

COUNCIL MINUTES

March 1, 2018

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on March 1, 2018 at 7:31 a.m.

COUNCIL PRESENT

John Giles
David Luna
Mark Freeman
Christopher Glover
Francisco Heredia
Kevin Thompson
Jeremy Whittaker

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Dee Ann Mickelsen
Jim Smith

1. Review items on the agenda for the March 5, 2018 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflict of interest: None.

Items removed from the consent agenda: None.

Item removed from the agenda: 5-a to be continued to a future Regular Council meeting.

2. Information pertaining to the current Job Order Contracting Projects.

(This item was not discussed by the Council.)

City Manager Christopher Brady stated that this item will be included in the City Manager's update and placed on a Council study session agenda for discussion when needed.

3-a. Hear a presentation and discuss the City's financial forecast on the General Governmental Funds.

Management and Budget Director Candace Cannistraro introduced Management and Budget Deputy Director Brian Ritschel who displayed a PowerPoint presentation. **(See Attachment 1)** She commented that the General Governmental Funds represents the General Fund and the Quality of Life Fund, which includes Public Safety.

Ms. Cannistraro reviewed the process for financial and revenue forecasting. She pointed out that since the recession in 2008 the City has been in a moderate recovery and that staff is adding an

economic correction into the revenue forecast starting in Fiscal Year (FY) 2020/21. (See Pages 2 through 4 of Attachment 1)

Ms. Cannistraro explained the General Governmental Operating Revenues and clarified that the Urban Revenue Sharing (income tax) is a known number, the Enterprise transfers are set by Consumer Price Index (CPI) growth, and the remaining revenues are forecasted. She noted that Local Sales Tax has many components, with the majority of the sales tax revenues from retail sales. (See Pages 5 through 7 of Attachment 1)

Ms. Cannistraro stated that General Fund transfers are typically to the Arts and Culture and Transit Funds. She explained the General Governmental Expenditures and noted that the increase in FY 2018/19 is due to the pension increase in FY 2017/18. (See Page 11 and 12 of Attachment 1)

In response to a question posed by Mayor Giles, Ms. Cannistraro responded that the increase in personal services is due to transferring the Police positions from sworn to civilian and that during the transition period the City is paying sworn personnel to continue the civilian duties until the position is filled.

City Manager Christopher Brady explained that the City's goal is to increase the number of officers out on patrol by having the administrative and investigative areas civilianized. He noted that the number of sworn officers are fewer, however, the City will have more sworn officers on patrol, once all the civilian transitions have been filled.

Ms. Cannistraro pointed out that the General Governmental Fund balance chart shows a line item for the future economic correction. She explained that those funds will be set aside so when the economic correction happens the City can maintain quality services. (See Pages 13 and 14 of Attachment 1)

Discussion ensued relative to the required General Fund balance, main contributors to the General Fund increase (local sales tax, Public Safety retirement system, and building permits), compounding of revenue costing, and reserve balance amount to maintain ratings with various agencies.

In response to a question posed by Councilmember Whittaker, Mr. Brady remarked that the City has increased utility rates at a minimum of 2% annually since the 1940's. He noted a revenue increase of 70% or elimination of fund balance drawdowns would need to occur in order to eliminate the need to increase utility rates. He mentioned that the transfer would be eliminated or reduced significantly if there were a primary property tax.

Discussion ensued relative to primary property tax implementation, exemptions to primary property taxes, and that a primary property tax would need voter approval.

Mayor Giles confirmed that in the 2006 General Election, voters rejected a primary property tax.

Ms. Cannistraro reviewed the forecasted budget for General Government through FY 2022/23 and highlighted the next steps. (See Pages 15 and 16 of Attachment 1)

Mayor Giles thanked staff for the presentation.

