

Council Budget Retreat

February 1, 2021





Welcome



- Welcome
- Objectives
- Meeting Protocol



Agenda



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



Budget Timeline





FY 2021-2022 Budget Timeline

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

Priority Based Budget Overview



Revenue Update

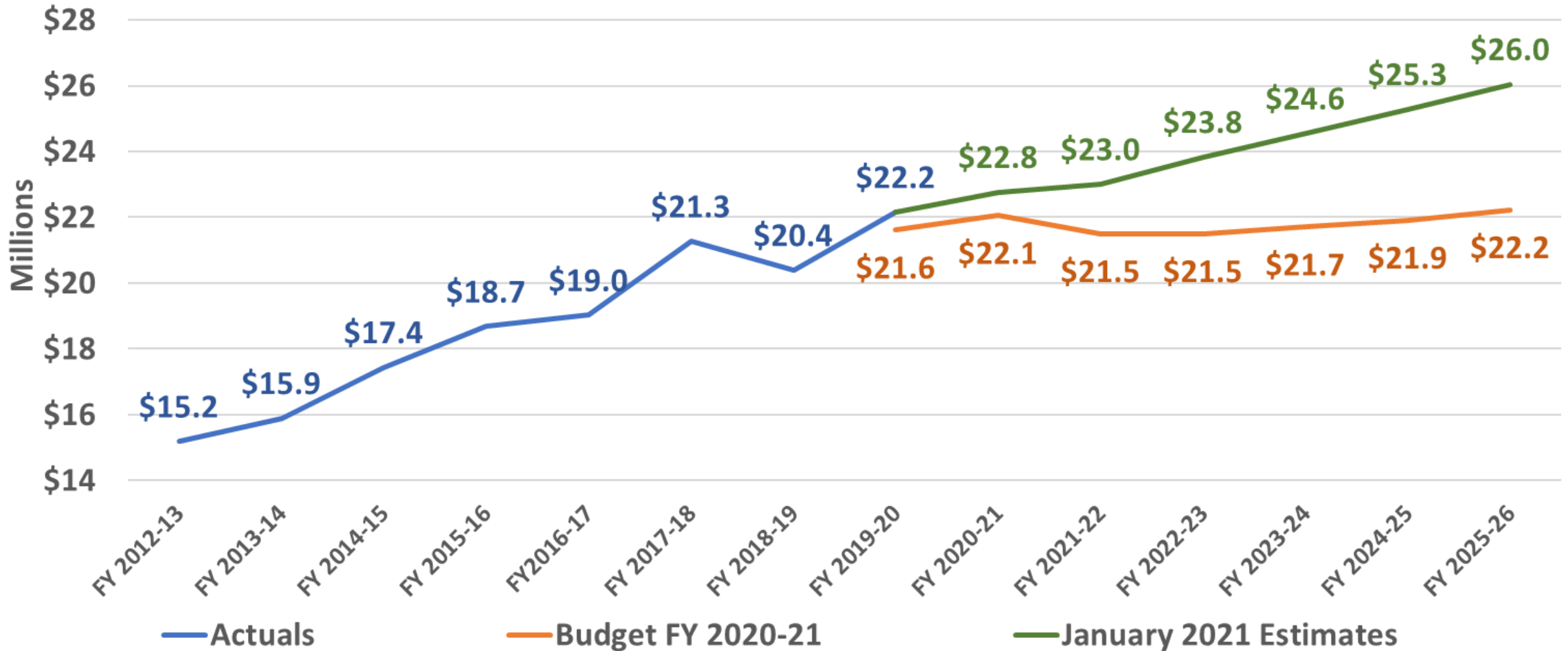




Revenue Update: General Fund



General Sales Tax





Revenue Update: General Fund

General Sales Tax Summary

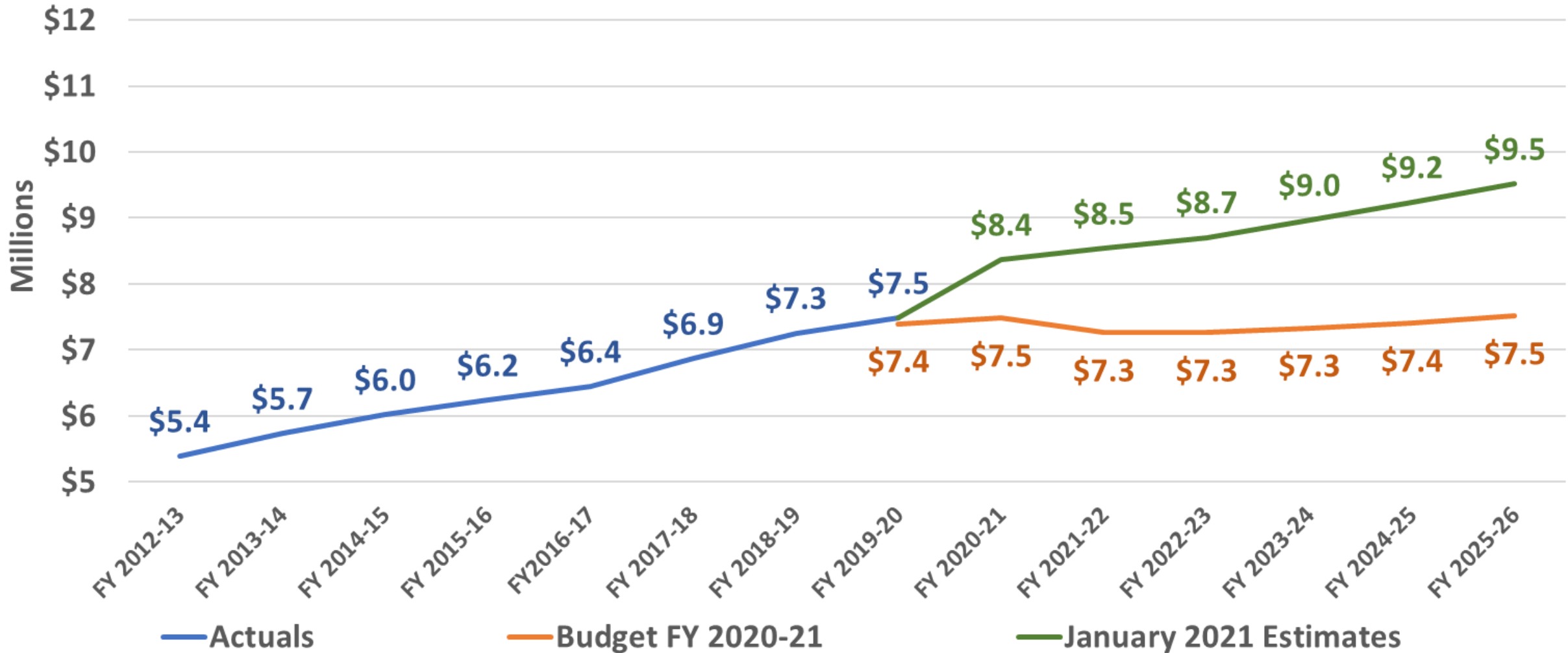
Category	FY 2020-21 Budget	FY 2020-21 Estimate	Change from Budget	% Change
Sales Taxes				
Utilities	\$ 1,076,250	\$ 1,013,000	\$ (63,250)	-5.9%
Telecommunications	235,750	178,000	(57,750)	-24.5%
Restaurant/Bars	3,075,000	2,600,000	(475,000)	-15.4%
Amusements	108,650	44,800	(63,850)	-58.8%
Commercial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



