



City Council Report

Date: March 31, 2022
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Brian A. Ritschel, Management and Budget Assistant Director
Subject: Fiscal Year 2022/23 Summary of Proposed Budget

Overview of Tentative Budget

In February, the Council received an update on the financial status of the City and budget priorities for FY 2022/23. The financial position of the City has strengthened over the last year. This is attributable to a combination of items: a steady increase in local and state sales tax revenues, increased development/construction activity, and federal stimulus funds from the American Rescue Plan Act (ARPA). The City is seeing higher than expected inflation on commodities and services over the last year and to minimize the impact, City management has prioritized employee compensation, department base budget increase for FY 2022/23, and capital project cost increases to sustain quality services.

The City of Mesa's fiscal year runs from July 1st to June 30th. The City is required to adopt a balanced budget as well as a secondary property tax levy each year. An annual budget is determined to be balanced if the anticipated resources are sufficient to cover the anticipated/budgeted expenditures. Resources include both new revenues as well as reserve balances.

The City's adopted budget sets the maximum expenditure level that can take place in a fiscal year. The provision of services and programs is fluid in nature. Budget modifications occur during the fiscal year to better align resources. Modifications may increase or decrease the budget of a particular department. The following are some reasons for budget modifications, although not an exhaustive list.

- Unanticipated grant award
- Unanticipated expense
- Change in statutory requirements
- Conversion of temporary positions to City positions
- Addition of positions to meet service and/or workload requirements
- Addition of pilot programs to gather data
- Transfer of positions from one department to another
- Reduction/reorganization of positions to better meet needs

This document summarizes the significant budget modifications that took place during FY 2021/22, as well as new expenditures that are anticipated for FY 2022/23.

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 contribution from the Utility Fund.

Local Sales Tax

Local sales tax, the largest of these sources, is projected to increase in FY 2021/22. The last available month of sales tax data for FY 2021/22 is for January activity, which shows year to date growth at 20.8% over the same period last year. Sales tax revenues in FY 2021/22 are high due to continued higher levels of growth in both the retail and contracting categories. The increases in these categories are due to increased construction activity, increased online sales, and increased prices due to inflation. At this time, local sales tax revenues are projected to end FY 2021/22 11.7% above FY 2020/21. For FY 2022/23, the forecast has a decline of 2.0%. The forecast assumes higher revenues in FY 2021/22 than FY 2022/23 due to inflation and one-time increases in construction projects.

Public Safety Sales Tax

The Public Safety Sales Tax Fund is voter-approved sales tax revenue restricted to Public Safety programs and projects. The FY 2022/23 budget includes funding for new public safety projects and one-time items. Included in the proposed budget for the Public Safety Sales Tax Fund for Fire for one-time costs is one academy and a one-time reduction in cancer screenings due to the department utilizing grant funds to cover the associated costs. One-time costs also include additional money to right-size health exam costs for Station 221. The proposed budget for Police includes one-time costs for training. Additional on-going operational costs for the Public Safety Sales Tax are noted in the department section of Public Safety for the Police, and Fire and Medical departments.

Quality of Life Sales Tax

The funding for the Quality of Life Fund is voter-approved sales tax revenue and is dedicated to public safety. The FY 2022/23 budget covers the estimated costs of up to 120 sworn FTE in the Police Department and 65 sworn FTE in the Fire and Medical department. The allocated FTE is subject to change based on the revenues received.

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 incomes from individuals, corporations, and capital gains. Since Urban

Revenue Sharing revenue has a two-year lag between income reported and the receipt of revenues by the City, the budget amount is known. In FY 2022/23, Urban Revenue Sharing revenues will increase by 45.7%. The large increase is due to the shift of the income tax filing deadline from April 2020 to July 2020, which moved these payments from the City's FY 2021/22 distribution of Urban Revenue Sharing to FY 2022/23.

State-Shared Sales Tax: Like local sales tax, state sales tax is projected to increase 12.6% in FY2021/22 as result of increased retail activity. For FY 2022/23, the forecast has a decline of 3.7%. The forecast assumes higher revenues in FY 2021/22 than FY 2022/23 due to increased economic uncertainty and a return to traditional spending patterns.

Vehicle License Tax: The smallest contributor to state revenue sharing, it is projected to decrease 5.4% in FY 2021/22 and increase 5.1% in FY 2022/23. FY 2021/22 revenues have been lower than FY 2020/21 due to increased vehicle purchases in FY 2020/21. FY 2022/23 revenues assume a return to traditional spending patterns.

Utility Fund Contribution

The Utility Fund contribution is one of the City's methods of providing funding for general governmental services such as police and fire as well as libraries and parks. The Utility Fund contribution was set by Council resolution at a total of no more than 30% of utility operating revenues, 25% for public safety and 5% for general City services. Based on utility revenue estimates, the FY 2022/23 contribution is budgeted at \$119.8 million, which is a 5.2% increase from the FY 2021/22 projected contribution.

