



City Council Report

Date: April 10, 2014
To: City Council
Through: Chuck Odom, Senior Executive Manager
From: Candace Cannistraro, Management and Budget Director
Subject: Fiscal Year 2014/15 Summary of Proposed Budget

Strategic Initiatives



Overview of Proposed Budget

In February of 2014, the Council received an update on the financial status of the City. At that time, available resources were projected for FY13/14 and forecasted for FY14/15. The cost of the current level of service was also projected for FY13/14 and forecasted for FY14/15. The combined forecast for FY14/15 illustrated a balanced general governmental budget with limited capacity for growth or new services.

Since then Executive Staff has met with each department to discuss and discern operational successes and concerns and to determine priorities for the upcoming fiscal year. Department directors have the ability to realign their financial resource allocation in order to meet their mission and operational needs. Additional financial allocation was limited to those areas experiencing the greatest expenditure pressures.

The proposed budget continues the City's commitment to providing quality services to residents in a fiscally responsible manner. The City continues to prioritize public safety, quality service, investment in the community, and investment in City employees.

General Government Operating Budget

General Governmental revenues in the City of Mesa come from three primary sources: City sales and use tax, state shared revenues and Enterprise Fund transfer. City sales tax, the largest of these sources, grew more than five percent in FY12/13, and is on pace to grow more than six percent in FY13/14. This growth is led by strong revenue in retail and contracting.

State shared revenue consists of Urban Revenue Sharing (state-shared income tax), State sales tax and vehicle license tax. The growth in Urban Revenue Sharing is the

result of gains in individual income. Urban Revenue Sharing revenue has a two year lag between the income reported and the receipt of revenues by the City so the budget is a known amount. It will increase more than nine percent in FY13/14 and more than eight percent in FY14/15. State-shared sales tax is also increasing, with forecasted growth of five percent in FY13/14. Vehicle License Tax revenue, the smallest contributor to state revenue sharing, has increased though at a more moderate rate of over three percent.

The Enterprise Fund transfer is the City's method of providing general funding for general governmental services such as police and fire as well as library and parks. The City of Mesa does not have a primary property tax as other municipalities do to fund these types of services. The transfer amount was increased during the FY13/14 budget process to catch up for many years of holding the transfer amount fixed. At that time, the City Council directed staff to review the transfer amount on a more frequent basis. The FY14/15 proposed budget does not include an increase to the transfer amount.

Mesa has experienced growth in General Government revenues, but has also faced pressure from increasing expenses. For example, when a park facility is constructed or enhanced, there is additional ongoing cost to the City to operate and maintain the park. As the economy has recovered, contracted services have become more expensive. In addition, employee costs continue to rise as retirement system payments continue to increase. As the cost of providing services has increased, Mesa continues to look for efficient ways of doing business while continuing to provide quality service.

Discussions with the two recognized labor associations are in process as both of the previously approved Memorandums of Understanding (MOU) expire in FY13/14. New agreements with possible budgetary impacts have not been included in the proposed budget for FY14/15.

The level of General Government reserves is estimated to be \$33.4 million at the end of FY13/14 (9.3% of the FY14/15 expenditure budget) and \$29.3 million at the end of FY14/15 (8.0% of the FY15/16 expenditure budget). The City's financial policies call for a forecasted fund balance (reserves) of 8-10% per fiscal year.

While the FY14/15 proposed budget is balanced, a reserve balance drawdown is included. If revenues and expenditures continue as outlined in the mid-year forecast, the City will need to restructure portions of the budget in preparation of the FY15/16 budget as there will be no capacity for a reserve drawdown that year. Revenues and expenditures will continue to be reviewed on an on-going basis to allow for proactive response to economic changes.

Enterprise Operating Budget

FY13/14 Enterprise Fund operating revenues are estimated to be \$309.1 million, plus one-time monies of \$24.2 million from the sale of City-owned land in Pinal County. The land sales revenues have been allocated to future debt service payments of the new spring training facilities. Planning for new accounts and incorporating utility rate

adjustment recommendations, FY14/15 operating revenues are estimated at \$328.4 million.

As economic conditions have improved, Mesa has experienced an increase in the number of utility customers. However, low economic confidence, increased efficiency in homes and appliances, and mild winter conditions have resulted in lower usage per account in several of the City's utilities. Steady revenue is the net result of additional customers and declining usage rates.

With the increase in utility customers comes demand to provide additional capacity and infrastructure to meet future needs. Of particular importance is Mesa's southeast region where little infrastructure is available but significant growth in development is anticipated. This is particularly true of water and wastewater utilities that are in need of new and upgraded facilities in order to meet the growth demands of new and future customers. The cost of meeting growth needs is reflected in the level of Enterprise Fund expenditures increasing from \$150.0 million in FY13/14 to \$165.4 million in FY14/15.

