



## City Council Report

Date: April 4, 2016  
To: City Council  
Through: Michael Kennington, Chief Financial Officer  
From: Candace Cannistraro, Management and Budget Director  
Subject: Fiscal Year 2016/17 Summary of Proposed Budget

### Strategic Initiatives



### Overview of Proposed Budget

Earlier this month, the Council received an update on the financial status of the City and an overview of the forecast process. At that time, available resources were projected for FY15/16 and forecasted for FY16/17 and beyond. The cost of the current level of service was also projected for FY15/16 and forecasted for FY16/17 and beyond. The combined forecast was consistent with information presented a year ago. The City currently has a gap between the level of on-going revenues and the level of on-going expenses. The result is reliance on reserve balances and savings experienced during the year. Last year expenditure reductions were made and the size of the funding gap was reduced.

Executive staff has met with each department to discuss and discern operational successes and concerns and to determine priorities for the upcoming fiscal year. The City has set a goal to align on-going expenses with on-going revenues to ensure that quality services and programs can be continued in the future. The proposed budget continues the reductions that were made in FY15/16. Departments have been asked to operate with targeted savings of 2% for FY 16/17. This allows departments flexibility over the year to take advantage of operational savings opportunities rather than specifying reductions up front.

The proposed budget continues the City's commitment to providing quality services to residents in a fiscally responsible manner. The City budget continues to focus on public safety, quality service, and investment in neighborhoods, investment in city employees and the leveraging of technology.

Specific areas of emphasis in the FY16/17 proposed budget are:

*Public Safety* - Focus on specific customer populations to allow for better quality of service and more efficient use of resources. A new Crisis Response Team in the Police Department will respond to incidences involving mental health concerns. The application of specific training to the needs of the situation will result in both increased service and increased safety for all participants. Continuation of the specialized units in the Fire and Medical department is also include: Community Medical Units, both Medical and Behavioral. The Fire and Medical Department is also reallocating on-going savings to address some operational needs related to areas such as the oversight of recruitment, training and peer support.

*Transit* – After a successful trial time period, the extension of the BUZZ route to the Riverview area is included as an on-going service. Work continues on the extension of the Light Rail line from Mesa Dr. to Gilbert Rd.

*System Security* – Increasing security related to cyber/data breach risk by expansion of the system to cover the entire city.

*Continuing to align utility rates with the associated demand on the system* – The proposed budget includes the second year of a five year phased approach of realigning the residential water rate tiers to more accurately reflect the types of system demand.

*Technology* – Investment in new and upgraded applications to improve effectiveness and efficiency of business processes and customer interaction.

### **General Government Operating Budget**

General Governmental revenues in the City of Mesa come from three primary sources: City sales and use tax, state shared revenues and a transfer from the Enterprise Fund. City sales tax, the largest of these sources increased in the spring of 2015. The trend continued into FY15/16. New auto sales are holding steady at 6% increase over the previous year. March activity in 2015 was considerably higher than in 2014. The activity for March 2016 will not be known until early May. At this time, local sales tax is projected to end FY15/16 3.5% greater than FY14/15. For FY16/17, the forecast is an additional growth of 3.1%.

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. Seven municipalities conducted mid-decade censuses thereby resetting the population formulas for all recipients. The difference in Mesa revenues is a decrease of \$1.7M in receipts for FY16/17.

The growth in Urban Revenue Sharing is the result of gains in individual income. 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 more than eight percent in FY14/15 but will actually decline slightly in FY 15/16. Part of the decline is due to the impact of the State reducing the corporate income tax over four years. FY 15/16 is the first year of the effect. FY16/17 will experience another increase year of 9.2% due to increased capital gains income. Mesa will only see a 7.7% increase in FY16/17 due to the resetting of population formula. State-shared sales tax is also increasing at a modest rate like local sales tax and is projected to be close to budget for FY15/16 with a projected increase of 2.9%. FY16/17 increase is forecasted at 3.3%, with Mesa's increase at 1.9% due to the formula change. Vehicle License Tax revenue, the smallest contributor to state revenue sharing, is projected to be slightly higher than budget expectations in FY 15/16 and increase 5.5% in FY 15/16. Mesa's increase will be 3.6% based on the formula change.

The Enterprise Fund transfer is the city's method of providing funding for general governmental services such as police and fire as well as library and parks. The City of Mesa does not have a primary property tax as other municipalities do to fund these types of services. The city uses the profit from the utilities to invest back into the city. The FY16/17 proposed budget includes an increase to the transfer amount of approximately 4.2%.

Mesa faces significant pressure from increasing expenses. Due to various reasons, the pension rates for public safety personnel increased greatly for FY 15/16. The Public Safety Personnel Retirement System (PSPRS) gave municipalities the option of phasing into the new rates over three years. The City chose to use a two year phase-in approach. The FY15/16 budget reflected the first year with an estimated impact of \$5.0 million. The FY16/17 budget includes the second year with an estimated impact of \$3.0 million.

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. The projected transfer for FY15/16 is \$9.6 million with an increase for FY16/17 to \$9.9 million. The increase is due to the full operating cost of the Central Mesa Light Rail Extension as well as overall cost of the system. The opening of the extension to Gilbert Road is currently forecast to occur in FY18/19.

