



AUDIT, FINANCE & ENTERPRISE COMMITTEE

September 10, 2020

The Audit, Finance & Enterprise Committee of the City of Mesa met via a virtual format streamed into the lower level meeting room of the Council Chambers, 57 East 1st Street, on September 10, 2020, at 9:03 a.m.

COMMITTEE PRESENT

Jennifer Duff, Chairperson*
Mark Freeman*
David Luna*

COMMITTEE ABSENT

None

STAFF PRESENT

Christopher Brady
Dee Ann Mickelsen
Jim Smith

(*Committeemembers participated in the meeting through the use of video conference equipment.)

Chairperson Duff conducted a roll call.

1. Items from citizens present:

There were no items from citizens present.

2-a. Hear a presentation, discuss, and provide a recommendation on proposed utility rate adjustments.

1. Utility Enterprise Operations

Office of Management and Budget Assistant Director Brian Ritschel displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Ritschel commented each utility is operated as a separate business center, the reserve balance can be used to smooth rate adjustments and can be used to phase in new programs or changes in operations. (See Page 2 of Attachment 1)

Mr. Ritschel highlighted the five financial principals used when creating the utility rate forecast. (See Page 3 of Attachment 1)

Mr. Ritschel reviewed the Utility Enterprise Fund Forecast which was created for planning purposes only, with no rate adjustments. He explained this forecast project smooth

adjustment rates and affordable services for customers but creates an impact on the utilities. (See Page 4 of Attachment 1)

Mr. Ritschel presented an overview of the Utility Enterprise Fund Forecast with balanced net sources and uses, stating four of the five financial principles are met under this plan. He stated the rate adjustments create an impact on customers due to the higher rates. (See Page 5 of Attachment 1)

Mr. Ritschel outlined the Utility Enterprise Fund Forecast with draw down rate adjustments, which is a planning only document, to verify whether the Budget Department is able to decrease the rate adjustments with a 0% increase on residential utilities. (See Page 6 of Attachment 1)

Mr. Ritschel presented the finalized recommended rate adjustments as well as the expenses from each utility department. He mentioned the goal of the utility rate adjustments are to work towards balancing the Net Sources and Uses, while also maintaining 20% in the ending reserve balance. He stated having the smoothed rate adjustments throughout the forecast helps the equity between residential and nonresidential rate classes, while maintaining the affordability for customers. (See Page 7 of Attachment 1)

In response to a question from Committeemember Freeman, Mr. Ritschel explained the recommendation is for an adjustment increase of 1.5% each year for the residential water utility.

City Manager Christopher Brady noted the Budget Department staff are requesting the Committee make a recommendation to the full council, who will then take action to provide notice of the increases to the utility rates.

2. Water and Wastewater

Water Resources Department Director Jake West introduced Management Assistant II Erik Hansen who displayed a PowerPoint presentation. **(See Attachment 1)** He commented that the presentation included recommendations for the updated water and wastewater rates.

Mr. West stated the increased water rates are due to operating expenses and debt service transfer costs. He mentioned the City of Mesa is discussing an expansion of the Signal Butte Water Treatment Plant. (See Page 9 of Attachment 1)

Mr. Hansen provided a brief overview on rate structure adjustments and noted the recommendation will be a one and a half percent increase for water and a three to four percent increase for wastewater. (See Page 10 of Attachment 1)

Mr. Hansen explained the importance of using the residential water tiers is to help maintain water capacity within the system to serve all users. He mentioned the City uses tiers to shift and/or actively recuperate costs from the heavy users. He stated the tiered system has been slowly implemented since 2015. (See Page 11 of Attachment 1)

In response to a question from Chairperson Duff, Mr. Hansen stated a kilo gallon (kgal) is equal to 1000 gallons of water.

Mr. Hansen presented an overview of the increased water and wastewater utility rates for residential, commercial, and commercial landscaping. (See Pages 12 and 13 of Attachment 1)

In response to a question from Chairperson Duff, Mr. Ritschel explained the typical residential water customer uses approximately 6,000 gallons of water monthly.

In response to a question from Committeemember Luna, Mr. Brady noted that customers can view their water utility usage on the City of Mesa online customer portal.

Office of Management and Budget Director Candace Cannistraro stated the current portal will show only previous months water usages since meters are read once per month. She commented the City hoped to launch the Smart Metering project next year, and that it would allow customers to receive real time meter readings within 24 hours. She anticipated the Smart Metering project will be a way to become more proactive with customers regarding their utilities.

Committeemember Luna commented the Smart Metering project will be great for the seasonal visitors while they are away to help detect leaks or misuse in water.

In response to multiple questions from Chairperson Duff, Ms. Cannistraro stated the goal of the Mesa Now application is to interface all the City's departments into one portal, so customers do not have to log into multiple sites. She explained customers will need to setup the proactive notifications within the application to receive alerts if the water or electric services are overused or shut off temporarily due to complications. She reported the Smart Metering project will be launched in two phases, with the first phase implementing all three commodity meters in four distinct areas, that will take one year to complete. She shared if the first phase is successful the Smart Metering project will be launched throughout the City over the next four years.

In response to a question from Committeemember Freeman, Ms. Cannistraro explained the City is currently in the process of finding a solution for those who do not have access to the Smart Metering portal.

3. Solid Waste

Deputy Solid Waste Director Patrick Murphy introduced Senior Fiscal Analyst Sheri Collins who displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Murphy reviewed Solid Waste utility rate increase recommendations for residential barrels, commercial front load rates, commercial roll off rates, bulk items, and hazardous household material (HHM) rates. He stated the Green Sweep Clean Sweep program does not include recommendations for rate increases. (See Page 15 of Attachment 1)

Mr. Murphy presented the proposed rate increases for front load base rates, multiple day and bin discounts, and implementing fees for bin set and removal. (See Page 16 of Attachment 1)

In response to a question from Chairperson Duff, Mr. Murphy explained the new fees being recommended will help recover costs for deliveries and pick-ups of all solid waste bins.

Mr. Murphy provided an example of why the City is charging customers for the front load set fees. He explained the City is charging set fees to cover the costs of staffing, vehicles, and equipment versus adding additional rate increases.

In response to a question from Chairperson Duff, Mr. Brady explained the front load bins are large dumpsters for commercial users, and the City must be competitive with the bin rates of other companies.

In response to a question from Chairperson Duff, Mr. Murphy stated the front load bins are for businesses, and the roll off containers are used for construction sites and the neighborhood clean-up program. He noted the City charges a \$90 bin change fee to cover the costs of picking up the original bin and setting a new one for the commercial customer.

In response to multiple questions from Committeemember Freeman, Mr. Brady reported Leisure World, a County Island in Mesa, has requested to add the HHM program to their monthly City of Mesa wastewater services bill. He stated the City will charge Leisure World residents an additional forty-one cents to their monthly bill. He mentioned other users cannot be billed for the HHM program unless they are an existing customer for a Mesa utility prior to adding the additional fee.

In response to a question from Chairperson Duff, Mr. Brady shared a presentation is being prepared regarding the recycling program.

Mr. Murphy presented the rate increases for roll off dumpsters. (See Page 17 of Attachment 1)

In response to a question from Chairperson Duff, Mr. Murphy explained dumpster blockages and overloading has become more of an issue, resulting in a recommended \$25 increase.

In response to multiple questions from Mr. Brady, Mr. Murphy stated in residential areas citizens will park in front and behind the dumpsters, making it impossible to pick up the dumpster. He added another common problem is overloading the dumpster resulting in another process of transferring the overage amounts into another bin. He reported the City must adhere to the Bridge Law, which states the weight requirements for dumpster containers.

In response to a question from Chairperson Duff, Mr. Murphy stated residents are notified of the dumpster requirements prior to the delivery of the container.

Mr. Murphy presented the rate increase recommendation for cardboard commercial recycling and explained how the front load commercial commingling dumpster program is being eliminated due to the high cost of the program. He added the City will continue with a cardboard recycling program since there is a vendor that accepts the material, and that there are still many commercial customers who produce a large number of cardboard recyclables. He mentioned the cardboard material is increasing in value. (See Page 18 of Attachment 1)

In response to a question from Chairperson Duff, Mr. Murphy reported glass has not been recycled in many years and is currently being crushed and repurposed as landfill cover to keep the dust under control.

