



	<u>Page</u>
Comprehensive Financial Plan Overview	40
Forecast Methodology	41
Forecast and Major Revenue Assumptions	42
Financial Overview	44
Major Expenditure Assumptions and Economic Outlook	45
General Fund	46
Transit Fund	48
Performing Arts Fund	50
Transportation Funds	52
Rio Salado and Community Facilities District (CFD) Funds	54
Enterprise Funds	
Water/Wastewater Fund	56
Solid Waste Fund.....	58
Golf Fund	60
Cemetery Fund	62
Financial Action Plan	64



Introduction

The Comprehensive Financial Plan, first published in March 1991, is a vital component of Tempe's financial management strategy. Its purpose is to provide a five-year perspective on the financial condition of the City's major appropriated funds. As a planning tool it provides a long-range context for the City Council to use in making budgetary decisions for the upcoming fiscal year.

Study Approach

As part of this study, the Management and Budget Section within Financial Services has established financial models that examine the City's appropriated operating funds and their underlying revenue and expenditure structures for the period of FY 2008-09 through FY 2012-13.

Forecast models are presented along with trends, forecasts, and fund balances for each of the funds.

Major operating funds examined include:

Governmental Fund

- General Fund
- Transit Fund
- Transportation Fund
- Performing Arts Fund
- Rio Salado/Community Facilities District Funds

Enterprise Funds

- Water/Wastewater Fund
- Solid Waste Fund
- Golf Fund
- Cemetery Fund

Major Study Findings

Due to the impact of the National and State recessions on revenue, the City is expected to experience serious financial challenges over the five year forecast horizon. Nearly every City fund is expected to run an operating deficit during this period. In light of this, steps have been taken to decrease expenditures and increase revenue in the near-term. However, further adjustments will be necessary in the future.

Due to prudent financial planning in prior years, the City has a strong financial position from which to begin the balancing effort. This offers some flexibility in implementing operational changes while minimizing the service impact.

In terms of financial health going forward, the **General Fund** is projected to go into deficit beginning in FY 2008-09, and the shortfall is expected to continue through the forecast period. The causes of the deficit stem from economic difficulties in the housing market impacting local sales tax collections and intergovernmental revenue sharing, as well as the impact of the national recession on tourism spending in the City. An additional impact is due to reduced interest earnings in the City's pooled investments. The current and projected levels of these major revenue sources will not be sufficient to meet projected expenditure levels.

The **Transit Fund** is projected to maintain an operating surplus in the current year and go into deficit thereafter. Similar to the General Fund, a primary component of Transit Fund revenue is the sales tax. As such this fund's financial status is negatively effected by the recession.

A deficit is projected in the **Transportation Fund** beginning in FY 2008-09 and continuing through the end of the forecast. Reductions are expected in our percentage share of state revenue for transportation from the Highway User Revenue Fund (HURF) and the State Lottery as Tempe's share of statewide population falls. This trend is exacerbated by a decrease in gasoline sales, which is the major component of the state HURF from which the local distributions are made.

The **Performing Arts Fund** is in an operating deficit condition, as costs associated with opening the Tempe Center for the Arts and associated debt service costs exceed annual revenue from the Performing Arts Tax. As with the General Fund and Transit Fund's sales taxes, the Performing Arts Tax is based on local sales activity.

The **Rio Salado/Community Facilities District (CFD)** surpluses are due to interest expected to be received from a deferred land sales payment.

The **Water/Wastewater Fund** is projected to experience operating deficits until FY 2011-12 when surpluses are anticipated through the end of the forecast. Due to projected increases in operating costs along with debt service associated with expansion of the Capital Improvements Program, future rate adjustments will be necessary to ensure full cost recovery.

The **Solid Waste Fund** is projected to go into deficit condition in the out-years of the forecast, and as such, it will be necessary to review Solid Waste fees to bring revenues in line with growth in expenses. The primary reason for the deficit is slowing revenue growth in the enterprise fund.

The **Golf Fund** has been experiencing an operating deficit for several years, and given current operations, the forecast is that this trend will continue. It is likely that options beyond rate adjustments will be necessary to ensure continued operations of the municipal golf enterprise.

The **Cemetery Fund** has experienced an operating deficit since it inception in FY 2005-06 and the forecast anticipates continuation of this trend. This is due primarily to debt service associated with expansion of the cemetery. It is likely that options beyond fee increases will be necessary to ensure full cost recovery.



Forecasting used in this report refers to the estimating of the future values of revenue and expenditures. It provides an estimate of how much revenue will be available and the resources required to meet current service levels and programs over the forecast period, along with an understanding of how the total financial program will be affected by the demographic and economic factors driving these forecasts. The value of forecasting lies in estimating whether, given assumptions about local financial policies and economic trends, the City will have sufficient resources to meet the requirements of ongoing, planned, or mandated programs. Forecast models also provide a planning tool for capital projects and/or determining whether bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the City, as well as insight into tax, revenue, and service options the Council must address.

Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, retail sales, and inflation. Specifically, for the revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on prior year patterns. For the remaining years of the revenue forecast, we look to external forecasts for guidance on economic trends. Principal among these external sources is participation as a sponsor of the Forecasting Project developed by the University of Arizona Eller College of Economic and Business Research Center.

Another key external source is the State Finance Advisory Committee, which provides a forecast of major state revenue sources on a quarterly basis. Typically, these forecasts cover the state or the metro-Phoenix area as a whole, so adjustments to reflect unique conditions in Tempe are sometimes necessary. In general, we seek to match revenue sources with the economic and/or demographic variables that most directly affect year-to-year changes in those revenues.

For example, a revenue such as the City Sales Tax will reflect consensus forecasts related to taxable sales growth. Other revenue, such as those from recreation services, are linked to Tempe's expected population growth. By identifying and utilizing as many revenue-related variables as possible in our forecast, we hope to minimize the risks of overstating or understating revenue that could arise from using only a few variables to forecast all revenue sources.

Expenditure growth is most closely linked to two major factors in our models: 1) inflation (including general inflation, market adjustments to salaries, and changes in benefits costs), and 2) City financial policies related to the amount of new funding added each year for new programs and/or the expansion of existing programs as

well as including new operational and debt service funding associated with Capital Improvements Program projects. As with our revenue forecasts, we consider consensus forecasts related to general inflation (particularly the trends projected). For certain expenditure categories (such as fuel and utilities), we apply inflation factors that reflect the historical rate of price inflation in these categories relative to overall inflation. Amounts for new programs and/or program expansions are assumed to be constant over the forecast period (the same amount is added to each year of the forecast).

Forecast and Major Revenue Assumptions

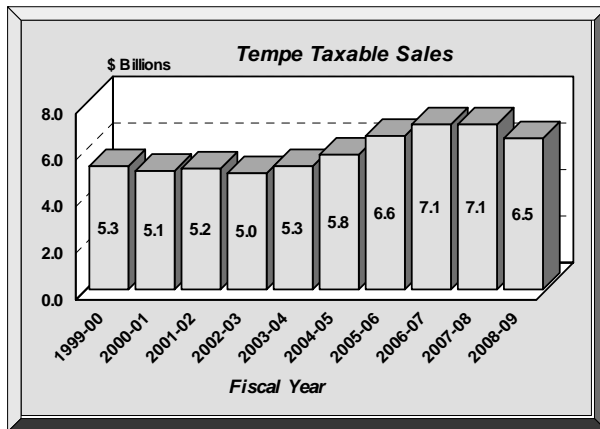


Our general approach to forecasting is to apply a conservative philosophy that does not overstate revenue nor understate expenditures. We recognize that economic forecasting is not an exact science and at times relies upon the professional judgment to optimize the accuracy of revenues or expenditures. We attempt to identify as many factors as possible that may contribute to changes in revenue and expenditures. The City's revenue and expenditure budgets are comprised of many unique elements that respond to a variety of external factors such as population growth, development, inflation, and interest rates. The following provides our assumptions relating to major revenue and expenditures.

Tempe Taxable Sales

Taxable sales in Tempe rebounded rapidly in the time period following the 2001-03 national downturn in the economy. These increases were from both base growth as well as the addition of new business. As the graph below shows, taxable sales in FY 2006-07 were \$7.1 billion, which is 42% higher than the level seen at the lowest point of the economic downturn.

In the current year it became evident that the rapid economic pace would not continue, and was in fact largely based on a speculative real estate bubble. Recent taxable sales activity has faltered; in FY 2008-09 sales activity is estimated to have fallen to \$6.5 billion. This trend is shown in the graph below.



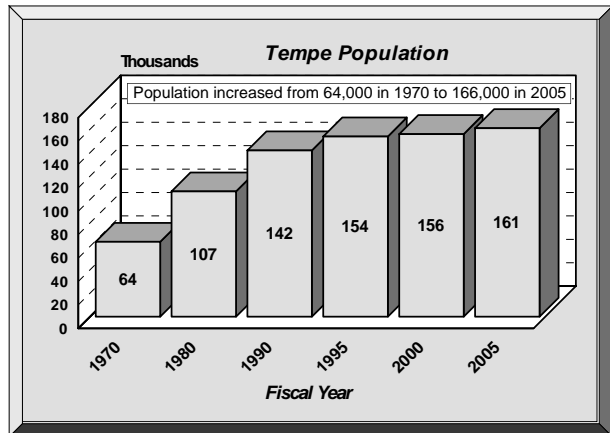
Taxable sales growth has an impact on many funds, as the General Fund, Transit Fund, Performing Arts Fund, and Rio Salado Fund each receive their primary revenue from this source. The primary categories of taxable sales (based on FY 2008-09 annual estimates) are retail (46%), commercial and residential rent (19%), utility sales (6%), contracting (10%), and restaurant sales (8%). Overall taxable sales are expected to remain flat in FY 2009-10 and increase in the out-years as the economy recovers.

