

BUDGET OVERVIEW

The City of Flagstaff FY 2013 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 2013; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

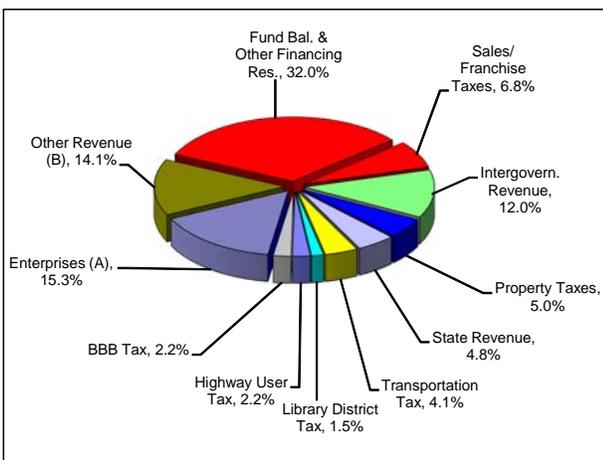
Sales/Franchise Taxes	\$ 16,787,925	6.8%
Intergovernmental Revenue	29,776,120	12.0%
Property Taxes	12,330,834	5.0%
State Revenue	11,947,550	4.8%
Transportation Tax	10,223,455	4.1%
Library District Tax	3,843,535	1.5%
Highway User Tax	5,555,000	2.2%
BBB Tax	5,531,750	2.2%
Enterprises (A)	37,917,702	15.3%
Other Revenue (B)	34,940,782	14.1%
Fund Bal. & Other Financing Res.	79,249,446	32.0%
	<u>\$ 248,104,099</u>	<u>100.0%</u>

(A) Enterprises:

Water	\$ 12,940,449
Wastewater	8,444,905
Airport	1,666,101
Environmental Services	12,392,011
Stormwater Utility	1,436,764
Flagstaff Housing Authority	1,037,472
	<u>\$ 37,917,702</u>

(B) Other Revenue:

Licenses and Permits	\$ 790,930
Vehicle License Tax	2,486,750
Charges for Services	3,028,980
Fines and Forfeits	1,238,570
Interest on Investments	518,927
Misc Revenue	26,876,625
	<u>\$ 34,940,782</u>



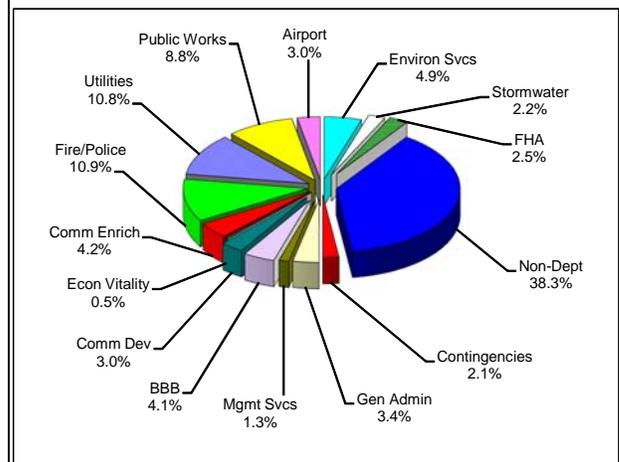
"WHERE THE MONEY COMES FROM"
\$248,104,099

TOTAL APPROPRIATIONS

General Administration	\$ 8,395,367	3.4%
Management Services	3,123,808	1.3%
BBB (A)	10,227,051	4.1%
Community Development	7,489,037	3.0%
Economic Vitality	1,200,701	0.5%
Community Enrichment	10,324,785	4.2%
Fire/Police	27,090,640	10.9%
Utilities	26,764,580	10.8%
Public Works	21,890,876	8.8%
Airport	7,442,365	3.0%
Environmental Services	12,144,719	4.9%
Stormwater	5,567,829	2.2%
Flagstaff Housing Authority	6,312,656	2.5%
Non Departmental	94,921,435	38.3%
Reserves/Contingencies	5,208,250	2.1%
	<u>\$ 248,104,099</u>	<u>100.0%</u>

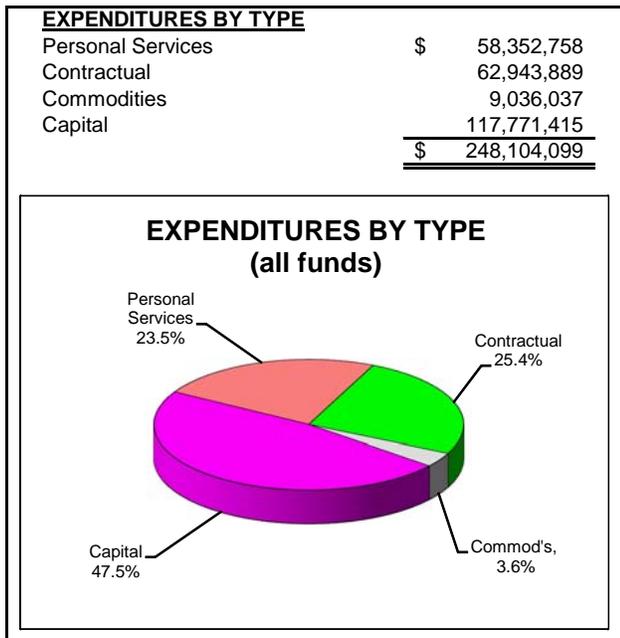
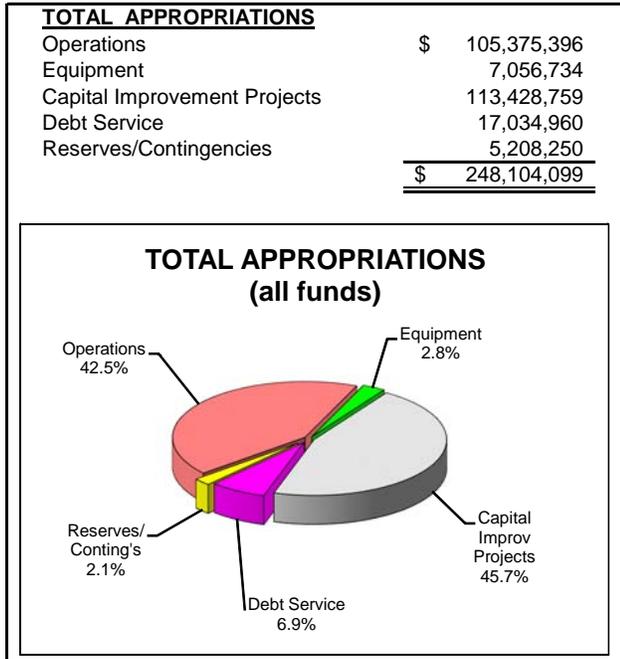
(A) BBB Tax Funds:

Beautification	\$ 6,576,638
Tourism	1,624,102
Economic Development	1,389,255
Arts and Science	637,056
	<u>\$ 10,227,051</u>



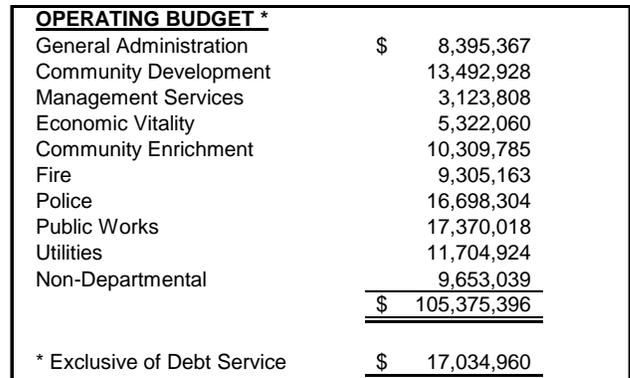
"WHERE THE MONEY GOES TO"
\$248,104,099

The following graphs depict the major classifications of appropriation for the total FY 2013 budget and expenditures by major types.



OPERATING EXPENDITURES BY DIVISION

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 division budgets are presented to include section budgets and Divisional (organizational structure) responsibilities as defined by the City Code.



General Administration activities comprise 8.0% of the budget (\$8.4 million). The sections within this Division provide for the overall management and administration of the City, as well as enforcement of municipal laws through legal support and the courts. This division consists of City Manager, City Clerk, City Attorney, City Court, Human Resources, Risk Management, Real Estate Program and Information Technology.

Community Development (CD) comprises 12.8% of the operating budget (\$13.5 million). The services in this Division include Planning & Development Services, Engineering, Capital Improvements, Housing, MPO (Metropolitan Planning Organization), Community Redevelopment Services, FUTS (Flagstaff Urban Trail System), CD Administration and Flagstaff Housing Authority. The services provided by these divisions meet the current needs of the community and plan for the future.

Management Services comprises 3.0% of the operating budget (\$3.1 million). The division encompasses those activities that provide administrative support and services including financial services, budgeting, purchasing, customer service, forest management and sales tax.

Fire Department services comprise 8.8% of the operating budget (\$9.3 million). The Division'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 15.8% of the operating budget (\$16.7 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 seven sections that account for 16.5% of the operating budget (\$17.4 million), excluding the debt service requirements for streets (\$0.5 million) and USGS facility (\$1.4 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, fleet services, and transportation services.

Economic Vitality activities comprise 5.1% of the operating budget (\$5.3 million) excluding debt service requirements for Airport (\$0.3 million) and Business Incubator (\$0.4 million). The division includes the following sections: Community Investment, Tourism and Visitor Center, Airport, Arts and Science, Urban Design, Streetscape, and Economic Development.

Community Enrichment activities comprise 9.8% of the operating budget (\$10.3 million). The division provides the following services: recreation services and operations of the City/County public library system.

Utilities comprises 11.1% of the operating budget (\$11.7 million), excluding \$5.4 million debt service

requirements. There is one administrative section responsible for management of water, wastewater, and stormwater activities. Three sections within water operations and four sections within wastewater operations provide services that promote a clean and healthy community by providing a safe water supply and proper waste disposal. The Stormwater Utility is also included here, inclusive of the Spot Improvement Program, Drainage Program, the Rio De Flag project, and Engineering and Master Planning, .

Non-Departmental operations comprise 9.1% of the budget (\$9.7 million) exclusive of \$8.9 million debt service. Some sections are contractual in nature and include Contributions to Other Agencies. The Council and Commission, Transit, Special Assessment, Capital Projects 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 Division Detail presents each operating activity at the Section level with each Section's *Mission, Program Description, FY 2012 Accomplishments, FY 2013 New Initiatives and Goals, Performance Measures, and Financial Summary*. The performance measures look at 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 2011, the Estimated Actual for FY 2012, and the*

Adopted Budget for FY 2012 and FY 2013. Expenditures are shown by category and programs. The comparatives in the Financial Summaries Section are presented at the fund level and the division level to aid section 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 Divisions. Divisions also may encompass several Funds. The Division level is the legal level of budget authority.

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

The following table represents the structure for the City.

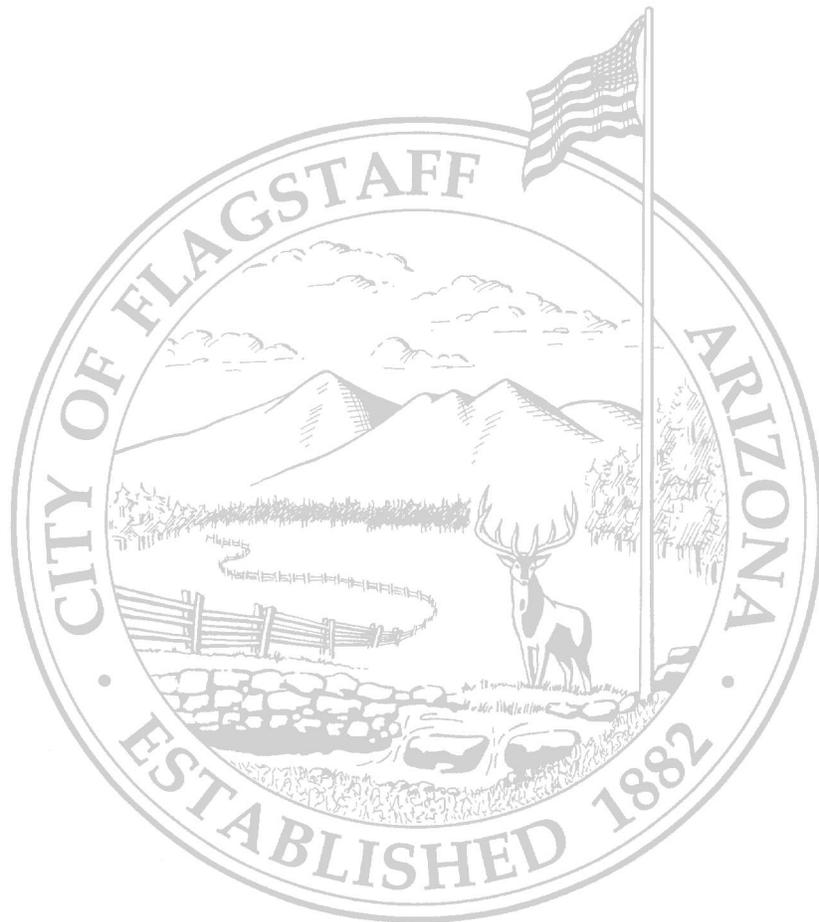


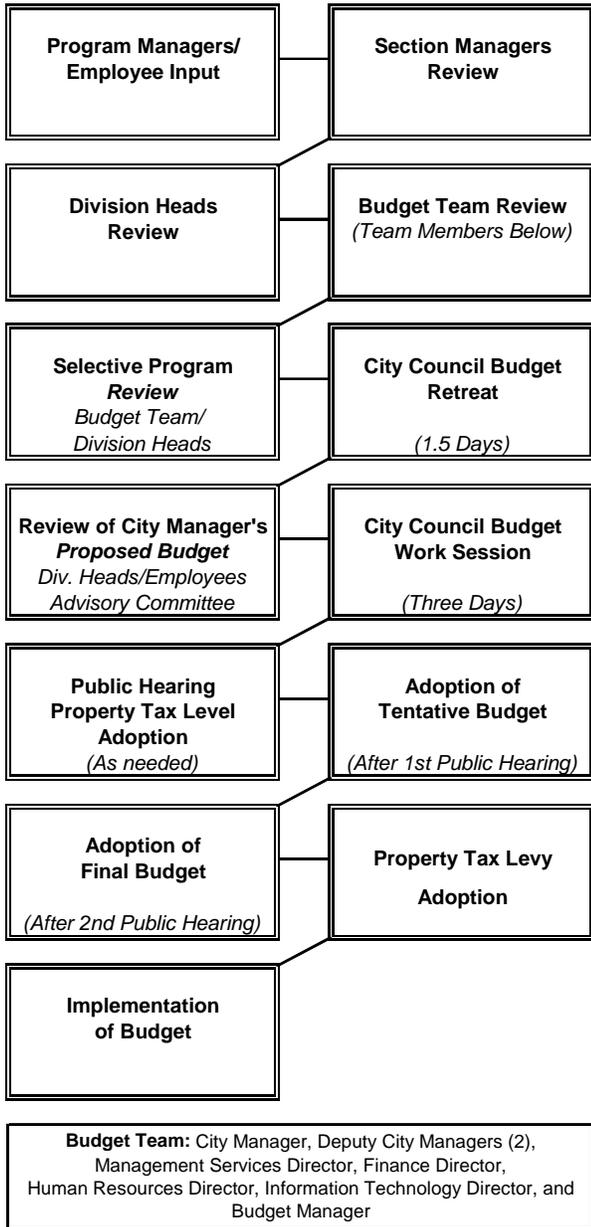
Illustration of Relationship between Funds, Divisions, and Sections

