

# Financial Forecast

## General Governmental Funds and Enterprise Fund

March 21, 2019

## City of Mesa

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# GENERAL GOVERNMENTAL FUNDS

# Financial Forecasting

- The city uses current expenses and revenues along with historical trends as a basis to forecast future expenses and revenues over multiple years
- Multi-year forecasting allows for evaluation of the sustainability of programs and services
- Future needs are incorporated to enhance ability to plan
- The city's financial policies call for the use of on-going revenues for on-going expenses



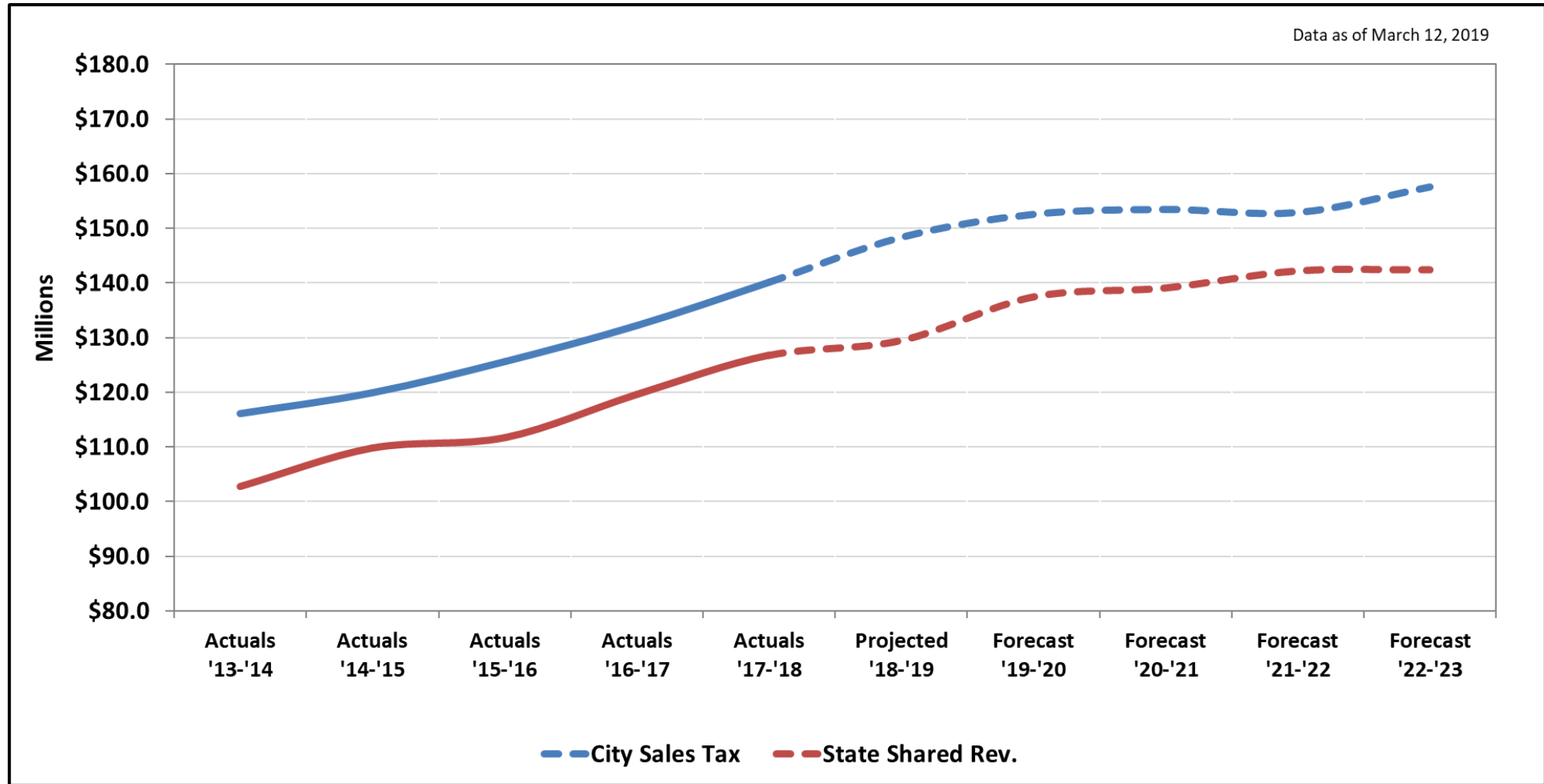
# Revenue Forecasting

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- The city subscribes to a forecast group out of the University of Arizona which allows for access to raw data regarding econometrics
- Statistical software is applied in house to analyze the correlation between economic trends and the City's revenue sources
- Relevant economic indicators are considered such as: population growth, wages, unemployment, building permits, gas prices, etc.
- Mesa specific factors are applied such as economic development activities, retail trends, etc.
- Includes an economic correction estimate



