



City Council Report

Date: May 4, 2020
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Candace Cannistraro, Management and Budget Director
Subject: Tentative Adoption of the Fiscal Year 2020/21 Budget

Overview of Tentative Budget

The City of Mesa is in an unusual budget circumstance. The current COVID-19 health crisis, the related closure of non-essential businesses, and the stay-at-home order has caused a drastic reduction in City revenues that were anticipated in the latter part of FY 2019/20. A decrease in available revenues is expected to continue throughout FY 2020/21. Until more is known regarding the duration of the health crisis, the full impact on the local, state, and national economies is difficult to project.

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. To allow City leaders to focus on the immediate needs of the community, and to ensure City conformance with State statutes regarding local budget adoption, the tentative Fiscal Year 2020/21 budget includes the current operations of the City and the capital activities (and associated operations and maintenance) previously anticipated to occur. Modifications to the FY 2020/21 budget will be identified and implemented at a later time, when additional information is available and strategic decisions can be made.

An annual budget is determined to be balanced if the anticipated resources are sufficient to cover the anticipated/budgeted expenditures. While the available revenues will be less than previously forecasted, the City has sufficient reserve balances to cover the adopted expenditures. Reserve balances can be utilized to provide temporary budgetary relief. Staff will evaluate programs/services/expenses citywide and provide recommendations for reduction and/or deferral in order to stay within sources over the forecast period.

The City's adopted budget sets the maximum expenditures 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
- New funding source like the Public Safety Sales Tax
- 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 2019/20, as well as new expenditures that were scheduled for FY 2020/21 due to capital projects. The adopted FY 2020/21 budget will serve as the basis for future budget reduction/deferral recommendations.

The City Council has repeatedly emphasized an over-arching priority on innovation, and using data-driven decisions to ensure effective, efficient, and sustainable services. City operations balances the needs of today with investments in tomorrow. Establishing clear goals and objectives coupled with analysis of performance and success targets, allow for improved decision making. The Center for Data and Performance, housed within the Office of Management and Budget, is a central resource for City staff. The Center emphasizes various performance tools and resources to assist departments with delivering quality programs/services. Whether it is maintenance of aging infrastructure or the creation of new programs, resources/funding is vetted against the priorities of the City and the value to the resident.

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 Enterprise Fund.

Local Sales Tax

Local sales tax, the largest of these sources, increased in FY 2019/20. The last available month of sales tax data for FY 2019/20 is for February activity, which shows year to date growth at 7.2% over that point last year. However, revenues are anticipated to be significantly impacted due to decreased economic activity caused by the COVID-19 emergency. At this time, local sales tax is projected to end FY 2019/20 3.6% below FY 2018/19 revenues. For FY 2020/21, the forecast has modest annual growth of 2.5%. The

forecast assumes negative economic impacts due to COVID-19 continue, with revenues slightly increasing throughout the fiscal year.

Public Safety Sales Tax

The Public Safety Sales Tax Fund is voter- approved revenue dedicated to Public Safety programs and projects. The FY 2020/21 budget includes funding for new public safety projects: the Public Safety Training Facility Driving Track, the building for Fire Station 221, and a fire apparatus. 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 department.

Quality of Life Sales Tax

The funding for the Quality of Life Fund comes from a sales tax and is dedicated to public safety. The FY 2020/21 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, corporations, and capital gains. Urban Revenue Sharing revenue has a two-year lag between the income reported and the receipt of revenues by the City, so the budget is a known amount. It increased in FY 2018/19 and is increasing again in FY 2019/20 by 9.5% due to increased personal income tax collections. There will be an increase of 12.1% in FY 2020/21 largely due to personal income tax collections increasing by 10% and corporate income tax collections increasing by 35%. Most of the growth in FY 2020/21 is considered one-time due to federal tax law changes.

State-shared sales tax: Like local sales tax, state sales tax is projected to be impacted by reduced economic activity caused by the COVID-19 emergency and is projected to be slightly higher than budget in FY 2019/20 with a projected increase of 2.0%. The FY 2020/21 increase is forecasted at 0.6%. State shared sales tax is not projected to drop as significantly as City sales tax in FY 19/20 due to the timing of revenues received from the State, however this timing issue will show FY 2020/21 revenue growth lower than City sales tax.

