FIVE-YEAR FORECAST

INTRODUCTION

Glendale's annual and long range budgeting process is shaped and guided by the three key foundation documents contained within the Annual Budget. They are the City of Glendale's *Five-Year Forecast, Financial Plan* and *Financial Policies.* Together these documents help the City Council ensure that, regardless of changing economic times, city government has the financial stability and economic resources it needs to provide essential services and maintain Glendale's high quality of life in future years.

This section focuses on the General Fund (GF) given the extent of GF operations. Nevertheless, much of what is discussed in this section also applies to city operations that are not directly supported by GF revenues, such as the enterprise and special revenue fund operations.

WHY DO WE DO FORECASTS?

Forecasting is such an automatic part of our lives that most of us do it every day without giving the process much conscious thought. For example, if you drive to work, you will make many assumptions and predictions about how various factors will affect the length of time it will take to make the trip. These activities are the most basic elements of the forecasting process.

From past experience, you can reasonably predict how long the trip takes under normal circumstances assuming you drive at the legal speed limit and meet all traffic requirements such as red lights and stop signs. You might adjust your travel forecast and leave home a little earlier on Mondays when traffic is usually heavier, or if it is raining, or you have to pick up a co-worker on that particular day. You might factor in some extra time for unanticipated but common events such as a traffic accident, a closed freeway lane on your route or other events that might slow your progress and increase your travel time.

Once you are on the road, you will be continually fine-tuning your forecast. As you drive you might look ahead to the short-term future, checking the progress of the cars in front of you, and periodically changing traffic lanes to stay on your projected schedule. You might also look a little further into the future, to the next traffic light or the freeway on-ramp. If the access ramp looks too congested, you might decide to alter your route to avoid a possible freeway backup. Continuous monitoring and fine-tuning adjustments are also characteristic of the budget forecasting process.

If past experiences, assumptions and predictions regarding future events were reasonably accurate, resulting in a reliable forecast, you should expect to arrive at work on time. However, even with the best information and forecasting tools, there may be rough spots in the road—those unknown or uncontrollable variables that can never be predicted in advance. For instance, your actual versus forecast results will be very different if, when you try to start your car in the morning, you discover the battery is dead.

Forecasting our individual, daily routines is relatively simple. However, forecasting becomes increasingly difficult as goals and objectives become more varied and complex, and less reliable as the forecast period lengthens. The number of and potential for unpredictable events and uncontrollable variables also becomes much greater. For example, it is harder to forecast for a vacation next year than to forecast your daily trip to work. It is harder still to plan for that vacation in a way that will not have a negative effect on other, longer-range objectives, such as saving enough money to purchase a home in five years.

Most cities go through this type of forecasting process on a much grander scale, using more sophisticated tools to evaluate their current status in relation to their short and long-range goals and objectives. They also make predictions about how future events and circumstances will or may affect their financial stability.

THE CITY'S FORECAST

The *Five-Year Forecast* is guided by City Council's continued vision of 'one community' and the supporting strategic goals and key objectives. The Management and Budget Department updates the forecast each year to adjust for changes in national and local economic conditions and trends, changes in Council priorities and policies, and other variables that might affect the city's ability to provide needed services and maintain its financial integrity in future years. Consequently, the *Five-Year Forecast* identifies the direction in which the city is headed based on information known at the time it is updated for the annual budget document.

The forecasting process is continuous, with fine-tuning adjustments made each year as part of the normal budgeting process. Forecasting is one of the most powerful tools we have available to help us make informed decisions, based on available information, to ensure the city's future vitality and economic stability.

Shifts in demographics, economic conditions, and societal values impact how the city operates. This is especially notable in growing communities such as Glendale, where the City must continually assess its ability to support existing services and address new service needs well into the future. By evaluating important trends and economic conditions included in long-range forecasting models, the City is better able to gauge its ability to provide essential services over an extended period of time.

LONG RANGE FORECASTING MODELS

In order to provide the most accurate and timely data, the Management and Budget Department uses a long-range forecasting model for the GF. The model is updated and refined each year before the city's annual budgeting process begins. Similar forecasts and rate setting models are used for the enterprise funds. These models are used to calculate the likely financial effects of changing internal and external conditions on the city's fund balances over a five-year period.

The GF financial projection in the upcoming five-year period is based on a number of meaningful economic and demographic factors, as well as a series of assumptions about expected operational needs. The local economic outlook is largely based on expert forecasts from economists at the Economic & Business Research Program at the University of Arizona, JP Morgan Chase Economy Outlook Center, the L. William Seidman Research Institute at Arizona State University and the Joint Legislative Budget Committee at the State of Arizona.

Glendale's forecasting model is made up of three primary components: the revenue module, the expenditure module and the fund summary module. Whenever new data is entered into each module, the modeling program generates updated fiscal projections. The enterprise fund models include many of the same components. However, because an enterprise fund is a self-contained business unit, these models incorporate all capital costs, debt service requirements, fixed asset information and customer data for the specific funds.

