



City Council Report

Date: March 30, 2023
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Brian A. Ritschel, Management and Budget Director
Subject: Fiscal Year 2023/24 Summary of Proposed Budget

Overview of Proposed Budget

In January, the Council received an update on the City's economic condition. The financial position of the City has strengthened over the last year. This is attributable to a combination of items: a steady increase in local and state sales tax revenues, increased development/construction activity, and federal stimulus funds from the American Rescue Plan Act (ARPA). The City has seen higher than expected inflation on commodities and services over the last 2 years and to minimize the impact; City management has prioritized employee compensation, setting aside one-time revenues to offset inflationary pressures, and capital project cost increases to sustain quality services.

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 City 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 2022/23, as well as new expenditures that are anticipated for FY 2023/24.

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, the largest of these sources, is projected to increase in FY 2022/23. The last available month of sales tax data for FY 2022/23 is for January activity, which shows year to date growth of 11.4% over the same period last year. Sales tax revenues in FY 2022/23 are higher than FY 2021/22 due to continued growth in the contracting category from construction activity and increased prices due to inflation.

Local sales tax revenues are projected to end FY 2022/23 3.2% above FY 2021/22. The FY 2023/24 forecast indicates a decline of 8.9% compared to the estimated FY 2022/23 projection. The forecast assumes lower revenues in FY 2023/24 due to the inclusion of an economic slowdown as result of continued high inflation and softening of economic momentum.

Public Safety Sales Tax

The Public Safety Sales Tax Fund is voter- approved sales tax revenue restricted to Public Safety programs and projects. The FY 2023/24 budget includes funding for new public safety projects and one-time items. The proposed budget for Fire adds additional capacity for 12 FTE to staff Fire Station 223 to include 6 Fire Fighters, 3 Fire Engineers, and 3 Fire Captains, as well as funding for their recruit salaries as they attend the fire academy and related operating costs. The proposed budget for Police includes one-time costs for CCTV enhancements (\$2.8M) in parks, parking garages, and crime hot spots, 2 Holding vans for the jail (\$425K), a command van (\$1.5M) and a helicopter conversion (\$2M). Additional on-going operational costs for the Public Safety Sales Tax are noted in the department section of Public Safety for the Police and Fire and Medical departments.

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. The FY 2023/24 budget covers the estimated costs of up to 120 sworn FTE in the Police Department and 65 sworn FTE in the Fire and Medical Department. The allocated FTE is subject to change based on the revenues received.

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 2023/24, Urban Revenue Sharing revenues will increase 41.5%. The large one-time increase is due to adjusting the percentage of total income tax revenue received by cities and towns, from 15% to 18%, and is to assist in offsetting the implementation of the State Flat Income Tax.

State-Shared Sales Tax: Like local sales tax, state sales tax is projected to increase 3.2% in FY2022/23 over FY 2021/22 as result of strong retail activity and increased prices due to inflation. In FY 2023/24, the forecast projects a decline of 11.0% over estimated FY 2022/23 revenues. Similar to local sales tax, the forecast assumes lower revenues in FY 2023/24 from FY 2022/23 due to the inclusion of an economic slowdown as continued high inflation and softening of economic momentum.

Vehicle License Tax: The smallest contributor to state revenue sharing is Vehicle License Tax, it is projected to increase 2.2% in FY 2022/23. FY 2023/24 revenues are expected to stay consistent to FY 2022/23 levels.

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 2023/24 contribution is budgeted at \$126.2 million, which is a 5.3% increase from the FY 2022/23 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 2023/24 transfer is \$21.1M, which is above the FY 2022/23 transfer of \$14.2M. The FY 2022/23 transfer amount was reduced due to a portion of transit funding being covered by one-time American Rescue Plan Act (ARPA) funding.

Trust Fund Contributions

The General Fund contributes to three trust funds related to liabilities:

Property and Public Liabilities Trust Fund; FY 2023/24 City contribution of \$11M

Employee Benefit Trust Fund; FY 2023/24 City contribution of \$75.9M

Workers' Compensation Trust Fund; FY 2023/24 contribution \$8M

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 2023/24 operating revenues are estimated at \$422.8M, increasing from \$399.6M projected for FY 2022/23 (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 little 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 City's financial policies call for a forecasted fund balance (reserves) of at least 8-10% throughout the forecast period. The estimated budget for FY 2023/24 results in an ending balance within the financial policies. The current forecast calls for declining reserve balances for the next few years in anticipation of a scheduled increase in existing debt service expenses. 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 (46%) and part of the vehicle license tax (31.4%). The remainder is comprised of miscellaneous State fees. Arizona's three largest cities 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 2023/24, expected revenues are estimated to decrease 8.5% as gas price remains high, decreasing demand for commute.

