

COUNCIL MINUTES

September 15, 2022

The City Council of the City of Mesa met in a Study Session in the lower-level meeting room of the Council Chambers, 57 East 1st Street, on September 15, 2022, at 4:45 p.m.

COUNCIL PRESENT

Jennifer Duff
Mark Freeman
Francisco Heredia
David Luna
Julie Spilsbury
Kevin Thompson

COUNCIL ABSENT

John Giles

OFFICERS PRESENT

Christopher Brady
Scott Butler
Holly Moseley
Jim Smith

Vice Mayor Duff conducted a roll call.

Vice Mayor Duff excused Mayor Giles from the entire meeting.

1. Review and discuss items on the agenda for the September 19, 2022, Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflict of interest: None

Items removed from the consent agenda: None

In response to a question from Councilmember Thompson on Item 5-a, **(Approving and authorizing the City Manager to enter into a Project Agreement with the Maricopa Association of Governments for reimbursement under the Arterial Life Cycle Program for the Elliot Road: Eastern Maricopa Floodway to Ellsworth Road Project. The total project cost is estimated at \$24,592,406. The City is eligible for reimbursement up to \$12,728,194 and is responsible for the remaining project cost, at approximately \$11,864,212.)**, on the Regular Council meeting agenda, Transportation Department Director RJ Zeder stated the referenced agreement with the Maricopa Association of Governments (MAG) is for the reimbursement of federal funds for Elliot Road. He noted the significant stormwater component included in the project is funded separately. He confirmed that the flood control portion would align with the widening of Elliot Road. He remarked that approximately \$13 million in federal money would return to the City.

Mr. Zeder commented that Item 5-b, **(Approving and authorizing the City Manager to enter into a Project Agreement with the Maricopa Association of Governments for**

reimbursement under the Arterial Life Cycle Program for the Ellsworth Road: Germann Road to Ray Road Project. The total project cost is estimated at \$15,836,007.84. The City is eligible for reimbursement up to \$2,362,333, and is responsible for the remaining project cost, at approximately \$13,473,674.84.), on the Regular Council meeting agenda is Proposition 400 funds that would be reimbursed to the City for the widening of Ellsworth Road. He pointed out the City has received approximately \$18 million in reimbursement through that program in the last fiscal year. He remarked that the future of the program extension is unknown and noted the City receives a significant amount of money back through the half-cent sales tax.

In response to a question from Vice Mayor Duff on Item 4-b, **(Three-Year Term Contract with Two Years of Renewal Options for Graphic Design Services for the Arts & Culture Department. (Citywide))**, on the Regular Council meeting agenda, Arts and Culture Director Cindy Ornstein stated the referenced renewal expands the previous HAPI contract for Graphic Design Services for the Mesa Arts Center (MAC) to include the i.d.e.a. Museum and the Arizona Museum of Natural History (AzMNH). She commented that the need for contract expansion was evident through the Request for Proposal (RFP) process. She pointed out that HAPI's contract with MAC has significantly impacted its marketing success and this would extend that to the other museums.

In response to a question from Vice Mayor Duff on Item 5-d, **(Approving and authorizing the City Manager to enter into a Memorandum of Understanding and Cost Reimbursement Agreement with the Federal Bureau of Investigation Greater Phoenix Area Child Exploitation and Human Trafficking Task Force and accept up to \$100,000 per year for overtime for Mesa Police Department personnel assigned to the task force.) (Citywide))**, on the Regular Council meeting agenda, Lieutenant Mark Higbee reported that the referenced Memorandum of Understanding (MOU) would reimburse overtime costs associated with the Greater Phoenix Area Child Exploitation and Human Trafficking Task Force. He noted this includes overtime worked during the Super Bowl and would continue on a per-project basis.

Assistant City Manager Scott Butler introduced Deputy City Manager Natalie Lewis to discuss Item 5-e, **(Approving and authorizing the City Manager to enter into an Intergovernmental Agreement with Maricopa County to accept \$5,500,000 in U.S. Department of Treasury Emergency Rental Assistance (ERA1) grant funding for the City to provide rental and utility payment and related assistance to eligible Mesa residents and Mesa-based County islands impacted by COVID-19 and for program-related administrative expenses. (Citywide))**, on the Regular Council meeting agenda. Ms. Lewis stated the City would enter into an Intergovernmental Agreement with Maricopa County to accept rental assistance dollars, allowing the program to continue through the end of the year.

2-a. Hear a presentation and discuss the Utility Enterprise Fund forecast, and provide direction on proposed utility rate adjustments.

Office of Management and Budget Assistant Director Brian Ritschel introduced Budget Coordinator Chris Olvey and displayed a PowerPoint Presentation on the Utility Enterprise Fund forecast and proposed utility rate adjustments. **(See Attachment 1)**

Mr. Ritschel explained each utility is operated as a separate business center but treated as a whole. He noted that the City's reserve balance provides a safety net for unforeseen conditions and can smooth rate adjustments year-to-year. He outlined the five financial principles that are incorporated into the City's forecasting strategy. (See Pages 2 through 4 of Attachment 1)

Water Resources Director Christopher Hassert introduced Water Enterprise Services Deputy Director Seth Weld and provided a snapshot of the increased cost pressures on water utilities. He pointed out the impacts of inflation combined with a severe drought and increased power and chemical costs. He explained that the City pays water commodity costs for raw water to treat and deliver water to customers. He outlined that the total impact this fiscal year (FY) to water is \$14 million. (See Pages 5 and 6 of Attachment 1)

Mr. Hassert noted a gradual increase in raw water costs over the last five to six years and emphasized the \$3.7 million jump in raw water costs over the previous year. He explained that although the drought has been in effect for 22 years, the change in cost is due to water scarcity. He stated that there is much less water available to stakeholders due to the Tier 2a drought on the Colorado River. He explained that fixed costs are spread out over a smaller pool of available water to sell to customers, driving up the unit cost. (See Page 7 of Attachment 1)

Mr. Hassert proposed a Drought Commodity Charge of \$0.08 per every thousand gallons of water to address the \$3.7 million increase in water commodity costs. He explained the first 3,000 gallons are excluded from the surcharge, noting the average customer would see an increase of \$0.24/month, which would increase as more water is used. (See Pages 8 and 9 of Attachment 1)

Responding to a question from Councilmember Freeman, Mr. Hassert stated the Drought Commodity Charge is meant to cover the increase in commodity costs. He added the charge is separate from the rates and can be eliminated if the City returns to Tier 0.

Responding to multiple questions from Councilmember Luna, Mr. Hassert discussed historical drought cycles, adding this drought is more severe and modeling suggests it could continue. He reported that municipalities use one-quarter of the total water of the Colorado River system, and agriculture uses three-quarters. He emphasized the importance of conservation from the single-family home to the largest farms. He outlined the excellent results of the City's conservation efforts and drought management plan. He discussed internal water conservation, noting the Parks Department is exceeding its goals by using software and technology.

In response to multiple questions by Councilmember Spilsbury, Mr. Hassert explained water conservation is part of the City's overall communication plan and outlined a press release sent to customers. He stated the City would not see mandated conservation measures until deeper into Tier 3 or Tier 4.

Responding to an inquiry from Councilmember Heredia, Mr. Hassert stated the Salt River Project (SRP) and Central Arizona Project (CAP) are equal in terms of the water portfolio. He noted the CAP demand is 55% and SRP demand is 35%, with the remainder of the demand being groundwater. He noted the City has not seen much upward pressure on demand in the SRP service area.

City Manager Christopher Brady reported that the cost to drill wells and deliver the water is becoming more expensive. He remarked that CAP has seen the most pressure and noted that cost and water scarcity are the most significant concerns.

In response to multiple questions from Councilmember Thompson, Mr. Hassert stated the City has the infrastructure to move water from west to east through transfer stations as needed. He discussed various strategies for moving water including a future interconnect project to move water around more effectively in larger volumes. He noted water moved from SRP would have to be paid back with CAP water.

Responding to a question by Vice Mayor Duff, Mr. Hassert reported the drought modeling indicates Mesa would skip Tier 2 and move directly to Tier 3 in 2024. He explained there would be no cuts to Mesa's water portfolio in Tier 1. He noted in Tier 2a, Mesa would see approximately 2,600 acre-feet in cuts, equaling 4.5% of the CAP portfolio. He explained in this scenario, CAP would provide a portion of water from Lake Pleasant to mitigate the water loss to 1%. He discussed the Gila River Indian Community (GRIC) exchange agreement, noting as development increases, the City receives more wastewater to treat, recycle, and exchange for CAP water. He reported the City would receive another 1,500 acre-feet added to its portfolio due to sending water to GRIC, mitigating the effects of a portfolio hit. He reported Tier 3 would introduce cuts to Mesa's CAP portfolio of approximately 7,000 acre-feet. He commented that the Central Mesa reuse pipeline connection to the Northwest plant system would offset that entirely.

Mr. Hassert discussed three large capital projects and notable increases to prior project estimates. He remarked that staff uses alignment studies, third-party estimators, and value engineering sessions with contractors and design teams to analyze costs and identify scope creep and schedules. (See Page 9 of Attachment 1)

In response to a question from Councilmember Thompson, Mr. Hassert reported most increased project costs come from concrete, labor, and electrical gear.

Responding to a question from Councilmember Heredia, Mr. Hassert commented the Central Mesa Reuse Pipeline is a water exchange mechanism to boost the portfolio and the estimated completion is mid-2025. He stated the Signal Butte Water Treatment Plant expansion would cover the growth and demand and the estimated completion is early 2026.

