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

Audit, Finance & Enterprise Committee
September 8, 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

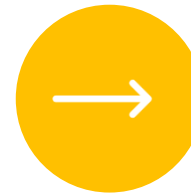
Financial Principles



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

A blue ribbon graphic with a folded end on the left side. The word "Water" is written in white, sans-serif font in the center of the ribbon.

Water

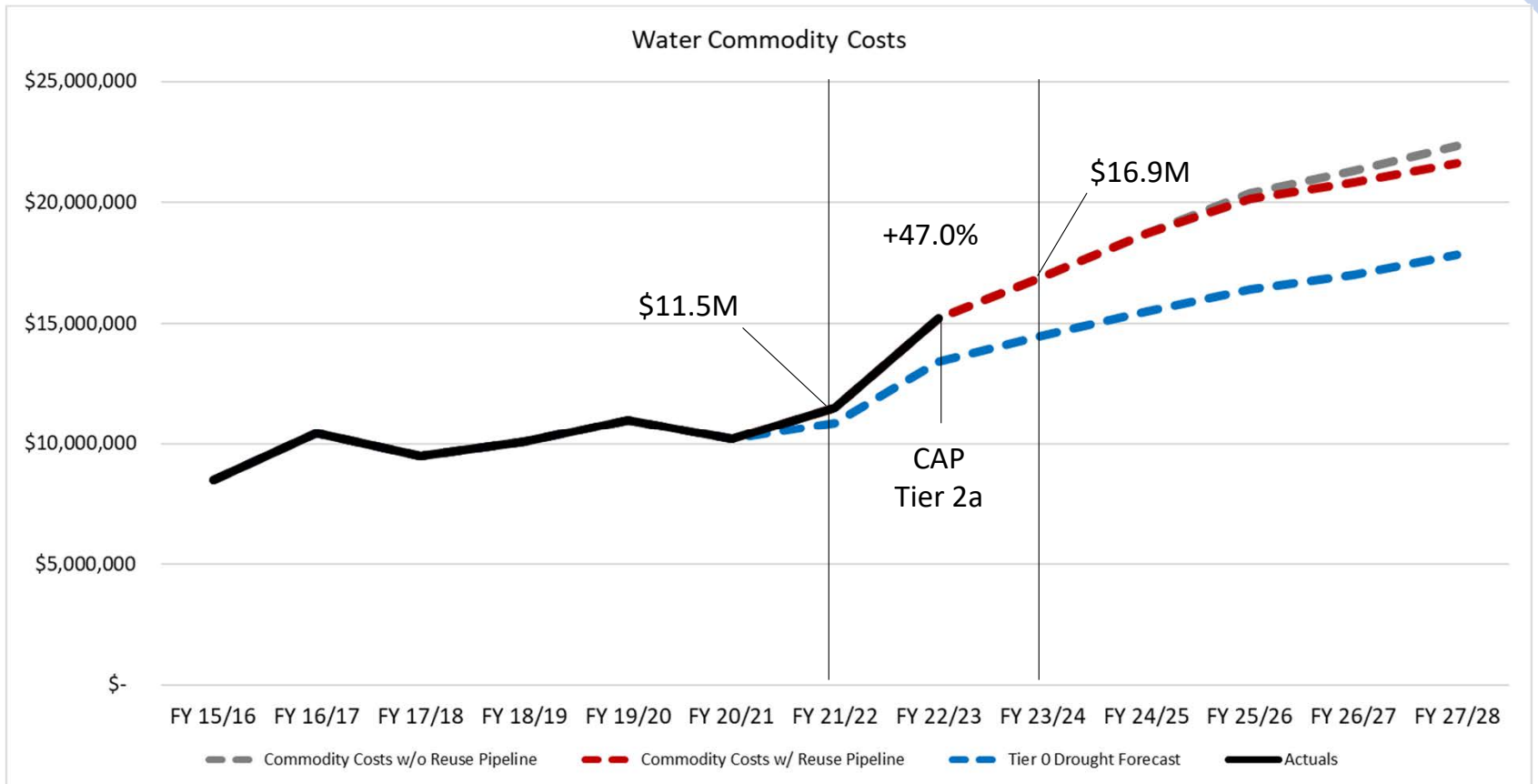
Increasing Costs/Pressures on the Utility

Water Utility



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

Increasing Costs/Pressures on the Utility



Drought Commodity Charge

Water Utility



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

Increasing Costs/Pressures on the Utility

Water Utility

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

Project Costs (Debt Service)