Local Streets (LS) Fund. LS Fund revenue collection is tied to the rest of city sales tax and is expected to increase slightly in FY 2023/24. Anticipated revenues for FY 2023/24 are expected to decrease from \$48.8M to \$44.6M due to continued high inflation and softening of economic momentum.

HURF and LS Fund are managed together as both funds are restricted to streets 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 \$97.1 in FY 2022/23 and decrease to \$77.6M in FY 2023/24 due to spending on one-time projects.

Trust Funds

Employee Benefit Trust Fund. The Employee Benefit Trust (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
Actual	FY 17/18	\$80.1M	2.1%	\$70.1M	1.1%
Actual	FY 18/19	\$90.8M	13.4%	\$80.7M	15.1%
Actual	FY 19/20	\$96.6M	6.4%	\$86.6M	7.4%
Actual	FY 20/21	\$99.3M	2.9%	\$89.5M	3.4%
Actual	FY 21/22	\$102.2M	2.9%	\$91.4M	2.1%
Projected	FY 22/23	\$99.4M	(2.7%)	\$88.4M	(3.2%)
Budget	FY 23/24	\$105.2M	5.8%	\$92.7M	4.9%

Medical and dental premiums are set on a calendar year (CY) basis. To address the projected increased costs, the FY 2023/24 budget includes the CY 2023 increase of 5% for employee contributions and 3% for retiree contributions, and an increase of 5% for employee contributions and 3% for retiree contributions for CY 2024. Respectively, the increases are applied to both the employee/retiree and the City. In the summer of 2023, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2023. The City contribution included in the FY

2023/24 budget is \$75.9 million which is \$11.6 million less than the FY 2022/23 adopted budget. The FY 2023/24 budgeted City contribution is slightly higher compared to what was presented at the Trust Fund Board meeting due to the additional employee count as the budget will account for new and vacant positions contributing into the fund.

While medical, prescription, and dental claims costs continue to rise, the City experienced a decrease in claim frequency/utilization compared to forecast. Claims costs are projected to decrease from FY 2022/23 to FY 2023/24 by \$7.2 million, or 7.3%. This decrease can be attributed to increased active Basic Medical Plan enrollment (claims liability shifts to employee), increased utilization of the Employee Health and Wellness Center, 5% reduction in medical claims counts, and a 15% decrease in prescription drug expenses.

In CY 2022, the City completed a competitive Request For Proposal (RFP) process and awarded a five-year contract with an optional 6th and 7th year extension to the incumbent vendor Cigna for third-party medical plan administration and medical provider network services. The Cigna contract includes medical and behavioral health administration services (claims, appeals, medical utilization, and case management), customer service, medical plan ID cards, and cost containment and provider network services in all fifty states. The contract award also included the lowest base administration fees offered, no member network disruption, and significant multi-year Cigna-provided Health Improvement Fund for funding health and wellness initiatives.

In CY 2021, the City completed competitive RFP processes for five benefit vendor contracts that were implemented as of 1/1/22 for five-year terms each. These contract awards included: MedImpact and PaydHealth for commercial and Medicare Part D pharmacy benefits administration services and specialty drug advocacy services, respectively; Delta Dental of Arizona for dental plan claims administration and customer services (with a two-year term extension provision); Navia Benefit Solutions for FSA account administration services (with a two-year term extension provision); and, Buck Global for employee benefits consulting and actuarial services (with a two-year term extension provision). Each of these contract awards afforded the City multi-year guarantees on administrative costs, significant cost savings opportunities for pharmacy claims costs, and service continuity and no network disruption in the case of Delta Dental and Buck Global contracts.

Workers' Compensation Trust Fund. The Workers' Compensation 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 but are expected to rise in correspondence with Firefighter Cancer claims.

The City contributes to the Workers' Compensation 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 budget. Expenses are reviewed during the fiscal year and rates can be modified if needed. Pending workers' compensation 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 Workers' Compensation Trust Fund expenses. The FY 2023/24 proposed budget for the Workers' compensation Trust Fund includes capacity for Municipal Firefighters Cancer Reimbursement within the Mesa Fire and Medical Services Department.

For FY 2023/24, the reserve target is \$7.0 million. Based on the FY 2022/23 projected reserve balance and the expenditures forecasted for FY 2023/24, an increase to the workers' compensation rates from the previous year is included in the FY 2023/24 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2023/24 is \$8 million.

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 \$10.0 million. 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 \$5.6 million in FY 2022/23. The cost of claims included in the FY 2023/24 budget is \$5 million.

