

BUDGET OVERVIEW

The City of Flagstaff FY 2005 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 2005; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

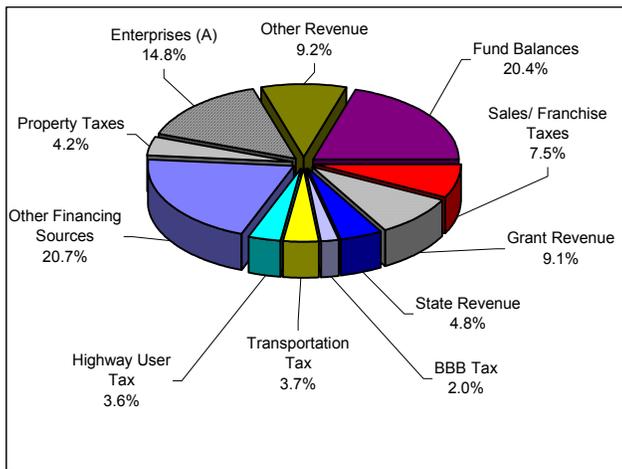
Sales/Franchise Taxes	\$ 14,821,504	7.5%
Grant Revenue	17,756,771	9.1%
State Revenue	9,435,934	4.8%
BBB Tax	3,993,176	2.0%
Transportation Tax	7,227,146	3.7%
Highway User Tax	6,995,000	3.6%
Other Financing Sources	40,463,996	20.7%
Property Taxes	8,157,327	4.2%
Enterprises (A)	28,886,609	14.8%
Other Revenue (B)	17,988,500	9.2%
Fund Balances	39,795,133	20.4%
	<u>\$ 195,521,096</u>	<u>100.0%</u>

(A) Enterprises:

Water	\$ 11,583,130
Wastewater	7,647,410
Airport	1,038,122
Environmental Services	8,106,947
Stormwater Utility	511,000
	<u>\$ 28,886,609</u>

(B) Other Revenue:

Licenses and Permits	\$ 1,986,208
County Vehicle Tax	2,014,949
Charges for Services	1,819,340
Fines and Forfeits	971,733
County Contribution	2,629,762
Interest on Investments	2,092,518
LTA/Misc Revenue	6,473,990
	<u>\$ 17,988,500</u>



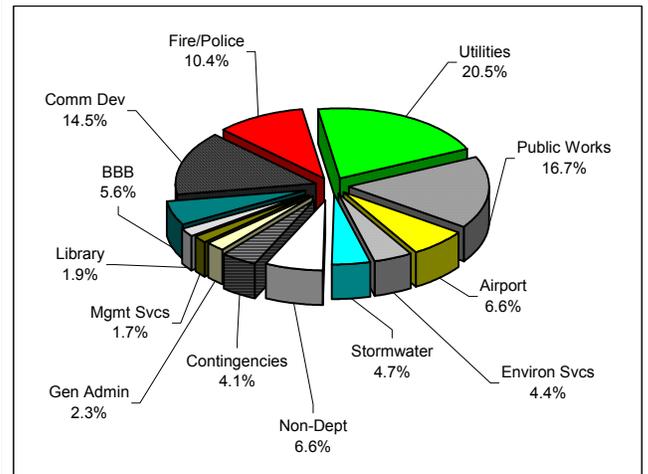
"WHERE THE MONEY COMES FROM"
\$195,521,096

TOTAL APPROPRIATIONS

General Administration	\$ 4,521,225	2.3%
Management Services	3,363,425	1.7%
Library	3,674,715	1.9%
BBB (A)	10,986,703	5.6%
Community Development	28,356,793	14.5%
Fire/Police	20,336,943	10.4%
Utilities	40,079,403	20.5%
Public Works	32,596,288	16.7%
Airport	12,939,652	6.6%
Environmental Services	8,529,036	4.4%
Stormwater	9,173,518	4.7%
Non Departmental	12,918,395	6.6%
Reserves/Contingencies	8,045,000	4.1%
	<u>\$ 195,521,096</u>	<u>100.0%</u>

(A) BBB Tax Funds:

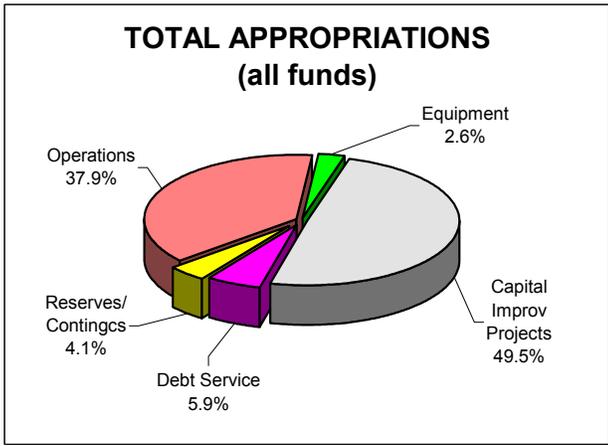
Beautification	\$ 4,574,929
Tourism	1,460,728
Economic Development	459,400
Arts and Science	409,706
Recreation-BBB	4,081,940
	<u>\$ 10,986,703</u>



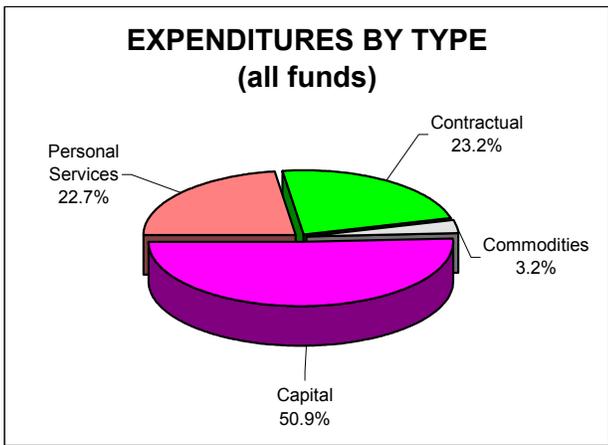
"WHERE THE MONEY GOES TO"
\$195,521,096

The following graphs depict the major classifications of appropriation for the total 2004-2005 budget and expenditures by major types.

TOTAL APPROPRIATIONS	
Operations	\$ 74,246,709
Equipment	5,030,844
Capital Improvement Projects	96,750,698
Debt Service	11,447,845
Reserves/Contingencies	8,045,000
	<u>\$ 195,521,096</u>



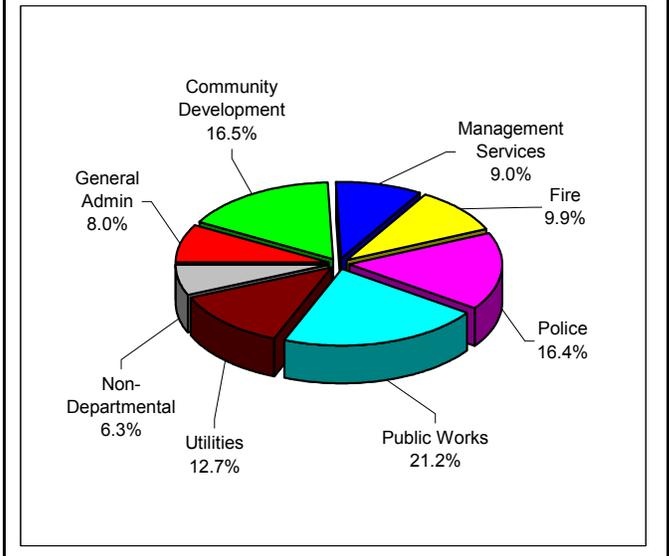
EXPENDITURES BY TYPE	
Personal Services	\$ 44,173,493
Contractual	45,438,447
Commodities	6,335,614
Capital	99,573,542
	<u>\$ 195,521,096</u>



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.

OPERATING BUDGET *	
General Administration	\$ 5,911,953
Community Development	12,279,701
Management Services	6,671,746
Fire	7,320,054
Police	12,170,096
Public Works	15,768,734
Utilities	9,447,911
Non-Departmental	4,676,514
	<u>\$ 74,246,709</u>
	<u>\$ 11,447,845</u>



General Administration activities comprise 8.0% of the budget (\$5.9 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, and Tourism.

Community Development comprises 16.5% of the operating budget (\$12.3 million), excluding the debt service requirements for Fourth Street (\$2.0 million). The primary services in this Department include Engineering, Planning & Zoning, Building Inspection, Capital Improvements, and Stormwater. 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 (\$6.7 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 9.9% of the operating budget (\$7.3 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 16.4% of the operating budget (\$12.2 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 21.2% of the operating budget (\$15.8 million), excluding the debt service requirements for streets (\$2.4 million), Airport (\$0.3 million), and USGS facility (\$0.5 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, airport operations, and recreation programming.

Utilities Department comprises 12.7% of the operating budget (\$9.4 million), excluding \$3.9 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 6.3% of the budget (\$4.7 million) exclusive of \$2.1 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 2005, *major accomplishments* in FY 2004, 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 2003*, the *Adopted Budget for FY 2004*, the *Estimated Actual for FY 2004*, and the *Adopted Budget for FY 2005*. 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.

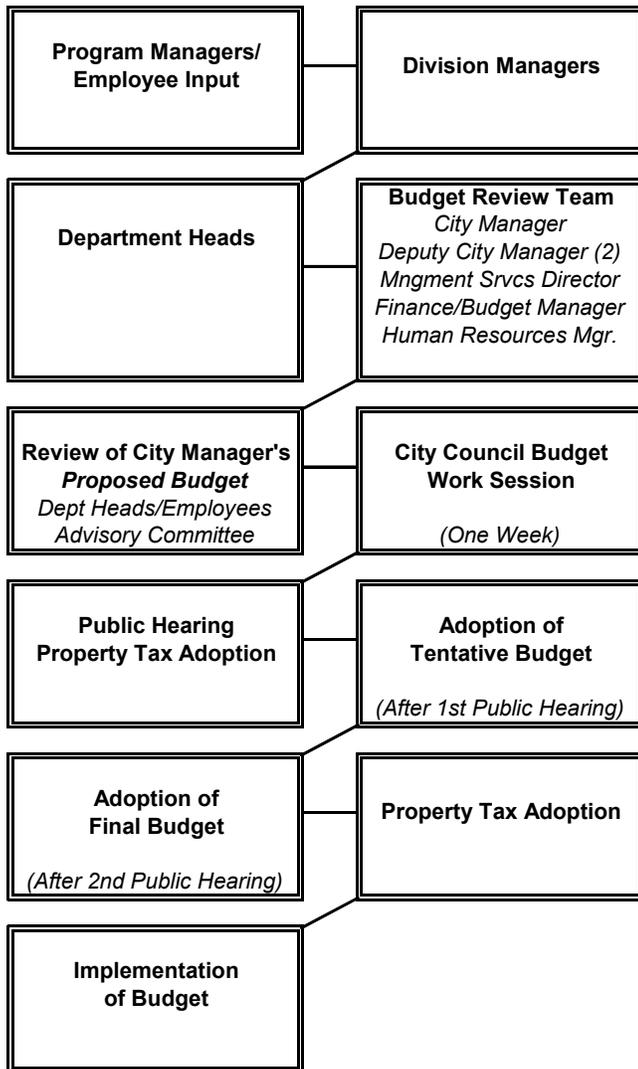
The following table represents the structure for the City.