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. Recently, Transit Services received federal assistance from the Coronavirus Response and Relief Supplement Appropriations (CARES) Act and the American Rescue Plan Act (ARPA), which will offset the General Fund to Transit Fund transfer in FY 2021/22 and FY 2022/23. The projected transfer including the federal assistance from the General Fund for FY 2021/22 is \$8.8 million with an increase for FY 2022/23 to \$14.3 million. For comparison, the FY 2022/23 budget for the General Fund transfer to the Transit Fund without the ARPA credit would have been \$20.6M.

Trust Fund Contributions

The General Fund contributes to three trust funds related to liabilities:

Property and Public Liabilities Trust Fund; FY 2022/23 contribution \$5.3M

Employee Benefit Trust Fund; FY 2021/22 contribution \$57.9M

Workers' Compensation Trust Fund; FY 2021/22 contribution \$4.0M

Programmatic updates to these trust funds can be found 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. City finances have benefitted from the federal assistance through the American Rescue Plan Act (ARPA) on a one-time basis, however, there is a gap between on-going revenues and on-going expenditures. The City forecasts expenses, revenues and reserve balances over a multi-year period and reviews them on an on-going basis to allow for proactive response to economic and programmatic changes.

Utility Operating Budget

Planning for new accounts and incorporating trends in consumption, FY 2022/23 operating revenues are estimated at \$399.2M, increasing from \$379.5M projected for FY 2021/22 (excluding the EECAF/PNGCAF commodity cost pass throughs).

In recent years, 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 of 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 estimated budget for FY 2022/23 results in an ending balance within the financial policies. The current forecast calls for slightly declining reserve balances for the next few years in anticipation of a scheduled increase in existing debt service expenses. The City forecasts expenses, revenues and reserve balances over a multi-year period and reviews them on an on-going basis to allow for proactive response to economic changes.

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 mainly comprised of the fuel tax paid at the fuel pump by the consumer (46.4%) and part of the vehicle license tax (33.9%). The remainder is comprised of miscellaneous State fees. Arizona's three largest cities also receive an additional allocation of the revenues referred to as HURF 3%. The other transportation funding source is a voter approved 0.30% Mesa city sales tax dedicated to street expenditures referred to as Local Street Sales Tax (LSST).

Highway User Revenue Fund (HURF). In years past, HURF and HURF 3% revenues experienced volatility due to adjustments and diversions in the distribution by the State. The current forecast does not include any adjustments for potential diversions in distributions by the State, however adjustments will be made if additional action is taken by the State. In FY 2022/23, expected revenues are estimated to increase 1.7% as travel resumes to pre-pandemic levels.

Local Streets (LS) Fund. LS revenue collection is tied to the rest of city sales tax and will increase in FY2021/22. Anticipated revenues for FY2022/23 are expected to decline from \$44.2M to \$43.4M due to inflation and one-time increases in construction projects during FY 2021/22.

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 is estimated to be \$79.6M in FY 2021/22 and decrease to \$72.8M in FY 2022/23.

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 employees 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 | FY 16/17 | \$78.4M | 1.8% | \$69.3M | 0.4% |
| Actual | FY 17/18 | \$80.1M | 2.1% | \$70.1M | 1.1% |
| Actual | FY 18/19 | \$90.8M | 13.4% | \$80.7M | 15.1% |
| Actual | FY 19/20 | \$96.6M | 6.4% | \$86.6M | 7.4% |
| Actual | FY 20/21 | \$99.3M | 2.9% | \$89.5M | 3.4% |
| Projected | FY 21/22 | \$104.1M | 4.8% | \$92.7M | 3.6% |
| Budget | FY 22/23 | \$111.0M | 6.6% | \$98.9M | 6.7% |

Medical and dental premiums are set on a calendar year (CY) basis. To address the projected increased costs, the FY 2022/23 budget includes an increase of 6.0% for employee contributions and 0.0% for retiree contributions for CY 2022, and an increase of 6.0% for employee contributions and 0.0% for retiree contributions for CY 2023. Respectively the increases are applied to both the employee/retiree and the City. In the summer of 2022, plan design and premiums will be reviewed. Specific rate recommendations will be presented to the City Council in the fall of 2022. The City contribution included in the FY 2022/23 budget is \$78.7 million which is \$0.8 million less than FY 2021/22 adopted budget. The FY 2022/23 budgeted City contribution is slightly

higher compared to what was presented at the Trust fund board meeting due to the additional employee count as the budget will account for new and vacant positions contributing into the fund.

