

2008-09 Resource and Expenditure Summary

This section provides a broad overview of the resources and expenditures included in the 2008-09 budget. Information is presented for General, Special Revenue and Enterprise funds. General funds, which receive special attention by the community, are highlighted throughout this section. General funds are of particular importance to our residents as they provide for most basic services, such as police, fire, parks and streets. Enterprise funds are supported by fees charged for the services provided with the exception of the Convention Center which has earmarked sales taxes as its primary funding source. Special Revenue funds are restricted to statutory and/or voter-approved uses.

The 2008-09 budget, financed by operating funds, totals \$3,735,754,000. As shown in the pie chart on page 23, the General Fund portion of \$1,183,888,000 is approximately 32 percent of the total. The Enterprise funds, which include Aviation, Water, Wastewater, Solid Waste, Convention Center and Golf, make up another 36 percent of the total. Special Revenue funds such as Arizona Highway User Revenues, Local Transportation Assistance, and grant funds such as Community Development Block Grants,

Human Services grants and Housing grants represent the remaining 32 percent of the total budget.

In addition to presenting the budget by funding source, the budget also is described in terms of the major types of activities or expenditures funded. Included in the operating budget are operating and maintenance expenses that provide for ongoing costs of delivering city services; capital expenditures for pay-as-you-go projects for major additions, improvements or renovations to city facilities; and debt service payments to retire outstanding debt. The pie chart on page 23 shows the distribution of the total operating budget into these three types of expenditures. Not included in the operating budget are bonds and other capital funds used for capital improvement projects. These are included in a separate capital improvement program.

The 2008-09 General Fund budget includes ongoing operating and maintenance and pay-as-you-go capital expenses. No debt service is paid from the General Fund. Instead, debt service associated with General-funded activities is paid for with earmarked property taxes or with the City Improvement Fund. Due to the restrictions on using these funds both

are appropriately included in the Special Revenue funds portion of the budget.

Finally, budgeted expenditures are most easily understood on a departmental basis. Detailed explanations of each department's budget are provided in the Department Program Summary section of this document. The bar chart on page 23 presents the General Fund budget on a department-by-department basis.

The table below provides a comparison of the 2008-09 budget to the 2007-08 adopted budget. Actual expenditures for the 2006-07 fiscal year also are included.

While general fund expenditures are expected to decline as a result of budget cuts as explained below, citywide operating and maintenance expenditures increased slightly from 2007-08. This is primarily due to the first full year of expenditures related to the new public safety expansion tax, increased operating costs associated with the expanded Convention Center facilities, and increased fuel and utility costs. The increased debt service from 2007-08 is associated with the voter-approved 2001 and 2006 bond programs and the planned sale of Aviation revenue bonds.

2008-09 Budget Compared to 2007-08 Adopted Budget (In Millions of Dollars)

	2006-07 Actual Expenditures	2007-08 Adopted Budget	2008-09		
			Budget	Amount Change	Percent Change
Operating and Maintenance Expenditures	\$2,000.8	\$2,423.7	\$2,531.9	\$108.2	4.5%
Capital Expenditures	294.3	540.9	584.4	43.5	8.0
Debt Service	481.8	599.1	619.5	20.4	3.4
Total	\$2,776.9	\$3,563.7	\$3,735.8	\$172.1	4.8%





2008-09 GENERAL FUND BUDGET OVERVIEW

The 2008-09 General Fund budget of \$1,183,888,000 provides for ongoing operating and maintenance and a modest level of pay-as-you-go capital expenditures. The table below compares the 2008-09 General Fund budget with the adopted 2007-08 budget.

The operating and maintenance expenditures for 2008-09 are decreased 0.5 percent compared to the 2007-08 adopted budget. The decrease is primarily the result of budget reductions made in mid 2007-08 and continuing through 2008-09 as a result of declining economic conditions. Budget reductions are described in detail in the Department Program Summary section of this document.

