

# MARICOPA COUNTY CITIZENS FINANCIAL CONDITION REPORT FISCAL YEAR ENDED JUNE 30, 2013



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Maricopa County Internal Audit

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## Maricopa County Shows Consistent Strength in Fiscal Year 2013

### Financial Highlights

Our Fiscal Year (FY) 2013 Citizens Financial Condition Report highlights the financial strength of the County's General Fund and other key financial indicators.

Maricopa County . . .

- Is the fourth largest county in the U.S.
- Has generally used "pay-as-you-go" financing for capital expenditures instead of incurring new debt.
- Has low long-term debt and liabilities.
- Has received strong long-term bond credit ratings from Standard & Poor's and Fitch.
- Compares favorably with other large western U.S. counties for key financial ratios.
- Has had smaller property tax revenues in recent years.
- Contributes to four employee retirement plans. Total plan funding levels range from 57% to 76%.

### About the Financial Condition Report

This edition of the Maricopa County Citizens Financial Condition Report provides information, trends, and comparisons on County financial topics including:

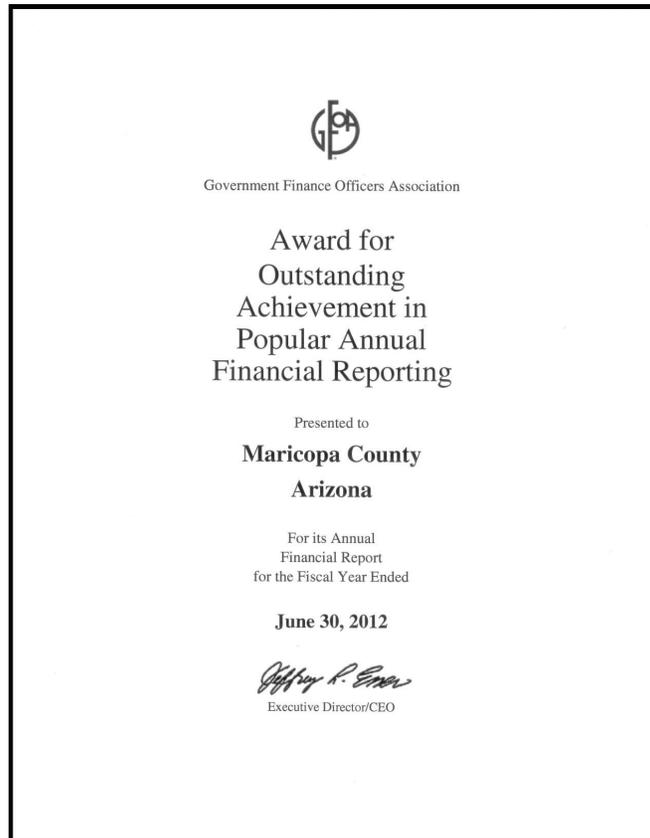
- General Fund Balance
- Cash and Investments
- Liquidity and Long-Term Debt
- Revenues and Expenditures
- Retirement Plans

The information contained in the report is based primarily on the County's FY 2013 Comprehensive Annual Financial Report issued in December 2013 by the Department of Finance.

# OUTSTANDING ACHIEVEMENT AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) has given the Award for Outstanding Achievement in Popular Annual Financial Reporting to Maricopa County for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2012.

The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



## Maricopa County Internal Audit Department

The **County Auditor** reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Maricopa County Citizen's Audit Advisory Committee.

The **Mission of the Internal Audit Department** is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

## Project Team Members

Eve Murillo, CPA, MBA, CFE, ITIL, Deputy County Auditor  
Stella Fusaro, CIA, CGAP, CFE, CRMA, Audit Supervisor  
Richard Chard, CPA

# MESSAGE FROM THE COUNTY AUDITOR

March 25, 2014

Denny Barney, Chairman, Board of Supervisors  
Steve Chucri, Supervisor, District II  
Andrew Kunasek, Supervisor, District III  
Clint Hickman, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V



We have completed the FY 2013 edition of the Maricopa County Citizens Financial Condition Report, which is part of our Board-approved audit plan. The information contained in this report is based primarily on the County's FY 2013 Comprehensive Annual Financial Report issued in December 2013.

For FY 2013, we again highlight the financial strength of the County's General Fund and other key financial indicators through graphic displays of trends and comparisons. In spite of national and local economic challenges in recent years, the County has been able to pay for significant building projects without incurring debt. Key financial indicators are strong and compare favorably with other large western U.S. counties.

In addition, we provide updated information on the state pension plans covering County employees. Public pension funds are experiencing fiscal challenges due to recent investment losses, high benefit payments, actuarial methods used in longevity projections, and insufficient employee and employer contribution rates.

We would like to commend the Board of Supervisors and County leadership for the conservative fiscal policies that have led to the County's strong financial condition highlighted throughout this report.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate". The ink is dark and the signature is written in a fluid, personal style.