The level of Enterprise Fund reserves is estimated to be \$46.0 million at the end of FY13/14 (19.2% of the FY14/15 expenditure budget) and \$32.3 million at the end of FY14/15 (12.9% of the FY15/16 expenditure budget). The City's financial policies call for a forecasted fund balance (reserves) of 8-10% per fiscal year. The City forecasts expenses, revenues and reserve balances over a multi-year period. The reserve balance allows the City to react to increased expenses by smoothing necessary rate increases over multiple years, therefore avoiding rate spikes. As in FY14/15, the City will sometimes carry a reserve balance greater than 10% due to this rate stabilization philosophy. The current forecast calls for declining reserve balances for the next few years.

Restricted Funds Highlights

Transportation Related Funds

Transportation funds come from two sources. The State of Arizona collects Highway User Revenue Funds (HURF) and a portion of these are provided to cities. This is the fuel tax paid at the pump by the consumer. Arizona's three largest cities also receive an additional allocation of the revenues referred to as HURF 3%. The other component is a 0.30% Mesa city sales tax dedicated to street expenditures referred to as Local Street Sales Tax (LSST).

Highway User Revenue Fund. HURF and HURF 3% revenues are forecasted to have modest growth over the next few years, increasing from \$30.2 million in FY13/14 to \$30.7 million in FY14/15. The largest volatility in these revenues has historically come from adjustments in the distribution by the State. HURF distribution continues to be a topic of conversation in the State legislature during its current session, and discussions could lead to a restoration of funds previously diverted from cities and towns.

Local Street Sales Tax Fund. Local Street Sales Tax has experienced more significant growth than HURF revenues, increasing from \$24.4 million in FY13/14 to \$25.7 million in FY14/15. LSST revenue collection is tied to the rest of city sales tax, and, as

previously noted, is experiencing growth from increased activity, especially in the retail and contracting sectors.

HURF and LSST are managed together as both funds are restricted to streets related expenditures. The State's diversion of HURF revenues and the reduced sales tax receipts due to the recession have caused some street maintenance activities to fall behind the schedule anticipated when the LSST was approved. The City's street maintenance program outlines the highest priorities for allocation of available resources. Expenditures are modified to remain within available resources.

An increase in funding for street overlays brought the FY13/14 expenditure budget up to \$32.3 million, but is moderated in the FY14/15 expenditure budget of \$31.4 million. While strong growth in LSST revenue is expected, the growth is needed to meet operating expenditures and avoid spending down reserves. Ending fund balance for HURF and LSST combined are budgeted to decrease from \$29.6 million in FY13/14 to \$21.4 million in FY14/15.

Trust Funds

Employee Benefit Trust Fund. The Employee Benefit Trust (EBT) Fund is used to fund employee health benefits and other employee benefit programs that the City sponsors. It is funded through setting of medical and dental premiums that are paid partially by the employee and partially by the City. Total annual expenses over the last nine years have ranged from a low of \$36.9 million in FY04/05 to a high of \$56.5 million in FY10/11. Expenses have increased each year, with the exception of FY11/12 when the City renegotiated some contracts and implemented various cost containment measures. Total expenses are estimated to be \$62.5 million in FY13/14 and \$66.0 million in FY14/15.

Premiums are set on a calendar year basis. The current forecast does not call for adjustments to the 2015 medical/dental premiums as a whole. During the summer of 2014, plan design and premium structure will be reviewed. This review may affect premium distributions between categories or tiers of coverage, but should not affect overall City contributions. The City contribution for FY14/15 is \$5.5 million more than was budgeted in FY13/14 due to a combination of adding new retirees and a lack of a scheduled "premium holiday" in FY14/15. A "premium holiday" is a one-month reprieve for both employees/retirees and the City from paying the healthcare plan premiums. The City was able to use this tool during FY13/14 due to continued decreases in expenses from previously implemented cost containment measures. The general governmental impact of the increased City contribution is \$3.6 million.

Increases in expenditures are largely driven by increased medical, prescription drug and dental costs and Affordable Care Act mandatory fees. Each year City staff reviews the plan design and benefits. City staff also reviews and recommends wellness programs. The city is in the process of opening a new wellness center that will provide service to employees and their families at no cost to the employee. The City anticipates a positive effect on future expenses by encouraging preventative screenings as well as diverting medical care from higher-cost facilities. The City has not established a particular reserve level for the Employee Benefit Trust Fund. City staff reviews cost trends for the

various benefit plans and the effect of approved or pending legislation in order to assess future risk to the EBT Fund.

Worker's Compensation Fund. The Worker's Compensation Fund is used to fund claims related to employee work-related injuries. Total annual expenses have been fairly consistent over the last ten years ranging from a low of \$3.5 million to a high of \$5.4 million but have increased modestly in the last few years. FY13/14 total expenses are estimated at \$5.6 million and total expenses for FY14/15 are estimated at \$6.5 million.

Departments are required to contribute to the Worker's Compensation Fund each pay period for each of their employees. Required contributions to the fund are estimated each year and included as expenses in department operating budgets. Expenses are reviewed during the fiscal year and rates can be modified as needed. Pending worker's compensation claims are valued at the total estimated payment, which may occur over many years based on the type of injury. The current reserve policy sets the reserve target at the amount sufficient to cover the current year portion of claims and related costs.

