



City of Flagstaff

Honorable Mayor, City Council, and Citizens of Flagstaff:

The Fiscal Year (FY) 2003 budget balances short-term needs and new fiscal constraints. While the budget continues a tradition of progressive and conservative financial management, this budget departs somewhat from a long-standing practice of balancing revenues and expenditures with adequate attention to both immediate needs and long-term operating sustainability.

The FY 2003 budget barely maintains annual operations throughout the various general fund service areas. Operating allocations are at levels not sustainable over the long run and allocation enhancements will be necessary to sustain all current services and service levels. Moreover, projected expenditure growth, based on current trends, exceed projected revenue growth due to economic and population trends in the State.

I have started this budget message focusing on fiscal health because events over the last two years have had a significant impact upon the City's short and long term fiscal outlook. The results make it imperative that appropriate actions be planned either to secure the City's financial ability to sustain current service levels and investments in the community or to reduce programs and initiatives. The first fiscal effect was felt following the 2000 Census. The combination of population growth less than estimated including undercounts of significant sectors of the population and growth significantly slower than the rest of the state reduced state shared revenue by about \$2,000,000. Second, the events of September 11 and a deepening recession had lowered anticipated local and state shared revenues by another \$1,000,000.

Fiscal Health

Longer-term projections remain uncertain due to revenue estimates based on anticipated state shared revenue shortages. Careful consideration must be given to either limiting recurring expenditures, increasing locally derived revenues, or a combination. Revenue growth above current projections will be necessary to sustain current proportionate expenditures.

The reality that expenditure growth appears to exceed revenue growth was discussed with the City Council during FY 2002. The Council directed staff action

accordingly. During FY 2002 a consultant was retained to thoroughly review the City's cost allocation practices and analyze the City's utilization of fees for service. The results were presented and discussed with the City Council during budget review. The FY 2003 budget does not include increased revenue from new charges for service, although some existing fees are increased and revenue adjusted accordingly. The adoption by City Council of new charges for service requires careful consideration. The Council direction has been that the FY 2003 work program includes a process to discuss new fees and charges with our citizens for consideration by Council during FY 2003. The work program reflects this activity.

The cost allocation study served two purposes. The study refined the quite thorough cost allocation approach already utilized by the City. The study also establishes compliance with Federal guidelines for cost allocation from Federal grants received to recover overhead and administrative costs.

A third study was commissioned in FY 2002 and will be completed in FY 2003 utilizing funds budgeted. This study will provide a thorough analysis and defensible justification for instituting a system of development impact fees. Again, no new revenue is included in FY 2003. As with other possible new charges, it will be essential to discuss the completed study very thoroughly with our citizens. Doing so is part of the FY 2003 work program, along with implementing the study.

COUNCIL GOALS

This budget implements City Council goals. The City Council developed and refined ten primary goals for the City, conducting a series of retreats during 2001/2002. It is appropriate for the budget message to highlight those goals and their implementation through the FY 2003 budget.

These goals represent an important milestone in the way the City develops fiscal and operating policy through its budget process. Highlights of work programs for each goal are discussed. Departmental budgets align departmental goals with Council goals by reference. The entire set of goals and objectives is included in the Appendix.

Housing

GOAL: *To ensure that a variety of housing opportunities are available to a diverse population, especially those requiring entry level housing.*

The City continues to provide a solid, affordable housing program in FY 2003 while recognizing that additional methods must be developed in order to generate a significant impact on the affordability of housing in the community. Successful programs provide opportunities to upgrade substandard housing through rehabilitation, place families into homeownership through a "first-buyer" mortgage program, supply rental housing through support of tax credit projects, and more. For the first time in FY 2002 the City acquired a major parcel to write-down non-profit project development in Sunnyside; and the City

invited bids for purchase and development of two city-owned parcels for market and affordable units.

The programs will continue in FY 2003, although the budget reduces the general fund allocation to ongoing housing programs. The City will work closely with the newly created State Department of Housing to find new program opportunities. Staff will also work to strengthen the City partnership with the Housing Authority, evaluate all housing programs in the City for effectiveness and continue to reduce substandard housing stock through redevelopment programs. The City also participates with the County and several other service agencies to provide a Fit For Safe Housing program, including a \$25,000 allocation for assistance to persons dislocated due to safety inspections.

