

MARICOPA COUNTY CITIZENS FINANCIAL CONDITION REPORT FISCAL YEAR ENDED JUNE 30, 2018



Maricopa County Shows Continued Strength in Fiscal Year 2018

Highlights

Our Fiscal Year (FY) 2018 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.
- Is home to one of the largest regional parks systems in the nation.
- Has a fiscally conservative management philosophy.
- Has low long-term liabilities compared to benchmark counties.
- Experienced a slight increase in property values and tax revenues.
- Spends considerably less on delivering services than benchmark counties.

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Maricopa County Internal Audit
301 W. Jefferson St., Suite 660
Phoenix, AZ 85003
(602) 506-1585

www.maricopa.gov/internalaudit
Mike McGee, County Auditor

Introduction

About this Report

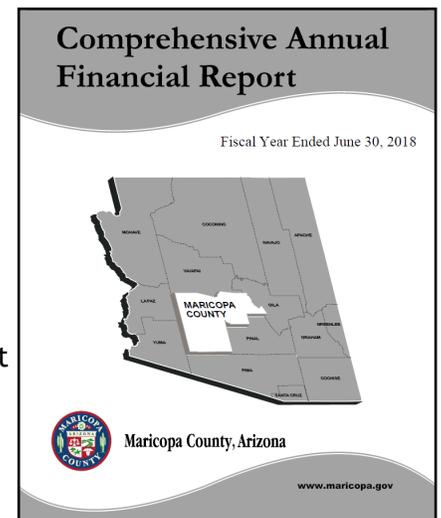
For FY 2018, we highlight the financial strength of Maricopa County through graphic displays of key financial ratios, trends, and comparisons. As the economy has improved, so has Maricopa County's financial health. Using fund balances that were built up over several years, the County has been able to pay cash for many capital projects without incurring liabilities. This is reflected in the County's low long-term liabilities as compared with benchmark counties (see page 6).

In addition, we provide updated information on the state pension plans covering County employees. Public pension funds are experiencing financial challenges due to investment losses in previous years, planned benefit payments, 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	2,248,390	Las Vegas, NV
Harris	4,652,980	Houston, TX
King	2,188,649	Seattle, WA
Multnomah	813,300	Portland, OR
Orange	3,221,103	Santa Ana/Anaheim, CA
Pima	1,033,781	Tucson, AZ
Riverside	2,415,955	Riverside, CA
Salt Lake	1,135,649	Salt Lake City, UT
San Diego	3,337,456	San Diego, CA
Santa Clara	1,956,598	San Jose, CA

Profile

Maricopa County

Maricopa County was established as a county on February 14, 1871, by the Legislative Assembly of the Territory of Arizona from parts of Yavapai and Pima Counties.

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

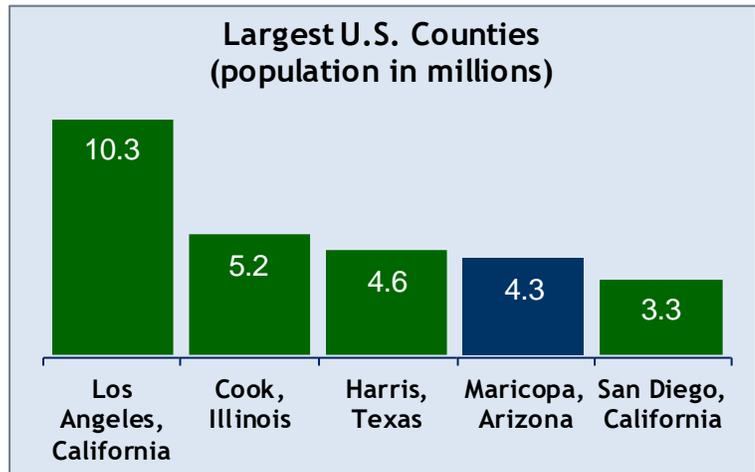
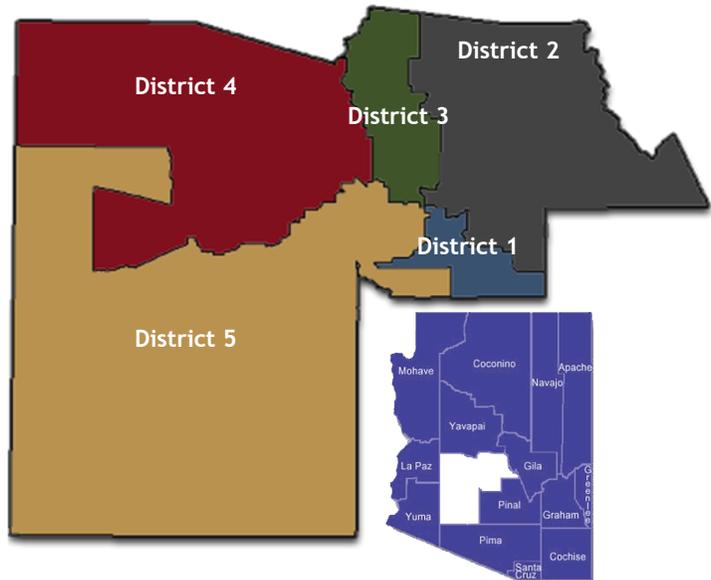
Size

