

Memorandum



Municipal Budget Office

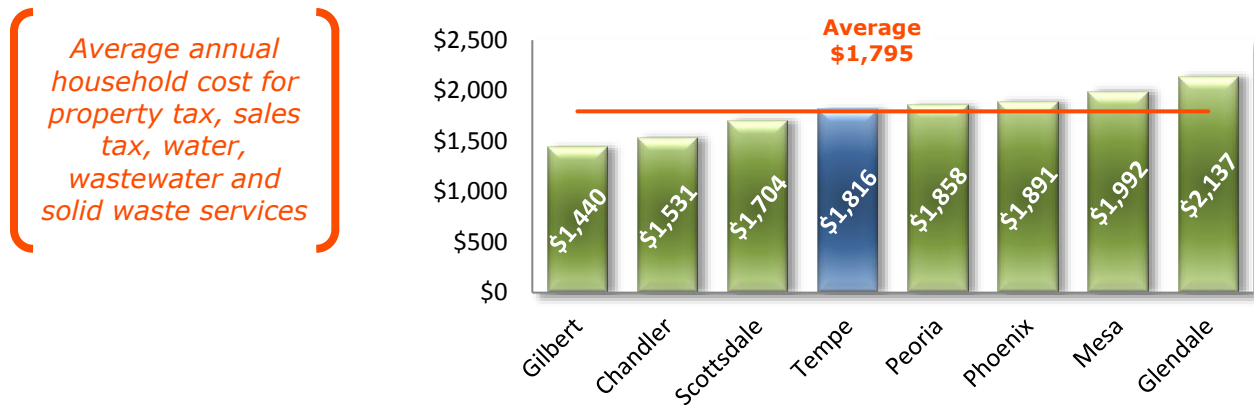
Date: July 12, 2017
To: Mayor and City Council
From: Lauri Vickers, Municipal Budget & Finance Analyst (480.350.8980)
Through: Ken Jones, Deputy City Manager, Chief Financial Officer (480.350.8504)
Cecilia Robles, Municipal Budget Director (480.350.8881)
Subject: 2017 Comparative Cost of Services Report

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.

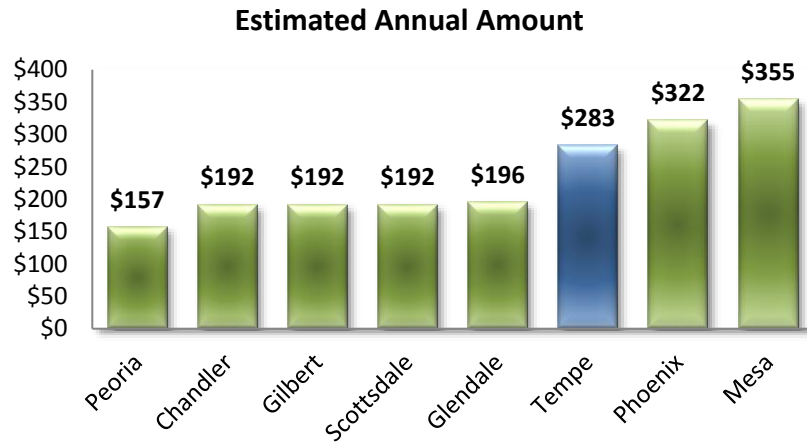
For purposes of this comparison, we utilized the property tax, sales tax and utility service rates as of July 2017. The analysis assumed the same household consumption amounts for all cities for both water and wastewater services. However, for property tax purposes, we utilized the median single family 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

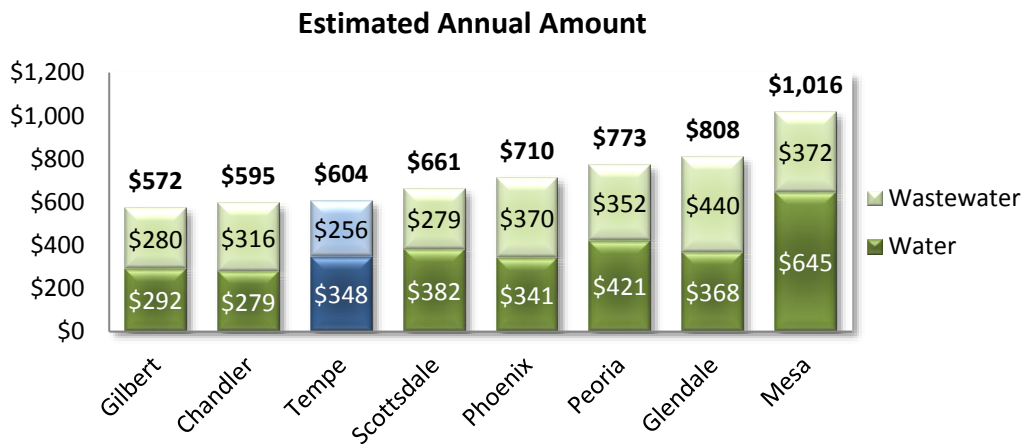


Solid Waste



The annual amount for single family residential solid waste services is estimated at \$283 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 2017.

