

BUDGET OVERVIEW

The City of Flagstaff FY 2004 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 2004; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

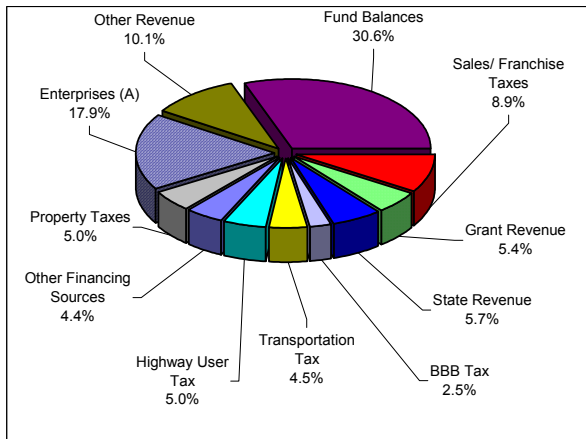
Sales/Franchise Taxes	\$	13,865,885	8.9%
Grant Revenue		8,464,332	5.4%
State Revenue		8,958,605	5.7%
BBB Tax		3,885,294	2.5%
Transportation Tax		7,050,874	4.5%
Highway User Tax		7,800,000	5.0%
Other Financing Sources		6,874,144	4.4%
Property Taxes		7,811,808	5.0%
Enterprises (A)		28,020,864	17.9%
Other Revenue (B)		15,770,390	10.1%
Fund Balances		47,811,017	30.6%
	\$	<u>156,313,213</u>	<u>100.0%</u>

(A) Enterprises:

Water Operations	\$	11,552,112
Wastewater Operations		7,231,596
Airport Operations		1,008,732
Environmental Services		7,721,424
Stormwater Utility		507,000
	\$	<u>28,020,864</u>

(B) Other Revenue:

Licenses and Permits	\$	1,771,066
County Vehicle Tax		1,901,911
Charges for Services		1,754,511
Fines and Forfeits		1,071,358
County Contribution		2,460,151
Interest on Investments		2,866,160
LTA/Misc Revenue		3,945,233
	\$	<u>15,770,390</u>



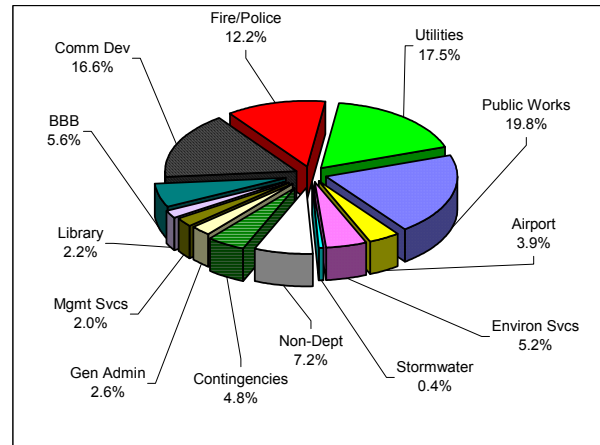
"WHERE THE MONEY COMES FROM"
\$156,313,213

TOTAL APPROPRIATIONS

General Administration	\$	4,069,515	2.6%
Management Services		3,138,935	2.0%
Library		3,367,399	2.2%
BBB (A)		8,697,920	5.6%
Community Development		25,924,276	16.6%
Fire/Police		19,052,286	12.2%
Utilities		27,361,834	17.5%
Public Works		30,978,842	19.8%
Airport		6,142,704	3.9%
Environmental Services		8,121,548	5.2%
Stormwater		659,534	0.4%
Non Departmental		11,253,420	7.2%
Reserves/Contingencies		7,545,000	4.8%
	\$	<u>156,313,213</u>	<u>100.0%</u>

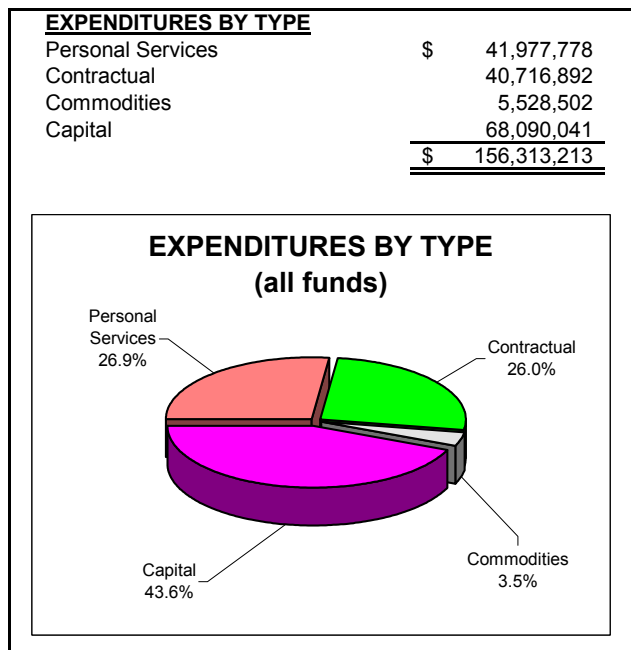
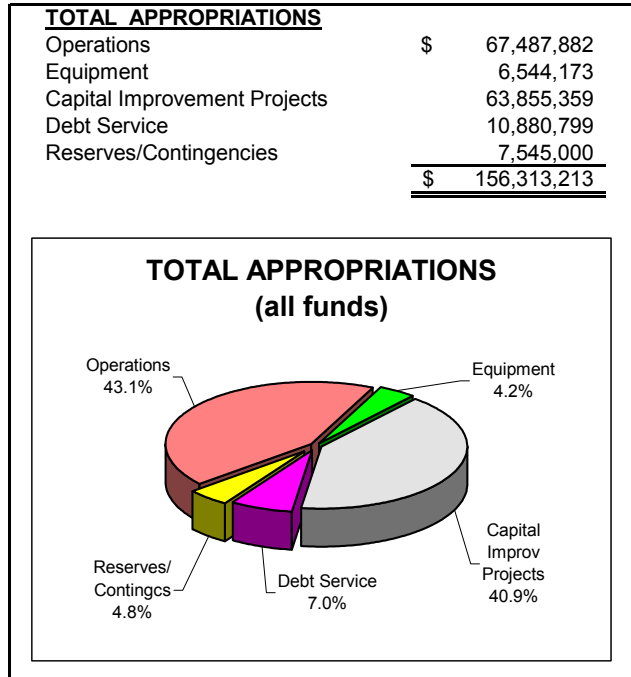
(A) BBB Tax Funds:

Beautification	\$	3,895,116
Tourism		1,731,683
Economic Development		446,400
Arts and Science		373,340
Recreation		2,251,381
	\$	<u>8,697,920</u>



"WHERE THE MONEY GOES TO"
\$156,313,213

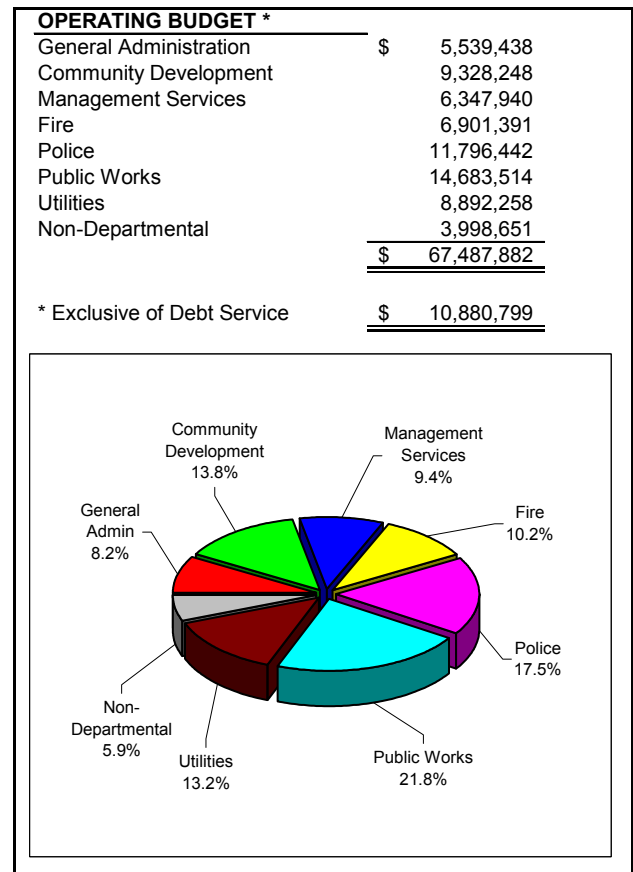
The following graphs depict the major classifications of appropriation for the total 2003-2004 Budget and expenditures by major types.



