

CITY COUNCIL RETREAT

AGENDA

CITY COUNCIL RETREAT
FRIDAY
JANUARY 20, 2023

CORE SERVICES FACILITY
3200 WEST ROUTE 66
10:15 A.M.

All City Council Meetings are 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.

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 DAGGETT
VICE MAYOR ASLAN
COUNCILMEMBER HARRIS
COUNCILMEMBER HOUSE

COUNCILMEMBER MATTHEWS
COUNCILMEMBER MCCARTHY
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

STAFF RECOMMENDED ACTION:

Presentation and Discussion Regarding Budget Process and 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 _____, 2023.

Stacy Saltzburg, MMC, City Clerk

**CITY OF FLAGSTAFF
STAFF SUMMARY REPORT**

To: The Honorable Mayor and Council
From: Stacy Saltzburg, City Clerk
Co-Submitter: Budget Team
Date: 01/17/2023
Meeting Date: 01/20/2023



TITLE

City Council Budget Retreat

STAFF RECOMMENDED ACTION:

Presentation and Discussion Regarding Budget Process and Expectations.

EXECUTIVE SUMMARY:

Attached to the staff summary is a Detailed Agenda. Presentation materials will be distributed and attached prior to the meeting.

INFORMATION:

Attachments: [Detailed Agenda](#)
[Color of Money](#)
[Presentation](#)

City Council Budget Retreat

January 20, 2023

Detailed Agenda

Time	Duration (Min)	Topic	Staff
10:00am	15	Welcome and Objectives	Greg Clifton Katie Wittekind
10:15am	60	Budget Introduction <ul style="list-style-type: none"> • Budget Team Charter • Process • Timeline • Fiscal Policies • Color of Money 	Heidi Derryberry Brandi Suda
11:15am	30	Maintaining Fiscal Health <ul style="list-style-type: none"> • Recession Plan • Fiscal Responsibility • Reserve Policies • Structurally Sound 5-Year Plans 	Rick Tadder
11:45am	30	Lunch	
12:15pm	45	Priority Based Budget (PBB) <ul style="list-style-type: none"> • Overview • Key Community Priorities and Objectives • Annual Process • Public Facing Data 	Chris Rhode
1:00pm	30	Revenue Updates <ul style="list-style-type: none"> • Recession and Economic Outlook • General Fund • BBB Funds 	Rick Tadder
1:30pm	30	Budget Team Focus <ul style="list-style-type: none"> • Investing in Employees <ul style="list-style-type: none"> ○ Minimum Wage ○ Merit ○ Market ○ Compression 	Heidi Hansen Randy Tracy
2:00pm	15	Break	
2:15pm		Council Expectations <ul style="list-style-type: none"> • Big Picture Goals and Priorities 	Greg Clifton
		Public Participation	

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



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
- Water Resource & Infrastructure Protection
- 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
 - » Prop 441 & 442 (Infrastructure & Housing)
- USGS campus expansion



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**
 - » **Pension Bond Fund - Transfers from General Fund, Water Resource & Infrastructure Protection Fund & Airport**



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**



The
Budget Team
CITY OF FLAGSTAFF



Council Budget Retreat

January 20, 2023

Welcome and Objectives



- Welcome
- Introductions
- Intentions
- Meeting Protocol

Agenda



- Budget Introduction
- Maintaining Fiscal Health
- Priority Based Budget (PBB)
- Revenue Updates
- Budget Team Focus
- Council Expectations