In response to a question from Committeemember Freeman, Mr. Murphy indicated the City is in search of a cardboard recycling center for residents.

4. Electric Service

Energy Resources Department Director Frank McRae introduced Senior Fiscal Analyst John Petrof who displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. McRae reviewed a chart showing annual residential electric rate comparisons between the current billing rate, the new billing rate, and Salt River Project (SRP) for March 2021 to February 2022. (See Page 22 of Attachment 1)

Mr. McRae presented the proposed system services change to increase one dollar per month. He reported the change in the Tier 1 rate would be a one percent increase during summer and a five percent increase for usage in the winter. He indicated the Electric Energy Cost Adjustment Factor (EECAF) is the energy supply cost that is charged monthly. (See Page 24 of Attachment 1)

In response to a question from Chairperson Duff, Mr. McRae explained the tier level in the summertime is 1200-kilowatt hours (kWh) per month, and in the winter, it is 800 kWh per month. He continued by stating instead of increasing the rate from tier one to tier two, it is a decreased rate.

Mr. McRae pointed out staff is not proposing increases to the non-residential or commercial class of customers. He mentioned there are uniquely different developments coming into the electric services area such as non-residential and commercial customers generating the majority of their own electricity with solar panels. He stated solar panels are encouraged but do cause the City financial implications when combined with self-generating electricity, meaning the City will have a difficult time recovering costs invested in infrastructure to serve customers. He noted the City has compared the stand-by rate to the typical commercial rate for summer, winter and three phase services rates. He shared the difference between the commercial rates and the stand-by rates and stated the City will eliminate the demand charge for the stand-by service and replace it with a facilities charge instead. He added the billing will be based on a negotiated agreement through the contract regarding the size of the electrical infrastructure for equipment installed to serve customers if their onsite generation does not work. (See Page 28 of Attachment 1)

In response to a question from Chairperson Duff, Mr. McRae explained currently 20% of annual energy requirements are met with renewable energy that comes from hydroelectric resources. He stated the customer owned solar program contributes one percent of annual energy requirements. He reported there are roughly 60 solar panel customers between residential and commercial users in the City of Mesa.

In response to a question from Committeemember Freeman, Mr. McRae stated the City continues with programs to encourage residential and commercial customers to install solar

on their homes and/or facilities. He mentioned there will be certain circumstances where the City will need to apply the stand-by rate to ensure recovery of energy costs. He shared the City goes out to wholesale competitive markets to solicit solar supplies to add to the City's portfolio. He reported the City will be adding solar to the Arizona State University (ASU) building and other buildings within the City Center project. He pointed out the City is also cautious about bringing in solar as there is less productivity at higher temperatures, and peaks at noon while customer demand peaks between 4:00 p.m. to 7:00 p.m.

5. Natural Gas Service

Energy Resources Department Director Frank McRae introduced Senior Fiscal Analyst John Petrof who displayed a PowerPoint presentation. **(See Attachment 1)** He presented the proposed natural gas service rate adjustments.

Mr. McRae presented the current annual and proposed rates in comparison to the annual rates from Southwest Gas (SWG). He stated the average and large user customers compare well to SWG, and the smaller customers in the City have higher rates due to a rate design change from the Arizona Corporation Commission. He reported small usage customers consume six therms per month with the bill increasing 1.2%, average customers use 22 therms per month and their bill will rise 1.3%, and large usage customers consume 48 therms raising their bill 2.6%. He shared the average customer bill will be 10% to 30% less than SWG depending on how many therms per month are consumed. (See Page 32 of Attachment 1)

Mr. McRae presented the proposed increase to the system service charge, which has a different amount for each summer and winter, but the increase would be 25 cents per month. He stated the reason for the proposed rate increase is that it is the only way to affect the small user group, and the other changes to the Tier 2 rates typically would not play a roll in affecting the small user rates. (See Page 34 of Attachment 1)

Mr. McRae summarized and compared the annual current and proposed commercial small, average, and large customer bills to SWG. He reported the commercial customer usages with the proposed rate adjustments for small, average and large usage customers; small customers use 59 therms per month with the bill increasing 2.3%, average customers use 454 therms per month with an increase of one-half of 1%, and large customers use 1446 therms per month with an increase of 1.8%. He noted in terms of comparison with SWG, the difference in proposed rates for small, average, and large commercial users range from 3% to 5.5%. (See Page 35 of Attachment 1)

Mr. McRae proposed a two dollar per month increase on the system services charge, and the increase for Tier 2 rates are a 3% increase for both summer and winter. He noted an adjustment on the threshold for Tier 2 increased from 1200 therms to 1500 therms to minimize the impact on the average customer rates, rather than making increases across the board. (See Page 36 of Attachment 1)

Mr. McRae provided insight on the new Gas Economic Development Rate for new or existing large gas customers in the City of Mesa. (See Page 37 of Attachment 1)

Mr. Brady stated it was important to note that in the City's negotiations with some of the super users, it is critical to have large gas user rates available for reference. He mentioned the City is competitive not only statewide, but nationwide as well.

In response to a question from Chairperson Duff, Mr. McRae confirmed the rates are for manufacturing companies. He added the City's rates for the cost of the natural gas supply and transportation costs are added to the large gas users bill ensuring the full recovery of City costs.

Mr. McRae pointed out there will be new types of services and products to provide customers that the City's current technology systems do not produce such as smart meters, time of use plans, electric vehicle rates, and prepaid electric bills. (See Page 38 of Attachment 1)

In response to multiple questions from Chairperson Duff, Mr. McRae explained the City is trying to accomplish a time of use rate plan for electric vehicles to incentivize customers to charge their vehicles when the City's cost of electricity is at its lowest peak time. He stated the impact on the system will be noticed when citizens charge their vehicles during the high peak hours causing more expensive power versus low peak hour rates.

Mr. Ritschel announced the next steps should Council recommend moving forward with the adjusted utility rates. He added the City will take action on a Notice of Intent to adjust utility rates on September 21, 2020.

It was moved by Committeemember Freeman, seconded by Committeemember Luna that the recommended utility rate adjustments be forwarded to the full Council for discussion and consideration.

Upon tabulation of votes, it showed:

AYES – Duff-Freeman-Luna
NAYS – None

Carried unanimously.

Chairperson Duff thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:15 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 10th day of September 2020. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

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(Attachments – 1)

City of Mesa

FY 2020/21

Utility Rates Recommendations

Audit, Finance & Enterprise Committee
September 10, 2020

Presented by:

Brian A. Ritschel – Management & Budget Assistant Director

Jake West – Water Resources Director

Patrick Murphy – Deputy Solid Waste Director

Frank McRae – Energy Resources Director

Utility Enterprise Operations

- Each utility is operated as a separate business center
- 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

Financial Principles

- **Balanced 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**

Utility Enterprise Fund Forecast: No Rate Adjustments

For Planning Purposes Only

<input checked="" type="checkbox"/>	Balanced Net S&U
<input checked="" type="checkbox"/>	20% Fund Balance
<input checked="" type="checkbox"/>	Smoothed Adjustments
<input checked="" type="checkbox"/>	Equity Res. & Non-Res.
<input checked="" type="checkbox"/>	Affordable Services

As of 08/16/2020	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
WATER	(\$170,094)	(\$4,984,116)	(\$7,460,577)	(\$6,779,287)	(\$13,052,033)	(\$15,116,050)
WASTEWATER	(\$13,491,202)	(\$12,754,447)	(\$13,146,817)	(\$15,845,832)	(\$16,714,813)	(\$17,843,866)
SOLID WASTE	\$3,725,506	\$963,766	\$1,394,272	(\$393,794)	\$875,847	\$1,013,800
ELECTRIC	\$1,386,515	\$152,000	(\$454,956)	(\$1,400,619)	(\$1,419,666)	(\$2,023,613)
NATURAL GAS	\$1,958,550	(\$1,057,181)	(\$2,253,111)	(\$3,333,798)	(\$3,238,758)	(\$3,729,172)
DISTRICT COOLING	(\$251,566)	(\$110,159)	(\$156,107)	(\$150,469)	(\$238,691)	(\$390,925)
TOTAL NET SOURCES AND USES	(\$6,842,292)	(\$17,790,137)	(\$22,077,297)	(\$27,903,799)	(\$33,788,113)	(\$38,089,827)
Beginning Reserve Balance	\$135,470,845	\$128,628,553	\$110,838,417	\$88,761,120	\$60,857,321	\$27,069,207
Ending Reserve Balance	\$128,628,553	\$110,838,417	\$88,761,120	\$60,857,321	\$27,069,207	(\$11,020,619)
Ending Reserve Balance Percent*	31.6%	26.7%	20.9%	14.0%	6.1%	-2.4%
*As a % of Next Fiscal Year's Expenditures						
WATER Residential	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
WATER Non-Residential	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
WASTEWATER Residential	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
WASTEWATER Non-Residential	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SOLID WASTE Residential	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SOLID WASTE Commercial	4.00%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Rolloff	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
ELECTRIC Residential - svc charge only	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ELECTRIC Non-Residential - svc charge only	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
GAS Residential - svc charge only	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
GAS Non-Residential - svc charge only	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Utility Enterprise Fund Forecast: FY 25/26 Balanced Net Sources & Uses

For Planning Purposes Only

☒

Balanced Net S&U

☒

20% Fund Balance

☒

Smoothed Adjustments

☒

Equity Res. & Non-Res.

