

CITY COUNCIL BUDGET ORIENTATION
RETREAT
THURSDAY
DECEMBER 17, 2020

STAFF CONFERENCE ROOM
SECOND FLOOR - CITY HALL
211 WEST ASPEN AVENUE
8:30 A.M.

ATTENTION

**IN-PERSON AUDIENCES AT CITY COUNCIL MEETINGS HAVE BEEN SUSPENDED UNTIL
FURTHER NOTICE**

The meetings will continue to be live streamed on the city's website
(<https://www.flagstaff.az.gov/1461/Streaming-City-Council-Meetings>)

PUBLIC COMMENT PROTOCOL

**The process for submitting a public comment has changed and public comments will no longer be
read by staff during the Council Meetings.**

All public comments will be taken either telephonically or accepted as a written comment.

Public comments may be submitted to publiccomment@flagstaffaz.gov

If you wish to address the City Council with a public comment by phone you must submit the
following information:

First and Last Name
Phone Number
Agenda Item number you wish to speak on

If any of this information is missing, you will not be called. We will attempt to call you only one
time. We are unable to provide a time when you may be called.

All comments submitted otherwise will be considered written comments and will be documented
into the record as such.

If you wish to email Mayor and Council directly you may do so at council@flagstaffaz.gov.

AGENDA

1. Call to Order

NOTICE OF OPTION TO RECESS INTO EXECUTIVE SESSION

Pursuant to A.R.S. §38-431.02, notice is hereby given to the members of the City Council and to the general public that, at this work session, the City Council may vote to go into executive session, which will not be open to the public, for legal advice and discussion with the City's attorneys for legal advice on any item listed on the following agenda, pursuant to A.R.S. §38-431.03(A)(3).

2. Pledge of Allegiance and Mission Statement

MISSION STATEMENT

The mission of the City of Flagstaff is to protect and enhance the quality of life for all.

3. ROLL CALL

NOTE: One or more Councilmembers may be in attendance telephonically or by other technological means.

MAYOR DEASY
VICE MAYOR DAGGETT
COUNCILMEMBER ASLAN
COUNCILMEMBER MCCARTHY

COUNCILMEMBER SALAS
COUNCILMEMBER SHIMONI
COUNCILMEMBER SWEET

4. Introductions and Welcome

5. Budget Introduction

6. Recession Plan

7. Revenue Updates

8. General Fund

9. Priority Based Budget

10. Public Comment and Wrap-up

11. Adjournment

CERTIFICATE OF POSTING OF NOTICE

The undersigned hereby certifies that a copy of the foregoing notice was duly posted at Flagstaff City Hall on _____, at _____ a.m./p.m. in accordance with the statement filed by the City Council with the City Clerk.

Dated this _____ day of _____, 2020.

Stacy Saltzburg, MMC, City Clerk

CITY OF FLAGSTAFF STAFF SUMMARY REPORT

To: The Honorable Mayor and Council
From: Brandi Suda, Finance Director
Date: 12/14/2020
Meeting Date: 12/17/2020



TITLE

Introductions and Welcome

STAFF RECOMMENDED ACTION:

City staff to provide overview of FY 2021-22 Budget Process and other information impacting the City financial outlook.

EXECUTIVE SUMMARY:

The budget for the City of Flagstaff is the policy document that reflects the goals and objectives of the City Council. Over the course of several months, the City Council meets to gather input on major budget issues prior to the preparation of the budget.

The December 17th retreat will be the first of three City Council budget retreats for the upcoming FY 2021-22 budget. This special meeting is set to provide an overview and orientation of the City's FY 2021-22 budget process and to provide additional information and updates to Council on various areas and issues that are impacting the financial outlook of the City.

INFORMATION:

A detailed agenda for the budget retreat is attached. Agenda topics include:

- Retreat Welcome
- Budget Introduction
- Recession Plan
- Revenue Update
- General Fund Update
- Priority Based Budget
- Council Expectations

Please find attached the following:

- Detailed Agenda
- Budget Retreat and Orientation Presentation
- Color of Money Handout
- Recession Plan
- Priority Based Budget Handout

Attachments: Detailed Agenda

PowerPoint Presentation

Color of Money

Recession Plan

PBB Priorities and Objectives

City Council Budget Retreat

December 17, 2020

Detailed Agenda

Time	Duration (Min)	Topic	Staff
8:30am	15	Welcome and Objectives	Julie Lancaster
8:45am	15	Budget Introduction <ul style="list-style-type: none"> Budget Team Members Process Timeline 	Brandi Suda
9:00am	30	Color of Money and Fiscal Policies	Brandi Suda
9:30am	30	Recession Plan <ul style="list-style-type: none"> Introduction Significant Stage 	Greg Clifton
10:00am	15	Break	
10:15am	30	Revenue Updates <ul style="list-style-type: none"> General Fund HURF BBB Funds 	Rick Tadder
10:45am	30	General Fund Impacts <ul style="list-style-type: none"> Public Safety (PSPRS) Minimum Wage State Assessment CARES/COVID Funding Compensation 	Greg Clifton Rick Tadder Brandi Suda Jack Fitchett Stacey Brechler-Knaggs Jeanie Gallagher
11:15am	45	Priority Based Budget <ul style="list-style-type: none"> Roadmap Updates How it will be utilized in the budget process Key Community Priorities and Objectives 	Shane Dille Sarah Langley
12:00am	30	Council Expectations	
12:30pm		Public Participation	

Please note: All times are estimates and items could be reordered during the meeting

Council Budget Retreat

December 17, 2020





Welcome



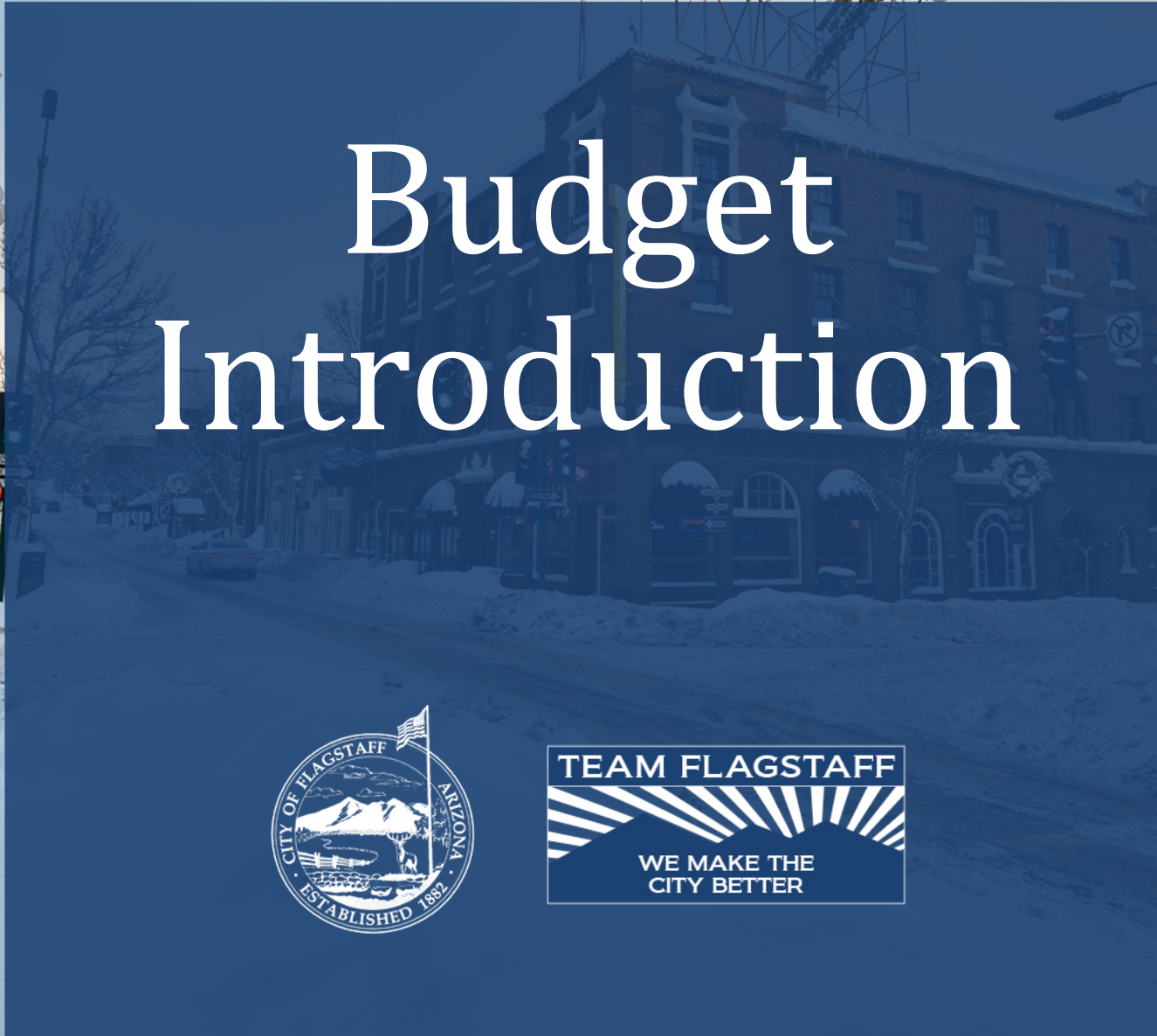
- Welcome
- Introductions
- Intentions
- Meeting Protocol



