

# BUDGET OVERVIEW

The City of Flagstaff FY 2006 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 2006; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

## FINANCIAL RESOURCES AVAILABLE

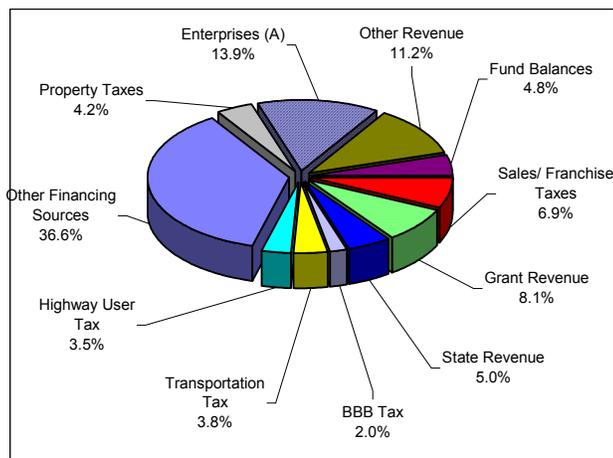
Sales/Franchise Taxes	\$ 14,922,172	6.9%
Grant Revenue	17,385,636	8.1%
State Revenue	10,717,086	5.0%
BBB Tax	4,316,892	2.0%
Transportation Tax	8,123,048	3.8%
Highway User Tax	7,436,000	3.5%
Other Financing Sources	78,805,477	36.6%
Property Taxes	8,949,459	4.2%
Enterprises (A)	29,927,557	13.9%
Other Revenue (B)	24,082,819	11.2%
Fund Balances	10,376,037	4.8%
	<u>\$ 215,042,183</u>	<u>100.0%</u>

### (A) Enterprises:

Water	\$ 11,150,500
Wastewater	7,853,000
Airport	1,213,404
Environmental Services	8,760,817
Stormwater Utility	949,836
	<u>\$ 29,927,557</u>

### (B) Other Revenue:

Licenses and Permits	\$ 2,135,239
County Vehicle Tax	2,550,000
Charges for Services	1,584,262
Fines and Forfeits	993,119
County Contribution	2,993,396
Interest on Investments	1,678,664
LTA/Misc Revenue	12,148,139
	<u>\$ 24,082,819</u>



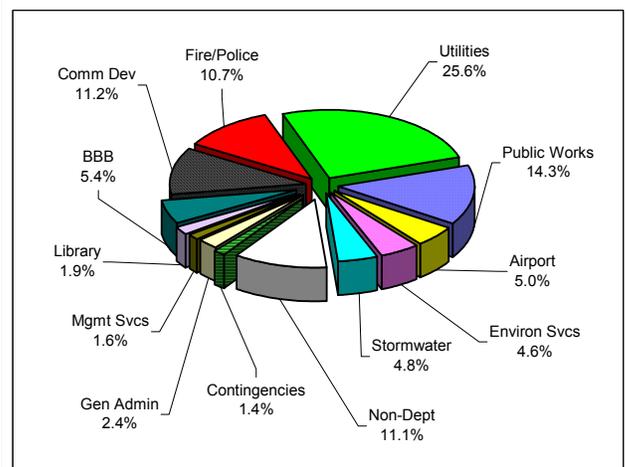
**"WHERE THE MONEY COMES FROM"**  
\$215,042,183

## TOTAL APPROPRIATIONS

General Administration	\$ 5,200,940	2.4%
Management Services	3,503,470	1.6%
Library	4,173,591	1.9%
BBB (A)	11,525,397	5.4%
Community Development	24,163,472	11.2%
Fire/Police	22,953,218	10.7%
Utilities	55,095,650	25.6%
Public Works	30,756,222	14.3%
Airport	10,729,602	5.0%
Environmental Services	9,939,291	4.6%
Stormwater	10,217,944	4.8%
Non Departmental	23,948,386	11.1%
Reserves/Contingencies	2,835,000	1.4%
	<u>\$ 215,042,183</u>	<u>100.0%</u>

### (A) BBB Tax Funds:

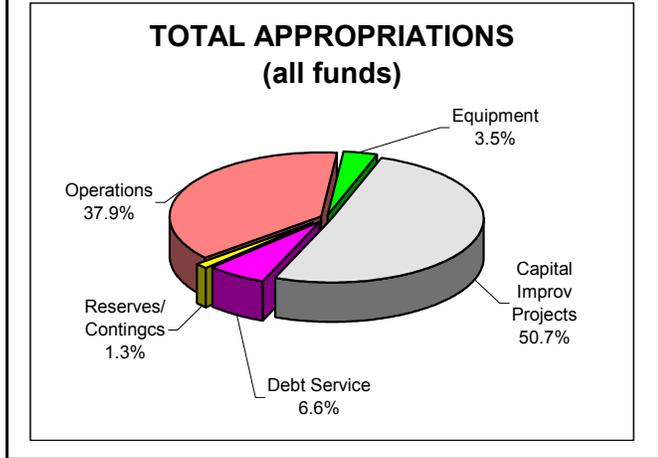
Beautification	\$ 5,544,432
Tourism	1,687,622
Economic Development	474,400
Arts and Science	403,391
Recreation-BBB	3,415,552
	<u>\$ 11,525,397</u>



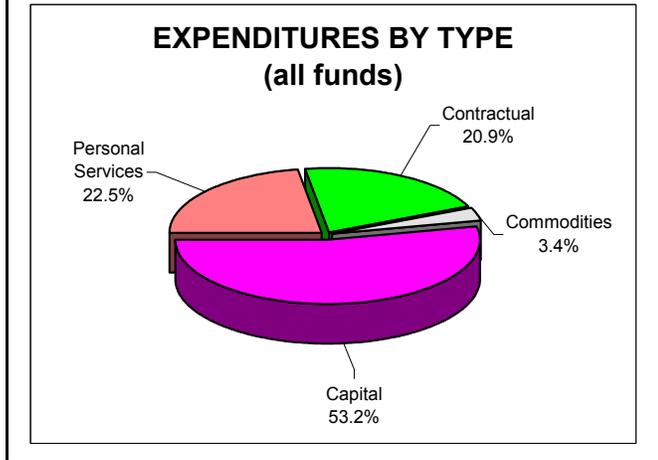
**"WHERE THE MONEY GOES TO"**  
\$215,042,183

The following graphs depict the major classifications of appropriation for the total 2005-2006 budget and expenditures by major types.

<b>TOTAL APPROPRIATIONS</b>	
Operations	\$ 81,306,674
Equipment	7,621,712
Capital Improvement Projects	109,052,065
Debt Service	14,226,732
Reserves/Contingencies	2,835,000
	<u>\$ 215,042,183</u>



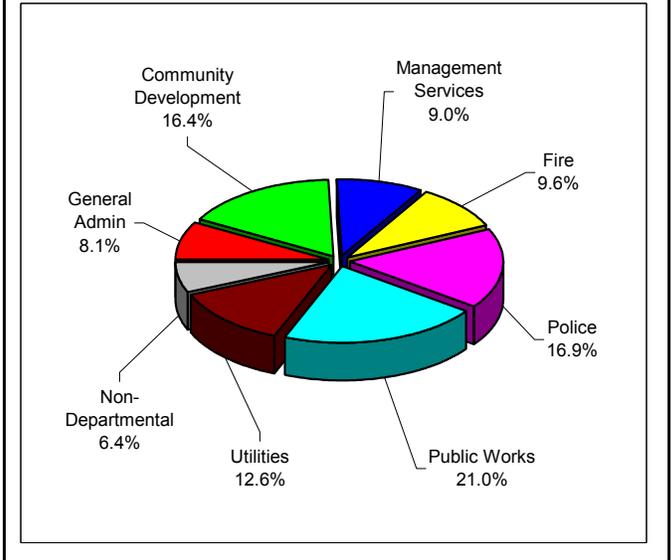
<b>EXPENDITURES BY TYPE</b>	
Personal Services	\$ 48,191,286
Contractual	45,045,703
Commodities	7,359,441
Capital	114,445,753
	<u>\$ 215,042,183</u>



**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.

<b>OPERATING BUDGET *</b>	
General Administration	\$ 6,612,081
Community Development	13,364,878
Management Services	7,352,061
Fire	7,841,381
Police	13,761,970
Public Works	17,048,556
Utilities	10,219,333
Non-Departmental	5,106,414
	<u>\$ 81,306,674</u>
	<u>\$ 14,226,732</u>



**General Administration** activities comprise 8.1% of the budget (\$6.6 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. This department consists of City Manager, City Clerk, Law, City Court, Human Resources, Risk Management, Tourism and Visitor Services.

**Community Development** comprises 16.4% of the operating budget (\$13.4 million), excluding the debt service requirements for Fourth Street (\$2.0 million). The services in this Department include Development Services, Community Improvement, Community Investment, Capital Improvements, Transportation, Stormwater, MPO, Housing and Community Services, Urban Design, Arts & Sciences, and CD Administration. The services provided by these divisions meet the current needs of the community and plan for the future.

**Management Services** comprises 9.0% of the operating budget (\$7.4 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 Department** services comprise 9.6% of the operating budget (\$7.8 million). The Department's public safety programs provide both personal safety in the

community with proactive attention to preventable disasters and sense of well being through timely emergency response.

**Police Department** activities comprise 16.9% of the operating budget (\$13.8 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** comprises are provided by nine divisions that account for 21.0% of the operating budget (\$17.0 million), excluding the debt service requirements for streets (\$2.4 million), Airport (\$0.6 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, fleet services, and recreation programming.

**Utilities Department** comprises 12.6% of the operating budget (\$10.2 million), excluding \$4.7 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 6.4% of the budget (\$5.1 million) exclusive of \$3.5 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 2006,

*major accomplishments* in FY 2005, 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 2004*, the *Adopted Budget for FY 2005*, the *Estimated Actual for FY 2005*, and the *Adopted Budget for FY 2006*. 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)

### **Fund, Department, and Division Structure:**

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

Within each Fund there may be several Departments. Departments also may encompass several Funds. The Department level is the legal level of budget authority.

Departments are groups of Divisions that serve a similar function with the City. In addition, within each Division are Programs, which capture all expenditures related to an activity, cost center, or location of operation within a division.

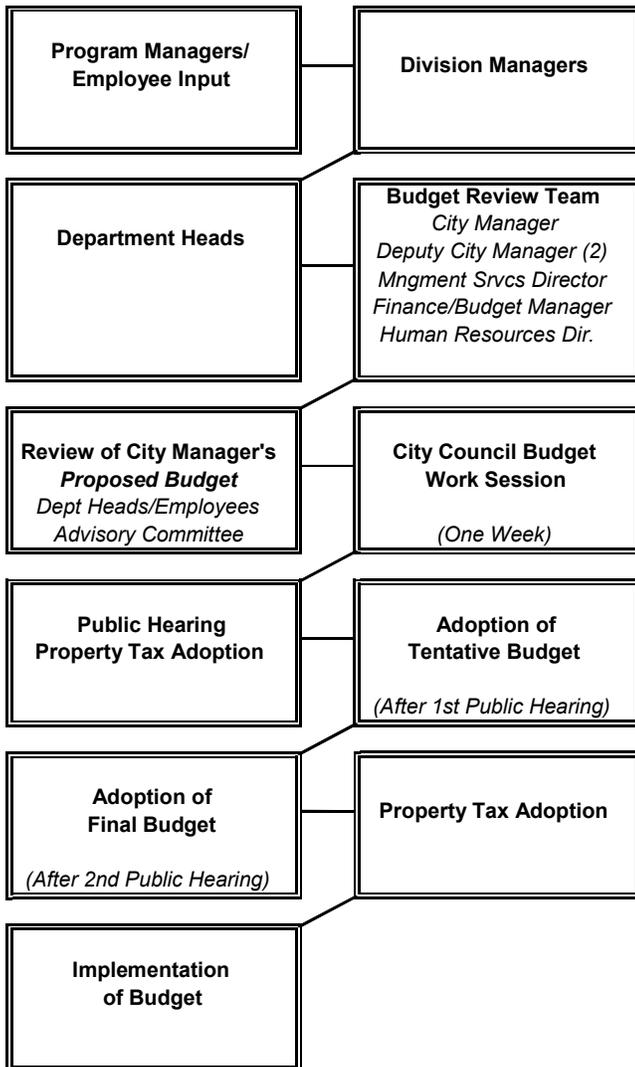
The following table represents the structure for the City.

