

# BUDGET OVERVIEW

The City of Flagstaff FY 2016 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 2016; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

## FINANCIAL RESOURCES AVAILABLE

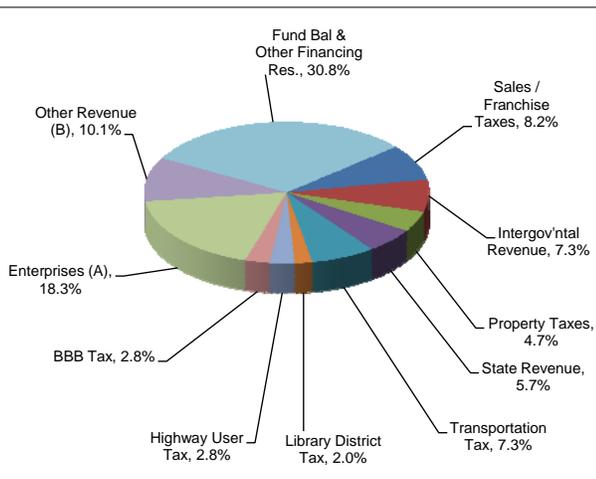
Sales/Franchise Taxes	\$ 19,764,481	8.2%
Intergovernmental Revenue	17,606,432	7.3%
Property Taxes	11,381,520	4.7%
State Revenue	13,886,475	5.7%
Transportation Tax	17,585,692	7.3%
Library District Tax	4,882,490	2.0%
Highway User Tax	6,862,720	2.8%
BBB Tax	6,700,000	2.8%
Enterprises (A)	44,338,438	18.3%
Other Revenue (B)	24,353,242	10.1%
Fund Bal & Other Financing Res.	74,356,107	30.8%
	<u>\$ 241,717,597</u>	<u>100.0%</u>

### (A) Enterprises:

Water	\$ 16,006,620
Wastewater	11,360,639
Airport	1,669,974
Solid Waste	11,760,588
Environmental Management	1,029,029
Stormwater Utility	1,515,588
Flagstaff Housing Authority	996,000
	<u>\$ 44,338,438</u>

### (B) Other Revenue:

Licenses and Permits	\$ 1,614,980
Vehicle License Tax	2,648,100
Charges for Services	3,216,146
Fines and Forfeits	1,141,160
Interest on Investments	678,706
Misc Revenue	15,054,150
	<u>\$ 24,353,242</u>



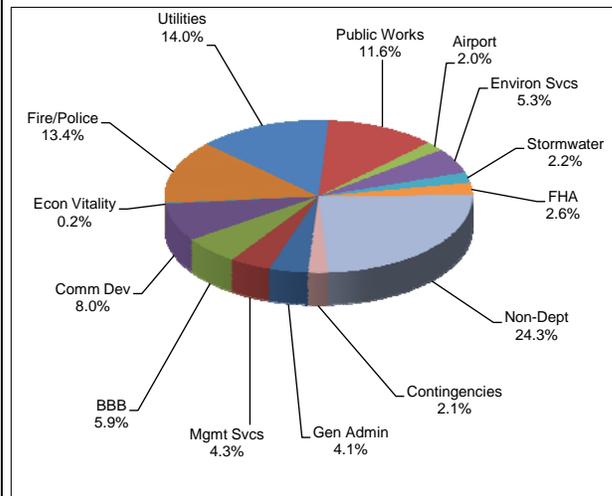
**"WHERE THE MONEY COMES FROM"**  
\$241,717,597

## TOTAL APPROPRIATIONS

General Administration	\$ 9,914,497	4.1%
Management Services	10,420,256	4.3%
BBB (A)	14,349,597	5.9%
Community Development	19,299,787	8.0%
Economic Vitality	444,744	0.2%
Fire/Police	32,321,051	13.4%
Utilities	33,899,047	14.0%
Public Works	28,069,852	11.6%
Airport	4,935,936	2.0%
Environmental Services	12,852,506	5.3%
Stormwater	5,224,050	2.2%
Flagstaff Housing Authority	6,210,462	2.6%
Non Departmental	58,762,562	24.3%
Reserves/Contingencies	5,013,250	2.1%
	<u>\$ 241,717,597</u>	<u>100.0%</u>

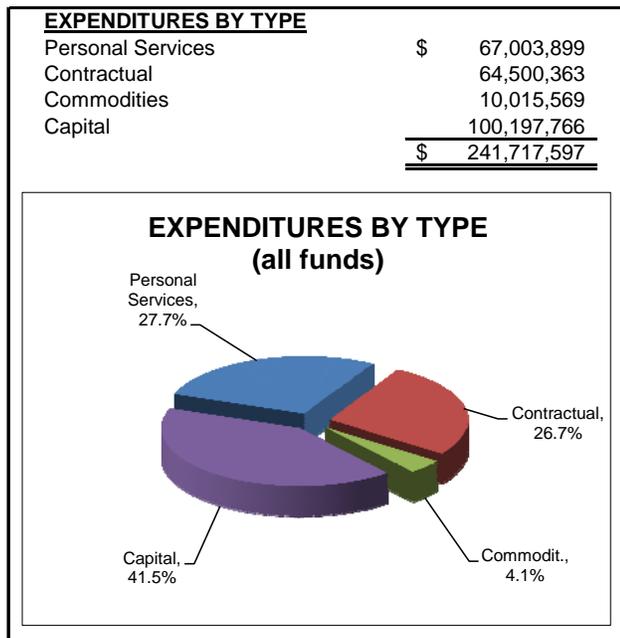
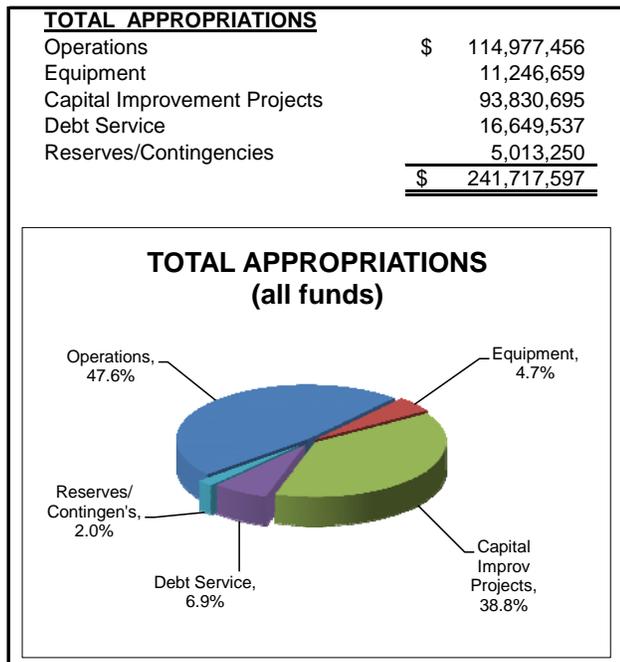
### (A) BBB Tax Funds:

Beautification	\$ 7,708,971
Tourism	2,042,287
Economic Development	1,314,079
Arts and Science	815,044
Recreation-BBB	2,469,216
	<u>\$ 14,349,597</u>



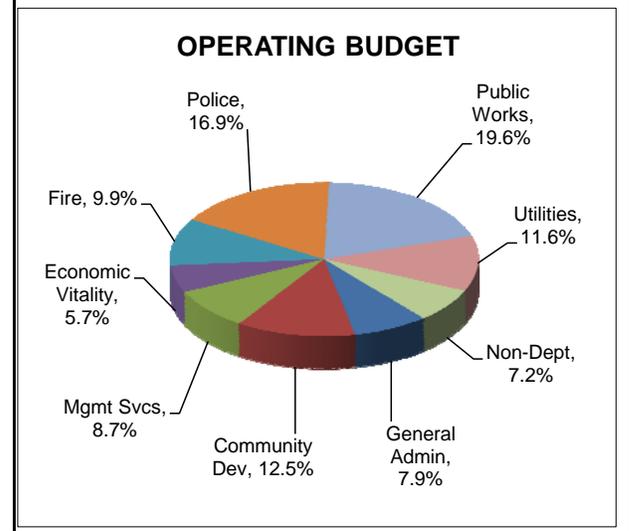
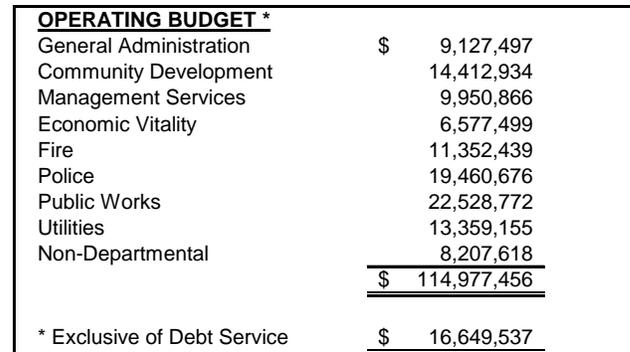
**"WHERE THE MONEY GOES TO"**  
\$241,717,597

The following graphs depict the major classifications of appropriation for the total FY 2016 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 (\$9.1 million). The services within General Administration provide for the overall management and administration of the City, as well as enforcement of municipal laws through legal support and the courts. This group consists of City Manager, City Attorney, City Court, Human Resources, Risk Management, and Information Technology.

**Community Development** (CD) comprises 12.5% of the operating budget (\$14.4 million). The services in this Division include CD Administration, Planning & Development Services, Engineering, Capital Improvements, Housing, FMPO (Flagstaff Metropolitan Planning Organization), Community Redevelopment Services, 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 8.7% 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 9.9% of the operating budget (\$11.4 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 16.9% of the operating budget (\$19.5 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 eight sections that account for 19.6% of the operating budget (\$22.5 million), excluding the debt service requirements for streets (\$554,000), Public Works Facility (\$125,000) and USGS facility (\$454,000). The services provided include: recreation services, solid waste operations, environmental management services, cemetery operations, maintenance of all public facilities and public infrastructure including streets, parks, and fleet services.

**Economic Vitality** activities comprise 5.7% of the operating budget (\$6.6 million) excluding debt service requirements for Airport (\$290,000) and Business Incubator and Innovation Mesa (\$260,000). The division includes the following sections: Community Investment, Tourism and Visitor Center, Airport, Arts and Science, Urban Design, Streetscape, and Economic Development.

**Utilities** comprise 11.6% of the operating budget (\$13.4 million), excluding \$4.1 million debt service requirements. There is one administrative section responsible for management of water, wastewater, and stormwater activities. Five operating sections

within water operations and three 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 7.2% of the budget (\$8.2 million) exclusive of \$10.8 million debt service. 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 provided by recommendations from 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 2015 Accomplishments, FY 2016 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 2014, the Estimated Actual for FY 2015, and the Adopted Budget for FY 2015 and FY 2016*. 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
<b>GOVERNMENTAL</b>	(All Modified Accrual Accounting)		
<b>GENERAL</b>	General *	City Manager	City Manager
		Human Resources	Human Resources
		Risk Management	Risk Management
		Information Techology	Information Technology
		City Attorney	Legal
		Municipal Court	Municipal Court
		Management Services	Management Services Revenue Purchasing Finance
		Community Development	Community Development Admin Capital Management Planning and Development Engineering Housing
		Fire	Fire Operations Fire Grants
		Police	Police Operations Police Grants
		Public Works	Public Works Administration Parks Fleet Services Cemetery Facilities Maintenance USGS Campus Recreation Services
		Economic Vitality	Community Investment
		Non-Departmental	Council and Commissions Real Estate Proceeds Non-Departmental
		<b>SPECIAL REVENUE</b>	Library
Highway User Revenue *	Public Works		Street Maintenance Transportation Construction Street Construction
Transportation *	Community Development		4th Street Overpass Street Improvements Safety Improvements
	Non-Departmental		NAIPTA-Transit Transportation
Flagstaff Urban Trail System	Community Development		Flagstaff Urban Trail System
BBB-Beautification	Economic Vitality		Beautification Beautification-Capital Improvements
BBB-Economic Development	Economic Vitality		Economic Development
BBB-Tourism	Economic Vitality		Tourism Visitor Services
BBB-Arts & Science	Economic Vitality		Arts and Science
BBB-Recreation	Public Works		BBB-Recreation Projects
Housing and Community Service	Community Development		Community Housing Services Community Housing Grants Community Development Block Grants
	Community Development		Flagstaff MPO
EDA Revolving Loan - Econ. Dev.	Economic Vitality		EDA Revolving Loan

