

Financial Forecast Overview

February 26, 2026

PRESENTED BY:

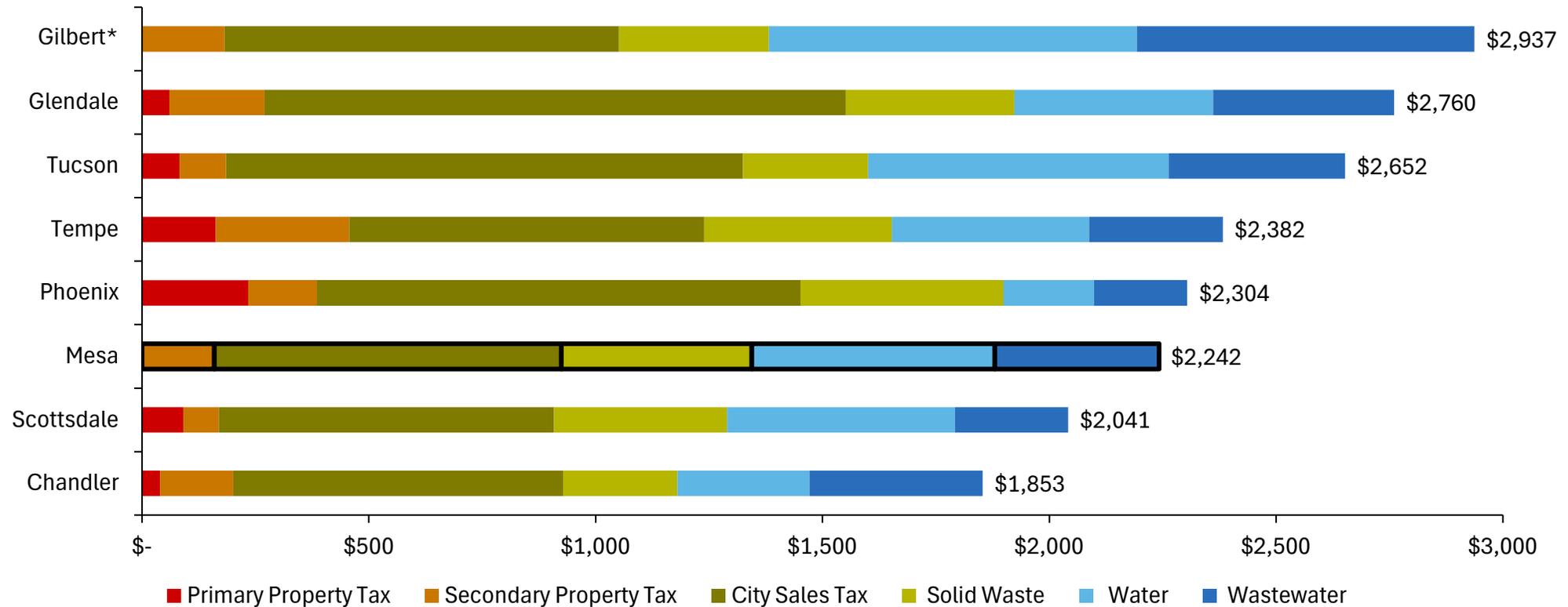
BRIAN A. RITSCHER, MANAGEMENT & BUDGET DIRECTOR

CHRIS OLVEY, MANAGEMENT & BUDGET DEPUTY DIRECTOR

Homeowner Comparison

Fiscal Year 2025/26 Typical Homeowner's Annual Cost Comparison

Estimated as of April 2026



*includes 25% Water rates increase

What's included in the Homeowner Comparison?

- **A tool to compare local revenues collected that support local government services provided to its residents.**
- The comparison includes the following categories
 - **Property Tax (Primary & Secondary):** based on Mesa's 2025 median Limited Property Value (LPV) and each city's FY 25/26 property tax rates
 - **City Sales Tax:** calculated by applying each city's sales tax rates to the Bureau of Labor Statistics' annual Consumer Expenditure Survey
 - **Solid Waste:** uses 90-gallon barrel rate for each city
 - **Water:** uses 6,000 gallon median monthly residential consumption with ¾" meter
 - **Wastewater:** uses 4,000 gallon median residential consumption during winter months

Financial Forecasting

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



Revenue Forecasting

- Statistical software is applied in-house to analyze the correlation between economic trends and the City's revenue sources
- Revenue forecasts also include collaboration with departments, such as utility revenues
- Relevant economic indicators are considered such as: population/account growth, wages, unemployment, building permits, gas prices, etc.
- Mesa specific factors are applied such as economic development activities, retail trends, etc.



