



## City Council Report

Date: May 21, 2018  
To: City Council  
Through: Michael Kennington, Chief Financial Officer  
From: Candace Cannistraro, Management and Budget Director  
Subject: Tentative Adoption of the Fiscal Year 2018/19 Budget

### Overview of Tentative Budget

The budget continues the City's commitment to providing quality services to residents in a fiscally responsible manner. The priority to provide and maintain quality core services is balanced with cost containment methods and program evaluations to achieve efficient use of resources.

The total tentative budget for FY 18/19 is \$1.82 billion. This includes an annual operating budget of about \$1.37 billion and the annual portion of the five-year capital improvement program (CIP) budget of about \$446 million. Included within the operating budget is \$59.8 million in carryover, \$163.7 million in potential bond refunding, and \$102.6 million in contingency budget authorization.

With respect to the possibility of a new Public Safety sales tax and/or General Obligation bond authorization, budget capacity has been included. The contingency amount includes: \$8.4 million in possible sales tax receipts, possible public safety projects in the CIP with a "2018" funding designation, and a placeholder in the CIP for possible parks and culture related projects. If the questions are not placed on the November ballot, or the questions are not approved by the voters, then the budget capacity will not be utilized.

The tentative adoption of the budget sets the maximum expenditure budget amount for FY 18/19. The budget summary is then published on the City's website and in the local paper for two consecutive weeks before the public hearing and final adoption of the budget take place.

There are projects that will not be completed, and items ordered that will not be received before the end of the fiscal year. These expenditures will occur in the following fiscal year and therefore budget capacity will be needed. The City identifies these “carryover” expenses separately on the budget document to allow for better year-over-year budget comparisons.

The carryover expenses must be added to the FY 18/19 budget and included in the City Council budget appropriation as State law does not allow prior year budget authorization to be used in a subsequent year.

### **State Expenditure Limitation/Home Rule**

The State sets the maximum expenditure budget amount for municipalities based on the FY 79/80 adopted budget adjusted for population and inflation. The Mesa voters approved a Home Rule option in November 2014 that allows the City to determine its own expenditure limitation, within available resources. Home Rule approval is effective for four fiscal years. In the case of Mesa’s 2014 Home Rule option, this includes FY 15/16 through FY 18/19.

### **Modifications since Proposed Budget Summary**

#### *Local Sales Tax*

Increased sales tax revenues have continued through the fiscal year. Projected growth rates for FY 17/18 have been adjusted from an increase of 3.8% over FY 16/17 to an increase of 4.4%. This new base has been carried through FY 18/19 and results in a \$1.0M increase in forecasted revenue.

#### *Community Services Department*

An animal control officer position was presented to Council but added after the proposed budget summary was distributed.

#### *Development Services Department*

The historic preservation officer position included in the proposed budget has been replaced with placeholder funding for either a position or a professional services contract. A small business assistance position was presented to Council but added after the proposed budget summary was distributed.

#### *Fire and Medical Department*

An annual training allowance of \$360,000 was added to back-fill response units while employees are completing training. This allows the units to stay in service on a constant basis.

*Information Technology Department*

A business analyst position was added to support departments with software projects. This is an expansion of a successful program piloted with the Municipal Court.

*Mayor and Council*

Due to changes in State statute (SB 1478) to fully fund the Elected Officials Retirement Plan (EORP), the City's contribution to this retirement plan increased by \$219,000.

*Municipal Court*

On February 8, 2018, the Judicial Advisory Board (JAB) reviewed and discussed the salary and benefits of the Mesa Presiding City Magistrate and City Magistrates and compared their salary and benefits to those of other Maricopa County cities. The JAB noted the Mesa magistrates had not received a salary increase since 2014. The recommendation of the JAB was to increase the salary of the Presiding City Magistrate and City Magistrates within a range of 9% to 12%.

It is recommended that the salary increase is phased in over two years with the Presiding City Magistrate and City Magistrates receiving a 5% increase to their base salary for fiscal year 2018/19 and with the intent that there would be a 5% increase to their base salary for fiscal year 2019/20 as part of next year's budget approval. Unless otherwise stated by Council, the Council's approval of the 2018/19 Budget includes a 5% increase for the Presiding City Magistrate and City Magistrates effective July 1, 2018.

*Transportation Department*

Per City Council direction, \$250,000 has been added to the capital improvement program for a pedestrian signal at Southern/Eastern Canal.

**Comparison of FY 18/19 to FY 17/18 General Governmental Funds Budget**

The expenditure budget for the General Governmental Funds for FY 18/19 is \$445.4 million (excludes carryover), compared to \$417.5 million (excludes carryover) for the FY 17/18 adopted budget.

The significant changes occurred in the Infrastructure Support category and the Transfers Out to the capital fund. As mentioned during the budget wrap-up presentation, the operations and capital costs to maintain the existing facilities and City infrastructure have increased over time. The majority of the costs are contained in the Facilities Maintenance portion of Parks, Recreation and Cultural Facilities, Information Services, Engineering, and the Project Management Program.

Another notable change involves the public safety departments. The FY 17/18 budget included the public safety pension contribution with the 20-year unfunded liability payments schedule. The 18/19 budget includes the 25-year payment schedule, resulting in a \$4.0 million savings between the Police Department and the Fire and

Medical Department. This offsets some of the increased cost of each department. \$2.0 million from this savings is allocated as a stabilization reserve for unanticipated future rate increases. This allocation is not reflected in the public safety departments as it will occur in the Transfers Out category.

The Police Department budget also reflects an additional \$2.6 million in savings for jail services. The FY 17/18 only reflected savings of about \$1.0 million to allow for more experience to take place with the new contract. The FY 17/18 budget also contained \$2.1 million in one-time personnel funding to allow time for civilianization/attrition of positions. If these three items are excluded from the review, the Police Department General Governmental budget would have increased \$5.8 million.