

2020 City of Flagstaff Economic Recession Plan



Purpose

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

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

Understanding Indicators and Impacts

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

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

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

Funds have different Indicators and Impacts

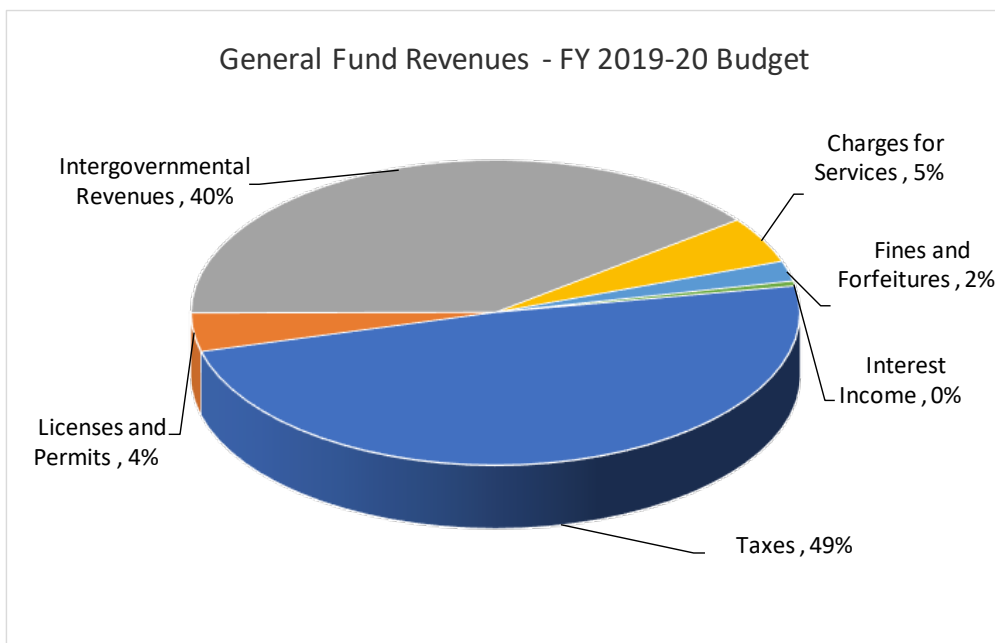
The City has multiple funds which have different revenue streams that have different indicators to be aware of. The largest of the funds is the City’s General Fund which is largely used for general City services and labor. Some of the funds operate as enterprise funds premised upon self-sustaining revenues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

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

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

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

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



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

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

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

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

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

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

Taking Remedial Action Based upon Revenue and Fund Balance Reductions

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

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

Five Stages:

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

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

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

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

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

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

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

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

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

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

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

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

Appendix A: Summary of Impact by Funds

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