Vehicle License Tax revenue: The smallest contributor to state revenue sharing, it is projected to increase 1.0% in FY 2019/20 and increase 0.5% in FY 2020/21.

Utility Enterprise Fund Contribution

The Utility Enterprise 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. Due to ordinance changes, the Utility Enterprise Fund contribution in FY 2020/21 is 30% of utility operating revenues. Based on utility revenue estimates, the FY 2020/21 contribution is budgeted at \$108.4 million, which is a 2% decrease from the FY 2019/20 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 costs. The remainder of the costs are covered by a transfer from the General Fund to the Transit Fund. The projected transfer for FY 2019/20 is \$15.9 million with an increase for FY 2020/21 to \$18.6 million. The increase is largely due to \$1.5M in additional budget for bus bay and bus shelter maintenance projects as well as a \$830K increase in Light Rail service contract costs.

Trust Fund Contributions

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

Property and Public Liabilities Trust Fund; FY 2020/21 contribution \$4.5M

Employee Benefit Trust Fund; FY 2020/21 contribution \$52.1M

Workers' Compensation Trust Fund; FY 2020/21 contribution \$4.2M

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. The estimated budget for FY 2020/21 results in an ending balance within the financial policies. There is a gap between on-going revenues and on-going expenditures. An economic recession is anticipated to begin in April 2020 including reduced revenues beginning in FY 2019/20. Additional impact from the two-year delay in Urban Revenue Sharing (state income tax) begins to occur in FY 2021/22 and continues into FY 2022/23. In preparation of the recession, the City has set-aside \$7.0M. This set-aside will allow the City to mitigate some of the impact. Revenues and expenditures will be reviewed on an on-going basis to allow for proactive response to economic changes.

Utility Enterprise Operating Budget

Planning for new accounts and incorporating trends in consumption, FY 2020/21 operating revenues are estimated at \$361.3M, increasing from \$351.1M projected for FY 2019/20 (excluding the EECAP/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 current forecast calls for slightly declining reserve balances for the next few years in anticipation of a scheduled increase in existing debt service expense. An economic recession has been included in the current estimates beginning in FY 2019/20, similar to the General Government Operating Budget. 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. This is mainly comprised of the fuel tax paid at the pump by the consumer (49.3%) and part of the vehicle license tax (30.9%) . 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 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 2019/20, expected revenues are estimated to decrease from \$41.7M to \$40.5M due to anticipated decreases in fuel consumption due to the COVID-19 emergency. The FY 2020/21 revenue projection is also decrease from \$41.0M to \$38.2M. HURF revenues are projected to increase starting in FY 2021/22.

Local Streets (LS) Fund. LS revenue collection is tied to the rest of city sales tax and will experience negative impacts related to the COVID-19 emergency. Anticipated revenues are expected to decline from \$32.6M to \$30.0M in FY 2019/20. The FY 2020/21 revenue projection is also decreased from \$33.1M to \$30.7M.

HURF and LS 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 combined are estimated to be \$49.5M in FY 2019/20 and decrease to \$9.3M in FY 2020/21. The significant difference is due to timing issues with \$31.0M in projects moving from one year to the next.

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 expenses and cost of claims are shown below:

	Fiscal Year	Total Expenses	% Increase	Cost of Claims	% Increase
Actual	FY 2014/15	\$68.4M	17.2%	\$56.8M	11.9%
Actual	FY 2015/16	\$77.0M	12.7%	\$69.0M	17.9%
Actual	FY 2016/17	\$78.4M	1.8%	\$69.3M	0.4%
Actual	FY 2017/18	\$80.1M	2.1%	\$70.1M	1.1%
Actual	FY 2018/19	\$90.8M	13.4%	\$80.7M	15.1%
Projected	FY 2019/20	\$97.2M	7.0%	\$86.9M	7.7%
Forecasted	FY 2020/21	\$103.3M	6.3%	\$92.7M	6.7%

Medical and dental premiums are set on a calendar year basis. To address the projected increased costs, the FY 2020/21 budget includes a 6.0% and 3.0% increase in employee and retiree contributions respectively for both the employee/retiree and the City. In the summer of 2020, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2020. The City contribution included in the FY 2020/21 tentative budget is \$74.9 million which is \$5.5 million more than FY 2019/20 adopted budget. The FY 2020/21 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.