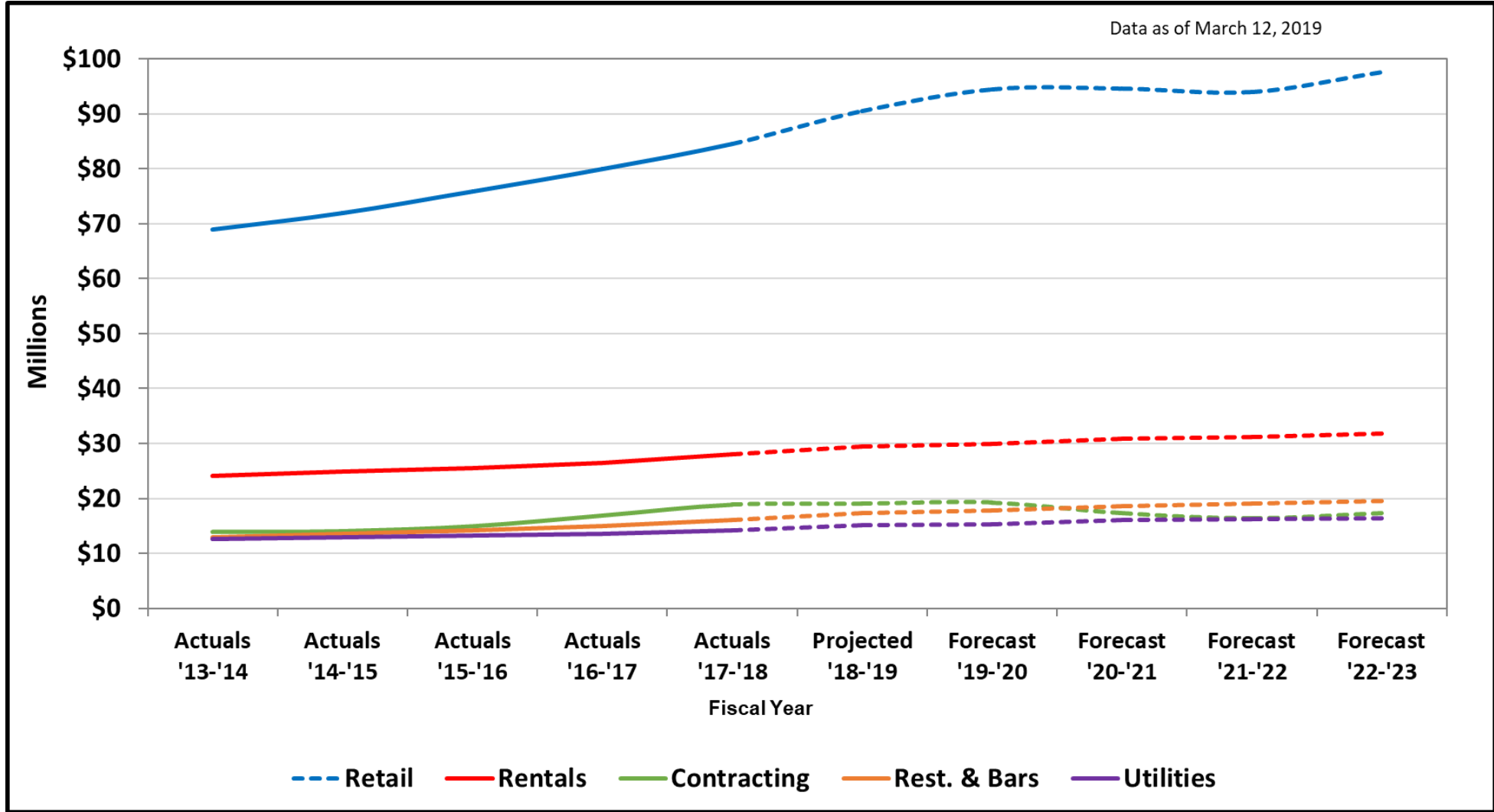
# General Governmental Revenues



# General Governmental Operating Sources

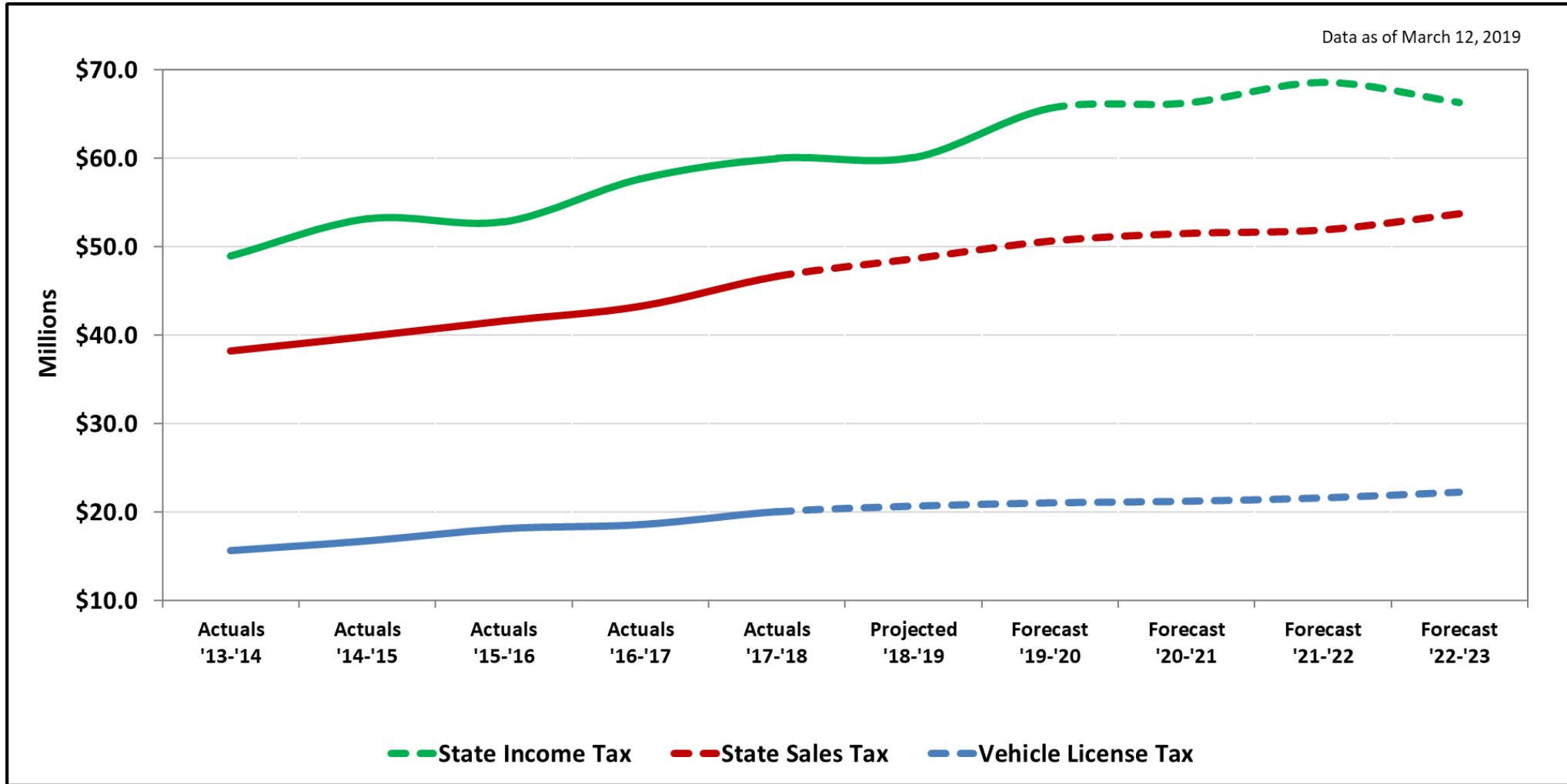
	<b>FY 17/18 Actuals<sup>(1)</sup></b>	<b>Change From FY 16/17</b>	<b>FY 18/19 Budgeted<sup>(1)</sup></b>	<b>FY 18/19 Projected<sup>(1)</sup></b>	<b>Change from FY 17/18</b>	<b>FY 19/20 Forecast</b>	<b>Change from FY 18/19 Projected</b>
<b>Local Sales Tax</b>	<b>\$140.1</b>	<b>5.9%</b>	<b>\$142.2</b>	<b>\$148.3</b>	<b>5.9%</b>	<b>\$152.6</b>	<b>2.9%</b>
