

MEMORANDUM



TO: Mayor and Council

FROM: Tom Duensing, Chief Deputy City Manager
Lisette Camacho, Financial Services Director

DATE: February 22, 2024

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 2, 2023.

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 initial update to the long-range forecast for the City's major operating funds, beginning the process for developing the Fiscal Year (FY) 2024/25 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

For FY 2023/24, the City's overall financial condition continues to be strong and stable. Our 5-year forecast for revenues includes the loss of residential sales tax revenue, which impacts local taxes. All remaining local tax categories, over the forecast period, remain relatively stable. The forecast includes larger than anticipated declines in intergovernmental revenues driven primarily by larger declines in state-shared income tax and corporate income tax collections than anticipated in the November 2, 2023 forecast. These reductions are forecasted to begin in FY 2024/25 but are offset by increases in forecasted buildings and trade collections and interest income. The forecast for other revenue remains stable.

On August 1, 2023, Senate Bill 1131 was signed into law. Effective January 1, 2025, Arizona cities and towns are prohibited from taxing **residential rental** activities. Estimates indicate recurring sales tax revenue reductions of approximately 9% in the City's General Fund, Transit Fund, and Arts and Culture Fund, or approximately \$21 million across all funds. To address the residential rental sales tax loss, budget adjustment measures will be necessary in both the General Fund and the Transit Fund as explained in more detail below.

The overall economy remains relatively stable with low unemployment and stable household disposable income. Retail sales tax revenue, other than the residential rental tax loss, has experienced some moderation from the strong recovery from the COVID-19 pandemic but is forecasted to continue with modest growth throughout the forecast period.

Commercial and residential development activity has bolstered both construction sales tax revenues and building and trades/planning and zoning revenues in recent years and is projected to continue with a positive trend during the forecast period. Additionally, the recent Federal Reserve interest rate increases have resulted in increased interest income from the City's cash and investments.

The forecast does not anticipate 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 regression modeling.

Although inflationary pressures have eased over the past twelve months, worker shortages and supply chain issues continue to put pressure on the overall economy. We anticipate slightly lower overall revenues in the ensuing two fiscal years due primarily to the loss of residential rental and reductions in state-shared revenues. Subsequently, the forecast shows moderate growth in the City's overall revenues over the remaining forecast period. Economic and legislative events will continue to be monitored.

Current, long-term memoranda of understanding (MOUs) with our four employee groups have stabilized forecasted personnel cost increases, with fair and steady salary increases projected over the forecast period.

Although current MOUs will expire 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. In the current fiscal year, the City has initiated a comprehensive Classification and Compensation Study to examine the structure of the City's compensation program, which is anticipated to recommend pay adjustments beginning in FY 2025/26, upon conclusion of the study. This has resulted in adjustments to projected personnel costs; however, the full extent of the study will not be known until the end of calendar year 2024.

The forecast assumes no additional legislation will be enacted that could negatively affect the City's major revenues, such as the taxability of food for home consumption. Additionally, the forecast assumes 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.

Preparing for Potential Budget Challenges

As indicated earlier, budget reduction measures will be necessary in the City's General Fund and Transit Fund due primarily to the loss of residential rental tax revenue beginning in FY 2024/25 and reduction in state-shared income tax revenue in the General Fund beginning in FY 2025/26. Additionally, an economic downturn is inevitable at some point in our cyclical economy, and we will continue to watch economic trends for indications of any economic slowdown and monitor legislative activities closely.

We have not programmed a recession into our forecast models and have not assumed additional legislative changes, each of which could negatively impact the City's finances. However, it is important to understand the impact of a recession and legislative changes on revenues and steps that could be taken to enable the city to navigate these issues.

A mild recession, like the City experienced from 2001 to 2003, or future legislative changes could impact local sales tax revenues. As such, these 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 at the end of FY 2023/24 in these funds, reliance on fund balance reserves alone would not be sufficient to make up shortfalls in local tax revenue.

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 resulting in moderate revenue reductions could include:

- 1) Continued salary steps and market increases as outlined in the MOUs. 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 or suspend supplemental funding requests for one or more years.
- 4) Reduce service levels to reduce costs and mitigate the impact of unfilled (vacant) positions.
- 5) Shift resources to the highest priority services and programs.
- 6) Suspend cash funding of CIP programs.
- 7) Continue to identify economic opportunities to increase the tax base.

As noted above, even though we do not forecast a recession or additional legislative changes, budget measures will be necessary to absorb the impact of the residential rental tax loss. If either legislative changes or an economic slowdown 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

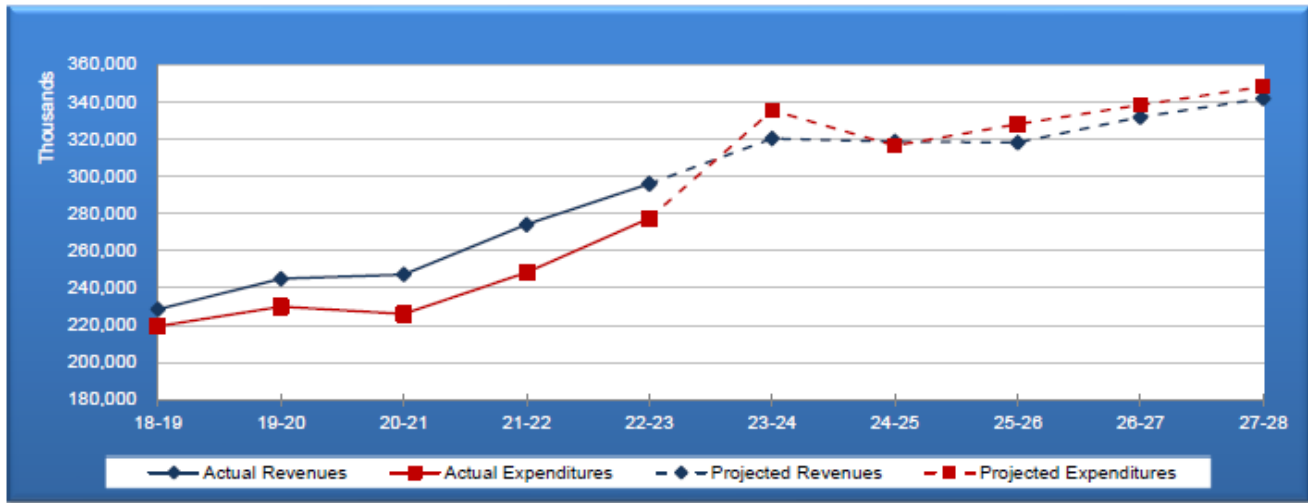
- 1) The prohibition of cities and towns collecting residential rental sale taxes impacts the General Fund, Transit Fund, and Arts and Culture Fund beginning January 1, 2025, mid-way through FY 2024/25. Retail sales outlooks on other taxable activities continues to be relatively stable with modest growth. **The forecasts indicate budget adjustment measures are necessary in the General Fund beginning in FY 2024/25 as explained in the General Fund section of this forecast. Budget reduction measures in the Transit Fund are anticipated to begin within the next few fiscal years. Again, these are primarily due to the elimination of residential rental sales tax collections.**
- 2) Hotel and restaurant revenues were impacted more than any other categories during the COVID-related downturn. These two sectors have stabilized after the strong recovery from the COVID-19 pandemic.
- 3) Intergovernmental revenues driven primarily by declines in state-shared income tax collections are projected to decrease. This is offset by increased interest income projections due to Federal Reserve actions to address inflation.
- 4) Building and trades/planning and zoning revenues are projected to remain strong throughout the forecast period.
- 5) Revenue from recreational and cultural activities are projected to remain stable during the forecast period.
- 6) Current fiscal year (FY 2023/24) expenditures in the forecast include \$14.8 million in General Fund supplementals (\$11.2 million recurring and \$3.6 million one-time) and \$2.9 million on supplementals in the city's other major funds (\$2.4 million recurring and \$0.5 million one-time) approved during the FY 2023/24 budget development process.
- 7) Inflationary increases have eased but are assumed throughout the forecast as a precautionary measure.
- 8) Payments from the General Fund to the Tempe Coalition for Affordable Housing (known as The Affiliate) have increased throughout the forecast period, and these payments are calculated consistent with permit fee revenue estimates.
- 9) CIP-Cash funding is consistent with the currently adopted 5-Year CIP plan.
- 10) As a best practice, any revenues from planned developments are not included in long-range forecasts until the development projects are completed.
- 11) The issuance of \$343 million in taxable certificates of participation 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 \$25 million debt service reserve has been established in the General Fund and can be used to offset City PSPRS contributions in future years. Staff is not recommending utilization of the reserve throughout the forecast period.

