

# Financial Forecast

## General Governmental Funds and Utility Fund

February 25, 2021

## City of Mesa

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Two large teal brackets, one on the left and one on the right, framing the central text.

# 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

# Financial Forecasting

- The City uses current expenditures and revenues along with historical trends as a basis to forecast future expenditures 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



# Revenue Forecasting

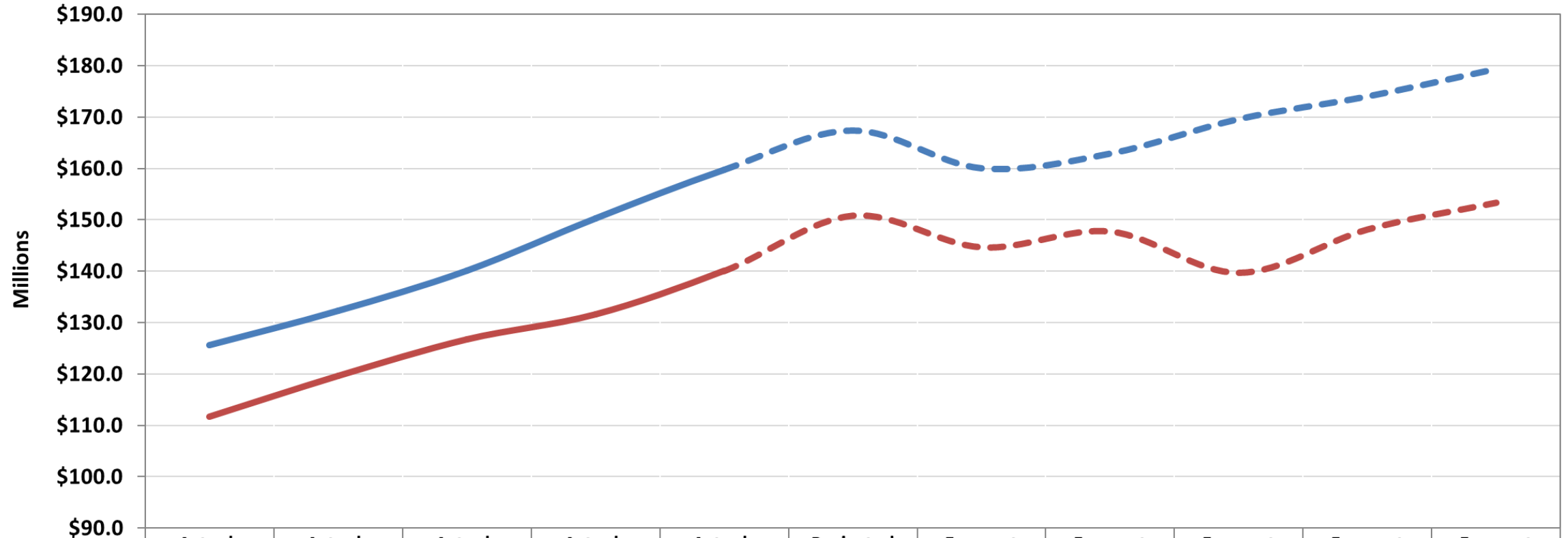
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- The City subscribes to a forecast group out of the University of Arizona which allows for access to raw data to use econometrics
- Statistical software is applied in house to analyze the correlation between economic trends and the City's revenue sources
- Relevant economic indicators are considered such as: population growth, wages, unemployment, building permits, gas prices, etc.
- Mesa specific factors are applied such as economic development activities, retail trends, etc.
- Includes estimated impact of the economic recession



