



## City Council Report

Date: April 2, 2018  
To: City Council  
Through: Michael Kennington, Chief Financial Officer  
From: Candace Cannistraro, Management and Budget Director  
Subject: Fiscal Year 2018/19 Summary of Proposed Budget

### Overview of Proposed Budget

In March, the Council received an update on the financial status of the City and an overview of the forecast process. At that time, available resources and the cost of the current level of service were projected for FY17/18 and forecasted for FY18/19 and beyond. The financial position of the City has strengthened over the last year. This is attributable to a combination of items: action taken by the City last year to reduce on-going expenses, Council approval to leverage an opportunity to pay the public safety related pension liability over 25 years, a steady increase in local sales tax revenues and an environment of growth seen through increased development/construction activity.

Executive staff has met with each department to discuss and discern operational successes and concerns and to determine priorities for the upcoming fiscal year. Aligning on-going expenses with on-going revenues continues, to ensure that quality services and programs can be sustained over time. The FY 18/19 proposed budget continues the City's commitment to providing quality services to residents in a fiscally responsible manner.

Following Council's consistent direction to strategically enhance public safety in our community, in the FY 18-19 budget, it is proposed that police see an increase of 19 total positions over last year's approved budget, with 5 new sworn positions and 14 civilian support positions including: 6 in detention, a crime lab specialist, a second Crisis Response Team (sworn), 4 in patrol support, and 3 in evidence. It is being proposed that Mesa Fire and Medical receive \$1.5 million to implement new staffing models developed, working closely with the Office of Management and Budget's data scientists. There are also 3 new positions being proposed in the municipal court to support the Council's Community Safety Strategic Priority.

In our continuing efforts to attract and retain skilled and talented employees, we are proposing a 4% step increase for all City employees, with most receiving that increase, once approved, in FY 18-19 beginning July 1, 2018. In addition, we completed and implemented a market salary survey and associated adjustments, which has been an ongoing commitment and strategy to ensure that we remain competitive with other

Valley municipalities. For employees who may have been “topped out,” this will be especially significant with an approved step increase.

Finally, it is important to recognize that much of the success we are having in proposing the FY 2018-19 budget with these comprehensive programs and activities, is due to the conservative and thoughtful financial direction and policies given by Council and the strengthening sales tax trends we have seen in recent months.

### **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 transfer from the Enterprise Fund. These resources are projected to increase in FY17/18.

#### *Local Sales Tax*

Local sales tax, the largest of these sources, increased in FY 16/17. So far, that trend has continued into FY17/18. Part of the increase in sales tax is driven by increases in Contracting Sales Tax collections, which is increasing partially due to one-time construction projects in southeast Mesa. The last available month of sales tax data is for December activity, which showed increasing collections over that point last year. At this time, local sales tax is projected to end FY17/18 at least 3.8% greater than FY16/17. For FY18/19, the forecast has modest additional growth of 2.9%.

#### *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 FY16/17 and is increasing again in FY17/18 by 4.0%. In recent years there has been uneven collections in Urban Revenue Sharing is due in large part to changes to the State’s corporate income tax, which are being phased-in over four years. FY 15/16 was the first year of the effect. There will be a decrease of 0.9% in FY18/19 due to net effect of increasing personal income tax collections and declining corporate income tax collections.

State-shared sales tax: It is increasing at a modest rate, like local sales tax, and is projected to be slightly higher than budget in FY17/18 with a projected increase of 4.7%. The FY18/19 increase is forecasted at 4.2%.

Vehicle License Tax revenue: The smallest contributor to state revenue sharing, it is projected to be slightly higher than budget in FY 17/18 and increase 4.8% in FY 18/19.

#### *Enterprise Fund Transfer*

The Enterprise Fund transfer is one of the city’s methods of providing funding for general governmental services such as police and fire as well as library and parks. The Enterprise Fund generates a reasonable rate of return which is invested back into the city. The

FY18/19 proposed budget includes an increase to the transfer amount equivalent to the growth of the Consumer Price Index (CPI). Currently, the growth is 1.79%.

#### *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. The projected transfer for FY17/18 is \$11 million with an increase for FY18/19 to \$13.5 million. The large increase is due to the beginning of operations and maintenance of the Gilbert Road light rail extension, additional funding needed for the aging fixed route bus system, funding of the second year of the Fiesta Downtown Chandler Transit Corridor Study and Tempe Streetcar Extension Feasibility Study as well as backfilling fare revenues for light rail and bus service that have not achieved projected revenue levels. The opening of the line extension to Gilbert Road is forecasted to occur in FY18/19.