<b>State Shared Revenues</b>							
State Sales Tax	<b>\$46.6</b>	<b>7.8%</b>	<b>\$47.7</b>	<b>\$48.6</b>	<b>4.2%</b>	<b>\$50.6</b>	<b>4.1%</b>
Urban Revenue Sharing	<b>\$60.0</b>	<b>4.0%</b>	<b>\$59.5</b>	<b>\$60.1</b>	<b>0.2%</b>	<b>\$65.7</b>	<b>9.3%</b>
Vehicle License Tax	<b>\$20.1</b>	<b>8.0%</b>	<b>\$20.7</b>	<b>\$20.7</b>	<b>3.2%</b>	<b>\$21.1</b>	<b>1.8%</b>
<b>Enterprise Transfer</b>	<b>\$106.5</b>	<b>2.5%</b>	<b>\$108.4</b>	<b>\$108.4</b>	<b>1.8%</b>	<b>\$110.6</b>	<b>2.0%</b>
<b>Other<sup>(2)</sup></b>	<b>\$44.2</b>	<b>0.4%</b>	<b>\$49.3</b>	<b>\$49.3</b>	<b>11.5%</b>	<b>\$43.9</b>	<b>-10.9%</b>
<b>Total</b>	<b>\$417.5</b>	<b>2.9%</b>	<b>\$427.7</b>	<b>\$435.5</b>	<b>4.3%</b>	<b>\$444.5</b>	<b>2.1%</b>
<p>1. Amounts do not include carryover</p> <p>2. FY 18/19 Other revenues show a significant increase due to transfers for improving city infrastructure (\$3M) and implementing the Advantage CGI Upgrade (\$4M)</p>							
(as of March 12, 2019)						Dollars in millions	

