

A blue ribbon graphic with a 3D effect, featuring a lighter blue top surface and a darker blue bottom surface, framing the text on the left side of the slide.

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

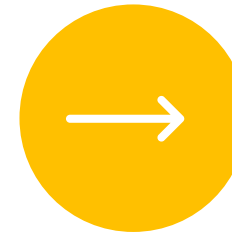
Financial Principles



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

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Water

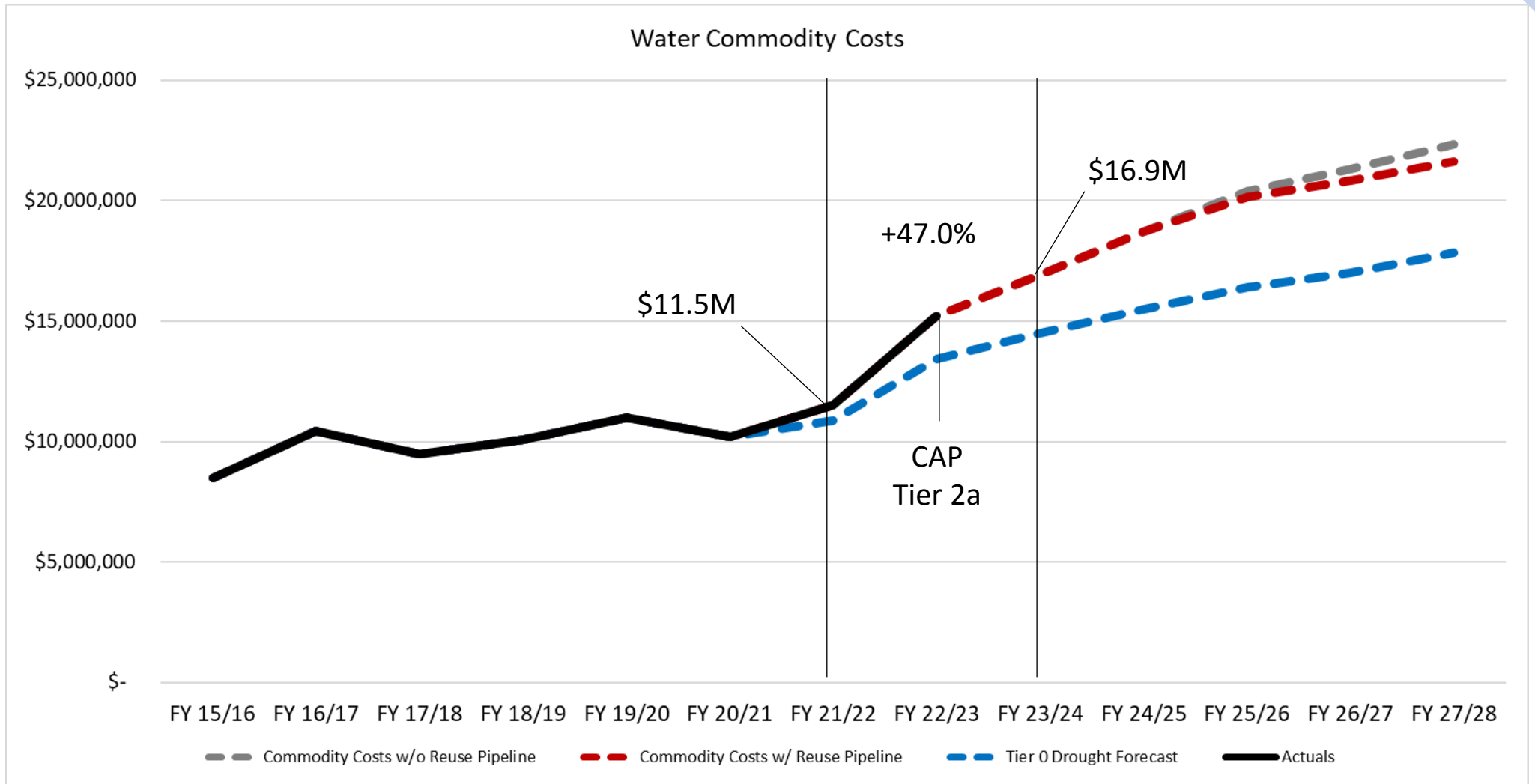
Increasing Costs/Pressures on the Utility