#### *Trust Fund Contributions*

The General Fund contributes to three trust funds related to liabilities (Property and Public Liabilities Trust Fund), employee benefits (Employee Benefits Trust Fund), and employee injuries (Workers' Compensation Trust Fund). The cost of claims in the Property and Public Liability Trust Fund are expected to increase, from an actual of \$1.2 million in FY 16/17 to a projected \$3.5 million in FY 17/18 to a forecasted \$4.5 million in FY 18/19. This issue is discussed further in the trust fund section.

The cost of providing competitive health benefits continue to be a concern for the City. Nationally, medical and dental costs are rising by approximately 7% a year. In FY 16/17, claim costs for the City increased by only 1.6% but in FY 15/16, claim costs increased by 18%. A 7% increase in medical and dental claim costs is forecasted for FY 18/19. Cost avoidance measures continue to be implemented by the City, however continuing costs in health care will necessitate increases in City, retiree, and employee contribution rates. Medical premium rates are set on a calendar year (CY) basis. CY2019 rates are estimated to increase 8.0% resulting in an increased City contribution for six months of FY18/19.

#### *Reserve Balance*

The City's financial policies call for a forecasted fund balance (reserves) of 8-10% per fiscal year. The estimated budget for FY18/19 results in an ending balance within the financial policies. There is a gap between on-going revenues and on-going expenditures, however there are one-time expenses included as shown by the considerably smaller gap in FY 19/20 (Attachment 1). FY 19/20 would be considered balanced between on-going expenses and on-going revenues and achieves the City's goal. However, an economic correction is anticipated within the next three to four years and has been included in the current estimates to occur in FY 20/21. Additional impact from the two-year delay in Urban Revenue Sharing (state income tax) occurs in FY 22/23. In preparation of the correction, the forecast includes a deliberate set-aside of \$3M each year for three years. This set-aside will allow the City to mitigate some of the impact. 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, FY18/19 operating revenues are estimated at \$358.3 million, up from \$342.9 million projected for FY17/18 (excluding EECAF/PNCAF).

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 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 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 8-10% throughout the forecast 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 FY18/19, 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. An economic correction has been included in the current estimates, similar to the General Government Operating Budget. The City forecasts expenses, revenues and reserve balances over a multi-year period and reviewed on an on-going basis to allow for proactive response to economic changes. (Attachment 2)

### **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 transportation source 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 experienced volatility due to adjustments and diversions in the distribution by the State. In FY17/18, the State distribution provided a one-time increase of \$1.4 million, increasing expected revenues to \$39.2 million. The FY18/19 revenue projection has a slight decrease to \$38.5 million due to the loss of the one-time funding provided in FY17/18.

Local Streets (LS) Fund. LS revenue collection is tied to the rest of city sales tax and is experiencing increased growth recently.

HURF and LS are managed together as both funds are restricted to streets related expenditures. The State’s diversions 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 LS 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. The available ending reserve balance for HURF and LS combined are estimated to decrease from \$23.1 million in FY17/18 to \$15.3 million in FY18/19. The decrease in the ending reserve balance is due to various projects started in FY17/18 that will continue into FY18/19. These projects include repaving streets, improving drainage, repairing sidewalks, and replacing traffic signals that have exceeded their useful life.

*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 comes from the setting of medical and dental premiums paid partially by employee and retirees, and partially by the City. The City is estimated to contribute 71.1% of the EBT resources anticipated for FY17/18. Historic total EBT expenses and cost of claims are shown below:

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Increase</b>	<b>Cost of Claims</b>	<b>Increase</b>
Actual	FY 13/14	\$58.3M	3.6%	\$50.8M	2.0%
Actual	FY 14/15	\$68.4M	17.3%	\$56.8M	11.8%
Actual	FY 15/16	\$77.0M	12.6%	\$67.0M	18.0%
Actual	FY 16/17	\$77.9M	1.2%	\$68.1M	1.6%
Projected	FY 17/18	\$82.6M	5.3%	\$72.5M	6.5%
Forecast	FY 18/19	\$88.7M	7.5%	\$77.6M	7.0%

In 2017, City management re-evaluated third-party medical plan administration and medical provider network contracts with AmeriBen and Blue Cross & Blue Shield of Arizona. Following a comprehensive and thorough Request for Proposal (RFP) process, Cigna was awarded a three-to-five-year contract beginning January 1, 2018 for medical and behavioral health administration services including claims, appeals, medical utilization and case management, customer service and provider network in all 50 states. Cigna’s award resulted from several cost containment and service enhancement opportunities.

