



COUNCIL MINUTES

March 6, 2025

The City Council of the City of Mesa met in the Study Session room at City Hall, 20 East Main Street, on March 6, 2025, 7:30 a.m.

COUNCIL PRESENT

Mark Freeman
Scott Somers
Rich Adams
Jennifer Duff
Alicia Goforth
Francisco Heredia
Julie Spilsbury

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Holly Moseley
Jim Smith

Mayor Freeman conducted a roll call.

1-a. Hear a presentation, discuss, and provide direction on the proposed development with Culdesac for the 25-acres of City-owned land at the southwest corner of University Drive and Mesa Drive.

Downtown Transformation Manager Jeff McVay introduced Economic Development Project Manager Jimmy Cerracchio; Ryan Johnson, Chief Executive Officer (CEO) and Co-Founder of Culdesac, and displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Cerracchio discussed the background information, goals for the development of Site 17, and the selected developer, Culdesac. (See Page 2 of Attachment 1)

City Manager Christopher Brady provided an overview of the history of Site 17, which consists of 25 acres. He commented that there have been multiple opportunities and selection processes to bring in developers over the past 30 years. He emphasized the sensitivity to the type of development and the impact.

Mr. Johnson shared his vision for Culdesac Mesa, which can bring energy and people to Downtown Mesa. He mentioned that Culdesac has a completed product in Tempe, two for-sale townhome projects under construction in Atlanta, and the proposed project in Mesa. (See Pages 3 through 7 of Attachment 1)

Mr. Johnson explained the concept of Culdesac in Tempe as a vibrant place with great amenities that residents and neighbors love and will provide a similar level of energy to Mesa. He described the advantages, layout, and design that will enhance the experience of residents and neighbors. He noted that there are 288 units with a high renewal rate. He discussed the unique retail

destination with over 20 local businesses, as well as the strong relationships and collaboration. He stressed their assistance to the City in obtaining a federal grant for the street improvements on the Smith Road Improvement project. (See Pages 8 through 14 of Attachment 1)

Mr. Johnson described the proposal for Culdesac Mesa and the future of Mesa. He indicated that Site 17's location in Downtown Mesa near Arizona State University (ASU), along with new developments and great shops will help to improve the area and accelerate its growth. He provided the many benefits that Culdesac will offer, including homeownership opportunities, quality urban design, a sustainable lifestyle, and a vibrant retail space. (See Pages 15 through 24 of Attachment 1)

Mr. Johnson shared a conceptual site plan outlining their commitment and described the three phases for the development. (See Pages 25 through 27 Attachment 1)

Mr. McVay explained the business terms and structure of the purchase and sale agreements. He noted that each phase will require a development agreement (DA) that is approved and executed on the site. (See Pages 28 and 29 of Attachment 1)

In response to a question from Councilmember Duff, Mr. McVay clarified that the purchase price of \$2.74 million is an estimate based on the square footage of the land as of today and may change as the City refines the actual boundaries of each phase; however, is reflective of Culdesac's appraised value of \$11.65 dollars per square foot.

Mr. McVay outlined the options for Phases 2 and 3, as well as prerequisites to exercise an option for a future phase. He indicated that if Culdesac is able to provide evidence of financial capacity, the City will allow them to deliver Phases 2 and 3 simultaneously. He explained how the future purchase price and appraisal of Phases 2 and 3 will be determined. (See Page 30 of Attachment 1)

Mr. Cerracchio provided an overview of the DA and the developer's obligations. He stated that open and green spaces will be public and private, and that the amount of square footage has not been finalized. He discussed the developer's obligations for Phase 1, which will include contingencies in the event there are any unforeseen delays to ensure the development continues to progress. (See Pages 31 through 33 of Attachment 1)

Mr. McVay reviewed the City's obligations and advised that the City owns the land for Site 17. He reported that some of the existing street systems do not align with Culdesac's vision and concept, and the City has agreed to assist in abandoning portions of the right-of-way, and in some instances, the entire right-of-way. He commented that the City's intention for the reinvestment would be for enhanced public improvements. (See Page 34 of Attachment 1)

Mr. McVay summarized the City's obligations to support Culdesac for a timely and seamless process. He noted there will mostly likely be no offsets for impact fees as the City's last impact fees for public safety will be expiring in 2026 before Culdesac has an opportunity to obtain a permit. He emphasized that the City's position is that any such incentive would be tied to Culdesac providing the unique retail that exists in their Tempe location. He stressed that the reimbursement of the construction sales tax is helping to support the achievement of the unique retail and the project anticipated by the City. (See Page 35 of Attachment 1)

Discussion ensued relative to rebates, reimbursement structure for construction sales tax, market rates, demand for walkable neighborhoods, development and purchase agreements for each

phase, support for Culdesac's mission and visions, parking, public outreach and input, and quality developments.

Mayor Freeman advised that the direction of Council is to move forward with Culdesac's proposed development for Site 17.

Mr. McVay discussed the time frame to finalize the purchase and DAs and the next steps. (See Pages 36 and 37 of Attachment 1)

Mayor Freeman thanked staff for the presentation.

1-b. Hear a presentation and discuss the FY 2025/26 General Governmental and Utility funds principles, priorities, and forecast.

Management & Budget Director Brian Ritschel introduced Management & Budget Deputy Director Chris Olvey and displayed a PowerPoint presentation. **(See Attachment 2)**

Mr. Ritschel discussed the categories factored into the homeowner comparison, which is taken into consideration in the forecast, budget, and utility rates. He presented a chart focusing on fiscal year (FY) 24/25 and provided an overview of the annual costs for cities in the state, with Mesa being the third most affordable city. (See Pages 2 and 3 of Attachment 2)

Mr. Brady explained how the calculations are determined for the annual costs used in the homeowner comparison. He stated the services and benefits Mesa residents receive compared to other cities.

Mr. Ritschel added that the City of Mesa does not have a food tax, while other municipalities do, which is taken into account in the City's calculations as well. He advised that information on Valley homeowner comparison costs across other Valley cities is available online at <https://www.mesaaz.gov/Government/Management-Budget/Valley-Cities-Affordability-and-Homeowners-Comparisons>.

Mr. Olvey provided an overview of what is included in the financial forecasting process, and discussed how the revenue forecast is generated. He reviewed the categories analyzed to forecast expenditures and expenses, including collaborating with various departments to forecast appropriately. He commented that the Capital Improvement Process (CIP) is concurrent with the budget process. (See Pages 4 through 6 of Attachment 2)

Mr. Ritschel highlighted the five financial principles that pertain to General Governmental Funds used to determine the forecast. (See Pages 7 and 8 of Attachment 2)

Mr. Ritschel discussed the current outlook for revenue pressures that influence the forecast and reported that the loss of the residential sales tax, which is included in the General Governmental Funds, will result in a loss of over \$18 million. (See Page 9 of Attachment 2)

Assistant City Manager Scott Butler provided a summary of the public safety benchmark adjustments which are prioritized to ensure that public safety personnel in police and fire are adequately and fairly compensated in comparison with the City's regional peers. He indicated as a result of the adjustments and ongoing costs, there will be a substantial financial impact to the City's budget. (See Page 10 of Attachment 2)

In response to multiple questions from Councilmember Goforth, Mr. Butler replied that the Memorandum of Understanding (MOU) requires that the City conduct benchmarking on salary every two years and will be effective on July 1, 2025. He commented that the COM is a large organization that experiences some complex assignments due to its size and scale compared to other communities and chooses to remain competitive in wages to keep on par with the market. He added that although Mesa is not at the top for salary, the City also offers a good overall benefits package.

Mr. Brady elaborated on the benchmark adjustments, salary increases, step pay increases, inflation costs, and the absorption of some of the costs by the Police Department (PD).

In response to a question from Mayor Freeman, Mr. Brady replied that the benchmark adjustments do not include the potential 5% step pay increase for sworn employees.

Mr. Brady explained that a benchmark adjustment for non-sworn personnel will be conducted as well, and discussed the step pay increases under consideration.

In response to a question from Councilmember Goforth, Mr. Butler answered that the peer cities for benchmarking are established by Human Resources (HR) and is kept consistently through both sworn and civilian rank. He added that the peer cities include Chandler, Glendale, Phoenix, Scottsdale, and Tempe. He noted that although Tucson is similar in size, it is not included in the benchmark due to market differences.

In response to a question from Mayor Freeman, Mr. Ritschel clarified that the benchmark adjustments include the 5% step pay for the upcoming fiscal year and approximately \$5 million on an ongoing basis for future fiscal years.

Mr. Ritschel stated that overtime for public safety has been under review for the last year and is the focus of the PD. (See Page 10 of Attachment 2)

Mr. Ritschel pointed out the other expense pressures, including increased costs for third party repairs in fleet maintenance and the transitioning of software from on-premises servers at the City to the Cloud. (See Page 11 of Attachment 2)

Mr. Ritschel provided a chart illustrating the revenue sources trends for the General Governmental Funds and reviewed various options. He explained that the reduced annual growth beginning in FY 23/24 is due to the revenue pressures and the slowing of the economy which will rise in FY 25/26 if the growth of the economy returns. He compared the trends of total sources to uses for the General Governmental Funds and stated that staff projects a modest growth in uses. (See Pages 12 and 13 of Attachment 2)

Mr. Ritschel stated that the City's financial policy for revenue reserve balance is to remain within 8% to 10% in a fiscal year. He discussed the projections and expense pressures that will potentially reduce the reserve balance to below 10%, as well as some strategies where revenues would exceed expenses and an estimated projection of a 15% reserve balance in FY 27/28. (See Page 14 of Attachment 2)

In response to a question posed by Councilmember Duff, Government Relations Director Miranda DeWitt advised that the State budget needs to be completed by June 30, 2025. She noted several State Bills that would have financial impact on the City are being monitored.

Mr. Olvey reviewed the five principles and operations for the Utility Fund and provided examples of significant capital projects that are under construction or that may begin soon. He noted that the Central Mesa Reuse Pipeline and the Advanced Metering Infrastructure (AMI) projects are scheduled to be completed in 2027, and the Signal Butte Water Treatment Plant Expansion will be completed in 2028. (See Pages 15 through 18 of Attachment 2)

Mr. Olvey discussed some of the significant expense line items in the Utility Fund and analyzed their three-year growth rate. He emphasized that Solid Waste is the biggest user of fleet maintenance and repair, and that within the General Governmental Funds police and fire account for approximately 90% of the fleet expenses. (See Page 19 of Attachment 2)

Mr. Brady clarified that fleet maintenance and repair costs are also related to public safety in the Governmental Funds for the cost of vehicles, maintenance, and repairs, including fire trucks which are a specific vehicle that has different parts and are expensive to repair.

Mr. Olvey identified the trends over a three-year period for the utility baseline operating expenses and noted that solid waste disposal includes trash, landfill charges, recycling and green waste disposals. He reported that the projections over the next few years are for expenses to increase due to inflationary pressures. (See Page 19 of Attachment 2)

Mr. Olvey highlighted the total operating expenses for each of the five major utilities from FY 20/21 to FY 24/25. He stated the projections for operating expenses are expected to increase due to cost pressures and affect all utilities. (See Page 20 of Attachment 2)

Mr. Olvey provided an overview of the total sources and uses for the Utility Fund from FY 19/20 to FY 29/30, which is structured similarly to the General Governmental Funds. He reported that current expenses exceed revenues; however, the projections for FY 29/30 indicate that revenues will increase slightly over expenses. (See Page 21 of Attachment 2)

In response to multiple questions from Vice Mayor Somers, Mr. Brady advised that the City's position is to remain conservative with the Utility Reserve Fund while maintaining affordable utility rates.

Mr. Ritschel discussed the budget process timeline. (See Page 22 of Attachment 2)

Deputy City Manager/Chief Financial Officer Michael Kennington advised that at the direction of City Management an email address and online form will be established to allow citizens to submit comments and concerns throughout the budget process.

Mayor Freeman thanked staff for the presentation.

(At 9:55 a.m., Mayor Freeman excused Councilmember Heredia from the remainder of the meeting.)

2. Acknowledge receipt of minutes of various boards and committees.

2-a. Transportation Advisory Board meeting held on November 19, 2024.

