



City Council Report

Date: April 3, 2025
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Brian A. Ritschel, Management and Budget Director
Subject: Fiscal Year 2025/26 Summary of Proposed Budget

Overview of Proposed Budget

In March, the Council received an update on significant impacts to the City's financial forecast. At that time, available resources were projected for FY25/26 and forecasted for FY26/27 and beyond. The cost of the current level of service was also projected for FY25/26 and forecasted for FY26/27 and beyond. The City currently has a significant gap between the level of on-going revenues and the level of on-going expenses. This is primarily due to the State Legislature passing a state income flat tax and eliminating the ability for municipalities to collect transaction privilege tax on residential rental properties; significant inflation on the cost of commodities, services, and contracts; and significant personnel wage growth to provide competitive salaries and benefits for City employees.

Executive Staff has met with each department to discuss reducing their on-going base budget by 2% the upcoming fiscal year. All departments were asked to review items in their base budgets that they could reduce that is not part of their core services.

The proposed budget continues the City's focus on a commitment to providing quality core services to residents in a fiscally responsible manner. The City budget continues to focus on public safety, quality service, and investment in neighborhoods, investment in city employees and the leveraging of technology.

The City of Mesa's fiscal year runs from July 1st to June 30th. The City is required to adopt a balanced budget as well as a secondary property tax levy each year. An annual budget is determined to be balanced if the anticipated resources are sufficient to cover the anticipated/budgeted expenditures. Resources include both new revenues as well as reserve balances.

The City's Adopted Budget sets the maximum expenditure level that can take place in a fiscal year. The provision of services and programs is fluid in nature. Budget modifications occur during the fiscal year to better align resources. Modifications may increase or decrease the budget of a particular department. The following are some reasons for budget modifications, although not an exhaustive list.

- Unanticipated grant award
- Unanticipated expense
- Change in statutory requirements
- Conversion of temporary positions to permanent positions
- Addition of positions to meet service and/or workload requirements
- Addition of pilot programs to gather data
- Transfer of positions from one department to another
- Reduction/reorganization of positions to better meet needs

This document summarizes the significant budget modifications that took place during FY 2024/25, as well as new expenditures that are anticipated for FY 2025/26.

General Government Operating Budget

General Governmental revenues in the City of Mesa come from three primary sources: local sales and use tax, state shared revenues, and a contribution from the Utility Fund.

Local Sales Tax

Local sales tax collections, the largest of these sources, are projected to end FY 2024/25, the current fiscal year, 2.2% higher than what was anticipated in the budget. It is anticipated that total Local Sales Tax collections in FY 2025/26 will be 4.5% below collections in FY 2024/25. Sales tax collections can be analyzed by transaction category.

- Retail sales contribute the largest portion of the total local sales tax in Mesa. At the end of FY 2024/25, actual collections are expected to be 3.9% higher than budgeted.
- Rental sales tax has historically been collected as a tax on residential rental properties and commercial equipment and property rentals. In January 2025, tax on residential rentals was preempted by the Arizona State Legislature. This is anticipated to be a \$25 million annual impact on Mesa revenues. This change is responsible for the decrease in total sales tax revenue from FY 2024/25 to FY 2025/26.
- Other categories for sales tax collections include Restaurants, Utilities, Contracting, and other Miscellaneous collections. Collections in these categories in FY 2024/25 are expected to be 1.9% higher than budgeted.

Public Safety Sales Tax

The Public Safety Sales Tax Fund is a voter approved sales tax revenue restricted to public safety programs and projects. The proposed FY 2025/26 budget for both the Mesa Fire & Medical Department (MFMD) and Police Department is consistent with the FY 2024/25 budget.

Quality of Life Sales Tax

The funding for the Quality of Life Fund is voter-approved sales tax revenue and is dedicated to public safety and other enhanced City services. The FY 2025/26 budget covers the estimated costs of up to 120 sworn full-time equivalent (FTE) in the Police Department and up to 65 sworn FTE in the Mesa Fire and Medical Department. The Quality of Life Fund has seen increased revenues, which now exceeds the funding to

support the public safety identified on the ballot. Therefore, the FY 2025/26 proposed budget shifts support of some Mesa Arts Center positions from the General Fund to the Quality of Life Fund. This shift in funding maintains service levels at the Mesa Arts Center and alleviates expense pressures on the General Fund to continue to support public safety services.

State-Shared Revenues

State-shared revenue consists of urban revenue sharing (state-shared income tax), state sales tax, and vehicle license tax. All state-shared revenue is based on population formulas.

Urban Revenue Sharing: The growth in urban revenue sharing is the result of gains in taxable income from individuals and corporations. Since Urban Revenue Sharing revenue has a two-year lag between income reported and the receipt of revenues by the City, the budget amount is known. In FY 2025/26, Urban Revenue Sharing revenues will decrease 6.4% from FY 2024/25. This decrease is due to the implementation of the State Flat Income Tax.

State-Shared Sales Tax: State sales tax is projected to increase 1.5% in FY 2025/26 over FY 2024/25. The State is showing slight growth in their sales tax categories. The State has not collected sales tax on residential rentals, so the elimination of that category does not impact the State-Shared Sales Tax forecast.

Vehicle License Tax: The smallest contributor to state revenue sharing is vehicle license tax, and it is expected to increase 3.3% in FY2025/26 over FY 2024/25 anticipated actuals.

