MEMORANDUM – ISSUE REVIEW SESSION

TO:	Mayor and Council
THROUGH:	Lisette Camacho, Deputy City Manager, (480) 350-8505
FROM:	Julie Hietter, Interim Municipal Budget Director, (480) 350-8697
DATE:	11/19/2024
SUBJECT:	Long-Range Financial Forecast Update

AGENDA ITEM:

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

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

CITY COUNCIL STRATEGIC PRIORITY AND RELATED PERFORMANCE MEASURE:
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 22, 2024

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) 2025/26 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 2024/25, the City's overall financial condition continues to be strong and stable. The General Fund resulted in higher ending unassigned fund balance for FY 2023/24 than we projected in our February 2024 forecast. However, we are seeing a slowdown in local tax collections and year-to-date actual revenues are below projections. The Municipal Budget Office is closely monitoring local taxes and revenue projections were lowered in the 5-year forecast to reflect the current year-to-date actual revenue trend. The 5-year forecast for revenues also includes the loss of residential rental sales tax revenue, which impacts local taxes. The forecast includes anticipated declines in intergovernmental revenues driven primarily by declines in state-shared income tax and corporate income tax collections. These reductions 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, recurring and non-recurring supplementals have been suspended in the General Fund for two years.

The overall economy remains relatively stable with low unemployment and stable household disposable income. 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 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. As mentioned above, we are seeing a slowdown in local tax collections and if we see further decline sales tax revenue or other revenues, additional budget balancing strategies may be necessary to ensure financial stability as explained in more detail below.

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 current and next fiscal year 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, local tax revenue was reduced in the 5-year forecast primarily due to a slowdown in local tax collections and year-to-date actual revenues are below projections. The forecast includes the loss of residential rental tax revenue beginning in January 2025 and reduction in state-shared income tax revenue in the General Fund. 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 2024/25 in these funds, reliance on fund balance reserves alone would not be sufficient to make up additional reductions in local tax revenue or a reduction in building and trade collections and other revenues.

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.
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.

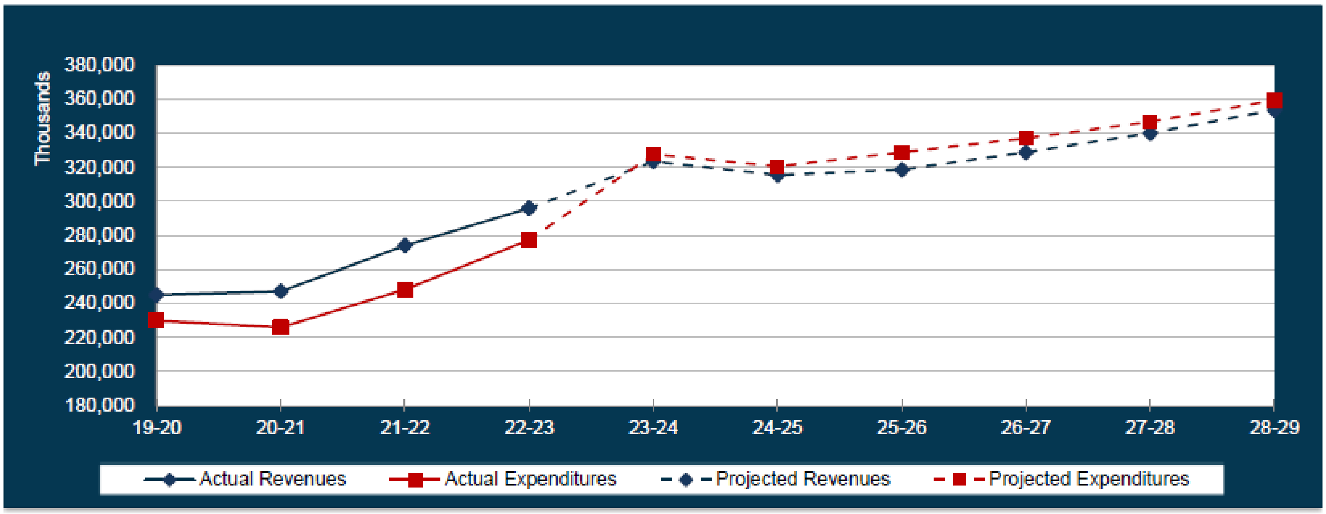
Recent Issues Impacting the Forecast

1) Local tax revenues are slowing down, and year-to-date actual revenues are below budget. The Municipal Budget Office is closely monitoring revenues and if necessary, additional budget balancing strategies to maintain financial stability will be introduced in the February forecast.
2) 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.
3) Continue necessary budget adjustment measures and maintain no recurring and non-recurring supplementals in the General Fund for two more years. 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.
4) 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.
5) Building and trades/planning and zoning revenues are projected to remain strong throughout the forecast period.
6) Revenue from recreational and cultural activities are projected to remain stable during the forecast period.
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 fund balance at the end of last year (FY 2023/24) is $120.3 million, or 37% of actual FY 2023/24 revenues. Even though local taxes were flat in FY 2023/24, the fund balance was bolstered by higher than projected other General Fund revenues and vacancy savings from unfilled positions.