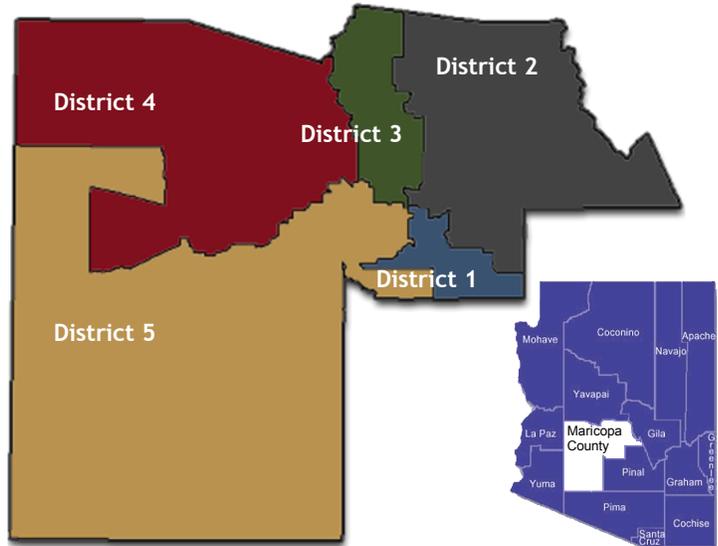
Ross L. Tate  
County Auditor

# MARICOPA COUNTY PROFILE

## Maricopa County

Maricopa County is located in the south-central area of the State of Arizona. Approximately 60% of the state's total population resides within the County, which includes the cities of Phoenix, Mesa, Tempe, Glendale, and Scottsdale.

Maricopa County operates under an elected Board of Supervisors, representing five districts divided geographically and by population to include a mix of urban and rural constituencies.



## Board of Supervisors



**Denny Barney**  
District 1



**Steve Chucri**  
District 2



**Andrew Kunasek**  
District 3



**Clint Hickman**  
District 4



**Mary Rose Wilcox**  
District 5

### History

Established in 1871, Maricopa was the fifth county to be formed in what was then the Arizona Territory.

### Size

At 9,225 square miles, Maricopa County is larger than several states, including Connecticut, Delaware, Hawaii, Massachusetts, New Hampshire, New Jersey, and Rhode Island.

### Population

Maricopa County is home to 3.9 million people, the 4<sup>th</sup> largest population in the nation after Los Angeles County (CA), Cook County (Chicago, IL), and Harris County (Houston, TX).

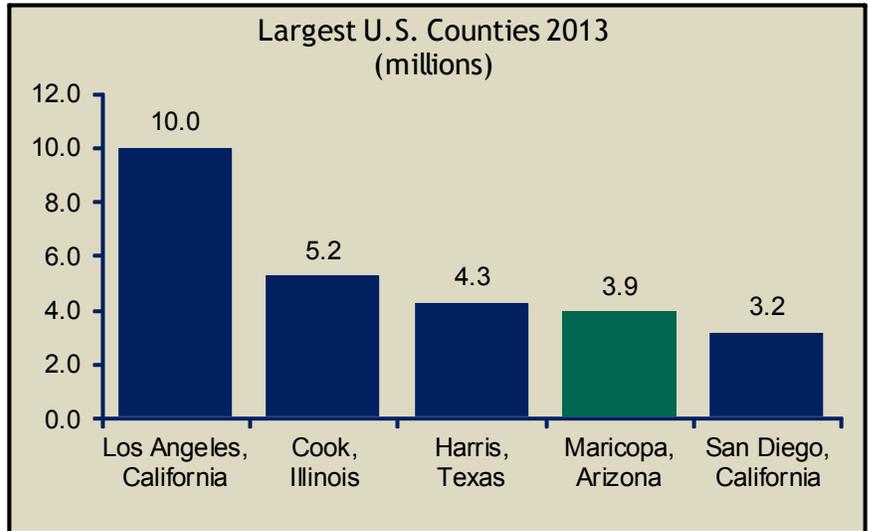
Although Maricopa County experienced rapid growth for many years, more recently, the estimated population has declined from its peak of 4.1 million in 2009.

The following page includes more information about population, staffing, and unemployment.

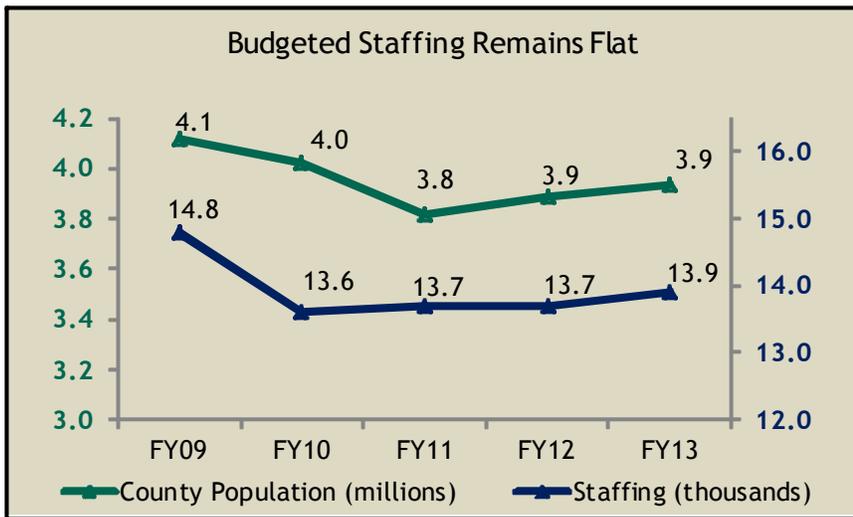
# POPULATION AND EMPLOYMENT

## Population Rank

Maricopa County is the fourth most populous in the nation. By FY 2009, Maricopa County reached a population of 4.1 million. During the recent recession, the County's population dropped to 3.8 million. The most recent estimates show a total population of 3.9 million.