4. Scheduling of meetings and general information.

City Manager Christopher Brady stated that the schedule of meetings is as follows:

Thursday, March 1, 2018, 10:00 a.m. – THINKspot Grand Opening

Monday, March 5, 2018, 8:00 a.m. – Strategic Planning Session

Monday, March 5, 2018, 5:45 p.m. – Regular Council Meeting

6. Adjournment.

Without objection, the Study Session adjourned at 8:32 a.m.




JOHN GILES, MAYOR

ATTEST:


DEE ANN MICKELSEN, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 1st day of March 2018. I further certify that the meeting was duly called and held and that a quorum was present.


DEE ANN MICKELSEN, CITY CLERK

Financial Forecast

General Governmental Funds

March 1, 2018

City of Mesa

Presented by: Candace Cannistraro, Management and Budget Director
Brian Ritschel, Management and Budget Deputy Director



Financial Forecasting

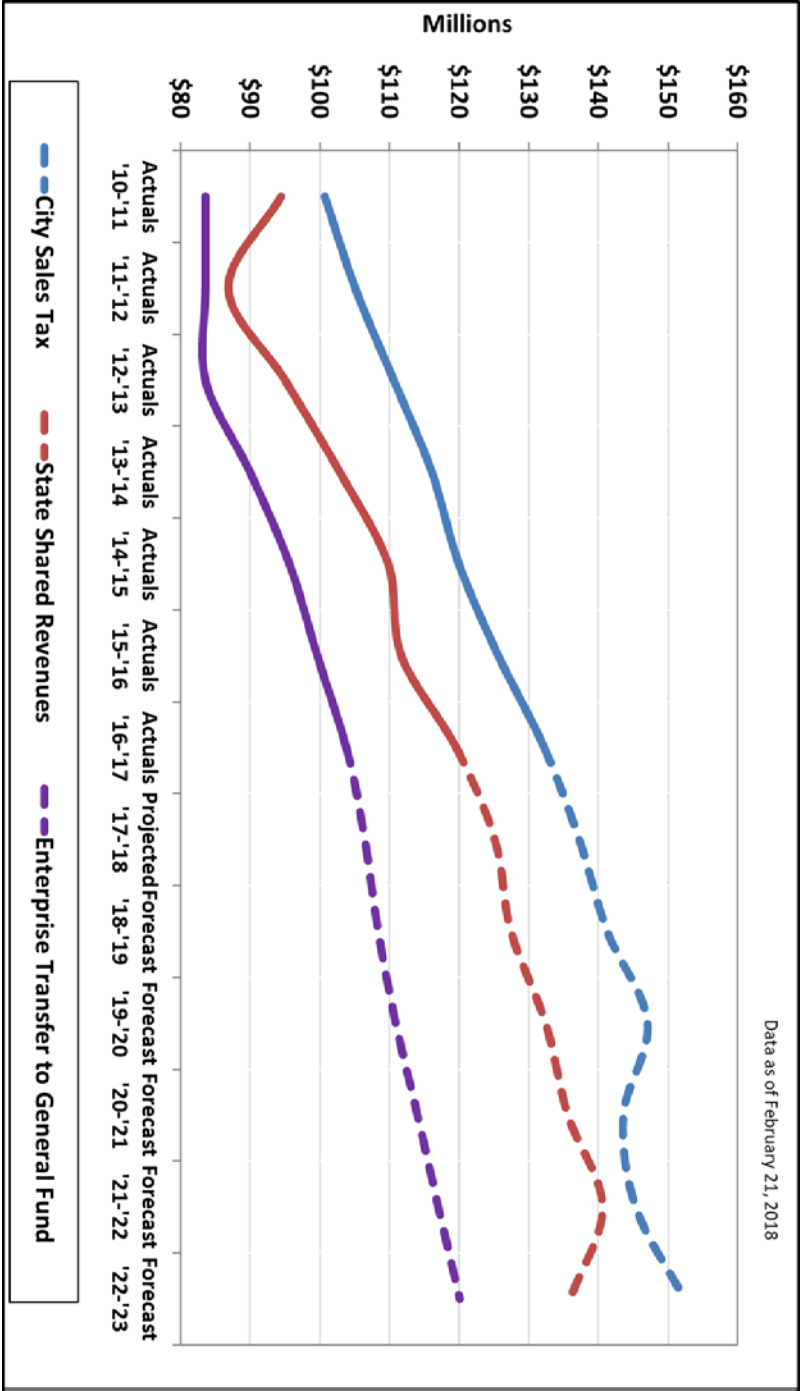
- The city uses current expenses and revenues along with historical trends as a basis to forecast future expenses and revenues over multiple years
- Multi-year forecasting allows for evaluation of the sustainability of programs and services
- Future needs are incorporated to enhance ability to plan
- The city's financial policies call for the use of on-going revenues for on-going expenses



