

## **BUDGET RETREAT**

CITY COUNCIL BUDGET RETREAT  
MONDAY  
FEBRUARY 1, 2021

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](mailto: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](mailto:council@flagstaffaz.gov).

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## **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. City Council Fiscal Year 2021-22 Budget Retreat**

**5. 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 \_\_\_\_\_, 2021.

\_\_\_\_\_  
Stacy Saltzburg, MMC, City Clerk

## **CITY OF FLAGSTAFF**

### **STAFF SUMMARY REPORT**

**To:** The Honorable Mayor and Council  
**From:** Brandi Suda, Finance Director  
**Date:** 01/29/2021  
**Meeting Date:** 02/01/2021



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#### **TITLE**

**City Council Fiscal Year 2021-22 Budget Retreat**

#### **STAFF RECOMMENDED ACTION:**

Discuss and provide direction for the Fiscal Year 2021-22 budget.

#### **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 February 1st retreat will be the second of three City Council budget retreats for the upcoming FY 2021-22 budget. This special meeting is set to provide a financial outlook to the Council and to provide additional information and receive City Council on some budget issues. The main goal of the retreat is for the City Council to provide FY 2021-22 budget direction to the City Manager.

#### **INFORMATION:**

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

- Retreat Welcome
- Budget Timeline
- Priority Based Budget Overview
- Revenue Update
- Fixed Costs and Available Revenues
- Recession Plan Update
- Priority Based Budget Deep Dive
- Compensation Update
- Taxes, Fees, Potential Revenue/Bond Needs
- Council Forum/Budget Expectations
- Public Participation

Please find attached the following:

- Detailed Agenda
- Budget Retreat Presentation

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**Attachments:** Detailed Agenda

## Presentation

# City Council Budget Retreat

## February 1, 2021

### Detailed Agenda

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Time	Duration (Min)	Topic	Staff
8:30am	10	Welcome and Objectives	Julie Lancaster
8:40am	5	Budget Timeline	Heidi Derryberry
8:45am	60	Priority Based Budget (PBB) Overview	Kathy Novak Chris Fabian
9:45am	30	Revenue Update <ul style="list-style-type: none"> <li>General Fund Revenues</li> <li>BBB, Highway User, Other Revenues</li> </ul>	Rick Tadder
<b>10:15am</b>	<b>15</b>	<b>Break</b>	
10:30am	30	Fixed Costs and Available Revenues <ul style="list-style-type: none"> <li>Pension Cost Trends</li> <li>Fixed Costs Summary</li> <li>Recession Impacts</li> <li>Summary - General Fund</li> </ul>	Brandi Suda Rick Tadder
11:00am	15	Recession Plan Update	Rick Tadder
11:15am	60	Priority Based Budget (PBB) Deep Dive	Kathy Novak Chris Fabian
<b>12:15pm</b>	<b>15</b>	<b>Working Lunch</b>	
12:30pm	60	Priority Based Budget (PBB) Deep Dive	Kathy Novak Chris Fabian
1:30pm	10 15 30 10 5 20	Compensation Update <ul style="list-style-type: none"> <li>Introduction</li> <li>Employee Survey</li> <li>Compensation Program</li> <li>Employee Advisory Committee</li> <li>Benefits</li> <li>Council Direction</li> </ul>	Greg Clifton Jen Caputo Jeanie Gallagher EAC Rep
<b>3:00pm</b>	<b>15</b>	<b>Break</b>	
3:15pm	45	New Revenue Sources/Increases <ul style="list-style-type: none"> <li>Taxes <ul style="list-style-type: none"> <li>Sales Taxes</li> <li>Medical Marijuana</li> <li>BBB Tax Reallocation</li> </ul> </li> <li>Fees</li> <li>General Obligation Bonds</li> <li>Potential Revenue/Bond Needs</li> </ul>	Rick Tadder Heidi Hansen Shannon Anderson
4:00pm	30	Council Forum/Budget Expectations	Mayor Deasy Greg Clifton
4:30pm	30	Public Participation	

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

# Council Budget Retreat

February 1, 2021





# Welcome



- Welcome
- Objectives
- Meeting Protocol



# Agenda



- Budget Timeline
- Priority Based Budgeting (PBB) Overview
- Revenue Update
- Fixed Costs and Available Revenues
- Recession Plan Update
- Priority Based Budgeting (PBB) Deep Dive
- Compensation Update
- New Revenue Sources/Increases
- Council Forum/Budget Expectations





# FY 2021-2022 Budget Timeline

- February 1, 2021 – 2<sup>nd</sup> 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
  - 1<sup>st</sup> Reading of Property Tax Adoption
  - Final Budget Adoption
- July 6, 2021 – Final Reading of Property Tax Adoption

# Priority Based Budget Overview

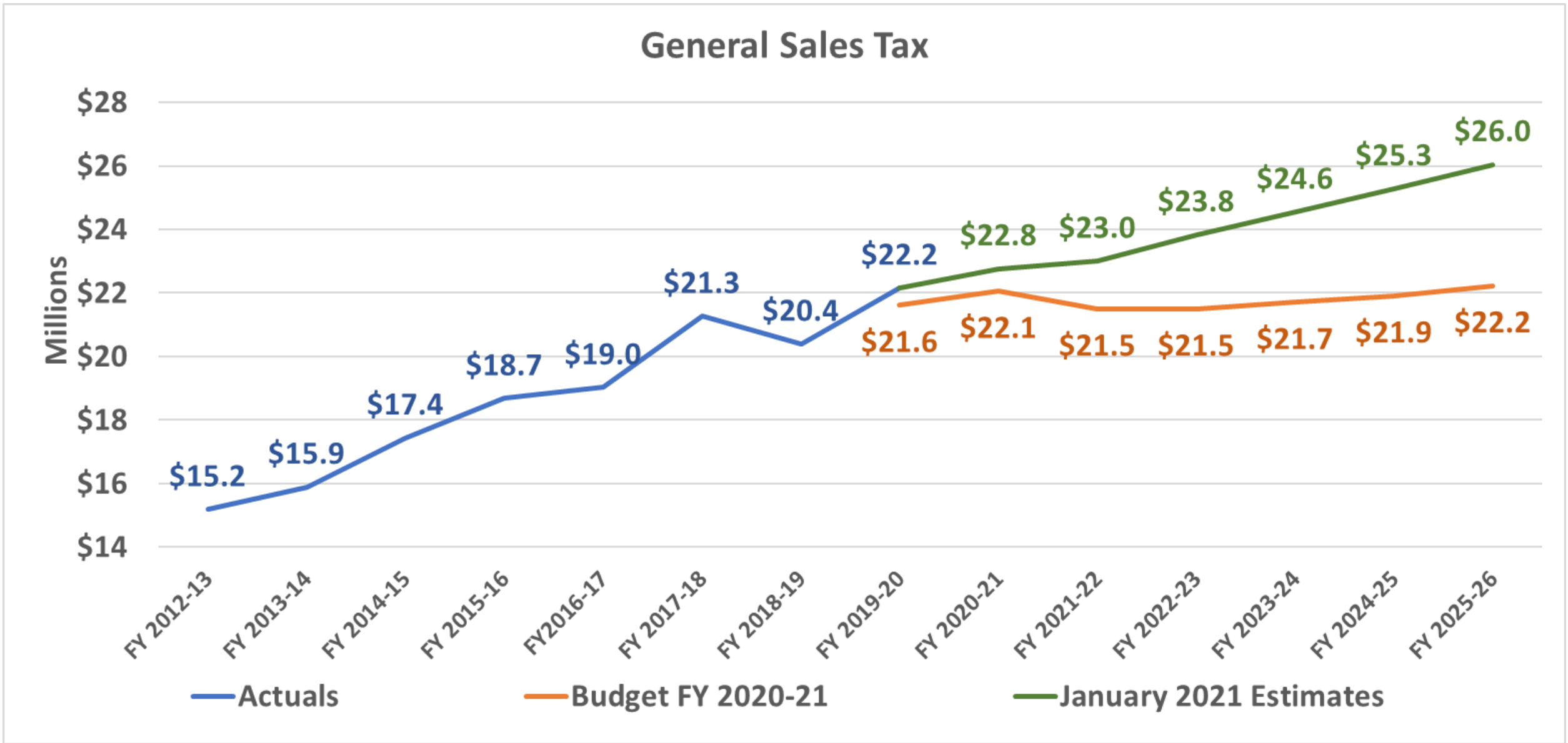


# Revenue Update





# Revenue Update: General Fund





# Revenue Update: General Fund

## General Sales Tax Summary

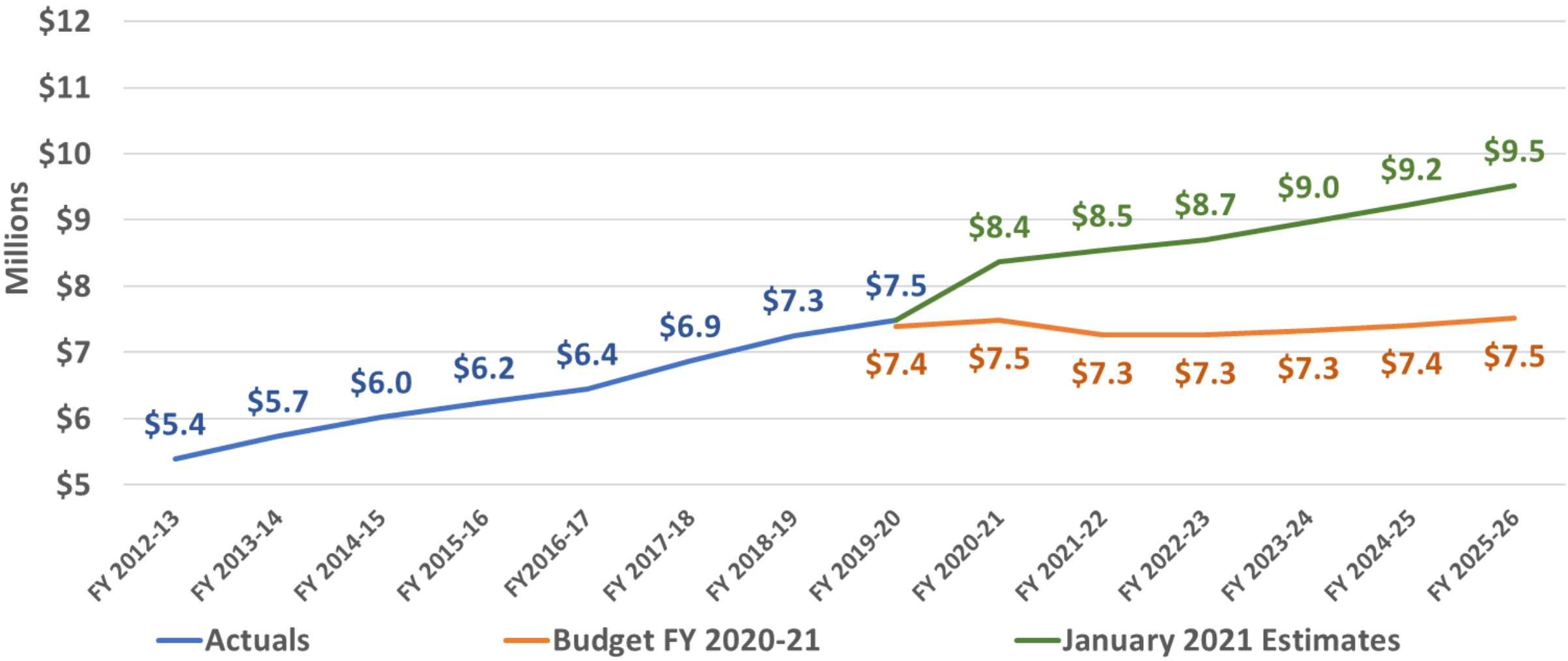
Category	FY 2020-21 Budget	FY 2020-21 Estimate	Change from Budget	% Change
<b>Sales Taxes</b>				
Utilities	\$ 1,076,250	\$ 1,013,000	\$ (63,250)	-5.9%
Telecommunications	235,750	178,000	(57,750)	-24.5%
Restaurant/Bars	3,075,000	2,600,000	(475,000)	-15.4%
Amusements	108,650	44,800	(63,850)	-58.8%
Commercial Rental	1,050,000	1,084,000	34,000	3.2%
Personal Property Rental	732,875	612,000	(120,875)	-16.5%
Contracting	1,700,000	2,097,000	397,000	23.4%
Retail	10,385,000	11,291,000	906,000	8.7%
Marketplace Retail (outside AZ)	480,000	782,000	302,000	62.9%
Hotel/Motel/STR	1,640,000	1,230,000	(410,000)	-25.0%
Miscellaneous	99,600	98,300	(1,300)	-1.3%
Use Tax	1,471,545	1,740,000	268,455	18.2%
<b>Sales Taxes Total</b>	<b>\$ 22,054,670</b>	<b>\$ 22,770,100</b>	<b>\$ 715,430</b>	<b>3.2%</b>