Population

Following the strong population growth period of the late 1970's (5.3%) and the 1980's (2.8%), Tempe has

experienced steady but considerably slower growth. This trend is expected to continue, since the City is landlocked with other municipal jurisdictions on all four borders. Given this geographical limit on expansion, population in Tempe is assumed to increase by merely 0.7% per year over the forecast period.

Population is important in the forecasting models for two main reasons. First, it is used to determine growth in revenues from recreation, social services, and criminal justice programs. Second, and of perhaps even greater importance, is the role that population plays in state shared revenue calculations.



Statewide population growth is assumed to average 1.8% per year over the next five years. The disparity between growth in local and state populations is significant since several major revenue categories are dependent upon Tempe's population as a percentage of the state. Every five years the sharing formula is recalculated and the differences in growth rate inevitably result in Tempe's share of the total revenue pool decreasing. This impact is seen in FY 2010-11 of the forecast.

State Revenues

As the base for state shared revenues, state income and sales taxes are also important to City revenues. As with City revenues, State revenue growth in recent years had been brisk, but has turned sharply negative in the current year. The forecast is for revenue growth to decrease in the near-term and to rebound beginning in FY 2010-11.

Also of importance are State laws related to revenue, including future rate cuts and changes to the revenue sharing formula. At the time of printing this document, the state has yet to approve a balanced budget for FY 2009-10. The present state deficit is estimated at \$3.5 billion for the current year. Until the final budget is adopted, it is uncertain if there will be any impacts to the statutory revenue sharing formulas.

It is impossible to predict the actions of future Legislatures, and therefore the forecast assumes

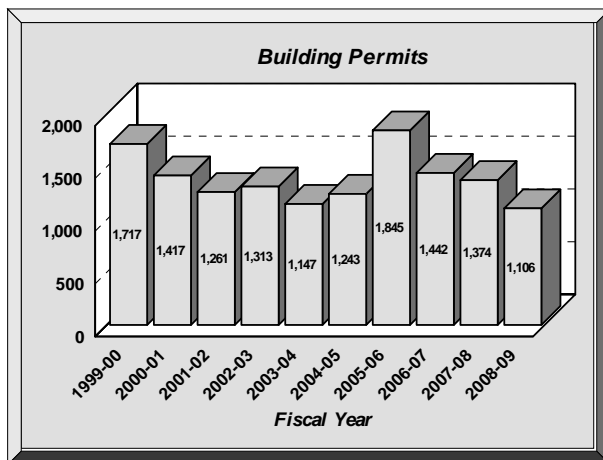


status quo with regard to state shared revenue calculations.

Development/Redevelopment

Despite being a landlocked city, new housing and commercial starts have recently been a strong driver of revenue activity in the Building and Trades category. While the regional single family housing market has been poor, construction in Tempe has been focused on condominium, commercial, and hotel activities. These activities have helped maintain a high level of permitting in recent years.

Construction is expected to slow considerably in the near-term as a constrained credit market coincides with a forecast of overcapacity in the regional commercial and residential sectors of the real estate market. This trend is expected to depress both building permitting revenue as well as sales taxes on contracting activity.



Assessed Valuation

Arizona public finance statutes provide for two different property tax bases, distinguished by both their allowable use as well as the extent to which they can grow in successive years. The first is the primary, which is the base used for financing current government operating expenditures in the General Fund, and to a lesser extent, the Rio Salado Fund. This portion of the property tax is limited in the extent to which the levy can grow each year to a level of 2% plus new construction.

The other property tax base is the secondary, which is used to generate revenue to pay annual debt service for the City's general governmental bonded debt. This tax base is unlimited in terms of annual growth. During the period from FY 1996-97 through FY 2006-07, Tempe's secondary assessed value growth was 8% on average. For FY 2008-09, the Maricopa County Assessor estimates growth of 11.3% over the prior year, as a result of large growth in the regional housing market.

In future years it is expected that assessed valuations

will decrease, as impacts from the housing market crash filter into valuations. Due to the lag time between assessments and tax levies, the initial impact of the housing market crash is just beginning to translate into lower tax levies.

Interest Rates/Cash Balances

Interest revenue is expected to increase modestly in most funds, while yields tied primarily to short-term government interest rates are expected to average 1.7% for the forecast period. Planned, one-time drawdowns of cash balances will occur periodically over the period of the forecast to assist in the budget balancing effort, which will reduce interest earnings.

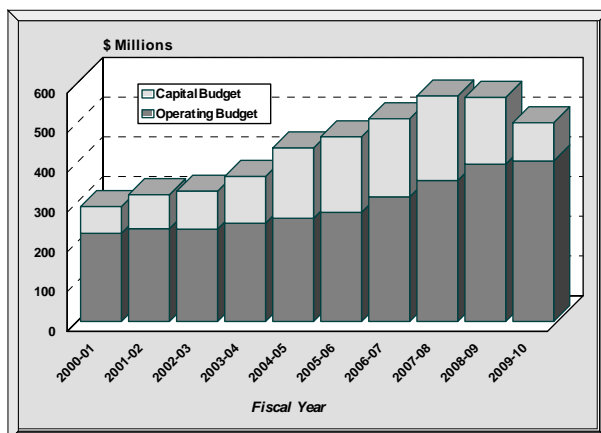
Financial Overview



The following financial overview provides a summary of revenue, expenditure, and historical budget trends. The FY 2009-10 budget of \$500.7 million provides for a \$404.4 million operating budget and a \$96.3 million capital budget. The operating budget includes \$205.8 million of general governmental operations, \$91 million of enterprise operations (Water/Wastewater, Solid Waste, Cemetery, and Golf) and \$107.5 million of special revenue operations (Transportation, Transit, Performing Arts, Rio Salado, Redevelopment, and Housing).

Fiscal Year	Operating Budget	Capital Budget	Total Budget
2000-01	\$222,169,282	\$67,408,152	\$289,577,434
2001-02	234,015,370	85,541,430	319,556,800
2002-03	232,846,185	95,318,794	328,164,979
2003-04	247,565,261	117,968,707	365,533,968
2004-05	260,131,518	176,983,222	437,114,740
2005-06	275,297,746	189,971,703	465,269,449
2006-07	314,115,625	196,728,491	510,844,116
2007-08	355,286,706	212,706,469	567,993,171
2008-09	396,439,483	168,033,325	564,472,808
2009-10	404,424,453	96,310,568	500,735,021

Total budgeted revenue for FY 2009-10 is \$476.2 million, with operating revenue of \$379.9 million and the remainder from other capital funding sources. General Governmental revenue accounts for \$191.4 million of the total operating revenue. Major funding sources include \$123.5 million in local taxes (sales, property, and bed taxes), \$41 million of intergovernmental revenue, \$79.5 million of enterprise revenue, and \$108.9 million of special revenue.



Summary overviews of appropriations and revenue provide a base reference for the fund specific forecast models that follow. A ten-year history of budget trends is depicted in the graph above.



Salaries and Wages

On the expenditure side, we have assumed a general freeze on salary and wage adjustments in the period from FY 2009-10 through FY 2011-12 for the purposes of balancing future expenditures with revenue expectations. The City's normal salary structure allows for 5% annual salary growth within each position's approved salary range, as well as an annual survey of the market to test the sufficiency of the salary ranges. Resumption of the normal salary adjustment process is not expected to occur until FY 2012-13 in the forecast.

Fringe Benefits

Health insurance costs are forecasted to increase at a declining rate for the next five years. Market forces, the movement towards managed care, and an excellent claims history had temporarily moderated the City's health care costs, but we are now seeing a resumption of growth in excess of general inflation, much of which is derived from higher claims costs.

Our expectation is that health care costs will rise at a rate exceeding the overall Consumer Price Index. Retiree health care cost will continue to rise as our work force matures and greater percentages of employees retire.

Other Post Employment Benefits (OPEB)

A recent decision by the Governmental Accounting Standards Board (GASB) requires government employers to disclose the cost of OPEB over the active life of the benefiting employees (GASB Statement No. 45). The City of Tempe's liability arises from retiree healthcare subsidies. An actuarial study was commissioned and the findings were forwarded to a City Council committee for review and recommendations. The forecast includes both the pay-as-you go portion for current retirees, as well as an advance funding amount for future retirees.

Retirement Contributions

City of Tempe employees are covered by one of four public retirement systems, depending on job type. The annual employer's portion of the contribution rates differ by retirement system. The four retirement systems, and their associated rate for FY 2009-10 are as follows:

- Arizona State Retirement System: 9.4%
- Public Safety Retirement Fire: 24.07%
- Public Safety Retirement Police: 22.23%
- Elected Officials Retirement: 28%

These rates are kept static during the forecast period as each rate is dependent on the investment decisions of the relevant retirement system.

Inflation

General inflation is expected to fluctuate from 1.8% to 1.9% in the later years of the forecast. Electricity inflation is expected to increase by approximately 5% annually through the forecast period, and motor fuel inflation is expected to grow from 3.8% in FY 2009-10 to 9.1% in FY 2012-13.

Supplemental Limits

For this budget forecast, no new programs were authorized, as our focus is to maintain basic services.

