



# Agenda

## City Council Policy Session

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Tuesday, February 22, 2022

2:30 PM

phoenix.gov

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### OPTIONS TO ACCESS THIS MEETING

#### *Request to speak at a meeting:*

- **Register online** by visiting the City Council Meetings page on phoenix.gov **at least 1 hour prior to the start of this meeting**. Then, click on this link at the time of the meeting and join the Webex to speak: <https://phoenixcitycouncil.webex.com/phoenixcitycouncil/onstage/g.php?MTID=e52c4618c9427021c3c56c000bf2c388b>

- **Register via telephone** at 602-262-6001 **at least 1 hour prior to the start of this meeting**, noting the item number. Then, use the Call-in phone number and Meeting ID listed below at the time of the meeting to call-in and speak.

#### *At the time of the meeting:*

- **Watch** the meeting live streamed on phoenix.gov or Phoenix Channel 11 on Cox Cable, or using the Webex link provided above.

- **Call-in** to listen to the meeting. Dial 602-666-0783 and Enter Meeting ID 2557 859 8585# (for English) or 2556 741 2517# (for Spanish). Press # again when prompted for attendee ID.

#### *Para nuestros residentes de habla hispana:*

- **Para registrarse para hablar en español**, llame al 602-262-6001 **al menos 1 hora antes del inicio de esta reunión** e indique el número del tema. El día de la reunión, llame al 602-666-0783 e ingrese el número de identificación de la reunión 2556 741 2517#. El intérprete le indicará cuando sea su turno de hablar.

- **Para solamente escuchar la reunión en español**, llame a este mismo número el día de la reunión (602-666-0783; ingrese el número de identificación de la reunión 2556 741 2517#). Se proporciona interpretación simultánea para nuestros residentes durante todas las reuniones.

**CALL TO ORDER****COUNCIL INFORMATION AND FOLLOW-UP REQUESTS**

This item is scheduled to give City Council members an opportunity to publicly request information or follow up on issues of interest to the community. If the information is available, staff will immediately provide it to the City Council member. No decisions will be made or action taken.

**CONSENT ACTION**

This item is scheduled to allow the City Council to act on the Mayor's recommendations on the Consent Agenda. There was no Consent Agenda for this meeting.

**CALL FOR AN EXECUTIVE SESSION**

A vote may be held to call an Executive Session for a future date.

**REPORTS AND BUDGET UPDATES BY THE CITY MANAGER**

This item is scheduled to allow the City Manager to provide brief informational reports on topics of interest to the City Council. The City Council may discuss these reports but no action will be taken.

**INFORMATION AND DISCUSSION (ITEM 1)****1 Five-Year General Fund Forecast**

Page 3

This report transmits the preliminary status for the General Fund (GF) fiscal year (FY) 2022-23 budget and a five-year GF forecast through FY 2026-27 (**Attachments A and B**). The five-year forecast is being presented to the Mayor and City Council for the 12th consecutive year and provides an essential tool in long-term budget discussions and decision making.

**THIS ITEM IS FOR INFORMATION AND DISCUSSION.**

**Responsible Department**

This item is submitted by City Manager Jeffrey Barton and the Budget and Research Department.

**ADJOURN**



## Five-Year General Fund Forecast

This report transmits the preliminary status for the General Fund (GF) fiscal year (FY) 2022-23 budget and a five-year GF forecast through FY 2026-27 (**Attachments A and B**). The five-year forecast is being presented to the Mayor and City Council for the 12th consecutive year and provides an essential tool in long-term budget discussions and decision making.

### **THIS ITEM IS FOR INFORMATION AND DISCUSSION.**

#### **Summary**

In spite of the COVID-19 pandemic, the City has done remarkably well from a revenue and expenditure perspective resulting in a projected GF surplus for FY 2022-23 of \$76 million. Under the leadership of the City Council, strategic use of Coronavirus Relief Funds coupled with tight controls on expenses and strong revenue growth have resulted in additional GF resources. The preliminary \$76 million surplus is made up of estimated one-time resources of approximately \$44 million and \$32 million in ongoing resources. The one-time resources include excess salary savings caused by a significant increase in vacancies, and carryover of the Council-approved transfer of funding from the Coronavirus Relief Fund (CRF) to the General Fund to offset public safety salaries as permitted by the Federal guidelines. These funds were budgeted to be used to pay for the negotiated compensation increases for fiscal years 2021-22 and 2022-23, and the additional programs and services added in the current year budget.

As mentioned above, the preliminary FY 2022-23 GF surplus is made up of one-time resources estimated at \$44 million, and ongoing resources estimated at \$32 million in order for the budget to remain structurally balanced. These resources could be used to provide new or expanded programs and services in Council and community priority areas, establish set-asides to provide future employee compensation increases and to cover anticipated costs from the citywide classification and compensation study. In order to maintain a structural balance and prevent future deficits, it is critical that the City does not use one-time resources to fund ongoing costs, especially considering we are still dealing with uncertainties of the pandemic and volatile revenue collections. Staff will be updating revenue and expenditure estimates in the coming weeks, and will bring back final estimates and recommendations on responsible cost additions using

the combination of one-time and ongoing projected resources on March 15 with the City Manager's Trial Budget.

### **General Fund Status and Forecast**

FY 2022-23 The forecast shows a structurally balanced budget, where ongoing resources are available for existing programs (**Attachment A**). However, staff is mindful of the pandemic and how it may continue to impact the City's budget. This uncertainty calls for a cautious approach to forecasting future revenues to ensure that the City can sustain a balanced budget into the future. The GF preliminary estimated resources in FY 2022-23 are expected to increase 6.4 percent to \$1.769 billion from FY 2021-22. GF revenue is estimated to increase 9.5 percent in FY 2022-23 and is largely due to growth from known state shared income tax revenues, which are based on collections from FY 2020-21. The State deferred income tax filings in the 4th quarter of FY 2019-20 to FY 2020-21 due to the pandemic, which artificially increases collections for FY 2022-23. Information on each resource category is detailed in **Attachment A**.

The preliminary expenditure projections may change as cost estimates are further refined in the coming weeks; however at this time the preliminary FY 2022-23 GF expenditures to continue existing levels of service are projected to be \$1.693 billion. This compares to the adopted GF expenditure budget of \$1.608 billion for FY 2021-22, or an increase of \$85 million. The increase accounts primarily for higher costs associated with negotiated employee compensation packages, pension, increases in capital equipment and pay-as-you-go projects, and higher contingency amounts.