# Revenue Update: General Fund



State Shared Sales Tax

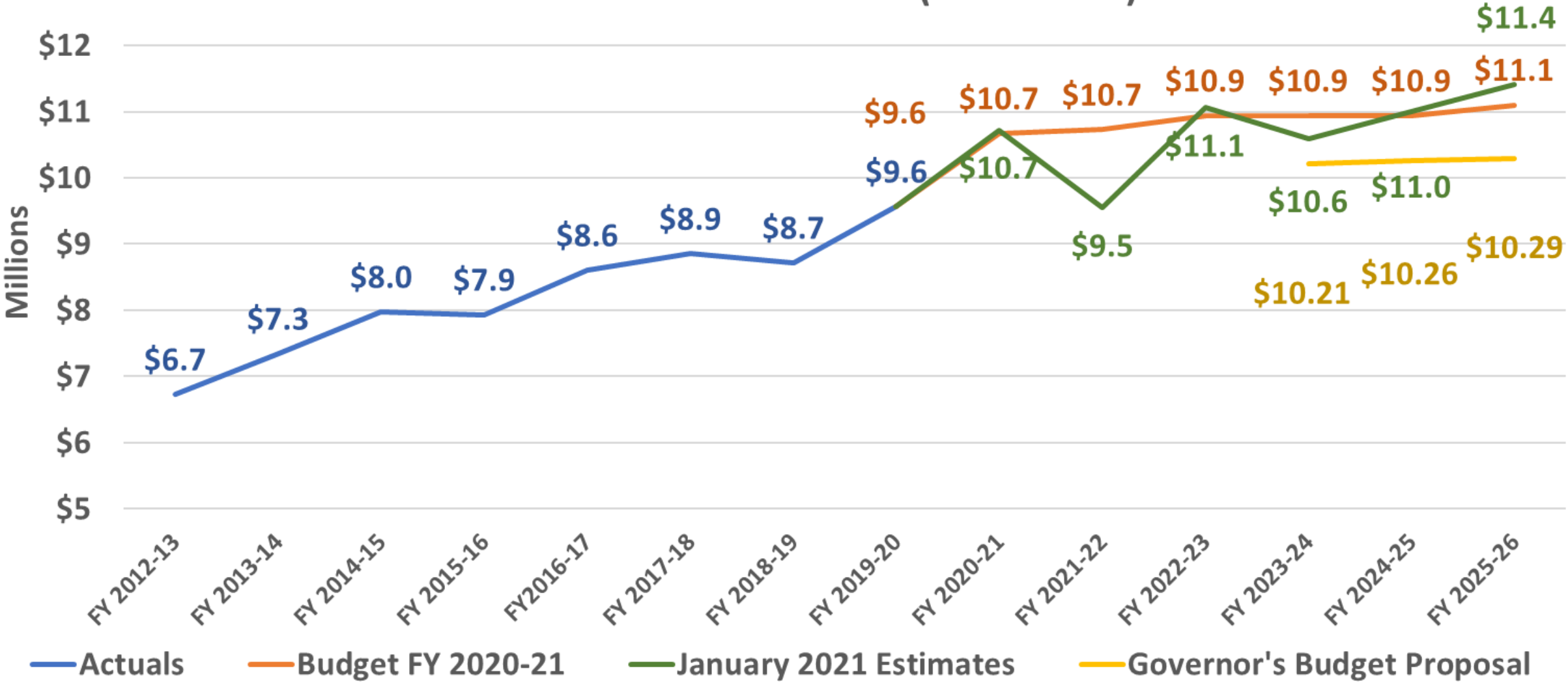




# Revenue Update: General Fund



State Shared Urban Revenue (Income Tax)