Agenda



- Budget Introduction
- Fiscal Policies and Color of Money
- Recession Plan
- Revenue Update
- General Fund Impacts
- Priority Based Budget (PBB)
- Council Expectations





Budget Team

- Supports the City Manager in preparing the City Manager recommended budget and managing the City budget implementation
- Monitors revenues/expenditures throughout the year for adjustments as needed (i.e., Recession Plan)



Budget Team Members



Greg Clifton
City Manager



Shannon Anderson
Deputy City Manager



Shane Dille
Deputy City Manager



Jeanie Gallagher
Human Resources Director



Heidi Hansen
Economic Vitality Director



Rick Tadder
Management Services Director



Brandi Suda
Finance Director



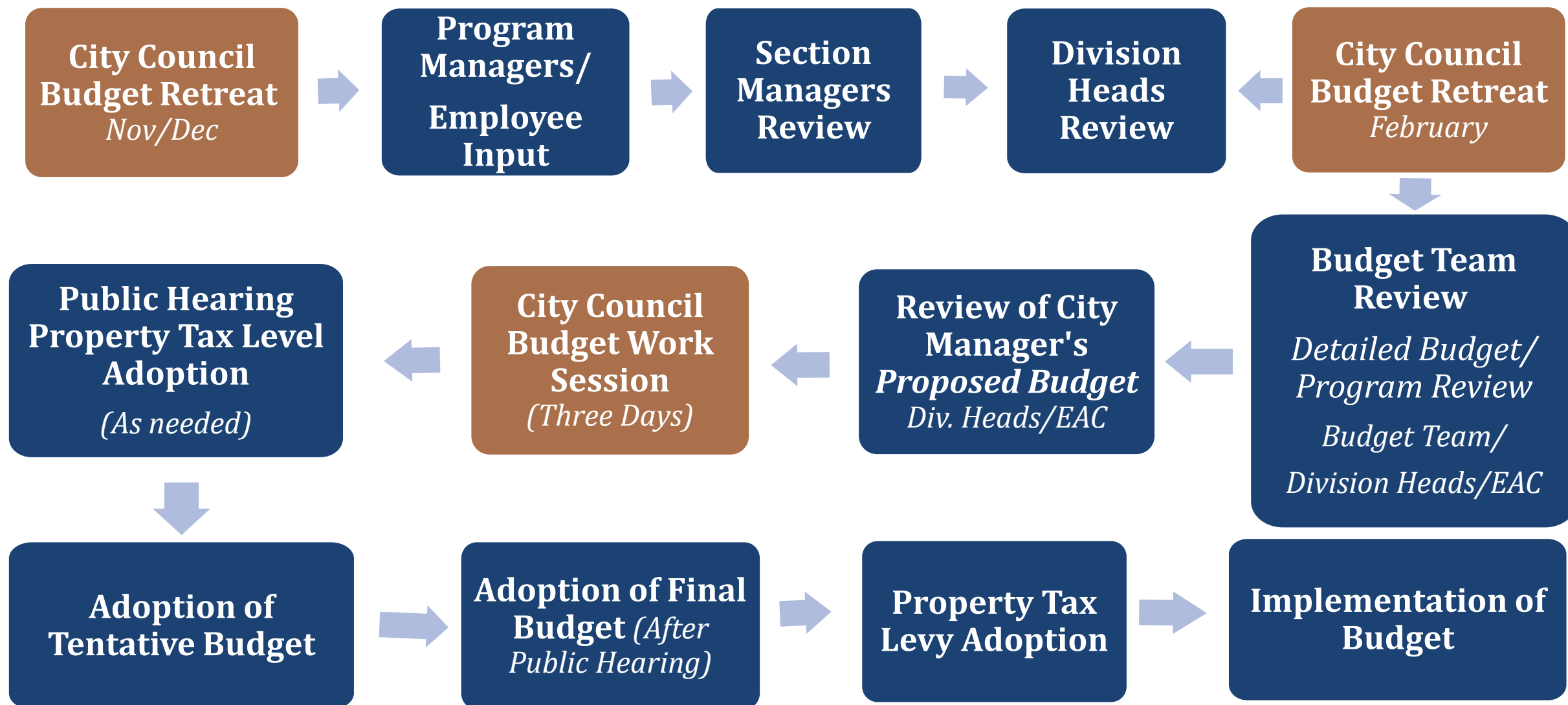
Heidi Derryberry
Assistant Finance Director



Jared Wotasik
EAC



Budget Process





FY 2021-2022 Budget Timeline

- December 17, 2020 – Budget Introduction Retreat
- February 1 & 2, 2021 – 2nd Council Budget Retreat
- April 21 & 22, 2021 – City Manager Recommended Budget Retreat
- June 1, 2021 – Tentative Budget Adoption
- June 15, 2021
 - Property Tax Levy Hearing
 - 1st Reading of Property Tax Adoption
 - Final Budget Adoption
- July 6, 2021 – Final Reading of Property Tax Adoption

Fiscal Policies and Color of Money





Fiscal Policies

- The City budget:
 - Not simply an exercise in balancing revenues and expenditures one year at a time
 - It is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources based on identified goals
 - Generally, a 5-to-10-year outlook



Fiscal Policies

- Maintain adequate fund balances (between 10% and 25% of budgeted operating revenues)
- Assure all revenue estimates are achievable
- Cash balance should be used only for one-time expenditures, such as capital equipment and improvements
- Structural balance - ongoing program costs are equal to routine revenues



Fiscal Policies



- Assess the long-range impact on operations of capital improvements
- Leverage grants against City funds but do not rely on unstable, fluctuating grants for ongoing operations
- Awareness of external fiscal restraints

Color of Money

Fund Accounting

- **Enterprise Funds**
- **Special Revenue Funds**
- **Capital Project Funds**
- **Debt Service Funds**
- **General Fund**





Color of Money

- City has numerous revenue sources, and many have restrictions on how they can be spent
- The City has over 50 different funds to segregate those revenues and expenses to ensure compliance with restrictions and accounting standards
- In many instances, revenue from one fund cannot be used to pay for other fund's expenses unless they meet the requirements of the fund

Enterprise Funds



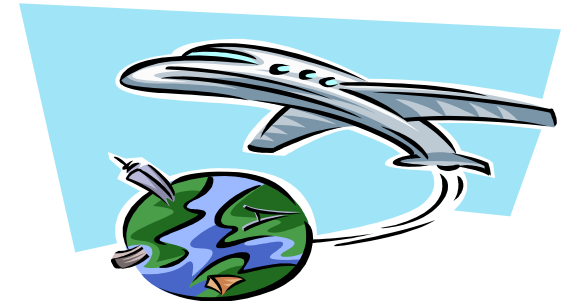
- **Includes:**

- Water
- Wastewater
- Reclaimed Water
- Stormwater
- Solid Waste

- Sustainability and Environmental Management
- Airport
- Flagstaff Housing Authority

- **Self-supporting thru User Fees**

- User Fee Ordinances restrict the use
 - Water/Wastewater/Trash Charges
 - Rent
 - Airport Lease and Fees



Special Revenue Funds



- These funds are used to account for revenues derived from specific taxes or other earmarked revenue sources
- Are usually required by statute, charter provision, or ordinance to finance a particular function or activity

Special Revenue Funds



- Housing and Community Services – grants
- Library – secondary property tax and General Fund transfers
- Highway User Revenue Fund (HURF) – gasoline tax
- Transportation – 1.281% sales tax
 - Transit (.295%)
 - Road Repair and Street Safety (.33%)
 - Lone Tree/Route 66 Overpass (.23%)
 - Transportation Improvements (.426%)

Special Revenue Funds



- Bed, Board and Beverage (BBB) – 2.0% tax
 - Beautification – 20%
 - Economic Development – 9.5%
 - Tourism – 30%
 - Arts & Science – 7.5%
 - Recreation – 33%
- ParkFlag - fees
- Water Resource and Infrastructure Protection - fees

Capital Project Funds



Capital project funds are used to account for major capital acquisitions separate from ongoing operations

- Restricted funding sources:
 - Voter approved bonds, grants, third party restricted fees
- General obligation bond projects:
 - Flagstaff Urban Trail System (FUTS)/Open Space
 - Core Facilities
 - Watershed Protection
- United States Geological Survey (USGS) campus expansion
- Courthouse

Debt Service Funds



Debt service funds are used to account for the accumulation of resource and payment of long-term debt