Economic Development

GOAL: ***Maintain and strengthen Flagstaff as a regional center for retail, employment and hospitality while enhancing the quality of life for our residents through job creation and technology.***

Historically, the City has consistently focused on economic development through job creation, contracting with GFEC to conduct basic sector business recruitment and retention. The City also spends more than \$1,000,000 per year promoting the region's most significant economic engine—Tourism. Finally, City investments for infrastructure are also designed to promote economic growth through capital projects such as the downtown improvements district, airport and airpark development, and water service improvements.

Over the last three years significant new initiatives have been undertaken. The City has cautiously moved in the direction of offering incentives to retain existing employers and attract desired business, reserving a fund for the purpose. This concept expanded significantly in FY 2002 as the City negotiated both a retention and expansion agreement with a major employer, Purina, supplying a property tax break over the next ten to thirteen years under enabling State law. These directions have changed the dialogue in economic development and clear policies and strategies must be developed in FY 2003. Recognizing the boost given to the incentives program through the use of property tax abatement and revenue realities, the budget reduces the economic incentives fund.

The City has also recognized that it cannot ignore the retail sector as a significant economic engine, supplying jobs as well as tax returns to local governments. The City initiated a redevelopment program in 1998. By 2002 staff efforts have lead to significant new private investment opportunities, including redevelopment and expansion of the Flagstaff Mall commercial area, a major three to four block redevelopment plan downtown, and a Rio de Flag corridor area redevelopment plan. The Rio de Flag project itself, begun with planning steps a decade ago, represents significant economic redevelopment opportunity.

The convenient movement of goods, services, and customers throughout the community is vital to economic strength as well as quality of life. In 2002 voters approved a broad transportation initiative. The largest project authorized by voters may be one of the most

significant economic development projects being undertaken—the Fourth Street overpass. The Fourth Street overpass adds a significant new North/South connector to East/West thoroughfares without railroad interference to traffic movement. Moreover, it conveniently connects the Fourth Street commercial area to new geographic market areas of the community, thus creating significant future business opportunities in that area.

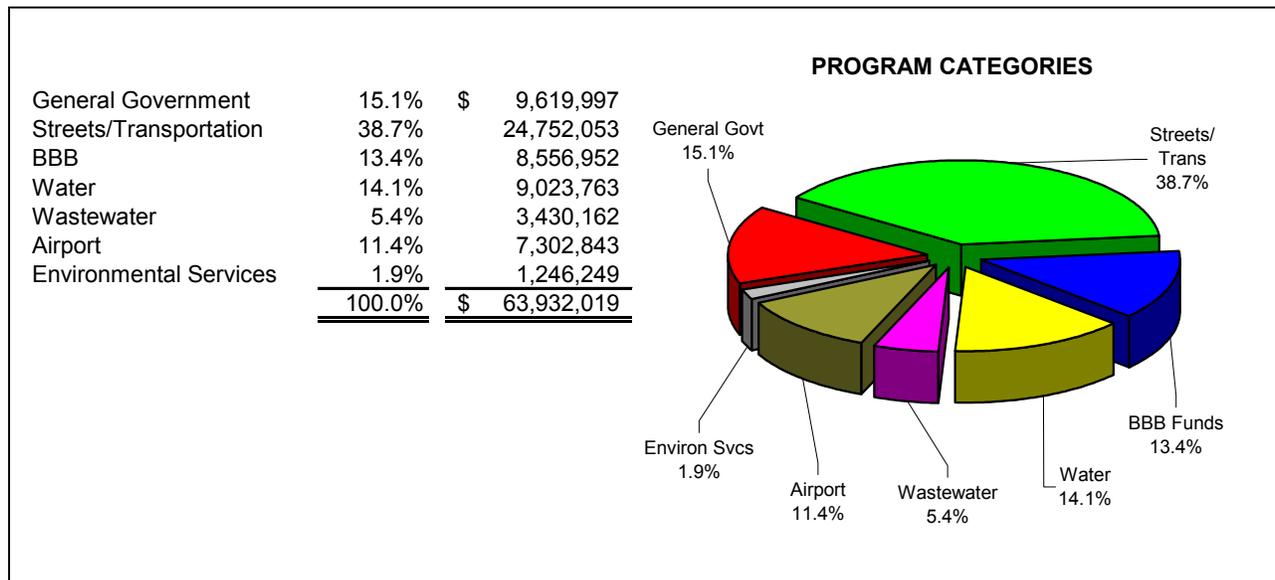
Our major economic engine remains tourism. While efforts to diversify the economy are vital, it is equally important to maintain our tourism market share in Northern Arizona. The City Convention & Visitors Bureau staff and partners in the business community continue to refresh strategies to attract quality tourism business. Perhaps the most significant partnership initiative is the effort to develop a conference center. It is widely understood that a conference center can strengthen off-season business and encourage business traffic as well as longer stays. City staff will issue a Request for Proposals early in the new fiscal year to determine interest and feasibility for a downtown site. The request for proposals will be flexible enough to accept and consider proposals for sites outside the downtown area.