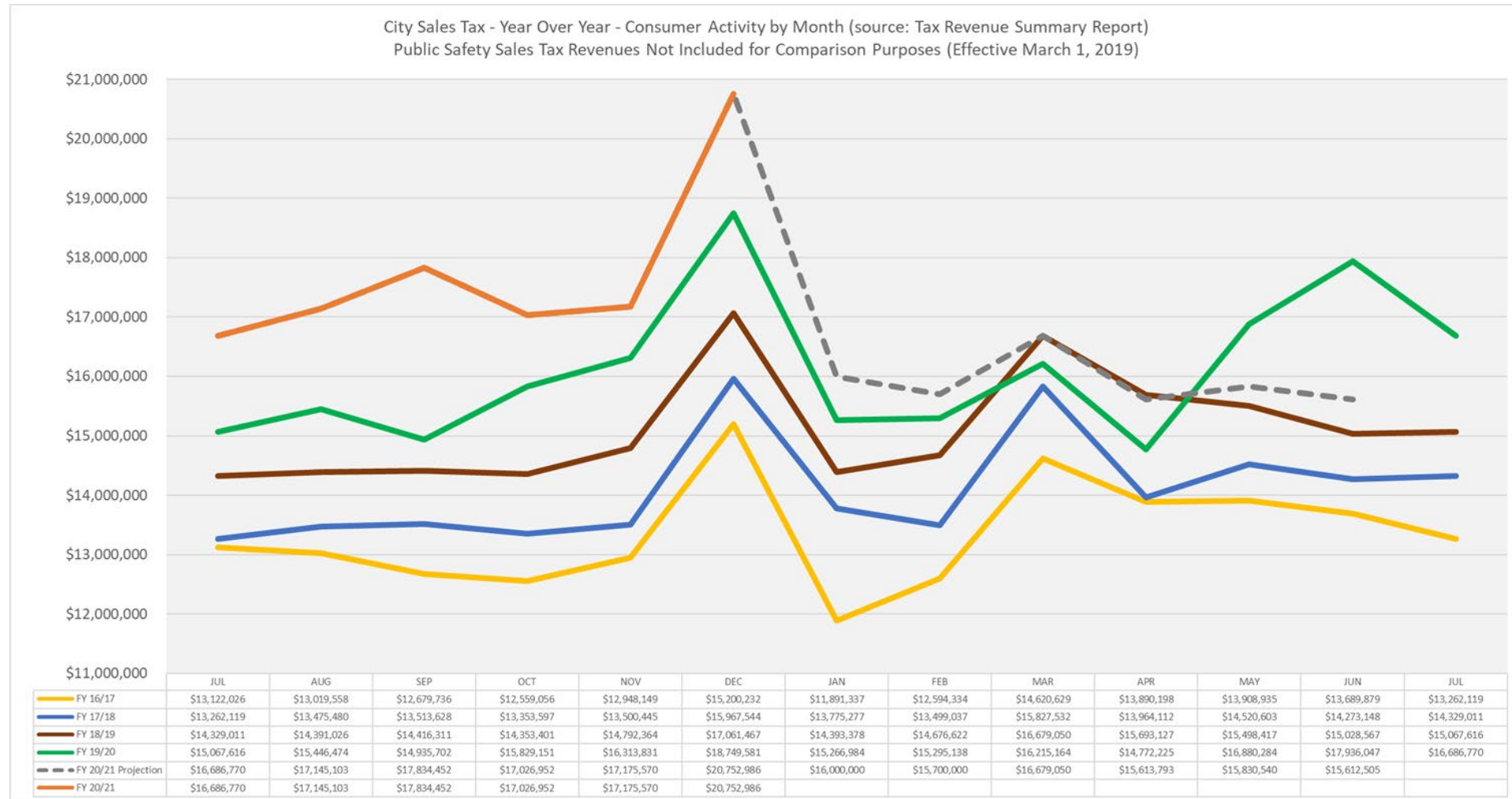
# General Governmental Revenues

Data as of February 16, 2021

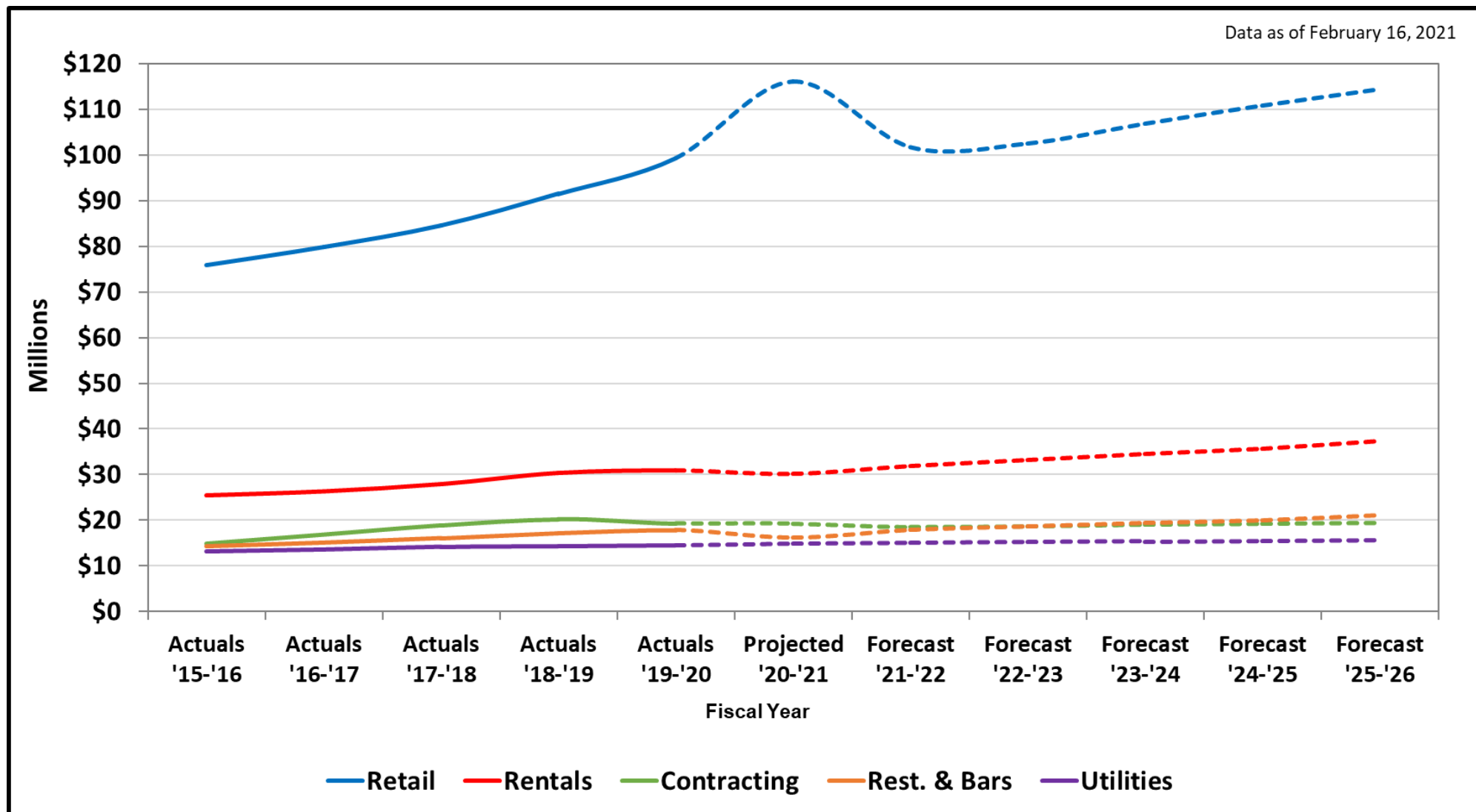


	Actuals '15-'16	Actuals '16-'17	Actuals '17-'18	Actuals '18-'19	Actuals '19-'20	Projected '20-'21	Forecast '21-'22	Forecast '22-'23	Forecast '23-'24	Forecast '24-'25	Forecast '25-'26
City Sales Tax	\$125.7	\$132.3	\$140.1	\$150.3	\$159.8	\$167.4	\$160.1	\$162.9	\$169.6	\$174.0	\$179.4
State Shared Rev.	\$111.7	\$119.6	\$126.7	\$131.6	\$140.1	\$150.8	\$144.7	\$147.8	\$139.7	\$148.2	\$153.4