Medical, prescription, and dental claims costs continue to rise, but due the COVID-19 pandemic, the City did see a decrease in claim frequency/utilization compared to forecast. Claims costs are projected to increase from FY 2021/22 to FY 2022/23 by \$6.2 million, or 6.7% with no change in utilization. The FY 2022/23 budget includes an increase of costs of \$6.2M or 6.7% compared to FY 2021/22 projected cost estimate.

In calendar year (CY) 2018, the City implemented a three-year contract with an optional 4th and 5th year extension with Cigna for third-party medical plan administration and medical provider network. 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 2021.

The City introduced a new wellness provider, WebMD, in CY 2021 to replace the Mesa Wellness 360 program. WebMD advances wellness engagement with active medical plan enrollees and committed partners. This wellness program provides financial incentives for registered participants who complete/sign-up for activities (between November 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 WebMD program is funded by the EBT Fund and is supplemented annually by a Cigna-provided *Health Improvement Fund*.

Workers' 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 workers' 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. The FY 2022/23 proposed budget for the Workers' compensation Trust Fund includes capacity for Municipal Firefighters Cancer Reimbursement within the Mesa Fire and Medical Services Department.

For FY 2022/23, the reserve target is \$7.0 million. Based on the FY 2021/22 projected reserve balance and the expenditures forecasted for FY 2022/23, a decrease to the workers' compensation rates from the previous year is included in the FY 2022/23 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2022/23 is \$5.1 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 \$3.0 million in FY 2021/22. The cost of claims included in the FY 2022/23 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 FY 2022/23 City contribution estimate is \$7.8 million with an estimated fund balance utilization of \$1.0 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 is anticipated to generate \$17.5 million in revenue in FY 2021/22. 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 \$17.8 million therefore no fee adjustment is needed. The current fee has been in place since July 1, 2014 and will remain the same for FY 2022/23. Savings experienced each year are accumulated and applied to future one-time expenditure needs. The FY 2022/23 proposed budget includes \$82K for one additional Equipment Operator I. With the growth of the City, an additional position will be needed to operate a street sweeper to maintain consistent street cleaning service.

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 to apply for approximately \$4.5 million in grant awards for FY 2022/23. Notable proposed grant awards include the following:

- \$1.1M for support for the Mesa Family Advocacy Center
- \$912K Homeland Security Grants to provide funds for training and equipment to support Homeland Security initiatives.
- \$945K Governor's Office of Highway Safety (GOHS) Grant to provide resources, overtime for DUI and traffic enforcement activities, and safety equipment for the City's Traffic Safety Program included support for Prop 207 related activities
- \$670K 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.
- \$150K Justice Assistance Grant (JAG) to support improving technology services in the Police Department.
- \$250K Office of Justice Programs Bureau of Justice Assistance Hate Crime Grant to support personnel in developing a comprehensive approach to address hate crimes in the City of Mesa.
- \$85K High Intensity Drug Trafficking Areas (HITDA) Grant to provide funding for officer overtime to coordinate activities that address drug trafficking in specially designated areas of the United States

Mesa Fire and Medical Grants

Mesa Fire and Medical plans to apply for approximately \$437 thousand in grant awards for FY 2022/23. Notable grant awards include the following:

- \$280K from the Rapid Response Team with the Arizona Department of Homeland Security for equipment for training, meter maintenance calibration, and various equipment purchased for the Hazardous Materials Team to mitigate explosive devices, detect chemical releases, and use on the trucks.
- \$100K from the Salt River Pima Maricopa Indian Community for immunization supplies.

Arts & Culture Grants

The Arts & Culture department's proposed budget includes spending capacity of \$3.1M in grant funding as the department pursues additional federal Shuttered Venue Operator's Grant (SVOG) funds administered by the Small Business Administration (SBA).

City Manager Grants

The City Manager plans to apply for \$75K in grant awards for FY 2022/23 for the downtown Mesa Sign Program.

Relief Fund Grant

Due to federal assistance from the American Rescue Plan Act, the City established budget capacity of \$101.4M in FY 2021/22 to support City operations and those affected by the COVID-19 pandemic and continues the support and assistance in FY 2022/23.

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.
- Family Self-Sufficiency (FSS) Program - FSS is a voluntary HUD program for families in the voucher rental assistance program to set goals and achieve self-sufficiency through education and increased earned income. FSS provides case management and connections with community resources and services for guidance and opportunities, such as referrals for college access or job training, career guidance and job search, financial coaching, homebuyer pathways, and more.

These four Section 8 programs are funded at a combined \$18.4 million in FY 2021/22 and \$19.0 million in FY 2022/23.

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 \$4.3 million in FY 2021/22 and \$7.7 million in FY 2022/23.
- 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 \$1.6 million in FY 2021/22 and \$7.6 million and FY 2022/23.
- 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 FY 2021/22 and \$0.6 million in FY 2022/23.

