



# Financial Update

City Council Presentation

September 29, 2009

Prepared by: Financial Management Division



# Purpose of Presentation

1. Economic Overview
2. FY 08/09 Operating Results
3. FY 09/10 YTD Operating Update
4. Identify Emerging Issues



# 1. Economic Overview



# Economic Overview

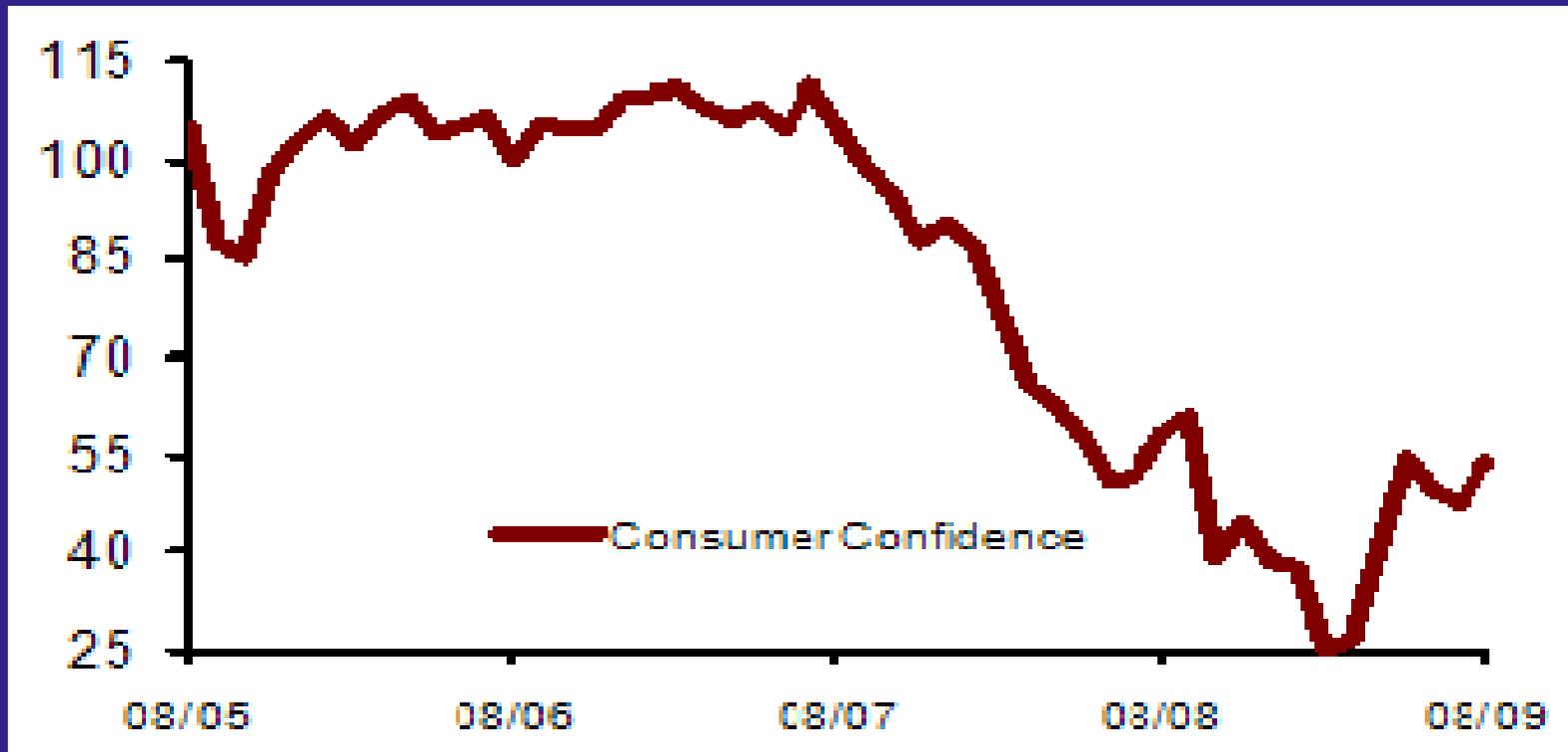
- Latest data suggests environment is “less negative”
  - Shifted from depression-like scenarios to a period of slow growth
  - Bottomed out in Summer 2009 ? Stabilization is next
- AZ will lag in recovery by 6 months
  - Real estate market and public sector layoffs
- Key Indicators
  1. Consumer Confidence/Spending
  2. Real Estate
  3. Employment/Unemployment



