



City Council Report

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To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Brian A. Ritschel, Management and Budget Assistant Director
Subject: Fiscal Year 2021/22 Summary of Proposed Budget

Overview of Tentative Budget

The City of Mesa is in an unusual budget circumstance. The current COVID-19 health crisis, the related one-time federal stimulus and relief funds, and residents purchasing local and online has caused a strong retail sales tax revenue growth throughout FY 2020/21. This drastic increase in one-time revenues was not anticipated and the City was able to use those funds to create community support programs for those residents affected by the pandemic. Until more is known regarding the duration of the health crisis, the full impact on the local, state, and national economies is difficult to project whether the sales tax revenue trend will continue.

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
- New funding source like the Public Safety Sales Tax
- Unanticipated expense
- Change in statutory requirements
- Conversion of temporary positions to City positions
- Addition of positions to meet service and/or workload requirements
- Addition of pilot programs to gather data
- Transfer of positions from one department to another
- Reduction/reorganization of positions to better meet needs

This document summarizes the significant budget modifications that took place during FY 2020/21, as well as new expenditures that are anticipated for FY 2021/22.

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

General Government Operating Budget

General Governmental revenues in the City of Mesa come from three primary sources: Local sales and use tax, state shared revenues, and a contribution from the Utility Fund.

Local Sales Tax

Local sales tax, the largest of these sources, increased in FY 2020/21. The last available month of sales tax data for FY 2020/21 is for January activity, which shows year to date growth at 10.5% over that point last year. Sales tax revenues in FY 2020/21 are high due to federal stimulus actions and increased online and local spending during the COVID-19 pandemic. At this time, local sales tax is projected to end FY 2020/21 8.0% above FY 2019/20 revenues. For FY 2021/22, the forecast has a decline of 3.6%. The forecast assumes a return to traditional spending patterns and no additional federal stimulus actions.

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 2021/22 budget includes funding for new public safety projects and one-time items such as additional training, upgrades to the academy auditorium for Police, remodel at the Fire Training Facility, furniture, monitors, vehicles, CCTV cameras, and firearm replacements. Also included in the proposed budget for the Public Safety Sales Tax Fund are the two academies for Fire and the additional one-time costs for Police for their 3 academies in FY 2021/22. Additional on-going operational costs for the Public Safety Sales Tax are noted in the department section of Public Safety for the Police and Fire and Medical department.

Quality of Life Sales Tax

The funding for the Quality of Life Fund is voter-approved sales tax revenue and is dedicated to public safety. The FY 2020/21 budget covers the estimated costs of up to 120 sworn FTE in the Police Department and 65 sworn FTE in the Fire and Medical department. The allocated FTE is subject to change based on the revenues received.

State-Shared Revenues

State-shared revenue consists of Urban Revenue Sharing (state-shared income tax), state sales tax and vehicle license tax. All state-shared revenue is based on population formulas.

Urban Revenue Sharing: The growth in Urban Revenue Sharing is the result of gains in taxable income from individuals, corporations, and capital gains. Urban Revenue Sharing revenue has a two-year lag between the income reported and the receipt of revenues by the City, so the budget is a known amount. It increased in FY 2019/20 and increased again in FY2020/21 by 12.5%. However, revenue will decrease by 7.4% in FY2021/22 due to the tax filing extension from April to July 2020. The tax filing extension resulted in large tax payments received to July, which were applied to the next fiscal year.

State-Shared Sales Tax: Like local sales tax, state sales tax is projected to increase (6.0%) in FY2020/21 as result of federal stimulus actions. For FY 2021/22, the forecast has a decline of 0.3%. The forecast assumes a return to traditional spending patterns and no additional federal stimulus actions.

Vehicle License Tax: The smallest contributor to state revenue sharing, it is projected to increase 5.5% in FY 2020/21 and decrease 2.3% in FY 2021/22. The forecast assumes a return to traditional spending patterns and no additional federal stimulus actions.

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 2021/22 contribution is budgeted at \$113.6 million, which is a 2.2% increase from the FY 2020/21 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 costs. The remainder of the costs are covered by a transfer from the General Fund to the Transit Fund. Recently, Transit Services received federal assistance from the Coronavirus Response and Relief Supplement Appropriations (CARES) Act and the American Rescue Plan Act (ARPA), which will offset the General Fund to Transit Fund transfer in FYs 2020/21 and 2021/22. The projected transfer including the federal assistance from the General Fund for FY 2020/21 is \$6.7 million with a decrease for FY 2021/22 to \$3.7 million. For comparison, the original FY 2020/21 budget for the General Fund transfer to the Transit Fund was \$18.6M.

Trust Fund Contributions

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

Property and Public Liabilities Trust Fund; FY 2021/22 contribution \$4.7M

Employee Benefit Trust Fund; FY 2021/22 contribution \$54.0M

Workers' Compensation Trust Fund; FY 2021/22 contribution \$5.4M

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 the federal assistance through the CARES Act on a one-time basis, 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 2021/22 operating revenues are estimated at \$378.7M, increasing from \$370.4M projected for FY 2020/21 (excluding the EECAP/PNGCAP commodity cost pass throughs).