The
Budget Team
CITY OF FLAGSTAFF



Budget Introduction

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
Senior Deputy City
Manager



Heidi Hansen
Interim Deputy City
Manager



Nicole
Antonopoulos
Sustainability
Director



Scott Overton
Interim Public
Works Director



Rick Tadder
Management Services
Director



Randy Tracy
Human
Resources/Risk
Management Director



Brandi Suda
Finance Director



Heidi Derryberry
Assistant
Finance Director



Chris Rhode
Management
Analyst



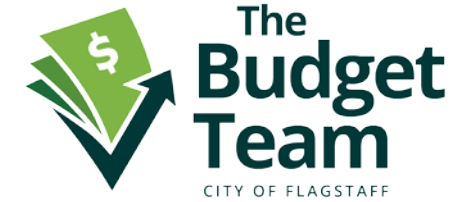
Jared Wotasik
EAC

Meetings



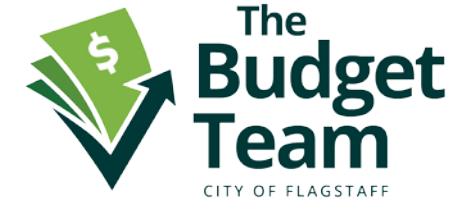
- Meetings are scheduled on a weekly basis and will generally be held on Thursdays with additional meetings scheduled as needed to respond to changing circumstances and requirements
 - The meeting schedule will also include:
 - Bi-Annual Priority Based Budget Council Retreat – September (odd years)
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

Roles



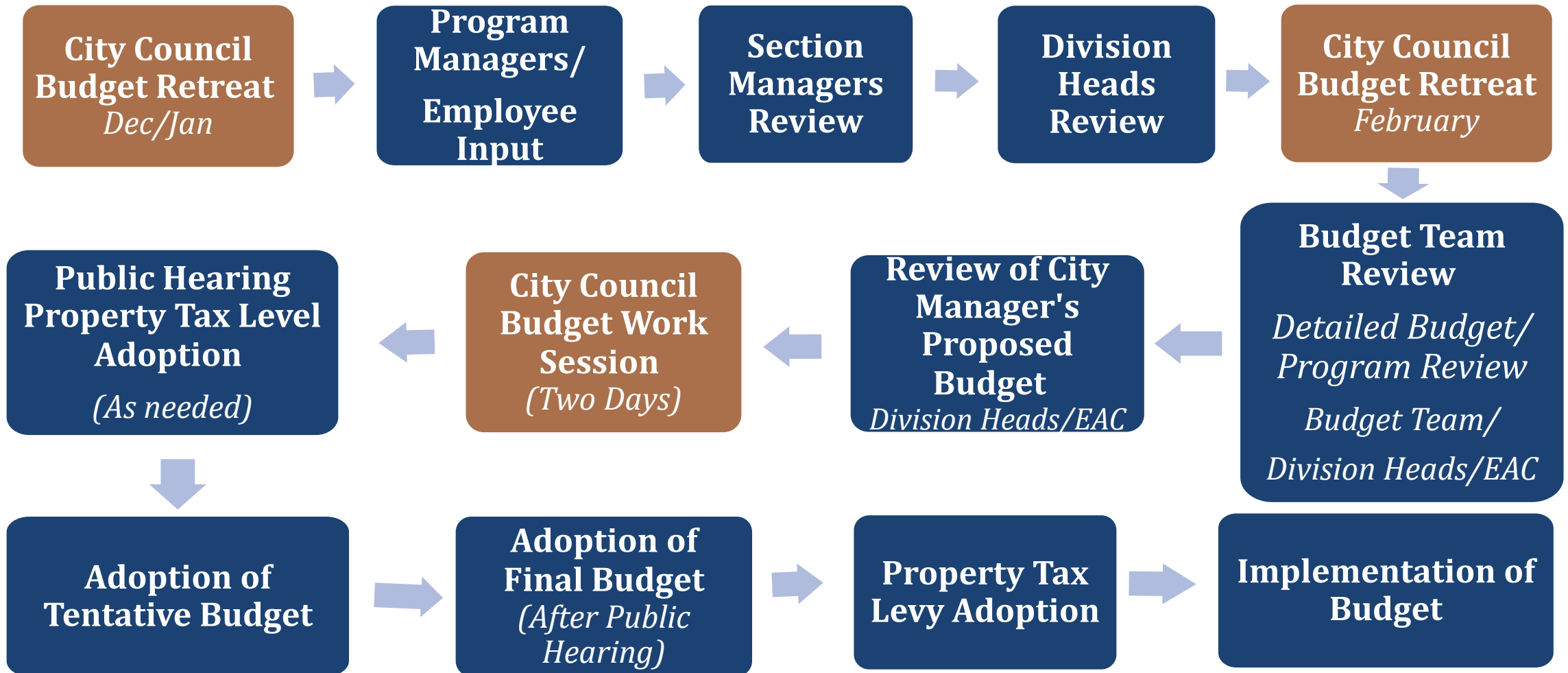
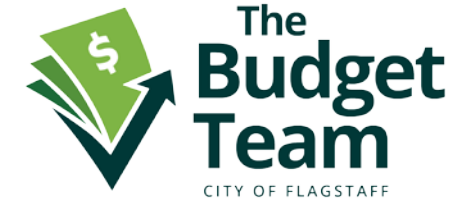
- Strategic Leadership Role
 - Strategic planning to bolster the City's financial health
- Assessment Role
 - Assess organizational expenditures through Priority Based Budgeting methodologies, ensuring that programs, services and resources align with Community Priorities
- Budgetary Role
 - Provide oversight 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