☒

Affordable Services

As of 08/17/2020

FY 20/21
Projected

FY 21/22
Forecast

FY 22/23
Forecast

FY 23/24
Forecast

FY 24/25
Forecast

FY 25/26
Forecast

WATER

\$596,627

(\$1,048,693)

(\$205,484)

\$3,935,297

\$1,237,726

\$2,764,980

WASTEWATER

(\$12,984,174)

(\$10,092,584)

(\$8,207,513)

(\$8,515,511)

(\$6,908,221)

(\$5,422,729)

SOLID WASTE

\$4,028,650

\$1,904,900

\$3,175,091

\$2,272,961

\$4,473,500

\$5,591,629

ELECTRIC

\$1,526,727

\$574,495

\$310,320

(\$288,041)

\$44,675

(\$203,048)

NATURAL GAS

\$2,310,474

\$4,995

(\$311,780)

(\$476,115)

\$536,357

\$979,911

DISTRICT COOLING

(\$251,566)

(\$110,159)

(\$156,107)

(\$150,469)

(\$238,691)

(\$390,925)

TOTAL NET SOURCES AND USES

(\$4,773,261)

(\$8,767,045)

(\$5,395,474)

(\$3,221,879)

(\$854,653)

\$3,319,819

Beginning Reserve Balance

\$135,470,845

\$130,697,584

\$121,930,539

\$116,535,065

\$113,313,186

\$112,458,533

Ending Reserve Balance

\$130,697,584

\$121,930,539

\$116,535,065

\$113,313,186

\$112,458,533

\$115,778,352

Ending Reserve Balance Percent*	31.7%	28.7%	26.5%	25.1%	24.1%	24.1%
*As a % of Next Fiscal Year's Expenditures						

WATER Residential	2.50%	2.50%	2.50%	2.50%	2.50%	1.50%
WATER Non-Residential (usage only)	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%
WASTEWATER Residential	4.00%	4.00%	4.00%	4.00%	4.00%	3.50%
WASTEWATER Non-Residential	4.00%	4.00%	4.00%	4.00%	4.00%	3.50%
SOLID WASTE Residential	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Commercial	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%
SOLID WASTE Rolloff	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
ELECTRIC Residential - svc charge only	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
ELECTRIC Non-Residential - svc charge only	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
GAS Residential - svc charge only	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50
GAS Non-Residential - svc charge only	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50

Utility Enterprise Fund Forecast: Draw Down Rate Adjustments

For Planning Purposes Only

<input checked="" type="checkbox"/>	Balanced Net S&U
<input checked="" type="checkbox"/>	20% Fund Balance
<input checked="" type="checkbox"/>	Smoothed Adjustments
<input checked="" type="checkbox"/>	Equity Res. & Non-Res.
<input checked="" type="checkbox"/>	Affordable Services

As of 09/02/2020	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
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WATER	\$110,345	(\$3,500,265)	(\$4,730,057)	(\$660,073)	\$3,064,956	\$9,745,324
WASTEWATER	(\$13,302,523)	(\$11,743,589)	(\$11,289,256)	(\$11,837,790)	(\$6,301,740)	(\$1,836,899)
SOLID WASTE	\$3,709,462	\$925,069	\$1,600,988	\$3,385,365	\$8,088,403	\$11,071,572
ELECTRIC	\$1,477,744	\$518,976	\$277,620	(\$249,856)	\$194,584	\$39,036
NATURAL GAS	\$2,182,874	(\$306,296)	(\$903,006)	(\$1,200,341)	(\$185,021)	\$288,757
DISTRICT COOLING	(\$251,566)	(\$110,159)	(\$156,107)	(\$150,469)	(\$238,691)	(\$390,925)

TOTAL NET SOURCES AND USES	(\$6,073,664)	(\$14,216,264)	(\$15,199,817)	(\$10,713,165)	\$4,622,492	\$18,916,864
Beginning Reserve Balance	\$135,470,845	\$129,397,181	\$115,180,917	\$99,981,100	\$89,267,935	\$93,890,427
Ending Reserve Balance	\$129,397,181	\$115,180,917	\$99,981,100	\$89,267,935	\$93,890,427	\$112,807,291

Ending Reserve Balance Percent*	31.6%	27.5%	23.0%	19.6%	19.8%	22.9%
*As a % of Next Fiscal Year's Expenditures						
WATER Residential	0.00%	0.00%	0.00%	9.00%	9.00%	0.00%
WATER Non-Residential (usage only)	4.00%	4.00%	4.00%	11.00%	11.00%	4.00%
WASTEWATER Residential	0.00%	0.00%	0.00%	11.00%	11.00%	0.00%
WASTEWATER Non-Residential	3.50%	3.50%	3.50%	11.00%	11.00%	3.00%
SOLID WASTE Residential	0.00%	0.00%	0.00%	8.00%	8.00%	0.00%
SOLID WASTE Commercial	3.50%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Rolloff	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%
ELECTRIC Residential - svc charge	\$1.00	\$1.50	\$2.00	\$2.50	\$2.50	\$2.50
ELECTRIC Non-Residential - svc charge	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
GAS Residential - svc charge	\$0.25	\$0.50	\$0.75	\$1.00	\$1.00	\$1.00
GAS Non-Residential - svc charge	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00

Utility Enterprise Fund Forecast: FY 20/21 Recommended Rate Adjustments

As of 09/08/2020	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
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- ☒ Balanced Net S&U
- ☒ 20% Fund Balance
- ☒ Smoothed Adjustments
- ☒ Equity Res. & Non-Res.
- ☒ Affordable Services

WATER	\$430,158	(\$1,882,070)	(\$1,748,628)	\$1,644,732	(\$1,812,306)	(\$738,851)
WASTEWATER	(\$13,020,598)	(\$10,282,065)	(\$8,486,135)	(\$8,642,281)	(\$6,864,876)	(\$5,106,376)
SOLID WASTE	\$3,709,462	\$1,106,445	\$2,281,696	\$1,280,248	\$3,377,725	\$4,387,995
ELECTRIC	\$1,449,220	\$428,351	\$184,489	(\$344,983)	\$97,774	(\$58,289)
NATURAL GAS	\$2,182,874	(\$306,296)	(\$903,006)	(\$1,200,341)	(\$185,021)	\$288,757
DISTRICT COOLING	(\$251,566)	(\$110,159)	(\$156,107)	(\$150,469)	(\$238,691)	(\$390,925)
TOTAL NET SOURCES AND USES	(\$5,500,449)	(\$11,045,795)	(\$8,827,691)	(\$7,413,095)	(\$5,625,395)	(\$1,617,690)
Beginning Reserve Balance	\$135,470,845	\$129,970,396	\$118,924,601	\$110,096,910	\$102,683,815	\$97,058,420
Ending Reserve Balance	\$129,970,396	\$118,924,601	\$110,096,910	\$102,683,815	\$97,058,420	\$95,440,730

Ending Reserve Balance Percent*	31.6%	28.1%	25.2%	22.8%	20.9%	20.0%
*As a % of Next Fiscal Year's Expenditures						
WATER Residential	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
WATER Non-Residential (usage only)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
WASTEWATER Residential	3.50%	3.50%	4.50%	4.50%	4.50%	4.50%
WASTEWATER Non-Residential	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
SOLID WASTE Residential	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Commercial	3.50%	2.00%	2.00%	2.00%	2.00%	2.00%
SOLID WASTE Rolloff	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%
ELECTRIC Residential - svc charge	\$1.00	\$1.50	\$2.00	\$2.50	\$2.50	\$2.50
ELECTRIC Non-Residential - svc charge	\$0.00	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
GAS Residential - svc charge	\$0.25	\$0.50	\$0.75	\$1.00	\$1.00	\$1.00
GAS Non-Residential - svc charge	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00

Water and Wastewater

Increasing Costs

Water

- Operating Expenditures: +\$15.2 million
- Debt Service Transfer: +\$4.1 million

Wastewater

- Operating Expenditures: +\$6.4 million
- Debt Service Transfer: +\$3.9 million

FY20/21...	