Glendale's forecasting models enable staff to provide City Council and executive leadership with the results of "what-if" scenarios. These "what-if" scenarios in the revenue and cost modules help generate estimates with likely short-term and long-term financial consequences and overall fund balances. As with all financial models, the projections are defined by the specific criteria and assumptions used and the respective limitations associated with both. Nevertheless, the city's forecasting models have been successfully used to explore questions such as:

- How will current national and local economies affect the city's operating budget and fund balances?
- Can a new service or program that will increase our ongoing costs be added to the operating budget without jeopardizing basic service levels in future years?
- What long-term costs are associated with changes in employee pay and benefit-related policies?

HOW ARE REVENUES AND EXPENDITURES ESTIMATED?

In order to achieve the most reasonable projections for anticipated revenues and expenditures, income and expense categories are analyzed using the most appropriate methodology for each category. Management and budget staff considers all applicable limitations and requirements in projecting each individual revenue and expense source. One or more of the following factors may play an important role in developing revenue and expenditure forecasts.

Legal or Mandated Requirements

Some revenue and expense categories are defined by specific legal requirements or restrictions. For example, state statutes place restrictions on the primary property tax levy—the total amount collected—and therefore affects the primary property tax rate charged on property in Glendale.

Department Staff Estimates

Management and budget staff asks departments to identify key future staffing needs to accommodate population growth and related equipment costs that will affect the operating budget over the next five years. A strong emphasis is placed on the operating impacts associated

with new capital projects scheduled to come on line over the forecast period. The experience and expertise of department managers also are crucial for accurately projecting expected revenues from sources such as inspection fees, building permits and court fees.

Statistical Analysis
Linear regression and other statistical methods are used to refine prediction results. For example, regression analysis showed that historical data on Arizona per capita disposable income is a reliable indicator for projecting city sales tax revenues. Staff uses other factors such as Glendale population growth, Arizona's rate of growth in employment, inflation for urban areas of the western United States (the Consumer Price Index or CPI), growth in Glendale's primary assessed valuation and Glendale's actual collections for various revenue sources over the past 5-10 years.

Causally Related Formulas
Specific city revenues and expenses are directly affected by demographic and economic factors such as local population growth and commercial and residential development. For example, population growth is almost always accompanied by an increase in city and state sales tax revenue, as well as an increased demand for services and additional infrastructure improvements.

Balanced Budget Requirement
Arizona state law and Glendale city financial policies require that each annual city budget be a balanced budget. This means that within the forecast period expenditures cannot exceed unrestricted revenue resources.

Furthermore, city policy recommends the maintenance of a specific level of contingency appropriation—equal to 10% of the city's GF revenue budget for the upcoming fiscal year—and the funds to back that appropriation, for emergencies and unanticipated expenses. This requirement provides the city with a cushion to offset unexpected shortfalls in revenue caused by an economic downturn, or other unexpected events, that may occur in any given year.

GF EXPENDITURE FORECAST

In order to develop a comprehensive *Five-Year Forecast*, assumptions must be made about a number of complex and often uncontrollable cost and revenue variables. These assumptions include, but are not limited to, the present and future condition of the economy, population growth rates and changes in federal, state and local policies that may affect municipal operations. In addition, the ongoing costs of prior commitments to provide services, and the ongoing costs for new capital facilities under construction, must be considered.

The quality and reliability of the long-range forecast are largely dependent upon the accuracy of the cost and revenue assumptions used in the forecast. This section and the following section (GF Revenue Forecast) provide explanations of the key assumptions employed in the current GF forecasting model, as well as the key issues that underlie the GF forecast.

INFLATION RATES

Inflation has a major impact on all city revenues and expenditures. Salaries, supplies, equipment and contracted services are all subject to inflationary pressures. Therefore, the cumulative effects of general inflation are considered in the forecasting process.

Because good historical data is available, and the Western Region Consumer Price Index for Urban Users (CPI-U) is adjusted for regional influences, the forecast model relies on this source of inflation data. The CPI-U assesses consumer patterns by judging the cost of a theoretical "market basket" of goods using a specific base year and comparing it with future years. In terms of real purchasing power, $103.60 in goods purchased in 1984 would cost approximately $221.20 in 2010, an increase of 113.52%.

The following table shows the historical percentage increase in the CPI-U since 1984 as reported by the U.S. Department of Labor, Bureau of Labor Statistics.

CPI - Urban Users (Western Region)

Year	Index	% Increase
1984	103.6	Base Year
1985	108.0	4.25%
1986	110.5	2.31%
1987	114.3	3.44%
1988	119.0	4.11%
1989	124.6	4.71%
1990	131.5	5.54%
1991	137.3	4.41%
1992	142.0	3.42%
1993	146.2	2.96%
1994	149.6	2.33%

Year	Index	% Increase
1995	153.5	2.61%
1996	157.6	2.67%
1997	161.4	2.41%
1998	164.4	1.86%
1999	168.9	2.74%
2000	174.8	3.49%
2001	181.2	3.66%
2002	184.7	1.93%
2003	188.6	2.11%
2004	193.0	2.33%
2005	198.9	3.06%

Year	Index	% Increase
2006	205.7	3.42%
2007	212.2	3.17%
2008	219.6	3.49%
2009	218.8	-0.38%
2010	221.2	1.09%
Jan '11	223.1	0.88%
Feb '11	224.4	0.57%
1984 - 2010 Total		113.52%
1984 - 2010 Avg		2.97%
2003 - 2010 Total		17.29%
2003 - 2010 Avg		2.29%

The average annual inflation rate has been averaging about 2.97% since 1984. From 2003 to 2010, the average inflation rate has been lower, averaging 2.29%. 2009 marked the first time since 1984 that the average inflation rate declined year over year. However, that trend was short lived as 2010 say an increase of 1.09% from 2009. During the first two months of 2011, the inflation factors increased by .88% and .57%, meaning that when the first two months of the year are combined they already surpass the percentage increase we saw in all of 2010.

