

*Fiscal Year 2019 Manager's Budget Transmittal Letter
Executive Summary*

July 3, 2018

Mayor, Vice-Mayor, and Council:

I am pleased to present the City of Flagstaff Fiscal Year 2019 budget for your consideration. While we are required to prepare a budget annually per our City Charter, the annual budget is more than just an exercise in allocating available funding. The budget provides a policy document that offers structure to reinforce Council priorities. We provide this to you as the foundation of using limited resources to best advance the City's mission of protecting and enhancing the quality of life for all.

This recommended budget is the result of several budget retreats with Council to affirm the Council goals and objectives as well as providing numerous budget priorities. The Council goals include:

- Affordable Housing (Support development and increase the inventory of public and private affordable housing for renters and homeowners throughout the community)
- Building and Zoning/Regional Plan (Revise the zoning code to remove ambiguities and ensure it is consistent with community values and the regional plan)
- Climate Change (Take meaningful climate change action)
- Code Compliance (Achieve comprehensive and equitable code compliance)
- Community Outreach (Enhance public transparency and accessibility)
- Economic Development (Grow and strengthen a more equitable and resilient local economy)
- Environmental and Natural Resources (Actively manage and protect all environmental and natural resources)
- Personnel (Attract and retain quality staff)
- Social Justice (Advance social justice in the community)
- Town and Gown (Enhance relationships between the City and institutions of higher education)
- Transportation and Other Public Infrastructure (Deliver quality infrastructure and continue to advocate and implement a highly performing multi-modal transportation system)

These Council goals remained relatively the same from the prior year. This consistency has allowed the City to focus on longer term results. This past year provided many successes in these goals. The Council has authorized four ballot questions for the November 2018 election that will enhance our transportation network as well as housing geared toward workforce affordability. Our Town and Gown relationships have strengthened by having Northern Arizona University (NAU) participate at a recent City/County joint work session as well as engaging in a community conversation regarding the impacts of student growth in our community. Social justice success has been accomplished through the passage of resolutions that support our indigenous neighbors as well as protect the welfare of all our citizens.



The City's overall financial health continues to improve, however the ongoing increases in fixed costs are preventing the City from advancing some of the goals as quickly as we would like. Public Safety pension increases continue to dominate using new available ongoing revenue resource by once again exceeding the prior year level by approximately \$1 million dollars. Health insurance increases exceeded 9%.

For the fourth year in a row, the City is not able to offer merit increases across the board, however some positions are being adjusted to current market, police will receive a 3% merit and all employees will receive a minimum 2% cost of living adjustment. With the health insurance increase, it is hoped these pay adjustments will help to keep employees 'take home' pay level. The continued compaction in salaries is a source of low morale in employees and the City continues to make this a priority to address as additional revenues become available.

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 types of sales taxes. The first is a 1% tax on all general sales except food. Revenues from this sales support General Fund operations. The City has seen growth in this category with FY 2016 and 2017 seeing 7% and 2% increases respectively which consistently outpace the state sales tax growth. For FY 2018 we estimate a 7% growth followed by 2% growth in FY 2019. Some of the stronger sales tax categories are Restaurants/Bars, Hotels/Motels, Retail and Construction Contracting.

General Sales Tax Revenue		Fiscal Year 2019 (est.)	\$20,999,934
		Fiscal Year 2018 (est.)	\$20,532,350
		Fiscal Year 2017	\$19,226,470
		Fiscal Year 2016	\$18,942,730
Fiscal Year 2015	\$17,655,291		

