



## City Council Report

Date: May 7, 2015  
To: City Council  
Through: Michael Kennington, Chief Financial Officer  
From: Candace Cannistraro, Management and Budget Director  
Subject: Update of Fiscal Year 2015/16 Proposed Budget

### Strategic Initiatives



### Overview

This report serves as an update to the original FY 15/16 Summary of Proposed Budget report presented to the City Council on April 20, 2015. All items presented in the previous report are unchanged unless noted here.

The FY 15/16 proposed budget is the first year in a two-year plan to align the city's on-going expenses with the available on-going resources. For FY 16/17, additional revenues will need to be identified, additional expenses will need to be reduced or a combination thereof in order to achieve a sustainable General Governmental budget.

### General Government Operating Budget

#### *Fire and Medical Department*

The original budget reductions identified for the department included three engineer positions assigned to the Aircraft Rescue Firefighting (ARFF) unit stationed at Falcon Field Airport. These three sworn positions have been placed back in the budget and replaced with one vacant civilian position in the Fire and Life Safety area and additional on-going reductions in items such as: travel and training, temporary services and tuition reimbursement.

#### *Parks, Recreation and Commercial Facilities*

City Council requested that staff look at the cost of keeping at least some of the pools open an extra two weeks to accommodate the scheduled delay in the Mesa Public Schools reopening for the 15/16 school year. One-time General Fund savings have been identified in FY 15/16 due to the cancellation of the Buckhorn Bath project. \$70,000 has been added to the department's budget to keep four pools open through August 9, 2015: Skyline, Mesa, Rhodes and Stapley. This is a one-time budget

adjustment for FY 15/16. The schedule for the aquatics program will be reviewed again in preparation of the FY 16/17 budget.

### *New Arts and Culture Fund*

The Arts and Culture Department manages the Mesa Arts Center, the i.d.e.a. Museum and the Museum of Natural History. These facilities rely on admission fees and ticket sales to augment the City of Mesa's General Fund contribution. To allow for easier tracking and management of the financial aspect of the various activities, all previous General Fund budget dollars have been moved to a new fund called the "Arts and Culture Fund". Revenues collected at the different venues will be allocated to this fund. The General Fund contribution will be set at a fixed amount each fiscal year and transferred to the new fund.

The Arts and Culture fund will not be included in the General Governmental summaries: meaning that the expenses and the revenues will no longer be included in the totals. The transfer of the General Fund contribution will be included in the same fashion as the General Fund transfer to the Transit Fund. The resulting decrease in revenues is about \$6.8 million. The resulting decrease in expenses is also \$6.8 million. The previous expense of \$15.8 million in direct, indirect and overhead expenses is replaced with the expense of the \$9.0 million city contribution transfer for a net impact of \$6.8 million.

### **Items Not Included in the Proposed Budget and/or Current Forecast**

#### *Capital Improvement Program*

New park facilities require additional ongoing funding to operate and maintain. As the economy has recovered, contracted services have become more expensive. The new and renovated parks approved in the 2012 bond election are scheduled in the capital improvement program; however the schedule will continue to be reviewed each year to determine if on-going funds are available to operate and maintain them.

\$1.1 million of new operations and maintenance associated with parks have been excluded from the forecast as part of the identification of on-going budget reductions. Following are examples of park projects and the required funding to properly operate and maintain them.

Eagles Park (Mesa Jr.)	\$375,000 per year needed in on-going funds
Klienman Park	\$125,000 per year needed in on-going funds
Pioneer Park	\$155,000 per year needed in on-going funds
Greenfield Park	\$275,000 per year needed in on-going funds
Monterey Park	\$126,000 per year needed in on-going funds
Signal Butte & Elliot	\$171,000 per year needed in on-going funds

The capital improvement program is continuously under review and revision. Projects may be approved to proceed based on City Council direction and available funding.

### *Lifecycle Replacement Program(s)*

The lifecycle replacement effort focuses on identifying and developing a multi-year plan for purchase of items (or technology) that have a mid-range useful life and should be replaced or upgraded 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.

Many lifecycle needs were identified during the FY15/16 budget process that the city is not able to fund. Infrastructure and lifecycle needs are included at the same level as FY 14/15. Funding has not been identified to increase the effort in this area. Some examples are listed here.

*Vehicle Replacement Program:* About \$7.4 million of General Fund related vehicles have been identified by the Fleet Services Department as meeting the replacement eligibility criteria. \$2.5 million is the current annual allocation for this program. Proceeds received by the city for the sale of retired vehicles are put toward this program as well.

