# **BUDGET OVERVIEW**

The City of Flagstaff FY 2003 Financial Plan presents a fiscally sound and balanced budget that maintains the integrity of the City's financial condition while still meeting the service level demands of a community that expects quality services. The Financial Plan is balanced not only financially, but also equally as important, balances the allocation of resources among operating requirements, capital needs, debt burden, and strong reserves for future needs and contingencies.

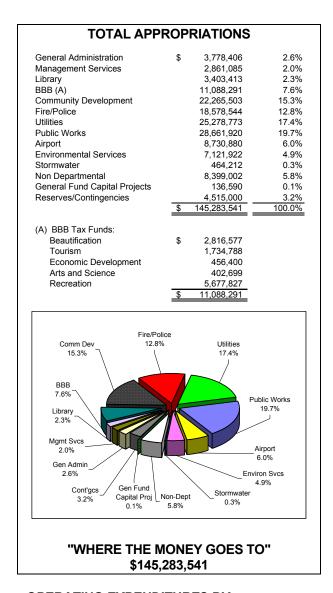
This section briefly describes the document Format and Presentation; the Assumptions and Strategies which formed the working parameters of the budget development; Highlights of Appropriations, Revenues, and Capital Improvements Plan (CIP) for FY 2003; Debt Structure; and the Fund Balances, which are the operating framework of the Financial Plan.

The following graphs depict the major classifications of appropriation for the total 2002-2003 Budget and expenditures by major types.

TOTAL APPROPRIAT	HONS	<b>ው</b>	CO OFF 204
Operations		\$	63,055,384
Equipment			4,036,776
Capital Improvement P	rojects		63,932,019
Debt Service			9,744,362
Reserves/Contingencie	es <u>-</u>		4,515,000
	_	\$	145,283,541
ΤΟΤΔΙ Δ	PPROPRIA	ΓΙΟΙ	NS
	all funds)		
			Equipment 2.8%

<b>EXPENDITURES BY</b>	TYP	<u> </u>	
Personal Services	\$	39,832,024	27.4%
Contractual		34,343,047	23.6%
Commodities		5,411,052	3.7%
Capital		65,697,418	45.3%
	\$	145,283,541	100.0%
EXPE		RES BY TYPES funds)	
	(all	iulius)	
Personal Services		Contractu	al
27.4%		23.6%	
			Commodities
Capital			Commodities 4.2%

FINANCIAL RESO	URC	ES AVAIL	ABLE
Sales/Franchise Taxes Grant Revenue State Revenue BBB Tax Transportation Tax Other Revenue Property Taxes Enterprises (A) Fund Balances	\$	13,235,852 8,037,699 9,728,775 3,854,287 6,319,304 30,471,313 7,475,750 27,827,790 38,332,771 145,283,541	9.1% 5.5% 6.7% 2.7% 4.3% 21.0% 5.1% 19.2% 26.4%
(A) Enterprises: Water Operations Wastewater Operations Airport Operations Environmental Services Stormwater Utility	\$	11,232,800 7,209,600 802,964 7,795,509 786,917 27,827,790	·
	Revenue 6.7%	2.7	
9.1% Fund Balances 26.4% Enterp	prises (A)	Property 5.11	
"WHERE THE MO \$145,			FROM"

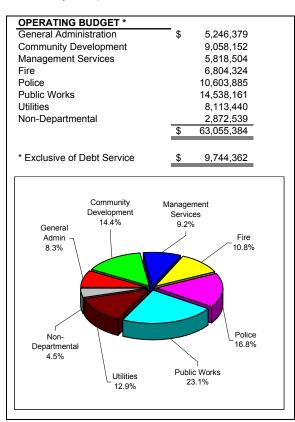


# OPERATING EXPENDITURES BY DEPARTMENT

City operations include the traditional municipal services citizens expect their local government to provide. Operating expenditures exclude capital improvements, capital equipment, debt service and reserves. The department budgets are presented to include division budgets and Departmental (organizational structure) responsibilities as defined by the City Code.

General Administration activities comprise 8.3% of the budget (\$5.2 million). The divisions within this Department provide for the overall management and administration of the City, as well as enforcement of municipal laws through legal support and the courts. Tourism, Public Information, Human Resources, and the Capital Management division are also included within General Administration.

**Community Development Department** comprises 14.4% of the operating budget (\$9.1 million). The primary services in this Department include Engineering, Planning & Zoning, and Building Inspection. The services provided by these Divisions meet the current needs of the community and plan for the future.



Management Services Department comprises 9.2% of the operating budget (\$5.8 million). The department encompasses those activities that provide administrative support and services including financial services, purchasing, information systems, and real estate. The City/County public library system is also included within the department.

**Fire** services comprise 10.8% of the operating budget (\$6.8 million). The Department's public safety programs provide both personal safety in the community with proactive attention to preventable disasters and sense of well being through timely emergency response.

**Police** services comprise 16.8% of the operating budget (\$10.6 million). Public safety programs provide personal safety in the community by promoting a community free of crime and assured response in emergency situations.

**Public Works** services are provided by nine divisions that account for 23.1% of the operating budget (\$14.5 million), excluding the debt service requirements for streets (\$2.5 million), Airport (\$0.3 million), and USGS facility (\$0.5 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, airport operations, and recreation programming.

**Utilities Department** comprises 12.9% of the operating budget (\$8.1 million), excluding \$4.3 million debt service requirements. Five divisions within water operations and four divisions within wastewater operations provide services that promote a clean and healthy community by providing a safe water supply and proper waste disposal.

**Non-Departmental** operations comprise 4.5% of the budget (\$2.9 million) exclusive of \$2.2 million debt service. Some divisions are contractual in nature and include Contributions to Other Agencies, Economic Development, and the Pension Trust Fund. The Council and Commission and Non-departmental budgets account for expenditures that benefit City operations as a whole.

# **BUDGET FORMAT AND PROCESS**

The budget and financial plan for the City of Flagstaff (City) is the policy document that reflects the goals and objectives of the City Council. These goals and objectives are implemented through the policies and priorities established by the Council as well as the various Boards and Commissions appointed by Council. The Office of the City Manager is then responsible for implementing these policies and priorities utilizing the allocation of financial resources. The annual review process provides the community an opportunity to evaluate the services provided to the citizens of the community. Programs are identified, evaluated, and the scope of service provided is defined. The staffing level needed to provide the service level deemed appropriate by Council is determined. Additionally, funding requirements and level of effort to be provided are established.

## **FORMAT**

The Department Detail presents each activity at the division level with a division mission, description of programs, specific goals and objectives for FY 2003, major accomplishments in FY 2002, and performance indicators that measure the efficiency and/or effectiveness at the program level.

To assist the City Manager in the management of the resources expended by the municipality, the budget also serves as an operational guide. The operating budget presentation includes, for comparative purposes, the *Actual Expenditures* for FY 2001, the *Adopted Budget for FY 2002*, the *Estimated Actual for FY 2002*, and the *Adopted Budget for FY 2003*. Expenditures are shown by category as well as cost center (program/activity). The comparatives in the Financial Summaries Section are presented at the fund level and the department level to aid division and program managers in budget tracking and accountability.

# Categories presented are:

- Personal Services (salaries, fringe benefits, internal labor, et al)
- Contractual (professional services, utilities, maintenance, rents, debt service, et al)
- Commodities (small equipment, parts, office supplies, operating supplies, et al)
- Capital Outlay (professional services, land, buildings, street, water and sewer construction, equipment, et al).