## Budgeted Staffing Remains Flat

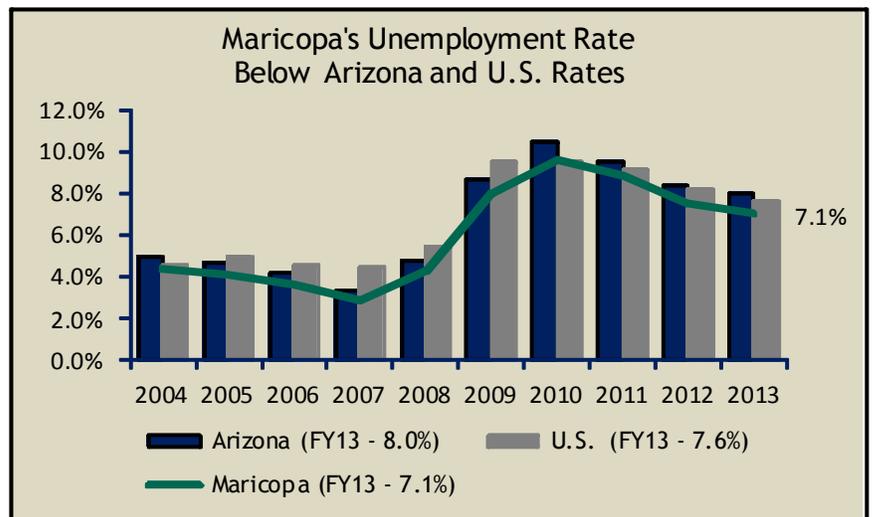


## Staffing

The County implemented hiring freezes for non-critical positions during the recent recession. Although economic indicators are improving and the hiring freeze has been lifted, the County has continued its conservative approach to staffing. Total staffing has decreased 6% since FY 2009.

## Unemployment

Maricopa County's unemployment rate has consistently remained below national and Arizona rates. Starting in 2009, unemployment increased significantly. By 2013, Maricopa County's unemployment rate was 7.1%, continuing a gradual reversal from its high rate of 9.6% in 2010.



# GENERAL FUND KEY INDICATORS

## General Fund Spendable Fund Balance Decreased

### General Fund

The General Fund is the primary operating fund used for all amounts not required to be accounted for in other funds.

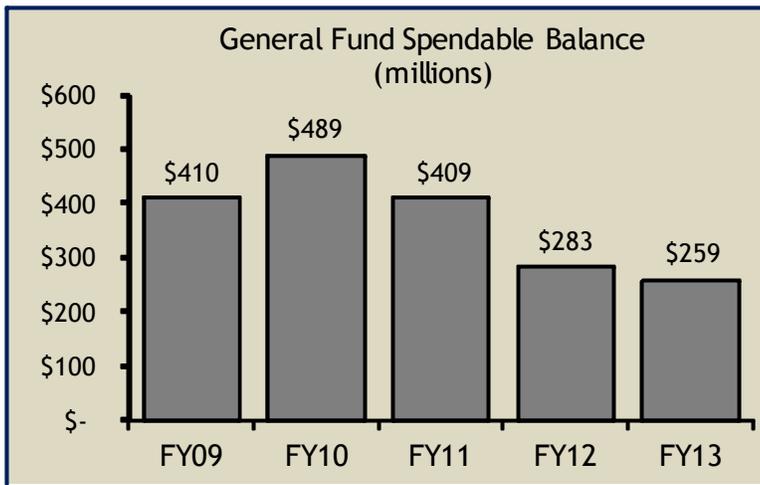
Over the years, Maricopa County has used the spendable balance for “pay-as-you-go” financing of capital assets.

### Non-Spendable and Spendable Amounts

The General Fund balance is classified as *spendable* or *non-spendable*.

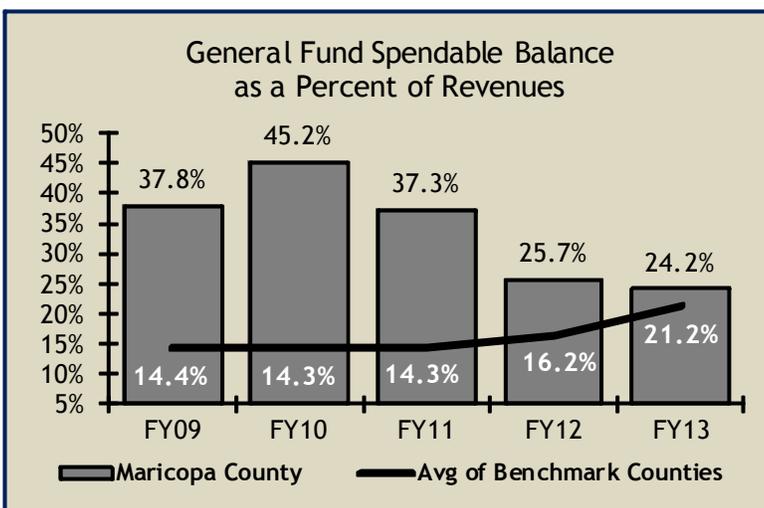
The *non-spendable* fund balance is comprised of non-cash assets, such as inventories or amounts that must remain legally intact.

The *spendable* fund balance is generally available for use. However, certain laws and contracts may impose restrictions on how the funds are used. In addition, the Board of Supervisors may commit portions of the fund for specific purposes such as capital projects. County management reports that \$230 million of the FY 2013 spendable balance has been assigned and budgeted in FY 2014, leaving \$29 million unassigned.



### General Fund Spendable Fund Balance as a Percent of Revenues

The County’s General Fund has maintained a strong spendable fund balance in relation to revenues, as compared to national benchmark averages (see page 13 for a list of benchmark counties). The FY 2013 spendable fund balance is shown below (total of restricted, committed, assigned, and unassigned amounts).