In recent years, Mesa has experienced an increase in the number of utility customers. However, increased efficiency in homes and appliances, and mild winter conditions have resulted in lower usage per account in several of the City's utilities in years past.

With the increase in utility customers comes demand to provide additional capacity and infrastructure to meet future needs. Of importance is Mesa's southeast region where little infrastructure is available but significant growth in development is anticipated. This is particularly true of water and wastewater utilities in need of new and upgraded facilities to meet new and future customers' growth demands.

The City's financial policies call for a forecasted fund balance (reserves) of at least 8-10% throughout the forecast period. The estimated budget for FY 2021/22 results in an ending balance within the financial policies. The current forecast calls for slightly declining reserve balances for the next few years in anticipation of a scheduled increase in existing debt service expense. The City forecasts expenses, revenues and reserve balances over a multi-year period and reviews them on an on-going basis to allow for proactive response to economic changes.

Restricted Funds Highlights*Transportation Related Funds*

Transportation funds come from two sources. The State of Arizona collects Highway User Revenue Funds (HURF) and a portion of these are provided to cities. This is mainly comprised of the fuel tax paid at the pump by the consumer (50.6%) and part of the

vehicle license tax (32.0%). 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 2021/22, expected revenues are estimated to decrease from \$41.8M to \$41.4M due to anticipated decreases in fuel consumption.

Local Streets (LS) Fund. LS revenue collection is tied to the rest of city sales tax and will increase in FY2020/21. Anticipated revenues for FY2021/22 are expected to decline from \$35.7M to \$34.4M.

HURF and LS are managed together as both funds are restricted to streets related expenditures. The City's street maintenance program outlines the highest priorities for allocation of available resources. Expenditures are modified to remain within available resources. The available ending reserve balance for HURF and LS combined is estimated to be \$35.1M in FY 2020/21 and increase to \$35.6M in FY 2021/22.

Trust Funds

Employee Benefit Trust Fund. The Employee Benefit Trust (EBT) Fund is used to fund employee health benefits and other employee benefit programs the City sponsors. Resources for the fund come from the setting of medical and dental premiums paid partially by employees and retirees, and partially by the City. Historic total EBT expenses and cost of claims are shown below:

	Fiscal Year	Total Expenses	% Increase	Cost of Claims	% Increase
Actual	FY 2015/16	\$77.0M	12.7%	\$69.0M	17.9%
Actual	FY 2016/17	\$78.4M	1.8%	\$69.3M	0.4%
Actual	FY 2017/18	\$80.1M	2.1%	\$70.1M	1.1%
Actual	FY 2018/19	\$90.8M	13.4%	\$80.7M	15.1%
Actual	FY 2019/20	\$96.6M	6.4%	\$86.6M	7.4%
Projected	FY 2020/21	\$99.8M	3.3%	\$89.6M	3.4%
Budget	FY 2021/22	\$104.1M	4.3%	\$92.7M	3.4%

Medical and dental premiums are set on a calendar year (CY) basis. To address the projected increased costs, the FY 2021/22 budget includes an increase of 4.0% for employee contributions and 0.0% for retiree contributions for CY 2021, and an increase of 6.0% for employee contributions and 3.0% for retiree contributions for CY 2022.

Respectively the increases are applied to both the employee/retiree and the City. In the summer of 2021, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2021. The City contribution included in the FY 2021/22 budget is \$78.8 million which is \$3.9 million more than FY 2020/21 adopted budget. The FY 2021/22 budgeted City contribution is slightly higher compared to what was presented at the Trust fund board meeting due to the additional employee count as the budget will account for new and vacant positions contributing into the fund.

Medical, prescription, and dental claims costs continue to rise, but due the COVID-19 pandemic, the City did see a decrease in claim frequency/utilization compared to forecast. Claims costs are projected to increase from FY 2020/21 to FY 2021/22 by \$3.3 million, or 3.4% with no change in utilization. The FY 2021/22 budget includes an increase of costs of \$4.3M or 4.3% compared to FY 2020/21 projected cost estimate.

In calendar year (CY) 2018, the City implemented a three-year contract with an optional 4th and 5th year extension with Cigna for third-party medical plan administration and medical provider network. The Cigna contract includes medical and behavioral health administration services (claims, appeals, medical utilization, and case management), customer service and provider network in all fifty states, and several cost containment and service enhancement opportunities including: significantly reduced base administration fees, seamless national network with minimal member disruption, vendor and service consolidation across in-state and out-of-state plans, and partial, multi-year funding of health and wellness initiatives. The City's stop-loss insurance program for medical and prescription drug plans was renewed for CY 2020.