The following pie charts show the 2008-09 General Fund budget summarized by major programs and major resources.

RESOURCES

Resources include beginning fund balances, fund transfers, revenues and recoveries. In the Enterprise funds, fund balances provide a financial cushion against unanticipated changes. The contingency allocation serves this same purpose for the General Fund. While minor changes in fund balances occur from year to year, maintaining proper fund balances over the long term and providing for a contingency fund in the General Fund are important components of sound financial management and a significant factor in bond ratings.

2008-09 Estimated Beginning Fund Balances

As explained in a later section, a General Fund balance may not be budgeted. However, a contingency fund, also known as a “rainy day fund”, may be planned to provide a means to address unexpected revenue decreases or expenditure increases that may occur throughout the year. Each year, most of the contingency allocation remains unused and, therefore, falls to the ending fund balance along with any changes in estimated revenues and expenditures.

The estimated 2008-09 beginning fund balances of \$931.7 million include \$43.0 million in General funds, \$468.1 million in Special Revenue funds and \$420.6 million in Enterprise funds. The estimated beginning fund balance for Special Revenue and Enterprise funds include: Transit 2000 - \$231.3 million; Water - \$131.2 million; Aviation - \$125.2 million; Wastewater - \$98.0 million; Convention Center - \$41.0 million; Parks and Preserves - \$74.5 million; Solid Waste - \$30.0 million; Grant funds - \$23.3 million; Arizona Highway User Revenue - \$19.8 million; Development Services - \$17.3 million; Sports Facilities - \$29.9 million and \$67.2 million in various other restricted funds.

2007-08 General Fund Estimated Ending Balance

As shown in the following table, the estimated 2007-08 ending General Fund balance is \$43.0 million. The balance results primarily from a \$94.8 million decrease in operating expenditures, a \$2.3 million decrease in pay-as-you-go capital expenditures and a \$6.3 million increase in transfers, which were offset by a \$57.5 million decrease in operating revenues and a \$2.2 million lower beginning balance. The decrease in estimated 2007-08 General Fund expenditures is largely due to unused contingency funds and mid-year budget cuts made as a result of declining economic conditions.

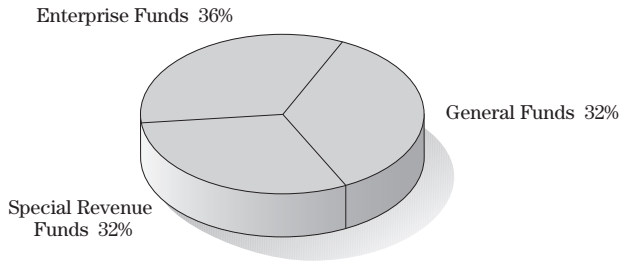
2008-09 General Fund Budget Compared to 2007-08 Adopted Budget (In Millions of Dollars)

	2006-07 Actual Expenditures	2007-08 Adopted Budget	2008-09		
			Budget	Amount Change	Percent Change
Operating and Maintenance Expenditures	\$1,018.9	\$1,184.2	\$1,177.8	(\$6.4)	(0.5%)
Capital	3.7	15.1	6.1	(9.0)	(68.9%)
Debt Service	—	—	—	—	0%
Total	\$1,022.6	\$1,199.3	\$1,183.9	(\$15.4)	(1.3%)

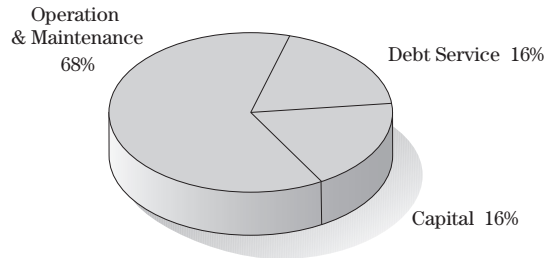




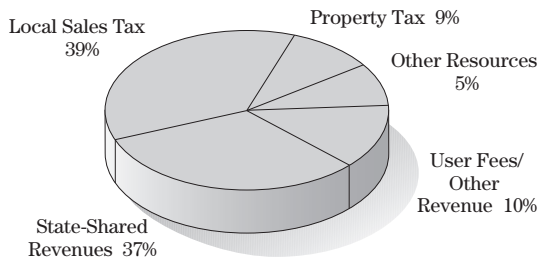
ALL SOURCES OF FUNDS
Total Resources – \$3.7 Billion