## RELATIONSHIP BETWEEN FUNDS, DIVISIONS, AND SECTIONS

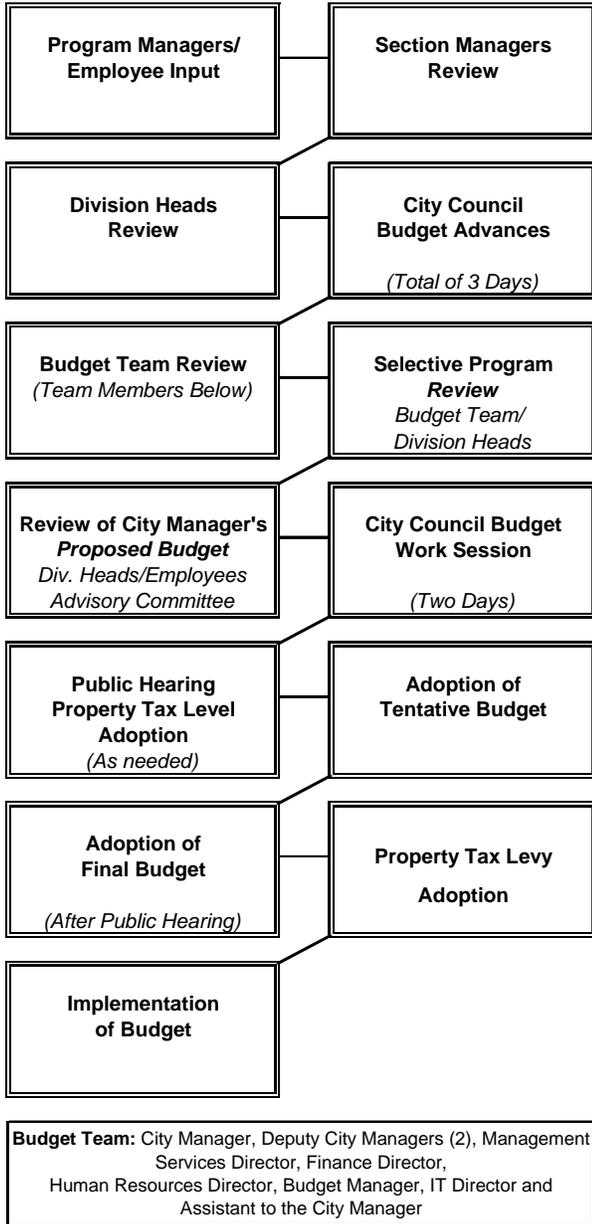
FUND TYPE	FUND	DIVISION	SECTION
<b>GOVERNMENTAL</b> (All Modified Accrual Accounting)			
<b>DEBT SERVICE</b>	G.O. Bond Fund	Non-Departmental	Debt Service
	Secondary Property Tax	Non-Departmental	Debt Service
	Special Assessment *	Non-Departmental	Debt Service
<b>PERMANENT</b>	Perpetual Care	Non-Departmental	Perpetual Care
<b>CAPITAL PROJECTS</b>	G.O. Capital Projects Fund	Non-Departmental	General Fund Capital Projects Core Services Facility Flagstaff Watershed Protection
	MFC Bond Capital Project Fund	Non-Departmental	MFC Bond Capital Projects Capital Project Court Facility
<b>PROPRIETARY</b> (All Modified Accrual Accounting)			
<b>ENTERPRISE</b>	Utilities *	Utilities	Utilities Administration Water Production Water Distribution Water Resource Management Utilities Engineering Services Regulatory Compliance Wastewater Treatment - Wildcat Plant Wastewater Treatment - Rio Plant Wastewater Collection Reclaimed Water Water Capital Wastewater Capital Improvements Reclaimed Capital Stormwater Capital Improv-Rio De Flag Stormwater Utility
	Airport *	Economic Vitality	Airport Operations Airport Capital Projects
	Solid Waste	Public Works	Solid Waste-Landfill Solid Waste-Collections Solid Waste-Capital Improvements
	Sustainability & Environ. Mgmt. *	Public Works	Sustainability & Environmental Mgmt.
	Flagstaff Housing Authority *	Community Development	Flagstaff Housing Authority

\* Major Funds based on the FY 2014 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 2016.
- The *Capital Improvement Plan (CIP)* for FY 2016 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	
December 9-10	Fall Council Budget Advances
December 11	Budget Module available to all Divisions
January 12	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
January 22, 28	Mini Budget Council Budget Advances
February 11-12	Winter Council Budget Advances
March 2 - March 13	Review with Division Directors and the Budget Team
April 21 - 22	Council Study Sessions Proposed Budget available (Operating & Capital) to public
June 2	Tentative budget hearing (public) and Tentative budget adoption
June 16	Final budget hearing and Final budget adoption
July 7	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 occurred on June 16, 2015. 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 (\$241,717,597). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$140,651,422), 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 continues to see improvements in the economy. We have seen small improvements each year since FY 2010 in our local and state shared sales tax revenues. The economic analysts for our local and state region estimate there will be continued growth in the local economy over the next few 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 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 in all but 10 months when compared to the prior year, same month. Based on sales tax transaction data through February 2014, tax revenue has increased approximately 10.57% compared to a year ago. The three major categories of local sales taxes have all had increases. Construction is up approximately 19.28%, hospitality is up approximately 9.92%, and retail is up approximately 7.05%. Current sales tax estimates are approximately \$1.0 million higher than what was recognized in FY 2014.

The second sales tax is a 1.051% sales tax on the same types of general sales; however, the tax is restricted in use to certain transportation projects. The previous rate was 0.721% but voters approved 0.33% increase in November 2014 with an effective date of January 1, 2015. A majority of 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 2015. Revenue in this category is expected to increase approximately \$500,000 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 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 City estimates that FY 2015 state shared revenues will be approximately \$300,000 higher than budgeted.

Highway User Revenue (gas tax) funds are projected to end above the FY 2015 budget. For FY 2016, the City anticipates that the State will continue to redirect the revenues to fund the Department of Public Safety. However, the State Budget approved to continue the additional \$30M of HURF Revenues to be allocated to Cities and Counties. The City share is estimated at \$300,000. 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. 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 two percent rate decrease from \$0.8418 to \$0.8234 per \$100 of assessed value to comply with council direction. On average, property owners should see no increase in the city primary property tax. The City has the capacity to increase property tax levies by 8% due to keeping levies flat the past few years.

In December 2014, Divisions were asked to provide a list of their top budget priorities. At the December retreat, based on the information provided by Divisions, Council was asked to identify budget priorities FY 2016. Council concluded that that the priorities for the FY 2016 budget include: employee investment, staffing and technology.

At a follow up Council Budget Advance in February, staff provided updated revenue and expenditure projections with focus on the costs projections needed for the three Council budget priorities. In addition, Council provides direction on potential increased revenue opportunities and other fund reallocations.

Following the February advance, Finance completed the updates to all 5-year plans to provide an outlook on revenues and expenditures. The Budget Team then met with each division to discuss their proposed budget. Divisions were asked to correlate their increased funding requests to the Council's priorities of employee investment, staffing and technology. From the meetings the Budget Team determined which revenue opportunities and fund reallocations to move forward with in the recommended budget. This created the capacity in the budget to include a 2% market pay increase and market based pay for sworn police personnel and included additional funding to fund several new positions, needed technology and infrastructure and some additional appropriation to help support existing service levels.

At the final Council Budget advance in April, Council added several additional items into the final adopted FY 2016 Budget including one dollar per hour increase for dispatch personnel and one-time funding for additional retention and attraction efforts for dispatch. They also added much needed replacement of heart monitors and additional paramedic hazardous pay for the Fire Division.

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 reviewed all equipment replacement requests and prioritized 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 other 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 2016 is estimated at \$12.8 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 25% at the end of FY 2016.

To provide better financial stability during poor economic times, the General Fund fund balance has increased to a minimum 20% in the current plan.

The FY 2016 budget anticipates using excess fund balance from the completion of FY 2014 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 Mission Statement and the Council Goals adopted reflects the environment on which all decisions will be made. The Mission Statement and the Council Goals and Highlights of budget Investments that Advance Council Goals can be found in this document following the City Manager Transmittal Letter.

The budget review process includes:

- *Estimated Actual Expenditures FY 2015.* Sections were asked to review their actual expenses and provide information on major variances expected compared to budget. Capital and other one-time expenditures were also reduced in the year end estimated and applied to the FY 2016 budget as a carryover item.
- *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, Solid Waste, Environmental Management, the Airport, Stormwater; and activities funded from a special revenue source dedicated to that activity. These include the BBB Tax funds, the Transportation tax fund, Streets; Library; Housing and Community Services; Metropolitan Planning Organization and FUTS fund.

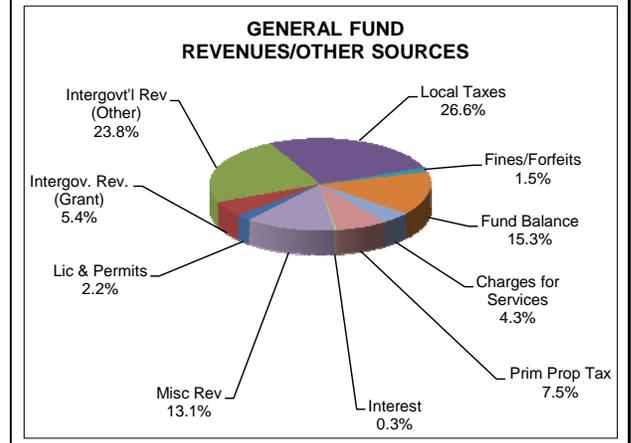
Total resources available for General Fund expenditures for FY 2016 are \$74.2 million including the estimated beginning fund balance of \$18.8 million. A substantial portion of General Fund resources comes from the following revenue categories: local sales taxes, franchise taxes, and intergovernmental 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 1.4%. 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.

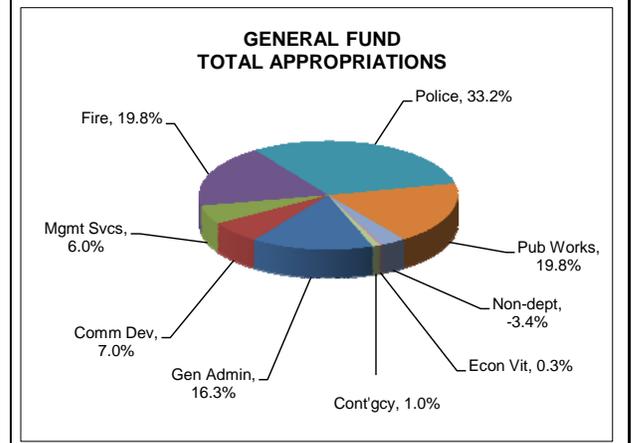
General Fund total appropriations compared to year-end estimates have increased by 17.4%. The General Fund ongoing revenues and expenses are structurally balanced in the five-year plan. Fund Balance is estimated at minimum 20.0% of operating revenues over the next five years.

The financial position of the General Fund remains balanced.

REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2015	FY 2016
Licenses and permits	\$ 1,584,600	\$ 1,614,980
Intergov Rev (Fed/State Grants)	2,270,827	3,985,087
Intergov Rev (All Other)	17,343,971	17,658,575
Local taxes	19,718,341	19,764,481
Fines and forfeits	1,054,462	1,141,160
Fund Balance, net of Transfers	22,265,547	11,339,884
Fund Balance for Carryovers	643,403	7,478,994
Charges for services	2,994,130	3,216,146
Primary Property Tax	5,435,325	5,527,083
Interest	218,145	221,050
Miscellaneous	1,670,495	2,216,283
	<b>\$ 75,199,246</b>	<b>\$ 74,163,723</b>



APPROPRIATIONS	EST ACTUAL	BUDGET
	FY2015	FY 2016
General Administration	\$ 8,859,100	\$ 9,914,497
Community Development	4,288,889	4,294,597
Management Services	3,356,893	3,633,521
Fire	10,410,696	12,083,375
Police	18,333,086	20,237,676
Public Works	8,659,930	12,049,297
Non-departmental	(2,468,269)	(2,053,888)
Economic Vitality	464,303	174,071
Contingency	-	625,000
	<b>\$ 51,904,628</b>	<b>\$ 60,958,146</b>

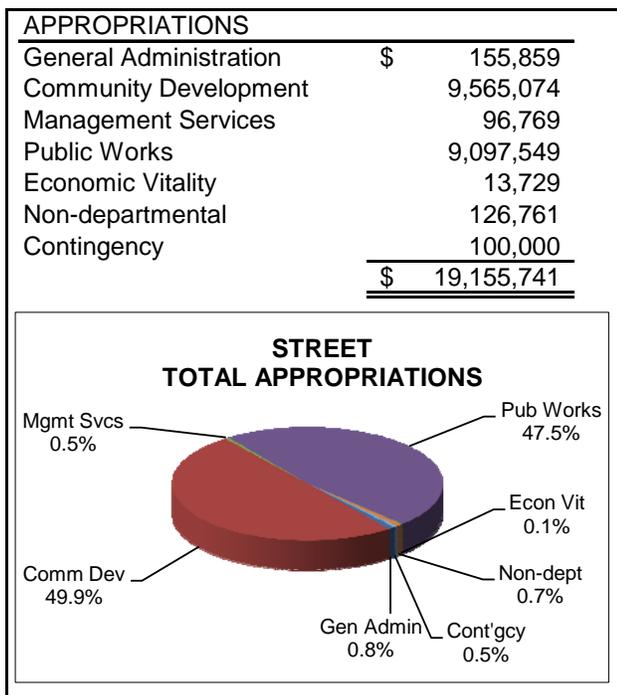
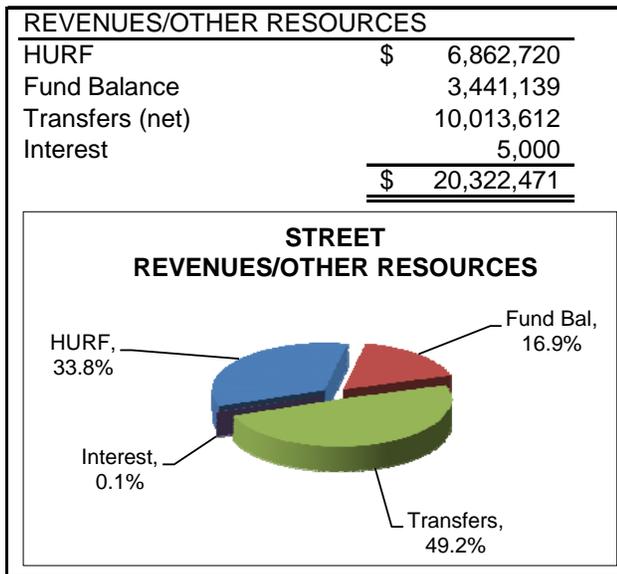


## SPECIAL REVENUE FUNDS

### 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. We have seen an upward trend in HURF revenue as gas prices have decreased.

