



Financial Report

Fiscal Year End 2009/10

Report to the City Council and Budget Review Commission
Prepared by City Treasurer - Finance and Accounting Division
October 19, 2010



FINANCIAL REPORT FOR FISCAL YEAR END 2009/10

The following is a financial summary of the City's fiscal year 2009/10 General Fund and Transportation Fund. The focus of the report is on the General Fund, which is the primary operating fund of the City. The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, parks and recreation, planning and economic development, general administration of the City, and any other activity for which a special fund has not been created.

The report includes a summary for revenues and expenditures by major categories. Significant budget to actual variances are highlighted. The report also includes Appendix 1 which details the City's Privilege (Sales) Tax by major category.

Fiscal year 2009/10 results are unaudited as of the date of this report.

Note: Amounts are rounded in millions; therefore, differences may occur.

Operating Results FYE June 2010 (\$ in millions)				
	Revised Budget	2009/10 Actual	Change	%Change
Sources	\$291.7	\$286.1	(\$5.6)	-2%
Uses	297.9	288.8	9.1	3%
Change in Fund Balance	(\$6.2)	(\$2.7)	\$3.5	

Operating Results June 2010 (\$ in millions)				
	Revised Budget	2009/10 Actual	Change	%Change
Sources	\$29.9	\$24.0	(\$5.9)	-20%
Uses	53.1	56.6	(3.5)	-7%
Change in Fund Balance	(\$23.2)	(\$32.6)	(\$9.4)	

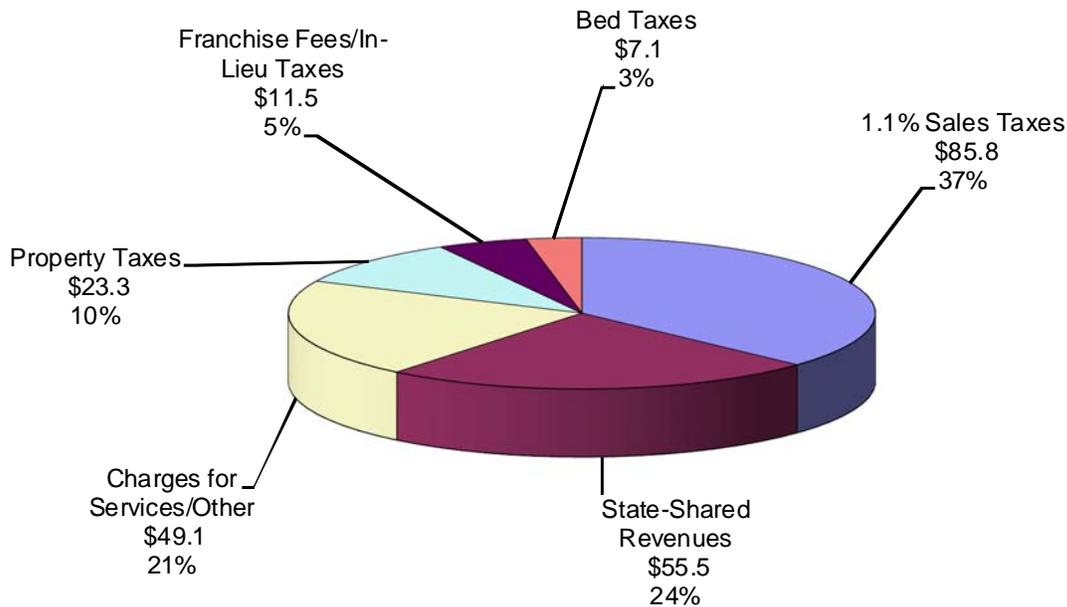
GENERAL FUND

FY 2009/10				
(\$ in millions)				
	Revised <u>Budget</u>	<u>Actual</u>	<u>Change</u>	%
				<u>Change</u>
Sources	\$253.4	\$251.5	(\$1.9)	-1%
Uses	<u>259.7</u>	<u>254.1</u>	<u>5.6</u>	2%
Change in Fund Balance	(\$6.3)	(\$2.6)	\$3.7	
Beginning Fund Balance	<u>\$41.6</u>	<u>\$41.6</u>	<u>\$0.0</u>	
Ending Fund Balance	<u><u>\$35.3</u></u>	<u><u>\$39.0</u></u>	<u><u>\$3.7</u></u>	
Reserved	\$26.4	\$25.4	(\$1.0)	
Contingency	\$4.9	\$1.6	(\$3.3)	
Unreserved	\$4.0	\$12.0	\$8.0	

