



# City of Flagstaff

June 18, 2013

Dear Mayor and Council,

How we spend the public's money is our most important business. Every year we are challenged with more demands for public services than our resources enable. However, FY14 might be the most challenging we have seen in the last five years as we deal with the lingering effects of the Great Recession and pent up demand for municipal services. Due to a robust process, good discussion and debate, and some difficult choices, this budget accomplishes some lofty goals.

## **The Goals**

In July of 2012, the Council identified its goals and objectives for the next two years. Chief among those were maintaining quality infrastructure. At the November Budget Retreat, staff presented information on infrastructure planning. We looked at Fleet, Facilities, Streets, Utilities, Airport, Stormwater and Parks. To fully understand how to maintain the City's critical infrastructure, we framed our assessment of the City's projected infrastructure needs in three distinct ways.

### GOAL: Maintain the Current Condition of our Critical Infrastructure – Stop the Bleeding

First, we asked, "If we keep funding this component of infrastructure at the FY13 level, will the condition of the infrastructure get better, worse or remain the same?" In no instance would the condition of the infrastructure get better. In most instances, the condition would get worse. In other words, the municipal corporation patient was bleeding. So we then asked, "What will it cost to stop the bleeding and maintain the current condition of our infrastructure?" The answer is \$1.6 million in ongoing dollars across all funds including \$390,000 in the General Fund. However, this number did not include pavement preservation. That added an additional \$26 million in ongoing dollars.

### GOAL: Upgrade the Condition of our Critical Infrastructure – Close the Gap

To better understand our targets for infrastructure, we asked, "Once we stop the bleeding and maintain the current condition, what will it cost to upgrade the City's critical infrastructure to the generally accepted standard?" Combining both one-time and ongoing dollars, the answer was an intimidating \$135 million, including almost \$52 million in street construction and \$9 million in the General Fund.

#### GOAL: Maintain the Upgraded Condition of our Critical Infrastructure – Maintain

Lastly, we asked, "If we were to achieve the generally accepted standard, what will it cost annually to maintain the infrastructure component at that target condition while also stopping it from failing back into disrepair?" That answer was \$8 million City-wide including approximately \$4.3 million in street construction and \$750,000 per year in the General Fund.

At the conclusion of that November 2012 retreat, Council and Management established goals of "stopping the bleeding" first; building capacity in the budget to "maintain" infrastructure at the desired condition second, and then finding the dollars to bring infrastructure up to the standard—"close the gap"—third.

From November until February, Council engaged in a series of mini budget retreats to learn more about specific City services and determine if there was any Council desire to shift service levels or eliminate services entirely to help accomplish these goals. There was great discussion and inquiry; however, there were no obvious areas that a Council majority desired to eliminate. Further, there was a Council consensus that employee compensation issues were a priority and needed to be addressed. Updated salary survey information demonstrated that City employees were, on average, 11% below the market average. Moreover, while pay cuts had been restored in April 2012, no raises had been awarded since 2009 during which time employee health insurance and retirement contributions had risen and health insurance benefits had decreased.

#### GOAL: Address Employee Compensation

At the February Budget retreat I presented the goal of a 3.2% market adjustment for all employees. This required approximately \$1.5 million across all funds, including \$1.2 million in the General Fund.

Therefore, the goals of "Stop the Bleeding" and "Address Employee Compensation" set a combined target of \$1.6 million in the General Fund in addition to any other possible funding towards pavement preservation (streets). Council has met this goal, plus appropriated another \$1 million in ongoing dollars and another \$1.45 million in one-time dollars for street repairs which is approximately a 210% increase in funding over the FY13 level. The overall cost of meeting the infrastructure and compensation goals is \$2.6 million in on-going dollars in the General Fund.

