

MARICOPA COUNTY CITIZENS FINANCIAL CONDITION REPORT FISCAL YEAR ENDED JUNE 30, 2014



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Maricopa County Shows Consistent Strength in Fiscal Year 2014

Highlights

Our Fiscal Year 2014 Citizens Financial Condition Report highlights the financial strength of the County, and provides information on key financial indicators.

Maricopa County . . .

- Has generally used “pay-as-you-go” financing for capital projects instead of incurring new debt.
- Has low long-term debt.
- Has received strong credit ratings from Standard & Poor’s and Fitch.
- Compares favorably with other large western U.S. counties for key financial indicators.
- Has had smaller property tax revenues in recent years.
- Spends significantly less on delivering services than benchmark counties.
- Contributes to four employee retirement plans with funding levels ranging from 76% to 39% for the ASRS and EORP plans, respectively.

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Ross L. Tate
County Auditor



INTRODUCTION

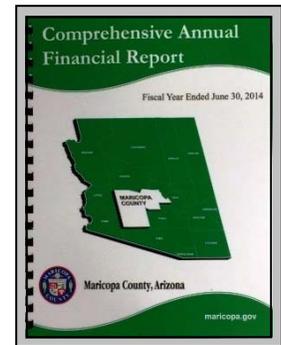
About this Report

For FY 2014, we highlight the financial strength of the 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 for significant capital projects without incurring debt. 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 5. Overall, key financial indicators are strong and compare favorably with other large western U.S. counties.

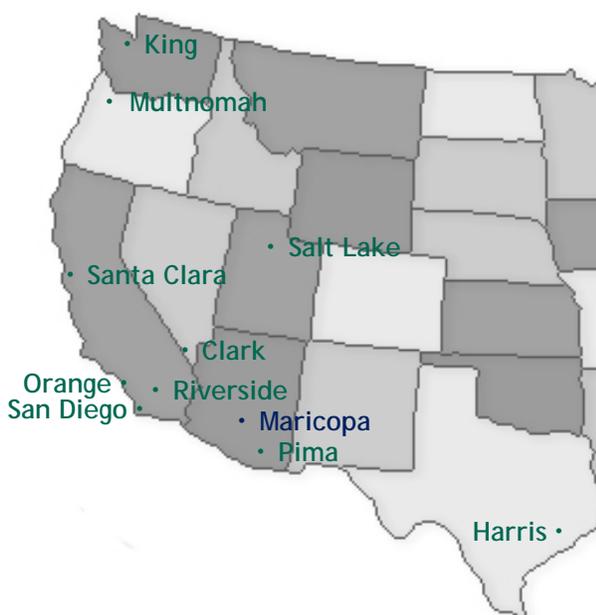
In addition, we provide updated information on the state pension plans covering County employees. Public pension funds are experiencing fiscal challenges due to investment losses in previous years, planned benefit payments, actuarial methods and assumptions used in projections, and insufficient employee 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: 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 (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 | 2,062,253 | Las Vegas, NV |
| Harris | 4,336,853 | Houston, TX |
| King | 1,981,900 | Seattle, WA |
| Multnomah | 756,530 | Portland, OR |
| Orange | 3,113,991 | Santa Ana/Anaheim, CA |
| Pima | 1,008,400 | Tucson, AZ |
| Riverside | 2,279,967 | Riverside, CA |
| Salt Lake | 1,079,721 | Salt Lake City, UT |
| San Diego | 3,194,362 | San Diego, CA |
| Santa Clara | 1,868,558 | 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.