Illustration of Relationship between Funds, Departments, and Divisions

DEPARTMENTS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Utilities	Non-departmental
FUNDS								
<b>General Fund</b>	City Manager City Clerk Human Resources Risk Management City Attorney Municipal Court	Information Systems Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Capital Improvements Development Services Community Improvements Community Investment	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance Recreation		Council and Commission Contributions Non-departmental
<b>Library</b>		Library						
<b>Highway User Revenue</b>						Street Maintenance & Repairs		Transit
<b>Transportation</b>			4th Street Overpass Safe to School Safety Improvements					
<b>Economic Development</b>			Beautification					Economic Development
<b>Beautification</b>								
<b>Tourism</b>	Convention & Visitors Bureau Visitor Services							
<b>Recreation</b>						Recreation		
<b>Arts &amp; Science</b>			Arts & Science					
<b>Real Estate Proceeds</b>								Real Estate Proceeds
<b>Housing and Community Services</b>			Housing and Community Services					
<b>Metropolitan Planning Organization</b>			Metropolitan Planning Organization					
<b>G.O. Bond Fund</b>								G.O. Bond Fund
<b>Secondary Property Tax</b>								Secondary Property Tax
<b>Special Assessment</b>								Special Assessment
<b>Perpetual Care</b>								Perpetual Care
<b>Capital Projects Bond</b>								Capital Projects Bond
<b>Water &amp; Wastewater</b>							Administration Lake Mary Water Treatment Plant Customer Service Water Distribution Services Booster Stations Wastewater Treatment Plants Wastewater Collection Wastewater Monitoring	
<b>Airport</b>						Airport		
<b>Environmental Services</b>						Environmental Services		
<b>Stormwater</b>			Stormwater					
<b>Expendable Trust</b>								Firemen's Pension

# 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 2006.
- The *Capital Improvement Plan* (CIP) for FY 2006 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.

BUDGET CALENDAR	
December	Budget Module available to all Divisions
February 7	Capital equipment requests reviewed by Capital Improvements and Purchasing
March 14 - April 1	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
May 16-17	Council Study Sessions Proposed Budget available to public
June 21	Public Hearing/Tentative Adoption of Proposed Budget Public Hearing on Tax Adoption
June 28	Publish first notice of Public Hearing for Final Adoption
July 1	Publish second notice of Public Hearing for Final Adoption
July 5	Public Hearing on Budget and Final Adoption of Budget
July 9	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 19	Adopt Property Tax Levy

**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 October and March 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 5, 2005. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

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

The Adopted Budget reflects the total funds appropriated (\$215,042,183). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$77,110,498), 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 2006, City sales tax revenue is budgeted to exceed the FY 2005 estimated actual by 2.5%. The trends reflect an overall increase in the economy with a slight dip in the auto service and home furnishing markets. Construction revenues are expected to remain steady, as this category has shown increases in nine of the past ten years. A cyclical slow down could occur but based on the number of building permits issued, it is not anticipated over the next year. The BBB category shows a 2.5% (\$105,290) 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.

For 2005, the City and most of the rest of the State of Arizona municipalities will use DES population estimates. These estimates reflect a more accurate count of our City's population and reflect a slight increase in Flagstaff's proportionate share of population in comparison to the rest of the State. In addition, the State of Arizona continues to rebound after almost three years of negative or no growth.

### **REVENUE FORECAST**

State-shared revenues for sales and income tax are experiencing significant increases (7.3% and 13.7%, respectively) due to the recovering economy and the revised census estimates. State shared income tax receipts are based on actual collections from two years prior. State sales tax receipts are distributed based on actual collections of the state.

Highway user tax and local transportation assistance are projected to end the year over budget and HURF revenue is budgeted to grow 3.3% (\$236,000). This is the first time in three years due to a revised distribution formula by ADOT of HURF revenue.

County revenues for auto in lieu tax (license tags) are expected to increase by approximately 2.0% in FY 2006 and have grown by 41.4% since FY 2002. The increase is based on continued local strength in auto sales. These increases were spurred by the lengthy car incentives offered over the last four years.

The Utility Fund may have a rate increase in January 2006, dependent on the timing of project development and bond sales as related to those projects approved in the May 2004 bond election.

The Environmental Services Fund is anticipating fee increases for commercial refuse and recycling accounts in October 2005. Residential rates continue to be under review, with a tentative time frame of a rate increase in October 2006.

The Stormwater Fund is requesting a rate increase to be effective January 2006 to fund additional requirements under the NPDES permitting process and to fund a spot improvement program as an initial effort to address flooding issues throughout the City.

The City of Flagstaff will be reviewing all current city sales tax exemptions to determine if there are any areas that should no longer be exempted. In addition, the City

will pursue at a future general election to make the sales tax, the BBB tax, and the transit portion of the transportation tax permanent.

A portion of recreation revenue, approximately \$100,000, will not be collected in FY2006 due to the improvements at Thorpe Field. There will not be a local softball season or the ability to rent the field for other events the entire spring/summer season of 2006. This is a one-time reduction and funds will be restored for FY2007.

## EXPENDITURES

The adopted budget is based on fiscal restraint consistent with conservative and sustainable revenue estimates. 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 2006 is estimated at \$8,235,242 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 20.2%.

The FY 2006 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.

The City of Flagstaff held a bond election in May 2004. A total of 13 projects were offered individually for \$172.5 million. Ten projects totaling \$155.2 million passed. These projects are funded through lease agreements, secondary property taxes, and user fees. The FY 2006 budget includes some revenues and expense for certain projects. The citizens may realize a future increase in water/sewer rates, however the projects funded through the secondary property taxes will be timed so that no increase would be necessary.

**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 2005.* Divisions were asked to estimate expected expenditures by line item for FY 2005. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2006. 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 encouraged to have an independent funding source, were needed to maintain current service levels, or reinstated previous position eliminations as identified through the work force reduction plan.
- *Fleet Management.* All fleet equipment replacement requests were reviewed and prioritized by the Fleet Management Committee within financial parameters.
- *Information Systems.* 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 staff reviewed all requests of capital projects or public improvements that require time charge outs from that division.
- *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, the Transportation tax funds, Streets; Library; Housing and Community Services; and Transportation Planning (MPO).

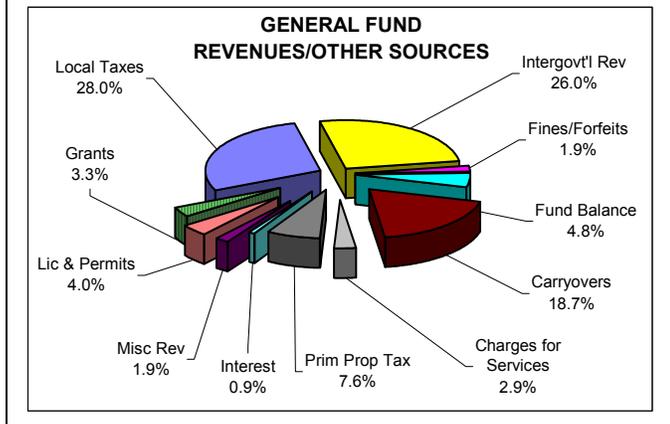
Total resources available for General Fund expenditures for FY 2006 are \$53.3 million including the beginning fund balance of \$12.5 million. A substantial portion of General Fund resources comes from two revenue categories: 1) local sales and franchise taxes and 2) intergovernmental revenues (specific 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 will increase from 0.7326 in FY 2005 to 0.7861 in FY 2006 and will generate an estimated \$4,069,597. This amount represents approximately 44.3% of the maximum allowable levy under Arizona statute. The secondary tax rate, which can only be used to repay general obligation debt, will decrease from 0.9801 in FY 2005 to 0.8766 in FY 2006. The increase in assessed valuation and corresponding increase in revenue is associated with \$22.4 million new construction placed on the tax rolls in the last year, and increased assessed values on existing properties (\$22.9 million).

General Fund revenue/other sources compared to prior year's budget have decreased by 15% primarily due to the transfer of the Rio de Flag project to the Stormwater Utility. The general fund is transferring \$7.8 million for this project, which is netted out of fund balance.

REVENUES/OTHER SOURCES	EST ACTUAL FY2005	BUDGET FY 2006
Licenses and permits	\$ 1,986,608	\$ 2,135,239
Grants	1,176,994	1,741,827
Local taxes	14,600,664	14,922,172
Intergovernmental	12,740,673	13,837,661
Fines and forfeits	972,987	993,119
Fund Balance, net of Transfers	20,045,455	2,531,873
Fund Balance for Carryovers	239,245	9,956,491
Charges for services	1,332,906	1,518,942
Primary Property Tax	3,531,271	4,069,597
Interest	499,314	500,000
Miscellaneous	980,643	1,060,878
	<u>\$ 58,106,760</u>	<u>\$ 53,267,799</u>

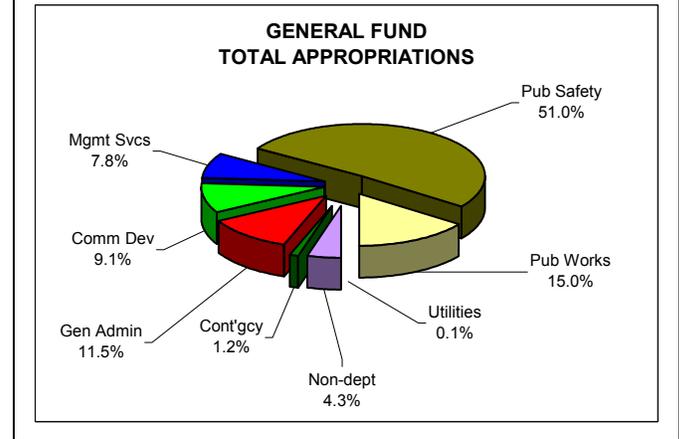


General Fund total appropriations compared to prior year's budget have increased 10.4% in FY 2006. The increase is due to increases in salaries, benefits, insurance, and capital projects. Overall, City staff received a 5% market increase and 80% (those not at the top of their range) received an average 3.2% merit. Also, a number of capital items were carried over including Redevelopment, an air compressor, a transport van, and a Type 1 fire engine. The contingency budget

is maintained at a higher level due to the ongoing potential for an extreme fire season.

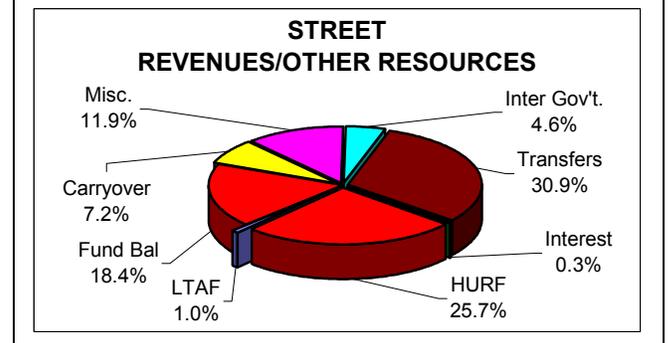
The financial position of the General Fund (after cost allocation distribution) remains strong. Accumulated funds will continue to be spent in Flagstaff for development opportunities.

