

2006-07 Resource and Expenditure Summary

This section provides a broad overview of the resources and expenditures included in the 2006-07 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 2006-07 budget, financed by operating funds, totals \$3,187,565,000. As shown in the pie chart on page 23, the General Fund portion of \$1,093,012,000 is approximately 34 percent of the total. The Enterprise funds, which include Aviation, Water, Wastewater, Solid Waste,

Convention Center and Golf, make up another 35 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 31 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 2006-07 General Fund budget includes only ongoing operating and maintenance and pay-as-you-go capital expenses. Debt service associated with most general-funded activities is paid for with earmarked property taxes or is shown in the City Improvement fund. Both are 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 2006-07 budget to the 2005-06 adopted budget. Actual expenditures for the 2004-05 fiscal year also are included.

2006-07 Budget Compared to 2005-06 Adopted Budget (In Millions of Dollars)

	2004-05 Actual Expenditures	2005-06 Adopted Budget	2006-07		
			Budget	Amount Change	Percent Change
Operating and Maintenance Expenditures	\$1,712.2	\$2,004.1	\$2,238.3	\$234.2	11.7 %
Capital Expenditures	233.7	384.2	433.0	48.8	12.7 %
Debt Service	370.3	623.1	516.3	(106.8)	(17.1)%
Total	\$2,316.2	\$3,011.4	\$3,187.6	\$176.2	5.9 %





Citywide operating and maintenance expenditures increased from 2005-06 primarily for inflationary increases such as employee compensation including higher pension and health care costs, and added operating costs related to the opening of new capital facilities. Increases also reflect rising costs for commodities such as fuel and utilities and reflect the carry over of funds from the current year to 2006-07. Increases to operating and maintenance expenditures were partially offset by a decrease in debt service costs. Debt service costs were less than 2005-06 due to the inclusion of early redemption of bond funds in the 2005-06 budget. This early redemption is now scheduled for the first part of 2006-07.

2006-07 GENERAL FUND BUDGET OVERVIEW

The 2006-07 General fund budget of \$1,093,012,000 million provides for ongoing operating and maintenance and capital expenditures. The table below compares the 2006-07 General Fund budget with the adopted 2005-06 budget.

The operating and maintenance expenditures increased compared to the 2005-06 adopted budget. The increase is primarily the result of inflationary growth, the

planned transition of grant-funded public safety staff to the General Fund, reflecting full year costs for facilities opened in 2005-06 plus new operating costs associated with capital facilities that will open in 2006-07, inflationary increases in the costs of fuel and utilities, providing funding for rising employee health care, and pension costs and other negotiated compensation increases.

The following pie charts show the 2006-07 General Fund budget summarized by major programs and major resources.

RESOURCES

Resources include beginning fund balances, fund transfers, revenues and recoveries. Generally, current revenues and fund transfers pay for current year expenses. 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.

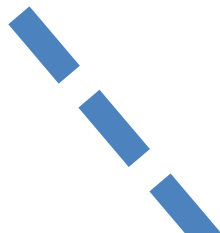
2006-07 Estimated Beginning Fund Balances

In the General Fund, a fund balance may not be budgeted. However, a contingency fund, similar to 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.

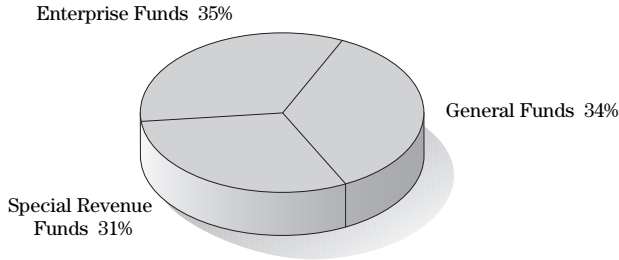
The estimated 2006-07 beginning fund balances of \$781.9 million include \$60.8 million in general funds, \$358.5 million in special revenue funds and \$362.6 million in enterprise funds. The estimated beginning fund balance for Special Revenue and Enterprise funds include: Transit 2000 - \$154.7 million; Water - \$156.3 million; Aviation - \$51.2 million; Wastewater - \$64.1 million; Convention Center - \$55.5 million; Parks and Preserves - \$58.6 million; Solid Waste - \$36.4 million; Grant funds - \$36.9 million; Arizona Highway User Revenue - \$20.6 million; Development Services - \$28.9 million; Sports Facilities - \$15.9 million and \$42.0 million in various other restricted funds.

