

# BUDGET OVERVIEW

The City of Flagstaff FY 2008 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 2008; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

## FINANCIAL RESOURCES AVAILABLE

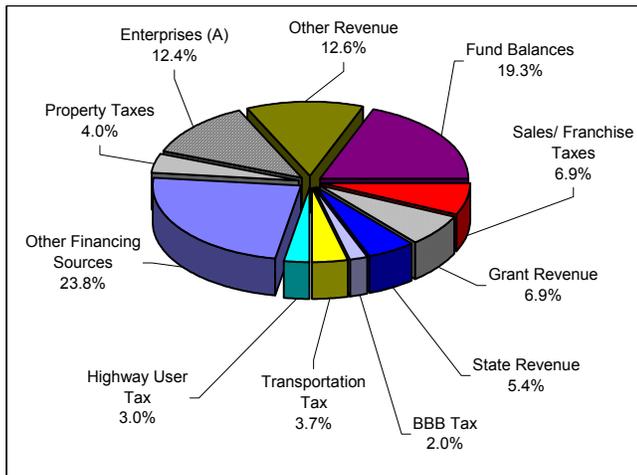
Sales/Franchise Taxes	\$ 19,320,603	6.9%
Grant Revenue	18,815,572	6.9%
State Revenue	14,931,357	5.4%
BBB Tax	5,450,366	2.0%
Transportation Tax	10,088,031	3.7%
Highway User Tax	8,083,215	3.0%
Other Financing Sources	65,200,000	23.8%
Property Taxes	10,935,835	4.0%
Enterprises (A)	33,879,048	12.4%
Other Revenue (B)	34,424,073	12.6%
Fund Balances	52,844,047	19.3%
	<u>\$ 273,972,147</u>	<u>100.0%</u>

### (A) Enterprises:

Water	\$ 12,880,882
Wastewater	8,612,684
Airport	1,267,164
Environmental Services	10,061,827
Stormwater Utility	1,056,491
	<u>\$ 33,879,048</u>

### (B) Other Revenue:

Licenses and Permits	\$ 2,384,888
County Vehicle Tax	2,653,020
Charges for Services	2,445,680
Fines and Forfeits	1,045,672
County Contribution	3,294,271
Interest on Investments	3,059,999
LTAf/Misc Revenue	19,540,543
	<u>\$ 34,424,073</u>



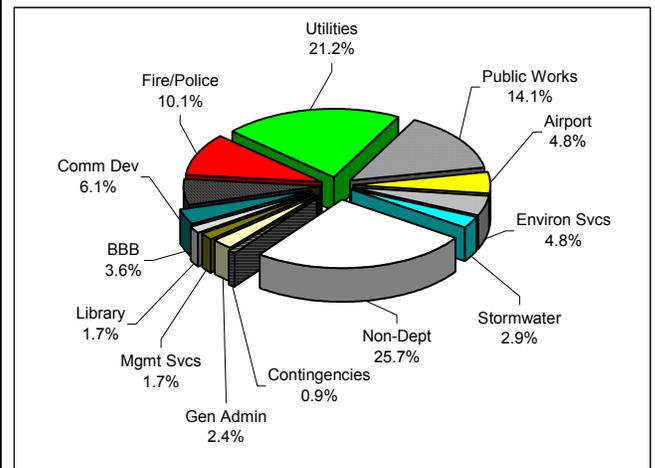
**"WHERE THE MONEY COMES FROM"**  
\$273,972,147

## TOTAL APPROPRIATIONS

General Administration	\$ 6,439,989	2.4%
Management Services	4,561,875	1.7%
Library	4,524,532	1.7%
BBB (A)	9,751,509	3.6%
Community Development	16,587,110	6.1%
Fire/Police	27,737,566	10.1%
Utilities	58,002,137	21.2%
Public Works	38,613,225	14.1%
Airport	13,092,085	4.8%
Environmental Services	13,243,378	4.8%
Stormwater	8,066,776	2.9%
Non Departmental	70,496,965	25.7%
Reserves/Contingencies	2,855,000	0.9%
	<u>\$ 273,972,147</u>	<u>100.0%</u>

### (A) BBB Tax Funds:

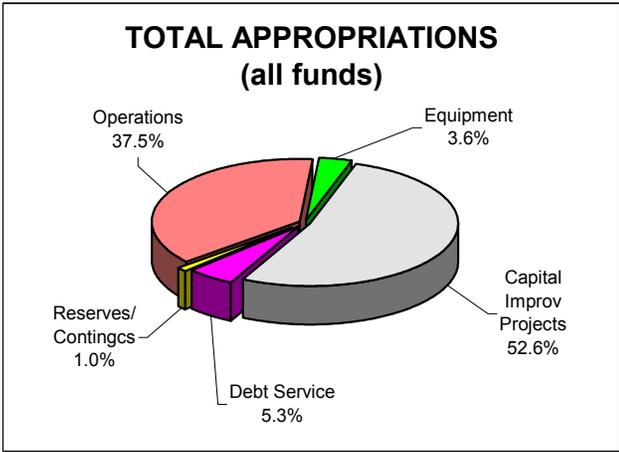
Beautification	\$ 6,430,718
Tourism	1,960,076
Economic Development	682,035
Arts and Science	678,680
	<u>\$ 9,751,509</u>



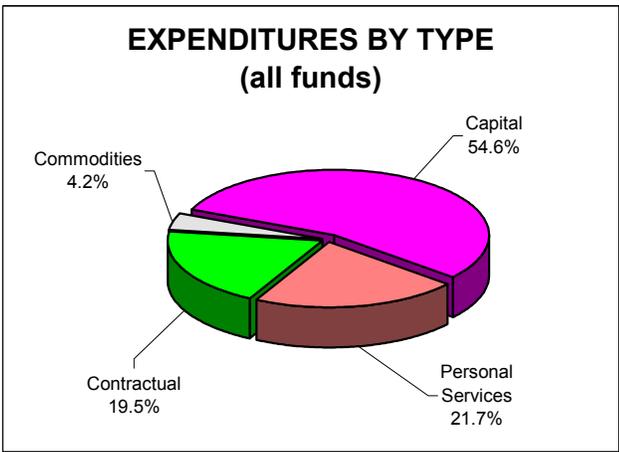
**"WHERE THE MONEY GOES TO"**  
\$273,972,147

The following graphs depict the major classifications of appropriation for the total 2007-2008 budget and expenditures by major types.

<b>TOTAL APPROPRIATIONS</b>	
Operations	\$ 102,727,930
Equipment	9,768,975
Capital Improvement Projects	144,154,142
Debt Service	14,466,100
Reserves/Contingencies	2,855,000
	<u>\$ 273,972,147</u>



<b>EXPENDITURES BY TYPE</b>	
Personal Services	\$ 59,365,787
Contractual	53,466,716
Commodities	11,479,175
Capital	149,660,469
	<u>\$ 273,972,147</u>

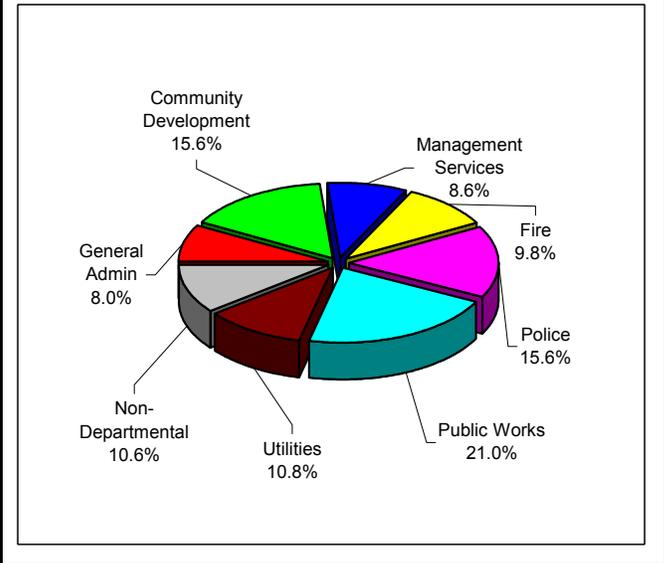


**OPERATING EXPENDITURES BY DEPARTMENT**

City operations include the traditional municipal services citizens expect their local government to provide. Operating expenditures exclude capital improvements, capital equipment, debt service and reserves. The department budgets are presented to include division

budgets and Departmental (organizational structure) responsibilities as defined by the City Code.

<b>OPERATING BUDGET *</b>	
General Administration	\$ 8,258,429
Community Development	15,977,040
Management Services	8,841,407
Fire	10,034,152
Police	16,058,630
Public Works	21,621,660
Utilities	11,094,258
Non-Departmental	10,842,354
	<u>\$ 102,727,930</u>
* Exclusive of Debt Service	
	<u>\$ 14,466,100</u>



**General Administration** activities comprise 8.0% of the budget (\$8.3 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, City Attorney, City Court, Human Resources, Risk Management, Tourism and Visitor Services.

**Community Development** comprises 15.6% of the operating budget (\$16.0 million), excluding the debt service requirements for Fourth Street (\$1.9 million). The services in this Department include Development Services, Community Improvements, Community Investments, Capital Improvements, Transportation, Stormwater, MPO, Housing and Community Services, Urban Design, Arts & Sciences, and CD Administration. The services provided by these divisions meet the current needs of the community and plan for the future.

**Management Services** comprises 8.6% of the operating budget (\$8.8 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 9.8% of the operating budget (\$10.0 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 15.6% of the operating budget (\$16.1 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** activities are provided by nine divisions that account for 21.0% of the operating budget (\$21.6 million), excluding the debt service requirements for streets (\$1.8 million), Airport (\$0.6 million), and USGS facility (\$0.5 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, airport operations, fleet services, and recreation programming.

**Utilities Department** comprises 10.8% of the operating budget (\$11.1 million), excluding \$5.6 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 10.6% of the budget (\$10.8 million) exclusive of \$4.0 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 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 2008, *major accomplishments* in FY 2007, 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 2006*, the *Estimated Actual for FY 2007*, and the *Adopted Budget for FY 2008*. 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.

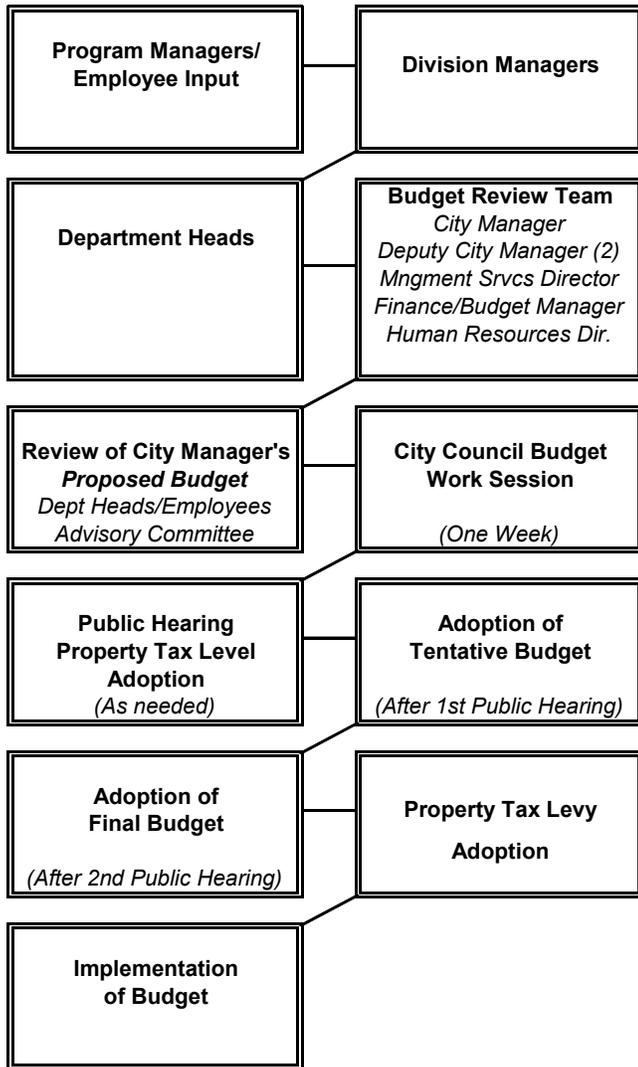
The following table represents the structure for the City.

