

FY 2010 BUDGET PROCESS

OVERVIEW:

The FY 2010 operating and capital budgets are based on council's continued vision of 'one community' and the supporting strategic goals that Council reconsidered at a December 2008 retreat:

- One community that is fiscally sound,
- One community with strong neighborhoods,
- One community committed to public safety,
- One community with quality economic development,
- One community with a vibrant city center,
- One community with an active partnership with Luke Air Force Base, and
- One community with high quality services for citizens.

The principal issue for the FY 2010 budget development process was the economy and the impact it has on the city's resources to fund services to the community. In prior fiscal years, Glendale had revenue growth to address rising demand for city services and cost increases related to service delivery. FY 2010 is different in that revenue resources have shrunk while demand for city services has remained steady. Development of options for the FY 2010 budget began in the late summer and early fall of 2008. Various options were developed for review by executive management during this time. The city manager provided direction to develop a FY 2010 budget in which the overall intent was to continue providing exceptional city services that support a high quality of life for the entire community and to continue with investment in the community's infrastructure. For a more in-depth discussion of the budget strategy for FY 2010, please see the City Manager's Budget Message.

These messages were conveyed to the city's deputy city managers, department heads and budget experts through a variety of meetings led by executive staff. The Management and Budget Department also conducted training to inform staff about changes for the upcoming year and instructed staff on how to use the budget inputting system for the FY 2010 budget process.

The Management and Budget Department continued to recommend the "base budget" approach to control expenditures and promote fiscal conservatism. With base budgeting, divisions are allocated a target base expenditure amount to support all ongoing operations for the fiscal year. Allocations are based on the prior year ongoing appropriation for that division, with any one-time funds in the current fiscal year's budget excluded from the target base budget for the upcoming fiscal year.

Departments are encouraged to shift allocations for non-salary items within the target base amount to better reflect current operations during the budget input phase that kicked off in November 2008. All salary and benefit related items are calculated and established separately by the Management and Budget Department.

This base budget approach was modified because of the economic downturn. During FY 2009, two levels of base budget reductions were implemented for General Fund (GF) departments:

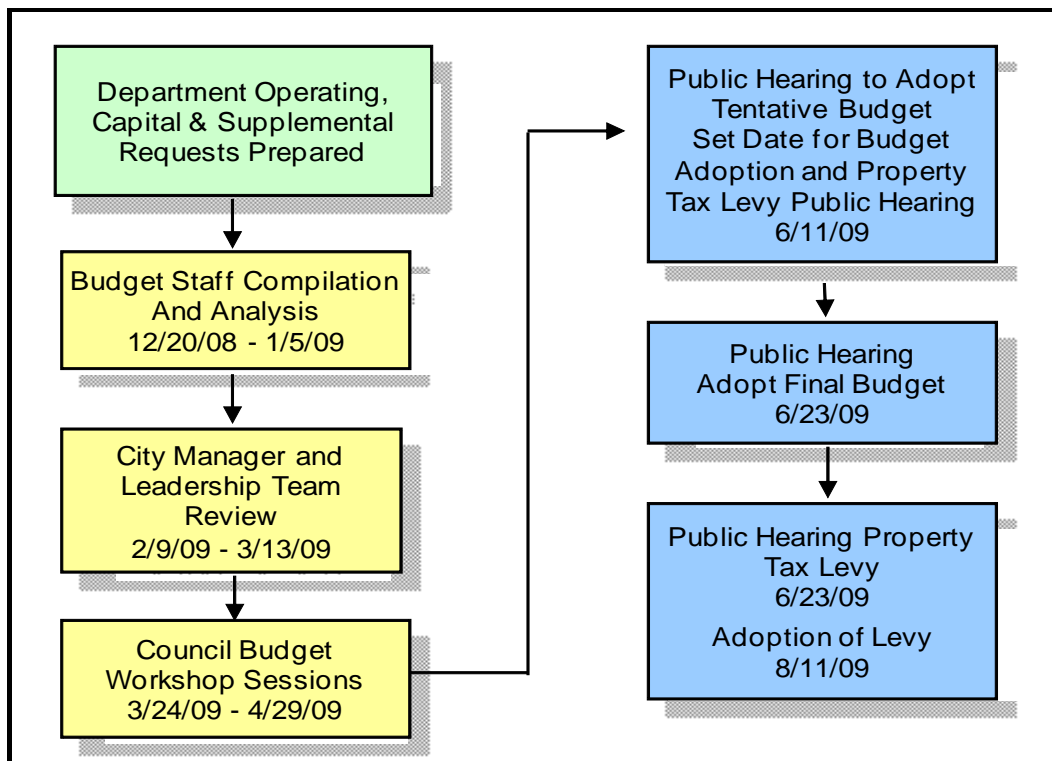


- 6% ongoing reductions in the non-salary budget for GF departments; and
- 10% one-time reductions for GF departments, with a focus on reducing contractual and temporary positions.

While these cuts were not made to the Police and Fire Department budgets in FY 2009, their spending was reduced to match decreases in public safety sales tax revenues.

Requests for supplemental funding were limited to address only those issues that required immediate attention such as electric rate increases. These requests were reviewed and evaluated in January 2009. A final balancing meeting with executive leadership occurred in February. Decisions at this meeting resulted in the recommended budget presented to City Council at a series of budget workshops held in March and April.