*Fire and Medical Lifecycle Program:* The Fire and Medical Department has identified about \$1.0 million annual need for replacement equipment such as radios, breathing apparatus, heart monitors etc. There is currently no separate allocation for these items. The department is very aggressive with pursuing grant funds whenever possible like the recent grant for breathing apparatus. Other items are funded as citywide savings are identified in the adopted budget.

*Police Lifecycle Program:* The Police Department identified about \$3.0 million in additional equipment needs. The largest of which are \$1.7 million for radio replacements and about \$750,000 for consoles and various equipment related to communications (911/dispatch). The department is very aggressive with pursuing grant funds whenever possible. Other items are funded as citywide savings are identified in the adopted budget.

*Information Technology Business Applications Lifecycle:* The city's applications require upgrades as technology and customer needs change and to retain vendor support. Upgrades in this lifecycle program are for such citywide applications as work order management systems, financial management and human resource systems and individual department applications such as Fire RMS, Fuel, and Fleet. If required, replacement funds for systems such as public safety CAD or CIS Utility billing are multi-million dollar efforts that require significant multiple year savings/investments. The Information Technology Department identified \$1.6 million in FY 15/16 additional needs related to software upgrades

The FY 15/16 budget does include annual allocations around \$6.9 million in software licenses and maintenance, \$1.6 million in computer lifecycle replacement and averages around \$4.0 million in infrastructure replacement. The infrastructure amount is only \$1.1 million in FY 15/16 due to normal timing fluctuations in need.

*Facilities Maintenance Lifecycle Program:* \$3.0 million is the current allocation for this program and has not been adjusted in many years. The type of funds is dependent on the occupants of the building that is being maintained. As unscheduled repairs increase, the ability to be proactive decreases. A pilot program has been approved for FY 15/16 to try to reduce project costs and improve timeliness.

Staff will continue to identify and analyze needs citywide to create a comprehensive plan allowing for prioritization if/when additional funding is available.

#### *Human Services Funding*

Interest was voiced previously to increase the human services funding from the General Fund by \$100,000 on-going per year for a number of years. An additional \$100,000 was added in FY 14/15 and continues in FY 15/16 and throughout the forecast. No additional funding has been included in either FY 15/16 or in any other year of the forecast.

#### *BUZZ Re-Route*

The BUZZ transit line circles the downtown area. An option for re-routing the current route to include the Riverview area is estimated to cost an additional \$105,000 per year and it not included in the proposed budget.

### **Other Items of Note**

#### *Municipal Bond Debt - Possible Refunding*

The recent interest rate environment has allowed the city to refund (refinance) some outstanding debt at a lower interest rate. When these transactions take place, they typically involve large dollar amounts. The city receives the proceeds from the refinancing and uses them to pay off the eligible portion of the debt. This additional debt payment is recorded against the expenditure limitation amount allowed by the city. The FY 15/16 budget includes a placeholder of \$166.0 million for possible debt refunding. Placeholders were not included in previous budgets. This allows the City to maintain the contingency budget appropriation for unanticipated operational issues. The refunding transaction does not affect the General Governmental Fund or the Enterprise Fund directly; however it may affect the debt service scheduled over the forecast period for each fund.

#### *Highway Project Advancement Notes – Early Repayment*

In 2009, 2010, and 2011 the city issued a total of \$168.0 million in Highway Project Advancement Notes (HPANs) to finance the accelerated construction of State Route 24 (the Gateway Freeway) in southeast Mesa. It was anticipated that state funding for the project would reimburse the city in order to fully retire the debt by 2021. Due to the early availability of state funding, the FY15/16 budget includes the city's final \$78.0 million repayment of principal in order to fully retire HPAN debt.

### Carryover of expenditures from FY 14/15

Each year there are projects that will not be completed and items that will not be received before the end of the fiscal year. The expenditures for these items will occur in the following fiscal year. The estimated carryover expenses must be added to the FY 15/16 budget and appropriated by the City Council as the State does not allow prior year budget authorization to be used in a subsequent fiscal year. These “carryover” expenses are identified separately on the adopted budget to allow for better year-over-year budget comparisons.

The resources funding the carryover expenses were included in the FY 14/15 budget. The effect of the timing of expenses between fiscal years is an increased ending reserve balance for FY 14/15 and an equally increased expenditure amount in FY 15/16. Therefore there is no effect on the estimated ending reserve balance for FY 15/16.

### *Mid-decade Census*

The effects of participating or not participating in a regional effort to perform a mid-decade census are not fully known at this time. The city is continuing to review and discuss this issue. No adjustments have been made to either expenses or state shared revenues.