The following section summarizes the comprehensive financial plan which served as the cornerstone for the financial action plan and capital and operating budget decision making. It includes long-range forecasts of revenues and expenditures, issues, trends and resource choices for all funds, and debt management program.

Comprehensive Financial Plan Contents

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 2011-12.

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

Major operating funds examined include:

- General Fund
- Transit Fund
- Transportation Fund
- Performing Arts Fund
- Water/Wastewater Fund
- Solid Waste Fund
- Golf Fund
- Rio Salado and Community Facilities District Funds

Major Study Findings

Highlights of the major findings and conclusions from the long-range financial study are as follows:

The City continues to have strong starting fund balances and reserves. This is best depicted by the following:

- Unrestricted fund balance in the General Fund is at $43.3 million as of June 30, 2007. This balance represents 25% of FY 2006-07 total General Fund revenue (25% is the guideline used by the City as an optimum fund balance level according to the City's financial policy).

- Self-insurance reserve of $8.8 million (considered adequately protected from potential liability claims).

- Restricted debt service reserve of $17.6 million, above the policy level of 8% of outstanding bonded debt.

- Water/Wastewater fund balance of $55.6 million, as of June 30, 2007, provides necessary coverage for operating and capital expenses and critical financial flexibility over the next several years.

- The City enjoys bond ratings of:
  "AAA" Fitch
  "AAA" Standard and Poor's
  "Aa1" Moody's

- The City provides health care benefits for its retired employees, their spouses and survivors, and employees on long-term disability. The current practice funds the cost of other post employment benefits (OPEB) liabilities on an annual "pay-as-you-go" basis. In FY 2007-08, the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45 reporting the actuarially accrued cost of its OPEB was implemented. Recently, the City received its initial actuarial valuation estimating the annual required contribution (ARC) at $39 million and the actuarial accrued liability (AAL) at $398 million. The ARC and AAL assume no changes have been implemented to reduce the costs. To address the issue, changes were made such that employees hired after June 2007, will only have available a defined contribution plan. The City has convened an ad hoc committee to further examine changes for employees hired prior to July 2007. The City anticipates changes to the program to be effective July 2009. To date, $10 million has been deposited in a separate reserve account to offset its OPEB liability.

In terms of baseline financial health, the **General Fund** is projected to go into deficit beginning in FY 2008-09, and the shortfall expected to continue through the forecast period. The causes of the deficit stem from near term economic difficulties in the housing market impacting local sales tax collections, large increases in public safety pension contribution rates, and health insurance cost growth.

The **Transit Fund** is projected to maintain a slim operating surplus in the forecast period. Similar to the General Fund, a major component of Transit Fund revenue is the local sales tax, a percent of which is dedicated to transit. As such, this fund is also expected to experience slow revenue collections from local taxes in the near term. Coupled with a rapid increase in expenditures associated with the opening of the Regional Light Rail Transit System in mid-FY 2008-09 the historically large gap between revenues and expenditures is expected to become narrower.

Our projection is for continued reductions 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 (which is the method used to allocate these monies). This factor, combined with expenditure growth, will produce a deficit condition in the

Transportation Funds beginning in FY 2011-12.

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 and therefore is subject to sluggishness in the near term.

Given a projection of increasing future operating deficits, the **Water/Wastewater Fund** will require future rate adjustments with the goal to ensure full cost recovery. These adjustments are largely necessary due to increasing debt service costs associated with capital improvements necessary to meet the fiscal impact of water/wastewater regulatory compliance and sewer capacity demands. These costs are due to federally mandated modifications at the regionally shared 91st Avenue Wastewater Treatment Plant, as well as the need for increased sewage processing capacity and other compliance driven improvements.

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. Solutions to this operating profile are being sought, and may include the possibility of rate adjustments to avoid operating deficits and to maintain adequate reserves for capital needs and contingencies. The Golf Fund faces unique challenges as valley courses vie for golfers. These challenges may require a look at options beyond rate adjustments to ensure future fund solvency.

The **Rio Salado/Community Facilities District (CFD)** forecasted shortfalls are consistent with their financial plans. Future development in the Tempe Town Lake area is expected to boost future revenues in the CFD. Until the development is in place and subject to assessments these revenues will not be included in the forecast for the fund, in line with the City's forecasting practices.

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 (such as Arizona Economy published by the University of Arizona and published presentations of the State Finance Advisory Committee) for an indication of the expected trends in key economic and demographic indicators. 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.

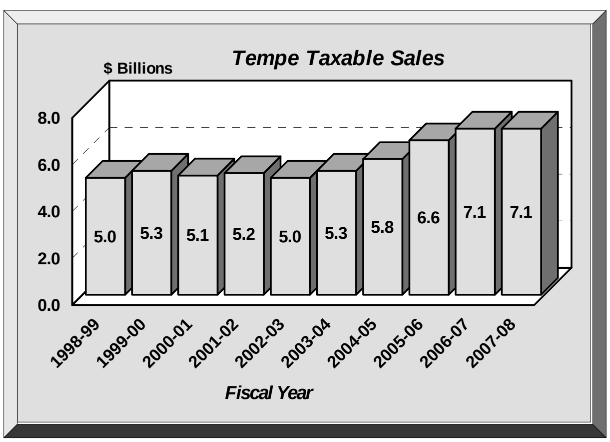
Expenditure growth is most closely linked to two major factors in our models: 1) inflation (including general inflation, market adjustments to salaries, and changes in benefits costs), and 2) City financial policies related to the amount of new funding added each year for new programs and/or the expansion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

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 have come 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.

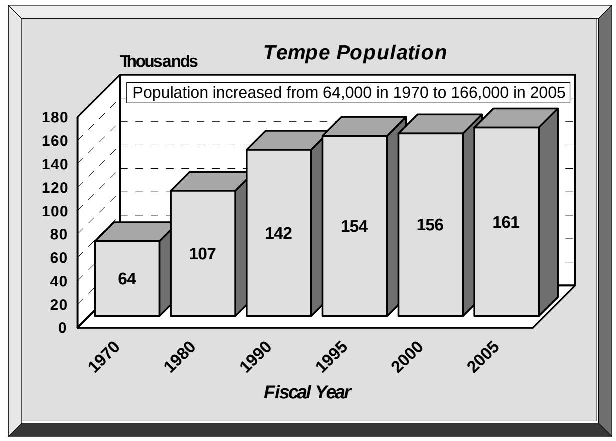
In the current year it became evident that the rapid economic pace would not continue. Recent taxable sales activity has faltered, largely due to problems related to the credit crunch and the troubles in the regional housing market. As shown in the graph below, taxable sales for FY 2007-08 are essentially unchanged over the prior year.



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 2007-08 annual estimates) are retail (48%), commercial and residential rent (17%), utility sales (6%), contracting (11%), and restaurant sales (7%). In recent years construction sales have exhibited historically high growth levels due to commercial and condominium development in the downtown area. Consistent with statewide models, the forecast assumes a slowing from the brisk growth levels seen in recent years.

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. It is assumed that a large portion of this growth will be associated with condominium development in the central city.



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 2.7% 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.