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 | | Service Charge | 4.25% |
| | | Usage Charge | 4.25% |
| | \$23.92/mo. | \$24.93/mo. (\$1.01/mo.) | |
| Commercial | | Service Charge | 4.50% |
| | | Usage Charge | 4.50% |
| | | Surcharge | 4.50% |
| | \$47.77/mo. | \$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

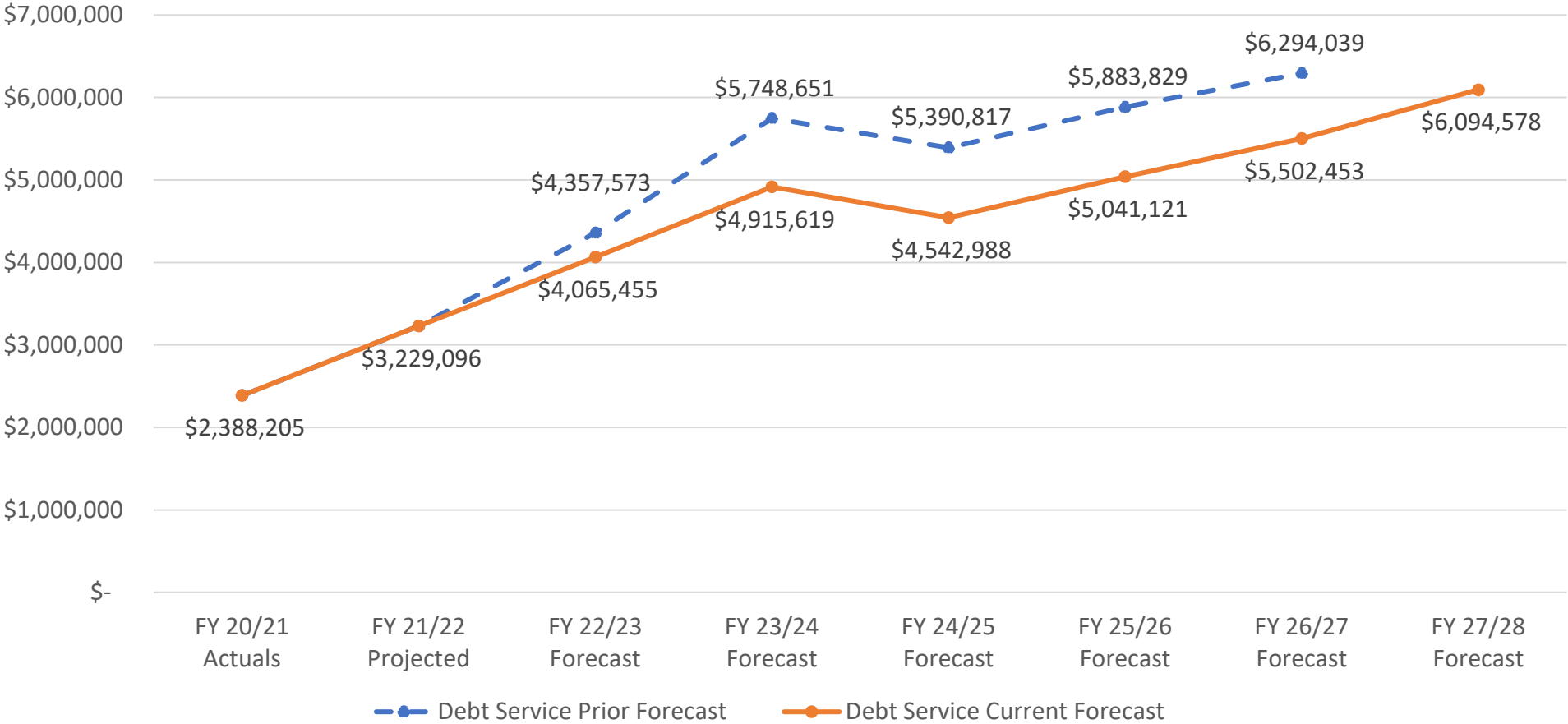
A blue ribbon graphic with a 3D effect, featuring a darker blue shadow on the left side. The word "Electric" is written in white, sans-serif font in the center of the ribbon.