Forecast Model for the General Fund

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

General Fund: Projected Revenues and Expenditures: November 19, 2024



	19/20 Actual	20/21 Actual	21/22 Actual	22/23 Actual	23/24 Projected	24/25 Projected	25/26 Projected	26/27 Projected	27/28 Projected	28/29 Projected
Revenues ($000)										
Local Taxes	132,284	138,368	162,445	173,383	172,880	172,143	172,999	180,649	188,331	197,051
Intergovernmental	52,940	60,503	58,955	71,277	86,816	79,194	78,211	81,809	85,487	89,516
Bldg & Trades/Planning & Zoning	14,048	10,098	12,796	15,346	18,978	18,525	19,022	19,430	19,874	20,345
Cultural and Recreation	4,944	3,141	4,579	6,507	5,809	5,842	6,087	6,307	6,542	6,790
Fines, Fees and Forfeitures	5,613	4,418	4,943	4,147	5,043	5,962	6,341	6,604	6,883	7,175
Business Licenses	1,848	2,230	2,338	2,368	2,895	2,462	2,528	2,582	2,641	2,704
Interest Income	4,283	2,187	1,402	4,858	9,759	11,688	13,182	10,704	9,105	8,331
Franchise Fees	3,247	3,213	3,393	3,078	3,596	2,667	2,738	2,797	2,861	2,929
Other Revenue Sources	25,743	22,978	23,245	14,989	17,638	16,957	17,454	17,893	18,308	18,792
Total Revenues	244,951	247,137	274,096	295,953	323,414	315,440	318,561	328,774	340,033	353,633
Expenditures ($000)										
Personnel Costs	183,507	188,529	187,814	199,474	227,793	250,357	255,709	262,065	269,068	276,641
Materials and Supplies	9,581	8,575	10,644	13,096	12,534	11,883	12,181	12,456	12,769	13,075
Fees and Services	35,003	32,681	37,838	44,472	46,543	51,451	53,683	55,469	57,254	59,055
Travel and Training	542	357	732	1,250	1,269	1,156	1,154	1,178	1,205	1,234
Non-Dept/Loan Repayment	2,001	3,846	2,502	2,965	3,137	6,486	4,990	5,097	5,213	5,337
Capital Outlay	3,420	2,459	3,822	4,843	7,134	4,886	5,084	5,224	5,109	5,073
CIP-Cash/Muni Arts Funding	2,689	260	11,597	17,846	34,806	5,165	3,965	3,866	893	962
Community Facilities District	(405)	72	(356)	(586)	1,642	(113)	(595)	(640)	(686)	(734)
Special Assessments	1,032	1,031	1,033	1,027	1,015	1,027	997	997	997	997
HURF & Solid Waste CIP Funding	1,500	-	1,500	2,440	3,380	2,840	2,840	2,840	2,840	2,840
Tourism and Convention Bureau	2,774	2,843	2,911	2,911	3,060	3,157	3,221	3,285	3,351	3,418
Debt Service	-	-	-	2	7,620	-	0	0	0	0
Internal Services/Adjustments	(11,727)	(14,670)	(12,416)	(15,009)	(16,917)	(20,515)	(21,132)	(21,651)	(22,126)	(22,575)
Contribution to Housing Affiliate	-	-	625	2,647	2,235	2,743	4,180	4,270	4,367	4,471
Preapproved Supplementals & CIP PAYGO							540	540	540	540
Additional CIP PAYGO							2,000	2,000	2,000	2,000
Recurring Operating Supplementals							-	-	3,000	6,000
Non-Recurring Operating Supplementals							-	-	1,000	1,000
Total Expenditures	229,916	225,984	248,245	277,378	327,638	320,523	328,815	336,994	346,793	359,333
Net Operating Surplus/(Deficit)	**15,035**	**21,153**	**25,851**	**18,576**	**(4,225)**	**(5,083)**	**(10,255)**	**(8,221)**	**(6,760)**	**(5,700)**
Change to Assigned Funds	**(67)**	**1,776**	**(23,913)**	**(32,975)**	**(1,871)**	**-**	**-**	**-**	**-**	**-**
Unassigned Fund Balance	**115,926**	**138,855**	**140,793**	**126,394**	**120,298**	**115,215**	**104,960**	**96,740**	**89,979**	**84,279**
Unassigned Fund Balance as a % of Revenue	**47%**	**56%**	**51%**	**43%**	**37%**	**37%**	**33%**	**29%**	**26%**	**24%**

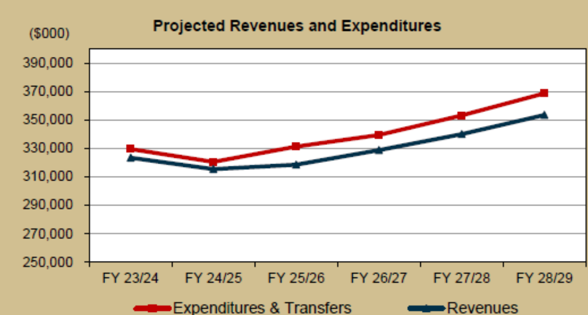
The figure above provides detail for budgeted accounts within the General Fund, with “sample” budget decisions incorporated from the interactive model appearing below:

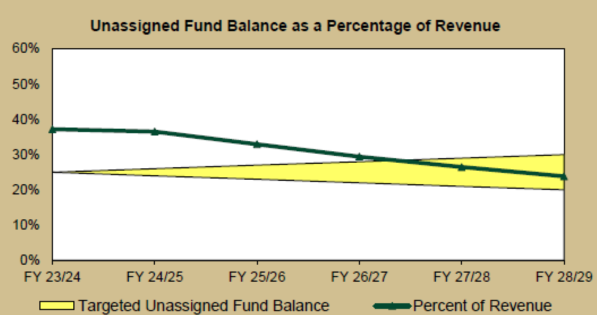
1) Projected growth in annual compensation represents the projected contributions to retirement systems, salary step increases included in current MOUs, projected market adjustments to the salary ranges and increases to health/dental/life insurance plans as provided in the detailed assumptions on the 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, there are no recurring and non-recurring supplemental budget increases in FY 2025/26 and FY 2026/27 and have been reduced significantly in each year of the remaining forecast period of the General Fund**.
3) Pay-as-you go (cash) funding for the capital improvement program (CIP) has 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 forecast period. 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 adjusts to 29%, falling within the fund balance policy in FY 2026/27. 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.

