MEMORANDUM

TO: Mayor and Council

FROM: Mark Day, Municipal Budget Director
Tom Duensing, Deputy City Manager

DATE: February 23, 2023

SUBJECT: Long-Range Financial Forecast Update

PURPOSE:
To provide an update to the City's long-range financial forecast for the City's major operating funds.

RECOMMENDATION OR DIRECTION REQUESTED:
The City Council is invited to provide comments and suggestions regarding the City's long-range financial strategies.

CITY COUNCIL STRATEGIC PRIORITY:
Maintaining a long-range financial forecast and eliciting City Council feedback on financial policies relate directly to City Council priority *#5 – Financial Stability and Vitality* and are critical strategies to achieving the following performance measures:

5.04 – Maintain highest general obligation bond (credit) rating
5.05 – Maintain a General Fund unassigned fund balance at a minimum of 20% and maximum of 30% of General Fund revenue.

BACKGROUND INFORMATION:
The last long-range financial forecast was presented to the City Council on November 10, 2022.

FISCAL IMPACT or IMPACT TO CURRENT RESOURCES:
No financial commitments will be made during this presentation to the City Council; only direction for budget development and long-term financial planning will be elicited.

ATTACHMENTS:
PowerPoint Presentation

Introduction

This is the final update to the long-range forecast for the City's major operating funds, beginning the process for developing the FY 2023/24 operating and capital improvement program (CIP) budgets. We will use the projections contained in this forecast to establish parameters for current budget decisions and to plan for future operating and capital needs. Although projections of future revenues and service costs can never be exact, the models utilized by the Municipal Budget Office have proven to be good indicators of potential resources and costs.

General Economic Conditions and Projections

The City's overall financial condition continues to be strong and stable. Our five-year forecast for revenues remains positive, anticipating moderate growth in taxable sales over the forecast period. The forecast for sales tax revenue, the City's largest revenue sources, has increased slightly (1%) since the November 2022 update.

The overall economy remains relatively strong with low unemployment and household disposable income increased from Federal programs and increases in salaries and wages.

Retail sales tax revenue has experienced some moderation in the past few months but is forecasted to continue with modest growth over the forecast period. Tax revenues from restaurants and hotel/motel taxable activities have improved significantly since the COVID-19 pandemic.

Commercial and residential development activity has bolstered construction sales tax revenues in recent years and is projected to continue with a positive trend during the forecast period.

The forecast does not include a projection for a recession or other major economic slowdown. This is consistent with information from our forecast partners, including the Eller College of Management Forecasting Project, and Municipal Budget Office's regression modeling.

Inflation, worker shortages and supply chain issues continue to put pressure on the overall economy while the Federal Reserve increases interest rates to lower inflation. Despite these pressures, we still anticipate moderate growth in the City's overall revenues and expenses over the forecast period.

Current, long-term memoranda of understanding with our four employee groups have stabilized forecasted personnel cost increases, with fair and steady salary increases projected over the forecast period. Although current memoranda of understandings will expire sometime during the forecast period, we have assumed continuation of the salary increases and market studies in the out-years of the forecast period consistent with the current agreements.

The forecast assumes that future State-shared revenue and Highway User Revenue Funds (HURF) revenue will continue to be distributed per current statute. Any legislative changes could impact the amount of funding received in future years.

Also, the forecast assumes that the taxability of residential rental income and revenue from food for home consumption sales continue. Any legislative changes to the taxability of these two revenue categories would have a considerable negative impact on sales tax revenues for the General Fund, Transit Fund and Arts and Culture Fund and could require budget reduction steps. The annual revenue impact to City revenues would be $16 million for elimination of the residential rental taxable activity and $9 million of the elimination of the food for home consumption taxable activity.

Preparing for Potential Budget Challenges

An economic downturn is inevitable at some point in our cyclical economy, and we continue to watch economic trends for indications of any economic slowdown. We have not programmed a recession into our forecast models, however, it's important to understand the impact of a recession on revenues and steps that could be taken to enable the city to navigate a recessionary period.

A mild recession, like the City experienced from 2001 to 2003, impacts our local sales tax revenues, those revenues that are primarily derived from retail sales and hotel/motel activity. As such, a recessionary period would have the greatest impact on those City funds that derive the majority of their revenue from local taxes: the General Fund, Transit Fund and the Arts and Culture Fund. While we project healthy fund balances in these funds throughout the forecast period, reliance on fund balance reserves alone during a mild recession would not be sufficient to make up the shortfall in local tax revenue. Continuing operations at status-quo would eventually result in a depletion of fund balance reserves.

During the great recession from 2007 to 2010, drastic measures were required to reduce expenses and increase revenues in order to maintain the stability of the City's funds, primarily the General Fund. However, during a mild recession, most city services as well as employee salary and benefits could be maintained while steps are taken to reduce expenses and minimize reliance on fund balance draw downs. Policy steps during a moderate recessionary period could include:

1) Continued salary steps and market increases as outlined in the memoranda of understanding. Employees would still be performing their duties and responsibilities regardless of the economic climate.
2) Freeze vacant positions to reduce personnel expenses. A process could be implemented to allow hiring of crucial positions (e.g., first responders, etc.).
3) Reduce service levels to reduce costs and mitigate the impact of unfilled (vacant) positions.
4) Shift resources to the highest priority services and programs.
5) Suspend cash funding of CIP programs.
6) Continue to identify economic opportunities to increase the tax base.

As noted above, we do not forecast a recession but will continue to monitor economic trends for signs of an economic slowdown. If an economic downturn occurs during the 5-year forecast period, staff will update the City Council and seek specific direction on steps to be taken to reduce expenses during the recessionary period.