New park facilities require additional ongoing funding to operate and maintain. The new and renovated parks approved in the 2012 bond election are scheduled in the capital improvement program. Last year some of the projects were placed on hold pending identification of funding to cover one-time start-up costs and on-going maintenance. The Parks, Recreation and Community Facilities Department experienced some savings in FY14/15. The one-time savings has been reallocated to start-up costs and the on-going savings has been reallocated to the on-going costs of these projects. All projects have been released and are proceeding with design/construction.

The General Fund contributes to three trust funds. There are significant one-time savings for the cost of claims in the Property and Public Liability Trust Fund, however the estimate

for FY16/17 has been increased over the FY15/16 budget by \$1.0 million due to unknown timing of pending claims. So some of the estimated savings in FY15/16 will be reallocated to the claims budget in FY16/17. This is discussed further in the trust fund section.

The other trust fund with a significant increase is the Employee Benefit Trust Fund. The City is experiencing a 17.9% increase in the cost of medical claims in FY15/16 over the prior year. Medical premium rates are set on a calendar year (CY) basis. CY2016 rates are estimated to increase 8.0% resulting in an increased City contribution for six months of FY16/17.

The level of General Government reserves is projected to be \$67.1 million at the end of FY15/16 (17.0% of the FY16/17 expenditure budget) and forecasted to be \$59.3 million at the end of FY16/17 (14.6% of the FY17/18 expenditure budget). The City's financial policies call for a forecasted fund balance (reserves) of 8-10% per fiscal year.

While the FY16/17 proposed budget expenses are balanced against available resources, a reserve balance drawdown is included. The reserve balance is available due to various items resulting in one-time savings. If revenues and expenditures continue as forecasted, the City will need to again restructure portions of the budget as was done in FY15/16. Revenues and expenditures are reviewed on an on-going basis to allow for proactive response to economic changes.

### **Enterprise Operating Budget**

Planning for new accounts and incorporating utility rate adjustment recommendations, FY16/17 operating revenues are estimated at \$342.6 million, up from \$336.2 million projected for FY15/16.

As economic conditions have improved, 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. If utility rates were held constant for FY16/17, the city would see a decrease in utility revenues net of pass-through revenue.

With the increase in utility customers comes demand to provide additional capacity and infrastructure to meet future needs. Of particular 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 that are in need of new and upgraded facilities in order to meet the growth demands of new and future customers.

The level of Enterprise Fund reserves is estimated to be \$48.8 million at the end of FY15/16 (14.2% of the FY16/17 expenditure budget) and \$47.2 million at the end of FY16/17 (12.8% of the FY17/18 expenditure forecast). The City's financial policies call for a forecasted fund balance (reserves) of 8-10% per fiscal year. The City forecasts expenses, revenues and reserve balances over a multi-year period. The reserve balance allows the City to react to increased expenses by smoothing necessary rate increases

over multiple years, therefore avoiding rate spikes. As in FY16/17, the City will sometimes carry a reserve balance greater than 10% due to this rate stabilization philosophy. 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 beginning in FY17/18. The City experienced favorable interest rates in the latest refunding of existing debt. The impact of the savings on the forecasted reserve balances is still being calculated.

## **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 the fuel tax paid at the pump by the consumer. Arizona's three largest cities also receive an additional allocation of the revenues referred to as HURF 3%. The other component is a 0.30% Mesa city sales tax dedicated to street expenditures referred to as Local Street Sales Tax (LSST).

Highway User Revenue Fund (HURF). HURF and HURF 3% revenues are forecasted to have modest growth over the next few years, increasing from an estimated \$35.2 million in FY15/16 to \$35.6 million in FY16/17. The largest volatility in these revenues has historically come from adjustments in the distribution by the State. HURF distribution was held steady during the recent legislative session; as this source is based on a population formula, it was affected by the mid-decade census. The estimated growth in FY15/16 is 3.8% while the estimated growth in FY16/17 is only 1.3%.

Local Street Sales Tax (LSST) Fund. LSST revenue collection is tied to the rest of city sales tax and, as previously noted, is experiencing increased growth recently.

HURF and LSST are managed together as both funds are restricted to streets related expenditures. The State's previous diversion of HURF revenues and the reduced sales tax receipts due to the recession have caused some street maintenance activities to fall behind the schedule anticipated when the LSST was approved. The City's street maintenance program outlines the highest priorities for allocation of available resources. Expenditures are modified to remain within available resources.

When funds are available, the city emphasizes street overlay projects. The available ending reserve balance for HURF and LSST combined are estimated to decrease from an estimated \$39.8 million in FY15/16 to \$31.2 million in FY16/17. An amount of \$8.9 million that was previously set aside for a possible loan to the Transit Fund related to the Gilbert Road Extension of light rail has been released. The city received regional transportation plan reimbursements sufficient to meet the needs of the city match required for the light rail expansion without the need for a temporary loan.

