

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: 02/24/2025
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 Bond Rating - Achieve bond ratings of AAA for the highest organizational financial strength as measured by S&P Global and Fitch credit rating agencies.
- 5.05 Unassigned Fund Balance - 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 19, 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

As presented in the November 19, 2024 forecast, the General Fund resulted in higher ending unassigned fund balance for FY 2023/24 than we projected in our February 2024 forecast. However, a slowdown in local tax collections beginning in March 2024 is continuing. The Municipal Budget Office and Tax and License Division are closely monitoring the trend. Revenue projections were lowered in the November 2024 forecast and have been lowered again in this forecast.

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.

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 5-year forecast for revenues 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 recently announced CHIPS for America facility at Arizona State University's Research Park will result in one-time building permitting and plan review fees, across three fiscal years, which have been included in the forecast. The forecast for other revenue remains stable.

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. The continued decline in sales tax revenue has prompted additional budget balancing strategies that are explained in more detail below.

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.

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. A comprehensive Classification and Compensation study is

nearing completion with recommended pay adjustments to be implemented in FY 2025/26. An estimate of projected fiscal impacts is included in the forecast.

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.

A mild recession, like the city experienced from 2001 to 2003, or future legislative changes could impact local sales tax revenues. 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 2009, 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.

Due to the further weakening of sales tax this year, staff recommends the following budget balancing measures be implemented to ensure the General Fund remains financially stable and fund balance is within policy level throughout the forecast period. These measures have been incorporated in the forecast.

1. Continue the previous suspension of supplementals for two more years, through FY26/27.
2. Suspend cash funding of CIP projects.
3. Utilize drawdown of Public Safety Personnel Retirement System (PSPRS) reserves to fund pension contributions for public safety personnel (\$1 million annually beginning in FY25/26).
4. Utilize drawdown of Other Post Employment Benefits (OPEB) reserves to fund post-employment health benefits (\$500 thousand annually beginning in FY25/26).

Additional budget measures will be necessary if there is an economic slowdown or future legislative action that impact local sales tax revenue occurs during the 5-year forecast period. These measures could include:

1. Freeze vacant positions to reduce personnel expenses. A process could be implemented to allow hiring of crucial positions (e.g., first responders, etc.).
2. Reduce service levels to reduce costs and mitigate the impact of unfilled (vacant) positions.
3. Shift resources to the highest priority services and programs.
4. Continue to identify economic opportunities to increase the tax base.

Staff will closely monitor revenue trends and seek City Council direction on steps to be taken to reduce expenses during a recessionary period.

Current Issues Not Included in Forecast

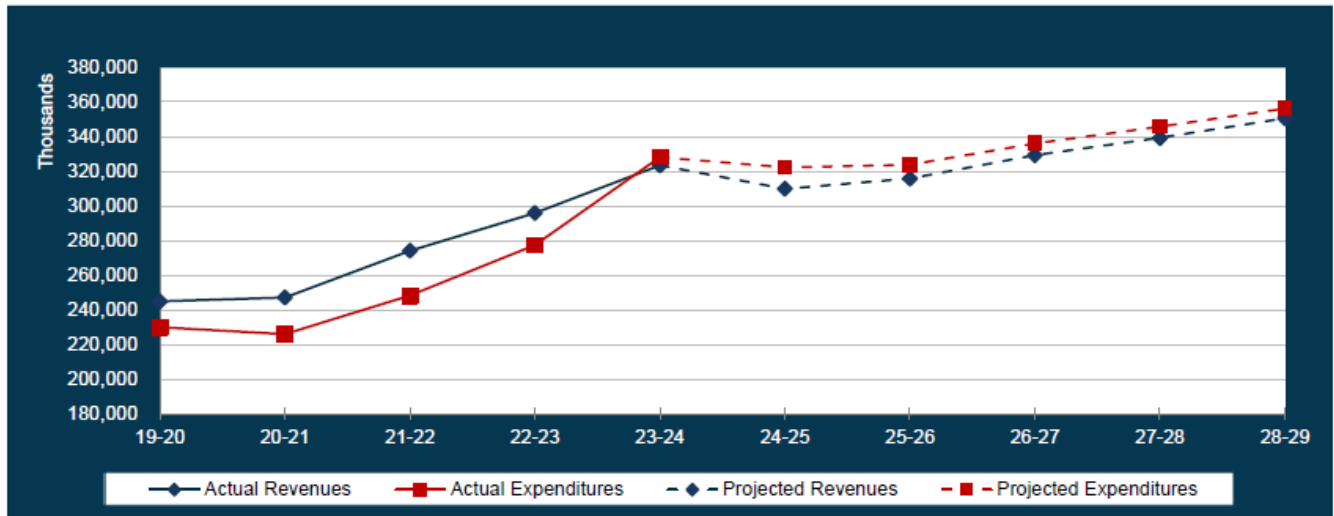
There are emerging federal and state legislative actions that could negatively impact the city's revenue sources. These actions have not been included in the forecast due to their uncertainty.

- Reduction of federally funded projects and programs – Staff is in the process of assessing the budgetary impact resulting from this action, but much remains uncertain as to how a reduction or pause would be implemented.
- Elimination of cities' ability to tax food for home consumption – If passed, the estimated annual impact is a loss of \$12.5 Million in sales tax revenue across the General, Transit, and Arts and Culture Funds.

