

FINANCIAL UPDATE

COVID-19 FINANCIAL IMPACT

City of Mesa
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Prior Planning and Setting of Expectations Continued

- 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*

New Expectations

- 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*

Some Good News

- 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*

Actions Already Taken

- 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)*

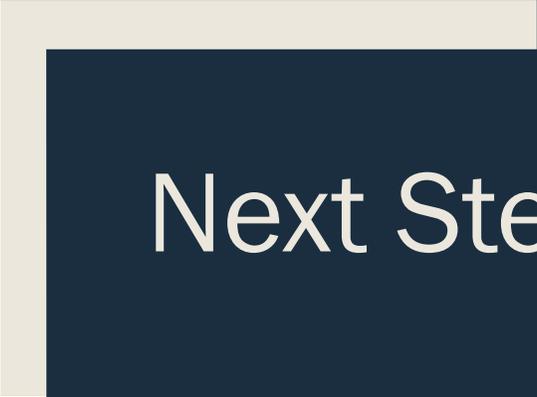
Expense Adjustments	FY 19/20	FY 20/21
Removal of Merit Pay for Salary Benchmark Delayed One year	\$ (3.5)	\$ (3.5)
Closed Facility Savings (Apr-Sep)	\$ (3.9)	\$ (7.3)
Total Savings	\$ (7.4)	\$ (12.7)

Capital Projects/One-time Savings

- 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

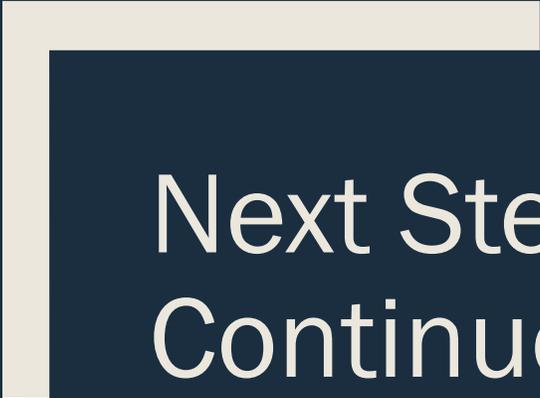
Action Needed

- 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*



Next Steps

- 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*

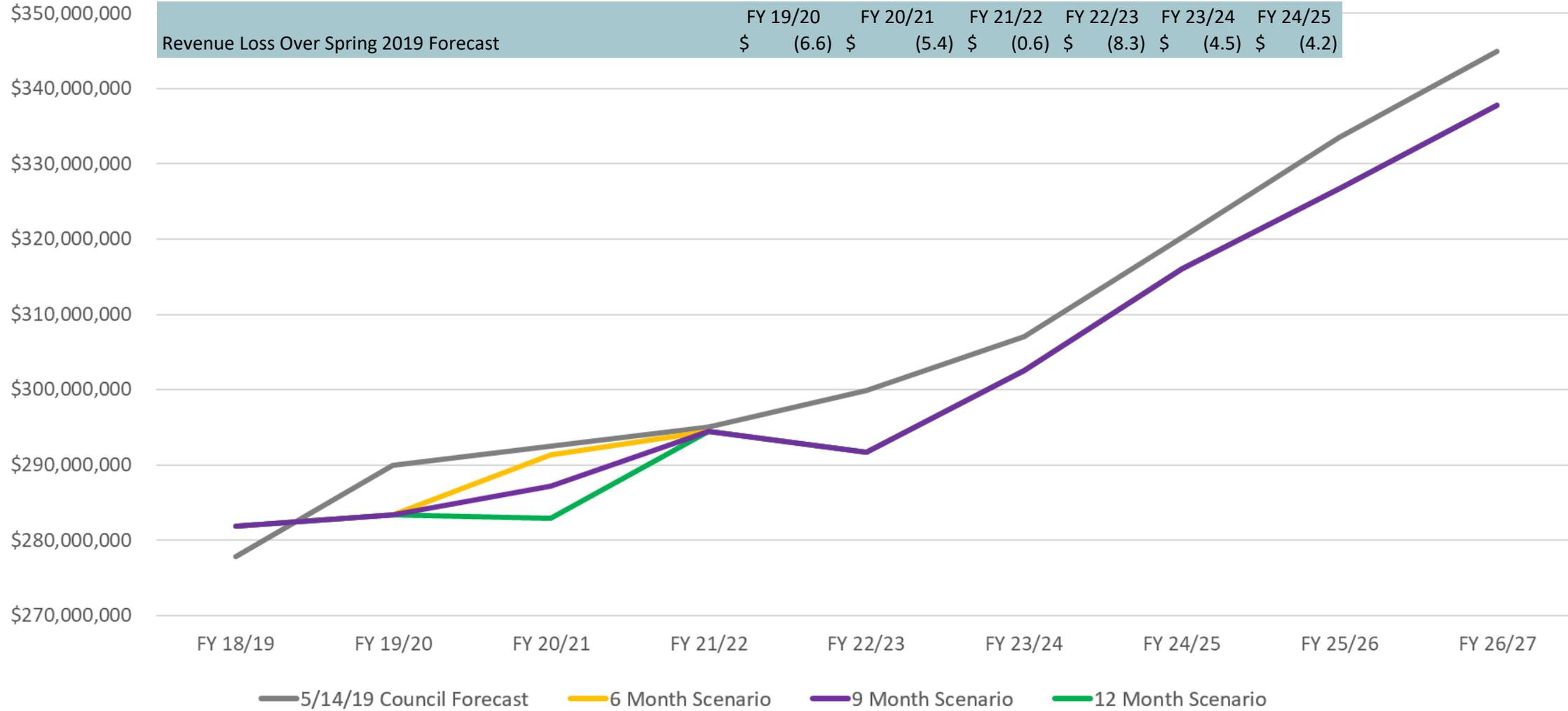


Next Steps Continued

- 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**



General Governmental Major Revenues Forecast Comparison



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