Concurrently in 2017, City management development the Mesa Wellness 360 program to advance wellness engagement with active medical plan enrollees. Mesa Wellness 360 launched December 1, 2017 with an implementation date of January 1, 2018 (following a

non-incentivized beta test with three departments and approximately 500 employees earlier in 2017). 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 and supplemented annually by a Cigna-provided *Health Improvement Fund*.

Premiums are set on a calendar year basis. To address the projected increased costs, the FY18/19 budget includes an 8% increase on both City contributions to the medical premiums as well as employee and retiree contributions in CY19. During the summer of 2018, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2018. The City contribution included in the FY18/19 proposed budget is \$67.0 million, \$2.9 million more than projected in FY17/18. The national average for increases in medical costs are 7% to 8% 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 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 Worker's Compensation Fund each pay period based on the salary of each employee. 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.

Staff sets City contribution rates to coincide with the annual budget adoption to avoid affecting the departments' budgets mid-year. The reserve balance at the end of FY17/18 is projected to be \$1.7 million higher than budgeted due to administrative and claims expenses coming in well under the budgeted amount. This will allow for a temporary reduction in rates for FY18/19 with a resulting City contribution estimate of \$3.1 million - \$0.4 million less the FY17/18.

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, therefore, the PPL fund balance 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 \$3.5 million in FY17/18. The cost of claims included in the FY17/18 budget is \$4.5 million.

The contribution needed to maintain the \$10.0 million reserve balance is estimated each year and included in the budget. The FY18/19 City contribution estimate is \$7.6 million.

Expenses are reviewed during the year and the contribution amount is modified as necessary. Due to the reduced claims experienced in FY17/18, the original city contribution estimate can be reduced and still meet the reserve balance target.

#### *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 of \$7.32 is anticipated to generate \$16.1 million in revenue in FY18/19. 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 \$15.3 million therefore no fee adjustment is needed. Savings experienced each year are accumulated and applied to one-time expenditure needs. In FY18/19, the Environmental Compliance Fee Fund will fund one-time expenses to develop a program that uses city-collected food waste for energy production. The City is considering an alternative means of disposal with reduced impact on the landfills and the potential for revenue generation and increased energy production through high strength organics.

#### *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 for \$3.3 million in new grant awards for FY18/19. Notable grant awards include the following:

- \$894,000 Homeland Security Grants provide funds for training and equipment to support Homeland Security initiatives.
- \$375,000 Governor's Office of Highway Safety (GOHS) Grant provides resources overtime for DUI and traffic enforcement activities and safety equipment for the City's Traffic Safety Program.
- 544,000 Mesa Family Advocacy Center (MFAC) Grants providing for the salaries and benefits, and training and supplies for Victim Support Services and Police Awareness Community Education Portal.
- \$270,000 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.

- \$700,000 National Incident-Based Reporting System (NIBRS) grant to assist with the upgrade of the records management system. This system allows the department to report crimes to Federal law enforcement.
- \$100,000 JAG Grant to support improving technology services in the Police Department.
- \$188,000 Tribal Gaming Grants provides funding for training, public education tools, and equipment for various divisions in the Police Department.
- \$52,000 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 \$407,000 in grant awards for FY17/18. Notable grant awards include the following:

- \$240,000 Rapid Response Team (RRT) for salary & benefits, including travel, conferences and training for key fire personnel.
- \$167,500 various other grant awards which include grants to provide immunizations and provide support for Community Emergency Response Teams.
- \$2,575,994 grant to replace all Twelve Lead Heart Monitors. This grant has a \$400,000 General Fund match.

#### 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 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.

These three Section 8 programs are funded at a combined \$13.2 million in FY17/18 and \$13.6 million in FY18/19.

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 \$3.4 million in FY17/18 and \$3.4 million in FY18/19.
- 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 \$1.3 million in FY17/18 and \$1.0 million in FY18/19.
- 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 FY17/18 and \$0.3 million in FY18/19.
- 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 to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program was funded at \$1.2 million in FY17/18 and \$0.7 million in FY18/19. 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 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 \$86k million in FY17/18 and \$0.1 million in FY18/19.

