

City of Flagstaff

Honorable Mayor, City Council and Citizens of Flagstaff:

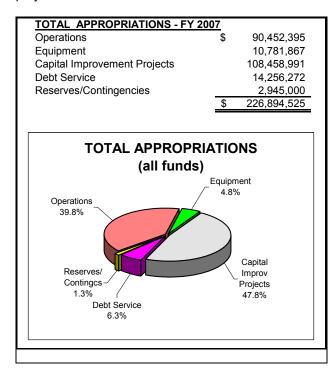
I am honored to complete my fifteenth City budget on behalf of the Citizens of Flagstaff. Carefully planned, controlled expenditures over several years have enabled the City to respond to economic ups and downs. As a result, the City is in excellent financial condition. However, the years ahead will likely see a declining share of stated shared revenue as will be clear within this budget message. Moreover, the State Legislature dealt a blow to this City's fiscal prospects during the most recent legislative session. The indication for the future is to proceed with caution.

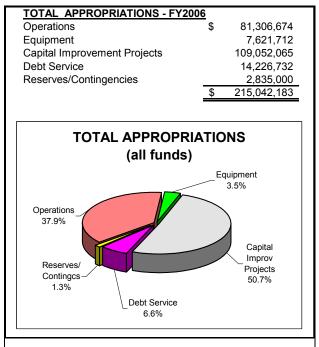
During the current fiscal year all City departments examined five-year projected expenditure needs based on anticipated community growth, anticipated service enhancement (primarily in parks and recreation) and responses to emerging issues like affordable work force housing and economic expansion.

Collectively, City departments identified a five-year need for an additional 250 employees. While the anticipated need for 250 additional employees is over a five year period, pent—up need is represented by the submitted FY 2007 requests of 93 new positions. Clearly, the City cannot financially absorb the number of positions desired either in FY 2007 or over the five-year period.

As always seems the case, careful consideration about resource allocation is essential. The proposed FY 2007 budget reflects Council goals and priorities and faces reality about the most critical current needs.

More work is needed on a five-year strategic plan. Therefore, in FY 2007 the City Manager will lead <u>a major initiative to identify clearly the reasons and cost of expressed departmental needs.</u> Projected costs will be refined and information will be presented to the City Council, which will allow for a strategic projection of where resources will need to be allocated within the organization.





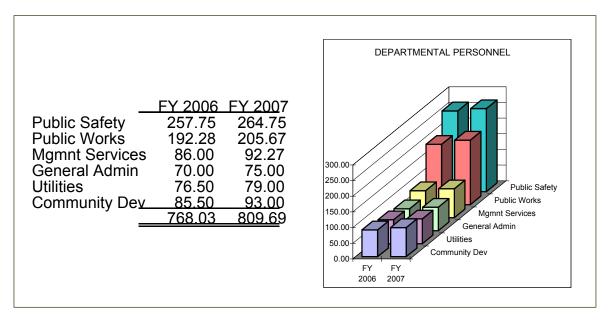
The proposed FY 2007 budget achieves several goals: maintenance of current services; adequate compensation adjustments to maintain relative salary status and continued benefits; strengthening the organization's overextended central services infrastructure; building upon a sound but insufficient information systems; and response to an insufficiently maintained facilities infrastructure. A summary comparison of FY 2007 and FY 2006 appropriations are shown on the previous page.

Human Resources

The City enters a new fiscal year showing continuing financial strength, although State Legislative action taken after this budget was initially approved by the City Council, significantly changes the multi-year outlook. (See Financial Outlook.) Growing revenues are sufficient, as in FY 2006, to allow for compensation and benefit adjustments to meet rather dramatic cost increases for health insurance, retirement and pay plan adjustments to better position the City for recruitment and retention of employees. Last fiscal year expenditures for personnel services increased by \$4.0 million, including new employees. This proposed budget will increase personnel service expenditures by \$5.8 million, including increases in the following categories:

Compensation	\$1.7 million
Retirement, State	\$615,000
Retirement, Public Safety	\$295,000
Assignment Pay	\$20,000
Health Insurance	\$487,000
Dependent Health Subsidy	\$219,000
Additional Positions	\$1.4 million

The FY 07 budget includes the addition of **41.66 full-time equivalent positions citywide**. The following chart indicates the growth by department.



