

Memorandum



Municipal Budget Office

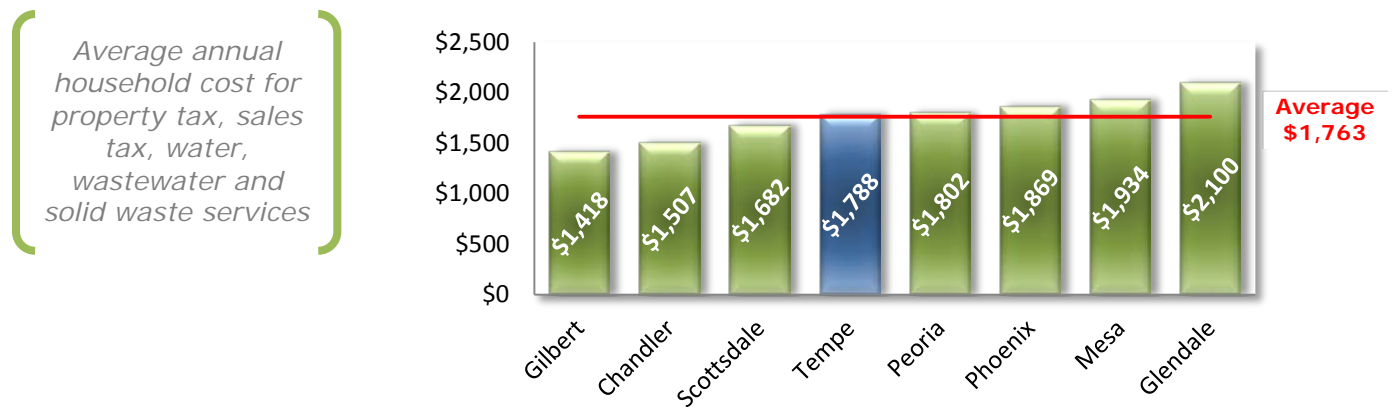
Date: July 26, 2016
To: Mayor and City Council
From: Lauri Vickers, Municipal Budget & Finance Analyst (480.350.8980)
Through: Ken Jones, Deputy City Manager, Chief Financial Officer (480.350.8504)
Cecilia Robles, Municipal Budget Director (480.350.8881)
Subject: 2016 Comparative Cost of Services Report

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 2016. 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

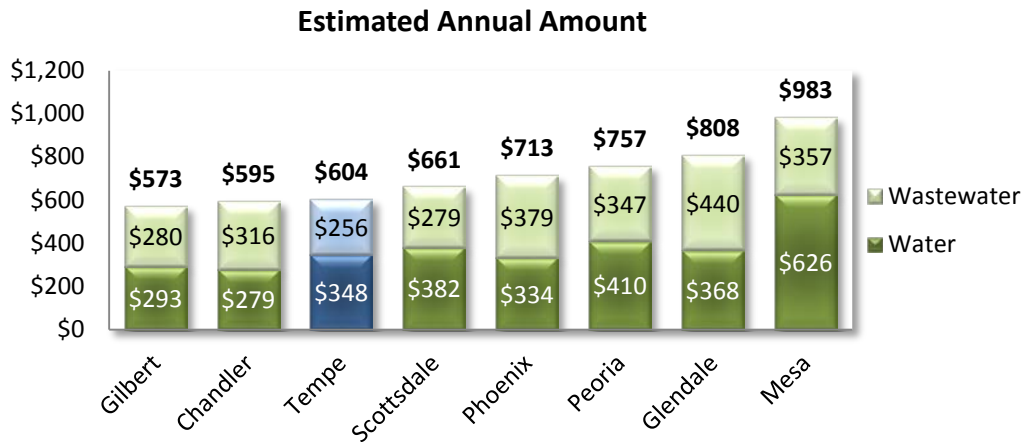


Solid Waste



The annual amount for single family residential solid waste services is estimated at \$276 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 2016.

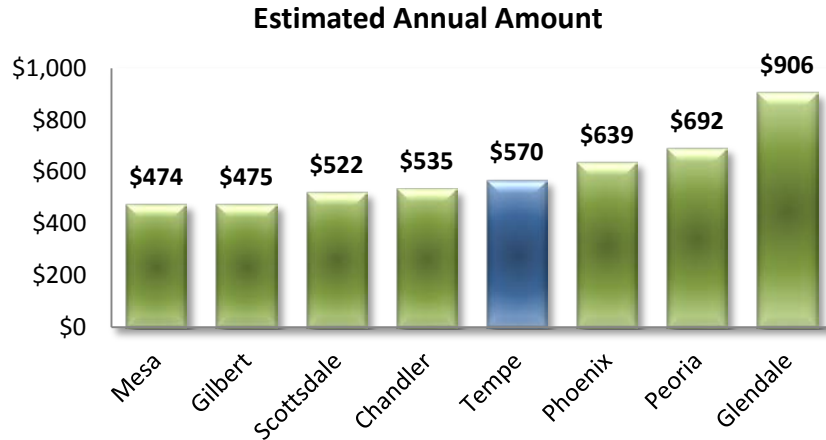
Water and Wastewater



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 2016 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 2016 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 \$570 for 2016.

For this analysis, we utilized the Phoenix metropolitan area median household income of \$64,201 per the U.S. Census Bureau, 2014 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 49% (\$31,651), as noted in the latest Consumer Expenditure Survey published by the U.S. Bureau of Labor Statistics (May 2016). 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



* Gilbert will not approve its FY 2016-17 secondary property tax rate until 8/9/2016, so the FY 2015-16 rate was used.

The annual estimated City of Tempe property tax amount is \$338. The property tax amounts shown above are based on each city's FY 2016-17 primary and secondary rates and each city's 2016 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	\$88,895
Phoenix	\$89,986
Mesa	\$114,363
Tempe	\$133,524
Peoria	\$135,828
Chandler	\$158,981
Gilbert	\$168,998
Scottsdale	\$272,020

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 2016 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>Wastewater rates increased 9.0%, solid waste rates increased 6.0%, and water rates are no longer seasonal as of October 2015.</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>No rate increases are planned at this time.</i>			
Mesa	July 2016	July 2016	July 2016
<i>Rate increases raised the median water charges by 4.2%, wastewater charges by 5.0%, and solid waste charges by 4.3% in July 2016. An annual rate increase is being proposed for each year through 2017.</i>			
Peoria	July 2016	July 2016	July 2012*
<i>Rate increases raised the median water charges by 2.8% and wastewater charges by 1.5% in July 2016. Solid waste rates for residential customers were reduced in July 2012.</i>			
Phoenix	March 2016	March 2016	March 2009
<i>Water rate increases raised the median water charges by 2.1% and wastewater charges by 7.6% in March 2016. However, they changed their rate of return on wastewater from 79% to 90% and that increased the annual water bill by \$45.00 on top of the amount due to the rate increase.</i>			
Scottsdale	July 2015	July 2015	July 2009
<i>Scottsdale raised its water rates in July 2015, but the increases did not affect the median residential customer. The base meter fee for wastewater was increased by \$0.50 in July 2015.</i>			
Tempe	January 2016*	January 2016	January 2016
<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, resulting in a 3.5% decrease for the median water charges. Wastewater and solid waste rate increases raised the median charges by 2.6% and 15.1% respectively in January 2016.</i>			

* Rates for median residential customers were reduced.