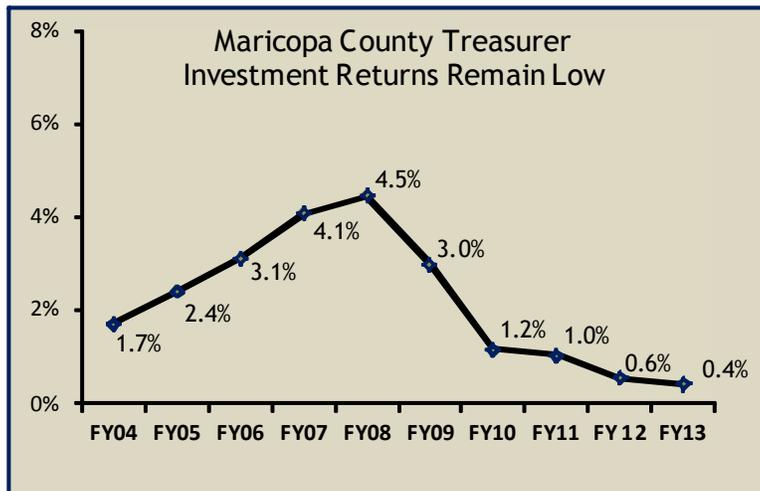
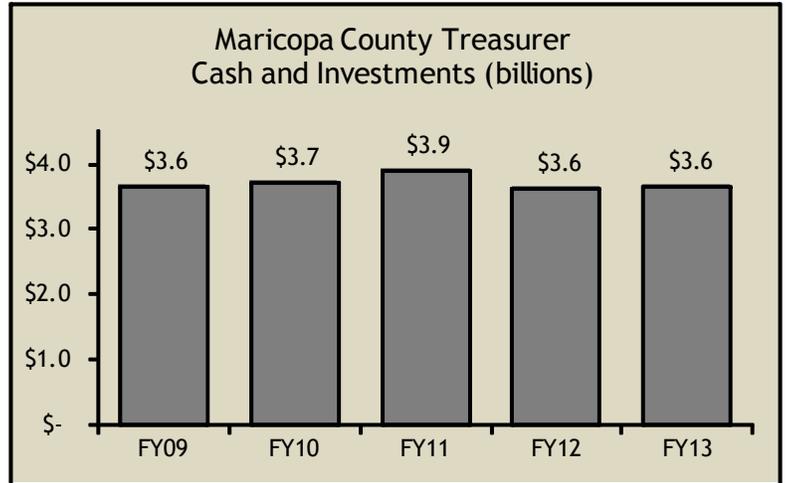
### Fund Balance Compares Favorably with Benchmarks

Prior to FY 2012, Maricopa’s spendable fund balance as a percent of revenues was significantly larger than benchmark averages. These balances reflect amounts Maricopa saved for capital projects such as the new Superior Court building, Sheriff’s Office headquarters, information technology infrastructure, and energy conservation. Even with such projects, Maricopa County still surpasses the benchmark average.

# CASH AND INVESTMENTS

## Cash and Investments are Stable

The County Treasurer pools deposits for the County, school districts, community colleges, and special districts. Total cash and investments held by the Treasurer has had little fluctuation over recent years.



## Investment Strategy and Returns

Cash investment strategy gives highest priority to:

- Safety of principal
- Liquidity sufficient to meet obligations
- Return on investment

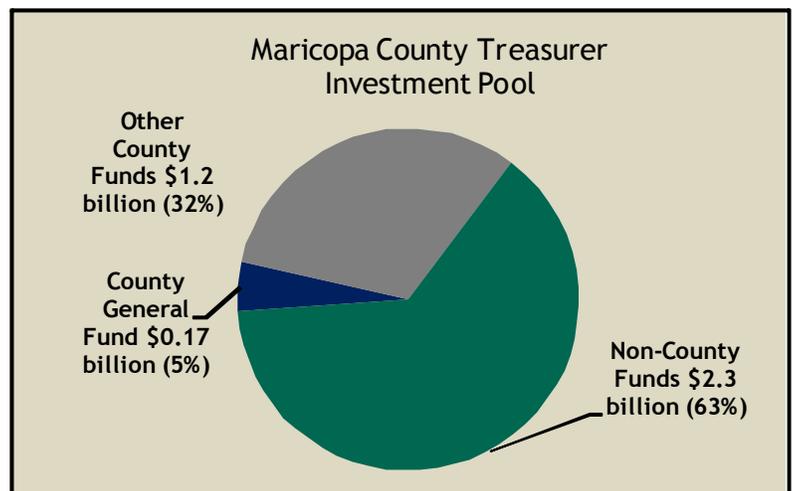
Investment returns fell to 0.4% in FY 2013 due to historically low interest yields. U.S. Government Agency securities are the County's primary investments.

## Most Cash is Non-County

Arizona statutes require the County, community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer.

