
Maricopa County Economic and Fiscal Issues

Presentation to the
Government Accountability Office Review Team

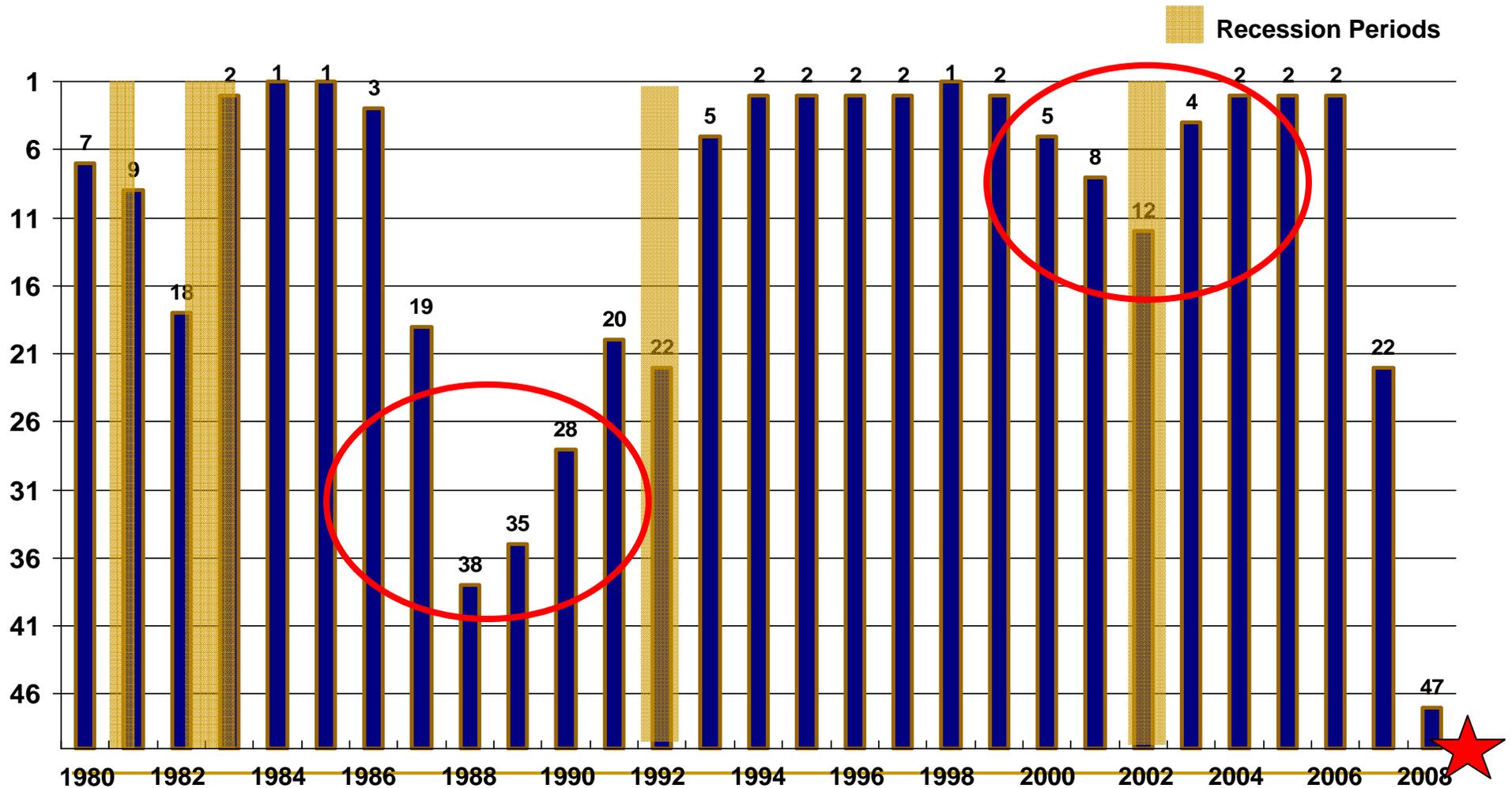
Maricopa County Office of Management and Budget
October 8, 2009

Local Economy

Arizona Employment Rank Among 50 States

1980 – 2009 Growth Over Previous Year

Source: Arizona State University

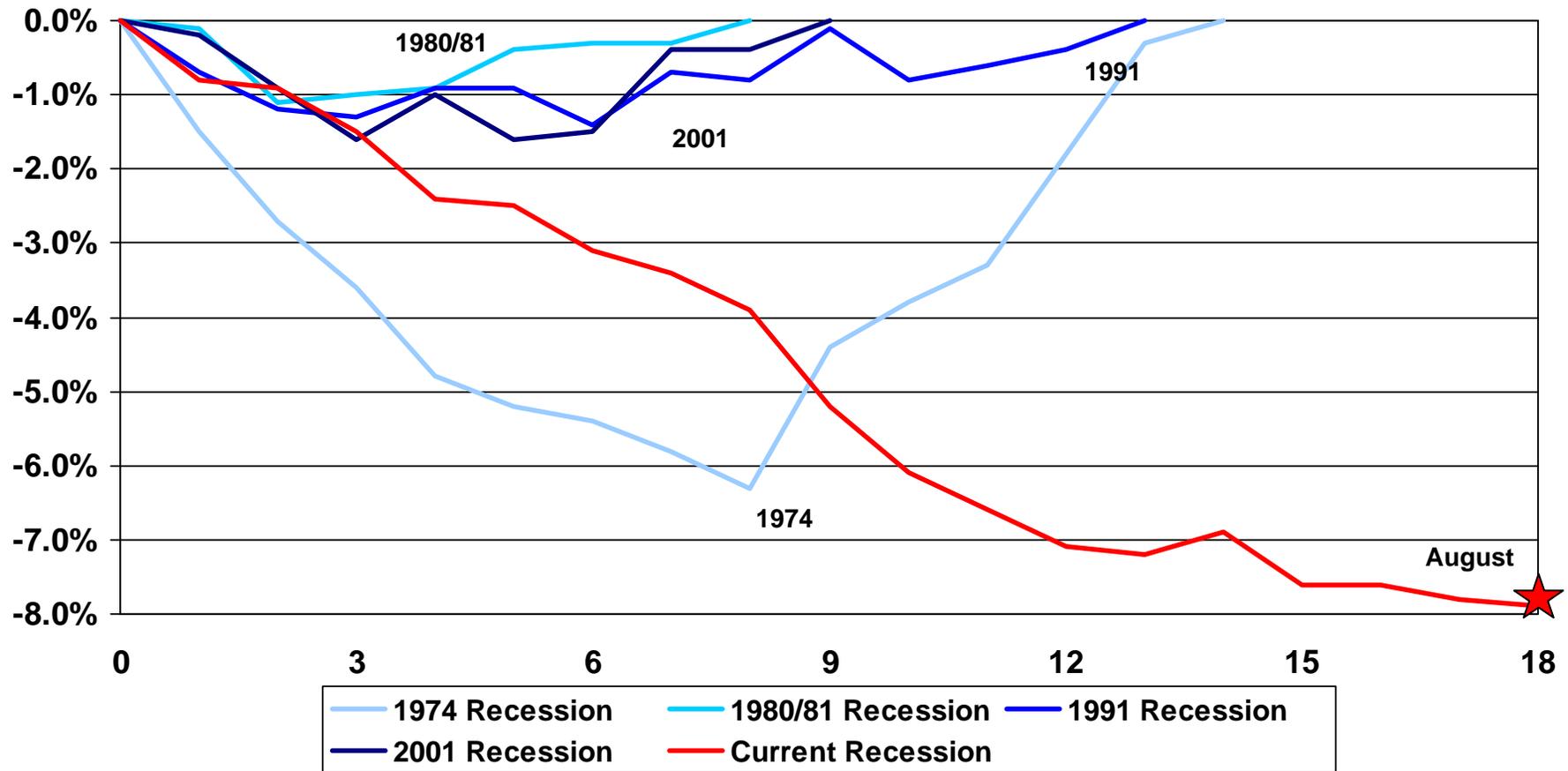


Provided by Elliott D. Pollack and Co.

★ = YTD August = 49

Greater Phoenix Y/Y Job Losses - Recent Recessions

Duration in Months - BLS

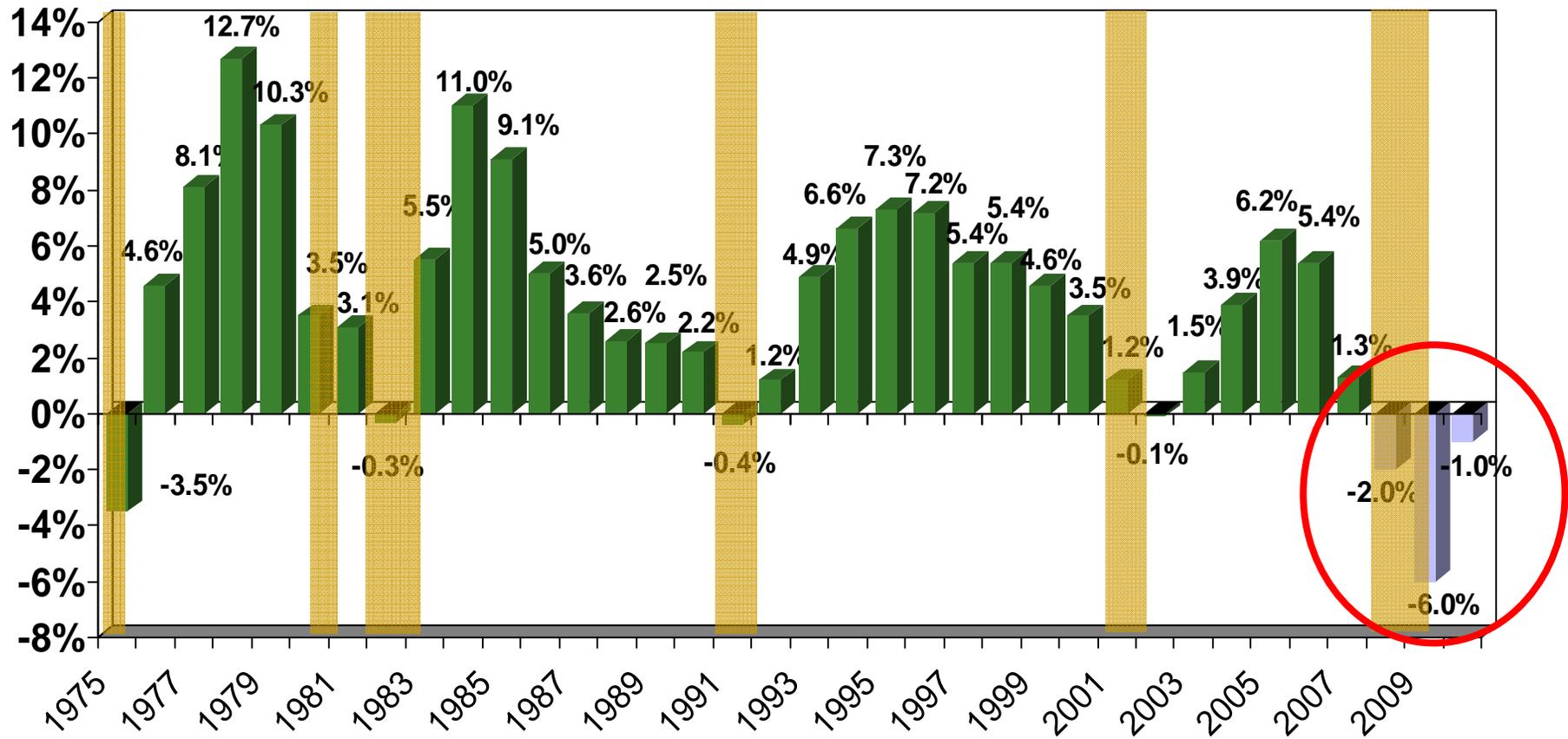


Provided by Elliott D. Pollack and Co.

Phoenix-Mesa MSA Employment*

Annual Percent Change 1975–2010**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

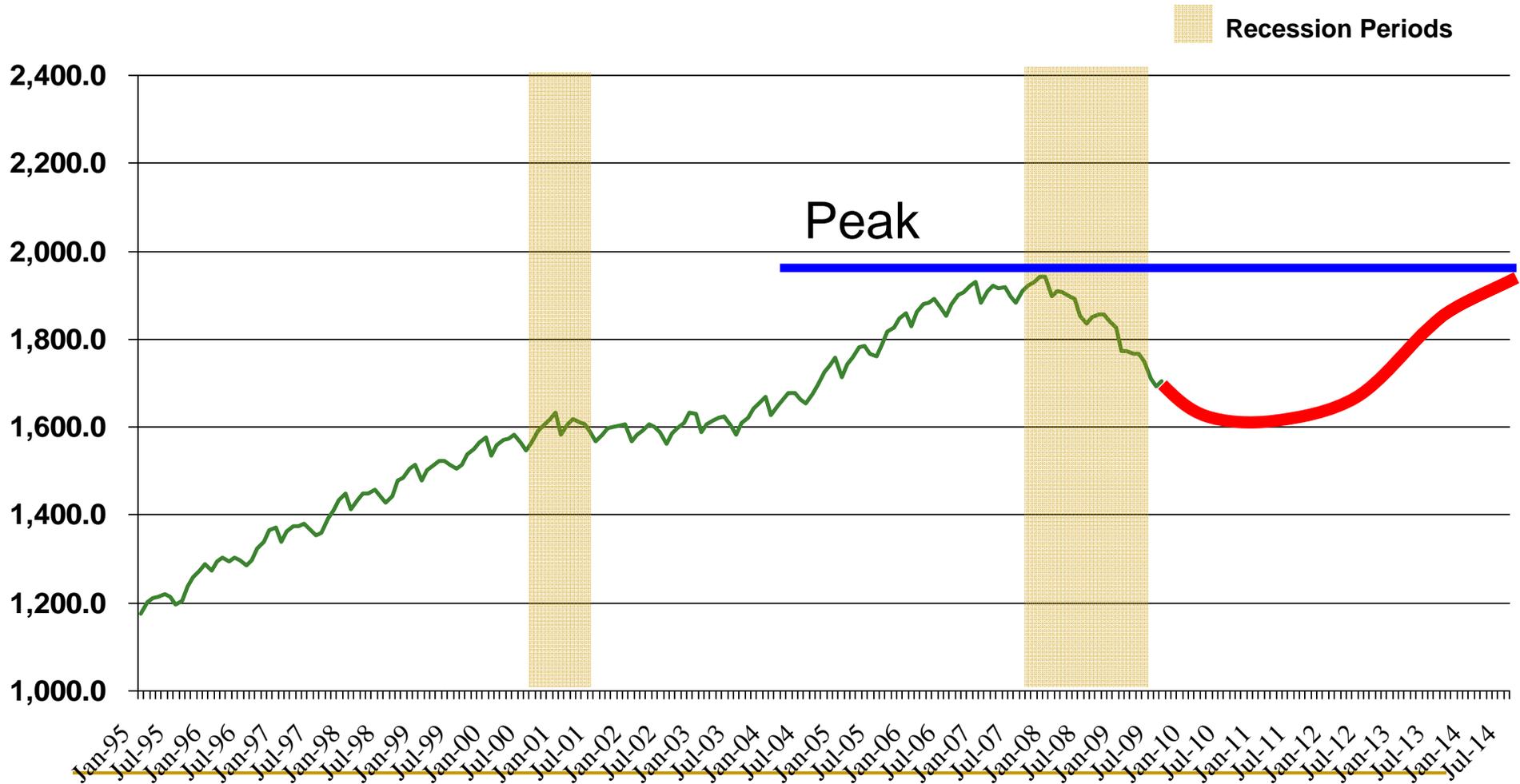
** 2008, 2009, & 2010 forecast is from Elliott D. Pollack & Co.

Recession Periods

Provided by Elliott D. Pollack and Co.

Employment Levels: Greater Phoenix back to Peak in 2014

Source: ADOC



Provided by Elliott D. Pollack and Co.

Phoenix-Mesa Employment

Source: Arizona Department of Commerce, Research Administration

Sectors in Decline

Mining	-16.2%
Construction	-26.2%
Manufacturing	-8.0%
Trade	-7.4%
Transp. & Utilities	-9.2%
Information	-4.1%
Financial Activities	-6.3%
Prof. & Bus. Services	-11.7%
Other Services	-6.5%
Educational Services	0.0%
Leisure & hosp svcs	-2.2%
Health Services	-0.7%
Government	-5.5%

Sectors Increasing

NONE!!!

Provided by Elliott D. Pollack and Co.