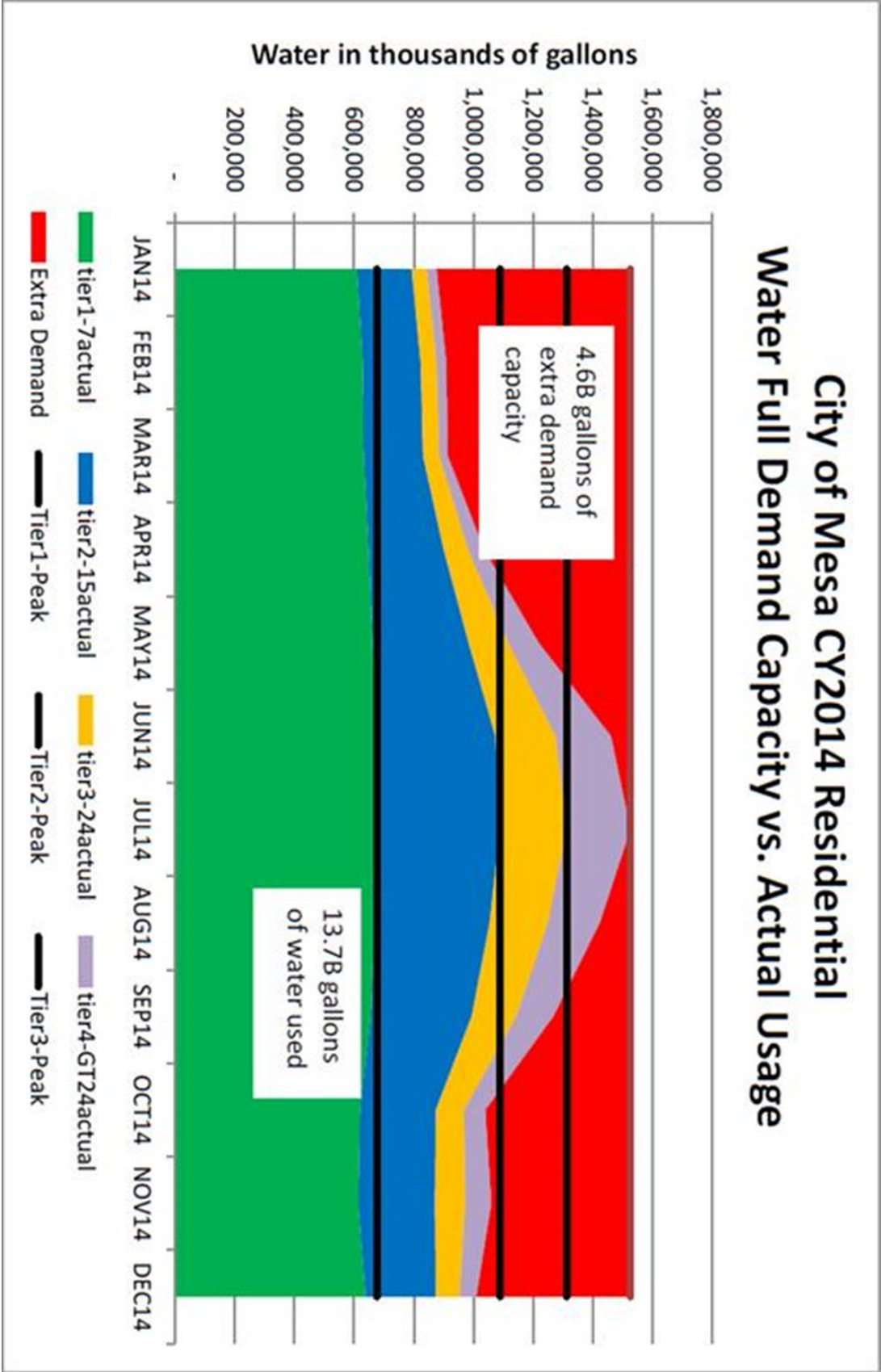
Rate Structure Adjustments

Additional items

- Complete final Water Residential tier realignment
- Eliminate Water Non-Residential Excess Surcharge holiday

Residential Water Tiers

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



Typical Customer - Water



	<u>Current</u>	<u>Recommended</u>
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<i>Residential (3/4" line), 6.0kgal/mo.</i>		
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Service Charge:	\$28.10/mo.	\$28.52/mo.
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Usage Charge:	\$3.19/kgal	\$3.24/kgal
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Monthly bill:	\$37.67/mo.	\$38.24/mo.
	(effective increase 1.5% or \$0.57/mo.)	

<i>Commercial-General (1" line), 9.0kgal/mo.</i>		
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Service Charge:	\$31.47/mo.	\$31.94/mo.
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Usage Charge:	\$3.38/kgal	\$3.55/kgal
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Monthly bill:	\$51.75/mo.	\$53.24/mo.
	(effective increase 2.9% or \$1.49/mo.)	

<i>Commercial-Landscape (1" line), 31.0kgal/mo.</i>		
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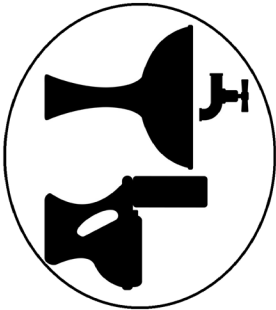
Service Charge:	\$31.47/mo.	\$31.94/mo.
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Usage Charge:	\$3.38/kgal	\$3.55/kgal
---------------	-------------	-------------

Monthly bill:	\$126.11/mo.	\$131.34/mo.
	(effective increase 4.1% or \$5.23/mo.)	

Typical Customer - Wastewater

	<u>Current</u>	<u>Recommended</u>
<i>Residential: 4.0kgal/mo. (90% 3-mo. WWA)</i>		
Service Charge:	\$19.27/mo.	\$19.94/mo.
Usage Charge:	\$1.58/kgal	\$1.64/kgal
Monthly bill:	\$22.43/mo.	\$23.22/mo.
	(effective increase 3.5% or \$0.79/mo.)	



<i>Commercial: 9.0kgal/mo.</i>		
Service Charge:	\$20.67/mo.	\$21.50/mo.
Usage Charge:	\$1.65/kgal	\$1.72/kgal
Surcharge:	\$2.98/kgal	\$3.10/kgal
Monthly bill:	\$44.14/mo.	\$45.94/mo.
	(effective increase 4.0% or \$1.80/mo.)	