APPROPRIATIONS	EST ACTUAL FY2005	BUDGET FY 2006
General Administration	\$ 4,417,000	\$ 5,200,940
Community Development	3,406,169	4,105,404
Management Services	3,342,110	3,503,470
Public Safety	19,511,223	22,953,218
Public Works	6,197,603	6,775,498
Utilities	37,878	28,757
Non-departmental	(1,356,665)	1,935,270
Contingencies	25,070	530,000
	<u>\$ 35,580,388</u>	<u>\$ 45,032,557</u>



### HIGHWAY USER REVENUE FUND

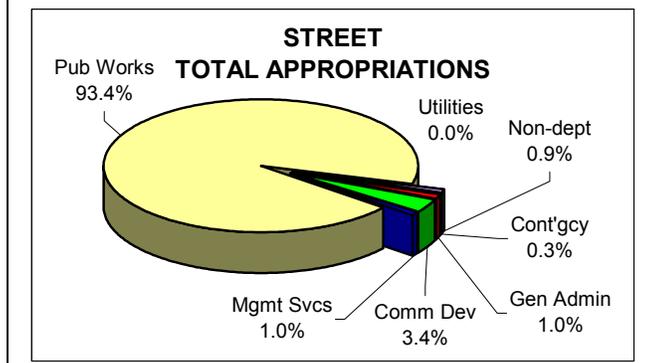
REVENUES/OTHER RESOURCES	
HURF	\$ 7,436,000
LTAF (lottery)	300,245
Fund Balance	5,334,911
Fund Balance for Carryovers	2,096,180
Miscellaneous	3,451,348
Intergovernmental	1,336,240
Transfers (net)	8,962,435
Interest	41,000
	<u>\$ 28,958,359</u>



The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to

the Cities and Counties by the State. Appropriations total \$25.9 million in FY 2006. Projects budgeted includes East Flag Gateway, Huntington Drive Improvements and Beulah Blvd. Improvements, the annual pavement maintenance program, and East Flagstaff Gateway.

APPROPRIATIONS	
General Administration	\$ 247,091
Community Development	890,966
Management Services	246,583
Public Works	24,134,851
Utilities	3,289
Non-departmental	228,892
Contingency	100,000
	<u>\$ 25,851,672</u>



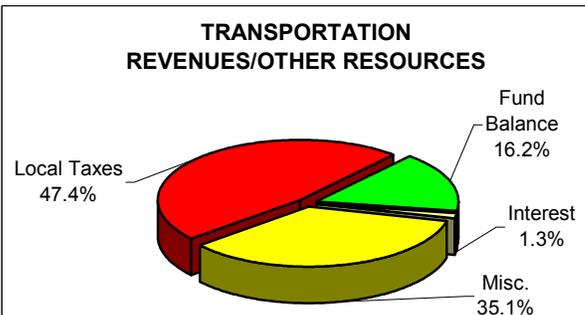
## TRANSPORTATION FUND

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.

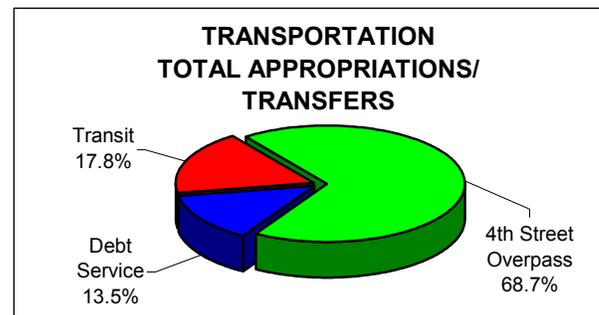
Projects	Budget FY 2006 Revenues
4th Street Overpass	\$ 2,209,191
Safe-to-School, Pedestrian and Bike	1,104,596
Traffic Flow and Safety Improvements	2,568,185
Transit Service Enhancements	2,241,076
Totals	<u>\$ 8,123,048</u>

Appropriations total \$14.7 million in FY 2006. Appropriations are comprised of \$2.6 million for transit operations, \$10.1 million for the 4th Street overpass. Transfers include \$5.8 million to the HURF Fund for Safety and Street Improvements and \$550,000 to fund FUTS projects in Beautification from Safety and Street Improvements. The combined transportation tax rate for FY 2006 is 0.601%.

REVENUES/OTHER RESOURCES	
Local Taxes	\$ 8,123,048
Fund Bal, net of Transfers	2,776,535
Interest	231,000
Miscellaneous	6,000,000
	<u>\$ 17,130,583</u>

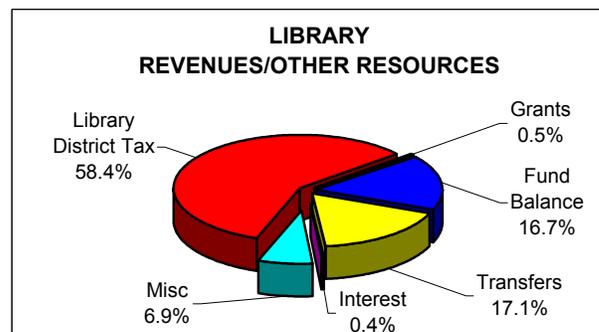


APPROPRIATIONS/TRANSFERS	
Transit	\$ 2,630,156
4th Street Overpass	10,121,685
Debt Service	1,991,600
	<u>\$ 14,743,441</u>



## LIBRARY FUND

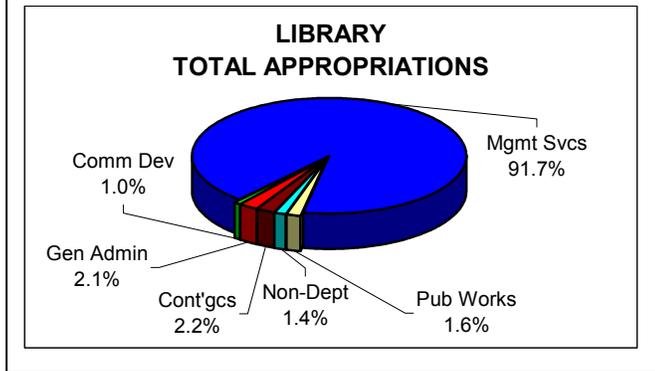
REVENUES/OTHER RESOURCES	
Library District Tax	\$ 2,993,396
Grants	25,000
Fund Balance	853,588
Transfers (net)	875,919
Interest	21,000
Miscellaneous	354,000
	<u>\$ 5,122,903</u>



The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$3.0 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.

APPROPRIATIONS	
General Admin	\$ 98,387
Community Development	48,518
Management Services	4,276,495
Public Works	73,733
Utilities	884
Non-Departmental	66,322
Contingencies	100,000
	<u>\$ 4,664,339</u>



### 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%

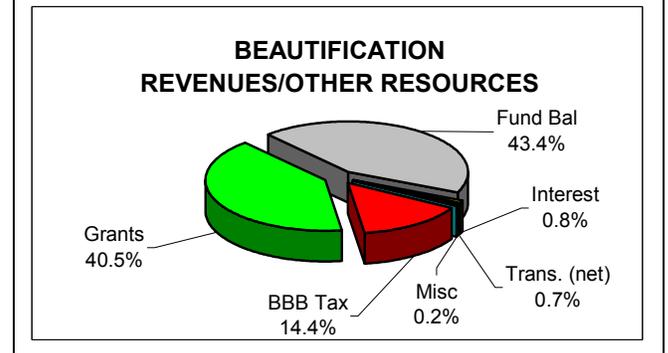
Since inception, the City has experienced a continual growth in BBB revenues. Revenue for fiscal year 2006 is anticipated to have a growth of 2.5%. Activities funded with the revenues have made operating adjustments necessary and these changes will be reflected within each five-year plan.

**Beautification Fund:** Total resources available for Beautification Fund activities amount to \$6.0 million

including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.)

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 863,378
Grants	2,423,512
Fund Balance	2,592,954
Interest	48,097
Transfers (net)	43,449
Miscellaneous	13,100
	<u>\$ 5,984,490</u>

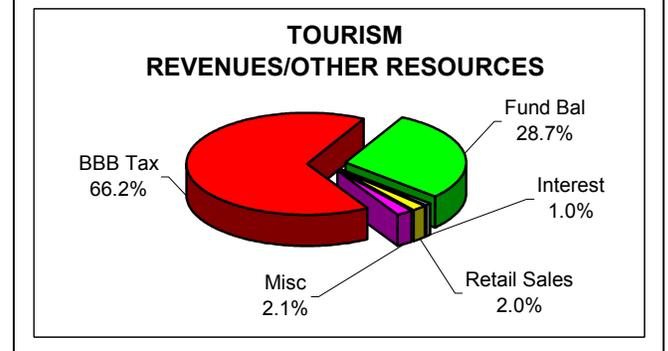
APPROPRIATIONS	
Community Development	\$ 5,544,432
Reserve	10,000
	<u>\$ 5,554,432</u>



**Tourism Fund:** Total resources available in FY 2006 are \$2.0 million. The total appropriations are \$1.7 million, which includes a \$50,000 reserve for contingencies.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,295,068
Fund Bal, net of Transfers	562,049
Interest	20,500
Visitor Center Retail Sales	40,000
Miscellaneous	40,895
	<u>\$ 1,958,512</u>

APPROPRIATIONS	
General Administration	\$ 1,687,622
Reserve	50,000
	<u>\$ 1,737,622</u>

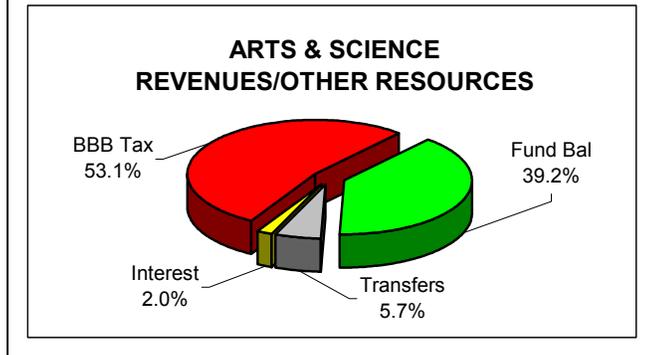


Expenditures include ongoing marketing programs and one-time expenditures for capital. Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools.