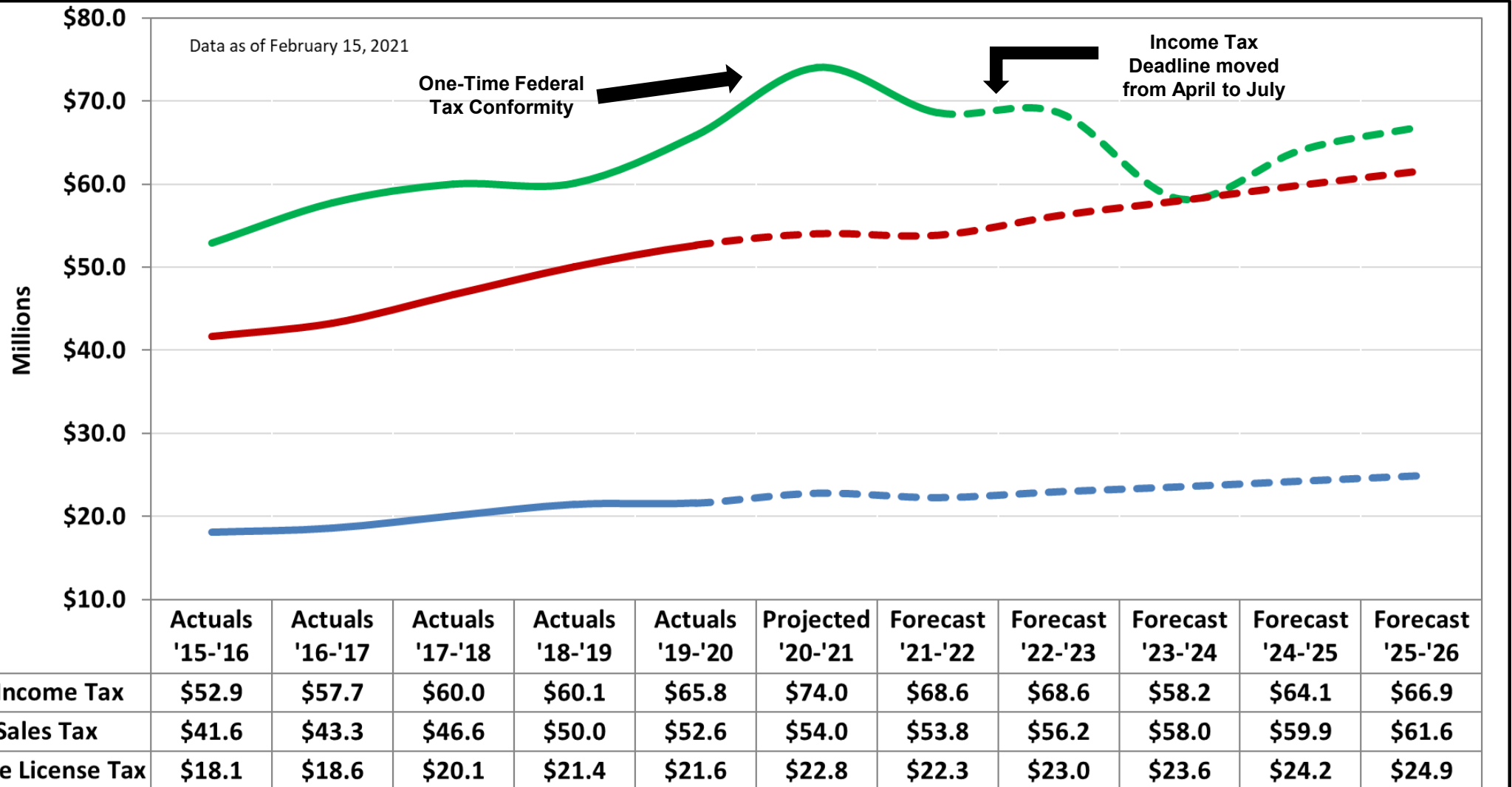
# Local Sales Tax – Year over Year Comparison Chart