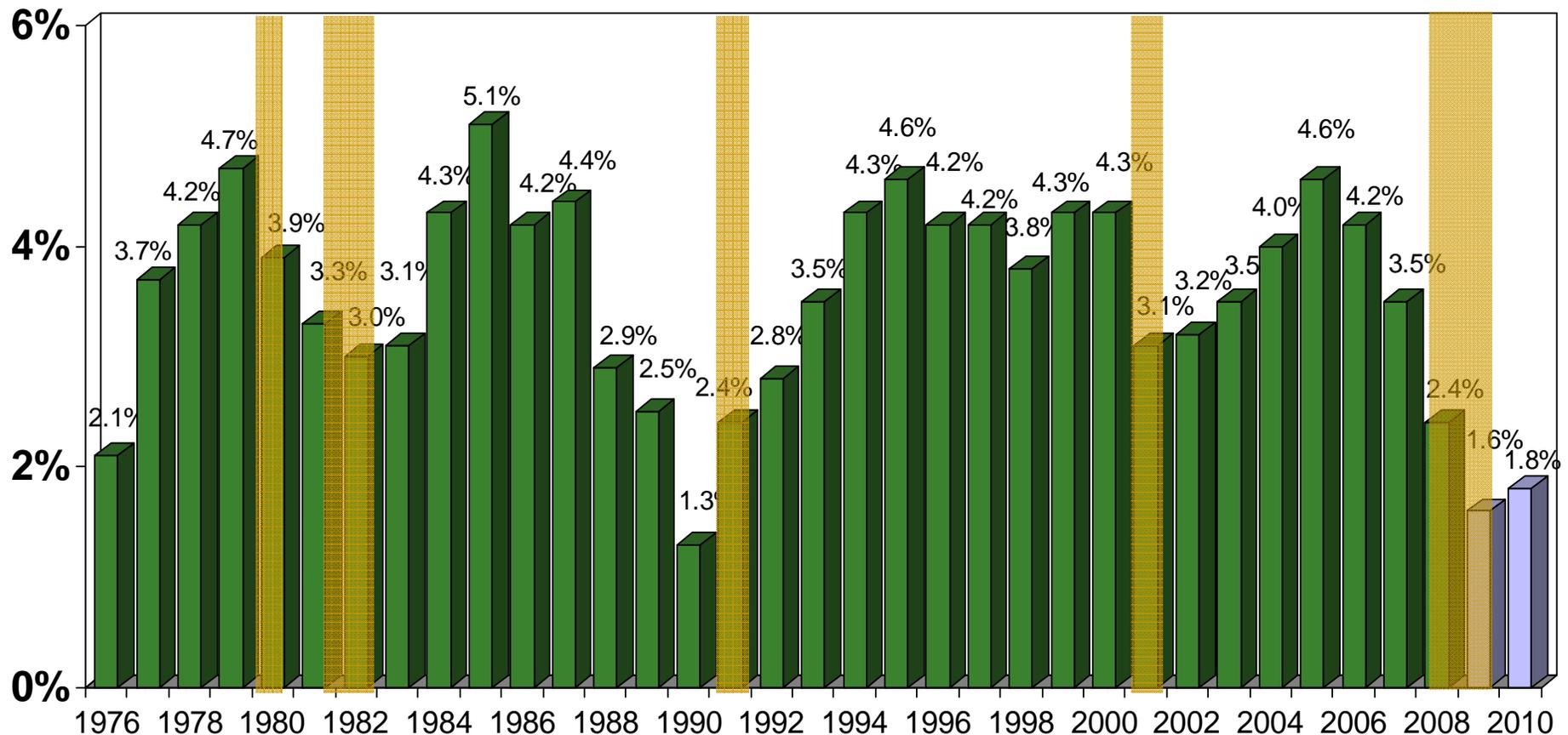


From Peak (Oct 2007)
to Current (Aug 2009)

Greater Phoenix
has lost
ONE job for every
NINE jobs

Greater Phoenix Population Annual Percent Change 1976–2010*

Source: Arizona State University & Department of Commerce, Research Administration



2007 and 2008 are estimates put out by ADES and may be subject to substantial revision.

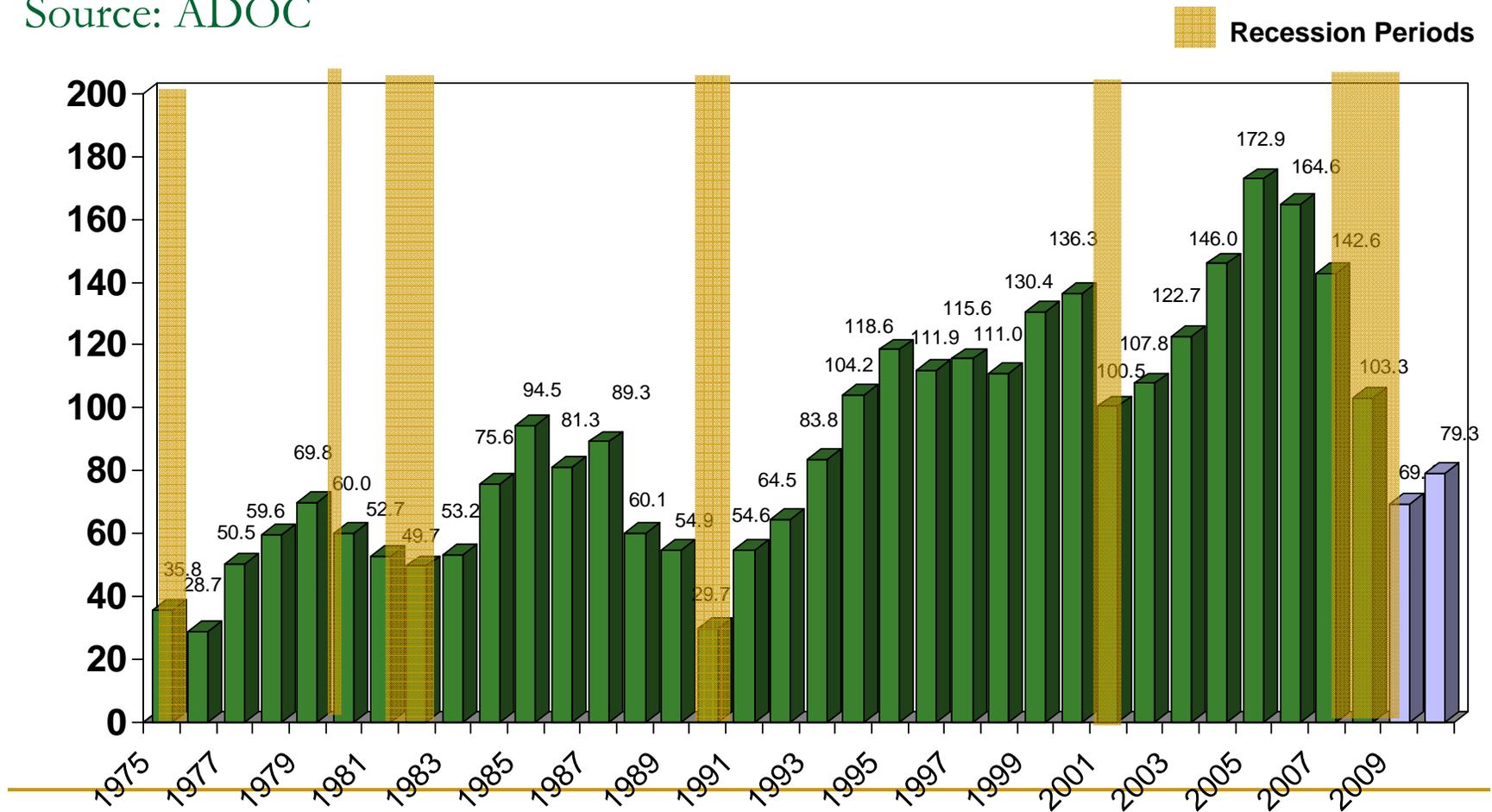
* 2009 & 2010 forecast is from *Elliott D. Pollack & Co.*

Recession Periods

Provided by Elliott D. Pollack and Co.

Greater Phoenix Population Net Change 1975–2010

Source: ADOC

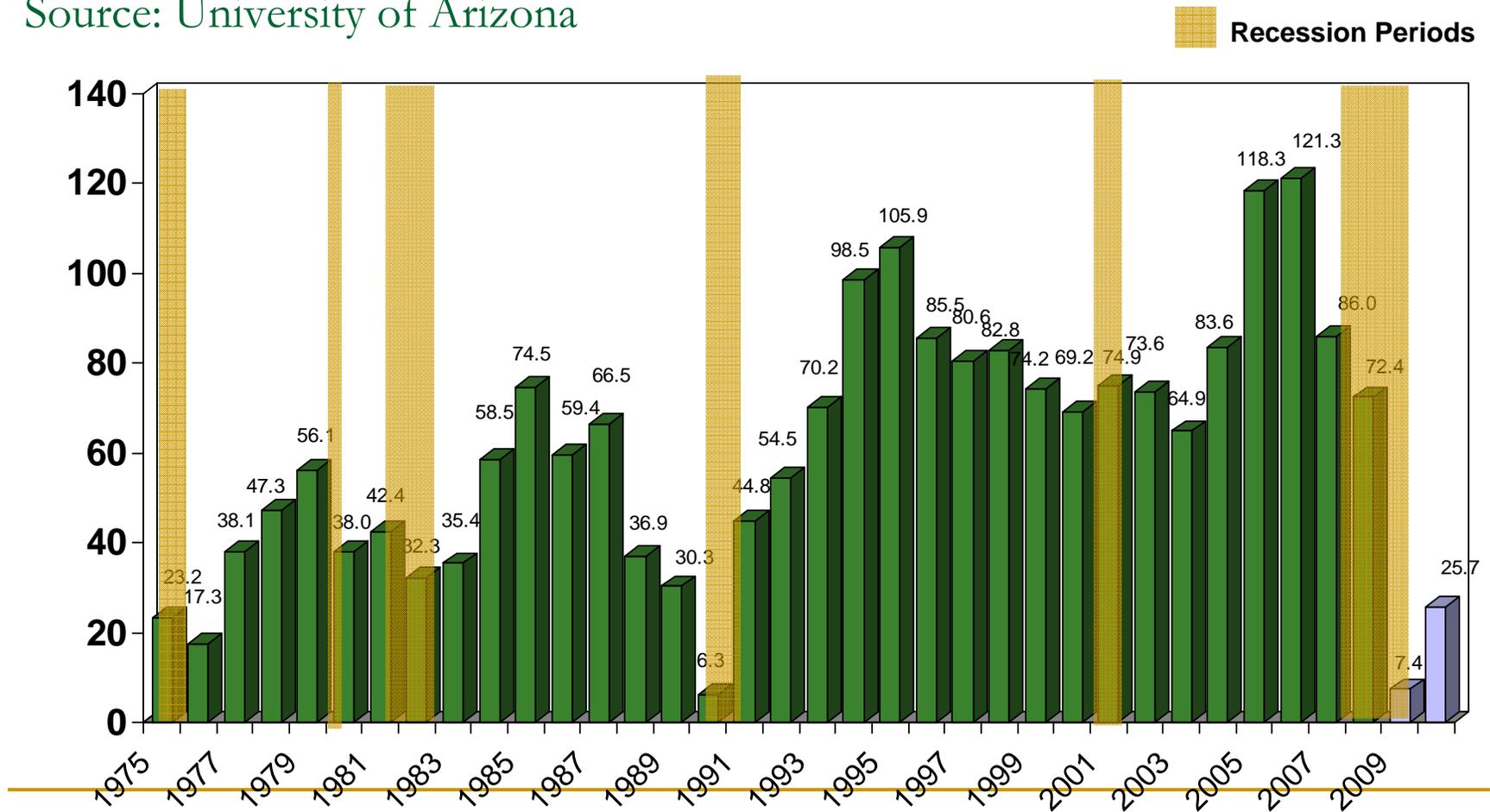


Provided by Elliott D. Pollack and Co.

*Forecasts from Elliott D. Pollack & Company

Greater Phoenix Net Migration 1975–2010

Source: University of Arizona



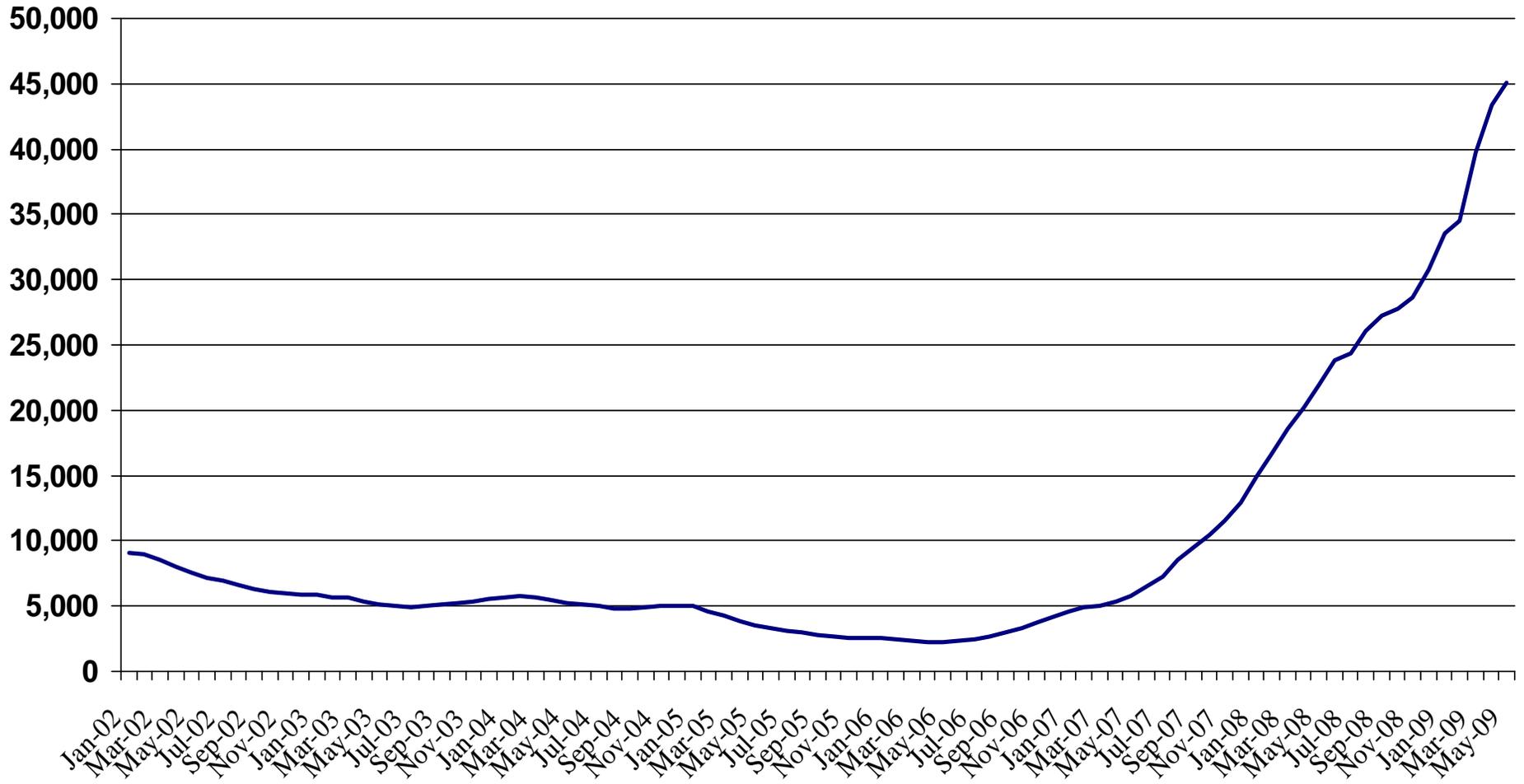
Provided by Elliott D. Pollack and Co.

*Forecasts from UofA

Properties in the Foreclosure Process

Maricopa County 2002 – 2009

Source: The Information Market



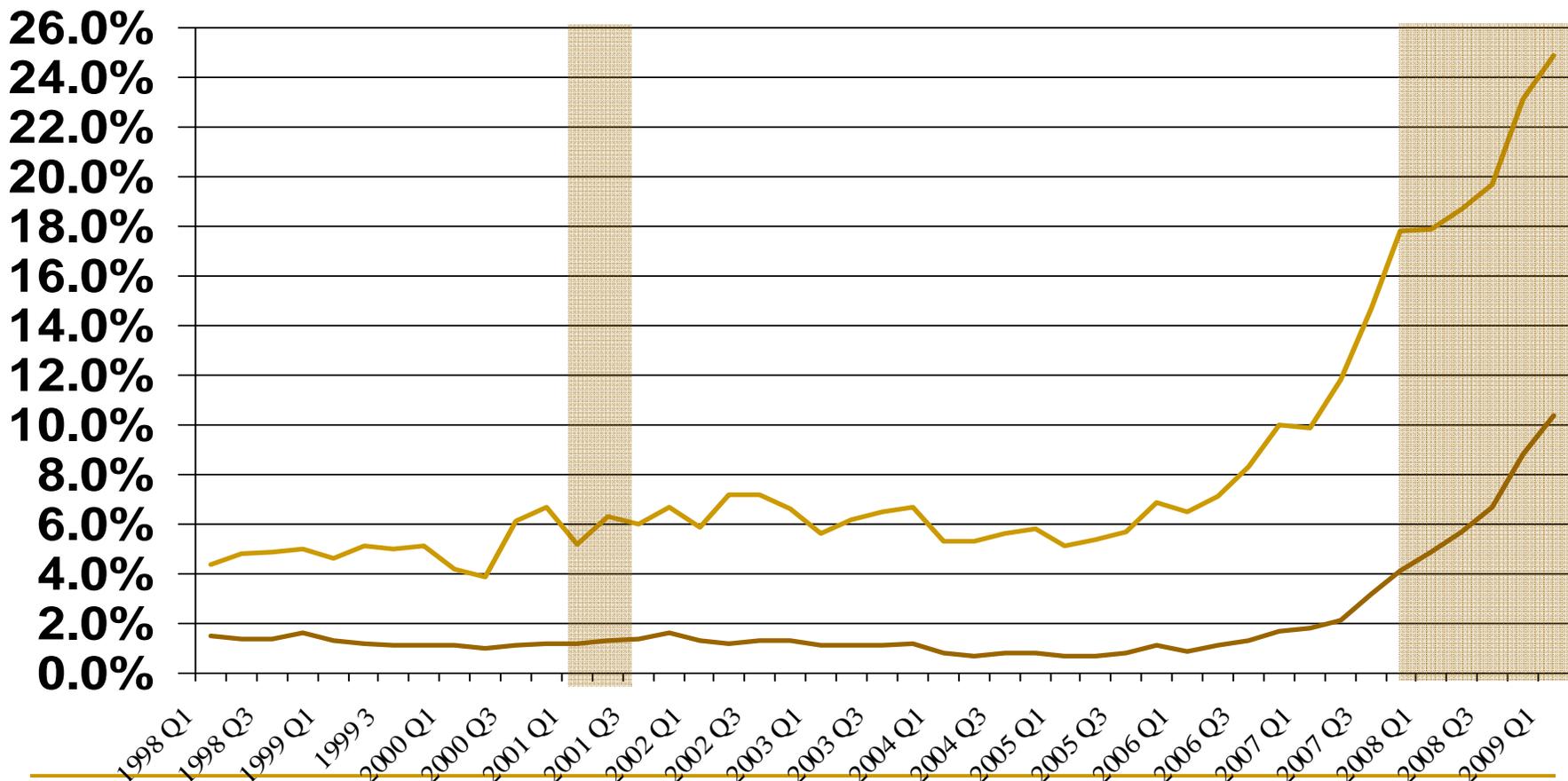
Provided by Elliott D. Pollack and Co.

