



City Council Report

Date: April 1, 2019
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Candace Cannistraro, Management and Budget Director
Subject: Fiscal Year 2019/20 Summary of Proposed Budget

Overview of Proposed Budget

The City Council has repeatedly emphasized an over-arching priority on innovation, and using data-driven decisions to ensure effective, efficient, and sustainable services. The proposed budget includes a focus on positions/resources that support the collection, integration, and analysis of data with respect to operational performance. Examples of necessary resources include Information Technology Engineers, Information Technology Analysts, Crime Analysts, and GIS Specialists/Technicians.

The City has developed a Smart City strategic plan that will serve to guide the priority of new/enhanced programs. Programs may leverage existing data that is currently under-utilized or may involve the collection of new data. Smart City initiatives rely not just on the collection of data, but on the transformation of raw data into usable, actionable information.

Examples of Smart City initiatives with funding in the proposed budget include the LED street light program, Phase I of the Advanced Metering Infrastructure (AMI) Program, data-based deployment of fire and medical emergency resources

The FY19/20 proposed budget balances the needs of today with investments in tomorrow. Establishing clear goals and objectives coupled with analysis of performance and success targets, allow for improved decision making. The City emphasizes various performance tools and resources to assist staff with delivering quality programs/services. Whether it is maintenance of aging infrastructure or the creation of new programs, resources/funding is vetted against the priorities of the City and the value to the resident.

The Proposed Budget emphasizes the City Council strategic priorities. Feedback received at the City Council strategic planning session was incorporated into the budget when possible.

Resources dedicated to the Community Safety priority is strengthened in the FY19/20 proposed budget through the availability of Public Safety Sales Tax funds and augmentation by the General Fund.

The Fire & Medical Department completed a pilot program with specialized Medical Response units this year. Going into next year, those units will consist of 16 sworn personnel and will provide 7-day a week, day-time coverage in two high volume call areas. The \$1.5M of General Fund resources that were allocated to the pilot program in FY18/19, remain available in FY19/20 to address training/coverage needs. Analysis is currently underway to identify the department's need and provide a comprehensive solution. Also included in the General Fund, is funding for a Fire Recruit Academy.

The Police Department reviews the demand for service and resulting need for resources on an on-going basis. The department has completed an initial staffing plan outlining the priority uses of the available sales tax funds. The FY19/20 proposed budget includes the first year of the plan, 17 new sworn positions, eight new civilian positions, and the associated costs such as vehicles/equipment. Also included in the General Fund portion of the proposed budget are four civilian positions and incentive pay for senior patrol officers. Department staff are working with the City's data analysts to perform advanced analysis and modeling to ensure efficient and effective deployment of resources.

The Neighborhood Transformation priority is enhanced through the creation of two programs. A neighborhood leadership program will be developed and implemented by the Community Services Department, providing neighborhood leaders/residents education on the various resources available within the City. A dedicated cross-departmental team will also be developed to ensure the cleanliness of the City's right-of-way. The two new positions in the Transportation Department will work in conjunction with the Code Compliance Office for the identification and removal of unwanted items abandoned on City property.

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 FY18/19 and forecasted for FY19/20 and beyond. The financial position of the City has strengthened over the last year with continued steady increase in both local sales tax revenues and growth of 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 FY19/20 proposed budget continues the City's commitment to providing quality services to residents in a fiscally responsible manner.

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 FY18/19.

Local Sales Tax

Local sales tax, the largest of these sources, increased in FY17/18. So far, that trend has continued into FY18/19. 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 FY18/19 at least 5.9% greater than FY17/18. For FY19/20, 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 FY17/18 and is increasing again in FY18/19 by 0.2%. 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. FY15/16 was the first year of the effect. There will be an increase of 9.3% in FY19/20 largely due to personal income tax collections increasing by 10%.

State-shared sales tax: It is increasing, like local sales tax, and is projected to be slightly higher than budget in FY18/19 with a projected increase of 4.2%. The FY19/20 increase is forecasted at 4.1%.

Vehicle License Tax revenue: The smallest contributor to state revenue sharing, it is projected to be at budget in FY18/19 and increase 1.8% in FY19/20.