The *Departments* and the *divisions* within them are:

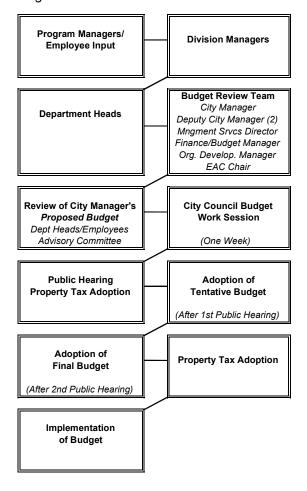
- General Administration (City Manager, City Clerk, Capital Improvement, Human Resources, Risk Management, Law, City Court, and Tourism)
- Management Services (Information Systems, Management Services Administration, Purchasing, Tax, Licensing and Revenue, Library, and Finance/Budget)
- Community Development (Metropolitan Planning Organization, Community Development Administration, Engineering, Traffic, Building Inspection, Planning, Community Redevelopment, Urban Design, and Stormwater)
- ♦ Fire Department
- Police Department
- Public Works (Public Works Administration, Parks, Mechanical Shop, Cemetery, Facilities Maintenance, Recreation, Streets, Airport, and Environmental Services)
- Utilities Department (Utilities Administration, Water Treatment, Water Distribution, Wastewater Treatment, Wastewater Collection, Industrial Waste Inspection, and Customer Services)

 Non-Departmental (Council and Commissions, Contributions to Outside Agencies, Non-Departmental, Firemen's Pension Trust, Economic Development, Real Estate Proceeds, and General Fund Capital Projects)

*Programs* capture all expenditures related to an activity, cost center, or location of operation within a division.

## **PROCESS**

**Budget Process Flowchart:** 



# Presentation:

- The Transmittal provides a summary of the key policy issues, priorities, and strategies that shaped the budget as framed by the City Manager.
- The Budget Overview summarizes financial resources and expenditures along with fund summaries and an overview of selected revenues.
- Policies and Procedures provide an overview of both fiscal and budgetary practice.

- Budget Issues were prepared for Council review and discussion during their Fall and Spring retreat and the budget study sessions. Highlights of the issues reviewed are included in the Issues and Updates section.
- The Financial Summaries section includes various schedules utilizing revenue and expenditure classifications and tax levy information in accordance with state reporting requirements as mandated by statute. Expenditures are reported at both the fund level and the department level for operational control purposes.
- The Department Detail section provides both narrative and financial data. The budget commentary provides an explanation of significant budget changes for FY 2003.
- The Capital Improvement Plan (CIP) for FY 2003 lists projects, costs, and funding sources in the Capital Improvement (CIP) Section.
- The Community Profile section outlines key factors that contribute to the uniqueness of our community.
- A detailed listing of personnel and changes over the last five years is provided in the Appendix Section.

Review and Approval: Issues presented during the review and approval period include discussion topics of the Council Fall and Spring retreats. The Fall and Spring retreats were held in November and February respectively, to give city staff the opportunity to present major discussion points to council and the public. The goal is for council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. Council holds Study Sessions in May. Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The Proposed Budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on July 2, 2002. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the

budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

Adoption: The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

	BUDGET CALENDAR
December	Budget Module available to all Divisions
January 25	Capital equipment requests reviewed by Fleet/MIS Committees for recommendation
March 4 - March 27	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
May 22-26	Council Study Sessions Proposed Budget available to public
June 18	Public Hearing/Tentative Adoption of Proposed Budget Public Hearing on Tax Adoption
June 21	Publish first notice of Public Hearing for Final Adoption
June 28	Publish second notice of Public Hearing for Final Adoption
July 2	Public Hearing on Budget and Final Adoption of Budget
July 5	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 16	Adopt Property Tax Levy

The Adopted Budget reflects the total funds appropriated (\$145,283,541). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$69,592,525), and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

# **ASSUMPTIONS AND STRATEGIES**

## **ECONOMIC OVERVIEW**

In FY 2002, sales tax revenue collected equaled the budget. An overall budget-to-budget increase totals \$347,893 or 3.3%. The trends reflect an overall increase in the economy with a slight dip in auto sales. Construction revenues are expected to remain steady as this category has shown increases in six of the past seven years and a cyclical slow down could occur. The BBB category shows a 2.0% (\$76,371) budget to budget increase.

The City initiated a census review with the Census Bureau due to a perceived undercount in the Flagstaff area. The 2000 census reflected a population of 52,894, an increase of only 193 citizens over the 1995 Special Census. The City has identified approximately 3,000 additional citizens that should be added to the census base and will be submitting a request for review. Should the Census Bureau agree and grant the revised census to the City of Flagstaff, additional funding is not assured. Other communities within Arizona experienced similar discrepancies and it is anticipated the funding allocation will remain the same.

The State of Arizona has experienced significant revenue shortfalls in FY 2002. This was a combination of decreased tourism and spending as related to the September 11th disaster, as well as miscalculations on interest income and a significant underestimation of an attempted alternative fuel program. This has resulted in a FY 2002 decrease of State Sales Tax of approximately 2.5% (budget to budget) to the City that is expected to continue. Additionally, the State has imposed a one-time reduction in funding for FY 2003, anticipated to be \$100,000 for the City, in an attempt to balance their budget.

# REVENUE FORECAST

**State-shared revenues**, i.e., sales tax, income tax, highway users tax, and local transportation assistance (lottery) are projected to increase 2.9%

in total. State-shared revenues are based on estimates received from the Arizona League of Towns and Cities. State shared revenues are distributed in part by population counts. While State income tax is at risk due to budget uncertainties at the State, Highway User revenues are increasing.

**County revenues** for auto in lieu tax (license tags) are expected to increase by approximately 12%. The previously anticipated reapportionment to Yavapai County is less than expected. County aid for library operations has increased 14% from the FY 2002 budget estimate as a result of carryover funds.

The **Utility Fund** does not anticipate a rate increase for water or wastewater services, but certain changes in class and increased capacity charges have occurred. The Water and Sewer rate model was updated in Spring of 2002.

The **Environmental Services Fund** projects increased revenues for FY 2003 due to the transfer of funds previously held for cell construction.

## **EXPENDITURES**

The adopted budget is based on fiscal restraint consistent with reductions in State revenue. The base budget approach has required operational cost reviews and redistributions of all Departments.

Efforts to Control Expenditures The Fleet Management Committee reviews all equipment replacement requests and prioritizes those needs. A long-range planning approach is utilized to level cash flow requirements from one year to the next. The Fleet Committee has developed a five-year plan and continues the process of reviewing the plan to identify cash flow needs and develop alternatives to better allocate future resources. Due to varying demands, the Fleet budget is flexible, allowing monies to shift within the five-year planning period.

**Fund Balance** The carryforward of fund balances remain at a level which protects the financial integrity of the City. Moody's bond rating for the City is Aa3. The projected fund balance at the end of FY 2002 is estimated at \$5,840,606 in the General Fund. A general fund balance equal to 15% of general fund revenues is anticipated to maintain a sound financial position. The General Fund balance is currently budgeted at 16.8%.

The FY 2003 budget continues to use excess fund balances for one-time capital expenditures, facilities and redevelopment. In addition, a portion of the current fund balance represents carryforwards of expenditures in equipment and capital projects.

**Council Guidelines** The budget guidelines set forth by the City Manager were formulated based on Council concerns and goals. The Council developed ten goals that encompass the areas of Affordable Housing, Economic Development and Redevelopment, Capital Improvement, Public Safety, Customer Service, Quality of Life, Fiscal Health, Organizational Support, Collaboration, and Planning for Growth.

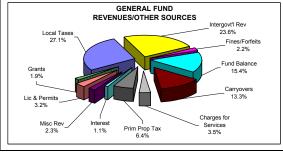
- Estimated Actual Expenditures FY 2002. Divisions were asked to estimate expected expenditures by line item for FY 2002. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2003. This resulted in a reduction of a substantial number of line items, thereby allowing resources to be reallocated without inflating the total appropriations required.
- Staffing Requests/Increases in Level of Service. Departments were required to provide narrative transmittals for increases in service levels and addition of staff. New staff additions were either required to have an independent funding source or were needed to maintain current service levels.
- Fleet Management. All fleet equipment replacement requests were reviewed and prioritized by the Fleet Management Committee. The Budget Review Team established financial parameters.
- Staff Computer Equipment. Management Information Systems Staff reviewed hardware and software needs. Funding was established to maintain funding at a level dollar amount to meet existing and future needs for current service levels including upgraded equipment and software.
- Capital Improvements. The Capital Improvement Committee reviewed all requests of capital projects or public improvements.
- Operational Impacts. All funds are continually evaluated relative to five-year financial projections. Increased service levels due to new programs or capital construction were projected to determine operating impacts in future years.

