

MINUTES

1. Call to Order

Mayor Evans called the Special Work Session of the Flagstaff City Council held October 22, 2019, to order at 6:00 p.m.

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. Pledge of Allegiance and Mission Statement

The Council and audience recited the Pledge of Allegiance and Councilmember Salas read the Mission Statement of the City of Flagstaff.

MISSION STATEMENT

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

3. **ROLL CALL**

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

PRESENT:

MAYOR EVANS
VICE MAYOR SHIMONI
COUNCILMEMBER MCCARTHY
COUNCILMEMBER ODEGAARD
COUNCILMEMBER SALAS
COUNCILMEMBER WHELAN

ABSENT:

COUNCILMEMBER ASLAN

Others present: City Manager Greg Clifton; City Attorney Sterling Solomon.

4. Public Participation

Public Participation enables the public to address the council about items that are not on the prepared agenda. Public Participation appears on the agenda twice, at the beginning and at the end of the work session. You may speak at one or the other, but not both. Anyone wishing to comment at the meeting is asked to fill out a speaker card and submit it to the recording clerk. When the item comes up on the agenda, your name will be called. You may address the Council up to three times throughout the meeting, including comments made during Public Participation. Please limit your remarks to three minutes per item to allow everyone to have an opportunity to speak. At the discretion of the Chair, ten or more persons present at the meeting and wishing to speak may appoint a representative who may have no more than fifteen minutes to speak.

Northern Arizona University President Rita Cheng invited Mayor and Council to the Northern Arizona University (NAU) Homecoming. This year's Homecoming is NAU's 120th-anniversary. President Cheng shared some facts highlighting the successes of NAU. The NAU band performed to give Mayor and Council a taste of Homecoming.

Miranda Sweet addressed Mayor and Council regarding the Rio de Flag issue. She stated that she believes that the Rio de Flag is one of the most important issues facing Flagstaff. She addressed the box culverts, how they would be maintained, and what they would look like due to the project.

Charlie Silver addressed Mayor and Council. He complimented the Parks Department on the maintenance of the Flagstaff Urban Trail System (FUTS) trail, especially between Arrowhead Avenue and Route 66. He stated that the FUTS trail segment is beautiful, and the landscaping is well done. He also shared that he and his wife spoke to a ten-year-old boy regarding Flagstaff and asked him how he likes Flagstaff. He stated that the boy said he loves Flagstaff except for the new, big buildings. Mr. Silver felt that was very telling.

5. Recognition of the Inaugural Cohort of Climate Leaders

Sustainability Manager Nicole Antonopoulos addressed the Mayor and Council and introduced part-time Climate Engagement Coordinator Lee Bryant, who explained the inaugural Flagstaff Climate Leadership course. She thanked Mayor Evans for addressing the group about climate change. She explained that the participants who took the course committed to 30 hours of education over eight 3-hour weekly sessions from August to September, and that there were 14 graduates from the first class. She added that those 14 participants have agreed to volunteer 30 hours each for climate-related activities. Ms. Bryant introduced and recognized the Climate Action Leaders.

The Mayor and Council congratulated the class on their success and took a photo with them. Vice Mayor Shimoni asked Ms. Bryant if another course is planned. Ms. Bryant stated that they are considering merging the Master Recyclers Program with the Climate Leaders Program. She added that an online course may be developed by one of the volunteers for individuals who cannot dedicate the time to attend eight 3-hour classes in person. Vice Mayor Shimoni suggested that the community might appreciate classes integrating video messaging and updates.

Mayor Evans expressed her excitement about the online class option. She inquired about what a youth-specific program would look like or if there could be a Spanish course for Spanish speakers. She also suggested exploring the possibility of an accelerated weekend course.

Ms. Bryant noted that they are currently exploring those improvements. Mayor Evans added that Sedona and Verde Valley have also expressed interest in the program.