Sources

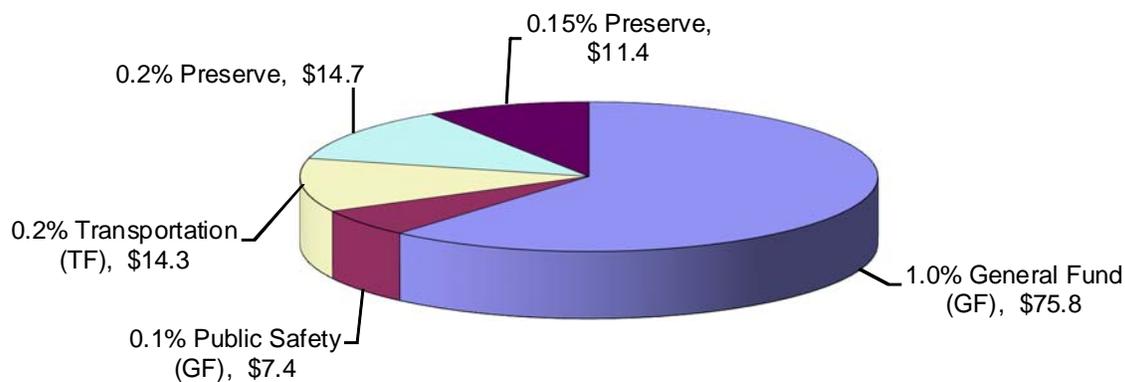
The General Fund is the primary operating fund of the City. It exists to account for the resources devoted to finance the services traditionally associated with local government such as police and fire protection, parks and recreation, planning and economic development, general administration of the City, and any other activity for which a special fund has not been created.

General Fund Revenues \$232.3 Million Fiscal Year Ending June 2010



Fiscal Year Ending June 2010						
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Revised Budget</u>	<u>Favorable/(Unfavorable)</u>	
					<u>Amount</u>	<u>Percent</u>
1.1% Sales Taxes	\$115.5	\$95.7	\$85.8	\$83.2	\$2.6	3%
State-Shared Revenues	64.7	62.2	55.5	56.2	(0.7)	-1%
Charges for Services/Other	58.9	50.2	49.1	50.8	(1.7)	-3%
Property Taxes	20.4	22.6	23.3	23.7	(0.4)	-2%
Franchise Fees/In-Lieu Taxes	11.4	11.5	11.5	12.1	(0.6)	-5%
Bed Taxes	2.3	1.5	7.1	8.2	(1.1)	-13%
Total Revenue	\$273.2	\$243.7	\$232.3	\$234.2	(\$1.9)	-1%
Transfers In	10.2	28.3	19.2	19.2	-	0%
Total Sources	\$283.4	\$272.0	\$251.5	\$253.4	(\$1.9)	-1%
% Change vs. Prior Year		-4%	-8%			

**1.65% Sales Tax \$123.6 Million
2009/10 Adopted Budget**



Sales Taxes

Scottsdale's total City sales tax rate is 1.65 percent. Of that amount, 0.55 percent is dedicated to the specific purposes related to transportation and preservation (which are accounted for in Special Revenue Funds) and 0.10 percent is dedicated to public safety (accounted for in the General Fund). The remaining 1.0 percent of the sales tax is also accounted for in the General Fund and is available to fund basic municipal services such as police, fire, libraries, and parks. This general-purpose sales tax is the City's single largest revenue source. The sales tax category results can be found in Appendix 1.

Fiscal Year Ending June 2010						
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Revised Budget</u>	<u>Favorable/(Unfavorable)</u>	
					<u>Amount</u>	<u>Percent</u>
1.00% General Purpose Sales Tax	\$105.3	\$87.3	\$78.3	\$75.8	\$2.5	3%
0.10% Public Safety Sales Tax	10.2	8.4	7.5	7.4	0.1	1%
Total General Fund Sales Taxes	\$115.5	\$95.7	\$85.8	\$83.2	\$2.6	3%
% Change vs. Prior Year		-17%	-10%			

Actual to Revised Budget variance of \$2.6 million or 3%: Sales tax related to construction came in better than expected. Additionally, there were several large audit payments that affected sales taxes related to utilities, major department stores, automotive and other taxable activity. Hotel/Motel and automotive finally had an increase in collections in April, which continued through May and June. See Appendix 1 for further information about results by sales tax categories.

State-Shared Revenues

These revenues are derived from state shared sales taxes, income taxes (revenue sharing), and vehicle license taxes (auto lieu) based on a statutorily determined formula, primarily driven by population. On a per capita basis, sales taxes generated in Scottsdale tend to be higher than most other cities/towns due to higher wealth, consumer spending habits and larger amounts of visitor/tourist spending. As directed by statute, the State distributes the shared portion of State sales taxes back to local governments based on population not by the amount of sales taxes collected within the local jurisdiction.

	Fiscal Year Ending June 2010					
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
				Revised	Favorable/(Unfavorable)	
	Actual	Actual	Actual	Budget	Amount	Percent
State Revenue Sharing	\$33.0	\$35.1	\$30.3	\$30.3	\$0.0	0%
State Shared Sales Tax	21.7	18.9	17.3	17.9	(0.6)	-3%
Auto Lieu Tax	10.0	8.2	7.9	8.0	(0.1)	-1%
Total State Shared Revenues	\$64.7	\$62.2	\$55.5	\$56.2	(\$0.7)	-1%
% Change vs. Prior Year		-4%	-11%			

Actual to Revised Budget variance of (\$0.7) million or (1%): The State Sales Tax distribution was less than the State had budgeted at the beginning of the fiscal year. (The State's 2009/10 sales tax budget was 8.4 percent less than the 2008/09 actuals; however, the 2009/10 actuals came in 10.1 percent less than 2008/09 actuals.) At the State level, the Contracting and Retail tax categories continued their year-over-year declines.