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 8.2% of the budget (\$5.5 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. The Tourism, Public Information, Human Resources, Risk Management and Capital Management divisions are also included within General Administration.

Community Development comprises 13.8% of the operating budget (\$9.3 million), excluding the debt service requirements for Fourth Street (\$1.8 million). The primary services in this Department include Engineering, Planning & Zoning, Building Inspection and Stormwater. The services provided by these divisions meet the current needs of the community and plan for the future.

Management Services comprises 9.4% of the operating budget (\$6.3 million). The department encompasses those activities that provide administrative support and services including financial services, purchasing, information systems, sales tax, and real estate. The City/County public library system is also included within the department.

Fire services comprise 10.2% of the operating budget (\$6.9 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 17.5% of the operating budget (\$11.8 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 21.8% of the operating budget (\$14.7 million), excluding the debt service requirements for streets (\$2.0 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 13.2% of the operating budget (\$8.9 million), excluding \$4.0 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 5.9% of the budget (\$4.0 million) exclusive of \$2.3 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 operating activity at the division level with a *division mission, description of programs, specific goals and objectives* for FY 2004, *major accomplishments* in FY 2003, 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 2002*, the *Adopted Budget for FY 2003*, the *Estimated Actual for FY 2003*, and the *Adopted Budget for FY 2004*. 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:

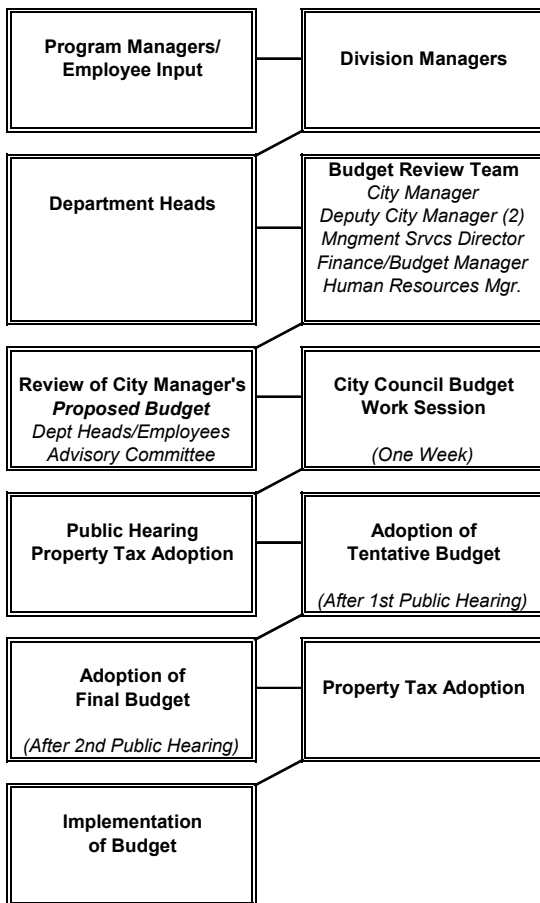
- General Administration (City Manager, City Clerk, Capital Improvement, Human Resources, Risk Management, Law, City Court, and Tourism)
- Management Services (Information Systems, Management Services Administration, Purchasing, Tax, Licensing and Revenue, Library, and Finance/Budget)
- Community Development (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, Transit, 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 2004.
- The Capital Improvement Plan (CIP) for FY 2004 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. The City Council holds Study Sessions in May. The 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 1, 2003.

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.

BUDGET CALENDAR	
December	Budget Module available to all Divisions
January 31	Capital equipment requests reviewed by Fleet/MIS Committees for recommendation
March 10 - March 28	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
May 6-9	Council Study Sessions Proposed Budget available to public
June 17	Public Hearing/Tentative Adoption of Proposed Budget Public Hearing on Tax Adoption
June 20	Publish first notice of Public Hearing for Final Adoption
June 27	Publish second notice of Public Hearing for Final Adoption
July 1	Public Hearing on Budget and Final Adoption of Budget
July 5	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 15	Adopt Property Tax Levy

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.

The Adopted Budget reflects the total funds appropriated (\$156,313,213). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure

Limitation (\$72,208,250), 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 2003, City sales tax revenue exceeded the budget by 3.1%. An overall budget-to-estimated actual increase totals \$200,000 or 1.8%. 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 seven of the past eight years and a cyclical slow down could occur. The BBB category shows a 2.5% (\$94,763) budget to estimated actual 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 had identified approximately 3,000 additional citizens that should be added to the census base and submitted a request for review. These requests will not be reviewed and no change in the base census will be provided.

The State of Arizona has experienced significant continued revenue shortfalls in FY 2003. This was a combination of decreased tourism and spending as related to the September 11th disaster. Retail sales are beginning to rebound slowly, while contracting revenue remains low. This has resulted in a FY 2004 increase of State Sales Tax of approximately 1.8% (budget to estimated actual) to the City.

REVENUE FORECAST

State-shared revenues, i.e., sales tax, income tax, highway users tax, and local transportation assistance (lottery) are projected to decrease 4.3% 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. Due to

revised collection receipts, the City will be receiving 14.9% less (budget to estimated actual) in the State Income Tax distribution for FY 2004. All cities in Arizona are equally affected by this reduction at the state level.

County revenues for auto in lieu tax (license tags) are expected to decrease by approximately 13.5%. The decrease is tied to the reapportionment of revenue to Yavapai County. County aid for library operations has increased 18% from the FY 2003 budget 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 2003.

The Environmental Services Fund projects increased revenues for FY 2004 due to the implementation of an Environmental Services fee and increased fees for residential, commercial and landfill accounts.

The City is pursuing revenue diversification in all divisions. A User Fee Study was completed in 2002 that focused on costing services both for what the City currently charges for and those not charged for. As a result, the City has begun the implementation of some new user fees and will continue the evaluation and implementation of other fee's over the next two years.

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 that 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 2004 is estimated at \$5,637,376 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%.

The FY 2004 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 carryforward 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.

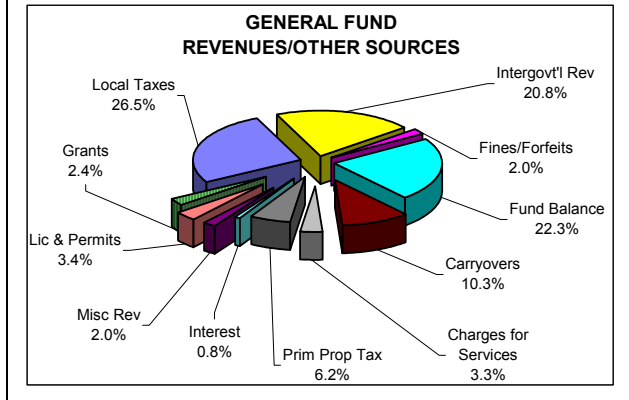
- *Estimated Actual Expenditures FY 2003.* Divisions were asked to estimate expected expenditures by line item for FY 2003. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2004. This resulted in a reduction of a substantial number 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 narratives 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 within 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 and Stormwater; 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).

REVENUES/OTHER SOURCES	EST ACTUAL FY2003	BUDGET FY 2004
Licenses and permits	\$ 1,674,499	\$ 1,771,066
Grants	767,821	1,261,237
Local taxes	13,596,748	13,865,885
Intergovernmental	11,916,161	10,860,516
Fines and forfeits	962,160	1,071,358
Fund Balance, net of Transfers	14,463,210	11,641,478
Fund Balance for Carryovers	2,525,191	5,404,323
Charges for services	1,688,898	1,724,511
Primary Property Tax	3,250,855	3,261,616
Interest	91,627	418,746
Miscellaneous	1,921,394	992,766
	\$ 52,858,564	\$ 52,273,502

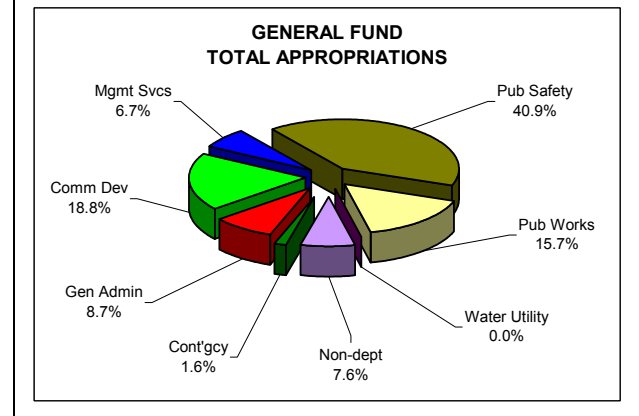


Total resources available for General Fund expenditures for FY 2004 are \$52.3 million including the beginning fund balance of \$18.2 million. A substantial portion of General Fund resources comes from two revenue categories: 1) local sales and franchise taxes and 2) intergovernmental revenues (specific 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 2004, and will generate an estimated \$3,261,616. This amount represents approximately 41% 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 \$8.6 million new construction placed on the tax rolls in the last year, and increased assessed values on existing properties (\$9.3 million).