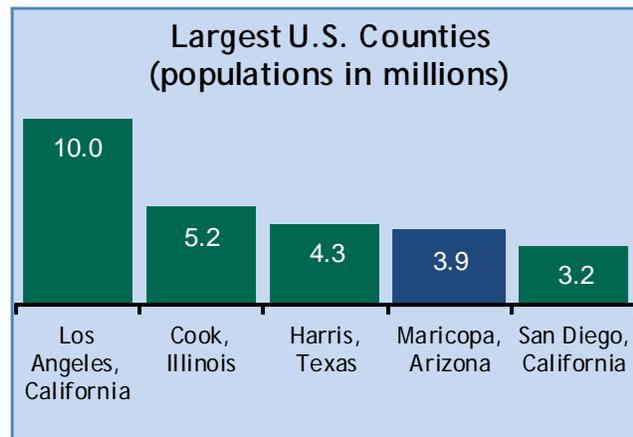
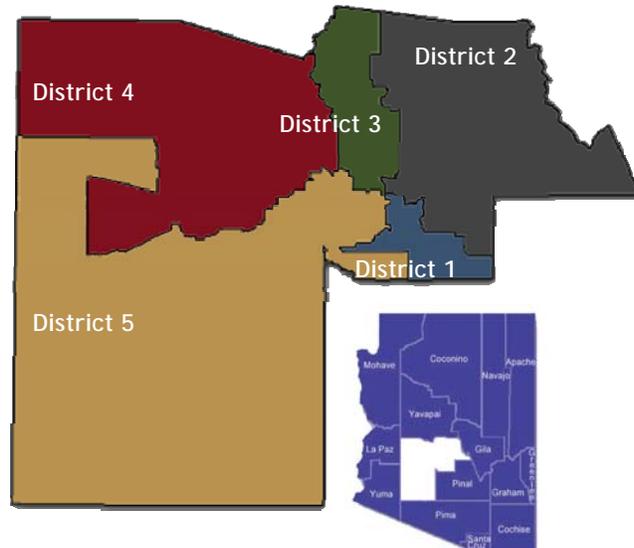
Size

Maricopa County is located in the south-central area of the State of Arizona. At 9,225 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 the 4th largest county in the nation.

Approximately 60% of the state's total population resides within the County, which includes the cities of Phoenix, Mesa, Tempe, Glendale, Scottsdale, 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 3.9 million.



Board of Supervisors

District 1



Denny Barney

District 2



Steve Chucri

District 3



Andrew Kunasek

District 4



Clint L. Hickman

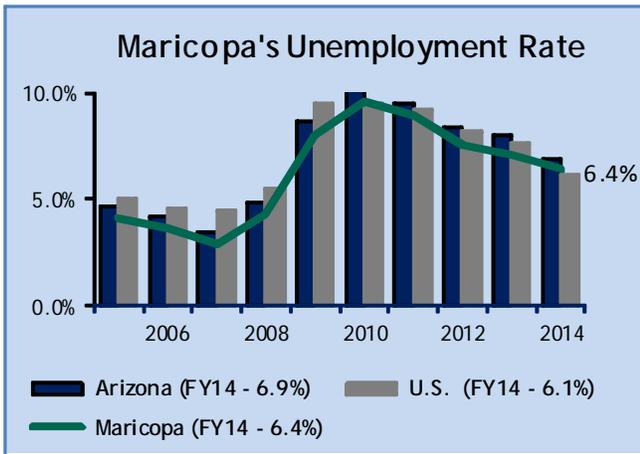
District 5



Marie Lopez-Rogers



Steve Gallardo
(Jan. 2015)



Unemployment

Maricopa County's unemployment rate has generally remained below national and Arizona rates. Starting in 2009, unemployment increased significantly. By 2014, Maricopa County's unemployment rate was 6.4%, continuing a gradual reversal from its high of 9.6% in 2010. The current data shows Maricopa unemployment as slightly higher than the national rate, but slightly lower than the Arizona rate.

Principal Employers

| Principal Employers | Employees |
|--------------------------------------|------------------|
| State of Arizona | 49,278 |
| Wal-Mart Stores, Inc. | 32,169 |
| Banner Health Systems | 25,270 |
| City of Phoenix | 14,983 |
| Wells Fargo & Company | 14,713 |
| Maricopa County | 12,698 |
| Arizona State University | 12,222 |
| Intel Corp. | 11,900 |
| JPMorgan Chase & Co. | 11,042 |
| Bank of America | 11,000 |
| Total for Principal Employers | 195,275 |
| Total Employment | 1,813,869 |

Economic Activity

Maricopa County has a variety of employers within its boundaries, with the majority comprised of government, retail, technology, financial, 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 for outdoor 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 Property Taxpayers

| Principal Property Taxpayers | Percent of Total County Assessed Property Tax Value |
|--------------------------------------|---|
| Arizona Public Service | 3.36% |
| Qwest Corporation | 0.48% |
| Southwest Gas Corporation | 0.46% |
| Southern California Edison Co. | 0.40% |
| El Paso Electric Company | 0.39% |
| Wal-Mart Stores, Inc. | 0.25% |
| Mesquite Power LLC | 0.25% |
| AT&T | 0.24% |
| Sundevil Power Holdings, LLC | 0.23% |
| Public Service Company of New Mexico | 0.23% |