*Trust Funds*

Employee Benefit Trust Fund. The Employee Benefit Trust (EBT) Fund is used to fund employee health benefits and other employee benefit programs that the City sponsors. It is funded through setting medical and dental premiums that are paid partially by the employee and partially by the City. Cost containment measures implemented by the City in FY11/12 resulted in a resetting of the base level of the cost of claims. Since then, total expenses and the cost of claims have increased as shown below:

		Total Expenses	Increase	Cost of Claims	Increase
Actual	FY 11/12	\$52.2M		\$45.8M	
Actual	FY 12/13	\$56.3M	7.9%	\$49.8M	8.7%
Actual	FY 13/14	\$58.4M	3.7%	\$50.9M	2.1%
Actual	FY 14/15	\$68.4M	17.0%	\$56.8M	11.8%
Projected	FY 15/16	\$77.6M	13.6%	\$67.0M	17.9%
Forecast	FY 16/17	\$83.8M	8.0%	\$72.4M	8.1%

Each year, staff reviews the plan design and benefits with consultants and risk managers. Staff also reviews and recommends wellness programs. The City implemented a health and wellness center that opened to active employees and their families in October 2014 for preventive and primary care services. The Wellness Center opened for operations in FY 14/15 and accounts for \$1.6M of the increase in total expenses.

The City has experienced increased medical/prescription drug claim costs starting in FY 14/15 and continuing in FY15/16. Increases in these expenditures are largely driven by an increased number of overall claims, severity of claims and number of large claims. The reserve balance is estimated to end FY15/16 at \$44.2 million which is about \$10.7 million less than budgeted. This level is adequate to allow the city to continue with the existing premium rates through the 2016 calendar year (CY).

Premiums are set on a calendar year basis. To address the increase costs, the FY16/17 budget includes an 8% increase on both the city contribution to the medical premiums as well as the employee contribution for the first six months of CY2017. During the summer of 2016, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2016. The City contribution included in the FY16/17 proposed budget is \$57.5 million, \$4.5 million more than budgeted in FY15/16. The proposed budget includes an estimate of 117 new retirees in the retiree plan and an additional 8% increase in medical premiums in the forecast for CY2018. The national average for increases in medical costs is 8-9% annually.

Worker’s Compensation Fund. The Worker’s Compensation Fund is used to fund claims related to employee work-related injuries and is completely funded by the city. Total annual expenses have been fairly consistent. The average over the last three years is \$4.8 million with a projection of \$5.9 million projected for FY15/16. A nominal increase is estimated for FY16/17 at \$6.1 million

Departments contribute to the Worker's Compensation Fund each pay period based on the salary of each of their employees. Rates are established based on the risk level of the job classification, calculated in the total cost of the position and included in the departments' operating budget. Expenses are reviewed during the fiscal year and rates can be modified if needed. Pending worker's compensation claims are valued at the total estimated payment, which may occur over many years based on the type of injury. The current reserve policy sets the reserve target at the amount sufficient to cover the current year portion of claims and related costs.

Due to expenses coming in lower than anticipated, the reserve balance at the end of FY 14/15 is was greater than projected. This allowed for reduced worker's compensation rates to be included in the FY15/16 budget and one-time expenditure savings in the operational funds. For FY16/17, the city contribution is estimated at \$5.2 million. While this is about \$1.2 million more than the FY15/16 budget, it is returning to a more normal contribution level. The reserve balance level is still offsetting a portion of the needed contribution.

Property and Public Liability Fund (PPL). The Property and Public Liability Fund is used to pay claims related to lawsuits against the City. The value of claims paid can vary significantly by year. Over the last ten years, annual claims ranged from \$0.8 million to \$6.6 million, with an average of \$2.7 million per year. 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 only \$0.6 million in FY15/16 however outstanding claims may cause expenses to be greater in FY16/17. The cost of claims included in the FY16/17 budget is \$4.0 million.

In December 2015, the City Council approved an update to the trust fund document officially setting the fiscal year ending fund balance (reserve balance) at \$10.0 million. The contribution needed to maintain the reserve level is estimated each year and included in the budget. Expenses are reviewed during the year and the contribution amount is modified as necessary. Due to the reduced claims experience in FY 15/16, the original city contribution estimate can be reduced and still meet the reserve balance target. Some of this one-time savings will be allocated back to the PPL fund in FY16/17 to cover an anticipated increase in the cost of claims.

#### *Environmental Fee Fund (ECF)*

The Environmental Compliance Fee is applied to each utility account customer to meet the projected costs of Federal and State environmental mandates. Neither the Federal nor the State government provides funding for these activities. The current fee is anticipated to generate \$15.3 million in revenue in FY16/17. 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 \$15.4 million therefore no fee adjustment is needed. Savings experienced each year is accumulated and applied to one-time expenditure needs. An additional \$3.1 million is included in the FY16/17 budget for expenditures related to replacement of water pumps in retention basins, a wash rack station at the East Mesa Service Station, design of

drainage improvements for Lehi area and Sloan Park and design of a permanent Household Hazardous Waste Facility.