General Fund - Sample Evaluation of Variable Budget Options





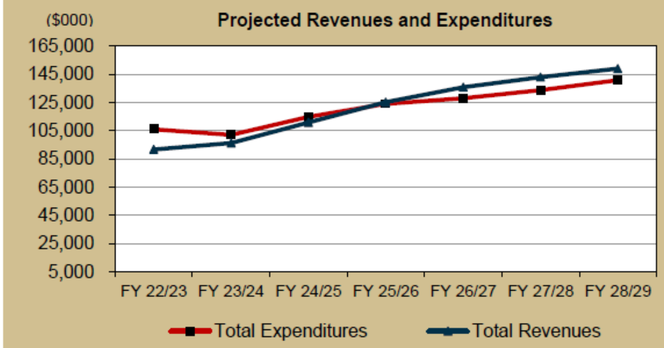
Expressed in thousands ($000)	FY 22/23 Actual	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected
Revenues	295,953	323,414	315,440	318,561	328,774	340,033	353,633
Expenditures	277,378	327,638	320,523	328,815	336,994	346,793	359,333
Transfers/Assignments	32,975	1,871	-	-	-	-	-
Initial Estimated Surplus/(Deficit)	(14,399)	(6,096)	(5,083)	(10,255)	(8,221)	(6,760)	(5,700)
Estimated New Funding for Analysis Purposes							
Recurring Supplementals			**-**	**-**	**-**	**3,000**	**6,000**
One-Time Supplementals			**-**	**-**	**-**	**1,000**	**1,000**
CIP Cash Funded (Paygo)			**-**	**2,540**	**2,540**	**2,540**	**2,540**
Unassigned Fund Balance	126,394	120,299	115,215	104,960	96,739	89,979	84,279
% of Revenue	43%	37%	37%	33%	29%	26%	24%

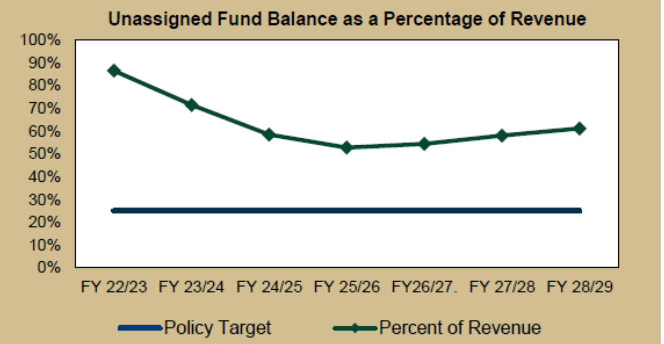
Forecast Models for Individual Operating Funds (other than General Fund)

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 19, 2024



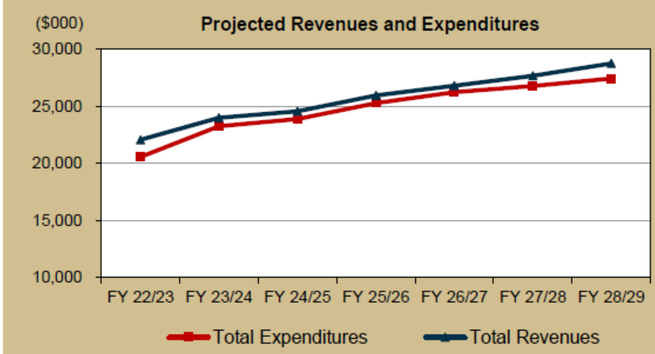


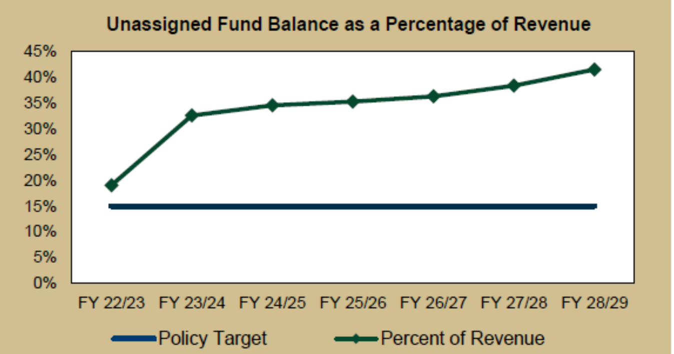
Expressed in thousands ($000)	FY 22/23 Actual	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected
Total Revenues	91,656	96,297	110,853	125,194	135,671	142,889	148,945
Total Expenditures	105,929	102,003	114,825	123,983	127,948	133,659	140,747
Surplus/(Deficit)	(14,274)	(5,706)	(3,972)	1,210	7,723	9,229	8,199
Unassigned Fund Balance	79,394	68,900	64,928	66,138	73,861	83,090	91,289
% of Revenue	87%	72%	59%	53%	54%	58%	61%

Consistent with the February 2024 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. Consistent with the most recent rate study, the forecast assumes pay-as-you go (cash) funding of CIP projects from FY 2025/26 through FY 2028/29 estimated at $35.1 million.

