Multi-Year Financial Outlook
FY 2024 - FY 2028

GROWTH

LONG RANGE PLANNING

Office of Management and Budget
## City of El Paso

March 2023

Long Range Planning

Through the vision of the City Council and the hard work of residents and employees, El Paso is affirming and enhancing its position as one-half of the largest bi-national metroplex in the western hemisphere experiencing one of the most dynamic transformations in its history. This transformation can be seen and appreciated all around the city in various forms and includes transportation projects, new retail and entertainment options, downtown redevelopment and quality of life bond projects, all of which underscore our deliberate focus on attaining our strategic vision.

Our Mission, Vision, and Values serve as the heart and foundational structure of our Strategic Plan. The plan is comprised of four levels: goals, strategies, actions and tasks. To ensure focused action, the Strategic Plan links these four levels with measurable outcomes for their implementation. In addition, through cycles of reporting and public presentations, the City Council and staff take necessary steps to focus on accountability with progress made on key deliverables. The eight goals contain multiple strategies and key deliverables are delineated each fiscal year through the integrated budget process.

With the Mission, Vision and Values as its foundation, the Strategic Plan sets the tone and direction for current and future service delivery by aligning Strategic Goals and Objectives with evolving resident needs and requirements. Adopted in 2015 and rooted in ongoing customer engagement and facilitated through customer listening methods, the Strategic Planning Process is a five-step planning process conducted annually, that involves Customers, Partners, Collaborators, Goal Teams, Senior Leaders, and City Council. The short-term planning horizon is the fiscal year and the longer-term planning horizon is five years. Annual action plans are aligned with the Strategic Plan and support agility.

1. Input, Ideas
2. Identify
3. Integrated Budget Process (IBP)
4. Implementation
5. Integrate
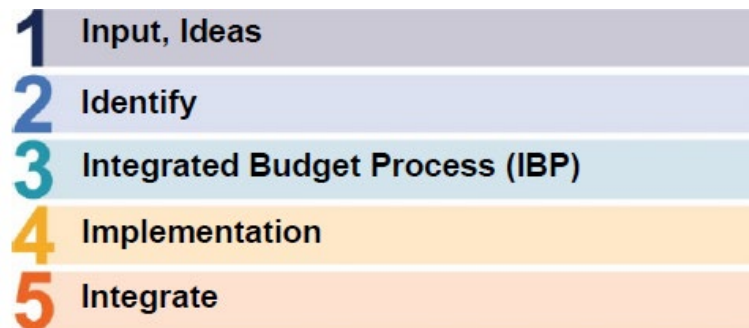
Step 1: Input/Ideas. The Strategic Planning Process (SPP) begins with a series of strategy sessions organized by eight Goal Teams (GT) to gather quantitative and qualitative data to: 1) define current operating environment; 2) identify new or restate existing challenges and opportunities; and, 3) reaffirm the City's Vision for the future, as well as its Mission, Values, and Goals. Data is provided through: 1) performance reports and projections on key organizational measures; 2) reviewing and reporting of short and longer-term financial measures; and, 3) customer feedback, provided through customer listening methods including, but not limited to, the annual Chime In! Survey. As a cycle of learning and an identified need for a change, this process indicated that the City had not been fully responsive to the youth of the community. As a result, the annual Youth Strategic Budget Advisory (in partnership with the City's Independent School Districts) and annual follow-up focus group meetings were added to the process.

Step 2: Identify. Using the compiled data and reaffirmed Mission, Vision and Values and Goals, Goal Teams identify and develop Strategic Objectives (SO) to address Strategic Goals (SG) and strategic challenges and opportunities identified in Step One of the SPP. Based on the identified SOs, GTs develop key strategies, actions, tasks, performance measures and timeframes to achieve objectives.

Step 3: Integrated Budget Process (IBP). Through the IBP, resources are aligned to ensure key priorities and associated strategies, actions and tasks identified in Step Two of the SPP are fully funded.

Step 4: Implementation. Following resource alignment through the IBP, Step Four focuses on implementation of the strategies, actions and tasks identified in Step Two of the SPP. GTs are held accountable for progress toward SOs through performance measurement monitoring and semiannual GT Reports, to track and ensure organizational achievement.

Step 5: Integrate. Step Five focuses on integration of the Mission, Vision and Values, Strategic Goals and Strategic Objectives, and the development of action plans that are measurable throughout Departments and cross-functional teams.

Active resident participation in the Strategic Planning Process is critical to guarantee current and future customer expectations are identified and addressed. Recognizing its importance in 2017, summer of 2019, and fall of 2021, the Mayor and City Council gathered for strategic planning sessions to review accomplishments and progress made in the 2015 Strategic Plan. They reviewed and approved customer requirements/expectations set forth with our short term *"20 in 2020"* visionary incentives and our longer-term strategic objectives with our *"25 by 2025"* core competencies to ensure connected and continuous cycles of refinement through the SPP. Our City Manager Tommy Gonzalez and Senior Leaders continually work with staff on integrating the strategic plan into every department and sharing the plan with the community. The decisions made over the next four years will shape the future of our city for the next forty years. The Strategic Plan provides clear direction to staff of the activities, initiatives, and results needed to accomplish the delivery of necessary services to the community for both the short and longer term planning horizons.

30 by 3030

Activate targeted (re)development (Goal 1)

1
- Medical Center of the Americas/Alameda
- Reimagine Cohen/Angora Loop/Northeast Parkway
- Five Points
- Airport Development
- High priority corridor development plans
- Infill growth strategies
- Parking strategies
- Disposition of City-owned properties

BY 30

Expand Downtown revitalization redevelopment (Goal 1) to include

2
- Streetcar corridor vibrancy
- Convention center renovation
- Parking management plans
- Uptown

7 **Establish a brand that celebrates and promotes El Paso's unique identity and offerings (Goal 3)**

Enhance cross-border mobility experience for bridge users (Goal 1)

3
- Capital Improvement Plan implementation
- Revamp toll operations schedules and lane management

8 **Complete Quality of Life Bond Projects and develop signature programming (2.0) (Goal 4)**
- Mexican American Cultural Center
- Children's Museum
- Multipurpose Cultural and Performing Arts Center

Launch new business-friendly practices and services improving

4 speed-to-market and supporting entrepreneurship/microenterprises **(Goal 1)**

9 **Align and implement key investment strategies (linked to 6.6) sustaining and enhancing park system operations and outdoor offerings (Goal 4)**

Identify and develop plans for areas of reinvestment and local partnership (Goal 1)

5

Expand investment in public safety operations (Goal 2)

6
- Staffing needs
- Program annual Police and Fire vehicle replacement
- Development and completion of new public safety facilities
- Programs supporting safe and sustainable communities

10 **Expand workforce development and organizational focus on continuous improvement through targeted training, activating partnerships, and growing best practices (Goal 6)**

11 Become a model for activating interagency and multisector partnerships and demonstrate results under the Communities of Excellence framework (Goal 6)

12 Expand Downtown revitalization/redevelopment (Goal 1) to include
- Streetcar corridor vibrancy
- Convention center renovation
- Parking management plans
- Uptown

13 Optimize resources by evaluating and aligning service delivery mechanisms (Goal 6)
- Shared Services
- Community Preparedness/Continuity of Operations
- Volunteer Programs

14 Identify potential new revenue streams (Goal 6)

15 Establish Bond Election (Goal 6)

16 Define and begin implementation of a Smart Community Roadmap through the strategic integration of technology and data-driven action into city operations (Goal 6)
- Document, publicize and maximize existing smart technology already deployed
- Implement an open-data initiative
- Expand Digital Inclusion efforts (linked with 4.2)
- Create a real-world laboratory environment to explore scalable smart technology pilot applications
- Establish partnerships to facilitate smart neighborhood development and deployment

17 Expand the investment and beautification of street infrastructure (2.0) (Goal 7)
- Streets Resurfacing
- Streets Reconstruction Plan
- Most-Traveled Streets program
- Citywide aesthetics program (trees, medians, etc.)
- Comprehensive Green Infrastructure Plan
- Entryway and wayfinding

18 Implement improvements and activate programming that supports and promotes multimodal transportation (2.0) (Goal 7)

19 Create and implement a comprehensive facility and fleet investment plan (2.0) (Goal 7)

20 Establish Eastside and Mission Valley Growth Plan and begin implementation and complete Comprehensive Master Plan update. (Goal 7)

21 Evaluate and integrate key policies, practices and space planning improving community health outcomes and risk reduction (Goal 8)

22 Support affordable, high-quality housing options especially for vulnerable populations (2.0) (Goal 8)

23 Sustain the Live-Release Rate (2.0) (Goal 8)

24 Create and implement the Urban Energy Plan and identify state and federal legislative and funding opportunities (Goal 8)

25 Seek out and activate interregional and binational partnership opportunities that support trade, technology, and tourism (linked with 1.5) (Goal 8)

26 Grow existing and attract new target industries, including advanced manufacturing and international development; creating an innovation-driven culture of technology that fosters economic prosperity and creates high paying career pathways (Goal 1)

27 Continue the development of integrated planning efforts with Communities of Excellence (COE) partners (Goal 1)

28 Plan and implement dynamic and broadly partnered talent management strategies (Goal 6)

29 Develop a bond package focused on addressing identified community priorities and needs aligned with targeted areas of investment (Goal 7)

30 Develop solutions to increase access and services for El Pasoans experiencing or at-risk of homelessness (Goal 8)

BY 30

Multi – Year Financial Outlook

Financial forecasting is part of Step 1 (Analyze) of our Integrated Budget Process. It includes the annual refresh of the 5-year rolling financial forecast that is presented to City Leadership and City Council before the official Budget Development Process starts. The development of a financial forecast includes a revenue, expenditure, and tax rate analysis to evaluate economic conditions and potential impacts or environmental assessment going forward. Monthly financial reviews throughout the fiscal year at all levels in the organization create accountability for performance to budget and quickly identify areas requiring attention.

In 2016, the Office of Management and Budget created an Excel based model called the Multi-Year Financial Outlook (MYFO) that aligns with the High Performing Government Vision Block as well as Strategic Goal 6 to "Set the Standard for Sound Governance and Fiscal Management". This model also aligns with Key Strategy 6.6 – "Ensure continued financial stability and accountability through sound financial management, budgeting and reporting". Over 100 interrelated workbooks feed the interactive dashboard which simultaneously serves as a scenario manager allowing for real-time dynamic modeling and forecasting. OMB staff are able to adjust assumptions to see the impact of additional Police Officers, changing the tax rate, or other factors on future years' budgets. The data used in the model is extracted from the City's HR and financial systems, as well as performance and trend information gathered from departments, utility companies, other governmental agencies, and other sources.

Since then, MYFO has grown to represent a culture that focuses on our way of thinking and understanding how our current decisions impact the near and long-term future. However, we have to stress that MYFO is intended to serve as a planning tool that stimulates long-term and strategic thinking, not as a budget. It highlights strategic challenges of fulfilling customer expectations with limited resources. This piece of the long-range forecast is incredibly valuable by illustrating the effect of current year decisions on future years' budgets. We identify major budget challenges such as limited revenue growth with competing priorities, low tax base, primarily residential and highly dependent on property taxes, sales tax, franchise fees charged to utilities for right-of-way access, International Bridges impact by the peso and Mexico violence, and the impact of House Bill/Senate Bill 2 on the property tax rate cap.

Developing a long-term forecast has it challenges, however developing a forecast during a global pandemic creates a higher level of uncertainty. We started development of FY2021 with a $60 million estimated deficit due to the COVID-19 economic impacts on anticipated revenues. The expectations were that the economic impacts of COVID-19 will linger for few more years. The gap was closed by continuing to focus on the basics (Police, Fire, streets, and workforce), while we weathered the storm. We utilized all tools and resources to balance the budget. Some of these adjustments included: scaled-down and phased-in opening of Quality of Life facilities, maintain a freeze on filling non-essential vacant positions, defer annual pay-go and debt issuance, utilize debt service savings and federal funding where possible, and use of remaining budget stabilization funds.