The City introduced and expanded the Mesa Wellness 360 program during CY 2018 to advance wellness engagement with active medical plan enrollees. This wellness program provides financial incentives for registered participants who complete/sign-up for activities (between January 1 and October 31), biometric screenings, daily physical activities, health and wellness events/contests/challenges, preventive physicals and/or screenings, and participation in wellness education. The Mesa Wellness 360 program is funded by the EBT Fund and is supplemented annually by a Cigna-provided *Health Improvement Fund*. Employee engagement with the Mesa Wellness 360 program has surpassed market standards of 50% employee registration and utilization with close to 63% of eligible City of Mesa employees (2,397) registered.

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 health care as shown in the EBT fund.

The City contributes to the Workers' Compensation Trust Fund each pay period based on the salary of each employee. Rates are established based on the risk level of the job classification. Contributions are calculated in the total cost of the position and included in departments' operating budget. Expenses are reviewed during the fiscal year and rates

can be modified if needed. Pending 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.

For FY 2021/22, the reserve target is \$6.9 million. Based on the FY 2020/21 projected reserve balance and the expenditures forecasted for FY 2021/22, an increase to the workers' compensation rates from the previous year is included in the FY 2021/22 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2021/22 is \$6.7 million.

Property and Public Liability Trust Fund (PPL). The Property and Public Liability Trust Fund is used to pay claims related to lawsuits against the City. The value of claims paid can vary significantly by year, therefore, the PPL Trust fund balance minimum target is \$10.0 million. The length of time from the submission of a claim to its final resolution can take over a year, contributing to a high variability of annual costs. Claims are projected to be \$4.5 million in FY 2020/21. The cost of claims included in the FY 2021/22 budget is \$4.5 million.

City contributions into the fund are based upon prior year PPL Trust Fund claims experience. Approximately two-thirds of City contributions come from general governmental funds, while one-third comes from enterprise and other funds. The contribution needed to maintain the target reserve balance is estimated each year and included in the budget. The FY 2021/22 City contribution estimate is \$6.9 million with an estimated fund balance utilization of \$1.0 million. Expenses are reviewed during the year and the contribution amount is modified as necessary.

Environmental Fee Fund (ECF)

The Environmental Compliance Fee is applied to each utility account customer to meet the projected costs of Federal, State and County unfunded environmental mandates. The current monthly fee is anticipated to generate \$16.9 million in revenue in FY 2020/21. The fee funds the City's environmental activities such as air quality, storm water quality, hazardous waste management, and asbestos management. Budgeted on-going operational expenses are \$16.6 million therefore no fee adjustment is needed. The current fee has been in place since July 1, 2014 and will remain the same for FY 2021/22. Savings experienced each year are accumulated and applied to future one-time expenditure needs. The FY 2021/22 proposed budget includes \$70K of partial funding for additional Park Rangers to cover increased park activity. Many parks include water retention functionality to meet stormwater runoff requirements.

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 \$3.9 million in grant awards for FY 2021/22. Notable proposed grant awards include the following:

- \$1.5M for support for the Mesa Family Advocacy Center
- \$800K Homeland Security Grants to provide funds for training and equipment to support Homeland Security initiatives.
- \$567K 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
- \$715K Mesa Family Advocacy Center (MFAC) Grants to provide for the salaries and benefits and training and supplies for Victim Support Services and the Police Awareness Community Education Portal.
- \$410K in multiple forensics grants. The National Institute of Justice DNA Backlog Program Grant provides resources for forensic personnel and equipment to enhance analyzing forensic DNA to reduce system backlog. The Coverdell Grant allows for the acquisition of equipment to assist in crime scene analysis and training for forensic personnel. The Forensics Crime Lab Grant provides funding for training and equipment.
- \$150K Justice Assistance Grant (JAG) to support improving technology services in the Police Department.
- \$350K Tribal Gaming Grants to provide funding for training, public education tools, and equipment for various divisions in the Police Department.
- \$93K High Intensity Drug Trafficking Areas (HITDA) Grant to provide funding for officer overtime to coordinate activities that address drug trafficking in specially designated areas of the United States.

Mesa Fire and Medical Grants

Mesa Fire and Medical plans to apply for approximately \$3.4M in grant awards for FY 2021/22. Notable grant awards include the following:

- \$1.8M from the Assistance to Firefighters Grant which is through DHS and FEMA to cover up to 16 new positions.
- \$1.2M from the Assistance to Firefighters Grant which is through DHS and FEMA to cover cancer screening and HFI evaluations
- 289K for the Urban Area Security Initiative for planning, equipment, training, and exercise needs to prepare for possibility of high-threat, high-density Urban Areas

Arts & Culture Grants

The Arts & Culture department's proposed budget includes spending capacity of over \$3M in grant funding as the department pursues the federal Shuttered Venue Operator's Grant (SVOG) administered by the Small Business Administration (SBA).

City Manager Grants

The City Manager plans to apply for \$81K in grant awards for FY 2021/22. These grants will cover expenses related to the GED Spanish instruction, Free Application for Federal Student Aid (FAFSA) support, and the downtown Mesa Sign Program.