Solid Waste Enterprise Fund

Solid Waste Enterprise Fund Forecast - November 19, 2024





Expressed in thousands ($000)	**FY 22/23 Actual**	**FY 23/24 Projected**	**FY 24/25 Projected**	**FY 25/26 Projected**	**FY 26/27 Projected**	**FY 27/28 Projected**	**FY 28/29 Projected**
Total Revenues	22,083	24,022	24,582	25,976	26,821	27,695	28,775
Total Expenditures	20,572	23,282	23,908	25,304	26,257	26,805	27,455
Surplus/(Deficit)	1,511	741	674	672	564	890	1,320
Unassigned Fund Balance	4,203	7,825	8,499	9,171	9,735	10,625	11,945
% of Revenue	19%	33%	35%	35%	36%	38%	42%

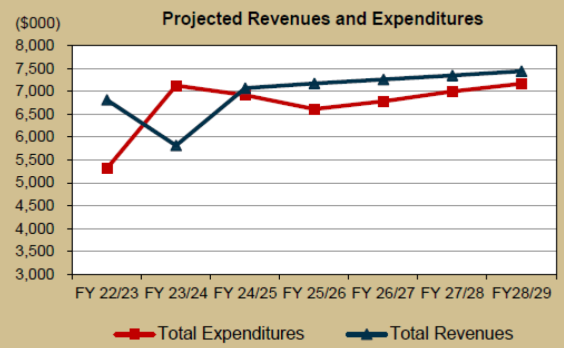
The Solid Waste Fund is stable with future planned rate increases reflected in the revenue projections. Operating revenue and expense projections are in-line with the February 2024 forecast. The planned rate increases will help to ensure the stability of the fund through full recovery of operating and capital improvements costs for both residential and commercial solid waste services. Total cash funded capital outlay is projected at $12.6 million from FY 2025/26 through FY2028/29.

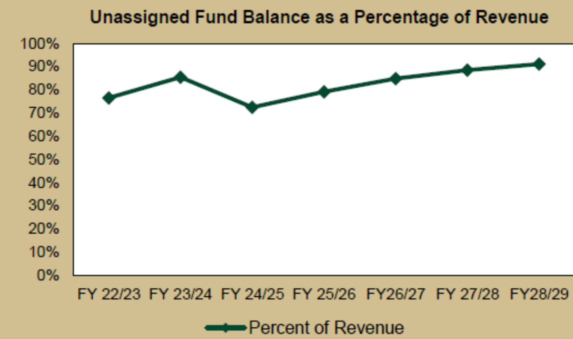
The unassigned fund balance is projected to be maintained within the fund balance policy of 15 percent of revenue during the forecast period.

The forecast includes an annual transfer from the General Fund to offset costs of the alley maintenance program.

Emergency Medical Transportation Enterprise Fund

Emergency Medical Transportation Fund Forecast - November 19, 2024





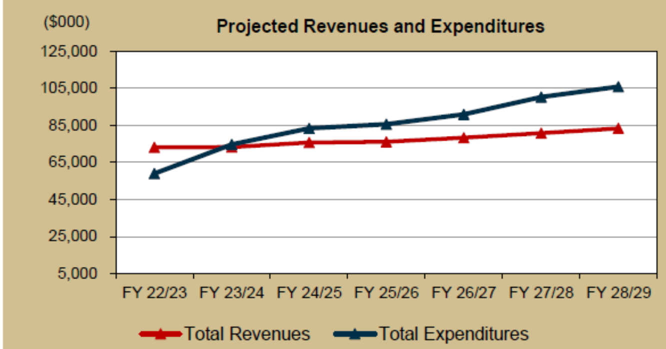
Expressed in thousands ($000)	**FY 22/23 Actual**	**FY 23/24 Projected**	**FY 24/25 Projected**	**FY 25/26 Projected**	**FY 26/27 Projected**	**FY 27/28 Projected**	**FY28/29 Projected**
Total Revenues	6,813	5,814	7,066	7,169	7,257	7,346	7,438
Total Expenditures	5,313	7,122	6,916	6,612	6,778	6,997	7,165
Surplus/(Deficit)	1,500	(1,308)	150	557	479	349	273
Unassigned Fund Balance	5,219	4,971	5,120	5,677	6,156	6,505	6,778
% of Revenue	77%	85%	72%	79%	85%	89%	91%

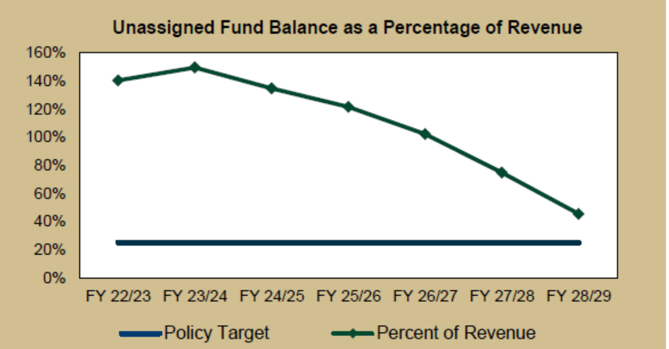
The Emergency Medical Transportation Fund captures all the revenue and expenditures for the Emergency Medical Transportation program which was started in October 2017 and is operating at full capacity with six (6) ambulance companies in service.

Revenues and expenditures have been adjusted since the February 2024 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

Transit Fund Forecast - November 19, 2024





Expressed in thousands ($000)	**FY 22/23 Actual**	**FY 23/24 Projected**	**FY 24/25 Projected**	**FY 25/26 Projected**	**FY 26/27 Projected**	**FY 27/28 Projected**	**FY 28/29 Projected**
Total Revenues	73,097	73,302	75,717	76,137	78,264	80,714	83,300
Total Expenditures	58,963	74,682	83,372	85,553	90,832	100,254	105,842
Surplus/(Deficit)	14,135	(1,379)	(7,655)	(9,415)	(12,567)	(19,540)	(22,543)
Unassigned Fund Balance	102,563	109,603	101,948	92,533	79,966	60,425	37,883
% of Revenue	140%	150%	135%	122%	102%	75%	45%

