



AUDIT, FINANCE & ENTERPRISE COMMITTEE

March 14, 2016

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on March 14, 2016, at 4:45 p.m.

COMMITTEE PRESENT

Chris Glover, Chairman
Alex Finter
Kevin Thompson

COMMITTEE ABSENT

Christopher Brady, Ex Officio

STAFF PRESENT

DeeAnn Mickelsen
Alex Deshuk
Jim Smith

1. Items from citizens present.

There were no items from citizens present.

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

Office of Management and Budget Director Candace Cannistraro displayed a PowerPoint Presentation (**See Attachment 1**) and provided a brief update on the proposed utility rate adjustments.

Ms. Cannistraro announced that each department director would present their own slides and she would conclude with a summary of the overall rate recommendations going into FY 2016/2017. She explained that each of the utilities is operated as a separate business center within the Enterprise Fund, however, the Enterprise Fund itself is managed as a whole. She stated that the combined ending reserve balance adheres to the adopted financial policy of at least 8-10% over the forecast period in order to smooth rate adjustments year-to-year. (See Page 2 of Attachment 1)

Ms. Cannistraro reported that revenue targets are \$11,918,000 in order to cover the forecasted costs for FY 2016/2017. She added that there are multiple ways to implement rate adjustments in the individual utilities in order to achieve those revenues, which will be explained by each department director. (See Pages 3 and 4 of Attachment 1)

Environment Management and Sustainability Department Director Scott Bouchie reported that a 4% increase to the Solid Waste Utility Rate is recommended on all residential rates. (See Page 6 of Attachment 1) He listed the following recommendations:

- Residential 90-gallon barrel rate: \$1.07 per month increase
- Residential 60-gallon barrel rate: \$0.95 per month increase
- Additional black barrel rate: \$0.50 per month increase
- Residential green barrel service: \$0.25 per month increase
- Mesa Green and Clean Fee: \$0.10 per month increase, which is a combination of \$0.06 toward the Household Hazardous Waste events and \$0.04 toward the Clean Sweep/Green Sweep Program
- Average residential customer will see \$1.17 increase, which is a combination of the 90-gallon barrel rate plus the Green and Clean Fee
- 4% increase on bulk item and appliance collection for City of Mesa refuse customers
- Establishing a new bulk item and appliance collection for Non-City of Mesa refuse customers
- No adjustments to the commercial rates are being recommended
- 4.9% increase on Commercial Roll Off rates, which currently has a higher demand than the City can service

In response to a question from Chairman Glover, Mr. Bouchie stated that he would follow-up with the Committee after the meeting in order to provide the total revenue from the green barrel program.

In response to a question from Committeemember Thompson, Mr. Bouchie confirmed that the increases are an effort to keep the City on track with dump fees, labor, fuel and other costs associated with operating the Solid Waste Department. He added that this year increased tipping fees, and decreased revenues from the Solid Waste program, as well as pressures of rising personnel costs were all factors in changing the rates.

Ms. Cannistraro indicated that last year, staff anticipated that a 5% increase would be necessary in Solid Waste Fees but due to reductions in fuel costs only 4% is being recommended this year.

In response to a question from Committeemember Finter, Mr. Bouchie reported that the Enterprise Fund transfer from Solid Waste to the General Fund for FY 2016/2017 is \$21.4 million. He added that about 38% of revenues from Solid Waste goes to the General Fund and is projected to increase 3% from the previous year.

In response to a question from Chairman Glover relating to obtaining an intergovernmental agreement with other cities for landfill sites, Mr. Bouchie indicated that Mesa and Gilbert combined trash tons to achieve a \$0.25/ton discount on tipping fees for an anticipated combined savings of \$70,000 to 75,000. He clarified that the discount applies when using the Republic Landfill.

