

CITIZENS FINANCIAL CONDITION REPORT

MARICOPA COUNTY

JANUARY 2010



Maricopa County Internal Audit

301 W. Jefferson, Suite 660

Phoenix, AZ 85003

(602) 506-1585

www.maricopa.gov/internal_audit

In This Issue

Maricopa County Basics	2
Economic Outlook	3
General Fund Key Indicators	4
Liquidity & Long Term Debt	5
Revenues & Expenditures	6
Revenues—Budget to Actual	8
Property Taxes	9
Cash & Investments	10
Net Assets	11
Retirement Plans (ASRS)	12
Population and Unemployment	14
Methodology & Sources	15

Financial Highlights

Our Fiscal Year (FY) 2009 Citizens Financial Condition Report highlights the financial strength of the County's General Fund within the context of population growth that led the nation and severe financial challenges facing the national and local economy.

Here are some of the report highlights:

- Conservative fiscal policies have guided spending and ensured that expenditures did not exceed revenues.
- The General Fund unreserved fund balance remained healthy.
- Key County financial indicators compared very favorably to national benchmarks.
- County net assets, an indicator of whether the County's long term financial health is improving, continued to increase.
- Funding for the County's primary employee retirement plan decreased slightly.

About the Financial Condition Report

The FY 2009 edition of the Maricopa County Citizens Financial Condition Report is based primarily on the County's FY 2009 Comprehensive Annual Financial Report issued December 2009 by the Department of Finance.

This work, which is part of our approved audit plan, provides information, trends, and comparisons on County financial topics including the following:

- Revenues and Expenditures
- Cash and Investments
- Long Term Debt and Liquidity

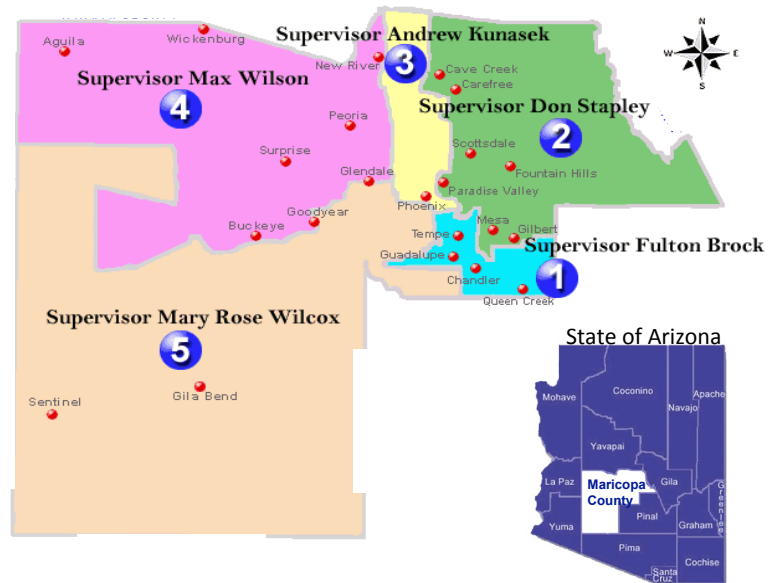


MARICOPA COUNTY BASICS

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 a five member elected Board of Supervisors representing five districts divided geographically and by population to include a mix of urban and rural constituencies.



Board of Supervisors



Fulton Brock
District

1



Don Stapley
District

2



Andrew Kunasek
District

3



Max Wilson
District

4



Mary Rose Wilcox
District

5

Financial (Source: Maricopa County FY09 CAFR)

As of June 30, 2009, the elected County Treasurer held \$3.6 billion in cash and investments on behalf of the County, special districts, and school districts.

The County received \$1.8 billion in revenue during FY 2009.

The unreserved General Fund balance exceeded \$410 million in FY 2009, down \$102 million from the previous year, but still higher than fiscal years 2000 to 2004.

History (Source: Maricopa County website)

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

Population (Source: Maricopa County CAFR & U.S. Census Bureau)

Maricopa County is home to 4 million people, the 4th largest population in the nation after Los Angeles County (California), Cook County (Chicago, Illinois), and Harris County (Houston, Texas).

The County's population grew by 882,449 from July 2000 to July 2008, the biggest population increase in the nation (2009 data unavailable).

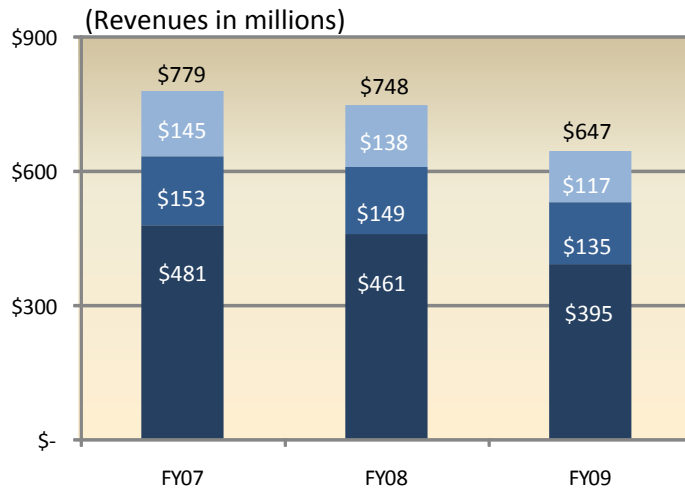
Size (Source: Maricopa County CAFR & FY10 Adopted Budget)

At 9,224 square miles, Maricopa County is larger than several states, including Connecticut, Delaware, Hawaii, Massachusetts, New Hampshire, New Jersey, Rhode Island, as well as the District of Columbia.



ECONOMIC OUTLOOK

County Revenue Sources Decreased



Since FY 2007, three of the four major County revenue sources, state shared sales, vehicle license, and jail excise taxes, have experienced significant declines. Shown below are dollar and percentage declines since FY 2007.

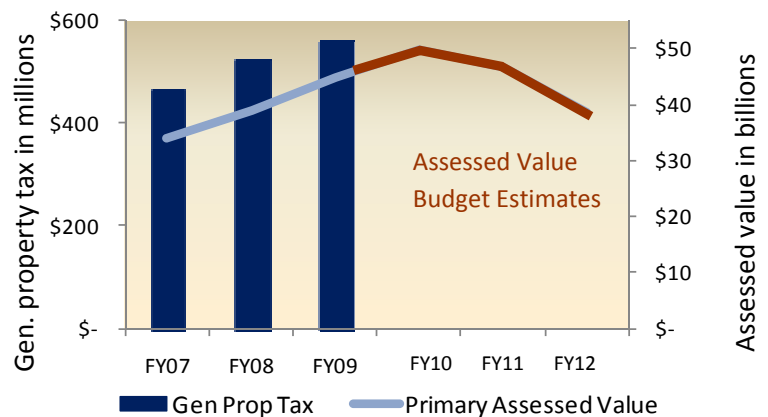
Jail Excise:	\$ 29 million	20%
Vehicle License:	\$ 18 million	12%
State Shared Sales:	\$ 85 million	18%
Total decline:	\$132 million	

SOURCE: "Tax Revenues by Source" (Statistical Section Maricopa County CAFR)

Property tax revenues continued to increase during the current recession, offsetting the other revenue declines shown above. However, there is a two year lag between the time property values are assessed and the County Assessor's valuations used to set the tax rate.