**Arts & Science Fund:** Total resources available for Arts & Science activities are \$609,676. Expenditures include contributions to local organizations and Art in Public Places. Contributions to Other Agencies are \$280,000 and Art in Public Places has \$75,943 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 \$323,767.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 323,767
Fund Balance	238,961
Transfers	35,000
Interest	11,948
	<u>\$ 609,676</u>

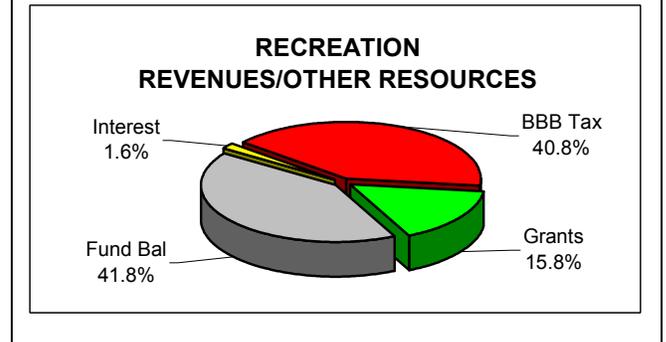
APPROPRIATIONS	
Community Development	\$ 403,391
Reserve	10,000
	<u>\$ 413,391</u>



**Recreation Fund:** Total appropriations in FY 2006 for Recreation Fund activities are \$3.4 million. FY 2006 includes the completion of Thorpe Park and construction of a BMX park. 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	\$ 1,424,574
Grants	550,000
Fund Bal, net of Transfers	1,457,108
Interest	55,900
	<u>\$ 3,487,582</u>

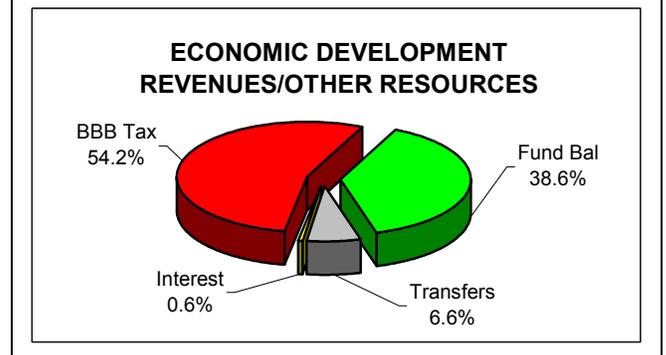
APPROPRIATIONS	
Public Works	\$ 3,415,552
	<u>\$ 3,415,552</u>



**Economic Development Fund:** Economic Development is conducted primarily by the Greater Flagstaff Economic Council (GFEC). The City allocates \$398,000 to GFEC, \$50,000 for telecom, \$22,000 for partnership training funds, and \$4,400 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	\$ 410,105
Fund Balance	292,117
Transfers	50,000
Interest	3,915
	<u>\$ 756,137</u>

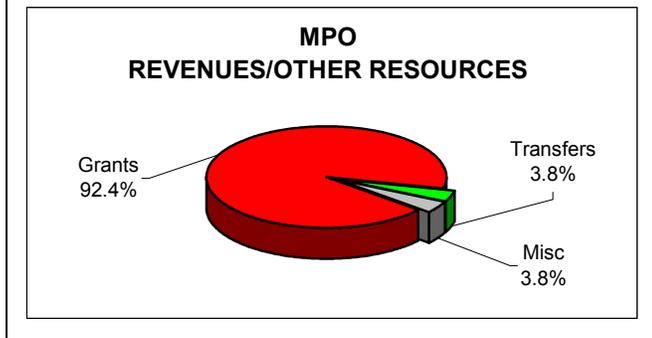
APPROPRIATIONS	
Non Departmental	\$ 474,400
Reserve	25,000
	<u>\$ 499,400</u>



## 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).

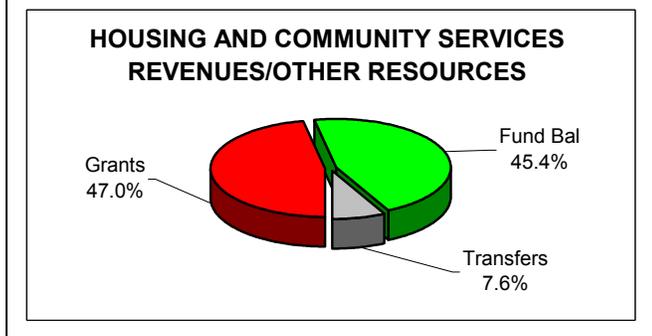
REVENUES/OTHER RESOURCES	
Grants	\$ 609,666
Transfers	25,000
Miscellaneous	25,000
	<u>\$ 659,666</u>
APPROPRIATIONS	
Community Development	\$ 508,002
Non-Departmental	51,664
Contingency	100,000
	<u>\$ 659,666</u>



The MPO has appropriated \$659,666 for this program for FY 2006. 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.

### Housing and Community Services:

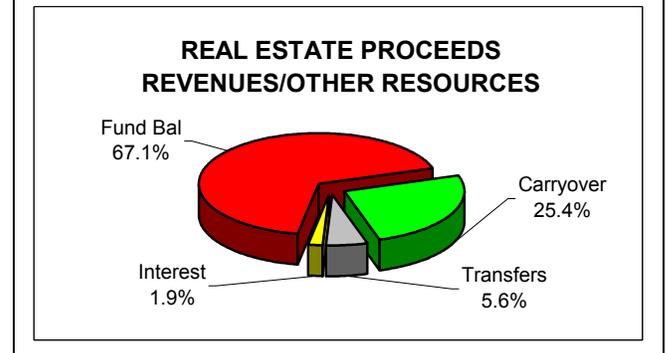
REVENUES/OTHER RESOURCES	
Grants	\$ 2,313,648
Fund Balance	2,235,600
Transfers	375,400
	<u>\$ 4,924,648</u>
APPROPRIATIONS	
Community Development	\$ 4,806,625
	<u>\$ 4,806,625</u>



This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$4.8 million appropriated to this activity for FY 2006. Expenditures in this fund include \$1.7 million for land acquisition, \$1.6 million in CDBG related activities, and \$728,880 in state grants activities.

**Real Estate Proceeds:** The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total \$2.5 million. Expenditures in this fund are for acquisition of open spaces.

REVENUES/OTHER RESOURCES	
Fund Balance	\$ 1,783,157
Fund Balance for Carryover	675,000
Transfers	150,000
Interest	47,350
	<u>\$ 2,655,507</u>
APPROPRIATIONS	
Non-Departmental	\$ 2,501,900
	<u>\$ 2,501,900</u>



## ENTERPRISE FUNDS

**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 \$58.2 million. Resources include \$19 million in utility user fees and \$14.5 million in fund balance carryforward.

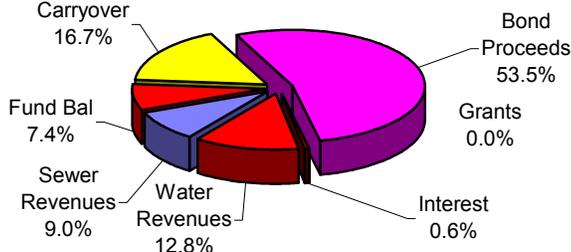
**Water Operations:** Total appropriations relating to direct costs for the water operations are \$32.3 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and land acquisition. Revenue estimates total \$11.2 million for water sales. A rate increase will be considered in FY 2006 to help repay debt service for bond projects.

**REVENUES/OTHER RESOURCES**

Water Revenues	\$ 11,150,500
Sewer Revenues	7,853,000
Fund Bal, net of Transfers	6,468,626
Fund Balance for Carryovers	14,513,186
Bond Proceeds	46,600,000
Grant Revenue	19,200
Interest	528,000
	<u>\$ 87,132,512</u>

**UTILITIES**

**REVENUES/OTHER RESOURCES**

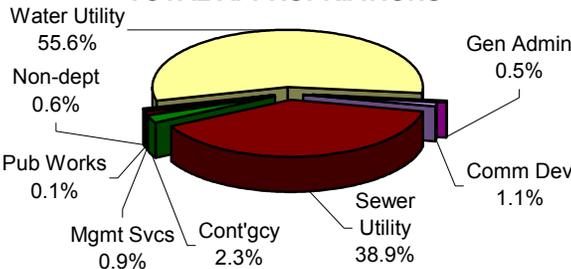


**APPROPRIATIONS**

General Administration	\$ 273,877
Community Development	649,464
Management Services	512,516
Public Works	43,796
Non-departmental	339,648
Water Utility	32,337,433
Sewer Utility	22,596,322
Contingency	1,400,000
	<u>\$ 58,153,056</u>

**UTILITIES**

**TOTAL APPROPRIATIONS**



**Wastewater Operations:** Total appropriations relating to the direct costs for the wastewater operations are \$22.6 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Bonds will fund major improvements to the Wildcat Wastewater Treatment facility. Revenue estimates total \$7.9 million in wastewater service charges. A rate increase of 7% is expected to begin January 2006 to help repay debt service for bond projects.

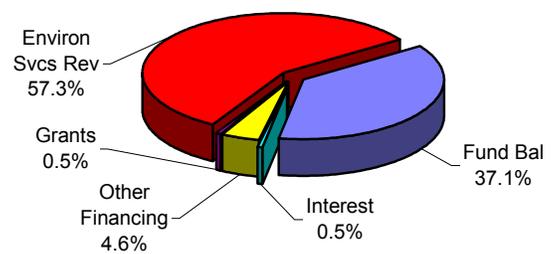
**ENVIRONMENTAL SERVICES FUND:** Total financial resources are \$15.3 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping,

inert materials pit, environmental, and commercial recycling) with different rates for each category based on cost of service.

**REVENUES/OTHER RESOURCES**

Environmental Svcs Revenue	\$ 8,760,817
Fund Bal, net of Transfers	5,665,615
Other Financing	700,000
Interest	82,000
Grants	75,000
	<u>\$ 15,283,432</u>

**ENVIRONMENTAL SERVICES**  
**REVENUES/OTHER RESOURCES**

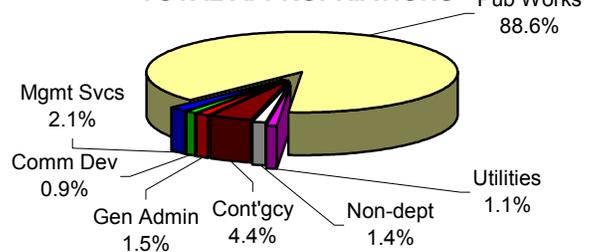


Currently, the existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. 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.

**APPROPRIATIONS**

General Administration	\$ 171,465
Community Development	106,151
Management Services	237,227
Public Works	10,103,926
Utilities	120,501
Non-departmental	165,072
Contingency	500,000
	<u>\$ 11,404,342</u>

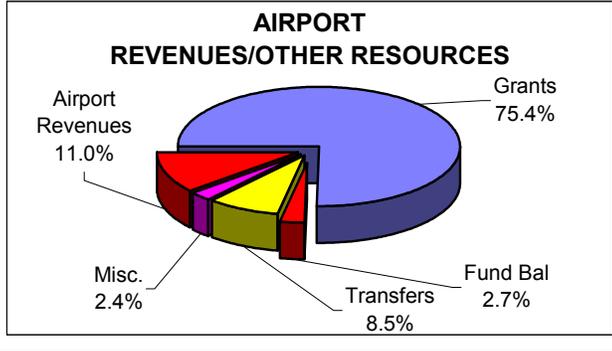
**ENVIRONMENTAL SERVICES**  
**TOTAL APPROPRIATIONS**



**AIRPORT FUND:** Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix. Total appropriations are \$11.0 million: \$1.2 million for operations, \$648,824 for

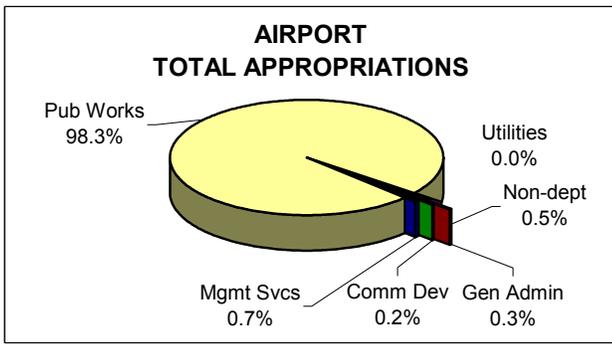
debt and \$9.1 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

REVENUES/OTHER RESOURCES	
Airport Revenues	\$ 1,213,404
Grants	8,291,543
Fund Balance	292,221
Transfers (net)	936,072
Miscellaneous	257,337
	<u>\$ 10,990,577</u>



The general fund will continue to subsidize operations at \$171,000 this year with an additional \$168,500 for capital improvements including matching funds for grants. This year, of the \$9.1 million in capital improvements, FAA and ADOT are funding \$8.3 million and Airpark proceeds will fund \$368,000. The secondary property tax fund will transfer \$262,139 to cover debt service not paid with passenger facility charges.