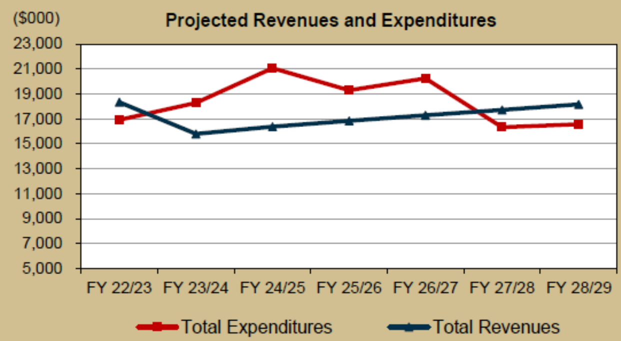
Although the unassigned fund balance remains above policy throughout the forecast period, the significant annual losses, beginning in FY 2025/26, are primarily due to a) the elimination of residential rental sales tax and b) increasing transit operational costs. This structural deficit will require Transit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

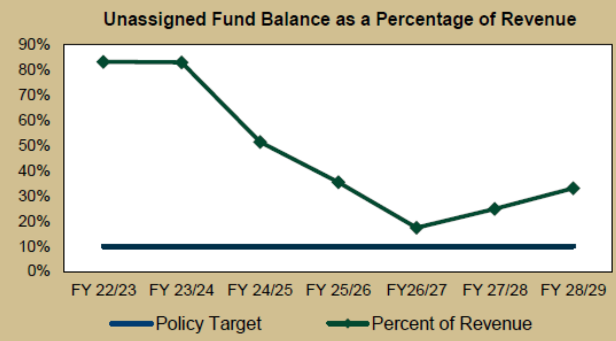
Currently, there are no additional planned changes in transit services. The passage of Proposition 479, which extends the half-cent sales tax for transportation, is expected to increase regional funding in the Transit Fund. Despite this increase in transit funding, additional long-term budget balancing strategies are required to ensure the fund remains stable. Staff has engaged an independent consult to perform an analysis of the Transit Fund revenue. The result of the study is expected to be presented at the March 20, 2025 Work Study Session.

The expenditure amounts in the forecast include operating expenses for the streetcar operations that started in May 2022 and capital expenses for a possible extension of streetcar into the city of Mesa. 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

Transportation (HURF) Fund Forecast - November 19, 2024





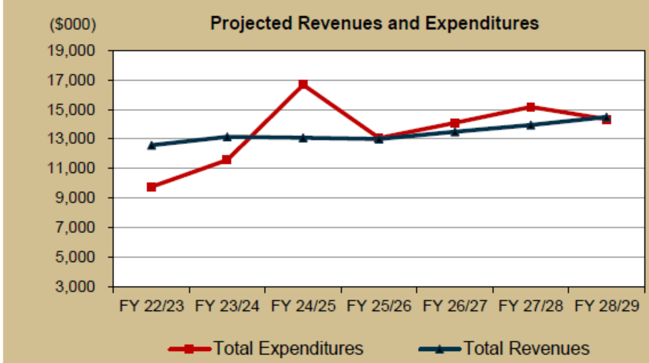
Expressed in thousands ($000)	**FY 22/23 Actual**	**FY 23/24 Projected**	**FY 24/25 Projected**	**FY 25/26 Projected**	**FY 26/27 Projected**	**FY 27/28 Projected**	**FY 28/29 Projected**
Total Revenues	18,334	15,788	16,376	16,838	17,290	17,712	18,167
Total Expenditures	16,912	18,272	21,061	19,286	20,250	16,322	16,568
Surplus/(Deficit)	1,422	(2,484)	(4,686)	(2,449)	(2,960)	1,390	1,598
Unassigned Fund Balance	15,245	13,090	8,405	5,956	2,996	4,385	5,984
% of Revenue	83%	83%	51%	35%	17%	25%	33%

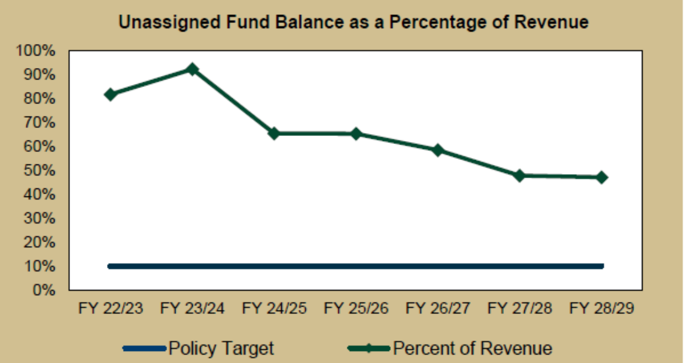
The Transportation Fund receives the majority of its funding from the distribution of state-shared Highway User Revenue Funds (HURF). Revenue projections over the forecast period are consistent with the February 2024 forecast and are based on the forecast projections from the Arizona Department of Transportation (ADOT) and projections from year-to-date activity. The forecast assumes a reduction in cash funded CIP projects and is consistent with the adopted FY 2024/25 CIP. These adjustments keep the fund stable with unassigned fund balances projected to remain within fund balance policy (10% of revenues) throughout 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

Arts and Culture Fund Forecast - November 19, 2024





Expressed in thousands ($000)	FY 22/23 Actual	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected
Total Revenues	12,586	13,157	13,082	13,012	13,493	13,953	14,492
Total Expenditures	9,777	11,597	16,665	13,064	14,100	15,171	14,337
Surplus/(Deficit)	2,809	1,560	(3,583)	(52)	(607)	(1,219)	154
Unassigned Fund Balance	10,270	12,129	8,546	8,494	7,887	6,668	6,822
% of Revenue	82%	92%	65%	65%	58%	48%	47%

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 consistent with the February 2024 forecast and unassigned fund balance remains above policy throughout the forecast period.