Revenue Update: General Fund



State Shared Sales Tax

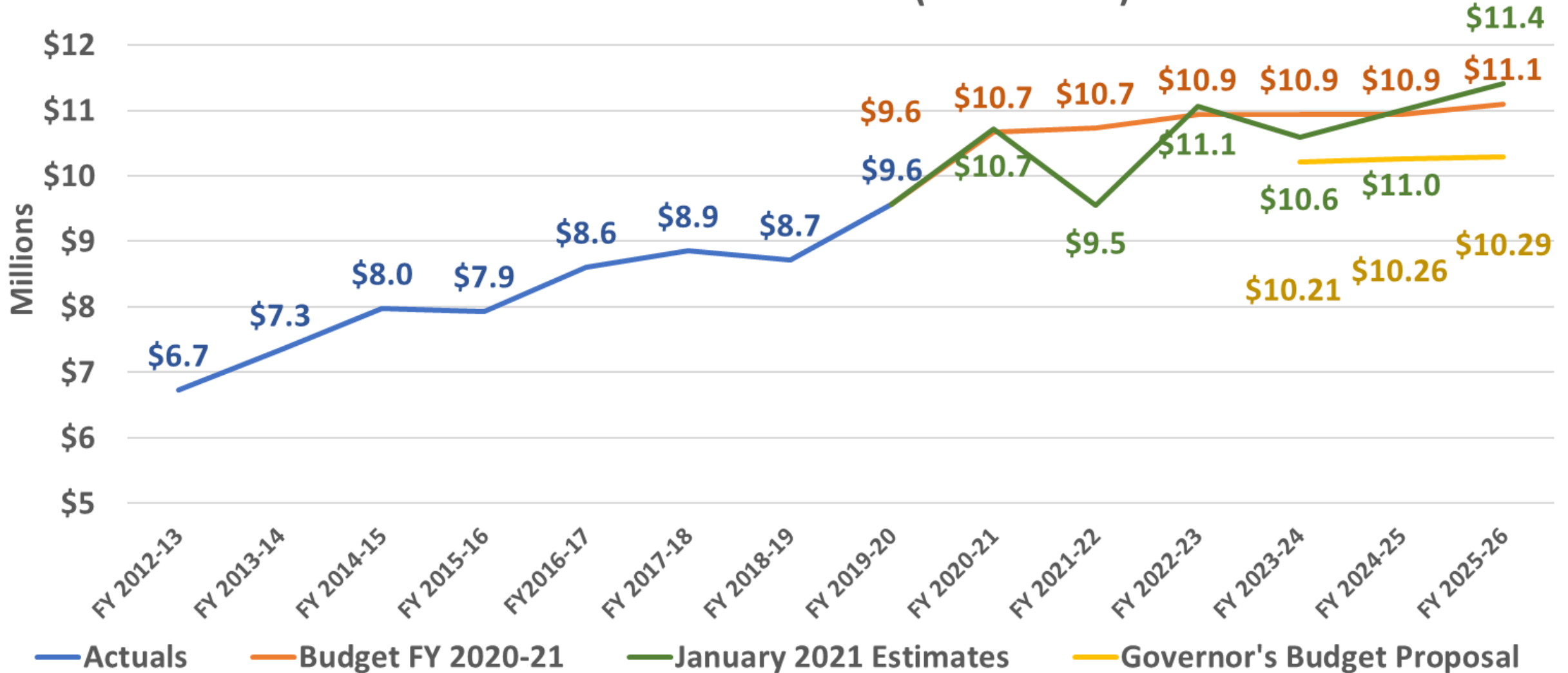




Revenue Update: General Fund



State Shared Urban Revenue (Income Tax)