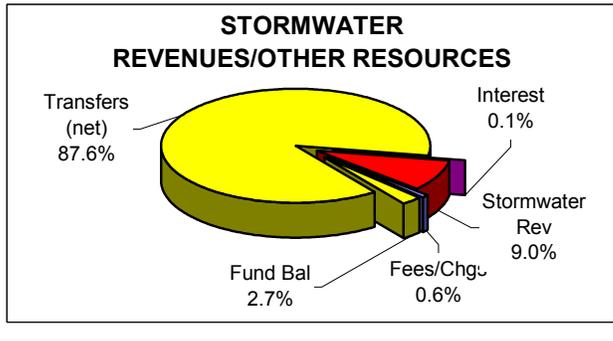
APPROPRIATIONS	
General Administration	\$ 31,404
Community Development	17,892
Management Services	78,734
Public Works	10,796,969
Utilities	297
Non-departmental	58,443
	<u>\$ 10,983,739</u>



**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

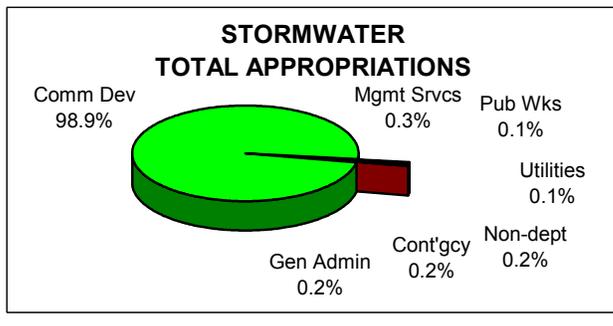
feet of impervious area with the average monthly billing estimated at \$1.06. A rate increase has been proposed for FY 2006.

REVENUES/OTHER RESOURCES	
Stormwater Revenues	\$ 949,836
Fees & Charges	65,320
Fund Balance	290,248
Transfers (net)	9,275,318
Interest	3,254
	<u>\$ 10,583,976</u>



Total revenues/other resources include carry forward transfers of \$7.5 million from the general fund. The Rio de Flag project has been transferred in its entirety from the General Fund to Stormwater. Total appropriations of \$10.4 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag including related parking.

APPROPRIATIONS	
General Admin	\$ 15,651
Community Development	10,266,370
Management Services	36,060
Public Works	7,974
Utilities	8,167
Non-departmental	23,001
Contingency	10,000
	<u>\$ 10,367,223</u>



**FIVE-YEAR PROJECTIONS BY FUND**

The City updates five-year plans annually during the budget process. These plans are an important tool to continue our emphasis on strategic planning and to identify the capacity of the City to fund projected expenditures. Revenue and resource estimates are

based on the latest available economic and demographic trend information. All significant expenditure issues have been incorporated into the projections including the following: employee compensation, City growth, and additional operational costs associated with completion of capital projects. The projections are not intended to be an exact prediction of what each department will spend in the next five years.

The policy of the City is to match ongoing expenditures with ongoing revenues. This policy is to assure that the funds have adequate revenues to support the continued operations. Several funds will use one-time revenues and fund balance to pay for capital equipment, capital improvements, and other types of one-time expenditures. Generally when you see major fluctuation in fund balance from beginning to ending, the change is related to carryover and/or budgeting of such items. Funds such as the General, Highway User, Transportation, Beautification, BBB-Recreation, Real Estate Proceeds, Housing and Community Services, Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

The preparation of the five-year plan is a cooperative effort between department heads, division heads, and budget staff to assure projections are based in current program needs and revenue estimates are achievable.

The five-year projections are located in the Financial Summary section, Schedule 13. The following narratives present the highlight of the forecasts by funds:

## **GENERAL**

The primary purpose of the General Fund five-year projections is to assure that ongoing revenues are meeting or exceeding ongoing expenditures. Ongoing expenditures include debt service, fleet replacements, information system replacement and upgrades, an allocation for capital, and projected changes in personnel. As financial conditions change in the City, the five-year projections are continually updated to balance the ongoing sources and uses of funds.

The City is currently funding several projects with Fund Balance and non-recurring revenues. Such projects include redevelopment, the Flagstaff Mall expansion, and Rio de Flag flood control.

## **LIBRARY**

The five-year plan for Library shows the ability to fund ongoing operations costs with funding from the City, through revenue transfers, and the County, through Library District Taxes.

## **HIGHWAY USER**

This fund is devoted to the maintenance, improvements, and construction of street related items. The fund first matches ongoing revenues with ongoing maintenance and then plans out the capital equipment and improvements. Several capital improvements include portions that are funded through revenue transfers from

other funds. The five-year plan shows the ability to balance ongoing and one-time expenditures while maintaining and adequate fund balance.

## **TRANSPORTATION**

The Transportation Fund is used to track revenues and expenditures related to a dedicated sales tax approved by voters. The five-year plan shows the completion of a 4th Street Overpass in FY 2006 and the ongoing funding of the transit system, which is operated by the County. Other projects are funded through revenue transfers to the fund where the projects are budgeted.

## **BEAUTIFICATION**

The primary sources for this fund are Grants, BBB Tax, and Revenue Transfers. This fund primarily accounts for capital projects related to FUTS and Streetscapes. It is an ongoing effort to balance the amount of projects within the availability of revenues. This five-year plan shows how it is accomplished.

## **ECONOMIC DEVELOPMENT**

This fund is balanced with ongoing revenues from BBB taxes, General Fund transfers, and ongoing expenditures related to contributions to agencies for economic development in our community. Based on revenue growth, contributions will be maintained or slightly increased over the next five years.

## **TOURISM**

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to tourism promotion and visitor center services. Based on revenue growth, this fund can maintain existing operations levels.

## **ARTS AND SCIENCE**

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to contributions to agencies for projects related to awareness of arts and science in our community. Based on revenue growth, contributions will be maintained or slightly increased over the next five years.

## **RECREATION-BBB**

This fund is used for the improvements to city and school recreational parks and fields. In addition, maintenance cost related to the improved parks and fields, maintenance of FUTS trails, debt service of bonds issued for improvements, and a transfer for construction of new FUTS trails are funded with ongoing revenues. Based on current projections, maintenance and construction needs will be met during the next five years.

## **REAL ESTATE PROCEEDS**

This fund is used for one-time revenues and expenditures related to sale and acquisition of property. The City plans to sell property in Koch Field in the future. The fund balance is currently restricted for acquisition of open spaces. As the City sells additional properties, those funds will be restricted for a similar purchase of

land as intended with the original land acquisition. Current projections allow open space acquisitions through fiscal year 2009.

## **HOUSING AND COMMUNITY SERVICES**

This fund is primarily used to track revenues and expenditures related to Community Development Block Grants and other housing grants. The block grants are an entitlement to the City and are expected to stay level over the next 5 years. The City currently expects to receive State housing grants every other year. The City General Fund makes contributions annually to fund a revolving loan program, land acquisition, and affordable housing assistance.

## **METROPOLITAN PLANNING ORGANIZATION**

This fund is used for transportation planning grants. The fund maintains a zero fund balance due to current grant eligible expenditures are offset with grant revenue. It is currently estimated that grant revenues will remain consistent throughout the next five years.

## **GENERAL OBLIGATION BOND**

This fund is used to track the debt service payments on General Obligation Bonds. This five-year plan shows the City is meeting the requirements for future debt service payments.

## **SECONDARY PROPERTY TAX**

This fund is used for tracking of secondary property tax revenue and the subsequent transfer to other funds to make debt service requirements. The five-year projection uses the current assessed valuation figures from the county to estimate property taxes that will be available for debt service expenditures. The projection assumes additional voter authorization to be issued in the future and maintaining the existing tax rate. This allows the City to look at the long-term property tax rates to smooth the highs and lows and maintains a more level tax rate from year to year.

## **SPECIAL ASSESSMENT BOND**

This fund is set up for repayment of bonds issued for special assessment district. The City currently has one such district. The five-year projections show there are adequate assessments and fund balance to pay future debt service requirements.

## **CAPITAL PROJECTS BOND**

This fund will be used to track the revenues and expenditures of the voter approved bond eligible projects. In May of 2004, the voters of Flagstaff approved ten projects. The exception will be for the Water and Wastewater projects that will be in that five-year plan. Projects/bond sales are currently scheduled to coincide with the retirement of other debt so the overall secondary property tax rate does not increase.

## **PERPETUAL CARE**

This fund is currently used for the tracking of contributions related to long-term maintenance at the

City owned cemetery. Expenditures will not be budgeted until fund balance is adequate enough to pay for ongoing expenditures.

## **WATER AND WASTEWATER**

As a City enterprise fund, this fund is managed on the basis that it will be self-sustaining. The five-year projections show that ongoing expenditures, capital improvements, and debt service requirements are being met with user fees, fund balance, and interest earnings. In addition to the five-year projections, the City uses a rate model to balance future operations and capital requirements with anticipated revenues over a ten-year period. Based on this model that was updated in 2005, a rate increase is anticipated in January 2006 to fund bond projects. The City maintains a separate five-year plan for the tracking of bond eligible expenditures.

## **AIRPORT**

This fund is responsible for the operations at Flagstaff Pulliam Airport. The majority of future revenues are grants related to continued expansion and capital improvements at the airport. Currently the airport is not self-sustaining for ongoing expenditures. It is the goal of the Airport Fund to become self-sustaining through additional Airpark developments and the expansion of the runway to allow regional jet service. Until then, the General Fund will make contributions to cover the differences. The capital improvement plan is based on annual updates to ADOT and FAA. The City General Fund also makes a transfer to the Airport Fund to cover the match portion of capital grants awarded.

## **ENVIRONMENTAL SERVICES**

This enterprise fund is self-sustaining through user fees. The five-year projection balances anticipated revenues at current rates with a proposed increase for FY2007, which coincide with on-going operations; capital needs, and revised service levels for all operations. Included in the five-year projection is the anticipated funding to cover the landfill closure and post-closure costs at the end of the useful life of the landfill.

## **STORMWATER**

This fund is an enterprise fund to oversee City issues related to drainage and the associated federal requirements. Ongoing operating expenditures are paid for with stormwater revenues and user fees. Capital projects are currently funded with transfers from other divisions. A rate increase is proposed in FY 2006 to self-fund capital improvements and increase inspection efforts as required by NPDES.

## **FIREMEN'S PENSION**

This fund is maintained to pay eligible volunteer firemen monthly benefits. There are currently three beneficiaries. The five-year projection show adequate fund balance to pay these benefits.