Tourism is important to the regional economy

GENERAL FUND

General Fund Spendable Fund Balance Decreased

General Fund

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

Non-Spendable and Spendable Amounts

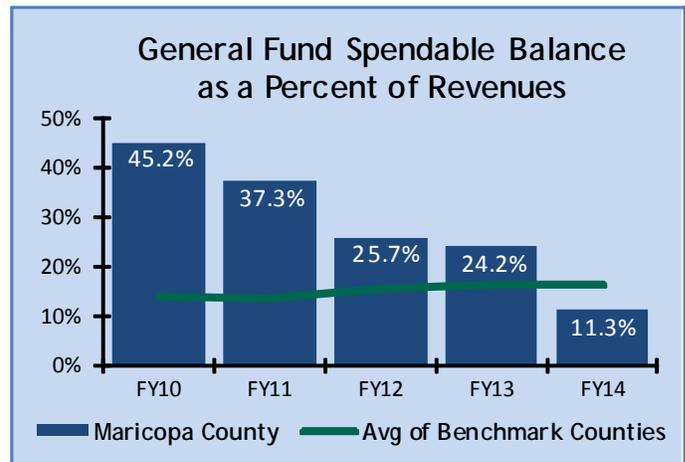
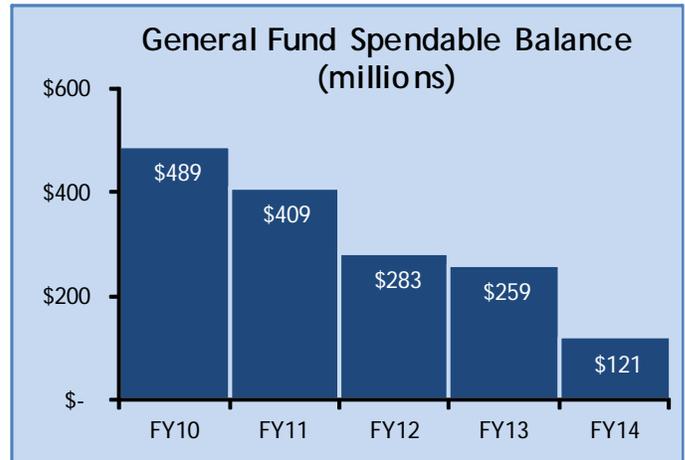
The General Fund balance is classified as *spendable* or *non-spendable*. The *non-spendable* fund balance is comprised of non-cash assets, such as inventories and other amounts that must remain legally intact.

The *spendable* fund balance is generally available for use in the following year. However, certain laws and contracts may 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 \$114 million of the FY 2014 spendable balance was assigned and budgeted to be spent in FY 2015.

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

General Fund Spendable Fund Balance as a Percent of Revenues

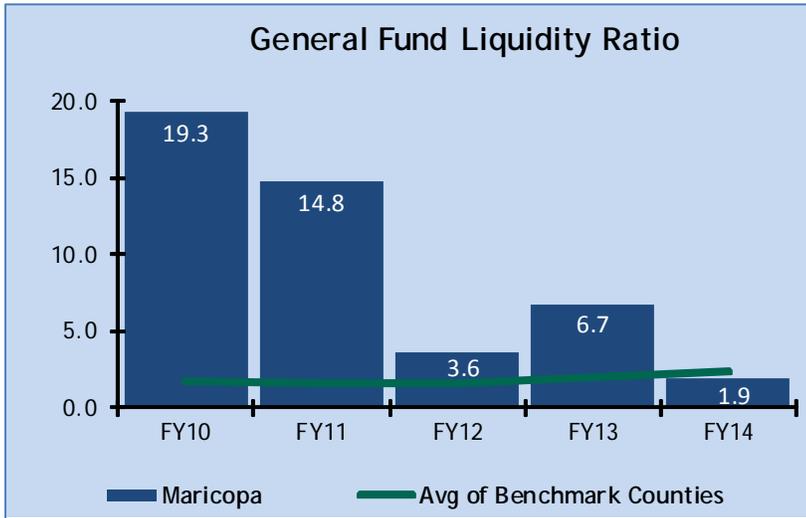
Prior to FY 2012, Maricopa County’s spendable fund balance as a percent of revenues was significantly higher than benchmark averages. These balances reflect amounts Maricopa saved for capital projects such as the new Superior Court Tower and Sheriff’s Office Headquarters.