Code of Conduct



- Be professional, respectful and courteous
- Acknowledge sensitivity of discussions pertaining to matters of personnel nature and/or draft compensation/benefits strategies
- Make attendance a priority, arrive on time and be present and engaged
- Allow conversations to be inclusive and provide time for all team members to participate
- Use consensus for decisions and outcomes

Budget Process



Budget Timeline



- January 20, 2023 – Budget Introduction Retreat
- February 2 & 3, 2023 – 2nd Council Budget Retreat
- April 27 & 28, 2023 – City Manager Recommended Budget Retreat
- June 6, 2023 – Tentative Budget Adoption
- June 20, 2023
 - Property Tax Levy Hearing
 - 1st Reading of Property Tax Adoption
 - Final Budget Adoption
- July 3, 2023 – Final Reading of Property Tax Adoption

Fiscal Policies



City Budget:

- Not simply an exercise in balancing revenues and expenditures one year at a time
- 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
- 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

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.

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 - 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



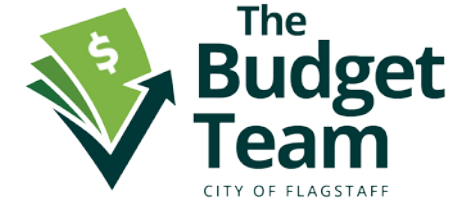
Self-supporting thru User Fees

- 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
 - Proposition 441 & 442 (Infrastructure and Housing)
 - United States Geological Survey (USGS) campus expansion
 - Courthouse
 - Downtown Mile

Debt Service Funds



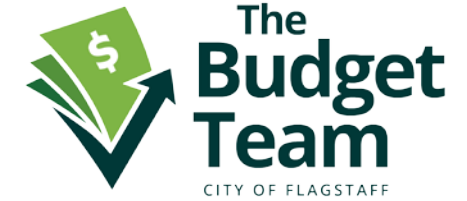
- Debt service funds are used to account for the accumulation of resource and payment of long-term debt
 - Restricted revenues
 - General obligation bond fund – secondary property tax
 - Pension bond fund – General Fund, Water Resource and Infrastructure Protection Fund and Airport Fund transfers

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



The
Budget Team
CITY OF FLAGSTAFF



Maintaining Fiscal Health

Recession Planning



- 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



- 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 2022-2023 was 22% of the total City
- Investing dollars strategically offsets impact of a recession
 - Tourism and construction for example

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

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

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 economic future risks, not emergency fund
- Setting appropriate level
- Use and replenishment
- Fund Balance is a balance sheet account
- Cash flow purposes
- Not available for spending each fiscal year
- Placeholder for when revenues do not meet expectations

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% (~\$15M)
 - 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 2023-2024 budget

Structurally Sound 5-Year Plans



- Reasonable revenue estimating
- Built in recessionary periods
- Ongoing budgets balanced within ongoing capacity
- Building in compensation items like merits
- One-times focused on cash balances
 - Revenues exceed projections
 - Expenditure savings in a given year

