

BUDGET OVERVIEW

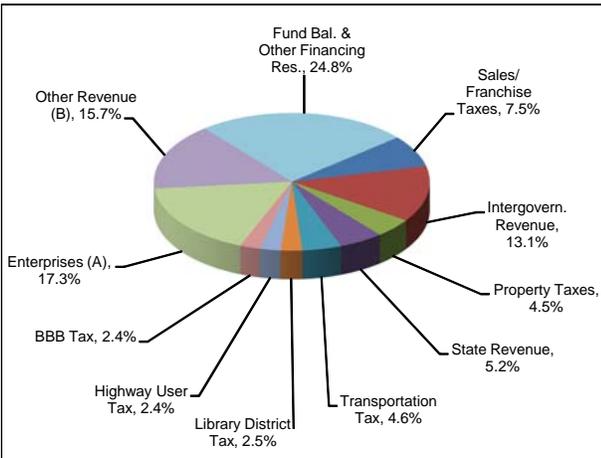
The City of Flagstaff FY 2014 Financial Plan presents a fiscally sound and balanced budget that maintains the integrity of the City's financial condition while still meeting the service level demands of a community that expects quality services. The Financial Plan is balanced not only financially, but 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 2014; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

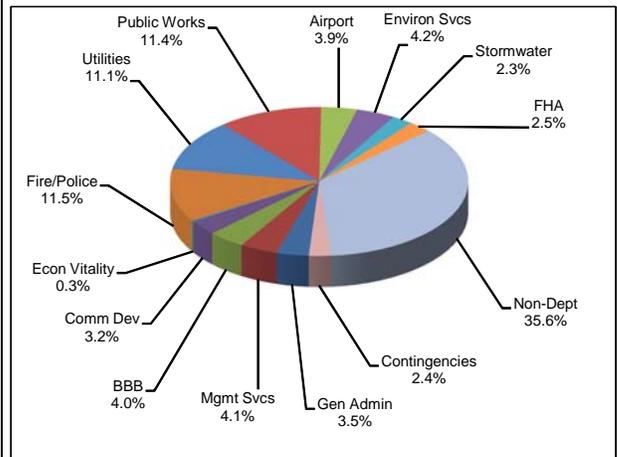
Sales/Franchise Taxes	\$ 18,195,706	7.5%
Intergovernmental Revenue	31,993,929	13.1%
Property Taxes	11,011,453	4.5%
State Revenue	12,718,188	5.2%
Transportation Tax	11,081,675	4.6%
Library District Tax	6,116,924	2.5%
Highway User Tax	5,955,798	2.4%
BBB Tax	5,932,025	2.4%
Enterprises (A)	41,929,689	17.3%
Other Revenue (B)	38,029,474	15.7%
Fund Bal. & Other Financing Res.	60,507,945	24.8%
	<u>\$ 243,472,806</u>	<u>100.0%</u>
(A) Enterprises:		
Water	\$ 15,718,170	
Wastewater	9,638,072	
Airport	1,726,440	
Solid Waste	11,384,327	
Environmental Management	1,001,509	
Stormwater Utility	1,471,171	
Flagstaff Housing Authority	990,000	
	<u>\$ 41,929,689</u>	
(B) Other Revenue:		
Licenses and Permits	\$ 1,310,180	
Vehicle License Tax	2,543,750	
Charges for Services	2,991,133	
Fines and Forfeits	1,115,151	
Interest on Investments	590,921	
Misc Revenue	29,478,339	
	<u>\$ 38,029,474</u>	



"WHERE THE MONEY COMES FROM"
\$243,472,806

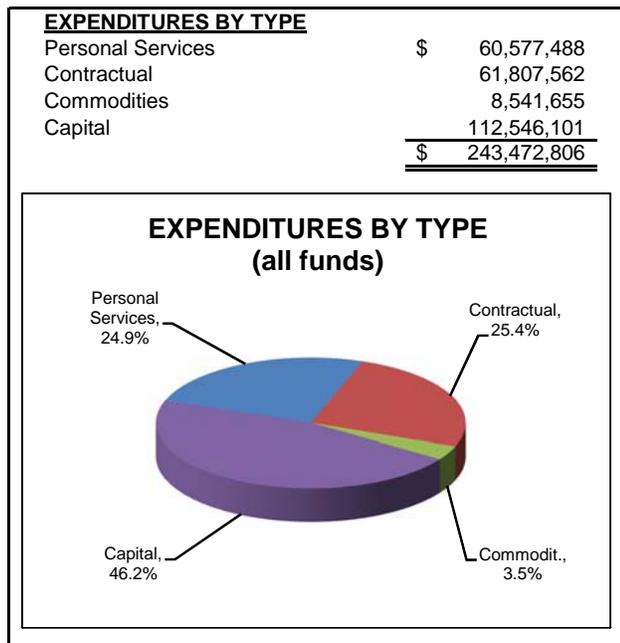
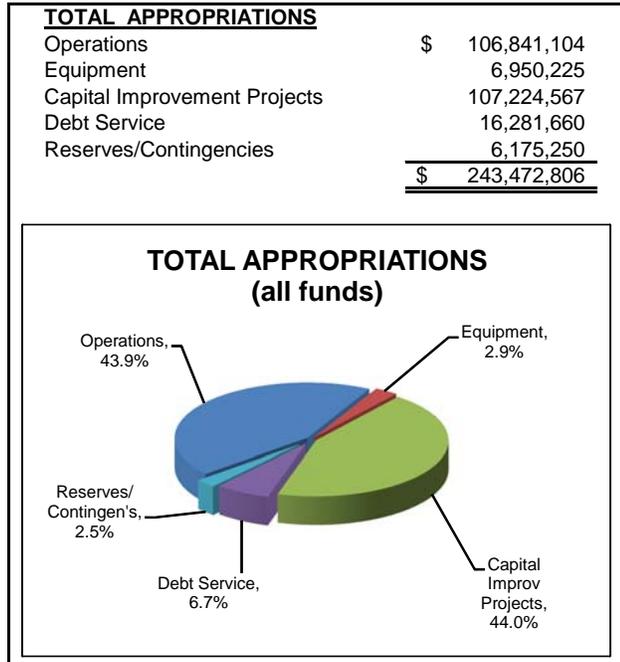
TOTAL APPROPRIATIONS

General Administration	\$ 8,470,643	3.5%
Management Services	10,081,306	4.1%
BBB (A)	9,731,759	4.0%
Community Development	7,700,899	3.2%
Economic Vitality	832,978	0.3%
Fire/Police	27,903,423	11.5%
Utilities	26,946,257	11.1%
Public Works	27,772,385	11.4%
Airport	9,427,901	3.9%
Environmental Services	10,157,897	4.2%
Stormwater	5,508,079	2.3%
Flagstaff Housing Authority	6,183,620	2.5%
Non Departmental	86,580,409	35.6%
Reserves/Contingencies	6,175,250	2.4%
	<u>\$ 243,472,806</u>	<u>100.0%</u>
(A) BBB Tax Funds:		
Beautification	\$ 6,241,010	
Tourism	1,879,658	
Economic Development	968,885	
Arts and Science	642,206	
	<u>\$ 9,731,759</u>	



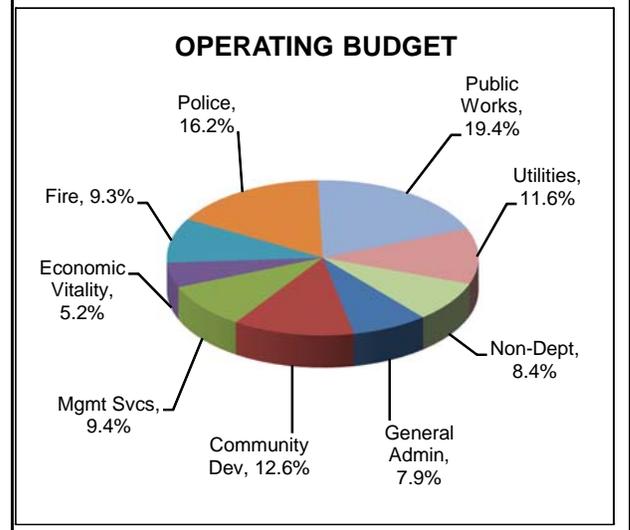
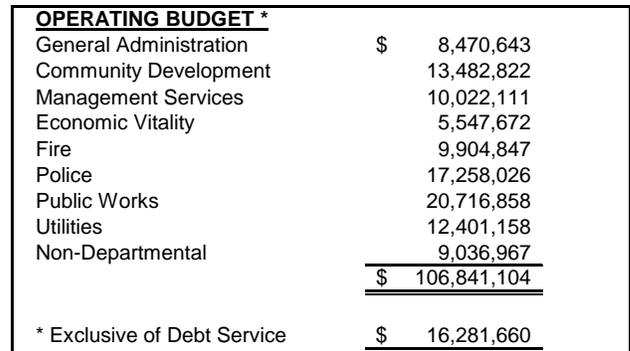
"WHERE THE MONEY GOES TO"
\$243,472,806

The following graphs depict the major classifications of appropriation for the total FY2014 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 7.9% of the budget (\$8.5 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 12.6% 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 9.4% of the operating budget (\$10.0 million). The division encompasses those activities that provide administrative support and services including financial services, budgeting, purchasing, customer service, grants management and sales tax. In addition, the division includes the operations of the City/County public library system.

Fire Department services comprise 9.3% of the operating budget (\$9.9 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 16.2% of the operating budget (\$17.3 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 19.4% of the operating budget (\$20.7 million), excluding the debt service requirements for streets (\$500,000) Core service facility (\$250,000) and USGS facility (\$700,000). The services provided include: recreation services, solid waste operations and sustainability, environmental management services, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, fleet services, and transportation services.

Economic Vitality activities comprise 5.2% of the operating budget (\$5.5 million) excluding debt service requirements for Airport (\$300,000) and Business Incubator (\$200,000). The division includes the following sections: Community Investment, Tourism and Visitor Center, Airport, Arts and Science, Urban Design, Streetscape, and Economic Development.

Utilities comprises 11.6% of the operating budget (\$12.4 million), excluding \$4.2 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 8.4% of the budget (\$9.0 million) exclusive of \$10.0 million debt service. Some sections are contractual in nature and include Contributions to Partners. 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 2013 Accomplishments, FY 2014 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 2012, the Estimated Actual for FY 2013, and the Adopted Budget for FY 2013 and FY 2014*. 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.



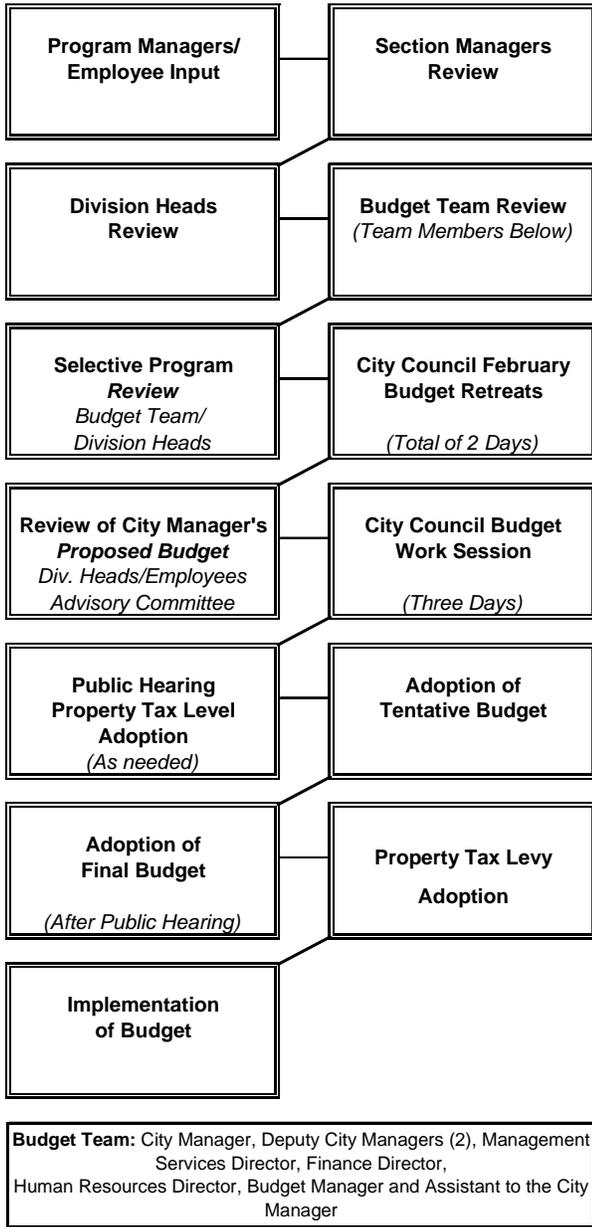
RELATIONSHIP BETWEEN FUNDS, DIVISIONS, AND SECTIONS