Illustration of Relationship between Funds, Departments, and Divisions

DEPARTMENTS FUNDS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Utilities	Non-departmental
General Fund	City Manager City Clerk Human Resources Risk Management City Attorney Municipal Court	Information Systems Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Capital Improvements Development Services Community Improvements Community Investment	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance Recreation		Council and Commission Contributions Non-departmental
Library		Library				Street Maintenance & Repairs		
Highway User Revenue								Transit
Transportation			4th Street Overpass Safe to School Safety Improvements					
Economic Development			Beautification					Economic Development
Beautification								
Tourism	Convention & Visitors Bureau Visitor Services					Recreation		
Recreation								
Arts & Science			Arts & Science					
Real Estate Proceeds								Real Estate Proceeds
Housing and Community Services			Housing and Community Services					
Metropolitan Planning Organization			Metropolitan Planning Organization					
G.O. Bond Fund								G.O. Bond Fund
Secondary Property Tax								Secondary Property Tax
Special Assessment								Special Assessment
Perpetual Care								Perpetual Care
Capital Projects Bond								Capital Projects Bond
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 2008.
- The *Capital Improvement Plan (CIP)* for FY 2008 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	
January	Budget Module available to all Divisions
February 2	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
March 1 - March 16	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
April 25 - 27	Council Study Sessions Proposed Budget available to public
June 5	Public Hearing/Tentative Adoption of Proposed Budget Public Hearing on Tax Adoption
June 8	Publish second notice of Public Hearing for Final Adoption
June 15	Public Hearing on Budget and Final Adoption of Budget
June 19	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 30	Adopt Property Tax Levy

**Review and Approval:** Issues presented during the review and approval period include discussion topics of the Council Spring retreat. The Spring retreat was held in February, 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 budget priorities. 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 April. 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 June 19, 2007. 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 permanent adjustment to the base. The first 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 City received voter approval in the May 2006 general election for a second adjustment to the expenditure limitation base. This permanent adjustment was effective for the FY 2007 budget year and increased the current expenditure limitation by approximately \$25,000,000.

The Adopted Budget reflects the total funds appropriated (\$273,972,147). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$110,722,287), 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 AND REVENUE FORECAST**

The City of Flagstaff continues to have mixed economic indicators for the coming Fiscal Year. Economic strength is reflected positively through the growth in local sales tax, property tax, and state shared revenues. Economic weaknesses are apparent in our community in

two ways. First the average home price continues to increase beyond the means of the majority of middle class workers. Second, the community is increasingly dependent on tourism and those jobs based in the tourism industry are generally at the lower end of the wage scale.

The City collects three different retail sales taxes. The first is a 1% tax on all general sales, except for food. This tax is a general purpose tax that benefits the General Fund. The City collects 0.601% on the same types of general sales; however the tax is restricted in use to certain transportation projects. The third tax the City collects is a Bed, Board, and Beverage tax that collects 2% additional for motel rooms/campgrounds, restaurants, and bars. The City of Flagstaff is the only City left in the State of Arizona that has a sunset clause on the General Sales Tax. This tax must go before the voters every 10 years to be revalidated. This tax next expires in 2014. The City unsuccessfully tried to have the sunset clause removed in 2004. The City is currently looking again to either have the sunset clause removed and/or to have the tax extended. The transportation tax has four separate components. The transit portion of this tax expires in 2010 and the City is working with the Northern Arizona Intergovernmental Public Transit Authority (NAIPTA) to have this portion of the tax extended before the expiration or the city/county transit system will have to dramatically decrease service provision. The balance of the transportation tax components expire in 2020. As this funding converts from construction to maintenance the City will pursue a permanent component to this tax. The 2% BBB tax expires in 2013. As this tax has also moved from construction to maintenance, it will be important to have it extended past the 2013 date. The City is working cooperatively with the local hoteliers and restaurateurs to evaluate the allocation and the continuation of this tax to best meet the community needs.

Local sales tax has been bolstered in recent years by construction activity and steady increases in most retail categories. While the construction activity has primarily been in the residential sector, the City is also seeing regeneration in a number of commercial projects that will come to fruition in FY 2008. The overall budgeted increase in local sales tax is 14.2%. Individual components of this increase include the completion of the Flagstaff Mall expansion which is major contributor to the anticipated 33.5% growth in General Merchandise receipts. The City also anticipates the opening of the Auto Mall which contributes to the 22.5% increase in auto sales. Construction will slow in comparison to previous years, however a 0.9% overall increase is budgeted. All other sales tax categories are anticipated to increase by 6.1%.

The City is also anticipating a 10.7% increase in the Bed, Board, and Beverage (BBB) tax. This increase is primarily due to the growth in our local tourism industry. Indicators such as the Revenue per Available Room

(RevPAR) reach new levels every quarter. These estimates do not include the impact from a Conference Center to be completed on the Northern Arizona University (NAU) Campus in FY2008. The estimates haven't been included to date as NAU has only started taking reservations for further events and it is unknown at this time how successful they will be in filling their venue in the first year.

Property tax revenues were negatively impacted in FY2007 due to legislation that reset the maximum primary property tax base to the 2005 level. This legislation decreased the maximum allowable assessment for the City of Flagstaff in excess of \$4 million dollars. The City is now held to annual increases of the value added by new construction and 2% on existing property, regardless of the change in assessed valuation. Property taxes will increase by 6% in FY2008. As assessed valuation increased at a much greater rate than the allowed 2% increase, the actual primary property tax rate will decrease from a mil rate of \$0.7563 to \$0.7153, realizing an annual savings of \$12.30 to a \$300,000 home.

State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns' relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and school enrollment. Flagstaff's greatest challenge is that while the population is growing, it is growing at a slower rate than some of the other communities in the state. This has translated into a decreased proportionate share in the past. Currently the City is holding a steady population percentage in relationship to the rest of the state at 1.24%.

The City is concerned about the 2010 federal census count. In the 2000 census, the City experienced a U. S. Census determined that the City has only grown by approximately 200 people from the 1995 special census. Even though the City of Flagstaff could prove the federal census was incorrect, the Census Bureau declined to make any adjustments. This cost the City in excess of \$2 million dollars in reduced funding that the City is only now recouping back to the FY2002 levels.

The State of Arizona is seeing an economic rebound. Both individual and corporate income tax collections are increasing. There is a two year lag between the collection of state income tax and the distribution to the cities and towns. Receipts collected by the state in calendar year 2005 are the amounts distributed for the City's FY 2008 budget. The City is anticipating 27.2% growth for FY2008. This growth rate is not expected in the following year as the State of Arizona has reduced the income tax liability for individuals by 10% for calendar year 2006. The State has currently made an obligation to hold cities and towns harmless through a

State line item transfer in FY2009 should there be decreased receipts due to the decreased rates. The State analysis also indicates that the cities and towns will not see a negative impact on the amounts distributed to the overall state growth. The City of Flagstaff is not as optimistic as the State and is making appropriately conservative estimates to account for future revenue decreases.

State sales tax collections and city sales tax collections are mirrored in a number of ways. The State is also recognizing increases in retail, contracting, and restaurant and bar uses. State sales tax distribution is anticipated to increase by 5.9% in FY2008.

Highway user tax revenues are projected to end the year over budget and to have slight growth (3.5%) in FY2008. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based on part on the amount of fuel purchased in our region. As fuel prices continue to increase, it is difficult to determine if Flagstaff will continue to be a large drive-time destination for surrounding communities including Phoenix and Las Vegas.

In contrast to the positive indicators evidenced through revenue growth, the City must find ways to address the affordable housing crisis. Trends in housing prices in Flagstaff indicate that the average home price in 2000 was \$170,372. The household income needed to purchase a house was \$47,000 and the median Flagstaff household was only slightly under this at \$45,500. In 2006, the average home price was \$376,519. The household income needed to purchase this house is \$95,000 but the median household income is only up to \$54,200. While the housing market locally has stabilized, it has not decreased. The City in conjunction with a number of community partners offer a number of housing assistance programs, but for the majority of new residents to the area, the housing is unaffordable. In addition, the City is working on a land trust and requiring affordable housing components in new developments to help allay this problem.

This high cost of housing coupled with a lack of high level technical, manufacturing or administrative jobs also causes 'brain drain' from the community. With the location of one of the three major universities in our community and a well developed community college, Flagstaff has the ability to recruit for a wide array of higher level positions; however the community is challenged to recruit new business, in part due to the high cost of living. It is a very circular issue that the City works on from a number of perspectives.

## EXPENDITURES

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

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

Due to the continued drought conditions experienced throughout the Southwest, the City has allocated an additional \$250,000 in contingency funds to be used for wild land fire defense as needed.

**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 2008 is estimated at \$9,785,172 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 18.4%.

The FY 2008 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 has dual challenges in expenditure funding. The first is operational growth due to accelerated personnel cost increases. The City is trying to keep salaries in line with other communities throughout the state, as determined by a market survey. The average employee will receive a 5.2% increase for FY 2008. The City will also fund increases in health insurance, dental insurance and retirement systems.

The City has also had to use most of the reserves in most of the funds to be able to complete existing capital projects. Double digit cost increases have translated into numerous capital projects exceeding budget.

**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 2007.* Divisions were asked to estimate expected expenditures by line item for FY 2007. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2008. 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.
- *Information Systems.* Management Information Systems Staff reviewed hardware and software needs. Funding was established to maintain funding at a level dollar amount to meet existing and future needs for current service levels including upgraded equipment and software.
- *Capital Improvements.* The Capital Improvement staff reviewed all requests of capital projects or public improvements that require time charge outs from that division.
- *Operational Impacts.* All funds are continually evaluated relative to five-year financial projections. Increased service levels due to new programs or capital construction were projected to determine operating impacts in future years.

**FUND SUMMARIES**

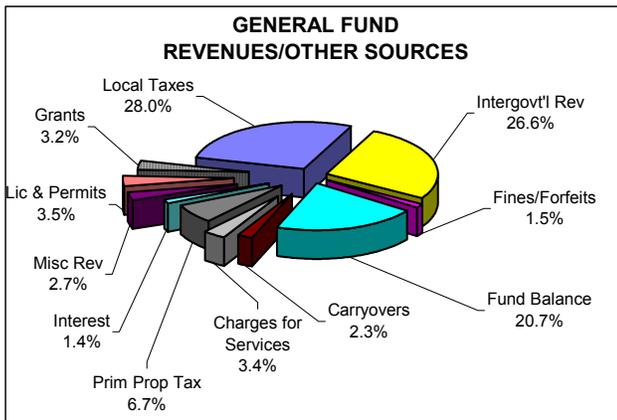
**GENERAL FUND**

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

Total resources available for General Fund expenditures for FY 2008 are \$69.0 million including the beginning fund balance of \$25.9 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.

General Fund revenue/other sources compared to the year-end estimates have decreased by 4.0%. The City is anticipating growth in City sales tax, state shared revenues, grants, and new development review fees in FY 2008. The decrease in financial resources is due to increased transfers out to other funds in anticipation of capital project completion.