Organizational Infrastructure

Recent years have seen new expenditures focus on direct delivery of services. It has been necessary to allocate revenue growth toward sustaining service levels, leaving limited resources to build internal service organization capacity to keep pace with a growing organization. In the meantime, many internal service requirements have grown vastly more complicated, ranging from new human resource requirements, such as HPPA, to new accounting rules. The City also experiences significant greater exposure to risk because of many new programs and operates a much more complex information service structure. It is essential to add employees in order to keep up with greatly increased workload. The first priority of positions included in this budget are to meet this need. These positions include:

Deputy City Clerk	Insurance Claims Specialist
Human Resources Benefit Specialist	GIS Technician
Software Specialist	Account Clerk II
Finance Intern (0.13 FTE)	Maintenance Worker III – HVAC
Police Evidence Technician	Administrative Specialist – Utilities (.5 FTE)
Administrative Assistant – FMPO (.5 FTE)	Senior Recreation Coordinator – Multi-Gen Center

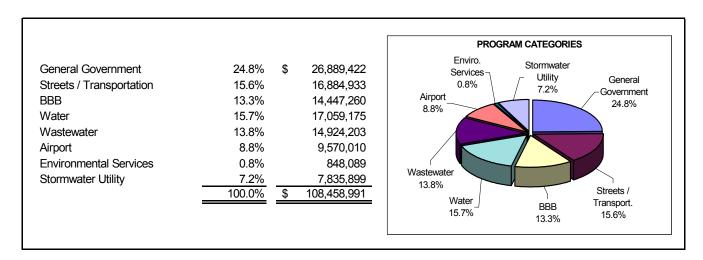
Community Investment

The City is investing millions of dollars for infrastructure, and the private sector is adding investment at levels never before experienced in the city. It is vital to we make investments that last, adding value to the community.

• To serve both private and public sector permitting and inspection needs, several new positions are included. They are:

Development Services Case Manager	Development Services Inspector II
Development Services Associate Planner	Project Manager II - Traffic
Development Services Inspector I (previous temporary position)	

• The City's capital budget (\$108 million) continues the City's commitment to invest in the community's physical infrastructure and is summarized in the following graph:



 Public buildings and infrastructure require maintenance and renewal. The budget includes \$461,649 for essential facilities maintenance. A minimum of \$400,000 is recommended annually for the foreseeable future.

Sustaining Services

Demand placed upon City service grows rather constantly as public use of the service grows or new infrastructure and service areas create added responsibility. At some point the existing crews are stretched too far to maintain historic service levels. Either services decline or additional staff must be added. From time to time, the need to improve the existing service is also identified. Nineteen positions are proposed to maintain service levels, or improve upon existing services (indicated with an asterisk):

Parks Maintenance Worker I	Library Assistant I *
Library Page (.5 FTE)	Library Clerk (.75 FTE)*
Library Clerk I	Environmental Aide Small Business Waste * (.6 FTE)
2 Water Services Technicians	Sustainability Coordinator *
Airport Maintenance Worker (.5 FTE)	Code Enforcement Aide – Sidewalk Maintenance *
Environmental Services Collections Supervisor	Convention and Visitors Bur. Publications Assoc.*
5 Environmental Services Operators	Visitor Center Administrative Ass't (.5 FTE Temp)
Traffic Signal Technician II	Visitor Center Administrative Ass't (.5 FTE) *
	Part-time hours for Recreation Services *

Public Safety

The Police Department received five new officers in FY 2006. While additional officers were requested to respond to geographic expansion and the need for a new beat, these positions are deferred to next fiscal year. Three new officers are included for assignment to Municipal Court. The three new officer positions respond to the Court's highest priority of security improvements. The use of sworn police officers assigned to the Court adds flexibility to these positions for use by the Police Department when demand is high for police patrol services, during low or no demand periods at the Court. Police staffing levels will be examined carefully in FY 2007 both in response to growing geographic service area and in consideration of broad-based criminal justice system needs identified by the Criminal Justice Council.