It was moved by Councilmember Spilsbury, seconded by Councilmember Duff, that receipt of the above-listed minutes be acknowledged.

Upon tabulation of votes, it showed:

AYES – Freeman–Somers–Adams–Duff–Goforth–Heredia–Spilsbury
NAYS – None

Carried unanimously.

3. Current events summary including meetings and conferences attended.

Mayor Freeman and Councilmembers highlighted the events, meetings, and conferences recently attended.

4. Scheduling of meetings.

City Manager Christopher Brady stated that the schedule of meetings is as follows:

Thursday, March 13, 2025, 7:30 a.m. – Study Session

Thursday, March 13, 2025, 7:30 a.m. – Mesa Housing Governing Board

5. Adjournment.

Without objection, the Study Session adjourned at 9:58 a.m.

MARK FREEMAN, MAYOR

ATTEST:

HOLLY MOSELEY, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 6th of March 2025. I further certify that the meeting was duly called and held and that a quorum was present.

HOLLY MOSELEY, CITY CLERK

lr
(Attachments – 2)

Culdesac - Purchase and Development Agreement Update

City Council Study Session

March 6, 2025

Jeff McVay

Manager of Urban Transformation

Jimmy Cerracchio

Downtown Transformation Project Manager



Background

- **October 2023: Culdresac selected through Request for Proposal process**
- **Goal: Develop a vibrant and active mixed-use neighborhood with public amenities that complements neighbors and supports downtown**
- **Appraisals: Culdresac and City have completed “as-is” land appraisals**
 - **Culdresac: \$11.65/SF**
 - **Approximately \$9.7M**
 - **City: \$13.44/SF**
 - **Approximately \$11.2M**





MESA CITY COUNCIL STUDY SESSION

March 6, 2025

ABOUT CULDESAC



Culdesac

We build cities for people that prioritize community,
mobility, and open space



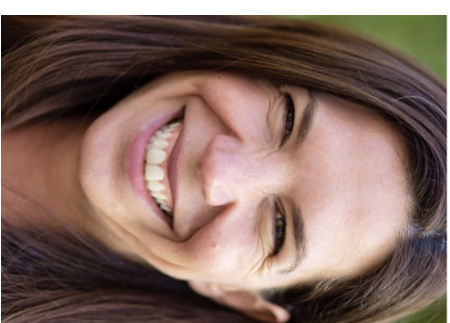
The Culdresac team is led by Arizona locals and industry veterans



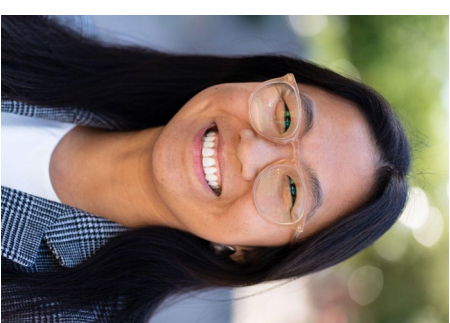
Ryan Johnson,
CEO & Co-founder



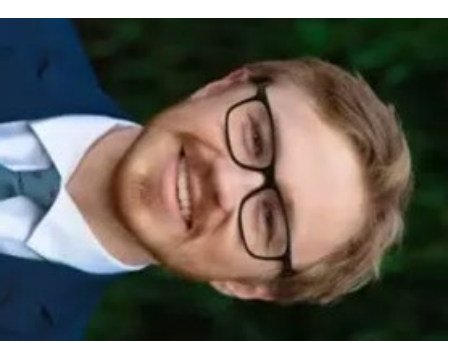
**Caroline Lerner
Perel,**
Chief Investment Officer



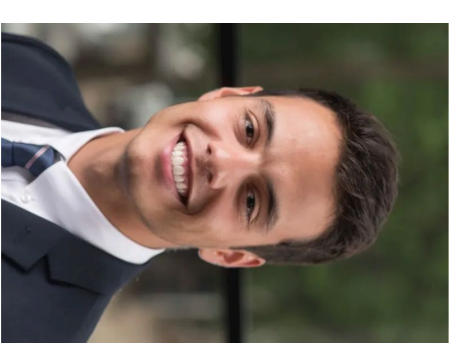
Erin Boyd,
Head of External
Partnerships



Sarah Zou,
Head of Development
and Acquisitions



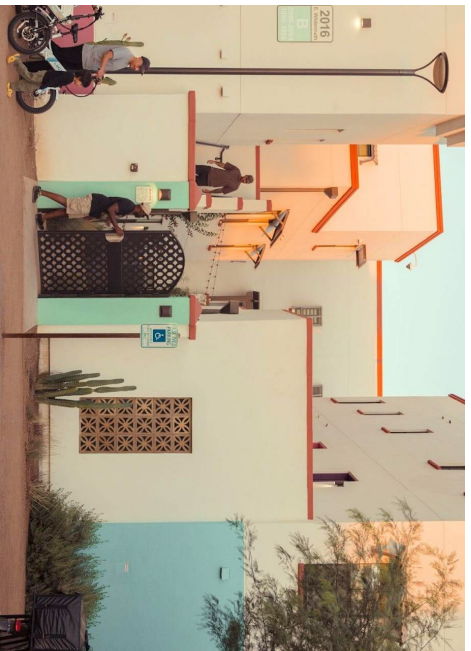
James Graef,
Chief of Staff/ Urban
Design



Zach Schultz,
Investments

Partner with cities to develop large and small scale projects that prioritize local community, mobility, and open space

Culdesac Tempe Tempe, Arizona



P1 & P2 stabilized, 760 units + comm¹

Market rate for rent apartments, retail, micro retail, night market, farmers market, highly amenitized, abundant open space, art program

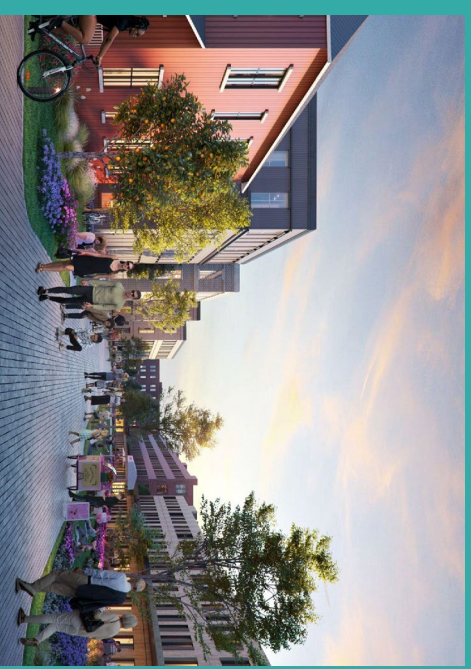
Pocket Neighborhoods Atlanta, Georgia



Under const., 41 for-sale units

Workforce for-sale townhomes, innovative, affordable, flex live/work units that can host light retail and other light business uses

Culdesac Mesa Mesa, Arizona



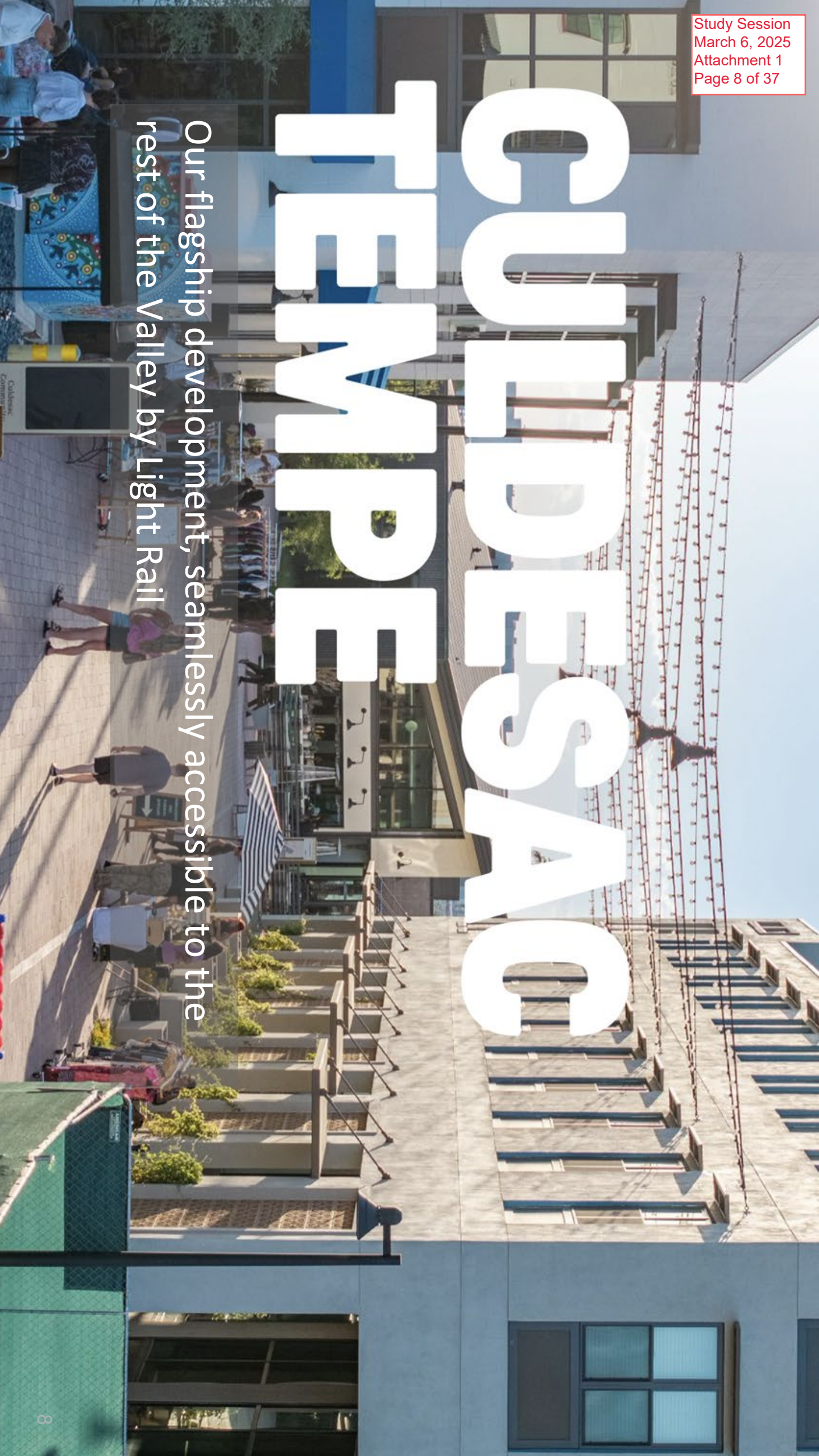
In design, 1000 units + comm

Market rate for-sale townhomes / condominiums, market rate for rent apartments in latter phases , retail, micro retail, and abundant open space