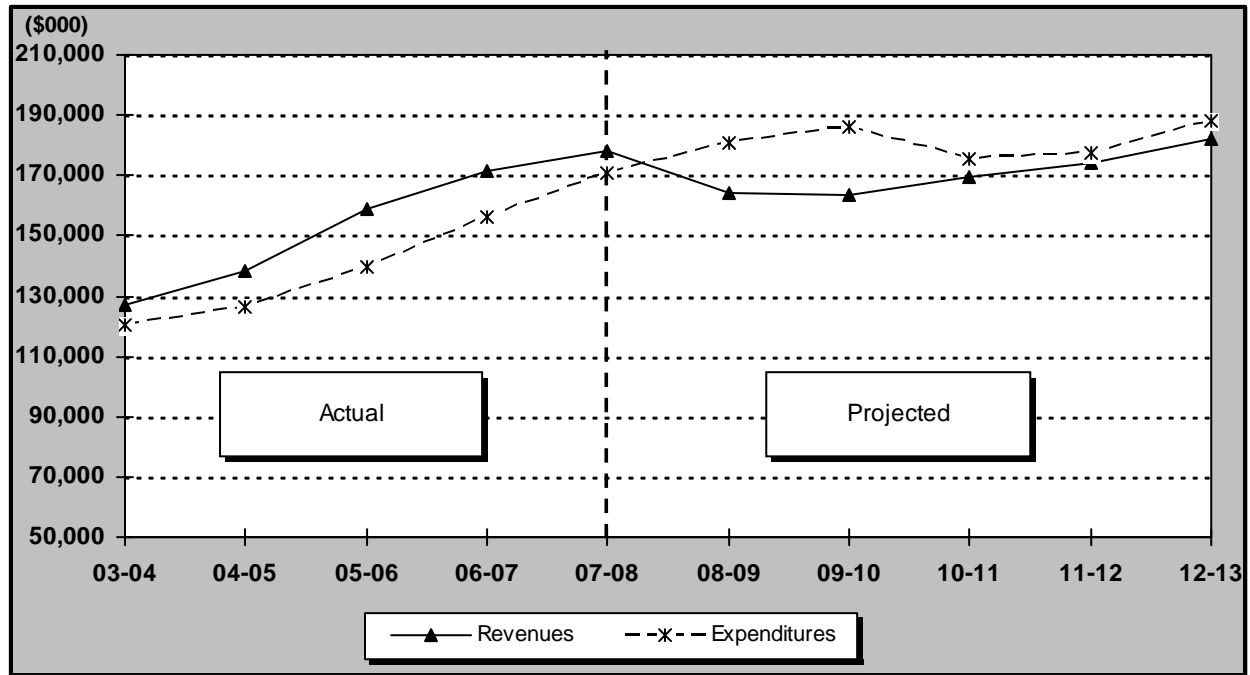
Capital Improvements Program Operating Budget Impacts

An important aspect of the City's Capital Improvements Program is the identification of operating budget impacts associated with capital projects. Since long-range planning takes place prior to the adoption of the Capital Budget, future impacts of new programs are not included. However, projects approved in the prior year Capital Budget are included in the out-years of the forecast.

Economic Outlook

Following the mild recession in 2001 to 2002, both the local and state economies enjoyed a prolonged robust period. The metropolitan Phoenix area was a national leader in population and job growth, factors that undoubtedly benefited Tempe. That trend has turned around in the current year, as the recession drags on regional economic performance. And while Tempe's downtown area in particular has experienced solid growth in terms of residential construction, this strong trend will undoubtedly slow over the five-year forecast. The outlook for the next five years is for no growth in the near-term, followed by a slow rebound in FY 2010-11. More rapid expansion is expected in FY 2011-12 and FY 2012-13 as the regional economy regains its footing.

General Fund: Projected Revenue and Expenditures



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Local Taxes	71,455	77,772	86,570	95,863	93,057	87,315	88,496	93,130	98,572	104,282
Intergovernmental	34,076	36,068	40,946	41,453	45,225	44,356	40,991	39,040	36,783	37,831
Building & Trades/ Planning & Zoning	2,643	3,459	5,506	5,969	6,479	5,142	4,237	5,581	6,958	7,462
Cultural and Recreation	5,114	5,010	4,961	5,294	6,157	6,230	6,408	6,751	6,807	6,860
Fines, Fees and Forfeitures	5,831	6,652	7,288	7,219	8,616	9,363	9,881	11,135	11,651	12,189
Business Licenses	1,079	1,185	1,202	1,331	1,333	1,507	1,498	1,534	1,570	1,606
Interest Income	2,764	2,969	4,794	7,437	9,839	3,000	3,000	2,618	2,459	2,366
Franchise Fees	1,505	1,678	1,867	2,693	3,425	3,830	3,927	4,206	4,416	4,637
Other Revenue Sources	2,731	3,633	5,418	4,462	4,011	3,594	5,009	5,204	5,204	5,007
Total Revenue	127,198	138,425	158,553	171,722	178,143	164,337	163,447	169,199	174,421	182,239
Expenditures (\$000)										
Personal Services	98,286	100,868	109,416	120,972	137,189	147,081	148,536	142,860	143,997	152,915
Materials and Supplies	6,417	6,811	7,866	8,783	9,180	8,193	8,302	7,516	7,841	8,188
Fees and Services	15,996	18,521	21,576	21,721	23,598	25,370	26,785	25,740	26,704	27,703
Travel and Training	647	649	720	824	799	653	620	628	645	661
Non-Departmental/Loan Repayment	3,405	4,310	3,652	4,431	4,661	4,803	4,996	3,634	3,495	3,583
Capital Outlay	3,287	2,002	3,116	4,670	2,721	1,247	3,685	2,195	2,252	2,308
Transportation										
Maintenance of Effort				1,035	955	1,035	1,035	1,035	1,035	1,035
Internal Services/ Adjustments	(7,656)	(6,896)	(6,511)	(6,224)	(8,492)	(7,797)	(8,069)	(8,134)	(8,345)	(8,554)
Total Expenditures	120,381	126,265	139,836	156,211	170,611	180,585	185,888	175,475	177,624	187,840
Net Operating Surplus/ (Deficit)										
	6,817	12,160	18,718	15,511	7,533	(16,248)	(22,442)	(6,276)	(3,204)	(5,601)



Trend/Forecast

At the beginning of the 2000's, annual operating surpluses started to decline as revenue growth slowed resulting from a national downturn in the economy. In addition, our share of locally distributed state income, sales and vehicle license tax revenue declined in FY 2001-02, due largely to state population growth outpacing that at the local level. This resulted in a brief period of operating deficit in the General Fund in FY 2002-03. Since that time and up until the current year, both the state and local economies experienced robust growth, resulting in operating surpluses in the General Fund as revenue growth outpaced that of expenditures.

Due to the state and national recession we are experiencing a sharp reversal of that trend. Local sales taxes are the primary revenue source for the General Fund, and are highly sensitive to economic trends. As such, FY 2008-09 collections are expected to drop by 7.7%. No improvement is expected in this category until FY 2010-11.

The next largest source of General Fund revenues is intergovernmental, which is comprised of state sales, income, and vehicle license taxes. As with local sales taxes, each of these categories is sharply negative due to the economic recession. Recovery is projected beginning in FY 2010-11, however, this will be offset by the negative impact of the 2010 Census on the revenue sharing distributions.

From an expenditure perspective, growth in employee compensation and benefit costs have traditionally been the largest components of growth. In prior years, the City's compensation philosophy would adjust the City's pay structure annually to a level equivalent to the 75th percentile of the regional municipal government sector, and would allow employee salary growth of up to 5% within the salary ranges. In light of the City's financial situation, annual salary adjustments have been suspended until FY 2012-13 in the forecast.

Also, growth in health care costs for employees and current retirees is anticipated to exceed 5% per year during the forecast in light of health care inflation and claims. These factors are anticipated to lead to a quickening in the pace of baseline expenditure growth.

As noted throughout this book, a series of budget reductions were implemented for FY 2009-10 to address the budget deficit. A number of budget reductions are also planned for FY 2010-11, including the elimination of an additional 72 positions. For planning purposes, the impact of these additional reductions is reflected in the General Fund forecast graph on the preceding page.

Unreserved Fund Balance

The General Fund's unreserved fund balance has grown from \$28.6 million just eleven years ago to \$44.6

million for FYE 2008. In addition, as part of the budget balancing efforts, a number of reserved portions of the General Fund balance were changed to unreserved status, including:

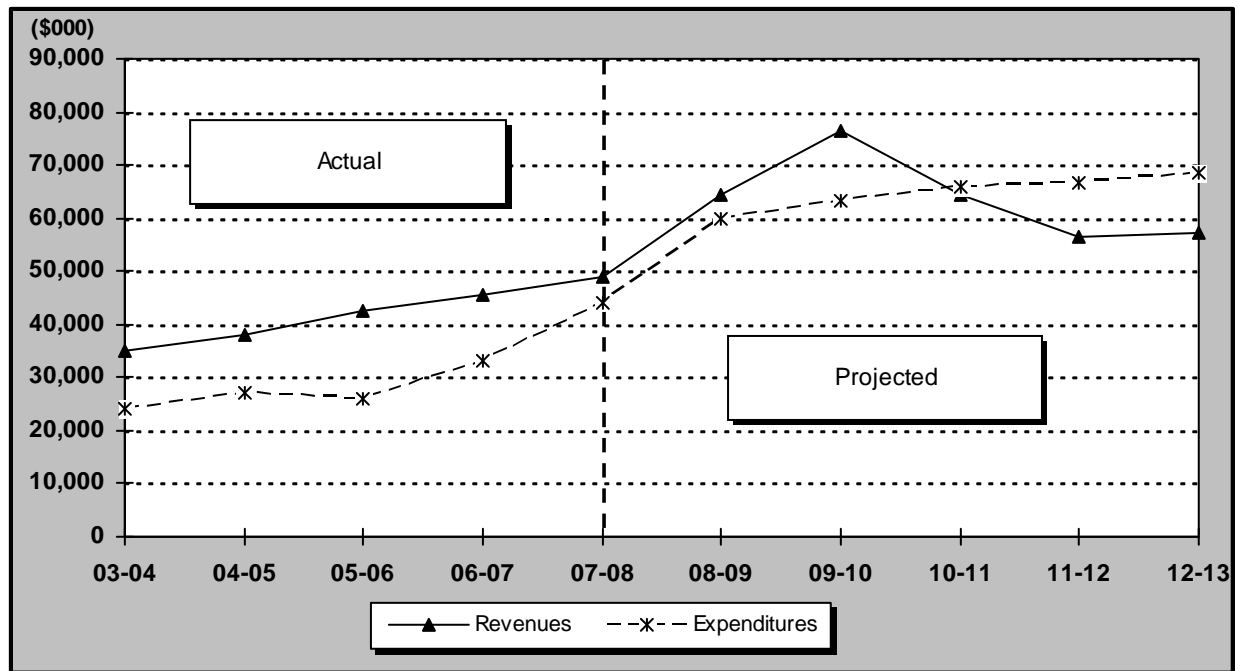
- Rainy Day reserve (\$10 million)
- Other Post Employment Benefits reserve (\$10 million)
- Compensated absences reserve (\$7 million)

Adding these amounts to the unreserved balance in FY 2008-09 brings the amount of available balances at the beginning of FY 2008-09 to \$71.6 million. This strong financial position provides a degree of flexibility in the timing of budget balancing measures. After applying available fund balances to the projected deficit, the unreserved balance in the General Fund exceeds the minimum policy level of 20%.