Expenditure/Expense Forecasting

Expenditure/expense categories are analyzed and forecasted individually

Personal Services

- Many factors contribute to overall estimates such as pension rates, medical premiums, salary movement, etc.

Other Services/Commodities

- Large specialty contracts are handled separately while forecasted consumer price index is applied to general expenditures
 - These large contracts include utility expenses, such as water commodity purchases, water and wastewater treatment plant chemicals, and solid waste tipping fees

Capital

- Majority of expenditures are related to construction projects and vehicle purchases. Multi-year plans are developed and included in the forecast
- Debt service payments related to capital improvement projects are included in forecasts

General Governmental Funds

General Governmental Funds – Financial Policies & Principles

Financial Policies (Council Adopted)

- Adoption of a Balanced Budget
- Maintain a Reserve Balance of 8-10%
- Forecasts will be Provided over a Multi-Year Period
- Fees & Charges will be Reviewed on an Annual Basis
- Adoption of a 5-Year Capital Improvement Plan

Financial Principles

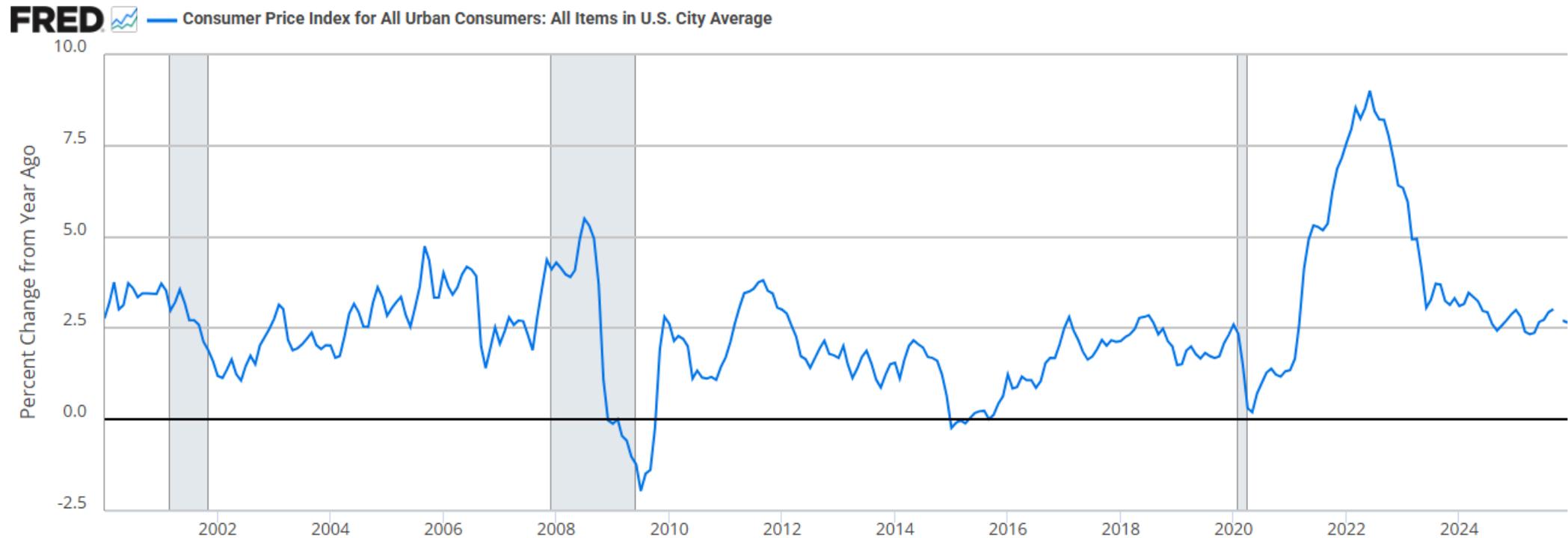
- Balance Net Sources & Uses
- 10-15% Reserve Fund Balance over 5-Year Forecasted Period
- Sustainability of Programs & Services
- Keep Wages & Benefits Competitive to Retain & Recruit Quality Staff
- Investment in Capital & Lifecycle Replacement Projects

Current Outlook – Revenue Pressures

- Loss of Residential Rental Sales Tax
 - \$18M annual impact beginning FY 24/25
- Implementation of State Income Flat Tax
 - \$6M estimated annual impact beginning FY 24/25
- Small growth in City and State Sales Tax collections
 - +0.4% projected annual growth of FY 25/26 above FY 24/25
- Reduction in State Shared Revenues with incorporation of San Tan Valley
 - \$3M annual impact beginning FY25/26
- Reduction in Urban Revenue Sharing with Tax Conformity on federal H.R. 1
 - \$6M annual impact beginning FY 27/28

