

# Financial Forecast/Sustainability

## General Governmental Funds

March 3, 2016

# City of Mesa

Presented by the Office of Management and Budget



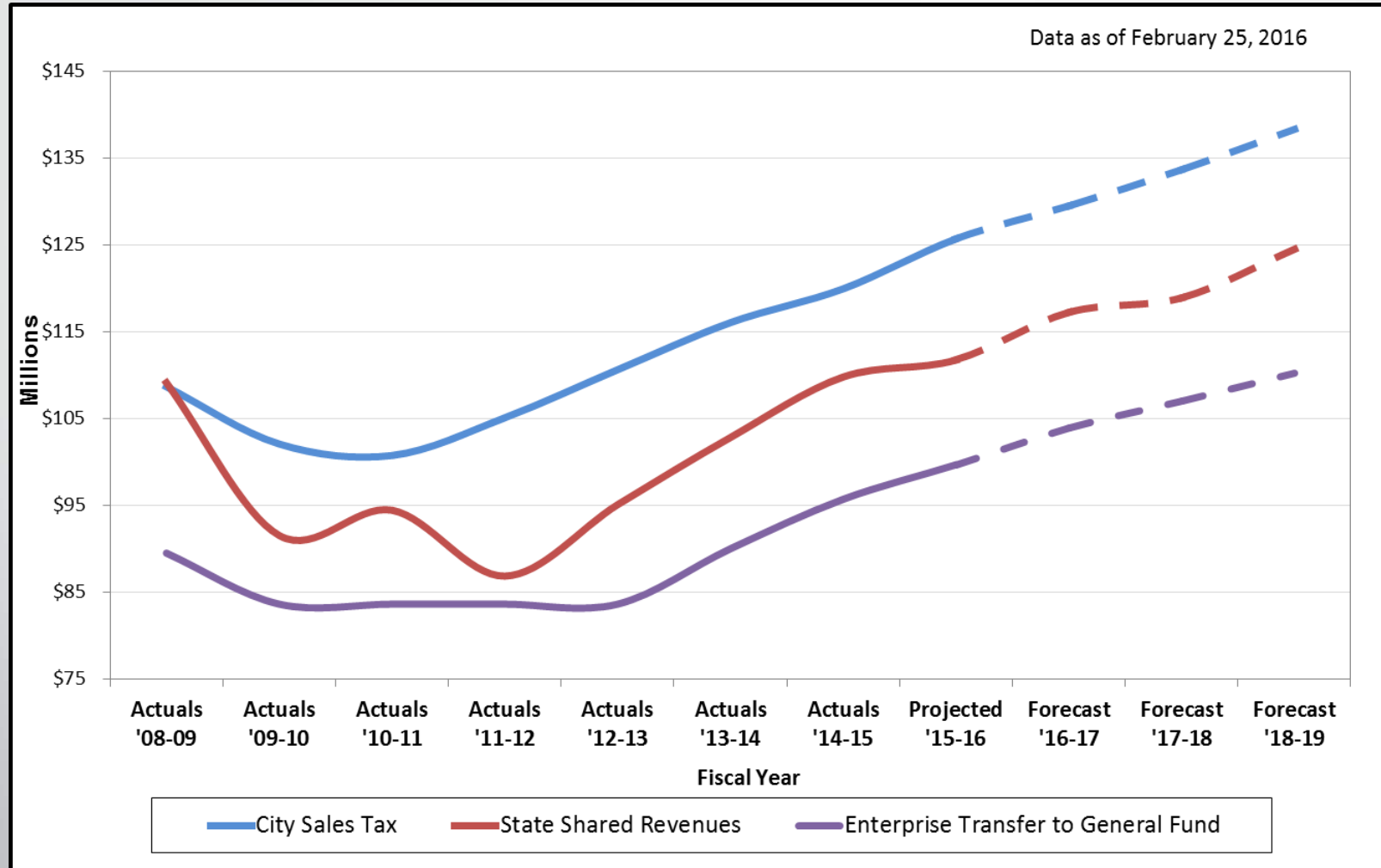
# Financial Forecasting/Financial Sustainability

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

# Revenue Forecasting

- The city subscribes to a forecast group out of the University of Arizona which allows for access to raw data regarding 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.