Forecast Model for the General Fund

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

General Fund: Projected Revenues and Expenditures: February 24, 2025

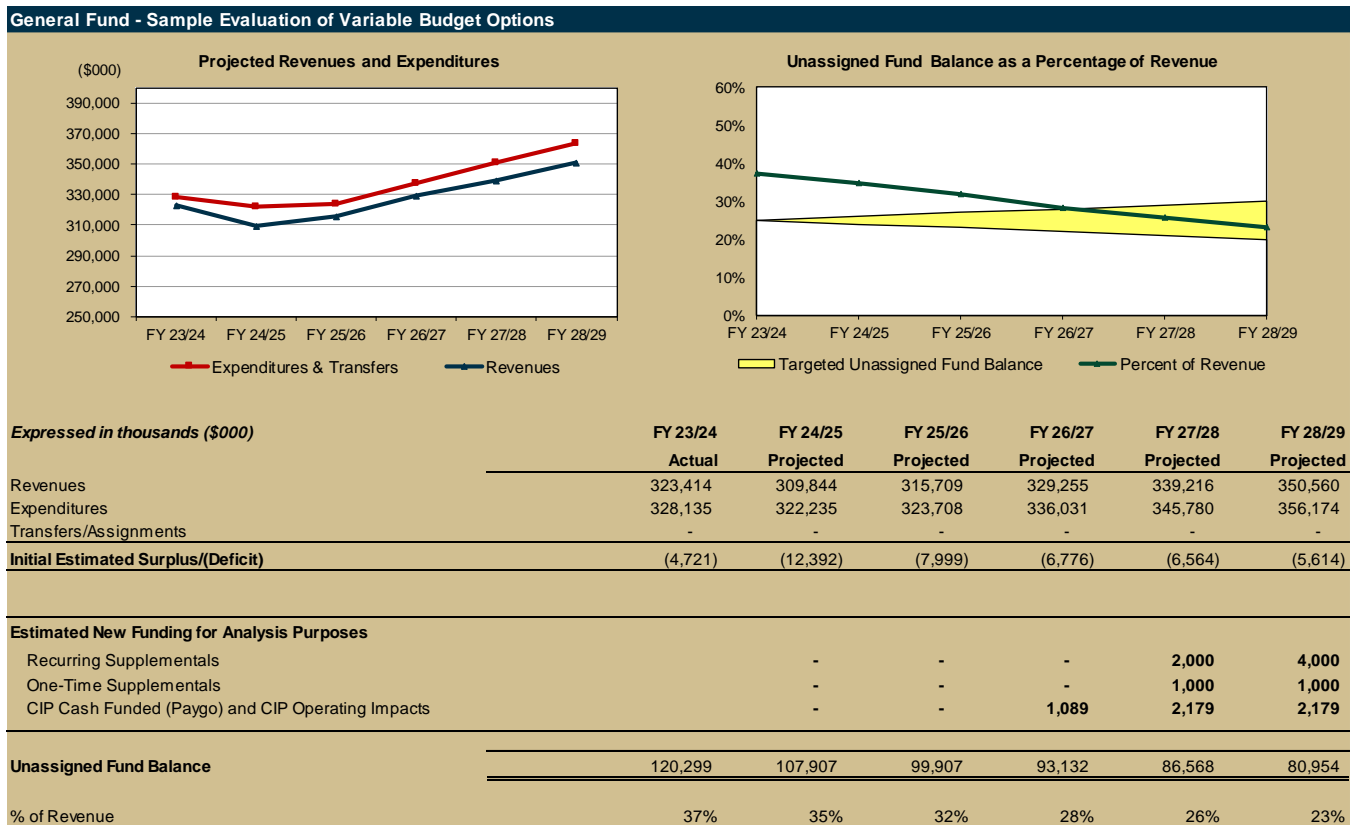


	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Local Taxes	132,284	138,368	162,445	173,383	172,880	170,543	171,765	179,001	186,615	194,786
Intergovernmental	52,940	60,503	58,955	71,277	86,816	79,194	78,163	82,545	86,291	90,340
Bldg & Trades/Planning & Zoning	14,048	10,098	12,796	15,346	18,978	19,054	22,705	23,208	21,229	19,714
Cultural and Recreation	4,944	3,141	4,579	6,507	5,809	5,368	5,471	5,674	5,883	6,100
Fines, Fees and Forfeitures	5,613	4,418	4,943	4,147	5,043	3,824	4,778	5,902	6,151	6,412
Business Licenses	1,848	2,230	2,338	2,368	2,895	2,459	2,462	2,517	2,573	2,632
Interest Income	4,283	2,187	1,402	4,858	9,759	9,778	11,688	11,257	10,882	10,485
Franchise Fees	3,247	3,213	3,393	3,078	3,596	2,679	2,667	2,726	2,787	2,851
Other Revenue Sources	25,743	22,978	23,245	14,989	17,638	16,945	16,011	16,427	16,803	17,241
Total Revenues	244,951	247,137	274,096	295,953	323,414	309,844	315,709	329,255	339,216	350,560
Expenditures (\$000)										
Personnel Costs	183,507	188,529	187,814	199,474	227,774	250,344	255,571	265,331	273,210	280,578
Materials and Supplies	9,581	8,575	10,644	13,096	12,534	11,394	11,902	12,176	12,472	12,760
Fees and Services	35,003	32,681	37,838	44,472	47,058	50,749	51,099	52,732	54,297	55,833
Travel and Training	542	357	732	1,250	1,269	1,065	1,065	1,089	1,113	1,138
Non-Dept/Loan Repayment	2,001	3,846	2,502	2,967	3,145	6,611	4,852	4,959	5,071	5,186
Capital Outlay	3,420	2,459	3,822	4,843	7,134	7,869	5,084	5,224	5,109	5,073
CIP-Cash/Muni Arts Funding	2,689	260	11,597	17,846	34,806	5,066	4,004	3,775	807	793
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
Internal Services/Adjustments	(11,727)	(14,670)	(12,416)	(15,009)	(16,917)	(20,515)	(21,131)	(21,732)	(22,245)	(22,752)
Contribution to Housing Affiliate	-	-	625	2,647	2,235	2,743	4,800	4,906	4,267	3,864
Preapproved Supplementals & CIP Impacts	-	-	-	-	-	-	0	1,089	2,179	2,179
Recurring Operating Supplementals	-	-	-	-	-	-	-	-	2,000	4,000
Non-Recurring Operating Supplementals	-	-	-	-	-	-	-	-	1,000	1,000
Total Expenditures	229,916	225,984	248,245	277,378	328,135	322,235	323,708	336,031	345,780	356,174
Net Operating Surplus/(Deficit)	15,035	21,153	25,851	18,576	(4,721)	(12,392)	(7,999)	(6,776)	(6,564)	(5,614)
Change to Assigned Funds	(67)	1,776	(23,913)	(32,975)	(1,375)	-	-	-	-	-
Unassigned Fund Balance	115,926	138,855	140,793	126,394	120,298	107,907	99,907	93,132	86,568	80,954
Unassigned Fund Balance as a % of Revenue	47%	56%	51%	43%	37%	35%	32%	28%	26%	23%

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 suspended.
- 4) Utilize drawdown of PSPRS reserves to fund public safety pension contributions.
- 5) Utilize drawdown of OPEB reserves to fund post-employment health benefits.