- Restricted revenues
 - General obligation bond fund – secondary property tax

General Fund



- Accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government that are not accounted for in other funds
- In other words.....
 - Everything else

General Fund Revenues



- 1% City Sales Tax
- Franchise Tax
- Primary Property Tax
- State Shared Revenue (Sales, Income, Vehicle Tax)
- Licenses and Permits
- Fines and Forfeitures
- User Fees - Charges for Services
 - Community Development, Recreation, Police, Fire, Cemetery

Recession Plan



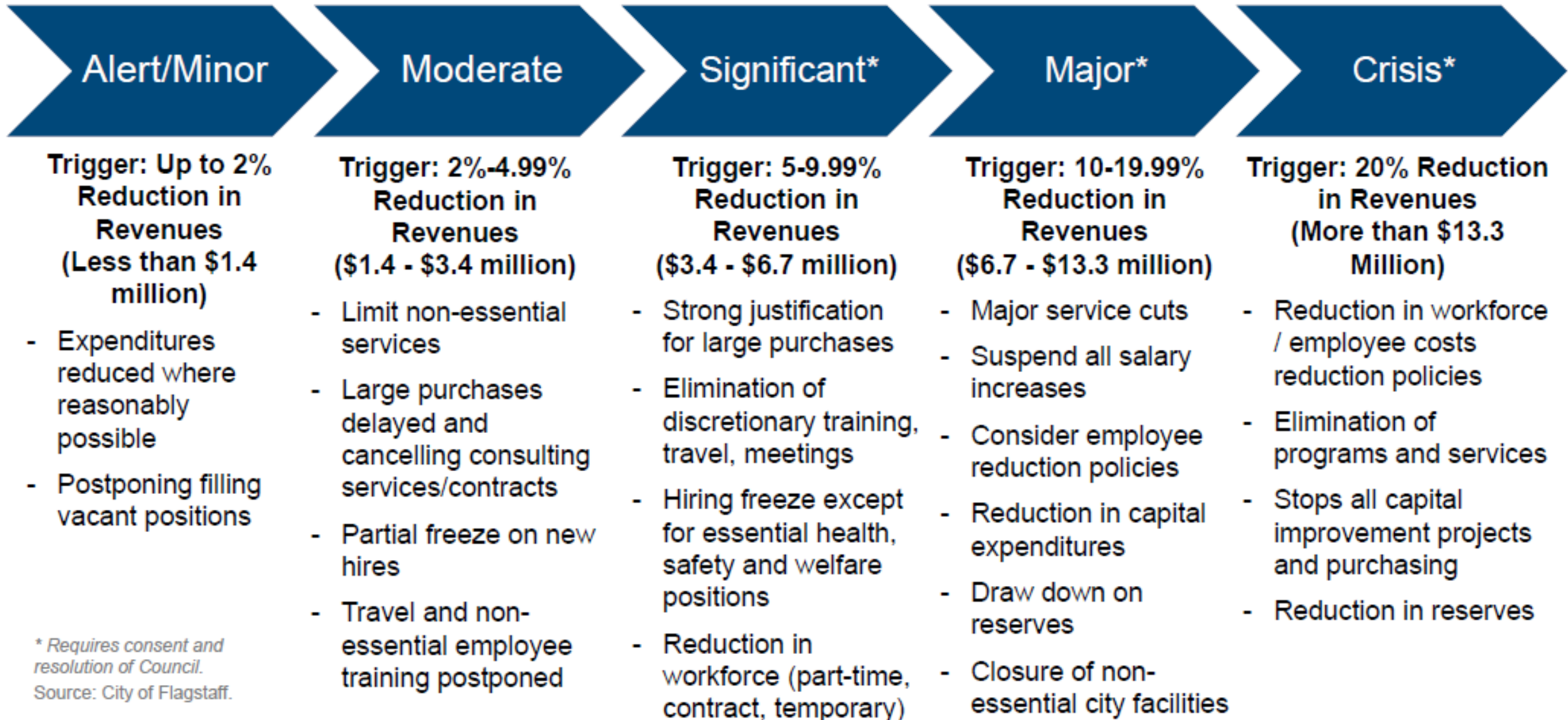


The City Recession Plan

- Adopted Policy that identifies the action steps to address declining revenues
- Overlays and is independent to the adopted budget
- Adaptable in implementation
- Moving into the Significant stage (or higher) requires Council action
- Council action gives the City Manager direction to apply measures at that level



Five Stages of the Recession Plan



* Requires consent and resolution of Council.

Source: City of Flagstaff.



Significant Stage

- Requires justification for large purchases/capital items
- Elimination of expenditures related to travel, meetings and discretionary
- Implementation of a hiring freeze on all but essential health, safety and welfare positions
- Suspension or reduction of services and programs or decrease level of service in programs that are not deemed essential to the community



Significant Stage

- A possible reduction of workforce with initial emphasis upon temporary, part-time and contract employees
- A possible draw down of reserves may be considered
- The City will consider reduction of hours and/or temporary closures of facilities and/or increases in fees to maintain services
- Possible deferral or postponement of salary increases (rezones, merits, cost of living adjustments and quality step increases)





Introduction/Forecasting

- Implemented a new revenue forecasting model
 - Looking at revenues month to month versus just annualized
 - Four scenarios forecasts implemented
- May 26th moved to the Significant Stage of the Economic Recession Plan: 5% to 10% or \$3.4M to \$6.7M
- Preliminary November revenue numbers available
- Additional projections and Fiscal Year 2021-2022 forecasts to be provided at February Retreat



General Fund

- Impact of revenues from pandemic/recession
 - Sales tax
 - Most tax categories estimates below budget
 - Biggest impacts to restaurants, hotels/motels/short-term rentals, personal property rentals, amusements
 - Positive growth is seen in a few categories
 - Retail, construction contracting, use tax
 - State shared revenues - stable, slight growth
 - Other General Fund revenues
 - Charges for services hardest hit of all General Fund revenues



General Fund

	Budget Adoption	Add'l Pandemic Impacts	Stronger Recovery	Slower Recovery	Average of 3 Scenarios	
Category	FY 2020-21 Budget	Scenario 1 FY 2020-21	Scenario 2 FY 2020-21	Scenario 3 FY 2020-21	Scenario 4 FY 2020-21	Change from Budget
Sales Taxes						
Utilities	\$ 1,076,250	\$ 1,017,100	\$ 1,043,300	\$ 1,028,600	\$ 1,029,700	\$ (46,550)
Telecommunications	235,750	151,500	205,700	191,600	182,900	(52,850)
Restaurant/Bars	3,075,000	2,462,400	2,842,000	2,690,000	2,664,800	(410,200)
Amusements	108,650	43,000	61,100	56,300	53,400	(55,250)
Commercial Rental	1,050,000	1,064,100	1,103,500	1,097,200	1,088,300	38,300
Personal Property Rental	732,875	621,100	652,400	584,700	619,400	(113,475)
Contracting	1,700,000	1,921,700	2,034,500	1,942,400	1,966,200	266,200
Retail	10,865,000	11,099,800	11,718,100	11,339,600	11,385,800	520,800
Hotel/Motel/STR	1,640,000	1,134,200	1,368,800	1,320,800	1,274,600	(365,400)
Miscellaneous	99,600	102,500	106,400	94,800	101,200	1,600
Use Tax	1,471,545	1,674,500	1,852,100	1,779,100	1,768,600	297,055
Sales Taxes Total	\$ 22,054,670	\$ 21,291,900	\$ 22,987,900	\$ 22,125,100	\$ 22,134,900	\$ 80,230
Change vs Prior Budget		\$ (762,770)	\$ 933,230	\$ 70,430	\$ 80,230	
% Change vs Prior Budget		-3.5%	4.2%	0.3%	0.4%	



General Fund

	Budget Adoption	Add'l Pandemic Impacts	Stronger Recovery	Slower Recovery	Average of 3 Scenarios	
Category	FY 2020-21 Budget	Scenario 1 FY 2020-21	Scenario 2 FY 2020-21	Scenario 3 FY 2020-21	Scenario 4 FY 2020-21	Change from Budget
Sales Taxes Total	\$ 22,054,670	\$ 21,291,900	\$ 22,987,900	\$ 22,125,100	\$ 22,134,900	\$ 80,230
State Shared Revenues						
State Shared Sales Tax	\$ 7,486,395	\$ 7,674,700	\$ 8,014,700	\$ 7,610,000	\$ 7,766,500	\$ 280,105
State Shared Urban Revenue	10,669,590	10,724,000	10,724,000	10,724,000	10,724,000	54,410
Auto Lieu Tax	3,540,863	3,410,100	3,665,000	3,602,900	3,559,400	18,537
State Shared Total	\$ 21,696,848	\$ 21,808,800	\$ 22,403,700	\$ 21,936,900	\$ 22,049,900	\$ 353,052
Property Taxes	\$ 6,967,500	\$ 6,817,500	\$ 6,967,500	\$ 6,717,500	\$ 6,834,200	\$ (133,300)
Franchise Fees	2,471,500	2,206,400	2,206,400	2,180,000	2,197,600	(273,900)
Building Permits	1,702,500	1,765,100	1,940,100	1,677,600	1,794,300	91,800
Other General Fund	7,585,100	5,220,200	5,547,600	4,671,300	5,146,400	(2,438,700)
Total Other	\$ 18,726,600	\$ 16,009,200	\$ 16,661,600	\$ 15,246,400	\$ 15,972,500	\$ (2,754,100)
Total General Fund Revenues	\$ 62,478,118	\$ 59,109,900	\$ 62,053,200	\$ 59,308,400	\$ 60,157,300	\$ (2,320,818)
Change vs Budget		\$ (3,368,218)	\$ (424,918)	\$ (3,169,718)	\$ (2,320,818)	
% Change vs Budget		-5.4%	-0.7%	-5.1%	-3.7%	

Excludes: Lease revenues, grants, contributions, miscellaneous, financing resources and transfers.