APPROPRIATIONS	EST ACTUAL FY2003	BUDGET FY 2004
General Administration	\$ 3,544,658	\$ 4,069,515
Community Development	4,821,910	8,780,605
Management Services	2,778,985	3,138,935
Public Safety	18,146,235	19,052,286
Public Works	6,213,994	7,303,359
Water Utility	15,588	15,588
Non-departmental	(1,117,434)	3,525,838
Contingencies	250,000	750,000
	\$ 34,653,936	\$ 46,636,126



General Fund total appropriations have increased 8.6% in FY 2004. The increase is due to increases in benefits, other insurance, and capital projects. The General Fund includes \$11.8 million in capital, of which \$5.1 million is for the Rio de Flag Flood Control project and \$3.6 million for downtown redevelopment.

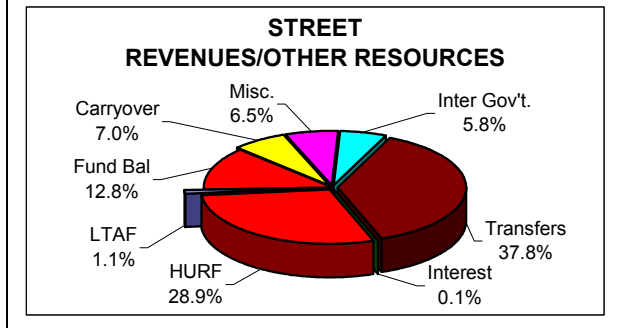
As part of the tenth anniversary of the ADA (July 2000) the Department of Justice selected one City from each state for a compliance review. In February of 2000 the Department of Justice conducted the on site audit of City facilities for compliance with the accessibility requirements of the ADA. The City received a final report from the Department of Justice with requirements for modifications to existing facilities. The cost of these modifications is approximately \$750,000 and will be spread over FY 2003 and FY 2004.

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 (the Rio de Flag project) and development opportunities in Flagstaff.

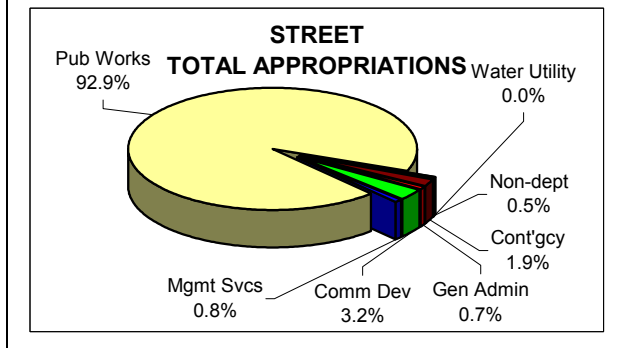
HIGHWAY USER REVENUE FUND

The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State. Appropriations total \$25.7 million in FY 2004. Projects budgeted includes Southside Traffic Improvements, Annual ADA Improvements and bus pullouts, our annual pavement maintenance program and Sunnyside Street improvements.

REVENUES/OTHER RESOURCES	
HURF	\$ 7,800,000
LTAF (lottery)	300,246
Fund Balance	3,456,093
Fund Balance for Carryovers	1,889,092
Miscellaneous	1,761,261
Inter Governmental	1,580,000
Transfers (net)	10,208,028
Interest	20,000
	<u>\$ 27,014,720</u>



APPROPRIATIONS	
General Administration	\$ 186,808
Community Development	813,094
Management Services	196,752
Public Works	23,868,245
Water Utility	3,749
Non-departmental	131,447
Contingency	500,000
	<u>\$ 25,700,095</u>



TRANSPORTATION FUND

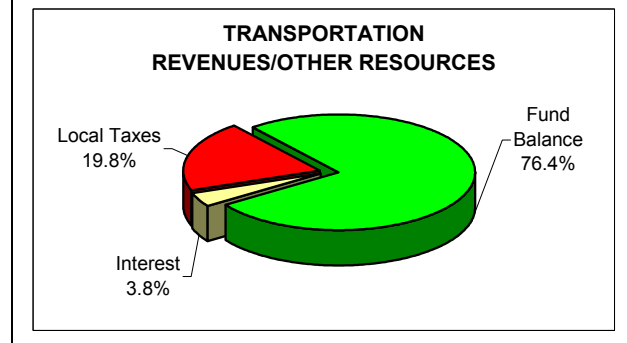
The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit and 4th 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.

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.

Projects	Budget FY 2004 Revenues
4th Street Overpass	\$ 1,877,105
Safe-to-School, Pedestrian and Bike	938,552
Traffic Flow and Safety Improvements	2,182,134
Transit Service Enhancements	2,053,083
Totals	<u>\$ 7,050,874</u>

Appropriations and transfers total \$22.7 million in FY 2004. Appropriations are comprised of \$2,016,199 for transit operations, \$10,949,075 for the 4th Street overpass. Transfers include \$7,617,692 to the HURF Fund for Safety and Street Improvements, \$100,000 to the Stormwater Fund from Fourth Street, and \$550,000 to fund FUTS projects in Beautification from Safety and Street Improvements. The combined transportation tax rate for FY 2004 is 0.601%.

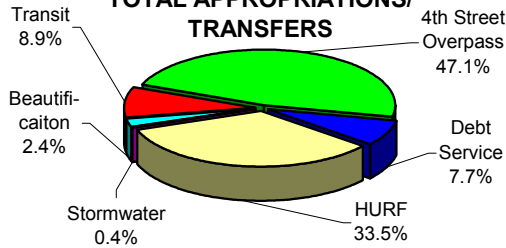
REVENUES/OTHER RESOURCES	
Local Taxes	\$ 7,050,874
Fund Balance	27,275,704
Interest	1,364,000
	<u>\$ 35,690,578</u>



APPROPRIATIONS/TRANSFERS

Transit	\$ 2,016,199
4th Street Overpass	\$ 10,699,075
Debt Service	1,750,000
Transfer-HURF Fund	7,617,692
Transfer-Stormwater	100,000
Transfer-Beautification	550,000
	<u>\$ 22,732,966</u>

**TRANSPORTATION
TOTAL APPROPRIATIONS/
TRANSFERS**



LIBRARY FUND

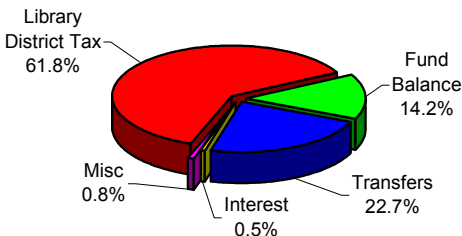
The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$2.5 million of the funding for library operations comes from the library district tax.

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.

REVENUES/OTHER RESOURCES

Library District Tax	\$ 2,460,151
Fund Balance	564,830
Transfers (net)	905,256
Interest	21,000
Miscellaneous	29,000
	<u>\$ 3,980,237</u>

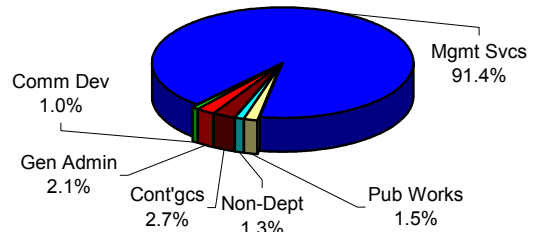
**LIBRARY
REVENUES/OTHER RESOURCES**



APPROPRIATIONS

General Admin	\$ 80,254
Community Development	37,982
Management Services	3,485,990
Public Works	58,427
Water Utility	1,023
Non-Departmental	49,708
Contingencies	100,000
	<u>\$ 3,813,384</u>

**LIBRARY
TOTAL APPROPRIATIONS**



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 2003 estimate is expected to decrease by only 0.7% with hotels representing the greatest decline. Fiscal Year 2004 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 \$3.9 million including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.) In FY 2004, 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.

