

MARICOPA COUNTY CITIZENS FINANCIAL CONDITION REPORT FISCAL YEAR ENDED JUNE 30, 2016



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Maricopa County Shows Continual Strength in Fiscal Year 2016

Highlights

Our Fiscal Year (FY) 2016 Citizens Financial Condition Report highlights the financial strength of the County and provides information on key financial indicators.

Maricopa County . . .

- Is the fourth most populous county in the U.S.
- Has a fiscally conservative management philosophy.
- Has low long-term liabilities.
- Has received strong credit ratings from Standard & Poor's and Fitch.
- Has had a slight increase in property values and tax revenues.
- Spends considerably less on delivering services than benchmark counties.
- Contributes to four employee retirement plans with funding levels ranging from 78% to 38%.

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INTRODUCTION

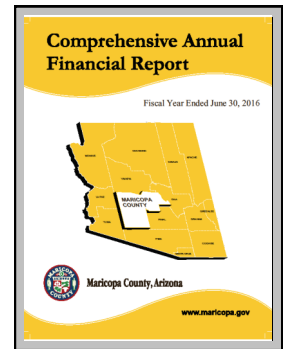
About this Report

For FY 2016, we highlight the financial strength of Maricopa County’s General Fund and other Governmental Funds through graphic displays of key financial ratios, trends, and comparisons. In spite of national and local economic challenges in recent years, the County has been able to pay cash for many capital projects without incurring liabilities. Prior year General Fund balances were budgeted to be built up and then spent down as capital projects were completed. This is reflected in the five-year chart on page five.

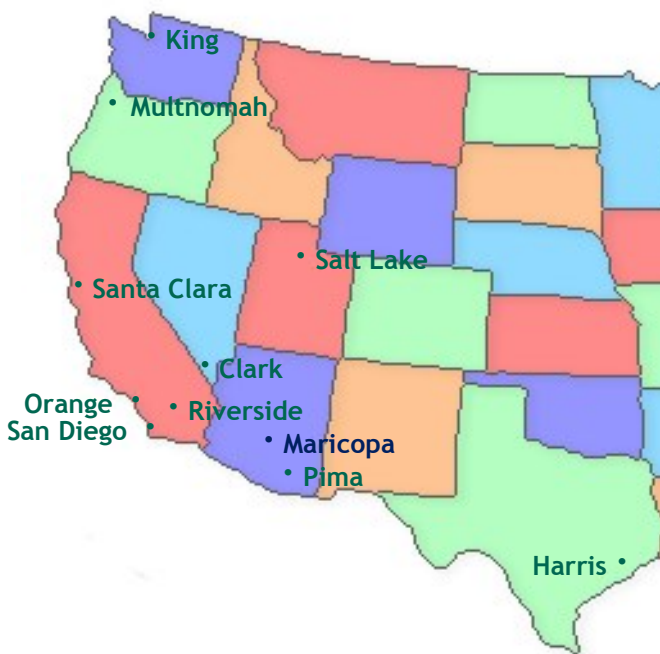
In addition, we provide updated information on the state pension plans covering County employees. Public pension funds are experiencing fiscal challenges due to investment losses in previous years, planned benefit payments, actuarial methods and assumptions used in projections, and insufficient employee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

Methodology

Our primary information sources were the audited Comprehensive Annual Financial Reports (CAFR) issued by Maricopa County and 10 national benchmark counties. Other sources include: Arizona State Retirement System, Public Safety Personnel Retirement System, Corrections Officer Retirement Plan, and 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 (budget documents); and correspondence with internal and external staff.



Benchmarks were chosen from western U.S. counties that share Maricopa’s attributes of large geographic size and the existence of at least one major urban center. Below are the benchmark counties used in this report.



Benchmarks		
County	Population	Metro Area
Clark	2,147,641	Las Vegas, NV
Harris	4,538,028	Houston, TX
King	2,117,125	Seattle, WA
Multnomah	777,490	Portland, OR
Orange	3,183,011	Santa Ana/Anaheim, CA
Pima	1,016,743	Tucson, AZ
Riverside	2,347,828	Riverside, CA
Salt Lake	1,107,314	Salt Lake City, UT
San Diego	3,288,612	San Diego, CA
Santa Clara	1,927,888	San Jose, CA

PROFILE

Maricopa County

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

The County is governed by an elected Board of Supervisors representing five districts.

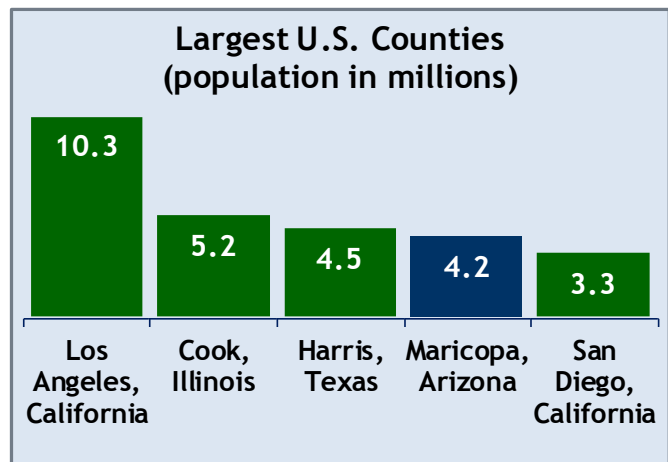
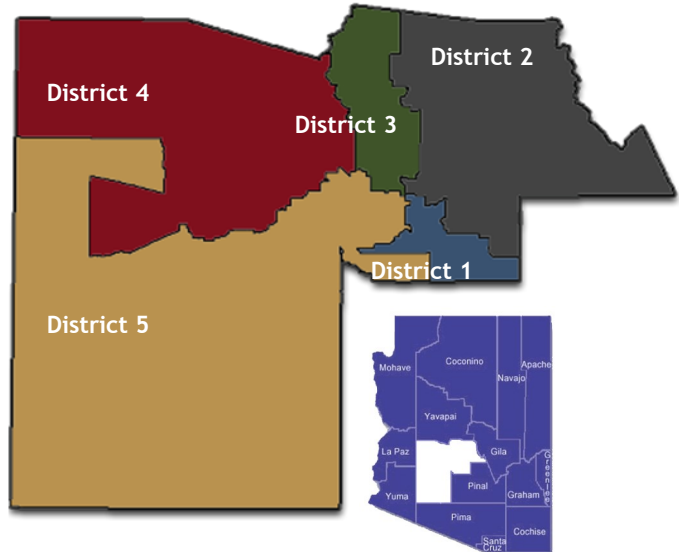
Size