FUND TYPE	FUND	DIVISION	SECTION		
GOVERNMENTAL					
GENERAL	General *	General Administration	City Manager Human Resources Risk Management Law Information Technology City Court		
		Management Services	Customer Service Management Services Administration Tax, Licenses and Revenue Collection Purchasing Finance and Budget		
		Community Development	Community Development Administration Capital Improvements Planning & Development Services Engineering Housing		
		Fire	Fire		
		Police	Police		
		Public Works	Public Works Administration Parks Fleet Services Cemetery Public Facilities Maintenance USGS Facilities Recreation		
		Economic Vitality	Community Investment		
		Non-Departmental	Council and Commissions Contributions to Partners Real Estate Proceeds Facility Improvement Debt Non-Departmental		
		SPECIAL REVENUE	Library	Management Services	Library
			Highway User Revenue *	Public Works	Street Maintenance
Transportation *	Non-Departmental		Transit-NAIPTA 4th Street Overpass Safe to School Safety Improvements		
Flagstaff Urban Trail System	Community Development		Flagstaff Urban Trail System		
Beautification	Economic Vitality		Beautification General Administration Streetscapes		
Economic Development	Economic Vitality		Economic Development		
Tourism	Economic Vitality		Convention and Visitors Bureau Visitor Services		
Arts & Science	Economic Vitality		Arts and Science		
Recreation	Public Works		Recreation-BBB		
Housing and Community Service	Community Development		Community Redevelopment		
Metropolitan Planning Organization	Community Development	Flagstaff MPO			
EDA Revolving Loan - Econ. Dev.	Economic Vitality	EDA Revolving Loan			
DEBT SERVICE	G.O. Bond Fund	Non-Departmental	G.O. Bond Fund		
	Secondary Property Tax	Non-Departmental	Secondary Property Tax		
	Special Assessment *	Non-Departmental	Special Assessment		
PERMANENT	Perpetual Care	Non-Departmental	Perpetual Care		
CAPITAL PROJECTS	Capital Projects Bond	Non-Departmental	General Fund Capital Projects		
PROPRIETARY					
ENTERPRISE	Utilities *	Utilities	Utilities Administration Lake Mary Water Treatment Plant Water Distribution Booster Stations Wildcate Wastewater Treatment Plant Wastewater Collection Wastewater Monitoring Rio De Flag Wastewater Treatment Plant		
		Airport *	Economic Vitality	Airport	
		Solid Waste	Public Works	Solid Waste	
		Environmental Management *	Public Works	Sustainability and Environmental Mgmt	
		Stormwater *	Utilities	Rio De Flag	
		Flagstaff Housing Authority *	Utilities	Stormwater Utility	
	Flagstaff Housing Authority *	Community Development	Flagstaff Housing Authority		

* Major Funds based on the FY 2012 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.
- 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 2014.
- The *Capital Improvement Plan* (CIP) for FY 2014 lists projects, costs, and funding sources in the Capital Improvement (CIP) Section.
- 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
December 12	Mini Budget Council Retreat
January	Selective Program Review with Budget Team and Division Managers
January 4	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
January 11 & 22, February 4th	Mini Budget Council Retreat
February 14	Winter Council Retreat
February 25 - March 11	Review with Department Heads and City Manager
April 24 - 26	Council Study Sessions Proposed Budget available to public
June 4	Tentative budget hearing and Tentative budget adoption
June 4	Truth in taxation hearing
June 5	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
June 18	Final budget hearing and Final budget adoption
July 2	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. One public hearing is held on the content of the budget. Final adoption will occur on June 18 2013. 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 (\$243,472,806). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$133,177,482), 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

The City of Flagstaff has seen recent improvements in the economy. We have seen small improvements in FY 2013 in our local and state shared sales tax revenues. However, we remain below 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 the FY 2012 six year low. The economic analysts for our local and state region estimate there will be moderate improvements over the next few years with improved recovery beginning in two to three years.

The City collects three different 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 the utilities tax category, the City realized declines in all but four months between November 2007 and August 2010, in comparison to the same month in the prior year. Since September 2010, the City has had increases in sales tax collections 22 out of 29 months when compared to the prior year, same month. Based on business activity through February 2013, tax revenue has increased approximately 5.23% compared to a year ago. However, if utilities taxable business activity is included, the number becomes an increase of 4.77%. The three major categories of local sales taxes have all seen increases. Construction is up approximately 12.24%, hospitality is up approximately 3.05%, and retail is up approximately 6.17%. Current sales tax estimates are approximately \$850,000 higher than what was recognized in FY 2012.

The second sales 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 expiration date for this tax nears, the city will reevaluate the transportation needs of the community to propose how any future transportation tax is allocated. As similar sales are taxed with this source, revenue projections follow the same trends as the general sales tax.

The third sales tax is a Bed, Board, and Beverage (BBB) tax that collects an additional 2% for hotel/motel and restaurant/bar transactions. 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 2013. Revenue in this category is expected to increase approximately \$298,000 over budgeted revenues. 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 2013 revenues will be approximately 1.0% higher than budgeted.

Highway User Revenue (gas tax) funds are projected to end above the FY 2013 budget. For FY 2014, the City anticipates that the State will continue to redirect the revenues to fund the Department of Public Safety. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based in 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 are projected to be flat even though property tax valuation continue to decrease. 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. The State of Arizona caps the primary property tax revenue increases at 2% on an annual basis. Council directed staff to use a flat levy on property assessments, meaning to adjust the rate based on assessed values to provide the same level of revenues. Homeowners will realize a 18% rate increase from \$0.7131 to \$0.8429 per \$100 of assessed value to comply with council direction. With declining assessed values, the average property owner should see no increase in the city primary property tax.

Going into this budget season, management wanted to assess possible ways the City could reallocate resources to help with deficiencies in infrastructure shortfalls and address employee compensation. This would mean possible reductions of service levels in one area to help sustain areas that are below acceptable service levels. At the November retreat, Council asked for further meetings to address their specific questions on various divisions. This was accomplished with four mini half-day budget retreats in December, January, and February. Divisions were given further budget direction at this time to provide scenarios of the impact of a 2.5% cut in their division. Staff also provided a list of possible allocation of expenditures between funds and new revenue opportunities 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 expenditures. The General Fund update provided additional sources for allocation due to better than expected results in state shared income tax. The majority of these revenues offset costs related to pensions, health insurance, workers compensation, and property insurance. The Budget Team then met with each division to discuss their proposed budget and impacts of the 2.5% cuts. From the meetings the Budget team determined which revenue opportunities, fund reallocations and 2.5% cuts to move forward with in the recommended budget. This created the capacity in the budget to include a 3.2% market increase for employees, additional funding for infrastructure and some additional appropriation to help support existing service levels.

Details of the previous discussions 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 the City's fleet ages, this fund reduces the impact of unexpected vehicle and equipment failures and large expenditures. This fund will be addressed annually 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 2014 is estimated at \$9.7 million in the General Fund. A general fund balance equal to 15% of general fund ongoing revenues has been the City practice. During the poor economic conditions (FY 2010 – 2012), the City reduced the policy fund balance to 12% of ongoing revenue in FY 2011. The General Fund balance is currently projected to be 19% at the end of FY 2014.

To provide better financial stability during poor economic times, the General Fund fund balance has increased to a minimum 17.5% in the current plans with plans to increase to 20% over the next few years.

The FY 2014 budget anticipates using excess fund balance from the completion of FY 2012 to fund one-time expenditures. In addition, a portion of the current fund balance represents carry forward of expenditures in equipment and capital projects.

City Council and Management Priorities – The budget guidelines set forth by the City Manager were formulated based on Council concerns and goals. The Vision Statement adopted reflects the environment on which all decisions will be made. The Vision Statement is as follows: The City of

Flagstaff is a safe, diverse, vibrant, and innovative community with a unique character and high quality of life. The City fosters and supports a balance of economic, environmental, educational and cultural opportunities.

The Council then developed their ten highest City priorities. They are to:

1. Repair/replace/maintain City infrastructure.
2. Fund existing and consider expanded recreational services.
3. Address Core Services Maintenance Facility.
4. Complete the Rio de Flag.
5. Retain, expand, and diversify the economic base.
6. Complete the Water Policy.
7. Review the financial viability of pensions.
8. Review all Commissions.
9. Revisit and analyze the process and implementation for the Zoning Code.
10. Develop an ongoing budget process.

The budget review process includes:

- *Estimated Actual Expenditures FY 2013.* Sections were asked to estimate expected expenditures by line item for FY 2013. Overage and underage amounts (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2014.
- *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.

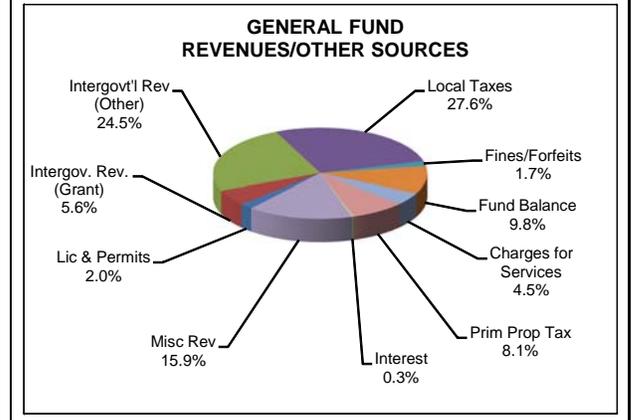
Total resources available for General Fund expenditures for FY 2014 are \$65.9 million including the estimated beginning fund balance of \$19.6 million. A substantial portion of General Fund resources comes from the following revenue categories: local sales taxes, franchise taxes, and intergovernmental revenues. Specific detail including comparative data is shown in Schedule "C" 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 2%. 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.

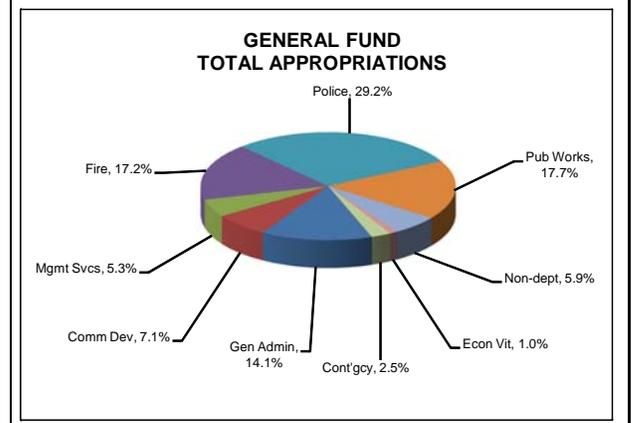
General Fund total appropriations compared to year-end estimates have increased by 26.2%. The General Fund ongoing revenues and expenses are structurally balanced in the five-year plan. Fund Balance is estimated at minimum 17.5% of operating revenues over the next five years.

The financial position of the General Fund remains balanced.

REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2013	FY 2014
Licenses and permits	\$ 1,290,930	\$ 1,310,180
Intergov Rev (Fed/State Grants)	2,317,339	3,706,481
Intergov Rev (All Other)	15,403,484	16,111,938
Local taxes	17,887,500	18,195,706
Fines and forfeits	1,110,478	1,115,151
Fund Balance, net of Transfers	18,688,621	6,471,200
Fund Balance for Carryovers	936,123	7,595,431
Charges for services	2,533,230	2,991,133
Primary Property Tax	5,250,000	5,355,000
Interest	215,100	207,500
Miscellaneous	1,626,449	2,810,642
	<u>\$ 67,259,254</u>	<u>\$ 65,870,362</u>



APPROPRIATIONS	EST ACTUAL	BUDGET
	FY2013	FY 2014
General Administration	\$ 8,036,576	\$ 8,470,643
Community Development	3,579,817	4,293,997
Management Services	3,051,046	3,171,917
Fire	9,826,416	10,346,646
Police	16,576,723	17,556,777
Public Works	5,174,398	10,674,003
Non-departmental	(2,435,115)	3,526,720
Economic Vitality	478,636	612,978
Community Enrichment	3,218,728	-
Contingencies	200,000	1,565,000
	<u>\$ 47,707,225</u>	<u>\$ 60,218,681</u>



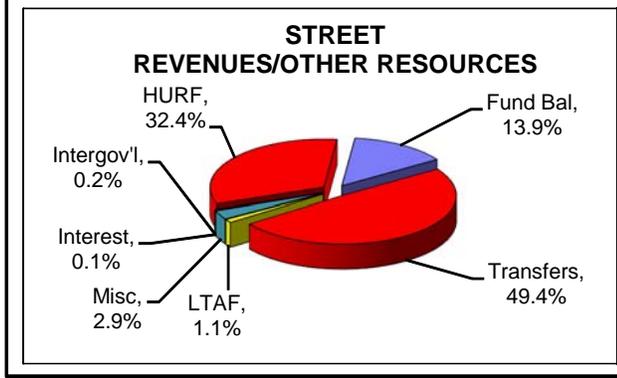
SPECIAL REVENUE FUNDS

HIGHWAY USER REVENUE FUND

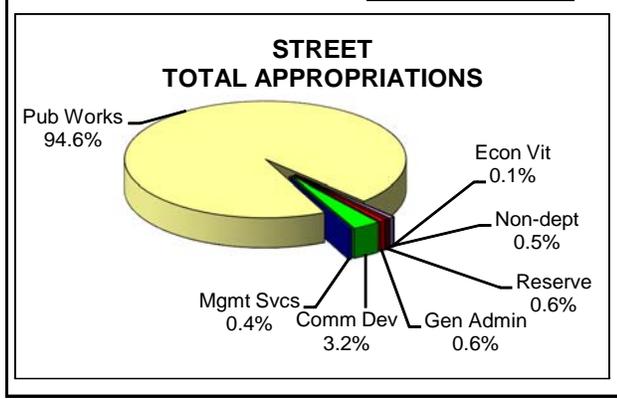
The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State.