General Fund

- Will retail and construction remain strong?
- Still a great deal of uncertainty
 - COVID, shutdowns, vaccine impact, impacts to local businesses, unemployment, minimum wage, air travel, Census.....
- Should we maintain Significant Stage?
 - Wait for December revenues
 - Requires Council action



BBB Funds



- BBB Taxes rely on restaurants/bars and hotels/motels/short-term rentals
- Hardest hit during this pandemic
- University of Arizona Eller Institute projects hotels at 30% below prior year for the remainder of the fiscal year
- FY 2020-2021 scenarios 9% to 22% declines (\$800K-\$2.0M)
- Expect these revenues to recover quickly



Other Funds Revenues Impacted

- Highway User Revenue Fund
 - Early in the pandemic, revenues dropped
 - Revenues strong this summer, 5% decline in November
- ParkFlag
 - Paid parking lifted through April 30
 - Estimated revenue loss \$930K
- Airport
 - Revenues abated April-December
 - CARES Funding

General Fund Impacts





Public Safety (PSPRS)

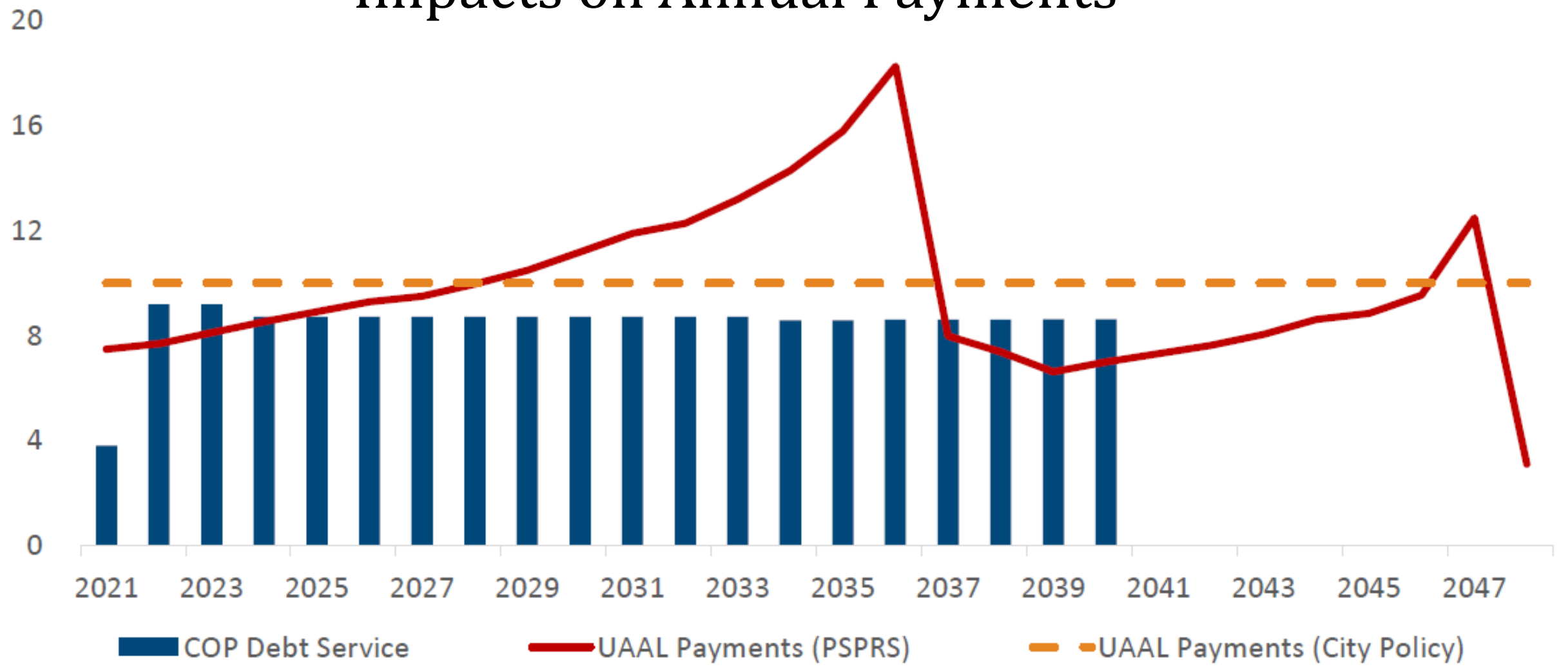
- The City has two Public Safety Personnel Retirement System (PSPRS) Plans – Police and Fire
- Each plan is the liability of the City
- As of the 6/30/2019 actuarial reports
 - \$112M unfunded actuarial liability
 - Pension plans were 37% funded
- Doing nothing would create bigger impacts in the future



Public Safety (PSPRS)



Impacts on Annual Payments





Public Safety (PSPRS)

- The transaction achieved several key objectives:
 - ✓ 100% funding of the city's public safety pension plan
 - ✓ Reduce annual debt payments substantially, thereby easing the burden on the City's General Fund
 - ✓ Level off future payments (the previous debt schedule had significant increases in annual debt payments in future years)
 - ✓ Set up a reserve fund to mitigate the risks of changing markets and actuarial assumptions
 - ✓ Pay off the debt in 20-years versus the original 28-year plan



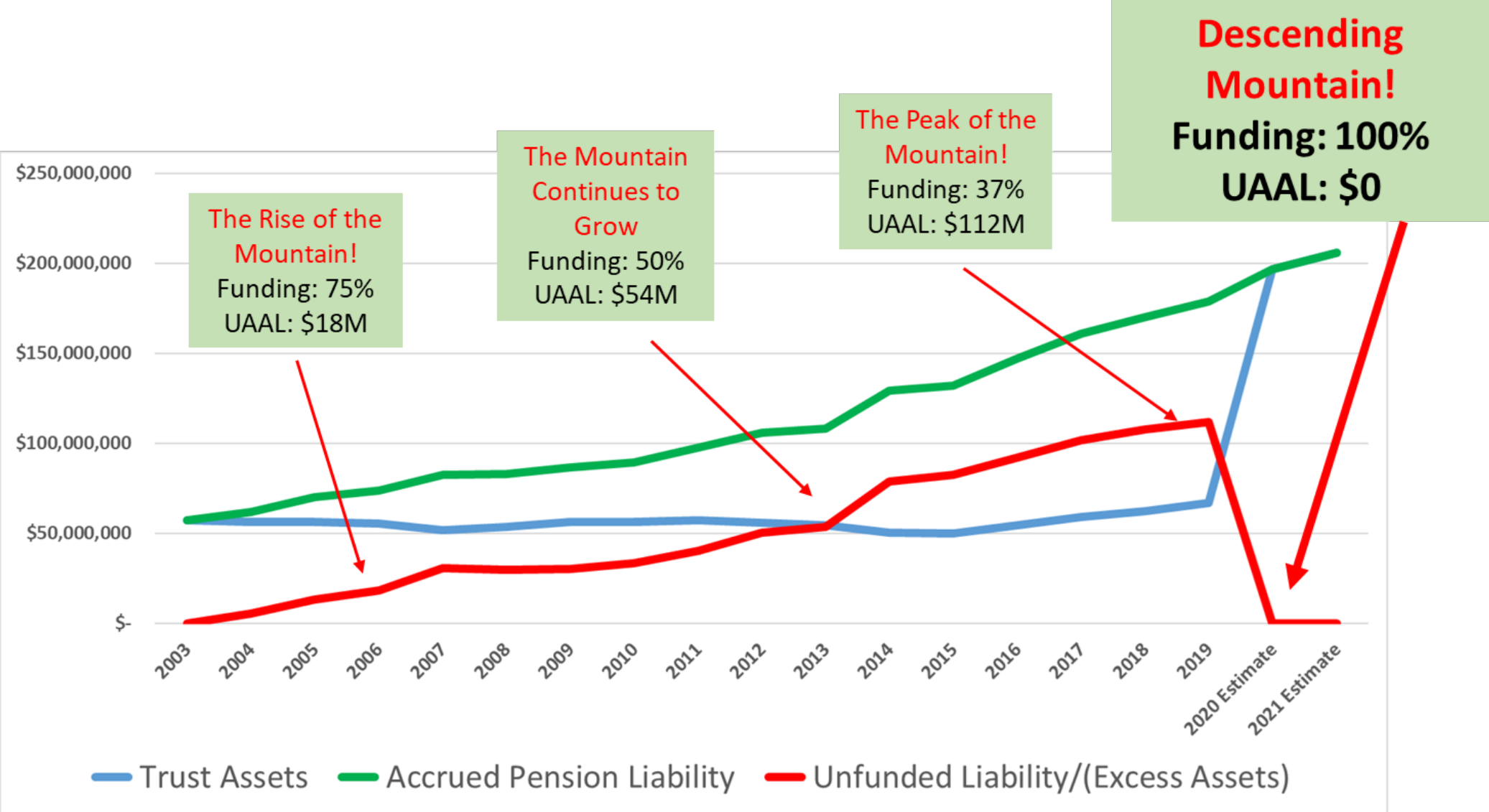
Public Safety (PSPRS)