In response to a question from Councilmember Luna, Mr. Brady explained that staff would return to Council to present the Capital Improvement Program and the allocation of dollars for the projects.

Mr. Hassert discussed the surrounding municipalities' water rate adjustments, adding that Mesa's approaches and strategies would keep rates nominal.

Mr. Weld proposed a 10% increase to the usage charge on the interdepartmental rate. He noted this is Year 1 of a four-year plan to bring interdepartmental rates in line with the residential Tier 1 rate. He pointed out that the department's impact decreases as usage comes down. He outlined increases to rates for residential totaling 3.3%, commercial general totaling 4.8%, and commercial landscape totaling 6.4%. (See Pages 10 and 11 of Attachment 1)

Responding to an inquiry from Councilmember Luna, Mr. Weld stated that most golf courses fall into the commercial landscape category. He recalled a different rate was negotiated in the past, and golf courses originally had CAP right access until the CAP agreement expired. He indicated the City has worked with several golf courses to provide direct access and separate rates.

Mr. Weld described the increasing cost pressures resulting in a \$3.6 million increase on the wastewater utility. He noted power plant costs, treatment plant chemicals, and the shared 91st Avenue wastewater plant are significant driving factors. He reported a 4.25% service and usage charge increase for residential and a 4.5% service and usage increase for commercial. (See Pages 12 through 14 of Attachment 1)

In response to a question from Councilmember Thompson, Mr. Weld reported the City falls under the SRP large general commercial (E65) rate category, therefore unit costs are slightly lower. He

stated the control center staff do an excellent job of moving the water during off-peak hours to take advantage of the lowest rates.

In response to a question by Councilmember Thompson, Mr. Brady explained the 60-day Notice of Intent begins with Council approval; and during that time, Council could recommend lowering the rates. He pointed out that rates reduced this year would need to be made up next year. He explained the goal is to keep rates under 5% for the five-year forecast. He stated staff would review the suggested rate scenarios and return to Council for review.

In response to a question by Councilmember Spilsbury, City Attorney Jim Smith explained the Notice of Intent timeline and the process to adjust the rate book.

Additional discussion ensued on water and wastewater rate adjustment scenarios.

Interim Energy Resources Director Scott Bouchie introduced Senior Fiscal Analyst John Petrof and provided an overview of the Electric and Gas utility rates and recommendations.

Mr. Bouchie reported that Energy Resources has seen upward rate pressure on gas and electricity due to market cost increases driven mainly by commodity costs. He noted that increases have been offset and balanced by American Rescue Plan Act (ARPA) funds, and the City has implemented assistance programs for low-income customers. He noted the City continues to pursue rate competitiveness with SRP and Southwest Gas. He stated the Advanced Metering Infrastructure (AMI) Smart Meter Project allows for a transition to a more modern rate structure that encourages peak resources to be conserved. (See Page 16 of Attachment 1)

Mr. Petrof reported that inflation on commodities, services, contracts, and salary adjustment increases have resulted in increased costs on operating expenditures. He noted on the debt service side, Downtown growth has resulted in increased capital costs. He reported on various projects, pointing out that large-scale generation projects would help offset rising commodity costs and reliability. (See Page 18 of Attachment 1)

In response to a question from Councilmember Thompson, Mr. Bouchie discussed revenue guarantees from projects coming online. He added as the infrastructure is installed, staff must analyze revenues generated over time to ensure it pays for itself.

Mr. Brady clarified the new Downtown development is denser than the original infrastructure. He stated to upgrade or provide more capacity, the City must put up the capital on the front end with a guarantee from the developer ensuring the revenues to pay it back.

Mr. Petrof outlined the electric utilities' increasing debt service and operating costs. He noted that although there would be less debt issuance in the future, it would continue to rise over time. He provided a residential and commercial electric bill comparison for three customer consumption levels. He reported no proposed rate increases for residential or commercial electric. (See Pages 19 through 22 of Attachment 1)

In response to a question from Councilmember Thompson, Mr. Brady explained the City could not control rising commodity costs, adding ARPA funds helped offset the spike. He discussed the microgrid system and other projects to mitigate future costs.

Responding to an inquiry from Councilmember Heredia, Mr. Petrof stated the large-scale generation and microgrid project starts in 2023/24.

Mr. Bouchie reported the Electric Vehicle (EV) discount rate incentivizes customers to charge EVs during off-peak times and is based on meter installation and availability. He indicated documentation would be required from customers to receive the discount and noted rates would be put in place as meters are rolled out. (See Page 23 of Attachment 1)

In response to multiple questions from Councilmember Heredia, Mr. Bouchie stated the goal is to move to a modern rate structure and match the customer rate structure to how power is purchased. He noted that the electric utility would move towards more time-of-use rates and a more modern rate structure like the other utilities in the area.

Energy Resources Program Manager Anthony Cadorin reported Phase 1 of the AMI project will include 200 meters for solar customers to analyze their use patterns. He stated Phase 2 would begin as additional meters are received.

In response to a question from Councilmember Freeman, Mr. Cadorin outlined various projects the City is working on to generate its own electricity and reduce market purchases.

Mr. Olvey stated the net source and uses throughout the forecast period bounced between negative \$1.5 million and negative \$2.5 million per year and is stable throughout the forecast.

Responding to a question from Councilmember Thompson, Mr. Brady discussed the Council-approved ordinance and the process regarding transferring funds from the General Fund.

Mr. Petrof highlighted several cost pressures on the gas utility operating budget, including inflation on expenditures and personal service increases. He explained that large projects in the Magma service territory drove costs up. He presented a residential gas bill comparison, noting the proposed rates are .2% or \$0.07 below Southwest Gas. He reported an increased system service charge of \$0.75 and a 10% Tier 2 increase for winter and summer usage. He noted the average customer would see a rise of 2.2% or \$0.95/month. (See Pages 25 through 29 of Attachment 1)

Mr. Petrof provided a commercial gas bill comparison. He stated that the proposed rate would be .7% or \$3.80/month more than Southwest Gas. He proposed a \$2 monthly increase to the system service charge, a 1% Tier 1 winter and summer increase, and a 3% Tier 2 winter and summer increase for usage charges. He noted the average customer would see a \$4.59/month increase. (See Page 31 of Attachment 1)

Mr. Cadorin outlined various gas rates that have not been utilized in over 15 years. He stated eliminating these rates would streamline the rate book and prevent confusion for staff. He recommended removing the electric direct access service language due to no state deregulation. (See Page 32 of Attachment 1)

Interim Solid Waste Director Sheri Collins introduced Senior Fiscal Analyst Justin Stadt and gave an update on recycling and Solid Waste utility recommendations. She reported the City is currently recycling 12,000 tons of recycling material with a contracted vendor, and responses are being evaluated through an RFP with the Town of Gilbert. She remarked that staff will provide an update to Council in December. She noted continued regional discussions on recycling solutions and a Materials Recovery Facility (MRF) plan.

Ms. Collins described the cost pressures on Solid Waste, including the addition of nine new positions, a Consumer Price Index (CPI) increase of 6% on disposal fees, increasing commodities to build barrels and bins, and an increased commodity cost of Compressed Natural Gas (CNG)

conversion. She noted when analyzing CNG costs, there are still significant savings over diesel. She presented data on operating expenditures from the prior year and current forecasts. (See Pages 34 and 35 of Attachment 1)

Ms. Collins provided the residential rate recommendations for Solid Waste, including a 2% increase on 90-gallon residential trash barrels and a slight increase to the Green and Clean fee, which runs the Household Hazardous Materials (HHM) facility and the Neighborhood Clean Up Program. She noted the total proposed increase is \$0.67 and provided rate comparisons to Phoenix and Tempe. Ms. Collins discussed the Pay-As-You-Throw Program, where customers only pay when utilizing the service. She remarked the bulk item per load rate increased from \$28 to \$29, and the self-haul program increased from \$13 to \$15 due to CPI increase on landfills. (See Pages 36 and 37 of Attachment 1)

Ms. Collins reported that Mesa competes with the private sector on commercial front-load trash services. She recommended an overall increase of 4.5%, increasing the commercial front-load trash base rate for containers by 2.5% and the fee for out-of-zone collection from \$19 to \$20. She proposed decreasing the multi-day and multi-bin service discounts by 1%. She explained that the recommendation to increase the caster installation to \$76.44 covers the costs for the casters and one hour of staff time, adding this increase would mainly impact new start-up customers. She recommended a 2.7% increase to the commercial front-load cardboard base rate, decreasing the multi-bin service discount to 15%, and increasing the special pickup fee to \$60 to match the trash fee. (See Pages 38 through 40 of Attachment 1)

Ms. Collins recommended increasing the commercial roll-off set fee by \$6.50 and the haul fee by \$3. She explained the City follows the CPI rate for tonnage fees and proposed increasing the tonnage rate by 6.22% to follow the landfill increase. She noted the proposed commercial roll-off increase for a one-time trash customer would increase by \$16.07 and \$17.30 for a one-time green waste customer. (See Pages 41 and 42 of Attachment 1)

In response to Councilmember Spilsbury, Ms. Collins explained when comparing rates to other municipalities, staff looks at current rates.

Responding to a question from Councilmember Heredia, Ms. Collins stated there are between 25 and 30 private companies permitted in Mesa and comparing those rates allows Mesa to remain competitive. She noted that Mesa takes pride in its customer service and retains customers for this reason.

