



*Fiscal Year 2018 Manager's Budget Transmittal Letter
Executive Summary*

July 5, 2017

Mayor, Vice-Mayor and Council:

Each year, in accordance with our City Charter, the City Manager is responsible to prepare the annual budget estimates and submit them to the Council. This process represents a significant investment in both time and energy for City staff as we recognize that among our highest duties is the responsibility to remain fully accountable and transparent in the use of public funds. With this letter, I transmit the City Manager's FY 2018 Recommended Budget for your review and consideration. This recommended budget provides a solid foundation upon which the City Council can deliberate and determine a plan on how best to allocate municipal revenues to further the City's mission of protecting and enhancing the quality of life for all of its citizens.

This recommended budget constitutes a collaboration with the City Council that began in early January when we met to discuss Council's goals and budget priorities. At that time the City Council directed City staff to focus on the following priorities for FY 2018:

- Affordable Housing
- Transportation and Other Public Infrastructure
- Building and Zoning/Regional Plan
- Social Justice
- Economic Development
- Water Conservation
- Environmental and Natural Resources
- Climate Change

We met again in February to further refine your budget priorities and discuss our fiscal challenges. I believe that this Manager's Recommended Budget reflects a commitment to furthering your goals and budget priorities in an efficient and strategic manner.

This Council has expressed its desire to take bold and meaningful action in the area of Affordable Housing in the near term. In response, I will be recommending your approval of \$300,000 in funding to prepare for and incentivize the development of affordable housing units in partnership with community stakeholders and the private sector. In order to accomplish this objective in an expeditious fashion, City staff will first



concentrate on available parcels of land that the City already owns. Additionally, I am recommending that we hire a Project Manager for Housing who will have the requisite skills, knowledge and experience to effectively leverage this new funding. Medium and longer term strategies are also being considered and, to that end, I have identified \$75,000 in one-time dollars to explore potential funding strategies for affordable housing, including a possible ballot question if Council should decide to move in that direction.

Another highlight of this year's recommended budget is a commitment to fund public safety staffing which represents one of the most significant core services that the City provides and is integral to our quality of life. I have authorized the police and fire departments to seek grant funding for six new police officers and six new fire fighters and have dedicated the needed City matching funds requirement through the life of those grants. If the grants are approved, we will hire the additional public safety personnel sometime after January 2018. In order to help provide for adequate stability of funding these new positions into the future, I am recommending that the City Council approve the available property tax levy/revenue increase in the amount of 7% beginning on July 1, 2017 and another 7% beginning on July 1, 2018. This will result in a cumulative increase of 14% to the levy/revenue over the two-year period. This action will help assure that we are not in the position of having to reduce public safety staffing after the grant period has ended if future revenues to the General Fund do not prove sufficient to sustain them.

The Manager's Recommended Budget for FY 2018 presents a financially sustainable plan under which to perform City services and operations in a manner which helps to achieve City Council priorities and goals. While this letter is involved with communicating our plan for wisely allocating taxpayer provided resources for this coming fiscal year, we acknowledge that much progress can and is being made with existing resources. So while the recommended new budget expenditures may be relatively small amounts in some areas, it isn't a reflection of all the effort that is being made in that area. My focus with the Budget Team and Leadership for this year's budget was to make sure that the City of Flagstaff, as an organization, is fully capable to serve our community at a level commensurate with its high expectations for quality. As a result of recessionary decreases to revenues, the City has gone through a tough process of refinement over the past few years that, on one hand, has resulted in a more efficient and nimble organization; and this is a good thing. On the other hand, however, the City organization is struggling to keep up with increasing demands for critical services and infrastructure. So while this recommended budget offers us a greater ability to respond to the needs of a growing community, it is by no means a return to those days of the past. To use a wellness analogy: we have slimmed down as an organization and have added some muscle back in areas where it is needed in order to do the heavy lifting required. We will continue to be very strategic and purposeful as we grow in future years and how we do that will be dependent upon the direction we receive from the City Council in response to the will of our community.

Respectfully Submitted,

Josh Copley
City Manager



Economic Condition

National, state and local economic conditions have improved since the Great Recession. Locally, the Flagstaff economy can perhaps best be measured by four indicators--sales tax, Bed, Board and Beverage (BBB) tax, state shared income tax, and the construction industry.

