



City Council Report

Date: March 28, 2024
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Brian A. Ritschel, Management and Budget Director
Subject: Fiscal Year 2024/25 Summary of Proposed Budget

Overview of Proposed Budget

In February, the Council received an update on significant impacts to the City's financial forecast. At that time, available resources were projected for FY24/25 and forecasted for FY25/26 and beyond. The cost of the current level of service was also projected for FY24/25 and forecasted for FY25/26 and beyond. The City currently has a gap between the level of on-going revenues and the level of on-going expenses. This is primarily due to the State Legislature passing a state income flat tax and eliminating the ability for municipalities to collect transaction privilege tax on residential rental properties, significant inflation on the cost of commodities, services, and contracts, public safety overtime, and personnel wage growth to provide competitive salaries and benefits for City employees.

Executive Staff has met with each department to discuss and discern operational successes and concerns to determine priorities for the upcoming fiscal year. All departments were asked to review items in their base budgets that they could reduce through operational efficiencies.

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

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

The City's adopted budget sets the maximum expenditure level that can take place in a fiscal year. The provision of services and programs is fluid in nature. Budget modifications occur during the fiscal year to better align resources. Modifications may

increase or decrease the budget of a particular department. The following are some reasons for budget modifications, although not an exhaustive list.

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

This document summarizes the significant budget modifications that took place during FY 2023/24, as well as new expenditures that are anticipated for FY 2024/25.

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 2023/24. The last available month of sales tax data for FY 2023/24 is for January activity, which shows growth of 1.1% over January activity in FY 2022/23.

Through January 2024, FY 2023/24 local sales tax revenues have come in 2.7% higher than through the same time last year. Sales tax revenues in FY 2023/24 are slightly higher than FY 2022/23 mainly due to growth in the retail, rental, and utility categories, likely due to increased prices. By the end of FY 2023/24 local sales tax revenues are projected to end 0.1% above FY 2022/23. The FY 2024/25 forecast indicates a decline of 4.7% compared to the estimated FY 2023/24 projection. The forecast assumes lower revenues in FY 2024/25 due to the inclusion of an economic slowdown as a result of persistent inflation leading to a softening of economic momentum as well as lost revenue due to the repeal of the residential rental tax effective January 2025 (impact of about \$11.4 million in FY 2024/25).

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 2024/25 budget includes funding for new public safety projects and one-time items. The proposed budget for the Fire and Medical Department adds additional on-going capacity for 12 FTE to staff Fire Station 224 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 the Police Department adds additional on-going capacity for 10 FTEs. The additional positions include 1 Police Officer, 2 Major Crimes Detectives, 1 Narcotics Enforcement Detective, 1 Traffic Officer, 4 Police Service Officer IIs, and 1 Senior Program Assistant. The proposed budget for Police also includes one-time costs for

unmanned aerial system (UAS) enhancements and Police Department Information Technology (PDIT) tier 2 storage, as well as one-time and ongoing costs for the Drone First Responder Program and PDIT security initiatives. 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 2024/25 budget covers the estimated costs of up to 120 sworn FTE in the Police Department and up to 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 2024/25, Urban Revenue Sharing revenues will decrease 21.8%. This decrease is due to the implementation of the State Flat Income Tax.

State-Shared Sales Tax: Like local sales tax, state sales tax is projected to increase 0.8% in FY2023/24 over FY 2022/23 as a result of resilient retail activity and increased prices due to inflation. In FY 2024/25, the forecast projects a decrease of 9.4% over estimated FY 2023/24 revenues.

Vehicle License Tax: The smallest contributor to state revenue sharing is vehicle license tax, it is projected to increase 1.0% in FY 2023/24. FY 2024/25 revenues are expected to increase 2.1% over FY 2023/24 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 2024/25 contribution is budgeted at \$134.8 million, which is a 6.9% increase from the FY 2023/24 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 2024/25 transfer is \$25.2 million, which is above the FY 2023/24 transfer of \$20.0 million. The increase in the transfer is largely due to cost increases for labor and maintenance of the fixed-route bus and light rail services.