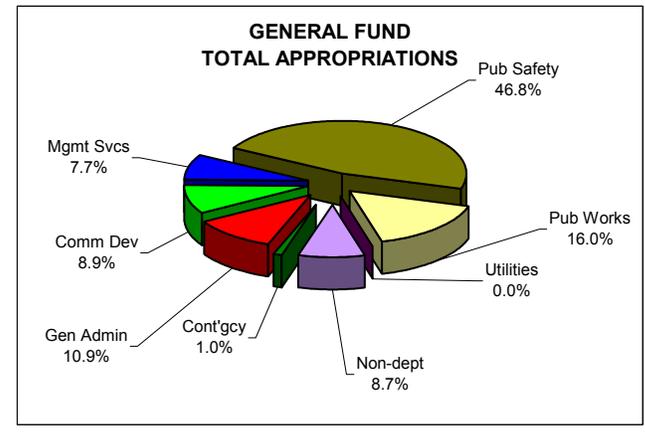
REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2007	FY 2008
Licenses and permits	\$ 2,367,984	\$ 2,384,888
Grants	1,919,181	2,234,973
Local taxes	17,536,772	19,320,603
Intergovernmental	16,098,038	18,334,377
Fines and forfeits	1,034,885	1,045,672
Fund Balance, net of Transfers	23,669,400	14,265,161
Fund Balance for Carryovers	510,000	1,593,529
Charges for services	2,023,778	2,355,923
Primary Property Tax	4,417,959	4,656,831
Interest	950,000	973,750
Miscellaneous	1,331,487	1,847,282
	<b>\$ 71,859,484</b>	<b>\$ 69,012,989</b>



General Fund total appropriations compared to year-end estimates have increased by 29.1%. The appropriation growth is due to increases in salaries, benefits, insurance, and capital projects.

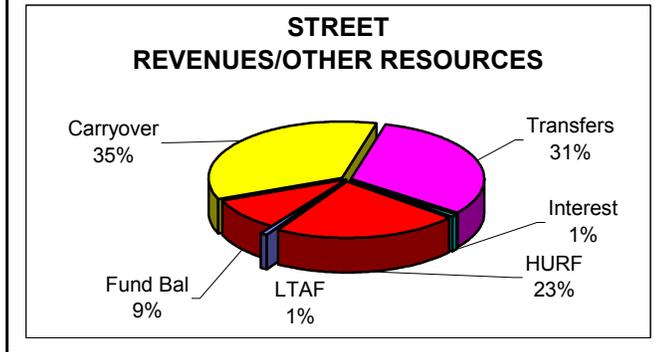
The financial position of the General Fund (after cost allocation distribution) remains strong. Accumulated funds will continue to be spent in Flagstaff for development opportunities.

APPROPRIATIONS	EST ACTUAL	BUDGET
	FY2007	FY 2008
General Administration	\$ 5,553,585	\$ 6,439,989
Community Development	4,822,294	5,283,822
Management Services	3,961,551	4,561,875
Public Safety	24,363,341	27,737,566
Public Works	7,662,217	9,501,560
Utilities	14,932	21,441
Non-departmental	(587,089)	5,181,564
Contingencies	100,000	500,000
	<b>\$ 45,890,831</b>	<b>\$ 59,227,817</b>



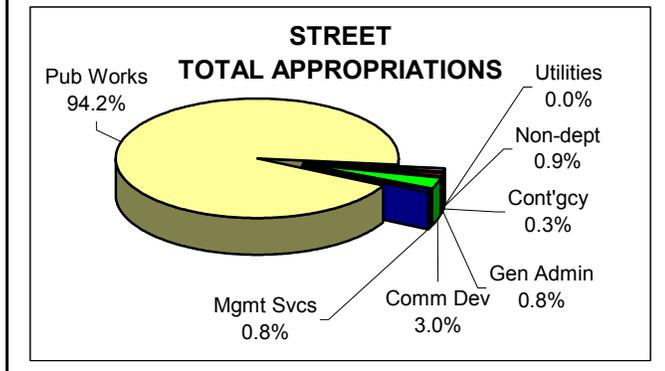
## HIGHWAY USER REVENUE FUND

REVENUES/OTHER RESOURCES	
HURF	\$ 8,083,215
LTAF (lottery)	300,246
Fund Balance	3,369,996
Fund Balance for Carryovers	12,710,953
Transfers (net)	11,139,933
Interest	316,000
	<u>\$ 35,920,343</u>



The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State. Appropriations total \$31.0 million in FY 2008. Projects budgeted includes the annual pavement maintenance program, and Sunnyside Street Improvements.

APPROPRIATIONS	
General Administration	\$ 238,262
Community Development	934,490
Management Services	259,130
Public Works	29,276,306
Utilities	3,620
Non-departmental	270,626
Contingency	100,000
	<u>\$ 31,082,434</u>



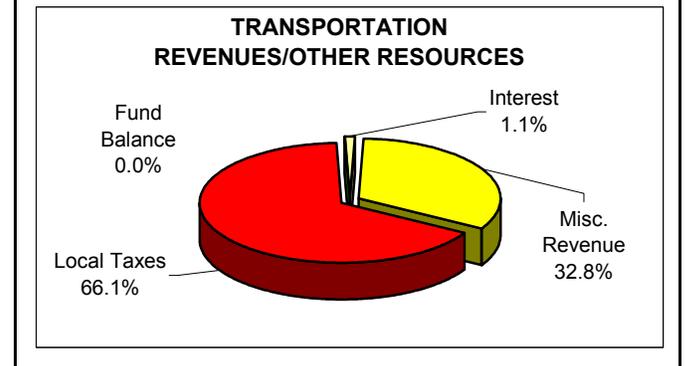
## TRANSPORTATION FUND

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 2008 Revenues
4th Street Overpass	\$ 2,685,669
Safe-to-School, Pedestrian and Bike	1,342,829
Traffic Flow and Safety Improvements	3,122,087
Transit Service Enhancements	2,937,446
Totals	<u>\$ 10,088,031</u>

Appropriations total \$6.0 million in FY 2008. Appropriations are comprised of \$2.3 million for transit operations, and \$3.6 million for debt service. Transfers include \$7.7 million to the HURF Fund for Safety and Street Improvements and \$550,000 to fund FUTS projects in Beautification from Safety and Street Improvements. The combined transportation tax rate for FY 2007 is 0.601%.

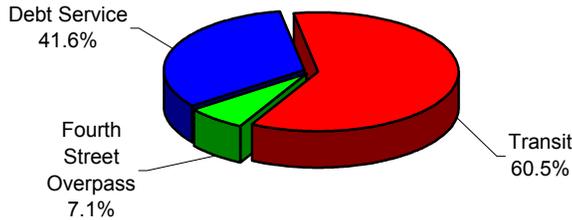
REVENUES/OTHER RESOURCES	
Local Taxes	\$ 10,088,031
Fund Bal, net of Transfers	(8,411,406)
Interest	175,000
Misc. Revenue	5,000,000
	<u>\$ 6,851,625</u>



**APPROPRIATIONS/TRANSFERS**

Transit	\$	3,641,410
Fourth Street Overpass	\$	430,000
Debt Service		1,951,358
	\$	<u>6,022,768</u>

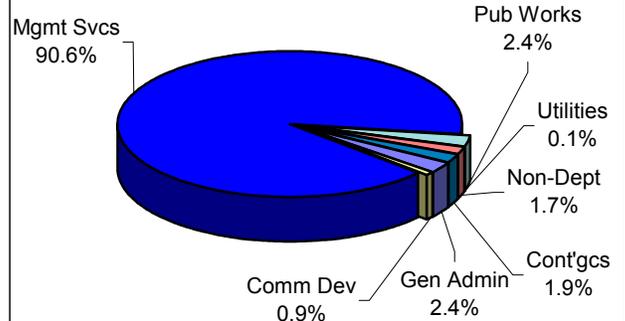
**TRANSPORTATION  
TOTAL APPROPRIATIONS/  
TRANSFERS**



**APPROPRIATIONS**

General Admin	\$	120,593
Community Development		47,691
Management Services		4,617,335
Public Works		120,378
Utilities		3,746
Non-Departmental		85,791
Contingencies		100,000
	\$	<u>5,095,534</u>

**LIBRARY  
TOTAL APPROPRIATIONS**

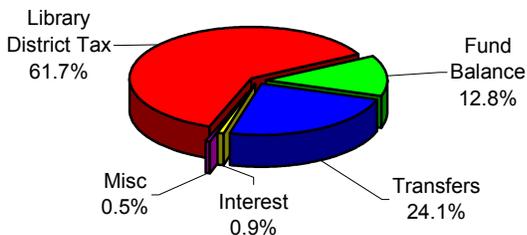


**LIBRARY FUND**

**REVENUES/OTHER RESOURCES**

Library District Tax	\$	3,294,271
Fund Balance		682,421
Transfers (net)		1,284,637
Interest		50,000
Miscellaneous		29,000
	\$	<u>5,340,329</u>

**LIBRARY  
REVENUES/OTHER RESOURCES**



The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$3.3 million of the funding for library operations comes from the library district tax.

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

**BBB FUNDS**

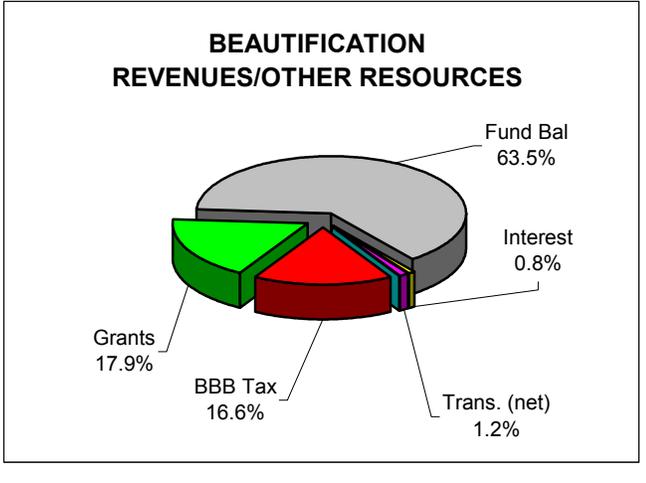
A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 general election. The BBB tax approved by voters will expire in 2013.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

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

Since inception, the City has experienced a continual growth in BBB revenues. Revenue for fiscal year 2008 is anticipated to have a growth of 23.9%. Activities funded with the revenues have made operating adjustments necessary and these changes will be reflected within each five-year plan.

**Beautification Fund:** Total resources available for Beautification Fund activities amount to \$6.9 million including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.)

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,090,073
Grants	1,176,377
Fund Balance	4,168,067
Interest	50,546
Transfers (net)	79,799
	<u>\$ 6,564,862</u>
APPROPRIATIONS	
Community Development	\$ 6,430,718
Reserve	10,000
	<u>\$ 6,440,718</u>



**Tourism Fund:** Total resources available in FY 2008 are \$2.2 million. The total appropriations are \$2.0 million, which includes a \$50,000 reserve for contingencies.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,635,110
Grant Revenues	50,000
Fund Bal, net of Transfers	433,420
Interest	23,500
Retail Sales	70,000
Miscellaneous	17,030
	<u>\$ 2,229,060</u>
APPROPRIATIONS	
General Administration	\$ 1,960,076
Reserve	50,000
	<u>\$ 2,010,076</u>

Category	Percentage
BBB Tax	73.4%
Fund Bal	19.4%
Retail Sales	3.1%
Misc	0.8%
Grant Rev.	2.2%

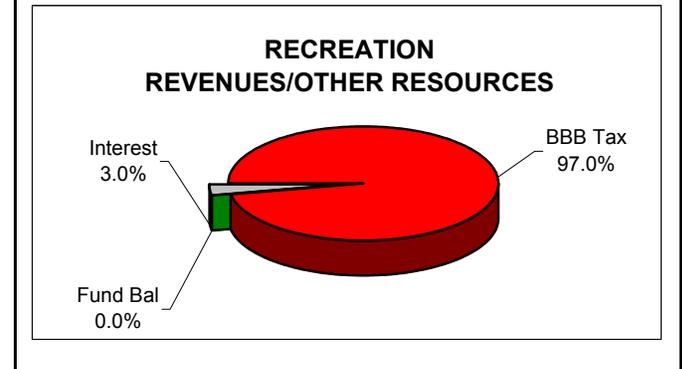
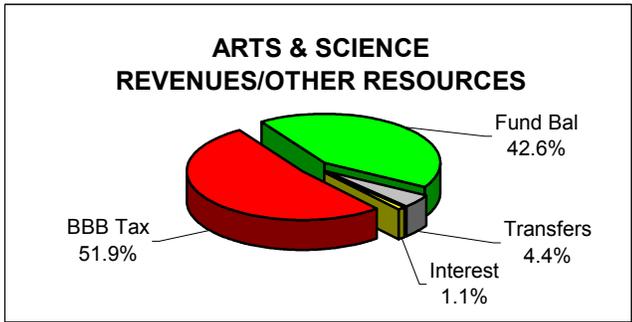
Expenditures include ongoing marketing programs and one-time expenditures for capital. Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools.