# Local Sales Tax





# State Shared Revenues





# Operational Expenditure Forecasting

- Expenditure categories are analyzed and forecasted individually
- **Personal Services**
  - Many factors contribute to overall estimates such as pension rates, medical premiums, salary movement, etc.
- **Other Services/Commodities**
  - Large specialty contracts are handled separately while forecasted consumer price index is applied to general expenses
- **Capital**
  - Majority of expenses are related to construction projects and vehicle purchases. Multi-year plans are developed and included in the forecast



# Included in Expenditure Forecast

- **Public Safety Retirement** contributions (25-year unfunded liability payment plan)
  - Police contribution rate increases to 56% (from 50% in FY18/19)
  - Fire contribution rate increases to 56% (from 52% in FY18/19)
- **Arizona State Retirement** contribution rate increases to 12.11% (from 11.80% in FY18/19)
- **Medical premiums** increasing at 8%. Is consistent with last year's forecast.

# PSPRS 25 Year Plan and 20 Year Plan Comparison

	<u>FY19/20</u>	<u>FY20/21</u>	<u>FY21/22</u>	<u>FY22/23</u>	<u>Total</u>
25 Yr PSPRS Plan	\$ 57.8	\$ 61.3	\$ 65.0	\$ 68.9	\$ 253.0
20 Yr PSPRS Plan	65.3	69.3	73.4	77.8	285.8
25 Yr & 20 Yr Plan difference	<u>\$ (7.5)</u>	<u>\$ (8.0)</u>	<u>\$ (8.4)</u>	<u>\$ (8.9)</u>	<u>\$ (32.8)</u>

	<u>FY18/19</u>	<u>FY22/23</u>	<u>Difference</u>
25 Yr PSPRS Plan	\$ 50.1	\$ 68.9	\$ 18.8
20 Yr PSPRS Plan		77.8	\$ 27.7

Dollars in millions

# Expenditure Forecast – Transfer to Other Funds

- **Transit – Bus, Light Rail, Dial-a-ride**

- The city receives transit revenues from the State and a portion of the fares for light rail ridership however the revenues do not cover the costs
- The General Fund contribution is projected at \$14.6M for FY 18/19 and \$17.0M in FY 19/20
- Gilbert Light Rail Extension is included in FY 19/20 forecast. \$2.9M annual estimated increase in expenses.



# General Governmental Expenditures

	<b>FY 17/18 Actuals</b>	Change from FY 16/17	<b>FY 18/19 Budget</b>	<b>FY 18/19 Projected</b>	Change from FY 17/18	<b>FY 19/20 Forecast</b>	Change from FY 18/19 Projected
<b>Operating Expenditures</b>							
Personal Services	<b>\$291.8</b>	2.8%	<b>\$310.8</b>	<b>\$309.5</b>	6.1%	<b>\$324.8</b>	4.9%
Other Services	<b>\$57.8</b>	8.3%	<b>\$76.4</b>	<b>\$76.7</b>	32.7%	<b>\$63.2</b>	-17.6%
Commodities	<b>\$12.0</b>	-3.2%	<b>\$13.0</b>	<b>\$14.9</b>	24.0%	<b>\$12.7</b>	-14.8%
<b>Transfers</b>							
to capital fund	<b>\$24.1</b>	136.2%	<b>\$16.8</b>	<b>\$18.8</b>	-22.0%	<b>\$15.0</b>	-20.0%
to other funds <sup>(1)</sup>	<b>\$39.8</b>	2.7%	<b>\$33.1</b>	<b>\$34.7</b>	-12.9%	<b>\$33.0</b>	-4.8%
<b>Total</b>	<b>\$425.5</b>	6.8%	<b>\$450.3</b>	<b>\$454.6</b>	6.8%	<b>\$448.7</b>	-1.3%

1. Includes transfers to the Transit Fund, Arts and Culture Fund and other funds

(as of March 2019)

Dollars in millions

# Financial Sustainability

- Forecasting revenues and expenditures allows for determining if there are sufficient on-going revenues to cover current and new on-going needs
- The closer annual operating expenditures are to annual operating revenues, the more sustainable they are over time
- Growth of the revenue base through City investments
- Periodic usage of reserves allows for the normal ebb and flow of finances
- Financial reserve balance targeted to maintain adequate levels as outlined in the City's Financial Policies



# GENERAL GOVERNMENTAL FUND BALANCE

	<b>Actuals FY 14/15</b>	<b>Actuals FY 15/16</b>	<b>Actuals FY 16/17</b>	<b>Actuals FY 17/18</b>
<b>Beginning Reserve Balance</b>	<b>\$53.7</b>	<b>\$77.1</b>	<b>\$93.6</b>	<b>\$100.9</b>
<b>Total Sources</b>	<b>\$377.9</b>	<b>\$382.2</b>	<b>\$405.8</b>	<b>\$425.0</b>
<b>Total Uses</b>	<b>\$354.5</b>	<b>\$365.7</b>	<b>\$398.4</b>	<b>\$422.5</b>
<b>Net Sources and Uses</b>	<b>\$23.4</b>	<b>\$16.5</b>	<b>\$7.3</b>	<b>\$2.6</b>
<b>Future Economic Correction</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$3.0)</b>
<b>Ending Reserve Balance</b>	<b>\$77.1</b>	<b>\$93.6</b>	<b>\$100.9</b>	<b>\$100.5</b>
<b>Ending Reserve Balance Percent*</b>	<b>21.1%</b>	<b>23.5%</b>	<b>23.9%</b>	<b>22.1%</b>
*As a % of all Next Year's uses of funding Note: Includes economic correction beginning FY 20/21				
Dollars in millions				