Utility Fund Contribution

The Utility Fund contribution is one of the City's methods of providing funding for general governmental services such as police and fire as well as libraries and parks. The Utility Fund contribution was set by Council resolution at a total of no more than 30% of utility operating revenues, 25% for public safety and 5% for general City services. Based on utility revenue estimates, the FY 2025/26 contribution is budgeted at \$147.0 million, which is a 5.3% increase from the FY 2024/25 projected contribution.

Transit Fund Contribution

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 total operating costs. The remainder of the costs are covered by a transfer from the General Fund to the Transit Fund. The projected FY 2025/26 transfer is \$26.9 million, which is above the FY 2024/25 transfer of \$21.8 million. The increase in the transfer is largely due to cost increases for labor and maintenance of the fixed-route bus and Ride Choice services.

Trust Fund Contributions

The City contributes to three trust funds related to liabilities. City contributions for FY 2025/26 include \$11.0M to the Property and Public Liability Trust Fund, \$100.5M to the Employee Benefits Trust Fund, and \$5.8M to the Workers' Compensation Trust Fund. Programmatic updates to these trust funds can be found in the Trust Fund section.

Reserve Balance

The City's financial policies call for a forecasted fund balance (reserves) of at least 8-10% per fiscal year. City finances have benefitted from increased local sales tax and state shared revenues, however, there is a gap between on-going revenues and on-going expenditures. The City forecasts expenses, revenues and reserve balances over a multi-year period and reviews them on an on-going basis to allow for proactive response to economic and programmatic changes.

Utility Operating Budget

Planning for new accounts and incorporating trends in consumption, FY 2025/26 operating revenues are estimated at \$492.1M, increasing from \$468.4M projected for FY 2024/25 (excluding the EECAF/PNGCAF commodity cost pass throughs).

In recent years, Mesa has experienced an increase in the number of utility customers. However, increased efficiency in homes and appliances, and mild winter conditions have resulted in lower usage per account in several of the City's utilities in years past.

With the increase in utility customers comes demand to provide additional capacity and infrastructure to meet future needs. Of importance is Mesa's southeast region where less infrastructure is available but significant growth in development is anticipated. This is particularly true of water and wastewater utilities in need of new and upgraded facilities to meet new and future customers' growth demands.

The current forecast calls for declining reserve balances for the next few years in anticipation of a scheduled increase in existing debt service expenses. Additionally, the current forecast includes cost increases for various budget items including power and chemicals at water treatment and reclamation plants, as well as increased solid waste tipping fees. The City forecasts expenses, revenues, and reserve balances over a multi-year period and reviews them on an on-going basis to allow for proactive response to economic changes.

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 and towns. This is mainly comprised of the fuel tax paid at the fuel pump by the consumer (45.4%) and part of the vehicle license tax (32.8%). The remainder is comprised of miscellaneous State fees. Cities in Arizona with populations above 300,000 people also receive an additional allocation of the revenues referred to as HURF 3%. The other transportation funding source is a voter approved 0.30% Mesa city sales tax dedicated to street expenditures referred to as Local Street Sales Tax (LSST).

Highway User Revenue Fund (HURF). In years past, HURF and HURF 3% revenues experienced volatility due to adjustments and diversions in the distribution by the State. The current forecast does not include any adjustments

for potential diversions in distributions by the State, however adjustments will be made if additional action is taken by the State. In FY 2025/26, expected revenues are estimated to increase by 1.0% over anticipated collections in FY 2024/25.

Local Streets (LS) Fund. LS Fund revenue collection is tied to the rest of city sales tax and is estimated to be higher than the budgeted amount by 2.2% in FY 2024/25. Anticipated revenues for FY 2025/26 are expected to be below FY 2024/25 by 4.6%.

HURF and LS Fund are managed together as both funds are restricted to street-related expenditures. The City’s street maintenance program outlines the highest priorities for allocation of available resources. Expenditures are modified to remain within available resources. The available ending reserve balance for HURF and LS Fund combined is estimated to be \$89.4M in FY 2024/25 and decrease to \$86.4M in FY 2025/26.

Trust Funds

Employee Benefit Trust (EBT) Fund. The EBT Fund is used to fund employee health benefits and other employee benefit programs the City sponsors. Resources for the fund come from the setting of medical and dental premiums paid partially by employees and retirees, and partially by the City. Historic total EBT Fund expenses and cost of claims are shown below:

Fiscal Year	Total Expenses	% Increase	Cost of Claims	% Increase
FY 19/20 Actual	\$96.6M	6.4%	\$86.6M	7.4%
FY 20/21 Actual	\$99.3M	2.9%	\$89.5M	3.4%
FY 21/22 Actual	\$102.2M	2.9%	\$91.4M	2.1%
FY 22/23 Actual	\$101.8M	(0.4%)	\$90.3M	(1.2%)
FY 23/24 Actual	\$116.6M	14.6%	\$104.3M	15.4%
FY 24/25 Projected	\$131.6M	12.8%	\$117.5M	12.7%
FY 25/26 Forecast	\$138.0M	4.9%	\$123.2M	4.9%

Medical, prescription, and dental claims costs continue to rise. In FY 2024/25 the City experienced an increase in claim costs higher than forecasted. This is the second year of higher than normal claim costs, which is primarily due to high-cost specialty drugs and high costs associated with GLP-1 medications (e.g., Ozempic, Wegovy, Mounjaro) for diabetes management and weight loss. With costs trending up, claims costs are projected to increase from FY 2024/25 to FY 2025/26 by \$5.7M, or 4.9%, based on historical patterns of years with high increases followed by a moderate increase. This increase can be attributed to membership increases, utilization increases, and healthcare cost inflation.

