Monthly Financial Update
As of October 31, 2009

City Council
December 8, 2009
Prepared by: Financial Management Division
Purpose of Presentation

1. Economic Update
2. State of Arizona Update
4. Discuss Outstanding Issues
5. Adopt Resolution 8145 accepting the Operating Report as of 10/31/09
Economic Update: 1. Consumer Confidence/Spending*

Index

November: 49.5
October: 48.7

REASONS:
- Very pessimistic re. future earnings
- Jobs remain “hard to get”
- Tempered Retail Spending

* Consumer Spending represents 70% of the economy.
Economic Update: 2. Real Estate

• Residential
  • Extended buyers tax credit until April 2010
  • Decreased Mortgage Rates

• Commercial
  • Impact of loan defaults in 2010?
Economic Update: 3. Employment/Unemployment

- October Unemployment
  - US 10.2%, AZ 9.3%, Metro Phoenix 8.7%
    - US +0.4%
      - Hit “double digits” for first time since April 1983
      - +8.2 M., +5.3% since December 2007
    - AZ +0.2%, Metro Phoenix +0.2% from last month
- AZ areas Hardest Hit Sectors
  - Construction, manufacturing, retail, and tourism
- Fueling speculation re. strength of recovery
Forecast Methodology

- Based on “Consensus Forecast” with 4 equal components
  - Joint Legislative Budget Committee (JLBC)
  - Finance Advisory Committee (FAC)
  - U of A Model – Base
  - U of A Model - Low
State of Arizona Update

Source: Joint Legislative Budget Committee

Major Revenues

1. Sales Tax
2. Individual Income Tax
3. Corporate Income Tax
Conclusions

- FY 09/10: 7.2% Decline
- FY 10/11: 7.8% Growth
  - National economic recovery is expected to pull Arizona’s economy along
  - Retail sales will increase as a result of some pent-up demand built up during the downturn
  - Starting point of the recovery is so low in dollar terms that it may be relatively easy to generate positive growth
- FY 05/06 Levels Reached Again in FY 12/13
’09 General Fund Base Revenue Decline of (18.2)% Was Greater Than Budgeted
- Represents Worst Two Year Loss in Modern Era
Consensus Forecasts 7% Growth Through FY ‘13

Fiscal Year

- Actual
- Forecast *
Sales Tax
- The Consensus Forecasts Decline of (7.7)% in FY ’10, with Positive Growth Rates Beginning in FY ‘11
Sales Tax
- Despite 6% - 7% Growth, Collections Would Not Reach FY '06 Level Until FY '13

![Bar chart showing sales tax collections from '06 to '13](chart.png)
Individual Income Tax
- The Consensus Forecasts Decline of (4.5)% in FY '10, with Positive Growth Rates Beginning in FY ‘11

FY 2009 Actual = $2.57 Billion
Individual Income Tax
- Collections Reach FY ’05 Level in FY ’13

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>2.97</td>
</tr>
<tr>
<td>'06</td>
<td>3.69</td>
</tr>
<tr>
<td>'07</td>
<td>3.75</td>
</tr>
<tr>
<td>'08</td>
<td>3.41</td>
</tr>
<tr>
<td>'09</td>
<td>2.57</td>
</tr>
<tr>
<td>'10</td>
<td>2.45</td>
</tr>
<tr>
<td>'11</td>
<td>2.71</td>
</tr>
<tr>
<td>'12</td>
<td>2.84</td>
</tr>
<tr>
<td>'13</td>
<td>3.05</td>
</tr>
</tbody>
</table>

4-Sector Forecast
Corporate Income Tax

- The Consensus Forecasts Decline of (15.5)% in FY ’10, with Positive Growth Rates Beginning in FY ‘11