The Numbers

- 100% funded plans
- Contingency reserve funds: \$14M
- All-in interest rate: 2.7% (versus April 3.9%)
- Net present value savings estimated: \$76M (versus \$54M)
- Debt service payments between \$8.6M and \$9.2M
- Versus \$10.7 million budgeted unfunded actuarial accrued liability (UAAL) payments



Public Safety (PSPRS)





Minimum Wage Assessment

- HB 2756 (2019 Legislative Session): The State may assess a municipality to pay the difference in minimum wage (if higher than the States) to pay for State agency operations
 - Assessment estimate in 2018-2019 = \$671,500 (Not Assessed)
 - Assessment estimate in 2019-2020 = \$1,172,289 (Not Assessed)



Minimum Wage Assessment

Contributing State Agencies (FY 2020-2021 Estimates)

- Arizona Health Care Cost Containment System (AHCCCS) = \$77,000
- Department of Economic Security (DES) = \$1,037,700
- Other State Agencies = Approximately \$57,000

FY 2021-2022 Assessment

- Assessment is expected to continue to increase as minimum wage increases
- Assessment estimate = \$2 Million+
- Will receive Joint Legislative Budget Committee (JLBC) estimates in early March 2021
- Governor's Office of Strategic Planning and Budgeting (OSPB) will verify in late April 2021



CARES/COVID Funding

- All reimbursement-based funding
- Airport CARES Funding of \$18.1M
 - Restricted for Airport operations and maintenance
 - Reduces General Fund support for four years
 - Provided offset for declining revenues
- Public Safety CARES Funding of \$8.6M
 - Restricted for Public Safety personnel salaries and benefits
 - Provided offset for declining revenues
- Other COVID Funding
 - Safety supplies, Library, Court, Police, etc.



Compensation Funding

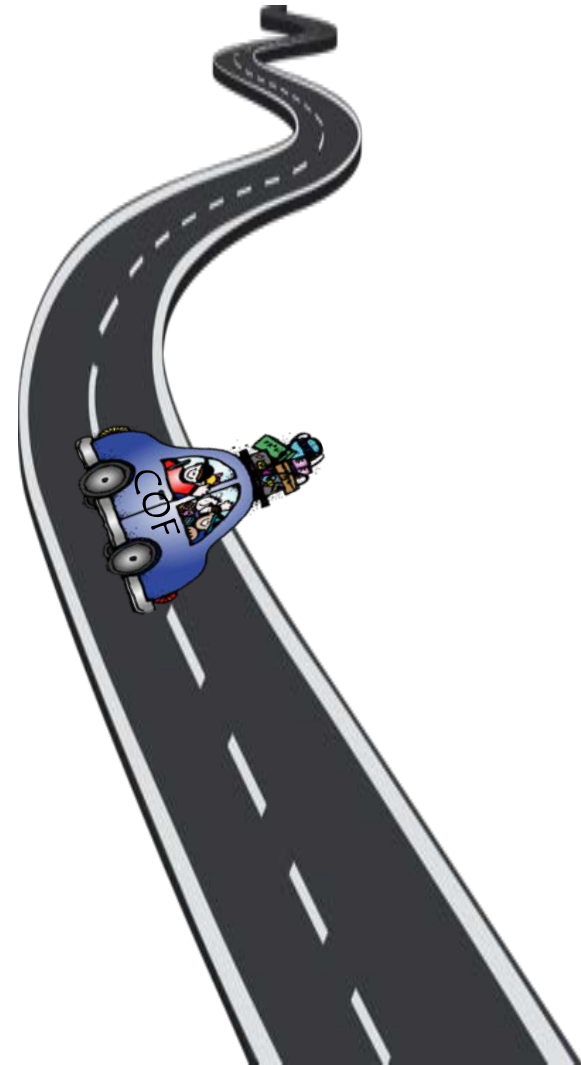
- FY 2020-2021 2% Cost of Living Adjustment on hold due to Recession Plan
- Compensation Study Recommendations
 - Implement revised pay plan structures
 - Implement benchmark pay ranges
 - Implement impact adjustment
- Minimum Wage
 - Implement January 1, 2021 minimum wage adjustment to \$15.00/hour
 - Implement July 1, 2021 minimum wage adjustment to \$15.50/hour
- Future
 - Maintain competitive market position to support recruitment and retention
 - Employee compensation included in 5-year plans
 - Merit and market adjustment budgets





Overview Agenda

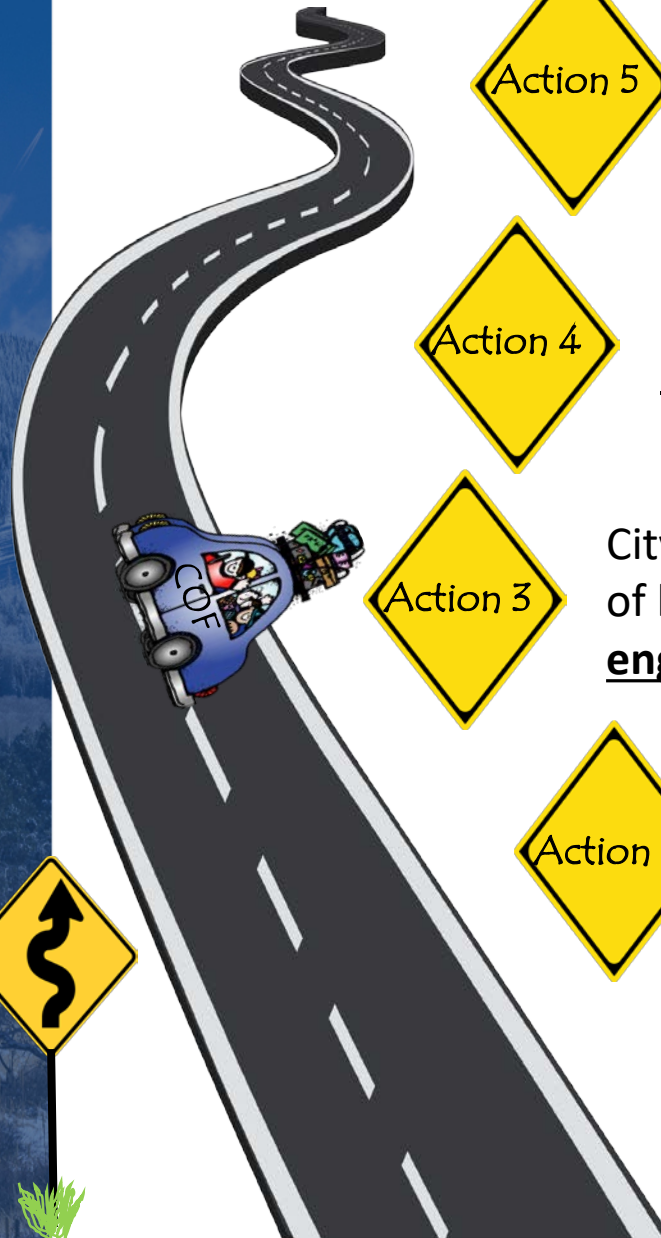
- A change was needed – Higher Performing Governance
- What is Priority Based Budgeting (PBB)?
- Key Community Priorities and Objectives
- Aligning the Budget Process with PBB



Roadmap to Higher Performance

Desire for:

- Data-Driven Decisions
- Stronger budget alignment with Priorities
- Greater Transparency



Action 5

Higher Performing Governance: City Council and Staff continue to expand the use of the PBB tool in the alignment of budgeted dollars with Key Community Priorities and Objectives.

Action 4

City Council and staff create a **strategic plan** based on the established community priorities and objectives.

Action 3

City will complete **Year 2** of PBB with benefit of lessons learned, plus new **public engagement** steps.

Action 2

City completed **year 1** of the new PBB tool (Beta Test) and noted areas for improvement.

