City Council Report

Date: May 5, 2014
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Candace Cannistraro, Management and Budget Director
Subject: Adoption of Fiscal Year 2014/15 Tentative Budget

Overview of Tentative Budget

The proposed budget continues the City’s commitment to providing quality services to residents in a fiscally responsible manner. The City continues to prioritize public safety, quality service, investment in the community, and investment in City employees.

The tentative budget sets the maximum expenditure budget amount for the City of Mesa for the 2014/15 fiscal year. The final adopted expenditure budget may be equal to or less than the tentative expenditure budget.

Each year there are projects that will not be completed and items that will not be received before the end of the fiscal year. The expenditures for these items will occur in the following fiscal year and will need budget capacity available. The City identifies these “carryover” expenses separately on the adopted budget to allow for better year over year budget comparisons.

The carryover expenses must be added to the budget and appropriated in the following year as the State does not allow prior year budget authorization to be used in a subsequent year.

The tentative budget includes high estimates for carryover expenditures to ensure a sufficient budget authorization. As staff finalizes year-end projections, the carryover amount will be reduced for the final budget adoption.

The total tentative budget for fiscal year 2014/15 is $1,369,000,000. This includes an annual operating budget of $996 million and the annual portion of the capital improvement program budget of $373 million.
State Expenditure Limitation/Home Rule

The state sets the maximum expenditure budget amount for municipalities based on the 1979/80 adopted budget adjusted for population and inflation. The Mesa voters approved a Home Rule option in the fall of 2010 that allows the City to opt out of the State limitation. The home rule option allows a municipality to set the expenditure budget equal to the projected available resources. Home rule approval is effective for four fiscal years. Mesa’s current home rule authority is valid through fiscal year 2014/15.

Modifications since Preliminary Budget and Other Items of Note

Development and Sustainability Department
Per Council direction, two Code Compliance Officers have been added. The positions are calculated with a start date in January 2015. The building permit revenue forecast has been increased to provide funding for these expenditures. Staff will review these revenues each month to assess capacity.

Labor Associations
Memorandums of understanding with the two associations have not been finalized. The tentative budget includes budget capacity to accommodate the financial impact of possible agreements.

Police Department
The Police Department budget has been increased by about $216,000 for the first year expenses related to the purchase of 300 officer body cameras. 100 cameras will be purchased each year for three years. The budget includes the cost of 100 cameras and associated service and data storage expenses. The City’s contribution to the Property and Public Liability trust fund has been decreased in an amount sufficient to cover this expense. The Police Department believes that the use of the cameras will cause a decline in claims filed against the City and therefore a decline in claims paid from the trust fund. Staff will review claim occurrences over the next couple of years and project the overall financial impact of the body camera program.

Utility Rates
The tentative budget includes the staff recommendation regarding utility rate adjustments and enterprise fund transfer projections as presented to the City Council on April 17, 2014.

Secondary Property Tax Levy
The 2013/14 secondary property tax levy is $22.1 million. The Mesa voters approved a general obligation bond election in November of 2013 to allow the City to continue to invest in public safety related projects and street related projects. The bond questions specified that the secondary property tax would be used to repay the principal and interest associated with the bonds. The tentative budget includes a secondary property tax levy of $33.4 million. The City Council adopts the levy each year as a separate action from the budget adoption.
**Gilbert Road Light Rail Transit (LRT) Extension**
Funding for the LRT extension to Gilbert Road involves the issuance of Transportation Project Advancement Notes (TPANs). This allows the City to advance the cost of the project until the Federal Transit Administration (FTA) grant funds are available. The associated payment of the TPAN obligation is offset by reimbursements from the FTA grants. The tentative revenue budget includes the estimated first issuance of TPANs which results in an increase in revenues designated under “Other Restricted Funds”. The issuance will cover multiple years of expenditures. Only the expenditures related to fiscal year 2014/15 have been budgeted in the expenditure budget. The unused revenues will remain in the restricted fund balance for use the following year.

**Highway User Revenue Fund (HURF)**
The State legislature approved a partial restoration of the funds that were diverted from municipalities in previous years. HURF is funded by the gasoline tax. The estimate of the increased revenue for Mesa is about $1.1 million. The financial impact is not included in the tentative budget. It will be added to the final adopted budget amount.