Revenue Forecasting

- The city subscribes to a forecast group out of the University of Arizona which allows for access to raw data regarding econometrics
- Statistical software is applied in house to analyze the correlation between economic trends and the city's revenue sources
- Relevant economic indicators are considered such as: population growth, wages, unemployment, building permits, gas prices, etc.
- Mesa specific factors are applied such as economic development activities, retail trends, etc.
- Includes an economic correction estimate

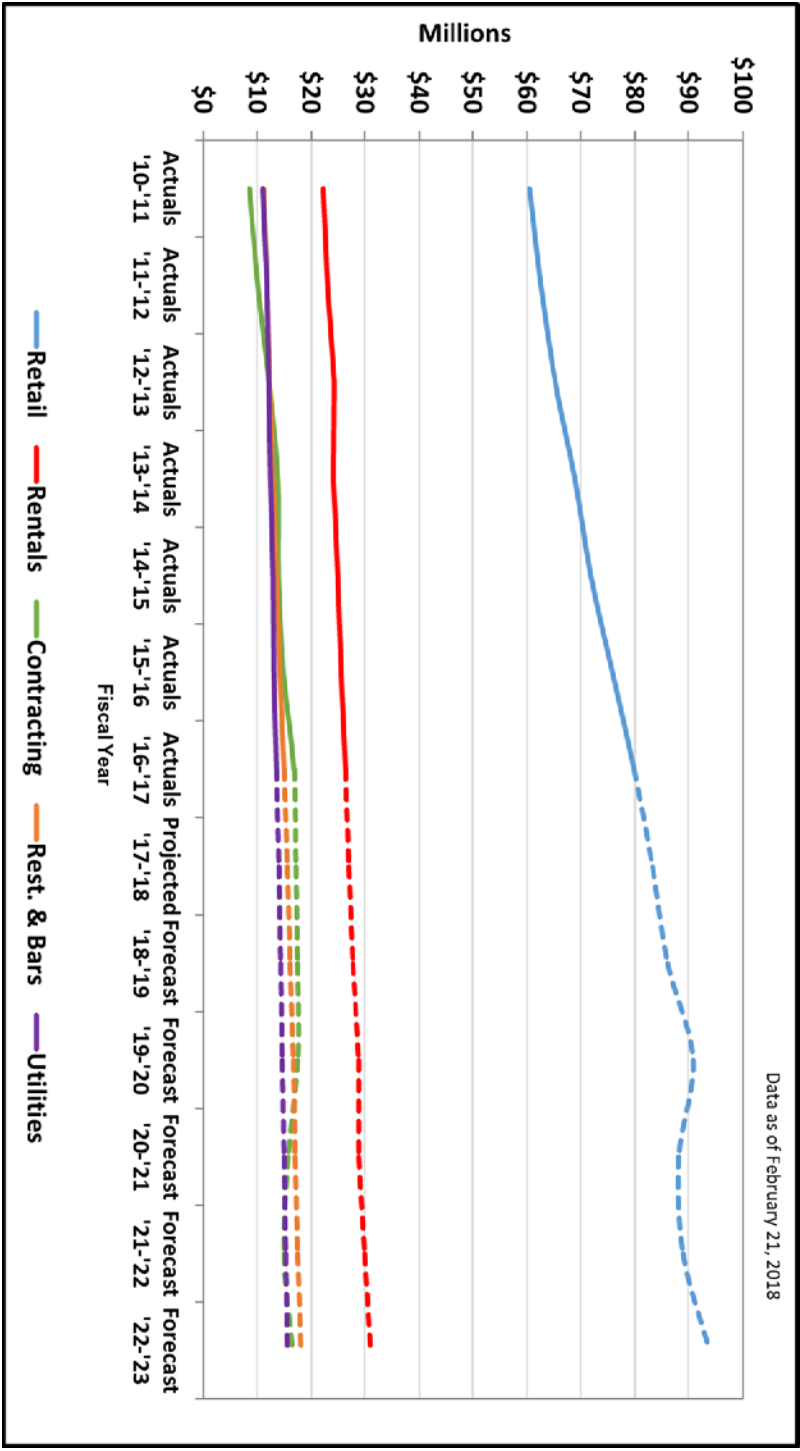
General Governmental Revenues



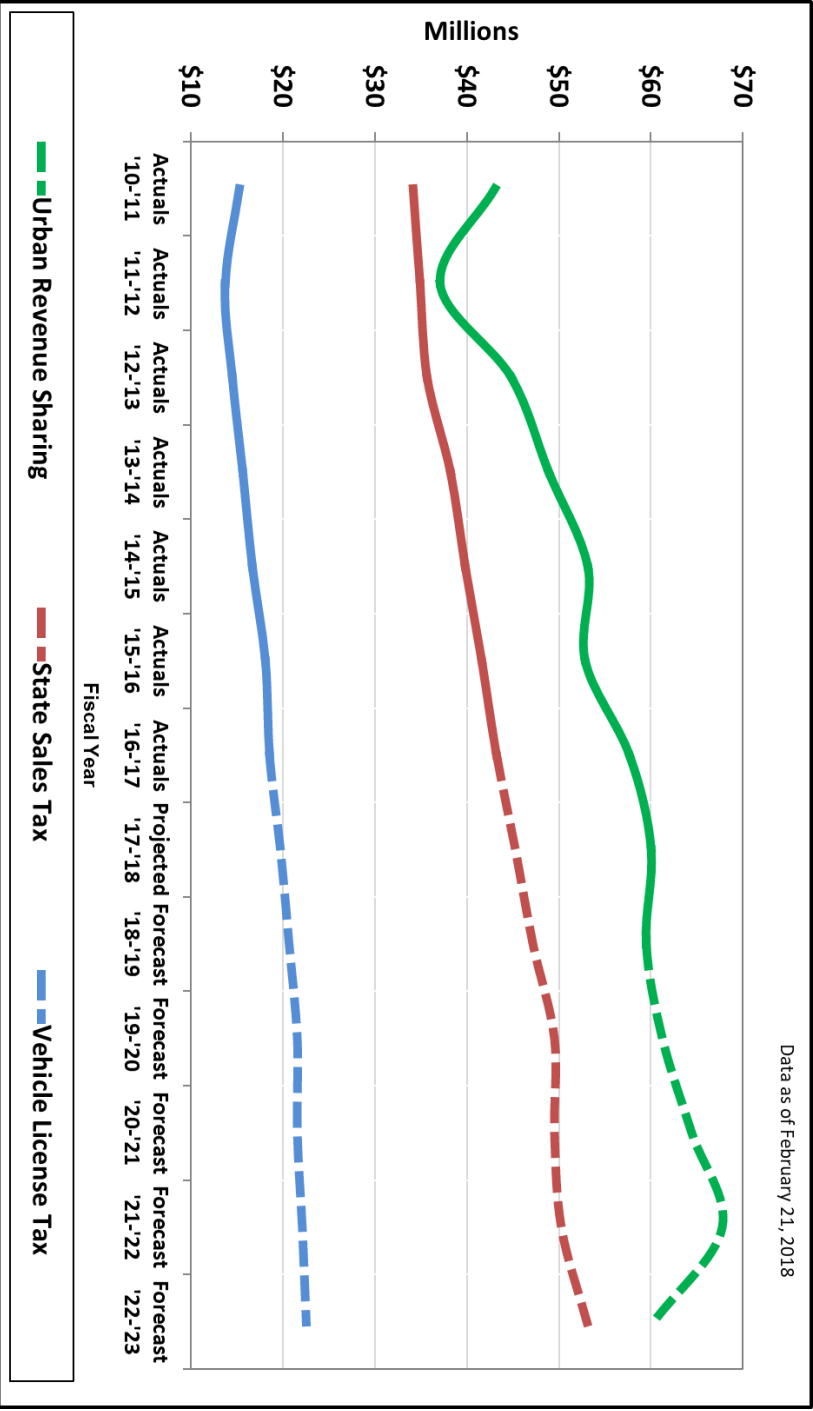
General Governmental Operating Revenues

	FY 16/17 Actuals ⁽¹⁾	Change From FY 15/16	FY 17/18 Budgeted ⁽¹⁾	FY 17/18 Projected ⁽¹⁾	Change From FY 16/17	FY 18/19 Forecast	Change from FY 17/18 Projected
Local Sales Tax	\$132.3	5.1%	\$134.8	\$137.3	3.8%	\$141.3	2.9%
State Shared Revenues							
State Sales Tax	\$43.3	3.9%	\$45.6	\$45.3	4.7%	\$47.2	4.2%
Urban Revenue Sharing	\$57.7	9.2%	\$59.3	\$60.0	4.0%	\$59.5	-0.9%
Vehicle License Tax	\$18.6	2.5%	\$19.7	\$19.8	6.4%	\$20.7	4.8%
Enterprise Transfer	\$103.9	4.2%	\$106.5	\$106.5	2.5%	\$108.4	1.8%
Other	\$44.0	6.1%	\$42.5	\$42.2	-4.1%	\$44.0	4.3%
Total	\$399.7	5.3%	\$408.4	\$411.1	2.8%	\$421.1	2.5%