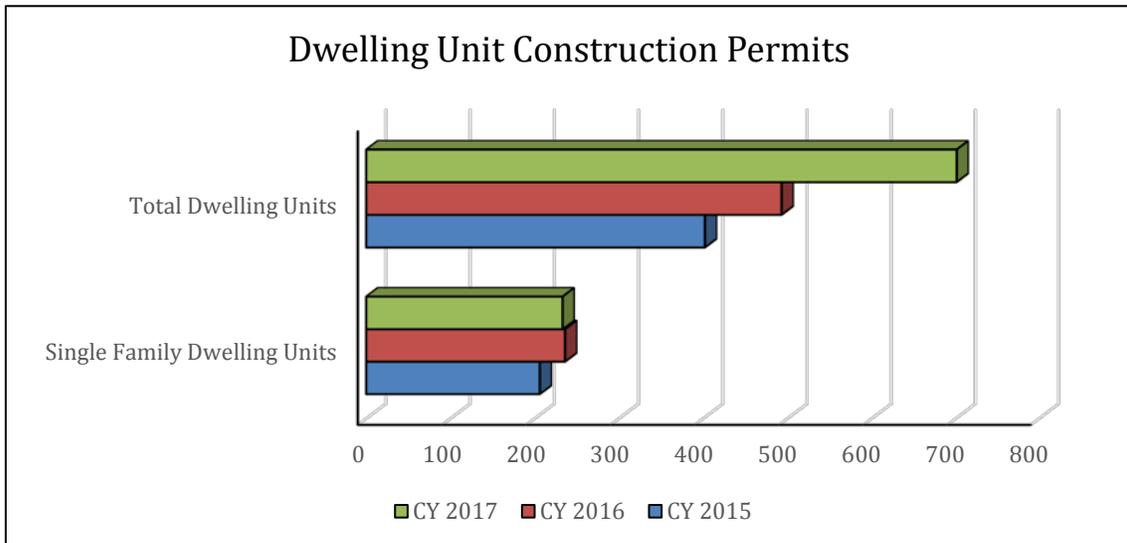
The Bed, Board and Beverage (BBB) tax is another important indicator of the health of the local economy. As mentioned above, Restaurants/Bars and Hotels/Motels tax categories are showing strong trends. BBB revenues increased by over 7% in FY 2016 and continue to have consistent growth each year. Our estimates for FY 2019 are conservatively set at 3% which shows an increase in revenues of \$252,000.

Bed Board and Beverage Tax Revenue		Fiscal Year 2019 (est.)	\$8,652,000
		Fiscal Year 2018 (est.)	\$8,400,000
		Fiscal Year 2017	\$7,787,913
		Fiscal Year 2016	\$7,439,892
Fiscal Year 2015	\$6,971,983		



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 2019, State Shared Income Tax is projected to decline 1.5% with only small increases in future years. This decline is due to reductions in the corporate income tax collections due to state legislation. Personal income tax revenues are estimated to increase by 3.4%.

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 reductions in sales tax leakage as our residents spent money at new retail establishments. This continues to grow our local economy. The past Calendar Year (CY) 2017 saw growth of 23% in total new construction valuation of \$217,767,173 compared to \$177,068,294 in CY 2016. Total new residential and commercial construction permits remained relatively flat compared to CY 2016.



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 next section of the Budget Book.

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 an industry.



Atypical revenue is most commonly associated with the auto and construction industries. 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. The FY 2019 City Manager recommended budget includes revenue growth in the General Fund of \$2.0 million related to sales tax, shared revenues and other revenue. Additionally, there is \$4.1 million of one-time capacity from fund balance estimates.

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 substantial 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 \$41.6 million dollars we were challenged to deal with the lingering pent up demand. I called upon our Leadership Team to help prioritize the \$3.1 million in new personnel requests. The FY 2019 Recommended Budget provides for \$15.9 million (\$13.1 million of one-time/\$2.8 million of ongoing) in new spending over last year for personnel, equipment, and services which means that the 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 FY2019 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 clarifies 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 that includes Personnel, the FY 2019 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 Three of a three-year strategy to bring all City pay structures up to the market. Achieving market-based pay is a continued Council goal 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, all City employees will receive a minimum of a 2% increase unless they are at or above the maximum of the proposed pay structure. The City Council has also authorized a specific 3% merit adjustment to the City's sworn personnel to address turnover and staffing shortages that continue to plague the Flagstaff Police Department.

The ongoing cost increases of the Public Safety Personnel Retirement System (PSPRS) continue to hinder the City in growing overall compensation to all employees. The contribution rate increases per employee are primarily increasing due to the resolution of several court actions, actuarial assumption changes including decreased interest rate projections, mortality rates and hiring and compensation increases. For those public safety personnel hired before July 1, 2017, the City is required to contribute 84.17% for Fire and 47.34% for Police. Personnel hired on July 1, 2017 and after are enrolled in a revised plan that will help manage future costs. The actuarial changes applicable to FY 2019 increased ongoing expenditures by \$950,000. The City opted to increase the current amortization period from 20 years to 30 years for the Police PSPRS plan to fund the 3% Police merit increase. Additionally, the City funded increased costs in the Arizona State Retirement System and Elected Officials Retirement Plan rates of approximately \$160,000. Pension costs currently comprise approximately 17% of the General Fund budget.

Staffing

The FY 2019 recommended budget includes ten (10) new staff positions in the General Fund, including nine (9) that are partially or fully funded with direct offsets from new revenues or reductions in expenditures, and a total of eight new permanent positions throughout all other funds.