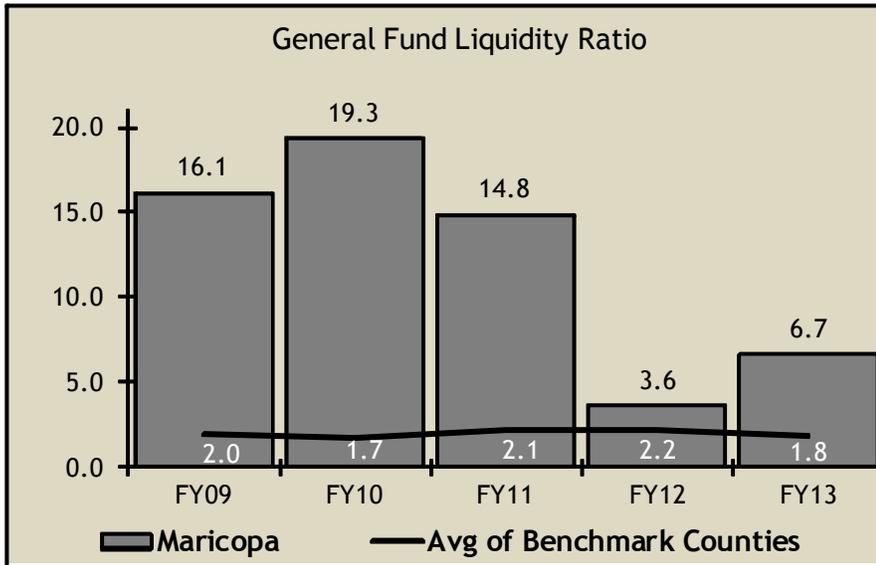
## County Treasurer Investment Pool

The Treasurer invests all idle monies not specifically invested for a fund or program into an investment pool.



# LIQUIDITY AND LONG-TERM DEBT

## Liquidity Decreased in Accordance with Planned Expenditures



### General Fund Liquidity Ratio

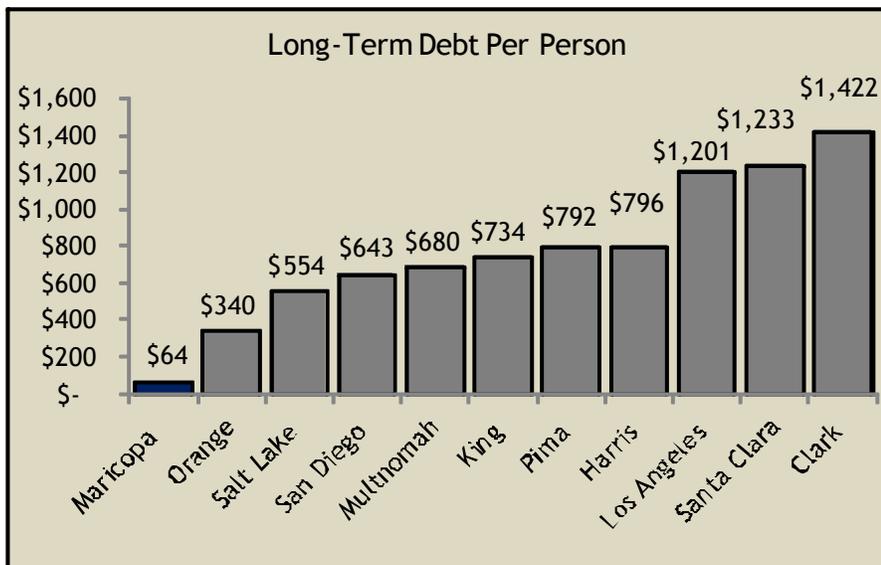
The liquidity ratio compares current assets and liabilities. It is a measure of the County’s ability to pay current obligations. Maricopa County continues to maintain a healthy liquidity ratio of almost 7 to 1. This means that \$6.70 is available in cash for every \$1 in current liabilities.

Long-term capital expenditures were paid in FY 2012 without incurring long-term debt. Liquidity improved in FY 2013.

## Long-Term Debt Per Person is Low Compared with Other Counties

Maricopa County has low debt when compared with benchmark counties. The low debt is the result of a conservative “pay-as-you-go” financing policy. The FY 2013 County long-term debt was \$64 per person. Bond rating firms Standard & Poor’s and Fitch have rated general obligation bonds as “AAA” (implied) and revenue bonds as “AA+”. The general obligation “AAA” rating is the highest possible. The rating is “implied” since no general obligation bonds are outstanding.

Counties with higher debt may provide services such as airports and utilities that Maricopa County does not provide. Some of these counties may provide municipal service levels that in Maricopa County are offered by incorporated cities. These differences may impact comparative debt levels.



### Long-Term Debt

Long-term debt includes liabilities and obligations expected to be paid in future years. These include revenue bonds, housing authority loans, special assessment debt with government commitment, claims and judgments, incurred but not reported liabilities, and landfill closure and post-closure liabilities.

# REVENUES AND EXPENDITURES

## Expenditures Exceed Revenues as Planned

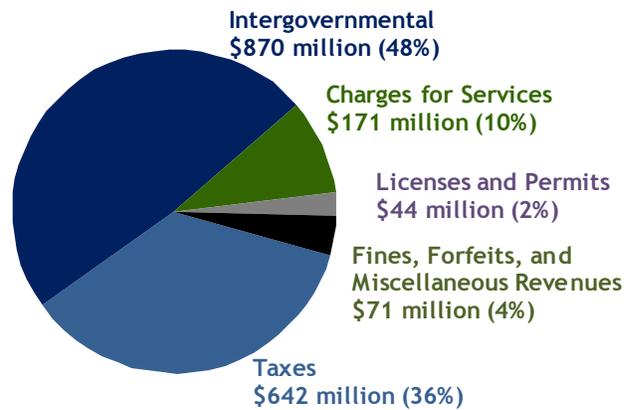


Maricopa County's conservative fiscal policies include pay-as-you-go financing for capital projects.