# Economy Overview (CONTINUED)

## 1. Consumer Confidence/Spending

### CONSUMER CONFIDENCE INDEX



Source: Piper Jaffray & Co., Bloomberg



# Economy Overview (CONTINUED)

## 1. Consumer Confidence/Spending

- Makes up 70% of the economy
  - Critical to recovery
- It's improving
  - Tired of hunkering down and starting to re-engage
- Impacted by Stock Market
  - Leading Indicator
  - Major indexes have gained 30% since March



# Economic Overview (CONTINUED)

## 2. Real Estate

- Residential
  - Showing preliminary signs of bottoming out
  - Housing Affordability is at a record high
  - Vacant home absorption continues
- Commercial
  - High vacancies, lower rates
  - Overbuilt
  - Yet to hit bottom ?



# Economic Overview (CONTINUED)

## 3. Employment / Unemployment

- AZ 9.2% Unemployment and rising
  - Could go as high as 11% ?
  - Scottsdale typically 1% lower than AZ amount
  - Lagging Indicator
- Jobless claims a near-real time indicator of economy
  - Preliminary signs of improvement-Rate of loss slowing
- 14%-16% “Underemployment”



## 2. FY 08/09 General Fund Results

### Executive Summary

1. Revenues were \$2.0 M. less than projected
2. Expenses were \$8.9 M. less than projected



# FY 08/09 General Fund Results

*Unaudited*  
(in millions)

	Projected	Actual	\$ Variance	% Variance
Sources	\$273.2	\$271.2	<\$2.0>	-<1%
Uses	\$283.3	\$274.4	\$8.9	3%
Other	\$0.5	\$0.2	<\$0.3>	
Use of Fund Balance	<\$9.6>	<\$3.0>	\$6.6	
Fund Balance:				
1. Reserve	\$25.9	\$25.9	\$0	
2. Contingency	\$5.0	\$5.0	\$0	
3. Unreserved	\$3.8	\$10.4	\$6.6	
<b>Total Fund Balance</b>	<b>\$34.7</b>	<b>\$41.3</b>	<b>\$6.6</b>	