Of the ten positions in the General Fund, six are for Public Safety. The City has added two police officers, three police aides and one new deputy fire chief. 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 116 sworn positions and are responding to a 3.3% increase in call volume. Similarly, the fire department had a total of 89 all-risk personnel in 2009 and now have 86 who are responding to an almost 55% increase in call volume. Resources are constantly stretched to meet the demands of both a growing permanent population with significant increases also in the university student population and tourism.

The ten new staff 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:

- Police Aides (3) – one-time for two years offset by Police vacancy savings
- Police Officers (2) - offset by property taxes
- Transportation Project Manager - offset by FMPO savings
- Building Permit Technician - offset by contract reductions
- Recreation Temps (.96)
- Magistrate - offset with .8 FTE Pro-tem Magistrate
- Deputy Fire Chief - offset by IGA



All other funds positions:

- FMPO Executive Director
- Zero Waste Coordinator – one-time
- Airport Business Manager - offset by Airport parking fees
- Airport Parking Aide - offset by Airport parking fees
- ParkFlag Parking Aides (2) - offset by ParkFlag revenues
- Multi-Skilled Workers (2) – Water Services

Affordable Housing:

The City continues to make progress towards the goal of delivering additional affordable and work force housing. This past year is highlighted by the successful joint venture with Vintage Partners that will add approximately 100 workforce-housing units into the City's overall housing inventory. In addition, the City awarded a contract that will add 70 affordable rental units to be constructed on City owned land. Fiscal Year 2019 brings a ballot question to the voters to provide 'Housing that is Affordable' as a ballot question to provide resources to form new partnerships that would add inventory in our local market and enhanced homebuyer assistance in the form of a \$25 million general obligation bond.

Transportation and Other Public Infrastructure:

The highlight of City Transportation efforts in FY 2019 is the renewal of the Transportation Sales Tax at a rate of 0.426% that will provide for important road, pedestrian, bicycle and transit enhancements. In addition, the City is proposing two new sales taxes. The first is 0.23% to provide a major north/south corridor enhancement by bridging the railroad tracks that currently hinder traffic flow in central Flagstaff. The second is 0.15% to enhance frequency on the City's major transit route. The City is also making investments to provide facility improvements to Fire Station No 4 (\$75,000), a rebuild of the Jay Lively roof (\$750,000), a set aside to begin rehabilitation of the current Public Works yard (\$200,000) and funds to expand the Veterans section of Citizens Cemetery (\$85,000).

Social Justice:

The FY 2019 budget includes recommendations for an Economic Study that will look at the impact of non-local purchases on our City sales tax receipts and will specifically call out the impact of our Indigenous neighbors. The City has included \$20,000 to assist the Indigenous Circle of Flagstaff (ICF) in forming a legal structure that will assist both the ICF and the City in advancing the Strategic Plan adopted by Council this past year. The City has set aside \$50,000 as a Federal grant match to assist Developmentally Disabled organizations with meeting their expenditure needs. In addition, the Council approved \$100,000 to help fund relocation costs to members of our community who are displaced due to land use changes.

Community Outreach:

The City will provide a Citizen Survey in FY 2019. The last survey was conducted 2013. The survey serves as a consumer report card for the City, providing residents the opportunity to rate their satisfaction with quality of life in the City, the community's amenities and local government itself. It also permits residents to share priorities for community planning and resource allocation.

Economic Development Strategies:

Enhancements to the Airport will be a priority in FY 2019. With the expansion of weekly flights to Los Angeles and Dallas in May 2018, the City will aggressively advertise and highlight these flights to promote success. Filling these flights on a regular basis increases the chance to have these flights expand service to more days per week. The City is also looking to provide managed parking at our Airport to both increase the availability of spaces and to provide funds that will lead to greater expansion opportunities.



Water Conservation:

FY 2019 efforts are highlighted by looking at water rate structures that continue to incentivize water conservation. In addition, the City is requesting \$25,000 for an Aquifer Recharge Feasibility study.

Environmental and Natural Resources:

The City is pleased to be able to provide ongoing funding to the Open Space position as well as the Zero Waste Coordinator. These positions are critical to ensure continued success to actively manage and protect our natural resources.

Climate Change:

This past year, the City allocated \$35,000 to develop a Climate Action Plan which is currently in process. For FY 2019 plans include purchasing software to track greenhouse gas emissions. In addition, the City's Sustainability staff will partner with the Fire Department to provide training to residents on how to reduce fire risk.