Capital Improvements

GOAL: *Plan, program, design, and construct public works and facilities capital improvements through a structured, efficient and transparent process ensuring scarce public resource expenditure for the greatest benefit to the community; creating a built environment shaped through citizen involvement, reflecting community pride.*

Proving that community investment is a high priority of the City Council, the Capital Improvements budget is approximately 45% of the City's annual budget. To deliver a very large capital program in a timely and cost effective manner, the City has assigned capital planning and management to a new division reporting directly to the City Manager. The Capital Improvements division will manage a capital program totaling \$25 million encompassing 24 projects in FY 2003. Projects managed by the Public Works and Utilities Departments, primarily for water, wastewater, parks, airport and landfill improvements, add an additional \$39 million allocated to capital, bringing the total capital budget to almost \$64 million.

The Capital Improvement division is also responsible for developing and guiding a citywide capital improvement planning, programming and budgeting process. To effectively coordinate both internal departments and external agencies to maximum effectiveness and minimum disruption to citizens and commerce a significant planning component is necessary, including citizen involvement. The capital program for FY 2003 may be summarized as follows:



Public Safety

GOAL: *To promote and maintain a safe community through integrated public safety systems that addresses the underlying issues affecting public safety, health and quality of life.*

As with most communities, Flagstaff spends a large proportion of its general fund on traditional public safety services—Police and Fire. The FY 2003 budget shows 44% of the general fund spent for Police and Fire services, totaling \$18,578,544.

This City Council goal is based on a broader understanding of public safety. The Council has instructed that “public order and quality of life issues must be provided on a broad front through a partnership of shared responsibility and trust among Police, Fire, other City departments, civic organizations and the community.” While public safety is sometimes viewed as responding to calls, it is the City Council’s goal to provide services and support to citizens as a means of helping them secure healthy lives in a quality safe environment, reducing the need for emergency public safety response.

The City delivers a number of programs and services toward fulfilling this goal, among them: building safety, traffic safety, environmental services, parks and recreation programs and facilities, street maintenance, including sweeping and safe multi-modal transportation facilities and services. The City supports numerous services provided by non-profit civic agencies through distribution of City appropriations by United Way; and the City funds, in part, the FUSD After School program.

The FY 2003 budget is unable to support the same level of public safety services as in the past. Three police officer positions will go unfilled. Yet, while budgeted staffing is reduced in the Police department, the available response force is strengthened above immediate past years due to a pay plan developed to retain new officers where, because

of significant compensation differences, the department had been losing a significant number to other police agencies. It is hoped the turnover problem has been resolved.

Some Recreation programming is also reduced and Fire department operating funds are proposed at a level that cannot be sustained over multiple years.

Customer Service

GOAL: *Instill a positive customer service culture throughout the organization and with each employee of the City in the delivery of service both externally and internally.*

City employees focus on serving our citizens, following our mission statement, which pronounces our profound purpose to enhance the quality of life for our citizens. Our employees take this mission and their public service jobs seriously, working hard to stretch scarce resources to provide the best possible services.