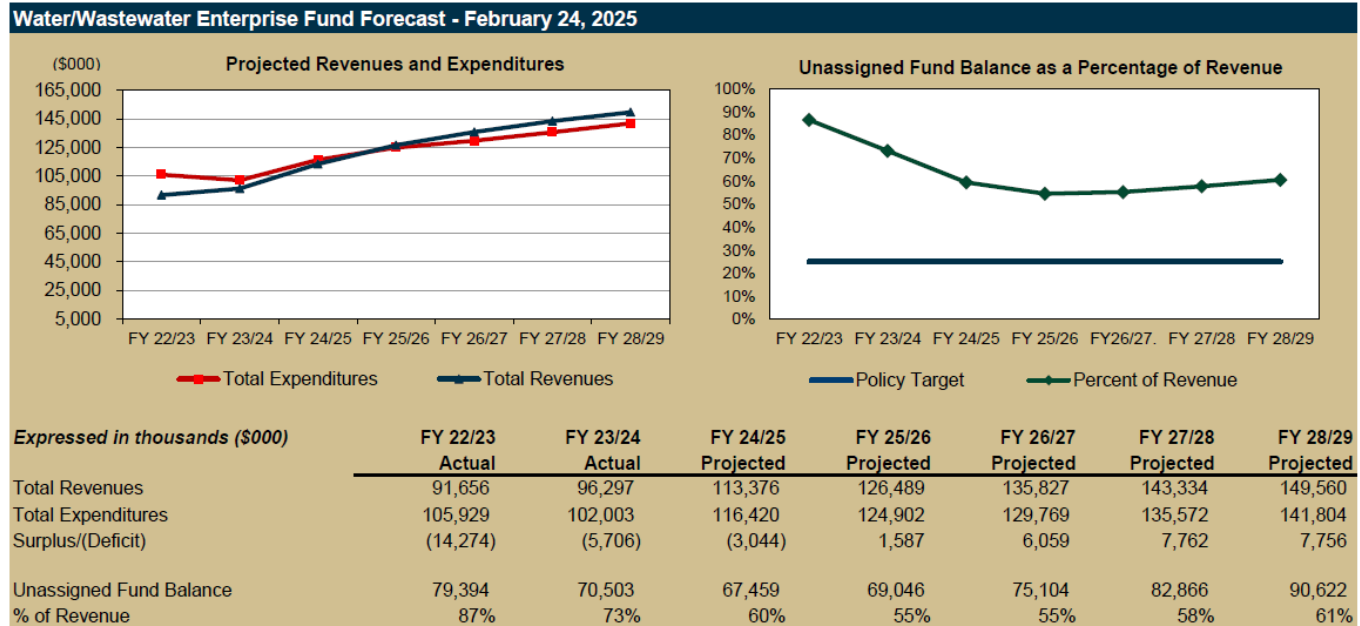
The models below illustrate the gradual draw down of fund balance with the revenue and expenditure assumptions utilized in the forecast. The graph on the right side of the figure shows how the unassigned fund balance adjusts to 23% by FY2028/29. Maintaining the fund balance within the fund balance policy 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.

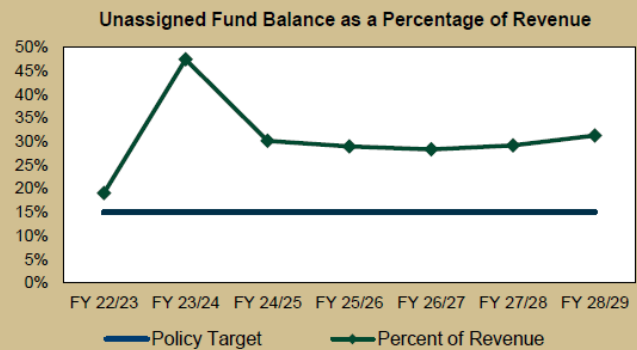
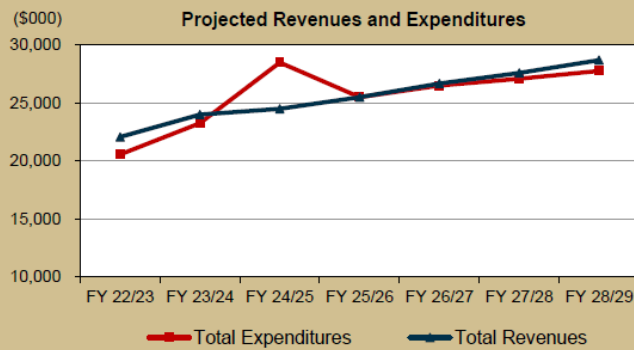
Water/Wastewater Enterprise Fund



Consistent with the November 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 will be effective in April 2025 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 - February 24, 2025



Expressed in thousands (\$000)	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29
	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Total Revenues	22,083	24,022	24,503	25,506	26,684	27,613	28,711
Total Expenditures	20,572	23,282	28,508	25,508	26,517	27,105	27,793
Surplus/(Deficit)	1,511	741	(4,005)	(2)	167	508	918
Unassigned Fund Balance	4,203	11,396	7,391	7,389	7,556	8,065	8,983
% of Revenue	19%	47%	30%	29%	28%	29%	31%

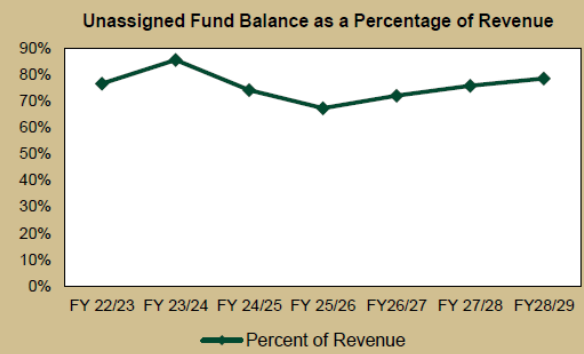
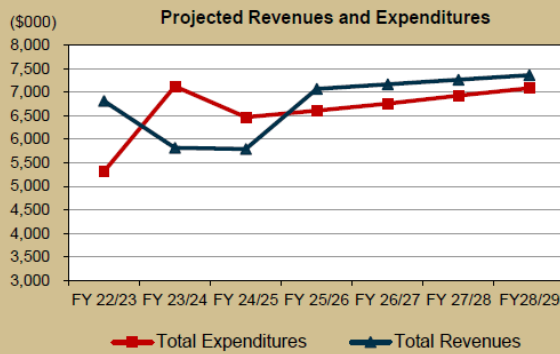
The Solid Waste Fund is stable with future planned rate increases reflected in the revenue projections. The planned rate increases will help to ensure the stability of the fund through full recovery of operating and capital improvements costs for both residential and commercial solid waste services.