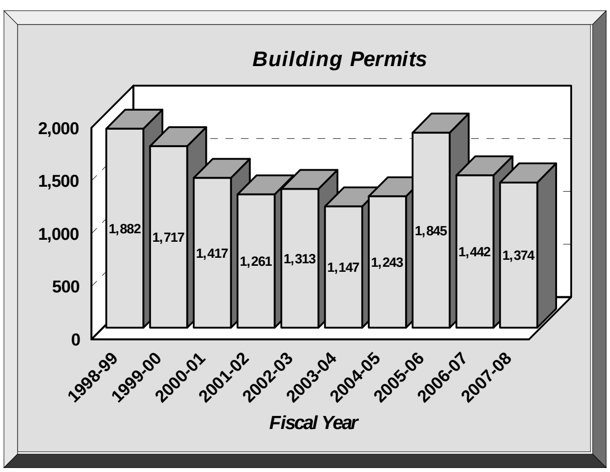
State Revenues

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 slowed over the current year. The slowing revenue has a direct impact on Tempe's share. The forecast is for revenue growth to remain slow in the near term and to rebound beginning in FY 2009-10 as demand that was suppressed during the slow housing market rebounds. Also of importance are State laws related to revenue, including future rate cuts and changes to the revenue sharing formula. At the time of the forecast, there was only one change that affected revenues over the five period. Laws 2006 Chapter 354 reduced state individual income tax rates by 5% for Tax Year 2006 and 10% for

Tax Year 2007. To hold cities and towns harmless for the potential impact of this change on state shared revenues, the shared income tax pool was set at a fixed amount of $717 million in FY 2009 (shared income tax distributions are based on tax collections from years prior). This change has been reflected in the forecasted amount for FY 2008-09.

It is recognized that the temptation to tap state shared revenue may exist over the next five years, which could significantly alter distributions. However, 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, particularly 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 over the last year, though construction is expected to slow from the aggressive level of activity seen in recent years.



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.

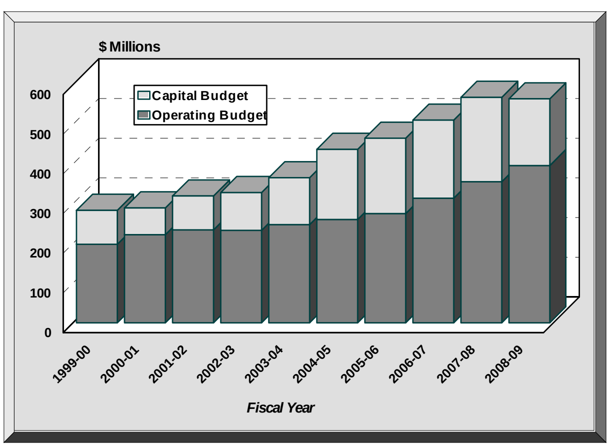
The other property tax base is the secondary, which is used to generate revenue to pay annual debt service for the City's general governmental bonded debt. This tax base is unlimited in terms of annual growth. During the period from FY 1996-97 through FY 2006-07, Tempe secondary assessed value growth 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.

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 3.2% for the forecast period. Some planned, short-term drawdowns of cash balances may occur periodically over the period of the forecast, reducing interest earnings.

The following financial overview provides a summary of revenue, expenditure, and historical budget trends. The FY 2008-09 budget of $564 million provides for a $396.4 million operating budget and a $168 million capital budget. The operating budget includes $209.5 million of general governmental operations, $89 million of enterprise operations (Water/Wastewater, Solid Waste, Cemetery, and Golf) and $97.9 million of special revenue operations (Transportation, Transit, Performing Arts, Rio Salado, Redevelopment, and Housing).

Fiscal Year	Operating Budget	Capital Budget	Total Budget
1999-00	$197,926,204	$85,587,326	$283,513,530
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

Total budgeted revenue for FY 2008-09 is $534.7 million, with operating revenue of $366.7 million and the remainder from other capital funding sources. General Governmental revenue accounts for $208.8 million of the total operating revenue. Major funding sources include $122.2 million in local taxes (sales, property, and bed taxes), $60.3 million of intergovernmental revenue, $70.6 million of enterprise revenue, and $87.1 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 salary and wage market adjustments in the FY 2008-09 projection consistent with movement through salary ranges for current employees. The City's salary structure allows for 5% annual salary growth within each position's approved salary range.

To ensure competitive salaries for city employees, management has committed to a compensation approach that relies on a study of the prevailing market for municipal salaries each summer. Based on the results of this study each position classification's salary range may be adjusted upward to reflect market wages. This philosophy is reflected in the forecast by way of an annual percentage adjustment that reflects both movement through the salary ranges as well as periodic adjustments of the salary ranges upward in the out-years.

Any planning for the next several years must recognize the importance of compensation because of its significant long-term expenditure impact. For example, every one percent change in compensation has an estimated expenditure impact of $955,000 to the General Fund and another $215,500 to the Special and Enterprise Funds. It is obvious that whatever policy decision is made with regard to compensation will have a profound effect on future decision-making options.

■ ***Fringe Benefits***

Health insurance costs are forecasted to increase on average 13.0% annually 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.

■ ***Inflation (Consumer Price Index)***

Inflation is expected to fluctuate from 1.80% to 1.9% in the later years of the forecast.

■ ***Supplemental Limits***

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

■ ***Capital Improvement Program Operating Budget Impacts***

An important aspect of the City's Capital Improvement 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.

■ ***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 the Finance Economy and Veterans' Affairs Committee for review and recommendations. The pay-as-you-go impact is included as part of Personal Services cost in the forecast, however, the forecast does not include the unfunded, actuarially accrued liability.