POPULATION CHANGES

Arizona experienced rapid population growth over the past two decades. Glendale's population was no exception as it almost doubled over 20 years, from 117,348 residents in 1984, to approximately 233,281 residents in 2004—a 99% increase. Population growth leveled off from the high growth experienced in the 1990s and the early years of the current decade given that the 2005 – 2009 average annual increase was a more moderate 1.39%. In 2010, the census figures

released for the city were much lower than projected. The current population is estimated at 226,721 which is a 9.24% decrease from the 2009 figure. This loss in population had an adverse impact on our state-shared revenues that are distributed based on a proportion of population.

The following table shows the historical and projected population growth and percentage increases for years 1984 through 2016, measured as of the beginning of the fiscal year. The data included in the table was supplied by the Glendale Planning Department.

City of Glendale Population at Start of Fiscal Year

	Year	Population	% Increase
	1984	117,348	4.49%
a	1985	122,392	4.30%
	1986	127,486	4.16%
	1987	132,581	4.00%
	1988	137,675	3.84%
	1989	142,769	3.70%
b	1990	148,134	3.76%
	1991	151,558	2.31%
	1992	155,916	2.88%
	1993	161,688	3.70%
	1994	168,874	4.44%
c	1995	182,615	8.14%
	1996	186,500	2.13%
	1997	191,612	2.74%
	1998	196,820	2.72%
	1999	208,095	5.73%

	Year	Population	% Increase
d	2000	218,812	5.15%
	2001	224,703	2.69%
	2002	227,763	1.36%
	2003	231,288	1.55%
	2004	233,281	0.86%
e	2005	242,369	3.90%
	2006	243,737	0.56%
	2007	246,396	1.09%
	2008	248,745	0.95%
	2009	249,811	0.43%
f	2010	226,721	-9.24%
*	2011	229,468	1.21%
*	2012	231,763	1.00%
*	2013	234,080	1.00%
*	2014	236,421	1.00%
*	2015	238,785	1.00%
*	2016	241,173	1.00%

Notes:

a 1985 Special Census
b 1990 Census
c 1995 Special Census - includes Luke AFB
d 2000 Census
e 2005 Special Census (September 1)
f 2010 Census
* Projected Population Figures

All population counts and estimates from 1995 forward include Luke AFB

EMPLOYEE SALARY ADJUSTMENTS

The forecasting models are normally programmed to include pay range or "market" adjustments for city employees. With the guidance of the Human Resources Department, Council sets a target of providing a pay range adjustment that is based on a market survey of other Valley cities and therefore may vary depending on whether a job classification is below market, at market or above market. Prior to the implementation of this practice a few years ago, the pay range adjustment was tied solely to the consumer price index and the western region inflation rate.

Pay range adjustments and merit increases are not automatically given to non-step plan employees. Council must specifically approve merit and/or pay range adjustments for non-step plan employees for the upcoming fiscal year as part of the budget development process. Both increases are also based on the city's ability to pay in any given year. For FY 2012, no pay increases are included in the forecast. In fact, a two and a half percent reduction in base salary has been included in the forecast through the use of 52 hours of mandatory furlough (equivalent to 6.5 eight-hour work days) as recommended by management and approved by Council.

For FY 2006, City Council approved new pay plans for both police and fire sworn personnel to ensure we obtain the most highly qualified staff to provide public safety services to our residential and business communities. They are called "step plans" and apply to sworn positions not classified as managerial. These pay plans are based upon years of service, or steps, and merit increases are automatic as the employee completes each year of service within the city. In addition, public safety personnel representatives meet with the city manager each year to discuss other employment issues. Any changes in employee compensation derived from these meetings are incorporated into the annual budget through an agreed upon memorandum of understanding.

During the course of FY 2011, an addendum to the two-year Memorandum of Understanding with the police and fire represented groups was reached that identified reductions in step plan deferred compensation. The Police and Fire Departments agreed to eliminate half of their deferred compensation in FY 2012. These measures were made in good faith by the respective departments in working together with the city manager and were a key component in the FY 2012 balanced budget.

In addition, the city's performance management system works on the basis of merit increases, typically in 4% or 5% increments, for those who receive "meets" or "exceeds expectations" on their respective annual performance evaluations. As mentioned previously, these increases are not included in the FY 2012 budget nor are they included in the Five-Year Forecast. However, in normal years employees that fall into these categories would receive a merit increase based upon their performance evaluation. As in previous years, if an employee "does not meet expectations" that employee would not receive a merit increase. This methodology covers all employees not included in the public safety step plans.