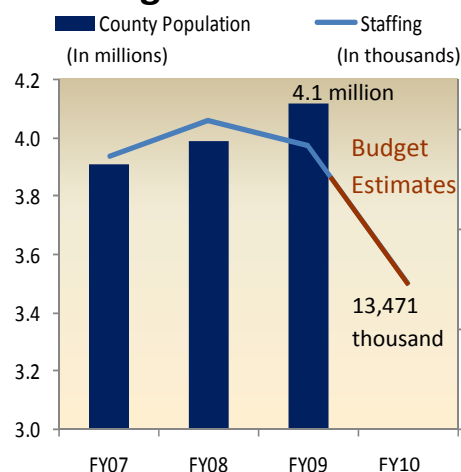
With the current decline in Maricopa County housing values, property tax revenues could also see declines starting in FY 2011 if tax rates are not increased.

Property Tax Revenues Increased



SOURCE: "Tax Revenues by Source" (Statistical Section Maricopa County CAFR) & OMB Budget Documents

Staffing Levels Down

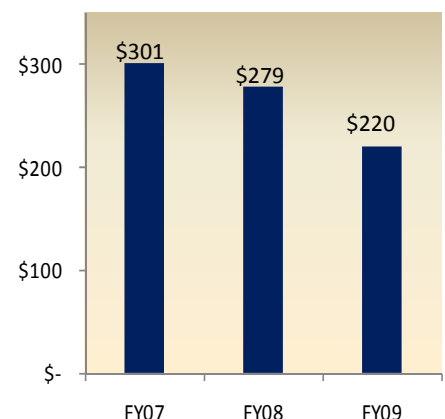


SOURCE: Maricopa County CAFR & FY10 Adopted Budget

Conservative budget strategies kept the County financially healthy despite Arizona's economic turmoil. To offset revenue declines, the County:

- Implemented a hiring freeze and reduced staffing (left)
- Canceled or delayed most capital improvements (right)

Capital Outlay Slowed

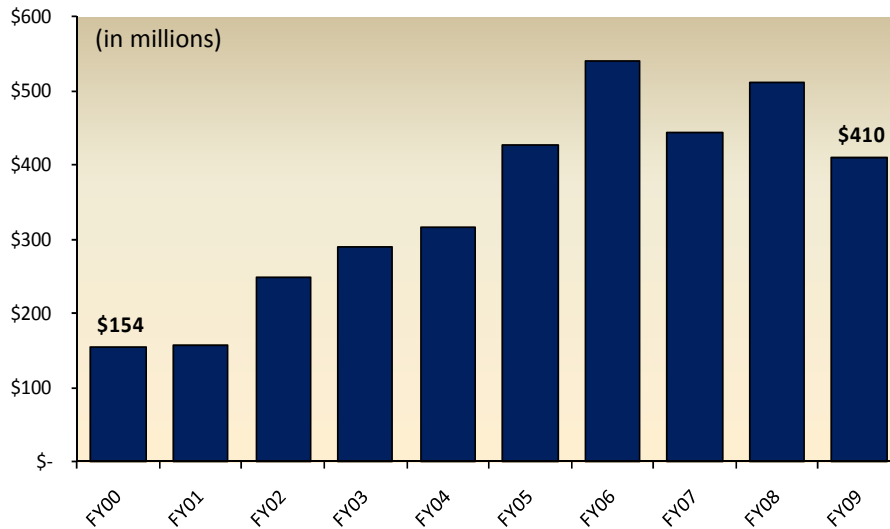


SOURCE: Maricopa County CAFRs



GENERAL FUND KEY INDICATORS

Unreserved General Fund Balance Remains Healthy



SOURCE: "Governmental Funds Balance Sheet" (Maricopa County CAFRs)

The Unreserved General Fund Balance

The Unreserved General Fund Balance represents funds available to meet current and future financial needs. A significant portion is designated for various purposes including covering the self-insured benefit program and smoothing fluctuations in tax cash collection cycles.

During FY 2009 the unreserved fund balance fell \$102 million (nearly 20%). This decrease is primarily due to transfers into the General Improvements Fund and

payments made to reduce outstanding debt levels. Conservative budget strategies and revenue estimates have resulted in a healthy fund balance. However, weaknesses in the local economy may further reduce the fund balance if revenues continue to decrease.

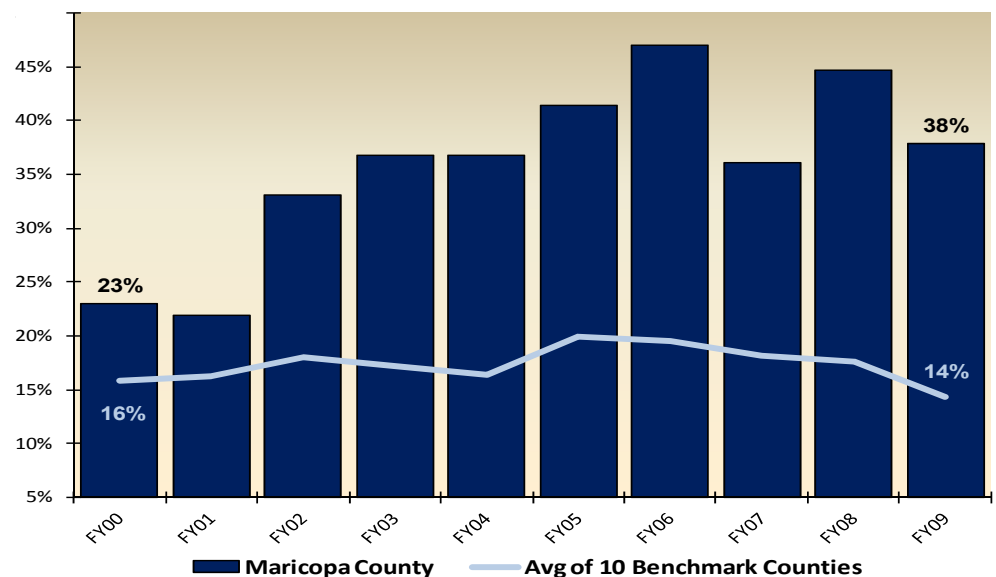
General Fund Balance as a Percent of Revenues

For over ten years, Maricopa County's General Fund has maintained a healthy fund balance in relation to revenues, and surpassed the national benchmark average (see page 15 for a list of benchmark counties).

This graph reflects the availability of financial reserves to meet unforeseen needs.

Credit rating agencies review the health of a government's unreserved fund balance when assessing credit worthiness. Maricopa County's high percentage of unreserved General Fund balance, when compared to revenues, could lower the County's cost of borrowing money.

Fund Balance Compares Well to Benchmarks

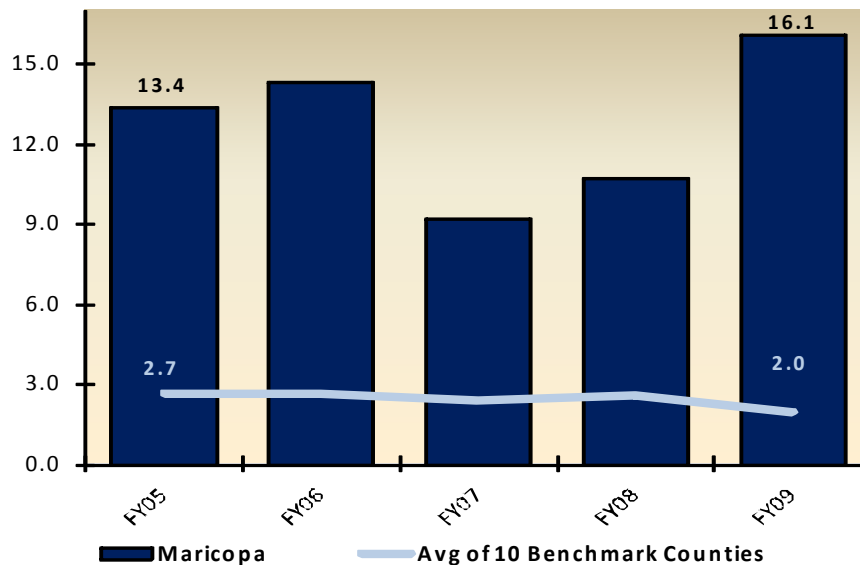


SOURCE: "Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds" (Maricopa & Benchmark County CAFRs)



LIQUIDITY & LONG TERM DEBT

General Fund Liquidity Increased



Liquidity Ratio

The liquidity ratio is a measure of the County's ability to pay current obligations, comparing assets with liabilities.