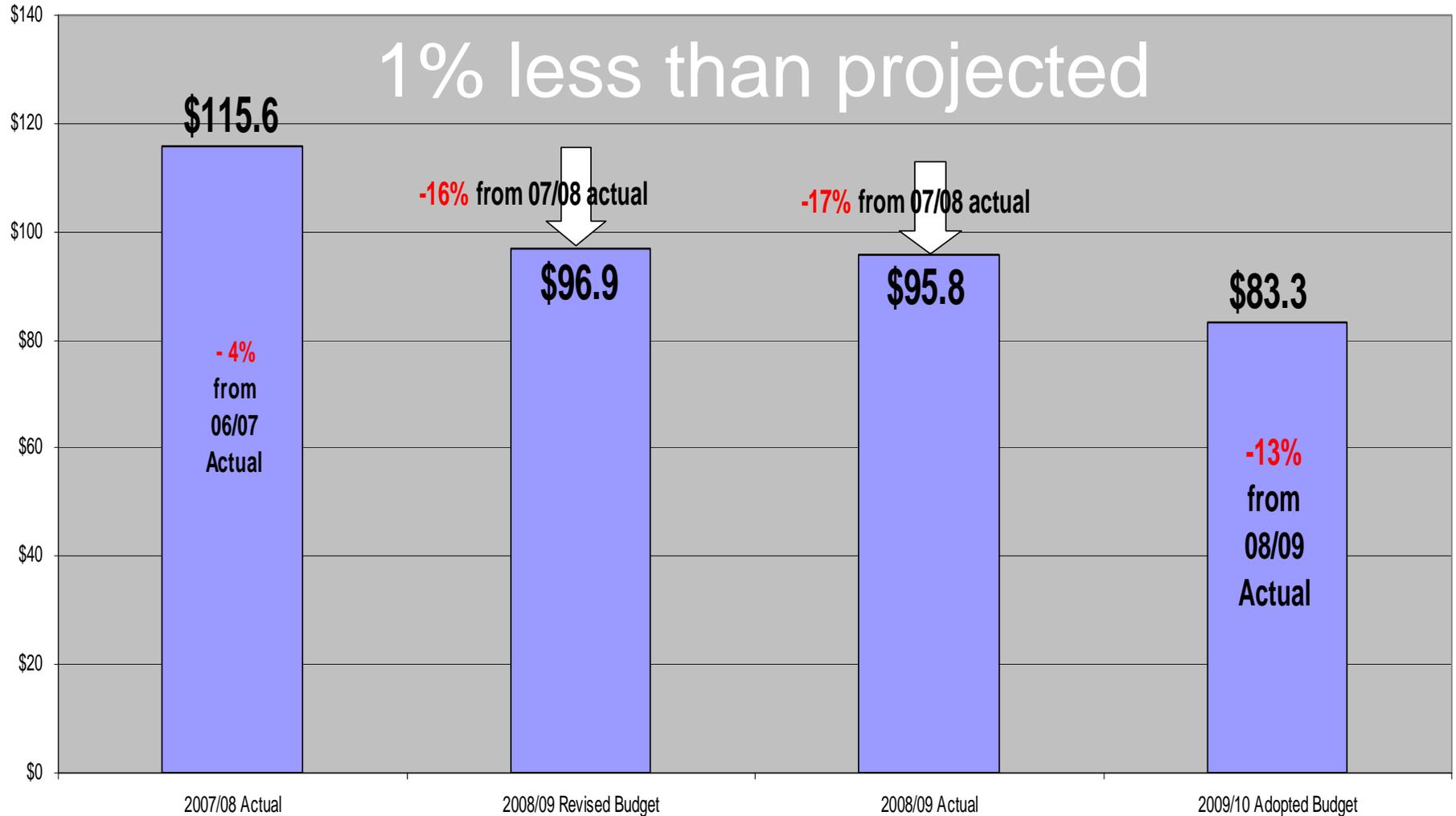


## FY 08/09 General Fund Sources – Noteworthy Variances

	Projected	Actual	\$ Variance	% Variance
City Sales Tax	\$96.9	\$95.8	<\$1.1>	-1%
State Shared Sales Tax	\$19.9	\$18.9	<\$1.0>	-5%
Electric Franchise Fee	\$8.2	\$7.8	<\$0.4>	-5%
Miscellaneous	\$1.0	\$0.6	<\$0.4>	-36%

# General Fund Sales Tax

(in millions)





# FY 08/09 Sales Tax Summary

## “Better Than Projected”

- Construction, Automotive and Dining/Entertainment

## “Worse Than Projected”

- Rental Activity
  - Commercial Properties
- Hotel /Motel Activity
  - Tourism Industry severely impacted by recession



# FY 08/09 General Fund Uses – By Category (in millions)

	Revised Projection	Actual	\$ Variance	% Variance
Personnel Savings	\$194.0	\$192.1	\$1.9	1%
Contractual	\$55.8	\$51.4	\$4.4	8%
Commodities	\$9.5	\$8.5	\$1.0	10%
Capital	\$0.4	\$0.4	\$0.0	0%
Debt Service	\$3.9	\$3.6	\$0.3	0%
Transfers Out	\$19.7	\$18.4	\$1.3	7%
Total	\$283.3	\$274.4	\$8.9	3%



# Uses-Noteworthy Variances

- Public Safety OT
- Over Budgeted for:
  - PD DROP retirement program
  - FICA
- Savings in addition to Budget Reductions
  - “Stopped Spending Across the Board”
  - Consultants, software, printing, communications, supplies, travel and training, custodial, banking, etc.