Maricopa County is located in the south-central area of the State of Arizona. At 9,224 square miles, Maricopa County is larger than many states, including Connecticut, Delaware, Hawaii, Massachusetts, New Hampshire, New Jersey, and Rhode Island.

Population

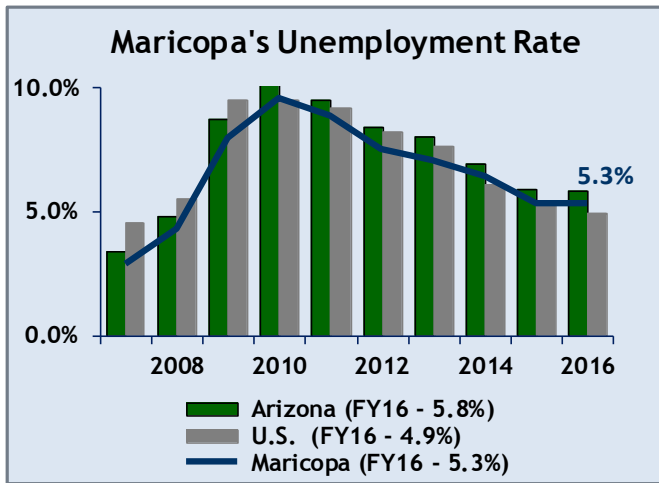
Maricopa County is the fourth most populous county in the nation.

Approximately 60% of the state's total population resides within the County, which includes the cities of Phoenix, Mesa, Chandler, Gilbert, Glendale, Scottsdale, Tempe, and others. During the recent recession, Maricopa's population declined from a high of 4.1 million in 2009 to 3.8 million in 2011. Current estimates report a population of 4.2 million.



Board of Supervisors

District 1	District 2	District 3	District 4	District 5
				
Denny Barney	Steve Chucri	Andrew Kunasek	Bill Gates (Jan. 2017)	Clint L. Hickman
				
				Steve Gallardo



Unemployment

Maricopa County’s unemployment rate has generally remained below national and Arizona rates. Starting in 2009, unemployment increased significantly. By 2016, Maricopa’s unemployment rate was 5.3%, continuing a gradual reversal from its high of 9.6% in 2010. The current data shows Maricopa’s unemployment is higher than the national rate, but is lower than the Arizona rate.

Economic Activity

Maricopa County has a variety of employers within its boundaries, with the majority being government, healthcare, retail, financial, technology, and service industries.

Nine of the top ten principal property taxpayers are public utilities.

Tourism has long been an important part of the regional economy. The “Valley of the Sun” is a popular winter retreat because of its climate and cultural activities. Maricopa County is the home of the Cactus League (which hosts spring training for 15 of the 30 major league baseball teams), and 5 major league sports teams (MLB Diamondbacks, NBA Suns, WNBA Mercury, NFL Cardinals, and NHL Coyotes).

Principal Employers

State of Arizona	50,816
Banner Health	35,406
Wal-Mart Stores	32,373
Fry’s Food Stores	17,286
City of Phoenix	14,585
Wells Fargo	14,480
Maricopa County	13,567
Arizona State University	12,676
Dignity Health	12,100
University of Arizona	11,442
Total for Principal Employers	214,731
Total Employment	1,917,400

Principal Property Taxpayers

Percent of Total County Assessed Property Tax Value

Arizona Public Service Company	3.12%
Southwest Gas Corporation	0.44%
Qwest Corporation	0.41%
Southern California Edison	0.38%
El Paso Electric Company	0.35%
Wal-Mart Stores	0.27%
Arizona Solar One LLC	0.23%
AT&T	0.22%
Public Service Company of New Mexico	0.20%
Sundevil Power Holdings, LLC	0.19%



Tourism is important to the regional economy

GENERAL FUND & LIQUIDITY

General Fund Spendable Balance Increased

General Fund

The General Fund comprises all financial transactions not required to be accounted for in special purpose funds.

Non-Spendable and Spendable Amounts

The General Fund balance is classified as *spendable* or *non-spendable*. The *non-spendable* fund balance comprises non-cash assets, such as inventories and other amounts that must remain legally intact.

The *spendable* fund balance is generally available for use in the following year. However, certain laws and contracts impose restrictions on how the funds are used. In addition, the Board of Supervisors may commit portions of the fund for specific purposes. County management reports that \$134 million of the FY 2016 spendable balance was assigned and budgeted to be spent in FY 2017. Over the years, Maricopa County has used the spendable balance to finance capital projects.