Illustration of Relationship between Funds, Departments, and Divisions

DEPARTMENTS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Utilities	Non-departmental
FUNDS								
General Fund	City Manager City Clerk Capital Improvements Human Resources Risk Management City Attorney Municipal Court	Information Systems Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Engineering Building and Development Planning	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance Recreation		Council and Commission Contributions Non-departmental
Library		Library						
Highway User Revenue						Street Maintenance & Repairs		
Transportation			4th Street Overpass Safe to School Safety Improvements					Transit
Economic Development								Economic Development
Beautification			Beautification					
Tourism	Convention & Visitors Bureau Visitor Services							
Recreation						Recreation		
Arts & Science			Arts & Science					
Real Estate Proceeds								Real Estate Proceeds
Community Redevelopment			Community Redevelopment					
Metropolitan Planning Organization			Metropolitan Planning Organization					
G.O. Bond Fund								G.O. Bond Fund
Secondary Property Tax								Secondary Property Tax
Special Assessment								Special Assessment
Water & Wastewater							Administration Lake Mary Water Treatment Plant Customer Service Water Distribution Services Booster Stations Wastewater Treatment Plants Wastewater Collection Wastewater Monitoring	
Airport						Airport		
Environmental Services						Environmental Services		
Stormwater			Stormwater					
Expendable Trust								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 2005.
- The *Capital Improvement Plan (CIP)* for FY 2005 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
January 30	Capital equipment requests reviewed by Fleet/MIS Committees for recommendation
March 8 - March 26	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
May 19-21	Council Study Sessions Proposed Budget available to public
June 15	Public Hearing/Tentative Adoption of Proposed Budget Public Hearing on Tax Adoption
June 18	Publish first notice of Public Hearing for Final Adoption
June 25	Publish second notice of Public Hearing for Final Adoption
July 6	Public Hearing on Budget and Final Adoption of Budget
July 10	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 20	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 February respectively, to give city staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City

Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The Proposed Budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on July 6, 2004. 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 (\$195,521,096). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$74,963,318), 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 2005, City sales tax revenue is budgeted to exceed the FY 2004 estimated actual by 3.4%. 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 eight of the past nine 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% (\$97,394) budget to estimated actual increase.

The City initiated a census review with the Census Bureau due to a perceived undercount in the Flagstaff area. The 2000 census reflected a population of 52,894, an increase of only 193 citizens over the 1995 Special Census. The City had identified approximately 3,000 additional citizens that should be added to the census base and submitted a request for review. These requests will not be reviewed and no change in the base census will be provided.

The State of Arizona continues to rebound after almost three years of negative or no growth. While the State budget continues to struggle it is currently maintaining funding levels to the cities. The City budget to estimated actual shows a 3.8% increase (\$167,421).

REVENUE FORECAST

State-shared revenues for sales and income tax are reflecting moderate increases (3.8% and 2.0%, respectively) due to the recovering economy. 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 and distributed by census population.

Highway user tax and local transportation assistance are projected to end the year 12.3% under budget due to a revised distribution formula by ADOT for HURF revenue. This reduction is anticipated to be ongoing.

County revenues for auto in lieu tax (license tags) are expected to increase by approximately 5.9%. The increase is based on continued local strength in auto sales.

The Utility Fund does not anticipate a rate increase for water or wastewater services. Rate increases may occur dependent on the result of the May 2004 bond election.

The Environmental Services Fund projects increased revenues for FY 2005 due to overall growth in residential, commercial, and landfill accounts.

EXPENDITURES

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

Efforts to Control Expenditures – The Fleet Management Committee reviews all equipment replacement requests and prioritizes those needs. A long-range planning approach is utilized to level cash flow requirements from one year to the next. The Fleet Committee has developed a five-year plan and

continues the process of reviewing the plan to identify cash flow needs and develop alternatives to better allocate future resources. Due to varying demands, the Fleet budget is flexible, allowing monies to shift within the five-year planning period.

Fund Balance – The carryforward of fund balances remain at a level that protects the financial integrity of the City. Moody’s bond rating for the City is Aa3. The projected fund balance at the end of FY 2005 is estimated at \$5,551,318 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 15%.

The FY 2005 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 2005 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 2004.** Divisions were asked to estimate expected expenditures by line item for FY 2004. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2005. 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 or were needed to maintain current service levels.
- **Fleet Management.** All fleet equipment replacement requests were reviewed and prioritized by the Fleet Management Committee within financial parameters.
- **Staff Computer Equipment.** Management Information Systems Staff reviewed hardware and software needs. Funding was established to

maintain funding at a level dollar amount to meet existing and future needs for current service levels including upgraded equipment and software.

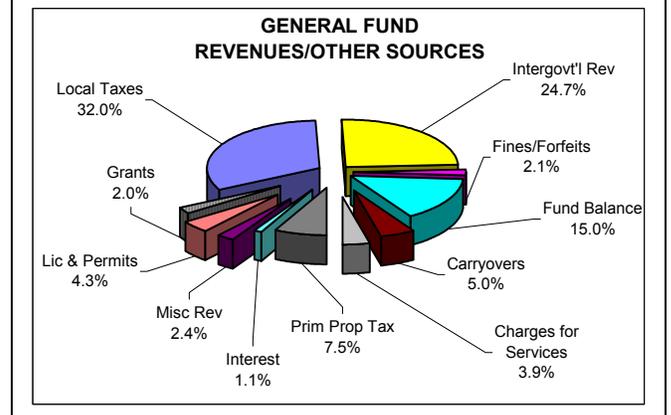
- **Capital Improvements.** The Capital Improvement Committee reviewed all requests of capital projects or public improvements.
- **Operational Impacts.** All funds are continually evaluated relative to five-year financial projections. Increased service levels due to new programs or capital construction were projected to determine operating impacts in future years.

FUND SUMMARIES

GENERAL FUND

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

REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2004	FY 2005
Licenses and permits	\$ 2,251,526	\$ 1,986,208
Grants	1,104,384	922,323
Local taxes	14,388,897	14,821,504
Intergovernmental	11,075,872	11,450,883
Fines and forfeits	973,437	971,733
Fund Balance, net of Transfers	17,828,484	6,935,104
Fund Balance for Carryovers	2,203,898	2,304,298
Charges for services	1,696,573	1,787,340
Primary Property Tax	3,261,616	3,470,630
Interest	418,746	499,315
Miscellaneous	1,176,799	1,189,560
	<u>\$ 56,380,232</u>	<u>\$ 46,338,898</u>



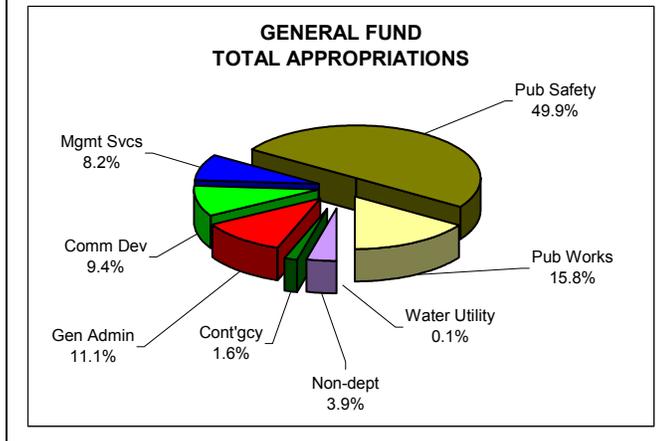
Total resources available for General Fund expenditures for FY 2005 are \$46.3 million including the beginning fund balance of \$20.0 million. A substantial portion of General Fund resources comes from two revenue categories: 1) local sales and franchise taxes and 2) intergovernmental revenues (specific detail including comparative data, is shown in Schedule 3 of Financial Summaries Section). A more detailed review of major

revenue categories, including historical trend information, is provided following the fund summaries.

Property tax estimates are based on the assessed valuation of property as determined by the Coconino County Assessor. The primary tax rate remains unchanged in FY 2005, and will generate an estimated \$3,470,630. This amount represents approximately 40% of the maximum allowable levy under Arizona statute. The secondary tax rate, which can only be used to repay general obligation debt, will remain at \$0.9801. The increase in assessed valuation, and corresponding increase in revenue, is associated with \$21.2 million new construction placed on the tax rolls in the last year, and increased assessed values on existing properties (\$10.3 million).

General Fund revenue/other sources have decreased by 18.4% primarily due to the transfer of the Rio de Flag project to the Stormwater Utility. The general fund is transferring \$8.4 million for this project, which is netted out of fund balance.

APPROPRIATIONS	EST ACTUAL FY2004	BUDGET FY 2005
General Administration	\$ 3,897,213	\$ 4,521,225
Community Development	3,597,056	3,831,214
Management Services	3,073,998	3,363,425
Public Safety	18,518,857	20,336,943
Public Works	6,455,314	6,448,409
Water Utility	15,588	37,878
Non-departmental	498,088	1,598,486
Contingencies	250,000	650,000
	<u>\$ 36,306,114</u>	<u>\$ 40,787,580</u>



General Fund total appropriations have increased 12.3% in FY 2005. The increase is due to increases in salaries, benefits, insurance, capital projects, and contingency set aside. Overall, City staff received a 3% market increase and 75% (those not at the top of their range) received an average 3.2% merit. Also, a number of capital projects were carried over including redevelopment and new capital expenditures were added including a Type 1 fire engine. Contingency increases are anticipated due to the potential for an extreme fire season.