Energy Resources Department Director Frank McRae reported that the changes on the electric side would generate another \$211,000 per year. He stated that the proposal for FY 2016/2017 raises additional revenue from adjustments to the rate for residential customers only and listed the three rate components for electric bills as follows:

- System Service Charge, which is a dollars per month rate
- Usage Charge, which is tied to the customer's consumption
- Electric Energy Cost Adjustment Factor (EECAF), which adjusts as frequently as monthly and fluctuates to ensure that the City accurately recovers energy supply costs

Mr. McRae advised that the proposal includes an adjustment only to the System Service Charge, as was approved by Council the previous year. He added that the reasoning for continuing that trend is due to the stability of the source, as well as the ability to insulate customers from bill spikes due to increased consumption. He pointed out that the average residential electric customer would see a 1.6% increase on monthly bills. He noted that staff would continue the pilot for the low income residential electric program. (See Page 9 of Attachment 1)

Mr. McRae explained that a benchmark criteria used in guiding the electric rate adjustments is comparisons with comparable SRP rate and bills. He stated that an increase in the service charge from \$8.50 to \$9.50 results in this rate component being greater than 50% less than the comparable SRP rate. He noted that the monthly bills for Mesa's electric customers will be 8.2% less than if served by SRP after this rate increase. He added that no increase is proposed for the Commercial Rates as those are already high compared to SRP. (See Page 10 of Attachment 1)

Mr. McRae stated that the proposed revenue increase for the Natural Gas Utility Rate is over \$600,000 per year. He explained that for FY 2016/2107, staff proposed adjusting only the System Service Charge for all classes of customers, not only residential. He indicated that the adjustments for the average residential customer would result in approximately a 3% increase in monthly bills, still maintaining a competitive advantage with SW Gas. (See Page 11 of Attachment 1)

In response to a question from Committeemember Thompson, Mr. McRae explained that the City covers the cost of the capital investment with bond funds and per City Code the City must recover the cost within five years of installation. He added that if a deficiency occurs between the revenue received from customers versus City costs, then customers are asked to make contributions. He stated that refunds are given when the actual revenues come in at a higher level than forecasted.

Mr. McRae responded to another question from Committeemember Thompson relating to audits, particularly for new subdivisions. He explained that staff reviews revenues at the five-year mark and the revenue is typically higher, therefore, contributions are refunded back to the developer. He noted that when a developer has a subsequent development in process the City will roll the refund into the next development.

In response to a question from Committeemember Finter, Ms. Cannistraro reported that the General Fund transfer for FY 2016/2017 is \$6,492,708 for Electric and \$7,759,163 for Gas.

Deputy Director of Water Enterprise Services, Seth Weld, indicated that the Water Utility Rate structure is made up of two components: a Service Charge, which is a flat monthly rate based on the meter size, and a Usage Charge based on the units of water consumption rounded at 1,000 gallon increments. He stated that the fixed revenue for FY 2016/2017 is estimated at

36.1% of fixed costs, which falls within the target range of 35-40%. (See Page 13 of Attachment 1)

Mr. Weld reported that although the system is growing, the water consumption per account is declining. He explained that last year a five-year phased approach was approved and implemented to align residential consumption with a new residential tier structure to balance associated rates and costs. He noted that a fourth residential water usage tier has since been added which represents the customers who place the highest burden on our distribution system.

Mr. Weld illustrated the current residential tier structure compared to the recommended structure for FY 2016/2017. (See Pages 14 and 15 of Attachment 1) He noted that the City is also compressing the remaining tiers to better align with the consumption patterns and displayed a chart of the monthly bill impact by dollars and correlating percentage. He confirmed that year two of the plan is consistent with the FY 2016/2017 recommendation.

Mr. Weld displayed a chart that illustrates the capacity and demand on the water distribution system. (See Page 16 of Attachment 1) He explained that the purple area indicates the peak demand, which is the level where the distribution needs to be sized and maintained. He described the four distinct patterns of usage and pointed out that the red indicates available capacity.