The FY14/15 proposed budget includes an increase in the City contribution of \$2.9 million over the FY13/14 budget for a total contribution of \$7.6 million. The general government impact is \$1.9 million. This City contribution looks large due to a scheduled decrease in the City contribution in FY13/14 combined with a modest increase in the anticipated cost of claims. The estimated ending fund balance in FY14/15 is \$6.5 million.

Property and Public Liability Fund (PPL). The Property and Public Liability (PPL) Fund is used to pay claims related to lawsuits against the City. The value of claims paid can vary significantly by year. Over the last ten years, annual claims ranged from \$0.8 million to \$6.6 million, with an average of \$2.7 million per year. Claims are projected to be \$3.4 million in FY13/14 and \$3.0 million in FY14/15. The length of time from the submission of a claim to its final resolution can take over a year, contributing to the high variability of annual costs.

PPL Fund expenses can vary greatly from year to year. The City's current reserve practice is to target a \$12.0 million reserve balance. The contribution needed to maintain the reserve level is estimated each year and included in the City's budget. Expenses are reviewed during the year and the contribution amount can be modified if necessary.

Staff has reviewed the claim expense history since FY03/04 and recommends that the fund target for the reserve balance be set at \$10.0 million. The FY14/15 proposed budget includes reducing the FY13/14 City contribution to the PPL fund by \$3.3 million. \$1.3 million to maintain the previous reserve target and \$2.0 million to reduce the reserve balance to \$10.0 million. The result is one-time savings in FY13/14. The FY14/15 budgeted City contribution is \$5.6 million.

Grants

The City pursues grants to fund projects, implement or enhance programs, and fund the acquisition of new equipment. While the application for grant funding requires preparation time by City staff as well as subsequent tracking of grant expenditures, grant awards provide the City with the means to fund services that would not otherwise be funded in the City's budget. Not all grants applied for are awarded to the City. The City includes grants currently being applied for in the adopted budget to allow for budget authorization capacity.

Police Grants

Anticipated grants to be received by the Mesa Police Department are \$430,000 less in FY14/15 than in FY13/14. The multi-year COPS Hiring Grant concluded in FY13/14. The COPS grant was greatly diminished in its final year, only funding \$0.3 million toward the position costs of the 25 police officers originally funded with the grant. The remaining reduction of police grant funding is the result of reduced grant awards from state and federal agencies as compared to FY13/14.

In the FY14/15 budget, funding of \$1.1 million for 11 School Resource Officers (SRO) has been re-categorized from the Grants Fund to the General Fund, along with SRO program reimbursement of \$1.0 million.

The Police Department anticipates receiving \$1.8 million in grant awards for FY14/15. Notable grants applied for include the following:

- Governor's Highway Safety Office Grant - \$479,500 for DUI enforcement activities, equipment for drug screening, overtime for officers, and forensic equipment to support the City's traffic safety program.
- Homeland Security Grant - \$833,641 for the acquisition of new radio equipment, an upgrade to the department's Explosive Ordnance Disposal (EOD) Robot, and equipment supporting homeland security activities.
- Justice Assistance Grant - \$231,000 for the acquisition of license plate readers and surveillance cameras.
- Forensic Labs Grant - \$244,000 for the acquisition of new forensic equipment, overtime costs for forensic staff, as well as travel and training costs.

Fire and Medical Grants

Grant funding to the Mesa Fire and Medical Department (MFMD) is anticipated to increase by \$5.6 million to \$7.9 million in FY14/15. Notable grants applied for include the following:

- The 2013 Regional Assistance to Firefighters Grant (AFG) for the acquisition of Self Contained Breathing Apparatus (SCBAs) for \$3.0 million. The General Fund would provide a \$0.3 million match if the grant is awarded.

- The Affordable Care Act (ACA) Innovation Grant for \$4.6 million to support the department's Transitional Response Vehicle (TRV) Physician Extender and Behavior Health Unit Programs in providing high-quality, immediate patient care at the point of calling for low-level emergencies. By eliminating the need for the patient to be transported to the emergency room, these innovative programs assist the patient in avoiding transport and emergency room fees. Both of these programs will save millions of dollars in healthcare costs, while improving emergency room resource allocation at local hospitals to patients with more serious medical conditions. No grant match required.

Housing & Community Development Grants

The Housing and Community Development Department oversees a variety of programs designed to provide safe, decent, and affordable housing and a suitable living environment within the City of Mesa. To accomplish this task, the Department has assumed a number of vital roles within the community. One role is the management of the following U.S. Department of Housing and Urban Development (HUD) programs:

- Housing Choice Voucher Program (Section 8) - the HUD-funded program provides rental assistance to low-income families for decent, safe, and sanitary housing by contracting with private owners and subsidizing a portion of the family's monthly rent. Since housing assistance is provided on behalf of the family or individual, participants are able to find their own housing, including single-family homes, townhouses and apartments.
- Mainstream Voucher Program (Section 8) - mainstream program vouchers enable families having a person with disabilities to lease affordable private housing of their choice. Mainstream program vouchers also assist persons with disabilities who often face difficulties in locating suitable and accessible housing on the private market.
- The City of Mesa Housing Authority operates the HUD-Veterans Affairs Supportive Housing (VASH) program (Section 8), which provides rental assistance for chronically homeless veterans and their families, while the Veterans Administration in Phoenix provides case management and clinic services at its medical centers and community clinics.