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 2024/25 expenditures include cash transfer to the CIP of $3.9 million, and an additional $5.4 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 - November 19, 2024

Revenues	**FY 24/25**	**FY 25/26**	**FY 26/27**	**FY 27/28**	**FY 28/29**
Taxable Sales Growth	-0.2%	-0.7%	4.3%	4.2%	4.2%
General Fund Sales Tax Revenue	-1.8%	-0.6%	4.4%	4.3%	4.6%
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	4.4%	5.7%	5.7%	4.1%	5.6%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	1.5%	1.5%	1.5%	1.4%	1.4%
State Population Growth	1.3%	1.3%	1.3%	1.3%	1.2%
State Shared Income Tax Growth	-18.0%	-6.5%	5.0%	4.8%	5.3%
State Shared Sales Tax Growth	3.7%	3.9%	4.3%	4.4%	4.4%
State Vehicle License Tax Growth	2.3%	5.3%	3.9%	3.8%	3.6%
Building and Trades Growth	-2.4%	2.7%	2.1%	2.3%	2.4%
Cultural and Recreational Growth	0.6%	4.2%	3.6%	3.7%	3.8%
Fees, Fines, Forfeitures Growth	18.2%	6.3%	4.2%	4.2%	4.3%
Licenses Growth	-14.9%	2.7%	2.1%	2.3%	2.4%

Expenditures	**FY 24/25**	**FY 25/26**	**FY 26/27**	**FY 27/28**	**FY 28/29**
Personnel Costs Growth	6.6%	3.0%	2.5%	2.2%	2.0%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	12.27%	12.15%	12.10%	12.05%	11.98%
Police Retirement (PSPRS Tiers 1 & 2)	27.87%	34.38%	35.60%	36.95%	37.31%
Police Retirement (PSPRS Tier 3)	8.41%	9.26%	9.19%	9.13%	9.12%
Police Retirement (% of payroll) (1)	70.33%	70.31%	72.97%	72.75%	72.45%
Fire Retirement (PSPRS Tiers 1 & 2)	30.13%	37.33%	36.27%	36.28%	35.94%
Fire Retirement (PSPRS Tier 3)	8.77%	8.89%	8.89%	8.89%	8.88%
Fire Retirement (% of payroll) (1) (2)	74.84%	73.93%	73.72%	73.61%	74.61%
Health, Dental, Life Actives	5.0%	8.4%	8.4%	8.4%	8.4%
Health, Dental, Life Retirees	7.6%	4.4%	3.9%	0.4%	4.3%
Mediflex Growth	5.0%	8.3%	8.4%	8.3%	8.4%
Other Fringe Benefits Growth	3.2%	12.3%	-1.5%	2.6%	3.7%
General Inflation	2.3%	2.7%	2.1%	2.3%	2.4%
Electricity Inflation	8.5%	7.9%	7.9%	7.9%	7.9%
Water Inflation	3.0%	13.0%	9.0%	5.0%	3.0%
Sewer Inflation	5.0%	16.0%	8.0%	7.0%	6.0%
Gasoline Inflation	-7.4%	3.8%	2.6%	3.2%	2.5%

Notes:

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

(2) Net of Fire Insurance Premium Tax credit

Long-Range Financial Forecast Update

Work Study Session – November 19, 2024

Tempe™

City Council Strategic Priorities

- 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% General Fund revenue

Financial Stability & Vitality

Budget Development Public Meetings

	CAPITAL	OPERATING
February/March	Public Forums	Public Forums
February 24	Proposed Projects	Updated Long-Range Forecast
March 20	Initial Recommended Projects	
April 24	Budget Review Session	Budget Review Session
May 8	Budget Review Follow-up (if needed)	Budget Review Follow-up (if needed)
May 22	Tentative Adoption	Tentative Adoption
June 5	Public Hearing/Final Adoption	Public Hearing/Final Adoption
July 1		Property Tax Levy

