

City of Mesa

FY 15/16

Utility Rate Recommendations

Audit, Finance and Enterprise Committee

April 2, 2015

Presented by the Office of Management and Budget



Enterprise Operations

Each utility is operated as a separate business center

Combined Ending Reserve Balance adheres to the adopted financial policy of at least 8-10% over the forecast period

Reserve balance can be used to smooth rate adjustments year-to-year

Reserve balance can be used to phase in new programs or changes in operations

Revenue Targets

Forecasted expenses are compared with forecasted revenues based on current rates and projected customer growth

In FY 15/16, the following increase in revenues is needed to accommodate the estimated costs

Utility	Revenue	Increase
Electric	\$ 197,000	1.2%
Natural Gas	\$ 770,000	2.9%
Water	\$ 6,201,000	5.2%
Wastewater	\$ 3,673,000	5.2%
Solid Waste	\$ 2,099,000	4.2%
Total	\$ 12,940,000	

Rate Adjustment Implementation

Methods of implementation of rate adjustments can vary from year to year based on needs and goals of the individual utilities

Impact on individual customers can vary based on the method of implementation and the customer consumption of services

Solid Waste Utility Rate Recommendations

- CNG conversion continues to move forward over the next six years to reduce future fuel cost
 - Cost of capital investment creates pressure in early years with relief anticipated to begin in FY 18/19
- Two new contracts that will provide funds for recycling education and outreach program
- The tools and technology to further assist in maintaining a top-rated, competitive, customer service driven business operation are being continually reviewed and upgraded

Solid Waste Utility Rate Recommendations

- 5% increase on all residential rates
 - Residential 90 gallon barrel rate: \$1.27 per month, from \$25.45 to \$26.72
 - Residential 60 gallon barrel rate: \$1.14 per month, from \$22.72 to \$23.86
- Mesa Green and Clean Fee: \$0.09 per month, from \$0.65 to \$0.74
- Average residential customer increase: \$1.36 from \$26.10 to \$27.46
- 1.2% increase on Commercial Front Load rates
- Commercial Roll Off rates: no recommendation for adjustment at this time.

Electric Utility Rate Recommendations

- Residential Service Charge component: \$1.41 per month, from \$6.50 to \$7.91
- Consumption component of rate: No adjustment recommended
- Average residential customer: \$1.41 per month, from \$89.78 to \$91.19, 1.6% (Including commodity pass-through cost)
- Second proposed increase since FY 03/04
- Non-residential rates: No adjustment recommended
- Developing concepts for Low Income Electric residential

Electric Utility Rate Recommendations

- Proposed service charge of \$7.91 is:
 - \$10.59 per month less than SRP's Summer Monthly Service Charge of \$18.50
 - \$12.09 per month less than SRP's Winter Monthly Service Charge of \$20.00
- Monthly bills during calendar year 2014 were approximately \$8.97 less per month than if served by SRP (\$107.64 less per year)
- Commodity costs for power are passed through to the customers and are not included in the annual rate review