Electric

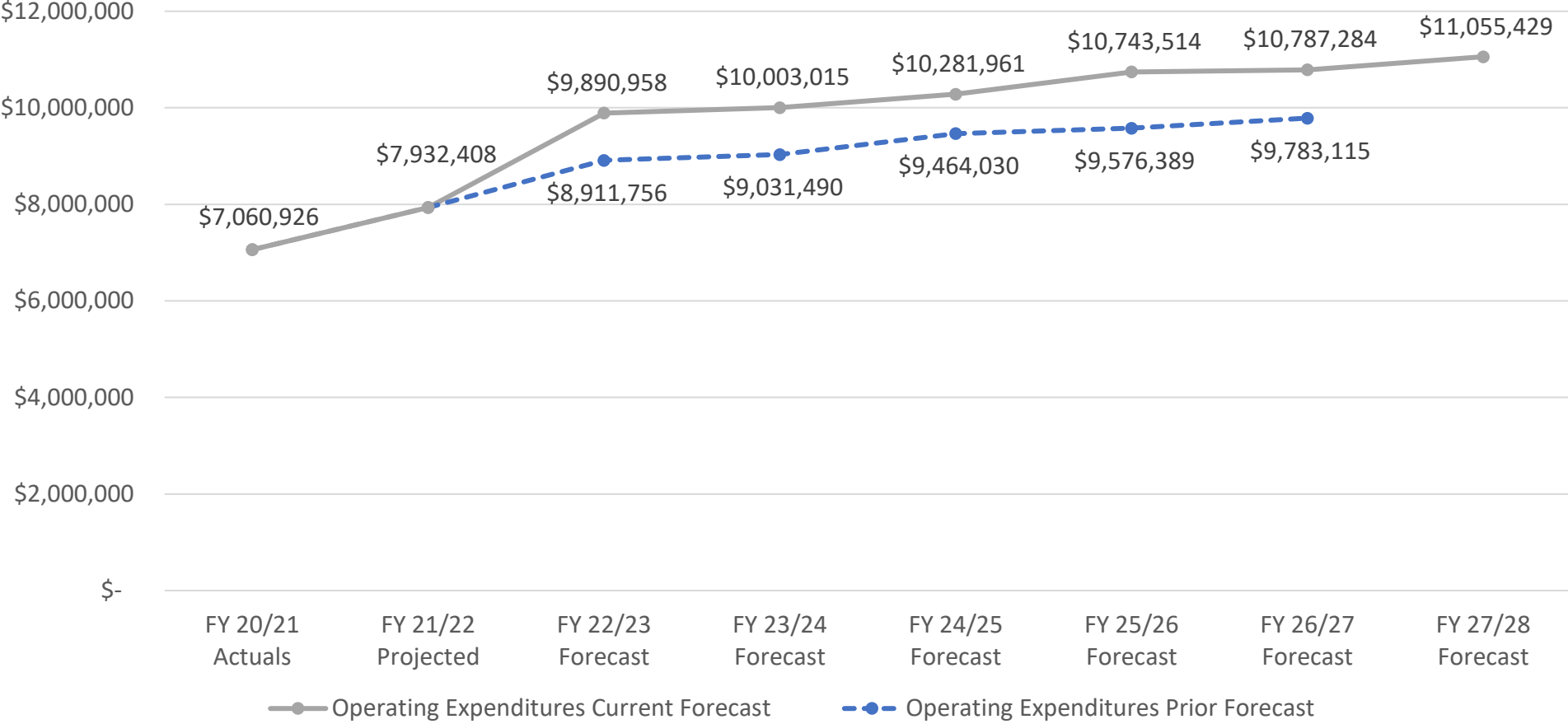
Increasing Costs/Pressures on the Electric Utility