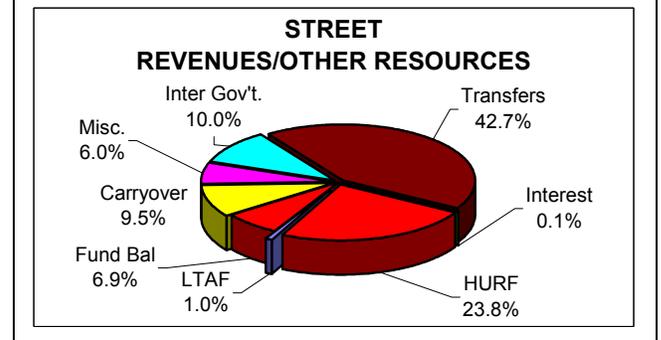
The financial position of the General Fund (after cost allocation distribution) remains strong. Accumulated funds will continue to be spent in Flagstaff for development opportunities as well as continued support

to study a major drainage way issue (the Rio de Flag project.)

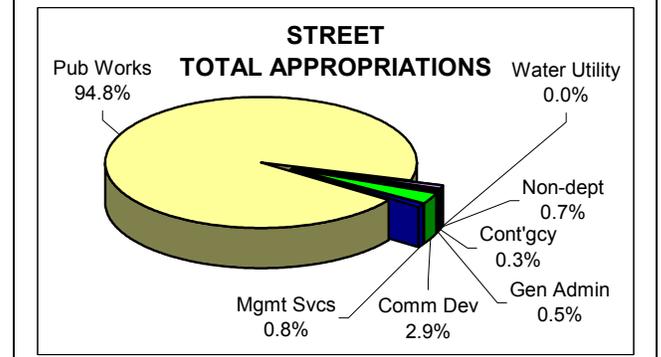
HIGHWAY USER REVENUE FUND

The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State. Appropriations total \$27.8 million in FY 2005. Projects budgeted includes East Flag Gateway, Huntington Drive Improvements and Beulah Blvd. Improvements, our annual pavement maintenance program and Sunnyside Street improvements.

REVENUES/OTHER RESOURCES	
HURF	\$ 6,995,000
LTAF (lottery)	300,246
Fund Balance	2,033,857
Fund Balance for Carryovers	2,779,537
Miscellaneous	1,761,261
Inter Governmental	2,938,096
Transfers (net)	12,556,785
Interest	33,000
	<u>\$ 29,397,782</u>



APPROPRIATIONS	
General Administration	\$ 140,443
Community Development	813,791
Management Services	215,471
Public Works	26,296,570
Water Utility	1,818
Non-departmental	182,393
Contingency	100,000
	<u>\$ 27,750,486</u>

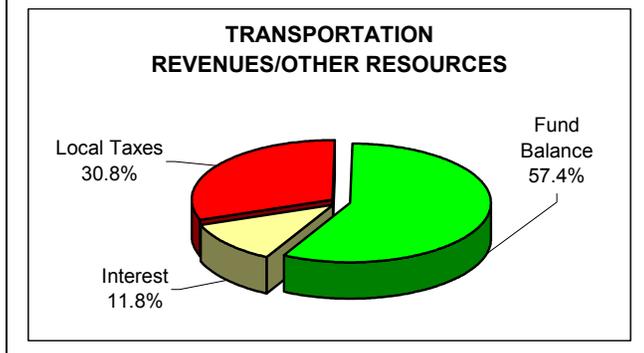


TRANSPORTATION FUND

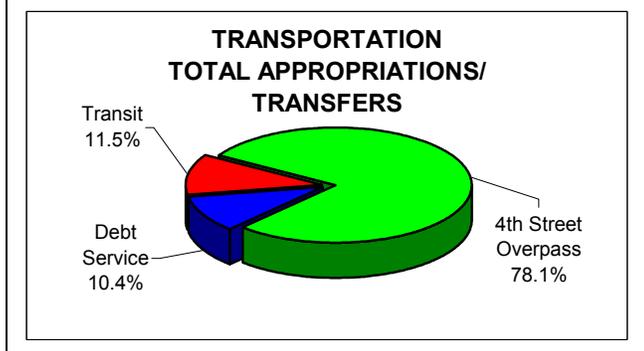
The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related 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 2005 Revenues
4th Street Overpass	\$ 1,924,032
Safe-to-School, Pedestrian and Bike	962,016
Traffic Flow and Safety Improvements	2,236,688
Transit Service Enhancements	2,104,410
Totals	\$ 7,227,146

REVENUES/OTHER RESOURCES	
Local Taxes	\$ 7,227,146
Fund Bal, net of Transfers	13,499,787
Interest	575,000
Misc	2,200,000
Totals	\$ 23,501,933



APPROPRIATIONS/TRANSFERS	
Transit	\$ 2,267,779
4th Street Overpass	\$ 15,387,200
Debt Service	2,041,600
Totals	\$ 19,696,579



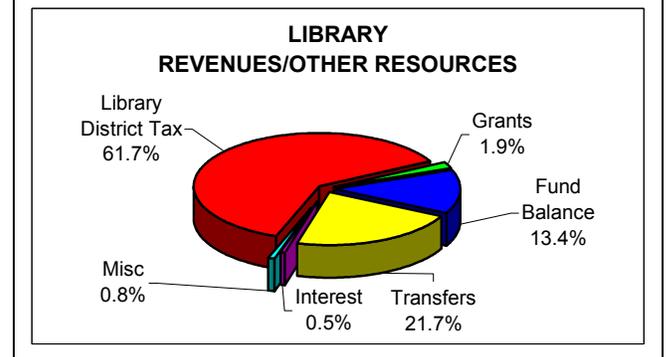
Appropriations total \$19.7 million in FY 2005. Appropriations are comprised of \$2,267,779 for transit

operations, \$15,387,200 for the 4th Street overpass. Transfers include \$8,756,689 to the HURF Fund for Safety and Street Improvements and \$1 million to fund FUTS projects in Beautification from Safety and Street Improvements. The combined transportation tax rate for FY 2005 is 0.601%.

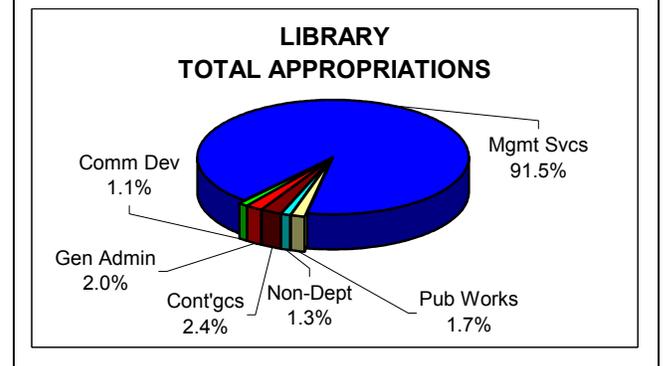
LIBRARY FUND

The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$2.6 million of the funding for library operations comes from the library district tax.

REVENUES/OTHER RESOURCES	
Library District Tax	\$ 2,629,762
Grants	82,300
Fund Balance	571,968
Transfers (net)	924,937
Interest	21,000
Miscellaneous	29,000
Totals	\$ 4,258,967



APPROPRIATIONS	
General Admin	\$ 81,895
Community Development	45,594
Management Services	3,780,660
Public Works	69,178
Water Utility	901
Non-Departmental	54,930
Contingencies	100,000
Totals	\$ 4,133,158



During 1997, the County, in concert with the affected entities throughout, developed a new funding formula for the distribution of the tax. The formula provides a base

amount for all entities and the distribution of any additional monies as directed by the Library Council with affirmation by the County Board of Supervisors.

BBB FUNDS

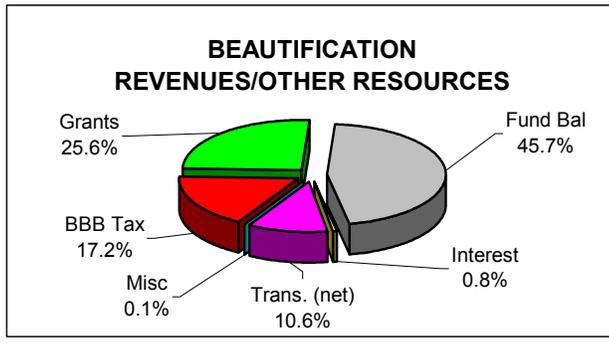
A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 general election. The BBB tax approved by voters will expire in 2013.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

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

Since inception the City has experienced a continual growth of BBB revenues, however FY 2003 increased by only 0.3% with hotels representing the greatest decline. Fiscal Year 2005 projections will reflect this decline within its anticipated growth of 2.5%. Activities funded with the revenues have made operating adjustments necessary and these changes will be reflected within each five-year plan.

Beautification Fund:

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 799,401
Grants	1,186,700
Fund Balance	2,122,547
Interest	36,900
Transfers (net)	492,799
Miscellaneous	3,000
	<u>\$ 4,641,347</u>
APPROPRIATIONS	
Beautification	\$ 4,574,929
Reserve	10,000
	<u>\$ 4,584,929</u>

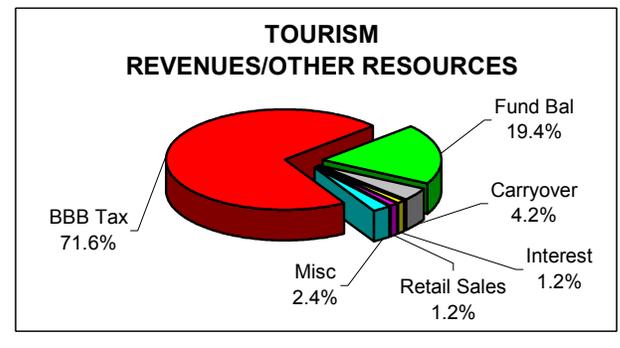


Total resources available for Beautification Fund activities amount to \$4.6 million including carryovers and approved grants. Expenditures from this fund are

primarily for capital improvements. (See the CIP Section for project list.) In FY 2005, projects include Route 66, arterial landscaping and neighborhood projects with the assistance of Clean and Green, and city gateways. There are also improvements planned on various Flagstaff Urban Trail links.

