

BUDGET RETREAT

BUDGET RETREAT
THURSDAY
DECEMBER 9, 2021

CORE SERVICES FACILITY
3200 WEST ROUTE 66
8:30 A.M.

ATTENTION

IN-PERSON AUDIENCES AT CITY COUNCIL MEETINGS HAVE RESUMED WITH LIMITED CAPACITY

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*****

If you want to provide a verbal comment during the Retreat, use the link below to join the virtual public comment room.

VIRTUAL PUBLIC COMMENT

Written comments may be submitted to publiccomment@flagstaffaz.gov. All comments submitted via email will be considered written comments and will be documented into the record as such.

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. ROLL CALL

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

MAYOR DEASY
VICE MAYOR DAGGETT
COUNCILMEMBER ASLAN
COUNCILMEMBER MCCARTHY

COUNCILMEMBER SALAS
COUNCILMEMBER SHIMONI
COUNCILMEMBER SWEET

3. Pledge of Allegiance, Mission Statement, and Land Acknowledgement

MISSION STATEMENT

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

LAND ACKNOWLEDGEMENT

The Flagstaff City Council humbly acknowledges the ancestral homelands of this area's Indigenous nations and original stewards. These lands, still inhabited by Native descendants, border mountains sacred to Indigenous peoples. We honor them, their legacies, their traditions, and their continued contributions. We celebrate their past, present, and future generations who will forever know this place as home.

4. City Council Budget Retreat

City staff to provide an overview of the FY 2022-2023 budget process and other information impacting the City financial outlook.

- Welcome and Objectives
- Priority Based Budget
- Budget Refresh
- Revenue Updates
- Maintaining Fiscal Health
- Budget Expectations and Impacts
- Federal Funding
- Council Expectations

5. Public Participation

6. 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: Heidi Derryberry, Interim Finance Director
Date: 12/06/2021
Meeting Date: 12/09/2021



TITLE:

City Council Budget Retreat

DESIRED OUTCOME:

City staff to provide an overview of the FY 2022-2023 budget process and other information impacting the City financial outlook.

- Welcome and Objectives
- Priority Based Budget
- Budget Refresh
- Revenue Updates
- Maintaining Fiscal Health
- Budget Expectations and Impacts
- Federal Funding
- Council Expectations

EXECUTIVE SUMMARY:

The budget process starts early so that when the budget is adopted it will reflect the goals and objectives of the City Council and the community. 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 9th retreat will be the first of three City Council budget retreats for the upcoming FY 2022-2023 budget. This special meeting is set to provide an overview and orientation of the City's FY 2022-2023 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:

- Welcome and Objectives
- Priority Based Budget
- Budget Refresh
- Revenue Updates
- Maintaining Fiscal Health
- Budget Expectations and Impacts
- Federal Funding
- Council Expectations

Please find attached the following:

- Detailed Agenda
- Priority Based Budget Priorities and Objectives
- Color of Money Handout
- Recession Plan Redline Version
- Budget Direction Memo
- Budget Retreat Presentation Table of Contents
- Budget Retreat Presentation

Attachments: [Agenda](#)
 [Priority Based Budget Priorities and Objectives](#)
 [Color of Money](#)
 [Recession Plan Redline Version](#)
 [Budget Direction Memo](#)
 [Budget Retreat Presentation Table of Contents](#)
 [Budget Retreat Presentation](#)

City Council Budget Retreat

December 9, 2021

Detailed Agenda

Time	Duration (Min)	Topic	Staff
8:30am	15	Welcome and Objectives	Greg Clifton Katie Wittekind
8:45am	120	Priority Based Budget	Shane Dille Chris Rhode Chris Fabian
10:45am	15	Break	
11:00am	30	Budget Refresh <ul style="list-style-type: none"> Budget Team Charter Process Timeline Color of Money 	Heidi Derryberry
11:30am	30	Revenue Updates <ul style="list-style-type: none"> Economic Considerations General Fund HURF BBB Funds 	Rick Tadder
12:00pm	30	Lunch	
12:30pm	30	Maintaining Fiscal Health <ul style="list-style-type: none"> Recession Planning - Refresh & Updates Pension Funding Reserve Policy 	Greg Clifton Rick Tadder
1:00pm	45	Budget Expectations and Impacts <ul style="list-style-type: none"> Budget Team Focus Minimum Wage State Assessment Compensation <ul style="list-style-type: none"> Minimum Wage CPI Merit Compression 	Heidi Hansen Greg Clifton Chris Rhode Jeanie Gallagher Brandi Suda
1:45pm	45	Federal Funding <ul style="list-style-type: none"> CARES (Airport) ARPA Infrastructure Bill 	Nicole Antonopoulos Bob Holmes Barney Helmick Brian Gall Stacey Brechler-Knaggs Sarah Langley
2:30pm	30	Council Expectations	
		Public Participation	

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

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



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

Economic conditions are cyclical. While one may not be able to predict all changes in our economic cycles, the better the city invests in planning and projections, will create a more stable organization. The Economic Recession Plan (the Plan) is one tool to help during economic downturns. Taking measures to be prepared for economic downturns is critical to how well the City of Flagstaff 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 the Economic Recession Plan commenced in the Fall of 2019 with the intention of adoption prior to the 2020-21 Budget Year. The Economic Recession Plan was completed March 2020 and City Council reviewed and approved the Economic Recession Plan in April 2020.

The City and US ~~has seen~~ saw over ten years of economic growth since the great recession of 2008 through early 2020. This was ~~We are currently in~~ the longest stretch of economic growth in US history. In March 2020, the economy became heavily impacted by the COVID 19 Pandemic, that later created a recessionary period. This Economic Recession Plan was critical to the success of the entire organization and allowed the City of Flagstaff to come out of the recession very strong. After a year of utilizing the plan, the City of Flagstaff's Budget Team has revised and improved the plan based on our experience during the 2020 recession.

The purpose of this Economic 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 Economic Recession 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, such as health pandemics. A plan to manage the financial impacts of economic recession and net revenue shortfalls is paramount.

With those challenges in mind, this Economic Recession 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 Economic Recession 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 Economic Recession 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~~ mainly 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. Special revenue funds have a reliance on a dedicated revenue stream primarily in the form of taxes. ~~All of the~~ The City's funds are summarized in Appendix A.

In addition, the type of expenditures in a fund will reflect differently on the needs to take measures during an economic downturn. Operational costs such as personnel, contractual and equipment tends to be the focus of managing expenditures and cost controls to match declining revenues each year. Capital improvements look at impacts from a longer planning cycle and can adjust future projects through costs and timing.

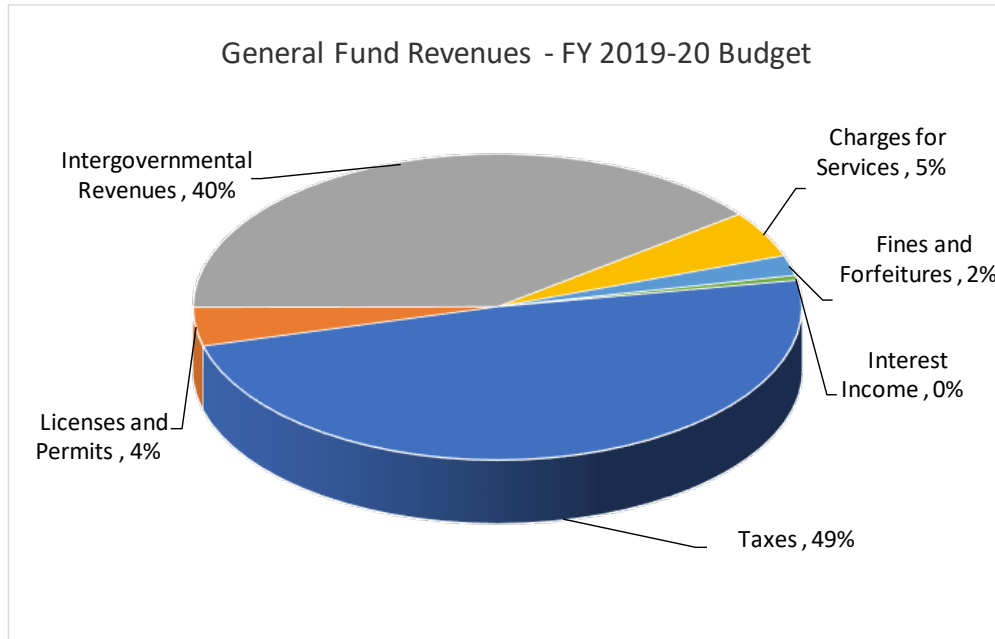
General Fund has primary need for an economic recession plan

While ~~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 the General Fund tends to have the greatest vulnerability to ~~than other funds to~~ economic fluctuations and the ability to maintain services and expenditure during a downturn. The General Fund makes up the largest operating budget and made up 43% of the entire organizations operating budget in fiscal year 2021-2022. Therefore, the Economic Recession 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 sample 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.

Special revenue and enterprise funds may consider different impacts and approaches to programmatic changes based on funding availability. Exceptions to action items may also be considered.

