CITY OF SCOTTSDALE

MONTHLY FINANCIAL UPDATE

FEBRUARY 2009

REPORT HIGHLIGHTS

- **As the greatest revenue source for the General Fund**, fiscal year-to-date Sales Tax revenues are down -14% or -$9.3 M. compared to prior fiscal year. The current Sales Tax annualized forecast has been revised down -$19.7 M. from the adopted budget plan.
- **Development Permits and Fees fiscal year-to-date revenues are down -47% or -$3.8 M.** compared to prior year and our current annualized forecast predicts a -$7.9 M. decrease in building permits this fiscal year.
- **The Federal Reserve warned that the nation's crippled economy is even worse than thought and predicted it would deteriorate throughout 2009.** The Fed's bleak estimates indicated that unemployment could climb as high as 8.8 percent this year and that the economy would contract for a full calendar year for the first time since 1991. The Fed also believes the economy will contract this year between 0.5 and 1.3 percent. If the Fed's new predictions prove correct, it would mark the weakest showing since a 1.9 percent drop in 1982, when the country had suffered through a severe recession.

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
Actual Beginning Balance July 1, 2008	$ 40.6	$ 44.3	$ 3.7
Sources of Funds	286.8	268.3	(18.5)
Uses of Funds (Operating Expenses)	261.9	256.1	5.8
Transfers Out	22.9	19.1	3.8
Debt Service	6.0	3.5	2.5
***Estimated* 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	28.8	(1.1)
Unreserved Fund Balance	4.1	0.1	(4.0)
***Estimated* Ending Fund Balance June 30, 2009**	**$ 36.6**	**$ 33.9**	**$ (2.7)**

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

Estimated Ending 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-to-date 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 -$1.1 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.

Continued budget balancing strategies will be aimed at providing current benefit/relief from lower revenues, as well as structural changes to help address our deficit prognosis and balance the budget in FY 2009/10 and beyond. As these strategies are evaluated and implemented, their estimated results will be reflected in future financial reports as the budget is balanced (see Budget Update section for an update on the budget review process).

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 budget plan. The latest adjustments to forecast are reflected in the table. The current net impact of these adjustments to the revenue bottom line is ($31.0) million under the FY 2008/09 budget plan, reflecting ongoing recessionary forces at the national and local level, factors related to the financial market turmoil, a depressed housing market, and dropping retail, automotive, and construction activity. We will continue to closely monitor revenues and make further adjustments to forecast as necessary.

FY 2008/09 General Fund Revenues (In Millions)	FY08/09 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	7.9	(1.8)
Business Licenses & Fees	1.8	1.8	-
Building Permit Fees & Charges	14.5	6.6	(7.9)
Interest Earnings	4.5	3.5	(1.0)
Other	47.6	49.1	1.5
Total Revenue	**$ 275.1**	**$ 244.1**	**$ (31.0)**
Transfers In (2)	11.7	24.2	12.5
Total Sources of Funds(3)	$ 286.8	$ 268.3	$ (18.5)

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

(1) Privilege & Use Tax and Transient Occupancy Tax collections lag by one month (December activity reported in January 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, page1.

<u>Below are highlights related to the table above.</u>

<u>Sales Tax</u>
As the greatest revenue source for the General Fund, fiscal year-to-date revenues are down -14% or -$9.3 M. compared to prior fiscal year. A dismal holiday shopping season for retailers, coupled with significant drops in construction activity, auto sales, and related dealership closings and relocations, have resulted in Financial Services staff revising the current Sales Tax forecast down -$19.7 M. from the adopted budget plan. We will continue to closely monitor sales tax activity and make additional revisions as necessary. Category fiscal year-to-date changes over prior year: automotive -30.9%, construction -24.5%, food stores -2.4%, hotels and motels -8.2%, major department stores -11.7%, miscellaneous retail -19.1%, other taxable activity +11.0%, rental -0.9%, restaurants -11.0%, utilities +2.3%.

<u>Bed Tax</u>
Fiscal year-to-date revenues are down -12% or -$0.1 M. 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.

<u>Property Tax</u>
Variance reflects recent utility settlement.

<u>State Shared Revenues</u>
Adjustments reflect latest state shared estimates provided by the Arizona Department of Revenue.

Development Permits and Fees

Fiscal year-to-date revenues are down -47% or -$3.8 M. 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., WestWorld revenue +$0.3 M., and intergovernmental 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 February 2009.