### *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 planned for \$2.2 million in new grant awards for FY15/16 which is similar to \$2.2 million planned for FY16/17. Notable grant awards include the following:

- \$924,749 Homeland Security Grant provides resources for the acquisition of equipment to support homeland security activities
- \$170,000 the Governor's Office of Highway Safety (GOHS) Grant provides resources for DUI and traffic enforcement activities, traffic safety equipment, traffic enforcement vehicles, and overtime for officers supporting the City's traffic safety program
- \$230,627 Mesa Family Advocacy Center (MFAC) Grants providing for the salaries and benefits for Victim Support Services personnel and equipment
- \$253,517 in multiple forensics grants. The National Institute of Justice DNA Backlog Program Grant provides resources for forensic personnel overtime and software in order to enhance the process of recording, screening and analyzing forensic DNA in an effort to reduce system backlog. The Coverdell Grant allows for the acquisition of new computer equipment and training for forensic personnel. The Forensics Crime Lab Grant will permit the City to upgrade one Triple Quad Gas Chromatograph Mass Spectrometer next year, along with providing funding for the purchase of computer equipment, and travel & training for forensic personnel
- \$179,000 Governor's Office of Highway Safety (GOHS) Grant for the acquisition of a Gas Chromatograph Mass Spectrometer.
- \$120,000 Justice Assistance Grant for equipment acquisitions
- \$250,000 Tribal Gaming Grants provides funding for the police Video downlink, pilot flight training request, license plate readers.



- \$40,000 High Intensity Drug Trafficking Areas (HITDA) Grant provides funding for officer overtime to coordinate activities that address drug trafficking in specially designated areas of the United States.

#### Fire and Medical Grants

Mesa Fire and Medical planned for \$4.6 million in new grant awards for FY15/16 which is similar to \$4.6 million planned for FY16/17. Notable grant awards include the following:

- \$4.3 million Centers for Medicare and Medicaid Services (CMS) Healthcare Initiative Grant. This is the third year of funding for the department's Community Care Response Initiative which provides high-quality immediate patient care at the point of calling for low-level emergencies. This program is expected to save millions of dollars in healthcare costs, while improving patient healthcare outcomes and enhancing efficiencies at local hospitals. The grant supports the salaries and benefits for key personnel, supplies, and equipment. A grant match is not required from the City.
- \$216,000 Urban Area Security Initiative (UASI) Rapid Response Team (RRT) for salary & benefits, including travel, conferences and training for key fire personnel.
- \$112,000 various other grant awards which include grants to provide immunizations and provide support for Community Emergency Response Teams.

#### Housing & Community Development Grants

The Housing and Community Development Department 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 Department has assumed a number of 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 are able to 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.

These three Section 8 programs are funded at a combined \$13.4 million in FY15/16 and \$13.6 million in FY16/17.

Furthermore, the City is a designated entitlement community by the Department of Housing and Urban Development (HUD). The 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 \$6.5 million in FY15/16 and \$6.6 million in FY16/17.
- 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 \$3.4 million in FY15/16 and \$3.1 million in FY16/17.
- 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 \$0.4 million in FY15/16 and \$0.4 million in FY16/17.
- Neighborhood Stabilization Program (NSP) – funding to revitalize housing in specific areas of the City to sell to qualified residents. The funding allows the City to acquire foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program was funded at \$3.6 million in FY15/16 and \$5.8 million in FY16/17. NSP is still ongoing and uses unspent funds from prior years to accomplish revitalization of housing.
- The Affordable Rental Movement (ARM) of Save the Family, in partnership with the City of Mesa, was awarded a Shelter Plus Care Grant in FY12/13 through the U.S. Department of Housing and Urban Development (HUD). This was the first Shelter Plus Care Grant to be awarded in the east valley. The grant allows ARM to provide seven homes for chronically homeless families for up to five years. The City of Mesa Housing Authority determines program eligibility, refer families to the Shelter Plus Care Program and monitors the program. This program is funded at \$0.3 million in FY15/16 and \$0.2 million in FY16/17.

## 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*

FY16/17 contribution rates for State-run retirement plans increased as follows:

Retirement Plan	FY 15/16 Rate	FY 16/17 Rate	Rate Change	Increased Annual Cost (All Funds)
Arizona State Retirement System (ASRS)	11.4%	11.3%	-0.9%	\$0.5M
Elected Officials Retirement System (EORP)	85.4%	95.6%	11.9%	\$0.0M
Public Safety Personnel Retirement System (PSPRS) - Fire	38.5%	41.2%	7.0%	\$1.3M
Public Safety Personnel Retirement System (PSPRS) - Police	39.5%	42.4%	7.3%	\$2.9M

The Public Safety Personnel Retirement System (PSPRS) allowed for municipalities to phase into the new rates. The City chose to phase in the rate increases over two years. FY16/17 includes the second year of the increases and is reflected in the proposed budgets for the Police Department and the Fire and Medical Department. The budgeted pension costs rose \$4.0 million over the FY15/16 budget with just under \$3.0 million of the increase due to the change in rates.

### *Step-Pay*

In accordance with the City's compensation plan, the FY16/17 budget includes step-pay funding of 5% for those employees that qualify. Each year position costs are recalculated based on the employee in the position at the time. This accounts for promotions, reclassifications, terminations and retirements. The impact is not a comparison from one fiscal year to another, but from the recalculated base to the projected amount.

