

# Council Budget Retreat

December 17, 2020





# Welcome



- Welcome
- Introductions
- Intentions
- Meeting Protocol



# Agenda



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



# Budget Introduction





# Budget Team



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



# Budget Team Members



Greg Clifton  
City Manager



Shannon Anderson  
Deputy City Manager



Shane Dille  
Deputy City Manager



Jeanie Gallagher  
Human Resources Director



Heidi Hansen  
Economic Vitality Director



Rick Tadder  
Management Services Director



Brandi Suda  
Finance Director



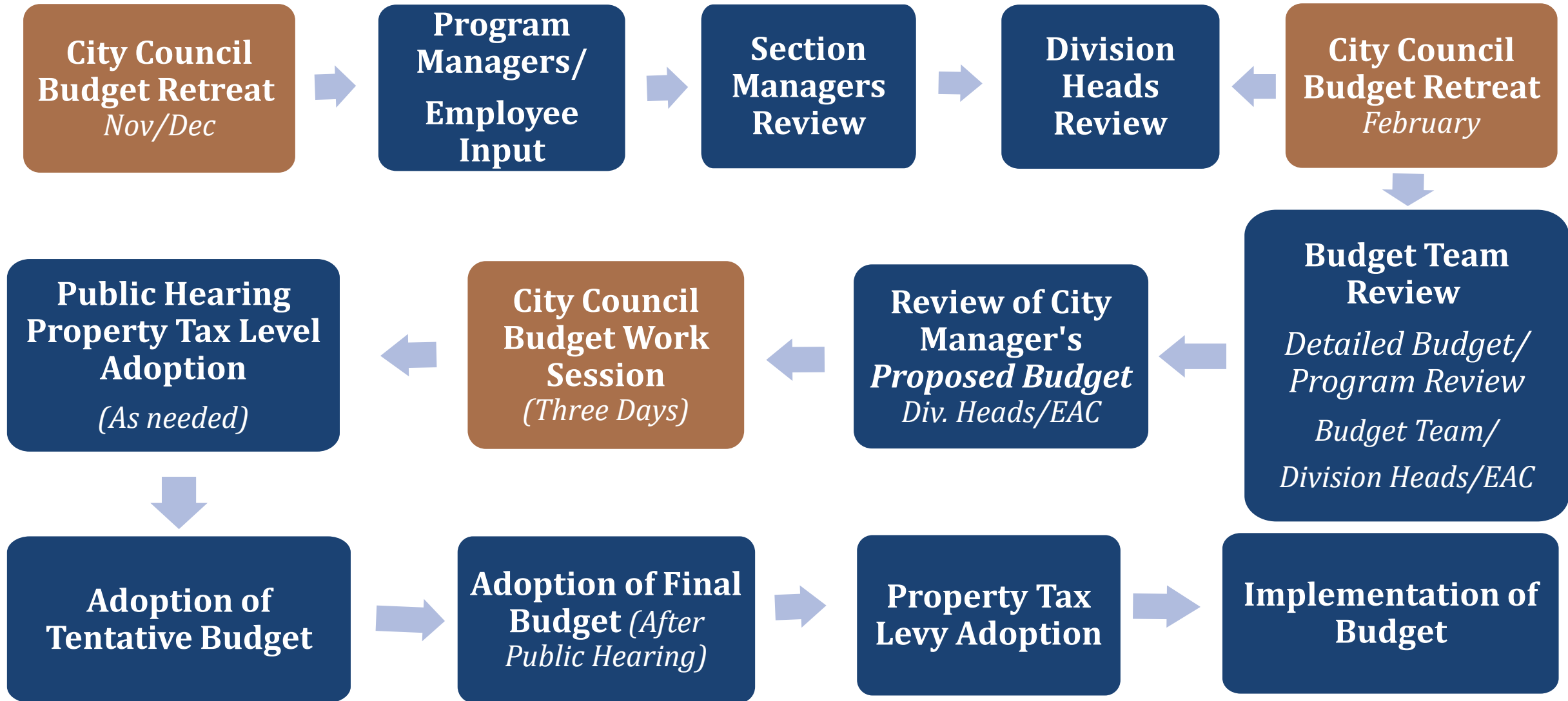
Heidi Derryberry  
Assistant Finance Director