Additional budget balancing discussions will be required to maintain the balance within the policy level in future years of the forecast.

FYE	Unreserved Fund Balance
96	\$28,590,826
97	30,639,891
98	34,682,895
99	38,201,087
00	38,615,537
01	36,985,072
02	35,125,797
03	34,473,270
04	34,480,754
05	37,827,259
06	40,918,804
07	43,265,309
08	44,611,435

Transit Fund: Projected Revenue and Expenditures



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Transit Tax	26,741	28,848	32,440	34,971	32,450	29,957	29,957	30,931	32,865	34,895
Lottery Transfer In	282	274	266	257	254	234	233	214	204	194
ASU-Flash Transit	481	478	496	529	581	610	677	638	657	677
Interest Income	778	1,410	1,320	1,142	960	228	212	212	212	212
Light Rail Fares						951	2,608	2,699	2,793	3,052
Out of Jurisdiction Service Revenue	5,671	5,936	6,536	7,897	8,674	11,991	9,619	11,202	11,545	13,004
FTA Light Rail Reimbursements					5,518	18,020	30,149	14,245	3,932	
PTF Funding						1,631	2,262	3,280	3,380	4,300
Miscellaneous Revenue	1,090	922	1,462	888	641	713	813	970	1,016	1,066
Total Revenue	35,043	37,868	42,521	45,684	49,078	64,335	76,530	64,391	56,604	57,401
Expenditures (\$000)										
Personal Services	1,785	1,930	2,294	2,543	3,292	3,600	4,651	4,678	4,703	4,945
Materials and Supplies	1,550	1,781	1,870	2,082	3,251	5,146	5,289	5,422	5,563	5,702
Fees and Services	20,177	22,467	19,986	23,231	30,844	43,384	42,950	45,434	46,030	47,501
Travel and Training	19	17	36	43	29	42	33	34	35	36
Capital Outlay	24	182	190	140	123	84	35	35	35	35
Debt Service			594	4,045	5,518	6,362	8,977	8,970	8,964	8,958
Internal Service Charges	237	243	314	310	317	489	565	556	571	585
Indirect Cost Allocations	428	437	696	847	808	622	656	673	690	708
Total Expenditures	24,222	27,057	25,979	33,241	44,183	59,731	63,157	65,802	66,590	68,469
Net Operating Surplus/ (Deficit)										
	10,821	10,811	16,542	12,444	4,895	4,604	13,373	(1,410)	(9,985)	(11,068)



Trend/Forecast

Since the Transit Tax is a component of the overall City sales tax, the declining trend projected in General Fund sales tax revenue is mirrored in the Transit Fund.

Revenues exceed expenditures in the near-term solely due to the receipt of large federal reimbursements for capital program spending.

The pattern of growth reflected in the expenditure estimates relies upon the 20-Year Transit Business Plan and the assumptions made in that plan regarding the expansion of routes, the acquisition of new buses, and the implementation of a light rail system, and debt service for debt issued in the Capital Improvements Program.

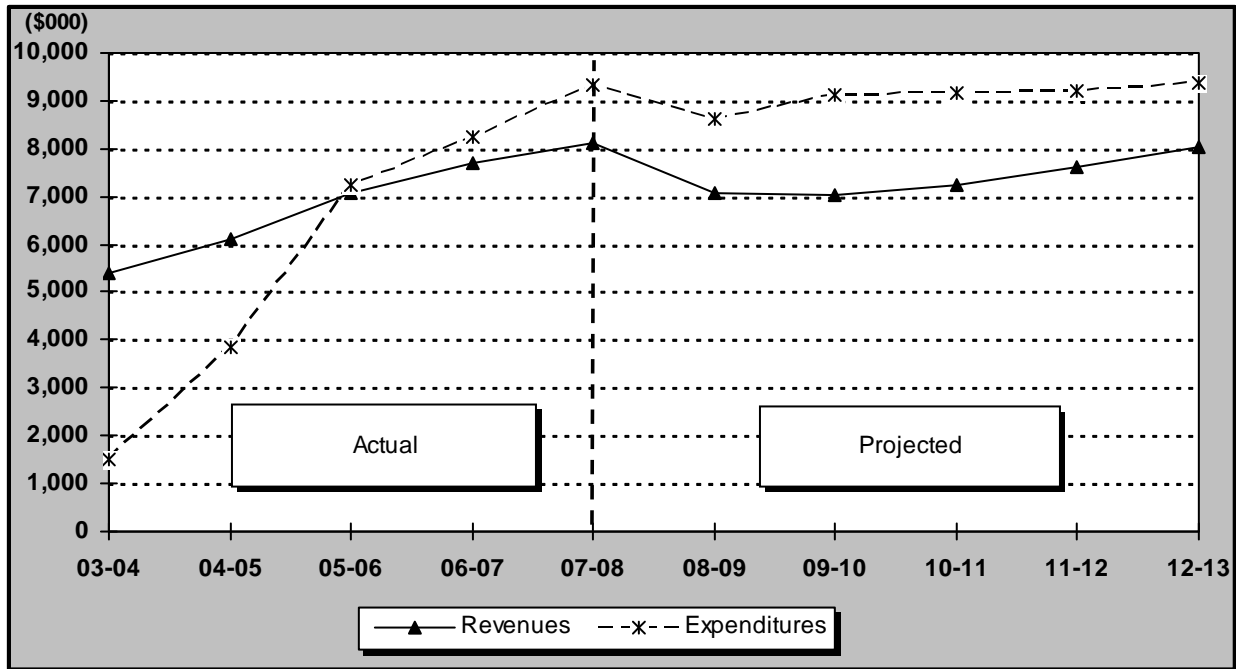
Given projected revenue growth and operating profile, the forecast is for the fund to be in a deficit condition beginning in FY 2011-12 and continuing thereafter. In light of this, budget balancing efforts will be pursued for the FY 2010-11 budget and beyond.

FYE	Unreserved Fund Balance
97	\$8,552,661
98	18,437,544
99	19,946,528
00	20,958,629
01	29,318,960
02	40,943,760
03	48,999,032
04	42,109,647
05	29,567,749
06	41,826,902
07	38,184,626
08	13,914,871

Unreserved Fund Balance

The Transit Fund's unreserved fund balance has gone from \$18.4 million in FY 1997-98 to \$13.9 million at the end of FY 2007-08. Receipt of one-time federal reimbursements will lead to balance growth in the near-term, however over the long-term balances are forecast to decline due a structural operating deficit.

Performing Arts Fund: Projected Revenue and Expenditures



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Performing Arts Tax	5,280	5,768	6,480	7,008	6,820	6,295	6,295	6,500	6,906	7,333
Facility Revenue					662	540	555	573	592	611
Interest Income	98	335	574	692	645	255	183	149	121	97
Total Revenue	5,378	6,103	7,054	7,700	8,127	7,090	7,033	7,221	7,618	8,041
Expenses (\$000)										
Personal Services	203	194	337	545	1,579	1,645	2,144	2,150	2,174	2,305
Materials and Supplies	1	16	65	853	797	125	140	143	147	151
Fees and Services	43	54	84	538	754	601	520	542	564	588
Travel and Other	2	5	9	9	4	3	4	4	4	4
Capital Outlay			158	108	38					
Debt Service	1,234	3,572	6,295	6,059	6,014	6,023	6,016	6,026	6,028	6,025
Internal Service Charges	22	20	287	123	150	235	292	299	307	315
Total Expenses	1,504	3,861	7,235	8,235	9,335	8,631	9,116	9,164	9,224	9,388
Net Operating Surplus/ (Deficit)										
	3,874	2,243	(180)	(535)	(1,208)	(1,541)	(2,084)	(1,943)	(1,606)	(1,347)

Performing Arts Fund



Trend/Forecast

The Performing Arts Fund receives its primary revenue from the Performing Arts Tax. This specific tax, approved in May 2000 and effective January 2001, represents 0.1% of the City's total 1.8% sales tax collected. Monies received from this tax are dedicated to the construction and operating expenses of the Tempe Center for the Arts.

Since the Performing Arts Tax is a component of the overall City sales tax, the negative growth trend projected in General Fund sales tax revenue is mirrored in the Performing Arts Fund.

The other main component of current revenue is interest earnings. These earnings fluctuate with changes in the fund balance and the City's investment portfolio. Beginning in FY 2007-08 the fund began to receive revenue from programming at the facility. This revenue stream is expected to grow moderately through the end of the forecast period.