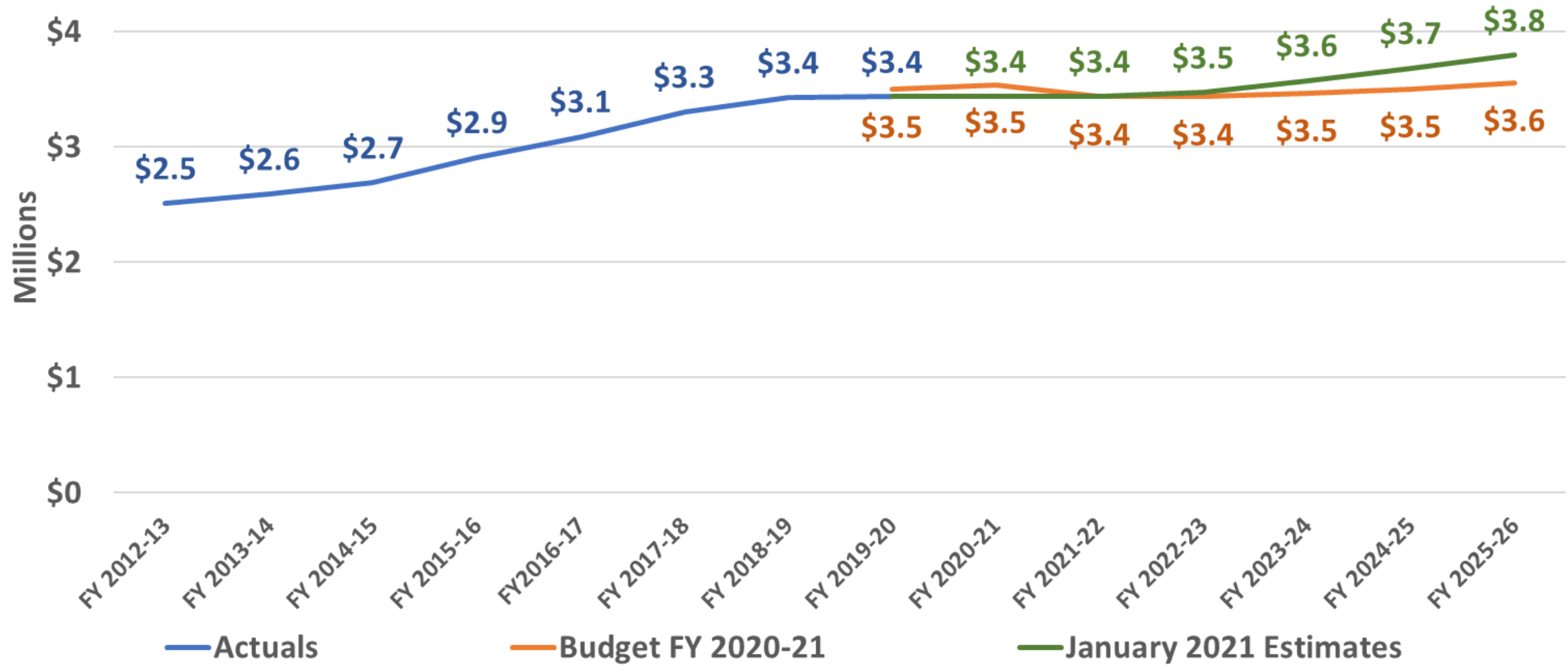




# Revenue Update: General Fund



State Shared Auto Lieu

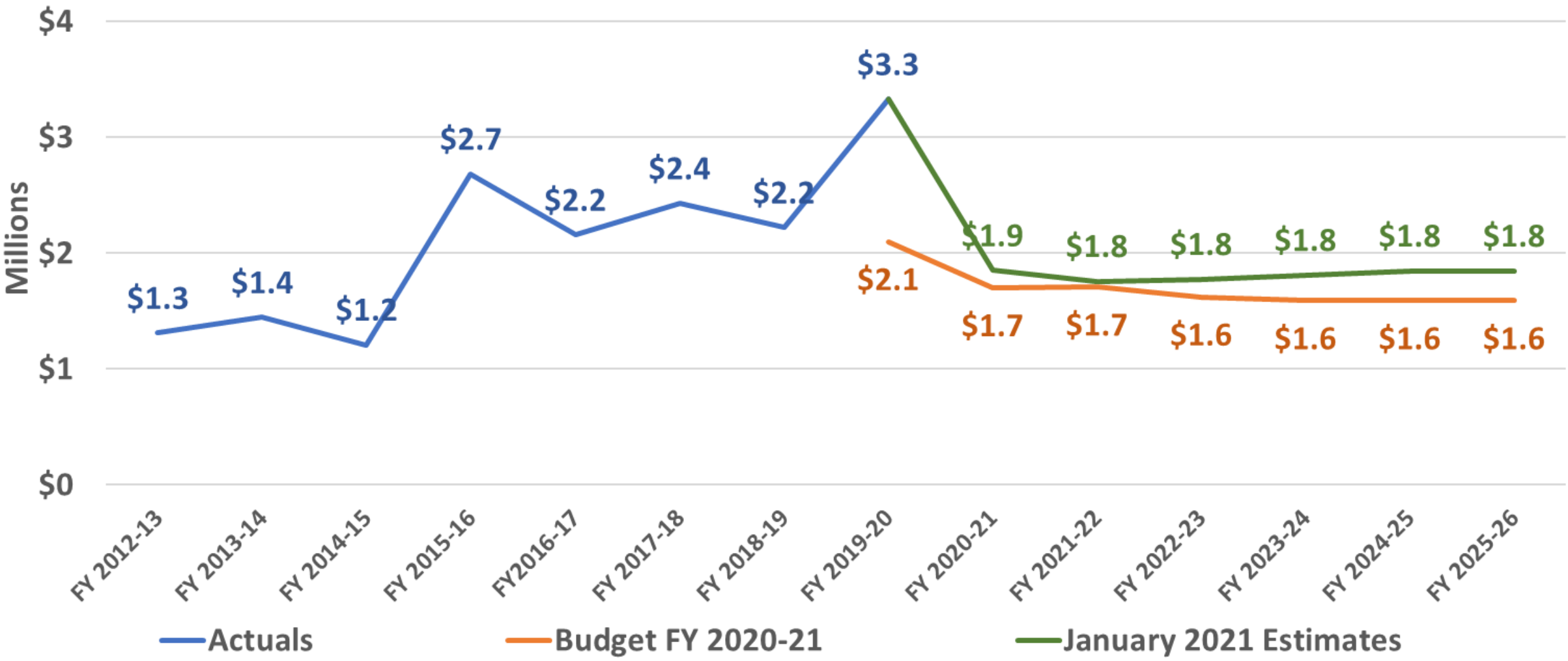




# Revenue Update: General Fund



Building Permits

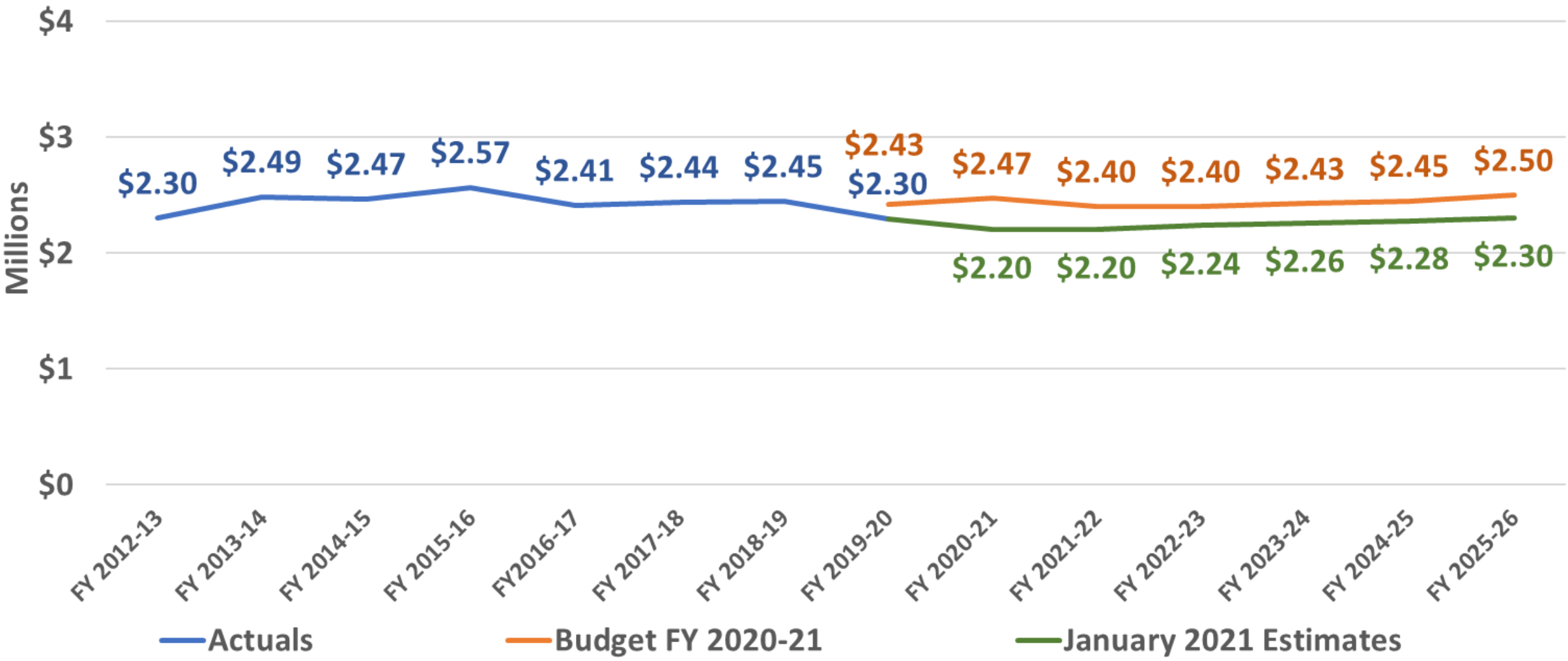




# Revenue Update: General Fund



Franchise Fees





# Revenue Update: General Fund

## General Fund Projections

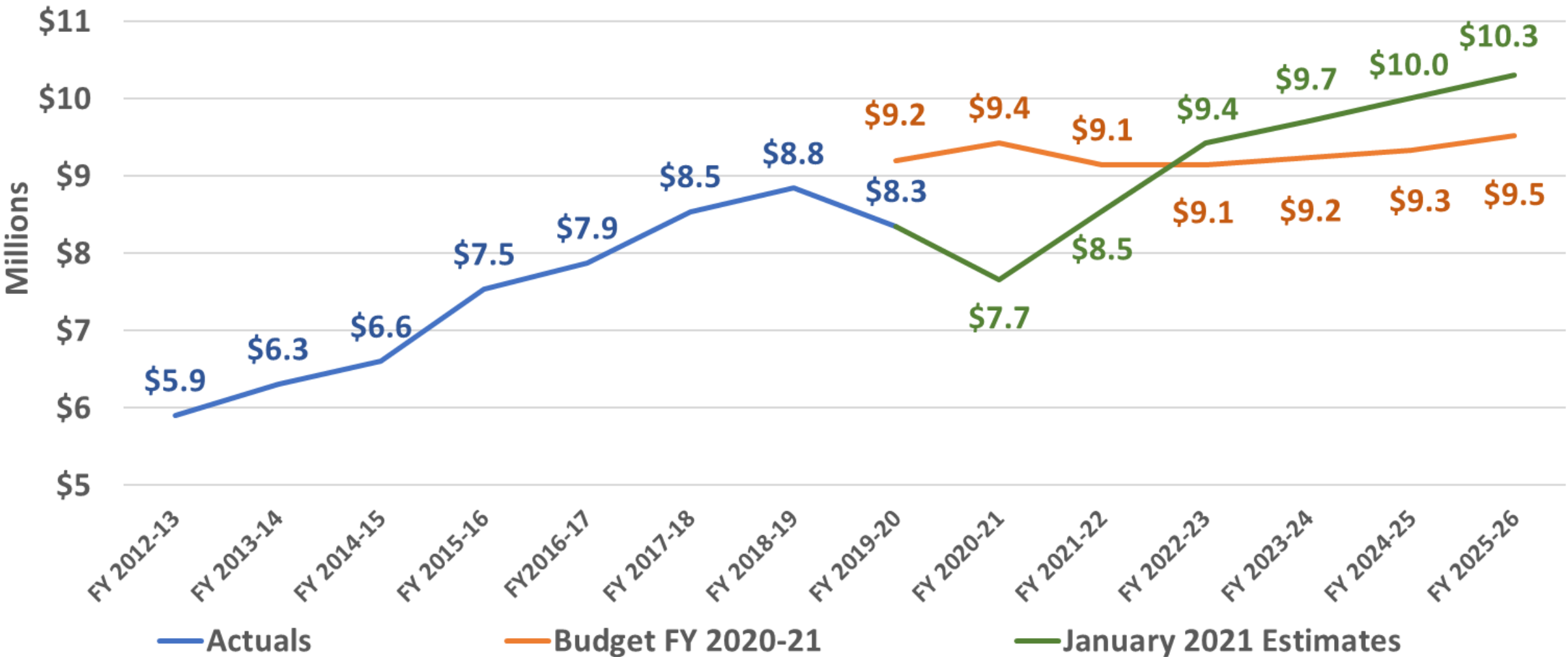
Category	FY 2020-21 Budget	FY 2020-21 Estimate	Change from Budget	% Change
Sales Taxes	\$ 22,054,670	\$ 22,770,100	\$ 715,430	3.2%
State Shared	21,696,848	22,531,980	835,132	3.8%
Other Revenues	18,726,600	16,166,700	(2,559,900)	-13.7%
General Fund Revenues	\$ 62,478,118	\$ 61,468,780	\$ (1,009,338)	-1.6%



# Revenue Update: BBB Tax



Bed, Board and Beverage (BBB) Tax

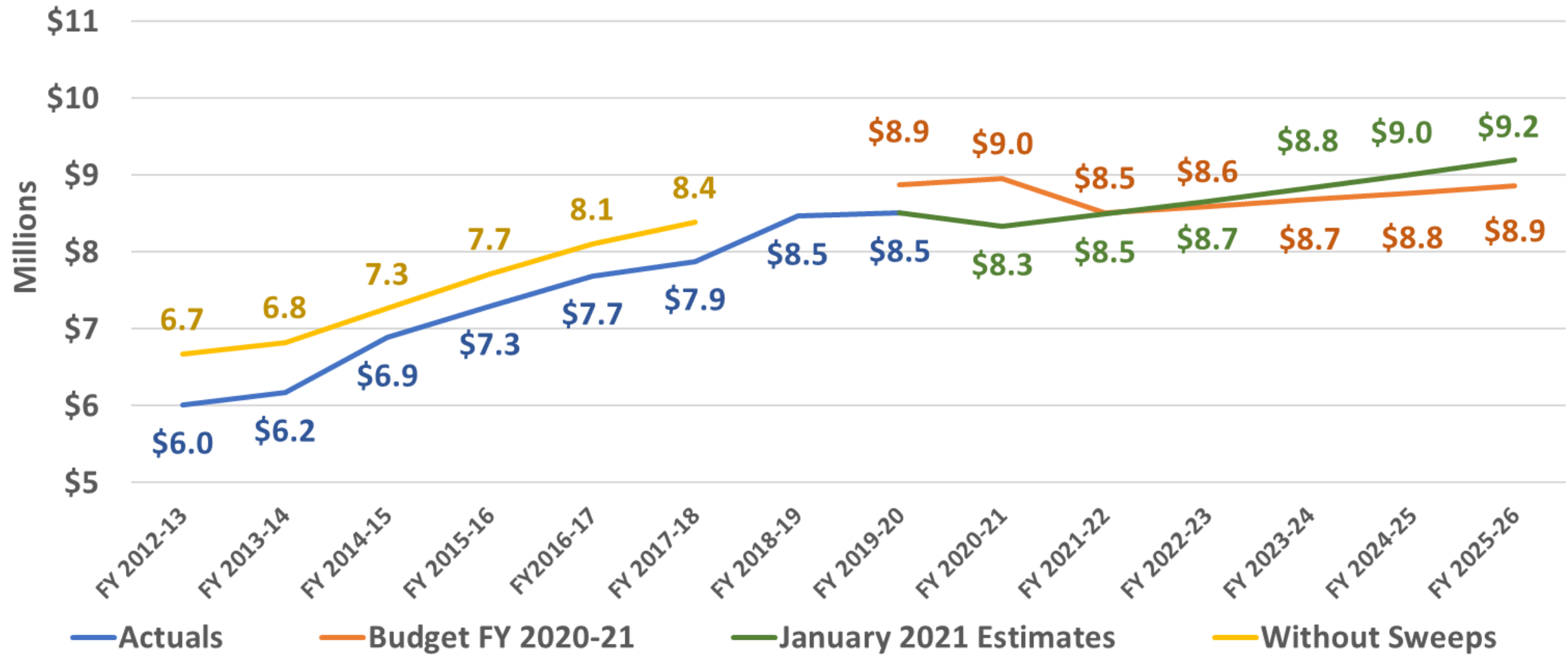




# Revenue Update: HURF



## Highway User Revenue (Gas Tax)





# Revenue Update



# Questions

# Fixed Costs and Available Revenues



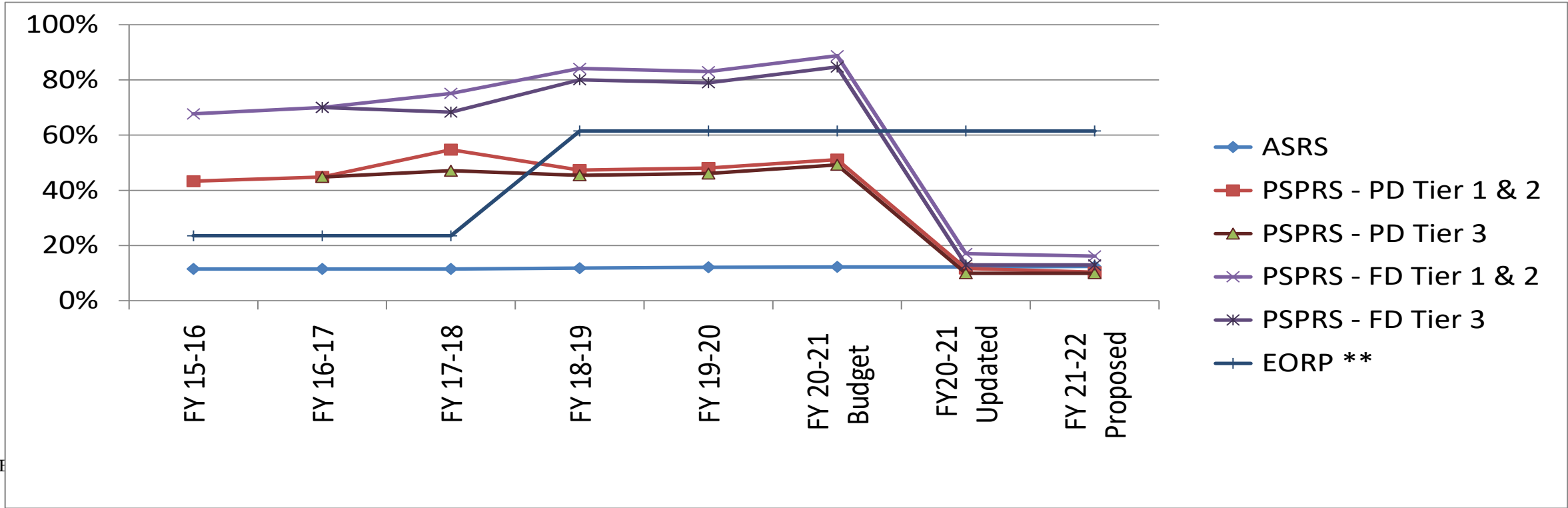


# Pension Contribution Rates



## Minimum Required Contribution Rates

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21 Budget	FY20-21 Updated	FY 21-22 Proposed
ASRS	11.47%	11.48%	11.50%	11.80%	12.11%	12.22%	12.22%	12.41%
PSPRS - PD Tier 1 & 2	43.29%	44.83%	54.73%	47.34%	48.09%	51.12%	11.67%	10.31%
PSPRS - PD Tier 3		44.83%	47.11%	45.43%	46.10%	49.22%	9.94%	9.94%
PSPRS - FD Tier 1 & 2	67.71%	70.05%	75.11%	84.17%	83.03%	88.79%	17.03%	16.17%
PSPRS - FD Tier 3		70.05%	68.34%	80.08%	78.99%	84.70%	12.94%	12.94%
EORP **	23.50%	23.50%	23.50%	61.50%	61.50%	61.50%	61.50%	61.50%



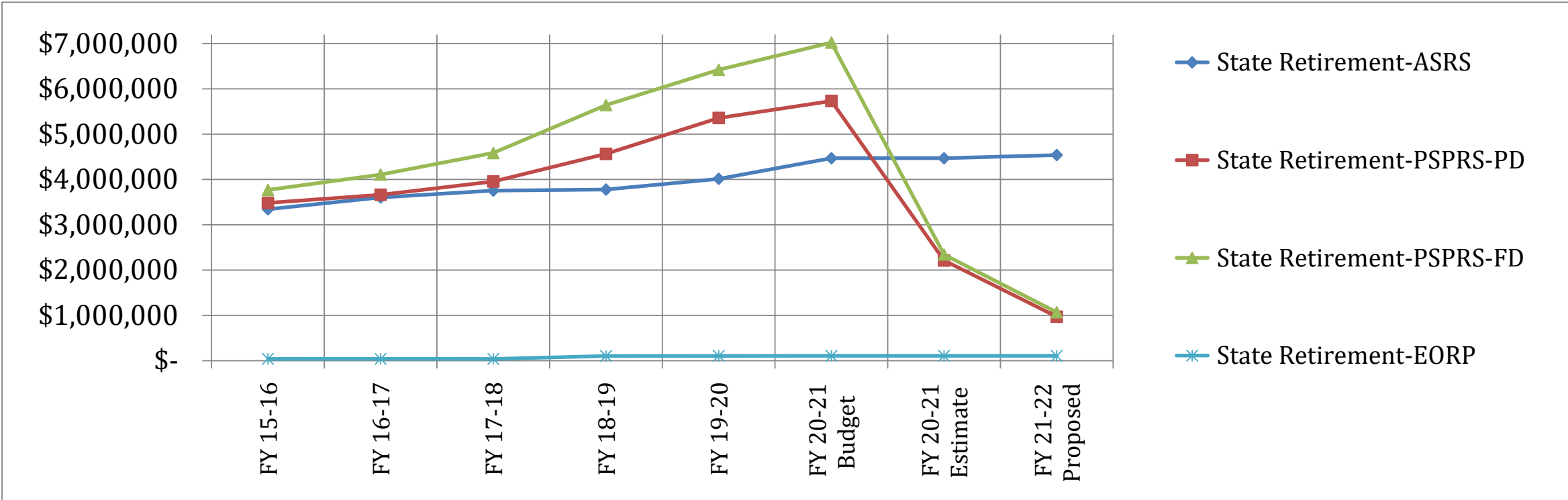


# Pension Expenditures



## Pension Funding Levels

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21 Budget	FY 20-21 Estimate	FY 21-22 Proposed
State Retirement-ASRS	3,342,634	3,603,589	3,754,600	3,776,918	4,013,187	4,469,190	4,469,190	4,538,678
State Retirement-PSPRS-PD	3,483,156	3,662,344	3,954,905	4,565,973	5,356,624	5,731,579	2,211,600	970,683
State Retirement-PSPRS-FD	3,769,503	4,107,600	4,584,857	5,641,220	6,421,351	7,021,735	2,341,800	1,068,687
State Retirement-EORP	39,815	40,588	39,679	102,903	106,743	107,304	107,304	107,304
	10,635,108	11,414,121	12,334,041	14,087,014	15,897,905	17,329,808	9,129,894	6,685,352