City contributions into the fund are based upon prior year PPL Trust Fund claims experience. Approximately two-thirds of City contributions come from general governmental funds, while one-third comes from enterprise and other funds. The contribution needed to maintain the target reserve balance is estimated each year and included in the budget. The FY 2023/24 City contribution estimate is \$9.1 million, with a transfer of \$1.95 million to increase the fund balance from \$10 to \$11 million. Expenses are reviewed during the year and the contribution amount is modified as necessary.

Environmental 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 \$17.7 million in revenue in FY 2023/24. The fee funds the City's environmental activities such as air quality, storm water quality, hazardous waste management, and asbestos management. Budgeted on-going operational expenses are \$17.8 million therefore no fee adjustment is needed. The current fee has been in place since July 1, 2014 and is expected to remain the same for FY 2023/24. Savings experienced each year are accumulated and applied to future one-time expenditure needs. The FY 2023/24 proposed budget includes \$474K in one-time funding to complete a lead service line inventory to comply with the Environmental Protection Agency's Lead and Copper Rule Regulation.

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

Mesa Police is budgeting to apply for approximately \$3.4 million in grant awards for FY 2023/24. Notable proposed grant awards include the following:

- \$655K for support for the Mesa Family Advocacy Center.
- \$900K Homeland Security Grants to provide funds for training and equipment to support Homeland Security initiatives.
- \$318K 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.
- \$425K 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.
- \$150K Justice Assistance Grant (JAG) to support improving technology services in the Police Department.
- \$310K Office of Justice Programs Bureau of Justice Assistance Hate Crime Grant to support personnel in developing a comprehensive approach to address hate crimes in the City of Mesa.
- \$85K 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 \$382K in grant awards for FY 2023/24. Notable grant awards include the following:

- \$235K 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.
- \$47,550 from the Arizona Department of Homeland Security to include \$10,550 for the Community Emergency Response Team, \$12,000 for Emergency Management, \$15,000 for the Threat Liaison Officer program, and \$10,000 for the immunization program.

Arts & Culture Grants

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

Relief Fund Grant

Due to federal assistance from the American Rescue Plan Act, the City established budget capacity of \$105.5M in FY 2021/22 to support City operations and those affected by the COVID-19 pandemic and continues the support and assistance in FY 2023/24.

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 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.
- 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 \$22.9M in FY 2022/23 and \$22.0M in FY 2023/24.

The City is a designated entitlement community by the Department of Housing and Urban Development (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 \$19M in FY 2022/23 and \$7.7M in FY 2023/24.
- 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 \$12.9M in FY 2022/23 and \$2.0M in FY 2023/24.
- 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 \$3.7M in FY 2022/23 and \$400K in FY 2023/24.

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 2023/24 contribution rates for State-run retirement plans changed as follows:

Retirement Plan	FY 2022/23 Rate	FY 2023/24 Rate	Rate Change
Arizona State Retirement System (ASRS)	12.2%	12.3%	0.1%
Elected Officials Retirement System (EORP)	70.4%	70.4%	0%
Public Safety Personnel Retirement System (PSPRS) - Fire	58.1%	61.0%	2.9%
Public Safety Personnel Retirement System (PSPRS) - Police	60.2%	61.1%	0.9%

In the FY 2023/24 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

In the FY 2023/24 proposed budget, there shows a smoothing of the PSPRS contribution as the City continues its approach in paying down the unfunded liability in quarterly payments. This new approach provides the City more flexibility to meet the desired total contribution amounts and gives the ability to adjust with the market or new assumptions. With the additional quarterly contributions and the City working towards smoothing out the unfunded liability payment through the forecast, the City is projected to contribute a total of \$78M to PSPRS for FY 2023/24. This is a \$12.9M increase over the projected Annual Required Contribution (ARC) for FY 2023/24 of \$65.1M.

The Arizona State Retirement System (ASRS) contribution rate increased by 0.1% for FY 2023/24, increasing Mesa's expected contribution to ASRS by \$260k.

The FY 2023/24 Elected Officials Retirement Plan (EORP) contribution rate has not yet been published, maintaining 70.4% (increase of 9.0% from FY 2021/22).

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 4% in FY 2018/19, 3% in FY 2019/20, 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, and will continue to provide all employees with competitive pay and benefits going into FY 2023/24.

Health Plan Contributions – Employee Benefit Trust

To minimize cost, the City funds many of its employee and retiree benefits internally through the Employee Benefit Trust (EBT) Fund. This includes medical, dental and vision benefits. The FY 2023/24 budget anticipates increasing the city contribution by 5% and 3% for employee and retiree plans respectively effective January 2024. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of

2023. The increase in medical premiums results in an increase in the costs of personal services for each department.

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 design of a new fire station in Lehi (FS 223) and the replacement of multiple fire apparatuses. The funding of these projects is available through the General Obligation (GO) bond authorization approved by voters in 2022. Police have begun construction on their new evidence facility in Downtown Mesa with funding from GO bond authorization approved by voters in 2018 and 2022.

