

WORK SESSION AGENDA

ITEM NO. 9

City of Flagstaff

Budget Impacts
As of 12/10/08

Funds

- The City of Flagstaff predominantly uses three fund types to capture our revenues and expenses.
 - General Fund
 - Special Revenue Funds
 - Enterprise Funds

General Fund

- The General Fund is primarily funded through general sales, property, and state income taxes collected at either the state or local level.
- Services provided by the general fund include police, fire, parks, recreation, building permits and inspections, city administration, and the mayor and council.

Special Revenue Funds

- Special Revenue funds (such as Bed, Board, & Booze, Highway User Revenues (gas tax), or Transportation) have a legally imposed restriction on the use of those funds.
- Reducing expenses in a special revenue fund does not add money to the General Fund.
- For example, Highway User Revenue Funds (gas tax) are legally restricted by Arizona Statute and can only be used for street maintenance, street improvements, snow control, etc .

Enterprise Funds

- Enterprise funds are generally run on a business model and are self-supporting.
- The City has four enterprise funds consisting of the Utility fund (water and wastewater), the Environmental Services fund (trash pick up and recycling), the Airport fund, and the Stormwater fund.
- Reducing expenses in an enterprise fund does not add money to the General Fund.
- For example, if we would decrease trash pick up to once every two weeks, we would not be able to hire more police officers.

Fund Balance Policy

- The City of Flagstaff has adopted a policy regarding how much fund balance (or undesignated reserve) should be kept at any time.
- The policy for the General Fund is 15% of revenue. It is 10% for Special Revenue and Enterprise funds.
- Fund balance provides for a reserve.
- The fund balance amount will vary depending on how much revenue is budgeted.
- The higher the reserve percentage – the better the bond rating – the lower the interest rate the City has to pay on debt – resulting in savings to the City.

So?

- The City of Flagstaff is currently cutting from the general fund because of either lost revenue or increased expenses.
- Some of the shortfall that the City is trying to fund is to get the General Fund back to a policy reserve percent.
- The City is faced with 3 years of revenue shortfalls that have had a cumulative negative effect to the General Fund.

How much are we trying to find?

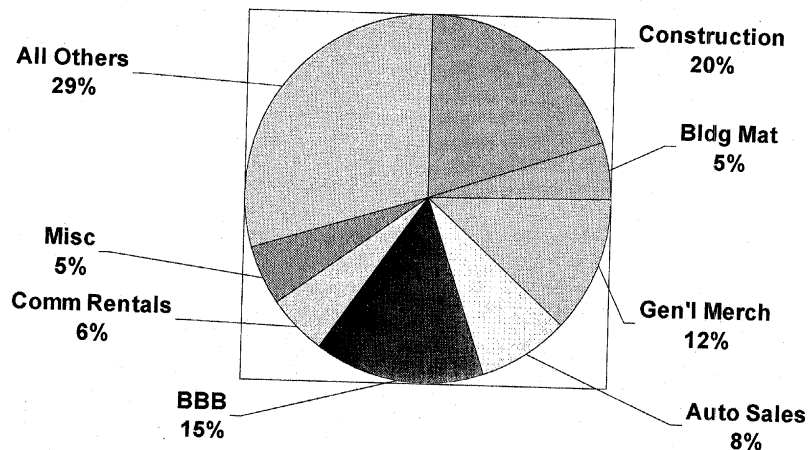
- The three year cumulative impact of the revenue shortfalls and added expenses is \$19,150,000

FY2008 (7/1/07-6/30/08) (recaptured through fund balance reserves)	\$1,650,000
FY2009 (7/1/08-6/30/09 estimate)	4,500,000
FY2010 (7/1/09-6/30/10 estimate)	13,000,000
Total	\$19,150,000

How did this happen?

- Declines in local sales tax revenues primarily from construction, auto sales, and general merchandise.
- Declines in state shared sales tax primarily from the same three categories
- State balanced budget by transferring expenses to cities without notice
- Shortfall in FY2010 policy reserve was originally anticipated to be made whole through growth in development projects.
- The next slide shows the relative value of different sales tax categories. A small decrease in construction results in a large change in tax collected.

Sales Tax Categories



But what were we thinking?

- In the 42 year history of the City sales tax, we have been virtually recession proof in the generation and collection of sales tax
- We anticipated a 10% increase in city sales tax from FY2008 to FY2009 due in part to normal business growth and new activity including:
 - Aspen Sawmill (New Frontiers)
 - Flagstaff Mall expansion
 - Auto Mall
 - NAU High Country Conference Center
- Some of these developments have not occurred within projected time frames (the City's long range planning horizon is frequently five years in the future).
- If the City would not have participated in funding for these improvements, the revenue shortfalls would have been worse.
- In addition to projects not performing as expected, we have had an erosion in our base sales taxes as discussed earlier (auto sales, construction, general merchandise).