Relief Fund Grant

Due to federal assistance from the American Rescue Plan Act, the City is establishing budget capacity of \$101.4M for FY 2021/22 to support city operations and those affected by the COVID-19 pandemic. The use of the funds is still to be determined as instructions and clarifications continue to be received by the City regarding the allowable uses.

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.

These four Section 8 programs are funded at a combined \$16.3 million in FY 2020/21 and \$18.4 million in FY 2021/22.

The City is a designated entitlement community by the Department of Housing and Urban Development (HUD). The Community Services department oversees the following Community Development programs designed to revitalize neighborhoods, promote economic development, and improve community facilities and services:

- Community Development Block Grant (CDBG) - ensures decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. This program is funded at \$4.2 million in FY 2020/21 and \$4.3 million in FY 2021/22.
- HOME Investment Partnership (HOME) - helps communities expand the supply of decent, safe, sanitary, and affordable housing, with primary attention to housing for low-income families. The HOME Investment Partnerships Program (HOME) funds a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. This program is funded at \$1.6 million in FY 2020/21 and \$1.6 million in FY 2021/22.
- Emergency Solutions Grant (ESG) - provides essential services related to emergency shelter, rehabilitation, and conversion of buildings to be used as emergency shelters, operation of emergency shelters, and homelessness prevention services. This program is funded at \$0.3 million in FY 2020/21 and \$0.3 million in FY 2021/22.

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 2021/22 contribution rates for State-run retirement plans changed as follows:

Retirement Plan	FY 2020/21 Rate	FY 2021/22 Rate	Rate Change
Arizona State Retirement System (ASRS)	12.2%	12.4%	0.2%
Elected Officials Retirement System (EORP)	61.4%	61.4%	0.0%
Public Safety Personnel Retirement System (PSPRS) - Fire	58.4%	56.2%	(2.2)%
Public Safety Personnel Retirement System (PSPRS) - Police	60.1%	56.9%	(3.2)%

In the FY 2021/22 proposed budget, the City is taking steps to address the increases in the unfunded liability with the Public Safety Personnel Retirement System (PSPRS) plan and work to smooth out future cost increases for the unfunded liability.

History

Due to investment losses and to 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 pay off the unfunded liability over 25 years.

Status

In the FY 2021/22 proposed budget, there shows a decrease to the PSPRS contribution rates due to the City taking a new approach in paying down the unfunded liability. The proposed budget includes the employee/individual at the 30-year amortization schedule (now year 26), but the City will be making additional quarterly payments on top of the contribution towards the unfunded liability to meet the prior commitment of paying off the liability in 25 years (now year 21). 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. If the prior year rate setting process was used, the City would have proposed an increase of 2.0% on the contribution rate for Police from 60.1% to 62.1% and an increase of 4.6% on the contribution rate for Fire from 58.4% to 63.0% due to past investments returns being less than the assumed rate as well as unmet expectations about City payroll growth and employee demographics.

With the additional quarterly contributions and the City working towards smoothing out the unfunded liability payment through the forecast, the City for FY 2021/22 is projected to contribute a total of \$78M to PSPRS. This is a \$10M increase over the projected Annual Required Contribution (ARC) for FY 2021/22 of \$68.1M for the 21-year amortization schedule.

The Arizona State Retirement System (ASRS) contribution rate increased by 0.2% for FY 2021/22 due to a prior change to the assumed rate of return for investments from 8.0% to 7.5%. The impact of the change is being phased in and contribution rates for ASRS are forecasted to increase each year for five years. FY 2021/22 is the fourth year of the five-year phase-in. The change in contribution rates for FY 2020/21 is expected to increase Mesa's contribution to ASRS by \$0.2 million.

The FY 2021/22 Elected Officials Retirement Plan (EORP) contribution rate and amount remain unchanged from FY 2020/21.

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 amount was 3% in FY 2017/18, 4% in FY 2018/19, 3% in FY 2019/20, and 3% in January of FY 2020/21. FY 2020/21 also included a 5% range adjustment for all City positions.

A step increase of 3% is included in the FY 2021/22 proposed budget for eligible employees. The FY 2021/22 citywide cost for step pay is estimated at 10.3M, with a \$6.0M impact in the General Governmental Funds. This amount is higher compared to prior fiscal years due to the mid-year 2021 range adjustment that resulted in more employees being eligible for the step increase.

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 2021/22 budget anticipates increasing the city contribution by 6.0% and 3.0% for employee and retiree plans respectively effective January 2022. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of 2021. The increase in medical premiums results in an increase in the costs of personal services for each department.

Capital Improvement Program (CIP) Highlights

As outlined in the Council's Economic Development strategic initiative, the City continues to place a high priority on infrastructure investment to attract and service future development. The proposed CIP includes the addition of a reclaimed waterline to maximize surface water credit to support growth. The funding of this project is available through utility revenue bonds. The debt service on utility revenue bonds is funded through the utility rates paid by customers. Therefore, the customers served by these plants will participate in the repayment of the new debt service related to them.