Continuation of citizen initiated and approved Parks and Culture projects are included in the proposed CIP. A few projects include the expansion of the Countryside Dog Park and the renovation of the i.d.e.a. Museum. These projects are using GO bond authorization approved by voters in 2018.

Roadway improvements will continue at Southern Avenue and Country Club using Transportation funds, and Sossaman Road (Ray to Warner) will use GO bond authorization approved by voters in 2020 to leverage regional grant dollars to complete projects that serve multi-modal transportation and safety needs. The debt service on GO bonds is funded through a secondary property tax as approved by voters in the ballot language for the bond authorization. In conjunction with the street projects, the City will replace and/or upgrade utility infrastructure. Coordinating this effort not only ensures the reliability of the utility service lines, but it also maximizes the life of the pavement. The utility infrastructure is funded with utility revenue obligations.

Also included in the proposed CIP are improvements at Falcon Field airport, various shared-use paths, and storm water infrastructure projects. Many of these projects use local funding sources to leverage grant dollars awarded to the City to complete projects that enhance the quality of life in the City of Mesa.

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 2023/24 proposed budget is \$38.8M. The corresponding secondary property tax rate is \$0.8614 per \$100 of taxable value, a 6% decrease from the prior year.

A residential property with the median taxable value of \$167,405 (\$394,634 sale value) would be billed \$144 for the year in City of Mesa property tax.

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY22-23 to FY23-24

	FY22-23	FY 23-24 Tentative	\$ Change	% Change
Secondary Property Tax Levy (Taxable Value * Tax Rate)	\$38.8 million	\$38.8 million	(\$596)	-0%
Secondary Property Tax Rate (per \$100 of Taxable Value)	\$0.9157	\$0.8614	(\$0.0543)	-6%
Annual Cost to Median Homeowner	\$146	\$144	(\$2)	-1%

In FY 2022/23 a levy decrease was the result of an adjustment to the City's approach to funding GO bond debt. In the past, the City's practice has been to fully adjust the secondary property tax levy in the year following a successful bond election in order to fund all future year payments on the newly authorized bonds. However, the City only issues bonds incrementally over a number of years as needed to pay for project spending as it occurs. Until the bonds have all been issued, the additional capacity in the tax levy has been used to pay extra principal in the first year of the bonds as they are issued.

The levy will likely need to be increased again at some point in order to fund payments on all the bonds once issued. The City currently has \$388 million in authorized bonds remaining to issue from the 2018 (public safety, parks and culture, library), 2020 (transportation), and 2022 (public safety) bond elections.

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 ongoing basis, departments review and identify large periodic operational expenditures which cannot be covered within their annual budget.

The FY 2023/24 proposed budget is at \$159.8M (no carryover). Additional funding has been allocated for street arterial pavement overlays, streetlight replacement, and various small utility equipment replacement. Lifecycle needs are identified each year that the City is not able to fund. Staff identifies and analyzes needs citywide to maintain 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, innovative, and inclusive activities occurring around the City.

Public Safety Departments

Mesa Fire and Medical

The General Fund FY 2023/24 proposed budget includes one-time funding for Fire IT Software for a software license renewal and the fall and spring fire recruit academies. Funding for the Fall Semester of the In-house Medic School Program includes one-time operating costs and ongoing funding for 10 FTE 24-hr Firefighters and 1 FTE EMS Coordinator to have more flexibility to backfill positions for employees that are attending this program full time.

During FY 2022/23, the City approved additional ongoing funding for 1 FTE Peer Support Captain, 3 FTE Fire Inspector positions, and funding for a contracted Crisis Counselor Position. Two 0.5 FTE Fire Dispatcher Part-Time Non-Benefited Positions were also approved to help offset related overtime costs. Additionally ongoing funding was moved from the Public Safety Sales Tax Fund to the General Fund for uniforms, medical exams, and phone charges to more easily track these items, and a portion of the approved spring fire recruit academy was added as ongoing for related uniform costs. Approved one-time funding included uniform allowance increases for sworn fire personnel, funding for a Low Acuity Unit Pilot program which consisted of funding to back fill 2 two-person units and supplies, and capacity for the 2023 Spring Semester for the Medic School program.

The Public Safety Sales Tax Fund FY 2023/24 the proposed budget adds additional capacity for 12 FTE to staff Fire Station 223 to include 6 Fire Fighters, 3 Fire Engineers, and 3 Fire Captains, as well as funding for their recruit salaries as they attend the fire academy and related operating costs. Additional information on the Public Safety Sales Tax Fund for Mesa Medical and Fire can be found in the Sales Tax section. During FY 2022/23, the City approved one-time funding for funding for a whole-body MRI Cancer Screening test.