Tourism Fund: Total resources available in FY 2005 are \$1.7 million. The total operating budget, including a \$50,000 reserve for contingencies, appropriations is \$1.5 million.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,199,102
Fund Bal, net of Transfers	324,360
Fund Bal for Carryover	70,000
Interest	20,000
Visitor Center Retail Sales	20,000
Miscellaneous	39,898
	<u>\$ 1,673,360</u>
APPROPRIATIONS	
General Administration	\$ 1,460,728
Reserve	50,000
	<u>\$ 1,510,728</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 \$526,976. Expenditures include contributions to local organizations and Art in Public Places. Contributions to Other Agencies is \$280,000 and Art in Public Places has \$84,706 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 \$299,775.

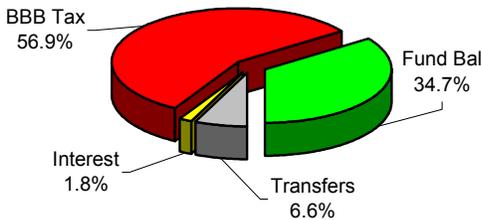
REVENUES/OTHER RESOURCES

BBB Tax	\$	299,775
Fund Balance		183,049
Transfers		35,000
Interest		9,152
	\$	<u>526,976</u>

APPROPRIATIONS

Arts & Science	\$	409,706
Reserve		10,000
	\$	<u>419,706</u>

**ARTS & SCIENCE
REVENUES/OTHER RESOURCES**



Recreation Fund: Total appropriations in FY 2005 for Recreation Fund activities are \$4.1 million. FY 2005 includes the following: Completion of Thorpe Park and two school fields, land acquisitions, 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.

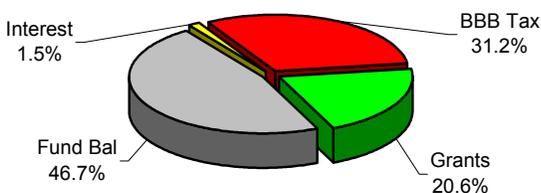
REVENUES/OTHER RESOURCES

BBB Tax	\$	1,315,182
Grants		869,000
Fund Bal, net of Transfers		1,965,572
Interest		63,200
	\$	<u>4,212,954</u>

APPROPRIATIONS

Recreation	\$	4,081,940
	\$	<u>4,081,940</u>

**RECREATION
REVENUES/OTHER RESOURCES**



Economic Development Fund: Economic Development is conducted primarily by the Greater Flagstaff Economic Council (GFEC). The City allocates \$330,000 to GFEC, \$100,000 for telecom, \$22,000 for partnership training funds, and \$7,400 for contributions. Business recruitment efforts target industries that conform to both community and environmental values (low water users, low and non-toxic sewer dischargers, good wage/benefit structure, good corporate citizens, home offices).

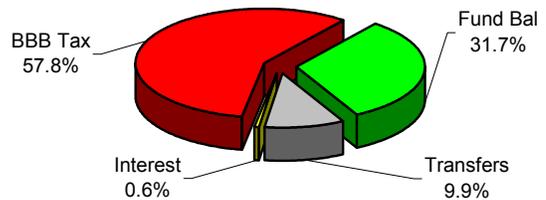
REVENUES/OTHER RESOURCES

BBB Tax	\$	379,716
Fund Balance		208,562
Transfers		65,000
Interest		4,000
	\$	<u>657,278</u>

APPROPRIATIONS

Economic Development	\$	459,400
Reserve		25,000
	\$	<u>484,400</u>

**ECONOMIC DEVELOPMENT
REVENUES/OTHER RESOURCES**



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).

METROPOLITAN PLANNING ORGANIZATION

REVENUES/OTHER RESOURCES

Grants	\$	711,700
Transfers	\$	15,000
	\$	<u>726,700</u>

APPROPRIATIONS

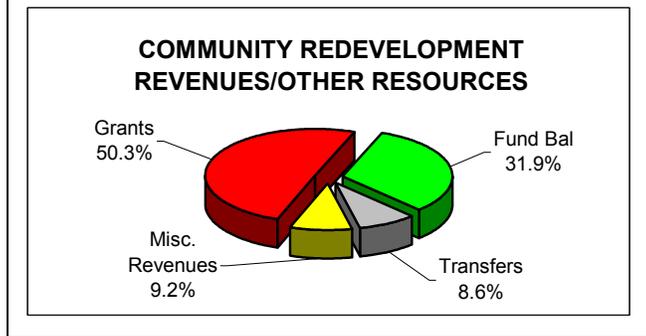
Community Development	\$	511,186
Non-Departmental	\$	15,514
Contingency	\$	200,000
	\$	<u>726,700</u>

The MPO has appropriated \$726,700 for this program for FY 2005. 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.

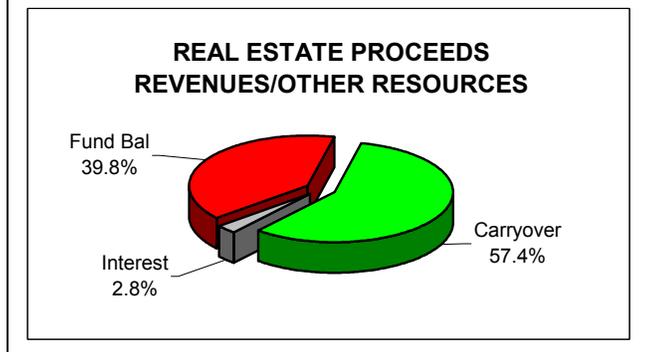
Community Redevelopment Fund: This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$4.3 million appropriated to this activity for FY 2005. Expenditures in this fund includes \$1.1 million for land acquisition, \$1.5 million in CDBG related activities, and \$663,880 in state grant activities.

REVENUES/OTHER RESOURCES	
Grants	\$ 2,192,837
Fund Balance	1,388,527
Transfers	375,400
Misc. Revenues	402,054
	<u>\$ 4,358,818</u>
APPROPRIATIONS	
Community Development	\$ 4,317,814
	<u>\$ 4,317,814</u>



Real Estate Proceeds:

REVENUES/OTHER RESOURCES	
Fund Balance	\$ 370,994
Fund Balance for Carryover	535,000
Interest	26,350
	<u>\$ 932,344</u>
APPROPRIATIONS	
Non-Departmental	\$ 675,900
	<u>\$ 675,900</u>



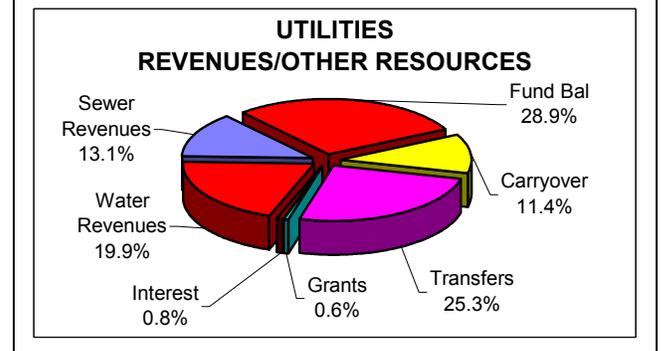
The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total \$675,900. Expenditures in this fund are for acquisition of open spaces.

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 \$43.8 million. Resources include \$19.2 million in utility user fees and \$6.6 million in fund balance carryforward.

REVENUES/OTHER RESOURCES	
Water Revenues	\$ 11,583,130
Sewer Revenues	7,647,410
Fund Balance	16,828,928
Fund Balance for Carryovers	6,620,836
Transfer	14,724,694
Grant Revenue	321,575
Interest	586,000
	<u>\$ 58,312,573</u>

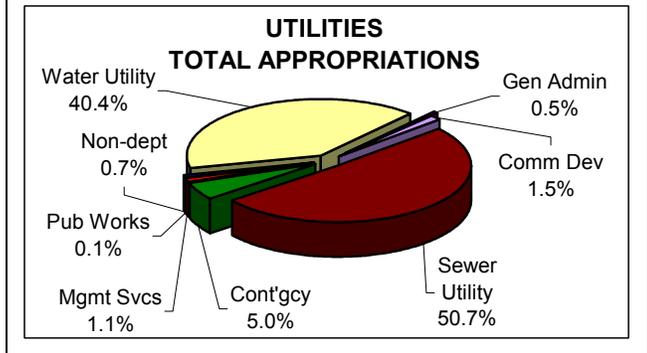


Water Operations: Total appropriations relating to direct costs for the water operations are \$17.7 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development. Revenue estimates total \$10.1 million for water sales. No rate increase is anticipated for FY 2005.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$22.2 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Appropriation increased by \$11 million, which is primarily due to major improvements to the Wildcat Wastewater Treatment facility. Revenue estimates total \$6.0 million in wastewater service charges. Revenues are estimated

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

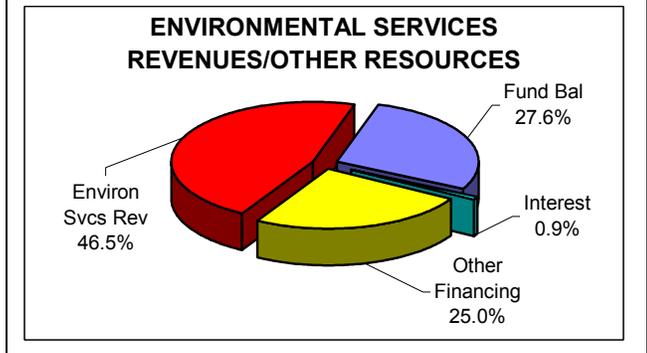
APPROPRIATIONS	
General Administration	\$ 221,209
Community Development	670,558
Management Services	478,507
Public Works	44,849
Non-departmental	304,144
Water Utility	17,692,968
Sewer Utility	22,234,895
Contingency	2,200,000
	<u>\$ 43,847,130</u>



ENVIRONMENTAL SERVICES FUND

Total financial resources are \$17.4 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.