Jared Wotasik  
EAC



# Budget Process





# FY 2021-2022 Budget Timeline

- December 17, 2020 – Budget Introduction Retreat
- February 1 & 2, 2021 – 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

# Fiscal Policies and Color of Money





# Fiscal Policies



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



# Fiscal Policies

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



# Fiscal Policies



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

# Color of Money

# Fund Accounting

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





# Color of Money

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

# Enterprise Funds



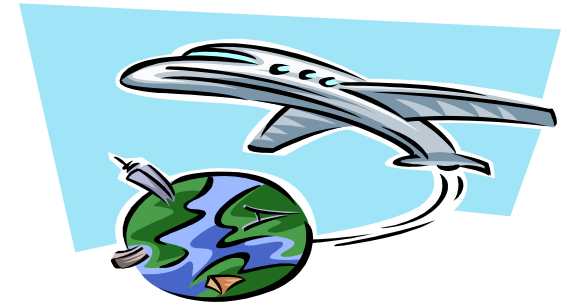
- **Includes:**

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

- Sustainability and Environmental Management
- Airport
- Flagstaff Housing Authority

- **Self-supporting thru User Fees**

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



# Special Revenue Funds



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

# Special Revenue Funds



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

# Special Revenue Funds



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

# Capital Project Funds



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

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

# Debt Service Funds



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