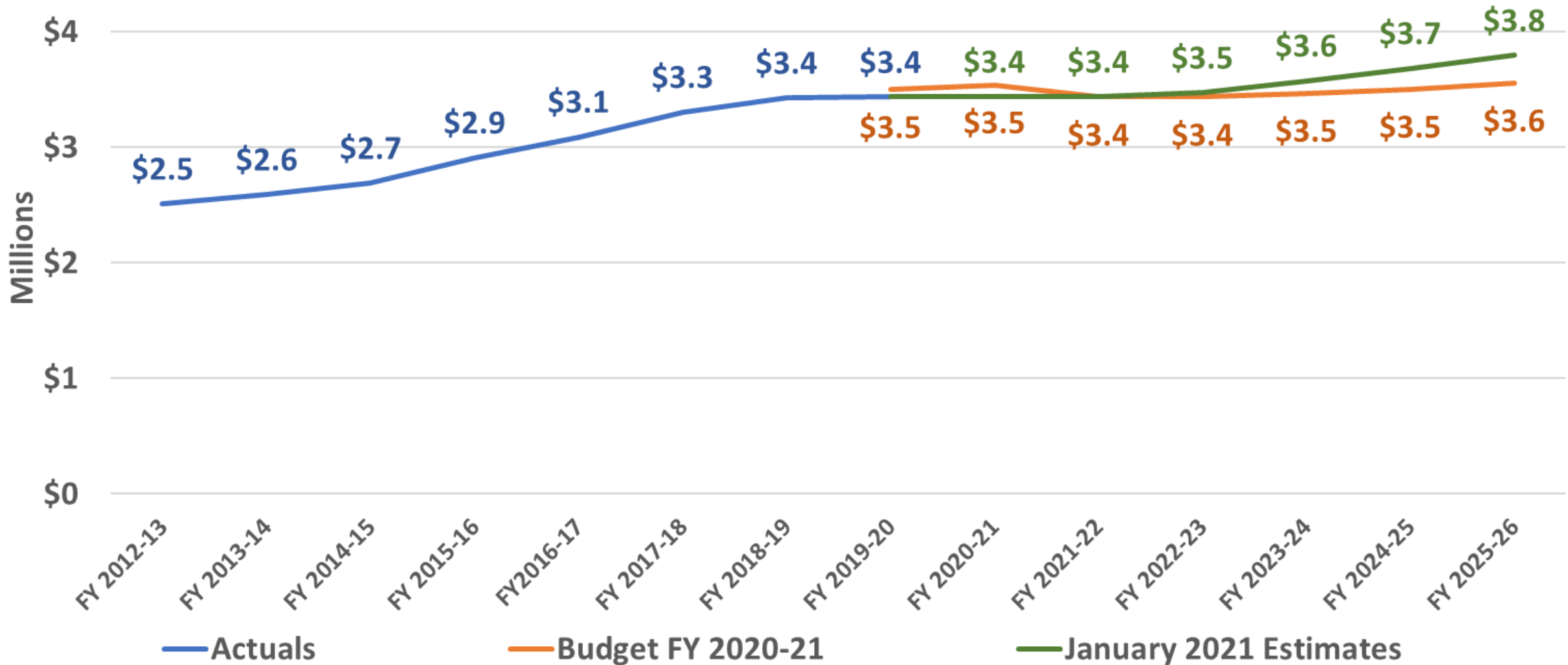




Revenue Update: General Fund



State Shared Auto Lieu

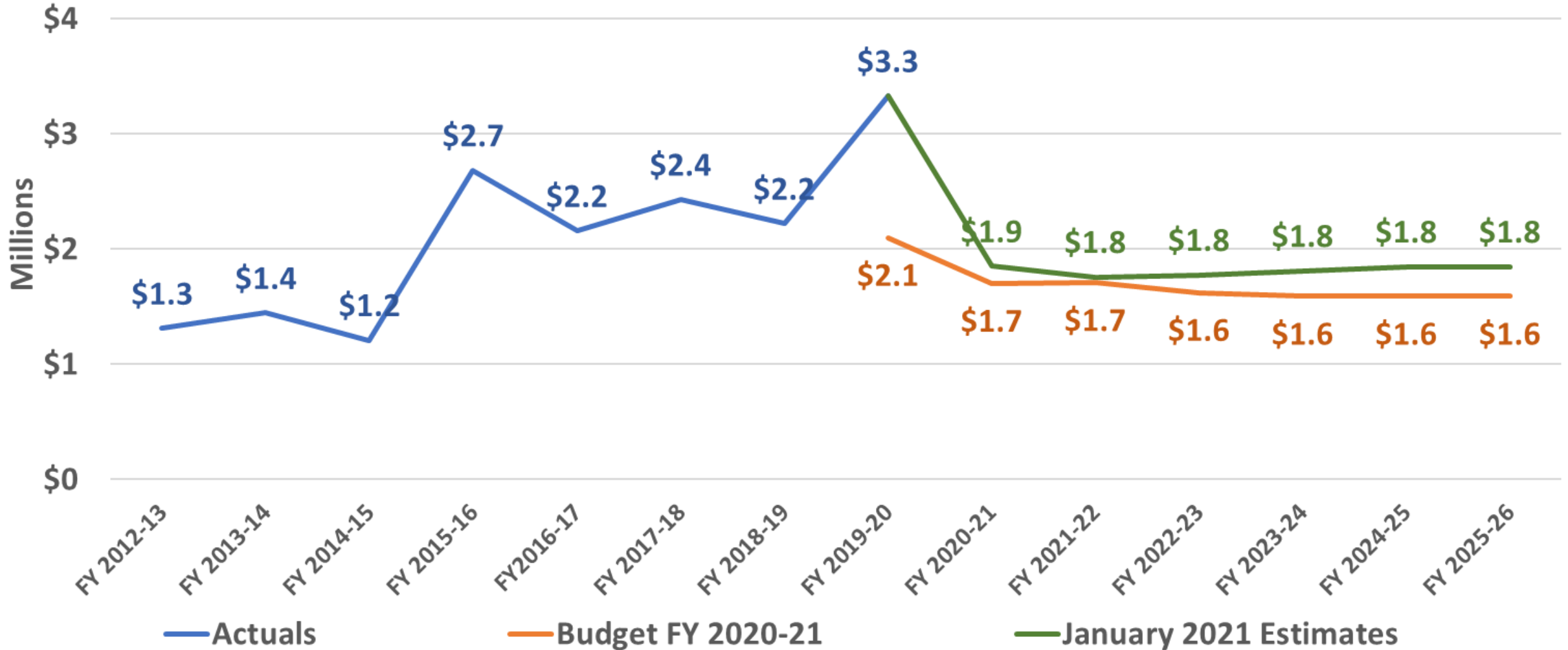




Revenue Update: General Fund



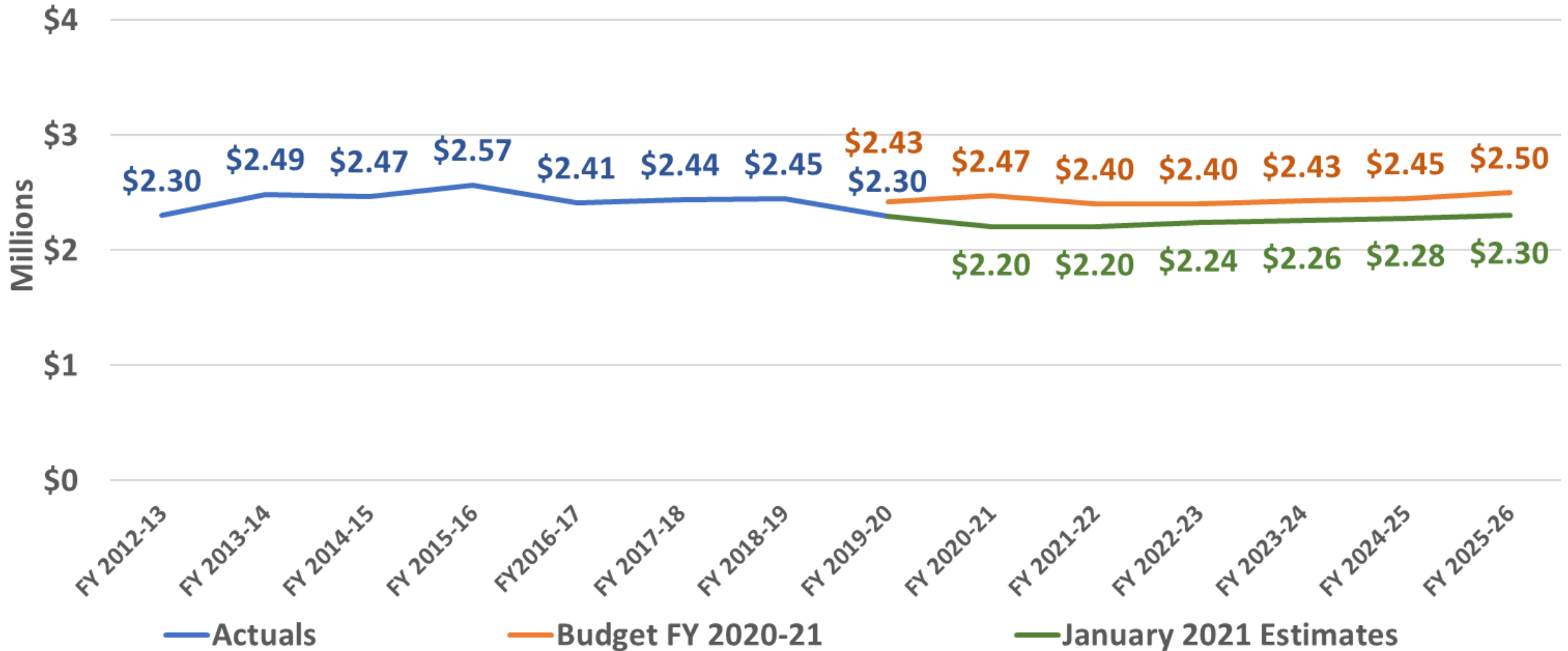
Building Permits





Revenue Update: General Fund

Franchise Fees





Revenue Update: General Fund

General Fund Projections

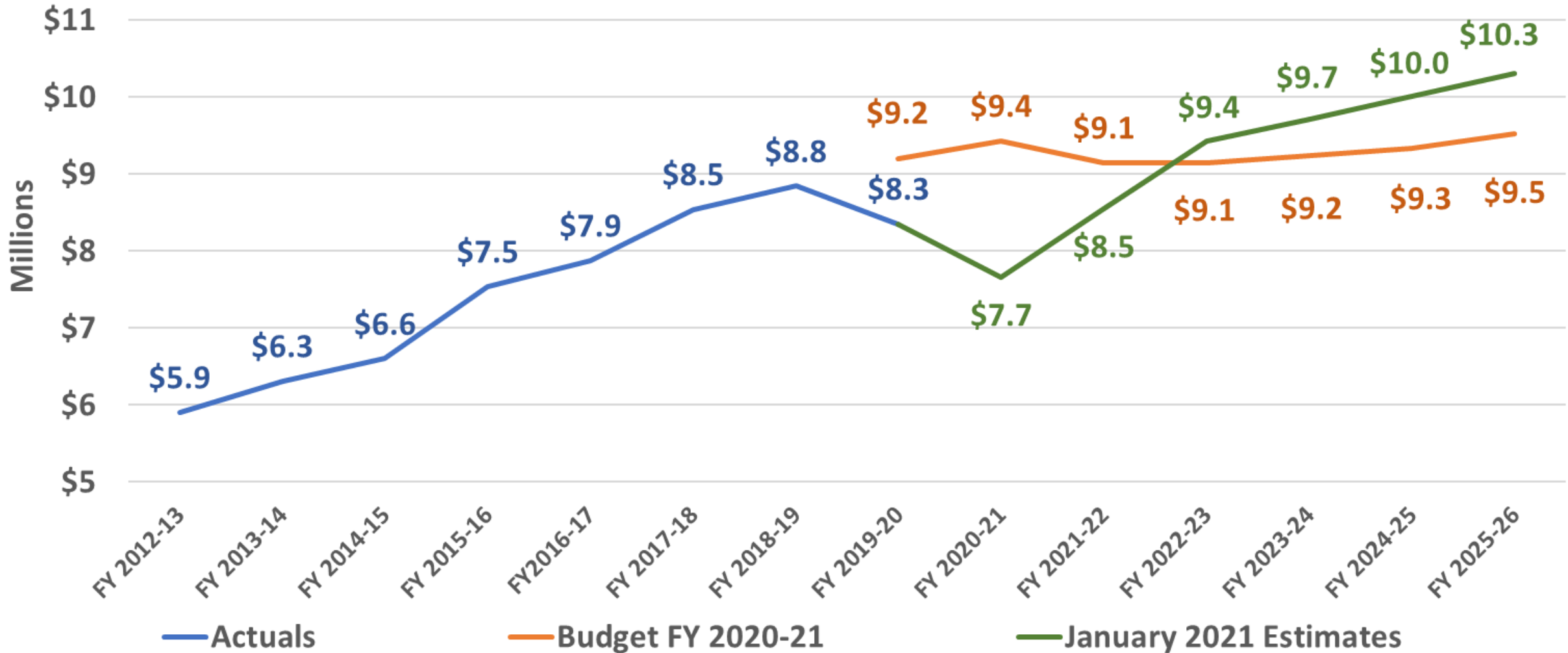
Category	FY 2020-21 Budget	FY 2020-21 Estimate	Change from Budget	% Change
Sales Taxes	\$ 22,054,670	\$ 22,770,100	\$ 715,430	3.2%
State Shared	21,696,848	22,531,980	835,132	3.8%
Other Revenues	18,726,600	16,166,700	(2,559,900)	-13.7%
General Fund Revenues	\$ 62,478,118	\$ 61,468,780	\$ (1,009,338)	-1.6%