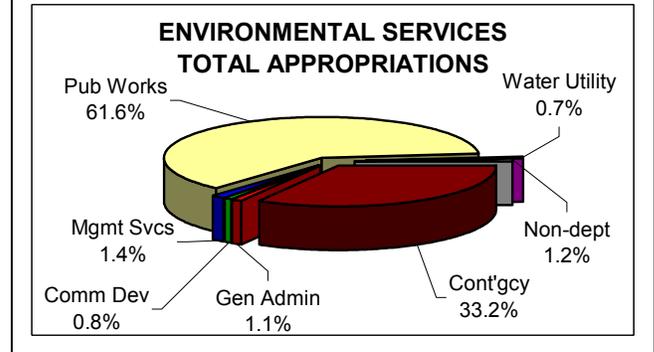
REVENUES/OTHER RESOURCES	
Environmental Svcs Revenue	\$ 8,106,947
Fund Bal, net of Transfers	4,810,572
Interest	162,000
Other Financing Sources	4,350,000
	<u>\$ 17,429,519</u>



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.

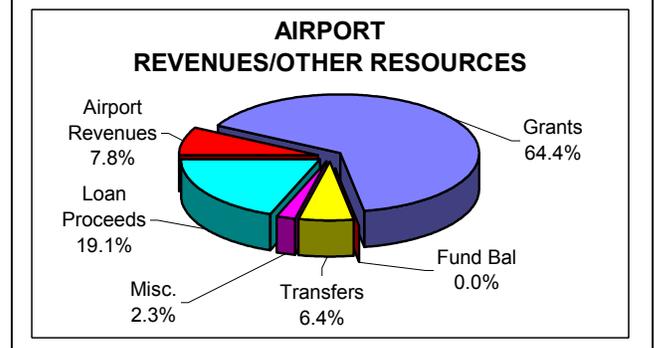
APPROPRIATIONS	
General Administration	\$ 149,706
Community Development	108,158
Management Services	204,687
Public Works	8,723,222
Water Utility	103,227
Non-departmental	174,458
Contingency	4,690,000
	<u>\$ 14,153,458</u>



AIRPORT FUND

Pulliam Airport is located four miles south of downtown Flagstaff and is operated 17 hours per day, seven days each week and offers five daily flights to Phoenix. Total appropriations are \$13.2 million: \$1.2 million for operations, \$598,938 for debt and \$11.4 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

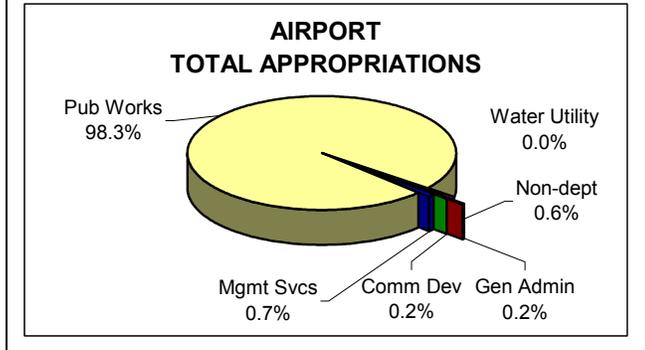
REVENUES/OTHER RESOURCES	
Airport Revenues	\$ 1,038,122
Grants	8,532,240
Fund Balance	4,629
Transfers	848,864
Miscellaneous	302,817
Lease/Loan Proceeds	2,516,457
	<u>\$ 13,243,129</u>



The general fund will continue to subsidize operations at \$287,000 this year with an additional \$243,000 for capital improvements including matching funds for grants. This year, of the \$11.4 million in capital

improvements, FAA and ADOT are funding \$8.5 million, Airpark proceeds will fund \$114,000, and lease proceeds are expected to fund \$2.5 million. The secondary property tax fund will transfer \$204,864 to cover debt service not paid with passenger facility charges.

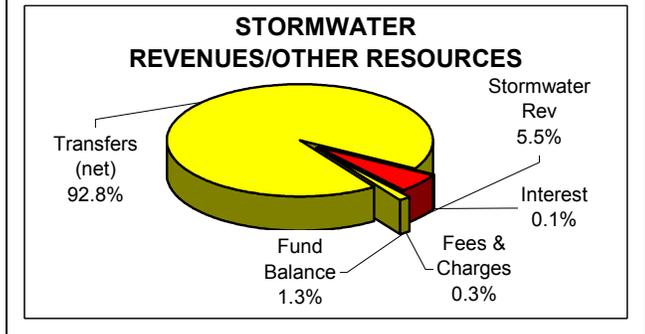
APPROPRIATIONS		
General Administration	\$	33,085
Community Development		25,226
Management Services		89,656
Public Works		13,015,826
Water Utility		401
Non-departmental		75,075
	\$	<u>13,239,269</u>



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.

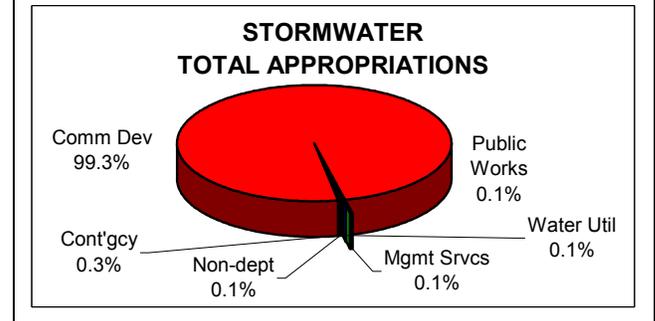
REVENUES/OTHER RESOURCES		
Stormwater Revenues	\$	511,000
Fees & Charges		32,400
Fund Balance		122,316
Transfers (net)		8,588,725
Interest		3,058
	\$	<u>9,257,499</u>



Total revenues/other resources include one-time transfers of \$8.4 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

\$9.2 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag including related parking.

APPROPRIATIONS		
General Admin	\$	10,656
Community Development		9,179,657
Management Services		12,928
Public Works		6,184
Water Utility		7,315
Non-departmental		13,396
Contingency		10,000
	\$	<u>9,240,136</u>



FIVE-YEAR PROJECTIONS BY FUND

The City updates five-year plans annually during the budget process. These plans are in 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, Community Redevelopment, Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

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 the downtown redevelopment, 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 is 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.

COMMUNITY REDEVELOPMENT

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 two such districts. 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 nine projects. The exception will be for the Water and Wastewater projects that will be in that five-year plan. At the time of budget approval, the timeline for projects were not available. That is why you do not see any expenditures in the out years. The City has budgeted in the current year only the amount we expect to spend this year. The complete five-year plan will be available later this fiscal year.

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 2004, no rate increase is anticipated. Due to voter approved bond projects, the City anticipates rate increase in June 2005. 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. Currently the City is expected to fund just 2.5% of federal grant eligible projects.

ENVIRONMENTAL SERVICES

This enterprise fund is self-sustaining through user fees. The five-year projection balances anticipated revenues at current rates 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

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

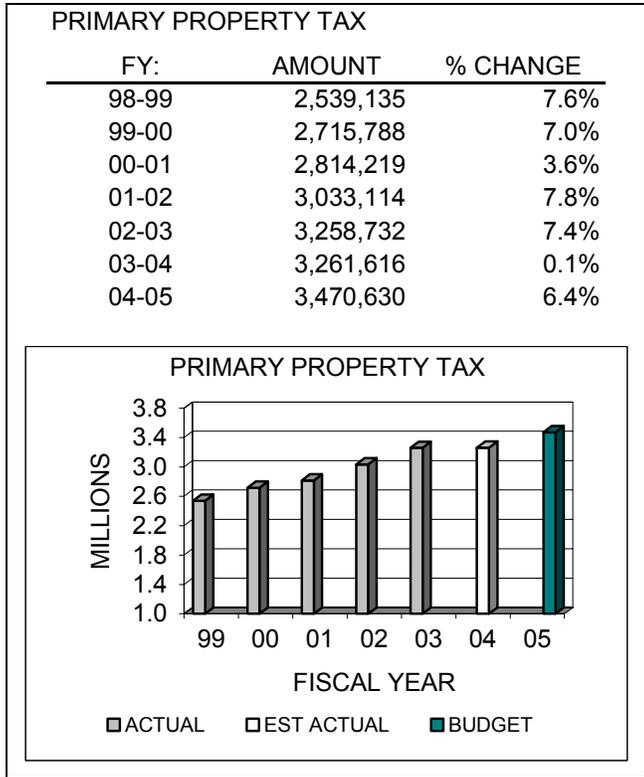
Description: The property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

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 40% of its maximum allowable levy.

The projected increase for FY 2005 anticipated collections are twofold: new construction of 4.5% and increased assessed values on existing properties of 1.5% due to reassessments, net of a 3% delinquency factor.

Receipts from secondary property taxes are deposited in the Debt Service Fund and can only be used to repay general obligation debt. No annual limitations apply, as

this rate is determined by the requirements of the debt repayment schedule.



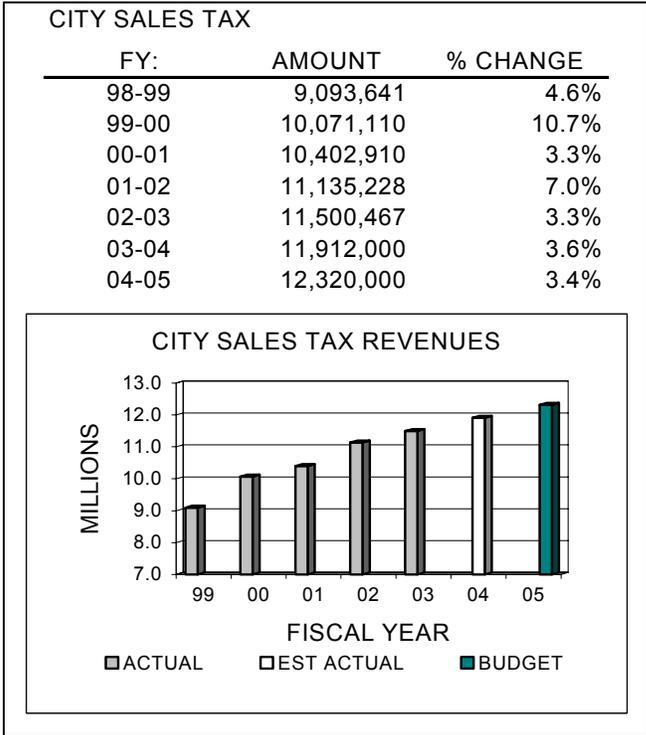
CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