Charges for Services/Other

Charges for Services include numerous revenues such as building permits, recreation fees, fire department fees, WestWorld fees, interest income, and property rentals. Also included are cost allocations from the General Fund to the enterprise funds. Certain components of this revenue source are subject to dramatic peaks and valleys from year to year. For example, building permit fees are based on developers' interest in construction projects and ability to secure financing for the projects.

	Fiscal Year Ending June 2010					
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
				Revised	Favorable/(Unfavorable)	
	Actual	Actual	Actual	Budget	Amount	Percent
<i>Taxes - Local</i>						
Stormwater Water Quality Charge	\$0.9	\$0.8	\$0.8	\$0.9	(\$0.1)	-11%
<i>Licenses, Permits & Fees</i>						
Building Permit Fees & Charges	12.5	6.9	6.9	8.1	(1.2)	-15%
Recreation Fees	2.8	3.2	3.3	3.0	0.3	10%
WestWorld	2.8	2.7	2.5	2.9	(0.4)	-14%
Fire Service Charges	1.07	1.8	1.8	1.3	0.5	38%
Business Licenses & Fees	1.76	1.7	1.8	1.7	0.1	6%
<i>Fines & Forfeitures</i>						
Court Fines	6.79	6.7	7.5	7.2	0.3	4%
Photo Enforcement Revenue	5.79	2.5	1.8	1.7	0.1	6%
Parking Fines	0.47	0.4	0.3	0.5	(0.2)	-40%
Library Fines & Fees	0.42	0.3	0.4	0.3	0.1	33%
Police Fees	-	-	-	-	-	n/a
Code Enforcement Fines	-	-	-	-	-	n/a
<i>Interest Earnings/Property Rental</i>						
Interest Earnings	6.43	3.7	2.1	1.7	0.4	24%
Property Rental	3.50	3.2	2.9	3.2	(0.3)	-9%
<i>Other Revenue</i>						
Indirect/Direct Cost Allocation	11.58	14.0	13.3	16.0	(2.7)	-17%
Intergovernmental Revenue	1.06	1.2	1.1	0.9	0.2	22%
Contributions/Donations	-	0.0	0.0	-	0.0	n/a
Miscellaneous	0.66	0.6	0.5	1.0	(0.5)	-50%
Reimbursements	0.38	0.5	2.1	0.4	1.7	425%
Total Charges for Services/Other	\$58.9	\$50.2	\$49.1	\$50.8	(\$1.7)	-3%
% Change vs. Prior Year		-15%	-2%			

Actual to Revised Budget variance of (\$1.7) million or (3%): Several revenue categories including reimbursements, fire service charges, court fines, and recreation fees experienced favorable variances. The favorable variance for reimbursements is a result of a retirement incentive adjustment; the favorable variance related to fire service charges is related prior fiscal year adjustments per the ambulance contract, the favorable variance for court fines is a result of increases in recoveries—these recoveries have corresponding offsetting expenditures. Several revenue categories including indirect/direct cost allocation and building permit fees and charges experienced unfavorable variances. The unfavorable variance for indirect/direct cost allocation is a result of an accounting adjustment correcting the allocation methodology; the unfavorable variance for building permit fees and charges is a result of less growth than anticipated.

Property Taxes

In the General Fund, property taxes are comprised only of the “Primary” property taxes levied on the assessed value of all property within the City to help pay for basic operations of the City. Secondary property taxes are not included here as they must be used solely for payment of General Obligation bond debt service. Increases in revenue from year to year reflect new property additions to the tax roll and Council actions to increase total revenue consistent with state law.

Actual to Revised Budget variance of (\$0.4) million or (2%): The unfavorable variance is primarily due to a timing difference between levied taxes and collection of delinquent taxes, which runs at a variance between 1 and 3 percent each year. A portion of the variance is also attributable to resolutions (protests) in which adjustments to taxes have occurred.

Franchise Fees and In-Lieu Taxes

This category represents revenues from utility and cable providers.

	Fiscal Year Ending June 2010					
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
	Actual	Actual	Actual	Revised	Favorable/(Unfavorable)	
				Budget	Amount	Percent
Electric Franchise	\$7.9	\$7.8	\$8.0	\$8.4	(\$0.4)	-5%
Cable TV Franchise	3.5	3.6	3.4	3.6	(0.2)	-6%
Salt River Project Lieu Tax	0.0	0.1	0.1	0.1	(0.0)	-30%
Total Franchise Fees/In-Lieu Taxes	\$11.4	\$11.5	\$11.5	\$12.1	(\$0.6)	-5%
% Change vs. Prior Year		1%	0%			

Actual to Revised Budget variance of (\$0.6) million or (5%): The unfavorable variance of (\$0.4) million in Electric Franchise is driven by a budget assumption that franchise revenue would increase year over year due to announced rate increases; however, these rate increases were more than offset by lower fuel cost adjustments, which are passed onto consumers. Additionally, reductions in consumption due to conservation and commercial vacancies contributed to the unfavorable variance. The unfavorable variance of (\$0.2) million in Cable TV Franchise is likely due to reduced number of subscribers or existing subscribers using basic vs. premium subscription packages.