The Fire Department request for an **increased fuel management crew** is also included. The Fire Department **budget for overtime is increased**. Funds are included for a **short-term overhire** in the Fire Department to allow for a group academy starting very early in the fiscal year. Fully trained fire fighters will then be ready to fill vacancies we now know will occur during the year. **Three additional firefighters** are authorized to begin a process of fire staff additions to meet the City Council's goal of placing four firefighters on each engine. This will be an incremental process; **the pace of which this can be achieved will be examined during the year, as strategic projections are refined**.

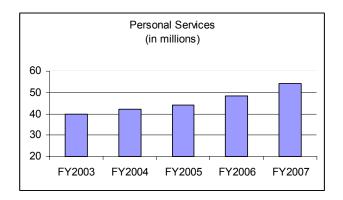
Public safety currently receives 50% of general fund appropriations compared to 36% just five years ago. Careful consideration of expenditure growth for public safety is needed.

New Programs

Three positions are included for new initiatives. **A Community Planner** within the Community Improvements Division of Community Development will add planning capacity to help address Council goals. The position will assist in the planning reserve areas planning effort and other area and neighborhood plans as determined. **Two code enforcement positions** were added and funded in part by CDBG to carry out the property maintenance initiative, with a focus on target neighborhoods.

FINANCIAL OUTLOOK AND SUSTAINABLE PROGRAMMING

The single biggest impact on the expenditures during the next five years will continue to be increasing human resources costs. It is unlikely that any of the growth factors – compensation, health insurance, retirement will abate. Other inflationary factors are also pushing unavoidable expenditures. As core costs continue to soar locally so will employee compensation needs to keep pace. These cost increases will continue to be significant. Reiterating earlier figures, health insurance costs will increase by \$487,000 next fiscal year and retirement costs by \$910,000. In additional to personnel costs, total non-personnel operating costs will increase by \$2.6 million, including a fuel cost increase of \$450,000. A historical perspective on the overall growth in personal service costs is reflected in the following graph:



Our human resources are what enable the delivery of municipal services. Without an appropriate number of workers, services will decline, even as we invest in technology and efficiency measures to improve delivery. Yet, the decline would be incremental and initially barely perceptible. In time, citizen dissatisfaction could arise for many services, as is presently the case for traffic, streets and planning. Still employees are expensive; and careful decisions about where the City must apply human resources will continue to be essential.

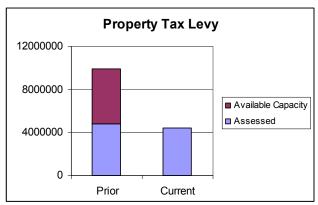
Pages of the budget message have been used before to express caution about the City's fiscal outlook. City revenue's are significantly influenced or dependent upon outside influences, especially the condition of our State and national economies and actions by the State that may affect revenues.

Every governmental budget is affected by economic cycles. National or state economic setbacks have an impact on revenues derived both from local tax receipts and from intergovernmental shared revenues. State revenues have historically been subject to economic cycles because of dependence on sales and income taxes. Sales and income tax revenue can decline rather dramatically when economic downturns reduce payrolls and retail expenditures.

The second area of uncertainly arises through the State Legislative process. Each year, the State Legislature considers changes in tax and revenue policies, which can create a negative impact on the fiscal condition of local governmental jurisdictions. The 2006 Legislative sessions produced it's share of considerations.

One tax proposal passed without much fanfare or consultation with the local jurisdictions affected. Within the omnibus budget bill passed toward the end of the session, local property tax levy limits are reduced for those jurisdictions not currently of their maximum authorized levy. The new law establishes the 2005 levy as the new base year. Since the City of Flagstaff was at just less than half it's authorized levy in 2005, the new law greatly limits the City's future fiscal options.