Medical and dental premiums are set on a calendar year (CY) basis. To address the projected increased costs, the FY 2025/26 budget includes an increase of 6% for

employee contributions and 8% for retiree contributions for both calendar years 2025 and 2026. The increases are applied to both the City and employee/retiree. In the summer of 2025, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2025. The City contribution included in the FY 2025/26 budget is \$100.5M, which is \$2.0M more than the FY 2024/25 Adopted Budget. The FY 2025/26 proposed budgeted City contribution is slightly higher compared to what was presented at the Trust Fund Board meeting as the proposed budget will account for new and vacant positions contributing to the fund.

In CY 2025, many of the EBT related contracts are in either an initial 5-year term phase or standard contract supported renewal phases. In CY 2025, the City is underway on a competitive Request For Proposal (RFP) and contract award recommendations for five-year contracts with an optional 6th and 7th year extension for all of the City's Welfare Benefit insurances including Basic and Supplemental Life and Accidental Death and Dismemberment Insurance, Business Travel Accident/Commuter Travel Accident Insurance, Short Term Disability Insurance and Long-Term Disability Insurance for Sworn Personnel and Elected Officials. Improvements in unit pricing and/or benefit coverage levels if achieved during this RFP process will be beneficial to both the City and eligible employees by reducing financial liability and supporting total compensation recruitment and retention strategies.

Additionally, later in 2025 the City will pursue RFP marketing negotiations for stop-loss insurance on medical/prescription drug expenses to seek improvements on annual City paid premium liabilities for CY 2026 and beyond.

Workers' Compensation (WC) Trust Fund. The WC Trust Fund is used to fund claims related to employee work-related injuries and is completely funded by the City. Total annual expenses have remained consistent in the past several years and are expected to remain around the same.

The City contributes to the WC Trust Fund each pay period based on the salary of each employee. Rates are established based on the risk level of the job classification. Contributions are calculated in the total cost of the position and included in departments' operating budgets. Expenses are reviewed during the fiscal year and rates can be modified if needed. Pending WC claims are valued at the total estimated payment, which may occur over many years based on the type of injury. The current reserve plan sets the fund balance reserve target at the next fiscal year's total WC Trust Fund expenses. The FY 2025/26 proposed budget for the WC Trust Fund includes the expenditure offset from the Municipal Firefighters Cancer Reimbursement based on prior year claims.

For FY 2025/26, the reserve target is \$8.6M. Based on the FY 2024/25 projected reserve balance and the expenditures forecasted for FY 2025/26, an increase to the WC rates from the previous year is included in FY 2025/26. The FY 2025/26 budget includes a City contribution of \$5.8M.

Property and Public Liability (PPL) Trust Fund. The PPL Trust Fund is used to pay claims related to lawsuits against the City. The value of claims paid can vary significantly by year, therefore, the PPL Trust Fund minimum fund balance target is between \$12.0M and

\$15.0M. The length of time from the submission of a claim to its final resolution can take over a year, contributing to a high variability of annual costs. Claims are projected to be \$4.1M in FY 2024/25. The cost of claims included in the FY 2025/26 budget is \$5.0M.

City contributions into the fund are based upon the prior year PPL Trust Fund claims experience. Approximately two-thirds of City contributions come from general governmental funds, while one-third comes from Utility and other funds. The contribution needed to maintain the target reserve balance is estimated each year and included in the budget. The FY 2025/26 City contribution estimate is \$11.0M to increase the fund balance from the projected FY 24/25 \$12.6M to \$12.7M. Expenses are reviewed during the year and the contribution amount is modified as necessary.

Environmental Compliance Fee Fund (ECF)

The Environmental Compliance Fee is applied to each utility account customer to meet the projected costs of Federal, State, and County unfunded environmental mandates. The current monthly fee is anticipated to generate \$18.3 million in revenue in FY 2025/26. The fee funds the City's environmental activities such as air quality, storm channel drainage, hazardous waste management, and asbestos management. Budgeted on-going operational expenses are \$17.8 million. The current fee has been in place since July 1, 2014 and is expected to remain the same for FY 2025/26. Savings experienced each year are accumulated and applied to future one-time expenditure needs.

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

The Police Department is budgeting to apply for approximately \$3.5 million in grant awards for FY 2025/26. Notable proposed grant awards include the following:

- \$653K for support for the Mesa Family Advocacy Center, including Victims of Crime Act grant.
- \$900K Homeland Security Grants to provide funds for training and equipment to support Homeland Security initiatives.
- \$450K Governor's Office of Highway Safety (GOHS) Grant to provide resources, overtime for DUI and traffic enforcement activities, and safety equipment for the City's Traffic Safety Program included support for Prop 207 related activities.
- \$470K in multiple forensics grants. The National Institute of Justice DNA Backlog Program Grant provides resources for forensic personnel and equipment to enhance analyzing forensic DNA to reduce system backlog. The Coverdell Grant allows for the acquisition of equipment to assist in crime scene analysis and training for forensic personnel. The Forensics Crime Lab Grant provides funding for training and equipment.

- \$170K Justice Assistance Grant (JAG) to support improving technology services in the Police Department.
- \$266K Office of Justice Programs Bureau of Justice Assistance Hate Crime Grant to support personnel in developing a comprehensive approach to address hate crimes in Mesa.
- \$90K High Intensity Drug Trafficking Areas (HIDTA) Grant to provide funding for officer overtime to coordinate activities that address drug trafficking in specific designated areas of the United States.