¹ at the completion of phase 5

CUNDEESAC TEMPLE

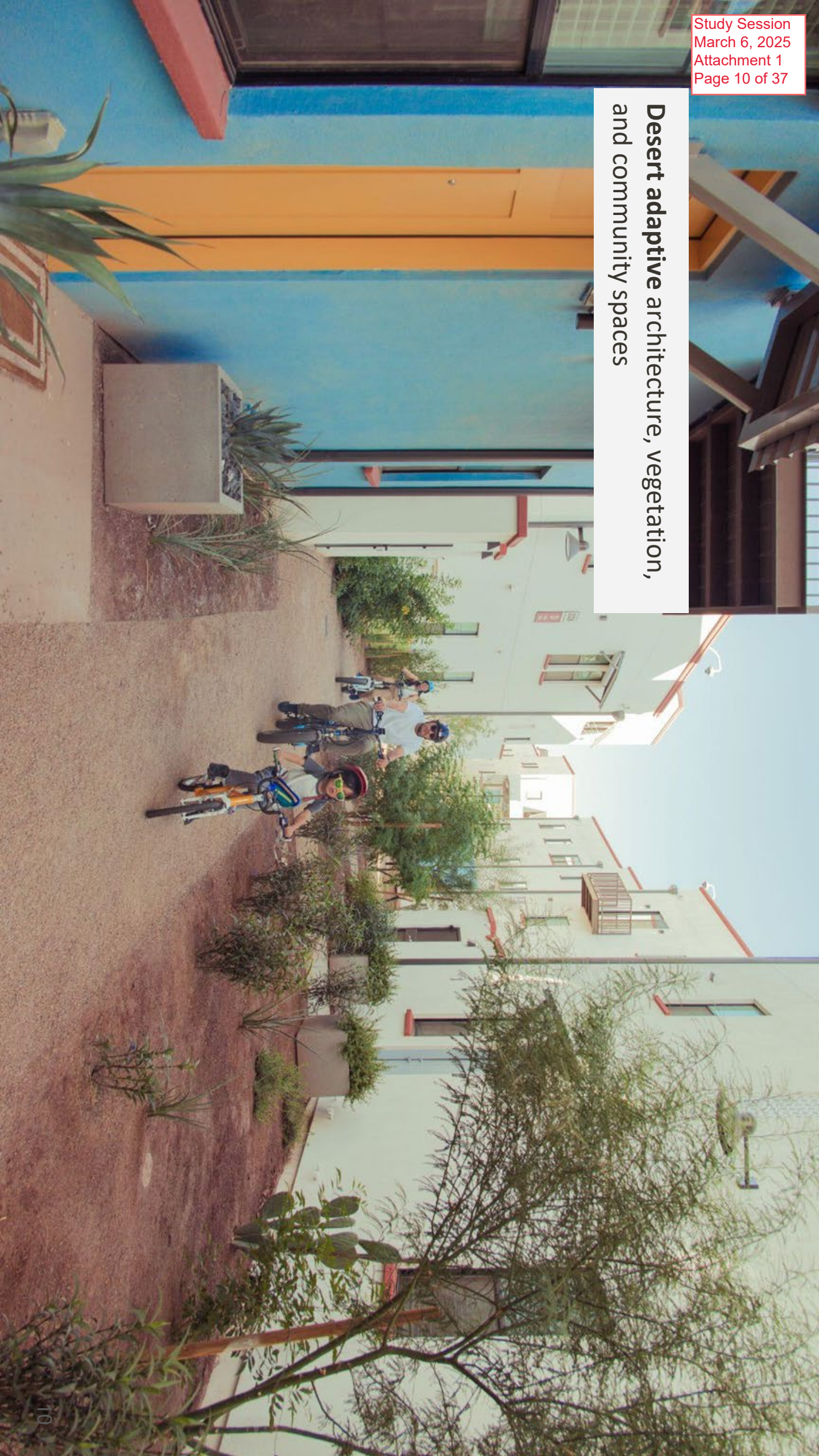
Our flagship development, seamlessly accessible to the rest of the Valley by Light Rail



Award-winning community-driven retail program



**Desert adaptive architecture, vegetation,
and community spaces**



**Vibrant energy through intentional
placemaking and on-site activation**



Modern interiors that facilitate comfortable living



#1 question asked on Culdadesac's social media:
"Are any units for sale?"

288

1-, 2-, and 3- bedroom units delivered

86%

Units leased, with 83% of units occupied

80%

Renewal rate in January

unique retail destination with over 20 local businesses

Cocina Chivas and
Aruma Cafe



Busan Mart



Archer's Bikes



Sew Used



James Beard award semi-
finalist

Korean market and prepared
dishes

Fully equipped on-site ebike
shop

Vintage clothing store

Program highlights

- Superior in-house retail leasing capabilities allowed Culdadesac to secure a phenomenal program
- Local, up-and-coming retail businesses, vendors, and partnerships
- Additional anchor retail: Pip Craft & Clay, Nomad Boba, Barber Shop

Strong public-private collaboration: key to Culdесac’s resident experience and community relationships

Collaborating on right-sized parking requirements



Culdесac Tempe Parking

First-ever agreement between a developer and a city for zero residential parking

Aligning with city economic development priorities



Uplifting Historic Business

Co-invested with City of Tempe in a turnkey 865 sq. ft. barbershop

Accelerating neighborhood improvements



Tempe Bike Infrastructure

Led the City of Tempe’s winning application from USDOT
Solicited 200+ community comments to accelerate the improvement of nearby bike lanes

CULDERSAC MESA PROPOSAL

✦ In Mesa, a new chapter
begins for Cuidesac ✦



Site 17: a key node of the Phoenix Metro along the light rail corridor



Developing Site 17 hand-in-hand with the city and the community

Key project details submitted to the city in RFP

- 1,000 residential units across the site
- 25 - 50K retail square footage¹
- 25 - 50K amenity square footage

¹All commercial/retail space will be employment space for businesses and retailers. Residential Units will also include live-work units that can be used for employment



Feedback since RFP

- A bold, energetic vision
- Quality homeownership opportunities
- Right-sized parking
- Small business / entrepreneur support

Painting the vision: **Site 17**

A key node of greater Phoenix and along the light rail corridor and steps away from Downtown Mesa, Site 17 has an opportunity to transform into a remarkable, car-lite hub with home ownership opportunities that pushes sustainability, grows talent, and sets the standard as a leading neighborhood development in Arizona.

Culdesac Mesa will offer quality, infill homeownership opportunities adjacent to Downtown on Site 17

Strong ties enabled by
homeownership



Example: Homeownership across price points in the first phase allows for new demographics to put down roots

Quality urban design, with
attention to detail



Example: Cohesive, human-scale design that evokes a sense of character and belonging

Sustainable lifestyle aided by
integrated features



Example: Pedestrian oriented, mixed-use development that promotes reductions in air and noise pollution

Vibrant retail that will add to
Downtown Mesa



Example: New townhome live / work unit layout allows space for services not already offered downtown

Homeownership opportunities that promote long-lasting community



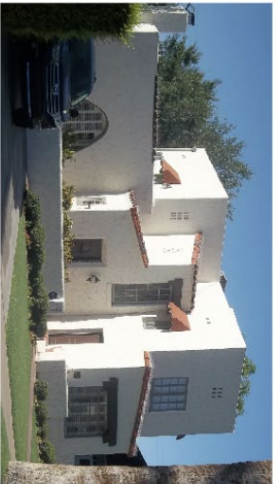
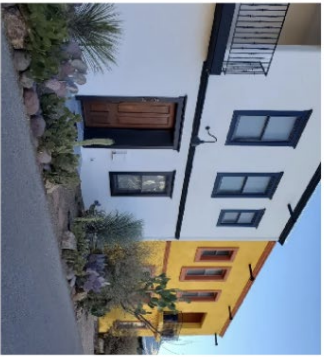
First Phase

Future Phases

- ▶ **For-sale 2- and 3-bedroom townhomes**
- ▶ **Fee simple sales**
- ▶ **Dedicated parking spots**
- ▶ **Live/work units** that foster a sense of community (e.g. wellness studio and boutique shops)
- ▶ **Additional unit types** (e.g. studio, 1-bed, 2-bed, and 3-bed)
- ▶ **Varying ownership structures** (e.g. for-sale townhomes / condominiums, for-rent apartments)



Quality urban design inspiration that draws from desert modern and historical Spanish influences



Above precedent developments are showcased as design inspiration only

Sustainable lifestyle for a more comfortable and healthy neighborhood

**Sustainable amenities available
for residents**



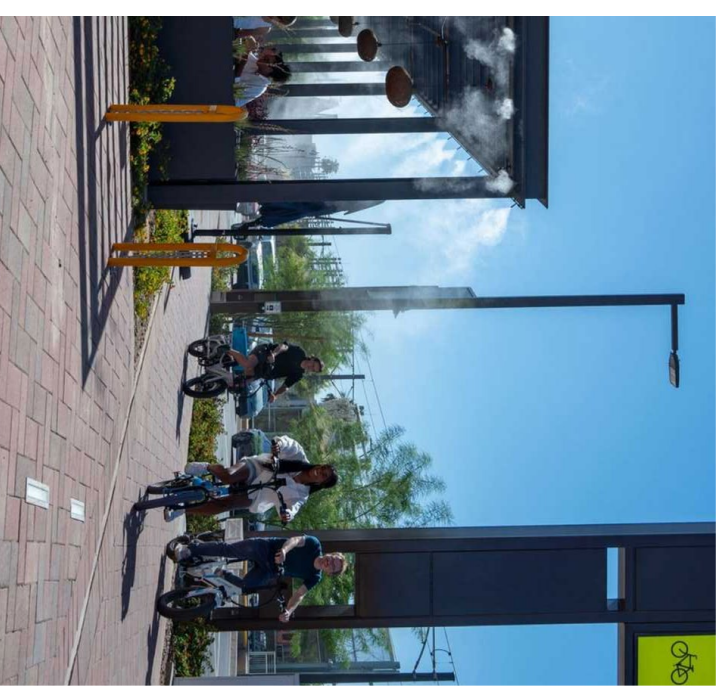
Example: Electric vehicle and solar
adaptable construction

**Desert adaptive design makes
indoor / outdoor living reality**



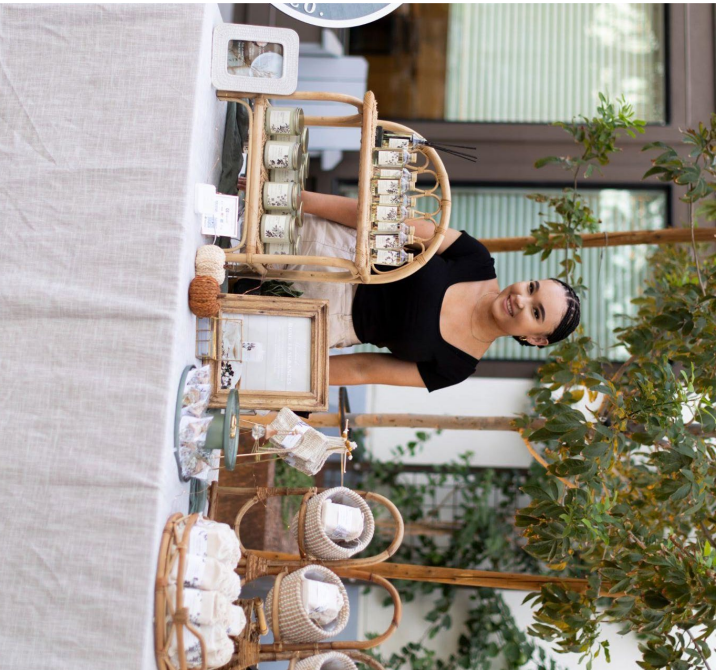
Example: Thoughtful design that
reduces heat island effect

**A better quality of life for
residents and neighbors**



Example: Pedestrian and bike lanes that
reduce air and noise pollution

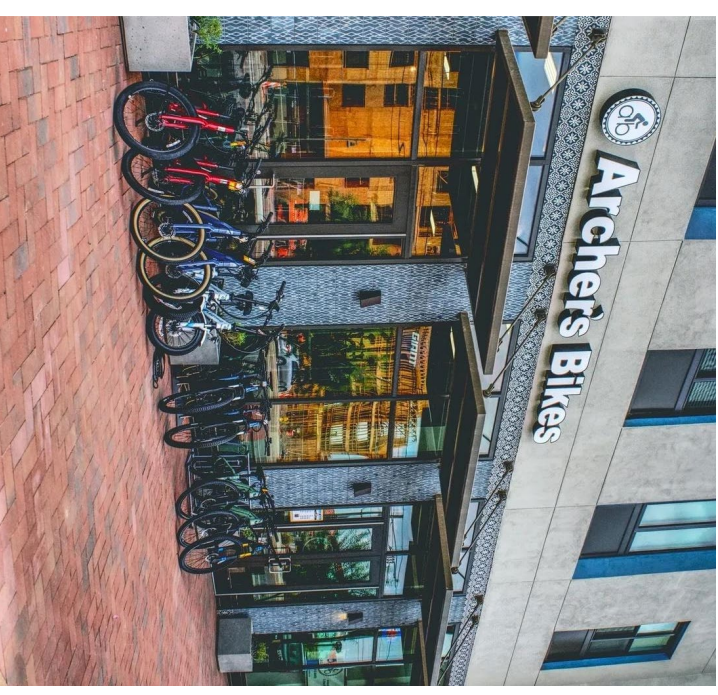
Vibrant retail in a range of commercial spaces from pop-up tables to live/work, micro-retail, and larger anchor stores