- 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

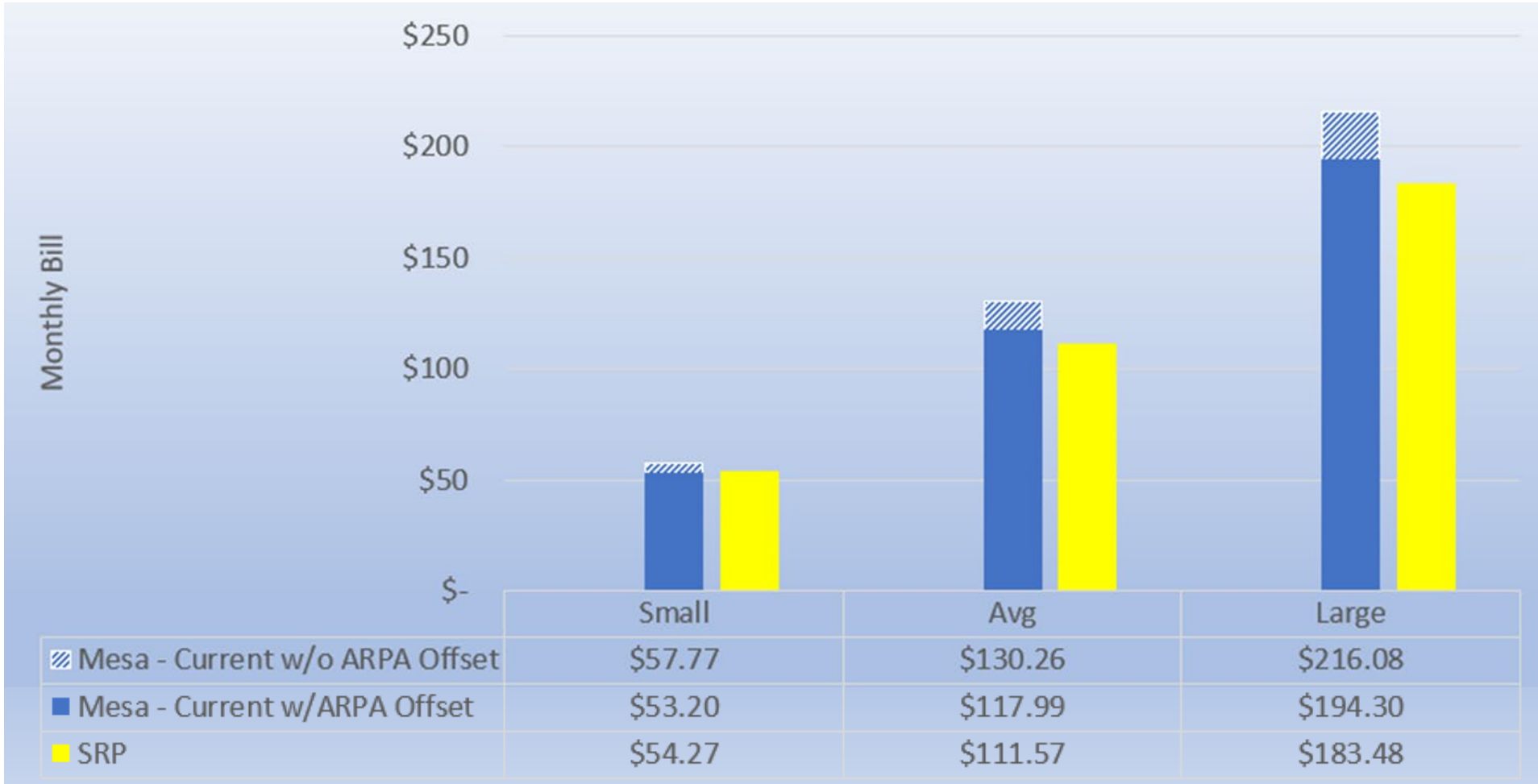


Increasing Operating Costs on the Electric Utility



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 |