Developing FY 2023 budget brought different challenges while we continued to focus on managing the pandemic and increased our testing and vaccination efforts. FY 2023 was developed in light of continued effort for the safe restoration of services and reopening of the City facilities. It also brought substantial influx of federal funds through CARES and ARPA Acts.

Our outlook for FY 2024 – FY 2028 brings challenges that are in line with FY 2023 with continued focus on managing the city post-pandemic, addressing priorities and effectively allocating and phased-in spending of ARPA federal funds. However, there are new challenges such as higher inflation and a potential economic slowdown that we could be facing in the next few years. We took all of this into consideration while developing this forecast and conservatively addressed limited revenue growth and pressing needs for our operations and workforce.

MYFO – Dashboard Example

1) Scenario Manager

3) 5 Year Forecast

2) Tax Rate Outlook

2) Tax Rate Distribution

**5) Reserves Requirement**

4) Revenues Expenses & Tax Rate
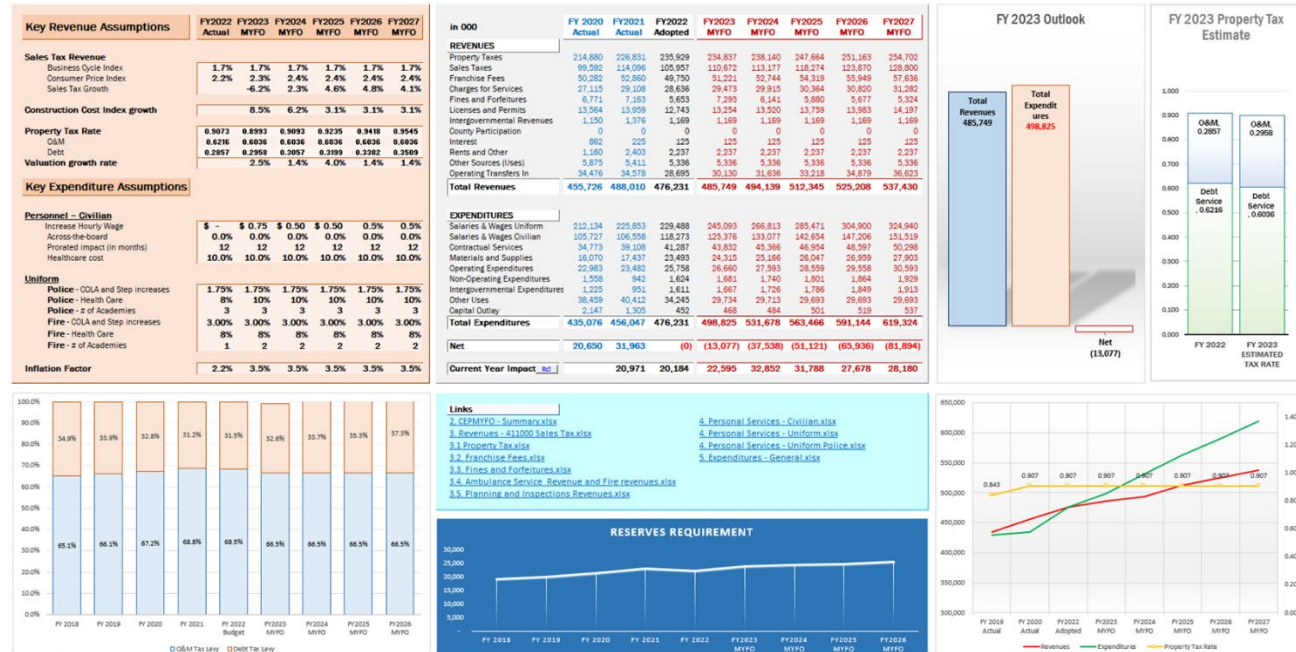
1) **Scenario Manager** – Allows OMB staff to adjust assumptions as needed and see immediate impact of potential decisions. Adjusting the property tax rate, adding additional Police Officers, and percentage rates for employee compensation increases are some of the options. Another part of the model includes comprehensive list of assumptions that are used to plan all key financial aspects of the City's General Fund.

2) **Tax Rate Distribution / Outlook** – Homeowners pay a larger share of property tax than businesses and the City has enacted policies to grow the business community so the burden on homeowners decreases. This graph provides City Council the detail so they can see the impact of their decisions over time.

3) **Five Year Forecast** – This section built based on the assumptions in the Scenario Manager and illustrates the impact decisions can have over multiple years.

4) **Revenues, Expenses, & Tax Rate** – Two axis graph showing historical trends and future impacts on the structural balance of the City's budget

5) **Reserves Requirement** – As the size of the City's budget grows, so does the size of the cash reserve the City is required to maintain

Economic Environment

Over the past three years, the economic environment has faced many headwinds associated with the effects of the COVID-19 pandemic. The impacts do not just transcend nationally, but regionally as well. The limited economic data and the impacts the pandemic have made it extremely difficult to generate a long-term forecast. The underlying forecast presented in this document will focus on the key national and regional economic indicators used as assumptions to derive the FY 2024 – FY 2028 revenue and expenses forecast.

The pandemic has brought on several global economic issues that include: supply chain disruptions, workforce shortages, and high rates of inflation. In recent months, inflation has reached levels not observed in the last 40 years. Due to the high rates of inflation, it is expected that the Federal Reserve will continue a tightening cycle and raise interest rates. Illustrated below, inflation is expected to continue to rise and peak in 2023 after the initial Fed interest rate hikes begin to take effect. Given the strength of inflation observed in the last six-months, the tightening cycle from the Fed will last several years.
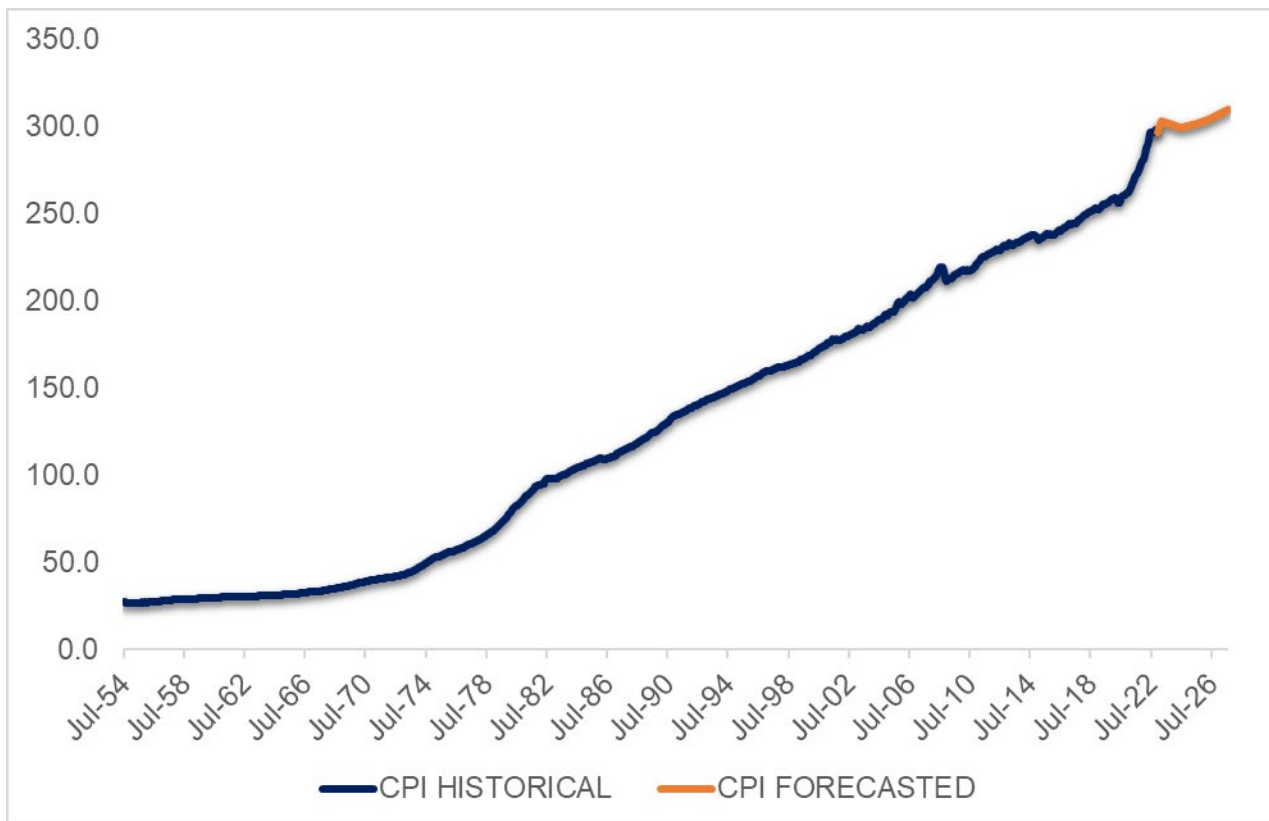
While it is expected that inflation will be under control in the future, the higher interest rates will impact household spending and lead to an overall economic slowdown. The forecast assumes the U.S. economy will slow down; an economic recession is not expected at this time.

A key regional economic indicator that defines the health of the local economy in El Paso is the El Paso Business Cycle Index produced by the Federal Reserve Bank of Dallas. Prior to COVID-19 pandemic, the El Paso economy was growing at a 4.6% annual growth rate. With Stay at Home orders limiting business operations we saw the local economy decline by 4.2% from March 2020 to April 2021. Since then the local economy rebounded and continues to recover.
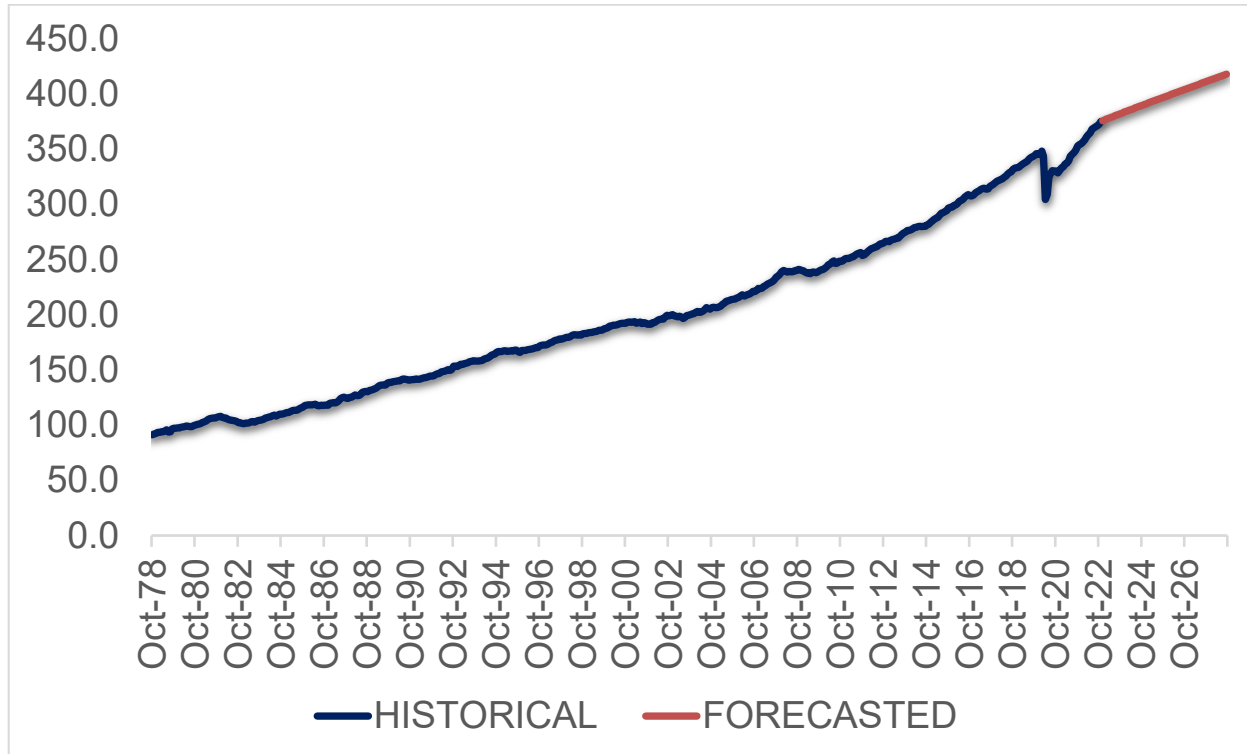
Illustrated above is the historical and forecasted El Paso Business Cycle Index. The Office of Management and Budget's forecast indicates that the El Paso economy will continue to grow at a slower pace than had been observed in the 12 months prior to the pandemic. Table 1 below shows El Paso's economy is expected to average an annual growth rate of 2.5% over the next 5 years, compared to an average annual growth rate of 3.5% over the past 5 years.