Mesa Fire and Medical Grants

Mesa Fire and Medical plans to apply for approximately \$1.7M in grant awards for FY 2025/26. Notable grant awards include the following:

- \$1.4M Assistance to Firefighters Grant Program from the (Federal Emergency Management Agency) FEMA.
- \$136K from the Rapid Response Team with the Arizona Department of Homeland Security for equipment for training, meter maintenance calibration, and various equipment purchased for the Hazardous Materials Team to mitigate explosive devices, detect chemical releases, and use on the trucks.
- \$100K from the Salt River Pima Maricopa Indian Community for immunization supplies.
- \$83K from the Arizona Department of Homeland Security to include \$19K for the Community Emergency Response Team, \$12K for Emergency Management, \$12K for the Threat Liaison Officer program, \$30K for the Metropolitan Medical Response System, and \$10K for the immunization program.

Arts & Culture Grants

The Arts & Culture Department's proposed budget includes spending capacity of \$1M in grant funding for various potential small grants.

Housing & Community Development Grants

The Housing and Community Development division 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 City has assumed several 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 can 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 people 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.
- Family Self-Sufficiency (FSS) Program - FSS is a voluntary HUD program for families in the voucher rental assistance program to set goals and achieve self-sufficiency through education and increased earned income. FSS provides case management and connections with community resources and services for guidance and opportunities, such as referrals for college access or job training, career guidance and job search, financial coaching, homebuyer pathways, and more.

Section 8 programs funding totaled \$26.3M in FY 2024/25 and \$30.8M in FY 2025/26.

The City is a designated entitlement community by the HUD. The Community Services 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, provides services to the most vulnerable in our communities, and creates jobs through the expansion and retention of businesses. Total funding for this program was \$7.8M in FY2024/25 and \$3.9M in FY 2025/26.
- 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. Total funding for this program totaled \$1.9M and FY 2024/25 and \$1.4M in FY 2025/26.
- Emergency Solutions 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. Total funding for this program totaled \$400K in FY 2023/24 and \$330K in FY 2025/26.

City-wide Adjustments Impacting 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

FY 2025/26 contribution rates for State-run retirement plans changed as follows:

Retirement Plan	FY 2024/25 Rate	FY 2025/26 Rate	Rate Change
Arizona State Retirement System (ASRS)	12.27%	12.00%	-0.27%
Elected Officials Retirement System (EORP)	70.44%	70.44%*	-6.07%
Public Safety Personnel Retirement System (PSPRS) - Fire	61.07%	57.84%	-3.23%
Public Safety Personnel Retirement System (PSPRS) - Police	62.72%	59.49%	-3.23%

**New rates not posted*

In the FY 2025/26 proposed budget, the City continues to address the increases in the unfunded liability with the Public Safety Personnel Retirement System (PSPRS) plan and works to smooth out future cost increases for the unfunded liability.

History

Due to investment losses and a series of court rulings that reversed prior pension reforms, PSPRS rates increased significantly in FY 2017/18. The State allowed municipalities the option to extend the amortization period for unfunded PSPRS liability from 20 years to up to 30 years. The City opted to extend the amortization rate for the unfunded liability from 20 years to 30 years but committed to paying off the unfunded liability over 25 years.

Status

The City continues its approach in paying down the unfunded liability in quarterly payments, providing the City more flexibility to meet the desired total contribution amounts with the ability to adjust with the market or new assumptions. While the PSPRS rates have decreased, the FY 2025/26 proposed budget includes an increased contribution to PSPRS due to the benchmark salary adjustments to sworn positions. The City is projected to contribute a total of \$102.8M to PSPRS for FY 2025/26, compared to \$97.1 million in FY 2024/25. This amount includes additional contributions above the projected Annual Required Contribution.

The Arizona State Retirement System (ASRS) contribution rate for FY 2025-26 is 12.00%, a decrease of .27% from the current rate of 12.27%. This slightly decreases Mesa's expected contribution to ASRS compared to FY 2024/25.

The FY 2025/26 Elected Officials Retirement Plan (EORP) contribution rate is similar to FY 2024/25 at 70.44% as new rates are not known.

Salary Step Pay:

Pay ranges for positions operate with minimum and maximum amounts. Movement through the pay range (step pay) is reviewed on an annual basis during an employee's performance review. Successful performance is required for an employee to be eligible for step pay increase, but the increase is dependent on funding availability. Each year,

as part of the budget process, citywide funding availability is determined. During the last recession, funds were not available, and step pay increases were not authorized. For the last few fiscal years, the authorized step pay amounts were 3% in January of FY 2020/21 as well as a 5% range adjustment for all City positions, 3% in July of FY 2021/22, 5% citywide salary adjustment in January FY 2021/22, a 4% increase in July of 2022/23, a 3% increase in July of 2023/24 with a 5% citywide salary adjustment, a 3% increase in July of 2024/25, and will continue to provide all employees with competitive pay and benefits going into FY 2025/26.

Health Plan Contributions – Employee Benefit Trust (EBT)

To minimize cost, the City funds many of its employee and retiree benefits internally through the EBT Fund. This includes medical, dental and vision benefits. The FY 2025/26 budget anticipates increasing the city contribution by 6% for employees and 8% for retiree plans effective January 2026. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of 2025. The increase in medical premiums results in an increase in the costs of personal services for each department.

Fleet Maintenance and Commodity Costs

Due to the rising costs of labor, parts, fuel, and other materials, the City has provided \$4.7M in additional budget capacity to departments to cover fleet allocated costs. The rising costs are a result of continued supply chain constraints, delays in receiving replacement and new vehicles, increase in 3rd party contract maintenance, as well as increased fuel pricing.

