

# Memorandum



City Manager's Office

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Date: October 26, 2016  
To: Mayor and Councilmembers  
From: Ken Jones, Deputy City Manager, CFO  
Cecilia Robles, Municipal Budget Office Director  
Through: Andrew Ching, City Manager  
Subject: Long-Range Financial Forecast Update

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## **Introduction**

Every year, in the spring and fall, the Municipal Budget Office compiles updated economic information and reviews the financial conditions of all major operating funds of the City to produce a long-range financial forecast. The fall forecast sets the tone for the upcoming budget development process by providing a long-term perspective on how current budget proposals will impact future City finances.

During your November 3<sup>rd</sup> Work Study Session, we will review the latest forecast and highlight significant changes since the February 2016 forecast. The financial forecast does not represent a budget recommendation; rather, it is intended to provide context for the development of the City Manager's recommended budget. We use the forecast to demonstrate the projected costs of status quo operations and the potential financial impacts of clearly-defined variables. This is an opportunity for Councilmembers to explore the financial impacts of potential policy changes and examine improved service strategies.

## **General Economic Conditions and Projections**

The City's overall financial condition is strong and stable and current financial policies have provided opportunities for continued investment in programs and services that make Tempe great. The City has experienced steady revenue growth over the past few years and our five-year forecast for revenues remains positive, anticipating moderate growth in taxable sales at both the local and state level. Incredibly strong recent development activity is expected to taper-off, but the impact on revenue should not overshadow continued growth in other segments of the local economy. Growth of taxable sales in Tempe's hotel industry remains strong. Increases in other local taxes should provide for a stable local tax revenue stream for the remainder of the current fiscal year and into fiscal year 2017-18, with moderate growth projected in the subsequent years of the forecast. An economic downturn is inevitable at some point in our cyclical economy. We do not assume an economic downturn in this forecast but we do project healthy fund balances to overcome moderate recessionary trends.

## **Improved Forecasting Methodology**

The Municipal Budget Office employs sophisticated modeling techniques in the development of long-range revenue projections for the City's wide-ranging revenue sources. Revenue projections have been very accurate in the largest and most critical revenue categories over the years. In this forecast, the Budget Office has incorporated a new approach into the forecasting models to improve the accuracy of the projections. Regression analysis has been used in Tempe's revenue

forecasting models for quite some time – plotting past revenue to develop patterns predictive of future revenue. The regression analysis is now being strengthened by analyzing the bias in the underlying economic data used in the models by comparing past revenue predictions with actual outcomes and adjusting our projections based on an acceptable risk of deviation. The result is a more risk-aware, bias-adjusted forecast. Revenue projections are slightly higher throughout the forecast with the introduction of the improved forecasting technique and, I believe, more indicative of future revenue.

### **Projections of Retirement System Employer Contributions**

Contributions to the Public Safety Personnel Retirement System (PSPRS) continue to represent a large expense in the General Fund (\$19 million) that has the potential to change from year to year. PSPRS employer contribution rates for Tempe are 45.68% for Police and 48.95% for Fire employees (net of the Fire Insurance Premium Tax credit) in the current year. PSPRS has provided estimates for future rates, which continue to increase, but only slightly. Recent legislative changes to the PSPRS system are supposed to have a positive impact on employer rates sometime in the future, but there is a case (Hall v EORP) under consideration by the Arizona Supreme Court that could have large negative impacts on future contributions.

The City's required contribution to the Arizona State Retirement System will decrease from the current rate of 11.48% of employee pay to 11.47% in 2017-18.

### **Potential Budget Challenges**

- 1) The State Department of Revenue has taken over sales tax audits and is planning to take complete control of sales tax licensing, collecting and administration in January 2017. The forecast does not anticipate any negative impact on revenues, but we have concerns about the State maintaining our current levels of audit assessments and revenue collections.
- 2) Proposals are being developed by individual legislators to further "simplify" construction sales taxes. The early versions we have seen would negatively impact Tempe's revenue from construction activity. We are working with the League of Arizona Cities and Towns to thwart negative legislation.
- 3) No economic downturns are incorporated into the five-year forecast.

### **Recent Policy Direction Provided by the City Council**

- 1) *Contributions to the Municipal Arts Fund* – By ordinance, a transfer equivalent to 1% of annual budgeted capital expenditures must be made to the Municipal Arts Fund. Specific direction was given by the City Council to suspend the transfer from the General and Transit Funds during the most recent economic downturn. After the introduction of the Arts Master Plan at the beginning of the current fiscal year, direction was given to restore the annual 1% contribution. The contribution is included in every year of the forecast and is estimated to be approximately \$217,000 from the General Fund in 2017-18.
- 2) *Use of restricted cash/revenue* – The City Council placed restrictions on the GPLET lease revenue from the Zaremba, Liberty and Grigio/Picerne developments, as well as the land sale proceeds from the Liberty development. In the past two years, \$6 million of the restricted cash was transferred to capital projects for park improvements at the City Council's direction. There is a current restricted balance of

approximately \$1.7 million. In the current fiscal year, \$700 of the restricted cash was pledged to ensure completion of the McClintock pool upgrades in the event that parks and recreation bonds were not approved in November. If the bonds are approved the pledge of cash will not be used. Projected revenue going forward is as follows:

- Zaremba GPLET lease and parking revenue
  - Continuing revenue stream of \$600k-\$900k per year through 2042
- Grigio/Picerne GPLET lease revenue
  - Continuing revenue stream of \$100k per year through 2020; \$128k per year 2021-2031; \$178k-\$315k per year 2032-2043
- Liberty GPLET lease and land sale proceeds
  - Subsequent revenue is dependent upon future development and land sales