Recent Issues Impacting the Forecast

1) The retail sales outlook continues to be positive with modest growth anticipated. The Wayfair Supreme Court decision that allowed local taxes to be collected on online sales within the City has contributed towards stabilizing retail sales collections and helped to make up for the reduction from in-person retail sales. The City began to collect online sales taxes starting in November 2019.
2) Hotel and restaurant revenues were impacted more than any other categories during the COVID-related downturn. We continue to see improvement in these two sectors with activity reaching or exceeding pre-pandemic levels.
3) No *Tempe PRE* funding is assumed beyond the current fiscal year (FY 2022/23). The most recent funding for this program was approved for two years (FY2021/22 and FY2022/23). The Office of Education, Career and Family Services has submitted a FY 2023/24 supplemental to request continued funding of this program.
4) Estimated Clark Park pool annual operating costs of approximately $1 million per year starting in FY 2023/24 have been included in the General Fund forecast model.
5) Payments from the General Fund to the Tempe Coalition for Affordable Housing (known as The Affiliate) have been included throughout the forecast period.
6) Revenue from recreational and cultural activities are projected to grow during the forecast period as normal group and structured recreational and cultural activities resume post COVID-pandemic.
7) The second half of recurring funding from the General Fund to the Solid Waste Fund for the Alley Maintenance Program is included in the FY 2023/24 expense amounts. This transfer was approved as part of the FY 2022/23 General Fund supplementals. The total General Fund support amount totals $1.9 million.
8) Future potential revenues from the planned Tempe Entertainment District are not included in the forecast. The General Plan Amendment, Planned Area Development and Development Agreement have been referred to Tempe voters for approval via a Special Election on May 16, 2023. As a best practice, future revenues from planned developments are not included in long-range forecasts until the development projects are completed
9) The issuance of $343 million in taxable municipal obligation in August 2021 at a favorable rate has enabled the pay-down of the City's unfunded accrued liability with the Public Safety Personnel Retirement System (PSPRS) for the Fire and Police plans. Repayment of this debt obligation and establishment of a required reserve has been included in the General Fund forecast.

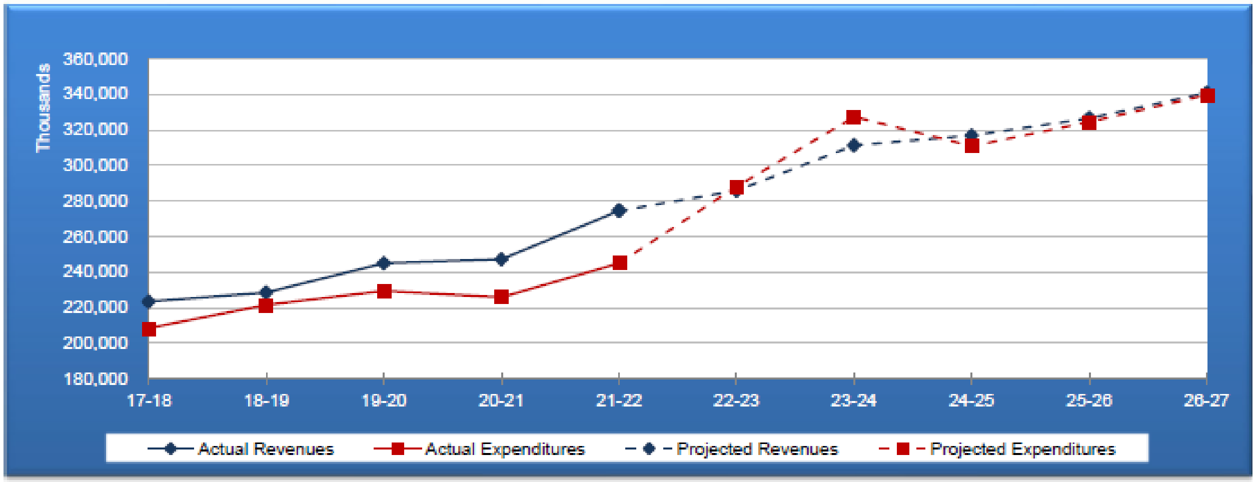
10) The Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) recently released the mandatory employer contribution rates for FY 2023/24. The November 2022 forecast estimated these rates. The personnel expenses for FY 2023/24 in the forecast are based on these set rates.
11) The City's unreserved General fund balance at the end of FY 2021/22 is $142.7 million. In addition to better than anticipated tax revenues, the fund balance has been bolstered by one-time payments and higher than normal vacancy savings from unfilled positions. Planned drawdowns of this fund balance while remaining in fund balance policy are included in the forecast.

Forecast Model for the General Fund

Following is the 5-year forecast model for the General Fund.

General Fund

General Fund: Projected Revenues and Expenditures: February 23, 2023



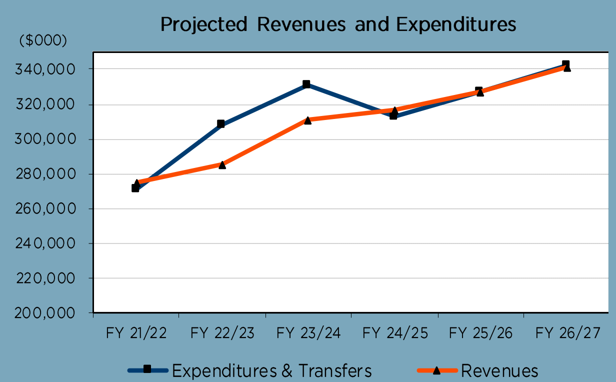
	17/18 Actual	18/19 Actual	19/20 Actual	20/21 Actual	21/22 Actual	22/23 Projected	23/24 Projected	24/25 Projected	25/26 Projected	26/27 Projected
Revenues ($000)										
Local Taxes	123,272	129,881	132,284	138,368	162,445	169,864	177,559	186,562	195,980	205,556
Intergovernmental	48,404	48,024	52,940	60,503	58,955	70,801	86,902	83,181	82,076	85,605
Bldg & Trades/Planning & Zoning	12,632	11,581	14,048	10,098	12,796	12,715	11,222	11,480	11,732	12,002
Cultural and Recreation	7,170	6,409	4,944	3,141	4,579	5,132	5,224	5,403	5,583	5,775
Fines, Fees and Forfeitures	6,839	6,434	5,613	4,418	4,943	3,399	3,392	3,509	3,626	3,750
Business Licenses	2,184	2,159	1,848	2,230	2,338	2,136	2,290	2,342	2,394	2,449
Interest Income	2,008	3,228	4,283	2,187	1,942	3,524	6,435	5,609	6,042	6,085
Franchise Fees	3,576	3,401	3,247	3,213	3,393	2,910	2,910	2,977	3,042	3,112
Other Revenue Sources	17,355	17,377	25,743	23,006	23,213	15,299	15,396	15,817	16,237	16,682
Total Revenues	223,441	228,495	244,951	247,164	274,604	285,779	311,330	316,880	326,713	341,017
Expenditures ($000)										
Personnel Costs	168,001	177,009	183,556	188,628	186,144	205,982	226,175	233,996	240,906	249,852
Materials and Supplies	8,827	9,035	9,581	8,575	10,644	11,111	11,411	11,673	11,930	12,204
Fees and Services	32,494	34,840	35,003	32,681	37,838	44,478	41,751	42,898	44,045	45,261
Travel and Training	689	904	542	357	732	981	926	947	968	990
Non-Dept/Loan Repayment	1,910	1,846	2,001	2,646	2,502	6,706	4,228	4,326	4,421	4,522
Capital Outlay	4,378	4,236	3,420	2,459	3,822	6,359	4,238	4,631	4,832	4,727
CIP-Cash/Muni Arts Funding	1,343	2,472	2,689	260	11,597	17,801	26,791	3,592	3,829	3,735
Community Facilities District	(278)	(379)	(405)	72	(356)	(409)	(300)	(336)	(373)	(411)
Special Assessments	1,028	1,031	1,032	1,031	1,033	1,030	998	997	997	997
HURF & Solid Waste CIP Funding	1,500	-	1,500	-	1,500	2,440	3,380	3,380	3,380	3,380
Tourism and Convention Bureau	2,476	2,645	2,774	2,843	2,911	2,911	2,969	3,029	3,089	3,151
Internal Services/Adjustments	(13,864)	(12,120)	(12,217)	(14,924)	(13,904)	(13,890)	(14,225)	(14,432)	(14,698)	(14,968)
Contribution to Housing Affiliate				1,200	625	2,647	2,247	2,299	2,349	2,403
Preapproved Supplementals & CIP PAYGO							905	905	905	905
Recurring Operating Supplementals							5,000	10,000	15,000	20,000
Non-Recurring Operating Supplementals							1,000	1,000	1,000	1,000
Additional CIP PAYGO							10,000	2,000	2,000	2,000
Total Expenditures	208,504	221,519	229,475	225,829	245,088	288,148	327,494	310,904	324,580	339,748
Net Operating Surplus/(Deficit)	**14,937**	**6,975**	**15,476**	**21,335**	**29,516**	**(2,369)**	**(16,164)**	**5,977**	**2,133**	**1,269**
Interfund Transfers	**(1,666)**	-	-	-	-	-	-	-	-	-
Change to Assigned Funds	**1,519**	**(1,383)**	**(507)**	**1,594**	**(25,717)**	**(19,908)**	**(3,020)**	**(2,015)**	**(2,140)**	**(2,482)**
Unassigned Fund Balance	**95,365**	**100,958**	**115,926**	**138,855**	**142,654**	**120,377**	**101,193**	**105,155**	**105,148**	**103,935**
Unassigned Fund Balance as a % of Revenue	**43%**	**44%**	**47%**	**56%**	**52%**	**42%**	**33%**	**33%**	**32%**	**30%**