The City collects three different sales taxes. The first is a 1% tax on all general sales except food. Revenues from this sales tax support General Fund operations. The City has seen growth in this category, with FY 2015 and FY 2016 seeing increases of 9% and 7% respectively, which consistently outpaces the state sales tax growth. For FY 2017 we estimate a 2% growth followed by 3% growth in FY 2018. Some of the stronger sales tax categories are Restaurants/Bars, Hotels/Motels, Retail and Property Rentals, commercial and residential.

General Sales Tax Revenue		Fiscal Year 2018 (est.)
		\$19,843,580
	Fiscal Year 2017 (est.)	\$19,191,000
	Fiscal Year 2016	\$18,679,837
	Fiscal Year 2015	\$17,442,707
Fiscal Year 2014	\$15,897,805	

The BBB tax is another important indicator of the health of the local economy. As mentioned above, Restaurants/Bars and Hotels/Motels tax categories are showing strong trends. BBB revenues increased by over 11% in FY 2015 and continue to have growth of approximately 5% per year. Estimates for FY 2018 are conservatively set at 3% which translates to a gain in revenues of approximately \$235,000.

Bead Board and Beverage Tax Revenue		Fiscal Year 2018 (est.)
		\$8,054,600
	Fiscal Year 2017 (est.)	\$7,820,000
	Fiscal Year 2016	\$7,493,892
	Fiscal Year 2015	\$6,971,983
Fiscal Year 2014	\$6,259,688	

Another measure of our economic health is unemployment. While the City does not predict unemployment in its annual budget, the rate can affect revenue. The most direct correlation is the State Shared Income Tax. This revenue source is remitted to the City from the State approximately two years in arrears. Consequently, we know exactly how much is going to be remitted in the upcoming fiscal year. For FY 2018, State Shared Income Tax is projected to grow 2.7% with only small increases in future years. This percentage is artificially low as there have been reductions in the corporate income tax collections due to state legislation. Personal income tax revenues are estimated to increase by 5.6%.

In pre-recession times, the combination of new residential and commercial construction growth provided its own stimulation to the economy through building permits, construction material and sales taxes. Construction growth also resulted in reduced sales tax leakage because new residents were spending money at new retail establishments, locally. This helped drive our local economy. Calendar year (CY)



2016 saw growth in total new construction valuation of \$137,709,978 compared to \$76,668,780 in CY 2015. In CY 2016, total new residential and commercial construction permits were up 9% from CY 2015. Total single family dwelling units were up in CY 2016: 239 compared to 206 in CY 2015, total dwelling units were up 18% in CY 2016: 480 compared to 402 in CY 2015 (this is single and multi-family units).

In summary, our economy is growing incrementally stronger and this translates into modest growth in our ongoing revenues.

Fund Accounting

The City uses funds to report its financial position and the results of its operations. Fund accounting ensures financial resources are segregated by certain governmental functions or activities. Fund accounting also supports legal compliance and aids overall fiscal management practices. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures. More information on fund accounting and the City's financial structure can be found in the Budget Overview section.

Revenues

Recurring revenues are the portion of City funds that can reasonably be expected to continue year-over-year with a certain degree of predictability. Property and sales taxes are an example of recurring revenues. One-time revenue is money that the City receives that we do not expect to reoccur in subsequent fiscal years. Primary sources of one-time revenue include: unspent funds from the prior fiscal year, grants, bonds and atypical revenue from a particular industry. The latter is most commonly associated with the auto and construction industry. Auto sales vary widely from year-to-year. Consequently, when sales tax associated with the auto-industry is atypically high, we carry most of that forward as one-time revenue. The City budgets the construction industry the same way. At the February budget retreat Council expressed a willingness to consider additional revenues through increased property taxes and community development and fire user fees. The FY 2018 City Manager recommended budget includes revenue growth in the General Fund of \$1.5 million related to property tax, sales tax and state shared revenues, plus new ongoing budgeted user fee revenues of \$520,000. Additionally, there is \$2.1 million of one-time capacity from fund balance estimates. The FY 2017 City Manager recommended budget for the General Fund included \$1.7 million in ongoing revenue and \$3.0 million in one-time capacity.

Expenditures

Even though we find ourselves in a relatively better financial position for the coming year, we are still recovering from the effects of the "great recession" and the necessary constraints it has placed on our spending over the past eight years. Last year's budget reflected good progress towards restoring City services to a level consistent with the expectations of City Council and our community. However, with revised service level requests from across the organization for new spending in excess of \$16.6 million we were challenged to deal with the lingering pent up demand. I called upon our Leadership Team to help prioritize the \$3.9 million in new personnel requests. The FY 2018 Recommended Budget provides for \$10.9 in new spending over last year for personnel, equipment and services, which means that many of this year's requests from the various City divisions were denied. In addition, many of the ongoing requests were only approved as one-time expenditures as ongoing dollars were limited. The FY 2018 budget is structurally balanced in accordance with the requirements of our City Charter and state law.