FY 2009 Actual = $592 Million

Fiscal Year

- '02
- '03
- '04
- '05
- '06
- '07
- '08
- '09
- '10
- '11
- '12
- '13

Year Over Year % Change

Actual
Four-Sector Consensus
Corporate Income Tax
- FY '13 Collections Below FY '05 Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Collections (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>702</td>
</tr>
<tr>
<td>'06</td>
<td>874</td>
</tr>
<tr>
<td>'07</td>
<td>986</td>
</tr>
<tr>
<td>'08</td>
<td>785</td>
</tr>
<tr>
<td>'09</td>
<td>592</td>
</tr>
<tr>
<td>'10</td>
<td>500</td>
</tr>
<tr>
<td>'11</td>
<td>543</td>
</tr>
<tr>
<td>'12</td>
<td>624</td>
</tr>
<tr>
<td>'13</td>
<td>682</td>
</tr>
</tbody>
</table>

4-Sector Forecast
## October 2009 Operating* Results

(in millions)

<table>
<thead>
<tr>
<th></th>
<th>Revised Budget</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources</td>
<td>$23.6</td>
<td>$23.7</td>
<td>$0.1</td>
<td>0%</td>
</tr>
<tr>
<td>Uses</td>
<td>$25.6</td>
<td>$24.8</td>
<td>$0.8</td>
<td>3%</td>
</tr>
<tr>
<td>Change in Fund Balance</td>
<td>($2.0)</td>
<td>($1.1)</td>
<td>$0.9</td>
<td></td>
</tr>
</tbody>
</table>

* General Fund and Transportation Fund Combined
## FYTD Operating* Results as of 10/31/09 (in millions)

<table>
<thead>
<tr>
<th></th>
<th>Revised Budget</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
<th>% Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources</strong></td>
<td>$93.1</td>
<td>$93.6</td>
<td>$0.5</td>
<td>1%</td>
<td>&gt; 0%</td>
</tr>
<tr>
<td><strong>Uses</strong></td>
<td>$86.8</td>
<td>$84.5</td>
<td>$2.3</td>
<td>3%</td>
<td>2%-4%</td>
</tr>
<tr>
<td>Change in Fund Balance</td>
<td>$6.3</td>
<td>$9.1</td>
<td>$2.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* General Fund and Transportation Fund Combined
Sources – FY 09/10 YTD
(in millions)

Summary
• On Budget
• Local Sales Tax Up
• Interest Spread
• State Shared Revenues Down
Sales Taxes as of 10/31/09
(in millions)

4% More Than Projected

- Construction and Utilities

"Worse than Projected"
- Food Stores
- Rental Activity
- Hotel/Motel Activity

-21% from 08/09 Forecast

-17% from 08/09 Actual

2008/09 Actual: $29.6
2009/10 Adopted Budget: $23.7
2009/10 Actual: $24.6
### FYTD Operating* Uses as of 10/31/09 (in millions)

<table>
<thead>
<tr>
<th></th>
<th>Revised Budget</th>
<th>Actual</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>$61.7</td>
<td>$60.6</td>
<td>$1.0</td>
<td>2%</td>
</tr>
<tr>
<td>Contractual</td>
<td>$20.3</td>
<td>$19.9</td>
<td>$0.5</td>
<td>2%</td>
</tr>
<tr>
<td>Commodities</td>
<td>$2.6</td>
<td>$2.1</td>
<td>$0.5</td>
<td>19%</td>
</tr>
<tr>
<td>Capital</td>
<td>$0.2</td>
<td>$0.1</td>
<td>$0.1</td>
<td>11%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$0.8</td>
<td>$0.7</td>
<td>$0.1</td>
<td>11%</td>
</tr>
<tr>
<td>Transfers Out</td>
<td>$1.2</td>
<td>$1.1</td>
<td>$0.1</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$86.8</strong></td>
<td><strong>$84.5</strong></td>
<td><strong>$2.3</strong></td>
<td><strong>3%</strong></td>
</tr>
</tbody>
</table>

* General Fund and Transportation Fund Combined
Uses – FY 09/10 YTD (in millions)

