



City Council Report

Date: May 22, 2017
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Candace Cannistraro, Management and Budget Director
Subject: Tentative Adoption of the Fiscal Year 2017/18 Budget

Overview of Tentative Budget

The budget continues the City's commitment to providing quality services to residents in a fiscally responsible manner. The priority to provide and maintain quality core services is balanced with cost containment methods and program evaluations to achieve efficient use of resources.

The total tentative budget for FY 17/18 is \$1.74 billion. This includes an annual operating budget of \$1.4 billion and the annual portion of the five-year capital improvement program budget of \$340 million. Included within the operating budget is \$50.5 million in carryover, \$265.1 million in potential bond refunding and \$91.2 million in contingency budget authorization.

The tentative adoption of the budget sets the maximum expenditure budget amount for FY 17/18. The budget summary is then published on the City's website and in the local paper for two consecutive weeks before the public hearing and final adoption of the budget take place.

Each fiscal year there are projects that will not be completed and items ordered that will not be received before the end of the year. The expenditures for these items will occur in the following fiscal year and therefore budget capacity will be needed. The City identifies these "carryover" expenses separately on the budget document to allow for better year-over-year budget comparisons.

The carryover expenses must be added to the FY 17/18 budget and included in the City Council budget appropriation as State law does not allow prior year budget authorization to be used in a subsequent year.

State Expenditure Limitation/Home Rule

The State sets the maximum expenditure budget amount for municipalities based on the FY 79/80 adopted budget adjusted for population and inflation. The Mesa voters approved a Home Rule option in November 2014 that allows the City to determine its own expenditure limitation, within available resources. Home rule approval is effective for four fiscal years. In the case of Mesa's 2014 Home Rule option, this includes FY 15/16 through FY 18/19.

Modifications since Proposed Budget and Other Items of Note

Transit Department

Per City Council direction, two transit studies have been added to the proposed budget. The first is a feasibility study for a streetcar extension to service the Riverview area. The cost is estimated at \$300,000 over two years. The second study is a Fiesta District Downtown Chandler alternatives analysis, which will be completed in conjunction with the City of Chandler. Mesa's portion of the estimated cost is \$900,000 over three years.

Public Safety Labor Associations

Memorandums of understanding with the two public safety associations have not been finalized. The tentative budget does not include specific funding for this purpose. However, additional budget authorization is included as contingency and could be utilized if needed. Possible additional costs are not included in the General Governmental Funds forecast summary.

Comparison to FY 16/17 General Governmental Funds Budget

The expenditure budget for the General Governmental Funds for FY 17/18 is \$417.5 million, compared to \$400.0 million in the FY 16/17 adopted budget.

The majority of the increase is related to public safety with a \$6.9 million increase in the Police Department, \$2.0 million increase in the Fire and Medical Department and \$0.9 million in the Municipal Court Department. The cost of the public safety personnel retirement system contributed significantly to the overall cost. The Fire and Medical Department's overall expense budget decreased due to the expiration of the Centers for Medicare and Medicaid Services (CMS) Healthcare Initiative Grant in early FY 17/18.

Another significant operational increase is related to the cost of the existing light rail and other transit services in the amount of \$2.5 million.