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 of Flagstaff's Budget Team will utilize our Priority Based Budgeting (PBB) tool to review programs and utilized in decision making. Priority Based Budgeting could determine some programs will be reduced, provide a lower level of service or potentially be stopped until revenues improve.~~

~~The City of Flagstaff will look at ways of investing in programs that may improve or level off the impacts of an economic downturn. By utilizing one-time funding to invest in local items such as construction investments and tourism outreach, the City of Flagstaff city could target areas that would help bolster the local economy by adding more projects and maintaining a healthy tourism sector. Previous investments in the tourism sector have proven valuable and is evident as the tourism activity in Flagstaff has out-performed statewide averages.~~

The City of Flagstaff 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 [for the General Fund.](#)

Action: Under this scenario, expenditures will be reduced ~~where~~when 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 ~~s~~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 [for the General Fund.](#)

Action: The City of Flagstaff 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 [for the General Fund.](#)

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 of Flagstaff 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 [for the General Fund.](#)

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%, greater than \$13.3 for the General Fund. The potential for an overall budget deficit is present.

Action: At this point, the City of Flagstaff 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.

Implementing Stages of the Economic Recession Plan

The initiation of any of these strategies and actions originate with the City of Flagstaff's 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 Example~~ of Impact₂ 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

Memo

To: Leadership and Extended Leadership
From: Budget Team
Date: November 1, 2021
Subject: Budget Direction for FY 2022-2023

As we begin the process of building the FY 2022-2023 City Manager's Recommended Budget, the Budget Team would like to provide some guidance on the process and priorities for this year. The Budget Team's goal is to continue to move our organization towards becoming a "High Performing Government" with a focus on a few key priorities during this year's budget process.

While the needs of the organization are a priority, the City is facing many critical issues within our community. There are significant infrastructure needs throughout the city, which were discussed at the September Council Retreat. The urgency for some of these infrastructure projects was, in part, manifested during the flood events of this summer. The City will be limited in our ability to fund new initiatives, that aren't crucial, during the upcoming budget process and request that divisions thoughtfully consider the urgency of any new requests.

The main FY 2022-2023 priorities include:

Compensation and Benefits:

- Focus on taking care of current employees over adding new positions
- Merits are funded
- Continue to provide a market-based pay structure
- Minimum wage will be adjusted for Consumer Price Index (CPI)
- Exploring opportunities to increase benefit coverage contributions
- Maintain General Fund sixty-day salary sweeps to fund benefits and retention efforts
- Vacant and new positions will be budgeted at midpoint (hiring for these positions will still be required to go through the equity review and approval process)

Aligning with Priority Based Budget (PBB):

- The Budget Team will be utilizing the tools available in PBB to make budget decisions
- The Budget Team is considering improving the program change request process through enhanced PBB tools
- Leadership assistance will be key in the following:
 - ◆ Identifying high scoring programs needing more funding
 - ◆ Identifying low scoring programs that could be reallocated to support high scoring programs
- Assuring that PBB programs, best aligned with key priorities, have ongoing resources allocated
- Focus on transitioning 25% of our current year one-time funded requests to ongoing

Funding Requests Focus:

- Infrastructure needs (i.e., Wastewater, Stormwater, Facilities, Fleet)
- PBB program levels
- Program Change Requests (Personnel and Non-Personnel)
 - Quadrant three and four new requests might not be considered as the focus is to move current one-time funded items to ongoing
 - New one-time positions may be considered when the position is needed on a temporary basis (i.e., two-year project contract)
- Will continue to track requests related to the Carbon Neutrality Plan

Our overall budget process is based upon fiscal responsibility and ongoing constrained resources as we look ahead. This process will take a lot of continued commitment from you and your teams. The priorities listed above are areas that need your time and thoughtful attention and will take significant preparation. We are asking that all divisions continue to work together for the greatest outcome so we can achieve a successful budget process. The Recession Plan proved to be an invaluable tool, during the pandemic and the resulting recession, and will continue to guide our organization (if needed) through any future economic downturns.

Thank you, Team Flagstaff!

If you have any questions, please feel free to contact the [Budget Team](#) for assistance.

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What this Means for Arizona.....	75



**The
Budget Team**
CITY OF FLAGSTAFF



Council Budget Retreat

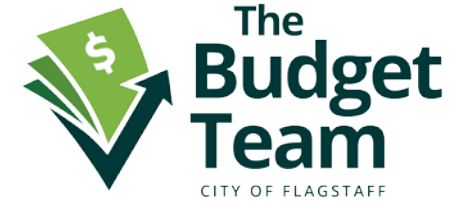
December 9, 2021

Welcome and Objectives



- Welcome
- Introductions
- Intentions
- Meeting Protocol

Agenda



- Priority Based Budget (PBB)
- Budget Refresh
- Revenue Updates
- Maintaining Fiscal Health
- Budget Expectations and Impacts
- Federal Funding
- Council Expectations



Priority Based Budget



The
Budget Team
CITY OF FLAGSTAFF



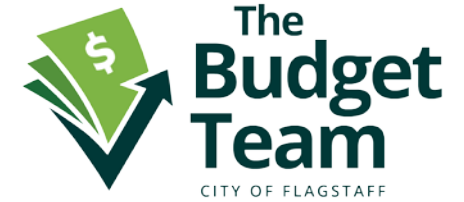
Budget Refresh

Budget Team Charter



- Purpose
- Composition
- Meetings
- Roles
- Code of Conduct

Purpose



- The purpose of the City of Flagstaff Budget Team is to provide financial advisement and strategic direction to the City organization and to protect the interest of the public through sound fiscal services
 - Provide fiscal oversight and financial decision making on an ongoing basis
 - Forecast short-term and long-term financial landscape
 - Provide constant fiscal stewardship to ensure integrity, accountability, transparency, credibility, adaptability, excellence and collaboration
 - Proactively assure City fiscal stability through effective recession planning



Greg Clifton
City Manager



Shannon Anderson
Deputy City
Manager



Shane Dille
Deputy City
Manager



Brandi Suda
Interim Human
Resources Director



Heidi Hansen
Economic Vitality
Director



Rick Tadder
Management Services
Director



Heidi Derryberry
Interim Finance
Director



Glorice Thousand
Interim Assistant
Finance Manager



Jared Wotasik
EAC

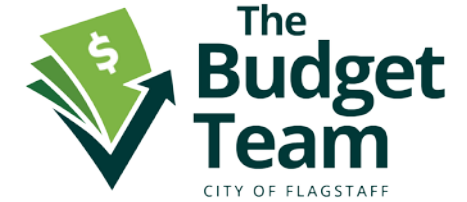


Nicole
Antonopoulos
Sustainability
Director



Chris Rhode
Management
Analyst

Meetings



- Meetings are scheduled on a weekly basis and will generally be held on Thursdays with additional meetings scheduled as needed to respond to changing circumstances and requirements
 - The meeting schedule will also include:
 - Bi-Annual Priority Based Budget Council Retreat – September (odd years)
 - Budget Team Retreat - October
 - Council Budget Retreats – December, February and April
 - Division Review Meetings – February/March for approximately fifteen business days
 - Recessionary and Emergency Response

Roles



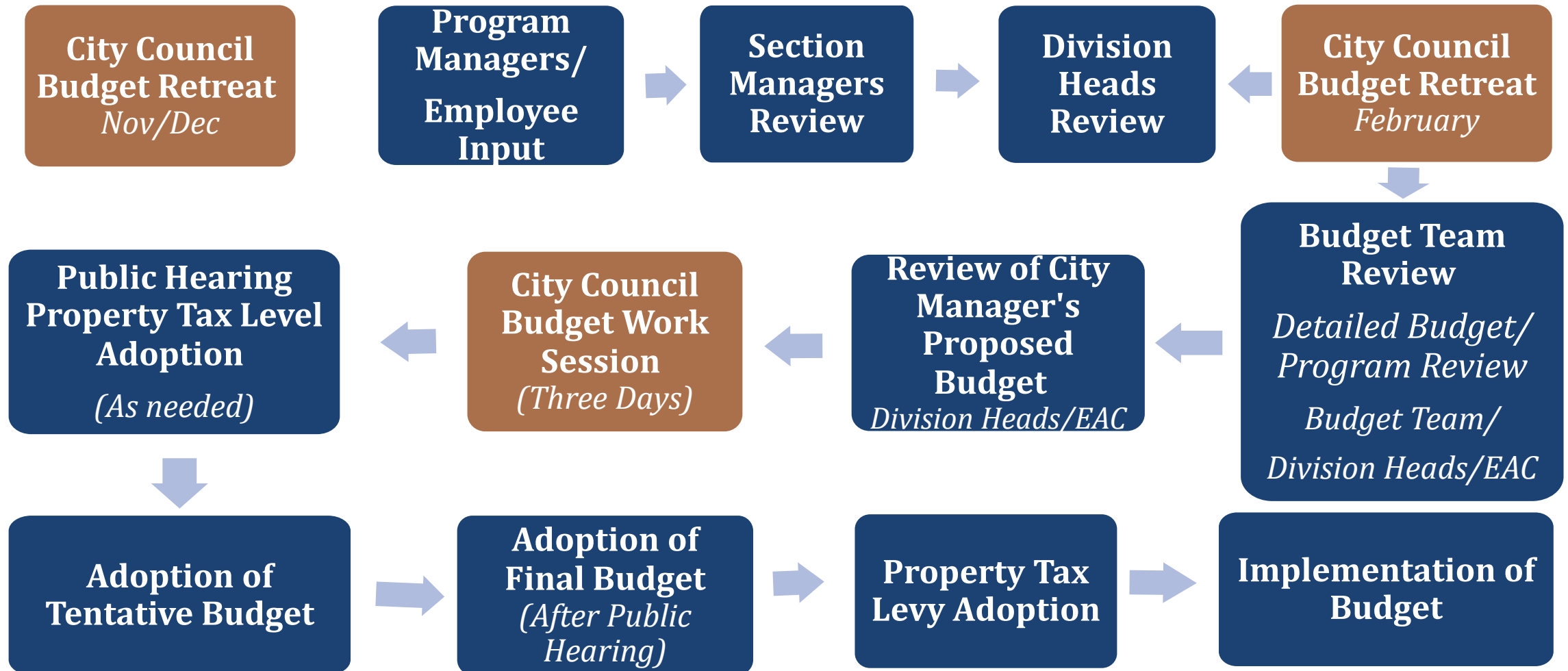
- Strategic Leadership Role
 - Strategic planning to bolster the City's financial health
- Assessment Role
 - Assess organizational expenditures through Priority Based Budgeting methodologies, ensuring that programs, services and resources align with Community Priorities
- Budgetary Role
 - Provide oversight of the formulation of the Annual City Budget for adoption by Council
- Leadership Development Role
 - Encourage and nurture the development of present and future skilled members