Medical, prescription, and dental claims costs continue to rise. Claims costs are projected to increase from FY 2018/19 to FY 2019/20 by \$6.2 million, or 7.7% and are expected to increase by the same amounts in future years. The FY 2020/21 budget includes an increase of costs of \$5.8M or 6.7% compared to FY 2019/20 projected cost estimate.

In calendar year (CY) 2018, the City implemented a three-year contract with an optional 4th and 5th year extension with Cigna for third-party medical plan administration and medical provider network. The Cigna contract includes medical and behavioral health administration services (claims, appeals, medical utilization, and case management),

customer service and provider network in all fifty states, and several cost containment and service enhancement opportunities including: significantly reduced base administration fees, seamless national network with minimal member disruption, vendor and service consolidation across in-state and out-of-state plans, and partial, multi-year funding of health and wellness initiatives. The City's stop-loss insurance program for medical and prescription drug plans was renewed for CY 2020.

The City introduced and expanded the Mesa Wellness 360 program during CY 2018 to advance wellness engagement with active medical plan enrollees. This wellness program provides financial incentives for registered participants who complete/sign-up for activities (between January 1 and October 31), biometric screenings, daily physical activities, health and wellness events/contests/challenges, preventive physicals and/or screenings, and participation in wellness education. The Mesa Wellness 360 program is funded by the EBT Fund and is supplemented annually by a Cigna-provided *Health Improvement Fund*. Employee engagement with the Mesa Wellness 360 program has surpassed market standards of 50% employee registration and utilization with close to 61% of eligible City of Mesa employees (2,250) registered.

Worker's Compensation Trust Fund. The Worker's 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 health care as shown in the EBT fund.

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 worker's 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.

For FY 2020/21, the reserve target is \$6.3 million. Based on the FY 2019/20 projected reserve balance and the expenditures forecasted for FY 2020/21, a slight increase to the workers' compensation rates from the previous year is included in the FY 2020/21 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2020/21 is \$5.2 million with an estimated fund balance utilization of \$1.1 million.

Property and Public Liability Trust Fund (PPL). The Property and Public Liability 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 balance minimum 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 \$4.0 million in FY 2019/20. The cost of claims included in the FY 2020/21 budget is \$4.5 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 2020/21 City contribution estimate is \$6.6 million with an estimated fund balance utilization of \$1.0 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 \$16.7 million in revenue in FY 2019/20. 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 \$15.9 million therefore no fee adjustment is needed. The current fee has been in place since July 1, 2014 and will remain the same for FY 2020/21. Savings experienced each year are accumulated and applied to future one-time expenditure needs. The FY 2020/21 tentative budget includes one-time funding of \$120K for energy retro-commissioning projects, which will improve energy efficiency and generate energy savings at City facilities.

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 for approximately \$2.6 million in grant awards for FY 2020/21. Notable grant awards include the following:

- \$900K Homeland Security Grants to provide funds for training and equipment to support Homeland Security initiatives.
- \$370K 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.
- \$715K Mesa Family Advocacy Center (MFAC) Grants to provide for the salaries and benefits and training and supplies for Victim Support Services and the Police Awareness Community Education Portal.
- \$410K 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.
- \$430K Tribal Gaming Grants to provide funding for training, public education tools, and equipment for various divisions in the Police Department.
- \$80K High Intensity Drug Trafficking Areas (HITDA) Grant to provide funding for officer overtime to coordinate activities that address drug trafficking in specially designated areas of the United States.

Mesa Fire and Medical Grants

Mesa Fire and Medical plans for approximately \$510K in grant awards for FY 2020/21. Notable grant awards include the following:

- \$300K Rapid Response Team (RRT) Grant to provide for salary & benefits including travel, conferences and training for key fire personnel.
- \$210K in various other grant awards which include grants to provide immunizations and provide support for Community Emergency Response Teams.

City Manager Grants

The City Manager plans for \$190K in grant awards for FY 2020/21. These grants will cover expenses related to the Mesa Counts on College Program, First Things First, and the downtown Mesa Sign Program.

Relief Fund Grant

Through a program called Mesa CARES, the City is establishing budget capacity of \$70M for FY 2020/21 in grant awards to support Mesa and those affected by COVID-19. During this public health emergency, the City will focus on areas of support for small business assistance, outreach, homeless assistance, feeding Mesa, household relief, and other citywide services.

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.

