MEMORANDUM

TO: Mayor and Council

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

DATE: November 10, 2022

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 February 17, 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 initial 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 refine the projections contained in this forecast as part of the final financial forecast update in February 2023 to finalize 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 not changed significantly since the February 2022 update.

The overall economy remains strong with low unemployment and household disposable income increased from Federal programs that have bolstered sales tax collections.

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 that resulted in significant declines in tax revenues from these two categories.

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 based on 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 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 negatively impact sales tax revenues for the General Fund, Transit Fund and Arts and Culture Fund.

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 to help overcome a mild recession, reliance on fund balance reserves alone 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. 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.

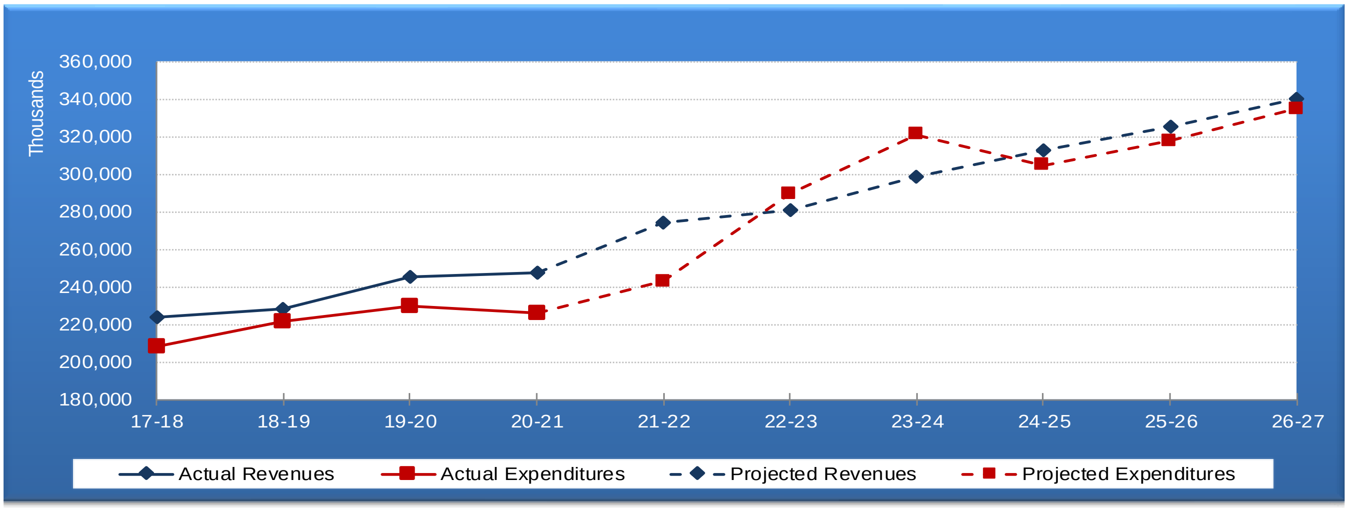
Recent Issues Impacting the Forecast

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).
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) FY 2022/23 expenditures in the forecast include $18.1 million in General Fund supplementals ($12.8 million recurring and $5.3 million one-time) and $5.2 million on supplementals in the city's other major funds ($3.4 million recurring and $1.8 million one-time) approved during the FY 2022/23 budget process.
8) 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 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.
9) The City's unreserved General fund balance at the end of FY 2021/22 is estimated at $142.5 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.

Forecast Model for the General Fund

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

General Fund



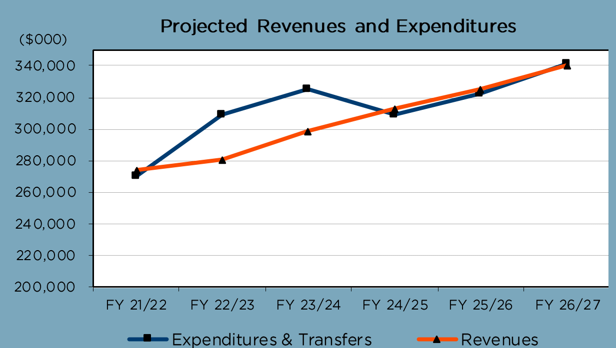
	17/18 Actual	18/19 Actual	19/20 Actual	20/21 Actual	21/22 Projected	22/23 Projected	23/24 Projected	24/25 Projected	25/26 Projected	26/27 Projected
Revenues ($000)										
Local Taxes	123,272	129,881	132,284	138,368	162,445	168,044	177,375	186,061	194,806	204,095
Intergovernmental	48,404	48,024	52,940	60,503	58,955	71,400	79,052	83,089	86,061	90,386
Bldg & Trades/Planning & Zoning	12,632	11,581	14,048	10,098	12,796	10,448	10,646	10,848	11,087	11,331
Cultural and Recreation	7,170	6,409	4,944	3,141	4,579	5,585	5,308	5,469	5,651	5,839
Fines, Fees and Forfeitures	6,839	6,434	5,613	4,418	4,943	3,550	3,658	3,769	3,894	4,024
Business Licenses	2,184	2,159	1,848	2,230	2,338	2,040	2,078	2,118	2,164	2,212
Interest Income	2,008	3,228	4,283	2,187	1,402	1,439	2,160	2,078	2,194	2,182
Franchise Fees	3,576	3,401	3,247	3,213	3,393	2,935	2,991	3,048	3,115	3,183
Other Revenue Sources	17,355	17,377	25,743	23,006	23,219	15,583	15,670	16,051	16,478	16,918
Total Revenues	223,441	228,495	244,951	247,164	274,070	281,023	298,938	312,529	325,451	340,171
Expenditures ($000)										
Personnel Costs	168,001	177,009	183,556	188,628	186,149	205,640	222,951	230,227	236,488	247,600
Materials and Supplies	8,827	9,035	9,581	8,575	10,112	11,113	10,590	10,792	11,029	11,272
Fees and Services	32,494	34,840	35,003	32,681	35,946	45,849	40,630	41,576	42,648	43,749
Travel and Training	689	904	542	357	695	1,057	998	1,016	1,039	1,062
Non-Dept/Loan Repayment	1,910	1,846	2,001	2,646	2,377	7,055	4,260	4,341	4,437	4,535
Capital Outlay	4,378	4,236	3,420	2,459	3,679	6,359	4,115	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	2,440	2,440	2,440	2,440
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)	(13,425)	(13,890)	(14,168)	(14,371)	(14,632)	(14,898)
Contribution to Housing Affiliate				1,200	625	2,647	1,834	1,869	1,910	1,952
Preapproved Supplementals & CIP PAYGO							905	905	905	905
Recurring Operating Supplementals							5,000	11,000	16,000	21,000
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	242,842	289,604	321,014	304,709	317,638	334,814
Net Operating Surplus/(Deficit)	**14,937**	**6,975**	**15,476**	**21,335**	**31,228**	**(8,580)**	**(22,076)**	**7,821**	**7,814**	**5,356**
Interfund Transfers	**(1,666)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Change to Assigned Funds	**1,519**	**(1,383)**	**(507)**	**1,594**	**(27,555)**	**(19,673)**	**(4,582)**	**(4,253)**	**(5,136)**	**(6,494)**
Unassigned Fund Balance	**95,365**	**100,958**	**115,926**	**138,855**	**142,528**	**114,275**	**87,617**	**91,184**	**93,862**	**92,724**
Unassigned Fund Balance as a % of Revenue	**43%**	**44%**	**47%**	**56%**	**52%**	**41%**	**29%**	**29%**	**29%**	**27%**