For FY 2022-23, combined GF civilian (COPERS) and sworn (PSPRS) pension costs are expected to increase by approximately \$24 million as compared to the FY 2021-22 budget. PSPRS pension costs account for approximately \$15 million of the total increase, and COPERS pension costs account for \$9 million of the increase. Over the forecast horizon through FY 2026-27 total GF employee pension costs are forecasted to increase \$61 million (**Attachment F**).

The FY2022-23 preliminary GF budget includes increases for capital pay-as-you-go projects of \$21 million from the FY 2021-22 budget primarily for funding information technology projects including funds to procure a new time and labor management system, and modernization of the phoenix.gov website. Funding is also included for stormwater drainage projects and to build out Fire Station 62 located at 99th Avenue and Lower Buckeye Road to accommodate a future Crisis Response unit for the Community Assistance Program (CAP). Additionally, funding for vehicle replacements is increased from \$15 million to \$25 million in FY 2022-23 to reduce the backlog of GF

units currently valued at \$156 million, and will be used primarily to procure critical Fire apparatus and other public safety vehicles.

The FY 2022-23 preliminary GF budget also accounts for the contingency fund increasing from \$57 million to \$68 million to reflect 4.25 percent of operating expenditures. It is increased by 0.25 percent each year thereafter until five percent is achieved in FY 2025-26. In March 2010, the City Council agreed to gradually increase the contingency with a goal of achieving five percent of GF operating expenses. Achieving this goal will improve the City's ability to withstand potential future economic declines.

Overall, projected GF non-pension operating expenditures (not including pay-as-you-go, vehicles or contingency) for FY 2022-23 have been planned and manageable, increasing by only 1.6 percent or \$19 million from the FY 2021-22 budget. The increase represents expected growth in personnel services costs, required contractual costs to provide existing programs and services, and capital replacement needs of critical public safety equipment for the Fire Department. Funding is also included for the Information Security and Privacy Office to protect City infrastructure from ever increasing cybersecurity threats, and to cover increased contractual expenses for existing software applications. Technology has become increasingly critical to not only protecting City systems and assets from security threats, but to service delivery requiring a dedication of additional resources to support City Council goals, such as myPHX311, the Open Data portal, records management systems, and public Wi-Fi for residents.

#### FY 2022-23 and Beyond

The attached **Five Year Forecast and Preliminary GF Status Report** includes economic, resource and expenditure assumptions used to develop the multi-year forecast (**Attachment B**). The report also includes possible risks and potential unfunded needs. The model illustrates the GF baseline (midpoint) forecast (**Attachment A**) reflects a balanced budget. As we look ahead, areas which could impact the GF include revenue volatility, continued pension increases for public safety, public demand for increased services, higher costs for employee compensation, impacts from State legislative actions, and unfunded mandates. The current forecast assumes no changes to existing labor contracts or service levels. It does, however, assume any surplus is incorporated into the subsequent years' expenditures, whether in increased one-time and ongoing costs for added programs and services, labor increases, set-asides, or other uses of the funds. The current labor contracts expire at the end of FY 2022-23 and contract negotiations will begin in December 2022. The City is also currently working with a consultant on a Citywide classification and compensation study, which is expected to result in increased costs to ensure the City

can attract and retain employees. It is essential that a conservative approach be taken to spending so that resources may be available to provide for increased future costs and to ensure a continued balanced budget.

This report also includes stress testing of the forecast (**Attachments C through E**), which has been done for the fourth consecutive year, to model the potential for a recession in the last two years of the forecast. While this is not anticipated to occur in the near term, the alternative models provide an opportunity to evaluate how declines in revenue could compromise the GF's structurally balanced budget.

Additionally, under the direction of the Mayor and City Council, staff has been exploring a potential 2023 General Obligation (GO) Bond Program that could address critical systems and other City infrastructure. Staff plans to propose the scope and committee structure for a GO Bond Program to Mayor and City Council at a future meeting. The program would require voter approval at the November 2023 general election. The forecast does not assume any increased operating cost impacts for new facilities or capital projects from a potential GO bond program.

#### Next Steps and Community Input

The Phoenix City Charter requires a balanced budget each year. On March 15, a balanced City Manager's Trial Budget will be presented for Council and Community discussion along with the Preliminary Five-Year Capital Improvement Program (CIP). The CIP budget will present options for debt service payments and one-time capital requests. This year staff plans to continue the practice of seeking community input on the proposed budget with several opportunities for residents to provide feedback through virtual Community Budget Hearings to be held during the month of April. In addition, staff will make available to all residents the budget balancing tool, FundPHX, which will include the proposed City Manager's Trial Budget. Residents are also welcome to contact the Budget and Research Department directly to provide input or ask questions about the budget (contact information is available on our website [Phoenix.gov/budget](http://Phoenix.gov/budget)). Feedback received from residents will be provided to the Council regularly as staff progresses through the budget adoption process.

#### **Responsible Department**

This item is submitted by City Manager Jeffrey Barton and the Budget and Research Department.



# City of Phoenix

|   |                                      |
|---|--------------------------------------|
| <b>RESEARCH REPORT<br/>BUDGET AND RESEARCH DEPARTMENT</b> | B.R. REPORT NUMBER<br><b>2022-08</b> |
|   | DATE ISSUED<br>February 11, 2022     |

|   |  |
|---|--|
| TO:<br><b>JEFF BARTON</b><br>CITY MANAGER | FROM:<br><b>AMBER WILLIAMSON</b><br>BUDGET AND RESEARCH DIRECTOR |
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SUBJECT  
**FIVE-YEAR FORECAST AND PRELIMINARY GENERAL FUND STATUS FOR FY 2022-23**

## BACKGROUND

Development and presentation of the five-year forecast is an important step in the City’s budget process. Evaluating projected available resources and identifying potential ongoing budget surpluses or funding gaps will allow City Management and Council to develop strategic plans to ensure the continuation of city operations and optimize services to the community.

The Five-Year Forecast estimates future revenues and expenditures of the General Fund for the current fiscal year through fiscal year 2026-27. The purpose of this forecast is to identify key trends in revenues and expenditures and to provide information about the financial landscape anticipated over the next few years. The information contained in this forecast is based on data available through January 2022.