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. The Enterprise Fund generates a reasonable rate of return, which is invested back into the City. The FY19/20 proposed budget includes an increase to the transfer amount equivalent to the growth of the Consumer Price Index (CPI). Currently, the growth is 2.03%.

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 FY18/19 is \$14.3 million with an increase for FY19/20 to \$17 million. The increase is

largely due to the first full year of funding operations and maintenance of the Gilbert Road light rail extension, additional funding needed for the aging light rail system, and increased funding for the Dial-a-Ride program related to a renegotiation of the service contract between Valley Metro and the service provider. The opening of the line extension to Gilbert Road is forecasted to occur in May 2019.

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). Programmatic updates to the three trust funds can be found in the section.

Employee Benefits Trust (EBT) Fund – The cost of providing competitive health benefits continues to be a challenge for the City. Nationally, medical and dental costs are rising by approximately 7% a year. In FY17/18, claim costs for the City increased by only 1.1% over FY16/17. A 10.6% increase in medical and dental claim costs is projected for FY18/19. 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. CY2020 rates are estimated to increase 5.0% and 3.0% for Active Employees and Retirees respectively, resulting in an increased City contribution for that last six months of FY19/20. The planned City Contribution is \$72.9 million, an 8.2% increase in budgeted contributions over the previous budget year. This issue is discussed further in the trust fund section.

Workers' Compensation Trust Fund – The cost of claims in the Workers' Compensation Trust Fund has been steady in the past five years with claims ranging between \$3.0 and \$3.5 million. Claims are projected to end the year at \$3.4 million and are budgeted at \$4.0 million in FY19/20.

Property and Public Liability (PPL) Trust Fund – The cost of claims in the PPL Trust Fund are variable, from an actual of \$3.2 million in FY17/18 to a projected \$2.5 million in FY18/19 to a forecasted \$4.5 million in FY19/20. This issue is discussed further in the Trust Fund section.

Reserve Balance

The City's financial policies call for a forecasted fund balance (reserves) of at least 8-10% per fiscal year. The estimated budget for FY19/20 results in an ending balance within the financial policies. There is a gap between on-going revenues and on-going expenditures. An economic correction is anticipated within the next two to three years and has been included in the current estimates to begin in FY20/21. Additional impact from the two-year delay in Urban Revenue Sharing (state income tax) occurs in FY22/23. In preparation of the correction, the City has set-aside \$6.0M, with an additional \$1.0M in FY19/20. 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 trends in consumption, FY19/20 operating revenues are estimated at \$365.9 million, up from \$359.1 million projected for FY18/19 (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 at least 8-10% throughout the forecast period. 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 FY18/19, the State significantly reduced its diversions, providing an additional \$2.5 million, increasing expected revenues to \$41.1 million. The FY19/20 revenue projection has a slight increase to \$41.7 million.

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 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 be \$12.2 million in FY18/19 and remain at \$12.2 million in FY19/20.

Trust Funds

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

	Fiscal Year	Total Expenses	Increase	Cost of Claims	Increase
Actual	FY14/15	\$68.4M	17.2%	\$56.8M	11.9%
Actual	FY15/16	\$77.0M	12.7%	\$69.0M	17.9%
Actual	FY16/17	\$78.4M	1.8%	\$69.3M	0.4%
Actual	FY17/18	\$80.1M	2.1%	\$70.1M	1.1%
Projected	FY18/19	\$87.6M	9.3%	\$77.6M	10.6%
Forecasted	FY19/20	\$93.1M	6.3%	\$82.8M	6.7%

Medical and dental premiums are set on a calendar year basis. To address the projected increased costs, the FY19/20 budget includes a 5.0% and 3.0% increase in employee and retiree contributions respectively for both the employee/retiree and the City. In the summer of 2019, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2019. The City contribution included in the FY19/20 proposed budget is \$72.9 million, \$5.5 million more than budgeted in FY18/19.

In calendar year (CY) 2018, the City implemented a three to five-year contract with Cigna for third-party medical plan administration and medical provider network and activated a 12-month run-out administration with AmeriBen and Blue Cross & Blue Shield of Arizona. The Cigna contract includes medical and behavioral health administration services (claims, appeals, medical utilization, and case management), customer service and provider network in all fifty states, and several cost containment and service enhancement opportunities including: significantly reduced base administration fees, seamless national network with minimal member disruption, vendor and service consolidation across in-state and out-of-state plans, and partial, multi-year funding of health and wellness initiatives. The City’s stop-loss insurance program for medical and prescription drug plans was renewed for CY 2019 with significant annual premium cost reductions (almost \$900,000) and increased specific deductible per claimant (to \$500,000).