In response to a comment by Councilmember Freeman, Mr. Stadt indicated a price comparison showed a private competitor charges \$900 for a 40-yard roll-off container and the City of Mesa charges \$360.

Mr. Brady stated staff will look at various scenarios to raise that roll-off rate and return to Council with an updated recommendation.

Mr. Olvey gave an overview of highlighted rate changes and summarized the utility fund forecast for FY 22/23 rate adjustments. (See Page 44 of Attachment 1)

Mr. Brady noted significant improvements to the forecast, adding the goal is to have a healthy fund balance.

In response to multiple questions from Councilmember Spilsbury, Mr. Ritschel stated the preferred reserve balance financial principle is 20% which helps with credit rating agencies and to lower interest cost for debt, and the adopted financial policy states 8% to 10%. He explained keeping to 20% in the outer years ensures a healthy fund balance and positive net sources and uses. He explained the interconnect project was pushed out of this forecast and moved to the outer years to manage debt and capital costs.

Responding to a question from Councilmember Thompson, Mr. Brady discussed the challenges of shifting rates.

Mr. Olvey provided the upcoming schedule for utility rate adjustments. (See Page 45 of Attachment 1)

Mr. Brady stated staff will return to Council with the revised recommendations to increase commercial landscaping rates and increase the set fee for the commercial roll-off fee.

Ms. Collins provided clarification to the one-time commercial roll-off customer recommendations.

Additional discussion ensued on various rate scenarios and calculations.

Vice Mayor Duff thanked staff for the presentation.

3. Acknowledge receipt of minutes of various boards and committees.

3-a. Economic Development Advisory Board meeting held on August 2, 2022.

3-b. Housing and Community Development Advisory Board meeting held on May 5, 2022.

3-c. Parks and Recreation Advisory Board meeting held on May 11, 2022.

It was moved by Councilmember Freeman, seconded by Councilmember Spilsbury, that receipt of the above-listed minutes be acknowledged.

Upon tabulation of votes, it showed:

AYES – Duff–Freeman–Heredia–Luna–Spilsbury–Thompson

NAYS – None

ABSENT – Giles

Vice Mayor Duff declared the motion carried unanimously by those present.

4. Current events summary including meetings and conferences attended.

Vice Mayor Duff –

Hispanic Heritage Month

East Valley Partnership – luncheon

Community Happy Hour – Delta Hotel

5. Scheduling of meetings.

City Manager Christopher Brady stated that the schedule of meetings is as follows:

Monday, September 19, 2022, 5:15 p.m. – Study Session

Monday, September 19, 2022, 5:45 p.m. – Regular Council meeting

6. Adjournment.

Without objection, the Study Session adjourned at 9:37 a.m.

ATTEST:




JENNIFER DUFF, VICE MAYOR


HOLLY MOSELEY, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 15th day of September 2022. I further certify that the meeting was duly called and held and that a quorum was present.


HOLLY MOSELEY, CITY CLERK

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(Attachments 1)

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

City Council Study Session
September 15, 2022

Presented by:

Brian A. Ritschel – Management & Budget Assistant Director

Christopher Hassert – Water Resources Director

Scott Bouchie – Interim Energy Resources Director

Sheri Collins – Interim 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



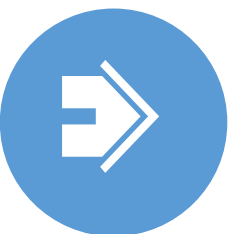
BALANCE NET SOURCES
AND USES



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

Water

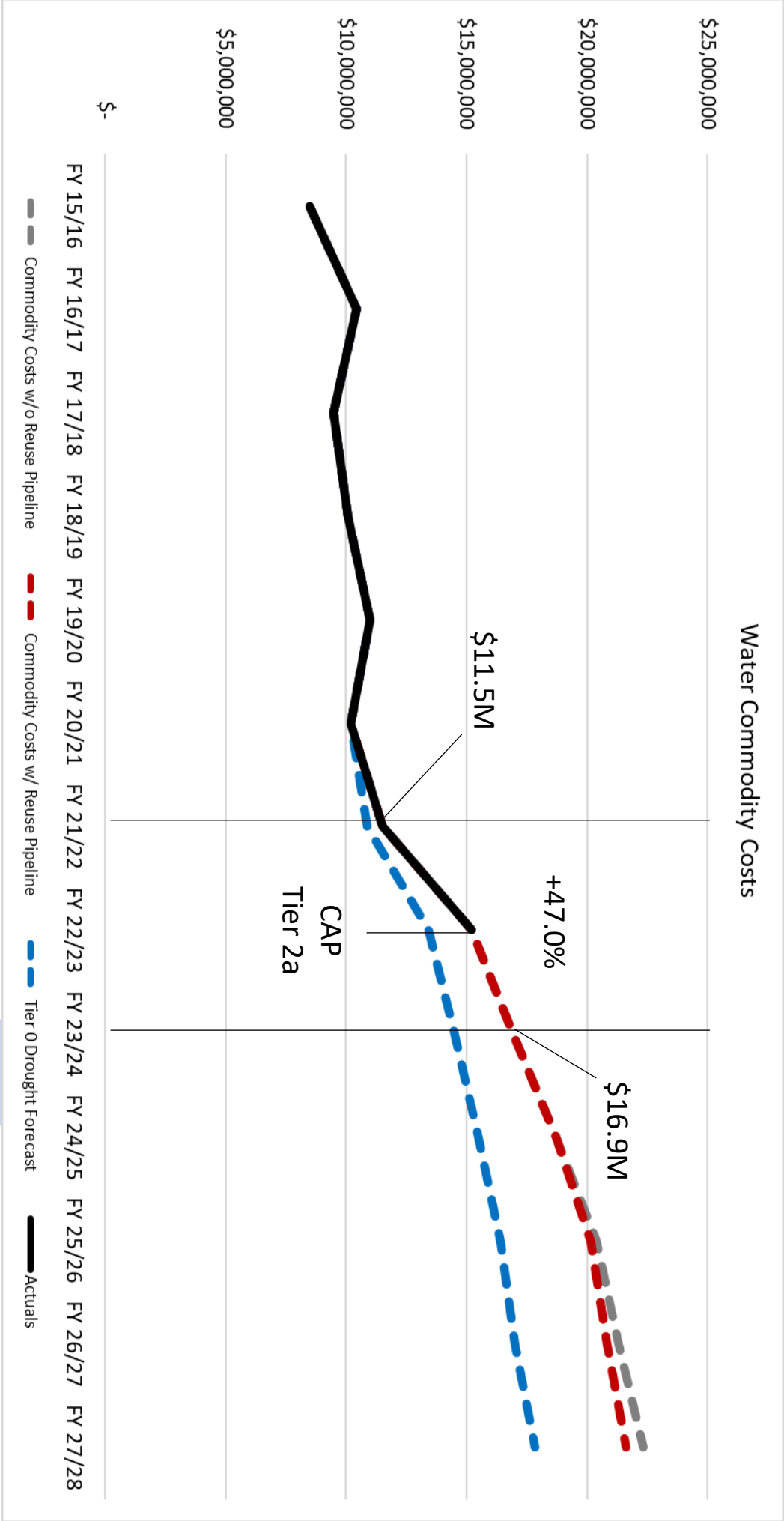
Increasing Costs/Pressures on the Utility

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>Current</u>	<u>Difference</u>
	<u>Estimate</u>	<u>Estimate</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

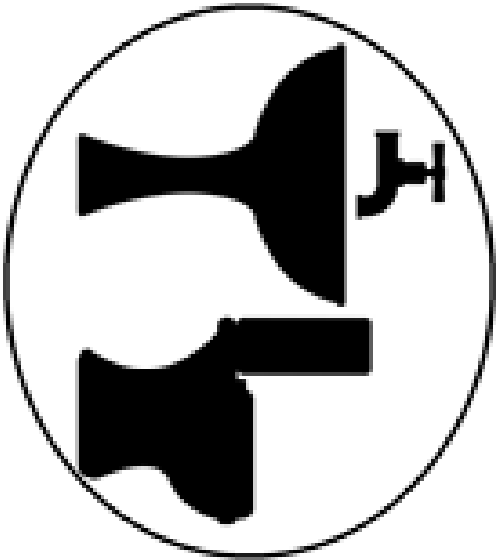
Water - Typical Customer



	2022	2023	
Residential		Service Charge	2.75%
		Usage Charge	2.75%
	\$39.19/mo.	Drought Commodity Charge	\$0.08/kgal
		\$40.50/mo. (\$1.31/mo.)	
		Effective Increase	3.3%
Commercial General		Service Charge	2.75%
		Usage Charge	5.50%
	\$55.12/mo.	Drought Commodity Charge	\$0.08/kgal
		\$57.76/mo. (\$2.64/mo.)	
		Effective increase	4.8%
Commercial Landscape		Service Charge	2.75%
		Usage Charge	6.50%
	\$138.08/mo.	Drought Commodity Charge	\$0.08/kgal
		\$147.04/mo. (\$8.96/mo.)	
		Effective increase	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	\$23.92/mo.	Service Charge Usage Charge	4.25% 4.25%
		\$24.93/mo. (\$1.01/mo.)	
Commercial	\$47.77/mo.	Service Charge Usage Charge Surcharge	4.50% 4.50% 4.50%
		\$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