### *Health Plan Contributions – Employee Benefit Trust*

In order 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 FY16/17 budget anticipates increasing the city contribution by 8% effective January 2017 as health care premiums are updated on a calendar year basis. Premiums will be reviewed in full over the summer. 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 an expansion of a water reclamation plant and the design and construction of a new water treatment plant as well as the associated

distribution infrastructure. The funding of the projects is available through utility revenue bonds authorized by Mesa voters in November 2014. 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 projects, as well as recently approved Public Safety and Transportation projects, is included in the proposed CIP. Planned park improvements include Eagles Park (former Mesa Junior High site), Greenfield Park, and Pioneer Park in central Mesa. The completion of the Mesa Regional Dispatch and Emergency Operations Center on the west side and improvements at the Police holding facility will ensure the City has the proper resources to address public safety needs. Scheduled street improvements approved by voters include the next phase of Mesa Drive and First Avenue in the downtown area. These projects are funded through general obligation (GO) bonds. In addition, improvements to several arterial roads citywide will use GO bonds to leverage regional grant dollars to complete projects that serve multi-modal transportation and safety needs. The debt service on general obligation 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 existing utility revenue bond authorization.

Also included in the proposed CIP are improvements at Falcon Field airport, various shared-use paths, and storm water infrastructure projects. These projects also 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. The proposed budget also includes improvements to the public safety communications network to ensure system reliability.

### **Secondary Property Tax**

The FY16/17 proposed budget includes the same secondary property tax levy as FY 15/16, \$33.4 million. Secondary property tax is limited in use to the repayment of general obligation debt.

The secondary property tax rate is calculated using property values for the City of Mesa as published by the Maricopa County Assessor's Office. Prior to FY15/16, the "full cash value" of a property was applied against the secondary property tax rate to produce the tax bill. In 2012, voters approved an amendment to the State constitution regarding property tax valuation. Beginning in FY15/16, the "limited property value" of a property is applied against the secondary property rate to produce the tax bill. The "limited property value" is always less than or equal to the "full cash value". The formula change set a new base in FY15/16 when reviewing rates between years.

The secondary property tax rate is adjusted in order to achieve the same levy dollar amount. The FY16/17 rate is reduced to \$1.1578 per \$100 of net assessed value, down

from \$1.2125 per \$100 of net assessed value in FY 15/16. This rate reduction is a result of an increase in property values. Since property values have increased, the property tax rate is reduced in order to generate the same amount of tax revenue.

There is no impact to the typical (median) residential median home owner. In FY15/16, the \$1.2125 tax rate applied to a median home limited property value of value of \$103,950 resulted in an average bill of \$126. In FY6/17, the \$1.1578 rate applied to a median home limited property value of \$109,148 also results in an average bill of \$126.

The City Council adopts the secondary tax levy and associated rate each year as a separate action from the budget adoption.

### **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 proposed budget includes the allocation of \$3.0 million of one-time savings from FY14/15 and FY15/16 to fund one third of the Police Departments radio replacement needs. A combination of one-time savings in software maintenance and on-going savings related to the retirement of the mainframe has been allocated to the upgrade of the various Advantage system modules. Many lifecycle needs were identified during the FY16/17 budget process that the city is not able to fund. Staff will continue to identify and analyze needs citywide to create 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

Communications has been able to work with Motorola to keep ongoing repair cost of radios to approximately \$400 per radio. They have also been able to partner with Mesa Public schools in which they are able to charge an approximate fee of \$30 to \$40 a month for each radio.

The FY15/16 Communications budget included \$3.6 million with an additional \$1.3 million for lease payments to Motorola over the next four years for the TOPAZ Voice Radio Network Equipment Upgrade project. The project is included in the lifecycle replacement program and will upgrade the city's existing communications network to ensure reliable radio service for first responders.

In FY15/16, consulting services for the TOPAZ network were included in the budget and funded design and specification development for the Fire Hazard Zone Communications (VHF) System. The FY15/16 budget includes \$900,000 for the installation and commissioning of phase one of the VHF system and \$1.2 million is included in the forecast. The project is part of the recommended capital improvement program and so the budget is reflected in the Projects Department. The City of Mesa is responsible for about 75% of the cost with the remainder covered by the other members of the joint venture.

#### Fire and Medical

During FY15/16 3.5 FTEs were added mid-year. Two Community Medical Services (CMS) grant funded alarm room nurses were added for a total of 13 positions funded by the CMS grant. The grant is scheduled to expire in August of 2017. Funds to continue the positions and the Community Medical Units have not been identified at this time. Temporary services budget was converted into non-sworn part-time positions totaling 1.5 FTE to support the department's communication staff with the coordination of events and other duties currently being performed by temporary staff and to work on contracts to develop Community Medicine program and Rescue program.

Recurring personal services savings is being allocated to six new unbudgeted sworn positions. These positions will support a variety of areas within the department: Electronic Patient Care Reporting (ePCR) system, recruiting, training, resource, operations and peer support. The budgeted number of FTEs will not increase, but the number of employees will increase.

FY 16/17 is the third year of the three-year memorandum of understanding with the labor association and calls for a market salary increase of 2.5% to the maximum of the salary ranges for employees covered under the agreement. This market adjustment increases the number of employees that are eligible for the city's standard compensation program commonly referred to as step pay. The associated position costs are included in the proposed budget.

Additional information on Fire and Medical grants is included in the grant section of this report.

### Municipal Court

The proposed budget for the Municipal Court is consistent with the FY15/16 budget. The department has been using accumulated Fill the GAP grant funds to operate the Arraignment Commission which handles arraignment cases (i.e. DUIs). The funds have been depleted causing the need to fund half of the cost, \$60,000, from the general fund in order to continue the service. The other half is covered by the annual receipts of the grant.