FY 2008/09 General Fund (In Millions)	FY08/09 Approved Budget (1)	Fiscal YTD Approved Budget	Fiscal YTD Forecast (2)	Fiscal YTD Variance
Mayor and Council	$ 1.7	$ 1.0	$ 1.0	$ -
City Clerk	1.2	0.8	0.7	0.1
City Attorney	7.0	4.3	3.9	0.4
City Auditor	1.0	0.7	0.7	-
City Court	5.8	3.8	3.6	0.2
City Manager	0.8	0.6	0.6	-
CAPA	1.7	0.9	0.9	-
Police Department	90.3	60.7	57.0	3.7
Financial Services	10.0	6.4	6.3	0.1
Transportation	0.2	0.1	0.1	-
Community Services	58.8	38.0	37.3	0.7
Information Services	10.6	6.5	6.3	0.2
The Downtown Group	4.6	3.9	4.0	(0.1)
Fire Department	33.2	21.4	20.5	0.9
Municipal Services	1.7	1.1	1.3	(0.2)
Citizen & Neighborhood Res	3.8	2.3	2.2	0.1
Human Resources	4.3	2.4	2.4	-
Economic Vitality	1.5	0.9	0.9	-
Planning & Development	17.1	10.6	10.2	0.4
WestWorld	3.8	2.6	2.3	0.3
Retirement Incentive	2.8	-	-	-
Total	**$ 261.9**	**$ 169.0**	**$ 162.2**	**$ 6.8**

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

The following table shows this same 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	$ 122.8	$ 121.5	$ 1.3
Contractual Services	58.7	39.4	35.2	4.2
Commodities	10.5	6.4	5.3	1.1
Capital Outlay	0.6	0.4	0.2	0.2
Retirement Incentive	2.8			
Total	**$ 261.9**	**$ 169.0**	**$ 162.2**	**$ 6.8**

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 – department-wide Police overtime reduction strategies; Fire Department overtime savings initiative for Special Events; 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:

Based on the January 20, 2009 Budget Update session with City Council, staff is updating the revenue and expenditure forecasts for FY08/09 and FY09/10. Staff continues to review the “pay as you go” existing Capital Improvement Plan (CIP) and identify areas of possible budget changes, such as reducing short-term funding for maintenance projects. Examples of other solutions being looked at include use of reserves, reducing fuel consumption, and overhead cost allocations to CIP projects.

As these solutions materialize, staff will provide timely updates to the City Council, citizens, employees, other stakeholders, and the media. Finally, because these modifications will be necessary to balance this year’s budget as well as deal with longer–term economic downturn, our objective is to simultaneously achieve a balanced FY09/10 budget proposal.

Staff from the City Manager’s Office, Human Resources, and Financial Services continue to meet every other week to review vacant positions and determine which positions should be filled. The objective is to ensure filling a vacant position is consistent with only our highest service needs and priorities. The strategic management of vacant positions is a key component of mitigating the impact of the revenue reduction while considering service delivery impacts to our citizens.

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 FY08/09 General Fund Operating Budget Contingency approved by City Council to date is $3,008,000, leaving a cash balance of $1,992,000.

- 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, 2009: $185,000 Downtown Restrooms (D0602) – funds required to complete project.
  - December 9, 2008: $150,000 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.

  The total FY08/09 total Capital Budget Contingency approved by City Council to date is $2,638,950, leaving a cash balance of $1,861,050.

CIP Project List Update:

The following table identifies CIP projects that have a negative remaining budget balance as of January 31, 2009, and proposed resolutions.

Project	Project Name	(a) Inception-to-Date (ITD) Budget	(b) ITD Expended	(c) ITD Committed	(a) - (b+c) Remaining Budget	Budget Transfer Required	Comments
D0601	Cvc Cntr Mall West Restrm Ren	467,000	444,005	27,950	(4,955)	No	Various open purchase orders are no longer needed and will be closed.
P0702	City Hall Lagoon Renovation	548,000	525,292	28,897	(6,189)	No	Various open purchase orders are no longer needed and will be closed.
Y0807	IS - Network Infrastructure	150,422	160,362	23,827	(33,766)	No	Various open purchase orders are no longer needed and will be closed. Requests for Adjustments will be completed in February to align expenses with corresponding CIP projects.
Y0809	IS- Telephone Equipment	523,814	68,263	468,538	(12,987)	No	Various open purchase orders are no longer needed and will be closed.

Y0822	Traffic Mgmt Program - ITS	700,000	647,667	72,316	(19,984)	Yes	Authorization for a budget transfer will be requested from City Council for project Y0722- Traffic Mgmt Program - ITS
Y0923	Traffic Signal Program	205,300	209,719	16,355	(20,774)	No	Requests for Adjustments will be completed in February to align January personnel expenses with corresponding cost center.

