

General Governmental Funds and Utility Fund
Fiscal Year 2022/23
Budget Principles, Priorities, and Forecast
February 28, 2022

City of Mesa

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GENERAL GOVERNMENTAL FUNDS

General Governmental Funds Financial Principles



Balance net sources and uses



10% – 15% reserve fund balance over the 5-year forecasted period



Sustainability of programs and services



Keep wages and benefits competitive compared to other valley cities in order to retain and recruit quality staff



Investment in capital and lifecycle replacement projects

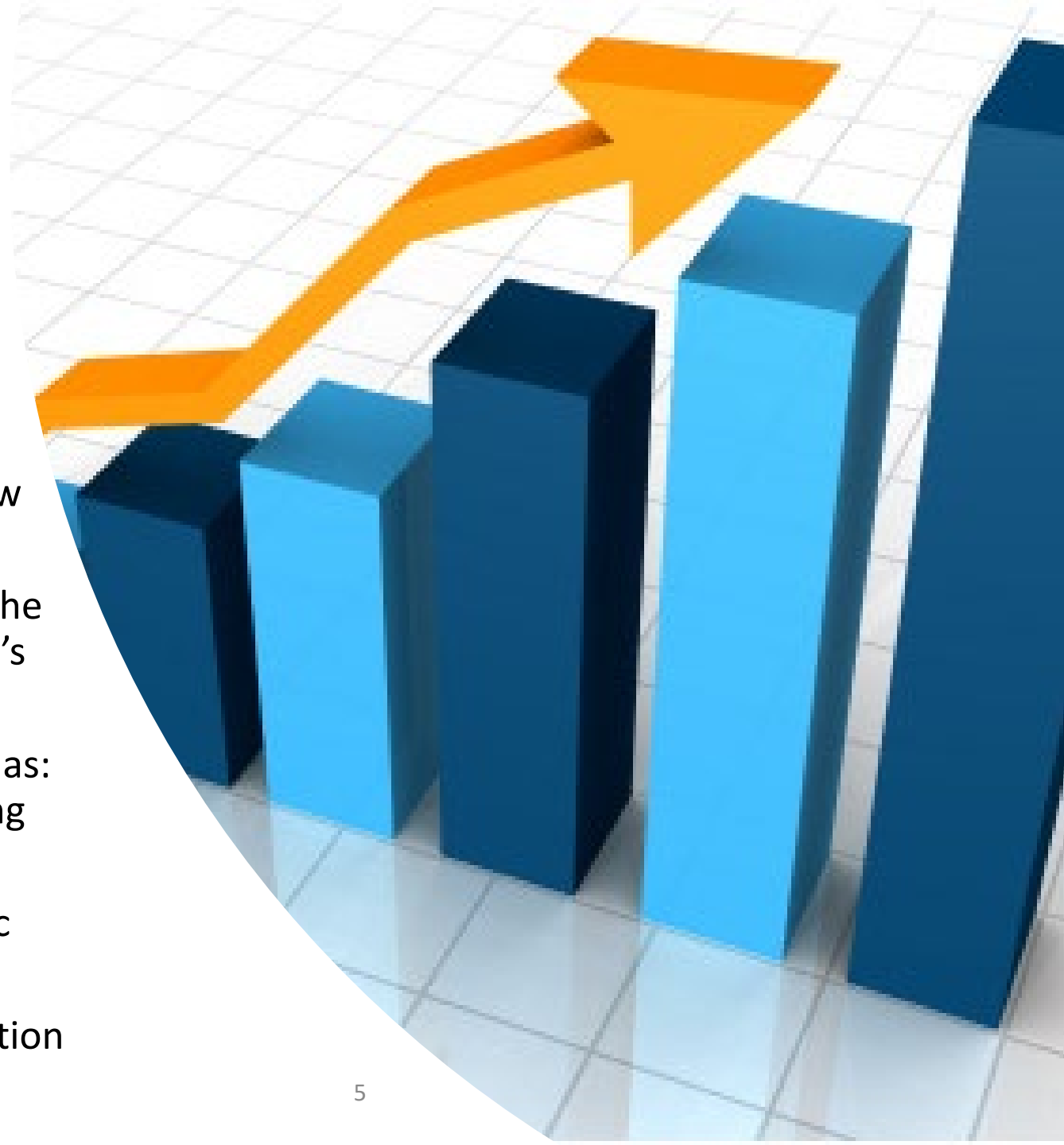
Financial Forecasting

- The City uses current expenditures and revenues along with historical trends as a basis to forecast future expenditures 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 expenditures