# GENERAL GOVERNMENTAL FUND BALANCE

	<b>Actuals FY 17/18</b>	<b>Budget FY 18/19</b>	<b>Projected FY 18/19</b>	<b>Forecast FY 19/20</b>	<b>Forecast FY 20/21</b>	<b>Forecast FY 21/22</b>	<b>Forecast FY 22/23</b>
<b>Beginning Reserve Balance</b>	<b>\$100.9</b>	<b>\$92.3</b>	<b>\$100.4</b>	<b>\$86.2</b>	<b>\$82.0</b>	<b>\$75.4</b>	<b>\$65.2</b>
<b>Total Sources</b>	<b>\$425.0</b>	<b>\$432.5</b>	<b>\$440.4</b>	<b>\$444.5</b>	<b>\$450.0</b>	<b>\$455.4</b>	<b>\$464.4</b>
<b>Total Uses</b>	<b>\$422.5</b>	<b>\$447.3</b>	<b>\$451.6</b>	<b>\$447.7</b>	<b>\$456.6</b>	<b>\$465.6</b>	<b>\$481.8</b>
<b>Net Sources and Uses</b>	<b>\$2.6</b>	<b>(\$14.7)</b>	<b>(\$11.2)</b>	<b>(\$3.2)</b>	<b>(\$6.7)</b>	<b>(\$10.1)</b>	<b>(\$17.4)</b>
<b>Future Economic Correction</b>	<b>(\$3.0)</b>	<b>(\$3.0)</b>	<b>(\$3.0)</b>	<b>(\$1.0)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$7.0</b>
<b>Ending Reserve Balance</b>	<b>\$100.4</b>	<b>\$74.6</b>	<b>\$86.2</b>	<b>\$82.0</b>	<b>\$75.4</b>	<b>\$65.2</b>	<b>\$54.8</b>
<b>Ending Reserve Balance Percent*</b>	<b>22.1%</b>	<b>16.6%</b>	<b>19.2%</b>	<b>18.0%</b>	<b>16.2%</b>	<b>13.5%</b>	<b>11.0%</b>

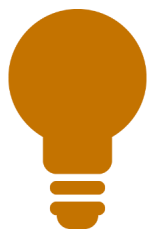
\*As a % of all Next Year's uses of funding

Note: Includes economic correction beginning FY 20/21

Dollars in millions



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Enterprise Fund

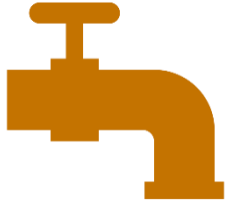
# Enterprise Operations

- Each utility is operated as a separate business center
- Combined Ending Reserve Balance adheres to the adopted financial policy of at least 8-10% over the forecast period
- Reserve balance can be used to smooth rate adjustments year-to-year
- Reserve balance can be used to phase in new programs or changes in operations





# Sources Forecasting



- The City's forecasting approach to utility revenues includes statistical analysis and collaboration with Departments

- Statistical software is applied in house to analyze the correlation between economic trends and the City's utility sources



- Relevant economic indicators are considered, such as population growth, along with reviewing historical trends in account growth and consumption/usage



- Mesa specific factors are applied such as economic development activities, additional large customers, etc.

- Includes an economic correction estimate



- **Includes the fall implementation of the rate adjustments process which results in no rate adjustments from July 2019 through January 2020.**