#### Other Considerations

Also at the February retreat, Council expressed a desire to see a balanced approach towards funding these goals among: budget cuts, re-allocations across funds, and new revenues. Lastly, Council agreed to explore, within a larger transportation context, more significant revenue increases to address the large one-time amount necessary to bring the condition of Flagstaff streets up to a generally accepted standard.

## **The Starting Point**

From a revenue perspective, the City can firmly say that we are back in a growth situation. That is the good news. The bad news is the revenue growth is barely outpacing the inflationary growth of key expenditures. Let us review:

### General Fund and Highway User Revenue Fund (HURF)

Revenue projections show that local sales tax (1%) will generate approximately \$1,080,000 in new dollars in FY14.

Initial state shared sales, income and auto taxes anticipated \$80,000 in growth. Revised income tax projections added another \$450,000.

Revenue from building permits is expected to grow by \$315,000.

That's \$1,925,000 in new revenue. This revenue would be very helpful in achieving the aforementioned goals, except the inflationary growth in fixed costs.

City (employer) contributions to pensions for public safety personnel are expected to increase \$555,000 in FY14. City contributions to non-public safety employees are also expected to increase \$55,000. Participation in these state pension plans is mandatory. Furthermore, neither employers, such as the City, nor employees control the benefits or the contribution levels. These are set by the State Legislature and administered primarily by State boards.

Obligations associated with the FY13 "triggers", including a 0.6% increase in pay and bringing the "job families" that were more than 25% below the market to 20% below the market, will cost a combined \$400,000.

Health insurance increases from FY14 are budgeted at \$110,000 more than FY13.

Workers compensation premiums increased \$152,000. Additionally, property and casualty insurance is expected to increase another \$211,000.

General Fund utility increases came in around \$20,000 and were offset with adjustments to other utility accounts.

This leaves a starting point of approximately \$442,000 to address the above listed \$2.6 million infrastructure and employee compensation goals, or a \$2.2 million deficit.

HURF revenues are expected to increase \$400,000 due to a reduced State sweep. There is also a potential for an additional \$200,000 in LTAF funding. Rezones in Streets total \$40,000. This results in a starting point of \$560,000.

### BBB

The Bed Board and Beverage (BBB) tax continues to see growth. Aggressive efforts to stimulate our tourism industry at the very start of the recession have paid off as our reductions in BBB tax collections were minimal and short-lived. BBB revenues are expected to grow by 5% over last year's budgeted amounts.

This means new revenue in the Arts & Sciences (7.5%), Beautification (20%), Economic Development (9.5%), Recreation (30%), and Tourism (33%) fund allocations.

In most cases, the 5% growth more than pays for a 3.2% compensation increase for employees who work in these funds and the associated increase in infrastructure costs needed to "stop the bleeding." This leaves some capacity for additional expenses.

While the BBB funds are prohibited from transferring dollars to the General Fund to pay for non BBB related expenditures (like Police, Fire or Community Development), there are General Fund expenditures that could be transferred to different BBB funds. I will refer later to this as "fund re-allocation."

### Library Fund

The Library Fund is somewhat complicated because it serves as the fiscal agent for Flagstaff and all County libraries. There is a Library District property tax that all Coconino County residents pay (including those who live inside the Flagstaff city limits). The Flagstaff libraries (Main and the East Flagstaff Branch) are funded 67% with district funds and supplemented with 33% General Fund dollars.

County libraries are broken into two groups under our system: Branches and Affiliates. Branch libraries (Tuba City, the Jail, Grand Canyon, Havasupai, Forest Lakes and the Bookmobile) are funded entirely with District money but show up in the approximately \$3.5 million Library budget because they are managed by the Main Library. County Affiliate libraries (Fredonia, Supai, Page, Sedona, Williams and the County Law Library) are separate entities and while their funding passes through the City, they have zero impact on the Flagstaff budget.

The Flagstaff and County Branch libraries face a very difficult revenue starting point. The assessed value for the Library District dropped 13%. This means, if the property tax rate is held constant, the revenue will drop approximately \$670,000 in FY14 versus FY13. This equates to about a \$340,000 drop in revenue for Flagstaff libraries and a \$330,000 drop in revenue for the County Branch libraries.