Table 1

	HISTORICAL 5-YR GROWTH	FORECASTED 5-YR GROWTH
BUSINESS CYCLE INDEX	3.50%	2.50%

Additional key economic indicators are illustrated in Table 2 - including El Paso's real wage growth, employment growth and unemployment rate. The table includes forecasted data developed by the Office of Management and Budget to be used in the development of the MYFO FY2024 – FY2028 Revenue Forecast.

Table 2

	HISTORICAL 5-YR GROWTH	FORECASTED 5-YR GROWTH	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
WAGES	2.10%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%
EMPLOYMENT	0.60%	0.95%	1.00%	1.00%	0.90%	0.90%	0.90%	1.00%
UNEMPLOYMENT RATE	5.30%	4.10%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%

Over the past 5-years, wages have grown on average by 2.10% in El Paso. During the same time period, inflation was roughly around 1.8%, El Pasoans' purchasing power improved during the pandemic. However, current inflation numbers not seen since the 1980s have caused a negative impact on El Paso households' purchasing power as incomes in 2023 are to increase only 1.7%. Limited wage growth could impact the

growth of revenue for the City of El Paso.

Illustrated below are the historical and forecasted data series for the unemployment rate and employment growth for El Paso. The forecasted data generated by the Office of Management and Budget indicates employment growth in El Paso will continue to grow at pre-pandemic levels and that will also lead to a lower unemployment rate. El Paso will observe unemployment rates close to pre-pandemic levels in the next 5 years. The national economic slowdown should only have a minimum impact in El Paso as the region does not observe the large fluctuations that are seen in other communities.
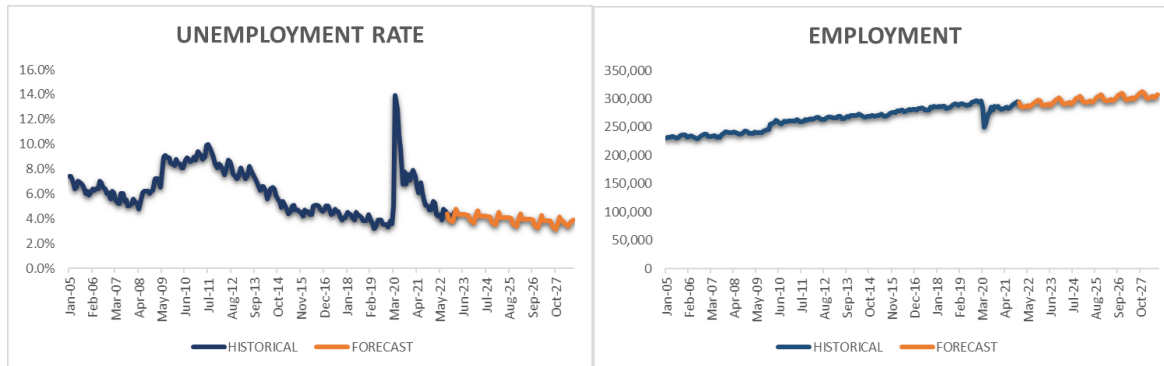
General Fund
Five-Year Forecast

in 000	FY2023 Adopted	FY2024 MYFO	FY2025 MYFO	FY2026 MYFO	FY2027 MYFO	FY2028 MYFO
REVENUES						
Property Taxes	251,280	259,447	264,636	267,547	269,687	271,575
Sales Taxes	112,783	124,630	128,905	133,329	137,908	142,647
Franchise Fees	56,617	60,986	62,741	64,554	66,427	68,362
Charges for Services	30,251	30,704	31,165	31,633	32,107	32,589
Fines and Forfeitures	7,098	7,183	7,269	7,356	7,444	7,556
Licenses and Permits	12,944	12,456	12,825	13,214	13,597	13,985
Intergovernmental Revenues	1,269	1,169	1,169	1,169	1,169	1,169
County Participation	0	0	0	0	0	0
Interest	125	300	300	300	300	300
Rents and Other	2,277	2,278	2,278	2,278	2,278	2,278
Other Sources (Uses)	5,321	5,321	5,321	5,321	5,321	5,321
Operating Transfers In	32,785	33,605	34,445	35,307	36,189	37,094
Total Revenues	512,751	538,079	551,053	562,007	572,427	582,876
EXPENDITURES						
Salaries & Wages Uniform	240,009	260,650	276,609	289,770	303,565	320,239
Salaries & Wages Civilian	133,769	145,602	147,725	151,597	155,594	156,784
Contractual Services	45,925	50,094	49,396	50,918	52,700	54,545
Materials and Supplies	26,727	28,273	28,854	29,632	30,669	31,743
Operating Expenditures	30,104	33,107	34,162	35,358	36,595	37,876
Non-Operating Expenditures	1,767	1,913	1,892	1,959	2,027	2,098
Intergovernmental Expenditures	1,506	1,559	1,613	1,670	1,728	1,788
Other Uses	29,437	29,427	29,417	29,417	29,417	29,417
Capital Outlay	3,509	4,994	3,759	3,890	4,026	4,167
Total Expenditures	512,751	555,619	573,428	594,211	616,323	638,658
Net	(0)	(17,540)	(22,374)	(32,204)	(43,895)	(55,781)
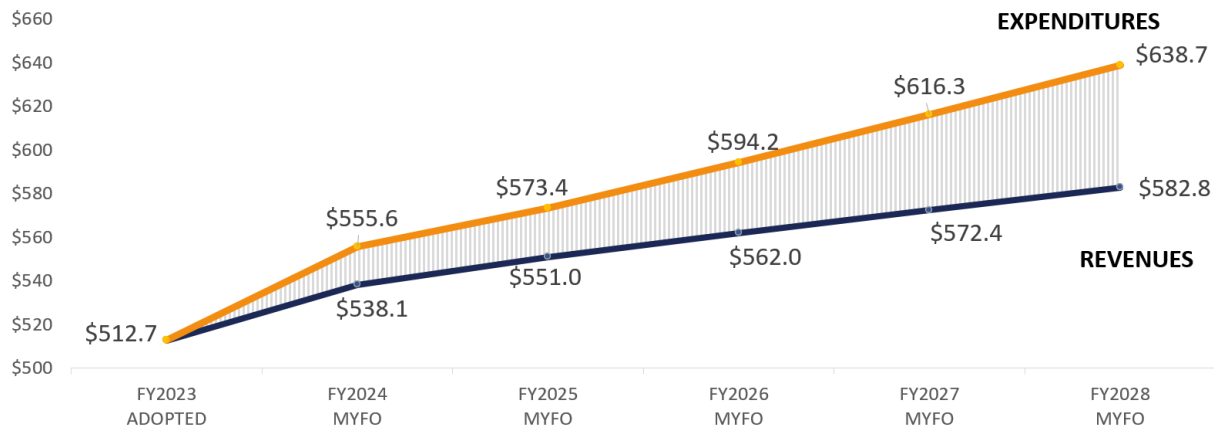
General Fund - Revenue Forecast

General Fund revenue estimates are based on historical data and known factors. The economic assumptions discussed provide the underlying assumptions of the long-term General Fund Revenue forecast. In addition, several assumptions including no changes to the current fee schedule, known adjustments to utility (water, electric, and natural gas) rates along with customer growth, maintaining our current service levels, property valuation growth, sales tax collection growth, and revenue generated from Quality of Life bond projects. Detailed discussion on the key assumptions to property tax, sales tax and franchise revenue is provided in the following section. These three revenue sources constitute 82% of General Fund Revenues.
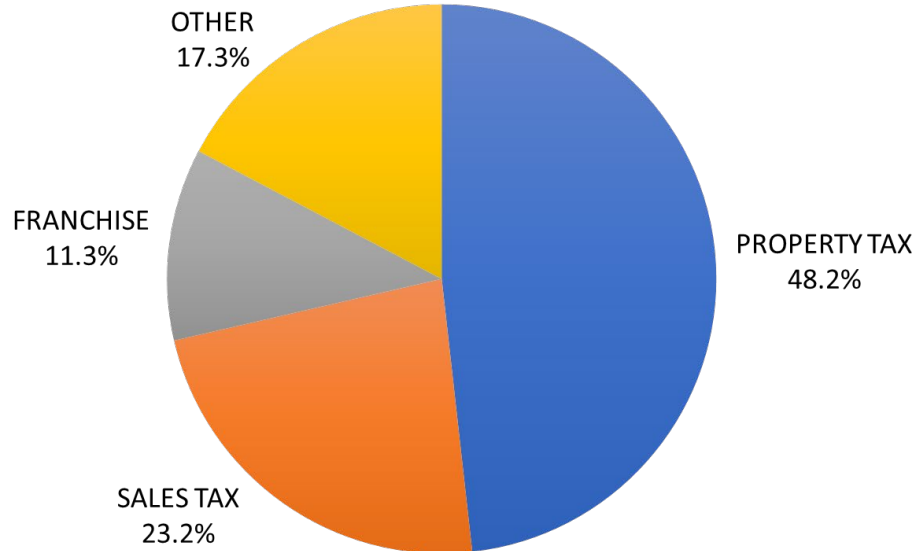

Table 3 summarizes General Fund Revenues including FY 2022 Adopted and FY 2024 – FY 2028 Forecast. FY 2024 General Fund Revenues are expected to increase by 4.9% over FY2022 Adopted. Over the 5-year forecast period the annual average growth rate is 2.6%. The higher than average increase in FY 2024 is associated to that year being a reappraisal year for all properties.