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



Interdepartmental Rate

Water Utility



Interdepartmental Rate

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



Water - Typical Customer



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

Wastewater

Increasing Costs/Pressures on the Utility



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

Wastewater - Typical Customer



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

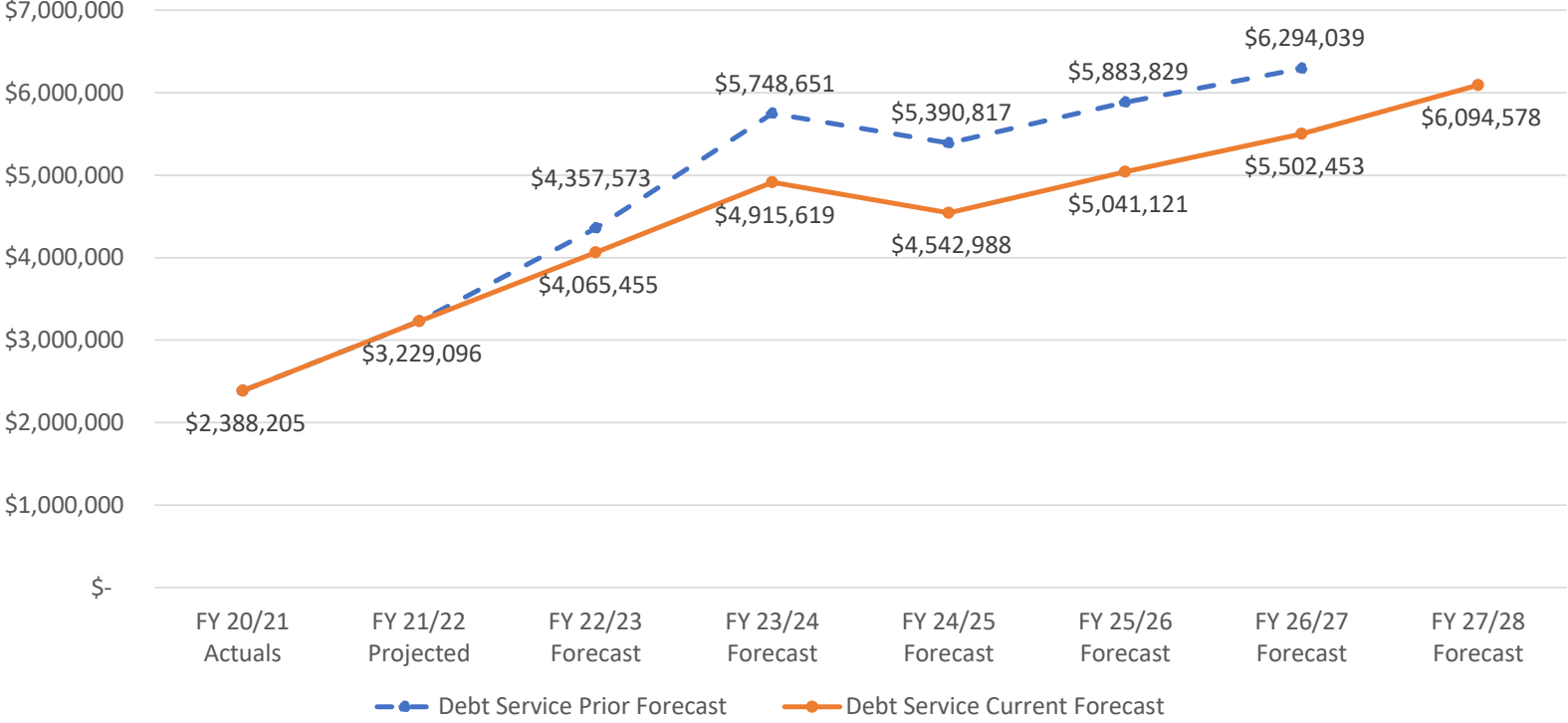
A blue ribbon graphic with a 3D effect, featuring a darker blue shadow on the left side. The word "Electric" is written in white, sans-serif font in the center of the ribbon.