DIVISIONS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Economic Vitality	Community Enrichment	Utilities	Non-departmental
FUNDS										
General Fund *	City Manager Human Resources Risk Management City Attorney Information Technology Municipal Court	Customer Service Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Capital Improvements Development Services Engineering Housing Services	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance	Community Investment	Recreation		Council and Commission Contributions Non-departmental
Library						Street Maintenance & Repairs		Library		
Highway User Revenue *										Transit 4th Street Overpass Safe to School Safety Improvements
Transportation *										
Economic Development *							Economic Development Beautification Admin, Streetscapes			
Beautification *			Flagstaff Urban Trail System				Convention & Visitors Bureau Visitor Services			
Tourism *										Recreation C/P
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 Water Distribution Services Booster Stations Wastewater Treatment Plants Wastewater Collection Wastewater Monitoring	
Airport *							Airport			
Environmental Services *						Solid Waste Sustainability and Environmental Management				
Stormwater *									Stormwater	
Flagstaff Housing Authority *			Flagstaff Housing Authority							

* Major Funds based on the FY 2011 CAFR

BUDGET 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.

- The *Issues and Update* section includes discussions on personnel costs, cost allocation, Fleet Management, IT Plan, and issue papers discussed during the budget study sessions.
- 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 Division level for operational control purposes.
- The *Division Detail* section provides both narrative and financial data. The budget commentary provides an explanation of significant budget changes for FY 2013.
- The *Capital Improvement Plan* (CIP) for FY 2013 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	
November 14-15	Fall Council Retreat
December	Budget Module available to all Divisions
January	Selective Program Review with Budget Team and Division Managers
January 4	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
February 9	Winter Council Retreat
February 23 - March 7	Review with Department Heads and City Manager
April 18 - 20	Council Study Sessions Proposed Budget available to public
May 22	Tentative budget hearing and Tentative budget adoption
June 5	Final budget hearing and Final budget adoption
June 5	Truth in taxation hearing
June 6	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 3	Adopt Property Tax Levy

Review and Approval: Issues presented during the review and approval period include discussion topics of the Council Spring retreat. The winter 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 Work Sessions in April. The Council reviews and discusses 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 will occur on June 5 2012. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues 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.

The Adopted Budget reflects the total funds appropriated (\$248,104,099). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$130,339,503), and this total cannot be exceeded.

Budget authority can be transferred between line items within a Section. At year-end, Division budgets

are reviewed and budget authority is transferred from contingencies by Resolution as necessary. 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 total appropriation is not exceeded.

ASSUMPTIONS AND STRATEGIES

ECONOMIC OVERVIEW AND REVENUE FORECAST

In recent months the City of Flagstaff has seen some improvements to the economy. This comes after negative economic indicators since approximately December 2007. We have seen small improvements in FY 2013 in our local and state shared sales tax revenues. However, we remain under our highest levels recorded in FY 2008. We are not anticipating recovery to those levels for several years. Another indicator of some recovery is related to our state shared income tax revenues. Based on state information, we are expecting a 20% increase over FY 2012 six year low. The economic analysts for our local and state region estimate there will be moderate improvements over next few years with improved recovery beginning in two to three years.

The City collects three different retail sales taxes. The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. 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 ten years to be validated. Voters approved an extension of the tax in May 2010. This tax next expires in 2024.

Excluding utilities taxable business activity, the City realized declines in for all but four months between November 2007 and August 2010, in comparison to the same month in the prior year. Beginning in September 2010, the City saw increases for 6 straight months due to large increases in construction sales tax revenues. Since that time the City has been in a range of 1% to -4% when compared to the prior year, same month. Based on business activity through March 2012, tax revenue has increased approximately 0.5% compared to a year ago. However, if utilities taxable business activity is included, the number becomes an increase of 4.4%. Of the three major categories of local sales taxes, two have seen an increase and one has decreased. Construction is down approximately -16.9%, hospitality is up approximately 4.7%, and general retail is up approximately 2.6%. Current sales tax estimates

are approximately \$400,000 higher than what was recognized in FY 2011.

The second tax is a 0.721% sales tax on the same types of general sales; however, the tax is restricted in use to certain transportation projects. The four components of this tax include Safety Improvements, Street Improvements, 4th Street Overpass, and Transit. The transportation tax components expire in 2020. As these funding shifts from construction to maintenance, the City will pursue a permanent component to this tax. As similar sales are taxed with this source, revenue declines follow the same trends as the general sales tax.

The third tax is a Bed, Board, and Beverage (BBB) tax that collects an additional 2% for motel rooms/campgrounds, restaurants, and bars. This tax is restricted in use to certain economic, arts, beautification, recreation, or tourism activities. Tourism is a major driver in the local economy and overall sales have been increasing in FY 2012. Revenue in this category is expected to increase approximately \$200,000 over recognized revenues in FY 2011. This tax must go before the voters every fifteen years to be validated. Voters approved and extension of the tax in May 2010. This tax next expires in 2028.

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 student enrollment.

The State has experienced a similar recovery in revenues as the City. The City estimates that FY 2012 revenues will be approximately 0.4% higher than FY 2011. That number should increase significantly in FY 2013 due to the increase in state shared income tax revenues which are received by the City two years after collection.

Highway user revenue (gas tax) funds are projected to end 5% below FY 2012 budget. For FY 2013, the City anticipates that the State will continue to redirect the revenues to fund the Department of Public Safety and Motor Vehicle Division. 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 have decreased, we anticipate Flagstaff tourism to increase as we are a popular drive destination for Las Vegas, Los

Angeles, and Phoenix; however that trend is not yet evident in our monthly receipts.

Property tax revenues continue to see slight increases even though property tax valuation has decreased. This occurs as there is an approximate 18 – 24 month lag in home valuation and property tax assessment payment, and primary property taxes are based on limited assessed valuation. Property tax valuations have decreased for FY 2013 as projected by the city. The State of Arizona caps the primary property tax revenue increases at 2% on an annual basis. Homeowners will realize a 3.1% rate increase from \$0.6917 to a flat revenue of \$0.7131 per \$100 of assessed value. However, due to declining assessed values, the average property value should see no increase in the city primary property tax.

Going into this budget season, management wanted to look at ways the City could reallocate resources to help with deficiencies in our maintenance and operational shortfalls. This would mean reducing service levels in one area to help sustain areas that are below acceptable service levels. After divisions were given this direction, several areas made the list for reduced services. The Budget Team then prioritized where to allocate these funds and presented the options to City Council at the February retreat.

After the February retreat, Finance completed the updates to all 5-year plans to provide an outlook on revenues and expenditure. The General Fund update provided additional sources for allocation due to better than expected results in sales tax revenues at the local and state levels. This allowed for additional allocation of funding. The Budget Team then met with each division to discuss their proposed budget. From the meetings the team was able to allow for some additions which help support existing service levels. A balanced budget was prepared and presented to Council at the April retreat.

During the April retreat the City Manager presented his proposed budget with all the details related to reallocations and proposed changes to operational budgets as well as a complete overview of the City's Capital Improvement Plan. One key discuss was related to reorganization of Recreation staff. The proposal to reduce two Recreation Supervisors was discussed and received several public comments to not reduce this area. In the end Council directed staff not to cut these positions and identified funding sources to keep the budget balanced. The Council also approved funding Parks Maintenance with

another \$100,000 with funding coming from BBB Recreation.

Finance staff then worked with divisions to update year end estimates and carryovers for the final budget proposal. The final budget was approved by Council on June 5th.

Details of the previous discussion can be found in the City Manager's transmittal letter at the front of this document.

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.

In FY 2012, the City set up a catastrophic vehicle replacement fund. As our fleet ages, this fund reduces the impact of unexpected vehicle and equipment failures and large expenditures. Each year this fund will be addressed for opportunities to increase this reserve.

Fund Balance – The carry forward of fund balances remain at a level that protects the financial integrity of the City. Moody's bond rating for the City is Aa2. The projected fund balance at the end of FY 2013 is estimated at \$8.4 million in the General Fund. A general fund balance equal to 15% of general fund revenues has been City practice. During poor economic conditions, the City has reduced the policy fund balance to 12% of ongoing revenue. The General Fund balance is currently projected to be 19% at the end of FY 2013.

The FY 2013 budget anticipates using excess fund balance from the completion of FY 2011 to fund one-time expenditures. In addition, a portion of the current fund balance represents carry forward of expenditures in equipment and capital projects.

Council Guidelines – The budget guidelines set forth by the City Manager were formulated based on Council concerns and goals.

The Council developed six priorities that encompass the following areas: a sustainable community through economic vitality, environmental protection, and social inclusion; diversity of arts, culture, and educational opportunities; livability through good neighborhoods, affordable housing, and varied recreational activities; effective governance; maintain public safety short response times and encourage expanded health services; and maintain and deliver quality, reliable infrastructure.

Budget review includes:

- *Estimated Actual Expenditures FY 2012.* Sections were asked to estimate expected expenditures by line item for FY 2012. Overage and underage amounts (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2013.
- *Staffing Requests/Increases in Level of Service.* Divisions are required to provide narratives for increases in service levels and addition of staff. Generally, new staff additions are encouraged to have an independent funding source, or are 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.* Information Technology staff reviewed hardware and software needs. Funding was decreased and future needs have been reprioritized.
- *Capital Improvements.* The Capital Improvement staff reviewed all requests of capital projects or public improvements that require time charge outs from that section.
- *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 which are to be self-sustaining, e.g., Utilities, Environmental Services, the Airport, and Stormwater; and 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 Metropolitan Planning Organization.

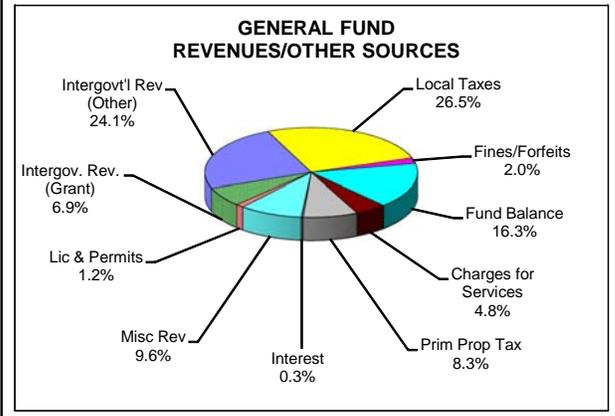
Total resources available for General Fund expenditures for FY 2013 are \$63.4 million including the estimated beginning fund balance of \$17.9 million. A substantial portion of General Fund resources comes from the following revenue categories: local sales taxes, franchise taxes, and intergovernmental revenues. Specific detail including comparative data is shown in Schedule 3 of Financial Summaries Section and 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 less than 1.0%. As the economy shows signs of recovery, the revenues are remaining relatively flat or show slight increases, a dramatic positive shift from the prior three fiscal years. The fund balance decrease is due to the anticipated completion of several large capital projects.

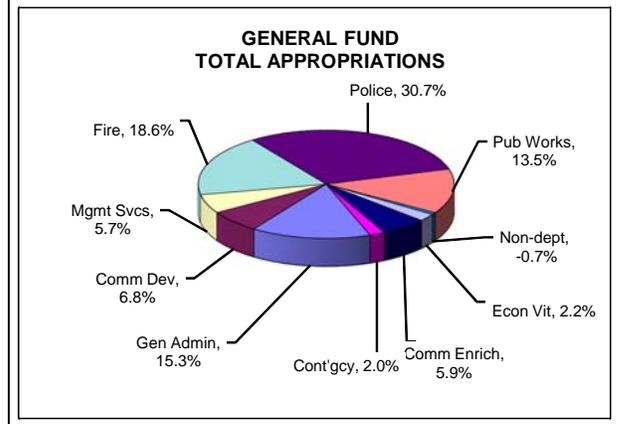
General Fund total appropriations compared to year-end estimates have increased by 19.2%. The General Fund ongoing revenues and expenses are structurally balanced in the five-year plan. Fund balance is restored to a 15% minimum level.

The financial position of the General Fund remains balanced.

REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2012	FY 2013
Licenses and permits	\$ 1,127,830	\$ 790,930
Intergov Rev (Fed/State Grants)	2,253,409	4,367,111
Intergov Rev (All Other)	14,009,706	15,284,300
Local taxes	16,530,000	16,787,925
Fines and forfeits	1,237,270	1,238,570
Fund Balance, net of Transfers	16,006,300	10,326,915
Fund Balance for Carryovers	1,225,000	3,203,506
Charges for services	3,277,210	3,028,980
Primary Property Tax	5,200,000	5,250,000
Interest	125,000	200,000
Miscellaneous	2,942,524	2,885,183
	\$ 63,934,249	\$ 63,363,420



APPROPRIATIONS	EST ACTUAL	BUDGET
	FY2012	FY 2013
General Administration	\$ 8,093,799	\$ 8,395,367
Community Development	3,450,852	3,715,394
Management Services	2,953,684	3,123,808
Fire	8,365,639	10,215,163
Police	15,948,436	16,875,477
Public Works	6,710,677	7,400,090
Non-departmental	(3,439,521)	(363,294)
Economic Vitality	235,283	1,200,701
Community Enrichment	3,402,392	3,222,068
Contingencies	360,000	1,150,000
	\$ 46,081,241	\$ 54,934,774

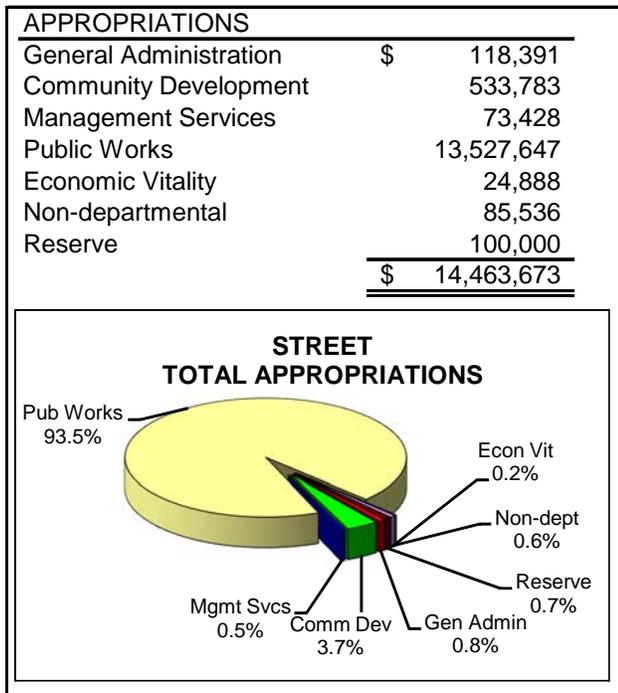
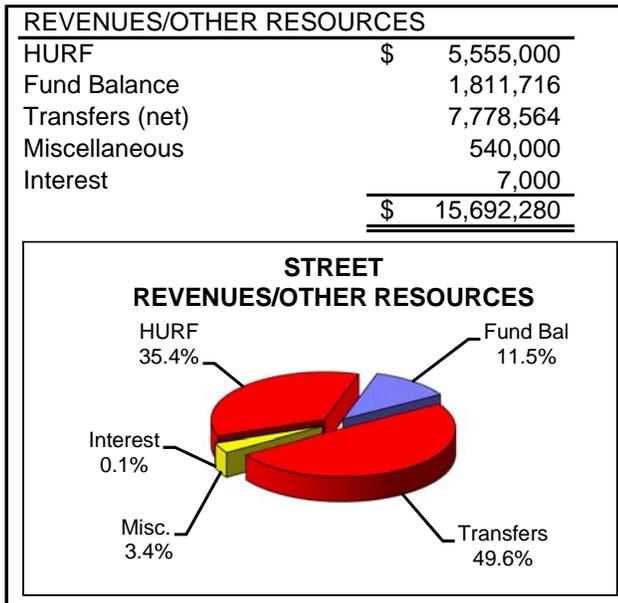


SPECIAL REVENUE FUNDS

HIGHWAY USER REVENUE FUND

The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State.

HURF appropriations have been significantly affected due to decreased revenue receipts over the past four years. Revenue has decreased by 31.3% comparing the FY 2009 budget to the FY 2013 budget.



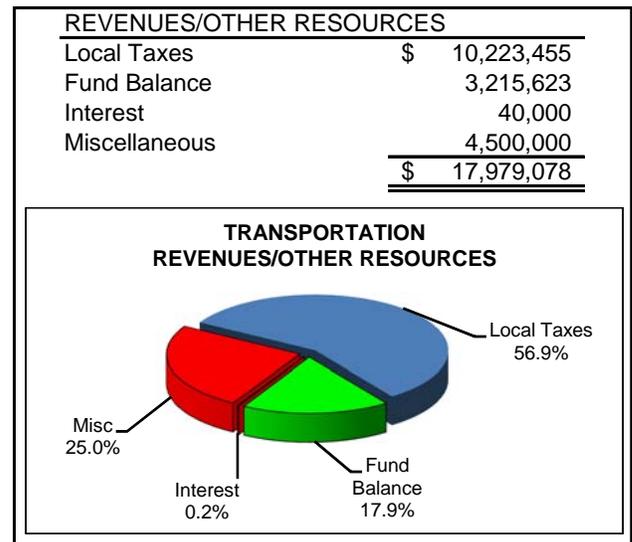
Appropriations total \$14.5 million in FY 2013 and major projects budgeted include the annual pavement maintenance program, Beulah Blvd., Bike/Ped and Safety Improvements, and West Arrowhead Improvements. However, a number of projects have been delayed or eliminated to balance this fund.

TRANSPORTATION FUND

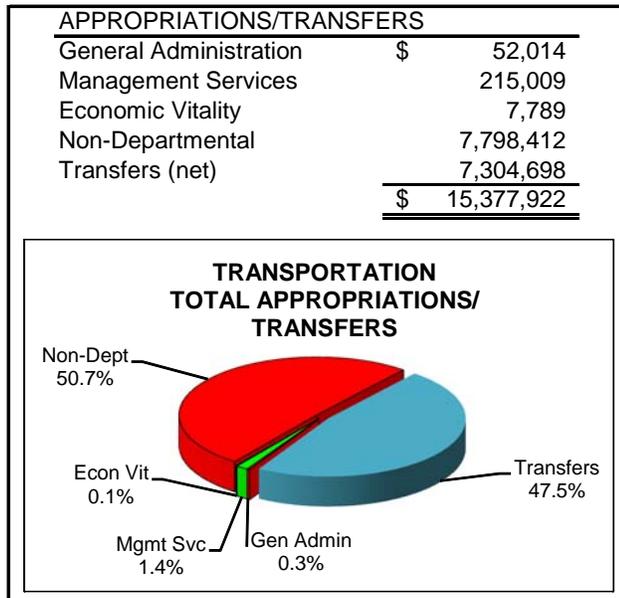
The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related 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 2013 Revenues
4th Street Overpass	\$ 2,268,728
Safe-to-School, Pedestrian and Bike	1,134,364
Traffic Flow and Safety Improvements	2,637,396
Transit Service Enhancements	4,182,967
Totals	<u>\$ 10,223,455</u>

Appropriations total \$8.1 million in FY 2013. Appropriations are comprised of \$6.0 million for transit operations, and \$2.1 million for debt service. Transfers include \$6.8 million to the HURF Fund for Safety and Street Improvements and \$520,000 to fund FUTS projects in Beautification. The tax rate for transportation is 0.721%.

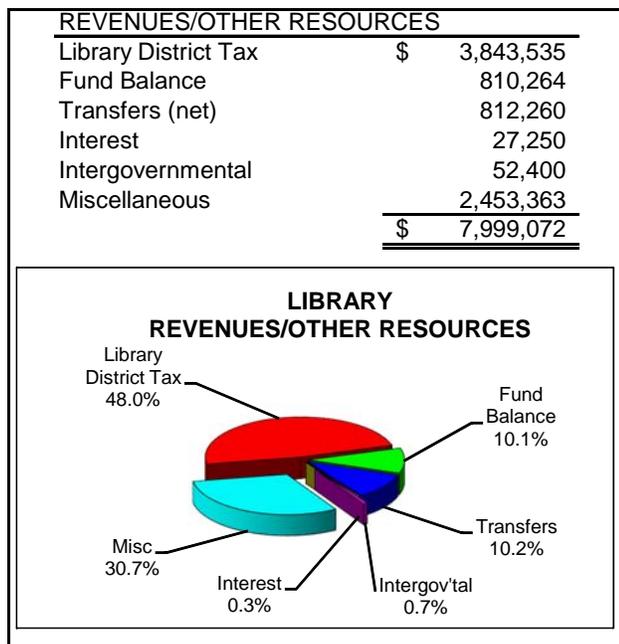


This fund has also experienced significant declines due to the reduction in sales tax receipts. Projects have been delayed or eliminated to balance the budget. This fund is now beginning to start to see an upward swing in tax collections.



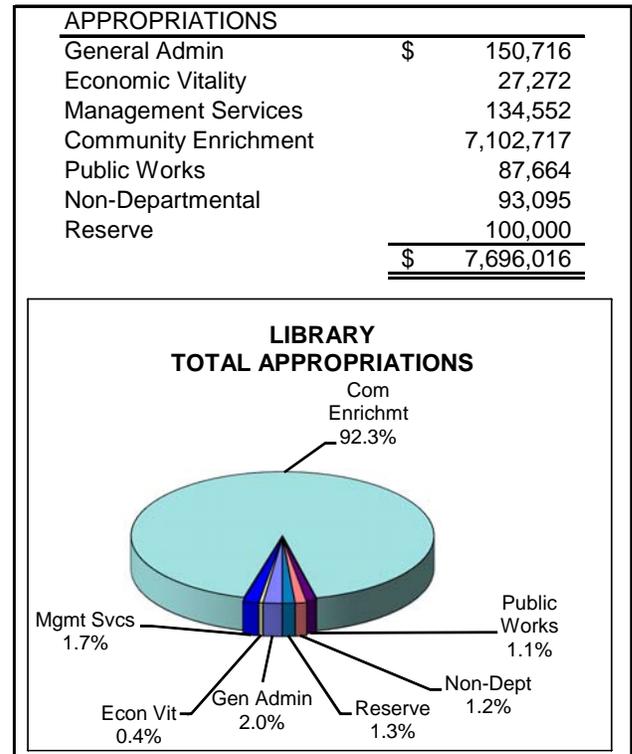
LIBRARY FUND

The City operates a joint City-County Public Library with auxiliary programs in outlying county locations along with bookmobile services. \$3.8 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. Any adjustments to this base is 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 and again in the 2010 general election. The BBB tax approved by voters will expire in 2028. The funds were allocated into the following percentages:

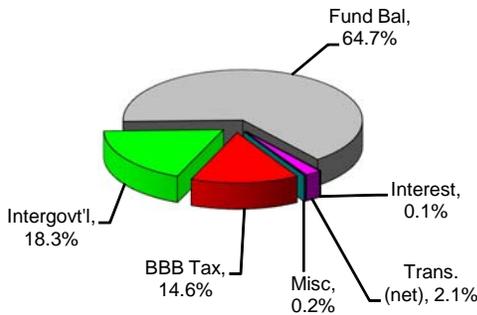
Economic Development	9.5%
Beautification	20.0%
Tourism	30.0%
Recreation	33.0%
Arts & Science	7.5%

Revenue for FY 2013 is projected with 1.5% growth over 2012 year end estimates and FY 2012 estimated receipts are 2.7% over budget. Activities funded with the revenues have made operating adjustments necessary to reflect a balanced budget to the increased sales tax receipts and these changes will be reflected within each five-year plan.

Beautification Fund: Total resources available for Beautification Fund activities amount to \$7.6 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	\$ 1,106,350
Intergovernmental	1,392,471
Fund Balance	4,922,258
Interest	10,970
Transfers (net)	156,549
Miscellaneous	15,890
	<u>\$ 7,604,488</u>

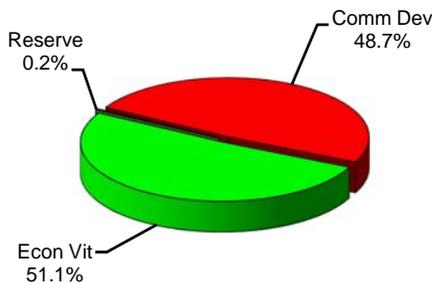
BEAUTIFICATION REVENUES/OTHER RESOURCES



APPROPRIATIONS

Community Development	\$ 3,210,435
Economic Vitality	3,366,203
Reserve	10,000
	<u>\$ 6,586,638</u>

BEAUTIFICATION TOTAL APPROPRIATIONS



Tourism Fund: Total resources available in FY 2013 are \$2.1 million. The total appropriations are \$1.7 million, which include \$1.3 million for Tourism. Tourism includes General Administration, Marketing, Sales, Public Relations, Film Office, and the Milligan House. The Visitors Center programs account for \$313,000.

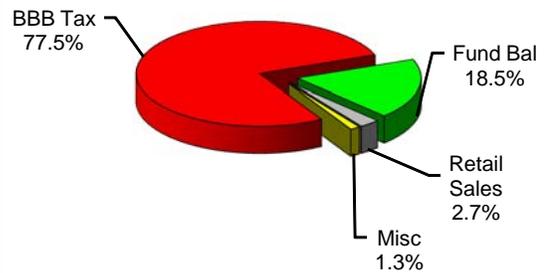
REVENUES/OTHER RESOURCES

BBB Tax	\$ 1,659,525
Fund Bal, Net of Transfers	395,362
Retail Sales	58,905
Miscellaneous	28,483
	<u>\$ 2,142,275</u>

APPROPRIATIONS

Economic Vitality	\$ 1,624,102
Reserve	50,000
	<u>\$ 1,674,102</u>

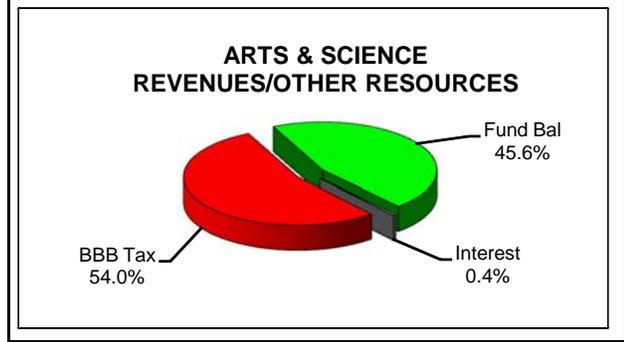
TOURISM REVENUES/OTHER RESOURCES



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. The Visitor Center programs include the Train Station Operations and General Administration.