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

# General Fund



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

# General Fund Revenues



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

# Recession Plan





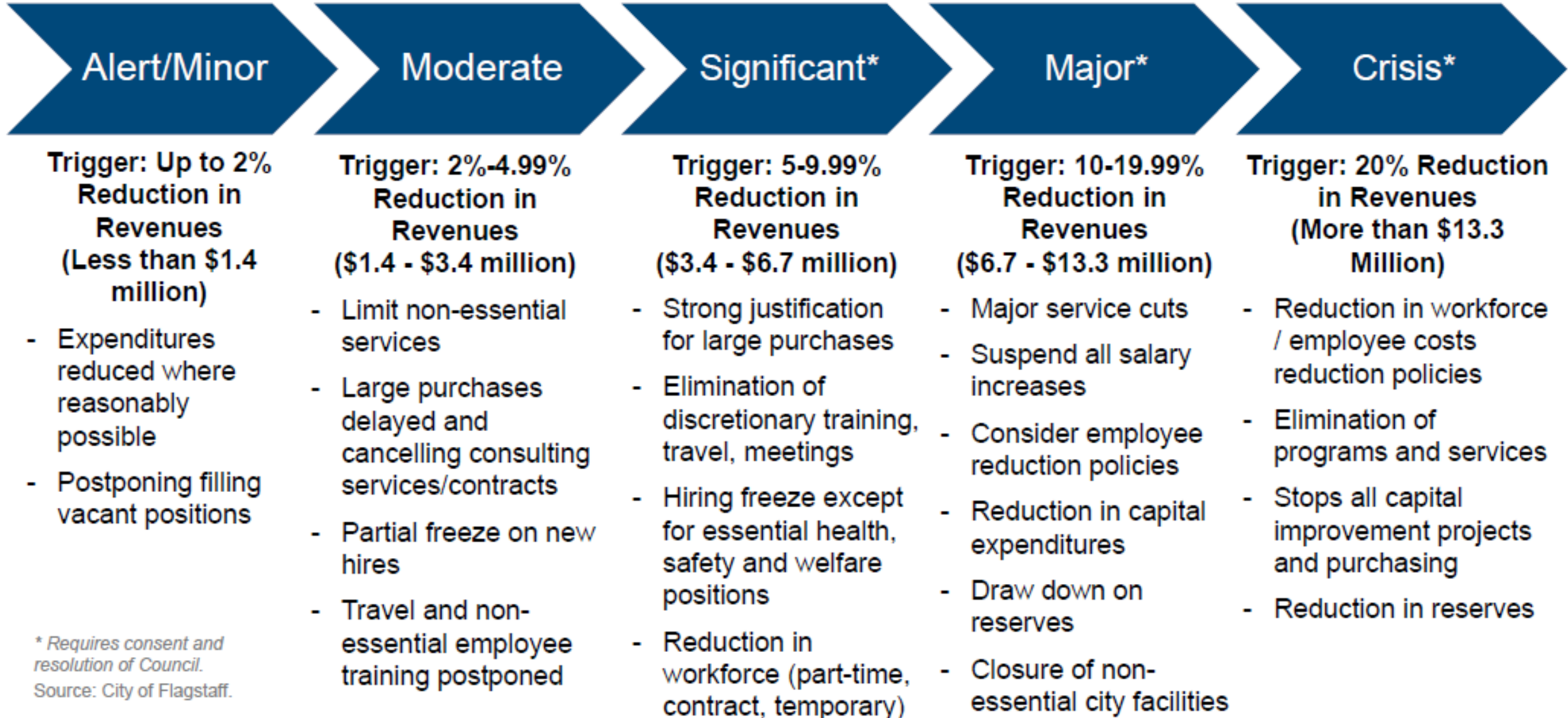
# The City Recession Plan



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



# Five Stages of the Recession Plan



\* Requires consent and resolution of Council.

Source: City of Flagstaff.



# Significant Stage



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



# Significant Stage

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



HOTEL  
MONTE VISIT

# Revenue Updates





# Introduction/Forecasting

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



# General Fund



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



# General Fund



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



# General Fund



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

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



# General Fund

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



# BBB Funds



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



# Other Funds Revenues Impacted

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

# General Fund Impacts





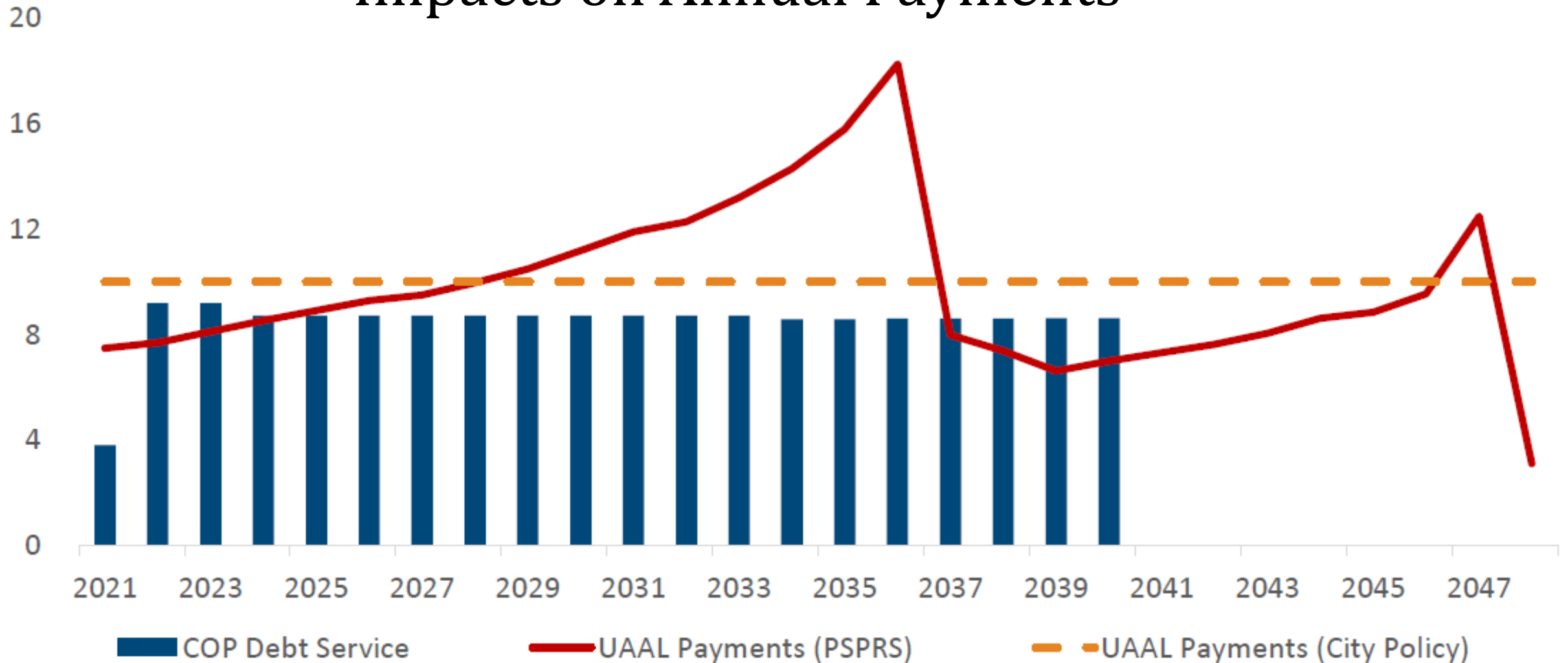
# Public Safety (PSPRS)