*Data through May 2009.

Arizona Delinquency Rates Percent Change Quarter Ago 1998 – 2009*

Source: Mortgage Bankers Association

 Recession Periods



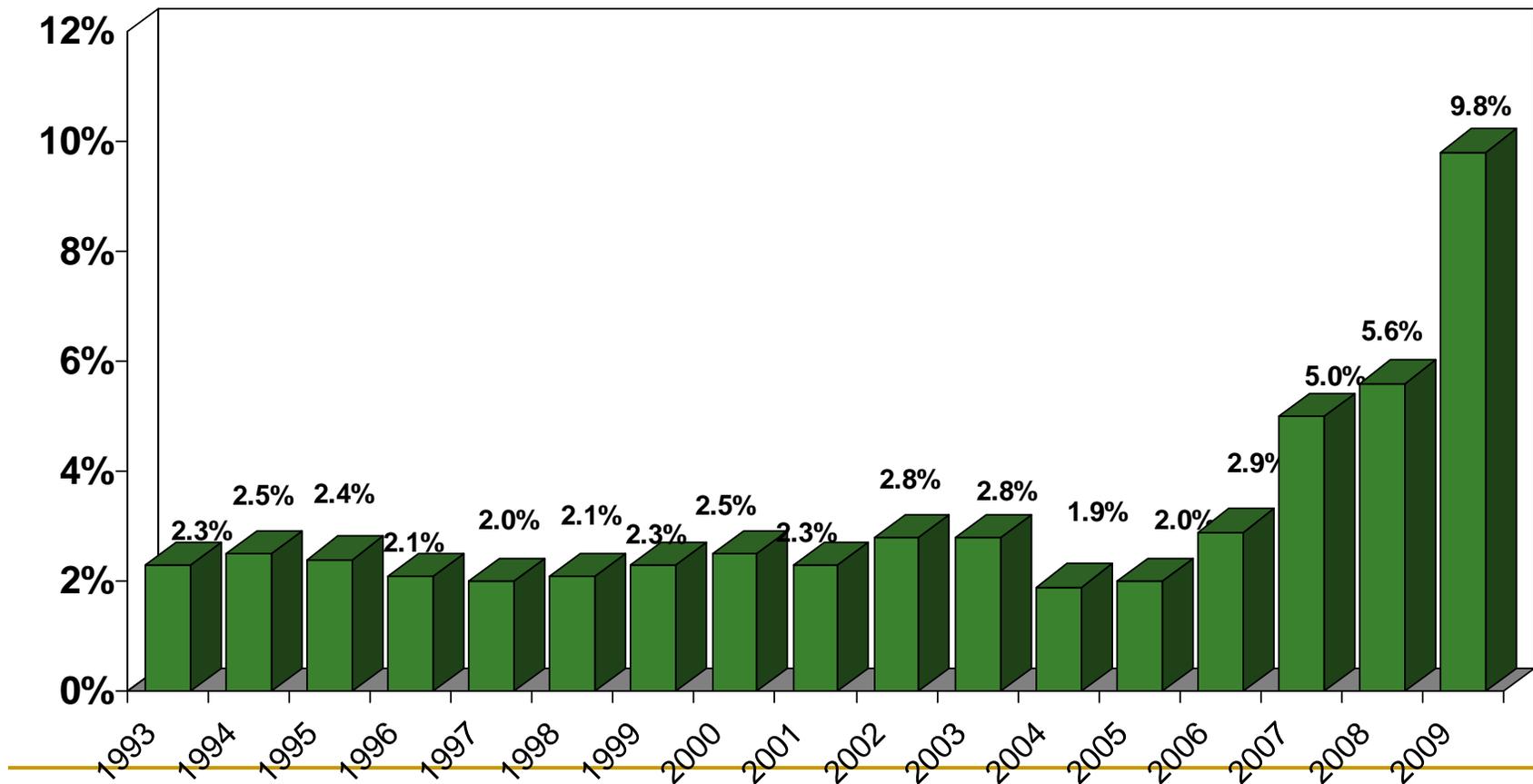
Provided by Elliott D. Pollack and Co.

 **Prime**  **Subprime**

* Data through 1st quarter 2009

Single-Family Vacancy Rate Greater Phoenix 1993–2009q2

Source: PMHS

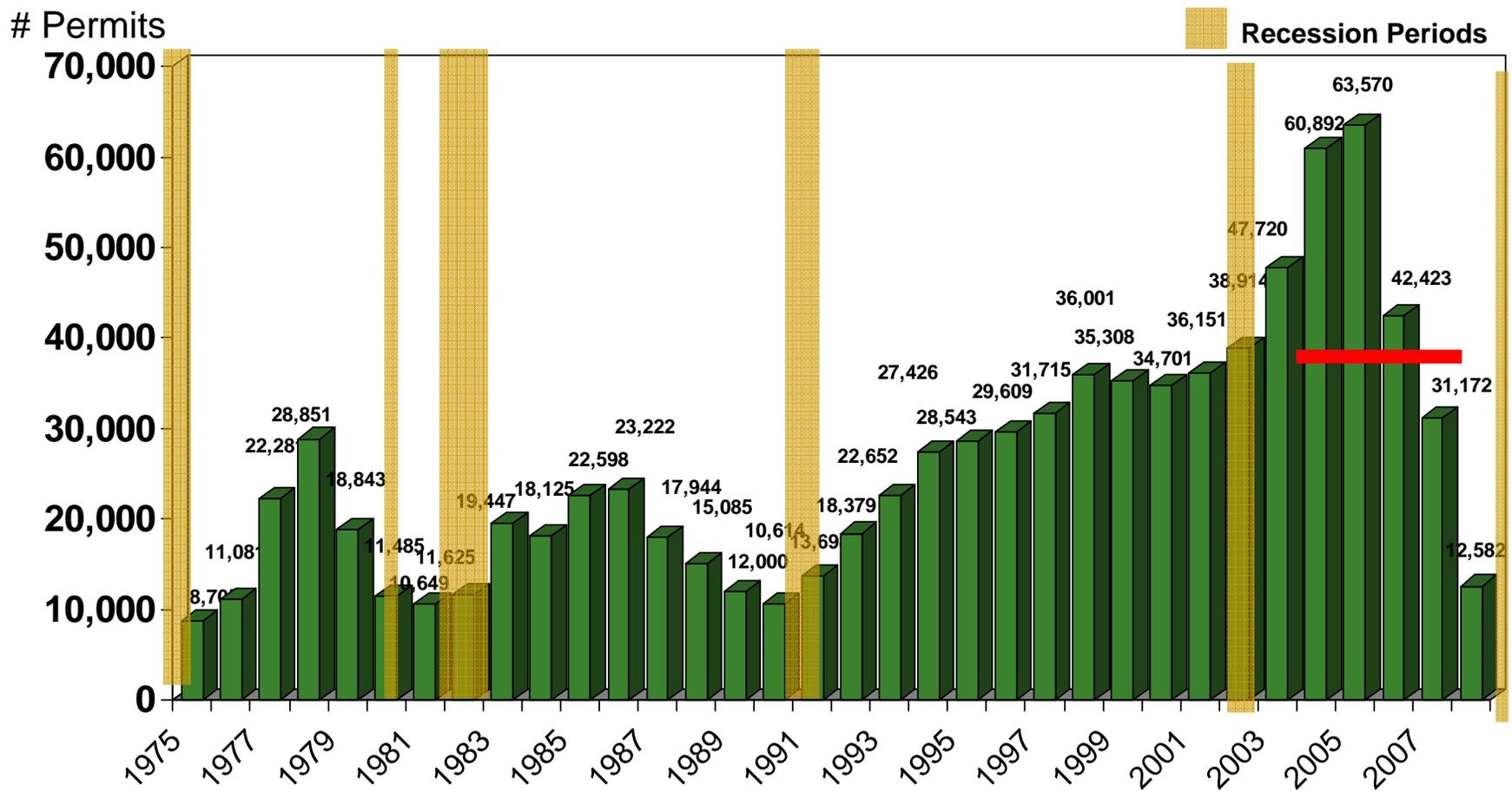


Provided by Elliott D. Pollack and Co.

Single-Family Permits

Greater Phoenix 1975–2008

Source: PMHS / RL Brown



Provided by Elliott D. Pollack and Co.

Oversupply of Housing

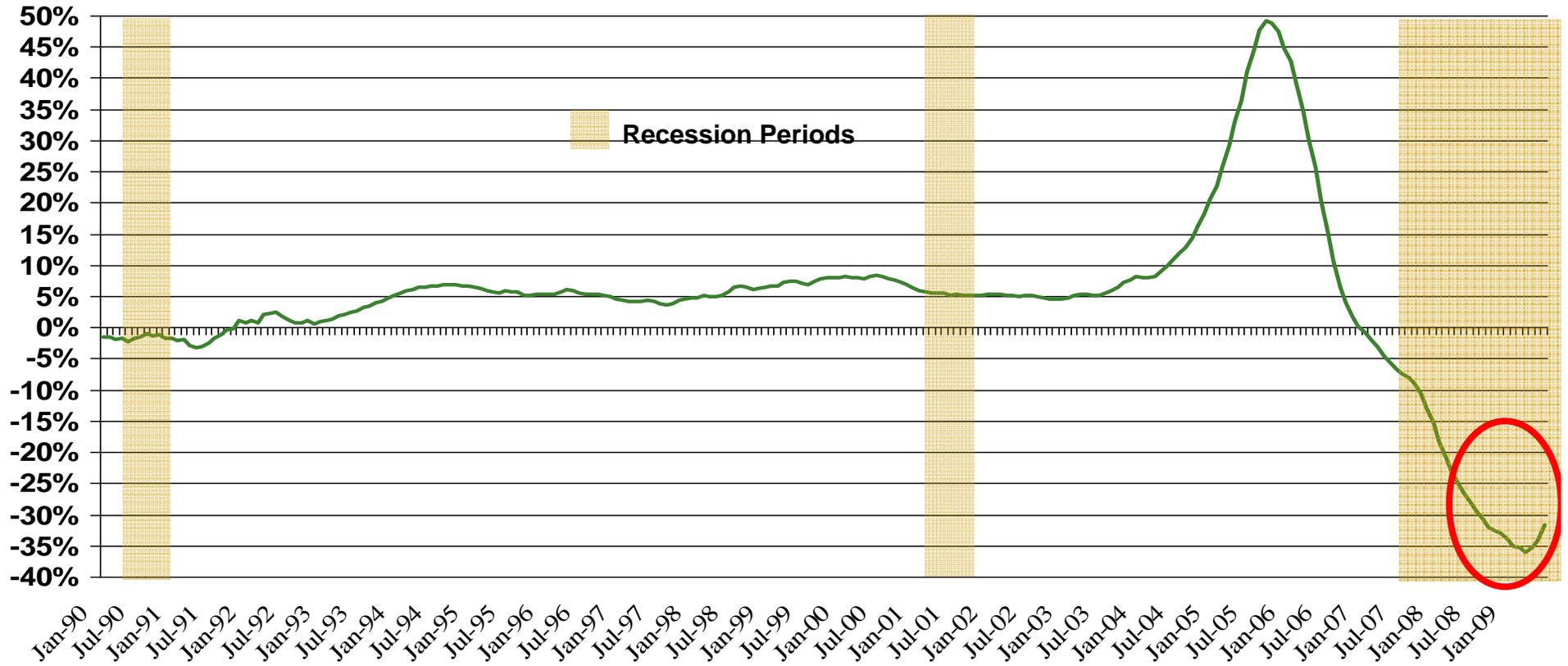
- Greater Phoenix long-term demographics call for roughly 35,000-40,000 single family units per year (much less next two years)
 - It appears that we overbuilt by as many as 75,000 units between 2003 and 2006 (exact figures depend on actual population flows)
 - Even at the end of next year, given the expectation that foreclosures will continue to flood the market, excess supply could still be 40,000 to 50,000 units regardless of how we do the calculation
 - Balance between supply and demand will not be fully achieved until about 2014, but building will still occur between now and then
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Greater Phoenix S&P/Case-Schiller Home Price Index**

Percent Change Year Ago

1990 – 2009*

Source: Macro Markets, LLC



*Data through June 2009

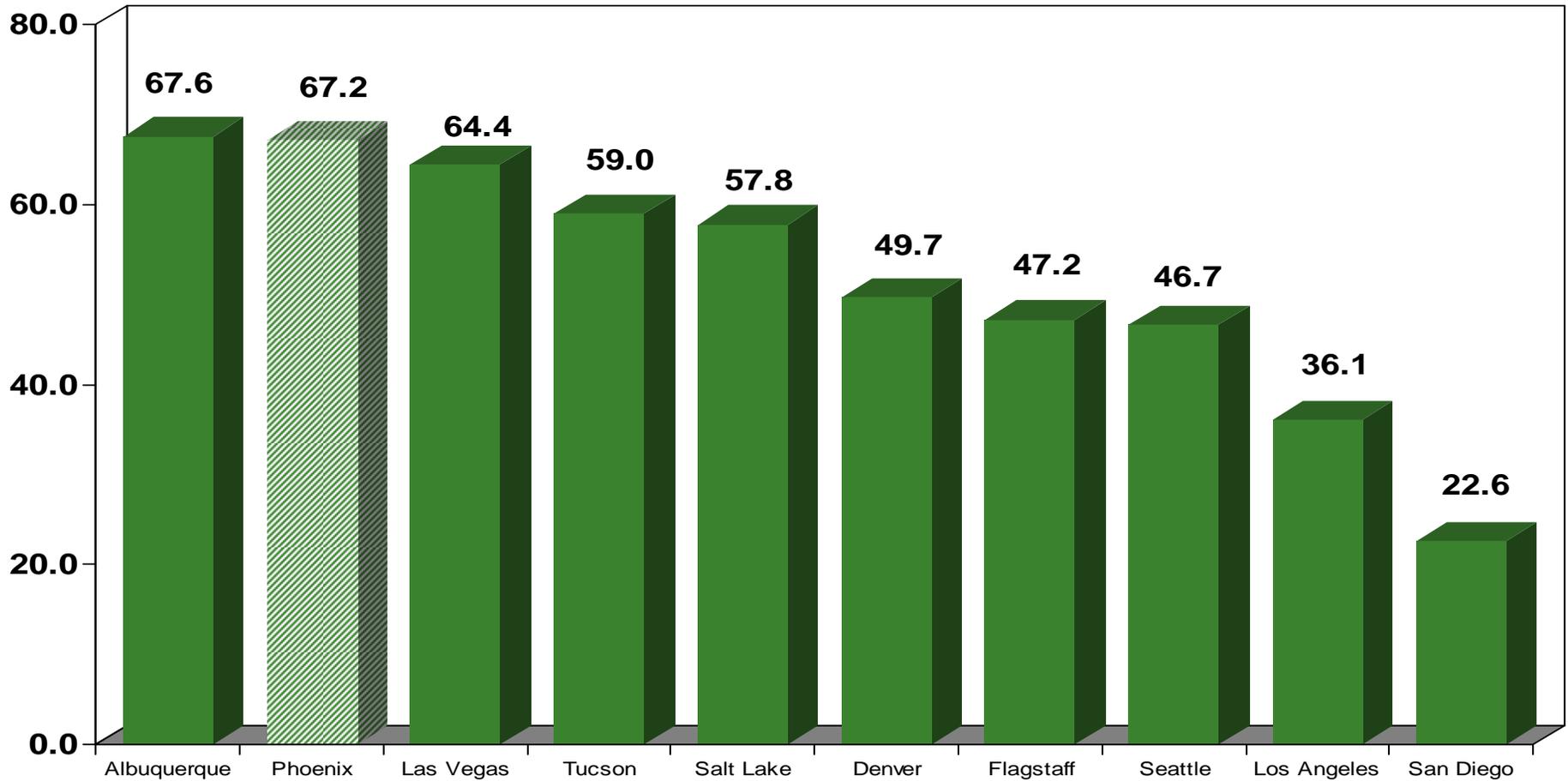
**Measures changes in existing single family home prices given a constant level of quality.

Provided by Elliott D. Pollack and Co.