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

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

Emergency Medical Transportation Enterprise Fund

Emergency Medical Transportation Fund Forecast - February 24, 2025

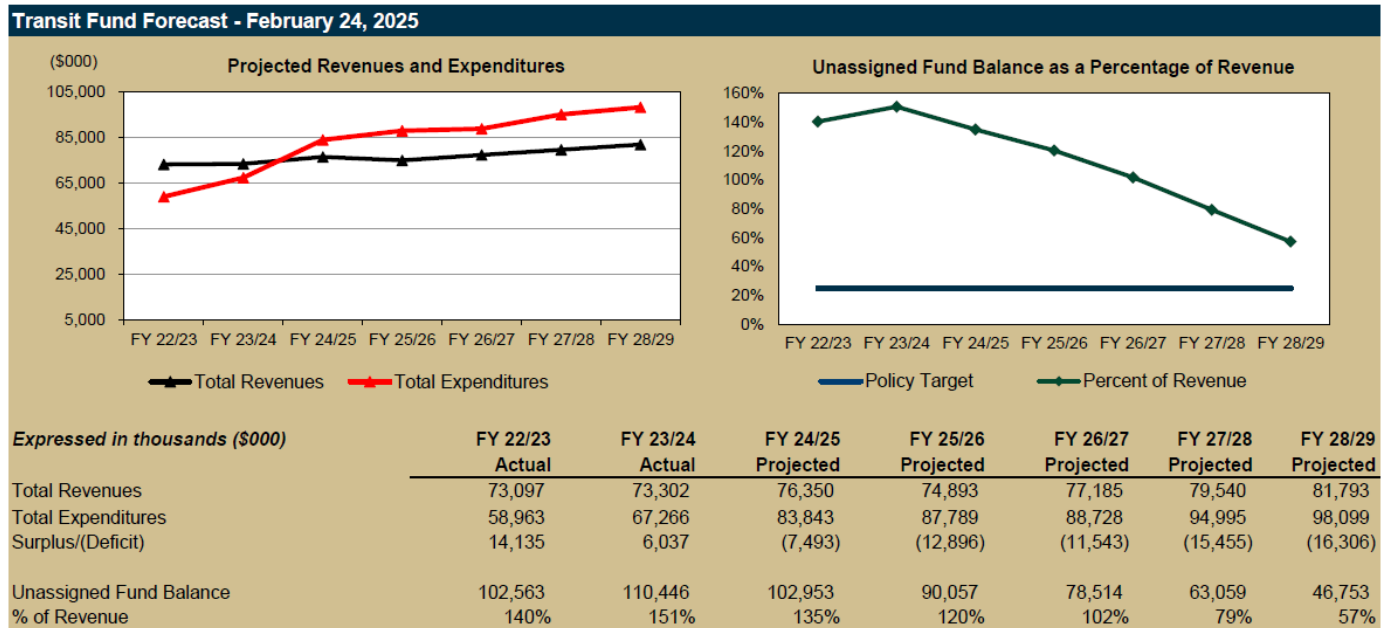


Expressed in thousands (\$000)	FY 22/23 Actual	FY 23/24 Actual	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected
Total Revenues	6,813	5,814	5,792	7,066	7,164	7,262	7,359
Total Expenditures	5,313	7,122	6,469	6,607	6,756	6,925	7,082
Surplus/(Deficit)	1,500	(1,308)	(677)	459	408	336	277
Unassigned Fund Balance	5,219	4,971	4,294	4,753	5,161	5,497	5,774
% of Revenue	77%	85%	74%	67%	72%	76%	78%

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 November 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.

Transit Special Revenue Fund



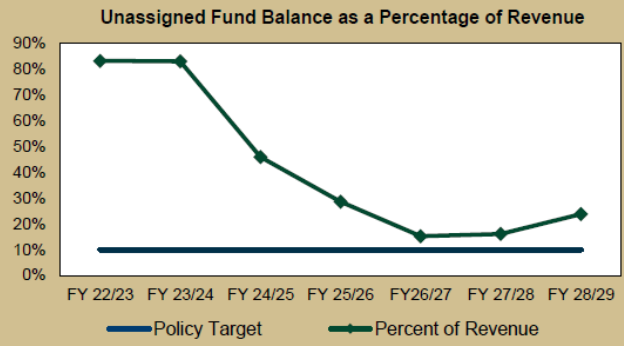
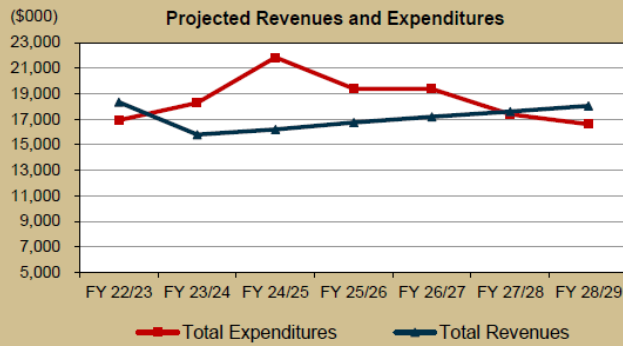
Although the unassigned fund balance remains above policy throughout the forecast period, the significant annual losses, beginning in FY 2025/26, are primarily due to a) the elimination of residential rental sales tax and b) increasing transit operational costs. This structural deficit will require Transit 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 and will present the results of the study at a future Work Study Session.

The expenditure amounts in the forecast include operating expenses for the streetcar operations that started in May 2022 and preliminary 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.