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 61% of the state's total population resides within the County, which includes the cities of Phoenix, Mesa, Chandler, Gilbert, Glendale, Scottsdale, Tempe, and others. Maricopa County's population has grown from 3.8 million to a current high of 4.3 million residents.



FY 2018 Board of Supervisors

District 1



Denny Barney

District 2



Steve Chucri

District 3



Bill Gates

District 4

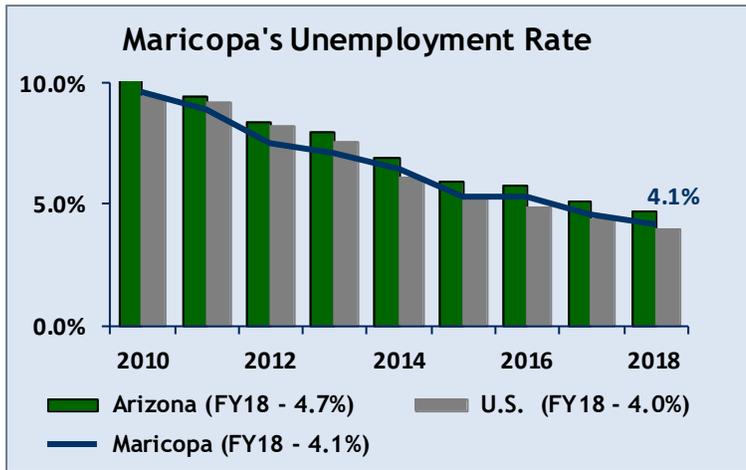


Clint L. Hickman

District 5



Steve Gallardo



Unemployment

Maricopa County's unemployment rate has consistently remained below Arizona rates and close to the national average. Since 2010, unemployment has steadily decreased. By 2018, Maricopa's unemployment rate was 4.1%, continuing a gradual reversal from its high of 9.6% in 2010. Arizona remains well positioned to outpace the nation and most states in job, income, and population growth.

Principal Employers

State of Arizona	36,310
Banner Health	34,776
Wal-Mart Stores	34,090
Wells Fargo	14,818
City of Phoenix	13,776
Maricopa County	12,939
Arizona State University	12,715
Honor Health	11,296
Dignity Health	11,182
Intel Corporation	11,000
Total for Principal Employers	192,902
Total Employment in Maricopa County	2,087,763

Economic Activity

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

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

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). The County also has one of the largest regional parks systems in the nation with over 120,000 acres of open space parks.

Principal Property Taxpayers

Percent of Total County Assessed Property Tax Value

Arizona Public Service Company	2.90%
Southwest Gas Corporation	0.44%
Qwest Corporation	0.34%
Southern California Edison Co	0.32%
El Paso Electric Company	0.28%
Verizon Wireless	0.23%
Wal-Mart Stores Inc.	0.21%
Arizona Solar One LLC	0.19%
Mayo Clinic Arizona	0.18%
Public Service Company of New Mexico	0.17%



Hiking is a popular outdoor activity among tourists.

General Fund & Liquidity

General Fund Spendable Balance Increased

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

Non-Spendable and Spendable Amounts

The General Fund balance (\$220.1 million) is classified as *spendable* (\$217.0 million) or *non-spendable* (\$3.1 million). The *non-spendable* fund balance includes non-cash assets, such as inventories and other amounts that must remain legally intact.