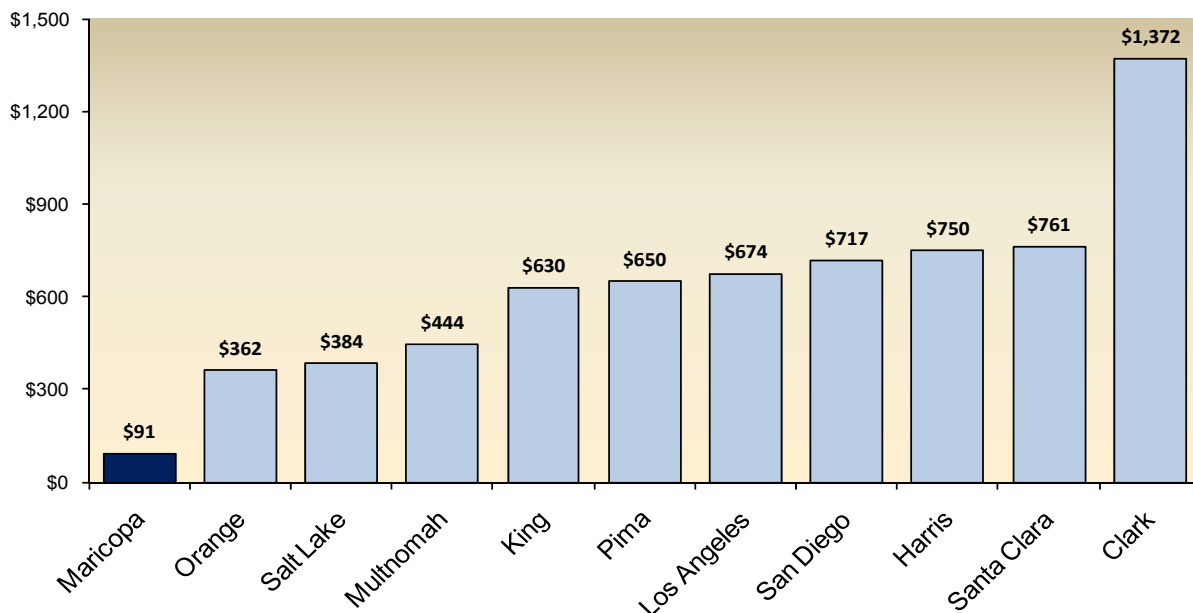
Maricopa County continues to significantly outperform the national benchmark average with a liquidity ratio of almost 16-to-1. This means that there are ample funds, \$15.80 available in cash, to pay every \$1 in current liabilities.

SOURCE: Audit Analysis of "Governmental Funds Balance Sheet" (Maricopa & Benchmark CAFRs)

Long Term Debt

Maricopa County has extremely low debt levels compared to the national benchmark average. The County's low debt is the result of a conservative "pay as you go" policy. In FY 2009, the County's long term debt was less than \$100 per person.

Long Term Debt Per Person Is Low Compared to Benchmarks



SOURCE: Maricopa County LTD for Governmental Activities "Note 13— "Long Term Liabilities" and Benchmark CAFRs



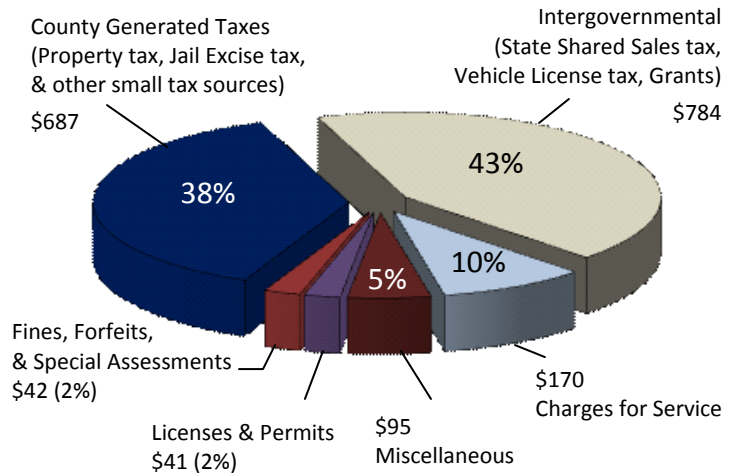
REVENUES & EXPENDITURES

Sources of County Funds (in millions)

The majority of the County's Governmental Fund revenues come from intergovernmental sources (43%) and taxes (38%).

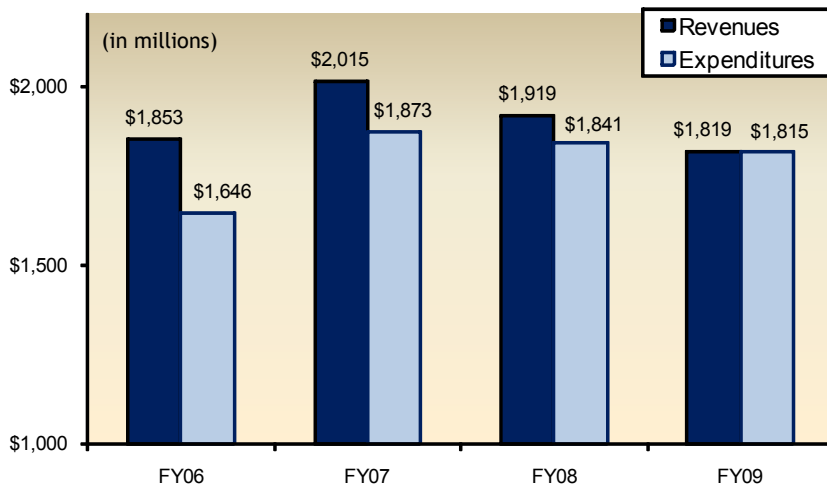
Intergovernmental revenues are funds received from federal, state and other local government sources in the form of shared revenues, grants, and payments in lieu of taxes.

County generated tax revenues such as property, jail excise, and other small tax sources, accounted for nearly 38% of the County's total governmental revenue.



SOURCE: "Statement of Revenues, Expenditures, & Changes in Fund Balances Governmental Funds" (Maricopa County CAFR)

Expenditures Reduced to Match Revenues



SOURCE: "Statement of Revenues, Expenditures, & Changes in Fund Balances Governmental Funds" (Maricopa County CAFRs)

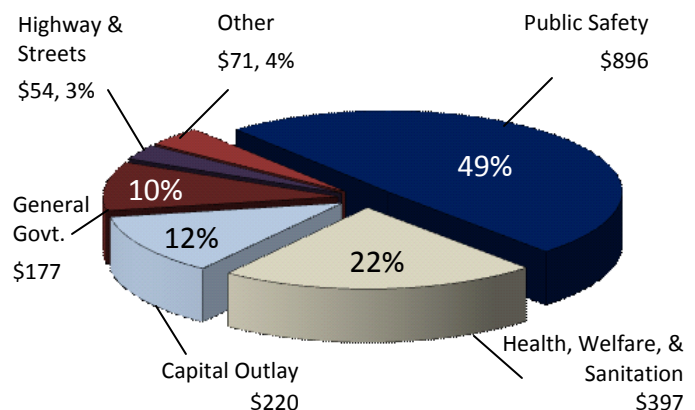
In FY 2009, Governmental Fund revenues decreased by \$99.6 million, or 5%, to \$1.8 billion.