Solid Waste

Solid Waste Utility Rate Recommendations

- Residential Barrels:
 - No increase
- Commercial Front Load Rates:
 - Overall 3.5% increase
- Commercial Roll Off Rates:
 - Overall increase 1%
- Bulk Item:
 - Collection Fee increase by \$1.96, from \$23.04 to \$25.00
 - Not Out Fee increase by \$13.21, from \$11.79 to \$25.00
- HHM Only Fee
 - \$0.41 per month

Front Load Trash Rate Recommendations

- Increase base rates for all size bins by \$1.50
- Increase out-of-zone fee by \$1.50, from \$15.00 to \$16.50
- Increase multi-day and multi-bin discounts by 2 percentage points
- Implement a Front Load Set Fee \$80.00 per Bin
- Implement a Front Load Removal Fee \$110.00 per Bin
- Implement a Front Load Relocation Fee
 - \$85.00 First Bin
 - \$10.00 Each Additional Bin
- Implement a Change in Size Fee \$90.00 per Bin

Roll Off Rate Recommendations

- Increase trash and green set fee by \$2.00, from \$58.00 to \$60.00
- Increase trash per ton charge by \$0.20, from \$33.30 to \$33.50
- Increase green waste per ton charge by \$7.45, from \$32.30 to \$39.75
- Increase blocked/overloaded/unserviceable charge by \$25.00, from \$65.00 to \$90.00
- Implement a 24-hour cancellation charge of \$90.00

Commercial Recycling

CARDBOARD

BIN SIZE		CURRENT		PROPOSED	
2 YD		\$	36.00	\$	45.06
3 YD		\$	39.36	\$	49.18
4 YD		\$	42.72	\$	53.03
6 YD		\$	53.03	\$	65.87
8 YD		\$	63.09	\$	78.12
Multi-Bin Factor			0.65		0.67

Eliminate Frontload Commercial Commingled Recycling

Electric Service

ENERGY RATE ADJUSTMENT PRINCIPLES

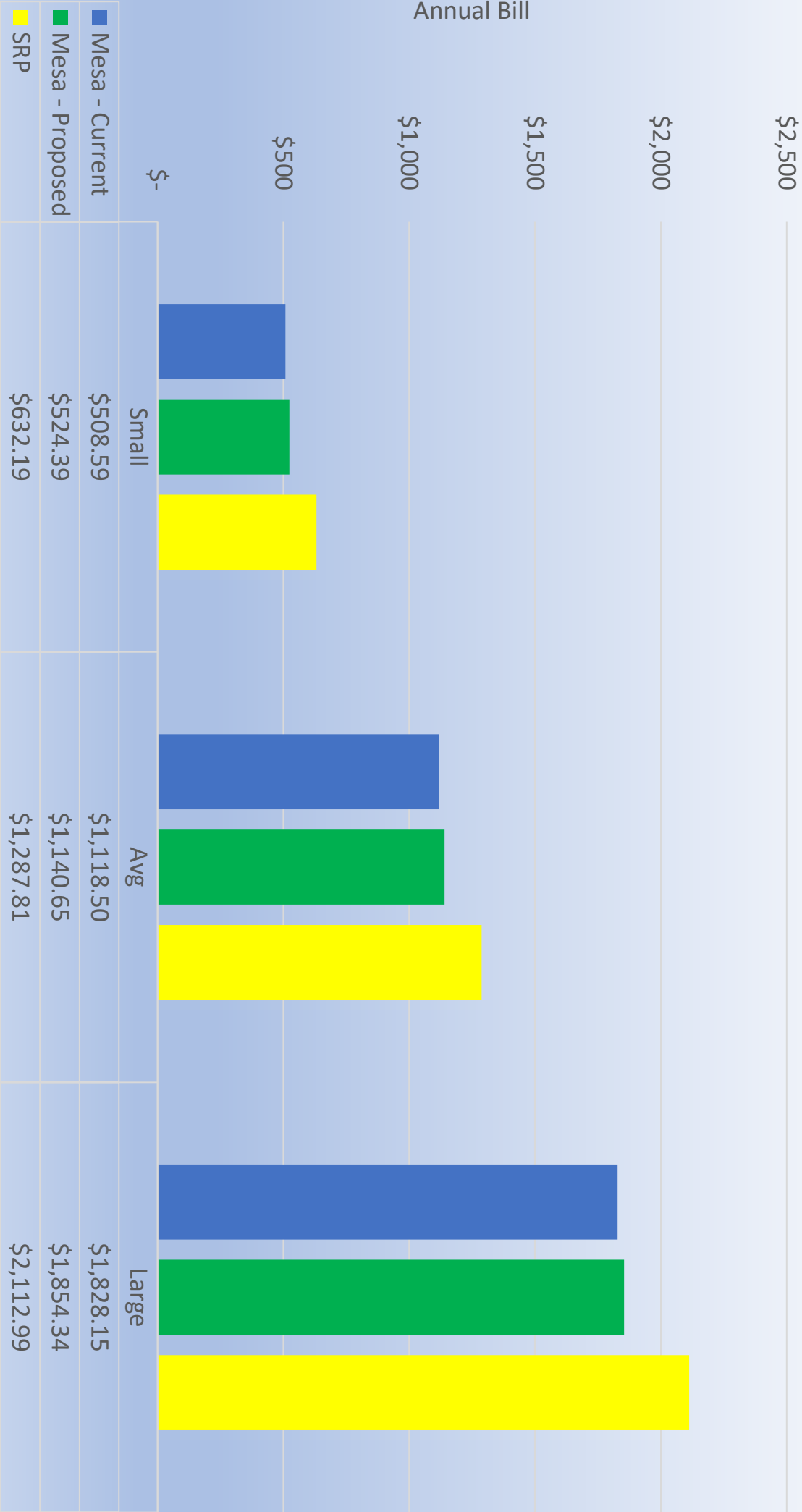
- Recover costs incurred to provide service
 - Infrastructure investments to enhance safety, reliability & efficiency
 - Align recovery of fixed costs with rate components that are not a function of consumption
- Promote energy efficiency & conservation
- Minimize rate/bill spikes
 - Long-term rate stability
 - Minimize bill impacts of extreme weather
- Benchmark with neighboring utilities (SRP & SWG)

RESIDENTIAL ELECTRIC RATE STRUCTURE

There are three components

- System Service Charge (fixed \$ per month per account)
- Usage (Consumption)
- Electric Energy Cost Adjustment Factor (EECAF)
 - Consumption
 - Pass-through of cost of commodity

Residential Electric Annual Bill Comparison March 2021 to Feb 2022



PROPOSED ELECTRIC RATE ADJUSTMENTS

- Minimal Rate & Bill Adjustments
- Residential: System Service Charge rate adjustment and Summer/Winter usage charge rate adjustment
- New Electric Services & Rates
 - Standby Rate