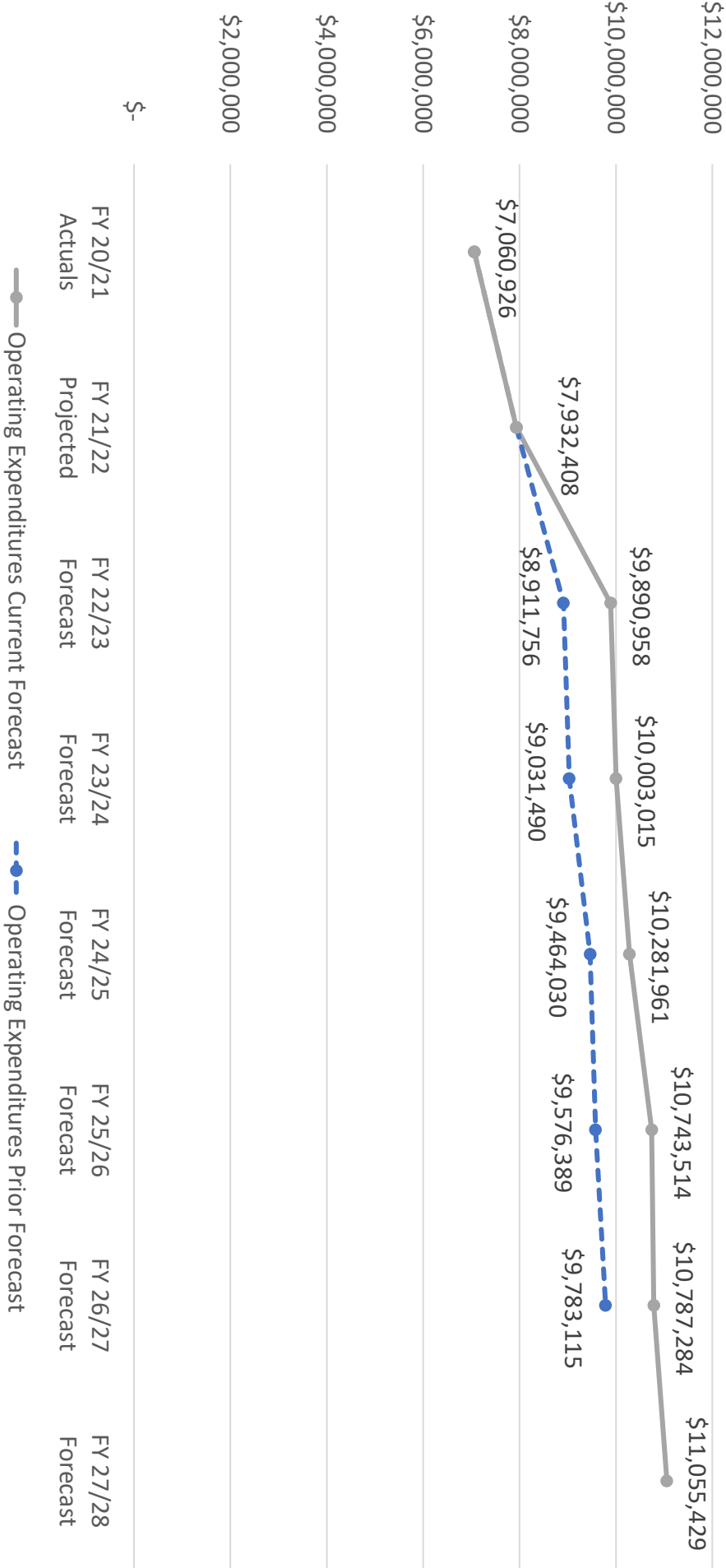
Increasing Costs/Pressures on the Electric Utility

