FINANCIAL UPDATE

COVID-19 FINANCIAL IMPACT

City of Mesa
April 2, 2020

Candace Cannistraro:
Management & Budget
Director

Brian Ritschel:
Management & Budget
Deputy Director
Economic recession anticipated in FY 20/21
- 12-month downturn with a three-year recovery
- Anticipated revenue decreases: FY 20/21 $5.5M, FY 21/22 $12.8M

Multi-year discussions with City staff regarding planning for a downturn
- Sales tax revenues steadily climbed up while a conservative approach was applied to new programs and expenses
- Focus on increased efficiency: use of technology, process improvement, data-based evaluation, alignment with mission
- Setting aside funds for service stabilization, $7.0M

Prior Planning and Setting of Expectations Continued
Recession is earlier and deeper than anticipated. However, the recovery should be faster than anticipated

- *Artificial decrease in consumer demand due to social distancing and stay-at-home guidelines*
- *When guidelines are lifted, some of the demand will return*
- *A longer unemployment period may result in a longer recovery period*
- *Reductions/deferments in expenses are needed to cover the recovery period*
- *Early action reduces the impact of reductions*
Increased sales tax receipts (local and State) in first half of FY 19/20 is cushioning the impact of a $17.6M swing in the last quarter

- Initial year-end estimate about $11.0M above budget
- Current year-end estimate about $6.6M below budget

Availability of one-time State income tax revenue

- Urban Revenue Sharing (State income tax) for FY 20/21 will come in $7.5M more than anticipated in the Spring 2019 forecast. Most of it is considered one-time as it was due to a change in the Federal tax rules
■ Personnel Related Expenses
  - Step-pay anticipated and included in the Spring 2019 forecast for implementation on 7/1/2020 has been removed
  - Salary market benchmark adjustments anticipated for implementation in 7/1/2020 have been delayed one year
  - Vacant positions are being held open related to non-critical/non-essential services

■ Departments with closed facilities have identified possible expense savings to offset the lost revenues and/or reduced services
  - $9.1M estimated lost revenues Mar-Sep 2020 (6-month/Oct. 1 scenario)
  - $11.2M estimated reduced expenses Mar-Sep 2020 (6-month/Oct. 1 scenario)

<table>
<thead>
<tr>
<th>Expense Adjustments</th>
<th>FY 19/20</th>
<th>FY 20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal of Merit Pay for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary Benchmark Delayed One year</td>
<td>$(3.5)</td>
<td>$(3.5)</td>
</tr>
<tr>
<td>Salary Benchmark Delayed One year</td>
<td>$(1.9)</td>
<td></td>
</tr>
<tr>
<td>Closed Facility Savings (Apr-Sep)</td>
<td>$(3.9)</td>
<td>$(7.3)</td>
</tr>
<tr>
<td>Total Savings</td>
<td>$(7.4)</td>
<td>$(12.7)</td>
</tr>
</tbody>
</table>
All projects not currently underway or obligated have been put on hold.

Each project will be evaluated for: impact to the General Fund, safety concerns, grant funding availability, etc.

Staff currently estimates $10.0M - $15.0M of projects could be considered for deferral.

Additional information will be presented to the City Council next week.
- Staff feels confident that the closed facilities will need to remain closed for some time to maintain public health and safety due to COVID-19

- Based on this, staff recommends the City continue the closure of the facilities through the month of September
  - This allows staff to implement the operational savings plans outlined by the departments
  - Implementation plan will be provided to the City Council next week
The departments affected by closed facilities are preparing 9-month and 12-month closure plans

- These operational plans would impact more full-time staff and require additional ramp-up time to reopen the facilities

March sales tax activity will be available by the end of May

- Initial assessment of the impact to major revenues
Staff will return to City Council in the beginning of June to:

- Discuss possible date extension of closed facilities
  - Staff concerned that economic recovery will not be sufficient to support reopening of facilities before January 1, 2021

- Recommend other operational budget modifications
FY 20/21 excludes $7.5M in one-time revenues from Urban Revenue Sharing (State Income Tax)

<table>
<thead>
<tr>
<th>Revenue Loss Over Spring 2019 Forecast</th>
<th>FY 19/20</th>
<th>FY 20/21</th>
<th>FY 21/22</th>
<th>FY 22/23</th>
<th>FY 23/24</th>
<th>FY 24/25</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ (6.6)</td>
<td>$ (5.4)</td>
<td>$ (0.6)</td>
<td>$ (8.3)</td>
<td>$ (4.5)</td>
<td>$ (4.2)</td>
</tr>
</tbody>
</table>

*FY 20/21 excludes $7.5M in one-time revenues from Urban Revenue Sharing (State Income Tax)