EXPECTED CHANGES TO EXPENDITURES

The identification of issues and concerns that will affect the overall cost of providing the high quality services that our citizens have come to expect is a critical part of the forecasting process. For example, residential and commercial growth and aging infrastructure are critical cost factors that warrant careful consideration during the forecasting process. New residential and commercial development and the maintenance of existing infrastructure will continue to challenge our ability to expand, sustain and improve existing levels of service in future years.

The City of Glendale approved an increase in the dedicated Public Safety Sales Tax from 1/10th of one cent to one-half of one cent in order to accelerate the enhancement of public safety

services for the community. This new tax was approved by the voters in September 2007 and became effective November 2007. Public safety is using this funding to implement their needs assessments as additional funds from the tax become available. In addition to these funds, the GF will continue to support public safety operations based upon Council direction.

VEHICLE/TECHNOLOGY REPLACEMENT FUNDS

These replacement funds were designed to allow the city to replace outdated, or worn out equipment at regular intervals. The Field Operations and Information Technology Departments are the administrators of the vehicle and technology replacement programs, respectively.

Due to the economic downturn that began in late 2001, GF contributions to these funds were halted for seven months in FY 2003, and for all of FY 2004, for a total of nineteen months. (The enterprise funds continued to pay into these replacement funds at the 100% level and continued to receive regularly scheduled replacements.) GF contributions were phased in as follows:

- at the 50% level in FY 2005 (half in ongoing funds and half in one-time funds),
- at the 75% in FY 2006 (50% ongoing and 25% one-time), and
- at the 100% in FY 2007 (75% ongoing and 25% one-time), and
- at the 100% in FY 2008 (75% ongoing and 25% one-time).

However, for FY 2009, the funding level was once again lowered to 75% (50% ongoing and 25% one-time) and the FY 2010 and FY 2011 GF contributions will remain at the 50% ongoing level. In FY 2012, the GF contributions will be decreased another 10%, bringing the overall GF contribution rate to 40%. This reduction in the GF contribution level was needed to fund other critical items identified in the city manager's recommended balanced budget such as electric rate increases. Other measures that have been implemented regarding the replacement funds include the following:

- Non-public safety technology, vehicles and equipment will have their useful lives extended where appropriate until the GF contribution level can be built back into the budget.
- A city-wide motor pool was developed that required departments with vehicles that had low mileage or utilization to be returned for city-wide use on a first come, first serve, sign-in and sign-out basis.
- The technology replacement fund will only replace the computer monitors when they break or malfunction as monitors will no longer be replaced automatically with the scheduled replacement of the computer central processing unit.

DEBT SERVICE OBLIGATIONS

The forecast includes the scheduled increases and decreases in capital lease debt service payments associated with capital equipment and land purchases. The capital lease debt service payments are included in the departmental operating budgets. Refer to Schedule 8 at the back of

this budget book for a complete listing of the capital lease debt service for the city's various funds.

The forecast also includes changes in existing, long-term Municipal Property Corporation (MPC) debt service financings associated with the new regional public safety training facility, infrastructure improvements for the Zanjero development, and the new convention center/media center/parking garage facilities at the Westgate development.

Public Facilities Corporation (PFC) debt service associated with the new Camelback Ranch Spring Training Baseball Complex had a significant impact on FY 2013 thru FY 2016 of the forecast period. Capitalized interest was used to make the initial debt services payments after the complex opened. FY 2013 forward will mark the first year that a full payment is required. The payment ranges from $13 million to $18 million each year. Refer to Schedule 7 for a detailed listing of the current principal and interest payments related to the City's existing debt service agreements at the time the annual budget document was produced.

GENERAL FUND REVENUE FORECAST

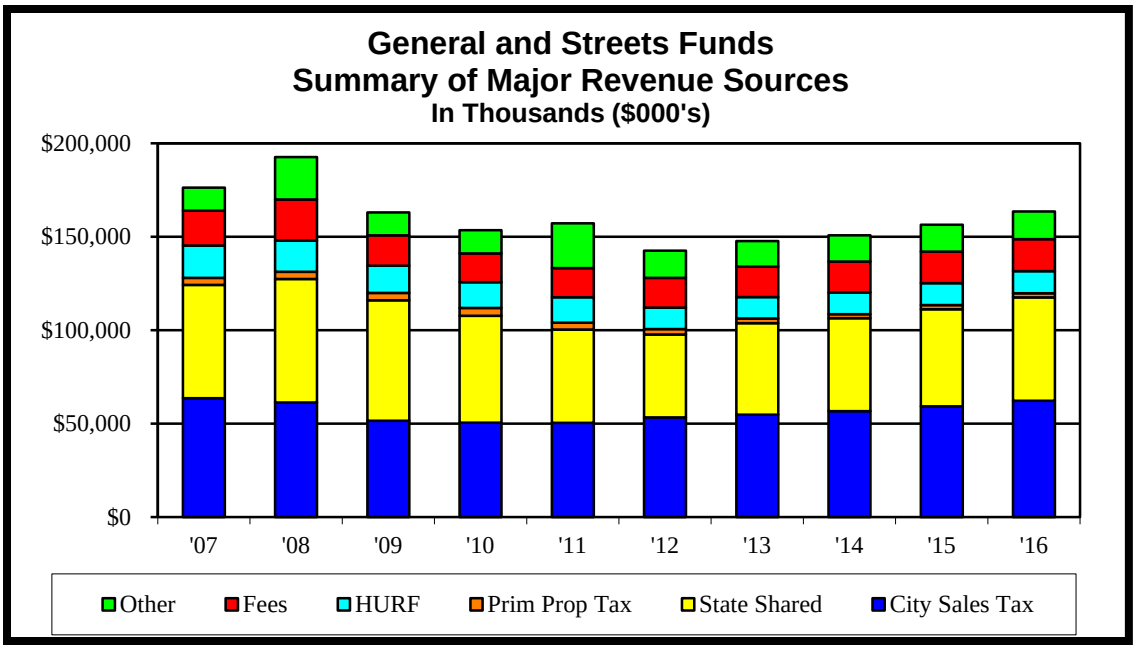
The local and national economy has changed significantly over the past year. In the spring of 2008 we knew the housing market was in flux as a new equilibrium point between buyers and sellers was being established. Credit also had tightened for consumers and, to some extent, the business community. Business investment had slowed but not stopped. While these conditions were present, they were not pervasive and had not significantly impacted Glendale's sales tax collections.