- 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

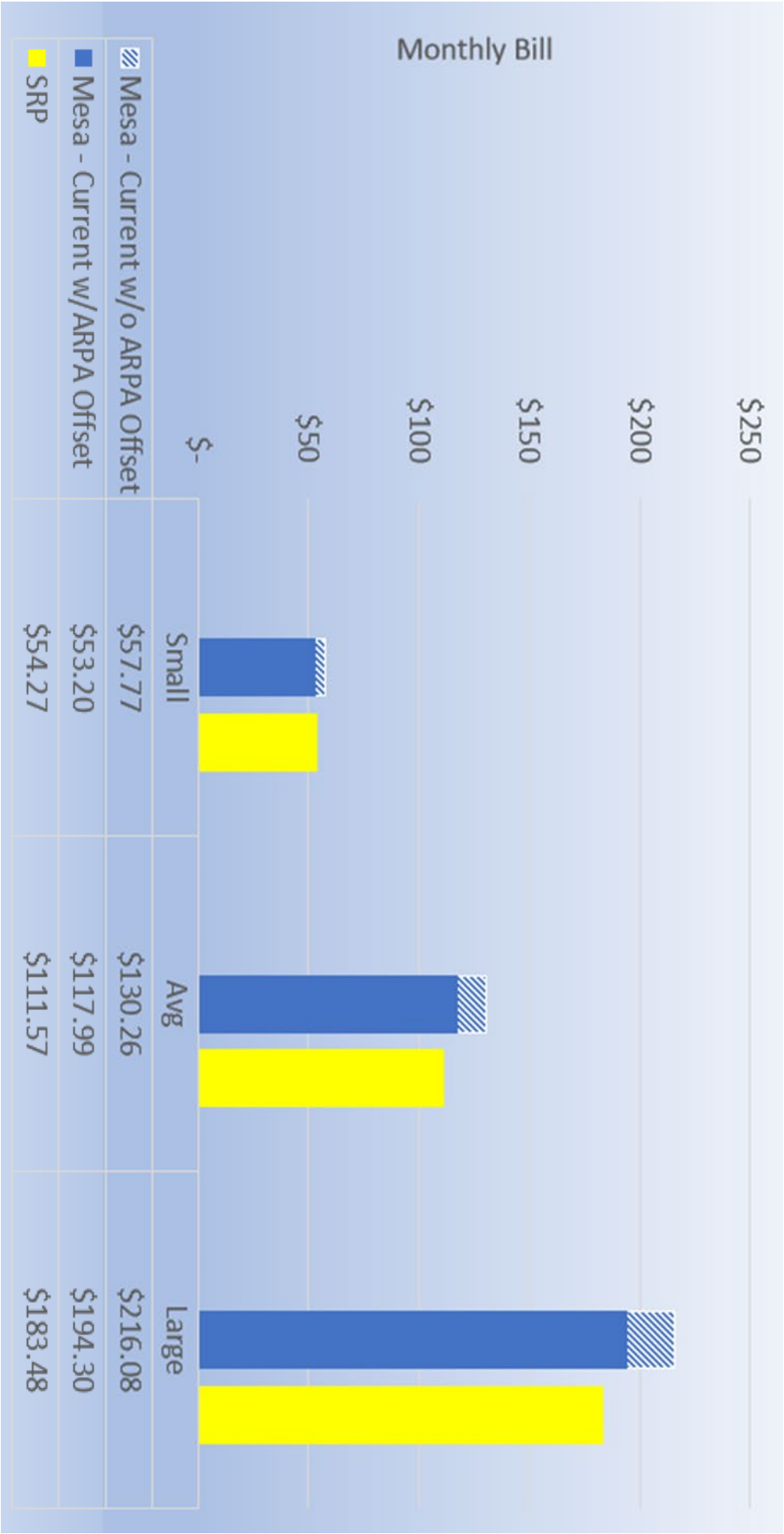


Increasing Operating Costs on the Electric Utility



Residential Electric Bill Comparison

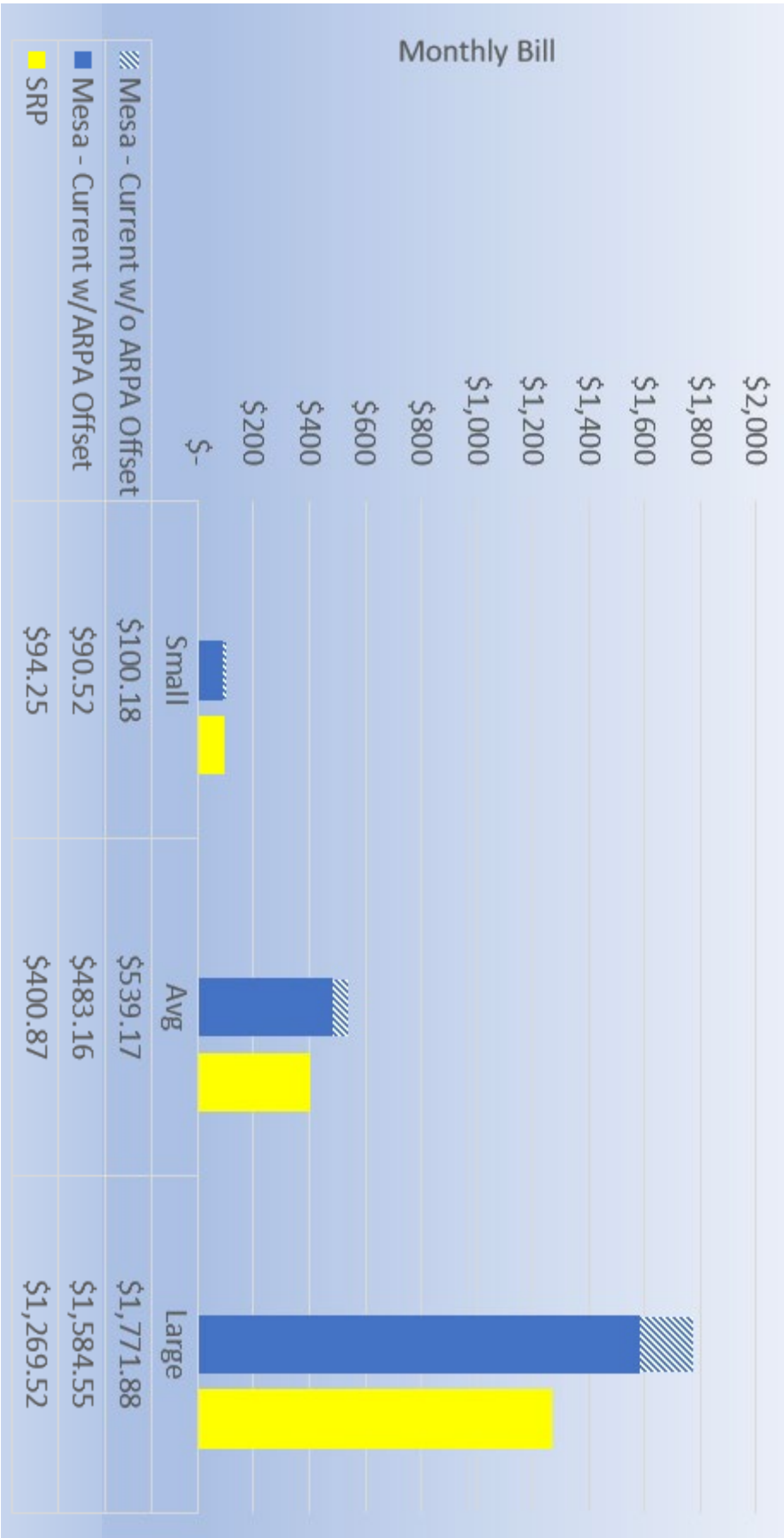
Staff recommends no rate adjustments



*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

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

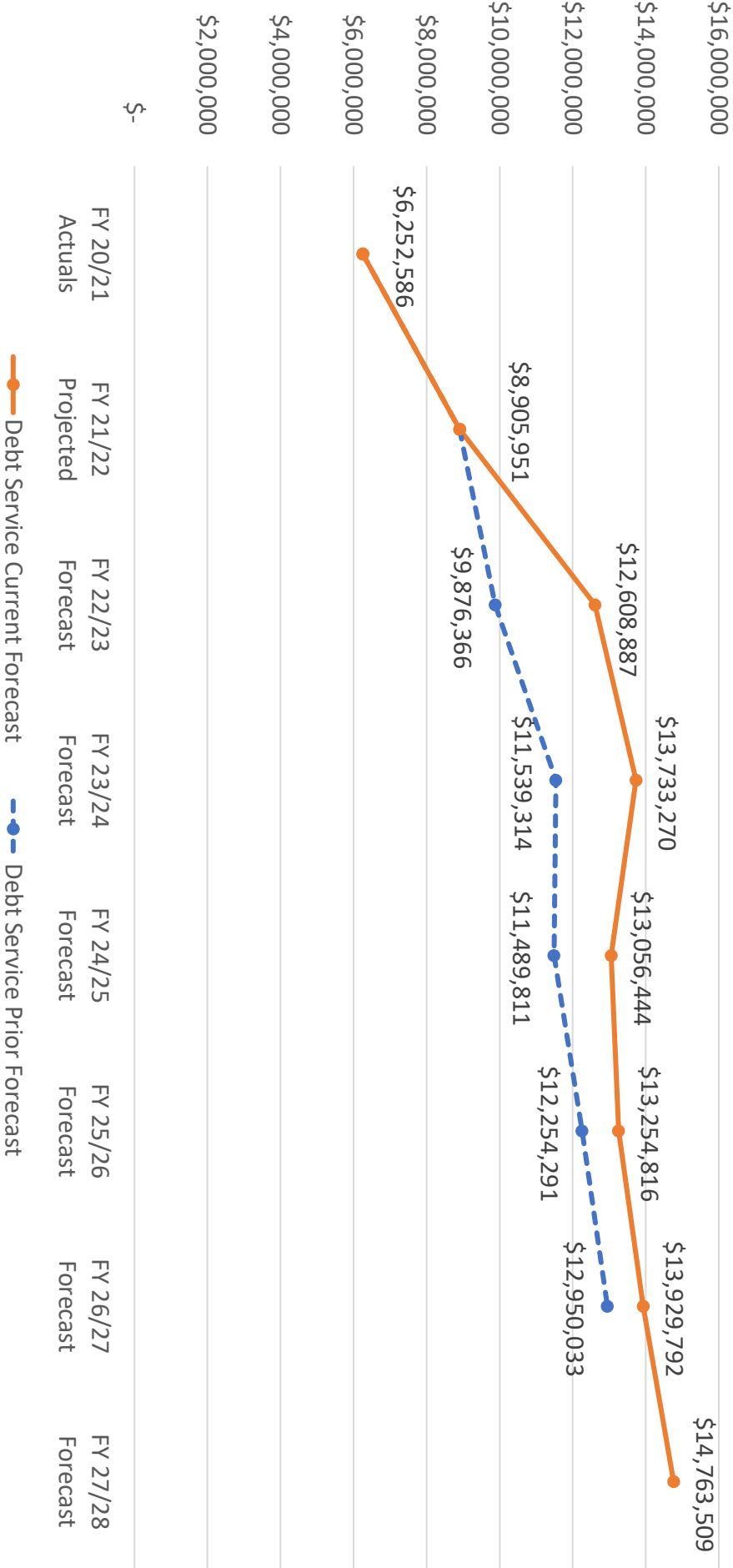


Gas

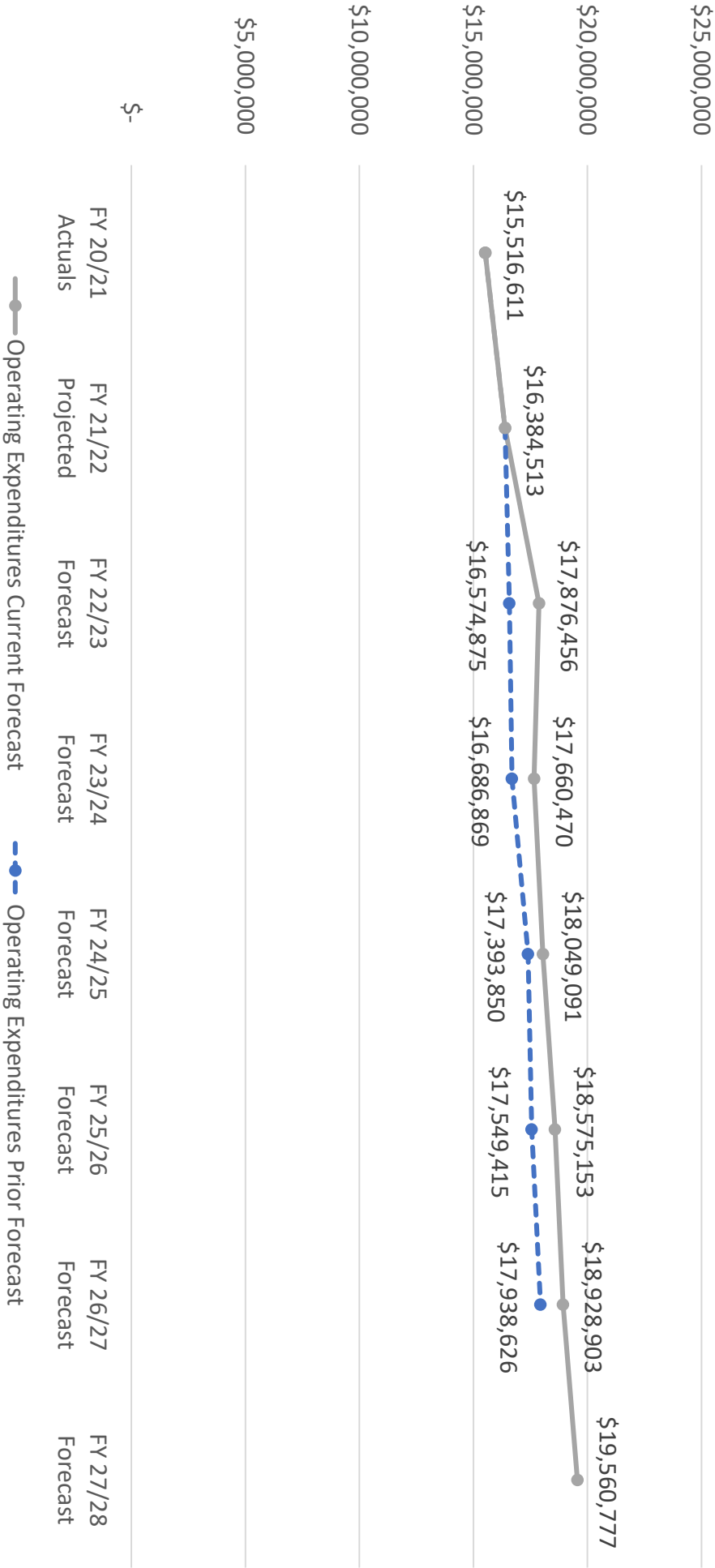
Increasing Costs/Pressures on the Gas Utility