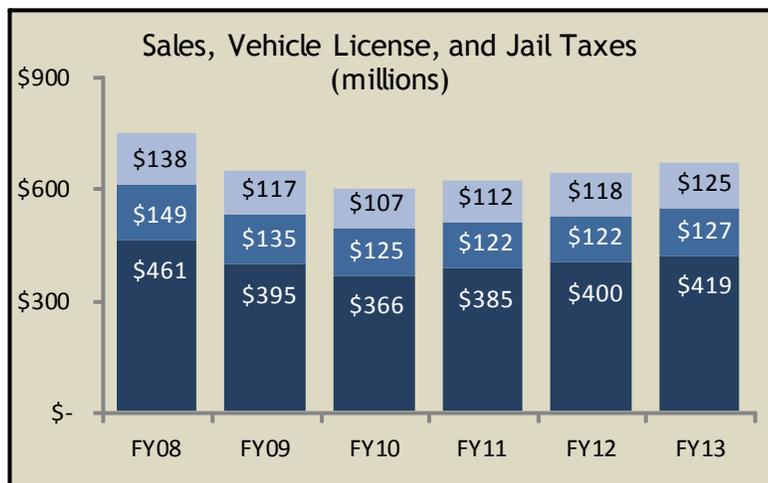
The excess of expenditures over revenues from FY 2011 through FY 2013 reflect building construction costs and other capital expenditures that were paid from revenues in prior years that had been held for future capital projects.

## Sources of County Funds

Most of the County's Governmental Fund revenues come from intergovernmental sources and taxes. Intergovernmental revenues, such as federal grants and state-shared revenues, accounted for 48% of revenues. County-generated tax revenues such as property, jail excise, and other small tax sources, accounted for 36% of governmental revenue.



## Tax Related Revenues are Improving



In FY 2013, Maricopa's three tax-related revenue sources increased over the prior year. However, the revenues are still substantially less than FY 2008.

FY 2008 to FY 2013 Decline	
Jail Excise	\$13 million ( 9%)
Vehicle License	22 million (14%)
State-Shared Sales	42 million ( 9%)
<b>Total Decline</b>	<b>\$77 million</b>

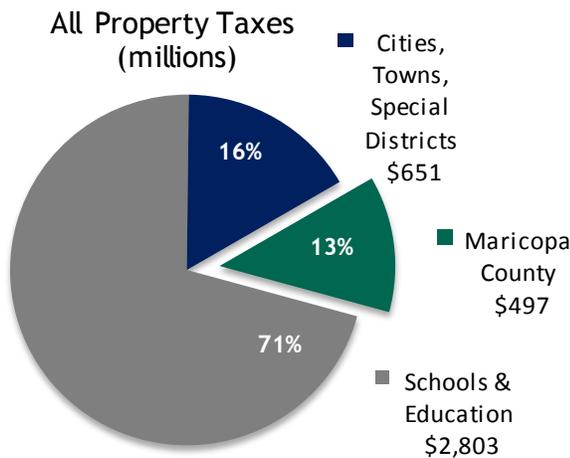
Note: Tax related revenues are distributed to the General Fund and various Special Revenue Funds.

# PROPERTY TAX REVENUES

Property taxes are a major source of revenue for Maricopa County local governments. Property taxes from many jurisdictions are combined into an annual bill that is payable in two installments. The Maricopa County Assessor determines the assessed value of property. Each unit of local government then applies a rate to assessed values in its jurisdictions to calculate revenues.

FY 2013 property taxes totaling \$4.0 billion were distributed to Maricopa County, schools, cities, towns, and special districts. The following chart shows that Maricopa County received 12.6% of each property tax dollar. Schools and Education received 70.9%, and Cities, Towns and Special Districts received 16.5%.

## Most Property Tax Dollars Go to Schools

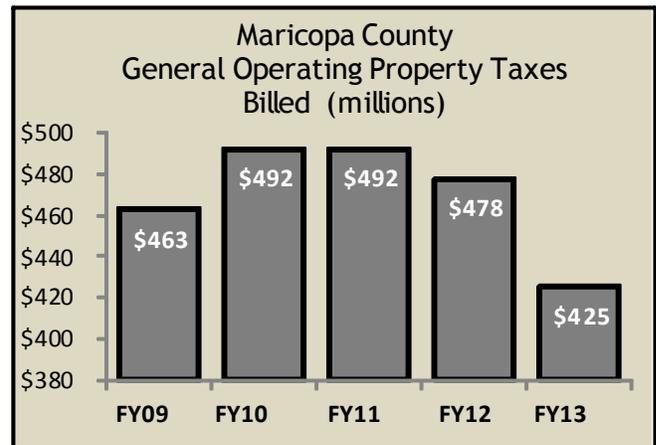
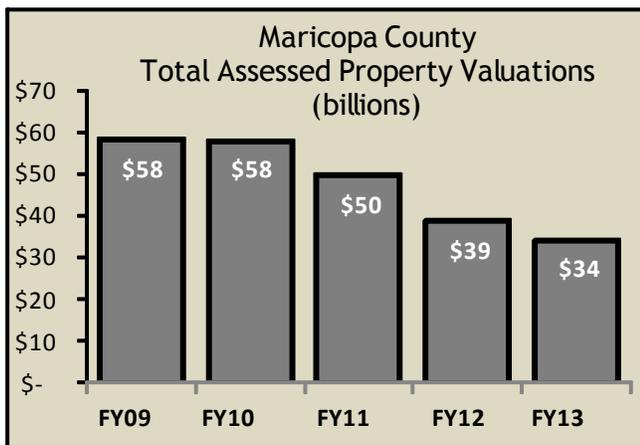


County Operating	\$425
Flood Control District	55
County Library District	17
<b>Total</b>	<b>\$497</b>

## Assessed Property Values and Taxes Have Decreased

Maricopa County controls tax rates for its general operating, flood control, and library funds. Over the past five years, assessed valuations have declined due to market conditions. During that period, total direct property tax rates ranged from 1.16% in FY 2010 to 1.47% in FY 2012 and FY 2013 (rounded). Although rates increased from FY 2010, tax revenues decreased with lower assessed values. In FY 2013, property tax rates were held at the FY 2012 rate.