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



# Public Safety (PSPRS)

## Impacts on Annual Payments





# Public Safety (PSPRS)

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



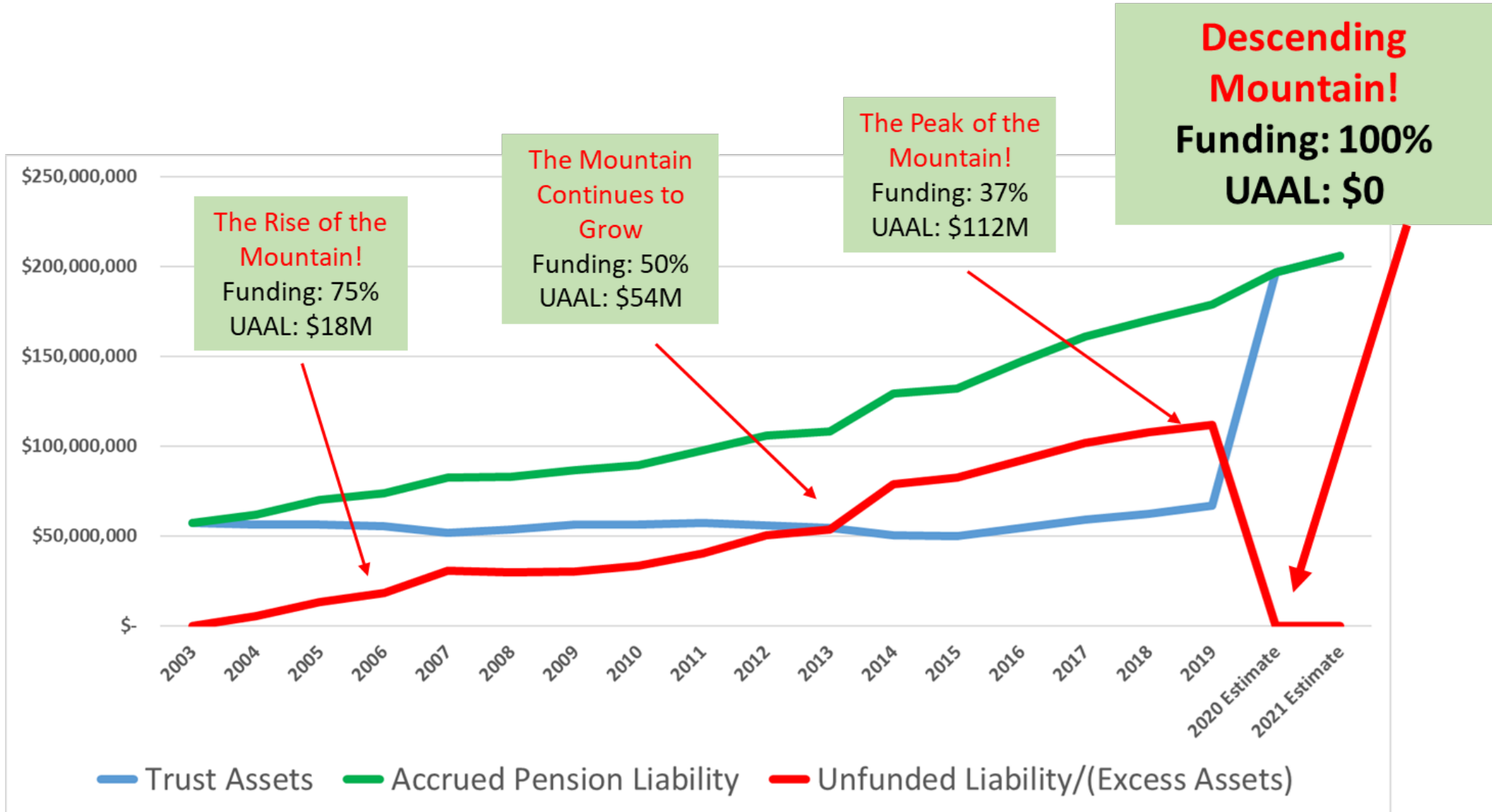
# Public Safety (PSPRS)