Electric

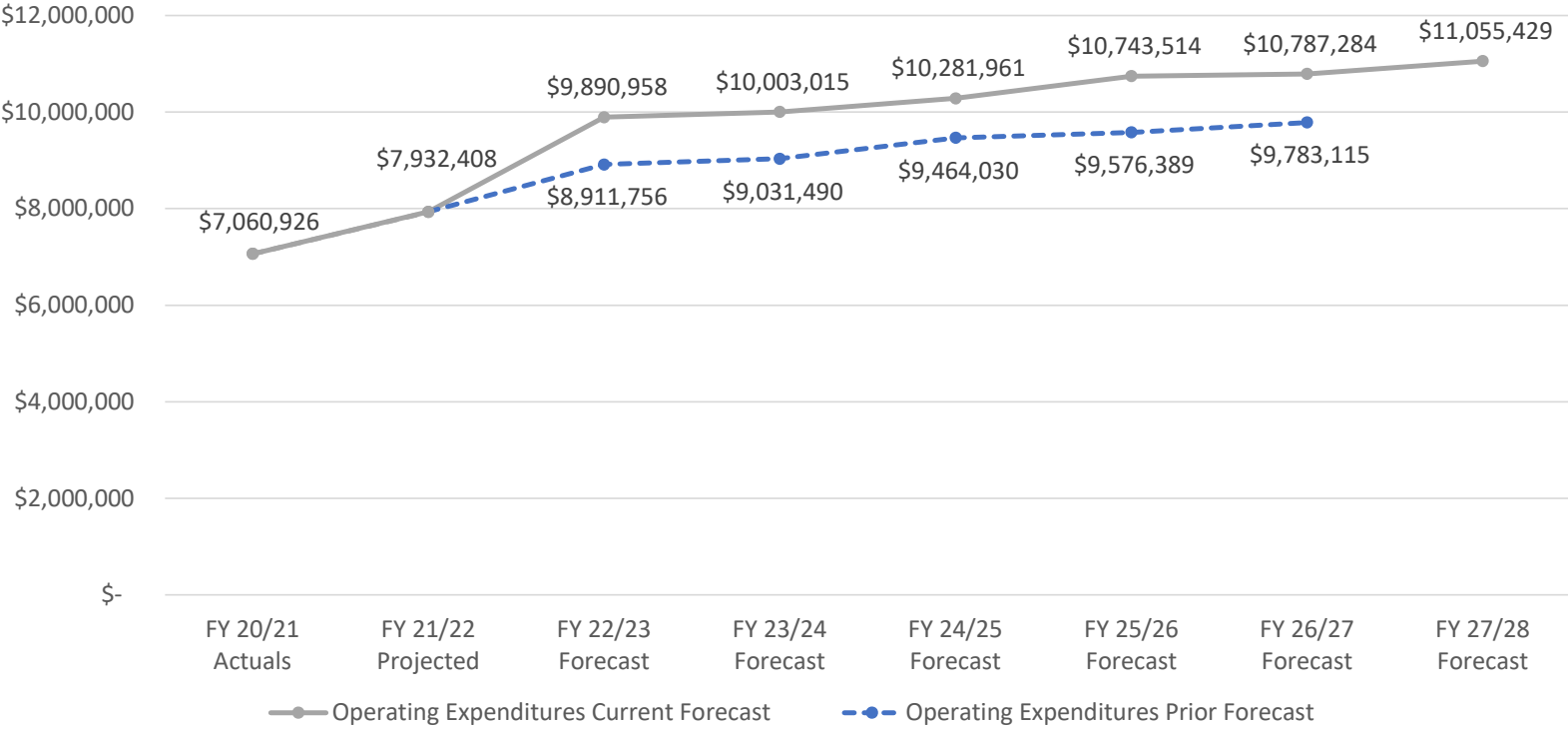
Increasing Costs/Pressures on the Electric Utility

