

CITY OF SCOTTSDALE

MONTHLY FINANCIAL UPDATE

APRIL 2009 (MARCH 2009 ACTIVITY)

REPORT HIGHLIGHTS

- **As the largest revenue source for the General Fund**, fiscal year-to-date revenues are down \$0.6 M., or 1%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$13.5 M., or 16%, compared to prior fiscal year. The Sales Tax annualized forecast has been revised down \$19.7 M. from the adopted budget plan.
- **Fiscal year-to-date Bed Tax revenues** fiscal year-to-date revenues are tracking closely to the FY 08/09 forecast. Fiscal year-to-date revenues are down \$0.2 M., or 8%, compared to prior fiscal year. Staff has reduced the current forecast by \$0.4 M.
- **Development Permits and Fees** fiscal year-to-date revenues are down \$0.1 M., or 2%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$4.7 M., or 48%, compared to prior year. Our current annualized forecast predicts a \$7.9 M. decrease in building permits this fiscal year.
- **Forecasters See Economy Turning Positive in Second Half of 2009.** From the April *Blue Chip* report: Moving into the second half of 2009, analysts look for growth as measured by GDP to turn positive. Among the 50 forecasters that contribute to the national consensus reported by Blue Chip Economic Indicators, 92 percent believe that the recession will be over by the end of 2009, followed by growth of GDP in 2010. The Blue Chip forecast is projecting that GDP will decrease by 3.0 percent for all of 2009 and increase by 2.0 percent next year.

FY 2008/09 GENERAL FUND ESTIMATED YEAR END BALANCE

The following table compares the FY08/09 budget plan to the current General Fund balance forecast, incorporating the latest economic estimates, real budget adjustments-to-date, and impacts of economic contingency plans.

Estimated Fiscal Year End 2009 GENERAL FUND Balance (In Millions)	FY08/09 Approved Budget	FY08/09 Forecast	Variance
Actual Beginning Balance July 1, 2008	\$ 40.6	\$ 44.3	\$ 3.7
Sources of Funds	286.8	273.2	(13.6)
Uses of Funds (Operating Expenses)	261.9	259.7	2.2
Transfers Out	22.9	19.7	3.2
Debt Service	6.0	3.9	2.1
GAAP to Budget Adjustment	-	0.5	0.5
Estimated Ending Balance June 30, 2009:			
Operating Contingency	2.0	5.0	3.0
Photo Enforcement Loop 101	0.6	-	(0.6)
General Fund Reserve	29.9	26.8	(3.1)
Unreserved Fund Balance	4.1	2.9	(1.2)
Estimated Ending Fund Balance June 30, 2009	\$ 36.6	\$ 34.7	\$ (1.9)

Table may display minor rounding variances in the aggregate due to reflecting amounts in millions.

Estimated Ending General Fund Balance

Scottsdale is experiencing an unprecedented recessionary impact across revenue categories, with the most significant factors including retail sales, construction, and auto dealers. The current revenue forecast for FY 2008/09 is included in the General Fund summary table above and the Estimated Ending Balance reflects real budget adjustments-to-date reviewed with the City Council at the January 20, 2009 special budget meeting. The estimated year-ending Operating Contingency is shown replenished to \$5.0 M. The General Fund Reserve decrease of -\$3.1 M. is not a use of reserve funds but rather a recalculation of the adopted 10% reserve policy as a result of the FY 2008/09 budget reductions.

GENERAL FUND REVENUE – FY2008/09 FORECAST

The following table summarizes key revenues that affect the City's General Fund. The table compares year end revenue forecast to the Adopted FY08/09 Budget. The latest annualized forecast is reflected in the table. The current net impact of these adjustments to the revenue bottom line is \$30.0 million below the FY 2008/09 budget plan, reflecting ongoing recessionary forces at the national and local level. We will continue to closely monitor revenues.

FY 2008/09 General Fund Revenues (In Millions)	FY 08/09 Adopted Budget	FY 08/09 Forecast	Variance Favorable/ (Unfavorable)
Transaction Privilege (Sales) Tax ⁽¹⁾	\$ 116.6	\$ 96.9	\$ (19.7)
Transient Occupancy (Bed) Tax ⁽¹⁾	2.0	1.6	(0.4)
Property Tax	22.4	22.2	(0.2)
State Shared Sales Tax	22.0	19.9	(2.1)
State Shared Income Tax	34.0	34.6	0.6
Auto Lieu Tax	9.7	8.0	(1.7)
Business Licenses & Fees	1.8	1.7	(0.1)
Building Permit Fees & Charges	14.5	6.6	(7.9)
Interest Earnings	4.5	3.5	(1.0)
Other	47.6	50.1	2.5
Total Revenue	\$ 275.1	\$ 245.1	\$ (30.0)
Transfers In ⁽²⁾	11.7	28.1	16.4
Total Sources of Funds⁽³⁾	\$ 286.8	\$ 273.2	\$ (13.6)

Table may display minor rounding variances in the aggregate due to reflecting amounts in millions.