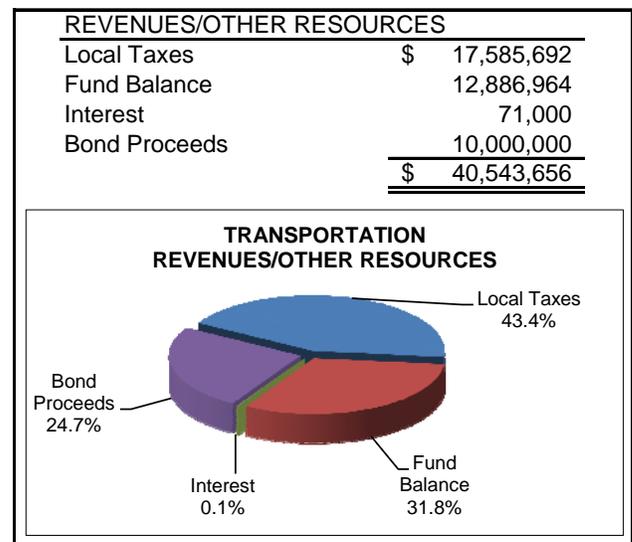


Appropriations total \$19.2 million in FY 2016 and major projects budgeted include the annual pavement maintenance program at \$2.2 million, Beulah Extension, and University Realignment, West & Arrowhead Street Improvements, Industrial Drive Improvement and Butler Adaptive Signal Controls.

### 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. In FY 2015, voters approved an additional transportation tax for road repair and street safety which is valid through 2035. The sales tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit and 4th Street Overpass and Road Repair and Street Safety 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 2016 Revenues
4th Street Overpass	\$ 2,677,175
Road Repair & Street Safety	5,521,673
Safe-to-School, Pedestrian and Bike	1,338,587
Traffic Flow and Safety Improvements	3,112,215
Transit Service Enhancements	4,936,042
Totals	<u>\$ 17,585,692</u>

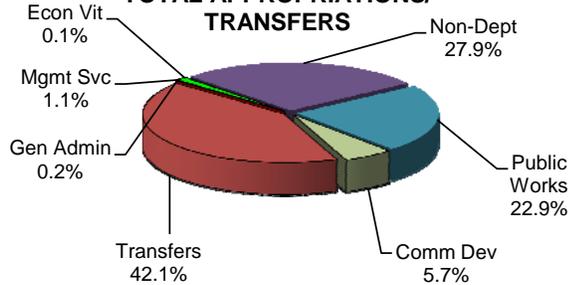


Appropriations total \$15.4 million in FY 2016. Appropriations are comprised of \$5.1 million for transit operations, \$2.5 million for debt service and \$7.6 million for road repair and street safety projects. Transfers include \$9.7 million to the HURF Fund for Safety and Street Improvements and \$1.6 million to fund FUTS projects. The tax rate for transportation is 1.051%.

**APPROPRIATIONS/TRANSFERS**

General Administration	\$	40,595
Management Services		302,624
Economic Vitality		1,643
Non-Departmental		7,444,147
Public Works		6,110,000
Community Development		1,525,600
Transfers (net)		11,273,012
	<b>\$</b>	<b>26,697,621</b>

**TRANSPORTATION  
TOTAL APPROPRIATIONS/  
TRANSFERS**



**FLAGSTAFF URBAN TRAIL FUND**

Total resources available for FUTS activities are approximately \$4.4 million. Approximately \$550,000 comes from the Safety Improvement Tax and an additional \$1.0 million from the Road Repair and Street Safety Tax in a transfer from the Transportation Fund.

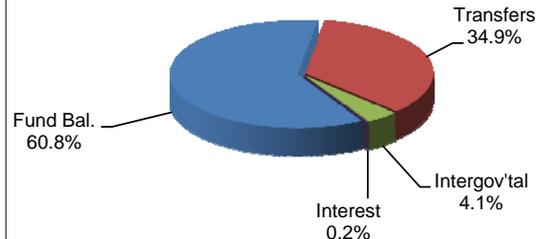
**REVENUES/OTHER RESOURCES**

Fund Balance	2,699,200
Transfers	1,550,000
Intergovernmental Revenue	183,597
Interest Earnings	6,750
	<b>\$ 4,439,547</b>

**APPROPRIATIONS**

Community Development	<b>\$ 3,758,780</b>
	<b>\$ 3,758,780</b>

**FLAGSTAFF URBAN TRAILS  
REVENUES/OTHER RESOURCES**



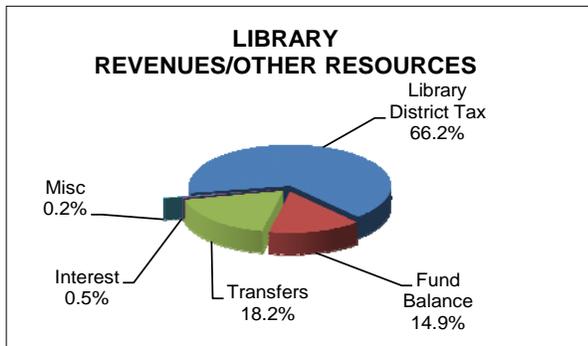
Expenditures from this fund are primarily capital improvement projects. Some major projects are the Pineknoll Trail, Signage Programs, and BNSF Walnut Florence Underpass. (A full project listing is located in the CIP Section).

## LIBRARY FUND

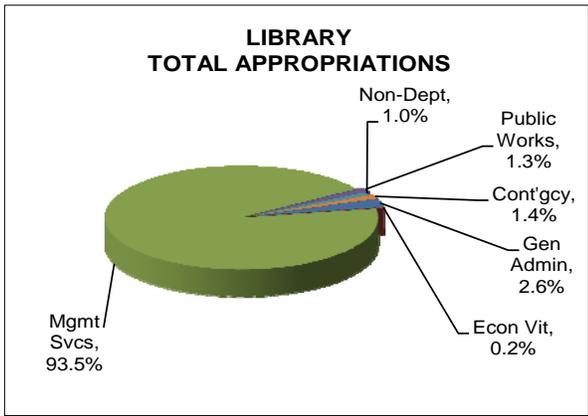
The City operates a joint City-County Public Library with auxiliary programs in outlying county locations along with bookmobile services. \$2.3 million of the funding for library operations comes from the library district tax; \$2.8 million is a pass-through to district libraries.

In July 2014, the County, related to district libraries, 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 are directed by the Library Council with affirmation by the County Board of Supervisors.

REVENUES/OTHER RESOURCES	
Intergovernmental	\$ 5,071,115
Fund Balance	1,144,079
Transfers (net)	1,391,360
Interest	37,812
Miscellaneous	20,474
	<u>\$ 7,664,840</u>



APPROPRIATIONS	
General Admin	\$ 191,757
Economic Vitality	17,485
Management Services	6,879,938
Public Works	94,591
Non-Departmental	73,142
Contingency	100,000
	<u>\$ 7,356,913</u>



## BBB FUNDS

A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 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 2016 is projected to be flat over FY 2015 estimated receipts. 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.

	BBB FUNDS		
	Budget FY-2015	Estimate FY-2015	Budget FY-2016
Beautification	\$ 1,233,594	1,340,000	1,340,000
Arts & Science	462,598	502,500	502,500
Tourism	1,850,390	2,010,000	2,010,000
BBB Rec.	2,035,429	2,211,000	2,211,000
Economic Dev.	585,957	636,500	636,500
	<u>\$ 6,167,968</u>	<u>6,700,000</u>	<u>6,700,000</u>

**Beautification Fund:** Total resources available for Beautification Fund activities amount to \$4.7 million. Expenditures from this fund are primarily for Beautification operations and capital improvements in Streetscape projects. Some major projects include the 4<sup>th</sup> Street Corridor Improvements, North Edge – Lockett to Route 66 along Kaspar, and Lake Mary / Beulah Gateway. There is a \$420,527 transfer to the General Fund primarily for maintenance of Streetscapes. (A full project listing is located in the CIP Section.)

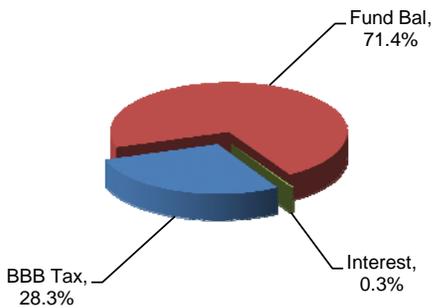
**REVENUES/OTHER RESOURCES**

BBB Tax	\$	1,340,000
Fund Balance		3,381,008
Interest		7,800
	\$	<u>4,728,808</u>

**APPROPRIATIONS**

Economic Vitality		3,950,191
Contingency		10,000
Transfers (net)		420,527
	\$	<u>4,380,718</u>

**BEAUTIFICATION REVENUES/OTHER RESOURCES**



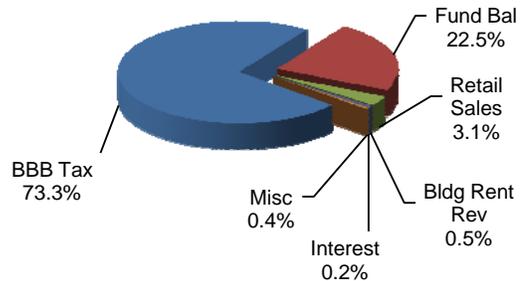
**Tourism Fund:** Total resources available in FY 2016 are \$2.7 million, of which an estimated \$2.0 million is from the BBB tax. The total appropriations are approximately \$2.2 million, which includes \$1.6 million for Tourism. Tourism includes General Administration, Marketing, Sales, Public Relations and the Film Office. The Visitors Center programs account for \$391,000.

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) and Train Station Operations.

**REVENUES/OTHER RESOURCES**

BBB Tax	\$	2,010,000
Fund Balance		616,155
Retail Sales		85,000
Building Rental Revenue		12,652
Interest		6,563
Miscellaneous		13,261
	\$	<u>2,743,631</u>

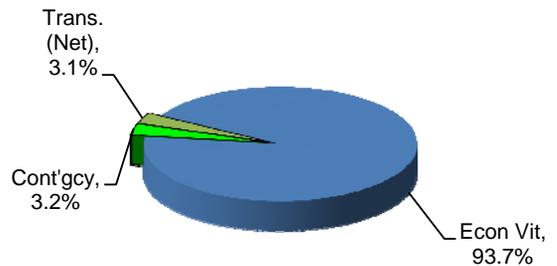
**TOURISM REVENUES/OTHER RESOURCES**



**APPROPRIATIONS**

Economic Vitality	\$	2,042,287
Contingency		70,000
Transfers (net)		67,738
	\$	<u>2,180,025</u>

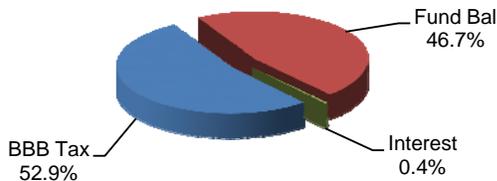
**TOURISM TOTAL APPROPRIATIONS**



**Arts & Science Fund:** Total resources available for Arts & Science activities are approximately \$951,000 including estimated revenues from the BBB tax of \$503,000. Expenditures include: Public Art for \$376,000, Service Partner Contracts including the Flagstaff Arts Council for \$371,000, and the Science Foundation for \$25,000.