Dedicated Professional Staff





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Budget Team
CITY OF FLAGSTAFF



Priority Based Budget (PBB)

PBB Overview



- Goal 1: Data-driven decision-making in budget process
- Goal 2: Transparency and engagement in the budget process
- Goal 3: Align budget process with community priorities
- Every City service and function are tracked as a program
- Every program evaluated against priorities and objectives
 - Excludes grants and capital budgets
 - Determined by Community and Council

Priority and Objective Development



- Summer 2019: Began working with PBB
- Fall 2019: Engaged with Council on priorities and objectives
- Summer 2020: Community outreach
- November 2020: Council adopted priorities and objectives

Future:

- Summer 2023: Review priorities and objectives
 - With Council and Community input
- Fall 2023: Adopt revised priorities and objectives

CITY OF FLAGSTAFF





Key Community Priorities



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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

THE OBJECTIVES LISTED IN THIS DOCUMENT WERE APPROVED BY COUNCIL ON NOVEMBER 10, 2020.

PBB Annual Process



1. Review program inventory
 - Governance
 - Community
2. Allocate costs to PBB programs
3. Score new programs
 - Based on priorities and objectives
4. Submit and present budget requests
5. Analyze budget requests based on costs and program scores



Public Facing PBB Data



<https://openpbbdata.net/Flagstaff/>

- Provides transparency over City funds
- "Mile-high" view of budget overview of operating budget
- Shows budget and scores for all programs
 - Can be sorted by goals, budget size, and program name
 - Does not show specific funds or accounts
 - Does not include capital expenditures