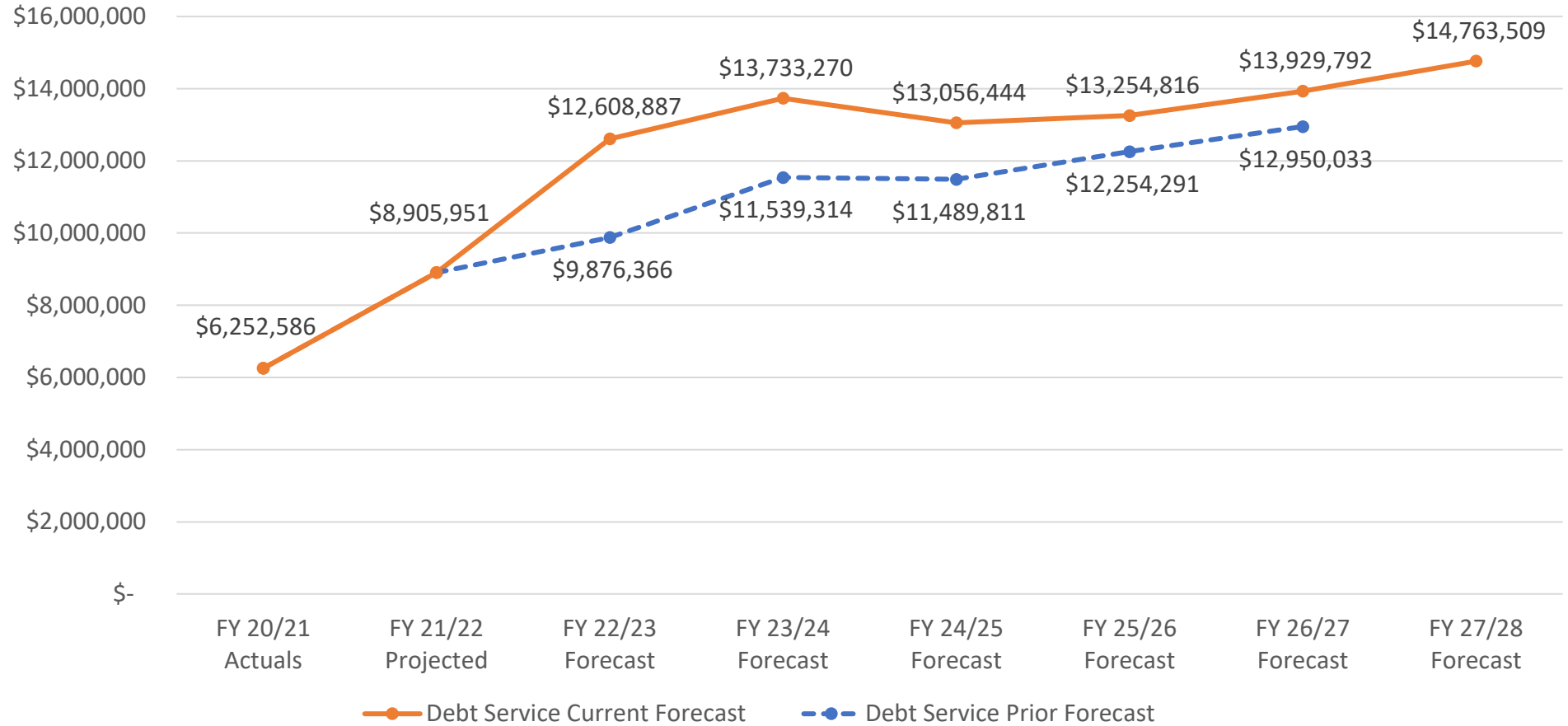
- Subject to meter availability and smart meter communications
- Customers must have a qualified Battery Electric Vehicle or Plug-in Hybrid
- Additional work required on CIS system