# REVENUES

## Historical Trend Information for Select Revenues

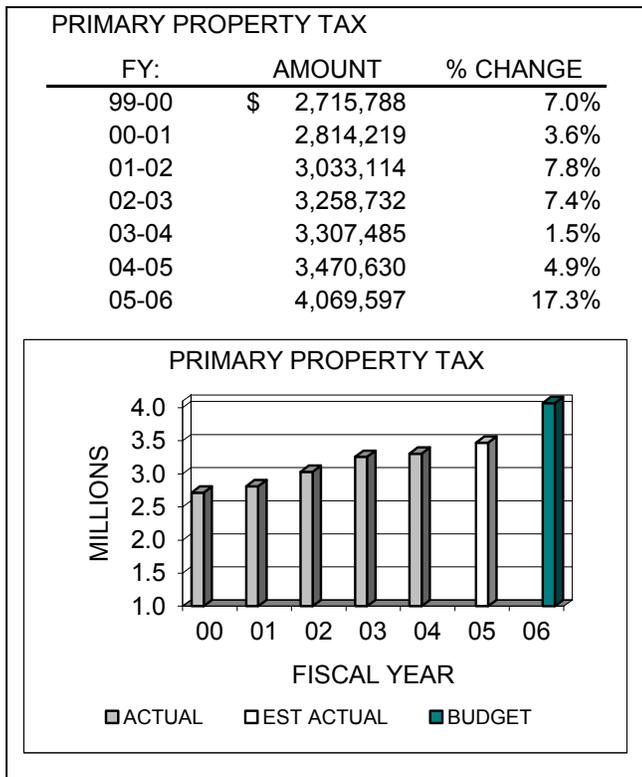
### GENERAL FUND

#### 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 44.3% of its maximum allowable levy.



Primary property taxes generally change on an annual basis for two reasons: new construction that is added to the tax rolls and the reassessment of existing property. The City has budgeted for both of these anticipated collections increases with new construction accounting for 4.9% of the change and increased assessed valuation accounting for 4.7%. In addition, the City has increased the primary property tax rate by 5.35 cents. This accounts for the remaining 7.7% increase in primary property tax revenue. The City budgets the collections net of a 3% delinquency factor.

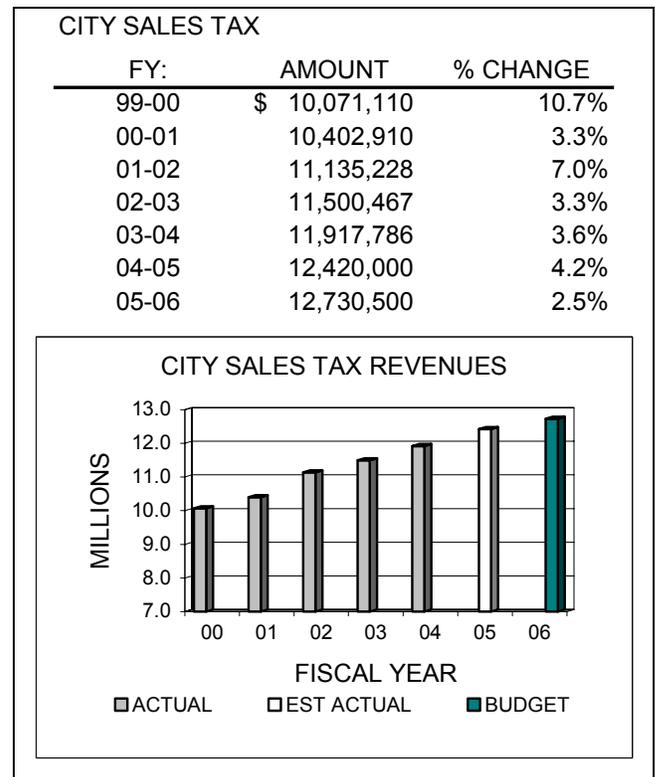
The City was able to offset the primary property tax rate increase with a decrease in the secondary property tax rate. The overall combined primary and secondary property tax rates for the City have decreased from 1.7127 in FY2005 to 1.6627 in FY2006. This resulted in an overall 5-cent decrease in the property tax rate. The City was able to decrease the secondary property rate due to the accelerated property tax revenues due to large construction projects being added to the rolls, lower debt service requirements, and a refined assessment of when additional bonds will be issued for current elector approved projects.

Receipts from secondary property taxes are deposited in the Secondary Property Tax 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 a 2% tax on hotels, restaurants and bars (BBB Tax) and a 0.601% transportation tax.



The 1% portion is designated as General Fund revenue to support activities and services provided by the City government. The City has additional sales tax related to

Bed, Board and Booze (BBB) and Transportation which are presented separately in this section.

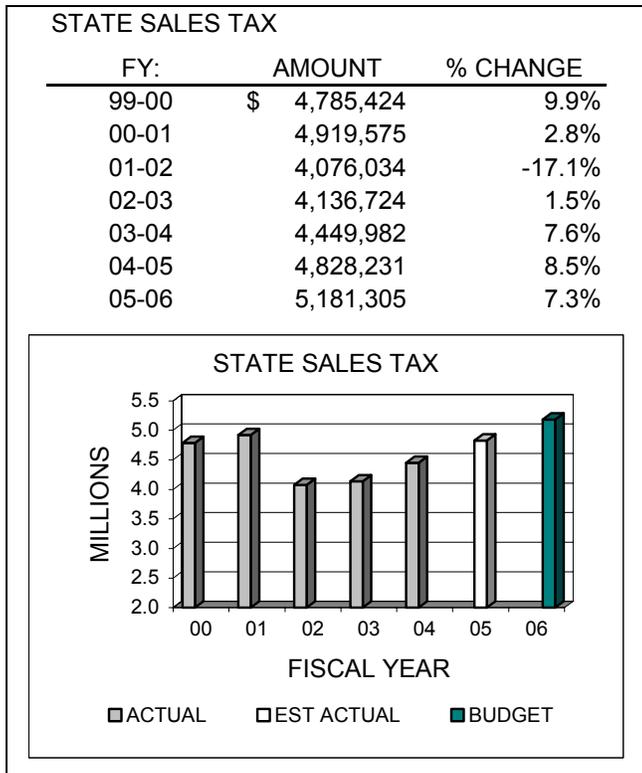
These numbers are sales tax revenues only; audit assessments and penalty and interest revenues are combined with these numbers on schedule 3. The increase in revenues for FY 2005 was driven by increases in construction, and auto sales retail sales have flattened. Construction has enjoyed a strong year with increases residential projects. The revenue projection for FY 2006 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.

The sales tax revenue projected for FY 2005 reflects the continued economic rebound at the state level.



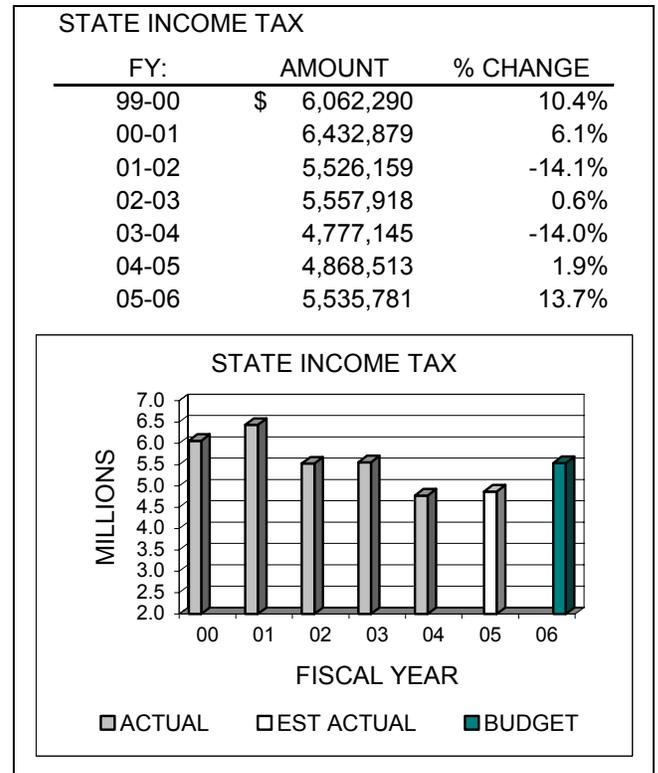
**STATE INCOME TAX (REVENUE SHARING)**

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 and adjusted by the annual DES POPTAC estimates. 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. The League of Arizona Cities and Towns provides the revenue estimates for FY 2006. The increase in FY 2006 is a subsequent increase in Flagstaff's relative population in comparison to the rest of the state.



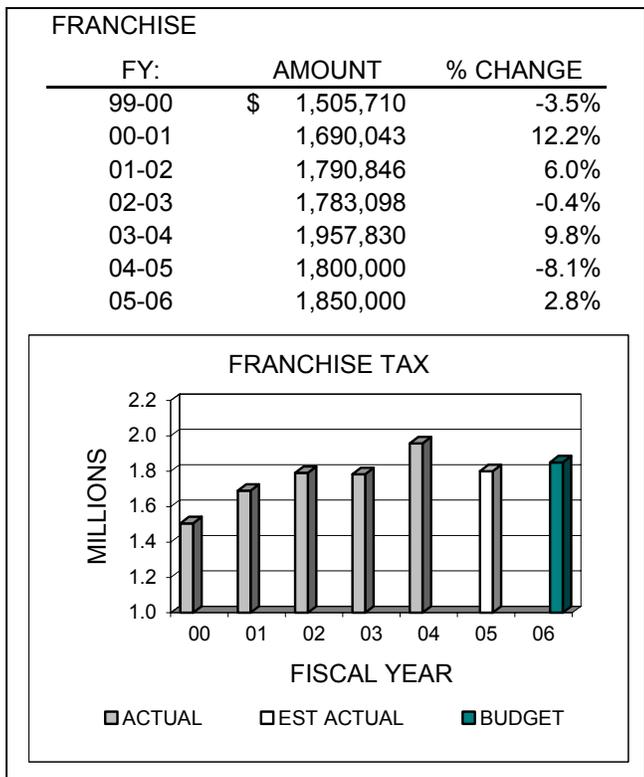
**FRANCHISE TAX**

Legal Authority: Flagstaff Charter and City Code Article XII

Arizona Public Service: Ordinance 360 (expires 8-21-2011), UniSource Energy Services: Ordinance 1879 (expires 10-3-2020), US West, MCI, US Sprint, Central Corp, and A T & T: Ordinance 585. The City has an agreement with Flagstaff Cablevision that expired 12-30-2000.

Description: A 2% tax from utility companies--Arizona Public Service and UniSource--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%.

The growth rate for Franchise Tax revenue for FY 2004 was due to a spike in natural gas prices. The reduction in FY 2005 and stabilization in FY 2006 reflects normalized reporting from UniSource.



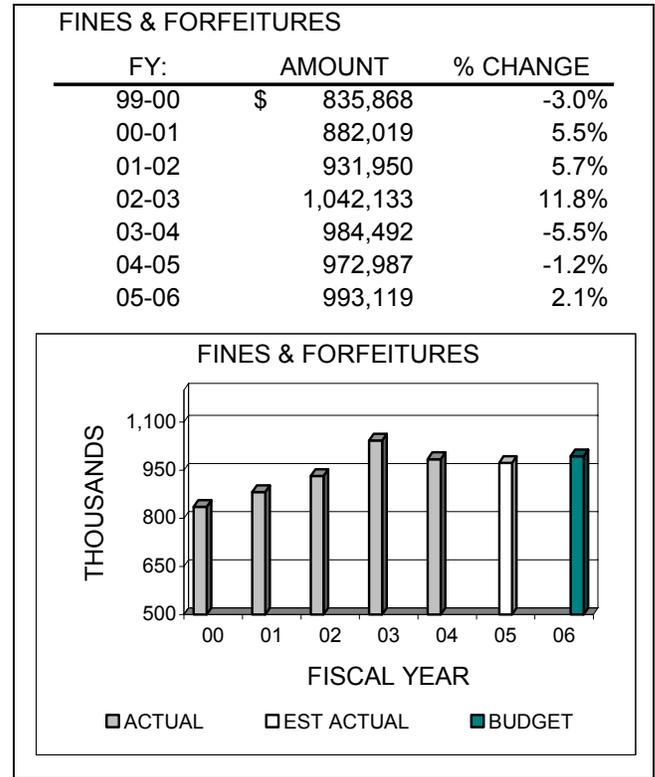
**FINES & FORFEITURES**

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.