The Transport Fund FY 2023/24 proposed budget includes additional one-time funding for ambulance vehicle and equipment replacements and additional ongoing funding for FLSA Overtime. During FY 2022/23 the City continued the expansion of the program and added an additional 31 FTEs in the Mesa Fire and Medical Department which included 3 Emergency Transportation Shift Supervisors, eight 12-hour Paramedics, six 24-hour Paramedics, four 12-Hour Emergency Medical Technicians, and six 24-hour Emergency Medical Technicians, 2 Medical Billers, 1 Parts & Supply Specialist and 1 Program Assistant. Ongoing funding was also added for 6 ambulances and to reinstate per incident dispatch fees that were incorrectly reduced from the fund's budget.

The Workers' Compensation Trust Fund FY 2023/24 proposed budget also includes capacity with the Mesa Fire and Medical Services Department for the Industrial Commission assessment for the Municipal Firefighters Cancer Reimbursement.

Municipal Court

Revenue in FY 2023/24 is estimated to be at \$8.2M. Due to anticipated revenue from the Arizona Supreme Court's FARE (Fine and Restitution Enforcement) Program as well as revenue recovery from the pandemic, this estimated amount may increase.

The FY 2023/2024 budget includes an increase for the Pro Tem Judge contracts ongoing funding in the amount of \$56,259 to retain the current staff and attract competitive pay for contracted Pro Tem Judge positions to the support the Court. In addition, the proposed CIP includes a remodel of the third floor at the Municipal Court in the amount of \$323K. FY 2022/2023 budget included ongoing funding in the amount of \$179,256 for two additional full-time positions in support of the Domestic Violence Court, a Probation Officer and a Program Assistant.

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 2023/24 proposed budget includes \$125K on-going support for an expanded contract for third party fingerprinting services, and \$350K on-going for community engagement software to keep callers/complainants apprised of officer estimated time of arrival/case progress. The Northeast Public Safety Facility includes the addition of 14 civilian FTEs, including an Office Supervisor, 2 Administrative Support Assistants, a Crime Prevention Officer, a Victim Services Spec, 2 Police Service Assistants, 2 Crime Analysts, 2 Investigation Specialists, and 3 Police Service Officers. The proposed budget also includes a new Community Ambassador Program with 8 part-time non-benefitted positions to provide a safer and welcoming environment for the City of Mesa's downtown area. Other additions also include 2 new Senior Program Assistant FTEs to the Training and Wellness division to promote mentorship and retention. The Police Department's Records Division also includes an addition of 7 FTEs to respond to an increase in workload. These positions include 4 Record Specialists II, 1 Records Shift Supervisor, 1 QA Records Specialist III, and 1 QA Records Shift Supervisor. The Victim Services Unit will receive general fund capacity to fill in the gap with the reduced grant funding from the Victims of Crime Act (VOCA). Under the Special Program Fund, the proposed budget also includes a one-time \$50K

purchase of tasers for Municipal Security, and one-time \$60K for a forensics store and Forward Arizona Biometrics Identification Systems (ABIS).

During FY 2022/23, Police added 4 Records Specialist II positions, a Record Specialist III position, and 2 Shift Supervisors to respond to increased workload in the Records Unit and a civilian Board-Certified Police Psychologist to coordinate and oversee the Peer Support and Wellness programs. The proposed budget also includes one-time funding for \$530K in academy costs and a \$179K ongoing adjustment for Topaz Regional Wireless Cooperative improvements and maintenance. Other adjustments include a one-time increase in records overtime, \$30K for a digital records conversion assessment, and one-time set up plus ongoing costs for a Grappler vehicle immobilization program to replace PIT Maneuvering.

The Public Safety Sales Tax Fund FY 2023/24 proposed budget includes ongoing support for 12 sworn FTEs and 4 civilian FTEs. This is the fifth year of the staffing plan for the Police department as it continues to expand with the growing needs of the City. The additional positions include 4 Police Officers, 4 bike Police Officers, 2 Detectives, an IT Engineer, a Systems Security Technician for the CCTV enhancement project, and 2 Police Officers and 2 civilian Police Investigator II positions for the Real Time Crime Center. During FY 2022/23, 16 sworn FTEs were added to support patrol, operations, and the Real Time Crime Center, as well as 7 civilian FTEs. Information on one-time costs for the Public Safety Sales Tax Fund for Police are included in the Sales Tax section.

Information on Police grants are included in the grant section of this report. During FY 22/23 a Forensic Scientist III was added.

*Utility Departments*Energy Resources

During FY 2022/23, two full-time Utility Locator positions and additional budget capacity for temporary service workers was provided in order to meet the demand for the City's Fiber-to-the-Premise initiative.