The expenditure growth pattern reflects the opening of the Tempe Center for the Arts (TCA) in September of 2007. In FY 2005-06, 19 new full-time positions and related capital equipment were added to prepare for the full-time operation of the TCA. These costs represent the operating impacts of this capital project as identified in prior years' Capital Improvements Programs. An equally significant expenditure item is the annual cost of debt service to amortize the bonds issued to build TCA.

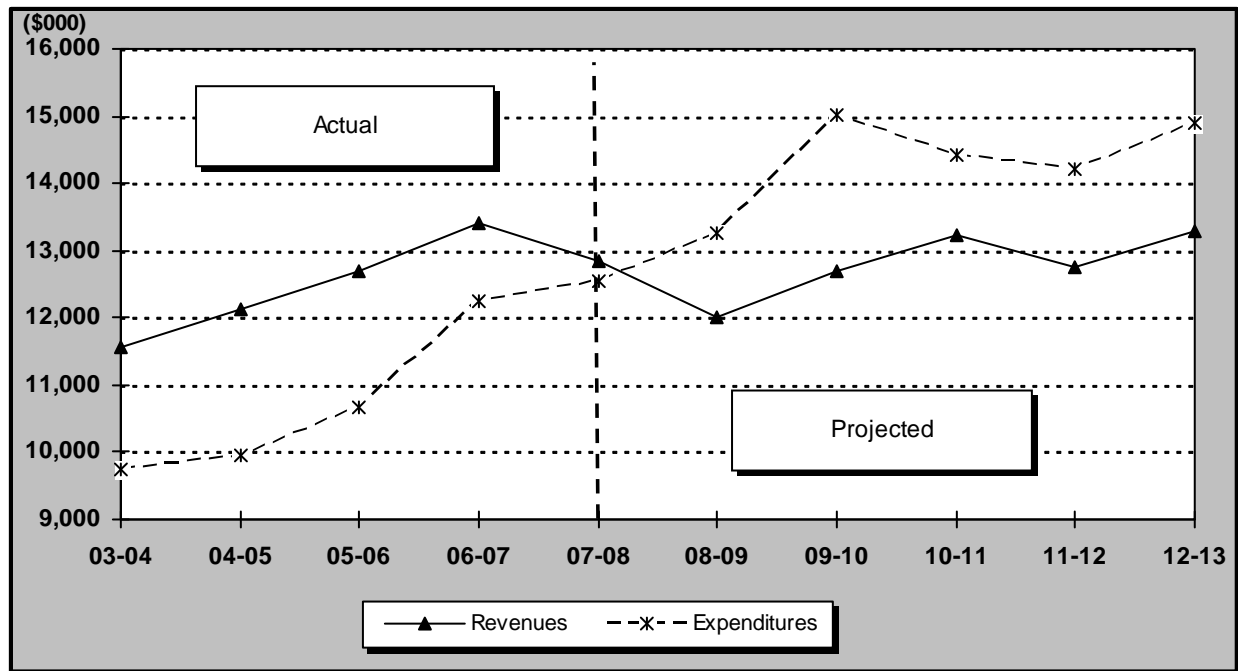
As a result of the ongoing expenditure growth and the decline in the sales tax base, the forecast is for ongoing operating deficits. In light of this, future efforts will be necessary to adjust expenditures to ensure future fund solvency.

Unreserved Fund Balance

The Performing Arts Fund's reserved balance has steadily grown since the fund's inception in FY 2001-02. This trend is consistent with the fund's financial plan, and the fund balance in future years will be tapped to cover differences between revenues and expenditures.

FYE	Unreserved Fund Balance
02	\$7,116,094
03	10,865,891
04	14,339,689
05	14,255,302
06	15,064,184
07	14,865,175
08	9,635,775

Transportation Funds: Projected Revenue and Expenditures



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Highway User Revenue Tax	10,985	11,533	11,224	11,854	11,387	10,501	11,026	11,577	11,102	11,657
State Lottery Proceeds	846	821	799	771	762	708	705	648	618	588
Miscellaneous		43	68	10	1	1	180	185	189	194
Maintenance of Effort Transfer			870	1,035	955	1,035	1,035	1,035	1,035	1,035
Lottery Transfer to Transit	(282)	(274)	(266)	(257)	(254)	(234)	(251)	(214)	(204)	(194)
Total Revenue	11,549	12,123	12,694	13,413	12,851	12,011	12,695	13,231	12,741	13,280
Expenditures (\$000)										
Personal Services	3,470	3,700	4,107	4,112	4,821	5,031	5,430	5,555	5,609	5,904
Materials and Supplies	433	467	533	513	537	583	583	598	614	629
Fees and Services	1,460	1,682	1,736	1,897	1,901	2,283	2,434	2,495	2,560	2,624
Travel and Training	15			24	47	24	28	29	30	31
Capital Outlay	503	189	330	361	140	426	1,259	402	325	576
Debt Service	2,000	2,000	2,000	2,770	2,770	2,770	2,770	2,770	2,770	2,770
Loan Repayment	310	310	310	310	310	310	310	310	310	310
Internal Service Charges	883	853	1,036	1,226	1,212	1,178	1,267	1,299	1,333	1,366
Indirect Cost Allocations	682	746	619	1,025	813	663	927	950	974	999
Total Expenditures	9,756	9,946	10,670	12,237	12,551	13,268	15,009	14,408	14,214	14,898
Net Operating Surplus/ (Deficit)										
	1,792	2,177	2,024	1,176	300	(1,257)	(2,314)	(1,177)	(1,473)	(1,618)

Transportation Funds



Trend/Forecast

The primary revenue source to this fund is the intergovernmental distribution of the Highway User Revenue Tax. This tax derives the bulk of its monies from a per gallon charge on gasoline consumption. Consistent with the state recession, it is expected that gasoline sales will be moderate over the forecast period. Also, as with other intergovernmental revenue, this state shared revenue is distributed based on population. As such Tempe's share is expected to decline due to our stable population relative to the state as a whole.

Deficits are projected in each year of the forecast period. One approach now in place to minimize operating deficits is to cap debt service at payments of \$2.7 million for the remainder of the forecast period. Any excess General Obligation debt service requirements beyond this cap will be absorbed by the Debt Service Fund during the five-year period. Over the longer term, we will need to monitor the level of General Obligation tax supported debt applied to Transportation projects and the resulting impact on the Debt Service Fund, being aware that opportunities for pay-as-you-go financing of capital projects will be limited.

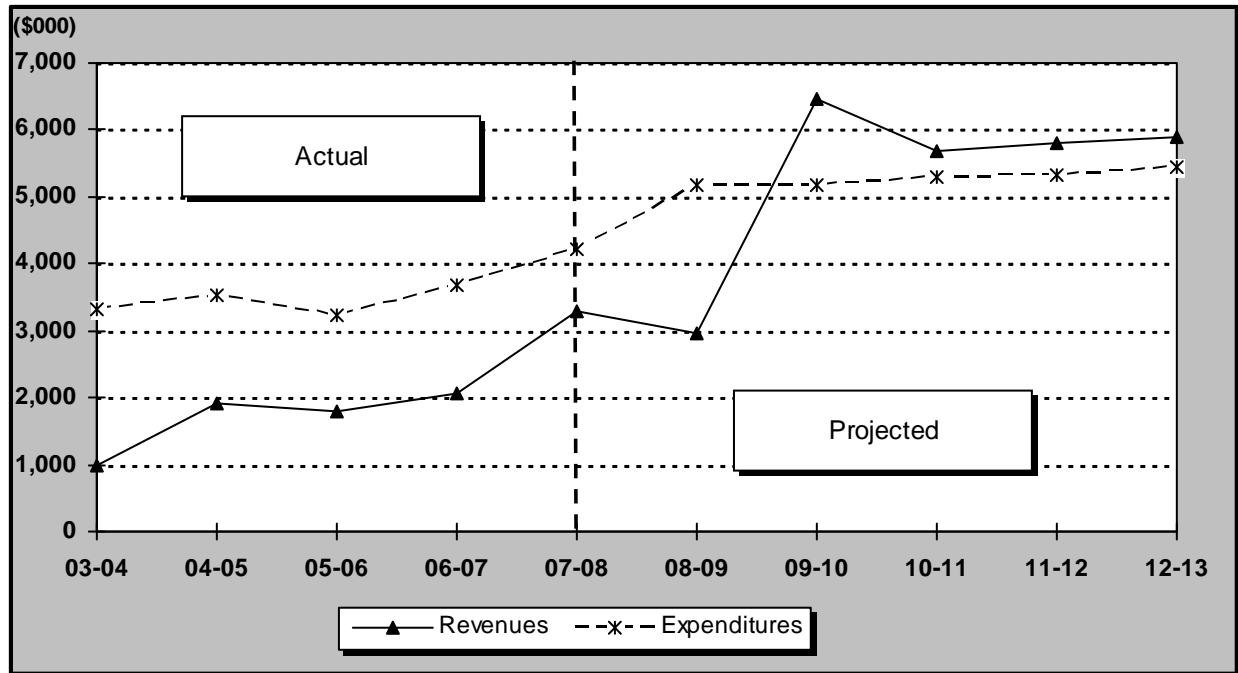
In light of the structural deficit in this fund, budget balancing efforts will be necessary to bring future revenues and expenditures into balance.

Unreserved Fund Balance

Transportation Fund balances have recovered somewhat from the lows experienced a few years ago. While the unreserved fund balance is at its highest point at FYE 2008, it is likely that the balance will decline in light of the projected operating deficits.