Transportation (HURF) Special Revenue Fund

Transportation (HURF) Fund Forecast - February 24, 2025



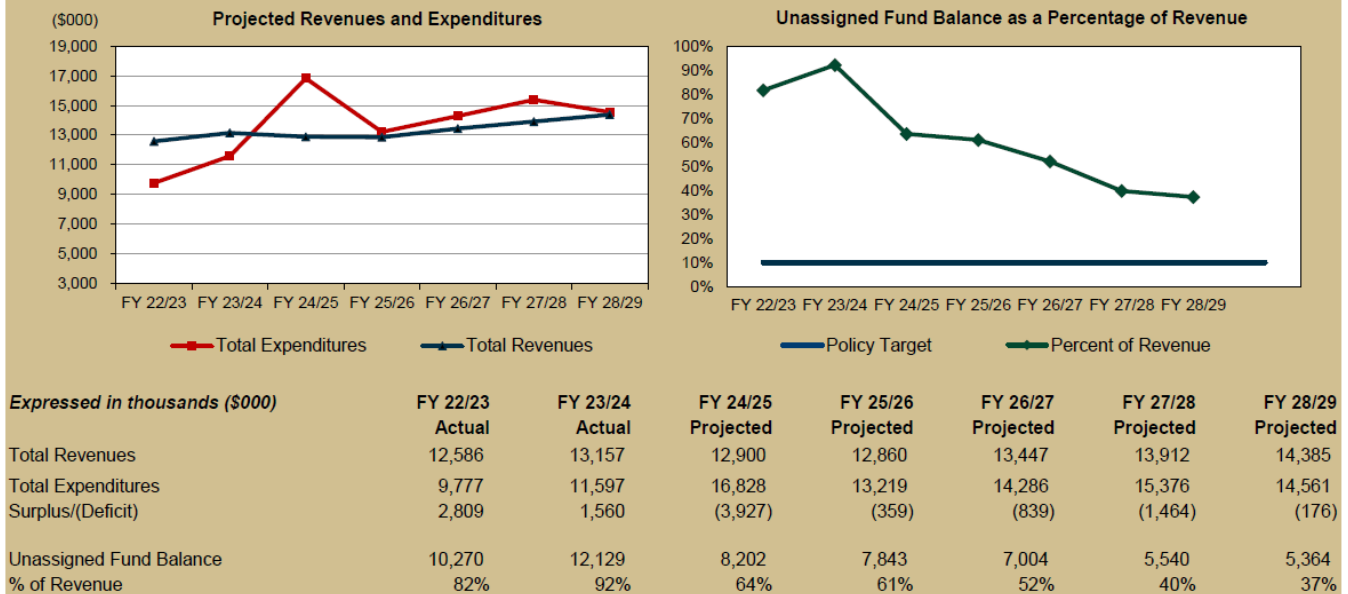
Expressed in thousands (\$000)	FY 22/23 Actual	FY 23/24 Actual	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected
Total Revenues	18,334	15,788	16,189	16,740	17,186	17,602	18,051
Total Expenditures	16,912	18,272	21,846	19,391	19,356	17,385	16,594
Surplus/(Deficit)	1,422	(2,484)	(5,657)	(2,651)	(2,170)	217	1,456
Unassigned Fund Balance	15,245	13,090	7,433	4,782	2,612	2,829	4,285
% of Revenue	83%	83%	46%	29%	15%	16%	24%

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 previous 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 - February 24, 2025



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 November 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. FY2024/25 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 - February 24, 2025

Revenues	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29
Taxable Sales Growth	-4.3%	-0.5%	4.2%	4.3%	4.4%
General Fund Sales Tax Revenue	-2.8%	-0.5%	4.2%	4.3%	4.4%
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	3.2%	6.9%	4.8%	4.4%	4.8%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	1.6%	1.5%	1.5%	1.4%	1.4%
State Population Growth	1.4%	1.3%	1.3%	1.3%	1.2%
State Shared Income Tax Growth	-18.0%	-6.5%	7.2%	5.0%	5.3%
State Shared Sales Tax Growth	3.7%	3.7%	4.2%	4.2%	4.2%
State Vehicle License Tax Growth	2.3%	5.3%	3.9%	3.8%	3.6%
Building and Trades Growth	19.8%	1.4%	-15.5%	2.2%	2.3%
Cultural and Recreational Growth	-7.6%	1.9%	3.7%	3.7%	3.7%
Fees, Fines, Forfeitures Growth	-3.4%	28.6%	4.2%	4.2%	4.2%
Licenses Growth	-15.1%	0.1%	2.2%	2.2%	2.3%

Expenditures	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29
Personnel Costs Growth	6.5%	3.0%	2.8%	2.4%	2.3%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	12.27%	12.00%	11.87%	11.82%	11.69%
Police Retirement (PSPRS Tiers 1 & 2)	27.87%	30.05%	43.94%	51.43%	52.46%
Police Retirement (PSPRS Tier 3)	21.94%	24.00%	25.00%	24.35%	24.35%
Police Retirement (% of payroll) ⁽¹⁾	70.84%	68.91%	68.59%	68.01%	67.09%
Fire Retirement (PSPRS Tiers 1 & 2)	30.13%	32.87%	45.95%	50.47%	51.41%
Fire Retirement (PSPRS Tier 3)	22.04%	24.34%	24.25%	23.78%	23.80%
Fire Retirement (% of payroll) ⁽¹⁾⁽²⁾	75.39%	73.28%	71.56%	69.20%	67.59%
Health, Dental, Life Actives	5.0%	8.4%	8.4%	8.4%	8.4%
Health, Dental, Life Retirees	7.6%	3.9%	3.6%	0.6%	4.2%
Mediflex Growth	5.0%	8.3%	8.4%	8.3%	8.4%
Other Fringe Benefits Growth	4.2%	10.9%	-1.2%	2.8%	3.9%
General Inflation	2.0%	3.1%	2.2%	2.2%	2.3%
Electricity Inflation	7.0%	5.0%	5.0%	5.0%	5.0%
Water Inflation	12.0%	11.0%	9.0%	5.0%	3.0%
Sewer Inflation	16.5%	9.5%	8.0%	7.0%	6.0%
Gasoline Inflation	-6.3%	6.3%	2.6%	3.0%	2.4%

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 – February 24, 2025





5.04 Bond Rating

Achieve bond ratings of AAA for the highest organizational financial strength as measured by S&P Global and Fitch credit rating agencies.