Gas

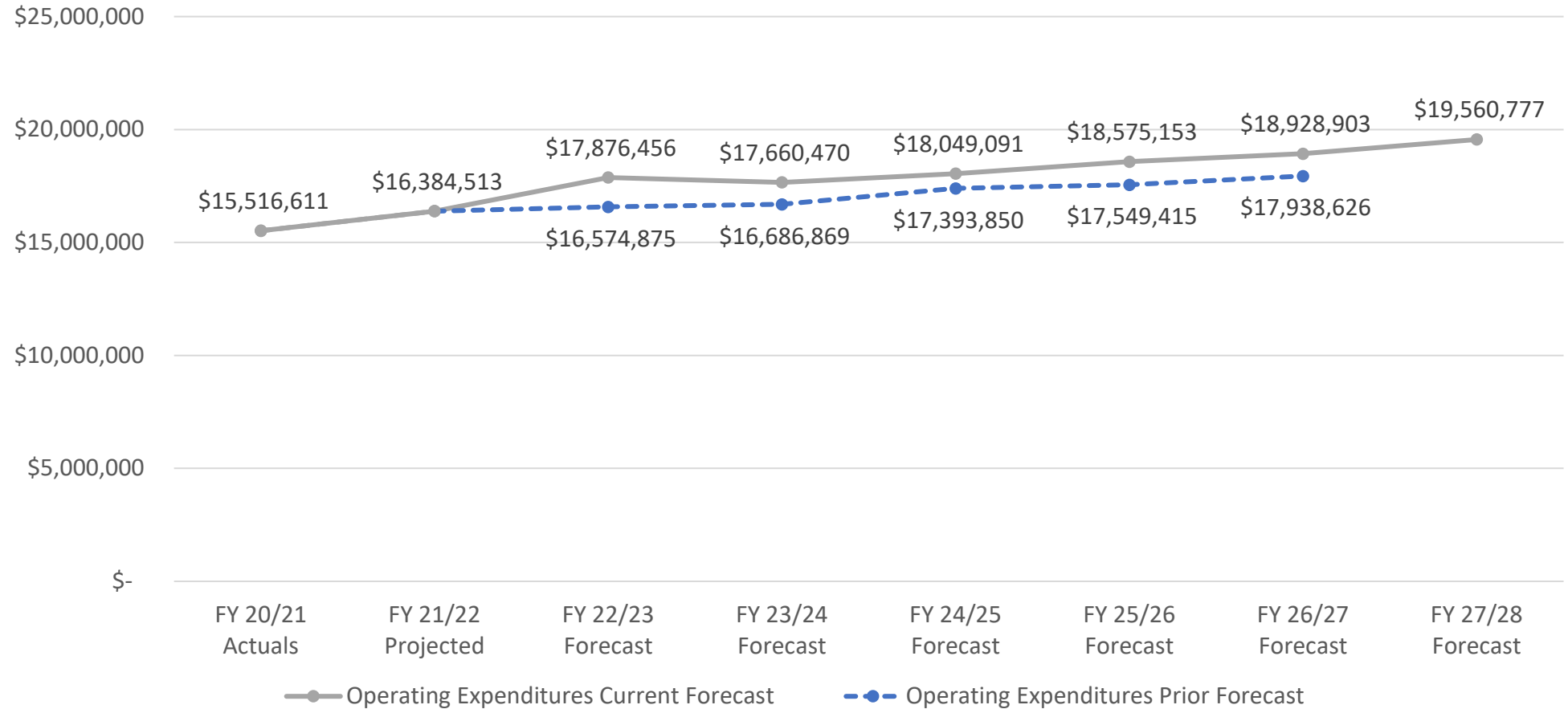
Increasing Costs/Pressures on the Gas Utility

- 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

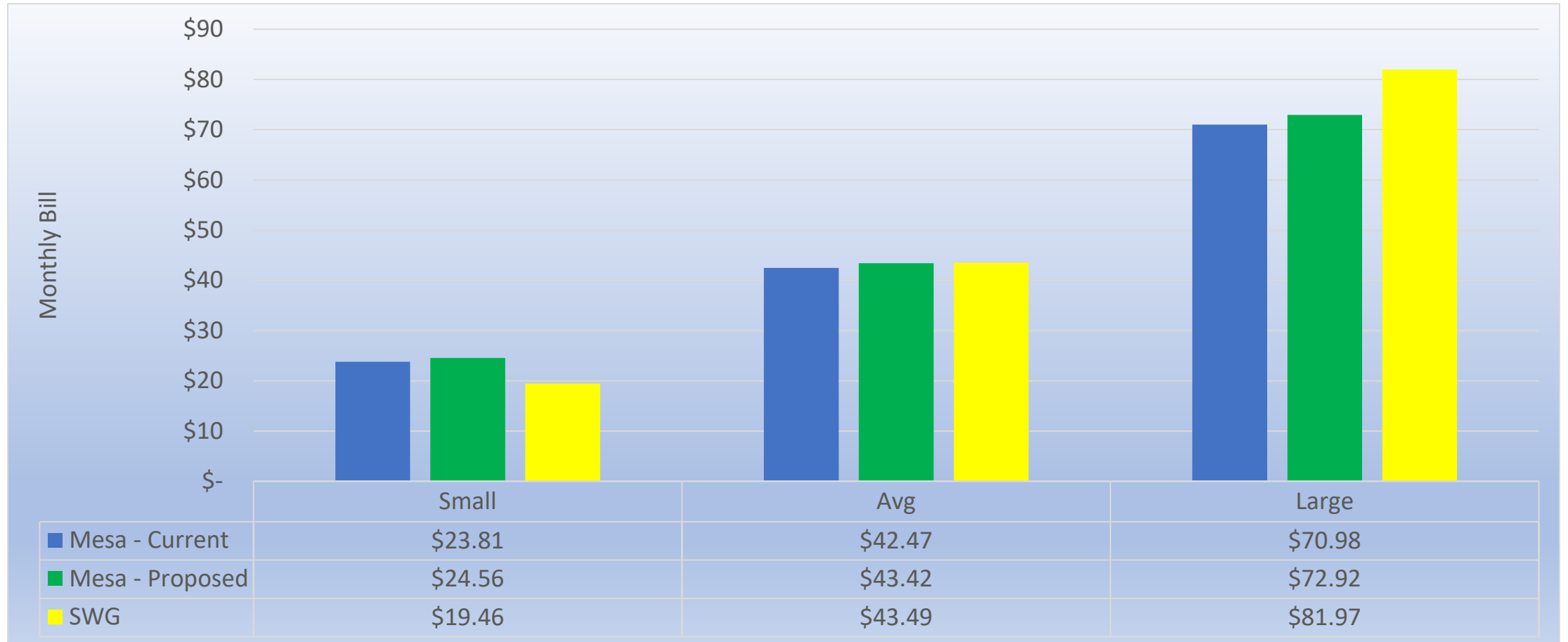
Increasing Debt Service Costs on the Gas Utility