The General Fund (GF) five-year forecast (**Attachment A**) is provided to the City Council and the community for consideration and provides city policy-makers:

- A strategic financial management best practice
- A framework for strategic decision-making
- The opportunity to make policy changes to maximize city resources and service delivery
- A roadmap to continued fiscal health and award-winning budgetary and financial reporting

The forecast is not an official policy or legal budget document and does not enact any budgetary allocations. The forecast is also not intended to set or precisely predict future revenues or expenditures. Rather, the forecast presents current estimates based on several economic and financial assumptions of the future direction and ranges of growth rates for both resources and expenditures. The economic, revenue, and expenditures assumptions are provided in **Attachment B**.

The forecast is built on several assumptions outlined in **Attachment B** regarding:

- The national, state and local economy
- Possible continued impacts to City revenues from the coronavirus pandemic

- Population and job growth
- Revenue growth
- Impacts of anticipated increasing pension liabilities
- Cost management practices
- Future year expenses

All of these factors are subject to change and are detailed further in this report.

Projecting future available resources and expenses over multiple years is complex and involves several assumptions concerning how revenue and expenditures will grow over time. In order to model potential future budgetary scenarios under varying economic conditions, a range is provided for resources and expenditures. The differences between the upper and lower ends of the ranges increase in the later years of the forecast reflecting additional economic uncertainty. The top of each range represents the “optimistic” forecast, while the bottom of the range represents the “pessimistic” forecast. All of the ranges are based upon the assumptions described in this report.

It is important to note, if any of these assumptions as described were to change or modeled differently, the ranges of amounts presented in the forecast would need to be revised. Unexpected economic shocks, recessions, legislative mandates or other risks to the forecast can also adversely affect projections.

Additionally, even slight variances in the revenue and expenditure growth rates in the initial years of the forecast result in substantial changes to the later years due to the compounding effect of the changes. For example, a revenue growth variance of only 1% in FY 2022-23 can result in a \$14.5 million change to the ending balance, which would impact the ending fund balances in the subsequent forecast years. Long term forecasts become less reliable the further they are from development because of the many underlying assumptions subject to frequent fluctuations.

Projections are formulated in the first six months of the fiscal year and are based on current estimates of where staff believes resources and expenditures will be for the current fiscal year and the subsequent five years. In order to create the most reliable revenue and expenditure projections, staff relies on several economic sources, months of actual collections and extensive technical reviews before recommending estimates to City management and ultimately the City Council for final consideration.

It has been more than two years since COVID-19 began in December 2019 and Phoenix has emerged as an economic leader in the country. Higher than anticipated city and state sales taxes, and one-time resources from Federal COVID-19 aid, have resulted in a positive General Fund balance. Federal assistance from the Coronavirus, Relief, and Economic Security Act (CARES) and the American Rescue Plan Act (ARPA) provided a tremendous amount of one-time stimulus aid to the national, state and local economies, which has temporarily created significant increases in revenue collections. The fiscal outlook for the remainder of FY 2021-22 and looking ahead to FY 2022-23 remains strong, but with some uncertainties. The FY 2022-23 ending General Fund balance is estimated to be \$76 million (**Attachment A**), with approximately \$44 million from one-time resources and \$32 million representing ongoing resources. Staff will bring recommendations on how best to utilize the surplus to the City Council on March 15<sup>th</sup> in the proposed FY 2022-23 Trial Budget. To better prepare for future challenges, this report also includes stress testing for moderate and severe recessions of the GF, which is an essential fiscal tool to evaluate how revenues might respond to different levels of economic crisis (**Attachment C, D and E**).

## OTHER INFORMATION

It is important to note that the preliminary FY 2022-23 budget and forecast is based on existing state-shared revenue models and statutory obligations. Any changes to state-shared revenue formulas, or other revenue sources proposed in the Governor's budget or in legislative bills that would impact the GF budget, are not reflected and would need to be addressed if adopted by the State.

### General Fund FY 2022-23 Preliminary Budget Status

FY 2022-23 Resources- The chart below shows the preliminary resources projection:

| <b>GF Resource Category</b>       | <b>2022-23 Preliminary Estimate (in millions)</b> | <b>2022-23 Preliminary Projected Annual Growth Rate %</b> |
|-----------------------------------|---|---|
| Local Sales & Excise Taxes        | \$633   | 3.4%  |
| State-Shared Revenue <sup>1</sup> | \$621   | 20.4%   |
| Primary Property Tax <sup>2</sup> | \$199   | 4.2%  |
| User Fees and Other               | \$135   | 2.8%  |
| Beginning Balance <sup>3</sup>    | \$175   | N/A   |
| Transfers/Recoveries <sup>3</sup> | \$6   | N/A   |
| <b>Total GF Resources</b>         | <b>\$ 1,769</b>                                   | <b>6.4%</b>   |

<sup>1</sup> Does not reflect any impact to State-Shared Revenue resulting from the FY 2022-23 State budget, nor legislative changes that have recently been proposed or discussed during the current legislative session.

<sup>2</sup> Assumes the continuation of City Council adopted policy to maximize the primary levy in order to preserve GF services. Any deviation from this policy would require an ongoing reduction to GF programs.

<sup>3</sup> Estimates for beginning balance and transfers/recoveries are not derived from annual growth rate projections or broader economic factors.

*Revenue Forecasting Model* - In the fall of 2014, Budget and Research consulted with the University of Arizona's Eller College of Management, Economic and Business Research Center (EBRC) to enhance the City's sales tax revenue forecasting process. Dr. George Hammond, EBRC Director, and Dr. Alberta Charney, Senior Research Economist, spent several months working with City staff to develop an enhanced econometric sales tax forecasting model for all categories of City and State sales tax. In the summer of 2017, staff worked with EBRC to update the tax forecasting model. In March 2021, the EBRC revised the City's model again by including online sales tax. The City began collecting sales tax from online marketplace retailers effective October 2019 just prior to the pandemic, which helped to offset losses experienced in the leisure and hospitality sales tax categories. The EBRC leads the State of Arizona Forecasting Project, which provides in-depth economic forecast analysis and databases on a subscription basis to businesses, organizations, and government via membership. The additional consulting with Drs. Hammond and Charney has provided the City with solid, independent economic and statistical expertise used to develop a statistically valid forecasting model specifically for the City of Phoenix. The projected growth rates in each category of sales tax for the FY 2022-23 estimate and the out years of the forecast are based on projections developed with the enhanced econometric forecasting model.