Bed Taxes

A bed tax is applied to lodging room charges for stays of 29 days or less (transient) in hotels or short-term rentals. Effective July 1, 2010, the bed tax rate was increased from 3 percent to 5 percent. (Beginning in FY 2009/10, 100 percent of the Bed Tax revenue was being recorded in the General Fund with a corresponding transfer of 80 percent to the Special Programs Fund.) Prior to the tax rate increase, 80 percent of the bed tax revenue was transferred to the Special Program Fund and was restricted for tourism development including the payment of contracts to increase tourism and fund debt service for destination attractions. The City started receiving the revenues from the new 5 percent tax rate this month (August 2010) and 50 percent of the 5 percent bed tax collections will be transferred to the Special Programs Fund to be used for destination marketing purposes.

Actual to Revised Budget variance of (\$1.1) million or (13%): Bed Taxes came in lower than budget due to the downturn in the economy leading to fewer visitors coming to stay at the resorts and hotels, leading to higher vacancy rates and lower room rates. The corporate business was also lower due to increased scrutiny of corporate travel.

Transfers In

For FY 2010/11, transfers in reflect funds received from the Capital Improvement Plan (CIP) Funds, Code Enforcement, Community Services/Human Services, the Cultural Council, the Water and Sewer Funds (Franchise Fees, In Lieu Property Tax and Water Campus Security), Self Insurance, and Miscellaneous.

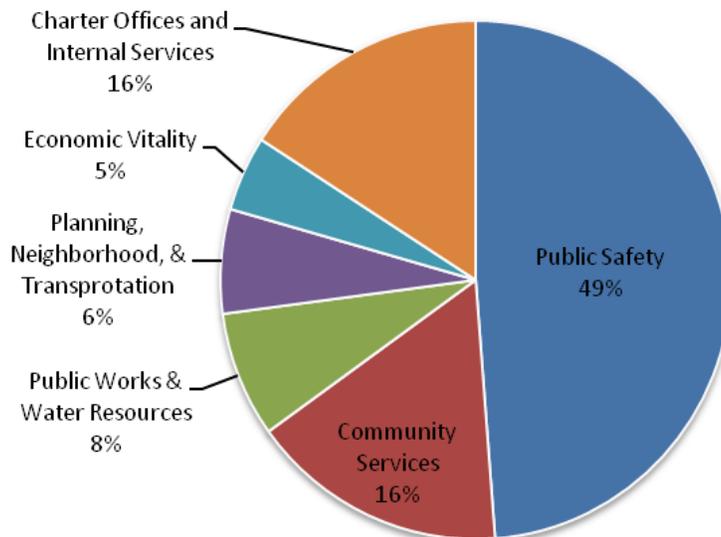
	Fiscal Year Ending June 2010					
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Revised Budget</u>	Favorable/(Unfavorable)	
					<u>Amount</u>	<u>Percent</u>
CIP	\$0.0	\$14.0	\$9.0	\$9.0	\$0.0	0%
Code Enforcement	0.1	-			-	n/a
Com Svc/Hum Svc		-	0.3	0.3	0.0	11%
Cultural Council	-	-	0.3	0.3	-	0%
Enterprise Franchise Fees	6.3	6.4	6.5	6.5	-	0%
Enterprise In Lieu Property Tax	3.0	2.5	2.7	2.7	0.0	1%
Miscellaneous	0.8	-			-	n/a
Self Insurance		5.0			-	n/a
Water Campus Security	-	0.4	0.4	0.5	(0.1)	-12%
Total Transfers In	\$10.2	\$28.3	\$19.2	\$19.2	\$0.0	0%
% Change vs. Prior Year		-44%	-86%			

Actual to Budget variance of \$0.0 million or 0%. No explanation necessary.

GENERAL FUND USES (\$ in millions)

Fiscal Year Ending June 2010					
Expenses:	2008/09 <u>Actual</u>	2009/10 <u>Actual</u>	2009/10 <u>Revised Budget</u>	<u>Actual vs. Budget Favorable / (Unfavorable) Amount</u>	<u>Percent</u>
Personnel Services	\$192.2	\$168.0	\$170.2	\$2.2	1 %
Contractual	\$51.5	\$48.8	\$52.9	\$4.1	8 %
Commodities	\$8.7	\$7.7	\$9.1	\$1.4	15 %
Capital Outlays	\$0.4	\$0.5	\$0.3	(\$0.2)	-67 %
Future Budget Reductions/IOU	-	-	-	-	-
Total Operating Expenses	\$252.8	\$225.0	\$232.5	\$7.5	3 %
Debt Service & Contracts Payable	\$9.3	\$9.0	\$9.2	\$0.2	2 %
Transfers Out	\$12.5	\$20.1	\$18.0	(\$2.1)	-12 %
Total Uses	\$274.6	\$254.1	\$259.7	\$5.6	2 %