As in previous budgets, we split both revenue and expenditures between recurring and one-time dollars within each fund. Identifying ongoing revenues is helpful in understanding the degree of impact the expenditure change can make on the level of service and/or Council goals and priorities. In addition to



Council's administrative goals which includes Personnel, the FY 2018 budget addresses your priorities of Affordable Housing, Transportation and Other Public Infrastructure, Building and Zoning/Regional Plan, Social Justice, Economic Development, Water Conservation, Environmental and Natural Resources, and Climate Change.

The following chart summarizes new budget investments by Council goal:



Employee Compensation and Investment

This year we will implement Phase Two of a three-year strategy to bring all City pay structures up to market level. This strategy is currently built into all five-year plans. Achieving market based pay has been a goal of Council for the past few years and is supported by our Employee Advisory Committee (EAC). While some positions that are further below market will receive more than those positions closer to market, City employees will receive a minimum of a 2% increase unless they are at or above the maximum of the proposed pay structure.

Additionally, we have been able to fund increased costs to the public safety pension system with ongoing dollars, instead of one-time dollars, which further enhances our financial stability. This year's budget includes ongoing funding for a \$1.1 million increase in our public safety pension liability that was based upon a revaluation of our actuarial numbers in the aftermath of recent court rulings.



Building upon the success of last year's "Investing in You" training, which includes such topics as communications skills, ethics and leadership, I am recommending another one-time appropriation of \$35,000 to continue this effort in developing our employees to better serve our community.

Understanding that the high cost of housing in our community has a direct bearing on our ability to recruit and retain quality employees, I am recommending that we expand our popular Employer Assisted Housing Program with an additional \$100,000 in funding to include all City employees. This program was piloted in the Police Department as a means to address recruitment and retention of police officers and has been demonstrated to be successful in meeting this objective.

Staffing

The FY 2018 recommended budget includes twenty-three (23) new staff positions in the General Fund, including five (5) that are funded with 100% direct offsets from new revenues, and a total of eight (8) new positions throughout all other funds for a total of thirty-one (31) positions throughout the organization. Of the twenty-three new staff positions in the General Fund, twelve are police officers and fire fighters. Our public safety first responders continue to deal with the challenges of higher demands for services brought on, in recent years, by increased development and population. In 2009, at the beginning of the last recession, the police department had a total of 118 sworn officer positions. Today, the police department has 112 sworn positions and are responding to a 6% increase in call volume. Similarly, the fire department had a total of 93 fire fighters in 2009 and now have 80 who are responding to an almost 50% increase in call volume. The result is an increase in public safety response times and a less safe work environment for our employees.

These thirty-one new positions help achieve Council's budget priorities and goals and are designed to meet current service levels, build required infrastructure and facilitate continued economic development:

General Fund Positions:

- Labor Standards Manager
- IT Intern - .375 (1X)
- Development Engineering Project Manager (Contingent on Courthouse project)
- Capital Improvements Project Manager (1X)
- Associate Planner
- Building Inspector (Contingent on new permit fees)
- Comprehensive Planning Intern - .475 (1X)
- Affordable Housing Project Manager (1X)
- Fire Fighters - 6
- Police Officers - 6
- Mechanic Assistant
- Parts Specialist
- Aquatics Lifeguard Staff - 1

All Other Fund Positions:

- Administrative Specialist for Transportation and Infrastructure Planning (1X)
- Creative Services Specialist
- ParkFlag Parking Coordinator
- Executive Assistant to the Library Director (Contingent on increased Library District funding)
- Utilities SCADA Administrator
- Water Services Technician - 2
- Utilities GIS Specialist



Transportation and Other Public Infrastructure

The City continues to make good progress towards Council's goal of delivering quality community assets while continuing to advocate for the implementation of a highly performing multi-modal transportation system. In appreciation of the enormity of our present and future transportation needs, we realize that it will take the cumulative and sustained effort of the City of Flagstaff and its agency partners to make headway in this area.