# Local Sales Tax



# State Shared Revenues

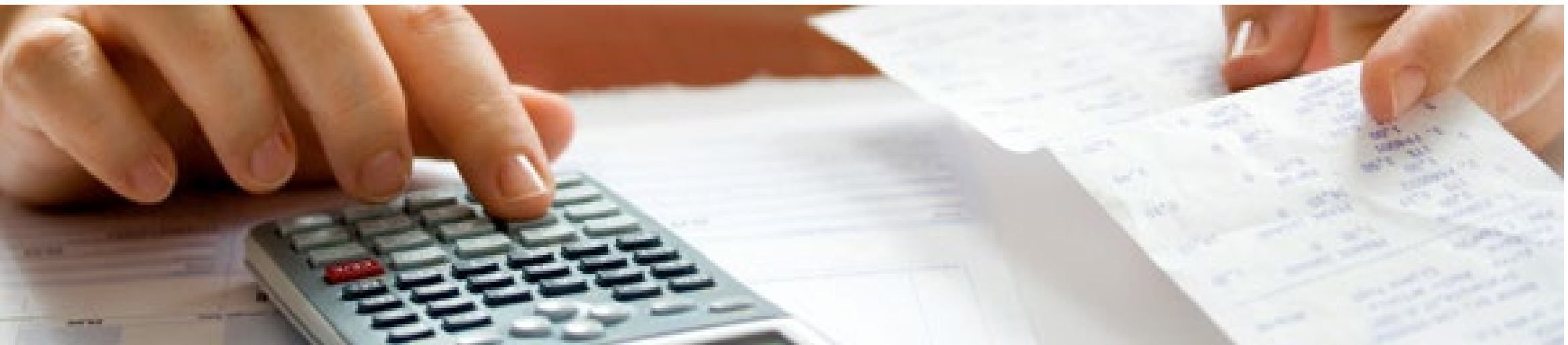


# General Governmental Operating Sources

	<b>FY 19/20 Actuals<sup>(1)</sup></b>	<b>Change From FY 18/19</b>	<b>FY 20/21 Budgeted<sup>(1)</sup></b>	<b>FY 20/21 Projected<sup>(1)</sup></b>	<b>Change from FY 19/20</b>	<b>FY 21/22 Forecast</b>	<b>Change from FY 20/21 Projected</b>
<b>Local Sales Tax</b>	<b>\$159.8</b>	6.3%	<b>\$148.5</b>	<b>\$167.4</b>	4.8%	<b>\$160.1</b>	-4.4%
<b>State Shared Revenues</b>							
State Sales Tax	<b>\$52.6</b>	5.2%	<b>\$51.3</b>	<b>\$54.0</b>	2.6%	<b>\$53.8</b>	-0.3%
Urban Revenue Sharing	<b>\$65.8</b>	9.5%	<b>\$73.8</b>	<b>\$74.0</b>	12.5%	<b>\$68.6</b>	-7.4%
Vehicle License Tax	<b>\$21.6</b>	0.8%	<b>\$21.8</b>	<b>\$22.8</b>	5.5%	<b>\$22.3</b>	-2.3%
<b>Enterprise Transfer</b>	<b>\$110.6</b>	2.0%	<b>\$108.4</b>	<b>\$111.1</b>	0.5%	<b>\$113.8</b>	2.4%
<b>Other<sup>(2)(3)</sup></b>	<b>\$45.1</b>	-14.9%	<b>\$61.0</b>	<b>\$60.2</b>	33.6%	<b>\$61.7</b>	2.4%
<b>Total</b>	<b>\$455.5</b>	2.8%	<b>\$464.8</b>	<b>\$489.6</b>	7.5%	<b>\$480.2</b>	-1.9%
<p>1. Amounts do not include carryover</p> <p>2. FY 19/20 Other revenues show a significant decrease due to increased FY 18/19 transfers for improving city infrastructure (\$3M) and implementing the Advantage CGI Upgrade (\$4M).</p> <p>3. FY 20/21 Other revenues show a significant increase due to the payment in lieu of franchise fees for utilities, which was implemented July 1, 2020.</p>							
<p>(as of February 16, 2021)</p> <p>Dollars in millions</p>							