<p>1. FY 16/17 Actuals, FY 17/18 Budget and Projected amounts exclude carryover</p> <p>(as of Jan 2018)</p> <p>Dollars in millions</p>							

Local Sales Tax



State Shared Revenues





Operational Expenditure Forecasting

- Expenditure categories are analyzed and forecasted individually
- **Personal Services**
 - Many factors contribute to overall estimates such as pension rates, medical premiums, salary movement, etc.
- **Other Services/Commodities**
 - Large specialty contracts are handled separately while forecasted consumer price index is applied to general expenses
- **Capital**
 - Majority of expenses are related to construction projects and vehicle purchases. Multi-year plans are developed and included in the forecast

Included in Expenditure Forecast

- **Public Safety Retirement** contributions (25-year unfunded liability payment plan)
 - Police contribution rate essentially unchanged (50%)
 - Fire contribution rate increase to 52% (from 48% in FY17/18)
 - Investment earnings assumption reduced from 7.5% to 7.4%
- **Arizona State Retirement**
 - Contribution rate increase to 11.8% (from 11.5% in FY17/18)
 - Investment earnings assumption reduced from 8.0% to 7.5% (impact to rates phased in over five years)
- **Medical premiums** increasing 4% in CY 2018 and 8% in later years

Expenditure Forecast – Debt Service

- Debt service associated with general obligation bond authorizations approved in 2008 and later have associated secondary property tax levy amounts sufficient for repayment
- There is a minimal debt service impact (average of \$160K) to the General Fund due to the leveraging of pre-2008 bond authorization for a portion of the land acquisition for the Fire and Medical Regional Dispatch Center

Expenditure Forecast – Transfer to Other Funds

- **Arts & Culture**
 - The Arts and Culture Department operates facilities that charge for services provided: admission/tickets to shows. Expenditures are offset by these charges however the revenues do not cover the costs
 - The General Fund contribution is projected at \$9.8M in FY 17/18 and \$9.5M in FY 18/19
- **Transit – Bus, Light Rail, Dial-a-ride**
 - The city receives transit revenues from the State and a portion of the fares for light rail ridership however the revenues do not cover the costs
 - The General Fund contribution is projected at \$11.0M for FY 17/18 and \$13.8M in FY 18/19
 - Gilbert Light Rail Extension is included in FY 19/20 forecast. \$4.0M annual estimated increase in expenses and \$1.8M anticipated increase in revenues.