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***	2008 Estimate
National **– Leading Economic Index**	January	99.5	Negative	-
Consumer Confidence	January	37.7	Negative	-
Consumer Price Index	December	210.228	Negative	-
Unemployment Rate	January	7.6%	Negative	-
State **– Business Leader Confidence Index**	Q1 2009	32.1	Negative	-
Retail Sales Growth	Forecast*	0.2	Negative	3.7
Personal Income Growth	Forecast*	2.5	Negative	4.0
Wage and Salary Employment Growth	Forecast*	-0.9	Negative	1.8
Single Family Housing Permits	Forecast*	-3.7	Negative	13.2
Population Growth	Forecast*	1.8	Negative	2.0
Hotel/Motel Room Rate (Scottsdale)	December**	$145.13	Neutral	-
Hotel/Motel Occupancy Rate (Scottsdale)	December**	44%	Negative	-

*****Reflects *Arizona Blue Chip Economic Forecast* annual percent change 2009 from 2008 and projected 2010 From 2009, as of February 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 Index (LEI) increased for the second consecutive month in January**, but November and December values were revised down as new data for manufacturers' new orders became available. Between July 2008 and January 2009, the LEI decreased 1.9 percent (a -3.7 percent annual rate), faster than the decline of 1.1 percent (a -2.1 percent annual rate) during the previous six months. Although the LEI has risen during the past two months, it is too soon to say the contraction in the LEI that began in July 2007 is coming to an end. The LEI has continued to decline over a six-month period in the second half of 2008, with continued widespread weakness among its components. The primary sources of strength in the LEI in recent months have been the consistent and large contributions from inflation-adjusted money supply and the interest rate spread, and consumer expectations have only provided a weak positive contribution. The recent behavior of the composite economic indexes suggests that the economy will continue to be in recession in the near term.

- **The Federal Reserve warned that the nation's crippled economy is even worse than thought and predicted it would deteriorate throughout 2009**, with no sign that the housing market will stabilize. The Fed's bleak estimates indicated that unemployment could climb as high as 8.8 percent this year and that the economy would contract for a full calendar year for the first time since 1991. The old prediction, issued in mid-November, estimated that the jobless rate would rise to between 7.1 and 7.6 percent.

  Many private economists believe the current 7.6 percent jobless rate – the highest in more than 16 years – will hit at least 9 percent by early next year even with the $787 billion stimulus package signed into law by President Obama.

  The Fed forecast calls for the jobless rate to dip to between 8 and 8.3 percent next year, and to between 7.5 and 6.7 percent in 2011. The normal range for unemployment is around 5 percent. Employment is usually the last piece of the economy to heal once the country is out of recession and in recovery mode. Businesses are usually reluctant to ramp up hiring until they feel confident that any recovery has staying power.

  The Fed also believes the economy will contract this year between 0.5 and 1.3 percent. The old forecast said the economy could shrink by 0.2 percent or expand by 1.1 percent. The last time the economy registered a contraction for a full year was in 1991, by 0.2 percent. If the Fed's new predictions prove correct, it would mark the weakest showing since a 1.9 percent drop in 1982, when the country had suffered through a severe recession.

  Under the Fed's new projections, the economy should grow between 2.5 and 3.3 percent in 2010 and by as much as 5 percent in 2011, which would be considered robust.

Employment

- **Nonfarm payroll employment fell sharply in January (-598,000) and the unemployment rate rose from 7.2 to 7.6 percent.** Payroll employment has declined by 3.6 million since the start of the recession in December 2007 – about one-half of this decline has occurred in the past 3 months. In January, job losses were large and widespread across nearly all major industry sectors.

Consumer Confidence

- **Consumer Confidence, which had decreased in December, continues to be at a historic low.** The Index now stands at 37.7 for January (1985=100), down from 38.6 in December. Looking ahead, consumers remain very pessimistic about the state of the economy and about their earnings. The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households.

Inflation

- **The Consumer Price Index for All Urban Consumers (CPI-U) decreased 1.0 percent in December**, before seasonal adjustment. The December level of 210.228 (1982-84=100) was 0.1 percent higher than in December 2007. On a seasonally adjusted basis, the CPI-U decreased 0.7 percent in December, the third consecutive decline. The index is now only 0.1 percent higher than in December 2007. Declining energy prices, particularly for gasoline, drove most of the decline.

Economic Predictions

- **Forecast update from February's *Blue Chip* report**: "The U.S. forecast has grown still more pessimistic this month. Real GDP is expected to decrease by 5 percent at an annualized rate in the current quarter, and by an additional 2 percent in Q2. GDP is projected to be barely positive in Q3 of this year, and accelerates to 2 percent growth at year end. GDP is forecast to grow by 2 percent in 2010.

