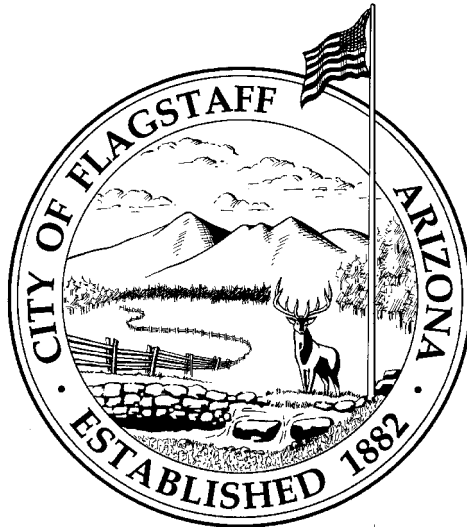


**ANNUAL BUDGET AND FINANCIAL PLAN
OF THE
CITY OF FLAGSTAFF, ARIZONA
FISCAL YEAR 2003-2004**



CITY COUNCIL

**JOSEPH C. DONALDSON, MAYOR
LIBBY SILVA, VICE-MAYOR
KAREN K. COOPER
AL WHITE
ART BABBOTT
JOSEPH P. HAUGHEY
KARA M. KELTY**

BUDGET TEAM

**DAVID W. WILCOX, CITY MANAGER
JERI DUSTIR, DEPUTY CITY MANAGER
JAMES S. WINE, DEPUTY CITY MANAGER
MARY JO JENKINS, MANAGEMENT SERVICES DIRECTOR
BARBARA GOODRICH, BUDGET AND FINANCE MANAGER
THERESA ALVARADO, HUMAN RESOURCES MANAGER**

PREPARED BY

**BETH BEAUREGARD, ACCOUNTANT II
NANCY BERNARD, PAYROLL SPECIALIST
STACEY BRECHLER-KNAGGS, GRANTS MANAGER
NANCY MIGUEL, ACCOUNTANT I
DEBBIE NICHOLS, ACCOUNTANT I
MARYELLEN PUGH, ACCOUNTANT I
RICK TADDER, ACCOUNTANT II**



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Flagstaff
Arizona**

For the Fiscal Year Beginning
July 1, 2002

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Presentation Award to the City of Flagstaff, Arizona for its annual budget for the fiscal year beginning July 1, 2002. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

TABLE OF CONTENTS

INTRODUCTION

Budget Award	ii
Table of Contents	iii
Users Guide.....	x
City of Flagstaff Organizational Chart	xi
Council Comments	xii

TRANSMITTAL

City Manager's Budget Message	1
Mission Statement.....	7
Budget Highlights and Accomplishments	8

BUDGET OVERVIEW.....9

Financial Resources Available	9
Total Appropriations	9
Operating Expenditures by Department.....	10
Budget Format and Process.....	11
Format	11
Process.....	12
Assumptions and Strategies.....	13
Economic Overview.....	13
Revenue Forecast.....	13
Expenditures	14
Fund Summaries	15
General Fund	15
Highway User Revenue Fund	16
Transportation Fund	16
Library Fund	17
BBB Funds	17
Other Funds	19
Utilities Fund.....	20
Environmental Services Fund	20
Airport Fund.....	21
Stormwater Fund.....	22
Revenues	22
General Fund	22
BBB	25
Street Fund.....	26
Enterprise Funds	27

Capital Budget.....	29
Relationship between Operating and Capital Budget.....	29
Capital Improvement Plan.....	29
FY 2004 Capital Improvement Plan.....	30
Capital Plan Implications.....	31
Debt.....	31
Debt Capacity.....	31
Current Debt Position.....	31
Debt Service.....	32
POLICIES AND PROCEDURES.....	33
Fiscal Policies.....	33
General.....	33
Enterprise Funds.....	33
Real Estate Proceeds Fund.....	33
Debt Performance.....	34
Debt Management.....	34
Fund Balances and Reserves.....	34
Expenditure Limitation Control.....	35
Budget Policies.....	35
Revenue Distribution.....	36
Contributions to Art in Public Places.....	36
Operating Budget Impact.....	36
Minimum Levels of Capital Investment.....	36
ISSUES AND UPDATES.....	37
Personal Service Costs.....	37
Pay Plan.....	37
Health Insurance.....	37
Reclasses, Reranges, Retitles, Rezones.....	37
Reorganizations.....	38
Position Additions/Deletions.....	39
Cost Allocation.....	41
Five-Year Fleet Management.....	42
Five-Year Information Systems.....	43
2003 Updates.....	45
Planning and Special Projects.....	45
Capital Improvement Division Cost Allocation.....	50
Environmental Services.....	50
Fleet Services-Use of Biodiesel.....	50
Stormwater Management.....	50
Capital Financing/Bond Program.....	50
E-Government.....	51