Status



- Roles (in process)
- Code of Conduct (in process)
- Provide Council final charter once complete

Budget Process




Budget Timeline



- December 9, 2021 – Budget Introduction Retreat
- February 3 & 4, 2022 – 2nd Council Budget Retreat
- April 21 & 22, 2022 – City Manager Recommended Budget Retreat
- June 7, 2022 – Tentative Budget Adoption
- June 21, 2022
 - Property Tax Levy Hearing
 - 1st Reading of Property Tax Adoption
 - Final Budget Adoption
- July 5, 2022 – Final Reading of Property Tax Adoption

Color of Money



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.

- Library - Secondary property tax and general fund transfer
- HURF (Streets) - Gasoline tax
- Transportation tax - 1.281% sales tax
 - » Transportation Improvements (.426%)
 - » Road Repair & Street Safety (.33%)
 - » Transit (.295%)
 - » Route 66 to Butler Overpass (.23%)
- BBB tax - 2.0% tax on bed, board & beverage
 - » 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.

- Water
- Wastewater
- Reclaim
- Stormwater
- Sustainability and Environmental Management
- Airport
- Solid Waste
- Flagstaff Housing Authority

Capital Project Funds

Used to account for major capital acquisition separate from ongoing operations

- Restricted Funding Sources - Voter Approved Bonds, Grants, Third Party Restricted Fees
- General Obligation Bond Projects:
 - » 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

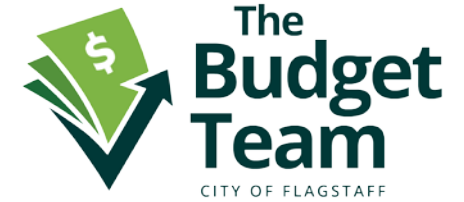
Accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government that are not accounted for in other funds and most revenues are unrestricted.

- 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

Color of Money



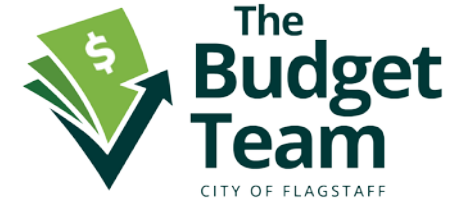
- City has numerous revenue sources, and many have restrictions on how they can be spent
- The City has over 50 different funds to segregate those revenues and expenses to ensure compliance with restrictions and accounting standards
- In many instances, revenue from one fund cannot be used to pay for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

Fund Types



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

Special Revenue Funds



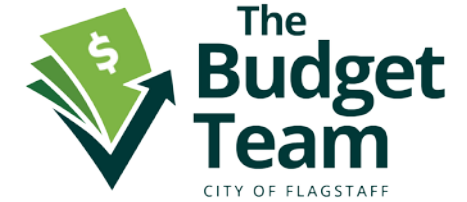
- These funds are used to account for revenues derived from specific taxes or other earmarked revenue sources
- Are usually required by statute, charter provision, or ordinance to finance a particular function or activity

Special Revenue Funds



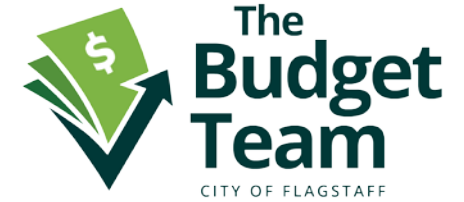
- Housing and Community Services – grants
- Library – secondary property tax and General Fund transfers
- Highway User Revenue Fund (HURF) – gasoline tax
- Transportation – 1.281% sales tax
 - Transit (.295%)
 - Road Repair and Street Safety (.33%)
 - Lone Tree/Route 66 Overpass (.23%)
 - Transportation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

Enterprise Funds



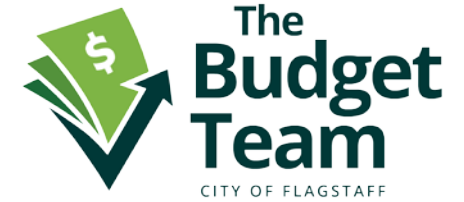
Self-supporting thru User Fees

- User fee ordinances restrict the use
- Water/Wastewater/Trash Charges
- Rent
- Airport Lease and Fees

Includes:

- Water
- Wastewater
- Reclaimed Water
- Stormwater
- Solid Waste
- Sustainability and Environmental Management
- Airport
- Flagstaff Housing Authority

Capital Project Funds



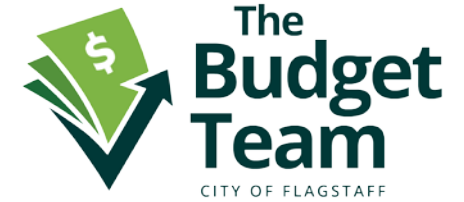
- Capital project funds are used to account for major capital acquisitions separate from ongoing operations
 - Restricted funding sources:
 - Voter approved bonds, grants, third party restricted fees
 - General obligation bond projects:
 - Flagstaff Urban Trail System (FUTS)/Open Space
 - Core Facilities
 - Watershed Protection
 - United States Geological Survey (USGS) campus expansion
 - Courthouse

Debt Service Funds



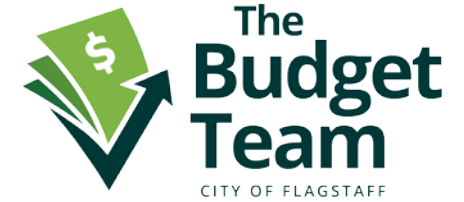
- Debt service funds are used to account for the accumulation of resource and payment of long-term debt
 - Restricted revenues
 - General obligation bond fund – secondary property tax
 - Pension bond fund – General Fund, Water Infrastructure and Protection Fund and Airport Fund transfers

