

General Fund 1st Quarter Results and FY 2009 Financial Outlook

Office of the Mayor
November 12, 2008

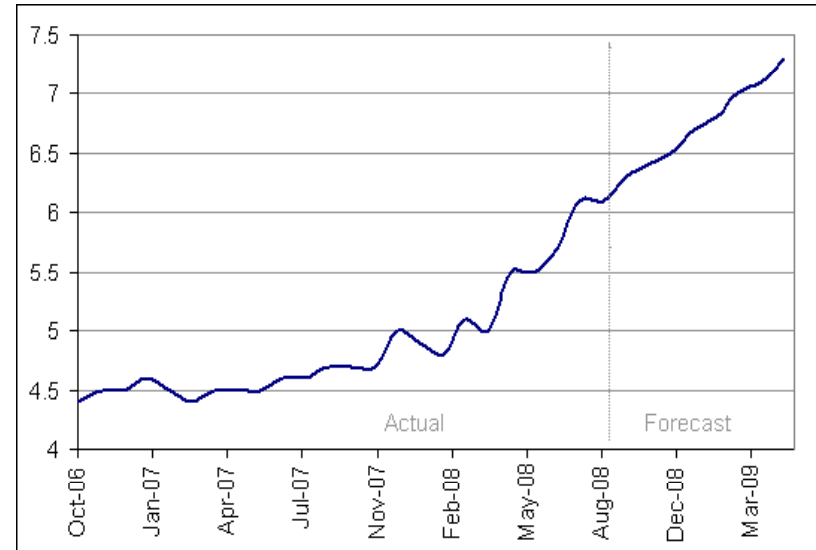
Agenda

- Executive Summary
- 1st Quarter Expenditure Results
- 1st Quarter Revenue Results
- Action Plan

Economic conditions are in steep decline

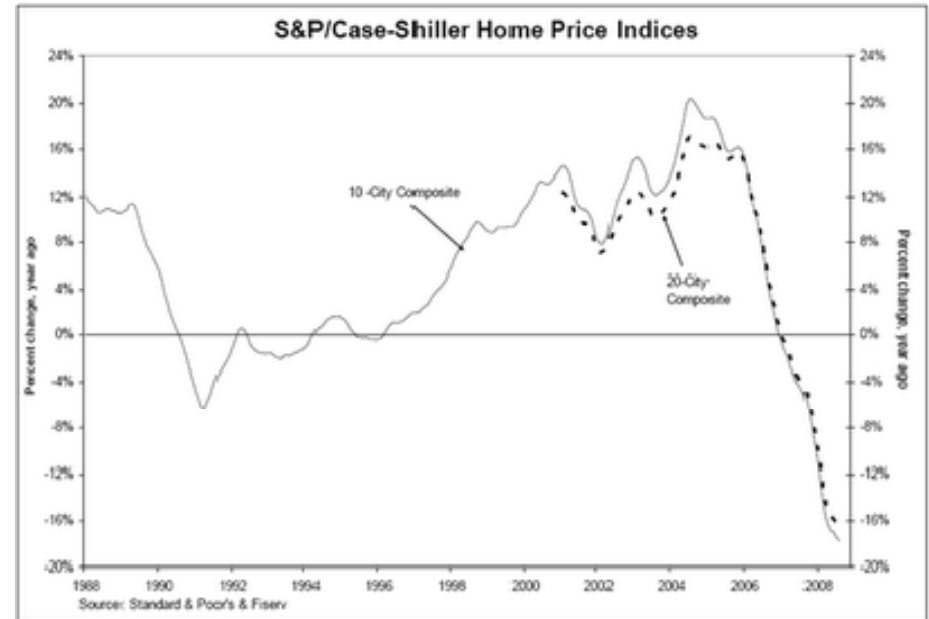
- Economy contracted at an annual rate of 0.3% in 3rd Q of 2008
 - Consumer spending down 3.1%, the first reduction in 17 years and worse than any time since the 1980 recession
 - Traffic in malls is down over 10%
- Projected national economic contraction of between 2-4% through the second quarter of 2009
- National unemployment rate projected to rise to 7.3% by second quarter of 2009
 - Unemployment in Georgia is 6.5% and is second only to Michigan in total job losses (22,500 in September alone)
- The national inflation rate has almost doubled in the last year, from 2.7% in September 2007 to 4.9% in September 2008
- Turmoil in the financial markets “will not end quickly” according to US Treasury Secretary Hank Paulson

Past and Projected National Unemployment Rate



Municipal finances are particularly vulnerable

- Sales tax revenues are threatened by declining retail sales
 - Conference Board's consumer confidence index fell to 38 in October, the worst reading since monthly records began in 1967
 - Personal income is down 1% since last year
- Property taxes are vulnerable to declining home values
 - Nationally, home prices are down over 18% in the past year
 - Metro Atlanta home prices are down nearly 9%; home sales are down 40% across the region
 - Over 13,000 homes currently in foreclosure in the City of Atlanta (over 6% of the non-rental housing stock)
- Hotel/Motel and Alcohol taxes will be hit by declines in tourist spending
 - Travel Industry Association predicts that in 2009 leisure travel will fall 1.3 percent nationally and business travel will decline 2.7 percent
- Building permits are down 38% nationally from last year; new housing starts are down 31% nationally, and 37% in Metro Atlanta (CoA down 20%).