5.05 Unassigned Fund Balance

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



Budget Development Public Meetings

	CAPITAL	OPERATING
Feb/Mar	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



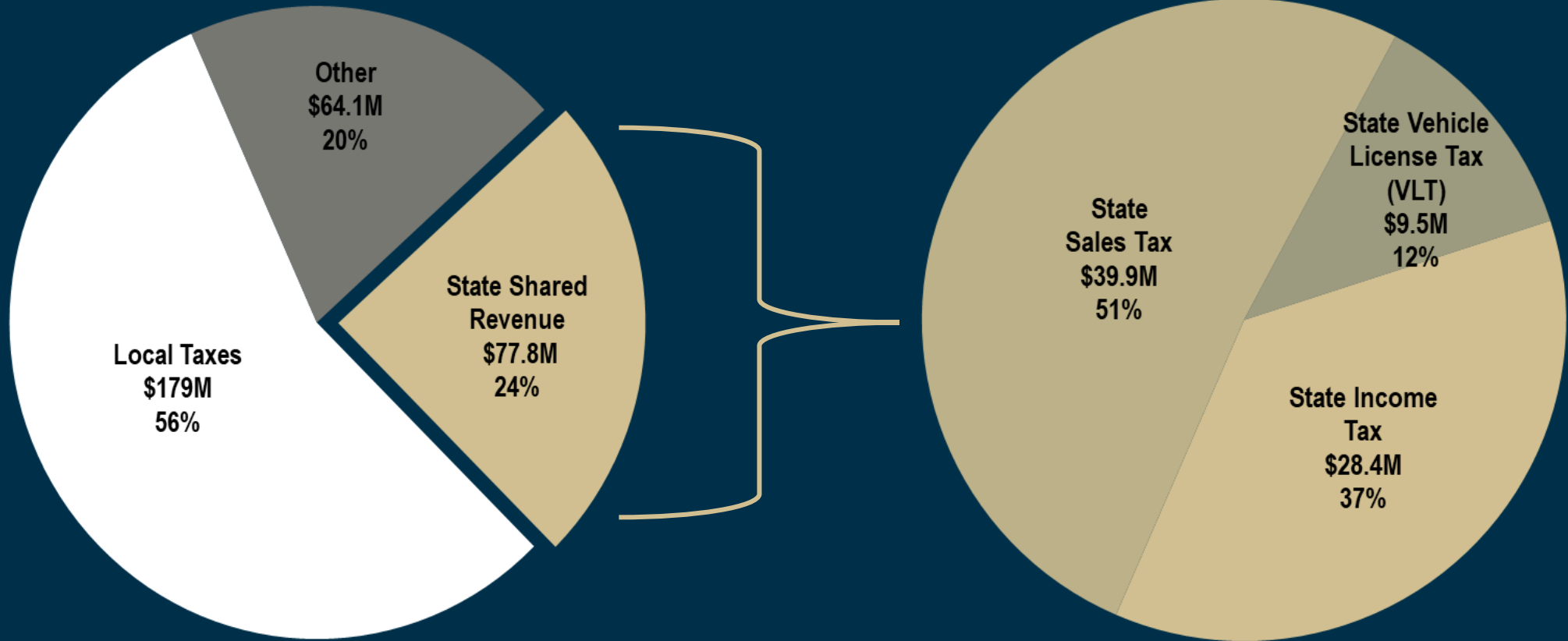
Forecast Assumptions

- Further reduction in sales tax revenue due to lower year-to-date taxable sales and collection
- The elimination of residential rental sales tax collection is effective as of 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 November Forecast

- Local taxes adjusted lower to reflect current revenue trends
- Continue budget balancing efforts to address lower year-to-date sales tax revenue and loss of residential rental revenue
- General Fund
 - Suspend recurring and non-recurring supplementals for two more years
 - Suspend cash funding of capital projects
 - Utilize drawdown of Public Safety Personnel Retirement System (PSPRS) reserves to fund pension contributions for public safety personnel
 - Utilize drawdown of Other Post Employment Benefits (OPEB) reserves to fund post-employment health benefits
- 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