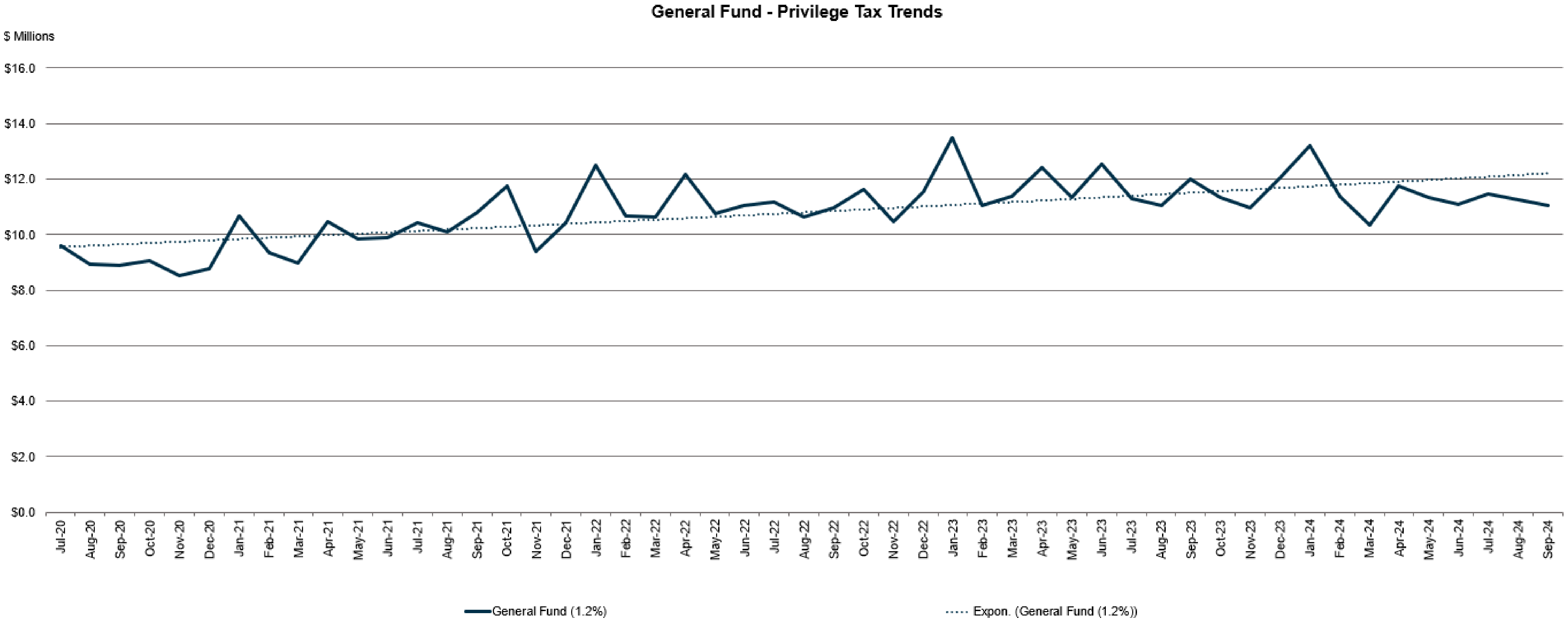
Forecast Assumptions

- Reduction in sales tax revenues due to lower year-to-date taxable sales and collections
- The elimination of residential rental tax collections is effective January 1, 2025
- 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
- Continued salary plans and market adjustments with annual increases to insurance costs + provision for the impact of the Comprehensive Classification and Compensation Study

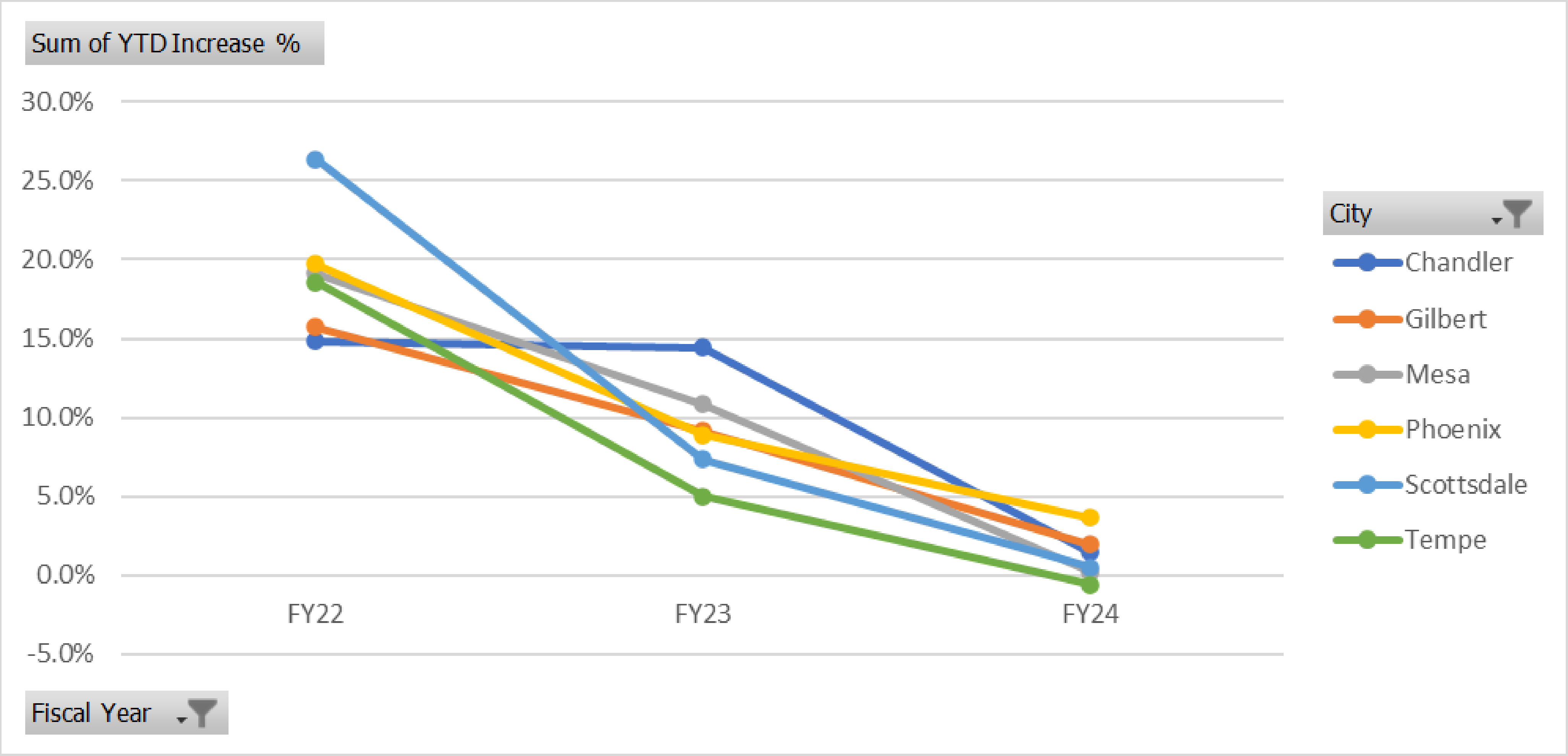
Update From February Forecast

- Local taxes adjusted lower to reflect current revenue trends
- Continue budget balancing efforts to address lower year-to-date sales tax revenues and loss of residential rental revenue
  - General Fund – No recurring and non-recurring supplementals for two more years
  - Transit Fund – The passage of Prop 479 is expected to increase Tempe's share of regional transit funding; however, long-term budget balancing measures are required to address the annual losses