# Operational Expenditure Forecasting

- Expenditure 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
- **Capital**
  - Majority of expenditures are related to construction projects and vehicle purchases. Multi-year plans are developed and included in the forecast



# Included in Expenditure Forecast

- **Public Safety Retirement employer** contributions
  - Police contribution rate increases to 62.97% (from 60.09% in FY20/21)
  - Fire contribution rate increases to 62.06% (from 58.35% in FY20/21)
- **Arizona State Retirement employer** contribution rate increases to 12.41% (from 12.22% in FY20/21)
- **Medical premiums** increased at 4% for CY2021. Premiums are forecasted to increase at 8% for CY2022
- Up to a **3% step increase** for all eligible employees effective the first full pay period in July 2021

# General Governmental Expenditures

	<b>FY 19/20 Actuals</b>	<b>Change from FY 18/19</b>	<b>FY 20/21 Budget</b>	<b>FY 20/21 Projected</b>	<b>Change from FY 19/20</b>	<b>FY 21/22 Forecast</b>	<b>Change from FY 20/21 Projected</b>
<b>Operating Expenditures</b>							
Personal Services	<b>\$281.8</b>	-8.6%	<b>\$328.7</b>	<b>\$276.1</b>	-2.0%	<b>\$353.0</b>	27.9%
Other Services	<b>\$60.2</b>	-9.5%	<b>\$72.5</b>	<b>\$65.1</b>	8.2%	<b>\$71.3</b>	9.5%
Commodities	<b>\$11.7</b>	-7.5%	<b>\$16.5</b>	<b>\$15.8</b>	34.7%	<b>\$17.4</b>	10.3%
<b>Transfers</b>							
to capital fund	<b>\$20.7</b>	10.4%	<b>\$14.5</b>	<b>\$16.0</b>	-22.5%	<b>\$12.6</b>	-21.6%
to other funds <sup>(1)(2)</sup>	<b>\$58.2</b>	12.3%	<b>\$51.7</b>	<b>\$91.1</b>	56.5%	<b>\$41.1</b>	-54.9%
<b>Total</b>	<b>\$432.6</b>	-5.6%	<b>\$483.8</b>	<b>\$464.1</b>	7.3%	<b>\$495.4</b>	6.7%

1. Includes transfers to the Transit Fund, Arts and Culture Fund and other funds

2. FY 20/21 Projected Transfers to other funds is higher than FY 19/20 due to a transfer to cover Police and Fire salaries charged to the CARES Act Relief Fund.

(as of February 2021)

Dollars in millions

# GENERAL GOVERNMENTAL FUND BALANCE

	Actuals FY 19/20	Budget FY 20/21	Projected FY 20/21	Forecast FY 21/22	Forecast FY 22/23	Forecast FY 23/24	Forecast FY 24/25	Forecast FY 25/26
Beginning Reserve Balance	\$90.5	\$79.0	\$126.5	<b>\$159.9</b>	\$144.7	\$126.6	\$101.4	\$73.7
Total Sources	\$468.6	\$472.7	\$497.5	<b>\$480.2</b>	\$492.3	\$496.2	\$515.4	\$533.0
Total Uses	\$431.6	\$483.8	\$454.1	<b>\$495.4</b>	\$510.4	\$521.4	\$543.1	\$553.2
<b>Net Sources and Uses</b>	<b>\$37.0</b>	<b>(\$11.1)</b>	<b>\$43.4</b>	<b>(\$15.2)</b>	<b>(\$18.1)</b>	<b>(\$25.2)</b>	<b>(\$27.7)</b>	<b>(\$20.2)</b>
Stabilization of Services Transfer	(\$1.0)	\$0.0	(\$10.0)	<b>\$0.0</b>	\$0.0	\$0.0	\$0.0	\$0.0
Ending Reserve Balance	\$126.5	\$67.9	\$159.9	<b>\$144.7</b>	\$126.6	\$101.4	\$73.7	\$53.5
<b>Ending Reserve Balance Percent*</b>	<b>27.3%</b>	<b>14.1%</b>	<b>32.3%</b>	<b>28.3%</b>	<b>24.3%</b>	<b>18.7%</b>	<b>13.3%</b>	<b>9.6%</b>