- (1) *Privilege & Use Tax and Transient Occupancy Tax collections lag by one month (February activity reported in March results).*
- (2) *Includes \$12.6 M. in inter-fund transfers approved by Council on January 20, 2009*
- (3) *Reconciles to Sources of Funds line item in "General Fund Balance" table, page 1.*

Below are highlights related to the table above.

Sales Tax

As the largest revenue source for the General Fund, fiscal year-to-date revenues are down \$0.6 M., or 1%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$13.5 M., or 16%, compared to prior fiscal year. Low consumer confidence and spending, dismal job and housing markets, and significant drops in construction activity, auto sales, and related dealership closings and relocations, have resulted in the annualized sales tax forecast down \$19.7 M. from the adopted budget plan.

Bed Tax

Fiscal year-to-date revenues are tracking closely to the FY 08/09 forecast. Fiscal year-to-date revenues are down \$0.2 M., or 8%, compared to prior fiscal year. Staff has reduced the current forecast by \$0.4 M. The outlook for hoteliers and the travel industry as a whole remains dim until the economy starts showing signs of a significant turnaround.

Property Tax

Variance reflects recent utility settlement.

State Shared Revenues

Adjustments reflect state shared estimates provided by the Arizona Department of Revenue.

Development Permits and Fees

Fiscal year-to-date revenues are down \$0.1 M., or 2%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$4.7 M., or 48%, compared to prior year. Coinciding with a decline in the City's construction sales tax revenues, the real estate market bust is causing a drop in building permit revenues. Our current forecast takes into

April 2009 (March 2009 Activity)

Monthly Financial Update

consideration two plus years of double-digit decreases in development activity as measured by permits issued and property valuations and predicts a \$7.9 M. decrease in building permits for this fiscal year.

Interest Earnings

\$1.0 M. unfavorable variance reflects revised forecast based on latest financial market forces.

Other Revenue

Adjustments to forecast for Other Revenue category include projected increases to parking fines \$0.2 M., light and power franchise fees \$0.5 M., and WestWorld revenue \$0.3 M.

FY 2008/09 EXPENDITURES

The following table shows the approved FY 2008/09 departmental budgets, and compares the fiscal year-to-date (YTD) forecast to fiscal YTD actual expenses, through March 2009. (YTD expenditures through April will be reported in May's Monthly Financial Update.)

FY 2008/09 General Fund (In Millions)	FY08/09 Approved Budget ⁽¹⁾	Fiscal YTD Approved Budget	Fiscal YTD Forecast ⁽²⁾	Fiscal YTD Variance
Mayor and Council	\$ 1.7	\$ 1.1	\$ 1.1	\$ -
City Clerk	1.2	0.9	0.8	0.1
City Attorney	7.0	4.9	4.4	0.5
City Auditor	1.0	0.8	0.8	-
City Court	5.8	4.2	4.1	0.1
City Manager	0.8	0.6	0.7	(0.1)
CAPA	1.7	1.0	1.0	-
Police Department	90.3	67.1	63.8	3.3
Financial Services	10.0	7.1	7.0	0.1
Transportation	0.2	0.1	0.1	-
Community Services	58.8	42.5	41.4	1.1
Information Services	10.6	7.2	7.0	0.2
The Downtown Group	4.6	4.3	4.2	0.1
Fire Department	33.2	23.7	22.8	0.9
Municipal Services	1.7	1.2	1.4	(0.2)
Citizen & Neighborhood Res	3.8	2.6	2.5	0.1
Human Resources	4.3	2.6	2.6	-
Economic Vitality	1.5	1.0	1.0	-
Planning & Development	17.1	11.9	11.4	0.5
WestWorld	3.8	2.8	2.6	0.2
Retirement Incentive	2.8	-	-	-
Total	\$ 261.9	\$ 187.6	\$ 180.7	\$ 6.9

Table may display minor rounding variances in the aggregate due to reflecting amounts in millions.