Pop-up spaces, tables, and booths at regular markets

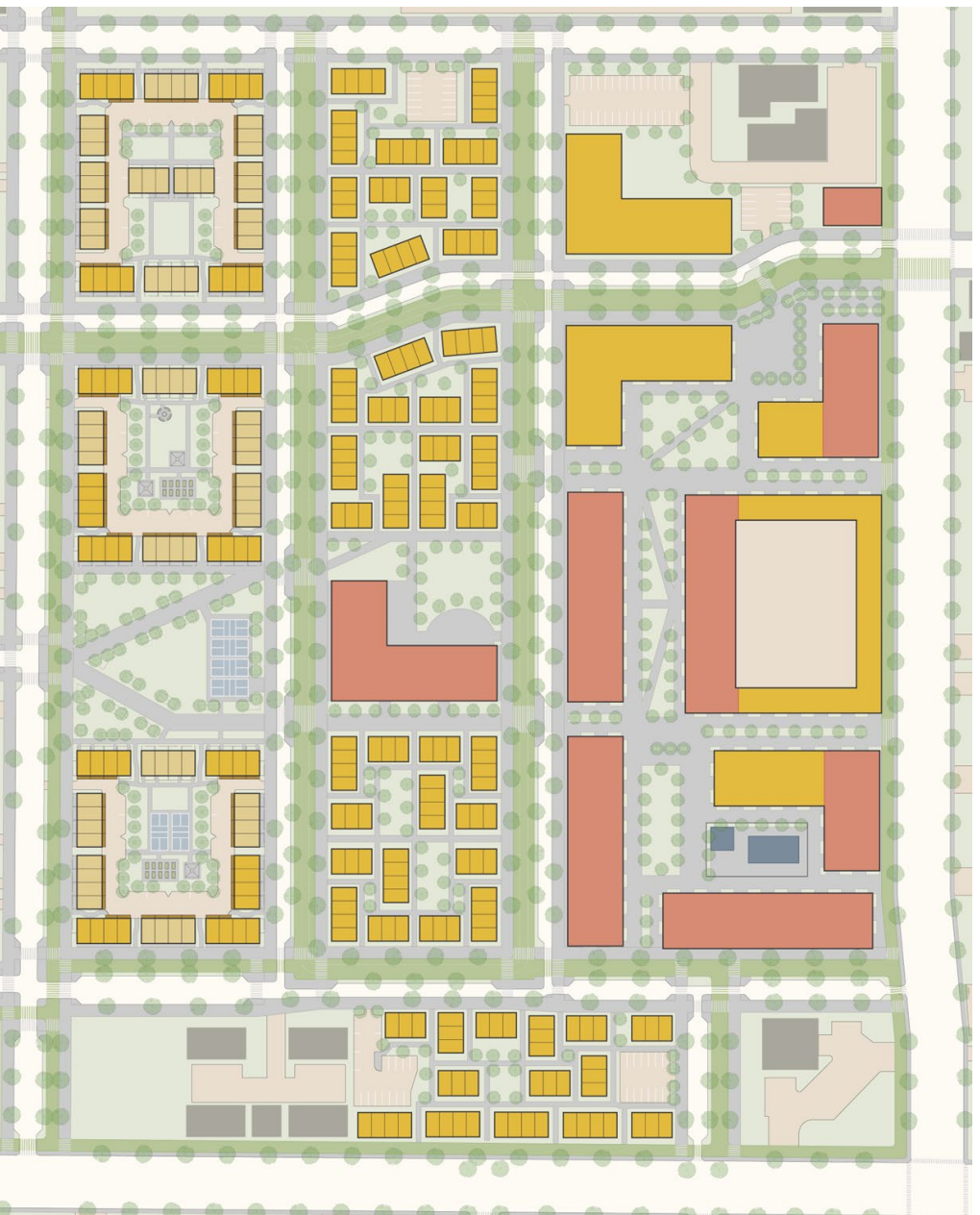


500 - 750 SF live/work space for emerging entrepreneurs



1300+ SF space for unique anchor tenants (i.e., dining, entertainment, shopping)

We remain committed to developing 1,000 residential units, a strong retail program, and vibrant open space



Site plan is conceptual and will change

~1000

Residential Units¹

800 - 1000

Parking Spaces²

25K-50K

Commercial/Retail SF¹

25K-50K

Residential amenity SF

Ground floor:

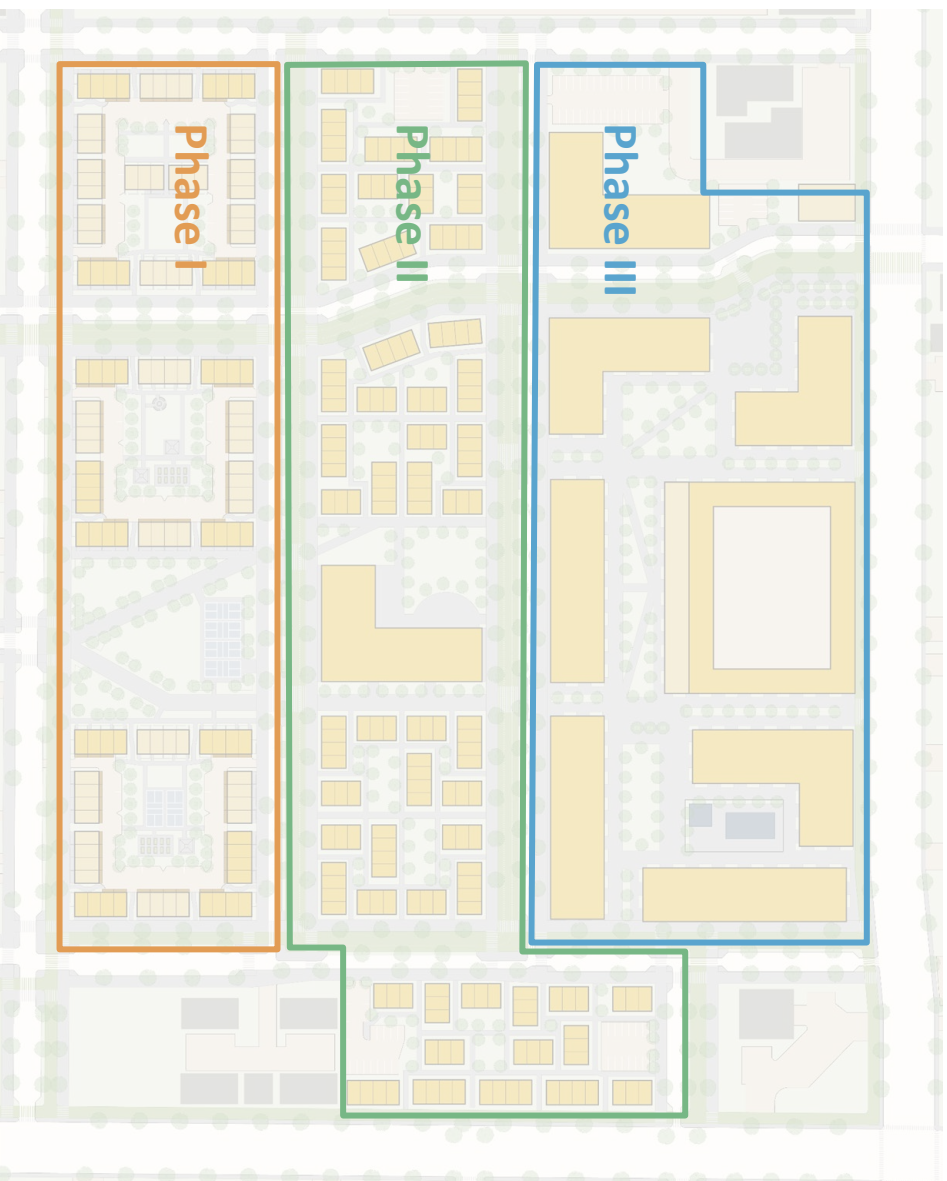
Residential

Retail and amenity space

¹ All commercial/retail space will be employment space for businesses and retailers. Residential Units will also include live-work units that can be used for employment

² Parking ratio in Phase 1 will be a 1:1, with varying ratios in future phases. Total parking spaces will include both on-street and off-street parking.

phases of land acquisition and development



Site plan is conceptual and will change

Phase I - Southern Edge:

- ▶ Immediate activation with cart/food truck program, pop-up plaza, and mobility hub
- ▶ Catalyze via lower density (10-20 du/a), for-sale townhomes, and live-work units, some of the highest-demand unit types at Culdesac Tempe

Phase II - Center:

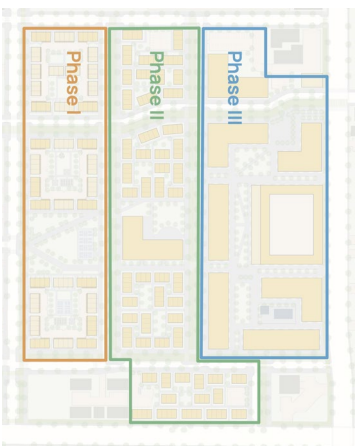
- ▶ Initial retail and amenities including grocery, coffee, and gym
- ▶ Build momentum via additional townhomes and missing middle, courtyard product (30-50 du/a)

Phase III - Northern Edge:

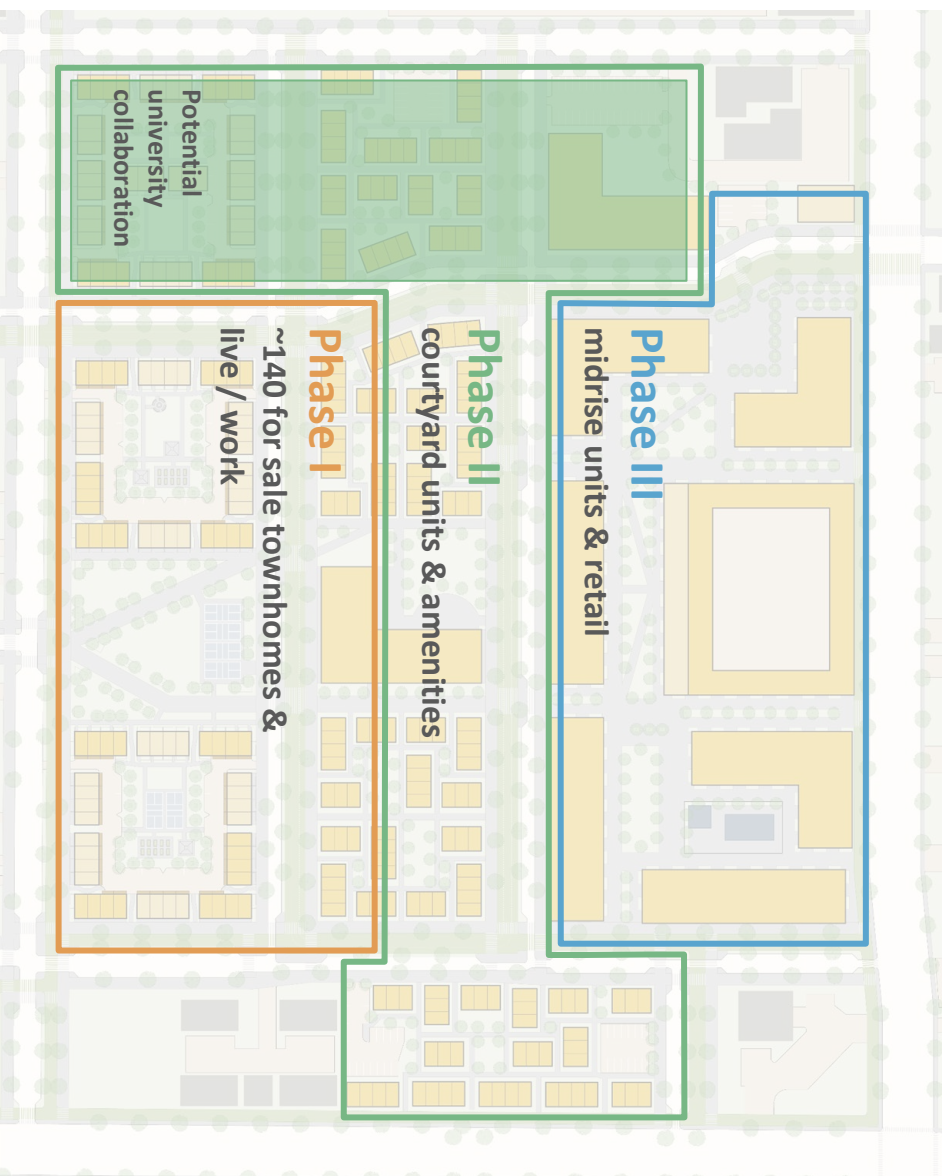
- ▶ Full commercial suite with restaurants, bike shop, and coworking
- ▶ Fulfill increased demand through midrises with ground floor retail and amenities (60-120 du/a)