# General Governmental Revenues



# General Governmental Revenues

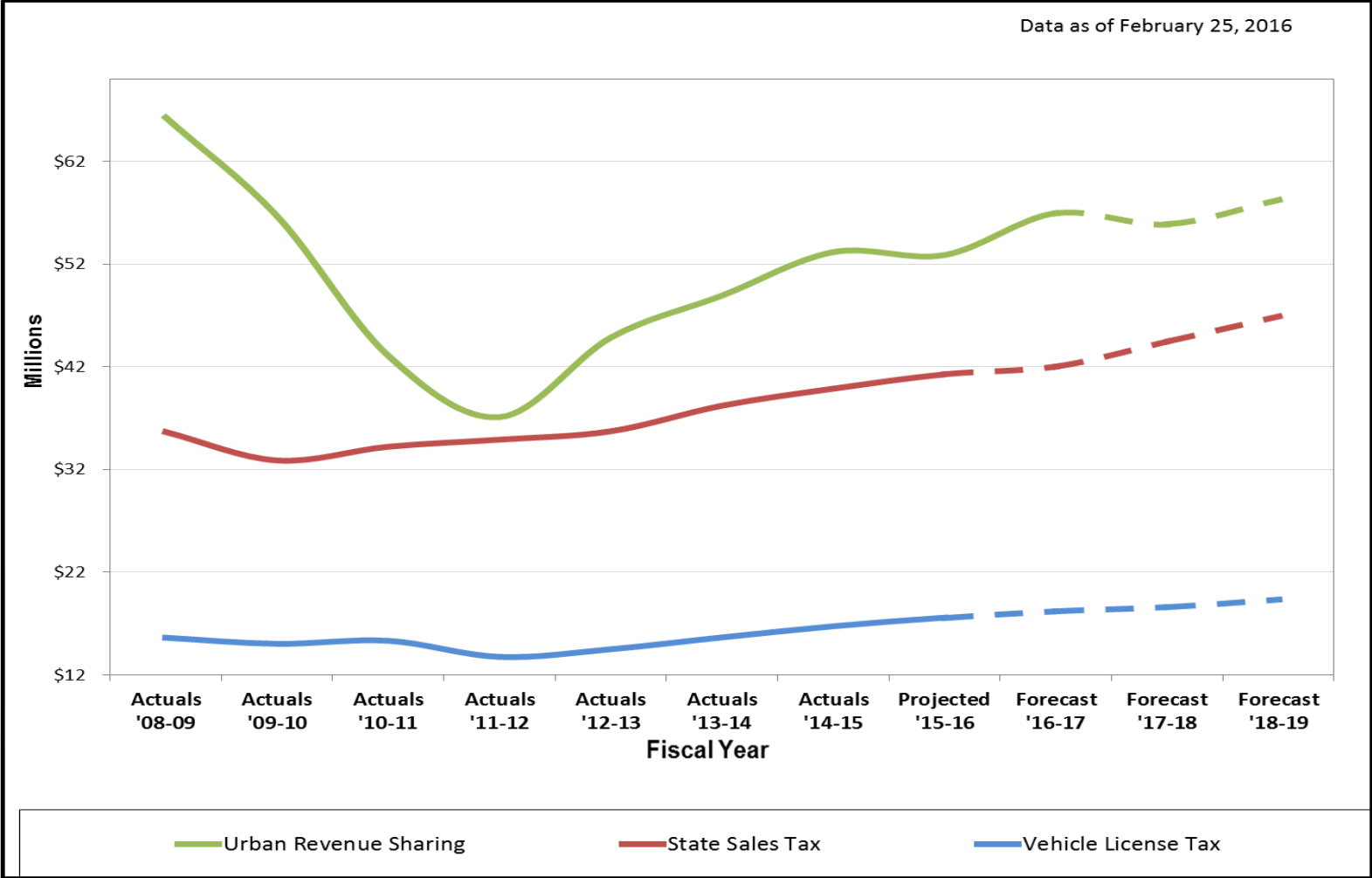
	FY 13/14 Actuals	FY 14/15 Actuals	Change from FY 13/14	FY 15/16 Budgeted	FY 15/16 Projected	Change from FY 14/15	FY 16/17 Forecast	** Change from FY 15/16 Projected
<b>Local Sales Tax</b>	<b>\$115.8</b>	<b>\$121.4</b>	4.8%	<b>\$123.0</b>	<b>\$125.7</b>	3.5%	<b>\$129.5</b>	3.1%
<b>State Shared Revenues</b>								
State Sales Tax	\$38.2	\$40.1	5.0%	\$41.0	\$41.3	2.9%	\$42.0	1.9%
Urban Revenue Sharing	\$48.9	\$53.1	8.6%	\$52.9	\$52.9	-0.5%	\$57.0	7.7%
Vehicle License Tax	\$15.7	\$16.8	7.1%	\$17.0	\$17.6	4.8%	\$18.2	3.6%
<b>Enterprise Transfer</b>	<b>\$90.0</b>	<b>\$95.7</b>	6.3%	<b>\$99.7</b>	<b>\$99.7</b>	4.1%	<b>\$103.9</b>	4.2%
<b>Other*</b>	<b>\$39.0</b>	<b>\$39.7</b>	2.0%	<b>\$38.1</b>	<b>\$37.8</b>	-5.0%	<b>\$35.8</b>	-5.1%
<b>Total</b>	<b>\$347.6</b>	<b>\$366.9</b>	5.5%	<b>\$371.6</b>	<b>\$374.8</b>	2.2%	<b>\$386.5</b>	3.1%

(as of Jan 2016 data)