April 2009 (March 2009 Activity)

Monthly Financial Update

The following table shows the same expenditure information by expense type, rather than by department.

FY 2008/09 General Fund Expenditures (In Millions)	FY08/09 Approved Budget ⁽¹⁾	Fiscal YTD Forecast ⁽²⁾	Fiscal YTD Expenses	Fiscal YTD Variance
Personal Services	\$ 189.3	\$ 137.3	\$ 135.6	\$ 1.7
Contractual Services	58.7	42.8	39.0	3.8
Commodities	10.5	7.1	5.9	1.2
Capital Outlay	0.6	0.4	0.2	0.2
Retirement Incentive	2.8			
Total	\$ 261.9	\$ 187.6	\$ 180.7	\$ 6.9

Table may display minor rounding variances in the aggregate due to reflecting amounts in millions.

1. *Reflects City Council approved uses of contingency.*
2. *Reflects City Council approved use of contingencies and budget reduction strategies communicated on 1/20/09 to City Council.*

Variances explanations for above table are as follows:

Personal Services: Favorable variance for Public Safety overtime – department-wide Police overtime reduction strategies; Fire Department overtime savings initiative for Special Events; normal processing lag for payment of invoices for contract workers.

Contractual Services: Variance-to-date caused by timing/receipt of pending invoices, such as maintenance contracts (e.g., mowing), jail, and utility payments; contract re-bids lower than expected, budgeted activities that we thought would/may occur but have not; timing of expenses, such as anticipated trials, expert witnesses, and litigation/legal expenses.

Commodities: Variance related to anticipated purchases yet to occur based on current need, such as supplies and materials, chemicals, and maintenance equipment; budget saving initiatives by staff to reduce expenditures and to reassess operational needs and strategies, such as scheduled repair and replacement of equipment and miscellaneous parts.

Capital Outlay: Timing and procurement of large capital items, such as vehicles and machinery.

BUDGET UPDATE

Budget Process Update:

The City Manager's Proposed FY 2009/10 Budget was released on April 15. Staff reviewed the proposed budget with the Budget Review Commission at a series of public meetings during the latter part of April. The Commission presented their feedback and recommendations to the City Council during a joint meeting on May 5. The key dates remaining on the budget calendar are noted below:

May 19 1st Budget Hearing and Tentative Budget Adoption

June 2 Truth In Taxation Hearing, 2nd Budget Hearing, and Final Budget Adoption

Contingency Budget Update:

- General Fund Operating Budget Contingency. During the fiscal year, Financial Services staff monitors the \$5,000,000 General Fund Operating Budget Contingency. The City Council has approved the following uses of cash from the General Fund Operating Budget Contingency:
 - July 8, 2008: \$208,000 WestWorld – to bring feed and bedding program in-house.
 - January 20, 2009: Up to \$2,800,000 for retirement incentive program.

The total FY 2008/09 General Fund Operating Budget Contingency approved by City Council to date is \$3,008,000, leaving a cash balance of \$1,992,000.

Monthly Financial Update

- Capital Budget Contingency. During the fiscal year, Financial Services staff monitors the use of the \$4,500,000 million Capital Budget Contingency. The City Council has approved the following uses of cash from the Capital Budget Contingency:
 - September 9, 2008: \$236,000 Camelback Park (P0711) – funds required to cover additional project costs.
 - October 7, 2008: \$241,873 Traffic Signal Program – funds required to close-out two projects (Y0723 and Y0823) and to record the related projects in the City's fixed asset records.
 - December 9, 2008: \$1,661,660 Scottsdale Center for the Performing Arts (D0604) – funds required to cover additional project costs.
 - December 9, 2008: \$14,417 Mid-year CIP close-out of projects with nominal negative balances.
 - December 9, 2008: \$185,000 Downtown Restrooms (D0602) – funds required to complete project.
 - December 9, 2008: \$150,300 Stetson Plaza/South Canal Bank Project – needed to create a new CIP project for sales tax rebate (D0903).
 - February 10, 2009: \$150,000 McDonald Drive-Scottsdale Road to 78th Street (F0403) – funds required to complete project.
 - February 24, 2009: \$320,000 Rose Garden Development (D0707) – funds required to complete project.

The total FY 2008/09 total Capital Budget Contingency approved by City Council to date is \$2,959,250, leaving a cash balance of \$1,540,750.