The increase in FY 2003 is due to the one time recognition of suspension fees. Fiscal years 2004 and 2005 reflect normalized collections. Some collections had been diverted to the state level in FY 2004, however that directive has been set-aside for FY 2005 and future years.



**AUTO IN LIEU TAX**

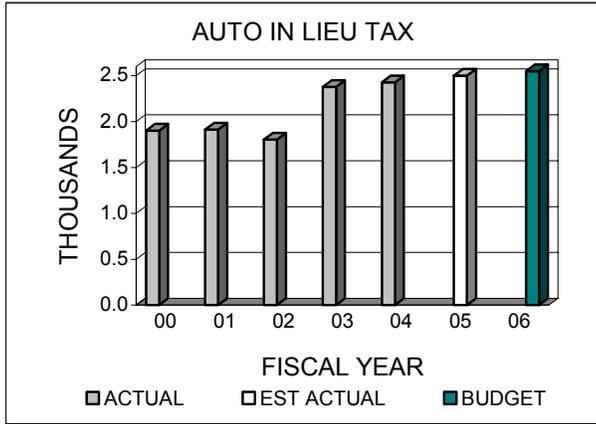
Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c)

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.

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 was initiated. The two-year sales boost in auto sales as a result of 0% financing has boosted receipts for FY 2003 through the current reporting period.

**AUTO IN LIEU TAX**

FY:	AMOUNT	% CHANGE
99-00	\$ 1,902,188	3.0%
00-01	1,913,662	0.6%
01-02	1,803,900	-5.7%
02-03	2,378,467	31.9%
03-04	2,427,367	2.1%
04-05	2,500,000	3.0%
05-06	2,550,000	2.0%



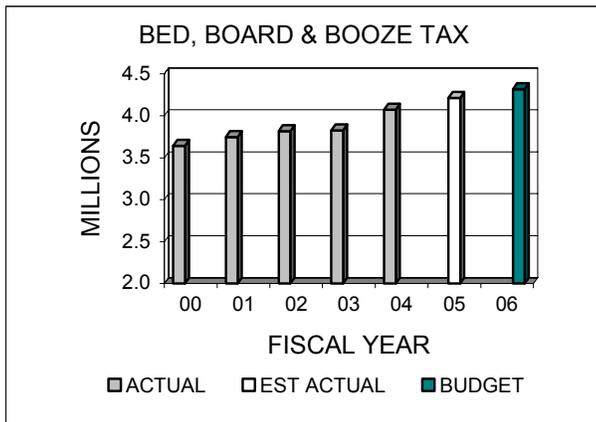
**BBB FUNDS**

**BED, BOARD & BOOZE TAX**

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

**BBB**

FY:	AMOUNT	% CHANGE
99-00	\$ 3,644,822	3.1%
00-01	3,747,822	2.8%
01-02	3,817,028	1.8%
02-03	3,826,975	0.3%
03-04	4,072,344	6.4%
04-05	4,211,602	3.4%
05-06	4,316,892	2.5%



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.

The steady growth reflects that the Flagstaff area remains a highly desirable tourism destination that is not as susceptible to economic downturns as realized by other Arizona locales. The BBB Revenue projection for FY 2006 reflects a moderate increase of 2.5%.

**HIGHWAY USER REVENUE FUND**

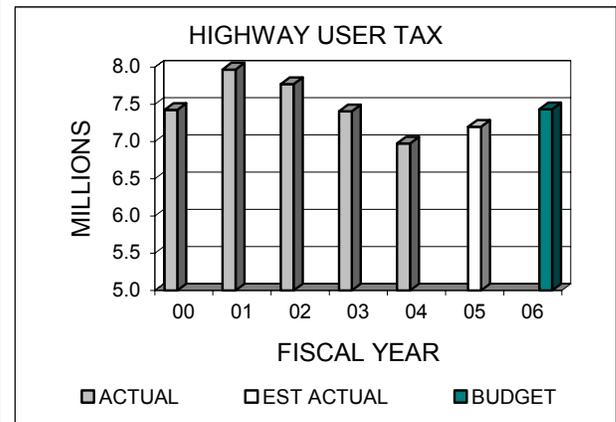
**HIGHWAY USER TAX**

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

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

**HURF**

FY:	AMOUNT	% CHANGE
99-00	\$ 7,427,210	3.1%
00-01	7,969,703	7.3%
01-02	7,771,416	-2.5%
02-03	7,408,116	-4.7%
03-04	6,975,351	-5.8%
04-05	7,200,000	3.2%
05-06	7,436,000	3.3%



Due to a new reporting mechanism that the state is utilizing to distribute the state shared motor vehicle fuel tax, the City has experienced a decrease in the share of this revenue. The City recognized a decrease in

approximately \$1 million in FY 2004. However that trend is changing with anticipated revenues of \$7,436,000.

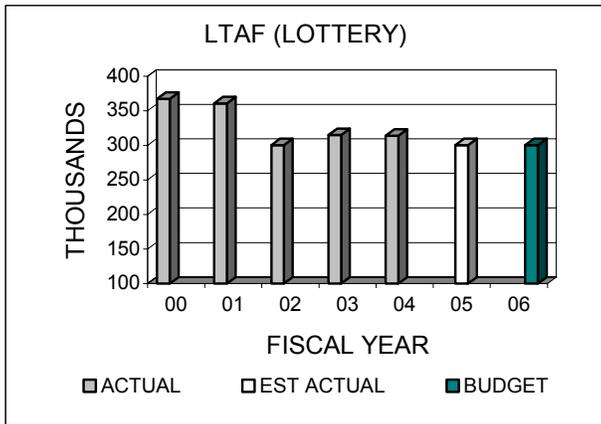
**LOCAL TRANSPORTATION ASSISTANCE**

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

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

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.

LTAF		
FY:	AMOUNT	% CHANGE
99-00	\$ 367,461	-0.1%
00-01	360,806	-1.8%
01-02	300,246	-16.8%
02-03	315,026	4.9%
03-04	313,868	-0.4%
04-05	300,246	-4.3%
05-06	300,246	0.0%

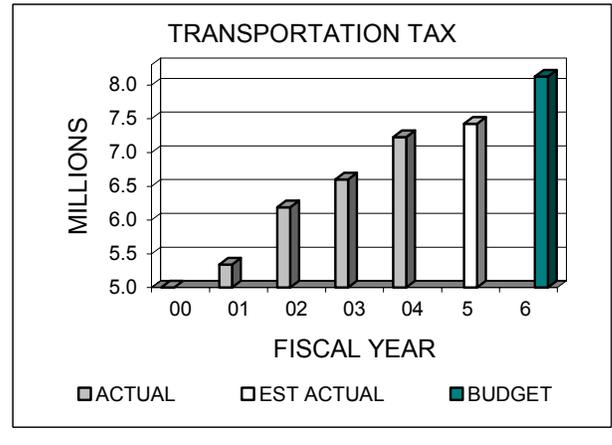


**TRANSPORTATION TAX**

Legal Authority: Resolution 2004-48, approved by voters May 2000.

Description: The Transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps pay for a 4<sup>th</sup> Street overpass, safety improvements, street improvements, and transit services. The transportation tax is assessed on the same goods and services as the City's general sales tax. The tax rate is currently at 0.601%.

TRANSPORTATION TAX		
FY:	AMOUNT	% CHANGE
99-00	\$ -	0.0%
00-01	5,343,240	100.0%
01-02	6,190,449	15.9%
02-03	6,602,604	6.7%
03-04	7,228,565	9.5%
04-05	7,426,666	2.7%
05-06	8,123,048	9.4%

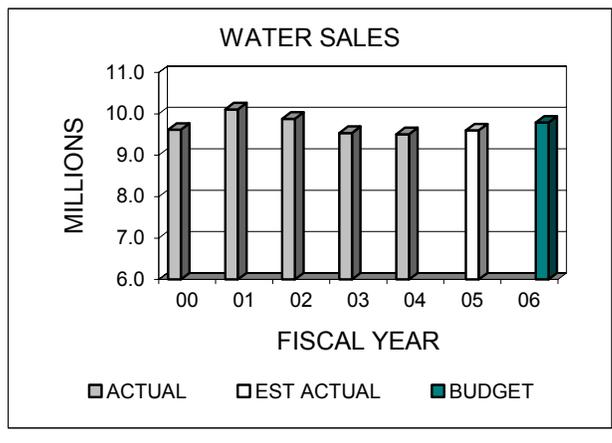


**ENTERPRISE FUNDS**

**WATER SALES**

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

WATER		
FY:	AMOUNT	% CHANGE
99-00	\$ 9,615,169	6.5%
00-01	10,109,691	5.1%
01-02	9,880,753	-2.3%
02-03	9,537,409	-3.5%
03-04	9,511,860	-0.3%
04-05	9,600,000	0.9%
05-06	9,792,000	2.0%



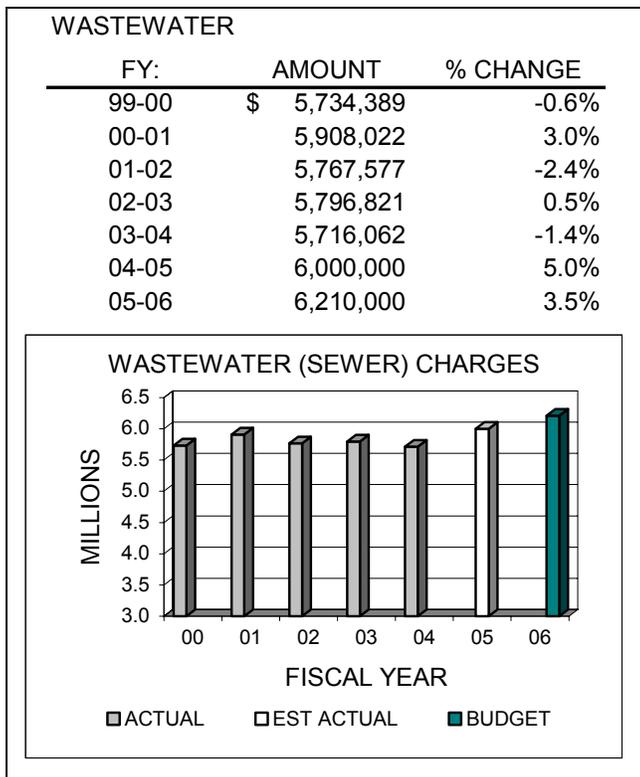
Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of a base charge for the amount of water consumed with an inverted rate structure for consumption levels above the base amount so as 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.

The decrease in FY 2002 through FY 2004 is because of water restrictions due to a drought year. A rate increase will be considered in FY 2006 based on the Utilities Rate Model.