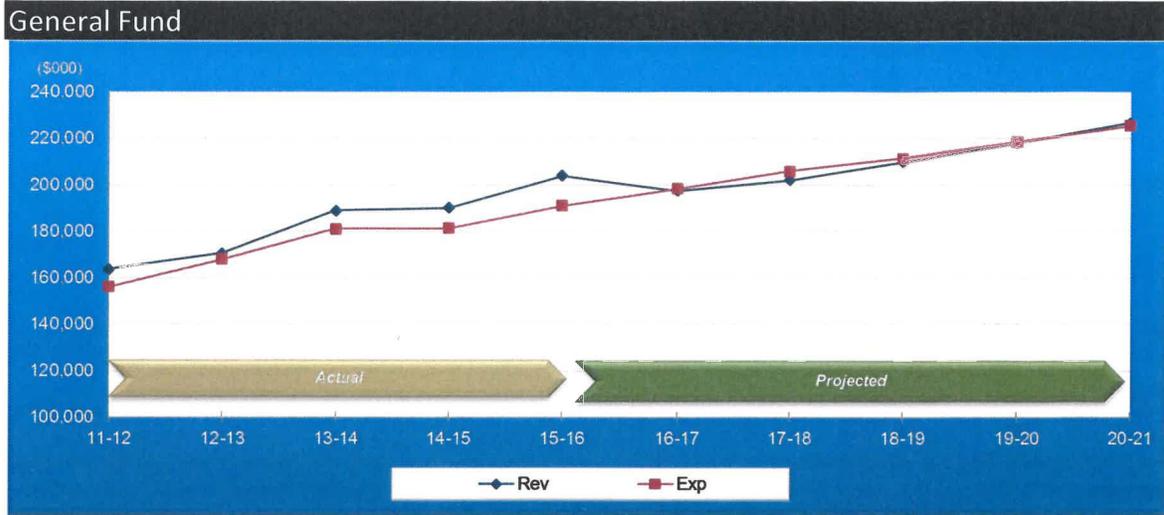
- 3) *Supplemental budgets tied directly to strategic planning* – The budget planning process includes opportunities for departments to request supplemental funding. In the past, this process has involved a prioritization of the supplemental requests, which has been somewhat subjective and has not been guided by any formal performance measurement process. With the City Manager’s initiative to formalize the City’s strategic planning process, we have an opportunity to allocate resources based on measurable performance standards, tied directly to City Council priorities. Supplemental budget proposals by the City Manager for 2017-18 year will be based on more clearly-identified strategically-defined needs.
- 4) *Employee compensation strategy* – The forecast assumes that compensation provisions contained in employee group Memorandums of Understanding (MOU’s) will be honored and that renewed MOU provisions for 2017-18 and beyond would provide for 3% step increases for employees moving through pay ranges in groups that do not have formal pay plans. It also assumes that pay ranges will be adjusted based on market study results.

This forecast incorporates a compensation strategy based on several principles and current policies that were discussed during the last forecast presentation to the City Council:

- Compensate employees fairly, based on pay ranges that are adjusted for changing conditions in a defined market;
- Continue the practice of moving employees through pay ranges as they gain experience in their positions;
- “Fair compensation” is negotiated with each employee group;
- The compensation of one employee or group of employees should not impact the determination of fair compensation for other employees.

#### **Forecast Models for Individual Operating Funds**

The following pages contain comments on significant changes to the forecasts of the City’s operating funds. Throughout this document dollar amounts are expressed in thousands of dollars, so add three zeros to the numbers in fund models.



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Local Taxes	100,706	103,904	111,874	107,921	111,020	114,940	117,614	122,185	127,176	132,068
Intergovernmental	31,723	34,921	38,155	40,572	41,473	44,849	46,440	48,309	50,387	52,583
Bldg & Trades/Plan & Zoning	5,489	5,183	10,495	10,266	9,947	5,876	6,008	6,155	6,306	6,466
Cultural and Recreation	6,053	6,386	6,462	6,831	6,970	6,140	6,364	6,610	6,864	7,136
Fines, Fees and Forfeitures	7,732	8,132	8,190	8,436	8,580	7,740	8,023	8,332	8,653	8,995
Business Licenses	1,651	1,714	1,703	1,616	1,597	1,458	1,491	1,527	1,565	1,605
Interest Income	549	457	356	578	934	800	1,075	1,391	1,668	1,951
Franchise Fees	3,459	3,253	3,311	3,441	4,519	4,095	4,188	4,290	4,395	4,507
Other Revenue Sources	6,181	6,485	8,360	10,325	18,693	11,449	10,877	11,011	11,128	11,259
<b>Total Revenues</b>	<b>163,542</b>	<b>170,445</b>	<b>188,905</b>	<b>189,988</b>	<b>203,732</b>	<b>197,347</b>	<b>202,080</b>	<b>209,810</b>	<b>218,142</b>	<b>226,570</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	124,440	134,594	143,609	144,246	152,638	156,941	160,254	163,667	167,281	171,396
Materials and Supplies	9,567	10,413	8,896	9,046	8,140	9,383	9,367	9,718	10,101	10,533
Fees and Services	24,211	22,471	28,421	26,352	28,509	29,238	29,436	30,225	31,037	31,894
Travel and Training	371	307	337	423	546	598	537	550	563	578
Non-Deprmt/Loan Repayment	2,118	2,126	2,192	1,867	1,391	2,324	2,876	2,734	2,794	2,905
Capital Outlay	1,472	1,572	1,500	2,385	2,727	3,552	3,082	2,291	2,484	2,199
Cash CIP Funding	0	0	0	2,821	3,239	3,229	4,042	4,196	4,363	4,531
Community Facilities District (incl. x-fers to	(493)	(138)	134	(92)	(170)	(269)	(297)	(325)	(355)	(385)
Special Assessments	0	2,064	1,006	1,016	1,017	1,017	1,017	1,017	1,017	1,017
Transportation Mitnce of Effort	701	1,204	626	1,150	1,150	1,300	1,300	1,300	1,300	1,300
Tourism and Convention Bureau	2,060	2,102	2,130	2,160	2,182	2,300	2,440	2,580	2,680	2,730
Internal Services/Adjustments	(8,541)	(8,701)	(7,895)	(10,023)	(10,477)	(11,514)	(11,843)	(12,142)	(12,447)	(12,761)
Municipal Arts Fund Contribution						191	217	206	229	120
Recurring Operating Supplementals						0	2,000	4,000	6,000	8,000
Non-recurring Operating Supplementals						0	1,500	1,500	1,500	1,500
<b>Total Expenditures</b>	<b>155,906</b>	<b>168,013</b>	<b>180,956</b>	<b>181,351</b>	<b>190,893</b>	<b>198,288</b>	<b>205,927</b>	<b>211,516</b>	<b>218,546</b>	<b>225,556</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>7,637</b>	<b>2,432</b>	<b>7,949</b>	<b>8,637</b>	<b>12,839</b>	<b>(941)</b>	<b>(3,848)</b>	<b>(1,706)</b>	<b>(404)</b>	<b>1,014</b>
<b>Interfund Transfers</b>			<b>5,326</b>	<b>495</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change to Assignment of Fund Balance</b>			<b>(2,055)</b>	<b>(1,531)</b>	<b>(3,325)</b>	<b>(1,279)</b>	<b>(1,308)</b>	<b>(1,340)</b>	<b>(1,372)</b>	<b>(1,407)</b>
<b>Capital Improvements Reserve</b>			<b>0</b>							
<b>Unassigned Fund Balance</b>	<b>50,955</b>	<b>52,659</b>	<b>63,878</b>	<b>71,479</b>	<b>80,993</b>	<b>78,774</b>	<b>73,618</b>	<b>70,572</b>	<b>68,796</b>	<b>68,403</b>
<b>Unassigned Fund Balance % of Revenu</b>	<b>31%</b>	<b>31%</b>	<b>34%</b>	<b>38%</b>	<b>40%</b>	<b>40%</b>	<b>36%</b>	<b>34%</b>	<b>32%</b>	<b>30%</b>

