 2.0%</p> <p> high \$ 152.35 \$ 154.53 \$ 2.18 1.4%</p> <p>(Including pass through of electric energy supply costs)</p> <p>Commercial: no adjustments</p> <p>examples: Current Recommended change pct change</p> <p> average \$ 380.93 \$ 380.93 \$ - 0.0%</p>	<p>Gas Residential connections</p> <p>\$ 0.25 flat amount per month in the base rate</p> <p>Tier 2: 10% increase</p> <p>examples: Current Recommended change pct change</p> <p> low \$ 21.46 \$ 21.71 \$ 0.25 1.2%</p> <p> average \$ 34.97 \$ 35.44 \$ 0.47 1.3%</p> <p> high \$ 54.02 \$ 55.42 \$ 1.40 2.6%</p> <p>(including pass through of natural gas energy supply costs)</p> <p>Commercial: \$2.00 per month service charge increase, 3% tier 2 usage charge increase</p> <p>examples: Current Recommended change pct change</p> <p> \$ 385.15 \$ 387.15 \$ 2.00 0.5%</p>
<p>Solid Waste (per month billing)</p> <p>Residential: 0.0% all components</p> <p> Current Recommended change pct change</p> <p>90 gal \$ 29.34 \$ 29.34 \$ - 0.0%</p> <p>60 gal \$ 26.19 \$ 26.19 \$ - 0.0%</p> <p>extra black \$ 13.85 \$ 13.85 \$ - 0.0%</p> <p>green waste \$ 6.93 \$ 6.93 \$ - 0.0%</p> <p>flat amount per month in each bill</p> <p>Neighborhood Clean Up \$ 0.43 \$ 0.43 \$ - 0.0%</p> <p>Household Hazardous Materials \$ 0.41 \$ 0.41 \$ - 0.0%</p> <hr/> <p>Green & Clean Fee Total \$ 0.84 \$ 0.84 \$ - 0.0%</p> <p>residential example:</p> <p>90 gal w/G&C fee \$ 30.18 \$ 30.18 \$ - 0.0%</p>	<p>Water (per month billing)</p> <p>Residential: 1.5% adjustment on service and usage charges, implement final usage tier adjustment</p> <p>examples: kgal/mo Current Recommended change pct change</p> <p> 6 \$ 37.67 \$ 38.24 \$ 0.57 1.5%</p> <p> 10 \$ 52.03 \$ 56.06 \$ 4.03 7.7%</p> <p> 15 \$ 75.98 \$ 80.37 \$ 4.39 5.8%</p> <p> 25 \$ 131.43 \$ 139.63 \$ 8.20 6.2%</p> <p>non-residential: 1.5% increase for service charge, 5% increase for usage charges</p> <p>examples: kgal/mo Current Recommended change pct change</p> <p> 9 \$ 51.75 \$ 53.24 \$ 1.49 2.9%</p>
<p>per service order request</p> <p>Bulk \$ 23.04 \$ 25.00 \$ 1.96 8.5%</p> <p>Appliance \$ 19.00 \$ 19.00 \$ - 0.0%</p> <p>Front Load - Trash 3.5% overall increase; multi-day/bin accounts affected</p> <p>Commercial Roll Off 1.0% overall increase</p>	<p>Wastewater (per month billing)</p> <p>Residential: 3.5% rate increase for all components</p> <p>example: kgal/mo Current Recommended change pct change</p> <p> 4 \$ 22.43 \$ 23.22 \$ 0.79 3.5%</p> <p>residential wastewater bill usage is charged at 90% of the winter water average</p> <p>non-residential: 4% all components</p> <p>example: kgal/mo Current Recommended change pct change</p> <p> 9 \$ 44.14 \$ 45.94 \$ 1.80 4.0%</p>