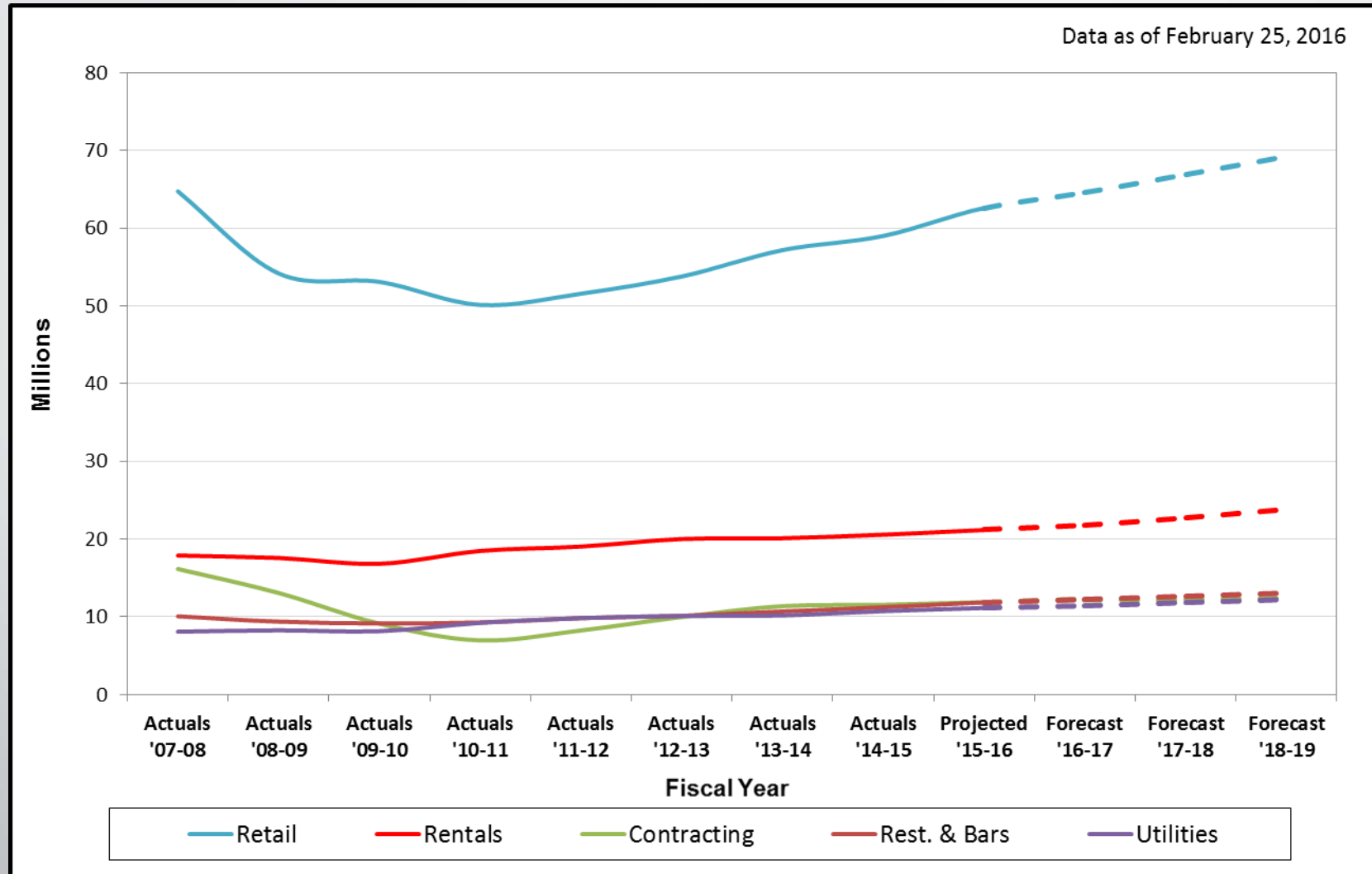
\* FY 2014/15 excludes \$6.5M in Arts and Culture Revenue as it is no longer included in the General Fund effective FY 2015/16.

\*\* FY 2016/17 State Shared Revenues forecast includes adjustment for recalculation of formula due to the mid-decade census. Impact is \$1.7M. Unadjusted increases would have been 3.3% for State Sales Tax, 9.2% for Urban Revenue Sharing and 5.5% for Vehicle License Tax. The non-adjusted overall increase would have been 3.6%

# State Shared Revenues



# Local Sales Tax



# 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 expenses
- Capital
  - Majority of expenses 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 contribution increasing 6% per year
  - Implementation of the full pension rate increases for the Public Safety Personnel Retirement System (PSPRS) will result in an increased cost of just under \$3.0M. Total PSPRS costs will increase just over \$4.0M
  - Still another pending court case with a possible effect of about a 6% increase in rates. Impact is not included in forecast
- Arizona State Retirement rates increasing less than 1% per year
- Medical premiums increasing 8% in CY 2016 and 2017 and 5% in later years
- Impact of third year of Memorandum of Understanding with each public safety association is included as well as continued impact of civilian salary market adjustments

# Transaction Privilege Tax Legislation

- Implementation of sales tax collection legislation continues to have a financial impact
  - Annual payments of \$760,000 for services provided by the Department of Revenue (DOR) continue even though the DOR has not taken over the reporting/collection process yet
  - The one-time payment of \$334,000 to support the modification of the system may be assessed again. There is no official word, but the city has been told that it is possible

# Lifecycle Items NOT Included in Expenditure Forecast

- Fire and Medical Equipment: Various large dollar needs such as breathing apparatus and 12 lead monitors
- Police Equipment: Various large dollar needs such as radios
- Vehicle Replacement Program: Current program allocates \$2.5M for annual vehicles replacements
- Information Technology: Software upgrades are not funded. IT tracks end of life for numerous applications. Each year, funding must be identified for the priority items
- Facilities Maintenance: Current program allocates \$3.0M in annual facility repairs and maintenance. Only able to react to repair requirements rather than plan proactively