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 502,500
Fund Balance	444,019
Interest	4,185
	<u>\$ 950,704</u>
APPROPRIATIONS	
Economic Vitality	\$ 815,044
Contingency	10,000
	<u>\$ 825,044</u>

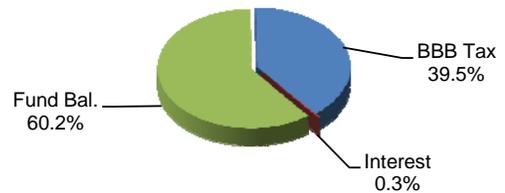
**ARTS & SCIENCE REVENUES/OTHER RESOURCES**



**Recreation Fund:** There is an appropriation in the amount of \$2.5 million in FY 2016 for Recreation Fund activities. Expenditures in this fund are capital in nature and this fiscal year are for improvements at Bushmaster Park, Aquaplex pool, and Flagstaff Recreation Center tennis courts. 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 five years, the City Council has reexamined the use of these funds and now directs \$818,000 to fund recreational programming and \$1.5 million to fund Parks-FUTS Maintenance and Parks-BBB Recreation Fields operation. These are funded via a transfer to the General Fund. The City is appropriating \$110,000 from fund balance to improve City recreational facilities and parks.

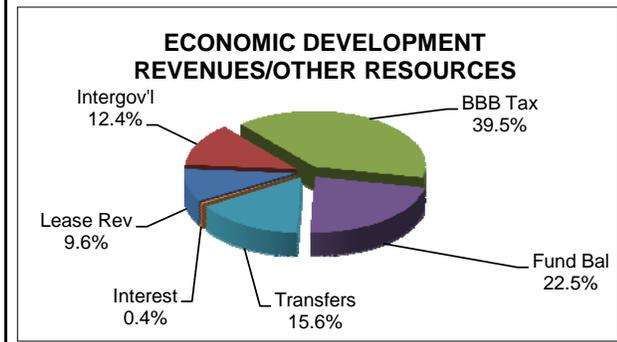
REVENUES/OTHER RESOURCES	
BBB Tax	\$ 2,211,000
Interest	16,900
Fund Balance	3,374,807
	<u>\$ 5,602,707</u>
APPROPRIATIONS/TRANSFERS	
Public Works	\$ 2,469,216
Transfers (net)	2,357,989
	<u>\$ 4,827,205</u>

**RECREATION REVENUES/OTHER RESOURCES**



**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 Business Accelerator 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	\$ 155,342
Intergovernmental	200,000
BBB Tax	636,500
Fund Balance	362,857
Transfers	251,000
Interest	7,257
	<u>\$ 1,612,956</u>
APPROPRIATIONS	
Economic Vitality	\$ 1,314,079
Contingency	45,000
	<u>\$ 1,359,079</u>



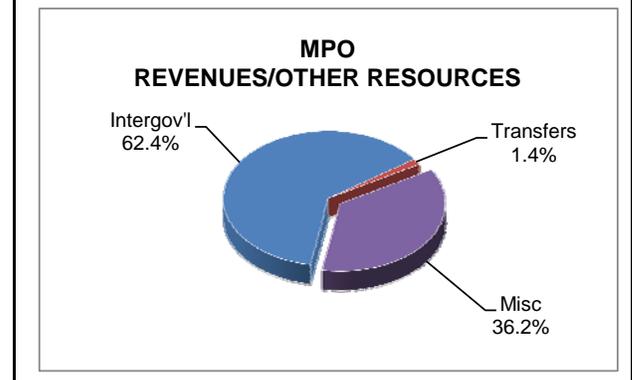
The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals. Total resources allocated to this effort are \$1.6 million, of which \$636,000 is from the BBB dedicated tax for economic development, lease revenue of \$155,000, and a general fund transfer of \$251,000 to support 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).

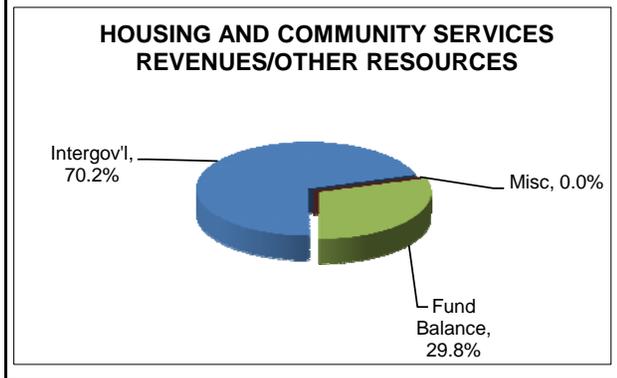
The City has appropriated \$1.5 million for this program for FY 2016. This includes operating funds for transportation and transit planning.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 966,290
Transfers	22,500
Miscellaneous	560,000
	<u>\$ 1,548,790</u>
APPROPRIATIONS	
Community Development	\$ 995,618
Non-Departmental	53,172
Contingency	500,000
	<u>\$ 1,548,790</u>



**Housing and Community Services Fund:** This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$3.6 million appropriated to this activity for FY 2016. Expenditures in this fund include \$1.0 million in State Housing grants, \$1.2 million in CDBG grant activities, and \$350,000 in County grants.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 2,538,468
Miscellaneous	4
Fund Balance	1,077,474
	<u>\$ 3,615,946</u>
APPROPRIATIONS/TRANSFERS	
Community Development	\$ 3,332,845
Non-Departmental	89,405
Transfers (net)	-
	<u>\$ 3,422,250</u>

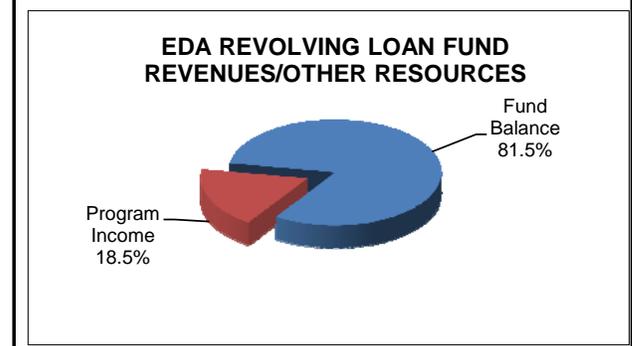


**EDA Revolving Loan Fund:** On June 30, 2012 the Northern Arizona Council of Governments (NACOG) staff received authorization from the U.S. Department of Commerce Economic Development Administration (EDA) to transfer the ownership of the Revolving Loan Fund (RLF) to the City of Flagstaff in an effort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

Via resolution from NACOG, the EDA Revolving Loan Fund portfolio is in the process of transfer 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	
Fund Balance	\$ 220,550
Program Income	50,123
	<u>\$ 270,673</u>
APPROPRIATIONS	
Economic Vitality	\$ 50,673
	<u>\$ 50,673</u>



# ENTERPRISE FUNDS

## UTILITIES FUND

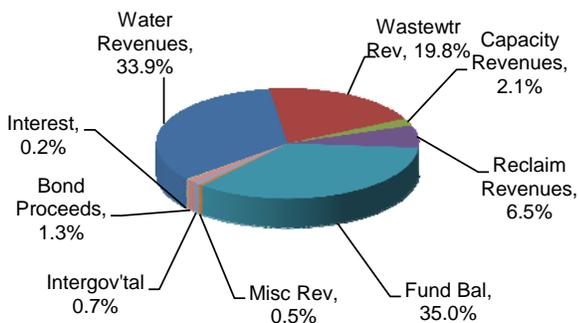
The City's water, wastewater, and reclaimed water operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: 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 \$37.8 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. The City awarded a contract to update the rate model in FY 2014 to be completed in FY 2016.

### REVENUES/OTHER RESOURCES

Water Revenues	\$	14,910,620
Wastewater Revenues		8,696,328
Reclaim Revenues		907,005
Capacity Revenues		2,853,306
Fund Balance		15,382,361
Miscellaneous Revenues		200,000
Intergovernmental		288,394
Bond Proceeds		559,996
Interest		151,440
	\$	<u>43,949,450</u>

### UTILITIES REVENUES/OTHER RESOURCES



**Water Operations:** Total appropriations relating to direct costs for the water operations are \$18.3 million. Water fees are the major source of revenue supporting water operations. Bond funds support future water rights. Revenue estimates total \$14.9 million for water sales.

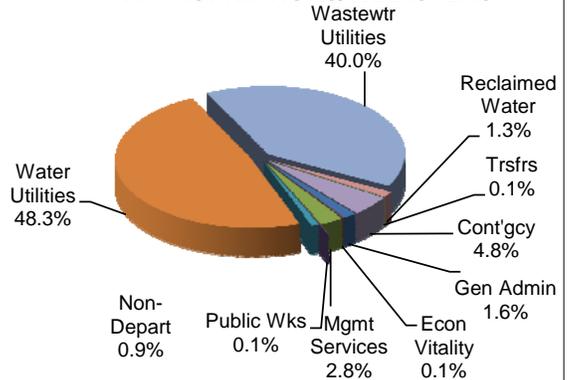
**Wastewater Operations:** Total appropriations relating to the direct costs for the wastewater operations are \$15.1 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total \$8.7 million in wastewater charges.

**Reclaimed Water Operations:** Total appropriations related to the direct cost for the reclaimed water operations are \$501,000. Reclaimed water usage fees are the major source of revenue supporting these operations. Revenue estimates total \$907,000 in reclaimed water charges.

### APPROPRIATIONS/TRANSFERS

General Administration	\$	614,863
Economic Vitality		43,177
Management Services		1,063,323
Public Works		43,679
Non-departmental		354,602
Water Utilities		18,264,450
Wastewater Utilities		15,134,093
Reclaimed Water Utilities		500,504
Transfers (Net)		54,459
Contingency		1,800,000
	\$	<u>37,873,150</u>

### UTILITIES TOTAL APPROPRIATIONS/TRANSFERS

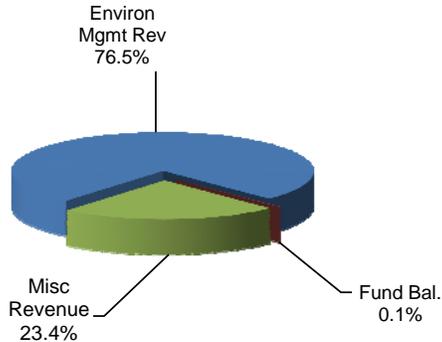


## SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT FUND

### REVENUES/OTHER RESOURCES

Environmental Mgmt Revenue	\$ 1,029,029
Miscellaneous Revenues	2,300
Fund Balance	314,441
	<u>\$ 1,345,770</u>

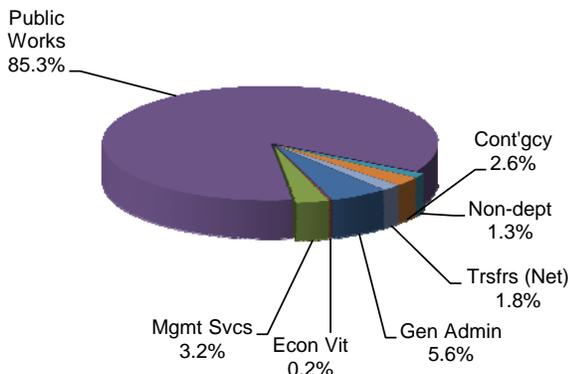
### SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT REVENUES/OTHER RESOURCES



### APPROPRIATIONS/TRANSFERS

General Administration	\$ 65,389
Economic Vitality	2,876
Management Services	37,380
Public Works	992,374
Non-departmental	15,234
Contingency	30,000
Transfers (Net)	19,890
	<u>\$ 1,163,143</u>

### SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT TOTAL APPROPRIATIONS/TRANSFERS



Total financial resources are \$1.3 million. The Environmental Management Fee, a user fee, is the major revenue source of the Sustainability and Environmental Management Section's (SEMS) operations. The Fee is based on cost of operations. SEMS is housed within the Public Works Division and includes the Sustainability Program, the Environmental Management Programs, as well as Open Space Management and the Hazardous Products Center. Through transfers out to the General Fund, this user fee also partially funds Code Enforcement in the Community Development Division and the Greater Flagstaff Forest Partnership contract within the Fire Department.

## SOLID WASTE FUND

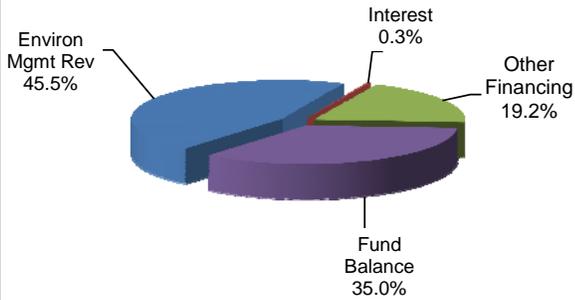
Total financial resources are \$25.8 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, and commercial recycling) with different rates for each category based on cost of service.

The existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements.