- 12) Pension contribution rates for the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) are based on a) recently released mandatory employer contribution rates for FY 2024/25 and b) slightly better than expected pension investment performance.
- 13) The City's audited, unreserved General fund balance at the end of last year (FY 2022/23) is \$126.4 million, or 43% of actual FY 2022/23 revenues. In addition to better than anticipated tax revenues in FY 2022/23, the fund balance was bolstered by one-time payments and higher than normal vacancy savings from unfilled positions.
- 14) Prior to FY 2023/24, activities for the Ken McDonald and Rolling Hills golf courses were accounted for in a separate, Golf Enterprise Fund. Starting this fiscal year, both golf courses have been entered into long-term leases with management companies. The City will now receive rent payments beginning in FY 2023/24, with annual increases, and certain revenue sharing payments. This revenue will be deposited into the General Fund, which will eliminate the need for the Golf Fund.

Forecast Model for the General Fund

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

General Fund: Projected Revenues and Expenditures: February 22, 2024



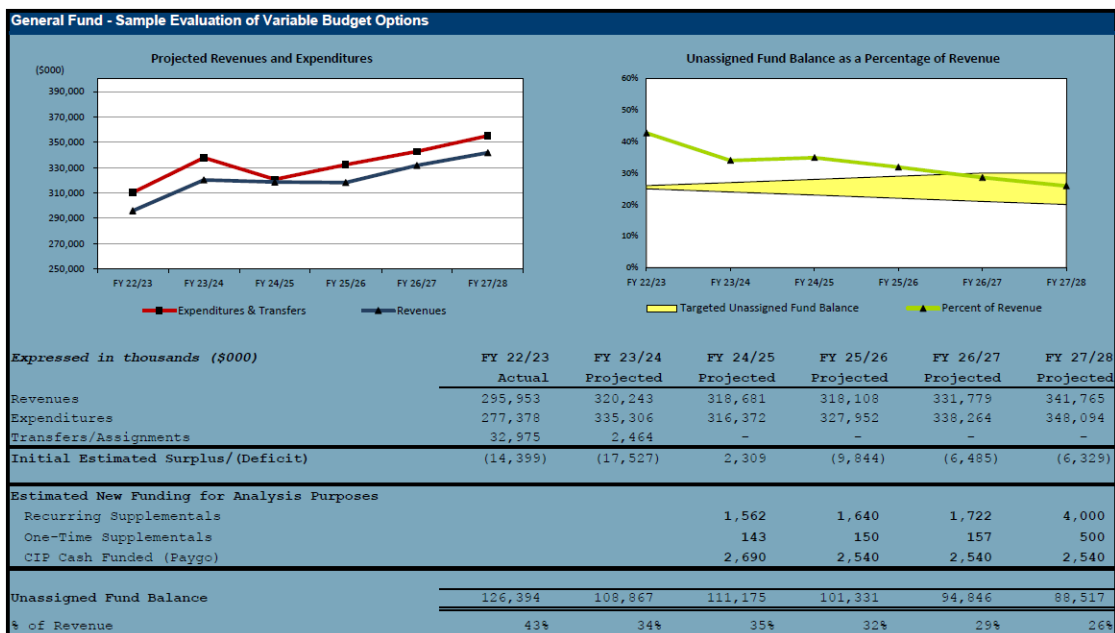
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Local Taxes	129,881	132,284	138,368	162,445	173,383	177,405	178,908	179,686	187,653	195,794
Intergovernmental	48,024	52,940	60,503	58,955	71,277	85,976	78,084	75,812	79,324	83,194
Bldg & Trades/Planning & Zoning	11,581	14,048	10,098	12,796	15,346	17,187	18,525	18,932	19,349	19,794
Cultural and Recreation	6,409	4,944	3,141	4,579	6,507	5,161	5,842	6,036	6,236	6,449
Fines, Fees and Forfeitures	6,434	5,613	4,418	4,943	4,147	3,690	3,747	3,871	4,000	4,136
Business Licenses	2,159	1,848	2,230	2,338	2,368	2,437	2,462	2,516	2,572	2,631
Interest Income	3,228	4,283	2,187	1,402	4,858	8,993	11,688	11,255	12,145	8,828
Franchise Fees	3,401	3,247	3,213	3,393	3,078	2,711	2,667	2,725	2,785	2,849
Other Revenue Sources	17,377	25,743	23,027	23,245	14,989	16,683	16,758	17,274	17,715	18,089
Total Revenues	228,495	244,951	247,186	274,096	295,953	320,243	318,681	318,108	331,779	341,765
Expenditures (\$000)										
Personnel Costs	176,864	183,507	188,529	187,814	199,474	231,843	245,964	255,154	262,634	270,003
Materials and Supplies	9,035	9,581	8,575	10,644	13,096	11,548	11,788	12,047	12,312	12,596
Fees and Services	34,840	35,003	32,681	37,838	44,472	50,340	47,762	49,232	50,608	52,071
Travel and Training	904	542	357	732	1,250	1,109	1,135	1,160	1,185	1,213
Non-Dept/Loan Repayment	1,846	2,001	3,846	2,502	2,965	4,237	3,946	4,033	4,121	4,216
Capital Outlay	4,236	3,420	2,459	3,822	4,843	10,035	4,886	4,965	4,889	4,426
CIP-Cash/Muni Arts Funding	2,472	2,689	260	11,597	17,846	34,806	4,678	4,076	3,774	796
Community Facilities District	(379)	(405)	72	(356)	(586)	(556)	(449)	(490)	(532)	(575)
Special Assessments	1,031	1,032	1,031	1,033	1,027	1,028	997	997	997	997
HURF & Solid Waste CIP Funding	-	1,500	-	1,500	2,440	3,380	2,810	2,810	2,810	2,810
Tourism and Convention Bureau	2,645	2,774	2,843	2,911	2,911	3,060	3,121	3,183	3,247	3,312
Debt Service	-	-	-	-	2	-	-	-	-	-
Internal Services/Adjustments	(14,066)	(11,727)	(14,670)	(12,416)	(15,009)	(17,759)	(18,730)	(19,266)	(19,655)	(20,083)
Contribution to Housing Affiliate	-	-	-	625	2,647	2,235	4,071	4,160	4,252	4,350
Preapproved Supplementals & CIP PAYGO	-	-	-	-	-	-	690	540	540	540
Additional CIP PAYGO	-	-	-	-	-	-	2,000	2,000	2,000	2,000
Recurring Operating Supplementals	-	-	-	-	-	-	1,562	3,202	4,923	8,923
Non-Recurring Operating Supplementals	-	-	-	-	-	-	143	150	157	500
Total Expenditures	219,428	229,916	225,984	248,245	277,378	335,306	316,372	327,952	338,264	348,094
Net Operating Surplus/(Deficit)	9,067	15,035	21,202	25,851	18,576	(15,063)	2,309	(9,844)	(6,485)	(6,329)
Change to Assigned Funds	(3,474)	(67)	1,728	(23,913)	(32,975)	(2,464)	0	0	0	0
Unassigned Fund Balance	100,958	115,926	138,855	140,793	126,394	108,866	111,175	101,331	94,846	88,517
Unassigned Fund Balance as a % of Revenue	44%	47%	56%	51%	43%	34%	35%	32%	29%	26%