We've morphed phases after hearing from stakeholders

Original concept >>>



Latest concept



Site plan is conceptual and will change

A tight-knit, energetic, dense site plan transitioning where possible to low-rise adjacent to neighborhoods

Altered P2 allows land for **potential student housing** nearest to Downtown

Expanded P1, with **more homes for sale** and **1 parking spot per unit**



Culdesac

culdesac.com

Purchase and Sale Agreement Deal Points

Structure of Sale

- **3 separate transactions**
 - **Phase 1**
 - Sale dependent on:
 - Executed Development Agreement recorded against Phase 1 property
 - Zoning entitlements and subdivision plat
 - Building permits for construction obtained
 - Evidence of financing for Phase 1 improvements
 - All easements executed and to be recorded at closing of Phase 1
 - Must close 24 months after execution of purchase agreement
 - Includes due diligence period and entitlements
 - Phase 1 construction must commence 12 months after closing date
 - Phase 1 purchase price \$2.74M (estimated based on approximately 5.5 acres)



Purchase and Sale Agreement Deal Points



Structure of Sale

• Option Properties

- **Phase 2 & 3 options**
 - Option term commences on previous phase closing
 - \$100,000 option payment to seller at closing of previous phase
 - Options expires 36 months after closing of previous phase
 - Ability to extend 12 months at discretion of city manager
 - Pre-requisites to exercise options
 - Future phases purchase price determined using a CPI adjustment on current appraised value
 - Ability to purchase Phases 2 & 3 simultaneously with entitlements and evidence of sufficient financial capacity

DEVELOPMENT AGREEMENT

Development Agreement Deal Points

Developer Obligations

- **Minimum Improvements**
 - **1,000 Residential Units**
 - Minimum 140 for-sale townhomes
 - **2-5 Story Buildings**
 - **Minimum of 25k Commercial/ Retail Sq Ft**
 - **Minimum of 25k Residential Amenity Sq Ft**
 - **Open Space, Green Spaces**
 - **800 - 1,000 Parking Spaces**
- **On-site Public Improvements and Public Improvements including:**
 - **Open space**
 - **Streetscapes and mobility**
- **Re-platting of land**
- **Public access easements to open space**



Development Agreement Deal Points



- ## **Phase 1 - Developer Obligations**
- **140 for-sale townhome units**
 - **Minimum area of publicly accessible open space**
 - **Commence construction 12 months after close of sale**
 - **Complete construction 24 months from closing date**

Development Agreement Deal Points

City Obligations

- Consent to re-platting and entitlements
- Abandonment of portions of existing streets and full abandonment of Wilbur Road
- Re-investment of land sale proceeds in public improvements
 - Phase 1: Culdesac has requested 100% of land sale proceeds are available to reimburse for public improvements within Culdesac
 - Phase 2 and 3: Negotiating amount of land sale proceeds to fund on-site & off-site streetscape and mobility improvement versus reimbursement within Culdesac



Development Agreement Deal Points



City Obligations

- **Concierge services for zoning and permit entitlement reviews**
- **Provision of impact fee offsets for previous development on the project property**
- **Support or co-sponsor application(s) for state or federal grants that multi-mobility goals of project**
- **Reimbursement of non-dedicated portion of construction sales tax in negotiation**

Next Steps

- **Finalize Purchase and Development Agreements**
- **Return to City Council with final agreements in Spring 2025**
- **Enter into Purchase Agreement in Spring 2025**
- **Initiate final design and planning and zoning entitlements**



Discussion and Direction



Financial Forecast Overview

March 6, 2025

PRESENTED BY:

BRIAN A. RITSCHHEL, MANAGEMENT & BUDGET DIRECTOR

CHRIS OLVEY, MANAGEMENT & BUDGET DEPUTY DIRECTOR

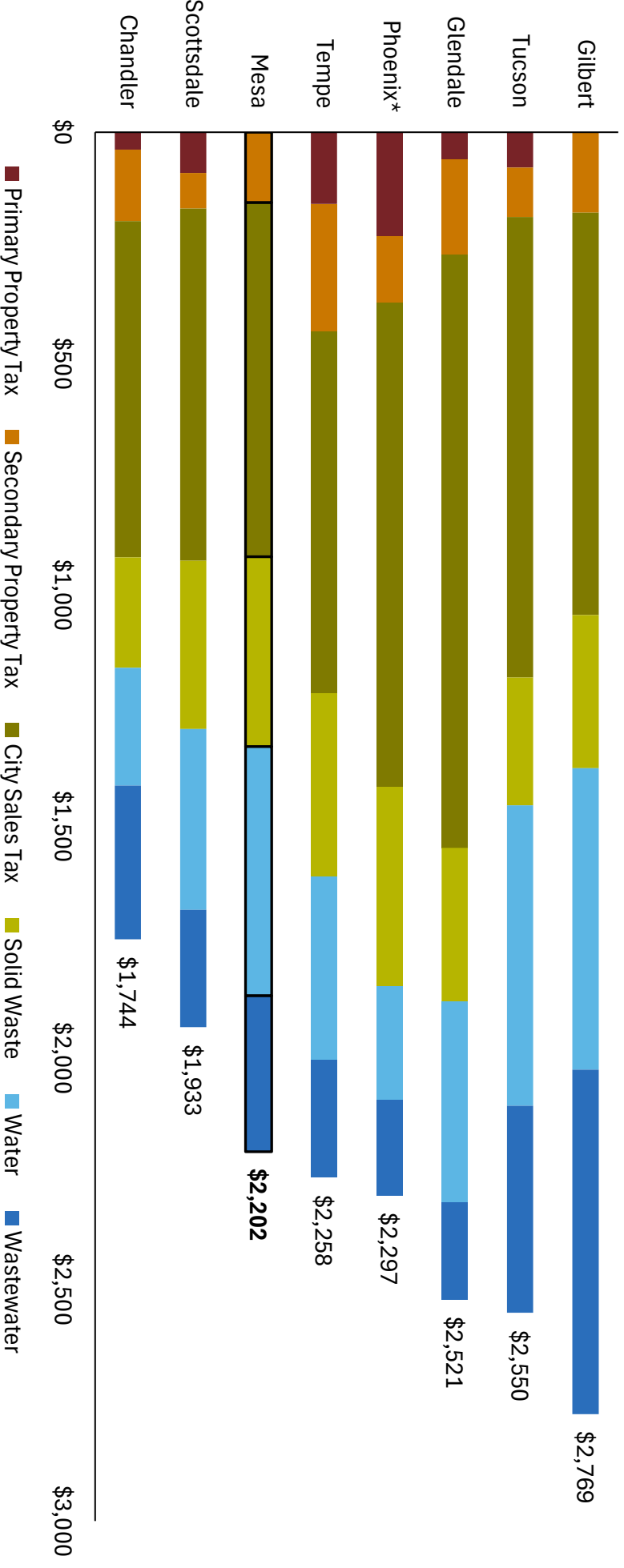
What's included in the Homeowner Comparison?

- **A tool to compare local revenues collected that support local government services provided to its residents.**
- The comparison includes the following categories
 - **Property Tax (Primary & Secondary):** based on Mesa's FY 24/25 Limited Property Value (LPV) and each city's FY 24/25 property tax rates
 - **City Sales Tax:** calculated by applying each city's sales tax rates to the Bureau of Labor Statistics' annual Consumer Expenditure Survey
 - **Solid Waste:** uses 90-gallon barrel rate for each city
 - **Water:** uses median monthly residential consumption with $\frac{3}{4}$ " meter
 - **Wastewater:** rate structure varies by city—using a flat monthly amount and/or based on winter water average

Homeowner Comparison

Fiscal Year 2024/25 Typical Homeowner's Annual Cost Comparison

Estimated as of July 2025



*Note: The City of Phoenix sales tax is calculated at the proposed 0.5% increase to a 2.8% sales tax rate effective July 1, 2025.

Financial Forecasting

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



Revenue Forecasting

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



Expenditure/Expense Forecasting

Expenditure/expense categories are analyzed and forecasted individually

Personal Services

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

Other Services/Commodities

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

Capital

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

General Governmental Funds

General Governmental Funds Financial Principles



Balance net sources and uses



10% – 15% reserve fund balance over the 5-
year forecasted period



Sustainability of programs and services



Keep wages and benefits competitive
compared to other valley cities in order to
retain and recruit quality staff



Investment in capital and lifecycle replacement
projects

Current Outlook

Revenue Pressures

- Loss of Residential Rental Sales Tax
- Implementation of State Income Flat Tax
- No growth in City and State Sales Tax collections

Current Outlook

Expense Pressures

- Compensation & Benefits
 - Public Safety Sworn Benchmark Adjustment:
 - \$23M per year ongoing impact
 - Up to 12% Salary increase
 - Non-sworn benchmark adjustment still in process
- Step Pay increases under consideration:
 - 5% for Public Safety Sworn Union employees
 - 3-4% for Civilian employees
- Public Safety Overtime

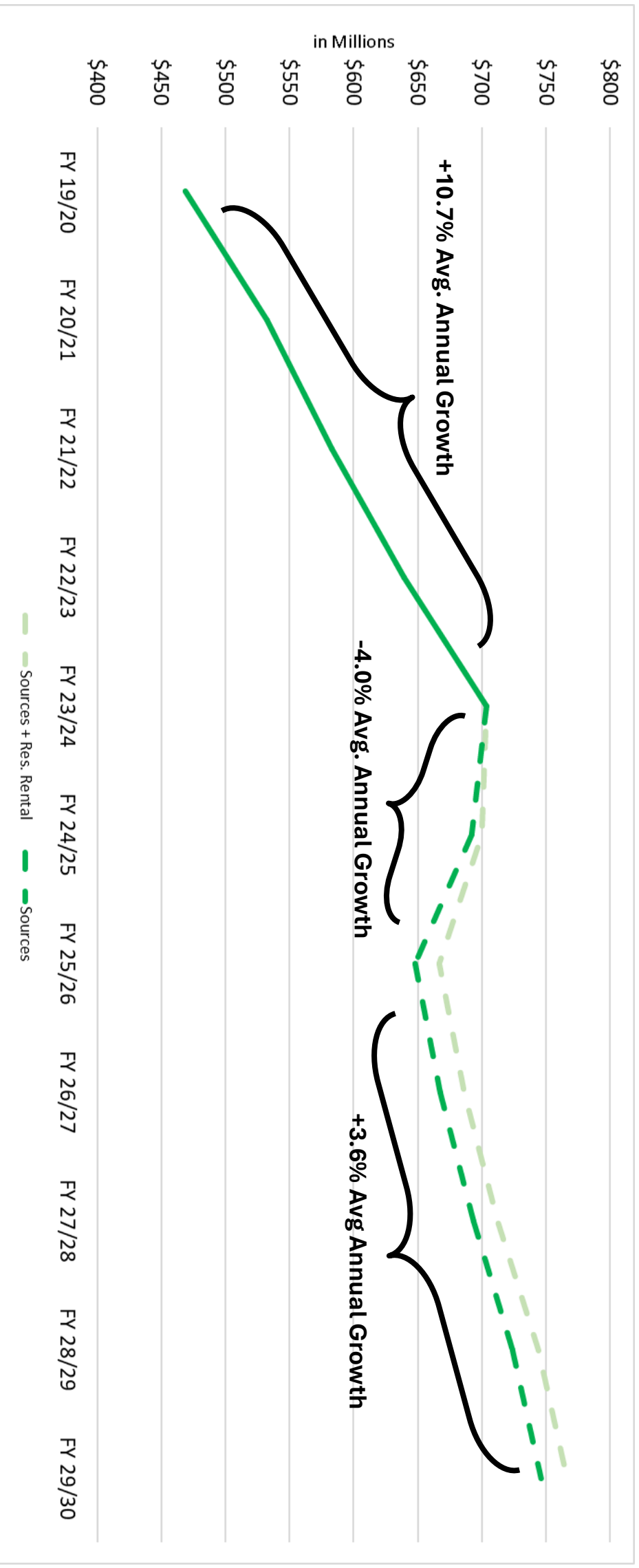
Current Outlook

Expense Pressures

- Contracted Labor & Services (landscaping, custodial, maintenance, etc.)
- Fleet Maintenance & Repair (3rd party labor cost, parts, and fuel)
- Software & Licensing
- Decisions on continuing ARPA Initiatives with ongoing General Fund support (downtown wi-fi, homeless support, behavioral health)