Trust Fund Contributions

The City contributes to three trust funds related to liabilities:

Property and Public Liabilities Trust Fund; FY 2024/25 City contribution of \$10.3M

Employee Benefit Trust Fund; FY 2024/25 City contribution of \$90.6M

Workers' Compensation Trust Fund; FY 2024/25 contribution \$3.7M

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 2024/25 operating revenues are estimated at \$452.7M, increasing from \$422.6M projected for FY 2023/24 (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 current forecast calls for declining reserve balances for the next few years in anticipation of a scheduled increase in existing debt service expenses. Additionally, the current forecast includes cost increases for various budget items including power and chemicals at water treatment and reclamation plants, as well as increased solid waste tipping fees. The City forecasts expenses, revenues, and reserve balances over a multi-year period and reviews them on an on-going basis to allow for proactive response to economic changes.

Restricted Funds Highlights

Transportation Related Funds

Transportation funds come from two sources. The State of Arizona collects Highway User Revenue Funds (HURF) and a portion of these are provided to cities and towns. This is mainly comprised of the fuel tax paid at the fuel pump by the consumer (44.9%) and part

of the vehicle license tax (32.4%). 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 2024/25, expected revenues are estimated to increase by 0.3%.

Local Streets (LS) Fund. LS Fund revenue collection is tied to the rest of city sales tax and are estimated to decrease by 3.0% in FY 2023/24. Anticipated revenues for FY 2024/25 are expected to be below FY 2023/24 by 2.8%.

HURF and LS Fund are managed together as both funds are restricted to street-related expenditures. The City’s street maintenance program outlines the highest priorities for allocation of available resources. Expenditures are modified to remain within available resources. The available ending reserve balance for HURF and LS Fund combined is estimated to be \$96.5M in FY 2023/24 and decrease to \$81.0M in FY 2024/25 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 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%
Actual	FY 22/23	\$101.8M	(0.4%)	\$90.3M	(1.2%)
Projected	FY 23/24	\$110.7M	8.7%	\$99.0M	9.6%
Forecast	FY 24/25	\$122.2M *	10.5%	\$103.9M	5.0%

Medical and dental premiums are set on a calendar year (CY) basis. To address the projected increased costs, the FY 2024/25 budget includes an increase of 2% for employee contributions and 2% for retiree contributions for both calendar years 2024 and 2025. The increases are applied to both the employee/retiree and the City. In the summer of 2024, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2024. The City contribution included in the

FY 2024/25 budget is \$90.6M, which is \$14.7M more than the FY 2023/24 adopted budget, but only \$3.1M more than FY 2022/23. The FY 2024/25 proposed budgeted City contribution is slightly higher compared to what was presented at the Trust Fund Board meeting as the proposed budget will account for new positions contributing to the fund.

Medical, prescription, and dental claims costs continue to rise, in FY 2023/24 the City experienced an increase in claim costs compared to forecast. With costs trending up, claims costs are projected to increase from FY 2023/24 to FY 2024/25 by \$4.9M, or 5.0%. This increase can be attributed to Membership increases, utilization increases, and healthcare cost inflation.

In CY 2023, most of the EBT related contracts are in either an initial 5-year term phase or standard contract supported renewal phases. The only renewal that required negotiation in 2023 was for stop-loss insurance on medical/prescription drug expenses. Under this contract, premium rates are subject to change annually but with a guaranteed minimum 10% increase (max 20%), and the 10% minimum was negotiated for all years of the contract, which began in CY 2021.

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.

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 2024/25 proposed budget for the Workers' compensation Trust Fund includes the expenditure offset from the Municipal Firefighters Cancer Reimbursement based on prior year claims.

For FY 2024/25, the reserve target is \$7.6M. Based on the FY 2023/24 projected reserve balance and the expenditures forecasted for FY 2024/25, a decrease to the workers' compensation rates from the previous year is included in FY 2024/25. The FY 2024/25 budget includes a City contribution of \$3.7M.

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 \$10.0M. The length of time from the submission of a claim to its final resolution can take over a year, contributing to a high variability of annual costs. Claims are projected to be \$4.0M in FY 2023/24. The cost of claims included in the FY 2024/25 budget is \$5M.

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 2024/25 City contribution estimate is \$10.3M to increase the fund balance from the projected FY 23/24 \$11.9M to \$12.0M. Expenses are reviewed during the year and the contribution amount is modified as necessary.