Revenue Forecasting

- The City subscribes to a forecast group out of the University of Arizona which allows for access to raw data to use 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 estimated impact of the economic correction



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 expenditures
- **Capital**
 - Majority of expenditures are related to construction projects and vehicle purchases. Multi-year plans are developed and included in the forecast



Personnel Priority Expenditures

- **Public Safety Personnel Retirement System employer** contributions in FY 22/23 will remain consistent with FY 21/22, including additional funding paid towards unfunded liability
- **Arizona State Retirement System employer** contribution rate decreases to 12.17% (from 12.41% in FY21/22)
- **Medical premiums** increased at 6% for CY2022. Premiums are forecasted to increase at 6% for CY2023
- **5% salary increase** for all City employees (Effective January 31, 2022)
- Up to a **3% step increase** for all eligible employees effective the first full pay period in July 2022 with an ongoing evaluation of providing competitive wages.

Other Priority Expenditures

- Department base budget **increase of 5.17%** due to higher-than-normal inflation over the past year
- Capital project cost increases due to inflation
- Mesa Climate Action Plan Implementation
 - Examples: electric vehicle charging stations, 55 N. Center parking solar installation, Streetlights LED conversion, City facility energy efficiency projects
- Facility Improvements and Renovation
 - Examples: Mesa City Plaza (MCP), Mesa Family Advocacy Center (MFAC), The Post

GENERAL GOVERNMENTAL FUND BALANCE

	Actuals FY 20/21	Budget FY 21/22	Projected FY 21/22	Forecast FY 22/23	Forecast FY 23/24	Forecast FY 24/25	Forecast FY 25/26	Forecast FY 26/27
Beginning Reserve Balance	\$126.5	\$177.9	\$203.1	\$158.0	\$148.1	\$161.2	\$144.6	\$135.1
Total Sources	\$532.3	\$503.4	\$548.1	\$551.4	\$555.4	\$552.5	\$562.1	\$580.3
Total Uses	\$445.6	\$504.0	\$593.2	\$561.4	\$542.2	\$569.1	\$571.6	\$595.8
Net Sources and Uses	\$86.6	(\$0.6)	(\$45.1)	(\$10.0)	\$13.2	(\$16.6)	(\$9.5)	(\$15.5)
Future Economic Correction	(\$10.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Ending Reserve Balance	\$203.1	\$177.2	\$158.0	\$148.1	\$161.2	\$144.6	\$135.1	\$119.6
Ending Reserve Balance Percent*	34.2%	31.6%	28.1%	27.3%	28.3%	25.3%	22.7%	20.3%

*As a % of all Next Year's uses of funding

Note: Includes economic correction beginning FY 23/24

data as of February 2022

dollars in millions



Utility Fund



Utility Operations

- Each utility is operated as a separate business center
- Reserve balance can be used to smooth rate adjustments year-to-year
- Reserve balance can be used to phase in new programs or changes in operations



Utility Fund Financial Principles



BALANCE NET
SOURCES AND USES



20% OR HIGHER
RESERVE FUND
BALANCE



RATE ADJUSTMENTS
THAT ARE
PREDICTABLE AND
SMOOTHED
THROUGHOUT THE
FORECAST



EQUITY BETWEEN
RESIDENTIAL AND
NON-RESIDENTIAL
RATES



AFFORDABLE
UTILITY SERVICES

Sources Forecasting

- The City's forecasting approach to utility revenues includes statistical analysis and collaboration with departments
- Statistical software is applied in house to analyze the correlation between economic trends and the City's utility sources
- Relevant economic indicators are considered, such as population growth, along with reviewing historical trends in account growth and consumption/usage
- Mesa specific factors are applied such as economic development activities, additional large customers, etc.