**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.



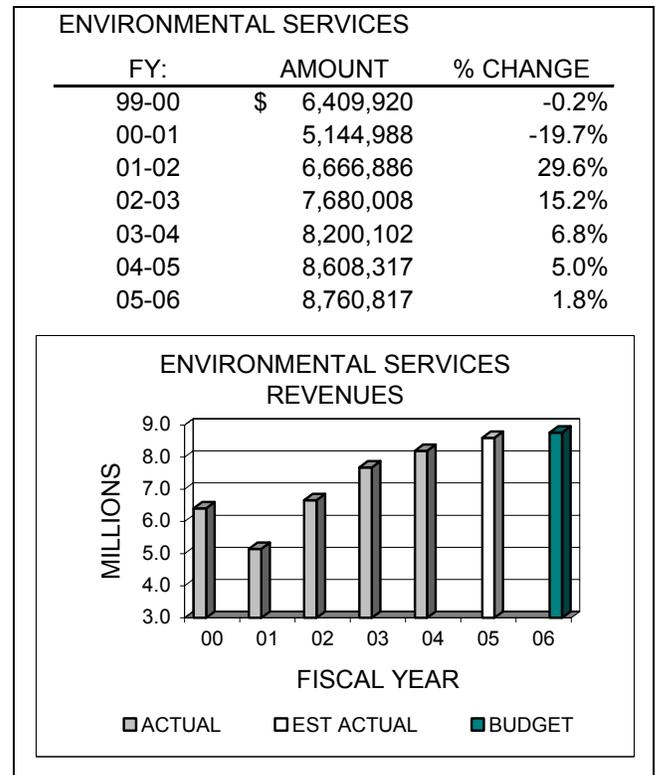
The revenue projections include a 2.0% factor due to population and consumption changes. A rate increase of 7% is projected based on the Utility Rate Model to be

implemented January 2006. This is a result of issuing voter approved debt for the Wildcat Plant upgrade.

**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.



The increase in revenues for FY 2006 represents expected increases related to residential and commercial collection.

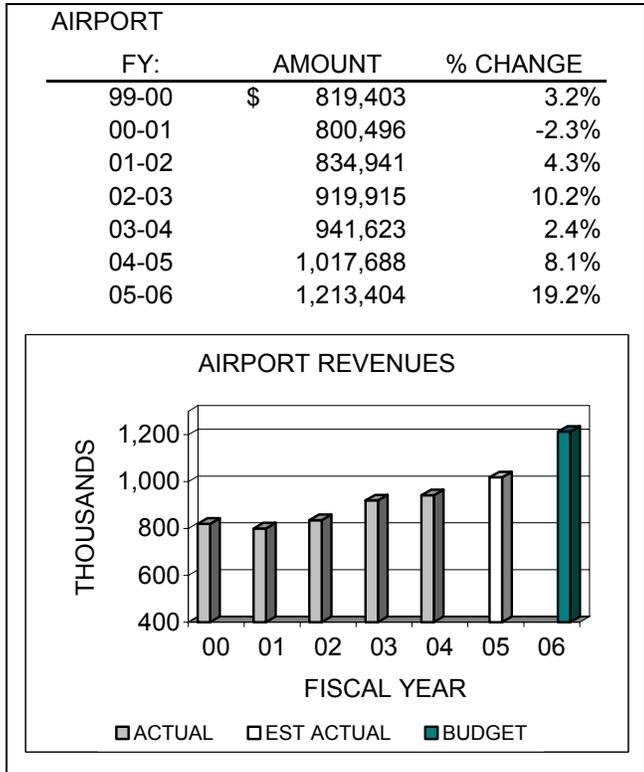
**AIRPORT**

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

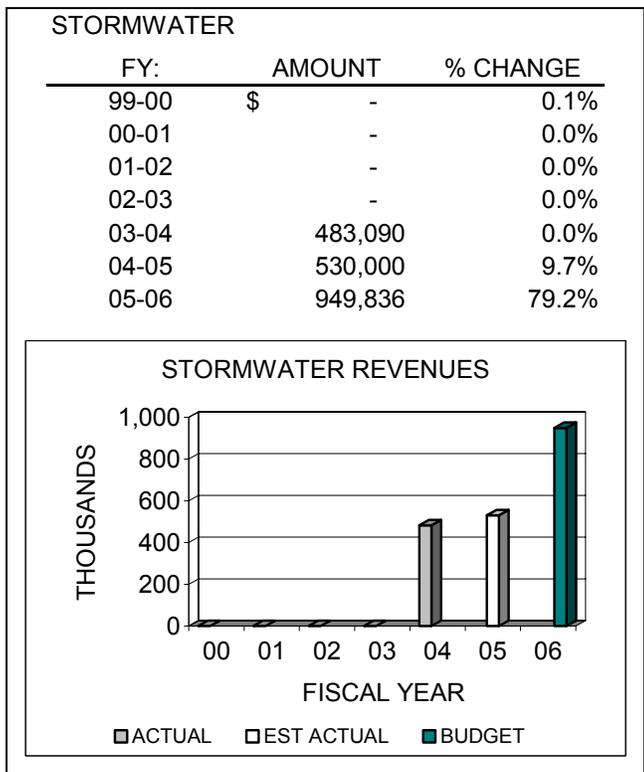
Description: Airport revenue is derived from the rental of airplane hangars, tiedowns, tiedowns with electricity, and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from 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.

The increases from FY 2002 through FY 2006 are mainly due to a new terminal lease, growth in ground leases, auto rental revenues, and revenue from new hangars that were constructed in FY 2005.



**STORMWATER**



Legal Authority: City Code, Title 12, Chapter 2, Section 3

Description: Stormwater revenue is determined by the number of Equivalent Runoff Units (ERU)s on a property. An ERU is defined as 1500 square feet of impervious matter. Charges are the same for both commercial and residential customers. The first year of implementation was FY 2004 with a rate of \$.53 per ERU. The FY 2006 revenue increase of 79.2% is due to the Stormwater program proposing a new rate of \$1.30 per ERU to cover additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program.

**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 is in the process of being updated and this update will be completed in FY 2005. Increases in user fees are anticipated in FY 2006 based on information and system demands known today.

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. Streetscape 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 streetscape projects to keep maintenance costs as low as possible. The 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.

After Council has identified priorities and input has been received from all City departments, the development of the actual Capital Improvement Plan is completed. This 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 2006 CAPITAL IMPROVEMENT PLAN**

The City budget for FY 2006 includes capital improvement projects totaling \$109 million. This amount includes \$46.3 million in carryover items that have been budgeted. Project funding is comprised of the following: \$10.1 million in grants primarily for airport improvements, affordable housing, street construction and, beautification projects; \$45.4 million in general obligation (G.O.) bonds for the Fourth Street Overpass project and water and wastewater projects. \$44.5 million in operating funds that include street maintenance and improvements, flood control, land acquisition, FUTS and Streetscapes. In May 2004 General Election; the citizens of Flagstaff authorized the City to proceed with ten new projects totaling \$155.2 million. These projects will be phased in over a ten-year period with debt being issued in conjunction with the timing of each project. Each proposed project will be discussed below in its appropriate fund. Project listings are located in the Capital Improvement section of this book.

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** – Ten projects are scheduled for FY 2006 for a total of \$14 million. Projects included in this category are several of the projects authorized by voters in the May 2004 election. These include, USGS Campus Construction/Renovation; Fire Fighting Facilities and acquisition of emergency response vehicles and equipment; a multi-generational recreation center; an aquatic center; Parks land acquisition; open space acquisition; and both regional and neighborhood acquisition. Also included in this category is redevelopment land acquisition.

**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 Fourth Street Rail Crossing and the East Flagstaff Gateway project. There are a total of 32 Streets Transportation projects scheduled at a budgeted cost of \$28 million. HURF revenues fund \$4.7 million of these projects with Transportation Tax funding \$8.2 million and \$322,700 in Grant Revenues, \$10.1 million in Bonds and \$4.7 million in contributions.

**BBB Funds** – Projects include Beautification, Tourism and Recreation funding. These projects include Thorpe Park Improvements, A BMX Park on Sixth Avenue, Multi-Use Path along Highway 180 and continuing our connectivity of FUTS Trails. This year Federal and State grants will provide funding of \$2.4 million. Eighteen projects are scheduled at a budgeted cost of \$9.1 million for FY 2006.

**Utilities Fund** – Major projects for Water production and distribution include \$2 million for water wells. Major projects for Wastewater plants and collection include \$12.7 million for WC upgrade/reclaim extensions and \$725,883 for WC digester pipe replacement. 18 water projects and 13 wastewater projects are scheduled at a combined budget of \$38.7 million for FY 2006.

**Airport Fund** – Five projects are scheduled at a budgeted cost of \$9 million for FY 2006. The major project this year is the design for the Runway Extension and land acquisition.

**Environmental Services Fund** - This year's CIP includes a landfill infrastructure project, a residential drop off center and remodel of the collections building for a total cost of \$930,664.

**Stormwater Fund** – The Stormwater fund completed its second year of operations as a new utility fund for the City of Flagstaff. Six projects are budgeted in this fund with a cost of \$9.3 million in FY 2006. These projects include; the completion of the Sixth Avenue Detention at a cost of \$378,974; the Walnut Meadow drainage project of \$150,000; the Rio parking replacement project earmarked at a cost of \$1.2 million and the Rio De Flag Hydrology project with a budget in FY 2006 of \$7.7 million.

## 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. In May 2004, voters authorized sale of bonds to implement 10 new projects totaling \$155.2M. These projects will be phase in over the next 10 years.

**Utility Rate Structure:** The Utility Rate Analysis is in the process of being updated. This rate model provides for major capital improvements, additional bond funding, and increased operating costs. A 7% rate increase in sewer in FY 2006 is anticipated to be recommended to meet these demands. In May 2004 the voters authorized the sale of bonds to support 3 new Utility projects. These projects are reclaimed water system and related wastewater improvements; water wells; and water rights acquisition.

**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 streetscape along corridors, and the FUTS (Flagstaff Urban Trail System) connectivity and various 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; Safety 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 has experienced significant increases in assessed valuations in 2006. Additional staff in the assessor's office has assisted in getting properties updated and filed on the tax roles. Previously the county was roughly two years behind in getting their information updated. The City's legal debt margin shown below, demonstrates adequate capacity to complete the capital projects proposed with the May 2004 bond election. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

### 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.

<b>General Obligation Debt</b>	
July 1, 2005	
20% Limitation (Water, Sewer, Lighting, Open Spaces, and Recreation Purpose Bonds)	
Assessed Valuation	\$ 556,680,587
Allowable 20% Debt	<u>\$ 111,336,117</u>
20% Debt Outstanding	<u>(21,548,064)</u>
Allowable Debt Margin	<u>\$ 89,788,053</u>
6% Limitation (All Other General Obligation Bonds)	
Assessed Valuation	\$ 556,680,587
Allowable 6% Debt	<u>\$ 33,400,835</u>
6% Debt Outstanding	<u>(1,215,000)</u>
Allowable Debt Margin	<u>\$ 32,185,835</u>

**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. Recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance should support ongoing expenditures. 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, 2005, the total actual indebtedness is \$73 million. FY 2006 annual debt payments are projected to be \$13.4 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, 2005, the City's 20% general obligation debt of \$21,548,064 is well below the legal limit of \$111,336,117. The City's 6% general obligation debt of \$1,215,000 is also well below the legal limit of \$33,400,835. 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
2006	\$ 9,473,109	3,111,715	12,584,824
2007	7,171,507	3,054,512	10,226,019
2008	6,869,813	2,470,620	9,340,433
2009	7,042,924	2,153,609	9,196,533
2010	6,226,802	1,852,065	8,078,867
2011	6,421,474	1,599,018	8,020,492
2012	6,740,967	1,328,584	8,069,551
2013	4,632,877	1,047,176	5,680,053
2014	2,874,863	850,888	3,725,751
2015	2,467,275	730,689	3,197,964
2016	2,570,127	630,487	3,200,614
2017	2,228,434	508,529	2,736,963
2018	2,342,214	398,150	2,740,364
2019	2,456,482	282,031	2,738,513
2020	2,576,257	160,156	2,736,413
2021	446,556	32,245	478,801
2022	462,398	16,403	478,801
	<u>\$ 73,004,079</u>	<u>\$ 20,226,878</u>	<u>\$ 93,230,956</u>