



City of Mesa
FY 2017/18
Utility Rate Recommendations
Audit, Finance and Enterprise Committee
March 6, 2017
Presented by the Office of Management and Budget
with the Environmental Management and Sustainability,
Energy Resources and Water Resources Departments



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

Total Enterprise Fund

Sources of Funding	FY 15/16 Actuals	FY 16/17 Year End Estimate	FY 17/18 Forecast	FY 18/19 Forecast	FY 19/20 Forecast
Total Sources	\$334.8	\$351.8	\$364.3	\$377.9	\$393.3
Uses of Funding					
Operating Expenditures	\$145.4	\$162.2	\$169.5	\$174.0	\$180.8
Capital Transfer	\$3.3	\$5.5	\$6.3	\$4.4	\$3.6
Debt Service Transfer	\$54.9	\$55.0	\$77.9	\$84.8	\$87.1
Expenditure Subtotal	\$203.5	\$222.7	\$253.6	\$263.2	\$271.5
General Fund Transfer	\$99.7	\$103.9	\$106.5	\$109.0	\$111.7
Lifecycle/ Infrastructure Transfers	\$6.5	\$6.8	\$7.2	\$7.5	\$7.9
Economic Investment Fund Transfer	\$1.6	\$5.0	\$4.5	\$4.5	\$4.6
BABS Transfer	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0
Total Uses	\$313.1	\$338.4	\$371.7	\$384.2	\$395.6
Net Sources and Uses	\$21.7	\$13.5	(\$7.4)	(\$6.3)	(\$2.3)
Beginning Fund Balance	\$47.0	\$68.7	\$82.1	\$74.7	\$68.4
Ending Fund Balance	\$68.7	\$82.1	\$74.7	\$68.4	\$66.1
Ending Fund Balance Percent*	20.3%	22.1%	19.4%	17.3%	16.0%

*As a % of Next Fiscal Year's Expenditures

Note: This forecast does not include an economic correction.

Revenue Targets

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

In FY 2017/18, the following increase in revenues is needed to accommodate the estimated costs

Utility	Revenue
Electric	\$180,000
Natural Gas	\$467,000
Water	\$4,491,000
Wastewater	\$2,846,000
Solid Waste*	\$1,490,000
Total	\$9,474,000

* Household Hazardous Waste Revenue not included

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



Environmental Management & Sustainability Department

Solid Waste Utility Rate Recommendations

- 3.5% increase on all residential rates
 - Residential 90 gallon barrel rate: \$0.97 per month, from \$27.79 to \$28.76
 - Residential 60 gallon barrel rate: \$0.87 per month, from \$24.81 to \$25.68
 - Additional black barrel rate: \$0.46 per month, from \$13.12 to \$13.58
 - Residential green barrel service: \$0.23 per month, from \$6.56 to \$6.79

Solid Waste Utility Rate Recommendations

- Mesa Green and Clean Fee: no adjustment recommended
- Average residential customer increase: \$0.97 from \$28.63 to \$29.60
- 3.5% increase on bulk item and appliance collection for City of Mesa refuse customers
- Commercial Front Load rates: Overall 2.5% increase
- 4.9% increase on Commercial Roll Off Green Waste per ton fee



Energy Resources Department

Electric Utility Rate Recommendations

- Residential System Service Charge component: \$1.25 per month, from \$9.50 to \$10.75
- Consumption component of rate: No adjustment recommended
- Average residential customer: \$1.25 per month, from \$92.16 to \$93.41, 1.4% (Including commodity pass-through cost)
- Fourth proposed increase since FY 2003/04
- Non-residential rates: No adjustment recommended

Electric Utility Rate Recommendations

- Proposed System Service Charge of \$10.75 is:
 - \$9.25 per month less than SRP's monthly service charge of \$20.00
- Monthly bills during calendar year 2016 (at FY 2017/18 Mesa rates) would be approximately \$10.67 less per month than if served by SRP (\$128.04 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 System Service Charge: increase \$0.75 per month
 - Residential customers summer: from \$13.11 to \$13.86 per month
 - Residential customers winter: from \$16.04 to \$16.79 per month
- Average residential customer monthly bill: from \$32.17 to \$32.92, 2.3% (Including commodity pass-through)
- Monthly bills during calendar year 2016 (at FY 2017/18 Mesa rates) would be approximately \$0.56 less per month than if served by SW Gas (\$6.72 less per year)
- Commodity costs for natural gas are passed through to the customers and are not included in the annual rate review