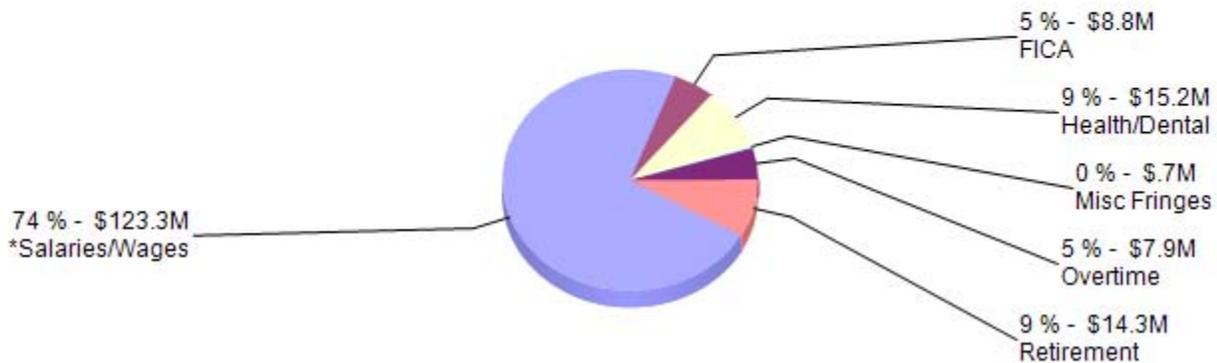
Fiscal year \$232.5M Revised General Fund Operating Budget



Personnel Services

Personnel Services include the salaries and wages (pay for time worked, vacation, and sick leave) plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance. It is also inclusive of vacancy savings, the medical and vacation leave accrual payouts that are made at the time of separation from the City, and position reclassifications.

**Fiscal Year
\$170.2M Revised Personnel Services Budget**



*(includes Vacancy Savings/Payouts/Reclass)

Fiscal Year Ending June 2010					
	2008/09 <u>Actual</u>	2009/10 <u>Actual</u>	2009/10 <u>Revised Budget</u>	Actual vs. Budget <u>Favorable / (Unfavorable) Amount</u>	<u>Percent</u>
Salaries and Wages	\$141.9	\$125.8	\$126.5	\$0.7	1 %
Overtime	\$7.7	\$6.1	\$7.9	\$1.8	23 %
Retirement	\$19.3	\$15.2	\$14.3	(\$0.9)	-6 %
Health/Dental	\$16.0	\$15.1	\$15.2	\$0.1	1 %
FICA	\$9.5	\$8.4	\$8.8	\$0.4	5 %
Miscellaneous Fringes	\$0.9	\$0.6	\$0.7	\$0.1	14 %
Vacancy Savings/Payouts/Reclass	(\$3.1)	(\$3.2)	(\$3.2)	\$0.0	-
Total Personnel Services	\$192.2	\$168.0	\$170.2	\$2.2	1 %

Actual to Revised Budget variance of \$2.2 million or 1%: A significant portion of the positive variance was reflective of the overtime reduction strategies implemented by the Police Department and Community Services. Strategies included implementing a new staffing model in Patrol which relied on overlapping support from other districts, and Special Operations Division employees to cover squad shortages due to sickness or vacation. The Police Department was also at full staffing, which attributed to the savings. Training Reports or projects not critical for completion were held for normal work hours. In addition, the overtime savings contributed to the favorable variance in the Federal Insurance Contributions Act (FICA) account. The unfavorable variance in retirement was due to the recording of the remaining expenditures for the retirement incentive program.

Contractual Services

This category includes expenditures for services performed by firms, individuals, or other City departments.

Actual to Revised Budget variance of \$4.1 million or 8%: The favorable variance was the result of Citywide efforts to find and implement opportunities for cost savings. Such costs saving initiatives were in most categories, including advertising, specialty lines and pagers, and banking and software contracts. Another significant portion of division savings were attributable to reduction in custodial services, re-evaluating the use of other professional services, decreased printing and graphics services by doing in-house and converting 13,000 square feet of turf to xeriscape to reduce maintenance and landscaping cost. The favorable variance was also the result of savings in maintenance and repair services that were budgeted for but not expended.

A positive year end variance was also attributable to purchases that were planned for the Advisory Group for the General Plan Update Growth Analysis, the Downtown Task Force, and the McDowell Road Task Force but did not occur.

Commodities

This classification includes supplies, repair and replacement parts, small tools, and maintenance and repairs.

Actual to Revised Budget variance of \$1.4 million or 15%: The favorable fiscal year-end expenditure variance was the result of divisions limiting operating supplies, small tools and minor equipment expenses to mandatory purchases only. Another portion of this savings was a result of reduced supply purchases due to re-evaluating the most efficient use of supplies such as modifying standard chemical levels in pools and fountains during cooler winter months.

Capital Outlays

Capital outlays include the purchase of land, the purchase or construction of buildings, structures, and facilities, plus machinery and equipment. It includes expenditures that result in the acquisition or addition of a fixed asset or increase the capacity, efficiency, span of life, or economy of operating an existing fixed asset. For an item to qualify as capital outlay the expenditure must meet all of the following requirements: (1) have an estimated useful life of more than two years; (2) have a unit cost of \$5,000 or more; and (3) be a betterment or improvement.

Actual to Revised Budget variance of (\$0.2) or (67%): The unfavorable year-end expenditure variance was primarily the result of an unexpected need for a new Citywide server.

Debt Service and Contracts Payable

This activity is debt payments related to Municipal Property Corporation (MPC) bonds that are to be repaid through excise taxes and contractual obligations related to development agreements (funded by sales tax rebates) which vary based on the actual sales tax collections.