# **FUND SUMMARIES**

## **GENERAL FUND**

The General Fund includes all City operations, except enterprise activities (operations which are to be self-sustaining), e.g., Utilities, Environmental Services, the Airport; activities funded from a special revenue source dedicated to that activity, e.g., the BBB Tax funds, Streets; Library; Community Redevelopment; Arts & Science; Recreation; Transportation; and Transportation Planning (MPO).

		BUDGET	E	ST ACTUAL		BUDGET
REVENUES/OTHER SOURCES		FY 2002		FY2002		FY 2003
Licenses and permits	\$	1,491,003	\$	1,774,146	\$	1,553,750
Grants		902,817		865,925		948,031
Local taxes		12,506,682		12,872,341		13,235,852
Intergovernmental		11,343,169		11,399,644		11,519,864
Fines and forfeits		900,574		938,131		1,067,125
Fund Balance, net of Transfers		10,397,701		14,087,142		7,494,582
Fund Balance for Carryovers		6,567,430		3,315,407		6,500,697
Charges for services		1,635,872		1,547,360		1,685,384
Primary Property Tax		3,066,182		3,011,483		3,117,493
Interest		650,000		520,000		520,000
Miscellaneous		1,578,871		1,293,949		1,131,928
	\$	51,040,301	\$	51,625,528	\$	48,774,706
REVEN		NERAL FUND S/OTHER SO		Intergo	ovt'l I	Rev
Local Taxes	_		_			. /F f - 't -



		BUDGET	F	ST ACTUAL		BUDGET
APPROPRIATIONS		FY 2002	_	FY2002		FY 2003
General Administration	\$	2.681.389	\$	2.466.738	\$	3,778,406
Community Development	_	8.059.522	-	5,113,534	-	8.702.833
Management Services		2.134.362		2,019,157		2,861,085
Public Safety		16.957.578		15.535.705		18.578.544
Public Works		6,485,068		5,345,149		7,589,645
Water Utility		-		-		15,588
Non-departmental		9,612,299		7,059,200		737,999
Contingencies		940,000		250,000		670,000
	\$	46,870,218	\$	37,789,483	\$	42,934,100
Mgmt Svcs		NERAL FUND APPROPRIAT				Safety 3%
1						
Mgmt Svcs				PL	43.	/orks

Total resources available for General Fund expenditures for FY 2003 are \$48.8 million including the beginning fund balance of \$13.8 million. A substantial portion of General Fund resources comes from two revenue categories: 1) local sales and franchise taxes and 2)

intergovernmental revenues (specific detail including comparative data, is shown in Schedule 3 of *Financial Summaries* Section). A more detailed review of major revenue categories, including historical trend information, is provided following the fund summaries.

Property tax estimates are based on the assessed valuation of property as determined by the Coconino County Assessor. The primary tax rate remains unchanged in FY 2003, and will generate an estimated \$3,117,493. This amount represents approximately 39% of the maximum allowable levy under Arizona statute. The secondary tax rate, which can only be used to repay general obligation debt, will remain at \$0.9801. The increase in assessed valuation, and corresponding increase in revenue, is associated with \$4.4 million new construction placed on the tax rolls in the last year, and increased assessed values on existing properties (\$4.3 million).

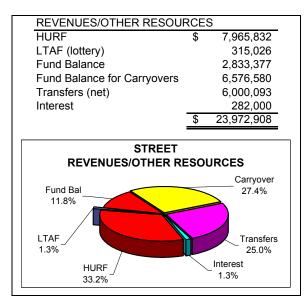
General Fund total appropriations have decreased 8.4% in FY 2003. The decrease is due a significant reduction in budgeted capital projects. The General Fund includes \$10.1 million in capital, of which \$515,023 is set-aside for the American's with Disability Act (ADA) compliance issues as a result of a Department of Justice audit.

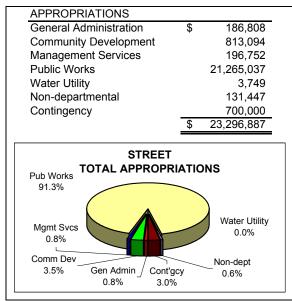
As part of the tenth anniversary of the ADA (July 2000) the Department of Justice selected one City from each state for a compliance review. Flagstaff was chosen for the State of Arizona due to its tourism based on economy and medium sized population. In February of 2000 the Department of Justice conducted the on site audit of City facilities for compliance with the accessibility requirements of the ADA. The City received a preliminary report from the Department of Justice with recommendations for modifications to existing facilities, however, to date there has not been a final report issued from the Department of Justice regarding required modifications. The City position with the Department of Justice has been to make any modifications as required by the ADA. Since there is no final report, the budgeted amount is estimated and might change due to the final results of the audit.

The financial position of the General Fund (after cost allocation distribution) remains strong. Accumulated funds will continue to be spent over a five-year period for a joint project with the Corp of Engineers to study a major drainage way issue in Flagstaff (the Rio de Flag project).

#### HIGHWAY USER REVENUE FUND

The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State. Appropriations total \$23.3 million in FY 2003. This carryforward of funds includes reconstruction of a major intersection in town, Enterprise and Butler, our annual pavement maintenance program, Southside traffic improvements. and Sunnyside street improvements.



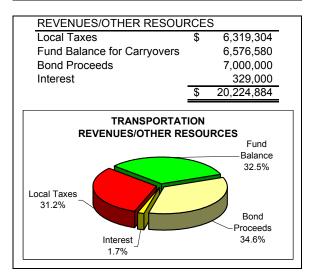


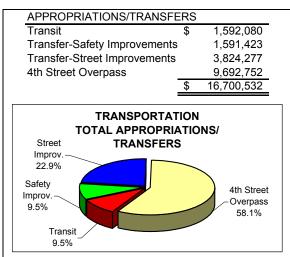
# TRANSPORTATION FUND

The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for

twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit and 4<sup>th</sup> Street Overpass are appropriated in this fund. Expenditures related to Safety Improvements and Street Improvements are accounted for in the HURF and Beautification funds. Appropriate transfers are made to fund the various projects that this tax supports.

Buc	get FY 2003
- 1	Revenues
\$	1,763,014
	881,507
	2,049,504
	1,625,279
\$	6,319,304



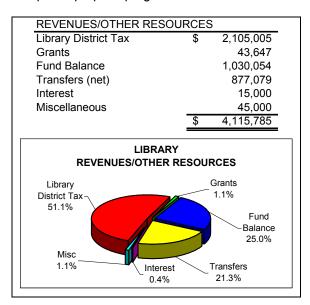


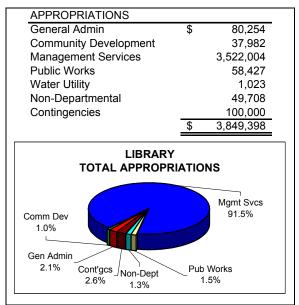
In July 2003 there will be an increase in the Transit Tax from 0.1475% to 0.1750%. This was anticipated through the IGA entered into by the City and County during FY 2001.

Appropriations total \$16.7 million in FY 2003, comprised of \$1,592,080 for transit operations, \$9,692,752 for the 4<sup>th</sup> Street overpass, and transfers totaling \$5,415,700 from Safety and Street Improvements representing two years worth of tax receipts. The tax rate for FY 2002 is 0.516%.

#### LIBRARY FUND

The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$2.1 million of the funding for library operations comes from the library district tax. State grants provide \$43,647 for special-purpose programs.





During 1997, the County, in concert with the affected entities throughout, developed a new funding formula for the distribution of the tax. The formula provides a base amount for all entities and the distribution of any additional monies as directed by the Library Council with affirmation by the County Board of Supervisors.

#### **BBB FUNDS**

A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 general election. The BBB tax approved by voters will expire in 2013. The funds were allocated into the following percentages:

Economic Development	9.5%
Beautification	20.0%
Tourism	30.0%
Recreation	33.0%
Arts & Science	7.5%

Since inception, the City has experienced a continual growth of BBB revenues, however FY 2002 is expected to increase by only 0.3% with hotels representing the greatest decline. Fiscal Year 2003 projections will reflect this decline within its anticipated growth of 2.5%. Activities funded with the revenues have made operating adjustments necessary and these changes will be reflected within each five-year plan.

