

2007-08 Resource and Expenditure Summary

This section provides a broad overview of the resources and expenditures included in the 2007-08 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 2007-08 budget, financed by operating funds, totals \$3,563,759,000. As shown in the accompanying pie chart, the General Fund portion of \$1,199,298,000 is approximately 34 percent of the total. The Enterprise funds, which include Aviation, Water, Wastewater, Solid Waste, Convention Center and Golf, make up another 34 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 the following page 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 2007-08 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 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 following bar chart presents the General Fund budget on a department-by-department basis.

The table below provides a comparison of the 2007-08 budget to the 2006-07 adopted budget. Actual expenditures for the 2005-06 fiscal year also are included.

Citywide operating and maintenance expenditures increased from 2006-07 primarily due to the costs of the second year of a two-year agreement with our employee groups as well as increased pension and other benefit costs, the annual required contribution to fully fund GASB 45 (Statement 45 of the Governmental Accounting Standards Board addresses appropriate funding and

2007-08 Budget Compared to 2006-07 Adopted Budget (In Millions of Dollars)

	2005-06 Actual Expenditures	2006-07 Adopted Budget	2007-08		
			Budget	Amount Change	Percent Change
Operating and Maintenance Expenditures	\$1,830.6	\$2,238.3	\$2,423.7	\$185.4	8.3%
Capital Expenditures	282.0	433.0	540.9	107.9	24.9
Debt Service	435.5	516.3	599.1	82.8	16.1
Total	\$2,548.1	\$3,187.6	\$3,563.7	\$376.1	11.8%



accounting for other post employment benefits) costs, operating costs related to operating and maintaining new capital facilities, and several budget additions. Increases also reflect rising costs for commodities such as fuel and utilities. The increase in debt service from 2006-07 is associated with the voter-approved 2001 and 2006 bond programs and the planned sale of Aviation revenue bonds.

2007-08 GENERAL FUND BUDGET OVERVIEW

The 2007-08 General Fund budget of \$1,199,298,000 provides for ongoing operating and maintenance and a modest level of pay-as-you-go capital expenditures. The table below compares the 2007-08 General Fund budget with the adopted 2006-07 budget.

Operating and maintenance expenditures are increased 9.3 percent compared to the 2006-07 adopted budget. The increase is primarily the result of employee compensation increases as described above; the General Fund portion of GASB 45; the planned transition of grant-funded public safety staff to the General Fund; reflecting full-year costs for facilities opened in 2006-07 plus new operating costs associated with capital facilities that will open in 2007-08; inflationary increases in the costs of fuel and utilities; an increased level of vehicle requirements; the continued restoration of General Fund support to Streets and Transit; an increase in the contingency fund and several budget additions. Budget

additions are described in detail in the Department Program Summary section of this document.

The following pie charts show the 2007-08 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.

2007-08 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 2007-08 beginning fund balances of \$938.7 million include \$70.9 million in General funds, \$438.7 million in Special Revenue funds and \$429.1 million in Enterprise funds. The estimated beginning fund balance for Special Revenue and Enterprise funds include: Transit 2000 - \$188.9 million; Water - \$158.0 million; Aviation - \$114.3 million; Wastewater - \$86.0 million; Convention Center - \$39.6 million; Parks and Preserves - \$87.8 million; Solid Waste - \$33.7 million; Grant funds - \$40.2 million; Arizona Highway User Revenue - \$29.9 million; Development Services - \$28.2 million; Sports Facilities - \$22.0 million and \$39.2 million in various other restricted funds.

2006-07 General Fund Estimated Ending Balance

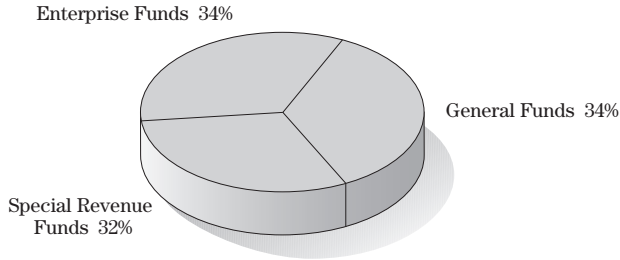
As shown in the following table, the estimated 2006-07 ending General Fund balance is \$70.9 million. The balance results primarily from a \$55.1 million decrease in operating expenditures, a \$5.5 million decrease in pay-as-you-go capital expenditures and a \$7.9 million higher beginning balance. The decrease in estimated 2006-07 General Fund expenditures is largely due to unused contingency funds, and expenditure savings in most departments due to salary savings. Also contributing to the increase is the carryover of \$10.5 million in General Fund expenditures from 2006-07. These carryovers represent planned expenditures in 2006-07 that will not be completed until 2007-08.