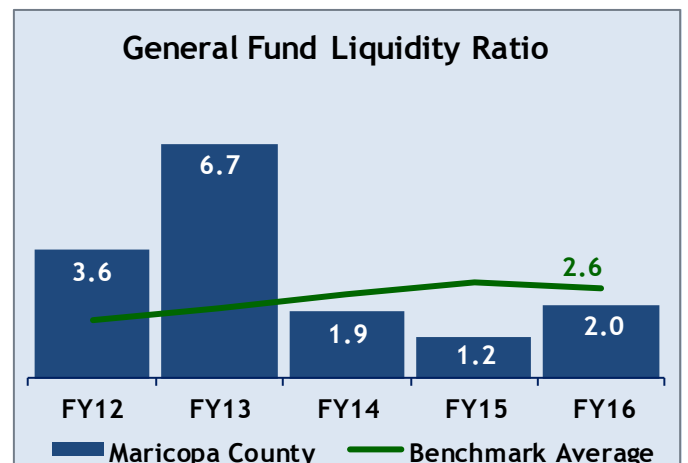
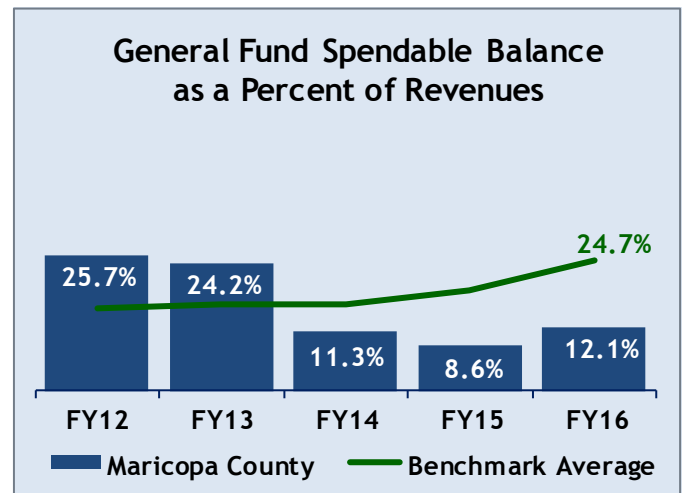
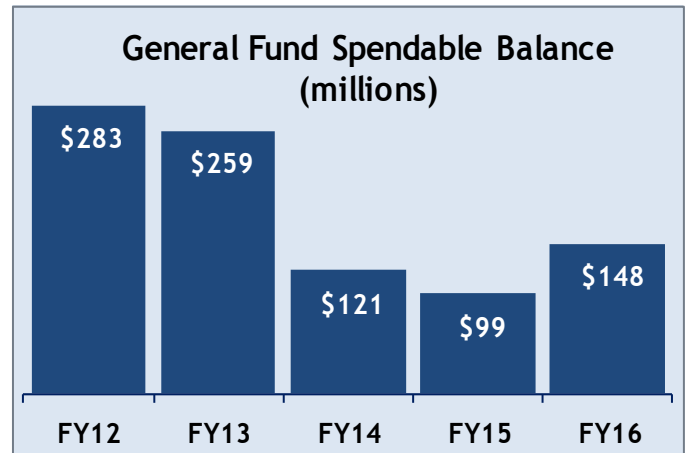
General Fund Spendable Balance as a Percent of Revenues

Maricopa County's spendable fund balance as a percent of revenues has declined since FY 2012. The decline reflects amounts Maricopa used to fund capital projects. The balance increased slightly for FY 2016 but is still lower than the benchmark average.

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 for current obligations. Maricopa County continues to maintain a sufficient liquidity ratio of 2.0 to 1. This means that \$2 is available in cash for every \$1 in current liabilities.