Table 3

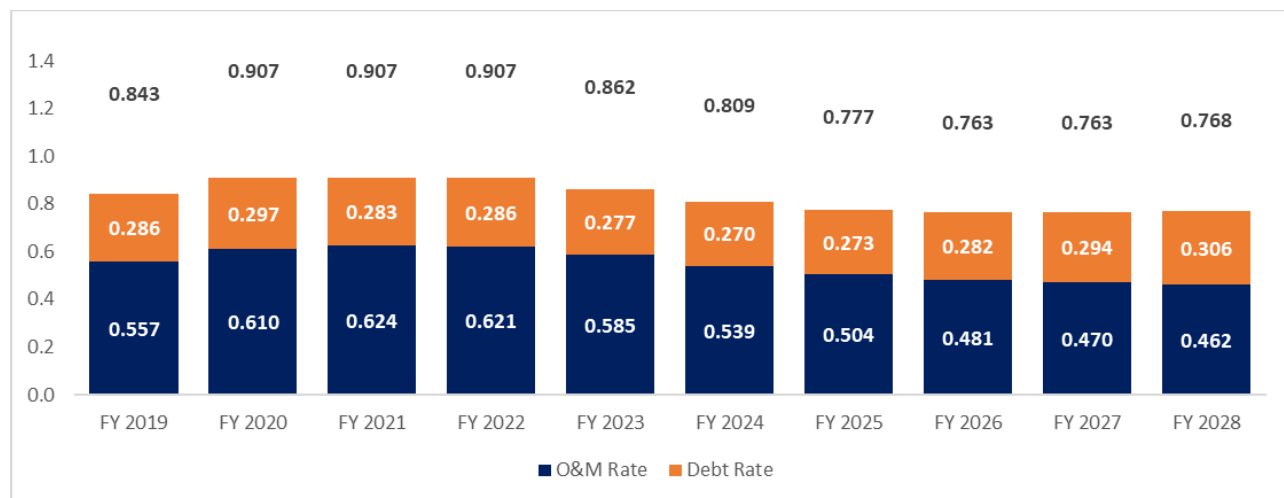| REVENUE BY SOURCE	FY 2023 Adopted	FY 2024 MYFO	FY 2025 MYFO	FY 2026 MYFO	FY 2027 MYFO	FY 2028 MYFO
Property Taxes	251,280,449	259,447,063	264,636,005	267,547,001	269,687,377	271,575,188
Sales Taxes	112,783,370	124,630,000	128,904,550	133,328,709	137,907,714	142,646,984
Franchise Fees	56,616,885	60,985,676	62,740,605	64,553,682	66,426,943	68,362,499
Charges for Services	30,250,649	30,704,423	31,165,009	31,632,509	32,107,025	32,588,664
Fines and Forfeitures	7,097,584	7,182,755	7,268,948	7,356,175	7,444,449	7,556,116
Licenses and Permits	12,944,114	12,456,448	12,825,373	13,214,309	13,597,051	13,985,388
Intergovernmental Revenues	1,268,809	1,168,809	1,168,809	1,168,809	1,168,809	1,168,809
Interest	-	300,000	300,000	300,000	300,000	300,000
Rents and Other	2,277,531	2,277,531	2,277,531	2,277,531	2,277,531	2,277,531
Other Sources (Uses)	5,321,175	5,321,175	5,321,175	5,321,175	5,321,175	5,321,175
Operating Transfers In	32,785,706	33,605,349	34,445,483	35,306,620	36,189,285	37,094,017
TOTAL REVENUES	**512,626,271.8**	**538,079,229.3**	**551,053,487.9**	**562,006,519.6**	**572,427,358.9**	**582,876,371.3**
Variance		25,452,958	12,974,259	10,953,032	10,420,839	10,449,012

Property Tax Forecast and Tax Rate Outlook

Property tax revenue is the largest General Fund Revenue category for the City of El Paso. This category is impacted by State legislation along with property valuation growth and the adopted property tax rate. One of the biggest recent legislative impacts affecting property tax revenue is Senate Bill 2. This legislation limits taxing agencies to adopt a property tax rate of 3.5% above the no new revenue tax rate before having to call for an election and have voter approval. This rate of 3.5% is significantly lower than the 8% that was previously implemented.

The graph below illustrates the property tax valuations expected from FY 2024 – FY 2028. For FY 2024, property valuations are expected to grow by 9%, lower than the 13.3% observed in FY 2023. In FY 2025, property valuations are expected to increase by 6.5% and continue a downward growth trend in subsequent years. In more recent times, non-reappraisal years observed a property valuation increase of 1.4%; this assumption is used for non-reappraisal years in the forecast period.
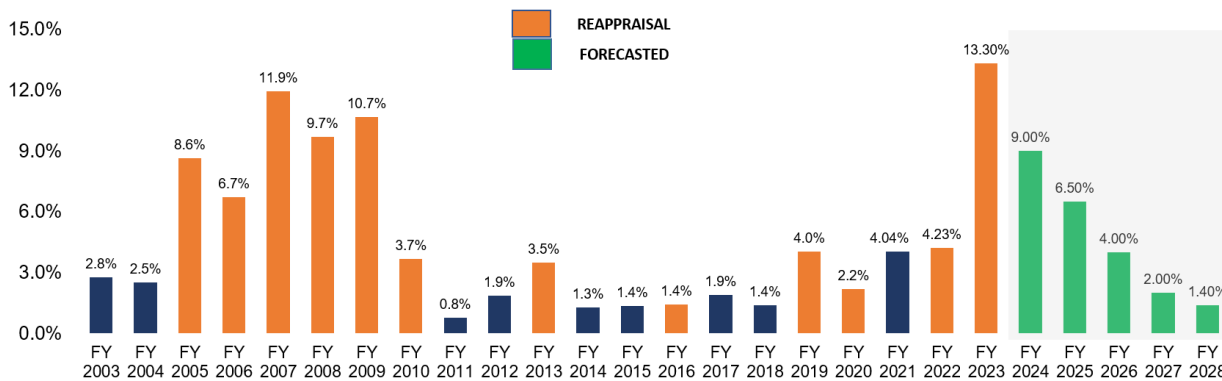
Another key assumption in developing the FY 2024 – FY 2028 Property Tax Revenue forecast is the expected tax rate. The Property Tax Rate has two components, Debt and O&M rates. For the generation of this forecast, the O&M property tax rate is decreased to $0.5394630 per 100 of valuation from $0.6585269 per 100 of valuation. The reduction is associated to an estimated No New Revenue Rate of $0.521472. The No New Revenue Tax Rate is only an estimation as this forecast was developed prior to Preliminary Valuation report from the Central Appraisal District. This estimated No New Revenue Rate is affected by the expected valuation increase of 9.0% and expected excess collections amount in FY 2023.

Based on the anticipated increase of property valuations, property taxes decrease by 3.25% from FY 2023

Adopted Budget. Table 4 summarizes the expected FY 2024 – FY 2028 property tax revenue.

Table 4

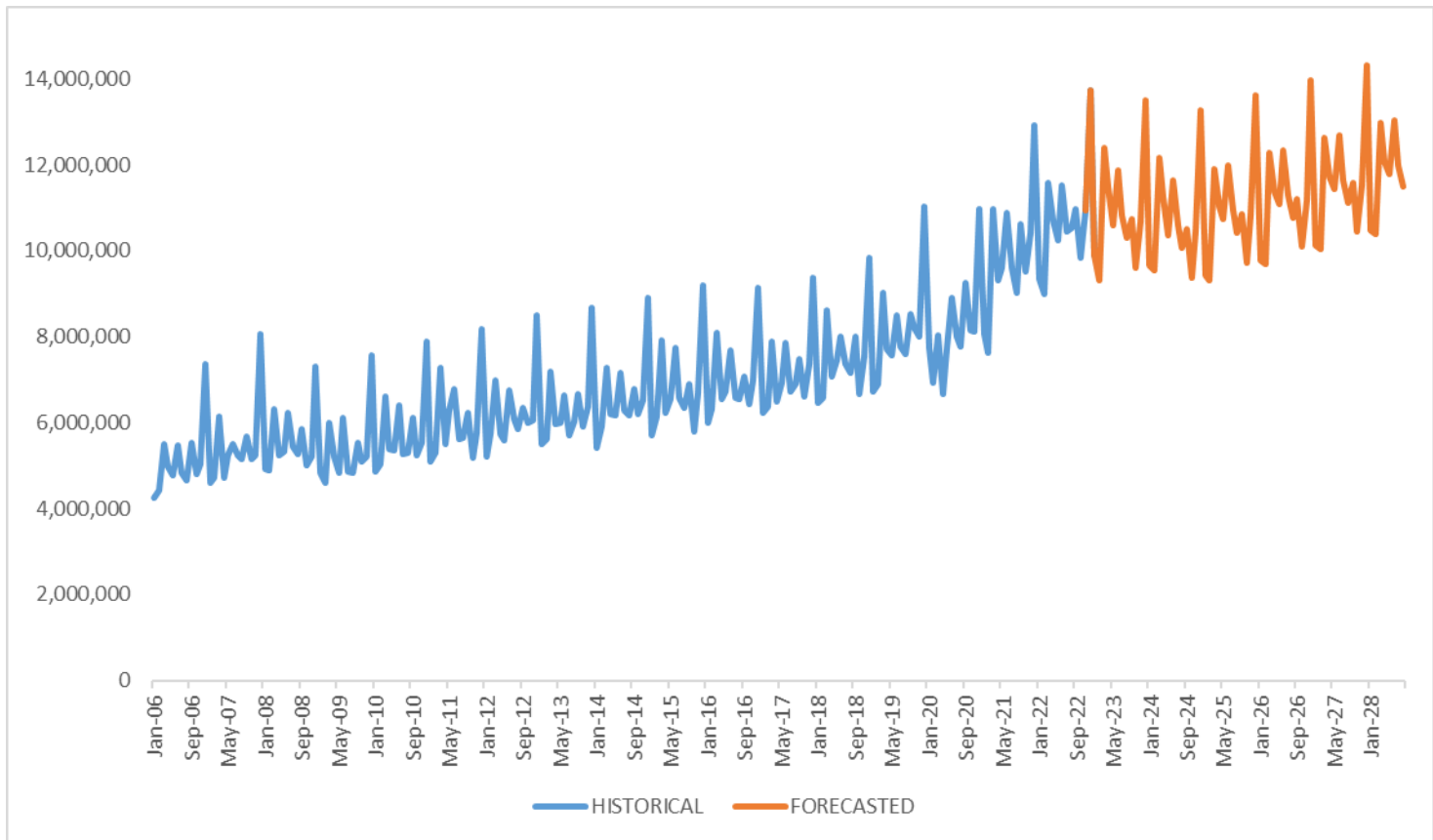| REVENUE BY SOURCE	FY 2023 Adopted	FY 2024 MYFO	FY 2025 MYFO	FY 2026 MYFO	FY 2027 MYFO	FY 2028 MYFO
Property Taxes	251,280,449	259,447,063	264,636,005	267,547,001	269,687,377	271,575,188
		3.25%	2.00%	1.10%	0.80%	0.70%

Sales Tax Forecast

At 22% of overall General Fund Revenues, Sale Tax Revenues are the second largest category. Retail sales in this region are primarily impacted by regional and national economic conditions, however shoppers from Northern Mexico also impact retail sales activity as well. While El Paso has seen a significant spike in retails sales and sales tax revenue in the last 24 months, a larger part of this increase is due to inflation impacting sale prices in the region. While inflation has been caused by factors such as worker shortages and supply chain disruptions, the Federal Reserve begin a tightening cycle in 2022. Signs of this tightening have begun to show in the national and regional economies, and will likely cause a enough of an economic slowdown to correct the inflationary pressures that are currently observed.