U.S. Inflation Growth Rate

- December 2025 prices are 24.4% above December 2020 levels



Source: Bureau of Labor Statistics, Consumer Price Index

Current Outlook – Expense Pressures

- Contracted Labor & Services (landscaping, custodial, maintenance, etc.)
- Fleet Maintenance & Repair (3rd party labor cost, parts, and fuel)
- Market-Driven Compensation & Competitive Benefits
- Software & Licensing
- Continuing ARPA Initiatives with ongoing General Fund support (Real Time Crime Center, City wi-fi, homeless support, behavioral health)

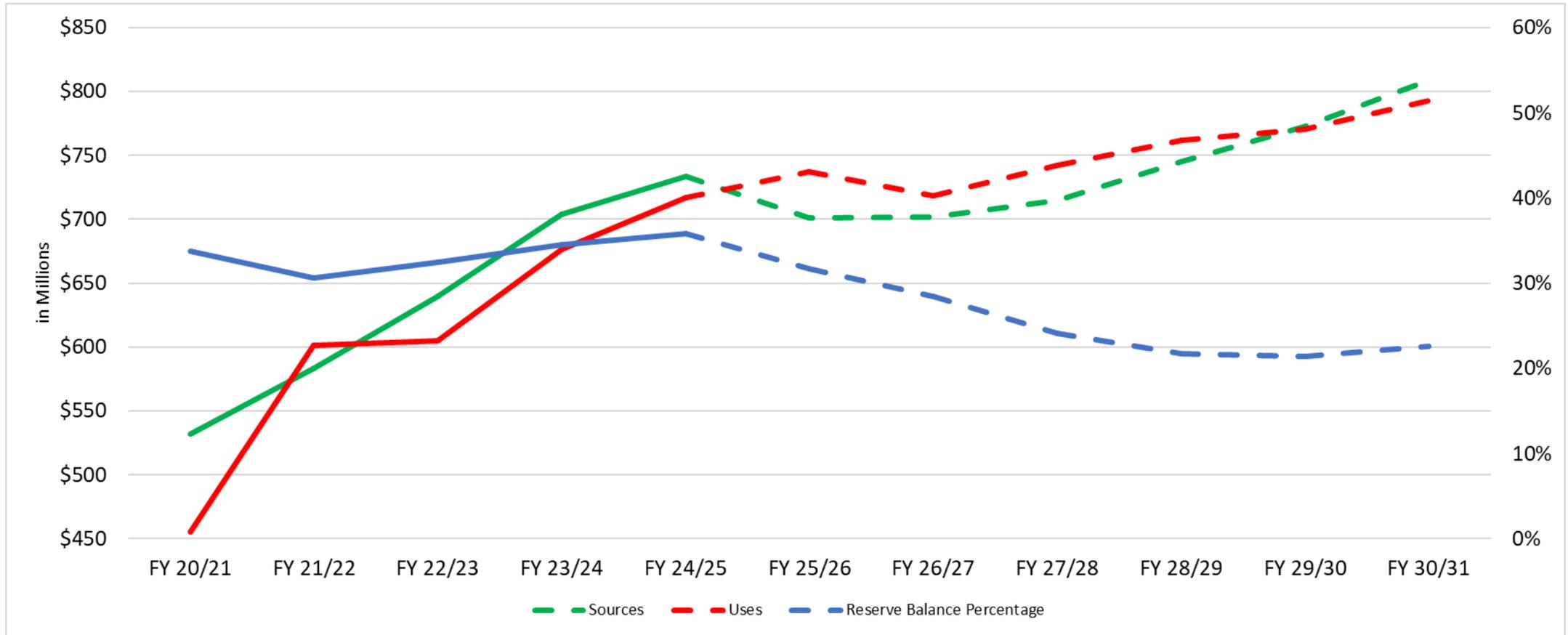
Increased Cost Pressures

| General Governmental Funds | FY 20/21 | FY 24/25 | 4-Year Increase |
|---|-----------------|-----------------|------------------------|
| Fleet Maintenance & Repair (90% of costs PD/Fire) | \$9.6M | \$14.5M | +51% |
| Police & Fire Dept Software & Licensing | \$3.1M | \$7.3M | +135% |
| Building Maintenance & Custodial Services | \$6.1M | \$10.0M | +64% |
| Landscaping Services | \$2.9M | \$4.5M | +55% |

| Citywide that Impacts General Gov't Funds | FY 20/21 | FY 24/25 | 4-Year Increase |
|--|-----------------|-----------------|------------------------|
| Medical & Dental Claims | \$89.5M | \$124.7M | +39% |
| Citywide Software & Licensing | \$6.3M | \$11.1M | +76% |