**2022-23 Expenditures** - The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks. At this time, the preliminary FY 2022-23 General Fund expenditures are projected to be \$1.693 billion, representing an increase of \$85 million over the FY 2021-22 budget. The increase accounts primarily for higher costs for employee compensation and pension, increases in capital equipment and pay-as-you-go projects, and higher contingency amounts.

*Pension Costs* - Expected changes in COPERS and PSPRS pension costs are as follows:

- **COPERS**: GF pension costs in FY 2022-23 for civilian employees are expected to increase approximately \$9 million compared to the current year budget. The overall trend in COPERS pension cost has been driven by recent actuarial changes, plan earnings, payroll growth and pension reform. As the five-year forecast shows, COPERS pension costs are estimated to increase \$1 million from the FY 2021-22 Budget through FY 2026-27 (**Attachment F**), and the peak cost will be in FY 2022-23 as the estimated pension contribution rates decrease from FY 2023-24 to FY 2026-27.
- **PSPRS**: GF pension costs in FY 2022-23 for sworn Police and Fire are expected to increase approximately \$15 million compared to the current year budget. The primary factors contributing to the growth over the current year budget are recent actuarial changes, plan earnings, and changes to the payroll base. Pension costs have also been impacted by repealed pension reform measures. As the five-year forecast shows, public safety pension costs are estimated to increase \$47M from the FY 2021-22 Budget through FY 2026-27 (**Attachment F**), which adds significant pressure to the GF budget going forward and limits the City's ability to expand program and services to residents.

*Contingency* – The contingency fund is assumed to increase from \$57 million to \$68 million in FY 2022-23 to reflect 4.25% of operating expenditures. It is increased by 0.25% each year thereafter until 5% is achieved in FY 2025-26. In March 2010, the City Council agreed to gradually increase the contingency with a goal of achieving 5% of GF operating expenses. Achieving this goal will improve the City's ability to withstand potential future economic declines.

Detailed preliminary estimates with multiple year-to-year comparisons are included in the Zero-Based Budget Inventory of Programs document, which is available online at [phoenix.gov/budget](http://phoenix.gov/budget). Revenue and expense estimates continue to be developed, and more definitive estimates will be presented along with the City Manager's Trial Budget on March 15.

The GF preliminary FY 2022-23 budget status and Five-Year Forecast are provided for information and discussion.

## **ATTACHMENTS**

Attachment A- Five-Year General Fund Forecast

Attachment B- Forecast Assumptions

Attachment C- Background, Methodology and Assumptions for Stress Testing

Attachment D- Stress Testing for Moderate Recession Scenario

Attachment E- Stress Testing for Severe Recession Scenario

Attachment F- Pension Cost Increases

**ATTACHMENT A**  
**5-Year General Fund Forecast (\$ Millions)**

|  | 2021-22<br>Adopted<br>Budget | 2022-23<br>Preliminary<br>Budget Estimate | 2023-24<br>Forecast      | 2024-25<br>Forecast      | 2025-26<br>Forecast      | 2026-27<br>Forecast      |
|--|------------------------------|---|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Resources</b>                                 |                              |   |                          |                          |                          |                          |
| Local Taxes                                      | \$550                        | \$633                                     | \$659 - \$668            | \$685 - \$706            | \$712 - \$745            | \$741 - \$788            |
| State Shared Revenues                            | 496                          | 621                                       | 673 - 683                | 651 - 670                | 664 - 695                | 663 - 705                |
| Primary Property Tax                             | 191                          | 199                                       | 205 - 208                | 211 - 217                | 217 - 227                | 224 - 238                |
| User Fees and Other                              | 118                          | 135                                       | 136 - 138                | 138 - 142                | 139 - 146                | 141 - 150                |
| Other (Carryover Balance, Transfers, Recoveries) | 197                          | 124                                       | 49                       | 20                       | 24                       | 22                       |
| Unused Contingency from Prior Year               | 56                           | 57  | 68                       | 76                       | 80                       | 86 - 85                  |
| <b>Total Resources</b>                           | <b>\$1,608</b>               | <b>\$1,769</b>                            | <b>\$1,790 - \$1,814</b> | <b>\$1,781 - \$1,831</b> | <b>\$1,836 - \$1,917</b> | <b>\$1,877 - \$1,988</b> |
| <b>Expenditures</b>                              |                              |   |                          |                          |                          |                          |
| Operating Expenditures                           | \$1,172                      | \$1,191                                   | \$1,283 - \$1,277        | \$1,275 - \$1,266        | \$1,302 - \$1,294        | \$1,377 - \$1,365        |
| Civilian Pension                                 | 94                           | 103                                       | 101                      | 99                       | 95                       | 95                       |
| Sworn Public Safety Pension                      | 245                          | 260                                       | 277                      | 289                      | 290                      | 292                      |
| Contingency                                      | 57                           | 68  | 76                       | 80                       | 86 - 85                  | 89                       |
| Pay-As-You-Go Capital (Includes Technology Plan) | 25                           | 46  | 40                       | 45                       | 45                       | 44                       |
| Minimum Vehicles                                 | 15                           | 25  | 25                       | 25                       | 25                       | 25                       |
| <b>Total Expenditures</b>                        | <b>\$1,608</b>               | <b>\$1,693</b>                            | <b>\$1,802 - \$1,796</b> | <b>\$1,813 - \$1,804</b> | <b>\$1,843 - \$1,834</b> | <b>\$1,922 - \$1,910</b> |
| <b>PROJECTED (DEFICIT)/SURPLUS:</b>              | <b>\$ -</b>                  | <b>\$76</b>                               | <b>\$(12) - \$18</b>     | <b>\$(32) - \$27</b>     | <b>\$(7) - \$83</b>      | <b>\$(45) - \$78</b>     |

**Key Resource Forecast Assumptions:**

- \* The forecast assumes modest revenue growth with no recession from 2023-24 to 2026-27, no fee increases or decreases and no new revenue sources.
- \* The forecast includes Tax Rate Reduction: Laws 2021, Chapter 412 (Tax Omnibus), reduces the current Individual Income Tax (IIT) brackets to 2 starting in Tax Year (TY) 2022. The forecast also includes the 4.5% Maximum IIT Rate: Law 2021, Chapter 411, imposes a maximum combined (regular plus Prop. 208) IIT rate of 4.5% on taxable income above \$250K/\$500K. The forecast also includes the Alternative Tax Rate (SB 1783), imposes an alternative tax rate phased down from 3.5% in TY 2021 to 2.5% in TY 2025 on taxable income.
- \* Relative population share used in calculating state shared revenues in 2022-23 was based on the 2020 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates. In addition, Laws 2021, Chapter 412 (Tax Omnibus) increases the Urban Revenue Sharing distribution from 15% to 18% starting in 2023-24.