HURF appropriations have been significantly affected due to decreased revenue receipts over the past six years. Budgeted revenue has decreased, from FY 2009 to FY 2014, by 26.7%.

REVENUES/OTHER RESOURCES	
HURF	\$ 5,955,798
Fund Balance	2,546,353
Transfers (net)	9,074,503
LTAf	200,000
Miscellaneous	540,000
Interest	6,000
Intergovernmental Revenues	36,000
	<u>\$ 18,358,654</u>



APPROPRIATIONS	
General Administration	\$ 109,645
Community Development	550,239
Management Services	66,108
Public Works	16,168,834
Economic Vitality	13,892
Non-departmental	88,851
Reserve	100,000
	<u>\$ 17,097,569</u>



Appropriations total \$17.1 million in FY 2014 and major projects budgeted includes the annual pavement maintenance program at \$3.6M, Bike/Ped and Safety Improvements, West Arrowhead Improvements, and Industrial Drive and Traffic Signal Program. However, several projects have been delayed or eliminated to balance this fund over the past five years.

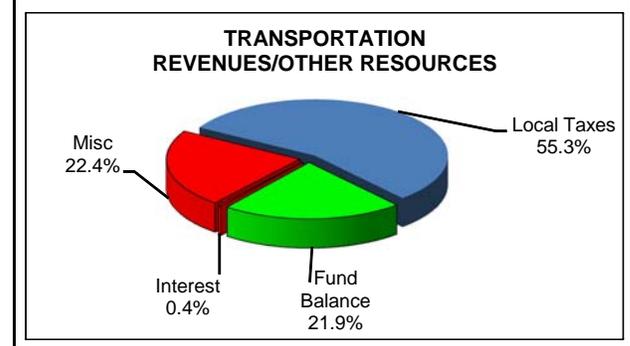
TRANSPORTATION FUND

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 FUTS funds. Appropriate transfers are made to fund the various projects that this tax supports.

Projects	Budget FY 2014 Revenues
4th Street Overpass	\$ 2,459,179
Safe-to-School, Pedestrian and Bike	1,229,589
Traffic Flow and Safety Improvements	2,858,795
Transit Service Enhancements	4,534,112
Totals	<u>\$ 11,081,675</u>

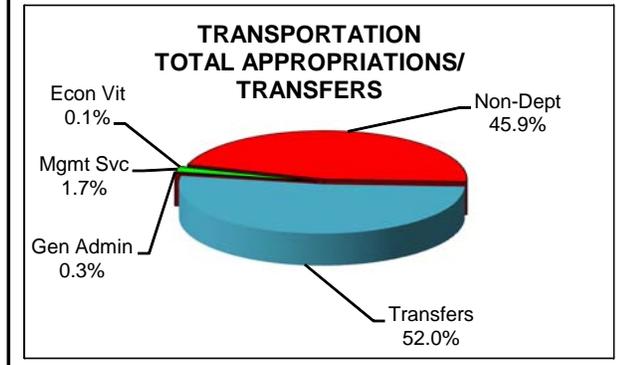
Appropriations total \$7.2 million in FY 2014. Appropriations are comprised of \$5.8 million for transit operations, and \$1.2 million for debt service. Transfers include \$7.3 million to the HURF Fund for Safety and Street Improvements and \$535,000 to fund FUTS projects. The tax rate for transportation is 0.721%.

REVENUES/OTHER RESOURCES	
Local Taxes	\$ 11,081,675
Fund Balance	4,397,568
Interest	89,000
Miscellaneous	4,500,000
	<u>\$ 20,068,243</u>



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 seeing an upward swing in tax collections.

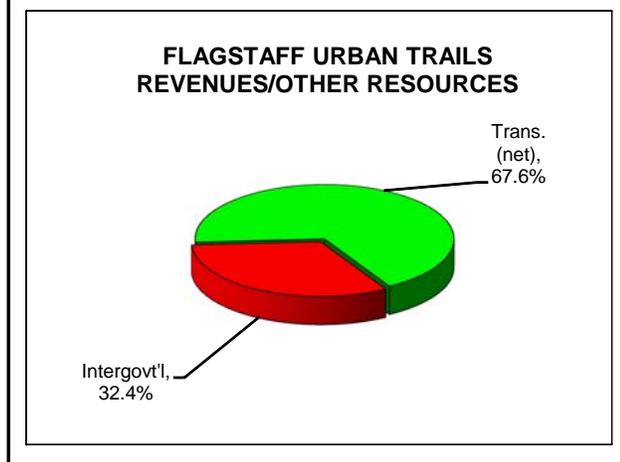
APPROPRIATIONS/TRANSFERS	
General Administration	\$ 41,592
Management Services	251,419
Economic Vitality	5,455
Non-Departmental	6,943,202
Transfers (net)	7,867,486
	<u>\$ 15,109,154</u>



FLAGSTAFF URBAN TRAIL FUND

The Flagstaff Urban Trail Fund is a new fund starting in FY 2014. Total resources available for FUTS activities are approximately \$3.8 million. Approximately \$550K comes from the Transportation Tax in a transfer from the Transportation Fund and \$2.0 million is the transfer of fund balance from the BBB Fund.

REVENUES/OTHER RESOURCES	
Intergovernmental	1,239,339
Transfers (net)	2,580,634
	<u>\$ 3,819,973</u>

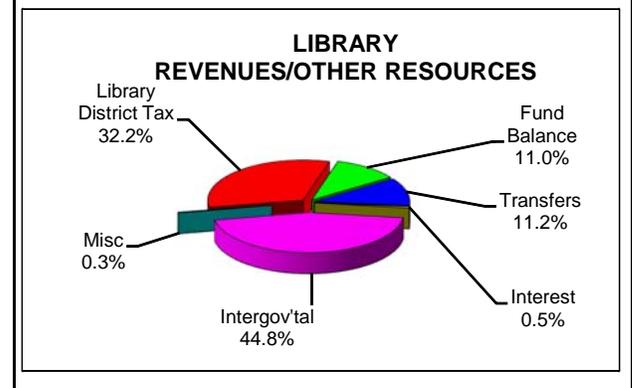


The balance includes \$1.2 million of Federal and State grants. Expenditures from this fund are primarily capital improvement projects. Some major projects are the BNSF Walnut-Florence Underpass, Fourth Street Trail, and the Arizona Trail. (A full project listing is located in the CIP Section).

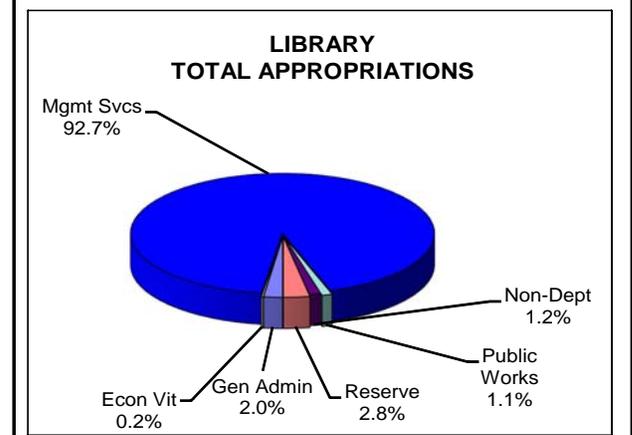
LIBRARY FUND

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

REVENUES/OTHER RESOURCES	
Library District Tax	\$ 2,570,015
Fund Balance	873,900
Transfers (net)	896,060
Interest	37,437
Intergovernmental	3,571,909
Miscellaneous	20,474
	<u>\$ 7,969,795</u>



APPROPRIATIONS	
General Admin	\$ 148,678
Economic Vitality	14,800
Management Services	7,025,781
Public Works	81,044
Non-Departmental	89,293
Reserve	222,000
	<u>\$ 7,581,596</u>



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.

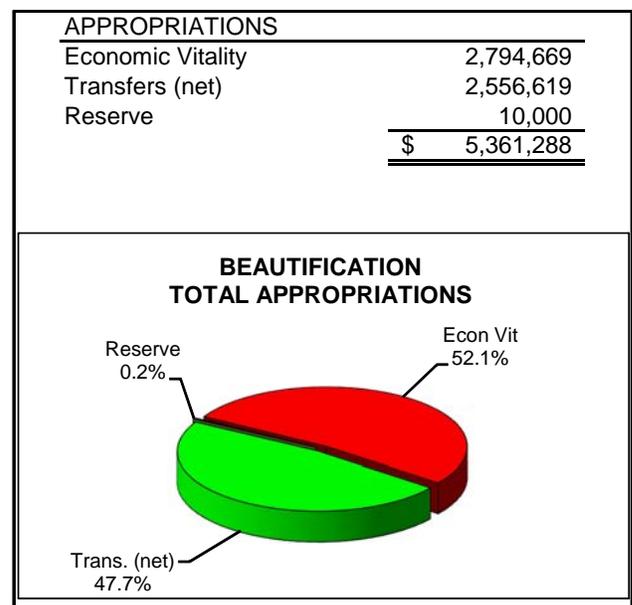
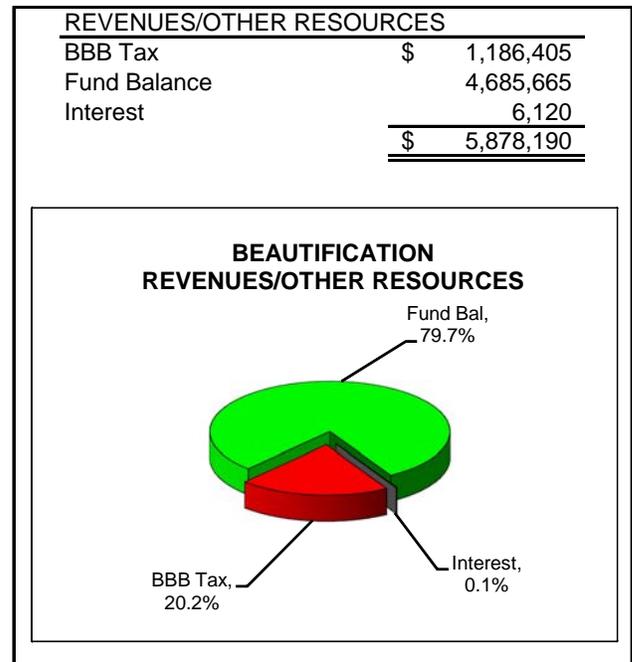
BBB FUNDS

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%

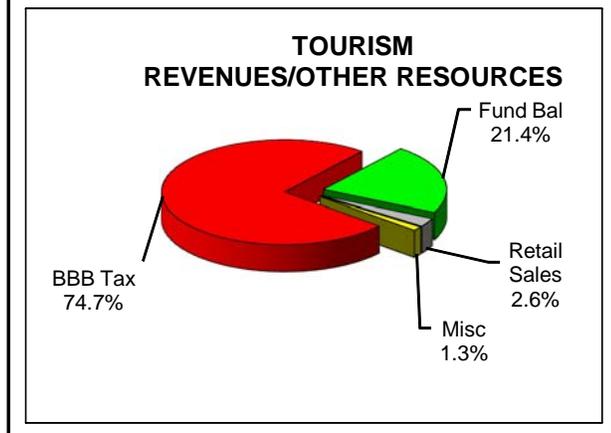
Revenue for FY 2014 is projected with 1.8% growth over 2013 year end estimates and FY 2013 estimated receipts are 5.4% over budget. Activities funded with the revenues have made operating adjustments necessary to reflect a balanced budget to the increased sales tax receipts and these changes will be reflected within each five-year plan.

Beautification Fund: Total resources available for Beautification Fund activities amount to \$5.9 million including carryovers and approved grants. Expenditures from this fund are primarily for Beautification Operations and Capital Improvements in Streetscape projects. Some major projects include the 4th Street Corridor Improvements, Butler Avenue-North Edge, and Butler Medians. There are two transfers. A \$511,000 transfer to the General Fund for maintenance of Streetscape Projects and a \$2.0 million transfer to FUTS Fund which is a transfer of fund balance for the FUTS Program. (A full project listing is located in the CIP Section.)