NATIONAL, STATE, AND LOCAL ECONOMIC TRENDS

The following table summarizes some key national and state economic indicators, compares the results to previous actual or forecast, and provides a positive, negative, or neutral trend. Unless otherwise indicated, previous and current values represent a month-to-month comparison in the same year.

Economic Indicators	Month or Quarter	Current Value	Overall Trend***	2010 Estimate
<u>National – Leading Economic Index</u>	March	98.1	Negative	-
Consumer Confidence	March	26.0	Negative	-
Consumer Price Index	March	212.393	Negative	-
Unemployment Rate	March	8.5%	Negative	-
<u>State – Business Leader Confidence Index</u>	Q2 2009	33.0	Negative	-
Retail Sales Growth	Forecast*	-2.5	Negative	3.8
Personal Income Growth	Forecast*	1.3	Negative	2.9
Wage and Salary Employment Growth	Forecast*	-2.1	Negative	1.1
Single Family Housing Permits	Forecast*	-18.7	Negative	22.9
Population Growth	Forecast*	1.5	Negative	1.8
Hotel/Motel Room Rate (Scottsdale)	February**	\$187.78	Negative	-
Hotel/Motel Occupancy Rate (Scottsdale)	February**	66.1%	Negative	-

*Reflects *Arizona Blue Chip Economic Forecast* annual percent change 2009 from 2008 and projected 2010 From 2009, as of April 2009.

**Reflects over-the-year comparison.

***Overall Trend considers performance of indicators over a three-to-six-month period, not necessarily a month-to-month comparison.

NATIONAL:

Economic Growth

- **The Leading Economic Index (LEI) for the U.S. declined again in March.** The index has not risen in the past nine months. Building permits, stock prices, and the index of supplier deliveries made large negative contributions to the index this month. In the six months through March, the index fell 2.5 percent (about a -4.9 percent annual rate), faster than the decrease of 1.4 percent (a -2.7 percent annual rate) for the previous six months.

The LEI for the U.S. remains on a general downtrend that began in July 2007, with widespread weaknesses among its components. However, its rate of decline has moderated somewhat this year. All in all, the behavior of the index suggests that the economic recession that started in December 2007 will continue in the near term, but that the contraction in activity could become less severe in upcoming months.

Employment

- **Nonfarm payroll employment continued to decline sharply in March (-663,000), and the unemployment rate rose from 8.1 to 8.5 percent.** Since the recession began in December 2007, 5.1 million jobs have been lost, with almost two-thirds (3.3 million) of the decrease occurring in the last 5 months. In March, job losses were large and widespread across the major industry sectors.

Consumer Confidence

- **The Consumer Confidence Index, which had declined sharply in February, was flat in March.** The index now stands at 26.0 (1985=100), up from 25.3 in February. Consumer Confidence was relatively unchanged in March, after reaching an all-time low in February (Index began in 1967). Apprehension about the outlook for the economy, the labor market and earnings continues to weigh heavily on consumers' attitudes. Looking ahead, consumers remain extremely pessimistic about the short-term future and do not foresee a turnaround in economic conditions over the coming six months.

Inflation

- **The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in March.** The index has decreased 0.4 percent over the last year, the first 12 month decline since August 1955.

Economic Predictions

- **U.S. Economy Still in Deep Water.** From *The Conference Board*, April 2009: We have arrived at a deep point in the current recession. Real U.S. GDP during the fourth quarter of 2008 is currently estimated to have fallen by 6.2 percent on an annual rate, and it is unlikely that the United States will shrink much less than 6 percent (annualized) in the first quarter. The decline in real consumer spending may level off a little and, in fact, January showed slightly positive numbers. But with housing starts below 500,000, double-digit declines in capitals pending, and a runoff in inventories up to \$90 billion, it's hard to see how the intensity of this downturn could quickly let up.

The big question is: what comes next? If we assume that the decline in consumers' expectations levels off somewhat, the monthly decline in employment drops below 500,000, and the stock markets find a bottom (for more than one day), we might see the economy return to positive territory by the middle of the year. The growth forecast for the third quarter is very low, and even a fourth-quarter recovery will be held back by negative capital spending, continued runoffs in inventories, and a terrible labor market. There are questions about the degree of uncertainty in these estimates.

A more pessimistic growth scenario (i.e., no recovery well into 2010) is possible if financial markets do not manage to provide more liquidity and/or the world economy falls far below our current projection of 1.8 percent global growth.