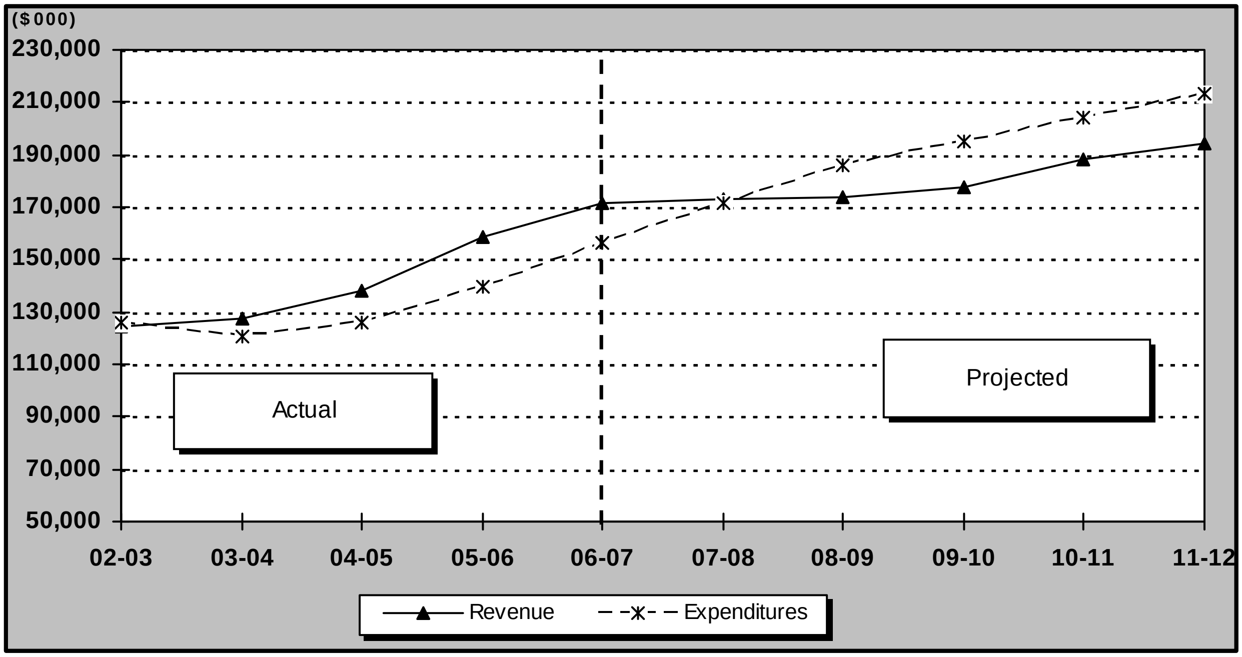
Economic Outlook

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 housing 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 5 year forecast.

The outlook for the next five years is for little to no growth in the near term, followed by a rebound in FY 2009-10. Broader regional issues, including the slow housing market and sub-prime mortgage defaults, are expected to be a drag on economic growth, though the forecast is not based on a general recession scenario. As the housing market recovers it is anticipated that sale activity, particularly in the retail category, will

This page intentionally left blank.

General Fund: Projected Revenue and Expenditures



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Local Taxes	66,841	71,455	77,772	86,570	95,863	93,905	94,363	98,743	106,803	115,461
Intergovernmental	35,536	34,076	36,068	40,946	41,453	46,004	47,959	47,701	49,673	46,078
Building & Trades/ Planning & Zoning	2,585	2,643	3,459	5,506	5,969	6,083	4,764	4,464	4,900	6,205
Cultural and Recreation	4,699	5,114	5,010	4,961	5,294	5,975	6,017	6,059	6,102	6,139
Fines, Fees and Forfeitures	5,510	5,831	6,652	7,288	7,219	6,718	6,930	7,153	7,385	7,629
Business Licenses	1,263	1,079	1,185	1,202	1,331	1,345	1,354	1,364	1,373	1,383
Interest Income	3,452	2,764	2,969	4,794	7,437	7,500	6,639	6,462	5,940	5,472
Franchise Fees	1,532	1,505	1,678	1,867	2,693	2,656	2,705	2,757	2,809	2,859
Other Revenue Sources	2,780	2,731	3,633	5,418	4,462	3,181	3,208	3,236	3,266	3,298
Total Revenue	**124,199**	**127,198**	**138,425**	**158,553**	**171,722**	**173,367**	**173,940**	**177,938**	**188,250**	**194,523**
Expenditures ($000)										
Personal Services	100,518	98,286	100,868	109,416	120,972	137,579	148,666	156,870	165,144	173,662
Materials and Supplies	6,275	6,417	6,811	7,866	8,783	8,284	8,197	8,327	8,465	8,580
Fees and Services	16,341	15,996	18,521	21,576	21,721	21,949	22,180	22,684	23,202	23,717
Travel and Training	606	647	649	720	824	869	885	902	919	935
Non-Departmental/Loan Repayment	4,082	3,405	4,310	3,652	4,431	7,222	7,075	7,260	7,448	7,632
Capital Outlay	3,779	3,287	2,002	3,116	4,670	2,234	1,944	1,981	2,018	2,055
Contingency	0	0	0	0	0	0	3,479	3,559	3,765	3,891
Transportation Maintenance of Effort	0	0	0	0	1,035	1,035	1,035	1,035	1,035	1,035
Internal Services/ Adjustments	(5,369)	(7,656)	(6,896)	(6,511)	(6,224)	(7,423)	(7,560)	(7,704)	(7,850)	(7,991)
Total Expenditures	**126,232**	**120,381**	**126,265**	**139,836**	**156,211**	**171,749**	**185,901**	**194,913**	**204,146**	**213,515**
Net Operating Surplus/ (Deficit)	**(2,033)**	**6,817**	**12,160**	**18,718**	**15,511**	**1,617**	**(11,962)**	**(16,975)**	**(15,895)**	**(18,992)**

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 several factors we are experiencing a reversal of that trend. The first factor is a slowing economy. Local sales taxes are the primary revenue source for the General Fund, and the past three years have seen large annual increases in sales taxes, particularly in the retail category. This good performance has been boosted by a strong housing market. However, due to the current recession in the housing market, we can no longer count on this sector to contribute to accelerating sales tax revenues. As such, we forecast slow to no growth in retail sales in FY 2008-09 following a decrease in the current year. This translates to a marked change in revenue growth as compared to recent years. Over the long-term we do expect a recovery, and have reflected this impact beginning in FY 2009-10

A second factor is growth in employee compensation and benefit costs. Due to a compensation philosophy that adjusts the city's pay structure annually to a level equivalent to the 75% percentile of the regional municipal government sector, salaries are expected to grow by 3.2% annually. Also, growth in health care costs for employees and current retirees is anticipated to reach 13% 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.

Also with regards to compensation, the public safety pension rates are increasing beginning in FY 2008-09. The Police and Fire Retirement system rates are expected to increase by 41% and 34%, respectively. These large increases have a significant impact since public safety salaries represent approximately 37% of the total payroll in the General Fund.

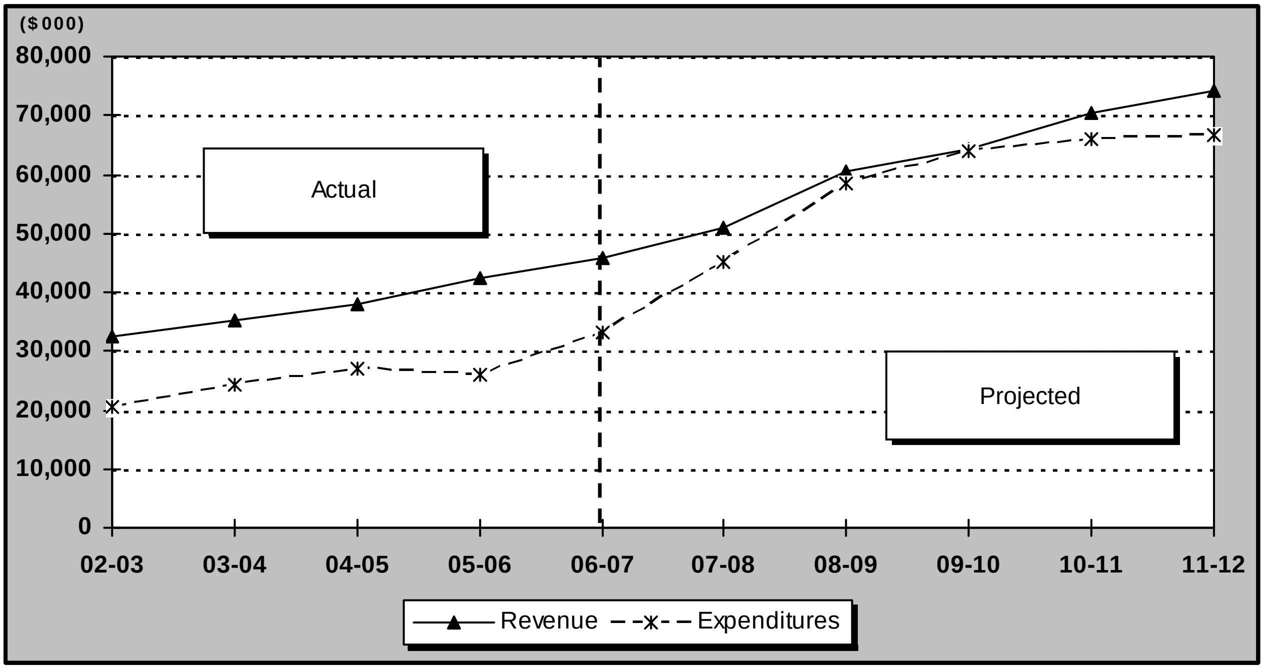
After allowing for the aforementioned factors, our initial forecast saw an accelerating operating deficit. As the deficit begins with the FY 2008-09 Operating Budget, steps will need to be taken to achieve balance.