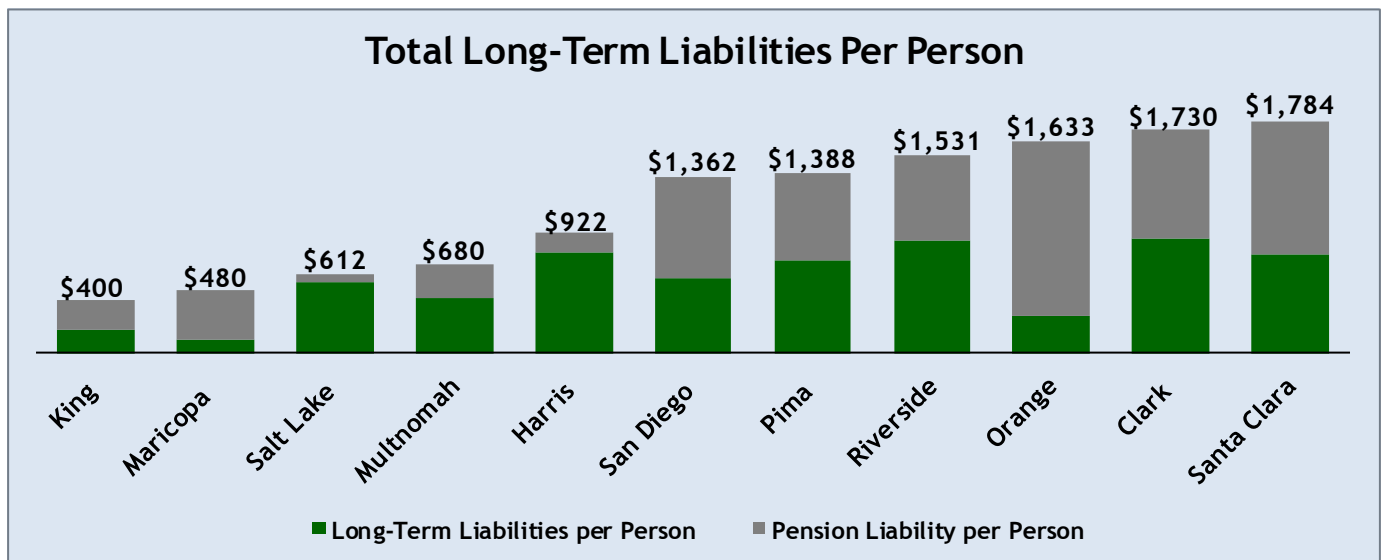


LIABILITIES

Long-Term Liabilities Per Person is Low

Maricopa County has low long-term liabilities when compared with benchmark counties. The low liability level is the result of a conservative financing policy. The FY 2016 County long-term liabilities, excluding pension liabilities, were \$94 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 and is “implied” since no general obligation bonds are outstanding.

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



Long-Term Liabilities

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

Pension Liabilities

Maricopa County implemented changes required by the Governmental Accounting Standards Board regarding pension reporting. These changes included standards for measuring and recognizing net pension liabilities, and expenditures related to pension benefits provided through retirement plans. Pension liability represents the difference between the payments due to retirees, less the actual amount of funds on hand to make those payments. Therefore, an unfunded pension liability indicates that future benefit obligations to retirees are greater than the assets on hand to make those payments.

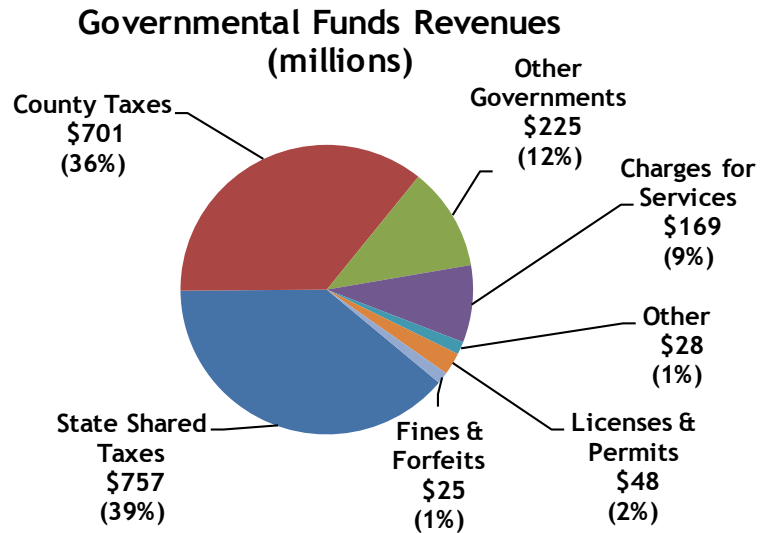
Maricopa County’s FY 2016 pension liabilities of \$386 per person are low when compared to the benchmark average of \$604 per person. Some of these counties may have differences in pension plans that may impact comparative pension liability levels.

REVENUES

Sources of County Funds

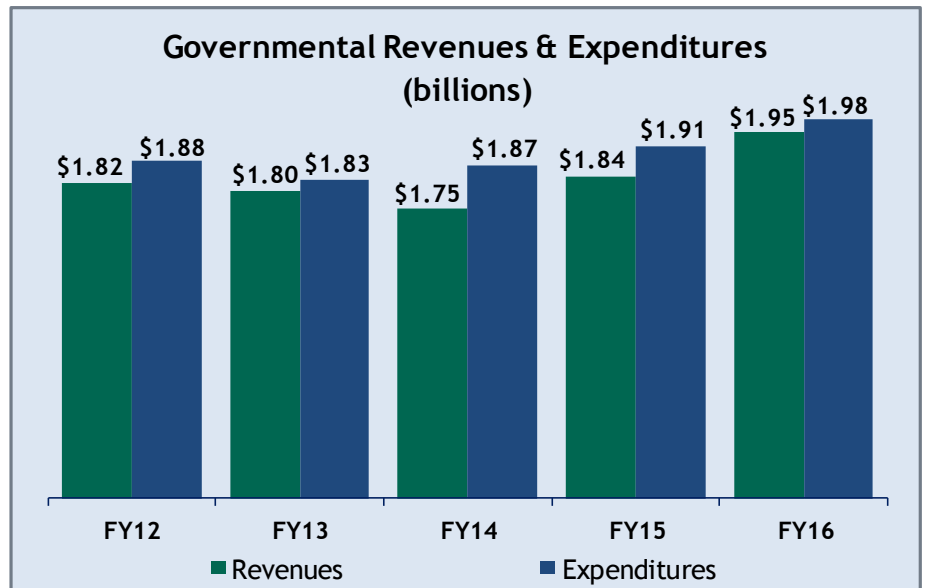
Most of Maricopa County’s revenues come from County and state shared taxes (75%).

State shared taxes (39%) include Sales Tax, Vehicle License Tax, and Highway Users Tax. County taxes (36%) include General Property Tax, Jail Tax, and Rental Car Tax. Other Governmental revenues (12%) include federal and state grants.