Housing Affordability Index

2000 q2

Source: NAHB

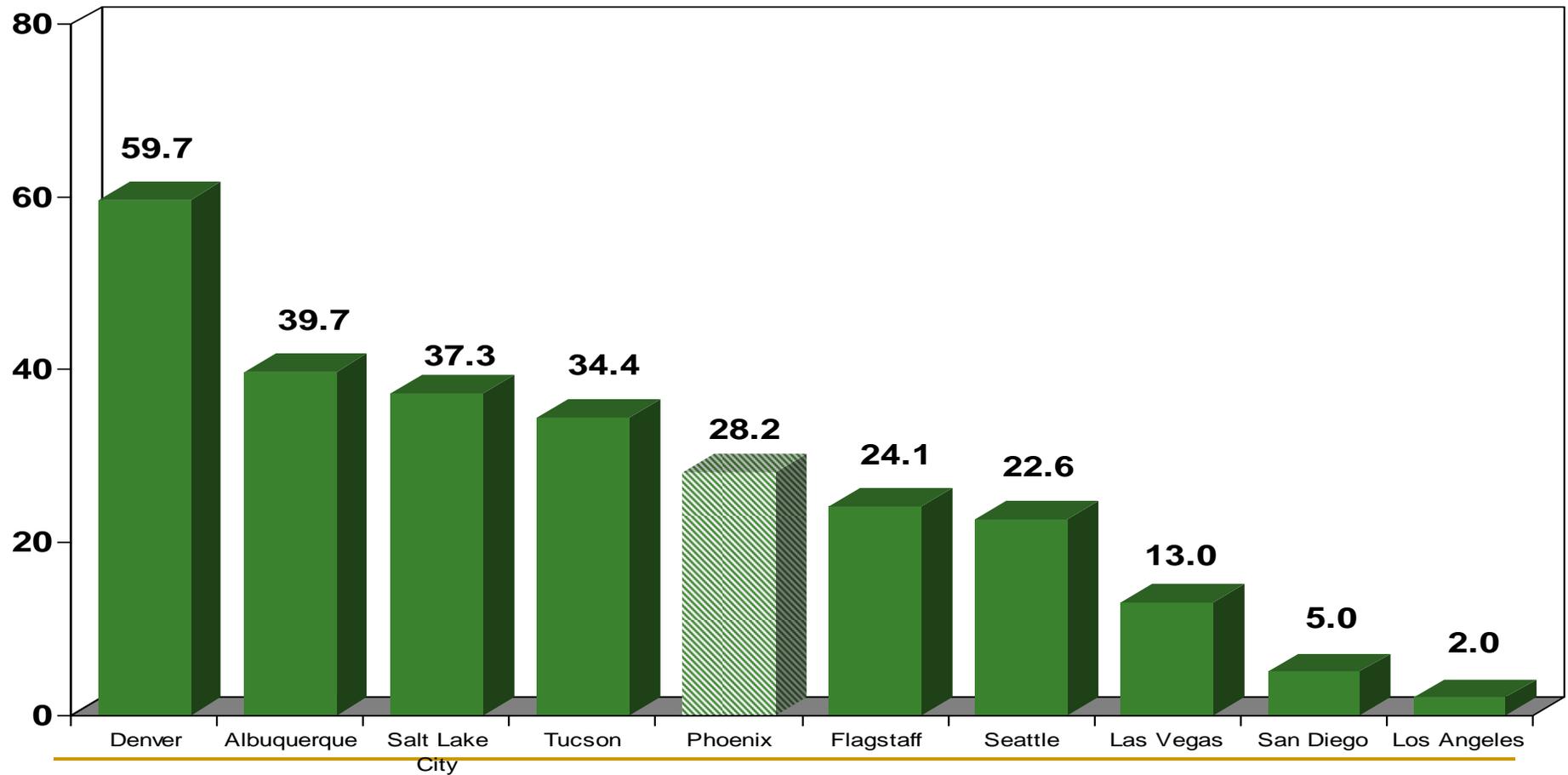


Provided by Elliott D. Pollack and Co.

Housing Affordability Index

2006 q2

Source: NAHB

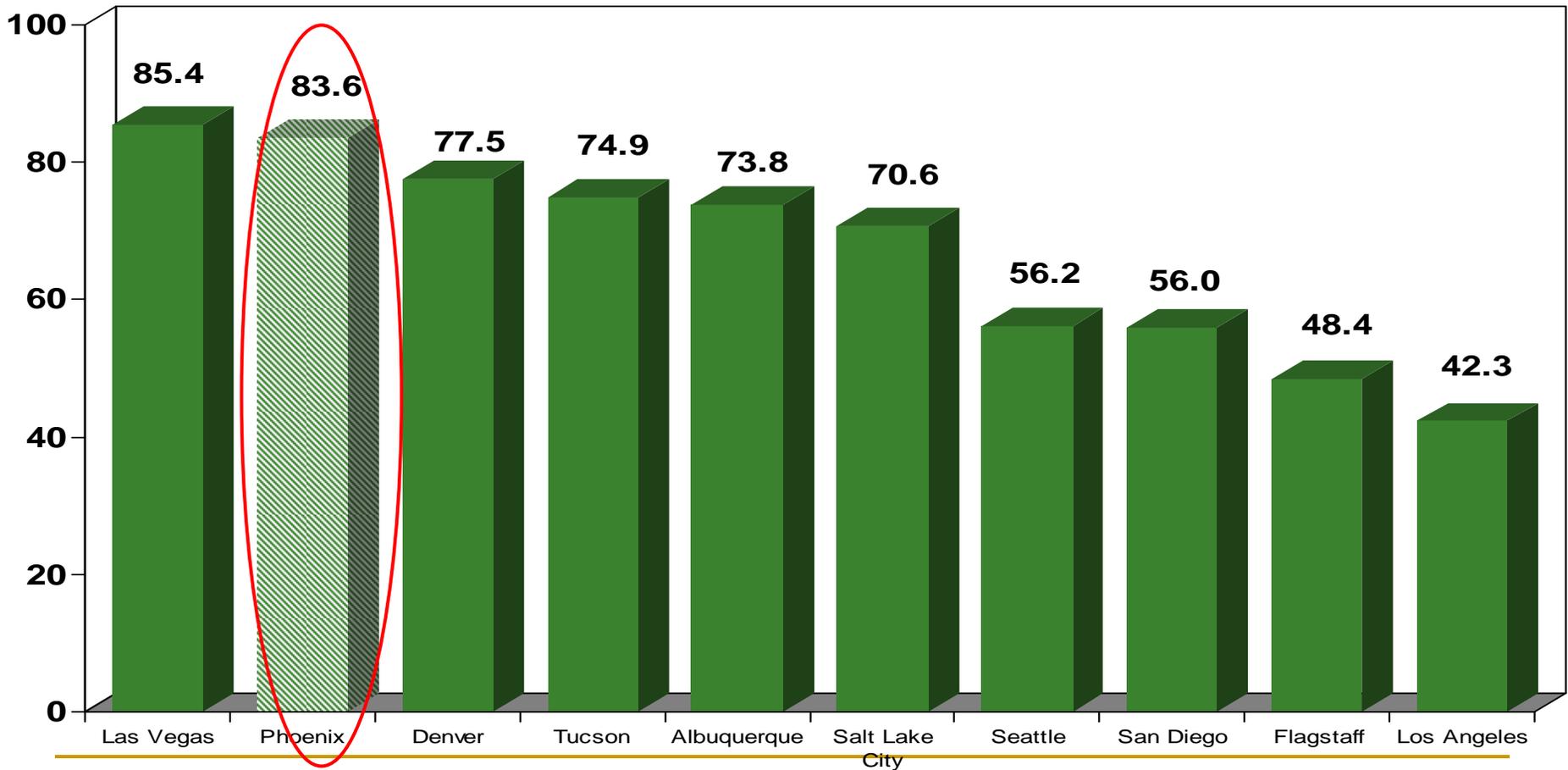


Provided by Elliott D. Pollack and Co.

Housing Affordability Index

2009 q2

Source: NAHB

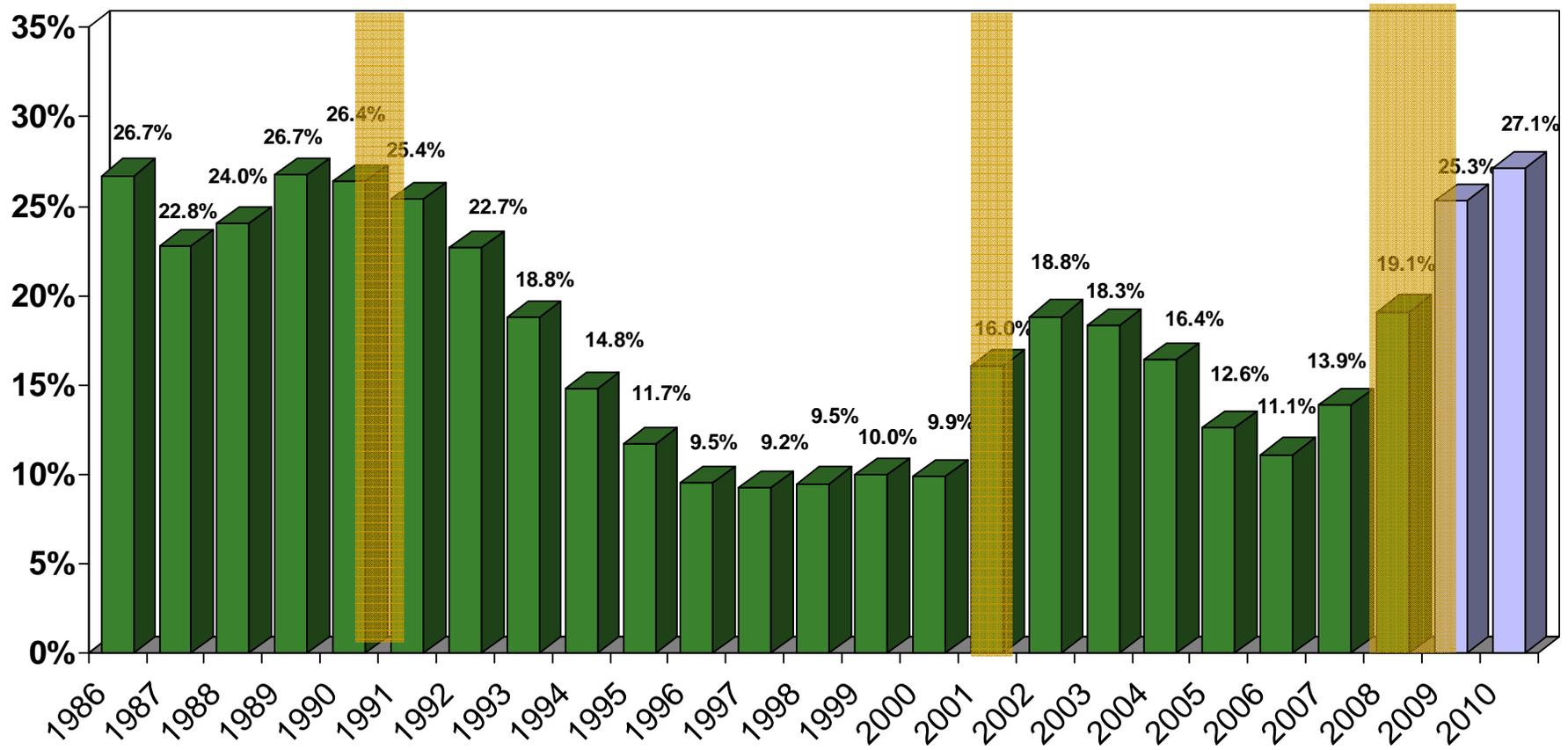


Provided by Elliott D. Pollack and Co.

Office Space Year-End Vacancy Rates Maricopa County 1986–2010*

Source: CB Richard Ellis

 Recession Periods



Provided by Elliott D. Pollack and Co.

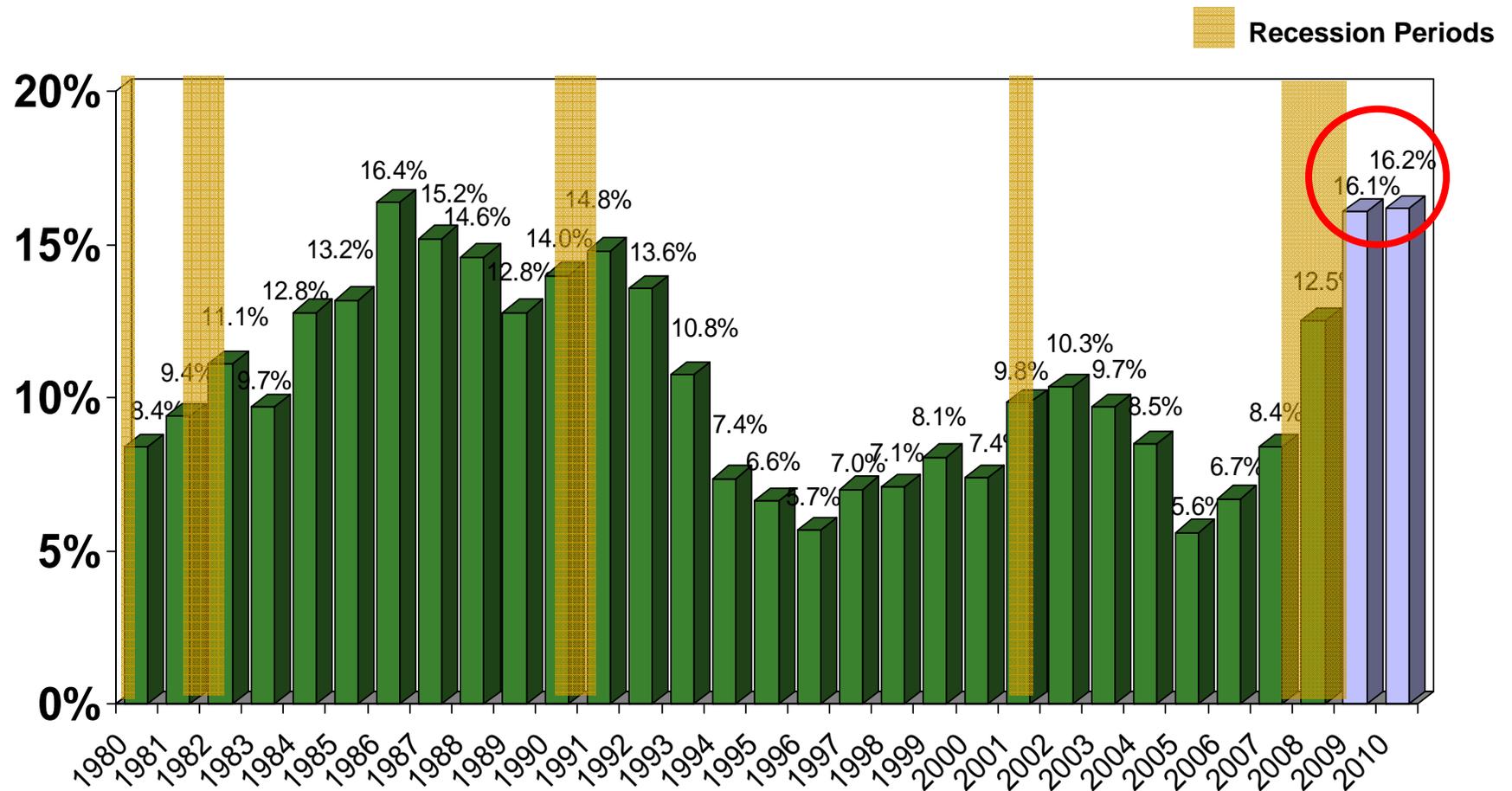
*2009 -2010 are forecasts from CB Richard Ellis

**No significant office
building in Greater
Phoenix for next 5 years.**

Provided by Elliott D. Pollack and Co.