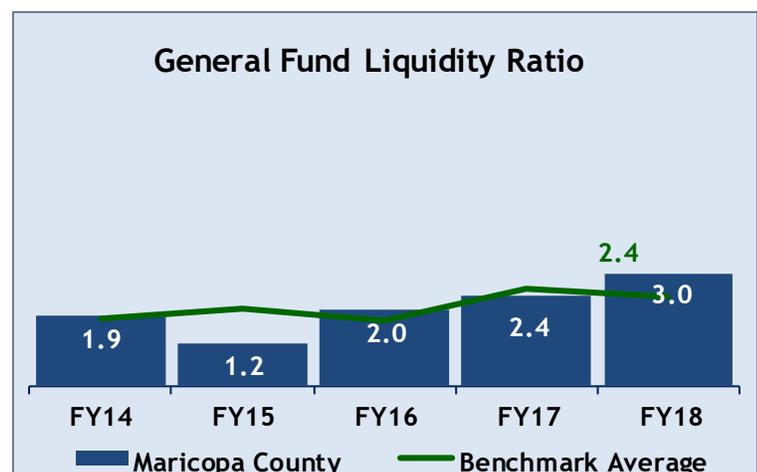
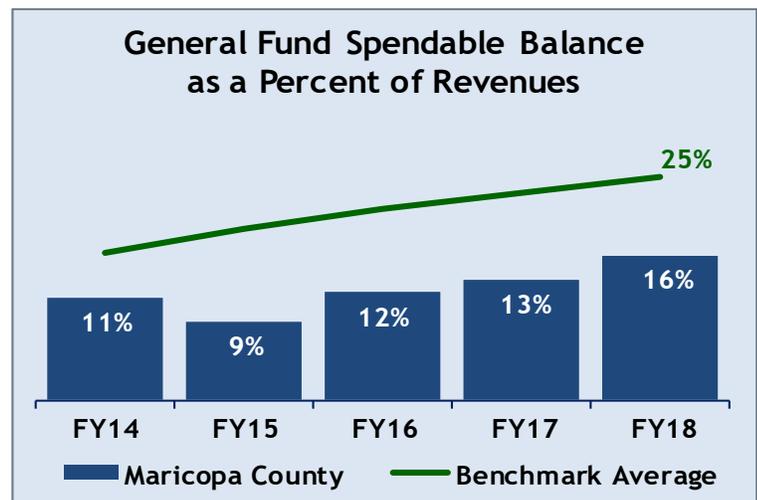
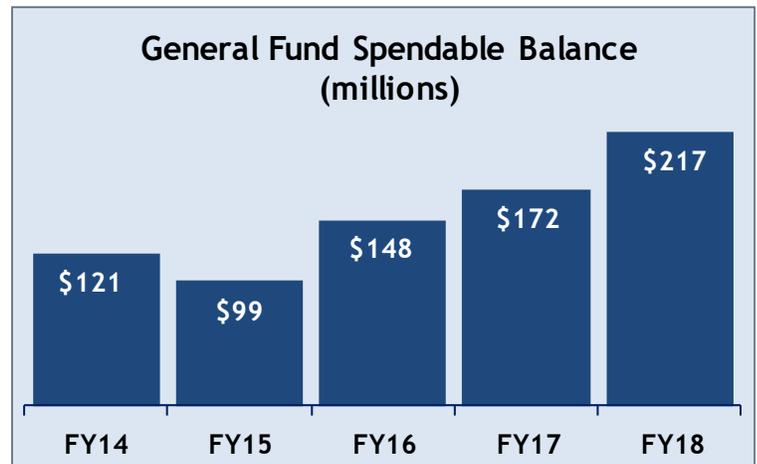
The *spendable* fund balance is generally available for use in the following year. However, certain laws and contracts impose restrictions on how the funds are used. In addition, the Board of Supervisors may commit portions of the fund for specific purposes. County management reports that \$184 million of the FY 2018 spendable balance was assigned and budgeted to be spent in FY 2019. 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 General Fund spendable balance as a percent of revenues has increased since FY 2014. The percentage increased slightly for FY 2018, but is still lower than the benchmark average. An increasing percentage of revenues as compared to the spendable fund balance is considered a healthy indicator.

General Fund Liquidity Ratio Increased

The liquidity ratio compares current assets and liabilities. It is a measure of the County's ability to pay for current obligations. Maricopa County has a liquidity ratio of 3 to 1. This means that \$3 is available in cash for every \$1 in current liabilities.