Summary
- 3% less than Budget
- Still fine tuning Budget “spread”
<table>
<thead>
<tr>
<th>Fund Balance:</th>
<th>09/10 Adopted</th>
<th>FY 08/09 Activity</th>
<th>Approved Adjustments</th>
<th>09/10 Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved</td>
<td>$26.1</td>
<td></td>
<td></td>
<td>$26.1</td>
</tr>
<tr>
<td>Contingency</td>
<td>$5.0</td>
<td></td>
<td>($0.4)</td>
<td>$4.6</td>
</tr>
<tr>
<td>Unreserved</td>
<td>$1.0</td>
<td>$7.0 **</td>
<td>($0.5)</td>
<td>$7.5</td>
</tr>
<tr>
<td><strong>Total Fund Balance</strong></td>
<td>$32.1</td>
<td>$7.0 **</td>
<td>($0.9)</td>
<td>$38.2</td>
</tr>
</tbody>
</table>

* General Fund and Transportation Fund Combined

** $0.4 million more than originally reported as a result of final FY 2008/09 financial report.
1. Most Wanted Suspects Search Engine
   - Web & Media Services worked with Police Department to improve and implement search engine rankings for most wanted suspects. All suspects are now in the top 10 results on most search engines. (up to $10,000 annually)

2. Same Day Training – Environmental Initiatives Office
   - Employee took mandatory annual refresher course on-line at a City computer, rather than traveling off-site locally for a ½ day training. On-line training was less expensive, did not require two hours of drive time and took 3 hours less to complete. ($85)
Vacancy Savings/Payouts/Reclassifications

- Greatly Impacted by Recession
- Components Inter-related
  - Vacancy Savings vs. Vacation Payout
- $2.5 M. Adjustment Forthcoming
Vacancy Savings/Payouts/Reclassifications (continued)

1. Vacancy Savings
   • About half of budget
   • 74 vs. 42 vacant positions per pay period
   • Significantly less than last FY
Vacancy Savings/Payouts/Reclassifications (continued)

2. Leave Payouts
   • Vacation
     • Based on last FY activity
       • 6% Turnover
     • Impacted by July 2\textsuperscript{nd} layoffs
   • Sick Leave
     • Based on Actuary report
Vacancy Savings/Payouts/Reclassifications (continued)

3. Reclassifications
   • Administrative Practice
   • Impacted by Reorganizations
### Vacancy Savings/Payouts/Reclassifications (continued)

<table>
<thead>
<tr>
<th></th>
<th>Adopted Budget</th>
<th>Revised Estimate</th>
<th>Forthcoming Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Savings</td>
<td>&lt;$5.3 M.&gt;</td>
<td>&lt;$2.3 M.&gt;</td>
<td>$3.0 M.</td>
</tr>
<tr>
<td>Vacation Payout</td>
<td>$0.6 M.</td>
<td>$0.5 M.</td>
<td>&lt;$0.1 M.</td>
</tr>
<tr>
<td>Medical Payout</td>
<td>$0.9 M.</td>
<td>$0.6 M.</td>
<td>&lt;$0.3 M.</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>$0.3 M.</td>
<td>$0.2 M.</td>
<td>&lt;$0.1 M.</td>
</tr>
<tr>
<td>Total</td>
<td>&lt;$3.5 M.</td>
<td>&lt;$1.0 M.</td>
<td>$2.5 M.</td>
</tr>
</tbody>
</table>
Outstanding Issues: FY 09/10

1. Vacancy Savings: $2.5 M. Expense Increase
2. Tourism: $2.4 M. Sales/Bed Tax Reduction
3. State Shared Revenues: $1.0 M. Reduction
4. City Sales Tax Revenues: $3 M. Increase
5. Expenses Less Than Budget: $5 M. Savings
6. Remaining IOU: $0.6 M.
7. Risk Management Assessment: $1.0 M. Savings
8. In Lieu Property Taxes: -$2.0 M. to +$1.5 M.
Outstanding Issues: FY 10/11

9. Unreserved Fund Balance: $7.5 M.+
10. Eliminate New Radio Debt Service: $2.6 M.
11. State Income Tax: $7.4 M. Reduction
12. Eliminate One-Time ARRA Funding: $4.6 M.
13. State Budget Situation
Recommendation

1. Adopt Resolution 8145 accepting the Operating Report as of 10/31/09