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. Additionally, anticipated adjustments due to the comprehensive Classification and Compensation Study are included beginning in FY 2025/26.
- 2) **To mitigate the loss of residential rental revenue, recurring and non-recurring supplemental budget increases have been reduced significantly in each year of the General Fund.** Based on Council priorities and agreement with ASU, recurring supplementals are assumed for operating costs of the Real Time Operations Center (RTOC) and for Fire Medical Rescue Department staffing at the NOVUS Innovation Center Campus spread out over three years.
- 3) Pay-as-you go (cash) funding for capital improvement program (CIP) have been included to provide additional funding for CIP projects. Like supplemental budget requests above, these can also be adjusted to mitigate revenue loss impacts.

A planned spend down of the Unassigned Fund Balance is forecasted in order to mitigate the impact of revenue loss as described previously over the upcoming three fiscal years beginning FY 2024/25. FY 2027/28 assumes the resumption of operating budget supplementals to a certain level. If necessary, CIP pay-as-you-go funding and supplemental funding can be reduced or eliminated if conditions make this necessary. Additionally, utilization of the \$25 million PSPRS debt service reserve is not planned over the forecast period.

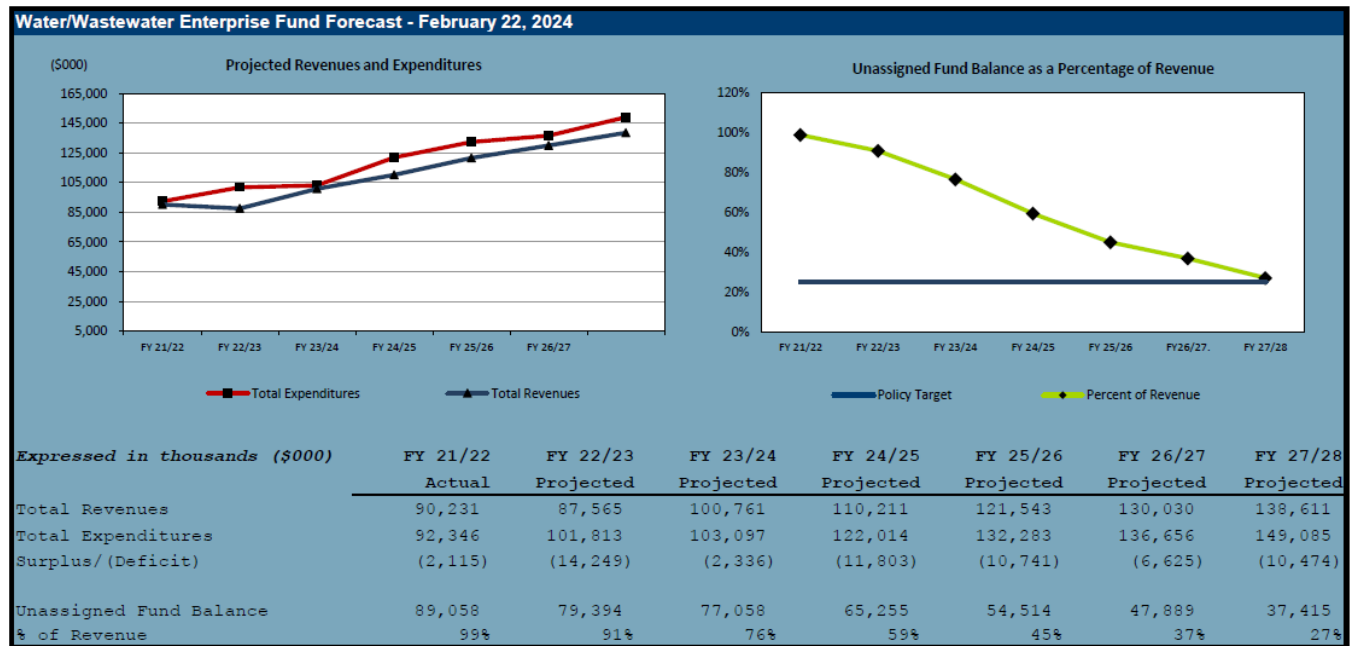
The projections and associated growth variables displayed in the model are not recommendations by management. Rather, the estimated new funding are examples to demonstrate how supplemental requests and CIP Cash Funded amounts could be allocated in future years and impact the fund balance policy. The graph on the right side of the figure shows how the unassigned fund balance declines adjusts to 26%, falling within the fund balance policy in FY 2027/28. Maintaining the fund balance within the fund balance policy range of 20% to 30% helps to address the impact of revenue loss and future uncertain economic conditions.