Conclusion:

In addition to the specific budget items noted above, the City continues to address many quality of life questions from our residents that will have long-lasting impacts throughout our community including:

- Rio de Flag project
- Infill versus sprawl growth patterns
- Tourism and student population growth

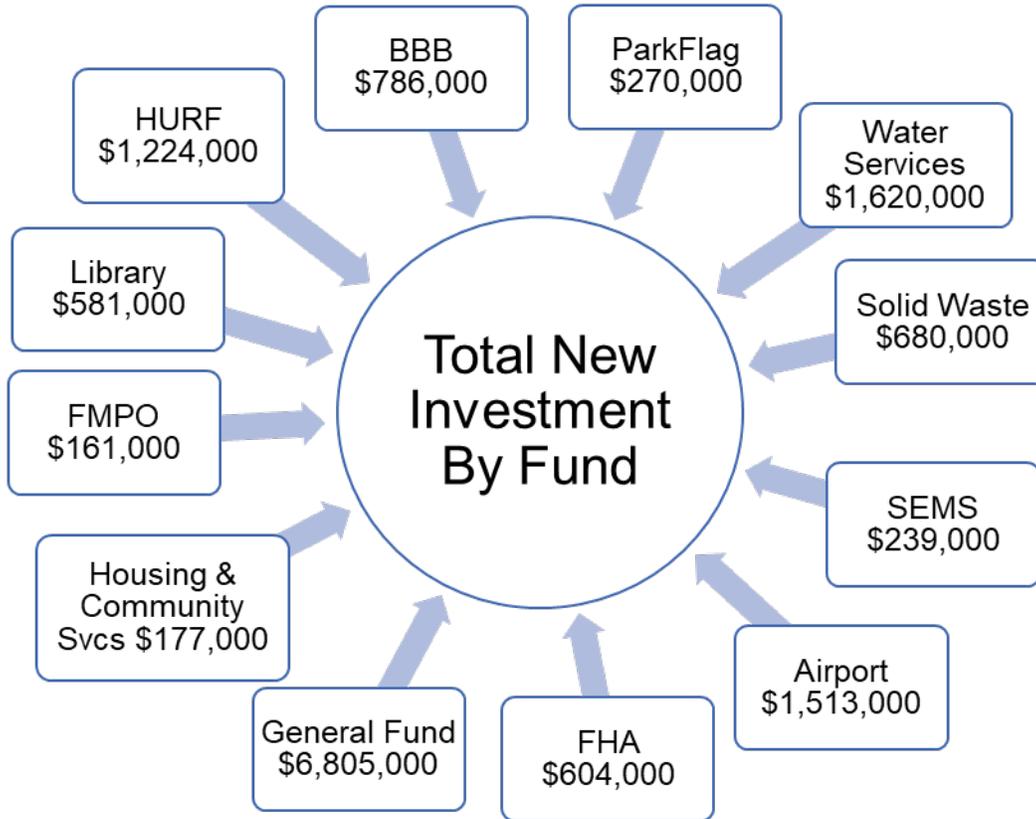
While these represent just a few of the conversations my office continues on a regular basis to assure our community is engaged in finding a solution that works not only for today but for into the foreseeable future.

On the following page, you will find a final graph of our FY 2019 budget that reflects the increases by fund that support our Council goals and community values.



Summary by Fund

The following is a summary for new investments of \$15.9 million for the FY 2019 Budget by Fund:



In closing, I would like to thank the City of Flagstaff Finance section for all of their assistance in providing accurate, timely and relevant information to the City Council and City Leadership throughout the budget process. The City of Flagstaff has received the Government Finance Officers Association Distinguished Budget Award for 24 consecutive years. The Finance section work is reflective of the overall skill and dedication found throughout our organization. I am very proud to be part of the City of Flagstaff.

Respectfully Submitted,

Barbara Goodrich
Interim City Manager



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 2018

1) Economic Development: Grow and strengthen a more equitable and resilient local economy

- Improve the small business experience when going through the City process
- Support and enhance services to all businesses in the local community
- Complete the sale of the auto mall properties
- Increase eco and historic tourism in Flagstaff
- Form an arts district and build a cultural arts facility
- Market Parks and Recreation as accessible for all regardless of income
- Promote internet connectivity throughout the community

2) Affordable Housing: Support development and increase the inventory of public and private affordable housing for renters and homeowners throughout the community