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 significant investment for public safety infrastructure. Construction is underway at the Police headquarters remodel in downtown Mesa. Additionally, construction will begin on two new fire stations, 223 and 224, enhancing emergency response capabilities in underserved areas. These projects are funded by Public Safety Sales Tax and GO bond authorization approved by voters in 2022.

Roadway improvements are planned to start on Broadway Road, Val Vista Drive from Pueblo to the US 60, and Ray Road connection at Ellsworth Road using GO bond authorization approved by voters in 2020. In conjunction with the street projects, the City will replace and upgrade utility infrastructure. Coordinating this effort not only ensures the reliability of utility service lines, but it also maximizes the life of the pavement. The utility infrastructure is funded with utility revenue obligations.

Parks and Recreation initiatives in this CIP feature a variety of community enhancements across Mesa. Design work will begin at the Red Mountain Aquatic Center and Southeast Aquatic Center. Improvement projects include the remodeling of the historic Serrine House, playground renovations at Heritage Park, Meadowgreen Park, Woodglen Park, Carriage Lane Park, Shepherder's Park, and Augusta Ranch Park, as well as the

renovation of Monterey Dog Park. These projects are funded by the GO bond authorization approved by voters in 2024, emphasizing the city's commitment to developing Parks and Recreation facilities that enhance the quality of life in the City of Mesa.

As part of Mesa's on-going commitment to utility infrastructure development, the proposed CIP highlights critical investments in water and wastewater facilities. Over the next five years, Mesa's estimated cost share for capital improvements at the Val Vista Water Treatment Plant (40% ownership) is \$83 million, supporting its production of approximately 35% of the city's water supply. At the 91st Avenue Wastewater Treatment Plant (20% ownership), Mesa will contribute \$100 million to ensure continued efficiency in wastewater management. Additionally, Mesa will allocate \$20-30 million toward expanding treatment capacity at the Greenfield Water Reclamation Plant, a joint venture with Gilbert and Queen Creek, as part of a \$177 million total project cost. These initiatives reinforce Mesa's dedication to sustaining essential services for its residents.

Mesa Climate Action Plan (MCAP)

The FY 2025/26 proposed budget includes \$2M in one-time set aside funding for the MCAP. The City Manager and staff continue to review projects that would meet MCAP goals.

Secondary Property Tax

Secondary property tax revenue can only be used to pay the debt service on voter approved GO bonds. The City Council adopts a secondary tax levy and associated rate each year as a separate action after final adoption of the budget.

The secondary property tax levy included in the FY 2025/26 proposed budget is \$44.3M. The corresponding secondary property tax rate is \$0.8582 per \$100 of taxable value, no change from prior year.

A residential property with a median taxable value of \$186,444 (\$436,098, sale value) would be billed \$160 for the year in City of Mesa property tax.

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY24/25 to FY25/26

	FY24/25	FY 25/26 Tentative	\$ Change	% Change
Secondary Property Tax Levy (Taxable Value * Tax Rate)	\$42.0 million	\$44.3 million	\$2.3 million	5.5%
Secondary Property Tax Rate (per \$100 of Taxable Value)	\$0.8582	\$0.8582	\$0.0	0%
Annual Cost to Median Homeowner	\$152	\$160	\$8	5.2%

The is no change to the proposed secondary property tax rate for FY 2025/26. Since the value of taxable property has increased, the City is able to maintain the current rate and cover the debt requirements.

Lifecycle Replacement Program

The lifecycle replacement effort focuses on identifying and developing a multi-year plan for purchase/replacement/upgrade of items (or technology) that have a mid-range useful life and should be addressed on a regular basis. Scheduled replacement allows the 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 vehicle replacement program. On an on-going basis, departments review and identify large periodic operational expenditures which cannot be covered within their annual budget.

The FY 2025/26 proposed budget is \$128.4M (no carryover). Additional funding has been allocated for Falcon Field pavement restoration, Arts and Culture equipment and amenities, and various information technology related equipment and infrastructure replacement. Lifecycle needs are identified each year and staff identifies a comprehensive plan to prioritize citywide needs.

Department Highlights

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

Public Safety Departments

Mesa Fire and Medical (MFMD)

The General Fund FY 2025/26 proposed budget includes continued support for the cancer screening program, in which MFMD Sworn members would be on a three-year screening schedule to prevent and detect cancer related illnesses. The proposed budget also includes funding for a fall firefighter recruit academy, two in-house medic school academies, and capacity for the City's contribution to the State's Municipal Firefighters Cancer Reimbursement Program.

During FY 2024/25, the City approved on-going funding for three Fire Inspector II positions, one Senior Program Assistant position, and other administrative costs including vehicle costs. This was added to cover the increase in commercial inspection demand, which is expected to be partially offset with an increase fire inspection revenues.

MFMD will be reducing their budget by \$3M on-going over the next three years. To meet this reduction target, the FY 2025/26 proposed budget will not include a new previously funded 8 Medical Response (MR) Unit positions for FY 2025/26. Additionally, a vacant fire pre-recruit position will be removed. The pre-recruit position allowed the department the ability to pre-hire qualified candidates for an upcoming recruit academy class who had not obtained an EMT Certification.

The Ambulance Transport Fund's FY 2025/26 proposed budget includes on-going capacity for the build-out of the emergency transportation services program. During FY 2024/25 the ambulance provider currently sharing the system with Mesa announced end of service on March 24, 2025. The City expanded its program to service all of Mesa and added 59 positions, including 29 Civilian Paramedics, 24 Civilian Emergency Medical Technicians, 5 Medical Billers and 1 EMS Coordinator. The operations of the Transport Fund are self-sustaining, and the expected revenues from the added service lines will fund the build out of the program.