Major capital projects, such as the Superior Court Tower (immediate left) and Sheriff’s Office Headquarters (far left), were built without incurring debt. Fund balance decreases in recent years reflect planned capital project expenditures.

LIQUIDITY & 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 for current obligations. Maricopa County continues to maintain a healthy liquidity ratio of almost 1.9 to 1. This means that \$1.90 is available in cash for every \$1 in current liabilities.

Long-term capital expenditures were paid during the past three years without incurring long-term debt.

Long-Term Debt Per Person is Low

Maricopa County has low long-term debt when compared with benchmark counties. The low debt level is the result of a conservative "pay-as-you-go" financing policy. The FY 2014 County long-term debt was \$55 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 services that are offered by incorporated cities in Maricopa County. These differences may impact comparative debt levels.



Long-Term Debt

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

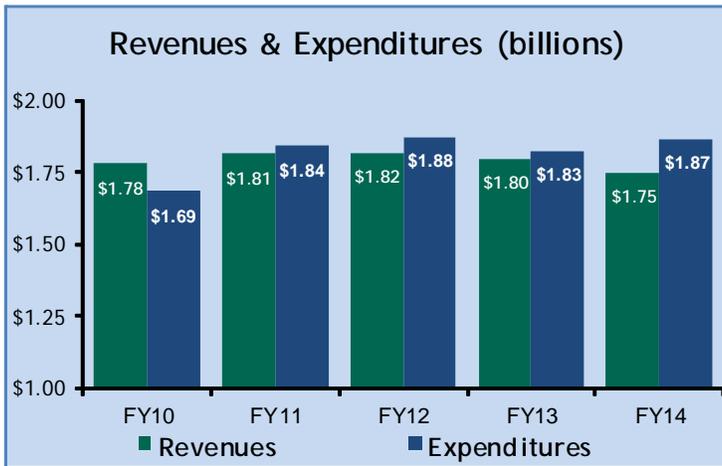
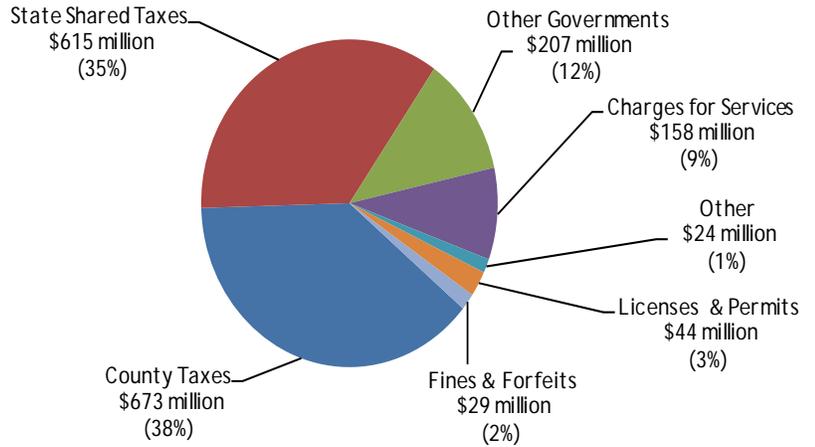
REVENUES

Sources of County Funds

Most of Maricopa County's revenues come from County and State shared taxes (73%).

State shared taxes (35%) include Sales Tax, Vehicle License Tax, and Highway Users Tax. County taxes (38%) include General Property Tax, Jail Tax, and Rental Car Tax. Other Governmental revenues (12%) include federal and state grants.

Governmental Funds Revenues

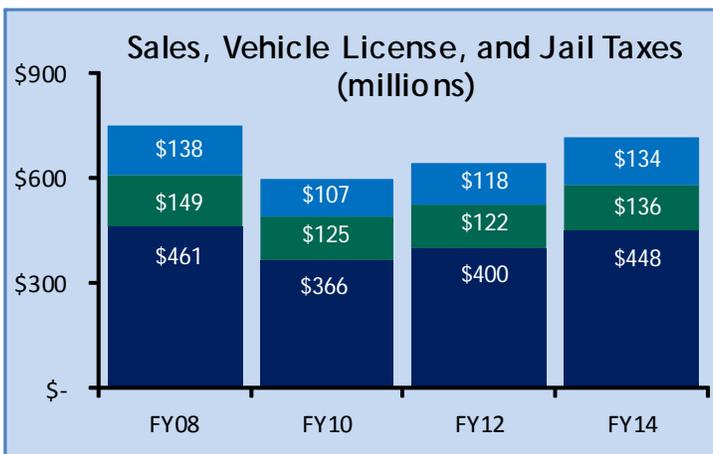


Expenditures Exceed Revenues as Planned

The excess of expenditures over revenues from FY 2011 through FY 2014 reflect building construction and other capital costs that were paid from prior years' savings.