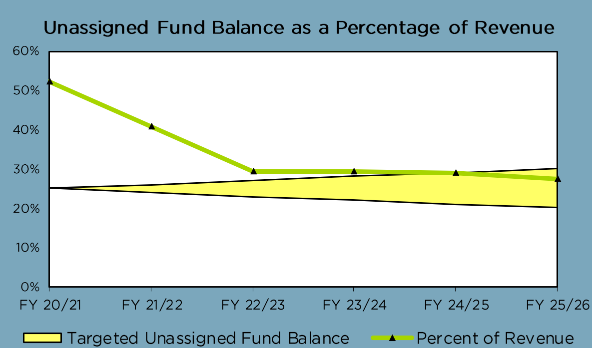
The figure above provides detail for budgeted accounts within the General Fund, with "sample" budget decisions incorporated from the interactive model appearing below:

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.

General Fund -- Sample Evaluation of Variable Budget Options





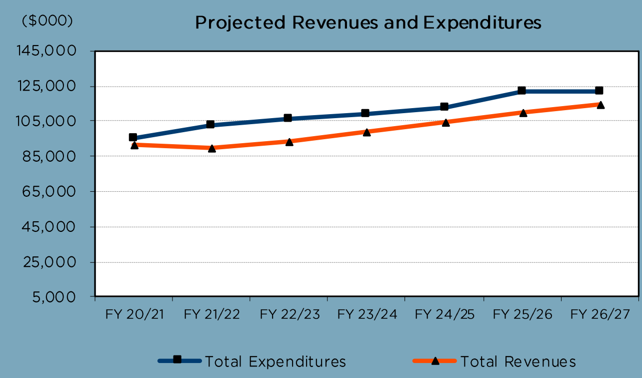
Expressed in thousands ($000)	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Revenues	274,070	281,023	298,938	312,529	325,451	340,171
Expenditures	242,842	289,604	305,014	295,709	309,638	326,814
Transfers/Assignments	27,555	19,673	4,582	4,253	5,136	6,494
Initial Estimated Surplus (Deficit)	3,673	(28,254)	(10,658)	12,567	10,677	6,863
Estimated Available New Funding						
Recurring Supplementals			5,000	6,000	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	142,528	114,275	87,617	91,184	93,862	92,724
% of Revenue	52%	41%	29%	29%	29%	27%

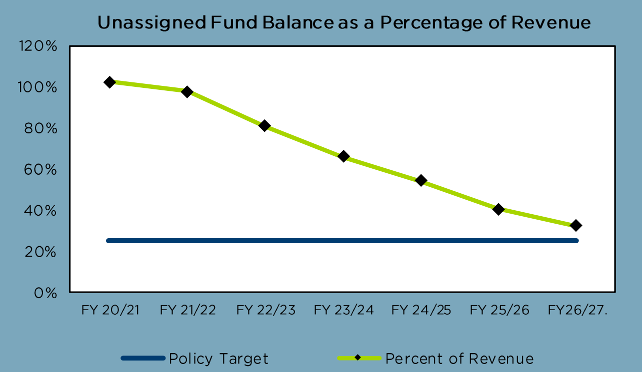
Forecast Models for Individual Operating Funds (other than General Fund)