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 2022/23 contribution rates for State-run retirement plans changed as follows:

| Retirement Plan | FY 2021/22 Rate | FY 2022/23 Rate | Rate Change |
|--|-----------------|-----------------|-------------|
| Arizona State Retirement System (ASRS) | 12.4% | 12.2% | (0.2)% |
| Elected Officials Retirement System (EORP) | 61.4% | 70.4% | 9.0% |
| Public Safety Personnel Retirement System (PSPRS) - Fire | 56.2% | 58.1% | 1.9% |
| Public Safety Personnel Retirement System (PSPRS) - Police | 56.9% | 60.2% | 3.3% |

In the FY 2022/23 proposed budget, the City continues to address the increases in the unfunded liability with the Public Safety Personnel Retirement System (PSPRS) plan and works to smooth out future cost increases for the unfunded liability.

History

Due to investment losses and to a series of court rulings that reversed prior pension reforms, PSPRS rates increased significantly in FY 2017/18. 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 unfunded liability over 24 years.

Status

In the FY 2022/23 proposed budget, there shows an increase to the PSPRS contribution rates due to the City taking a new approach in paying down the unfunded liability. The proposed budget includes the employee/individual at the 30-year amortization schedule (now year 25), but the City will be making additional quarterly payments on top of the contribution towards the unfunded liability to meet the prior commitment of paying off the liability in 25 years (now year 20). This new approach provides the City more flexibility to meet the desired total contribution amounts and gives the ability to adjust with the market or new assumptions. If the prior year rate setting process was used, the City would have proposed an increase of 2.0% on the contribution rate for Police from 60.1% to 62.1% and an increase of 4.6% on the contribution rate for Fire from 58.4% to 63.0% due to past investments returns being less than the assumed rate as well as unmet expectations about City payroll growth and employee demographics.

With the additional quarterly contributions and the City working towards smoothing out the unfunded liability payment through the forecast, the City is projected to contribute a total of \$78M to PSPRS for FY 2022/23. This is a \$13.2M increase over the projected Annual Required Contribution (ARC) for FY 2022/23 of \$64.8M for the 21-year amortization schedule.

The Arizona State Retirement System (ASRS) contribution rate decreased by 0.2% for FY 2022/23 due to a prior change to the assumed rate of return for investments from 7.5% to 7%. The impact of the change is being phased in and contribution rates for ASRS are forecasted to increase each year for five years. FY 2022/23 is the fifth year of the five-year phase-in. The change in contribution rates for FY 2022/23 is expected to decrease Mesa's contribution to ASRS by \$0.4 million.

The FY 2022/23 Elected Officials Retirement Plan (EORP) contribution rate increased by 9.0% from FY 2021/22.

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 step pay increase, but the increase is dependent on funding availability. Each year,

as part of the budget process, citywide funding availability is determined. During the last recession, funds were not available and step pay increases were not authorized. For the last few fiscal years, the authorized step pay amounts were 3% in FY 2017/18, 4% in FY 2018/19, 3% in FY 2019/20, 3% in January of FY 2020/21 as well as a 5% range adjustment for all City positions, and 3% in July of 2021/22 as well as a 5% citywide salary adjustment in January.

A step increase of 3% is included in the FY 2022/23 proposed budget for eligible employees. The FY 2022/23 citywide cost for step pay is estimated at 6.8M, with a \$4.3M impact in the General Governmental Funds. This amount is higher compared to prior fiscal years due to the mid-year 2021 range adjustment and 2022 citywide salary adjustment.

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 FY 2022/23 budget anticipates increasing the city contribution by 6.0% and 0.0% for employee and retiree plans respectively effective January 2023. Premiums will be reviewed in full over the summer and will be presented to City Council in the fall of 2022. 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 the addition of a reclaimed waterline to maximize surface water credit to support growth. The funding of this project is available through utility revenue bonds. 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 tentative CIP. Project activities have begun on Monterey Park, Red Mountain Park, and the Southeast Neighborhood Library. Several public safety projects are included in the tentative CIP including the Police Evidence Facility and the Northeast Public Safety Facility. These projects are using General Obligation (GO) bond authorization approved by voters in 2018.

Roadway improvements will continue with the Stapley Drive and University Drive intersection as well as Broadway Road-Lesueur to Spur Improvements. These projects will use GO bond authorization approved by voters in 2020 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 utility revenue bond authorization.

Also included in the tentative CIP are improvements at Falcon Field airport, various shared-use paths, and storm water infrastructure projects. Many of these projects 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

Secondary property tax revenue can only be used to pay the debt service on voter-approved general obligation bonds. The City Council adopts a secondary tax levy and associated rate each year as a separate action after final adoption of the budget.