### Police

A new Crisis Response Team has been included in the FY16/17 proposed budget. The team consists of five officers and a sergeant specially trained to respond to calls involving mental health concerns. The application of specific training to the needs of the situation will result in both increased service and increased safety for all participants. The department has collected metrics such as patrol time currently incurred and use of force incidences. Staff have reviewed similar programs in Tucson and Phoenix. The Tucson program has been active for some time and has seen positive results. The focus on specific customer populations will allow for better quality of service and more efficient use of resources.

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 FY16/17 budget includes additional Axon body cameras for officers. This is the third year of a three year phased purchase of body cameras and includes \$125,000 for the purchase and \$11,000 in on-going operational costs.

Information on Police grants is included in the grant section of this report.

## *Utility Departments*

### Energy Resources

In FY16/17 Energy Resources forecasts modest customer growth for Natural Gas and Electric customers. The commodity cost for Gas (PNGCAF – Purchased Natural Gas Cost Adjustment Factor) which is a pass through cost to the customer is budgeted approximately \$3,700,000 less for FY 16/17 compared to FY15/16. The decrease is due to a dip in the purchase price for the commodity of natural gas. The commodity cost for Electric (EECAF – Electric Energy Cost Adjustment Factor) which is a pass through cost to the customer is budgeted approximately \$900,000 more. Customer growth is projected to increase at a modest pace with a slight decrease in consumption per customer due to conservation efforts. For the sources, Energy Resources has proposed increase to the system service charge for Electric residential customers and for all Natural Gas customers for an impact of \$816,000 in additional revenue.

A new Utility Locator position is included in the proposed budget and is funded through a decrease in overtime. Salary parity for Electric workers has been addressed and \$75,000 of solar incentives is continued.

#### Environmental Management and Sustainability

Effective July 1, 2015 the Solid Waste Management Department became the Environmental Management and Sustainability Department. With the change, the department maintained its Solid Waste Management unit, and added the Environmental and Sustainability unit from the Development and Sustainability Department. These changes increased the department's FTE count from 131 in FY15/16 to 143 in FY16/17.

Effective July 1, 2016, a statutory change will allow commercial businesses to compete with the Department for servicing multi-unit (five or more units) family housing. There have been operational changes to the Department as a result of this statutory change. To incentivize customers, the Department now offers a multi-year discount. By offering this discount and accounting for lost revenue to the statutory change, the Department anticipates reducing \$525,000 in revenues. Because of decreased service needed, The Department also plans to reduce expenditures by \$280,000 due to the statutory change.

#### Water Resources

The FY16/17 proposed budget includes changes in the cost of power, water purchases, and the city's participation in joint ventures with other municipalities. The cost for power and chemicals is anticipated to increase by \$447,000 and the cost for water commodity purchases is expected to decrease by \$455,000 due to lower consumption. The city participates in joint ventures with other municipalities to provide water and wastewater services. The city's participation cost is expected to be about \$628,000 more in FY16/17.

In FY16/17, the proposed budget includes eight new positions. Five are related to the new Signal Butte Water Treatment Facility. The positions are in support of and funded by the construction project until the facility is operational. The on-going operational costs are included in the forecast. Two additional meter reader positions are included to address the increase in the number of accounts. A Water Reclamation Supervisor for the Southeast Water Reclamation Plant is included to allow for dedicated supervisors for each plant.

#### *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. FY16/17 budget is \$1.3 million lower in the Performing Live area.

During FY15/16, 3.8 FTEs were added. These additions are funded through the conversion temporary services budget and increased revenue generated from having the capacity to assist additional patrons.

#### Business Services

In the FY15/16 Budget Business Services made \$510,000 worth of budget reductions as a result of the State's Arizona Department of Revenue transitioning to oversee Transaction Privilege Tax licensing and collection activities. This implementation was scheduled to be completed at the beginning of February, 2016, however delays have prevented this transition. The department is hopeful the transition will be completed by the start of FY16/17. As delays occur, additional funding is needed by the department to continue providing the service. \$954,000 continues to be included in the proposed budget for payment to the Arizona Department of Revenue (ADOR) for the services they provide the City of Mesa. \$334,000 is also included for Mesa's contribution to the reworking of the ADOR's computer system. This was originally a one-time payment scheduled for FY15/16. It is possible that Mesa will be required to make another one-time payment in FY 16/17 as the project has not been completed.

Business Services transitioned to a new merchant services provider, leading to a \$1.0 million reduction in credit card fee expenditures that is included in the proposed budget.

Business Services is continuing its process of realigning and enhancing the scope of the activities within the department, implementing a new licensing application, updating the Customer Information System, providing new alternative payment locations, and many other tools to make it easier for residents and businesses to conduct business with the City.

#### City Attorney

The City Attorney's Office oversees the Property and Public Liability (PPL) Fund. The City uses the PPL Fund to pay 3d party liability claims; to pay the administrative costs for our litigation team; and to purchase insurance coverage to protect the City against major losses. The estimated claims paid for FY15/16 will be approximately \$650,000, which is \$2.15 million below the FY15/16 budgeted amount. Estimated claims are expected to increase from the FY15/16 budget amount of \$3.0 million to \$4.0 million for FY16/17. The PPL insurance premiums are difficult to anticipate but are expected to increase (from \$1.5 million to \$1.65 million) due to national and local factors that affect municipal liability insurance. Claim payouts for future fiscal years beyond FY16/17 are expected to increase due to increases in high profile claims.