70% of CoA revenues are derived from activities that are highly sensitive to the performance of the economy

Pain is already being felt in local governments across the country

City	Projected Deficit for FY 2009	% of Operating Budget	Proposed Actions
New York City	\$1.5 billion	3%	5% across the board cuts
Chicago	\$469 million	16%	Lay off 900 workers; eliminate 1,350 vacant positions, three furlough days by end of calendar year 2008
Oakland	\$42 million	9%	Monthly furloughs, eliminate 159 positions, hiring freeze
Phoenix	\$200 -250 million	17-22%	Police, fire, parks and libraries cuts, ranging from 15 to 60 percent
San Diego	\$43 million	4%	Across the board cuts, furloughs
Los Angeles	\$400 million	6%	6-9% across the board spending cuts
Philadelphia	\$108 million	6%	Close 11 libraries and 62 swimming pools, eliminate 820 positions, canceled plans to hire 200 police officers, 5 furlough days
Las Vegas	\$21 million	4%	Hiring freeze
San Francisco	\$70 -\$150 million	3%-6%	Service reductions being evaluated
King County/ Seattle	\$93 million	14%	237 layoffs, 10 furlough days
Gwinnett County	\$35 million	4%	93 jobs cut
Dekalb County	\$40 million	7%	Service reductions under consideration
Dekalb County Schools	\$20 million	3%	217 job cuts
State of Georgia	\$1.9 billion	9%	Across-the-board cuts being evaluated

The City of Atlanta's expenses are budget, but our revenues are significantly below plan

- We have controlled expenses effectively
 - General Fund expenses are 2% below budget (best estimate)
 - Fuel and utilities are slightly above budget
 - Personnel expenses are slightly below budget
- General Fund 1st quarter revenues are down by more than 12%
 - Sales tax revenues down over 3% (two month lag); property taxes down slightly
 - Economically sensitive revenue streams (aside from sales taxes) are down over 40%
 - Building permit revenue down nearly 60%
 - Licenses and permits down over 50%
- Based on 1st Quarter performance, we are projecting a revenue shortfall in the General Fund of between \$50 and \$60 million for FY2009
- Aviation revenues are holding up; hiring freeze in place in anticipation of revenue slow down
- Watershed Management is facing \$50 million issue due to revenue shortfall and increased debt costs; implementing cuts in projects, operational expenses and personnel

We need to take immediate action to solve the \$50-60 million projected revenue shortfall in the General Fund

- We propose dedicating \$12 million of reserves toward closing the gap
- We will implement a hiring freeze (effective immediately)
- We will implement a weekly furlough of 4 hours per week for all employees (target first pay period of December)
- Combined we expect the hiring freeze and furlough to generate between \$25 -30 million in savings
- These cost reductions - combined with the use of reserves - leaves an additional gap of between \$13-18 million
- I have asked the COO to develop – in conjunction with the operating departments – an action plan to achieve these savings
 - These cuts will almost certainly require service reductions
- All of these actions taken together will close the projected gap, and leave \$22 million in reserves for the remainder of the year
- We still intend to finish FY2009 in the black

Our 1st Quarter expenses are running under budget

Department	FY09 Funding Budget	FY 09 Projected 1st Q Expenses	Adjusted Actual 1st Q Expenses	Under/(Over) Variance Net of Savings	% Variance	Analysis/Risk Assessment
City Council	9,908,151	2,477,038	1,721,230	755,808	-31%	Includes \$3M carry forward
Executive Offices	17,689,822	4,776,252	4,723,059	53,193	-1%	
DIT	23,764,356	5,941,089	6,888,785	(947,696)	16%	Contract expenses
Law	5,857,146	1,464,287	1,424,889	39,398	-3%	
Corrections	37,939,838	9,484,959	8,264,831	1,220,128	-13%	Vacancies in Q1
Finance	11,039,345	2,759,836	2,723,691	36,145	-1%	
Procurement	1,021,555	255,389	194,735	60,654	-24%	
MSO	3,168,693	792,173	443,371	348,802	-44%	Start up expenses in public safety departmental budgets
Public Works	24,326,008	6,081,502	6,003,747	77,755	-1%	
DPRCA	29,331,252	7,039,501	7,362,501	(323,000)	5%	Utilities in recreation centers
Judicial Agencies	8,883,868	2,220,967	2,189,503	31,464	-1%	
Non-Departmental	124,929,946	24,985,989	24,985,989	0	0%	
Human Resources	3,242,389	810,597	811,610	(1,013)	0%	
Fire	73,852,795	18,463,199	18,386,305	76,894	0%	
Police	172,352,370	43,088,093	40,679,572	2,408,521	-6%	Vacancies in Q1
DPCD	13,684,543	3,421,136	3,475,532	(54,396)	2%	
Solicitor	1,678,544	419,636	618,893	(199,257)	47%	One time personnel costs associated with RIF payouts
Ethics	382,135	95,534	95,534	0	0%	Assumes on budget
CRB	311,635	77,909	3,000	74,909	-96%	APD covering start up expenses
Audit	1,027,878	256,970	256,970	0	-0%	Assumes on budget
Public Defender	1,322,819	330,705	330,787	(82)	0%	
Fleet Services Expense				(607,200)		Fuel and repairs overrun
Total	565,715,086	135,242,758	131,584,533	3,051,025	-2%	