Unreserved Fund Balance

The General Fund's unreserved fund balance has grown from $28.6 million just eleven years ago to $43.3 million for FYE 2007. At this point the balance is strong, and meets the policy level of 25% of annual revenue.

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

Transit Fund: Projected Revenue and Expenditures



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Transit Tax	25,141	26,741	28,848	32,440	34,971	33,922	33,888	35,515	38,676	42,118
Lottery Transfer In	290	282	274	266	257	253	248	243	238	234
ASU-Flash Transit	352	481	478	496	529	550	600	612	624	637
Interest Income	919	778	1,410	1,320	1,142	959	617	1,848	2,870	2,711
Light Rail Fares	0	0	0	0	0	0	951	1,968	2,101	2,168
Out of Jurisdiction Service Revenue	5,057	5,671	5,936	6,536	7,897	7,464	8,842	8,840	9,676	9,966
FTA Light Rail Reimbursements	0	0	0	0	0	6,420	10,133	10,129	10,132	10,131
PTF Funding	0	0	0	0	0	349	3,318	3,334	4,157	4,282
Miscellaneous Revenue	739	1,090	922	1,462	888	933	1,809	1,864	1,922	1,978
Total Revenue	**32,498**	**35,043**	**37,868**	**42,521**	**45,684**	**50,851**	**60,407**	**64,353**	**70,395**	**74,224**
Expenditures ($000)										
Personal Services	1,477	1,785	1,930	2,294	2,543	4,296	4,448	4,519	4,728	4,953
Materials and Supplies	9	1,550	1,781	1,870	2,082	2,158	2,197	2,239	2,282	2,323
Fees and Services	18,534	20,177	22,467	19,986	23,231	30,999	40,310	45,431	47,396	47,886
Travel and Training	8	19	17	36	43	63	65	66	67	68
Capital Outlay	12	24	182	190	140	52	53	54	55	56
Debt Service	1	0	0	594	4,045	6,420	10,133	10,129	10,132	10,131
Internal Service Charges	207	237	243	314	310	323	329	336	342	348
Indirect Cost Allocations	244	428	437	696	847	976	995	1,013	1,033	1,051
Total Expenditures	**20,492**	**24,222**	**27,057**	**25,979**	**33,241**	**45,287**	**58,530**	**63,786**	**66,034**	**66,815**
Net Operating Surplus/ (Deficit)	**12,006**	**10,821**	**10,811**	**16,542**	**12,444**	**5,564**	**1,877**	**567**	**4,361**	**7,409**

Trend/Forecast

Since the Transit Tax is a component of the overall City sales tax, the slower growth trend projected in General Fund sales tax revenue is mirrored here in the Transit Fund. The projected increase in revenue growth in the later years of the forecast can be attributed to an increase in federal reimbursements received in conjunction with construction of the City's light rail project, as well as out of jurisdiction revenues and light rail fares.

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.

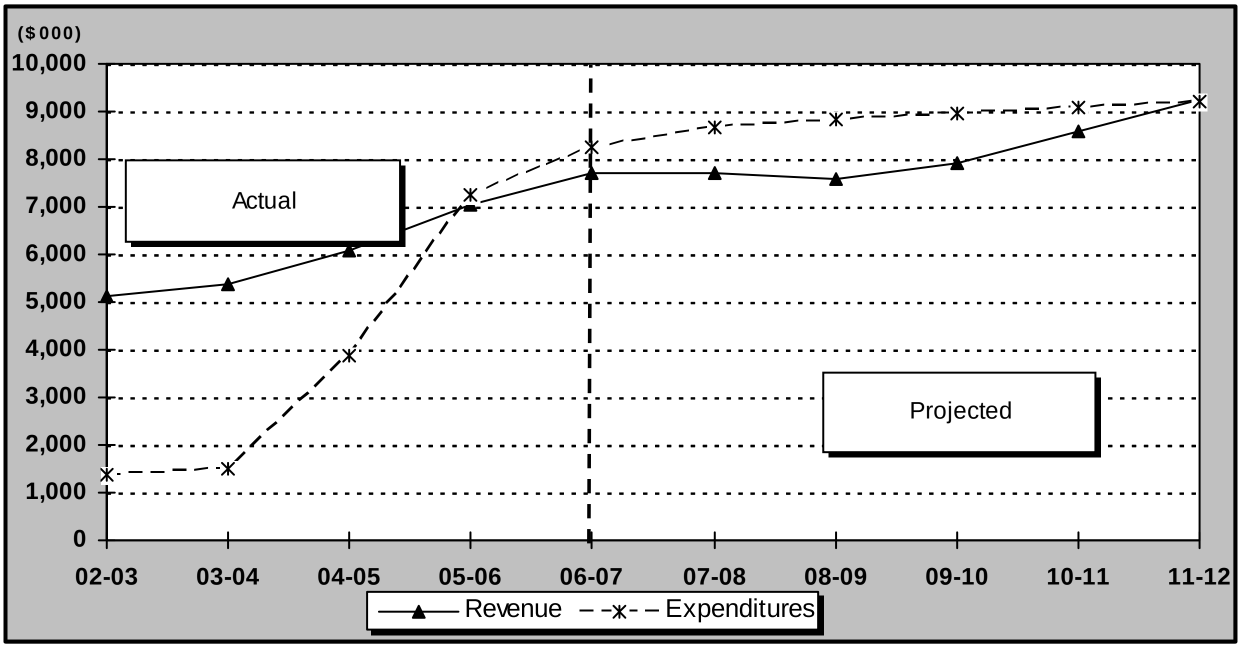
In FY 1997-98, the first full year of the transit tax, operating expenses were $5.2 million. By the end of the forecast period, expenses are estimated to climb to $66.8 million. Given projected revenue growth and operating profile, the forecast is for planned fund surpluses from FY 2007-08 through FY 2011-12, though the gap between revenues and expenditures is expected to become narrower.