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

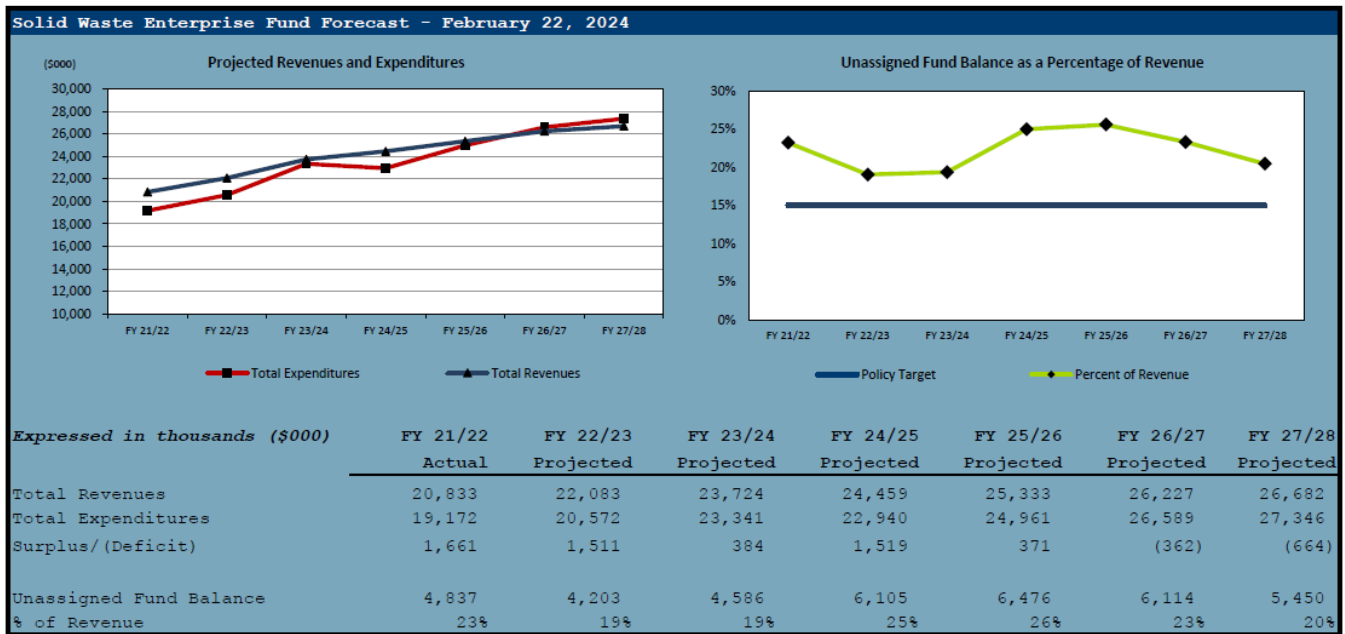
Listed below are summary comments regarding the status of the City’s other major operating funds.

Water/Wastewater Enterprise Fund



Consistent with the November 2023 forecast, the Water and Wastewater Fund remains stable, with the unassigned fund balance to remain within policy throughout the forecast period. Revenue amounts reflect the recommended water, wastewater, stormwater, and flood irrigation rate adjustments that became effective this past January 2024 as well as anticipated future rate adjustments. Although the forecast shows a declining fund balance, consistent with the most recent rate study, the forecast assumes a planned draw down of the unassigned fund balance in a sustainable manner, including pay-as-you go (cash) funding of CIP projects from FY 2024/25 through FY 2027/28 estimated at \$32.3 million.

Solid Waste Enterprise Fund

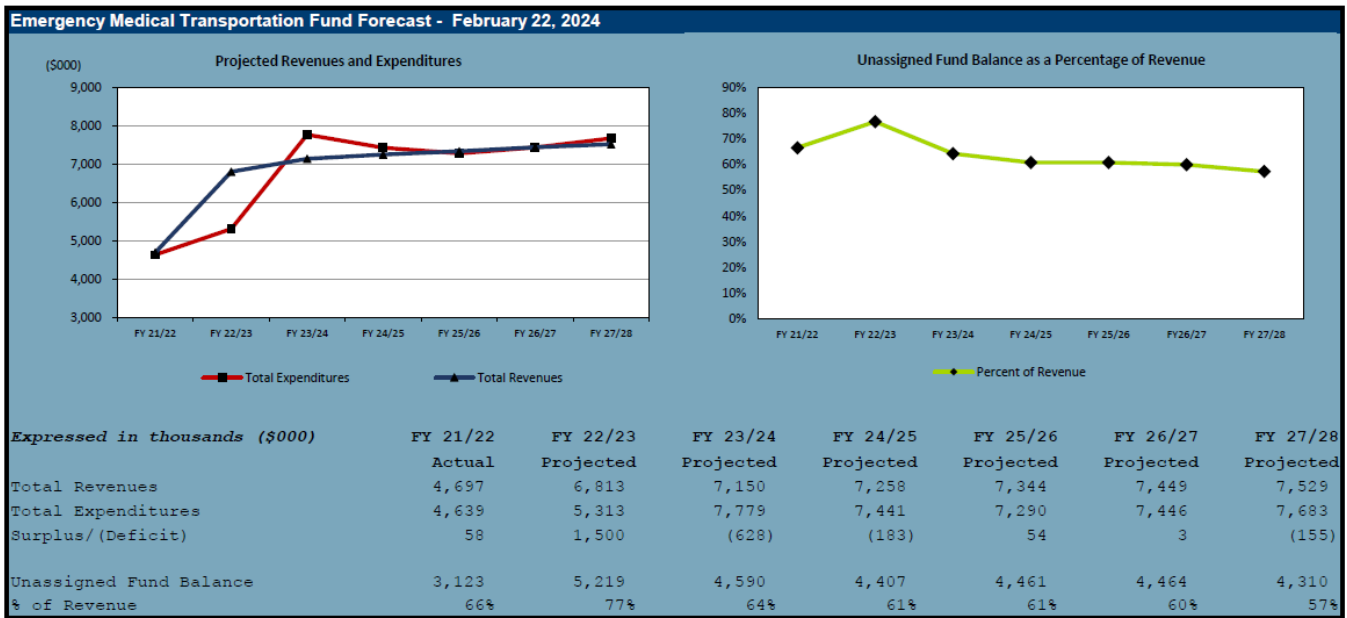


The Solid Waste Fund is stable with future planned rate increases reflected in the revenue projections. Operating revenue and expense projections are in-line with the November 2023 forecast. The planned rate increases will help to ensure the stability of the fund through full recovery of operating and capital improvements costs for both residential and commercial solid waste services. Total cash funded capital outlay is projected at \$14.1 million from FY 2024/25 through FY2027/28

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 leveling out to \$1.3 million annually starting in FY 2024/25 due to a request to relocate the alley inspection program from the Solid Waste Fund to the General Fund.