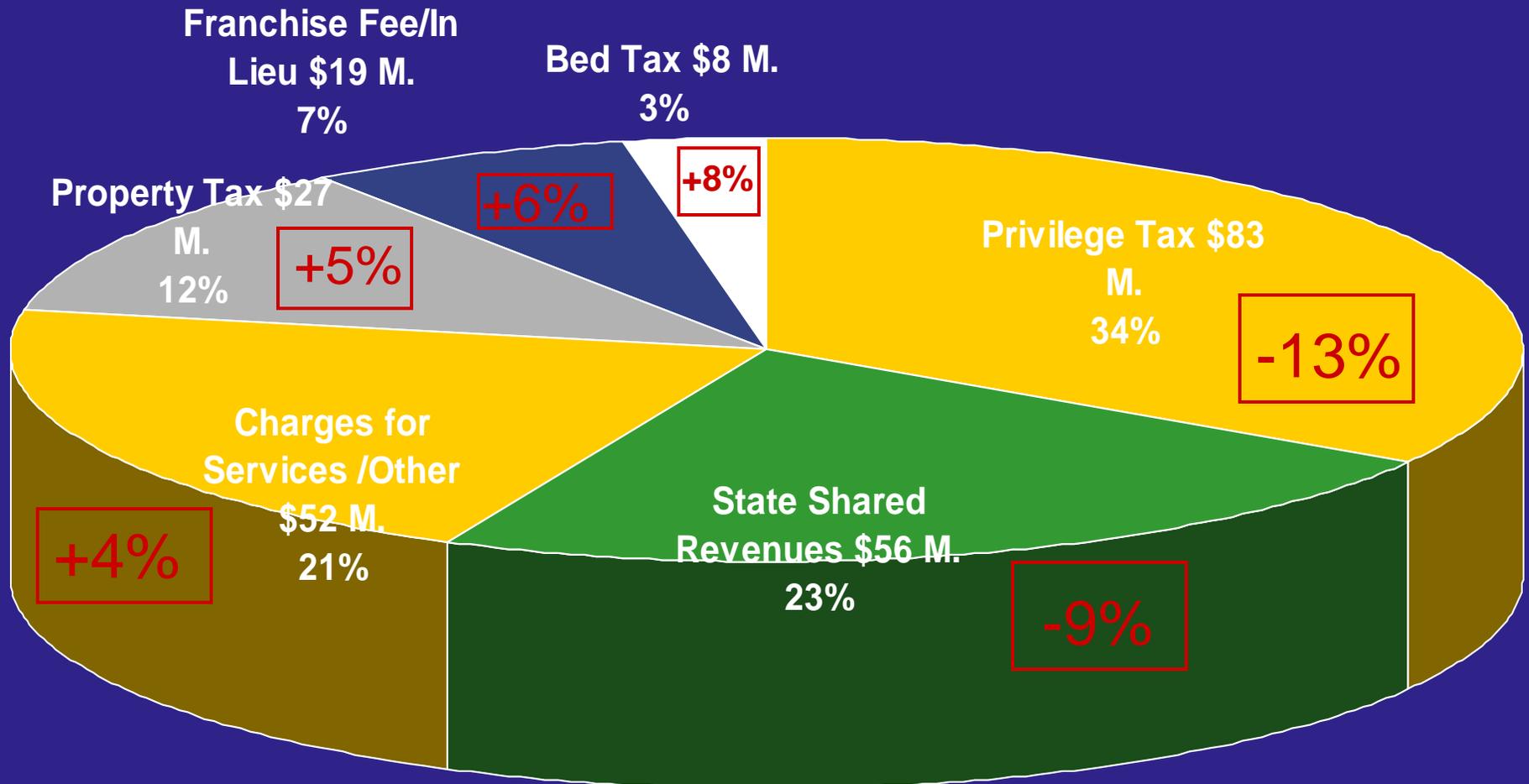
### 3. FY 09/10 YTD Operating Results (as of 8/31/09)



# FY 09/10 Budget Outcomes and Goals

- Balanced Budget #1
- Maintains core, quality services
- Prevents significant Service Level reductions
- Public impacted last and least
- Reduced staffing levels by 280 FTEs, 10%
- Does not use 10% General Fund Reserve
- Maintain AAA bond rating
- Create a more sustainable organization through restructuring
- “Recover with the recovery”

# \$245 M. 09/10 General Fund Revenue



-3% Total Reduction from FY 08/09 Actual



## Key Strategies Used in FY 09/10

1. Does not use \$26 M. General Fund 10% Reserve
  - Best protects City's AAA bond rating
2. \$22 M. in Staffing Reductions (all funds)
  - \$9 M. Retirement Incentive Program: 99+ FTEs
  - \$8 M. Vacant Positions: 115+ FTEs
  - \$5 M. Occupied Positions: 63+ FTEs
3. \$11 M. in Compensation Reductions (all funds)
  - Did not enact planned 1/1/09 2% COLA: \$4 M.
  - 7/1/09 2% across the board pay reduction: \$4 M.
  - Suspended Merit Pay Program: \$3 M.