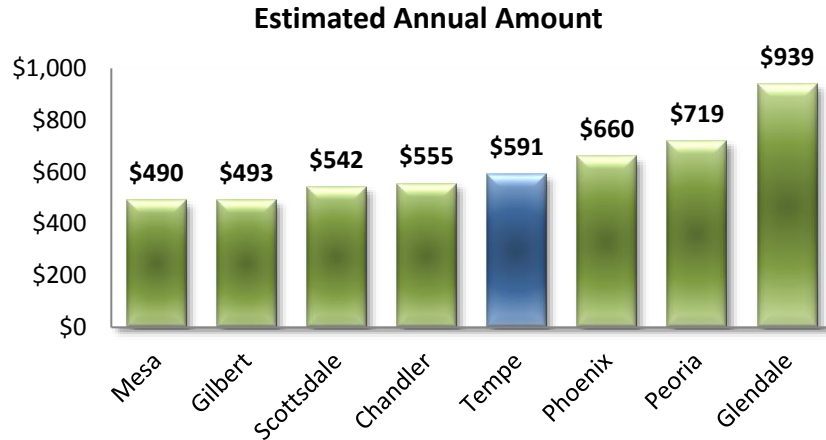
Water and Wastewater



The annual total amount for water and wastewater services for a single family residential customer in the City of Tempe is estimated at \$604. The annual water charge is based on a median single family residential monthly water consumption of 9,000 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 2017 to derive the annual water costs.

The wastewater charges noted above are based on the median residential monthly billing amount of 6,000 gallons. The billable gallons are derived from a median residential monthly water consumption of 8,570 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 8,570 gallons, the result is 6,000 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 2017 to derive the annual wastewater costs.

City Sales Tax



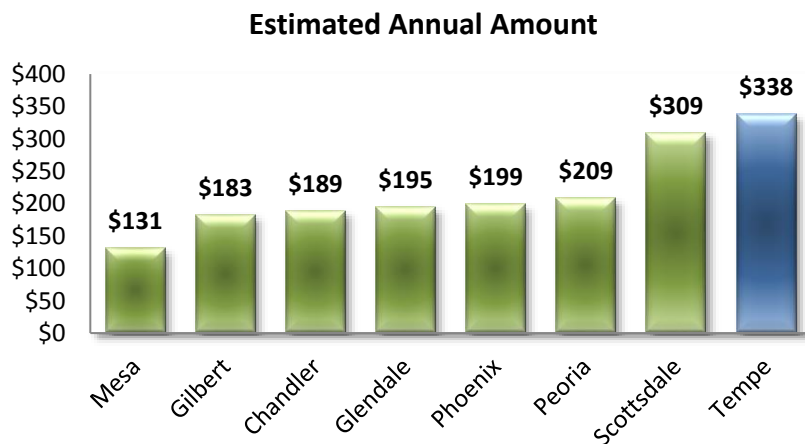
The annual amount that the median Tempe residential household will pay in City of Tempe sales tax is estimated to be \$591 for 2017.

For this analysis, we utilized the Phoenix metropolitan area median household income of \$65,556 per the U.S. Census Bureau, 2015 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 50% (\$32,844), as noted in the latest Consumer Expenditure Survey published by the U.S. Bureau of Labor Statistics (April 2017). 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 \$338. The property tax amounts shown above are based on each city’s FY 2017-18 primary and secondary rates and each city’s 2017 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:

Phoenix	\$92,066
Glendale	\$93,849
Mesa	\$119,063
Tempe	\$135,443
Peoria	\$144,935
Chandler	\$165,541
Gilbert	\$177,765
Scottsdale	\$275,943

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 2017 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 2015	October 2015	October 2015
<i>Chandler has approved rate increases effective in October 2017. Water rates will increase by 0.9%, wastewater rates will increase 3.7%, and solid waste rates will increase 6.0%.</i>			
Gilbert	July 2009	July 2009	July 2012*
<i>No rate increases planned at this time. Solid waste rates for residential customers were reduced in July 2012.</i>			
Glendale	July 2010	July 2010	July 2008
<i>Rate increases for all services were presented to council in June, and the council asked for more public outreach and study. If rate increases are approved, they are expected to go into effect no earlier than November 2017.</i>			
Mesa	July 2017	July 2017	July 2017
<i>Rate increases raised the median water charges by 3.0%, wastewater charges by 4.0%, and solid waste charges by 3.4% in July 2017.</i>			
Peoria	July 2017	July 2017	July 2012*
<i>Rate increases raised the median water charges by 2.6% and wastewater charges by 1.6% in July 2017. Solid waste rates for residential customers were reduced in July 2012.</i>			
Phoenix	March 2017	July 2017	July 2014
<i>Water rate increases raised the median water charges by 2.0% in March 2017 and raised the median wastewater charges by 9.4% in July 2017.</i>			
Scottsdale	July 2016	July 2015	July 2009
<i>Scottsdale has approved rate increases effective in November 2017. Median water charges will increase 3.3%, and median wastewater charges will increase 1.1%.</i>			
Tempe	January 2016*	January 2016	January 2017
<i>The structure of the water rates was changed in January 2016. While rates were increased for higher usage tiers, they were decreased for lower usage tiers. Based on public feedback, the council decided to forgo proposed water and wastewater rate increases in January 2017. Further study and rate proposals will be considered for January 2018.</i>			

* Rates for median residential customers were reduced.