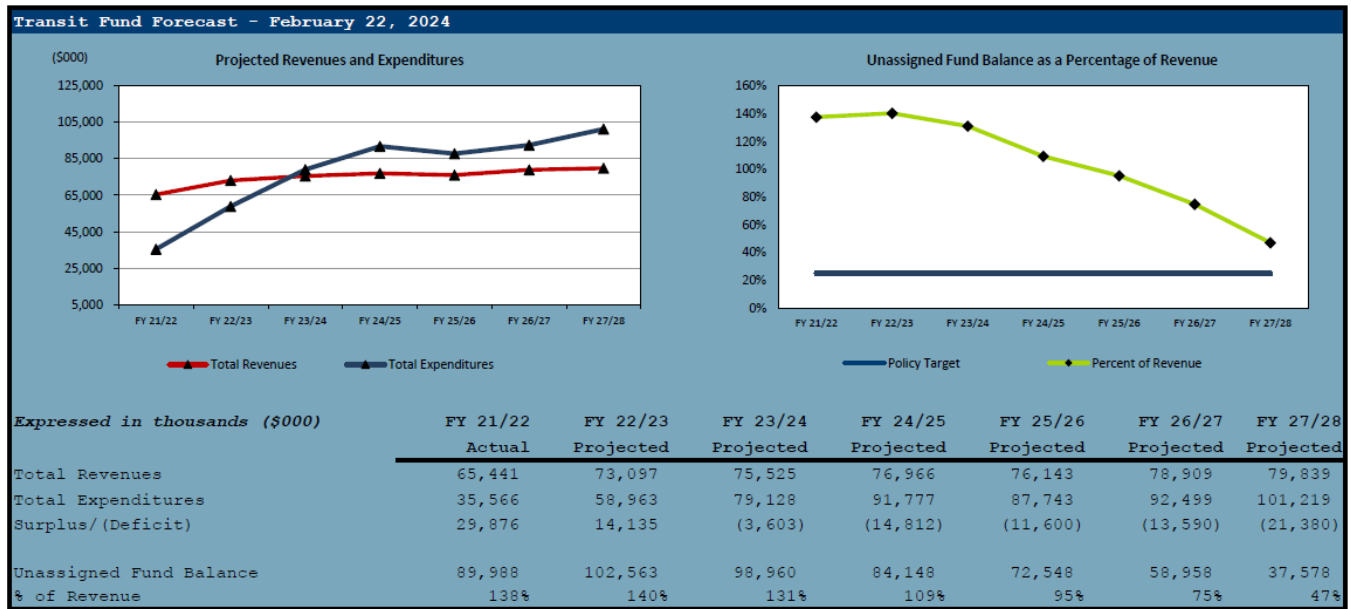
Emergency Medical Transportation Enterprise Fund



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 and expenditures have been adjusted since the November 2023 forecast based on actual cash flow in the fund, and there continues to be a stable outlook for the fund. Staff from the Fire Medical Rescue Department have worked with the Municipal Budget Office and forecasted the need for additional recurring capital appropriation to replace and refurbish existing ambulances. These needs have been projected and are subject to Council approval of ongoing budget requests.

Transit Special Revenue Fund

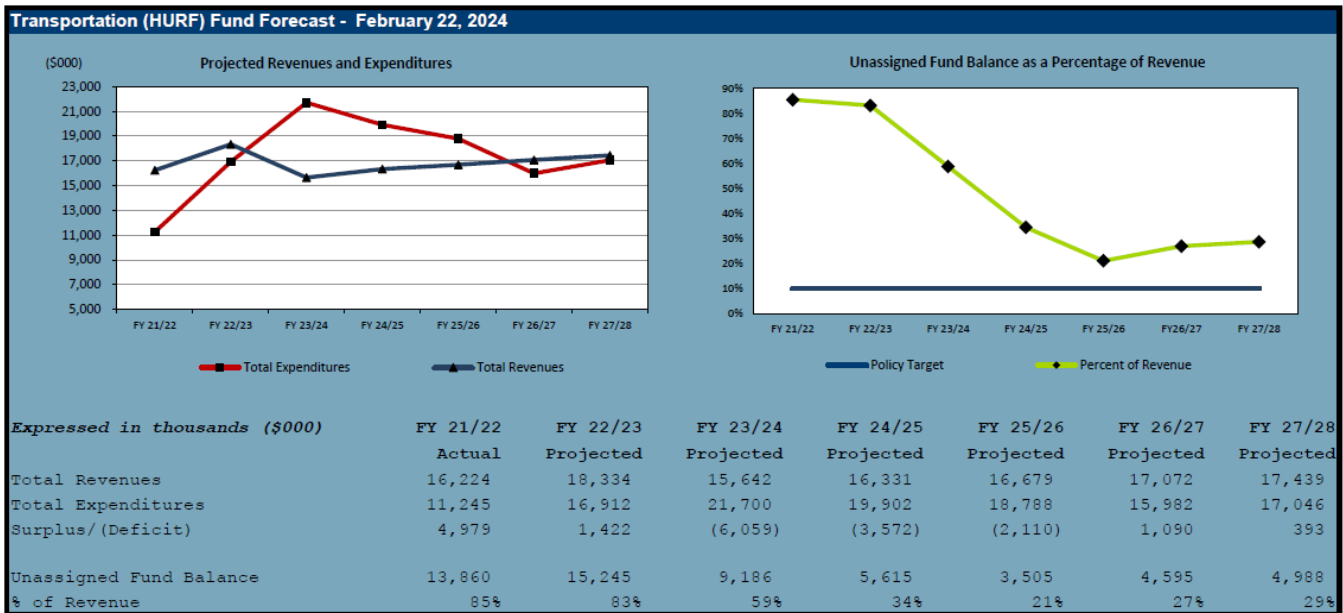


Although the unassigned fund balance remains above policy throughout the forecast period, the significant annual losses, beginning in FY 2025/26, indicates a structural deficit due primarily to a) the elimination of residential rental sales tax and b) increasing transit operational costs. This structural deficit will require Transit Fund long-term budget balancing measures.

In the November 2024 General Election, Maricopa County voters will decide whether to extend a half-cent sales tax for transportation. This will be on the ballot as Proposition 479. Currently, there are no additional planned changes in transit services; however, staff recommends exploring long-term balancing strategies upon the determination by the voters of Proposition 479, which is anticipated to have an impact on the Transit Fund.

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.

