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

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**Consumer Confidence Index**

Source: Piper Jaffray & Co., Bloomberg
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
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)*

<table>
<thead>
<tr>
<th>Source/Use of Fund Balance</th>
<th>Projected</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources</td>
<td>$273.2</td>
<td>$271.2</td>
<td>&lt;$2.0&gt;</td>
<td>-&lt;1%</td>
</tr>
<tr>
<td>Uses</td>
<td>$283.3</td>
<td>$274.4</td>
<td>$8.9</td>
<td>3%</td>
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<tr>
<td>Other</td>
<td>$0.5</td>
<td>$0.2</td>
<td>&lt;$0.3&gt;</td>
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<tr>
<td>Use of Fund Balance</td>
<td>&lt;$9.6&gt;</td>
<td>&lt;$3.0&gt;</td>
<td>$6.6</td>
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<tr>
<td>Fund Balance:</td>
<td></td>
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<td></td>
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<tr>
<td>1. Reserve</td>
<td>$25.9</td>
<td>$25.9</td>
<td>$0</td>
<td></td>
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<tr>
<td>2. Contingency</td>
<td>$5.0</td>
<td>$5.0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>3. Unreserved</td>
<td>$3.8</td>
<td>$10.4</td>
<td>$6.6</td>
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<tr>
<td>Total Fund Balance</td>
<td>$34.7</td>
<td>$41.3</td>
<td>$6.6</td>
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## FY 08/09 General Fund Sources – Noteworthy Variances

<table>
<thead>
<tr>
<th></th>
<th>Projected</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Sales Tax</td>
<td>$96.9</td>
<td>$95.8</td>
<td>&lt;$1.1&gt;</td>
<td>-1%</td>
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<tr>
<td>State Shared Sales Tax</td>
<td>$19.9</td>
<td>$18.9</td>
<td>&lt;$1.0&gt;</td>
<td>-5%</td>
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<tr>
<td>Electric Franchise Fee</td>
<td>$8.2</td>
<td>$7.8</td>
<td>&lt;$0.4&gt;</td>
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<tr>
<td>Miscellaneous</td>
<td>$1.0</td>
<td>$0.6</td>
<td>&lt;$0.4&gt;</td>
<td>-36%</td>
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</table>
General Fund Sales Tax

(in millions)

2007/08 Actual: $115.6
-16% from 07/08 actual

2008/09 Revised Budget: $96.9

2008/09 Actual: $95.8
-17% from 07/08 actual

2009/10 Adopted Budget: $83.3
-13% from 08/09 Actual

1% less than projected
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)

<table>
<thead>
<tr>
<th>Category</th>
<th>Revised Projection</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
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</thead>
<tbody>
<tr>
<td>Personnel Savings</td>
<td>$194.0</td>
<td>$192.1</td>
<td>$1.9</td>
<td>1%</td>
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<tr>
<td>Contractual</td>
<td>$55.8</td>
<td>$51.4</td>
<td>$4.4</td>
<td>8%</td>
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<tr>
<td>Commodities</td>
<td>$9.5</td>
<td>$8.5</td>
<td>$1.0</td>
<td>10%</td>
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<tr>
<td>Capital</td>
<td>$0.4</td>
<td>$0.4</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$3.9</td>
<td>$3.6</td>
<td>$0.3</td>
<td>0%</td>
</tr>
<tr>
<td>Transfers Out</td>
<td>$19.7</td>
<td>$18.4</td>
<td>$1.3</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>$283.3</td>
<td>$274.4</td>
<td>$8.9</td>
<td>3%</td>
</tr>
</tbody>
</table>
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

- Franchise Fee/In Lieu $19 M. 7%
- Bed Tax $8 M. 3%
- Property Tax $27 M. 12%
- Charges for Services /Other $52 M. 21%
- State Shared Revenues $56 M. 23%
- Privilege Tax $83 M. 34%

-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.
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)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Projected</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$50.5</td>
<td>$51.1</td>
<td>$0.6</td>
<td>1%</td>
</tr>
<tr>
<td>Uses</td>
<td>$40.6</td>
<td>$38.5</td>
<td>$2.1</td>
<td>5%</td>
</tr>
<tr>
<td>Change in Fund Balance</td>
<td>$9.9</td>
<td>$12.6</td>
<td>$2.7</td>
<td></td>
</tr>
</tbody>
</table>
General Fund Sales Tax as of 8/31/09

(in millions)

2008/09 Actual: $15.2
2009/10 Adopted Budget: $11.9 (5% Increase from Budget)
2009/10 Actual: $12.5

-22% from 08/09 Actual
-17% from 08/09 Actual
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)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in millions)</td>
<td>20.5</td>
<td>14.0</td>
<td>12.8</td>
<td>14.0</td>
</tr>
</tbody>
</table>

-32% from 07/08 actual

-38% from 07/08 actual

A 10% Reduction from 08/09 actual = $2.4 M.
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
4. City Sales Tax

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