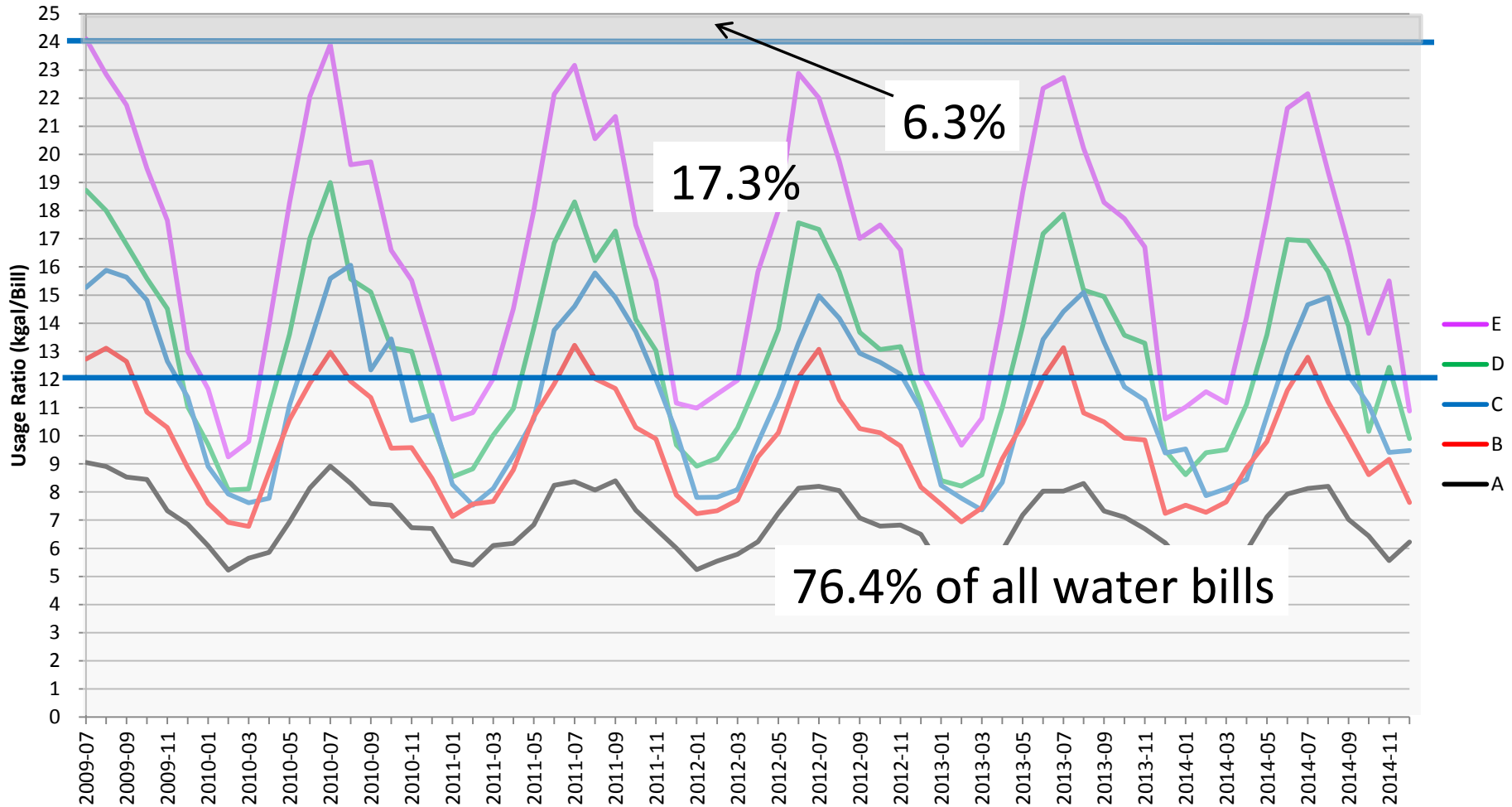
Natural Gas Utility Rate Recommendations

- All customers Service Charge: increase \$1.29 per month
 - Residential customers summer: from \$10.82 to \$12.11 per month
 - Residential customers winter: from \$13.75 to \$15.04 per month
- Average residential customer monthly bill: from \$33.55 to \$34.84, 3.8% (Including commodity pass-through)
- Commodity costs for natural gas are passed through to the customers and are not included in the annual rate review