2004 Issues	51
Pulliam Airport Runway Extension	51
Credit Card Acceptance	51
Visitor Center	52
Fire Risk and Forest Health.....	52
Homeland Security	53
Drug Cases and Probation at the Flagstaff Municipal Court.....	53
Parks and Recreation Murdock Summer Program	
Phase Out Plans and Budget Reductions.....	54
Revenue Growth Strategies	54
Transportation Plan	55
Water Policy Development and Conservation	56
Workforce Reduction and Development	56

FINANCIAL SUMMARIES

Total Resources and Appropriations Summary	57
Tax Levy	58
Revenues and Other Than Property Taxes	59
Transfer and Proceeds from Other Sources	63
Grant Revenue	67
Appropriations by Fund	70
Appropriations by Department	73
Capital Equipment	75
Capital Improvement Plan	77
Debt Service.....	79
Capital Leases and Loans.....	80
Summary of All Fiscal Activity	81

DEPARTMENTAL DETAIL

GENERAL ADMINISTRATION

City Manager (01).....	85
City Clerk (02).....	88
Capital Improvement (03).....	90
Human Resources (04)	92
Risk Management (05).....	94
Law (07).....	96
City Court (65)	98
Tourism - CVB (84)	101
Tourism - Visitor Services (85)	103

MANAGEMENT SERVICES

Information Systems (08)	107
Management Services (09)	109
Tax, Licensing, & Revenue (10).....	111
Library (11 & 12).....	113
Finance and Budget (13).....	116

COMMUNITY DEVELOPMENT	
Metropolitan Planning Organization (14).....	121
Community Development Administration (15)	123
Engineering (16).....	125
Building Inspection (17).....	128
Planning (18).....	131
Community Redevelopment (31)	135
Arts and Science (71).....	136
Stormwater Utility (98).....	137
 FIRE DEPARTMENT	
Fire (21).....	141
 POLICE DEPARTMENT	
Police (22)	147
Police Grant (23)	150
 PUBLIC WORKS	
Public Works Administration (25).....	153
Parks (26).....	155
Fleet Management (27).....	157
Cemetery (28)	159
Facilities Maintenance (29)	160
Recreation (30).....	162
Street Maintenance and Repairs (32)	164
Airport (38).....	166
Environmental Services (41)	168
 UTILITIES	
Utilities Administration (42).....	173
Lake Mary Treatment Plant (47)	175
Customer Service (48)	177
Water Distribution Services (49).....	179
Booster Stations (50).....	181
Wastewater Treatment Plants (53)	182
Wastewater Collection (54)	185
Wastewater Monitoring (55)	187
 NON-DEPARTMENTAL	
Council and Commissions (63)	190
Contributions to Other Agencies (64).....	193
Non-Departmental (66).....	195
Firemen's Pension (68)	197
Economic Development General Administration (78)	198
Transit (97)	199

CAPITAL IMPROVEMENT PROGRAM

FY 2004 Capital Improvement Program.....201
Schedule of Capital FY 2004.....202
FY 2004 Capital Project Description218
Capital Improvement Program Summary.....229
Schedule of Capital Program Listings230
Financing the Capital Plan.....239
 General Obligation (G.O.) Bonds239
 Highway User Revenue (HURF) Bond.....239
 Junior Lien Bonds Payable From Highway User Tax Revenues239
 Water and Sewer Revenue Bonds.....239
 Special Improvement/Assessment Districts239
 Municipal Facilities Corporation (MFC) Bonds.....240
 Certificates of Participation.....240
 Lease Financing240
 Grants.....240
 Intergovernmental Agreements (IGA)241
 State Revolving Loan Fund241
 Pay-As-You-Go Financing241
Five-year Projections by Fund.....241

COMMUNITY PROFILE

Community Profile268
Major Taxpayers 2002 Tax Year271
General Obligation Debt Servicing271
Miscellaneous Statistical Data.....272
Property Tax Rates and Tax Levies - All Overlapping Governments274
Ten-Year Resume of Population, Assessed Valuations, Tax Rates and
 Property Tax Collections and Per Capita Property Tax275
Retail Sales Tax Rates-Direct and Overlapping.....276
Bonds Payable-Past 5 Years276
Bonded Debt-Interest/Coupon Rate by Issue and Year.....277
Consumer Price Index.....278