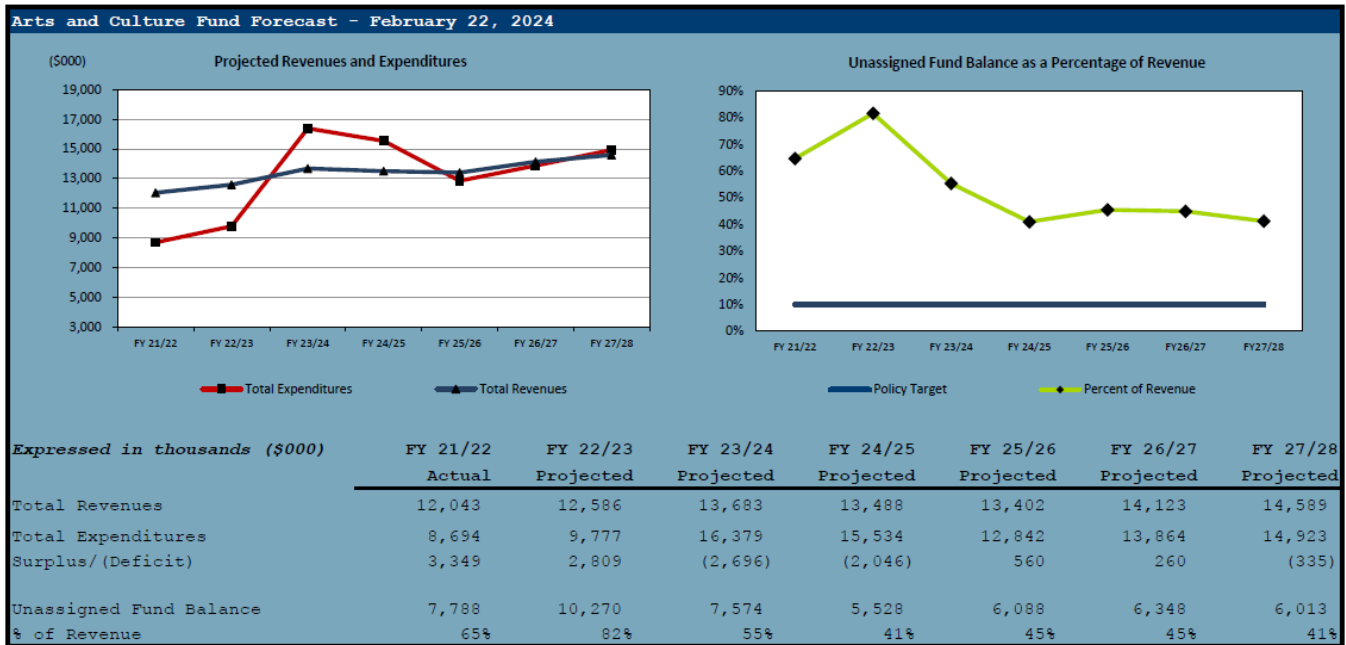
Transportation (HURF) Special Revenue Fund



The Transportation Fund receives the majority of its funding from the distribution of state-shared Highway User Revenue Funds (HURF). Revenue projections over the forecast period are consistent with the November 2023 forecast and are based on the forecast projections from the Arizona Department of Transportation (ADOT) and projections from year-to-date activity. The forecast assumes a reduction in cash funded CIP projects compared to the November 2023 forecast and is consistent with the preliminary CIP requests for Council review in the upcoming, FY 2024/25 budget process. These adjustments keep the fund stable with unassigned fund balances projected to remain within fund balance policy (10% of revenues) through-out the forecast period. Staff will continue to monitor economic trends to ensure the fund balances remain within policy.

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 the continuation of 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.

Arts and Culture Special Revenue Fund



Despite the loss of residential rental sales tax revenues beginning in January 2025, the Arts and Culture Special Revenue Fund remains stable with revenue projections continuing to exceed expenditure projections during the forecast period. Total Facility and programming revenue continues to recover from the pandemic and is expected to remain strong with the Tempe Center for the Arts being the new home for the Arizona Theater Company.

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. FY 2023/24 expenditures include cash transfer to the CIP of \$4.4 million, and an additional \$8.3 million of CIP cash transfers are assumed over the ensuing four years. Any 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 development 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 22, 2024

Revenues	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28
Taxable Sales Growth	2.6%	-0.2%	-0.7%	4.3%	4.2%
General Fund Sales Tax Revenue	1.9%	-0.2%	-0.7%	4.3%	4.2%
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	4.0%	4.0%	4.0%	4.0%	4.0%
Bed Tax Revenue Growth	3.8%	6.3%	6.0%	6.0%	6.2%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	1.1%	1.1%	1.1%	1.1%	1.1%
State Population Growth	1.2%	1.3%	1.3%	1.3%	1.3%
State Shared Income Tax Growth	41.1%	-19.0%	-10.0%	4.6%	5.2%
State Shared Sales Tax Growth	0.5%	3.7%	4.7%	4.9%	4.9%
State Vehicle License Tax Growth	2.3%	4.8%	3.9%	3.9%	3.7%
Building and Trades Growth	12.0%	-0.9%	2.2%	2.2%	2.3%
Cultural and Recreational Growth	-20.7%	13.2%	3.3%	3.3%	3.4%
Fees, Fines, Forfeitures Growth	-11.0%	1.5%	3.3%	3.3%	3.4%
Licenses Growth	2.9%	1.0%	2.2%	2.2%	2.3%

Expenditures	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28
Personnel Costs Growth ⁽¹⁾	6.1%	5.5%	2.9%	2.0%	2.2%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	12.29%	12.27%	12.15%	12.10%	12.05%
Police Retirement (PSPRS Tiers 1 & 2)	21.90%	27.87%	31.63%	32.76%	33.75%
Police Retirement (% of payroll) ⁽³⁾	68.63%	75.51%	73.41%	76.89%	77.22%
Fire Retirement (PSPRS Tiers 1 & 2)	24.03%	30.13%	34.14%	34.89%	35.60%
Fire Retirement (% of payroll) ⁽²⁾⁽³⁾	76.13%	83.33%	82.67%	84.16%	84.95%
Health, Dental, Life Actives	2.6%	5.0%	8.0%	8.0%	8.0%
Health, Dental, Life Retirees	1.4%	14.8%	2.0%	4.1%	2.2%
Mediflex Growth	8.6%	5.0%	8.0%	8.0%	8.0%
Other Fringe Benefits Growth	7.2%	5.0%	2.6%	2.4%	2.7%
General Inflation	2.6%	2.3%	2.2%	2.2%	2.3%
Electricity Inflation	11.0%	11.0%	5.6%	5.6%	5.6%
Water Inflation	10.1%	14.8%	10.1%	5.5%	5.5%
Sewer Inflation	5.1%	6.3%	5.1%	4.0%	4.0%
Gasoline Inflation	-3.2%	-1.5%	0.3%	2.0%	2.6%

Notes:

⁽¹⁾ Excluding OPEB Trust Fund Advance/Withdrawal

⁽²⁾ Net of Fire Insurance Premium Tax credit

⁽³⁾ Police & Fire Retirement percentages include the annual required payment on the Taxable Municipal Bonds.