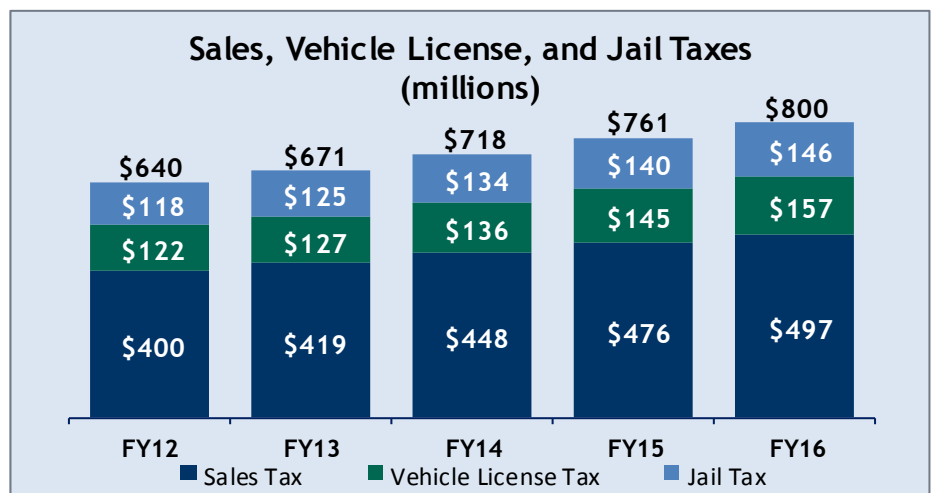
Expenditures Exceed Revenues

The excess of expenditures over revenues from FY 2012 through FY 2016 reflect building construction, technology improvements, and other capital costs that were paid from prior years’ savings. FY 2016 expenditures also increased due to salary and benefit costs.



Non-Property Tax Revenues are Improving

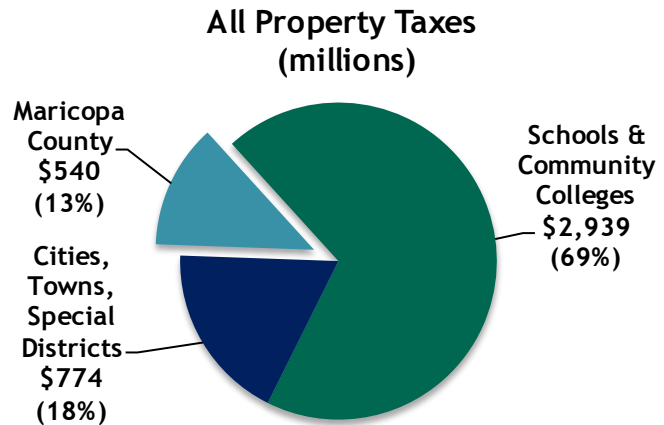
In FY 2016, non-property tax revenues increased over those of the prior four years. Revenues have increased \$160 million since FY 2012 as a result of an improving economy.



PROPERTY TAXES

Most Property Tax Dollars Go to Schools

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 tax rate to the assessed value to calculate taxes due. Property tax bills are then prepared and collected by the County Treasurer.



FY 2016 property taxes totaling \$4.2 billion were distributed to Maricopa County, schools, cities, towns, and special districts. Maricopa County received 13% of each property tax dollar. Schools and community colleges received 69%. Cities, towns, and special districts received 18%.

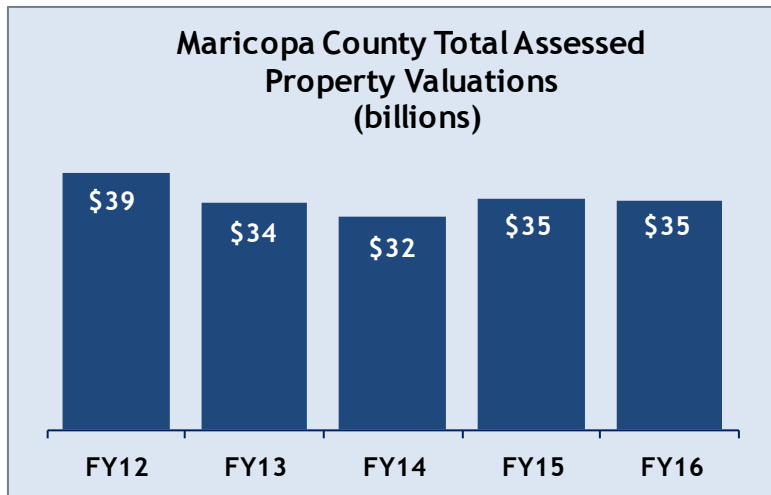
Maricopa County’s operating taxes of \$471 million is still below FY 2012 operating taxes of \$478 million.

County Operating	\$ 471
Flood Control District	\$ 50
Library District	\$ 19
County Total	\$ 540

Assessed Property Values Have Increased Slightly Since FY 2014

Maricopa County controls tax rates for its general operating, flood control, and library funds. Total direct property tax rates ranged from 1.47% in FY 2012 to 1.58% in FY 2016.

Assessed values declined \$4 billion between FY 2012 and FY 2016. Although several factors determine property taxes, declining market values and legislative changes were major factors in reducing property values in previous years. Property values have increased slightly since FY 2014; however, values are still below FY 2012 figures.