Total Sources & Uses

General Governmental Funds – Current Forecast



FY 25/26 Adopted Budget Forecast

General Governmental Funds

| | Projected FY 24/25 | Budget FY 25/26* | Forecast FY 26/27 | Forecast FY 27/28 | Forecast FY 28/29 | Forecast FY 29/30 |
|---|-----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| Beginning Reserve Balance | \$247.5 | \$242.9 | \$191.5 | \$152.8 | \$114.9 | \$91.6 |
| Total Sources | \$701.5 | \$693.5 | \$678.6 | \$698.3 | \$727.8 | \$749.3 |
| Total Uses | \$706.0 | \$744.9 | \$717.3 | \$736.2 | \$751.1 | \$768.2 |
| Net Sources and Uses | (\$4.6) | (\$51.4) | (\$38.7) | (\$37.9) | (\$23.3) | (\$18.9) |
| Ending Reserve Balance | \$242.9 | \$191.5 | \$152.8 | \$114.9 | \$91.6 | \$72.7 |
| Ending Reserve Balance Percent** | 33.8% | 26.7% | 20.8% | 15.3% | 11.9% | 9.2% |

*Budgeted sources and uses include \$26.1M in carryover funds.

data as of May 2025

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

dollars in millions

Current Forecast

General Governmental Funds

| | Actuals FY 24/25 | Projected FY 25/26 | Forecast FY 26/27 | Forecast FY 27/28 | Forecast FY 28/29 | Forecast FY 29/30 | Forecast FY 30/31 |
|--|---------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Beginning Reserve Balance | \$247.5 | \$264.3 | \$228.0 | \$211.1 | \$183.8 | \$167.3 | \$169.6 |
| Total Sources | \$733.6 | \$700.9 | \$701.5 | \$715.0 | \$745.4 | \$773.0 | \$808.9 |
| Total Uses | \$716.8 | \$737.2 | \$718.3 | \$742.3 | \$761.9 | \$770.7 | \$793.2 |
| Net Sources and Uses | \$16.8 | (\$36.3) | (\$16.8) | (\$27.3) | (\$16.5) | \$2.3 | \$15.8 |
| Ending Reserve Balance | \$264.3 | \$228.0 | \$211.1 | \$183.8 | \$167.3 | \$169.6 | \$185.4 |
| Ending Reserve Balance Percent* | 35.8% | 31.7% | 28.4% | 24.1% | 21.7% | 21.4% | 22.6% |

data as of February 2026
dollars in millions

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

General Governmental Funds Forecast

Changes from Adopted Budget Forecast

| Adopted Budget | FY 25/26 | FY 26/27 | FY 27/28 | FY 28/29 | FY 29/30 | FY 30/31* |
|--|-----------------|-----------------|-----------------|-----------------|---------------------|-----------------|
| Net Sources and Uses | (\$51.4) | (\$38.7) | (\$37.9) | (\$23.3) | (\$18.9) | (\$11.7) |
| Ending Reserve Balance | \$191.5 | \$152.8 | \$114.9 | \$91.6 | \$72.7 | \$61.0 |
| Ending Reserve Balance Percent** | 26.7% | 20.8% | 15.3% | 11.9% | 9.2% | 7.4% |
| *FY 30/31 was outside of the 5-year forecast presented with FY 25/26 Budget Adoption | | | | | data as of May 2025 | |
| **As a % of all Next Year's uses of funding | | | | | dollars in millions | |

| Current Forecast | FY 25/26 | FY 26/27 | FY 27/28 | FY 28/29 | FY 29/30 | FY 30/31 |
|---|-----------------|-----------------|-----------------|-----------------|--------------------------|---------------|
| Net Sources and Uses | (\$36.3) | (\$16.8) | (\$27.3) | (\$16.5) | \$2.3 | \$15.8 |
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| Ending Reserve Balance Percent** | 31.7% | 28.4% | 24.1% | 21.7% | 21.4% | 22.6% |
| | | | | | data as of February 2026 | |
| **As a % of all Next Year's uses of funding | | | | | dollars in millions | |

Achieves structural balance **two years earlier** than the Adopted Budget forecast

General Governmental Funds Forecast

Changes from Adopted Budget Forecast

| Adopted Budget | FY 25/26 | FY 26/27 | FY 27/28 | FY 28/29 | FY 29/30 | FY 30/31* |
|---|--------------|--------------|--------------|--------------|-------------|-------------|
| Net Sources and Uses | (\$51.4) | (\$38.7) | (\$37.9) | (\$23.3) | (\$18.9) | (\$11.7) |
| Ending Reserve Balance | \$191.5 | \$152.8 | \$114.9 | \$91.6 | \$72.7 | \$61.0 |
| Ending Reserve Balance Percent** | 26.7% | 20.8% | 15.3% | 11.9% | 9.2% | 7.4% |