**REVENUES/OTHER RESOURCES**

Solid Waste Revenue	\$ 11,760,588
Interest	67,830
Other Financing Sources	4,950,000
Fund Balance	9,026,122
	<u>\$ 25,804,540</u>

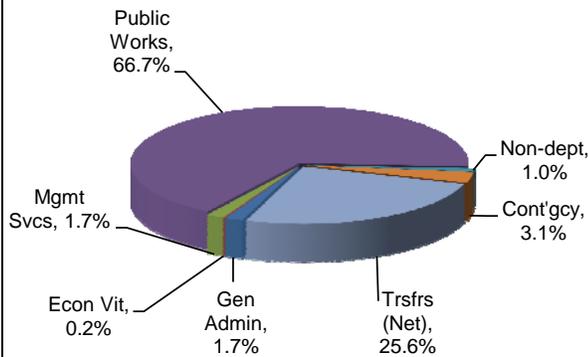
**SOLID WASTE REVENUES/OTHER RESOURCES**



**APPROPRIATIONS/TRANSFERS**

General Administration	\$ 322,088
Economic Vitality	29,313
Management Services	334,415
Public Works	13,015,777
Non-departmental	195,906
Contingency	612,000
Transfers (Net)	4,994,466
	<u>\$ 19,503,965</u>

**SOLID WASTE TOTAL APPROPRIATIONS/TRANSFERS**



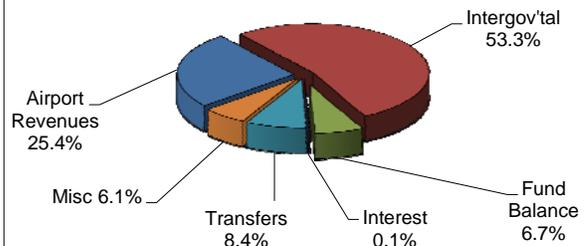
**AIRPORT FUND**

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 \$5.3 million: \$2.7 million for operations and reserve, \$0.3 million for debt and \$2.3 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

**REVENUES/OTHER RESOURCES**

Airport Revenues	\$ 1,398,054
Intergovernmental Revenues	2,940,735
Fund Balance	369,173
Interest	3,692
Transfers (net)	461,000
Miscellaneous	339,946
	<u>\$ 5,512,600</u>

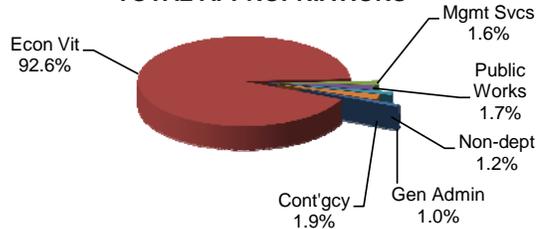
**AIRPORT REVENUES/OTHER RESOURCES**



**APPROPRIATIONS**

General Administration	\$ 55,959
Economic Vitality	4,940,360
Management Services	86,555
Public Works	90,405
Non-departmental	61,555
Contingency	100,000
	<u>\$ 5,334,834</u>

**AIRPORT TOTAL APPROPRIATIONS**



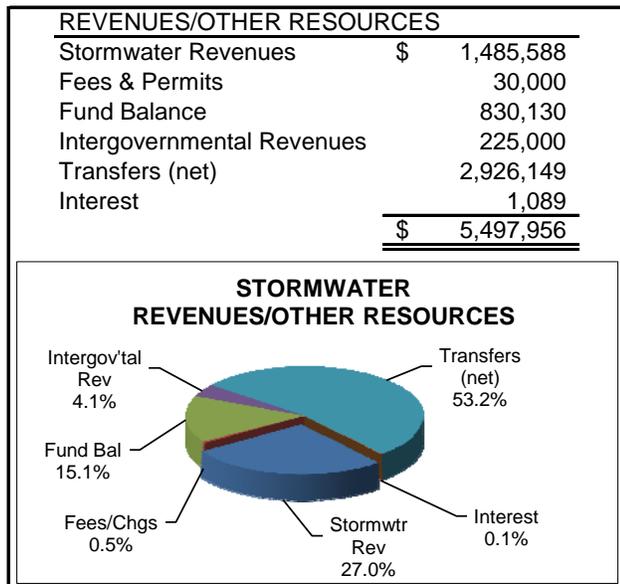
In 2016, of the \$2.3 million in capital improvements, 91% of the budgeted expenses are being funded with grants from the FAA and ADOT.

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.

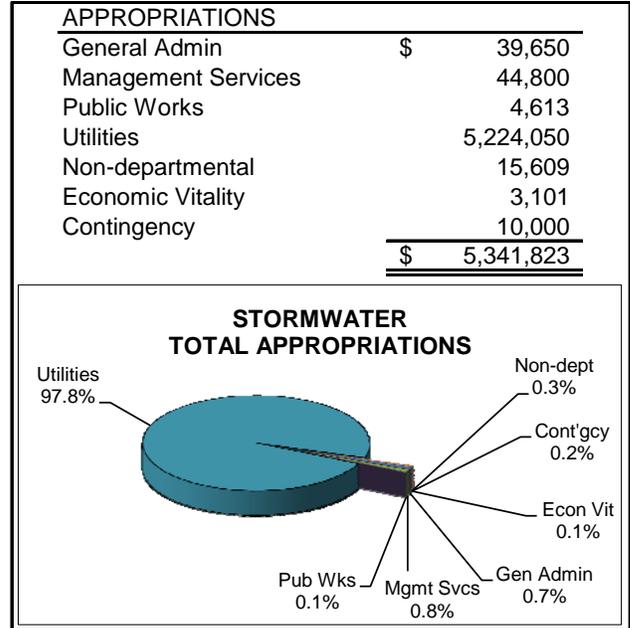
### STORMWATER FUND

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. The City awarded a contract to update the rate model in FY 2014 to be completed in FY 2016.

Total revenues/other resources for stormwater total \$5.4 million including a transfer of \$3.3 million from General Fund for the Rio de Flag project.



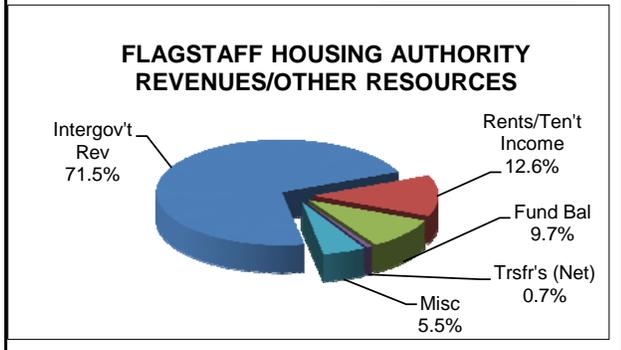
Total appropriations of \$5.3 million include the operational components of NPDES implementation, general drainage maintenance, and drainage improvement projects (DRIP). The DRIP program assesses the community's needs for drainage improvements in highest priority of need within the City.



### 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 371 Section 8 Housing Choice Vouchers, which include 4 homeless Vouchers and 38 VASH Vouchers. FHA also administers 12 housing vouchers for seriously mentally ill persons. Total financial resources are \$7.9 million. Intergovernmental Revenue from the US Department of Housing and Urban Development comprises 71.5% of funding, or \$5.6 million. Rental Income represents rent charges based on resident family income per Federal regulations. Miscellaneous income is primarily pass through and administrative fee income for Housing Choice Vouchers which the Housing Authority administers locally for other housing agencies. These portable Vouchers are under HUD contract with other housing agencies, and FHA administers the Vouchers locally, for which FHA earns an administrative fee.

REVENUES/OTHER RESOURCES	
Intergovernmental Revenue	\$ 5,636,039
Rents/Other Tenant Income	996,000
Fund Balance	761,433
Transfers (net)	58,200
Miscellaneous	436,034
	<u>\$ 7,887,706</u>
APPROPRIATIONS	
Community Development	\$ 6,210,462
Contingency	1,001,250
	<u>\$ 7,211,712</u>



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

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

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

Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

The preparation of the five-year plan is a cooperative effort between division heads, section heads, and Finance staff to assure projections are based on 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 43% 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 maintain a minimum fund balance of 20%. A 15% fund balance is considered sufficient for the General Fund.

### **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 73% due to planned expenditures for circulation materials and other 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 66% due to planned expenditures for operating capital and capital improvement projects.

### **FUTS**

This fund accounts for capital projects related to FUTS (Flagstaff Urban Trail System). The primary source for this fund is revenue transfers. 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 FUTS fund balance decreases by 75% due to planned expenditures for the completion of various capital projects in FY 2016 and FY 2017.

### **EDA REVOLVING LOAN**

The primary source for this fund is 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. The program was transferred to the City in FY 2014 and the full implementation expected in FY 2016.

### **BEAUTIFICATION**

The primary source for this fund is BBB taxes. 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 90% due to planned expenditures for the completion of various capital projects.

### **ECONOMIC DEVELOPMENT**

This fund is balanced with ongoing revenues from BBB taxes, lease revenues, and General Fund transfers. Ongoing expenditures support a number of efforts focused on business attraction, retention, work force development, and the Business Incubator and Accelerator. The Economic Development fund balance decreases by 30% in FY 2016 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 2016 by 9% 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 service partner contracts for projects related to awareness of arts and science in our community. Planned public art projects result in an Arts and Science fund decrease of 72%.

### **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 decreases by 77% due to planned expenditures for the completion of various recreational 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 82% 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 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 represents the collection of secondary property tax revenue and the subsequent transfer to service the related debt as it becomes due. 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 12% 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 2016.

### **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 projects 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. GO Bond Funded Projects.
2. Non-GO Bond Funded Projects.

Both fund balances are due to the timing of bond proceeds and capital expenditures.

### **WATER, WASTEWATER AND RECLAIMED WATER**

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 60% due to the planned completion of capital projects.

### **AIRPORT**

This enterprise fund is responsible for the operations at Flagstaff Pulliam Airport. The majority of revenues in FY 2016 and beyond 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 and to aid operations. The Airport fund balance decreases by 52% due to planned one time expenditures for operational capital and maintenance needs, as well as the construction capital program in FY 2016.

### **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 fund anticipates a 30% decrease in fund balance due to increased one-time expenditures.

### **SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT**

This enterprise fund is self-sustaining through user fees and revenue transfers. The five-year projection anticipates a growth rate of two percent. This coincides with ongoing operations and revised service levels for all operations. The Environmental Management fund anticipates a 42% decrease due to increased one-time approved operating costs.

### **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 81% 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 2016, the City anticipated the FHA fund balance to decrease by 11%.

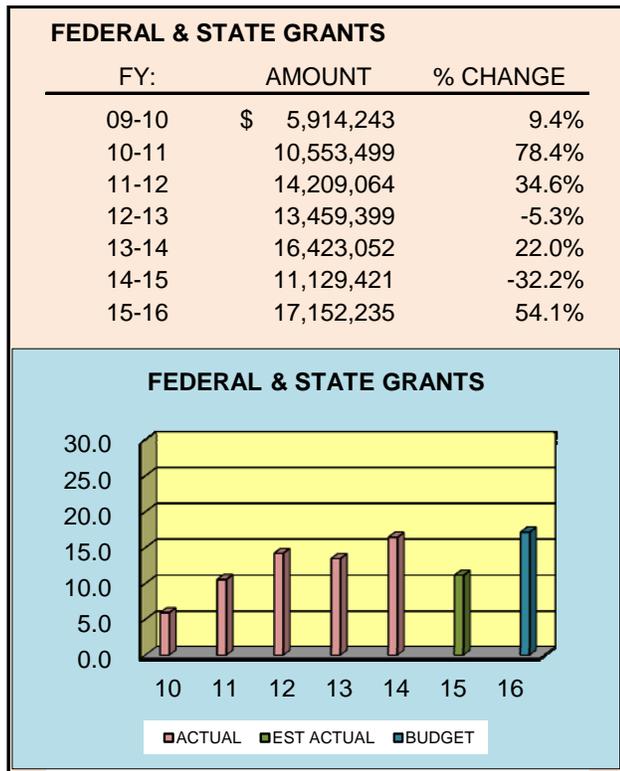
**REVENUES**

Historical Trend Information for Select Revenues

**ALL FUNDS**

**FEDERAL AND STATE GRANTS**

Description: The City applies to Federal and State Agencies and Foundations 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 2011 was the first year the Flagstaff Housing Authority was included as part of City's budget and they are largely grant funded.