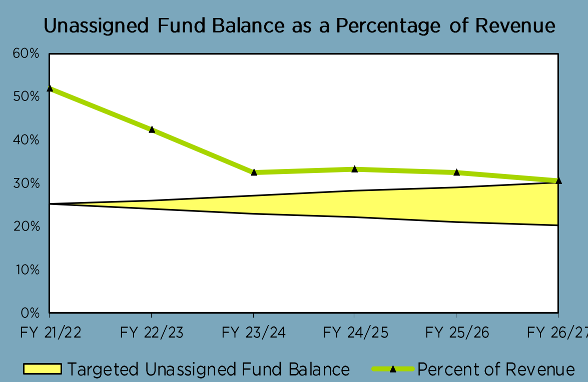
The figure above provides detail for budgeted accounts within the General Fund, with "sample" budget decisions incorporated from the interactive model appearing below:

1) Projected growth in annual compensation represents the projected contributions to retirement systems, salary step increases included in current MOUs, projected market adjustments to the salary ranges and increases to health/dental/life insurance plans as provided in the detailed assumptions on the last page of this report.
2) Recurring and non-recurring supplemental budget increases have been included in each year of the General Fund model, but the actual uses of the additional funding have not been determined. These are preliminary estimates and may be adjusted before a recommended budget is presented.
3) Pay-as-you go (cash) funding for capital improvement program (CIP) have been included to provide additional funding for CIP projects.

The forecast includes a measured spend-down of fund balance without jeopardizing the stability of the fund in the future. The projected growth variables displayed in the model are not recommendations by management at this point, but examples to demonstrate how projected resources could be allocated in future years and still comply with the fund balance policy. The graph on the right side of the figure shows how the unassigned fund balance stays above the policy minimum of 20% throughout the forecast period, as required by policy. Keeping the fund balance near the top of the fund balance policy range of 20% to 30% helps to address current uncertain economic conditions.

General Fund -- Sample Evaluation of Variable Budget Options





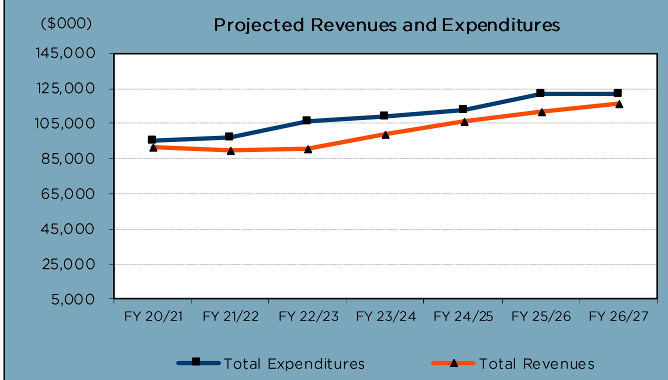
Expressed in thousands ($000)	FY 21/22 Actaul	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Revenues	274,604	285,779	311,330	316,880	326,713	341,017
Expenditures	245,088	288,148	311,494	302,904	316,580	331,748
Transfers/Assignments	25,717	19,908	3,020	2,015	2,140	2,482
Initial Estimated Surplus (Deficit)	3,798	(22,277)	(3,184)	11,962	7,993	6,787
Estimated Available New Funding						
Recurring Supplementals			5,000	5,000	5,000	5,000
One-Time Supplementals			1,000	1,000	1,000	1,000
CIP Cash Funded (Paygo)			10,000	2,000	2,000	2,000
Unassigned Fund Balance	142,654	120,377	101,193	105,155	105,148	103,935
% of Revenue	52%	42%	33%	33%	32%	30%

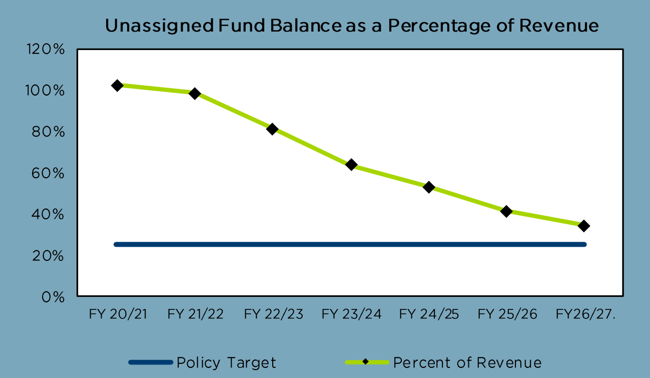
Forecast Models for Individual Operating Funds (other than General Fund)

Listed below are summary comments regarding the status of the City's other major operating funds.