The
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Revenue Updates

Recession Considerations

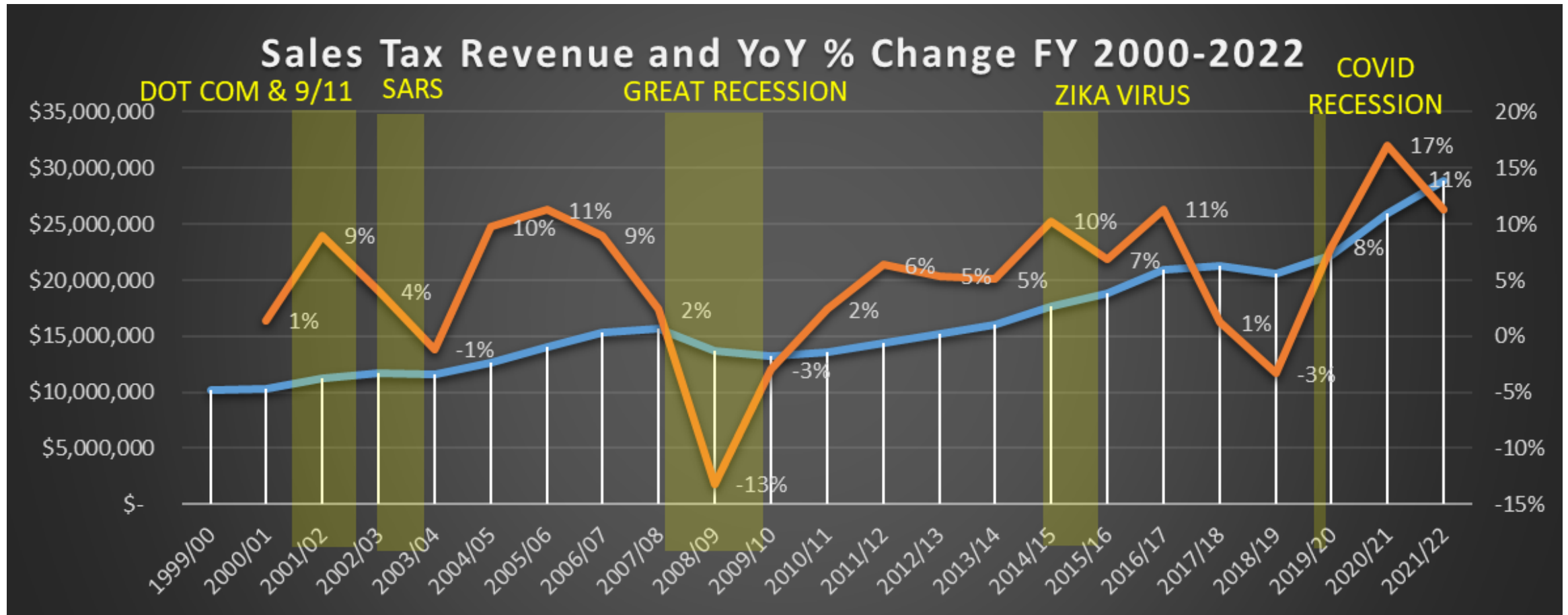


- Recessions happen
 - Recurrence of recessions average seven years
 - Average recession lasts 15 months
 - Since 1980 average expansion has been eight years
 - Covid Recession was very short
- Long-term forecasts build in recessions
 - Aligns ongoing revenues to achievable projections, limits impacts during economic downturns
 - Current projection estimates have a built-in downturn in FY 2026-2027
 - Building in plans 5-7 years out, also prepare for earlier

Economic Outlook



General Fund - Sales Tax



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 Actual
Sales Taxes						
Utilities	\$ 1,112,945	\$ 1,035,117	\$ 1,076,250	\$ 1,048,716	\$ 1,026,000	\$ 1,140,596
Telecommunications	251,125	211,313	235,750	146,517	150,000	136,997
Restaurant/Bars	3,075,000	2,820,892	3,075,000	2,932,835	2,899,400	3,649,070
Amusements	114,800	85,907	108,650	43,459	69,700	89,964
Commercial Rental	1,200,000	1,066,063	1,050,000	1,155,087	1,098,000	1,147,011
Personal Property Rental	676,500	660,066	732,875	692,359	667,800	819,159
Contracting	2,146,900	1,991,518	1,700,000	2,352,792	1,886,400	2,412,364
Retail	10,762,500	11,000,586	10,385,000	13,075,833	11,681,500	14,319,420
Marketplace Retail (outside AZ)	-	340,237	480,000	860,794	826,200	1,039,064
Hotel/Motel/STR	1,537,500	1,353,303	1,640,000	1,592,928	1,492,300	2,073,966
Miscellaneous	130,698	102,059	99,600	110,436	102,300	107,107
Use Tax	1,658,500	1,489,998	1,471,545	1,920,847	1,663,800	1,937,747
Sales Taxes Total	\$ 22,666,468	\$ 22,157,059	\$ 22,054,670	\$ 25,932,603	\$ 23,563,400	\$ 28,872,465
Change vs Prior Budget		\$ (509,409)		\$ 3,877,933		\$ 5,309,065