Much of this revenue decrease was due to a decrease in jail excise tax revenues of \$21 million and in distributions from the State of Arizona for shared sales tax of \$66 million. However, additional property tax revenues of \$33 million helped offset some of these revenue decreases.

To match revenue decreases, the County reduced expenditures by more than \$25 million (discussed in more detail on page 7).

Uses of County Funds (in millions)

Over 70% of FY 2009 Governmental Fund expenditures were for public safety (49%) and health and welfare (22%), with the remaining used for general government (10%), capital outlay (12%), highways (3%), and other uses (4%). General Government consists of a broad range of legally mandated services including elections, property assessment, revenue and expenditure accountability, and legal representation for the County.

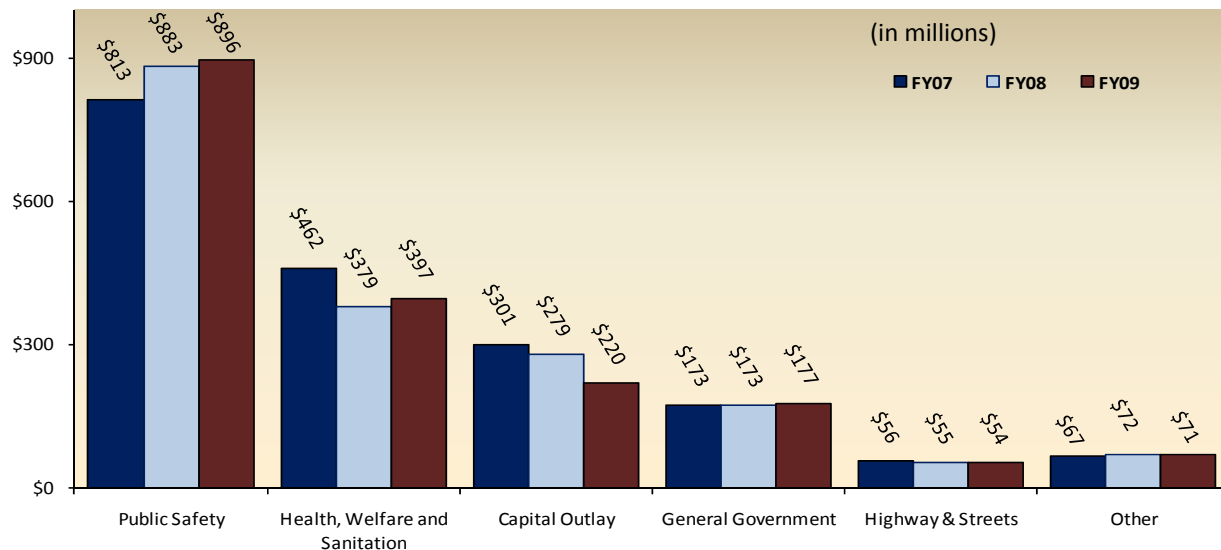


SOURCE: "Statement of Revenues, Expenditures, & Changes in Fund Balances Governmental Funds" (Maricopa County CAFR)



EXPENDITURES

Public Safety Expenditures Increased (FY 2007—FY 2009)



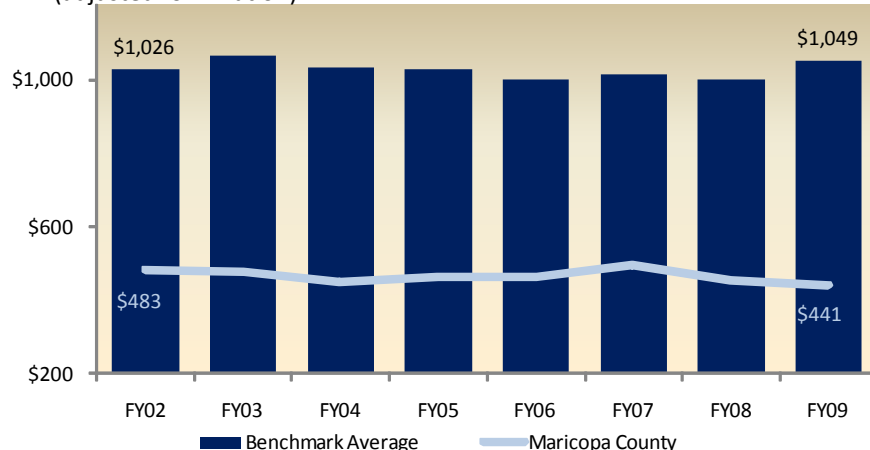
SOURCE: "Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds" (Maricopa County CAFR)

Changes in Expenditures by Category

Since FY 2007, Governmental Fund expenditures decreased by \$58 million (3%). Significant decreases were capital outlay, decreasing \$81 million (27%), and health, welfare, and sanitation, decreasing \$65 million (14%). The capital outlay decrease is due to the completion of some capital projects and a capital purchasing freeze. The health, welfare, and sanitation decreases were due to the elimination of the disproportionate share revenue, which now goes directly to the Maricopa County Special Health Care District, a separate legal entity. These revenues were previously passed through the County to compensate the special health care district for treatment of low income populations. Increases in public safety expenditures offset some of the decreases, public safety increases are due to court and justice related personnel and salary increases occurring in FY 2008 and one-time payments to help the State as part of its 2009 budget balancing initiatives.

Expenditures Per Person Are Relatively Low

(adjusted for inflation)



SOURCE: Audit Analysis of "Changes in Fund Balances, Governmental Funds" & "Population statistics" (Statistical Section Maricopa County & Benchmark CAFRs)

Expenditures Per Person

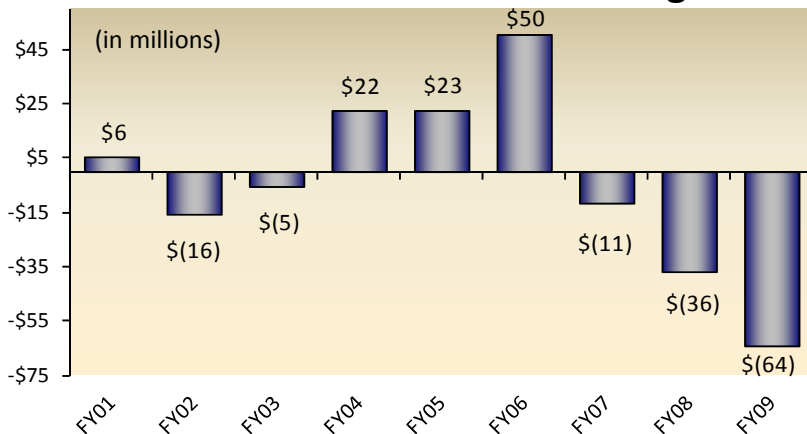
Similar to the national benchmark average, Maricopa County governmental expenditures per person have remained consistent over the past eight years.

For FY 2009, Maricopa County's \$441 expenditures per person were \$25 dollars, or 5.4%, below the County's eight year average of \$466 per person.