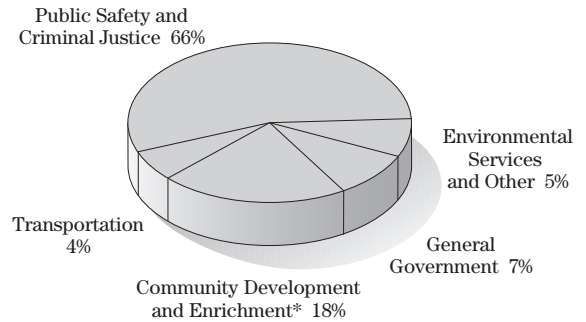
ALL SOURCES OF FUNDS
Total Expenditures – \$3.7 Billion



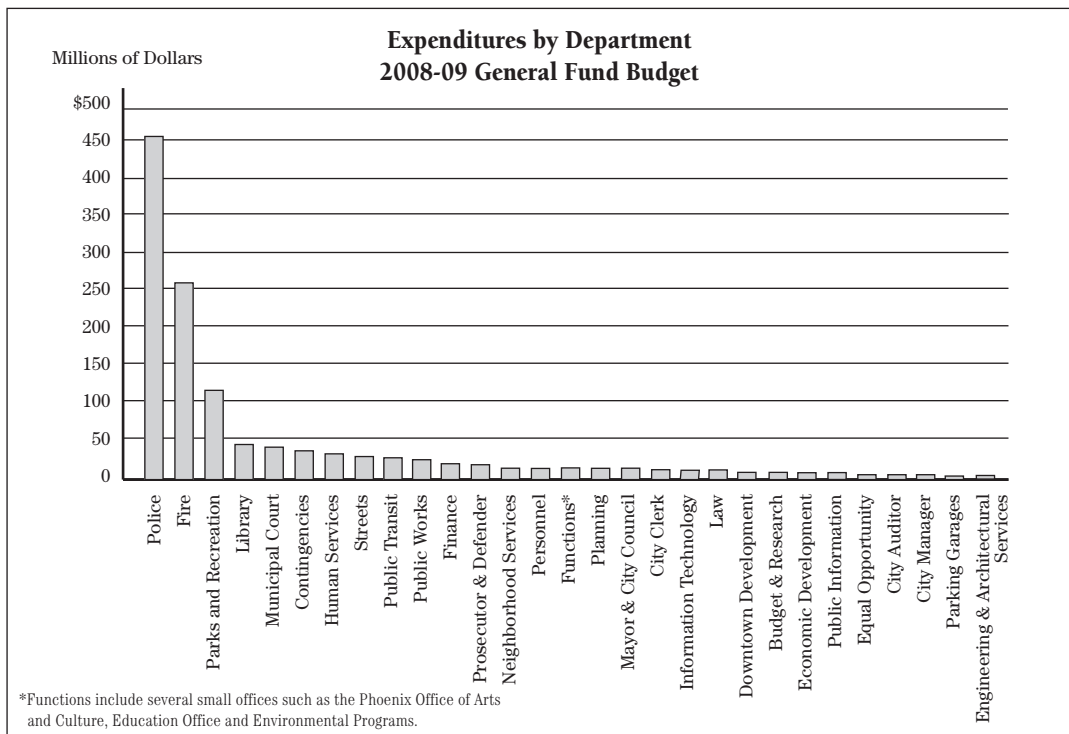
GENERAL FUNDS
Total Resources – \$1,184 Million