The secondary property tax levy included in the FY 2022/23 tentative budget is \$38.8 million, a \$6.4 million (14%) reduction from the prior year. The corresponding secondary property tax rate is \$0.9157 per \$100 of taxable value, a 19% decrease from the prior year.

The resulting impact of this change, combined with the effect of rising property values, is **a reduction of \$25 for the year to the owner of the median-valued Mesa residential property.** A residential property with the median taxable value of \$159,433 (\$301,951 sale value) would be billed \$146 for the year in City of Mesa property tax.

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY21-22 to FY22-23

| | FY21-22 | FY 22-23 Tentative | \$ Change | % Change |
|--|----------------|-----------------------|-----------------|----------|
| Secondary Property Tax Levy (Taxable Value * Tax Rate) | \$45.2 million | \$38.8 million | (\$6.4 million) | -14% |
| Secondary Property Tax Rate (per \$100 of Taxable Value) | \$1.1319 | \$0.9157 | (\$0.2162) | -19% |
| Annual Cost to Median Homeowner | \$171 | \$146 | (\$25) | -15% |

The recommended levy decrease is the result of an adjustment to the City’s approach to funding general obligation debt. In the past, the City’s practice has been to fully adjust the secondary property tax levy in the year following a successful bond election in order to fund all future year payments on the newly-authorized bonds. However, the City only issues bonds incrementally over a number of years as needed to pay for project spending as it occurs. Until the bonds have all been issued, the additional capacity in the tax levy has been used to pay extra principal in the first year of the bonds as they are issued.

The lower levy being recommended for FY 2022/23 would continue to fund the payments on new issues of the authorized bonds for several more years. The levy would likely need to be increased again at some point in order to fund payments on all the bonds once

issued. The City currently has \$255 million in authorized bonds remaining to issue from the 2018 (public safety, parks and culture, library) and 2020 (transportation) bond elections.

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 FY 2022/23 proposed budget has increased by approximately \$18.1 million from the FY 2021/22 adopted budget. Additional funding has been allocated for street arterial pavement overlays, streetlight replacement, and various small utility equipment replacement. Lifecycle needs are identified each year that the city is not able to fund. Staff identifies and analyzes needs citywide to maintain 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 (Included in the Department of Innovation and Technology)

The FY 2022/23 Communications proposed budget includes \$1.5M for TOPAZ VHF & 800 MHz expansion site. The project is included in the capital improvement program and will upgrade the City's existing communications network to ensure reliable service.

Mesa Fire and Medical

The General Fund FY 2022/23 proposed budget includes 1 FTE for a Public Information Officer. Also included in on-going costs is additional capacity for fuel purchases, recruit academy uniform costs, and additional overtime associated with the Medic School program which was previously budgeted to the Public Safety Sales Tax. One-time costs include funding for the 2022 Fall Recruit Academy for new recruit salary, training, and materials. During FY 2021/22, the City approved

additional ongoing and one time support for training and travel, as well as one time increases to continue partnering with Chris Prep & Recovery for the City's intervention behavior health program, one armed guard to temporarily work Station 202, Indicaid COVID-19 tests, and funding for a vehicle associated with an Emergency Manager position approved in prior years. During the year 1 Information Technology Manager transferred to the Department of Innovation and Technology.

The Public Safety Sales Tax Fund FY 2022/23 proposed budget includes a small ongoing reduction in overtime due to the department not needing the additional budget added for inflation. Information on one-time costs for the Public Safety Sales Tax Fund for Mesa Medical and Fire are included in the Sales Tax section.

The Transport Fund FY 2022/23 proposed budget includes several ongoing reductions associated with the elimination of the Daisy Mountain billing contract in light of the City operating its own transport billing division, and an ongoing reduction related to dispatch fees due to having updated estimates for internal charges. During FY 2021/22 the City continued the expansion of the program and added an additional 2 FTEs in the Mesa Fire and Medical Department which included 1 Transport Administrator and 1 Administrative Support Assistant II, as well as 3 FTEs in the Business Services department to include 3 Medical Billers.

The Workers' Compensation Trust Fund FY 2022/23 proposed budget also includes capacity with the Mesa Fire and Medical Services Department for the Industrial Commission assessment for the Municipal Firefighters Cancer Reimbursement. The proposed budget for each fund is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment.

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

Municipal Court

Revenue in FY 2022/23 is proposed at \$7.8M. Due to anticipated revenue from the Arizona Supreme Court's FARE (Fine and Restitution Enforcement) Program as well as revenue recovery from the pandemic, this number is anticipated to increase. The FY 2021/2022 revenue projection is about \$7.6M.

The FY 2022/2023 budget includes ongoing funding in the amount of \$179,256 for two additional full-time positions in support of the Domestic Violence Court. The two positions are a Probation Officer and a Program Assistant. The FY 2022/2023 proposed budget is also slightly higher than FY 2021/2022 due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment.