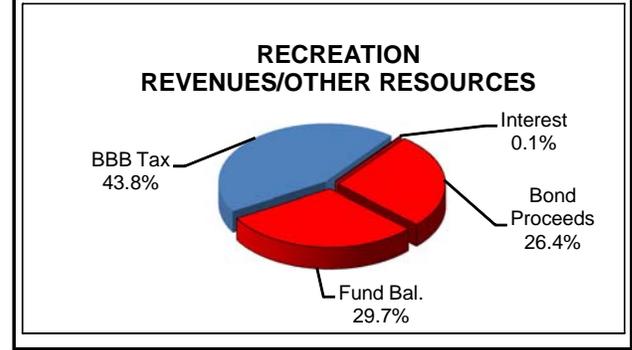
Arts & Science Fund: Total resources available for Arts & Science activities are \$768,463 including estimated revenues from the BBB tax of \$414,881. Expenditures include: Public Art for \$261,956, Flagstaff Cultural Partners (FCP) Administration, and Grants to Other Agencies of \$375,000.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 414,881
Fund Bal, net of Transfers	350,081
Interest	3,501
	<u>\$ 768,463</u>
APPROPRIATIONS	
General Administration	\$ 637,056
Reserve	10,000
	<u>\$ 647,056</u>



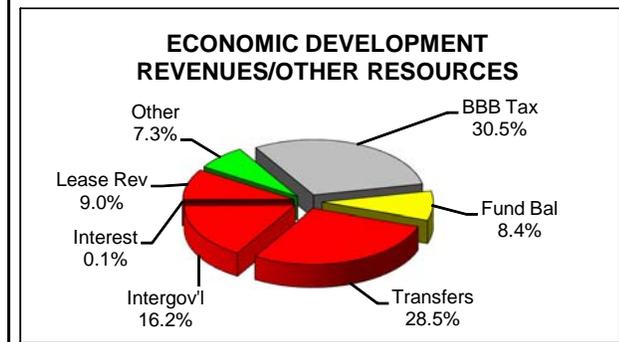
Recreation Fund: There is one appropriation in the amount of \$1.1 million in FY 2013 for Recreation Fund activities. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. In FY 2011, the City Council reexamined the use of these funds and now directs \$200,000 to fund recreational programming via a transfer to the General Fund.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,825,478
Interest	6,200
Bond Proceeds	1,100,000
Fund Balance	1,240,079
	<u>\$ 4,171,757</u>
APPROPRIATIONS/TRANSFERS	
Public Works	\$ 1,100,000
Transfers (net)	1,595,754
	<u>\$ 2,695,754</u>



Economic Development Fund: This fund continues to focus on business retention and attraction as well as workforce development. In addition, the City funds the business incubation program and the new Innovation Mesa program, structured to allow university professors and local entrepreneurs to work in a supportive environment to develop ideas into commercial business models.

REVENUES/OTHER RESOURCES	
Lease Revenues	\$ 154,420
Other	125,000
BBB Tax	525,516
Fund Balance	145,503
Transfers	491,500
Intergovernmental Revenue	280,000
Interest	1,455
	<u>\$ 1,723,394</u>
APPROPRIATIONS	
Economic Vitality	\$ 1,389,255
Reserve	265,000
	<u>\$ 1,654,255</u>



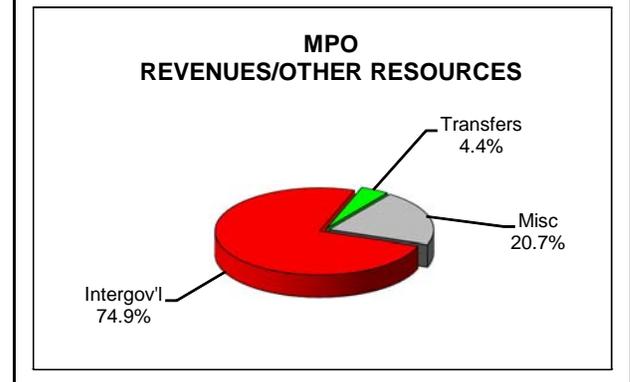
The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals such as clean energy, sustainability or BioScience. Total resources allocated to this effort are \$1.7 million, of which \$280,000 is Intergovernmental Revenue, with all monies from BBB dedicated tax for economic development including a general fund contribution of \$491,500 to support the business incubator operations and debt service.

OTHER FUNDS

Metropolitan Planning Organization Fund: 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 City has appropriated \$508,097 for this program for FY 2013. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through NAIPTA.

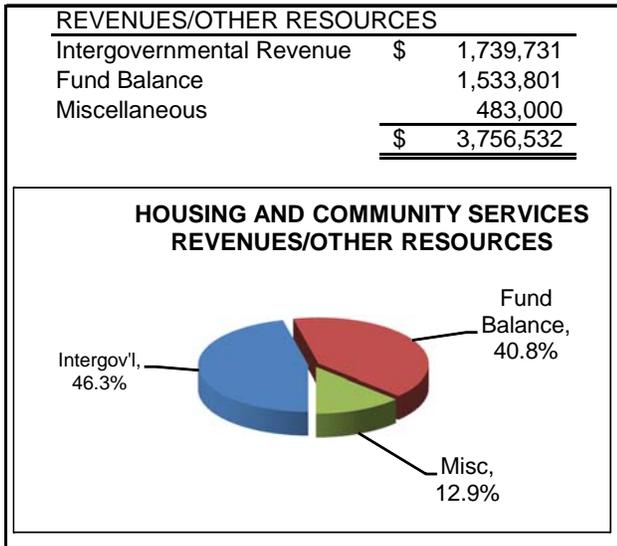
REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 380,604
Transfers	22,493
Miscellaneous	105,000
	<u>\$ 508,097</u>
APPROPRIATIONS	
Community Development	\$ 386,971
Non-Departmental	21,126
Contingency	100,000
	<u>\$ 508,097</u>



Housing and Community Services Fund: This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$1.7 million appropriated to this activity for FY 2013.

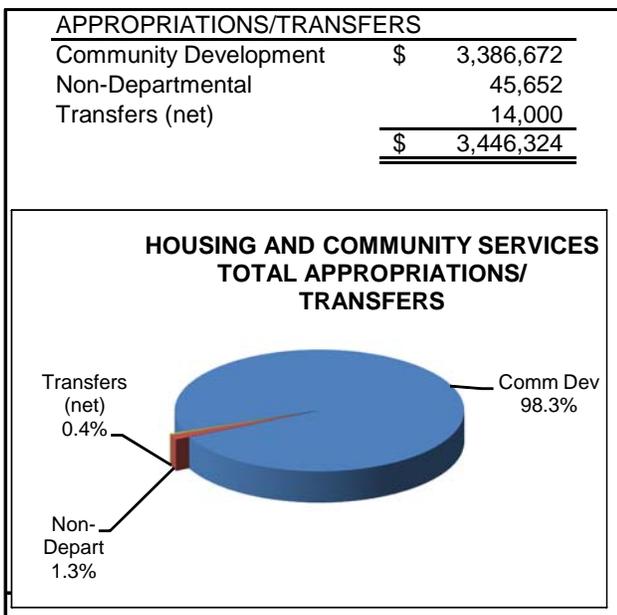
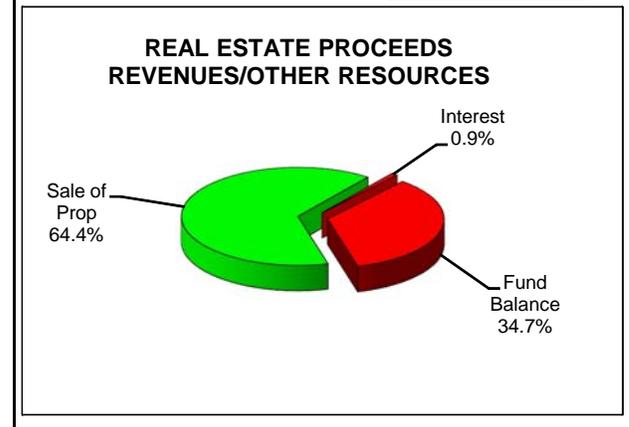
Expenditures in this fund include \$630,000 in State grants and \$585,000 in CDBG grant activities. In addition, there is \$70,000 for the down payment assistance program and \$1.3 million for land acquisitions including the final amount of pending Izabel homes sale. There was a carry-forward in FY 2012 CDBG grant activities in the amount of \$500,000 and \$300,000 in affordable housing services.

Real Estate Proceeds: The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The purchase and improvement of Basque properties for \$1.0 million is the only activity for FY 2013.



REVENUES/OTHER RESOURCES	
Fund Bal, net of transfer	\$ 539,240
Sale of Property	1,000,000
Interest	13,350
	<u>\$ 1,552,590</u>

APPROPRIATIONS/TRANSFERS	
Non-Departmental	\$ 1,000,000
	<u>\$ 1,000,000</u>



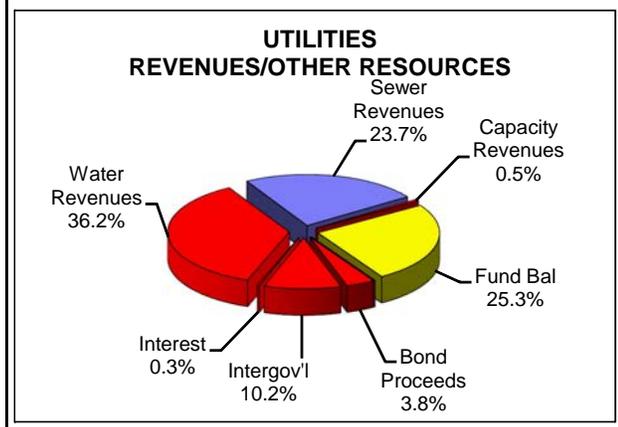
ENTERPRISE FUNDS

UTILITIES FUND

The City's water and wastewater operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: all operating and maintenance costs; capital improvements considered routine in nature; principal and interest payments on bonded debt related to utility construction; and maintaining a year-end fund balance sufficient to ensure adequate working capital. Total appropriations for the Utilities Fund are \$30.5 million. Resources include \$12.8 million in water revenues and \$8.4 million in sewer revenues.

The City contracted for a rate model update in FY 2010 which identified a need to increase water and wastewater rates. This was presented to Council in the fall of 2010 and approved for rate increases beginning January 1, 2011. There are annual increases for the next 5 years.

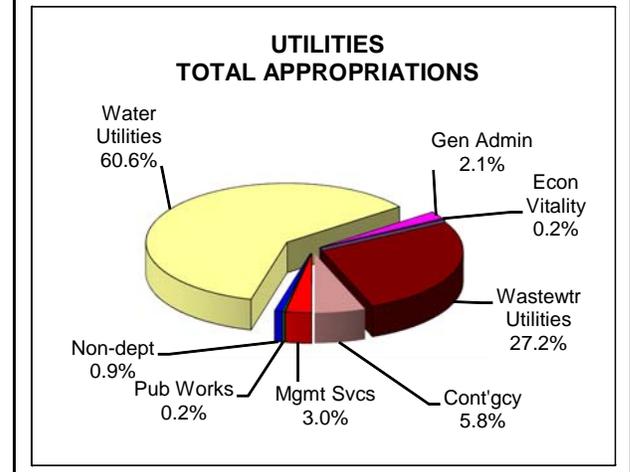
REVENUES/OTHER RESOURCES	
Water Revenues	\$ 12,816,449
Sewer Revenues	8,382,405
Capacity Revenues	186,500
Fund Bal, net of Transfers	8,970,661
Bond Proceeds	1,357,606
Intergovernmental Revenue	3,601,952
Interest	101,505
	<u>\$ 35,417,078</u>



Water Operations: Total appropriations relating to direct costs for the water operations are \$18.5 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and future water rights. Revenue estimates total \$12.8 million for water sales.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$8.3 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total \$8.4 million in wastewater service charges.

APPROPRIATIONS	
General Administration	\$ 626,188
Economic Vitality	73,918
Management Services	915,248
Public Works	59,122
Non-departmental	263,254
Water Utilities	18,469,746
Wastwater Utilities	8,294,834
Contingency	1,800,000
	<u>\$ 30,502,310</u>



ENVIRONMENTAL SERVICES FUND

Total financial resources are \$17.1 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, and commercial recycling) with different rates for each category based on cost of service.

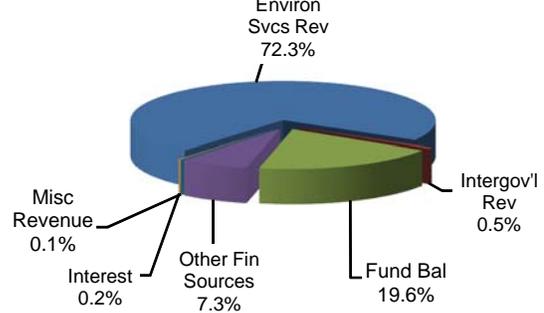
User fees are the major revenue source of sustainability and environmental management operations. The user fee is the environmental fee that is based on the cost of service.

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 ensure sufficient funds will be available to meet these requirements.