Municipal Court

The FY 2025/26 proposed budget reductions include savings from two vacant Court Specialist positions, eliminating offsite storage costs, and reducing internal paper usage.

Revenue in FY 2025/26 is estimated to be \$5.3M. Included in this anticipated revenue are civil fines, criminal fines, photo safety fees, defensive driving classes, and a new fee associated with services for court monitoring.

Police

The Police Department receives miscellaneous revenue from many resources including donations, seizures, range fees, and grants. As new resources are identified during the year, the department budget is modified to create budget capacity to use the funds.

The General Fund FY 2025/26 proposed budget includes one-time funding for continued support of consulting services for 911 call taking and dispatch operations and behavioral health services that support community crisis services through contracts with Solari, CBI, and EMPACT. Additionally, the City is continuing support of the Real Time Crime Center (RTCC) with an additional Sergeant position for appropriate staffing oversight of operators for the 24/7 operation and a Management Assistant II position to support technology and project oversight.

For the communications area that supports 911 call taking and dispatch, the proposed budget includes 7 new positions. These positions will be transferred to a new department supporting public safety services.

The FY 2025/26 proposed budget includes reallocating motor traffic officers from the General Fund to the Local Streets Fund for continued support of street safety and operations.

The Police Department will be reducing their budget by \$5M on-going over the next three years. The FY 2025/26 proposed budget includes reductions in overtime and incentive programs. Additionally, six vacant part-time professional staff positions will be eliminated, including four telecommunicators and two of the eight-member Downtown Engagement Team.

The Public Safety Sales Tax Fund FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

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

Utility Departments

Energy Resources

The FY 2025/26 proposed budget includes the addition of four Utility Locator positions, and one Utility Locator Supervisor. These positions are needed due to the increased demand for utility locating services associated with development growth and the Fiber to Premise Program. The proposed budget also includes one-time funding for a vehicle purchase for maintenance services associated with the Flare to Fuel program at the Northwest Water Reclamation Plant (NWWRP) and other associated sites within the City's natural gas system.

Budgeted purchases for the electric energy commodity are anticipated to decrease from \$31.7M in FY 2024/25 to \$25.0M in FY 2025/26. The reduction in the electric energy commodity budget is due to favorable pricing on new contracts that were signed in the fall of 2024. Budgeted purchases for the natural gas commodity are anticipated to increase from \$17.3M in FY 2024/25 to \$17.5M in FY 2025/26. Commodity costs are constantly monitored throughout the year to assess supply, demand, and pricing.

The FY 2025/26 proposed budget includes reductions by the reclassification of two vacant positions. The department is also adding new revenue by modifying development agreements to recover administrative costs. Additionally, the department is also shifting funding from the Utility Fund to the Replacement, Extension and Renewal (RER) Fund for Gas Equipment replacements to relieve continued expense pressures on the Utility Fund. The RER Fund receives 2% of Utility Fund revenues, which are reserved for capital and equipment purchases associated with the replacement, extension, or renewal of the utility systems.

Solid Waste

The FY 2025/26 proposed budget includes an increase for vehicle operation and maintenance expenses due to increases in the cost of labor, parts, and fuel.

The FY 2025/26 proposed budget includes expense reductions to compressed natural gas (CNG) purchases to reflect reduced expenses for these purchases. Additionally, the department will receive additional revenues by reinitiating barrel audits, which have not been performed since 2017. Lastly, the department will receive increased revenues to achieve cost recovery through an updated service contract with Mesa Public Schools.

Water Resources

The FY 2025/26 proposed budget includes cost increases across both water and wastewater operations due to inflationary pressures. Both water and wastewater chemicals costs are expected to increase due to increased pricing and operational flows. As a result of rising electric rates, both Water and Wastewater operations

electric costs are expected to increase \$238K. Water commodity purchases are expected to remain at FY 2024/25 levels as the department has been able to reallocate water purchase orders from more expensive supplies to less expensive supplies.

The City participates in various joint ventures with other municipalities to provide water and wastewater services. Budgeted joint venture participation costs at the 91st Ave Wastewater Treatment Plant participation costs are expected to increase by \$2.4M due to increased operational costs. Similarly, the Val Vista Water Treatment Plant participation costs are expected to increase by \$1.3M. The City's percentage ownership of the Greenfield Wastewater Treatment Plant (GWRP) will remain at 35%, and participation costs for the plant are expected to decrease by \$686K due to one-time expenses that were budgeted in FY 2024/25.

The FY 2025/26 proposed budget includes on-going funding to maintain the City's fire hydrants and comply with current fire code. The FY 2025/26 proposed budget also includes one-time costs for various items. Included is \$252K to comply with new regulations associated with the Lead and Copper Rule Improvements program and National Primary Drinking Water Regulation established by the U.S. Environmental Protection Agency (EPA); \$100K for the Bartlett Dam Modification Feasibility Study that would increase available surface water supplies and reduce dependence on Colorado River water; \$98K for a technical review of Salt River Project/Central Arizona Project Interconnect Facility (SCIF) to plan for infrastructure that would provide sustainable water supplies to East Mesa and new developments; and \$75K for a Joint Water Quality Study to assess the quality of water to be received from the Salt River/CAP Interconnect Facility.