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



- 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



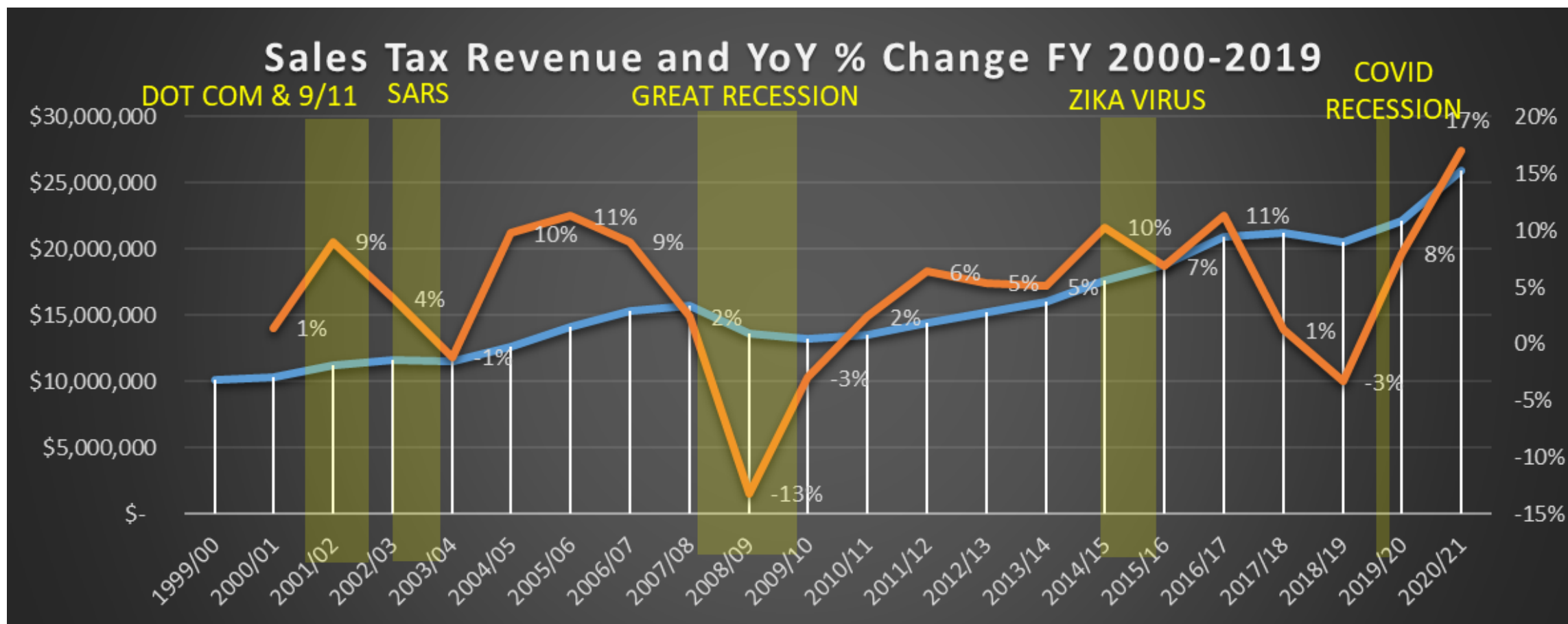
Revenue Updates

Economic Considerations



- Recessions happen
 - COVID 19 Recession 2020 – lasted two months
 - Average recession 15 months
 - Since 1980 average expansion eight years
 - Flagstaff recognized declines in FY 2018-2019, leading up to recession
 - Previous projected revenue downturn was in FY 2021-2022
- Long-term forecasts build in recessions
 - Aligns ongoing revenues to achievable projections, limits impacts during economic downturns
 - Building in next 5-7 years out, could be earlier
- Other economic concerns

General Fund – Sales Tax



Economic Outlook



Eller College of Management/
Economic and Business Research Center

Arizona Economic Forecast Data (Statewide)

Arizona Forecast*	2020	2021	2022	2023	2024
Personal Income (\$ mil)	364,564.8	394,540.0	404,128.3	425,582.5	447,861.9
% Chg from Year Ago	8.7%	8.2%	2.4%	5.3%	5.2%
Retail Sales (\$mil)	121,772.2	140,404.9	143,815.9	149,671.8	156,097.8
% Chg from Year Ago	6.5%	15.3%	2.4%	4.1%	4.3%

General Fund – Sales Tax



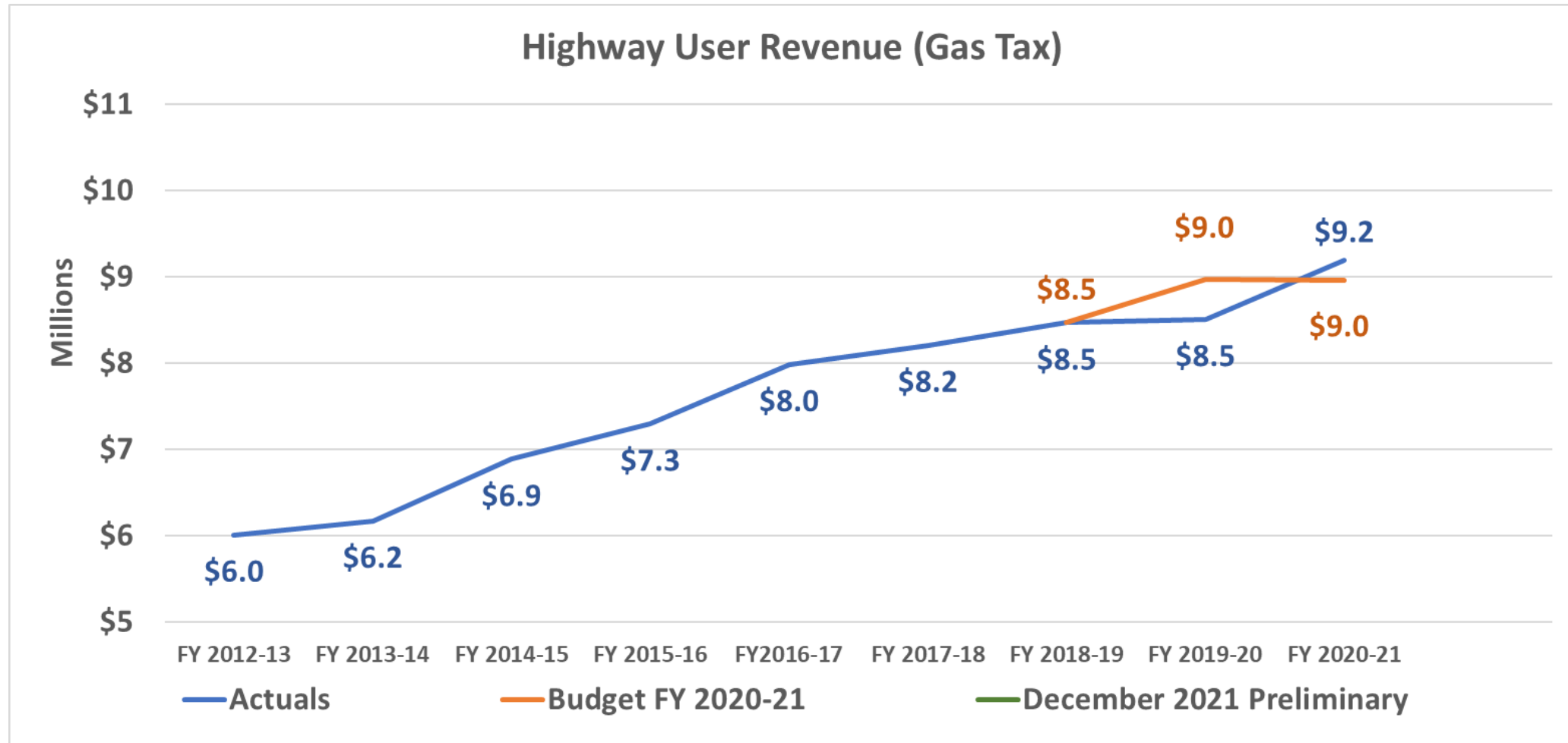
Category	FY 2019-20 Budget	FY 2019-20 Actual	FY 2020-21 Budget	FY 2020-21 Actual	FY 2021-22 Budget	FY 2021-22 Estimate
Sales Taxes						
Utilities	\$ 1,112,945	\$ 1,035,117	\$ 1,076,250	\$ 1,048,716	\$ 1,026,000	\$ 1,050,000
Telecommunications	251,125	211,313	235,750	146,517	150,000	146,000
Restaurant/Bars	3,075,000	2,820,892	3,075,000	2,932,835	2,899,400	3,127,000
Amusements	114,800	85,907	108,650	43,459	69,700	70,200
Commercial Rental	1,200,000	1,066,063	1,050,000	1,155,087	1,098,000	1,078,000
Personal Property Rental	676,500	660,066	732,875	692,359	667,800	730,000
Contracting	2,146,900	1,991,518	1,700,000	2,352,792	1,886,400	2,089,000
Retail	10,762,500	11,000,586	10,385,000	13,075,833	11,681,500	13,091,000
Marketplace Retail (outside AZ)	-	340,237	480,000	860,794	826,200	920,000
Hotel/Motel/STR	1,537,500	1,353,303	1,640,000	1,592,928	1,492,300	1,646,000
Miscellaneous	130,698	102,059	99,600	110,436	102,300	102,200
Use Tax	1,658,500	1,489,998	1,471,545	1,920,847	1,663,800	1,736,000
Sales Taxes Total	\$ 22,666,468	\$ 22,157,059	\$ 22,054,670	\$ 25,932,603	\$ 23,563,400	\$ 25,785,400
Change vs Prior Budget		\$ (509,409)		\$ 3,877,933		\$ 2,222,000

General Fund - State Shared

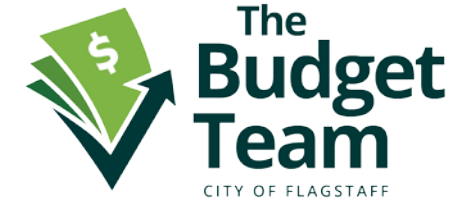


Category	FY 2019-20 Budget	FY 2019-20 Actual	FY 2020-21 Budget	FY 2020-21 Actual	FY 2021-22 Budget	FY 2021-22 Estimate
State Shared Revenues						
State Shared Sales Tax	\$ 7,182,893	\$ 7,485,660	\$ 7,486,395	\$ 8,874,786	\$ 8,285,200	\$ 9,174,000
State Shared Urban Revenue	9,451,184	9,564,616	10,669,590	10,723,978	9,790,000	10,075,700
State Shared Rec MJ Excise Tax	-	-	-	135,438	272,798	273,000
Auto Lieu Tax	3,237,360	3,433,940	3,540,863	4,169,172	3,718,300	3,800,000
State Shared Total	\$ 19,871,437	\$ 20,484,216	\$ 21,696,848	\$ 23,903,374	\$ 22,066,298	\$ 23,322,700
Change vs Prior Budget		\$ 612,779		\$ 2,206,526		\$ 1,256,402