And.....

- Even though sales tax receipts were showing declines, prior history indicated we would meet sales tax targets for FY2008
- As final numbers were available for the Fiscal Year ending June 30, 2008, sales tax revenues were analyzed (September 2008) and we found that FY2008 numbers were low for city sales tax and state sales tax
- So additional trend analysis was conducted using a variety of methods to better project sales tax revenues
-Getting us to where we are today.

8

But still –31 positions were added

Enterprise Funds

- 8.0 positions were added in Enterprise funds (Utilities and Environmental Services) half of which were dependent on new contracts with new revenues.
- Remember – these funds are self supporting so there is no General fund impact.
 - Running total: 8 out of 31 positions

Special Revenue Funds

- Special Revenue funds added a total of 7.1 FTE's
- HURF added 0.5 FTE to conduct a sign inventory
- The Library added 6.6 FTE's
- The General Fund pays 47% for positions added by the Library for either the Downtown or East Flag branch
- For FY2009, 4.6 FTE's were added by the Library that the General Fund shares in the expense. 3.0 of these FTE's are for the Sunday Library opening
- The Library also added 2.0 FTE's that are fully funded by the Library District tax
 - Running total: 15.1 out of 31 positions

General Fund

- The General Fund added 12.5 positions that had either a full or partial external revenue source (police, fire, maintenance, courts)
- Of the 12.5 positions, 5.5 positions had full reimbursement due to fees or a contractual reimbursement (police, courts, parks)
- 7.0 FTEs had partial reimbursement through grants (police and fire)

Running total: 27.6 FTE out of 31 positions

General Fund positions

- And the General fund added 3.25 positions (one of which has been frozen) that have no revenue offsets (maintenance, courts, human resources, and governmental relations).

Total 30.85 FTEs rounded to 31

Positions

- Of the 31 new positions, only 8 have been filled.

- And now the numbers.....

Summary - 3 Year Impact Fiscal Years 2008, 2009, 2010

- Shortfall: \$19,150,000
- Comprised of:

City sales tax shortfalls	\$10,850,000
State revenue shortfalls or state transferred expenses	2,200,000
Construction revenue declines	1,600,000
Restore reserve to policy percent	4,500,000
Total	\$19,150,000

How are we going to deal with this?

- We are looking to correct this shortfall in our current fiscal year and planning for our next fiscal year.

For FY2008 and FY2009

Using vacancy savings/frost	\$1,400,000
Reducing or deleting large one-time expenses (i.e. software, hardware, facilities, fleet)	2,600,000
Reducing smaller contractual/commodity expenses	1,150,000
Additional savings yet to be determined	1,000,000
Subtotal for FY2008 and FY2009	\$6,150,000

For FY2010

Eliminating the budget for the anticipated cost increases for contractual/commodities	500,000
Eliminating the budget for anticipated new positions	600,000
Decreasing the airport transfer and eliminating the sustainability transfer	200,000
Decreasing general fund expenditures by 19%	<u>11,700,000</u>
Subtotal for FY2010	13,000,000
Subtotal from FY2008 & FY2009	<u>6,150,000</u>
Total	\$19,150,000

So what if the economy gets even worse?

- The City has planned an additional \$1.6 million in reserve over the policy level.
- The City has planned this additional capacity since we're projecting 18 months in advance in case any targeted reductions aren't met.
- If all the expenditure reductions occur as outlined, then the City would end the fiscal year ending June 30, 2010 with a \$8.7 million dollar ending reserve.

But what are we going to do exactly and when?

- All savings measures shown for FY2009 have already been put into place, with the exception of finding an additional million.
- For FY2010, the City departments are currently preparing their budgets by prioritizing their program activity. Information on specific actions will not be available until early spring and will be subject to staff and council review and approval.
- The public is welcome and encouraged to weigh in with suggestions at any point in the process and a link to provide input will be provided on the City website.
- Future public meetings and updates at the televised Council meeting will continue throughout the year.

Specifically...

- A Council meeting for budget planning is scheduled for February 12 – 13, 2009
- Department review of all proposed budgets is planned for February 23 – March 6, 2009.
- The City Manager presentation on the proposed budget to Council is planned for April 22 – 24, 2009.

Public Outreach

- Take this presentation on the road
- Mayor, Council and Manager present at service clubs, business organizations, other speaking engagements
- Request an audience with the *Arizona Daily Sun* editorial board
- Post on-line
- Create a Downloadable Audio File

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