**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 18/19 contribution rates for State-run retirement plans increased as follows:

Retirement Plan	FY 17/18 Rate	FY 18/19 Rate	Rate Change	Increased Annual Cost (All Funds)
Arizona State Retirement System (ASRS)	11.5%	11.8%	2.6%	\$0.5 M
Elected Officials Retirement System (EORP)*	23.5%	61.5%	161.7%	\$0.1 M
Public Safety Personnel Retirement System (PSPRS) - Fire**	48.2%	52.0%	7.9%	\$1.2 M
Public Safety Personnel Retirement System (PSPRS) - Police**	50.5%	50.3%	-0.4%	(\$0.2 M)

\*Rate changed due to court decision

\*\*Based on 25 year unfunded liability amortization rate

The Public Safety Personnel Retirement System (PSPRS) rates increased significantly in FY 17/18 due to a few factors including: statewide reform benefit changes, past investments returns lower than the assumed rate, and changes assumed rate of return for investments. The Public Safety Personnel Retirement System (PSPRS) allowed for municipalities to extend the amortization period for the unfunded liability. The City opted to extend the amortization rate for the unfunded liability from 20 years to 30 years, but committed to pay off the funded liability over 25 years. Extending the amortization period allowed the City to save \$4.0 million in FY 17/18. In the FY 18/19 budget, the amortization period to pay down the unfunded liability for the City is 24 years.

For FY 18/19, due to the change in the rates, the City’s contribution to PSPRS for Fire increased by \$1.2 million while the City’s contribution to PSPRS for Police decreased by \$0.2 million. The changes in the contribution rates for the PSPRS plans was caused primarily by demographic changes in the membership of the plans and changes in the actuarial assumptions related to investment return from 7.5% to 7.4% and wage inflation.

The Arizona State Retirement System (ASRS) contribution rate increased by 0.3% in FY 18/19 due to changes 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 by 0.3% each year for the next five years. The change in contribution rates for FY 18/19 increased Mesa's contribution to ASRS by \$0.5 million.

The Elected Officials Retirement Plan (EORP) contribution rate changed from a mandated 23.5% to 61.5% due to a recent court order. The change in contribution rates increased Mesa's contribution to EORP by \$0.1 million

#### *Salary Market Analysis:*

As an organization committed to providing superior public service, the City relies on high quality, professional employees. The City strives to recruit quality candidates and retain excellent employees. Competitive compensation plays a part in this effort. The City surveys other local governments to ensure Mesa's compensation for positions are competitive with the marketplace.

Job classes that are determined to be below the average can then be adjusted accordingly. Normally, only employees whose salary falls below a new minimum would have a pay adjustment. Employees not below the minimum pay, would have increased salary capacity for their maximum pay. For example, if an employee was at the maximum of their pay range, they would not be eligible for a step pay increase. If the maximum amount increases, they would be eligible for step pay the next time it is authorized in the budget.

The City has recently completed a citywide salary study. Job classes covered by the public safety associations were approved in March 2018. Employees who were at the maximum of the salary range as of July 1, 2017, were approved for a 3% step increase effective January 2018.

All other job classes that were determined to need an adjustment were approved with an effective date of April 2, 2018. Employees who are no longer at their maximum pay will now be eligible for a step pay increase in July 2018, based on the authorized level included in the adopted budget.

The financial impact of the market salary study is for employees who were at the maximum of a pay range before the study. A significant number of these employees are now eligible to qualify for a step pay increase when funding is available. The cost of the adjustment is included in the cost of step pay in the proposed budget.

#### *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 increased pay, but the increase is dependent on funding availability. Each year, as part of the budget process, citywide funding availability is determined. During the

recession, funds were not available and step pay increases were not authorized. Since then, the authorized step pay amount authorized was 5% in FY 12/13 through FY 16/17, and 3% in FY 17/18.

The 3% level was included for each year in the original FY 18/19 forecast. The proposed budget includes a 4% level for FY 18/19 and the original 3% for the other years. The recent salary survey adjustments affect the financial impact of step pay. The FY 18/19 citywide cost for step pay is estimated at \$10.1M, with a \$7.2M impact in the General Governmental Funds.