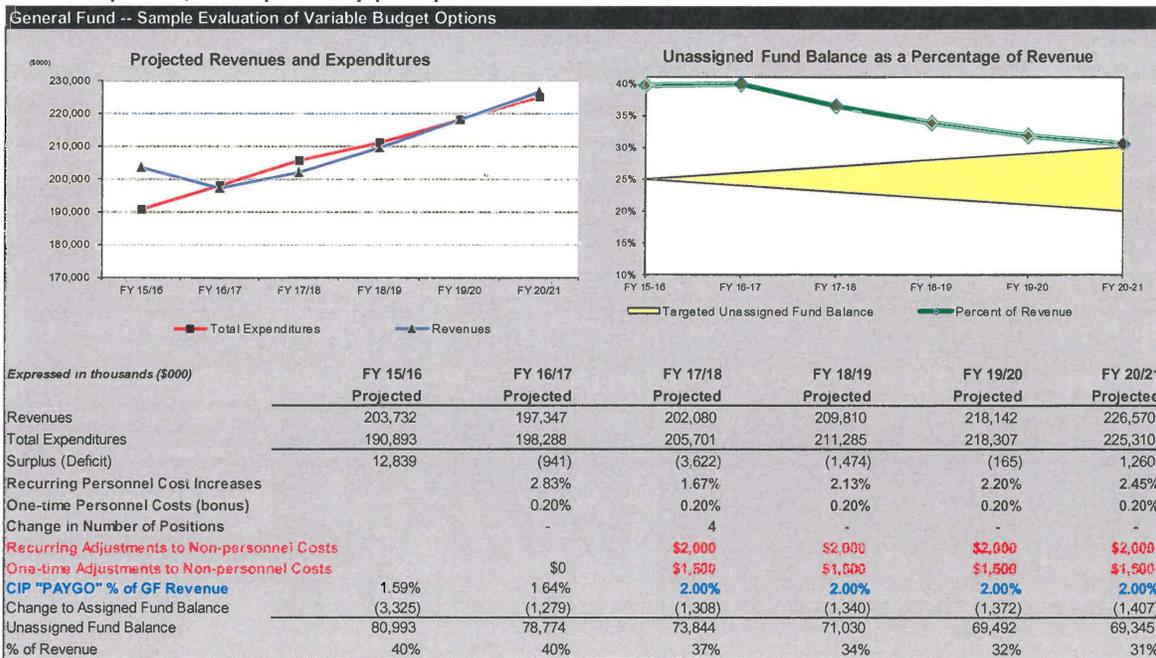
The figure above provides detail for budgeted accounts within the General Fund, with "sample" budget decisions incorporated from the interactive model appearing on the following page:

- 1) Projected growth in annual compensation represents the projected cost of contributions to retirement systems, salary step increases included in current MOU's, 3% step increases for employee groups subsequent to the expiration of current MOU's, projected market adjustments to the salary ranges and increases to health/dental/life insurance plans as

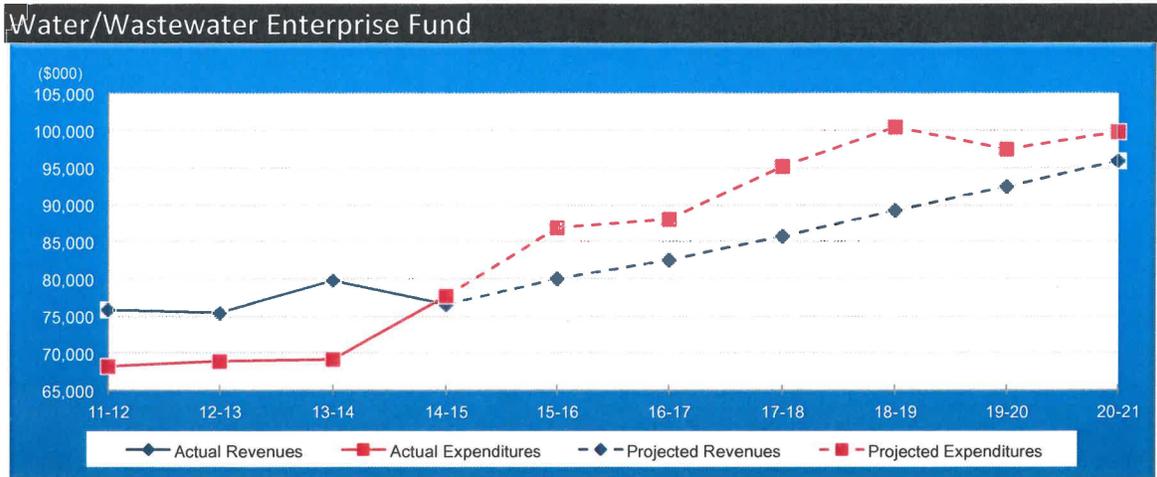
provided in the detailed assumptions on the last page of this report. Personnel costs also reflect the varying amounts necessary to fund Group 3 employees' retiree health reimbursement accounts as the employees reach 10 years of service. For example, there are very few employees who reach the 10-year milestone in 2017-18, which leads to a smaller annual increase in personnel costs. Personnel costs in 2017-18 also reflect the elimination of approximately \$800,000 of one-time funding budgeted in the current year.

- 2) Recurring and non-recurring non-personnel costs have been included in each year of the General Fund model to address potential supplemental funding to maintain and enhance service levels.

The forecast includes a measured spend-down of fund balance without jeopardizing the stability of the fund in the future. This General Fund model is consistent with the City's strategy to use fund balance to soften the impact of the expiration of the temporary .2% sales tax in June 2014. 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.



