FINANCIAL UPDATE

COVID-19 FINANCIAL IMPACT City of Mesa April 2, 2020

Candace Cannistraro:
Management & Budget
Director

Brian Ritschel:
Management & Budget
Deputy Director

Prior Planning and Setting of Expectations Continued

- Economic recession anticipated in FY 20/21
 - 12-month downturn with a three-year recovery
 - Anticipated revenue decreases: FY 20/21 \$5.5M, FY 21/22 \$12.8M

- Multi-year discussions with City staff regarding planning for a downturn
 - Sales tax revenues steadily climbed up while a conservative approach was applied to new programs and expenses
 - Focus on increased efficiency: use of technology, process improvement, data-based evaluation, alignment with mission
 - Setting aside funds for service stabilization, \$7.0M

New Expectations

- Recession is earlier and deeper than anticipated. However, the recovery should be faster than anticipated
 - Artificial decrease in consumer demand due to social distancing and stayat-home guidelines
 - When guidelines are lifted, some of the demand will return
 - A longer unemployment period may result in a longer recovery period
 - Reductions/deferments in expenses are needed to cover the recovery period
 - Early action reduces the impact of reductions

Some Good News

- Increased sales tax receipts (local and State) in first half of FY 19/20 is cushioning the impact of a \$17.6M swing in the last quarter
 - Initial year-end estimate about \$11.0M above budget
 - Current year-end estimate about \$6.6M below budget

- Availability of one-time State income tax revenue
 - Urban Revenue Sharing (State income tax) for FY 20/21 will come in \$7.5M more than anticipated in the Spring 2019 forecast. Most of it is considered one-time as it was due to a change in the Federal tax rules

Actions Already Taken

- Personnel Related Expenses
 - Step-pay anticipated and included in the Spring 2019 forecast for implementation on 7/1/2020 has been removed
 - Salary market benchmark adjustments anticipated for implementation in 7/1/2020 have been delayed one year
 - Vacant positions are being held open related to non-critical/nonessential services
- Departments with closed facilities have identified possible expense savings to offset the lost revenues and/or reduced services
 - \$9.1M estimated lost revenues Mar-Sep 2020 (6-month/Oct. 1 scenario)
 - \$11.2M estimated reduced expenses Mar-Sep 2020 (6-month/Oct. 1 scenario) Fynense Adjustments Fy 19/2

Expense Adjustments	FY	19/20	F١	20/21
Removal of Merit Pay for	\$	(3.5)	\$	(3.5)
Salary Benchmark Delayed One				
year	\$	-	\$	(1.9)
Closed Facility Savings (Apr-				
Sep)	\$	(3.9)	\$	(7.3)
Total Savings	\$	(7.4)	\$	(12.7)

Capital Projects/One-time Savings

All projects not currently underway or obligated have been put on hold

 Each project will be evaluated for: impact to the General Fund, safety concerns, grant funding availability, etc.

 Staff currently estimates \$10.0M - \$15.0M of projects could be considered for deferral

Additional information will be presented to the City Council next week

Action Needed

Staff feels confident that the closed facilities will need to remain closed for some time to maintain public health and safety due to COVID-19

- Based on this, staff recommends the City continue the closure of the facilities through the month of September
 - This allows staff to implement the operational savings plans outlined by the departments
 - Implementation plan will be provided to the City Council next week

Next Steps

- The departments affected by closed facilities are preparing 9-month and 12-month closure plans
 - These operational plans would impact more full-time staff and require additional ramp-up time to reopen the facilities
- March sales tax activity will be available by the end of May
 - Initial assessment of the impact to major revenues

Next Steps Continued

Staff will return to City Council in the beginning of June to:

- Discuss possible date extension of closed facilities
 - Staff concerned that economic recovery will not be sufficient to support reopening of facilities before January 1, 2021
- Recommend other operational budget modifications