Non-Property Tax Revenues are Improving

In FY 2014, non-property revenues increased over those of the prior two years. However, revenues are still \$30 million less than FY 2008 revenues.



| FY 08 to FY 14 Decline | |
|------------------------|----------------------|
| Jail Excise | \$ 4 million (2%) |
| Vehicle License | \$ 13 million (8%) |
| State-Shared Sales Tax | \$ 13 million (2%) |
| Total Decline | \$ 30 million |

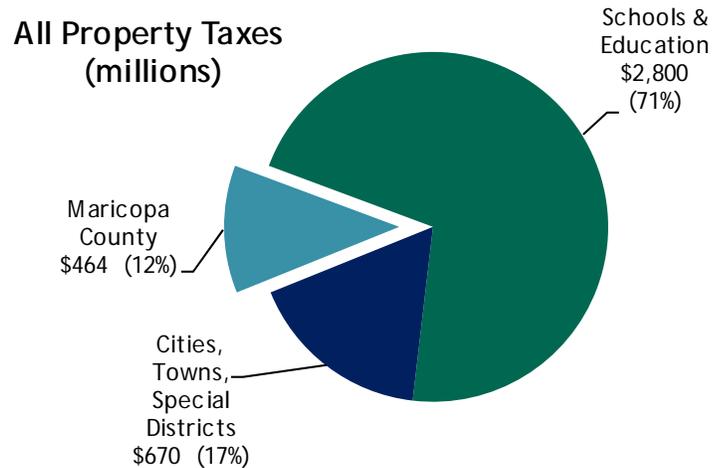
PROPERTY TAXES

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.

FY 2014 property taxes totaling \$3.9 billion were distributed to Maricopa County, schools, cities, towns, and special districts. The following chart shows that Maricopa County received 12% of each property tax dollar. Schools and education received 71%, and cities, towns and special districts received 17%.

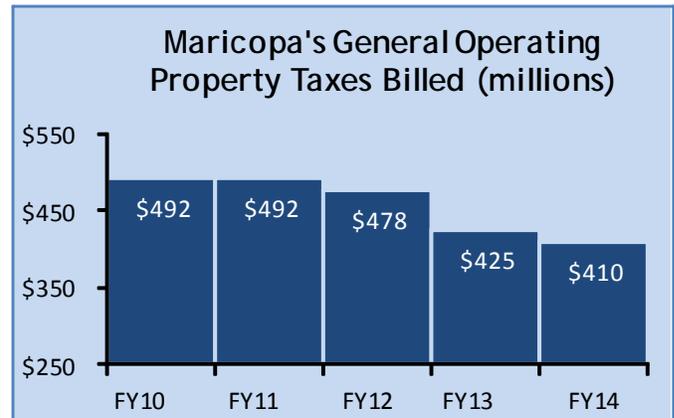
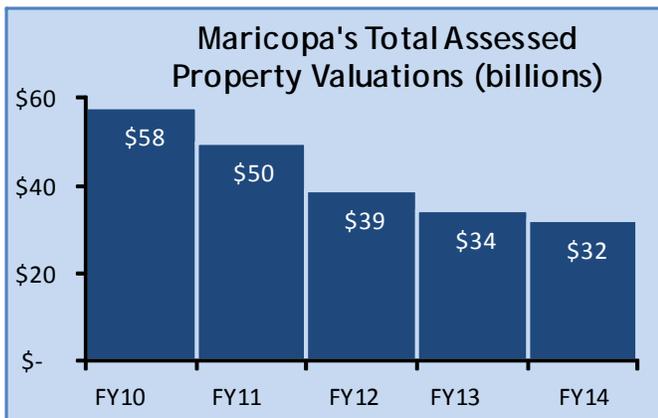
| Distribution of the County's Property Tax for FY 2014 (millions) | |
|--|---------------|
| County Operating | \$ 410 |
| Flood Control District | \$ 40 |
| Library District | \$ 14 |
| County Total | \$ 464 |