The City introduced and expanded the Mesa Wellness 360 program during CY 2018 to advance wellness engagement with active medical plan enrollees. This wellness program provides financial incentives for registered participants who complete/sign-up for activities (between January 1 and October 31), biometric screenings, daily physical activities, health and wellness events/contests/challenges, preventive physicals and/or screenings, and participation in wellness education. The Mesa Wellness 360 program is funded by the EBT Fund and is supplemented annually by a Cigna-provided *Health Improvement Fund*. Current enrollment figures for the Mesa Wellness 360 program has more than 1,600 employees registered. An energetic marketing campaign in late CY 2018 promoted the CY 2019 program and continued robust communications increase program participation daily.

Worker's Compensation Trust Fund. The Workers Compensation Trust Fund is used to fund claims related to employee work-related injuries and is completely funded by the City. Total annual expenses have remained consistent in the past several years but are expected to rise in correspondence with health care as shown in the EBT fund.

The City contributes to the Workers' Compensation Trust Fund each pay period based on the salary of each employee. Rates are established based on the risk level of the job classification. Contributions are calculated in the total cost of the position and included in departments' operating budget. Expenses are reviewed during the fiscal year and rates can be modified if needed. Pending 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 plan sets the fund balance reserve target at the next fiscal year's total Workers' Compensation Trust Fund expenses.

For FY19/20, the reserve target is \$6.0 million. Based on the FY18/19 projected reserve balance and the expenditures forecasted for FY19/20, a slight increase to the workers' compensation rates from the previous year is recommended for the FY19/20 budget to reach the targeted reserve. The current estimate for the City contribution for FY19/20 is \$3.9 million with a fund utilization of \$2.0 million.

Property and Public Liability Trust Fund (PPL). The Property and Public Liability Trust Fund is used to pay claims related to lawsuits against the City. The value of claims paid can vary significantly by year, therefore, the PPL Trust fund balance minimum target is \$10.0 million. The length of time from the submission of a claim to its final resolution can take over a year, contributing to a high variability of annual costs. Claims are projected to be \$2.5 million in FY18/19. The cost of claims included in the FY19/20 budget is \$4.5 million.

City contributions into the fund are based upon prior year PPL Trust Fund claims experience. Approximately two-thirds of City contributions come from general governmental funds, while one-third comes from enterprise and other funds. The contribution needed to maintain the target reserve balance is estimated each year and included in the budget. The FY19/20 City contribution estimate is \$6.9 million. Expenses are reviewed during the year and the contribution amount is modified as necessary.

Environmental Fee Fund (ECF)

The Environmental Compliance Fee is applied to each utility account customer to meet the projected costs of Federal, State and County unfunded environmental mandates. The current monthly fee of \$7.32 is anticipated to generate \$16.2 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 \$15.7 million therefore no fee adjustment is needed. Savings experienced each year are accumulated and applied to one-time expenditure needs. In FY19/20, the Environmental Compliance Fee Fund will fund one-time expenses to continue the pilot 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 \$3.2 million in new grant awards for FY19/20. Notable grant awards include the following:

- \$1,015,000 Homeland Security Grants provide funds for training and equipment to support Homeland Security initiatives.
- \$451,500 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.
- \$604,820 Mesa Family Advocacy Center (MFAC) Grants provide for the salaries and benefits and training and supplies for Victim Support Services and the Police Awareness Community Education Portal.
- \$485,000 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.