# Fixed Cost Summary – General Fund

General Fund	Ongoing
Market and Compression Adjustment	\$750K - \$1.1M
Merit Increase (3%)	\$1.3M
Minimum Wage (\$15.00 to \$15.50) (\$45K funded)	\$ 45,000
Pension Cost - New	\$ 40,000
Health & Dental Insurance Increase - City Share	\$ 185,000
Liability and Property Insurance	Unknown
Workers' Compensation	\$ 40,000-50,000
State Assessment for Minimum Wage	\$ 2 M+



# Revenue Update Summary – General Fund

General Fund	One-Time	Ongoing
Revenue Estimate (FY2020-21)	(\$ 1,009,000)	\$ -
Revenue Estimate (FY2021-22)	(2,550,000)	1,750,000
Airport Parking Lot Loan	(4,000,000)	-
AZ Cares Grant Revenue	8,600,000	-
Expenditure Savings (FY2019-20)	3,000,000	-
Expenditure Savings (FY2020-21)	1,600,000	-
Pension Savings	1,425,000	-
Previous 5 Year Plan Capacity	1,900,000	250,000
Total Capacity	\$ 8,966,000	\$ 2,000,000
Option: Primary Property Tax (4% Increase)	-	270,000
	\$ 8,966,000	\$ 2,270,000

# Recession Plan Update





Fund	FY 2020-21 Budget	FY 2020-21 Estimate	Change from Budget	% Change
<b>General Fund</b>	<u>\$ 62,478,118</u>	<u>\$ 61,468,780</u>	<u>\$ (1,009,338)</u>	-1.6%
<b>Special Revenue Funds</b>				
Library	\$ 3,805,393	\$ 3,777,567	\$ (27,826)	-0.7%
Highway User Revenue	8,976,305	8,374,988	(601,317)	-6.7%
Transportation Tax	26,232,162	27,158,815	926,653	3.5%
BBB Funds	9,405,160	7,724,906	(1,680,254)	-17.9%
Parking District	1,277,478	325,094	(952,384)	-74.6%
Water Resource Protection Fund	1,120,000	1,120,000	-	0.0%
Total Special Revenue Funds	<u>\$ 50,816,498</u>	<u>\$ 48,481,370</u>	<u>\$ (2,335,128)</u>	-4.6%
<b>Enterprise Funds</b>				
Water Services	\$ 33,787,462	\$ 33,193,155	\$ (594,307)	-1.8%
Solid Waste	12,817,917	12,359,622	(458,295)	-3.6%
Sustainability Fund	1,044,981	1,051,000	6,019	0.6%
Airport	2,068,824	1,005,438	(1,063,386)	-51.4%
Flagstaff Housing Authority	1,447,000	1,241,751	(205,249)	-14.2%
Total Enterprise Funds	<u>\$ 51,166,184</u>	<u>\$ 48,850,966</u>	<u>\$ (2,315,218)</u>	-4.5%
<b>All Operating Funds</b>	<u>\$ 164,460,800</u>	<u>\$ 158,801,116</u>	<u>\$ (5,659,684)</u>	-3.4%



# Economic Recession Plan Update

Alert/Minor	Moderate	Significant*	Major*	Crisis*
<b>Trigger: Up to 2% Reduction in Revenues (Less than \$1.4 million)</b> <ul style="list-style-type: none"><li>- Expenditures reduced where reasonably possible</li><li>- Postponing filling vacant positions</li></ul>	<b>Trigger: 2%-4.99% Reduction in Revenues (\$1.4 - \$3.4 million)</b> <ul style="list-style-type: none"><li>- Limit non-essential services</li><li>- Large purchases delayed and cancelling consulting services/contracts</li><li>- Partial freeze on new hires</li><li>- Travel and non-essential employee training postponed</li></ul>	<b>Trigger: 5-9.99% Reduction in Revenues (\$3.4 - \$6.7 million)</b> <ul style="list-style-type: none"><li>- Strong justification for large purchases</li><li>- Elimination of discretionary training, travel, meetings</li><li>- Hiring freeze except for essential health, safety and welfare positions</li><li>- Reduction in workforce (part-time, contract, temporary)</li></ul>	<b>Trigger: 10-19.99% Reduction in Revenues (\$6.7 - \$13.3 million)</b> <ul style="list-style-type: none"><li>- Major service cuts</li><li>- Suspend all salary increases</li><li>- Consider employee reduction policies</li><li>- Reduction in capital expenditures</li><li>- Draw down on reserves</li><li>- Closure of non-essential city facilities</li></ul>	<b>Trigger: 20% Reduction in Revenues (More than \$13.3 Million)</b> <ul style="list-style-type: none"><li>- Reduction in workforce / employee costs reduction policies</li><li>- Elimination of programs and services</li><li>- Stops all capital improvement projects and purchasing</li><li>- Reduction in reserves</li></ul>

*\* Requires consent and resolution of Council.*  
Source: City of Flagstaff.



# Economic Recession Plan Update

- Aggregate of funds are well under the 5% revenue loss
- Budget Team Recommendation is to move down one stage
  - From Significant to Moderate
- What changes at the Moderate Stage?
  - Implementation of Cost-of-Living Adjustment (COLA) and deferred personnel changes
  - Continued review of large expenditure requests
  - Delay of hiring positions versus recruitment freeze
  - Continued postponement of discretionary travel/training
- Change requires Council adoption by Resolution

# Priority Based Budget Deep Dive



# Compensation Update

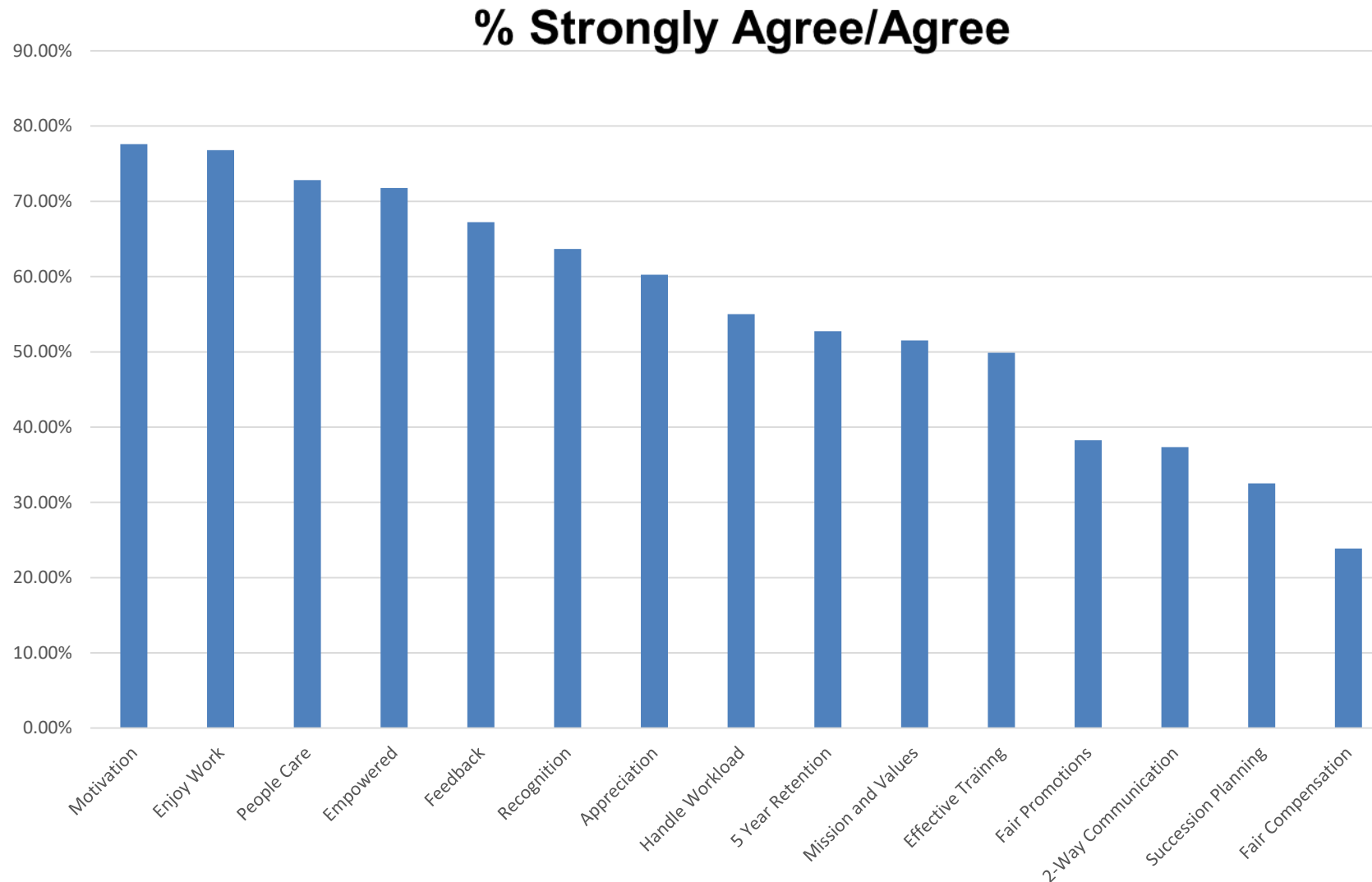


# Employee Survey 2019 Results

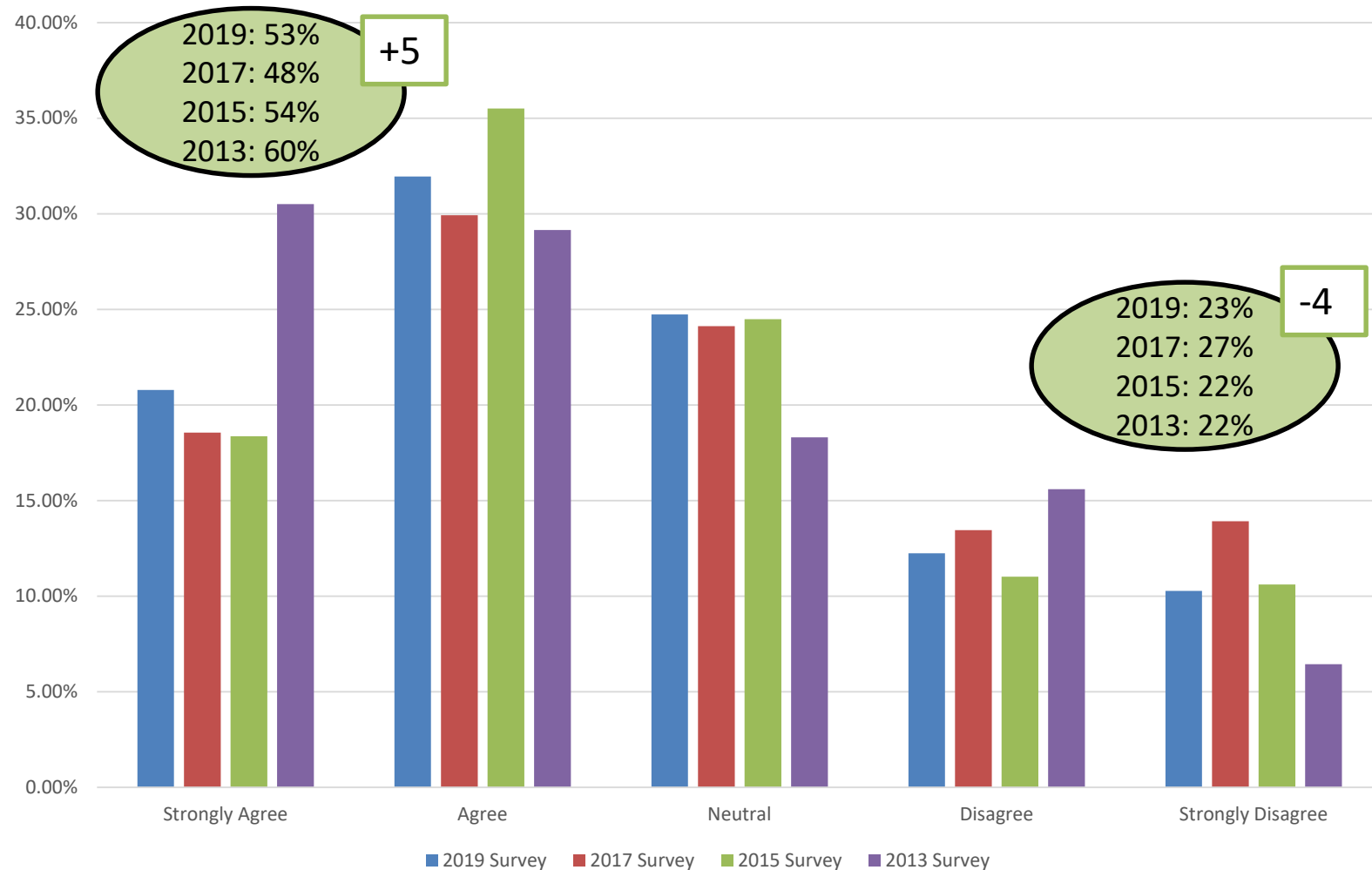


## Champions of Team Flagstaff

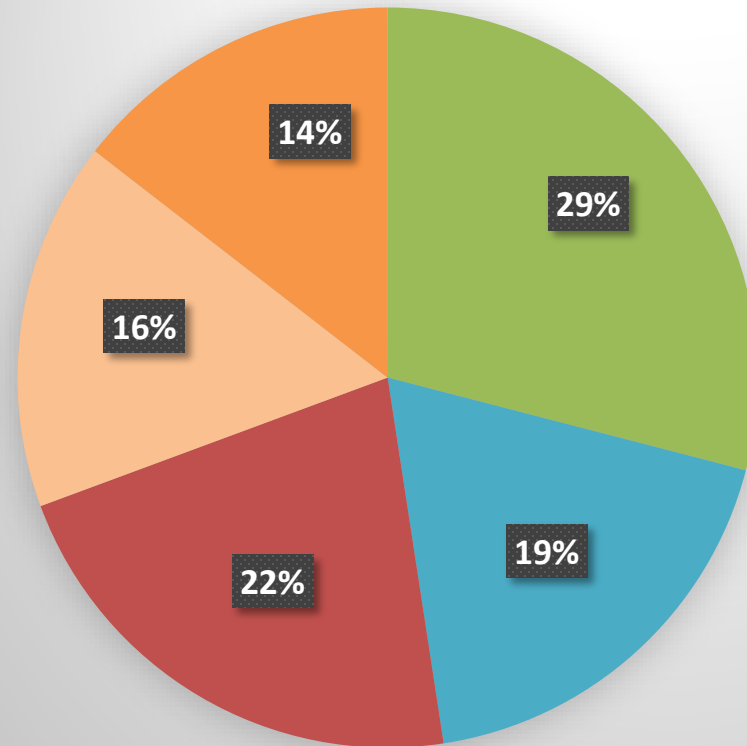
# 2019 Overall Results



I expect that I will still be working for the City of Flagstaff in 5 years.