  The expectation that the recession will not continue into 2010 is currently the dominant view among analysts. In a recent survey of 50 leading economists by Blue Chip Economic Indicators, 90 percent said they thought the recession would end in 2009, although most expected unemployment to continue to rise into 2010. The recovery scenario is based on a turnaround in consumer spending as tax credits and other programs kick in, and housing finally bottoms out. In the fourth quarter of 2009, the forecast calls for consumer spending to rise at an annual rate of 2.0 percent, and residential building starts up again as the housing slump ends.

Housing in 2010 is currently projected to increase by 20 percent. With current inventory levels of 10 months of unsold homes, one might wonder if this kind of rebound is possible. But this increase would be similar to recovery from previous deep housing downturns. In January of 1991, there was also 10 months inventory of unsold homes. By January of 1992, the inventory was equal to 5 months sales. During 1992 single-family housing permits jumped by 20 percent.

Based on all available information as of February, it seems certain the recession will be the longest and deepest in the post-war period. And it is quite possible that additional tweaks to the stimulus plan will be necessary in the next few quarters to enable (and convince) consumers to spend and business to invest."

ARIZONA:

- **Business Confidence Weak.** The Arizona *Business Leaders Confidence Index (BLCI)* fell 10.3 points to a reading of 32.1 – the largest drop and lowest reading ever recorded since the inception of the BLCI over five years ago. The decline more than wiped out gains in the prior two quarters, just as panel members were beginning to see light at the end of the tunnel. A value below 50 indicates that conditions are expected to deteriorate in the first quarter of 2009.

  In early December the National Bureau of Economic Research identified December of 2007 as the month in which the last expansion ended and recession began. Based on this evaluation, the U.S. has been in a recession for an entire calendar year. Real GDP declined at a 0.5% annual rate in the third quarter and is expected to fall at a 4-6% annual rate in the fourth quarter. Reports on consumer spending, business investment, exports, incomes, and labor markets all have been negative.

  This survey, which was conducted in early December, is forward-looking and asks panelists for their expectations for the first quarter of 2009. Panel members expect the economy to continue deteriorating during the first quarter. Since the BLCI survey began, panel members have correctly predicted the economy's direction-of-change nearly 70% of the time.

- **Latest from *Arizona Blue Chip Economic Forecast***: "Arizona's unemployment rate rose to 6.9 percent in December, below the national figure of 7.2 percent, but up from 6.3 percent in November. Unemployment rates in Phoenix, Tucson and Flagstaff went above 6.0 percent in December, for the first time in this downturn. The Grand Canyon State lost 116,500 jobs in December compared to 2007, a decrease of 4.3 percent. Health care is still growing, along with government employment at the Federal and local level. State government employment was down by 5,100 over the year in December, with more decreases expected as budget cuts take hold. The Arizona Blue Chip consensus forecast for 2009 turned slightly weaker this month. Fourteen of the sixteen panel members are projecting negative job growth for this year. However, none expect job losses in 2010."

SCOTTSDALE BUSINESS ACTIVITY (PROVIDED BY ECONOMIC VITALITY)

- Scottsdale-based **GoDaddy Group**, recently completed a 21,000sf expansion at their Scottsdale facility. The expansion will house additions to the company's customer care center, of which about 60 percent of its work force is dedicated. It also will be used to house additional product developers, and the space vacated will allow for growth in other departments. So far in 2009, Go Daddy has hired over 100 employees and currently has approximately 87 additional open positions.

- One of Scottsdale's premier resorts, **FireSky Resort and Spa**, has announced plans to renovate its 204 room property located south of Scottsdale and Chaparral roads. The renovation will include new furniture, carpeting and bedding for its guest rooms, along with an upgrade of the lobby, meeting space and new furnishings for the pool.

- Westcor, the owners of **Fashion Square**, announced four more tenants for the much anticipated Barney's New York wing, which is scheduled to open in October. The latest additions are LJT Arthur, Ed Hardy, Forever 21, and J. Crew.

- **Taser International**, headquartered in the Scottsdale Perimeter Center, recently sold 4,000 stun guns to the Brazilian National Guard. The Brazilian National Guard adopted the devices after a three-year trial program. The move expands Taser's presence in law enforcement agencies around the world and supports the company's continued growth.

- **3D-P**, a technology provider for the mining industry, is expanding its Scottsdale headquarters. The company is taking on an additional 1,000sf and will include upgraded customer training facilities, additional office space and enhanced shipping and receiving areas.

- **InPlay Technologies**, headquartered in Scottsdale, announced a deal with Panasonic Corp. to include one of its pen products with the electronics manufacturer's Toughbook. Panasonic will use InPlay's MagicPoint digital pen for the Toughbook CF-H1, a notebook computer designed for use by doctors and nurses. InPlay's technology recognizes fingers or pens touching the screen while not recognizing a hand placed on the screen in the normal writing position, which is especially useful in hospital and clinic settings.