These three Section 8 programs are funded at a combined \$9.3 million in FY13/14 and \$11.4 million in FY14/15.

Furthermore, the City is a designated entitlement community by the Department of Housing and Urban Development (HUD). The Department oversees the following Community Development programs designed to revitalize neighborhoods, promote economic development, and improve community facilities and services:

- Community Development Block Grant (CDBG) - ensures decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. This program is funded at \$2.5 million in FY13/14 and \$2.6 million in FY14/15.

- HOME Investment Partnership (HOME) - helps communities expand the supply of decent, safe, sanitary and affordable housing, with primary attention to housing for low income families. The HOME Investment Partnerships Program (HOME) funds a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. This program is funded at \$0.8 million in FY13/14 and \$0.9 million in FY14/15.
- Emergency Shelter Grant (ESG) - provides essential services related to emergency shelter, rehabilitation and conversion of buildings to be used as emergency shelters, operation of emergency shelters, and homelessness prevention services. This program is funded at \$256,000 in FY13/14 and \$244,000 in FY14/15.
- Neighborhood Stabilization Program (NSP) – funding to revitalize housing in specific areas of the City to sell to qualified residents. The funding allows the City to acquire foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program was funded at \$4.6 million in FY 13/14 which was from prior years grant awards. FY 14/15 funding is \$123,000, which is new program income. NSP is still ongoing and uses unspent funds from prior years to accomplish revitalization of housing.

Environmental Fee Fund

The Environmental Compliance Fee (ECF) is applied to each utility account customer to meet the projected costs of Federal and State environmental mandates. Neither the Federal nor the State government provides funding for these environmental mandates

The current \$5.38 monthly ECF is anticipated to generate \$10.6 million in revenue in FY14/15. The current fee cannot fully fund the City's environmental activities such as air quality, storm water quality, hazardous waste management, and asbestos management. Environmental compliance activities have experienced inflationary pressures over the last few years. The contract costs to maintain the stormwater basins have increased the greatest with high rate increased during the last renewal period.

In order to fund all Environmental Compliance Fee eligible expenditures, an increase in the fee of \$1.94 is included in the FY14/15 budget. This increase is expected to generate the additional \$3.8 million needed to cover the funding gap.

City-wide Adjustments to Budget

Some budget adjustments affect all funds and departments across the City in varying degrees, such as changes in the cost of personal services. These types of adjustments are discussed here.

State Retirement Plan Contributions

FY14/15 contribution rates for State-run retirement plans increased as follows:

Retirement Plan	FY13/14 Rate	FY14/15 Rate	Rate Change	Increased Annual Cost (All Funds)
Arizona State Retirement System (ASRS)	11.30%	11.48%	+0.18%	\$269,000
Elected Official Retirement System (EORP)	39.62%	57.49%	+17.87%	\$47,000
Public Safety Personnel Retirement System (PSPRS) - Fire	28.26%	29.98%	+1.72%	\$467,000
Public Safety Personnel Retirement System (PSPRS) - Police	31.21%	33.07%	+1.86%	\$1,041,000
Total				\$1,824,000

Funding is included in the FY14/15 budget to fund these higher rates.

In February 2014, the Arizona Supreme Court ruled that some cost-saving reforms made in 2011 to State-run public pension plans were unconstitutional. The magnitude of the impact to cities in towns is not yet known, but it is expected that contribution rates will increase significantly in FY15/16.

Step-Pay

In accordance with the City's compensation plan, the FY14/15 budget includes step-pay funding of 5% for those employees that qualify. Each year position costs are recalculated based on the employee in the position at the time. This accounts for promotions, reclassifications, terminations and retirements. The effect is not a comparison from one fiscal year to another, but from the recalculated base to the projected amount.

True-up of Fleet Equipment Expenses

Vehicles are a necessary tool to provide many of the services that the City offers its residents. The annual Fleet Services budget is based on forecasted expenditures for fueling, maintaining, and repairing citywide vehicles and equipment (excluding Fire and Medical vehicles, which are maintained separately). City departments budget equipment expense annually based on forecasted usage (mileage or hours) to cover the forecasted expenditures for the equipment and vehicles assigned to their department.

The FY14/15 budget "true's up" City department budgets for vehicle maintenance and usage costs. The cost of fuel, parts, and labor has steadily increased over time. During the most recent economic downturn, those increased costs were paid for with savings in other areas of department budgets. Departmental savings are no longer available to cover the higher equipment usage costs. Therefore, it is necessary to adjust department budgets to fully fund these costs.