On the expenditure side, the Library starts the fiscal year with a \$30,000 deficit due to funding needs for fleet infrastructure replacement. Additionally, the Library has undergone a two year evaluation of its employee classification and organizational structure. In short, this evaluation found a number of employees were not properly classified and the overall organizational structure was extremely outdated. To correct both of these deficiencies will require \$172,000 in additional ongoing dollars. The cost of the employee market adjustments equals

approximately \$60,000. Together, this totals \$262,000 in new expenditures on top of a \$340,000 revenue decrease for a total starting point of negative \$602,000.

### Environmental Services

There are two principal programs in the Environmental Services Fund--Solid Waste and Sustainability and Environmental Management Section (SEMS). FY14 will mark the split of these two programs into different funds as they have unique revenue sources. Therefore, I will treat them as two separate entities for the purposes of balancing revenues against expenditures.

*Solid Waste:* Solid Waste anticipates \$59,700 in new revenues attributed to increased tonnage and rates associated with the landfill. In addition, Solid Waste anticipates salary savings in the amount of \$70,500. The cost of providing the employee compensation market increases and infrastructure budgeted expenses also total \$118,200. With the separation of these two principal programs, the Hazardous Products Center (HPC), which is currently funded in the SEMS budget, will be fully funded out of the Solid Waste budget. The purpose of the HPC, located at the landfill facility, is to divert hazardous waste from entering the landfill. This facility and the services it provides drastically reduce additional clean-up and monitoring costs in future years. The cost of the HPC is approximately \$225,000 per year. It is off-set by \$65,000 in revenue generated by the HPC. (Net \$160,000 cost to operate.) Additionally, the separation of SEMS from Solid Waste also separates the indirect charges. This equals approximately \$80,000. Therefore, Solid Waste starts with an \$80,000 deficit. As an operational note, SEMS will continue to administer the HPC program.

*SEMS:* SEMS revenue comes from the \$4 per month Environmental Management Fee collected on City utility bills. There is no anticipated growth associated with this revenue source but will show a \$21,500 deficit. However, with the separation from Solid Waste, SEMS will not be burdened with the \$160,000 in operating costs associated with the HPC. Before that \$160,000 is re-allocated within SEMS, the section will need to pay a share of indirect costs (i.e. their proportionate share of administrative overhead such as legal, human resources, information technology, etc.) that totaled \$76,365. They will also need to cover the cost of the employee compensation market increases which equal approximately \$20,000. This leaves a starting point of \$40,000 to the positive.

### Utilities

The Utilities Division manages two funds: Water/Wastewater/Reclaim (WWR) and Stormwater. The WWR Fund will experience a \$518,000 increase in revenues associated with its growth in new customers and a rate increase that went into effect January 1, 2013. However, the \$518,000 increase in revenues was already budgeted for capital and operational increases in the five year plan. The WWR starts with a \$120,000 deficit in order to accomplish the 3.2% market adjustment.

### Stormwater

Stormwater is anticipated to receive \$25,500 in additional revenue associated with growth in new customers. The cost of the market increases is \$12,000. Therefore Stormwater has some capacity for additional expenditures as its starting point.

### Flagstaff Housing Authority

The FHA faces a very challenging year due to sequestration at the federal level. FHA's funds come almost entirely from HUD and rents collected. With sequestration at the federal level, FHA is receiving HUD funding at 69% of formula grant amount for Section 8 administrative funding, 82% for Section 8 housing funding and 91% percent for public housing funding. All cuts will be fully absorbed within the FHA budget. This may mean fewer vouchers in Section 8. Action has been taken to implement administrative and maintenance decreases in public housing.

### **Solutions - Expenditure Changes, New Revenue and Reallocations**

Each fund has a unique starting point and therefore poses different challenges for reaching Council goals and achieving a balanced budget.