Additionally, the FY 2025/26 proposed budget shifts funding for the Compliance Lab from the Utility Fund to the Environmental Compliance Fee Fund. This funding shift includes budget capacity for lab materials, supplies, 3rd party contracted labor and permits expenses. The Environmental Compliance Fee Fund is used for unfunded federal, state, and county environmental mandates. The Water Resources Compliance Lab is required to meet water and wastewater quality regulations imposed by the federal and state governments.

Lastly, the FY 2025/26 proposed budget includes reductions to various items, including consulting services, print service charges, and minor maintenance and 3rd party contracted services for the various treatment plants.

Other Departments

Arts & Culture

The Arts & Culture Department forecasts expenses and related revenues as they vary from year to year based on the number and size of scheduled shows and events.

The FY 2025/26 proposed budget includes adding a Booking Agent position at the Mesa Arts Center and an increase for administrative costs at the Mesa Arts Center for Event Services, website support, AudienceView ticketing software, and

temporary services at the Mesa Contemporary Arts Museum and Festivals. Additionally, the proposed budget includes costs at the idea Museum for advertising, enhanced cleaning measures, inflationary costs for building materials, and increased credit card fees.

The proposed budget includes funding for various additional one-time administrative and operating costs for Arizona Museum of Natural History, Mesa Arts Center, and idea Museum.

To meet the FY 2025/26 budget reduction target, the department will reduce routine department expenses and shift two full-time positions from General Fund supported to the Arts & Culture Fund including a Museum Collection Specialist and Facility Systems Specialist. The proposed budget includes a reduction offset through revenue collection by increasing ticket fees at the Arizona Museum of Natural History, idea Museum, and Mesa Arts Center.

Business Services

Reductions for the FY 2025/26 proposed budget include eliminating a Sr Revenue Collections Officer position and a Utility Credit Counselor position. Additionally, the department is reducing various administrative costs.

City Attorney

The City Attorney's Office oversees the Property and Public Liability (PPL) Fund. The City uses the PPL Fund to pay third party liability claims, administrative costs for the litigation team, and to purchase insurance coverage to protect the City against litigation past a certain threshold. The estimated claims paid for FY 2024/25 will be approximately \$4.1 million, which is lower than the FY 2024/25 Adopted Budget of \$5.0 million due to fewer large settlement payouts. Estimated claims for FY 2025/26 are budgeted at \$5.0 million.

The FY 2025/26 proposed budget includes adding a Senior Victim Services Assistant position, funded by the Victims of Crime Act (VOCA) federal grant.

To meet the FY 2025/26 budget reduction target, the department will be freezing a vacant Assistant City Prosecutor II position.

City Auditor

The FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

City Clerk

The budget for the City Clerk's Office is adjusted for the cost of elections. There is not an election scheduled in FY 2025/26; therefore election related expenditures are not included in the proposed budget.

City Manager

The FY 2025/26 proposed budget includes adding operating budget capacity for the Office of Urban Transformation due to growth in the department. This was initially being absorbed within the City Manager's administration, for which is to be partially offset with the increase in parking fee revenue. Additionally, the budget

includes a slight increase to the Employee Appreciation Food Truck Fiesta, continued support for the Workforce Center relating to the discontinuation of ARPA funding, and budget capacity for the remodel of the Public Defender Office.

To meet the FY 2025/26 budget reduction target, the department will be freezing a vacant Deputy City Manager position.

During FY 2024/25, two positions to support projects were shifted to Facilities Management to better align with the department's needs.

Code Compliance:

The FY 2025/26 proposed budget provides an adjustment for the purchase of a software subscription which will automate manual entry of code violations into existing software saving Code Supervisors and Officers administrative time to focus on their primary duties.

The FY 2025/26 proposed budget reduces the department's contracted process server expenses for code violation notices. These notices will instead be served by Code Compliance Officers within Mesa and the surrounding communities.

Community Services

Community Services oversees the City's community services, community engagement, housing services, human services, and animal control. The Community Services Department is funded mostly by various federal grants and the General Fund.

The FY 2025/26 proposed budget includes on-going funding for the Sunaire Hotel, which will be partially offset by the phasing out of the Windemere program. Sunaire will provide assistance to seniors, single women, survivors of domestic violence and families who are experiencing homelessness. Additionally, one-time funding is also included for the Street Outreach First Responder and Heat Relief support, to provide vulnerable community members with safe, clean respite that provides cooling from the summer heat which includes funding for the portable air conditioner program and related support services for the summer of 2026. On-going funding is also added for vehicle maintenance for an animal control vehicle that was purchased during FY 2024/25 to serve as a backup vehicle to minimize service disruptions when servicing primary use vehicles.

To meet the reduction target for the FY 2025/26 proposed budget, the Budget reductions include shifting 0.25 FTE from the General Fund to the Community Development Block Grant (CDBG), and minor adjustments in concessions and catering, professional services, legal, office supplies, cash over/short, and advertising.

During FY 2024/25, a grant funded Human Services Coordinator position was added as part of the opioid settlement funds to administer the program.

Data and Performance Management

To meet the FY 2025/26 budget reduction target, the department will be freezing a vacant Management Analyst II position.

Department of Innovation and Technology

To meet the FY 2025/26 budget reduction target, the department will be freezing two IT Engineer III positions and an IT Engineer II position.

Development Services

The FY 2025/26 proposed budget includes funding for software subscription renewals. This expense is funded by a 4.0% fee of the total permit cost specifically for software subscriptions and related technology reporting software. The department's proposed budget also includes an increase in vehicle operation and maintenance expenses due to increases in the cost of labor, parts, and fuel.

The FY 2025/26 proposed budget includes reductions to the department budget in administrative costs like printing charges and third-party external services. Also included is a position reclassification of a Senior Economic Development Project Manager to a Principal Planner.