GENERAL FUNDS
Total Expenditures – \$1,184 Million



*Includes Parks, Library, Human Services, Neighborhood Services, Planning and Economic Development





2008-09 Estimated Revenues

Revenues from taxes, fees, interest, grants and other sources provide resources to fund programs and services delivered by the city. Revenues for 2008-09 are estimated at \$3,295,107,000. This is \$170,453,000, or 5.5 percent above the 2007-08 estimate of \$3,124,654,000. General Fund revenues are estimated at \$1,123,286,000, which is \$62,881,000 or 5.9 percent more than the 2007-08 estimates. The following table provides a comparison of the 2008-09 estimated revenues to 2007-08 estimates and 2006-07 actual collections. Detailed explanations by category are provided in the 2008-09 Revenue Estimates section of this document.

State and local economic growth slowed in 2006-07 from the strong growth in the previous two years as the local housing market cooled. The state and local economy have continued to decline in 2007-08 as a result of a variety of factors including continued weakness in the housing market, slower job growth, and increased oil and food prices. Estimated revenue growth for 2008-09 assumes that the economy will improve somewhat next year. As a result, local and state sales tax collections are expected to grow at a higher rate than in 2007-08.

Included in 2008-09 estimates for the Enterprise funds are full-year impacts of rate increases for Solid Waste effective January 2008, and Water and Wastewater services effective March 2008. The 2008-09 estimate for Special Revenue funds includes a \$36.9 million increase in secondary property tax, a \$28.6 million increase in 2007 Public Safety Expansion funds as the first full year of sales tax is collected, and a \$2.9 million increase in federal funds.

2008-09 Transfers to the General Fund

Transfers are used to allocate resources between funds for purposes of matching costs with benefits received through a central service cost allocation or to assess in lieu property taxes.

Transfers to the General Fund for 2008-09 total \$47.4 million. This amount reflects \$47.1 million from Enterprise and other funds to recoup central service costs and/or payments for in lieu property taxes from the Aviation, Water and Wastewater, Solid Waste, Convention Center and Development Services funds. Central service provides a repayment to the General Fund for services provided by departments such as Personnel, Finance, Law and other administrative support areas that are General funded. This transfer is calculated by the Finance Department in accordance with generally accepted full-cost accounting principles and is in accordance with long-established City Council-approved policy. The Enterprise transfers also include \$267,000 from the Golf Course Fund to recoup Parks, Recreation and Golf department direct administrative support costs. The Golf Fund does not pay citywide central service costs or in lieu property taxes.

Approximately \$0.1 million in miscellaneous transfers from other funds also is included. As a result, total transfers to the General Fund exclusive of excise tax-related items are \$47.4 million. A transfer of \$838.0 million from the Excise Tax Fund represents the General Fund share of local and state-shared sales taxes and fees and state-shared income taxes. However, this amount is reflected in revenues, rather than a transfer, throughout this section.

2008-09 ESTIMATED ENDING BALANCES

Arizona budget law requires a balanced General Fund budget. No General Fund balances may be accumulated in reserve for subsequent fiscal years. Arizona law does, however, provide for a contingency or "rainy day fund" each year. For 2008-09, \$31.9 million is included for the General Fund contingency and is discussed in more detail in the Contingency section of this document. As a result, budgeted General Fund resources equal expenditures. However, any unused contingency amounts at year-end fall to a General Fund ending balance. Generally, at least 95 percent of the General Fund contingency remains unused each year.

Year-end balances are planned in the Enterprise funds and other self-supporting funds primarily to provide for adequate funds at the beginning of the following fiscal year. Such funds are used to stabilize rate increases associated with fluctuations in service demand, insure bondholders of future debt service payment and to accumulate funds for annual pay-as-you-go capital improvements. Also, Enterprise Fund balances are intentionally permitted to grow over time in order to fund large capital projects.