**Key Expenditure Forecast Assumptions:**

- \* The contingency fund is set as 4.25% in 2022-23, 4.5% in 2023-24, 4.75% in 2024-25, and 5% for both 2025-26 and 2026-27 of the total General Fund operating expenditures.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2022-23 employee costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs are based on required and projected contribution rates provided by the respective pension system actuaries and uses the Alternative Contribution Strategy for COPERS.
- \* Non-personnel related expenditures for 2023-24 and beyond assume expenditure growth is in line with recent historical averages.

**Other Forecast Notes:**

- \* Ranges provided for revenues and expenditures. Upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.
- \* Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.
- \* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

## ATTACHMENT B

### Forecast Assumptions

**Economic Sources** - Budget and Research staff relies on several different sources for economic data and forecasts to assist with developing revenue and expenditure projections.

The list below includes the primary sources of information:

- State of Arizona Finance Advisory Committee (FAC) which includes several economists and finance professionals from the private and public sectors
- State of Arizona Joint Legislative Budget Committee (JLBC)
- University of Arizona (UofA), Economic Business Research Center
- Global Insight, IHS
- Arizona State University (ASU) – WP Carey School of Business, and Western Blue Chip
- Arizona Department of Administration (ADOA) - Employment and Population Statistics Office
- JP Morgan Chase Economic Outlook Center
- Blue Chip Economic Indicators – National Level
- U.S. Bureau of Labor Statistics
- U.S. Census Bureau
- Phoenix Business Journal
- University of Arizona (UofA) Forecasting Project – A community-sponsored research program within the Economic and Business Research Center providing project members with economic forecasts for Arizona, the Phoenix-Mesa metro area, and the Tucson metro area. City staff attends the Forecasting Project quarterly meetings and receives quarterly reports and data/projections used to assist in developing our forecasts. Forecasting Project data relies on Global Insight, IHS which is a well-known economics organization that provides comprehensive economic and financial information. The data from this project is incorporated into an econometric software program used to forecast sales tax.

### **Economic Outlook**

The U.S. economy has been on a roller coaster ride the past two years, as coronavirus and the emergency government response to it brought on both the sharpest, shortest recession in history as well as the fastest growth in nearly 40 years. The consensus from trusted sources is the economic recovery from the pandemic will continue to be robust, albeit a slowdown from 2021.

At the national level, the Conference Board forecasts that the U.S. GDP will grow by 3.5% in 2022 and 2.9% in 2023 (The Conference Board, January 2022). Although the overall economy is expected to expand continuously, several factors pose risks to the forecast, including the ongoing public health crisis, inflation, global supply chain issues, and labor shortages. As of January 2022, the highly transmissible Omicron variant accounted for more than 95 percent of sequenced COVID cases in the United States, according to data from the Centers for Disease Control and Prevention. Even though COVID cases and hospitalizations started trending down in February, other COVID variants may halt the economic recovery. In addition to the COVID threat, inflation remains the most significant economic concern in 2022. The U.S. Bureau of Labor Statistics CPI for All Urban Consumers rose 7.0 percent before seasonal adjustment for the 12 months ending December, the most significant 12-month increase since the period ending June 1982. According to the Blue Chip forecast panel, the supply-chain constrain will continue to impose upward pressure on inflation through at least three-quarters of 2022. (Blue Chip Economic Indicators, Vol. 47, No. 1 January 2022). Along with the shortages of materials and goods, the large number of unfilled jobs is another headwind of the economy. It is estimated that more than 10 million jobs are going unfilled in the

country, and the national labor force participation rate has still not returned to the pre-pandemic level (The Monday Morning Quarterback, January 10<sup>th</sup>, 2022). According to the Bureau of Labor Statistics, the January 2022 labor force participation rate was 62.2%, 1.2% below the pre-COVID level of 63.4% in January 2020. Although the percentage difference is minimal, it accounts for millions of people.

Arizona's economy and revenue growth have outperformed the nation throughout the pandemic, and this trend is expected to continue. As of November 2021, Arizona replaced 101% of the jobs lost during the pandemic (Office of the Governor News Release, December 2021). Arizona was also ranked third in population growth in 2021 according to the U.S. Census. Additionally, Arizona has experienced strong housing demand and a significant increase in prices. Year-to-date as of September 2021, single family permits were up by 23% and multi-family permits grew by 5.6% (58<sup>th</sup> Annual Economic Forecast Luncheon, December 2021).

Other significant economic assumptions from trusted sources built into this forecast include the following:

- Personal income for the Phoenix Metro area is projected to grow only 0.2% in 2022 due to federal assistance which caused a high base in 2021 of 6.6% and range from 5.8% to 6.4% from 2023 to 2027 (UofA Economic Business Research Center).
- Growth in population is expected to continue, but at lower rates than historical growth. Phoenix Metro population is projected to grow from 1.8% in 2021 to 2.0% in 2022 and range from 1.6% to 1.9% for the remaining forecast period (UofA Economic Business Research Center).
- Non-farm employment in metro Phoenix is estimated to grow from 3.3% in 2021 to 3.7% in 2022 and range from 2.0% to 2.6% from 2023 to 2027 (UofA Economic Business Research Center).
- Arizona unemployment rate is estimated to fall from the current rate of 6.4% to 5.5% in 2022 and range from 4.7% to 4.9% for the remaining forecast horizon (UofA Economic Business Research Center).
- The near-term outlook for real estate in Greater Phoenix remains optimistic. Single-family residential permits are projected to increase by 5% in 2022, although multi-family permits in 2022 are expected to be lower than 2021 (ASU W.P. Carey School of Business- Greater Phoenix Blue Chip Forecast/ Economic Forecasting Luncheon, December 2021).
- Inflation is expected to decelerate from 2021. The Consumer Price Index-All Urban Consumers (CPI-U) West region is estimated to be 4.7% in 2022 and range from 2.1% to 2.3% for the remaining forecast period (UofA Economic Research Center). In the past 50 years, CPI-U has ranged from negative 0.4% in 2009, to a high of 13.5% in 1980 (U.S. Department of Labor Bureau of Labor Statistics).