These national conditions deteriorated rapidly during the summer and fall of 2008 and continued into 2009 as the credit markets froze for consumers and businesses resulting in a precipitous decline in business investment and consumer spending. Then the ranks of the unemployed began to grow and have continued to swell into the spring of 2010. All of this meant that revenue growth was unlikely, so the FY 2011 revenue budget was essentially flat year over year.

For the local economy, the impact of the current recession is reflected in Glendale's sales tax collections. Through February 2011, city and state sales tax collections, which comprise over one-half of the current fiscal year's General Fund (GF) revenue budget, receded to levels last experienced in FY 2005. The good news is that these revenue collections are slightly better than budget through February 2011. This information, coupled with the fact that housing prices have leveled off and national earnings reports of leading companies are starting to turn around, allowed the city to build a modest 2.7% increase in city sales tax collections for FY 2012.

The following graph provides historical data as well as projections for the major revenues sources of the GF. The graph also includes highway user revenues fees, commonly known as HURF monies. The graph illustrates the relative importance of city sales tax and state-shared revenues

in comparison to our overall GF revenue base. These main revenue sources have comprised between two-thirds and three-fourths of the GF ongoing revenue since FY 2002, and they are expected to continue to do so for foreseeable future. The other notable GF revenue sources include various fees (municipal court, user fees and charges for city services like building inspections, plan reviews, recreation classes, etc.), the primary property tax and a category called "other" (interest income, city property rental income, bond/lease proceeds, staff/admin charge-backs and miscellaneous revenues).



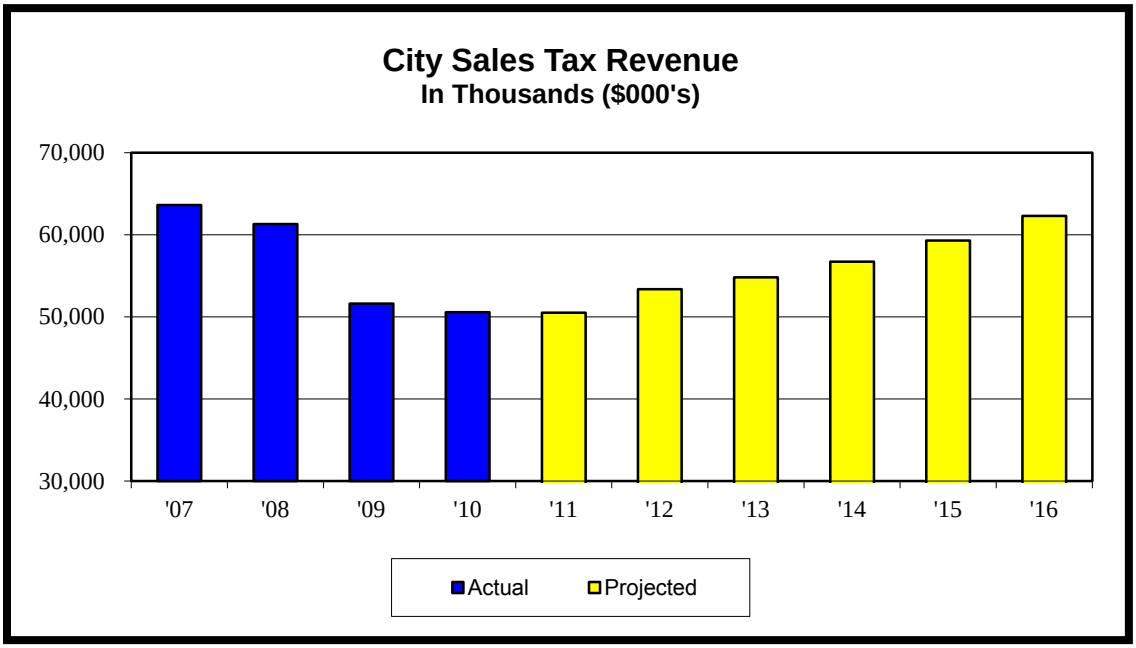
City Sales Tax

City sales tax is "elastic" revenue, meaning it varies directly with the economy. During times of economic expansion, elastic tax revenues increase, due to higher levels of consumer spending. During an economic downturn, the opposite is true and tax revenue levels decline. City sales tax receipts comprise 37.4% of the city's GF revenue budget for FY 2012 (including HURF). This percentage is projected to remain stable for the forecast period, fluctuating between 37.1% and 38.1%.