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

| Current Forecast | FY 25/26 | FY 26/27 | FY 27/28 | FY 28/29 | FY 29/30 | FY 30/31 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sources and Uses | (\$36.3) | (\$16.8) | (\$27.3) | (\$16.5) | \$2.3 | \$15.8 |
| Ending Reserve Balance | \$228.0 | \$211.1 | \$183.8 | \$167.3 | \$169.6 | \$185.4 |
| Ending Reserve Balance Percent** | 31.7% | 28.4% | 24.1% | 21.7% | 21.4% | 22.6% |

data as of February 2026
 **As a % of all Next Year's uses of funding dollars in millions

Improvement in ending fund balance reserve percentage

Utility Fund

Utility Fund – Financial Policies & Principles

Financial Policies **(Council Adopted)**

- Adoption of a Balanced Budget
- Maintain a Reserve Balance of **8-10%**
- Forecasts will be Provided over a Multi-Year Period
- Utility Rates Examined Annually
- Adoption of a 5-Year Capital Improvement Plan

Financial Principles

- Balance Net Sources & Uses
- **20%** or Higher Reserve Fund Balance
- Smoothed Rate Adjustments throughout the Forecast
- Equity between Residential & Non-Residential Rates
- Affordable Utility Services

Utility Operations

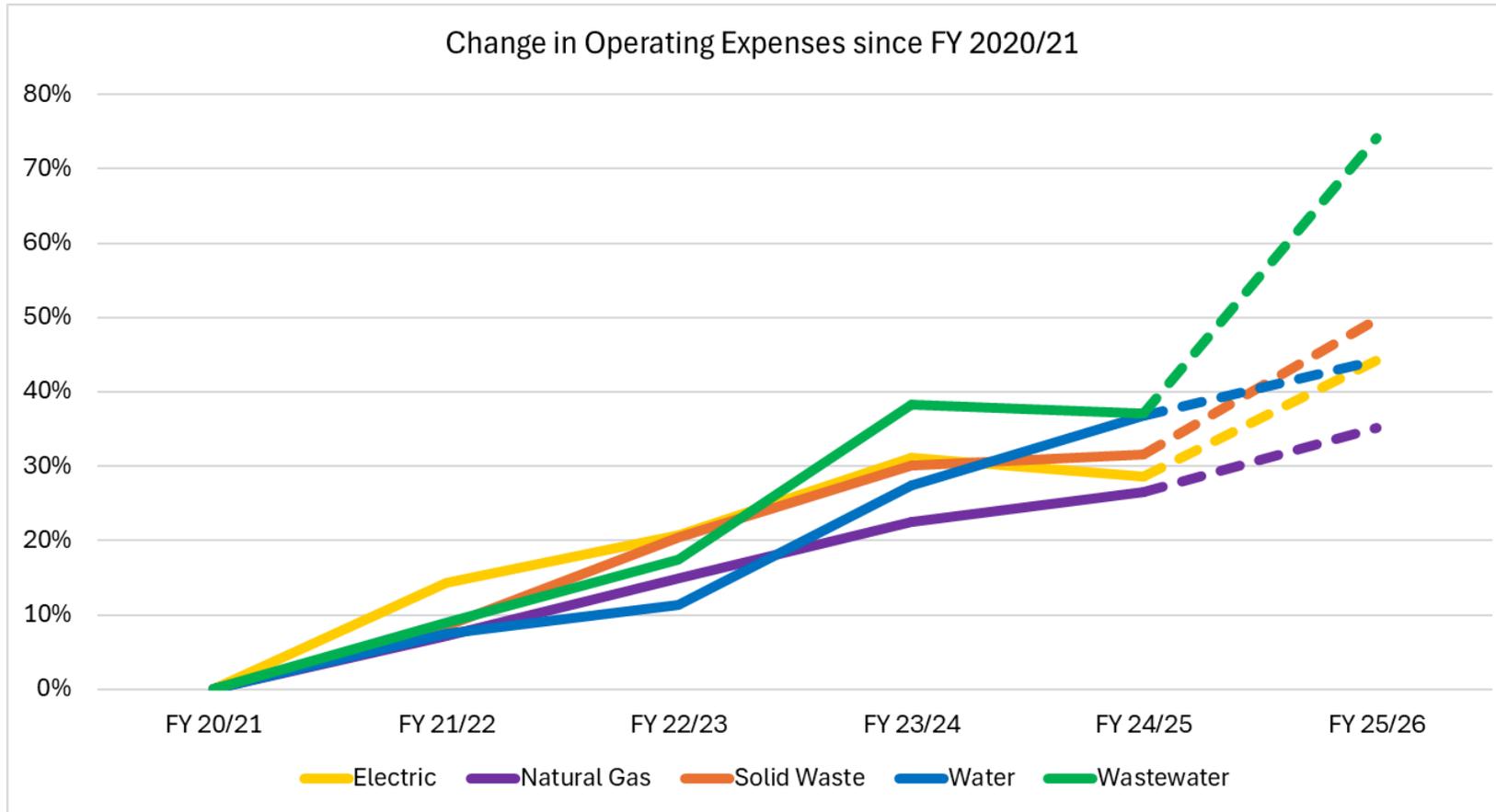
- Each utility is operated as a separate business center
- Reserve balance can be used to smooth rate adjustments year-to-year
- Reserve balance can be used to phase in new programs or changes in operations



