

MINUTES

1. Call to Order

Vice Mayor Sweet called the Budget Retreat of the Flagstaff City Council held February 5, 2026, to order at 8:34 a.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 discussion and consultation 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.

Present: Vice Mayor Miranda Sweet
Councilmember Austin Aslan
Councilmember Anthony Garcia
Councilmember Lori Matthews
Councilmember David Spence

Absent: Mayor Becky Daggett
Councilmember Khara House

Staff Present: City Manager Joanne Keene; City Attorney Sterling Solomon

3. Pledge of Allegiance, Mission Statement, and Land Acknowledgement

The Council and audience recited the pledge of allegiance, Councilmember Garcia read the Mission Statement of the City of Flagstaff and Councilmember Matthews read the 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.

A moment of silence was held for the tragic accident and loss of two Department of Public Safety officers.

4. City Council Budget Retreat

Ms. Keene provided opening remarks and began the presentation.

COUNCIL BUDGET RETREAT AGENDA

Budget Manager John Comer, Management Services Director Rick Tadder, Budget Director Heidi Derryberry, Interim Deputy City Manager Kevin Fincel, Assistant City Manager Shannon Anderson,

Participated in the presentation that covered the following:

BUDGET TIMELINE
KEY COMMUNITY PRIORITIES AND OBJECTIVES
DECEMBER RETREAT RECAP
THEMES
COUNCIL'S ALIGNED PRIORITIES
REVENUE UPDATE
GENERAL FUND
GENERAL SALES TAX REVENUES
SALES TAX REVENUES BY QUARTER
GENERAL FUND SALES TAX REVENUES
GENERAL SALES TAX 1%
STATE SHARED SALES TAX

Council and staff discussed further details regarding the recent incorporation of San Tan Valley. San Tan Valley has always paid into Arizona's state tax system through income and sales taxes, just like any other area in the state. These taxes go into a statewide pool that funds shared revenue distributions. Before being incorporated, San Tan Valley did not receive any portion of the city-level shared revenue because it was unincorporated; instead, its county received allocations from the state pool.

Now that San Tan Valley is incorporated, it will begin receiving a share of the city portion of state shared revenue. This does not create any new taxes for residents or businesses; the same state tax rates apply. Incorporation simply redistributes existing funds among more cities, which means other cities' shares may decrease slightly, but businesses in San Tan Valley are not paying into an additional pot.

STATE SHARED AUTO LIEU
STATE SHARED URBAN REVENUE (INCOME TAX)

There were questions regarding adjustments to the five-year projections in relation to the San Tan Valley incorporation. Staff explained that as San Tan Valley's annexation and pending legislation move forward, any confirmed changes will require adjustments to our five-year financial projections. Right now, our plan shows a gradual upward trend, but if these changes become permanent, we need to reset our baseline to reflect the full impact on revenues. This means recalculating income tax assumptions and aligning our general fund outlook with the new reality, rather than continuing with projections that no longer match actual conditions.

Staff have already started addressing this in our budget discussions by modeling the potential cuts and creating a new baseline for ongoing resources. While expenses will continue to rise, revenue growth will slow temporarily, dipping below previous trend lines before recovering over time. Once decisions are finalized, updated projections will be brought back for review so everyone can see how these changes affect our budget strategy.

BUILDING PERMITS
FRANCHISE FEES
STATE LEGISLATION IMPACTS
HIGHWAY USER REVENUE FUND
TRANSPORTATION TAXES

BED, BOARD AND BEVERAGE FUNDS
AVAILABLE RESOURCES AND FIXED COSTS
PENSION CONTRIBUTION RATES
PENSION EXPENDITURES
OTHER FIXED COSTS

Concerns were expressed about increasing APS electricity rates and the significant impact on costs. It was noted that the city has aggressively pursued electrification and efficiency measures with the expectation of long-term savings and there were questions as to whether those savings are being realized given current rate hikes. There were also concerns that increased reliance on electricity could tie the city more closely to APS rate hikes and current energy costs are already \$1.6M over budget.

