FIRST THINGS FIRST

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AGENDA ITEM:
FY12 Collections and Administrative Costs Account expenditures

CEO RECOMMENDATION(S):
- Accept the FY12 budget update and approves the $100k budget adjustment for facility improvements.

DETAIL:
Revenue (see attached charts)
Tobacco Tax Revenues:
Total FTF Tobacco revenues through February, for FY12 (to be used in FY13), continue to come in at average rates. FY12 collections continue to pattern more like FY09 and FY10 as opposed to FY11. As such, current estimates place tobacco collections more than $4 million above original projections.

At the June Board meeting, a formal FY12 collections estimate revision will be provided. This revision will be presented in conjunction with a formal 20 year modeling of tobacco tax revenues, conducted by the L. William Seidman Research Institute in the W.P. Carey School of Business at ASU. Together (along with revisions to Interest income projections) these will enable the board to consider revisions to both the FY13 budget and the overall sustainability model currently used in planning for out year budgets.

Interest Income Revenues:
Interest income continues to show relative stability this fiscal year and in comparison to last fiscal year.

However, the level of volatility in monthly bookings (as well as interest rate changes) seen in the last three fiscal years make historically based projections unreliable. In addition, based on Board direction earlier this fiscal year, FTF began shifting pooled cash to a new investment pool creating earnings volatility in the short-term.

As such, the best current predictor continues to be a simple algebraic calculation based on current receipts and the number of months remaining in the fiscal year. Such a calculation places total year end collections within the current $3 million budgeted, which was based on an assumption of just under a 0.7% APR on a $450 million cash balance.

Operation Expenditures (see attached table)
With eight months of FY12 booked, FTF has expended $8.2 million against the $14.1 million Administrative Account budget. As such, FTF administrative expenditures continue to track favorably. FTF has expended about 63% of its administrative budget compared to 66% of the fiscal year having passed.

Two line items that stand out when reviewing the attached table are "Internal Printing" and "One Time Expenditures". Both of these show current expenditures plus encumbrances exceeding the budget. It is anticipated these projected overages will ultimately be covered this year through one time savings in other line-items. The causes for these are as follow;

- "Internal Printing" overage is a result of FTF changing how printing is budgeted and separating the line-item out from "Other Operating". When this change was made a base line budget was established. In establishing this budget it was recognized that historical actual usage was much higher, and thus current year actuals for FY12 would likely exceed the budget and need to be covered from savings in the "Other Operating" line-item. It is expected the current year's experience will drive future budgets, and it was determined this approach would result in establishing a "truer" long-term budget since specific reporting would result in more conservative usage.
- "One Time" overage is primarily related to the unbudgeted costs associated with the preparation of the Race to the Top (RttT) grant application. The other factor still impacting this line-item relates to the summit, and an open PO which is not anticipated to be fully expended by year end but is being spent against as part of the planning for the upcoming summit.

Budget Adjustment:
In November FTF secured a revised lease for its space at 4000 Central in Phoenix. The revised lease agreement achieved a number of goals, but most significantly it

- Reduced the price per square foot cost by nearly $4 to $20/sqft,
- Provided 1 month of free rent in three fiscal years,
- Secured just over 2,300 new square feet, and
- Established a space improvements credit of $85K.

Over the life of this lease (which ends in FY16), FTF will save more than $280K in previously budgeted lease costs and have added space. This combined with the $85K space improvement credit means FTF will recognize $365K in benefit.

Included in this budget update is a request to draw down on current cash reserves within the Administrative Fund by $100K (recognizing these saving will be realized in later years), and for these to be combined with the $85K in credits so that:

- The newly acquired space can be renovated, tied into the older space and furnished.
- The reception area can be renovated.
- Two minor office renovations can be completed to allow for staff displaced by the other renovations to be relocated.

When these expenses (and the associated budget increase) are netted against the annualized savings, FTF will still realize over a $180K benefit to its operating budget.