Long-Range Financial Forecast Update

Work Study Session
February 22, 2024



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

CAPITAL		OPERATING
Public Forums	Feb/Mar	Public Forums
Proposed Projects	Feb 22	Updated Long-Range Forecast
Initial Recommended Projects	Mar 25	
Budget Review Session	Apr 18	Budget Review Session
Budget Review Follow-up (if needed)	May 2	Budget Review Follow-up (if needed)
Tentative Adoption	May 21	Tentative Adoption
Public Hearing/Final Adoption	Jun 6	Public Hearing/Final Adoption
	Jun 27	Property Tax Levy

Forecast Assumptions



- Overall economy remains stable - no recessionary trend forecast
- The elimination of residential rental tax collections is effective January 1, 2025
- Inflation due to the impact of worker shortages and supply chain issues
- Continued salary plans and market adjustments with annual increases to insurance costs + provision for the impact of the Comprehensive Classification and Compensation Study
- Reduction in State-shared revenue distributions due to decreases in state income & corporate tax collections
- Continued strong building and trade revenues
- Increased investment earnings due to higher interest rates

Updates From November Forecast



- Local taxes adjusted slightly and continue to modestly grow
- State-shared income tax revenues anticipated to decline beginning in FY 2024/25 slightly more due to reduced corporate income tax collections
- Included a provision for the impact of the Classification and Compensation Study
- Introducing budget balancing efforts to address residential rental revenue loss
 - General Fund - Beginning in upcoming FY 2024-25
 - Transit Fund - Beginning with the determination of Prop 479

Residential Rental Tax Elimination



- Senate Bill 1131 was signed into law August 1, 2023
- Three operating funds with revenue loss (9% sales tax revenue loss)

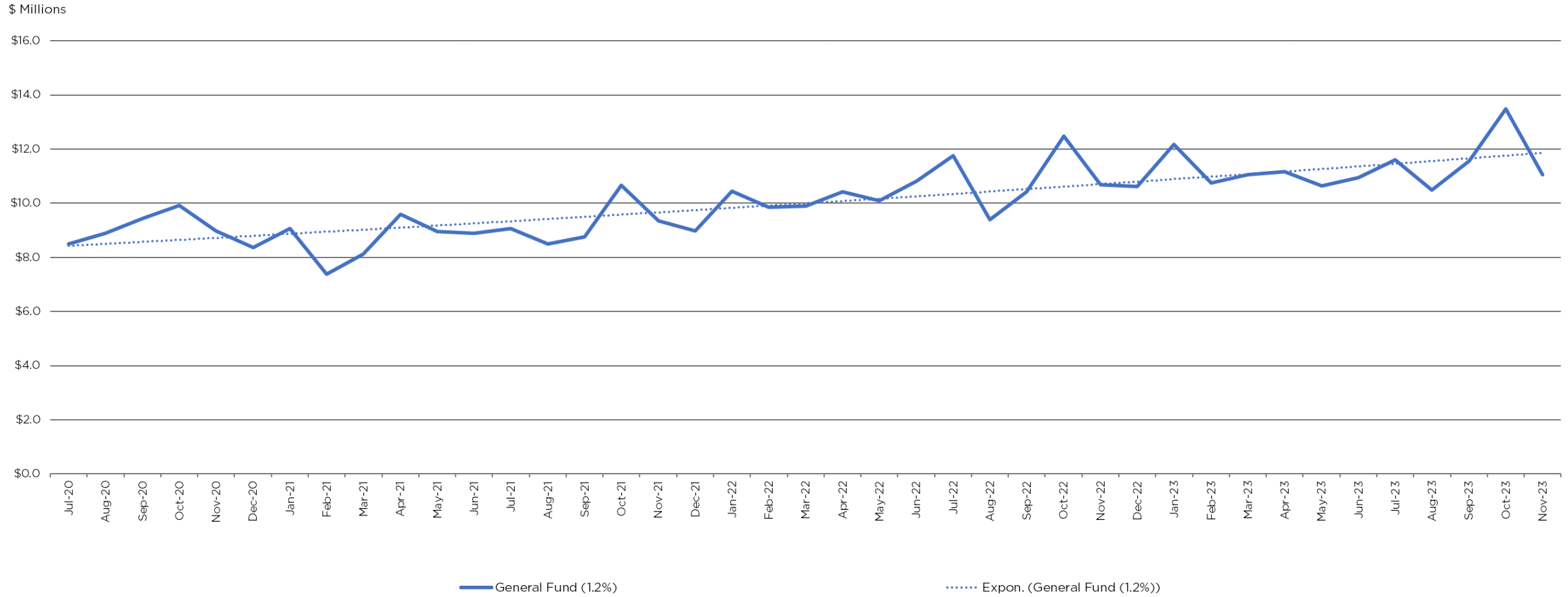
Effective January 1, 2025	FY24-25 (half-year)	FY25-26	FY26-27	FY27-28
General Fund	\$ 6.6M	\$ 13.8M	\$ 14.4M	\$ 15.0M
Transit Fund	\$ 2.8M	\$ 5.8M	\$ 6.0M	\$ 6.3M
Arts & Culture Fund	\$ 0.6M	\$ 1.2M	\$ 1.3M	\$ 1.4M
Total	\$ 10.0M	\$ 20.8M	\$ 21.7M	\$ 22.7M

M = Million

Sales Tax Trends



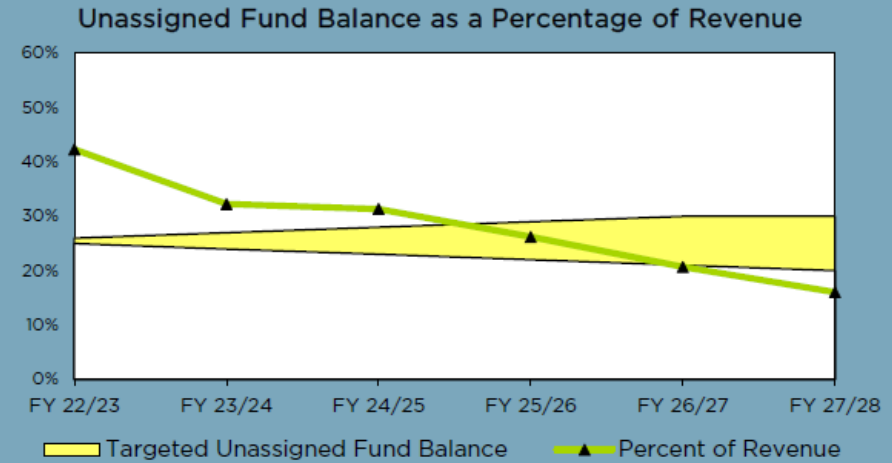
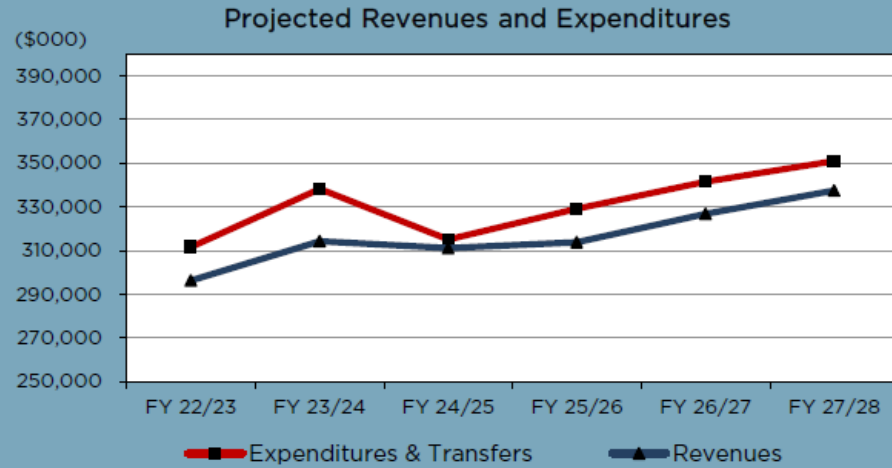
General Fund - Privilege Tax Trends