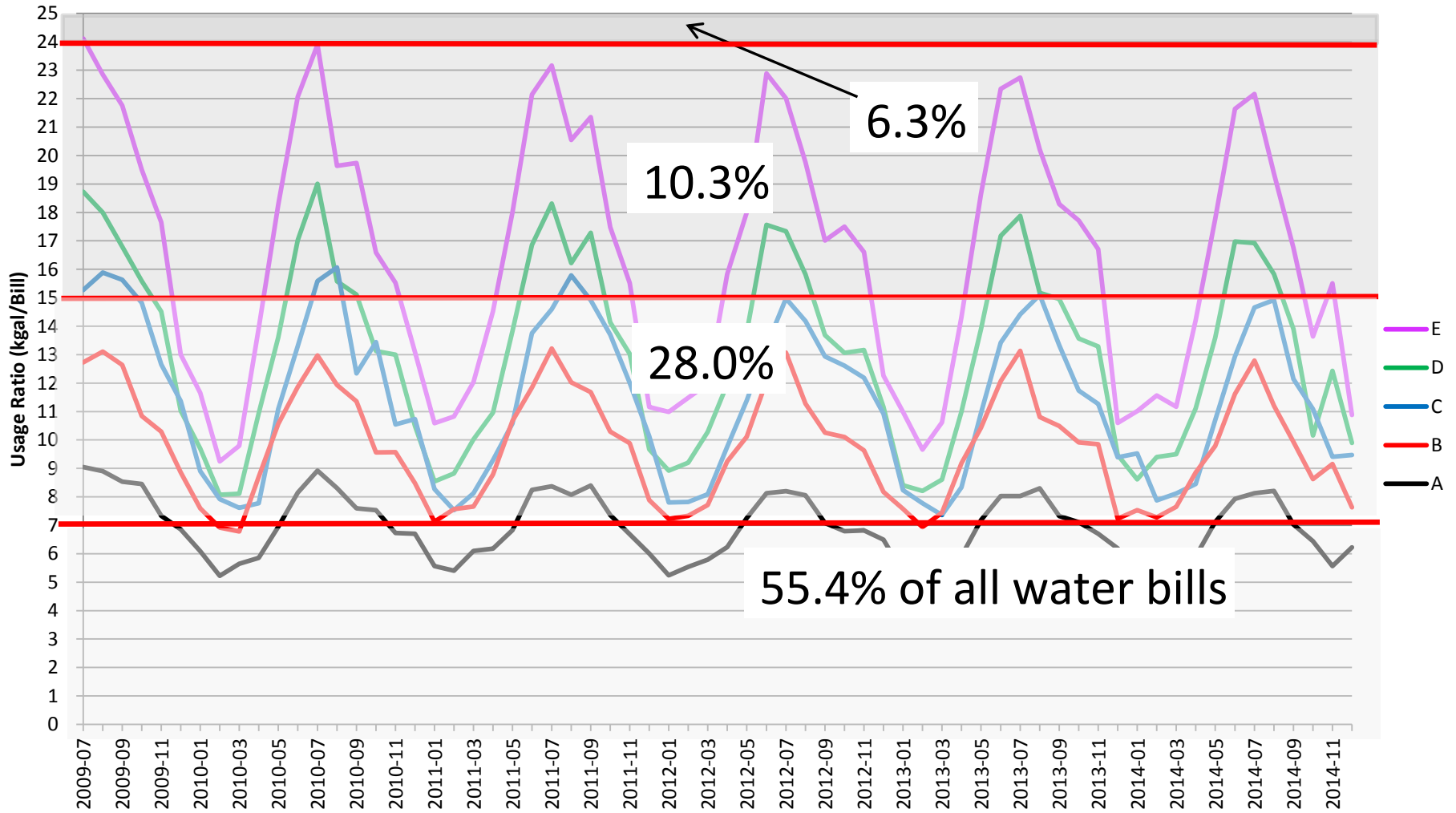
Water Utility Rate Structure

- City previously focused on better aligning fixed revenues with fixed costs. Target is fixed revenues at 35-40% of total costs. FY 15/16 estimated at 36.3%
- Water consumption per account has declined in recent years: more widespread use of water saving appliances, smaller number of people per household, less landscaping and more water conservation awareness
- Residential water tiers are based on demands on the system. The current tier levels do not align with standard usage patterns
 - Analysis revealed four or five standard levels of residential water usage