Increasing Operating Costs on the Gas Utility



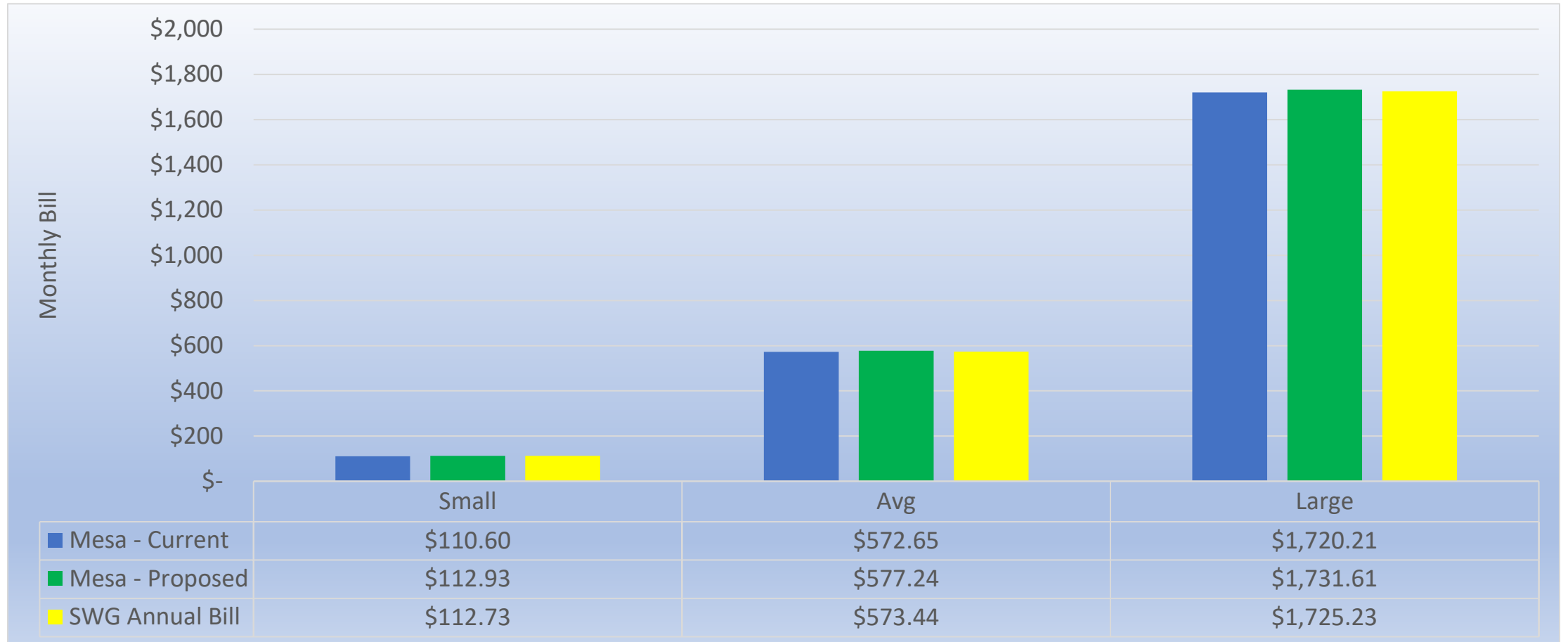
Residential Gas Bill Comparison



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 |
| 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