This year's recommended budget continues this investment with approximately \$140.3 million in capital expenditures, across all funds, for improvements to community assets like the Flagstaff Urban Trails System (FUTS), Flagstaff Pulliam Airport, landfill, and water/wastewater utilities, just to name a few examples. This amount includes \$45.1 million for improvements to streets and transportation infrastructure that is funded through a combination of Highway User Revenue Funds (HURF), Transportation Tax and Road Repair and Street Safety Tax. Another highlight of this recommended budget includes \$300,000 to construct new public restroom facilities at Buffalo and Thorpe Parks.

Building and Zoning Codes and Regional Plan

In order to further Council's goal of revising the Zoning and Building Codes in order to remove ambiguities while ensuring that it is consistent with community values and the Regional Plan, I am asking for your approval of \$100,000 in this year's budget for consulting services and other expenses associated with this effort. This will include work to help improve the experience of citizens, customers and other users as they navigate through these large, regulatory and guidance documents.

Social Justice

This year Council has provided a goal of advancing social justice in our community. To help further this goal, the FY 2018 Manager's Recommended Budget contains \$6,000 in funding for outreach and meetings with indigenous communities in Northern Arizona. We would also like to conduct a Native Youth Service Academy at Picture Canyon as a pilot program in FY 2018 with a budget of \$2,000. Additionally, we have identified another \$5,000 to bolster our social media to better communicate Council activity to the public.

Economic Development Strategies

The City of Flagstaff continues to invest in the local economy in a diverse manner with positive results indicated through increased revenues. Some investments the City has made and continues to make include the Downtown, Auto Mall, Southside revitalization, the City's Incubator and Accelerator operated by Northern Arizona Center for Entrepreneurship and Technology, and the newly formed Parking District. As a regional hub in northern Arizona, Flagstaff continues to look at retail development to decrease leakage to the larger metropolitan areas. In addition, the City has a robust tourism industry that continues to outpace both state and nationwide recovery numbers. The City looks to enhance primary high wage sectors including the bio-sciences, astronomy, advanced manufacturing, health care, and digital products. These efforts have come about through a multi-pronged approach that includes internal change as well as direct assistance that encourages existing and new businesses that will grow and strengthen a more equitable and resilient economy.

Water Conservation

In pursuit of Council's goal to become a national leader in water conservation in all sectors, I have included an additional \$128,000 in this budget to develop a Water Conservation Plan, implement WaterSmart software and increase our public outreach and engagement. The WaterSmart Software will enable our water customers to access data and analytics to increase their water use awareness and improve their on-line experience with the City.



Environmental and Natural Resources

In the new budget year, the City will continue to actively manage and protect all environmental and natural resources under our purview. This includes \$100,000 to enable our Hazardous Product Center to more effectively dispose of increasing amounts of electronic waste and other materials. Other new ideas include funding to coordinate a Zero Waste program and a Waste to Profit pilot project. These initiatives will help meet Council goals, conserve space in our landfill, and encourage activities and behaviors that reduce waste.