FYE	Unreserved Fund Balance
96	\$3,300,576
97	3,326,715
98	4,092,879
99	5,792,212
00	7,592,808
01	8,444,881
02	9,254,027
03	7,325,855
04	8,010,238
05	11,053,146
06	9,371,295
07	11,338,081
08	12,807,834

Rio Salado and Community Facilities District (CFD) Funds



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	10/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Sales Tax	341	309	580	797	1,397	1,200	1,250	1,285	1,359	1,443
Property Tax	62	68	66	74	122	165	175	182	190	198
Transient Lodging Tax	136	182	219	240	275	250	300	307	314	322
Interest Revenue	135	149	171	200	204	126	3,029	2,181	2,187	2,187
Sale of Real Estate		789								
Other Revenue	74	111	128	160	169	166	164	164	164	164
CFD Revenue	226	315	639	579	1,112	1,044	1,557	1,568	1,579	1,590
Total Revenue	975	1,923	1,804	2,051	3,279	2,951	6,475	5,686	5,792	5,903
Expenditures (\$000)										
Personal Services	577	589	614	793	1,942	1,993	2,032	2,116	2,109	2,195
Materials and Supplies	15	17	27	17	83	138	149	153	157	161
Fees and Services	481	546	687	828	507	643	648	664	682	699
Travel and Training	3	5	2	5	3	4	5	5	5	5
Capital Outlay	10	96								
Internal Service Charges	260	245	215	414	343	609	593	608	624	639
CFD Administrative Credit	(365)	(396)	(419)	(414)	(1,263)	(1,365)	(1,445)	(1,481)	(1,520)	(1,558)
CFD Operating and Maintenance	2,335	2,431	2,118	2,042	2,602	3,158	3,195	3,227	3,259	3,292
Total Expenditures	3,316	3,533	3,244	3,686	4,216	5,180	5,177	5,291	5,316	5,433
Net Operating Surplus/ (Deficit)	(2,342)	(1,610)	(1,441)	(1,635)	(937)	(2,229)	1,298	394	476	470



Trend/Forecast

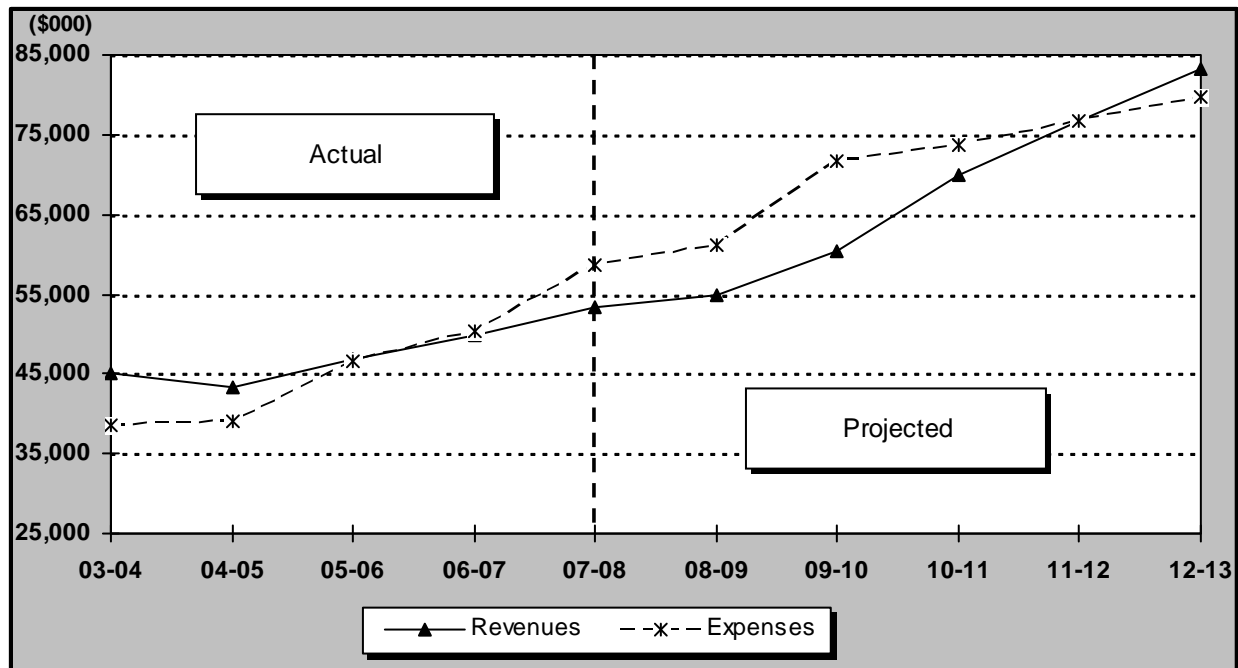
The largest revenue source, tax revenue, is highly responsive to changes in economic activity. The financial health of this fund is dependent on the nature of development in Rio Salado. Urban development will increase tax revenue. Community Facilities District revenue includes assessment collections from property owners and boat permits, concessions, and special event fees. Fund revenues exceed revenues in the forecast period due to interest payments associated with the delayed payment of proceeds from the sale of land in the Rio Salado district.

Unreserved Fund Balance

The unreserved fund balance reached a high of \$5.2 million in FY 1998-99. The variation depicted in the unreserved fund balance is due to planned drawdowns to fund capital and land purchase costs. Although the unreserved fund balance is nearly exhausted, the Rio Salado and Community Facilities District Funds still had a designated fund balance reserve in the General Fund of \$4,192,390 for operating and maintenance costs as of June 30, 2008.

FYE	Unreserved Fund Balance
97	\$1,138,546
98	4,480,474
99	5,220,120
00	1,282,512
01	5,032,088
02	2,062,140
03	0
04	0
05	0
06	467,735
07	287,458
08	900,297

Water/Wastewater Fund: Projected Revenues and Expenses



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Charges for Service-Water	26,183	24,446	26,367	26,714	28,146	29,747	31,672	35,379	39,470	43,953
Charges for Service-Wastewater	16,857	16,248	18,025	19,462	20,933	22,713	26,964	32,871	35,794	37,812
Interest Income	942	1,506	1,609	2,485	3,355	1,787	1,143	952	886	888
Land and Facility Rental	520	520	519	520	520	520	520	548	554	561
Loan Repayment	146	130	114	97	79	60	41	21		
Other Miscellaneous Rev.	492	550	241	666	254	63	55	55	55	56
Total Revenue	45,140	43,400	46,875	49,943	53,287	54,890	60,395	69,825	76,759	83,270
Expenses (\$000)										
Personal Services	11,234	11,611	12,451	13,265	15,454	14,667	17,226	17,064	17,447	18,346
Materials and Supplies	1,650	2,872	2,811	3,565	3,870	3,459	3,489	3,309	3,395	3,480
Fees and Services	10,850	10,426	14,334	12,441	12,559	12,040	15,635	14,067	14,355	14,650
Travel and Training	109	109	124	215	173	105	137	140	144	147
Debt Svc Intrst/Fiscal Agent Fees	11,341	10,355	13,200	16,747	22,413	26,425	30,851	34,757	36,853	38,528
Internal Service Charges	1,388	1,609	1,892	2,526	2,208	1,933	2,170	2,154	2,210	2,265
Indirect Cost Allocations	1,876	2,176	1,825	1,516	1,847	2,434	2,146	2,199	2,256	2,313
Total Expenses	38,449	39,157	46,636	50,275	58,524	61,064	71,654	73,690	76,661	79,729
Net Operating Surplus/ (Deficit)										
	6,691	4,243	239	(331)	(5,237)	(6,174)	(11,259)	(3,864)	98	3,541

Water/Wastewater Fund



Trend/Forecast

The Water/Wastewater Fund is projected to experience an operating deficit in the earlier years of the forecast period, followed by a surplus beginning in FY 2011-12. This is due to a combination of factors. On the expenditure side, utility costs and debt service associated with expansion of the Capital Improvements Program are principal drivers of future cost.

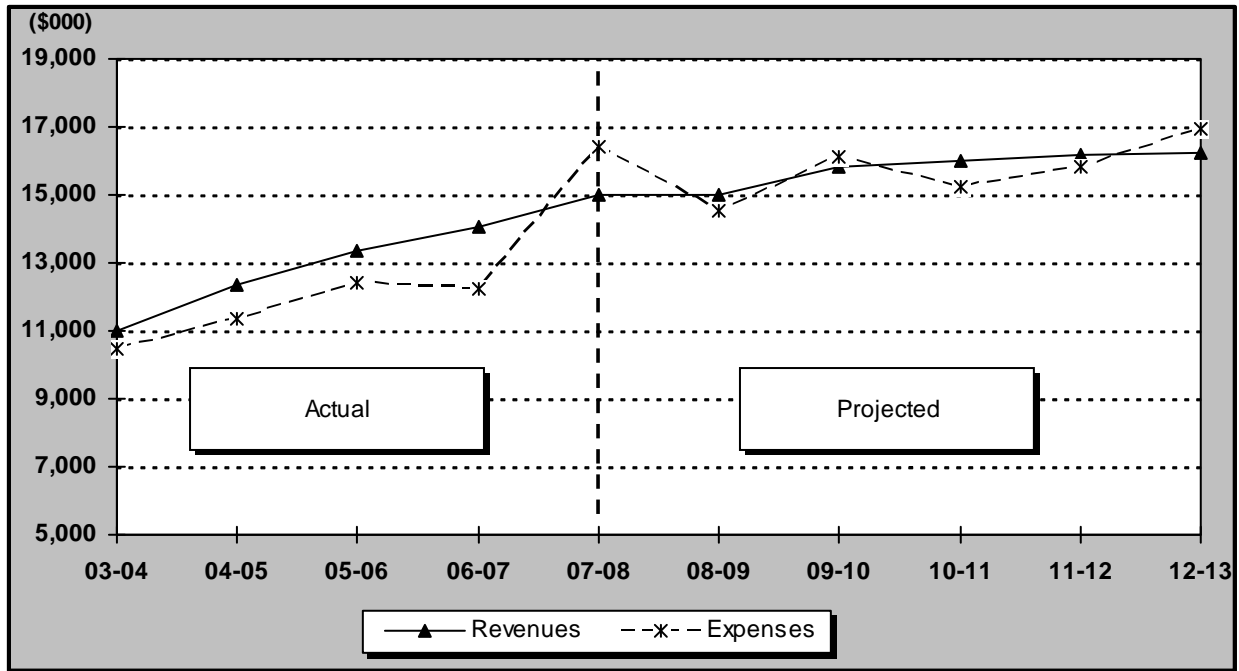
On the revenue side, water and sewer service charges are the primary revenue sources. Since the number of customer accounts grows at a very slow pace due to a stable population, the primary mechanism to enhance revenue for the enterprise fund is rate increases. A rate increase is planned for November 2009. The forecast assumes that rates will be increased in future years as necessary to bring revenues in line with expenses.