Water Resources Department

Water Utility Rate Structure

- Over the last few years the City has focused on better aligning fixed revenues with fixed costs. Target is fixed revenues at 35-40% of total costs. FY 2017/18 estimated at 36.62%
- 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
- The City implemented a fourth residential water tier to align the tiers with usage patterns and associated costs
- This year will be the third year of the five year implementation
- Decreases annual impact to customers and allows time for customers to continue assessing their water usage and apply conservation techniques if possible

Water Utility Rate Structure Recommendation

Current Residential Tier Structure for FY 16/17

First 3,000 gallons included in service charge

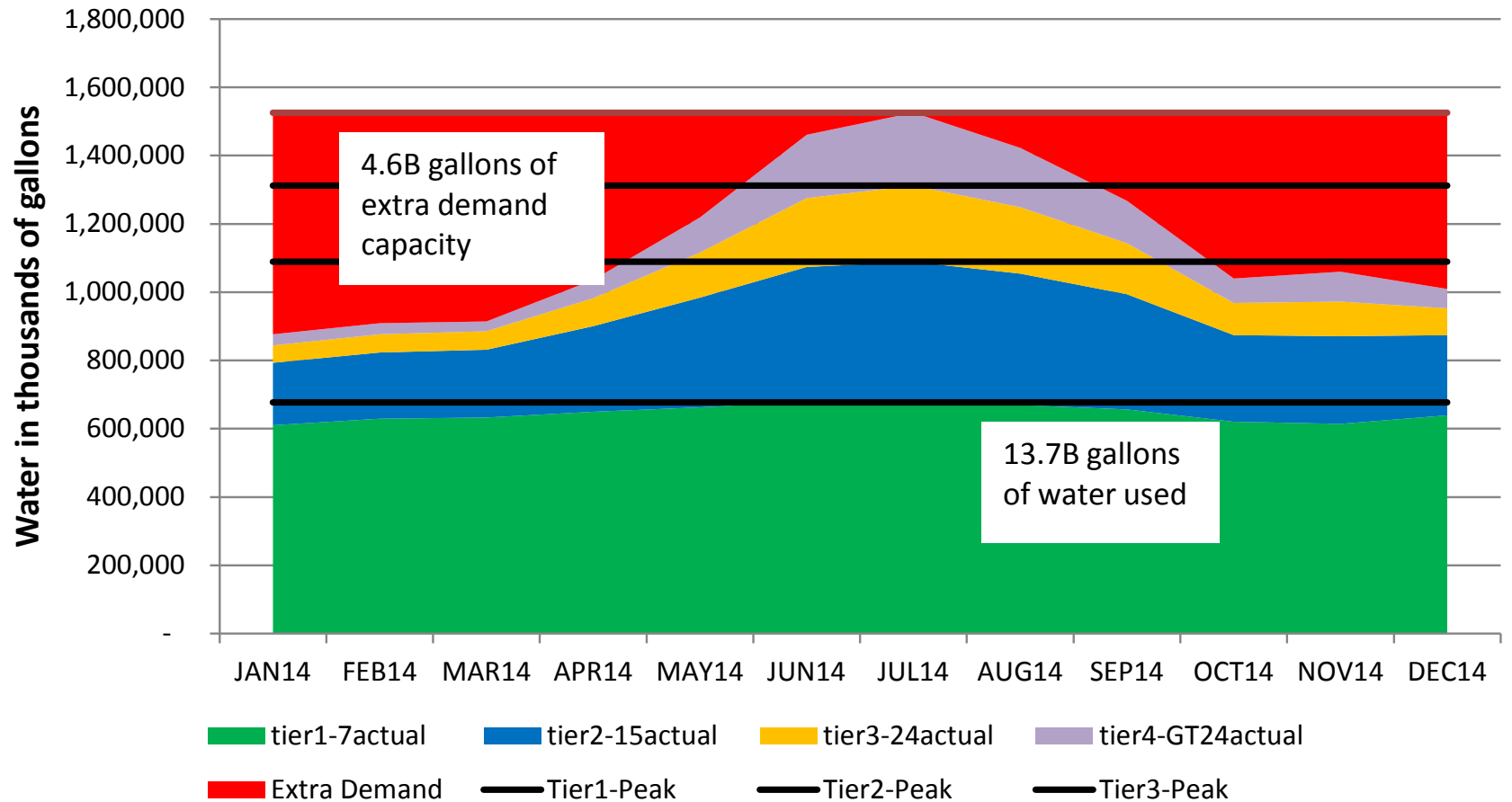
Gallons	Cost per 1,000 gal
4,000-10,000	\$3.02
11,000-20,000	\$4.54
21,000-24,000	\$5.23
25,000 and greater	\$5.54