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

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

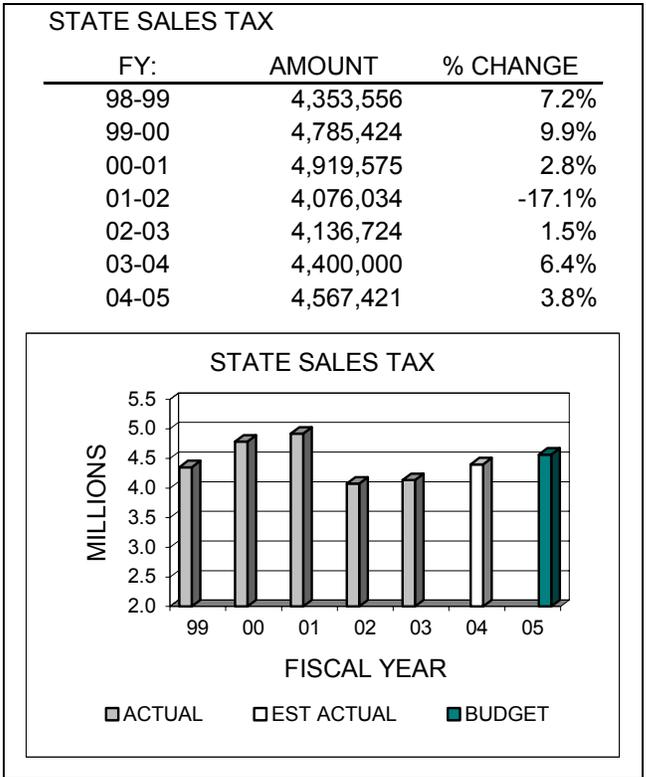
The 1% portion is designated as General Fund revenue to support activities and services provided by the City government. The City has designated the 2% BBB Tax for enhancements related to beautification, economic development, tourism, arts and sciences, and recreation. (The BBB Tax revenues are shown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

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 2004 was driven by increases in construction, auto sales, and a rebound in retail sales. Construction has enjoyed a strong year with an increase in residential and commercial projects. The revenue projection for FY 2005 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

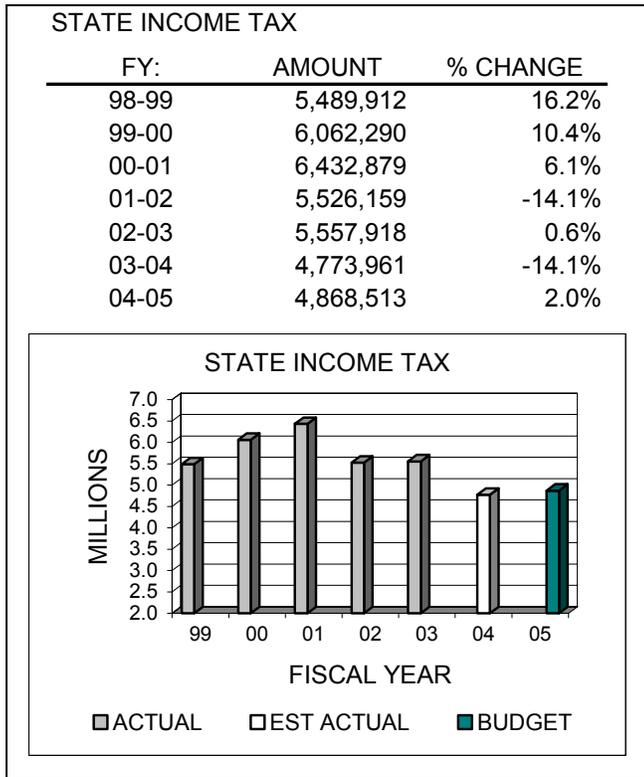
activities and services provided by the general government.

The sales tax revenue projected for FY 2005 reflects the 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. 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 2005.

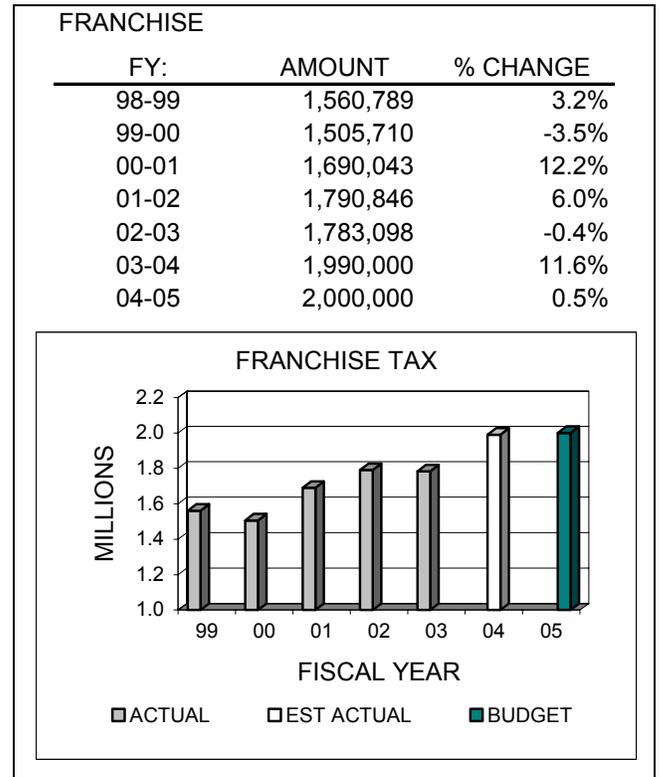
FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII

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

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

The growth rate for Franchise Tax revenue for FY 2004 was due to a spike in natural gas prices. The anticipated growth rate in FY 2005 reflects a normalized rate across all companies.



FINES & FORFEITURES

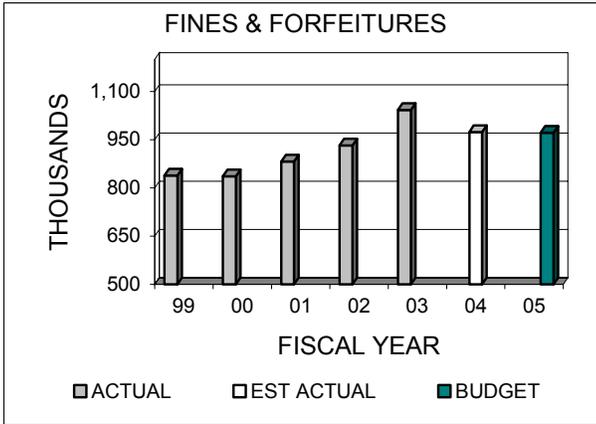
Legal Authority: Arizona Revised Statutes, Rules of Criminal Procedure
City Code, Title 1, Chapter 15, Section 8

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 04, however that directive has been set-aside for FY 2005.

FINES & FORFEITURES

FY:	AMOUNT	% CHANGE
98-99	838,306	6.9%
99-00	835,868	-0.3%
00-01	882,019	5.5%
01-02	931,950	5.7%
02-03	1,042,133	11.8%
03-04	973,437	-6.6%
04-05	971,733	-0.2%



AUTO IN LIEU TAX

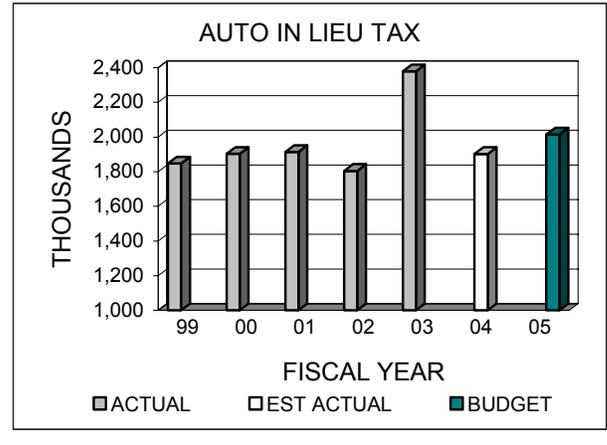
Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c)

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 has been initiated. The two-year sales boost in auto sales as a result of 0% financing has boosted receipts for FY 2003. It is anticipated that FY 2005 will follow a more equalized growth pattern, based on FY 2002 and FY 2004

AUTO IN LIEU TAX

FY:	AMOUNT	% CHANGE
98-99	1,847,142	20.5%
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	1,901,911	-20.0%
04-05	2,014,949	5.9%



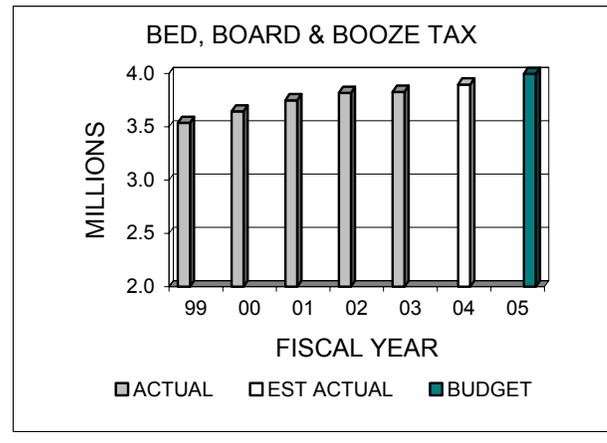
BBB FUNDS

BED, BOARD & BOOZE TAX

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

BBB

FY:	AMOUNT	% CHANGE
98-99	\$ 3,536,805	6.0%
99-00	3,644,822	3.1%
00-01	3,747,822	2.8%
01-02	3,817,028	1.8%
02-03	3,826,975	0.3%
03-04	3,895,782	1.8%
04-05	3,993,176	2.5%



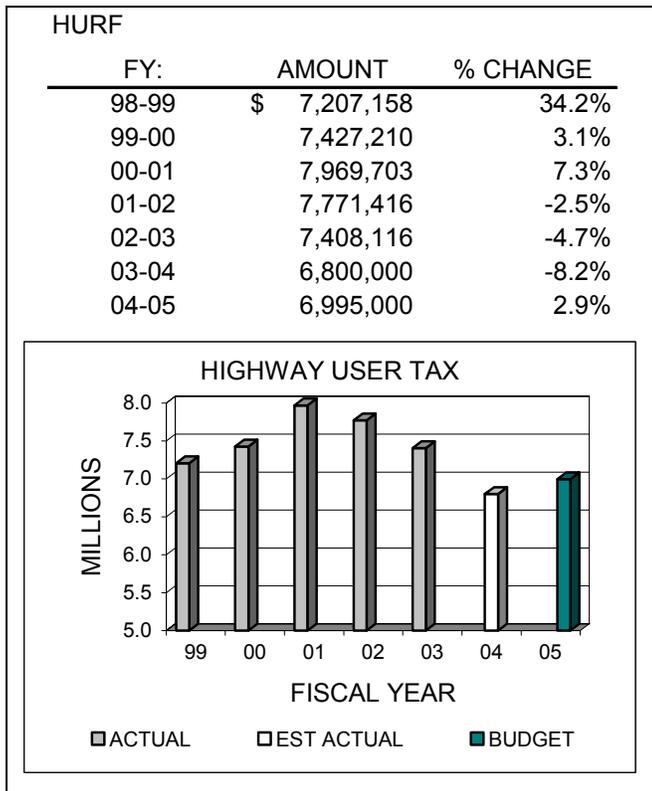
Description: An additional city sales tax of 2% is charged on the services of hotels, restaurants and bars. The City has designated all of these revenues for the purposes of enhancing beautification, tourism, economic development, recreation, and arts & sciences.