Industrial Space Vacancy Rates Maricopa County 1980 – 2010*

Source: CB Richard Ellis

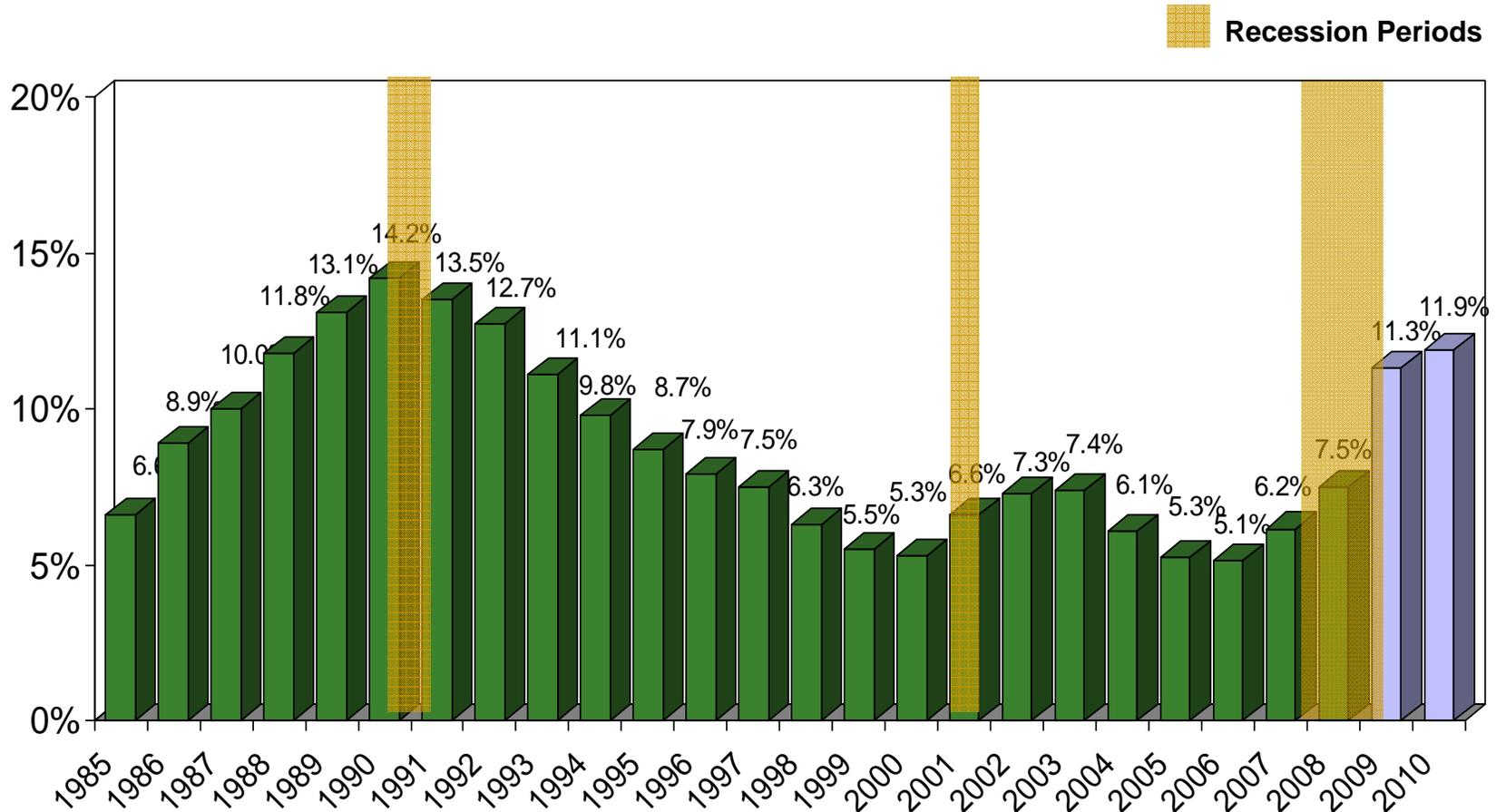


* 2009 - 2010 are forecasts from CBRE

Provided by Elliott D. Pollack and Co.

Retail Space Vacancy Rates Maricopa County 1985–2010*

Source: CB Richard Ellis**



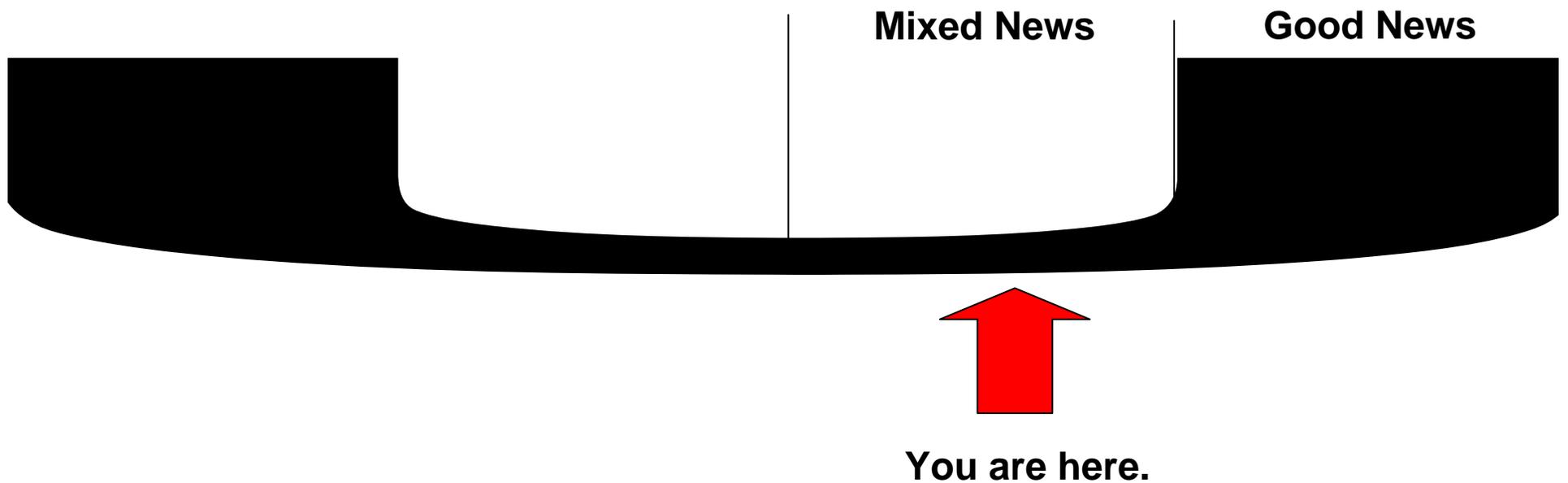
* 2009 -2010 are forecasts from CB Richard Ellis

** Data prior to 1992 is from Grubb & Ellis

Provided by Elliott D. Pollack and Co.

**It could take a decade before
prices get back to peak
levels in the commercial
markets.**

AZ Summary:



Greater Phoenix Summary

- Employment should be picking up by middle of next year.
- Retail sales could have significant rebound because down so far . However, it is not sustainable in terms of percentage gains.
- Population will lag growth in employment.
- Underlying dynamics still good but changes in policy needed at State level.

Greater Phoenix Forecast 2009 – 2010

<u>Indicator</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Population	3.5%	2.4% ?	1.6% ?	1.8% ?
Employment	1.3%	-2.0%	-6.0%	-1.0%
Personal Income	4.5%	3.0%	-1.0%	2.5%
Retail Sales	0.1%	-10.0%	-9.0%	5.0%

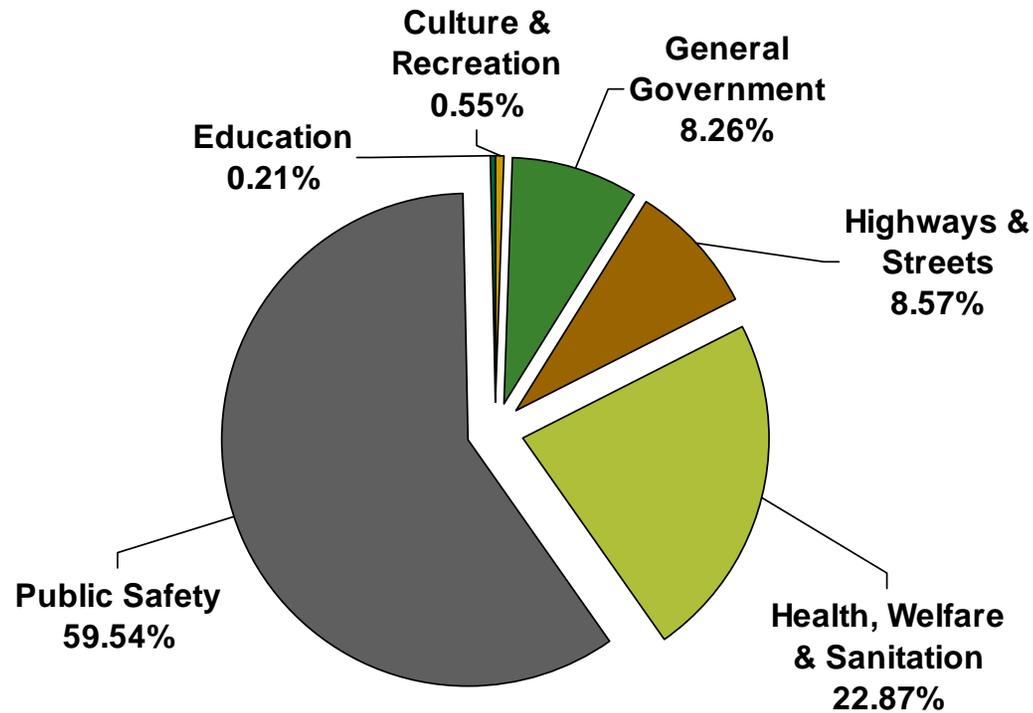
Source: *Elliott D. Pollack & Company*, AZ Blue Chip, Department of Commerce, Research Administration

Provided by Elliott D. Pollack and Co.

Maricopa County Budget

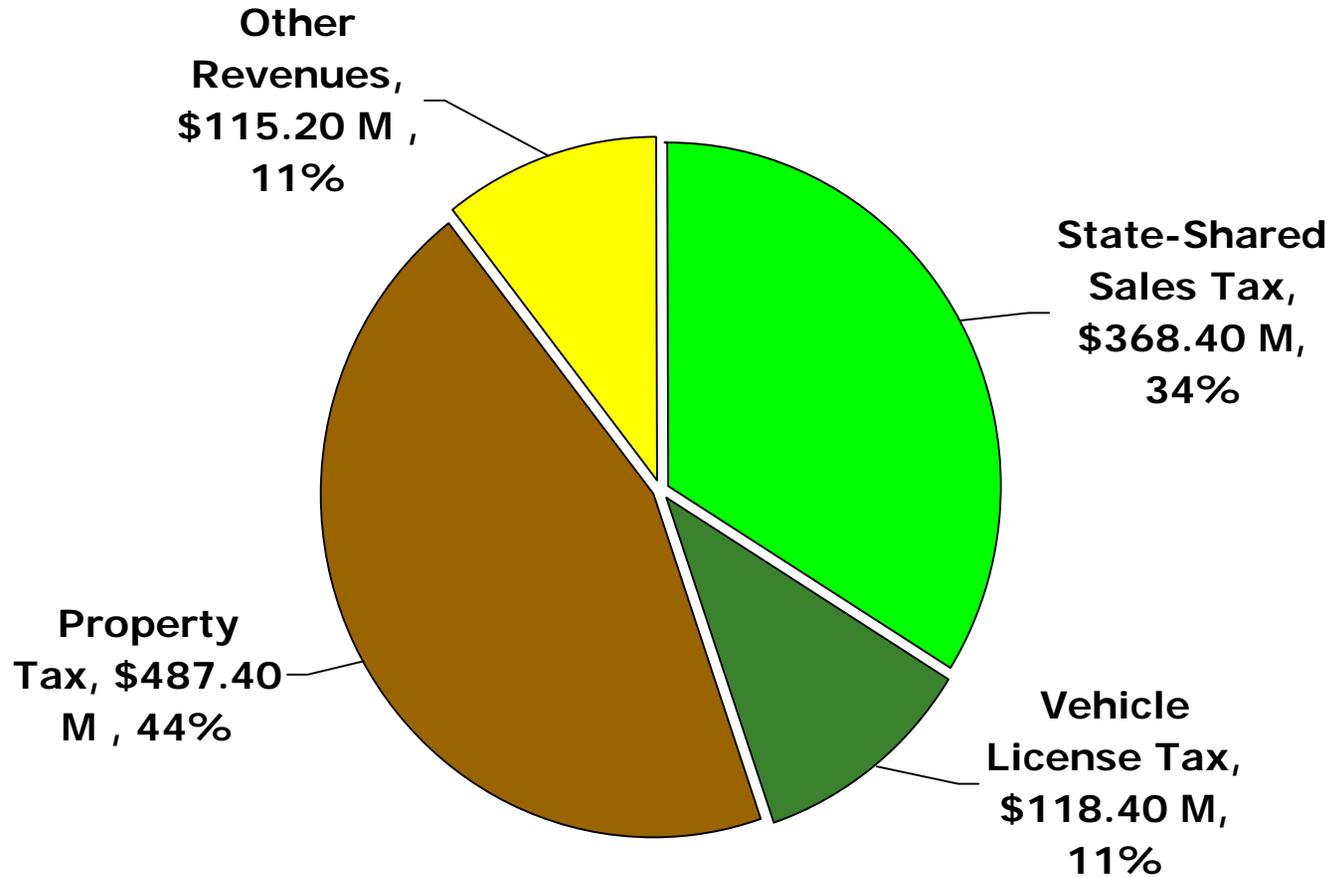
FY 2009-10 Adopted Budget (all funds)

Uses of Funds \$2.1 billion



General Fund Operating Revenue

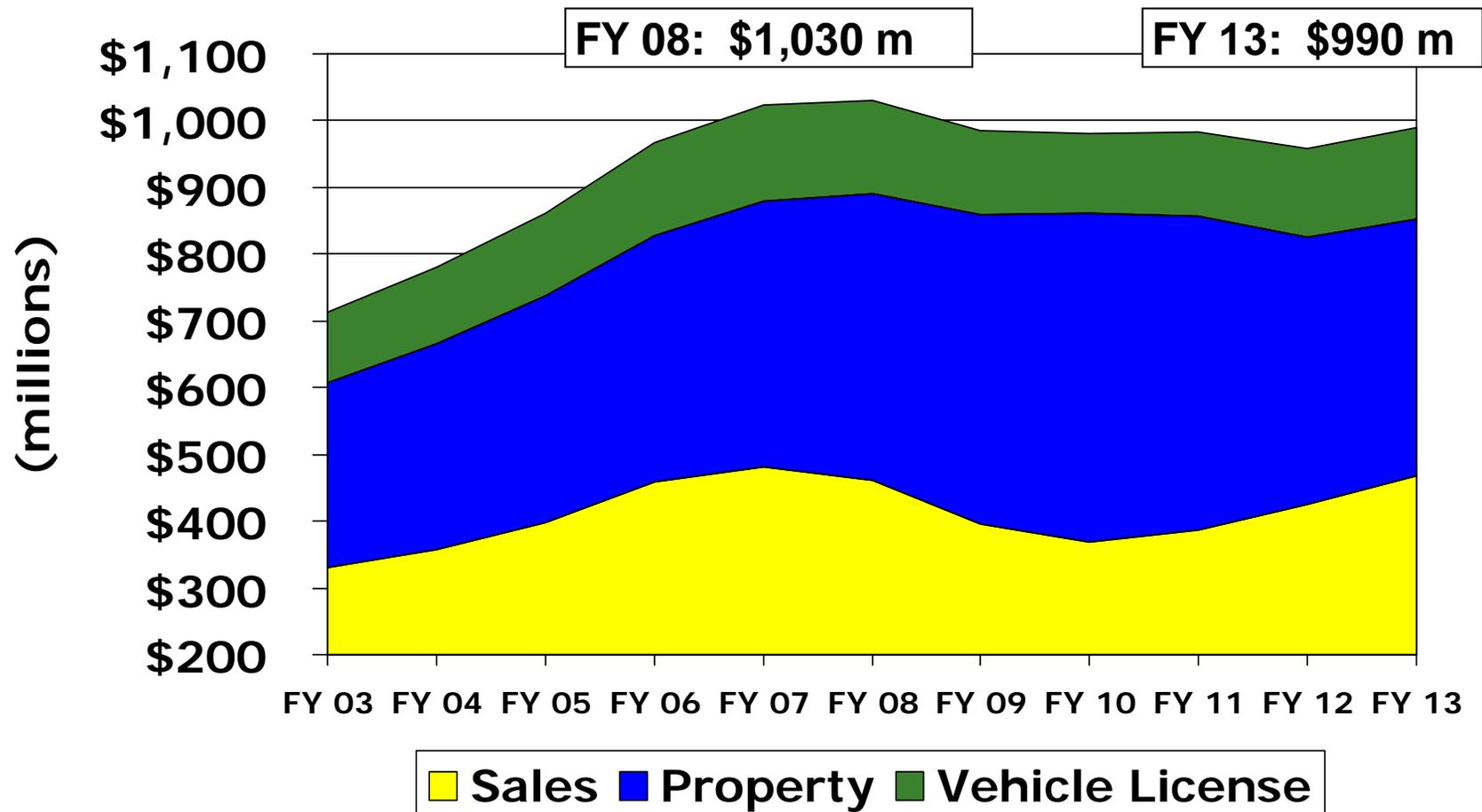
\$1.09 billion



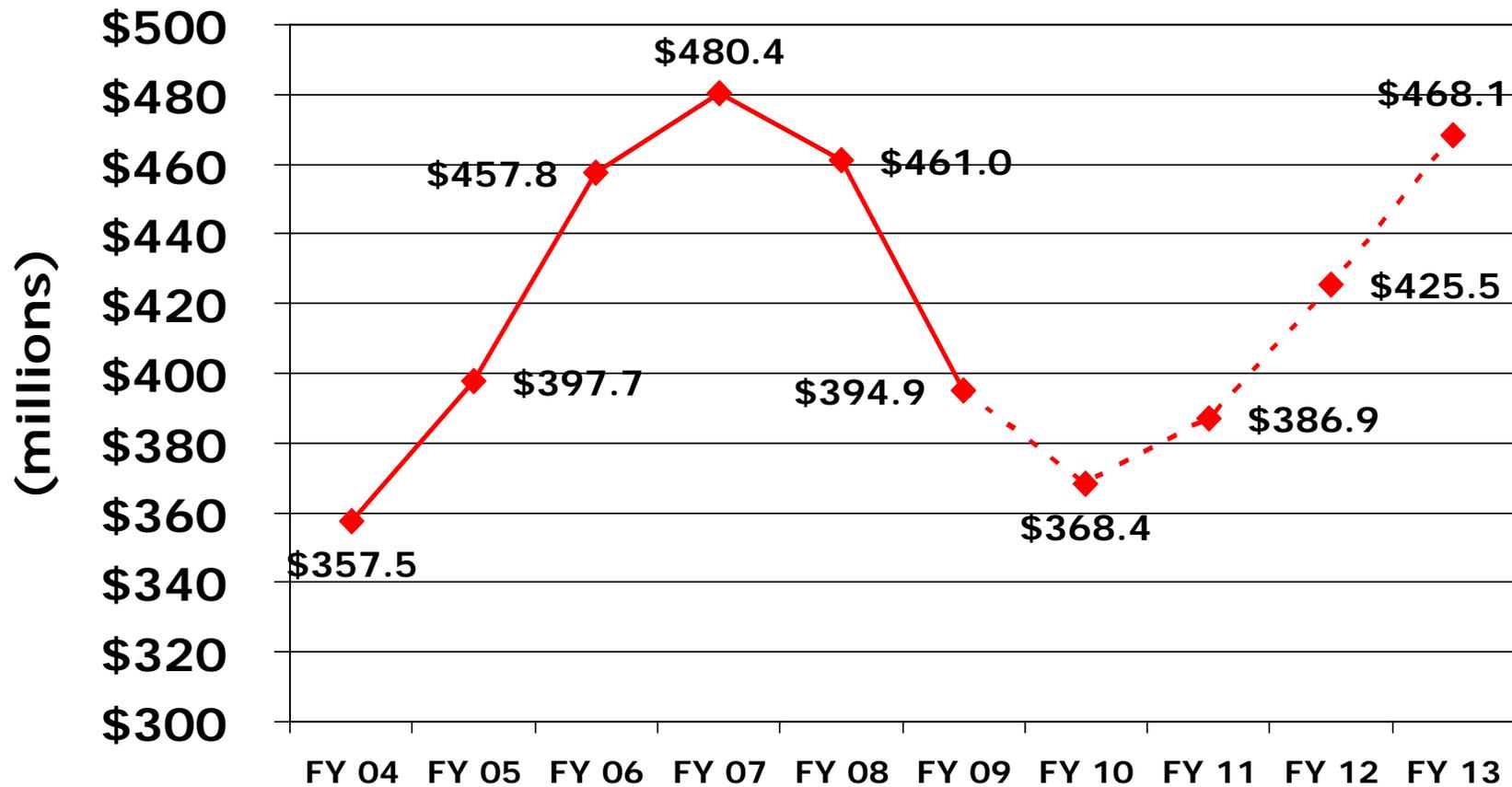
2009-10 Net Variance over FY 2008-09 Adopted Budget

