

MONTHLY FINANCIAL UPDATE

MAY 2009 (APRIL 2009 ACTIVITY)

REPORT HIGHLIGHTS

- **As the largest revenue source for the General Fund**, fiscal year-to-date Sales Tax revenues are down \$0.7 M., or 1%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$15.8 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 State Shared Sales Tax revenues** are down \$0.4 M., or 3%, compared to FY08/09 forecast; fiscal year-to-date revenues are down \$0.2 M., or 1%, compared to prior fiscal year. Forecast adjustments to state shared revenues reflect estimates provided by the Arizona Department of Revenue.
- **Development Permits and Fees** fiscal year-to-date revenues are down \$0.2 M., or 4%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$5.2 M., or 49%, compared to prior year. Our current annualized forecast predicts a \$7.9 M. decrease in building permits this fiscal 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
<i>Actual</i> 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
<i>Estimated</i> 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)
<i>Estimated</i> 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 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	FY08/09 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)

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- (1) *Privilege & Use Tax and Transient Occupancy Tax collections lag by one month (March activity reported in April 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 \$0.7 M., or 1%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$15.8 M., or 16%, compared to prior fiscal year. Low consumer confidence and spending, depressed 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 \$0.3 M., or 20%, 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

Fiscal year-to-date State Shared Sales Tax revenues are down \$0.4 M., or 3%, compared to FY08/09 forecast; fiscal year-to-date revenues are down \$0.2 M., or 1%, compared to prior fiscal year. Forecast adjustments to state shared revenues reflect estimates provided by the Arizona Department of Revenue.

Development Permits and Fees

Fiscal year-to-date revenues are down \$0.2 M., or 4%, compared to FY08/09 forecast. Fiscal year-to-date revenues are down \$5.2 M., or 49%, 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 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 April 2009. (YTD expenditures through May will be reported in June's Monthly Financial Update.)

FY 2008/09 General Fund (In Millions)	FY08/09 Approved Budget ⁽¹⁾	Fiscal YTD Forecast ⁽²⁾	Fiscal YTD Expenses	Fiscal YTD Variance
Mayor and Council	\$ 1.7	\$ 1.2	\$ 1.2	\$ -
City Clerk	1.2	1.0	0.9	0.1
City Attorney	7.0	5.4	5.0	0.4
City Auditor	1.0	0.8	0.8	-
City Court	5.8	4.7	4.5	0.2
City Manager	0.8	0.7	0.7	-
CAPA	1.7	1.1	1.1	-
Police Department	90.3	74.1	70.6	3.5
Financial Services	10.0	8.0	7.8	0.2
Transportation	0.2	0.1	0.1	-
Community Services	58.8	47.0	45.7	1.3
Information Services	10.6	7.8	7.8	-
The Downtown Group	4.6	4.3	4.2	0.1
Fire Department	33.2	26.1	25.0	1.1
Municipal Services	1.7	1.2	1.5	(0.3)
Citizen & Neighborhood Res	3.8	2.8	2.7	0.1
Human Resources	4.3	2.9	2.9	-
Economic Vitality	1.5	1.1	1.1	-
Planning & Development	17.1	13.2	12.6	0.6
WestWorld	3.8	3.1	3.0	0.1
Retirement Incentive	2.8	-	-	-
Total	\$ 261.9	\$ 206.6	\$ 199.2	\$ 7.4

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

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	\$ 151.7	\$ 149.6	\$ 2.1
Contractual Services	58.7	46.5	42.7	3.8
Commodities	10.5	8.0	6.6	1.4
Capital Outlay	0.6	0.4	0.3	0.1
Retirement Incentive	2.8			
Total	\$ 261.9	\$ 206.6	\$ 199.2	\$ 7.4

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 and retirement accounts. Savings related to Police overtime reduction strategies and Fire overtime savings initiative for Special Events. Also, Personal Services variance caused by 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 First Budget Hearing and Tentative Budget Adoption occurred on May 19. Final Budget Adoption and Truth in Taxation Hearing will take place on June 2.