Economic Development

The FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

The FY 2025/26 proposed budget includes reductions of building improvements and acquisitions costs in the Economic Investment Fund with minimal impact due to the potential sale of the AZ labs facility.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY 2025/26 proposed budget includes a FY 2024/25 midyear increase in the budget for the Fiber to Premise Program to allow the City to collect survey data for better mapping of existing infrastructure. The Department is also eliminating a vacant Real Estate Specialist II position and reducing their budget in temporary services, contract services and training.

Environmental and Sustainability

During FY 2024/25, a contingency was approved to accommodate \$75K received from the City of Phoenix of passthrough funds for the Water Use It Wisely (WUIW) marketing campaign.

The FY 2025/26 proposed budget includes a one-time pass-through funding for the Water Use It Wisely (WUIW) marketing campaign, and SRP Water Conservation and Solar Performance Rebates.

Environmental and Sustainability is also making reductions in their budget in the areas of administrative costs, vehicle costs, event services, and other services.

Facilities Management

In FY 2024/25 Facilities Management split from the Parks, Recreation and Community Facilities Department. During FY 2024/25 a contingency was approved to add funding for increased janitorial costs. In addition, two positions were shifted from the City Manager's Office to Facilities Management to better align with the department's needs. The new positions will assist them with addressing the preventative maintenance in City buildings in a timelier manner.

The FY 2025/26 proposed budget includes an increase for additional building maintenance costs due to newly acquired buildings being added to their portfolio.

Falcon Field

The FY 2025/26 proposed budget includes an increase in fees and charges to help offset pavement maintenance spending. This helps the airport in their efforts to remain self-sustaining and eligible for federal grants.

Financial Services

The FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

Fleet Services

The Fleet Services Department is funded through the Fleet Internal Services Fund. To meet the reduction target for the FY 2025/26 proposed budget, vehicle equipment parts and supplies are reduced in the Fleet Internal Service Fund. This can be done without compromising the safety and reliability of City vehicles due to current forecasts expecting inflation rates to stabilize in the industry. The department also reduced their small tools and equipment purchases related to fuel station repairs in the Environmental Compliance Fee Fund. Costs for these repairs are infrequent, therefore a minimal impact on operations is expected.

Human Resources

The Human Resources Department is comprised of three divisions: the Personnel Division that manages recruiting, classification and compensation; the Safety Services Division that manages Workers' Compensation claims and worker safety training; and the Employee Benefits Administration that oversees employee and retiree wellness benefits, claims management, and plan administration.

To meet the reduction target for the FY 2025/26 proposed budget, the General Budget reduction includes savings in training materials and supplies, travel, call back/standby for time and labor, minor computer equipment, telecommunications and education reimbursement as it's now centralized. This is expected to have a minimal impact on the department.

Library

To meet the reduction target for the FY 2025/26 proposed budget, two vacant part-time library page positions (1.0 FTE) have been eliminated as well as minor reductions to security and discontinuing the Press Reader subscription, Google Ad grant and Virtual Reality programming. These cuts will have a minimal impact on the department.

Mayor and Council

The FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

Office of ERP Management

The FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

Office of Management and Budget

The FY 2025/26 proposed budget is consistent with the FY 2024/25 budget.

Parks, Recreation and Community Facilities

The FY 2025/26 proposed budget includes an increase in the Environmental Compliance Fee Fund for utility costs. It also includes the addition of new positions for Aquatics (22.1 FTE's) to meet audit recommendations for lifeguard coverage and current programming needs. Finally, it includes the addition of new positions for Recreation Programs (2.6 FTE's) to meet the growing demands for this area. These additional positions will be offset by increased revenue from fee changes and program participation growth.

To meet the reduction target for the FY 2025/26 proposed budget, a vacant Parks Maintenance Worker position as well as other costs that were tied to the cancelled Crismon/Elliott project have been eliminated. In addition, they have eliminated City funding support for the Mesa Pow Wow, maintenance costs for Fremont Pool (close after summer season), and reduced contracted services in the basins (Environmental Compliance Fee Fund). These cuts will have a minimal impact on the department.

Public Information and Communication

The FY 2025/26 proposed budget includes funding for bi-annual community surveys aimed at providing the City with a better understanding of community needs, perception, methods of communication, and satisfaction with the City. The proposed budget also includes an adjustment for increased vehicle operation and maintenance costs.

The FY 2025/26 proposed budget includes a reduction in software subscription costs as well as temporary personnel services related to Mesa Channel 11.

Transit

The Transit Services budget is largely determined by contracts with the Regional Public Transportation Authority (RPTA) and Metro Light Rail for bus, paratransit, and light rail operations. The costs of services in FY 2025/26 are expected to increase \$2.9M due to contract and service agreement price increases as well as increase in maintenance costs.

To meet the reduction target for the FY 2025/26 proposed budget, the department is reducing contracted services costs for transit facility operations and maintenance.

Transportation

The FY 2025/26 proposed budget includes funding for a Senior Planner position to provide expertise in developing a transportation network that serves all members of our community, fostering a healthier, more sustainable, and more connected Mesa by addressing urban challenges. The Transportation Department was also approved an airless striping truck which will be used for applying the appropriate street markings and an electric cargo van to support their bicycle and pedestrian program.

The FY 2025/26 proposed budget includes shifting Storm Drain operations and maintenance activity from the Environmental Compliance Fee Fund to the Highway User Revenue Fund. Storm Drain maintenance protects the roadways and right-of-way from storm damage.