Police

The Police department receives miscellaneous revenue from many resources including donations, seizures, range fees, and grants. As new resources are identified during the year, the department budget is modified to create budget capacity to use the funds.

The General Fund FY 2022/23 proposed budget includes on-going support for 4 Records Specialist II positions, one Record Specialist III position, and two Shift Supervisors to respond to increased workload in the Records unit and 1 civilian Board-Certified Police Psychologist to coordinate and oversee the Peer Support and Wellness programs. The proposed budget also includes one-time funding for \$530K in academy costs and a \$179K ongoing adjustment for Topaz Regional Wireless Cooperative improvements and maintenance. Other adjustments include a one-time increase in records overtime, \$30K for a digital records conversion assessment, and one-time set up plus ongoing costs for a Grappler vehicle immobilization program to replace PIT Maneuvering.

During FY 2021/22, Police added \$2M in on-going capacity for overtime, \$1.1M for expansion of Axon Cameras, and additional FTEs: 7 police dispatchers, 6 911 Operators, 1 Shift Supervisor, 2 Police Records Specialists, and 1 Forensic Scientist as part of Intergovernmental Agreements with the Town of Queen Creek for dispatch and Forensic Services; 2 FTEs converted from full time to 4 part time Municipal Security Officers; 1 FTE transferred to the Department of Innovation and Technology; 1 Police Technical Services Manager; and 1 Police Officer.

The Public Safety Sales Tax Fund FY 2022/23 proposed budget includes ongoing support for 16 sworn FTEs and 7 civilian FTEs. This is the fourth year of the staffing plan for the Police department as it continues to expand with the growing needs of the City. The additional positions include 16 sworn FTEs to support patrol, operations, and the Real Time Crime Center for a total of 13 Patrol Officers, 2 Lieutenants, and 1 Commander. The proposed budget includes 7 civilian FTEs: 1 Traffic Crime Analyst, 1 Special Events Administrative Support Assistant II, 1 IT Engineer I, 1 Police Investigator II, 1 Crime Scene Specialist, and 2 Police Investigator II for the Real Time Crime Center. During FY 2021/22, 2 sworn Police Officers and 2 civilian Police Investigator II positions were added to staff the Real Time Crime Center. Information on one-time costs for the Public Safety Sales Tax Fund for Police are included in the Sales Tax section.

Information on Police grants are included in the grant section of this report. During FY 2021/22, 1 FTE for a Police Officer was added as grant funded.

Utility Departments

Energy Resources

The FY 2022/23 proposed budget includes the addition of \$52K to cover increasing costs for Fleet Services due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

Energy Resources is expecting slightly reduced electric and gas commodity costs in FY 2021/22. Budgeted purchases for the electric commodity are anticipated to decrease from \$28.3M in FY 2021/22 to \$26.5M in FY 2022/23. Budgeted purchases for the natural gas commodity are anticipated to decrease from \$18M in FY 2021/22 to \$15.8M in FY 2022/23. Commodity costs increased significantly in FY 2020/21 and FY 2021/22 and these costs are constantly monitored throughout the year to assess supply, demand, and pricing.

Environmental Management and Sustainability

The FY 2022/23 proposed budget includes the addition of \$462K to cover increasing costs for Fleet Services due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

Water Resources

The FY 2022/23 proposed budget includes an increase in the water operations cost of power, however wastewater operations will see a decrease in the cost of power as a result of efficiencies created by improving various operational procedures. Water commodity purchases are expected to increase by \$1.2M largely due to unit cost increases from the Central Arizona Project (CAP) as the State entered Tier 1 Shortage. The expected cost of chemicals at the wastewater treatment plants increased due to increased supply costs and wastewater flows. The City participates in joint ventures with other municipalities to provide water and wastewater services. Joint venture participation costs are expected to increase \$1.2M in FY 2022/23. The cause of the increase is associated with increased operating expenses, including labor and operational supply costs at the Val Vista Water Treatment Plant, operated by the City of Phoenix.

Additionally, the FY 2022/23 proposed budget includes the addition of \$82K to cover increasing costs for Fleet Services due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

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 expenses of Performing Live are offset by revenues from the scheduled shows.

The FY 2022/23 proposed budget includes ongoing General Fund support for 3 additional operational positions for the Mesa Arts Center: 1 Service Worker, 1 Facility Technician II, and 1 Special Events Manager to complete general facilities maintenance and support community events. Additionally, the proposed budget includes ongoing Arts & Culture Fund support for a total FTE increase of 3.6 to include a Lead Gallery Educator at the Arizona Museum of Natural History, a Corporate Sponsorship position to lead sponsorship development across the three institutions, and studios staff conversions at the Mesa Arts Center to support additional class capacity which will be partially offset by additional class registration revenue. The Arts & Culture Fund will support a one-time amount of \$642,500 for various improvements to technology and systems.