The FY 2023/24 proposed budget includes the addition of four Utility Service Workers, three Gas Field Workers, and one Gas Crew Leader position. These positions are needed in order to keep up with growth in the Magma Service Area. Additionally, one Data Analyst position is included in the planning and deployment of the Advanced Metering Infrastructure project. Last, the proposed budget includes \$138K in on-going funding to cover warehouse costs.

Budgeted purchases for the electric energy commodity are anticipated to increase from \$23.9M in FY 2022/23 to \$25.4M in FY 2023/24. Budgeted purchases for the natural gas commodity are anticipated to decrease from \$22.1M in FY 2022/23 to \$19M in FY 2023/24. Commodity costs increased significantly in FY 2020/21 and FY 2021/22 and these costs are constantly monitored throughout the year to assess supply, demand, and pricing.

Solid Waste

During FY 2022/23, the department was approved to convert temporary service funding to one additional Service Worker Assistant position to improve service and reliability at the Household Hazardous Materials facility.

The FY 2023/24 proposed budget includes the addition of 3 foremen and an administrator in order to right-size the management of equipment operators. In the past, equipment operator positions have been added without an increase in foremen. Additionally, 3 automated side loader (ASL) trucks for residential service have been added in order to keep up with growth citywide. Last, 2 special use residential rear loader trucks have been added to pick up barrels that are off-route and reduce back out assistance of ASLs on dead end streets.

Water Resources

The FY 2023/24 proposed budget includes cost increases across both water and wastewater operations as result of supply constraints and inflationary pressures. Water commodity purchases are expected to increase by \$3.4M largely due to unit cost increases from the Central Arizona Project (CAP) as the State is expected to enter Tier 2b Shortage of the Lower Basin Colorado River Basin during the FY 2023/24 fiscal year. Both water and wastewater chemicals costs are expected to increase as result of supply chain disruptions and inflation. Wastewater operations electric costs are expected to increase slightly as result of rising electric rates,

however water electric costs are expected to slightly decrease due to operational improvements at the water treatment plants.

The City participates in various joint ventures with other municipalities to provide water and wastewater services. Joint venture participation costs at the Val Vista Water Treatment Plant, operated by the City of Phoenix, are expected to increase \$1.5M in FY 2023/24 due to increased labor and operational supply costs. Similarly, the 91st Ave Wastewater Treatment Plant participation costs are expected to increase \$1.4M, and Greenfield Wastewater Treatment Plant (GWRP) \$425K. The City also increased percentage ownership of the Greenfield Wastewater Treatment Plant since the Phase II plant expansion has been completed.

The FY 2023/24 proposed budget includes \$474K in one-time funding for the completion of the Lead and Copper Rule Service Line inventory to comply with Environmental Protection Agency (EPA) regulations. The proposed budget also includes \$344K in on-going funding for a ten-year agreement with SRP's Biomass program that will thin overgrowth in forests to improve the quality of water runoff. An additional position in the Reclaimed Water/Air Quality Support group is included in the proposed budget to provide additional resources for water and wastewater testing.

Other Departments

Arts & Culture

The Mesa Arts Center schedules shows and events prior to the time of the event. The budget provides an estimate of the expenses and related revenues. The level of Performing Live expenses and associated revenues can vary from year to year based on the number and size of shows that are scheduled. The expenses of Performing Live are offset by revenues from the scheduled shows.

The FY 2023/24 proposed budget includes Arts & Culture fund support for marketing for the i.d.e.a Museum and the Arizona Museum of Natural History, additional staff for the Museum of Arts & Culture (MAC) Studios to restructure the program and offer additional classes per session, additional staff at the MAC Theaters including an Event Services Coordinator, a Box Office Coordinator and Administrative Assistant, increased expenses associated with City's security contract, program support for the i.d.e.a. Museum and the Arizona Museum of Natural History, and one-time expenses at the MAC.

FY 2023/24 also includes General Fund support for a new AZMNH Chief Curator position, a fund shift from the foundation of i.d.e.a. Museum floor staff, an increase in utilities for Arts & Culture facilities, and one-time funding for an AZMNH Master Plan.

During FY 2022/23, the department included ongoing General Fund support for 3 additional operational positions for the Mesa Arts Center: 1 Service Worker, 1 Facility Technician II, and 1 Special Events Manager to complete general facilities maintenance and support community events. Additionally, the proposed budget includes ongoing Arts & Culture Fund support for a total FTE increase of 3.6 to include a Lead Gallery Educator at the Arizona Museum of Natural History, a Corporate Sponsorship position to lead sponsorship development across the three institutions, and studios staff conversions at the Mesa Arts Center to support additional class capacity which will be partially offset by additional class registration revenue. The Arts & Culture Fund will support a one-time amount of \$642,500 for various improvements to technology and systems. Lastly, the FY 2022/23 budget included 1 grant funded Sr. Program Assistant to manage the Project Lit program and 0.5 FTE grant funded part time non benefitted senior program assistant to support the Youth Arts Studios program.