- Increase the number of affordable rental units
- Promote energy efficient rental units
- Improve the distribution of affordable rental units throughout the community
- Seek partnerships with private developers to increase the inventory affordable rental and ownership housing
- Pursue financing strategies that will create additional inventory of affordable rental and ownership opportunities
- Modify the building and zoning codes to encourage more affordable housing options
- Adopt the maximum primary property tax increase and allocate the additional revenues to city-managed rental housing program
- Establish an employer assisted housing program
- Advocate for full funding of Public Housing, Section 8 Housing Choice Voucher Program and the Community Development Block Grant Program
- Advocate for the state to review Low Income Housing Tax Credit applications more than once a year

3) Social Justice: Advance social justice in the community

- Increase communication and engagement with Indigenous communities regarding city decisions
- Strengthen and repair relationships with Indigenous and immigrant communities
- Revisit the anti-camping ordinance
- Sponsor and support state or federal legislation that restores and protects funding for social and other services to our population with special needs
- Advocate for healthcare as a human right
- Develop a strategic plan to implement the Indigenous Circle of Flagstaff recommendations. Improve overall communications and engagement with Native Nations as we work in partnership on shared issues and concerns
- Support implementation priorities of the Memorandum of Understanding between Navajo Nation Human Rights Commission and City of Flagstaff.
- Facilitation of annual meetings with tribal nations and collaborate on agenda development

4) Transportation and Other Public Infrastructure: Deliver quality infrastructure and continue to advocate for and implement a highly performing multi-modal transportation system

- Send a transportation tax renewal question to voters in November 2018 and earn majority voter support
- Evaluate, plan, and implement strategies to address the impacts of winter recreation visitation
- Advocate for additional state and federal funding for state and federal roads
- Facilitate construction of new infrastructure needed to develop private land
- Develop a Downtown and Southside multimodal transportation plan
- Advocate for Fourth street connection with John Wesley Powell Boulevard
- Secure funding for widening of the bridge over I-40 at Fourth Street through Arizona Department of Transportation five-year Capital Improvement Program
- Support the Regional Transportation Plan
- Complete construction of the new core maintenance facility in the next two years
- Complete the Intergovernmental Agreement with the County for a new courthouse and begin the design process
- Evaluate water, wastewater and reclaimed water infrastructure capacity issues
- Replace aging infrastructure
- Provide airport infrastructure upgrades to enhance tenant and patron experience and secure a second airline

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

- Align building codes, zoning codes and regional plan
- Adjust the codes to better reflect community values and the intent of the regional plan
- Improve clarity and readability of existing building and zoning codes
- Continue efforts to understand the impacts of student housing while supporting the housing type
- Amend codes to encourage more affordable housing
- Complete and update neighborhood plans specific to Housing Urban Development consolidated plan and target neighborhoods within that plan
- Continue the conversation about adoption of impact fees

6) Climate Change: Take meaningful climate change action

- Develop and implement a climate action plan
- Become a 100% renewable energy city organization and community
- Divest from fossil fuels
- Sponsor and support state and federal legislative action that combats climate change
- Update the Energy Code

7) Water Conservation: Become a national leader in water conservation in all sectors

- Develop a sustainable water budget
- Enhance water conservation efforts
- Encourage commercial and multi-housing sectors to participate in water conservation efforts
- Secure long-term water resources
- Prioritize reclaimed water for necessary uses

8) Environmental and Natural Resources: Actively manage and protect all environmental and natural resources

- Aggressively support efforts for forest health
- Preserve natural resources
- Further develop sustainability and waste removal policies and programs
- Align City policies and Street Lights to Enhance Dark Skies (SLEDS) committee recommendations
- Continue to support the Four Forest Restoration Initiative (4FRI)
- Increase City recycling from 13% to 75%

9) Personnel: Attract and retain quality staff

- Invest in employee training
- Ensure adequate Public Safety staffing levels
- Provide pay raises for all employees
- Provide paid maternity and paternity leave
- Expand the housing assistance program for all City staff
- Enhance tuition reimbursement opportunities throughout the organization
- Provide parking incentives for employees
- Evaluate ways to pay down unfunded pension liabilities

10) Community Outreach: Enhance public transparency and accessibility

- Create greater public access to Council meetings
- Define the City's public communication program
- Take a more proactive role in communicating issues and progress on Council Goals and Objectives
- Develop a social media management plan
- Build and enhance neighborhood services from the City

11) Town & Gown: Enhance relationships between the City and institutions of higher education

- Establish a comprehensive internship program through Coconino Community College and Northern Arizona University
- Coordinate with NAU, CCC and the Arizona Board of Regents (ABOR) in planning for future growth of the student population

12) Code Compliance: Achieve comprehensive and equitable code compliance

- Review current City Code to align with community expectations
- Establish proactive strategic enforcement of the City Code to maximize compliance