These three Section 8 programs are funded at a combined \$14.9 million in FY 2019/20 and \$16.1 million in FY 2020/21.

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, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. This program is funded at \$4.8 million in FY 2019/20 and \$4.3 million in FY 2020/21.
- 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. This program is funded at \$1.5 million in FY 2019/20 and \$1.6 million in FY 2020/21.
- 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. This program is funded at \$0.3 million in FY 2019/20 and \$0.3 million in FY 2020/21.
- Neighborhood Stabilization Program (NSP) – funding to revitalize housing in specific areas of the City to sell to qualified residents. The funding allows the City to acquire foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program was funded at \$540 thousand in FY 2019/20 and \$510 thousand in FY 2020/21. NSP is still ongoing and uses unspent funds from prior years to accomplish revitalization of housing.

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 2020/21 contribution rates for State-run retirement plans changed as follows:

Retirement Plan	FY 2019/20 Rate	FY 2020/21 Rate	Rate Change	Increased Annual Cost (All Funds)
Arizona State Retirement System (ASRS)	12.1%	12.2%	0.1%	\$0.2M
Elected Officials Retirement System (EORP)	61.4%	61.4%	0.0%	(\$0.M)
Public Safety Personnel Retirement System (PSPRS) - Fire	56.0%	58.4%	2.3%	\$0.9M
Public Safety Personnel Retirement System (PSPRS) - Police	56.0%	60.1%	4.1%	\$2.6M

Status

Public Safety Personnel Retirement System (PSPRS) plan rates increased for FY 2020/21 due to past investments returns being less than the assumed rate as well as unmet expectations about City payroll growth and employee demographics. For FY 2020/21, due to a change in rates, the City's contribution to PSPRS for both the Fire and Medical and Police plans increased by \$3.5 million.

The Arizona State Retirement System (ASRS) contribution rate increased by 0.1% in FY 2020/21 due to a prior change to the assumed rate of return for investments from 8.0% to 7.5%. The impact of the change is being phased in and contribution rates for ASRS are forecasted to increase each year for five years. FY 2020/21 is the third year of the five-year phase-in. The change in contribution rates for FY 2020/21 is expected to increase Mesa's contribution to ASRS by \$0.2 million.

The FY 2020/21 Elected Officials Retirement Plan (EORP) contribution rate and amount remain unchanged from FY 2019/20.

History

Due to investment losses and to a series of court rulings that reversed prior pension reforms, Public Safety Personnel Retirement System (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 pay off the unfunded liability over 25 years.

In the FY 2020/21 budget, the remaining amortization period to pay down the unfunded liability for the City plans is 22 years.

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.

Due to current economic conditions, there is no step pay increase included in the FY 2020/21 tentative budget.

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 2020/21 budget anticipates increasing the city contribution by 6.0% and 3.0% for employee and retiree plans respectively effective January 2021. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of 2020. 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. Construction activities continue at the Greenfield Water Reclamation Plant to expand plant capacity and associated wastewater collection infrastructure. Normal plant operations continue during construction and the expanded capacity is scheduled to come online in Fall 2020. The funding of this project is available through utility revenue bonds authorized by Mesa voters in November 2014. The debt service on utility revenue bonds is funded through the utility rates paid by customers. Therefore, the customers served by these plants will participate in the repayment of the new debt service related to them.

Continuation of citizen initiated and approved Parks and Culture projects, as well as several Transportation projects are included in the tentative CIP. Project activities have begun on City Center Plaza, Red Mountain Park, and library improvements. Several public safety projects are included in the tentative CIP including Fire Station 221 in southeast Mesa and the Northeast Public Safety Facility. These projects are using General Obligation (GO) bond authorization approved by voters in 2018. Roadway improvements continue with the next phase of Mesa Drive and First Avenue in the downtown area, as well as Southern Ave – Greenfield to Higley Roadway Improvements. These projects will use GO bond authorization approved by voters in 2013 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 bond authorization.

Also included in the tentative 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 Mesa to complete projects that enhance the quality of life in the City of Mesa.

Secondary Property Tax

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget. Secondary property tax is limited in use to the repayment of general obligation debt.

The FY20/21 tentative levy is \$41.7 million, consistent with the rate in FY19/20. The corresponding rate is \$1.1171 per \$100 of net assessed value, adjusted from \$1.2136 in FY19/20. These adjustments are lessened somewhat by the availability of resources from the prior year resulting from conservative revenue and cost estimates. In addition, adjustment to the rate is partially mitigated by increased property values (both existing property and new development) from the prior year.