Revenue Update: BBB Tax



Bed, Board and Beverage (BBB) Tax

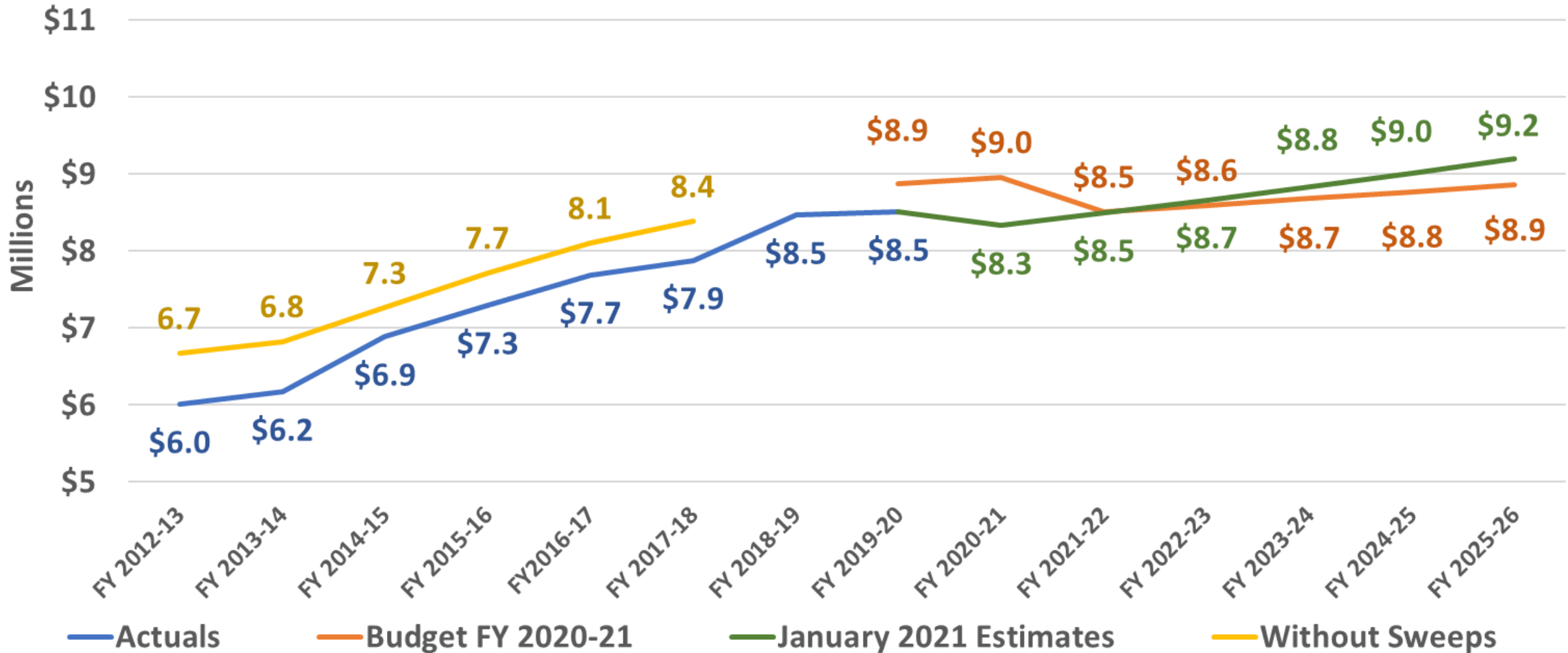




Revenue Update: HURF



Highway User Revenue (Gas Tax)





Revenue Update



Questions

Fixed Costs and Available Revenues



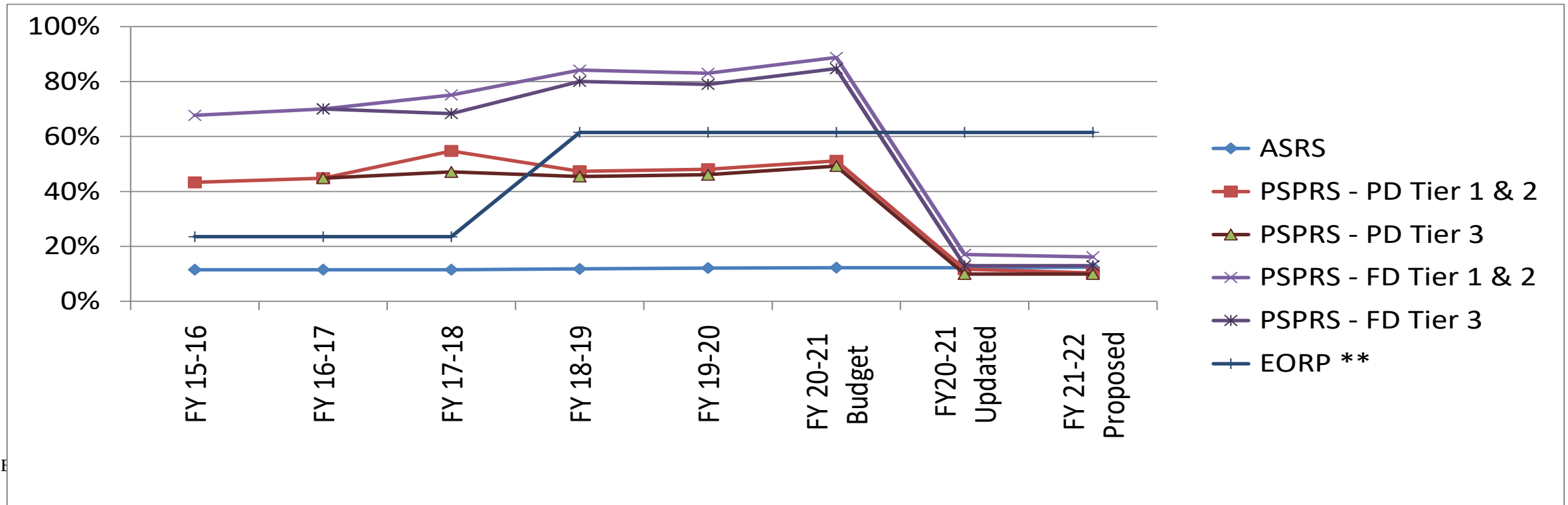


Pension Contribution Rates



Minimum Required Contribution Rates

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



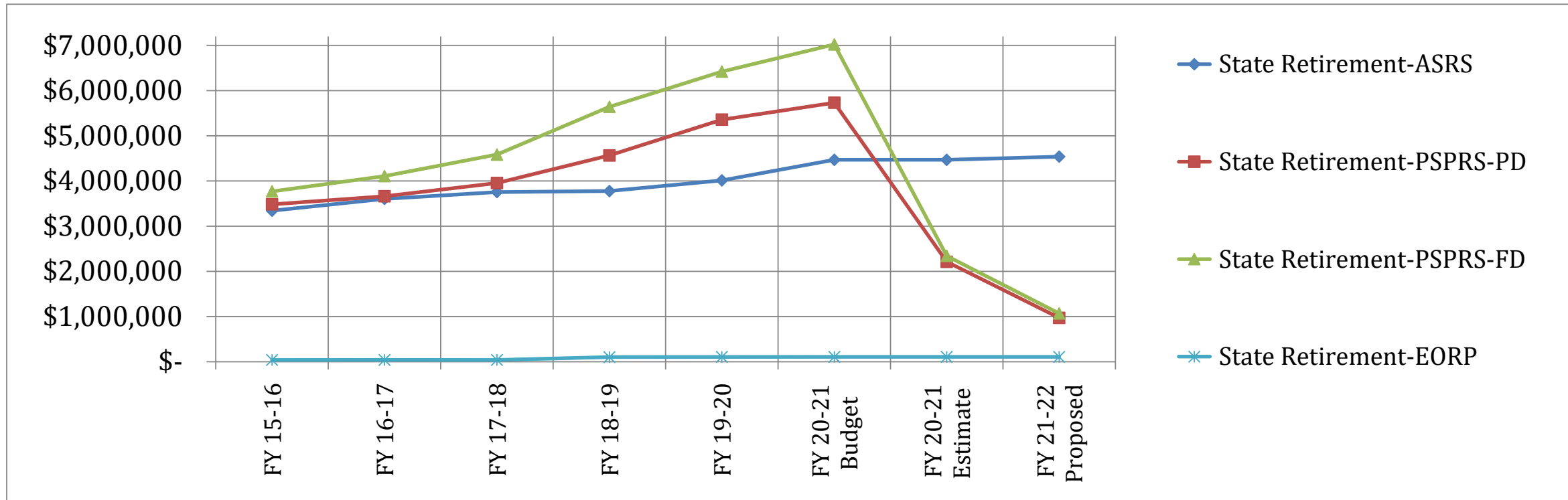


Pension Expenditures



Pension Funding Levels

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





Fixed Cost Summary – General Fund



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



Revenue Update Summary – General Fund

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



Recession Plan Update





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



Economic Recession Plan Update

Alert/Minor

Trigger: Up to 2% Reduction in Revenues (Less than \$1.4 million)

- Expenditures reduced where reasonably possible
- Postponing filling vacant positions

Moderate

Trigger: 2%-4.99% Reduction in Revenues (\$1.4 - \$3.4 million)

- Limit non-essential services
- Large purchases delayed and cancelling consulting services/contracts
- Partial freeze on new hires
- Travel and non-essential employee training postponed

Significant*

Trigger: 5-9.99% Reduction in Revenues (\$3.4 - \$6.7 million)

- Strong justification for large purchases
- Elimination of discretionary training, travel, meetings
- Hiring freeze except for essential health, safety and welfare positions
- Reduction in workforce (part-time, contract, temporary)

Major*

Trigger: 10-19.99% Reduction in Revenues (\$6.7 - \$13.3 million)

- Major service cuts
- Suspend all salary increases
- Consider employee reduction policies
- Reduction in capital expenditures
- Draw down on reserves
- Closure of non-essential city facilities

Crisis*

Trigger: 20% Reduction in Revenues (More than \$13.3 Million)

- Reduction in workforce / employee costs reduction policies
- Elimination of programs and services
- Stops all capital improvement projects and purchasing
- Reduction in reserves