During the pandemic, shoppers from Mexico had not been allowed to enter the U.S. as travel restrictions associated to the pandemic were implemented. Those restrictions were lifted in November 2021, allowing shoppers from Mexico to once again shop in El Paso. However, shoppers from Mexico have been impacted by the higher prices observed on the U.S. side and the stronger value of the U.S. dollar versus the Mexican peso. These to impacts will cause shoppers from Mexico to not be able to spend as much and impact retail sales as it has been observed historically.
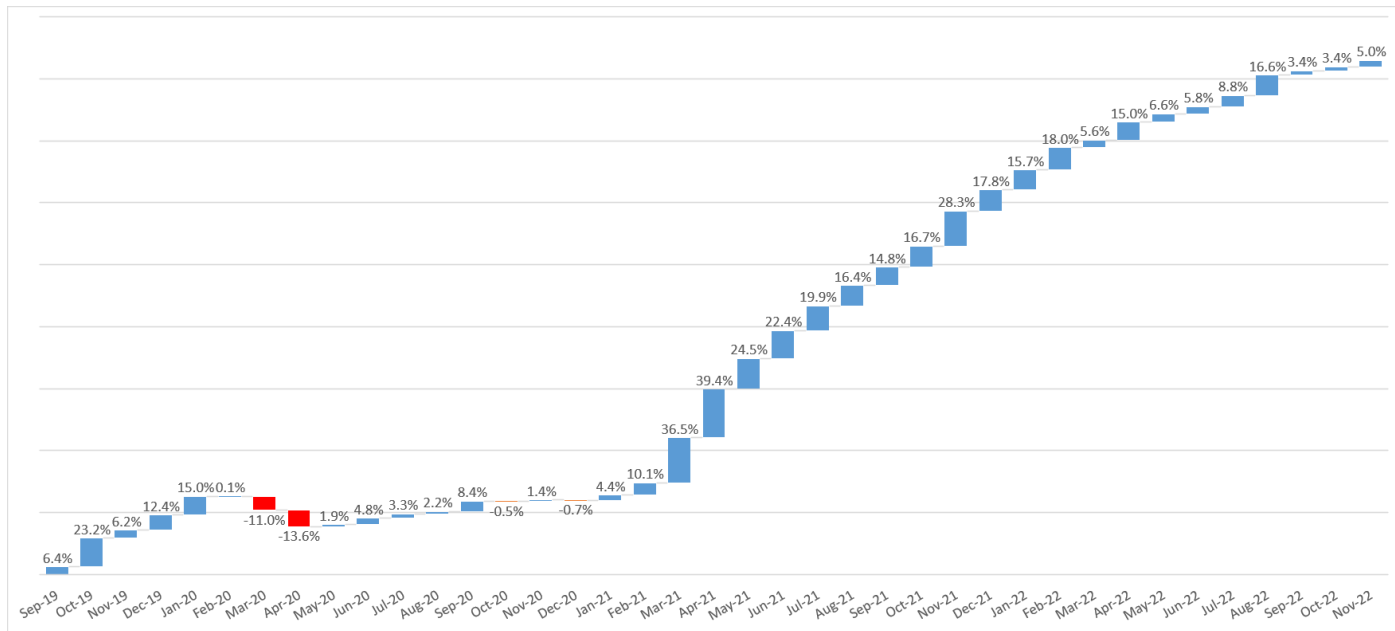
Given the expected impact of a slowing economy and higher borrowing cost, sales tax revenue is expected to grow at a slower pace than observed in recent months. The graph below summarizes the expected sales tax revenue from FY 2024 – FY 2028. The effects of higher interest rates and slowing economy will cause sales tax revenue to grow at more historical levels.

Sales tax revenue is expected to increase by 10.5% in FY 2024 as compared to FY 2023 Adopted budget. However, in FY 2025 the growth rate slows to a pre-pandemic levels of 3.4%, primarily caused by a slowing economy.

Table 5

REVENUE BY SOURCE	FY 2023 Adopted	FY 2024 MYFO	FY 2025 MYFO	FY 2026 MYFO	FY 2027 MYFO	FY 2028 MYFO
Sales Taxes	112,783,370	124,630,000	128,904,550	133,328,709	137,907,714	142,646,984
		10.50%	3.43%	3.43%	3.43%	3.44%

Franchise Revenue

The third largest source of General Fund revenue, behind property and sales taxes, comes from franchise and easement fees. Franchise fees are collected from both public and private utilities and assessed for the continued use of the public right-of-way. Electric, gas, telephone, water, cable, and telecommunications are among the utilities included in this source of revenue.

El Paso Water Utilities

The El Paso Water Utilities (EPWU) is a component of the City of El Paso and managed by the Public Service Board. The Public Service Board was established by City Ordinance No.752 in 1952 to manage and operate the water and wastewater system in the City of El Paso. EPWU pays the City 10% of the total gross receipts received from the sale of water in lieu of property taxes (PILOT or PILT). EPWU also pays for solid waste disposal fees, paving inspections, and 5% of the net proceeds from the sale of any land owned by EPWU. In

FY 2015, the City Council approved a franchise fee of $3,550,000 to compensate the City for the use of city streets and rights of way for utility lines and wear and tear on city streets. In FY 2020, City Council approved an additional $3,000,000 to the franchise fee, designated for the resurfacing of collector streets, for a total annual amount of $6,550,000.

The number of retail water customers has grown by an average of 1.3% or an additional 2,700 customers each year. Along with customer growth, EPWU implemented a 12.0% water rate increase in 2023. Collections for this revenue category are affected by demographic growth, economic expansion, water rate policies, conservation efforts, and seasonal weather patterns. Future revenues projected are expected to base on a growing customer base and anticipated future water rate increases.

Electric Company Franchise Fee

El Paso Electric is a public utility company, which generates, transmits, and distributes electricity in West Texas and Southern New Mexico. In order for El Paso Electric to operate effectively and serve the El Paso area, it is necessary that power lines and infrastructure be located on City owned property with cross easements throughout the city. The City of El Paso and El Paso Electric have negotiated and agreed upon a franchise fee in consideration for the easement. The franchise fee of 5% of electrical energy taxable revenues is paid to the City by the electric utility for access to these properties. The rate is distributed as follows: 3.25% to General Fund, 0.75% dedicated to the Impact Fund for economic development incentives and 1.0% allocated to the Auxiliary Fund approved in 2018. El Paso Electric serves approximately 286,000 customers in West Texas and Southern New Mexico.

Estimates for this revenue source are based on growth in the customer base, trends in taxable sales and collections while considering any actions or refunds approved by the Public Utility Commission of Texas. Taxable sales, as reported by the electric utility, fluctuate based on demand, weather, rates, and the fuel factor currently in effect.

Electricity consumption is affected by numerous variables, including regional economic activity, income growth, KWH rates, usage efficiency, and weather conditions. The future outlook shows positive growth and revenues are projected to grow to $25.8 million by FY 2028.

AT&T Franchise

The City receives revenue on the rate per line for use of public right-of-ways and 1% of gross revenues for video programming services from the telecommunications provider. Payment are received from the provider, AT&T, on a quarterly basis.

The number of lines that AT&T operates is a key indicator for this revenue source. The number of lines is monitored by staff and used to project future revenues. However, the number of lines is proprietary information and cannot be disclosed.

The City has experienced downward trend in the AT&T Franchise revenue collections in the last few years. That is a consequence of the expansion of cellular telephone usage and other forms of electronic communications as well as a dramatic shift away from basic cable service. More and more customers are moving away from cable service to streaming services.

The outlook shows that the declining trend will continue especially due to the changes the Texas Legislature approved this past session. Although there will be ongoing demand for land line telephone and cable services, the number of customers moving solely to mobile and choosing to use streaming services will translate to a continued decline of this revenue source.

Natural Gas Franchise Fees

The City currently has two franchise agreements in place with natural gas providers that use city streets for transmission and/or delivery of gas to its customers. The major providers are Texas Gas Services and Oneok.

The City negotiated a new franchise agreement with Oneok in 2008, which will be in effect for thirty years until 2038. With the new agreement, the Oneok franchise rate increased from 2.5% to 4.0%, an increase of 1.5%. The rate incorporates both the transportation of the commodity and the imputed value of gas at the delivery point if within the city limits. Texas Gas Service also has an agreement in place until February 22, 2030. The calculation of the franchise fee from Texas Gas Service changed in FY 2014, and is calculated by multiplying the franchise rate by the actual gross receipts from the sale and transport of gas to residential, commercial, industrial, irrigation, public authority, and transport customers within the City of El Paso. The franchise rate for FY 2023 is 5.0%.

Texas Gas franchise fee revenues are affected by demographic, economic, and weather variables. Revenues in this category are predicted to stabilize over the next few years after recognizing sizable increases resulting from the new franchise agreement.

Table 6

REVENUE BY SOURCE	FY 2023 Adopted	FY 2024 MYFO	FY 2025 MYFO	FY 2026 MYFO	FY 2027 MYFO	FY 2028 MYFO
Franchise Fees	56,616,885	60,985,676	62,740,605	64,553,682	66,426,943	68,362,499
		7.72%	2.88%	2.89%	2.90%	2.91%

Overall, Franchise Fee Revenue is expected to rise by an annual rate of 3.8% from FY2024 – FY 2028. This forecast is based on expected rate adjustments by utilities and stable customer growth rates.
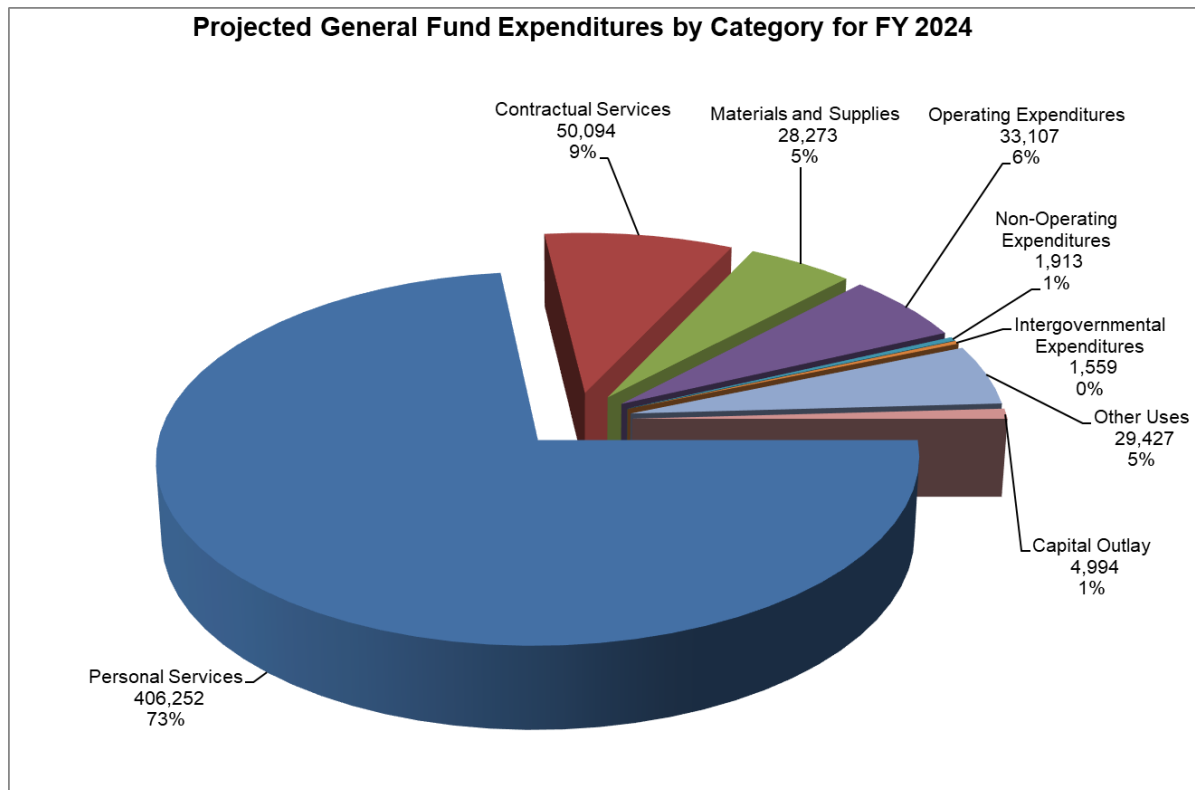
General Fund - Expenditures Forecast

The expenditures are categorized in the following main groups: personal services, contractual services, materials and supplies, operating expenditures, non-operating expenditures, intergovernmental expenditures, other uses, and capital outlay.

