

# Memorandum



## Municipal Budget Office

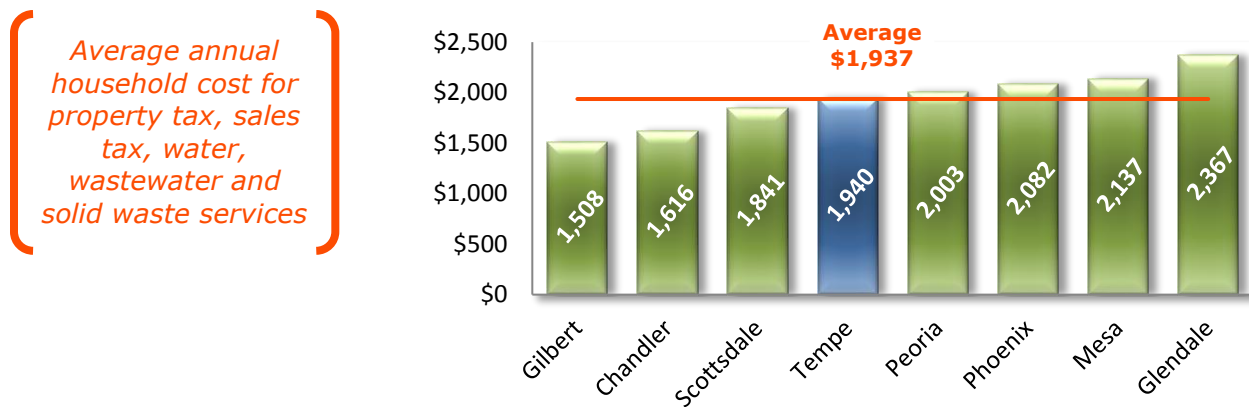
Date: July 11, 2018  
To: Mayor and City Council  
From: Lauri Vickers, Municipal Budget & Finance Analyst (480.350.8980)  
Through: Ken Jones, Deputy City Manager, Chief Financial Officer (480.350.8504)  
Cecilia Robles, Municipal Budget Director (480.350.8881)  
Subject: 2018 Comparative Cost of Services Report

Each year the Municipal Budget Office performs an analysis of the estimated annual amounts paid by the median residential Tempe household for direct services provided by the City of Tempe as well as the estimated total annual amount paid in City of Tempe property and transaction privilege (sales) taxes. These amounts are then compared to the estimated annual amounts paid by the same median residential household in seven comparison cities in the Phoenix metropolitan area.

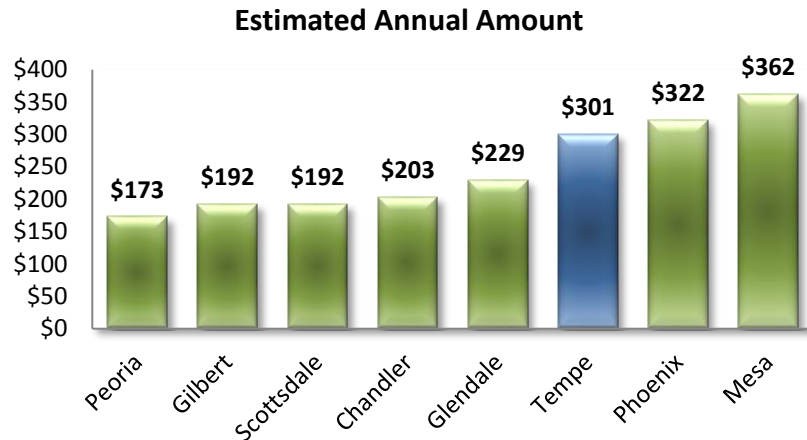
For purposes of this comparison, we utilized the property tax, sales tax and utility service rates as of July 2018. The analysis assumed the same household consumption amounts for all cities for both water and wastewater services. However, for property tax purposes, we utilized the median single family home value in each respective city in the analysis. The sales tax amounts are based on the Phoenix metropolitan area median household income. As such, this analysis is intended to reflect what the median residential household would pay for each of the services or pay in taxes in their respective city.