The most significant adjustments to department equipment usage budgets are:

- Police Department adjustment of \$1.8 million for a total of \$5.4 million
- Solid Waste Department adjustment of \$1.6 million for a total of \$7.4 million

In prior years, the equipment usage budget for these two departments required a mid-year budget adjustment to cover actual expenditures.

Health Plan Contributions – Employee Benefit Trust

In order to minimize cost, the City funds many of its employee and retiree benefits internally through the Employee Benefit Trust (EBT) Fund. To maintain adequate reserves in FY14/15 in order to pay employee and retiree health (medical, dental, vision) and life insurance claims, the City is contributing \$5.5 million more than in FY13/14 to the EBT Fund. The FY14/15 budget anticipates keeping 2015 health plan premiums at the same level as 2014. Premiums are updated on a calendar year basis and will be reviewed in full over the summer. The increase in the City contribution is caused mainly by the lack of a scheduled “premium holiday” as was experienced in FY13/14. A premium holiday is a one-month reprieve for both employees/retirees and the City from paying healthcare premiums to the EBT fund. Claim expense experience that is less than anticipated allows for the use of this reserve management tool.

Capital Improvement Program (CIP) Highlights

As outlined in the Council's Economic Development strategic initiative, the City continues to place a high priority on infrastructure investment to attract and service future development. The proposed CIP includes the planning for an expansion of a water reclamation plant and the design and construction of a new water treatment plant as well as the associated distribution infrastructure. The funding of the projects is contingent on the approval of additional utility revenue bond authorization by Mesa voters in November 2014. The debt service on utility revenue bonds is funded through the utility rates paid by customers.

Continuation of citizen initiated and approved Parks projects, as well as recently approved Public Safety and Transportation projects, is included in the proposed CIP. Planned park improvements include renovation of Pioneer Park and development of parks in the northeast area of Mesa. The relocation of Fire Station 203 on the west side and the replacement of a police helicopter will ensure the City has the proper resources to address public safety needs. Scheduled street improvements approved by voters include the next phase for Mesa Drive and the Fiesta District. These projects are funded through general obligation bonds. The debt service on general obligation bonds is funded through a secondary property tax as approved by voters in the ballot language for the bond authorization.

Also included in the proposed CIP are some projects currently being discussed for inclusion in a possible November 2014 utility bond authorization election. The projects will serve as budget capacity placeholders in the adopted budget. The projects may proceed upon successful passage of an election. If an election is not held or is not approved by the voters, alternate funding would need to be found for the projects or they would not go forward.

Lifecycle Replacement Program

The lifecycle replacement effort focuses on identifying and developing a multi-year plan for purchase of items (or technology) that have a mid-range useful life and should be replaced on a regular basis. Scheduled replacement allows that City to avoid expenditure spikes that can impact the City's ability to deliver services. A citywide plan is evaluated and prioritized to meet the operational needs and available resources of the City. Examples include computer cycle replacement, pool equipment replacement, and the City's vehicle replacement program. On an ongoing basis, departments review and identify operational expenditures which can be included in a replacement schedule in which the anticipated expenditures can be planned.

Many lifecycle needs were identified during the FY14/15 budget process that are not able to be funded. Staff will continue to identify and analyze needs city-wide to create a comprehensive plan to assist in prioritization for if/when additional funding is available.

Department Highlights

The following section highlights the budgetary impacts within each department and is not meant as an overall highlight of the wonderful and innovative activities occurring around the City.

Public Safety Departments

Communications

The Communications Department converted two positions to contract staff. This will allow the department more flexibility in the City positions and the ability to contract specialty skill sets.

The Communications budget includes \$1.0 million in FY14/15 and \$7.5 million over the next four years for the TOPAZ Voice Radio Network Equipment Upgrade project included in the lifecycle replacement program. This project will upgrade the City's existing communications network to ensure reliable radio service for first responders.

Fire and Medical

Mid-Year Adjustments in FY13/14 added 2.8 FTE to the Mesa Fire and Medical Department (MFMD) at a cost of \$252,809; 1.5 FTE to provide for administrative and support staff in the Fire Planning and Research Section, 0.5 FTE to add a part-time position to the Fire Wellness Office, and 0.8 FTE to convert a temporary position to part-time position for the Fire Life & Safety Community Outreach program.

The FY14/15 General Fund budget for MFMD includes the addition of 5.0 FTE for Public Safety Dispatcher positions at a cost of \$340,265. Savings from other services and commodities within the department were used to offset the costs of the new positions. Due to increased fuel costs, \$115,000 was added to the department budget in FY13/14.

Information on Fire and Medical grants is included in the grant section of this report.

Municipal Court

Court Sustainability Fee revenue for FY13/14 is anticipated to meet the forecasted amount of \$425,000 for half of the year. In FY14/15, only \$658,000 is estimated for the entire year because of fewer citations being issued, which equates to significantly less fine and fee revenue being collected overall. Total revenues collected by the Court in FY13/14 is anticipated to be \$1.7 million less than budgeted and hold at this level through FY14/15.