Water/Wastewater Enterprise Fund

Water/Wastewater Enterprise Fund Forecast - February 23, 2023



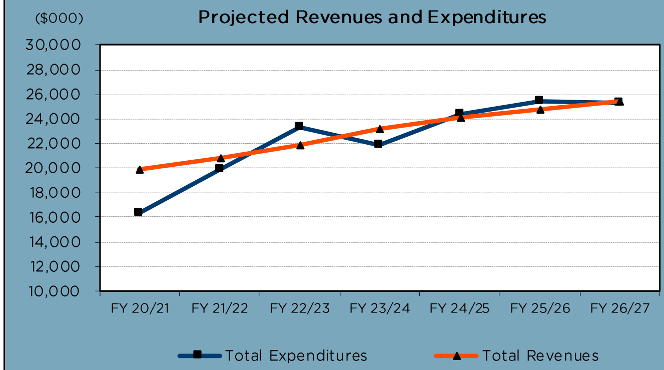


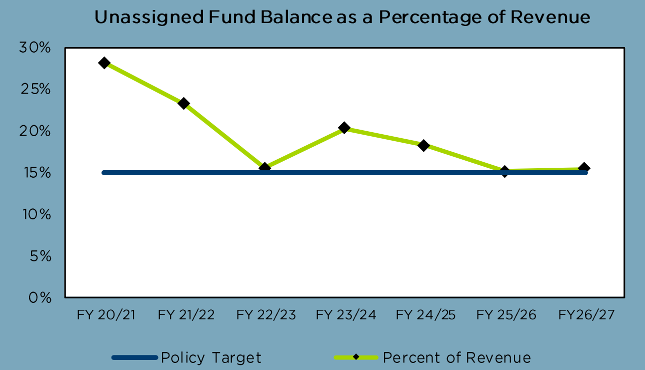
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	91,171	90,120	90,420	99,051	106,197	111,331	116,110
Total Expenditures	94,842	97,110	105,847	109,392	112,956	121,561	122,242
Surplus (Deficit)	(3,670)	(6,989)	(15,426)	(10,340)	(6,759)	(10,230)	(6,132)
Unassigned Fund Balance	93,503	89,058	73,631	63,291	56,532	46,302	40,170
% of Revenue	103%	99%	81%	64%	53%	42%	35%

As with the November 2022 forecast, the Water and Wastewater Fund is stable, with the unassigned fund balance to remain near or within policy throughout the forecast period. Revenue amounts reflect the recommended water, wastewater, stormwater, and flood irrigation rate adjustments scheduled to become effective March 2023 as well as anticipated future rate adjustments. Consistent with the most recent rate study, the forecast assumes a planned draw down of the unassigned fund balance in a sustainable manner, including increased pay-as-you go (cash) funding of CIP projects.

Solid Waste Enterprise Fund

Solid Waste Enterprise Fund Forecast - February 23, 2023





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	19,910	20,833	21,898	23,159	24,155	24,837	25,484
Total Expenditures	16,264	19,879	23,335	21,872	24,441	25,485	25,303
Surplus (Deficit)	3,646	955	(1,437)	1,287	(286)	(648)	182
Unassigned Fund Balance	5,603	4,837	3,400	4,687	4,401	3,753	3,935
% of Revenue	28%	23%	16%	20%	18%	15%	15%

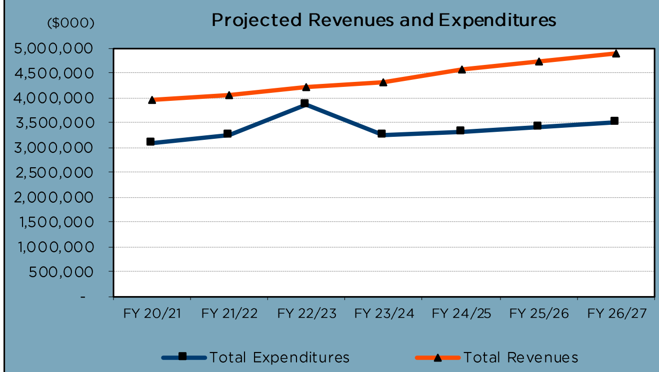
The fund is stable with future planned rate increases reflected in the revenue projections. Revenue and expense projections are in-line with the November 2022 forecast. The planned rate increases will help to ensure the stability of the fund through full recovery of operating and capital improvements costs for both residential and commercial solid waste services.

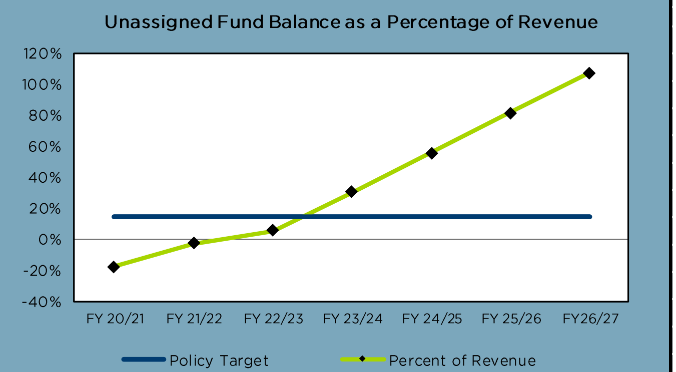
The unassigned fund balance is projected to be maintained within the fund balance policy of 15 percent of revenue during the forecast period.

The forecast includes an annual transfer from the General Fund to offset costs of the alley maintenance program. The FY 2022/23 approved recurring transfer was $939 thousand with the amount increasing to $1.9 million annually starting in FY 2023/24, pending Council approval during the upcoming budget process.