Attachment 2 - City of Mesa Utility Enterprise Fund Cash Flow Projections

As of 09/08/2020	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
WATER	\$430,158	(\$1,882,070)	(\$1,748,628)	\$1,644,732	(\$1,812,306)	(\$738,851)
WASTEWATER	(\$13,020,598)	(\$10,282,065)	(\$8,486,135)	(\$8,642,281)	(\$6,864,876)	(\$5,106,376)
SOLID WASTE	\$3,709,462	\$1,106,445	\$2,281,696	\$1,280,248	\$3,377,725	\$4,387,995
ELECTRIC	\$1,449,220	\$428,351	\$184,489	(\$344,983)	\$97,774	(\$58,289)
NATURAL GAS	\$2,182,874	(\$306,296)	(\$903,006)	(\$1,200,341)	(\$185,021)	\$288,757
DISTRICT COOLING	(\$251,566)	(\$110,159)	(\$156,107)	(\$150,469)	(\$238,691)	(\$390,925)
TOTAL NET SOURCES AND USES	(\$5,500,449)	(\$11,045,795)	(\$8,827,691)	(\$7,413,095)	(\$5,625,395)	(\$1,617,690)
Beginning Reserve Balance	\$135,470,845	\$129,970,396	\$118,924,601	\$110,096,910	\$102,683,815	\$97,058,420
Ending Reserve Balance	\$129,970,396	\$118,924,601	\$110,096,910	\$102,683,815	\$97,058,420	\$95,440,730
Ending Reserve Balance Percent*	31.6%	28.1%	25.2%	22.8%	20.9%	20.0%
<small>*As a % of Next Fiscal Year's Expenditures</small>						
WATER Residential	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
WATER Non-Residential (usage only)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
WASTEWATER Residential	3.50%	3.50%	4.50%	4.50%	4.50%	4.50%
WASTEWATER Non-Residential	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
SOLID WASTE Residential	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Commercial	3.50%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Rolloff	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%
ELECTRIC Residential - svc charge	\$1.00	\$1.50	\$2.00	\$2.50	\$2.50	\$2.50
ELECTRIC Non-Residential - svc charge	\$0.00	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
GAS Residential - svc charge	\$0.25	\$0.50	\$0.75	\$1.00	\$1.00	\$1.00
GAS Non-Residential - svc charge	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00

Attachment 2 - City of Mesa Utility Enterprise Fund Cash Flow Projections

TOTAL

As of 09/08/2020

	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$365,140,316	\$378,712,156	\$392,444,997	\$407,174,562	\$421,153,199	\$439,152,405
EECAF/PNGCAF Revenues	\$21,873,990	\$21,250,006	\$21,785,564	\$22,230,422	\$22,638,052	\$23,050,959
Total Sources	\$387,014,306	\$399,962,161	\$414,230,561	\$429,404,985	\$443,791,251	\$462,203,364
Uses of Funding						
Operating Expenditures	\$159,427,717	\$164,883,512	\$169,003,891	\$173,456,982	\$178,815,039	\$184,117,139
EECAF/PNGCAF Expenditures	\$21,873,990	\$21,250,006	\$21,785,564	\$22,230,422	\$22,638,052	\$23,050,959
Expenditure Subtotal	\$181,301,707	\$186,133,518	\$190,789,454	\$195,687,405	\$201,453,091	\$207,168,098
Project Costs	\$827,871	\$0	\$0	\$0	\$0	\$0
General Fund Transfer	\$109,542,095	\$113,613,647	\$117,733,499	\$122,152,369	\$126,345,960	\$131,745,722
Debt Service Transfer	\$92,652,135	\$102,107,939	\$105,674,355	\$108,159,672	\$111,956,973	\$115,262,147
Lifecycle/ Infrastructure Transfers	\$7,715,786	\$7,975,631	\$8,260,952	\$8,563,600	\$8,852,166	\$9,220,408
Capital Transfer	\$475,162	\$1,177,222	\$599,991	\$2,255,035	\$808,458	\$424,679
Economic Investment Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Other Transfers	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$392,514,755	\$411,007,957	\$423,058,251	\$436,818,080	\$449,416,646	\$463,821,053
Net Sources and Uses	(\$5,500,449)	(\$11,045,795)	(\$8,827,691)	(\$7,413,095)	(\$5,625,395)	(\$1,617,690)
Beginning Reserve Balance	\$135,470,845	\$129,970,396	\$118,924,601	\$110,096,910	\$102,683,815	\$97,058,420
Ending Reserve Balance	\$129,970,396	\$118,924,601	\$110,096,910	\$102,683,815	\$97,058,420	\$95,440,730
Ending Reserve Balance Percent*	31.6%	28.1%	25.2%	22.8%	20.9%	20.0%