- 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

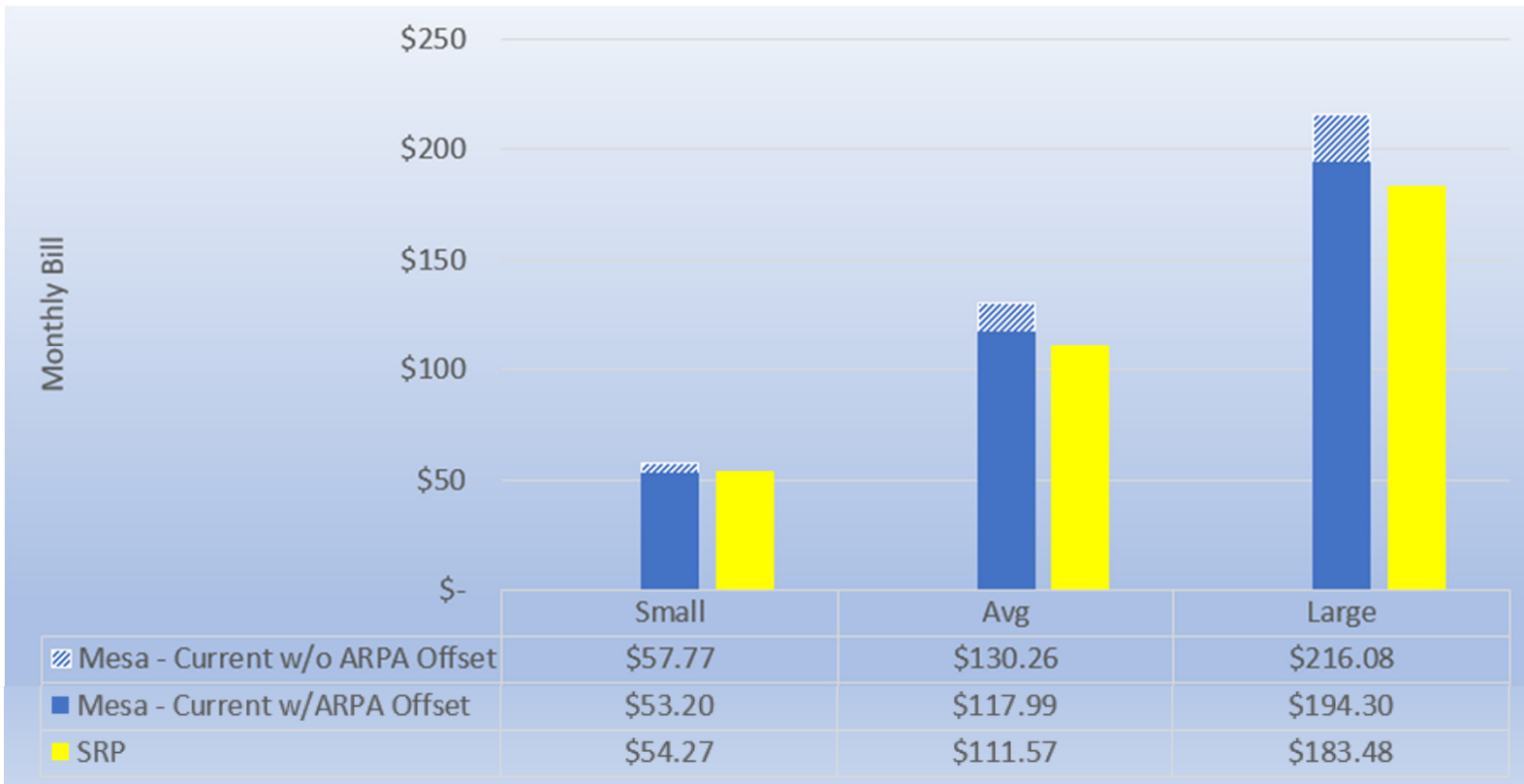


Increasing Operating Costs on the Electric Utility



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		\$0.0443
Off Peak	5:00 PM – 8:59 PM	5:00 AM – 10:59 PM	\$0.0222
Super Off-Peak	9:00 AM – 4:59 PM 9:00 PM – 10:59 PM 11:00 PM – 4:59 AM	11:00 PM – 4:59 AM	\$0.0055
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	5:00 AM – 10:59 PM	\$0.0232
Super Off-Peak	11:00 PM – 4:59 AM	11:00 PM – 4:59 AM	\$0.0073
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	5:00 AM – 10:59 PM	\$0.0237
Super Off-Peak	11:00 PM – 4:59 AM	11:00 PM – 4:59 AM	\$0.0076