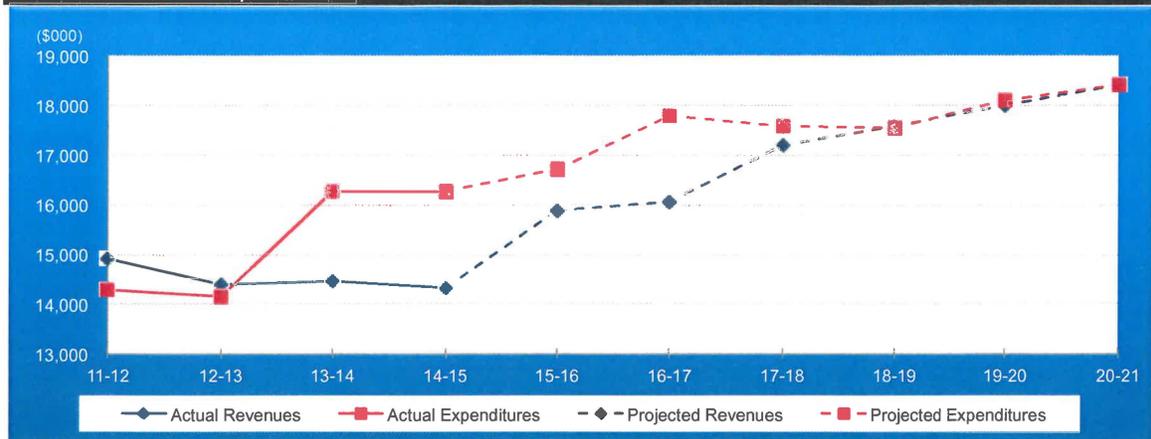
This forecast for the General Fund shows improved revenue forecasts and fund balance projections from the last forecast. Several non-recurring revenues helped bolster the fund balance. For example, the City received \$3 million related to a re-negotiated lease of the Buttes Hotel site and another \$740,000 as a result of a change in ownership at the same hotel.



	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected
<b>Revenues (\$000)</b>										
Charges for Service-Water	40,185	42,014	45,200	44,584	46,720	49,147	51,461	53,883	56,421	59,080
Charges for Service-Wastewater	32,275	31,643	32,374	30,996	31,863	32,100	32,898	33,716	34,555	35,414
Interest Income	267	228	257	382	566	492	619	646	547	500
Land and Facility Rental	520	520	-	-	-	-	-	-	-	-
Loan Repayment	-	-	-	-	-	182	182	182	182	182
Other Miscellaneous Revenue	2,541	1,082	1,940	479	775	673	639	669	677	740
<b>Total Revenues</b>	<b>75,787</b>	<b>75,487</b>	<b>79,772</b>	<b>76,441</b>	<b>79,924</b>	<b>82,595</b>	<b>85,799</b>	<b>89,097</b>	<b>92,383</b>	<b>95,916</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	14,588	15,559	15,384	13,558	13,944	15,094	15,393	15,617	15,975	16,290
Materials and Supplies	4,660	4,962	3,757	3,859	4,838	4,694	4,526	4,751	4,864	5,573
Fees and Services	12,103	11,009	11,737	18,513	17,781	14,766	17,572	18,236	18,927	19,653
Travel and Training	76	52	52	105	88	100	102	104	107	110
Debt Service	32,694	33,199	33,732	35,282	44,042	42,385	50,263	54,300	50,084	50,433
Transfers to CIP	430	223	214	536	3,407	3,408	612	624	571	418
Municipal Arts Contribution	-	-	-	-	-	337	373	339	316	513
Internal Service Charges	1,724	1,812	1,970	3,463	2,380	2,603	2,721	2,786	2,846	2,909
Indirect Cost Allocations	1,985	2,104	2,239	2,422	500	3,633	3,727	3,817	3,898	3,985
Contingency	-	-	-	-	-	1,000	-	-	-	-
<b>Total Expenditures</b>	<b>68,260</b>	<b>68,920</b>	<b>69,086</b>	<b>77,737</b>	<b>86,981</b>	<b>88,019</b>	<b>95,290</b>	<b>100,573</b>	<b>97,587</b>	<b>99,883</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>7,527</b>	<b>6,567</b>	<b>10,686</b>	<b>(1,296)</b>	<b>(7,057)</b>	<b>(5,424)</b>	<b>(9,491)</b>	<b>(11,477)</b>	<b>(5,205)</b>	<b>(3,968)</b>
<b>Unassigned Fund Balance</b>	<b>46,750</b>	<b>54,006</b>	<b>65,176</b>	<b>67,291</b>	<b>60,238</b>	<b>54,814</b>	<b>45,323</b>	<b>33,846</b>	<b>28,642</b>	<b>24,674</b>
<b>Unassigned Fund Balance as a % of Revenue</b>		<b>72%</b>	<b>82%</b>	<b>88%</b>	<b>75%</b>	<b>66%</b>	<b>53%</b>	<b>38%</b>	<b>31%</b>	<b>26%</b>

The Water/Wastewater Fund is stable. The forecast assumes continued rate adjustments in line with recommendations presented by Public Works in the recent Water & Sewer rate study.