**Beautification Fund:** Total resources available for Beautification Fund activities amount to \$2.8 million including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.) In FY 2003, projects include Route 66, arterial landscaping and neighborhood projects with the assistance of Clean and Green, and city gateways. There are also improvements planned on various Flagstaff Urban Trail links.

	JRCES
BBB Tax	\$ 770,857
Grants	148,380
Fund Bal, net of Transfers	1,946,616
Interest	20,000
Miscellaneous	3,000
	\$ 2,888,853
APPROPRIATIONS	
Beautification	\$ 2,816,577
Reserve	10,000
Reserve	\$ 2,826,577
	Ψ 2,020,011
BEAUTIFICA REVENUES/OTHER	
REVENUES/OTHER	RESOURCES

**Tourism Fund:** Total resources available in FY 2003 are \$2.1 million. The total operating budget, excluding a \$50,000 reserve for contingencies, is \$1.7 million. Expenditures include ongoing marketing programs and one-time expenditures for capital. Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools.

REVENUES/OTHER RESOU	RCES
BBB Tax	\$ 1,156,286
Grants	15,000
Fund Bal, net of Transfers	615,588
Fund Balance for Carryover	180,000
Interest	37,636
Miscellaneous	65,430
	\$ 2,069,940
APPROPRIATIONS	
General Administration	\$ 1,734,788
Reserve	50,000
	\$ 1,784,788
TOURISM REVENUES/OTHER R	
BBB Tax 55.9%	Grants 0.7%
Misc 3.2%	Fund Bal 29.7%
Interest	Carryover 8.7%

Arts & Science Fund: Total resources available for Arts & Science activities are \$536,358. Expenditures include contributions to local organizations and Art in Public Places. There is \$47,685 available for Art in Public Places. One percent (1%) for the Arts is allocated from citywide eligible capital project expenditures and \$45,000 for Flagstaff Cultural Partners Administration. Revenues received from the BBB tax are \$289,072.

REVENUES/OTHER RES		
BBB Tax	\$ 289,072	
Fund Balance	145,034	
Transfers	95,000	
Interest	7,252	
	\$ 536,358	
APPROPRIATIONS		
Arts & Science	\$ 402,699	
Reserve	10,000	
	\$ 412,699	
ARTS & SO REVENUES/OTHE		
BBB Tax 53.9%	Fund Bal 27.0%	
Interest 1.4%	Transfers 17.7%	

Recreation Fund: Total appropriations in FY 2003 for Recreation Fund activities are \$5.7 million. FY 2003 includes \$2.7 million for land acquisition, one park in the planning phase, two parks in the construction phase, and two school fields in construction phase. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated Because of this decision, a maintenance. significant increase in Parks maintenance will be funded from these revenues due to the completion of various projects. The Council elected to maintain the property rate at an amount sufficient to maintain the debt service structure of the programmed capital and related maintenance.

REVENUES/OTHER RESOU	JRCES
BBB Tax	\$ 1,271,915
Grants	530,347
Fund Bal, net of Transfers	1,726,157
Fund Balance for Carryover	3,032,455
Interest	146,900
	\$ 6,707,774
APPROPRIATIONS	
Recreation	\$ 5,677,827
	\$ 5,677,827
RECREATION	ON
RECREATION REVENUES/OTHER F	
REVENUES/OTHER F	
REVENUES/OTHER F	RESOURCES
REVENUES/OTHER F	RESOURCES Fund Bal
REVENUES/OTHER F	RESOURCES Fund Bal
Grants 7.9%	Fund Bal 25.7%
Grants 7.9% BBB Tax 19.0%	Fund Bal 25.7%
Grants 7.9% BBB Tax	Fund Bal 25.7%

**Economic Development Fund:** Economic Development is conducted primarily by Greater Flagstaff Economic Council (GFEC). The City allocates \$309,000 to GFEC, \$27,000 for partnership training, \$100,000 for telecom, and \$7,400 for contributions. Business recruitment efforts target industries that conform to both community and environmental values (low water users, low and non-toxic sewer dischargers, good wage/benefit structure, good corporate citizens, home offices).

REVENUES/OTHER RESO	REVENUES/OTHER RESOURCES		
BBB Tax	\$ 36	6,157	
Fund Balance		9,918	
Transfers		0,000	
Interest		3,797	
merest		9,872	
	Ψ 50.	9,072	
APPROPRIATIONS			
Economic Development	\$ 450	6,400	
Reserve		5,000	
1.000.10		1,400	
ECONOMIC DEVE REVENUES/OTHER			
BBB Tax 62.1%		nd Bal 8.8%	
Interest 0.6%	Transfers 8.5%		

## OTHER FUNDS

Metropolitan Planning Organization: This fund was established to account for funding derived from the area's status as a designated Metropolitan Planning Organization (MPO). The MPO receives Federal funding administered through the Arizona Department of Transportation (ADOT). The MPO has appropriated \$265,666 for this program for FY 2003. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through Coconino County.

METROPOLITAN PLANNIN	NG ORG	ANIZATION
REVENUES/OTHER RESOURCES		
Grants	\$	265,666
	\$	265,666
APPROPRIATIONS		
General Administration	\$	265,666
	\$	265,666

**Community Redevelopment Fund:** This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$2.0 million allocated to this activity for FY 2003.

REVENUES/OTHER RESO	<b>JRCES</b>	3
Grants	\$	1,547,207
Fund Balance		86,879
Miscellaneous		3,000
Transfers		375,400
	\$	2,012,486
APPROPRIATIONS		
Community Development	\$	2,012,172
•	\$	2,012,172
COMMUNITY REDE REVENUES/OTHER		

**Real Estate Proceeds:** The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total \$785,000. Expenditures in this fund are for acquisition of open spaces and redevelopment acquisitions.

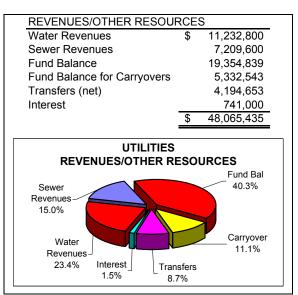
IRCES
\$ 611,790
485,000
150,000
26,350
297,000
\$ 1,570,140
\$ 785,000
\$ 785,000
OCEEDS
RESOURCES
LEGGGINGEG
Carryover
30.9%
30.9%
Transfers
Transfers 9.6%
Transfers

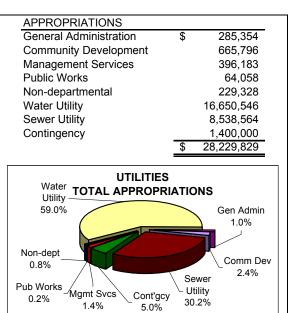
# **UTILITIES FUND**

The City's water and wastewater operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: all operating and maintenance costs; capital improvements considered routine in nature; principal and interest payments on bonded debt related to utility construction; and maintaining a year-end fund balance sufficient to ensure adequate working capital. Total appropriations for the Utilities Fund are \$28.2 million. Resources include \$18.4 million in utility user fees and \$5.3 million in fund balance carryforward.

Water Operations: Total appropriations relating to direct costs for the water operations are \$16.7 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development. Revenue estimates total \$10 million for water sales. The revenue estimates reflect a 2% factor, due to customer base increases and consumption changes. No rate increase is anticipated for FY 2003.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$8.5 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total \$6 million in wastewater service charges. Revenues are estimated to increase 2% due to growth of the customer base and consumption.

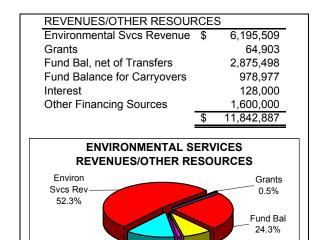




# **ENVIRONMENTAL SERVICES FUND**

Total appropriations are \$9.5 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of seven major customer services areas (residential sanitation, curbside recycling. commercial sanitation, hoist and haul, landfill dumping, inert materials pit, and commercial recycling) with different rates for each category based on cost of service. Currently, the existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment: closure and regulatory compliance costs related to mitigation environmental contamination and/or degradation; and for future site requirements.