Unreserved Fund Balance

The Transit Fund's unreserved fund balance has grown from $18.4 million in FY 1997-98 to $38.2 million at the end of FY 2006-07. This build up of fund balances is consistent with the 20 year Transit Business Plan, and this balance will be available for use in the Capital Budget.

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

Performing Arts Fund: Projected Revenue and Expenditures



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Performing Arts Tax	5,010	5,280	5,768	6,480	7,008	6,934	6,934	7,266	7,913	8,609
Facility Revenue	0	0	0	0	0	350	422	438	456	474
Interest Income	112	98	335	574	692	415	242	229	204	183
Total Revenue	**5,123**	**5,378**	**6,103**	**7,054**	**7,700**	**7,699**	**7,597**	**7,933**	**8,573**	**9,266**
Expenses ($000)										
Personal Services	145	203	194	337	545	1,891	2,017	2,119	2,218	2,316
Materials and Supplies	1	1	16	65	853	187	191	194	198	202
Fees and Services	11	43	54	84	538	415	432	450	468	487
Travel and Other	4	2	5	9	9	9	9	9	10	10
Capital Outlay	0	0	0	158	108	10	0	0	0	0
Debt Service	1,204	1,234	3,572	6,295	6,059	6,050	6,053	6,046	6,056	6,058
Internal Service Charges	8	22	20	287	123	123	127	129	131	134
Total Expenses	**1,373**	**1,504**	**3,861**	**7,235**	**8,235**	**8,686**	**8,828**	**8,947**	**9,081**	**9,207**
Net Operating Surplus/ (Deficit)	**3,750**	**3,874**	**2,243**	**(180)**	**(535)**	**(987)**	**(1,231)**	**(1,014)**	**(508)**	**59**

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

Trend/Forecast

The Performing Arts Fund receives its primary revenue from the Performing Arts Tax. This tax, which represents 0.1% is collected as a portion of the City Sales Tax, was approved in May 2000 and became effective in January 2001. 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 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 will begin to receive revenue from programming at the facility. This revenue stream is expected to grow moderately through the end of the forecast period.

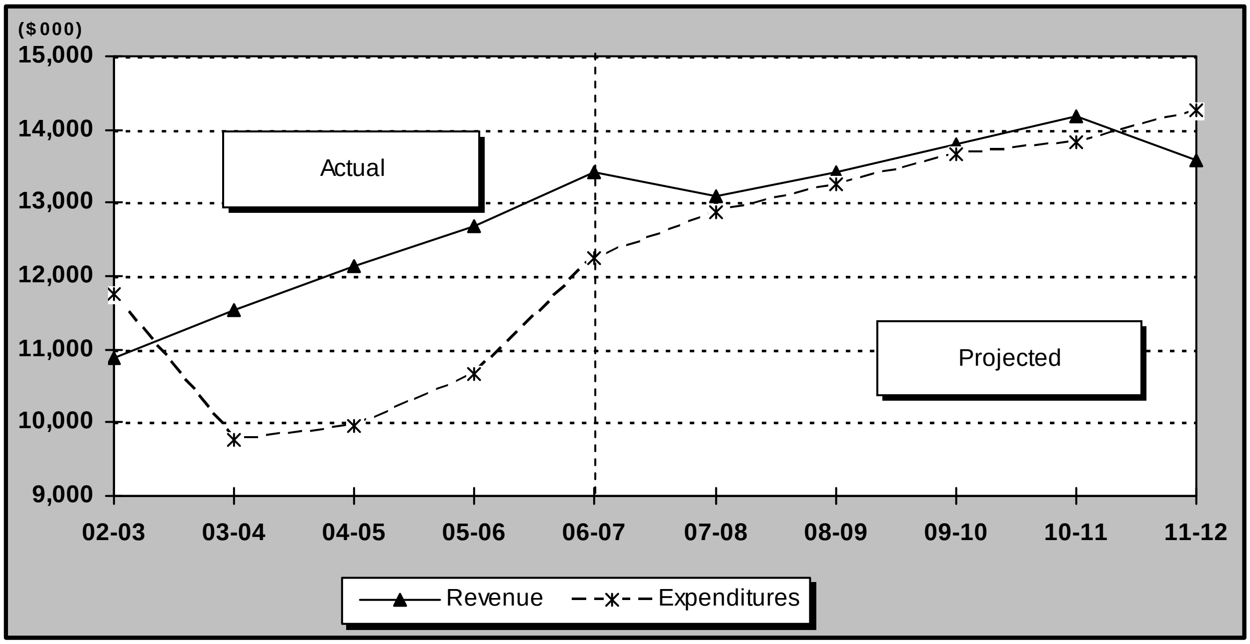
The expenditure growth pattern reflects the opening of the Tempe Center for the Arts (TCA) in September of 2007. In FY 2005-06, 19 new full-time positions, and related capital equipment were added to prepare for the full-time operation of the TCA. These costs represent the operating impacts of this capital project as identified in prior years' Capital Improvement Programs.

Though the forecast is for an operating deficit, the fund is expected to recover to an operating surplus as revenue collections exceed expenditures in FY 2011-12, largely due to a recovery in sales tax collections.

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 in future years the balance will be tapped to cover differences between revenues and expenditures.

Transportation Funds: Projected Revenue and Expenditures



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Projected	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Highway User Revenue Tax	10,286	10,985	11,533	11,224	11,854	11,484	11,818	12,206	12,593	12,000
State Lottery Proceeds	870	846	821	799	771	767	752	737	722	708
Miscellaneous	0	0	43	68	10	67	67	67	67	67
Maintenance of Effort Transfer	0	0	0	870	1,035	1,035	1,035	1,035	1,035	1,035
Lottery Transfer to Transit	(287)	(282)	(274)	(266)	(257)	(253)	(248)	(243)	(238)	(234)
Total Revenue	**10,869**	**11,549**	**12,123**	**12,694**	**13,413**	**13,100**	**13,424**	**13,801**	**14,179**	**13,576**
Expenditures ($000)										
Personal Services	3,540	3,470	3,700	4,107	4,112	5,021	5,325	5,645	5,975	6,328
Materials and Supplies	448	433	467	533	513	508	517	527	537	547
Fees and Services	1,465	1,460	1,682	1,736	1,897	1,856	1,890	1,926	1,963	1,998
Travel and Training	2	15	0	0	24	23	24	24	25	25
Capital Outlay	204	503	189	330	361	379	386	394	401	408
Debt Service	4,000	2,000	2,000	2,000	2,770	2,770	2,770	2,770	2,500	2,500
Loan Repayment	356	310	310	310	310	310	310	310	310	310
Internal Service Charges	640	883	853	1,036	1,226	1,189	1,211	1,234	1,257	1,280
Indirect Cost Allocations	1,109	682	746	619	1,025	813	828	843	859	875
Total Expenditures	**11,765**	**9,756**	**9,946**	**10,670**	**12,237**	**12,869**	**13,261**	**13,673**	**13,828**	**14,271**
Net Operating Surplus/ (Deficit)	**(896)**	**1,792**	**2,177**	**2,024**	**1,176**	**231**	**163**	**128**	**351**	**(695)**

Trend/Forecast

Small deficits are expected in the latter years of the forecast period. We have already witnessed a reduction in our allocations of HURF and Lottery revenue resulting from Tempe's declining percentage of statewide population. The results of the 2005 Special Census further worsened the situation, contributing to the precarious position of this fund. Unlike with the main state shared revenue pool, which derives from State Income and Sales Taxes, the growth in the revenue pool for HURF state shared revenues has not outpaced the impact of population shifts.