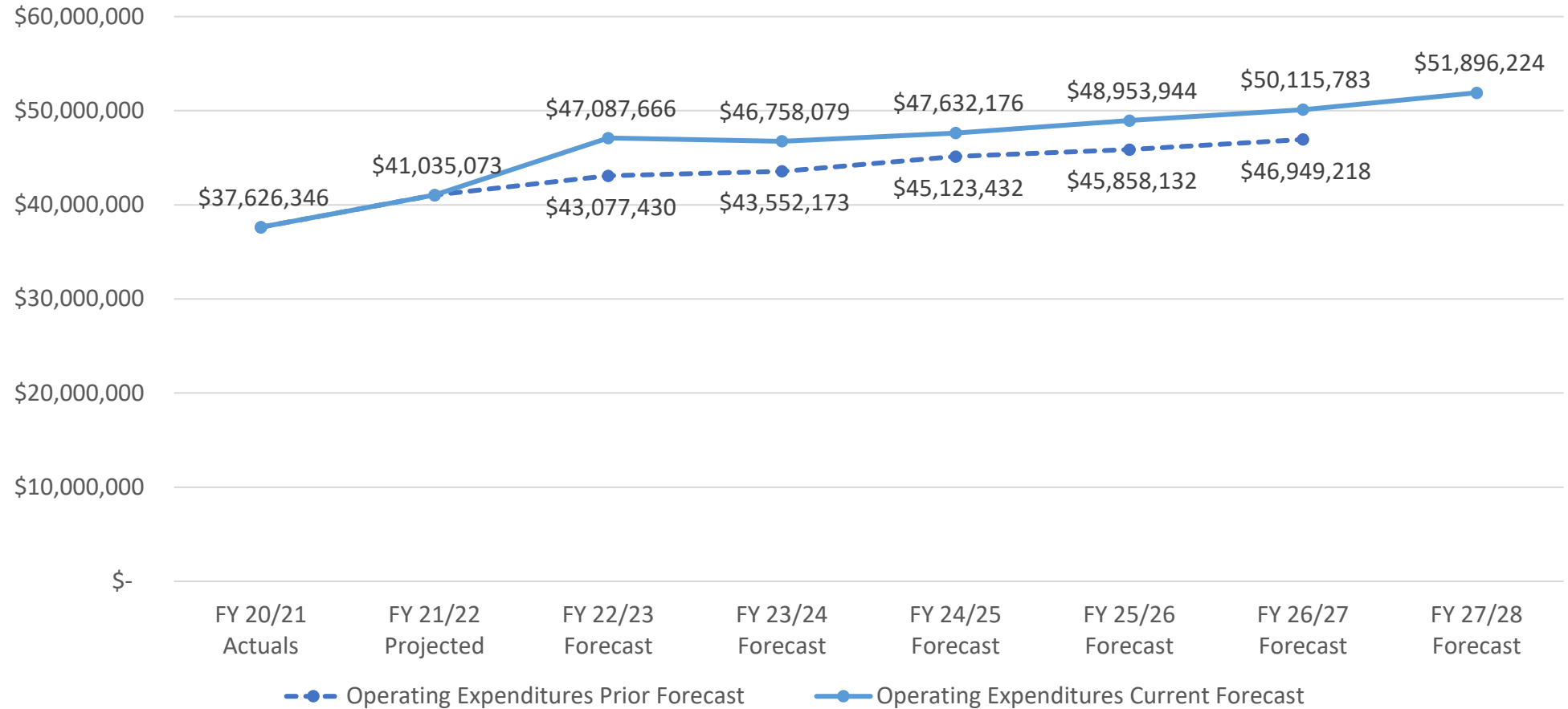
- Removal of electric direct access service (residential & commercial)
- Eliminate the following natural gas rates (10+ years no customers):
 - Lamp rate
 - AC rate
 - Seasonal service
 - Irrigation pumping service

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 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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