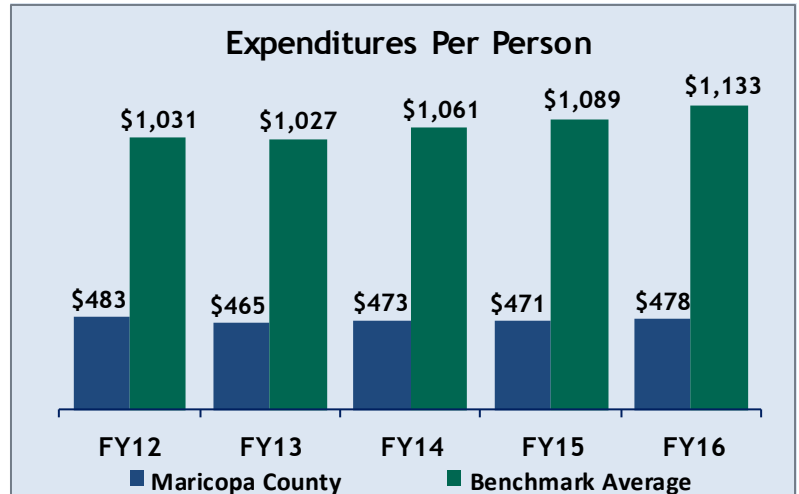


EXPENDITURES

\$478 Spent Per Person

Maricopa County has practiced conservative fiscal policies. Total FY 2016 expenditures for all governmental funds was \$478 per person. The per person average for 10 benchmark counties was \$1,133. Differences between the benchmark averages and Maricopa County may occur because of the following reasons:

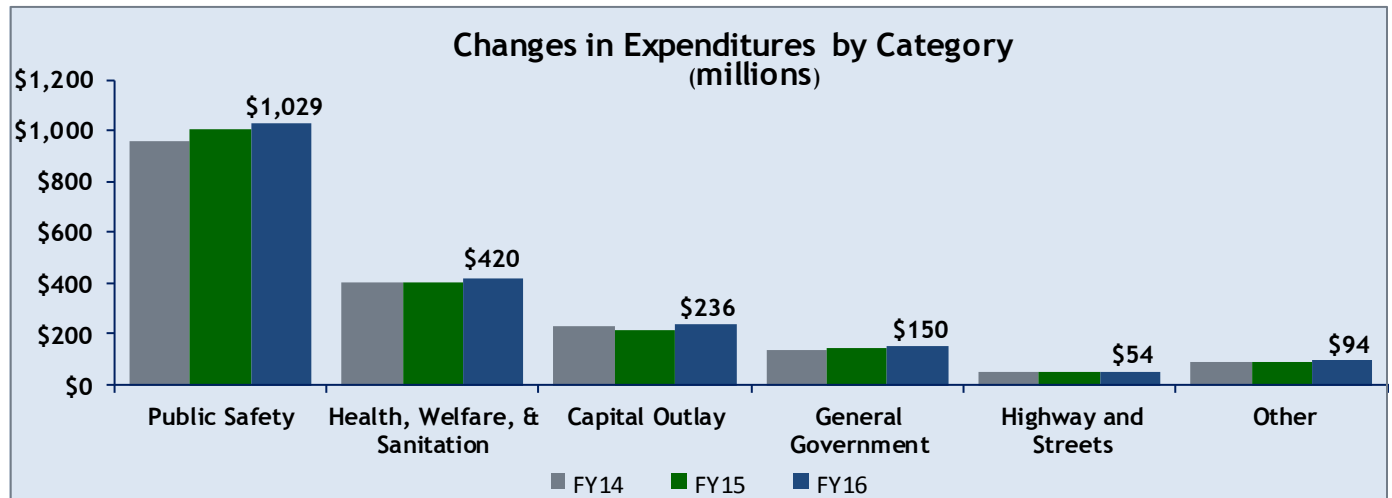
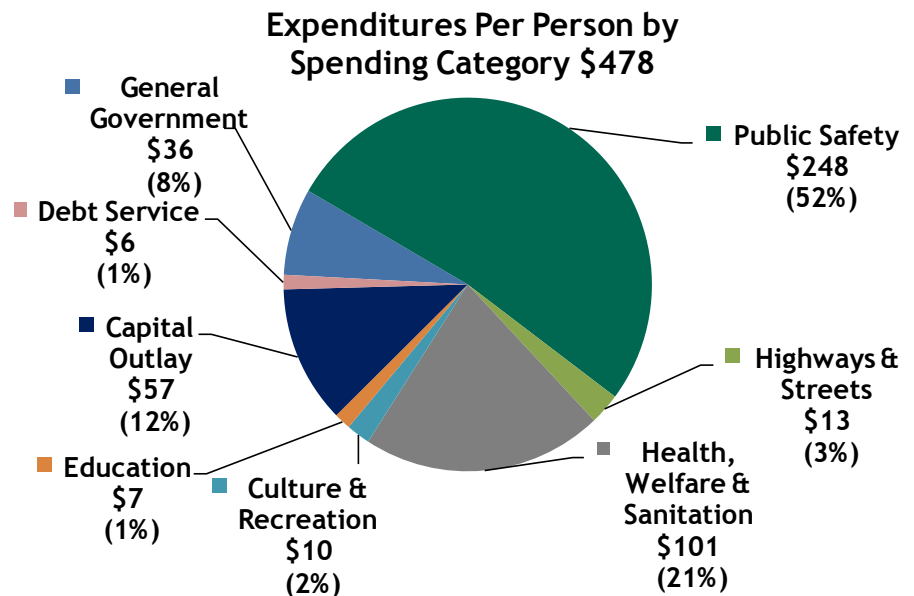
- Proportion of residents living in incorporated cities
- Significantly higher cost of living along the west coast
- Population density and size
- Political influences
- Services provided



County Services

Maricopa County provides a wide variety of direct services to its residents and visitors. Services include public safety, health and welfare, transportation, culture and recreation, and education.