\$2.3M over
April 2022 Projection

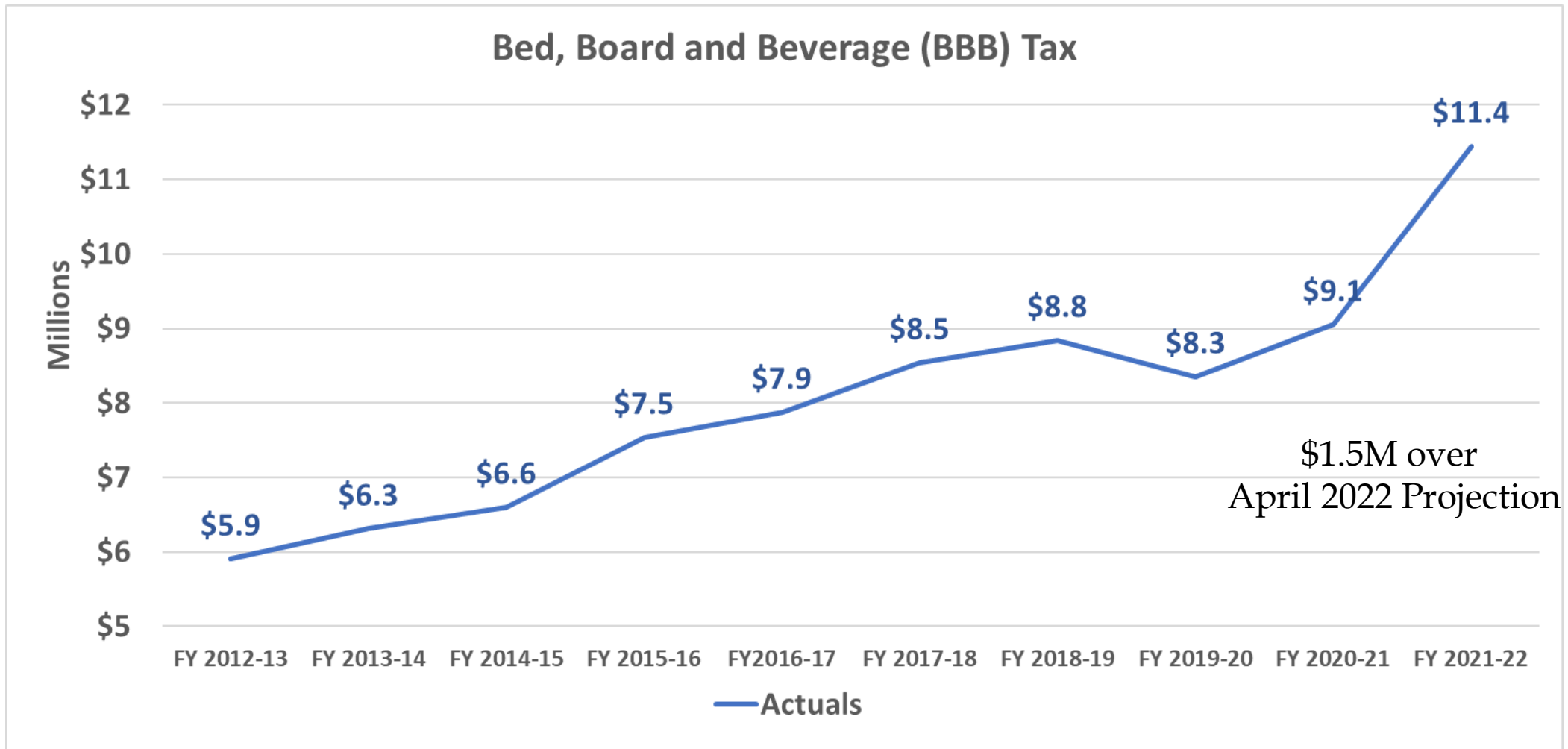
General Fund - State Shared



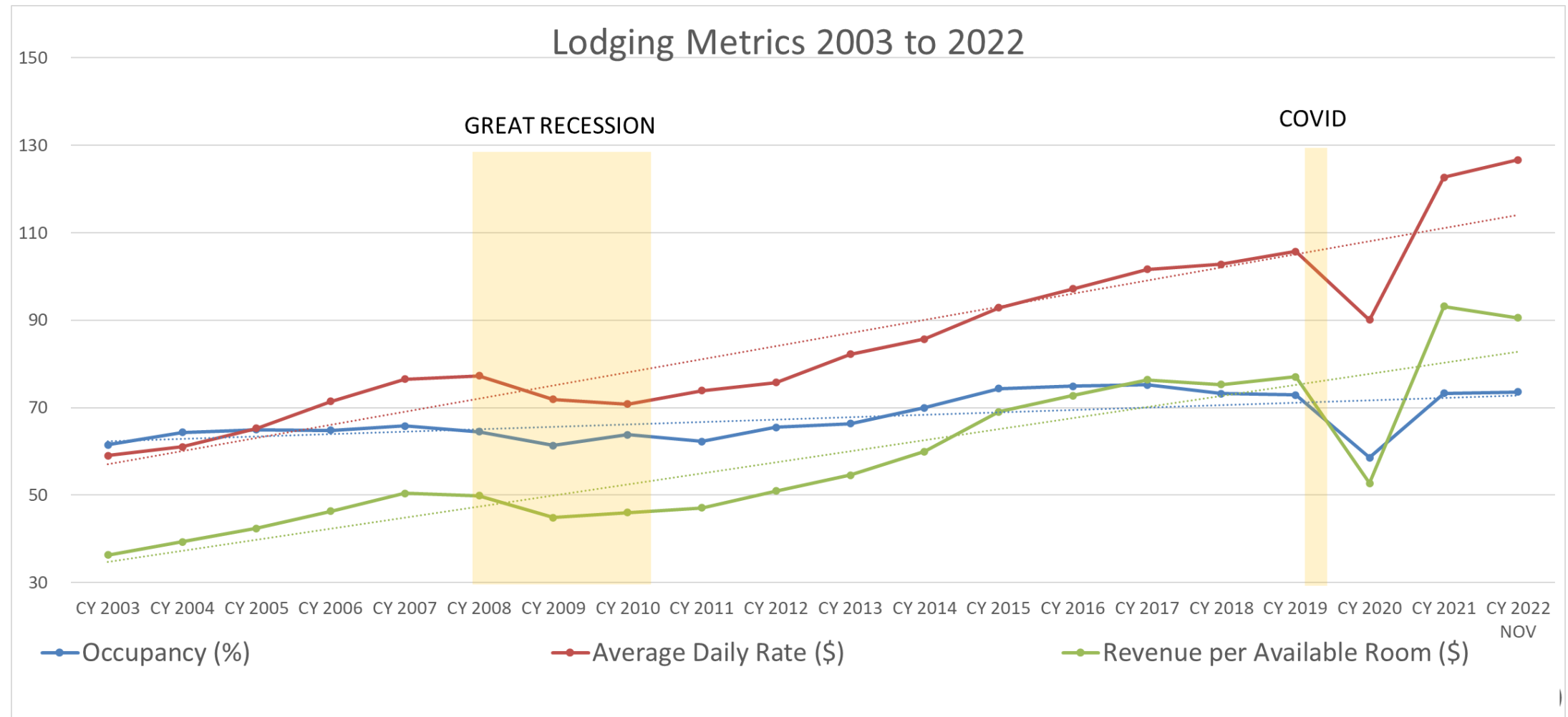
Category	FY 2019-20 Budget	FY 2019-20 Actual	FY 2020-21 Budget	FY 2020-21 Actual	FY 2021-22 Budget	FY 2021-22 Actual
State Shared Revenues						
State Shared Sales Tax	\$ 7,182,893	\$ 7,485,660	\$ 7,486,395	\$ 8,874,786	\$ 8,285,200	\$ 10,855,221
State Shared Urban Revenue	9,451,184	9,564,616	10,669,590	10,723,978	9,790,000	10,075,723
State Shared Rec MJ Excise Tax	-	-	-	135,438	272,798	446,253
Auto Lieu Tax	3,237,360	3,433,940	3,540,863	4,169,172	3,718,300	4,148,649
State Shared Total	\$ 19,871,437	\$ 20,484,216	\$ 21,696,848	\$ 23,903,374	\$ 22,066,298	\$ 25,525,846
Change vs Prior Budget		\$ 612,779		\$ 2,206,526		\$ 3,459,548

\$866,000 over
April 2022 Projection

BBB Tax Funds



Lodging Metrics



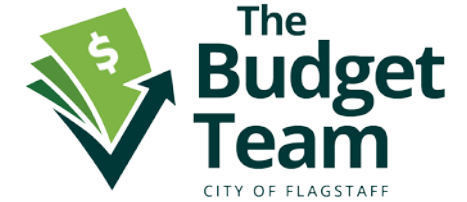


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Budget Team Focus

Budget Team Focus



Investing in Employees

- Minimum wage adjusted
- Merits are funded
- Maintain competitive market-based pay structure
- Compression adjustments
- Benefit 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 50% of one-time to ongoing
- Identify high scoring programs for funding
- Identify low scoring programs that could be reallocated