# Key Strategies Used in FY 09/10

(continued)

## 4. Service / Program Reductions

- Major reductions include:
  - Transit services
  - Building leases
  - Extended life of technology and fleet
  - Utilities via energy efficient strategies
  - Public safety overtime through schedule modifications
  - All line items such as contractual services, supplies, travel/training, maintenance, etc.



# Key Strategies Used in FY 09/10

(continued)

## 5. \$8 M. Use of One-Time Funds

- \$5 M. Federal stimulus funding for street overlay program
- \$3 M. Use of Unreserved Fund Balance

## 6. \$3 M. Staffing Costs Charged to CIP / Dedicated funding sources

## 7. Modified Retiree Healthcare Eligibility

- Current Retirees – No change and remain eligible to age 65
- Current Employees – Not eligible for retiree coverage after July 1, 2012
- New Employees – Ineligible for coverage as retiree if hired after 7/1/09



# Key Strategies Used in FY 09/10

(continued)

8. Reasonable Increases to Rates / Fees
  - Permits, recreation programs, etc.
9. Healthcare Costs Unchanged
  - Self-Insured Program



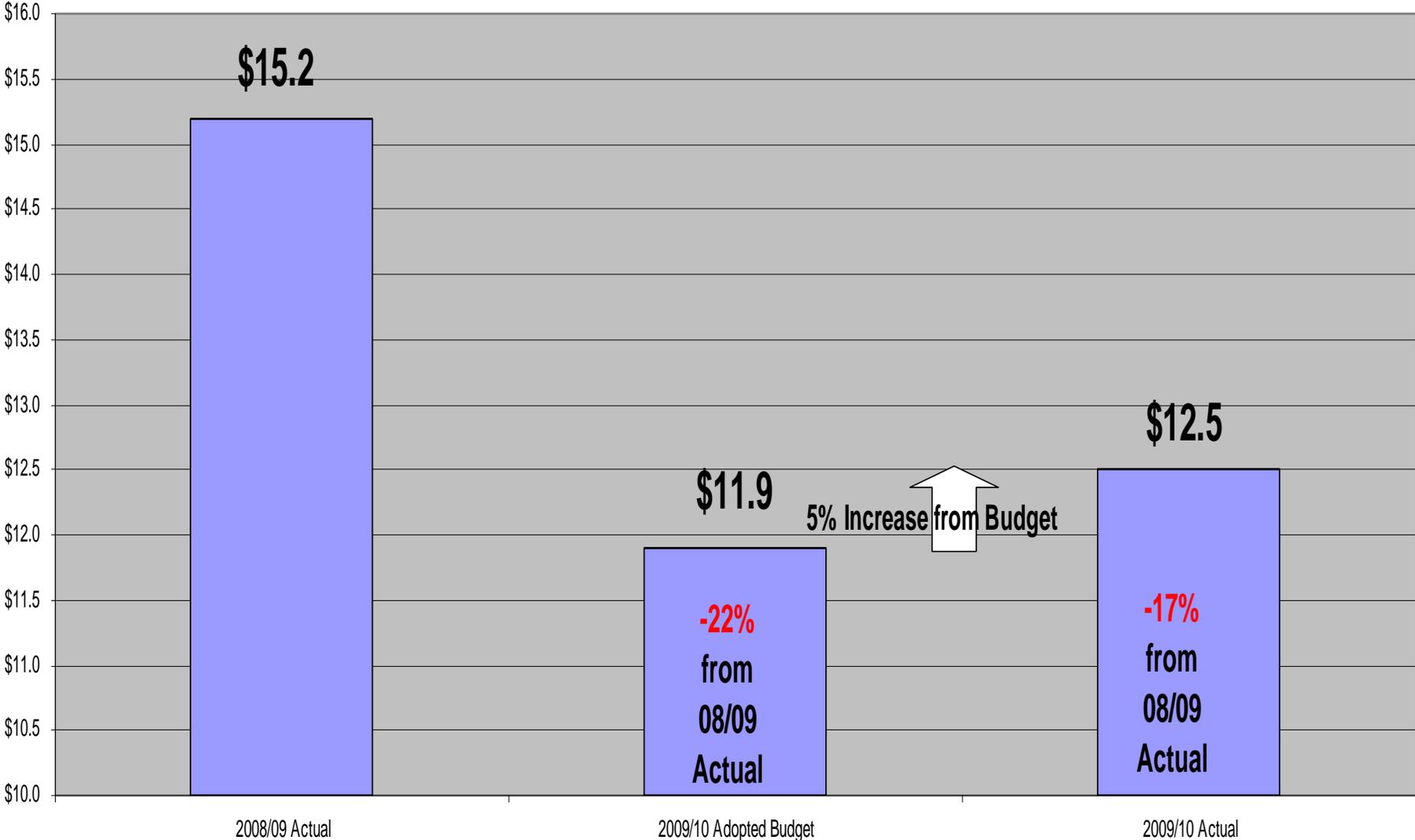
# FY 09/10 YTD Operating Results as of 8/31/09