Our employees believe there is always room for improvement. An employee committee has been formed to improve and strengthen customer service and relationships with citizens.

The City Council has directed quick and affirmative responses. A number of initiatives aimed at improving customer service will be pursued by the committee during FY 2003, including: continued training and frequent promotion of customer service message, incorporation of expectations in all job descriptions, employee orientations and performance appraisals, more effective and uniform complaint processing, effectiveness measurement and continued recognition of exemplary customer service.

Quality of Life

GOAL: *To enhance the quality of life of our community, we will assure comprehensive programs that allow for balanced resource development and protection, that include cultural components that cross generational boundaries and strive to create cost effective and proactive approaches to meet the social, physical, and economic needs of our citizenry as we celebrate Flagstaff's heritage, diversity, and vast aesthetic appeal.*

Our quality of life goal spans a diverse group of programs covered by the overarching observation that community life requires special attention to qualities that make a place worth inhabiting. Therefore, the Council has directed that consideration be given to preserving the known values in our community in all City actions and decisions as they may affect protection and enhancement of valued assets. By the nature of this goal it is also understood that knowledge about values of the community may not be fully understood. Therefore, it is incumbent upon the City to provide an opportunity for community dialogue when value discussions arise.

Ongoing and new initiatives funded by the FY 2003 budget include: establishing a permanent household hazardous waste program/site, continuing the highly touted fuel management efforts, promoting our successful recycling program toward even greater participation, and developing/managing our critical water resources for sustainable supply. Programs will continue at levels of service approximating previous years toward preservation and enhancement of open space, neighborhoods, cultural heritage, human resources (particularly the most vulnerable) and the community in general through beautification projects and design review of private development.

Fiscal Health

GOAL: *Maintain written policies to provide for a balanced budget that meets a vast array of community needs, to ensure that resources are available to meet future needs and allow for community infrastructure to be maintained at adequate levels and other sound financial practices that maintain fiscal health of the organization.*

Despite the challenges discussed within the first paragraphs of this letter, the City remains in sound financial condition. This is because the City has always managed finances carefully and conservatively. Each year the City Council renews its statement regarding fiscal policy through the adoption of the budget.

Fiscal health is accomplished by expending no more money than is received, holding some aside for a rainy day. But matching income with expenditure is more complicated than merely living within current financial means. Revenue enhancement becomes critically important when community need and demand exceeds current resources. In FY 2002 the City Council directed staff to examine ways to increase revenue.

The FY 2003 multi-departmental work program in fiscal health will continue toward implementing this Council direction. As discussed previously herein, a thorough analysis of cost allocation, fees and charges and development impact fees are being completed. Following public discussion, selected fees may be considered by the City Council. Other work program elements include: improving grant acquisition; adopting a stormwater utility fee; increasing select existing fees; and conducting a community program to determine the level and subject matter of a bond program.

Balancing available revenues and expenditures also calls for maximizing productivity. It is a constant challenge and responsibility to improve efficiency. Efforts may range from doing a task in a better way to leveraging opportunity. Citywide, City staff is charged with the challenge to work smarter. Key areas where staff will strive to either work smarter or leverage opportunity in FY 2003 include: continuing the development of a better methodology for capital planning and delivery; considering initiatives for division expenditure controls; eliminating redundant efforts where possible; coordinating infrastructure development with developing private parties; and continuing implementation of the Utilities pilot program to reduce job redundancy through employee development and better technology. Staff will extend the useful life of fleet and consider a citywide credit card program for purchasing.

Organizational Support

GOAL: *To ensure the City of Flagstaff has the necessary organizational structure and staff who are trained to achieve the goals of the City, now and in the future. To develop and maintain compensation and benefits systems that allow the City as an employer to hire and retain a workforce that is recognizable by the Council and public as committed public servants.*

The City Council recognizes the importance of maintaining the City's position as a quality employer in the community. Thoughtful care in managing our human resource is essential to effective and efficient delivery of services to the community. Indeed, our employees represent our most valuable investment in delivering service. Our employees get the job done; and our human resource investment for FY 2003 totals \$39,832,024, 27% of the combined-funds City budget.