2006-07 General Fund Budget Compared to 2005-06 Adopted Budget (In Millions of Dollars)

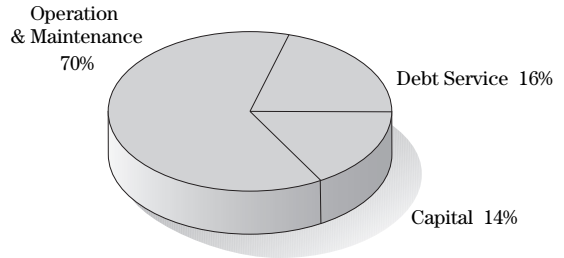
	2004-05 Actual Expenditures	2005-06 Adopted Budget	2006-07		
			Budget	Amount Change	Percent Change
Operating and Maintenance Expenditures	\$874.9	\$968.1	\$1,083.3	\$115.2	11.9%
Capital	1.3	5.1	9.7	4.6	90.2%
Total	\$876.2	\$973.2	\$1,093.0	\$119.8	12.3%



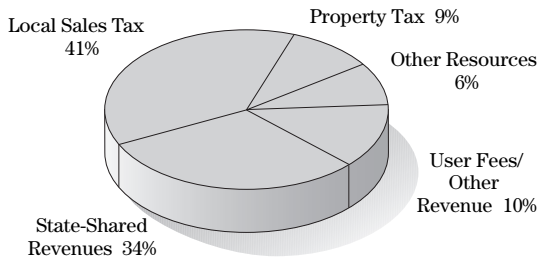
ALL SOURCES OF FUNDS
Total Resources – \$3.2 Billion



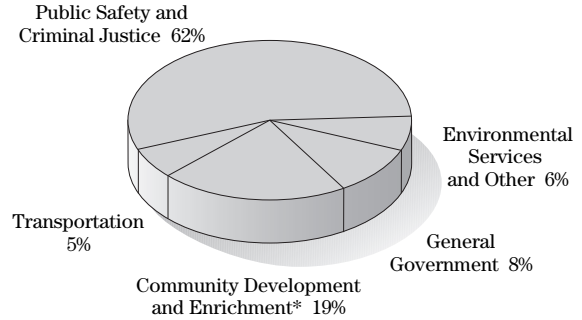
ALL SOURCES OF FUNDS
Total Expenditures – \$3.2 Billion



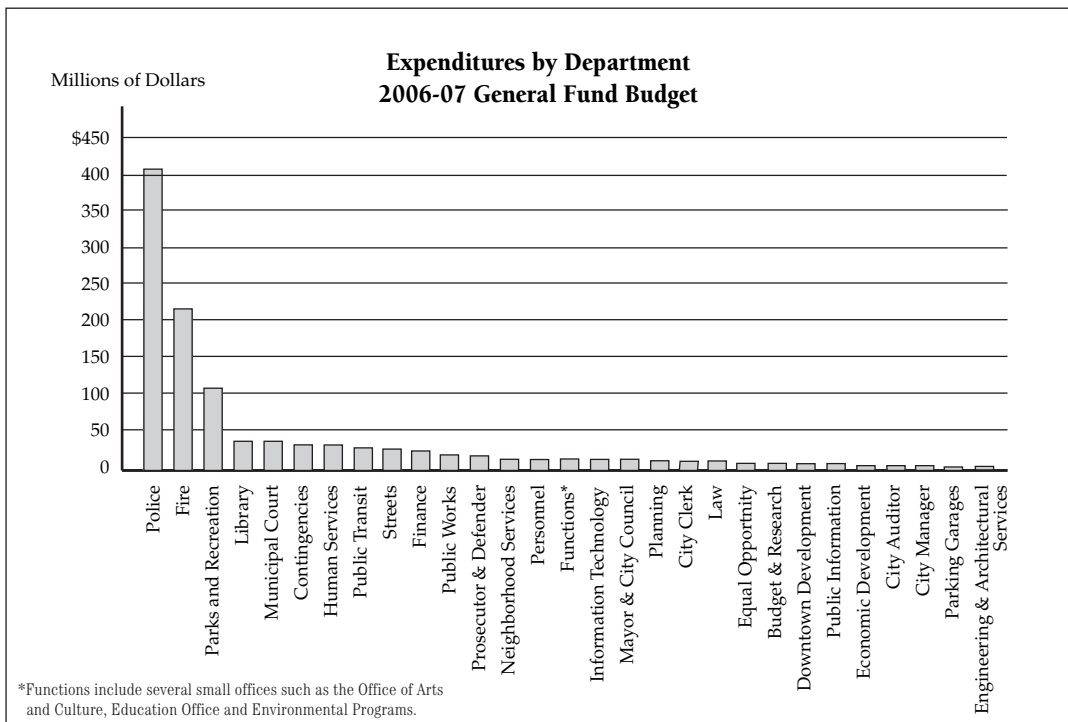
GENERAL FUNDS
Total Resources – \$1,093 Million



GENERAL FUNDS
Total Expenditures – \$1,093 Million



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





**2005-06 General Fund
Estimated Ending Balance**

As shown in the following table, the estimated 2005-06 ending General Fund balance is \$60.8 million. The balance results primarily from a \$38.5 million decrease in operating expenditures, a \$16.2 million increase in current year revenues, and a \$3.7 million higher beginning balance. The decrease in estimated 2005-06 General Fund expenditures is largely due to unused contingency funds, the carryover of some General Fund projects not completed in the current year, and a decrease in capital expenditures. The majority of the revenue increase is in city excise taxes and state-shared revenues.