Business Services

In FY 2022/23, 4.0 FTEs were added to assist Tax and Licensing with the implementation of the new business license and short-term rental programs. Additionally, the growth of the City of Mesa Ambulance Transport Program also required additional FTEs in Revenue Collections (2) and Medical Billers (2). Also during FY 2022/23, the medical billing unit and Transport Program were consolidated into the Mesa Fire & Medical Department's budget, and this includes all related personnel services and operational costs.

The FY 2023/24 proposed budget includes the purchase of a new Duplo Card Cutter, in addition to replacing the City's Mail Postage Meter and Inserter Machines for Mail Services. A part-time Utility Account Analyst position is also included to accommodate the increase in active billing accounts in Mesa.

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 2022/23 will be approximately \$5.6 million, which is higher than the FY 2022/23 adopted budget of \$4.5 million due to the closure/payout/settlement of a few cases. Estimated claims for FY 2023/24 are expected to be \$5 million.

The FY 2023/24 proposed budget includes general fund support to bridge the gap in significantly reduced Victims of Crime Act (VOCA) grant funding in the Victim Services Unit, including 2.3 FTEs permanently moving to the General Fund and temporary (one-time) funding for 2 FTE until more is known about the future of VOCA funding. Also included is ongoing support for a Diversity, Equity and Inclusion program that includes paid internships.

During FY 2022/23, the department added ongoing funding for online legal research program utilized by attorneys due to increased program costs. It also included one-time funding for a remodel of the City Prosecutor's Office as well as funding for other commodities and services such as a new copier, printer, and laptops.

City Auditor

The FY 2023/24 proposed budget is consistent with the FY 2022/23 budget.

City Clerk

The budget for City Clerk's Office is adjusted for the cost of elections. There is not an election scheduled in FY 2023/24, therefore election related expenditures are not included in the proposed budget.

City Manager

The FY 2023/24 budget include continued support for the Public Defender Program and includes additional ongoing capacity for an increase to the City's agreement with the Downtown Mesa Association for the increase in assessment property fees within the downtown district, as well as to create an annual budget to support the City organization's Mesa Hispanic Network and Women Leading Mesa. One-time funding was added for the new Together Mesa Art in the Park program to bring art experiences to each Council District. Funding was also added for a three-year pilot program of an integrated workforce development platform to improve and streamline connection and communication between the City's workforce and education stakeholders, which includes one-time funding for the development of the platform and ongoing costs for site maintenance and support.

During FY 2022/23, an Equal Employment Opportunity Office Director position (1 FTE) and Equal Employment Opportunity Specialist position (1 FTE) were added, and an existing Public Defender Program Manager increased by 0.25 FTE to align with increased workload.

Code Compliance:

The FY 2023/24 proposed budget includes 2 additional Code Compliance Officer positions. These positions are added for special events and to increase after hours service.

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 grants and the General Fund.

The FY 2023/24 proposed budget includes an additional \$10K for a contract expense increase with the Arizona Human Society to assist with animal cruelty and

seizure cases. Additionally, the proposed budget also includes \$70K in additional funding for the Mesa K-Ready program, an additional Housing Voucher Specialist position, and 2 Community Development Assistant positions. To increase efforts to address and reduce homelessness, the proposed budget includes one additional Homeless Services Administrator position, one Human Services Coordinator, and one Communications Coordinator. Last, the budget includes a Community Clean-Up program that will provide roll-off boxes to neighborhoods throughout the City to remove household waste.

Department of Innovation and Technology

During FY 2022/23, the department added two positions. The first was an IT Analyst II (FT), which was a Police Department Communications position, and the second was an IT Project Manager that came from a court administrative position and went from part-time to full-time.

Development Services

Single-family residential development activity is anticipated to decrease in FY 2023/24. Residential permit revenues in FY 2022/23 are projected to decrease from FY 2021/22. Commercial activity has remained strong in FY 2022/23. However, the FY 2023/24 proposed budget anticipates these revenues slowing as well.

During FY 2022/23, one additional position was added for a Management Assistant I to provide general management support to the Development Services Deputy Director. Additionally, \$225,000 was provided to supplement the General Plan with virtual reality technology as well as developing the housing portion of the General Plan.

The FY 2023/24 proposed budget includes funding for the City of Mesa to enter into an intergovernmental agreement (IGA) to fund a full-time professional who acts as the regional representative for the Rio Reimagined project. The representative will oversee collaborations with federal agencies and external stakeholders. The agreement will last 4 years and cost \$15,000 a year.