APPENDICES

A-Authorized Personnel/Positions Summary279
B-Job Classification Ranges & Pay Plan.....287
C-Resolution for Budget Adoption294
D-Property Tax Levy Ordinance.....295
E-Full-Cost Plan Summary of Allocation Basis297
F-Glossary299
G-List of Acronyms304
H-Council Goals306
I-Citizen Survey 2002336
J-Performance Measurement Through ICMA-CPM.....363

CITY OF FLAGSTAFF, ARIZONA
 DIVISION SUMMARY
 CROSS REFERENCE INDEX IN
 CONSECUTIVE NUMBER ORDER

#	DIVISION	PAGE
1	City Manager	85
2	City Clerk.....	88
3	Capital Improvement.....	90
4	Human Resources	92
5	Risk Management	94
7	Law.....	96
8	Information Systems	107
9	Management Services Administration	109
10	Tax, Licensing, & Revenue	111
11	Library	113
12	Library Grants	113
13	Finance and Budget.....	116
14	Metropolitan Planning Organization (MPO).....	121
15	Community Development Administration.....	123
16	Engineering	125
17	Building Inspection	128
18	Planning	131
21	Fire Department.....	141
22	Police Department.....	147
23	Police Grant	150
25	Public Works Administration	153
26	Parks	155
27	Fleet Management	157
28	Cemetery.....	159
29	Facilities Maintenance.....	160
30	Recreation.....	162
31	Community Redevelopment.....	135
32	Street Maintenance & Repairs	164
38	Airport.....	166
41	Environmental Services	168
42	Utilities Administration	173
47	Lake Mary Water Plant	175
48	Customer Service.....	177
49	Water Distribution System.....	179
50	Booster Stations.....	181
53	Wastewater Treatment Plants.....	182
54	Wastewater Collection	185
55	Wastewater Monitoring	187

#	DIVISION	PAGE
63	Council & Commissions	190
64	Contributions to Other Agencies	193
65	Court.....	98
66	Non-Departmental.....	195
68	Firemen's Pension.....	197
71	Arts and Science	136
78	Economic Development Administration	198
84	Tourism - CVB.....	101
85	Tourism -Visitor Services	103
97	Transit	199
98	Stormwater Utility	137

USERS GUIDE

The budget document serves a myriad of purposes. Most important is its use as a communications device. The budget presents the public an opportunity to review the types of services and level of service provided within the financial constraints of the community. The allocation of financial resources translates into what services will be provided to the community. As community needs and demands for service change, the allocation of resources should respond accordingly. Therefore, this document attempts to communicate financial information to allow for informed citizenry.

Transmittal - The City Manager's message and Budget Summary provides readers with a synopsis of the resource allocation priorities established by the City Council for fiscal year 2004.

Budget Overview - The *overview* provides an overview of the key policy issues, priorities and strategies which shaped the fiscal year 2004 budget, the budget process fiscal policies, revenue assumptions, and expenditure highlights.

Issues and Updates - Excerpts from the Council Review and Discussion Book used during the two weeks of study sessions discuss specific Council decision/directions impacting the prior and current fiscal year budgets.

Financial Summaries - The *schedules* consolidate the major financial information and operating data elements. Several schedules also serve to meet state statutory reporting requirements. The *expenditure summaries* are used primarily for operational purposes, e.g., monitoring expenditures at a fund level and at a category level, and maintaining accountability at a department level, with managers accountable at the cost center level.

Department Detail - Each operating *Division Summary* provides a description, goals and objectives, major accomplishments of fiscal year 2003, performance indicators, expenditure history and budget, commentary on significant changes, and sources of funding.