Proposed Residential Tier Structure for FY 17/18

First 3,000 gallons included in service charge

Gallons	Cost per 1,000 gal
4,000-9,000	\$3.13
10,000-18,000	\$4.70
19,000-24,000	\$5.57
25,000 and greater	\$6.07

City of Mesa CY2014 Residential Water Full Demand Capacity vs. Actual Usage



Water Utility Rate Recommendations

- All customers: 3.5% increase on all rate components
- Residential Service Charge: \$0.93 per month, from \$26.62 to \$27.55
- Residential average monthly seasonal consumption total bill: \$1.57, from \$44.74 to \$46.31
- The City average monthly consumption is about 9,000 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 9,000 gallons per month.

Wastewater Utility Rate Recommendations

- All customers: 4% increase on all rate components
- Residential Service Charge: \$0.72 per month, from \$18.08 to \$18.80
- Residential average monthly consumption total bill: \$1.12, from \$27.93 to \$29.05
- Wastewater rates are not subject to seasonality. The monthly rate is adjusted annually based on the winter water average usage of the individual customer



Downtown Start-Up Utility Rates

Downtown Start-Up Utility Rates

- Staff is in the process of designing a program to attract and stabilize small businesses
- Offers reduced electric and water rates (25% reduction)
- The incentive will last 3 years
- A business must meet certain requirements to qualify for the program



Summary

Proposed Changes to Reach Revenue Targets

	Prior Year FY 2017/18 Projection	FY 2017/18 Proposal
Electric	\$1.50	\$1.25
Gas	\$1.00	\$0.75
Water	4.5%	3.5%
Wastewater	5.0%	4.0%
Solid Waste	4.0%	3.5%

Average Residential Customer Impact

<u>Utility</u>	<u>Monthly</u>	<u>Annual</u>
Solid Waste	\$0.97	\$11.64
Water	\$1.57	\$18.84
<u>Wastewater</u>	<u>\$1.12</u>	<u>\$13.44</u>
Total	\$3.66	\$43.92
Electric	\$1.25	\$15.00
Natural Gas	\$0.75	\$9.00

Enterprise Fund Fiscal Impact

The FY 2017/18 recommended utility rate/structure adjustments are anticipated to meet the revenue increase target of \$9,474,000

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Enterprise Fund Reserves

	Actuals FY 15/16	Estimate FY 16/17	Forecast FY 17/18	Forecast FY 18/19	Forecast FY 19/20
Beginning Reserve Balance	\$47.0	\$68.7	\$82.1	\$74.7	\$68.4
Total Sources	\$334.8	\$351.8	\$364.3	\$377.9	\$393.3
Total Uses	\$313.1	\$338.4	\$371.7	\$384.2	\$395.6
Ending Reserve Balance	\$68.7	\$82.1	\$74.7	\$68.4	\$66.1
Ending Reserve Balance Percent*	20.3%	22.1%	19.4%	17.3%	16.0%

*As a % of all Next Year's uses of funding

in millions

A background image of a calendar page. The date 31 is highlighted in red, while other dates are in black. The calendar is tilted slightly to the right.

Schedule for FY 2017/18 Utility Rate Consideration

March 20 – Notice of Intent

April 13 – City Council
Discussion of Utility Rates

May 8 – Introduce Utility Rate
Ordinances

May 22 – City Council Action on
Utility Rates

July 1 – Effective date for Utility
Rate changes



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