Mr. Weld explained that part of the implementation for year two is a recommended 5% increase on all rate components for all customers. He stated that monthly bills will increase \$2.23 per month for the average customer, based on the average consumption of 9000 gallons per month and subject to seasonality. He added that staff also recommends lowering the eligibility for the Commercial and Industrial Large Water Service Rate from 8,500 kgal per month to 6,000 kgal per month. He stated that no customers in Mesa currently meet those thresholds but the adjustment should help attract customers to the City of Mesa. He added that staff is working to establish sustainability criteria, which will be presented to Council upon completion. (See Page 17 of Attachment 1)

Mr. Weld reported that the Wastewater Utility Rate recommendation for FY 2016/2017 is a 5% increase on all rate components. He clarified that, unlike the Water side, Wastewater is not metered or measured but rather calculated annually based on 90% of the monthly average water use in winter months. He noted that the increase for the typical residential customer would be \$1.24 per month. He stated that the General Fund transfer amount for both Water and Wastewater Utilities was \$68 million. (See Page 18 of Attachment 1)

In response to a question from Committeemember Thompson, Mr. Weld confirmed that Mesa is staying whole on installations for both Water and Wastewater.

Ms. Cannistraro provided a brief summary of the average residential customer impact. She explained that staff looks at the utilities that other municipalities have to compare, i.e. Water, Wastewater, and Solid Waste. She reported that the monthly impact was \$4.54 and the annual impact was \$54.48. She stated that staff's recommendations would bring the revenues back up to \$11,918,000 needed for FY 2016/2017, as well as ensure the revenue capacity is available to pay the debt service and operating costs in FY 2018/2019. She noted that the revenues from the Signal Butte Water Treatment Plant are included in the projected forecast for FY 2018/2019. (See Pages 20 through 22 of Attachment 1)

Chairman Glover thanked staff for the presentation.

It was moved by Committeemember Thompson, seconded by Committeemember Finter, that the staff recommendations be approved and forwarded on the full Council for consideration.

Carried unanimously.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 5:13 p.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 14th day of March, 2016. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

hm
(Attachment – 1)

City of Mesa

FY 2016/17

Utility Rate Recommendations

Audit, Finance and Enterprise Committee

March 14, 2016

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

Revenue Targets

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

In FY 2016/17, the following increase in revenues is needed to accommodate the estimated costs

Utility	Revenue
Electric	\$211,000
Natural Gas	\$605,000
Water	\$5,548,000
Wastewater	\$3,107,000
Solid Waste*	\$2,447,000
Total	\$11,918,000

* 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 and Sustainability Department



Solid Waste Utility Rate Recommendations

4% increase on all residential rates

- Residential 90 gallon barrel rate: \$1.07 per month, from \$26.72 to \$27.79
- Residential 60 gallon barrel rate: \$0.95 per month, from \$23.86 to \$24.81
- Additional black barrel rate: \$0.50 per month, from \$12.62 to \$13.12
- Residential green barrel service: \$0.25 per month, from \$6.31 to \$6.56

Solid Waste Utility Rate Recommendations

Mesa Green and Clean Fee: \$0.10 per month, from \$0.74 to \$0.84

- Average residential customer increase: \$1.17 from \$27.46 to \$28.63
- 4.0% increase on bulk item and appliance collection for City of Mesa refuse customers
- Establishing a new bulk item and appliance collection for Non-City of Mesa refuse customers
- Commercial Front Load rates: no recommendations for adjustment at this time
- 4.9% increase on Commercial Roll Off rates

Energy Resources Department



Electric Utility Rate Recommendations

Residential System Service Charge component: \$1.50 per month, from \$8.00 to \$9.50

- Consumption component of rate: No adjustment recommended
- Average residential customer: \$1.50 per month, from \$92.92 to \$94.42, 1.5% (Including commodity pass-through cost)
- Third proposed increase since FY 2003/04
- Non-residential rates: No adjustment recommended

Electric Utility Rate Recommendations

Proposed System Service Charge of \$9.50 is:

- \$10.50 per month less than SRP's monthly service charge of \$20.00
- Monthly bills during calendar year 2015 (at FY 2016/17 Mesa rates) would be approximately \$8.47 less per month than if served by SRP (\$101.64 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 System Service Charge: increase \$1.00 per month

- Residential customers summer: from \$12.11 to \$13.11 per month
- Residential customers winter: from \$15.04 to \$16.04 per month
- Average residential customer monthly bill: from \$33.83 to \$34.83, 3% (Including commodity pass-through)
- Monthly bills during calendar year 2015 (at FY 2016/17 Mesa rates) would be approximately \$0.72 less per month than if served by SW Gas (\$8.64 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 2016/17 estimated at 36.1%