# Enterprise Sources

	FY 17/18 Actuals	FY 17/18 Act. change from FY 16/17 Act.	FY 18/19 Budgeted	FY 18/19 Projected	FY 18/19 Proj. change from FY 17/18 Act.	FY 19/20 Forecast <sup>(1)</sup>	FY 19/20 Fore. change from FY 18/19 Proj.
<b>Water</b>	<b>\$149.4</b>	9.2%	<b>\$151.5</b>	<b>\$150.8</b>	0.9%	<b>\$156.3</b>	3.7%
<b>Wastewater</b>	<b>\$82.7</b>	6.2%	<b>\$85.0</b>	<b>\$85.9</b>	3.8%	<b>\$87.9</b>	2.3%
<b>Electric - without EECAF</b>	<b>\$18.5</b>	-2.5%	<b>\$18.3</b>	<b>\$18.4</b>	-0.2%	<b>\$18.8</b>	1.8%
<b>Natural Gas - without PNGCAF</b>	<b>\$30.2</b>	-1.1%	<b>\$31.2</b>	<b>\$34.6</b>	14.7%	<b>\$32.3</b>	-6.7%
<b>Solid Waste</b>	<b>\$60.7</b>	4.9%	<b>\$61.7</b>	<b>\$62.1</b>	2.4%	<b>\$63.3</b>	1.8%
<b>Other Enterprises</b>	<b>\$7.2</b>	-6.9%	<b>\$6.9</b>	<b>\$7.3</b>	1.2%	<b>\$7.4</b>	1.9%
<b>Subtotal</b>	<b>\$348.6</b>	5.7%	<b>\$354.6</b>	<b>\$359.1</b>	3.0%	<b>\$365.9</b>	1.9%
<b>Pass-Throughs (EECAF/PNGCAF)</b>	<b>\$22.8</b>	-7.7%	<b>\$25.1</b>	<b>\$21.7</b>	-4.7%	<b>\$21.9</b>	0.8%
<b>Grand Total</b>	<b>\$371.4</b>	4.8%	<b>\$379.8</b>	<b>\$380.9</b>	2.5%	<b>\$387.8</b>	1.8%

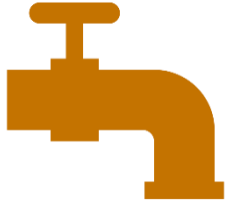
(as of March 2019)

1. Based on May 7, 2018 Council Report Forecast Rate Adjustments

Dollars in millions



# Uses Forecasting



- Departments provide specific forecasts for large budget items where costs can fluctuate over time, including water commodity purchases, water and wastewater treatment plant chemicals, and solid waste tipping fees
- Debt service payments are included in the Enterprise Fund forecast, where funds are transferred according to utility debt service schedules

# Enterprise Uses

	FY 17/18 Actuals	FY 17/18 Act. change from FY 16/17 Act.	FY 18/19 Budgeted	FY 18/19 Projected	FY 18/19 Proj. change from FY 17/18 Act.	FY 19/20 Forecast	FY 19/20 Fore. change from FY 18/19 Proj.
<b>Operating and Project Costs</b>							
<b>Water</b>	<b>\$43.3</b>	5.9%	<b>\$53.6</b>	<b>\$51.7</b>	19.3%	<b>\$54.4</b>	5.3%
<b>Wastewater</b>	<b>\$24.9</b>	7.5%	<b>\$28.1</b>	<b>\$28.3</b>	13.7%	<b>\$27.4</b>	-3.1%
<b>Electric - without EECAF</b>	<b>\$7.1</b>	3.1%	<b>\$7.8</b>	<b>\$7.6</b>	7.8%	<b>\$7.4</b>	-2.1%
<b>Natural Gas - without PNGCAF</b>	<b>\$12.7</b>	-3.7%	<b>\$14.6</b>	<b>\$14.4</b>	13.9%	<b>\$14.2</b>	-1.4%
<b>Solid Waste</b>	<b>\$33.4</b>	1.1%	<b>\$37.0</b>	<b>\$37.1</b>	10.9%	<b>\$37.5</b>	1.2%
<b>Other Enterprises</b>	<b>\$10.3</b>	-4.0%	<b>\$11.6</b>	<b>\$11.4</b>	10.1%	<b>\$11.8</b>	4.2%
<b>Subtotal Operating and Project Costs</b>	<b>\$131.7</b>	3.0%	<b>\$152.7</b>	<b>\$150.4</b>	14.2%	<b>\$152.8</b>	1.6%
<b>Transfers</b>							
<b>Debt Transfers</b>	<b>\$77.0</b>	41.5%	<b>\$83.7</b>	<b>\$73.1</b>	-5.0%	<b>\$89.1</b>	21.8%
<b>Capital Transfers</b>	<b>\$10.7</b>	-6.9%	<b>\$10.7</b>	<b>\$12.8</b>	19.9%	<b>\$11.1</b>	-13.8%
<b>Other Transfers<sup>(1)</sup></b>	<b>\$110.4</b>	0.9%	<b>\$116.8</b>	<b>\$116.1</b>	5.2%	<b>\$118.0</b>	1.6%
<b>Subtotal Transfers</b>	<b>\$198.0</b>	13.0%	<b>\$211.2</b>	<b>\$202.1</b>	2.0%	<b>\$218.1</b>	7.9%
<b>Pass-Throughs (EECAF/PNGCAF)</b>	<b>\$22.9</b>	-7.7%	<b>\$25.1</b>	<b>\$21.4</b>	-6.5%	<b>\$22.1</b>	3.3%
<b>Grand Total</b>	<b>\$352.6</b>	7.5%	<b>\$389.1</b>	<b>\$373.9</b>	6.0%	<b>\$393.1</b>	5.1%