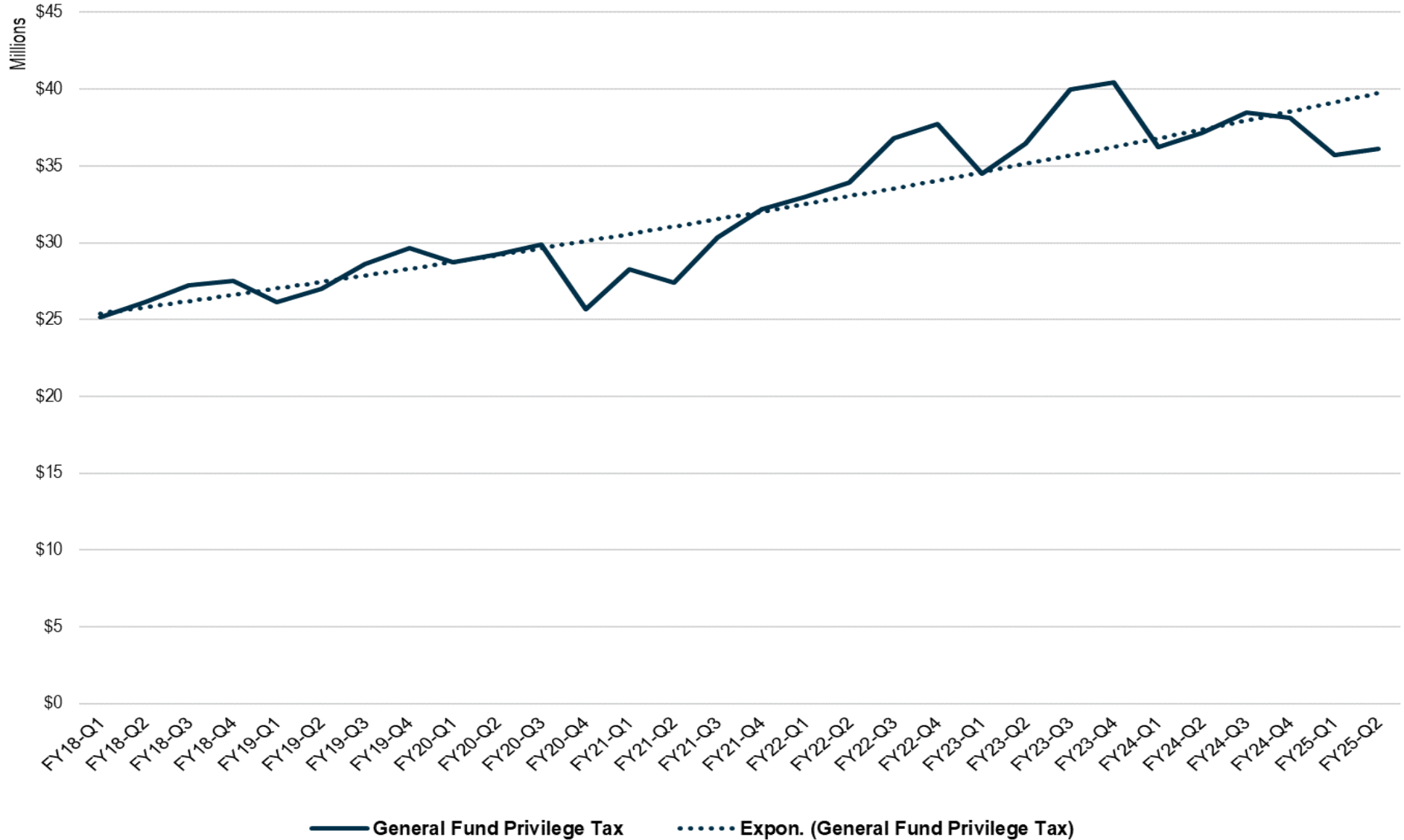
State Shared Revenue – General Fund





Sales Tax Trends

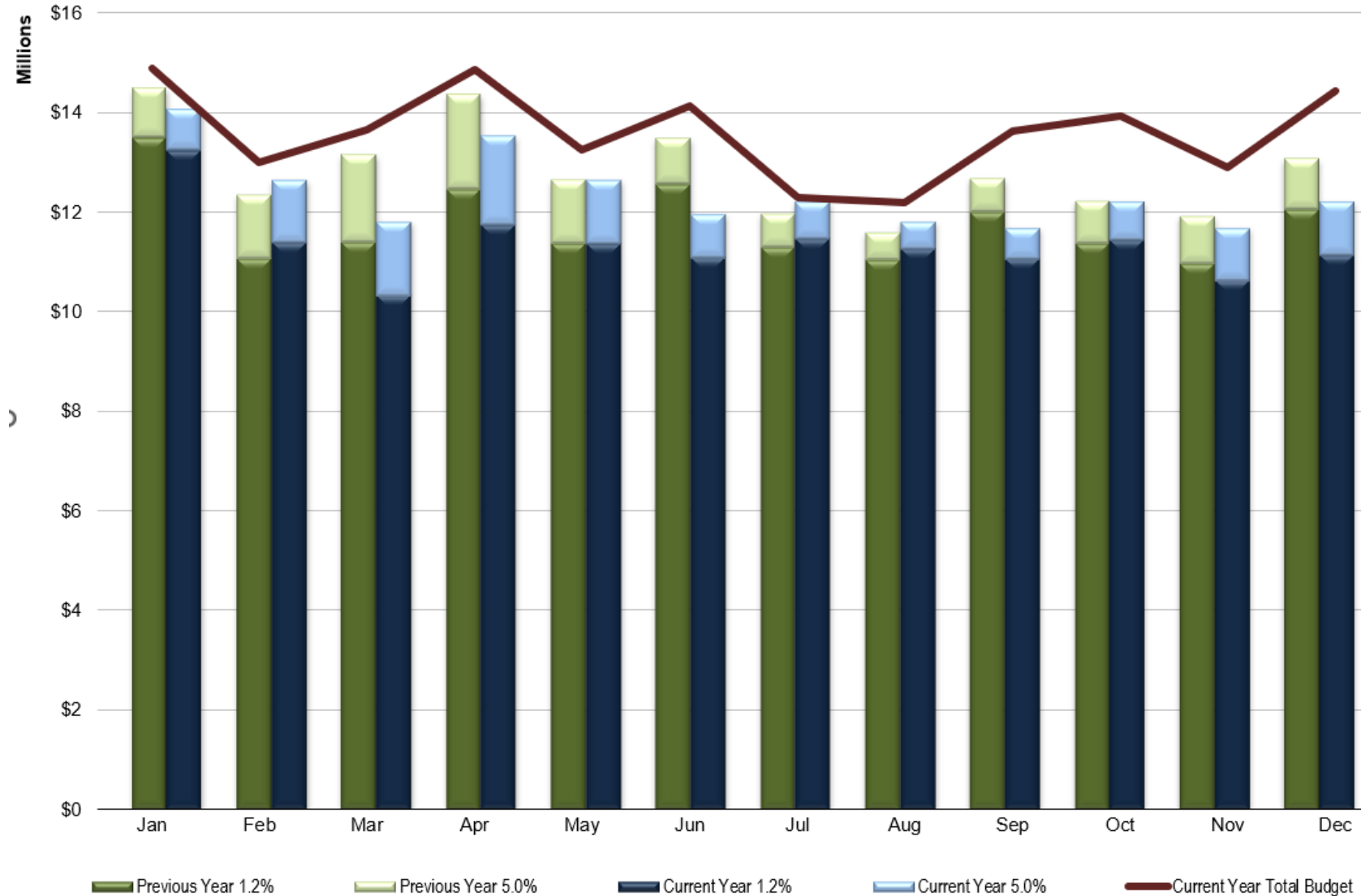
General Fund - Privilege Tax Trends





Sales Tax Trends

General Fund Monthly Sales and Bed Tax Collection vs. Previous Year





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	FY28-29
General Fund	\$ 6.6	\$ 13.8	\$ 14.4	\$ 15.0	\$ 16.6
Transit Fund	\$ 2.8	\$ 5.8	\$ 6.0	\$ 6.3	\$ 6.9
Arts & Culture Fund	\$ 0.6	\$ 1.2	\$ 1.3	\$ 1.4	\$ 1.5
Total	\$ 10.0	\$ 20.8	\$ 21.7	\$ 22.7	\$ 25.0