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 - November 10, 2022



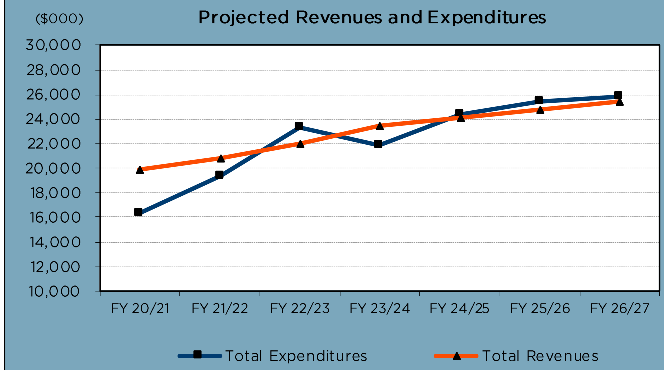


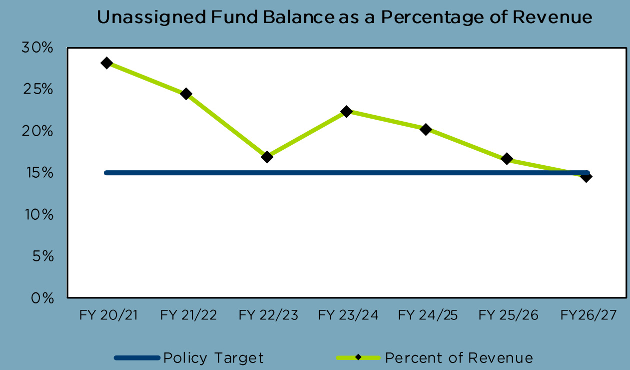
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	91,171	90,120	93,408	99,291	104,194	109,490	114,627
Total Expenditures	94,842	102,331	105,847	109,386	112,985	121,581	122,255
Surplus (Deficit)	(3,670)	(12,210)	(12,438)	(10,095)	(8,791)	(12,092)	(7,628)
Unassigned Fund Balance	93,503	88,176	75,738	65,643	56,852	44,760	37,132
% of Revenue	103%	98%	81%	66%	55%	41%	32%

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. 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 - November 10, 2022





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	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	21,949	23,406	24,075	24,724	25,383
Total Expenditures	16,264	19,374	23,335	21,884	24,437	25,477	25,792
Surplus (Deficit)	3,646	1,459	(1,386)	1,522	(362)	(754)	(410)
Unassigned Fund Balance	5,603	5,077	3,691	5,213	4,851	4,097	3,688
% of Revenue	28%	24%	17%	22%	20%	17%	15%

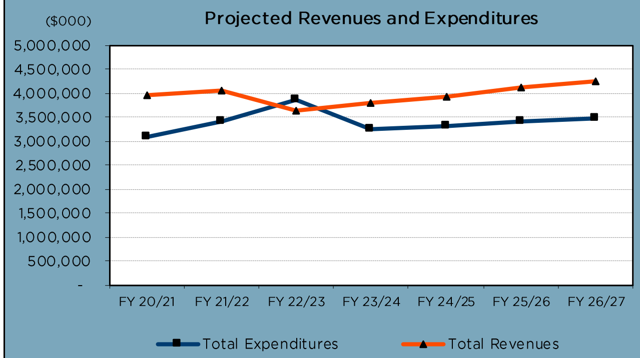
The fund is stable with future planned rate increases reflected in the revenue projections. The planned rate increases as well as operation efficiencies will help to ensure the stability of the fund through full recovery of operating and capital improvements costs for both residential and commercial solid waste services.

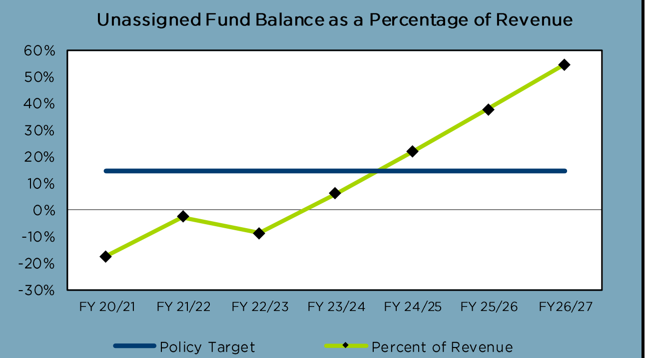
The unassigned fund balance is projected to be maintained within the fund balance policy of 15 percent of revenue during the forecast period.

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 - November 10, 2022





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	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	3,648,545	3,802,857	3,948,849	4,114,148	4,269,494
Total Expenditures	3,102,950	3,418,846	3,857,974	3,248,075	3,326,687	3,415,286	3,492,557
Surplus (Deficit)	875,152	660,060	(209,429)	554,782	622,162	698,862	776,936
Unassigned Fund Balance	(694,027)	(106,667)	(316,096)	238,686	860,848	1,559,709	2,336,646
% of Revenue	-17%	-3%	-9%	6%	22%	38%	55%

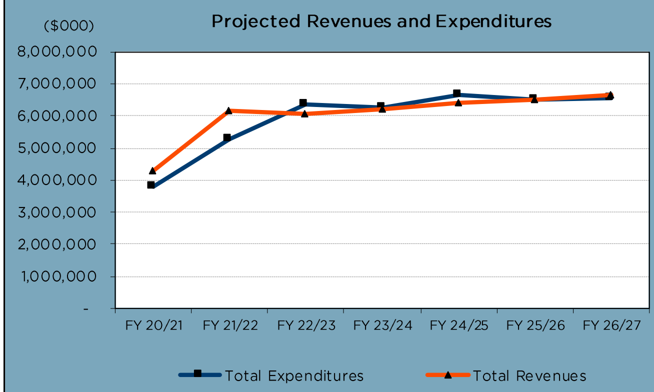
Revenues are projected to decline slightly in FY 2022/23 from the previous fiscal year as rounds of play stabilize to pre-pandemic conditions. Contributing factors include less remote working, increased travel opportunities and the availability of other recreational opportunities. Revenues are then projected to experience modest growth, starting in FY 2023/24, due to anticipated increased rounds of play and projected 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 fiscal year 2023/24.

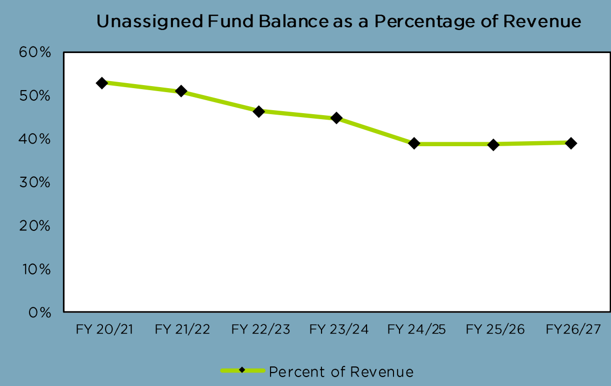
Beginning with FY 2019/20, capital projects for the courses and buildings on the courses are funded with bond funds, repaid with secondary property taxes. The capital projects for buildings would include the same types of asset management projects to replace and renovate building systems and equipment as those managed by Facilities Maintenance at all other municipal buildings. This has helped to stabilize the Golf Fund by providing a funding source for deferred capital maintenance that has not been able to be funded with golf user revenue.