The Court has been accumulating revenues from the allocation of Judicial Collection Enhancement Fund (JCEF) received each year. The funds are being used in conjunction with State funds on the implementation of the new the Arizona Judicial Automated Case System (AJACS) that is scheduled to be on-line soon.

Police

In the FY14/15 budget, funding of \$1.1 million for 11 School Resource Officers (SRO) has been re-categorized from the Grants Fund to the General Fund, along with SRO program reimbursement of \$1.0 million.

The Police Department budget includes 6 new School Resource Officers as part of an Intergovernmental Agreement with Mesa & Gilbert Public Schools. The new SRO positions add \$629,000 in on-going position costs to the General Fund along with \$82,000 in one-time costs for FY14/15. The IGA will provide annual reimbursement of \$594,000 that will pay for a substantial portion of the ongoing costs for these positions. The positions are contingent on the school districts receiving a grant.

Deferred compensation for sworn police employees increased in FY13/14 as part of a memorandum of understanding approved by the City. An on-going budget adjustment of \$201,000 is included to cover the additional costs in FY14/15.

Police vehicle equipment maintenance and fuel costs have increased in recent years and are funded in the FY14/15 budget at an additional cost of \$1.8 million in the General Fund. Jail costs in the General Fund increased by \$365,000.

The FY14/15 budget includes funding to replace a forensic Gas Chromatograph Mass Spectrometer (GCMS) lease with a purchased unit. The cost of the new instrument is expected to be about \$130,000. The purchase eliminates \$33,500 of ongoing lease costs. Three similar leased instruments were replaced in FY13/14, saving the City \$108,000 in ongoing cost.

Information on Police grants is included in the grant section of this report.

*Utility Departments*Energy Resources

The Energy Resources budget has minimal adjustments in FY14/15. Mid-year adjustments approved in FY13/14 increased the FY14/15 budget. These adjustments include: continued support of businesses along the light rail through the Neighborhood Economic Development Corporation (NEDCO) program and incentives for solar power.

Solid Waste

The Solid Waste Department budget includes an adjustment in FY14/15 for higher vehicle and landfill costs. The City is moving forward with plans to save operating costs by converting the Solid Waste vehicle fleet from diesel to compressed natural gas (CNG) over the next seven years. New landfill and recycling contracts are in place and savings in time and fuel costs is beginning to be realized. The possibility of setting up an eastside Solid Waste facility is currently being considered. The move would make daily operations more cost-effective. The tools and technology to maintain a competitive, customer service driven business operation are continually reviewed and upgraded. The FY14/15 budget includes \$1.4 million for a new Solid Waste software system that that will increase productivity while also enhancing service quality.

Water Resources

The FY14/15 budget for the Water Resources Department includes an adjustment for increased water purchase costs of \$1.6 million, with continued increases of approximately \$1.0 million per year for the next four years. Savings of \$0.3 million in chemical costs as a result of improved upstream watershed management to prevent contamination from forest fires and savings of \$0.3 million from reduced power usage associated with greater efficiencies in the distribution of water and wastewater treatment are included in the budget.

The department is continuing to plan for, develop, and maintain necessary water infrastructure throughout the City. Efforts are being made to keep pace with economic development activity such as Apple and Eastmark in the eastern part of the City, as well as to replace and maintain existing infrastructure in the northern and western parts of the City. Planning is underway for construction and operation of a new water plant and expansion of an existing wastewater treatment plant.

*Other Departments*Arts & Culture

The Mesa Arts Center (MAC) will receive contribution-in-aid funding from the MAC Foundation to support the conversion of a temporary position into a full-time position (1.0 FTE) for education outreach programming at the MAC. The position conversion adds approximately \$65,000 in personal service costs.

The i.d.e.a. Museum will be expanding the operating hours of the Gallery Education Program, resulting in an increase to personal service costs of \$3,000 for affected part-time non-benefited positions. A contribution-in-aid grant from Target will offset the increased personal services costs.

Business Services

The FY14/15 budget includes \$325,000 for an upgrade to the Business Services Utility Billing/Customer Information System (CIS). The system is no longer supported by the vendor. The new version will be compatible with mobile devices. The project is included in the Information Technology Department budget. The Business Services budget includes an increase of \$492,000 to fund increases in credit card fees charged to the City. The majority of these fees are charged to the various utility programs in the Enterprise Fund due to customers using credit card to pay their utility bills. The department is working on ways to reduce these fees.

City Attorney

The City Attorney's Office oversees the Property and Public Liability (PPL) Fund claims and related expenses. The City uses the PPL Fund to purchase insurance coverage to protect the City against major losses. The estimated cost for claims in FY14/15 is similar to FY13/14 however the budget for insurance premiums has increased by \$380,000. A factor contributing to the increase is the purchase of a new type of insurance, cyber insurance. Cyber insurance protects the City from electronic theft of information.