**Arts & Science Fund:** Total resources available for Arts & Science activities are \$787,430. Expenditures include contributions to local organizations and Art in Public Places. Contributions to Other Agencies are \$300,000 and Art in Public Places has \$300,000 that is derived from a 1% allocation from citywide eligible capital project expenditures and a one-time transfer of fund balance. Administrative expense of \$70,000 is paid to the Flagstaff Cultural Partners. Revenues received from the BBB tax are estimated to be \$408,777.

**Recreation Fund:** Total appropriations in FY 2008 for Recreation Fund activities are \$0.0 million. 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. In 2008, the City Council elected to continue funding of maintenance and support debt service through property taxes without increasing the rate.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 408,777
Fund Balance	335,271
Transfers	35,000
Interest	8,382
	<u>\$ 787,430</u>
APPROPRIATIONS	
Community Development	\$ 678,680
Reserve	10,000
	<u>\$ 688,680</u>

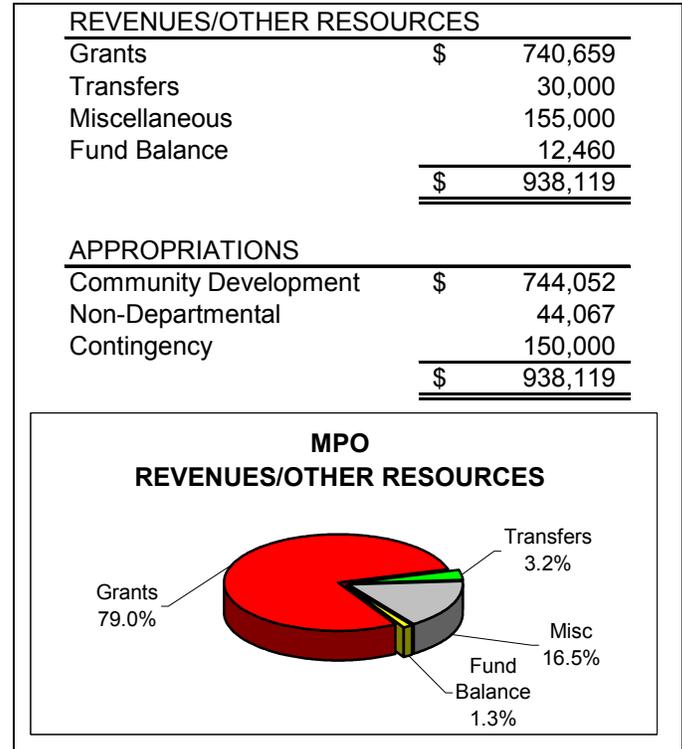
REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,798,621
Fund Bal, net of Transfers	(2,234,491)
Interest	13,500
	<u>\$ (422,370)</u>
APPROPRIATIONS	
Public Works	\$ -
	<u>\$ -</u>



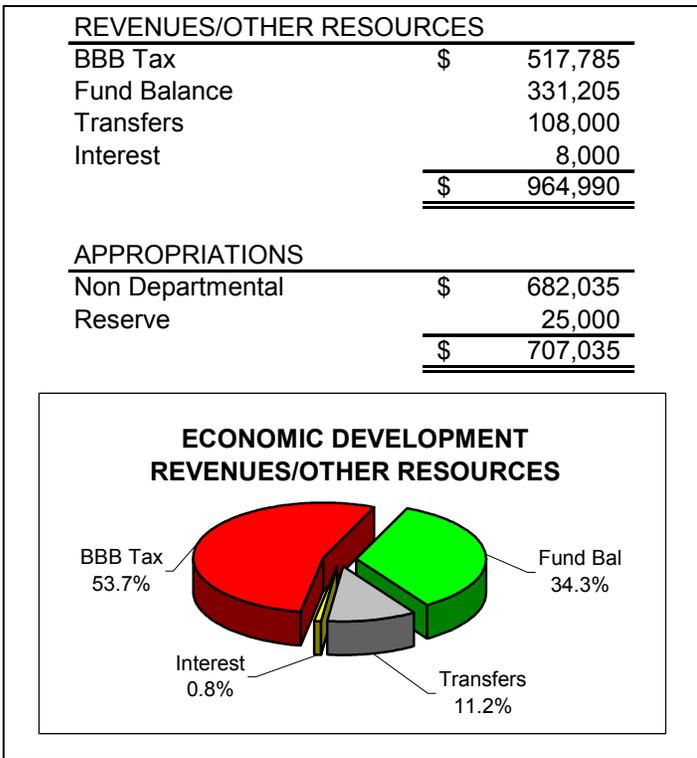
**Economic Development Fund:** There will be a shift in Economic Development efforts in 2008. As a result of several studies about the local economy, more emphasis will be placed on retaining and expanding local businesses. This will be accomplished through new in-house programs. Also, the region's workforce was identified as a factor for both business retention and attraction. Current employers have reported that they are having difficulties finding qualified labor. A workforce development program will be initiated to meet these demands. In addition, the City is funding a business incubation program, structured to allow university professors and local entrepreneurs to work in a supportive environment to develop ideas into commercial business models. The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals such as clean energy, sustainability or BioScience. Total resources allocated to this effort are \$707,035 with all monies from BBB dedicated tax for economic development and a general fund contribution of \$108,000 to support the business incubator.

**OTHER FUNDS**

**Metropolitan Planning Organization:** This fund was established to account for funding derived from the area's status as a designated Metropolitan Planning Organization (MPO). The MPO receives Federal funding administered through the Arizona Department of Transportation (ADOT).



The MPO has appropriated \$938,119 for this program for FY 2008. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through Coconino County.

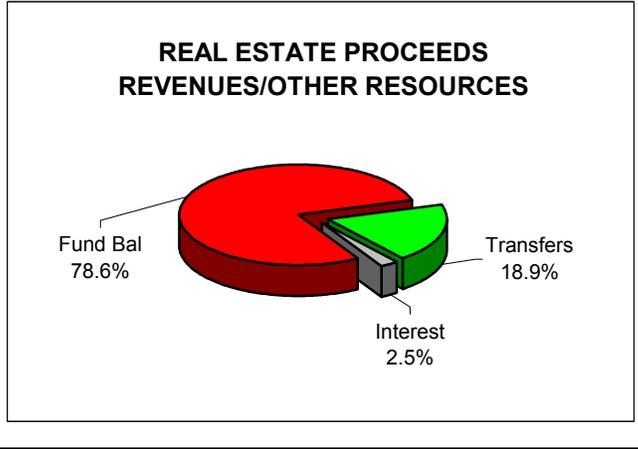
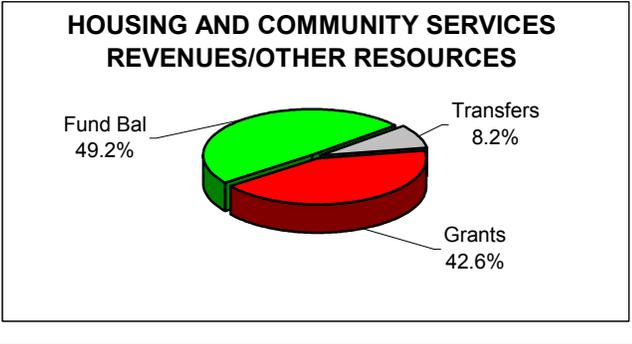


**Housing and Community Services:**

REVENUES/OTHER RESOURCES	
Grants	\$ 1,961,066
Fund Balance	2,262,740
Transfers	375,400
	<u>\$ 4,599,206</u>
APPROPRIATIONS	
Community Development	\$ 4,575,968
	<u>\$ 4,575,968</u>

**Real Estate Proceeds:** The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total \$150,000 and fund acquisition of open spaces.

REVENUES/OTHER RESOURCES	
Fund Balance	\$ 623,390
Transfers	150,000
Interest	19,350
	<u>\$ 792,740</u>
APPROPRIATIONS	
Non-Departmental	150,000
	<u>\$ 150,000</u>



This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$4.5 million appropriated to this activity for FY 2008. Expenditures in this fund include \$1.8 million for land acquisition, \$1.9 million in CDBG related activities, and \$666,000 in state grants activities.

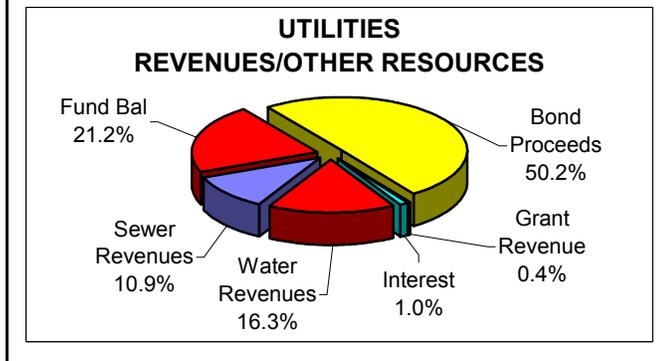


## ENTERPRISE FUNDS

**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 \$61.1 million. Resources include \$12.9 million in water revenues and \$8.6 million in sewer revenues.

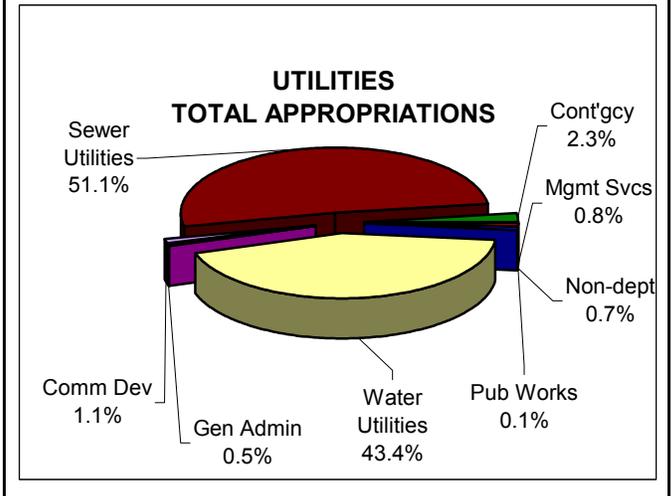
**Water Operations:** Total appropriations relating to direct costs for the water operations are \$26.5 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and land acquisition. Revenue estimates total \$12.9 million for water sales. A rate increase was approved for FY 2008 to help repay debt service for bond projects along with a new water resource fee.