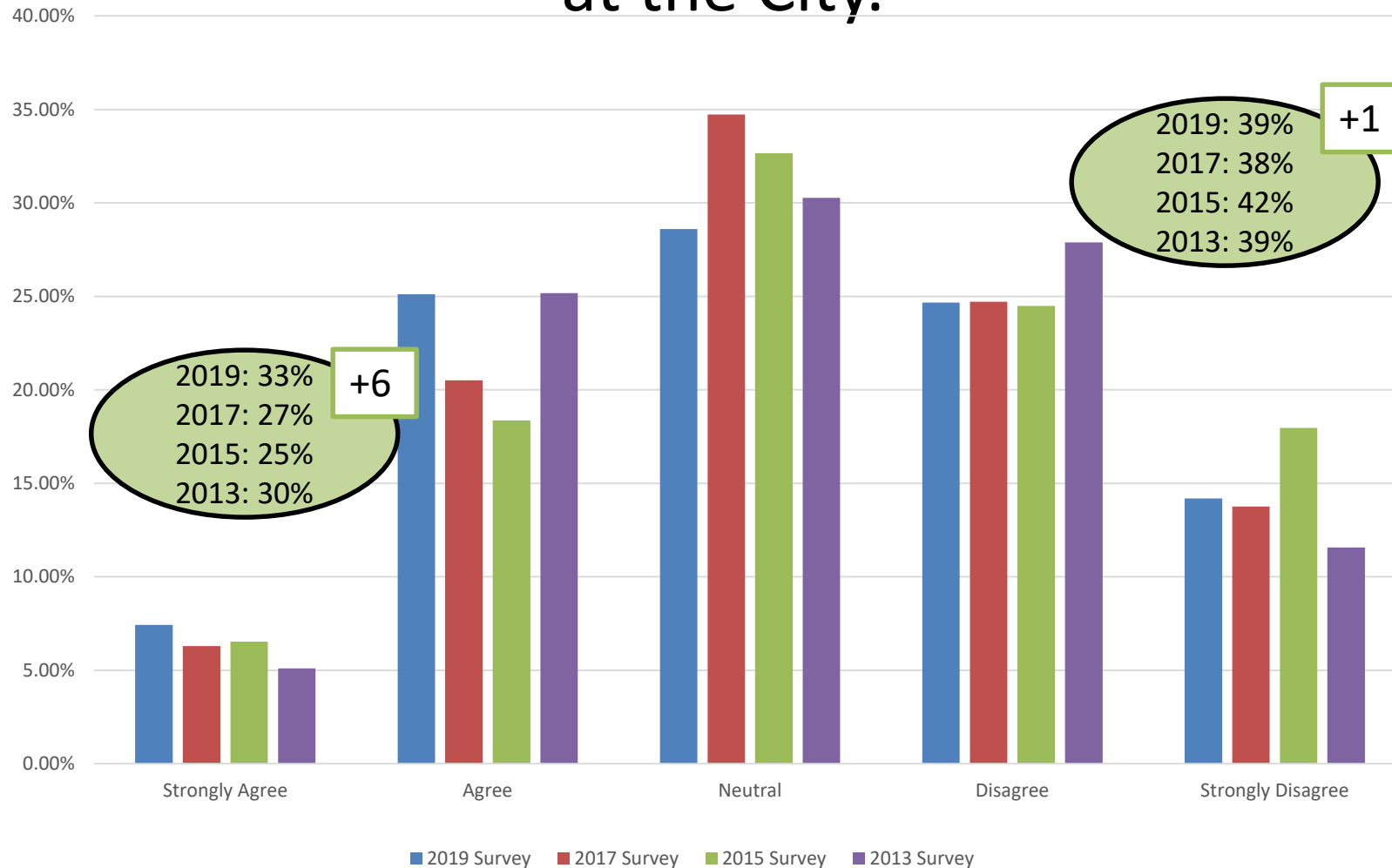
If you do not anticipate working for the City in 5 years, please state why (moving, retiring, seeking other employment, total compensation, cost of living, etc.)



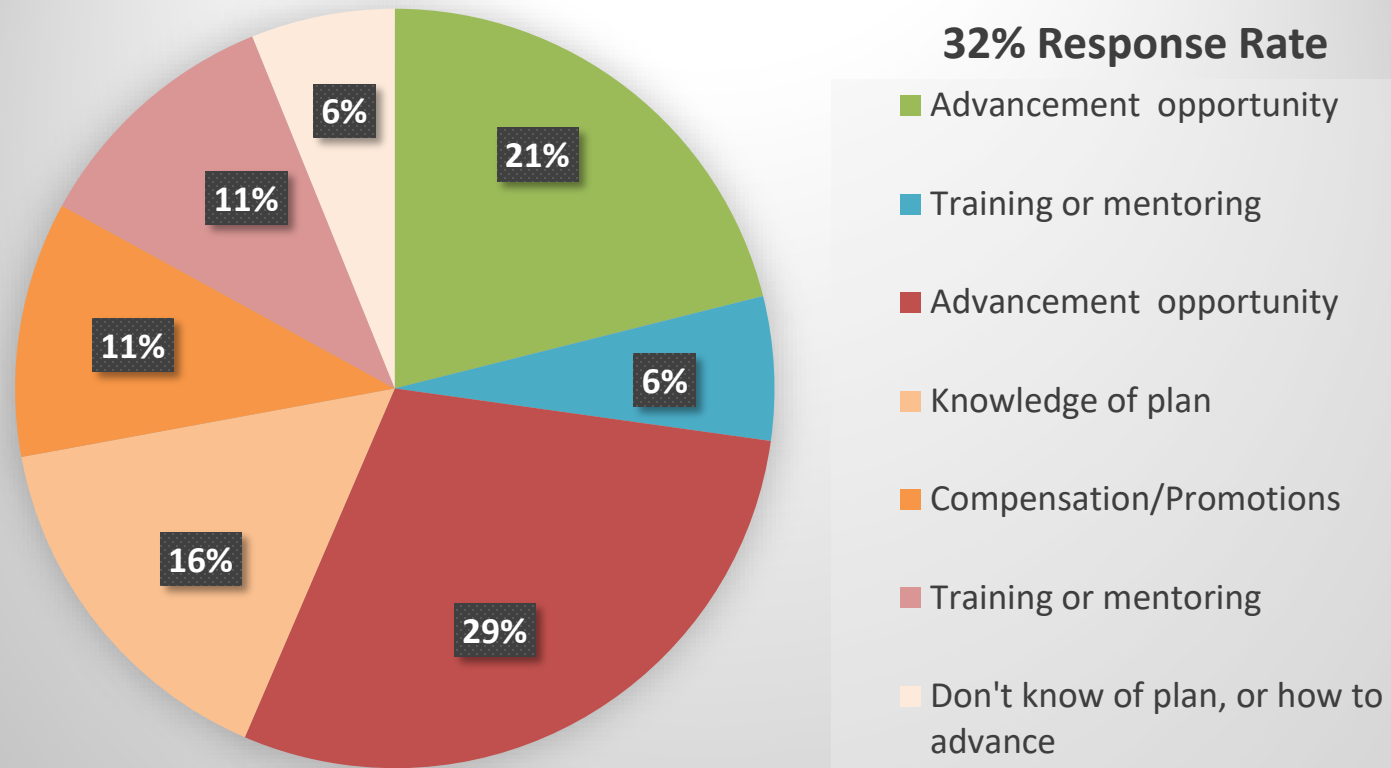
**27% Response Rate**

- Retirement
- I want to stay with the City
- Compensation
- Cost of Living
- Advancement Opportunity

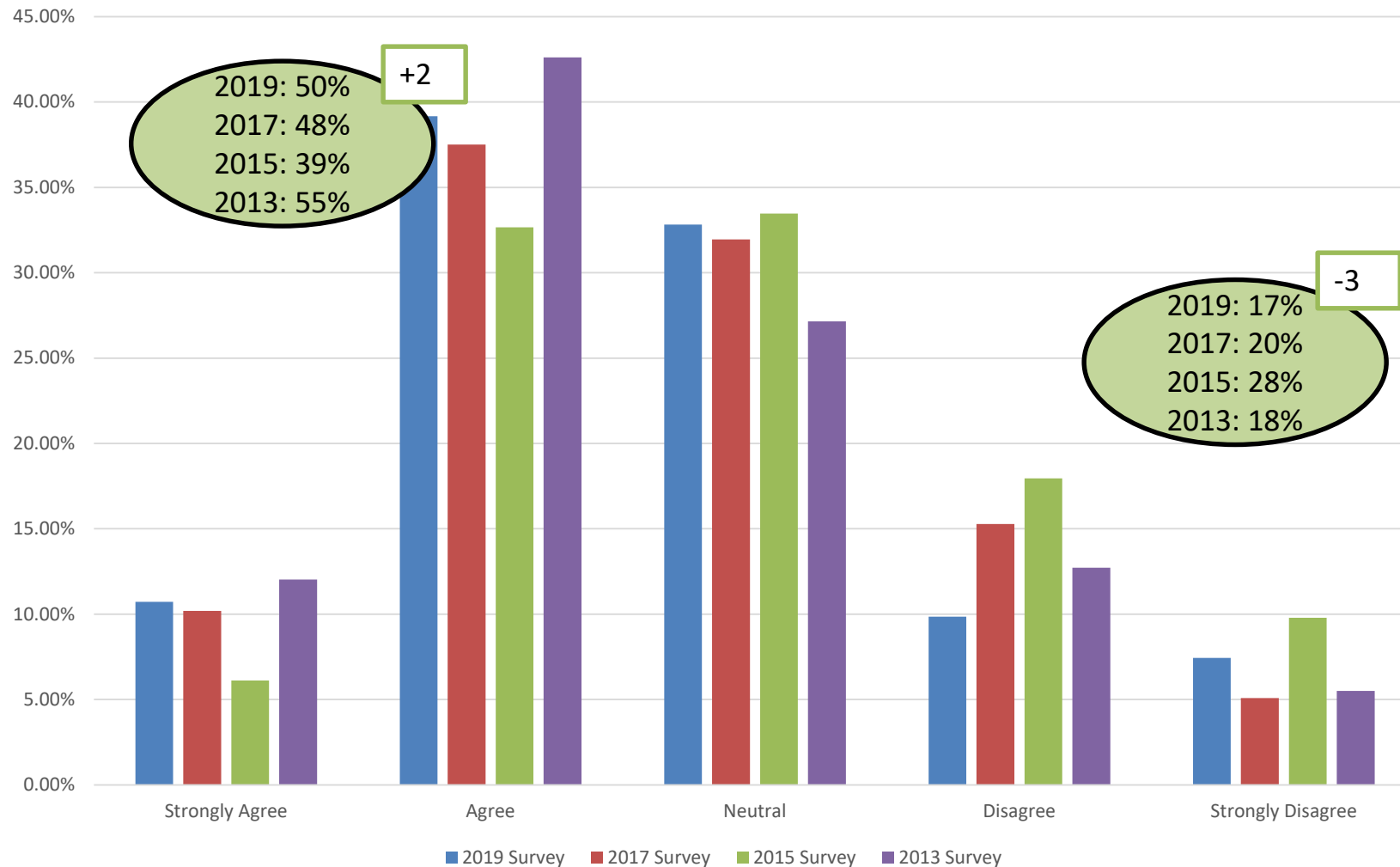
I believe there is a succession plan in place and I will be able to advance during my employment at the City.