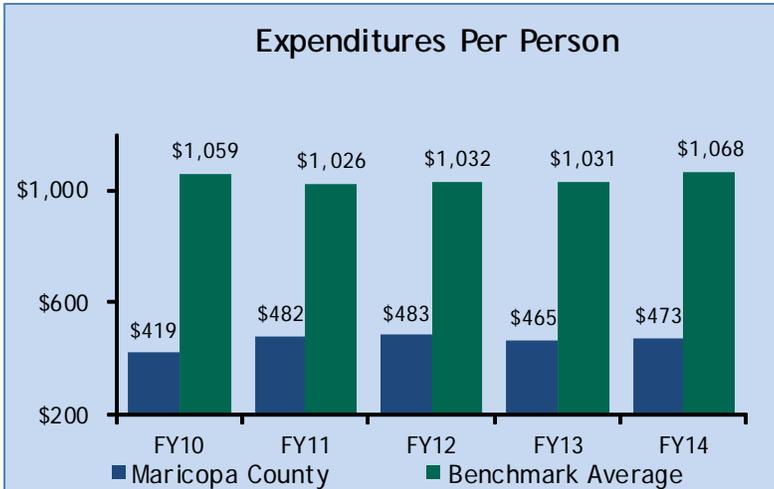
Assessed Property Values and Taxes Have Decreased

Maricopa County controls tax rates for its general operating, flood control, and library funds. Total direct property tax rates ranged from 1.16% in FY 2010 to 1.47% in FY 2012 and FY 2013. In FY 2014, property tax rates decreased slightly to 1.46%.

The following chart (left) show that assessed values declined \$26 billion from FY 2010 to FY 2014. Although several factors determine property tax collections, declining market values were a major factor in reducing tax bills in recent years. The following chart (right) shows that general operating property taxes were \$82 million less in FY 2014 than in FY 2010 and FY 2011.



EXPENDITURES

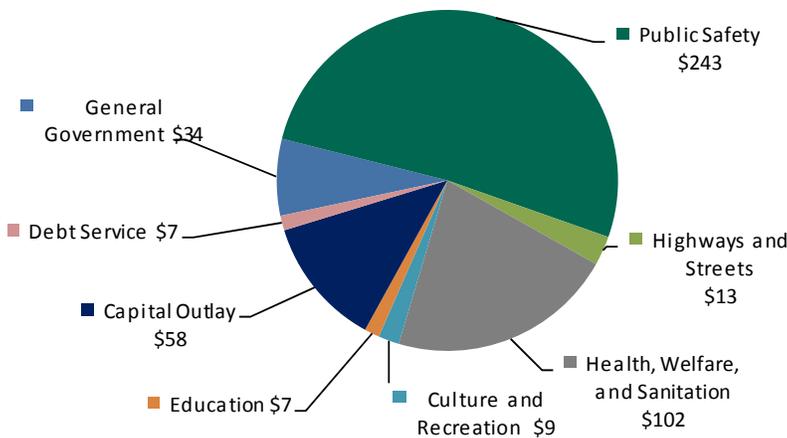


\$473 Spent Per Person

Maricopa County has practiced conservative fiscal policies. Total FY 2014 expenditures for all governmental funds was \$473 per person. The per person average for 10 benchmark counties was \$1,068. 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

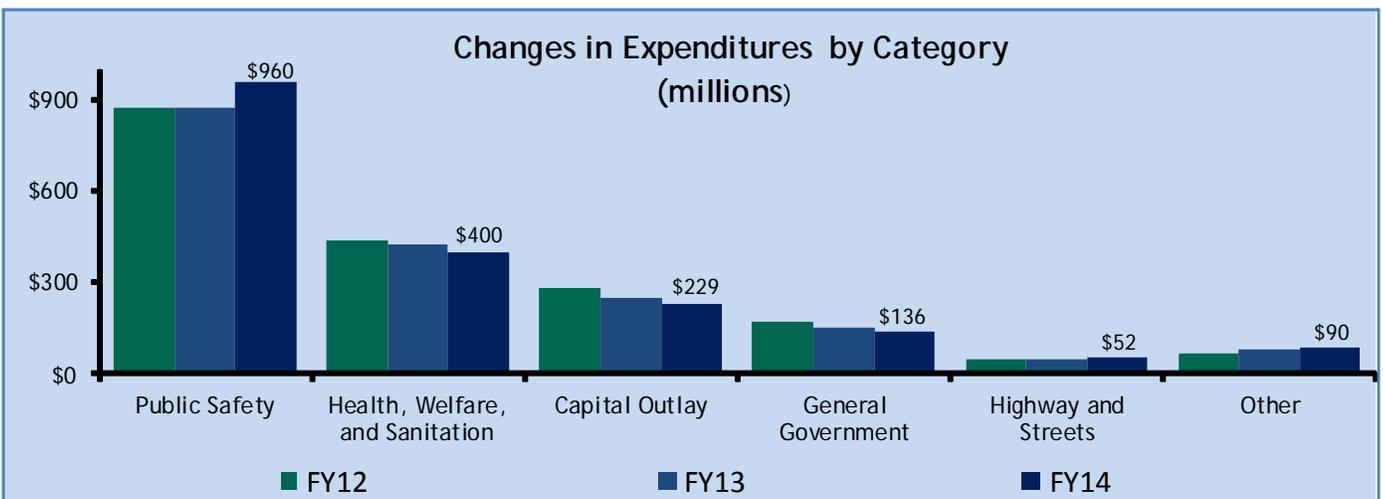
Expenditures Per Person by Spending Category - \$473