The forecast model assumes that both the Rolling Hills and Ken McDonald would continue to operate as normal with no change in the amenities or services offered. Any Council approved changes to the operating models would be reflected in future forecasts.

Emergency Medical Transportation Enterprise Fund

Emergency Medical Transportation Fund Forecast - November 10, 2022





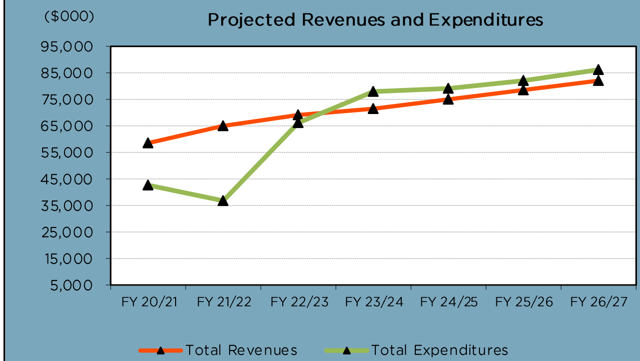
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	4,302,498	6,137,345	6,071,430	6,194,686	6,383,881	6,511,157	6,638,850
Total Expenditures	3,771,326	5,282,600	6,377,532	6,247,399	6,666,860	6,479,489	6,564,746
Surplus (Deficit)	531,172	854,745	(306,102)	(52,713)	(282,980)	31,669	74,104
Unassigned Fund Balance	2,277,997	3,127,034	2,820,932	2,768,220	2,485,240	2,516,909	2,591,013
% of Revenue	53%	51%	46%	45%	39%	39%	39%

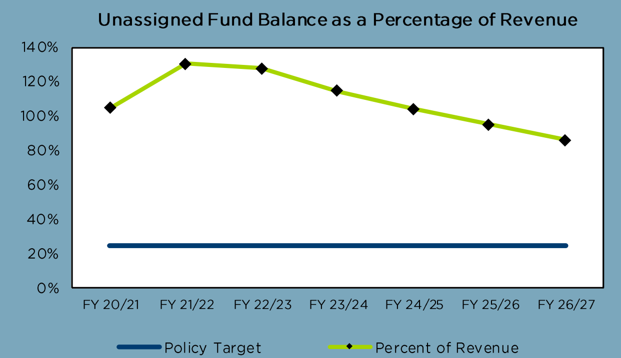
The Emergency Medical Transportation Fund captures all the revenue and expenditures for the Emergency Medical Transportation program which was started in October 2017 and is operating at full capacity with 6 ambulance companies in service.

A slight deficit is forecasted through FY 2024/25; however, the fund is projected to have modest surpluses through the remainder of the forecast. 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 - November 10, 2022





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	58,621	65,441	69,313	71,879	75,414	78,840	82,384
Total Expenditures	43,044	36,900	66,065	77,995	79,322	82,426	86,393
Surplus (Deficit)	15,577	28,541	3,248	(6,116)	(3,908)	(3,586)	(4,009)
Unassigned Fund Balance	61,276	85,287	88,535	82,419	78,511	74,925	70,916
% of Revenue	105%	130%	128%	115%	104%	95%	86%

The Transit Fund is stable with operating surpluses over the two previous fiscal years as a result of Federal funding from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), CARES Act and ARPA via Valley Metro that offset rail and bus operating costs. An additional $7.5 million in Federal funding is anticipated in the current fiscal year.

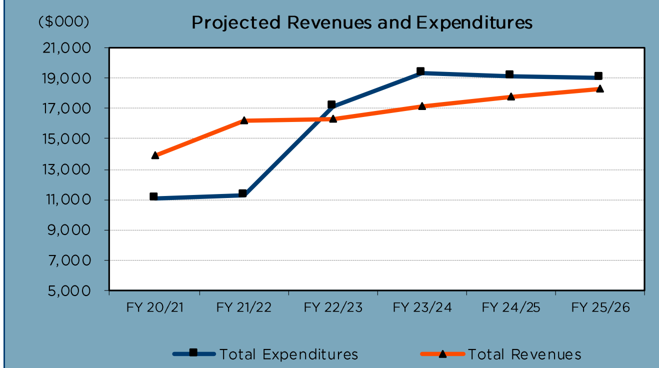
The unassigned fund balance is projected to remain in policy (25% of current-year operating revenues) through-out the forecast period. The FY 2021/22 unassigned fund balance does reflect a $4.7 million transfer to the Transit capital fund to cover capital project expenses funded from the Transit tax.