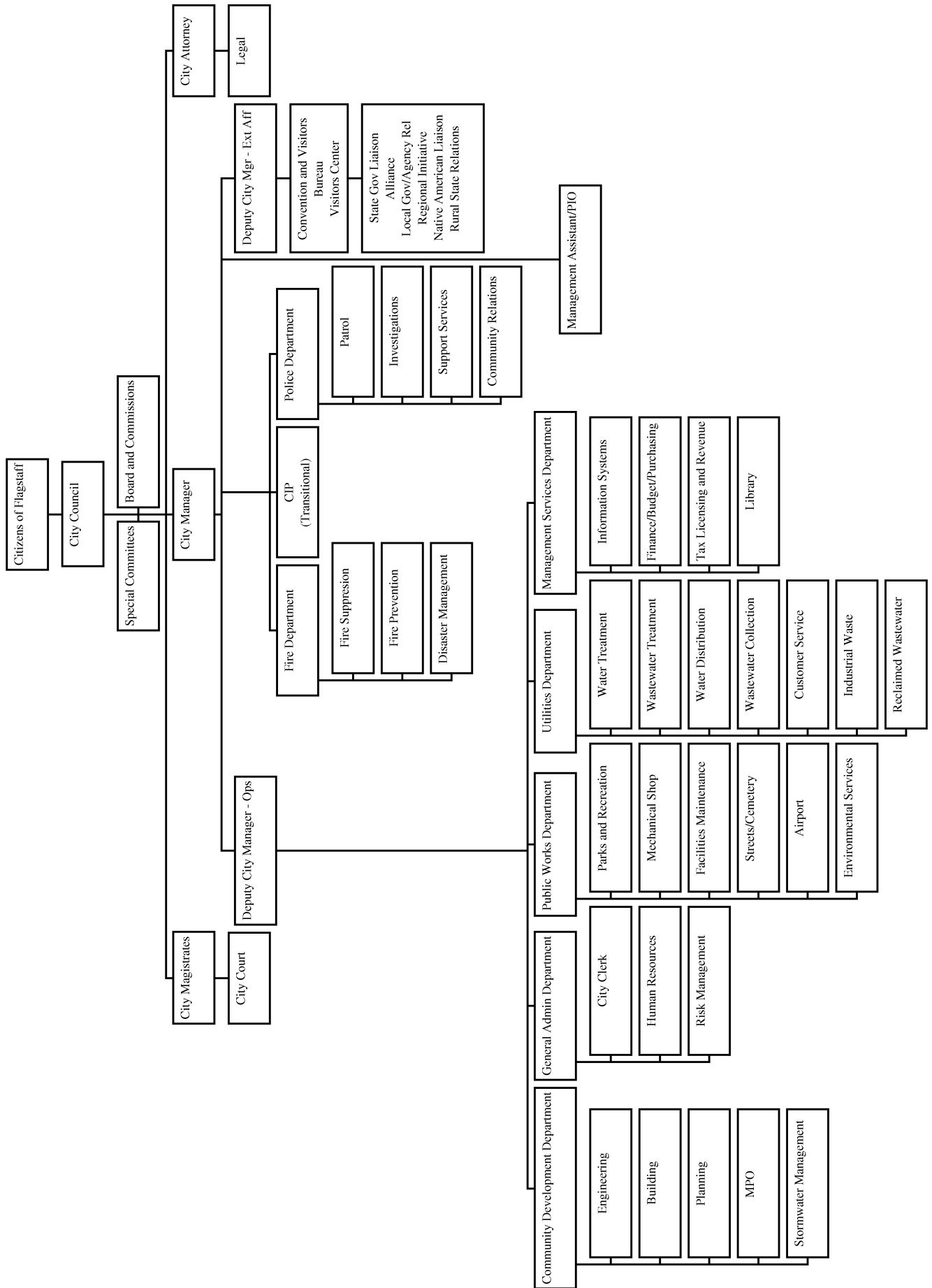
Capital Improvements - The current year portion of the five-year *capital improvement program* is listed, along with location maps and funding source. A more detailed project-planning sheet is available in the separately published five-year Capital Budget and Capital Improvement Plan.

Community Profile - The *profile* provides background information so that the budget can be viewed in the context of the factors that shape and affect budget decisions, priorities, and financial parameters within which the community operates. Also provided are select statistical tables providing historical trend information on tax rates, expenditures, and assessed valuations of property.

Appendix - In the *appendices* the user will find a glossary of budget terminology, ordinances/resolutions adopting the levies and budget, a summary of authorized personnel/positions by department, the city pay plan, and a summary of the cost allocation basis. Please.

For additional information, please call the Finance and Budget Office directly at (928) 774-5281 extension 7323. This budget document may also be viewed on the City of Flagstaff website, www.flagstaff.az.gov, in Adobe Acrobat format.