Lastly, the FY 2022/23 proposed budget includes 1 grant funded Sr. Program Assistant to manage the Project Lit program and 0.5 FTE grant funded part time non benefitted senior program assistant to support the Youth Arts Studios program.

During FY 2021/22, the department added \$662K in capital projects at the Mesa Arts Center utilizing funds offset from receiving SVOG funds. FTE changes in FY 2021/22 include the addition of 1 FTE for a Marketing & Communications Specialist II position, as well as several conversions to better attract, retain, and utilize quality staff. Conversions include 2 part-time non-benefitted Lead Ushers into 1 full-time equivalent, 1 part-time benefitted Senior Program Assistant to 1 full-time equivalent, 1.4 FTE for a part-time non-benefitted Box Office Representative partially reduced to convert three part-time employees to full-time, and 6 temporary instructors into part-time non-benefitted positions.

Business Services

During FY 2021/22 2.0 new FTEs were added to assist Tax & Licensing with the administration of the new business license program. Also during the fiscal year, 3.0 new FTE's were added for Medical Billers working on the Ambulance Transport program. The FY 2022/23 budget also includes ongoing training for the medical billers.

The FY 2022/23 proposed budget is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment.

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, 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 FY 2021/22 will be approximately \$3.0 million, which is lower than the FY 2021/22

adopted budget of \$4.5 million. Estimated claims for FY 2022/23 are expected to be \$4.5 million.

The FY 2022/23 proposed budget includes ongoing funding for the department's online legal research program utilized by attorneys due to increased program costs. It also includes one-time funding for a remodel of the City Prosecutor's Office as well as funding for other commodities and services such as a new copier, printer, and laptops. The FY 2022/23 proposed budget is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment. During FY 2020/21, 1 FTE was added for an Assistant City Attorney position.

City Auditor

The FY 2022/23 budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

City Clerk

The budget for City Clerk's Office is adjusted for the cost of elections. There is an election scheduled in FY 2022/23, therefore the budget has been increased by \$480K for election related expenditures. Otherwise, the FY 2022/23 proposed budget is consistent with the FY 2021/22 budget.

The FY 2022/23 budget also increased 5.17% for inflation and a 5% salary adjustment for all employees.

City Manager

The FY 2022/23 budget includes support for the Public Defender Program, additional ongoing funding for the Employee Engagement Office, and additional support for the City's downtown façade program for a federal grant match. The FY 2022/23 proposed budget is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment. During FY 2021/22, one FTE for an Employee Engagement Manager was transferred to the department from the Human Resources Department.

Code Enforcement

The FY 2022/23 budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

Community Services

Community Services oversees the City's Housing, Community Planning and Development, Community Engagement, Animal Control, and Diversity programs. Community Services receives funding from both the General Fund and various grants. The General Fund budget for FY 2022/23 is \$3.8 million and supports the Animal Control Division, Community Engagement, and portions of the administration of the department's Housing & Community Development programs.

The FY 2022/23 proposed budget includes an additional funding for the Animal Control Division due to a cost adjustment to the Arizona Humane Society contract to assist with animal cruelty and seizure cases. This is a three (3) year contract cost adjustment that will increase by 5% each year. Heidi's Village will be given additional capacity as a part of the Mesa "Off the Streets" program.

Additionally, the FY 2021/22 mid-year adjustment added an additional 1 FTE for a Housing Specialist position funded through the Department of Housing and Urban Development (HUD) Housing Choice Voucher (HCV) grant program. The position will be assigned a caseload for the housing programs. Lastly, the proposed budget includes 1 FTE for a Human Services Coordinator position funded by the General Fund. The position will identify and make recommendations to management and the City Council regarding development and coordination of homeless services.

The FY 2022/23 proposed budget is also than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment.

Department of Innovation and Technology

The FY 2022/23 budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

Development Services

Total development activity revenues in FY 2022/23 are projected to be slightly higher than FY 2021/22 budget by \$256K due to increased permitting activity.

The FY 2022/23 proposed budget includes one-time funding of \$500K for the General Plan update, which is scheduled to be updated every ten years. In addition, the proposed budget includes funding for two additional positions: Permit Technician for \$73K and Plans Examiner Supervisor for \$115K for the department to continue to meet expected demand.

Economic Development

The Mesa Business Builder Small Business Assistance program was established in FY2020/21 to assist small businesses in Mesa to navigate through the impacts of the COVID-19 pandemic. The FY 2022/23 proposed budget includes \$300K in funding for the continuation of this program.