6. General Fund Revenue and 5-Year Plan Update

Management Services Director Rick Tadder gave a presentation to Mayor and Council on the fiscal year 2019 Transaction Privilege Tax Revenue (TPT) and Five-Year Plan update. Finance Director Brandi Suda was in attendance to speak to Council as well. Slides included:

- Topics
- History of Sales Tax Collections
 - Mr. Tadder shared that the Arizona Department of Revenue charges the City \$193,000 annually for processing the sales tax.
- General Fund Sales Tax Revenues
- General Fund Sales Tax Revenues Chart
- General Funds Sales Tax Revenues Continued
- General Fund Sales Tax Revenues Table
- ADOR and Education

Councilmember Salas asked about the anomaly with Flagstaff's sales tax being lower than previous years. Mr. Tadder stated that other Arizona cities have had an increase in their tax collections, but Flagstaff had a 4% decrease. Councilmember Salas asked if there needed to be a discussion about staffing for sales tax auditing. Mr. Tadder stated that there was a contract with an outside auditor and that the number of collections staff increased. Councilmember Salas mentioned the work that Economic Vitality has done with the local business community.

Mayor Evans stated that the City is down in revenue in restaurants, bars, and construction. She stated that restaurants and bars are based on people's discretionary funds and that the minimum wage increases will impact those line items. She also stated that construction goes up and down and she is concerned that the City is not collecting all of the construction sales tax. She added that the City was previously able to generate reports based on geographic location when they collected the sales tax. She asked Mr. Tadder if those reports could be generated from the State. Mr. Tadder stated that it would be a great amount of work based on what the State sends to the City. Mayor Evans stated that she wants to see what the fee the State charges for collecting sales tax actually provides to the City. She stated that the City needs to get a better understanding of what the retail sales tax entails and how the BBB tax breaks down. She stated that she believes that the restaurant sales tax revenue is lower and she believes that the lower sales tax revenue is based on the lack of discretionary funds.

Councilmember Whelan asked if staff positions in Revenue were cut or reassigned to other departments when the department contracted in size. Mr. Tadder stated that two to three positions were cut and other employees were repositioned. She also asked about the huge dip when the State started collecting sales tax revenues. She stated that Council gave the direction on watching the State regarding the sales tax revenues. She understood from the presentation that staff had not been watching the State closely. Mr. Tadder stated that staff may not have been watching the detail, but they were watching from a cash collection aspect. He added that most of the time, staff is very close on the projections, but this year has been different. Councilmember Whelan asked Mr. Tadder to explain the sales tax payment system. Mr. Tadder stated that the sales tax goes directly to the Arizona Department of Revenue (ADOR) and anything they collect from Friday through Thursday is paid to the City the following Monday. He explained that ADOR distributes the payments to the cities and towns. Councilmember Whelan asked if there is any way for the money to be sent to the City then to the State. Mr. Tadder stated there is no way under current legislation due to the State's simplification rule.

Mayor Evans stated that the negative budget items are related to discretionary funding items. Mr. Tadder stated that the trends of individual retail components will be looked at in detail. Mayor Evans asked Mr. Tadder about Flagstaff being an anomaly in the state for sales

tax revenue. She asked if staff spoke to ADOR about the minimum wage in Flagstaff. Mr. Tadder stated that ADOR spoke to staff about the level of staffing in sales revenue and the requests for auditing. Mayor Evans asked if the City can ask for an auditing period from the State. She is concerned that the City is not collecting all sales tax revenue and stated that the minimum wage issue is something that is different about the Flagstaff community.

Councilmember McCarthy asked if Mr. Tadder has an idea of how honest people are on their taxes. Mr. Tadder stated that he cannot address that. Councilmember McCarthy asked how an audit is initiated. Mr. Tadder stated that an audit is triggered by inconsistencies in sales tax reports. Councilmember McCarthy also asked about how the state sales tax has been doing better than the City's and in what areas the sales tax has grown. He wanted to see if there is a trend on where sales tax is growing and contracting. Mr. Tadder added that the Wayfair Act for online sales to collect sales tax on the delivery location should impact the sales tax revenues in the future.

Vice Mayor Shimoni asked if there is an option to opt out of the State collecting revenues on behalf of the City. Mr. Tadder stated there is not. Vice Mayor Shimoni stated that there is a ripple effect with construction and that it is cyclical. He is looking forward to a more in-depth view of the retail sales tax revenues. He also would like to see the effect of online sales. He stated that eBay is charging sales tax and that car sales are down. He asked about local monitoring and how much that would cost the City. Mr. Tadder stated that it would depend on how the program is developed. He stated that with the new business license program, the reports created can be compared with the TPT report. Vice Mayor Shimoni reminded Council that he feels that the cost of housing is the root of the issue for discretionary spending.