Inflationary Pressures – Baseline Operating Expenses

| | FY 20/21 | FY 24/25 | 4-Year Increase |
|---|-----------------|-----------------|------------------------|
| Fleet Maintenance & Repair | \$10.2M | \$15.3M | +51% |
| Solid Waste Disposal | \$8.4M | \$10.1M | +20% |
| Water Commodity | \$10.2M | \$15.9M | +56% |
| WTR/WW Plant Chemicals | \$3.1M | \$4.8M | +57% |
| Val Vista Water Treatment Plant | \$8.7M | \$14.1M | +61% |
| 91 st Ave. Water Reclamation Plant | \$3.7M | \$6.0M | +62% |

Inflationary Pressures – Total Operating Expenses



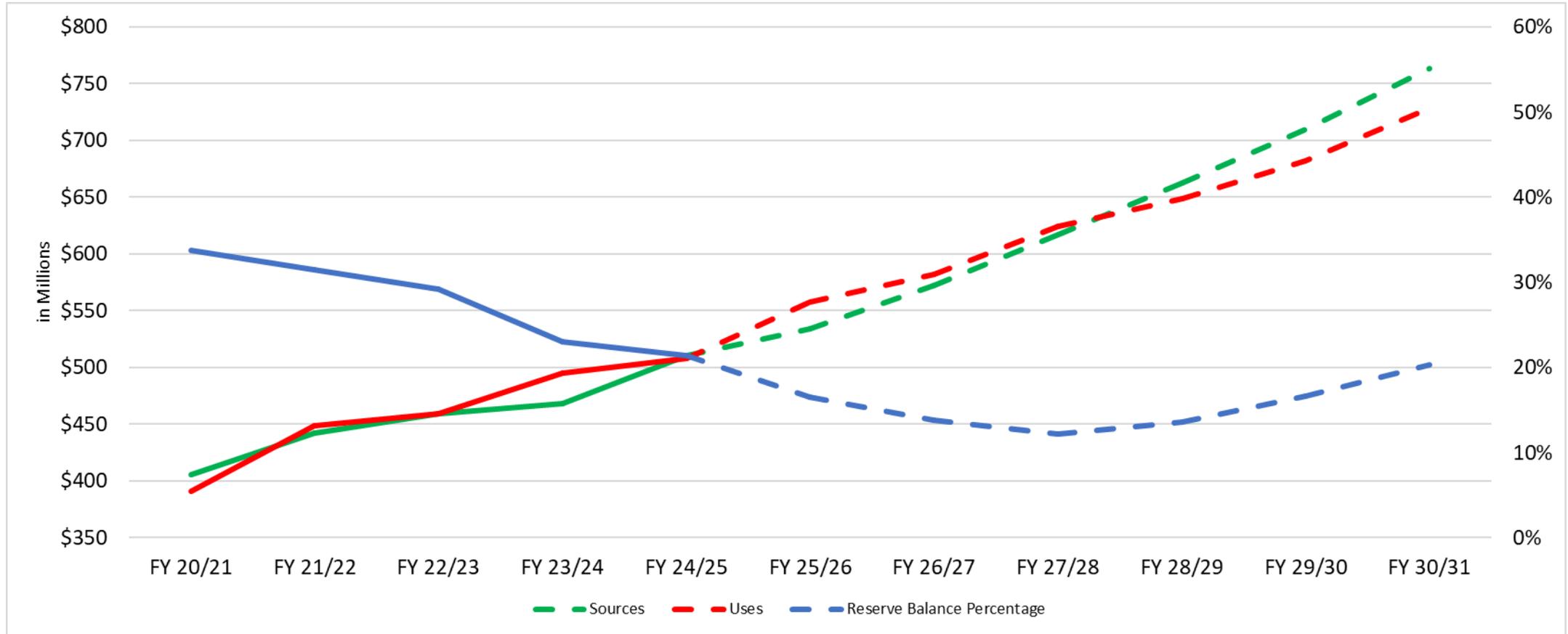
Priority Utility Capital Projects

- Significant Capital Projects:
 - Central Mesa Reuse Pipeline
 - Signal Butte Water Treatment Plant Expansion
 - Smart Metering
 - Natural Gas Capacity Expansion Projects
 - Broadway Road Improvements w/ Transportation



Total Sources & Uses

Utility Fund



FY 25/26 Adopted Budget Forecast

Utility Fund

| | FY 24/25 Projected | FY 25/26 Budget | FY 26/27 Forecast | FY 27/28 Forecast | FY 28/29 Forecast | FY 29/30 Forecast |
|--|-----------------------|--------------------|----------------------|----------------------|----------------------|----------------------|
| WATER | \$3.6 | (\$6.8) | (\$13.8) | (\$11.2) | (\$4.8) | \$5.2 |
| WASTEWATER | (\$9.5) | (\$12.2) | (\$7.7) | (\$3.8) | \$0.8 | \$6.0 |
| SOLID WASTE | (\$4.8) | (\$4.1) | \$1.7 | \$0.7 | \$4.2 | \$10.4 |
| ELECTRIC | \$1.0 | (\$1.1) | (\$1.1) | (\$1.5) | (\$1.8) | (\$2.3) |
| NATURAL GAS | (\$2.4) | (\$4.1) | (\$3.2) | (\$2.8) | \$0.6 | \$0.5 |
| DISTRICT COOLING | (\$0.5) | (\$0.2) | (\$0.2) | (\$0.3) | (\$0.2) | (\$0.2) |