**Resource Assumptions-** Revenue growth rates are determined using information from our above-mentioned trusted sources, analyzing actual revenue trends and averages, and factoring in any known policy or legislative changes.

Revenue assumptions beyond the broader economic considerations are described below:

- No further period of recession with modest revenue growth for the forecast horizon.
- Annual revenue growth rates range from 1.5% to 9.5% during the forecast period.
- No impact to current revenue tax base, as provided in applicable state statutes and City ordinances.

- The forecast includes Tax Rate Reduction: Laws 2021, Chapter 412 (Tax Omnibus), reduces the current Individual Income Tax (IIT) brackets to 2 starting in Tax Year (TY) 2022. The forecast also includes the 4.5% Maximum IIT Rate: Law 2021, Chapter 411, imposes a maximum combined (regular plus Prop. 208) IIT rate of 4.5% on taxable income above \$250K/\$500K. The forecast also includes the Alternative Tax Rate (SB 1783), imposes an alternative tax rate phased down from 3.5% in TY 2021 to 2.5% in TY 2025 on taxable income.
- Relative population share used in calculating state shared revenues in 2022-23 was based on the 2020 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates. In addition, Laws 2021, Chapter 412 (Tax Omnibus) increases the Urban Revenue Sharing distribution from 15% to 18% starting in FY 2023-24.
- No future fee increases or decreases and no new sources of revenue.
- Potential increases to revenue resulting from economic development efforts are not included in the forecast.
- Ranges provided for revenues: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

**Expenditure Assumptions**- Assumptions regarding forecasted expenditures are described below:

- Annual operating expenditure growth rates, except for pension, are based on the historical growth rates and the estimated average of CPIs throughout the forecast period.
- Pension costs are based on historical actuals and information provided by the COPERS and PSPRS actuaries. The forecast does not attempt to predict future pension liabilities, assets or other plan assumptions, but rather to account for the anticipated costs of both pension systems. COPERS' pension costs are based on the Alternative Contribution Strategy provided by the system's actuary, which assumes slightly higher contribution rates as a strategy to pay down the unfunded COPERS pension liability sooner.
- The forecast does not include the impact of additional potential reform measures for COPERS or PSPRS or the impact of pending litigation or proposed legislation.
- The forecast includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- Pay-as-you-go capital costs are based on the preliminary estimates in the five-year Capital Improvement Program and include costs for facility major maintenance, increases in funding for replacement of critical IT infrastructure, and money earmarked for a future time and labor system.
- The forecast includes projected debt service for the mandated Regional Wireless Cooperative radio replacements, replacement of the city phone system, LED streetlights and badging systems, associated technology infrastructure, and an assumed excise tax bond sale of \$150 million in FY 2022-23 for renovations of the 100 W. Washington building. The original debt of \$60 million for the acquisition of the building and Phase I improvements is scheduled to be paid in full in FY 2021-22 using one-time resources in the General Fund.
- The contingency fund is set as 4.25% in FY 2022-23, 4.5% in FY 2023-24, 4.75% in FY 2024-25, and 5% for both FY 2025-26 and FY 2026-27 of the total General Fund operating expenditures.
- The FY 2022-23 total compensation costs are based on projections under the current Council- adopted pay plan ordinance and existing employee contracts.

- No other financial impact from changes to labor unit contracts resulting from future negotiations is assumed.
- In forecast years with a projected baseline deficit or surplus, the next year's operating expenses are assumed to decrease or increase by the baseline deficit/surplus amount prior to applying the assumed annual growth projection, as the City is required by Charter to balance the budget each year.
- Ranges provided for operating expenditures: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

Other Items that Could Impact the Base Budget or the Five-Year Forecast- The cost and revenue items below either will likely require additional funding or could adversely impact revenue and therefore could have a negative impact on the five-year forecast as it's currently presented. The cost items may need to be ultimately borne, in part or in whole, by the General Fund if no other funding source is identified by the time these costs are imminent.

- Under the direction of the Mayor and City Council, staff has been exploring a potential 2023 General Obligation (GO) Bond Program that could address critical systems and other city infrastructure. Staff plans to propose the GO Bond Program to Mayor and City Council at a future City Council meeting. The program would require voter approval at the November 2023 general election. The forecast does not assume any increased operating cost impacts for new facilities or capital projects from a potential GO bond program.
- The forecast reflects the continued funding of approximately \$13 million per year earmarked to address aging City infrastructure and critical equipment. Examples of these projects include upgrades and replacements of fire life safety, electrical, and cooling systems in City facilities. Also, under the direction of the City Manager, staff continues to identify critical needs in all City facilities. Staff continues to work with several external firms that specialize in facility assessments. Staff has also taken active steps to enhance facility maintenance oversight by centralizing GF facility maintenance funding and creating a review committee. This change has significantly enhanced the prioritization of GF facility projects.
- General Fund vehicle funding is estimated at \$25 million from FY 2022-23 to FY 2026-27, with the majority of the funding earmarked for public safety, particularly Fire apparatus. While the forecast shows increased funding for vehicle replacements, the citywide need is greater to resolve the backlog of GF units over the forecast period. The Public Works Fleet Management Division estimates the General Fund backlog of vehicle replacements to be approximately \$156M representing just over 1,800 units. In the Fire Department additional funding is needed to replace expensive apparatus equipment including pumpers, ambulances and ladders, which were originally purchased with voter approved General Obligation Bond funds. Of the 97 fire pumper trucks in the fleet, over 69% are either due now or will be due for replacement in the next five years.
- The Governor's proposed budget includes additional payments to the Arizona Department of Revenue for replacing the outdated tax system. It is estimated that Phoenix will need to pay a total of \$8.4 million from FY 2022-23 to FY 2027-28 (\$1.1 million to \$1.5 million per year for six years).

- Beyond the potential risks and headwinds stated in the economic outlook section, the November 2022 referendum for repealing the income tax rate reduction and the legal challenge of Proposition 208 for the 3.5% income tax surcharge for single households with more than \$250,000 in income and married households with more than \$500,000 could also affect the revenue estimates and 5-Year Forecast. If the income tax rate reduction and Proposition 208 become invalid, the City's state-shared income tax revenue will be decreased by about \$29 million in FY 2023-24, although the overall income tax collections will be increased during the forecast period. With the current situation, the income tax cut will not affect the City's income tax revenue until FY 2024-25 (state-shared income tax revenue is based on actual collections from two years prior), and the urban revenue sharing (URS) distribution increases from 15% to 18% effective in FY 2023-24. Thus, the City will receive additional revenue in FY 2023-24 due to the increased URS distribution. However, the extra URS distribution is to compensate cities and towns for their revenue loss due to the income tax rate reduction. If the tax rate reduction is reversed, we assume the URS distribution will revert to 15%, and the revenue collection for FY 2023-24 will be less than the forecasted amount.

