



## **Transmittal Letter**

For the Fiscal Year  
Ended June 30, 2009

City of Scottsdale  
Scottsdale, Arizona

October 14, 2009

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Scottsdale, Arizona:

The Comprehensive Annual Financial Report of the City of Scottsdale, Arizona, (the City) for the fiscal year ended June 30, 2009, is submitted in accordance with Article 6, Section 14, of the City Charter. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

LarsonAllen, LLP has issued an unqualified ("clean") opinion on the City of Scottsdale, Arizona's financial statements for the year ended June 30, 2009. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### ***City of Scottsdale Profile***

Scottsdale is centrally located in Maricopa County, Arizona, with its boundaries encompassing an area approximately 184 square miles, stretching 31 miles from north to south. The City is bordered to the west by Phoenix, the state capital, by Tempe to the south, and by the Salt River/Pima Maricopa Indian Community to the east. Scottsdale, together with its neighboring cities, forms the greater metropolitan Phoenix area, which is the economic, political, and population center of the state.

Scottsdale was founded in the 1800's when retired Army Chaplain Major Winfield Scott homesteaded what is now the center of the City. The City incorporated in 1951 and the City Charter, under which it is presently governed, was adopted in 1961. The City has experienced significant increases in population, with the 1950 census reporting 2,032 residents, and the 2000 census reporting 202,705. The City's population for 2009 was estimated at 242,337.

Scottsdale operates under a council-manager form of government as provided by its Charter. The Mayor and six City Council members are elected at large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out City Council policies and administering City operations. The City Manager, in turn, appoints City employees and department General Managers under service procedures specified by Charter. City service departments provide a full range of services including police and fire protection, sanitation/solid waste service, water and sewer services, construction and maintenance of streets, recreational activities, including libraries and cultural events.

The annual budget serves as the foundation for Scottsdale's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the City's various funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During fiscal year (FY) 2008/09, there were no such supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year. Upon the recommendation of the City Manager, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another.

### ***Local Economy***

The City of Scottsdale's tax revenue base consists of a variety of tax categories, the most significant being revenue collections from retail sales and tourism activity. The City also benefits from other favorable conditions associated with Scottsdale, including a stable, diversified economic base and a desirable location for work, destination, and living. Scottsdale is past its historic period of peak expansion and the long-term economic outlook for the City recognizes this fact. Revitalization efforts have resulted in a rebirth of the City's downtown area, as well as renewed interest in redevelopment of the more mature, southern parts of the City. Commercial successes are due, in part, to Scottsdale's commitment to targeted recruitment efforts that focus on industry segments that complement the existing business mix, including: corporate headquarter and regional offices; high-tech, research and development; bio-med; luxury resorts and hotels, and business and professional services. The following categories represent key factors affecting Scottsdale's economic and financial success:

## Retail Sales

Scottsdale's largest revenue source is sales tax generated from a well-balanced variety of business categories including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities and rentals. The City saw retail sales tax revenues decrease by 17 percent in FY 2008/2009 after falling 4 percent in the previous fiscal year, a result of the national recession.

## Employment and Job Growth

Scottsdale remains a net importer of labor, with an estimated ratio of 1.3 jobs to workforce population in the City (Source: SitesUSA 2009). This creates employment opportunities for Scottsdale residents and creates a significant business component to the local tax base. Scottsdale's unemployment rate was 6.3 percent in August 2009, significantly lower than the state level of 9.3 percent. Historically, Scottsdale's unemployment rate is about 2 percent lower than the state's average. Scottsdale recruited seven new, targeted firms with about 360 new jobs over the past year. New employers to announce moves to Scottsdale last year included Allviant, Stirling Energy Systems, and NightHawk Radiology, as well as the expansion of the GoDaddy facility.

## Commercial Vacancy Rates

Scottsdale's citywide office vacancy rate was about 29 percent for the last quarter of the fiscal year. The percentage is in line with the Valley average. Scottsdale has nearly 20 percent of new office space in the Valley that is currently under construction.

## Tourism

Tourism is one of Scottsdale's largest and most vibrant industries, and is a significant contributor to the City's economy. A variety of lodging properties, including several world-class resorts and "boutique" hotels, provide over 11,000 guest rooms, along with spectacular spas, trend-setting dining and one-of-a-kind Sonoran desert golf courses. With the addition of the new 54-room Best Western Sundial hotel in 2009, room supply in Scottsdale is expected to remain relatively stable in 2010. Bed tax revenues to the City declined by 22 percent for fiscal year 2008/2009, due largely to the declining national economy and the "AIG Effect" affecting business travel, which resulted in significant reductions in occupancy rates and room rates. Scottsdale visitors contribute about 20 percent of the City's total privilege and use tax revenues. With over 17,000 retail shops, nearly 600 restaurants, national and international events, and spectacular southwest Sonoran desert setting, Scottsdale continues to be a popular destination for visitors year-round and is well-positioned as the economy emerges from the current recession.