- 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 last year to align the tiers with usage patterns and associated costs
- This year will be the second 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:
 - First 3,000 gallons included in service charge
 - 4,000 – 11,000 gallons; \$2.88 per 1,000 gallons
 - 12,000 – 22,000 gallons; \$4.32 per 1,000 gallons
 - 23,000 – 24,000 gallons; \$4.90 per 1,000 gallons
 - 25,000 gallons and greater; \$5.05 per 1,000 gallons
- Recommended Residential Tier Structure for FY 16/17:
 - First 3,000 gallons included in service charge
 - 4,000 – 10,000 gallons; \$3.02 per 1,000 gallons
 - 11,000 – 20,000 gallons; \$4.54 per 1,000 gallons
 - 21,000 – 24,000 gallons; \$5.23 per 1,000 gallons
 - 25,000 gallons and greater; \$5.54 per 1,000 gallons

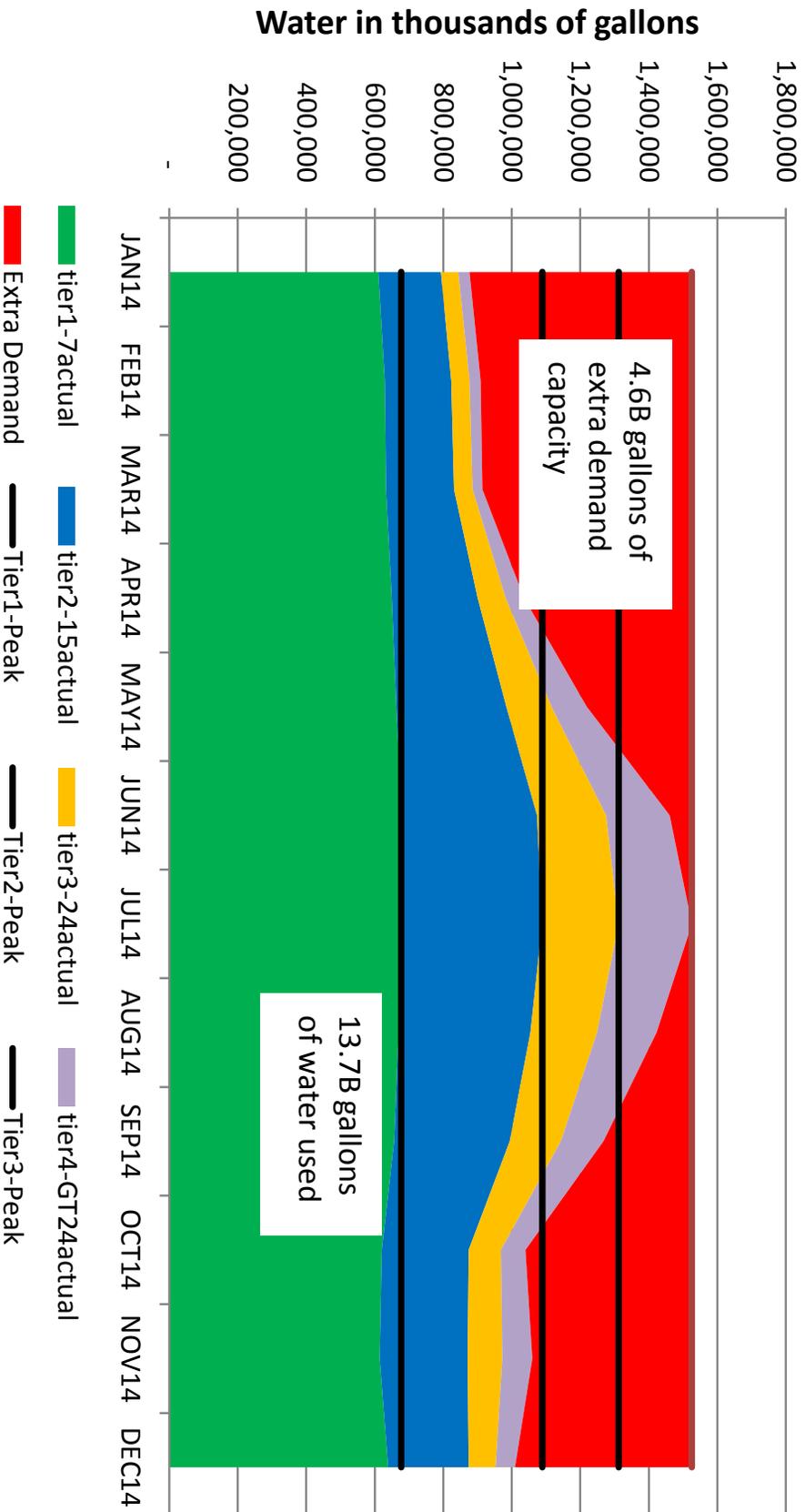
5 Year Implementation – Monthly Bill Variance