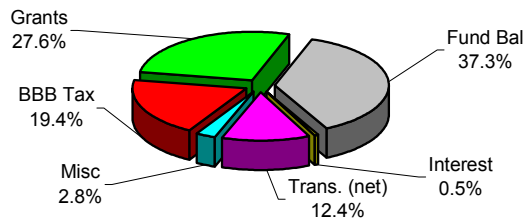
REVENUES/OTHER RESOURCES

BBB Tax	\$	771,458
Grants		1,100,000
Fund Balance		1,483,815
Interest		20,000
Transfers (net)		492,799
Miscellaneous		113,000
	\$	<u>3,981,072</u>

APPROPRIATIONS

Beautification	\$	3,895,116
Reserve		10,000
	\$	<u>3,905,116</u>

BEAUTIFICATION REVENUES/OTHER RESOURCES



Tourism Fund: Total resources available in FY 2004 are \$2.0 million. The total operating budget, including a \$50,000 reserve for contingencies, is \$1.8 million.

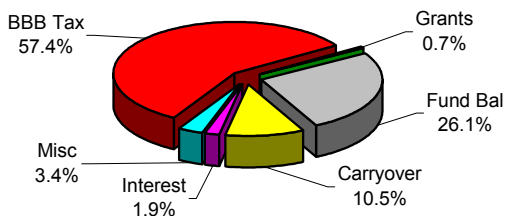
REVENUES/OTHER RESOURCES

BBB Tax	\$	1,157,186
Grants		15,000
Fund Bal, net of Transfers		527,153
Fund Balance for Carryover		211,280
Interest		38,577
Miscellaneous		67,065
	\$	<u>2,016,261</u>

APPROPRIATIONS

General Administration	\$	1,731,683
Reserve		50,000
	\$	<u>1,781,683</u>

TOURISM REVENUES/OTHER RESOURCES



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.

Arts & Science Fund: Total resources available for Arts & Science activities are \$497,574. Expenditures include contributions to local organizations and Art in Public Places. There is \$53,340 available for Art in Public Places that is derived from a 1% allocation from citywide eligible capital project expenditures. Contributions of \$45,000 are administered through the Flagstaff Cultural Partners. Revenues received from the BBB tax are estimated to be \$289,297.

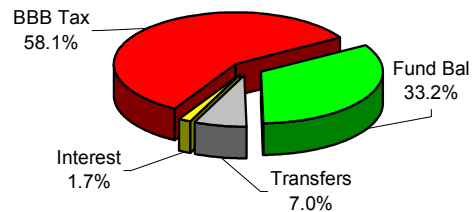
REVENUES/OTHER RESOURCES

BBB Tax	\$	289,297
Fund Balance		165,026
Transfers		35,000
Interest		8,251
	\$	<u>497,574</u>

APPROPRIATIONS

Arts & Science	\$	373,340
Reserve		10,000
	\$	<u>383,340</u>

ARTS & SCIENCE REVENUES/OTHER RESOURCES



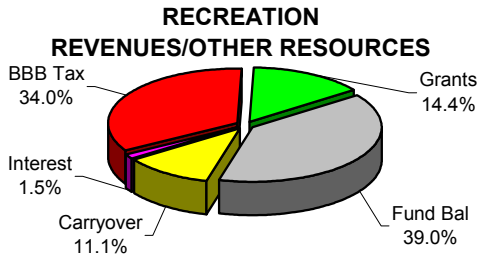
Recreation Fund: Total appropriations in FY 2004 for Recreation Fund activities are \$2.3 million. FY 2004 includes one park and one school field in the construction phase and design work for an aquatics center. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Because of this decision, a 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 RESOURCES

BBB Tax	\$	1,300,911
Grants		550,000
Fund Bal, net of Transfers		1,492,121
Fund Balance for Carryover		424,883
Interest		62,000
	\$	<u>3,829,915</u>

APPROPRIATIONS

Recreation	\$	<u>2,251,381</u>
	\$	<u>2,251,381</u>



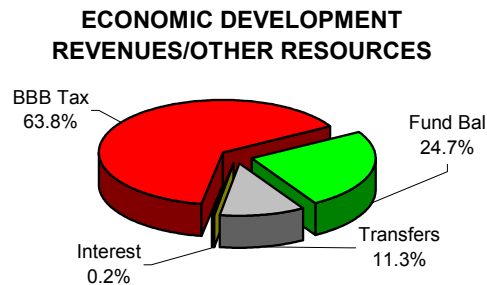
Economic Development Fund: Economic Development is conducted primarily by the Greater Flagstaff Economic Council (GFEC). The City allocates \$317,000 to GFEC, \$100,000 for telecom, \$22,000 for partnership training funds, and \$7,400 for contributions. Business recruitment efforts target industries 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 RESOURCES

BBB Tax	\$	366,442
Fund Balance		141,946
Transfers		65,000
Interest		1,339
	\$	<u>574,727</u>

APPROPRIATIONS

Economic Development	\$	446,400
Reserve		25,000
	\$	<u>471,400</u>



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 \$298,126 for this program for FY 2004. 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 PLANNING ORGANIZATION

REVENUES/OTHER RESOURCES

Grants	\$	298,126
	\$	<u>298,126</u>

APPROPRIATIONS

General Administration	\$	298,126
	\$	<u>298,126</u>

Community Redevelopment Fund: This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$2.4 million appropriated to this activity for FY 2004.

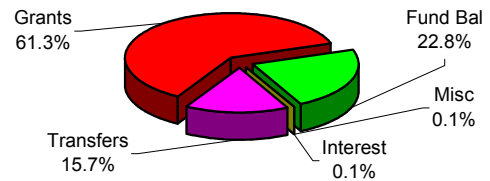
REVENUES/OTHER RESOURCES

Grants	\$	1,463,261
Fund Balance		545,036
Interest		1,500
Miscellaneous		1,946
Transfers		375,400
	\$	<u>2,387,143</u>

APPROPRIATIONS

Community Development	\$	2,380,271
	\$	<u>2,380,271</u>

COMMUNITY REDEVELOPMENT REVENUES/OTHER RESOURCES

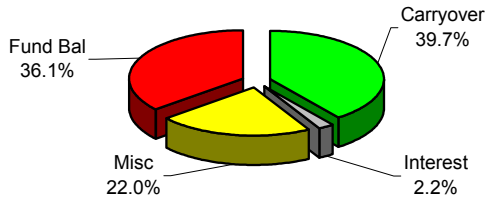


Real Estate Proceeds: The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total \$685,000. Expenditures in this fund are for acquisition of open spaces.

REVENUES/OTHER RESOURCES	
Fund Balance	\$ 486,900
Fund Balance for Carryover	535,000
Interest	30,350
Miscellaneous	297,000
	<u>\$ 1,349,250</u>

APPROPRIATIONS	
Non-Departmental	\$ 685,000
	<u>\$ 685,000</u>

REAL ESTATE PROCEEDS REVENUES/OTHER RESOURCES



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 \$30.3 million. Resources include \$18.8 million in utility user fees and \$2.0 million in fund balance carryforward.

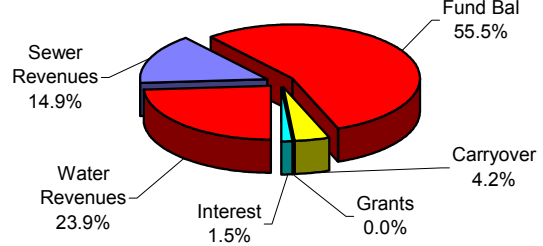
Water Operations: Total appropriations relating to direct costs for the water operations are \$16.1 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development. Revenue estimates total \$10.2 million for water sales. The revenue estimates reflect a 2% factor, due to customer base increases and consumption changes. No rate increase is anticipated for FY 2004.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$11.2 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total \$6.0 million in wastewater service charges.

Revenues are estimated to increase 2% due to growth of the customer base and consumption.

REVENUES/OTHER RESOURCES	
Water Revenues	\$ 11,552,112
Sewer Revenues	7,231,596
Fund Balance	26,844,529
Fund Balance for Carryovers	2,042,154
Grant Revenue	10,000
Interest	722,000
	<u>\$ 48,402,391</u>

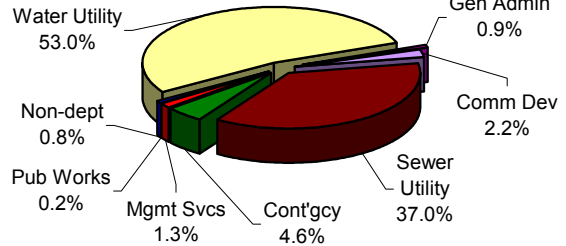
UTILITIES REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$ 285,354
Community Development	665,796
Management Services	396,183
Public Works	64,058
Non-departmental	229,328
Water Utility	16,063,286
Sewer Utility	11,208,885
Contingency	1,400,000
	<u>\$ 30,312,890</u>

UTILITIES TOTAL APPROPRIATIONS



ENVIRONMENTAL SERVICES FUND

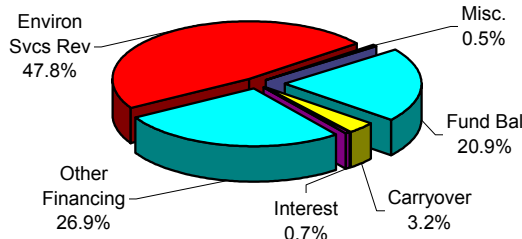
Total financial resources are \$16.1 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, environmental, 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 of environmental contamination and/or degradation; and for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements.