REVENUES/OTHER RESOURCES

Environmental Svcs Revenue	\$ 12,392,011
Intergovernmental Revenues	93,500
Fund Bal, net of Transfers	3,365,920
Other Financing Sources	1,250,000
Miscellaneous Revenues	12,000
Interest	30,164
	<u>\$ 17,143,595</u>

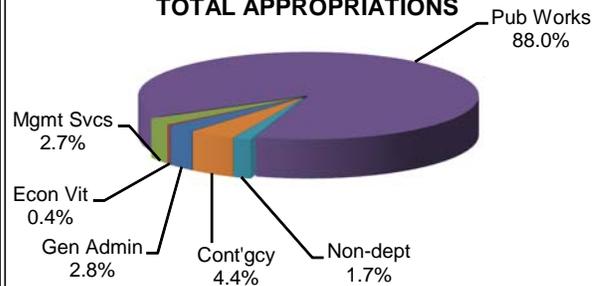
ENVIRONMENTAL SERVICES REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$ 398,292
Economic Vitality	61,828
Management Services	376,834
Public Works	12,387,952
Non-departmental	244,599
Contingency	612,000
	<u>\$ 14,081,505</u>

ENVIRONMENTAL SERVICES TOTAL APPROPRIATIONS

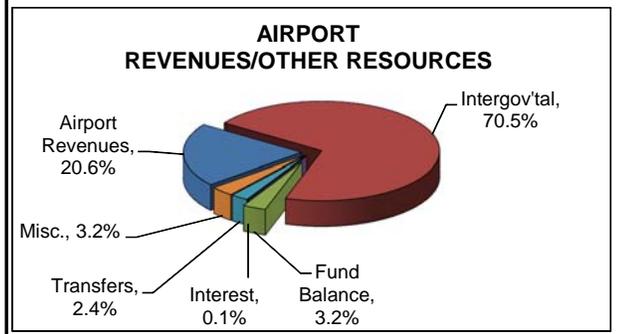


AIRPORT FUND

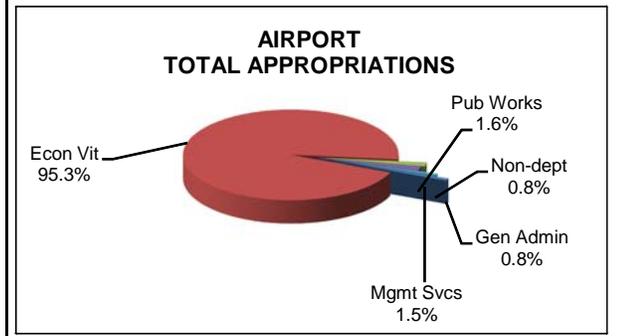
Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix. Total appropriations are \$7.8 million: \$2.3 million for operations which includes \$0.8 million for a new airline service development grant, \$0.3 million for debt and \$5.2 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

This year, of the \$5.2 million in capital improvements, 94% of the budgeted expenses are being funded with grants from the FAA and ADOT.

REVENUES/OTHER RESOURCES	
Airport Revenues	\$ 1,666,101
Intergovernmental Revenues	5,691,345
Fund Balance	254,944
Interest	5,385
Transfers (net)	191,433
Miscellaneous	261,120
	<u>\$ 8,070,328</u>



APPROPRIATIONS	
General Administration	\$ 62,750
Economic Vitality	7,450,799
Management Services	119,449
Public Works	125,633
Non-departmental	57,063
	<u>\$ 7,815,694</u>

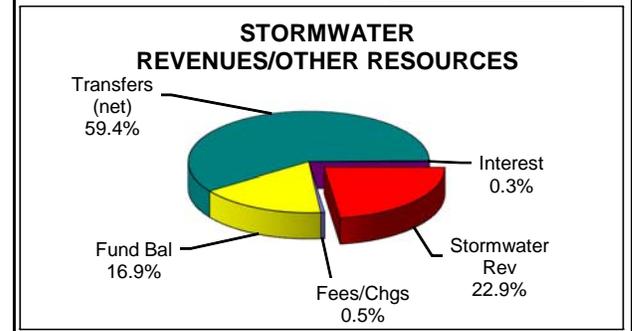


STORMWATER FUND

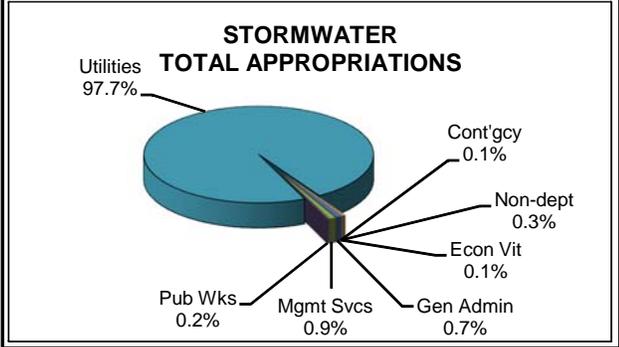
The Stormwater fund was initiated as a response to enhanced NPDES stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 sq. ft. of impervious area (ERU). A rate increase was approved in FY 2010 to \$1.30 per Equivalent Rate Unit (ERU). June 1, 2010 was the last scheduled increase.

Total revenues/other resources of \$6.1 million include a transfer of \$4.0 million from the general fund for the Rio de Flag project.

REVENUES/OTHER RESOURCES	
Stormwater Revenues	\$ 1,406,262
Fees & Charges	30,502
Fund Balance	1,038,066
Transfers (net)	3,649,074
Interest	20,761
	<u>\$ 6,144,665</u>



APPROPRIATIONS	
General Admin	\$ 38,734
Management Services	50,435
Public Works	10,921
Utilities	5,567,829
Non-departmental	15,138
Economic Vitality	3,782
Contingency	10,000
	<u>\$ 5,696,839</u>



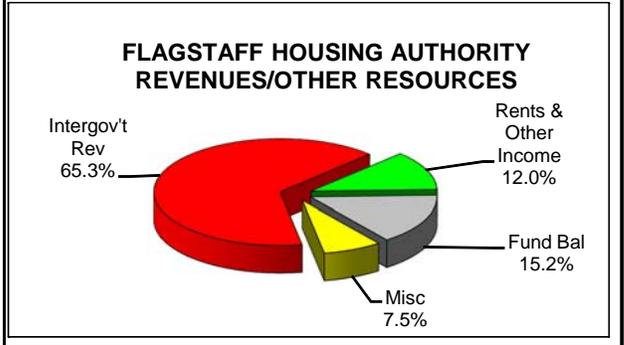
Total appropriations of \$5.7 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag flood control including related parking.

FLAGSTAFF HOUSING AUTHORITY

The Housing Authority (FHA) owns and operates 265 units of low income public housing, manages 80 units of low income housing and administers 358 Section 8 Housing Choice Vouchers, which includes 4 homeless Vouchers and 25 VASH Vouchers. FHA also administers 12 housing vouchers for seriously mentally ill persons. Total financial resources are \$8.6 million. Intergovernmental Revenue from the US Department of Housing and Urban Development comprises 65.1% of funding, or \$5.6 million. Rental Income represents rent charges based on resident family income per Federal regulations. Miscellaneous income is primarily pass through and administrative fee income for Housing Choice Vouchers which the Housing Authority administers locally for other housing agencies. These portable Vouchers are under HUD contract with other housing agencies, and FHA administers the Vouchers locally, for which FHA earns an administrative fee.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 5,634,506
Rents/Other Tenant Income	1,037,472
Fund Balance	1,307,325
Miscellaneous	644,258
	<u>\$ 8,623,561</u>

APPROPRIATIONS	
Community Development	\$ 6,312,656
Contingency	1,001,250
	<u>\$ 7,313,906</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 revenue and expenditure issues have been incorporated into the projections including local and state revenue trends, compensation, and the operational impact 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 for capital projects 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 division heads, section heads, and Finance 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. The following narratives present the highlight of the forecasts by funds and estimated change in fund balance for the coming fiscal year:

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 normal operating expenditures, 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 General Fund balance decreases by 53% as the City is currently funding several projects with fund balance and non-recurring revenues. Such projects include redevelopment and Rio de Flag flood control. In addition there is budgeted \$2.1 million in one-time items throughout various sections. The majority of one-time items is the result of Carryover requests from the FY 2012 Budget.

LIBRARY

The forecast 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. The Library fund balance decreases by 63% due to planned expenditures at both the branch and the affiliate libraries.

HIGHWAY USER

This fund is devoted to the maintenance, improvement, 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. The HURF fund balance decreases by 32% due to planned expenditures for the completion of various capital projects and decreased HURF revenue projections.

TRANSPORTATION

The Transportation Fund is used to track revenues and expenditures related to a dedicated sales tax approved by voters. The ongoing funding of the transit system is operated by the NAIPTA. Other projects are funded through revenue transfers to the fund where the projects are budgeted. In 2008, voters approved a rate increase for transit services for a new rate of 0.721%. The fund balance decrease of 19% is due to timing of capital projects.

BEAUTIFICATION

The primary sources for this fund include BBB taxes, 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. The Beautification fund balance decreases by 79% due to planned expenditures for the completion of various capital projects.

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, work force development, and the business incubator. The Economic Development Fund Balance decreases by 52% in FY 2013 due to use of excess fund balance to cover planned one-time expenditures.

TOURISM

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to tourism promotion and visitor center services. Based on projected revenue, this fund can maintain existing operations levels. The Tourism fund balance increases in FY 2013 by 15% due to projected increases in the BBB revenue while restructuring expenditures within its program to best meet the service and needs of the public and the City.

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. Planned public art projects in FY 2013 result in Arts and Science fund balance decreases of 65%.

RECREATION-BBB

This fund is used for capital improvements to City and school recreational parks and fields. In addition, maintenance costs 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. The Recreation – BBB fund balance increases by 19% as the fund begins to accumulate reserves for new capital projects.

REAL ESTATE PROCEEDS

This fund is used for one-time revenues and expenditures related to sale and acquisition of property. As the City sells additional properties, those funds will be restricted for a similar purchase of land as intended with the original land acquisition. The Real Estate Proceed fund balance increases by 2% due to anticipated interest earnings.

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 year. The Housing and Community

Services fund balance decreases by 80% due to planned one-time expenditures.

METROPOLITAN PLANNING ORGANIZATION

This fund is solely 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 will be issued in the future within the existing tax rate. This allows the City to smooth long-term secondary property tax rates so a level tax rate is maintained from year to year. The Secondary Property tax fund balance increases by 31% due to the planned issuance of debt.

SPECIAL ASSESSMENT BOND

This fund is set up for repayment of bonds issued for special assessment districts. The Special Assessment Bond fund balance remains flat in FY 2013.

PERPETUAL CARE

This fund is currently used for the tracking of contributions related to long-term maintenance at the City owned cemetery. The fund balance increases as contributions are received. Expenditures will not be budgeted until there is adequate fund balance.

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. In November 2010, the citizens of the City of Flagstaff approved two projects. Projects/bond sales are scheduled to coincide with the retirement of other debt so the overall secondary property tax rate does not increase. This fund currently has two components:

1. The Municipal Facilities Corp fund balance increased due to the timing of bond proceeds and capital expenditures.
2. The GO Bond Funded Projects fund balance decreases by 91% due to the timing of capital projects.

WATER AND WASTEWATER

As a City enterprise fund, this fund is managed on a self-sustaining basis. The five-year projections show that ongoing expenditures, capital improvements, and debt service requirements are being met with user fees, fund balance, grants, bonds, 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. The Water and Wastewater fund balance decreases by 46% due to the planned completion of capital projects.

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. The capital improvement plan is based on annual updates to ADOT and FAA. The City General Fund currently makes a transfer to the Airport Fund to cover the match portion of capital grants awarded. The Airport fund balance remains flat in FY 2013.

ENVIRONMENTAL SERVICES

This enterprise fund is self-sustaining through user fees. The five-year projection anticipates a rate escalator of five percent per year over the next year. This 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, and related increase of user fees that will coincide with the construction of a new cell. The Environmental Services anticipates a 35% decrease in fund balance in FY 2013 due to one-time and capital projects expenditures.

STORMWATER

This enterprise fund oversees City issues related to drainage and associated federal requirements. Ongoing operating expenditures are paid for with Stormwater revenues and user fees. The last rate increase was in FY 2011. The rate increase was to self-fund capital improvements and increase inspection efforts as required by NPDES. No rate increases are included in the 5-year revenue projections. The Stormwater fund balance decreases 57% due to the timing of capital projects and planned one-time expenditures.

FLAGSTAFF HOUSING AUTHORITY

While the Flagstaff Housing Authority (FHA) has operated for a number of years, it was recently determined that it should be reported as a distinct City fund. The FHA manages Housing & Urban Development (HUD) Section 8 and other voucher programs for City residents. The five year plan indicates the majority of funding is grant related and as such, the fund only generally experiences minor fluctuations in fund balance.

REVENUES

Historical Trend Information for Select Revenues

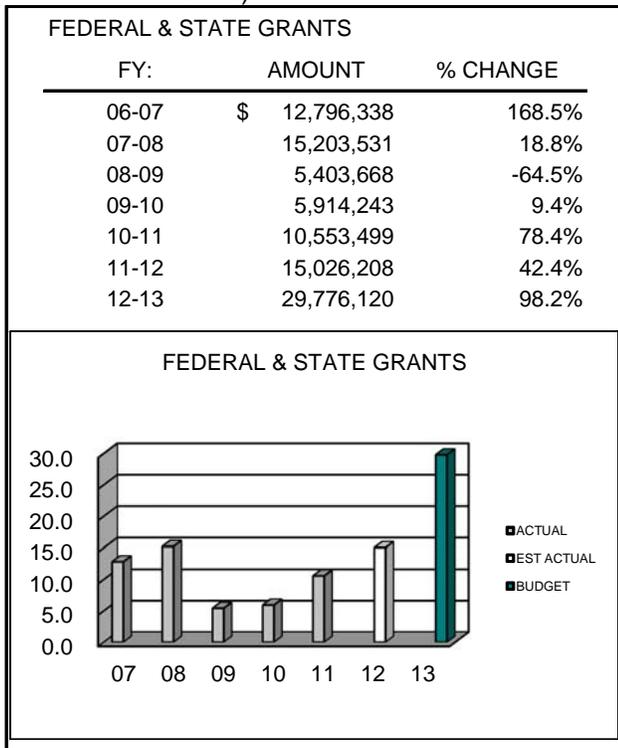
ALL FUNDS

FEDERAL AND STATE GRANTS

Description: The City applies to Federal and/or State Departments for various operating and capital grants. These grants have numerous requirements and restrictions that must be adhered to. Most grants are awarded in a competitive application process and others are entitlement based.

Grants can vary significantly from year to year because of the nature and availability of grants. Capital grants tend to be one-time grants. Operating grants may cover multiple years or may be applied for year after year if funding is available.