The estimated 2008-09 ending balance of \$488.1 million includes: Transit 2000 - \$186.2 million; Water - \$67.2 million; Convention Center - \$28.3 million; Wastewater - \$37.2 million; Solid Waste - \$2.8 million; Aviation - \$54.6 million; 2007 Public Safety Expansion - Police - \$26.0 million; Arizona Highway User Revenue - \$9.7 million; Sports Facilities - \$37.5 million and \$38.6 million in various other Special Revenue and Enterprise funds. Beginning and ending fund balances are provided in more detail in Schedule 1.

In 2008-09, the Enterprise funds in the aggregate are programmed to decline from \$421 million at the beginning of 2008-09 to \$182 million at year end. The Aviation balance is declining due to anticipated costs associated with planned bond sales and increases in new capital projects financed with operating funds. Solid Waste funds are decreasing due to increased





maintenance and planned replacement costs associated with aging infrastructure, as well as additional field services staff and new containers needed to handle growth. Water funds are decreasing primarily due to increased costs for raw water, increased water production resulting in higher chemical costs and budget additions. Wastewater funds are decreasing primarily due to planned vehicle replacement costs, and increased costs for electricity and sludge hauling. The Convention Center Fund balance is declining due to planned increases in operating costs associated with the expanded facility.

Special Revenue Fund balances in the aggregate are expected to decrease from \$468 million to \$306 million, primarily due to the decrease in the Parks and Preserves

Fund, the Transit 2000 Fund, the Arizona Highway User Revenue Fund and the Development Services Fund.

The Parks and Preserves Fund balance is decreasing primarily due to the planned expenditure of approximately \$82 million for acquisition of land for the Sonoran Preserve. The Transit 2000 Fund balance is decreasing as the capital improvement portion of the program reaches its peak years and as planned service improvements are implemented. The Transit 2000 Fund balance also is decreasing due to increased contract services costs and significantly increased fuel costs. The Arizona Highway User Revenue Fund balance is decreasing as costs for street construction increase.

The Development Services Fund balance largely represents permit revenues

received for which inspection services have not yet been performed. New permitting activities have significantly declined and the fund balance will be drawn down to support inspection services still due.

Negative Fund Balance

Golf Fund expenditures have exceeded revenues for several years. The Parks Department has a major restructuring of the golf system underway in order to return it to a competitive status. The Golf Fund will remain in a deficit position while this restructuring is underway.

General Fund Balance Analysis (In Thousands of Dollars)

	2006-07	2007-08		Estimate Over (Under) Budget	
	Actuals	Budget	Estimate	Amount	Percent
Resources					
Beginning Balances	\$ 68,761	\$ 70,921	\$ 68,689	\$ (2,232)	(3.1)%
Revenue	1,009,545	1,117,954	1,060,405	(57,549)	(5.1)%
Recoveries	740	1,500	850	(650)	(43.3)%
Transfers	12,288	8,923	15,253	6,330	70.9%
Total Resources	\$1,091,334	\$1,199,298	\$1,145,197	\$(54,101)	(4.5)%
Expenditures					
Operating Expenditures	1,018,921	1,184,192	1,089,346	(94,846)	(8.0)%
Capital	3,724	15,106	12,839	(2,267)	(15.0)%
Total Expenditures	\$1,022,645	\$1,199,298	\$1,102,185	\$(97,113)	(8.1)%
Ending Fund Balance	\$ 68,689	\$ —	\$ 43,012	\$ 43,012	100.0+%

2008-09 Estimated Revenues Compared to 2007-08 Estimates (In Thousands of Dollars)

Fund Types	2006-07 Actuals	2007-08 Estimate	2008-09 Estimate	2008-09	
				Amount Change	Percent Change
General	\$1,009,545	\$1,060,405	\$1,123,286	\$ 62,881	5.9%
Special Revenue Funds	831,268	964,487	1,029,152	64,665	6.7%
Enterprise Funds	1,047,900	1,099,762	1,142,669	42,907	3.9%
Total	\$2,888,713	\$3,124,654	\$3,295,107	\$170,453	5.5%