Continuation of citizen initiated and approved Parks and Culture projects, as well as several Transportation projects, are included in the tentative CIP. Project activities have begun on City Center Plaza, Red Mountain Park, and library improvements. Several public safety projects are included in the tentative CIP including Fire Station 221 in southeast Mesa and the Northeast Public Safety Facility. These projects are using General Obligation (GO) bond authorization approved by voters in 2018.

Roadway improvements continue with the Southern & Stapley intersection as well as Signal Butte – Williams Field to Pecos Roadway Improvements. These projects 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 bond authorization.

Also included in the tentative CIP are improvements at Falcon Field airport, various shared-use paths, and storm water infrastructure projects. Many of these projects use local funding sources to leverage grant dollars awarded to Mesa to complete projects that enhance the quality of life in the City of Mesa.

Secondary Property Tax

The FY 2021/22 tentative budget has increased by approximately \$3.5 million from the FY 2020/21 adopted budget. This is due to the transportation related general obligation bond authority approved by voters in November 2020. The secondary property tax levy is adjusted to accommodate the anticipated annual debt service cost of the projects. Secondary property tax is limited in use to the repayment of general obligation debt.

The FY 2021/22 tentative levy is \$45.2 million. The corresponding rate is \$1.1319 per \$100 of net assessed value, adjusted from \$1.1171 in FY 2020/21 and \$1.1870 in FY 2019/20. Adjustment to the rate is partially mitigated by increased property values (both existing property and new development) from the prior year.

In FY 2021/22, the \$1.1319 tax rate applied to a median residential limited property value of \$150,203 (\$278,780 sale value) results in an average bill of \$170 per year.

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

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY20-21 to FY21-22

	FY20-21	FY 21-22 Tentative	\$ Change	% Change
Secondary Property Tax Levy (Taxable Value * Tax Rate)	\$41.7 million	\$45.2 million	\$3.5 million	8.4%
Secondary Property Tax Rate (per \$100 of Taxable Value)	\$1.1171	\$1.1319	\$0.0148	1.3%
Annual Cost to Median Homeowner	\$160	\$170	\$10	6.3%

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 2021/22 proposed budget has increased by approximately \$13.4 million from the FY 2020/21 adopted budget due to several projects substantially starting in FY 2021/22:

In the Capital General Fund:

- Library Automated Handling & Return Machines
- Amphitheater and Convention Center Equipment Replacements

In the General Fund:

- ERP System Upgrade (Citywide Financial/Human Resources/Budget System)

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 and innovative activities occurring around the City.

Public Safety Departments

Communications (Included in the Department of Innovation and Technology)

The FY 2021/22 Communications budget includes \$1.35M for TOPAZ VHF & 800 MHz expansion site. The project is included in the capital improvement program and will upgrade the city's existing communications network to ensure reliable service.

Mesa Fire and Medical

The General Fund FY 2021/22 proposed budget includes 0.5 FTE for a part-time position to assist with departmental training and safety. Also included in on-going costs is additional support for health exams to support additional stress testing and promote overall wellness, additional capacity for fuel purchases, and additional overtime to cover training needs of the department. During FY 2020/21, the City approved additional on-going support for increases for the Medical Director contract, 1 FTE for a Service Worker Assistant to assist with the Fire fleet operations, and 1 sworn FTE to promote diversity and departmental staffing plans.

The Public Safety Sales Tax Fund FY 2021/22 proposed budget includes on-going costs for additional overtime to cover additional training, an overtime adjustment for the positions funded by the sales tax, 1 FTE for a Civilian Medic position to continue the operation of UCapIt machines and the disbursement of medications throughout the fire stations, and 1 FTE for a Staffing Program Assistant to assist with the employee growth in the department. Information on one-time costs for the Public Safety Sales Tax Fund for Mesa Medical and Fire are included in the Sales Tax section.

For the Transport Fund during FY 2020/21 the City continued the expansion of the program and added an additional 20 FTEs which included 1 Transport Administrator, 1 Civilian Shift Supervisor, 10 Civilian Paramedics, and 8 Civilian EMTs. Other on-going costs included are uniforms, fuel and maintenance costs, training, and other supporting costs related to the new positions and the program expansion.

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

Municipal Court

The FY 2021/22 tentative budget is consistent with the FY 2020/21 budget.

Revenue in FY 2021/22 is expected to increase by \$1.6M due to the additional revenue from the Arizona Supreme Court's FARE (Fine and Restitution Enforcement) Program as well as revenue recovery from the pandemic. The FY 2020/21 revenue projection is about \$6.1M.