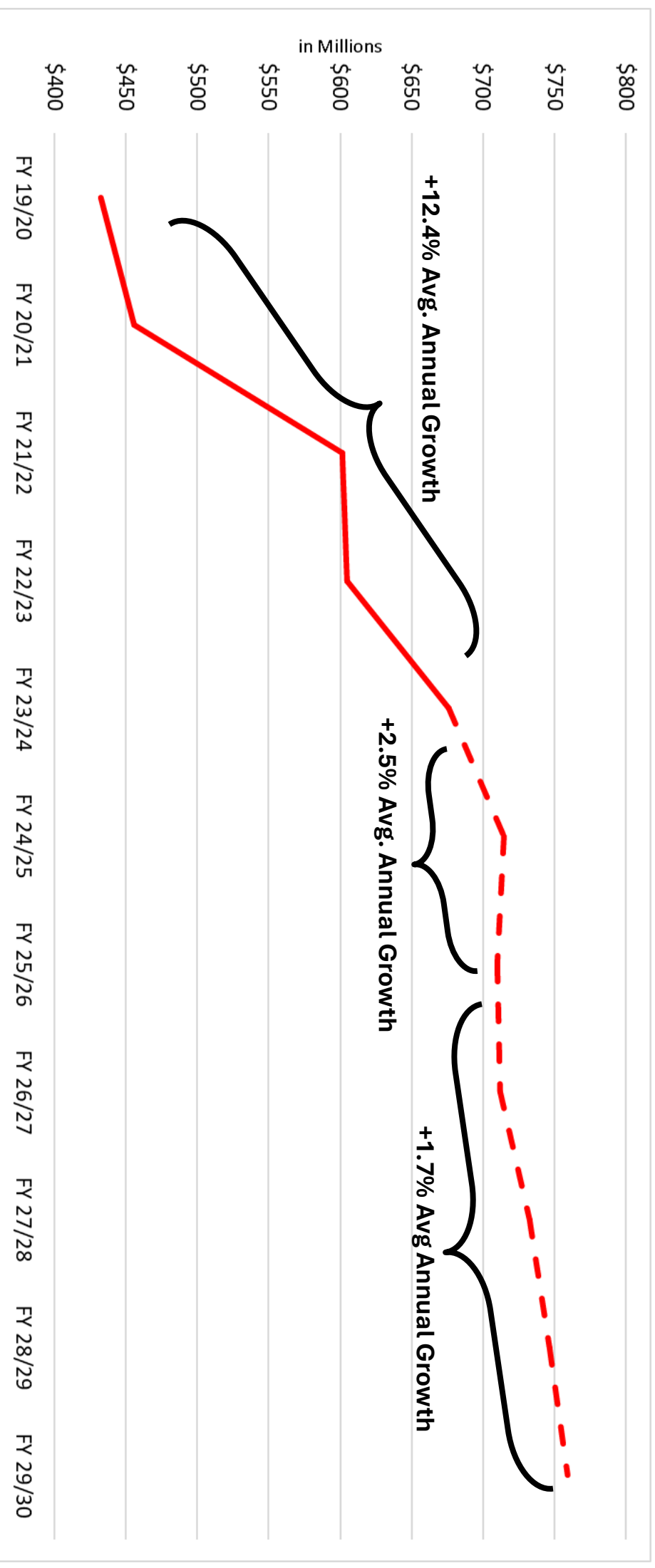
Total Sources Trends

General Governmental Funds (with and without Residential Rental Sales Tax)



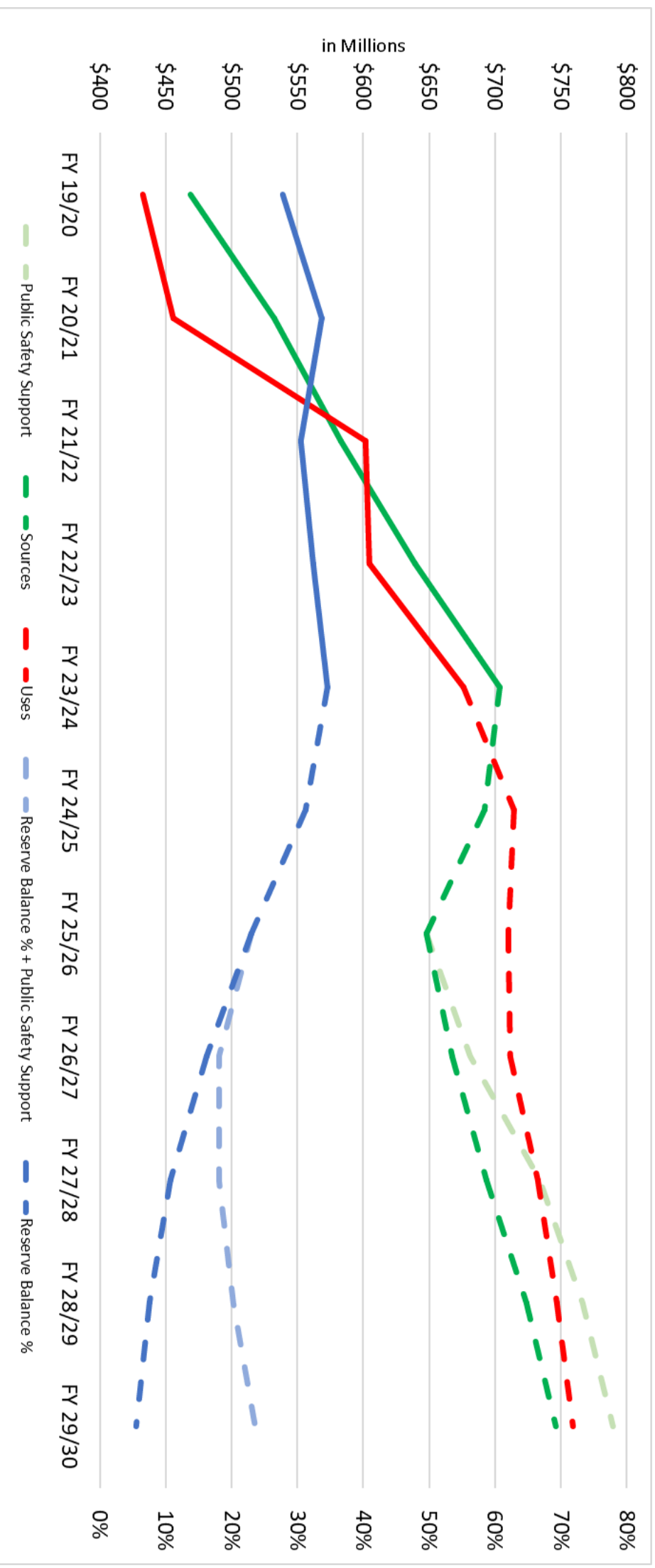
Total Uses Trends

General Governmental Funds



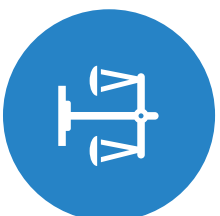
Total Sources & Uses

General Governmental Funds (including Public Safety Support consideration)



Utility Fund

Utility Fund Financial Principles



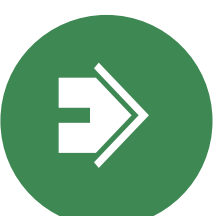
BALANCE NET
SOURCES AND
USES



20% OR HIGHER
RESERVE FUND
BALANCE



RATE ADJUSTMENTS
THAT ARE
PREDICTABLE AND
SMOOTHED
THROUGHOUT THE
FORECAST



EQUITY BETWEEN
RESIDENTIAL AND NON-
RESIDENTIAL RATES



AFFORDABLE
UTILITY SERVICES

Utility Operations

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



Priority Utility Capital Projects

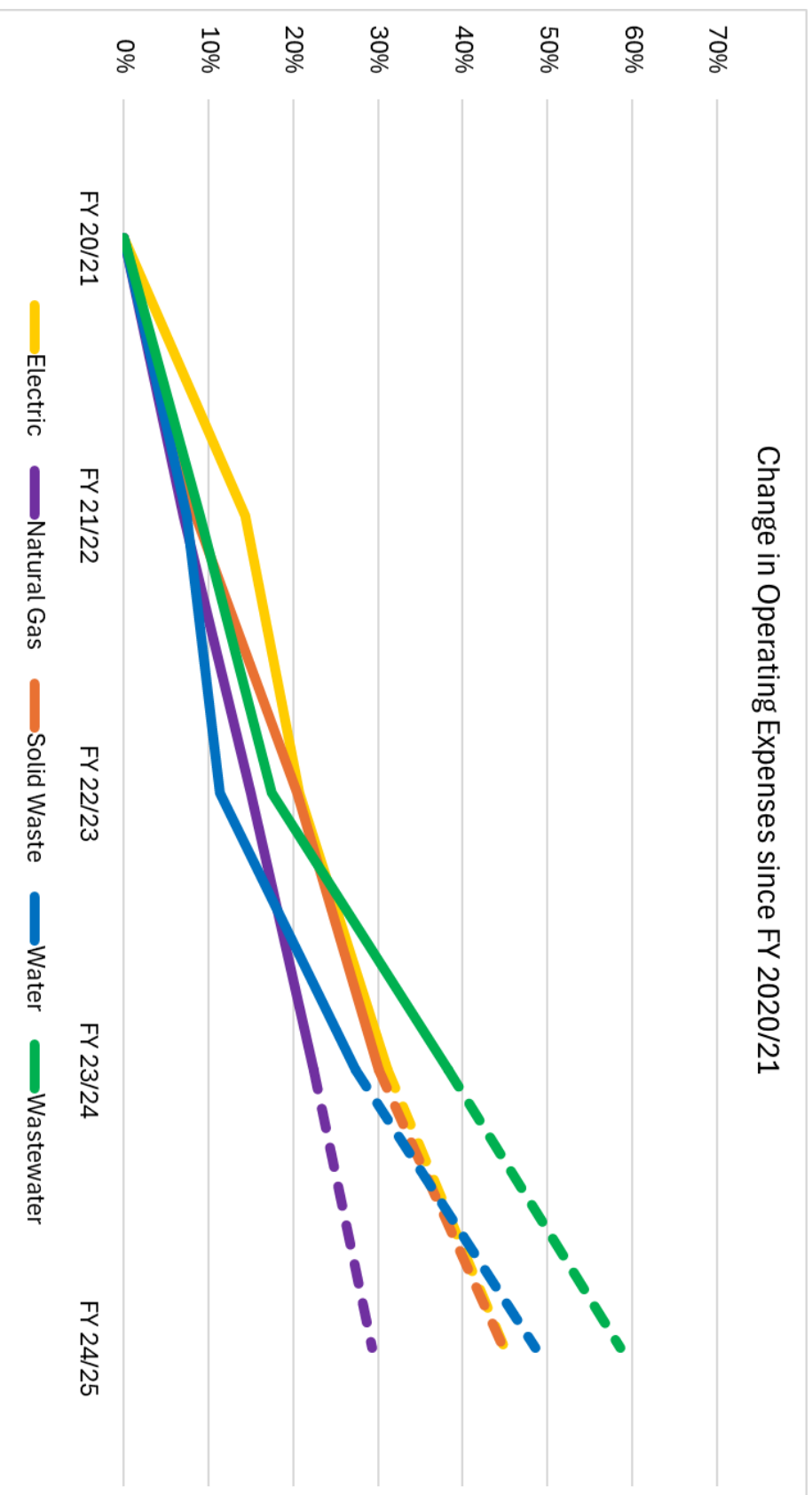
- Significant Capital Projects:
 - Central Mesa Reuse Pipeline
 - Signal Butte Water Treatment Plant Expansion
 - Advanced Metering Infrastructure
 - Gantzel Road Pipe Expansion
 - Broadway Road Improvements w/ Transportation