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 Patrol Car



County Jail



Superior Court



Public Health Clinic



Animal Care & Control



Human Services

Public Safety

| | |
|--------------------|----------------|
| Total Expenditures | \$ 960,017,951 |
|--------------------|----------------|

| | |
|-------------------------|--------|
| Expenditures per Person | \$ 243 |
|-------------------------|--------|

| | |
|---|--------|
| Benchmark Average Expenditures per Person | \$ 352 |
|---|--------|

- 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)
- Public Fiduciary (provides personal, legal, and financial management for vulnerable adults)
- Planning and Development (regulates development and land use activity for unincorporated areas within the County)
- 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 | \$ 400,282,296 |
|--------------------|----------------|

| | |
|-------------------------|--------|
| Expenditures per Person | \$ 102 |
|-------------------------|--------|

| | |
|---|--------|
| Benchmark Average Expenditures per Person | \$ 372 |
|---|--------|

- 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 handler 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 | \$ 135,670,741 |
| Expenditures per Person | \$ 34 |
| Benchmark Average Expenditures per Person | \$ 105 |

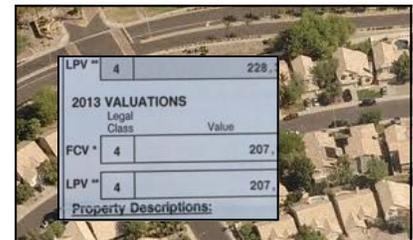
- Assessor (determines property valuations for taxes)
- Board of Supervisors (authorizes County budgets, policies, and procedures)
- County Administration
- Internal Audit (conducts performance and compliance reviews of County operations)
- Recorder and Elections (stores public records, registers voters,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



Board of Supervisors



Elections



Property Appraisals

Highways and Streets

| | |
|---|---------------|
| Total Expenditures | \$ 51,635,626 |
| Expenditures per Person | \$ 13 |
| Benchmark Average Expenditures per Person | \$ 52 |

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



Transportation

Culture, Recreation, and Education

| | |
|---|---------------|
| Total Expenditures | \$ 63,443,787 |
| Expenditures per Person | \$ 16 |
| Benchmark Average Expenditures per Person | \$ 47 |

- Library District (runs 17 library branches)
- Parks and Recreation (maintains 10 regional parks)
- Superintendent of Schools (provides financial and support services to school districts)