Highway User Revenue Share

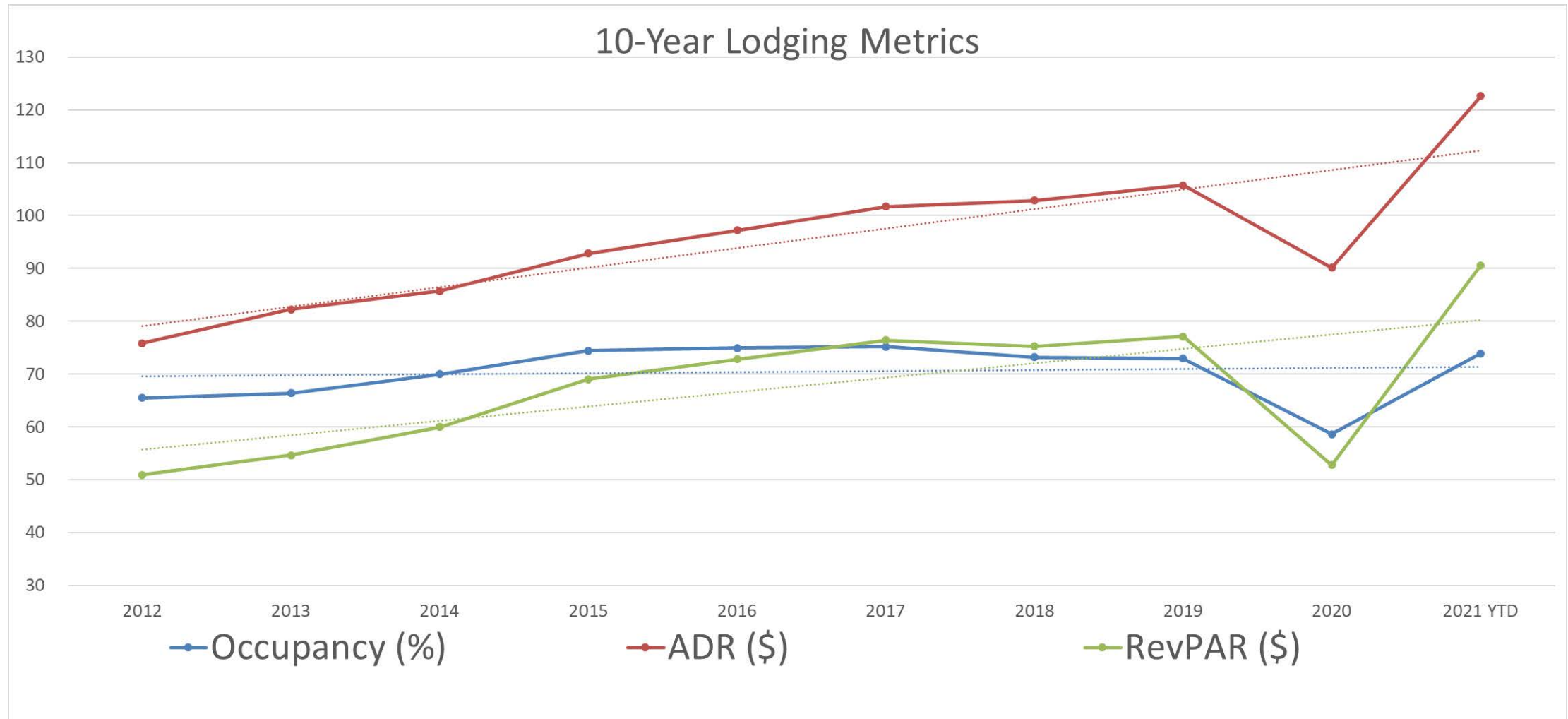


BBB Tax Funds

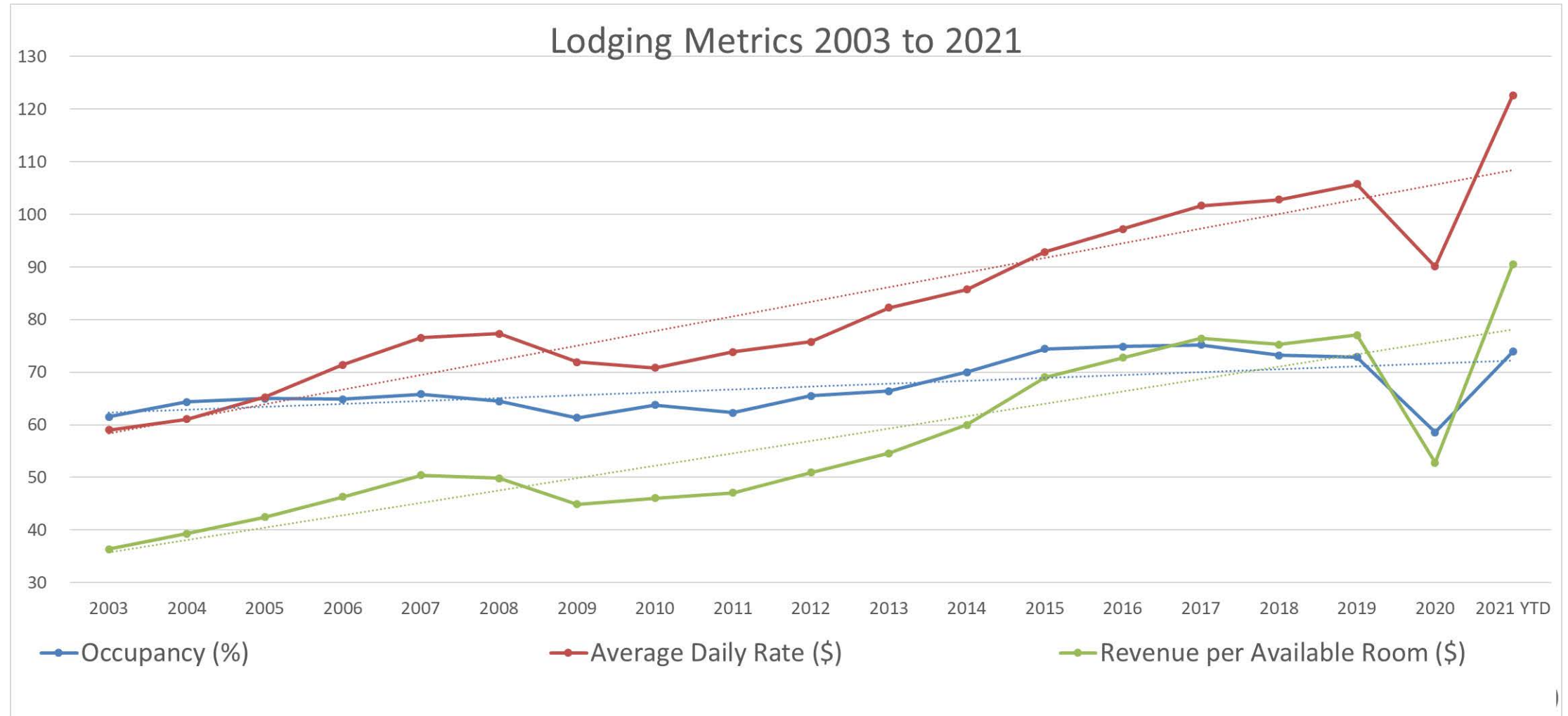


Category	FY 2019-20 Budget	FY 2019-20 Actual	FY 2020-21 Budget	FY 2020-21 Actual	FY 2021-22 Budget	FY 2021-22 Estimate
BBB Funds						
Beautification	\$ 1,845,000	\$ 1,668,963	\$ 1,865,500	\$ 1,810,300	\$ 1,756,700	\$ 1,909,200
Economic Development	876,375	793,383	886,113	859,900	834,400	906,900
Tourism	2,767,500	2,505,232	2,798,250	2,715,500	2,635,000	2,863,800
Arts and Sciences	691,875	625,415	699,563	678,900	658,800	716,000
Recreation	3,044,250	2,755,398	3,078,075	2,987,000	2,898,500	3,150,200
BBB Funds Total	\$ 9,225,000	\$ 8,348,391	\$ 9,327,501	\$ 9,051,600	\$ 8,783,400	\$ 9,546,100
Change vs Prior Estimate		\$ (876,609)		\$ (275,901)		\$ 762,700

Lodging Metrics



Lodging Metrics





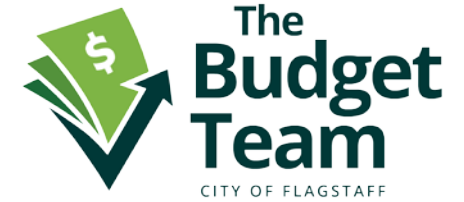
Maintaining Fiscal Health

Recession Planning - Refresh



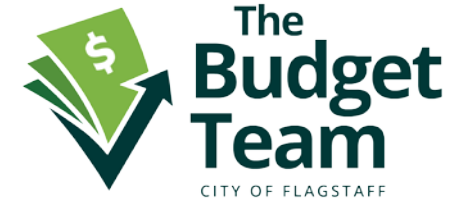
- Adopted policy that identifies the action steps to address declining revenues
- Overlays and is independent to the adopted budget
- Adaptable in implementation
- Moving into the Significant stage (or higher) requires Council action
- Council action gives the City Manager direction to apply measures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