A new Assistant City Attorney I position was added to the budget in FY14/15 to assist with the workload of the office.

City Clerk

The budget for City Clerk's Office is adjusted each year for the cost of possible elections. FY14/15 includes the 2014 election, so the department budget includes \$431,000 for the estimated cost of the election. The budgeted funding is split half to the General Fund and half to the Enterprise Fund based on the possible ballot questions.

City Manager

The Mesa Counts on College grant concluded in FY13/14 with a decrease to grant funding of \$251,270 in FY14/15. Continued funding for the Mesa Counts on College program was approved in FY13/14 with \$57,000 of ongoing funding for non-personal service expenditures coming from the General Fund. The remaining \$51,270 in grant supported position costs for the Mesa Counts on College program has been re-allocated to the General Fund making the program now fully supported by the General Fund in FY14/15.

Development and Sustainability

The Development and Sustainability Department budget includes 11.5 mid-year positions added during FY13/14. The ongoing annual cost of these positions is estimated at \$937,000. Four of the new positions were created to provide

technical expertise in the areas of building plan review and inspections as a result of increases in economic development activity, such as the new Apple facility. One of the new positions was created to ensure that the storm water inspection guidelines for private and City construction sites are met. A half-time Building Plans Reviewer position was added to provide service to residential owners on small remodeling and addition projects. Two planning positions were added to respond to current and projected planning pre-submittals, and to provide technical expertise for rezoning and large plat activities. Five positions were added to respond to the current workload in Plan Review and Building Inspections activities to be covered by the increase in Development Services revenue the City has been receiving.

Development and Sustainability's forecasted revenues for FY14/15 are significantly higher than FY13/14 budgeted revenue. In the Planning area, revenue projections were increased by 80.9% (\$0.6 million to \$1.0 million) mainly due to an increase in activity related to subdivision development. Development Services revenue projections increased by 16.8% (\$7.2 million to \$8.4 million) primarily due to an increase in the activity for both residential and commercial development.

The FY13/14 budget included \$2.3 million of one-time funding, including \$2.0 million to replace the aging permitting system and \$235,000 for temporary staff working in Planning and over-the-counter residential plan review. The existing permitting system is obsolete and is minimally supported by the vendor. Replacing the system will result in savings to the City and to the development community by reducing printing costs and increasing productivity of professionals responsible for preparing, submitting, and correcting development plans. The system is mainly funded through the technology fee which is charged on each permit and service charge and restricted for use on technology maintenance and improvements.

The Development and Sustainability Department is anticipating that it will receive \$225,000 more in grants in FY14/15.

Economic Development

The Office of Economic Development (OED) is preparing an application to the Office of Economic Adjustment (OEA) for a \$135,000 grant to provide additional resources to the City to offset the operating costs of AZ Labs. The City is funding \$40,000 in personal services costs for a Project Manager position with the General Fund in advance of this award. In FY13/14, Economic Development did not receive the OEA grant award and position costs of \$110,424 are funded by the General Fund.

The City entered its fourth year of a five-year contract with Alion for property management services at the AZ Labs facility, while OED has been successful in holding down contract costs over the past three years, the service contract is increasing by about \$139,000 for FY14/15 as outlined in the original contract. The contract with the Greater Phoenix Economic Council (GPEC) is ticking up in

FY14/15 as well due to an increased per capita cost and population growth. The ongoing cost of the contract increase to the City General Fund is about \$25,000.

To better manage the activity in downtown Mesa, the expenditure budget has been coordinated into one location of Economic Development. In the FY14/15 budget, Downtown Mesa Association (DMA) contract and utility expenditures are \$603,755 while parking and lease revenues from downtown parking garages are \$411,474. Rental revenues of \$700,000 from Able Engineering, as well as a pass-through expenditure of equal value to Phoenix Mesa Gateway Airport, were also added to the budget for FY14/15.

Engineering

The FY14/15 Engineering Department budget includes a \$603,548 decrease due to budget capacity being transferred to other departments. Engineering costs such as staff/consultant work that was previously being funded by the Engineering Department will now be charged to the department benefitting from the services. The budget for the impacted departments has been increased in response.

Office of ERP Management

The Office of ERP Management is the organization of a new area that was created during FY13/14. The area consists of one manager, two security analysts and three trainers that all support citywide business systems, collectively called an ERP (Enterprise Resource Planning), implemented as part of the CityEdge project. The department was created by transferring six existing positions from various departments (2.5 from Financial Services, 1.5 from the Office of Management and Budget, 1 from Business Services and 1 from Human Resources). FY14/15 sets the initial base budget for this area.

Facilities Maintenance

The Facilities Maintenance Department has converted funds previously used for temporary staff to a permanent Accounting Specialist position.

Falcon Field

Falcon Field Airport continues to host an annual open house event inviting the public to see the facilities and aircraft that operate out of the airport. Over the years this event has been very successful and attendance has grown to over 17,000. The FY14/15 department budget includes additional funds of \$22,000 to meet the costs of this growing event.