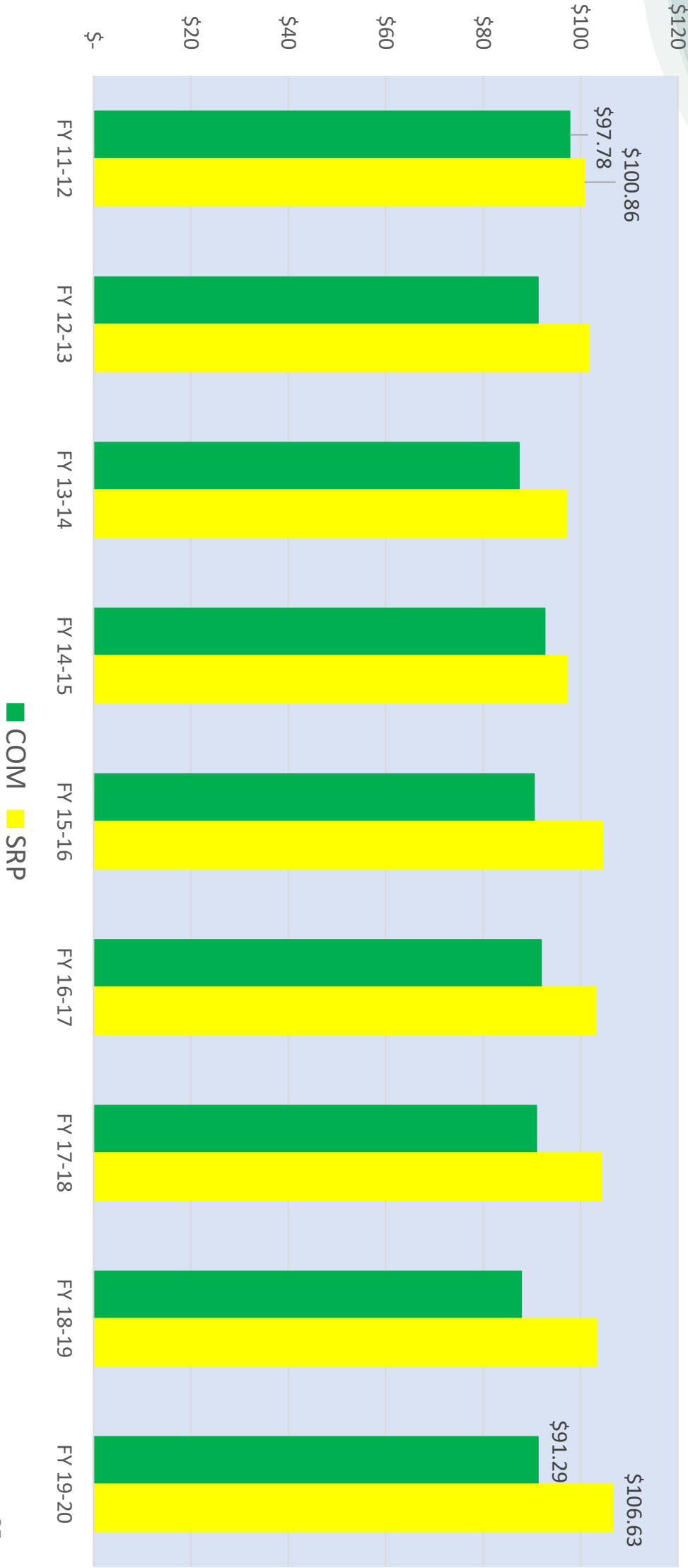
PROPOSED RESIDENTIAL ELECTRIC RATES

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE	\$12.00	\$13.00
USAGE CHARGE SUMMER per kWh	Tier 1 - \$0.05128 Tier 2 - \$0.04822	Tier 1 - \$0.05179 Tier 2 - \$0.04822
USAGE CHARGE WINTER per kWh	Tier 1 - \$0.03765 Tier 2 - \$0.01633	Tier 1 - \$0.03953 Tier 2 - \$0.01715
ELECTRIC ENERGY SUPPLY COST	\$0.04618/kWh	\$ 0.04618/kWh

- EECAF is average of EECAF forecast for FY 20/21
- Forecast range of \$0.04475 to \$0.04815

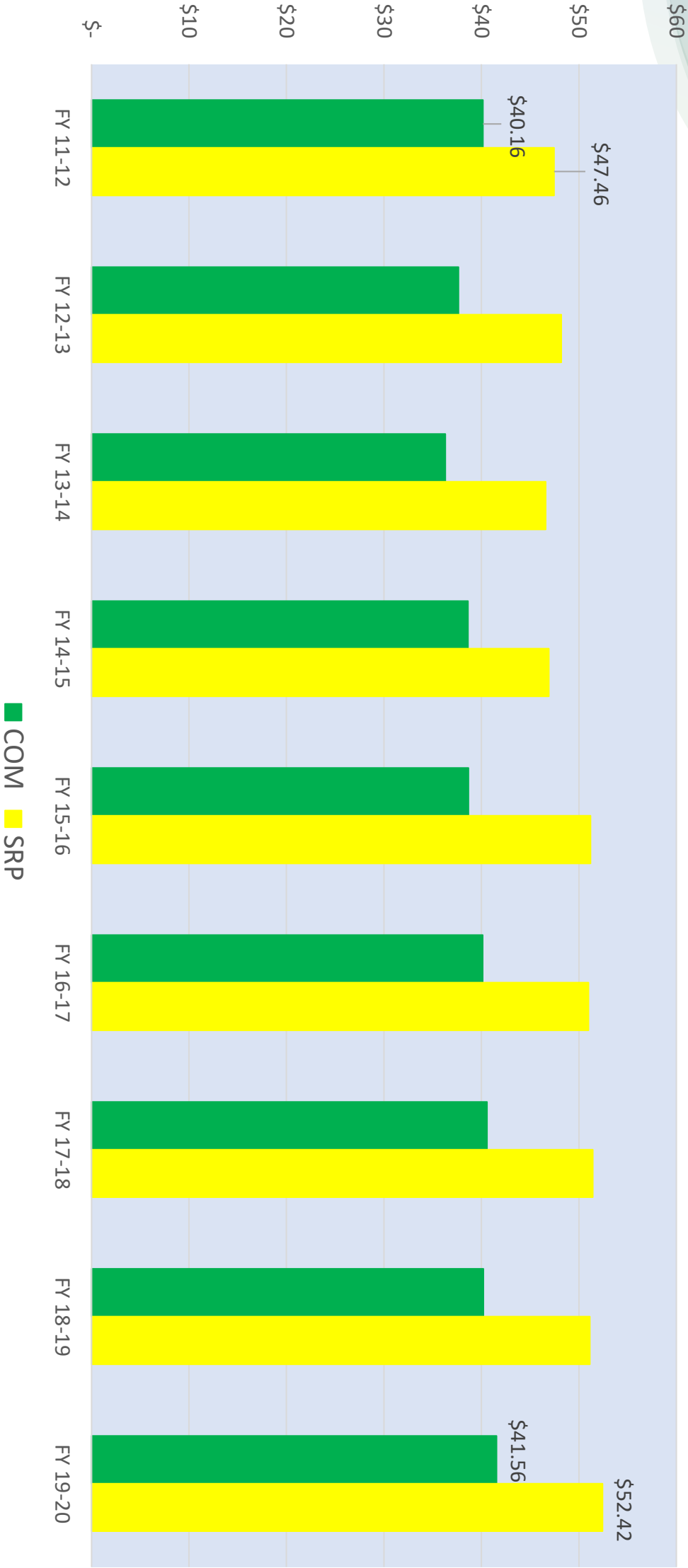
EECAF REDUCTION EFFECTS ON AVERAGE RESIDENTIAL MONTHLY BILLS VERSUS SRP

Average Residential Electric Monthly Bills by Fiscal Year



EECAF REDUCTION EFFECTS ON SMALL RESIDENTIAL MONTHLY BILLS VERSUS SRP

Small Residential Electric Monthly Bills by Fiscal Year



PROPOSED NEW STANDBY ELECTRIC RATE

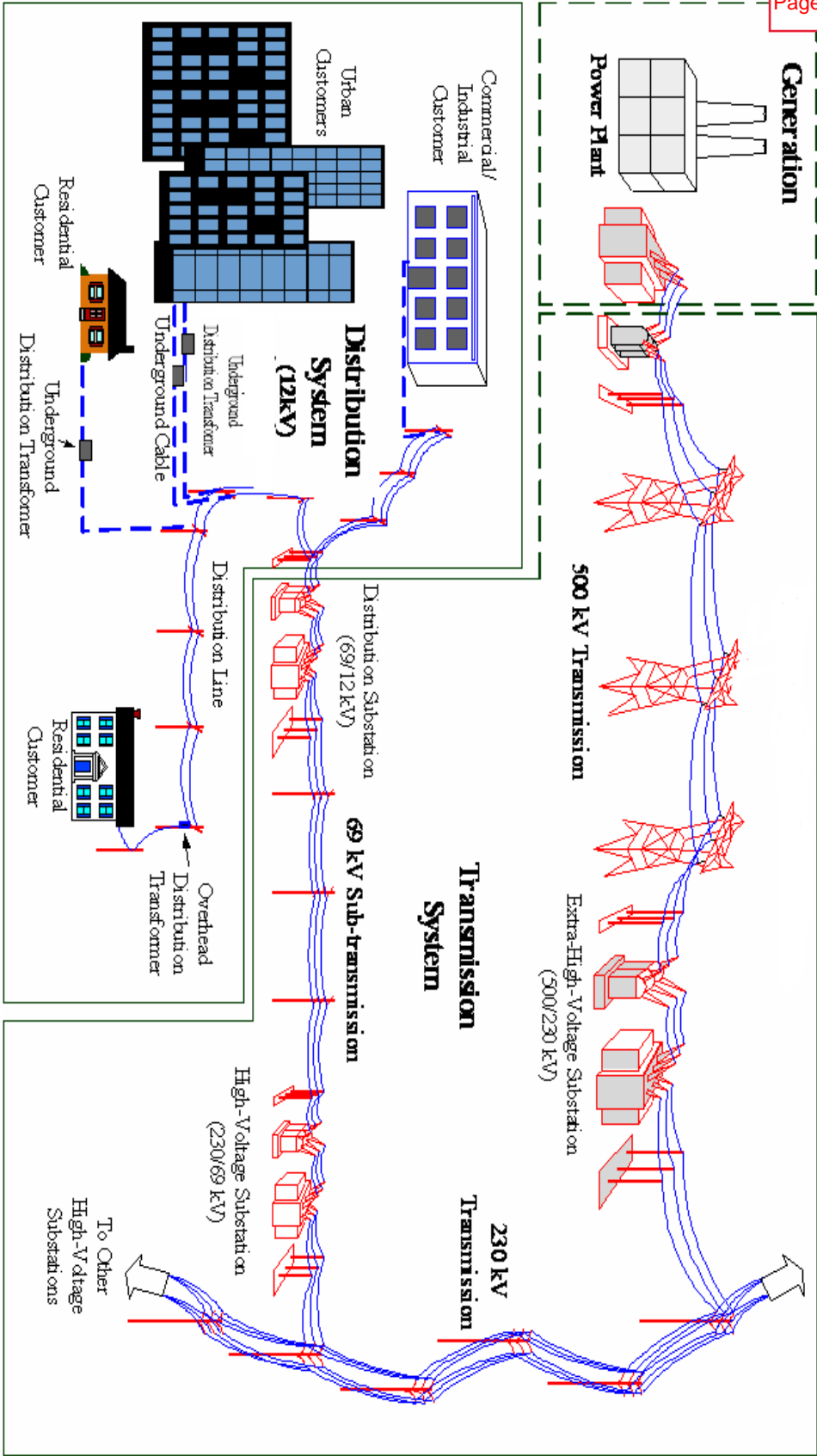
- Existing rates aren't adequate to ensure costs are recovered to provide requested service to new development projects
 - On-site Generation will provide significant portion of electric needs
 - Significant electric improvements to meet all electric needs
- Existing rates don't ensure timely & equitable cost recovery
- Standby rate "de-couples" cost recovery from whether utility or on-site generation meets energy needs
- Risks minimized that costs won't be recovered in a timely manner