### General Fund and HURF

As noted above, the budget goal of the General Fund was to fund \$1.2 million in market increases to employee compensation, \$390,000 to maintain current conditions of the City's fleet and facility infrastructure, and \$1 million in pavement preservation (streets). In addition, the Budget Team was presented with the opportunity to take BBB-Parks to a level 2 maintenance standard when Council approved the Parks and Recreation Master Plan. To improve BBB Parks to a level 2 requires \$200,000 in additional revenue transfer from BBB – Recreation.

Additional expenses anticipated in FY14 include a potential \$100,000 in ongoing dollars to cover the decision by the local and state PSPRS board to admit the six Airport Fire and Maintenance Workers into the Public Safety pension. This also has a possible one-time price tag of \$400,000 in back contributions to the plan.

There are three other areas approved for additional funding. First, there is a need for a full time switchboard operator. As we have made budget cuts over the years, we have reduced some of these positions devoted to customer service. As such, we have seen increased complaints and challenges as citizens try to reach the personnel they need. It is time to devote some resources to the front line and recommend funding a full time switchboard operator. Further, we have identified \$77,000 in request for service level adjustments (RSLs) which were itemized in the Council FY 2014 Budget Retreat Packet. An additional \$434,000 in requests was approved using other funding sources, including Quality Infrastructure Cabinet, IT Capital, Bonds, SEMS fee, etc.

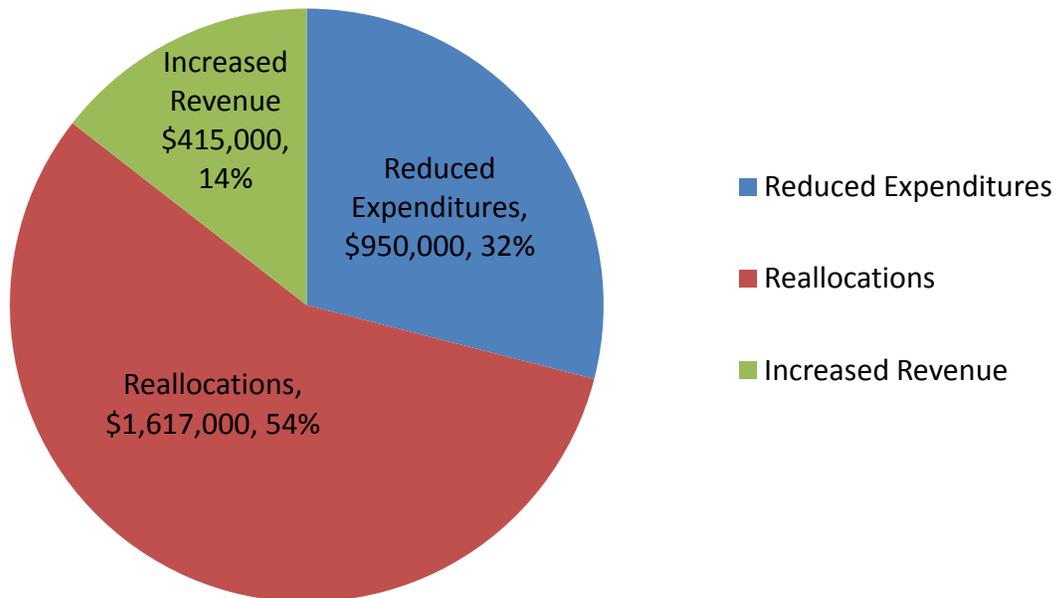
Second, Council approved a \$50,000 transfer from the GF to the Library Fund that will be described in detail in the Library Fund section.

Lastly, the FY13 trigger to move those positions that were more than 25% below the market average included adjusting the Police Department pay plan; however, funding for the FY13 trigger did not fully cover this adjustment. This, combined with some approved reclassifications within other General Fund programs, will cost \$92,000.