Sales Tax Trends



Sales Tax Trends



Residential Rental Tax Elimination

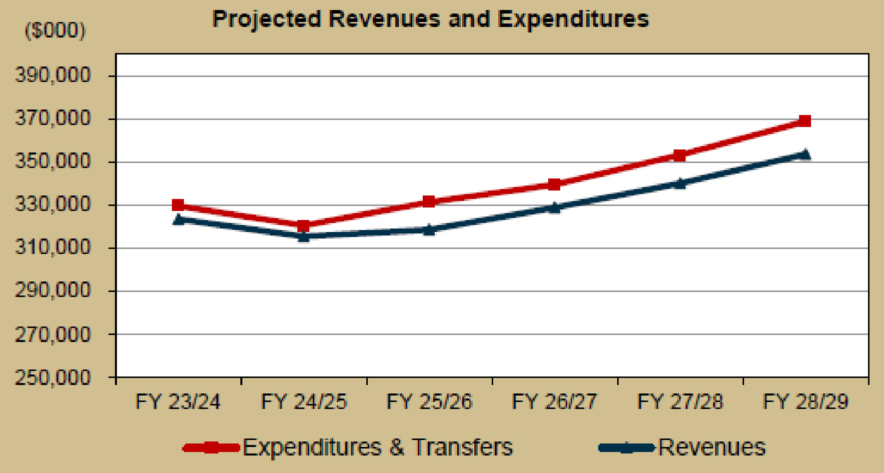
- Senate Bill 1131 was signed into law August 1, 2023
- Three operating funds with revenue loss (9% sales tax revenue loss)

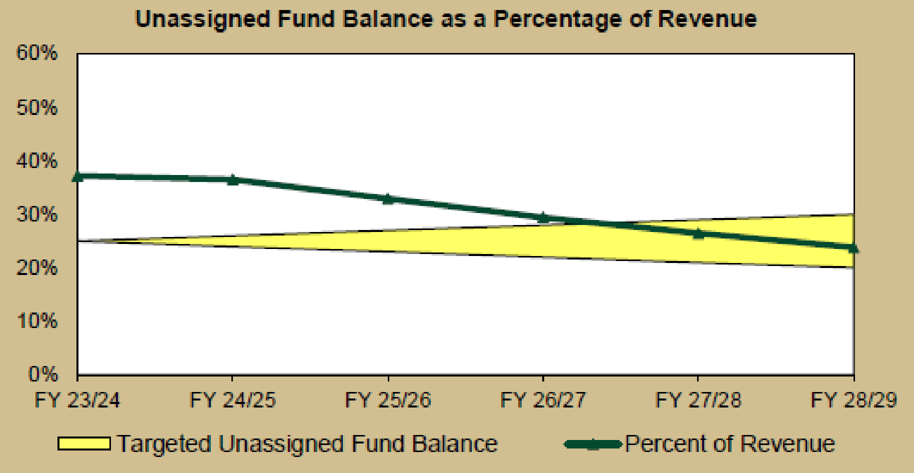
Effective January 1, 2025	(half-year) FY24-25	FY25-26	FY26-27	FY27-28
General Fund	$ 6.6	$ 13.8	$ 14.4	$ 15.0
Transit Fund	$ 2.8	$ 5.8	$ 6.0	$ 6.3
Arts & Culture Fund	$ 0.6	$ 1.2	$ 1.3	$ 1.4
Total	$ 10.0	$ 20.8	$ 21.7	$ 22.7

($ Millions)

Potential General Fund Scenario

General Fund - Sample Evaluation of Variable Budget Options





Expressed in thousands ($000)	FY 22/23 Actual	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected
Revenues	295,953	323,414	315,440	318,561	328,774	340,033	353,633
Expenditures	277,378	327,638	320,523	328,815	336,994	346,793	359,333
Transfers/Assignments	32,975	1,871	-	-	-	-	-
Initial Estimated Surplus/(Deficit)	(14,399)	(6,096)	(5,083)	(10,255)	(8,221)	(6,760)	(5,700)
Estimated New Funding for Analysis Purposes							
Recurring Supplementals			**-**	**-**	**-**	**3,000**	**6,000**
One-Time Supplementals			**-**	**-**	**-**	**1,000**	**1,000**
CIP Cash Funded (Paygo)			**-**	**2,540**	**2,540**	**2,540**	**2,540**
Unassigned Fund Balance	126,394	120,299	115,215	104,960	96,739	89,979	84,279
% of Revenue	43%	37%	37%	33%	29%	26%	24%

General Fund Highlights

- The lower sales tax revenue trend and the loss of residential rental tax requires budget balancing measures to maintain fiscal stability
  - Capacity for recurring and non-recurring supplementals significantly reduced to address structural deficit
  - Closely monitor and if necessary, introduce additional budget balancing strategies to maintain financial stability in the February forecast
- Building permit/Plan check/Engineering fees remain strong throughout the forecast
- Provision for the Classification and Compensation study included beginning in FY 2025/26
- At this point, CIP pay-go (cash) funding remains consistent with the February 2024 forecast

Enterprise Fund Highlights

Water/Wastewater

- Revenue amounts include rate adjustments from latest rate study and future planned adjustments
- Planned 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 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

Direction/Questions/Comments

Thank you

Lisette Camacho, Deputy City Manager

Julie Hietter, Interim Municipal Budget Director

Tempe

Municipal Budget