UTILITY RATE REVENUE

Where Does it Go? What Does it Fund?

City of Mesa, AZ

06/26/2019  Presented by:

Candace Cannistraro, Management and Budget Director
# Utility Programs in the Enterprise Fund

<table>
<thead>
<tr>
<th>Citywide</th>
<th>Partial City Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Water</td>
<td>• Natural Gas</td>
</tr>
<tr>
<td>• Wastewater</td>
<td>• Electric</td>
</tr>
<tr>
<td>• Solid Waste</td>
<td>• District Cooling</td>
</tr>
</tbody>
</table>

2
NATURAL GAS SERVICE AREA

MESA

Gate Station 1

150 PSI HP Main

Gate Station 2

335 PSI HP Main

Gate Station 3
MESA

ELECTRIC SERVICE AREA
• Utilities are operated like a business
  • Services are provided to customers as opposed to the public in general
  • Rates are established for each service being provided

• Utilities tend to be more infrastructure/capital intensive
  • Meaning that there are usually substantial fixed costs to be covered such as the financing costs of a water plant or the capital costs of a fleet of trucks
UTILITY DIRECT EXPENSE CATEGORIES

OPERATIONS

LIFECYCLE/CAPITAL EQUIPMENT

INFRASTRUCTURE COSTS AND RELATED DEBT
SOLID WASTE
MAJOR OPERATIONS

- Personnel and related expenses
- Solid Waste vehicle fuel/maintenance
- Landfill and recycling charges
Electric Commodity

• Distribution System

Natural Gas Commodity

• Distribution System
Clean Drinking Water

Distribution System

Collection System

Intergovernmental agreements with other municipalities for processing capacity

Reclaimed Water
CAPITAL PURCHASES/EQUIPMENT

- Solid Waste vehicle acquisition
- General vehicle and equipment acquisition
- Water testing/laboratory equipment
UTILITY INFRASTRUCTURE COSTS AND RELATED DEBT

- Cost associated with the upgrade, replacement and enhancement of assets
  - *The processing facilities for Water and Wastewater*
  - *The distribution systems for Electric, Natural Gas, Water, and Wastewater*

- Most of the cost is financed through the issuance of debt
  - *Municipal bonds are long-term financing tools with principal and interest (debt service) payments made annually*

- Two percent of all utility revenues are set aside each year to fund system replacements and enhancements
PROCESSING FACILITIES AND DISTRIBUTION SYSTEMS
In 1945, the City Council eliminated a general-purpose revenue, the primary property tax. They authorized to increase the income of the utility department to support general governmental services. Today, the City continues to provide general governmental services without a primary property tax.
WHAT PROGRAMS ARE IN THE GENERAL FUND?

General governmental programs delivering services directly to residents

Police, Fire and Medical, Municipal Court, Parks and Recreation, Library, Mesa Arts Center, i.d.e.a. Museum, Natural History Museum, Transit, etc.

General governmental programs delivering general operations/business services to the City

Human Resources, Purchasing, Finance, City Attorney, Information Services, etc.
Public Safety Departments comprise almost 60% of the budgeted general governmental expenses and normally have the greatest increase in year-over-year costs.

The City transfers a set amount from the Enterprise Fund to the General Fund each year to partially cover these costs. In FY 19/20, the amount is $110.6M. The budget for the public safety departments is $273.9M.
ECONOMIC DEVELOPMENT PROGRAMS ARE PART OF THE ENTERPRISE FUND

- Services are provided to customers as opposed to the public in general

- Return on investment is experienced both directly and indirectly
  - *Investment in the facility is expected to generate a positive impact on the City as a whole*

- Successful programs may operate at a loss based on direct revenues

- Operating losses in the Economic Development Programs are covered by the reserve balance in the Enterprise Fund
  - *Utility revenues support economic development programs*
ECONOMIC DEVELOPMENT PROGRAMS IN THE ENTERPRISE FUND

- Sloan Park/Cubs Spring Training Facility
- Hohokam Stadium/A’s Spring Training Facility
- Convention Center & Amphitheater
- Dobson Ranch Golf Course
THE ENTERPRISE FUND IS LEVERAGED FOR ECONOMIC INVESTMENT PROJECTS

Utility revenues are leveraged to invest in development opportunities that will have a positive return to the City as a whole, such as:

- Increased utility accounts/consumption
- Increased local sales tax
- Increased private development
- Increase jobs/investment in the City
ECONOMIC INVESTMENT PROJECTS SUPPORTED BY THE ENTERPRISE FUND

Mesa Center for Higher Education
Benedictine University
Spring Training Multi-use Fields
Able Engineering
AZ Labs
Design for ASU @ Mesa City Center
The Studios @ Mesa City Center
CO+HOOTS @ Benedictine University
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility Operations</td>
<td>$144.5M</td>
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<tr>
<td>Utility Capital Equipment</td>
<td>$3.6M</td>
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<tr>
<td>Utility Infrastructure &amp; Debt</td>
<td>$84.2M</td>
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<tr>
<td>Contribution to General Fund/Public Safety</td>
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<tr>
<td>Economic Development Programs</td>
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<tr>
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<td>Category</td>
<td>Amount</td>
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<td>Utility Operations</td>
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<td>Utility Capital Equipment</td>
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IN SUMMARY
UTILITY REVENUES SUPPORT