

City Talk Column for August 14, 2024
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Fiscal Year 2025 highlights

The fiscal year (FY) 2025 public budget process started with the City Council retreat on December 13th-14th. Council identified numerous priorities from the Community Plan for further advancement during FY 2025. Those priorities have also been addressed in community surveys and outreach programs to obtain additional community input. Some of the initiatives included in the FY 2025 budget are projects related to traffic improvements through Sedona in Motion, the public transit system, constructing affordable workforce housing units, expanded broadband services, considered concepts for the Western Gateway and tourism management with our first full year being an in-house tourism bureau. On April 17th-18th, the City Council reviewed the proposed budget in detail, and on May 28th, Council approved the tentative budget. The final budget adoption was on June 25th just in time for the new FY to begin on July 1st.

The tentative budget conservatively projects an increase in sales and bed tax revenues compared to last fiscal year, which budgeted for the probability of a recession. Interestingly, sales and bed tax revenues for fiscal year 2024 are trending at an increase of 6% over the prior fiscal year, 2023. Other revenues are projected to increase, however state share revenues are projected to decrease with the state reporting a \$1.3 billion budget deficit. The net of the projected increases and decreases is an overall increase of \$3 million or 5%, mostly attributed to the projected sales and bed tax increases.

The FY 2025 tentative budget is \$106.1 million, an increase from the FY 2024 budget of \$20.2 million or 24%. Even with the significant initiatives included in the budget, projected available funds are \$5.6 million more than what is budgeted for FY 2025, on top of fully funded reserves.

The budget includes the following:

- Traffic improvement projects totaling \$32 million, including the start of the Uptown Parking Garage, continued work on the Forest Road Connection to State Route 89A and the completion of the Pedestrian Crossing at Oak Creek.
- Wastewater operations and infrastructure projects totaling \$14.3 million, including upgrades to lift stations and the treatment process.
- Public transit operations and infrastructure projects totaling \$5.6 million, including continued trailhead shuttle operations, start of a micro-transit service and Sedona's portion of the Verde Shuttle system operated by the city of Cottonwood. Many of these projects are funded in part by grant funding from the Federal Transit Administration.
- Police operations and infrastructure projects totaling \$14.9 million, including a one-time \$4.1 million payment toward the underfunded police pension plan.
- Streets maintenance costs totaling \$4 million. \$1 million is to be paid by state gas tax funding.
- Communications, tourism and economic initiatives totaling \$2.6 million.
- Service provider agreements totaling \$1.5 million for the Library, Humane Society, Community Center, Verde Valley Caregivers, Sedona Historical Society and Sedona Recycles.
- Parks and recreation operations, maintenance and infrastructure projects totaling \$4.7 million, including completing construction of the Ranger Station Park and pickleball courts at Posse

Grounds Park. \$2 million of the \$4.7 million is to be paid by donations, development fees and other outside funding sources.

- Sustainability initiatives totaling \$800,000 including solar lighting and LED retrofit projects.
- Housing and homelessness costs totaling \$1.3 million, plus \$19.3 million set aside in reserves for housing project loans. Approximately \$900,000 of the \$1.3 million is to be paid by grants and other outside funding sources.
- Debt service payments totaling \$8 million. Bond covenants require pledged revenues to be at least 1.5 times the debt payments. Estimated pledged revenues are well above that, at 5.4 times.

The city is starting off the fiscal year with an estimated \$116.4 million, which is greater than 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. 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 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. The city is in a strong position to proactively manage its finances and address the many priorities of the community.

Additional information on the city's FY 2025 final budget can be found at www.sedonaaz.gov/finance.