	VAR\$ - MONTHLY BILL						VAR% - MONTHLY BILL					
	YR1	YR2	YR3	YR4	YR5	YR6	YR1	YR2	YR3	YR4	YR5	YR6
30 kgal	\$10.29	\$11.31	\$12.42	\$13.62	\$13.89	\$9.38	8.2%	8.3%	8.4%	8.5%	8.0%	5.0%
29 kgal	\$9.84	\$10.82	\$11.89	\$13.05	\$13.27	\$9.02	8.1%	8.3%	8.4%	8.5%	8.0%	5.0%
28 kgal	\$9.39	\$10.33	\$11.36	\$12.48	\$12.65	\$8.66	8.1%	8.2%	8.3%	8.5%	7.9%	5.0%
27 kgal	\$8.94	\$9.84	\$10.83	\$11.91	\$12.03	\$8.30	8.0%	8.1%	8.3%	8.4%	7.8%	5.0%
26 kgal	\$8.49	\$9.35	\$10.30	\$11.34	\$11.41	\$7.94	7.9%	8.1%	8.2%	8.4%	7.8%	5.0%
25 kgal	\$8.04	\$8.86	\$9.77	\$10.77	\$10.79	\$7.58	7.8%	8.0%	8.2%	8.3%	7.7%	5.0%
24 kgal	\$7.59	\$8.37	\$9.24	\$10.20	\$10.17	\$7.22	7.7%	7.9%	8.1%	8.3%	7.6%	5.0%
23 kgal	\$6.80	\$8.04	\$8.90	\$9.84	\$9.79	\$6.90	7.2%	8.0%	8.2%	8.4%	7.7%	5.0%
22 kgal	\$6.01	\$7.71	\$8.56	\$9.48	\$9.41	\$6.58	6.7%	8.0%	8.3%	8.4%	7.7%	5.0%
21 kgal	\$5.80	\$6.80	\$8.22	\$9.12	\$9.03	\$6.26	6.8%	7.4%	8.4%	8.6%	7.8%	5.0%
20 kgal	\$5.59	\$5.89	\$7.88	\$8.76	\$8.65	\$5.94	6.8%	6.7%	8.5%	8.7%	7.9%	5.0%
19 kgal	\$5.38	\$5.67	\$6.85	\$8.40	\$8.27	\$5.62	6.9%	6.8%	7.7%	8.8%	8.0%	5.0%
18 kgal	\$5.17	\$5.45	\$5.82	\$8.40	\$7.89	\$5.30	7.0%	6.9%	6.9%	8.9%	8.1%	5.0%
17 kgal	\$4.96	\$5.23	\$5.59	\$6.88	\$7.51	\$4.98	7.1%	7.0%	7.0%	8.1%	8.2%	5.0%
16 kgal	\$4.75	\$5.01	\$5.36	\$5.72	\$7.13	\$4.66	7.3%	7.2%	7.1%	7.1%	8.3%	5.0%
15 kgal	\$4.54	\$4.79	\$5.13	\$5.48	\$5.83	\$4.34	7.4%	7.3%	7.3%	7.2%	7.2%	5.0%
14 kgal	\$4.33	\$4.57	\$4.90	\$5.24	\$5.58	\$4.08	7.6%	7.4%	7.4%	7.4%	7.3%	5.0%
13 kgal	\$4.12	\$4.35	\$4.67	\$5.00	\$5.33	\$3.82	7.8%	7.6%	7.6%	7.6%	7.5%	5.0%
12 kgal	\$3.91	\$4.13	\$4.44	\$4.76	\$5.08	\$3.56	8.0%	7.8%	7.8%	7.8%	7.7%	5.0%
11 kgal	\$2.33	\$3.91	\$4.21	\$4.52	\$4.83	\$3.30	5.1%	8.1%	8.1%	8.0%	7.9%	5.0%
10 kgal	\$2.19	\$2.25	\$3.98	\$4.28	\$4.58	\$3.04	5.0%	4.9%	8.3%	8.3%	8.2%	5.0%
9 kgal	\$2.05	\$2.11	\$2.23	\$4.04	\$4.33	\$2.78	5.0%	4.9%	5.0%	8.6%	8.5%	5.0%
8 kgal	\$1.91	\$1.97	\$2.08	\$2.20	\$4.08	\$2.52	5.0%	4.9%	5.0%	5.0%	8.9%	5.0%
7 kgal	\$1.77	\$1.83	\$1.93	\$2.04	\$2.15	\$2.26	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
6 kgal	\$1.63	\$1.69	\$1.78	\$1.88	\$1.98	\$2.08	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
5 kgal	\$1.49	\$1.55	\$1.63	\$1.72	\$1.81	\$1.90	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
4 kgal	\$1.35	\$1.41	\$1.48	\$1.56	\$1.64	\$1.72	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
3 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
2 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
1 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
0 kgal	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%