- \$140,000 Justice Assistance Grant (JAG) to support improving technology services in the Police Department.
- \$454,600 Tribal Gaming Grants provide 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 plans for \$395,450 in grant awards for FY19/20. Notable grant awards include the following:

- \$267,200 Rapid Response Team (RRT) Grant provides for salary & benefits including travel, conferences and training for key fire personnel.
- \$128,340 in 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 division oversees a variety of programs designed to provide safe, decent, and affordable housing and a suitable living environment within the City of Mesa. To accomplish this task, the City has assumed several vital roles within the community. One role is the management of the following U.S. Department of Housing and Urban Development (HUD) programs:

- Housing Choice Voucher Program (Section 8) - the HUD-funded program provides rental assistance to low-income families for decent, safe, and sanitary housing by contracting with private owners and subsidizing a portion of the family's monthly rent. Since housing assistance is provided on behalf of the family or individual, participants can find their own housing, including single-family homes, townhouses and apartments.
- Mainstream Voucher Program (Section 8) - mainstream program vouchers enable families having a person with disabilities to lease affordable private housing of their choice. Mainstream program vouchers also assist persons with disabilities who often face difficulties in locating suitable and accessible housing on the private market.
- The City of Mesa Housing Authority operates the HUD-Veterans Affairs Supportive Housing (VASH) program (Section 8), which provides rental assistance for chronically homeless veterans and their families, while the

Veterans Administration in Phoenix provides case management and clinic services at its medical centers and community clinics.

These three Section 8 programs are funded at a combined \$14.5 million in FY18/19 and \$14.9 million in FY19/20.

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

- Community Development Block Grant (CDBG) - ensures decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. This program is funded at \$3.4 million in FY18/19 and \$4.8 million in FY19/20.
- 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 \$1.5 million in FY18/19 and \$1.5 million in FY19/20.
- 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 FY18/19 and \$0.3 million in FY19/20.
- 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 \$.7 million in FY18/19 and \$0.5 million in FY19/20. 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 \$100 thousand in FY18/19 and \$100 thousand in FY19/20.

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 19/20 contribution rates for State-run retirement plans changed as follows:

Retirement Plan	FY 18/19 Rate	FY19/20 Rate	Rate Change	Annual Cost Increase (All Funds)
Arizona State Retirement System (ASRS)	11.8%	12.1%	0.3%	\$0.8 M
Elected Officials Retirement System (EORP)	61.5%	61.4%	-0.1%	(\$0.0 M)
Public Safety Personnel Retirement System (PSPRS) - Fire	52.4%	56.0%	3.6%	\$2.1 M
Public Safety Personnel Retirement System (PSPRS) - Police	51.5%	56.0%	4.5%	\$3.6 M

Status

Public Safety Personnel Retirement System (PSPRS) plan rates increased for FY19/20 due to past investments returns being less than the assumed rate as well as unmet expectations about City payroll growth and employee demographics. For FY19/20, due to a change in rates, the City's contribution to PSPRS for both the Fire and Medical and Police plans increased by \$5.7 million.

The Arizona State Retirement System (ASRS) contribution rate increased by 0.3% in FY19/20 due to a prior change to the assumed rate of return for investments from 8.0% to 7.5%. The impact of the change is being phased in and contribution rates for ASRS are forecasted to increase by 0.3% each year for five years. FY19/20 is the second year of the five-year phase-in. The change in contribution rates for FY19/20 is expected to increase Mesa's contribution to ASRS by \$0.8 million.

The FY19/20 Elected Officials Retirement Plan (EORP) contribution rate and amount remain relatively unchanged from FY18-19.

History

Due to investment losses and to a series of court rulings that reversed prior pension reforms, Public Safety Personnel Retirement System (PSPRS) rates increased significantly in FY17/18. The state allowed municipalities the option to extend the amortization period for unfunded PSPRS liability from 20 years to up to 30 years. The City opted to extend the amortization rate for the unfunded liability from 20 years to 30 years, but committed to pay off the funded liability over 25 years.

In the FY19/20 budget, the remaining amortization period to pay down the unfunded liability for the City plans is 23 years.

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 FY12/13 through FY16/17, 3% in FY17/18, and 4% in FY18/19.

A step increase of 3% is included in the FY19/20 proposed budget and throughout the forecasted years. The FY19/20 Citywide cost for step pay is estimated at \$6.0M, with a \$3.8M 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 FY19/20 budget anticipates increasing the City contribution by 5.0% and 3.0% for employee and retiree plans respectively effective January 2020. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of 2019. 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. Construction activities continue at the Greenfield water reclamation plant to expand plant capacity 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 and Culture projects, as well as several Transportation projects are included in the proposed CIP. Project activities have begun on City Center Plaza, Monterey Park, Red Mountain Park, and library improvements. Several public safety projects are included in the proposed CIP including Fire Station 221 in southeast Mesa and the Northeast Public Safety Facility. These projects are using general obligation (GO) bond authorization approved by voters in 2018.