Employees also need the appropriate tools to do their varied jobs. Organizational support calls for adequate funding of tools ranging from computer software to training, fire trucks to offices, and street sweeper brushes to wastewater biofilters. Without the necessary supplies, equipment and operating facilities, employees are not only discouraged, but they are unable to serve our citizens at expected levels of proficiency.

This goal of organizational support speaks volumes to employees by expressing a commitment to the community through organizational readiness. It conveys that within our financial means, we expect to support a full range of employee needs ranging from compensation and training, to equipment and infrastructure. This goal acknowledges that organization resources are critical to delivery on all other goals.

The FY 2003 budget cuts into operating supplies and training, while preserving, for the most part, current service levels. This should not be considered a sustainable approach. Rather, it is an approach taken in the short term, giving time for economic recovery, consideration of revenue enhancements or consideration of service level and program reductions to match anticipated resources. If operating allocations and training targets are not restored by FY 2004, employee dissatisfaction may lead to increased turnover and productivity declines. This comment is not a reflection upon employees who are dedicated public servants; rather, it recognizes workforce dynamics and the desire of employees to work where they can achieve the mission assigned to them.

In FY 2003 a work program headed by Human Resources will study ways to strengthen the City's approach to compensation, job classification and performance evaluations. Our organizational development efforts will continue on a scaled-back level. Organizational structural relationships will be examined to determine if altering functional alignments may improve efficiency or effectiveness or both.

Collaboration

GOAL: ***Strengthen the community by strengthening partnerships with sovereign nations, public, non-profit and private agencies. Develop collaborative goals, through all levels of the organization, based upon common interests with these agencies to optimize the use of community resources and the delivery of services to the citizens of Flagstaff.***

In 1994 the Mayor's initiative started the Alliance for a Second Century. Partnerships and collaboration among the members—City, County, Northern Arizona University, Flagstaff Unified School District, Coconino Community College, have grown and developed gradually since. Two years ago in a logical expansion of the concept of collaboration, outreach was extended to neighboring sovereign nations. As with the Alliance, building relationship to yield tangible results takes time. Yet, very positive interest and discussion of issues critical to Northern Arizona have yielded high expectations.

The City Council in recognition of this potential has discussed and directed a much higher level of administrative involvement on a number of external fronts, including Federal, State, local partners in the Alliance, tribal governments, neighboring municipalities and other agencies and governments presenting opportunities for higher achievement on behalf of the citizens of Flagstaff.

The FY 2003 budget work program will include continued outreach efforts aimed at strengthening partnerships, the Northern Arizona economy and services to our citizens. Under the direction of the Deputy City Manager for External Affairs, efforts will specifically target: stronger departmental links with appropriate counterparts and agencies, collaboration on rural policy development; continued strengthening of the Alliance joint work program specifically regarding the telecommunications study and development; and the best attainable alignment of like communities of interest for state electoral purposes through redistricting.

Planning for Growth

GOAL: ***To shape growth, with the involvement of the community, in a manner that preserves our region's natural environment, livability, and sense of community.***

As FY 2002 comes to an end, so too does a major City-County undertaking to plan for growth of the community. On May 21, 2002 City voters passed, by a substantial margin, the Regional Plan developed by the City and Coconino County.

Adoption of the Regional Plan marks a milestone not only for the community, but also for the State. The Regional Plan is the first City-County collaborative adoption of a plan that flows seamlessly from City jurisdiction to County.

As monumental as the planning effort has been, the plan calls for numerous steps toward implementation. The FY 2003 planning work program includes significant implementation

initiatives. The Regional Plan will, in this way, guide efforts under this goal for the foreseeable future.

Work program elements include: amending the Land Development Code as indicated by the Regional Plan; implementation of a regional open space program, including elements of a proposed bond program; developing an IGA with government agencies to protect lands adjacent to Walnut Canyon, implementing multi-modal transportation and strategic redevelopment projects--Fourth Street corridor connection, the Mall, Rio de Flag corridor, downtown West, downtown East, and significant FUTS and safe-to-school projects.