FY 2007 and FY 2008 included several large capital grants to extend the airport runway. FY 2011 was the first year the Flagstaff Housing Authority was included as part of City's budget and they are largely grant funded. FY 2013 includes significant grant funds to purchase Picture Canyon (\$3.0M), several FAA airport grants (\$4.8M), grant to construct the Innovation Mesa facility (\$3.8M) and Inner Basin Pipeline reconstruction (\$3.2M). A greater emphasis on applying for grants has occurred over the past couple of years as other revenue sources have decreased due to the recession. (See Schedule C-1 for additional details)



GENERAL FUND

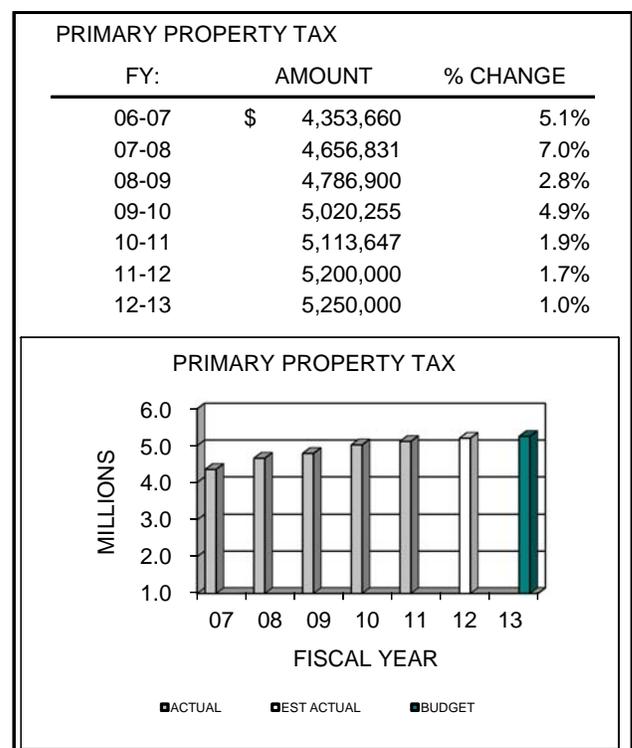
PROPERTY TAX RECEIPTS CURRENT, PRIMARY

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 and approved in 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 \$4.2 million dollars to the assessed valuation. For FY 2013 existing Primary Property Tax values dropped by 3.0%. This trend is expected to continue for next fiscal year also.



CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

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

Tax currently sunsets November 2024.

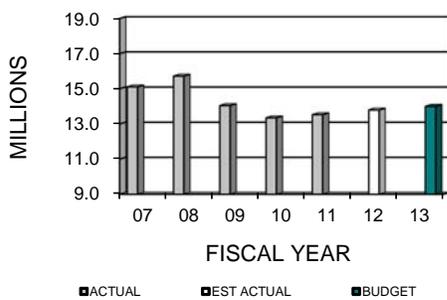
Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additional sales taxes levies include a 2% tax on hotels, restaurants and bars (BBB Tax) and a 0.721% transportation tax.

These numbers are sales tax revenues only; audit assessments and penalty and interest revenues are combined with these numbers on Schedule 3. The decrease in revenues for FY 2010 and FY 2011 was driven by decreases in construction, tourism, and retail sales. The large increase in FY 2012 is driven through the approval of a revised franchise agreement that now allows for the collection of both a franchise tax and sales tax.

CITY SALES TAX

FY:	AMOUNT	% CHANGE
06-07	\$ 15,109,645	7.5%
07-08	15,721,269	4.0%
08-09	14,044,577	-10.7%
09-10	13,348,773	-5.0%
10-11	13,525,825	1.3%
11-12	13,795,000	2.0%
12-13	14,001,925	1.5%

CITY SALES TAX REVENUES



STATE SALES TAX

Legal Authority: Arizona Revised Statutes Section 42 - 1341 (D)

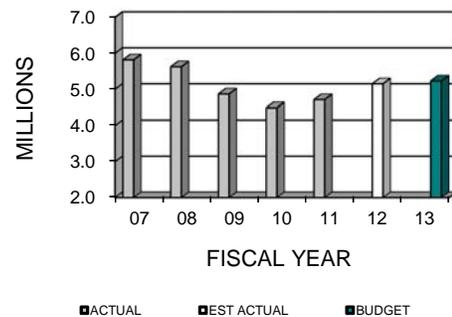
Description: A half-cent (.5%) portion of the five-cent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided by the general government.

The sales tax revenues estimated for FY 2010, 2011 and 2012 reflect the economic downturn at the state level due to the declines in residential construction, retail, auto sales, and tourism. While recovery began in FY 2012, the city is choosing to continue to budget conservatively compared to the State of Arizona. FY 2012 is experiencing an increase due to the shift in Arizona state population. The City of Flagstaff is now 1.31% of the state population, up from 1.25%, which directed additional funds to the City from state shared resources.

STATE SALES TAX

FY:	AMOUNT	% CHANGE
06-07	\$ 5,815,473	2.9%
07-08	5,623,144	-3.3%
08-09	4,868,072	-13.4%
09-10	4,490,087	-7.8%
10-11	4,711,821	4.9%
11-12	5,150,000	9.3%
12-13	5,227,250	1.5%

STATE SALES TAX

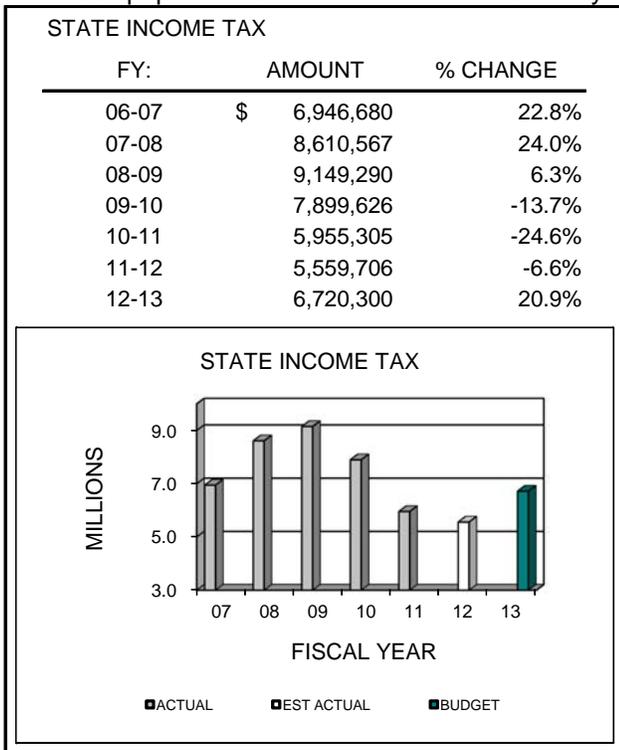


STATE INCOME TAX (REVENUE SHARING)

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

Description: Arizona cities share in 15.8% of the State income tax collected based on the population of the cities and towns as reported in the 2010 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.

FY 2010 experienced a large decrease as the State received less revenue from income tax than previously estimated. All cities have received a proportionate decrease. The large decrease in FY 2011 is driven by a reduction in the income tax rate coupled with decreased corporate and personal income tax revenue. The decrease in FY 2012 is driven by continued decline in revenues associated with the recession. This decline for the City was somewhat mitigated in that the City of Flagstaff gained relative population share as a result of the 2010 Census. The City's population share within the State of Arizona grew from 1.25% to 1.31% which increases the local allocation of this revenue. The large increase in FY 2013 is due to the City's increased population share and economic recovery.



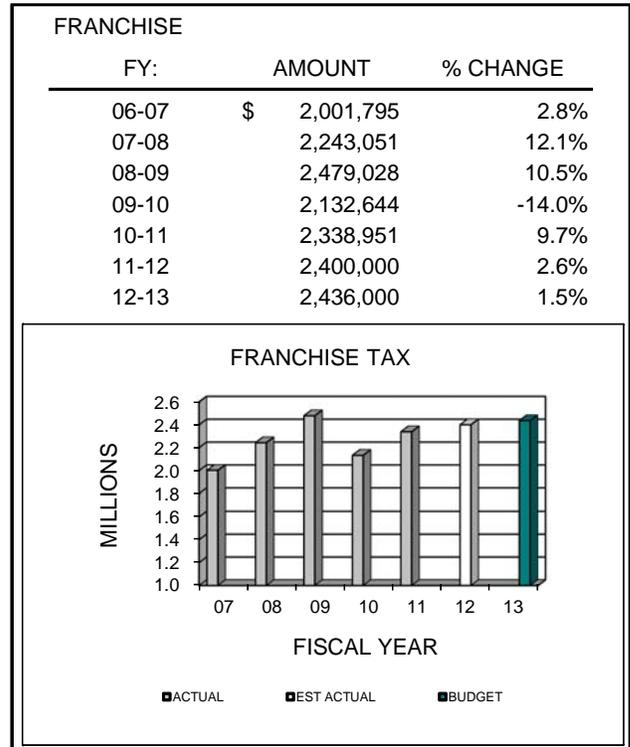
FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII

Arizona Public Service (APS): Resolution 2009-52 (expires 8-21-2036), 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., AT & T, Suddenlink Communications, MCI, US Sprint, and Central Corp; these entities are currently taxed at 2%, except Suddenlink Communications which is taxed at 5%.

Franchise tax declined in FY 2010 as one entity mis-reported their revenues and a prior period credit was processed. FY 2011 represents normalized revenues. There is a slight increase anticipated for FY 2012 and beyond as the new APS franchise agreement allows for the inclusion of industrial customers.

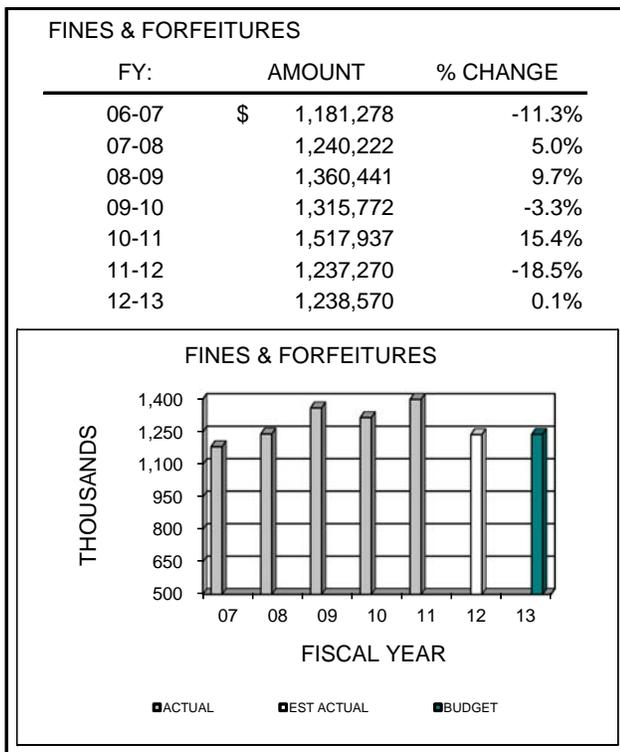


FINES & FORFEITURES

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.

Revenues vary on an annual basis dependent upon the mix of criminal and civil cases handled by the court system in any particular year. The allocation of the fines is prescribed by the Superior Court, usually annually, and/or the Flagstaff Municipal Court (dependent upon the type of case). There has been a shift of certain cases from the County to the Municipal Court, thereby affecting the comparability from year to year.

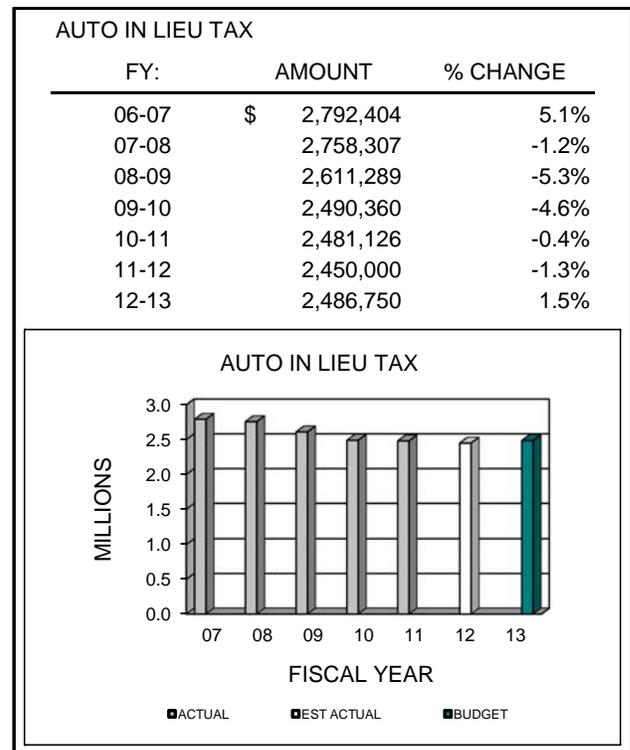


AUTO IN LIEU TAX

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.

Auto in Lieu tax is received on a declining scale over a 5-year period based on the automobile value until it stabilizes at the depreciated amount. As fewer new vehicles have entered the grid, overall revenue decreased. Even with the opening of the Auto Mall and a local sales tax rebate for energy efficient cars, revenues continued to decline through FY 2011. The revenue is expected to increase as auto sales grow during the economic recovery.



SPECIAL REVENUE FUNDS

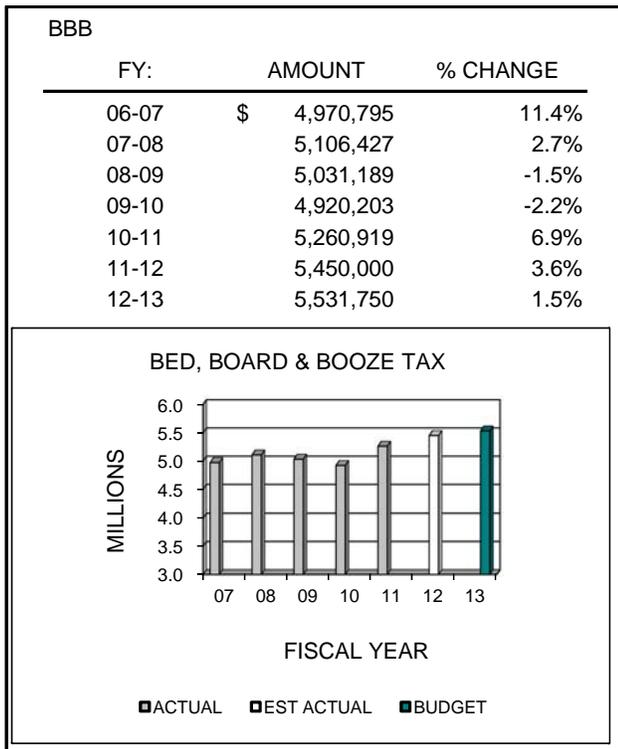
BBB FUNDS

BED, BOARD & BOOZE TAX

Legal Authority: Ordinance 1902, Reauthorized by voters May 2010, extended by vote to March 31, 2028.