# Programming NOT Included in Expenditure Forecast

- Continuation of the Fire Department's Community Medical units after the federal grant expires in August 2017
  - Additional analysis needs to be completed to estimate the net cost of continuing the program
- Additional costs associated with remodeling or operating the new buildings at the Baseline/Country Club location
- Additional personnel (sworn or civilian) in any general fund area
- Growth of existing or addition of new services/programs

# Budget/Resource Management

- Each year the personal services budget includes the fully loaded annual cost of all approved positions
  - Payouts for vacation time related to terminations, retirements and the annual vacation buy-back program and sick time related to retirements are not included in the budget
  - Historically, most departments experience budget savings due to turnover of positions during the year. This allows for the coverage of the payouts
  - Savings due to vacancies is also applied to overtime costs for those areas that have minimum staffing/shift requirements

# Budget/Resource Management Continued

- Budget savings occur in various places each year citywide
  - Continuous review of expenditure trends allows for planning/funding items that were not able to be included in the budget or unanticipated expenses that come up during the year
  - Most savings that occur are one-time in nature; a position was vacant for an extended time, a project or purchase came in under budget, a reimbursement was received from another entity

# Budget/Resource Management Concluded

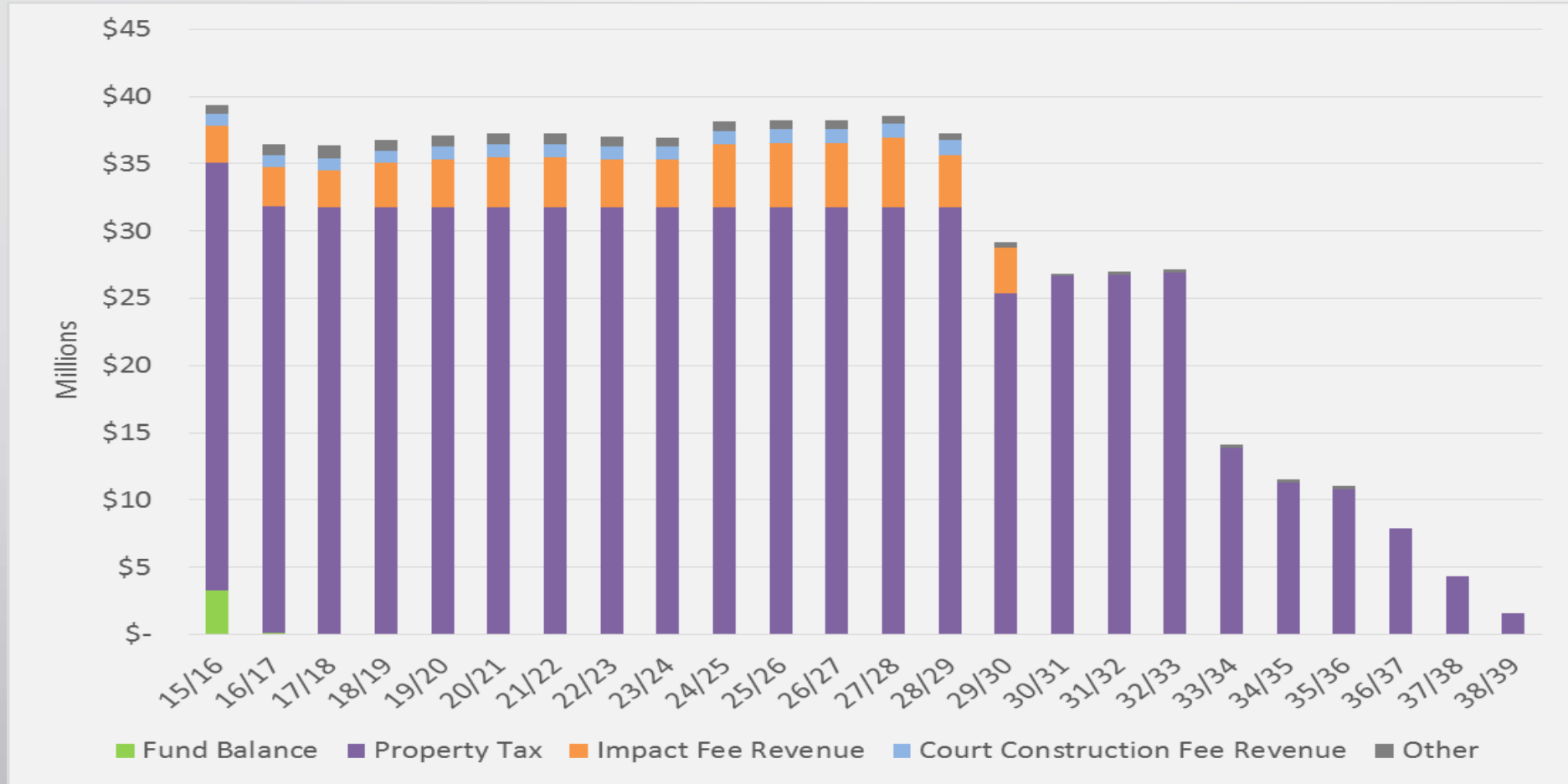
- Application of Budget Savings
  - Based on current year revenue projections, budget savings may be held to offset underperforming revenue receipts and to insure sufficient reserve balance
  - Mid-year budget modifications are reviewed in context of citywide priorities and source of resources. For example, one-time savings on a software maintenance contract may be reallocated to the highest priority software application upgrade or may be applied to a higher priority elsewhere in the city
  - Ideally lifecycle items would have an annual allocation in order to keep up with the needs. Currently most lifecycle plans are either underfunded or unfunded and rely on realized budgetary savings