Sustainability Director Nicole Antonopoulos confirmed that the Noresco energy conservation project successfully offset the last APS rate increase, preventing additional expenditures. She emphasized that the project delivered meaningful savings by absorbing prior cost impacts. Electrification efforts have focused on smaller facilities using mini-splits and heat pumps and the organization is moving toward electrification gradually, prioritizing efficiency first. Ms. Antonopoulos acknowledged the concerns and explained that water services account for nearly 75% of city electricity use, making efficiency improvements in that area critical. Long-term energy planning is underway to stabilize costs, focusing on efficiency first and electrification where feasible. The goal is a balanced approach to manage consumption and mitigate rate impacts.

It was agreed that the topic must remain part of ongoing discussions as electrification progresses.

AVAILABLE RESOURCES -- GENERAL FUND
FIXED COSTS -- GENERAL FUND
HIGHWAY USER REVENUE FUND
WATER RESOURCE INFRASTRUCTURE PROTECTION FUND
SOLID WASTE FUND
AIRPORT FUND

A break was held from 10:03 a.m. through 10:33 a.m.

EMERGING NEEDS
ONGOING INFRASTRUCTURE COSTS

There were questions regarding the maintenance of existing city infrastructure. Staff explained that there is not always a dedicated funding source or team assigned to it. Instead, responsibility is somewhat mixed. There are ongoing discussions about the creation of a specialized vegetation team within the Public Works Department. Since Public Works is already experienced in working within the public right-of-way, the idea is to establish a team focused specifically on maintaining this kind of infrastructure, ensuring it receives consistent and knowledgeable attention. For new projects, they are working to make sure maintenance funding and responsibility are built in from the beginning so that future infrastructure does not face the same challenges. They are also looking back at projects constructed over the past five to ten years to identify maintenance gaps that have emerged and to secure funding so those needs can be addressed.

CODE COMPLIANCE
PERSONNEL NEEDS
FUTURE PROJECTS

Council further discussed how FUTS trails and other park infrastructure are funded and maintained, and how those decisions fit into the city's broader financial priorities like public safety staffing.

Parks, Recreation, Open Space, and Events Director Rebecca Sayers explained that FUTS trails are maintained by Parks and Recreation, regardless of whether they were built with BBB funds or another source. There is an annual transfer from the BBB Recreation Fund to the General Fund to cover daily operations and maintenance of parks and trails, including new ones. However, at Parks and Recreation's request several years ago, that transfer was capped. The reason for the cap was to allow

the BBB Recreation Fund to build a balance that could support capital improvement projects, such as sport courts, park expansions, and open space projects, rather than using nearly all of its revenue on ongoing operations. As a result, while new trails can still be built, there is not additional new funding automatically available to maintain them. This creates pressure within existing maintenance budgets.

Concern was expressed that while infrastructure like trails is being discussed and funded, critical core services, particularly public safety, may not have been adequately supported in past years. Past budget cycles were referenced where many full-time staff positions were requested, especially in fire services, but only a small portion were funded. The concern was that Council may not have fully understood the long-term consequences of not approving those positions, and that there may have been an assumption that essential services were already being fully funded.

It was clarified that capital projects like trails are typically one-time expenses, while hiring personnel requires ongoing funding capacity within the General Fund. The primary constraint has not been a lack of awareness of need, but rather limited ongoing revenue to sustain additional staff year after year. In many cases, the positions that do get approved are ones partially offset by grants or internal reallocations, because they place less long-term strain on already tight funds. Grants such as SAFER or other assistance programs can temporarily fund public safety positions, but the General Fund must eventually absorb those costs permanently.

The discussion also touched on employee workload and organizational strain. The importance of avoiding "bifurcation" of roles, where employees take on multiple additional responsibilities due to understaffing was emphasized. Human Resources and Risk Management Director Ryan Saxby shared that they are working more intentionally on job classification and compensation reviews, regularly updating job descriptions and benchmarking against other cities. During the budget process, departments submit formal personnel requests outlining how roles have evolved and why additional staffing or reclassification may be necessary.

REVENUE CONSIDERATIONS

PROPERTY TAX

PRIMARY PROPERTY TAX

Ms. Keene raised a concern about relying too heavily on increasing ongoing revenue, particularly through tax capacity. She shared that counties were once capped by the legislature and lost the ability to continue increasing taxes beyond a certain point. The concern is that if the city continues increasing its tax capacity, such as moving up to a higher rate, there is a possibility that the legislature could eventually step in and impose a similar cap, limiting future flexibility. Counties have had to respond to those limitations by creating alternative revenue sources, such as special district taxes for flood control or public health services, which are options that the city does not necessarily have available. She cautioned against assuming tax capacity can always be expanded and to recognize the potential risk of future legislative limits.