1. includes transfers to the General and Economic Investment funds

(as of March 2019)

Dollars in millions



# Enterprise Net Sources and Uses

	FY 17/18 Actuals	FY 18/19 Budget	FY 18/19 Projected	FY 19/20 Forecast	FY 20/21 Forecast	FY 21/22 Forecast	FY 22/23 Forecast
WATER	\$12,024	(\$3,787)	\$2,746	(\$3,978)	(\$2,196)	(\$9,133)	(\$11,050)
WASTEWATER	\$2,380	(\$1,587)	\$3,122	\$949	(\$692)	\$3,735	\$5,765
SOLID WASTE	\$2,645	(\$913)	(\$203)	(\$604)	(\$91)	(\$60)	\$1,307
ELECTRIC	\$2,651	\$942	\$2,283	\$1,216	\$133	(\$640)	(\$720)
NATURAL GAS	\$2,805	\$1,378	\$3,780	\$2,398	\$609	(\$2,388)	(\$2,329)
Subtotal: Utilities	\$22,505	(\$3,966)	\$11,728	(\$18)	(\$2,237)	(\$8,486)	(\$7,027)
DISTRICT COOLING	\$435	\$432	\$434	\$346	\$260	\$231	\$194
CONVENTION CENTER	(\$1,518)	(\$2,032)	(\$2,044)	(\$1,988)	(\$1,480)	(\$1,813)	(\$2,008)
GOLF	(\$279)	(\$960)	(\$684)	(\$1,158)	(\$834)	(\$1,042)	(\$846)
CUBS SPRING TRAINING	(\$740)	(\$1,554)	(\$1,286)	(\$1,160)	(\$1,493)	(\$1,310)	(\$1,307)
HOHOKAM-FITCH	(\$1,581)	(\$1,212)	(\$1,179)	(\$1,236)	(\$1,315)	(\$1,359)	(\$1,361)
Subtotal: Other Enterprises	(\$3,683)	(\$5,327)	(\$4,759)	(\$5,197)	(\$4,862)	(\$5,292)	(\$5,329)
TOTAL NET SOURCES AND USES	\$18,821	(\$9,293)	\$6,969	(\$5,215)	(\$7,099)	(\$13,778)	(\$12,356)
Beginning Reserve Balance	\$92,728	\$111,549	\$111,549	\$118,518	\$113,303	\$106,204	\$92,426
<b>Ending Reserve Balance</b>	<b>\$111,549</b>	<b>\$102,256</b>	<b>\$118,518</b>	<b>\$113,303</b>	<b>\$106,204</b>	<b>\$92,426</b>	<b>\$80,070</b>
Ending Reserve Balance Percent*	<b>29.8%</b>	<b>26.0%</b>	<b>30.2%</b>	<b>27.8%</b>	<b>25.0%</b>	<b>21.0%</b>	<b>17.5%</b>

\*As a % of Next Fiscal Year's Expenditures

Dollars in thousands

# Next Steps – Anticipated Calendar

April 1	Review Proposed FY 19/20 Budget
April 4	Review Utility CIP Hear from Utility departments
April 11, 15, 18, 25, May 2	Hear from various departments
May 6	Budget Wrap-up
May 20	Adoption of the CIP Tentative Adoption of the FY 19/20 Budget
June 3	Final Adoption of the FY 19/20 Budget
June 17	Adoption of the Secondary Property Tax Levy



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