Potential General Fund Scenario

November 2023

General Fund - Sample Evaluation of Variable Budget Options



Expressed in thousands (\$000)

	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected
Revenues	296,329	314,246	311,225	313,915	326,889	337,523
Expenditures	284,311	335,890	306,118	319,586	332,732	342,263
Transfers/Assignments	27,367	2,387	925	1,585	848	755
Initial Estimated Surplus/(Deficit)	(15,349)	(24,031)	4,182	(7,256)	(6,691)	(5,495)

Estimated New Funding for Analysis Purposes

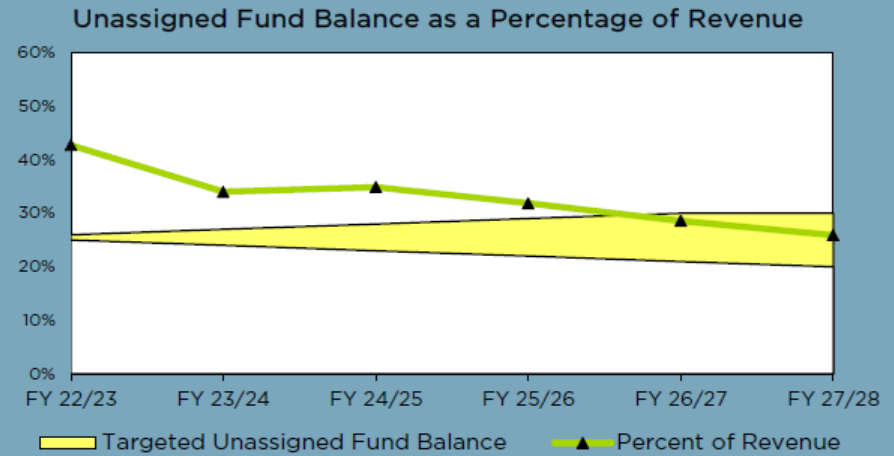
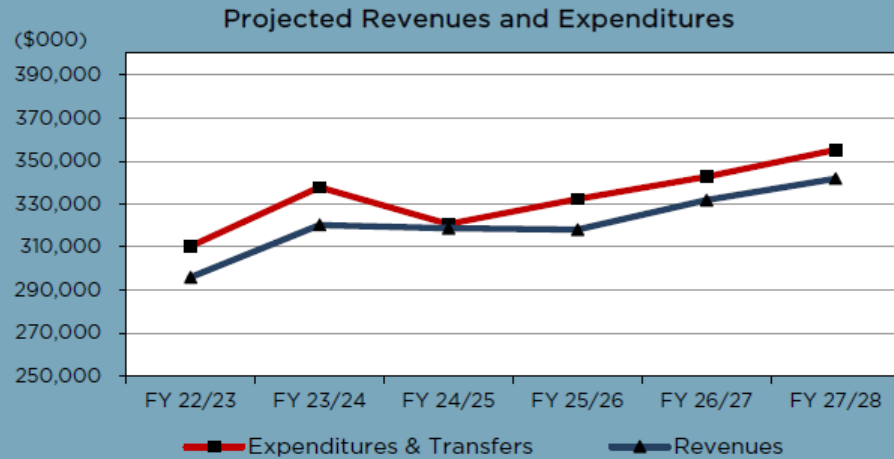
Recurring Supplementals			5,000	5,000	5,000	5,000
One-Time Supplementals			1,000	1,000	1,000	1,000
CIP Cash Funded (Paygo)			2,000	2,000	2,000	2,000

Unassigned Fund Balance	125,444	101,413	97,595	82,339	67,648	54,153
% of Revenue	42%	32%	31%	26%	21%	16%

Potential General Fund Scenario

February 2024

General Fund - Sample Evaluation of Variable Budget Options



<i>Expressed in thousands (\$000)</i>	FY 22/23 Actual	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected
Revenues	295,953	320,243	318,681	318,108	331,779	341,765
Expenditures	277,378	335,306	316,372	327,952	338,264	348,094
Transfers/Assignments	32,975	2,464	-	-	-	-
Initial Estimated Surplus/(Deficit)	(14,399)	(17,527)	2,309	(9,844)	(6,485)	(6,329)
Estimated New Funding for Analysis Purposes						
Recurring Supplementals			1,562	1,640	1,722	4,000
One-Time Supplementals			143	150	157	500
CIP Cash Funded (Paygo)			2,690	2,540	2,540	2,540
Unassigned Fund Balance	126,394	108,867	111,175	101,331	94,846	88,517
% of Revenue	43%	34%	35%	32%	29%	26%

General Fund Highlights



The annual residential rental tax collections loss, effective January 1, 2025, creates a \$14 - \$15 million/year structural deficit

Capacity for recurring and non-recurring supplementals significantly reduced for three years to address structural deficit identified in the November 2023 forecast. Minimal impact of RTOC and NOVUS fire station obligation

Interest estimates improved offset by reduced state-shared income tax collections forecasted in the November 2023 forecast

Provision for the Classification and Compensation study included beginning in FY 2025/26

Building permit/Plan check/Engineering fees remain strong throughout the forecast

At this point, CIP pay-go (cash) funding remains consistent with the November 2023 forecast

Enterprise Fund Highlights



Water/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 moderate rate increases included in revenue estimates
- Fund balance maintained within policy

Emergency Medical Transport (Ambulance)

- Fund is stable with revenue increases since inception of the fund
- Additional recurring capital appropriation planned to maintain ambulance fleet

Special Revenue Fund Highlights



Transit

- Residential rental tax collections results in 9% tax revenue reduction
- Fund balance declining but forecasted to remain in policy over the forecast period
- Explore long-term strategies depending on the outcome of Prop 479 to ensure the fund remains stable

Transportation (HURF)

- HURF revenue projections are 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

- Despite residential rental tax collection revenue reduction, fund remains stable with balances maintained above policy level
- Facility and programming revenues remain strong post pandemic
- Increased CIP cash funding forecasted



Questions?