2006-07 Estimated Revenues

Revenues from taxes, fees, interest, grants and other sources provide resources to fund programs and services delivered by the city. Revenues for 2006-07 are estimated at \$2,812,396,000. This is \$182,850,000, or 7.0 percent above the 2005-06 estimate of \$2,629,546,000. General fund revenues are estimated at \$1,021,516,000, which is \$83,164,000 or 8.9 percent more than the 2005-06 estimates. The following table provides a comparison of the 2006-07 estimated revenues to 2005-06 estimates and 2004-05 actual collections. Detailed explanations by category are provided in the 2006-07 Revenue Estimates section of this document.

The state and local economy has experienced strong growth beginning late 2004-05 and continuing through 2005-06. The economy is being bolstered by increased retail spending, revived tourism spending and the continuation of the growth in contracting. For 2006-07, it is estimated that the growth will continue, but at a more moderate pace. Included in 2006-07 estimates for the enterprise funds are full-year impacts of rate increases for

Water and Wastewater services, effective March 2006. The 2006-07 estimate for special revenue funds includes an increase in federal funds of \$1.5 million largely due to the carryover of incompletd federal expenditures and the associated revenue.

**2006-07 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 2006-07 total \$43.7 million. This amount reflects \$43.3 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 \$351,000 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 \$43.7 million. A transfer of \$756 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.

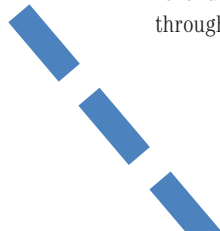
**2006-07 ESTIMATED
ENDING BALANCES**

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 2006-07, \$28.9 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, about 95 percent of the General Fund contingency remains unused each year.

Changes in special revenue and enterprise fund balances are primarily due to the carryover of large capital projects from one year to the next. Beginning and ending fund balances are shown in Schedule 1.

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 changes, 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. Therefore, in 2006-07, the enterprise funds in the aggregate are programmed to decline from \$363 million at the beginning of 2006-07 to \$181 million at year end. Capital projects contributing to this change in fund balance include the new rental car facility at Sky Harbor airport, the new Lake Pleasant Water Treatment Plant, a new solid waste landfill and the expansion of the Convention Center.



Special Revenue fund balances in the aggregate are expected to decrease from \$358 million to \$243 million, primarily due to the decrease in the Parks and Preserves Fund, the Transit 2000 Fund and the Arizona Highway User Fund. The Parks and Preserves program, a voter-approved 0.4 percent sale tax, is nearing the end of its 10-year plan to improve existing parks, construct new neighborhood parks and

acquire preserve land. The Transit 2000 fund balance is decreasing as the capital improvement portion of the program reaches its peak years. The Arizona Highway User Fund balance is decreasing as street construction expenditures increase in accordance with the approved five-year major street program. Also, a revenue loss in 2006-07 is estimated as a result of the 2005 census.

The estimated 2006-07 ending balance of \$424.2 million includes: Transit 2000 - \$121.3 million; Water - \$98.4 million; Convention Center - \$23.3 million; Wastewater - \$34.4 million; Parks and Preserves - \$23.1 million; Solid Waste - \$12.5 million; Aviation - \$13.6 million; Development Services - \$20.9 million; Sports Facilities - \$20.5 million and \$56.2 million in various other special revenue and enterprise funds.

General Fund Balance Analysis (In Thousands of Dollars)

	2004-05	2005-06		Estimate Over (Under) Budget	
	Actuals	Budget	Estimate	Amount	Percent
Resources					
Beginning Balances July 1	\$ 53,362	\$ 35,189	\$ 38,903	\$ 3,714	10.6 %
Revenue	842,984	922,161	938,352	16,191	1.8 %
Recoveries	546	1,500	1,500	—	— %
Transfers	18,176	14,320	14,941	621	4.3 %
Total Resources	\$ 915,068	\$ 973,170	\$ 993,696	\$ 20,526	2.1 %
Expenditures					
Operating Expenditures	874,870	968,050	929,550	(38,500)	(4.0)%
Capital	1,295	5,120	3,306	(1,814)	(35.4)%
Total Expenditures	\$ 876,165	\$ 973,170	\$ 932,856	\$ (40,314)	(4.1)%
Ending Fund Balance	\$ 38,903	\$ —	\$ 60,840	\$ 60,840	100.0+%

2006-07 Estimated Revenues Compared to 2005-06 Estimates (In Thousands of Dollars)

Fund Types	2005-06 Actuals	2005-06 Estimate	2006-07		
			Estimate	Amount Change	Percent Change
General	\$ 842,984	\$ 938,352	\$ 1,021,516	\$ 83,164	8.9 %
Special Revenue Funds	727,724	802,899	848,608	(45,709)	(5.7)%
Enterprise Funds	812,431	888,295	942,272	53,977	6.1 %
Total	\$2,383,139	\$2,629,546	\$2,812,396	\$ 182,850	7.0 %