# Expenditure Forecast – Debt Service

- Debt service associated with general obligation (GO) bond authorizations approved prior to 2008 were scheduled to be repaid with general fund revenues and other various revenues
- Debt service associated with general obligation bond authorizations approved in 2008 and later have associated secondary property tax levy amounts sufficient for repayment
- The city minimizes interest costs by annually issuing construction bonds for only the estimated amount needed for a 12 month period
- This phased issuance creates temporary levy revenue capacity that can be applied; to other existing GO debt service payments and/or structuring new bond issuances to pay off principal sooner and save the city interest expense
- In FY 13/14, \$5.1M was used from the general fund toward GO debt service payments. Due to the temporary levy capacity as well as increases in other debt related revenue sources, general fund revenues are not forecasted to be needed



# General Obligation Debt Payment Sources



# Expenditure Forecast – Transfer to Transit

- Transit – Bus, Light Rail, Dial-a-ride
- 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 portion covered by the general fund is projected at \$9.6M for FY 15/16 and \$10.2M in FY 16/17
- Light Rail operational costs are scheduled to increase about \$800K, mainly due to incurring a full year of operations as well as overall increased cost of the system
- The opening of the Gilbert Light Rail Extension is included in FY 18/19 of the forecast

# Expenditure Forecast – Transfer to Arts & Culture

- The Arts and Culture Department operates facilities that charge for services provided: admission/tickets to shows
- Expenditures are offset by these charges however the revenues do not cover the costs
- Effective FY 15/16, the expenses and associated revenues were moved out of the general fund and into a separate fund for ease of management and review
- The portion covered by the general fund is projected at \$9.0M in FY 15/16 and \$9.8M in FY 16/17

# General Governmental Expenditures

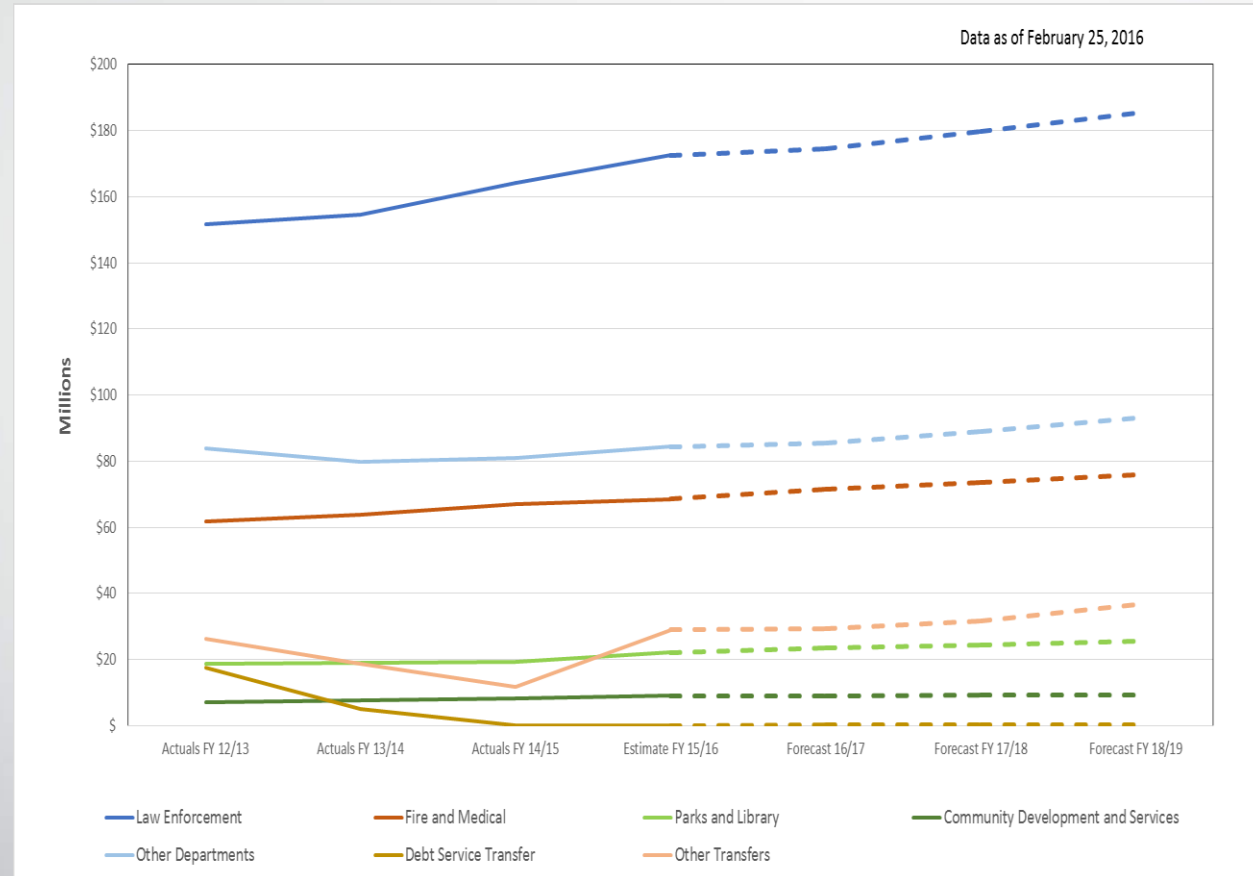
	FY 13/14 Actuals	FY 14/15 Actuals	Change from FY 13/14	FY 15/16 Budget	FY 15/16 Projected	Change from FY 14/15***	FY 16/17 Forecast	Change from FY 15/16 Projected
Operating Expenditures adjustment for carryover <b>revised operating*</b>	\$ 324.7	\$ 339.8	4.7%	\$ 354.4	\$ 356.5			
		\$ 3.7		\$ (6.3)	\$ (3.7)			
		\$ 343.5		\$ 348.1	\$ 352.8	5.3%	\$ 365.4	3.6%
Capital	\$ 8.4	\$ 6.4	-23.8%	\$ 5.8	\$ 7.9	23.4%	\$ 6.0	-24.1%
Debt Service (GF Portion)	\$ 5.1	\$ -	-100.0%	\$ -	\$ -		\$ 0.2	new
Transit Transfer**	\$ 6.7	\$ 0.9	N/A	\$ 9.6	\$ 9.6	N/A	\$ 10.2	6.3%
Arts and Culture Transfer				\$ 9.0	\$ 9.0	in operating %	\$ 9.8	8.9%
Transfers to Other Funds	\$ 3.5	\$ 4.4	25.7%	\$ 3.4	\$ 2.8	-36.4%	\$ 3.3	17.9%
<b>Total</b>	<b>\$ 348.4</b>	<b>\$ 351.5</b>	<b>2.6%</b>	<b>\$ 382.2</b>	<b>\$ 385.8</b>	<b>9.8%</b>	<b>\$ 394.9</b>	<b>2.4%</b>
Total: revised operating & transit		\$ 361.0		\$ 375.9	\$ 382.1	5.8%	\$ 394.9	3.3%