Environmental Compliance Fee Fund (ECF)

The Environmental Compliance Fee is applied to each utility account customer to meet the projected costs of Federal, State, and County unfunded environmental mandates. The current monthly fee is anticipated to generate \$18.3 million in revenue in FY 2024/25. The fee funds the City's environmental activities such as air quality, storm water drainage, hazardous waste management, and asbestos management. Budgeted on-going operational expenses are \$18.8 million. The current fee has been in place since July 1, 2014 and is expected to remain the same for FY 2024/25. Savings experienced each year are accumulated and applied to future one-time expenditure needs.

Grants

The City pursues grants to fund projects, implement or enhance programs, and fund the acquisition of new equipment. While the application for grant funding requires preparation time by City staff as well as subsequent tracking of grant expenditures, grant awards provide the City with the means to fund services that would not otherwise be funded in the City's budget. Not all grants applied for are awarded to the City. The City includes grants currently being applied for in the adopted budget to allow for budget authorization capacity.

Police Grants

Mesa Police is budgeting to apply for approximately \$3.7 million in grant awards for FY 2024/25. Notable proposed grant awards include the following:

- \$953K for support for the Mesa Family Advocacy Center.
- \$900K Homeland Security Grants to provide funds for training and equipment to support Homeland Security initiatives.
- \$412K 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.
- \$465K in multiple forensics grants. The National Institute of Justice DNA Backlog Program Grant provides resources for forensic personnel and equipment to enhance analyzing forensic DNA to reduce system backlog. The Coverdell Grant

allows for the acquisition of equipment to assist in crime scene analysis and training for forensic personnel. The Forensics Crime Lab Grant provides funding for training and equipment.

- \$170K Justice Assistance Grant (JAG) to support improving technology services in the Police Department.
- \$320K 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.
- \$90K High Intensity Drug Trafficking Areas (HIDTA) Grant to provide funding for officer overtime to coordinate activities that address drug trafficking in specific designated areas of the United States.

Mesa Fire and Medical Grants

Mesa Fire and Medical plans to apply for approximately \$665K in grant awards for FY 2024/25. Notable grant awards include the following:

- \$437K 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.
- \$128K from the Arizona Department of Homeland Security to include \$27K for the Community Emergency Response Team, \$40K for Emergency Management, \$27K for the Threat Liaison Officer program, \$24K for the Metropolitan Medical Response System, and \$10K for the immunization program.

Arts & Culture Grants

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

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 2024/25.

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 \$22.0M in FY 2023/24 and \$26.3M in FY 2024/25.

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 \$5.0M in FY 2023/24 and \$7.8M in FY 2024/25.
- 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 \$13.1M and FY 2023/24 and \$1.9M and FY 2024/25.
- Emergency Solutions Grant (ESG) - provides essential services related to emergency shelter, rehabilitation, and conversion of buildings to be used as emergency shelters, operation of emergency shelters, and homelessness prevention services. Total funding for this program totaled \$400K in FY 2023/24 and \$400K in FY 2024/25.

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 2024/25 contribution rates for State-run retirement plans changed as follows:

Retirement Plan	FY 2023/24 Rate	FY 2024/25 Rate	Rate Change
Arizona State Retirement System (ASRS)	12.29%	12.27%	-0.02%
Elected Officials Retirement System (EORP)	70.42%	76.51%	6.09%
Public Safety Personnel Retirement System (PSPRS) - Fire	60.95%	61.07%	0.12%
Public Safety Personnel Retirement System (PSPRS) - Police	61.12%	62.72%	1.60%

In the FY 2024/25 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 2024/25 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 \$90M to PSPRS for FY 2024/25. This is an additional \$16.1M over the projected Annual Required Contribution (ARC) for FY 2024/25 of \$73.9M.

The Arizona State Retirement System (ASRS) contribution rate decreased by 0.02% for FY 2024/25, making the change in Mesa’s expected contribution to ASRS negligible compared to FY 2023/24.

The FY 2024/25 Elected Officials Retirement Plan (EORP) contribution rate has not yet been published, so the budget includes the rate at 76.51% (increase of 6.09% from FY 2022/23).