The FY 2023/24 proposed budget is reduced from FY 2022/23 due to one-time spending for technology upgrades and General Plan updates in FY 2022/23.

Economic Development

The FY 2023/24 budget includes launching the Small Business Center at The Studios for the staff and operating costs of \$499K. The Center will support and connect for Mesa businesses, entrepreneurs, and resources partners. It will also provide resources, training, education, networking, targeting businesses, and service providers in the entrepreneurship ecosystem. In order to support the Small Business Center, there will be ongoing funding in the amount of \$204,373 for two

full positions an Economic Development Project Manager and a Project Assistant. The FY 2023/2024 revenue projection is about \$3M.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY 2023/24 proposed budget includes the addition of a Senior Civil Engineer (1 FTE).

During FY 2022/23, the department added two new inspector positions to support the Fiber to Home initiative.

Environmental and Sustainability

During FY 2022/23, one additional Conservation Specialist position was added as well as additional funding to promote water conservation, including enhancing the incentives to convert grass to xeriscape and plant trees mitigate urban heat.

The FY 2023/24 proposed budget includes an additional \$10K in on-going funding for the Water Use It Wisely program to promote water conservation.

Falcon Field

The FY 2023/24 proposed budget is consistent with the FY 2022/23 budget.

Financial Services

The FY 2023/24 proposed budget includes the addition of one part time retirement planner.

Fleet Services

The Fleet Services Department is funded through the Fleet Internal Services Fund. This is an internal service fund established to account for financing, on a cost reimbursement basis, of commodities or services provided by one program for the benefit of other programs within the City.

The FY 2023/24 proposed budget has increased over the FY 2022/23 budget due to rising fuel, parts, and tire contract costs. It also includes the addition of 2 Equipment Mechanic II's, a Fleet Technology Coordinator, and a Fleet Asset Manager.

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.

The FY 2023/24 General Fund budget includes additional one-time capacity for the second year of the Traliant Contract for interactive trainings for the City. Additional ongoing capacity was added for training materials and supplies and for a Human Resources Recruiter to assist departments with their recruiting needs and maintain services to residents.

During FY 2022/23 funding was approved for the first year of this contract. Additionally, one time-funding was approved for contracted services for external investigations for human resources. Two positions were also added mid-year to include a Human Resource Analyst and an Employee Development Specialist.

During FY 2022/23 a Safety and Workers' Compensation Specialist in the Workers' Compensation Fund position was reclassified from non-benefitted to benefitted, adding 0.1 FTE to align with increased hours worked due to workload increases. A detailed update on the Employee Benefits and Workers' Compensation Trust Funds was given to the Self-Insurance Trust Fund Board can be found in the Trust Funds portion of this report.

Library

The FY 2023/24 proposed budget includes the addition of a Supervisory Librarian, a Librarian II, and a Library Assistant for the newly created Mesa Public Library Outreach Unit.

Mayor and Council

The FY 2023/24 proposed budget aligns with the FY 2022/23 adopted budget.

Office of ERP Management

The FY 2023/24 proposed budget includes an addition of an Information Technology Project Manager (1 FTE). The IT Project Manager provides support during the cyclical enterprise resource planning (ERP) software (3-5 years), along with the seasonal updates and general maintenance.

Office of Management and Budget

The FY 2023/24 proposed budget is consistent with the FY 2022/23 budget.

Parks, Recreation and Community Facilities

The FY 2023/24 budget includes 3 new park rangers, 1 lead park ranger, 2 new Fun n' Fitness program staff, 1 Park Ambassador Program staff member, and an Aquatics Coalition Fee increase.

During FY 2022/23, the department added a Special Events Sponsorship Capacity. This was a revenue neutral request that allows City of Mesa staff to run all Citywide Events sponsorships, and expenditures of those funds, through the department, instead of a third-party non-profit, as was done in the past.

Public Information and Communication

The FY 2023/24 proposed budget has increased from FY 2022/23. As contracts have continued to increase budget demands, the FY 2023/24 proposed budget includes an ongoing \$30K to maintain third party freelancer staff for the City to maintain the current engagement and social media presence. Also, an additional contract has been added to update mesaaz.gov website to allow flexibility and meet customer's needs. This will be an ongoing cost of \$155K.

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 2023/24 increased \$5M due to the discontinuation of one-time federal assistance from the American Rescue Plan Act (ARPA).

The FY 2023/24 proposed budget includes \$1.5M for the second year of funding for the Fiesta Buzz Neighborhood Circulator and the Rio East Streetcar project, which were approved in the FY 2022/23 budget.

Transportation

The FY 2023/24 proposed budget includes funding for an in-house concrete crew (6 FTE) and one-time expenses including pavement equipment, signals equipment, as well as two Asian District Monument Signs.