Three new Victim Services Assistant positions and one new Victim Notification Clerk were added in December 2015 to the Prosecutor's Office to expand current victim services. The Department received additional Victims of Crime Act grant funds to cover the cost of the positions. In FY16/17, the City Attorney's Office changed the funding on an Assistant City Attorney III position to be funded fully from the Enterprise Fund since this attorney supports the City Utilities.

#### City Auditor

The FY16/17 proposed budget is consistent with the FY15/16 budget.

#### City Clerk

The budget for City Clerk's Office is adjusted each year for the cost of possible elections. FY16/17 includes a \$442,000 baseline adjustment for estimated election costs. There were not any planned elections in FY15/16 and therefore no election costs were included in the FY15/16 budget.

#### City Manager

The FY16/17 proposed budget is consistent with the FY15/16 budget.

#### Community Services

During FY15/16, the Housing and Community Development Department and the Neighborhood Outreach and Animal Control Department were merged into the Community Services Department. The Diversity Program Administrator position was converted to the Community Services Director, and the Housing and Revitalization Director was converted to two full-time Housing Specialist positions to support the receipt of additional grant funds.

The FY15/16 budget for the Housing and Community Development Department was \$28.4 million and the Neighborhood Outreach and Animal Control Department's budget was \$1.5 million. In FY16/17, the two budgets have been combined for a total budget of \$32.3 million for the Community Services Department.

The Housing and Community Development Division's FY16/17 grant budget is projected to be \$29.5 million for grants supporting Housing Services and Community Planning and Development which is higher than the FY15/16 budget of \$26.1 million.

#### Development Services

The department name changed from Development and Sustainability to Development Services. The Department's FY16/17 budget includes a decrease of \$2.5 million and a reduction of 11 positions which were transferred to the Environmental and Sustainability Department as a result of the FY15/16 merge of the Department's Environmental and Sustainability unit with the former Solid Waste Department.

Over the last several years, increasing development activity has required the department to utilize temporary services to complete the additional workload and meet customer expectations resulting in the department's need for contingency funds. The increased development activity levels resulted in revenues above projections and covered the cost for the additional temporary services. The FY16/17 budget includes an increase in expenditures and revenues to address the anticipated continued higher level of development activity which will reduce the likelihood of the department needing additional budget during FY16/17. The additional budget will be adjusted annually as needed based on the anticipated permit activity level. The department tracks workload on a daily basis and makes adjustments in the use of temporary workers based on demand.

The project to replace the aging permitting system continued through FY15/16 and is expected to be online in FY16/17. The existing permitting system was obsolete and minimally supported by the vendor. Replacing the system will result in savings to the City and to the development community by reducing printing costs and increasing productivity of professionals responsible for preparing, submitting, and correcting development plans. The system is mainly funded through the technology fee which is charged on each permit and service charge in Development Services and is restricted for use on technology maintenance and improvements.

Two additional Code Compliance Officers are included in the proposed budget as well as some funds to contract for historical preservation services.

#### Economic Development

The FY16/17 proposed budget is consistent with the FY15/16 budget. The current Redevelopment Area (RDA) is being expanded and would encompass Main St. extending east and west from the current RDA area to include the light rail line. The funding for the Main St. expansion was included in the FY15/16 budget. Council requested staff to develop RDAs for two additional areas. These additional areas have not been included in the proposed budget. The cost for the two additional areas is \$300,000.

#### Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY16/17 proposed budget is consistent with the FY15/16 budget.

#### Falcon Field

The FY16/17 proposed operational budget is consistent with the FY15/16 budget however Falcon Field has experienced a decline in Federal and State grants. Federal grants decreased \$514,075 and State grants decreased \$1,176,983 for FY15/16 year end due to fewer contracts being issued this fiscal year.

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

### Financial Services

The FY16/17 proposed budget is consistent with the FY15/16 budget. \$80,000 in FY15/16 bank fee related savings is being reallocated to temporary services in the department to backfill positions during the Advantage upgrade project.

### 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.

Fleet Services experienced significant savings in fuel costs in FY15/16 due to lower prices and continues to monitor the fuel market to anticipate any changes that may occur in FY16/17. An additional Fuel System Specialist position has been included in the FY16/17 proposed budget. There is currently only one position providing citywide coverage. The additional position will increase coverage and stability of service.

### Human Resources

During FY15/16, five new part-time non-benefitted positions (one Office Assistant I, three Program Assistants, and one Human Resources Recruiter) were added to the department. The department converted temporary services operating budget as an offset. These positions are included in the FY16/17 budget.

The City's timekeeping system is beginning an upgrade in FY16/17 and one-time funds have been added to the Time and Labor area in the amount of \$126,000. This will allow for the backfilling of two positions while they work on the upgrade project.

For the Employee Benefits Trust Fund, FY15/16 claims are projected to be \$11.3 million over the budget of \$55.7 million which is mainly attributed to a significant increase in the number and severity of high dollar and catastrophic claimants. Other factors affecting the cost of claims are: nationwide medical and prescription drug trend increases; increased health care reform related, fees, taxes and plan design compliance changes that have introduced new cost factors or shifted cost share from members to the City; and a covered plan member increase of over 900 members from calendar year 2014 to 2015. Claims for FY16/17 are expected to continue to increase with a proposed claims budget of \$72.4 million.