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

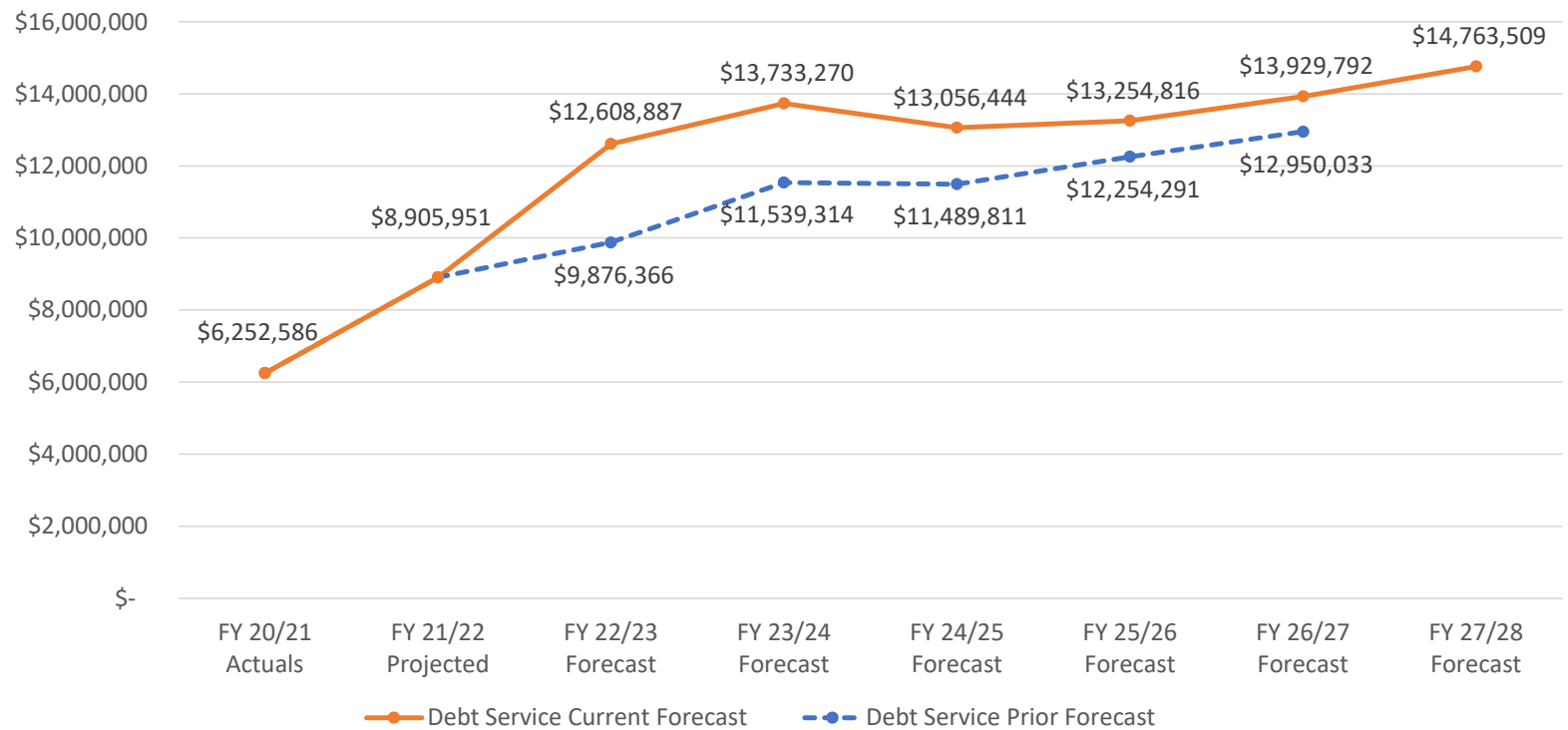
A blue ribbon graphic with a 3D effect, featuring a darker blue shadow on the left side. The word "Gas" is written in white, sans-serif font in the center of the ribbon.