Inflationary Pressures – Baseline Operating Expenses

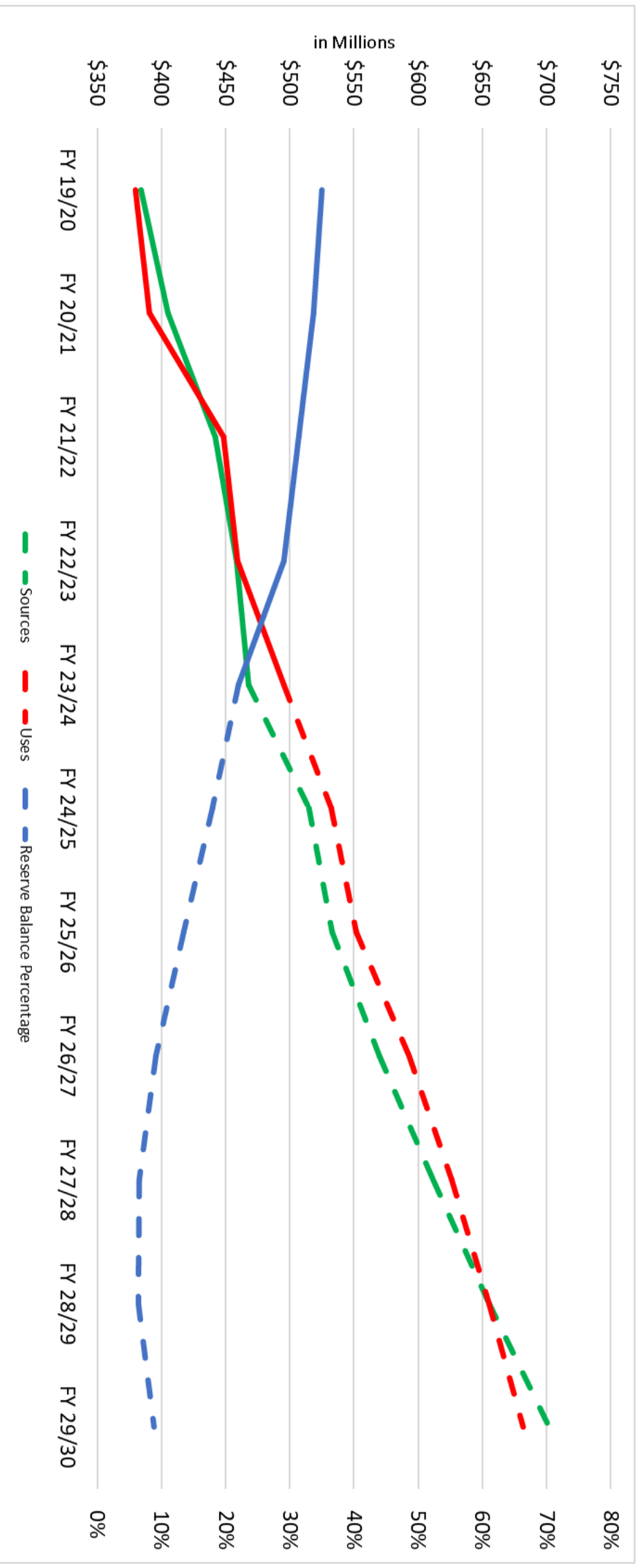
	FY 20/21	FY 23/24	3-Year Increase
Fleet Maintenance & Repair	\$10.2M	\$16.4M	+61%
Solid Waste Disposal	\$8.4M	\$9.3M	+11%
Water Commodity	\$10.2M	\$16.8M	+65%
WTR/WW Plant Chemicals	\$3.1M	\$4.7M	+52%
Val Vista Water Treatment Plant	\$8.7M	\$10.4M	+20%
91 st Ave. Water Reclamation Plant	\$3.7M	\$8.6M	+132%

Inflationary Pressures – Total Operating Expenses



Total Sources & Uses

Utility Fund



Budget Process Calendar

April 3 Review FY 2025/26 Proposed Budget

April 3 – April 24 Department Budget Presentations to City Council
Review of Utility Projects Plan (CIP)

May 1 Review FY 2025/26 Tentative Budget
Review of Non-Utility Projects Plan (CIP)

*** May 7** City Budget & Finance Community Meeting – Red Mountain
Recreation Center

*** May 14** City Budget & Finance Community Meeting – The Post

May 19 Adoption of FY 2025/26 Tentative Budget

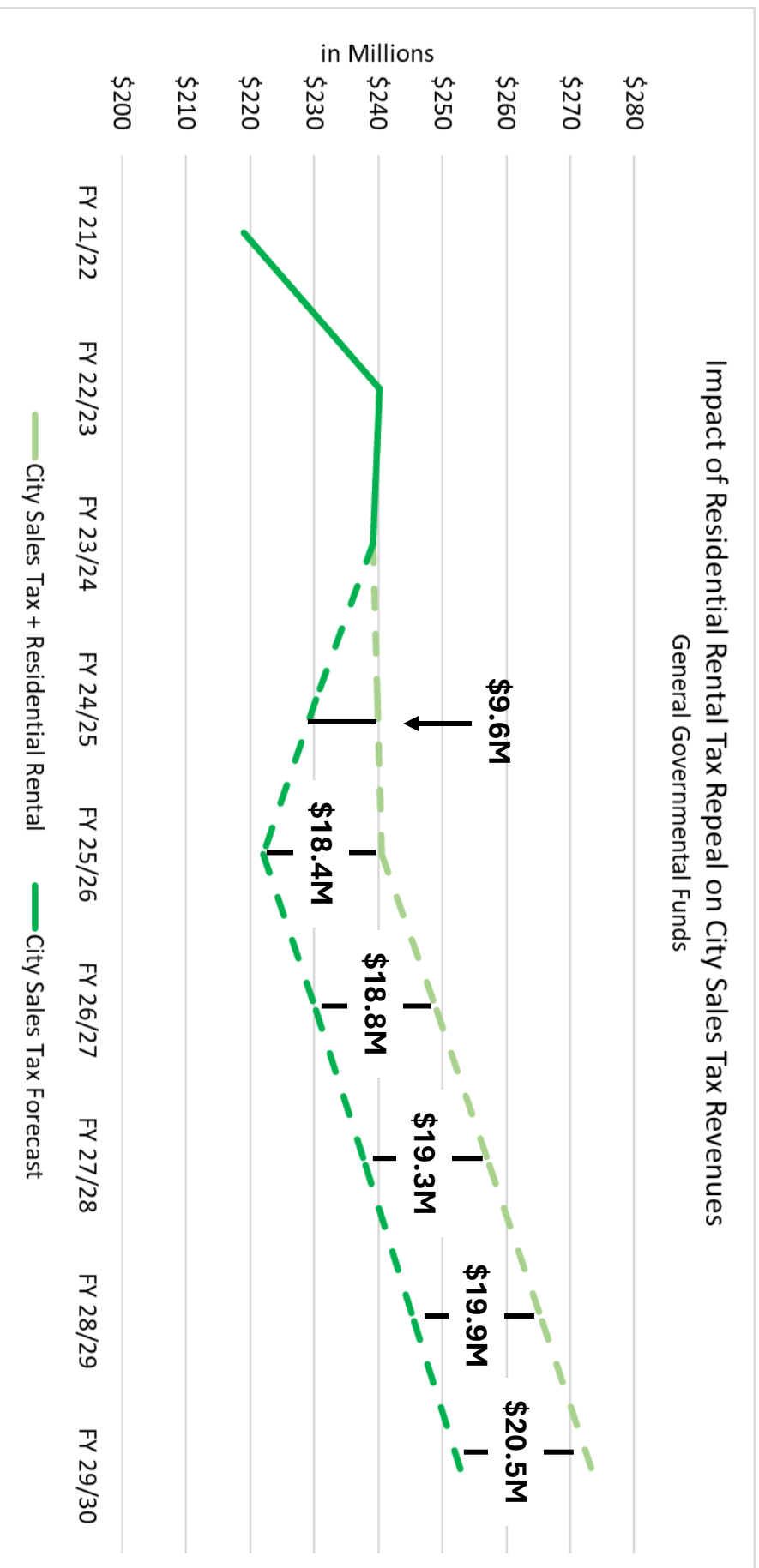
June 2 Public Hearing and Adoption of Capital Improvement Program
Final Adoption of FY 2025/26 Budget
Public Hearing on Secondary Property Tax