A Wellness Digital Platform and Portal will be piloted in FY16/17. Up to 500 employees will be invited to participate in an on-line, interactive web-based

system that delivers wellness program initiatives in the workplace. The Platform will include a variety of health management tools including: health risk assessments; health coaching and education; as well as lifestyle management and tracking; in order to, promote wellness and engage employees in health related activities. The Platform also provides the ability to measure the effectiveness of wellness activities.

The FY16/17 budget for the Workers Compensation Trust Fund includes an increase of \$200,000 due to an increase in anticipated claims.

A detailed update on the Employee Benefits and Workers Compensation Trust Funds was given to the Self-Insurance Trust Fund Board on February 8, 2016.

#### Information Technology

The proposed budget includes funds to relocate the City's data center to an AT&T Data Center located within Mesa. The existing location is an aging building that does not have redundant electric power and has the potential for extensive outages. Funds originally allocated for repairs/upgrades to the existing building have been reallocated to the relocation. The project will take two years for completion, requiring the purchase and set up of new equipment before operations can commence. The estimated cost is \$883,000 in FY16/17 and \$572,000 in FY 17/18. A minimal presence will remain at the existing location for purposes of connectivity.

Additional funds are included in the proposed budget to reduce the City's cyber/data breach risk by expanding the malware detection to city-wide coverage.

#### Library

Library's THINKspot at Red Mountain Library has become a regional model in which people from both in state and out of state have come to see it. It has become nationally recognized as an example of the American Libraries Association's "Libraries Transforming Communities" initiative.

THINKspot 2.0 at the Main Library will be based on learning focused programs that will directly support the Councils "What Works Cities" desired outcome of increasing educational attainment and the efforts of the Mayor's "Early Childhood Learning Task Force" to ensure Mesa's children arrive at kindergarten ready and able to learn. An additional Librarian III position is included in the proposed budget for a partial year to oversee THINKspot 2.0.

The goal of both THINKspot sites is to continue to support Mesa's residents and children pre-k through university age.

#### Mayor and Council

In FY16/17, personal service costs will increase 8% due to the change in Councilmembers salaries (does not include the Mayor) and communication

allowances as recommended by the Independent Commission on Compensation for Elected Officials. These changes increase personal services by \$56,556, to \$738,000.

#### Office of ERP Management

The FY16/17 proposed budget is consistent with the FY15/16 budget.

#### Office of Management and Budget

The FY16/17 proposed budget is consistent with the FY15/16 budget.

#### Parks, Recreation and Community Facilities

The Facilities Maintenance Department was merged with the Parks, Recreation and Commercial Facilities Department to create the Parks, Recreation and Community Facilities Department.

*Recreation:* In FY15/16 a two week public swim extension at four pools was successful. Continuation of this extension has been included in the proposed budget with a \$50,000 net impact. Transitioning the Gene Autry Tennis Center from outside management to City management is included in the proposed budget. Final estimates are still being reviewed. On-going operations and maintenance is expected to be covered by revenues generated from the facility.

Each year, the department is asked to support multiple city sponsored special events which negatively impacts the budgeted activities. An \$83,000 annual allowance has been included in the proposed budget to cover temporary services and related equipment as needed.

For FY16/17 Parks, Recreation, and Community Facilities will see an increase in personal services and a decrease in temporary services as the city works to convert some of the existing temporary positions to non-benefited city positions.

*Facilities Maintenance:* The FY16/17 budget adds an additional \$90,000 to the \$120,000 included in the FY15/16 budget to annualize the cost of maintenance for the newly acquired property at 708 W. Baseline Rd.

A comprehensive assessment of all city facilities has been identified as a need but has not been fully quantified or funded at this time. The \$3.0 million annual lifecycle allocation for facility repairs and improvements remains unchanged in the FY16/17 proposed budget.

#### Public Information and Communication

Closed captioning service for City Council meetings and study sessions is not currently provided. \$20,000 has been included in the department's budget for this service. The conversion of a part-time videographer position to a full-time position has also been included. This will allow for the coverage of more city events.

### 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. Light rail construction to extend the line to Mesa Drive completed in August 2015. The capital improvement program includes work pertaining to the extension of the light rail line to Gilbert Road. Operational funding for this extension is not needed in FY16/17, however it is included in the multi-year forecast.

The costs of services in FY16/17 are increasing. The FY16/17 proposed budget is \$1.5 million higher than the FY15/16 adopted budget mainly due to the first full year of operation of the Central Mesa Light Rail extension and increased security costs related to light rail. The budget related to bus, paratransit, and transit facility operations and maintenance is static between FY15/16 and FY16/17.

The BUZZ service was rerouted through Riverview for a trial period. The trial period has expired with successful results. The proposed budget includes on-going funds of \$110,000 to continue the BUZZ service as currently routed.

### Transportation

The FY16/17 proposed budget is consistent with the FY15/16 budget. The proposed budget includes the purchase of a new street sweeper specifically designed for pavement patching operations. Use of a standard street sweeper causes undue wear and tear and shortens the useful life. The funding is from the local streets sales tax and is included in the Fleet Services Department as part of city wide vehicle acquisition.