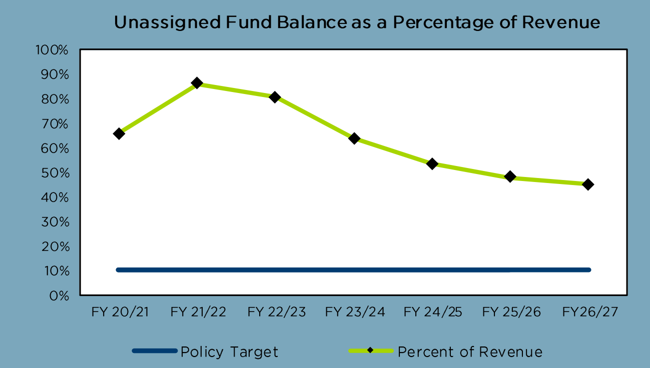
The expenditure amounts in the forecast include operating expenses for the streetcar operations that started in May 2022. The largest operating expenses for the Transit program are the bus, rail and streetcar operations that are provided through contracts with Valley Metro. The forecasted expenditures 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 - November 10, 2022





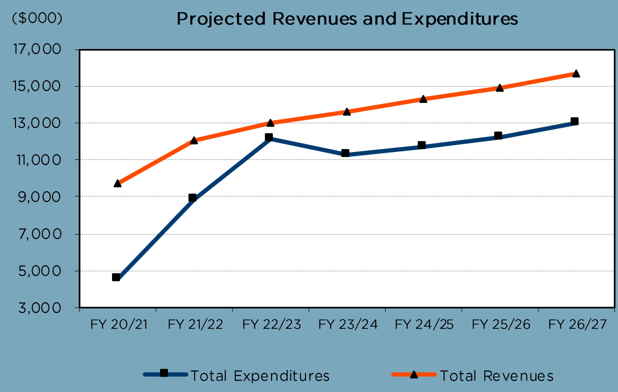
Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	13,938	16,224	16,304	17,114	17,736	18,287	18,870
Total Expenditures	11,108	11,284	17,167	19,320	19,151	19,014	19,147
Surplus (Deficit)	2,830	4,940	(863)	(2,207)	(1,415)	(727)	(277)
Unassigned Fund Balance	9,170	13,992	13,130	10,923	9,508	8,781	8,504
% of Revenue	66%	86%	81%	64%	54%	48%	45%

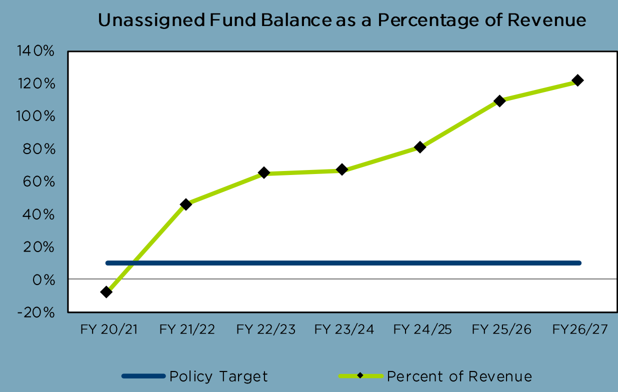
The Transportation Fund receives a majority of its funding from the distribution of state-shared Highway User Revenue Funds (HURF). Revenue projections over the forecast period have been moderated based on the latest forecast projections from the Arizona Department of Transportation (ADOT) due to a slight decline in gasoline sales in Maricopa County in recent months. 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 - November 10, 2022





Expressed in thousands ($000)	FY 20/21 Actual	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Total Revenues	9,761	12,042	13,023	13,620	14,276	14,928	15,640
Total Expenditures	4,518	8,854	12,117	11,313	11,677	12,230	12,983
Surplus (Deficit)	5,242	3,188	906	2,307	2,599	2,698	2,657
Unassigned Fund Balance	(758)	4,495	7,792	8,699	11,006	16,303	18,960
% of Revenue	-8%	46%	65%	67%	81%	109%	121%

The Arts and Culture Special Revenue Fund (formerly Performing Arts Fund) is stable with revenue collections from the Arts & Culture Tax anticipated to grow throughout the forecast period. 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. Also, the forecast includes the $1.7 million in FY 2022/23 supplementals that included restoration of the remaining FY 2020/21 budget reductions and for expanded arts and culture services and programs. 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 - November 10, 202

Revenues	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Taxable Sales Growth	5.9%	5.6%	5.2%	4.9%	4.9%
General Fund Sales Tax Revenue	6.6%	5.6%	5.2%	4.9%	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	23.4%	10.3%	4.9%	4.8%	5.9%
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%	1.4%	1.0%	1.4%	1.3%
State Shared Income Tax Growth	44.6%	17.8%	5.6%	2.3%	5.1%
State Shared Sales Tax Growth	5.9%	2.5%	4.2%	4.7%	4.7%
State Vehicle License Tax Growth	1.9%	8.3%	5.7%	5.6%	5.5%
Building and Trades Growth	-18.4%	1.9%	1.9%	2.2%	2.2%
Cultural and Recreational Growth	22.0%	-5.0%	3.0%	3.3%	3.3%
Fees, Fines, Forfeitures Growth	-28.2%	3.0%	3.0%	3.3%	3.3%
Licenses Growth	-12.8%	1.9%	1.9%	2.2%	2.2%

Expenditures	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Personnel Costs Growth (1)	11.0%	2.1%	1.4%	1.8%	1.8%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	12.17%	12.32%	12.45%	12.28%	12.15%
Police Retirement (PSPRS Tiers 1 & 2)	14.80%	15.11%	15.43%	15.76%	16.09%
Police Retirement (% of payroll) (3)	62.18%	62.30%	63.37%	60.08%	55.76%
Fire Retirement (PSPRS Tiers 1 & 2)	14.94%	15.13%	15.33%	15.53%	15.53%
Fire Retirement (% of payroll) (2) (3)	64.22%	64.83%	68.77%	68.30%	68.42%
Health, Dental, Life Actives	8.5%	8.0%	8.0%	8.0%	8.0%
Health, Dental, Life Retirees	5.3%	9.1%	9.7%	7.2%	7.2%
Mediflex Growth	-0.1%	8.0%	8.0%	8.0%	8.0%
Other Fringe Benefits Growth	5.8%	5.8%	3.7%	3.0%	3.0%
General Inflation	3.3%	1.9%	1.9%	2.2%	2.2%
Electricity Inflation	3.3%	3.9%	3.9%	3.9%	3.9%
Water Inflation	5.5%	5.5%	5.5%	5.5%	5.5%
Sewer Inflation	3.0%	3.0%	3.0%	3.0%	3.0%
Gasoline Inflation	-5.3%	-3.5%	-1.1%	2.1%	1.9%