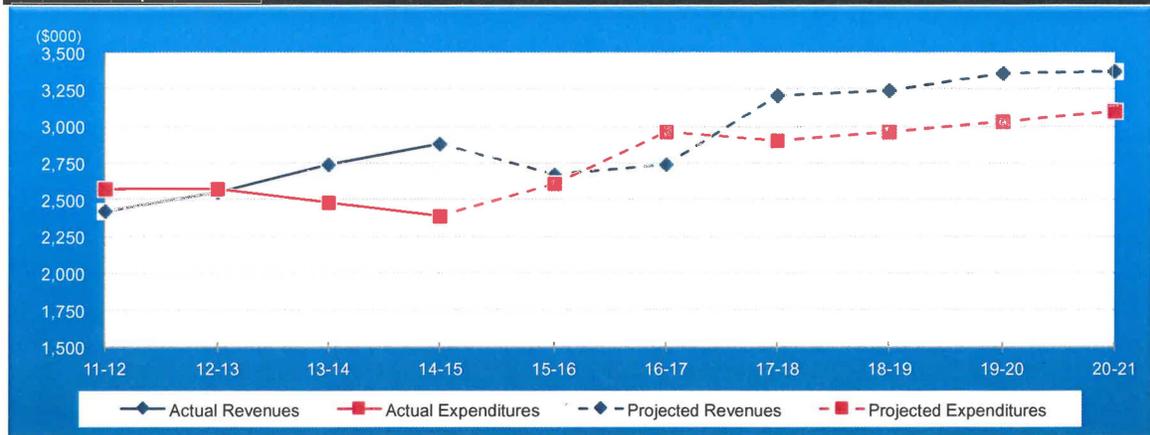
Solid Waste Enterprise Fund



	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected
<b>Revenues (\$000)</b>										
Charges for Services	14,866	14,447	14,400	14,217	15,320	15,775	17,002	17,481	17,865	18,271
Interest Income	35	27	18	18	27	24	15	14	16	14
Other Revenue Sources	26	(81)	43	95	523	273	191	96	110	117
<b>Total Revenues</b>	<b>14,927</b>	<b>14,394</b>	<b>14,461</b>	<b>14,330</b>	<b>15,870</b>	<b>16,072</b>	<b>17,209</b>	<b>17,591</b>	<b>17,990</b>	<b>18,402</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	5,260	5,571	5,356	5,049	5,098	5,745	6,009	6,166	6,371	6,480
Materials and Supplies	170	219	180	188	532	204	208	214	219	224
Fees and Services	3,487	3,639	3,743	4,127	3,895	3,647	3,650	3,718	3,728	3,739
Travel and Training	40	4	3	25	30	18	19	19	20	20
Capital Outlay	1,243	312	2,285	1,988	2,421	2,652	2,380	2,124	2,352	2,430
CIP - Cash Funded	0	0	0	0	0	0	141	23	0	0
Internal Service/Adjustments	2,931	2,992	3,359	3,709	3,534	3,847	3,947	4,042	4,128	4,220
Indirect Cost Allocations	807	866	953	993	1,105	1,169	1,199	1,228	1,254	1,282
Transfers	350	541	371	202	107	19	19	19	19	19
Contingency	-	-	-	-	-	500	-	-	-	-
<b>Total Expenditures</b>	<b>14,287</b>	<b>14,143</b>	<b>16,251</b>	<b>16,281</b>	<b>16,722</b>	<b>17,802</b>	<b>17,572</b>	<b>17,552</b>	<b>18,091</b>	<b>18,415</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>640</b>	<b>251</b>	<b>(1,790)</b>	<b>(1,951)</b>	<b>(853)</b>	<b>(1,730)</b>	<b>(363)</b>	<b>39</b>	<b>(101)</b>	<b>(14)</b>
<b>Accrual Basis Adjustments</b>			<b>(88)</b>	<b>(70)</b>	<b>875</b>					
<b>Ending Fund Balance</b>	<b>7,078</b>	<b>7,424</b>	<b>5,547</b>	<b>3,525</b>	<b>3,548</b>	<b>1,818</b>	<b>1,456</b>	<b>1,495</b>	<b>1,394</b>	<b>1,381</b>
<b>Fund Balance as a % of Revenue</b>		<b>52%</b>	<b>38%</b>	<b>25%</b>	<b>22%</b>	<b>11%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>

The Solid Waste Fund has been spending-down fund balance in a planned effort to avoid rate increases for customers during the recent economic downturn. This model assumes continued implementation of the rate adjustments presented to the City Council by Public Works as a result of their comprehensive rate analysis study, which will stabilize the fund.

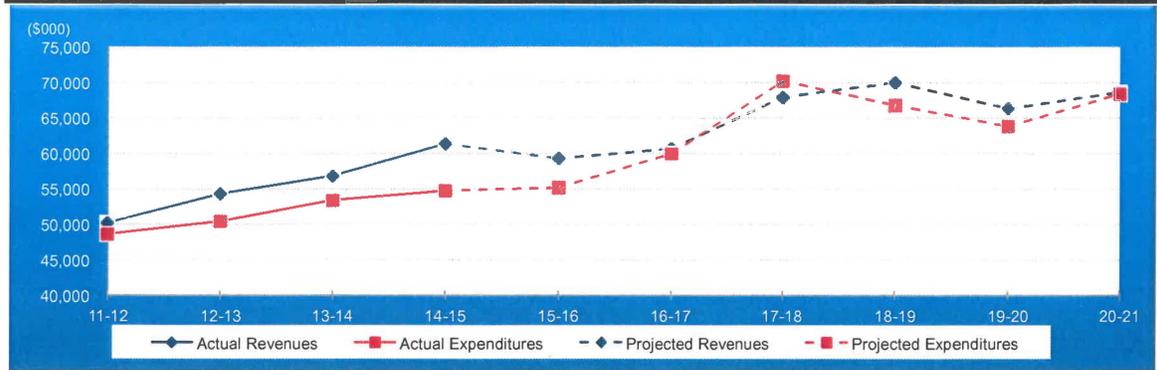
Golf Enterprise Fund



	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected
<b>Revenues (\$000)</b>										
Greens Fees	1,509	1,600	1,809	1,908	1,822	1,834	2,348	2,360	2,486	2,499
Rental Charges	581	645	639	555	495	597	609	609	609	609
Range Fees	173	189	191	194	167	174	176	177	179	179
Interest Income	(2)	(1)	(1)	8	19	13	-	-	-	-
Other Revenue Sources	155	114	103	213	169	118	74	91	87	87
<b>Total Revenues</b>	<b>2,417</b>	<b>2,548</b>	<b>2,741</b>	<b>2,878</b>	<b>2,673</b>	<b>2,736</b>	<b>3,207</b>	<b>3,238</b>	<b>3,362</b>	<b>3,374</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	852	689	692	554	511	541	544	556	571	583
Materials and Supplies	451	555	380	340	386	530	542	556	569	584
Fees and Services	923	937	969	1,114	1,256	1,085	1,046	1,075	1,105	1,137
Capital Outlay	137	121	87	96	138	267	224	224	224	224
Internal Service Charges	151	160	205	148	179	199	204	209	214	218
Indirect Cost Allocations	66	115	150	139	134	152	156	159	163	166
Debt Service	-	-	-	-	-	182	182	182	182	182
<b>Total Expenditures</b>	<b>2,580</b>	<b>2,578</b>	<b>2,484</b>	<b>2,391</b>	<b>2,604</b>	<b>2,957</b>	<b>2,899</b>	<b>2,962</b>	<b>3,028</b>	<b>3,095</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>(163)</b>	<b>(30)</b>	<b>257</b>	<b>487</b>	<b>68</b>	<b>(221)</b>	<b>308</b>	<b>275</b>	<b>333</b>	<b>279</b>
<b>Accrual Basis Adjustments</b>			<b>(259)</b>	<b>(210)</b>	<b>160</b>					
<b>Ending Fund Balance</b>	<b>(473)</b>	<b>(697)</b>	<b>(700)</b>	<b>(423)</b>	<b>(194)</b>	<b>(415)</b>	<b>(106)</b>	<b>169</b>	<b>502</b>	<b>781</b>
<b>Fund Balance as a % of Revenue</b>		<b>-27%</b>	<b>-26%</b>	<b>-15%</b>	<b>-7%</b>	<b>-15%</b>	<b>-3%</b>	<b>5%</b>	<b>15%</b>	<b>23%</b>