SECONDARY PROPERTY TAX

SECONDARY PROPERTY TAX RATE CAPACITY

PROPERTY TAX HISTORY

PRIMARY PROPERTY TAX LEVY

CONSIDERATION OF 2% PRIMARY PROPERTY TAX LEVY

RESIDENTIAL IMPACT

COMMERCIAL IMPACT

PROPERTY TAX LEVY SHIFT

It was asked how the city is balancing its use of secondary property tax revenue. Staff explained that that current secondary property tax collections exceed the city's existing debt service obligations, meaning there is capacity to issue additional bonds if needed. While no new debt is being issued immediately, the city could issue bonds in the future and still remain within its rate. However, they are trying to weigh that option against putting revenue into the General Fund instead. With significant capital needs, alongside ongoing demands for fire, police, housing, and other services, they want to better understand the trade-offs between using secondary property tax capacity for bond-funded capital projects versus directing resources to the General Fund, which supports ongoing operational needs.

CONSIDERATION SHIFT OF ½ THE PLANNED SECONDARY PROPERTY LEVY INCREASE
RESIDENTIAL IMPACT
COMMERCIAL IMPACT
USER FEES AND RATES

Clarification was requested on the city's recent history with rate studies, aside from the recent water rate study, what other formal rate reviews had been completed in the past few years and whether the city had already been operating on a consistent schedule. Staff explained that the city has completed a number of one-off adjustments over time. Solid Waste was reviewed several years ago, park fees were updated separately, and some internal police service fees were adjusted. However, the city has not been operating on a consistent, recurring "rhythm" of rate studies. That more systematic approach largely fell off around 2017. The city is intentionally moving back toward a structured, ongoing schedule for reviewing rates. A dedicated budget team will help maintain that focus and ensure annual reviews are conducted. While this year may require a heavier lift to get back on track, the workload is expected to level out over the next several years.

It was emphasized that conducting a rate study does not automatically mean rates will increase, it simply ensures the city regularly evaluates whether revenues are keeping pace with costs. It was agreed that while no one wants to raise rates, inflation and rising operational costs make regular reviews necessary to avoid large, sudden increases later.

A break was held from 11:51 a.m. through 1:00 p.m.

PROPERTY TAX DIRECTION

Councilmember Spence suggested a 4% property tax levy increase, which is legally allowable without voter approval. This increase would generate approximately \$300,000 for the General Fund, helping offset anticipated revenue reductions from the state and potentially the federal government. The city has kept tax increase requests minimal over the past seven years, and a modest increase now is reasonable and likely understandable to taxpayers in order to maintain effective and efficient city operations. He also expressed support for moving forward with the proposed change related to secondary property taxes and bonding capacity, noting that the city is in a strong position with its bonding potential and that this adjustment would also likely be acceptable to taxpayers.

Councilmember Matthews expressed hesitation about moving forward with a property tax increase given the broader financial conversations already underway, particularly around a potential public safety tax and how it would be funded, whether through sales tax, property tax, or other sources. She agrees that the city needs new ongoing General Fund revenue to support operations but is concerned about timing and overall impact. Increasing taxes now could limit future bonding capacity if a citizens committee later recommends bonding for major asset purchases. She does not want to unintentionally constrain options before that process plays out.

Councilmember Matthews also questioned whether the relatively small financial gain justifies the psychological impact on residents. On a \$700,000 home (at assessed value), the increase might amount to roughly \$40-\$60 annually for most homeowners. While that may not seem significant individually, the city would only gain about \$150,000 overall. She is struggling with whether it makes sense to raise property taxes, especially when other potential increases, such as sales taxes and rate adjustments, may also be on the horizon. While not opposed in principle, she is cautious and wants the Council to consider the cumulative effect of multiple revenue increases and how the community may respond to them.

Councilmember Garcia agreed with the earlier sentiment that if the city is going to raise taxes, it should consider making the increase meaningful enough to have a real impact. They question whether a 2%, 4%, or even 6% increase would make much difference in public perception, since the act of raising taxes is what will stand out to residents, so it may be better to choose a level that generates sufficient revenue to be truly actionable. He would like to see comparative scenarios showing what different levy increases (2%, 4%, 6%) would generate. He also expressed support for the secondary property tax proposal.