General Governmental Expenditures

	FY 16/17 Actuals	Change from FY 15/16	FY 17/18 Budget	FY 17/18 Projected	Change from FY 16/17	FY 18/19 Forecast	Change from FY 17/18 Projected
Operating Expenditures							
Personal Services	\$283.7	4.1%	\$301.9	\$299.1	5.4%	\$303.7	1.5%
Other Services	\$53.4	8.0%	\$70.7	\$65.7	23.2%	\$67.3	2.4%
Commodities	\$12.4	21.5%	\$16.1	\$13.3	6.9%	\$14.2	7.4%
Transfers							
to capital fund	\$10.2	239.5%	\$11.3	\$19.3	89.2%	\$15.3	-20.8%
to other funds ⁽¹⁾	\$38.8	26.0%	\$24.9	\$31.0	-20.0%	\$32.4	4.3%
Total	\$398.4	8.9%	\$425.0	\$428.4	7.5%	\$432.8	1.0%
1. Includes transfers to the Transit Fund, Arts and Culture Fund and other funds (as of Feb 2018)							
Dollars in millions							

Financial Sustainability

- Forecasting revenues and expenditures allows for determining if there are sufficient on-going revenues to cover current and new on-going needs
- The closer annual operating expenditures are to annual operating revenues, the more sustainable they are over time
- Growth of the revenue base through City investments
- Periodic usage of reserves allows for the normal ebb and flow of finances
- Financial reserve balance targeted to maintain adequate levels as outlined in the City's Financial Policies