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*

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 FY18/19 budget anticipates increasing the city contribution by 8% effective January 2019 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 expansion of the Greenfield water reclamation plant and associated wastewater collection infrastructure. Normal plant operations continue during construction and the expanded capacity is scheduled to come online in 2020. The funding of this project 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 several Transportation projects are included in the proposed CIP. Planned park improvements include Eagles Park (former Mesa Junior High site), and Signal Butte and Elliot Park. Scheduled street improvements approved by voters include improvements to several arterial roads citywide, the next phase of Mesa Drive and First Avenue in the downtown area, as well as the Elliot Road Corridor in east Mesa. These projects will use general obligation (GO) bond authorization approved by voters in 2013 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 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.

### **Secondary Property Tax**

The FY18/19 proposed budget includes the same secondary property tax levy that has been approved each year since FY14/15, \$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. The secondary property rate is applied to the limited property value (LPV) of a property to determine each property's tax bill.

The City's secondary property tax rate is adjusted to achieve the same total levy dollar amount. The FY18/19 rate is reduced to \$1.0201 per \$100 of net assessed value, down 7% from \$1.0968 in FY17/18. This rate reduction is the result of both an increase in the value of existing property and the development of new property. Since property values have increased, the property tax rate is reduced to generate the same amount of total tax revenue.

In FY18/19, the \$1.0201 tax rate applied to a median residential limited property value of \$125,016 (\$208,902 sales value) results in an average bill of \$128 per year, down from \$131 per year.

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 to fund one third of the Police Departments radio replacement needs. Additional funding has been allocated for street arterial pavement overlays, streetlight replacement, and various small utility equipment replacement. Many lifecycle needs were identified during the FY18/19 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

The FY18/19 Communications budget includes \$880,000 for lease payments to Motorola over the next two 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.

The FY18/19 budget also includes \$500,000 to allow radio networks to connect automatically with other similar radio networks. 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.

The Communications Department merged with the Information Technology Department during FY17/18. The FY18/19 adopted budget will still reflect two separate departments as the merger is implemented, however the two areas will be managed as one by the Chief Information Officer.

#### Fire and Medical

During FY 17/18, 7 civilian FTEs were added mid-year.

The following support the fire inspection/investigation program. Fire investigations was moved from using sworn positions on overtime to cross-training with some of the fire inspector positions

- 2 FTEs Fire Inspectors
- 2 part-time Program Assistants were increased to 1.0 FTE

The following positions were added as project specific positions for a transport pilot program

- 2 FTE civilian Paramedics
- 2 FTE civilian Emergency Medical Technicians

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

The FY18/19 proposed budget includes a new fee for Low Risk Occupancy Fire inspections. During the recent accreditation process, it was recommended that Low Risk occupancies should be formally inspected by a Fire Inspector on a triennial basis. The City's current program does not meet the National Fire Protection Association (NFPA) standards. The City of Mesa has 4,052 Low Risk occupancies, resulting in the need to inspect 1,350 businesses annually. The existing inspectors cannot take on the additional workload and an additional inspector will be needed. This fee is expected to bring in \$136,000 in additional revenue. These funds will be used to support the Fire Inspection program and hire an additional Fire Inspector.

The FY18/19 proposed budget includes the following General Fund budget items:

- \$1.5 million annual funds toward sworn personnel to pilot/implement response options based on the data learned from the recent review of current service demands/trends
- \$60,000 annual funds to continue CAD software that no longer has grant funds to support the costs.
- \$25,000 annual funds to continue the use of the previously grant funded emergency notification system used to broadcast messages to City staff.
- \$134,000 one-time funds for Resiliency Training to help sworn staff respond to the stress they regularly encounter.

#### Municipal Court

The FY18/19 proposed budget includes an increase of 3 FTEs. The additional FTEs will allow the Court to further support all standard court rooms, three specialty courts, increased reception of public calls, reduce lobby wait times and increase outbound calls in support of collection efforts. Review of the effectiveness and value of specialized courts, and various process reviews will continue and may result in future recommendations.

The Arizona Supreme Court's FARE (Fine and Restitution Enforcement) Program should be implemented to assist in the collection of older accounts by the end of FY17/18, bringing additional revenue to the City. Demand for specialty court services including Veteran's Court, Homeless cases, and the Rule 11 Court has been increasing and provides great service for the community.