Mr. Tadder indicated that increases could be phased in over multiple years rather than implemented all at once. He referenced a past example involving public safety and PSPRS obligations, where the city had unused tax capacity and implemented a phased increase to build sustainable funding. That approach allowed the city to support new public safety staffing initially funded through grants, ensuring there was ongoing revenue in place once those grants expired.

Vice Mayor Sweet shared that she was in the "maybe" category on both items. She also questions if raising taxes is worth only \$150,000.

Councilmember Aslan stated that he wanted staff to explore all options. It is clear that the city will need more funding, and he is amenable to what you come up with.

Mr. Tadder stated that staff will balance out the budget and see where resources are needed and bring back options in April to get further direction from Council.

COUNCIL FORUM/BUDGET EXPECTATIONS

Ms. Keene opened the floor to give Council the opportunity to weigh in on things and request information that may not have been discussed.

Councilmember Garcia felt that the conversation confirmed that staff heard and understood Council's expectations from prior discussions, and that those expectations appear aligned between Council and staff. Rather than introducing new ideas or initiatives, he preferred to stay focused on the current priorities and complete the work already in progress. Once those items are addressed, he would be open to exploring new or more ambitious projects.

Councilmember Spence indicated his position is that the city should aim to present a budget without increasing total staff levels. This would allow resources to be directed toward unfunded mandates, maintenance needs, and long-term stability. He is open to hearing about critical new positions but suggest that any new requests be balanced by eliminating or repurposing existing positions within divisions, keeping overall staffing constant.

Councilmember Matthews highlighting her concerns about ongoing funding pressures, particularly related to staffing and core services, and the broader impact on the General Fund. She notes that some divisions rely heavily on the General Fund to support new positions, and rising costs, like minimum wage increases, are gradually eroding that fund, creating long-term budget challenges.

Councilmember Matthews referenced past decision-making, realizing that many critical funding choices, especially for public safety and housing, were made before Council review, leaving Council and the community to react rather than actively guide priorities. This underfunding of core services has been building since at least 2009, following across-the-board cuts from the recession, and more recent priority-based budgeting may have softened impacts but did not fully address funding gaps. Deferred maintenance and underfunded services have now created urgent financial pressures. Decisions like water rate increases or potential new taxes are necessary because ongoing revenue shortfalls cannot be addressed with one-time funds alone. She stressed the importance of transparency and informed decision-making, both for Council and the community, to understand why increases are needed, what alternatives exist, and how resources are being allocated.

Vice Mayor Sweet expressed appreciation that maintenance costs for city projects are now being included in the budget. She values seeing the bigger picture and emphasized the importance of continuing broader conversations about all cost increases, not just property taxes, so Council can understand the cumulative impact on residents. Having a comprehensive, big-picture view when the budget returns in April will help her better communicate and explain decisions to the public.

Councilmember Garcia noted that the city lost significant resources during the Great Recession and is only now starting to catch up. He highlighted how much has changed over the past 15 years, including staffing levels, outsourcing decisions, and rising costs, and he is considering whether outsourcing is cost-effective compared to hiring in-house. After years of "doing more with less," the city is now in a position where it must "do more with more," including raising taxes, adjusting fees, and investing in core

services. Home values have increased dramatically over the same period, but property taxes have not kept pace, making incremental increases more necessary. He emphasized the importance of clear messaging to the community: explaining that additional contributions are required to maintain and improve city services and framing it as a necessary step toward building capacity and sustainable operations rather than as a burden.

Councilmember Aslan shared that he believes the city needs to get caught up with its code compliance. It is particularly important for Dark Sky code compliance given the many things that are going on around the issue. The more that the city is able to just rely on the general fund for these things, it provides Council the opportunity to have a little bit more discretion within the discussions they have been forced into having about how to fund public safety appropriately without strings attached.

Ms. Keene concluded the retreat sharing that the next step in the process is the start of division review meetings, which would start the next week. Over the course of two weeks, the City Manager's budget team will meet with each division to review their requests, including new position requests and reclassification proposals. The goal of the meetings is to evaluate and compile all requests so the team can prepare a comprehensive budget proposal to present to Council at the April retreat.

5. Adjournment

The Budget Retreat of the Flagstaff City Council held February 5, 2026, adjourned at 1:34 p.m.

MAYOR

ATTEST:

CITY CLERK