Golf Enterprise Fund

Golf Enterprise Fund Forecast - February 23, 2023





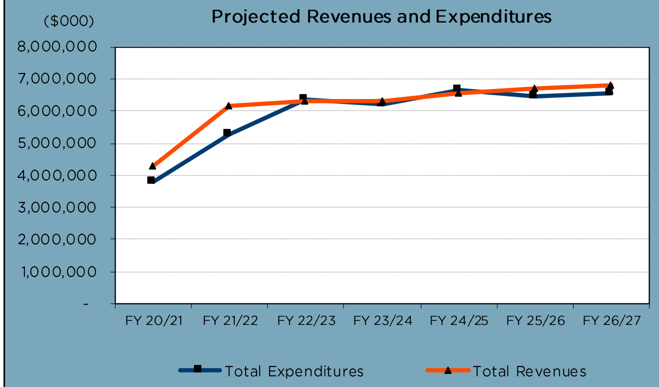
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	3,978,102	4,078,906	4,213,038	4,335,258	4,569,126	4,741,670	4,902,279
Total Expenditures	3,102,950	3,266,003	3,857,974	3,249,237	3,333,241	3,422,808	3,501,909
Surplus (Deficit)	875,152	812,903	355,064	1,086,021	1,235,885	1,318,862	1,400,370
Unassigned Fund Balance	(694,027)	(114,041)	241,023	1,327,044	2,562,929	3,881,791	5,282,161
% of Revenue	-17%	-3%	6%	31%	56%	82%	108%

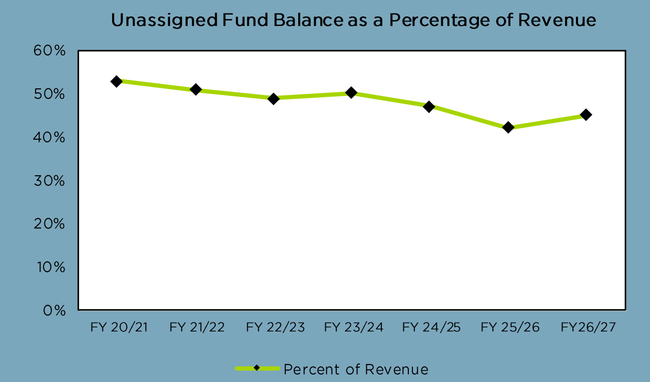
Revenue collections projections over the forecast period are slightly higher than the November 2022 forecast due to projected increases in rounds of play. The revenue projections also include modest rate increases. The fund is forecasted to maintain modest surpluses during the forecast period and the unassigned fund balance is projected to move from a deficit status to surplus at the end of FY 2023/24.

Beginning with FY 2019/20, capital projects for the courses and buildings on the courses are primarily funded with bond funds, repaid with secondary property taxes. The forecast model assumes that both the Rolling Hills and Ken McDonald golf courses would continue to operate as normal with no change in the amenities or services offered. Any Council approved changes to the operating models due to recently proposed or pending agreements would be reflected in future forecasts.

Emergency Medical Transportation Enterprise Fund

Emergency Medical Transportation Fund Forecast - February 23, 2023





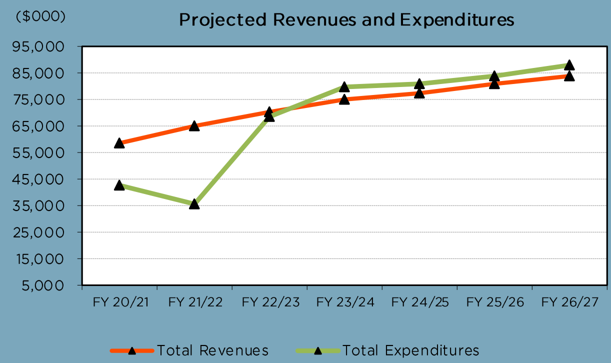
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	4,302,498	6,137,345	6,299,000	6,325,000	6,547,003	6,678,803	6,809,657
Total Expenditures	3,771,326	5,286,235	6,344,532	6,224,989	6,645,367	6,461,443	6,546,516
Surplus (Deficit)	531,172	851,111	(45,532)	100,011	(98,364)	217,360	263,142
Unassigned Fund Balance	2,277,997	3,123,400	3,077,868	3,177,879	3,079,515	2,812,278	3,075,420
% of Revenue	53%	51%	49%	50%	47%	42%	45%

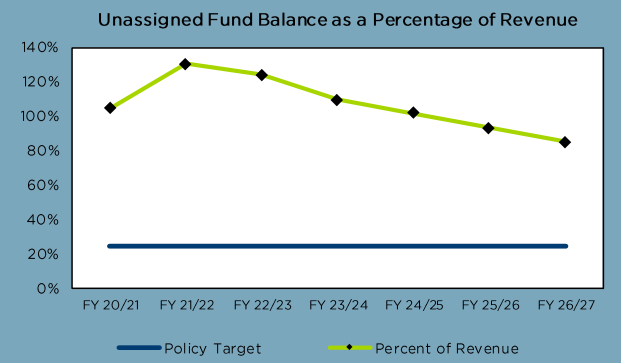
The Emergency Medical Transportation Fund captures all the revenue and expenditures for the Emergency Medical Transportation program which was started in October 2017 and is operating at full capacity with 6 ambulance companies in service.

Revenues for the forecast period are slightly higher than the November forecast resulting in modest surpluses for most of the forecast period. The revenues and expenses are in-line with projections made when the Emergency Medical Transportation program was established.   In the near future, a fund balance policy will be established to be in alignment with the city's other major operating funds and as a best practice.

Transit Special Revenue Fund

Transit Fund Forecast - February 23, 2023





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	58,621	65,449	70,548	75,138	77,513	80,874	84,103
Total Expenditures	43,044	35,569	68,420	80,156	81,158	84,178	88,063
Surplus (Deficit)	15,577	29,881	2,129	(5,018)	(3,646)	(3,304)	(3,960)
Unassigned Fund Balance	61,276	85,288	87,416	82,398	78,753	75,449	71,489
% of Revenue	105%	130%	124%	110%	102%	93%	85%

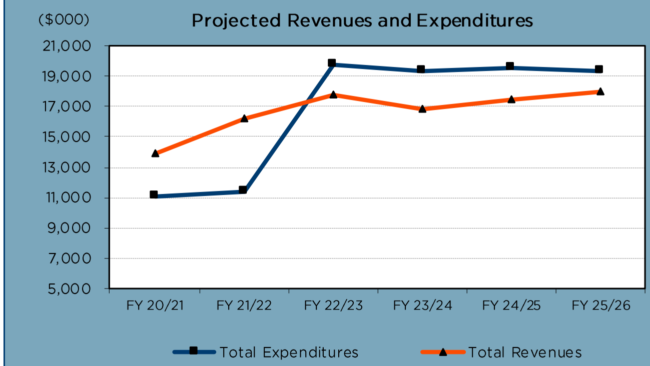
The Transit Fund is stable with the unassigned fund balance is projected to remain in policy (25% of current-year operating revenues) through-out the forecast period.