## The Numbers

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



# Public Safety (PSPRS)





# Minimum Wage Assessment

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



# Minimum Wage Assessment

## **Contributing State Agencies (FY 2020-2021 Estimates)**

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

## **FY 2021-2022 Assessment**

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



# CARES/COVID Funding

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



# Compensation Funding

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



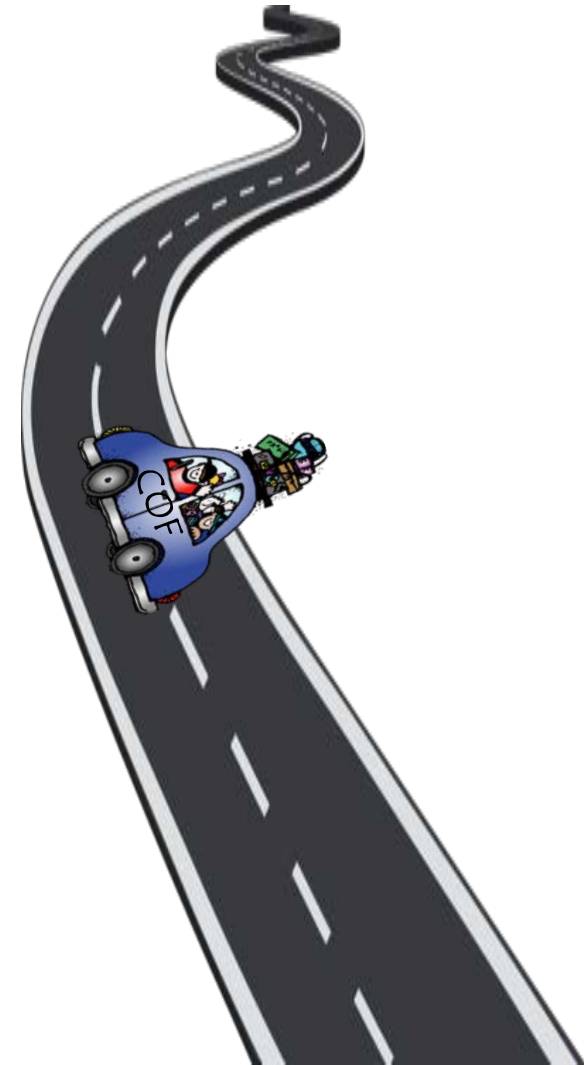
# Priority Based Budgeting





# Overview Agenda

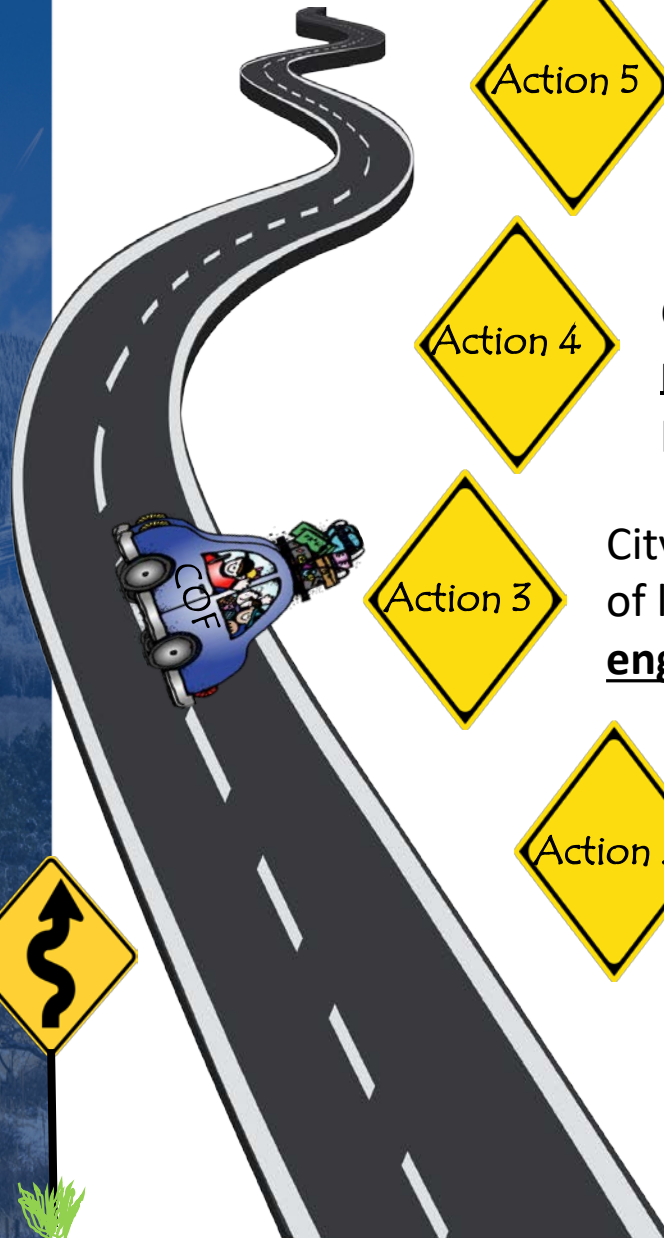
- A change was needed – Higher Performing Governance
- What is Priority Based Budgeting (PBB)?
- Key Community Priorities and Objectives
- Aligning the Budget Process with PBB



# Roadmap to Higher Performance

Desire for:

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



Action 5

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

Action 4

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

Action 3

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

Action 2

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

Action 1

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



# PBB Public Video



[YouTube Link](#)



# What is PBB?




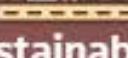



## PBB enables us to answer three questions

What do we  
do?

What does  
it cost?

Do our  
programs  
align with our  
priorities?



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

## Key Community Priorities & Objectives

Implement innovative local government programs, new ideas & best practices, be recognized as a model for others to follow	Provide high quality recreation opportunities, parks, open space & multiple transportation options	Ensure all services are accessible for all residents & representative of Flagstaff's diverse community	Address community needs; assist those partner organizations that provide services the City does not	Enhance the community's partnerships with higher education institutions & the private & public sectors	Support 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	Ensure the built				Achieve a well-maintained community through	Strengthen Flagstaff's