Action 1

City embarked on the road to Higher Performing Governance in 2019 – chooses **PBB Tool**.



PBB Public Video



[YouTube Link](#)



What is PBB?




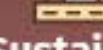



PBB enables us to answer three questions

What do we
do?

What does
it cost?

Do our
programs
align with our
priorities?



 High Performing Governance	 Safe & Healthy Community	 Inclusive & Engaged Community	 Sustainable, Innovative Infrastructure	 Robust Resilient Economy	 Livable Community	 Environmental Stewardship
Serve the public by providing high quality customer service	Enhance community engagement & strengthen relationships between the community & public safety services	Foster community pride & civic engagement by increasing opportunities for public involvement, in line with best practices & legal requirements	Deliver outstanding services to residents through a healthy, well maintained infrastructure system	Support & strengthen a more robust, diverse, & sustainable economy in ways that reflect community values & provides for affordable housing opportunities	Create a welcoming community through partnerships, resilient neighborhoods, & civic engagement	Promote, protect & enhance a healthy, sustainable environment & its natural resources
Foster community-wide clear & consistent communication strategies & products	Support social services, community partners & housing opportunities	Advance social equity & social justice in Flagstaff by supporting social services	Utilize existing long-range plan(s) that identify the community's future infrastructure needs & all associated costs	Maintain & enhance an equitable & effective business recruitment, retention, & expansion program throughout the community	Provide amenities & activities that support a healthy lifestyle	Engage community members through education & volunteer opportunities
Encourage public trust through transparency, accessibility & use of the City's public participation policy	Provide alternative responses, resources & programs, inclusive of mental health & other services	Facilitate & foster diversity & inclusivity, including support of anti-racist policies & practices	Provide effective management of and infrastructure for all modes of transportation	Enhance understanding between the development community, the City & Flagstaff residents	Support regional partners which provide equitable & inclusive educational opportunities for Flagstaff residents of all ages	Implement sustainable building practices, enhance waste diversion programs, alternative energy programs & multi-modal transportation options
Enhance the organization's fiscal stability & increase efficiency & effectiveness	Provide public safety services with resources, staff & training responsive to the community's needs	Enhance community involvement, education & regional partnerships to strengthen the level of public trust	Facilitate & develop carbon-neutral energy opportunities	Attract employers that provide high quality jobs & have a low impact on infrastructure & natural resources	Actively support attainable & affordable housing through City projects & opportunities with developers	Increase the private sector's participation in environmental stewardship efforts

Key Community Priorities & Objectives

Implement innovative local government programs, new ideas & best practices, be recognized as a model for others to follow	Provide high quality recreation opportunities, parks, open space & multiple transportation options	Ensure that services are accessible for all residents & representative of Flagstaff's diverse community	Identify & address community needs; assist those partner organizations that provide services the City does not	Develop partnerships with higher education institutions & the private & public sectors	Provide opportunities that provide residents with a living wage	Implement, maintain & further the Climate Action & Adaptation Plan (CAAP) with awareness of social inequities
Be an employer of choice	Ensure the built environment is safe, healthy, & resilient	Strengthen community involvement, education & regional partnerships	Facilitate & develop carbon-neutral energy opportunities	Attract employers that provide high quality jobs & have a low impact on infrastructure & natural resources	Achieve a well-maintained community through City projects & opportunities with developers	Strengthen Flagstaff's environmental stewardship efforts

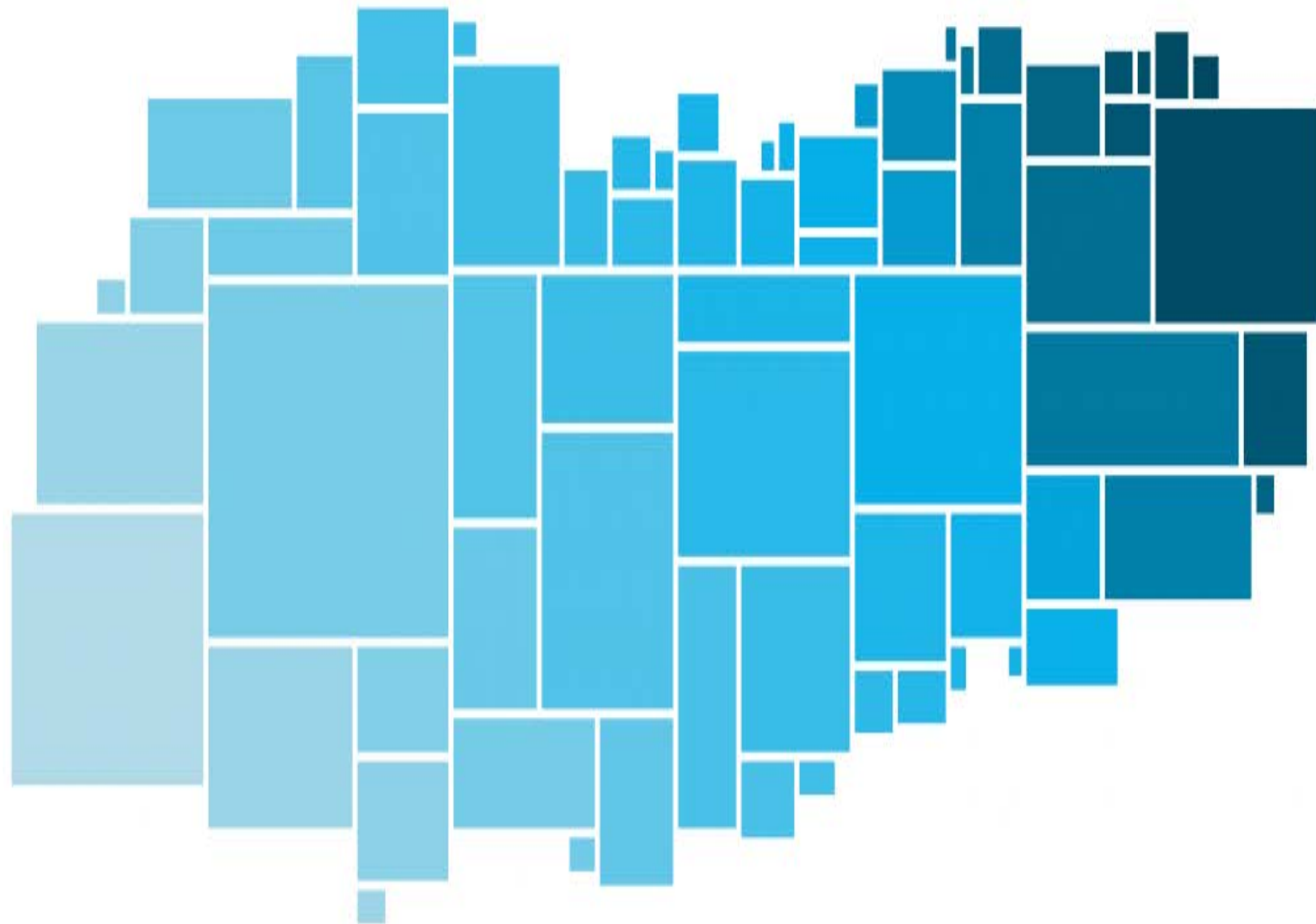
PBB Community Engagement

- Public Videos Created:
 - Video #1 – Public Education, PBB 101
 - Video #2 - Solicited public involvement in this year's PBB Peer Review process
- Community Survey to calibrate each of the Objectives that directly support each of the Key Community Priorities
- Public component to the Peer Review Process





PBB Tool Deliverable





PBB Tool Pushes Policy Discussion



Examples of Policy Questions

- Are we overproviding state or federally mandated services that do not align with our priorities?
- Are there programs mandated by the City that are not aligned with our priorities?
- Is there an opportunity for a *public/ public* partnership for programs that are aligned with our priorities and only provided by the City?
- Is there an opportunity for a *public/ private* partnership for programs that are provided by other entities in the community?
- Should we continue offering programs that are not mandated, are provided by other entities in the community, and not aligned with our priorities?





Questions?

Council Budget Expectations



Public Participation





Color of Money – Fund Accounting

Many of the City's revenues are restricted and can only be spent on specific functions or expenditures. Fund accounting is used to ensure proper tracking of those revenues and related expenditures.

City fiscal policies require that each fund must be balanced on an ongoing basis for a minimum of five years. In addition, each fund must maintain a minimum fund balance. Minimum fund balance is required to ensure liquidity and cash flow as well as provide financial stability should the City experience declining operating revenues. Minimum fund balance amounts vary by fund and range from 10% to 25% of operating revenues.

Below is background information on the various City's funds and their restricted revenues.



Special Revenue Funds

Used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision, or ordinance to finance a particular function or activity.