Gas

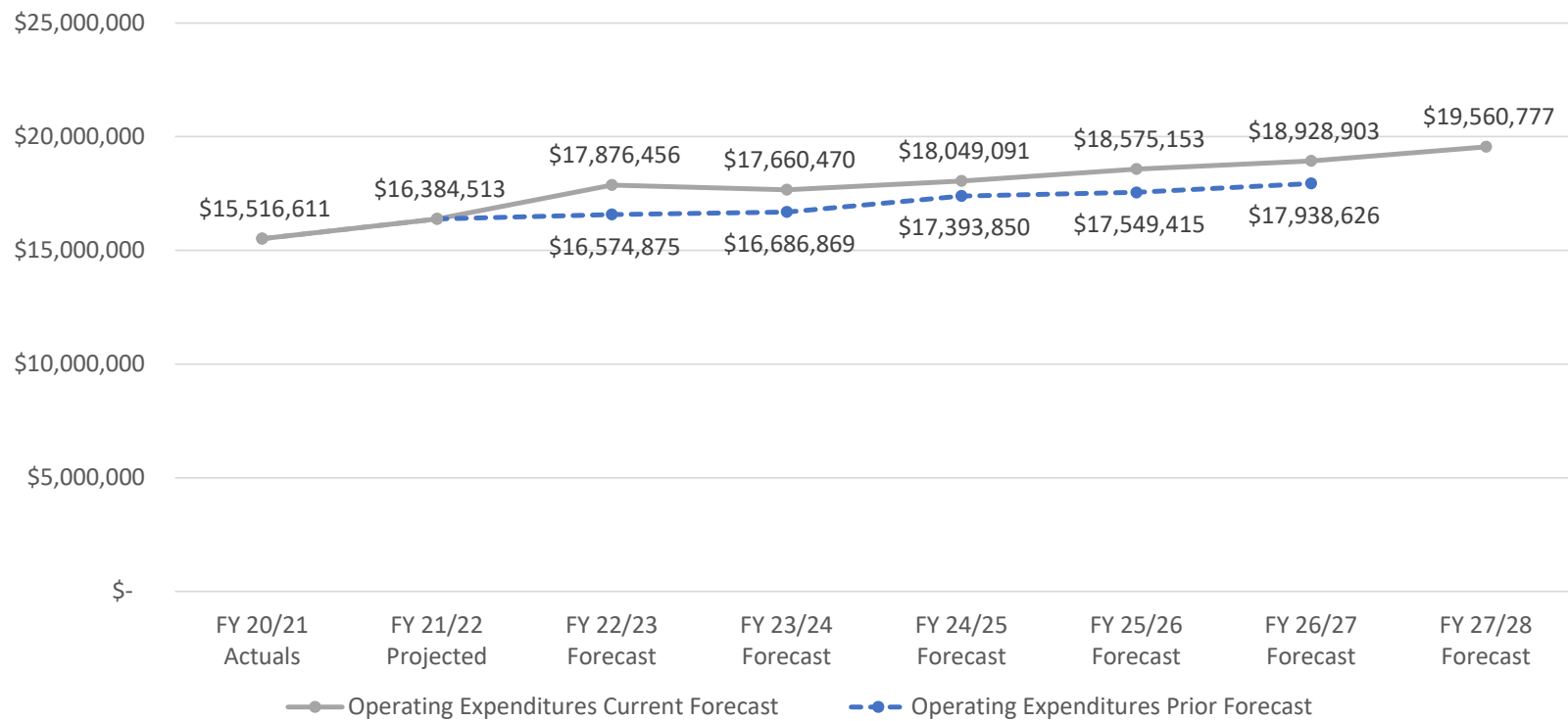
Increasing Costs/Pressures on the Gas Utility

- 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

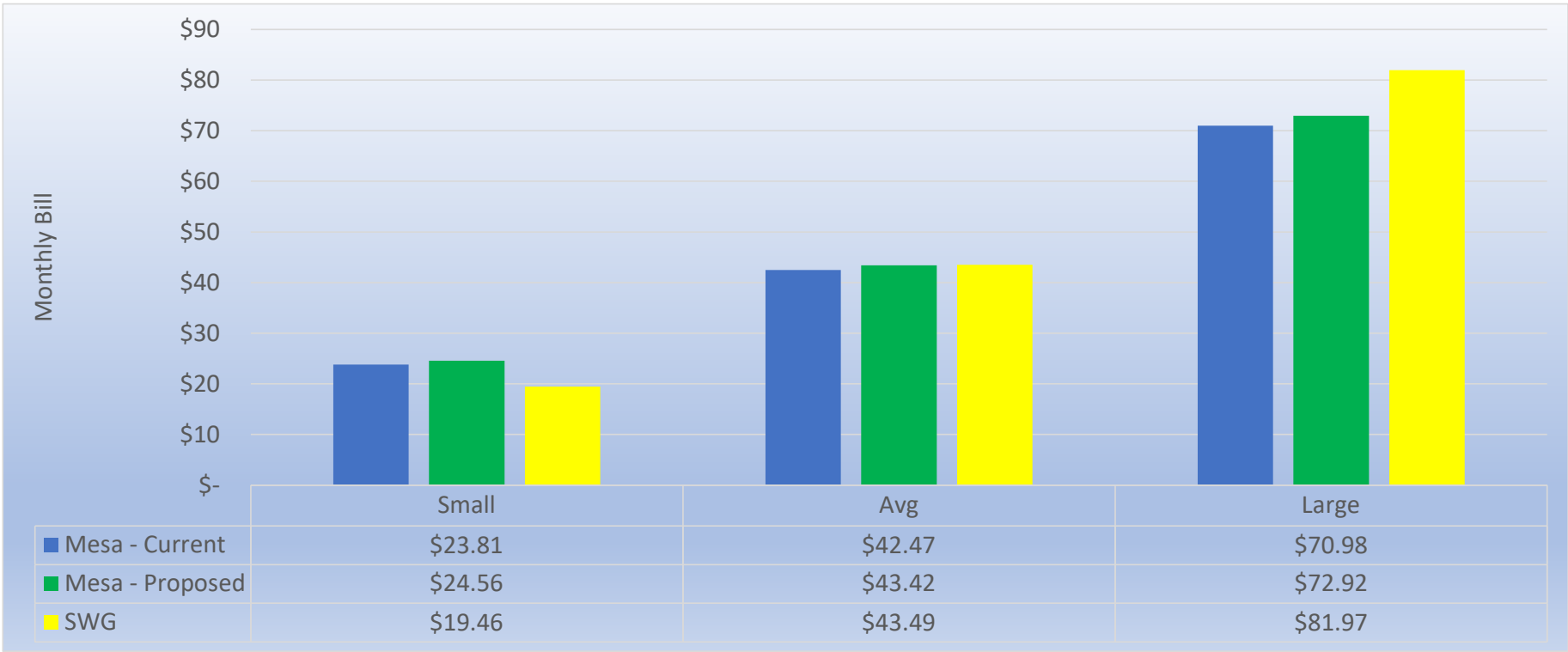
Increasing Debt Service Costs on the Gas Utility