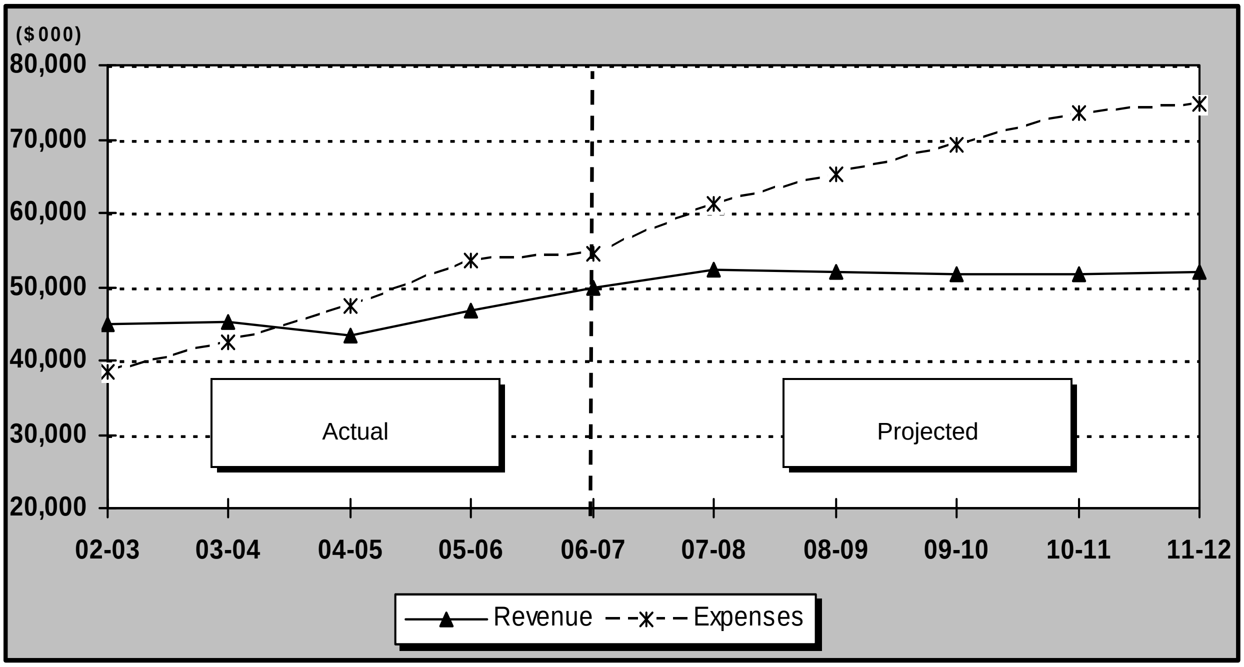
One approach now in place to minimize operating deficits is to cap debt service at payments of $2.7 million for the remainder of the forecast period. Any excess General Obligation debt service requirements beyond this cap will be absorbed by the Debt Service Fund during the five year period. Over the 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.

Unreserved Fund Balance

Transportation Fund balances have recovered somewhat from the lows experienced a few years ago. Maintaining an adequate fund balance for contingencies and transfers for capital projects will become a difficult challenge with operating deficits. Minimal relief on the expenditure side can be found as the cost of inflation, and debt service requirements throughout the forecast period.

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

Water/Wastewater Fund: Projected Revenues and Expenses



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Charges for Service-Water	25,669	26,183	24,446	26,367	26,714	27,932	28,258	28,398	28,539	28,681
Charges for Service-Wastewater	16,958	16,857	16,248	18,025	19,462	20,737	21,113	21,219	21,326	21,433
Interest Income	886	942	1,506	1,609	2,485	2,575	1,600	1,026	892	796
Land and Facility Rental	520	520	520	519	520	520	536	542	548	554
Loan Repayment	299	146	130	114	97	79	60	41	21	21
Other Miscellaneous Rev.	477	492	550	241	666	485	485	485	485	485
Total Revenue	**44,808**	**45,140**	**43,400**	**46,875**	**49,943**	**52,328**	**52,052**	**51,712**	**51,811**	**51,970**
Expenses ($000)										
Personal Services	9,552	11,234	11,611	12,451	13,265	14,279	15,070	15,887	16,683	17,499
Materials and Supplies	1,378	1,650	2,872	2,811	3,565	3,329	3,391	3,455	3,521	3,584
Fees and Services	8,777	10,850	10,426	14,334	12,441	12,919	13,130	13,352	13,583	13,817
Travel and Training	80	109	109	124	215	101	103	105	107	108
Depreciation Expense	9,009	9,240	9,960	11,950	12,291	13,236	13,393	13,867	16,131	16,079
Share of 91st Avenue Depreciation	1,764	1,482	3,786	2,011	330	1,875	1,875	1,875	1,875	1,875
Debt Srvc Intrst/Fiscal Agent Fees	3,915	4,750	4,826	6,191	8,313	11,116	13,905	16,398	16,988	17,312
Internal Service Charges	1,354	1,388	1,609	1,892	2,526	2,434	2,479	2,526	2,574	2,620
Indirect Cost Allocations	2,588	1,876	2,176	1,825	1,516	1,847	1,881	1,917	1,953	1,988
Total Expenses	**38,417**	**42,579**	**47,375**	**53,588**	**54,462**	**61,136**	**65,226**	**69,381**	**73,414**	**74,882**
Net Operating Surplus/ (Deficit)	**6,391**	**2,560**	**(3,975)**	**(6,713)**	**(4,518)**	**(8,808)**	**(13,174)**	**(17,670)**	**(21,603)**	**(22,912)**

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

Trend/Forecast

The Water/Wastewater Fund is projected to experience a growing operating deficit through the forecast period. 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, the current rate structure is insufficient to ensure long term viability of the enterprise. Water and sewer rate increases approved by the Council over the past few years had the intended effect of eliminating, at least in the short-term, a projected deficit condition in the Water/Wastewater Fund. The primary intent of the sewer rate adjustments was to ensure full cost recovery in the wastewater operation. Additionally, the new rate structure was intended to equitably charge all customers based on the volume and strength of discharges.

The latest water, sewer, and irrigation rate increase went into effect November 1, 2007. The need for further rate adjustments in the water and sewer service areas will continue to be reviewed on an annual basis.