City sales tax for the forecast period is projected using a combination of econometric modeling and formula calculations. The Management and Budget Department obtains its initial projection from a linear regression model, using state disposable personal income as a primary variable. The resulting figures are modified to account for other key variables directly related to the city. For example, since increased employment is usually accompanied by a rise in consumer and business purchasing volume and therefore increased sales tax revenue, Maricopa County's five-year employment growth estimate is incorporated into the city's sales tax forecasting model.

The growth rate for city sales tax collections declined from $63.6 million in FY 2007 to $50.6 million in FY 2010, or 20%. The revised FY 2011 city sales tax revenue projection is essentially flat with FY 2010 coming in $50.5 million. However, FY 2012 includes a modest increase of 2.7% with the remaining years in the forecast period fluctuating between 3.5% and 5.1%. This expectation is based on the continued expansion of Glendale's sports, entertainment, office and retail destination area, and the continued attraction of diverse job growth industries to the city. It also is based on the expected growth in Arizona's population and disposable personal income as projected by various experts on the Arizona economy.

The graph below provides a historical look at city sales tax revenue, as well as the projected revenues for city sales tax over the forecast period.

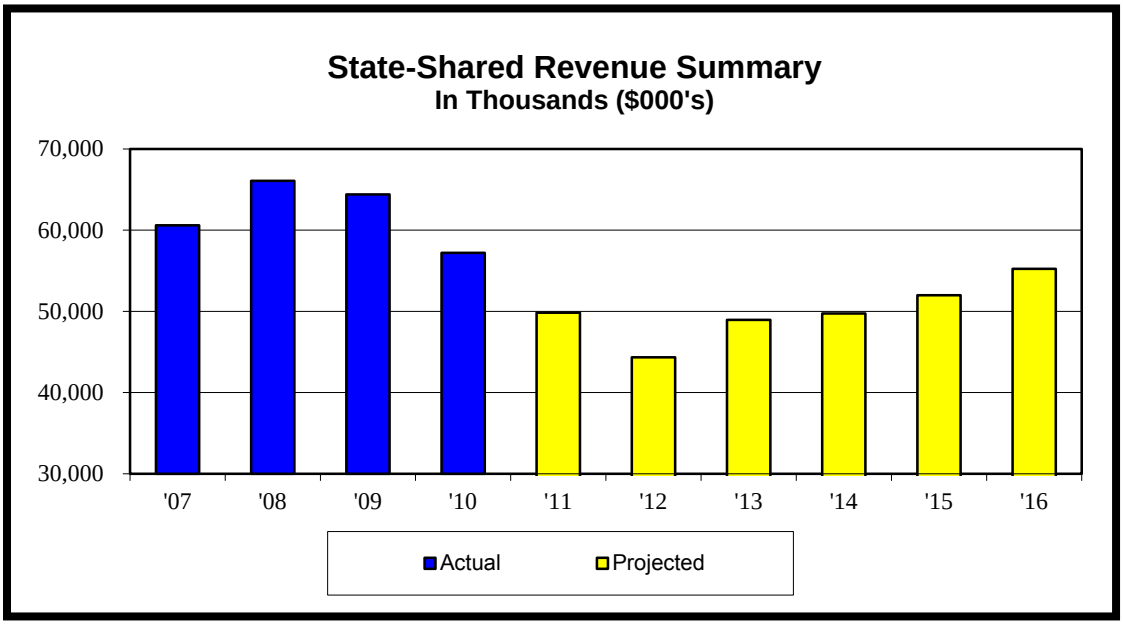


State-Shared Revenue

Cities and towns in Arizona are beneficiaries of a state-shared revenue program that distributes state-collected revenues to Arizona municipalities. State-shared revenues in this document specifically refer to state sales tax, state income tax and motor vehicle in-lieu receipts. State shared revenue receipts comprise about 31.1% or $44.3 million of the city's GF revenue budget for FY 2012. This is a precipitous drop from the 39.5% level or $64.4 million that was collected in FY 2009. The forecast period assumes a percentage between 31.1% and 33.8% over the forecast period due to a decrease in Glendale's population figures coupled with increases in population growth of other outlying valley cities. This revenue source is projected to rebound by $4.6 million in FY 2013 and total $48.9 million due primarily to a projected increase in state income tax receipts. The projection for FY 2014 through FY 2016 is for more modest growth averaging $2.1 million per year.

The forecast for each state revenue source is developed separately and compared to the state's forecast for these revenue sources. State income tax projections are based on a trend forecast and adjusted for the revenue actually collected by the state as its distribution to the cities lags by two years. Forecasts done by Arizona economists, who use projected state personal income growth as a key variable, are also considered in the development of our projections. State sales tax estimates are based on a model similar to the city sales tax forecast. The forecast model assumes that the motor vehicle in-lieu will increase at its historic rate.