Salary Step Pay:

Pay ranges for positions operate with minimum and maximum amounts. Movement through the pay range (step pay) is reviewed on an annual basis during an employee's performance review. Successful performance is required for an employee to be eligible for step pay increase, but the increase is dependent on funding availability. Each year, as part of the budget process, citywide funding availability is determined. During the last recession, funds were not available and step pay increases were not authorized. For the last few fiscal years, the authorized step pay amounts were 3% in 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, a 3% increase in July of 2023/24 with a 5% citywide salary adjustment, and will continue to provide all employees with competitive pay and benefits going into FY 2024/25.

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 2024/25 budget anticipates increasing the city contribution by 2% and 2% for employee and retiree plans respectively effective January 2025. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of 2024. The increase in medical premiums results in an increase in the costs of personal services for each department.

Fleet Maintenance and Commodity Costs

Due to the rising costs of labor, parts, fuel, and other materials, the City has provided \$9.5M in additional budget capacity to departments to cover fleet allocated costs. The rising costs are a result of continued supply chain constraints, delays in receiving replacement and new vehicles, as well as increased fuel pricing.

Capital Improvement Program (CIP) Highlights

As outlined in the Council's Economic Development strategic initiative, the City continues to place a high priority on infrastructure investment to attract and service future development.

Continuation of citizen initiated and approved Parks and Culture projects are included in the proposed CIP. A few projects include the design of the Granite Reef Dam Trail Connections and the renovation for Kid Artville in the i.d.e.a. Museum which is funded partially by the Capital General Fund and the General Obligation (GO) bond authorization approved by voters in 2018. Parks will also begin a renovation of the Fire Memorial Park using Parks Construction Bond.

Police will begin construction on their headquarters remodel in Downtown Mesa with funding from Public Safety Sales Tax and GO bond authorization approved by voters in 2022.

Roadway improvements are planned to start on Val Vista Drive from Pueblo to the US 60 using Transportation funds, and Ray Road connection at Ellsworth Road 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 dual taxi lane improvements at Falcon Field airport, install publicly accessible electric charging stations across the city, and continue 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.

Mesa Climate Action Plan

The FY 2024/25 proposed budget includes \$5.4M in continued support for the Mesa Climate Action Plan. For the past 3 fiscal years, the City has committed funding to the Mesa Climate Action Plan to support the Plan's Aspirational Goals and Focus Areas. The Aspirational Goals include community engagement, carbon neutrality, using 100% renewable energy, and diverting 90% of waste from the landfill by 2050. In an effort to meet those goals, the FY 2024/25 funding will support projects including LED lighting improvements, electric vehicle charging stations, grass-to-xeriscape projects, and neighborhood tree planting events.

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 2024/25 proposed budget is \$42.0M. The corresponding secondary property tax rate is \$0.8582 per \$100 of taxable value, no change from prior year.

A residential property with the median taxable value of \$177,213 (\$466,707, sale value) would be billed \$152 for the year in City of Mesa property tax.

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY23/24 to FY24/25

	FY23-24	FY 24-25 Tentative	\$ Change	% Change
Secondary Property Tax Levy (Taxable Value * Tax Rate)	\$38.8 million	\$42 million	3.2 million	8%
Secondary Property Tax Rate (per \$100 of Taxable Value)	\$0.8582	\$0.8582	\$0.0	0%
Annual Cost to Median Homeowner	\$144	\$152	\$8	5%

In FY 2023/24 a levy increase 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 \$108 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 2024/25 proposed budget is at \$158.6M (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 2024/25 proposed budget includes on-going funding for a 12 hr. MR Unit at Station 205 with 8 12-hour positions including 4 Firefighters, 2 Engineers, and 2 Captains including uniform & boot allowance. The MR Unit is intended to address the issue of high call volume at Fire Station 205. One-time funding is also added for the Fall and Spring fire recruit academies and for the Fall Semester of the In-house Medic School Program which includes one-time operating costs. The FY 2024/25 General Fund proposed budget also includes capacity for the Industrial Commission assessed contribution for the Municipal Firefighters Cancer Reimbursement Program.

During FY 2023/24, the City approved additional one-time funding for a Low Acuity (LA) unit pilot, staffed by an ALS Captain, an ALS Engineer, and Alarm Room Captain (backfill). Ongoing capacity was also added to support the Recruitment and Diversity position/program and support for MFMD's Peer Support team for additional training opportunities and conferences.