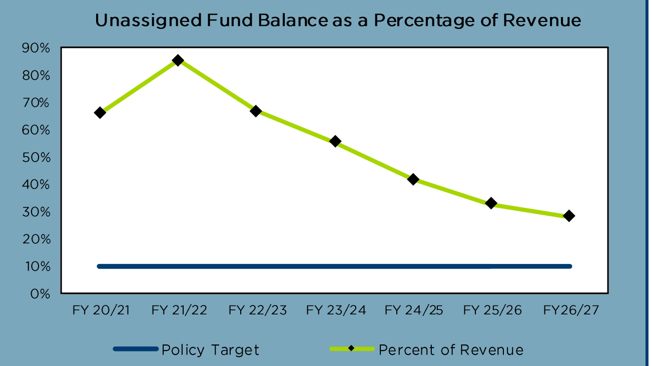
The expenditure amounts in the forecast include operating expenses for the streetcar operations that started in May 2022. The largest operating expenses for the Transit program are the bus, rail and streetcar operations that are provided through contracts with Valley Metro. The forecasted expenditures assume controlled growth in these contract amounts. Staff is currently exploring the most cost-effective method to provide local bus services in the future as well as working with Valley Metro to control costs for both bus, rail, and streetcar operations.

Currently, there are no additional planned changes in transit services. Staff will continue to explore long-term balancing strategies to ensure that the fund remains stable and to determine if any future adjustments may be required.

Transportation (HURF) Special Revenue Fund

Transportation (HURF) Fund Forecast - February 23, 2023





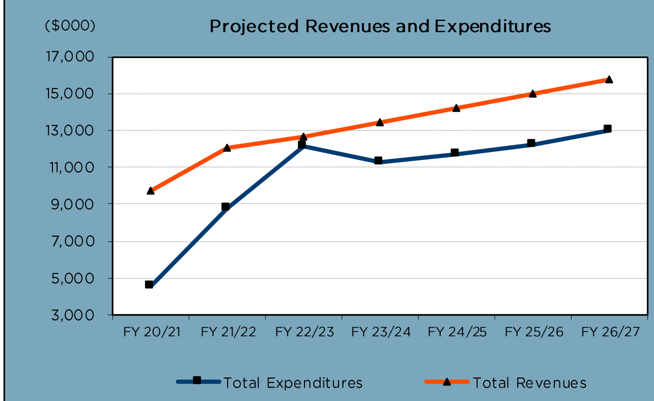
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	13,938	16,224	17,785	16,850	17,461	18,000	18,570
Total Expenditures	11,108	11,412	19,767	19,390	19,515	19,379	19,261
Surplus (Deficit)	2,830	4,812	(1,982)	(2,540)	(2,054)	(1,380)	(691)
Unassigned Fund Balance	9,170	13,860	11,879	9,339	7,284	5,905	5,214
% of Revenue	66%	85%	67%	55%	42%	33%	28%

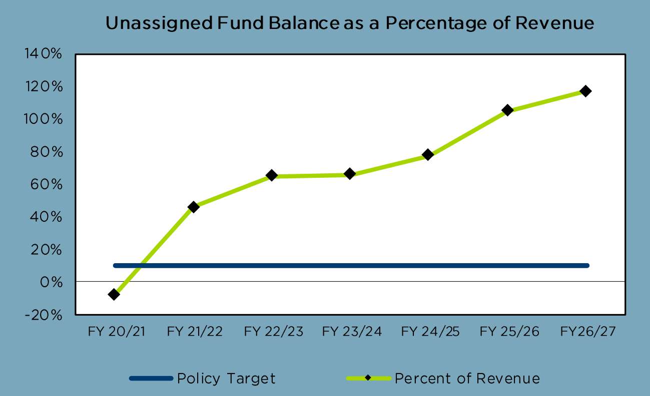
The Transportation Fund receives a majority of its funding from the distribution of state-shared Highway User Revenue Funds (HURF). Revenue projections over the forecast period are approximately 3% ($2.3 million) lower than the November forecast based on the latest forecast projections from the Arizona Department of Transportation (ADOT) and projections from year-to-date activity. Despite declining fund balances, the fund is stable with unassigned fund balance is projected to remain within fund balance policy (10% of revenues) through-out the forecast period.

Future HURF monies are subject to pending legislation that may increase or decrease the amount of HURF funds the City receives. The forecast does assume an annual transfer from the General Fund of $1.5 million per year for street repair and maintenance projects. However, the actual amount of the transfer each year will be based on the General Fund’s financial capacity and Council direction for acceleration of performance measure and the Transportation division’s capacity to complete street repair and maintenance projects.

Arts and Culture Special Revenue Fund

Arts and Culture Fund Forecast - February 23, 2023





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	9,761	12,043	12,622	13,425	14,188	14,968	15,736
Total Expenditures	4,518	8,773	12,117	11,301	11,679	12,236	12,994
Surplus (Deficit)	5,242	3,270	505	2,124	2,509	2,732	2,742
Unassigned Fund Balance	(758)	4,495	7,788	8,294	10,418	15,659	18,401
% of Revenue	-8%	46%	65%	66%	78%	105%	117%

The Arts and Culture Special Revenue Fund (formerly Performing Arts Fund) is stable with revenue projections during the forecast remaining relatively the same as the November 2022 forecast. Revenue collections from the dedicated 0.10% Arts & Culture Tax is anticipated to grow throughout the forecast period. Total Facility and programming revenue is anticipated to experience modest growth during the forecast period as patrons adjust to a post-pandemic entertainment environment.

The forecast includes the annual debt service payment on revenue obligation bonds that were issued in August 2021 to fund the repairs needed on the Tempe Center for the Arts roof. Future planned expanded programs and services, as outlined in the Tempe Arts and Culture Plan, are not included in the forecast. Expanded programs and services will be requested via the annual budget process and, if approved, will be reflected in future forecasts.

Listed below are the forecast growth rate assumptions utilized in the forecast models.