## ATTACHMENT C

### Stress Testing for General Fund

**Background** – According to the National Bureau of Economic Research, the longest economic expansion on record was ended by COVID-19 in February 2020. The COVID-19 recession is one of the deepest, but also the shortest in U.S. history. With federal stimulus packages and more than anticipated revenue collections, the City was not forced to cut the budget. However, each recession has its own features, and it is hard to predict when a recession will occur, how significant the impact will be and for what duration. Stress testing helps estimate the potential financial shortfalls that could result from adverse events. To help the City plan ahead, avert or limit a fiscal emergency and keep long-term priorities on track, stress testing was done for the General Fund.

**Methodology/Assumptions**- "Stress test" in financial terminology, is an analysis or simulation designed to determine the ability of a given entity to deal with an economic crisis. Instead of doing a financial projection on a "best estimate" basis, a company or its regulators may do stress testing to estimate how robust an entity performs in certain negative circumstances, a form of scenario analysis. There are two scenarios for this stress testing: moderate and severe recession scenarios.

**Attachment D** shows a hypothetical moderate recession that is estimated to start in 2025-26. This scenario assumes that General Fund revenue, except state-shared income tax, will decline by 1% for two consecutive years. According to Moody's Analytics, a recession typically affects budgets for at least two years. Although a moderate recession may impact revenue by more than 1%, the model is simulated with a 1% decrease. State-shared income tax distributed to cities and towns is based on the collections from 2 years prior, so the state-shared income tax decrease due to a moderate recession will not affect revenues until 2027-28.

**Attachment E** shows a hypothetical severe recession that is estimated to start in 2025-26. This scenario assumes that General Fund revenue, except state-shared income tax, will decline by 3% for two consecutive years. Although a severe recession may impact revenues by more than 3%, for simulation purposes, this stress test used a 3% decrease. Similar to the moderate scenario, the state-shared income tax decrease caused by the economic recession will not affect revenues until 2027-28.

Assumptions for recoveries, fund transfers and expenditures remain the same as the model shown in **Attachment A**. However, the expenditures for the forecast period will be different due to the methodology applied in the model. When a deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

**ATTACHMENT D**  
**5-Year General Fund Forecast – Moderate Recession Scenario (\$ Millions)**

|  | 2021-22        | 2022-23                     | For Planning Purposes Only |                          |                          |                          | 2026-27  |
|--|----------------|-----------------------------|----------------------------|--------------------------|--------------------------|--------------------------|----------|
|  | Adopted Budget | Preliminary Budget Estimate | 2023-24 Forecast           | 2024-25 Forecast         | 2025-26 Forecast         | 2026-27 Forecast         | Forecast |
| <b>Resources</b>                                 |                |                             |                            |                          |                          |                          |          |
| Local Taxes                                      | \$550          | \$633                       | \$659 - \$668              | \$682 - \$703            | \$669 - \$701            | \$658 - \$700            |          |
| State Shared Revenues                            | 496            | 621                         | 673 - 683                  | 649 - 669                | 643 - 673                | 620 - 660                |          |
| Primary Property Tax                             | 191            | 199                         | 205 - 208                  | 211 - 217                | 207 - 217                | 203 - 216                |          |
| User Fees and Other                              | 118            | 135                         | 136 - 138                  | 138 - 142                | 135 - 141                | 132 - 141                |          |
| Other (Carryover Balance, Transfers, Recoveries) | 197            | 124                         | 49                         | 20                       | 24                       | 22                       |          |
| Unused Contingency from Prior Year               | 56             | 57                          | 68                         | 76                       | 80                       | 85                       |          |
| <b>Total Resources</b>                           | <b>\$1,608</b> | <b>\$1,769</b>              | <b>\$1,790 - \$1,814</b>   | <b>\$1,776 - \$1,827</b> | <b>\$1,758 - \$1,836</b> | <b>\$1,720 - \$1,824</b> |          |
| <b>Expenditures</b>                              |                |                             |                            |                          |                          |                          |          |
| Operating Expenditures                           | \$1,172        | \$1,191                     | \$1,283 - \$1,277          | \$1,274 - \$1,266        | \$1,299 - \$1,289        | \$1,295 - \$1,284        |          |
| Civilian Pension                                 | 94             | 103                         | 101                        | 99                       | 95                       | 95                       |          |
| Sworn Public Safety Pension                      | 245            | 260                         | 277                        | 289                      | 290                      | 292                      |          |
| Contingency                                      | 57             | 68                          | 76                         | 80                       | 85                       | 85                       |          |
| Pay-As-You-Go Capital (Includes Technology Plan) | 25             | 46                          | 40                         | 45                       | 45                       | 44                       |          |
| Minimum Vehicles                                 | 15             | 25                          | 25                         | 25                       | 25                       | 25                       |          |
| <b>Total Expenditures</b>                        | <b>\$1,608</b> | <b>\$1,693</b>              | <b>\$1,802 - \$1,796</b>   | <b>\$1,812 - \$1,804</b> | <b>\$1,839 - \$1,829</b> | <b>\$1,836 - \$1,825</b> |          |
| <b>PROJECTED (DEFICIT)/SURPLUS:</b>              | <b>\$ -</b>    | <b>\$76</b>                 | <b>\$(12) - \$18</b>       | <b>\$(36) - \$23</b>     | <b>\$(81) - \$7</b>      | <b>\$(116) - \$(1)</b>   |          |

**Key Resource Forecast Assumptions:**

- \* The forecast assumes moderate recession in 2025-26 and 2026-27, no fee increases and no new revenue sources.
- \* The forecast includes Tax Rate Reduction: Laws 2021, Chapter 412 (Tax Omnibus), reduces the current Individual Income Tax (IIT) brackets to 2 starting in Tax Year (TY) 2022. The forecast also includes the 4.5% Maximum IIT Rate: Law 2021, Chapter 411, imposes a maximum combined (regular plus Prop. 208) IIT rate of 4.5% on taxable income above \$250K/\$500K. The forecast also includes the Alternative Tax Rate (SB 1783), imposes an alternative tax rate phased down from 3.5% in TY 2021 to 2.5% in TY 2025 on taxable income.
- \* Relative population share used in calculating state shared revenues in 2022-23 was based on the 2020 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates. In addition, Laws 2021, Chapter 412 (Tax Omnibus) increases the Urban Revenue Sharing distribution from 15% to 18% starting in 2023-24.