<b>Increase to On-Going Expenditures – General Fund</b>	
Compensation	\$1,200,000
QIC – Fleet, Facility and Parks Infrastructure	\$390,000
Street Infrastructure	\$1,000,000
Airport PSPRS	\$100,000
BBB-Parks to Level 2	(Offset) \$200,000
Switchboard, Planner and RSLs	\$342,000
Library	\$50,000
Reclasses	\$32,000
<b>Total</b>	<b>\$3,314,000</b>

As noted above, we start with approximately \$442,000 in new revenues from existing sources. This leaves approximately \$2.8 M in unfunded expenditures. To address these specific additions in funding, we looked at three sources: 1) reduce General Fund expenditures, 2) increase revenues, and 3) reallocate expenditures to other funds. The pie chart below illustrates how we used those three tools to balance the General Fund and HURF Fund. A detailed list of what constitutes these numbers can be found in the Council FY 2014 Budget Retreat Packet.

### **GENERAL FUND: Reduced Expenditures, Reallocations and New Revenue**



While there are numerous cuts to expenditures in the General Fund, I want to call your attention to several more prominent cuts. First, consistent with the Innovations Committee recommendation, but contrary to the recommendation by the Parks and Recreation Commission, I will not be filling the vacant Community Enrichment Service Director position. The Recreation Section will report to the Public Works Director and the Library will fall under the Management Services Director.

Second, related to Community Enrichment Services, there will be reduced hours at the Aquaplex and Flagstaff Recreation Center. The Aquaplex will close 1 hour earlier Monday through Friday (9:00 p.m. instead of 10:00 p.m.). Flag Recreation Center may open an hour later Monday through Friday (2:00 p.m. instead of 1:00 p.m.).

Third, three police officer positions (2 providing municipal court security and 1 providing training) will be accomplished with civilian rather than sworn personnel, and in the case of the Municipal Court, a contract for security. One firefighter/paramedic position will be accomplished with part-time employees. Both of these moves enable the organization to continue to offer the service but with reduced pension costs that save money overall.

Fourth, there is a \$200,000 reduction in salary costs associated with a new vacancy savings program. All General Fund positions that become vacant during the year shall be held unfilled for at least 30 days. In those cases where a 30 day vacancy is not possible, the Division will need to cut the equivalent amount from elsewhere in their budget.

In terms of new revenue, I will highlight three new sources. First, is an increase in recreation fees that will generate \$170,000 in FY14. The specifics of that proposal can be found on-line as all fee increases must go through a separate adoption process that will conclude in July. Second, is \$120,000 increase associated with applying the City's 1.72% sales tax to water bills. Finally, we will be implementing a fee for the materials testing lab. Community Development will be outsourcing this service and recouping the fees associated with it from developers who will eventually be conveying infrastructure to the City.

Additionally, Spring of 2013 has seen a dramatic increase in the number of applications for new development. In order to avoid increasing personnel costs, we have contracted with a private firm to review building permits (paid for with 100% cost recovery of this fee). This works because plans are compared against pretty black-and-white building codes. Planning reviews are compared against more interpretive zoning codes. Therefore, contracting-out current planning functions is not productive. The preference is to avoid adding staffing in an area where work flow rises and falls pretty fast. Therefore, the Neighborhood Planner position will be recruited with the ability to handle current planning tasks when needed. In addition, 1 FTE will be added. This potential position will be funded strictly with plan review fees. To accomplish this requires increasing plan review fees from 50% cost recovery to 60% cost recovery.

This budget also restores \$100,000 towards snowplowing. In FY13 there was a policy change adopted to only plow residential streets when at least four inches of snow had fallen. While that policy was not revoked, these dollars are intended to soften the impact with additional plowing in particular circumstances. Additionally, \$40,000 was allocated to increase sweeping in spring months on residential streets.