	FY 2008-09 Adopted	(millions) FY 2009-10 Recomm.	Reduction	%
Total County	\$ 2,259	\$ 2,136	\$ 122	5.4%
Total County Operating	\$ 1,772	\$ 1,712	\$ 60	3.4%
Total General Fund	\$ 1,443	\$ 1,273	\$ 170	11.8%
General Fund Operating	\$ 1,167	\$ 1,089	\$ 77	6.6%

General Fund – Trend in Combined Tax Revenues

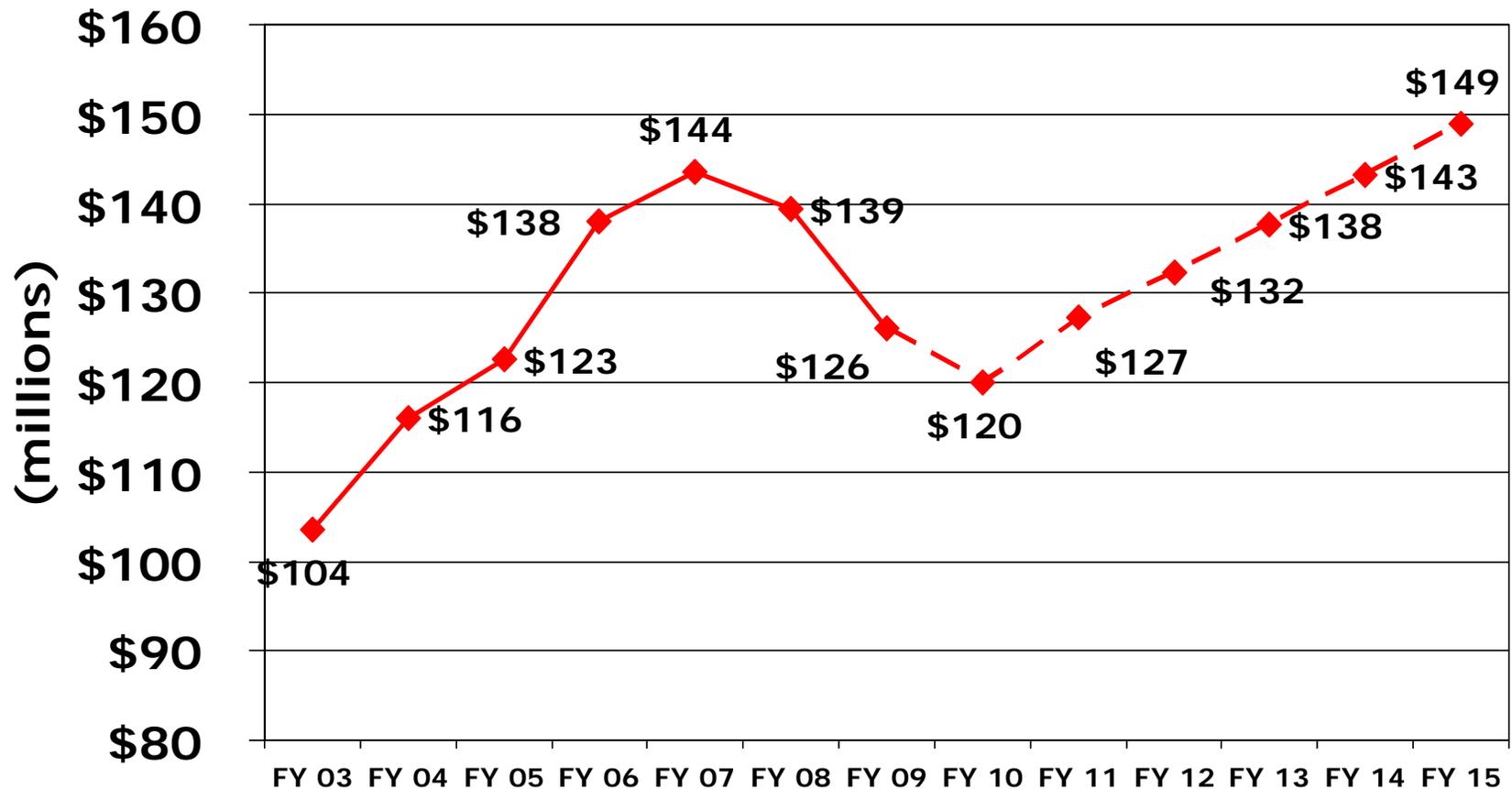


Sales Tax Trend



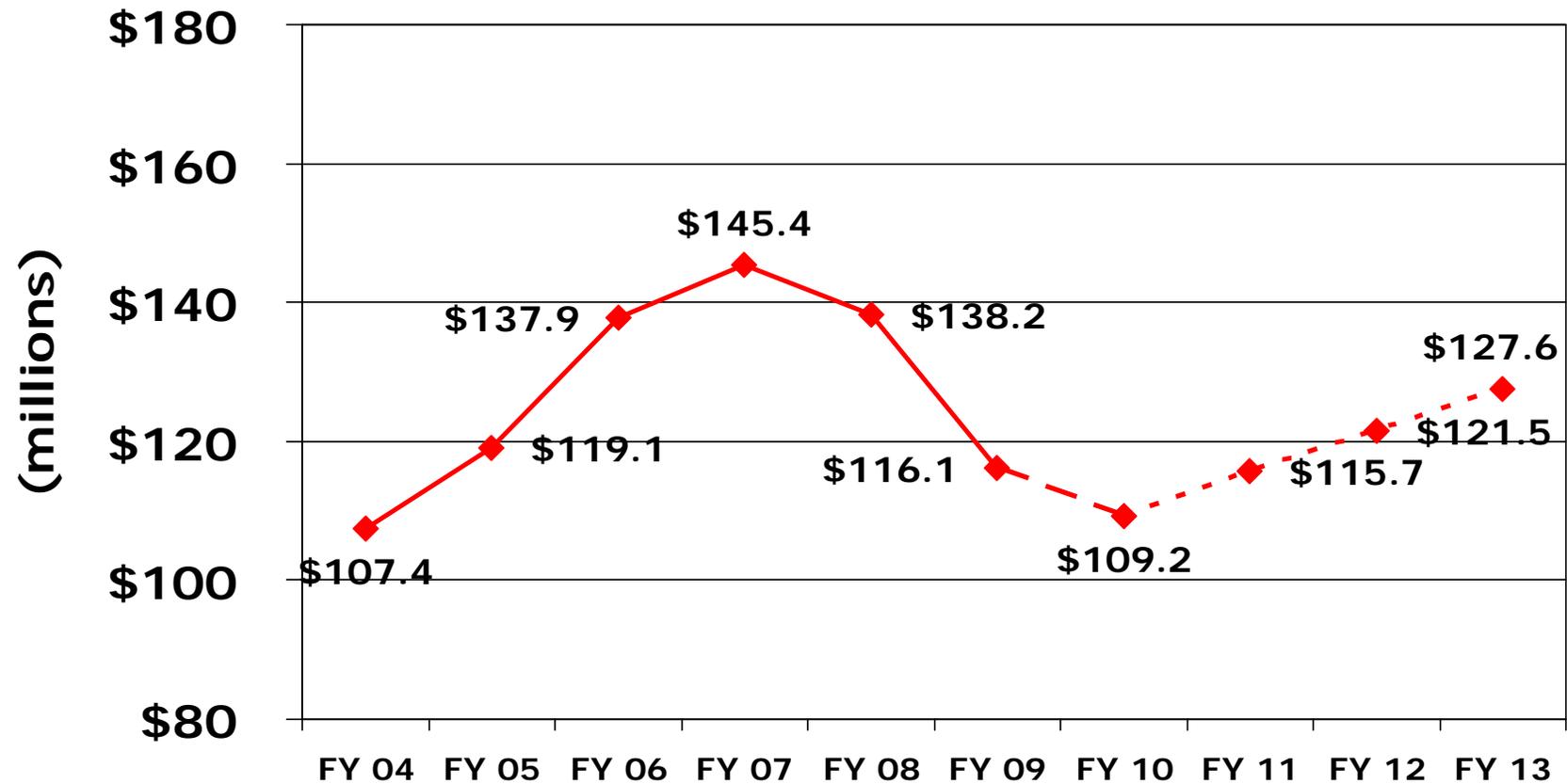
Forecasts – Elliott D. Pollack pessimistic scenario, July 2009

Vehicle License Tax Trend



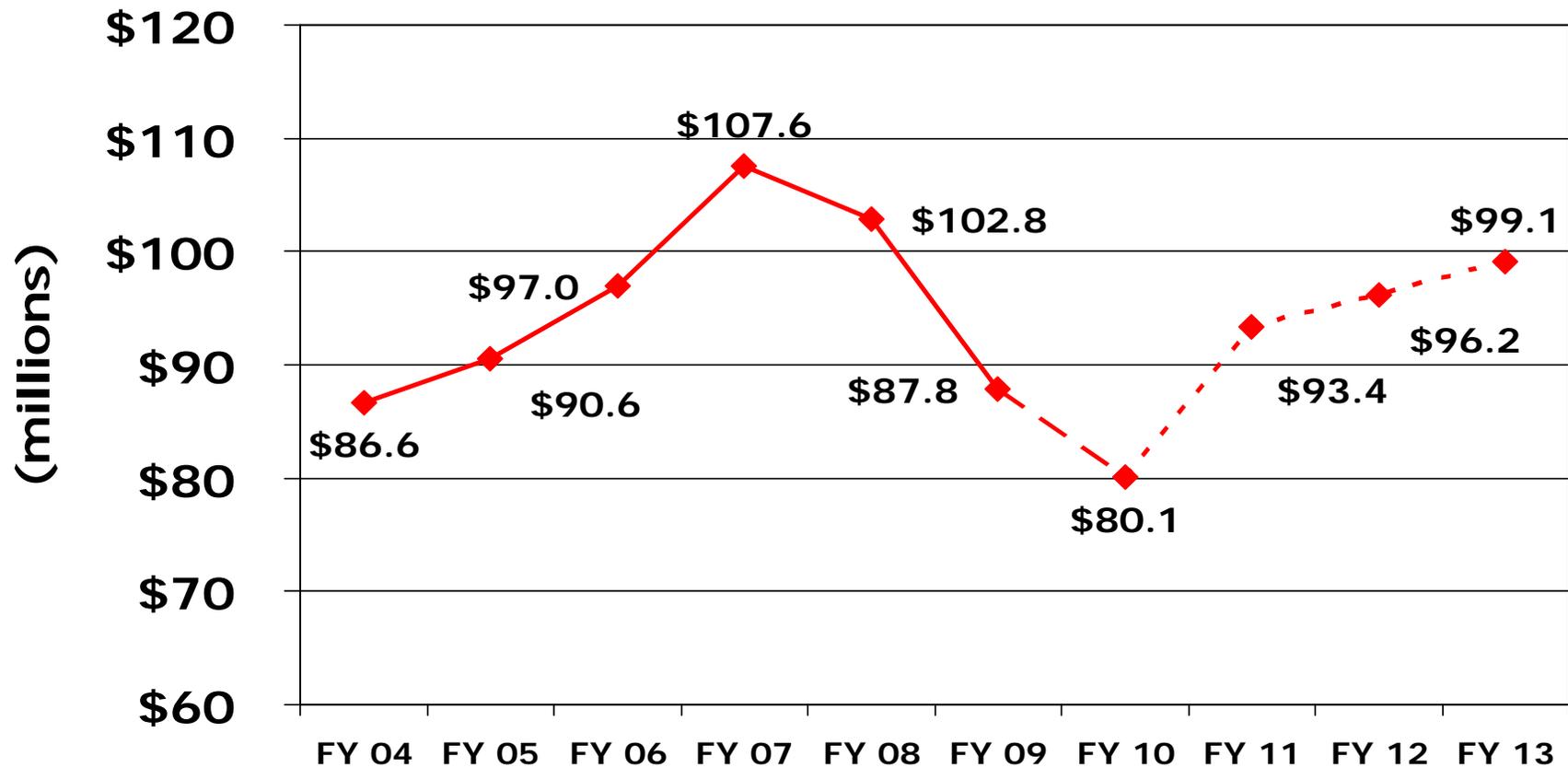
Forecasts – Elliott D. Pollack pessimistic scenario, July 2009

Jail Tax Trend



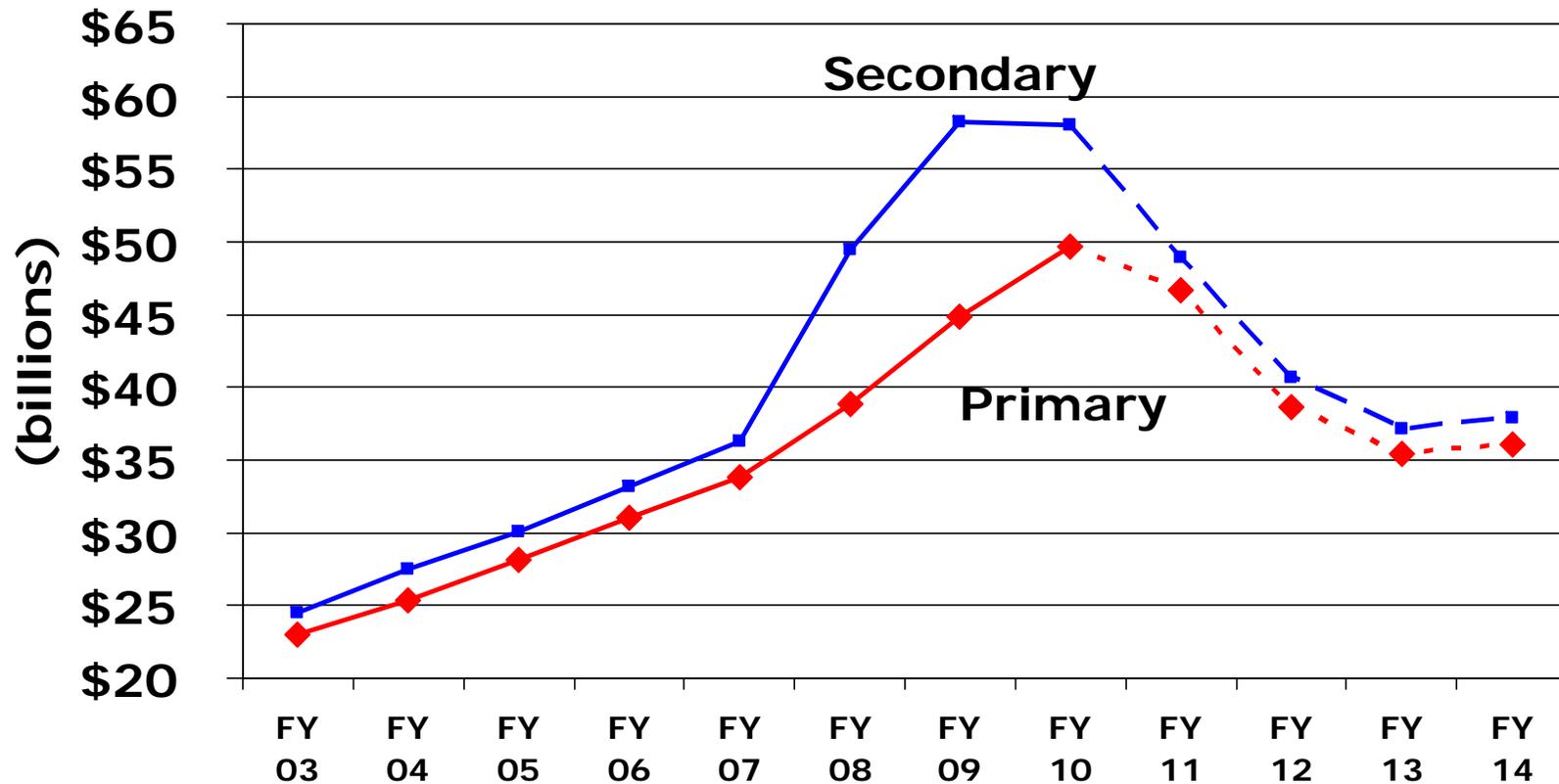
Forecasts – Elliott D. Pollack pessimistic scenario, July 2009