Long-Range Financial Forecast Update

Work Study Session
November 10, 2022

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
Proposed Projects	Feb 23	Updated Long-Range Forecast
Public Forums	Feb/Mar	Public Forums
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 Guiding Principles

Proposed or pending agreements

Expenses related to future anticipated changes to current agreements or contracts

Revenue from anticipated developments

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)
- Clark Park Pool/Recreation Center annual operating costs ($1 million) included, starting in FY 2023/24

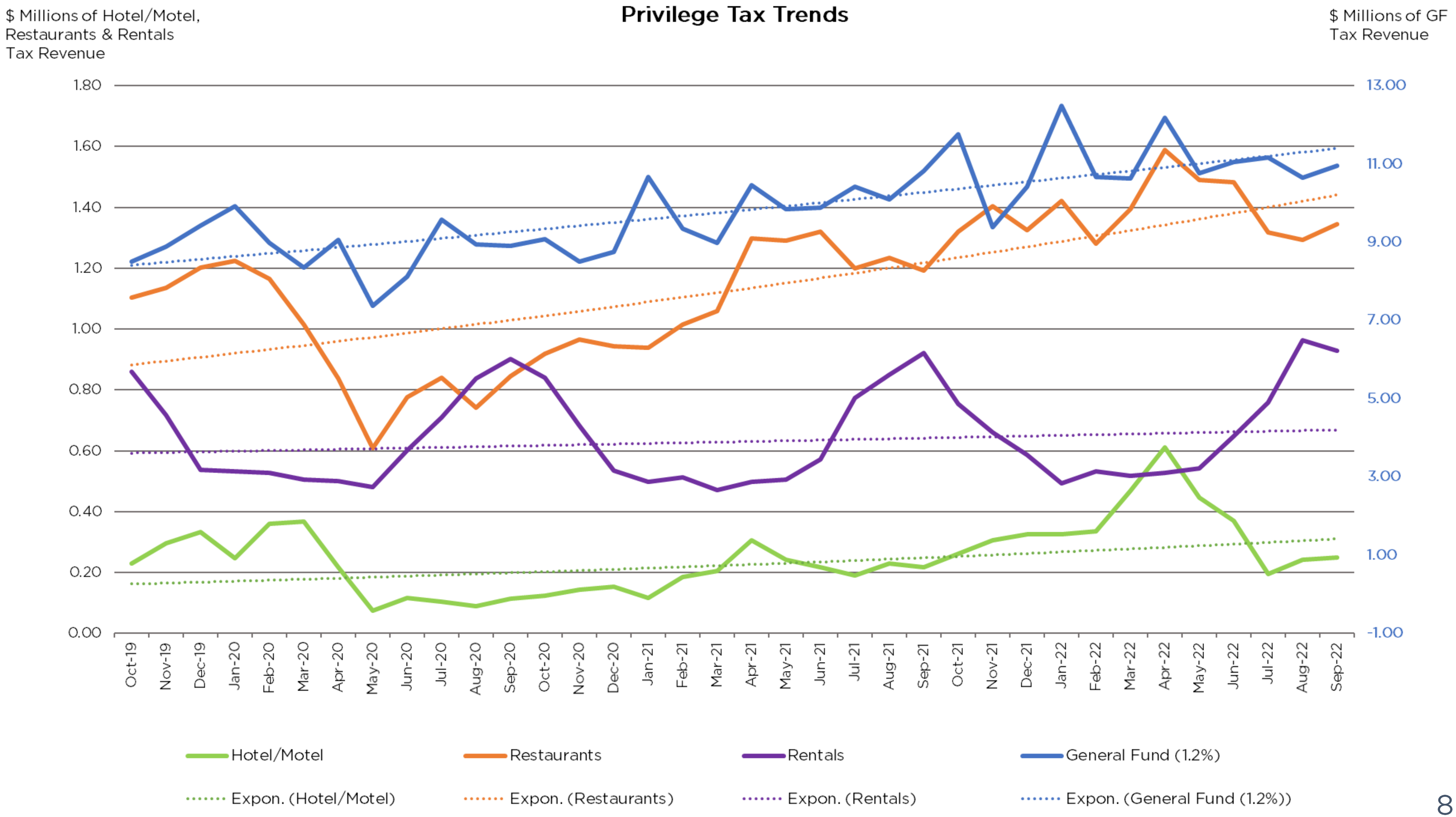
Forecast Assumptions

- No changes in State-shared revenue distributions
- No legislative changes to taxability of Residential Rental activity
  - $16M year ($10.7M General Fund portion)
- No legislative changes to taxability of Food for Home Consumption sales
  - $9M year ($6M General Fund portion)

Recent Impacts to the Forecast

- Revenues from retail sales have moderated, continued growth projected from on-line sales and rentals
- Restaurants and hotel/motel taxable activities continue recovery
- State-shared revenue estimates improved
- Expenses include FY23 supplemental/CIP operating impact additions:
  - General Fund - $18.1 million (95 positions)
    - $12.8 million recurring
    - $5.3 million one-time
  - Other Funds - $5.2 million (34.75 positions)
    - $3.4 million recurring
    - $1.8 million one-time