Forecast Growth Rates - February 23, 2023

Revenues	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Taxable Sales Growth	3.8%	4.4%	5.1%	5.1%	4.9%
General Fund Sales Tax Revenue	4.5%	4.4%	5.1%	5.1%	4.9%
Total Sales Tax Rate	1.8%	1.8%	1.8%	1.8%	1.8%
General Fund	1.2%	1.2%	1.2%	1.2%	1.2%
Transit Fund	0.5%	0.5%	0.5%	0.5%	0.5%
Arts & Culture Fund	0.1%	0.1%	0.1%	0.1%	0.1%
Primary Property Tax Levy Growth	3.8%	4.0%	4.0%	4.0%	4.0%
Bed Tax Revenue Growth	6.5%	7.2%	6.2%	6.1%	6.3%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	2.0%	1.1%	1.1%	1.1%	1.1%
State Population Growth	1.5%	1.2%	1.3%	1.3%	1.3%
State Shared Income Tax Growth	46.4%	41.4%	-10.8%	-7.0%	3.4%
State Shared Sales Tax Growth	1.9%	2.8%	4.0%	5.1%	5.1%
State Vehicle License Tax Growth	1.9%	8.3%	5.7%	5.6%	5.5%
Building and Trades Growth	-0.6%	-11.7%	2.3%	2.2%	2.3%
Cultural and Recreational Growth	12.1%	1.8%	3.4%	3.3%	3.4%
Fees, Fines, Forfeitures Growth	-31.2%	-0.2%	3.4%	3.3%	3.4%
Licenses Growth	-8.7%	7.2%	2.3%	2.2%	2.3%

Expenditures	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Personnel Costs Growth (1)	11.0%	2.5%	1.5%	1.8%	1.8%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	12.17%	12.29%	12.37%	12.34%	12.22%
Police Retirement (PSPRS Tiers 1 & 2)	14.80%	23.32%	24.49%	25.71%	27.00%
Police Retirement (% of payroll) (3)	62.18%	68.56%	71.63%	70.36%	68.20%
Fire Retirement (PSPRS Tiers 1 & 2)	14.94%	25.08%	27.59%	30.35%	30.35%
Fire Retirement (% of payroll) (2) (3)	62.38%	72.83%	78.87%	81.00%	83.92%
Health, Dental, Life Actives	8.5%	2.4%	8.0%	8.0%	8.0%
Health, Dental, Life Retirees	5.3%	5.2%	9.7%	7.2%	7.2%
Mediflex Growth	-0.1%	2.4%	8.0%	8.0%	8.0%
Other Fringe Benefits Growth	5.8%	5.8%	3.7%	3.0%	3.0%
General Inflation	4.2%	2.5%	2.3%	2.2%	2.3%
Electricity Inflation	3.3%	4.5%	4.5%	4.5%	4.5%
Water Inflation	5.5%	5.5%	5.5%	5.5%	5.5%
Sewer Inflation	3.0%	4.0%	4.0%	4.0%	4.0%
Gasoline Inflation	-12.5%	1.0%	3.3%	1.5%	2.4%

Long-Range Financial Forecast Update

Work Study Session
February 23, 2023

Tempe

Strategic Priority

Financial Stability & Vitality

5.04 Maintain highest general obligation bond (credit) rating

5.05 Maintain General Fund unassigned fund balance at a minimum of 20% and maximum 30% of General Fund revenue

Public Meeting Dates

CAPITAL		OPERATING
Public Forums	Feb 15	Public Forums
Proposed Projects	Feb 23	Updated Long-Range Forecast
Initial Recommended Projects	Mar 23	
Budget Review Session	Apr 27	Budget Review Session
Budget Review Follow-up (if needed)	May 11	Budget Review Follow-up (if needed)
Tentative Adoption	Jun 1	Tentative Adoption
Public Hearing/Final Adoption	Jun 15	Public Hearing/Final Adoption
	Jul 27	Property Tax Levy

Forecast Assumptions

- Overall economy remains stable - no recessionary trend forecasted
- Inflation, worker shortage, and supply chain issues may impede future economic activity
- Continued salary plans and market adjustments with annual increases to insurance costs
- No Tempe PRE costs assumed beyond current fiscal year (FY2022/23)
- No changes in State-shared revenue distributions
- Additional potential revenue from Tempe Entertainment District (TED) not projected during forecast period

Potential Legislative Impacts

- Potential elimination of local jurisdiction taxation of residential rental and food for home

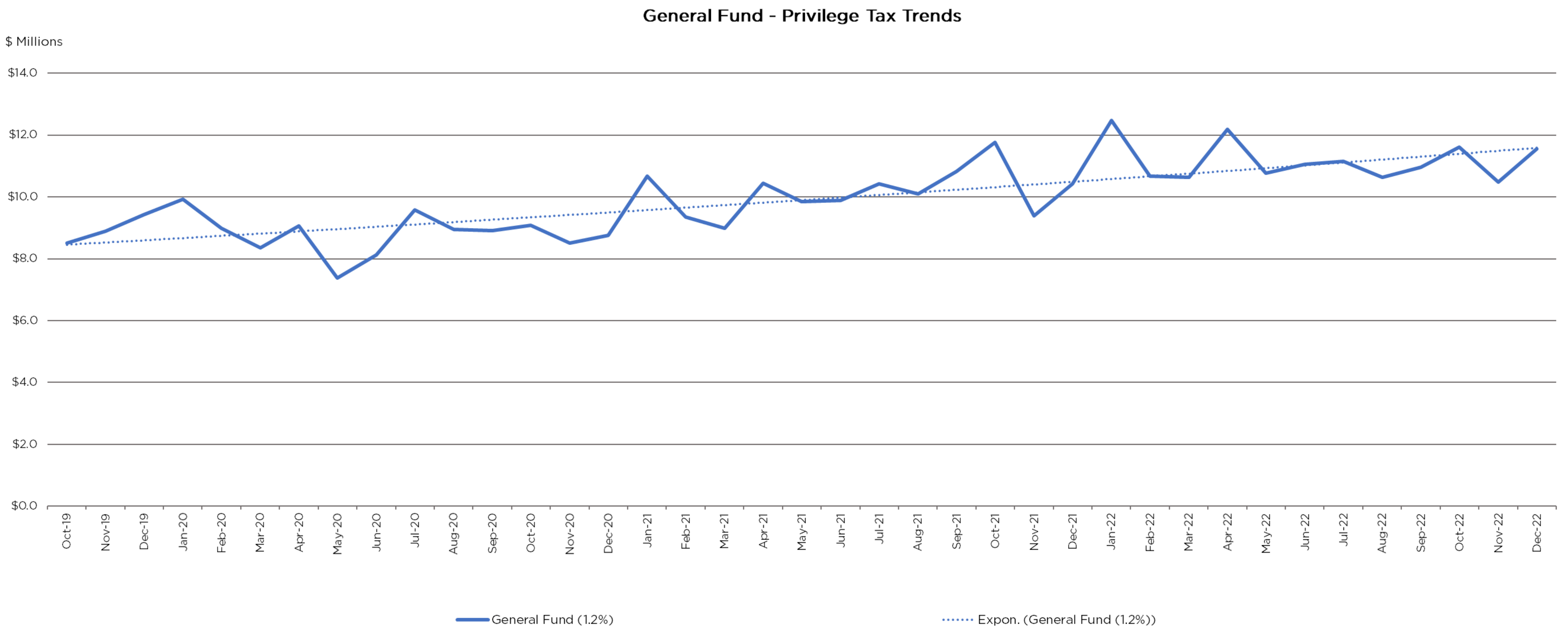
	Estimated Annual Revenue Loss	
	Food for Home Consumption	Residential Rental
General Fund	($6.7 million)	($10.7 million)
Transit	($2.8 million)	($4.5 million)
Arts & Culture	($0.5 million)	($0.8 million)
Total Estimated Annual Revenue Loss	**($10 million)**	**($16 million)**