The following charts show that assessed values declined \$24 billion from FY 2009 to FY 2013 and that general operating property taxes billed were \$67 million less in FY 2013 than in FY 2010 and FY 2011.

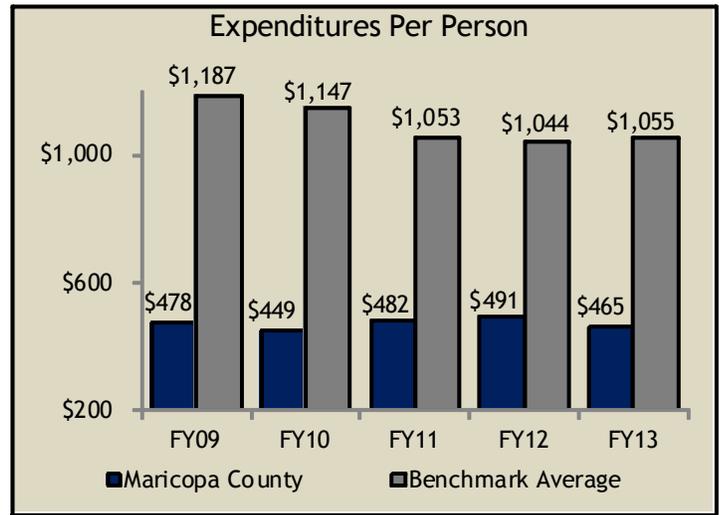


# EXPENDITURES

## Expenditures Per Person Remain Low Compared with Benchmark Counties

### \$465 Total Expenditures Per Person

Maricopa County has practiced conservative fiscal policies. Total FY 2013 expenditures for all governmental funds was \$465 per person. The per person average for 10 benchmark counties was \$1,055.



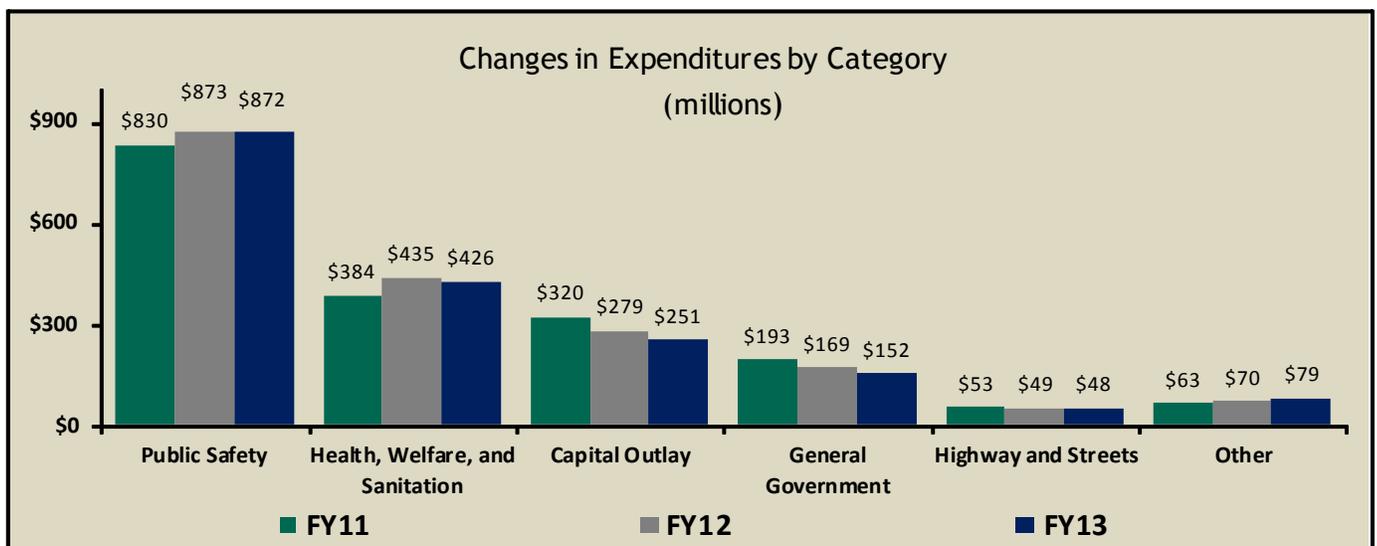
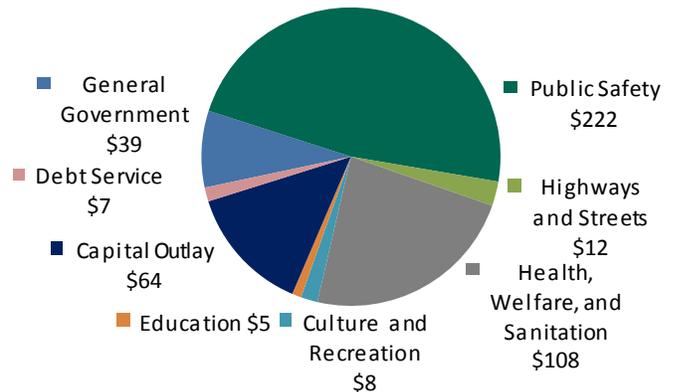
### Spending by Category

Public Safety received the largest share of appropriations. This category includes law enforcement, courts, probation services, criminal prosecutions, and defense.

Health, Welfare, and Sanitation received the next largest share of appropriations. Examples of this category include public health clinics, human services, air quality regulation, and restaurant health inspections.