\* \$6.3M in appropriation was added to the FY 15/16 budget to accommodate the timing of items that may not have been expended in FY 14/15. As these are not new costs, the amounts are adjusted before calculating the percentage change. \$2.6M of these expenses did occur in FY 14/15 so the amount has been adjusted in the FY 15/16 projection.

\*\* FY 14/15 Transit transfer was unusually low due to one-time usage of transit fund balance. Total percent change from FY 13/14 to FY 14/15 was calculated with the full budgeted transfer of \$6.7M for better comparison.

\*\*\* For comparison purposes, the Arts & Culture Transfer is included in the operating percent change from FY 14/15 to FY 15/16.

# General Governmental Expenditures

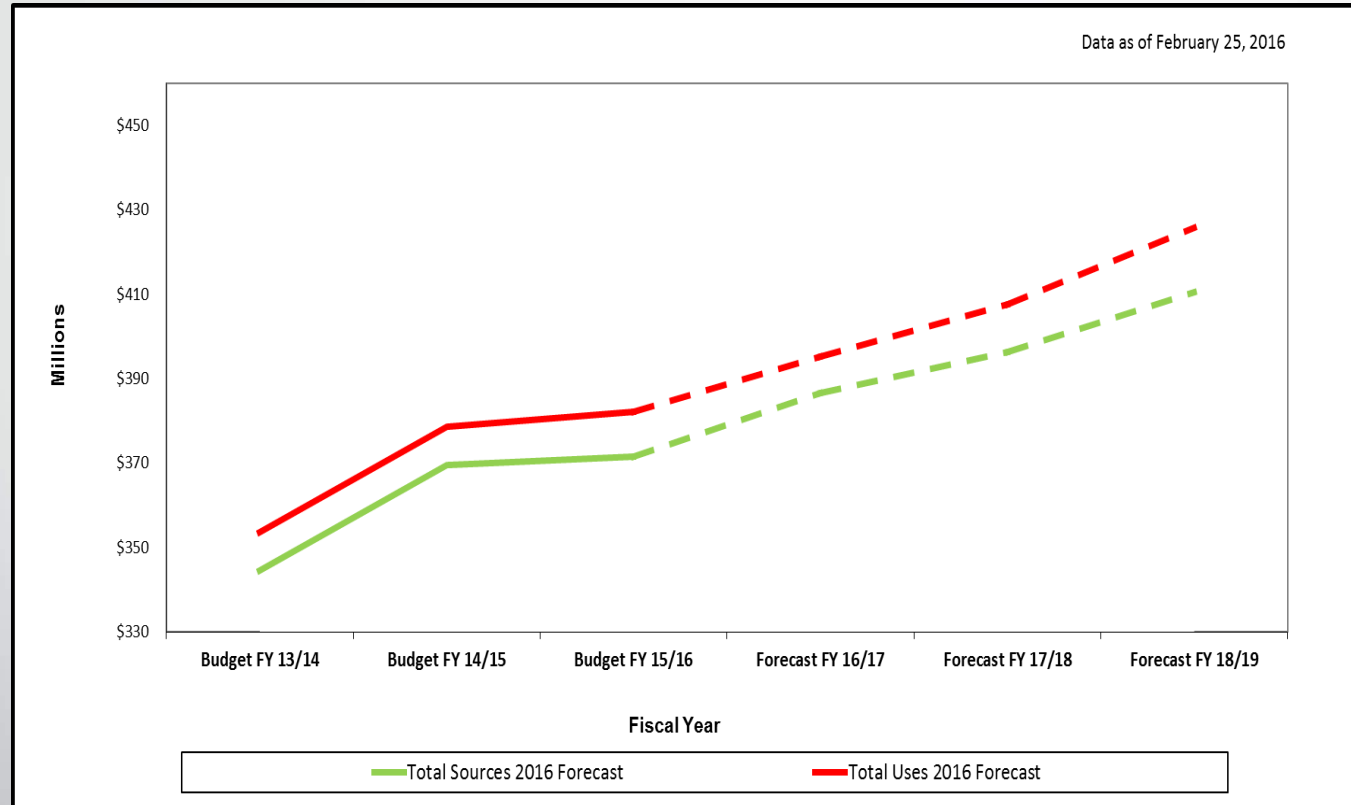