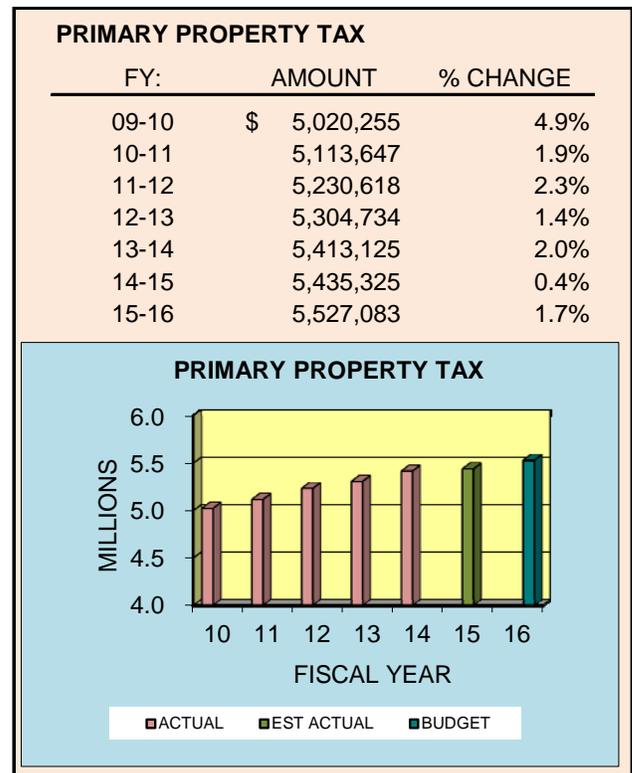
Projects funded by Federal and State grants in 2016 include completion of the Business Accelerator and ARFF Replacement, and updates to the Airport Master Plan. In addition, the City has several large ongoing federal grants for Community Development Block Grant, Section 8 and Low Income Public Housing. (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, FY 2014, and FY 2015 Council voted to

keep the levy flat plus new construction. For FY 2016 we are continuing with flat levy plus new construction. The City's capacity for levy increase is 8%.

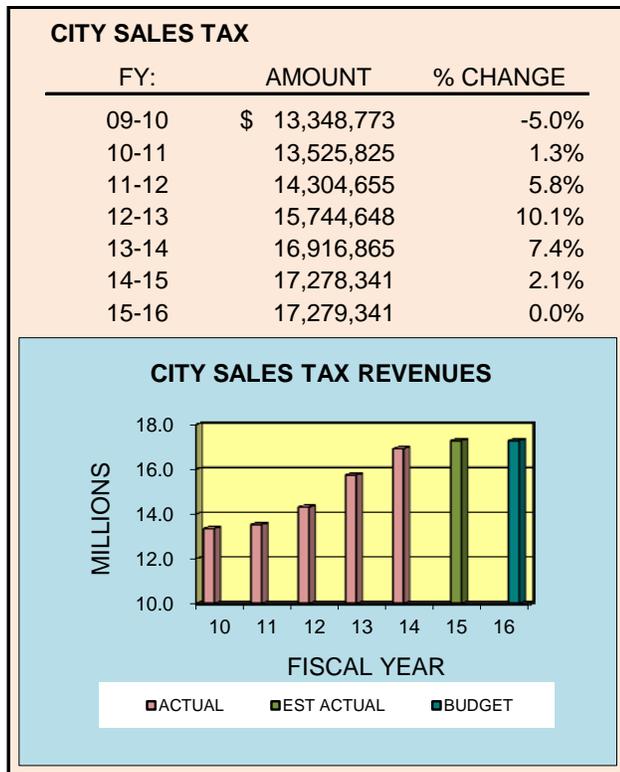
Primary property taxes generally change on an annual basis for two reasons: new construction that is added to the tax rolls and the reassessment of existing property. New construction added over \$8.0 million dollars to the assessed valuation. For FY 2016 existing Primary Property Tax values increase by 2.2%.

**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 1.051% transportation tax which are shown on the following pages.



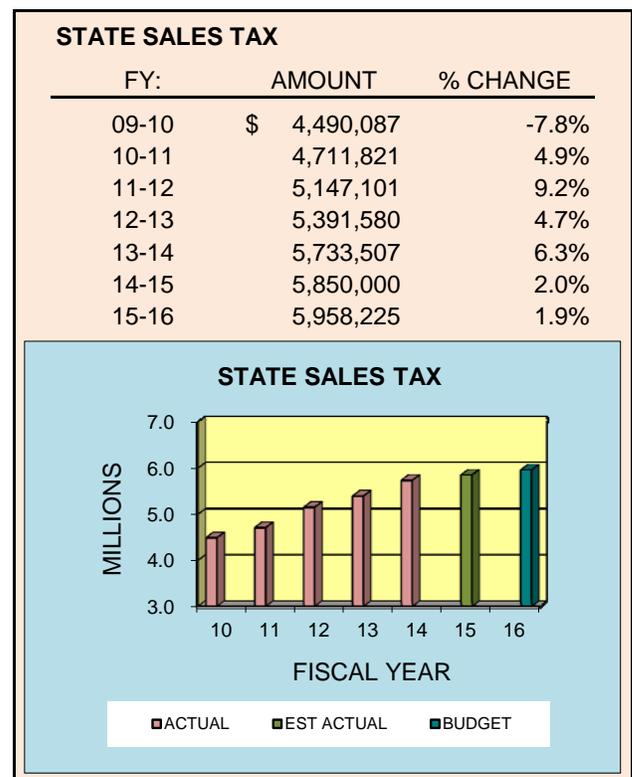
The decrease in revenues for FY 2010 was driven by decreases in construction, tourism, and retail

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. Increases after FY 2012 point to the continued economic recovery. FY 2016 is the same as FY 2015 due to the unknown impact of tax collections moving to the Arizona Department of Revenue.

**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.



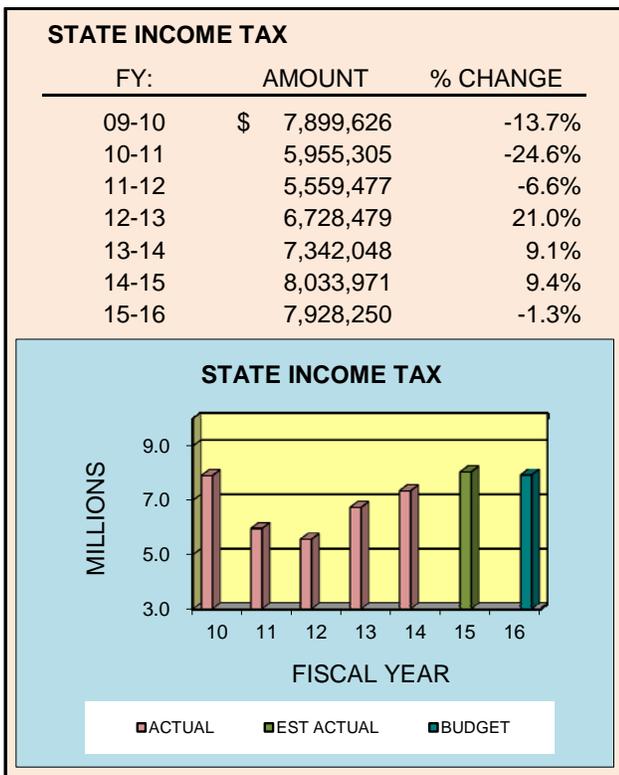
The sales tax revenues for FY 2010 reflect the economic downturn at the state level due to the declines in residential construction, retail, auto sales, and tourism. While recovery began in FY 2011, the city is choosing to continue to budget conservatively compared to the State of Arizona. Increases 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 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

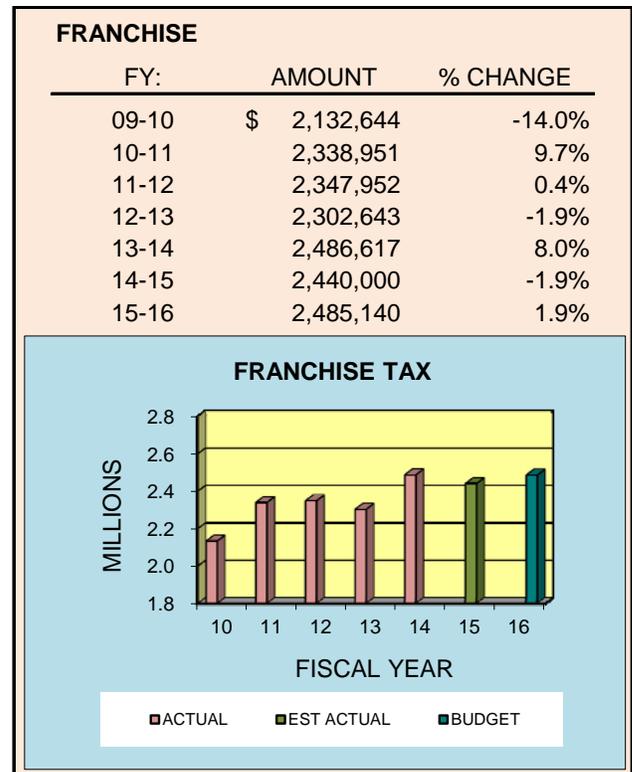
somewhat mitigated in that the City of Flagstaff gained relative population share as a result of the 2010 Census. The City's population share within the State of Arizona grew from 1.25% to 1.31% which increases the local allocation of this revenue. The large increases in FY 2013, FY 2014, and FY 2015 are due to the City's increased population share and economic recovery. The decrease in FY 2016 is due to reductions in corporate income taxes passed by the Arizona state legislature.

**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

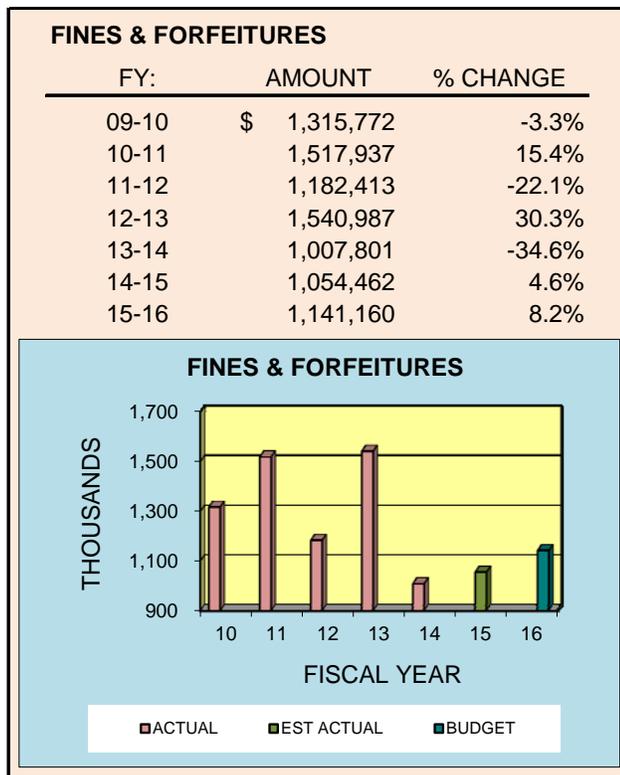
processed. FY 2011 represents normalized revenues. The increase in FY 2014 is due to the additional category of electric franchise payor. The FY 2015 decrease reflects lower than expected collections in the natural gas and electric franchise categories due to a warmer than average winter. It is anticipated, in FY 2016, there will be an inflationary increase of 1.9% in revenue projected.

**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 as well as the fee structure in place at the time of the case. 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).

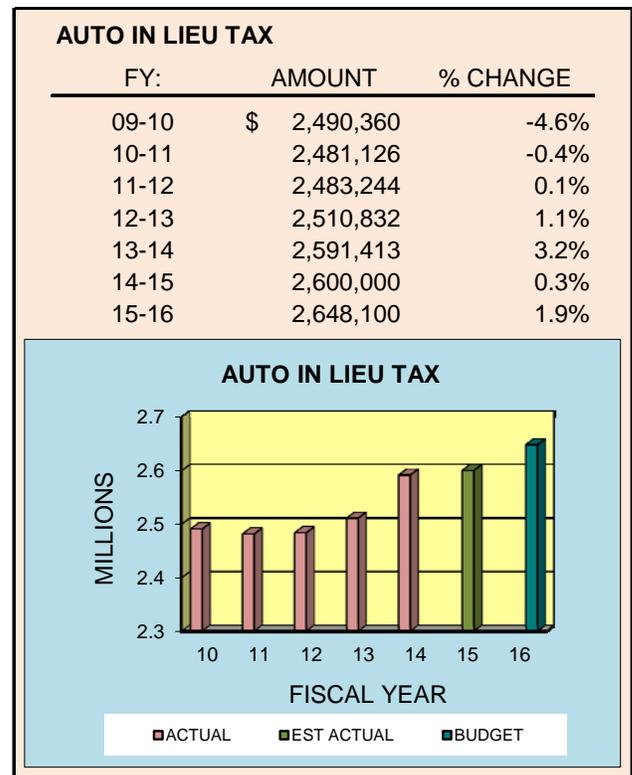


**AUTO IN LIEU TAX**

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

Description: Twenty-five percent (25%) 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, revenues only show moderate growth the past few years. Revenue growth is projected to be moderate in the future.