To meet the reduction target for the FY 2024/25 proposed budget, the budget reductions include eliminating 5 FTEs, including a vacant Supplies Specialist, a vacant Parts & Supply Supervisor, a vacant Marketing Assistant, a Retiring Fire & Life Safety Ed Administrator, and a Fire & Life Safety Ed Specialist. Other reductions include reducing a tech services contract, internship, IGA with Maricopa County, and MFMD is proposing to add revenue by increasing fire inspection fees by 5% for FY2024/25.

The Public Safety Sales Tax Fund FY 2024/25 the proposed budget includes additional ongoing capacity for 12 FTE to staff Fire Station 224 (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.

The Transport Fund FY 2024/25 proposed budget includes additional ongoing capacity in overtime for the continued build-out of the transport fund to support the growing program. During FY 2023/24 the City continued the expansion of the program and added capacity for seven Emergency Transportation Services owned ambulances including apparatus and the corresponding equipment.

Municipal Court

The FY 2024/25 proposed budget includes funding to maintain the support services provided by the Community Court Navigators. Budget reductions include savings from a vacant Court Specialist position, eliminating unutilized electronic monitoring devices, and reducing the usage of Pro Tem Judges.

Revenue in FY 2024/25 is estimated to be \$7.2M. Included in this anticipated revenue are civil fines, criminal fines, photo safety fees, and defensive driving classes, among other items.

During FY 2023/24, the City approved funding for one new Senior Program Assistant position to help manage the Community Court.

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 2024/25 proposed budget includes funding to increase the overtime budget capacity for sworn officers to true up expenditures (based on historical and forecasted data), one year extension to Axon contract for 3 Axon temporary employees to provide continued assistance with backlog of digital media requests, one year extension of the pilot for the Weekend Premium Pay for sworn officers, and civilianize the Special Operations Organized Crime Interdiction Detective position into 2.0 FTEs including 1 Program Assistant and 1 Senior Program Assistant.

The FY 2024/25 proposed budget includes reductions in aviation maintenance and repairs. As well as reductions in various materials, supplies and software expenditures. Additionally, 2.0 vacant positions are surrendered, including a Civilian Helicopter Pilot and a Police K-9 Handler.

The Public Safety Sales Tax Fund FY 2024/25 proposed budget includes ongoing support for 5 sworn FTEs and 5 civilian FTEs. This is the sixth year of the staffing plan for the Police department as it continues to expand with the growing needs of the City. These positions include 1 Police Officer, 2 Major Crime Detectives, 1 Narcotics Enforcement Detective, 1 Traffic Officer, 4 Police Service Officer IIs, and 1 Senior Program Assistant. The proposed budget also includes one-time and ongoing costs for the Drone First Responder program, additional unmanned aerial systems (UAS) to support patrol and tactical operations, and several cyber-security network enhancements. Information on one-time costs for the Public Safety Sales Tax Fund for Police are included in the Sales Tax section. During FY 2023/24, the Public Safety Sales Tax Fund received one-time capacity to update the Communications building to accommodate CCTV servers and other hardware.

Additional one-time capacity included funding to relocate Police IT to the Mesa Center for Higher Education building.

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

Utility Departments

Energy Resources

The FY2024/25 proposed budget includes addition of one Gas Planning Engineer position. This position is needed due to growth in the natural gas system and will assist with the City's Natural Gas Master Plan, provide oversight of the acquisition of natural gas system materials that are subject regulatory oversight, and monitor for gas system reliability and safety issues.

Budgeted purchases for the electric energy commodity are anticipated to increase from \$25.4M in FY 2023/24 to \$33.8M in FY 2024/25. Budgeted purchases for the natural gas commodity are anticipated to decrease from \$19.1M in FY 2023/24 to \$17.3M in FY 2024/25. Commodity costs are constantly monitored throughout the year to assess supply, demand, and pricing.

The FY2024/25 proposed budget also includes reductions for temporary staffing for business development and professional services set aside for pole inspections. The department's business development positions are fully staffed, therefore the temporary staffing budget is not needed. Pole inspections will still be conducted by City staff.

Solid Waste

The FY 2024/25 proposed budget includes an anticipated increase for Solid Waste tipping fees. FY 2023/24 budgeted expenses for tipping fees were \$11.2M and are budgeted to increase to \$14.0M in FY 2024/25 due to a rise in landfill pricing.