REVENUES/OTHER RESOURCES	
Water Revenues	\$ 12,880,882
Sewer Revenues	8,612,684
Fund Bal, net of Transfers	16,805,558
Bond Proceeds	39,700,000
Grant Revenue	311,099
Interest	424,000
	<u>\$ 78,734,223</u>



## APPROPRIATIONS

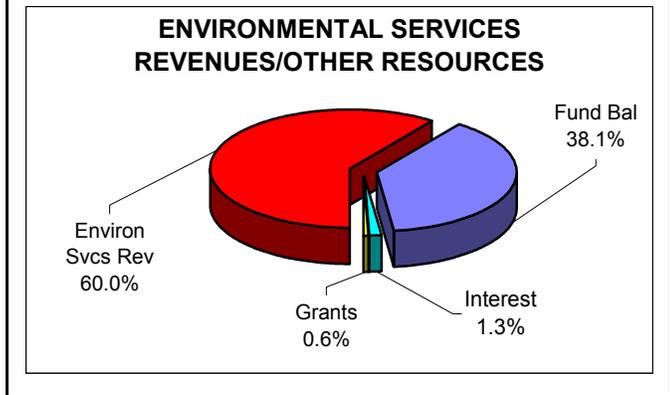
General Administration	\$ 307,386
Community Development	676,081
Management Services	502,681
Public Works	59,148
Non-departmental	425,357
Water Utilities	26,536,997
Sewer Utilities	31,243,291
Contingency	1,400,000
	<u>\$ 61,150,941</u>



**Wastewater Operations:** Total appropriations relating to the direct costs for the wastewater operations are \$31.2 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Bonds will fund major improvements to the Wildcat Wastewater Treatment facility. Revenue estimates total \$8.6 million in wastewater service charges. A rate increase was approved for FY 2008 to help repay debt service for bond projects.

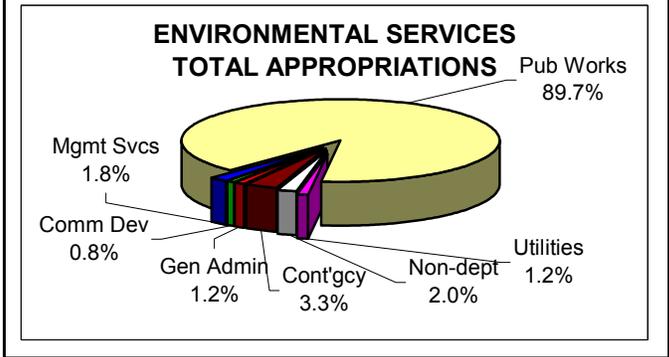
**ENVIRONMENTAL SERVICES FUND:** Total financial resources are \$16.7 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, 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	\$ 10,061,827
Fund Bal, net of Transfers	6,381,895
Interest	222,005
Grants	90,400
	<u>\$ 16,756,127</u>



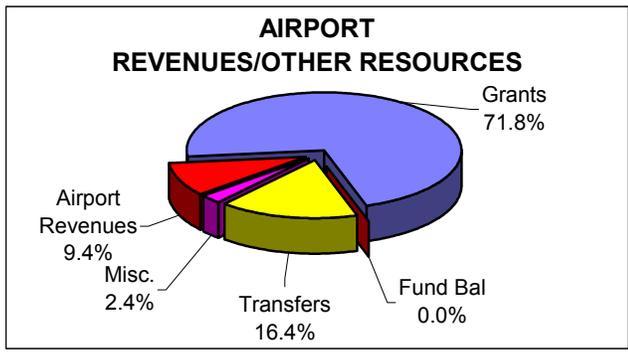
Currently, the existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. 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	\$ 186,315
Community Development	118,426
Management Services	264,823
Public Works	13,497,223
Utilities	182,200
Non-departmental	301,520
Contingency	500,000
	<u>\$ 15,050,507</u>



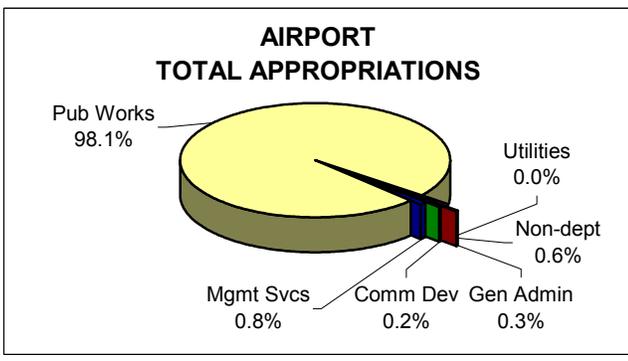
**AIRPORT FUND:** Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix. Total appropriations are \$13.4 million: \$1.5 million for operations, \$649,878 for debt and \$11.2 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

REVENUES/OTHER RESOURCES	
Airport Revenues	\$ 1,267,164
Grants	9,674,614
Fund Balance	453
Transfers (net)	2,204,757
Miscellaneous	326,854
	<u>\$ 13,473,842</u>



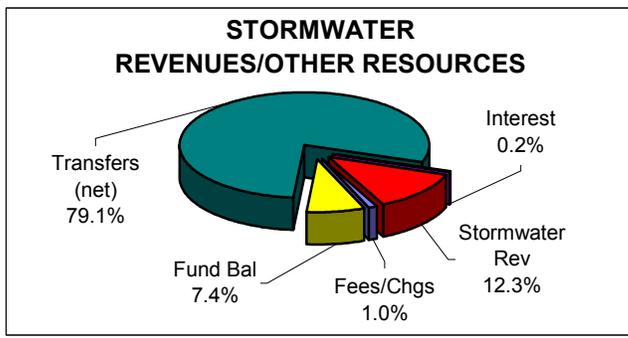
The general fund will continue to subsidize operations at \$443,000 this year with an additional \$1,462,000 for capital improvements including matching funds for grants. This year, of the \$11.2 million in capital improvements, FAA and ADOT are funding \$9.6 million and Airpark proceeds will fund \$69,897. The secondary property tax fund will transfer \$263,423 to cover debt service not paid with passenger facility charges.

APPROPRIATIONS	
General Administration	\$ 41,380
Community Development	20,586
Management Services	110,960
Public Works	13,220,324
Utilities	642
Non-departmental	79,327
	<u>\$ 13,473,219</u>



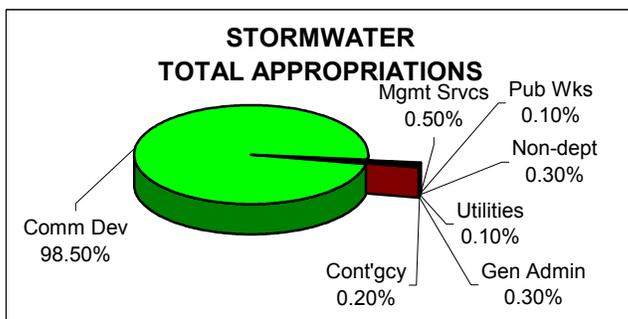
**STORMWATER FUND:** The Stormwater fund was initiated as a response to enhanced NPDES stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 square feet of impervious area. A rate increase has been approved for FY 2008.

REVENUES/OTHER RESOURCES	
Stormwater Revenues	\$ 1,056,491
Fees & Charges	89,757
Fund Balance	637,296
Transfers (net)	6,806,032
Interest	12,746
	<u>\$ 8,602,322</u>



Total revenues/other resources include transfer of \$6.8 million from the general fund for the Rio de Flag project. Total appropriations of \$8.3 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag including related parking.

APPROPRIATIONS	
General Admin	\$ 21,442
Community Development	8,140,621
Management Services	43,055
Public Works	8,824
Utilities	10,200
Non-departmental	21,643
Contingency	10,000
	<u>\$ 8,255,785</u>



## **FIVE-YEAR PROJECTIONS BY FUND**

The City updates five-year plans annually during the budget process. These plans are an important tool to continue our emphasis on strategic planning and to identify the capacity of the City to fund projected expenditures. Revenue and resource estimates are based on the latest available economic and demographic trend information. All significant expenditure issues have been incorporated into the projections including the following: employee compensation, City growth, and additional operational costs associated with completion of capital projects. The projections are not intended to be an exact prediction of what each department will spend in the next five years.

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

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

The five-year projections are located in the Financial Summary section, Schedule 11. The following narratives present the highlight of the forecasts by funds:

### **GENERAL**

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

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

### **LIBRARY**

The five-year plan for Library shows the ability to fund ongoing operations costs with funding from the City,

through revenue transfers, and the County, through Library District Taxes.

### **HIGHWAY USER**

This fund is devoted to the maintenance, improvements, and construction of street related items. The fund first matches ongoing revenues with ongoing maintenance and then plans out the capital equipment and improvements. Several capital improvements include portions that are funded through revenue transfers from other funds. The five-year plan shows the ability to balance ongoing and one-time expenditures while maintaining an 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 2007 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 include; BBB Tax, Grants 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 and General Fund transfers. Ongoing expenditures support a number of efforts focused on business attraction, retention, and work force development.

### **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.

### **HOUSING AND COMMUNITY SERVICES**

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

### **METROPOLITAN PLANNING ORGANIZATION**

This fund is used for transportation planning grants. It is currently estimated that grant revenues will remain consistent throughout the next five years. Some work is performed for internal customers and allocated through charge-outs.

### **GENERAL OBLIGATION BOND**

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

### **SECONDARY PROPERTY TAX**

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

### **SPECIAL ASSESSMENT BOND**

This fund is set up for repayment of bonds issued for special assessment district. The City currently has one such district which will be paid in FY 2010.

### **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.

### **CAPITAL PROJECTS BOND**

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

### **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.

### **AIRPORT**

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

### **ENVIRONMENTAL SERVICES**

This enterprise fund is self-sustaining through user fees. The five-year projection includes a rate increase for FY 2008, which coincides with on-going operations; capital needs, and revised service levels for all operations. Included in the five-year projection is the anticipated funding to cover the landfill closure and post-closure costs at the end of the useful life of the landfill.

### **STORMWATER**

This fund is an enterprise fund to oversee City issues related to drainage and the associated federal requirements. Ongoing operating expenditures are paid for with stormwater revenues and user fees. Capital projects are currently funded with transfers from other divisions. A rate increase was approved for FY 2007 and to self-fund capital improvements and increase inspection efforts as required by NPDES. Rates will continue to be increased annually from FY 2008 to 2011.

**FIREMEN’S PENSION**

This fund is maintained to pay eligible volunteer firemen monthly benefits. There are currently three beneficiaries who intend to distribute all proceeds in FY 2008 and close the fund.

**REVENUES**

Historical Trend Information for Select Revenues

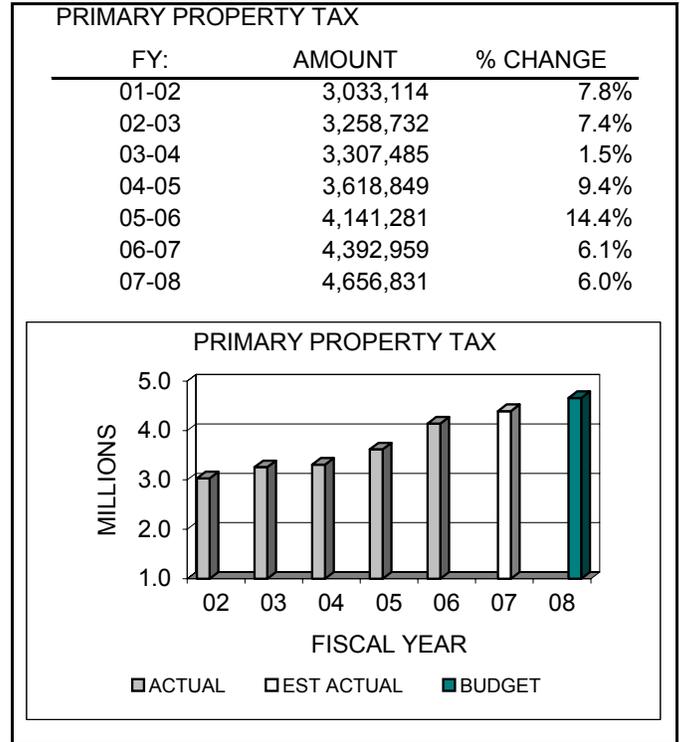
**GENERAL FUND**

***PROPERTY TAX RECEIPTS CURRENT, PRIMARY***

Legal Authority: Arizona Revised Statutes Section 42-45 (B) based on the State Constitution Article 9, Section 18. Revised through HB2876, June 2006.