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</u> – Leading Economic Index	April	99.0	Negative	-
Consumer Confidence	April	39.2	Negative	-
Consumer Price Index	April	213.240	Negative	-
Unemployment Rate	April	8.9%	Negative	-
<u>State</u> – Business Leader Confidence Index	Q2 2009	33.0	Negative	-
Retail Sales Growth	Forecast*	-3.8	Negative	3.7
Personal Income Growth	Forecast*	0.9	Negative	2.6
Wage and Salary Employment Growth	Forecast*	-2.8	Negative	0.8
Single Family Housing Permits	Forecast*	-26.2	Negative	16.9
Population Growth	Forecast*	1.4	Negative	1.7
Hotel/Motel Room Rate (Scottsdale)	March**	\$178.73	Negative	-
Hotel/Motel Occupancy Rate (Scottsdale)	March**	74.3%	Negative	-

*Reflects Arizona Blue Chip Economic Forecast annual percent change 2009 from 2008 and projected 2010 From 2009, as of May 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 Indicator for the U.S. rose sharply in April, the first increase in seven months, and the strengths among its components exceeded the weaknesses for the first time in one and a half years. The six-month change in the index has risen to -0.6 percent (a -1.2 percent annual rate) in the period through April 2009, up from -2.4 percent (a -4.8 percent annual rate) from April to October 2008. The LEI has been generally falling since the middle of 2007, but the pace of its decline has slowed substantially in recent months. With this month's sharp and widespread increase, the six-month decline in the index is at its slowest since the fourth quarter of 2007. Overall, the behavior of the index suggests that the contraction in economic activity will continue in the near term, but will likely become less severe in upcoming months.

Employment

- **Nonfarm payroll employment continued to decline in April (-539,000), and the unemployment rate rose from 8.5 to 8.9 percent.** Since the recession began in December 2007, 5.7 million jobs have been lost. In April, job losses were large and widespread across nearly all major private-sector industries. Overall, private-sector employment fell by 611,000.

Consumer Confidence

- **Consumer Confidence Index Increases in April.** The Consumer Confidence Index, which had posted a slight increase in March, improved considerably in April. The Index now stands at 39.2 (1985=100), up from 26.9 in March. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "Consumer Confidence rose in April to its highest reading in 2009, driven primarily by a significant improvement in the short-term outlook. The sharp increase in the Expectations Index suggests that consumers believe the economy is nearing a bottom, however, this index still remains well below levels associated with strong economic growth."

Inflation

- **The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in April before seasonal adjustment.** The index has fallen 0.7 percent over the last 12 months, due primarily to a 25.2 percent drop in energy prices.

Economic Predictions

- **The End (of Recession) Is Near, But It Won't Be Pretty.** That was the consensus unveiled by top economic experts from the W. P. Carey School of Business and the Arizona governor's office at the annual Economic Outlook Luncheon on May 20. The national and Arizona economies are expected to begin feeling the effects of a recovery during the last quarter of 2009. But over the next year the recovery will be slow, with unemployment continuing to rise and economic growth anemic at best. Meanwhile, the state's expenditures are rising, even as revenue continues to fall, setting the stage for future budget cuts and an expected tax increase.

ARIZONA:

- **Arizona Had Weakest Labor Market Performance of All States in March.** Arizona's over-the-year job losses were the worst of all states, with employment decreasing by 6.9 percent from a year ago. Nationally, the economy lost 4.8 million jobs over-the-year in March, and payroll employment fell by 3.6 percent. Since March of 2008, the Grand Canyon State has seen payrolls fall by 183,100 workers.

SCOTTSDALE BUSINESS ACTIVITY (PROVIDED BY ECONOMIC VITALITY)

- **General Dynamics C4 Systems**, headquartered in Scottsdale, has won an \$11.8 million contract from the U.S. Army to provide prototype technology for new radio and other communications systems to be outfitted on U.S. soldiers. The Pentagon said General Dynamics beat out seven other bids for the contract.
 - Arizona State University and **Advent Solar** announced a development partnership to further the advancement of solar photovoltaic (PV) technology. Advent Solar will place engineering talent at **SkySong, ASU's Center for Innovation in Scottsdale**. Their presence reinforces the research capabilities that ASU offers and validates Arizona's future role in the global solar industry.
 - **Scottsdale Healthcare Osborn Medical Center** has opened a new state-of-the-art Telemetry Stroke Unit to provide comprehensive and more convenient care to patients. The new unit complements the hospital's designation as a Primary Stroke Center. Scottsdale Healthcare Osborn Medical Center was the first hospital in the East Valley to receive the designation, which signifies a recommended center for the community to receive stroke care services.
 - **China Mist Tea Co.**, headquartered in Scottsdale, is expanding to the Middle East. The wholesaler of flavored teas has launched a distributorship in Dubai, United Arab Emirates, that will market its teas to hotels, restaurants and grocery stores in the thriving commerce center.
 - **Stirling Energy Systems (SES)**, the manufacturer and supplier of the SunCatcher™ solar power generating equipment, has chosen Scottsdale as the home of its newly expanded Global Corporate Headquarters. Tessera Solar, the project development affiliate responsible for deploying SES utility scale power in projects globally, joins SES at its global headquarters. The new 35,000 square-foot office opened with 90 employees between the two companies. It is expected that the company will grow to 140 employees by the end of 2009.
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