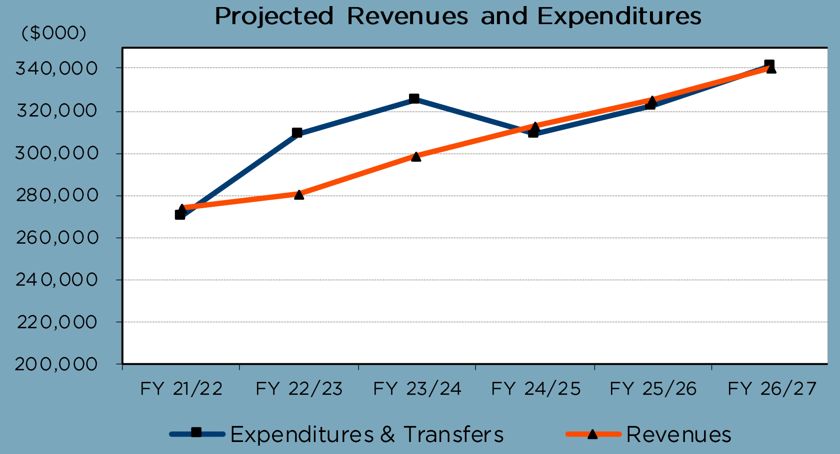
Sales Tax Trends

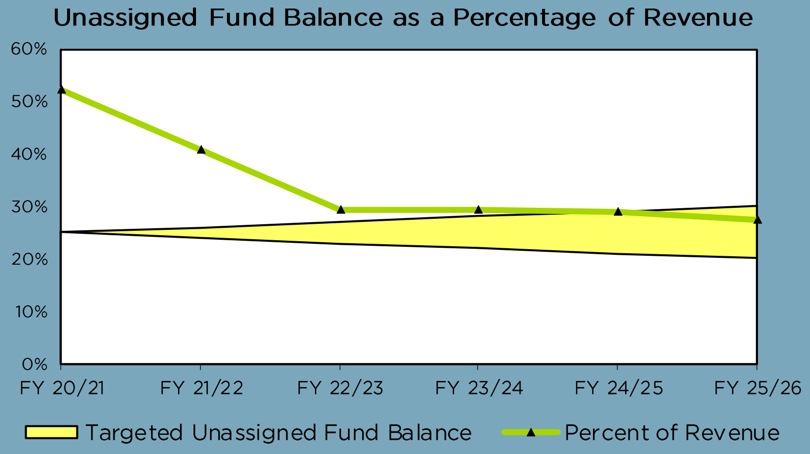


Potential General Fund Scenario

November 2022

General Fund -- Sample Evaluation of Variable Budget Options





Expressed in thousands ($000)	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected
Revenues	274,070	281,023	298,938	312,529	325,451	340,171
Expenditures	242,842	289,604	305,014	295,709	309,638	326,814
Transfers/Assignments	27,555	19,673	4,582	4,253	5,136	6,494
Initial Estimated Surplus (Deficit)	3,673	(28,254)	(10,658)	12,567	10,677	6,863
Estimated Available New Funding						
Recurring Supplementals			5,000	6,000	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	142,528	114,275	87,617	91,184	93,862	92,724
% of Revenue	52%	41%	29%	29%	29%	27%

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

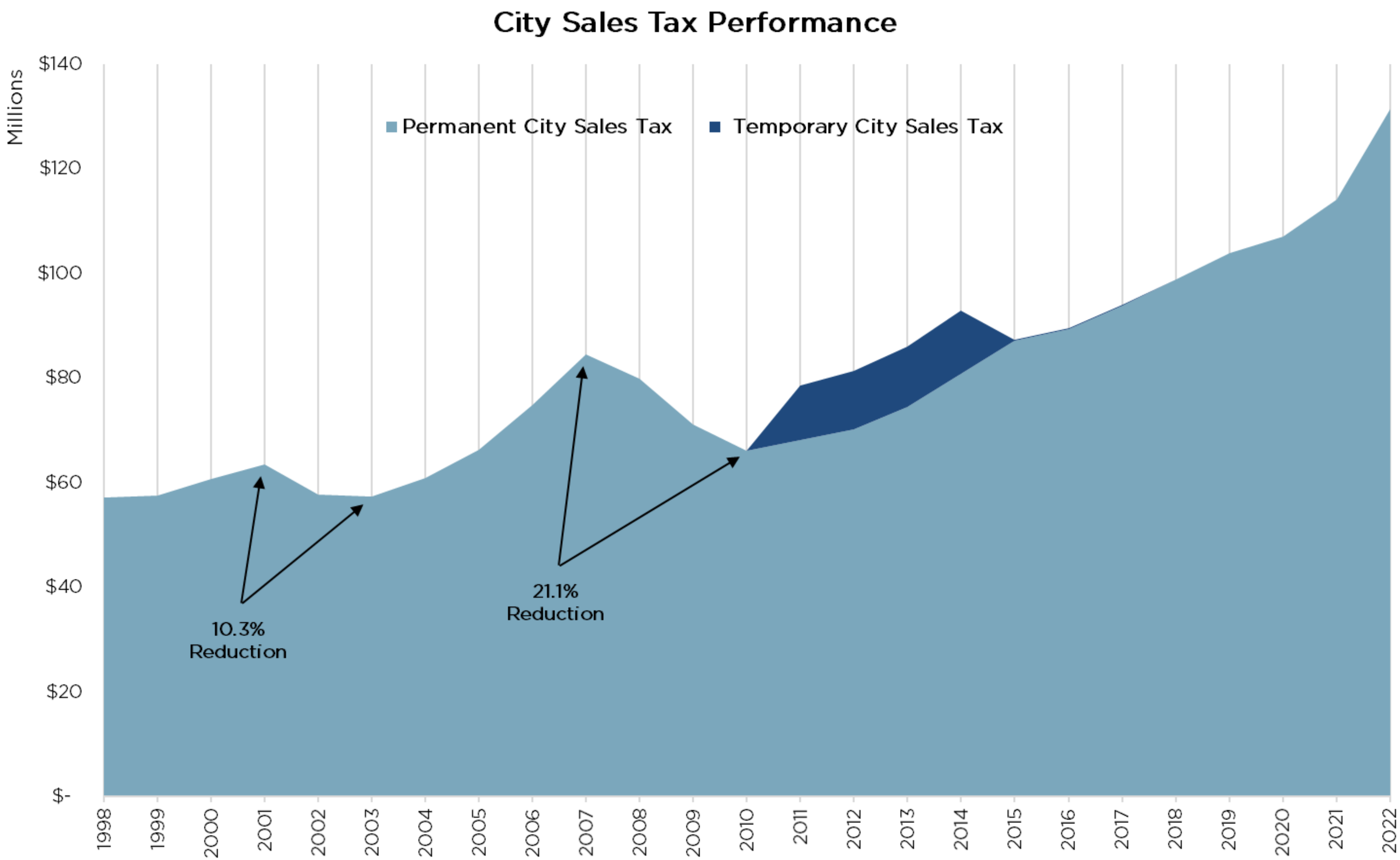
One-time revenues, vacancy savings and revenue collections higher than projected have bolstered fund balance