Uses Forecasting

- Departments provide specific forecasts for large budget items where costs can fluctuate over time, including water commodity purchases, water and wastewater treatment plant chemicals, and solid waste tipping fees
- Debt service payments are included in the Utility Fund forecast, where funds are transferred according to utility debt service schedules



Personnel Priority Expenditures

- **Arizona State Retirement System employer** contribution rate decreases to 12.17% (from 12.41% in FY21/22)
- **Medical premiums** increased at 6% for CY2022. Premiums are forecasted to increase at 6% for CY2023
- **5% salary increase** for all City employees (Effective January 31, 2022)
- Up to a **3% step increase** for all eligible employees effective the first full pay period in July 2022 with an ongoing evaluation of providing competitive wages.

Other Priority Expenditures

- Department base budget **increase of 5.17%** due to higher-than-normal inflation over the past year
- Capital projects cost increases due to inflation
- Significant capital projects:
 - Signal Butte Expansion
 - East Mesa Interconnect
 - Central Reuse Pipeline
 - Advanced Meter Infrastructure

Utility Net Sources and Uses

UTILITY FUND NET SOURCES AND USES	FY 20/21 Actuals	FY 21/22 Projected	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast	FY 26/27 Forecast
WATER	\$19,416	(\$5,151)	(\$4,365)	(\$1,754)	(\$6,553)	(\$9,330)	(\$13,287)
WASTEWATER	(\$8,878)	(\$11,758)	(\$10,148)	(\$8,801)	(\$5,270)	(\$3,420)	(\$618)
SOLID WASTE	\$5,612	(\$7,339)	(\$3,630)	(\$65)	\$2	\$3,032	\$4,132
ELECTRIC	\$791	\$2,995	(\$1,188)	(\$1,821)	(\$1,063)	(\$1,464)	(\$1,351)
NATURAL GAS	(\$2,385)	(\$131)	(\$595)	(\$1,070)	(\$149)	(\$92)	\$295
DISTRICT COOLING	(\$68)	(\$715)	(\$55)	(\$1,439)	(\$215)	(\$90)	(\$58)
TOTAL NET SOURCES AND USES	\$14,488	(\$22,098)	(\$19,982)	(\$14,949)	(\$13,248)	(\$11,363)	(\$10,885)
Beginning Reserve Balance	\$136,773	\$151,261	\$129,163	\$109,181	\$94,232	\$80,984	\$69,621
Ending Reserve Balance	\$151,261	\$129,163	\$109,181	\$94,232	\$80,984	\$69,621	\$58,736
Ending Reserve Balance Percent*	33.4%	28.2%	23.1%	19.7%	16.3%	13.5%	11.0%

*As a % of Next Fiscal Year's Expenditures

data as of February 2022
Dollars in Thousands

FY 22/23 Forecasted Utility Rate Adjustments

WATER Residential	2.50%
WATER Non-Residential - usage only	5.00%
WASTEWATER Residential	4.25%
WASTEWATER Non-Residential	4.50%
SOLID WASTE Residential	2.00%
SOLID WASTE Commercial	2.00%
SOLID WASTE Rolloff	2.00%
ELECTRIC Residential - svc charge only	\$2.00
ELECTRIC Non-Residential - svc charge only	\$2.50
GAS Residential - svc charge only	\$0.75
GAS Non-Residential - svc charge only	\$2.00

Next Steps – Anticipated Calendar

March 3	City Council Strategic Planning Meeting
March 31	Review Proposed FY 22/23 Budget Review Non-Utility CIP
April 4 – May 2	Hear from various departments Review Utility CIP
May 5	Budget Wrap-up
May 16	Adoption of the CIP Tentative Adoption of the FY 22/23 Budget
June 6	Final Adoption of the FY 22/23 Budget
June 20	Adoption of the Secondary Property Tax Levy



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