City of Flagstaff



City Council



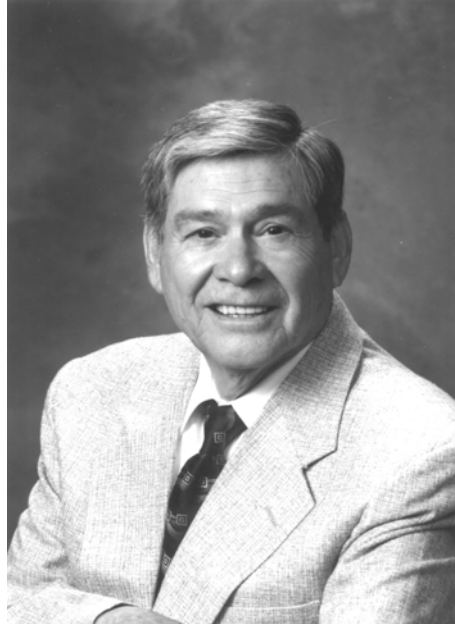
Mayor Joseph C. Donaldson

The Council was faced with a “rude awakening” this budget year, forcing us to direct the City Manager to scrutinize the development of the budget even more closely. One of the City’s revenue sources, “State Shared Revenue,” was cut drastically because of a downturn in State revenue receipts and the City’s decreased population based on the last census. Add to this a program cost shift from the Federal Government to the State, lack of local economic growth and increased City operational costs; the City Manager and staff had their work cut out to achieve a conservative and “balanced” budget.

Working as a team with the City Manager and staff, the Council was able to accept and adopt a budget that made good fiscal sense for our community. The Council, in collaboration with the City Manager, was able to establish priorities and agree upon cost adjustments to bring spending in line with expected and projected revenues. Was the process difficult? Yes. The Council directed

the City Manager to eliminate underutilized programs and services although of importance to some users, and to evaluate and justify all anticipated spending. The City Manager was also directed to identify areas where revenue resources might be developed to fund provided services.

As Mayor of the City of Flagstaff, I am very pleased the City Council, City Manager and City staff can work as a team to face the financial challenges of providing a balanced budget during tough economic times.



Vice-Mayor Libby Silva

Thanks to all City for looking very hard at ways and means to balance their own budget. It’s really hard to balance a budget when the impacts of State budget shortfalls affect our City finances. Cuts in aid, funding and other support for City government are being made at the State level. The cuts from the State are not unexpected although you never know how bad the cuts are until you start working on the City budget. Some cuts had to be

made in our City budget, but nothing too drastic.

Parks & Recreation had to raise some fees and shorten hours of operation in some areas, however, I hope those changes won’t affect the community too much.

We will continue to provide the many programs and much needed services in our community. Sunnyside Redevelopment Phase II and III will continue with no interruptions. And, we very excited about the start of construction this year on the long awaited Fourth Street Overpass Project.



Councilmember Karen K. Cooper

Faced with decreased revenues and rising expenses, our 2003-04 City Budget reflects the need to adjust spending while meeting our ongoing priorities. (As a recent retiree, I’m familiar with this dilemma!)

Federal and State deficits, flat sales taxes, and our lower-than-expected census count have impacted our

City Council

income. In preparing the budget, departments were asked to carefully analyze ways to cut costs and reduce staffing in the coming year. Fees and service rates were adjusted and some purchases were delayed. While merit raises and benefits for employees were added, market salary adjustments were postponed. In these tough financial times, the City is financially sound and able to continue to provide a high level of service to its citizens without a property tax rate increase.



Councilmember Al White

There is good news and bad news with this year's budget. The good news is that the City of Flagstaff is solvent with a balanced budget and money devoted to projects we hope will address the bad news.

The bad news is this: An over reliance on sales tax revenues, combined with increasing shortages in State Shared Revenues, has not produced General Fund operational money consistent with our growth rate; a growth rate lower than the valley or Tucson.

Our community reinvestment projects will help boost sales tax but not for some time. The hard choices to be made revolve around the question of service levels to be maintained and how best to pay for them. Cutting true waste and needed alternative revenue streams are all part of that discussion.

To compound things, our community has always looked ahead and many more projects are being considered in order to implement our regional plan. To this end, we are examining short term and long term needs for bonding.

It is important to get involved. I think the ultimate good news is that we are a city of caring people. I trust that when we work together we can determine our needs and our wants, put together a plan to get there, and come up with an equitable means to pay for it. It is time to give to Flagstaff, not take away from it.