*As a % of Next Fiscal Year's Expenditures

Attachment 2 - City of Mesa Utility Enterprise Fund Cash Flow Projections

WATER	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Residential Rate Revenues	\$90,159,952	\$94,779,642	\$97,355,567	\$99,820,646	\$101,119,273	\$103,878,440
Non-Residential Rate Revenues	\$63,348,917	\$66,245,290	\$68,882,136	\$71,678,882	\$74,819,751	\$79,151,205
Other Revenues	\$4,149,590	\$4,706,169	\$4,818,574	\$4,937,509	\$5,062,160	\$5,187,239
Total Sources	\$157,658,459	\$165,731,101	\$171,056,277	\$176,437,037	\$181,001,183	\$188,216,885
Uses of Funding						
Operating Expenditures	\$64,452,682	\$66,162,630	\$67,907,007	\$69,657,805	\$72,425,486	\$74,583,450
Project Costs	\$235,374	\$0	\$0	\$0	\$0	\$0
General Fund Transfer	\$47,297,538	\$49,719,330	\$51,316,883	\$52,931,111	\$54,300,355	\$56,465,065
Debt Service Transfer	\$41,921,858	\$48,054,298	\$49,925,644	\$48,437,886	\$52,314,550	\$53,946,188
Lifecycle/ Infrastructure Transfers	\$3,153,169	\$3,314,622	\$3,421,126	\$3,528,741	\$3,620,024	\$3,764,338
Capital Transfer	\$167,679	\$362,291	\$234,246	\$236,762	\$153,075	\$196,695
Economic Investment Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$157,228,300	\$167,613,171	\$172,804,905	\$174,792,305	\$182,813,490	\$188,955,736
Net Sources and Uses	\$430,158	(\$1,882,070)	(\$1,748,628)	\$1,644,732	(\$1,812,306)	(\$738,851)
WASTEWATER						
WASTEWATER	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Residential Rate Revenues	\$47,115,669	\$49,481,366	\$52,140,034	\$55,203,290	\$57,948,522	\$61,734,949
Non-Residential Rate Revenues	\$37,787,951	\$39,241,286	\$40,661,027	\$42,181,237	\$43,770,029	\$45,418,112
Other Revenues	\$3,779,580	\$4,228,154	\$4,277,266	\$4,316,333	\$4,440,363	\$4,645,635
Total Sources	\$88,683,200	\$92,950,806	\$97,078,327	\$101,700,859	\$106,158,915	\$111,798,696
Uses of Funding						
Operating Expenditures	\$31,963,368	\$32,977,787	\$34,011,274	\$35,055,202	\$35,978,668	\$37,294,178
Project Costs	\$230,753	\$0	\$0	\$0	\$0	\$0
General Fund Transfer	\$26,604,960	\$27,885,242	\$29,123,498	\$30,510,258	\$31,847,674	\$33,539,609
Debt Service Transfer	\$40,964,211	\$40,386,552	\$40,321,060	\$42,556,900	\$42,956,591	\$43,727,851
Lifecycle/ Infrastructure Transfers	\$1,773,664	\$1,859,016	\$1,941,567	\$2,034,017	\$2,123,178	\$2,235,974
Capital Transfer	\$166,842	\$124,274	\$167,063	\$186,764	\$117,679	\$107,460
Economic Investment Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$101,703,798	\$103,232,871	\$105,564,462	\$110,343,141	\$113,023,791	\$116,905,071
Net Sources and Uses	(\$13,020,598)	(\$10,282,065)	(\$8,486,135)	(\$8,642,281)	(\$6,864,876)	(\$5,106,376)