The growth in FY 2002 to FY 2004 was related to economic conditions in the City and State. The BBB Revenue projection for FY 2005 reflects a moderate increase of 2.5%. The economy is showing an overall increase in tourism, slowly recovering from the downshift experienced after the 9-11-01 terrorist attacks.

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.

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

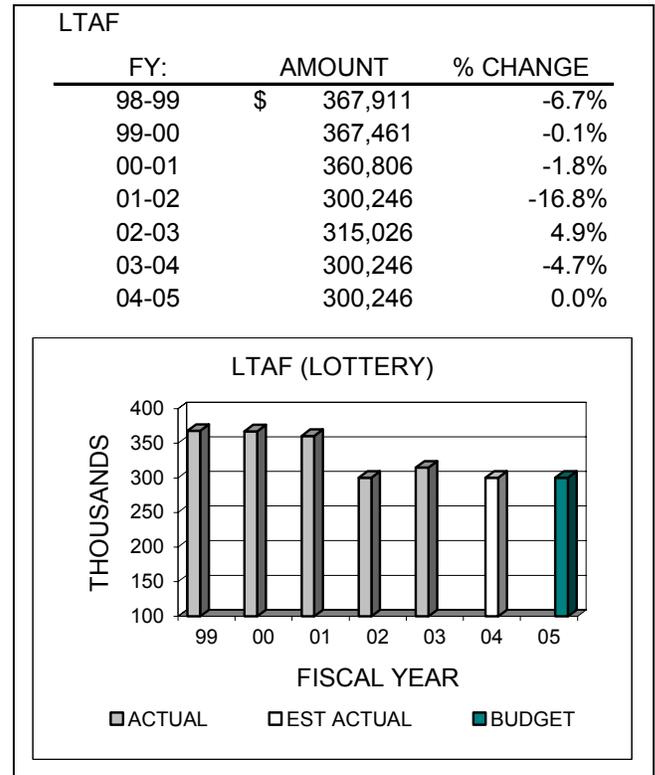
this revenue. The City has seen a decrease in approximately \$1 million in FY 2004 and expects this trend to continue in FY 2005 and subsequent years.

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 enumeration.



ENTERPRISE FUNDS

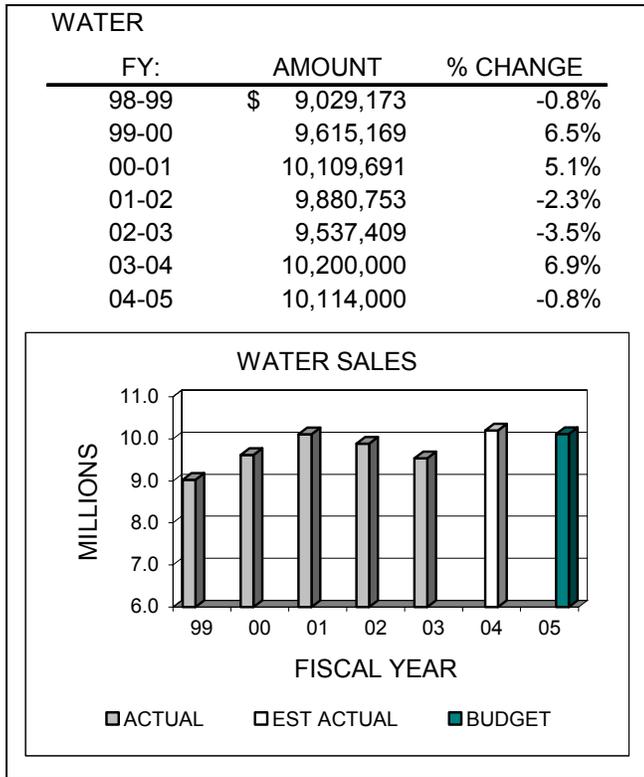
WATER SALES

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

Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of a base charge for the amount of water

consumed with an inverted rate structure for consumption levels above the base amount so as to encourage water conservation practices. The rates for each customer class are reviewed annually to assure adequate user charges; proposed rate changes effectuate in January.

The decrease in FY 2002 and FY 2003 is because of water restrictions due to a drought year. No rate increase is projected in FY 2005. The decrease projected for FY 2005 is related to a major water using business switching to reclaim water.

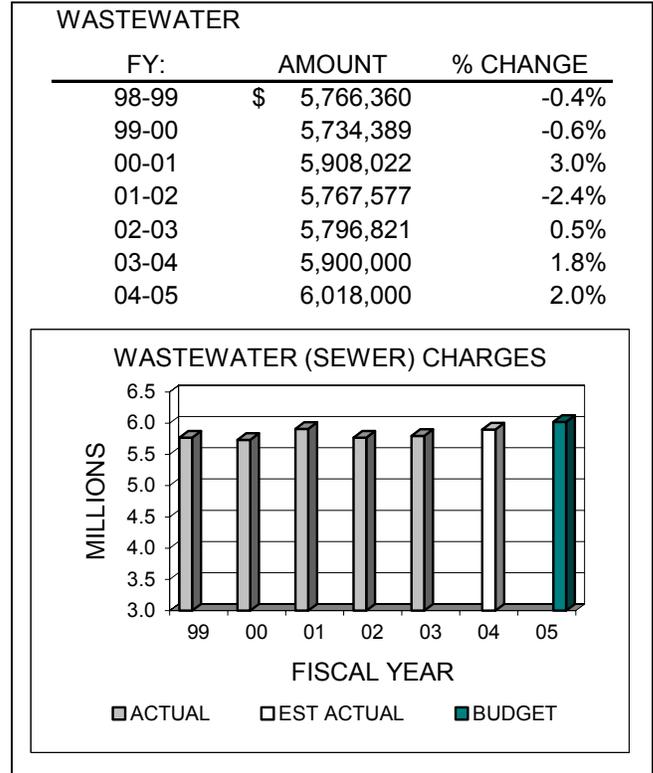


WASTEWATER SERVICE CHARGES

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

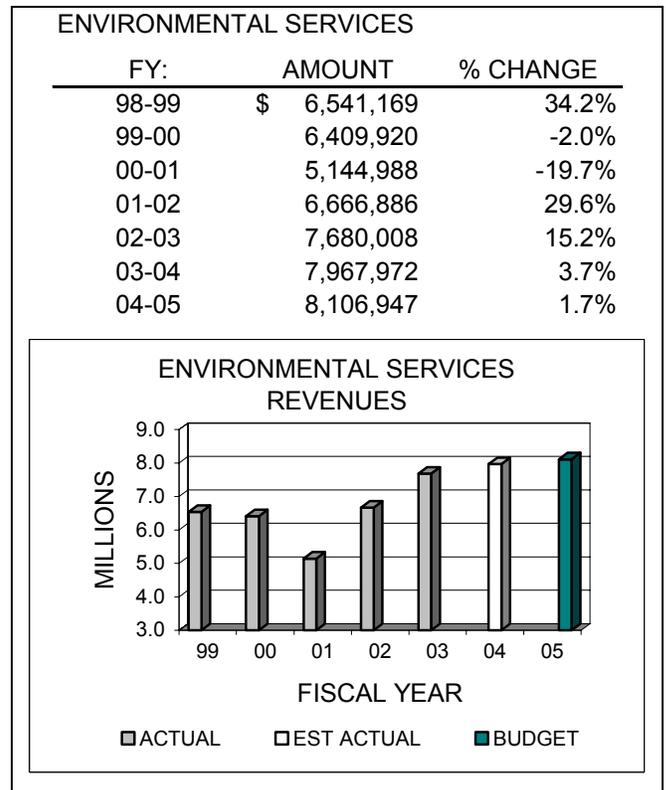
Description: The principal revenue for operating and managing the City's wastewater system is derived from revenues generated from wastewater (sewer) rates and user charges. Both residential and commercial customers are charged on the basis of water consumption. Residential customer charges are based 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 slight decrease in FY 2002 is due to water restrictions. The revenue projections include a 2.0% factor due to population and consumption changes.



ENVIRONMENTAL SERVICES

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



Description: Environmental Services disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert

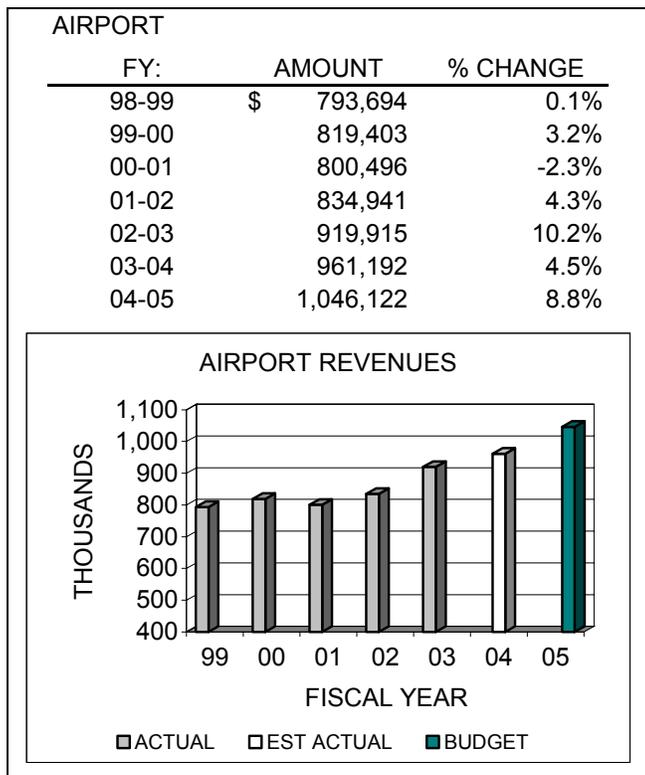
materials landfill fees, environmental service fees, and residential and commercial recycling. Service charges for residential and commercial customers are based on size of container and frequency of pickup. Hoist and haul is based on a cost per pull plus tonnage. Receipts from fees charged for dumping at the City Landfill are based on tonnage. The environmental service fee is a fixed monthly charge.