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. This legal restriction previously had no impact on the City as the City had levied less than 50% of the maximum allowed. For FY 2007, legislation was introduced through an omnibus bill and signed by the governor that changed the base amount to the amount assessed in tax year 2005 this was subsequently approved in the November general election. This change decreased the City’s ability to assess property tax dramatically.



Primary property taxes generally change on an annual basis for two reasons: new construction that is added to the tax rolls and the reassessment of existing property. New construction added over \$24 million dollars to the assessed valuation for FY2008 and accounts for 4% of the increase.

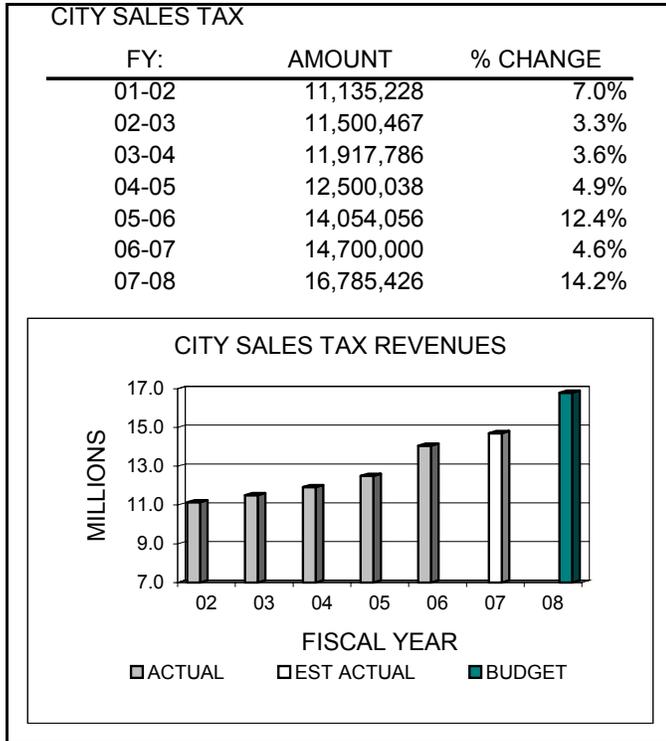


**CITY SALES TAX (TRANSACTION PRIVILEGE TAX)**

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

Tax currently sunsets 2014.

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. Additional sales taxes levies include a 2% tax on hotels, restaurants and bars (BBB Tax) and a 0.601% transportation tax.



The 1% portion is designated as General Fund revenue to support activities and services provided by the City government. Bed, Board and Booze (BBB) and Transportation taxes are presented separately in this section.

The City removed a number of deductions previously granted for sales tax calculations. The deleted deductions include the fair market value of land deduction and a deduction for commercial properties that only have a single tenant. The City expects to generate approximately \$240,000 additional revenue through this action.

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 2007 was driven by increases in construction, tourism, retail sales, and the change in deductions noted above. Construction remains strong, primarily in residential. The revenue projection for FY 2008 anticipates larger increases in

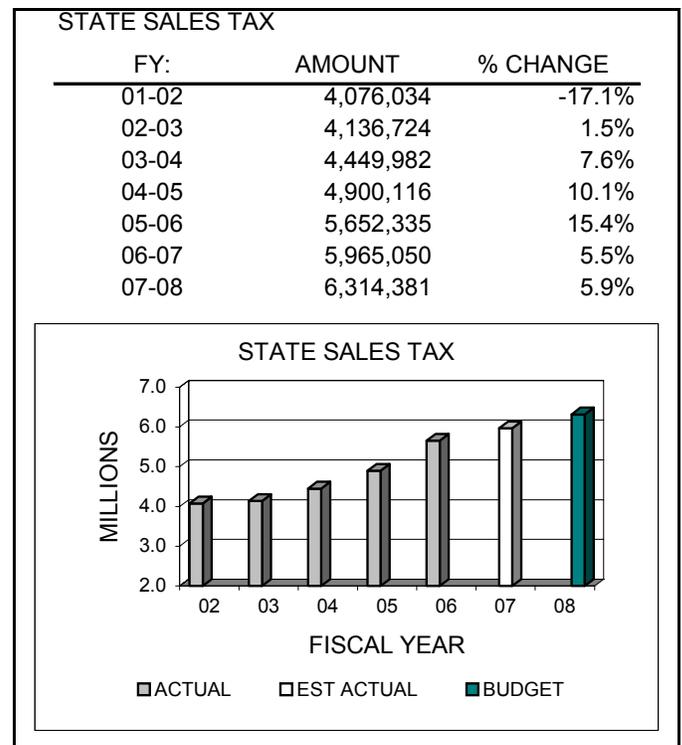
retail with both the Flagstaff Mall expansion and the Auto mall projects completed by mid-year.

**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 2008 reflects the continued economic rebound at the state level.



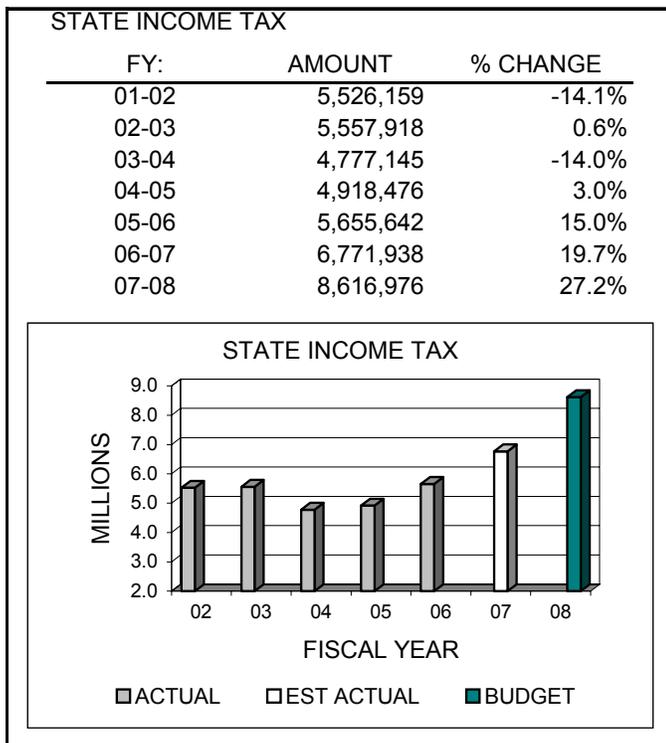
**STATE INCOME TAX (REVENUE SHARING)**

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

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

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

The large decrease in FY 04 is due to the State receiving less revenue from income tax than previously estimated. All cities have received a proportionate decrease. The League of Arizona Cities and Towns provides the revenue estimates for FY 2008. The increase in FY 2008 is due to Flagstaff's relative population has increased in comparison to the rest of the state.



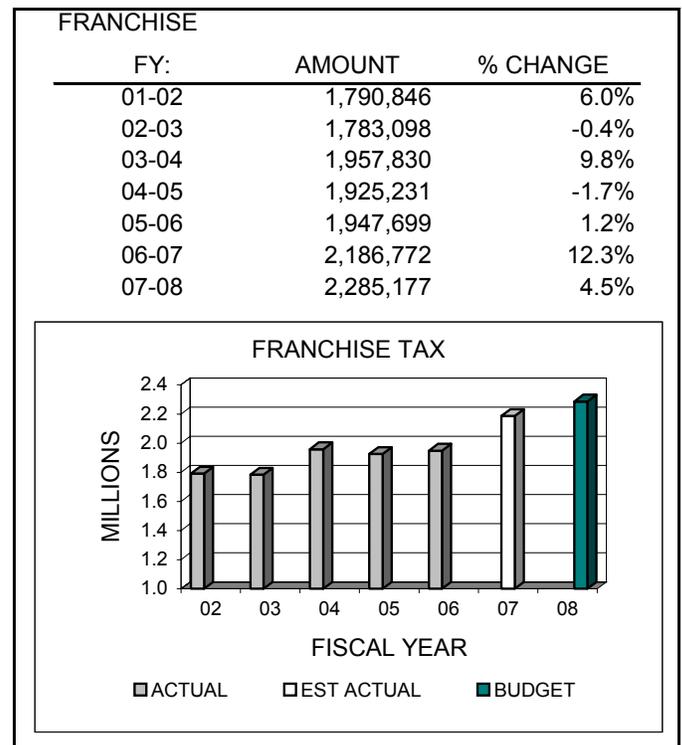
**FRANCHISE TAX**

Legal Authority: Flagstaff Charter and City Code Article XII

Arizona Public Service: Ordinance 360 (expires 8-21-2011), UniSource Energy Services: Ordinance 1879 (expires 10-3-2020), US West, MCI, US Sprint, Central Corp, and A T & T: Ordinance 585. NPG: Resolution 2006-72 (expires 12-31-2016).

Description: A 2% tax from utility companies--Arizona Public Service and UniSource--is credited to this account. The City also receives a franchise tax from Qwest Telephone Co., A T & T, NPG Cable, MCI, US Sprint, and Central Corp; these entities are currently taxed at 2% except NPG Cable that is taxed at 5%.

The growth rate for Franchise Tax revenue in FY 2008 is due to the renegotiated contract with NPG Cable.

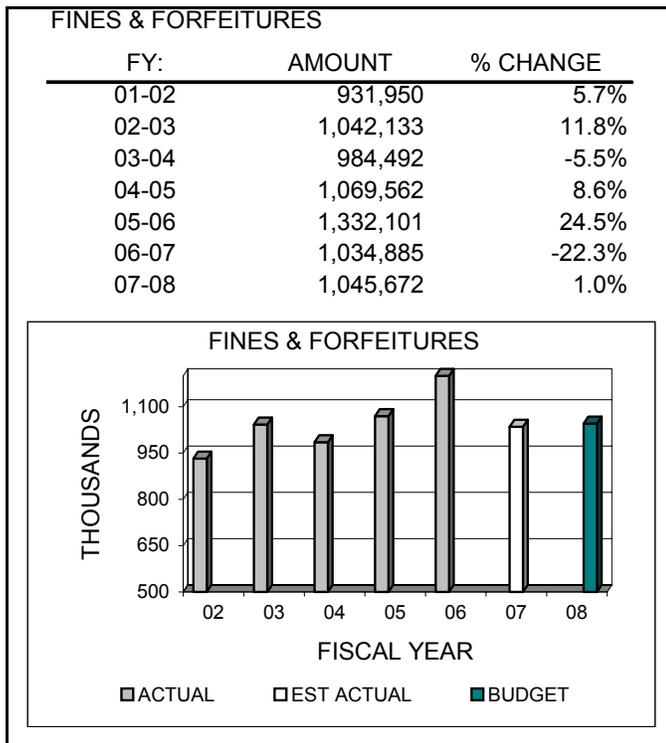


**FINES & FORFEITURES**

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 2006 was due to the inception of the FARE program. Fiscal years 2007 and 2008 reflect normalized collections.

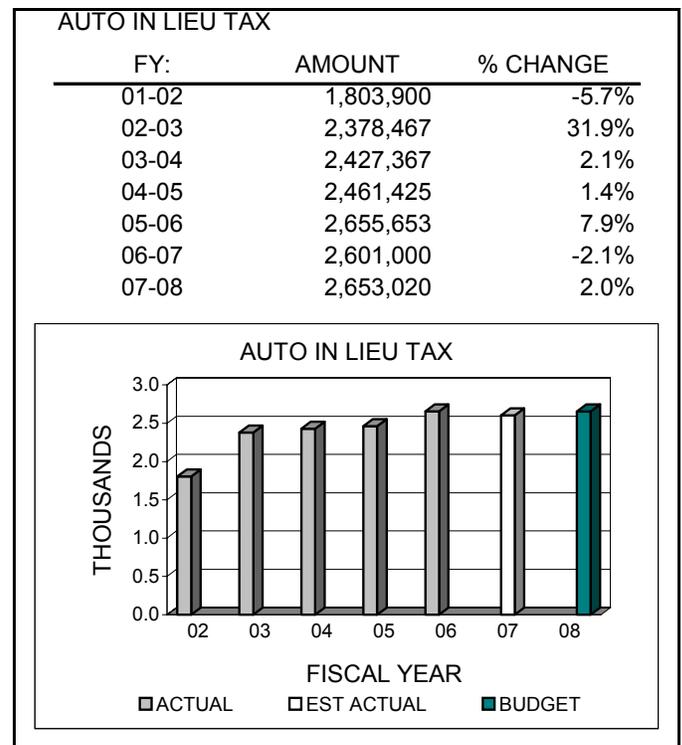


**AUTO IN LIEU TAX**

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.