Tourism Fund: Total resources available in FY 2014 are \$2.4 million, of which an estimated \$1.7 million is from the BBB tax. The total appropriations are approximately \$1.9 million, which include \$1.5 million for Tourism. Tourism includes General Administration, Marketing, Sales, Public Relations and Film Office. The Visitors Center programs account for \$361,000.

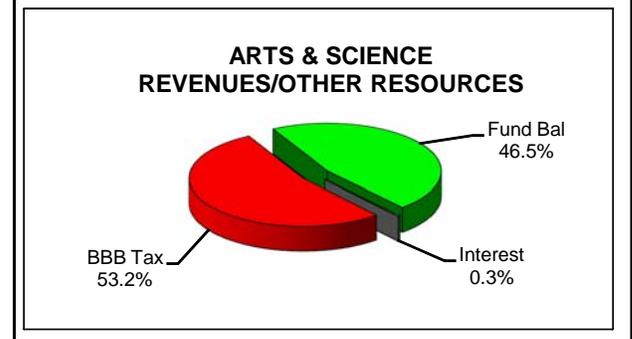
REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,779,608
Fund Bal, Net of Transfers	508,980
Retail Sales	62,620
Miscellaneous	31,855
	<u>\$ 2,383,063</u>
APPROPRIATIONS	
Economic Vitality	\$ 1,879,658
Reserve	50,000
	<u>\$ 1,929,658</u>



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 Visitor Center (including the gift shop), Train Station Operations and General Administration.

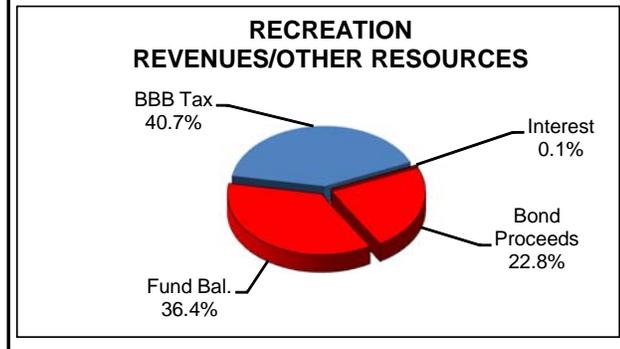
Arts & Science Fund: Total resources available for Arts & Science activities are approximately \$800,000 including estimated revenues from the BBB tax of \$445,000. Expenditures include: Public Art for \$233,000, Contributions to Partner agencies for \$355,000, and the Science Foundation for \$50,000. The Science Foundation funding was previously included within the Economic Development Fund through FY 2013.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 444,902
Fund Bal, net of Transfers	388,524
Interest	2,866
	<u>\$ 836,292</u>
APPROPRIATIONS	
General Administration	\$ 642,206
Reserve	10,000
	<u>\$ 652,206</u>



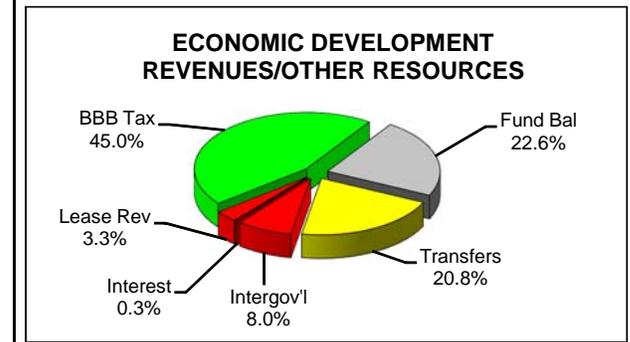
Recreation Fund: There is one appropriation in the amount of \$1.1 million in FY 2014 for Recreation Fund activities. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Over the past four years, the city council has reexamined the use of these funds and now directs \$550,000 to fund recreational programming and \$1.4 million to fund Parks-FUTS Maintenance and Parks-BBB Recreation Fields operation. These are funded via a transfer to the General Fund.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,957,568
Interest	7,000
Bond Proceeds	1,100,000
Fund Balance	1,751,379
	<u>\$ 4,815,947</u>
APPROPRIATIONS/TRANSFERS	
Public Works	\$ 1,100,000
Transfers (net)	1,948,789
	<u>\$ 3,048,789</u>



Economic Development Fund: This fund focuses 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	\$ 41,637
BBB Tax	563,542
Fund Balance	282,960
Transfers	261,000
Intergovernmental Revenue	100,000
Interest	2,977
	<u>\$ 1,252,116</u>
APPROPRIATIONS	
Economic Vitality	\$ 968,885
Reserve	45,000
	<u>\$ 1,013,885</u>



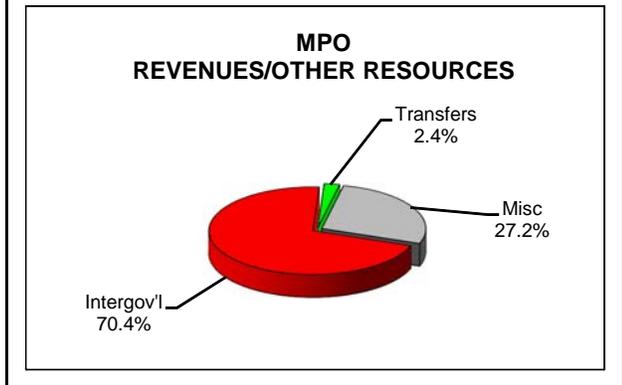
The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals. Total resources allocated to this effort are \$1.3 million, of which \$100,000 is Intergovernmental Revenue, \$560,000 from the BBB dedicated tax for economic development, lease revenue of \$42,000, and a general fund contribution of \$261,000 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).

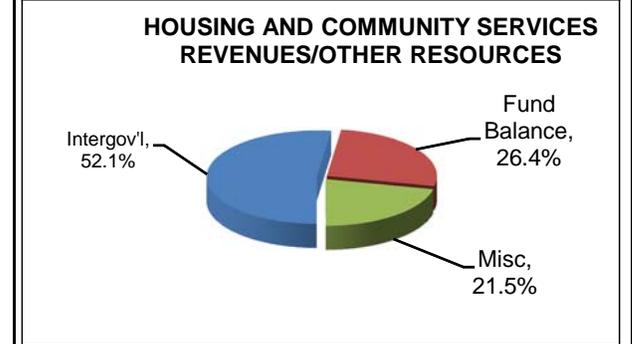
The City has appropriated \$937,571 for this program for FY 2014. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through NAIPTA and funded with Transportation Tax.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 660,071
Transfers	22,500
Miscellaneous	255,000
	<u>\$ 937,571</u>
APPROPRIATIONS	
Community Development	\$ 666,445
Non-Departmental	21,126
Contingency	250,000
	<u>\$ 937,571</u>

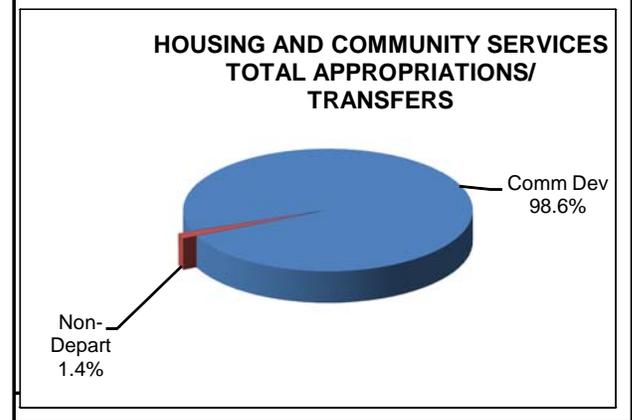


Housing and Community Services Fund: This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$2.7 million appropriated to this activity for FY 2014. Expenditures in this fund include \$660,000 in State Housing grants and \$912,000 in CDBG grant activities.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 1,572,174
Fund Balance	796,819
Sale of Real Property	650,000
	<u>\$ 3,018,993</u>



APPROPRIATIONS/TRANSFERS	
Community Development	\$ 2,740,457
Non-Departmental	38,284
	<u>\$ 2,778,741</u>



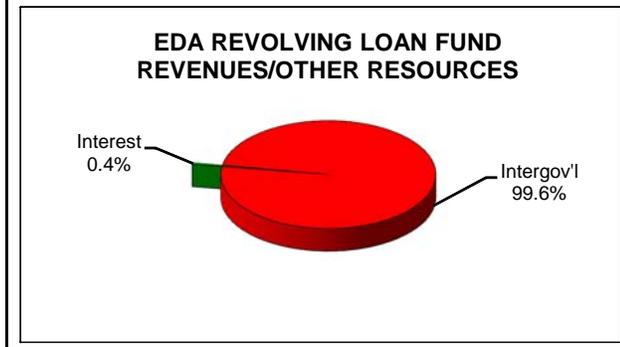
EDA REVOLVING LOAN FUND

This is a new fund for FY2014. On June 30, 2012 the Northern Arizona Council of Governments (NACOG) staff received authorization from the U.S. Department of Commerce Economic Development Administration (EDA) to transfer the ownership of the Revolving Loan Fund (RLF) to the City of Flagstaff in an effort to better maximize the benefits and utilization of the RLF.

Via resolution from NACOG, the EDA Revolving Loan Fund portfolio was transferred to the City of Flagstaff for management of loans for the purpose of funding small business concerns. Revenues and expenditures will have a neutral impact to the City budget. Upon funds receipt, loans can be processed.

The availability of and access to funding for startup and/or working capital are significant impediments to doing business in the four county region. By keeping these funds in the region, the City of Flagstaff reaffirms its commitment to being an active economic development partner in the greater community.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	220,000
Interest	855
	\$ 220,855
APPROPRIATIONS	
Economic Vitality Reserve	\$ 220,000
	-
	\$ 220,000



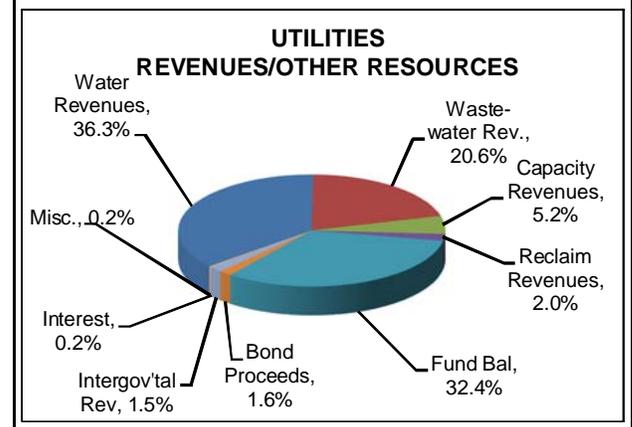
ENTERPRISE FUNDS

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 \$30.6 million.

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	\$ 14,367,887
Wastewater Revenues	8,169,409
Capacity Revenues	2,042,383
Reclaim Revenues	776,563
Fund Bal, net of Transfers	12,810,620
Bond Proceeds	628,600
Intergovernmental Revenue	590,500
Interest	95,950
Miscellaneous	91,000
	\$ 39,572,912



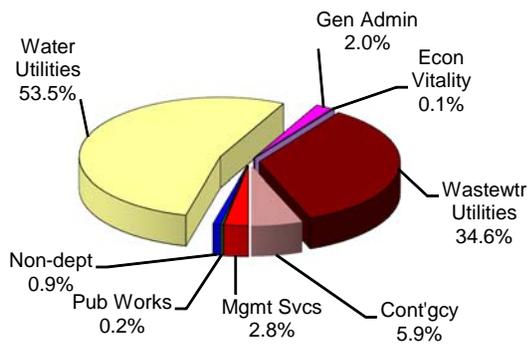
Water Operations: Total appropriations relating to direct costs for the water operations are \$16.4 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and future water rights. Revenue estimates total \$14.4 million for water sales.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$10.6 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total \$8.9 million in wastewater reclaim service charges.

APPROPRIATIONS

General Administration	\$	621,261
Economic Vitality		44,347
Management Services		857,869
Public Works		48,039
Non-departmental		270,184
Water Utilities		16,360,137
Wastewater Utilities		10,586,120
Contingency		1,800,000
		<u>\$ 30,587,957</u>

**UTILITIES
TOTAL APPROPRIATIONS**



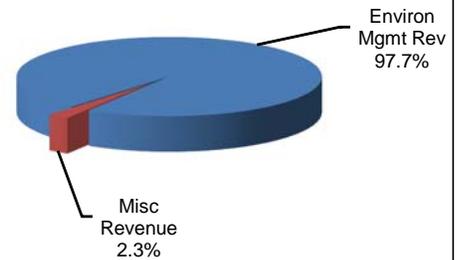
ENVIRONMENTAL MANAGEMENT FUND

This is a new fund in 2014. In previous years, sustainability and environmental management operations were a part of the Environmental Service Fund. User fees are the major revenue source of the sustainability and environmental management operations. The user fee is the environmental fee that is based on the cost of service.