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



Economic Recession Plan Update

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

Priority Based Budget Deep Dive



Compensation Update



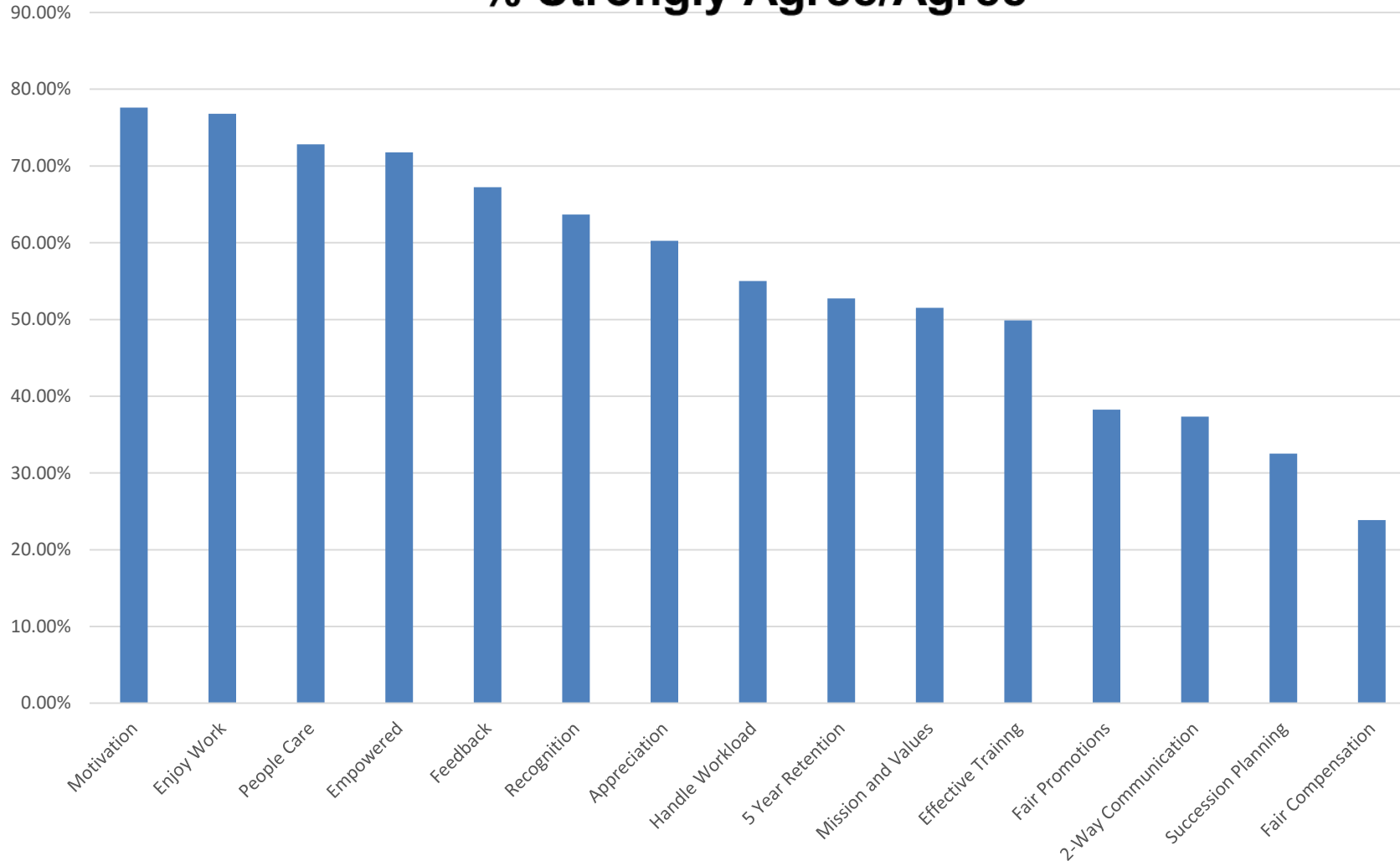
Employee Survey 2019 Results



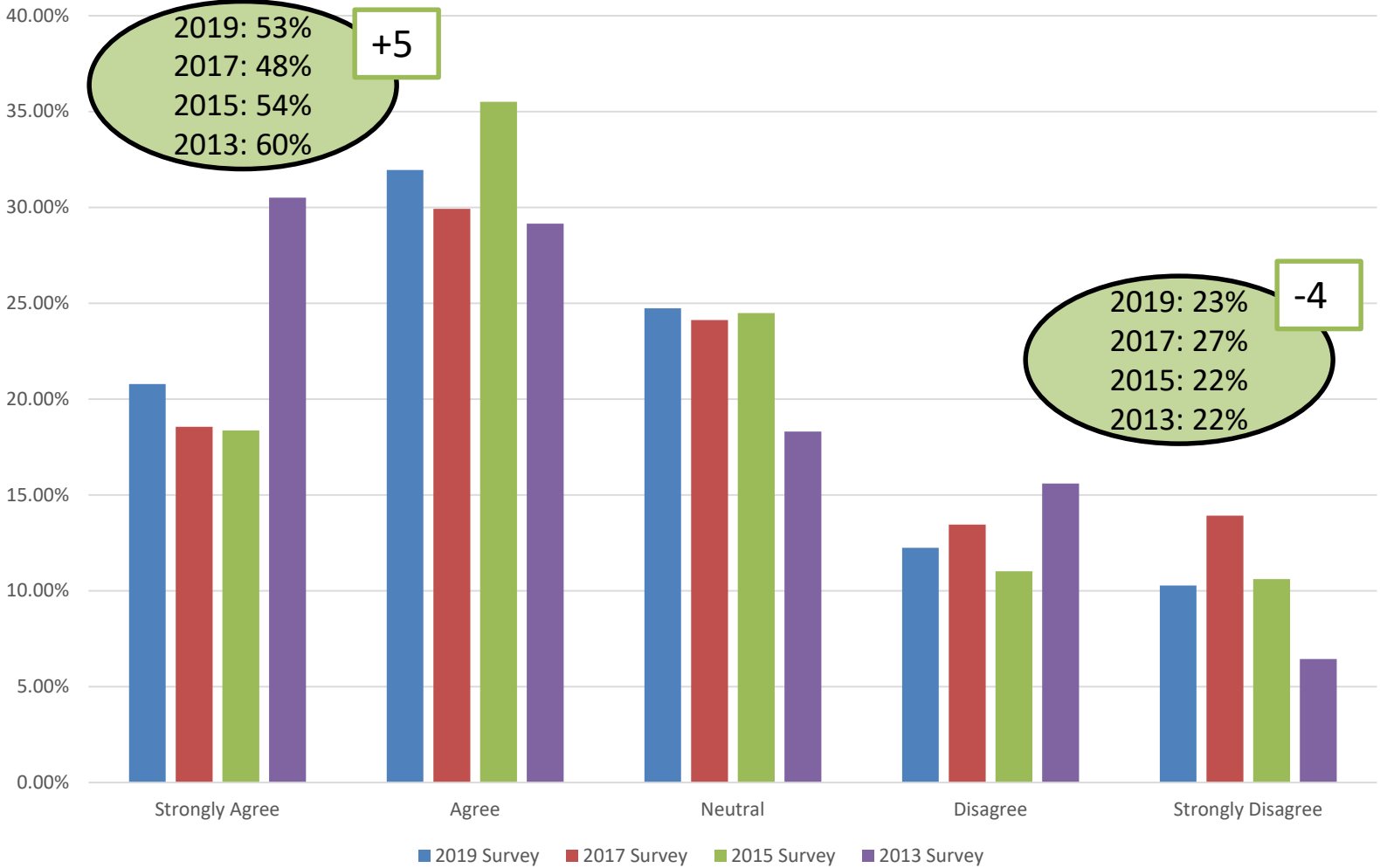
Champions of Team Flagstaff

2019 Overall Results

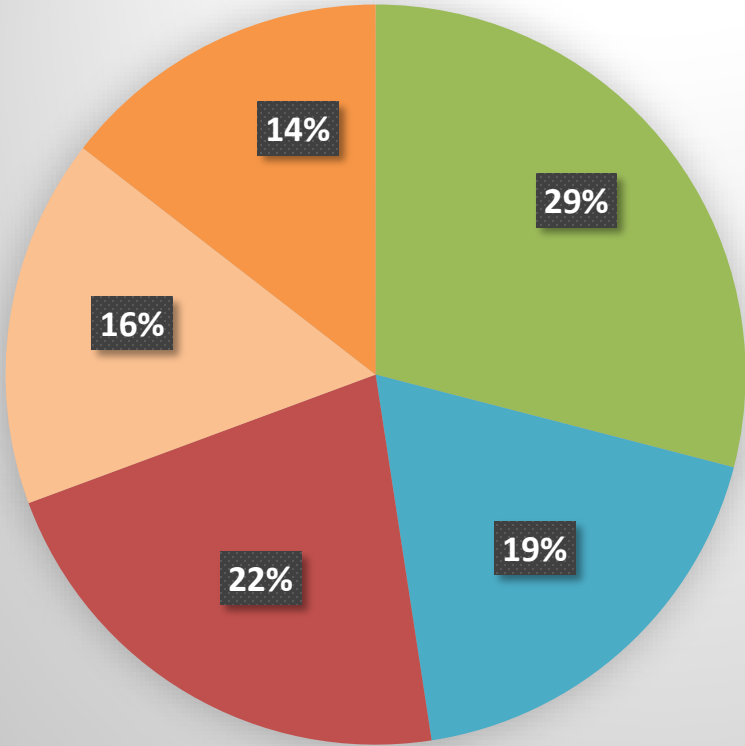
% Strongly Agree/Agree



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



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