- | | |
|---|--|
| <ul style="list-style-type: none">• Library – Secondary property tax and general fund transfer• HURF (Streets) – Gasoline tax• Transportation tax – 1.281% sales tax<ul style="list-style-type: none">» Transportation Improvements (.426%)» Road Repair & Street Safety (.33%)» Transit (.295%)» Route 66 to Butler Overpass (.23%) | <ul style="list-style-type: none">• BBB tax – 2.0% tax on bed, board & beverage<ul style="list-style-type: none">» Beautification (.40%)» Economic Development (.19%)» Arts & Science (.15%)» Tourism (.60%)» Recreation (.66%)• ParkFlag• Housing & Community Services – Grants |
|---|--|



Enterprise Funds

Self-supporting thru User Fees adopted by ordinance such as Water/Wastewater/Trash billings, Rent and Airport lease and fees.

- | | |
|---|---|
| <ul style="list-style-type: none">• Water• Wastewater• Reclaim• Stormwater | <ul style="list-style-type: none">• Sustainability and Environmental Management• Airport• Solid Waste• Flagstaff Housing Authority |
|---|---|



Capital Project Funds

Used to account for major capital acquisition separate from ongoing operations

- | | |
|---|--|
| <ul style="list-style-type: none">• Restricted Funding Sources -Voter Approved Bonds, Grants, Third Party Restricted Fees | <ul style="list-style-type: none">• General Obligation Bond Projects:<ul style="list-style-type: none">» FUTS/Open Space» Watershed Protection» Courthouse• USGS campus expansion |
|---|--|



Continued ... **Color of Money** – Fund Accounting



Debt Service Funds

Used to account for the accumulation of resources and payments of the long-term debt

- **Restricted revenues**
 - » **General obligation bond fund – Secondary Property Tax**



General Fund

Accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government that are not accounted for in other funds and most revenues are unrestricted.

- **In other words,...everything else**

General Fund Revenues include:

- **1% City Sales Tax**
- **Franchise Tax**
- **Primary Property Tax**
- **State Shared Revenue (Sales, Income, Vehicle Tax)**
- **Licenses and Permits**
- **Fines and Forfeitures**
- **User Fees-Charges for Services**
- **CD, Recreation, Police, Fire, Cemetery**

2020 City of Flagstaff

Economic Recession Plan



Purpose

The City and US has seen over ten years of economic growth since the great recession of 2008. We are currently in the longest stretch of economic growth in US history. The chances for economic downturns become more likely as expansion continues. Taking measures to be prepared for economic downturns is critical to how well the City financially responds to a reduction in resources to provide ongoing services to the community. It is imperative to have these strategic measures in place, proactively, in order to plan and prepare for such downturns well in advance. Toward that objective, the formulation of this Plan commenced in the Fall of 2019 with the intention of adoption prior to the 2020-21 Budget Year.

The purpose of this Recession Plan is to provide financial guidance and remedial measures during negative changes in the City's economic status. There are multiple stages of the Plan, that equate to anticipated incremental reduction in available City revenues.

Understanding Indicators and Impacts

Since the City's economy is heavily dependent on discretionary spending of visitors and discretionary purchasing surrounding the tourism, real estate, and construction markets, projecting revenues and expenditures is challenging. Adding to this challenge is our reliance upon many national and regional variables. A plan to manage the financial impacts of economic recession and net revenue shortfalls is paramount.

With those challenges in mind, this Plan, in conjunction with the City's policy on maintaining reserves, can be used to address a variety of economic uncertainties and identify potential corrective actions when revenues or reserves are jeopardized.

- A. Negative Indicators are warnings that potential budget impacts are an increasing probability based on the monitoring of key revenue sources such as sales taxes, building activity, utility usage, and tourism related indicators. Inflation indicators, interest rates, and state and national trends may also be considered. State, national and global issues and crises should also be considered.
- B. Economic downturns can fluctuate in severity and in duration. Implementation of the strategies in this Plan should coincide with the duration of such events, and beyond as may be warranted to ensure full recovery economically.
- C. Stages represent the degree of the economic downturn and serve to classify and communicate the severity of the situation to the City Council, staff, and the public. There are five stages accordingly. As the severity of the economic downturn increases (or are expected to increase in severity) the Plan's tiered approach will guide the City's actions accordingly.

Funds have different Indicators and Impacts

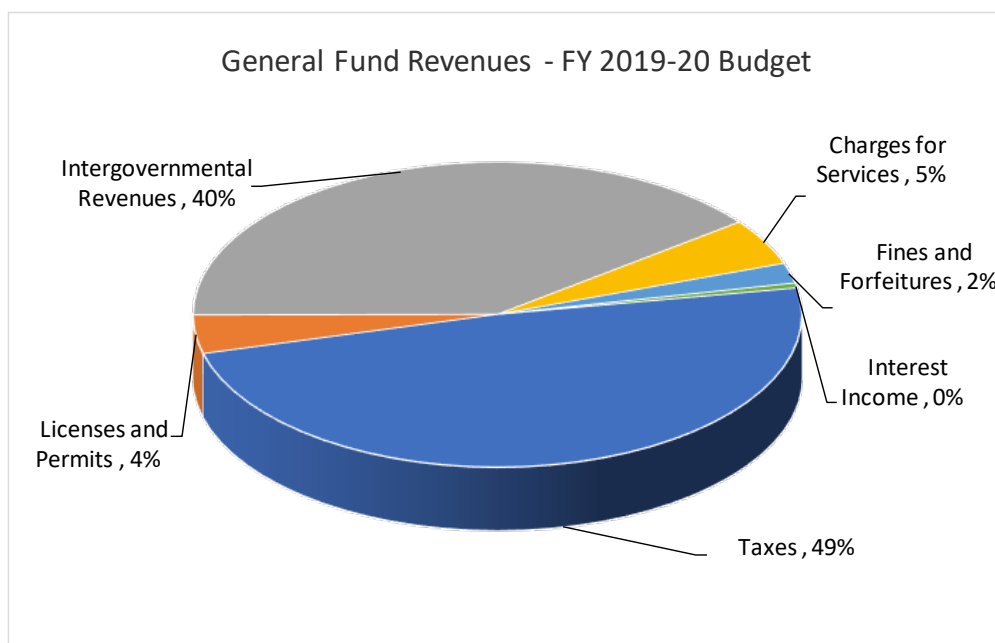
The City has multiple funds which have different revenue streams that have different indicators to be aware of. The largest of the funds is the City's General Fund which is largely used for general City services and labor. Some of the funds operate as enterprise funds premised upon self-sustaining revenues generated through the operation of an enterprise – essentially treated as government-operated businesses. All of the City's funds are summarized in Appendix A.

The indicators as noted above will basically apply to all City funds, noting that some funds, such as the General Fund, may be more vulnerable than other funds to economic fluctuation. Therefore, the Plan places significant focus on the General Fund. All the funds are summarized in Appendix A. In addition, the General fund may need to sustain further cuts to assist other smaller/non self-sufficient funds (such as the Airport and Library Funds).

Below is a table of some of the major revenues in the General Fund that would be impacted during an economic downturn along with the impact based on a percentage of change:

		Decline: Up to 2%	Decline: Up to 5%	Decline: Up to 10%	Decline: Up to 20%
001 : General Fund	Total Budget				
Taxes	\$ 32,274,000	\$ 645,000	\$ 1,614,000	\$ 3,227,000	\$ 6,455,000
Licenses and Permits	2,707,000	54,000	135,000	271,000	541,000
Intergovernmental Revenues	26,334,000	527,000	1,317,000	2,633,000	5,267,000
Charges for Services	3,267,000	65,000	163,000	327,000	653,000
Fines and Forfeitures	1,420,000	28,000	71,000	142,000	284,000
Interest Income	350,000	7,000	18,000	35,000	70,000
Total	\$ 66,352,000	\$ 1,326,000	\$ 3,318,000	\$ 6,635,000	\$ 13,270,000

Excludes: Lease revenues, contributions, miscellaneous, financing resources and transfers.



In the General Fund for FY 2019-20, 81% (\$56.2 Million) of the base ongoing budget is personnel, 14% (\$9.8 Million) is contractual, 3.4% (\$2.4 Million) is commodities and 1.6% (\$1.1 Million) is capital. Most capital purchases are funded with one-time resources or funded with resources outside of the General Fund. Of the total General Fund base budget in FY 2019-20, 57% (\$39.2 Million) is related to public safety (police, fire and court), of which 31% (\$12.3 Million) is public safety pension contributions.

General Fund Unrestricted Fund Balance and Contingencies Play a Role in Economic Financial Planning

A critical part of long-term financial planning is to assure an adequate fund balance is maintained in the General Fund. Outside of economic downturns, the City will strive to have a minimum unreserved fund balance of 20%. During downturns, the City could make strategic reductions in the fund balance. For FY 2019-20, 20% is equal to \$12,500,000. Reduction of fund balance will impact the security of the General Fund and could have an adverse impact on debt ratings.

There are proactive administrative tools that will ensure the maintenance of the 20% fund balance. Such tools include the centralization of various administrative services that may bring about economies by minimizing fragmentation. Cross-training and resource sharing between the divisions and sections should likewise be encouraged.