#### Police

During FY17/18, the following positions were created

- 5 FTE Detention Officers and 1 FTE Administrative Support Assistant I to support the holding facility and to provide safe and effective process for intake, housing, and transport of arrestees

- 3 FTEs Victim Services Specialist funded by a VOCA grant that will provide needed supervision and services within Victim Services.
- 1 FTE Forensic Scientist III
- 1 FTE Assistant Police Chief
- Increase 0.5 FTE Info Tech Engineer II to 1 FTE Info Tech Analyst I.

Jail costs are projected to be lower than budgeted. With the contract change, work release processing has increased the workload in the City's holding facility. A portion of the jail cost savings were reallocated to increase the staff levels.

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.

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

The FY18/19 proposed budget includes the following General Fund budget items:

- 4 FTE sworn personnel to create a second Crisis Response Team. The team serves as a secondary response unit with advanced training to address situations regarding persons with mental health issues. The team provides specialized service while allowing for additional availability of patrol officers
- 4 FTE civilian personnel to support patrol activities - police investigators and police service officers, increasing the availability of sworn patrol officers
- 3 FTE civilian evidence technicians to ensure evidence is being stored and purged properly
- \$200,000 annual funds for software license renewal and maintenance for ongoing expenses for AXON body camera technology

### *Utility Departments*

#### Energy Resources

In FY18/19, Energy Resources forecasts modest customer growth for Natural Gas and Electric customers. The commodity cost for natural gas which is a pass-through cost to the customer is budgeted approximately \$646,733 less than it was in FY17/18. Since that budget was passed, natural gas prices have been slowly but steadily decreasing, causing the year-end estimate in FY17/18 to be almost \$855,452 less than the adopted budget. This trend in lower prices is decreasing the budget for FY17/18. The commodity cost for electric which is also a pass-through cost to the customer is budgeted approximately \$1.0 million less for FY18/19 than was budgeted in FY17/18. The main reason for the budget reduction is due to a change in transmission costs.



Energy Resources also reduced or absorbed almost \$300,000 within its FY17/18 budget without any change in the department's performance. For example, innovative programs such as the solar incentive program for Mesa residents were continued or expanded.

#### Environmental Management and Sustainability

The Solid Waste Management Unit is proposing various increases. With an increase in new account growth for new barrel sets and replacement of barrels, Environmental Management and Sustainability has included an additional \$262,000 for barrel purchases. Other on-going proposed increases are \$145,500 for monthly maintenance at the CNG (Compressed Natural Gas) Station which has produced fuel savings for the City, \$38,000 for a temporary solid waste equipment service assistant position to increase bulk item collection from 2 days a week to 4 days a week, and \$168,000 for call-out pay to cover increases due to changes in state regulations and other personal service constraints.

The Sustainability Unit will receive a \$157,500 intergovernmental agreement (IGA) from Phoenix and Tempe to create marketing material and trainings for the program: Water Use It Wisely.

#### Water Resources

The FY18/19 proposed budget includes changes in the cost of power, chemicals, water purchases, the city's participation in joint ventures with other municipalities, and the first full year of operations and maintenance at the Signal Butte Water Treatment Plant. The cost for water commodity purchases is anticipated to increase by \$1.2 million and the cost for power and chemicals is expected to increase by \$0.7 million due to poorer quality water which requires more chemicals to treat. The city participates in joint ventures with other municipalities to provide water and wastewater services. The city's participation cost is expected to increase by \$0.3 million in FY17/18.

The FY 18/19 proposed budget includes funding for operational needs including a crew leader and two field workers responsible for cleaning, maintaining and repairing wastewater lines. As the City grows, the Department has experienced increased service calls for odor and roach control, which have diverted existing crews from their cleaning, maintenance and repair schedules. The additional staff will meet this growing demand and allow the Department to properly fulfill its cleaning, maintenance and repair responsibilities in a timelier manner. Additional operational funding includes one additional meter reader to keep pace with utility meter growth in East Mesa, one customer service dispatcher to respond to utility-related emergencies, one-time funding for water sample testing required by the Environmental Protection Agency, and funds for preventative maintenance at water and wastewater treatment plants as well as the chlorine gas system.

*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 FY18/19 budget is \$800,000 higher in the Performing Live area than it was in FY17/18, up to \$2.8 million for an increased volume and higher caliber of show schedule. The expenses of Performing Live are offset by revenues from the scheduled shows.

During FY17/18, Arts & Culture added 1.7 FTE positions for administrative purposes, and 2.0 FTEs for implementation of the insourcing of the Mesa Arts Center's Food & Beverage program. The proposed budget also includes the conversion of ten temporary positions to City employees equaling 5.4 FTE. The temporary to City position costs will be either offset by a reduction in temporary services or an increase in revenues in FY 18/19.