State Shared Highway User Revenues



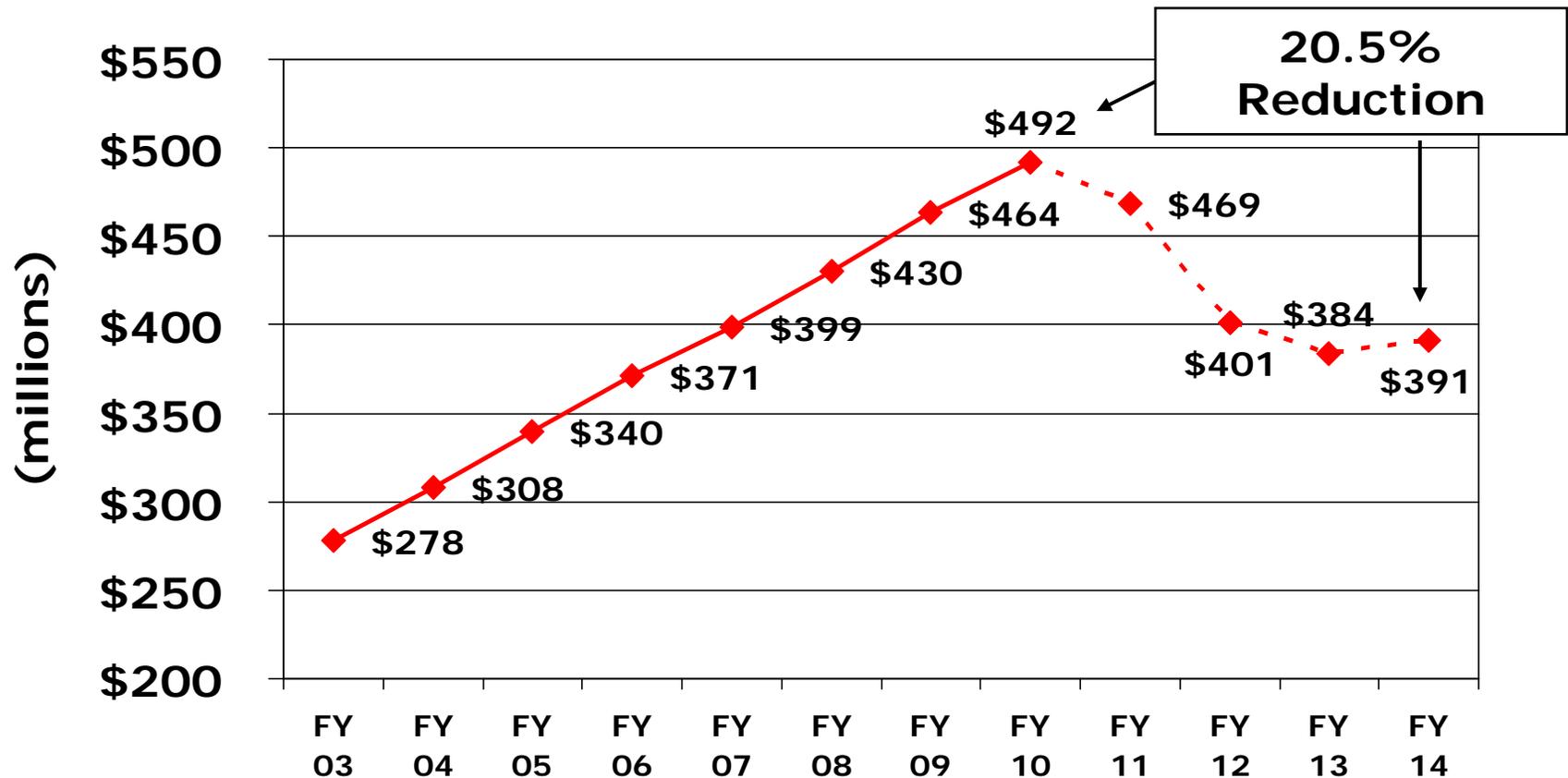
Forecasts – Elliott D. Pollack pessimistic scenario, July 2009

Total Net Assessed Value

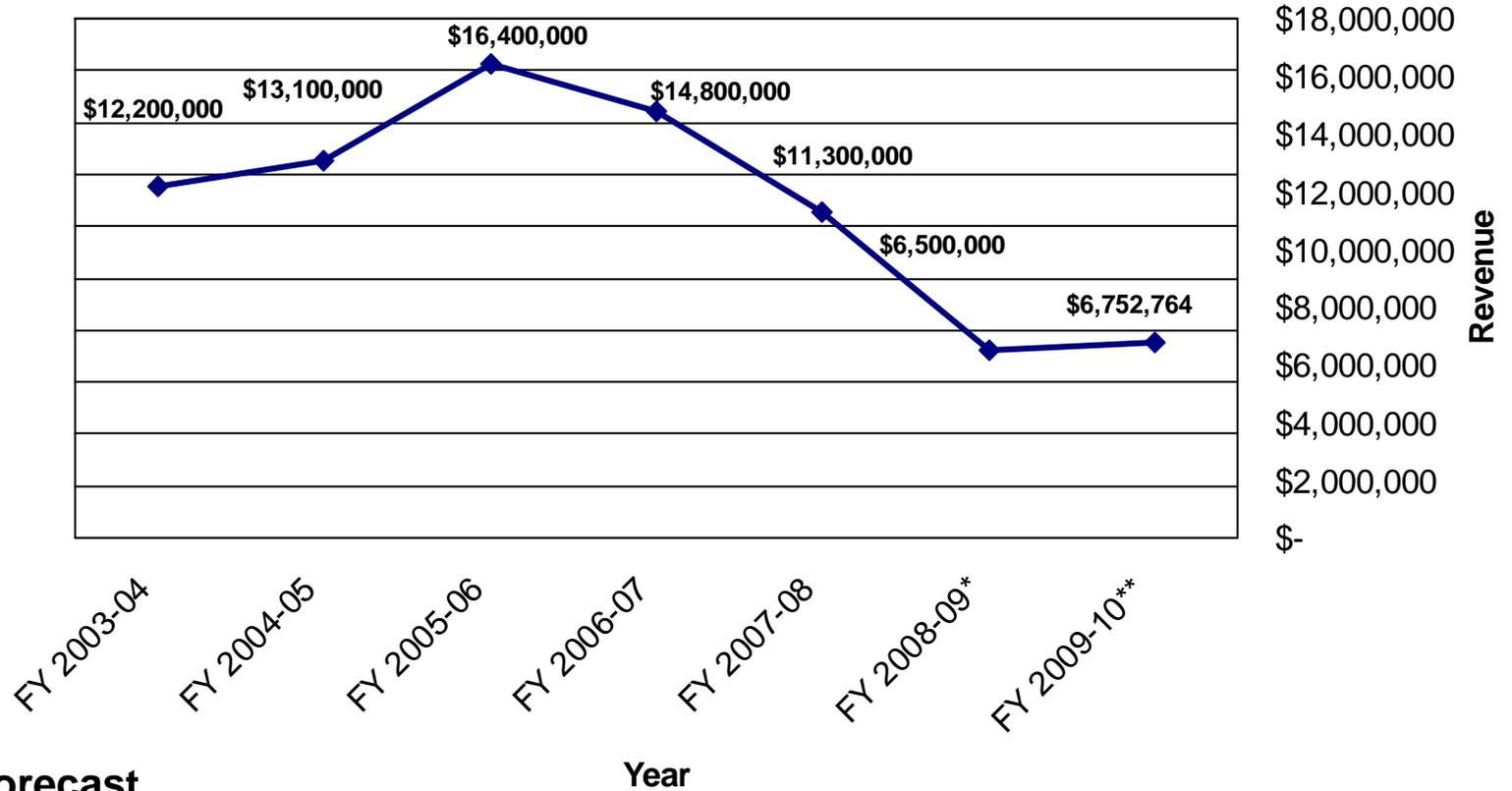


Forecasts – Elliott D. Pollack pessimistic scenario, July 2009

Primary Property Tax Levy (At FY 2010 Tax Rate)



Planning & Development Revenue



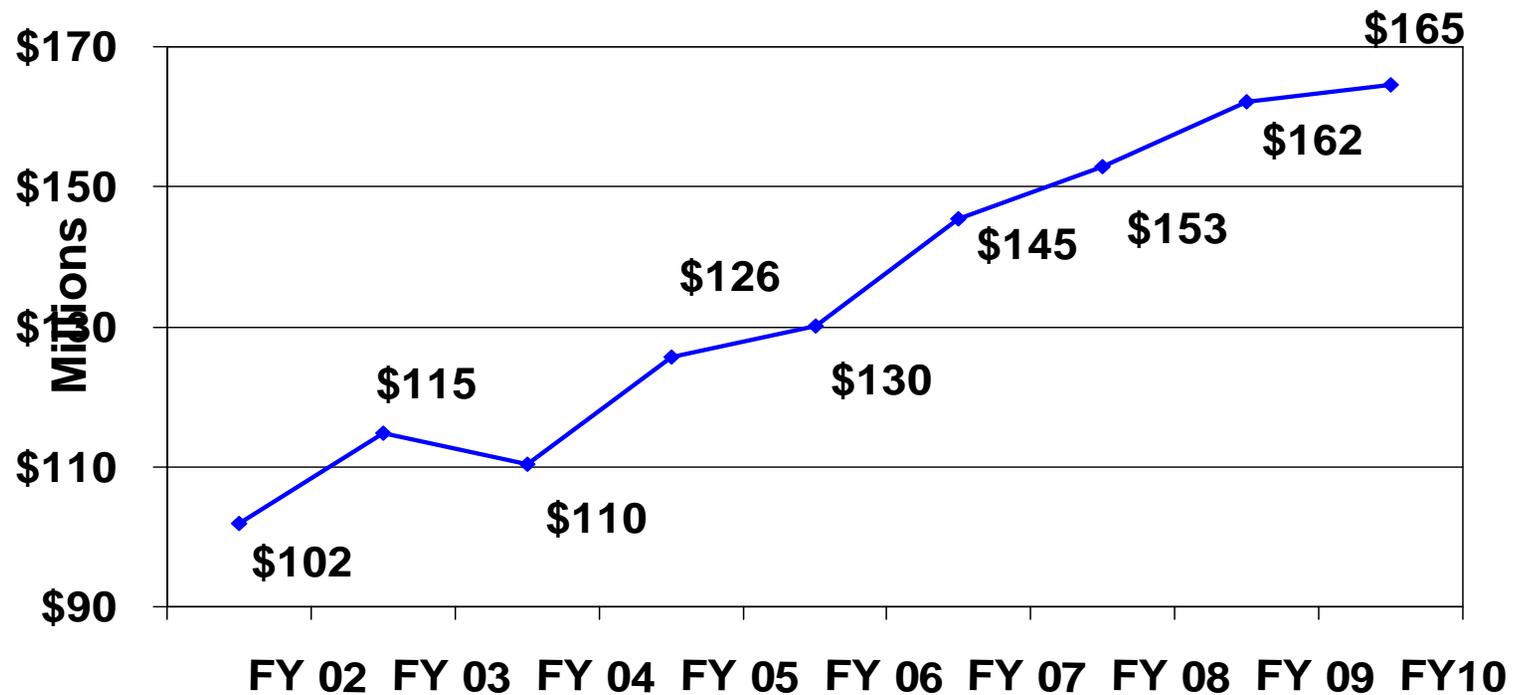
*Forecast

**Recommended Budget

State Impacts

- County Contribution – budgeted at \$24.1 m, but was included in budget reconciliation bill vetoed by the Governor; expected to come back
 - HURF Diversion to DPS – estimated impact nearly \$6 million per year
 - Outcome of FMAP savings not entirely clear
 - \$45 million reduction in FY 10 County contribution to long term care (not enacted until after County budget adoption)
 - Refunds expected for FY 09 long term care and FY 09 and FY 10 acute care, but no notification of specific amounts
 - County has to treat any FMAP savings as a one-time source
-

Maricopa County ALTCS Contribution Growth, FY 2002-2010 (excludes FMAP)



Total Budget Balancing Strategies

(\$ millions)

	FY 07 and FY 08	FY 09 Adopted	FY 09 Mid Year	FY 10 Recomm.	Total
Operating	\$ 12.8	\$ 124.8	\$ 36.2	\$ 156.2	\$ 330.1
Non-Recurring		37.8		(26.0)	11.8
	<u>\$ 12.8</u>	<u>\$ 162.6</u>	<u>\$ 36.2</u>	<u>\$ 130.3</u>	<u>\$ 341.9</u>

Structurally Balanced Budget



Definition: Ongoing revenues meet or exceed ongoing expenditures

History of Budget Balancing

- FY 2006-07
 - Lowered revenue projections and cut spending mid-year
 - FY 2007-08 Budget Preparation
 - Revenue budgets for State-shared Sales, Jail Excise and Vehicle License Taxes prepared with little or no revenue growth
 - Budget reductions in personnel budgets, court security, overtime, supplies, services
-

History of Budget Balancing

- FY 2007-08 Mid-Year
 - Reduced all administrative budgets by 5%
 - Froze hiring and capital expenditures
 - Froze contingency funds
 - Reduced overtime
 - FY 2008-09 Budget Preparation
 - Reduced operating budgets by an average of 5.6%
-

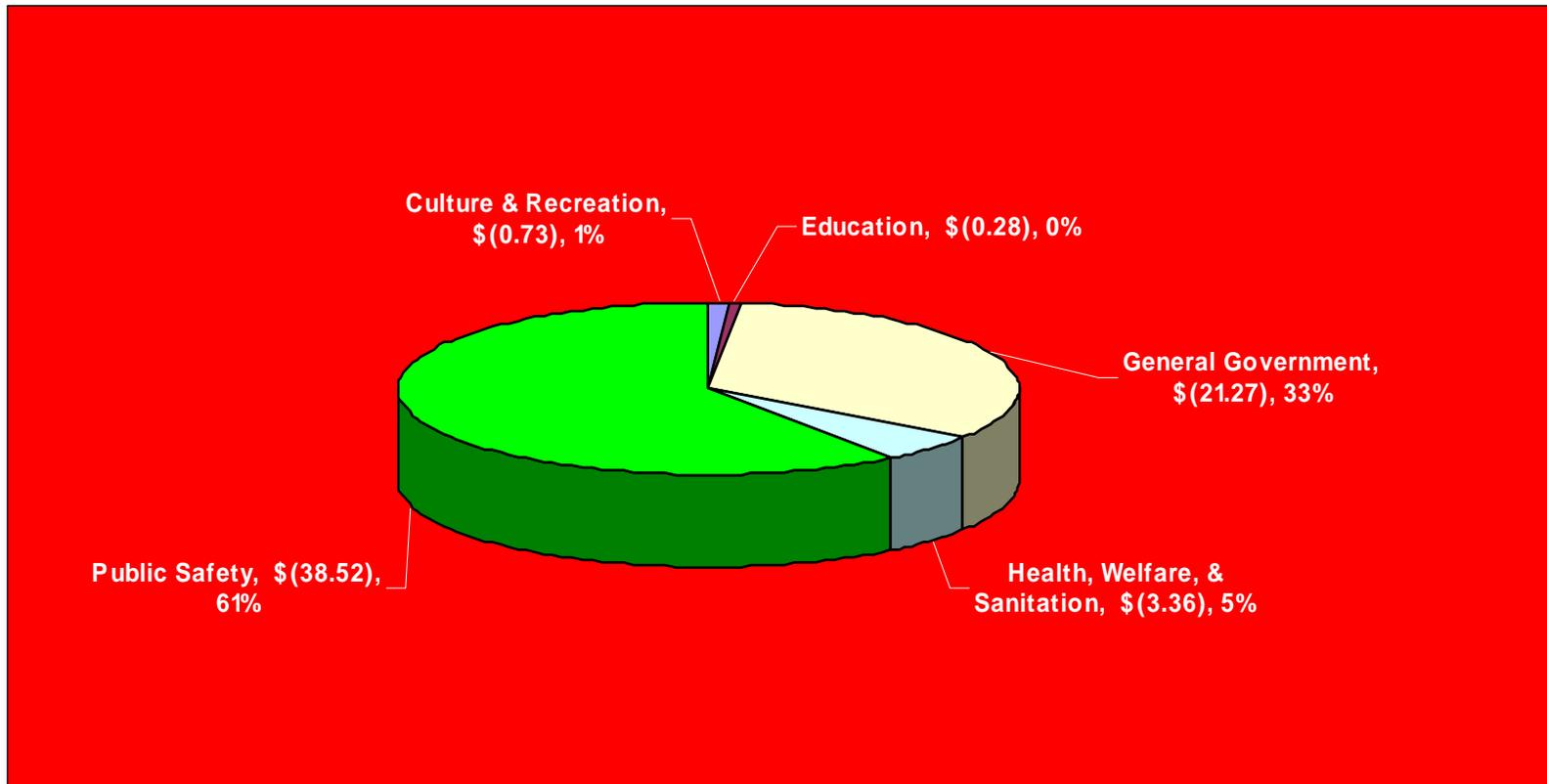
History of Budget Balancing

- FY 2008-09 Mid-Year
 - Continued hiring and capital freezes
 - Continued contingency freeze
 - Used contingency funds and funds reserved for salary increases to offset \$58.4 deficit
-