	Fiscal Year Ending June 2010				
	2008/09	2009/10	2009/10	Actual vs. Budget	
	Actual	Actual	Revised Budget	Favorable / (Unfavorable)	Percent
MPC Excise Debt Fund	\$5.8	\$6.7	\$6.7	\$0.0	-
Certificates of Participation (COP)	\$0.9	\$0.9	\$0.9	-	-
Contracts Payable	\$2.6	\$1.4	\$1.6	\$0.2	13 %
COP - Radio Financing	-	-	-	-	-
Debt Service & Contracts Payable	\$9.3	\$9.0	\$9.2	\$0.2	2 %

Actual to Revised Budget variance of \$0.2 million or 2%: Due to the decline in tourism, the amount of tax received by the Hotel Valley Ho and Fashion Square Garage agreements decreased; therefore, the payment had also decreased creating a favorable variance. Development agreement payments are dependent on the amount of privilege (sales) tax collections at each development site. Due to the downturn of the economy, tax collections were lower than anticipated, resulting in lower payments made which created a favorable variance.

Transfers-Out

Transfers-Out represents the authorized exchanges of cash between funds, divisions, departments, and/or capital projects.

Fiscal Year Ending June 2010					
	<u>2008/09</u>	<u>2009/10</u>	<u>2009/10</u>	<u>Actual vs. Budget</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Revised</u>	<u>Favorable / (Unfavorable)</u>	
			<u>Budget</u>	<u>Amount</u>	<u>Percent</u>
CIP - General Fund Maintenance	\$3.3	\$1.3	\$1.4	\$0.1	7 %
CIP - General Fund - Non-Maintenance	-	\$9.0	\$9.0	-	-
CIP - Public Safety Radio - Loop 101	\$1.9	\$0.1	-	(\$0.1)	-10 %
Transportation Fund	\$7.0	\$3.2	\$0.9	(\$2.3)	-256 %
Bed Tax Fund	\$0.2	\$6.4	\$6.6	\$0.2	3 %
Special Programs Fund - Planning & Dev Services	\$0.1	\$0.1	\$0.1	-	-
Total Transfers Out	\$12.5	\$20.1	\$18.0	(\$2.1)	-12 %

Actual to Revised Budget variance of (\$2.1) million or (12%): The unfavorable variance was primarily the result of a more than budgeted subsidy from the General Fund to the Transportation Fund. The General Fund budget covers deficits in for the Transportation Fund. In addition, the transfers out reflect transfers to the Special Programs Fund for bed tax revenues (80 percent of the total bed tax collections per adopted financial policy). The 3 percent positive variance is the mirror image of the revenue variance explained earlier. Less revenue received translates to less money transferred out to the Bed Tax Fund for its 80 percent portion.

TRANSPORTATION FUND

FY 2009/10 (\$ in millions)				
	Revised			%
	<u>Budget</u>	<u>Actual</u>	<u>Change</u>	<u>Change</u>
Sources	\$38.3	\$34.6	(\$3.7)	-10%
Uses	<u>38.2</u>	<u>34.7</u>	<u>3.5</u>	9%
Change in Fund Balance	\$0.1	(\$0.1)	(\$0.2)	
Total Fund Balance	<u><u>\$0.0</u></u>	<u><u>\$0.0</u></u>	<u><u>\$0.0</u></u>	

Sources

The Transportation Fund receives and expends the City's allocation of the Arizona Highway User Revenue Tax (HURF), as well as other transportation related revenues. The amount of HURF available to each City is allocated based on population. These monies must be used for street construction, reconstruction, maintenance, or transit. The State of Arizona requires the City to establish and maintain an accounting for Highway User Revenue Funds. The fund also accounts for the 1989 voter approved Transportation Privilege (Sales) Tax of 0.20 percent which is dedicated to funding transportation improvements and operations. Fifty percent of the Transportation Sales Tax is transferred to the Capital Improvement Fund for transportation related capital improvement projects.

	Fiscal Year Ending June 2010					
	2007/08	2008/09	2009/10	2009/10	Actual vs. Budget	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Revised Budget</u>	Favorable/(Unfavorable)	Percent
HURF Taxes	\$16.3	\$14.1	\$13.4	\$14.2	(\$0.8)	-6%
0.20% City Sales Tax	20.0	16.5	14.6	14.3	0.3	2%
Other	1.6	3.0	3.0	8.5	(5.5)	-65%
Total Revenues	<u>\$37.9</u>	<u>\$33.6</u>	<u>\$31.0</u>	<u>\$37.0</u>	<u>(\$6.0)</u>	<u>-16%</u>
Transfers In	2.8	8.9	3.6	1.3	2.3	177%
Total Sources	<u><u>\$40.7</u></u>	<u><u>\$42.5</u></u>	<u><u>\$34.6</u></u>	<u><u>\$38.3</u></u>	<u><u>(\$3.7)</u></u>	<u><u>-10%</u></u>
% Change vs. Prior Year		4%	-19%			

Actual to Revised Budget variance of (\$3.7) million or (10%): The unfavorable variance in HURF Taxes can be attributed to less demand of fuel due to the condition of the economy. Timing issues are also a factor with the International Registration Plan (IRP) in receiving commercial registration fees from non-Arizona based motor carriers. IRP is a reciprocity agreement among the contiguous US and Canadian provinces that provides payment of license fees on the basis of total distance operated in all jurisdictions. The unfavorable variance in the Other category can be attributed to the elimination of the State shared lottery revenues as of February 1, 2010 and pending completion of American Recovery and Reinvestment Act funded projects, which will be reimbursed upon completion.