| TOTAL NET SOURCES AND USES | (\$12.6) | (\$28.4) | (\$24.2) | (\$18.9) | (\$1.3) | \$19.5 |
| Beginning Reserve Balance | \$117.0 | \$104.4 | \$76.0 | \$51.8 | \$32.9 | \$31.6 |
| Ending Reserve Balance | \$104.4 | \$76.0 | \$51.8 | \$32.9 | \$31.6 | \$51.0 |
| Ending Reserve Balance Percent* | 18.5% | 11.9% | 8.1% | 4.9% | 4.6% | 7.0% |
| data as of May 2025 dollars in millions | | | | | | |
| *As a % of Next Fiscal Year's Expenditures | | | | | | |

Current Forecast

Utility Fund

| | Actuals FY 24/25 | Projected FY 25/26 | Forecast FY 26/27 | Forecast FY 27/28 | Forecast FY 28/29 | Forecast FY 29/30 | Forecast FY 30/31 |
|--|---------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| WATER | \$5.2 | (\$8.2) | (\$2.5) | \$2.2 | \$12.9 | \$16.3 | \$23.2 |
| WASTEWATER | (\$4.1) | (\$8.0) | (\$5.8) | (\$5.4) | (\$2.2) | \$4.0 | \$1.7 |
| SOLID WASTE | \$1.5 | (\$3.0) | \$1.2 | (\$0.3) | \$2.4 | \$8.8 | \$9.8 |
| ELECTRIC | \$0.7 | (\$0.2) | (\$0.1) | (\$0.6) | (\$0.7) | (\$0.9) | (\$0.7) |
| NATURAL GAS | (\$0.5) | (\$3.5) | (\$2.5) | (\$2.3) | \$1.0 | \$0.5 | \$1.6 |
| DISTRICT COOLING | (\$0.3) | (\$0.6) | (\$0.2) | (\$0.2) | (\$0.2) | (\$0.2) | (\$0.2) |
| TOTAL NET SOURCES AND USES | \$2.4 | (\$23.5) | (\$9.8) | (\$6.7) | \$13.2 | \$28.4 | \$35.3 |
| Beginning Reserve Balance | \$117.0 | \$119.4 | \$95.9 | \$86.0 | \$79.4 | \$92.6 | \$121.0 |
| Ending Reserve Balance | \$119.4 | \$95.9 | \$86.0 | \$79.4 | \$92.6 | \$121.0 | \$156.3 |
| Ending Reserve Balance Percent* | 21.4% | 16.5% | 13.8% | 12.2% | 13.6% | 16.6% | 20.3% |
| data as of January 2026 | | | | | | | |
| *As a % of Next Fiscal Year's Expenditures | | | | | | | |
| dollars in millions | | | | | | | |