The FY 2024/25 proposed budget also includes funding for the implementation of in-truck tablets for waste collection vehicles. These tablets will enable more efficient routing for mileage and fuel savings.

The FY 2024/25 proposed budget also includes a reduction for reimbursements for education expenses as these costs are now centralized through Human Resources. Additionally, the proposed budget includes reductions for industry sponsorships, as well as materials and supplies.

Water Resources

The FY 2024/25 proposed budget includes cost increases across both water and wastewater operations as a result of supply constraints and inflationary pressures. Water commodity purchases are expected to increase by \$2.3M largely due to unit cost increases from the Central Arizona Project (CAP) as the Lower Basin Colorado River Basin is expected to remain in shortage conditions during FY

2024/25. Water chemical costs are expected to remain at FY 2023/24 levels. However, wastewater chemicals costs are expected to increase \$1.2M as a result of continued elevated pricing. As a result of rising electric rates, both Water and Wastewater operations electric costs are expected to increase \$0.7M.

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 \$1.4M in FY 2024/25 due to increased labor and operational costs. Similarly, the 91st Ave Wastewater Treatment Plant participation costs are expected to increase \$360K. The City has decreased its cost percentage ownership of the Greenfield Wastewater Treatment Plant (GWRP) from 46% to 35%. As a result of this percentage change, participation costs are expected to decrease by \$1.1M.

The FY 2024/25 proposed budget includes one-time costs for various items. Included is \$100K for the Bartlett Dam Modification Feasibility Study that would increase available surface water supplies and reduce groundwater use; \$81K for a technical review of Salt River/CAP Interconnect Facility (SCIF) to plan for infrastructure that would provide sustainable water supplies to East Mesa and new developments; and \$115K for rebuild of a centrifuge thickening scroll used for the dewatering process at the Northwest Water Reclamation Plant (NWWRP). Additionally, the proposed budget also includes \$344K for the second year of SRP's Ten-Year Biomass program that will thin overgrowth in forests to improve the quality of water runoff, and \$380K in on-going funding to cover warehouse costs.

Last, the FY 2024/25 proposed budget includes reductions to various items, including advertising costs, consulting services, tuition reimbursements, and employee travel.

Other Departments

Arts & Culture

The Arts & Culture budget provides an estimate of the expenses and related revenues, as they vary from year to year based on the number and size of scheduled shows and events.

The FY 2024/25 proposed budget includes funding for multiple positions including 1.0 FTE Lead Gallery Educator at the Arizona Museum of Natural History, 1.0 full-time and 2 part-time Gallery Experience Associates at the i.d.e.a. Museum, 1.0 full-time Museum Resources Developer at the Arizona Museum of Natural History (AZMNH), 1 part-time Administrative Support Assistant I within the Development Team, 1.0 FTE Theater Lead Usher, and conversion of part-time Senior Program Assistant to a full-time Arts Education Specialist at the Youth Studio.

The proposed budget also includes additional security measures at the Mesa Arts Center (MAC) theaters, increase to security guard contract due to inflation, vehicle

purchase for AZMNH Field Research, and expanded resources for the Development Department that will offer centralized fundraising support across the City's three institutions: MAC, AZMNH, and i.d.e.a. Museum. There is also capacity for expanded instruction and education services at the MAC Studios. In addition, the proposed budget includes funding for various additional one-time administrative and operating costs for i.d.e.a Museum, AZMNH, and MAC.

To meet the FY 2024/25 budget reduction target, the Department will shift three positions from General Fund to the Arts & Culture Fund including a Museum Education Assistant, part-time Visitor Services Assistant, and full-time Museum Curator.

Business Services

Reductions for the FY 2024/25 proposed budget include reducing activity in various commodities and other services.

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 2023/24 will be approximately \$4.0 million, which is lower than the FY 2023/24 adopted budget of \$5.0 million due to fewer large settlement payouts. Estimated claims for FY 2024/25 are budgeted at \$5.0 million.

The FY 2024/25 proposed budget is consistent with the FY 2023/24 budget.

City Auditor

The FY 2024/25 proposed budget is consistent with the FY 2023/24 budget.