June 16 Adoption of Secondary Property Tax Levy

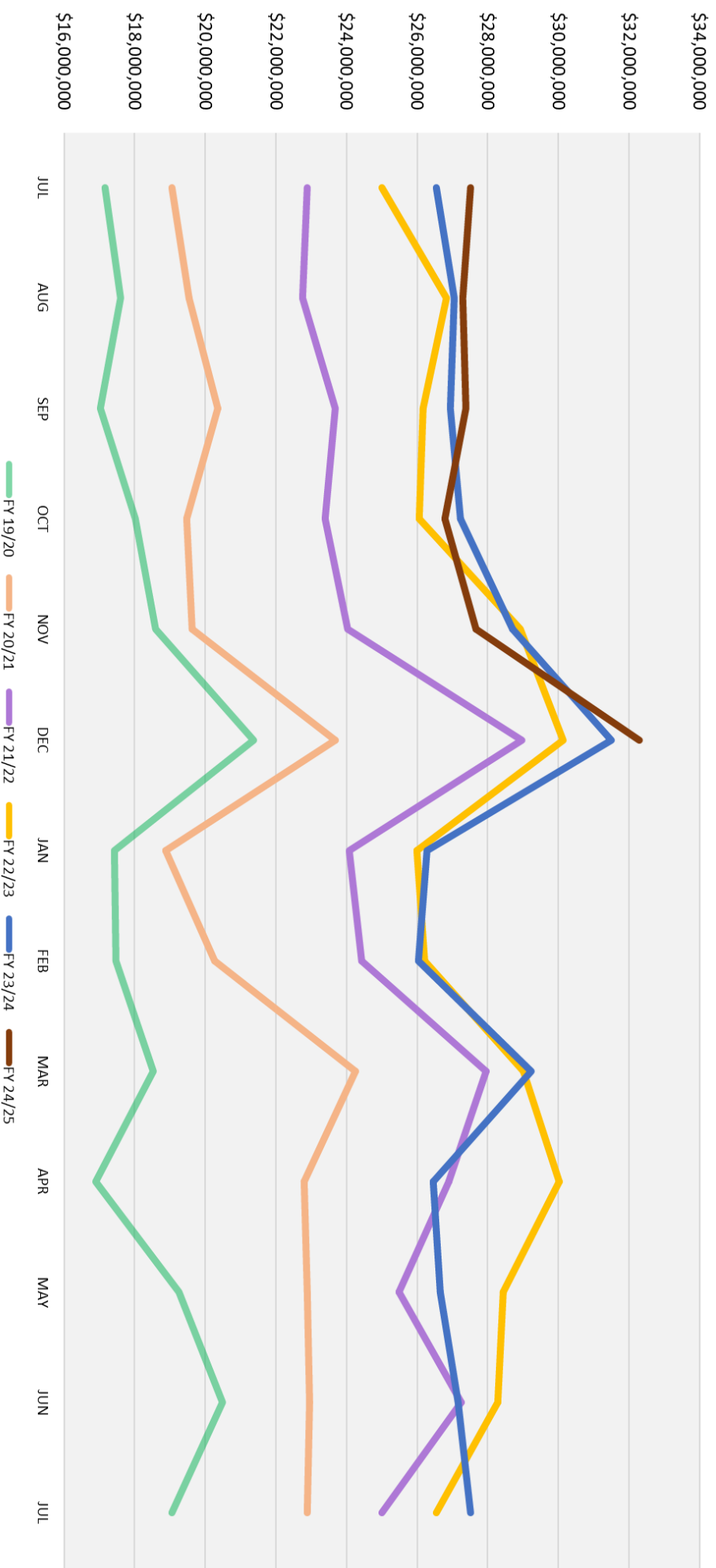
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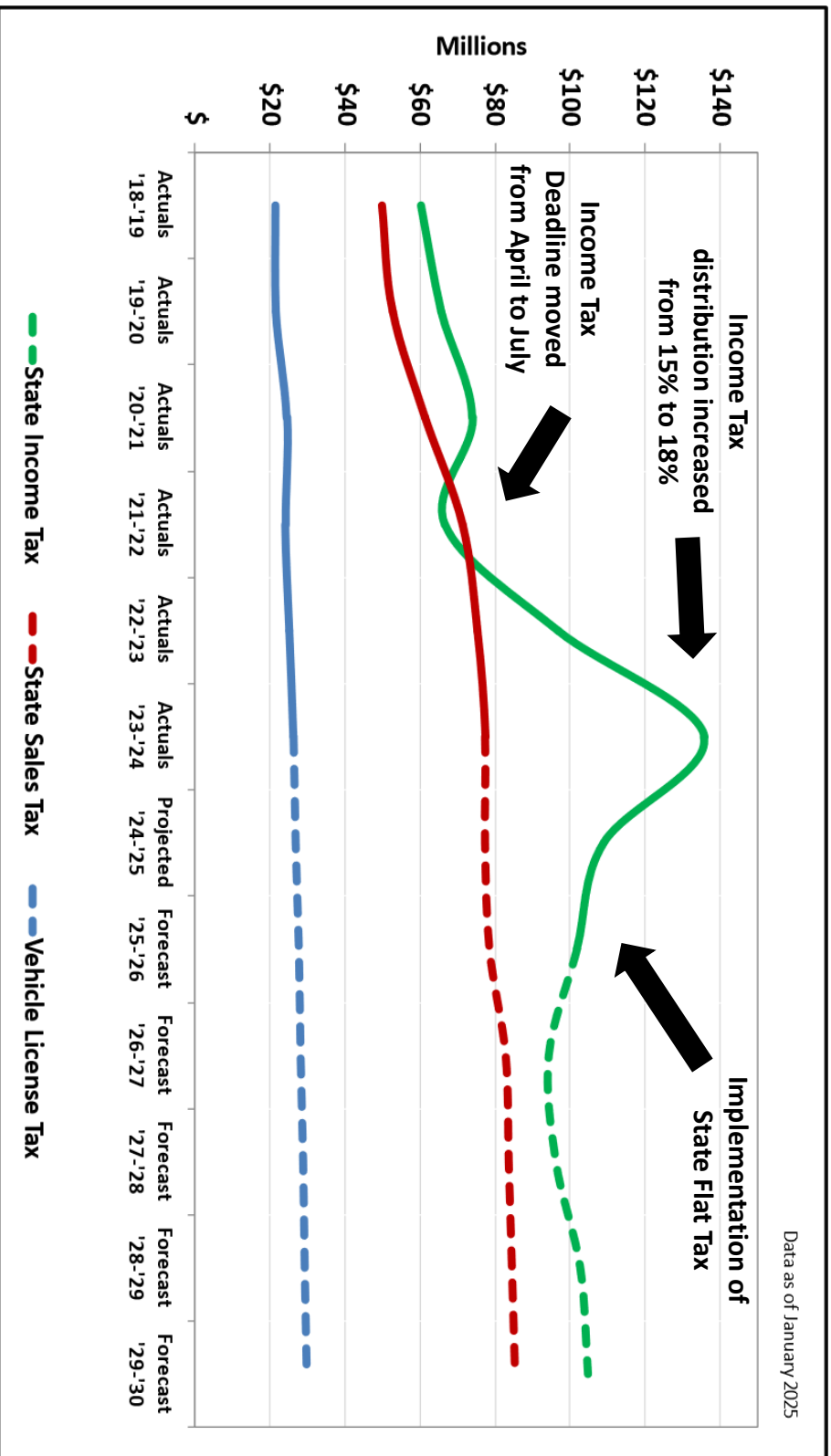
City Sales Tax Forecast



City Sales Tax Revenues



State Shared Revenues

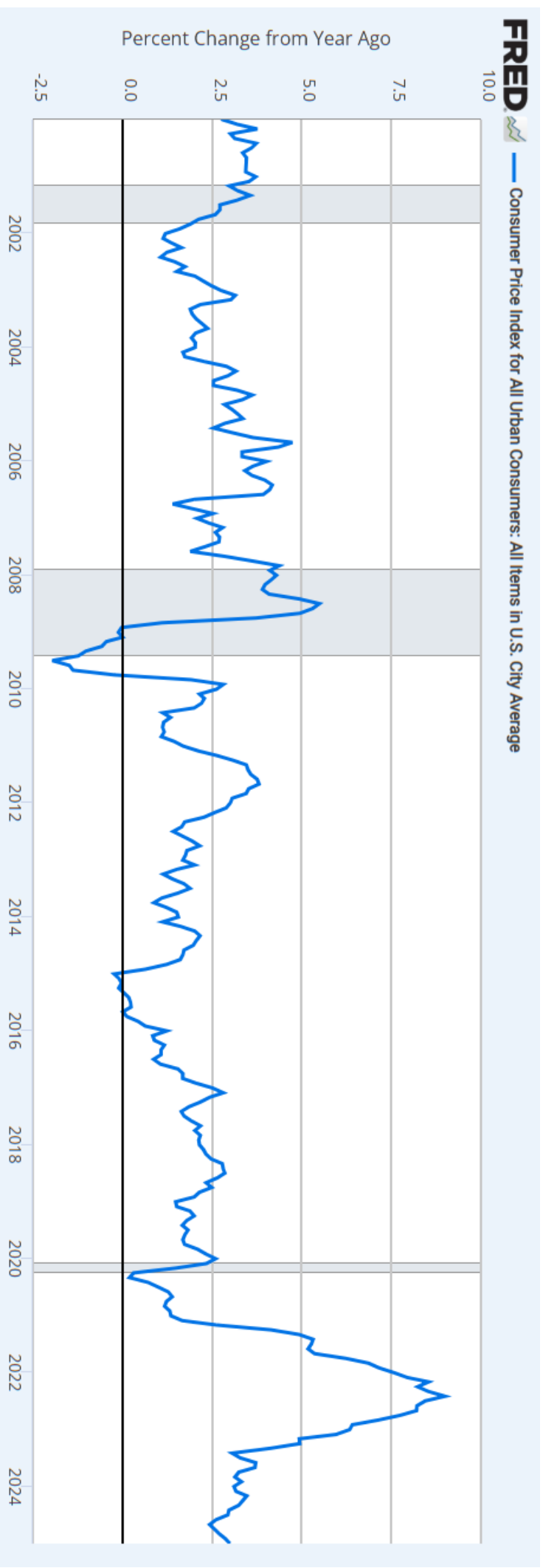


Increased Cost Pressures

General Governmental Funds	FY 20/21	FY 23/24	3-Year Increase
Fleet Maintenance & Repair (90% of costs PD/Fire)	\$9.6M	\$14.1M	+47%
Police & Fire Dept Software & Licensing	\$3.1M	\$6.2M	+100%
Building Maintenance & Custodial Services	\$6.1M	\$9.8M	+61%
Landscaping Services	\$2.9M	\$4.3M	+48%
Citywide that Impacts General Gov't Funds	FY 20/21	FY 23/24	3-Year Increase
Medical & Dental Claims	\$89.5M	\$104.3M	+17%
Citywide Software & Licensing	\$6.3M	\$8.4M	+33%

U.S. Inflation Growth Rate

- January 2025 prices are 23.1% above January 2020 levels



Source: Bureau of Labor Statistics, Consumer Price Index

General Governmental Funds Forecast

	Actuals FY 23/24	Projected FY 24/25	Forecast FY 25/26	Forecast FY 26/27	Forecast FY 27/28	Forecast FY 28/29	Forecast FY 29/30
Beginning Reserve Balance	\$219.7	\$247.5	\$225.1	\$163.5	\$119.0	\$79.9	\$57.2
Total Sources	\$704.0	\$692.1	\$648.5	\$667.4	\$693.4	\$724.2	\$746.3
Total Uses	\$676.2	\$714.5	\$710.1	\$711.9	\$732.4	\$746.9	\$759.2
Net Sources and Uses	\$27.8	(\$22.4)	(\$61.6)	(\$44.5)	(\$39.1)	(\$22.7)	(\$12.9)
Ending Reserve Balance	\$247.5	\$225.1	\$163.5	\$119.0	\$79.9	\$57.2	\$44.3
Ending Reserve Balance Percent*	34.6%	31.7%	23.0%	16.2%	10.7%	7.5%	5.6%

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

data as of February 2025
dollars in millions

General Governmental Funds Forecast

including Public Safety Support consideration

	Actuals FY 23/24	Projected FY 24/25	Forecast FY 25/26	Forecast FY 26/27	Forecast FY 27/28	Forecast FY 28/29	Forecast FY 29/30
Beginning Reserve Balance	\$219.7	\$247.5	\$225.1	\$163.5	\$132.9	\$134.9	\$154.5
Total Sources	\$704.0	\$692.1	\$648.5	\$681.3	\$734.4	\$766.5	\$789.9
Total Uses	\$676.2	\$714.5	\$710.1	\$711.9	\$732.4	\$746.9	\$759.2
Net Sources and Uses	\$27.8	(\$22.4)	(\$61.6)	(\$30.6)	\$2.0	\$19.6	\$30.7
Ending Reserve Balance	\$247.5	\$225.1	\$163.5	\$132.9	\$134.9	\$154.5	\$185.2
Ending Reserve Balance Percent*	34.6%	31.7%	23.0%	18.1%	18.1%	20.3%	23.6%

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

data as of February 2025
 dollars in millions

Utility Fund Forecast

As of 02/27/2025	FY 23/24 Actuals	FY 24/25 Estimate	FY 25/26 Forecast	FY 26/27 Forecast	FY 27/28 Forecast	FY 28/29 Forecast	FY 29/30 Forecast
WATER	(\$205,201)	\$1,834,649	(\$6,551,817)	(\$14,629,388)	(\$11,770,899)	(\$8,237,110)	\$2,245,399
WASTEWATER	(\$13,836,490)	(\$10,159,061)	(\$7,848,667)	(\$5,444,405)	(\$2,071,556)	\$3,151,331	\$8,466,732
SOLID WASTE	(\$8,224,846)	(\$5,853,540)	(\$920,045)	\$1,507,816	\$3,435,511	\$6,577,435	\$10,784,686
ELECTRIC	(\$296,202)	(\$29,869)	(\$837,042)	(\$956,069)	(\$1,317,984)	(\$1,689,044)	(\$2,166,385)
NATURAL GAS	(\$4,462,547)	(\$3,181,345)	(\$2,739,048)	(\$3,176,062)	(\$2,682,077)	\$665,139	\$617,748
DISTRICT COOLING	(\$368,815)	(\$241,795)	(\$31,474)	(\$30,948)	(\$149,373)	(\$37,023)	(\$38,201)
TOTAL NET SOURCES AND USES	(\$27,394,100)	(\$17,630,961)	(\$18,928,093)	(\$22,729,056)	(\$14,556,377)	\$430,730	\$19,909,978
Beginning Reserve Balance	\$144,413,643	\$117,019,543	\$99,388,582	\$80,460,488	\$57,731,432	\$43,175,055	\$43,605,785
Ending Reserve Balance	\$117,019,543	\$99,388,582	\$80,460,488	\$57,731,432	\$43,175,055	\$43,605,785	\$63,515,763
Ending Reserve Balance Percent*	22.0%	18.0%	12.8%	9.2%	6.6%	6.4%	8.9%

*As a % of Next Fiscal Year's Expenditures