Roadway improvements continue with the 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 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. Many of 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 FY19/20 proposed budget includes an adjustment to the secondary property tax rate as a result of the new public safety and arts and culture bonds approved by voters in November 2018. The City's practice is to fully adjust the levy in the year following a successful bond election. Secondary property tax is limited in use to the repayment of general obligation debt.

The FY19/20 proposed levy is \$42.7 million, adjusted from \$33.4 million in FY18/19. The corresponding rate is \$1.2136 per \$100 of net assessed value, adjusted from \$1.0201 in FY18/19. These adjustments are lessened somewhat by the availability of resources from the prior year resulting from conservative revenue and cost estimates. In addition, adjustment to the rate is partially mitigated by increased property values (both existing property and new development) from the prior year.

In FY19/20, the \$1.2136 tax rate applied to a median residential limited property value of \$132,389 (\$228,293 sale value) results in an average bill of \$161 per year.

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

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 that cannot be covered within their annual budget.

The proposed budget includes the allocation of \$1.8 million to fund one half of the Fire Department's 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 FY19/20 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 FY19/20 Communications budget includes \$957,000 for lease payments to Motorola 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 FY19/20 budget also includes \$619,000 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.

Fire and Medical

During FY18/19, 25 FTEs were added mid-year.

- 1 FTE for a Parts & Supply Assistant was added in the General Fund.
- 16 FTE were funded through the new Public Safety Sales Tax, which include 4 FTE Fire Captains, 4 FTE Fire Engineers, and 8 FTE Firefighters to provide Medical Response Units for additional peak time coverage.
- 4 FTE Civilian Paramedics and 4 FTE Civilian EMTs were added to expand Medic Unit (Transport) services.

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

The FY19/20 proposed budget includes the following General Fund budget items:

- \$811,500 in onetime expenses to conduct a Fire Recruit Academy
- 1FTE GIS (Geographic Information System) Technician Trainee to support the GIS program area

Municipal Court

The FY19/20 proposed budget is consistent with the FY18/19 budget, except for 3 additional FTEs added during the previous fiscal year.

The FY18/19 budget included an increase of 3 FTEs. The additional FTEs allows the Court to further support all standard court rooms, three specialty courts, increase 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 FY18/19, 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

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.

During FY18/19, 11 FTE were added:

- 1 FTE to provide Risk Management support in the Legal Unit
- 1 FTE Media Relations Specialist
- 5 FTE Public Safety 911 Operator/Dispatcher positions
- 4 FTE Police Officer positions to provide law enforcement and increased security on the light rail

Additionally, during FY18/19, the following General Fund items were added:

- \$200,000 in on-going General Funds were added to provide smart devices for officers
- \$250,000 for increased maintenance and operations of vehicles

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

The FY19/20 proposed budget includes the following General Fund budget items:

- 2 civilian FTE Forensic Crime Scene Supervisors
- \$250,000 to create a Patrol Incentive program to help retain quality staff
- \$250,000 annual funds for increased maintenance and operations of vehicles
- \$54,000 in annual funds and \$92,500 in one-time funds to purchase new software for officer communication, hiring, and the holding facility
- 1 civilian FTE Training Coordinator
- 1 civilian FTE Information Technology Analyst

Also included in the FY19/20 Public Safety Sales Tax fund:

- 25 FTE, 17 Sworn, 8 civilian
 - 13 sworn FTE and 1 civilian FTE for Patrol Operations
 - 2 sworn FTE and 1 civilian FTE to enhance Criminal Investigation Division and Mesa Family Advocacy Center
 - 1 Lieutenant FTE in Special Operations
 - 1 sworn FTE and 1 civilian FTE in Metro
 - 3 civilian FTE Planning Unit to assist the department with short and long term planning
 - 2 civilian FTE to provide analysis and data expertise for the department

Utility Departments

Energy Resources

The FY19/20 proposed operating budget is consistent with the FY18/19 budget.

Looking forward, Energy Resources is involved with the Smart City and Smart Energy initiatives to increase communication with customers and improving data for management planning. The department is also focusing on workforce development.