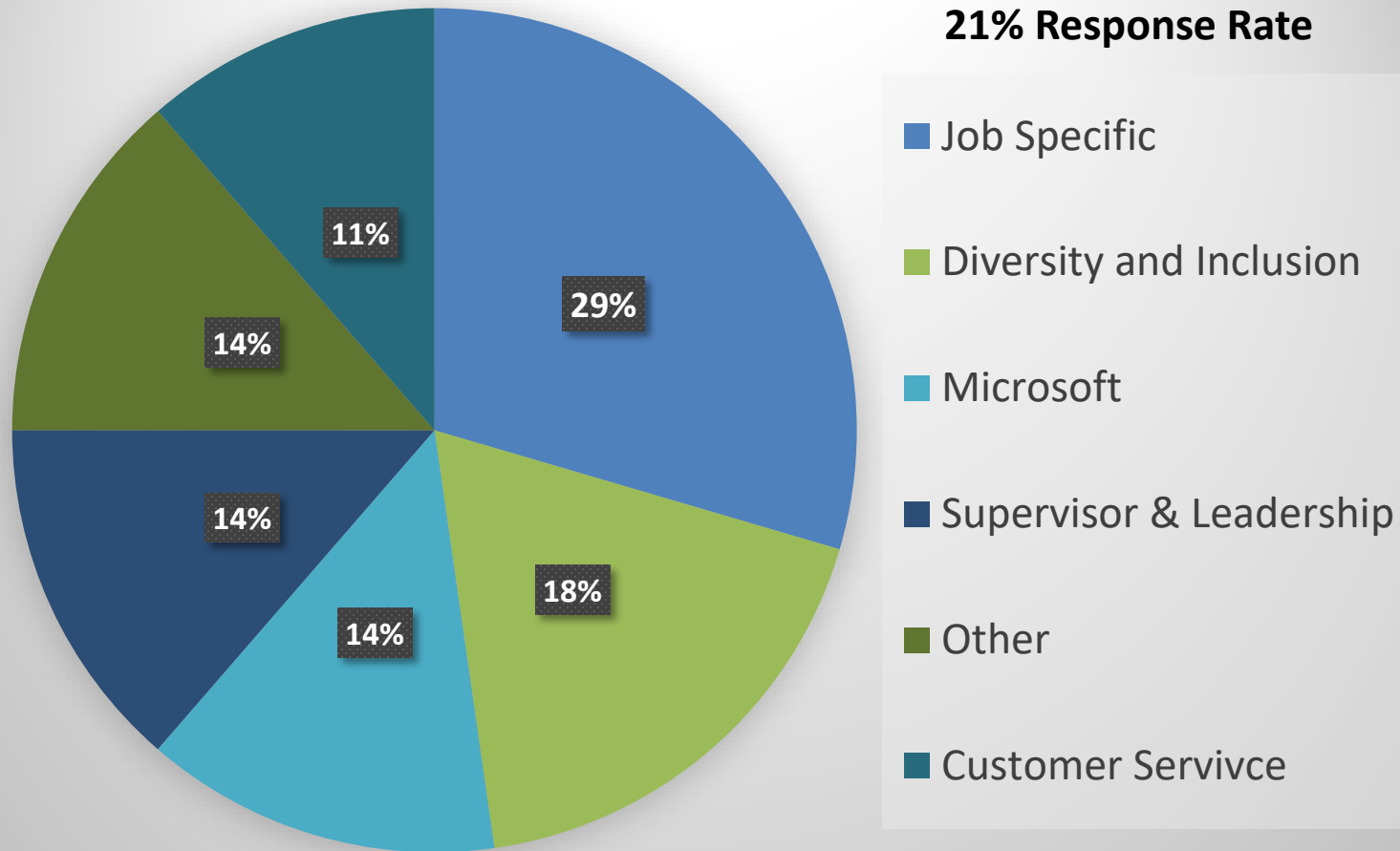
## What are the indicators there is a succession plan in place in your workgroup?



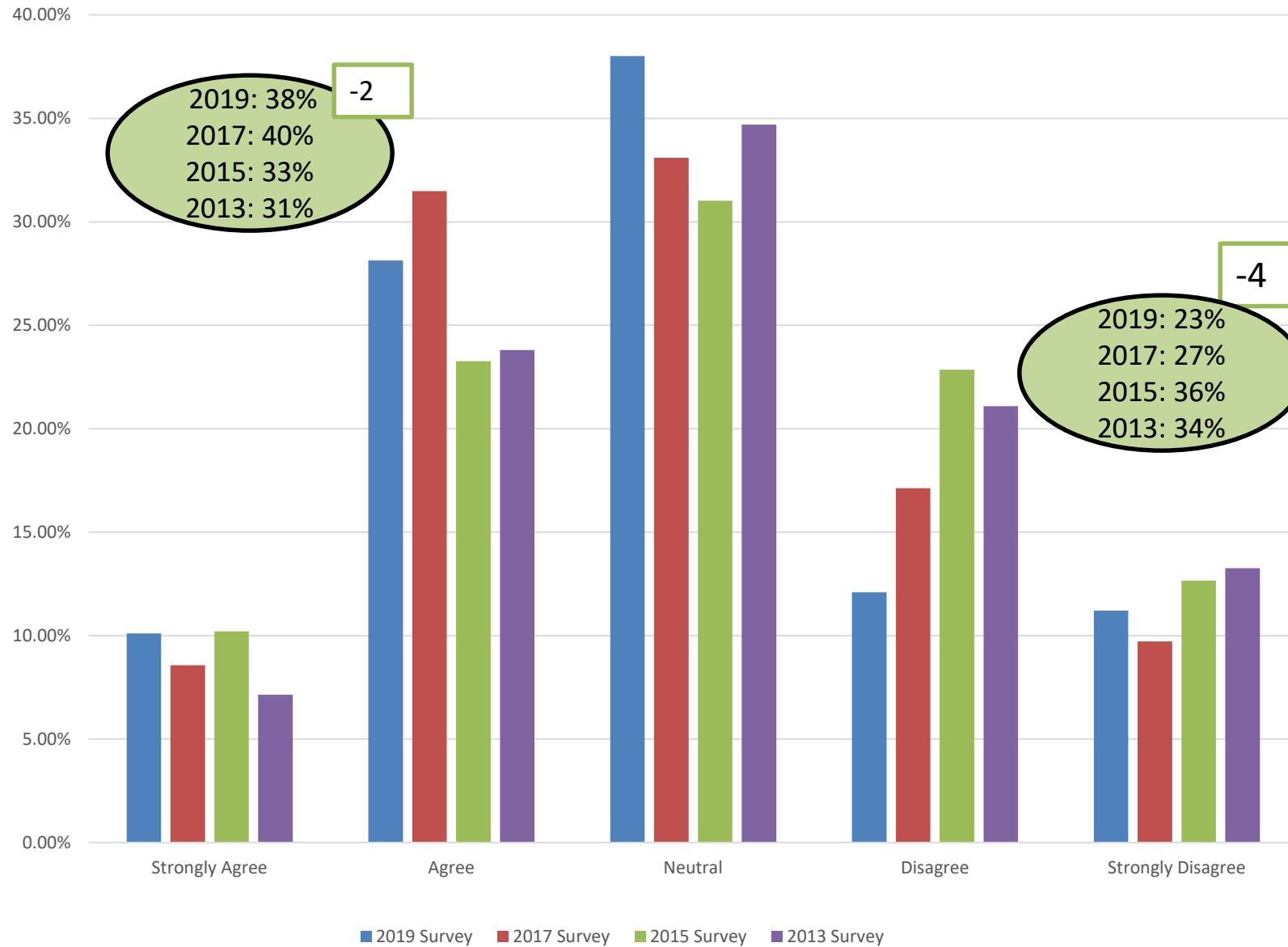
# The City of Flagstaff provides effective training in areas of need.



## What City-sponsored trainings would you like to see offered in the future?

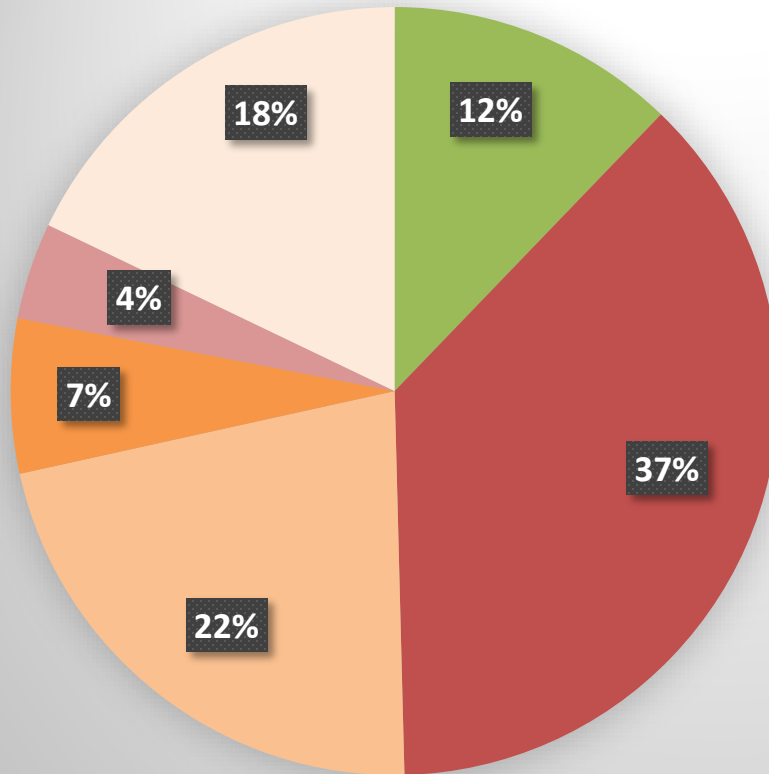


# Promotions are awarded fairly.



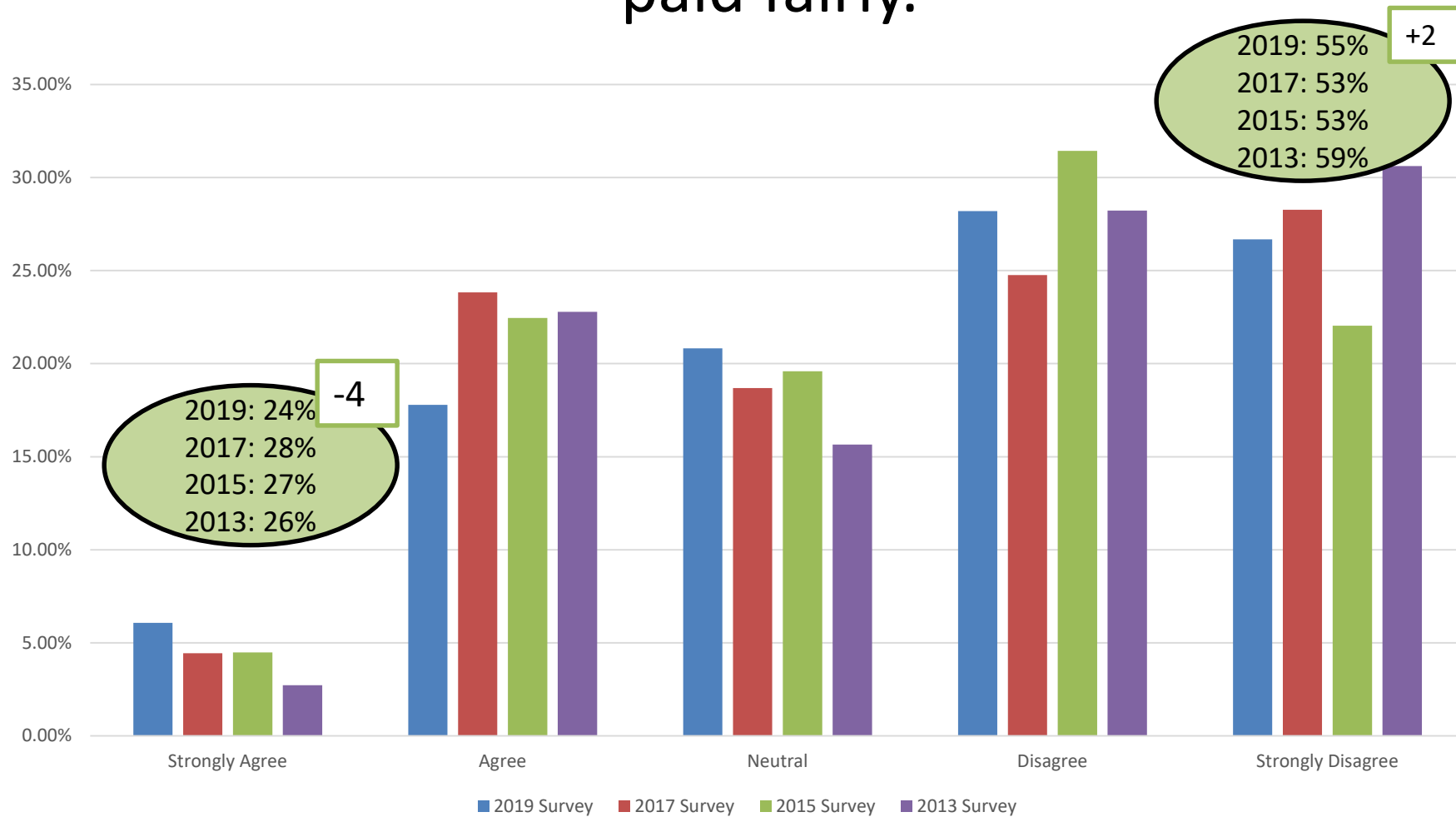
## Promotions Awarded Fairly Comments

**27% Response Rate**

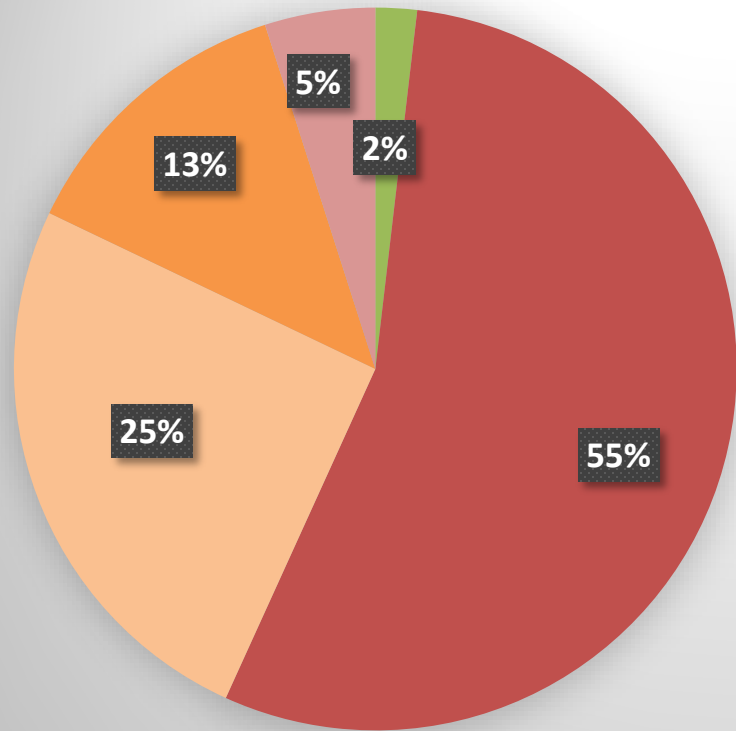


- Promotion Opportunity
- Pay & Promotions not Equitable
- Promotion Opportunity
- Process too Cumbersome
- Transfers only Advancement Opportunity
- Don't know