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.

FY 2013 is continuing to show an increase in projected revenue, demonstrating the strength of tourism in Northern Arizona.



HIGHWAY USER REVENUE FUND

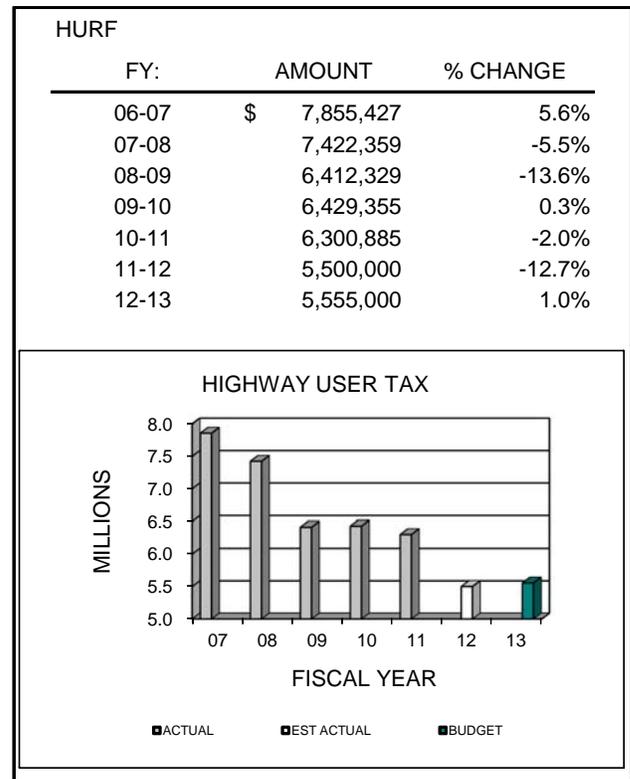
HIGHWAY USER TAX

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.

The large decrease in FY 2009 is due to State appropriation for Department of Public Safety Services (DPS) and decreased sales due to record gas prices.

The City experienced a large decrease in HURF revenues in FY 2012 due to additional state shared revenue sweeps by the State of Arizona. The City expects a very small increase in HURF revenue in FY 2013.



TRANSPORTATION TAX

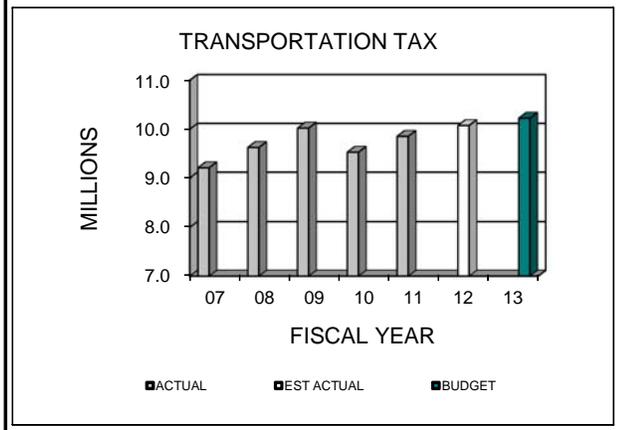
Legal Authority: Resolution 2004-48, approved by voters May 2000.

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 4th 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 current tax rate is 0.721%.

Transportation Tax Rate Breakdown	
4th Street Overpass	0.160%
Street Improvements	0.186%
Safety Improvements	0.080%
Transit Services	0.295%
Total	0.721%

A small increase is anticipated in overall Transportation tax revenue due to slow local economic recovery and the passage of the APS Franchise Agreement.

TRANSPORTATION TAX			
FY:	AMOUNT	% CHANGE	
06-07	\$ 9,207,346	13.3%	
07-08	9,623,142	4.5%	
08-09	10,020,213	4.1%	
09-10	9,526,056	-4.9%	
10-11	9,851,253	3.4%	
11-12	10,072,370	2.2%	
12-13	10,223,455	1.5%	



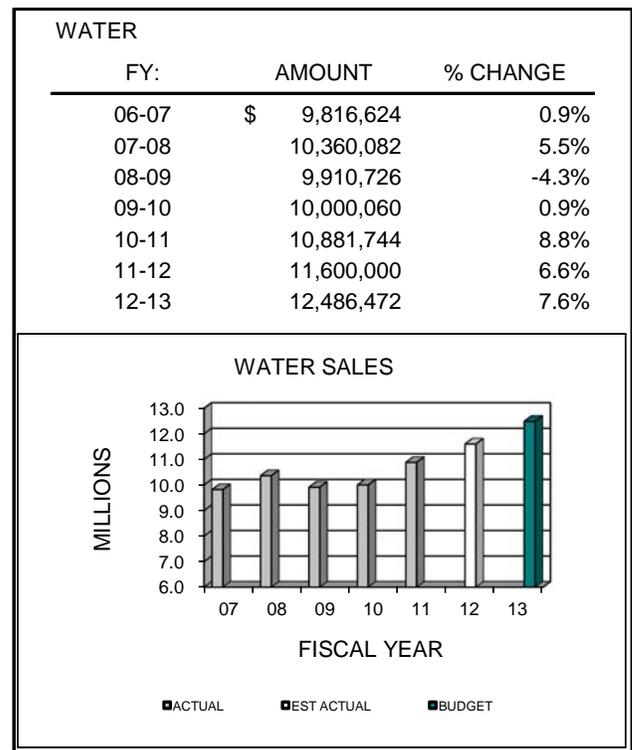
ENTERPRISE FUNDS

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 1) a base charge based on meter size and 2) a charge based on actual water consumption by customer class. Most single family accounts are based on an inverted rate structure for consumption levels to encourage water conservation practices. All other customer accounts are charged based on a flat rate per 1,000 gallons.

The rates for each customer class were reviewed in 2010 using an outside consultant. Rate changes were approved by Council with an effective date of January 1, 2011. The rates will increase annually for the next five years. Revenues in FY 2009 decreased due to a wet summer season. The next rate study is planned for FY 2014.

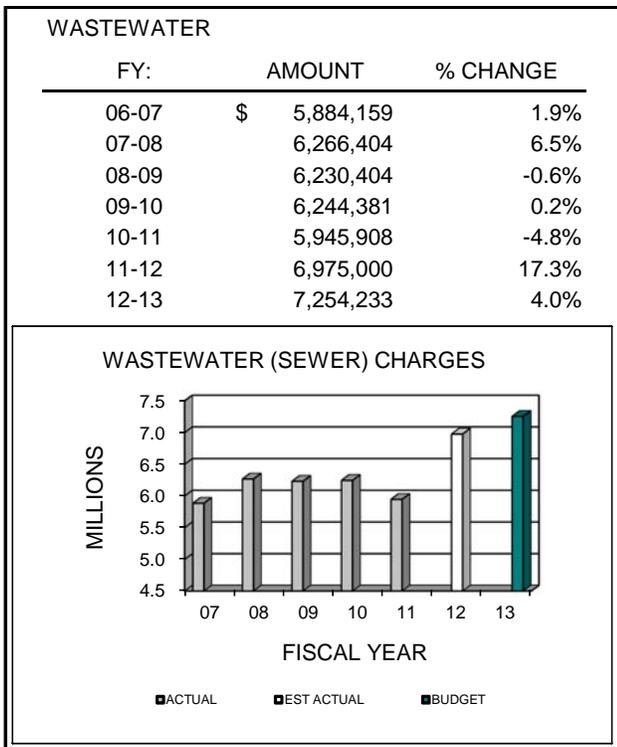


WASTEWATER SERVICE CHARGES

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. Most 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 metered water usage unless they can measurably separate which quantity of water does not reach the wastewater system.

The rates for each customer class were reviewed in 2010 using an outside consultant. Rate changes were approved by Council with an effective date of January 1, 2011. The rate will increase annually for the next five years. In the summer of 2012, staff identified an error in the rate model. Sewer consumption was set too high. This issue combined with the new rate structure resulted in decreased expected revenue in FY 2011. Staff decided not to go back to Council for a rate increase but decided to adjust operations and capital until a new rate study is completed. The next rate study is planned for FY 2014.

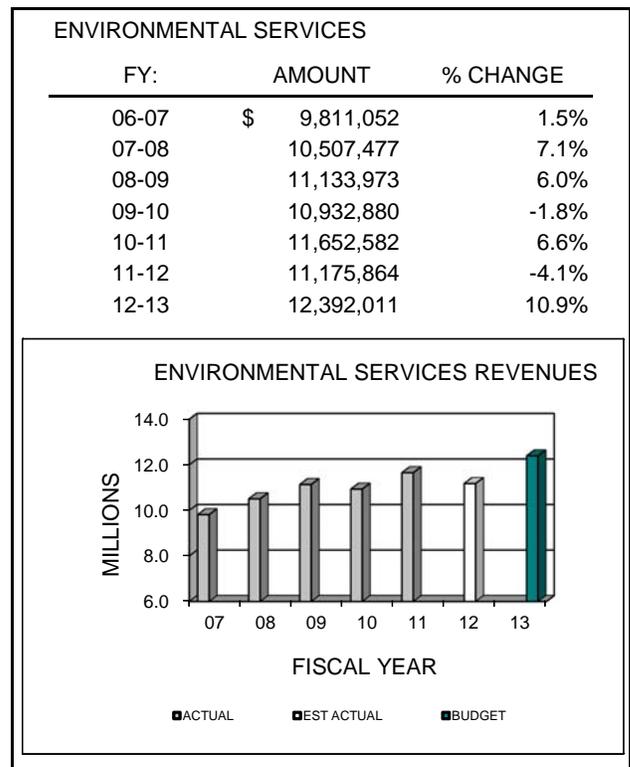


ENVIRONMENTAL SERVICES

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

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

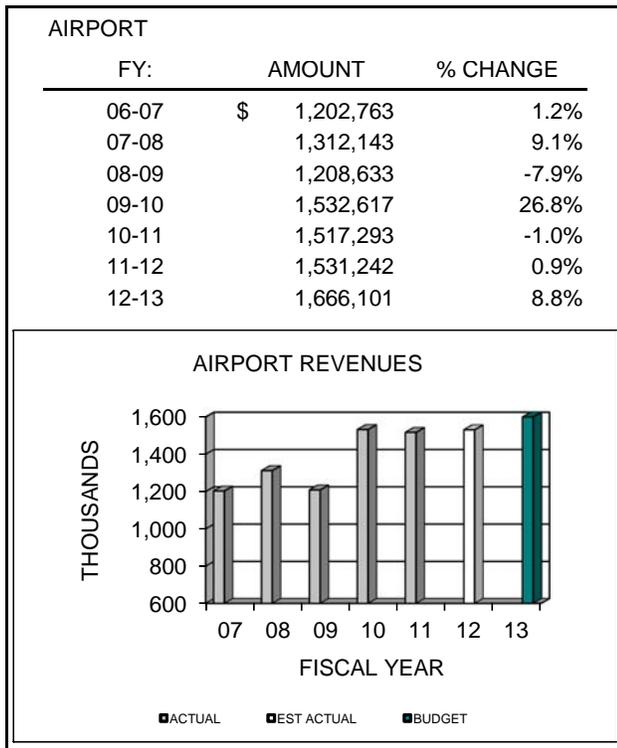
The increase in revenues for FY 2013 reflects a rate increase in the environmental service fee. Landfill fees are expected to increase based on projected growth.



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 \$3.00 PFC charge is collected from the ticket sales of passengers embarking from Pulliam. PFC revenue is not used for operating expenditures. The City is in the process of requesting an increase, from the FAA, in PFC revenue to a new level of \$4.50 per enplanement. This is expected to be implemented mid-year in FY 2013.



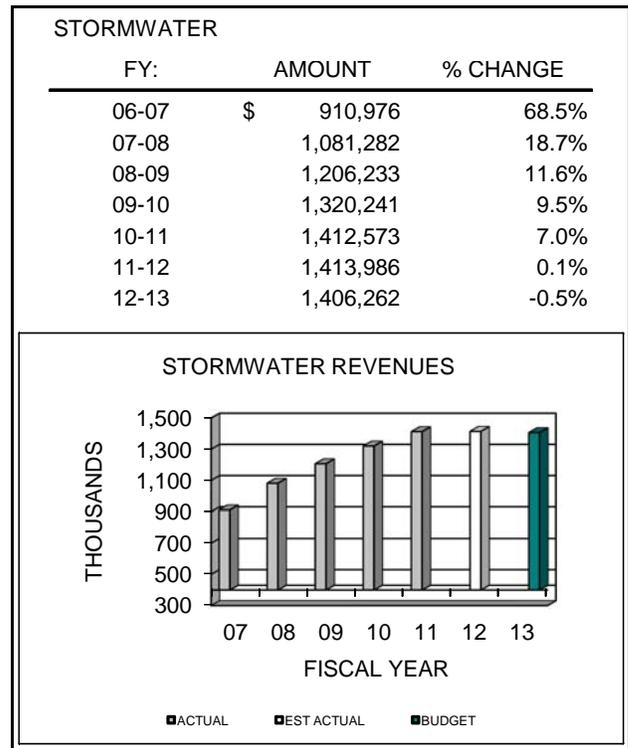
The revenue has trended upward over the past five years, with the exception of FY 2009. FY 2012 revenue is expected to demonstrate a modest increase over FY 2011. Air travel is showing signs of an uptick after the multi-year recession. Aiding in the revenue projections is the newly secured grant which will encourage an airline to establish regular daily service with the Pulliam Airport. Gradual recovery from the recession is projected to positively impact Airport revenues in FY 2013.

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 actual revenue increase of 68.5% was due to the new stormwater rate of \$0.92 per ERU. It covered additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program. In FY 2011 the rate increased, reaching its current level of \$1.30 per ERU. This rate will remain static for the foreseeable future.