Business Services

In FY17/18, Business Services implemented a credit card service fee which will pass the handling of paying fees associated to credit card use through a 3rd party contract. The implementation will reduce expenses \$600,000 in FY18/19. Otherwise, the FY18/19 proposed operating budget is consistent with the FY17/18 budget.

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; to pay the 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 FY17/18 will be approximately \$3.5 million, which is \$.5 million below the FY17/18 budgeted amount and \$2.2 million over the prior year. Estimated claims in FY18/19 are expected to be \$4.5 million, \$.5 million over the budgeted amount for FY17/18. Pending high profile claims payouts are expected to occur in FY17/18 thru FY19/20, but specific amounts and dates claims are to be paid are difficult to estimate.

A detailed update on the PPL Trust fund was given to the Self-Insurance Trust Fund Board on February 5, 2018.

One additional Assistant City Attorney was approved in FY17/18 to work on administrative and litigation tasks, which will reduce the City's need for outside counsel. The City Attorney also received funding from a Victim of Crimes Act (VOCA) grant through the Arizona Department of Public Safety for an additional Senior Victims Services Assistant that will be assigned to victim's services tasks.

City Auditor

The FY18/19 proposed budget is consistent with the FY17/18 budget.

City Clerk

The budget for City Clerk's Office is adjusted for the cost of elections. In FY17/18 there were not any elections and therefore no election costs were included. The FY18/19 budget includes an adjustment of \$461,000 for estimated election costs.

City Manager

In FY17/18, 1 FTE was added to assist with downtown transformation, the innovation district, and the City's Census 2020 Project. The FY18/19 proposed budget includes 1 FTE Communication/Marketing Specialist I position to assist the Chief Digital Officer and provide support to city departments regarding social media.

The demand for public defender services has increased resulting in an additional \$600,000 included in the proposed budget.

Community Services

Community Services oversees the City's Housing, Neighborhood Outreach, Animal Control, and Diversity initiatives. Community Services receives funding from both the General Fund and various grants. The Housing and Community Development Division's FY18/19 grant budget is \$19.1 million for grants supporting Housing Services and Community Planning and Development.

Additional information is in the grants portion of this report.

Development Services

Over the past 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. After a staffing analysis was performed, it was determined that the base level of activity has increased sufficiently to warrant the addition of six permanent positions. Funds previously used on temporary services have been converted to: one Permit Technician, one Building Plans Examiner, one City Plans Examiner, two Building Inspectors, and one Administrative Support Assistant as part of the proposed budget. The department tracks workload daily and adjusts the temporary staffing resources based on demand.

The proposed budget also includes the conversion of temporary services funding for historic preservation to a full-time permanent position. Based on Council feedback, four Code Compliance Officers are also included as part of a proactive code compliance program.

### Economic Development

The FY18/19 proposed budget includes the addition of a new project manager to implement the Department's Business Retention and Expansion efforts. It also includes additional funds for the GPEC contract increase, OED website maintenance, Falcon Tech Center Master Plan, and the Downtown Marketing Campaign.

### Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY18/19 proposed budget is consistent with the FY17/18 budget.

### Falcon Field

The FY18/19 proposed operational budget is consistent with the FY17/18 budget. Included in the CIP is the completion of high-speed runway exits to increase safety and operational flexibility.

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

### Financial Services

The FY18/19 proposed budget is consistent with the FY17/18 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 Office of Management and Budget's strategic data analytics team has developed an analytical model using a vehicle's cost history to determine when to replace instead of repair a vehicle. The model's output is combined with information from the Customer Department and Fleet Services repair data, including information about the vehicle's configuration, safety, and availability. Fleet Services provides information about the vehicle's replacement cost, the cost of anticipated major repairs, and parts availability. Taken together, the decision to replace a vehicle has become more transparent and cost effective.

The FY18/19 proposed budget includes the addition of 4 new mechanics, 1 new welder-fabricator, and 1 new parts and supply specialist. The additional maintenance cost is off-set by savings realized in the vehicle replacement program. The proposed budget also includes the replacement of the diesel dispensers at Fleet West, replacement of the paint booth at Fleet West, and a new service truck for increasing road calls.