Residential Demand vs. Actual Usage

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



Water Utility Rate Recommendations

- All customers: 5% increase on all rate components
 - With phased adjustments in residential tiers 3 and 4
- Residential Service Charge: \$1.27 per month, from \$25.35 to \$26.62
- Residential average monthly seasonal consumption total bill: \$2.23, from \$45.03 to \$47.26
- 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.
- Lowering the eligibility for the Commercial and Industrial Large Water Service rate (W31.1) from 8,500 kgal per month to 6,000 kgal per month

Wastewater Utility Rate Recommendations

- All customers: 5% increase on all rate components
- Residential Service Charge: \$0.86 per month, from \$17.22 to \$18.08
- Residential average monthly consumption total bill: \$1.24, from \$24.77 to \$26.01
- Wastewater rates are not subject to seasonality. The monthly rate is adjusted annually based on the winter water average usage of the individual customer

Summary



Average Residential Customer Impact

Utility	Monthly	Annual
Solid Waste	\$1.07	\$12.84
Water	\$2.23	\$26.76
Wastewater	\$1.24	\$14.88
Total	\$4.54	\$54.48
Electric	\$1.50	\$18.00
Natural Gas	\$1.00	\$12.00

Enterprise Fund Fiscal Impact

The FY 2016/17 recommended utility rate/structure adjustments are anticipated to meet the revenue increase target of \$11,918,000

Utility	Revenue
Electric	\$211,000
Natural Gas	\$605,000
Water	\$5,548,000
Wastewater	\$3,107,000
Solid Waste*	\$2,447,000
Total	\$11,918,000

* Household Hazardous Waste Revenue not included

Enterprise Fund Reserves

	Actuals FY 14/15	Estimate FY 15/16	Forecast FY 16/17	Forecast FY 17/18	Forecast FY 18/19
Beginning Reserve					
Balance	\$45,251,990	\$46,631,854	\$48,840,885	\$47,185,611	\$38,513,374
Total Sources	\$325,531,829	\$336,226,149	\$342,603,720	\$360,888,488	\$379,977,022
Total Uses	\$314,920,541	\$334,017,118	\$344,258,994	\$369,560,724	\$383,651,403
Ending Reserve					
Balance	\$55,863,278	\$48,840,885	\$47,185,611	\$38,513,374	\$34,838,994
Ending Reserve					
Balance Percentage*	16.3%	14.2%	12.8%	10.0%	8.8%

* As a % of Next Fiscal Year's Expenditures

Schedule for FY 2016/17 Utility Rate Consideration

April 14 – City Council Discussion of Utility Rates

May 2 – Introduce Utility Rate Ordinances

May 16 – City Council Action on Utility Rates

July 1 – Effective date for Utility Rate changes