Mayor Evans stated that the BBB tax is going up, but the restaurant sales tax revenue is going down and that shows that the issue is local versus tourism-based. She added that with the minimum wage increase that rent has also increased. She theorized that the individuals in the middle who did not get a pay increase when the minimum wage increased are shifting their spending habits since their discretionary spending ability has shrunk.

Vice Mayor Shimoni stated that he also believes that the minimum wage increase has some impact.

Mayor Evans stated that the revenue needs to be reviewed in December and perhaps every quarter. She added that the City's minimum wage is about to be \$13 an hour, which is a dollar above the state.

Councilmember Odegaard noted concerns about how the State collects taxes, saying that everything is done through a wire-transfer and there is no one watching the tax income. He asked about the \$100,000 in construction tax and how the State does not have eyes on the ground. Councilmember Odegaard stated that the City needs to up the number of staff in the department to ensure that the City is collecting what it is due, especially with the challenges that the potential bill from the state presents and in regards to the public safety pension liability. He also stated that the business side needs to be worked on especially considering the loss of recent businesses.

Councilmember McCarthy reinforced the importance of the minimum wage impact analysis.

Councilmember Whelan stated that the Council trusts the City Manager and staff to implement the analysis. She also suggested a vibrant economic development plan be developed and presented to Council.

Mayor Evans asked the City Attorney if the pension is included in the Five-Year Plan. Mr. Solomon spoke about the pension liability. Mayor Evans requested a Work Session on the

public safety pension and how the accounting for it works.

Councilmembers McCarthy and Odegaard agreed that the update would be appreciated.

Mr. Tadder passed the presentation to Ms. Suda.

- General Fund Major Tax Revenues
- General Fund 5-Year Plan Impacts
- BBB & Transportation Tax Impacts

Mayor Evans inquired about the state-shared sales tax. She asked where it comes from and Ms. Suda stated that it is a portion of the state sales tax that is shared with the cities. Mayor Evans stated that the shared sales tax is above projections and she inquired about if it would be affected by the minimum wage services differential bill that would require cities with minimum wages above the State's minimum wage to reimburse the difference to the State for State services. Mr. Tadder and Ms. Suda did not know if there would be an impact. Mayor Evans wanted to know if the bill is larger than the state-shared sales tax if the State could withhold other shared taxes. Mayor Evans also stated that the budget department has always been conservative and spot on with their projections and that the department has Council's trust.

Councilmember Whelan asked about the 2% increase in compensation for employees and if it was a merit increase. Ms. Suda stated that the 2% increase was set aside from FY20 and FY21 in an attempt to build into the 5-year plan. Councilmember Whelan would like staff to dive deep into merit-based increases. Mayor Evans suggested talking to the City Manager regarding the increases and defining what merit-based increases are.

Councilmember McCarthy stated that he would like a definition of what the trends mean regarding increases.

Mayor Evans pointed out the last bullet point regarding limited resources in FY21 and asked Council to be mindful of it due to the requests for new departments and other resources.

- Plan going forward

Mayor Evans asked Economic Vitality Director Heidi Hansen to talk about the BBB projections regarding tourism. She asked what it would look like to "lose" \$50,000 from the tourism budget. Ms. Hansen stated that the City is above the previous year's revenue by 5%. She added that in 2008 when Council increased the tourism advertising fund, occupancy decreased only about 3% even with the economic slow down and the advertising helped prevent a further drop in occupancy rates. She stated that Council should not worry too much and that staff feels strongly that if they continue with their current programs the tourism numbers should continue to increase. Mayor Evans stated that the budget versus actual looks good but the budget versus projection is down.

Councilmember Whelan stated that she was concerned about the limited budget in FY21 for new requests. She would like to see the City protect the General Fund and not use it to address fluctuations.

Mr. Tadder resumed the presentation. He stated that staff will meet with other cities to see how they are staffing and improving analysis and that the Budget Team will make a tiered response to the economy in a downturn.