### Human Resources

For the Employee Benefits Trust Fund, FY17/18 claims are projected to be \$72.5 million. FY 18/19 claims costs are expected to rise to \$77.6 million due to several factors including a nationwide increase in medical and prescription drug costs. As part of the transition to third-party administration of medical services to Cigna, the City will receive a one-time administrative costs savings of approximately \$0.5 million in FY 17/18.

The Mesa Wellness 360 program will continue in FY 18/19 with costs for wellness incentives, program costs, and a new Senior Program Assistant budgeted to the EBT fund. Cigna's Health Investment Fund will reimburse a portion of the costs associated with the Wellness 360 program.

The FY18/19 budget for the Workers Compensation Trust Fund includes a decrease in claims of \$0.5 million to \$4.0 million, as previous year's claims estimates have come in well below budget.

A detailed update on the Employee Benefits and Workers Compensation Trust Funds was given to the Self-Insurance Trust Fund Board on February 5, 2018.

The Personnel portion of the FY 18/19 department budget is consistent with the FY 17/18 budget.

### Information Technology

The department is continuing the work of relocating 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. The relocation is scheduled to be completed in September 2018.

Council approved the upgrade and replacement of network hardware and services for a one-time increase of \$1.7M. The lifecycle upgrade of this network hardware will allow the City to take advantage of increased network speeds, improved reliability, improved security through advanced access controls and increased capacity for future growth. The significant portion of the upgrade will occur in FY 2018/19.

### Library

The FY18/19 proposed budget is consistent with the FY17/18 budget, but with a total expense increase of \$70,000. Included is a \$25,000 increase to offset the increased costs of library materials.

Enhancement of the Mesa Code Club as requested by citizens during the Imagine Mesa initiative is included for \$45,000. While the Library currently offers coding classes, the equipment was donated or purchased with grant funds over the course of several years. Mesa Code Club lets kids ages 8-18 have fun and create while they learn the skills of the 21st century.

Mayor and Council

The FY18/19 proposed budget is consistent with the FY17/18 budget.

Office of ERP Management

The FY18/19 proposed budget is consistent with the FY17/18 budget.

Office of Management and Budget

The FY18/19 proposed budget includes funding for two Performance Advisor II positions. These positions are part of the strategic data analytics team and will be responsible for data analytics projects that will maximize the value residents receive for services throughout the City.

Parks, Recreation and Community Facilities

For the FY18/19 proposed budget, Facilities Maintenance will convert funds for contracting to 1 FTE and associated costs for an overhead door and gate technician. Two new vehicles are included for two positions moving from an office supervisory role to a foreman position. The position reclassification will provide additional support to focus on asset management.

Due to Prop 206 which is the minimum wage increase passed by voters, growth, and the ability to maintain required expectations, the proposed budget includes an on-going increase of \$611,500 for landscaping contracts. Other on-going enhancements are \$12,000 for temp services in adaptive programs for inclusion services, \$10,000 for additional budget for special events such as Merry Main St., \$9,500 for an increase in youth sports referee pay which will be offset with a fee adjustment, and \$69,000 for additional programs and supervision support at the Eagles Community Center, which will offer daytime and weekend programming. For the Eagle Community Center, the additional programs and rentals will bring in an estimated \$50,000 in revenue. A new park ranger and the associated expenses are included to provide additional support at Pioneer Park.

The budget capacity of the Convention Center for the Amphitheatre has increased \$600,000 with an estimated increase of \$675,000 for revenues for additional shows booked at the venue.

Public Information and Communication

The Public Information and Communication Office's (OPIC) is consistent with FY 17/18 budget. A lifecycle program for \$125k per year has been established for Mesa Chanel 11 on-going upgrade and equipment costs.

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 capital improvement program includes work

pertaining to the extension of the light rail line to Gilbert Road. Operational funding for this extension begins in FY18/19.

The costs of services in FY18/19 are increasing. The FY18/19 proposed budget is \$1.5 million higher than the FY17/18 adopted budget due to the beginning of operations and maintenance for the Gilbert Road light rail extension as well as the second year of funding for the Fiesta Downtown Chandler Transit Corridor Study (and the Tempe Streetcar Extension Feasibility Study).

#### Transportation

The FY18/19 includes \$100,000 of one-time funding for improved signage in the Falcon District. The Falcon District is an innovative, high-tech business district for aerospace/aviation, defense, and advanced manufacturing as well as home to the Falcon Field Airport.