REVENUES/OTHER RESOURCES

Environmental Mgmt Revenue	\$	1,001,509
Miscellaneous Revenues		23,600
		<u>\$ 1,025,109</u>

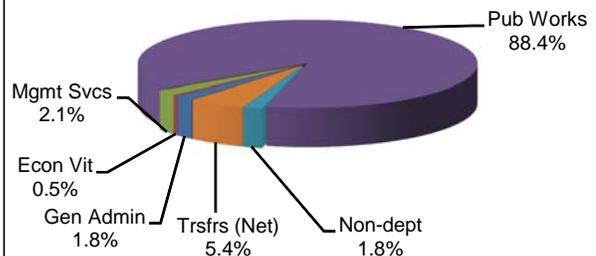
**ENVIRONMENTAL MANAGEMENT
REVENUES/OTHER RESOURCES**



APPROPRIATIONS

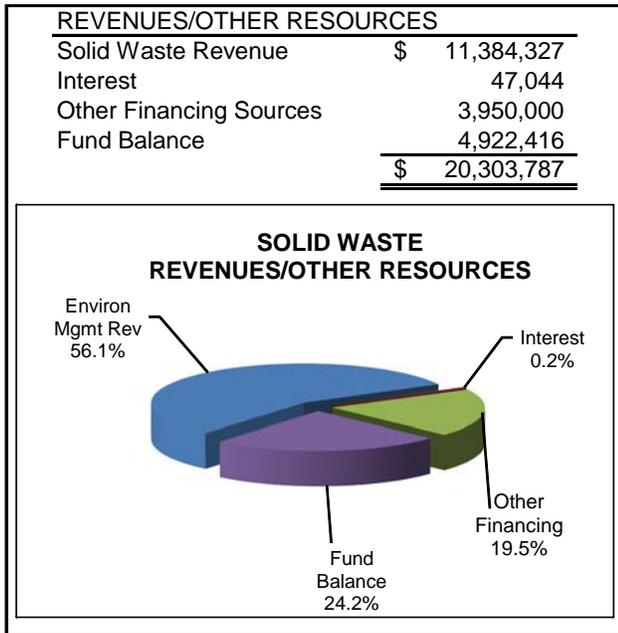
General Administration	\$	18,020
Economic Vitality		4,628
Management Services		21,367
Public Works		887,221
Non-departmental		18,560
Transfers (Net)		53,953
		<u>\$ 1,003,749</u>

**ENVIRONMENTAL MANAGEMENT
TOTAL APPROPRIATIONS**

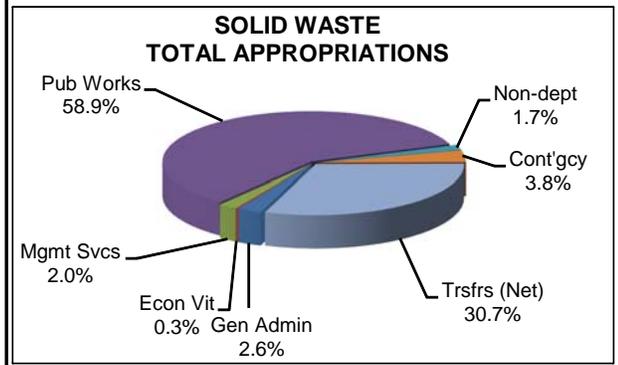


SOLID WASTE FUND

Total financial resources are \$15.4 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, and commercial recycling) with different rates for each category based on cost of service.



APPROPRIATIONS	
General Administration	\$ 425,155
Economic Vitality	44,291
Management Services	323,645
Public Works	9,508,438
Non-departmental	282,110
Contingency	612,000
Transfers (Net)	4,950,216
	<u>\$ 16,145,855</u>



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

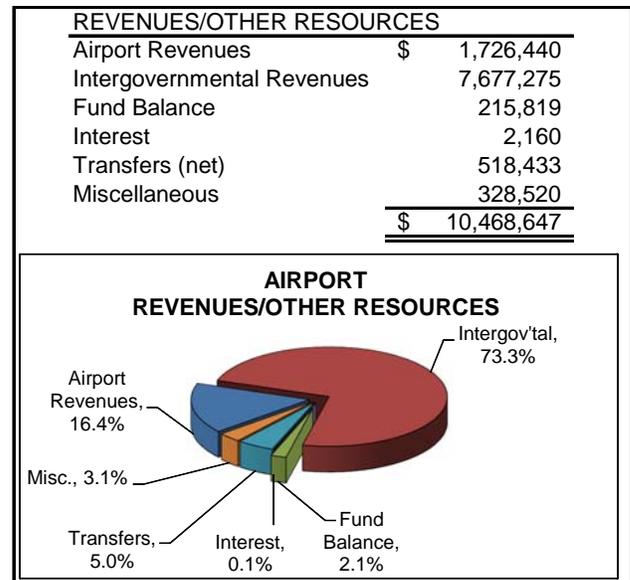
mitigation of environmental contamination and/or degradation; as well as for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements.

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 \$10.3 million: \$2.3 million for operations which includes \$0.8 million for a new airline service development grant, \$0.3 million for debt and \$7.2 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

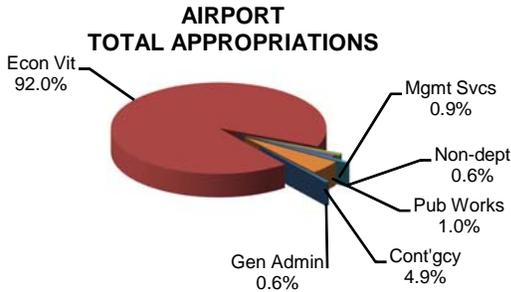
This year, of the \$7.2 million in capital improvements, 96% of the budgeted expenses are being funded with grants from the FAA and ADOT.

All revenues generated by the airport will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and directly related to the actual transportation of passengers or property.



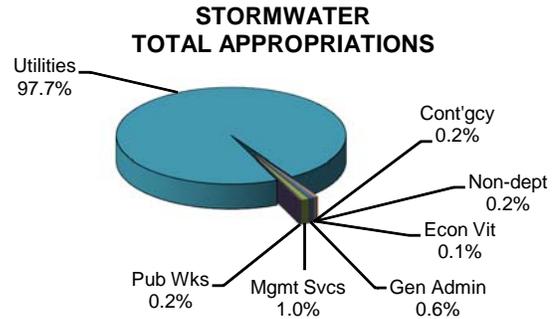
APPROPRIATIONS

General Administration	\$ 61,759
Economic Vitality	9,432,657
Management Services	94,151
Public Works	105,195
Non-departmental	59,662
Contingency	500,000
	<u>\$ 10,253,424</u>



APPROPRIATIONS

General Admin	\$ 37,905
Management Services	53,860
Public Works	9,626
Utilities	5,508,079
Non-departmental	14,022
Economic Vitality	2,035
Contingency	10,000
	<u>\$ 5,635,527</u>



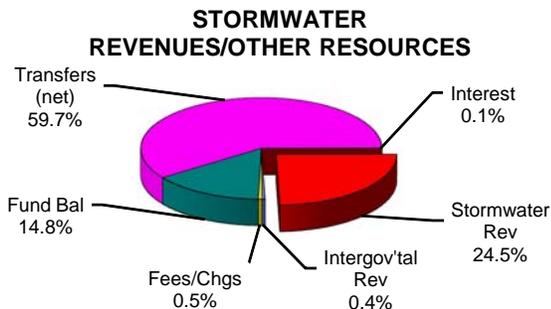
STORMWATER FUND

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 \$5.8 million include a transfer of \$3.9 million from the general fund for the Rio de Flag project.

REVENUES/OTHER RESOURCES

Stormwater Revenues	\$ 1,441,171
Intergovernmental Revenues	\$ 25,000
Fees & Charges	30,000
Fund Balance	867,572
Transfers (net)	3,502,310
Interest	4,338
	<u>\$ 5,870,391</u>



Total appropriations of \$5.6 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 \$7.6 million. Intergovernmental Revenue from the US Department of Housing and Urban Development comprises 72.8% of funding, or \$5.5 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.

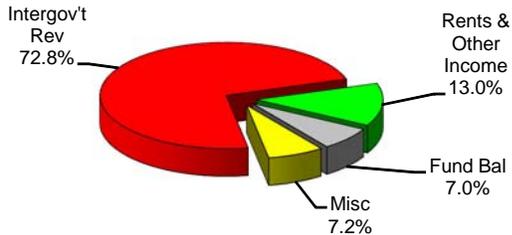
REVENUES/OTHER RESOURCES

Intergovernmental Revenue	\$ 5,542,089
Rents/Other Tenant Income	990,000
Fund Balance	536,380
Miscellaneous	548,045
	<u>\$ 7,616,514</u>

APPROPRIATIONS

Community Development	\$ 6,183,620
Contingency	1,001,250
	<u>\$ 7,184,870</u>

**FLAGSTAFF HOUSING AUTHORITY
REVENUES/OTHER RESOURCES**



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 fund balance is projected to decrease by 51% as the City is currently funding several projects with fund balance and non-recurring revenues. Such projects include Rio de Flag flood control and Court Facility. A portion of one-time items tend to be the result of Carryover requests from the previous year. The General Fund will still maintain a minimum 17.5% fund balance

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 an IGA. The Library fund balance decreased by 56% due to planned reductions in circulation materials and one time items.

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 50% due to planned expenditures for the completion of various capital projects.

FUTS

This fund accounts for capital projects related to FUTS (Flagstaff Urban Trail System). The primary sources for this fund are grants and revenue transfers. The FUTS Fund is new for FY 2014 and had its fund balance transferred from the Beautification Fund.

EDA REVOLVING LOAN

The primary source for this fund was created by a transfer of the portfolio for the U.S. Department of Commerce Economic Development Administration Revolving Loan Fund program from the Northern Arizona Council of Governments to the City of Flagstaff. Program funding is based upon loans granted, then repaid, which fund additional new loans to growing businesses. There is a net neutral effect to the City budget. This is the first year this fund is in the City budget.

BEAUTIFICATION

The primary source for this fund is BBB taxes, grants, and revenue transfers. This fund primarily accounts for capital projects related to 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 89% due to planned expenditures for the completion of various capital projects and the transfer of FUTS fund balance to the newly established FUTS fund.

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 16% in FY 2014 due to use of excess fund balance to cover planned expenditures which will attract long term business investment in the City.

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 decreases in FY 2014 by 30% due to use of excess fund balance to cover planned one-time expenditures.

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 2014 result in Arts and Science fund balance decreases of 53%.

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, and recreation programming are funded with ongoing revenues. The Recreation – BBB fund balance increases by 1% as the fund continues to accumulate reserves for new capital projects.

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 70% 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 decreases by 22% as the City pays off 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 2014.

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 with 3 project still to be completed. In November 2010, the citizens of the City of Flagstaff approved two projects and in November of 2012, two additional projects were approved by the voters. 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 96% 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 31% 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 2014.

SOLID WASTE

This enterprise fund is self-sustaining through user fees. The five-year projection anticipates a growth rate of two percent. 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 Solid Waste anticipates a 16% decrease in fund balance in FY 2014 due to decreased service levels.

ENVIRONMENTAL MANAGEMENT

This enterprise fund is self-sustaining through user fees. The five-year projection anticipates a growth rate of two percent. This coincides with ongoing operations and revised service levels for all operations. Environmental Management is new for FY 2014 and these operations were previously part of the Solid Waste Fund.

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 73% 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 as well as public housing for City residents. The five year plan indicates the majority of funding is grant related. Due to the cuts of Federal funding in FY 2014, the City anticipated the FHA fund balance to decrease by 20%.