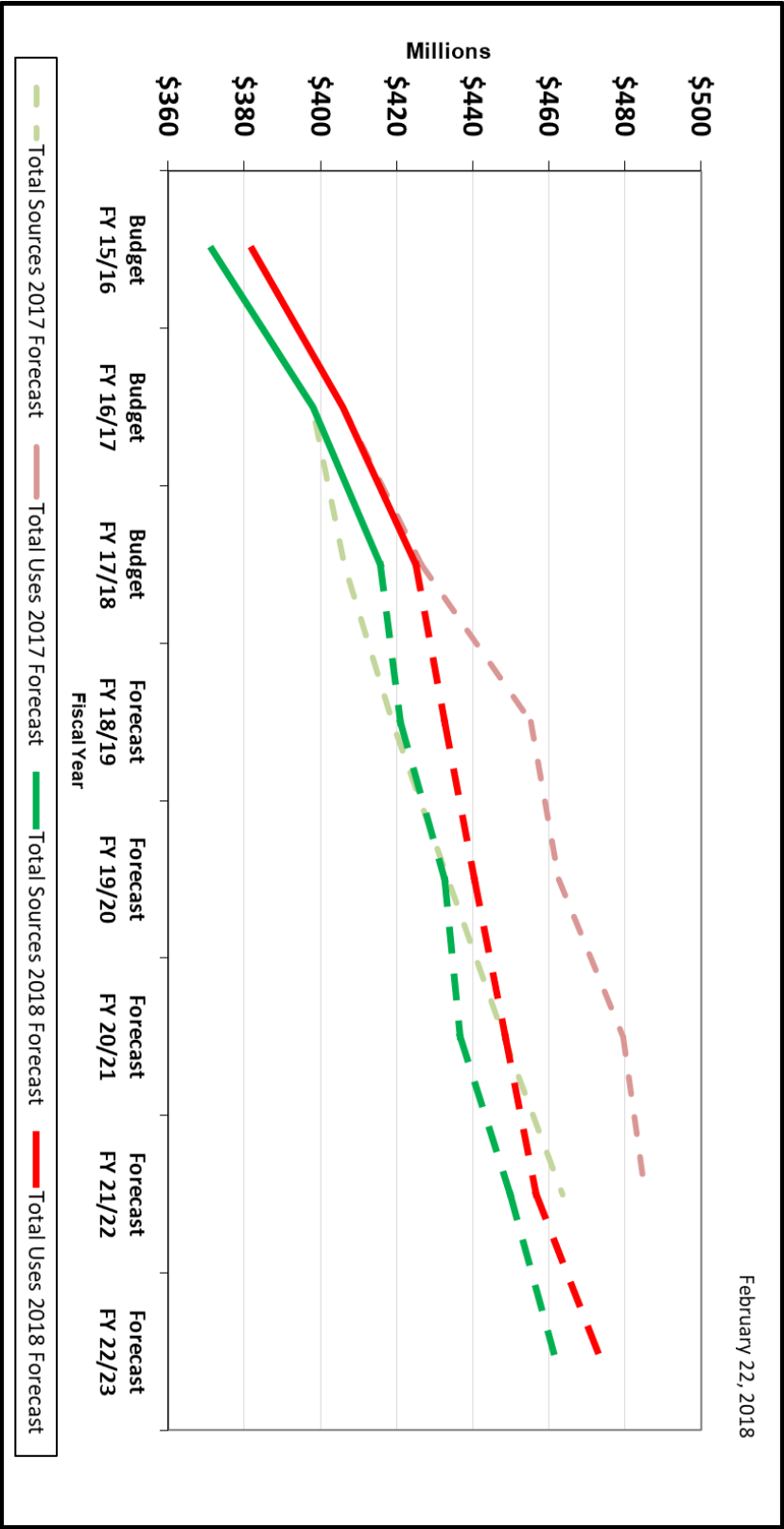


General Governmental Fund Balance

	Actuals FY 16/17	Budget FY 17/18	Projected FY 17/18	Forecast FY 18/19	Forecast FY 19/20	Forecast FY 20/21	Forecast FY 21/22	Forecast FY 22/23
Beginning Reserve Balance	\$93.6	\$92.7	\$100.9	\$91.0	\$79.4	\$71.6	\$59.6	\$49.8
Total Sources	\$405.8	\$415.9	\$418.6	\$421.1	\$432.8	\$436.7	\$447.0	\$455.3
Total Uses	\$398.4	\$425.0	\$425.4	\$429.8	\$437.5	\$448.7	\$456.8	\$472.9
Net Sources and Uses	\$7.3	(\$9.1)	(\$6.8)	(\$8.7)	(\$4.8)	(\$12.0)	(\$9.8)	(\$17.6)
Future Economic Correction	\$0.0	\$0.0	(\$3.0)	(\$3.0)	(\$3.0)	\$0.0	\$0.0	\$6.0
Ending Reserve Balance	\$100.9	\$83.6	\$91.0	\$79.4	\$71.6	\$59.6	\$49.8	\$38.3
Ending Reserve Balance Percent*	23.5%	19.1%	21.0%	18.0%	16.0%	13.1%	10.5%	8.0%

*As a % of all Next Year's uses of funding
Note: Includes economic correction beginning FY 20/21

Forecasted Budget – General Governmental



Next Steps – Anticipated Calendar

April 2	Review Proposed FY 18/19 Budget
April 5	Review Enterprise Fund, Utility CIP and Utility Rates Hear from Utility departments
April 12	Review Non-Utility Capital Improvement Program (CIP) Hear from various departments
April 16, 19, 26 May 3	Hear from various departments Budget Wrap-up
May 21	Adoption of the CIP and Utility Rates Tentative Adoption of the FY 18/19 Budget
June 4	Final Adoption of the FY 18/19 Budget
June 18	Adoption of the Secondary Property Tax Levy