As shown on the following pages, Maricopa County delivers services at significantly lower costs in comparison to benchmark averages.



County Services



Sheriff Helicopter



Regional Court Center



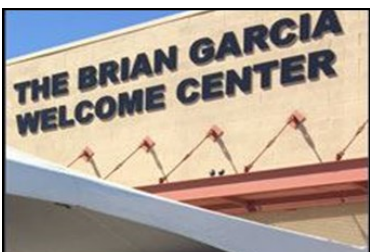
Public Fiduciary



Environmental Services



Animal Care & Control



Human Services

Public Safety

Total Expenditures	\$ 1,028,863,167
Expenditures per Person	\$ 248
Benchmark Average Expenditures per Person	\$ 371

- Adult and Juvenile Probation Services
- Adult and Juvenile Public Defense Services
- County Attorney (prosecutes criminals)
- Flood Control (operates and maintains flood control structures and implements other flood hazard controls)
- Medical Examiner (conducts public inquiries into sudden or unnatural deaths)
- Planning and Development (regulates development and land use activity for unincorporated areas within the County)
- Public Fiduciary (provides personal, legal, and financial management for vulnerable adults)
- Sheriff (runs County jail system, investigates crimes, conducts patrols, and provides victim and community outreach)
- Superior and Justice Courts

Health, Welfare, and Sanitation

Total Expenditures	\$ 420,071,249
Expenditures per Person	\$ 101
Benchmark Average Expenditures per Person	\$ 398

- Air Quality (analyzes and monitors air quality, enforces compliance with air quality standards, and manages carpool programs)
- Animal Care and Control (captures and shelters stray animals and conducts adoptions)
- Environmental Services (issues food permits, inspects restaurants, and provides vector control)
- Human Services (provides emergency food and housing, job training, and Head Start education programs)
- Public Health (provides health clinics, immunizations, and nutrition services)
- Waste Resources and Recycling (manages tire recycling and oversees landfill operations)

County Services

General Government

Total Expenditures	\$ 150,486,509
Expenditures per Person	\$ 36
Benchmark Average Expenditures per Person	\$ 110

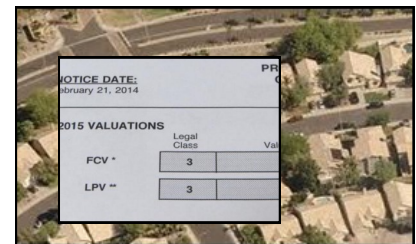
- Assessor (determines property valuations for taxes)
- Board of Supervisors (authorizes County budgets, policies, and procedures)
- County Administration
- Internal Audit (conducts performance and compliance reviews of County operations)
- Recorder and Elections (stores public records, registers voters, and conducts elections)
- Treasurer (provides banking services to the County, school districts, and special districts; collects property taxes)



Board of Supervisors



Elections



Property Appraisals

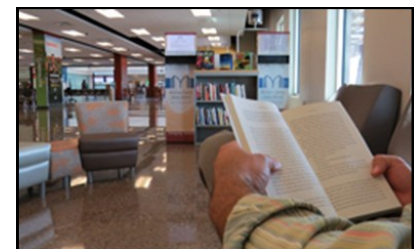
Culture, Recreation, and Education

Total Expenditures	\$ 69,896,174
Expenditures per Person	\$ 17
Benchmark Average Expenditures per Person	\$ 52

- Library District (runs 18 library branches)
- Parks and Recreation (maintains 10 regional parks)
- Education Service (provides financial and support services to school districts)



Buckeye Hills Shooting Range



Gateway Airport Library

Highways and Streets

Total Expenditures	\$ 53,598,284
Expenditures per Person	\$ 13
Benchmark Average Expenditures per Person	\$ 75

- Transportation (plans, builds, and maintains roads and monitors regional traffic flows)



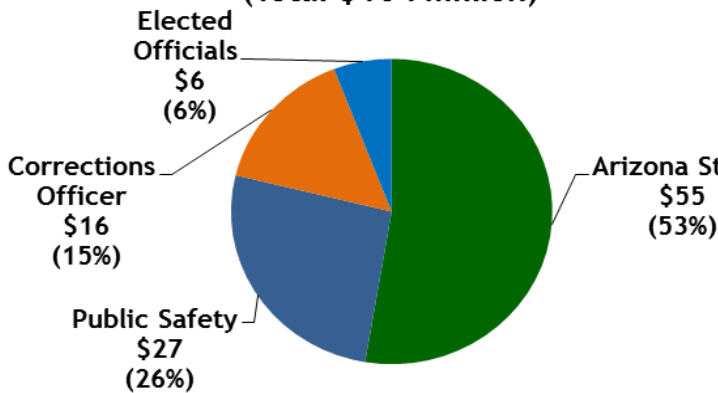
Transportation

RETIREMENT PLANS

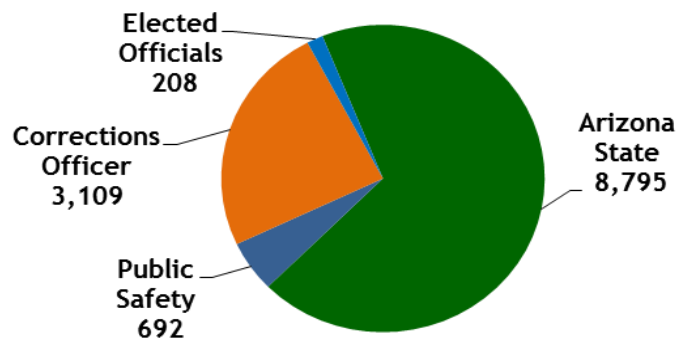
Retirement Plans Remain Underfunded

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. In FY 2016, Maricopa County contributed \$104 million to the four retirement plans. County contributions and the number of employee members are summarized below.