TRANSPORTATION FUND USES
(\$ in millions)

Fiscal Year Ending June 2010					
Expenses:	<u>2008/09</u> <u>Actual</u>	<u>2009/10</u> <u>Actual</u>	<u>2009/10</u> <u>Revised</u> <u>Budget</u>	<u>Actual vs. Budget</u> <u>Favorable / (Unfavorable)</u> <u>Amount</u>	<u>Percent</u>
Personnel Services	\$7.8	\$6.5	\$6.3	(\$0.2)	-3 %
Contractual	\$23.7	\$18.7	\$23.8	\$5.1	21 %
Commodities	\$0.8	\$0.6	\$0.8	\$0.2	25 %
Capital Outlays	-	\$1.4	\$0.1	(\$1.3)	-1,300 %
Total Operating Expenses	\$32.3	\$27.2	\$31.0	\$3.8	12 %
Transfers Out	\$8.3	\$7.5	\$7.2	(\$0.3)	-4 %
Total Uses	\$40.6	\$34.7	\$38.2	\$3.5	9 %

Actual to Revised Budget variance of \$3.5 million or 9%: The favorable year-end expenditure variance was primarily the result of delays in starting American Recovery and Reinvestment Act (ARRA) paving projects for street overlay and roadway markings. Additionally, the favorable variance was a result of those ARRA expenditures that did occur during the fiscal year were applied to capital outlay accounts and not in the contractual services accounts where the funding for those projects was budgeted. This recording of ARRA expenditures then resulted in a corresponding variance in capital outlays.



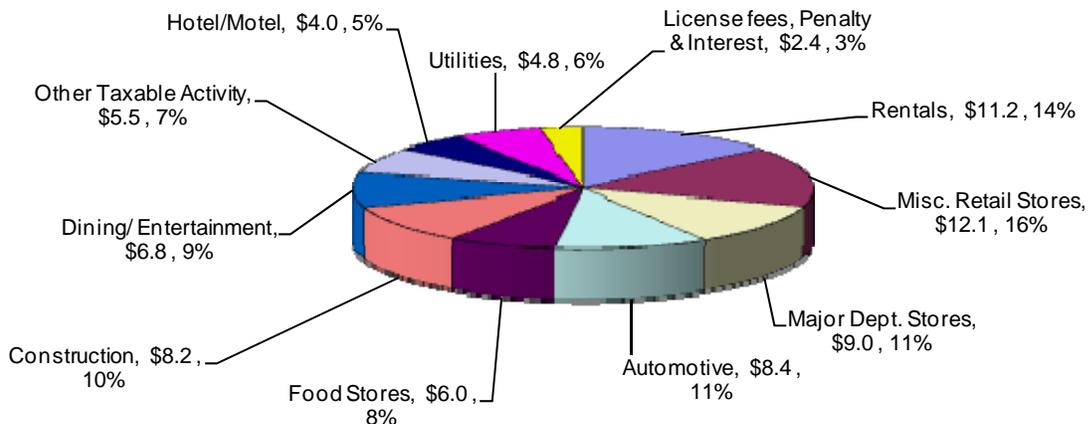
Privilege (Sales) & Use Tax Collections For June 2010

(For Business Activity in May 2010)

Appendix 1 contains information regarding the “actual” revenue collections from the 1.0 percent Privilege and Use Tax reflected in the General Fund, 0.2 percent dedicated Transportation Privilege Tax, 0.2 percent dedicated Preserve Privilege and Use Taxes, 0.15 percent additional dedicated Preserve Privilege and Use Taxes, and 0.1 percent dedicated Public Safety Privilege and Use Taxes, including adjustments for related license revenues, late collections and audits. While the report includes the actual year-to-date tax collections for the funds previously noted, only the General Fund portion (1.0 percent) of the tax is unrestricted and available for general government purposes.

The report shows a fiscal year Privilege and Use Tax collection increase of 5 percent compared to Budget, but a decrease of 9 percent compared to the same period a year ago.