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

data as of February 2021

Note: Includes economic recession beginning FY 19/20

dollars in millions



# Utility Fund



# 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



# 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

# Sources Forecasting

- The City's forecasting approach to utility revenues includes statistical analysis and collaboration with Departments
- Statistical software is applied in house to analyze the correlation between economic trends and the City's utility sources
- Relevant economic indicators are considered, such as population growth, along with reviewing historical trends in account growth and consumption/usage
- Mesa specific factors are applied such as economic development activities, additional large customers, etc.
- Includes estimated impact of the economic recession



# Utility Sources (Revenues)

	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Water	\$162.6	\$165.6	\$170.9	\$176.2	\$180.7	\$187.9
Wastewater	\$88.4	\$92.6	\$96.7	\$101.4	\$105.8	\$111.3
Electric - without EECAF	\$19.0	\$18.6	\$19.3	\$20.0	\$20.8	\$21.7
Natural Gas - without PNGCAF	\$35.7	\$37.5	\$38.9	\$40.6	\$42.3	\$44.1
Solid Waste	\$63.5	\$63.8	\$65.9	\$68.4	\$70.8	\$73.3
District Cooling	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2
<b>Subtotal</b>	<b>\$370.4</b>	<b>\$379.2</b>	<b>\$392.9</b>	<b>\$407.8</b>	<b>\$421.7</b>	<b>\$439.6</b>
Pass-Throughs (EECAF/PNGCAF)	\$22.2	\$21.3	\$21.8	\$22.2	\$22.6	\$23.1
<b>Grand total</b>	<b>\$392.6</b>	<b>\$400.4</b>	<b>\$414.7</b>	<b>\$430.1</b>	<b>\$444.4</b>	<b>\$462.6</b>
(as of February 2021)		Dollars in millions				

# Uses Forecasting

- Departments provide specific forecasts for large budget items where costs can fluctuate over time, including water commodity purchases, water and wastewater treatment plant chemicals, and solid waste tipping fees
- Debt service payments are included in the Utility Fund forecast, where funds are transferred according to utility debt service schedules



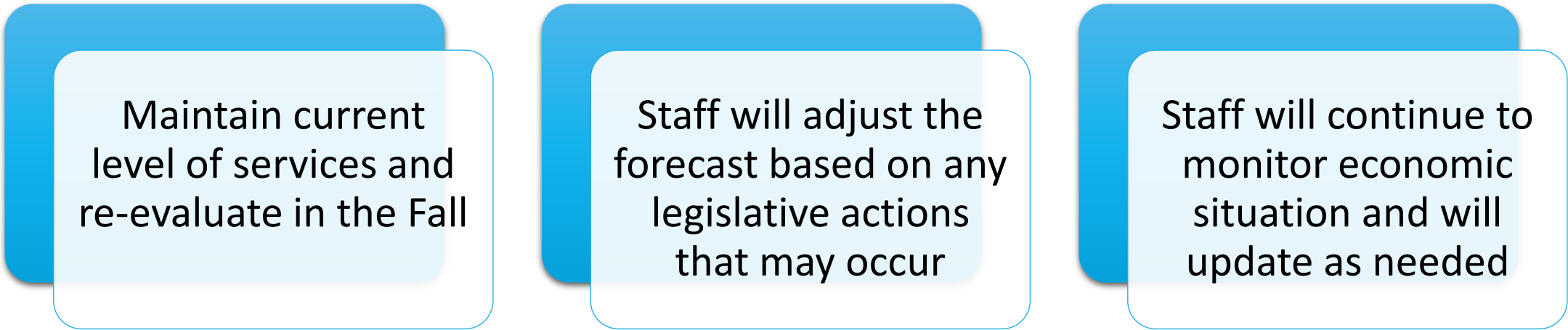
# Utility Uses (Expenses)