Police

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

The General Fund FY 2021/22 proposed budget includes on-going support for CCTV and C-Cure maintenance and repairs costs and additional on-going support for outside services for delivery of Orders of Protection to free up additional time for officers. For one-time costs, the proposed budget includes additional training and maintenance costs for software for forensics, capacity for modifications to the holding facility to increase security and safety, and additional overtime for the records unit to assist with catch up on the current back log. Other one-time adjustments include lighting upgrades and IT support. During the mid-year of FY 2020/21, Police also added \$1.1M in on-going support for fleet related expenses, replacements for motorcycles, on-going reduction of \$2M for identified savings for non-mission critical positions for holiday and standby pay, 1 vacant civilian FTE was eliminated to fund the outsourcing of fingerprinting costs, and 7 additional FTEs for the records unit to process and keep up with the demand for public records requests and Axon footage.

The Public Safety Sales Tax Fund includes 11 sworn FTEs and 9 civilian FTEs for on-going costs included in the FY 2021/22 proposed budget. This is the third year of the staffing plan for Police as the department continues to expand to assist with the growing needs of the City. The additional positions include 10 sworn FTEs to support patrol and operations (8 Police Officers and 2 Sergeants), and 1 sworn FTE for a Special Operations Detective to support the tactical area. On the civilian side, the proposed budget includes 9 civilian FTEs: 2 911 Operators, 2 Dispatchers, 1 Police Investigator III, 1 Crime Prevention Officer, 1 Police Service Officer II, 1 Crime Scene Specialist, and 1 IT Engineer I. During FY 2020/21, 2 FTEs Record Specialists were added to assist the records unit with clearing backlog and maintaining required reporting requirements. Information on one-time costs for the Public Safety Sales Tax Fund for Police are included in the Sales Tax section.

Information on Police grants are included in the grant section of this report. During FY 2020/21, 1 FTE for a Forensic Scientist I was added as grant funded.

Utility Departments

Energy Resources

The FY 2021/22 proposed budget includes the addition of six full time positions (two crews) and accompanying vehicles and equipment. These positions will work on the expansion and maintenance of natural gas lines throughout the City. These positions will largely be committed to gas infrastructure expansion projects. The on-going cost is \$501,600 and the associated vehicles and equipment cost is \$1.5M.

With the unexpected weather events in California and Texas in FY 2020/21 and the ongoing impact of those events, Energy Resources is expecting higher electric and gas commodity costs in FY 2021/22. Budgeted purchases for the electric commodity will increase from \$11.6M in FY 2020/21 to \$23.4M in FY 2021/22. Budgeted purchases for the natural gas commodity will increase from \$10.3M in FY 2020/21 to \$12.2M in FY 2021/22.

Environmental Management and Sustainability

The Department is anticipating an increase in routes due to residential customer growth that will require boundary changes. In order to be prepared for this increase, the Department will order one side-loader which is estimated to cost \$410,000. The budget also includes \$160K in additional funding for increased maintenance contract costs for CNG vehicles and \$50K for annual maintenance costs for the camera systems in solid waste trucks.

During FY 20/21, the Department added 3 FTE Equipment Operator II positions to operate solid waste vehicles. These positions were necessary due to the boundary change in FY 2021/22 as well as to reduce staffing and overtime pressures.

Water Resources

The FY 2021/22 proposed budget includes decreases in the cost of power to both the Water and Wastewater operations as a result of efficiencies created by improving various operational procedures. These process improvements were able to offset rising power rates. Water commodity purchases are expected to decrease by \$1.4M due to lower unit water costs from the Central Arizona Project (CAP) for the 2021 calendar year. The expected cost of chemicals at the wastewater treatment plants is expected to increase due to increased wastewater flows. The City participates in joint ventures with other municipalities to provide water and wastewater services. Joint venture participation costs are expected to increase \$700K in FY 2021/22. The cause of the increase is associated with

increased operating expenses, including labor and operational expenses at the Val Vista Water Treatment Plant, operated by the City of Phoenix.

The FY 2021/22 also includes two additional Water Resource Operator positions at the Greenfield Water Reclamation Plant to support the recent plant expansion. The cost to the Greenfield Joint Venture Fund is \$180K for the positions, and Mesa's share of those positions is \$75K. The proposed budget also includes \$1.1M in one-time funding for the Greenfield Water Reclamation Plants for equipment refurbishment and rehabilitation, where Mesa's share of these one-time costs will be \$454K. Lastly, the FY 2021/22 proposed budget includes \$250K in annual ongoing funding for fire hydrant replacements throughout the City.

Other Departments

Arts & Culture

The Mesa Arts Center schedules shows and events prior to the time of the event. The budget provides an estimate of the expenses and related revenues. The level of Performing Live expenses and associated revenues can vary from year to year based on the number and size of shows that are scheduled. The expenses of Performing Live are offset by revenues from the scheduled shows.

The FY 2021/22 proposed budget is prepared to support a fall 2021 reopening of the Mesa Arts Center and museums to full capacity should health conditions allow it.

The FY 2021/22 proposed budget includes MAC Restoration Fund supported projects to replace seats and consoles, add safety lighting, and replace lobby lighting at the theaters at the Mesa Arts Center totaling \$1.3M. Additionally, the proposed budget includes ongoing General Fund support of \$81K for a security contract increase. The proposed budget includes ongoing expenditures from the Arts & Culture Fund for a total FTE increase of 1.9 among several positions at the MAC and other operating expenses for \$250K and, the Arts & Culture Fund will support a one-time amount of \$112K in operating expenses.