In FY20/21, the \$1.1171 tax rate applied to a median residential limited property value of \$143,050 (\$255,854 sale value) results in an average bill of \$160 per year.

The secondary property tax rate is calculated using property values for the City of Mesa as published by the Maricopa County Assessor's Office. The secondary property rate is applied to a property's limited property value (LPV) to determine the tax due. The City Council adopts the secondary tax levy and associated rate each year as a separate action from the budget adoption.

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 tentative FY20/21 budget has decreased by approximately \$4.0 million from the FY19/20 adopted budget due to several projects being completed, or substantially completed in FY19/20:

In the Capital General Fund:

- Police Portable Radios
- Police Records Management System
- Police 911 Consoles

In the General Fund:

- ERP System Upgrade

The tentative budget includes the allocation of \$3.3 million to fund the replacement of the Police Department's Computer Aided Dispatch system. Additional funding has been allocated for street arterial pavement overlays, streetlight replacement, and various small utility equipment replacement. Lifecycle needs usually were identified during the FY20/21 budget process that the city is not able to fund. Staff will continue to identify and analyze needs citywide to create 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 and innovative activities occurring around the City.

Public Safety Departments

Communications (Included in the Department of Innovation and Technology)

The FY20/21 Communications budget includes \$874,212 for lease payments to Motorola for the TOPAZ Voice Radio Network Equipment Upgrade project. The project is included in the lifecycle replacement program and will upgrade the city's existing communications network to ensure reliable radio service for first responders.

Mesa Fire and Medical

The General Fund budget includes:

- 13 sworn FTE, "rovers" to ensure continued services when crew members are absent due to training or other circumstances, this includes 9 FTE which were converted from unbudgeted positions for a net zero impact on the budget and the introduction of 12-hour day shift rover positions
- Conversion of 2 unbudgeted sworn supervisor FTE, 1 Operations Deputy Chief and 1 Peer Support and Wellness captain for a net zero impact on the budget.
- Addition of a Medical Response Unit (4 sworn FTE, 4 firefighters, 2

Engineers, 2 Captains). This unit is currently anticipated to backfill Station 218 when an engine unit is moved to Station 221. Call volume data will continue to be monitored as the opening of Station 221 draws near.

- 5 civilian FTE, 2 civilian FTE to support Technology Services, 1 civilian FTE to assist Social Services with high utilizers of 911 services
- In addition, approximately \$250K was added in FY2019/20 for increased contributions to member deferred compensation accounts and to add an incentive for unused sick time

The FY 2019/20 General Fund tentative budget includes:

- \$2.0M of one-time expenses to conduct two Fire Recruit Academies
- 25K to provide funding for the emergency management sworn staff after grant funds expired

The Public Safety Sales Tax Fund includes 15 new and 12 reallocated sworn FTEs.

- 6 FTE to staff Battalion 204, 3 Captains and 3 Battalion Chiefs.
- 1 FTE Training Captain
- 8 FTE, 4 Fire fighters, 2 Engineers, 2 Captains, to support the addition of a day-time engine unit to assist with coverage during the week due to training and individual coverage on the weekends.
- Staffing of new Fire Station 221 – relocation/reallocation of second Engine unit from Station 218 to Station 221.

The FY 2020/21 Public Safety Sales Tax Fund tentative budget also includes \$305K of on-going non-position costs, and \$1M in one-time costs related to setting up Engine 221, support training and development, and provide cancer abatement measures

The Transport Fund includes position and other expenses related to the anticipated expansion of this program. Expenses are from billed services. In FY 2019/20, 14 civilian FTEs were added to support the Transport program; 7 Paramedics, 6 Emergency Medical Technicians, and 1 Medical Biller. The FY 2020/21 Transport Fund tentative budget includes:

- 13 FTE medical responders (paramedics and Emergency Medical Technicians)
- 4.5FTE administrative staff to support the transport program
- Approximately an additional \$650K of on-going non-position costs to support the expansion of the medical transport program.