The Golf Enterprise Fund continues to generate increased revenues and is projected to perform slightly better than break-even in the remaining years of the forecast. Projected surpluses in future years will be used for asset maintenance/replacement, while maintaining a fund balance at or above the 15% policy level. Improvements to the irrigation system at the Rolling Hills Golf Course should further stabilize the fund. User fees in 2015-16 and 2016-17 reflect a short shut-down of Rolling Hills during the irrigation system repairs.

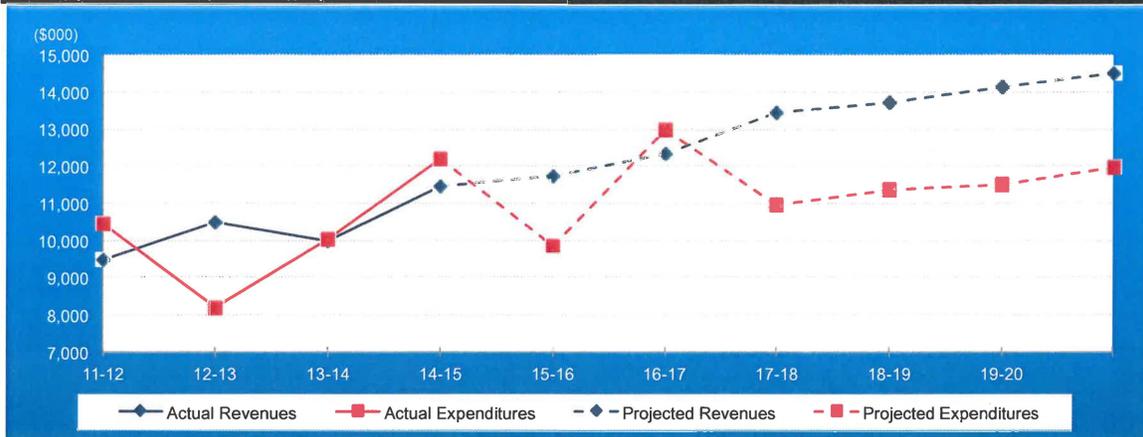
Transit Special Revenue Fund



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Transit Tax	30,172	30,087	33,539	36,148	37,159	37,297	38,552	40,059	41,726	43,338
EVBOB Maint & Fuel (RPTA)	-	182	6,312	5,853	4,492	5,018	5,046	5,136	5,277	5,355
PTF Funding	2,270	2,166	2,145	2,233	3,412	3,962	4,189	4,358	5,006	5,108
Federal Grants - Bus and Light Rail	3,198	7,147	3,887	3,298	2,762	2,807	2,819	2,837	2,897	2,927
Out of Jurisdiction Service Revenue	7,960	7,357	(76)	630	-	-	-	-	-	-
Bus Fares	-	-	4,992	4,519	4,136	4,508	4,655	4,751	4,856	4,970
Light-Rail Fares	3,521	3,814	3,603	3,696	3,047	3,751	3,677	3,756	3,868	3,984
Street Car Fares	-	-	-	-	-	-	-	-	-	430
Alt Fuel Credit	626	1,585	86	913	1,429	-	-	-	-	-
Bond Proceeds - Streetcar	-	-	-	-	-	-	6,500	6,500	-	-
Miscellaneous Revenue	2,433	2,038	2,342	4,054	2,774	3,211	2,598	2,558	2,616	2,526
<b>Total Revenues</b>	<b>50,180</b>	<b>54,375</b>	<b>56,831</b>	<b>61,344</b>	<b>59,211</b>	<b>60,554</b>	<b>68,036</b>	<b>69,955</b>	<b>66,246</b>	<b>68,640</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	2,681	2,911	3,032	2,248	2,225	2,526	2,523	2,580	2,635	2,692
Transportation Center O&M	267	231	362	330	405	493	471	483	495	507
Bus Operations	23,255	23,941	23,312	23,139	24,061	26,372	26,765	27,312	27,907	28,314
Bus Operations-EVBOM - Fuel & Maint	5,745	4,786	5,619	5,130	3,740	4,727	4,699	4,832	5,020	5,147
Light Rail Operations	8,228	9,993	9,262	9,368	8,969	10,563	10,403	10,541	11,304	12,044
Security - Transit Operations	362	397	401	460	475	469	492	504	516	529
Transit Store - Bus Media	733	771	618	573	556	815	833	853	874	896
Admin / Marketing / Planning / Signal Systems	364	418	521	595	503	844	1,015	1,040	1,065	1,092
Bus Stop & Bike Path Maintenance	384	680	738	766	878	1,149	1,336	1,369	1,403	1,438
Operating Capital Outlay	49	214	168	138	231	120	149	153	156	160
Street Car O&M	-	-	-	-	-	-	-	-	-	4,300
ORBIT South of US 60	-	-	-	-	-	-	1,200	1,230	1,261	1,292
New Transit Tax CIP Funding	367	959	3,760	5,390	6,476	4,727	6,547	2,822	4,698	3,533
Municipal Arts Contribution	-	-	-	-	-	54	66	28	47	35
Capital Funding Transfer - Streetcar	-	-	-	-	-	-	6,500	6,500	-	-
Debt Service	5,313	4,247	4,668	4,658	4,663	4,669	4,654	4,033	4,034	4,034
Internal Service Charges/Adjustments	868	841	920	1,873	2,019	2,253	2,311	2,366	2,417	2,471
Contingency	-	-	-	-	-	112	178	188	-	-
<b>Total Operating Expenditures</b>	<b>48,615</b>	<b>50,389</b>	<b>53,379</b>	<b>54,668</b>	<b>55,201</b>	<b>59,892</b>	<b>70,140</b>	<b>66,834</b>	<b>63,832</b>	<b>68,485</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>1,565</b>	<b>3,986</b>	<b>3,451</b>	<b>6,676</b>	<b>4,010</b>	<b>662</b>	<b>(2,104)</b>	<b>3,121</b>	<b>2,413</b>	<b>154</b>
<b>Transfer from Transit Capital Fund</b>					<b>4,000</b>					
<b>Unassigned Fund Balance</b>	<b>72,956</b>	<b>27,571</b>	<b>31,070</b>	<b>37,770</b>	<b>45,780</b>	<b>46,442</b>	<b>44,337</b>	<b>47,458</b>	<b>49,871</b>	<b>50,025</b>
<b>Unassigned Fund Balance as a % of Revenue</b>		<b>51%</b>	<b>55%</b>	<b>62%</b>	<b>77%</b>	<b>77%</b>	<b>65%</b>	<b>68%</b>	<b>75%</b>	<b>73%</b>
<b>Fund Balance Assigned for Debt Retirement</b>			<b>8,500</b>	<b>8,500</b>	<b>8,500</b>	<b>8,500</b>	<b>8,500</b>			