2007-08 General Fund Budget Compared to 2006-07 Adopted Budget (In Millions of Dollars)

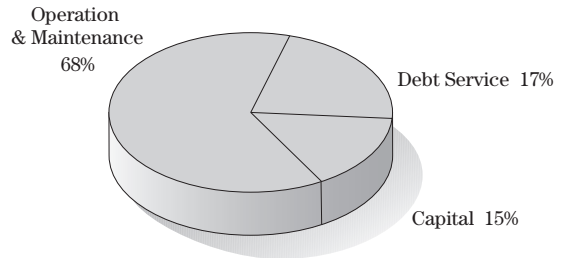
	2005-06 Actual Expenditures	2006-07 Adopted Budget	2007-08		
			Budget	Amount Change	Percent Change
Operating and Maintenance Expenditures	\$928.7	\$1,083.3	\$1,184.2	\$100.9	9.3%
Capital	3.5	9.7	15.1	5.4	55.7%
Total	\$932.2	\$1,093.0	\$1,199.3	\$106.3	9.7%



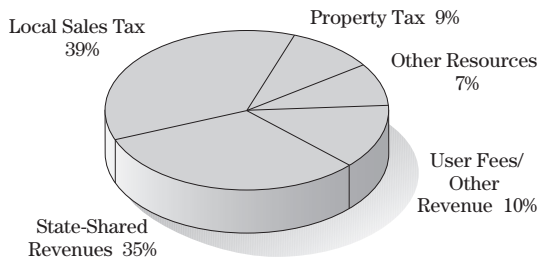
ALL SOURCES OF FUNDS
Total Resources – \$3.6 Billion



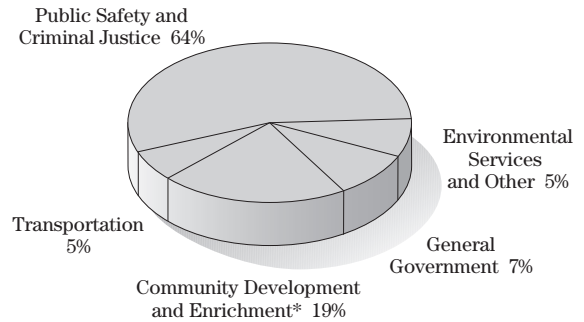
ALL SOURCES OF FUNDS
Total Expenditures – \$3.6 Billion



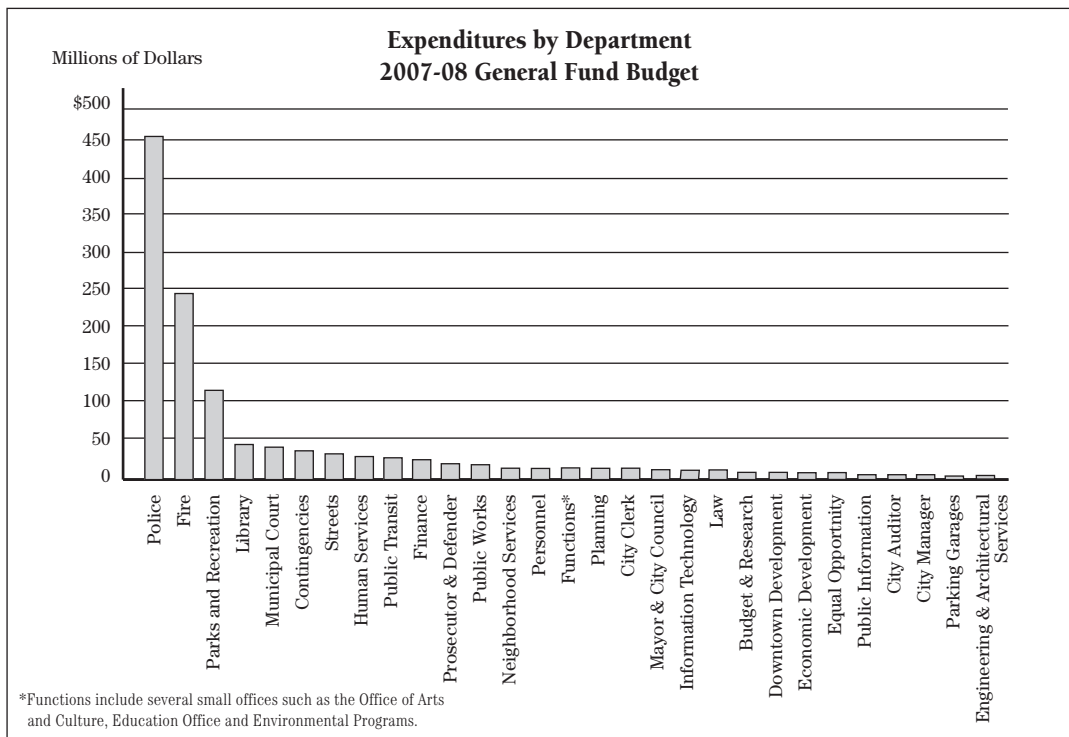
GENERAL FUNDS
Total Resources – \$1,199 Million



GENERAL FUNDS
Total Expenditures – \$1,199 Million



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





2007-08 Estimated Revenues

Revenues from taxes, fees, interest, grants and other sources provide resources to fund programs and services delivered by the city. Revenues for 2007-08 are estimated at \$3,107,249,000. This is \$225,434,000, or 7.8 percent above the 2006-07 estimate of \$2,881,815,000. General Fund revenues are estimated at \$1,117,954,000, which is \$95,977,000 or 9.4 percent more than the 2006-07 estimates. The following table provides a comparison of the 2007-08 estimated revenues to 2006-07 estimates and 2005-06 actual collections. Detailed explanations by category are provided in the 2007-08 Revenue Estimates section of this document.