ELECTRIC COMMERCIAL (E3.1) COMPARED TO PROPOSED NEW STANDBY RATE

COMPONENT	TIER	E3.1 (Summer, 3 Phase)	PROPOSED NEW STANDBY
SYSTEM SERVICE CHARGE (\$/MONTH)	N/A	\$13.24	\$13.24
ENERGY CONSUMPTION CHARGE (\$/kwh)	0 - 15,000 kwh	\$0.06491	\$0.06491
	15,001–75,000 kwh	\$0.04125	\$0.04125
	MORE THAN 75,000 kwh	\$0.02901	\$0.02901
DEMAND CHARGE (\$/kw PER MONTH)	0-50 kw	0	N/A
	MORE THAN 50 kw	\$3.9168	N/A
FACILITY CHARGE (\$/kw PER MONTH)	Contract kw or Actual kw	N/A	\$6.670
ELECTRIC ENERGY SUPPLY COST(\$/kwh)	All kw	\$ 0.03483	\$ 0.03483

- EECAF is average of EECAF forecast for FY 20/21
- Forecast range of \$0.03300 to \$0.03625

Electric System



Standby Customers with on-site generation use entire electric system if their generation does not meet their energy requirements.

Additionally, significant investments in the 12 kV Distribution System are required to extend service to the new developments

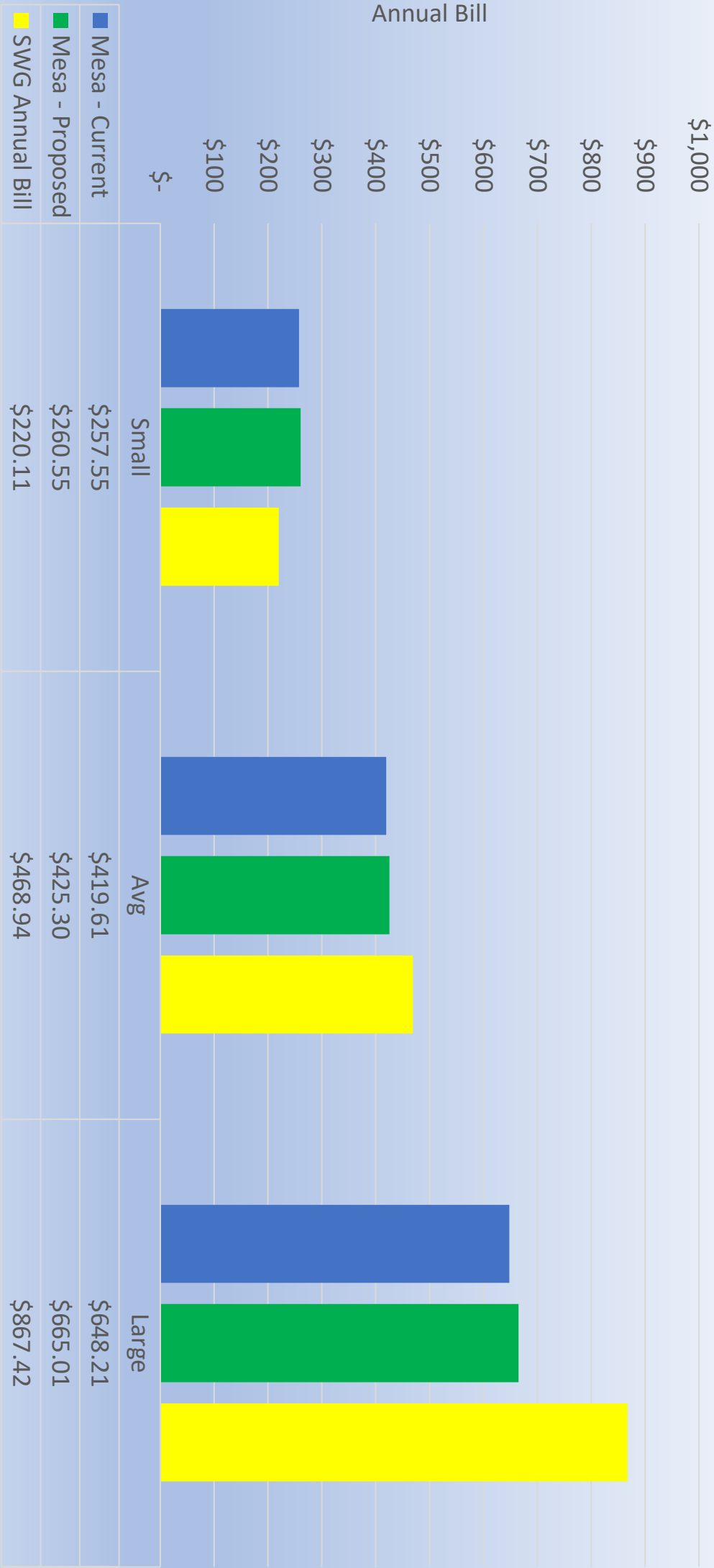
Natural Gas Service

RESIDENTIAL NATURAL GAS RATE STRUCTURE

There are three components

- System Service Charge (fixed \$ per month per account)
- Usage (Consumption)
- Purchased Natural Gas Cost Adjustment Factor (PNGCAF)
 - Consumption
 - Pass-through of cost of commodity