Attachment 2 - City of Mesa Utility Enterprise Fund Cash Flow Projections

SOLID WASTE

	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$63,637,150	\$62,993,490	\$65,500,062	\$67,898,892	\$70,327,540	\$72,851,271
Uses of Funding						
Operating Expenditures	\$38,600,901	\$40,380,377	\$41,394,318	\$42,444,895	\$43,264,193	\$44,384,679
Project Costs	\$190,336	\$0	\$0	\$0	\$0	\$0
General Fund Transfer	\$19,091,145	\$18,898,047	\$19,650,019	\$20,369,668	\$21,098,262	\$21,855,381
Debt Service Transfer	\$690,542	\$695,842	\$671,424	\$633,480	\$656,771	\$656,657
Lifecycle/ Infrastructure Transfers	\$1,272,743	\$1,259,870	\$1,310,001	\$1,357,978	\$1,406,551	\$1,457,025
Capital Transfer	\$82,021	\$652,910	\$192,604	\$1,812,624	\$524,038	\$109,533
Total Uses	\$59,927,688	\$61,887,045	\$63,218,365	\$66,618,644	\$66,949,814	\$68,463,276
Net Sources and Uses	\$3,709,462	\$1,106,445	\$2,281,696	\$1,280,248	\$3,377,725	\$4,387,995

ELECTRIC

	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$18,240,932	\$18,623,312	\$19,286,007	\$20,035,679	\$20,856,063	\$21,655,185
EECAF Revenues	\$11,611,419	\$11,548,188	\$11,960,734	\$12,148,666	\$12,313,421	\$12,481,365
Total Sources	\$29,852,351	\$30,171,500	\$31,246,741	\$32,184,345	\$33,169,484	\$34,136,551
Uses of Funding						
Operating Expenditures	\$8,104,449	\$8,588,977	\$8,616,443	\$8,830,087	\$9,162,881	\$9,344,866
EECAF Expenditures	\$11,611,419	\$11,548,188	\$11,960,734	\$12,148,666	\$12,313,421	\$12,481,365
Expenditure Subtotal	\$19,715,868	\$20,137,165	\$20,577,177	\$20,978,753	\$21,476,302	\$21,826,231
Project Costs	\$72,403	\$0	\$0	\$0	\$0	\$0
General Fund Transfer	\$5,472,280	\$5,586,994	\$5,785,802	\$6,010,704	\$6,256,819	\$6,496,556
Debt Service Transfer	\$2,488,314	\$3,379,177	\$4,069,612	\$4,878,456	\$4,662,335	\$5,178,949
Lifecycle/ Infrastructure Transfers	\$597,047	\$603,430	\$624,935	\$643,687	\$663,390	\$682,731
Capital Transfer	\$57,219	\$36,384	\$4,726	\$17,729	\$12,865	\$10,373
Economic Investment Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Other Transfers	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$28,403,131	\$29,743,149	\$31,062,252	\$32,529,328	\$33,071,710	\$34,194,840
Net Sources and Uses	\$1,449,220	\$428,351	\$184,489	(\$344,983)	\$97,774	(\$58,289)