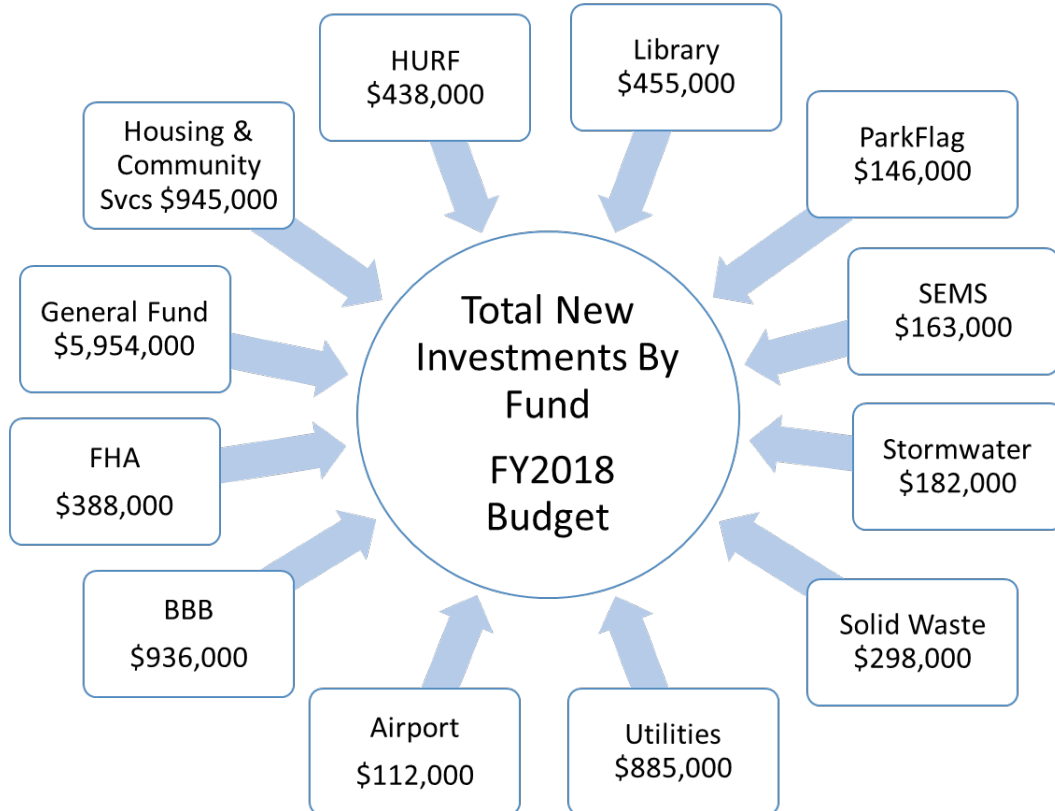
Climate Change

On April 6, 2010 the Flagstaff City Council adopted Resolution No. 2010-16 which committed the City to achieve 20% of its energy consumption as renewable by 2015, 35% by 2020, and 50% by 2050. During its January and February budget retreats, the City Council set a new, ambitious objective of eventually becoming a 100% renewable energy city organization and community.

In order to assist in facilitating this objective, I am recommending the allocation of \$35,000 to develop a Climate Action Plan in FY 2018. Additionally, I have identified \$45,000 to complete repairs on the solar thermal hot water system at the City's Aquaplex. This system has not functioned properly since the facility opened and is currently not operational. The energy consumed by the Aquaplex facility to heat water for the swimming pools represents a significant portion of its total energy budget. This repair will not only further our renewable energy goal but also result in quite a bit of savings on our energy bill.

Summary by Fund

The following is a summary for new investments of \$10.9 million for the FY 2018 Budget by Fund:





The City of Flagstaff Service at a Higher Elevation

Mission

To protect and enhance the quality of life for all.

Vision

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

Values

**Teamwork *Accountability *Communication*
**Transparency *Excellence *Leadership *Integrity*

Strategic Plan

Strategic Priority: Provide Exceptional Service

- Serve as ambassadors for the Flagstaff community
- Serve the public through quality internal and external customer service
- Foster clear and consistent communication
- Provide employees tools, training and support
- Demonstrate respect, equity and strong ethics

Strategic Priority: Invest in Our People

- Ensure effective resources for employees
- Provide competitive compensation
- Empower employees to make the City better
- Maintain and enhance a safe and positive organizational culture

Strategic Priority: Foster a Resilient and Economically Prosperous City

- Enhance the organization's fiscal stability and resourcefulness
- Deliver outstanding services through a healthy environment, resources and infrastructure
- Support sustainable economic development and its practices
- Promote policies that reflect a positive and safe community
- Continue to enhance community outreach and engagement

Strategic Priority: Work In Partnership to Enhance a Safe and Livable Community

- Foster a safe, healthy, equitable and accessible community
- Cultivate community partnerships through civic engagement and participation
- Facilitate and encourage diversity
- Promote high quality of life through consistent standards, rules and regulations



City of Flagstaff

City Council Goals: 2017-2019

Revised February 2017

1) Economic Development

- Grow and strengthen a more equitable and resilient economy.

2) Affordable Housing

- Support development and increase the inventory of public and private affordable housing for renters and home-owners throughout the community.

3) Social Justice

- Advance social justice in our community.

4) Transportation and Other Public Infrastructure

- Deliver quality community assets and continue to advocate and implement a highly performing multi-modal transportation system.

5) Building and Zoning/Regional Plan

- Revise the zoning code to remove ambiguities, and ensure it is consistent with community values and the regional plan.

6) Climate Change

- Take meaningful climate change action.

7) Water Conservation

- Become a national leader in water conservation in all sectors.

8) Environmental and Natural Resources

- Actively manage and protect all environmental and natural resources.

9) Personnel

- Attract and retain quality staff.

10) Community Outreach

- Enhance public transparency and accessibility.

11) Town & Gown

- Enhance relationships between City and institutions of Higher Education.

12) Code Compliance

- Achieve comprehensive and equitable code compliance.