It is readily discernable that these ten Council goals are interrelated. Indeed, there are overlapping elements. The City provides a wide array of services, which are all supportive of, and beneficiaries of other services provided by divisions elsewhere in the organization. The linkages of one to every other needs to be understood lest decisions are made without regard to overall effects on citizen well being and available opportunities for a higher quality of life. This fact becomes very apparent when considering a budget where reductions are the norm. Yet, while programs and services are maintained, they are constrained. Clearly, the same level of service from the Police department cannot be provided without the unfunded sworn officer positions.

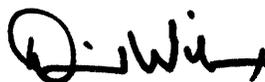
Conclusion and Thanks

If reduced revenue growth continues and replacement revenues are not instituted, staff and Council need to conduct a program review during the year in order to carefully select any program reductions or eliminations. Clearly, the historic level of service from the Police Department cannot be provided without restoring this year's unfunded sworn officer positions. Other operating reductions are not sustainable without impairing services. The Council will need to determine a course of action from among three primary choices - - one, maintaining the wide array of services currently provided, but at less than optimal levels, or, two, cutting carefully selected programs and services while restoring other services to full strength. The third option, increasing revenues, has been discussed herein, and is under consideration by the City Council.

Once again, perhaps more than ever, this budget is the result of a stellar citywide staff effort. Clear goals and direction were supplied by the City Council. Staff citywide provided responsive departmental proposals and accepted tough decisions. The Employee Advisory Committee offered a valued perspective.

Special regard is appropriate toward the Management Services Finance staff; Mary Jo Jenkins, Barbara Goodrich, Beth Beauregard, Rick Tadder, Maryellen Pugh, Debbie Nichols, Nancy Miguel, Nancy Bernard, and Laura Parker and the Budget Team Jim Wine, Jeri Dustir, Matt Pavich, Mike Gray, Barbara Goodrich, and Mary Jo Jenkins.

Respectfully,



DAVID W. WILCOX
City Manager

City of Flagstaff Mission Statement

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

Our Values Are:

ACCOUNTABILITY

We are accountable to the community and each other

RESPONSIVENESS

We value addressing our customer's concerns

QUALITY

We provide high-quality customer service

PROFESSIONALISM

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

TEAMWORK

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

PROBLEM SOLVING

We solve problems creatively, open-mindedly, and professionally

"Service at a Higher Elevation"



Budget Highlights 2002-2003

ACCOUNTABILITY

- Evaluate budgets on a programmatic level to determine the continued viability of City services in light of State revenue losses.

RESPONSIVENESS

- Conduct public meetings for major capital projects to engage the public and establish positive working relationships.

QUALITY

- Propose implementation of a Stormwater Utility to meet both Federal requirements and increased citizen concerns regarding flood management within the City.

PROFESSIONALISM

- Staff development encouraged using both internal and external resources to maximize return on training budgets.

TEAMWORK

- Monitor success in Council set goals through the evaluation of cross-departmental achievement in meeting the respective objectives.

PROBLEM SOLVING

- Implement Special Bond election process to determine long-term capital needs for the City by using extensive Community Outreach.

Accomplishments 2001-2002

ACCOUNTABILITY

- As revenues fluctuated due to post 9/11 economic downturns, took immediate action to evaluate, monitor, and/or reduce budgets as appropriate to assure required service levels would not be adversely affected.

RESPONSIVENESS

- Continued efforts for organizational development and evaluation to better address customer concerns regarding the provision of timely service and open communication.

QUALITY

- Council established 10 primary goals that the City used to guide budget priorities and objectives.

PROFESSIONALISM

- Government Finance Officers Association presented to the City the Distinguished Budget Presentation, (eighth consecutive) and Excellence in Financial Reporting (ninth consecutive) Awards.

TEAMWORK

- Received voter ratification of the Regional Plan and began City/County implementation.

PROBLEM SOLVING

- Sponsored efforts to reach consensus on site location for a new YMCA facility.