Parks & Recreation Lake Pleasant



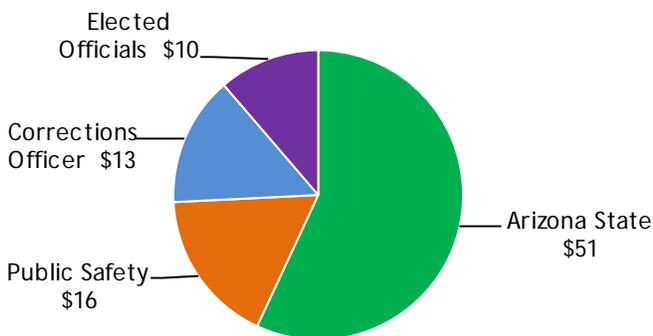
Queen Creek Library

RETIREMENT PLANS

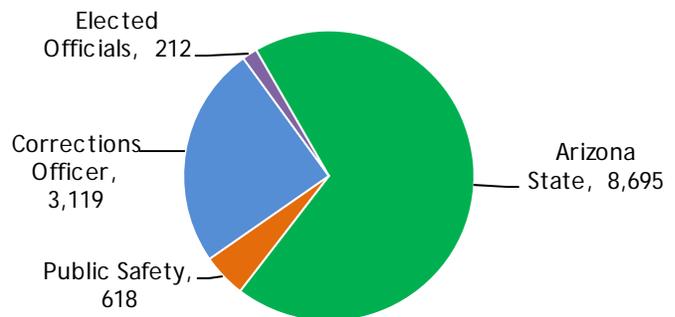
Retirement Plans Remain Underfunded

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 2014, Maricopa County contributed \$90 million to the four retirement plans. County contributions and the number of employee members are summarized below.

FY 2014 County Contributions to Retirement Plans
(Total \$90 million)

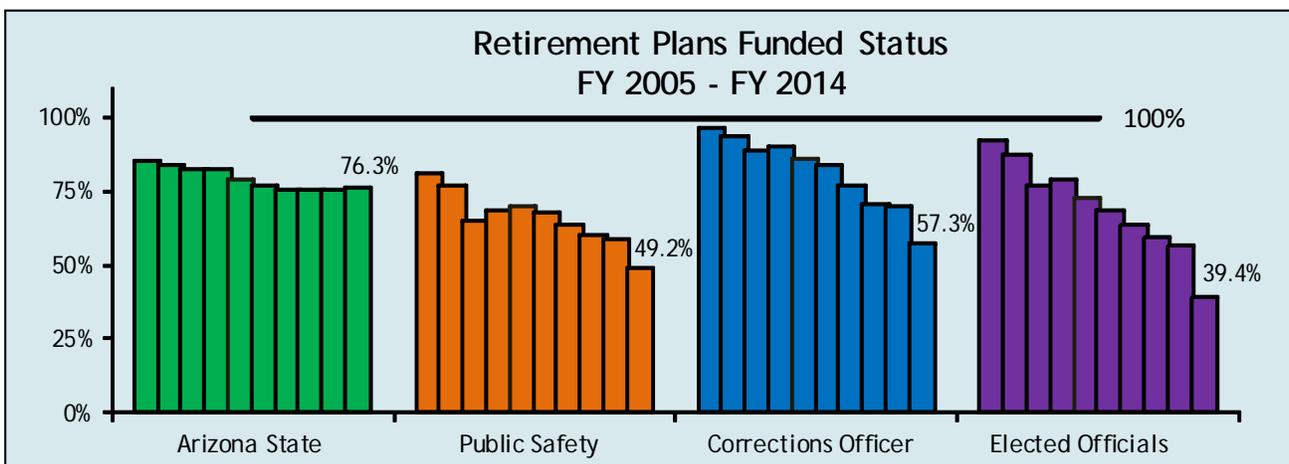


FY2014 Retirement System Employees
(Total 12,644)



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.

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 over ten years.



RECOGNITION

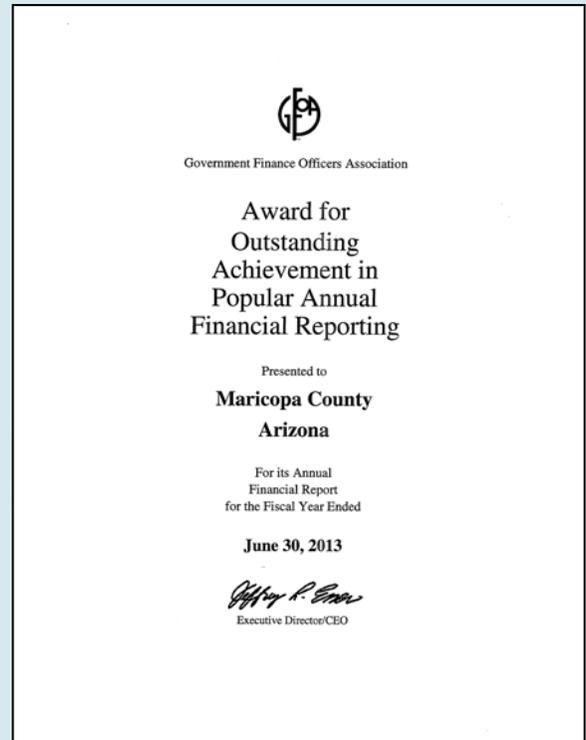
Recognition for Popular Annual Financial Reporting

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, 2013.

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 2014 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.