(\$ Millions)



Proposed Food Tax Elimination

- HCR 2021: food; municipal tax; exemption
 - Prohibits a city, town or other taxing jurisdiction from imposing a municipal transaction privilege tax on the sale of food items intended for home consumption
 - If approved by voters at the 2026 General Election, the resolution would eliminate the municipal Transaction Privilege Tax (TPT) on food for home consumption
 - The exemption would be effective beginning on July 1, 2027 (FY27/28)



Proposed Food Tax Elimination

- Effective July 1, 2027, if approved
- Three operating funds with revenue loss (5.3% sales tax revenue loss)
- Budget impact not included in the forecast

	FY27-28	FY28-29
General Fund	\$ 8.3	\$ 8.7
Transit Fund	\$ 3.5	\$ 3.6
Arts & Culture Fund	\$ 0.7	\$ 0.7
Total	\$ 12.5	\$ 13.0

(\$ Millions)



Combined Estimated Annual Revenue Loss

	FY 27-28	FY 28-29
General Fund		
Residential Rental	\$ 15.0	\$ 16.6
Food for Home Consumption*	\$ 8.3	\$ 8.7
Total General Fund	\$ 23.3	\$ 25.3
Transit Fund		
Residential Rental	\$ 6.3	\$ 6.9
Food for Home Consumption*	\$ 3.5	\$ 3.6
Total Transit Fund	\$ 9.8	\$ 10.5
Arts & Culture Fund		
Residential Rental	\$ 1.4	\$ 1.5
Food for Home Consumption*	\$ 0.7	\$ 0.7
Total Arts & Culture Fund	\$ 2.1	\$ 2.2
Total	\$ 35.2	\$ 38.0

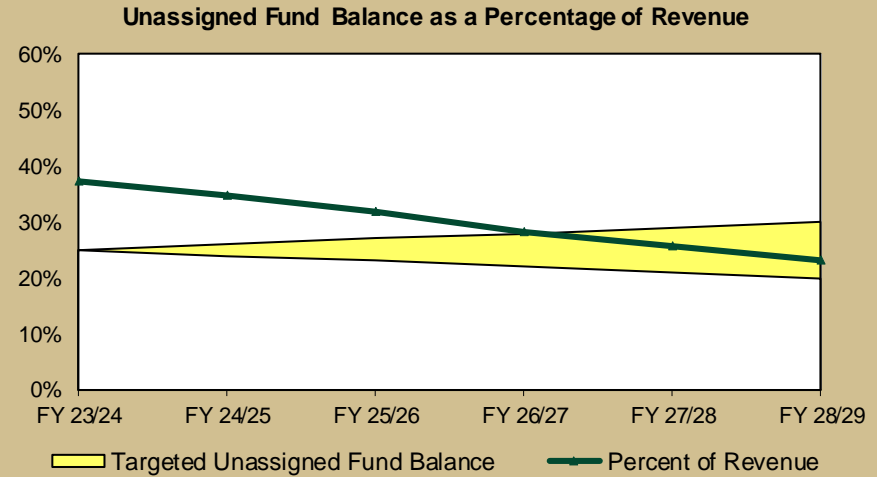
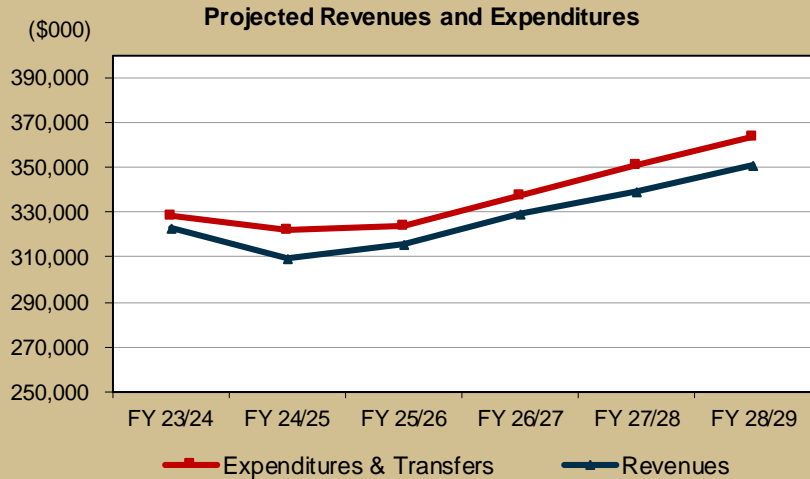
(\$ Millions)

* if approved by voters



Potential General Fund Scenario

General Fund - Sample Evaluation of Variable Budget Options



Expressed in thousands (\$000)

	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29
	Actual	Projected	Projected	Projected	Projected	Projected
Revenues	323,414	309,844	315,709	329,255	339,216	350,560
Expenditures	328,135	322,235	323,708	336,031	345,780	356,174
Transfers/Assignments	-	-	-	-	-	-
Initial Estimated Surplus/(Deficit)	(4,721)	(12,392)	(7,999)	(6,776)	(6,564)	(5,614)

Estimated New Funding for Analysis Purposes

Recurring Supplementals	-	-	-	2,000	4,000
One-Time Supplementals	-	-	-	1,000	1,000
CIP Cash Funded (Paygo) and CIP Operating Impacts	-	-	1,089	2,179	2,179

Unassigned Fund Balance	120,299	107,907	99,907	93,132	86,568	80,954
% of Revenue	37%	35%	32%	28%	26%	23%



General Fund Highlights

- The lower sales tax revenue trend and the loss of residential rental tax requires budget balancing measures to maintain fiscal stability
 - Continue suspension of supplementals for two more years
 - Suspend cash funding of capital projects
 - Utilize drawdown of PSPRS reserves to fund pension contributions for public safety personnel
 - Utilize drawdown of OPEB reserves to fund post-employment health benefits
- Provision for the Classification and Compensation study included beginning in FY 2025/26



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 since inception
- 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