REVENUES/OTHER RESOURCES

Environmental Svcs Revenue	\$ 7,721,424
Miscellaneous	80,474
Fund Bal, net of Transfers	3,368,843
Fund Balance for Carryovers	518,000
Interest	108,000
Other Financing Sources	4,350,000
	<u>\$ 16,146,741</u>

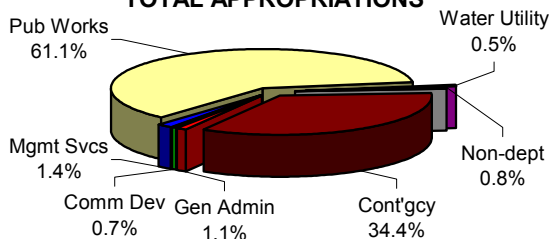
ENVIRONMENTAL SERVICES REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$ 152,264
Community Development	99,022
Management Services	186,687
Public Works	8,349,164
Water Utility	68,266
Non-departmental	115,030
Contingency	4,690,000
	<u>\$ 13,660,433</u>

ENVIRONMENTAL SERVICES TOTAL APPROPRIATIONS



AIRPORT FUND

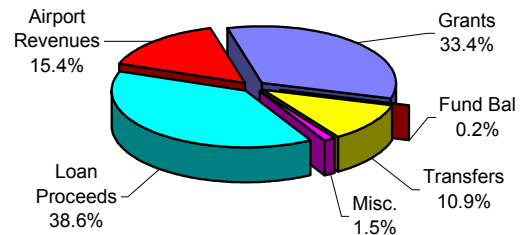
Pulliam Airport is located four miles south of downtown Flagstaff and is operated 17 hours per day, seven days each week and offers five daily flights to Phoenix. Total appropriations are \$6.5

million: \$1.2 million for operations, \$297,672 for debt and \$5.0 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements. The general fund will continue to subsidize operations at \$449,000 this year with an additional \$60,000 for capital improvements including matching funds for grants. The subsidy for operations decreased by \$141,000, which is primarily due to a new terminal lease and the ability to apply indirect cost to grants under OMB A-87. This year, of the \$5.0 million in capital improvements, FAA and ADOT are funding \$2.2 million and lease proceeds are expected to fund \$2.5 million. The secondary property tax fund will transfer \$202,672 to cover debt service not paid with passenger facility charges.

REVENUES/OTHER RESOURCES

Airport Revenues	\$ 1,008,732
Grants	2,186,708
Fund Balance	15,367
Transfers	711,672
Miscellaneous	99,261
Lease/Loan Proceeds	2,524,144
	<u>\$ 6,545,884</u>

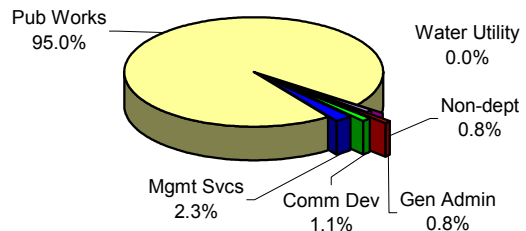
AIRPORT REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$ 51,638
Community Development	72,839
Management Services	149,072
Public Works	6,207,086
Water Utility	1,037
Non-departmental	48,704
	<u>\$ 6,530,376</u>

AIRPORT TOTAL APPROPRIATIONS



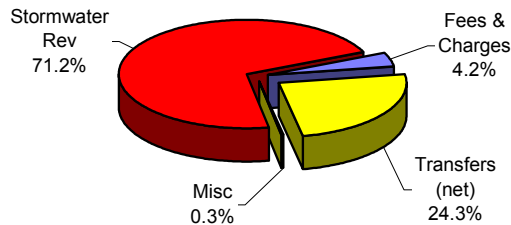
STORMWATER FUND

The Stormwater fund was initiated as a response to enhanced NPDES stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 square feet of impervious area with the average monthly billing estimated at \$1.06. Total revenues/other resources include one-time transfers of \$60,000 from the general fund to complete the consultant work associated with initial implementation and \$175,000 from HURF and transportation for the 6th Avenue detention basin. The total appropriations of \$710,094 fund both operational and capital components.

REVENUES/OTHER RESOURCES

Stormwater Revenues	\$	507,000
Fees & Charges		30,000
Transfers (net)		173,000
Miscellaneous		2,000
	\$	<u>712,000</u>

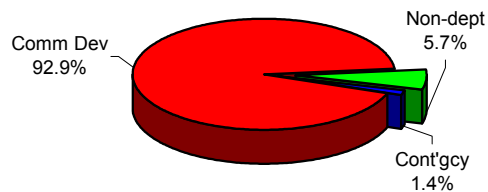
STORMWATER REVENUES/OTHER RESOURCES



APPROPRIATIONS

Community Development	\$	659,534
Non-departmental		40,560
Contingency		10,000
	\$	<u>710,094</u>

STORMWATER TOTAL APPROPRIATIONS



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

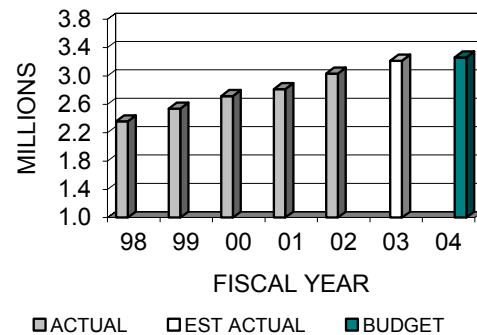
Description: The property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

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 41% of its maximum allowable levy.

PRIMARY PROPERTY TAX

FY:	AMOUNT	% CHANGE
97-98	\$ 2,359,405	7.2%
98-99	2,539,135	7.6%
99-00	2,715,788	7.0%
00-01	2,814,219	3.6%
01-02	3,033,114	7.8%
02-03	3,215,548	6.0%
03-04	3,261,616	1.4%

PRIMARY PROPERTY TAX



Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown. The projected increase for FY 2004 anticipated collections are twofold: new construction of 2.0% and increased assessed values on existing properties of 2.1% due to reassessments, net of a 3% delinquency factor.

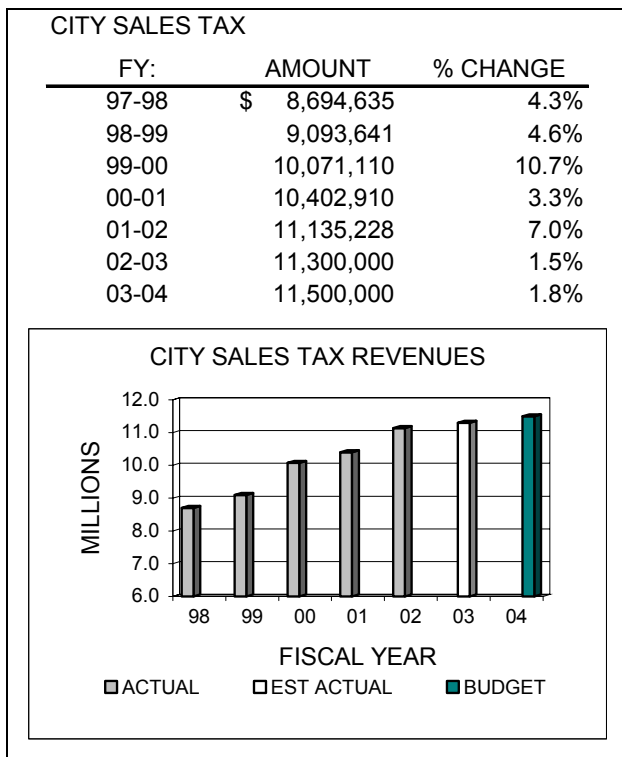
Receipts from secondary property taxes are deposited in the Debt Service Fund and can only be used to repay general obligation debt. No annual limitations apply, as this rate is determined by the requirements of the debt repayment schedule.