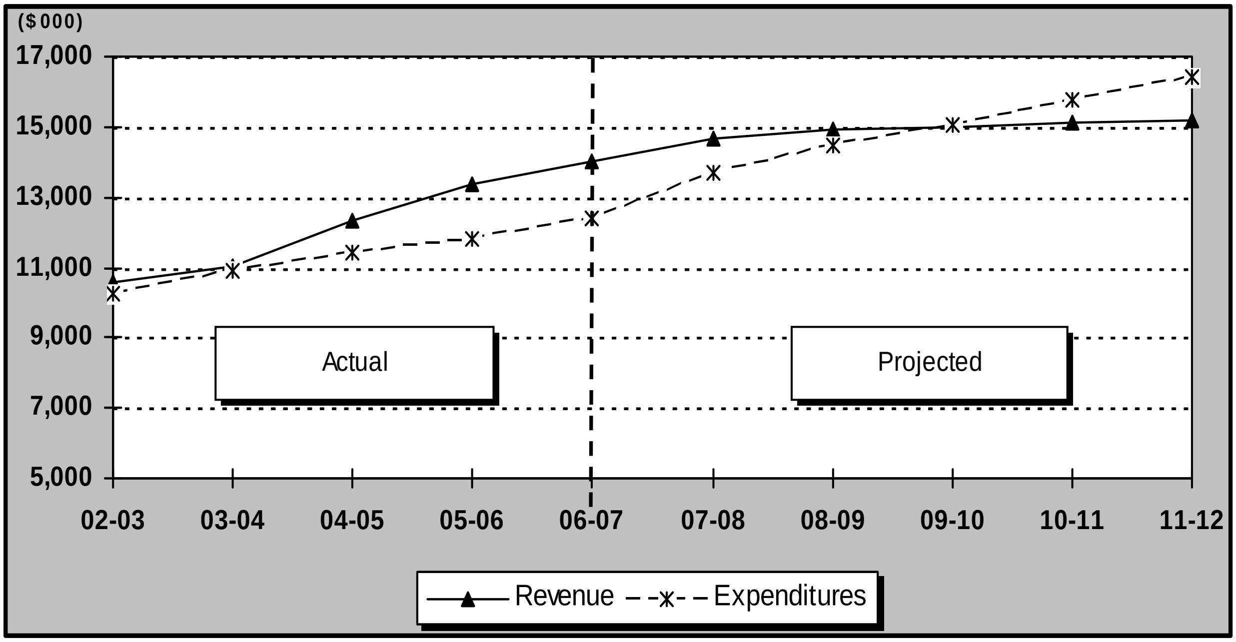
A new rate structure may have the effect of encouraging customers to reduce discharges or at least alter the strengths of discharges, both of which could substantially reduce revenue. Such changes should produce reductions in the City's shared cost of operating the 91st Avenue facility, although those reductions may not mirror revenue losses. Thus, the long-term outlook for this fund could change substantially depending to a large extent on 91st Avenue costs.

As the long-range forecast initially predicted, the Water/Wastewater Fund entered into a deficit condition in FY 2005-06. This fund could continue to operate under a deficit condition through FY 2011-12 as the growth in treatment cost outpaces revenue growth. Should this occur, a drawdown of fund balances will be applied to cover the deficit. <u>For the purpose of this forecast, we have assumed no further rate adjustments.</u>

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 $55.6 million at FYE 07.

Solid Waste Fund: Projected Revenue and Expenses



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Charges for Services	10,460	10,870	11,839	12,749	13,626	14,319	14,654	14,761	14,866	14,972
Sludge Disposal	37	145	119	151	62	85	85	85	85	85
Interest Income	3	9	39	83	175	171	75	69	61	55
Other Revenue Sources	49	0	328	399	172	100	100	100	100	100
Total Revenue	**10,548**	**11,024**	**12,325**	**13,382**	**14,035**	**14,675**	**14,914**	**15,015**	**15,112**	**15,212**
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
Depreciation	919	903	972	988	898	1,157	1,188	1,259	1,440	1,611
Loan Repayment-Interest Only	137	0	0	0	0	0	0	0	0	0
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 latest increase to industrial, commercial, and residential rates occurring on November 1, 2006. Despite these recent rate increases, we forecast a deficit in the fund beginning with the 2010-11 fiscal year.

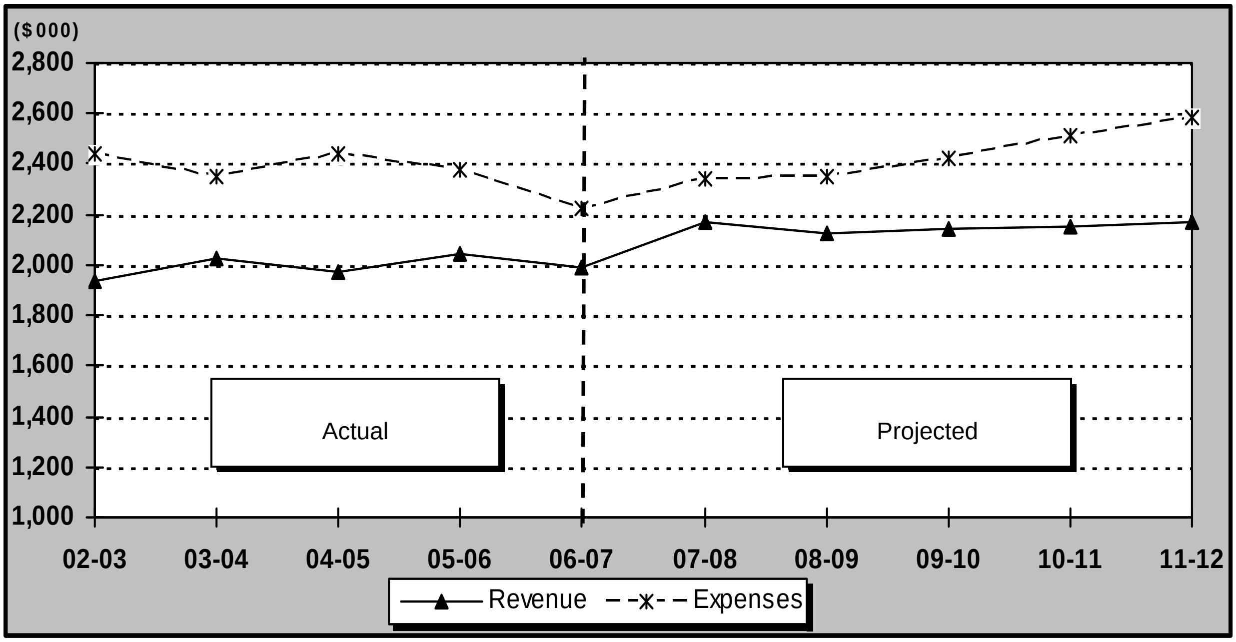
Solid waste rates are subject to annual rate reviews to ensure that the fund remains fully self-sufficient and to smooth the effect of potential rate adjustments on the City's residential and commercial customers.