City Clerk

The budget for the City Clerk's Office is adjusted for the cost of elections. There is an election scheduled in FY 2024/25, therefore the budget has been increased by \$557K for election related expenditures. Otherwise, the FY 2024/2025 proposed budget is consistent with the FY 2023/24 budget.

City Manager

The FY 2024/25 budget includes continued support for the Public Defender Program and two (2.0) FTEs were added to the Project Management Team to manage/coordinate City Manager designated projects to ensure timely completion, including a 1.0 FTE Civil Engineer and 1.0 FTE Management Assistant II. 2.0 FTE positions were also added to the Downtown Transformation Team for the implementation of the East, West, and Southwest redevelopment areas of Mesa including a 1.0 FTE Sr. Economic Development Project Manager and 1.0 FTE Economic Development Specialist.

Code Compliance:

During FY 2023/24, the department was approved to add two (2) additional Code Compliance Officer positions. These positions were added for special events and to increase after-hours service.

The FY 2024/25 proposed budget includes one (1) Administrative Support Assistant (ASA). This position will support the department in their day-to-day administrative duties. The addition of the ASA position will allow Code Enforcement Officers to focus on their core job responsibilities.

Additionally, the department is shifting their ongoing vehicle operation costs from the General Fund to the Special Programs Fund, where the expenses are covered by revenues associated with the royalties received from the City logo for service line warranties.

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 2024/25 proposed budget includes \$75K ongoing funding for the heat relief program to provide vulnerable community members with safe, clean respite that provides cooling from the summer heat. This program is primarily funded through an IGA with Maricopa County. Additionally, the proposed budget includes \$94K increase for renewing a 3-year contract with the Arizona Human Society to assist with animal cruelty and seizure cases, this contract is expected to increase 10% year-over-year. The proposed budget also includes \$20K on-going for preservation and maintenance costs of the Alston House due to its historical significance.

To meet the reduction target for the FY 2024/25 proposed budget, the Budget reductions include adjustments in advertising, association dues, contractual services, telecommunications, temp services, supplies and software maintenance and training.

During FY 2023/24, 1.0 FTE Program Assistant was added to support the Community Cleanup Program and 1.0 FTE Homeless Solution Safety Liaison for the Off the Streets Program to provide services and partnerships to address homelessness. On-going funding was also added for operations and maintenance for the Off the Streets Site.

Data and Performance Management

The FY 2024/25 proposed budget is consistent with the FY 2023/24 budget.

Department of Innovation and Technology

Over the past few years, the ongoing CIP IT related projects has increased substantially. The FY 2024/25 proposed budget includes the addition of an IT Engineer I (1.0 FTE) and a reduction in Enterprise and Infrastructure Services.

Development Services

Single-family residential development activity is anticipated to be unchanged from FY 2023/24. Commercial activity has remained strong in FY 2023/24, however revenues for commercial permits in FY 2024/25 are anticipated to decrease.

The FY 2024/25 proposed budget includes one-time funding for the most recent version of the International Building Code (IBC) books. These serve as a guideline to protect public health, safety, and welfare through standardized building codes.

The FY 2024/25 proposed budget also includes the reclassification of three positions. A Project Manager to a Management Assistant II (1.0 FTE), a Development Information Specialist to a Permit Technician II (1.0 FTE), and a Deputy Director to a Principal Planner (1.0 FTE).

Economic Development

During FY 2023/24, a \$172K was approved for the startup operations and staffing costs of the new Small Business Center at The Studios in downtown Mesa, which has a tentative opening of May 1, 2024. This added two full-time positions (an Economic Development Project Manager and a Program Assistant) to support operations. The Center will support and connect Mesa businesses, entrepreneurs, and resource partners.

The FY 2024/25 budget has been adjusted to include the ongoing operation costs of the Small Business Center (\$319K) as well as the increased costs of marketing and advertising services (\$30K). The FY 2024/2025 revenue projection is about \$3.2M.

The Office of Economic Development (OED) switched security for AZLabs from ASURE to Allied Security beginning March 28, 2024, and as a result saw savings of \$300K. This will be reduced from the FY2024/25 budget in addition to \$98K from OED's building improvements and acquisition budget. These reductions can be absorbed without significant effect on program operations.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY 2024/25 proposed budget includes the addition of a Senior Civil Engineer and an Assistant Right of Way Manager (2.0 FTE's). There was also a need to increase the budget for the Fiber to Premise Program to allow the City to collect survey data for better mapping

of existing infrastructure. The Department is also eliminating a vacant administrative position and reducing their office equipment budget.