REVENUES—BUDGET TO ACTUAL

Sales Tax Revenues Fall Short of Budget



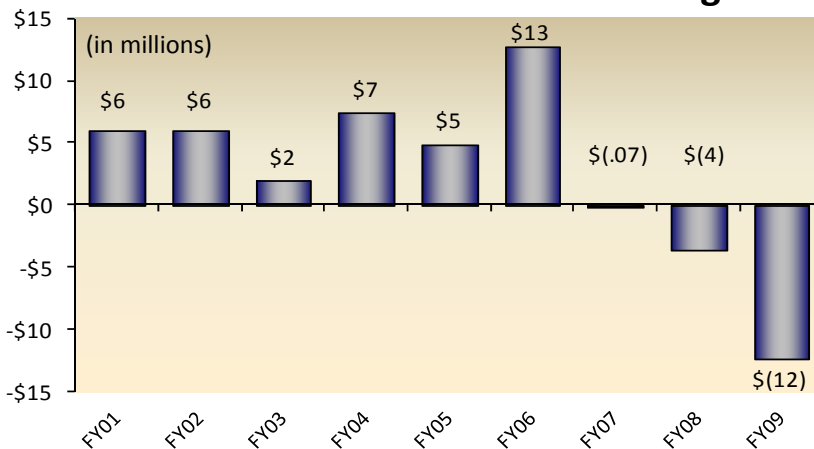
SOURCE: "Tax Revenues by Source" (Statistical Section Maricopa County CAFR) & FY09 Adopted Budget

State Share Sales Tax—Budget Variance

Sales tax revenues can be difficult to predict, as they are subject to volatile economic forces.

FY 2009 actual sales tax revenues fell below budgeted amounts by \$64 million despite a modest budget projection for a 7.7% decrease. The average increase over the previous ten years was 6.1%

Vehicle License Taxes Fall Short of Budget



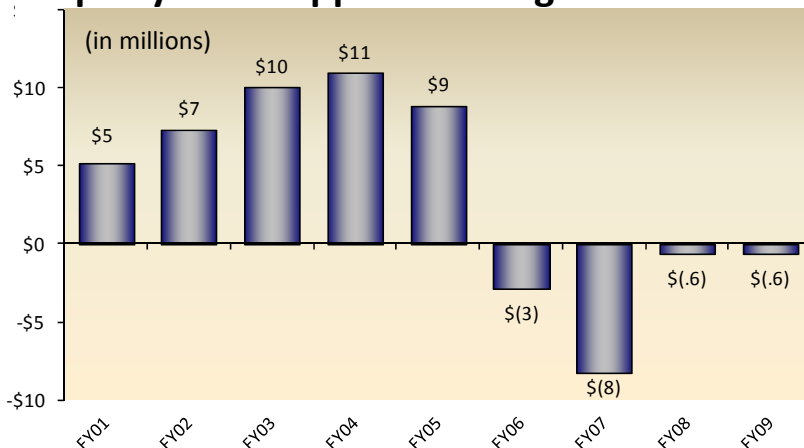
SOURCE: "Tax Revenues by Source" (Statistical Section Maricopa County CAFR) & FY09 Adopted Budget

Vehicle License Tax—Budget Variance

Vehicle License Tax (VLT) revenues can be difficult to predict since citizens can pay the tax for one or two years. VLT revenues have suffered as a result of the economic downturn.

In FY 2009, actual VLT revenues fell short of the original budget by nearly \$12 million, or 8.4%, despite the conservative projection of a 3.5% decrease from FY 2008 totals. The average increase over the previous ten years was 8.3%.

Property Taxes Approach Budget Estimates



SOURCE: "Tax Revenues by Source" (Statistical Section Maricopa County CAFR) & FY09 Adopted Budget

Property Tax—Budget Variance

Property tax revenues are typically more predictable, and are therefore easier to budget, than state-shared sales and vehicle license taxes.

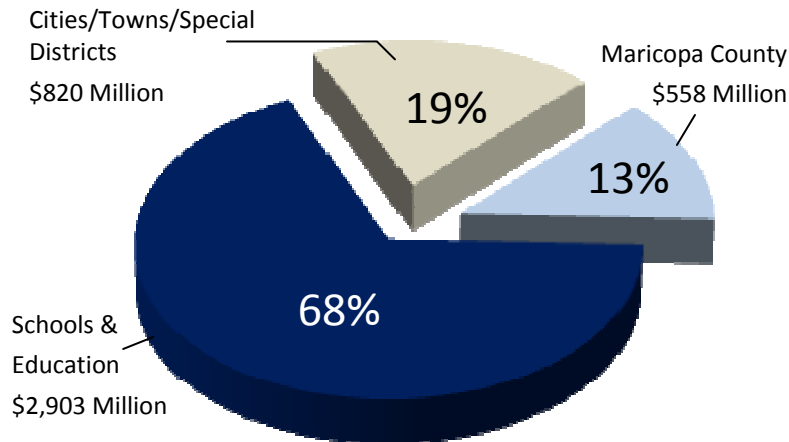
Despite a history of conservative budgeting, revenue shortfalls outpaced budget estimates since FY 2006. In both FYs 2008 and 2009, actual property tax revenues fell short of budget by approximately \$650 thousand (less than 0.1%).



PROPERTY TAXES

Property taxes are major source of revenue for local governments in Maricopa County. The total FY 2009 allocation of property taxes for Maricopa County, school districts, cities, and towns was \$4.2 billion.

Use of Property Tax Dollars



SOURCE: Department of Finance Property Tax Levy Reports

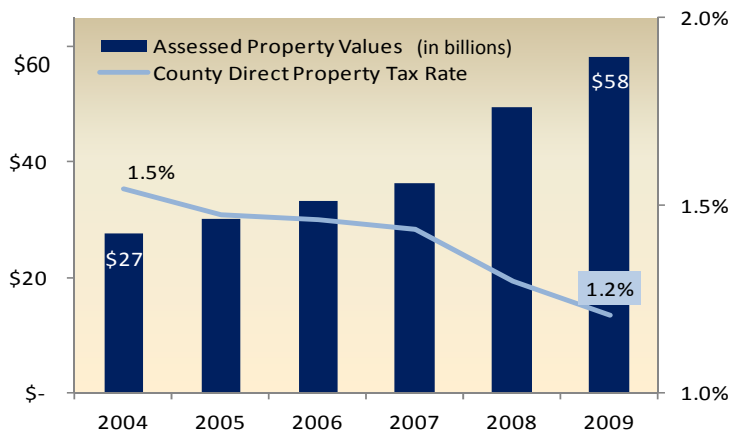


See below for how the typical Maricopa County property tax dollar is spent:

Schools	\$ 0.68
Cities and Towns	\$ 0.14
County	\$ 0.13
Special Districts	\$ 0.06
Total	\$ 1.00

Tax Rates Lowered as Assessed Values Rise

The Maricopa County Board of Supervisors have lowered property tax rates every year since FY 2004. Even with lower tax rates, increases in assessed property values resulted in property taxes remaining a reliable source of revenue during the economic downturn. However, as shown on page three, assessed values are projected to decline, placing downward pressure on future property tax revenues.

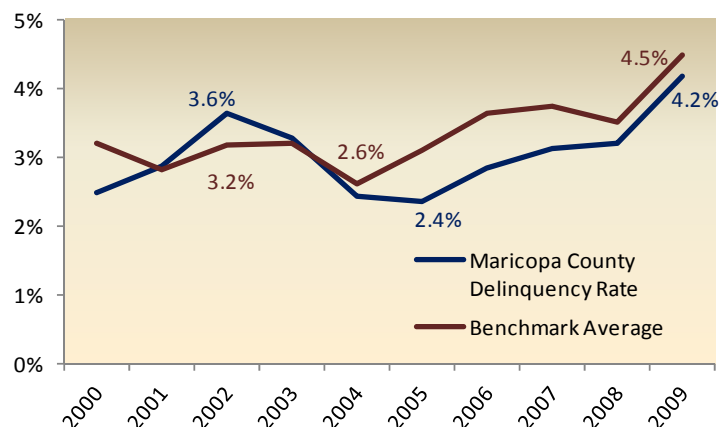


SOURCE: "Assessed Value & Estimated Market Value of Taxable Property" (Statistical Section Maricopa County CAFR)

Property Tax Delinquency Rate Increased

Unpaid property taxes for Maricopa County reached their highest level since 1995 when the delinquency rate was 4.6%. However, Maricopa County's FY 2009 delinquency rate of 4.2% is below the benchmark average of 4.5%.