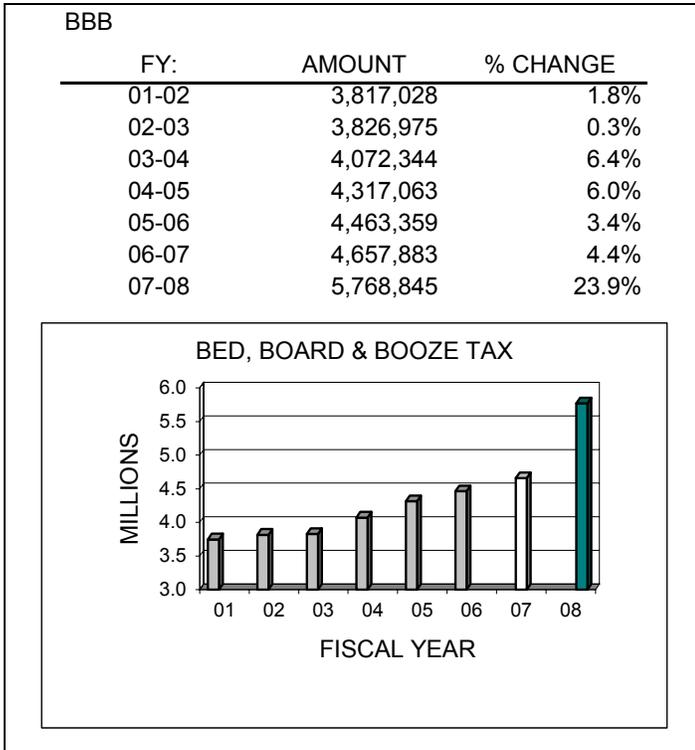
Revenues have been steadily increasing due to the recent sales boosts in auto sales due to 0% financing and other offered incentives.



## BBB FUNDS

### BED, BOARD & BOOZE TAX

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



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

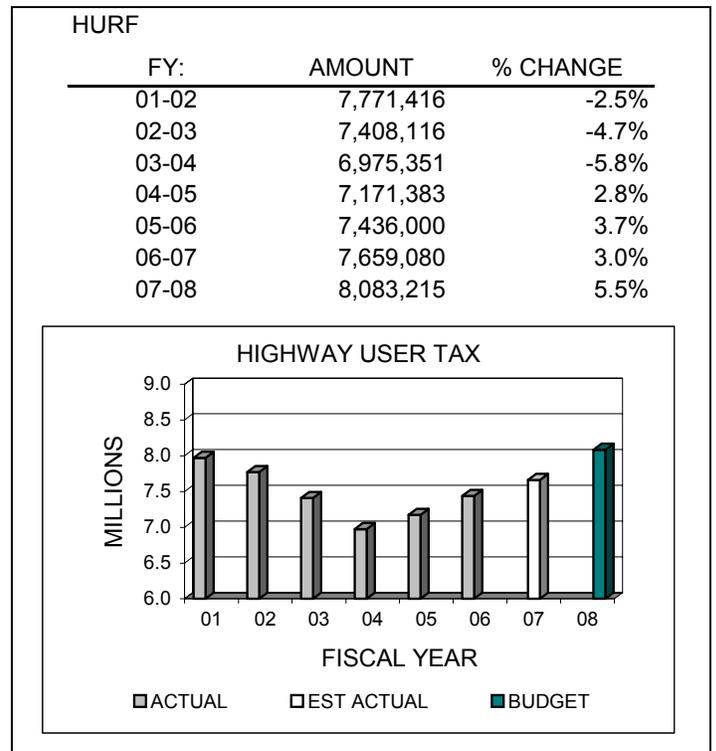
The steady growth reflects that the Flagstaff area remains a highly desirable tourism destination that is not as susceptible to economic downturns as realized by other Arizona locales. The BBB Revenue projection for FY 2008 reflects an increase of 23.9% as tourism increases in Northern Arizona.

## 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.



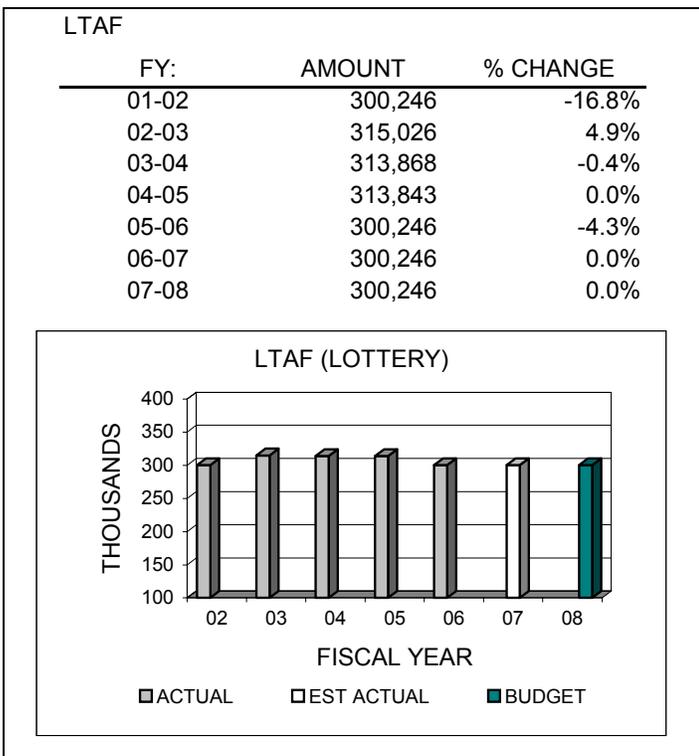
Due to a new reporting mechanism that the state is utilizing to distribute the state shared motor vehicle fuel tax, the City has experienced a decrease in the share of this revenue. The City continues to experience an increase in HURF revenues. FY 2007 saw a 3% growth and a growth of 5.5% is anticipated in FY 2008.

**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.

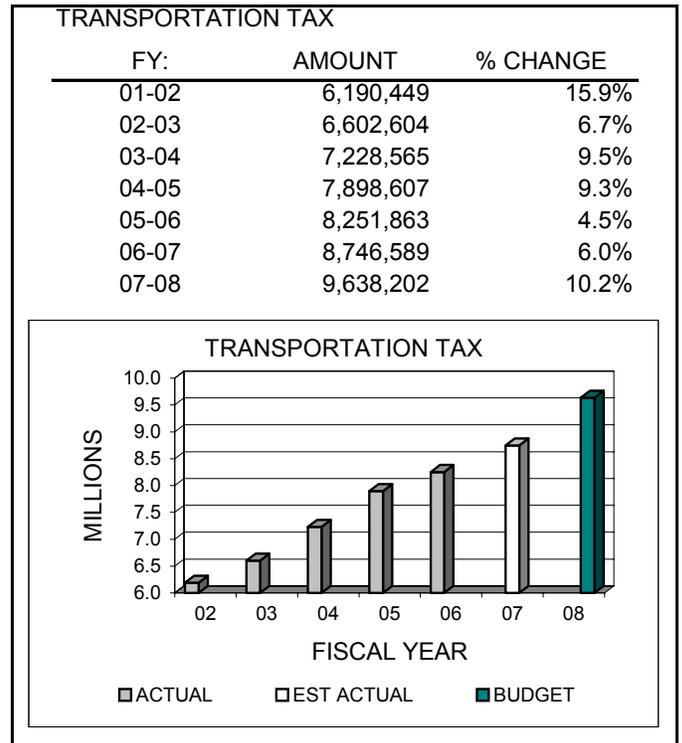
The City is eligible for monies from the Powerball Lottery game; however, this program has only reached the revenue thresholds that resulted in distribution to the Cities in FY 1998. The State lottery dollars are capped, and will remain static.



**TRANSPORTATION TAX**

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

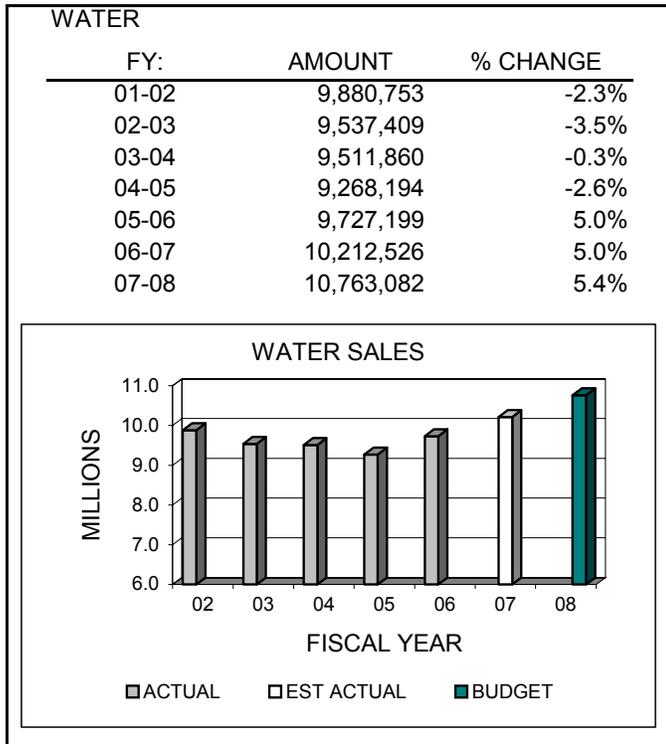
Description: The Transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps pay for a 4<sup>th</sup> Street overpass, safety improvements, street improvements, and transit services. The transportation tax is assessed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



## ENTERPRISE FUNDS

### WATER SALES

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



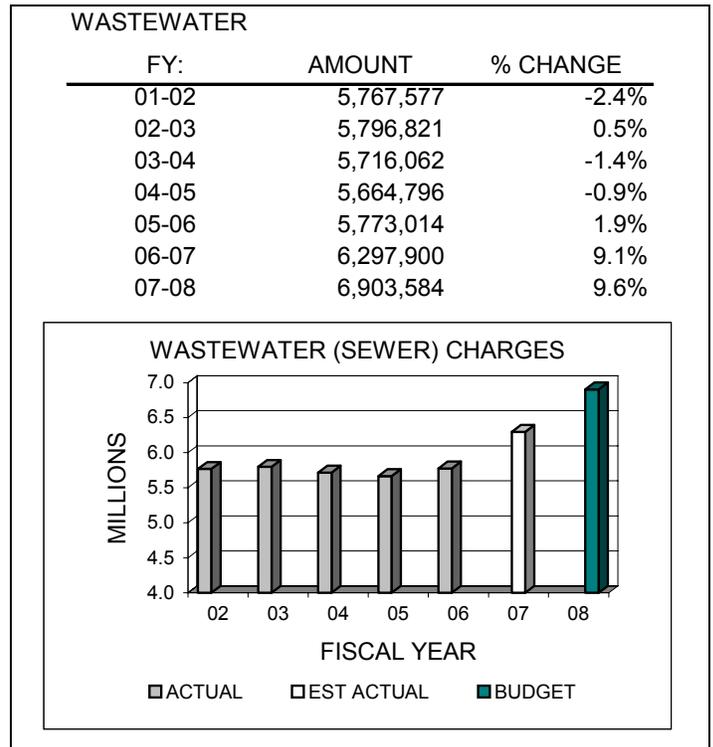
Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of a base charge for the amount of water consumed with an inverted rate structure for consumption levels above the base amount so as 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 through FY 2005 is because of water restrictions due to a drought year. A rate increase has been approved for FY 2008 which was based on utilities rate model and debt issues to cover voter approved projects.