# Compared to others in my line of work, I am paid fairly.



## Paid Fairly Comments:



**36% Response Rate**

- Paid Fairly
- Pay too low, under market
- Pay not aligned to responsibility or experience
- Pay scales not equitable; Advancement not clearly defined
- Don't know

# 2021 Compensation Program

**City of Flagstaff Budget Team  
Employee Advisory Committee**





# Definitions

- Comparison Ratio: Employees relative position in their pay range (midpoint is 100%)
- Compression: Employees' rate if pay is compressed into the lower quadrants of their assigned pay range regardless of their tenure
- Cost of Living Adjustment (COLA) – A fixed amount (usually a percentage) of pay increase to individual employee salaries regardless of performance
- Market Adjustment – an adjustment to a pay range based on market information (may be an increase or decrease). To avoid impaction, employees in that range may also receive a market adjustment to keep them at parity in the range
- Market Classification: utilizing benchmark organizations to establish a competitive market pay range
- Merit Increase – an increase to individual employee salary based on performance. Example: employees receive an increase between 0% and 4% based on their performance evaluation score
- Mid Point Progression: Distance between the midpoint from one pay range to the next higher range within a pay plan structure
- Pay Range Spread: Distance between the minimum and the maximum of the pay range
- Position Classification: assigning a position to a pay range



# Why a Compensation Study?

- Best practice with changing market conditions
- 2019 Employee Engagement survey results
- Ongoing issues and concerns surrounding compensation
- Difficulty in attracting and retaining qualified employees
- Number of employment offers declined



# Market Analysis History

- 2008: 19% below market – City reclassified positions >15% below (not employees)
- 2015: 9% below market – City completed phased classification adjustments
- 2019: City of Flagstaff contracted with Evergreen Solutions to conduct a thorough compensation study.
  - Goal: Competitively position the City for recruitment and retention
  - Study Deliverables:
    - Identify and Recommend Benchmark Cities
    - Recommend Benchmark Range Classification for 130 positions
    - Recommend Pay Range Structure from Benchmark Cities
    - Provide Compression Options
    - Assist with Policy modifications as needed



# Pay Range Classifications

- Evergreen has provided DRAFT classifications for all positions. Why are they DRAFT?
  - Human Resources still needs to validate the benchmark matches
  - They cannot be finalized until we make pay structure decisions (our next topic!)
- Why are we using these now if they are DRAFT?
  - They provide the expense basis for the compression **estimates**
- **No employee would have their current rate of pay reduced as a result of any reclassification**
- City pay ranges now @ 2.5% below market at the mid-point

# Pay Plan Structure





# Range Spread & Mid-Point Progression Analysis

- Range Spread:
  - Regular Pay Plan: 43.6% – 60%
  - Fire: 21.5% – 42.9%
  - Police: 2.6% – 46.6%
  - Skill-Based Pay: 85.7%
  - Broadbands (per Zone): 24.9%-38.9% - each has 3 zones
- Mid-Point Progression: .6% – 20.4%
- “Common practice is to have as unified and consolidated of an overall compensation structure as possible. Having many separate pay plans can lead to confusion in communicating and administering the plans.”



# Open Range Pay Structure Recommendation (Does not include Fire and Police (Public Safety))



- Integrate Broad Band and Skill Based Pay structures into the Regular Pay Plan
- These pay structures create an inconsistent and accelerated opportunity for pay progression compared to employees in the Regular Pay Plan.
  - Range spreads are significantly greater (increases earning potential while remaining in the same position)
  - By design, employees receive increases in compensation even in budget years when dollars not available for merit or other general employee increases
  - Employees in Broad Band are eligible for both rezone adjustment AND any other merit or market increases in the same year
  - There is no merit opportunity for Skill Based Pay employees to recognize performance and demonstration of organizational values and competencies



# Regular Pay Plan (Open Range) Recommendation

- 50% standard Range Spread
- 7.5% standard Mid-Point Progression
- Implements \$15/hour Minimum Wage



Pay Grade	Proposed Minimum	Proposed Midpoint	Proposed Maximum	Range Spread	Midpoint Progression
100	\$15.00	\$18.75	\$22.50	50.0%	
110	\$16.13	\$20.17	\$24.20	50.0%	7.5%
120	\$17.34	\$21.68	\$26.01	50.0%	7.5%
130	\$18.64	\$23.30	\$27.96	50.0%	7.5%
140	\$20.04	\$25.05	\$30.06	50.0%	7.5%
150	\$21.54	\$26.93	\$32.31	50.0%	7.5%
160	\$23.16	\$28.95	\$34.74	50.0%	7.5%





# Fire and Police (Public-Safety) Step Structure Recommendation



- Competitive with benchmarks and the market:
  - Utilized by over 50% of benchmark organizations Evergreen used
  - Utilized by 15 of 18 organizations in the recent Central Arizona Fire & Medical Authority (CAFMA) survey
- Option to use variable step and mid-point progressions as well as range spreads to support the career progression and rank system of public safety personnel.
- Can be customized to support recruitment and retention of each career phase specific to the City.
  - Example: We currently experience high turnover of Police Officers at the expiration of their 3-year training commitment



# SAMPLE Step Plan Structure

## Police

Pay Grade	MIN	MID	MAX	Range Spread		Pay Grade	1	2	3	4	5	6	7	8	9	10		Step Progression
P01	\$24.20	N/A	\$27.83	15.0%	Police Officer Recruit	P01	\$24.20	\$27.83	-	-	-	-	-	-	-			N/A
P02	\$25.47	\$31.21	\$36.94	45.0%	Police Officer	P02	\$25.47	\$26.54	\$27.66	\$28.83	\$30.05	\$31.32	\$32.64	\$34.02	\$35.45	\$36.94		4.2149%
P03	\$31.04	\$35.70	\$40.35	30.0%	Police Corp/Detective	P03	\$31.04	\$31.96	\$32.91	\$33.88	\$34.88	\$35.91	\$36.97	\$38.06	\$39.19	\$40.35		2.9581%

# Compression





# Compression Analysis

- Reminder, overall, the City has improved to 2.9% below market in our pay ranges; however,
- However, analysis of current employees in those pay ranges:
  - 82.4% Regular Pay Plan employees are below the mid-point
  - 67.9% of Fire employees are below the mid-point
  - 75.9% of Police employees are below the mid-point
- Satisfaction with Compensation, and specifically the ability to progress through the pay range and lack of consistent opportunity for promotional increases continues to decline and ranked last in the 2019 Employee Survey as you heard earlier



# Implementation Options

- Multiple options (scenarios) were calculated by Evergreen
- Some were calculated to simply continue to just adopt new market ranges and NOT address compression; other options were provided that include both – adoption of market competitive pay ranges and compression adjustments
- The options being presented to you today are:
  - The ones recommended by Evergreen based on our current state and mindful of budgetary impact
  - Supported by Budget Team, Leadership and the Employee Advisory Council
  - Identified as those options best suited to support the goal to improve recruitment and retention of quality team members with a competitive compensation program



# Regular Pay Plan Options Recommended

- Move Toward Mid-Point – Two or Three Tier Options
  - Adopts the new market pay range classifications
  - Has the greatest impact on compression and range placement parity
  - Larger adjustments to those with salaries furthest below the mid-point
- Does NOT provide increases for employees at or above the NEW range Mid-Points (100% Comparison Ratio)
- Based on the preliminary analysis about 70% of employees in the new Regular Pay Plan would receive some increase
  - The amount of increase for each employee would vary from as small as \$.01 per hour to...depending on individual circumstances
- No employee's pay would be decreased



# Move Toward Mid-Point 2 Tier

- Standard Compa Ratio Range placement based on Tenure
- 1 year - <10 years move closer to Mid-Point
- >10 years moved even closer to Mid-Point
- Estimated expense \$463,500
- 371 employees impacted
- Average 2.5% adjustment for impacted employees

1 - 10 years tenure		>10 years tenure	
Actual Compa Ratio	Target Compa Ratio	Actual Compa Ratio	Target Compa Ratio
66%	69%	66%	72%
67%	70%	67%	73%
68%	71%	68%	74%
69%	72%	69%	75%
70%	73%	70%	76%
71%	74%	71%	77%
72%	75%	72%	78%
73%	76%	73%	79%
74%	77%	74%	80%
75%	77%	75%	80%
76%	78%	76%	81%
89%	90%	89%	92%
90%	91%	90%	92%
91%	92%	91%	93%
92%	93%	92%	94%
93%	94%	93%	95%
94%	95%	94%	96%
95%	96%	95%	97%
96%	97%	96%	98%
97%	98%	97%	99%
98%	99%	98%	100%
99%	100%	99%	100%
100%	100%	100%	100%



# Move Toward Mid-Point 3 Tier

- Standard Compa Ratio Range placement based on Tenure
- 1 year – 3 years moved closer to Mid-Point
- 3 years – 7 years moved even closer to Mid-Point
- >7 years – moved closest to Mid-Point
- Estimated expense \$814,157
- Same 371 employees impacted
- Average 4.3% adjustment for each impacted employee

1 - 3 years tenure		3 - 7 years tenure		>7 years tenure	
Actual Compa Ratio	Target Compa Ratio	Actual Compa Ratio	Target Compa Ratio	Actual Compa Ratio	Target Compa Ratio
66%	71%	66%	72%	66%	73%
67%	72%	67%	73%	67%	74%
68%	73%	68%	74%	68%	75%
69%	74%	69%	75%	69%	76%
70%	74%	70%	75%	70%	76%
71%	75%	71%	76%	71%	77%
72%	76%	72%	77%	72%	78%
73%	77%	73%	78%	73%	79%
74%	78%	74%	79%	74%	80%
75%	79%	75%	80%	75%	81%
76%	80%	76%	81%	76%	82%
89%	91%	89%	92%	89%	93%
90%	91%	90%	92%	90%	93%
91%	92%	91%	93%	91%	94%
92%	93%	92%	94%	92%	95%
93%	94%	93%	95%	93%	96%
94%	95%	94%	96%	94%	97%
95%	96%	95%	97%	95%	98%
96%	97%	96%	98%	96%	99%
97%	98%	97%	99%	97%	100%
98%	99%	98%	100%	98%	100%
99%	100%	99%	100%	99%	100%
100%	100%	100%	100%	100%	100%



# Police and Fire Option Recommended

- Class Date Parity
  - Includes Bring to Minimum expense
  - Places on closest step in the Plan
  - Compression adjustment is based on tenure in classification (Class/Rank) NOT on date of hire
  - Step Plan should be designed based on a common career trajectory
  - Supports the promotion and rank structure of public safety personnel
  - Corrects inconsistent past hiring/promotion practices



# Police and Fire Option Recommended

- Class Date Parity Compression Adjustment Impacts
  - Police
    - Estimated Expense \$224,719
    - 117 employees impacted – all sworn personnel
    - Average 3.1% increase for each impacted officer
  - Fire
    - Estimated Expense \$375,373
    - 89 employees impacted –
    - Average 7.4% increase for each impacted employee
  - No employees' pay would be decreased

# Implementation





# Compensation Study Next Steps

## **Human Resources and Divisions partner on:**

- Establishing career progressions to support the organizational needs and provide appropriate advancement opportunities for employees
- Designing step pay plans with Fire and Police
- Finalizing pay plan classification for every City position
- Updating implementation cost estimates



# Recommended Sequence

1. Minimum Wage to \$15.00/hour January 1, 2021 (already implemented)\*
2. 2% Cost of Living Adjustment (COLA)\*
  - Budgeted, Subject to Recession Plan/Council Approval
3. Implement budgeted frozen Rezones and Skill Based Pay for FY 2021\*
4. Budget for new Market Pay Ranges and Compression Adjustment in FY 2022
  - ESTIMATED Expense for Recommended Options is \$1,000,000 t \$1,400,000 depending on adoption of 2 Step or 3 Step approach
5. Compensation Policies will be amended as needed to support the revised program