Additional information on Mesa Fire and Medical grants are included in the grant section of this report

Municipal Court

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget, except for two positions added mid-year in FY 2019/20. One full-time Court Specialist and the contract costs for one Community Navigator were added to support the operations of the pilot program for the Community Court. Another FTE, Deputy Court Administrator, was added after the Arizona Supreme Court approved the use of the Judicial Collection Enhancement Fund for this position to support overall court operations, specifically in the area of Court Automation.

Revenue in FY 2020/21 is expected to increase by \$101K due to the additional revenue from the Arizona Supreme Court's FARE (Fine and Restitution Enforcement) Program. The FY 2019/20 revenue projection is about \$7.3M.

Police

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

General Fund budget changes include 5 FTE positions transferred to other departments, 3 FTE to Human resources for time and labor assistance and 2 FTE to the City Attorney's Office. The General Fund FY 2020/21 tentative budget also includes the addition of \$540K in one-time funds to cover additional costs for supplies and equipment related to the increased number of academies.

Additionally, during FY 2019/20, the following General Fund items were added:

- \$55K on-going funds to expand the security contract to include an additional Mobile Patrol Unit
- \$720K on-going funds to cover increases in annual contract costs related to Axon and other Information Technology needs
- \$960K one-time funds to cover additional facility costs, supplies, and equipment related to the increased number of academies.
- \$175K one-time funds to purchase Forensic Services equipment
- \$160K one-time funds for facility upgrades

The Public Safety Fund includes 23 sworn FTEs and 7 civilian FTEs.

- 6 sworn FTE to provide advanced training to the department and improve both initial officer training and recurring department training, 5 officers and 1 sergeant.
- 17 sworn FTE to support patrol and operations, 13 officers, 3 sergeants, and 1 lieutenant.

- 4 civilian FTE to support patrol, 3 crime scene specialists and 1 police service officer.
- 3 civilian FTE professional staff, IT engineer I, 1 system security Technician to support Technical Services, and 1 hiring coordinator.

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

Utility Departments

Energy Resources

The FY 2020/21 tentative operating budget is consistent with the FY 2019/20 budget.

Environmental Management and Sustainability

The Department is anticipating an increase in routes due to boundary changes that are expected to take effect in October of 2021 (FY 2021/22). In order to be prepared for this increase, the Department will order one side-loader which is estimated to cost \$400,000. The Department has received \$115K in additional funding due to increased maintenance contract costs for CNG vehicles. The Department has also received \$25K for supplemental recycling education and outreach efforts due to the ongoing challenges facing the recycling market.

Water Resources

The FY 2020/21 tentative budget includes increase in cost of power to both Water and Wastewater operations. Water commodity purchases are expected to increase by \$1M largely due to unit cost increases from the Central Arizona Project (CAP). The expected cost of power and chemicals at the water and wastewater treatment plants is expected to increase \$600K due to increased water and wastewater flows. The City participates in joint ventures with other municipalities to provide water and waste-water services. Joint venture participation costs are expected to increase \$600K in FY 2020/21 due to increased operating expenses, including power and chemicals, at the Val Vista Water Treatment Plant, which is operated by the City of Phoenix. Additionally, the FY 2020/21 tentative budget includes ongoing operations and maintenance costs associated with the Greenfield Water Reclamation Plant expansion project, which is expected to become operational in Fall 2020, including 2 FTE for Water Resource Operator II positions to support the expansion of the Signal Butte Water Treatment Plant.

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.

During the FY 2019/20, Arts & Culture added 1.0 FTE as a part of temporary-to-City employee conversions for teachers and instructors in the Adult & Youth Classes area.

No adjustments have been made at this time for the anticipated closure of facilities.

Business Services

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget. Revenues are expected to decrease approximately \$60K due to the elimination of the technology improvement fee as the City has discontinued the use of the licensing system and platform software, Open Counter.

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 2019/20 will be approximately \$4.0 million, which is \$.5 million below the FY 2019/20 adopted budget. Estimated claims for FY 2020/21 are expected to be \$4.5 million.

The FY 2020/21 tentative budget is consistent with the FY2019/20 budget for the General Fund budget for the City Attorney's Office.

City Auditor

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget.

City Clerk

The budget for City Clerk's Office is adjusted for the cost of elections. There is an election scheduled in FY 2020/21 and therefore an adjustment of \$410K was included to account for election costs.

City Manager

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget.