Attachment 2 - City of Mesa Utility Enterprise Fund Cash Flow Projections

NATURAL GAS	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$35,695,575	\$37,232,823	\$38,341,355	\$39,877,095	\$41,626,529	\$43,447,399
PNGCAF Revenues	\$10,262,571	\$9,701,818	\$9,824,830	\$10,081,757	\$10,324,631	\$10,569,593
Total Sources	\$45,958,146	\$46,934,641	\$48,166,185	\$49,958,852	\$51,951,160	\$54,016,992
Uses of Funding						
Operating Expenditures	\$15,198,651	\$15,838,510	\$16,092,015	\$16,462,180	\$16,917,843	\$17,291,581
PNGCAF Expenditures	\$10,262,571	\$9,701,818	\$9,824,830	\$10,081,757	\$10,324,631	\$10,569,593
Expenditure Subtotal	\$25,461,222	\$25,540,328	\$25,916,845	\$26,543,936	\$27,242,473	\$27,861,174
Project Costs	\$99,005	\$0	\$0	\$0	\$0	\$0
General Fund Transfer	\$10,708,672	\$11,169,847	\$11,502,406	\$11,963,128	\$12,487,959	\$13,034,220
Debt Service Transfer	\$6,587,209	\$9,592,069	\$10,686,615	\$11,652,951	\$11,366,726	\$11,752,502
Lifecycle/ Infrastructure Transfers	\$919,163	\$938,693	\$963,324	\$999,177	\$1,039,023	\$1,080,340
Capital Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Economic Investment Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Reserving Balance Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$43,775,272	\$47,240,937	\$49,069,190	\$51,159,193	\$52,136,181	\$53,728,236
Net Sources and Uses	\$2,182,874	(\$306,296)	(\$903,006)	(\$1,200,341)	(\$185,021)	\$288,757
DISTRICT COOLING						
Sources of Funding						
Revenues	\$1,225,000	\$1,180,624	\$1,182,969	\$1,225,000	\$1,182,969	\$1,182,969
Uses of Funding						
Operating Expenditures	\$1,107,665	\$935,231	\$982,834	\$1,006,814	\$1,065,968	\$1,218,386
General Fund Transfer	\$367,500	\$354,187	\$354,891	\$367,500	\$354,891	\$354,891
Project Costs	\$0	\$0	\$0	\$0	\$0	\$0
Capital Transfer	\$1,401	\$1,364	\$1,352	\$1,156	\$800	\$617
Total Uses	\$1,476,566	\$1,290,782	\$1,339,077	\$1,375,469	\$1,421,660	\$1,573,894
Net Sources and Uses	(\$251,566)	(\$110,159)	(\$156,107)	(\$150,469)	(\$238,691)	(\$390,925)
CONVENTION CENTER						
Sources of Funding						
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Uses of Funding						
Operating Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Project Costs	\$0	\$0	\$0	\$0	\$0	\$0
Capital Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$0	\$0	\$0	\$0	\$0	\$0
Net Sources and Uses	\$0	\$0	\$0	\$0	\$0	\$0

Attachment 2 - City of Mesa Utility Enterprise Fund Cash Flow Projections

GOLF COURSE	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Uses of Funding						
Operating Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Project Costs	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Capital Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$0	\$0	\$0	\$0	\$0	\$0
Net Sources and Uses	\$0	\$0	\$0	\$0	\$0	\$0
CUBS SPRING TRAINING FACILITIES	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Uses of Funding						
Operating Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Project Costs	\$0	\$0	\$0	\$0	\$0	\$0
Capital Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$0	\$0	\$0	\$0	\$0	\$0
Net Sources and Uses	\$0	\$0	\$0	\$0	\$0	\$0
HOHOKAM-FITCH (OAKLAND A'S)	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Sources of Funding						
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Uses of Funding						
Operating Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Project Costs	\$0	\$0	\$0	\$0	\$0	\$0
Capital Transfer	\$0	\$0	\$0	\$0	\$0	\$0
Total Uses	\$0	\$0	\$0	\$0	\$0	\$0
Net Sources and Uses	\$0	\$0	\$0	\$0	\$0	\$0