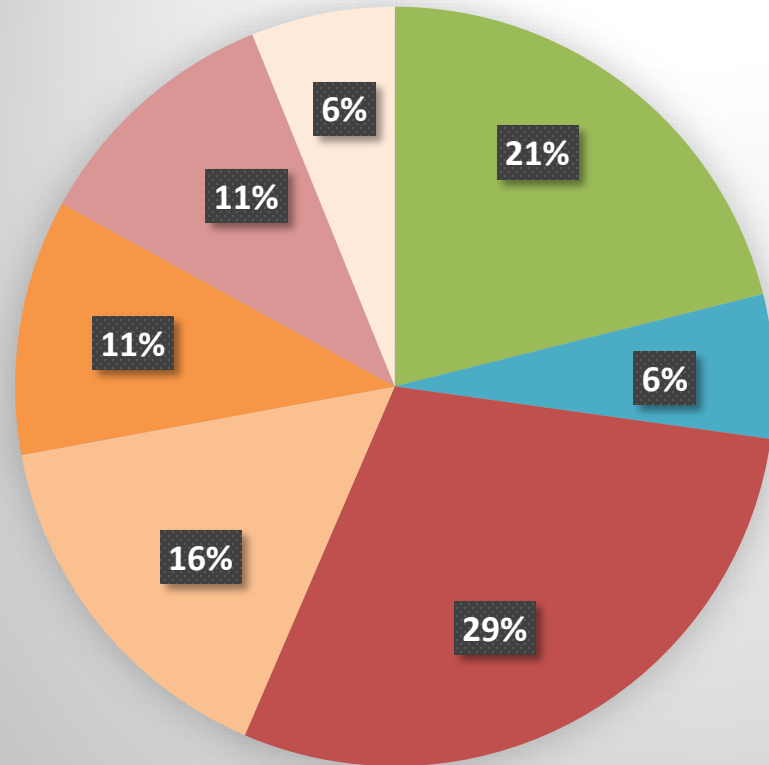
27% Response Rate

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

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



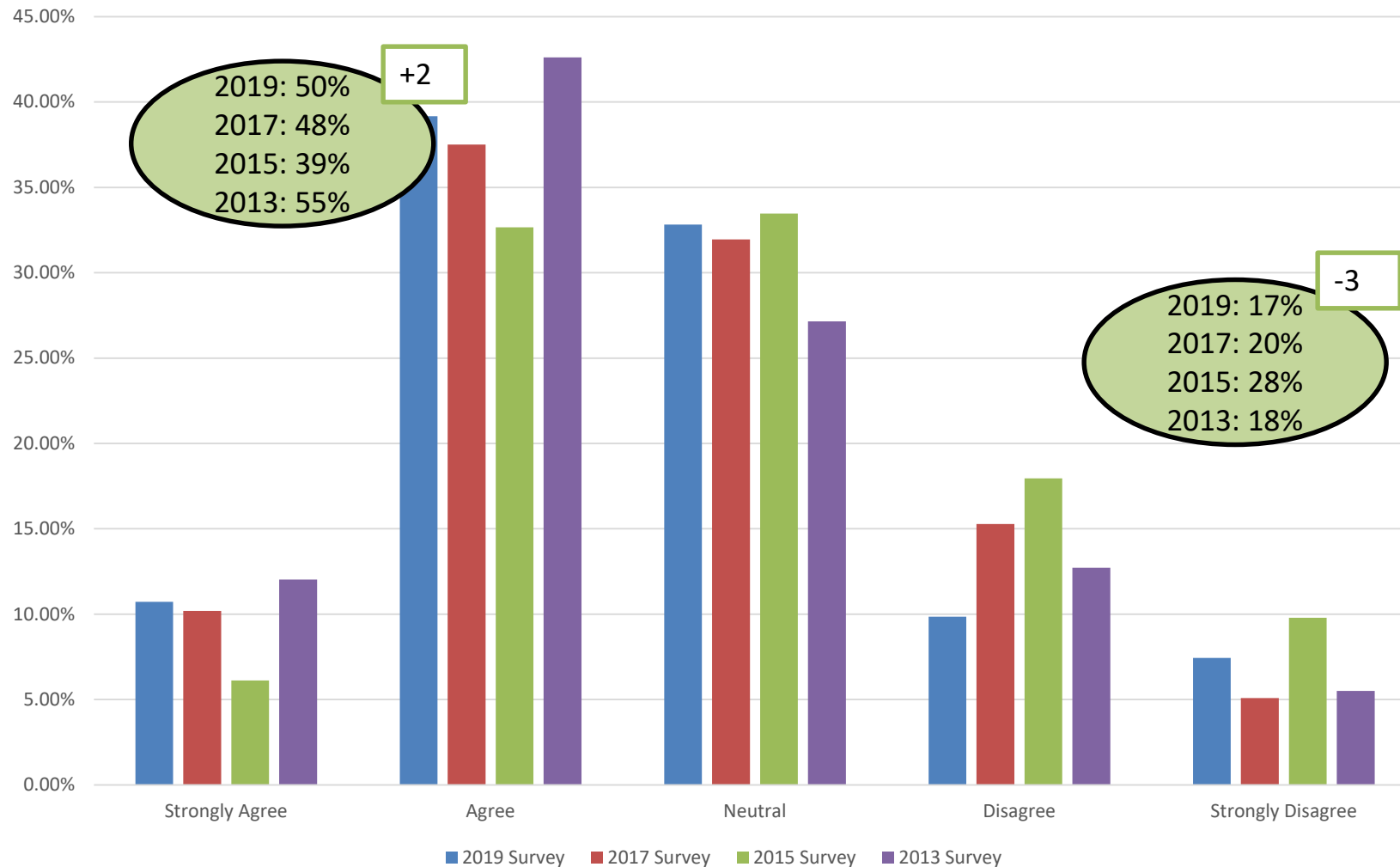
What are the indicators there is a succession plan in place in your workgroup?



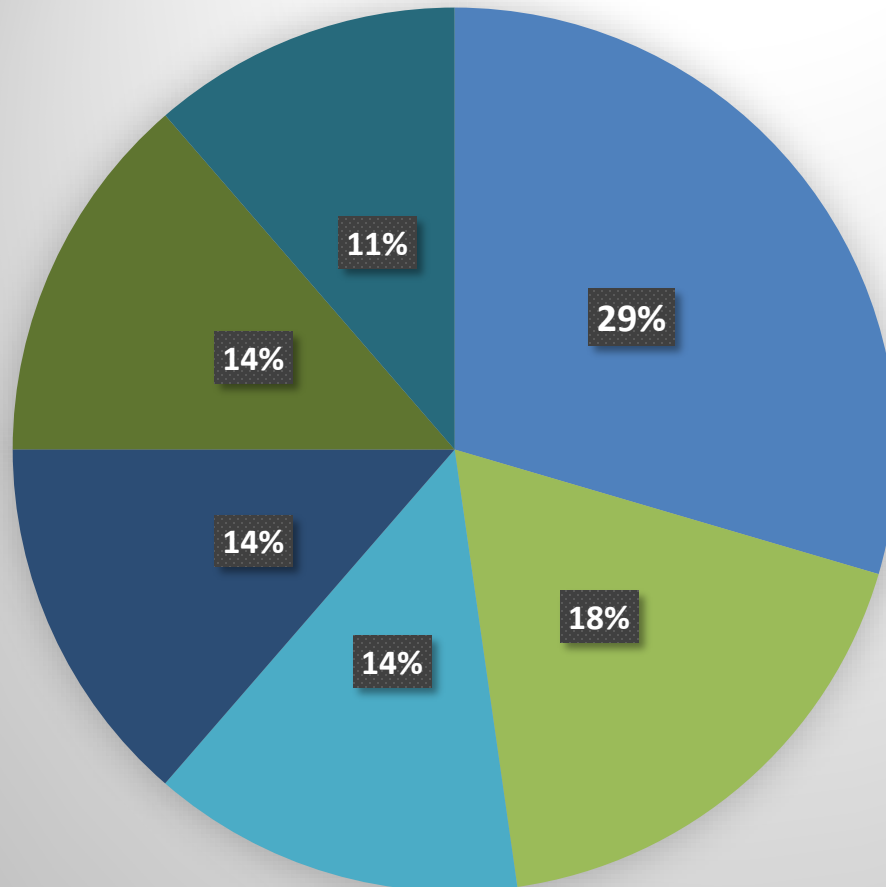
32% Response Rate

- Advancement opportunity
- Training or mentoring
- Advancement opportunity
- Knowledge of plan
- Compensation/Promotions
- Training or mentoring
- Don't know of plan, or how to advance