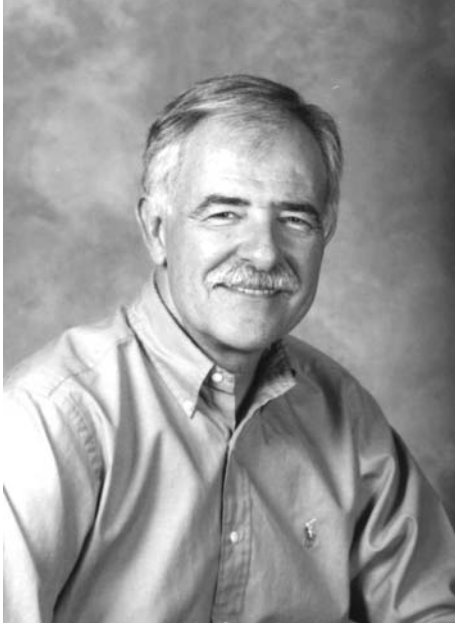
Councilmember Art Babbott

This has been a productive year on the City Council given the realities of revenue reductions at the Federal, State, and Local level. The Council continues to plan the future of Flagstaff based on the Regional Land Use and Transportation Plan that was approved by voters two years ago. This framework allows us to prioritize the "how and where" of growth so development is not sporadic, unplanned, and sprawl based. The Council also approved two significant mixed income housing developments, started the Fourth Street Overpass Project, reduced resource protection requirements for land appropriate for light manufacturing and technology business', dedicated new Parks and Recreation facilities, and created the Open Space Commission.

Some of my upcoming goals for this coming fiscal year include supporting the newly formed Neighborhood Associations in Plaza Vieja and the Southside; continuing our support to strengthen local efforts by the Sunnyside Neighborhood Association; advocating for a Meet and Confer Ordinance for employee groups; ensuring that any future Bond Election be fiscally responsible, keeping the Murdock Center open for Southside Residents and Parks and Recreation use, expanding the Flagstaff Urban Trail System (FUTS) and advocating that if employee reductions are necessary for the City, they come from all levels of City government.

Thanks to everyone in the City who has contributed their input and energy into making Flagstaff a great Community!

City Council



Councilmember Joseph Haughey

This year's Flagstaff City budget process has been both challenging and rewarding. As a Council, in cooperation with the City Manager and Department Heads, we discerned community priorities for the coming years. We maintained the basic services of Public Safety, Health and Welfare while balancing the anticipated revenues and expenses to provide a balanced budget. About 30 employees will be reduced in the City staff over the next two years through retirements and consolidation of tasks. This will allow us to provide services and operate without raising taxes recognizing there are other needs in the community.

We hope to address those other needs through a Bond Election next spring, looking ahead for years to come. In the meantime, rest assured that you have dedicated, concerned City employees providing necessary services to the Citizens of Flagstaff, which makes this a great place to live and work.



Councilmember Kara M. Kelty

The economic situation in Arizona has changed tremendously in the past several years and Flagstaff is no exception to this trend. This year's budget process differed from years past in that there was a need for a combination of service cuts and fee increases in order to close the gap caused by a loss of around \$930,000 in State Shared Revenues as well as increased contributions to employee medical, dental and retirement funds. While it is always difficult to consider and execute service cuts, it is the responsibility of City Council to ensure that City government operates efficiently and does not grow beyond its means.

Through the budget process I learned that even though Flagstaff did experience a budget shortfall, we are weathering the financial storm better than most municipalities. Most notably, there have not yet been any lay-offs. Instead, the City is planning to phase out almost 30 positions through retirement or attrition. The Human Resources Department will be

implementing a workforce development program in which current City employees will be eligible to receive training to transition to other positions. While every effort is being made to protect City staff from lay-offs, the employees themselves are still suffering the consequences of this economic downturn. Cost of living increases were not budgeted for this year and employee contributions to medical plans and to the Arizona State Retirement System have increased, leaving some employees with less take home pay than last fiscal year. Others adversely affected by the budget shortfall include the Parks and Recreation Department, which had to cut about \$230,000 from their budget. While they did this by eliminating programs with poor attendance, and by closing the Murdock Center, it was still a difficult blow for the department and for the community.

While the economic outlook may appear challenging, the City Council recognized that balancing the budget included making investments for future economic and community development in Flagstaff. For that reason, City Council reversed recommendations to cut contributions to the Greater Flagstaff Economic Council and the Flagstaff Cultural Partners. Other community investments budgeted for this coming year include redevelopment projects downtown, East Flagstaff, and the commencement of Phase II of the Southside Area Planning Effort.