Recession Planning - Update



- Lessons learned during the recent recession
 - Primary focus on operating expenses versus capital improvements
 - Maintain levels of service
 - CIP can be adjusted in 5-year plans, timing
 - Some projects that are not urgent, may be deferred
 - General Fund generally has the biggest impact
 - General Fund operating budget in FY 2021-2022 was 43% of the total City
 - Investing dollars strategically offsets impact of a recession
 - Tourism and construction for example
- Revised plan addresses the lessons learned
- Seek Council approval at the January 7, 2022 meeting
 - Redline version included in agenda packet

Pension Funding



- August 2020 Issued \$133M in Certificates of Participation debt
 - 2.9% all-in interest rate
 - \$14M Contingency Reserve Fund
 - Net present value saving \$76M
 - Level debt service
 - Approximate \$2M annual saving versus ongoing budget amount
- Decisions allowed
 - Excess of 100% police and fire pension plans, addressed our obligation
 - Fiscally improved our General Fund

Pension Funding



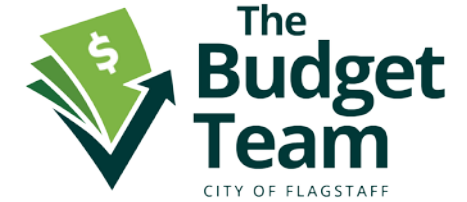
- December 2020 pension actuarial report released
 - Average funding ratio at 6/30/2020 was 40.7%
- April 2021 interim actuarial estimated report released
 - Considers the deposits made to pension plans
 - Both police and fire were in excess of 103% funded
- Public Safety Personnel Retirement System (PSPRS) posts 27.8% investment returns for fiscal year 2020-2021!
 - Timing of the City's pension deposits benefits greatly
 - Initial modeling shows the City's market value at 6/30/2021 over 115%
 - Actuarial reports will be released in December

Fiscal Responsibility



- Structurally balanced 5-year plan for all funds
- Achievable revenue estimates, portion of revenues reserved for one-time use
- Cash balances should be used for one-time expenditures
- General Fund balance policy minimum of 20% of General Fund ongoing revenues
- Recession cycles built into revenue projections
- Budget process

Fiscal Responsibility



Bond Ratings

- The City of Flagstaff consistently receive high bond ratings
- Current GO ratings:
 - Standard and Poor's Financial Services:
AA stable
 - Moody's Investors Service:
Aa2

Dedicated Professional Staff!



Fund Balance Reserve Policy



- The Government Finance Officers Association (GFOA) provides best practices for level of unreserved fund balance for cities General Fund
- Assist in mitigation of current and future risks
- Setting appropriate level
- Use and replenishment

Fund Balance Reserve Policy



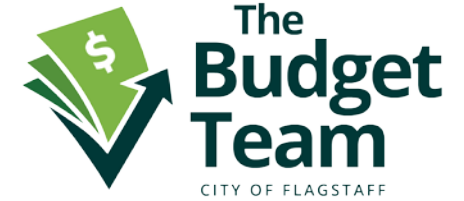
- Setting appropriate level
 - Revenue stability
 - Expenditure volatility
 - Leverage
 - Extreme events
 - Liquidity/cash flow
 - Reliance of other funds
 - Growth
 - Capital projects

Fund Balance Reserve Policy



- Use and replenishment
 - Define events
 - Use as a financial bridge
 - Define the time periods of reduced fund balance
 - Define practice of replenishment
 - Generally expected 1-3 years
 - Expected time of recovering from events
 - Financial planning through budget process
 - Balance with updates to long-term forecasting and economic conditions
 - External financing expectations

Fund Balance Reserve Policy



- General Fund – 20%
 - Flagstaff's level of risk per GFOA is low to moderate, target fund balance recommendation 17-25%
- Special Revenue Funds – 10%
 - Highway User Revenue Fund – 20%
- Other Enterprise Funds – 10%
 - Water Services Funds – 25%
- Capital Project Funds – 10%
- Review of fund balances during FY 2022-2023 budget



Budget Expectations and Impacts

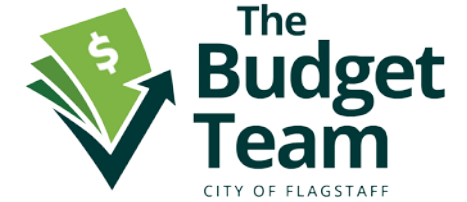
Budget Team Focus



We shared with Team Flagstaff the following:

- Needs of the organization are a priority
- City is facing many critical issues within our community
 - Significant infrastructure needs discussed at September Council Retreat
 - Mitigation efforts due to flooding events
 - And more...
- With our limited funding, we asked all divisions to consider requests that are of an urgent nature only
- Recession Plan was an invaluable tool and will guide us in the future if needed

Budget Team Focus



Compensation and Benefits

- Focus on current employees versus adding new positions
- Merits are funded
- Maintain competitive market-based pay structure
- Minimum wage adjusted
- Benefits coverage enhanced
- Maintain 60-day salary sweeps - General Fund
- Vacant and new positions funded at mid-point

Aligning with Priority Based Budget (PBB)

- Align with key community priorities
- Get 25% of one-time to ongoing
- Identify high scoring programs for funding
- Identify low scoring programs that could be reallocated

Funding Requests Focus

- Infrastructure needs
- PBB program levels
- Track requests to Carbon Neutrality Plan
- Personnel requests
 - Quadrant 3 and 4 may not be considered
 - New positions may be considered on a temporary contract basis

Minimum Wage State Assessment



- HB 2756 (2019)
 - Allows state to assess cities for difference between state and local minimum wage
- City Code 15-01-001-0002(F)
 - Exempts State and Federal governments from Flagstaff's minimum wage
 - Not included in definition of "employer"

Minimum Wage State Assessment



- Assessment estimate in FY 2019-2020 = \$671,500 (Not assessed)
- Assessment estimate in FY 2020-2021 = \$1,172,289 (Not assessed)
- Assessment in FY 2021-2022 = \$1,110,992
 - Assessed September 29, 2021

Minimum Wage State Assessment



- City lawsuit over HB 2756
 - Hearing in October 2021
 - Received preliminary injunction precluding State from collecting assessment
 - Assessment not imposed in time
 - Only “indirect” costs to the State
 - State is exempted from paying Flagstaff Minimum Wage
- Matter is pending appeal
- City needs to continue to budget for this assessment accordingly

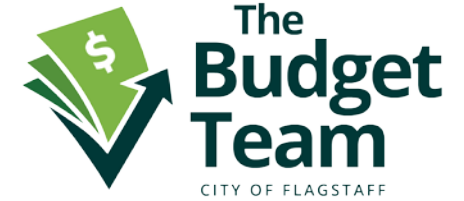
Compensation

1. Minimum wage ordinance (mandatory)
2. Merit (approved and budgeted)

Additional recommendations to consider to maintain compensation plan health:

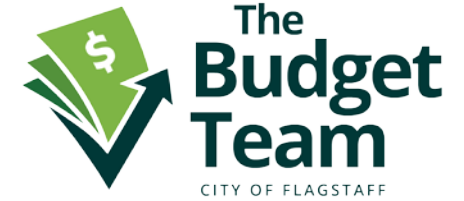
3. Market adjustments
4. Compression

1. Minimum Wage Ordinance



- January 2022 the Flagstaff minimum wage will increase to \$15.50
- Beginning in January 2023 (and each year thereafter) the minimum wage must increase by the Consumer Price Index (CPI) AND be at least \$2.00 higher than the State of Arizona minimum wage
- We are currently experiencing the highest inflation in years; therefore, we have provided two cost assumptions – a moderate CPI increase of 3% and a more likely closer estimate of 5% if current trends continue
- We will know the exact CPI percentage in October 2022
- Both assumptions include maintaining employee's current compa-ratio in the pay range to avoid reintroducing compression and further negatively impacting recruitment and retention

Minimum Wage – CPI Impacts



- With an estimate of a 3% CPI, the minimum of our lowest pay range in the Regular Pay Plan (OOR) increases from \$15.50 to \$16.00
 - This is only 1% less than the minimum for the next higher pay range (05R) which is \$16.13
- With an estimate of a 5% CPI the new minimum wage is \$16.30 per hour; \$0.17 higher than the current minimum for pay range 05R
- A CPI adjustment greater than 3% will require modifications to our current adopted Regular Pay Plan structure to continue to maintain some spread between positions in each pay range
- The cost analysis for these CPI estimates does keep employees at their current compa-ratio to avoid compression

Minimum Wage – CPI Impacts



- Sample modification to Regular Pay Plan to implement higher minimum wage yet continue to keep some spread (5% vs 7.5%) between the lower ranges

CURRENT

City of Flagstaff Regular Pay Plan

Pay Range	Min	Mid	Max
00R	\$15.50*	\$18.75	\$22.50
05R	\$16.13	\$20.17	\$24.20
10R	\$17.34	\$21.68	\$26.01
15R	\$18.64	\$23.30	\$27.96