The average annual growth rate for state shared revenue collections was 8.9% between FY 2005 and FY 2008. In the next three fiscal years, the average growth rate decreased by 8.9% (FY 2009 – FY 2011) and is projected to decrease by another 11.1% in FY 2012 before rebounding in FY 2013. State-shared revenues are directly affected by the economic climate as well as legislative changes such as income tax rate reductions and/or adjustments to distribution formulas – both of which have occurred over the last several years. The forecast assumes an annual average growth rate of 5.7% in FY 2013 - FY 2016 as the national economy rebounds.



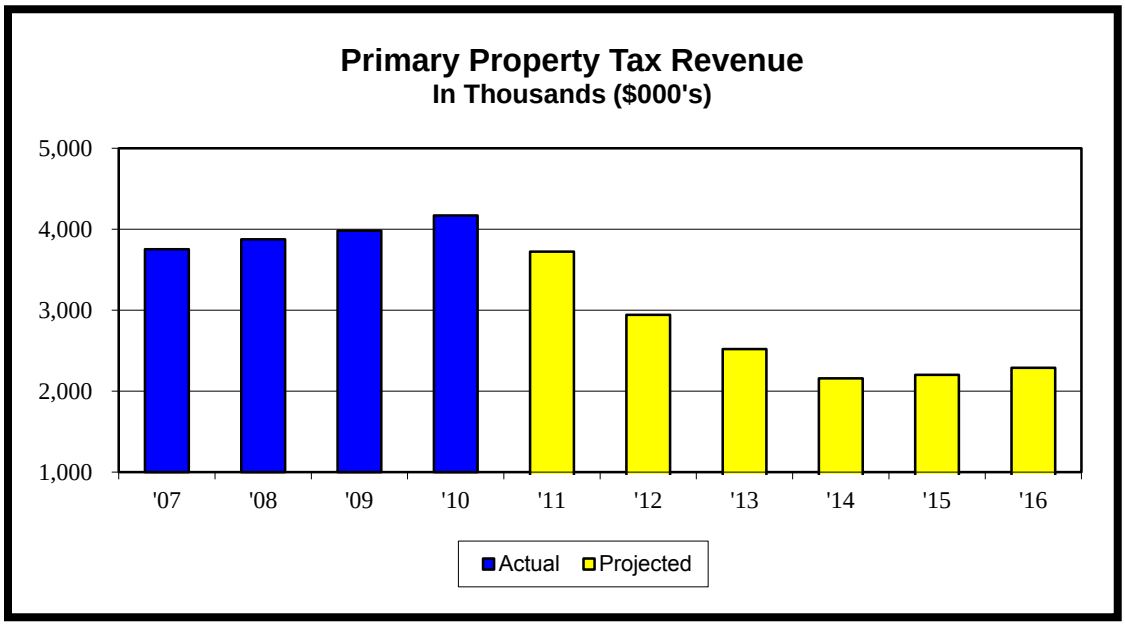
Property Tax

Arizona's property tax levy consists of two tiers. The primary property tax levy has state-mandated maximum limits, but it can be used by a city for any lawful purpose. It is the primary property tax revenue that is included in the GF. The secondary property tax is an unlimited levy that can be used only to pay the principal, interest and redemption charges on bonded indebtedness or other lawful long-term obligations that are issued or incurred for a specific capital purpose.

Primary property tax revenue is a relatively small revenue source for the GF as it comprises only 2.1% of the total, or $2.9 million for FY 2012. This percentage of the total is a slight decrease from the 2.3% rate experienced from FY 2007 to FY 2011. The city's property tax projection must consider the rate of growth in assessed valuation, the assessment ratios for different types of property, and the components of growth associated with new properties as well as appreciation of existing properties. Property tax revenue can be challenging to predict because of the number and types of variables that affect this revenue source such as exemptions and assessment ratios, both of which are set by the Arizona Legislature. Nevertheless, the driving force in forecasting property tax revenue is the assessed valuation of property.

For FY 2012, Glendale's total property tax will remain unchanged at $1.5951. This rate is made up of the primary property tax rate of $0.2252 and the secondary property tax rate of $1.3699. The secondary property tax rate is not included in the GF revenue forecast.

The Management and Budget Department analyzes historical property tax data to arrive at reasonable assumptions about long-range trends in assessed valuation. Despite Glendale's historical growth in assessed valuation of the past several years, we know the current imbalance between supply and demand in the housing industry will take some time to right itself. Our projection includes a 21% decline in primary property tax revenue for FY 2012, followed by 14% declines in each of FY 2013 and FY 2014. Modest increases in FY 2015 and FY 2016 averaging 3% in primary property tax revenue round out the forecast period.



Highway User Revenue Fees (HURF)

This source is commonly referred to as the gasoline tax although there are several additional transportation-related fees that comprise this revenue, including a portion of vehicle license taxes. Overall, much of this revenue source is based on the volume of fuel sold rather than the price of fuel. The Arizona state constitution restricts the use of HURF revenue to street and highway purposes such as right-of-way acquisition, construction, reconstruction, maintenance, repair, and the payment of the interest and principal on HURF bonds.