Financial Services

During FY13/14, 2.5 positions were transferred from Financial Services to the new Office of ERP Management.

Housing and Community Development

The Housing & Community Development Department's FY14/15 budget for Community Planning and Development (CPD) grants is slightly higher than in FY13/14.

The Department's General Fund budget is increased by \$7,800 for fleet service costs that can only be covered by Housing and Urban Development (HUD) with an approved cost allocation plan. The City does not currently have an approved plan.

Human Resources

During FY13/14, the Human Resources Department inactivated five temporary positions previously assigned to the City's CityEdge project, transferred one position to the new Office of ERP Management, and added a new Human Resources Specialist II position.

The FY14/15 Employee Benefit Trust (EBT) Fund budget is increased by \$1.5 million for the City's new Wellness Center program. The EBT Fund budget also includes a one-time increase of \$0.5 million for a software implementation to replace the existing claims system. The existing system is no longer supported by the vendor. The new system will provide better access to data and reporting.

The FY14/15 budget for the Workers Compensation Trust Fund includes an increase of \$265,000 due to an increase in forecasted claims.

Information Technology

The FY14/15 Information Technology (IT) Department budget includes a reduction of two Information Technology Architect I positions (2.0 FTE). The personal service savings will be utilized to fund expanded licensing for business analytics capability to meet the needs of City departments.

The savings will also fund hardware and subscription services to begin moving certain technology services to "the cloud." IT evaluates the use of cloud computing in certain areas in order to reduce costs, utilize resources not available within the City, or to augment internal capacity in order to meet the City's technology needs. For example, IT test lab equipment is due for replacement in FY14/15 and IT will consider using the cloud to provide replacement options rather than continuing to replace City-owned hardware.

Library

The Library Department continues to review business delivery methods, including the use of existing positions. The department takes advantage of opportunities as they arise. During FY13/14, the net result of the reorganizations was the reduction of 0.2 FTE.

Office of Management and Budget

There was movement both in and out of the Office of Management and Budget (OMB) in FY13/14 resulting in a net increase of 2.5 FTE. Two positions were added to expand the Performance Excellence team. In addition to providing process and organizational review and analysis for City departments, the team assists departments in resolving workflow and system issues with the new financial system. Two years ago, the City created a Management Associate

Program that selects Master of Public Administration (MPA) graduates and develops them over four years with oversight by OMB. The final two original Management Associate positions were added during FY13/14. Also in FY13/14, one and a half positions (the other half position was in Financial Services) were transferred to the new Office of ERP Management. In the FY14/15 budget, one higher-level position has been converted to two lower-level positions in order to provide support for Advantage management reports for both financial and performance data. There was no effect on the budget for the conversion.

Mayor and Council

In FY13/14, \$40,000 was shifted from the City Manager's budget to supplement the Mayor and Council's budget. The travel budget for the Council was underfunded given the Council's enhanced involvement and representation of Mesa with state, regional and national organizations. A \$40,000 ongoing budget adjustment is included for Mayor and Council travel in FY14/15.

Parks and Recreation

The FY14/15 budget for the Parks, Recreation and Commercial Facilities (PRCF) Department includes funding of \$1.4 million for increases in the cost of vendor contracts and \$138,000 for increases in vehicle usage expenses. Some of these additional costs are eligible to be funded by the Environmental Compliance Fee (ECF). An increase in the ECF fee is being recommended for FY14/15 in order to cover these increased costs.

The Department is working to develop and maintain the new and enhanced parks facilities included in the approved 2012 bond election package. The FY14/15 budget includes 8.9 new FTE to support the on-going operations of new parks and pools. Expansion of the City cemetery is also underway. In addition, several new "Pocket Parks" are being developed along roadways in various areas of the City. Efforts are being made to meet increasing public demand at other PRCF venues, such as at the City's pools and at the Red Mountain Multigenerational Center.

Public Information and Communication

The Public Information and Communications Office received a one-time increase of \$62,235 for website improvements.

Transit

The Transit Services budget is largely determined by contracts with the Regional Public Transportation Authority (RPTA) and METRO Light Rail for bus, para-transit and light rail operations. Light rail construction to extend the line to Mesa Drive continues on schedule to begin service in November 2015. The project may be completed early and METRO may be ready to begin service to Mesa Drive as soon as May 2015. Funding is included in the FY14/15 budget to begin operating light rail to Mesa Drive in May 2015. Planning for extension of the line to Gilbert Road is in progress.

In FY14/15, the Transit budget is more than \$1.0 million less in contractual services due to a change in delivery method for Dial-a-Ride services and the unification of bus service in the East Valley cities.

Transportation

Adjustments approved as part of the FY13/14 budget process continue to be funded in the FY14/15 Transportation Department budget. These adjustments of approximately \$3.0 million include additional: street overlays, efforts to clean debris from alleys, alley gates to help control illegal dumping in alleys, and operations and maintenance for capital projects. Currently, no adjustments are included in the FY14/15 budget.