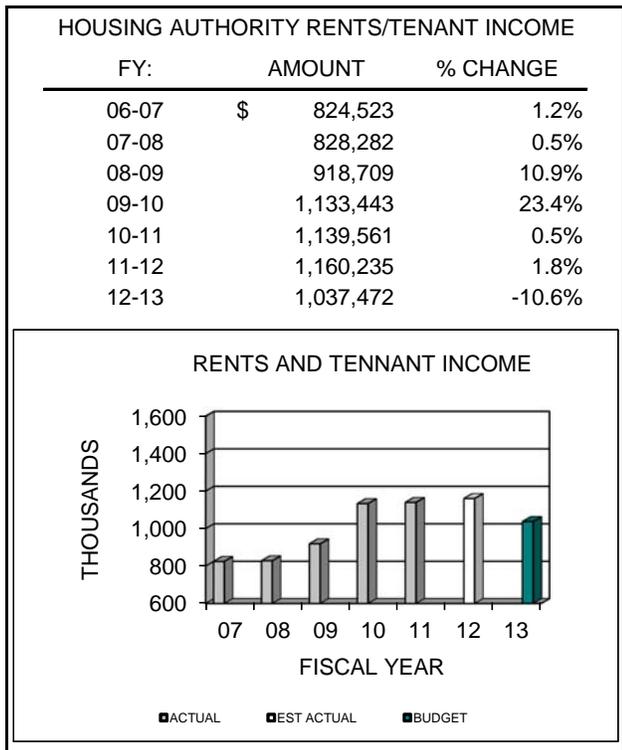


HOUSING AUTHORITY

Legal Authority: U.S. Housing Act of 1937, as amended, and Title 24 Code of Federal Regulations

Description: Housing Authority (FHA) rents and tenant income represent rent and other charges paid by families/individuals living in public housing. Rent is generally based on approximately 30% of family income, and is not a fixed amount as it is for non-subsidized housing. Other charges are primarily for maintenance and repairs. It is important to note that as rental income increases, Federal subsidy that supports the operation of public housing decreases. HUD funds operations based on a formula for reasonable expenditures; so if rental income increases, HUD Operating Subsidy decreases.

The revenue increases in 2008 through 2010 were the result of significant increases in the “flat rent”. Residents may choose between flat rent and rent that is income based. FHA began implementing higher flat rents in this time frame, which resulted in more families paying higher rents. The projected decrease in income for FY 2013 is due to falling incomes for the families/individuals served.



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 inter-related.

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.

Upon completion of the latest rate model, 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 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 2013 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2013 includes capital improvement projects totaling \$113.4 million. This amount includes \$46.4 million in carryover items that have been budgeted. Project funding is comprised of the following: \$17.0 million in grants primarily for airport, water, and beautification projects, \$45.5 million in general obligation (G.O.) bonds and capital leases for the construction of 2010 Street/Utility Projects, Court Facility, and FUTS open space and other projects that were approved by the voters in the 2004 and 2010 General Election. In May 2004 General Election, the citizens of Flagstaff authorized the City to proceed with ten new projects totaling \$155.2 million. These projects are being phased in over a ten-year period with debt being issued in conjunction with the timing of each project. In November 2010 General Elections, the citizens of Flagstaff authorized the City to proceed with two new projects totaling \$21.2 million. The City is planning to go to the voters in November, 2012, to ask for authorization for two projects. They are the Public Works Facility and the Forest Restoration Initiative. Each proposed project will be discussed below in its appropriate fund. Project listings are located in the Capital Improvement section of this book.

A Capital Budget and Capital Improvement Plan (Five-Year) are included in the Annual Budget. Detail project descriptions including location, justification, planning document references, operating impact, and funding and expenditure data are provided for all funded projects.

General Government – Twenty projects are scheduled for FY 2013 for a total of \$78.3 million. Projects included in this category are several of the projects authorized by voters in the November 2010 election. Major projects include street and utility improvements, FUTS and open space land acquisition, court facility, and Presidio subdivision.

Streets/Transportation – The City currently has 634 miles of paved streets, as well as an additional 14 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 West/Arrowhead improvements, and Beulah Blvd. extension. There are a total of twelve Streets Transportation projects scheduled at a budgeted cost of \$8.35 million. HURF revenues fund \$2.12 million of these projects with Transportation Tax funding \$6.23 million.

BBB Funds – Projects include Beautification, Tourism and Recreation funding. Major projects include 6th Avenue/Arrowhead Connector, Florence-Walnut Underpass, Historic Facades, 4th Street Corridor Improvement, and continuing our connectivity of FUTS Trails. This year Federal and State grants will provide funding of \$1.4 million. Twenty-seven projects are scheduled at a budgeted cost of \$6.4 million for FY 2013.

Utilities Fund – Major projects for Water production and distribution include Switzer Canyon Transmission Line, Lake Mary Well Waterline, Hillside Sewer Replacement, and Rio De Flag Sewer Relocates. Eighteen water projects and nine wastewater projects are scheduled at a combined budget of \$9.6 million for FY 2013.

Airport Fund – Five projects are scheduled at a budgeted cost of \$5.2 million for FY 2013. The projects include Apron Reconstruction and the Westplex Taxilane – design and construction.

Solid Waste Fund - This year's CIP includes three projects for a total cost of \$383,000 for Stormwater Infrastructure, Sub-Surface Geo Physical Study and infrastructure improvements.

Stormwater Fund – Eight projects are budgeted in the Stormwater fund with a cost of \$4.9 million in FY 2013. These projects include; Drainage Spot Improvement, the Rio De Flag Parking Replacement and Rio De Flag 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 and per capita debt. This debt is related to the voter authorized sale of bonds in May 2004 in the amount of \$155.2 million, in November 2010 in the amount of \$21.2 million, and \$1.1 million remaining from November 1996 voter approved of \$8.2 million.

Utility Rate Structure: The City has contracted with an outside agency to review the Water and Wastewater rate structure and provide a new rate modeling program. This rate model provides for major capital improvements, additional bond funding, and increased operating costs. The rate model has demonstrated a need for a rate increase which was presented to council in the fall of 2010. Rates increase annually for five years and began in January 2011.

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 and 2010, extending the tax to March 2028. Capital projects currently underway include streetscape along corridors, and the FUTS (Flagstaff Urban Trail System) connectivity and various recreation projects.

Transportation Taxes: In the May 2000 election, the voters approved a transportation tax that started at 0.51% and increased incrementally to 0.601%. The City Council approved an increase of 0.064% in the transit portion of the tax effective September 1, 2001, that increased the tax rate to 0.574%. The City Council approved another increase to the transit tax of 0.027% effective July 1, 2003 which increased the total transportation tax to 0.601%. In May 2008, the voters approved an additional tax increase for transit of 0.12%, raising the total transportation tax to 0.721%.

DEBT

DEBT CAPACITY

The City's legal debt margin, shown on the following page, demonstrates adequate capacity to complete the capital projects passed with the November 1996 bond election, May 2004 bond election and the November 2010 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 "AA" by Standard & Poor's Corporation and "Aa2" by Moody's Investor Services. In assigning a rating to bond issuance, the rating agencies analyze several factors to determine an entity's ability to repay its debt. Some of these factors are described in the following text.

Economic factors reviewed include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and delinquency rates on property tax collections. The City is well positioned because of its location and the diversity of its economic base.

Financial performance factors focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. Recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance should support ongoing expenditures. Maintaining a fund balance of 10% of budgeted appropriations is indicative of sound financial management practices.

Debt factors analyzed include indebtedness trends, debt history, current debt burden, and debt repayment schedules. The economic feasibility and need for projects financed with debt are also evaluated, as there is a correlation between perceived benefit received and ability or willingness to repay debt. The history of past voter approved bond authorizations is evaluated as an indicator of taxpayer willingness to repay debt, as well as the amount of overlapping debt imposed on the taxpayer. Development of a long range capital improvement plan is a primary method of planning for future debt needs and is a meaningful way of demonstrating budgetary and fiscal controls.

Administrative factors reviewed include the professionalism of the administration relative to budgetary policies and practices, financial reporting and results of independent audit, and effective management practices. Debt limitations, tax rate and levy limitations and unused debt margins are also assessed. Focus on management capabilities includes personnel turnover, labor relations, and legal and political constraints evident in the organizational structure. Finally, assessment procedures are reviewed and property valuations are trended and analyzed.

Quality of Life factors include the physical, environmental, and social/cultural amenities of a community, which enhance the desirability as a place to live and thereby add to the valuation of the tax base.

Legal Debt Limitations are assessed at 6% and 20% of the assessed valuation of real property. The 20% category includes water, sewer, artificial lighting, parks, open space, recreational facilities, public safety, law enforcement, fire and emergency services, and street and transportation facilities. The 6% category includes everything else. The following table reflects City capacity in each category.

General Obligation Debt	
July 1, 2012	
20% Limitation (Water, Sewer, Lighting, Open Spaces, Recreation, and Fire Facilities Purpose Debt)	
Assessed Valuation	\$ 765,276,651
Allowable 20% Debt	\$ 153,055,330
20% Debt Outstanding	(41,841,159)
Allowable Debt Margin	<u>\$ 111,214,171</u>
6% Limitation (All Other General Obligation Debt)	
Assessed Valuation	\$ 765,276,651
Allowable 6% Debt	\$ 45,916,599
6% Debt Outstanding	-
Allowable Debt Margin	<u>\$ 45,916,599</u>

DEBT SERVICE

At July 1, 2012, the total actual indebtedness is \$152.9 million. FY 2013 annual debt payments are \$14.7 million with \$37.0 million as proposed future debt awaiting approval by voters. At the start of the fiscal year, July 1, 2012, the City's 20% general obligation debt of \$41.8 million is well below the legal limit by \$111.2 million. The City has no outstanding general obligation debt in the 6% category. Thus, the full allowable debt margin of \$45.9 million is available. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

	Principal	Interest	Total
2013	\$ 10,133,643	4,584,853	14,718,496
2014	9,353,743	4,160,705	13,514,448
2015	10,607,412	3,831,223	14,438,635
2016	10,793,294	3,454,320	14,247,614
2017	9,846,457	3,062,971	12,909,428
2018	9,977,545	2,705,576	12,683,121
2019	10,306,642	2,309,009	12,615,651
2020	10,504,304	1,911,882	12,416,186
2021	6,540,667	1,532,564	8,073,231
2022	6,333,573	1,282,062	7,615,635
2023	5,345,189	1,035,485	6,380,674
2024	3,752,873	837,230	4,590,103
2025	3,663,570	689,650	4,353,220
2026	3,683,033	546,104	4,229,137
2027	3,279,782	399,289	3,679,071
2028	1,701,826	264,537	1,966,363
2029	1,108,599	183,630	1,292,229
2030	1,142,070	123,106	1,265,176
2031	950,705	67,997	1,018,702
2032	870,004	21,749	891,753
	<u>\$ 119,894,931</u>	<u>33,003,942</u>	<u>152,898,873</u>

CITY COUNCIL GOALS AND PRIORITIES

In the summer of 2010 the Council attended a retreat to allow them to update their goals for the organization. From this retreat we have the following goals:

- A sustainable community through economic vitality, environmental protection, and social inclusion
- Diversity of arts, culture, and educational opportunities
- Livability through good neighborhoods, affordable housing, and varied recreational activities
- Effective governance
- Maintain public safety short response times and encourage expanded health services
- Maintain and deliver quality, reliable infrastructure

These goals are represented in the performance measures of each Section located in the Department Detail section of the book.

The Council also discussed and ranked what they see as priorities. The rankings of Tier 1 priorities required 4 or more council member's votes, Tier 2 received 3 council member votes, and Tier 3 received 2 votes. The following is a list of those priorities:

Tier 1

- Explore possibility of a second airline.
 - Update: Acquired an \$800,000 grant to secure a second airline.
- NACET expansion and Science Park approved and construction commenced.
 - Update: Received 2 grants totaling \$5M to support expansion.
- Adopt a Water Policy resolution including water adequacy, funding, and rain water harvesting.
 - Update: Adopted rain water harvesting ordinance. Drafted first five chapters of the Water Policy. Settled water allotment dispute related to Red Gap Ranch to allow for an adequate water source for the future of Flagstaff for a potential 80 years.

Tier 2

- Develop and implement a Property Maintenance Ordinance (PMO).
 - Update: A draft PMO was provided to Council in May 2012. Council made recommendations for changes and will be brought back to Council at a later date.

- Implement traffic solutions contained in the Transportation Master Plan.
- Acquire open space with unspent 2004 bond money.
 - Update: Exploring purchase of Picture Canyon.
- Development and implementation of an incentive policy for commercial infill.
- Maintain existing parks (no new ones).
 - Update: In FY 2013 we improved the service level from 4 to 3 (1 being the highest level) by allocating an additional \$200,000 to maintenance and improvements.
- Substantial progress towards a snowplay area.
 - Update: Conducted a Request for Proposal process and began contract negotiations.
- Provide a briefing on residential infill incentive policies.
- Explore bi-monthly trash and recycling schedules.
- Conduct a community conversation about diverse cultures and consider a gay rights ordinance.
 - Update: Council has discussed the possibility of a Civil Rights Ordinance.
- Make sure we are following the Inclusive Cities Resolution.

Tier 3

- Year round homeless shelter with one-stop social services.
 - Update: We assisted Flagstaff Shelter Services in development of a new homeless shelter.

- Restore staff pay cut and get competitive pay.
 - Update: The pay cut has been restored. We have placed triggers in the FY 2013 budget to help address positions under market by 25-30% and another 1.2% pay increase.
- Redevelopment of Kmart building on 4th street.
 - Update: This building is now occupied by CAL Ranch.
- Establish fiscal policies.
 - Update: Fiscal policies were established in FY 2011 and used in the FY 2012 and 2013 budget process.
- Explore partnerships with Tribal and other governments; including recharging Alliance with a 5-year strategic plan.
 - Update: Signed Navajo Nation Human Right's Commission's memorandum of understanding. Signed agreement in principle with tribes on water settlement. Attended numerous Hopi ceremonies. Provided training to Navajo airport crews.
- Endorse November 2010 bond issue individually and work to pass.
 - Update: Two of the four bond proposals were passed by the voters. The approved issues were for replacing the Public Safety radio system and the Street/Utility improvements. The court and maintenance facilities did not pass.
- Review priorities in CIP.
 - Update: The annual budgeting process allows for discussion of priorities for the City's Capital Improvement Plan.

Inner Basin Pipeline Reconstruction - May 2012