The state and local economy experienced strong growth beginning in late 2004-05 and continuing through 2005-06, bolstered by increased retail spending, revived tourism spending and strong growth in contracting. Due to the recent downturn in the housing market, growth has continued in 2006-07, but at a slower pace. Estimated revenue growth for 2007-08 assumes the economy will continue to slow slightly as population and job growth absorb the available housing stock. As a result, local and state sales tax collections are expected to grow at a lower rate than in 2006-07.

Reduced sales tax growth rates is partially offset by an increase in state-shared income tax. Included in 2007-08 estimates for the Enterprise funds are full-year impacts of rate increases for Water and Wastewater services, effective March 2007. The 2007-08 estimate for Special Revenue funds includes a \$43.9 million increase in secondary property tax and a \$15.0 million increase in federal funds.

2007-08 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 2007-08 total \$47.0 million. This amount

reflects \$46.5 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 \$416,000 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 \$47.0 million. A transfer of \$835.1 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.

2007-08 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 2007-08, \$34.2 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.

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 2007-08 ending balance of \$473.7 million includes: Transit 2000 - \$147.1 million; Water - \$83.7 million; Convention Center - \$9.8 million; Wastewater - \$47.6 million; Parks and Preserves - \$5.1 million; Solid Waste - \$10.7 million; Aviation - \$92.9 million; Development Services - \$9.4 million; Sports Facilities - \$29.1 million and \$38.3 million in various other Special Revenue and Enterprise funds. Beginning and ending fund balances are provided in more detail in Schedule 1.

In 2007-08, the Enterprise funds in the aggregate are programmed to decline from \$429 million at the beginning of 2007-08 to \$240 million at year end. Increased maintenance and planned replacement costs associated with aging infrastructure contribute to decreased fund balances in the Water, Wastewater and Solid Waste funds. The Water Fund balance also is decreasing due to increases in chemical costs and full-year costs associated with operating the Lake Pleasant Water Treatment Plant. Increased sledge hauling costs contribute to the decrease in the Wastewater Fund balance. Additional field services staff and new containers needed to handle growth contribute to the decline in the Solid Waste Fund. The Convention Center Fund balance is declining as planned as debt service and operating costs associated with the expanded facility begin to occur.

Special Revenue Fund balances in the aggregate are expected to decrease from \$439 million to \$233 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 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 and as planned service improvements are implemented. 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 begun to decline, the fund balance will be drawn down to support inspection services still due.

Negative Fund Balances

Two funds are budgeted with negative fund balances: Regional Transit and Golf. The Regional Transit negative fund balance represents a large encumbrance that was recorded in 2005-06. This encumbrance will be reimbursed to the city by Maricopa

County as actual cash expenditures are made. The reimbursement will take three years.

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)

	2005-06	2006-07		Estimate Over (Under) Budget	
	Actuals	Budget	Estimate	Amount	Percent
Resources					
Beginning Balances	\$38,903	\$60,840	\$68,761	\$7,921	13.0%
Revenue	945,618	1,021,516	1,021,977	461	< 0.1%
Recoveries	961	1,500	1,500	—	—%
Transfers	15,508	9,156	11,097	1,941	21.2%
Total Resources	\$1,000,990	\$1,093,012	\$1,103,335	\$10,323	0.9%
Expenditures					
Operating Expenditures	928,702	1,083,304	1,028,201	(55,103)	(5.1) %
Capital	3,527	9,708	4,213	(5,495)	(56.6) %
Total Expenditures	\$932,229	\$1,093,012	\$1,032,414	\$(60,598)	(5.5) %
Ending Fund Balance	\$68,761	\$—	\$70,921	\$70,921	100.0+%

2007-08 Estimated Revenues Compared to 2006-07 Estimates (In Thousands of Dollars)

Fund Types	2005-06 Actuals	2006-07 Estimate	2007-08 Estimate	2007-08	
				Amount Change	Percent Change
General	\$945,618	\$1,021,977	\$1,117,954	\$95,977	9.4%
Special Revenue Funds	787,577	834,876	913,591	78,715	9.4%
Enterprise Funds	958,254	1,024,962	1,075,704	50,742	5.0%
Total	\$2,691,449	\$2,881,815	\$3,107,249	\$225,434	7.8%