Uncollected property taxes negatively impacted the County's operating revenues; over \$23 million in levied property taxes were not collected in FY 2009.

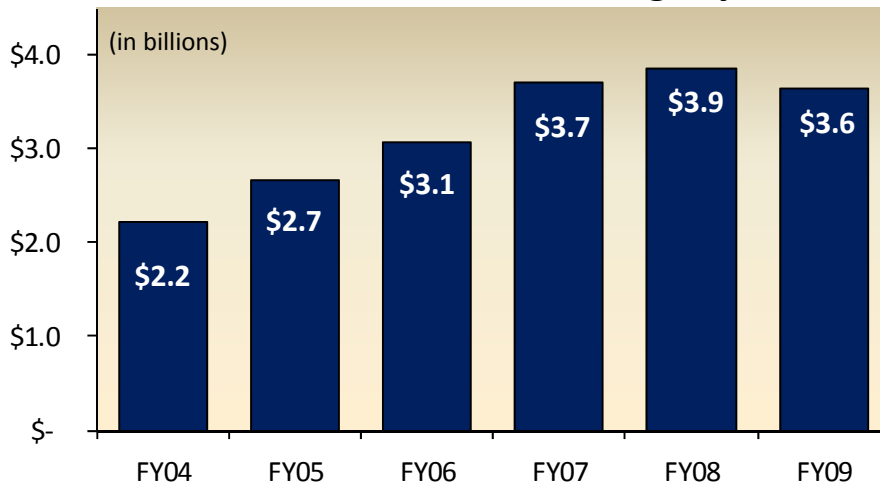


SOURCE: "Property Tax Levies and Collections" (Statistical Section Maricopa County & Benchmark CAFRs)



CASH & INVESTMENTS

Cash and Investments Decreased Slightly

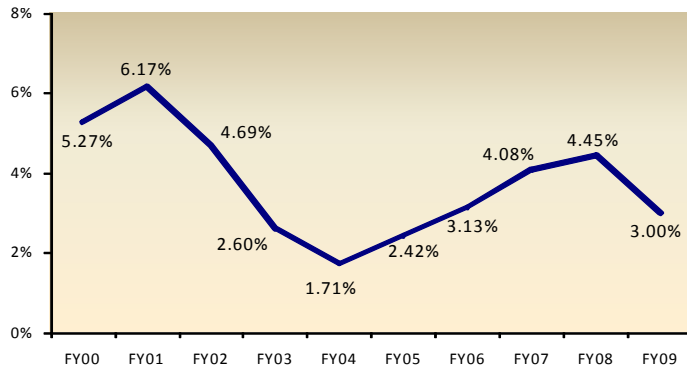


SOURCE: "Note 6—Deposit and Investments" (Maricopa County CAFRs)

Cash and Investments

Total cash and investments held by the Treasurer decreased to \$3.6 billion in FY 2009. This decrease is most likely due to decreasing revenue streams as a result of the economic downturn facing the State and local governments.

Investment Returns Fall



SOURCE: Maricopa County Treasurer

Investment Strategy and Returns

The County Treasurer pools deposits for the County, school districts, and special districts. Cash is invested under a strategy giving highest priority to:

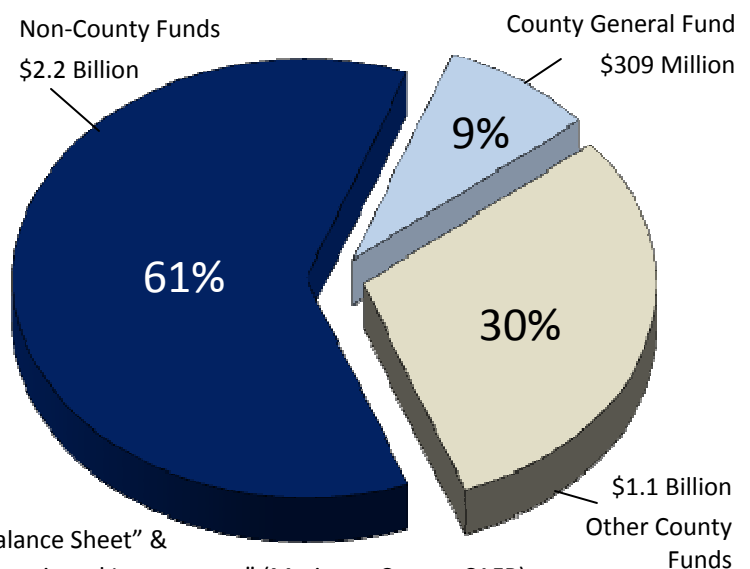
- Safety of principal
- Sufficient liquidity to meet County needs
- Return on investment

Investment returns fell to 3% in FY 2009 due to poor bond market earnings. Bonds are one of the County's primary investments.

Fund Ownership

Non County Funds: Arizona Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. These deposits represent 61% of the total funds held with the Treasurer.

County Funds: \$1.4 billion, or 39% of the \$3.6 billion held by the Treasurer as of June 30, 2009 were County funds.



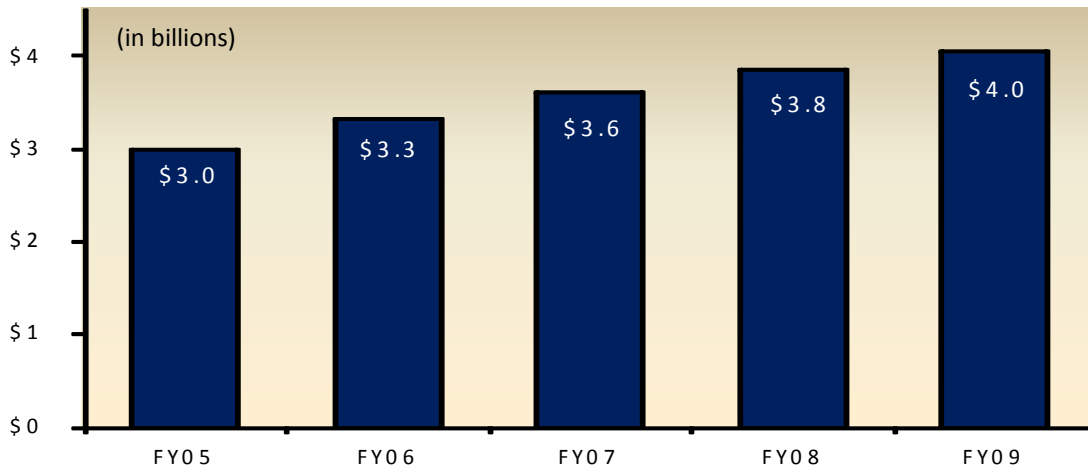
SOURCE: "Balance Sheet" & "Note 6—Deposit and Investments" (Maricopa County CAFR)



NET ASSETS

As of June 30 2009, the County's assets exceeded liabilities by more than \$4 billion (net assets). The increase in total net assets over time indicates the County's financial condition is improving. Total net assets increased 35% from FY 2005 to FY 2009.