Environmental and Sustainability

During FY 2023/24, a contingency was approved to accommodate \$105K received from the City of Phoenix of passthrough funds for the Water Use It Wisely (WUIW) robust marketing plan.

The FY 2024/25 proposed budget has been adjusted to include the costs of an Administrative Support Assistant II (1.0 FTE), Plant Books, Grass to Xeriscape Admin fees, Shade Tree Events, WUIW pass-through funds, and SRP Rebates.

Environmental and Sustainability is also making reductions in their budget in the areas of administrative costs, software, asbestos and lead, Water Quality Professional Development, and Underground Storage Tanks.

Falcon Field

The FY 2024/25 proposed budget includes an additional \$200K for pavement preservation to help the airport in their efforts to remain self-sustaining and eligible for federal grants.

Financial Services

The FY 2024/25 proposed budget includes an additional \$24.5K for audit fees and utilities.

To meet the reduction target for the FY 2024/25 proposed budget, a vacant payroll position was eliminated.

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 2024/25 proposed budget has increased over the FY 2023/24 budget due to rising fuel, parts, and tire contract costs.

Human Resources

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

To meet the reduction target for the FY 2024/25 proposed budget, the General Budget reduction includes savings from a position reclassification from a Senior HR Analyst to a HR Analyst for vacant position resulting from retirement.

During FY 2023/24 funding was approved to purchase three Crew Cab CMVs that will be used by the CMV Safety Unit for employee training and evaluations with ongoing funding added for fuel and maintenance. One-time funding was also approved for configuring the Time and Labor suite. Additionally, 1.0 FTE HRIS Analyst position was added to Time and Labor to lead the Kronos efforts and the UKG upgrade to Cloud. Six part-time positions were also converted from part-time non-benefited to part-time benefited.

Library

The FY 2024/25 budget includes an increase of \$47K for security needs.

To meet the reduction target for the FY 2024/25 proposed budget, Library Services made reductions in the areas of utility costs, tech support services, and furniture and shelving replacements.

Mayor and Council

The FY 2024/25 proposed budget is consistent with the FY 2023/24 budget.

Office of ERP Management

The FY 2024/25 proposed budget is consistent with the FY 2023/24 budget.

Office of Management and Budget

At the start of FY 2023/24, the Office of Data and Performance Management separated from being part of the Office of Management and Budget (OMB) and became its own department.

To meet the reduction target for the FY 2024/25 proposed budget, OMB discontinued the renewal of a software subscription.

Parks, Recreation and Community Facilities

The FY 2024/25 budget has increased from FY 2023/24. The increase is due to the rise in costs for vendor contracts and purchase of commodities across Commercial, Recreation and Resource Management facilities. The increase is also due to the management of nine Mesa pools in accordance with the Internal Government Agreement with Mesa Public Schools. This expenditure has a utility reimbursement fee and usage fee.

The FY 2024/25 expenditure increase for the Mesa Tennis and Pickleball Center is due to the number of visitors using the Center. It went from roughly 21 thousand in 2017 to over 83 thousand. This is a revenue neutral expense that allows City of Mesa to provide instructors, minor equipment, materials and supplies.

Public Information and Communication

The FY 2024/25 proposed budget is consistent with the FY 2023/24 budget.

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 2024/25 are expected to increase \$3M due to contract and service agreement price increases as well as increase maintenance costs.

The FY 2024/25 proposed budget includes the addition of one Contract Specialist position to assist with the on-going maintenance contracts of the various transit facilities. The hiring for this position is contingent upon the passing of Proposition 479 in November 2024.

Transportation

The FY 2024/25 proposed budget includes funding for herbicide treatments to maintain newly acquired right-of-way from intergovernmental agreements and funding for two (2) Senior Traffic Barricading Coordinators and two (2) Traffic Barricading Coordinators for the purposes of improving performance, oversight, and turnaround times in the department's temporary traffic control (TTC) permitting program. In addition, the new Assistant Right of Way Manager in the Engineering Department will be funded from Transportation Department.