- Currently monitoring all proposed bills for impact local revenues or unfunded mandates

Updates From November Forecast

- Revenues projections from retail sales remain the same, continued growth projected from on-line sales and rentals
- Hotel/motel tax revenues projections have slightly improved
- State-shared income tax revenues anticipated to decline in last two years of forecast period
- Increased expense estimates due to inflationary pressures (fuel, electricity, motor vehicle parts, contracted services)

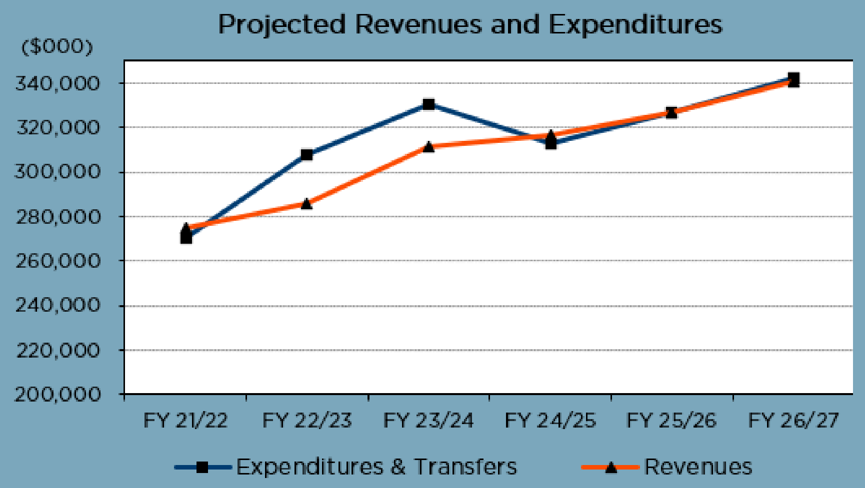
Sales Tax Trends

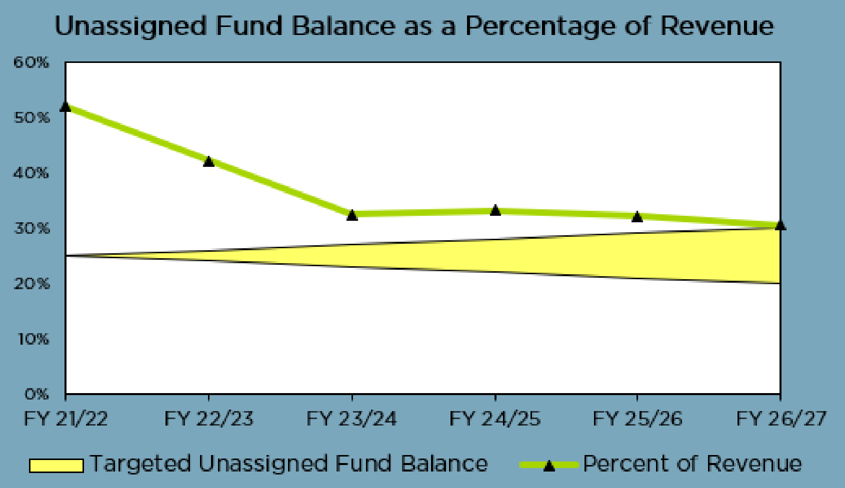


Potential General Fund Scenario

February 2023

General Fund -- Sample Evaluation of Variable Budget Options





Expressed in thousands ($000)	FY 21/22 Actual	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Revenues	274,604	285,779	311,330	316,880	326,713	341,017
Expenditures	245,088	288,148	311,494	302,904	316,580	331,748
Transfers/Assignments	25,717	19,908	3,020	2,015	2,140	2,482
Initial Estimated Surplus (Deficit)	3,798	(22,277)	(3,184)	11,962	7,993	6,787
Estimated Available New Funding						
Recurring Supplementals			**5,000**	**5,000**	**5,000**	**5,000**
One-Time Supplementals			**1,000**	**1,000**	**1,000**	**1,000**
CIP Cash Funded (Paygo)			**10,000**	**2,000**	**2,000**	**2,000**
Unassigned Fund Balance	142,654	120,377	101,193	105,155	105,148	103,935
% of Revenue	52%	42%	33%	33%	32%	30%

General Fund Highlights

Sales tax revenue projections have moderated but are projected to grow

Building permit/Plan check/Engineering fees remain strong with forecasted growth

One-time revenues, vacancy savings and revenue collections higher than projected have bolstered fund balance

Capacity for some budget expansion to address operation needs and City Council priorities (START Tool)

Increased CIP pay-go (cash) funding may be required (cost escalations due to inflation)

Interest estimates improved since November 22 forecast

Enterprise Fund Highlights

Water and Wastewater

- Revenue amounts include rate adjustments from latest rate study and future planned adjustments
- Planned spend-down of fund balance, including cash (pay-go) funding of CIP projects

Solid Waste

- Planned future rate increases included in revenue estimates
- Department continues to look for operational efficiencies to align expenses with revenues
- Fund balance maintained within policy

Golf

- Revenues projected to have modest growth during forecast period
- Fund balance scheduled to recover to policy level over forecast period
- Assumes both courses operate under current structure

Emergency Medical Transport (Ambulance)

- Revenue and expenses reflect complete build-out of program
- Revenues and expenses in-line with projections

Special Revenue Fund Highlights

Transit

- Increased bus fixed route and light-rail operating costs reflected in expenses
- Focus on maintaining existing assets and minimizing system expansion
- Fund balance forecasted to remain in policy over forecast

Transportation (HURF)

- HURF revenue projections moderated since last forecast based on ADOT projections
- Future revenues subject to pending legislation
- Continue to monitor fund to ensure expenditures are in-line with revenues

Arts and Culture

- Fund is stable with fund balances maintained above policy level
- Facility revenue projected to have a gradual return to pre-pandemic levels
- Future program expansions will be requested via the supplemental process

Direction, Comments & Questions

- Recommended changes to financial strategies?