Unreserved Fund Balance

During the early 1990's there was a drawdown of Water/Wastewater Fund balances resulting from pay-as-you-go financing for infrastructure improvements. These fund balances have since been built back up to \$50.6 million at FYE 08.

FYE	Unreserved Fund Balance
96	\$33,746,270
97	36,796,384
98	41,020,060
99	55,159,498
00	56,434,920
01	55,717,922
02	59,841,408
03	58,958,188
04	58,790,163
05	60,752,643
06	65,560,342
07	55,628,214
08	50,599,282

Solid Waste Fund: Projected Revenue and Expenses



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Charges for Services	10,870	11,839	12,749	13,626	14,456	14,775	15,651	15,848	15,943	16,038
Sludge Disposal	145	119	151	62	86					
Interest Income	9	39	83	175	218	126	77	77	109	96
Other Revenue Sources		328	399	172	232	88	100	100	100	100
Total Revenue	11,024	12,325	13,382	14,035	14,993	14,990	15,829	16,025	16,152	16,234
Expenses (\$000)										
Personal Services	3,516	3,899	3,914	4,302	4,611	4,848	5,120	5,413	5,706	6,011
Materials and Supplies	246	227	268	146	206	188	192	196	199	203
Fees and Services	3,159	3,266	3,258	3,414	3,548	3,694	4,138	4,258	4,382	4,509
Internal Service	1,641	1,699	2,383	2,370	2,505	2,959	3,014	3,071	3,130	3,186
Indirect Cost Allocations	610	918	618	617	646	832	848	864	880	896
Total Expenses	10,230	10,912	11,413	11,837	12,413	13,678	14,500	15,060	15,737	16,416
Net Operating Surplus/ (Deficit)										
	319	112	912	1,545	1,622	996	414	(45)	(625)	(1,204)



Trend/Forecast

With the FY 2000-01 shortfall in this fund, solid waste rates were modified in November 2001 to fully recover the cost of the solid waste operation and replacement obligations. Since then, rate increases have been implemented three out of the past four years, with the increases to industrial, commercial, and residential rates occurring on November 1, 2008 and 2009. These rate increases have kept fund revenues generally in line with fund expenses. However, a deficit is projected beginning in FY 2010-11, indicating that additional steps may be necessary to maintain the fund's financial position.

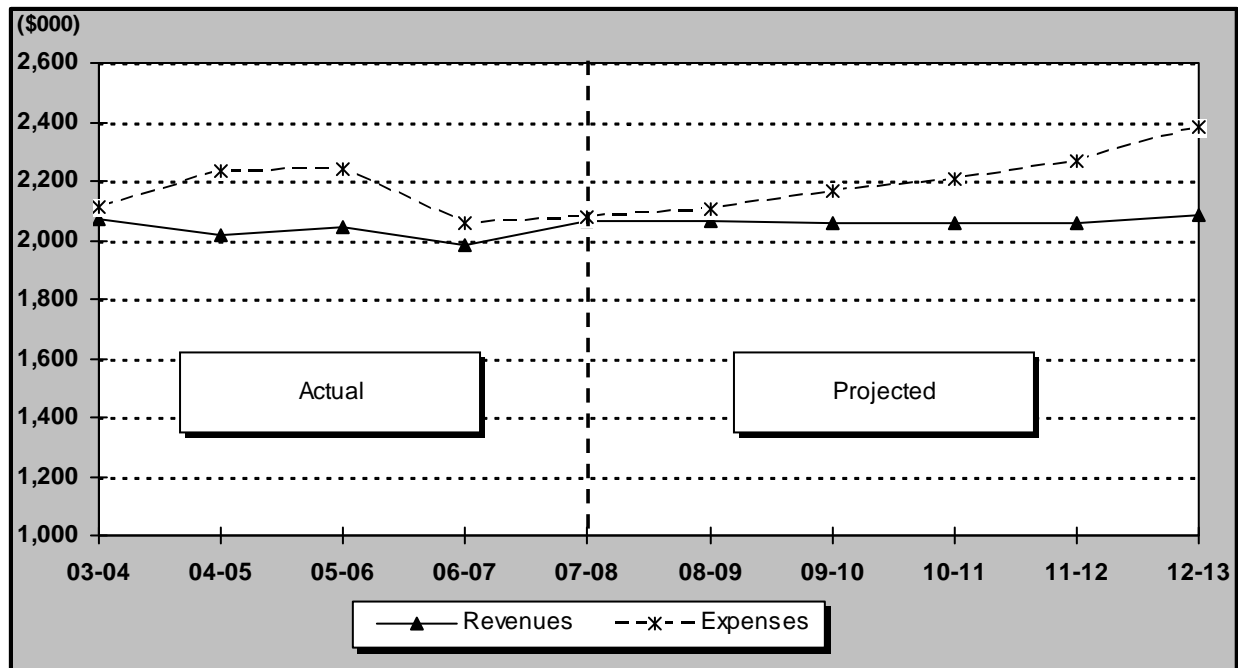
Solid waste rates are subject to annual rate reviews to ensure that the fund remains fully self-sufficient and to smooth the effect of potential rate adjustments on the City's residential and commercial customers.

Unreserved Fund Balance

There is a \$3.9 million fund balance in the Solid Waste Fund at FYE 2008. With environmental mandates always present, this enterprise operation will require as much financial flexibility as possible for contingent compliance driven costs.

FYE	Unreserved Fund Balance
96	\$1,135,131
97	1,623,386
98	1,979,294
99	2,168,155
00	1,162,872
01	451,358
02	20,065
03	469,027
04	1,138,305
05	2,226,136
06	3,019,582
07	4,895,596
08	3,888,080

Golf Fund: Projected Revenue and Expenses



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Greens Fees	1,801	1,746	1,750	1,689	1,653	1,742	1,742	1,742	1,742	1,742
Pro Shop/Restaurant	219	208	221	223	331	253	253	254	255	280
Interest Income	8	14	16	19	14	6	4			
Other Revenue Sources	40	50	55	51	65	61	61	61	61	61
Total Revenue	2,068	2,019	2,041	1,983	2,064	2,062	2,060	2,058	2,059	2,084
Expenses (\$000)										
Personal Services	1,057	1,050	988	1,005	1,098	1,215	1,247	1,270	1,306	1,371
Materials and Supplies	271	286	256	249	250	218	223	229	235	241
Fees and Services	314	372	456	307	367	379	400	411	424	436
Depreciation	4	17	59		5	6				23
Debt Service Interest	152	148	153	152	2					
Contingency	109	153	141	148	187	150	167	169	174	178
Internal Service Charges	206	210	188	195	170	139	126	129	132	135
Indirect Cost Allocations	278	206	210	188	195	170	173	177	180	183
Total Expenses	2,114	2,236	2,240	2,056	2,078	2,106	2,163	2,208	2,270	2,384
Net Operating Surplus/ (Deficit)										
	(46)	(217)	(199)	(73)	(15)	(44)	(103)	(151)	(211)	(301)



Trend/Forecast

Over the forecast period we expect revenue growth to generally follow the historical patterns, although other unpredictable factors such as weather conditions and competition from other courses in the valley may improve or worsen usage of the municipal golf courses. The Golf Fund has been experiencing an operating deficit condition since FY 1999-00. As with the City's other self-supporting Enterprise operations, annual rate reviews are conducted of the Golf Fund. In addition, due to ongoing operating shortfalls, special attention has been given to operating cost reductions and review of contracts with Golf program vendors to ensure future fund viability.