Environmental Management and Sustainability

The Household Hazardous Material Facility opened last October has seen 2.5 times more customers than the previous quarterly collection events. The demand has significantly increased from about 5,000 vehicles to over 13,000 vehicles. The long lines have been eliminated and more materials are being reused or recycled rather than disposed, cutting the cost per vehicle almost in half. Additional staffing is being added in this budget to meet the increased demand.

A “Food to Energy” pilot continues this year, in connection with Arizona State University. This will divert additional tonnage from the landfill and generate revenues from selling the energy units being created in the process.

Water Resources

The FY19/20 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 million and the cost for power and chemicals is expected to increase by \$0.2 million due to increased chemical costs to treat raw water processed at the treatment plants. 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 \$0.6 million in FY19/20.

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 FY19/20 budget is \$200,000 higher in the Performing Live area than it was in FY18/19, up to \$3.0 million for an increased volume and higher caliber of show schedule. The expenses of Performing Live are offset by revenues from the scheduled shows. The FY 19/20 budget also includes \$299,000 for the recently insourced Food & Beverage program at the Mesa Arts Center, which is estimated to raise \$50,000 in revenues net of expenses.

During FY18/19, Arts & Culture added 7.6 new FTE positions. 6.5 FTE are funded through conversion of temporary services budget. The 6.5 FTE are for Lead Service Workers and Service Worker Assistants at the Mesa Arts Center. The temporary to City position costs have been offset by a reduction in temporary services.

The City will contribute an additional \$50,000 to the i.d.e.a. Museum operating budget in FY19/20 to assist the i.d.e.a. Museum Foundation.

Business Services

The FY19/20 proposed budget is consistent with the FY18/19 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 FY18/19 will be approximately \$2.5 million, which is \$2 million below the FY18/19 budgeted amount and \$0.7 million below the prior year actuals. Estimated claims in FY19/20 are expected to be \$4.5 million.

For the FY19/20 proposed budget, additional funding is included from the General Fund for \$28,500 to cover reductions in the Attorney General Victims' Rights Program (VRP) grant.

City Auditor

The FY19/20 proposed budget is consistent with the FY18/19 budget.

City Clerk

The budget for City Clerk's Office is adjusted for the cost of elections. In FY18/19 there were several elections and therefore an adjustment of \$461,000 was included to account for election costs. There are no elections in FY19/20, therefore there are no election costs included in the proposed budget.

City Manager

In FY18/19, 1 FTE was added to assist with the Mesa Counts on College program. The FY19/20 proposed budget includes \$156,700 in expenses related to the 2020 Census and \$50,000 in expenditures to support the Mesa Counts on College program with their GED and Statewide FAFSA Campaign.

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 General Fund budget for FY19/20 is \$2.9 million and supports the Animal Control Division, Neighborhood Outreach, and portions of the administration of the department's Housing & Community Development programs.

The Community Engagement Division includes a new Diversity Office Administrator in FY19/20 to manage the division and develop City diversity initiatives. The Animal Control Division will also continue a contract with the Arizona Humane Society for professional services, including facilities and specially trained staff. The total amount of the contract is \$75,000 and will last the entirety of FY19/20.

Additional information on the federal grant-funded programming can be found in the grants portion of this report.

Development Services

Over the past several years, increasing development activity 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. During the previous FY a staffing analysis was performed, and it was determined that the base level of activity was sufficient to warrant the addition of several positions. Overall,

development activity continues to increase but at a reduced rate. Residential development activity has begun to plateau but has been made up with continued increases in commercial development activity. Due to expected continued trends in development activity, the proposed budget includes incremental adjustments to temporary services to mirror expected development activity levels.

Economic Development

The FY19/20 proposed budget includes additional funds for the GPEC contract increase, and Redevelopment Area Programming.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY19/20 proposed budget is consistent with the FY18/19 budget.

Falcon Field

The FY19/20 proposed operational budget is consistent with the FY18/19 budget. A slight increase in training and economic development costs were added to allow the airport better public outreach. 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 FY19/20 proposed budget is consistent with the FY18/19 budget, but with the addition of a Treasurer position during FY18/19.