## WASTEWATER SERVICE CHARGES

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

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



The revenue projections include a 2.0% factor due to population and consumption changes. A rate increase has been approved for FY 2008. This is a result of issuing voter approved debt for the Wildcat Plant upgrade.

**ENVIRONMENTAL SERVICES**

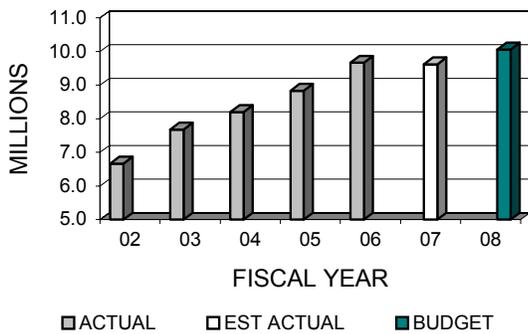
Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9

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

**ENVIRONMENTAL SERVICES**

FY:	AMOUNT	% CHANGE
01-02	6,666,886	29.6%
02-03	7,680,008	15.2%
03-04	8,200,102	6.8%
04-05	8,833,909	7.7%
05-06	9,666,478	9.4%
06-07	9,617,577	-0.5%
07-08	10,061,827	4.6%

**ENVIRONMENTAL SERVICES REVENUES**



The increase in revenues for FY 2008 represents expected increases related to residential and commercial collection from prior years. A rate increase for FY 2008 is planned however it is not yet budgeted. Final rates are to be determined.

**AIRPORT**

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

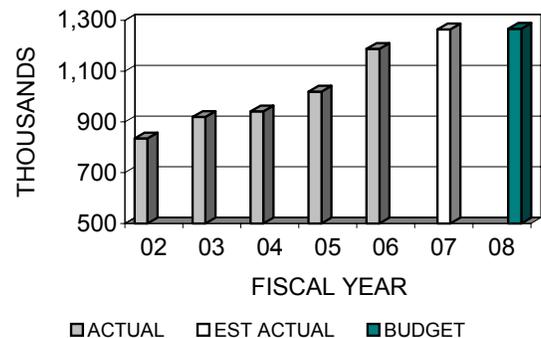
Description: Airport revenue is derived from the rental of airplane hangars, tiedowns, tiedowns with electricity, and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from 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 2008 are mainly due to a new terminal lease, growth in ground leases, auto rental revenues, and revenue from new hangars that were constructed in FY 2005.

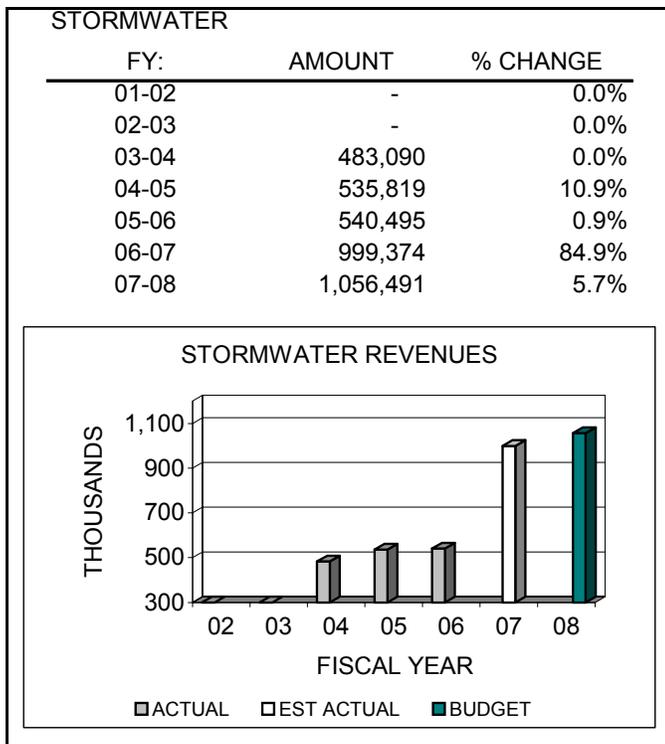
**AIRPORT**

FY:	AMOUNT	% CHANGE
01-02	834,941	4.3%
02-03	919,915	10.2%
03-04	941,623	2.4%
04-05	1,019,147	8.2%
05-06	1,188,512	16.6%
06-07	1,264,725	6.4%
07-08	1,267,164	0.2%

**AIRPORT REVENUES**



## STORMWATER



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

Description: Stormwater revenue is determined by the number of Equivalent Runoff Units (ERU)s on a property. An ERU is defined as 1500 square feet of impervious matter. Charges are the same for both commercial and residential customers. The first year of implementation was FY 2004 with a rate of \$.53 per ERU. The FY 2007 estimated revenue increase of 84.9% is due to the new stormwater rate of \$.92 per ERU covers additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program. The FY 2008 approved rate is \$1.02 and will be increased by \$.10 per year until FY 2011 when rate will be set at \$1.30.

## 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 FY 2007 which resulted in an increase in user fees. This fee also includes a new water resource impact fee.

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

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

### CAPITAL IMPROVEMENT PLAN

#### *What is a Capital Improvement Plan?*

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

Planning in one or two-year increments has proven to be inadequate because of the complexity of projects and the public input process, as well as the design time

needed for engineering plans, specifications, and right-of-way acquisition.

After Council has identified priorities and input has been received from all City departments, the development of the actual Capital Improvement Plan is completed. This requires coordination between the budget function and engineering because of the impact of constructed capital projects on the operating budget. For example, bond funds might be used to construct a branch library. However, once construction is completed, the library must be staffed, utility bills must be paid, and the facility must be cleaned and maintained. Therefore, an effective capital improvement plan should always be viewed in context of its impact on the operating budget. You will find anticipated future operations and maintenance impacts as projects are completed in the Capital Improvement Project section of this budget book.

#### **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 2008 CAPITAL IMPROVEMENT PLAN**

The City budget for FY 2008 includes capital improvement projects totaling \$144.1 million. This amount includes \$33.2 million in carryover items that have been budgeted. Project funding is comprised of the following: \$13.4 million in grants primarily for airport improvements, business incubator and beautification projects. \$71.5 million in general obligation (G.O.) bonds and capital leases for the construction of Fire Stations, Aquatic/Multi-Gen Center, Wastewater Treatment Plant upgrade and other projects that were approved by the voters in the 2004 General Election. \$59.2 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** – Seven projects are scheduled for FY 2008 for a total of \$56.7 million. Projects included in this category are several of the projects authorized by voters in the May 2004 election. These include, Fire Fighting Facilities, an aquatic/multi-generational recreation center; and open space acquisition. Also included in this category is redevelopment land acquisition, a business incubator and The Aspen Place at Sawmill Development.

**Streets/Transportation** – The City currently has 219 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 East Flagstaff Gateway project. There are a total of 29 Streets Transportation projects scheduled at a budgeted cost of \$22.5 million. HURF revenues fund \$5.8 million of these projects with Transportation Tax funding \$16.7 million.

**BBB Funds** – Projects include Beautification, Tourism and Recreation funding. These projects include Multi-Use Path along Highway 180 and continuing our connectivity of FUTS Trails. This year Federal and State grants will provide funding of \$1.1 million. 30 projects are scheduled at a budgeted cost of \$6.4 million for FY 2008.

**Utilities Fund** – Major projects for Water production and distribution include \$7 million for future water rights acquisition and \$4.5 million for water wells. Major projects for Wastewater plants and collection include \$15 million for WC upgrade/reclaim extensions. 16 water projects and 17 wastewater projects are scheduled at a combined budget of \$39.7 million for FY 2008.

**Airport Fund** – Four projects are scheduled at a budgeted cost of \$11.2 million for FY 2008. The major project this year is the design for the Runway Extension and land acquisition.

**Environmental Services Fund** - This year's CIP includes 6 projects for a total cost of \$371,164. The largest project is the construction of a maintenance building at a cost of \$175,000.

**Stormwater Fund** – The Stormwater fund completed its third year of operations as a new utility fund for the City of Flagstaff. 3 projects are budgeted in this fund with a cost of \$7.0 million in FY 2008. These projects include; drainage spot improvement and the Rio De Flag Drainage Project.

## 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 was added in FY 2007. This rate model provides for major capital improvements, additional bond funding, and increased operating costs. A rate occurred in FY 2007 as a result of the updated Utility Rate Analysis. This increased fee also includes a new water resource impact fee. In May 2004 the voters authorized the sale of bonds to support 3 new Utility projects. These projects are reclaimed water system and related wastewater improvements; water wells; and water rights acquisition.

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

**Transportation Taxes:** On May 16, 2000, the voters also approved a 0.51% transportation tax for twenty years that supports four major transportation issues. The four major areas undertaken are the 4th Street Overpass; Safety to School/Pedestrian/Bike; traffic Flow and Safety Improvements; and Transit Service Enhancements. Through scheduled increases approved at the time of the election, the transportation tax is at 0.601% as of July 1, 2003.

## DEBT

### DEBT CAPACITY

The City's legal debt margin shown below, demonstrates adequate capacity to complete the capital projects proposed with the May 2004 bond election. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

### CURRENT DEBT POSITION

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

<b>General Obligation Debt</b>	
July 1, 2007	
20% Limitation (Water, Sewer, Lighting, Open Spaces, Recreation, and Fire Facilities Purpose Bonds)	
Assessed Valuation	\$ 750,538,367
Allowable 20% Debt	\$ 150,107,673
20% Debt Outstanding	(43,860,000)
Allowable Debt Margin	\$ 106,247,673
6% Limitation (All Other General Obligation Bonds)	
Assessed Valuation	\$ 750,538,367
Allowable 6% Debt	\$ 45,032,302
6% Debt Outstanding	(680,000)
Allowable Debt Margin	\$ 44,352,302

**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, 2007, the total actual indebtedness is \$99.7 million. FY 2008 annual debt payments are projected to be \$14.4 million. Under current state statutes, the City's General Obligation bonded debt issuances are subject to a legal limitation based on 6% of assessed valuation of real property for general purposes, e.g., buildings, land acquisition, street and highway construction and a limitation of 20% on assessed valuation of real property for public works projects, e.g., water, sewer, sanitation, parks, open space, and Fire facilities as approved by voters in 2006. At the start of the fiscal year, July 1, 2007, the City's 20% general obligation debt of \$43,860,000 is well below the legal limit of \$150,107,673. The City's 6% general obligation debt of \$680,000 is also well below the legal limit of \$45,032,302. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

Schedule of Bonded Indebtedness-Current Debt Only

FY	Principal	Interest	Total
2008	9,061,846	4,312,107	13,373,953
2009	9,332,171	3,902,408	13,234,579
2010	8,604,446	3,507,261	12,111,707
2011	8,898,747	3,158,525	12,057,272
2012	9,319,159	2,788,347	12,107,506
2013	7,323,338	2,390,183	9,713,521
2014	5,689,003	2,071,900	7,760,903
2015	5,181,072	1,819,854	7,000,926
2016	5,178,116	1,593,216	6,771,332
2017	4,805,125	1,342,641	6,147,766
2018	4,882,665	1,125,069	6,007,734
2019	5,110,737	897,763	6,008,500
2020	5,339,813	659,659	5,999,472
2021	3,324,939	418,717	3,743,656
2022	3,461,167	285,082	3,746,249
2023	2,414,743	148,816	2,563,559
2024	706,337	65,255	771,592
2025	617,720	36,932	654,652
2026	525,000	17,220	542,220
	<u>\$ 99,776,144</u>	<u>\$ 30,540,955</u>	<u>\$130,317,099</u>