The FY 2022/23 budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees. An increase in AZ Labs tenants has increased FY 2022/23 proposed budget revenues by \$450K.

Engineering

Much of the Engineering Department is funded through the capital improvement program (CIP) through both direct and indirect support. The FY 2022/23 proposed

budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

During FY 2021/22, the department added funding for the replacement of their Project Management Software.

Falcon Field

The FY 2022/23 proposed budget includes ongoing costs for the annual maintenance of the city groves. Included in the FY 2022/23 CIP is the design of mid-field crossover taxiways, the eastside dual taxi lane, and taxiways D3, D4, D7, and D8. These improvements will increase safety and operational flexibility.

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

Financial Services

The FY 2022/23 proposed budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

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 FY 2022/23 proposed budget includes 1 FTE for a Parts & Supply Specialist to maintain current service levels.

Human Resources

The Human Resources Department is comprised of three divisions: the 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.

The FY 2022/23 General Fund budget includes additional ongoing capacity to create a centralized commercial motor vehicle Safety Unit to include 1 FTE for a Program Coordinator and 2 FTEs for Program Specialists. Additional one-time capacity was also added for laptops for Oral Board reviews and departmental trainings. The FY 2022/23 proposed budget is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment.

A detailed update on the Employee Benefits and Workers' Compensation Trust Funds was given to the Self-Insurance Trust Fund Board on February 28, 2022 and can be found in the Trust Funds portion of this report.

During FY 2021/22 one-time support to renovate the South Center training room with new furniture and technology was approved. Additionally, 1 FTE for a Employee Engagement Manager was created and then transferred to the City Manager's Office.

Library

The FY 2022/23 proposed budget includes \$82K for a new program administrator position to run the new mobile library program to serve underserved communities.

The FY 2022/23 proposed budget also increased over the FY 2021/22 budget due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

The Department completed construction of the new Kids Zone at the Main Library. Construction of the THINKspot addition to the Dobson Ranch Library began in the middle of FY 2021/22 and is expected to finish in early Fall of FY 2022/23.

Mayor and Council

The FY 2022/23 proposed budget is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation.

Office of ERP Management

The FY 2022/23 proposed budget is also slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation.

Office of Management and Budget

The FY 2022/23 proposed budget is slightly higher than the FY 2021/22 budget due to the 5.17% increase in budget capacity for inflation and the 5% salary adjustment. The proposed budget also includes \$25K in both one-time and ongoing training and development of staff and \$25K in one-time expenditures for a Behavioral Insights contract to support city-wide projects.

Parks, Recreation and Community Facilities

The FY 2022/23 budget includes 1 FTE for Service Worker at the Convention Center and Amphitheatre as bookings at both facilities have increased. The department will also add 3.5 FTE's for their Special Events Staffing. This includes 2 Recreation programmers, 1 Recreation specialist, and 0.5 part time non-benefitted recreation assistant.

During FY 2021/22, the department added 1 FTE for Park Rangers. The City currently has a total of 6 Park Rangers.

Public Information and Communication

The FY 2022/23 proposed budget increased over the FY 2021/22 budget primarily due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

As contracts have continued to increase budget demands, the FY 2022/23 proposed budget also includes \$50K to maintain budget capacity after losing revenue from the discontinued Utility Bill Ad Insert Program. Otherwise, the FY 2022/23 proposed budget is consistent with the FY 2021/22 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 costs of services in FY 2022/23 are increasing, however federal assistance from the American Rescue Plan Act (ARPA) will cover a significant portion of the City's costs for these services, \$6.3M.

The FY 2022/23 proposed budget includes \$679K to begin the three-year pilot of the Fiesta Neighborhood Circulator, \$400K in one-time funding to build fourteen (14) bus shelters, \$220K to begin the three-year locally preferred alternative analysis for the proposed Rio Salado East Streetcar project with the City of Tempe and Valley Metro. Lastly, the FY 2022/23 proposed budget includes \$230K in one-time funding to cover the City match portion of a \$1.15M Transit Oriented Development grant that will assist the planning process of the Rio Salado East Streetcar project.

Transportation

The FY 2022/23 proposed budget includes the addition of \$132K to cover increasing costs for Fleet Services due to a 5.17% increase for inflation and a 5% salary adjustment for all employees.

The FY 2022/23 proposed budget also includes funding for other on-going expenditures such as: a Graffiti Abatement Field Worker position, a Debris Pickup Field Operations Worker position, a Hazard Response Field Worker Position, an Equipment Operator and a Field Worker position dedicated to the Pavement Preservation Program, a Signal Technician position, a Landscaping Lead Contract Specialist position, and two Traffic Barricading Coordinator positions. Lastly, the Transportation lifecycle budget was increased to \$20M for residential and collector street overlays throughout the City.