During FY 2020/21, 5 FTE were eliminated as the department rightsized the Performing Live and 3 FTE were added with 2 positions being converted from temp services and 1 position added for a Museum Exhibits Preparator at the Arizona Museum of Natural History.

Business Services

The FY 2021/22 proposed budget includes the addition of 3.0 FTE's to assist with the CIP project Advanced Metering Infrastructure (aka Smart Metering) funded by the Utility Fund.

During FY 2020/21 4.0 new FTE's were added for Medical Billers working on the Ambulance Transport program. The FY 2021/22 budget also includes ongoing training for the medical billers.

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 2020/21 will be approximately \$4.5 million, which is consistent with the FY 2020/21 adopted budget. Estimated claims for FY 2021/22 are expected to be \$4.5 million.

The FY 2021/22 proposed budget includes 1 FTE for an additional Assistant Attorney I position, funding for a Digital Signatures Project, and office equipment replacements. During FY 2020/21, 1 FTE was added for a Victim Services Assistant position which was funded through the Victims of Crime Act grant.

City Auditor

The FY 2021/22 proposed budget is consistent with the FY 2020/21 budget.

City Clerk

The budget for City Clerk's Office is adjusted for the cost of elections. There are no elections scheduled in FY 2021/22 and therefore the budget will be reduced accordingly. The FY 2021/22 proposed budget also includes an \$8,000 increase for Municode software contract costs.

City Manager

The FY 2021/22 proposed budget includes 1 FTE for an Economic Development Specialist to assist with further development for the downtown district.

Code Enforcement

The FY 2021/22 proposed budget includes additional funding for increased costs for the department's process server (\$35K) and outside services for a Civil Hearing Officer (\$25K).

Community Services

Community Services oversees the City's Housing, Community Planning and Development, Community Engagement, Animal Control, and Diversity programs. Community Services receives funding from both the General Fund and various grants. The General Fund budget for FY 2021/22 is \$3.6 million and supports the Animal Control Division, Community Engagement, and portions of the administration of the department's Housing & Community Development programs.

The FY 2021/22 proposed budget includes \$10K in additional funding for the Animal Control Division due to a cost adjustment to the Arizona Humane Society

contract to assist with animal cruelty and seizure cases. This is a three (3) year contract cost adjustment that will increase by 5% each year. Additionally, the FY 2021/22 proposed budget includes an additional 1 FTE for a Housing Specialist position funded through the Department of Housing and Urban Development (HUD) Housing Choice Voucher (HCV) grant program. The position will be assigned a caseload for the housing programs. Lastly, the proposed budget includes 1 FTE for a Human Services Coordinator position funded by the General Fund. The position will identify and make recommendations to management and the City Council regarding development and coordination of homeless services.

During FY 2020/21, the Community Engagement Division added 1 FTE for a Community Engagement Coordinator position to be funded by the City's General Fund. The position will bring the Community Engagement Team back to 3 FTE Coordinators, allowing each Coordinator to serve two (2) council districts with a wide variety of engagement initiatives, educational programs and events, problem solving challenges of Mesa residents, and providing internal support to other departments related to community engagement best practices.

During FY 2020/21, the Department added three (3) contracted Community Courts Navigator positions through Community Bridges, Inc. to assist with the increased volume of Community Court cases generated by Mesa Police Department efforts to assist the homeless. The three (3) positions cost \$204K annually, with an annual increase allowance of up to 5%.

During FY 2020/21, the Department received \$6.25 million of one-time funding for the Coronavirus Aid, Relief and Economic Security (CARES) Act funding from Maricopa County as part of an Intergovernmental Agreement (IGA) to assist Mesa residents impacted by COVID with rental assistance through the Eviction and Foreclosure Prevention Program.

Lastly, in FY 2020/21 the Department administered \$15.76 million in funding from the US Treasury to assist Mesa residents impacted by COVID with rental and utility assistance through the Emergency Rental Assistance Program.

Department of Innovation and Technology

The FY 2021/22 proposed budget is consistent with the FY 2020/21 budget.

Development Services

Total development activity revenues in FY 2021/22 are projected to be slightly higher than FY 2020/21 budgeted activity by \$225K. The FY 2021/22 proposed budget includes one additional Building Inspector position for \$90K for the department to meet current inspection demand.

During FY 2020/21, the department added one Building Plans Examiner for \$101K in order to keep up with customer demand.

Economic Development

The Mesa Business Builder Small Business Assistance program was established in FY2020/21 to assist small businesses in Mesa navigate through the impacts of the COVID-19 pandemic. The FY 2021/22 proposed budget includes \$300K in funding for the continuation of this program.

The FY2021/22 proposed budget also includes \$21K in funding for increased contract costs for the Greater Phoenix Economic Development Council and the CoStar commercial real estate database licenses.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY 2021/22 tentative budget is consistent with the FY 2020/21 budget.