- 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

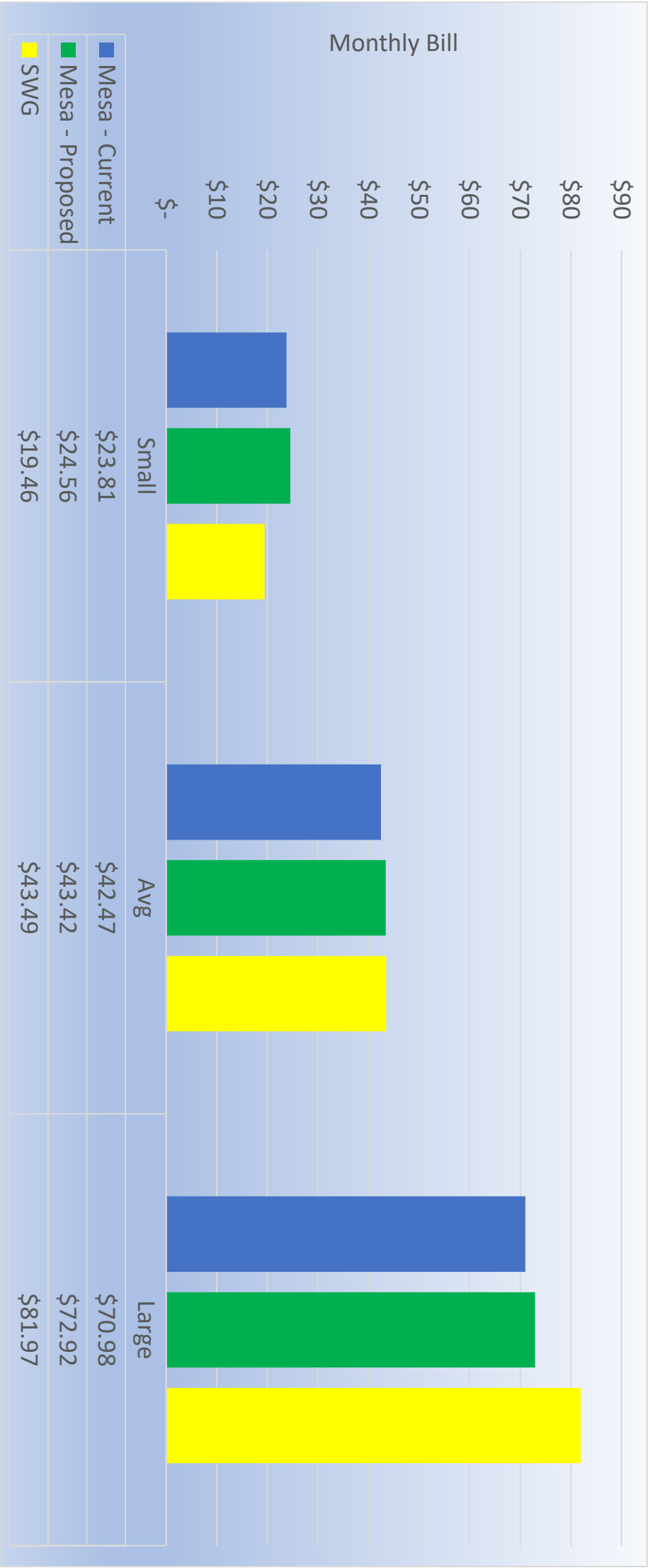
Increasing Debt Service Costs on the Gas Utility



Increasing Operating Costs on the Gas Utility



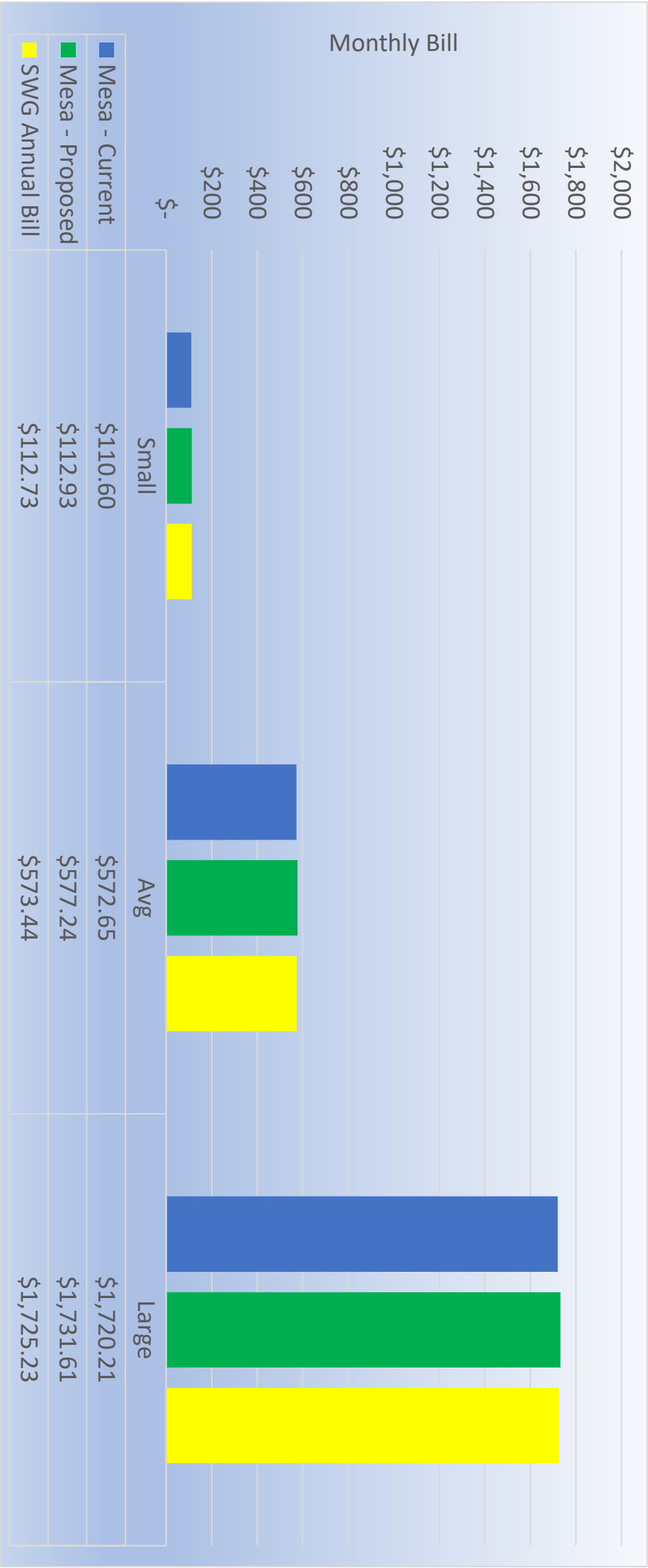
Residential Gas Bill Comparison



Proposed Residential Gas Rates

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE		
SUMMER	\$15.81	\$16.56
WINTER	\$18.74	\$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	\$37.66	\$39.66
WINTER	\$47.34	\$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

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
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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
Ending Reserve Balance	\$143,076,056	\$117,176,937	\$97,145,407	\$85,389,716	\$74,504,190	\$65,066,691	\$59,401,739

Ending Reserve Balance Percent*	30.1%	24.4%	20.0%	16.7%	13.5%	11.8%	10.4%
*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.☐

Schedule for FY 2022/23 Utility Rates Adjustment Recommendation

- 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

research.n



Utility Fund Forecast – Staff Recommendation

As of 08/29/2022	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28
	Actuals	Projected	Forecast	Forecast	Forecast	Forecast	Forecast
WATER	\$4,184,539	(\$3,921,633)	(\$120,130)	(\$3,517,905)	(\$5,057,067)	(\$6,994,841)	(\$8,387,943)
WASTEWATER	(\$8,572,222)	(\$11,954,358)	(\$10,332,043)	(\$6,527,964)	(\$4,063,099)	(\$886,621)	\$3,955,150
SOLID WASTE	(\$4,693,206)	(\$2,861,402)	(\$2,666,194)	\$1,433,391	\$830,191	\$278,457	\$776,467
ELECTRIC	\$3,093,468	(\$2,530,032)	(\$2,106,261)	(\$1,277,723)	(\$1,602,042)	(\$1,484,154)	(\$1,742,617)
NATURAL GAS	(\$1,509,847)	(\$4,290,323)	(\$3,292,115)	(\$1,573,176)	(\$825,089)	(\$212,103)	(\$123,063)
DISTRICT COOLING	(\$687,915)	(\$341,371)	(\$1,514,786)	(\$292,314)	(\$168,419)	(\$138,238)	(\$142,945)
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
Ending Reserve Balance	\$143,076,056	\$117,176,937	\$97,145,407	\$85,389,716	\$74,504,190	\$65,066,691	\$59,401,739
Ending Reserve Balance Percent*	30.1%	24.4%	20.0%	16.7%	13.5%	11.8%	10.4%
*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