The Transit Fund is relatively stable with a healthy fund balance. The model includes estimated operating costs for the proposed streetcar project and the expansion of Orbit bus services farther south in the City. The model also includes a \$13 million commitment to fund a portion of the construction of the streetcar project, as well as the offsetting \$13 million revenue anticipated from the formation of a special assessment district.

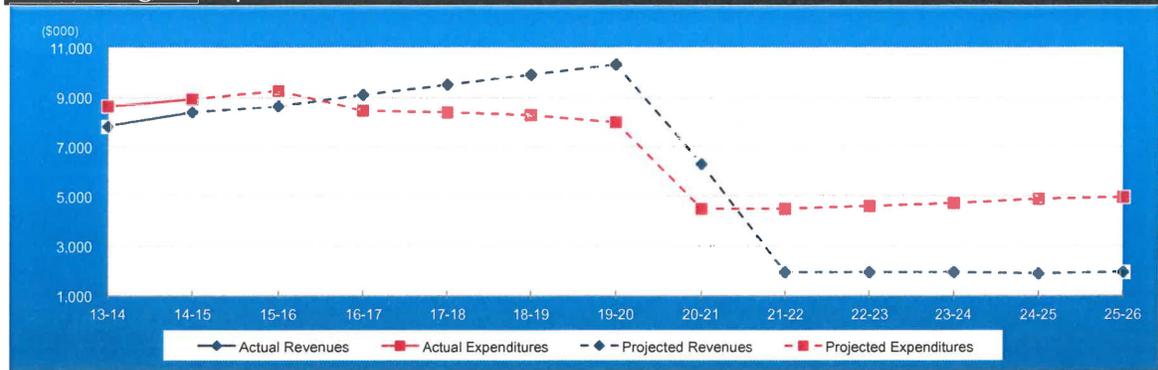
Transportation (HURF) Special Revenue Fund



	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected
<b>Revenues (\$000)</b>										
Highway User Revenue Tax	8,098	8,856	9,125	10,014	10,458	10,486	11,608	11,841	12,234	12,606
Maintenance of Effort Transfer	701	1,177	626	1,150	1,150	1,300	1,300	1,300	1,300	1,300
Miscellaneous	682	479	257	282	150	536	551	578	596	615
<b>Total Revenues</b>	<b>9,481</b>	<b>10,512</b>	<b>10,009</b>	<b>11,446</b>	<b>11,758</b>	<b>12,322</b>	<b>13,459</b>	<b>13,719</b>	<b>14,129</b>	<b>14,521</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	3,048	3,587	3,917	4,058	4,207	4,572	4,618	4,723	4,769	4,816
Materials and Supplies	424	457	580	609	619	736	745	764	782	802
Fees and Services	1,892	1,936	2,058	2,059	2,163	2,473	2,548	2,626	2,706	2,790
Travel and Training	10	12	8	8	15	18	18	19	19	20
Capital Outlay	107	77	227	663	590	645	218	398	373	535
Debt Service	1,550	500	-	-	-	-	-	-	-	-
CIP - Cash Funded	-	-	1,427	3,277	300	2,319	539	510	500	600
Loan Repayment	3	3	3	5	5	5	5	5	5	5
Internal Service Charges	2,758	983	1,062	678	1,084	1,239	1,271	1,302	1,329	1,359
Indirect Cost Allocations	641	654	758	861	870	960	985	1,009	1,030	1,053
<b>Total Expenditures</b>	<b>10,433</b>	<b>8,210</b>	<b>10,041</b>	<b>12,216</b>	<b>9,852</b>	<b>12,967</b>	<b>10,947</b>	<b>11,355</b>	<b>11,514</b>	<b>11,979</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>(952)</b>	<b>2,302</b>	<b>(32)</b>	<b>(771)</b>	<b>1,906</b>	<b>(645)</b>	<b>2,513</b>	<b>2,365</b>	<b>2,615</b>	<b>2,542</b>
<b>Accrual Basis Adjustments</b>										
			-	(1)						
<b>Ending Fund Balance</b>	<b>6,747</b>	<b>8,120</b>	<b>8,088</b>	<b>7,317</b>	<b>9,224</b>	<b>8,579</b>	<b>11,091</b>	<b>13,456</b>	<b>16,071</b>	<b>18,613</b>
<b>Fund Balance as a % of Revenue</b>		<b>77%</b>	<b>81%</b>	<b>64%</b>	<b>78%</b>	<b>70%</b>	<b>82%</b>	<b>98%</b>	<b>114%</b>	<b>128%</b>

The Transportation Fund receives the large majority of its funding from State-shared Highway User Revenue Funds (HURF). The City uses the money to fund street improvements. After sweeping over \$6.8 million from the City's distribution from 2004 through 2014, the Legislature partially restored the annual appropriations. For FY 2015-16 and forward, HURF tax collections are expected to improve slightly, providing additional cash-funding for street projects. The "CIP Pay as You Go" line item will be increased during the City's CIP process this year.