In Thousands

EXPENDITURES BY CATEGORY	FY 2020	FY 2021	FY 2022	FY2023 Adopted	FY2024 MYFO	FY2025 MYFO	FY2026 MYFO	FY2027 MYFO	FY2028 MYFO
Personal Services	317,861	332,412	342,783	373,778	406,252	424,334	441,367	459,159	477,023
Contractual Services	34,773	39,108	36,988	45,925	50,094	49,396	50,918	52,700	54,545
Materials and Supplies	16,096	17,437	21,112	26,727	28,273	28,854	29,632	30,669	31,743
Operating Expenditures	22,983	23,482	27,307	30,104	33,107	34,162	35,358	36,595	37,876
Non-Operating Expenditures	1,558	942	2,324	1,767	1,913	1,892	1,959	2,027	2,098
Intergovernmental Expenditures	1,225	951	865	1,506	1,559	1,613	1,670	1,728	1,788
Other Uses	38,459	40,412	69,449	29,437	29,427	29,417	29,417	29,417	29,417
Capital Outlay	2,147	1,305	2,350	3,509	4,994	3,759	3,890	4,026	4,167
TOTAL EXPENDITURES	435,102	456,047	503,179	512,751	555,619	573,428	594,211	616,323	638,658
ANNUAL INCREASE		20,946	47,132	9,573	42,867	17,809	20,783	22,112	22,335

Projected General Fund Expenditures by Category for FY 2024

Contractual Services 50,094 9%
Materials and Supplies 28,273 5%
Operating Expenditures 33,107 6%
Non-Operating Expenditures 1,913 1%
Intergovernmental Expenditures 1,559 0%
Other Uses 29,427 5%
Capital Outlay 4,994 1%
Personal Services 406,252 73%

General Fund expenditures are expected to grow by a steady pace during next 5 years mainly due to projected increases that will result from new collective bargaining agreements for uniform employees for Police and Fire, and compensation increases for City's civilian employees. In addition, as ARPA federal grant funding depletes, many of COVID-19 (Emergency response) operations will be transferred back to the General Fund. In the next 5 years, the City will continue to fund priorities, focus on its workforce and proactively address current budgetary pressures such as inflation, labor shortage and property tax cap requirements. The City will continue focusing on already established priorities: public safety, infrastructure and quality of life. These priorities have been vetted through enormous public input through the Chime in survey, town hall meetings and focus groups. Total expenditures are expected to grow by $42.8 million or 8.4% in FY2024 and by $17.8 million or 3.2% in FY2024.
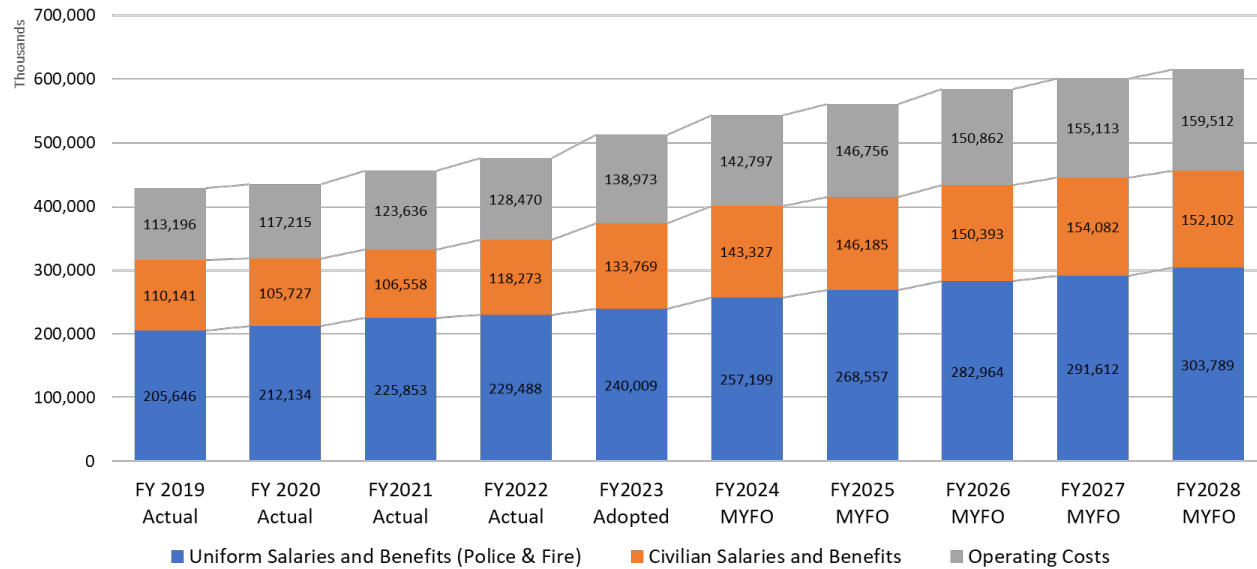

Personal Services

This category includes costs related to employee compensation such as salaries, wages, taxes, and fringe benefits. 74.3% of the total General Fund expenditures are related to our workforce and as expected they will have the biggest impact in the next 5 years. There will be increased focus on our workforce during next years and the City will address vacancies, retention concerns and healthcare costs.

The following graph illustrates forecasted increases to total salaries and benefits.
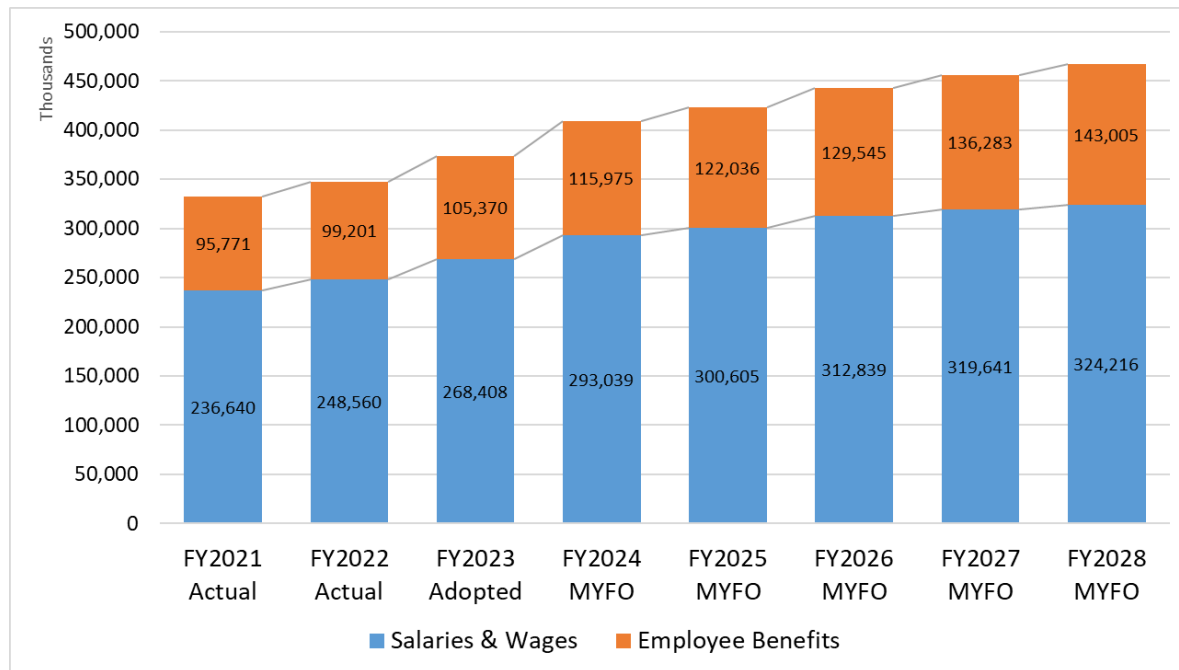
Uniform Salaries and Benefits

The City of El Paso made significant investments in Public Safety in recent years. During FY 2016 to FY 2023 period we made over $84 million investment to the annual budgets of Police and Fire, added Crisis Intervention Team to Police, increased pay to 911 Communicators and increased funding for vehicle replacement. In 2019 City Council approved Public Safety Bond - a $413.1 million ($167.3 million already issued) package of capital projects and improvements for Police and Fire. These projects will increase both the personnel and operation and maintenance portions to their annual budgets. In addition, in order to keep up with growing population and the size of our City, City leadership set up an initiative to increase Police force by net 300 officers and new firefighters for new commands and fire stations IN FY19. The graph on the right illustrates total investment in Police and Fire annual budgets.
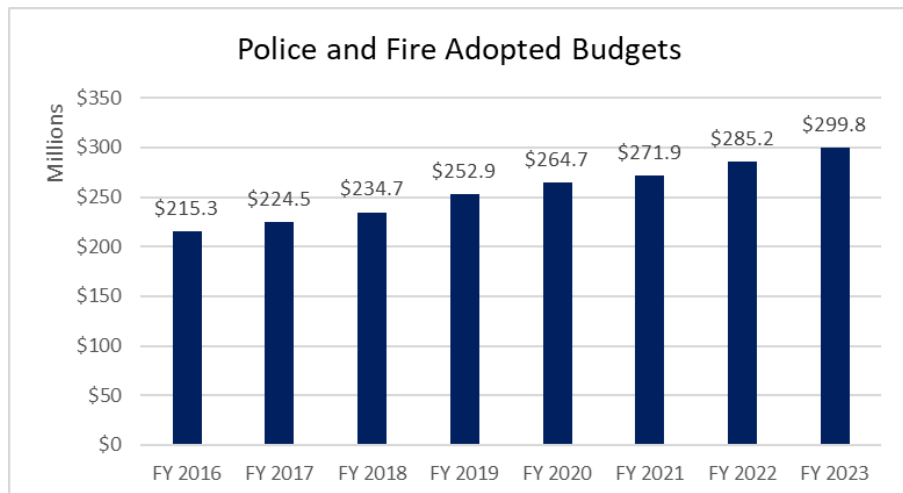
Significant impact to future Police and Fire budgets include the recent collective bargaining agreements negotiations with Fire (FY2023) and Police (FY 2024) unions. This forecast assumes higher costs in FY 2024 from these agreements.

This table shows forecasted annual increases for both departments:

	FY 2024 MYFO	FY 2025 MYFO	FY 2026 MYFO	FY 2027 MYFO	FY 2028 MYFO
Fire	$ 7,100,437	$ 7,428,354	$ 6,211,812	$ 7,006,856	$ 9,161,349
Police	$ 14,060,248	$ 8,213,605	$ 6,879,895	$ 6,769,782	$ 6,819,032
	$21,160,685	$15,641,959	$13,091,707	$13,776,638	$15,980,381

Uniform salaries and benefits for Police are expected to grow by 10.5% or $14.06M in FY2024 and on average by 4.5% in the subsequent 4 years. Due to recruitment challenges, we are assuming 3 smaller academies per year with size of 30-35 recruits. The cost of the academies per FY will be around $4.2 million. Since the length of one academy is almost 11 months, two of the academies will cross fiscal years and will impact next fiscal year. To improve the retention and recruitment of Police Officers, significant investments are included in the collective bargaining agreement approved March 2023 to address the entry level salaries. During the next few years, the Police department will focus on establishing more creative ways of recruiting and will continue to address retention and early retirement challenges. In FY 2024, there will be more than 394 officers that will be eligible for retirement. The department will also analyze opportunities for lateral academies. The attrition is assumed to remain the same or 4%, around 52-55 officers per year. Overtime, incentives, healthcare and other benefits are expected to grow by the same historical pace. The new collective bargaining agreement is included in the projection from FY 2024 through FY 2027.