FY 2016 County Contributions to Retirement Plans (Total \$104 million)

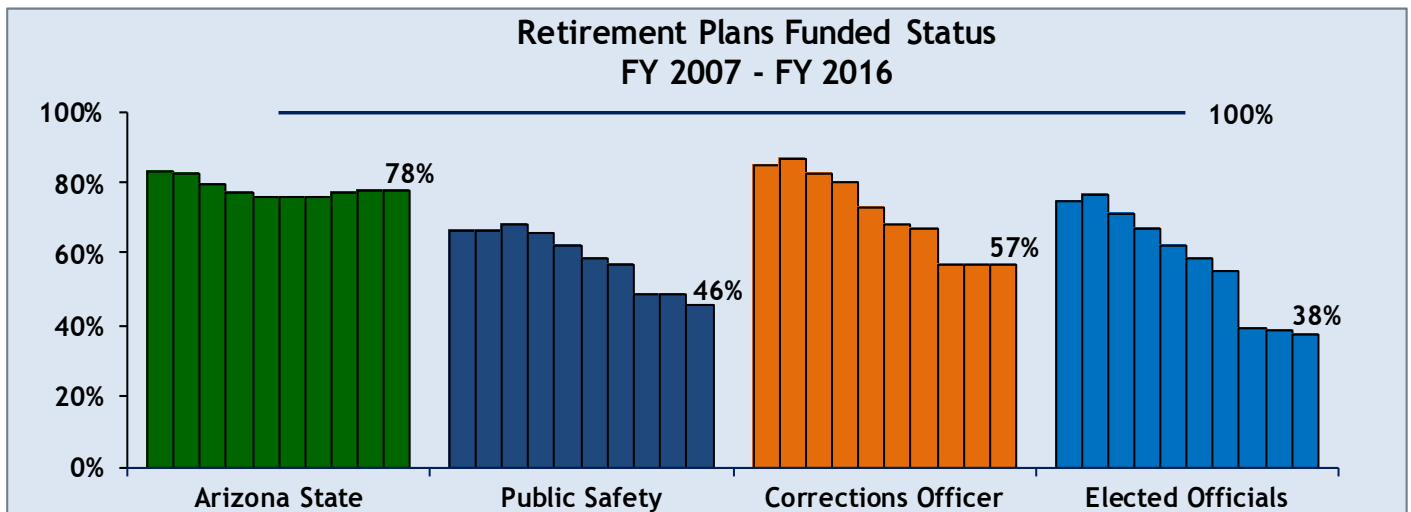


FY 2016 Retirement System Employees (Total 12,804)



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. However, the financial health of a pension plan depends on many factors in addition to funded status.

Maricopa County is responsible for its portion of various plans funding deficits. The County and its employees are affected by contribution rates that may adjust to compensate for investment returns and operating cash flows. The following graph summarizes funding level trends over ten years.



RECOGNITION

Recognition for Popular Annual Financial Reporting

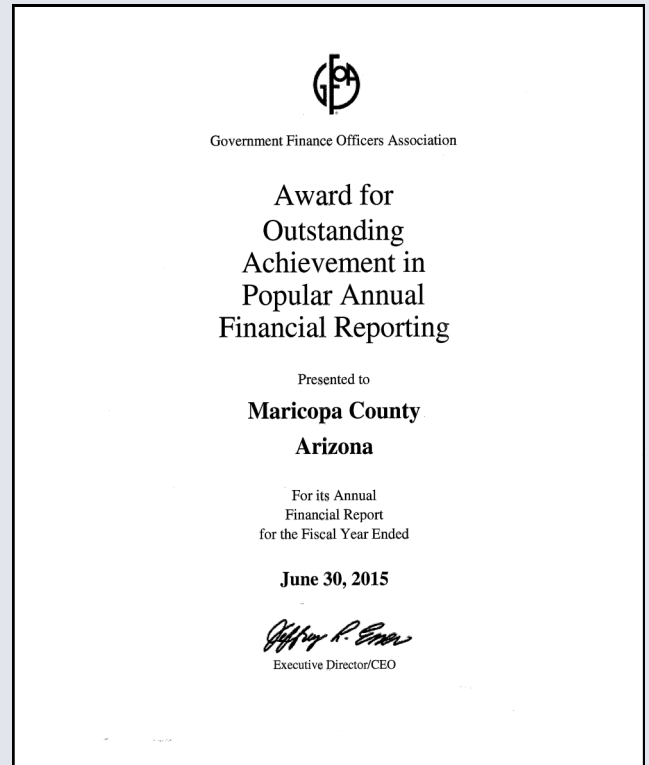
The Government Finance Officers Association of the United States and Canada has given the Award for Outstanding Achievement in Popular Annual Financial Reporting to Maricopa County for its Popular Annual Financial Report for the fiscal year ended June 30, 2015.

A Popular Annual Financial Report takes information from the CAFR and presents it in a way that is creative and easy to understand for the general public.

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.

Project Team Members

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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.

Maricopa County CAFR

Maricopa County’s FY 2016 CAFR and prior year CAFRs are available by visiting the Maricopa County Department of Finance website at: www.maricopa.gov/Archive.aspx?AMID=67. These CAFRs will provide additional detail on the content presented in this report.