At the conclusion of these budget workshops, the proposed budget was presented to Council for tentative adoption and then, two weeks later, for final adoption. The budget was transmitted to the general public in the form of public hearing notices that includes summary budget information as required by Arizona state law. After completing the public hearing for the final FY 2010 budget, the Council adopted it and thereby set the expenditure limitation for FY 2010. A public hearing on the FY 2010 property tax levy was conducted at the same meeting as the final budget adoption. Adoption of the property tax levy occurred at the first evening meeting after the July summer break. The chart below illustrates the broad outline of the FY 2010 budget development process.



VARIATIONS IN BUDGETING METHODS:

The budgets of general government type funds, such as the General Fund, Public Safety Special Revenue Fund, Streets Fund and Transportation Fund are prepared on a modified accrual basis. This means that unpaid financial obligations, such as outstanding purchase orders, are immediately reflected as encumbrances when the cost is estimated, although the items may not have been received yet. However, in most cases revenue is recognized only after it is measurable and actually available. Beginning with FY 1996, sales tax revenues were recorded in the period in which they were due to the city. This changed in FY 2008 and sales tax revenue is now recorded to the month it is collected.

Enterprise funds (Water/Sewer, Sanitation and Landfill) are prepared using the full accrual method. Enterprise funds also recognize expenditures as encumbered when a commitment is made (e.g., through a purchase order). Revenues, on the other hand, are recognized when they are obligated to the city (for example, water user fees are recognized as revenue when service is provided).

Purchase orders for goods and services received prior to the end of the current fiscal year will be eligible for payment for a period of sixty days following the close of the fiscal year. However, encumbrances for all other purchase orders will automatically lapse.

The Comprehensive Annual Financial Report (CAFR) presents the status of the city's finances on the basis of Generally Accepted Accounting Principles (GAAP). Since FY 2002, the CAFR has been prepared in compliance with Governmental Accounting Standards Board Statement 34 requirements. The CAFR shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes. In most cases, this conforms to the way the city prepares its budget with the following exceptions:

- a. Compensated absences liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees on a GAAP basis as opposed to being expended when paid on a budget basis.
- b. Principal payments on long-term debt within the enterprise funds are applied to the outstanding liability on a GAAP basis as opposed to being expended when paid on a budget basis.
- c. Capital outlays within the enterprise funds are recorded as assets on a GAAP basis and expended on a budget basis.
- d. Inventory is expensed at the time it is used.
- e. Depreciation expense is not budgeted as an expense.

ACCOUNTING CHANGES:

One new fund was created during FY 2009 and is included in the FY 2010 budget, the Glendale Health Center (Fund 2538). This fund was created in accordance with the intergovernmental agreement approved by City Council on January 27, 2009. The Glendale Health Center is



located within the Glendale Regional Public Safety Training Center. The center is staffed by contractual medical professionals and is fully equipped with the testing equipment, exam rooms, x-ray machines, and other medical equipment required to perform physical examinations for public safety personnel on a fee-for-service basis. The onsite contractual staff is required to perform medical examinations, bill and collect for all services rendered at the center, and remit negotiated fees for each medical examination performed to the City of Glendale and the Glendale Health Center.

Revenues and associated operating expenses are tracked in this fund. Although the center will derive a large portion of its business from existing Glendale Regional Public Safety Training Center partners, it is also open to outside organizations that are in need of the more extensive testing requirements associated with public safety personnel physical examinations. FY 2010 projected revenues totaling \$105,000 will be offset by operating expenditures of \$54,000. Any excess revenues at year end will remain in fund balance and can be used to offset future costs associated with the repair and replacement of medical equipment.

Two funds were eliminated during FY 2009, the Cable Communications (Fund 1160) and the Training Facility (Fund 2533). The Cable Communications Fund was previously used to track the revenues and expenditures associated with the rental of city owned cable communications equipment, including a cable van to outside parties. This fund was closed out during FY 2009 and will not have any budgeted activity going forward. Any remaining activities associated with the fund have been combined with the Convention/Media/Parking Facility budget in the General Fund. This fund will be removed from our financial reports and schedules with the adoption of the FY 2011 budget.

The Training Facility debt service fund was used to track the capital construction contributions made by the partners that helped pay for the Glendale Regional Public Safety Training Center. This facility was built with capital contributions from the City of Glendale (74.8%), Maricopa County Community College District (8.2%), City of Surprise (6.6%), City of Peoria (6.5%), City of Avondale (3.9%) and the federal government. Since the city issued a combination of general obligation and MPC bonds to build the entire facility, these cash contributions were used during FY 2009 to help pay the outstanding MPC debt service associated with the facility. This fund will be removed from our financial reports and schedules with the adoption of the FY 2011 budget.

Also, there is a change to how the debt service will be handed for Highway User Fee Revenue (HURF) bonds. The City has outstanding HURF bonds for street projects that are backed by a pledge of the HURF monies the city receives from the state. Coverage of HURF debt service with HURF monies is not planned for FY 2010 given the state's reduction to the HURF revenue that is distributed to cities in FY 2009, and the uncertainty regarding how the FY 2010 revenue will be distributed. Instead, HURF debt service will be paid by secondary property tax revenue (\$2.7 million) and roadway development impact fee revenues (\$1 million).