The "double-dip" scenario, which anticipates a faster pickup in growth later this year or in early 2010 related to pent-up demand and stimulus effects on consumer expenditures, is another possibility. This projection may look encouraging at first, but it could lead to a relapse into recession if improved business conditions (relief in the credit crunch, price/cost relief, and a moderation in job losses) are not realized. Back-to-back recessions also occurred in 1981–1982 when the economy went through a systemic crisis rather than a regular recession.

Monthly Financial Update

- **Forecasters See Economy Turning Positive in Second Half of 2009.** From the April *Blue Chip* report: On Wednesday, April 29, the Bureau of Economic Analysis will release the advance report on Gross Domestic Product (GDP) for the first quarter of 2009. Expectations are that the annualized decrease will be at least 6.0 percent, equaling the dismal fourth quarter performance of 2008. But once the economy gets past the first quarter carnage, the consensus view among economists is that Q2 will bring a more modest decrease of 2 to 3 percent. Moving into the second half of 2009, analysts look for growth as measured by GDP to turn positive. Among the 50 forecasters that contribute to the national consensus reported by Blue Chip Economic Indicators, 92 percent believe that the recession will be over by the end of 2009, followed by growth of GDP in 2010. The Blue Chip forecast is projecting that GDP will decrease by 3.0 percent for all of 2009 and increase by 2.0 percent next year. Also, previous monthly forecasts have anticipated that consumer spending would be negative in the first quarter. But consumer spending was up by 1.0 percent in January over the prior month, and up again (slightly at 0.2 percent) in February.

ARIZONA:

- **Arizona's BLCI Remains Near Record Low.** The Arizona *Business Leaders Confidence Index* (BLCI) increased by nearly a point from the record low set during the first quarter. The BLCI now rests at 33.0. A value below 50 indicates that business conditions are expected to deteriorate. This forward-looking survey, which was conducted in early March, asks panelists what their expectations are for the second quarter of 2009. At a reading of 33.0, panel members expect the recession to continue at least through mid year.

- **Dreary state economic figures from *Arizona Blue Chip*:** Revised employment figures for the state were down 2.1 percent in 2008, the largest yearly decline since 1975.

Virtually all sectors of the economy showed declines from December 2007 to December 2008. For the state as a whole, employment was down 5.6 percent, or more than 152,000 jobs, over that 12 month period. Every major sector with the exception of metal mining (a small sector), health care and social assistance, and local government/education, was down. The only area of manufacturing that grew was aerospace, which showed an increase of 700 jobs over the 12 month period.

The declines continued into 2009. January 2009 versus January 2008 was down 155,000 jobs for the state as a whole. As of January 2009, only health services and government showed any growth.

The depth and length of this employment recession clearly makes this worse than any other in the post-World War II period. This stems from a combination of factors, some national and some local. The recession is likely to last longer because of the housing bubble and its effect on Arizona. In essence, Arizona built 10 years of housing in the first seven years of the decade. Thus, housing that would have been built now already exists.

Historically, Arizona grows at approximately 2.3 to 2.5 times the national average. For the first seven years of this decade, Arizona grew at 4.3 times the national average. Had the excess housing that was built in the first seven years of the decade not been built, Arizona would have grown at a rate closer to the 2.5 times average.

SCOTTSDALE BUSINESS ACTIVITY (PROVIDED BY ECONOMIC VITALITY)

- **LAI International Inc.**, headquartered in Scottsdale, will continue its work for a gas turbine manufacturer to the tune of \$10 million per year. The contract with the company will allow LAI to continue its long-term work developing turbine parts for electric power generation.
- **U.S. News & World Report's** annual "America's Best Hospitals" listings include **Scottsdale Healthcare Shea Medical Center** as an outstanding community hospital. The magazine noted Scottsdale Healthcare Shea's expertise in urology and gastrointestinal disorders.
- MedTrust Online announced a strategic partnership with **Scottsdale Clinical Research Institute at Scottsdale Healthcare** to provide Arizona oncologists with cutting edge knowledge discovery and collaboration tools at www.oncocentric.com. The collaboration will enable more access to the latest therapies to treat cancer by providing an interactive environment for physicians to find and communicate with each other about difficult cases.

April 2009 (March 2009 Activity)

Monthly Financial Update

- **Scottsdale Quarter**, Scottsdale's newest shopping destination, had its first two store openings with Williams-Sonoma Home and its sister store, West Elm. These are the first merchants at the Quarter.
-