#### One-Time Dollars

The previously discussed revenue and expenditure changes are all “on-going” meaning these are changes that are balanced into the next five years at least. Every year, there are also “one-time” revenues that are available for one-time expenditures. For FY14, there is \$1.6 million in the General Fund and \$1,265,500 in HURF.

The principle recommendation of the one-time expenditures is \$900,000 to pavement preservation. This brings the FY14 total for pavement preservation to \$3.60 million (\$1.15 million base, \$1 million GF new on-going expenditure, and \$1.45 M in one-time dollars).

Another recommendation includes \$400,000 in one-time dollars to fund back contributions for Airport Fire and Maintenance workers if they are allowed to join PSPRS as the State board has ruled.

\$910,000 is recommended for one-time RSL’s in the General Fund. A list of these are included in the Council FY 2014 Budget Retreat Packet and includes roof repairs for the LEAF building.

#### BBB

##### *BBB- Beautification*

This budget will transfer \$66,000 in expenses from the General Fund to Beautification including funding maintenance of Townsite trees and a portion of median maintenance, which were formerly paid for by HURF. FY14 will also serve as a planning and preparation year for a notable change in an operational aspect of this fund. For background, BBB Beautification pays for the construction and maintenance of medians and streetscaping. The maintenance portion is accomplished by transferring dollars from BBB-Beautification to Parks who perform the actual maintenance. In FY14, the BBB-Beautification fund manager will prepare a more precise scope of services necessary to maintain the medians and streetscaping. Once accomplished, that scope of service will be put out to bid. Private sector and Parks will have the opportunity to bid on that maintenance contract.

##### *BBB-Economic Development*

This budget will reduce the General Fund transfer by \$90,000 and have BBB-Economic Development absorb the ongoing funding for the ECONA contract which was previously borne by the General Fund. This relieves the GF of \$90,000 in Economic Development expenses. The ability to do this comes in part by transferring the contribution to the Science Foundation (\$50,000) from BBB-Economic Development to BBB-Arts and Sciences.

### *BBB-Tourism*

As you may recall earlier in this letter, this fund has \$164,000 in new revenue associated with the BBB tax generating more income. With this budget, we will transfer the expense to run our Special Events program from the General Fund to Tourism. It also transfers our GF expenses associated with the Cardinals and Fireworks to this fund. These combine for approximately \$126,000 in decreased expenditures for the General Fund and equal increases in expenditures for BBB Tourism. Approximately \$38,000 formerly used to help sponsor the Arizona Cardinals training camp in Flagstaff was redirected to maintain Library hours that would otherwise been cut. The budget also granted RSLs for improved custodial service at the Visitor Center and some software upgrades. Lastly, with a healthy fund balance in this fund, a \$100,000 in one-time dollars has been appropriated to increase marketing in FY14.

### *BBB-Arts and Sciences*

This fund grew by \$25,000; yet, we are asking it to absorb the \$50,000 commitment made to Science Foundation Arizona and cut neither the Flagstaff Cultural Partners appropriation nor the Public Arts appropriation. This will require dipping into fund balance, which has sufficient funds to accomplish these goals. Long-term, we have reached agreement with the Science Foundation to reduce the City contribution from \$50,000 to \$25,000 over the next several years.

### *BBB-Recreation*

To fund ongoing Recreation operations and free up General Fund capacity, this fund will absorb \$250,000 in ongoing recreation expenditures. It will also absorb \$200,000 in Park Maintenance costs to increase BBB-Parks from a level 3 to a level 2 in accordance with the Park and Recreation Master Plan.

### Library Fund

As noted above, this fund starts with a \$602,000 deficit. The city requested that the Library District hold the property tax levy flat. This means the property tax amount stays the same but it requires the tax rate to increase. The net effect is no change in dollars to the tax payer. This would restore approximately \$340,000 in funding to the Flagstaff libraries. As of the writing of this letter, the County Board of Supervisors have agreed to a partial rate change that should offset \$250,000. The balance of the cuts will be offset with reserves in the fund. At a constant rate of funding, this would allow the reserves to maintain services for up to six years. This may be sufficient time for assessed values on properties to rebound from the 13% reduction seen this year.