Based on current estimates for closure and postclosure landfill costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements.



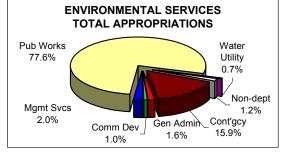
APPROPRIATIONS		
General Administration	\$	152,264
Community Development		99,022
Management Services		186,687
Public Works		7,349,538
Water Utility		68,266
Non-departmental		115,030
Contingency		1,500,000
	\$	9,470,807
_	_	

Interest

1.1%

Carryover

8.3%



# AIRPORT FUND

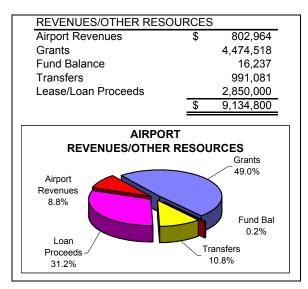
Other

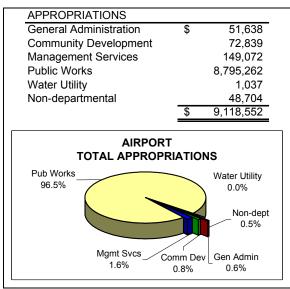
Financing-

13.5%

Pulliam Airport is located four miles south of downtown Flagstaff and is operated 17 hours per day, seven days each week and offers five daily flights to Phoenix. Total appropriations are \$9.1 million: \$1.2 million for operations, \$300,081 for debt and \$7.6 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements. The general fund will continue to subsidize operations at \$590,000 this year with an additional \$186,000 for capital improvements including matching funds for grants. This year, of the \$7.6 million in capital improvements, FAA and ADOT are funding \$4.5 million and lease

proceeds are expected to fund \$2.9 million. The secondary property tax fund will transfer \$215,081 to cover debt service not paid with passenger facility charges.





# **REVENUES**

Historical Trend Information for Select Revenues

## **GENERAL FUND**

# PROPERTY TAX RECEIPTS CURRENT, PRIMARY

Legal Authority: Arizona Revised Statutes Section 42-45 (B) based on the State Constitution Article 9. Section 18

Description: The property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

Receipts from primary property taxes levied by the City are deposited in the General Fund. No restrictions on usage apply to the primary property tax. State statute limits the annual increase to 2% plus the amount generated by construction. However, this legal restriction has no impact on the City, as the City has only levied 40% of its maximum allowable levy.

PRIMARY PROPERTY TAY			
PRIMARY PR	OPERTY TAX		
FY:	AMOUNT	% CHANGE	
96-97	\$ 2,243,817	5.2%	
97-98	2,405,865	7.2%	
98-99	2,577,557	7.1%	
99-00	2,719,223	5.5%	
00-01	2,814,219	3.5%	
01-02	2,980,658	5.9%	
02-03	3,117,493	4.6%	
PRIM	IARY PROPERT	Y TAX	
3.0			
2.6	<del>- a</del> fl-		
0 2.2 <b>1</b>			
SNOI 1.8			
1.4			
1.0	بالبالبا		
97	7 98 99 00 (	01 02 03	
	FISCAL YEA		
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Receipts from secondary property taxes are deposited in the Debt Service Fund and can only be used to repay general obligation debt. No annual limitations apply, as this rate is

determined by the requirements of the debt repayment schedule.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The projected increase for FY 2003 anticipated collections are twofold: new construction of 3.6% and increased assessed values on existing properties of 1.3% due to reassessments.

# CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

Legal Authority: City Code, Title 3, Chapter 5, (Ordinance 1491)

Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additionally, there is also a 2% tax on hotels, restaurants and bars (BBB Tax).

The 1% portion is designated as General Fund revenue to support activities and services provided by the City government. The City has designated the 2% BBB Tax for enhancements related to beautification, economic development, tourism, arts and sciences, and recreation. (The BBB Tax revenues are shown separately on a following page.)

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. These numbers are sales tax revenues only; audit assessments and penalty and interest revenues are combined with these numbers on schedule 3. The increase in revenues for FY 2002 was driven by increases in construction and auto sales. Zero percent financing for new auto sales brought the sales figures up to the level experienced two years ago. Construction has enjoyed a strong year with an increase in residential and commercial projects. The revenue projection for FY 2003 anticipates a flattening of auto sales and a general increase of 2% to 3% in the other sectors of the local economy.

# **STATE SALES TAX**

Legal Authority: Arizona Revised Statutes Section 42 - 1341 (D)

Description: A half-cent (.5%) portion of the fivecent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided by the general government.

STATE SALES TAX		
FY:	AMOUNT	% CHANGE
96-97	96-97 \$ 3,845,329	
97-98	4,061,346	5.6%
98-99	4,353,556	7.2%
99-00	4,785,424	9.9%
00-01	4,919,575	2.8%
01-02	4,127,647	-16.1%
02-03	4,121,256	-0.2%
5.5 5.0 4.5 4.0 4.0 3.5 2.5 2.0 97	FISCAL YE	01 02 03

Listed are the past five years of actual revenues. The estimated revenues for FY 2002 and the

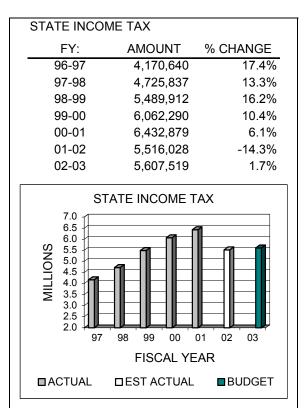
estimated amount for FY 2003 are also shown. The sales tax revenue projected for FY 2003 reflects an estimated decrease statewide. The state economy suffered with significant tourism decreases as a result of the September 11 disaster. The recovery period is expected to take 18 to 48 months.

# STATE INCOME TAX (REVENUE SHARING)

Legal Authority: Arizona Revised Statutes Section 43 - 244 (B)

Description: The City shares in 15.8% of the State income tax collected based on the population of the cities and towns as reported in the 2000 Census. A two-year lag exists between the year of distribution and collection and the reporting year for which the income tax returns are filed. Therefore, little variance is expected between amounts estimated in the budget and actual receipts. Because revenues can be used for any municipal purpose, funds received are deposited in the General Fund to support the services and activities of the general government.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The League of Arizona Cities and Towns provides the revenue estimates for FY 2003.



The FY 2002 reduction is a direct result of the 2000 Census count, which was 10,000 less than previously projected.

FY 2003 reflects a slight increase, even though \$100,000 has been set aside to meet potential State revenue shortfalls.

#### **FRANCHISE TAX**

Legal Authority: Flagstaff Charter and City Code Article XII

APS: Ordinance 360 (expires 8-21-2011)

Citizens Utility Co.: Ordinance 1879 (expires 10-3-2020)

US West, MCI, US Sprint, Central Corp, and A T & T: Ordinance 585. The City just has an agreement with Flagstaff Cablevision that expires 12-30-2000.

Description: A 2% tax from utility companies-Arizona Public Service and Citizens Utilities--is credited to this account. The City also receives a franchise tax from U.S. West Telephone Co., A T & T, Flagstaff Cablevision, MCI, US Sprint, and Central Corp; these entities are currently taxed at 2% except Flagstaff Cablevision that is taxed at 3%.

FRANCHISE		
FY:	AMOUNT %	CHANGE
96-97	\$ 1,358,282	2.4%
97-98	1,512,456	11.4%
98-99	1,560,789	3.2%
99-00	1,505,710	-3.5%
00-01	1,690,043	12.2%
01-02	1,770,735	4.8%
02-03	1,803,748	1.9%
1.6 SNOI 1.2 1.0 0.8	FRANCHISE TAX  98 99 00 01	02 03
	FISCAL YEAR	

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The

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increase in FY 2002 comes mostly from Citizens Utilities. The winter was extremely mild but a substantial increase in natural gas prices resulted in more tax revenue. Conversely, tax revenue from APS was down compared to last year. The revenue projection for FY 2003 shows a moderate increase of 1.9% based primarily on the fact that natural gas prices will not go any higher and could possibly decline during the next year.