**Key Expenditure Forecast Assumptions:**

- \* The contingency fund is set as 4.25% in 2022-23, 4.5% in 2023-24, 4.75% in 2024-25, and 5% for both 2025-26 and 2026-27 of the total General Fund operating expenditures.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2022-23 employee costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs are based on required and projected contribution rates provided by the respective pension system actuaries and uses the Alternative Contribution Strategy for COPERS.
- \* Non-personnel related expenditures for 2023-24 and beyond assume expenditure growth is in line with recent historical averages.

**Other Forecast Notes:**

- \* Ranges provided for revenues and expenditures. Upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.
- \* Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.
- \* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

## ATTACHMENT E 5-Year General Fund Forecast – Severe Recession Scenario (\$ Millions)

|  | 2021-22        | 2022-23                     | 2023-24                  | For Planning Purposes Only |                          | 2026-27                  |
|--|----------------|-----------------------------|--------------------------|----------------------------|--------------------------|--------------------------|
|  | Adopted Budget | Preliminary Budget Estimate | Forecast                 | 2024-25 Forecast           | 2025-26 Forecast         | Forecast                 |
| <b>Resources</b>                                 |                |                             |                          |                            |                          |                          |
| Local Taxes                                      | \$550          | \$633                       | \$659 - \$668            | \$681 - \$702              | \$654 - \$686            | \$630 - \$671            |
| State Shared Revenues                            | 496            | 621                         | 673 - 683                | 649 - 669                  | 636 - 666                | 606 - 646                |
| Primary Property Tax                             | 191            | 199                         | 205 - 208                | 211 - 217                  | 203 - 212                | 195 - 208                |
| User Fees and Other                              | 118            | 135                         | 136 - 138                | 138 - 142                  | 132 - 139                | 127 - 135                |
| Other (Carryover Balance, Transfers, Recoveries) | 197            | 124                         | 49                       | 20                         | 24                       | 22                       |
| Unused Contingency from Prior Year               | 56             | 57                          | 68                       | 76                         | 80                       | 85                       |
| <b>Total Resources</b>                           | <b>\$1,608</b> | <b>\$1,769</b>              | <b>\$1,790 - \$1,814</b> | <b>\$1,775 - \$1,826</b>   | <b>\$1,729 - \$1,807</b> | <b>\$1,665 - \$1,767</b> |
| <b>Expenditures</b>                              |                |                             |                          |                            |                          |                          |
| Operating Expenditures                           | \$1,172        | \$1,191                     | \$1,283 - \$1,277        | \$1,274 - \$1,267          | \$1,297 - \$1,288        | \$1,264 - \$1,255        |
| Civilian Pension                                 | 94             | 103                         | 101                      | 99                         | 95                       | 95                       |
| Sworn Public Safety Pension                      | 245            | 260                         | 277                      | 289                        | 290                      | 292                      |
| Contingency                                      | 57             | 68                          | 76                       | 80                         | 85                       | 84 - 83                  |
| Pay-As-You-Go Capital (Includes Technology Plan) | 25             | 46                          | 40                       | 45                         | 45                       | 44                       |
| Minimum Vehicles                                 | 15             | 25                          | 25                       | 25                         | 25                       | 25                       |
| <b>Total Expenditures</b>                        | <b>\$1,608</b> | <b>\$1,693</b>              | <b>\$1,802 - \$1,796</b> | <b>\$1,812 - \$1,805</b>   | <b>\$1,837 - \$1,828</b> | <b>\$1,804 - \$1,794</b> |
| <b>PROJECTED (DEFICIT)/SURPLUS:</b>              | <b>\$ -</b>    | <b>\$76</b>                 | <b>\$(12) - \$18</b>     | <b>\$(37) - \$21</b>       | <b>\$(108) - \$(21)</b>  | <b>\$(139) - \$(27)</b>  |

**Key Resource Forecast Assumptions:**

- \* The forecast assumes severe recession in 2025-26 and 2026-27, no fee increases and no new revenue sources.
- \* The forecast includes Tax Rate Reduction: Laws 2021, Chapter 412 (Tax Omnibus), reduces the current Individual Income Tax (IIT) brackets to 2 starting in Tax Year (TY) 2022. The forecast also includes the 4.5% Maximum IIT Rate: Law 2021, Chapter 411, imposes a maximum combined (regular plus Prop. 208) IIT rate of 4.5% on taxable income above \$250K/\$500K. The forecast also includes the Alternative Tax Rate (SB 1783), imposes an alternative tax rate phased down from 3.5% in TY 2021 to 2.5% in TY 2025 on taxable income.
- \* Relative population share used in calculating state shared revenues in 2022-23 was based on the 2020 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates. In addition, Laws 2021, Chapter 412 (Tax Omnibus) increases the Urban Revenue Sharing distribution from 15% to 18% starting in 2023-24.

**Key Expenditure Forecast Assumptions:**

- \* The contingency fund is set as 4.25% in 2022-23, 4.5% in 2023-24, 4.75% in 2024-25, and 5% for both 2025-26 and 2026-27 of the total General Fund operating expenditures.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2022-23 employee costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs are based on required and projected contribution rates provided by the respective pension system actuaries and uses the Alternative Contribution Strategy for COPERS.
- \* Non-personnel related expenditures for 2023-24 and beyond assume expenditure growth is in line with recent historical averages.

**Other Forecast Notes:**

- \* Ranges provided for revenues and expenditures. Upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.
- \* Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.
- \* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

## ATTACHMENT F

The below chart illustrates the rise in General Fund (GF) pension costs for PSPRS and COPERS. The forecast for fiscal years 2022-23 through 2026-27 is based on information from plan actuaries and on the valuations dated June 30, 2021. Projected amounts account for recent changes made by the PSPRS Board to lower the payroll growth assumption from 3.0% to 2.0% by a factor of 0.5% each fiscal year, resulting in increased employer contribution rates. The projected amounts for COPERS assume the employer rates are based on the Alternative Contribution Strategy recommended by the system actuary to pay down the unfunded liability sooner.