Our 1st Quarter revenues are lagging by over 12%

Revenue Category	2009 Anticipation	1Q 5 Year Average %	1Q Budget Based on Anticipation	1Q Actual	Total Variance	Performance Variance	Timing Variance	% Performance Variance from Budget	Risk Assessment
Property Taxes	171,347,546	17.9%	30,671,211	25,144,673	(5,526,538)	(567,323)	(4,959,215)	-1.8%	Medium - assumes City receives \$12M of \$28M in revenues under appeal
Local Option Sales Tax	106,383,771	24.5%	26,064,024	25,254,789	(809,235)	(809,235)		-3.1%	High; economic downturn accelerating,
Hotel/Motel Tax	13,191,161	25.6%	3,376,937	3,102,256	(274,681)	(274,681)		-8.1%	High; tourism activity down
Public Utility Franchise	41,552,619	10.5%	4,363,025	3,645,511	(717,514)	(717,514)		-16.4%	Medium
Indirect Cost Recovery	37,425,973	21.7%	8,121,436	0	(8,121,436)		(8,121,436)	0.0%	Low; \$34mm transferred in FY 07
General Business License	41,569,271	9.6%	3,990,650	2,484,411	(1,506,240)	(753,120)	(753,120)	-18.9%	High; tied to companies gross receipts
Insurance Premium	22,525,161	0.0%	0	0	0	0		na	Low; timing of due date
Other Licenses/Permits	21,590,421	25.0%	5,397,605	2,561,141	(2,836,464)	(2,836,464)		-52.6%	High; directly impacted by slowing economy
Building Permits	18,502,414	24.5%	4,533,091	1,867,165	(2,665,926)	(2,665,926)		-58.8%	High; development activity stalled
Alcohol	14,746,256	27.5%	4,055,220	3,543,462	(511,758)	(511,758)		-12.6%	Medium; tied to drinking establishments
Fines/Forfeitures	15,499,166	20.4%	3,161,830	3,197,727	35,897	35,897		1.1%	Low; Red Light cameras performing well; parking expected to increase in January
US Marshal Lease	8,084,928	35.4%	2,862,065	1,121,424	(1,740,641)	(1,740,641)		-60.8%	Medium; usage by Marshals is down
Corrections Bed Leasing	4,800,000	25.0%	1,200,000	0	(1,200,000)	(488,515)	(711,485)	-40.7%	Medium, usage by Fulton and ICE is down
Intangible Recording Taxes	5,768,809	27.8%	1,603,729	982,439	(621,290)	(621,290)		-38.7%	High; less activity tied to credit crisis
Land and Building Rentals	2,194,106	20.5%	449,792	804,298	354,506	354,506		78.8%	Low; ahead of budget
Real Estate Transfer Taxes	2,035,337	34.9%	710,333	459,923	(250,410)	(250,410)		-35.3%	High; less real estate transactions occurring
Remaining Revenues	43,633,550	0	10,908,388	5,988,602	(4,919,786)	(2,220,906)	(2,698,880)	-20.4%	Medium; motor vehicle and Fulton County and ICE Leases
Total General Fund Revenues	570,850,490	19.5%	111,469,335	80,157,820	(31,311,516)	(14,067,380)	(17,244,136)	-12.6%	

Based on the 1st Quarter revenues, we are projecting a \$50-60 million revenue shortfall for FY2009

- Projection is based on an annualization of the \$14.1 million 1st Quarter revenue shortfall
- Assumes that 1st Quarter performance is repeated in the next three quarters and does not worsen
 - Deteriorating economic conditions makes this an optimistic assumption

In summary, we are taking steps to ensure we finish this year in the black

Summary of Action Plan (\$ in millions)

- Estimated Revenue Shortfall 50-60
- Dedicate \$12 million in reserves (12)
- Implement hiring freeze and furlough (25-30)
- Remaining Gap 13-18
- Identify and Implement Additional Cuts (13-18)
- Projected End-of-Year Gap 0