The increase in revenues for FY 2005 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.

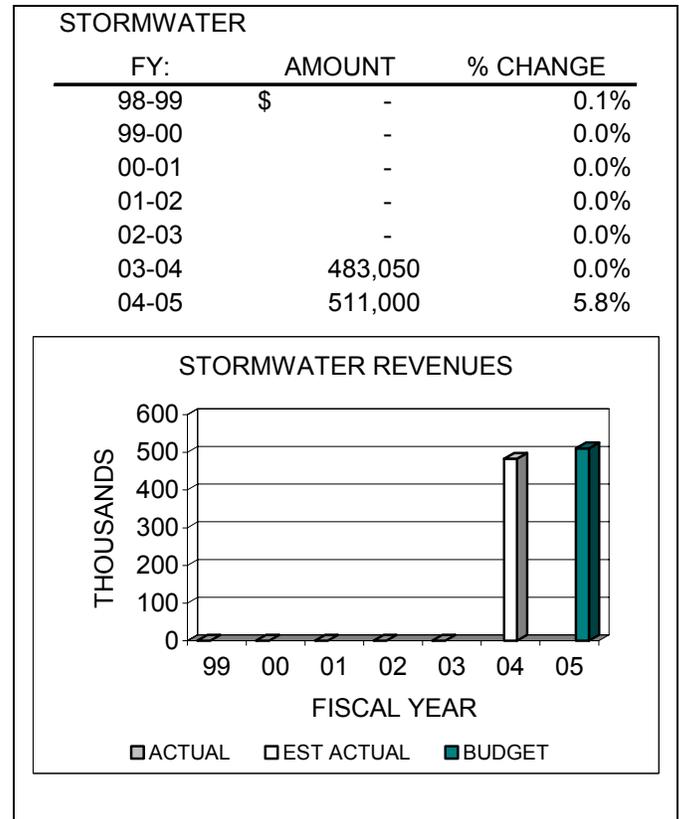


The increases from FY 2002 through FY 2005 are mainly due to a new terminal lease, growth in ground leases, auto rental revenues, and revenue from new hangars.

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 foot of impervious matter. Charges are the same for both commercial and residential customers. Receipts are used to manage ADEQ NPDES requirements. The first year of implementation was FY 2004. The 5.8% increase in FY2005 reflects a full year billing for all recognized ERU's.



CAPITAL BUDGET

RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

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

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

The Water and Wastewater Enterprise Fund's revenue structure is sufficient to meet existing and future impacts of capital, operating requirements including environmental sanctions and debt. Proposed, as well as existing, debt service is included because the changes in debt service requirements must be built into the rate models in determining what, if any, rate increases are required each year. The rate model was updated in 2003 and no increases in revenues are required based on information and system demands known today. An additional customer class was added to the wastewater rate structure and capacity charges will be increased over time.

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

BBB projects will have a significant impact on operating budget requirements. 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.

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

What does a CIP provide?

- **Cash management capabilities.** The dollars expended on Capital Improvement Plans in jurisdictions experiencing substantial growth or revitalization will often comprise 40% or more of the total budget. By reviewing the sources and uses of funds on a project basis and within the context of the entire CIP, as well as the related cash flows, a jurisdiction can maximize its investment earnings.
- **Debt management.** A CIP allows a jurisdiction to plan the financing requirements and the debt repayment schedule to allow for current and future needs relative to debt service capacity.
- **Expenditure controls.** Funds are expended as they were intended to be spent. The appropriations figure becomes the project management budgets. It is typical for most jurisdictions in their process to budget a 15% to 20% overhead factor to cover engineering and design costs as well as to provide for contingencies.
- **Budgetary controls.** Operating cash flow projections on a project basis serves as a check and balance on a project's progress both in terms of the time schedule and expenditures to date compared with percentage completion.
- **Minimize disruption to citizens.** By looking at the overall impact of the proposed CIP in any given year, the disruption of services or inconvenience

imposed by construction activity in a locale can be kept to a minimum. For example, citizen complaints can be minimized by not scheduling the chip sealing of a major arterial street concurrently with ongoing construction on immediately adjacent streets. Additionally, a comprehensive review of multiple projects to ensure adequate coordination can minimize multiple disruptions in a given area.

FY 2005 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2005 includes 99 capital improvement projects totaling \$96.7 million. This amount includes \$30.7 million in carryover items that have been budgeted. Project funding is comprised of the following: \$10.8 million in grants primarily for airport improvements, affordable housing, street construction and, beautification projects; \$30.6 million in general obligation (G.O.) bonds for the Fourth Street Overpass project and water and wastewater projects. \$55.2 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 2005 for a total of \$7.1 million. Projects include Redevelopment, and Acquisitions, and Facilities Improvements. Also 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; Lake Mary Regional Park and other parks land acquisition; and Open Space acquisition, both regional and neighborhood 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, Huntington

Drive Improvements, Beulah Blvd. Extension and various Safe to School projects and the start of the East gateway road projects. There are a total of 25 Streets Transportation projects scheduled at a budgeted cost of \$35.7 million. HURF funds are \$2.2 million, Transportation Tax funds are \$10.9 million and \$542,575 in Grant Revenues, \$15.3 million in Bonds and \$6.6 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 million. Twenty-one projects are scheduled at a budgeted cost of \$8.5 million for FY 2005.

Utilities Fund – Major projects for Water production and distribution include \$2.5 million for water wells. Major projects for Waster plants and collection include \$1 million for Black Bart/Sinagua waterline and \$1 million for a waterline at Foxglen/Skyview. The Five-Year CIP also includes three replacement and upgrade projects to the water distribution system. 17 water projects and 13 wastewater projects are scheduled at a combined budget of \$25.3 million for FY 2005

Airport Fund – Six projects are scheduled at a budgeted cost of \$10.8 million for FY 2005 and the program focus is on expansion of airside infrastructure. The major project is the design for the Runway Extension and construction of an Airport Operation Building.

Environmental Services Fund - The Five-Year CIP for landfill operations provides for the expansion of the existing landfill site to extend its useful life from 12 years to 50 years. This year's CIP includes a landfill building, a residential drop off center and MFR entry improvements for a total cost of \$718,265.

Stormwater Fund – The Stormwater fund completed its first year of operations as a new utility fund for the City of Flagstaff. Four projects are budgeted in this fund with a cost of \$8.3M in FY 2005. These projects include; the completion of the Sixth Avenue Detention Basin with a carryforward of \$91,945; the Walnut Meadow drainage project of \$150,000; the Rio parking replacement project earmarked at a cost of \$1.2M. The Rio De Flag Hydrology project, which was originally housed in the General Fund, will be moved to this utility fund in FY 2005. This project has an anticipated budget in FY 2005 of \$6.8M.

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 phased in over the next 10 years.

Utility Rate Structure: The Utility Rate Analysis, updated in the Spring of 2003, provides for major capital improvements, additional bond funding, and increased operating costs. No rate increase is recommended to meet these demands. 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) 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

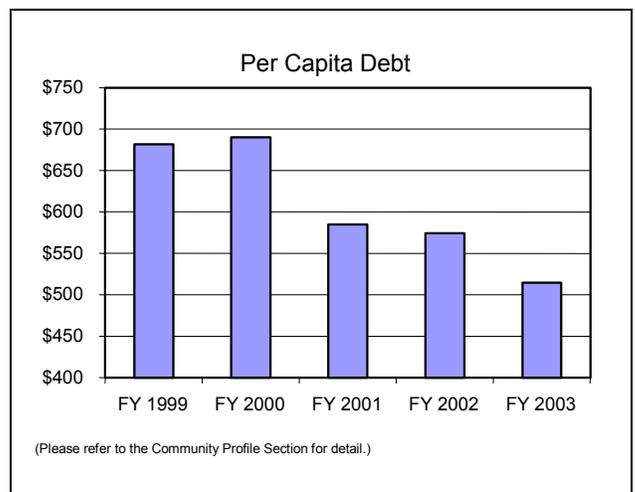
DEBT CAPACITY

Flagstaff continues to experience steady, yet moderate increases in assessed valuations. The City's legal debt margin, shown below, demonstrates adequate capacity to complete the capital projects proposed with the May 2004 bond election. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

General Obligation Debt July 1, 2004	
20% Limitation (Water, Sewer, Lighting, Open Spaces, and Recreation Purpose Bonds)	
Assessed Valuation	<u>\$ 501,655,440</u>
Allowable 20% Debt	\$ 100,331,088
20% Debt Outstanding	<u>(24,492,902)</u>
Allowable Debt Margin	<u>\$ 75,838,186</u>
6% Limitation (All Other General Obligation Bonds)	
Assessed Valuation	<u>\$ 501,655,440</u>
Allowable 6% Debt	\$ 30,099,326
6% Debt Outstanding	<u>(2,555,000)</u>
Allowable Debt Margin	<u>\$ 27,544,326</u>

CURRENT DEBT POSITION

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



Economic factors reviewed include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and

delinquency rates on property tax collections. The City is well positioned because of its location and the diversity of its economic base.

Financial performance factors focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. 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, 2004, the total actual indebtedness is \$78.2 million. FY 2005 annual debt payments are projected to be \$11.1 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, 2004, the City's 20% general obligation debt of \$24,492,902 is well below the legal limit of \$100,331,088. The City's 6% general obligation debt of \$2,555,000 is also well below the legal limit of \$30,099,326. The following table illustrates the total

actual indebtedness through the life for all currently outstanding debt.

FY	Principal	Interest	Total
2005	7,860,827	3,265,105	11,125,932
2006	6,805,788	2,944,777	9,750,565
2007	7,171,507	3,084,762	10,256,269
2008	6,869,813	2,438,704	9,308,517
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>\$ 78,197,585</u>	<u>\$ 23,323,379</u>	<u>\$101,520,963</u>