REVENUES

Historical Trend Information for Select Revenues

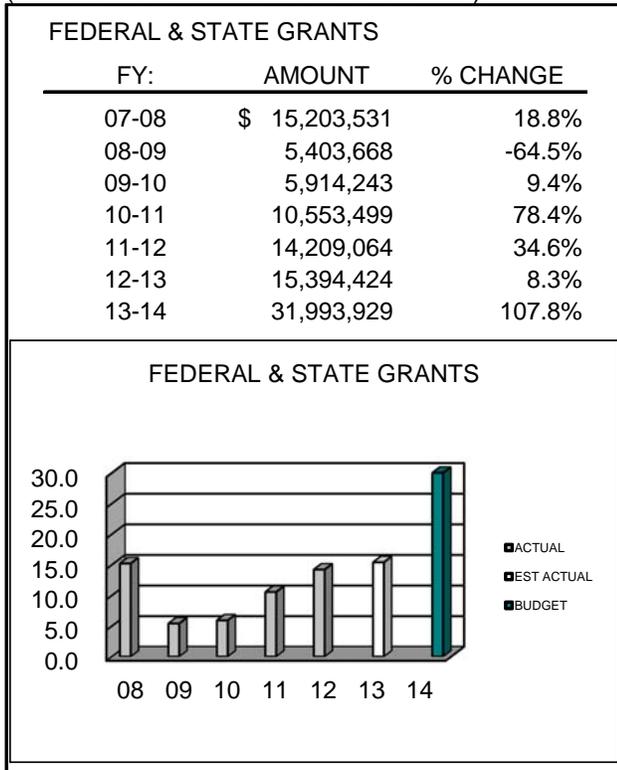
ALL FUNDS

FEDERAL AND STATE GRANTS

Description: The City applies to Federal and/or State Agencies 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 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. Several projects funded in FY2014 by federal & state grants include the Business Accelerator, Observatory Mesa, Westplex Taxilane Reconstruction and airport purchase of a fire rescue truck. In addition, we have several large ongoing federal grants for Community Development Block Grant, Section 8 and Low Income Public Housing. (See Schedule C-1 for additional details).



GENERAL FUND

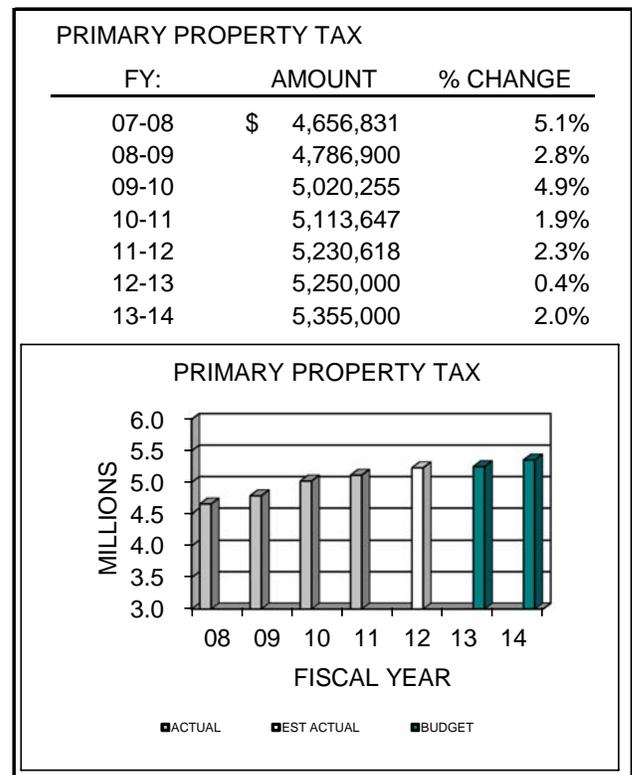
PROPERTY TAX RECEIPTS CURRENT, PRIMARY

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 in levy to 2% plus the amount generated by construction. For FY 2013 Council voted to keep the levy flat plus new construction. For FY 2014 we are continuing with flat levy plus new construction. The City's capacity for levy increase is 4%.

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 \$11.2 million dollars to the assessed valuation. For FY 2014 existing Primary Property Tax values dropped by 13.9%.



CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

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

Tax currently sunsets November 2024.

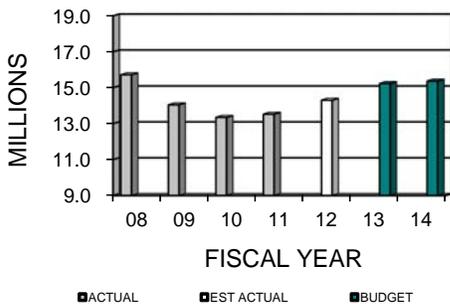
Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additional sales taxes levies include a 2% tax on hotels, motels, restaurants and bars (BBB Tax) and a 0.721% transportation tax.

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 2009 and FY 2010 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 a sales tax.

CITY SALES TAX

FY:	AMOUNT	% CHANGE
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	14,304,655	5.8%
12-13	15,232,500	6.5%
13-14	15,369,868	0.9%

CITY SALES TAX REVENUES



STATE SALES TAX

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

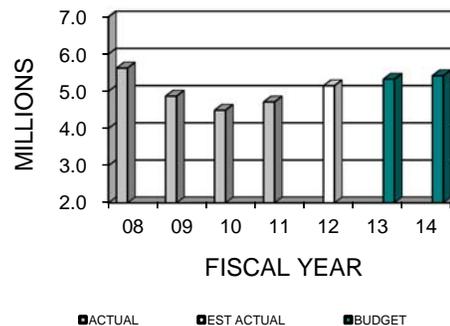
Description: A half-cent (.5%) portion of the five-cent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided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

The sales tax revenues estimated for FY 2008, 2009 and 2010 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 2011, the city is choosing to continue to budget conservatively compared to the State of Arizona. Increases in FY 2012, and on, are due to an economic recovery and 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
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	5,147,101	9.2%
12-13	5,325,000	3.5%
13-14	5,418,188	1.8%

STATE SALES TAX

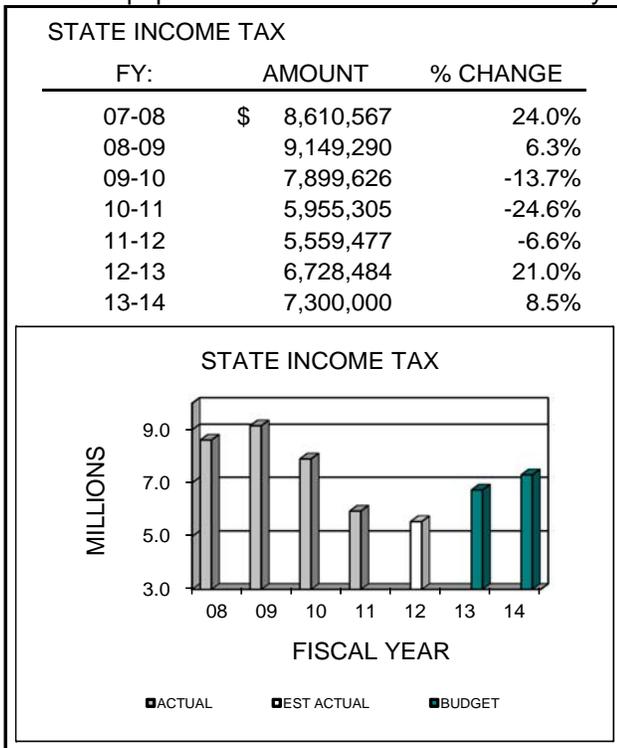


STATE INCOME TAX (REVENUE SHARING)

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 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.



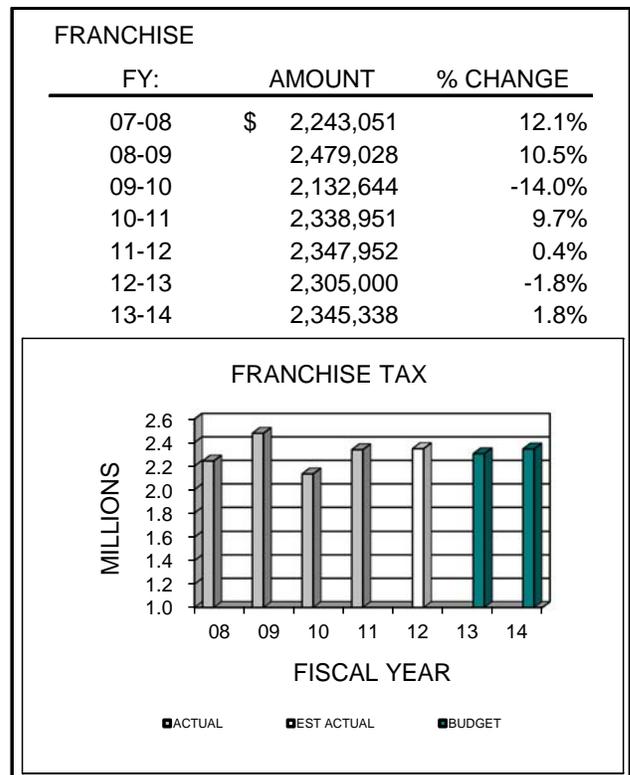
FRANCHISE TAX

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 2% tax from telecommunication companies, 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 decrease anticipated for FY 2013 as the mild winter of 2012-13 reduced natural gas Franchise revenues.

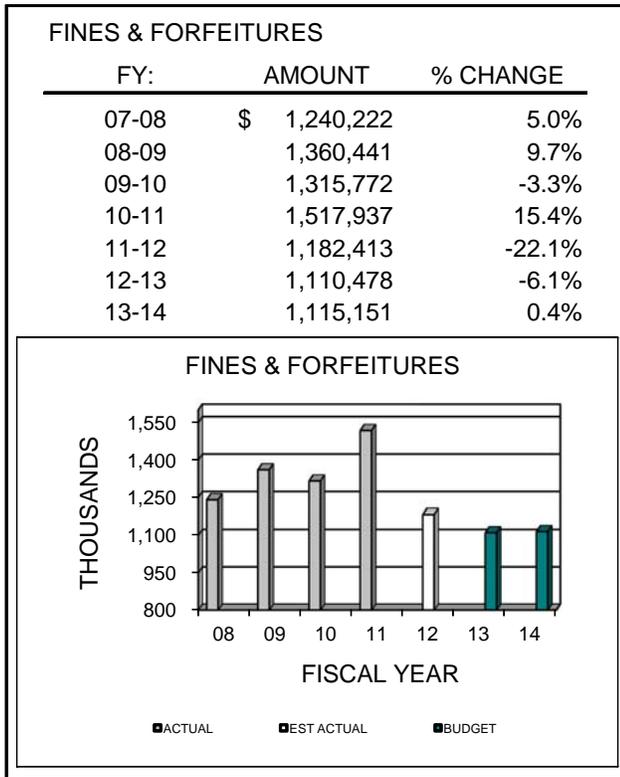


FINES & FORFEITURES

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.

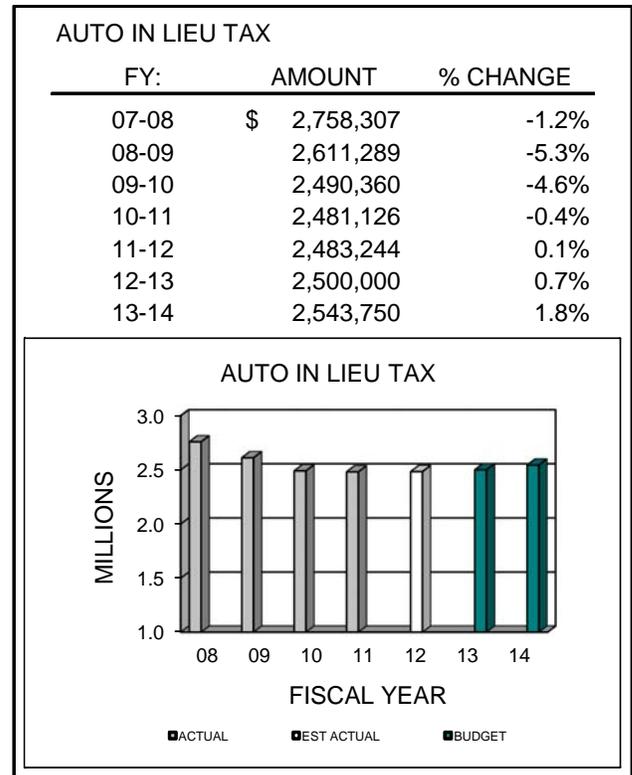


AUTO IN LIEU TAX

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

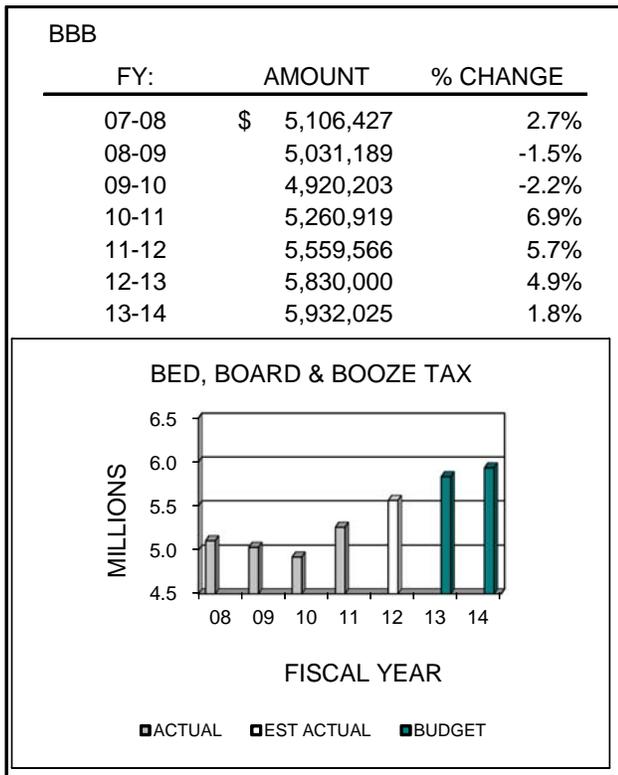
BBB FUNDS

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 2014 is continuing to show an increase in projected revenue, demonstrating the strength of tourism in Northern Arizona.