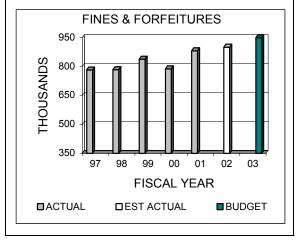
#### **FINES & FORFEITURES**

Legal Authority: Arizona Revised Statutes, Rules of Criminal Procedure
City Code, Title 1, Chapter 15, Section 8

Description: Revenues are derived from a multitude of fines and forfeitures that relate to fines ordered by the court magistrates and administrative charges for Traffic School. Other miscellaneous fees allowed include court reimbursements and court collection fees.

Listed the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The increase in FY 03 is due to the revision of fines charged through the Court.

FINES & FOR	RFEITURES	
FY:	AMOUNT	% CHANGE
96-97	\$ 782,451	1.7%
97-98	783,854	0.2%
98-99	838,306	6.9%
99-00	788,233	-6.0%
00-01	882,019	11.9%
01-02	900,574	2.1%
02-03	1,067,125	18.5%

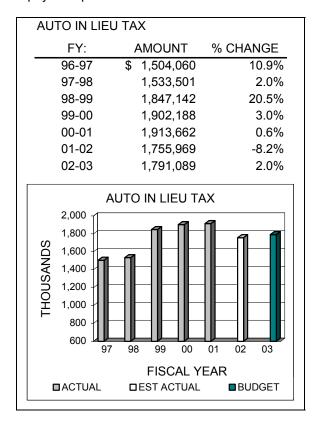


# **AUTO IN LIEU TAX**

Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c)

Description: Twenty-five (25) percent of the net receipts from vehicle licensing collected by the State is returned to the cities and towns of licensing origin. The distribution is based on population in proportion to total population in incorporated areas. This revenue source can be used for any municipal purpose; therefore, revenues are deposited in the General Fund to support services and activities of the general government.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. Revenues decreased in FY 2002 due to the State of Arizona reapportioning revenue to Yavapai County for citizens in Sedona previously counted in Coconino County. A three-year retroactive repayment plan has been initiated.



# **BED, BOARD & BOOZE TAX**

Legal Authority: Ordinance 1902, Approved by voters March 1996, extended by vote to March 31, 2013.

Description: An additional city sales tax of 2% is charged on the services of hotels, restaurants and bars. The City has designated all of these revenues for the purposes of enhancing beautification, tourism, economic development, recreation, and arts & sciences.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The BBB Revenue projection for FY 2003 reflects a moderate increase of 2.5%.

BBB		
FY:	AMOUNT	% CHANGE
96-97	\$ 3,280,112	5.0%
97-98	3,335,957	1.7%
98-99	3,536,803	6.0%
99-00	3,644,822	3.1%
00-01	3,747,821	2.8%
01-02	3,760,280	0.3%
02-03	3,854,287	2.5%
3.5 WO 3.5 2.5 2.0 97	98 99 00 01 FISCAL YEA	02 03 AR

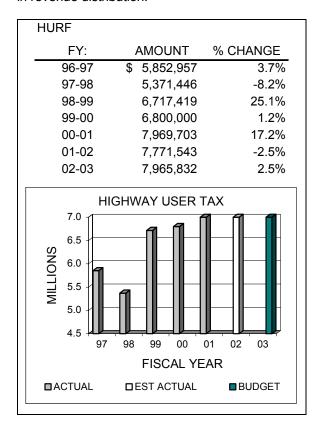
#### STREET FUND

# **HIGHWAY USER TAX**

Legal Authority: Arizona Revised Statutes Section 28 - 1598 (B.4), (For method of distribution see ARS 28-1598 (D.3)

Description: The proceeds from the State-shared motor vehicle fuel tax (currently 16 cents per gallon, of which cities and towns share in 13 cents per gallon) are distributed by the State to cities and towns by a compromise formula. Fifty percent of the distribution is based on point of origin for the sale of gasoline. The remaining fifty percent is based on population in proportion to total population for incorporated towns and cities.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The significant increase in FY 1999 revenues represents an adjustment for gallons that were reported in Maricopa County that should have been in Coconino County. The slight decrease of FY 2002 revenue reflects census population numbers. These revenues were not as severely impacted as other shared revenues due to local strong sales of gasoline that is a significant factor in revenue distribution.



# LOCAL TRANSPORTATION ASSISTANCE

Legal Authority: Arizona Revised Statutes Sections 5 - 522, 40 - 1101, and 40 - 1102

Description: A portion of the lottery monies is distributed to cities and towns. Distribution is based on the population of a city as compared to the total populations of all the cities and towns. These funds must be used for transportation systems including street and highway projects and transit programs.

Listed below are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The City is eligible for monies from the Powerball Lottery game; however, this program has only reached the revenue thresholds that resulted in

distribution to the Cities in FY 1998. The State lottery dollars are capped. Decreases reflect population changes due to census enumeration.

LTAF			
FY:	AMOUNT		% CHANGE
96-97	\$ 366,453		-1.4%
97-98	39	94,318	7.6%
98-99		37,911	-6.7%
99-00		35,744	-0.6%
00-01		60,806	-1.4%
01-02		60,873	0.0%
02-03	3	15,026	-12.7%
SGNPS 350 350 325 300 97	98 99 FISC	OO OO CAL YEA	

# **ENTERPRISE FUNDS**

#### WATER SALES

Legal Authority: City Code, Title 7, Chapter 3, Section 11

Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of a base charge for the amount of water consumed with an inverted rate structure for consumption levels above the base amount so as to encourage water conservation practices. The rates for each customer class are reviewed annually to assure adequate user charges; proposed rate changes effectuate in January.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The revenue estimates reflect a 2% factor due to population and consumption changes. The flat revenues between FY 1997 and 1999 reflect a reduction in the consumption per household. New building code requirements for low flow fixtures and the City's toilet rebate programs are contributing

factors to this decline. The estimated decrease in FY 2002 is for the possibility of water restrictions due to drought year. No rate increase is projected in FY 2003.

WATER		
FY:	AMOUNT	% CHANGE
96-97	\$ 9,187,263	11.2%
97-98	9,103,817	-0.9%
98-99	9,029,173	-0.8%
99-00	9,615,169	6.5%
00-01	10,109,691	5.1%
01-02	9,798,700	-3.1%
02-03	9,994,700	2.0%
NO 9.0 9.0 8.0 7.0 6.0	97 98 99 00 FISCAL YE	01 02 03 EAR
□ACTUA	EST ACTUAL	■BUDGET

# **WASTEWATER SERVICE CHARGES**

Legal Authority: City Code, Title 7, Chapter 2, Section 39

Description: The principal revenue for operating and managing the City's wastewater system is derived from revenues generated from wastewater (sewer) rates and user charges. Both residential and commercial customers are charged on the basis of water consumption. Residential customer charges are based on average water consumption for the proceeding winter months (Dec-Mar). All other customers are billed based on actual monthly water usage unless they can measurably separate which quantity of water does not reach the wastewater system.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The slight decrease in the estimated FY 2002 is due to the possibility of water restrictions. The revenue projections include a 2.4% factor due to population and consumption changes.