Unreserved Fund Balance

There is a $4.9 million fund balance in the Solid Waste Fund, providing 39.5% coverage to estimated FY 2006-07 expenses of $11.8 million. 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

Golf Fund: Projected Revenue and Expenses



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	11/12 Projected
Revenue ($000)										
Greens Fees	1,850	1,801	1,746	1,750	1,689	1,722	1,742	1,755	1,767	1,779
Pro Shop/Restaurant	76	219	208	221	223	389	326	328	331	333
Interest Income	12	8	14	16	19	11	8	8	7	6
Other Revenue Sources	0	0	0	55	51	51	51	51	51	51
Total Revenue	**1,938**	**2,028**	**1,969**	**2,041**	**1,983**	**2,173**	**2,127**	**2,142**	**2,155**	**2,169**
Expenses ($000)										
Personal Services	1,006	1,057	1,050	988	1,005	1,134	1,196	1,264	1,333	1,405
Materials and Supplies	283	271	286	256	249	211	215	219	223	227
Fees and Services	321	314	372	456	307	352	361	370	379	388
Depreciation	370	364	347	330	309	292	197	198	195	175
Debt Service Interest	38	32	23	18	10	6	8	11	13	15
Contingency	0	0	0	0	0	0	20	0	0	0
Internal Service Charges	140	109	153	141	150	175	178	182	185	188
Indirect Cost Allocations	278	206	210	188	195	170	173	177	180	183
Total Expenses	**2,436**	**2,354**	**2,441**	**2,376**	**2,225**	**2,340**	**2,348**	**2,420**	**2,508**	**2,582**
Net Operating Surplus/ (Deficit)	**(498)**	**(326)**	**(472)**	**(335)**	**(242)**	**(167)**	**(220)**	**(278)**	**(353)**	**(412)**

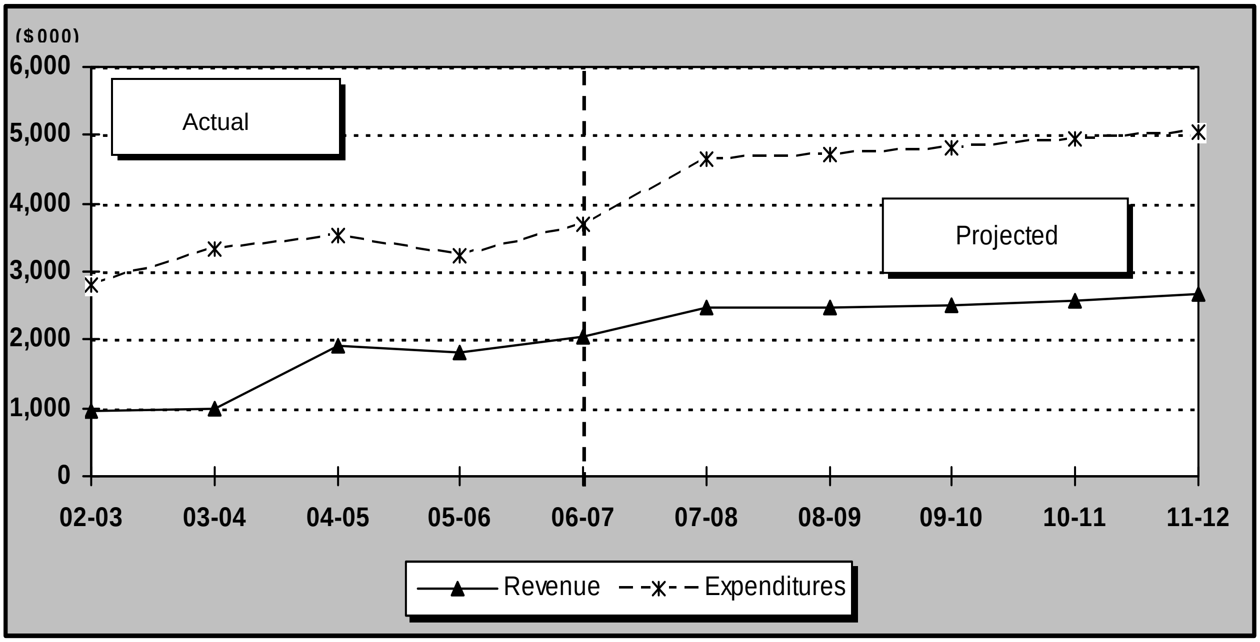
Trend/Forecast

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.

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 as 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



	02/03 Actual	03/04 Actual	04/05 Actual	05/06 Actual	06/07 Actual	07/08 Projected	08/09 Projected	09/10 Projected	10/11 Projected	10/12 Projected
Revenue ($000)										
Sales Tax	390	341	309	580	797	769	769	806	878	955
Property Tax	40	62	68	66	74	150	156	163	170	177
Transient Lodging Tax	123	136	182	219	240	225	234	237	242	248
Interest Revenue	133	135	149	171	200	162	127	122	109	98
Sale of Real Estate	0	0	789	0	0	0	0	0	0	0
Other Revenue	36	74	111	128	160	153	153	153	153	153
CFD Revenue	230	226	315	639	579	1,013	1,020	1,027	1,034	1,041
Total Revenue	**953**	**975**	**1,923**	**1,804**	**2,051**	**2,472**	**2,459**	**2,508**	**2,586**	**2,672**
Expenditures ($000)										
Personal Services	530	577	589	614	793	1,838	1,871	1,960	2,056	2,159
Materials and Supplies	21	15	17	27	17	118	124	130	136	143
Fees and Services	557	481	546	687	828	681	714	749	786	824
Travel and Training	4	3	5	2	5	7	7	7	8	8
Capital Outlay	19	10	96	0	0	0	0	0	0	0
Internal Service Charges	94	260	245	215	414	352	369	387	406	426
CFD Administrative Credit	(411)	(365)	(396)	(419)	(414)	(1,321)	(1,385)	(1,453)	(1,524)	(1,599)
CFD Operating and Maintenance	1,999	2,335	2,431	2,118	2,042	2,972	3,002	3,032	3,062	3,093
Total Expenditures	**2,812**	**3,316**	**3,533**	**3,244**	**3,686**	**4,647**	**4,701**	**4,812**	**4,929**	**5,054**
Net Operating Surplus/ (Deficit)	**(1,859)**	**(2,342)**	**(1,610)**	**(1,441)**	**(1,635)**	**(2,175)**	**(2,243)**	**(2,304)**	**(2,343)**	**(2,382)**

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. CFD revenue includes assessment collections from property owners and boat permits, concessions, and special event fees.

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 draw downs to fund capital and land purchase costs. Although the unreserved fund balance is nearly exhausted, the Rio Salado and Community Facilities District Funds still have a designated fund balance reserve in the General Fund of $5,137,729 for operating and maintenance costs as of June 30, 2006.

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

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.

- ***Other Post Employment Benefits***

Addressing the $300 million net present value impact of OPEB across all city funds is the primary course of action towards continued financial strength. Either through benefit package changes, advanced contributions, or a combination of the two, swift action on this critical financial issue is recommended.

- ***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 Improvement 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 Improvement 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 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 expansion 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 sunsetting 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, while departmental budget requests are associated with 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.

- ***Ad Hoc Long-Range and Finance Planning Committee***

Continued commitment to the recommendations generated by the committee to review City expenditures, sources of revenue, and long-range projections, and propose revisions to the City Council.

This page intentionally left blank.