In the past, the Arizona Legislature has altered, and may in the future alter, (1) the type and/or rate of taxes, fees and charges to be deposited into the Arizona Highway Revenue Fund and (2) the allocation of such monies among the Arizona Department of Transportation, Arizona cities and counties and other purposes. In fact, the Arizona Legislature reduced the amount of funds allocated to cities for FY 2009.

In FY 2011 the city expects to receive $13.6 million in HURF revenue, which is only a 1.3% decrease from FY 2010 but is 18.5% below FY 2008 levels. HURF revenues are projected to decline another 16.1% in FY 2012 and they will comprise 8% or $11.4 million of GF revenue. This amount is expected to grow modestly to $11.8 million by the end of the forecast period. Given the uncertainty about the state's FY 2012 budget and the state of the economy, we have assumed a 0.8% average growth rate for the remainder of the forecast period. This conservative forecast is based on the assumption that consumers will continue to change their driving habits to smaller, more fuel efficient vehicles and to greater use of public transit as the price of fuel continues to escalate.

Fees and Charges

This category covers a variety of city fees and charges for city services such as building permits, right-of-way permits, construction plan check reviews, barricade fees, business and sales tax licenses, liquor licenses, fire fees, park and recreation fees, court fees and fines, library fees and fines, and fees related to planning and zoning issues. This category also includes revenues from cable, gas and electric franchise fees, income from the rental of city facilities, cemetery services and the miscellaneous category.

Total projected fees and charges are expected to be $15.9 million in FY 2012, about 11.2% of total GF revenue. By FY 2016, revenue from fees and charges is expected to grow to $17.1 million. FY 2012 revenue is projected to increase by 2.4% over the previous fiscal year, but the average growth rate for the remainder of the forecast period is 1.8%.

Other Revenue

This category includes interest income, capital lease proceeds, city rental income, general staff and administrative service charges and other miscellaneous or one time revenues, like the sale of

land. Staff and administrative chargeback revenues comprise the largest component of the other revenue category.

Departments whose operations are supported by the General Fund, such as the Finance, Human Resources, City Attorney, Management and Budget and Facilities Management Division of Field Operations, provide services to the city's water/sewer, sanitation and landfill enterprise funds as well as the self-supporting Transportation Fund (supported by the transportation sales tax). These are services that enterprise fund operations would have to pay outside contractors to provide if city departments did not provide them. Consequently, each of the identified operations is required to pay its fair share of the cost for these services, which are called general staff and administrative service charges.

The Management and Budget Department established these charges based on an indirect cost allocation model that uses various accepted allocation methods and is updated annually. The charges are applied against enterprise fund's operating budget in equal amounts (i.e. 1/12) each month. The City Auditor's Office reviewed the cost allocation model during FY 2005 to assess the validity and reasonableness of the model and determined it was a reasonable method to allocate GF costs. During FY 2009, the model was again evaluated but by an outside firm that performs audits of public sector entities. The FY 2009 evaluation found the model to be a reasonable and valid method for allocating GF costs, as well as a generally accepted budget and financing practice that cities and other government agencies commonly use.

The total general staff and administrative service charges for FY 2012 are $8.9 million and comprise about 60.8% of the "other" revenue category but only 10.2% of all GF revenue. This amount is anticipated to decline by 6.3% in FY 2013 and then grow by an average of 2.7% each year through the forecast period. The remaining $5.7 million or 39.2% of this revenue category is made up of interest, city property rental and miscellaneous income.

NET REVENUES & EXPENSES

The final step in completing the *Five-Year Forecast* is the comparison of the net effects of the projected revenues and expenses on the General and Streets Fund balances. Over the five-year period of this forecast, the city's operating and capital budgets are balanced. However, due to the national economic downturn that we are experiencing the initial two years in the five-year forecast rely heavily on a combination of the use of fund balance reserves and cost reduction/cost saving measures to balance the budget.

The city is well aware that use of remaining fund balance to maintain an ongoing program would significantly alter the long-range forecast and have a lasting impact on the capacity of the city to maintain projected levels of services in a balanced budget environment. Therefore, management and Council have pledged that future incremental ongoing revenues that come to the city as we exit the economic downturn will be used to cover existing ongoing base budget needs and the replenishment of fund balances/reserves before being applied to other areas.

CONCLUSION

Long-range forecasting and modeling are powerful management and decision-making tools. A key objective in long-range forecasting is to estimate the future consequences of past and present decisions. The *Five-Year Forecast* process reminds us to lift our eyes from the road directly ahead, cast a glance in the rear-view mirror to see where we have been and take a look through the windshield into the future to assess where we are going.

The current *Five-Year Forecast* indicates that if we continue to exercise fiscal discretion and restraint, examine carefully any projects that entail ongoing expenses, practice prudent fiscal management and remain conservative in our financial and strategic planning, we can continue to achieve the following:

- Accomplish City Council's strategic goals and objectives set for the budget year;
- Maintain our quality of service commitments to Glendale residents in future years;
- Ensure the city's capacity to meet its future growth and infrastructure needs even in times of national economic uncertainty; and
- Balance our annual budgets while retaining adequate contingency reserves.

In order to go significantly beyond the commitments outlined earlier in this section, the city would have to increase its revenue base by adding new revenue sources or experience better-than-anticipated economic performance, and/or decrease its operating expenses by reducing or curtailing programs and services that the city currently provides.