Vice Mayor Shimoni shared that he believes that tourism will grow and that will cause a ripple effect. He stated that Priority-Based Budgeting will help with the tiered response.

Eric Nolan addressed Mayor and Council regarding the budget and stated that he is grateful

that everyone is erring on the side of caution. He added that utility rates have increased and that might have influenced local discretionary spending.

Mayor Evans called a 12 minute break at 7:53 pm.

7. Discussion/Direction: Priority Based Budgeting Results and Definitions Map Update

Mayor Evans called the meeting back to order at 8:05 pm.

Management Analyst Sarah Langley presented to Council to follow up on the September 24, 2019 Priority Based Budget retreat. She asked Council to keep in mind that the analysis is a draft and can be edited as Council sees fit.

Slides Included:

- Results & Definitions Map
- Priority Based Budgeting Vocabulary
- High Performance Governance
- Safe & Healthy Community
- Inclusive & Engaged Community

Mr. Tadder took over the presentation.

Councilmember Whelan stated that she sensed that the City was moving towards just adding to the status quo rather than conducting a needs assessment and introspection. She asked if there was a way to create resources by looking within the City and finding a more streamlined approach to providing the necessary services without increasing the size of the organization. Mr. Tadder stated that it is the purpose of Priority-Based Budgeting (PBB) to do that. City Manager Clifton added that it is not a methodology but a tool to prioritize the budget. He stated that the overarching-goals will be presented to the community and the Council repeatedly. He added that the goals will represent the Council and the community's objectives.

Vice Mayor Shimoni commented on the "High -Performance Governance" goal and suggested adding "to encourage public trust through transparency and accessibility."

Mayor Evans suggested replacing "lean" with "effective and efficient" in the goal. She stated that placing a return on investment on public services is not feasible.

Mr. Tadder inquired about the culture of engagement. Mayor Evans asked staff to identify how the City engages the public from the policy.

Vice Mayor Shimoni advocated for retaining the word "engagement" in the goal.

Councilmember Salas asked about the "Inclusive & Engaged Community" goal and proposed adding "inclusion" to "Facilitate and Foster Diversity and Inclusivity." City Manager Clifton added that he believes it to be a good addition.

Mayor Evans suggested adding "Civic Engagement" to the "Foster Community Pride" goal. City Manager Clifton asked if it would replace the engagement language in "High-Performance Governance." Mayor Evans did not oppose having them in both sections. She stated that she wants to ensure there are some limitations on expectations if the City is focused on educating the public rather than engaging them, but Council still wants City residents to be more engaged.

- Sustainable, Innovative Infrastructure
- Robust, Resilient Economy

Councilmember Whelan asked Council to reflect on the high-wage jobs section under the "Robust, Resilient Economy" goal. She noted that 16% of the City's jobs are service jobs and she would dislike seeing the City overly focused on high-wage job attraction and retention. Mayor Evans suggested that "high -quality jobs" might be a better term and stated that it might necessitate a broader conversation.

Vice Mayor Shimoni agreed with Councilmember Whelan and suggested that more thought should be given to service wage positions.

Councilmember Salas mentioned that Business Attraction Manager Gail Jackson focus is on attracting employers and discussed recent business attraction efforts.

Mayor Evans added that the City is attempting to recruit an In-N-Out Burger, and emphasized that the City is pursuing various opportunities.

Vice Mayor Shimoni questioned how to better incorporate service wage jobs into the goals. Councilmember Salas stated that it all comes down to attracting businesses, regardless of whether they offer service jobs or other types of positions. Vice Mayor Shimoni asked how to create an environment for people to thrive, especially considering the cost of housing in relation to service job wages.

Mayor Evans suggested changing the bullet point to "high-paying" or "high-quality" jobs. Staff will work on the adjustment.

- Livable Community

Councilmember Salas asked about the commitment to early childhood development and whether the first bullet point in the "Livable Community" section could encompass early childhood development. Mayor Evans proposed rewording it to "provide education opportunities from pre-kindergarten through adulthood."