## SPECIAL REVENUE FUNDS

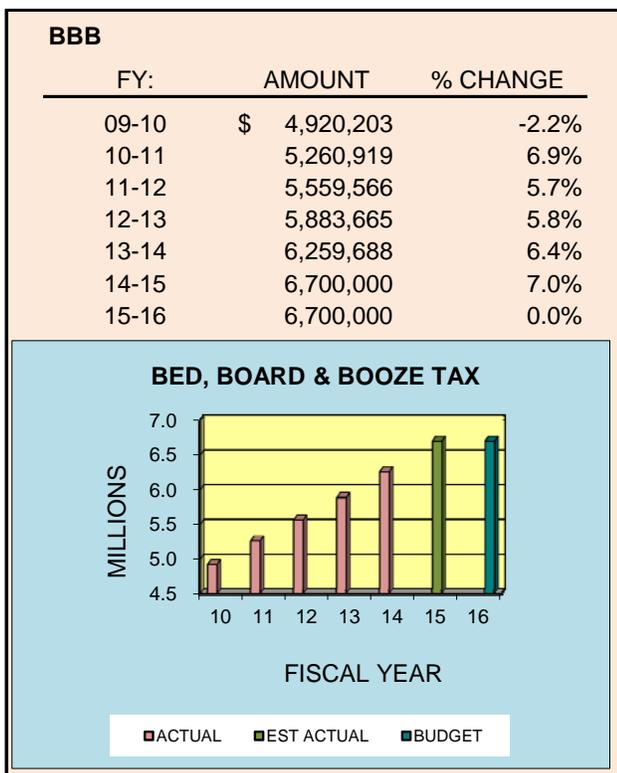
### BBB FUNDS

#### **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 2015 is continuing to show an increase in projected revenue, demonstrating the strength of tourism in Northern Arizona. FY 2016 is the same as FY 2015 due to the unknown impact of tax collections moving to the Arizona Department of Revenue.

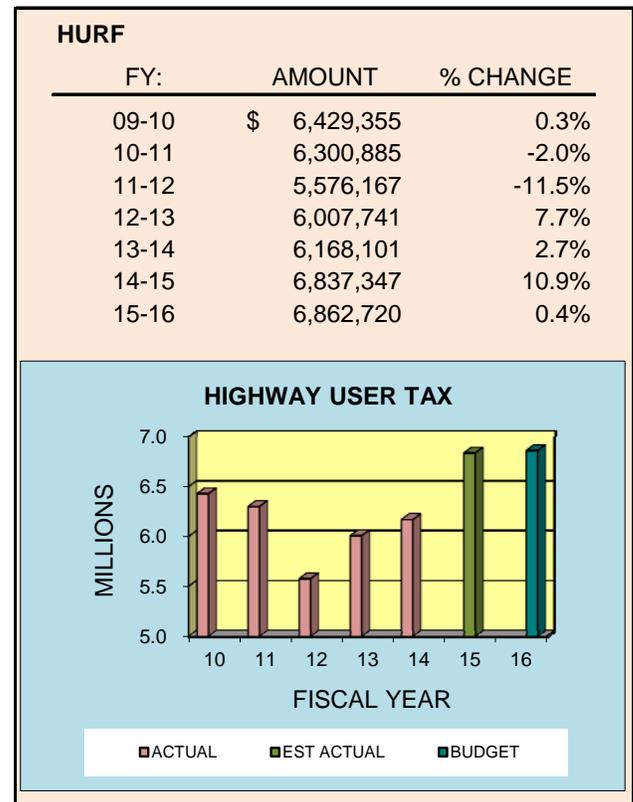


## HIGHWAY USER REVENUE FUND

### 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 2012 is due to the decline in State Appropriation for the DMV (Department of Motor Vehicles). The City anticipates a 10.9% increase in HURF revenues in FY 2015 due to the State approving an additional \$30M of HURF Revenues to be allocated to cities and counties, plus an overall increase in HURF collection due to decreasing gas prices. The City expects only a small increase in FY 2016 after experiencing a significant increase in FY 2015.

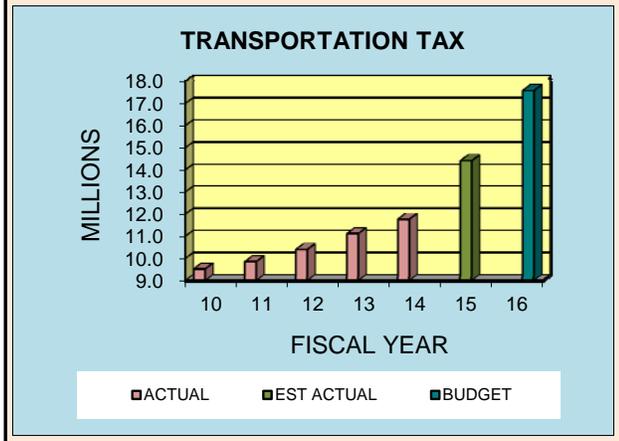
**TRANSPORTATION TAX**

Legal Authority: Resolution 2004-48, approved by voters May 2000 and Ordinance 2014-34 approved by voters November 2014.

Description: The Transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps pay for a 4<sup>th</sup> Street overpass, safety improvements, street improvements, and transit services. The transportation tax is assessed on the same goods and services as the City's general sales tax. The current tax rate is 1.051%.

Transportation Tax Rate Breakdown	
4th Street Overpass	0.160%
Street Improvements	0.186%
Safety Improvements	0.080%
Road Repair and Street Safety	0.330%
Transit Services	0.295%
<b>Total</b>	<b>1.051%</b>

TRANSPORTATION TAX		
FY:	AMOUNT	% CHANGE
09-10	\$ 9,526,056	-4.9%
10-11	9,851,253	3.4%
11-12	10,399,189	5.6%
12-13	11,114,898	6.9%
13-14	11,769,839	5.9%
14-15	14,410,730	22.4%
15-16	17,585,692	22.0%



The large increases in FY 2015 and FY 2016 are due to a new 0.33% Road Repair and Street Safety tax approved by the voters in November 2014 and effective January 1, 2015.

**ENTERPRISE FUNDS**

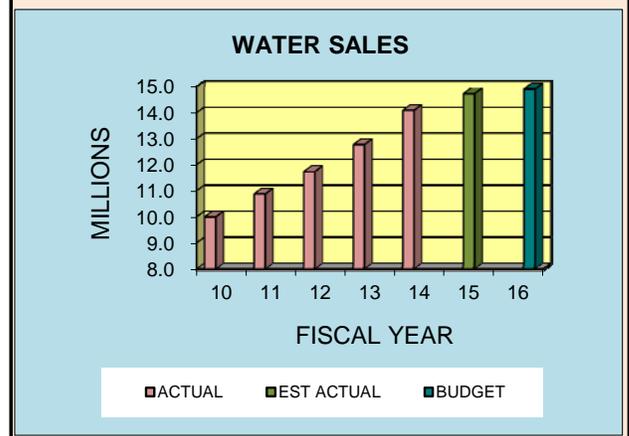
**WATER SALES**

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 charged 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. The next rate study is currently in progress with an expectation for new rates implemented in FY 2016.

WATER		
FY:	AMOUNT	% CHANGE
09-10	\$ 10,000,060	0.9%
10-11	10,881,744	8.8%
11-12	11,735,459	7.8%
12-13	12,776,436	8.9%
13-14	14,093,054	10.3%
14-15	14,734,580	4.6%
15-16	14,910,620	1.2%

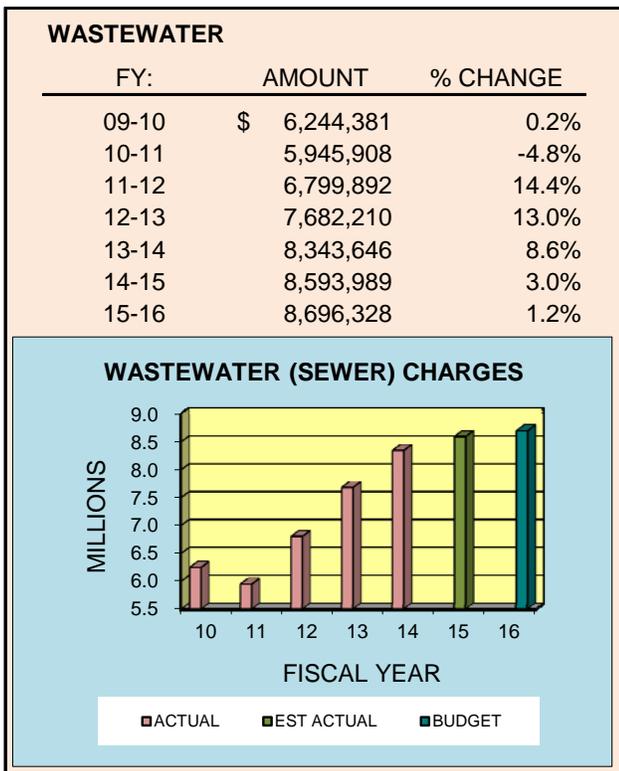


**WASTEWATER SERVICE CHARGES**

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 currently in progress with an expectation for new rates implemented in FY 2016.

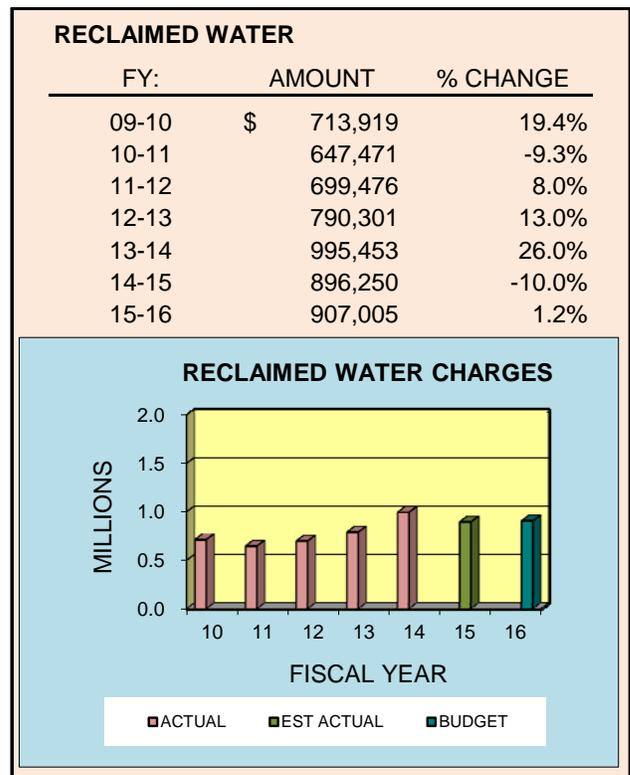


**RECLAIMED WATER SALES**

Legal Authority: City Code, Title 7, Chapter 3, Section 18

Description: The principal revenue for operating and managing the City's reclaimed water system is derived from rates and charges for reclaimed water usage. Monthly reclaimed water bills consist of 1) a base charge based on meter size and 2) a charged based on actual reclaimed water consumption by customer class. The primary use of reclaimed water is for lawn watering and construction.

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. The next rate study is currently in progress with an expectation for new rates implemented in FY 2016.

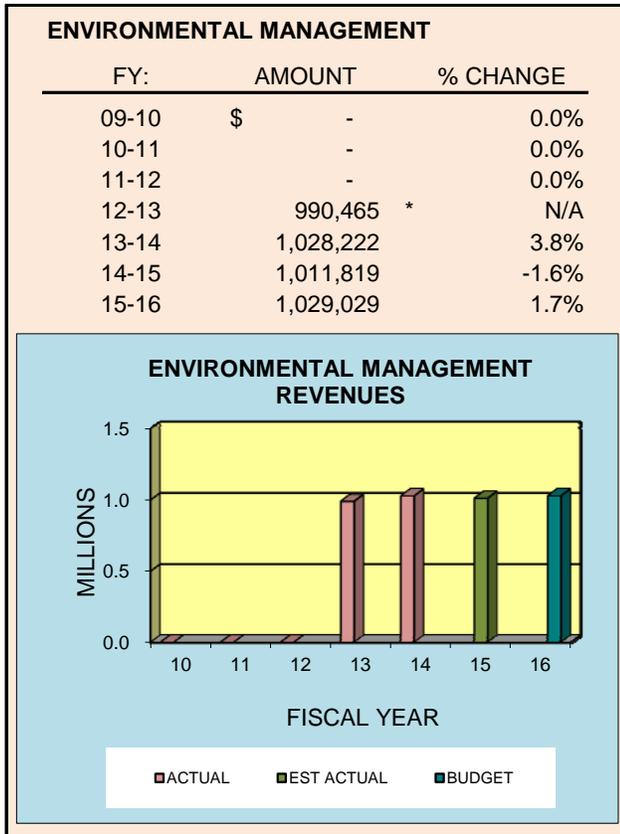


## ENVIRONMENTAL MANAGEMENT

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 FY 2016 is related to growth.