Utility Fund Forecast – 3.25% Wastewater

As of 09/08/2022	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
WATER	\$4,184,539	(\$3,921,633)	(\$120,130)	(\$3,517,905)	(\$5,057,067)	(\$6,994,841)	(\$8,387,943)
WASTEWATER	(\$8,572,222)	(\$12,034,741)	(\$10,621,627)	(\$6,659,789)	(\$4,044,224)	(\$770,531)	\$4,179,721
SOLID WASTE	(\$4,693,206)	(\$2,861,402)	(\$2,666,194)	\$1,433,391	\$830,191	\$278,457	\$776,467
ELECTRIC	\$3,093,468	(\$2,530,032)	(\$2,106,261)	(\$1,277,723)	(\$1,602,042)	(\$1,484,154)	(\$1,742,617)
NATURAL GAS	(\$1,509,847)	(\$4,290,323)	(\$3,292,115)	(\$1,573,176)	(\$825,089)	(\$212,103)	(\$123,063)
DISTRICT COOLING	(\$687,915)	(\$341,371)	(\$1,514,786)	(\$292,314)	(\$168,419)	(\$138,238)	(\$142,945)
TOTAL NET SOURCES AND USES	(\$8,185,182)	(\$25,979,503)	(\$20,321,113)	(\$11,887,516)	(\$10,866,651)	(\$9,321,409)	(\$5,440,380)
Beginning Reserve Balance	\$151,261,238	\$143,076,056	\$117,096,553	\$96,775,441	\$84,887,925	\$74,021,274	\$64,699,865
Ending Reserve Balance	\$143,076,056	\$117,096,553	\$96,775,441	\$84,887,925	\$74,021,274	\$64,699,865	\$59,259,485
Ending Reserve Balance Percent*	30.2%	24.4%	19.9%	16.6%	13.4%	11.7%	10.4%
*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%	3.25%	5.25%	5.25%	5.00%	5.00%	5.00%
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

Utility Fund Forecast – 2.25% Wastewater

As of 09/08/2022	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28
	Actuals	Projected	Forecast	Forecast	Forecast	Forecast	Forecast
WATER	\$4,184,539	(\$3,921,633)	(\$120,130)	(\$3,517,905)	(\$5,057,067)	(\$6,994,841)	(\$8,387,943)
WASTEWATER	(\$8,572,222)	(\$12,115,124)	(\$10,912,013)	(\$6,817,280)	(\$4,098,159)	(\$635,036)	\$4,527,615
SOLID WASTE	(\$4,693,206)	(\$2,861,402)	(\$2,666,194)	\$1,433,391	\$830,191	\$278,457	\$776,467
ELECTRIC	\$3,093,468	(\$2,530,032)	(\$2,106,261)	(\$1,277,723)	(\$1,602,042)	(\$1,484,154)	(\$1,742,617)
NATURAL GAS	(\$1,509,847)	(\$4,290,323)	(\$3,292,115)	(\$1,573,176)	(\$825,089)	(\$212,103)	(\$123,063)
DISTRICT COOLING	(\$687,915)	(\$341,371)	(\$1,514,786)	(\$292,314)	(\$168,419)	(\$138,238)	(\$142,945)
TOTAL NET SOURCES AND USES	(\$8,185,182)	(\$26,059,886)	(\$20,611,499)	(\$12,045,007)	(\$10,920,586)	(\$9,185,913)	(\$5,092,487)
Beginning Reserve Balance	\$151,261,238	\$143,076,056	\$117,016,170	\$96,404,671	\$84,359,664	\$73,439,079	\$64,253,165
Ending Reserve Balance	\$143,076,056	\$117,016,170	\$96,404,671	\$84,359,664	\$73,439,079	\$64,253,165	\$59,160,679

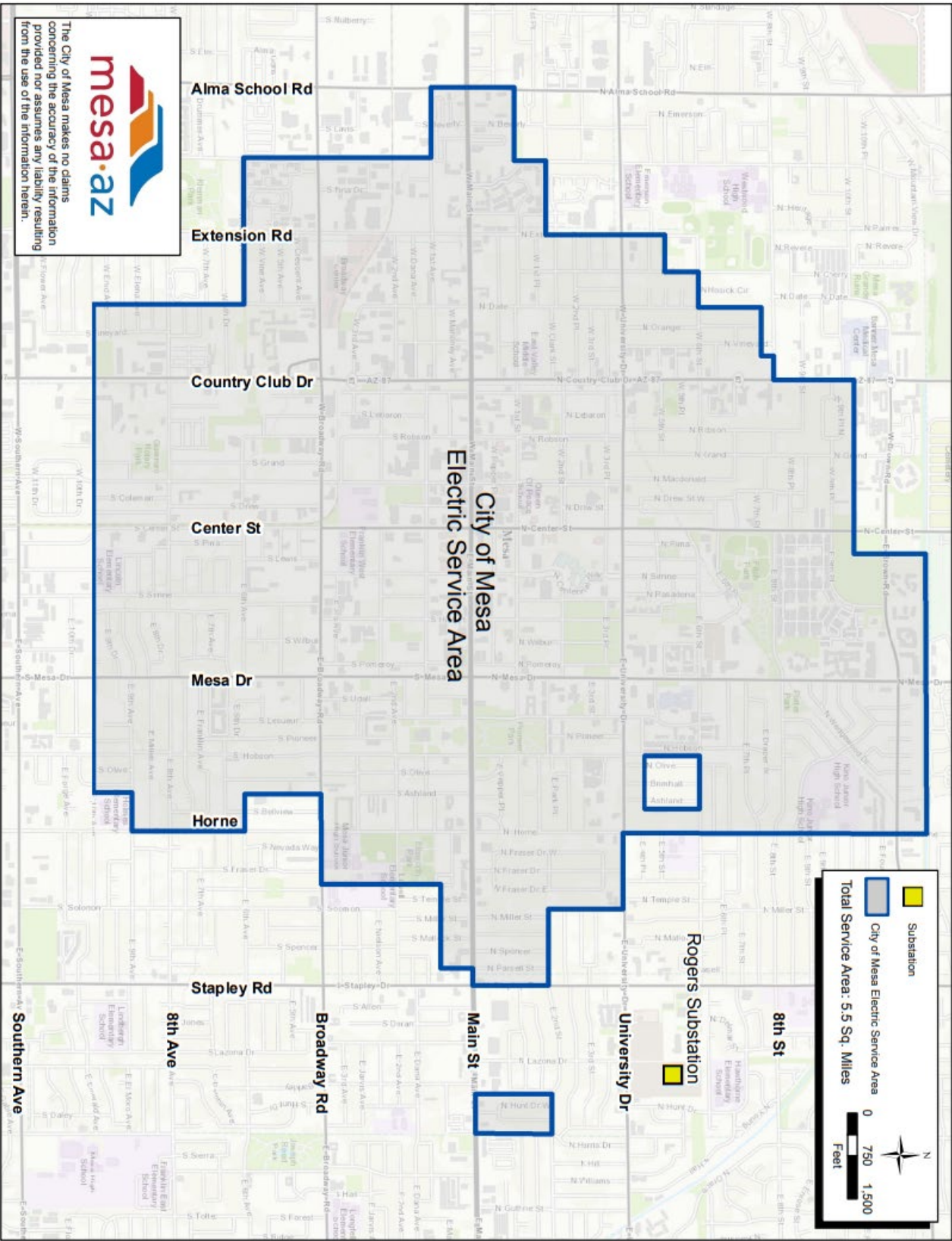
Ending Reserve Balance Percent*
*As a % of Next Fiscal Year's Expenditures