# Putting It All Together

## What is Financial Sustainability?

- Forecasting revenues and expenditures allows for determining if there are sufficient on-going revenues to cover current and new on-going needs
- Separating out items that can vary from year to year like capital and debt service allow for a better analysis of operational pressures
- The closer annual operating expenditures are to annual operating revenues, the more sustainable they are over time
- Periodic usage of reserves allows for the normal ebb and flow of finances

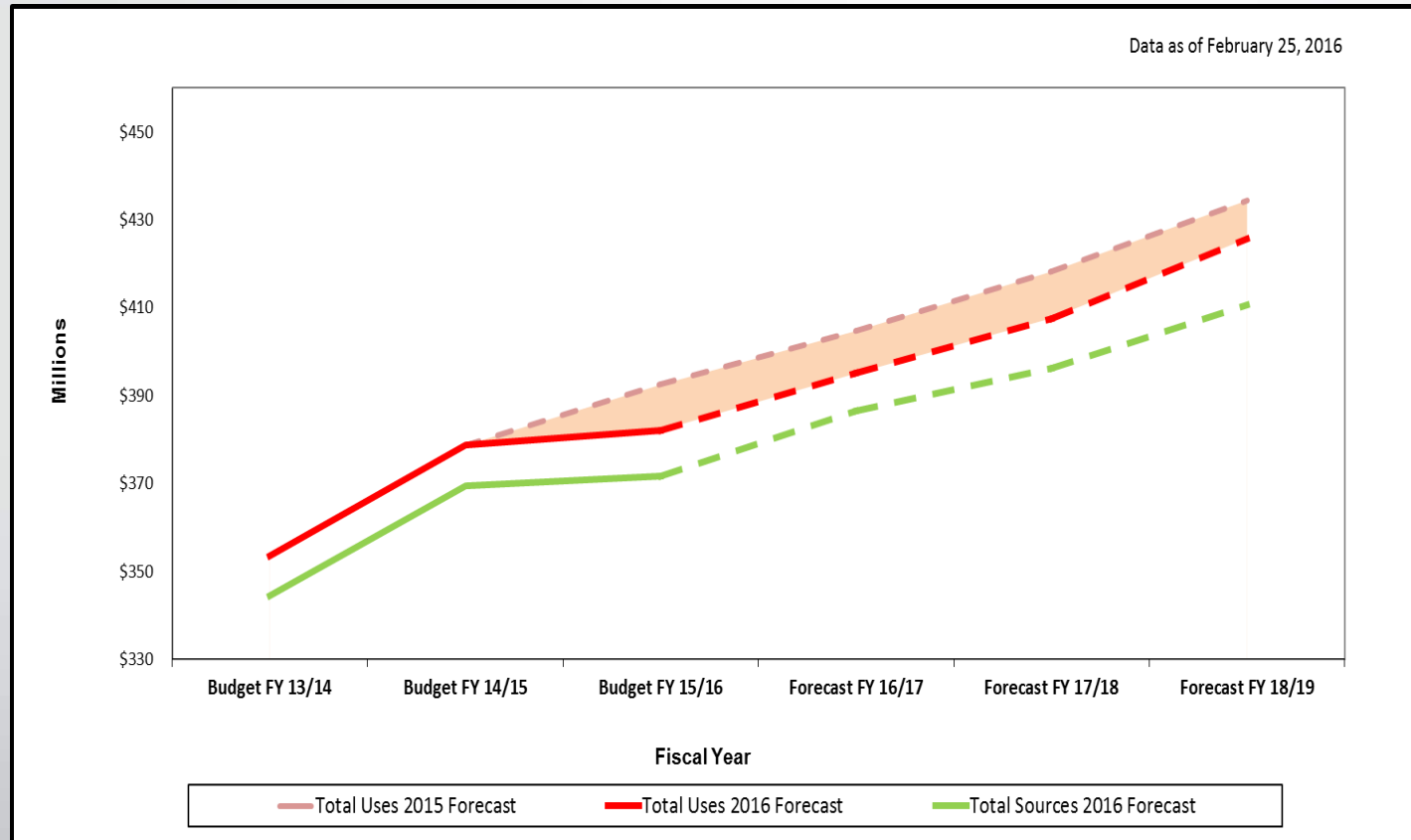
# General Governmental Forecast February 2016



	Budget FY 15/16	Forecast FY 16/17
Sources	\$ 371.6	\$ 386.5
Uses	\$ 382.1	\$ 395.1
Net	\$ (10.5)	\$ (8.6)
Carryover	\$ 6.3	
Revised	\$ (4.2)	