HIGHWAY USER REVENUE FUND

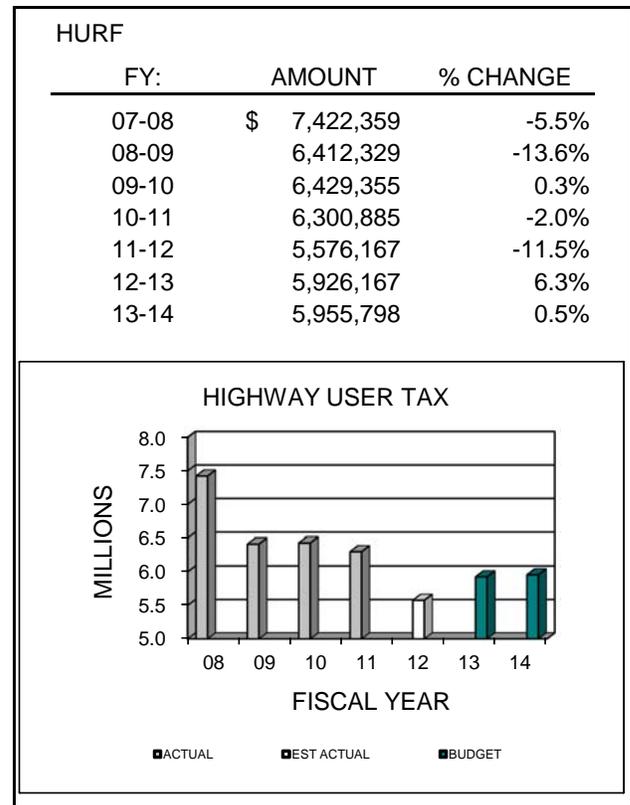
HIGHWAY USER TAX

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 and again in FY 2012, due to State Appropriation for the DMV (Department of Motor Vehicles).

The City experienced a 6.3% increase in HURF revenues in FY 2013 due to the State eliminating the revenue sweep for the DMV. The City expects a very small increase in HURF revenue in FY 2014.



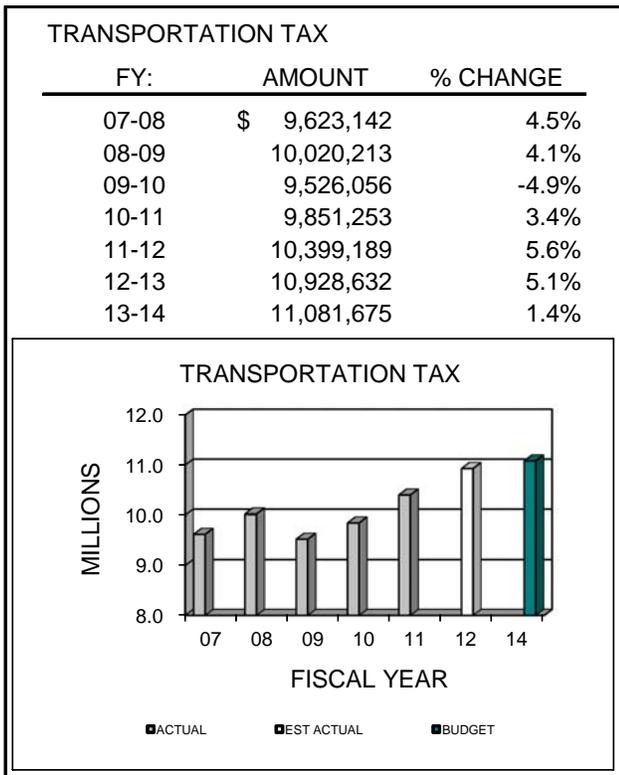
TRANSPORTATION TAX

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%.

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 and steady growth in the local economy.



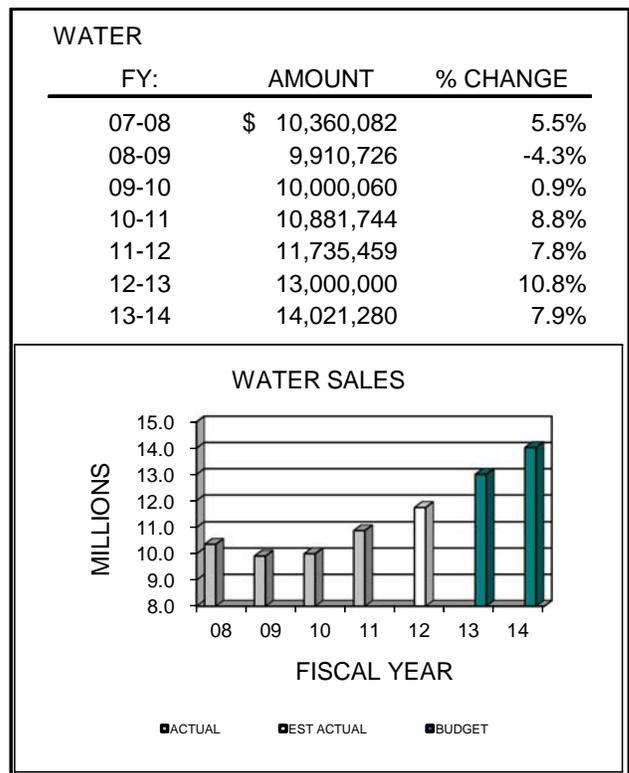
ENTERPRISE FUNDS

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.

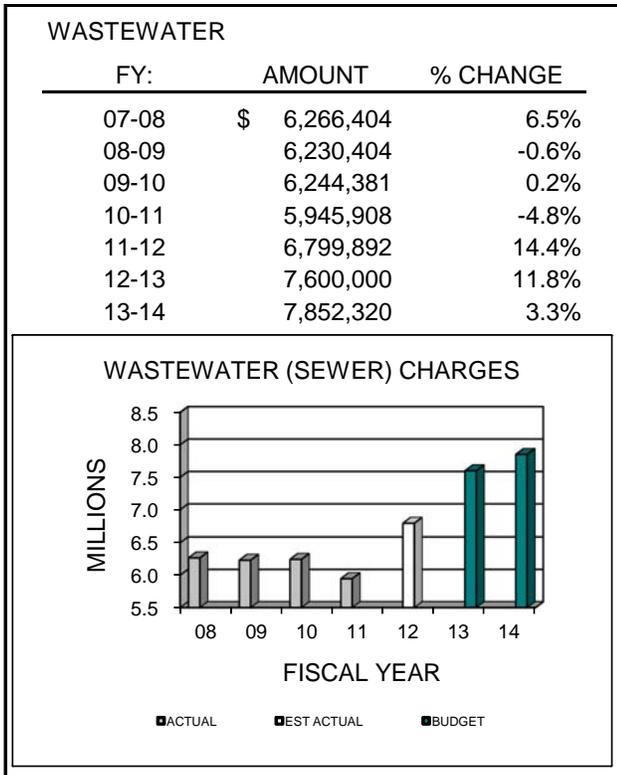


WASTEWATER SERVICE CHARGES

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.

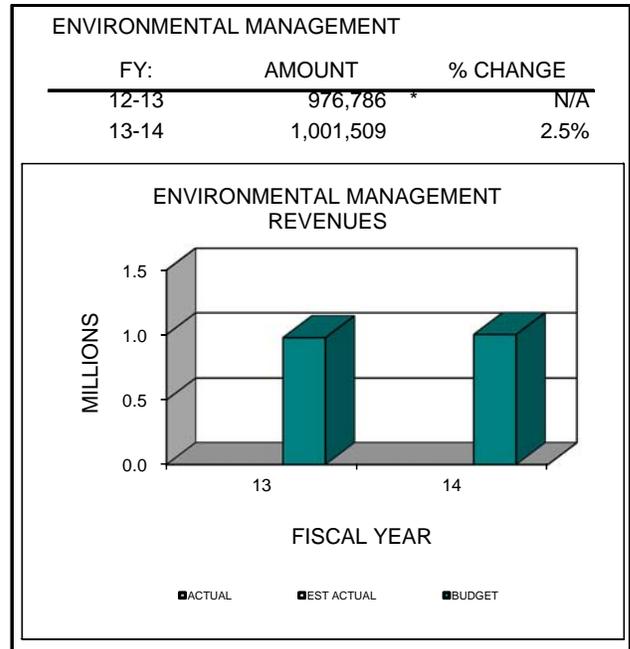


ENVIRONMENTAL MANAGEMENT

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

Description: Environmental Management is supported by an environmental service fee. This fee is a fixed monthly charge at a rate of \$4.00 per location.

The increase in revenues for FY14 is related to growth.



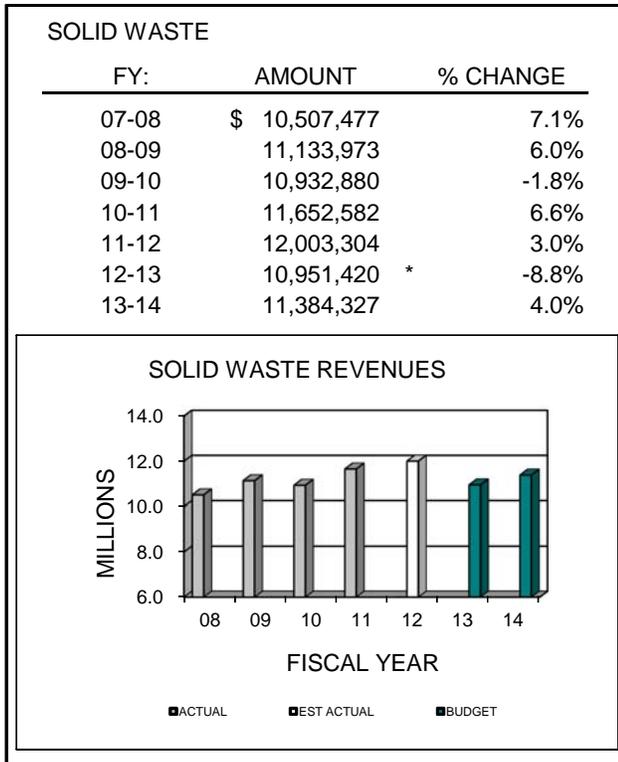
* From Solid Waste

SOLID WASTE

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

Description: Solid Waste disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill 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 increase in revenues for FY 2014 is related to growth.

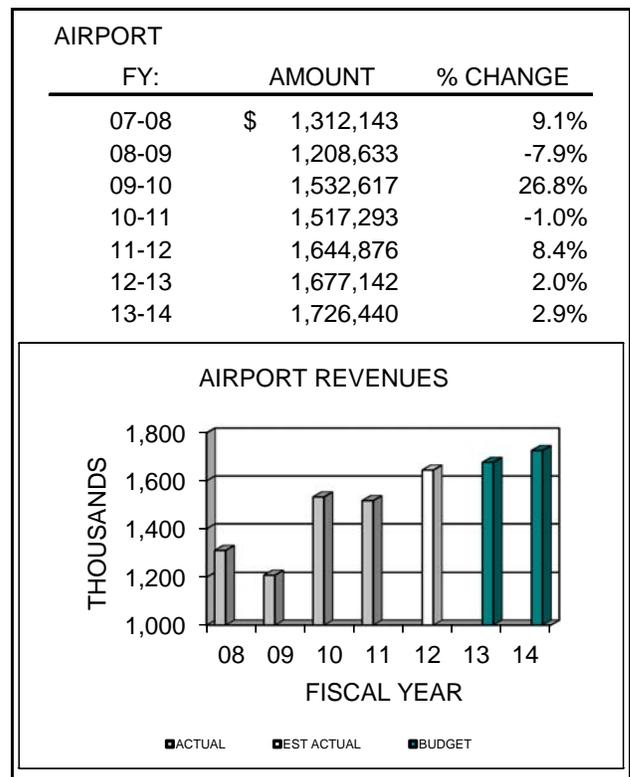


* Adjustment to Environmental Management

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. Effective September 2012, the PFC charge per ticket was increased from \$3.00 to \$4.50. PFC's are collected from the ticket sales of passengers embarking from the Pulliam Airport. PFC revenue is not used for operating expenditures.