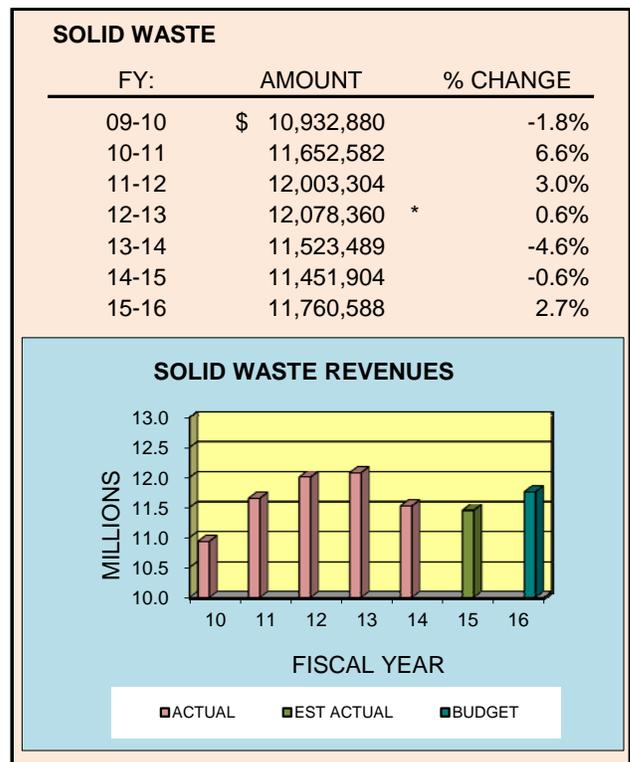
\* From Solid Waste

## 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 2016 is related to projected growth.

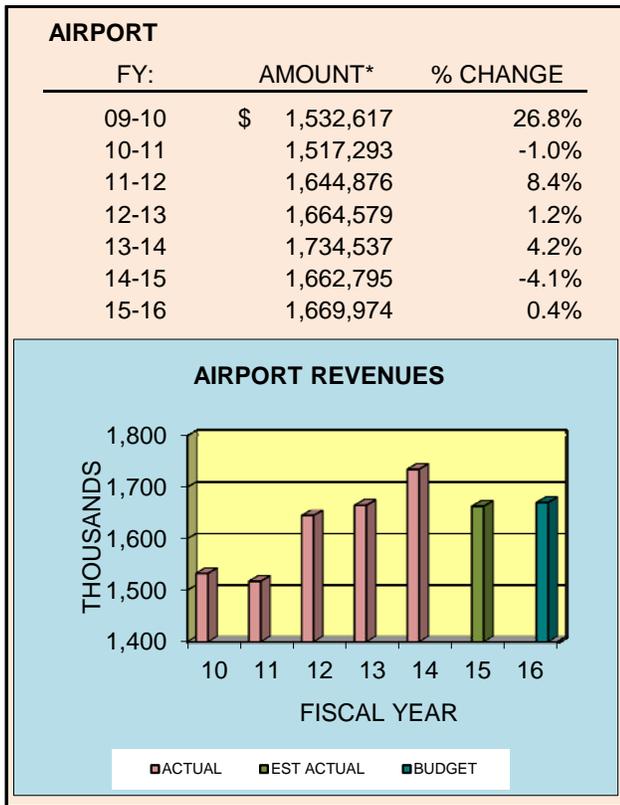


\* Adjustment to Environmental Management

**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. In addition, revenues are collected from the sale and storage of aviation fuel. During FY 2015, the PFC charge assessed was \$4.50 per ticket. The \$4.50 PFC amount continues to be in effect in the foreseeable future. PFC's are collected from the ticket sales of passengers embarking from the Pulliam Airport. PFC revenue is not used for operating expenditures. Airport revenues are required to be used for Airport Operations.



\* Revenue is comprised of PFC Revenue + Airport Operating Revenues (excludes miscellaneous and

The City of Flagstaff is negotiating with interested airlines for a second airline to service Flagstaff. An \$800,000 Federal grant has been secured to encourage airline activity. Once the additional airline is secured, it is anticipated PFC revenues will increase.

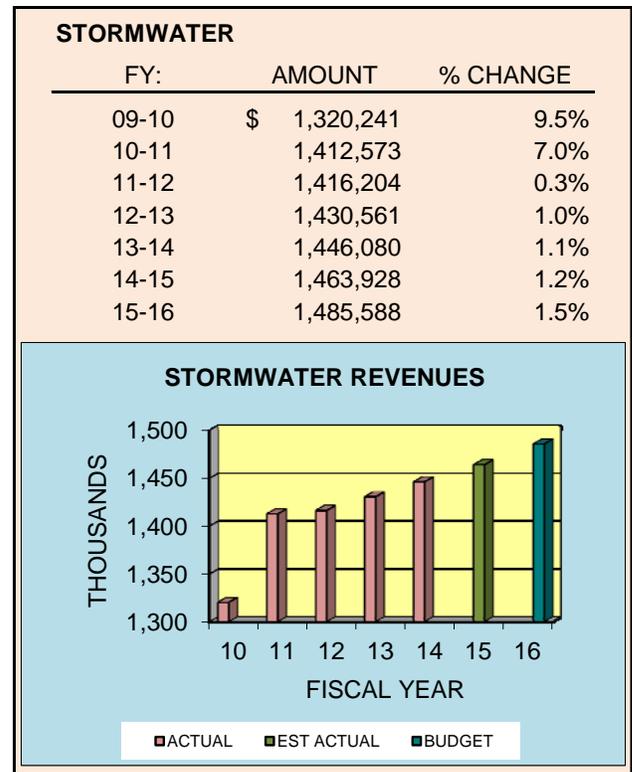
Revenues are conservatively estimated reflecting ground leases transition, Hangar Executive Box vacancies, and lower volume Fuel Flowage Fees. The expectation is that the airport will be in a gradual growth period beginning in FY 2016; provided an additional airline is secured and capital projects go forward as planned.

**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 \$0.92 per ERU. It covered additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program. In FY 2011 the rate was increased to its current level of \$1.30 per ERU. The City awarded a contract to update the rate model in FY 2014 to be completed in FY 2016.

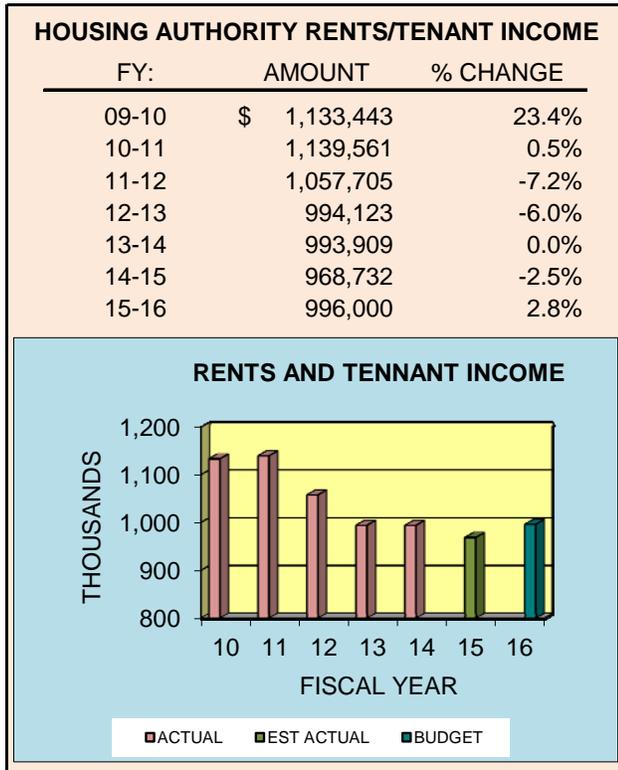


**HOUSING AUTHORITY**

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 subsidized housing. 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 2009 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 decrease in income for FY 2012 through FY 2015 is due to falling incomes for the families/individuals served. Rent is projected to increase slightly in FY 2016.



**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 in conjunction with 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 2016 CAPITAL IMPROVEMENT PLAN**

The City budget for FY 2016 includes capital improvement projects totaling \$93.8 million. Project funding includes the following: \$1.7 million in grants primarily for airport, general government, and FUTS projects, as well as \$31.2 million in general obligation (G.O.) bonds and capital leases for the construction of the Core Services Maintenance Facility, Flagstaff Watershed Protection Project, and other projects that were approved by the voters in the 2004, 2010 and 2012 General Elections. 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** – Nine projects are scheduled for FY 2016 for a total of \$41.7 million. Major projects included in this category are the Flagstaff Watershed Protection Project, which was authorized by voters in the November 2012 election, FUTS and Open Space land acquisition, Innovation Mesa Business Accelerator, the Core Services Maintenance Facility, the Court Facility, and a new Microwave Network.

**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 twenty-five Streets/Transportation projects scheduled at a budgeted cost of \$20.1 million. Transportation Tax funding \$9.2 million and HURF and other revenues funding \$10.9 million.

**FUTS Fund** – Major projects include BNSF Walnut-Florence Underpass, Signage Program, Hospital Rim FUTS Trail, and Lonetree Trail. Eighteen projects are scheduled at a budgeted cost of \$3.8 million for FY 2016.

**BBB Funds** – Three categories make up the BBB Funds Capital Projects for FY 2016. Arts and Science includes eight projects scheduled at a budgeted cost of \$372,500. BBB Recreation includes five projects scheduled at a budgeted cost of \$1.5 million. Beautification includes fifteen projects scheduled at a budgeted cost of \$3.6 million. Major projects include 4<sup>th</sup> Street Corridor Improvements, North Edge-Lockett to Route 66 along Kaspar, Train Station Platform and Joel Montalvo Park.

**Utilities Fund** – Major projects for water, wastewater, and reclaimed water include Rio Plant – UV System Replacement, McCallister Well, Pump, and Building, Bonito Sewer Replacement, Aging Water Infrastructure Replacement (AWIR) – Leroux St Waterline/Sewerline, Lake Mary Electrical Service

Upgrade, Hydrological Studies, Wastewater Treatment Plant Energy Efficiency Program, and Aging Sewer Infrastructure Replacements. Twenty water projects, seventeen wastewater projects, and three reclaimed water projects are scheduled at a combined budget of \$15.9 million for FY 2016.

**Airport Fund** – Three projects including, Master Plan Update, Runway Mill and Overlay Design, and the Master Plan Update are scheduled at a budgeted cost of \$1.1 million for FY 2016.

**Solid Waste Fund** - Six projects are scheduled for a budgeted cost of \$1.4 million. The projects include Paper Sludge Storage, South Borrow Pit Design/Roads/Scales, and a Fueling Station.

**Stormwater Fund** – Ten projects are budgeted in the Stormwater fund with a cost of \$4.4 million in FY 2016. Major projects include Rio de Flag, Rio Parking Replacement, Rio Culvert Construction, and Fanning Wash/Lockett Culvert Construction.

## 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 of 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. The next rate study will be completed in FY 2016.

**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%. In November, 2014, voters approved an additional 0.33% tax dedicated for Road Repair and Street Safety projects, raising the total transportation tax to 1.051%.

## **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 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, 2015

20% Limitation  
(Water, Sewer, Lighting, Open Spaces,  
Recreation, and Fire Facilities Purpose Debt)

Assessed Valuation	\$ 683,396,020
Allowable 20% Debt	\$ 136,679,204
20% Debt Outstanding	(50,360,657)
Allowable Debt Margin	<u>\$ 86,318,547</u>

6% Limitation  
(All Other General Obligation Debt)

Assessed Valuation	\$ 683,396,020
Allowable 6% Debt	\$ 41,003,761
6% Debt Outstanding	-
Allowable Debt Margin	<u>\$ 41,003,761</u>

**DEBT SERVICE**

At July 1, 2015, the total actual indebtedness is \$141.7 million. FY 2016 annual debt payments are \$15.2 million. At the start of the fiscal year, July 1, 2015, the City's 20% general obligation debt of \$50.4 million is well below the legal limit by \$136.7 million. The City has no outstanding general obligation debt in the 6% category. Thus, the full allowable debt margin of \$41.0 million is available. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

	Principal	Interest	Total
2016	11,207,327	4,037,679	15,245,006
2017	11,748,602	3,826,647	15,575,249
2018	10,682,794	3,620,924	14,303,718
2019	10,950,039	2,726,639	13,676,678
2020	11,295,991	2,329,153	13,625,144
2021	10,895,786	1,924,234	12,820,020
2022	7,544,575	1,577,801	9,122,376
2023	7,410,203	1,443,396	8,853,599
2024	6,517,650	1,180,911	7,698,561
2025	4,843,715	967,878	5,811,593
2026	4,818,879	789,341	5,608,220
2027	4,933,616	609,433	5,543,049
2028	4,558,946	433,142	4,992,088
2029	2,934,035	289,797	3,223,832
2030	1,339,520	202,417	1,541,937
2031	1,278,821	143,734	1,422,555
2032	1,092,046	91,811	1,183,857
2033	425,000	44,701	469,701
2034	445,000	27,300	472,300
2035	460,000	9,200	469,200
2036	-	-	-
	<u>\$ 115,382,545</u>	<u>26,276,138</u>	<u>141,658,683</u>





**Camping at Fort Tuthill County Park. This is adjacent to the City of Flagstaff.**