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 2003 and the budget for FY 2004 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

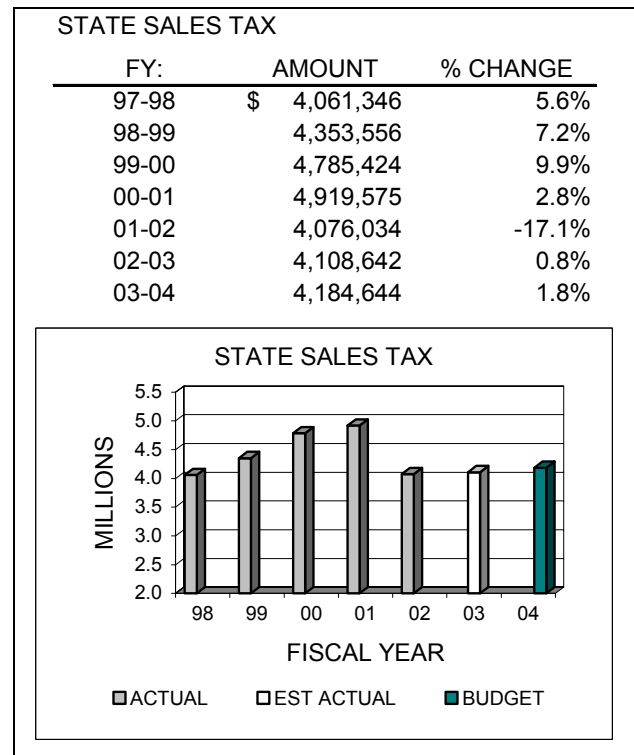
revenues for FY 2003 was driven by increases in construction and auto sales. Zero percent financing for new auto sales continued to accelerate sales. Construction has enjoyed a strong year with an increase in residential and commercial projects. The revenue projection for FY 2004 anticipates a flattening 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 five-cent (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.

Listed are the past five years of actual revenues. The estimated revenues for FY 2003 and the estimated amount for FY 2004 are also shown. The sales tax revenue projected for FY 2004 reflects a nominal increase statewide. The state economy is slowly recovering from economic setbacks experienced in FY 2002; however, the recovery period is expected to take 18 to 48 months.



STATE INCOME TAX (REVENUE SHARING)

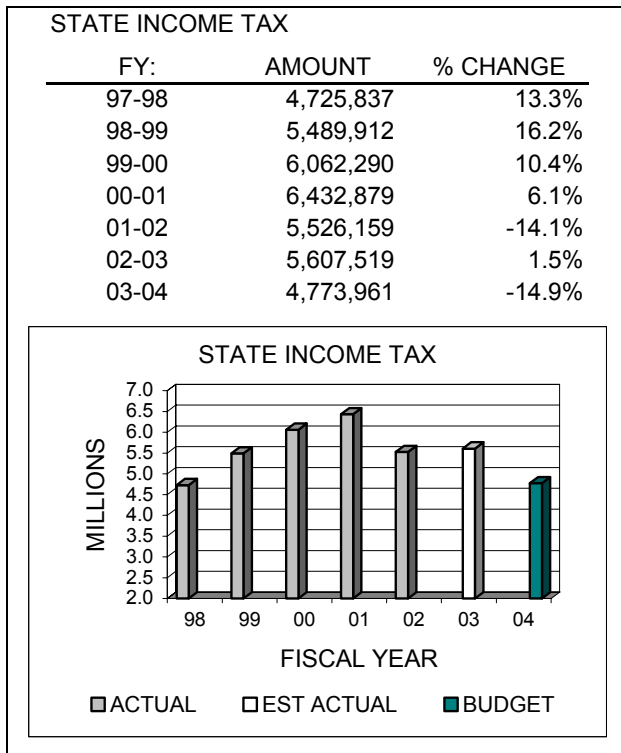
Legal Authority: Arizona Revised Statutes Section 43 - 244 (B)

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.

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

The large decrease in FY 04 is due to the State receiving less revenue from income tax than previously estimated. All cities have received a proportionate decrease.

Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown. The League of Arizona Cities and Towns provides the revenue estimates for FY 2004.



FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII

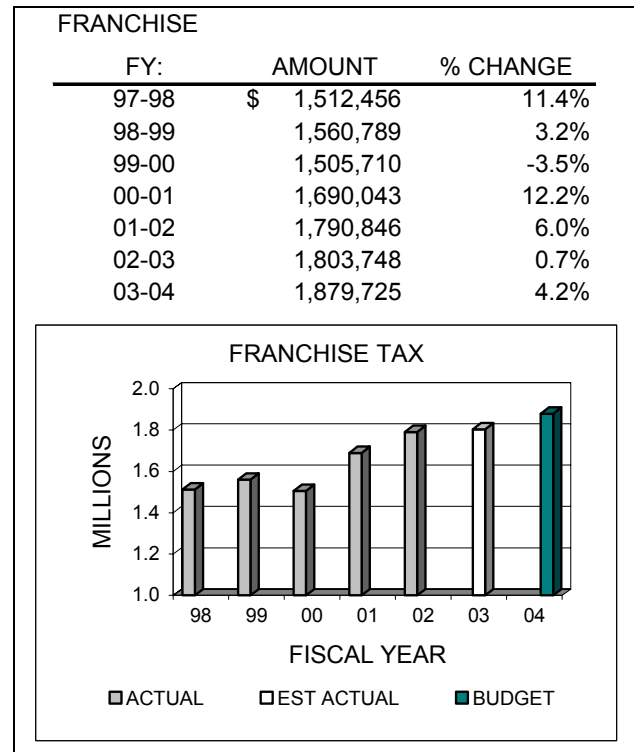
APS: Ordinance 360 (expires 8-21-2011)

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 Qwest 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%.

Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown. The growth rate for Franchise Tax revenue for FY 2003 was less than FY 2002 because the spike in natural gas prices felt in 2002 has subsided. The anticipated growth rate in FY 2004 reflects a normal growth in natural gas sales as well as a continued steady growth in the long distance telephone carriers.

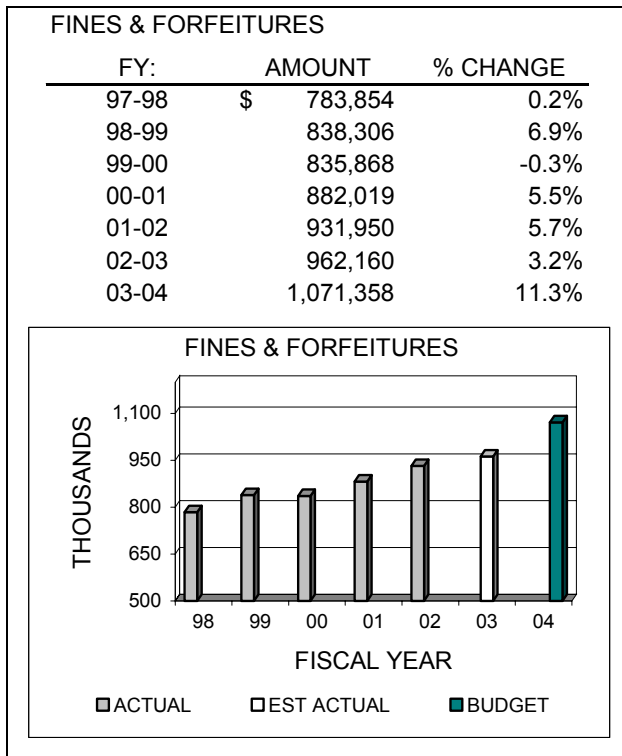


FINES & FORFEITURES

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 2003 and the budget for FY 2004 are also shown. The increase in FY 2004 is due to the revision of fines charged through the Court.

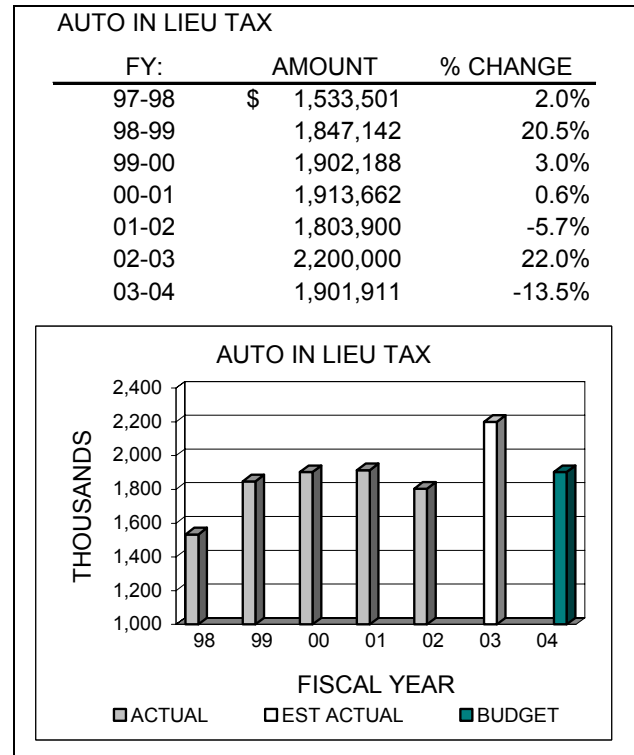


AUTO IN LIEU TAX

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 2003 and the budget for FY 2004 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. The two-year sales boost in auto sales as a result of 0% financing has boosted receipts for FY 2003.