Moreover, the new law (passed after many cities had approved their FY 2007 budgets) rolls back any FY 2007 property tax increase to a limit based on the 2005 base year. To comply with the law the City has been forced to fix a lower levy and make budget adjustments projecting lower revenue. The effect of the change is demonstrated in the following graph. As shown, all growth capacity has been eliminated and the levy for FY 2007 is reduced.



Future allowable growth in the amount of property tax has also been changed to disallow inclusion of growing property values. There are two reasons this change in local taxation authority means significant budgetary and likely service impacts for Flagstaff. Local revenue growth will be less than it has been historically; and the City has found it necessary to utilize that revenue growth to fund rising service and capital costs. Second, the City recognizes its future share of State shared revenue will decline as local population becomes relatively smaller to the rest of the State which has a must faster

rate of population growth. Multiyear projections take this anticipated State revenue shrinkage into account. The anticipated fiscal recovery from this revenue loss was the City's ability to gradually increase property tax to make up for the difference. This will no longer be an option.

This experience underscores the caution about outside influences which can very suddenly alter the City's fiscal outlook. Care and focus are needed as decisions are made about where to allocate scare resources.

In FY 2007 focus will be placed on refining a five-year strategic projection for the City. The City Manager will guide this initiative in order to provide Council with as clear a picture as possible of projected revenues, affordable expenditure levels and scenarios which identify additional revenue needs if higher levels of staffing and services are desired.

Community Development

Economic development is essential if governmental services are to be funded at levels maintaining and enhancing the quality of life in our community. Toward that end the City has expended significant funds to establish attractive investment opportunities. We do this through sales and marketing, infrastructure investment and improving the community qualities that are valued by residents and prospective investors alike. In recent years the City has utilized infrastructure and cash to attract investment, such as the partnership with Northern Arizona University to build a conference center and building infrastructure for the East Flagstaff Business Area.

- In FY 2007 clearly defined methods will be identified by written policy, so the City is not so reliant upon appropriated outlay.
- The Community Development Department will continue to revise the development services process to eliminate unnecessary delays while representing community interests through the appropriate application of City ordinances.
- The Housing Land Trust will be established and initial steps on the first housing units will be accomplished.

FISCAL YEAR 2007 HIGHLIGHTS

This proposed budget is sustainable only if the City Council adopts several additional revenue sources it has discussed. Council actions are necessary to implement these revenues at the beginning of the fiscal year. The new revenues contemplated include: Community Development review fees, sales tax code amendments and increased stormwater fees. A secondary property tax rate transfer to primary was initially included and adopted by the City Council. Due to a change in State law, previously discussed, this was rolled back and not included in the budget. As discussed on previous pages, this limitation on revenue growth will in time affect the sustainability of current expenditure growth.

As previously stated, current services are sustained and in some instances enhanced. The cost of employee compensation is significantly increased to provide greater potential for compensation growth and to maintain benefits. A significant number of program initiatives will be undertaken. The following bulleted statements identify significant program components.

- The <u>responsibilities</u> for departmental and program oversight among the Deputy City Managers and City Manager will be shifted to allow for targeted focus by each.
- <u>Facility improvements</u> will be made to accommodate growing staff, including full use of the APS building, use of the City owned building on Aspen Avenue, currently occupied by the Army Corps of Engineers.
- Facility enhancements of the City Council office to accommodate increasing workspace needs of the City Council and improve the <u>City Manager's Office</u> for frequent meeting use.
- Allocation of significant dollars for multi-year facilities maintenance.
- Formulation of an organizational pandemic preparedness plan.