General Government received the third largest share of appropriations. Examples of agencies in this category include Elections, Treasurer, Finance, Assessor, and Recorder.

Expenditures Per Person by Spending Category - \$465



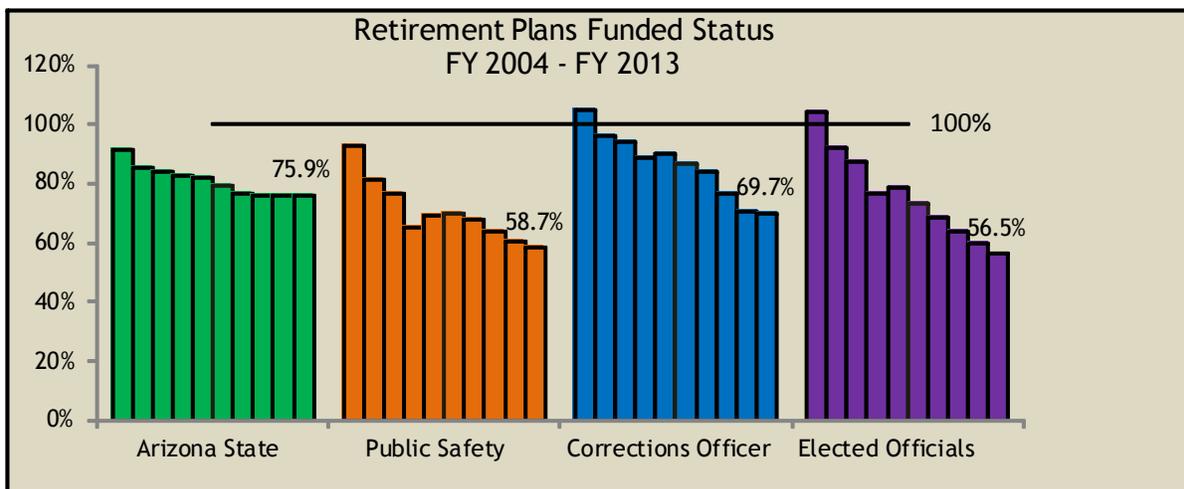
# RETIREMENT PLANS

## Retirement Plans Remain Underfunded

The County contributes to four retirement plans: (1) the Arizona State Retirement System, (2) the Public Safety Personnel Retirement System, (3) the Corrections Officer Retirement Plan, and (4) the Elected Officials Retirement Plan. The plans provide retirement, long-term disability, and health insurance premium benefits as established by state statute. Each is a multi-employer plan administered independently of Maricopa County. Maricopa County and its employees contribute to the plans in accordance with plan requirements. The following table summarizes each plan.

Retirement Plans Comparison FY 2013					
Retirement Plan	Funding Status	Statewide Unfunded Liability	County Employees	Contribution Rates	
				Employee	Employer
Arizona State Retirement System	75.9%	\$10.0 Billion	8,749	11.14%	11.14%
Public Safety Personnel Retirement System	58.7%	\$4.4 Billion	612	9.55%	30.43%
Corrections Officer Retirement Plan	69.7%	\$677 Million	3,099	8.41%	10.84%
Elected Officials Retirement Plan	56.5%	\$270 Million	216	11.5%	20.87%

A key measure of a retirement plan’s health is its funding ratio, derived by comparing assets to liabilities. A pension plan whose assets equal its liabilities is 100% funded, or fully funded. A plan with assets that are less than its liabilities is considered to be underfunded, or in a deficit position. Although Maricopa County is not directly liable for funding deficits, the County and its employees are affected by contribution rates that may adjust periodically to compensate for investment returns and operating cash flows. The following graph summarizes funding level trends of each plan over the past 10 years.



# METHODOLOGY AND SOURCES

## Definition

Financial condition is defined as a local government's ability to finance services on a continuing basis. A county in good financial condition can sustain existing services to the public, withstand economic downturns, and meet the demands of changing service needs.

## Objective, Scope, and Methodology

The objective of this report is to evaluate Maricopa County's financial condition using key financial indicators. The indicators included trends and ratios commonly used by financial analysts.

Our primary information sources were the audited Comprehensive Annual Financial Reports (CAFR) issued by 10 national benchmark counties and Maricopa County. Our analysis did not include the non-major governmental funds. Below are the benchmark counties that were used in this report.



<u>Benchmarks</u>	<u>Est. 2012 Population</u>	<u>Major Metro Area</u>
Clark	2,008,654	Las Vegas
Harris	4,253,700	Houston
King	2,007,440	Seattle
Los Angeles	9,964,000	Los Angeles
Multnomah	748,445	Portland
Orange	3,081,804	Santa Ana/Anaheim
Pima	996,670	Tucson
Salt Lake	1,063,842	Salt Lake City
San Diego	3,150,178	San Diego
Santa Clara	1,842,254	San Jose

Other sources include: the Arizona State Retirement System, the Public Safety Personnel Retirement System, the Corrections Officer Retirement Plan, and the Elected Officials Retirement Plan CAFRs and actuarial reports, U.S. Census Bureau, Governmental Accounting Standards Board, International City/County Managers Association, Government Finance Officers Association, Maricopa County's Strategic Plans (budgetary documents), and correspondence with internal and external staff.

## Maricopa County CAFR

Maricopa County's FY 2013 CAFR and prior year CAFRs are available by visiting the Maricopa County Department of Finance website at: <http://www.maricopa.gov/Finance/CAFR.aspx>. These CAFRs will provide additional detail on the content presented in this report.