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Police Step* + COLA	$322,402	$8,892,656	$4,716,724	$3,699,316	$3,518,647	$3,440,089
Earnings	$414,097	$1,432,786	$759,959	$596,034	$566,925	$554,268
Benefits	$512,253	$3,734,805	$2,736,921	$2,584,545	$2,684,211	$2,802,840
Academy	$406,422	$395,335	$389,639	$35,211	$104,628	$104,853
Budget Impact	**$1,655,174**	**$14,455,582**	**$8,603,244**	**$6,915,106**	**$6,874,410**	**$6,902,049**
Academy total cost	$3,443,290	$3,838,625	$4,228,264	$4,263,475	$4,368,103	$4,472,956

The following graph illustrates projected number of academy graduates vs. total projected Police uniform workforce.
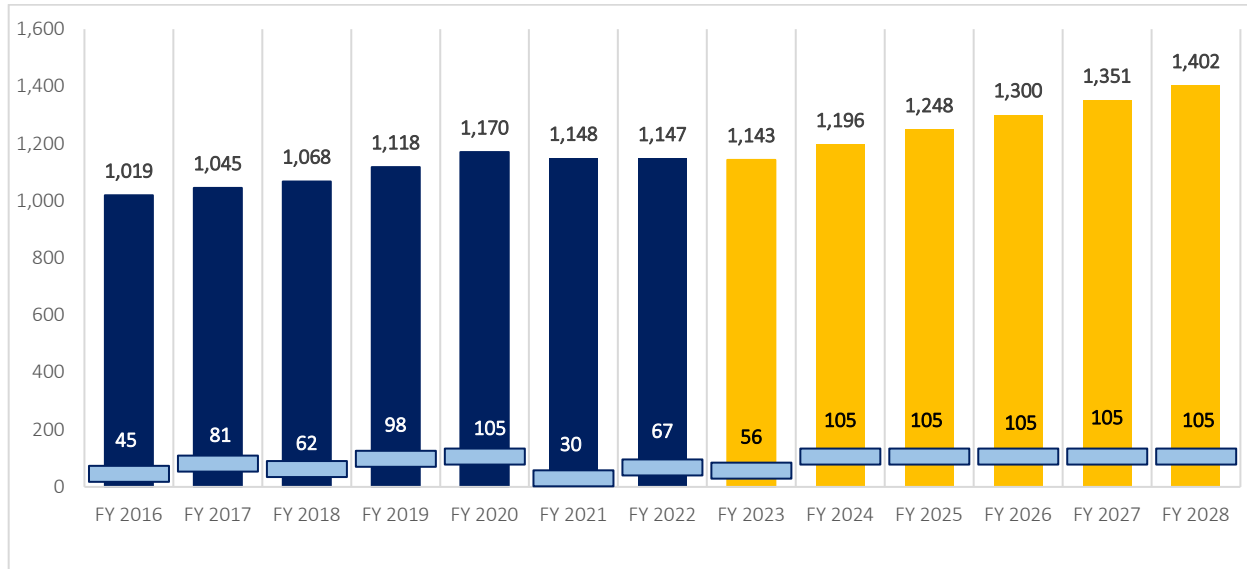
Uniform salaries and benefits for Fire are expected to continue to grow due to two new fire stations being completed – Fire Station 36 and Fire Station 38. We assume that 50% of the personnel funded by ARPA in FY 2023 will be fully funded in FY 2024. Consequent fiscal years FY 2025 – FY 2027 should see more steady annual increases. FY 2024 includes two academies that will impact the fiscal year. The collective bargaining agreement started on September 1, 2022 and the projected increases are included in the future outlook.

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Fire Step* + COLA	$5,754,940	$3,862,639	$4,358,126	$3,334,734	$3,798,021	$5,258,144
Earnings	$286,012	$300,508	$339,056	$259,438	$295,481	$409,077
Benefits	$2,745,979	$2,937,290	$2,731,171	$2,617,640	$2,913,354	$3,494,129
Academy	$62,840	$555,201	($72,491)	$34,257	$502,893	$0
Budget Impact	**$8,849,771**	**$7,655,638**	**$7,355,862**	**$6,246,069**	**$7,509,748**	**$9,161,349**
Academy total cost	$288,068	$843,269	$770,777	$805,034	$1,307,927	$1,307,927

Civilian Salaries and Benefits

The City has been working to address civilian workforce pay and has made efforts to provide continuous annual increases since FY2018 with total investment of $29.3 million. Furthermore, there have not been healthcare increase for employees for the last four fiscal years.
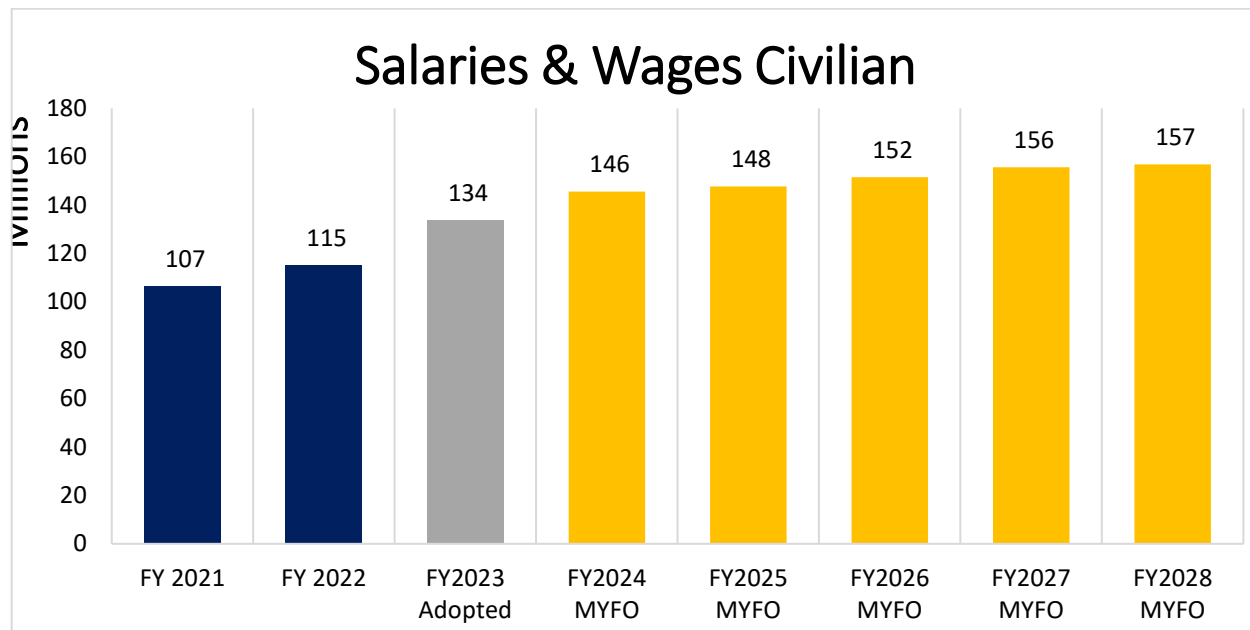
|	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Civilian Compensation Increases	ATB* 2.0%	ATB* 1.5%	ATB* 1.0%	Lump Sums $600/$300 & $300/$150	Equity Adjustments +1.5% ATB + Lump Sums $500/$250 (Everyone)	$1,920 raises for employees making less than $100k/year
Total Investment – Compensation & Healthcare	**$5.0 M**	**$2.2 M**	**$1.2 M**	**$4.9 M**	**$9.3 M**	**$6.7 M**

* ATB – Across the Board increases

The City also made significant adjustments to several job categories where we noticed higher retention issues such as transit operators, heavy vehicle operators that require commercial driver licenses (CDL), 911 communicators, accounting personnel and so on. Some of the categories received significant pay adjustments, while for others we introduced new incentives such as Office of the Comptroller incentive or new CDL incentive for all eligible jobs that require CDL designation. We also adjusted salaries for 911 communicators to a minimum $20 hourly rate. However, the pressure continues, and higher inflation rates, arrival of new business that bring competitive salaries and higher vacancy rates, the City started to look at new and innovative ways to address retention and hiring challenges. In March of 2023, City Council approved a goal is to develop a competitive salary plan that will bring the minimum hourly rate to $15. This will be an expensive implementation, since our current minimum hourly rate is $12.11 and the estimated total cost would be around $15.1 million from FY 2024 through FY2028. The City is committed to its workforce and is looking at a multi-year phased-in approach as reflected in this forecast.

Civilian salaries and benefits are expected to increase by $11.8 million or 8.8% in FY 2024.

Salaries & Wages Civilian

	FY 2021	FY 2022	FY2023 Adopted	FY2024 MYFO	FY2025 MYFO	FY2026 MYFO	FY2027 MYFO	FY2028 MYFO
Millions	107	115	134	146	148	152	156	157

Contractual Services

Contractual Services includes costs that are derived from contractual agreements for services. City of El Paso has been using 2.2% inflation adjustment to most of the major agreements and contracts. However, due to recent higher inflationary pressures, we adjusted our forecast and assumed a 3.5% increase during the next 5 years.

Contractual Services
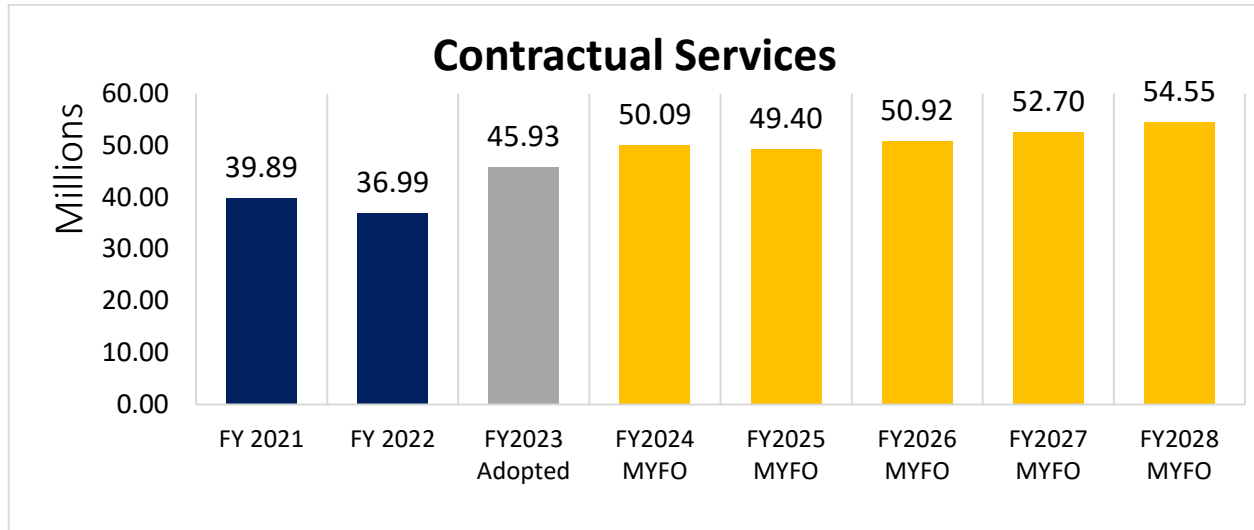
Materials and Supplies

Materials and Supplies includes costs of expendable items used by operating activities. Expenditures on Materials and Supplies increased by 26.5%, from $21.1 million in FY 2022 to $26.7 million in FY 2023. The variance is primarily due to the ongoing effort for restoration of services to pre COVID-19 levels. Fiscal years from 2024 through 2028 should see steady annual increases of around 3%.
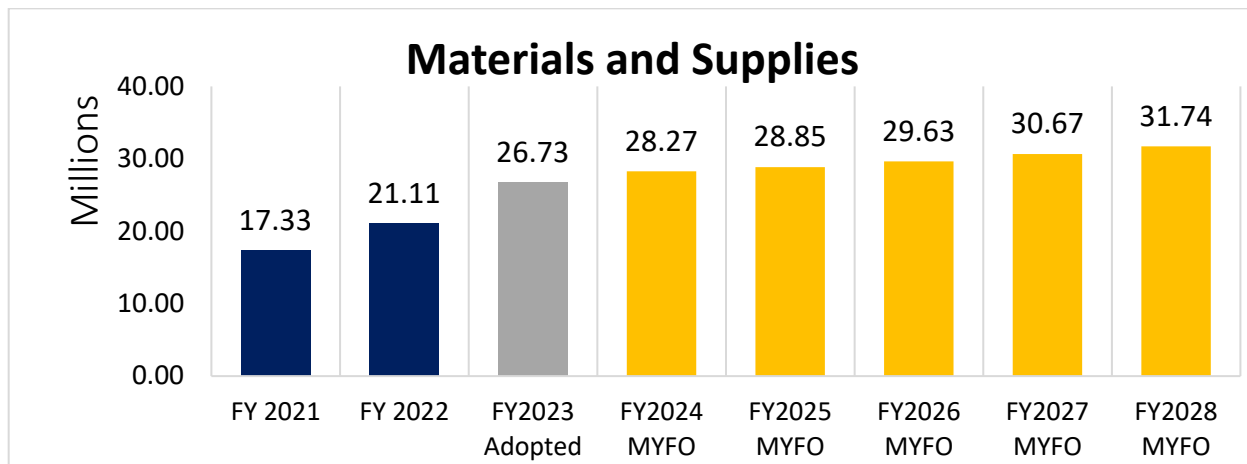

