

City Talk Column for July 27, 2022
Financial Services Department
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Dive into the city's budget

The fiscal year (FY) 2023 public budget process began months ago with the Council retreat on January 4th-6th. Council identified numerous priorities from the Community Plan for further advancement during FY 2023. Those priorities have also been addressed in numerous community surveys and outreach programs to obtain additional community input. Some of the initiatives included in the FY 2023 budget are the affordable housing program, sustainability program, strategic land acquisition, a public transit system, further development of the Ranger Station park and continuation of traffic improvement projects. On May 18th-19th, the City Council reviewed the proposed budget in detail, and on July 12th, Council approved the tentative budget.

The tentative budget includes significant increases in revenue projections based on the significant increases in sales and bed tax revenues. FY 2022 sales and bed tax revenues through May 2022 have well exceeded any prior year, are 60% higher than the pre-COVID peak in 2019 and have resulted in \$6.6 million more revenue than was originally projected for FY 2022.

The FY 2023 tentative budget is \$105.7 million, an increase over the FY 2022 budget of \$43.1 million or 69%. Even with this increase, we're still projecting that the city will have available funds of \$45.5 million more than what is budgeted for FY 2023, on top of fully funded reserves. This means the city could adopt a budget up to \$45.5 million higher than has been proposed and still be in balance! Out of conservatism and setting aside surpluses for large initiatives, Sedona has a long history of budgeting less than is statutorily allowed.

The budget includes the following:

- Strategic land acquisition of \$20 million, an increase of \$18.2 million, to better manage how land is developed within the expectations of maintaining the community character and advancing the initiatives in the Community Plan.
- Increase for traffic improvement projects of \$13 million resulting in a fiscal year 2023 budget amount of \$22.7 million, including funding for a Forest Road bypass connection to State Route 89A as an alternate route in and out of the Uptown area; a pedestrian underpass at Oak Creek to minimize foot traffic crossing at street level; and a parking garage in Uptown to consolidate parking and minimize the number of vehicle trips through the Uptown area, eliminate tourist parking on Uptown neighborhood streets and provide a transit stop to keep vehicles in the garage as long as possible.
- Increase for wastewater capital infrastructure needs of \$4.3 million due to significant increases in costs for construction, materials and parts. In order to minimize the need for future wastewater rate increases, \$1.9 million of the capital costs will be covered with American Rescue Plan Act monies.
- Increase in debt payments of \$2.2 million for payment on new bonds issued in March 2022, as well as a placeholder for possible debt related to potential land acquisition.
- Additional \$1.1 million for payment toward the underfunded police pension plan.

- A \$430,000 reduction in the tourism bureau contract with continuation of the hiatus on advertising.
- Other budget items include funding for evacuation planning and modeling, a short-term rental monitoring and administration program, enhancements to the sustainability program, continued implementation of a public transit system, increases to the community service contracts such as the library and Sedona Recycles, and addition of a community service contract with the Sedona Historical Society.

Coincidentally, the city is starting off the fiscal year with an estimated \$103.7 million, which is about the same as the tentative budget, so theoretically there could be zero revenue for the year, and the city would still be able to pay for the budget! With the projected \$45.5 million surplus, revenues could decrease 60% and the expenditures and required reserves would still be fully covered. As a point of comparison, from the peak prior to the Great Recession to the low during the Great Recession, revenues dropped about 15%. Also, it took four years to reach the lowest point, so the drop in revenues did not happen overnight. During the budget work sessions, long-range forecasts with speculative impacts of a recession were reviewed and possible actions were discussed. The city's financial position is monitored daily, and the city has proactively addressed revenue reductions in past recessions.

Additional information on the city's FY 2023 tentative budget can be found at www.sedonaaz.gov/finance.

The FY 2023 final budget adoption is scheduled for August 9, 2022 at 4 p.m. in Council Chambers. If you have questions about the city's budget, please contact me at (928) 203-5193.