WASTEWATER				
AMOUNT	% CHANGE			
\$ 5,758,886	5.5%			
5,792,175	0.6%			
5,766,360	-0.4%			
5,734,389	-0.6%			
5,908,022	3.0%			
5,843,700	-1.1%			
5,985,600	2.4%			
CHARGES	VER)			
	AMOUNT \$ 5,758,886 5,792,175 5,766,360 5,734,389 5,908,022 5,843,700 5,985,600 TEWATER (SEV			

## **ENVIRONMENTAL SERVICES**

■ ACTUAL

Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9

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FISCAL YEAR

BUDGET

Description: Environmental Services disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill fees and residential and commercial recycling. Service charges for residential and commercial customers are based on size of container and frequency of pickup. Hoist and haul is based on a cost per pull plus tonnage. Receipts from fees charged for dumping at the City Landfill are based on tonnage.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. The increase in revenues since FY 2002 is due to residential and commercial programs budgeting internal tonnage charges for commercial and residential programs.

r					
ENVIRONMENTAL SERVICES					
FY:	AMOUNT	% CHANGE			
96-97	\$ 4,947,295	65.0%			
97-98	4,873,311	-1.5%			
98-99	6,541,169	34.2%			
99-00	6,409,920	-2.0%			
00-01	5,144,988	-19.7%			
01-02	6,049,757	17.6%			
02-03	6,195,509	2.4%			
ENVIRONMENTAL SERVICES REVENUES 7.0 6.0 5.0 4.0 3.0					

# **AIRPORT**

■ACTUAL

Legal Authority: City Code, Title 8, Chapter 6, Sections 1-8

FISCAL YEAR

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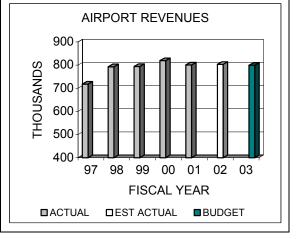
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**■**BUDGET

Description: Airport revenue is derived from the rental of airplane hangars, tiedowns, tiedowns with electricity, and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from terminal rent consists of space, concession and advertising fees. Revenues are collected from the sale and storage of aviation fuel. A \$3 PFC charge is collected from the ticket sales of passengers embarking from Pulliam.

Listed are the past five years of actual revenues. The estimated receipts for FY 2002 and the budget for FY 2003 are also shown. Projected revenues for FY 2003 reflect a .5% decrease. The decrease is due to uncertainties related to September 11<sup>th</sup> and current economy.

AIRPORT			
FY:	A	MOUNT	% CHANGE
96-97	\$	717,878	6.6%
97-98		792,914	10.5%
98-99		793,694	0.1%
99-00		819,403	3.2%
00-01		800,496	-2.3%
01-02		802,832	0.3%
02-03		799,214	-0.5%



## CAPITAL BUDGET

# RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

The Five-Year Capital Improvement Plan (multiyear, long-range study of construction and/or acquisition of high cost items with an extended useful life) is prepared separately from the Annual Budget and Financial Plan (focus on municipal service delivery programs which generally are of an on-going nature), however, the two processes are interrelated.

The operations and maintenance of major capital facilities and infrastructure can significantly impact the operating budget and, must be considered prior to approval and commencement of acquisition of a particular capital asset. In the capital improvement plan for the City, various components have greater impact on the operating budget than other elements and, may even override operating budget constraints, e.g., mandatory environmental regulatory compliance.

The Water and Wastewater Enterprise Fund's revenue structure is sufficient to meet existing and future impacts of capital, operating requirements

including environmental sanctions and debt. Proposed, as well as existing, debt service is included because the changes in debt service requirements must be built into the rate models in determining what, if any, rate increases are required each year. The rate model was updated in 2002 and no increases in revenues are required based on information and system demands known today. An additional customer class was added to the wastewater rate structure and capacity charges will be increased over time.

The Highway User Revenue Fund designates a portion of State distributions to the pavement maintenance program. The program is important in order to keep roadways in good condition and not allow significant deterioration. An additional component of the maintenance program is funding for ADA compliance for curb cuts, curb returns, and deteriorating sidewalks. The major impact on street maintenance is the addition of roads from private development. The Streets division has maintained level staffing through the investment in new, more efficient equipment.

BBB projects will have a significant impact on operating budget requirements. Streetscaping and FUTS trail maintenance will require an ongoing level of effort to maintain landscaping. Greater consideration is being given to design and maintenance requirements for future streetscaping projects to keep maintenance costs as low as possible. The planned completion of several parks projects constructed in conjunction with the Parks and Recreation bond program require a major increase in the Parks maintenance budget. City Council has determined that any increased maintenance costs associated with the bond projects will be paid for from BBB funds. Staff has balanced construction maintenance responsibilities and funding sources in the Parks and Recreation Bond program.

## CAPITAL IMPROVEMENT PLAN

# What is a Capital Improvement Plan?

A Capital Improvement Plan is a multi-year, long-range study of the construction and/or the acquisition of high cost assets that have an extended useful life usually greater than five years. A long-range plan is needed because of the lead times required to adequately finance, design and/or plan, budget, and implement construction or acquisition of the capital project needs of a community.

Planning in one or two-year increments has proven to be inadequate because of the complexity of projects and the public input process, as well as the design time needed for engineering plans, specifications, and right-of-way acquisition.

Typically, the development of the Capital Improvement Plan requires coordination between the budget function and engineering because of the impact of constructed capital projects on the operating budget. For example, bond funds might be used to construct a branch library. However, once construction is completed, the library must be staffed, utility bills must be paid, and the facility must be cleaned and maintained. Therefore, an effective capital improvement plan should always be viewed in context of its impact on the operating budget.

# What does a CIP provide?

- Cash management capabilities. The dollars expended on Capital Improvement Plans in jurisdictions experiencing substantial growth or revitalization will often comprise 40% or more of the total budget. By reviewing the sources and uses of funds on a project basis and within the context of the entire CIP, as well as the related cash flows, a jurisdiction can maximize its investment earnings.
- **Debt management.** A CIP allows a jurisdiction to plan the financing requirements and the debt repayment schedule to allow for current and future needs relative to debt service capacity.
- **Expenditure controls**. Funds are expended as they were intended to be spent. The appropriations figure becomes the project management budgets. It is typical for most jurisdictions in their process to budget a 15% to 20% overhead factor to cover engineering and design costs as well as to provide for contingencies.
- **Budgetary controls.** Operating cash flow projections on a project basis serves as a check and balance on a project's progress both in terms of the time schedule and expenditures to date compared with percentage completion.
- Minimize disruption to citizens. By looking at the overall impact of the proposed CIP in any given year, the disruption of services or inconvenience imposed by construction activity in a locale can be kept to a minimum. For example, citizen complaints can be minimized by not

scheduling the chip sealing of a major arterial street concurrently with ongoing construction on immediately adjacent streets. Additionally, a comprehensive review of multiple projects to ensure adequate coordination can minimize multiple disruptions in a given area.

#### FY 2003 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2003 includes 140 capital improvement projects totaling \$63.9 million. This amount includes \$25.3 million in carryover items that have been budgeted. Project funding is comprised of the following: \$5.5 million in grants primarily for airport improvements, affordable housing, street construction, beautification projects and parks construction; \$12.3 million in existing general obligation (G.O.) bonds primarily for Fourth Street overpass and water and wastewater improvements; \$31.4 million in operating funds maintenance that include street improvements, flood control, land acquisition, FUTS and Streetscapes and water and wastewater improvements.

A separate Capital Budget and Capital Improvement Plan (Five-Year) will be prepared from the Annual Budget biannually. Detail project descriptions including location, justification, planning document references, operating impact, and funding and expenditure data are provided for all funded projects.

General Government Twenty-eight projects are scheduled for FY 2003 for a total of \$9.6 million. Operating funds will include financing for flood control, facility needs/land acquisition, ADA compliance in city facilities, and environmental remediation at city facilities. Total operating funds are \$7.8 million. Federal and State grants fund \$785,000 of the projects that include street construction, pond improvements and affordable housing. Of the 28 approved projects, two are being held pending the completion of the Department of justice, Americans with Disabilities Act retrofits. The two held projects total \$165,023 and are noted on Schedule 9 in the Financial Summaries section. Should the City be brought into compliance without using all of the set aside dollars, the funding will be returned to the divisions to complete the projects originally proposed. (See CIP Section for project listing).