### Overview

Estimated Annual Cost

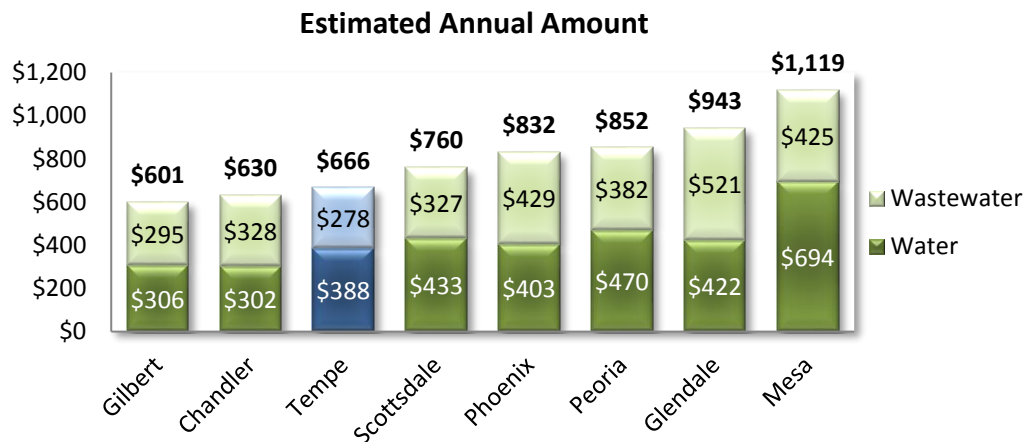


**Solid Waste**



The annual amount for single family residential solid waste services is estimated at \$301 for the City of Tempe. The amounts noted above are based on a residential customer with a once per week collection, based on the rates as of July 2018.

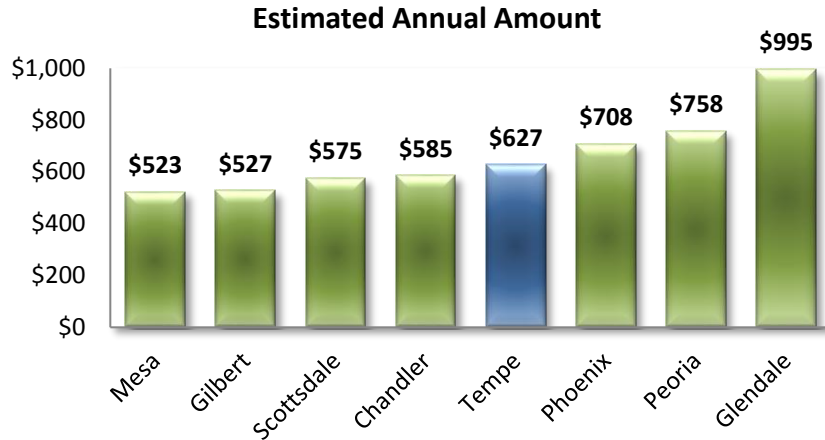
**Water and Wastewater**



The annual total amount for water and wastewater services for a single family residential customer in the City of Tempe is estimated at \$666. The annual water charge is based on a median single family residential monthly water consumption of 10,000 gallons, consistent with the most recent water rate study. It is assumed that this water consumption amount is applicable to the other cities in the comparison. As such, this consumption amount was applied to each respective city’s water rates as of July 2018 to derive the annual water costs.

The wastewater charges noted above are based on the median residential monthly billing amount of 7,000 gallons. The billable gallons are derived from a median residential monthly water consumption of 10,000 gallons, which is based on the three-month winter average water consumption (January – March billing statements), and then multiplied by a rate of return. For example, Tempe’s rate of return is 70%. When multiplied by 10,000 gallons, the result is 7,000 billable wastewater gallons per month. It is assumed that this monthly billing amount is applicable to the other cities in the comparison and is then applied to each respective city’s wastewater rates as of July 2018 to derive the annual wastewater costs.

### City Sales Tax



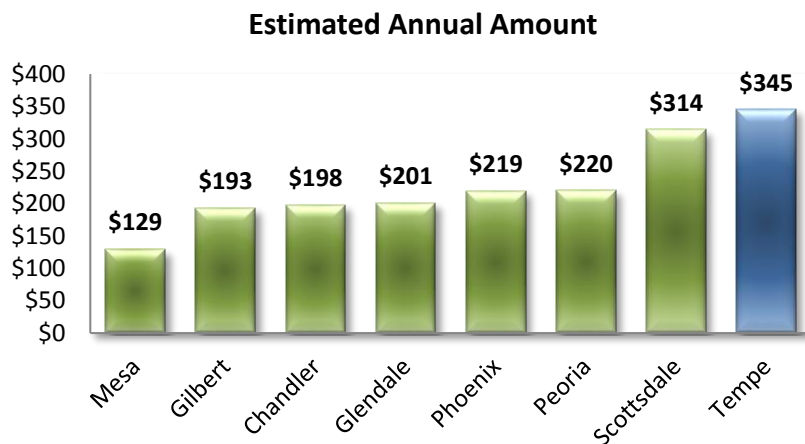
The annual amount that the median Tempe residential household will pay in City of Tempe sales tax is estimated to be \$627 for 2018.