Community Services

Community Services oversees the City's Housing, Neighborhood Outreach, Animal Control, and Diversity initiatives. Community Services receives funding from both the General Fund and various grants. The General Fund budget for FY 2020/21 is \$3.2 million and supports the Animal Control Division, Neighborhood Outreach, and portions of the administration of the department's Housing & Community Development programs.

During FY 2019/20, the Housing Division added a 1.0 FTE for a Community Revitalization Assistant to be funded by the City's federal Community Development Block Grant (CDBG). The position will assist in program management of CDBG projects.

Additional information on the federal grant-funded programming can be found in the grants portion of this report.

Department of Innovation and Technology

The FY20/21 tentative budget is consistent with the FY19/20 budget.

Development Services

Development activities, both commercial and residential, are expected to grow at a reduced rate in FY 2020/21 from previous years. Projected FY 2020/21 revenues are slightly higher than FY 2019/20 budgeted revenues by \$310K. An additional code compliance officer position was added in FY 2019/20 to support increased code enforcement efforts. The FY 2020/21 tentative budget also include additional staffing adjustments added due to additional activity.

Historically, the department has utilized temporary services to supplement regular staff in order to meet customer expectations and any additional workload. Since temporary services provides flexibility in staffing levels, it allows the department to adjust for any change in development activities. The tentative FY 2020/21 budget includes an incremental increase to temporary services to mirror expected growth development activities.

Economic Development

The FY 2020/21 tentative budget expenses are consistent with FY 2019/20.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY 2020/21 tentative budget is consistent with the FY19/20 budget.

Falcon Field

The FY 2020/21 tentative operational budget is consistent with the FY19/20 budget. Included in the CIP is the completion and reconstruction of mid-field taxiways including Higley Ramp and Anzio Taxilane. These improvements will increase safety and operational flexibility.

The Falcon Field Fund is financially self-sustaining. All revenues are reinvested back into the airport.

Financial Services

The FY 2020/21 tentative budget is consistent with the FY19/20 budget.

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 Office of Management and Budget's strategic data analytics team has developed an analytical model using a vehicle's cost history to determine when to replace instead of repairing a vehicle. The model's output is combined with information from the customer department and Fleet Services repair data, including information about the vehicle's configuration, safety, and availability. Fleet Services provides information about the vehicle's replacement cost, the cost of anticipated major repairs, and parts availability. Taken together, the decision to replace a vehicle has become more transparent and cost effective.

The FY 2020/21 tentative budget is consistent with the FY19/20 budget.

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.

During the FY 2019/20, 1.0 FTE was added for a new Employee Relations Analyst that will assist the department with internal, employee-based processes and procedures.

A detailed update on the Employee Benefits and Workers Compensation Trust Funds was given to the Self-Insurance Trust Fund Board on February 25, 2020 and can be found in the Trust Funds portion of this report.

Library

The FY 2020/21 tentative budget includes four (4) part-time non-benefitted Page positions (2 FTE) that were added as mid-year positions due to department staffing needs.

No adjustments have been made at this time for the anticipated closure of facilities.

Mayor and Council

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget.

Office of ERP Management

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget.

Office of Management and Budget

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget.

Parks, Recreation and Community Facilities

The FY 2020/21 tentative budget includes 7 FTE. The positions are for 4 Facilities Equipment Technicians, 1 Trades Worker II, and 1 Facilities Maintenance Supervisor to ensure the maintenance of additional City facilities included through capital projects, and 1 FTE for a Facilities Equipment Technician II to provide support for expanded parks. Otherwise, the budget is consistent with the FY 2019/20 budget.

No adjustments have been made at this time for the anticipated closure of facilities.

Public Information and Communication

The Office of Public Information and Communication (OPIC) supports the City's efforts of providing timely and accurate information on Council strategic initiatives, special events, programs, and services. The OPIC's budget is consistent with FY 2019/20 budget.

During the FY 2019/20, an additional of .5 FTE was added to convert a part-time position to a full-time position for a Public Information Communications Specialist to assist Mesa 11 in their programming development and implementation.

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 2020/21 are increasing. The FY 2020/21 tentative budget includes \$830K in charges related to repairing and maintaining a state of good repair for the aging light rail system. The costs for fixed route bus and paratransit service are also increasing, however these cost increases have been covered by regional Transit funding.

Transportation

The FY 2020/21 tentative budget is consistent with the FY 2019/20 budget.