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 repairing 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 FY19/20 proposed budget includes additional funding needed for parts, tire services and the refurbishment of Fleet West fuel dispensers. The proposed budget also includes additional funding to be used for various items such as

janitorial services, training, laptops, workstations, and minor equipment. Fleet has also included in the proposed budget demobilizing the CNG site at West Fleet and changing the dispensers at the East Mesa Service Center from gallons of gas to gallons of diesel gas. The conversion from GGE to DGE will enable the City to receive refunds. Both the demobilizing at West Fleet and the conversion at East Fleet will be paid for with the Enterprise Fund-Solid Waste.

Human Resources

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

Two new part-time, non-benefitted positions are included in FY19/20. A position in the Time & Labor Division will assist with employee leave case administration. A position in Safety Services will complete mandatory federal reporting, workers' compensation claims, and other administrative tasks.

A detailed update on the Employee Benefits and Workers Compensation Trust Funds was given to the Self-Insurance Trust Fund Board on March 25, 2019 and can be found in the Trust Funds portion of this report.

Information Technology

The FY19/20 proposed budget is consistent with the FY18/19 budget, but with an additional IT Engineer II to support work performed by OMB's Strategic Planning and Analytics staff and the Data Governance Administrator.

Library

The FY19/20 proposed budget includes additional funding for \$25,000 one-time costs and \$62,500 on-going costs for children's book materials at the Main and Red Mountain Libraries. The additional budget will increase the available core collection materials and provide new display shelves for the additional books. During FY18/19, the department added a full-time contracted security guard at the Red Mountain Library to increase the hours of coverage and ensure a safe and secure environment for patrons.

Mayor and Council

The FY19/20 proposed budget is consistent with the FY18/19 budget.

Office of ERP Management

The FY19/20 proposed budget is consistent with the FY18/19 budget.

Office of Management and Budget

The FY19/20 proposed budget includes funding for expenditures related to the Hacktivate Mesa event. Hacktivate Mesa is a data analysis event for high school

students within Mesa to better understand community issues and provides an opportunity for students to offer solutions on how to solve those problems. Sponsorship revenues cover all expenditures related to the event.

Parks, Recreation and Community Facilities

The FY19/20 proposed budget for Facilities Maintenance includes two technician positions and a project manager position for \$265,000 to address the maintenance needs of the City owned facilities.

The Parks FY19/20 proposed budget includes a GIS Specialist to fulfill the department's additional needs to increase the timely accuracy, efficiency and productivity of the department's utilization of the multiple applications that require GIS data. In addition, the proposed budget includes \$50,000 on-going for the cemetery landscaping for tree and turf renovations, and \$30,000 for increased costs in Temporary Services for seasonal support for the provision of recreational programs including youth and adult sports, convention center events, adaptive services, golf services and special events.

Public Information and Communication

The Office of Public Information and Communication (OPIC) supports the City's efforts of providing timely and accurate information on Council strategic initiatives, special events, programs, and services. The OPIC's budget is consistent with FY18/19 budget.

Transit

The Transit Services budget is largely determined by contracts with the Regional Public Transportation Authority (RPTA) and Metro Light Rail for bus, paratransit, and light rail operations. The capital improvement program includes work pertaining to the extension of the light rail line to Gilbert Road. The FY19/20 proposed budget provides \$2.9M in funding for the first full year of operations and maintenance of the Gilbert Road extension net of fare and other revenues.

The costs of services in FY19/20 are increasing. The FY19/20 proposed budget includes \$0.4M in charges related to repairing and maintaining a state of good repair for the aging light rail system. Additionally, Paratransit service costs are increasing \$0.9M largely due to the Dial-a-Ride service provider renegotiating its service contract with Valley Metro.

Transportation

The FY19/20 proposed budget includes funding for two additional staff and equipment for the identification and removal of unwanted items abandoned on City property. The Department is also receiving additional funds for landscape maintenance costs, which have increased due to a new landscaping service contract that supports a high service level of City maintained landscapes, as well as accounting for increased inventories and higher labor costs due to the increased minimum wage. Additionally, the Department is receiving \$250,000 in one-time

funds to develop a prioritization list for transportation-related capital projects in the future and \$150,000 in one-time funds to install five internally illuminated street name signs at Mesa intersections that border neighboring cities.