For this analysis, we utilized the Phoenix metropolitan area median household income of \$68,583 per the U.S. Census Bureau, 2016 American Community Survey. As median incomes can vary between the cities, the Phoenix metropolitan area median household income was utilized so that a direct comparison could be made between cities.

The portion of this income that was spent on taxable purchases is estimated at 51% (\$34,840), as noted in the latest Consumer Expenditure Survey published by the U.S. Bureau of Labor Statistics (April 2018). We assumed that the portion of the median income spent on taxable purchases was spent within the household’s city of residence and applied to each city’s applicable sales tax rate.

Please note that many of the comparison cities in the analysis utilize different tax rates for various taxable activities. For example, the City of Glendale has an overall sales tax rate of 2.9%; however, sales at restaurants and bars are taxed at 3.9%. These variances were taken into account when calculating the annual amount of sales taxes paid.

### City Property Taxes



The annual estimated City of Tempe property tax amount is \$345. The property tax amounts shown above are based on each city’s FY 2018-19 primary and secondary rates and each city’s 2018 Limited Property Value (LPV) for the median single-family home. Starting in FY 2015-16, Proposition 117 requires the use of the LPV in levying both primary and secondary property taxes. The median single family LPV for each city, per the Maricopa County Assessor, is as follows:

Glendale	\$101,751
Phoenix	\$102,380
Mesa	\$126,085
Tempe	\$142,530
Peoria	\$153,093
Chandler	\$174,061
Gilbert	\$186,945
Scottsdale	\$284,928

It should be noted that the City of Mesa and the Town of Gilbert only levy a Secondary Property Tax.

**Summary of Utility Rates**

Most cities and towns in the study review rates on an annual basis to determine if there is adequate cost recovery and whether a rate increase is required. Listed below is a summary of the utility rate adjustments as of July 2018 and information related to any planned future rate increases:

**Overview of Rate Adjustments**

	Date of Last Change in Rates or Fees		
	WATER	WASTEWATER	SOLID WASTE
Chandler	October 2017	October 2017	October 2017
<i>Rate increases raised the median water charges by 1.1%, wastewater charges by 3.7%, and solid waste charges by 6.0% in October 2017.</i>			
Gilbert	July 2009	July 2009	July 2012*
<i>Rate increases have been approved for November 2018. The rate changes will increase the median water charges by 11.9%, wastewater charges will become a flat fee of \$24.73 (a 0.6% increase over the median), and the median solid waste charges will be reduced again by 7.5%</i>			
Glendale	January 2018	January 2018	January 2018
<i>Rate increases raised the median water charges by 5.5%, wastewater charges by 5.4%, and solid waste charges by 16.9% in January 2018.</i>			
Mesa	July 2018	July 2018	July 2018
<i>Rate increases raised the median water charges by 1.7%, wastewater charges by 2.5%, and solid waste charges by 2.0% in July 2018.</i>			
Peoria	July 2018	July 2018	July 2018
<i>Rate increases raised the median water charges by 3.0%, wastewater charges by 1.1%, and solid waste charges by 10.1% in July 2018.</i>			
Phoenix	March 2017	July 2017	July 2014
<i>No rate increases are planned at this time. Prior to the 2017 water and wastewater rate increases, Phoenix had not changed the rates for four years</i>			
Scottsdale	November 2017	July 2018	July 2009
<i>Rate increases raised the median water charges by 4.0%, and wastewater charges by 2.2%. Solid waste rates have not changed since 2009.</i>			
Tempe	January 2018*	January 2016	January 2018
<i>Rate increases raised the median water charges by 3.4%, and solid waste charges by 9.1%. Wastewater rates were unchanged. Another 2.0% rate increase for solid waste is being considered for January 2019.</i>			

\* Rates for median residential customers were reduced.