SAMPLE REVISED

City of Flagstaff Regular Pay Plan

Pay Range	Min	Mid	Max
Eliminated			
05R	??	\$20.17	\$24.20
06R	\$16.94	\$21.18	\$25.41
10R	\$17.34	\$21.68	\$26.01
11R	\$17.78	\$22.24	\$26.67
15R	\$18.64	\$23.30	\$27.96

*Minimum wage effective 1/1/2022

Minimum Wage Estimated Cost Increase



- 3% CPI
 - Regular Pay Plan employees \$14,900
 - Temporary Pay Plan employees \$34,200
 - Total annual difference \$49,100
- 5% CPI
 - Regular Pay Plan employees \$211,700
 - Temporary Pay Plan employees \$77,000
 - Total annual difference \$288,700

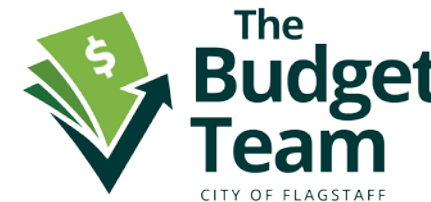
2. Merit



- Approved and budgeted (5-year plans) as an outcome of the Compensation Study
- With a commitment that employee compensation will remain a priority, merit increases became effective July 1, 2021 (employee anniversary date)
 - Regular Pay Plan – 3% Budgeted
 - Assumption: No Lump sum for at or above range maximum and includes the 5% CPI and the sample pay plan recommendations above
 - Step Plans for Fire, Police and Water Services Operators*
 - Percentage varies between steps, positions and plans
 - Employees at the maximum step do not receive a merit increase; step plans are specifically designed to reach the max step more quickly with no further increase until the pay range is modified due to market
 - Total estimated expense: \$2,057,000

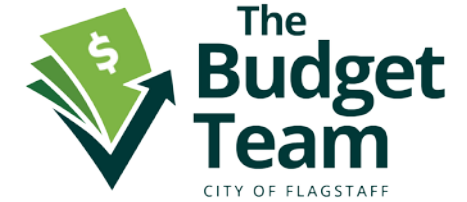
*Step plan for Water Services Operators designed and implemented October 11, 2021

3. Market Adjustments



- To maintain a healthy, competitive, market-based pay plan a sampling of positions should be surveyed each year and adjusted if indicated
 - Priority is given to positions identified throughout the year that may be starting to lag in the market and may be impacting recruitment and retention
- Different than a cost-of-living adjustment (COLA); a COLA is where the entire pay plan is increased by a percentage
 - Outside of extraordinary circumstances this is usually not necessary with a healthy market adjustment strategy
- This budget would not include division reclassification/reorganization requests – those must be budgeted by the division
- Recommendation to budget .25% of the annual salary expense (not loaded) as a starting point.
- Unused funds would carry over with the intent of developing adequate funding year over year.
- \$143,000

4. Compression



- Despite the significant investment, the adjustments implemented in July 2021 did not correct over 10 years of increasing compression
- We are continually challenged to make competitive offers to new hires that have experience without bringing them in higher than current employees with similar levels of experience in the same role
- Employees moved into Step Plans (Fire, Police and Water Services Operator) benefit more rapidly than employees in the Regular Pay Plan
 - Merit step increases range from 3% to 7 %
- Recommendation:
 - Apply a compression adjustment for employees in the Regular Pay Plan effective 7/10/22 (will impact merit cost estimation if adopted)
 - Eligible employees must have a minimum of one year of service prior to 7/1/22

Sample Compression Adjustment



- Similar to the July 2021 increase, utilize a combination of years of service and current compa-ratio by quadrant to apply adjustment percentages
- Increase percentages incrementally for greater years of service
- Do include employees above the range midpoint (the July 2021 process did not)
- Expense estimate: \$205,800

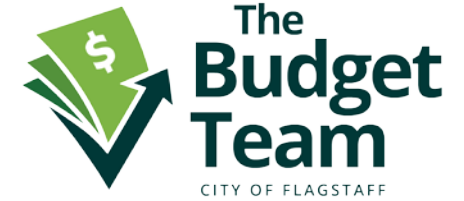
Compensation Summary

- Mandatory – these are estimates, exact amount available October 2022
 - Minimum wage 3% CPI \$ 49,100
 - Minimum wage 5% CPI \$ 288,700
- Merit – already budgeted \$ 2,057,000
- Sample recommendations for recruitment and retention and to maintain a healthy compensation plan:
 - Market adjustment \$ 143,000
 - Compression adjustment \$ 205,800
- Notes and Assumptions: 1) final CPI calculation will modify this estimate; 2) turnover will reduce estimates for merit and compression; 3) market adjustment is an estimate, actual expense may be higher or lower



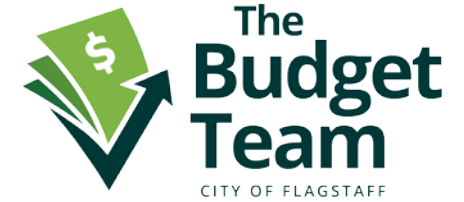
Federal Funding

Overview of Stimulus Funding



- Coronavirus Aid, Relief, and Economic Security (CARES) Act (2020)
 - Other funds were received Police, Fire, Library and Courts
 - Will be highlighting the Airport
- American Rescue Plan Act (ARPA)
- Infrastructure and Investment and Jobs Act (IIJA)

Airport CARES Act Grants



The CARES Act Airport Grants are for eligible US airports to prevent, prepare for, and respond to coronavirus impacts, including support for continuing airport operations

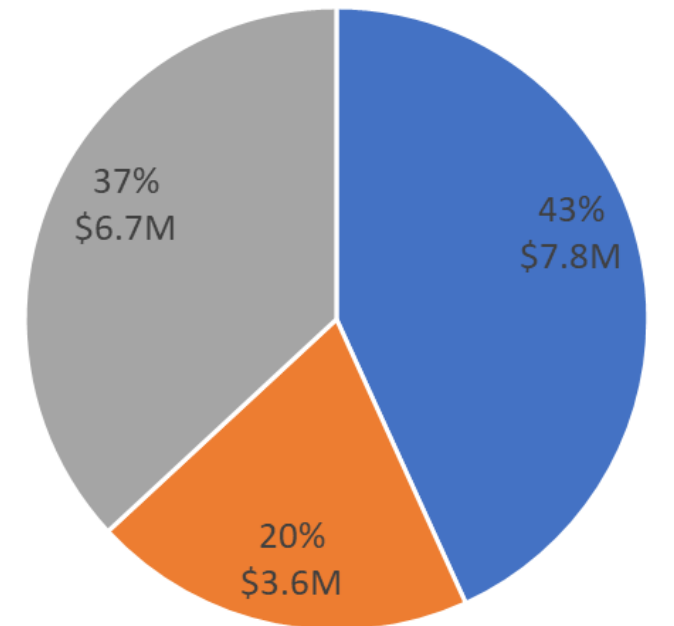
- FAA 45 - \$18.1M for operational and maintenance expenses or debt service
- FAA 46 - \$1.4 for operational and maintenance expenses or debt service
- FAA 47 - \$25,672 for concessions relief
- FAA 48 - \$1.9 for operational and maintenance expenses or debt service
- FAA 49 - \$102,687 for concessions relief

Airport CARES Act Grants

- FAA 45 - original \$18.1M CARES Grant
- \$3.86M spent as of September 30, 2021
 - Airport personnel, operating costs, and nine months of rent abatement for airport tenants
- Ongoing Projects
 - ~\$350K for aircraft hangar and shade maintenance
 - ~\$160K for airfield maintenance
- Upcoming Projects
 - Terminal hold room expansion, airline counter expansion, and facilities maintenance
 - Terminal parking lot maintenance
 - Additional airfield and hangar maintenance



CARES Act Budget - \$18,134,294



- Personnel
- Operating - Contractual/Commodities
- Operating - Equipment and Maintenance

Coronavirus Local Fiscal Recovery Funds (CLFRF)



- City received \$13,252,816 from the US Department of Treasury
- Must be obligated by December 31, 2024, and expended by December 31, 2026
- Funding allocations approved by City Council on October 12, 2021
- 17 projects approved in various funding categories and within multiple City divisions
- Funds have strict federal compliance requirements and responsibilities
- Funds must go through an open and fair competitive process

Coronavirus Local Fiscal Recovery Funds (CLFRF)