Avg. Residential Monthly Usage – Current Tiers



Avg. Residential Monthly Usage – Proposed Tiers



Water Utility Rate Structure Recommendation

Current Residential Tier Structure:

- First 3,000 gallons included in service charge
- 4,000 – 12,000 gallons
- 13,000 – 24,000 gallons
- 25,000 gallons and greater

Recommended Residential Tier Structure at full implementation:

- First 3,000 gallons included in service charge
- 4,000 – 7,000 gallons
- 8,000 – 15,000 gallons
- 16,000 – 23,000 gallons
- 24,000 gallons and greater

Transition to new tier structure over five years to decrease annual impact to customers and to allow time for customers to assess water usage and apply conservation techniques if possible

5 Year Implementation – Monthly Bill Amounts

	MONTHLY BILL AMOUNTS						
	YR0	YR1	YR2	YR3	YR4	YR5	YR6
30 kgal	\$125.72	\$136.01	\$147.31	\$159.74	\$173.35	\$187.24	\$196.62
29 kgal	\$121.12	\$130.96	\$141.77	\$153.67	\$166.71	\$179.98	\$189.00
28 kgal	\$116.52	\$125.91	\$136.23	\$147.60	\$160.07	\$172.72	\$181.38
27 kgal	\$111.92	\$120.86	\$130.69	\$141.53	\$153.43	\$165.46	\$173.76
26 kgal	\$107.32	\$115.81	\$125.15	\$135.46	\$146.79	\$158.20	\$166.14
25 kgal	\$102.72	\$110.76	\$119.61	\$129.39	\$140.15	\$150.94	\$158.52
24 kgal	\$98.12	\$105.71	\$114.07	\$123.32	\$133.51	\$143.68	\$150.90
23 kgal	\$94.01	\$100.81	\$108.84	\$117.75	\$127.58	\$137.37	\$144.27
22 kgal	\$89.90	\$95.91	\$103.61	\$112.18	\$121.65	\$131.06	\$137.64
21 kgal	\$85.79	\$91.59	\$98.38	\$106.61	\$115.72	\$124.75	\$131.01
20 kgal	\$81.68	\$87.27	\$93.15	\$101.04	\$109.79	\$118.44	\$124.38
19 kgal	\$77.57	\$82.95	\$88.61	\$95.47	\$103.86	\$112.13	\$117.75
18 kgal	\$73.46	\$78.63	\$84.07	\$89.90	\$97.93	\$105.82	\$111.12
17 kgal	\$69.35	\$74.31	\$79.53	\$85.13	\$92.00	\$99.51	\$104.49
16 kgal	\$65.24	\$69.99	\$74.99	\$80.36	\$86.07	\$93.20	\$97.86
15 kgal	\$61.13	\$65.67	\$70.45	\$75.59	\$81.06	\$86.89	\$91.23
14 kgal	\$57.02	\$61.35	\$65.91	\$70.82	\$76.05	\$81.63	\$85.71
13 kgal	\$52.91	\$57.03	\$61.37	\$66.05	\$71.04	\$76.37	\$80.19
12 kgal	\$48.80	\$52.71	\$56.83	\$61.28	\$66.03	\$71.11	\$74.67
11 kgal	\$46.06	\$48.39	\$52.29	\$56.51	\$61.02	\$65.85	\$69.15
10 kgal	\$43.32	\$45.51	\$47.75	\$51.74	\$56.01	\$60.59	\$63.63
9 kgal	\$40.58	\$42.63	\$44.73	\$46.97	\$51.00	\$55.33	\$58.11
8 kgal	\$37.84	\$39.75	\$41.71	\$43.80	\$45.99	\$50.07	\$52.59
7 kgal	\$35.10	\$36.87	\$38.69	\$40.63	\$42.66	\$44.81	\$47.07
6 kgal	\$32.36	\$33.99	\$35.67	\$37.46	\$39.33	\$41.31	\$43.39
5 kgal	\$29.62	\$31.11	\$32.65	\$34.29	\$36.00	\$37.81	\$39.71
4 kgal	\$26.88	\$28.23	\$29.63	\$31.12	\$32.67	\$34.31	\$36.03
3 kgal	\$24.14	\$25.35	\$26.61	\$27.95	\$29.34	\$30.81	\$32.35
2 kgal	\$24.14	\$25.35	\$26.61	\$27.95	\$29.34	\$30.81	\$32.35
1 kgal	\$24.14	\$25.35	\$26.61	\$27.95	\$29.34	\$30.81	\$32.35
0 kgal	\$24.14	\$25.35	\$26.61	\$27.95	\$29.34	\$30.81	\$32.35