Residential Gas Annual Bill Comparison - Mesa
March 2021 to Feb 2022



PROPOSED GAS RATE ADJUSTMENTS

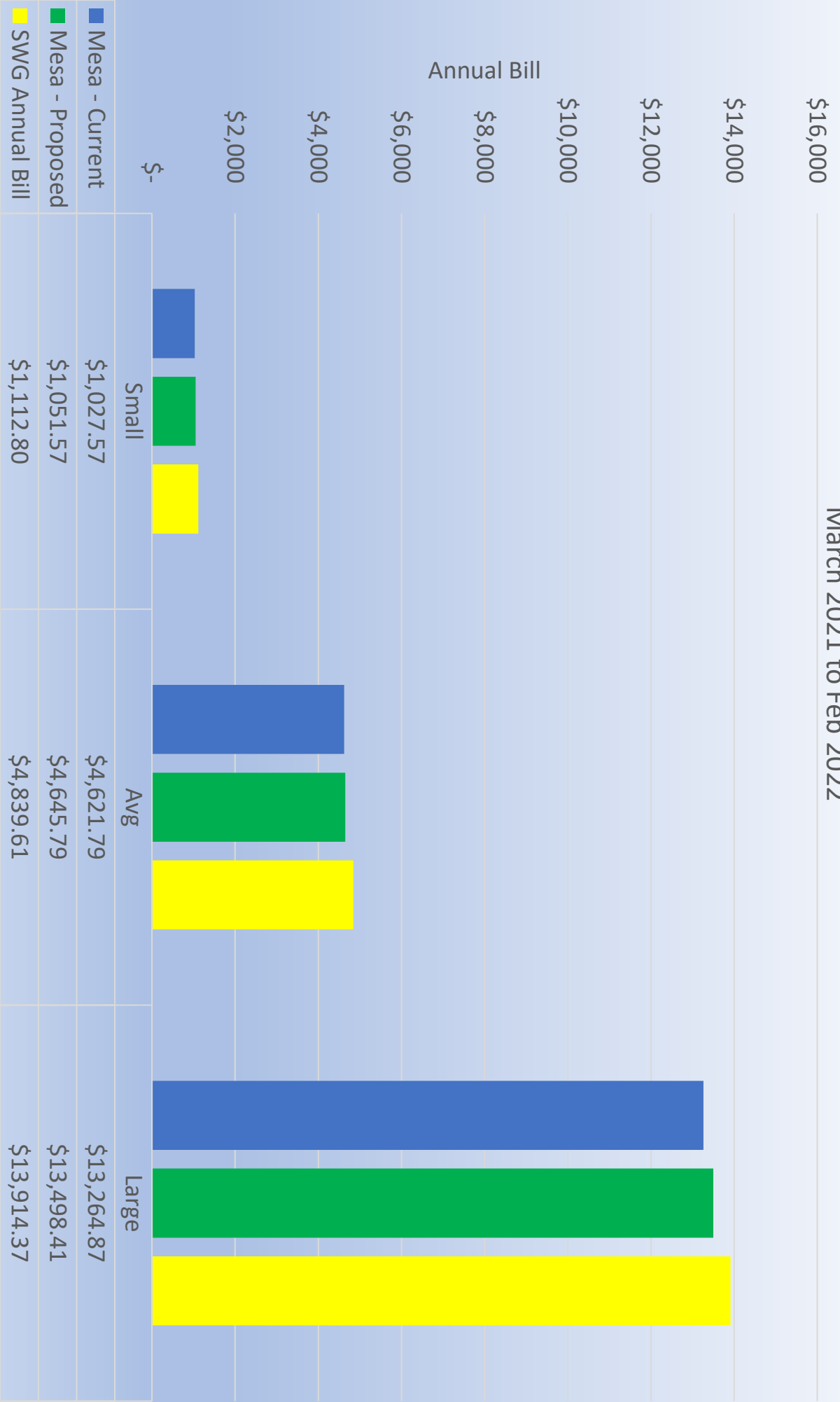
- Minimal Rate & Bill Adjustments for natural gas
 - Residential: System Service Charge rate adjustment and Tier 2 usage charge rate adjustment
 - Non-Residential: System Service Charge rate adjustment, Tier 2 usage charge rate adjustment and increase Tier 1 usage limit to 1500 therms from 1200 therms
- New Gas Economic Development Rate

PROPOSED RESIDENTIAL GAS RATES

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE		
SUMMER	\$15.06	\$15.31
WINTER	\$17.99	\$18.24
USAGE CHARGE		
SUMMER per therm	Tier 1 - \$0.6685 Tier 2 - \$0.2167	Tier 1 - \$0.6685 Tier 2 - \$0.2384
USAGE CHARGE		
WINTER per therm	Tier 1 - \$0.6685 Tier 2 - \$0.4926	Tier 1 - \$0.6685 Tier 2 - \$0.5419
NATURAL GAS SUPPLY COST	\$0.1985/therm	\$0.1985/therm

- PNGCAF is average of PNGCAF forecast for FY 20/21

Commercial Gas Annual Bill Comparison - Mesa
March 2021 to Feb 2022



PROPOSED COMMERCIAL GAS RATES

COMPONENT	CURRENT	PROPOSED
SYSTEM SERVICE CHARGE		
SUMMER	\$35.66	\$37.66
WINTER	\$45.34	\$47.34
USAGE CHARGE		
SUMMER PER THERM	Tier 1 - \$0.5280 Tier 2 - \$0.3166	Tier 1 - \$0.5280 Tier 2 - \$0.3261
USAGE CHARGE		
WINTER PER THERM	Tier 1 - \$0.5718 Tier 2 - \$0.4574	Tier 1 - \$0.5718 Tier 2 - \$0.4711
TIER 1 to 2 THERM USAGE ADJUSTMENT	TIER 1: 0-1200 TIER 2: 1201+	TIER 1: 0-1500 TIER 2: 1501+
NATURAL GAS SUPPLY COST	\$0.1985/therm	\$0.1985/therm

- PNGCAF is average of PNGCAF forecast for FY 20/21

NEW GAS ECONOMIC DEVELOPMENT RATE

- Structured to encourage existing large gas customers to expand and new large gas customers to come to Mesa
- Tiered rate structure designed to encourage large users to come to Mesa while still adequately recovering Mesa's investment in infrastructure
 - 0-90,000 Therms: \$0.2863
 - 90,000 – 500,000 Therms: \$0.2100
 - 500,000+ Therms: \$0.1400
- Criteria for enrollment:
 - \$25 million in Capital Investment
 - 50 new employees
 - Minimum 36,000 therms of consumption per month

IN THE FUTURE

- Smart Meters
 - Time of Use Rates
 - Electric Vehicle Rates
- Prepaid Electric Bills

Schedule for FY 2020/21 Utility Rates Adjustment Recommendation

- Sept 21** – City Council Action on Notice of Intent
- Oct 15** – City Council Discussion of Utility Rates
- Nov 16** – Introduce Utility Rate Ordinances
- Dec 1** – City Council Action on Utility Rates
- Jan 1** – Effective date for Utility Rate changes



mesa·az

Rate Adjustment History

FY 19/20 Forecasted

	FY 17/18	FY 18/19	FY 19/20
WATER Residential	3.50%	2.00%	3.85%
WATER Non-Residential	3.50%	2.00%	3.85%
WASTEWATER Residential	4.00%	2.50%	4.35%
WASTEWATER Non-Residential	4.00%	2.50%	4.35%
SOLID WASTE Residential	3.50%	2.00%	3.85%
SOLID WASTE Commercial	2.50%	2.00%	2.00%
SOLID WASTE Rolloff	0.00%	0.00%	2.00%
ELECTRIC Residential - svc charge only	\$1.25	\$1.00	\$2.25
ELECTRIC Non-Residential	\$0.00	\$0.00	\$0.00
GAS Residential - svc charge only	\$0.75	\$0.45	\$0.75
GAS Non-Residential - svc charge only	\$0.75	\$0.45	\$0.75

FY 19/20 Adopted

	FY 17/18	FY 18/19	FY 19/20*
WATER Residential	3.50%	2.00%	0.00%
WATER Non-Residential (usage only)	3.50%	2.00%	6.00%
WASTEWATER Residential	4.00%	2.50%	0.00%
WASTEWATER Non-Residential	4.00%	2.50%	4.35%
SOLID WASTE Residential	3.50%	2.00%	0.00%
SOLID WASTE Commercial	2.50%	2.00%	3.80%
SOLID WASTE Rolloff	0.00%	0.00%	2.40%
ELECTRIC Residential - svc charge only	\$1.25	\$1.00	\$0.25
ELECTRIC Non-Residential - svc charge only	\$0.00	\$0.00	\$2.50
GAS Residential - svc charge only	\$0.75	\$0.45	\$0.75
GAS Non-Residential - svc charge only	\$0.75	\$0.45	\$2.00

*FY 19/20 Effective date shifted from July to March/April

Residential Water Tiers

Current Residential Tier Structure	
First 3,000 gallons included in service charge	
Gallons	Cost per 1,000 gal
4,000-9,000	\$3.19
10,000-18,000	\$4.79
19,000-24,000	\$5.77
25,000 and greater	\$6.46
Recommended Residential Tier Structure	
First 3,000 gallons included in service charge	
Gallons	Cost per 1,000 gal
4,000-7,000	\$3.24
8,000-15,000	\$4.86
16,000-24,000	\$5.86
25,000 and greater	\$6.56