(in millions)

	Projected	Actual	\$ Variance	% Variance
Sources	\$50.5	\$51.1	\$0.6	1%
Uses	\$40.6	\$38.5	\$2.1	5%
Change in Fund Balance	\$9.9	\$12.6	\$2.7	

# General Fund Sales Tax as of 8/31/09

(in millions)





# FY 09/10 Sales Tax Summary

## “Better Than Projected”

- Construction and Utilities

## “Worse Than Projected”

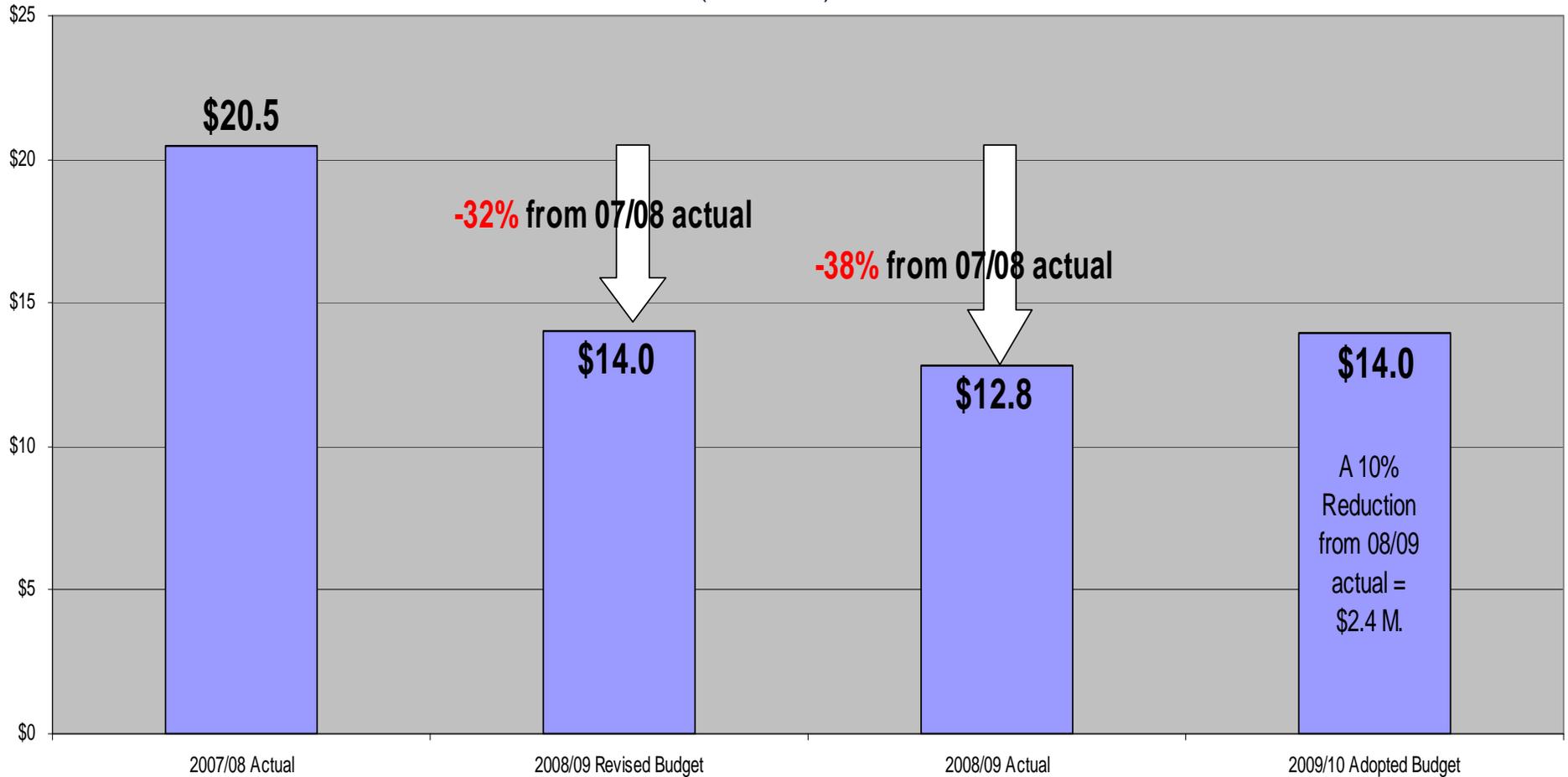
- Food Stores
- Rental Activity
- Hotel /Motel Activity