Water Utility Rate Recommendations

- All customers: 5% increase on all rate components
- Residential Service Charge: \$1.21 per month, from \$24.14 to \$25.35
- Residential average monthly seasonal consumption: \$1.87 per month, from \$17.81 to \$19.68
- Residential average monthly seasonal consumption total bill: \$3.08, from \$41.95 to \$45.03, 7.3%
- The City average monthly consumption is about 9,600 gallons however seasonality takes into account high demand summer months that experience some water consumption in tier 2. The resulting impact is greater than a straight 9,600 gallons per month.

Wastewater Utility Rate Recommendations

- All customers: 5% increase on all rate components
- Residential Service Charge: \$0.82 per month, from \$16.40 to \$17.22
- Residential average monthly consumption: \$0.51 per month, from \$9.86 to \$10.37
- Residential average monthly consumption total bill: \$1.33, from \$26.26 to \$27.59, 5.1%
- Wastewater rates are not subject to seasonality. The monthly rate is adjusted annually based on the winter water average usage of the individual customer

Average Residential Customer Impact

<u>Utility</u>	<u>Monthly</u>	<u>Annual</u>
Solid Waste	\$1.36	\$16.32
Water	\$3.08	\$36.96
Wastewater	\$1.33	\$15.96
<u>Total</u>	<u>\$5.77</u>	<u>\$69.24</u>

Electric	\$1.41	\$16.92
Natural Gas	\$1.29	\$15.48

Enterprise Fund Fiscal Impact

The FY15/16 recommended utility rate/structure adjustments are anticipated to meet the revenue increase target of \$12,940,000

Utility	Revenue
Electric	\$ 197,000
Natural Gas	\$ 770,000
Water	\$ 6,201,000
Wastewater	\$ 3,673,000
Solid Waste	\$ 2,099,000

Enterprise Fund Reserves

	Actuals FY 13/14	Estimate FY 14/15	Forecast FY 15/16	Forecast FY 16/17	Forecast FY 17/18
Beginning Reserve Balance	\$54,457,000	\$48,953,726	\$43,781,511	\$39,559,125	\$41,594,964
Total Sources	\$306,179,518	\$321,122,188	\$337,500,666	\$355,086,628	\$374,131,436
Total Uses	\$311,682,791	\$326,294,403	\$341,723,051	\$353,050,790	\$377,349,739
Ending Reserve Balance	\$48,953,726	\$43,781,511	\$39,559,125	\$41,594,964	\$38,376,661
Ending Reserve Balance Percent*	15.0%	12.8%	11.2%	11.0%	9.8%

*As a % of Next Fiscal Year's Operating, Capital and General Fund portion of Debt Service Expenditures (a subset of total uses)

Schedule for FY 15/16 Utility Rate Consideration

April 16 – City Council Discussion of Utility Rates

May 4 – Introduce Utility Rate Ordinances

May 18 – City Council Action on Utility Rates

July 1 – Effective date for Utility Rate changes