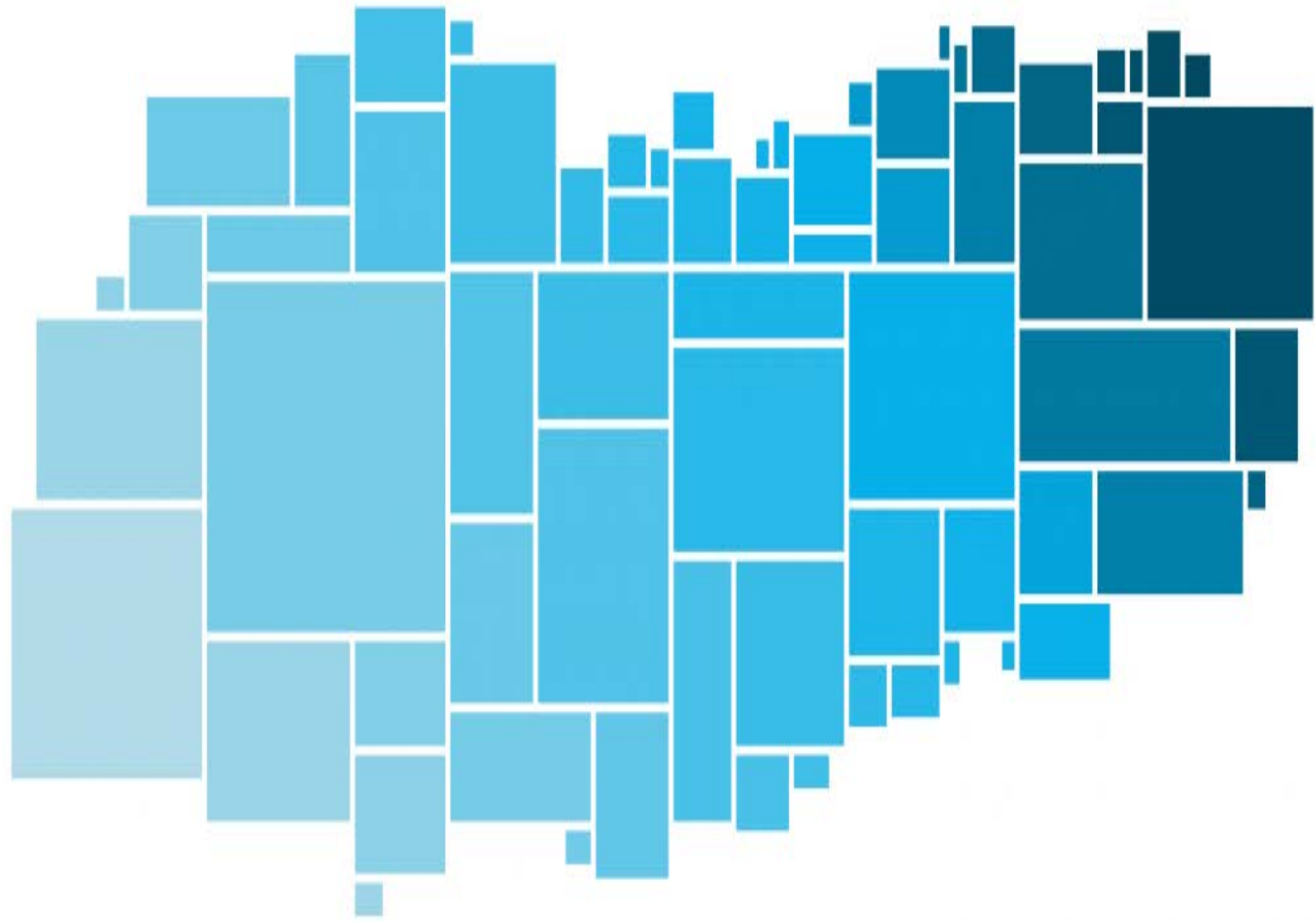
# PBB Community Engagement

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





# PBB Tool Deliverable





# PBB Tool Pushes Policy Discussion



## Examples of Policy Questions

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





# Questions?

# Council Budget Expectations



# Public Participation