Revenue streams to fund programs and services that can be made sustainable through sources outside of the General Fund should be explored. Similarly, the General Fund is greatly encumbered by a public safety pension liability and efforts should be explored to see an independent funding stream lessen this burden, thereby making the fund less vulnerable to economic downswings.

Minimum fund balance policy for all other City funds is 10%, except the Highway User Revenue Fund (HURF) which has a minimum 20% fund balance policy and the Water Services Funds which has a minimum 25% fund balance policy.

Taking Remedial Action Based upon Revenue and Fund Balance Reductions

Planning what action steps will be taken positions an organization to proactively and responsibly plan for economic downturns.

The City has designed the following action plan based upon multiple stages of an economic downturn. The five stages set forth below equate to anticipated reductions in available revenues (the higher stages representing more severe reductions) and the resulting measures to be taken in each stage.

Five Stages:

Alert/Minor - An anticipated, unbudgeted, net reduction in available revenues up to 2%, less than \$1.4M

Action: Under this scenario, expenditures will be reduced where reasonably possible. Most services can be maintained without reduction or public impact, but some services may be scaled down. Recruitment for vacant positions may be prolonged for short periods, and unexpended operating appropriations will be diverted back into the General Fund. Efficiencies to reduce expenditures will be pursued with emphasis. Divisions and Sections are responsible for monitoring budgets and reducing expenditures.

Moderate - A projected and unbudgeted reduction in revenues in excess of 2% but less than 5%, \$1.4M to \$3.4M

Action: The City will maintain essential services, but non-essential services may be curtailed and the review of expenditures is intensified to include the deferment of large purchases, cancellation of contracts and consulting services, reduction/postponement of capital expenditures that are not mandatory or urgent, postponement of expenditures related to travel, meetings, and discretionary training, and delaying the recruitment for vacant positions when reasonable, including a partial hiring freeze, or relying upon other strategies to fill current or projected vacancies.

Significant - A projected and unbudgeted reduction in revenues in excess of 5% but less than 10%, \$3.4M-6.7M.

Action: Requires strong justification for large purchases, elimination of expenditures related to travel, meetings, and discretionary training, deferring a significant number of capital projects, implementation of a hiring freeze on all but essential health, safety, and welfare positions, and the suspension or reduction of services and programs or decrease level of service in programs that are not deemed essential to the community. A possible reduction of workforce with initial emphasis upon temporary, part-time, and contract employees. A possible draw down of reserves may be considered. The City will consider reduction of hours and/or temporary closures of facilities and/or increases in fees to maintain services. Possible deferral or postponement of salary increases (rezones, merits, COLAs and QSIs).

Major - A projected and unbudgeted reduction in revenues in excess of 10% but less than 20%, \$6.7M-\$13.3M plus

Action: This phase requires actions aimed at major service cuts, continuation of a total hiring freeze, a reduction of workforce with emphasis upon temporary, part-time, and contract employees, suspend all types of salary increases, and may consider additional employee cost reduction policies, further reductions in capital expenditures, and development of a further reduction in workforce strategy. A draw down of reserves would be required to maintain essential or mandatory services. Longer term closures of non-essential city facilities will occur.

Crisis - This phase assumes that revenues have been almost entirely depleted, with reductions in excess of 20%. The potential for an overall budget deficit is present.

Action: At this point, the City implements its reduction in workforce and employee cost reduction policies, eliminates programs and services, and stops all capital improvement projects and purchasing. Further reductions in reserves will be required.

The initiation of any of these strategies and actions originate with the Budget Team. Implementation of the First and Second Stages (Minor/Moderate) can be performed administratively. Implementation of additional Stages (Significant through Crisis) will require the consent and resolution of the City Council. The subsequent termination or reduction of these actions will be subject to the same approval requirements.

If the conditions leading to implementation of the Economic Recession Plan are likely to continue for multiple years, the cumulative effect of the reduction in revenues or reserves should be considered in determining the appropriate phased response.

Appendix A: Summary of Impact by Funds

	Revenues	Decline: Up to 2%	Decline: Up to 5%	Decline: Up to 10%	Decline: Up to 20%
General Fund	\$ 66,352,000	\$ 1,326,000	\$ 3,318,000	\$ 6,635,000	\$ 13,270,000
Special Revenue Funds					
Library	3,982,000	80,000	199,000	398,000	796,000
HURF	8,635,000	173,000	432,000	863,000	1,727,000
Transportation Tax	27,108,000	543,000	1,355,000	2,710,000	5,422,000
BBB Funds	9,798,000	196,000	490,000	981,000	1,960,000
Parking District	1,480,000	30,000	74,000	148,000	296,000
Total Special Revenue	51,003,000	1,022,000	2,550,000	5,100,000	10,201,000
Debt Service Funds	7,302,000	146,000	365,000	730,000	1,460,000
Enterprise Funds					
Water	17,815,000	356,000	891,000	1,781,000	3,563,000
Wastewater	10,539,000	211,000	527,000	1,054,000	2,108,000
Reclaim	1,040,000	21,000	52,000	104,000	208,000
Stormwater	4,277,000	86,000	214,000	428,000	855,000
Solid Waste	12,236,000	245,000	612,000	1,224,000	2,447,000
SEMS	1,064,000	21,000	53,000	106,000	213,000
Airport	2,219,000	44,000	111,000	222,000	444,000
FHA	1,803,000	37,000	90,000	181,000	361,000
Total Enterprise	50,993,000	1,021,000	2,550,000	5,100,000	10,199,000
All other funds	\$ 109,298,000	\$ 2,189,000	\$ 5,465,000	\$ 10,930,000	\$ 21,860,000

CITY OF FLAGSTAFF






Key Community Priorities



CITY OF FLAGSTAFF

Priority Based Budgeting Priorities and Objectives



 High Performing Governance	 Safe & Healthy Community	 Inclusive & Engaged Community	 Sustainable, Innovative Infrastructure	 Robust Resilient Economy	 Livable Community	 Environmental Stewardship
Serve the public by providing high quality customer service	Enhance community engagement & strengthen relationships between the community & public safety services	Foster community pride & civic engagement by increasing opportunities for public involvement, in line with best practices & legal requirements	Deliver outstanding services to residents through a healthy, well maintained infrastructure system	Support & strengthen a more robust, diverse, & sustainable economy in ways that reflect community values & provides for affordable housing opportunities	Create a welcoming community through partnerships, resilient neighborhoods, & civic engagement	Promote, protect & enhance a healthy, sustainable environment & its natural resources
Foster community-wide clear & consistent communication strategies & products	Support social services, community partners & housing opportunities	Advance social equity & social justice in Flagstaff by supporting social services	Utilize existing long-range plan(s) that identify the community's future infrastructure needs & all associated costs	Maintain & enhance an equitable & effective business recruitment, retention, & expansion program throughout the community	Provide amenities & activities that support a healthy lifestyle	Engage community members through education & volunteer opportunities
Encourage public trust through transparency, accessibility & use of the City's public participation policy	Provide alternative responses, resources & programs, inclusive of mental health & other services	Facilitate & foster diversity & inclusivity, including support of anti-racist policies & practices	Provide effective management of and infrastructure for all modes of transportation	Enhance understanding between the development community, the City & Flagstaff residents	Support regional partners which provide equitable & inclusive educational opportunities for Flagstaff residents of all ages	Implement sustainable building practices, enhance waste diversion programs, alternative energy programs & multi-modal transportation options
Enhance the organization's fiscal stability & increase efficiency & effectiveness	Provide public safety services with resources, staff & training responsive to the community's needs	Enhance community involvement, education & regional partnerships to strengthen the level of public trust	Facilitate & develop carbon-neutral energy opportunities	Attract employers that provide high quality jobs & have a low impact on infrastructure & natural resources	Actively support attainable & affordable housing through City projects & opportunities with developers	Increase the private sector's participation in environmental stewardship efforts
Implement innovative local government programs, new ideas & best practices; be recognized as a model for others to follow	Promote physical health through providing recreation opportunities, parks, open space & multiple transportation options	Ensure city facilities, services, & programs are accessible for all residents & representative of Flagstaff's diverse community	Support the community's social infrastructure needs; assist those partner organizations that provide services the City does not	Enhance the community's workforce development programs & improve partnerships with higher education institutions & the private & public sectors	Support diverse employment opportunities that provide residents with a living wage	Implement, maintain & further the Climate Action & Adaptation Plan (CAAP) with awareness of social inequities
Be an employer of choice through inclusive recruitment & by providing employees with the necessary tools, training, support & compensation	Ensure the built environment is safe through the use of consistent standards, rules & regulations, & land use practices	Promote environmental justice & the fair distribution of environmental benefits		Embrace & invest in responsible tourism opportunities to promote economic development	Achieve a well-maintained community through comprehensive & equitable code compliance, & development that is compatible with community values	Strengthen Flagstaff's resilience to climate change impacts on built, natural, economic, health, & social systems