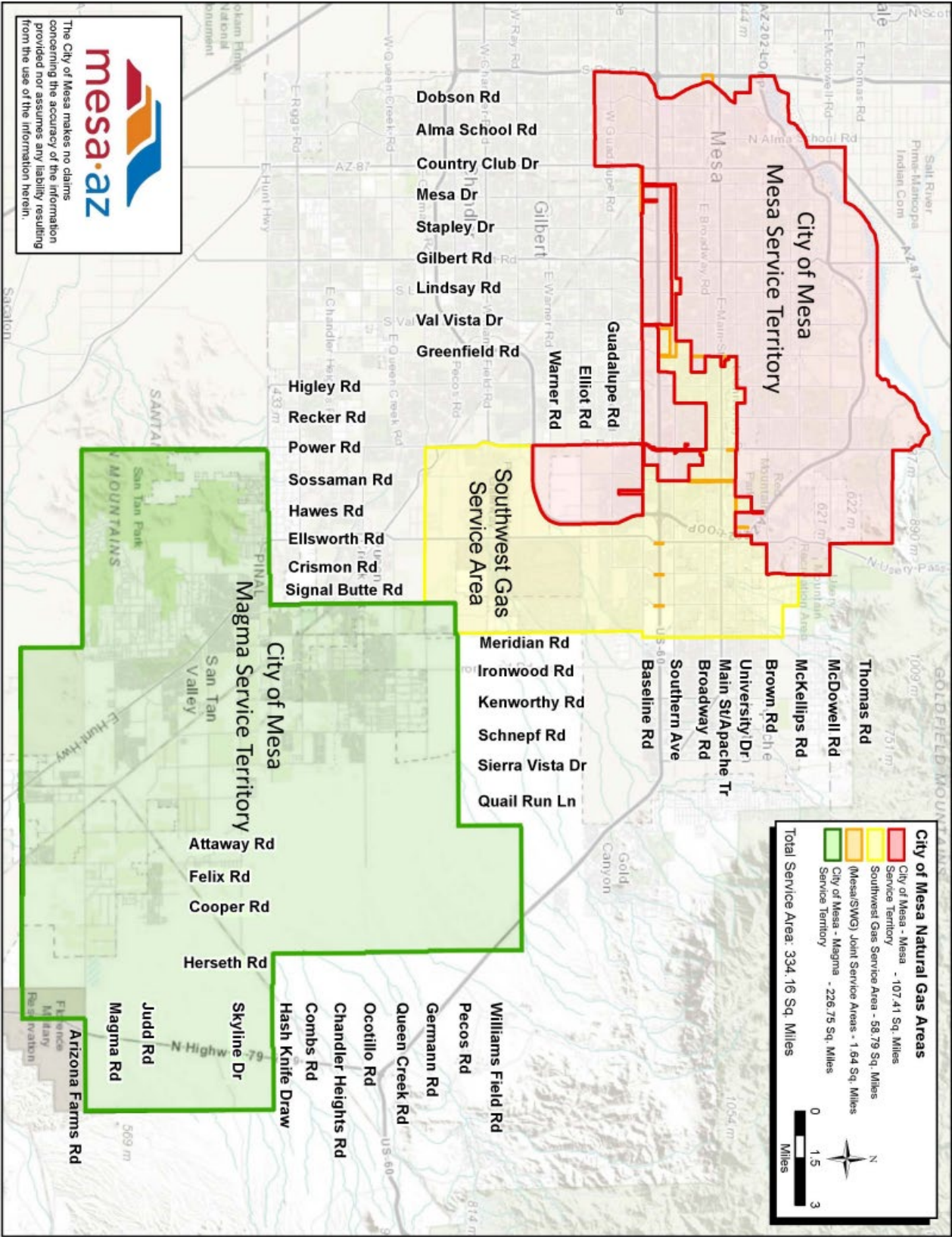
30.2%24.4%19.8%16.5%13.3%11.6%10.4%

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%	2.25%	5.75%	5.50%	5.50%	5.50%	5.50%
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

Residential Impact – Median Customer

- Current Monthly Bill: \$23.92
- Staff Recommendation (4.25%): \$24.93
 - \$1.01/month above current
- 3.25% Scenario: \$24.70
 - \$0.78/month above current
- 2.25% Scenario: \$24.46
 - \$0.54/month above current





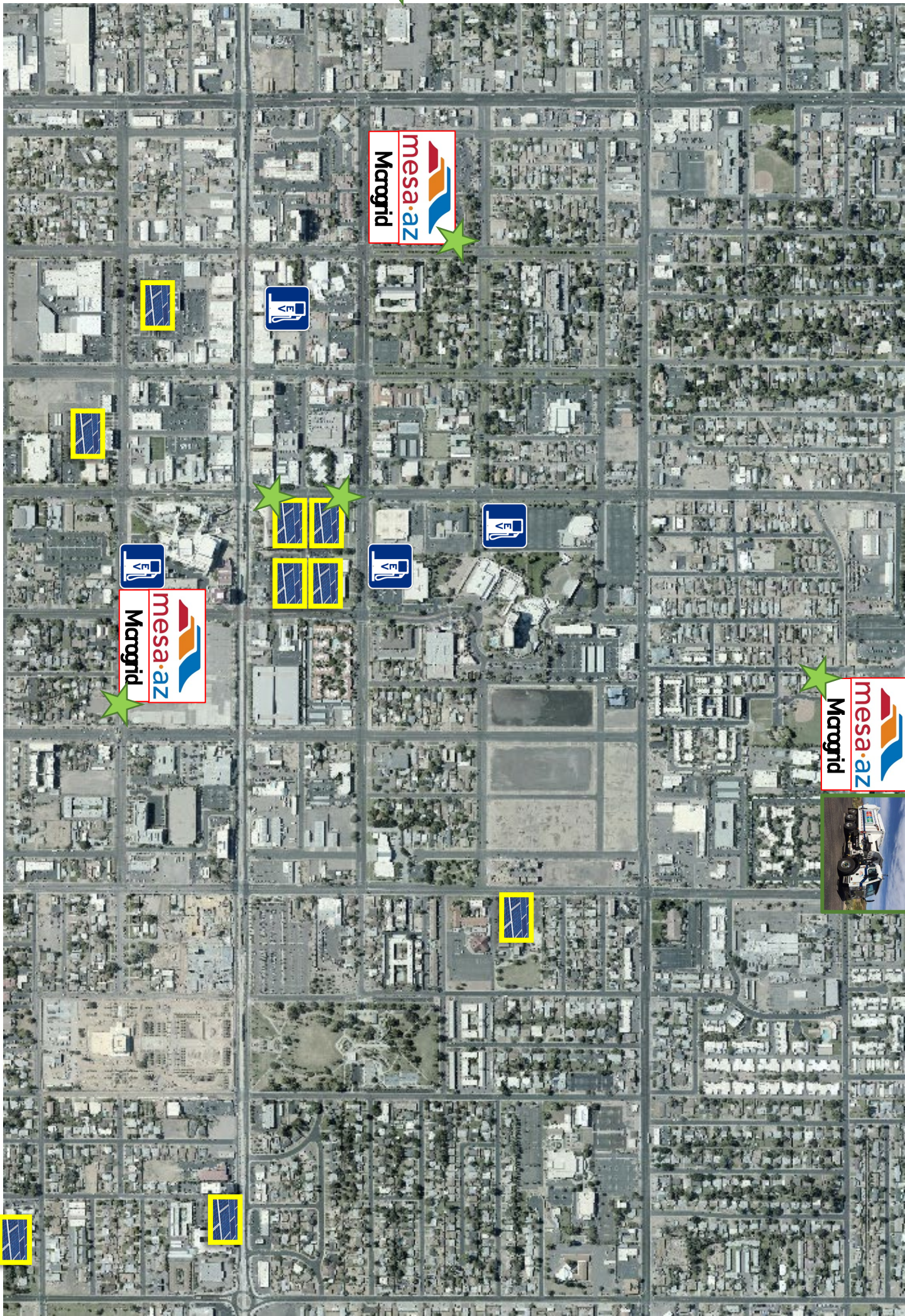


PROJECT CANARY



RESR - Electric

RESR - Gas





Electric – Current and In Progress



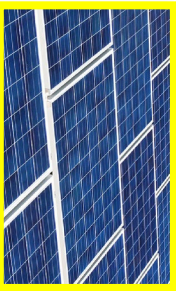
Hydro – 15 MW 19% of annual energy



4 stations,
? customers



Electric RESR 14 Customers



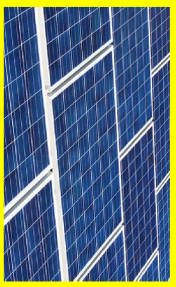
Customer Sclar – 1.2 MW 120 customers, 0.6% annual energy



Residential EV/TOU Rate



PDMicrogrid, 3 MW 3.5% annual energy



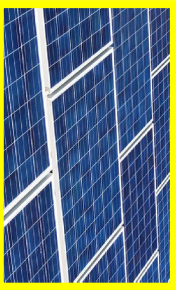
Downtown Sclar 806 kW 0.5% annual energy



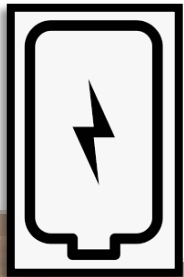
69 kW Looping Rogers Sub Reliability



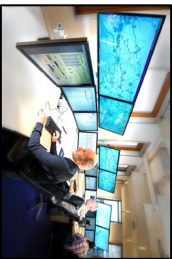
Mesa AM Project



Lone Butte Sclar – 15 MW 9% annual energy

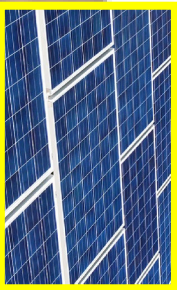


Customer Storage Demand Response

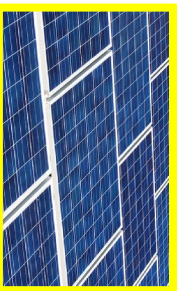


Energy Control Room

Electric – Future and Preliminary



Downtown Sclar 3.8 MW 2% annual energy



Utility Scale – 15 MW 9% annual energy



Vehicle Fleet Electrification



DC Microgrid, 3 MW 3.5% annual energy



6th St Microgrid, 3 MW 3.5% annual energy

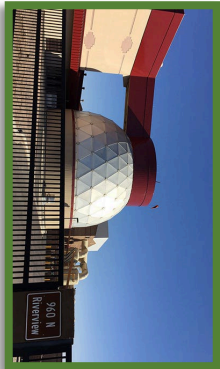


Aggregated Demand Response – 1 MW 1% of peak demand

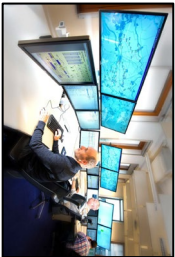
Natural Gas – Current and In Progress



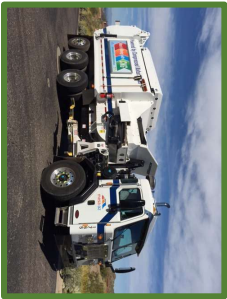
EDF - 2016



Flare to Fuel - 24% of
City Natural Gas Use



Energy Control Room



72 ONG Refuse Trucks



ONG Dump Trucks



RMD



Aging Infrastructure
Replacement

Natural Gas – Future and Preliminary



Project Canary –
Stationary Pilot



Project Canary –
Mobile Survey



EPA Methane
Challenge



RSG Procurement



RESR - Gas



SRPMIC RNG
248% of City
Natural Gas Use



Greenfield RNG
45% of City Natural
Gas Use



Food to Fuel RNG
55% of City Natural
Gas Use