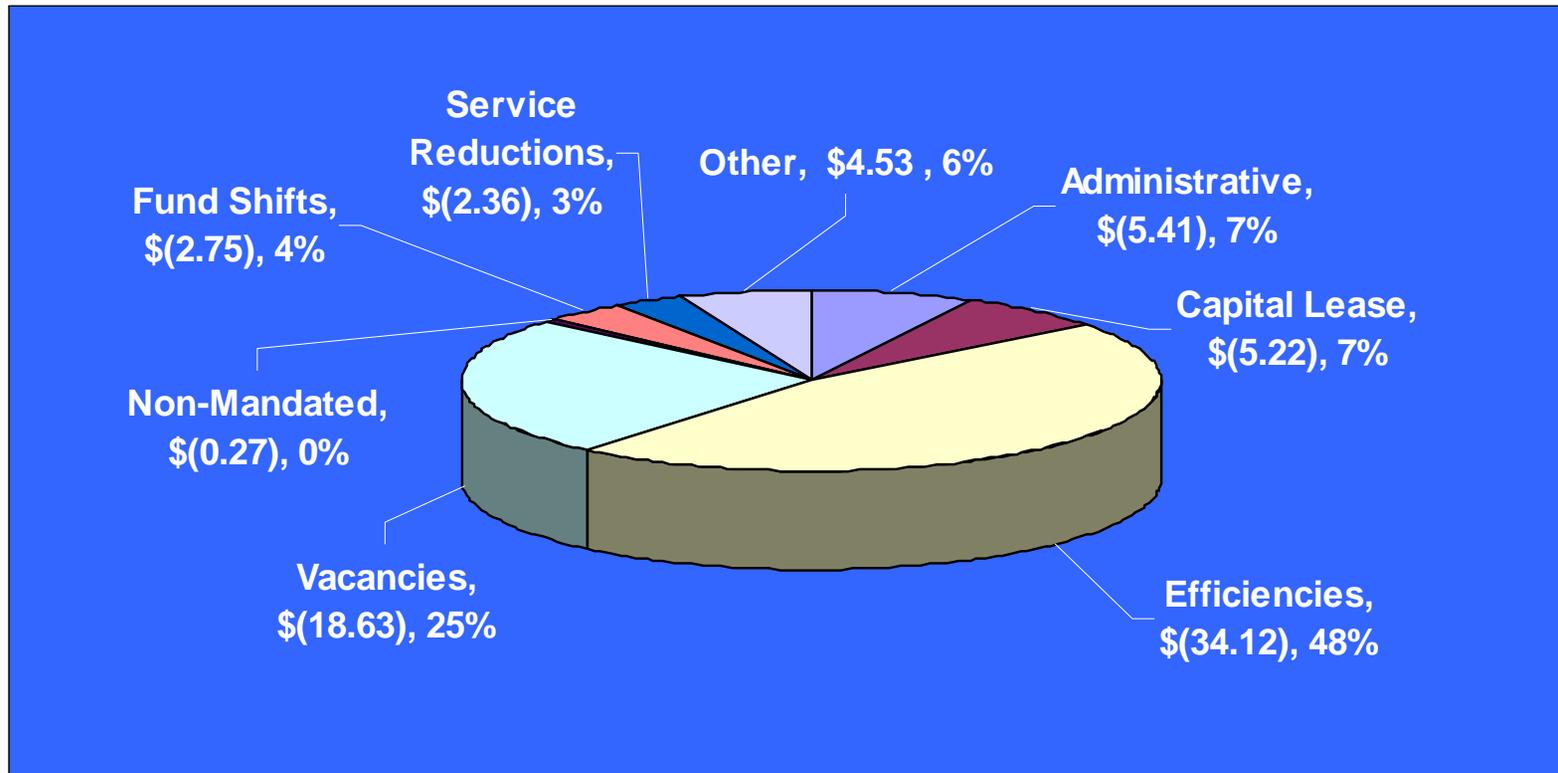
History of Budget Balancing

- FY 2009-10 Budget Development
 - Departments asked for 20%
 - Average reduction 11.7%
 - Examples:
 - Service reductions: \$4.1 M
 - Reduced administrative overhead: \$6.0 M
 - Reduced cost of providing service – “do more with less”: \$47.3 M
 - Eliminated vacant positions and other personnel savings: \$24.5 M
 - Reduced or eliminated non-mandated programs: \$.5 M
 - Paying off outstanding capital leases: \$12.9 M
 - Non-Departmental Reductions: \$53.7 M
-

General Fund Expenditure Departmental Reductions (by category)



FY 2009-10 General Fund Expenditure Departmental Reductions (by type)



Amounts shown in millions

General Fund Departmental Two Year Budget Reduction Summary

- **Average Reduction:** **13.2%**
 - \$74.6 million in departmental reductions
 - *Average Appointed Reduction:* *13.7%*
 - *Average Elected Reduction:* *13.7%*
 - *Average Judicial Reduction:* *12.1%*
-

Reductions in Staffing

Total Full Time Equivalent Positions Eliminated

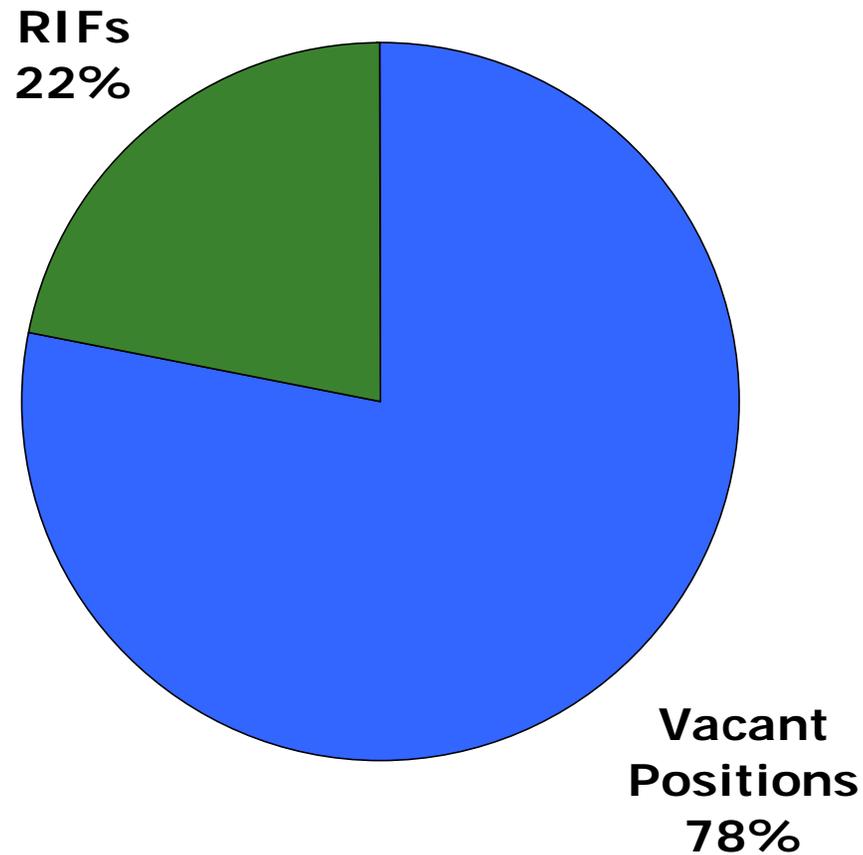
	FY 08 (Mid-Year)	FY 09 Adopted	FY 09 (Mid-Year)	FY 10 To Date	Total (to date)
Filled	(43.0)	(11.0)	(54.0)	(209.7)	(317.7)
Vacant	(34.0)	(164.2)	(91.1)	(834.0)	(1,123.3)
Total	(77.0)	(175.2)	(145.1)	(1,043.7)	(1,441.0)

Terminations and Hires (FY 08 and FY 09 to date):

Terminations:	3,427
Hires:	1,004
Net Vacancies:	<u>2,423</u>

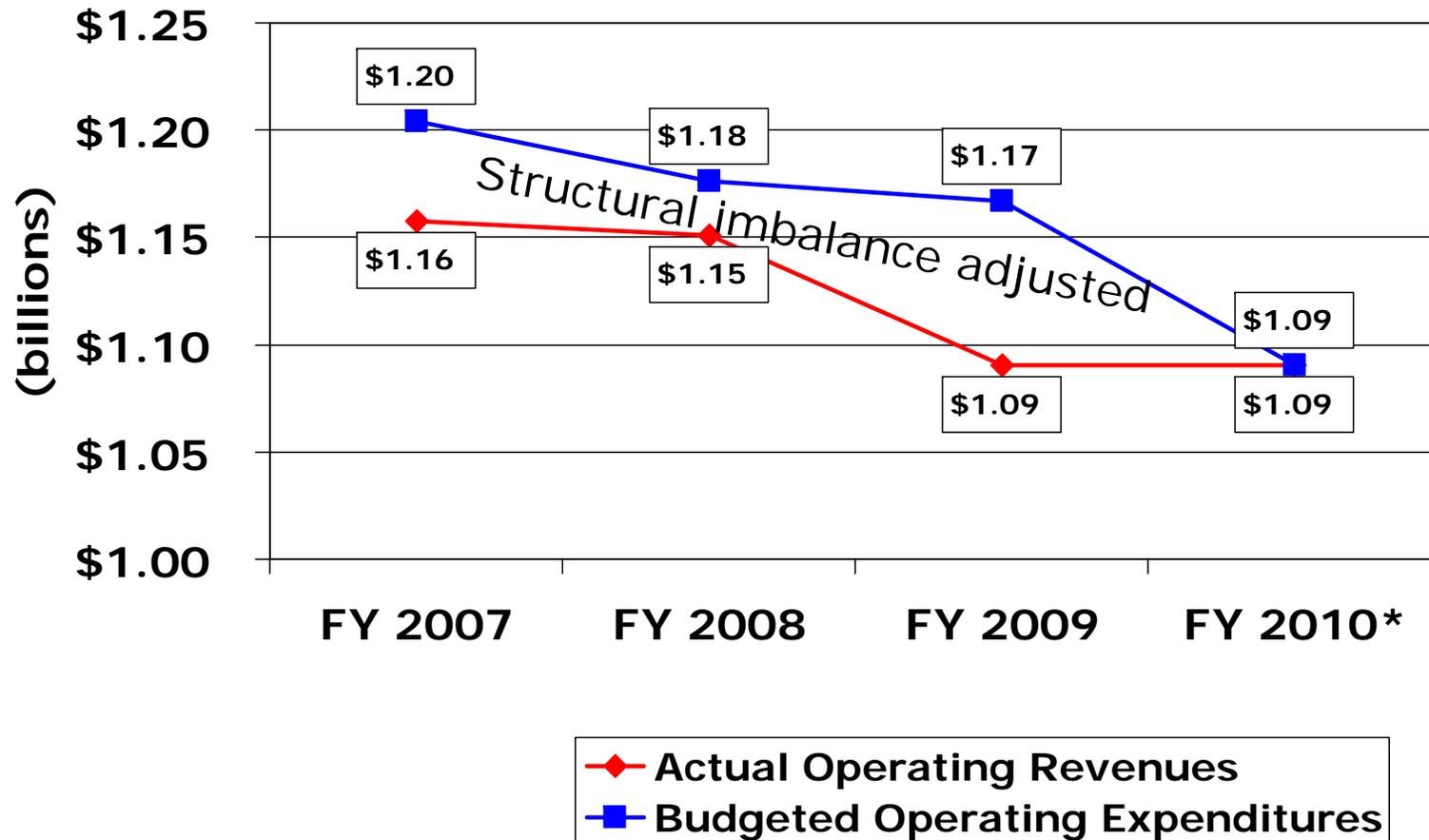
Does not reflect positions added through ARRA funding.

Staffing Reductions (FY 2008 – FY 2010)



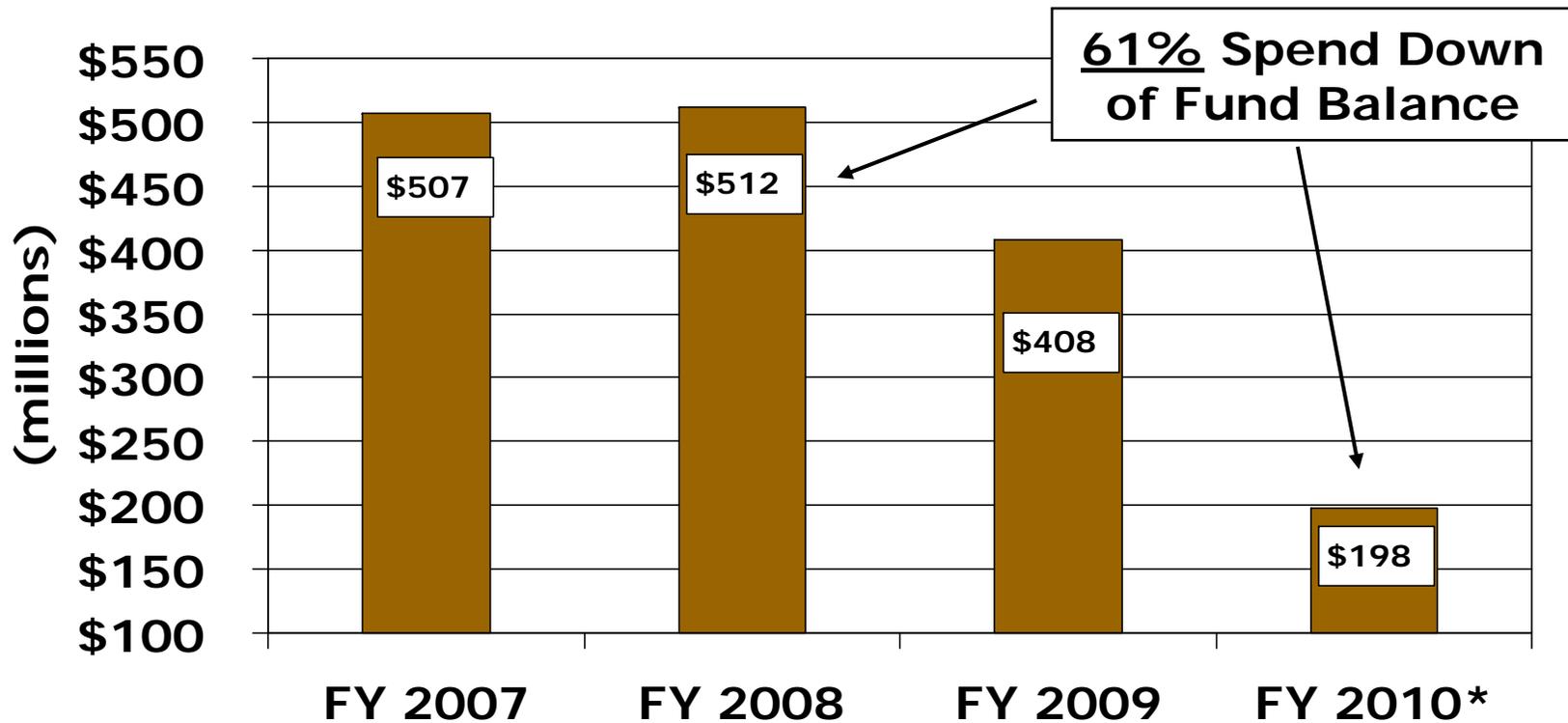
Total reduction of 1,441 FTEs, FY 2008 to FY 2010

Trend in General Fund Operating Revenues and Budgeted Expenditures



*FY 2010 Budget

Trend in General Fund Unreserved Balance



*FY 2010 Designated Fund Balance + \$10.2 million pick-up;
excludes \$27.4 million deferred Detention Fund transfer

Use of Reserves for Budget Balancing: Investments to Reduce Operating Costs

	Use of Fund Balance (millions)	Annual Operating Savings
<u>FY 2009:</u>		
Debt/Capital Lease Pay-Off	\$ 54.3	\$ 16.0
<u>FY 2010:</u>		
IT Capital Lease Pay-Off	\$ 24.0	\$ 12.4
Funding for CIP/Elim. Debt Service	21.0	5.4
Retirement Incentive Program	1.4	3.0
	<hr/>	<hr/>
	\$ 100.7	\$ 36.8

Moving Forward

- Stabilize – continue to use fund balance responsibly
 - Slim down services if revenue declines continue
 - Forecast continuously – adjust course as necessary to maintain structural balance
-

Impact of the ARRA on Budget Process

- Globally, Maricopa County did not approach potential ARRA as a budget-balancing strategy
 - Our budget was not balanced on ARRA funding, so we do not need an “exit strategy”
 - County budget reductions focused more on efficiencies rather than service reductions or eliminations
 - ARRA funding is allowing the County to expand services to our residents (particularly in areas where demand is heightened by the recession) and project investments
-