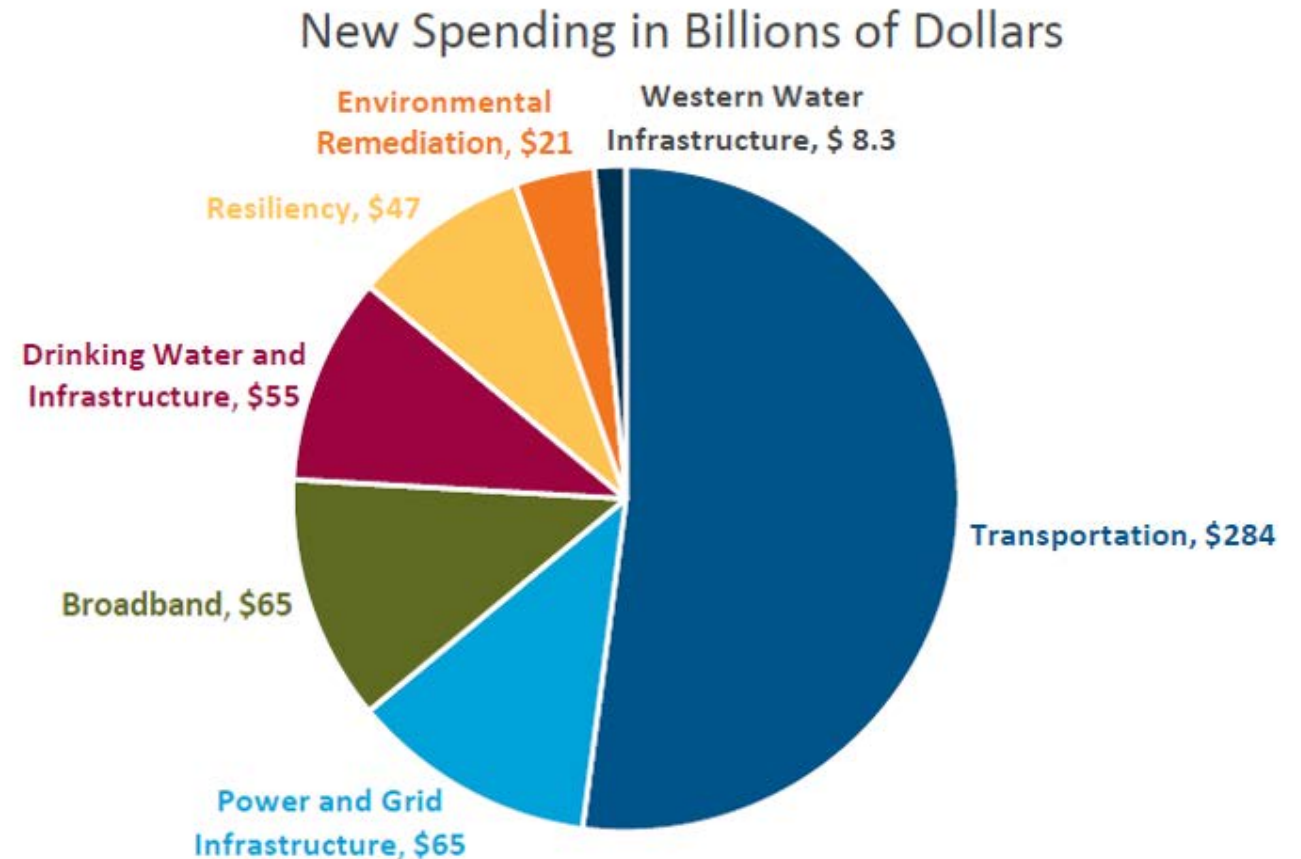
- Continued compliance research, budget team meetings, webinars, FAQs and updated reference guides
- Interim Report (submitted), quarterly financial/performance reports, monthly City Manager's Report and other reports as needed
- Established internal core team – Grants, Legal, Finance, Procurement, City Manager
- Internal project team meetings scheduled
- Draft documents being prepared – recovery plan, grant provisions, proposals, contracts, reporting templates, tracking spreadsheet, etc.

EXPENDITURE CATEGORY	COUNCIL-APPROVED ALLOCATION	PROJECT
1: PUBLIC HEALTH		
1.4	\$400,000.00	Congregate care services, such as shelters
1.10	\$2,400,000.00	Alternate care facility/ services
1.12	\$75,000.00	Community ambassadors to assist with mental health/substance use
2: NEGATIVE ECONOMIC IMPACTS		
2.2 / 2.5	\$1,900,000.00	Housing assistance programs
2.7 / 2.9	\$350,000.00	Job training assistance and small business grants
2.10	\$150,000.00	Aid to non-profits - Arts and Sciences
2.10	\$300,000.00	Aid to non-profits - Food
2.10	\$150,000.00	Aid to non-profits - Other
2.10	\$300,000.00	Aid to non-profits - Victim Services
2.11	\$200,000.00	Aid to tourism, travel and hospitality
2.12	\$85,000.00	Local event support, permits and fees
3: SERVICES TO DISPROPORTIONATELY IMPACTED COMMUNITIES		
3.1	\$250,000.00	Education Assistance - Early learning
3.3	\$350,000.00	Education Assistance - Facility construction for education programs (STEAM)
4: PREMIUM PAY		
4.1	\$100,000.00	Support for filling vacancies, promotion of Team Flagstaff
4.1	\$700,000.00	Premium Pay for public safety employees
5: INFRASTRUCTURE		
5.15	\$1,500,000.00	Drinking Water Infrastructure - Cybersecurity
6: REVENUE REPLACEMENT		
6.1	\$3,922,816.00	Revenue Loss Replacement
7: ADMINISTRATION		
7.1	\$250,000.00	Administration of ARPA Local Recovery

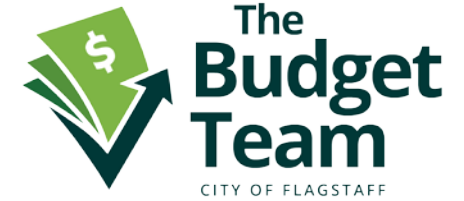
Infrastructure Investment and Jobs Act (IIJA)

\$550 billion in **new spending** over five years (FYs 2022 – 2026) above current baseline levels, including:

- Transportation: \$284 billion
- Power and Grid Infrastructure: \$65 billion
- Broadband Infrastructure: \$65 billion
- Drinking Water and Infrastructure: \$55 billion
- Resiliency: \$47 billion
- Environmental Remediation: \$21 billion
- Western Water Infrastructure: \$8.3 billion



Infrastructure Investment and Jobs Act (IIJA)



- Transportation
 - Funding to address major highway repairs
 - Competitive grants
 - Infrastructure for Rebuilding America (INFRA)
 - Rebuilding American Infrastructure with Sustainability & Equity (RAISE)
 - Promoting Resilient Operations for Transformative, Efficient and Cost-saving Transportation (PROTECT)
 - Bridge investment program – repair and replace bridges
 - Public transit
 - State of good repair grants to upgrade older rail and bus systems in urbanized areas
 - Formula funds to AZ transit systems

Infrastructure Investment and Jobs Act (IIJA)



- Climate Change
 - Electric vehicle charging infrastructure, carbon reduction, trail facilities for bike/ped, congestion management technologies
- Airports
 - Includes appropriations for airport terminal program projects and airport improvement program

Infrastructure Investment and Jobs Act (IIJA)



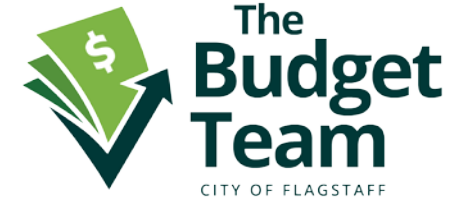
- Energy and Environment
 - Program to prevent outages and enhance the resilience of electric grid
 - Weatherization assistance program
 - Energy efficiency and conservation block grant program
 - Brownfields restoration projects
 - Carbon utilization program
 - Smart grid investments
- Wildfire Management
 - Community Wildfire Defense Grants
 - Hiring more federal wildland firefighters

Infrastructure Investment and Jobs Act (IIJA)



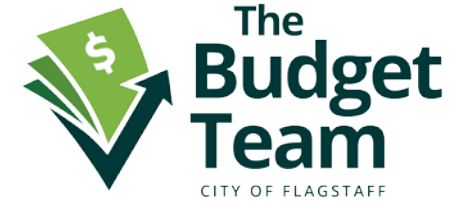
- Funding for FEMA programs
 - Disaster relief fund
 - National flood insurance fund
- Water Infrastructure
 - Drinking and clean water state revolving loan fund
 - Drinking water system infrastructure resilience and sustainability program
 - Connection to publicly owned treatment works
 - Stormwater infrastructure technology grants
 - Sewer overflow and stormwater reuse municipal grants
 - Per and polyfluoroalkyl substances (PFAS) to drinking and clean water program
 - Lead service lines to replace lead service lines

Infrastructure Investment and Jobs Act (IIJA)



- Broadband
 - Digital equity
 - Middle mile deployment program
 - Affordable Connectivity Benefit program
- Other provisions
 - Consumer recycling
 - State and local cybersecurity
 - Tribal needs
- Solicitations – timeline; depends on new vs. existing programs

What this Means for Arizona



- Funding to ADOT
 - Will likely encourage new roads and improvements in Flagstaff (possibly Lonetree/ 4th street/ JWP improvements)
- Public transit formula funds
 - Mountain Line to receive \$20.5M
- Funding to State of Arizona for affordable, high-speed broadband access
- Funding for the Ecological Restoration Institute (ERI) and NAU.
- Water Infrastructure
 - Funding to the Drinking Water State Revolving Fund
 - Funding to the Clean Water State Revolving Fund
 - New Culvert Removal, Replacement, Restoration competitive grant program



Council Expectations



The Budget Team

CITY OF FLAGSTAFF