Vice Mayor Shimoni would like to see amenities and activities promoting a healthy lifestyle focused on less affluent neighborhoods and communities. He wanted these areas to witness improvements in their community. Mayor Evans stated that recreational facilities are well-distributed throughout the community. She added that she does not want to restrict potential actions based on the language.

Mr. Tadder mentioned that the location of services was covered in a previous definition.

- Environmental Stewardship

Ms. Langley resumed the presentation.

Councilmember McCarthy asked if the chart encompassed everything the City should do for the residents. He stated that he found the PBB process peculiar. He described it as lengthy and lacking in progress, unfocused, and expressed frustration with it. He noted that the Council has already discussed goals and objectives.

Mayor Evans acknowledged sharing Councilmember McCarthy's frustrations but understood that new Councilmembers want to delve into the budget details. She stated that the process will align the budget book with the categories. She used snow plowing as an example of an item that keeps getting reprioritized. She believed the exercise was valuable and would ensure the Council's clarity on the budget.

Vice Mayor Shimoni indicated that the Council's budgeting approach was undergoing a complete shift. He understood that once the groundwork was laid, the Council could finalize

budget priorities. He believed that everything would make sense once the Council reached the budget phase.

Mayor Evans added that the way items are discussed is crucial, and the City is striving to be transparent.

Councilmember Whelan would like to see something in "Environmental Stewardship" focused on strengthening the City's infrastructure by ensuring proper upkeep. Mayor Evans suggested that it might fit better under the "Sustainable, Innovative Infrastructure" heading.

Councilmember McCarthy noted that he did not come across anything regarding the Climate and Adaptation Action Plan (CAAP) in the definitions.

Councilmember Odegaard proposed adding the CAAP to "Sustainable, Innovative Infrastructure" in parentheses.

City Manager Clifton commented that PBB was new to everyone and represented a journey for both the Council and staff. He suggested that Councilmember McCarthy's frustration might stem from the global nature of the ideas, which might not be familiar in the context of budgeting. He emphasized that PBB is a budgeting methodology that prioritizes services. He added that the approach will be significantly larger than past budgeting methods and will likely prove effective. Councilmember McCarthy stated that he wanted to ensure that the end result aligns with the previous discussions.

- Next Steps

Councilmember Whelan expressed her excitement about working through the upcoming process.

8. Public Participation

None

9. Informational Items To/From Mayor, Council, and City Manager; future agenda item requests

Councilmember Salas stated that she spoke at the Discover Flagstaff meeting.

Councilmember Odegaard asked the City Attorney to talk about his department's awards.

City Attorney Sterling Solomon stated that the Prosecution Section of the City Attorney's office was honored at the Taste of Flagstaff event.

Councilmember McCarthy asked about the Rio de Flag project and how the box culverts would be cleaned out. Staff stated that the answers would be available soon.

Councilmember Whelan stated that she participated in the 2030 community visioning process with other Councilmembers. She also took part in the Flagstaff Leadership Program panel on elected officials and sat down with the Water Commission to learn about the draft water master plan.

Vice Mayor Shimoni stated that the Discover Flagstaff event was incredible and added that he attended the First Responders luncheon. He requested a FAIR item: a discussion about chemicals used in the recreation department not including reclaimed water.

Councilmember Whelan asked how the grass and the garden at City Hall are maintained and stated she would like to have a discussion on that in the future.

City Manager Clifton addressed Councilmember McCarthy's comments about the Rio de Flag box culverts. He stated that the box culvert would be designed in a way that the debris in a flood event would be caught in a sedimentation pond with a mechanical screen, and the culverts would be self-scouring. He added that the information will be added to the website for the Rio de Flag project and sent out to Council.

Councilmember Odegaard asked the City Manager about a temporary solution for parking at the airport. City Manager Clifton shared that they are not quite ready to share the proposed solution and that staff would be meeting to discuss the solutions further. He added that they are very close to coming back to Council with a plan for immediate use and a long-range plan.

Mayor Evans mentioned that the Mexican Consulate provided services at Coconino Community College and the library was in attendance at the event. She added that the East Side Library provides story time in multiple languages.

10. Adjournment

The Flagstaff City Council Special Work Session of October 22, 2019, adjourned at 9:25 p.m.

MAYOR

ATTEST:

CITY CLERK