	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
Operating and Project Costs						
Water	\$70.5	\$67.1	\$69.1	\$70.4	\$73.5	\$76.8
Wastewater	\$31.9	\$33.2	\$34.6	\$35.5	\$36.5	\$37.6
Electric - without EECAF	\$7.0	\$8.6	\$8.9	\$9.0	\$9.4	\$9.5
Natural Gas - without PNGCAF	\$15.6	\$16.0	\$16.6	\$16.7	\$17.4	\$17.6
Solid Waste	\$39.9	\$40.7	\$42.2	\$42.5	\$44.0	\$44.7
District Cooling	\$0.9	\$1.3	\$1.0	\$1.0	\$1.1	\$1.2
Subtotal Operating and Project Costs	\$165.7	\$166.9	\$172.3	\$175.1	\$182.0	\$187.5
Transfers						
General Fund	\$111.1	\$113.8	\$117.9	\$122.4	\$126.5	\$131.9
Debt	\$91.2	\$101.5	\$105.3	\$109.3	\$113.0	\$115.6
Capital	\$8.6	\$9.3	\$8.9	\$10.9	\$9.7	\$9.7
Subtotal Transfers	\$210.9	\$224.5	\$232.1	\$242.6	\$249.2	\$257.1
Pass-Throughs (EECAF/PNGCAF)	\$22.2	\$21.3	\$21.8	\$22.2	\$22.6	\$23.1
<b>Grand total</b>	<b>\$398.8</b>	<b>\$412.7</b>	<b>\$426.2</b>	<b>\$439.9</b>	<b>\$453.9</b>	<b>\$467.6</b>
(as of February 2021)						
Dollars in millions						

# Utility Net Sources and Uses

NET SOURCES AND USES	FY 20/21 Projected	FY 21/22 Forecast	FY 22/23 Forecast	FY 23/24 Forecast	FY 24/25 Forecast	FY 25/26 Forecast
WATER	(\$1,594)	(\$2,970)	(\$3,402)	\$90	(\$3,878)	(\$3,657)
WASTEWATER	(\$11,924)	(\$10,327)	(\$8,714)	(\$9,265)	(\$7,620)	(\$5,459)
SOLID WASTE	\$2,122	\$1,254	\$1,765	\$1,496	\$2,904	\$4,371
ELECTRIC	\$3,204	\$420	(\$75)	(\$748)	(\$283)	(\$278)
NATURAL GAS	\$2,039	(\$212)	(\$947)	(\$1,231)	(\$408)	\$376
DISTRICT COOLING	(\$114)	(\$442)	(\$144)	(\$163)	(\$223)	(\$374)
<b>TOTAL NET SOURCES AND USES</b>	<b>(\$6,267)</b>	<b>(\$12,277)</b>	<b>(\$11,518)</b>	<b>(\$9,821)</b>	<b>(\$9,507)</b>	<b>(\$5,022)</b>
Beginning Reserve Balance	\$136,773	\$130,506	\$118,230	\$106,712	\$96,891	\$87,384
<b>Ending Reserve Balance</b>	<b>\$130,506</b>	<b>\$118,230</b>	<b>\$106,712</b>	<b>\$96,891</b>	<b>\$87,384</b>	<b>\$82,363</b>
Ending Reserve Balance Percent*	<b>31.6%</b>	<b>27.7%</b>	<b>24.3%</b>	<b>21.3%</b>	<b>18.7%</b>	<b>17.1%</b>
with Economic Recession starting in FY 19/20						
*As a % of Next Fiscal Year's Expenditures						
Dollars in Thousands						

# Moving Forward – Financial Forecast



Maintain current level of services and re-evaluate in the Fall

Staff will adjust the forecast based on any legislative actions that may occur

Staff will continue to monitor economic situation and will update as needed

# Next Steps – Anticipated Calendar

April 1	Review Proposed FY 21/22 Budget Review Non-Utility CIP
April 5 – May 3	Hear from various departments Review Utility CIP
May 6	Budget Wrap-up
May 17	Adoption of the CIP Tentative Adoption of the FY 21/22 Budget
June 7	Final Adoption of the FY 21/22 Budget
June 21	Adoption of the Secondary Property Tax Levy



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