Total Net Assets Continued to Increase



SOURCE: "Statement of Net Assets" (Maricopa County CAFRs)

Net Asset Composition

Net assets have three components:

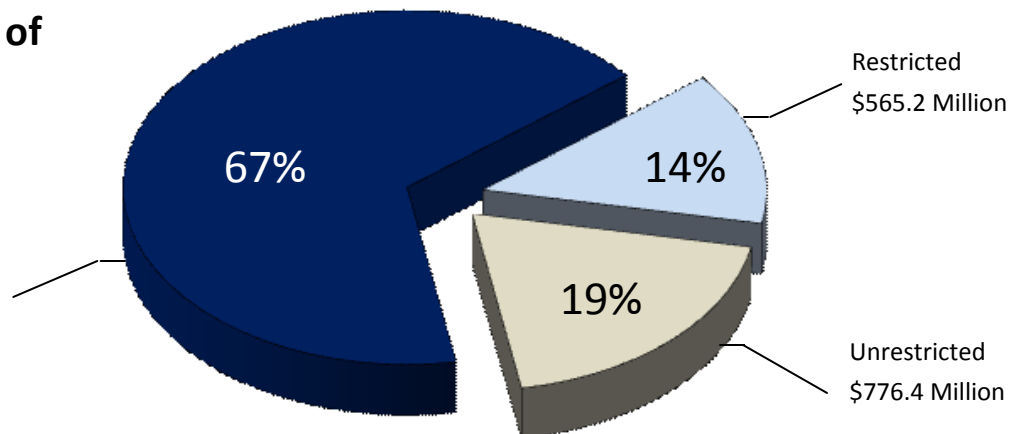
- (1) Investments in capital assets, net of related debt (such as land, building, machinery, and equipment)
- (2) Restricted net assets (assets that are subject to external restrictions on how they may be used)
- (3) Unrestricted net assets (assets not subject to external restrictions on how they may be used)

Just under 67% of County FY 2009 net assets are invested in capital assets (net of related debt), 14% are restricted (primarily for public safety and highways and streets functions), and 19% are unrestricted (can be used to meet the County's ongoing obligations).

Composition of Net Assets

(in millions)

Invested in Capital Assets
\$2,704.2 Million



SOURCE: "Statement of Net Assets" (Maricopa County CAFR)



RETIREMENT PLANS

The County contributes to four retirement plans, as noted in the FY 2009 CAFR (page 65). Because 69% of County employees (8,983 out of 13,048) contribute to the Arizona State Retirement System (ASRS), these pages will focus on ASRS.

Funded Status Defined

The most recognized measure of a retirement plan's health is its funding ratio, derived by dividing the actuarial value of plan net assets by the present value of accrued liabilities (projected future retirement payments). 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.

The dollar difference between plan assets and accrued liabilities is the unfunded actuarial accrued liability (UAAL), which is a common measure of a pension plan's financial condition. Methods used to value assets and liabilities can be complex and vary from plan to plan, making direct comparisons among plans difficult or impossible. This report shows the funding ratios based on the actuarial value of assets. The amount of accrued liabilities depends on the assumptions and cost method. Actual calculations are very technical in nature and are outside the scope of this report. It is noted, however, that ASRS discounts future benefits at 8.0% per year.

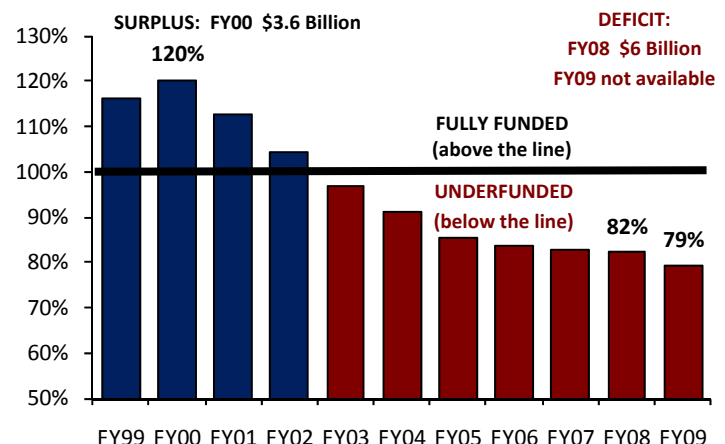
Retirement Funding Status

FY 2009 audited dollar figures are not available yet, but based on audited FY 2008 figures, the UAAL grew over \$500 million, or 9%, to \$6 billion.

This increase was largely due to a 7.6% and 18.1% loss on investments in FYs 2008 and 2009 and increases in projected future retirement payments. As a result, the funded status of the total plan decreased from 82.8% in FY 2007 to 82.2% in FY 2008. ASRS reports 79.3% for FY 2009.

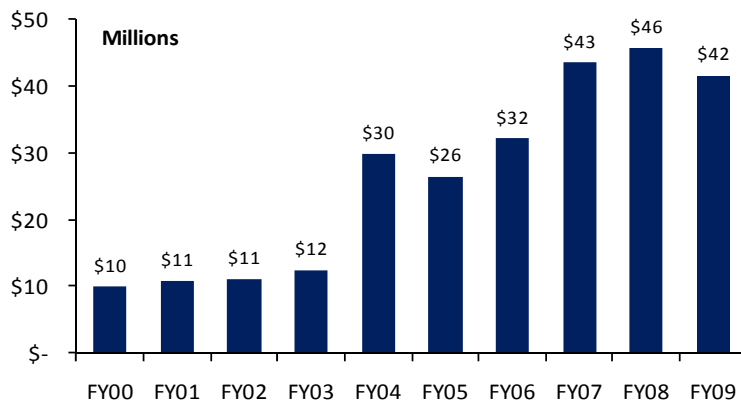
According to a 2008 U.S. Government Accountability Office report on government pension plans, many experts believe a 80% funding ratio is sufficient.

Retirement Funding Ratio Weakens



SOURCE: ASRS CAFRs, annual actuarial reports, ASRS Presentation

Retirement Contributions to ASRS Have Increased



County Contributions

County pension plan contributions to ASRS decreased 9% from FY 2008 to FY 2009.

The decrease is attributed to fewer participants in the plan. From FY 2008 to FY 2009, participation decreased 5% from 9,499 to 8,983, due to a FY 2009 reduction in force.

GRAPH SOURCE: ASRS CAFRs



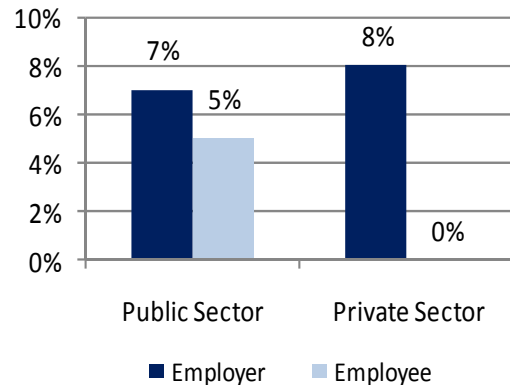
RETIREMENT PLANS

Employee Contributions

According to the Government Accountability Office, government employees generally make contributions to fund pension benefits, unlike private sector employees.

The Center for Retirement Research at Boston College said, unlike “the private sector, public sector defined benefit plans are not financed entirely by the employer. Employer contributions as a percent of payroll are roughly the same in the state and local and private sectors, and public sector employee contributions make up for the difference in the cost of benefits. Public plans tend to rely more heavily on employee contributions, invest slightly more aggressively, and be about as well funded as their private sector counterparts.”

U.S. Contribution Rate Comparison



SOURCE: Center for Retirement Research at Boston College, 2008

Ways to Make A Retirement Fund Sustainable

Girard Miller, a nationally known authority on the investment of public funds, states retirement funds should use the following standards to make public plans sustainable.