BED, BOARD & BOOZE TAX

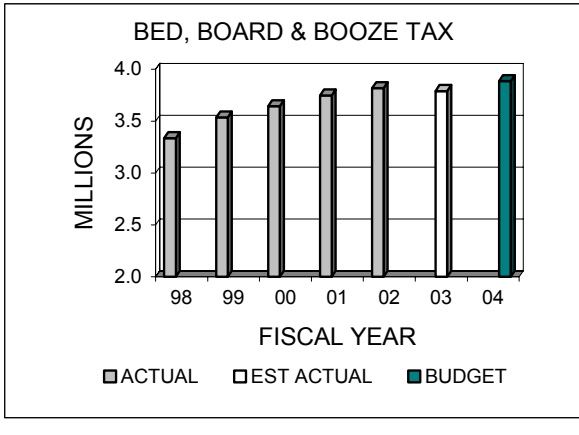
Legal Authority: Ordinance 1902, Approved by voters March 1996, extended by vote to March 31, 2013.

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 2003 and the budget for FY 2004 are also shown. The slight decrease in FY 2003 estimate is related to economic conditions of the City and State. The BBB Revenue projection for FY 2004 reflects a moderate increase of 2.5%.

BBB

FY:	AMOUNT	% CHANGE
97-98	\$ 3,335,957	1.7%
98-99	3,536,805	6.0%
99-00	3,644,822	3.1%
00-01	3,747,822	2.8%
01-02	3,817,028	1.8%
02-03	3,790,531	-0.7%
03-04	3,885,294	2.5%



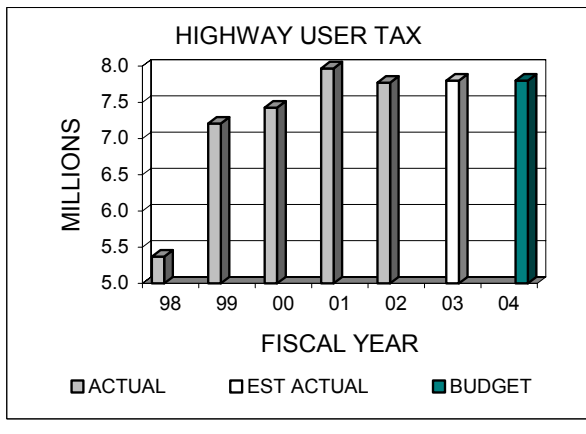
STREET FUND

HIGHWAY USER TAX

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

HURF

FY:	AMOUNT	% CHANGE
97-98	\$ 5,371,446	-8.2%
98-99	7,207,158	34.2%
99-00	7,427,210	3.1%
00-01	7,969,703	7.3%
01-02	7,771,416	-2.5%
02-03	7,800,000	0.4%
03-04	7,800,000	0.0%



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.

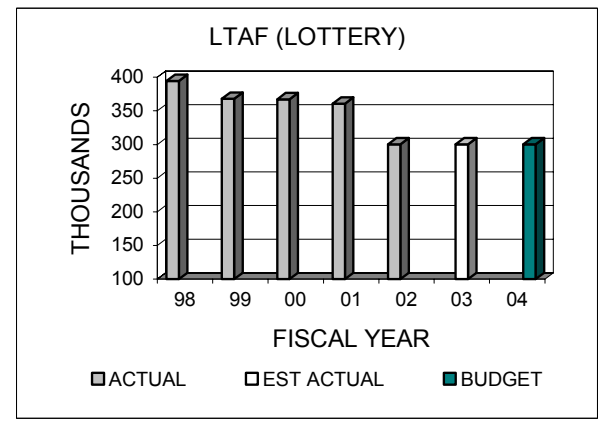
Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown. The significant increase in FY 1999 revenues represents an adjustment for gallons that were reported in Maricopa County that should have been in Coconino County. The slight 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

LTAIF

FY:	AMOUNT	% CHANGE
97-98	\$ 394,318	7.6%
98-99	367,911	-6.7%
99-00	367,461	-0.1%
00-01	360,806	-1.8%
01-02	300,246	-16.8%
02-03	300,246	0.0%
03-04	300,246	0.0%



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.

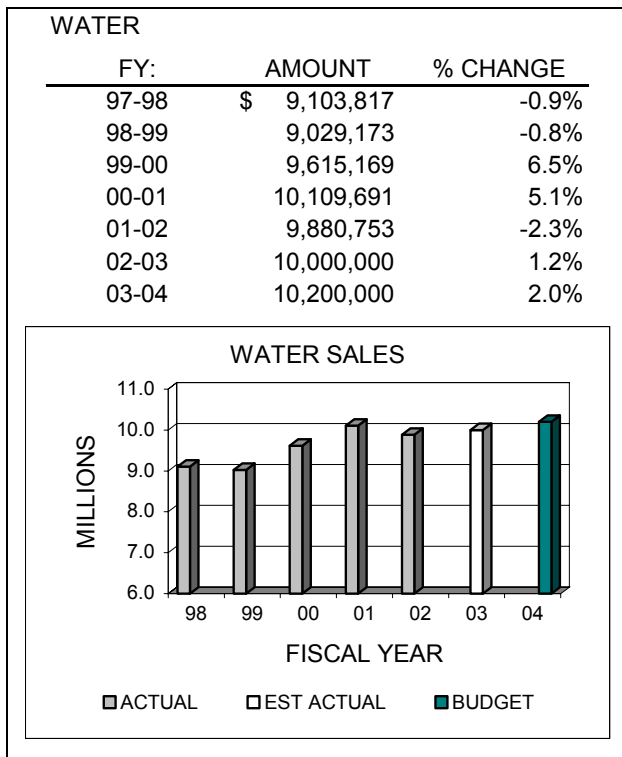
Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown. The City is eligible for monies from the Powerball Lottery game; however, this program has only reached the revenue thresholds that resulted in distribution to the Cities in FY 1998. The State lottery dollars are capped. Decreases reflect population changes due to census enumeration.

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.



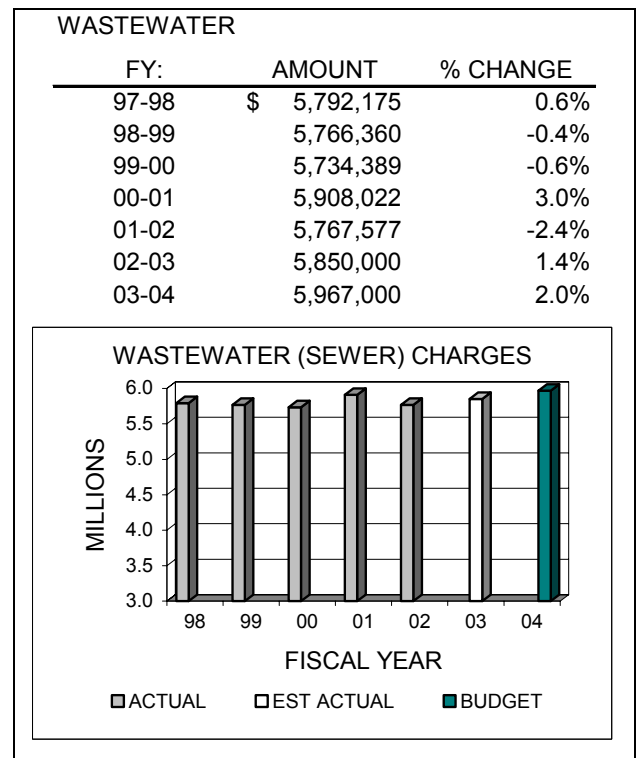
Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown.

for FY 2004 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 decrease in FY 2002 is because of water restrictions due to a drought year. No rate increase is projected in FY 2004.