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

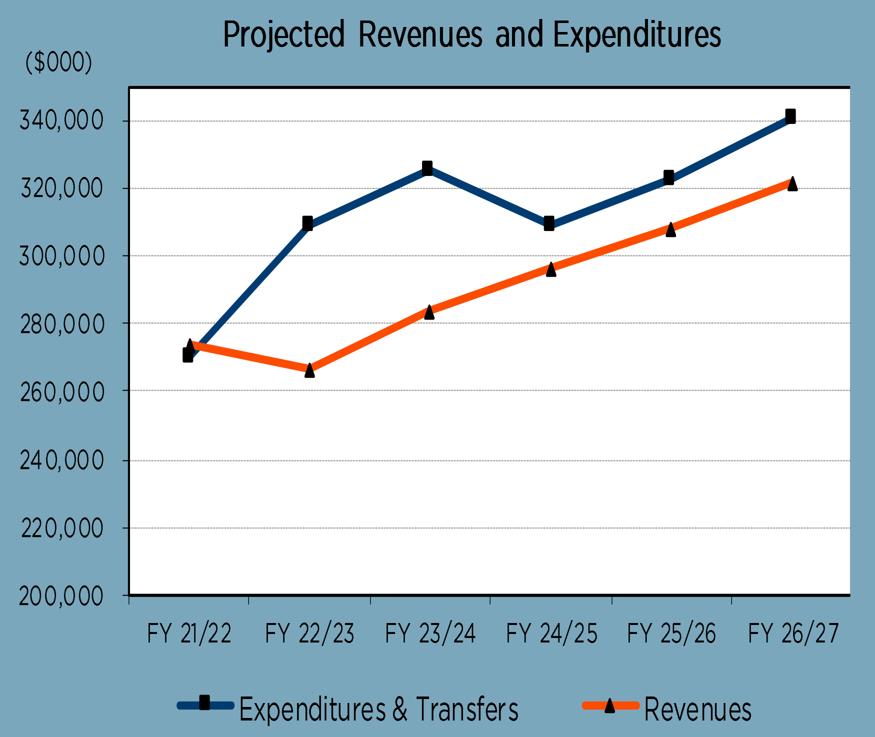
Increased CIP pay-go (cash) funding may be required (cost escalations due to inflation)

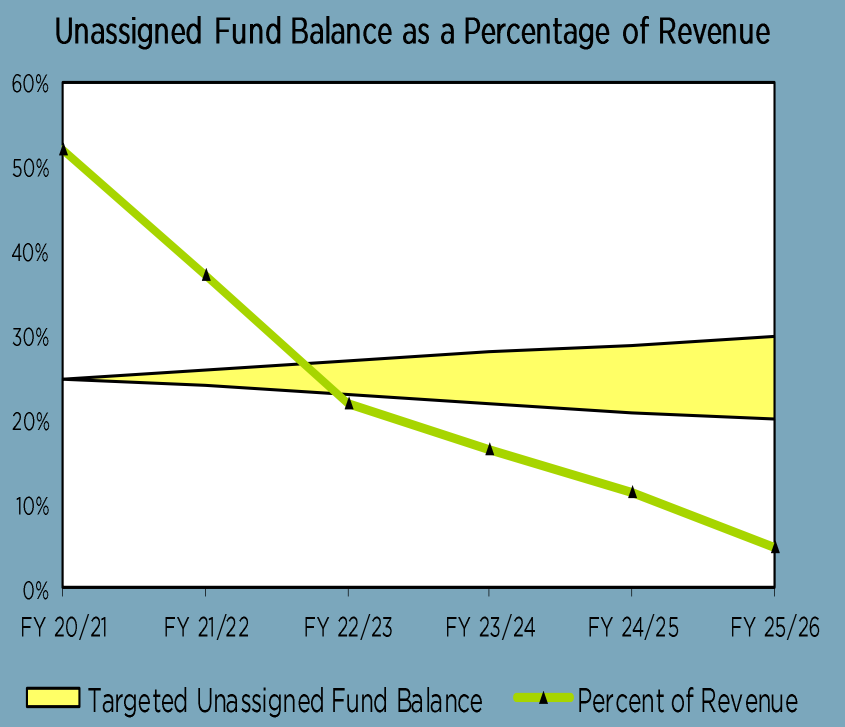
Recreation and Culture revenue estimates improved since Feb 22 forecast

Preparing for a "Typical" Recession



10% Decline in Sales Tax Revenue





Potential Steps to Address Recession

- Freeze vacant positions
- Reduce service levels due to vacant positions & reduce costs
- Shift resources to highest priority services and programs
- Suspend cash funding of CIP programs
- Maintain salary steps and market increases

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 sufficient to offset structural deficits over forecast period - research ways to stabilize fund

Transportation (HURF)

- HURF revenue projections moderated since last forecast based on ADOT projections
- Future revenues subject to pending legislation

Arts and Culture

- Fund is stable with fund balances maintained above policy level
- Additional positions and program expansion approved in FY23 budget reflected in expenses
- Facility revenue projected to have a gradual return to pre-pandemic levels

Direction, Comments & Questions

- Recommended changes to financial strategies?