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



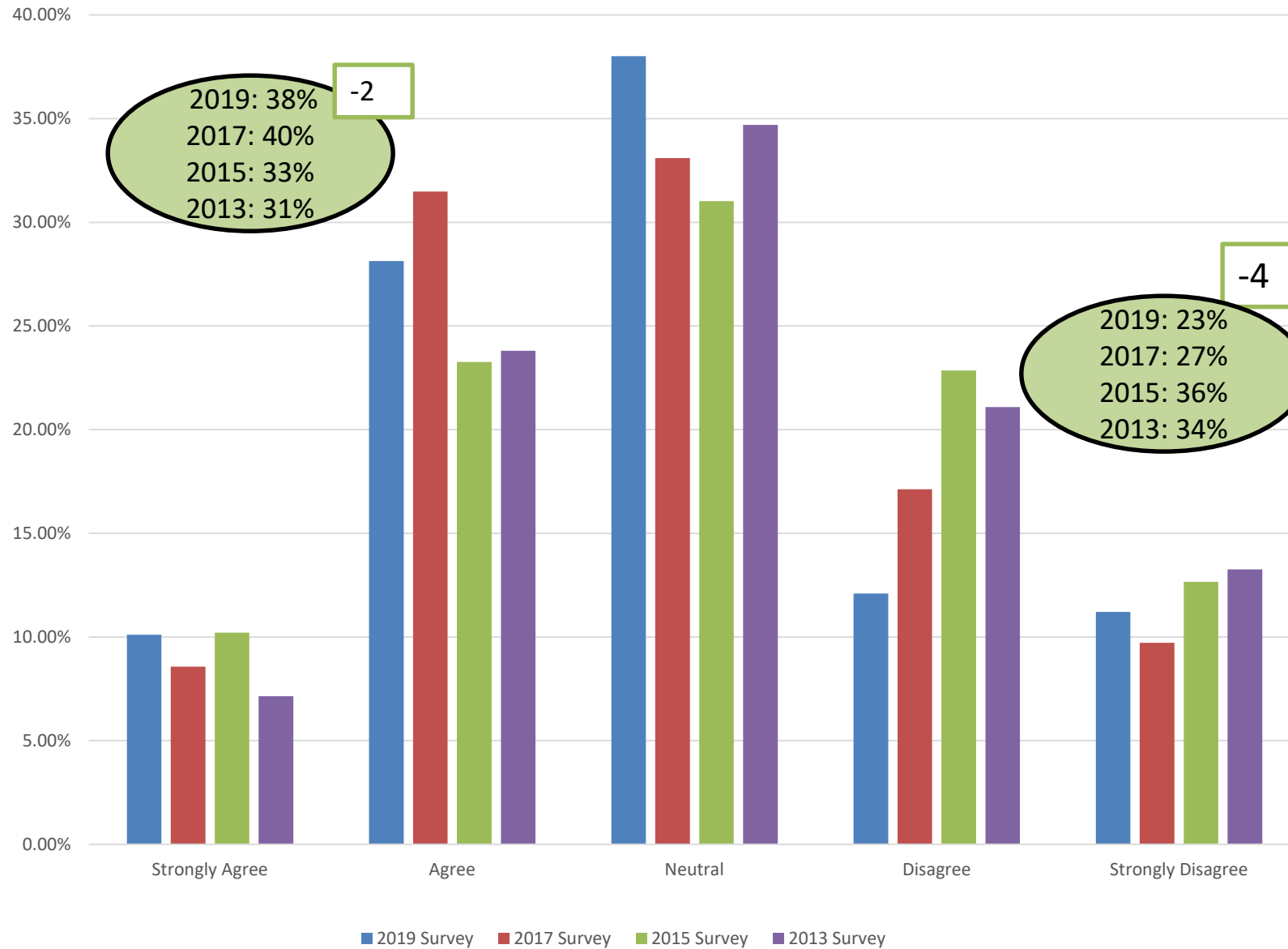
What City-sponsored trainings would you like to see offered in the future?



21% Response Rate

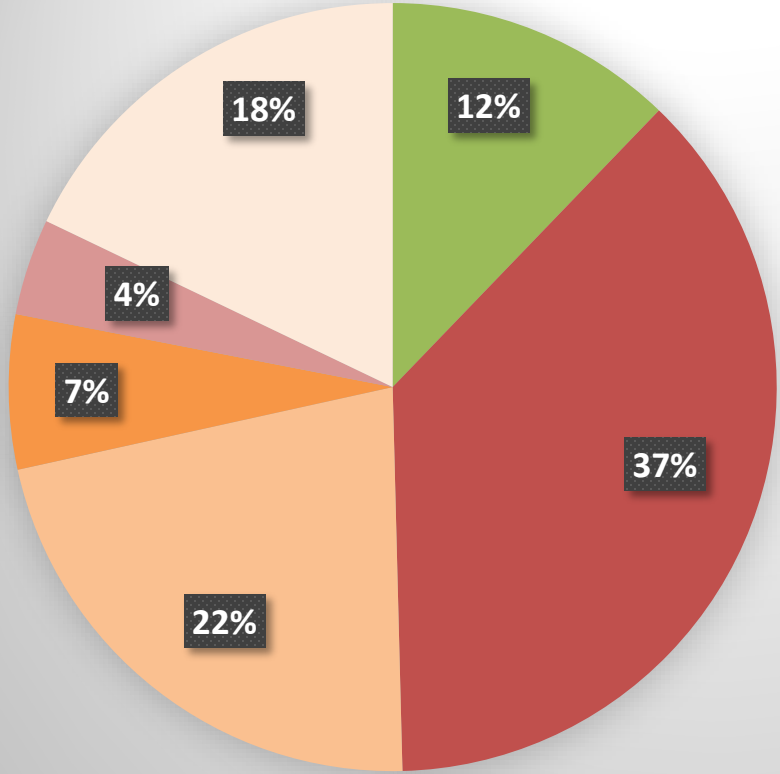
- Job Specific
- Diversity and Inclusion
- Microsoft
- Supervisor & Leadership
- Other
- Customer Service

Promotions are awarded fairly.