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 2003 and the budget for FY 2004 are also shown. The slight decrease in FY 2002 is due to water restrictions. The revenue

projections include a 2.0% factor due to population and consumption changes.

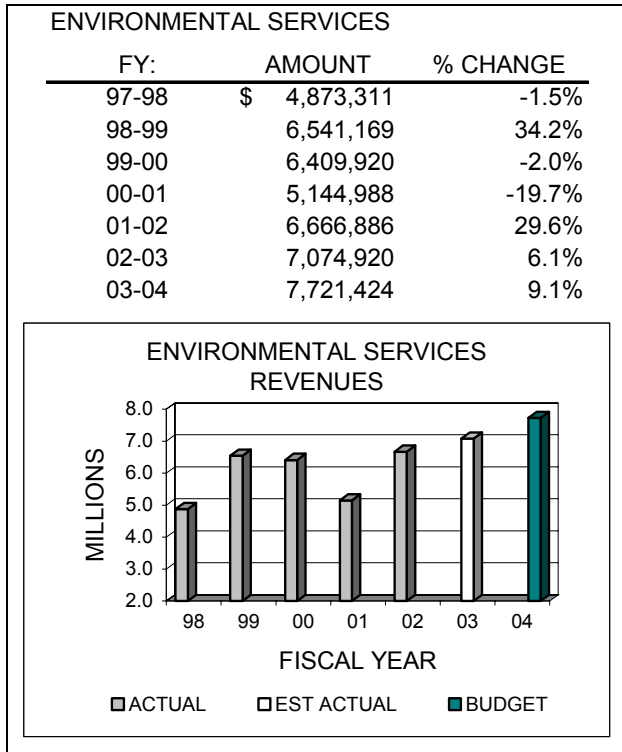
ENVIRONMENTAL SERVICES

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

Description: Environmental Services disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill fees, environmental service 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. The environmental service fee is a fixed monthly charge.

Listed are the past five years of actual revenues. The estimated receipts for FY 2003 and the budget for FY 2004 are also shown.

The increase in revenues for FY 2004 represents a rate increase related to residential and commercial collection, an environmental service fee, and a landfill rate increase.

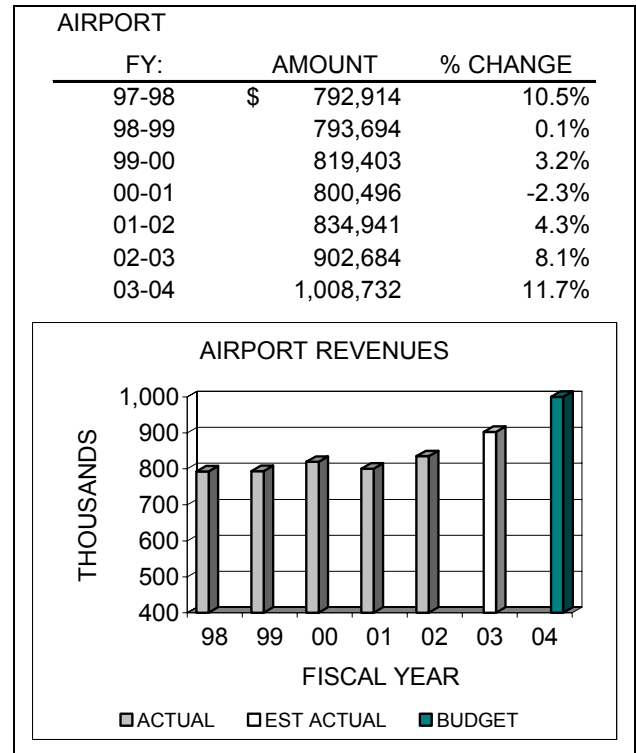


AIRPORT

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

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 2003 and the budget for FY 2004 are also shown. The increases from FY 2002 through FY 2004 are mainly due to a new terminal lease, growth in ground leases, and auto rental revenues.



CAPITAL BUDGET

RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

The Five-Year Capital Improvement Plan (multi-year, 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 2003 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 2004 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2004 includes 88 capital improvement projects totaling \$63.9 million. This amount includes \$16 million in carryover items that have been budgeted. Project funding is comprised of the following: \$3.5 million in grants primarily for airport improvements, affordable housing, street construction, beautification projects and parks construction; \$15 million in existing general obligation (G.O.) bonds for Fourth Street overpass and park improvements; \$45.4 million in operating funds that include street maintenance and 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 – Eleven projects are scheduled for FY 2004 for a total of \$11 million. Operating funds will include financing for Rio de Flag

flood control, facility needs/land acquisition, ADA compliance in city facilities, and Redevelopment \$3.6. (See CIP Section for project listing).

Streets/Transportation – The City currently has 575 miles of paved streets, as well as an additional 10 miles of alleys and 14 miles of 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 Sunnyside street improvements Soliere Avenue extension to Fourth Street, the widening of Country Club, various Safe to School projects and the start of the East gateway road projects. There are a total of 19 Streets Transportation projects scheduled at a budgeted cost of \$29 million. HURF funds \$7.1 million, Transportation Tax funds are \$7.6 million and \$350,000 in Grant Revenues, \$10.7 million in Bonds and \$3.2 million in contributions.

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 various park improvements. This year Federal and State grants will provide funding of \$1.6 million. Twenty-four projects are scheduled at a budgeted cost of \$6.2 million for FY 2004. (See CIP Section for project listing).

Utilities – Major projects for Water production and distribution include \$2.3 million for Phase 2 & 3 to replace and upgrade infrastructure in the Sunnyside neighborhood and \$1.5 million for a new town well. Major projects for Wastewater plants and collection include \$1.9 million for Wildcat plant improvements and reclaim water line improvements. The Utilities fund has set aside funds in both water and wastewater for potential system optimizing improvements; these may include additional automation systems. The Five-Year CIP also includes three replacement and upgrade projects to the water distribution system. Fifteen water projects and 12 wastewater projects are scheduled at a combined budget of \$12.6 million for FY 2004. (See CIP Section for project listing).

Airport Fund – Four projects are scheduled at a budgeted cost of \$3.9 million for FY 2004 and the program focus is on expansion of airside infrastructure. The major project is the design and construction of box hangars and shade. State and Federal grants fund \$1.3 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 construction of a site entry for the Materials Recovery facility. Two projects are scheduled at a budgeted cost of \$820,000 for FY 2004. (See CIP Section for project listing).

Stormwater Fund – As the Stormwater Fund was initiated to begin July 2003, only one capital project has been funded—the 6th Avenue detention basin for \$215,000. (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 2003, 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. Through scheduled increases approved at the time of the election, the transportation tax is at 0.601% as of July 1, 2003.

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. 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, 2003	
20% Limitation (Water, Sewer, Lighting, Open Spaces, and Recreation Purpose Bonds)	
Assessed Valuation	<u>\$ 464,257,886</u>
Allowable 20% Debt	\$ 92,851,577
20% Debt Outstanding	<u>(26,282,849)</u>
Allowable Debt Margin	<u>\$ 66,568,728</u>
6% Limitation (All Other General Obligation Bonds)	
Assessed Valuation	<u>\$ 464,257,886</u>
Allowable 6% Debt	\$ 27,855,473
6% Debt Outstanding	<u>(4,160,000)</u>
Allowable Debt Margin	<u>\$ 23,695,473</u>

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, 2003, the total actual indebtedness is \$60.1 million and proposed outstanding indebtedness of the City is \$88.1 million. FY 2004 annual debt payments are projected to be \$10.9 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, 2003, the City's 20% general obligation debt of \$26,282,849 is well below the legal limit of \$92,851,577. The City's 6% general obligation debt of \$4,160,000 is also well below the legal limit of \$27,855,473. 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
2004	6,370,535	2,694,315	9,064,850
2005	6,735,827	2,456,358	9,192,185
2006	5,685,788	2,046,040	7,731,828
2007	6,331,506	2,212,127	8,543,633
2008	5,774,813	1,591,232	7,366,045
2009	5,897,924	1,319,872	7,217,796
2010	4,736,802	1,082,815	5,819,617
2011	4,916,474	848,793	5,765,267
2012	5,205,967	602,995	5,808,962
2013	3,072,877	349,513	3,422,390
2014	1,254,863	212,776	1,467,639
2015	782,275	157,376	939,651
2016	815,127	124,574	939,701
2017	388,434	90,367	478,801
2018	402,214	76,587	478,801
2019	416,482	62,319	478,801
2020	431,257	47,544	478,801
2021	446,556	32,245	478,801
2022	462,398	16,403	478,801
	<u>\$ 60,128,119</u>	<u>\$ 16,024,251</u>	<u>\$ 76,152,370</u>