\*The implementation of #1-#3 in FY21 reduces the estimated expense of the Compression adjustments for FY22

# Future Compensation Strategy





# The Future

- Employee compensation IS a Budgetary priority
- Include in the Annual and 5-year plans for all funds
  - Funding for Merit (performance-based increases)
  - Funding for ongoing Market Adjustments (Pay Ranges and/or employees as identified)
- Positive – No more unfunded pension liability!
- Turnover and low morale cost money
  - Recruitment Expense
  - Overtime
  - Lost Productivity
  - Onboarding and Retraining Expense



# Employee Advisory Committee (EAC)

Members presenting today:

- Seth Gregor, Fire Captain, Fire Operations
- Brian Gall, Project Manager, Development Engineering, Community Development
- Janice Hakala, Multi-skilled Worker, Laboratory, Regulatory Compliance, Wastewater, Water Services



# Employee Advisory Committee (EAC)

- Input and Evaluation
  - Three dedicated EAC meetings committed to reviewing the information with 80-100 employees attending each meeting
  - Members conducted surveys and solicited input from each division
  - Members met with as many of their peers as possible
- At the 3rd meeting each representative provided a synopsis of feedback they had received, and a vote was conducted for each of the five recommendation areas



# Employee Advisory Committee (EAC)

## Three Recommendations unanimously supported

1. Consistent Open Range Regular Pay Plan (Replace current 2080 plan)
  - Understandable by employees
  - Appearance of equity, clarity, consistency
  - Supports standard range spreads and standard midpoint progressions
2. Adopt Step Plan pay structure for Public Safety
  - Industry standard to be competitive for recruitment and retention
  - Able to align rank changes in an equitable manner
  - Supports rank and career progression within the profession



# Employee Advisory Committee (EAC)

## 3. Support Compression Adjustments

- Employee morale would be positively impacted
- Tenured employees make the same or occasionally even less than much newer employees, leads to dissatisfaction and turnover
- Recognizes employee experience and/or time in class
- Helps with retention of experienced employees
- Employee satisfaction with compensation program translates to potential recruitment of quality staff (reputation)



# Employee Advisory Committee (EAC)



## Two recommendations with a split vote

### 1. Integration of Broad Band Pay Plans into the Regular Pay Plan

- 9 opposed/8 in favor
- Feedback for Opposition
  - Changes what employees expected when they were hired
  - Proposed plan lacks details. Employees may support with more information
  - Concern it may create recruitment and retention challenges
  - Employees may have more experience/qualifications than their current zone reflects due to hiring policies
  - Current system provides a clear career progression with benchmarks. Concern that a new system may limit opportunities
  - Current zone changes and associated pay increases reflect employees' additional knowledge and responsibilities



# Employee Advisory Committee (EAC)

- Feedback in Favor
  - No employee would receive a pay decrease
  - Recruitment no longer limited to hiring in Zone 1; ability to attract experienced applicants
  - Creates consistency with Regular Pay Plan employees (promotions and access to pay increases)
  - Allows organizational needs to drive the level and number of positions needed within each area versus forcing into three zones



# Employee Advisory Committee (EAC)

2. Integration of Skill Based Pay Plan (SBP) into the Regular Pay Plan
  - 8 Opposed/9 in Favor
  - Feedback for Opposition
    - SBP was developed and recommended by a previous consultant that targeted research specific to the City and the utility industry
    - Removal of SBP may lead to losing our highly trained staff
    - SBP is a retention resource and selling point for recruiting unskilled personnel
    - Placement into a Skill Block is based on your current experience and skills
    - The new structure is still not known, employees might support if that were available
    - Employee motivation to attain knowledge and skills and take on additional responsibilities drives promotions and pay increases



# Employee Advisory Committee (EAC)



- Feedback in Favor
  - Skill Based Pay employees would be eligible for merit increases
  - No employee would receive a pay decrease
  - Creates consistency with Regular Pay Plan employees (promotions and access to pay increases)



# Benefits FY 2021-2022

- Health Insurance

- Based on final decisions on plan design
- 3-3.5% increase
- Estimated City increase if 3.5% is \$265,000
- Estimated employee increase if 3.5% is \$90,000

- Dental Insurance

- 5% increase on City-covered single coverage
- Estimated City increase is \$17,500



# Council Direction



- City's compensation program will match market competitive pay
- Support for administrative recommendations
- Employee compensation is a Council budget priority to recruit and retain qualified personnel

# New Revenue Sources/ Increases



# Three Types of New Revenue Opportunities

- Taxes
- Fees
- General Obligation Bonds
- Potential Revenue/Bond Needs





# Sales Tax

- Changes to sales tax rates require voter approval
  - City General Sales Tax (1%) may be used for any public purpose
  - Other voter approved sales taxes (1.281%) are restricted
- Recreational Marijuana – revenue potential
- BBB Reallocation – FAIR request



# Sales Tax: Recreational Marijuana

- Recreational Marijuana will be taxed as retail sales category
  - General sales tax goes to the General Fund as unrestricted
  - Based on the Joint Legislative Budget Committee fiscal analysis of Proposition 207:
    - 3<sup>rd</sup> year revenue projected: \$102,000 General, \$131,000 Transportation
- City will receive additional State Shared Revenue
  - 3<sup>rd</sup> year revenue projected: \$189,000 General Fund
- Any additional sales tax would apply to all businesses in retail sales category



# Excise Tax: Recreational Marijuana

- 16% excise tax on Recreational Marijuana is restricted
- Shared State Revenue
  - Municipal allocations on June 30th and December 31st each year
  - 31.4% to municipal Police Departments, Fire Departments, Fire Districts, County Sheriff Departments based on enrollment in Public Safety Personnel Retirement System (PSPRS)
  - 25.4% to Arizona Highway Users Revenue Fund
  - More data is needed to provide estimates



# Sales Tax: BBB Reallocation

## HISTORY

- The BBB tax is a **2% local transaction privilege tax (TPT)** levy on the gross revenues generated from **hotels, motels, campgrounds, bars, and restaurants**.
- It's in addition to the base local TPT rate of 2.281%, plus the state and county TPT rates.
- **Flagstaff voters approve** all local TPT rates, including the BBB tax, per the City Charter.
- The current BBB Tax is set to **expire May 31, 2028**.



# Sales Tax: BBB Reallocation

- Original allocations (1988) and changes (1995)

Allocations	Original	Current	Change
Administration	3.0%	0.0%	- 3.0%
Arts and Science	0.0%	7.5%	+ 7.5%
Beautification	32.0%	20.0%	- 12.0%
Economic Development	16.5%	9.5%	- 7.0%
Parks and Recreation	0.0%	33.0%	+ 33.0%
Tourism	48.5%	30.0%	- 18.5%



# Fees



- Need statutory authority from State
- City may charge fees for services provided
- Fees must be reasonably related to recovering city costs of proving the services
- Examples:
  - City facility and/or property rental fees
  - Parks, Recreation and Open Space fees
  - Development fees
  - Parking use fees



# General Obligation Bonds

- Cities are allowed to issue several types of debt
  - General Obligation Bonds, Revenue Bonds, Leases, Loans, etc.
  - Per Charter, the City must receive voter approval for certain facilities (Article XVI: Amendment 2), currently over \$2.4M
- Our focus will be about General Obligation Bonds (GO Bonds)
  - For the City to Issue GO Bonds, we must receive voter approval
  - The City may levy a secondary property tax for payment
  - Secondary property tax can only be used to pay back GO Bonds



# General Obligation Bonds

- Legal Limits – Assessed Valuations (State Statute)
  - 20% Limitation: Water, sewer, artificial lighting, parks, open space, recreational facilities, public safety, law enforcement, fire and emergency services and street and transportation facilities
    - Bond capacity in this limitation = \$178M
  - 6% Limitation (i.e. Housing)
    - Everything else
    - Currently no issuance under this limitation
    - Bond capacity in this limitation = \$67M

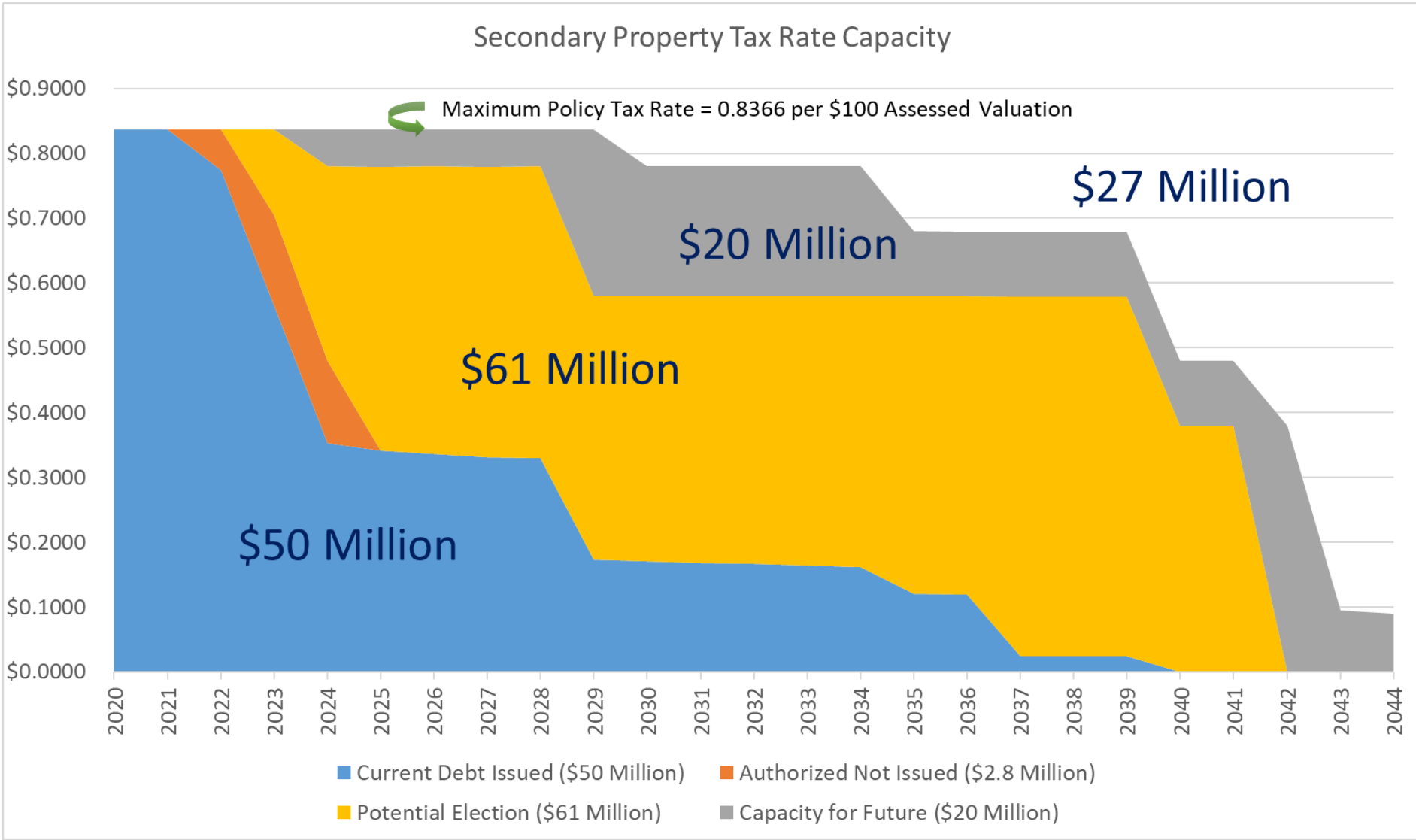


# General Obligation Bonds

- Current rate is 0.8000 per \$100 of assessed valuation
  - Current policy to remain at or below 0.8366 rate based on promises made during past elections
  - The City is allowed to go above this rate for the purpose of paying debt
- Based on current projection of assessed valuations
  - Estimated capacity \$61M under current rate policy
  - Uses capacity through FY 2041-2042
  - Majority of existing debt paid off by FY 2022-2023



# General Obligation Bonds: Capacity





# General Obligation Bonds: Summary

- \$61 million debt capacity available in secondary property tax at current rate of 0.8366
- Money is available upon bond approval and issued as needed
- Only unissued GO debt is \$2.8 million for parks land
- Each additional \$10 million =  $\sim 0.085$  additional rate
- Additional capacity added annually as debt paid off
- Questions



# Potential New Revenue/Bond Needs

- Attainable Housing – Emergency, Rental & Homeownership
- Parks Softball & Pickleball Facilities
- Open Space System Integration, Land Maintenance & Facility Improvement
- Watershed Protection – Lake Mary Phase 3
- Technology & Broadband Infrastructure
- Core Services Facility Expansion – Parks and Facilities Maintenance
- Fire Training Facility completion
- Fire Station relocation and expansion
- Fire apparatus replacement
- Police & Fire safety equipment replacement
- Public Safety Radio/Telecommunications
- Police Body Cameras
- Public Safety Alternate Response Center and Mobile Response Unit
- City supplies and record retention storage facility
- Parking Garage
- City Facility/Property Rehabilitation
- Mogollon Property Plan, Design & Build

# Council Discussion



# Council Forum/Budget Expectations



# Public Participation