Falcon Field

The FY 2021/22 proposed budget includes 1 FTE for a Program Assistant position to help Falcon Field market itself as a premier option for businesses and renters as well as continue to foster trust in the community through communication efforts, thus maintaining a low volume of complaints. Included in the FY 2021/22 CIP is the completion and reconstruction of mid-field taxiways including Higley Ramp West and the Runway 22L Runup Apron. These improvements will increase safety and operational flexibility.

During FY 2020/21, the department added 1 FTE for an Airport Maintenance and Operations Technician to maintain airport and FAA safety standards and keep pace with increased activity.

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

Financial Services

The FY 2021/22 proposed budget is consistent with the FY2020/21 budget.

Fleet Services

The Fleet Services Department is funded through the Fleet Internal Services Fund. This is an internal service fund established to account for financing, on a cost reimbursement basis, of commodities or services provided by one program for the benefit of other programs within the City.

The FY 2021/22 proposed budget includes 1 FTE for a 2nd Shift Foreman to enhance safety. This is the only shift that does not have a foreman. One-time costs for the addition of 3 lifts for lifting heavier vehicles and recoating the floors at West Mesa Service Center is included in the FY 2021/22 budget.

Human Resources

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

The FY 2021/22 proposed budget includes for the General Fund 1 FTE for a Human Resource Information Systems Analyst position to assist with position/new hire software systems including citywide transactions, reporting, responding to public records requests. Additional capacity for standby pay and overtime for the time and labor division to cover weekend shifts is also included. For the Employee Benefits Trust Fund, the budget includes additional capacity to cover an annual PCORI (Federal Excise Tax) payment which was reinstated based on number of lives covered under health insurance policy, and for the Workers' Compensation Trust Fund, the budget includes additional capacity to expand coverage.

A detailed update on the Employee Benefits and Workers' Compensation Trust Funds was given to the Self-Insurance Trust Fund Board on February 23, 2021 and can be found in the Trust Funds portion of this report.

Library

During FY 2020/21, Library Services purchased eleven (11) new Self-Checkout Kiosks for easy self-service use at the Main and Red Mountain branches. Toward the end of FY 2020/21, the Department will begin the design process for the Southeast Neighborhood Library construction.

The Library's portion of the voter approved 2018 bond projects are currently underway. The Department is expected to complete construction of the new Kids Zone at the Main Library in the beginning of FY 2021/22 for a total project cost of \$1.2M.

The Department is expected to complete construction of the addition of THINKspot to the Dobson Ranch Library in the middle of FY 2021/22 for a total project cost of \$1.9M.

Mayor and Council

The FY 2021/22 proposed budget is consistent with the FY 2020/21 budget.

Office of ERP Management

The FY 2021/22 proposed budget is consistent with the FY 2020/21 budget.

Office of Management and Budget

The FY 2021/22 proposed budget is consistent with the FY 2020/21 budget with the addition of a contract for a retirement/pension planning dashboard system to support decision making regarding the City's unfunded liabilities.

Parks, Recreation and Community Facilities

The FY 2021/22 proposed budget includes 8 FTE. The positions are for 4 Park Rangers to provide support for expanded parks and help prevent vandalism in parks. 1 FTE for a Marketing/Communications Specialist II to centralize marketing functions and create consistent brand standards, and 2 FTE for Sale Specialists and 1 FTE for a service worker to support new park facilities.

During FY 2020/21, the department eliminated of 2 FTE at the Convention Center and added 1 FTE for Aquatics maintenance and 1 FTE for supporting the asset management program.

Public Information and Communication

In FY 2021/22, the proposed budget includes \$20K for a contract for Graphic Design to assist with the increase demand and associated backlog. Otherwise, the FY 2021/22 proposed budget is consistent with the FY 2020/21 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 2021/22 are increasing, however federal assistance from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan Act (ARPA) will cover a significant portion of the City's costs for these services, \$17.2M.

The FY 2021/22 proposed budget includes \$50K in one-time funding for a shade study at City bus stops to assess whether the stops need additional shading. The proposed budget also includes \$450K in one-time funding for the design and construction of additional bus shelters. Lastly, the proposed budget includes funding for enhanced fixed route bus service on Mesa Drive, Stapley Drive, and Broadway Road. These enhancements include increasing the length of service on all days as well as providing increased route frequency on weekends.

Transportation

The FY 2021/22 proposed budget includes additional one-time funding of \$300K for the Transportation Master Plan (TMP), which is scheduled to be updated every ten years.

The FY 2021/22 proposed budget also includes funding for various on-going expenditures such as: 1 FTE for a Traffic Analyst position, additional \$400K to better reflect the costs of the utility service cut repairs, sealcoat valve adjustments, water treatment plant landscaping, and an additional \$2M for various sealcoating repairs across the City. The Transportation lifecycle funding also includes \$2M for residential and collector street overlays throughout the City.