Performing Arts Special Revenue Fund



	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected	21/22 Projected	22/23 Projected	23/24 Projected	24/25 Projected	25/26 Projected
<b>Revenues (\$000)</b>													
Performing Arts Tax	6,922	7,460	7,656	7,698	7,958	8,268	8,612	4,473	-	-	-	-	-
Facility Revenue	905	899	975	1,389	1,549	1,597	1,647	1,694	1,745	1,797	1,851	1,906	1,964
Interest Income	8	10	9	8	-	8	50	118	201	158	73	-	-
<b>Total Revenues</b>	<b>7,835</b>	<b>8,369</b>	<b>8,640</b>	<b>9,095</b>	<b>9,507</b>	<b>9,873</b>	<b>10,310</b>	<b>6,284</b>	<b>1,945</b>	<b>1,955</b>	<b>1,923</b>	<b>1,906</b>	<b>1,964</b>
<b>Expenditures (\$000)</b>													
Personnel Costs	1,813	1,828	2,017	2,276	2,345	2,383	2,450	2,502	2,510	2,579	2,825	2,732	2,762
Materials and Supplies	112	107	105	221	226	232	237	243	249	256	262	269	276
Fees and Services	509	495	442	949	1,032	1,060	1,088	1,118	1,149	1,180	1,213	1,246	1,281
Capital Outlay	-	-	-	-	-	25	32	28	29	29	30	31	32
CIP - Cash Funded	-	100	258	1,058	825	597	208	76	-	-	-	-	-
Debt Service	5,928	5,924	5,924	3,438	3,429	3,428	3,434	-	-	-	-	-	-
Internal Service Charges	247	472	497	512	525	538	550	562	574	587	600	614	627
<b>Total Expenditures</b>	<b>8,609</b>	<b>8,927</b>	<b>9,242</b>	<b>8,454</b>	<b>8,382</b>	<b>8,262</b>	<b>7,998</b>	<b>4,529</b>	<b>4,511</b>	<b>4,631</b>	<b>4,730</b>	<b>4,892</b>	<b>4,978</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>(774)</b>	<b>(558)</b>	<b>(602)</b>	<b>641</b>	<b>1,125</b>	<b>1,611</b>	<b>2,312</b>	<b>1,755</b>	<b>(2,565)</b>	<b>(2,677)</b>	<b>(2,807)</b>	<b>(2,986)</b>	<b>(3,014)</b>
<b>Accrual Basis Adjustments</b>	<b>(6)</b>	<b>1</b>	<b>(200)</b>										
<b>Ending Fund Balance</b>	<b>894</b>	<b>137</b>	<b>(665)</b>	<b>(24)</b>	<b>1,101</b>	<b>2,712</b>	<b>5,024</b>	<b>6,779</b>	<b>4,214</b>	<b>1,537</b>	<b>(1,270)</b>	<b>(4,256)</b>	<b>(7,270)</b>
<b>Fund Balance as a % of Revenue</b>	<b>9%</b>	<b>2%</b>	<b>-8%</b>	<b>0%</b>	<b>12%</b>	<b>27%</b>	<b>49%</b>	<b>108%</b>	<b>217%</b>	<b>79%</b>	<b>-66%</b>	<b>-223%</b>	<b>-370%</b>

Approximately 90% of the revenue in the Performing Arts Fund is derived from the City's 0.1% Arts Sales Tax. The rest is received from users of the Tempe Center for the Arts (TCA).

Revenues have not been sufficient to cover expenditures and the fund balance has been depleted. Half of the debt issued to build the TCA was retired in 2015-16, resulting in a \$2.5 million reduction of the annual debt service cost. Going forward, an annual surplus will grow to approximately \$2.3 million by 2020, when the Arts Tax expires and the remaining debt is retired. The ongoing structural deficit after 2020 is projected to exceed \$2.5 million per year.

Forecast Growth Rates - November 3, 2016

Revenues	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Taxable Sales Growth	1.8%	1.9%	3.9%	4.2%	3.9%
General Fund Sales Tax Revenue <sup>(1)</sup>	2.5%	1.9%	3.9%	4.2%	3.9%
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%
Performing Arts Fund	0.1%	0.1%	0.1%	0.1%	0.1%
Primary Property Tax Levy Growth	5.8%	4.0%	4.0%	4.0%	4.0%
Bed Tax Taxable Sales Growth	19.4%	3.5%	3.4%	3.4%	3.3%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	1.4%	1.4%	1.4%	1.4%	1.4%
State Population Growth	1.6%	1.8%	1.8%	1.8%	1.8%
State Shared Income Tax Growth	10.7%	2.6%	3.4%	3.8%	4.2%
State Shared Sales Tax Growth	2.3%	4.2%	4.5%	4.9%	4.7%
State Vehicle License Tax Growth	14.1%	4.9%	4.8%	4.6%	4.0%
Building and Trades Growth	-40.9%	2.3%	2.5%	2.5%	2.6%
Cultural and Recreational Growth	-11.9%	3.7%	3.9%	3.9%	4.0%
Fees, Fines, Forfeitures Growth	-9.8%	3.7%	3.9%	3.9%	4.0%
Business Licenses Growth	-8.7%	2.3%	2.4%	2.5%	2.6%
<b>Expenditures</b>	<b>FY 16/17</b>	<b>FY 17/18</b>	<b>FY 18/19</b>	<b>FY 19/20</b>	<b>FY 20/21</b>
Personnel Costs Growth <sup>(2)</sup>	3.2%	2.6%	2.4%	2.1%	2.2%
FICA (% of payroll)	7.65%	7.65%	7.65%	7.7%	7.7%
State Retirement (% of payroll)	11.48%	11.47%	11.22%	10.69%	10.20%
Police Retirement (% of payroll)	45.68%	45.58%	45.58%	45.61%	45.33%
Fire Retirement (% of payroll) <sup>(3)</sup>	48.95%	48.88%	48.93%	49.01%	48.70%
Health, Dental, Life Actives	7.7%	7.7%	7.7%	7.7%	7.7%
Health, Dental, Life Retirees	10.4%	9.2%	-7.1%	-5.3%	0.9%
Mediflex Growth	0.0%	0.0%	0.0%	0.0%	0.0%
Other Fringe Benefits Growth	0.0%	0.0%	0.0%	0.0%	0.0%
General Inflation	1.6%	2.3%	2.5%	2.5%	2.6%
Electricity Inflation	3.3%	3.3%	3.3%	3.3%	3.3%
Water Inflation	4.8%	4.8%	4.8%	4.8%	4.8%
Sewer Inflation	2.5%	2.5%	2.5%	2.5%	2.5%
Gasoline Inflation	-0.5%	9.8%	7.3%	7.9%	8.6%

Notes:

<sup>(1)</sup> The 0.2% temporary sales tax expired 7/1/14.

<sup>(2)</sup> Excluding OPEB Trust Fund Advance/Withdrawal

<sup>(3)</sup> Net of Fire Insurance Premium Tax credit