**Streets/Transportation** The City currently has 211 miles of paved streets, as well as an additional ten miles of alleys and unpaved streets. Three major programs are funded in the CIP for the City's

streets and related infrastructure. These include an annual maintenance program of chip seal and overlay to extend the useful life of the existing street system; a streets/arterial improvement program to bring streets into current standards or widen to meet existing and anticipated traffic flow patterns; and capital projects including the completion of Butler/Enterprise reconstruction, Sunnyside street improvements Soliere Avenue extension to Fourth Street, the widening of Country Club, various Safe to School projects and the start of the Eastgateway road projects. There are a total of 20 Streets Transportation projects scheduled at a budgeted cost of \$24.7 million. HURF funds \$8.5 million, Transportation Tax grants are \$8.2 million and the balance of \$7 million is generally supplied from fund balance carryforwards.

The Transportation fund was formed in FY 2001 due to voter approval of four transportation issues. A new CIP division was formed in FY 2002 that is responsible for the implementation and follow-through of these voter approved projects.

**BBB** Funds Projects include Beautification, Tourism and Recreation funding. These projects include Route 66 landscaping, a contribution to ADOT for traffic interchange landscaping, FUTS trails, and major expansion of fields at both City and school district. This year Federal and State grants will provide funding of \$778,172. Thirty-four projects are scheduled for FY 2003. (See CIP Section for project listing).

**Utilities** Wastewater projects include replacement of sewer lines and replacement of bio tower media at the wastewater treatment plant. Water production efforts include a budget of \$1.6 million for Phase 2 to replace and upgrade infrastructure in the Sunnyside neighborhood and \$4.1 million for modifications to the filter at the treatment plant. The Utilities fund has set aside funds in both water and wastewater for potential system optimizing improvements; these may include additional The Five-Year CIP also automation systems. includes three replacement and upgrade projects to the water distribution system. Twenty-three water projects and 14 wastewater projects are scheduled for FY 2003. (See CIP Section for project listing).

**Airport Fund** Eight projects are scheduled for and the program focus is on expansion of airside infrastructure. The major project is the completion of the north parallel taxiway although investment in private hangars and rental car clearup pending alternative financing mechanisms. State and

Federal grants fund \$4.2 million of the program. Proceeds from the sale of airpark property will be used to match State grants. (See CIP Section for project listing).

**Environmental Services Fund** The Five-Year CIP for landfill operations provides for the expansion of the existing landfill site to extend its useful life from 12 years to 50 years. This year's CIP includes setting aside money for landfill closure and completion of the hazardous material facility. Thirteen projects are scheduled for FY 2003. (See CIP Section for project listing).

# **CAPITAL PLAN IMPLICATIONS**

For a community to continue to grow and prosper, capital improvement needs must be balanced with the burden placed on its citizens to fund them. Therefore, the capital improvement program is evaluated in terms of its impact on a variety of factors such as property taxes, utility rates, and entering into other long-term commitments, i.e., affordability factors.

**Property Tax:** Servicing general obligation debt over the previous five years is shown in the Community Profile section. The table shows that debt as a percentage of assessed valuation has not fluctuated significantly and per capita debt has actually declined.

**Utility Rate Structure:** The Utility Rate Analysis, updated in the Spring of 2002, provides for major capital improvements, additional bond funding, and increased operating costs. No rate increase is recommended to meet these demands.

BBB Sales Taxes: The voters approved a 2% BBB tax in 1988 with a ten-year sunset provision and renewed the tax an additional fifteen years in March 1996. Capital projects currently underway include streetscaping along corridors, and the FUTS (Flagstaff Urban Trail System), and numerous parks and recreation projects.

**Transportation Taxes:** On May 16, 2000, the voters also approved a 0.51% transportation tax for twenty years that supports four major transportation issues. The four major areas undertaken are: the 4th Street Overpass; Safe to School/Pedestrian/Bike; Traffic Flow and Safety Improvements; and Transit Service Enhancements.

# **DEBT**

## **DEBT CAPACITY**

Flagstaff continues to experience steady, yet moderate increases in assessed valuations. The City's legal debt margin, shown below, demonstrates adequate capacity to complete the capital improvements planned for the next five years. Water and Wastewater has a remaining authorization of \$6.8 million. The City expects to issue the full amount in FY 2003. The issuance can be either G.O. Bonds or Revenue Bonds. There is an additional \$1.1 million in GO Bond Authorization for park construction. The City issued \$3.1 million in FY 2003. It is not anticipated to issue the balance.

# **General Obligation Debt**

July 1, 2002

20% Limitation (Water, Sewer, Lighting, Open Space, and Recreation Purpose Bonds)

Assessed Valuation \$ 429,030,400

Allowable 20% Debt 85,806,080

20% Debt Outstanding (28,498,221)

Available Debt Margin \$ 57,307,859

# 6% Limitation (All Other General Obligation Bonds)

Assessed Valuation \$ 429,030,400

Allowable 6% Debt 25,741,824

6% Debt Outstanding (5,560,000)

Available Debt Margin \$ 20,181,824

## **CURRENT DEBT POSITION**

The City's underlying bond rating for general obligation bonds is presently "A+" by Standard & Poor's Corporation and "Aa3" by Moody's Investor Services representing an upgrade from A1. In assigning a rating to bond issuance, the rating agencies analyze several factors to determine an entity's ability to repay its debt. Some of these factors are described in the following text.

**Economic factors** reviewed include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the

governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and delinquency rates on property tax collections. The City is well positioned because of its location and the diversity of its economic base.

Financial performance factors focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. Ongoing expenditures should be supported by recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance. Maintaining a fund balance of 10% of budgeted appropriations is indicative of sound financial management practices.

**Debt factors** analyzed include indebtedness trends, debt history, current debt burden, and debt repayment schedules. The economic feasibility and need for projects financed with debt are also evaluated, as there is a correlation between perceived benefit received and ability or willingness to repay debt. The history of past voter-approved bond authorizations is evaluated as an indicator of taxpayer willingness to repay debt, as well as the amount of overlapping debt imposed on the taxpayer. Development of a long-range capital improvement plan is a primary method of planning for future debt needs and is a meaningful way of demonstrating budgetary and fiscal controls.

Administrative factors reviewed include the professionalism of the administration relative to budgetary policies and practices, financial reporting and results of independent audit, and effective management practices. Debt limitations, tax rate and levy limitations and unused debt margins are also assessed. Focus on management capabilities includes personnel turnover, labor relations, and legal and political constraints evident in the organizational structure. Finally, assessment procedures are reviewed and property valuations are trended and analyzed.

**Quality of Life factors** include the physical, environmental, and social/cultural amenities of a community, which enhance the desirability as a place to live and thereby add to the valuation of the tax base.

# **DEBT SERVICE**

At July 1, 2002, the total actual indebtedness is \$59.4 million and proposed outstanding indebtedness of the City is \$69.2 million. FY 2002 annual debt payments are projected to be \$9.7

million. Under current state statutes, the City's General Obligation bonded debt issuances are subject to a legal limitation based on 6% of assessed valuation of real property for general purposes, e.g., buildings, land acquisition, street and highway construction and a limitation of 20% on assessed valuation of real property for public works projects, e.g., water, sewer, sanitation, parks, and open space. At the start of the fiscal year, July 1, 2002, the City's 20% general obligation debt of \$28,498,221 is well below the legal limit of \$85,806,080. The City's 6% general obligation debt of \$5,560,000 is also well below the legal limit of \$25,721,824. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

Schedule of Bonded Indebtedness-Current Debt Only					
FY	Principal	Interest	Total		
2003 2004	\$ 5,928,457 6,348,645	\$ 2,902,504 2,622,817	\$ 8,830,961 8,971,462		
2005	6,360,179	2,355,283	8,715,462		
2006 2007	5,336,072 5,997,399	1,921,228 2.068.570	7,257,300 8,065,969		
2007	5,460,981	1,426,300	6,887,281		
2009	5,589,023	1,150,683	6,739,706		
2010 2011	4,432,475 4,601,352	908,340 685,114	5,340,815 5,286,466		
2012	4,879,665	450,495	5,330,160		
2013 2014	2,735,000 905,000	208,589 83,838	2,943,589 988,838		
2014	420,000	40,850	460,850		
2016	440,000	20,900	460,900		
	\$ 59,434,248	\$ 16,845,511	\$ 76,279,759		