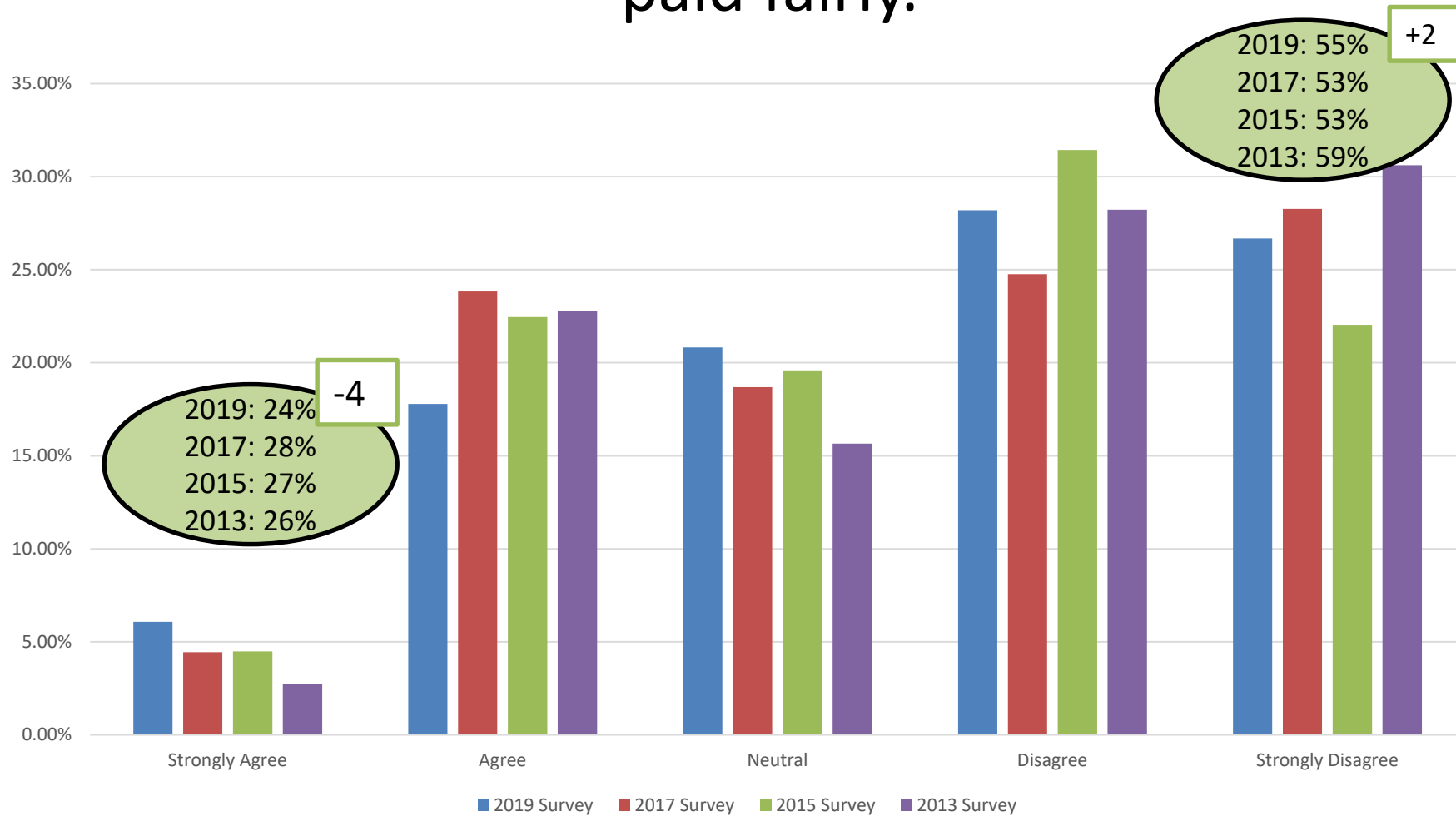
Promotions Awarded Fairly Comments

27% Response Rate

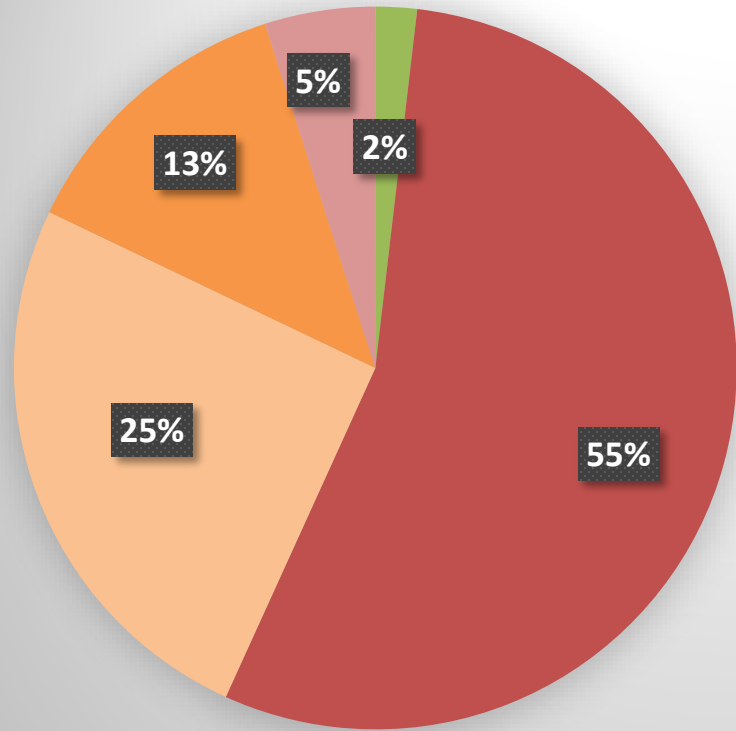


- Promotion Opportunity
- Pay & Promotions not Equitable
- Promotion Opportunity
- Process too Cumbersome
- Transfers only Advancement Opportunity
- Don't know

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



Paid Fairly Comments:



36% Response Rate

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

2021 Compensation Program

City of Flagstaff Budget Team
Employee Advisory Committee





Definitions

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



Why a Compensation Study?

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



Market Analysis History

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



Pay Range Classifications

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

Pay Plan Structure





Range Spread & Mid-Point Progression Analysis



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



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



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



Regular Pay Plan (Open Range) Recommendation

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



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





Fire and Police (Public-Safety) Step Structure Recommendation



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



SAMPLE Step Plan Structure



Police

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

Compression





Compression Analysis



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



Implementation Options

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



Regular Pay Plan Options Recommended



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



Move Toward Mid-Point 2 Tier

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

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



Move Toward Mid-Point 3 Tier

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

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



Police and Fire Option Recommended



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



Police and Fire Option Recommended



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

Implementation





Compensation Study Next Steps

Human Resources and Divisions partner on:

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



Recommended Sequence

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

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

Future Compensation Strategy





The Future

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



Employee Advisory Committee (EAC)



Members presenting today:

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



Employee Advisory Committee (EAC)



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



Employee Advisory Committee (EAC)



Three Recommendations unanimously supported

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



Employee Advisory Committee (EAC)



3. Support Compression Adjustments

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



Employee Advisory Committee (EAC)



Two recommendations with a split vote

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

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



Employee Advisory Committee (EAC)



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



Employee Advisory Committee (EAC)

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



Employee Advisory Committee (EAC)



- **Feedback in Favor**

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



Benefits FY 2021-2022

- Health Insurance

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

- Dental Insurance

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



Council Direction



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



New Revenue Sources/ Increases



Three Types of New Revenue Opportunities

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





Sales Tax



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



Sales Tax: Recreational Marijuana

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



Excise Tax: Recreational Marijuana

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



Sales Tax: BBB Reallocation

HISTORY

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



Sales Tax: BBB Reallocation

- Original allocations (1988) and changes (1995)

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



Fees



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



General Obligation Bonds

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



General Obligation Bonds

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

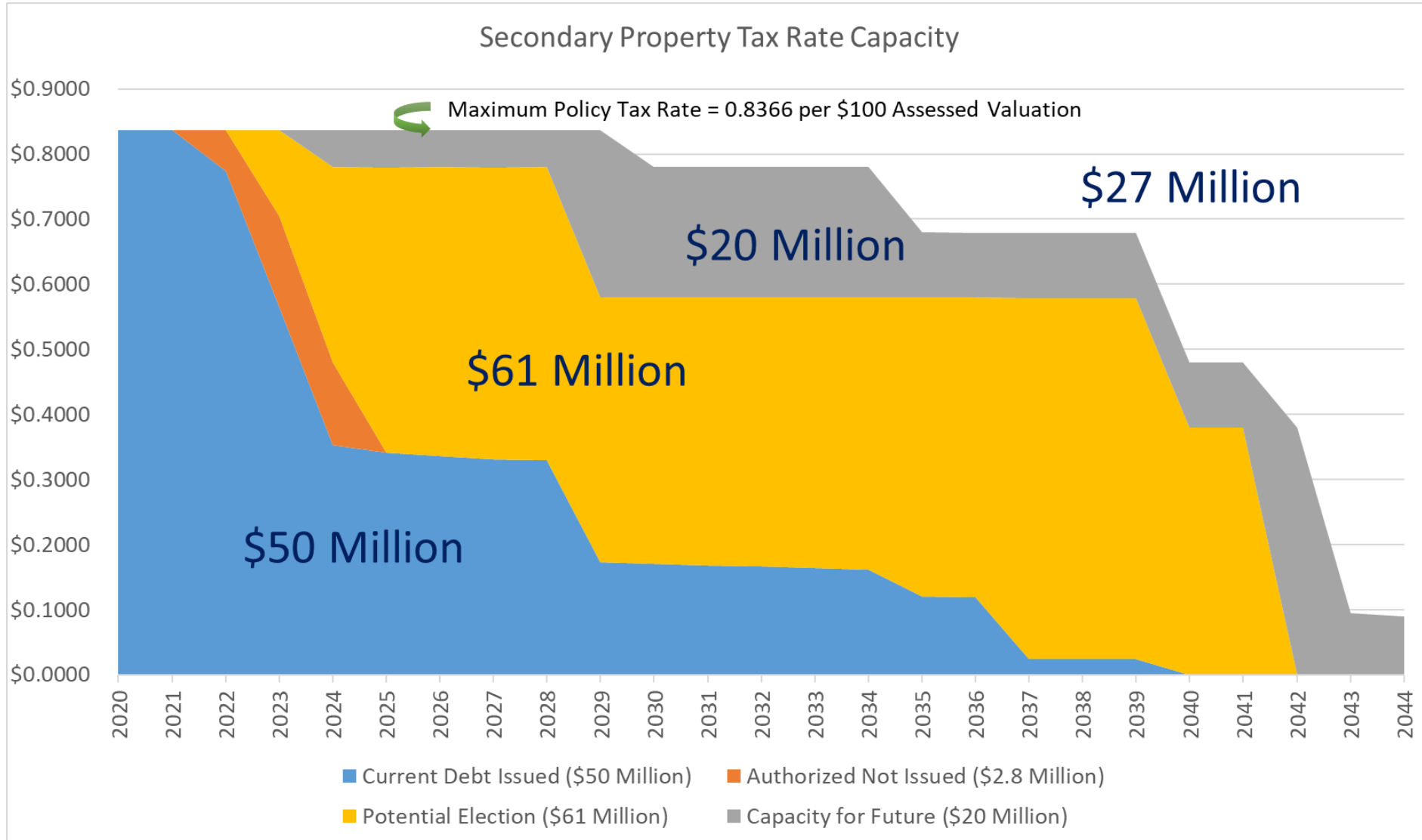


General Obligation Bonds

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



General Obligation Bonds: Capacity





General Obligation Bonds: Summary

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



Potential New Revenue/Bond Needs

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



Council Discussion



Council Forum/Budget Expectations



Public Participation