Operating Expenditures

Operating Expenditures include items that support day-to-day operations of a department such as utilities, mileage reimbursements, travel, training expenses, and communication costs. Similar to previous categories, Operating Expenditures are also projected to increase by a steady pace in the next 5 years.
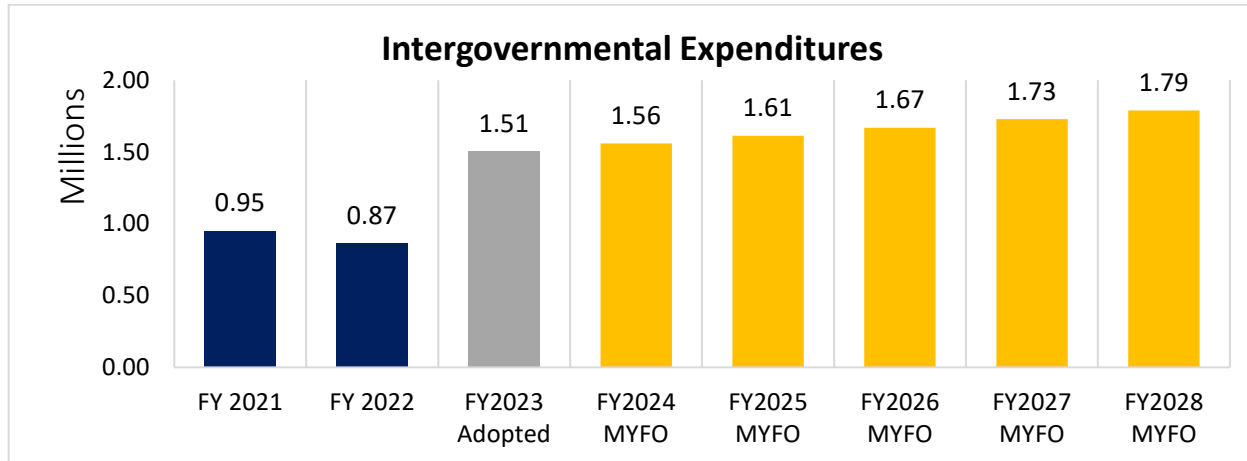
Operating Expenditures
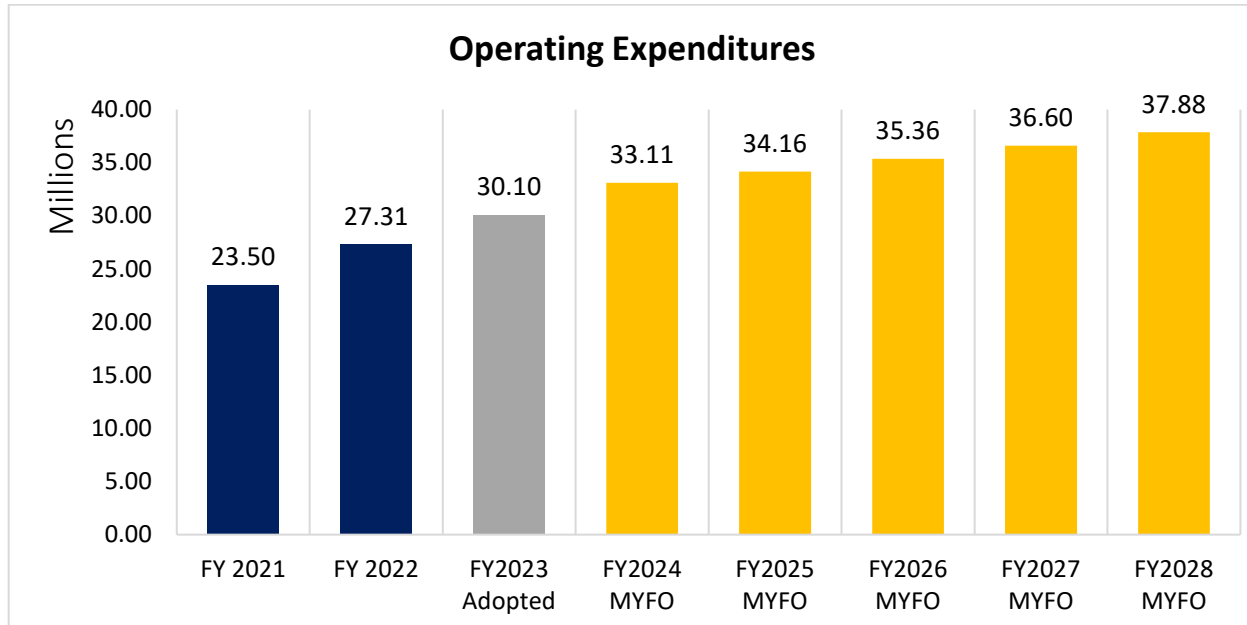
Non-Operating Expenditures

This category includes costs such as principal and interest expenses, community service project allocations, housing rehabilitation costs, and damages/settlement costs. It represents 0.3% of total General Fund expenditures.
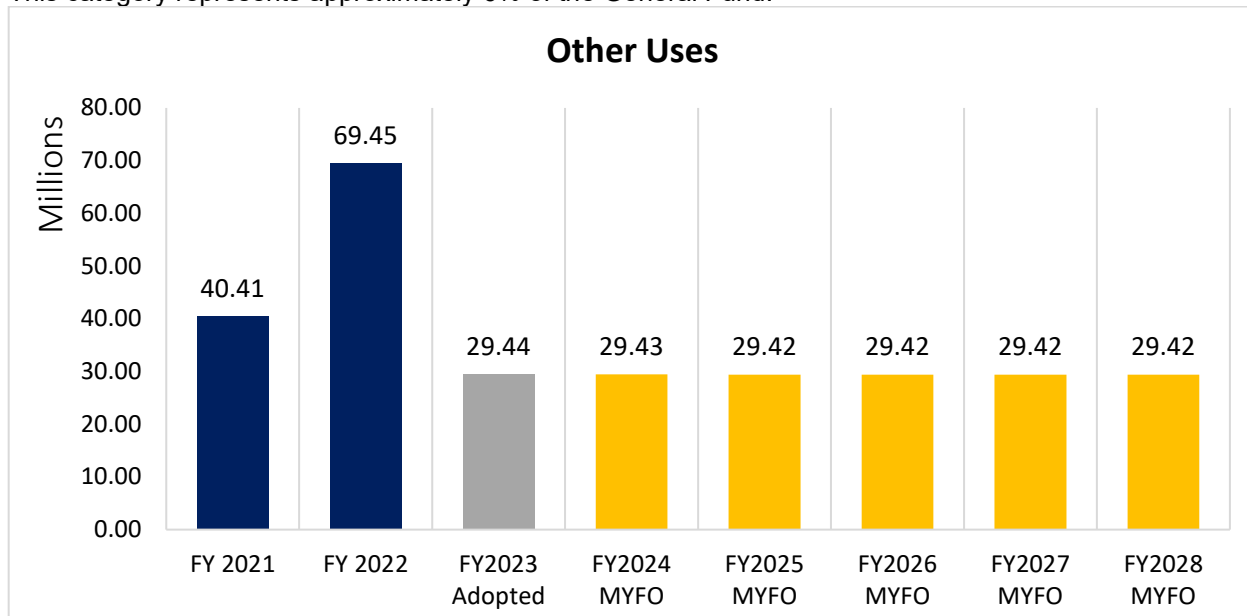
Non-Operating Expenditures
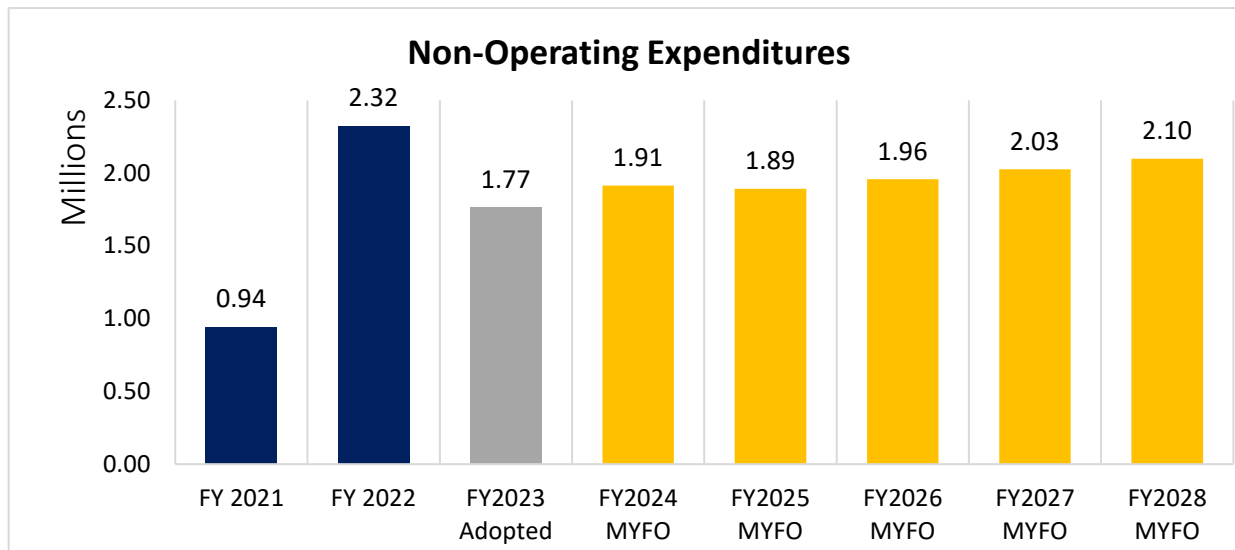
Intergovernmental Expenditures

Intergovernmental Expenditures include grant-matching funds in order to leverage federal and state funding. Intergovernmental expenditures represent 0.3% of total General Fund expenditures.

Intergovernmental Expenditures

	FY 2021	FY 2022	FY2023 Adopted	FY2024 MYFO	FY2025 MYFO	FY2026 MYFO	FY2027 MYFO	FY2028 MYFO
Millions	0.95	0.87	1.51	1.56	1.61	1.67	1.73	1.79

Other Uses

The Other Uses category includes nonrecurring transfers that do not qualify as revenues or expenditures to the receiving or disbursing department. Pay-go funding such as vehicles and capital replacement for Fire and Police, facility renovation and residential street resurfacing, transfers related to debt service and interdepartmental transfers related to Streets and Maintenance, Police and Fire are all part of this category. This category represents approximately 6% of the General Fund.

Other Uses

	FY 2021	FY 2022	FY2023 Adopted	FY2024 MYFO	FY2025 MYFO	FY2026 MYFO	FY2027 MYFO	FY2028 MYFO
Millions	40.41	69.45	29.44	29.43	29.42	29.42	29.42	29.42

Capital Outlay

Capital Outlay includes construction, equipment, and land acquisition. This category represents less than 1% of the General Fund.

Capital Outlay

Year	Millions
FY 2021	1.27
FY 2022	2.35
FY2023 Adopted	3.51
FY2024 MYFO	4.99
FY2025 MYFO	3.76
FY2026 MYFO	3.89
FY2027 MYFO	4.03
FY2028 MYFO	4.17