## 4. Identify Emerging Issues

# Issue #1. Direct Impact of Tourism on General Fund (sales tax + bed tax)

(in millions)





# Identify Emerging Issues

## 1. Tourism

- Yet to hit bottom?
- Occupancy and Room Rates down significantly
- Scottsdale's Market Share is declining
  - Luxury Resorts "AIG effect"
  - Lost International travelers
  - Ratings decreasing from "excellent" to "good"
- -10% Reduction from 08/09: -\$2.4 M.



## Identify Emerging Issues (CONTINUED)

### 2. Vacancy Savings Estimate

- 30% less than budgeted: -\$1.5 M.

### 3. State Shared Revenues

- State still does not have an adopted budget
- State Sales Tax: -5% from budget: -\$1 M.
- State Income Tax: -\$6 M. from FY 10/11 estimate



## Identify Emerging Issues (CONTINUED)

### 4. City Sales Tax

- Reductions in:
  - Hotel / Motel Activity
  - Rental Activity
- Potential increases in other categories
  - Construction
  - Utilities



## Identify Emerging Issues (CONTINUED)

### 5. Property Taxes

- Current fiscal year collections as budgeted
- FY 10/11 assessed value change unknown

### 6. Adjustments Based on FY 08/09 Results

- Revenues: -\$0.8 M.
- Expenses: -\$0.7 M.



## Identify Emerging Issues (CONTINUED)

### 7. Achievability / Sustainability of Expense Reductions

- Fleet, Fuel, Utilities, OT, Leases
- \$1.5 M. reductions pending

### 8. Efficiencies / Savings

- Police Records Unit to process Fire reports as well
- 7,400 staff hour reduction in Aquatics program
- Federal Trans. Project management certification
  - Reduce design/review costs and up to 20% of project



## Identify Emerging Issues (CONTINUED)

### 9. Expense Reductions

- Evaluating Electronic Monitoring in lieu of jail terms
- Public Safety Radio System
  - \$25 M. “pay as you go” from CIP vs.
  - Debt Finance: \$2 M. annually in General Fund



## Identify Emerging Issues (CONTINUED)

### 10. Revenue Opportunities

- City Council guidance on:
  - New voter approved bond authorization to finance major capital infrastructure such as fire stations, streets, and stormwater improvements
  - New revenue opportunities and revised rate and fee structures
    - Bed Tax Increase