**Privilege (Sales) & Use Tax
1.0% General Purpose Portion
\$78.3M Revenue - Actual YTD**



Privilege (Sales) & Use Tax by Category and Fund

Fiscal Year Ending June						
	2007/08 <u>Actual</u>	2008/09 <u>Actual</u>	2009/10 <u>Actual</u>	2009/10 <u>Budget</u>	Actual vs. Budget	
					<u>Favorable/(Unfavorable)</u> <u>Amount</u>	<u>Percent</u>
<u>1.00% General Purpose</u>						
Rentals	\$13.5	\$12.5	\$11.2	\$13.1	(\$1.9)	-15%
Misc. Retail Stores	15.2	12.1	12.1	10.8	1.3	12%
Major Dept. Stores	9.9	8.8	9.0	8.1	0.9	11%
Automotive	14.2	9.6	8.4	7.8	0.6	8%
Food Stores	6.5	6.3	6.0	6.4	(0.4)	-6%
Construction	19.5	13.5	8.2	6.2	2.0	32%
Dining/ Entertainment	7.8	6.9	6.8	6.0	0.8	13%
Other Taxable Activity	6.1	6.2	5.5	5.5	-	0%
Hotel/Motel	5.5	4.4	4.0	4.8	(0.8)	-17%
Utilities	4.5	4.4	4.8	4.7	0.1	2%
License fees, Penalty & Interest	2.6	2.6	2.4	2.4	-	0%
Subtotal	<u>\$105.3</u>	<u>\$87.3</u>	<u>\$78.3</u>	<u>\$75.8</u>	<u>\$2.5</u>	<u>3%</u>
0.10% Public Safety	\$10.2	\$8.4	\$7.5	\$7.4	0.1	1%
0.20% Transportation	20.0	16.5	14.6	14.3	0.3	2%
0.20% McDowell Preserve 1995	20.5	17.0	15.2	14.7	0.5	3%
0.15% McDowell Preserve 2004	15.4	12.6	11.3	11.4	(0.1)	-1%
Total	<u>\$171.4</u>	<u>\$141.8</u>	<u>\$126.9</u>	<u>\$123.6</u>	<u>\$3.4</u>	<u>3%</u>
% Change vs. Prior Year		-17%	-10%			

Rental Sales Taxes

The rental category includes rentals of commercial and residential real property and personal property rentals, (such as rentals of formal wear, DVD's, home health equipment, recreational goods, electronics, appliances, etc.)

Actual to Revised Budget of (\$1.9 Million) or (15%): Vacancies are increasing and lease rates are lower than expected. Additionally, a large refund was processed for this category.

Miscellaneous Retail Stores Sales Taxes

This category includes small clothing stores, art galleries, luggage stores, home furnishing stores, jewelry stores, drug stores, hobby stores, household appliance stores, sporting goods stores, florists, computer stores, hardware stores, and pet supply stores.

Actual to Revised Budget variance of \$1.3 Million or 12%: This reflects an increase due in part to some new stores opening and computer hardware/software resellers showing an increase in sales.

Major Department Stores Sales Taxes

This category includes large department stores, warehouse clubs, supercenters, and discount department stores.

Actual to Budget variance of \$0.9 Million or 11%: This reflects four large one-time audit payments and the opening of two new department stores.

Automotive Sales Taxes

The automotive category includes automobile dealers, motorcycle dealers, automotive repair shops, tire shops, car washes, and car leasing companies.

Actual to Revised Budget variance of \$0.6 Million or 8%: The Cash for Clunkers program appears to have increased sales for the months in which it was available. This also reflects a large one-time audit payment. The automotive auctions reported an increase in taxable sales this year. The increase in the state privilege tax rate seems to have encouraged purchases prior to the increase going into effect.

Food Stores Sales Taxes

This category includes grocery stores, candy stores, meat markets and convenience stores.

Actual to Revised Budget variance of (\$0.4 Million) or (6%): This is due to a change in consumer spending to lower priced products, a grocery store chain declaring bankruptcy, decreasing food costs, and an increased use of food stamps which are not taxed.

Construction Sales Taxes

The construction tax is collected on all construction activity; commercial and residential; new and re-model. It also includes landscaping, painting, flooring installation, siding, roofing, concrete, plumbing, heating, electrical, framing, drywall, infrastructure, masonry, finish carpentry, etc.

Actual to Revised Budget variance of \$2.0 Million or 32%: This is reflecting higher construction taxes collected than forecasted, a carryover consistent with FY 2008/09 permit activity. Because of the variance, the forecasting model has been revised regarding the ratio of tax collected per dollar of building permit valuation.

Dining/Entertainment Sales Taxes

The restaurant category includes restaurants, bars, cafeterias, mobile food vendors, and caterers.

Actual to Revised Budget variance of \$0.8 Million or 13%: This is a reflection of an increase in filing of delinquent tax returns.

Other Taxable Activity Sales Taxes

This category includes movie theatres, golf courses, gyms, bowling centers, amusement arcades, interior designers, publishers, banks, doctors, lawyers, accountants, beauty salons, barber shops, personal goods repair shops, photographers, advertising, wholesalers, and manufacturers.

Actual to Revised Budget variance of \$0.0 Million or 0%: No explanation necessary.

Hotel/Motel Sales Taxes

This category includes lodging space rental on a short-term basis and other activities provided at the hotel/motel.

Actual to Revised Budget variance of (\$0.8 Million) or (17%): While occupancy has stabilized, room rates continue to be low. The general economic situation contributed to group cancellations and less leisure travel nationwide, particularly in the major fly-in markets such as Scottsdale/Phoenix.

Utilities Sales Taxes

This category includes businesses that provide telecommunication (landlines and cellular), electricity, gas, or water services.

Actual to Revised Budget variance of \$0.1 Million or 2%: This is due to a one-time audit payment.

License Fees, Penalty & Interest

This category consists of application and license fees for Transaction Privilege (sales) tax licenses, interest, and penalties.

Actual to Revised Budget variance of \$0.0 Million or 0%: No explanation necessary.