## ***Long-term Financial Planning***

Scottsdale's Five-Year Financial Plan is based upon sound financial reserves and conservative revenue growth forecasts for the foreseeable future. Potential for State legislative impacts to reduce revenue-sharing and additional demands for essential City services such as police, fire, transportation and social services remain. Financial Services management plays a pivotal role in maintaining and recommending enhancements to financial plan elements to ensure the continued financial stability for the City of Scottsdale. Achieving and maintaining fiscal stability requires many elements all working in concert with one another. The following identifies key elements of our financial plan.

### **Adopted Comprehensive Financial Policies**

Financial policies establish the framework for Scottsdale's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. These policies set the tone for all fiscal decisions made by staff and City Council. We currently identify 53 financial policies governing operations, capital planning, debt management, reserves and financial reporting – regular review and enhancement of these policies is done in conjunction with financial plan development and are adopted annually by the City Council.

### **Financial Resource Planning**

Scottsdale's strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring, available revenues. Conservative financial forecasts coupled with financial trend analysis techniques and careful reserve analysis help preserve the fiscal wellbeing of Scottsdale. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for the critical objectives of the City Council.

### **Multi-Year Operating Budget Planning**

Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our level of service objectives over time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Scottsdale builds a five-year financial plan to help anticipate future impacts and ensure achievement of City objectives.

### **Strategic Capital Improvement Project Planning**

Scottsdale Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used, capital project plans are sized to conform to existing debt management policies.

## Debt Management

Scottsdale has a financial policy, which prohibits the issuance of debt for operating expenses. With that as a governing framework, all debt issuances are for the purposes of financing capital infrastructure (or long-lived costly assets). Each debt issuance is evaluated against policies addressing: debt service as a percent of operating expenditures, tax and revenue bases for the repayment of debt, the overall debt burden on the community, statutory limitations and market factors affecting tax-exempt interest costs. In all cases a long-term analysis is made considering the financial (debt) capacity that fits the wherewithal (and willingness) of our community to pay for the capital projects. Sizing of the City's Capital Improvement Plan based on debt capacity in conjunction with conservatively estimated pay-as-you-go revenues helps stabilize per capita debt and lower annual debt service costs to the City over the long-term.

The City retained credit ratings of "Aaa", "AAA", and "AAA" from the three major credit rating agencies, Moody's Investors Service, Standard and Poor's Ratings Group, and Fitch Ratings, respectively on the City's outstanding general obligation bonds. These are the highest ratings possible, originally earned by the City in 2001, and are held by only a handful of local governments across the nation. A summary of the City's bond ratings are shown as follows:

### **City of Scottsdale Bonded Debt Ratings**

**As of June 30, 2009**

	<b>Moody's Investors Service</b>	<b>Standard and Poor's Rating Group</b>	<b>Fitch Investors Service, Inc.</b>
General Obligation (GO)	Aaa	AAA	AAA
Municipal Property Corp (MPC)	Aa1	AAA	AA+
Water and Sewer Revenue (W&S)	Aa1	AAA	AA+
Highway User Revenue Fund (HURF)	Aa3	AA	Not Rated
Scottsdale Preserve Authority (SPA)	Aa2	AA	AA

## ***Major Initiatives***

The City of Scottsdale's adopted fiscal year 2009/2010 budget was established with the national recession as the back drop. The budget document was the culmination of the most challenging budget process in the City's history. We moved quickly and decisively to deal with the downturn. During the first half of the 2008/09 fiscal year, we had already taken action to close a \$40 million gap between revenues and expenses. For the 2009/10 budget year, the City Council, the new Budget Review Commission, our citizens and staff were faced with wrenching choices necessary to close an even larger gap – about \$65 million.

We collectively met the challenge. We did so without instituting any new taxes or raising tax rates. The Council was able to lower the City's combined property tax rate from 79 cents to 74 cents per \$100 of assessed valuation. The Council also voted for the lowest increase in five years in utility fees, adding about 2.4 percent to a typical homeowner's bill.

In the process, we were able to accomplish two even more important objectives: 1) We were able to make the needed reductions while limiting the impacts on our direct services to citizens. We promised to affect them least and last, and we held to that commitment. 2) We were able to restructure the City organization, reducing its size by 10 percent, streamlining the chain of command and combining similar work functions to be more efficient and effective. We positioned our organization to be more financially sustainable for the long term.

### *Awards and Acknowledgements*

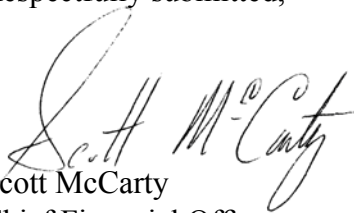
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scottsdale for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This was the 36th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Scottsdale received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2008 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and expect to receive this award for the fiscal year beginning July 1, 2009.

Additionally, on July 7, 2009, the City of Scottsdale was formally recognized for having its Cash Handling Program certified by the Association of Public Treasurers of the United States and Canada (APT US&C).

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Accounting and Budget divisions, the assistance of administrative personnel in the various departments, and through the competent service of our independent auditors. I also wish to express my sincere appreciation to the City Council and the City Manager for their interest and support in planning and conducting the financial affairs of the City of Scottsdale in a responsible and progressive manner.

Respectfully submitted,



Scott McCarty  
Chief Financial Officer