Even with the increased rate and use of reserve funds, balancing the library budget will require the transfer of \$100,000 in funding for circulation materials from the ongoing funding to the one-time funding. It will also require increasing the contribution from the General Fund to the Library Fund in the amount of \$50,000 to fund the library personnel reclassifications.

## Utilities

### *WWR*

The WWR Fund sees a \$518,000 increase in revenue that is offset with increased expenditures in electricity and maintenance. Therefore, as noted above, Utilities starting point is a \$120,000 deficit in order to fund the compensation increases. Consequently, they will make the reductions listed in the Council FY 2014 Budget Retreat Packet. Review of that appendix reveals that these are across the board small changes to various accounts, most of which just won't see the anticipated increase that new revenue was going to bring.

### *Stormwater*

While Stormwater is able to address the increases in compensation with increased revenue from additional users, the broader goal Council set during a mini-budget retreat was to show at least equal distribution between planning and construction. This budget accomplishes this. There is approximately 45% appropriated to planning and administration functions and 55% allocated to construction and maintenance functions.

## Environmental Services Fund

As noted above, we will be splitting this Fund into "Solid Waste" and "SEMS."

### *Solid Waste*

Solid Waste has a starting point of negative \$80,000. This means various cuts must be made in order to balance the fund. Consequently, we are eliminating a 1/3 time position, reserving salary savings and billing for downtown commercial services.

### *SEMS*

Sustainability and Environmental Management Services Fund started with \$60,000 in capacity. Additionally, we are concluding the APS Green Choice purchasing program due to our robust photovoltaic program. This saves an additional \$27,000 a year. Consequently, SEMS will pay for the Greater Flagstaff Forest Partnership (GFFP) base contract, half of the wildland leadworker position, maintenance of open spaces such as Picture Canyon, and a ½ time volunteer coordinator focused upon graffiti removal.

## Other Funds

The Flagstaff Housing Authority will balance its operating expenses to revenues, including market adjustments for employee compensation through various reductions as noted above.

The Airport Fund will see a \$25,000 increase to its revenue which will offset an approved reclass/rezone and needed utility increases. The Airport will fund its market adjustments and recent reclassifications by reducing other operating expenditures in the amount of \$14,600. However, the addition of ARFF workers to the PSPRS will require a \$100,000 transfer from the General Fund.

## **Conclusion**

The previous eleven pages are indications about how challenging it has been to accomplish our lofty goals while maintaining our broad array of well-loved municipal services. This budget enables a 210% increase in budgeted street repairs, a 3.2% increase in employee compensation, and improving half of our Parks to the Master Plan benchmark. It also addresses two significant budget difficulties. One associated with the Library District and the other associated with the pension plan of Airport Maintenance Workers.

Additionally, this budget decreases property taxes. While the primary property tax revenue is held flat (except for the addition of new construction), secondary property taxes will fall by approximately 13% and library district taxes will also be reduced. These are important measures for tax payers in a weak recovery from a severe recession.

I extend my appreciation to Council and staff for their hard work and many hours pouring over each detail of this budget to find creative ways to accomplish its goals.

Respectfully submitted,



Kevin Burke  
City Manager



## **The City of Flagstaff Service At A Higher Elevation**

### **Mission**

To protect and enhance the quality of life of its citizens

### **Vision**

The City of Flagstaff is a safe, diverse, vibrant, and innovative community with a unique character and high quality of life. The City fosters and supports a balance of economic, environmental, educational, and cultural opportunities.

### **Values**

*Teamwork*

*Accountability*

*Communication*

*Quality*

*Leadership*



Broadcast Burning at Coconino Community College