Funding Requests Focus

- Operating capital replacements/maintenance needs
- PBB program levels
- Program change requests:
 - Quadrant 3 and 4 may not be considered
 - New positions may be considered on a temporary contract basis
- Track requests to Carbon Neutrality Plan

Compensation



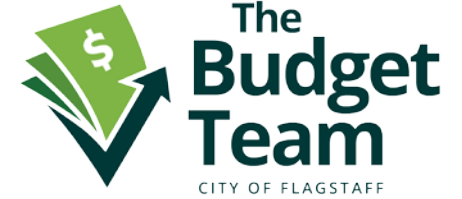
- Minimum wage ordinance (mandatory)
- Merit (approved and budgeted)
- **Additional recommendations to consider to maintain compensation plan health:**
 - Market adjustments to all step pay plans, temp pay plan and regular plan (adjustments vary based on market data and recruitment needs)
 - Budget Team currently reviewing other possible recommendations

Minimum Wage Ordinance



- January 1, 2023, the Flagstaff minimum wage increased to \$16.80
- This year the City adjusted employees impacted by the minimum wage increase as well as all immediate compression caused by the increase through Regular Pay Range 04 and the Temp Plan
- Employee's current compa-ratio in the pay range was maintained to avoid reintroducing compression, which has been addressed over the last two fiscal years
- 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
- In spite of the routine Federal Reserve rate increases, lingering inflation is still impacting recruitment, retention, the overall compensation plan as well as the minimum wage
- CPI estimates indicate the next mandatory minimum wage increase will be approximately \$18.00

Minimum Wage - CPI Impacts



- Regular Pay Plan impacts grades 04R – 25R to maintain some spread (5% vs 7.5%) between the lower ranges.
 - Given the limited number of positions in 04R, the recommendation is to eliminate 04R
- Temporary pay plan is impacted by the market adjustments since they are tied to grades 04R and higher
- Budget Team is evaluating timing of implementation

Merit



- Approved and budgeted (5-year plans)
- Maintain the commitment to employee compensation
 - Regular Pay Plan – 3% budgeted
 - Step Plans for Fire, Police and Water Services Operators
 - Percentage varies between steps, positions and plans

Pay for Performance



- Regular Pay Plan
 - Effective 7/1/23, moving from standard 3% merit to a true pay for performance merit
 - Merits will range from 2% to 4% based on evaluation score
 - Currently working on training plan for employees and supervisors
 - Collaborating with consultants
- Step Pay Plan
 - No change

Mid-Year Market Adjustments



- To maintain a healthy, competitive, market-based pay plan a sampling of positions should be surveyed each year and adjusted if indicated necessary (25% of all classifications per year):
 - Priority is given to positions identified throughout the year that may be starting to lag in the market and/or are experiencing significant recruitment challenges
- This budget would **not** include division reclassification/reorganization requests which must be budgeted by the division
- Recommend refunding at \$143,000 reoccurring, unused funds would carry over with the intent of developing adequate funding year over year

Pay Plan Market Adjustments



- Given the rapidly accelerating market, the recommendation is to adjust all pay plans
 - Regular pay plan - ranges 30R and up (maintaining compa-ratio)
 - Fire step plan - based on the position in the market
 - Police step plan - based on the position in the market
 - Water Services Operators step plan - based on the position in the market

Compensation Summary

- Minimum wage
- Merit – move to Pay for Performance
- To maintain a healthy compensation plan:
 - Mid-year market adjustments
 - Pay plan market adjustments – all plans

Notes and Assumptions: 1) final CPI calculation will modify this estimate; 2) turnover will reduce estimates for merit



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Council Discussion

Big Picture Goals and Priorities

Big Picture Priorities

- Compensation investment
- Facility security
- Maintaining existing infrastructure and equipment
- Capital projects, bonds, downtown, JWP, Wastewater plants, etc.
 - Delivery

Expectation for February Retreat



- Topics to prepare for next retreat



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