Increasing Operating Costs on the Gas Utility



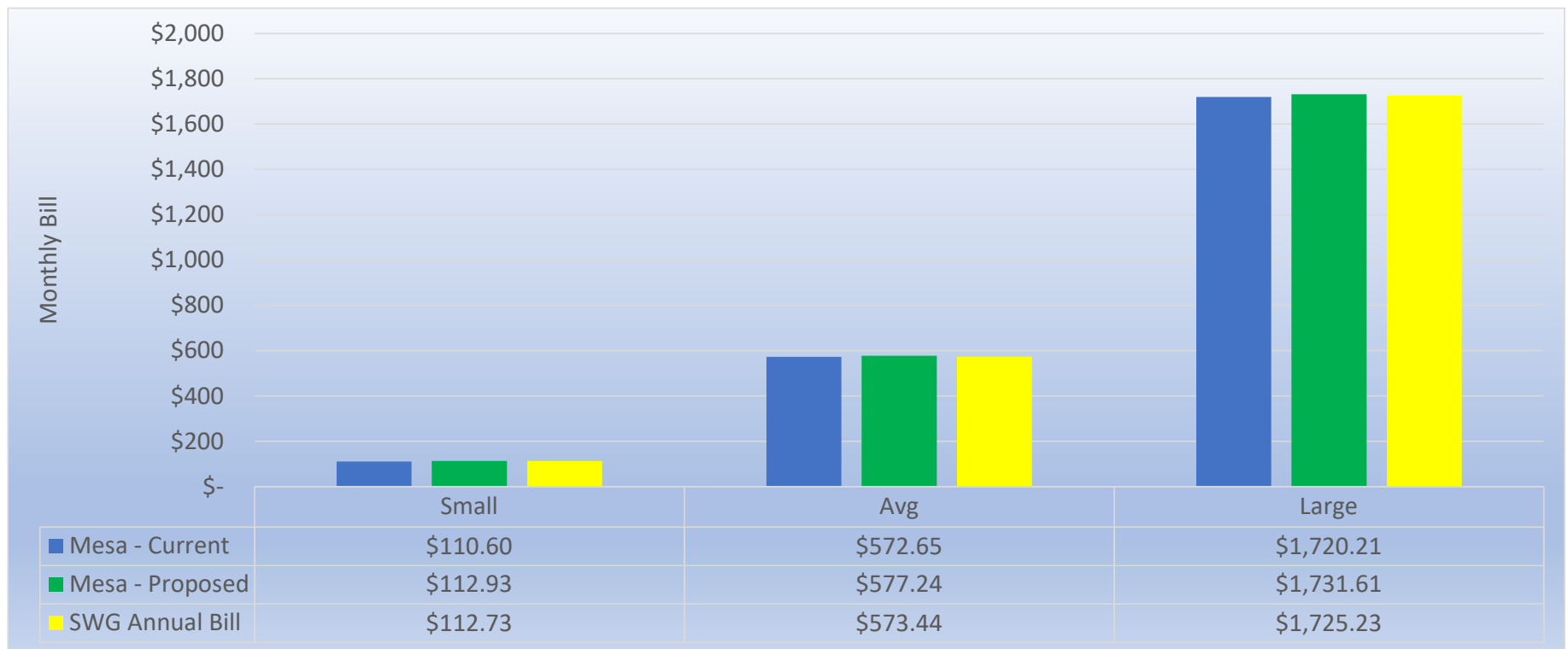
Residential Gas Bill Comparison



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

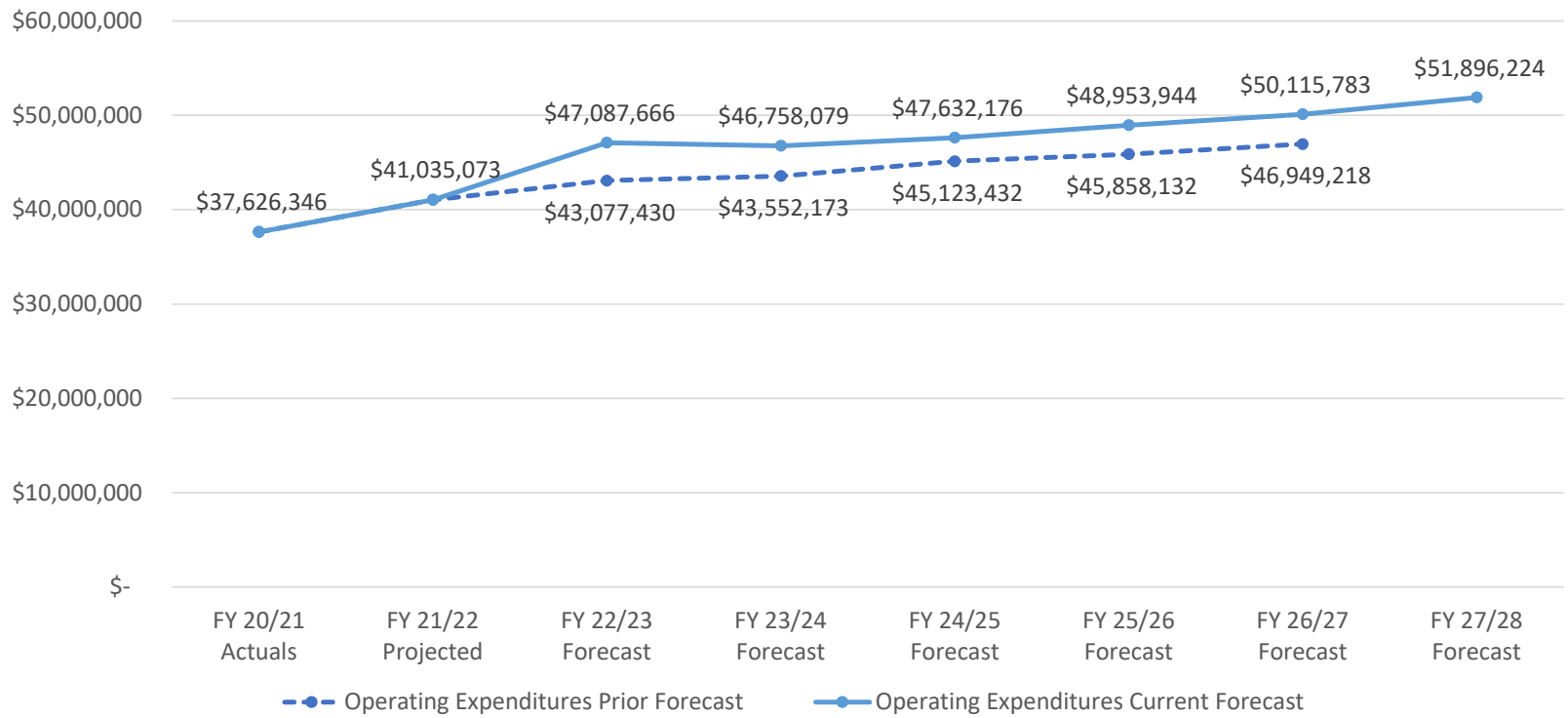
- Removal of electric direct access service (residential & commercial)
- Eliminate the following natural gas rates (10+ years no customers):
 - Lamp rate
 - AC rate
 - Seasonal service
 - Irrigation pumping service

Solid Waste

Increasing Cost Pressures On The Utilities

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

Increasing Operating Costs on Solid Waste



Solid Waste Residential Rate Recommendation

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

COMPARISON TO OTHER CITIES

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

Bulk Item and Homeowner's Landfill

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

Commercial Front Load Trash Recommendations

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

Commercial Front Load Trash Recommendations

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



Commercial Front Load Cardboard Recommendations

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

Commercial Roll Off Recommendations

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

Commercial Roll Off Recommendations

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

Utility Fund Forecast

Utility Fund Forecast: FY 22/23 Recommended Rate Adjustments

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

Recommended rate adjustment decrease compared to adopted budget forecast.

Schedule for FY 2022/23 Utility Rates Adjustment Recommendation

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



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