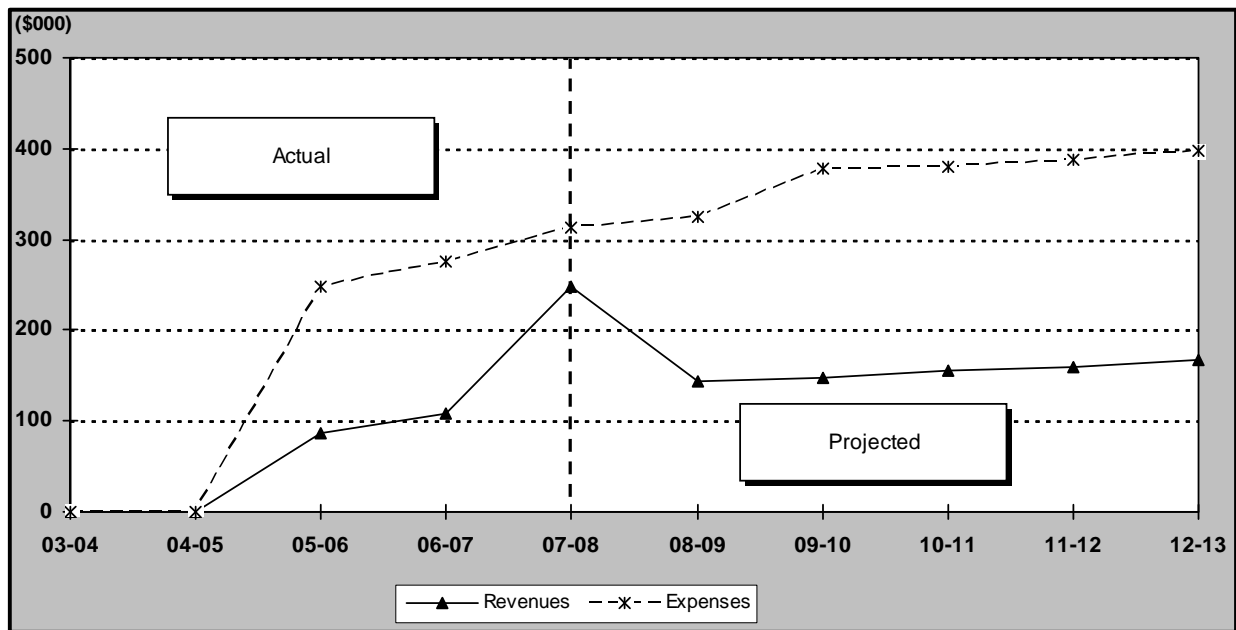
In general, the fund is experiencing growing expenses and flat revenues. As with other funds, budget balancing planning will take place in the coming months to bring expenses in line with revenues.

Unreserved Fund Balance

After six consecutive years of fund balance losses, the trend was reversed, at least in the short-term. In FY 1995-96, increased rounds of play bolstered the reserve to over \$350,000. Growth in the balance continued through FY 1998-99, at which point weakness in the golf industry combined with rising operating costs resulted in ongoing operating deficits. This balance built in the earlier years has provided some flexibility as solutions for future fund stability are sought.

FYE	Unreserved Fund Balance
95	\$50,000
96	351,158
97	896,542
98	1,397,897
99	1,638,174
00	1,538,156
01	893,591
02	791,701
03	680,101
04	604,703
05	540,158
06	468,457
07	263,853
08	217,821

Cemetery Fund: Projected Revenue and Expenses



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
Revenue (\$000)										
Greens Fees			10	12	225	135	139	145	149	155
Pro Shop/Restaurant			9	6	7	8	8	10	10	12
Interest Income			68	91	16					
Total Revenue	0	0	87	109	248	143	147	155	159	167
Expenses (\$000)										
Personal Services			23	66	106	104	152	156	160	168
Materials and Supplies			1	1	13	22	22	23	23	24
Fees and Services				1	7	7	7	7	7	8
Capital Outlay				19						
Debt Service			202	180	177	179	181	178	180	181
Internal Service Charges			4	1		4	5	5	5	5
Indirect Cost Allocations			17	8	10	9	10	11	11	11
Total Expenses	0	0	248	276	313	325	378	380	387	398
Net Operating Surplus/ (Deficit)	0	0	(161)	(167)	(65)	(182)	(231)	(225)	(227)	(231)

Cemetery Fund



Trend/Forecast

The Cemetery Fund was established to operate as a self supporting fund that utilizes revenues from burial lot sales to finance all costs of operation. Since fund inception, sales have continued to fall short of expectations and have not been sufficient to pay for operations. As a result, the fund has not accumulated a balance and is projected to experience annual deficits through the forecast period.

Debt service requirements associated with a FY 2004-05 renovation continue to be the fund's largest annual expense.

Unreserved Fund Balance

Due to historical annual operating deficits, the Cemetery Fund has not accumulated a fund balance, and annual losses continue to be covered by the General Fund.

FYE	Unreserved Fund Balance
06	0
07	0
08	0



Recommended Plan of Action

Several recommendations are offered as key elements of a financial action plan, which can be implemented to meet future operating and infrastructure fiscal challenges. Many recommendations are intended to adjust expenditure growth to keep the rate of expenditure growth in line with anticipated revenue growth.

• **Budget Balancing Plans**

Continue to utilize a multi-year approach to bring all City operating funds into stable operating condition, using a combination of revenue and expenditure methods while minimizing impacts on residents to the extent possible.

• **Expenditure Control/Supplemental Limits**

Decreasing personnel growth has the advantage of providing both near-term benefits and long-term expenditure control for the City. The addition of personnel has a greater fiscal impact on a fund than any other type of budget appropriation. Any successful effort to control spending in the General Fund or any of our funds will need to be directed at slowing or decreasing the growth in personnel and associated costs.

We recommend a continued annual evaluation of an appropriate General Fund supplemental limit, with consideration given to our long-range revenue and expenditure forecasts and how various supplemental scenarios will affect our long-term financial condition.

• **Modified Base Budget Plan**

Continuation of a modified base budget review program is recommended. This entails a review of departmental base budgets, with the size of modifications linked directly to financial forecasts. Modified base budgets incorporate historical spending patterns, price adjustments, and long-range forecasts, thereby limiting budgetary growth within departments.

• **Continue to Limit Midyear Adjustments**

Even as the City effectively manages supplemental additions through the normal budget process, there is a tendency to circumvent this process for additional midyear appropriations and personnel, often with little or no needs assessment, fiscal impact analysis or prioritization with other budgetary needs. The fiscal impact of these midyear adjustments poses a risk to careful long-range financial planning and should be discouraged except under unusual circumstances where an adjustment is warranted.

• **Adhere to Debt Management Plan**

Continued commitment to the Debt Management Plan is strongly recommended. Sizing the City's Capital Improvements Program budget to the Debt Management Plan will stabilize per capita outstanding tax-supported debt while lowering annual debt service

costs. This will also help to preserve our sound financial standing and bond ratings. Adoption of the Debt Management Plan has been one of the most significant financial decisions over the last decade.

• **Comprehensive Financial Plan**

The Comprehensive Financial Plan, along with the Debt Management Plan, have served as the cornerstones of the long-term fiscal strength of the City. We recommend a continued update of this financial capacity study to provide a long-term perspective to the policy decisions of today.

• **Identify and Limit CIP Operating Budget Impacts**

In addition to establishing a viable supplemental limit, identifying the operating budget impact of Capital Improvements Program (CIP) projects is a significant factor in achieving control over expenditure growth. We recommend continued efforts to refine the process of identifying these impacts and ensuring that provisions are made in operating budgets for these impacts as CIP projects are approved.

• **Financial Policies**

Continued adherence to our operating budget, debt service, capital expenditure and investment policies, while maintaining ample fund balances and reserves, is the best strategy the City has to ensure its sound fiscal position. These policies require periodic review to strengthen and update as necessary. The point here is to warn against "creative finance" solutions and the underlying impacts these solutions may have on the City in the longer term.

• **Protect State Shared Revenue**

It is recommended that we continue our efforts in coalition with the League of Arizona Cities and Towns to protect state shared revenue. They are very likely to continue to be at risk over the next few years. A freeze of state shared revenue or a significant change in distribution methodologies could pose a costly financial risk to General Fund and Transportation Fund revenue.

• **Economic Development/Redevelopment**

A further recommendation is to continue improving our economic development and redevelopment efforts to increase property valuation, commercial growth and job growth in the City. Effective decision-making on economic development and redevelopment will require us to evaluate the relative merits of development projects, placing emphasis on those adding the greatest value for Tempe's residents.

• **Review Benefits Program**

We recommend that the City explore employee benefit options to ensure that Tempe's benefits package remains competitive with other valley cities. On the other hand, the City must also explore alternative means of minimizing expected increases in health care costs, both employee and retiree.



- ***Rio Salado Financial Plan***

We recommend the continuation of the Rio Salado Project Financial Plan which addresses operating, maintenance costs and debt service requirements. The City has created a Community Facilities District, a legal entity with assessment and taxing authority, that will provide part of the financial strategy.

- ***Transit Plan***

With voter approval of a dedicated funding source for transit and the expansion of transit services, the City has created a 20-year Transit Business Plan. Also, Transit has developed an extensive benchmarking program in conjunction with the Transit Advisory Committee to evaluate services and assist in long-range planning. Both the Transit Plan and the benchmarking effort are valuable tools in the City's continued provision of transit service and should be regularly updated.

- ***Water/Wastewater Infrastructure Costs***

Careful financial planning will be required to address the increasing capital costs associated with water infrastructure and sewage treatment, primarily at the regional 91st Avenue Plant. We recommend a financial plan that minimizes sudden spikes in rates and controls expenditure growth.

- ***Regular Review of City Fees and Charges***

Incremental increases in City fees and charges maintain the City's ability to keep pace with inflation. The City's long-term revenue outlook should include regular review of all City fees to ensure cost recovery as allowed by Council policy.

- ***Program Sunsetting***

We recommend that the City continue, through the budgetary process, the annual sunset review program. This program facilitates a review of all existing citywide programs, using evaluation criteria to serve as guides in considering the merits of sunseting an existing program.

- ***Strategic Issues Program***

The Strategic Issues Program provides a link between the City's budget process (resource allocation) and the long-term goals of the City. The strategic issues are periodically updated and refined. Where relevant, departmental budget requests are linked to the City Council's Strategic Issues. This gives direction to the budget process and a clearer rationale for resource allocation decisions. We recommend a continuation of this process and further reinforcement of the value in linking budget requests to strategic issues.

- ***Benchmarking/Competitive Analysis***

We recommend that the City continue its efforts in benchmarking and competitive analysis. These activities will provide the City with opportunities to evaluate and improve service delivery while enhancing accountability to the residents.



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