Utility Fund Forecast

Changes from Adopted Budget Forecast

| Adopted Budget | FY 25/26 | FY 26/27 | FY 27/28 | FY 28/29 | FY 29/30 | FY 30/31* |
|--|--------------|-------------|-------------|-------------|---------------------|--------------|
| Net Sources and Uses | (\$28.4) | (\$24.2) | (\$18.9) | (\$1.3) | \$19.5 | \$33.3 |
| Ending Reserve Balance | \$76.0 | \$51.8 | \$32.9 | \$31.6 | \$51.0 | \$84.3 |
| Ending Reserve Balance Percent** | 11.9% | 8.1% | 4.9% | 4.6% | 7.0% | 11.2% |
| *FY 30/31 was outside of the 5-year forecast presented with FY 25/26 Budget Adoption | | | | | data as of May 2025 | |
| **As a % of all Next Year's uses of funding | | | | | dollars in millions | |

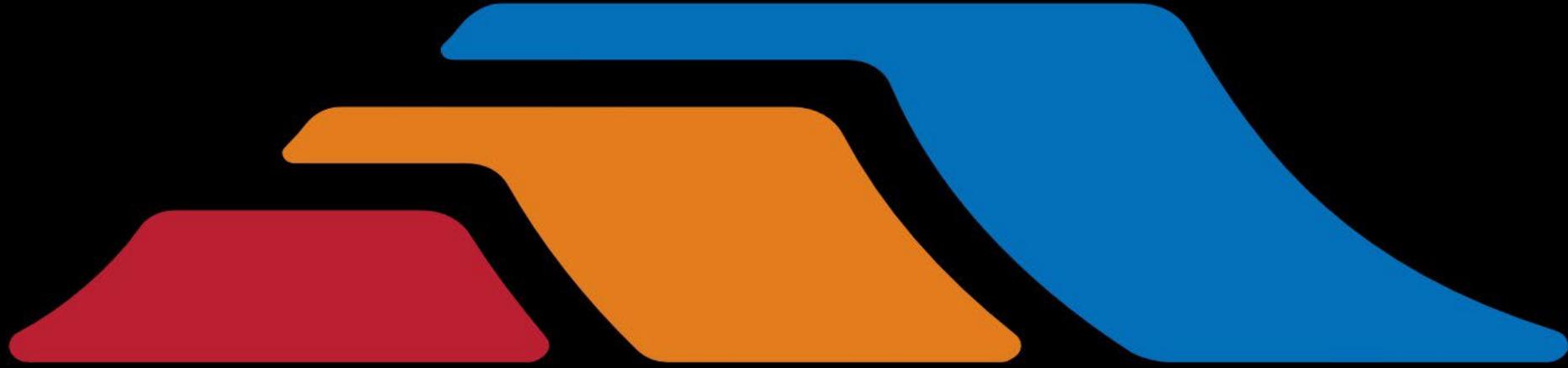
| Current Forecast | FY 25/26 | FY 26/27 | FY 27/28 | FY 28/29 | FY 29/30 | FY 30/31 |
|---|--------------|--------------|--------------|--------------|--------------------------|--------------|
| Net Sources and Uses | (\$23.5) | (\$9.8) | (\$6.7) | \$13.2 | \$28.4 | \$35.3 |
| Ending Reserve Balance | \$95.9 | \$86.0 | \$79.4 | \$92.6 | \$121.0 | \$156.3 |
| Ending Reserve Balance Percent** | 16.5% | 13.8% | 12.2% | 13.6% | 16.6% | 20.3% |
| | | | | | data as of February 2026 | |
| **As a % of all Next Year's uses of funding | | | | | dollars in millions | |

Improvement in ending fund balance reserves and net sources and uses



Budget Process Calendar

| | |
|---------------------------|---|
| March 4 | Public Budget Meeting – Northeast Public Safety Facility |
| March 10 | Public Budget Meeting – The Post |
| March 11 | Public Budget Meeting – Gateway Library |
| April 2 | Review FY 2026/27 Proposed Budget |
| April 2 – April 20 | Department Budget Presentations to City Council Review of Utility Projects Plan (CIP) |
| April 30 | FY 2026/27 Tentative Budget Update Review of Non-Utility Projects Plan (CIP) |
| May 18 | Adoption of FY 2026/27 Tentative Budget |
| June 1 | Public Hearing and Adoption of Capital Improvement Program Final Adoption of FY 2026/27 Budget Public Hearing on Secondary Property Tax |
| July 20 | Adoption of Secondary Property Tax Levy |



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