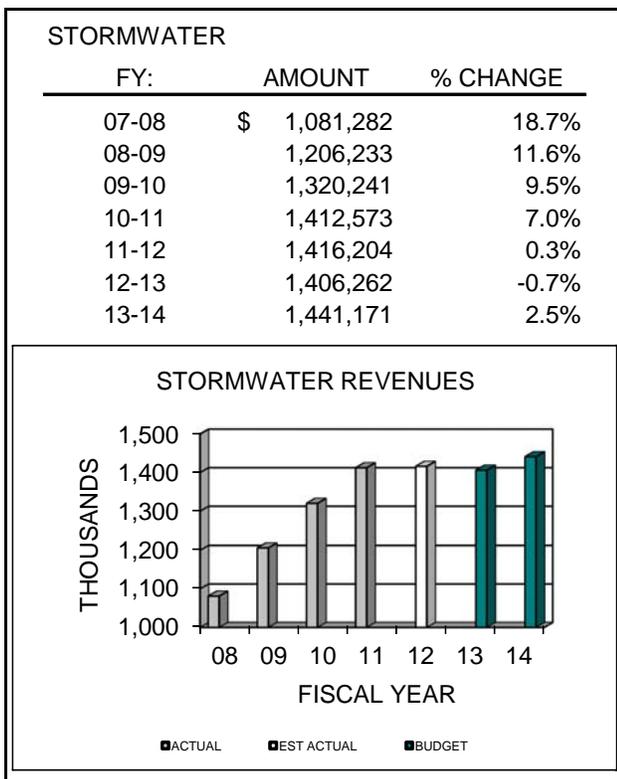
The revenue has trended upward over the past five years, with the exception of FY 2009 and FY 2011. FY 2014 revenue is expected to demonstrate a modest increase over FY 2013. Air travel is showing steady growth after the multi-year recession. Aiding in future revenue growth is a grant which will encourage an airline to establish regular daily service with the Pulliam Airport.

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. It was then adjusted in FY 2007 to \$.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 was increased to its current level of \$1.30 per ERU. This rate will remain static for the foreseeable future.

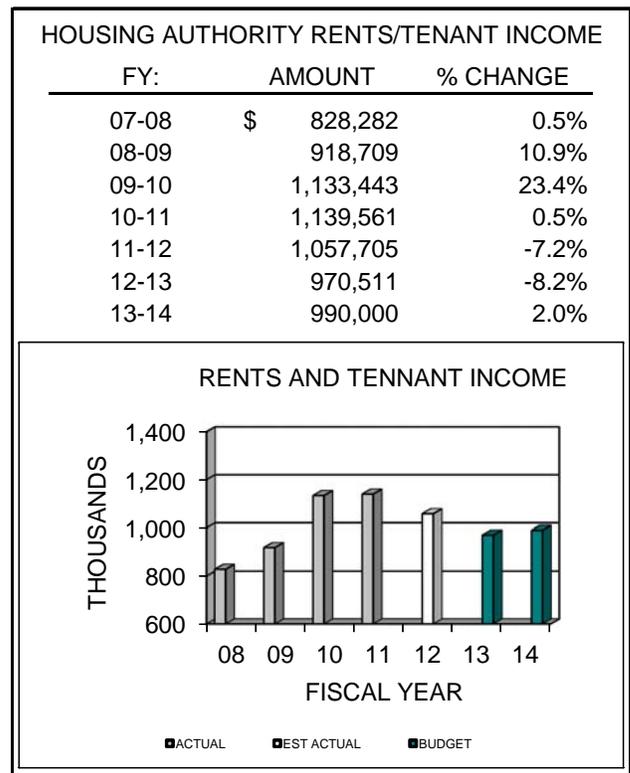


HOUSING AUTHORITY

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 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 2014 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2014 includes capital improvement projects totaling \$107.2 million. This amount includes \$61.8 million in carryover items that have been budgeted. Project funding is comprised of the following: \$14.4 million in grants primarily for airport and beautification projects, \$42.7 million in general obligation (G.O.) bonds and capital leases for the construction of 2010 Street/Utility Projects, Municipal Maintenance Facility and FUTS open space and other projects that were approved by the voters in the 2004, 2010 and 2012 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. In November 2012 General Elections, the citizens of Flagstaff authorized the City to proceed with two new projects totaling \$24.0 million. Each 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 – Sixteen projects are scheduled for FY 2014 for a total of \$68.9 million.

Projects included in this category are the Municipal Maintenance Facility and the Watershed Protection Project, which were authorized by voters in the November 2012 election. Other major projects include street and utility improvements, FUTS and open space land acquisition, and Observatory Mesa.

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 Sunnyside and Traffic Signal Program. There are a total of twelve Streets Transportation projects scheduled at a budgeted cost of \$11.3 million. Transportation Tax funding \$6.76 million and HURF & other revenues fund \$4.56 million.

FUTS Fund – Major projects include BNSF Walnut-Florence Underpass, Fourth Street Trail, and Arizona Trail. This year Federal and State grants will provide funding of \$1.2 million. Fourteen projects are scheduled at a budgeted cost of \$3.4 million for FY 2014.

BBB Funds – Major projects include 4th Street Corridor Improvement, Butler Avenue-North Edge, and Fort Valley Road Enhancements. Eleven projects are scheduled at a budgeted cost of \$2.6 million for FY 2014.

Utilities Fund – Major projects for Water production and distribution include Switzer Canyon Transmission Line, Westside Waterline Expansion-WL Gore, Wildcat Solids Disposal and Aging Sewer Infrastructure Replacements. Twenty-one water projects and ten wastewater projects are scheduled at a combined budget of \$10.0 million for FY 2014.

Airport Fund – Two projects are scheduled at a budgeted cost of \$5.8 million for FY 2014. The projects include Apron Rehab and the Westplex Taxiway.

Solid Waste Fund - Three projects are scheduled for a budgeted cost of \$108,000. The projects include Stormwater Infrastructure, Road Extension, and Sub-surface Geo Physical Study.

Stormwater Fund – Seven projects are budgeted in the Stormwater fund with a cost of \$4.9 million in FY 2014. 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, in November 2012 in the amount of \$24.0 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 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, November 2010 election, and the November 6, 2012 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 operating revenues 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, 2013	
20% Limitation (Water, Sewer, Lighting, Open Spaces, Recreation, and Fire Facilities Purpose Debt)	
Assessed Valuation	\$ 661,062,990
Allowable 20% Debt	\$ 132,212,598
20% Debt Outstanding	(48,787,587)
Allowable Debt Margin	<u>\$ 83,425,011</u>
6% Limitation (All Other General Obligation Debt)	
Assessed Valuation	\$ 661,062,990
Allowable 6% Debt	\$ 39,663,779
6% Debt Outstanding	-
Allowable Debt Margin	<u>\$ 39,663,779</u>

DEBT SERVICE

At July 1, 2013, the total actual indebtedness is \$152.5 million. FY 2014 annual debt payments are \$14.4 million. At the start of the fiscal year, July 1, 2013, the City's 20% general obligation debt of \$48.8 million is well below the legal limit by \$132.2 million. The City has no outstanding general obligation debt in the 6% category. Thus, the full allowable debt margin of \$83.4 million is available. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

	Principal	Interest	Total
2014	9,886,247	4,552,825	14,439,072
2015	11,244,040	4,122,957	15,366,997
2016	11,439,016	3,735,323	15,174,339
2017	10,506,239	3,333,102	13,839,341
2018	10,646,354	2,965,467	13,611,821
2019	10,984,443	2,557,658	13,542,101
2020	11,196,063	2,147,374	13,343,437
2021	7,251,344	1,747,387	8,998,731
2022	7,058,130	1,483,106	8,541,236
2023	6,151,381	1,207,289	7,358,670
2024	4,595,280	978,637	5,573,917
2025	4,541,085	799,302	5,340,387
2026	4,590,640	622,650	5,213,290
2027	4,212,470	450,473	4,662,943
2028	2,690,522	289,659	2,980,181
2029	1,199,520	181,693	1,381,213
2030	1,128,821	122,271	1,251,092
2031	937,044	67,572	1,004,616
2032	870,000	21,751	891,751
	<u>\$ 121,128,639</u>	<u>31,386,496</u>	<u>152,515,135</u>

CITY COUNCIL MISSION, VISION, VALUES, GUIDING PRINCIPLES, AND PRIORITIES

Mission Statement: To protect and enhance the quality of life of its citizens.

Vision Statement: The City of Flagstaff is a safe, diverse, vibrant, and innovative community with a unique character and high quality of life. The City fosters and supports a balance of economic, environmental, educational and cultural opportunities.

Values: Teamwork, Accountability, Communication, Quality and Leadership.

Guiding Principles: Things to consider when making decisions:

- Should the City be providing this service? Can someone else do it?
- Is it the appropriate use of tax dollars?
- Does this best leverage city dollars, labor and commodities (in kind)?
- How will this affect fees and taxes?
- Can we use existing before creating new?
- Is this Council's role?
- Is this the appropriate time for this issue (political capital)?
- Are we planning for the future?
- Is this an issue we should be looking at in detail or big picture?
- Has there been appropriate public input?
- Is it equitable?
- What is the effect on predictability?
- Is this an appropriate regulation?
- Have we been provided enough information to make a decision?
- Does it empower employees?
- Will it improve the livability or quality of life for the community?
- How does it maintain small town charm?
- Is this an appropriate balance of economic, environmental and social considerations?
- Do we have a hyper-understanding of the issue prior to a decision being made?
- Is it consistent with the Regional Plan?

Priorities and status to date:

- Repair/replace/maintain City infrastructure.
 - ✓ Increased funding by \$1 million on an ongoing basis and \$1 million in one-time funding in FY2014 for pavement preservation.
 - ✓ Increase funding for General Fund parks, facilities and fleet by \$390,000 in FY2014.

- ✓ Streets completed in FY13 include: Franklin Avenue, Mohawk Drive, Fourth Street, Dodge Avenue and Cherry Avenue. Streets currently under construction include Coconino, Elden, Humphreys, Cottage, Beaver Street, Leroux Street, several streets in the La Plaza Vieja neighborhood and Cedar Avenue. Rose Avenue is scheduled to be completed in the Fall of 2014.
- ✓ Utility capital projects underway include: Switzer Canyon Transmission Line, Lake Mary Well Field pipeline, Walapai Drive Alley Waterline, Hillside Sewerline replacement, Wildcat Blower replacement.
- Fund existing and consider expanded recreational services.
 - ✓ In FY2014 all BBB- Recreation parks will be funded at a service level 2.
 - ✓ Maintenance all service in Recreation Services exception for reducing hours Aquaplex and Flagstaff Recreation Center by one hour a day (Monday through Friday).
 - ✓ Council reviewed and approved the Parks Master Plan.
- Address Core Services Maintenance Facility.
 - ✓ Voters passed the bond for new facility.
 - ✓ Request for proposal to be distributed in FY2014.
- Complete the Rio de Flag.
 - ✓ Re-construction of Clay Avenue Basin to be completed in Fall of 2013
 - ✓ Limited Re-evaluation Report undergoing a final review and is expected to be submitted to Congress in September 2013.
 - ✓ City staff are pursuing Self Administration of the project.
 - ✓ Council directed staff to hire a firm to complete a preliminary design and cost estimate for this project based on FEMA floodplain maps.
- Retain, expand, and diversify the economic base.
 - ✓ Increase BBB revenues by 6.25 in FY 2013
 - ✓ Received \$4 million grant for construction of Business Accelerator.
 - ✓ Increased trade/group tour bookings and secured multiple national and international conferences
 - ✓ Increased outbound business attraction efforts by re-positioning Flagstaff as a business-friendly city through websites, outreach, marketing engagements, expanded data and analytics, and response to over 21 inbound non-retail inquiries.
 - ✓ Created a strong business environment that retains and expands local businesses through grant facilitation, continued support of the Northern Arizona Center for emerging

- Technologies, and business advocacy efforts and outreach.
- Complete the Water Policy.
 - ✓ Staff developing the Principles of Sound Water Management for Council's consideration and adoption in FY2014.
 - ✓ Staff is working with numerous state agencies to resolve the Red Gap Right-of-Way issue
 - ✓ Established a Advisory Panel on Componds of Emerging Concern regarding reclaim water quality issues and concerns.
 - ✓ Council will be meeting on separate nights solely to discuss water policy.
- Review the financial viability of pensions.
 - ✓ The Maguire Company presented to Council on issues and problems with the ASRS and PSPRS retirement systems.
 - ✓ Pilot program in the Fire Department to convert one full-time firefighter position to two part-time firefighter positions.

- Review all Commissions.
 - ✓ Future Council work session will be dedicated to review the various City commissions.
- Revisit and analyze the process and implementation for the Zoning Code.
 - ✓ Council had several work session to discuss the process for adopting amendments to the Zoning Code and provide staff with direction in early 2013.
 - ✓ Staff plans to hold a public hearing in the fall of 2013 to present the proposed amendments followed by numerous public outreach.
- Develop an ongoing budget process.
 - ✓ All retreat and budget meeting were recorded and posted to the City website
 - ✓ Several mini-budget retreat were conducted for the FY2014 budget
 - ✓ Council targets and priorities were established in the earlier retreats & were incorporated in the City Manager recommended budget presented at the April budget retreat.



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