- Facilitation of a multi-interest Citizens Task Force to make a recommendation to the City Council regarding the level and allocation of the BBB Tax.
- Allocation of money for an initial capital contribution and ongoing operations support for an Intake Triage Facility.
- Initial development of an adequate telecommunication infrastructure between and among government facilities.
- Investment in regional community recognition initiated with the <u>Arizona Cardinals</u>.
- Construction and operating budget for a <u>business incubator</u> adjacent to USGS on McMillan Mesa, utilizing a Federal EDA Grant.
- Initiation of a public/private partnership for the development of a <u>research park</u> on city owned land next to USGS.
- Operation and initial projects of the City affordable work force <u>Housing Land Trust</u>.
- Submittal to the City Council of a <u>five-year strategic expenditure plan</u>.
- A determination process for more specific land use designation of <u>planning reserve areas</u> will be undertaken in partnership with State Land Department staff which owns significant acreage with planning reserve areas.

Summary

The proposed FY 2007 budget sustains current services. With enhancing revenue actions the level of expenditure is sustainable over a five-year period, inclusive of the additional allocation next fiscal year to staff and operate the new Aquatic-Mutigenerational Center. There appears to be very little flexibility or opportunity in outlaying years, according to current projections, so there is reason to be cautious.

The budget is the result of a citywide effort. Many employees had a hand in developing five-year projections. During our budget review they expressed that the process was an eye-opener. Staff worked closely to inform EAC, particularly regarding compensation and benefits. Employees have taken a very thoughtful approach to a myriad of budget issues. Finally, as always, special recognition is appropriate to the Finance Budget staff who both assisted departments in the development of budget information and proposals and assured all the necessary detailed calculations to provide this budget proposal to the Council.

Respectfully Submitted,

DAVID W. WILCOX City Manager

City of Flagstaff Mission Statement

The mission of the City of Flagstaff is to enhance the quality of life to its citizens while supporting the values of its community.

Our Values Are:

ACCOUNTABILITY

We are accountable to the community and each other

RESPONSIVENESS

We value addressing our customer's concerns

QUALITY

We provide high-quality customer service

PROFESSIONALISM

We are honest, responsible, fair, highly-trained, and cost conscious

TEAMWORK

We are a team in partnership with citizens, other agencies, and each other for a better Flagstaff

PROBLEM SOLVING

We solve problems creatively, open-mindedly, and professionally

"Service at a Higher Elevation"

Budget Highlights 2006 - 2007

Accountability

The City continues to refine it's information dispersal through the City website, quarterly reports through Cityscape, public service announcements, and the implementation of an e-government presence on the web.

Responsiveness

The City has increased staffing and resource funding for the East Flagstaff Branch Library as the demand for service and circulation materials continues to grow.

Quality

The Development Services division is implementing case managers to provide a single point of contact for development applications to allow for better continuity and timeliness of project review.

Professionalism

Human Resources will continue to integrate the Leadership Talent Development Program into City processes and procedures and provide ongoing training that facilitates this development.

Teamwork

The Fire Department partners with a number of other citywide agencies to conduct Disaster Management drills to prepare and protect the community from both manmade and natural disasters.

Problem Solving

The City has joined with the County, the Flagstaff Medical Center, and the Guidance Center to provide ongoing funding for an Intake/Triage unit to address one segment of the continuum of care needed for substance abuse issues.

Accomplishments 2005 - 2006

Accountability

In the May 2006 general election, successfully passed an increase to the expenditure limitation base to facilitate the ability to expend resources for projects supported with current City revenues.

Responsiveness

The Environmental Services division towed over 100 abandoned vehicles, sponsored over 40 voluntary cleanups, and removed 15 transient camps.

Quality

The Police department maintained 48 Block Watch groups, conducting 138 meetings. Every officer in the department is assigned at least one block watch to coordinate.

Professionalism

Government Finance Officers Association presented the City the Distinguished Budget Presentation (thirteen consecutive) and Excellence in Financial Reporting (fifteen consecutive) Awards.

Teamwork

The City partnered with the Flagstaff Unified School District, Arizona Game and Fish, the Arboretum at Flagstaff, and Natural Channel Design to complete the Frances Short Pond restoration.

Problem Solving

Purchased the Red Gap Ranch as a future water source and established a water management consortium with the Navajo and Hope tribes.