ASRS PENSION REPORT CARD Assuring Proper Funding	
Employees should pay half the cost Employees pay 50%; currently, employees contribute 9% of their pay, which will rise to 9.6% on July 1, 2010	✓
Public employers should make the required annual contributions The County funds its required contributions each year	✓
Cost of Living Adjustments (COLAs) must be properly funded COLAs are only paid if there are “Excess Investment Earnings” in reserve—the last increase was in 2005; no increases are planned	✓
Pension multipliers should be below 2.5% ASRS multipliers start at 2% and gradually increase to 2.3% depending on the number of years worked	✓
Retiree medical benefits must be capped Medical benefits are set at a monthly amount depending upon years worked, dependents, and Medicare eligibility	✓

SOURCE: Girard Miller; 2008 ASRS CAFR; Maricopa County CAFR; Arizona Republic

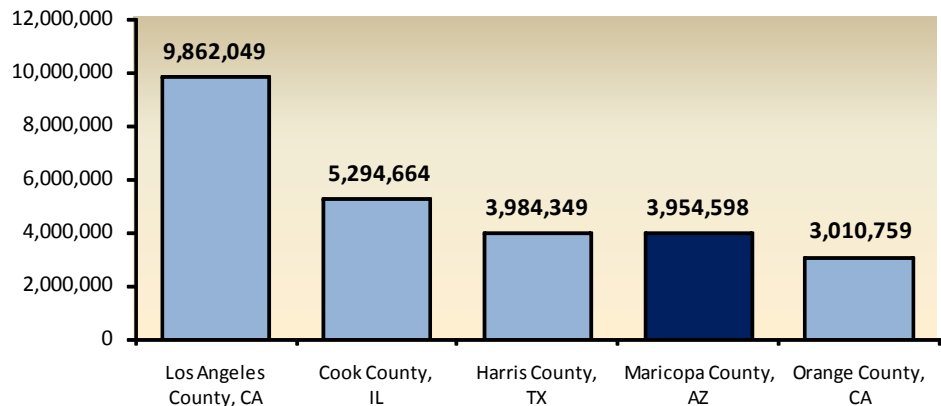


POPULATION & UNEMPLOYMENT

Population

Maricopa County has been ranked the fourth most populous of all 3,141 counties in the nation.

Maricopa County's Population is 4th Largest in Nation

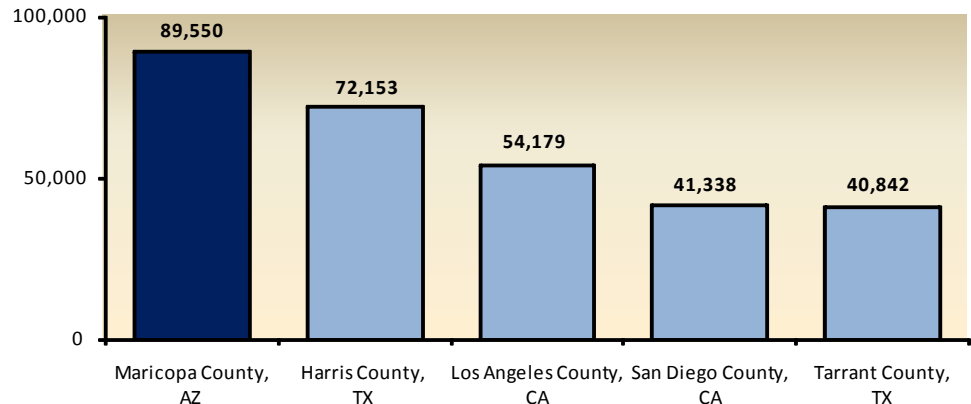


SOURCE: 2008 U.S. Census Bureau Reports (2008 is the most recent report)

Population Growth

In addition to having the largest numerical increase in population from July 2007 to July 2008, Maricopa County's population increased by 882,449 people from July 2000 to July 2008, more than any other county in the nation.

Maricopa County's Population Growth is Fastest in Nation

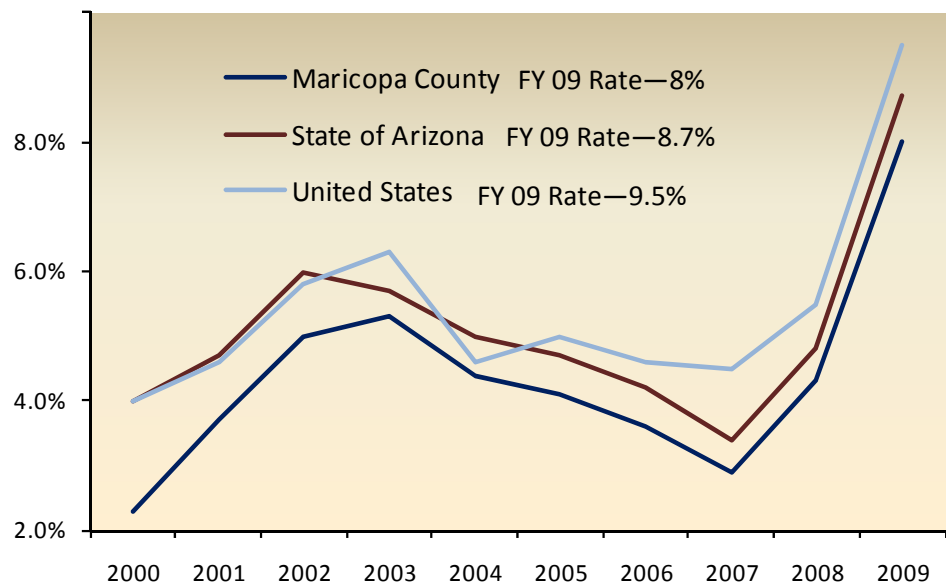


SOURCE: 2008 U.S. Census Bureau Reports

Unemployment

Maricopa County's unemployment rate continues to remain below national and Arizona averages. However, since 2007 the national, Arizona, and Maricopa County unemployment rates have increased significantly. In 2009 Maricopa County's unemployment rate was 8%, a 5.1% increase over 2007's rate of 2.9%.

Unemployment Rates Increase



SOURCE: "Demographic & Economic Statistics" (Statistical Section, Maricopa County CAFR)



METHODOLOGY & 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. Indicators were selected from authoritative sources on evaluating governmental entity financial condition, and were judged to be the most indicative of a county's overall financial health.

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

National Benchmarks

County	Population	Major Metro Area
➤ Clark	2,006,347	Las Vegas, Nevada
➤ Harris	3,984,349	Houston, Texas
➤ King	1,884,200	Seattle, Washington
➤ Los Angeles	10,393,000	Los Angeles, California
➤ Multnomah	717,880	Portland, Oregon
➤ Orange	3,139,017	Santa Ana/Anaheim, California
➤ Pima	1,048,796	Tucson, Arizona
➤ Salt Lake	1,030,519	Salt Lake City, Utah
➤ San Diego	3,173,407	San Diego, California
➤ Santa Clara	1,857,621	San Jose, California

SOURCE: 2008 & 2009 Benchmark County CAFRs

Other sources include Arizona State Retirement System (ASRS) CAFRs and actuarial reports, the U.S. Census Bureau, Governmental Accounting Standards Board, the International City/County Managers Association, Maricopa County's Strategic Plans (budgetary documents), ASRS investment committee documents, Arizona State Auditor General Reports, and correspondence with internal and external staff.

Trend analysis is used in this report. Trend analysis involves examining historical data. Adjustments for inflation were made according to the "U.S. Consumer Price Index—All Items."

Maricopa County CAFR

Maricopa County's 2009 CAFR and prior year CAFRs are available by visiting the Maricopa County Department of Finance website at: <http://www.maricopa.gov/Finance/CAFR.aspx>.

Cover Photos

Location: Mountain landscape (top right) and saguaro sunset (bottom left) taken at Four Peaks National Wilderness Area located on the border of Maricopa and Gila Counties by Marcus Reinkensmeyer.