(in millions)

# General Governmental Forecast February 2016 compared to February 2015





# FY 16/17 Budget Focus

- FY 16/17 was intended as the second year of a two-year process to better align on-going expenditures with on-going revenues
- Realized operational savings in FY 14/15 has allowed for a temporary reprieve
- Department personal service allocations have been increased to cover the increased cost of positions while non-personal service allocations have been held at FY 15/16 levels
- Departments are asked to review operations in pursuit of innovations that result in savings. Operational savings of 2% is targeted
- Additional movement toward data based decision making as all requests for new funding require evidence of impact on outcomes of department mission

# Next Steps – Anticipated Calendar

- |          |  |
|----------|--|
| March 31 | Review Proposed FY 16/17 Budget  |
| April 7  | Review Capital Improvement Program (CIP)<br>Review Enterprise Fund and Utility Rates |
| April    | Hear from various departments  |
| May 16   | Adoption of the CIP and Utility Rates<br>Tentative adoption of the FY 16/17 Budget   |
| June 6   | Final adoption of the FY 16/17 Budget  |
| June 20  | Adoption of the Secondary Property Tax Levy  |



# General Obligation Debt Service Schedule for Bonds Authorized prior to 2008

Current Pre-2008 Authorized Debt Service

	Principal	Interest	Total
15/16	10,165,000	5,654,833	15,819,833
16/17	10,640,000	5,361,404	16,001,404
17/18	34,295,000	4,868,156	39,163,156
18/19	5,465,000	3,196,244	8,661,244
19/20	5,665,000	3,014,556	8,679,556
20/21	5,925,000	2,778,256	8,703,256
21/22	6,175,000	2,526,056	8,701,056
22/23	6,455,000	2,256,806	8,711,806
23/24	6,725,000	1,985,606	8,710,606
24/25	7,025,000	1,702,406	8,727,406
25/26	7,350,000	1,392,931	8,742,931
26/27	7,675,000	1,075,431	8,750,431
27/28	8,000,000	750,681	8,750,681
28/29	8,375,000	387,344	8,762,344
29/30	-	-	-
<b>Total</b>	<b>129,935,000</b>	<b>36,950,712</b>	<b>166,885,712</b>

Anticipated Refundings

	2016 Tax-Exempt Refunding	2016 Taxable Refunding	Total Pre-2008 Debt After 2016 Refundings
	(279,075)	2,062,156	17,602,914
	(145,050)	1,852,392	17,708,746
	(145,850)	(23,443,908)	15,573,398
	(146,650)	3,162,842	11,677,436
	(147,450)	2,001,837	10,533,943
	(148,250)	1,854,009	10,409,015
	(146,325)	1,791,509	10,346,240
	(146,025)	1,615,949	10,181,730
	(146,675)	1,593,292	10,157,223
	(150,075)	1,298,636	9,875,967
	(145,175)	3,925,564	12,523,320
	(147,275)	3,790,728	12,393,884
	-	2,701,120	11,451,801
	-	1,401,840	10,164,184
	-	-	-
	(1,893,875)	5,607,966	170,599,803

Anticipated Payment Sources

Build America Bonds Reimbursement	Court Construction Fee Revenue	Impact Fee Revenue	Property Tax Levy - To Free Up Capacity for Fire Stations 219 & 220 O&M	Property Tax Levy - Balance FY13/14 budget	Property Tax Levy - Authorized in 2012 & 2013 but Not Yet Issued - Temporary Capacity*	Savings from Interest Rate/Delinquency Assumptions**	Total Resources
90,837	861,920	2,854,630	2,569,614	2,376,150	8,849,763	-	17,602,914
90,959	879,159	2,834,621	2,569,614	2,376,150	7,917,135	1,041,108	17,708,746
90,959	896,742	4,036,358	2,569,614	2,376,150	4,293,380	1,310,196	15,573,398
90,959	914,677	3,173,793	2,569,614	2,376,150	1,601,642	950,601	11,677,436
90,959	932,970	3,502,866	2,569,614	2,376,150	-	1,061,384	10,533,943
88,147	951,630	3,412,790	2,569,614	2,376,150	-	1,010,685	10,409,015
84,894	970,662	3,408,316	2,569,614	2,376,150	-	936,604	10,346,240
81,243	990,076	3,359,128	2,569,614	2,376,150	-	805,520	10,181,730
77,140	1,009,877	3,377,541	2,569,614	2,376,150	-	746,901	10,157,223
72,426	1,030,075	3,222,098	2,569,614	2,376,150	-	605,605	9,875,968
67,216	1,050,676	5,901,995	2,569,614	2,376,150	-	557,670	12,523,321
61,395	1,071,690	5,885,423	2,569,614	2,376,150	-	429,613	12,393,884
54,962	1,093,123	5,006,392	2,569,614	2,376,150	-	351,560	11,451,802
47,801	1,114,986	3,821,910	2,569,614	2,376,150	-	233,723	10,164,184
-	-	-	-	-	-	-	-
<b>1,089,897</b>	<b>13,768,263</b>	<b>53,797,861</b>	<b>35,974,592</b>	<b>33,266,100</b>	<b>22,661,919</b>	<b>10,041,170</b>	<b>170,599,802</b>