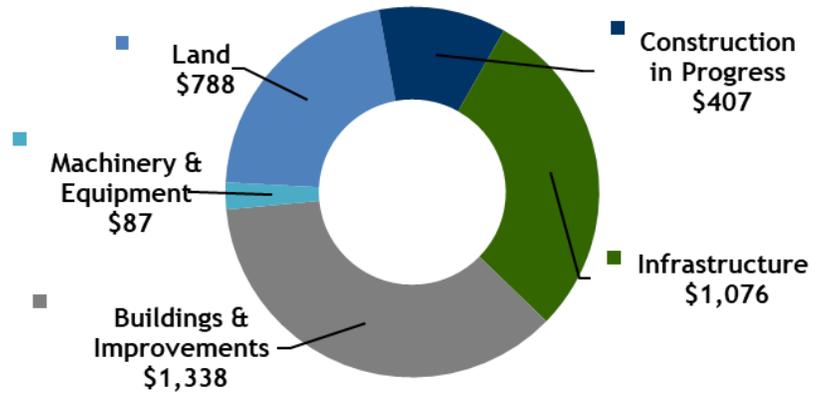


Assets & Liabilities

Capital Assets

The County uses capital assets to provide services to its citizens. Capital assets are defined as assets with an initial, individual cost of more than \$5,000. Maricopa County maintains \$4.75 billion in gross capital assets; less accumulated depreciation of \$1.05 billion (\$3.7 billion net). The largest net capital asset category is buildings and improvements.

Governmental Net Capital Assets (millions)

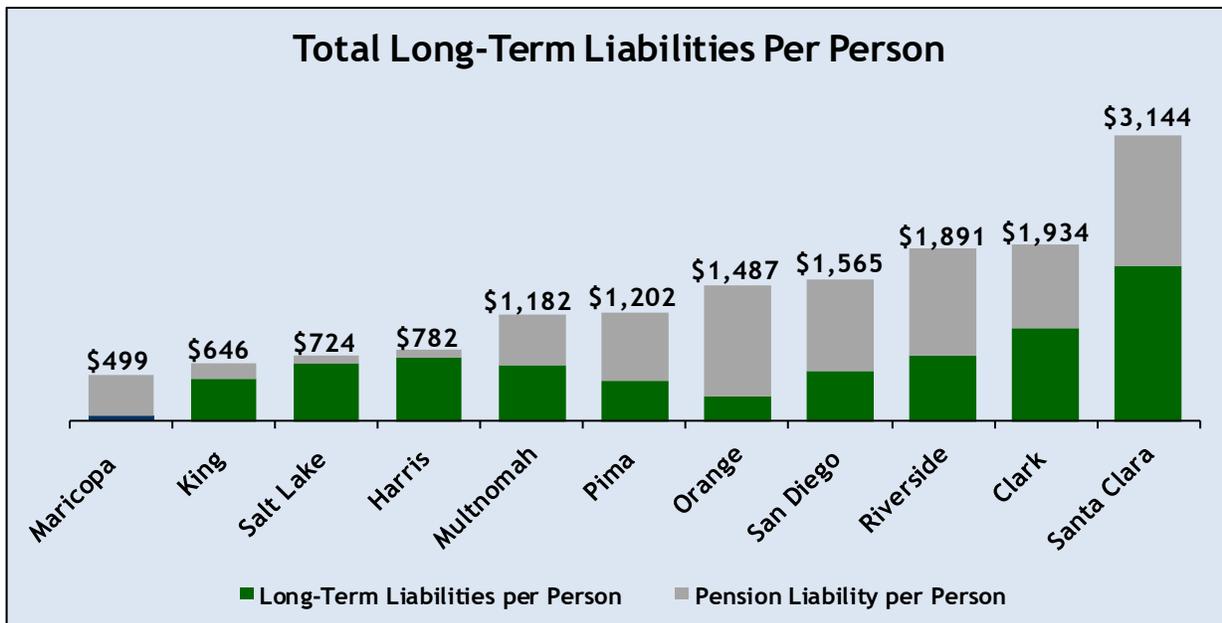


Long-Term Liabilities

Maricopa County has low long-term liabilities when compared with benchmark counties. Long-term liabilities and obligations are financial commitments expected to be paid in future years. These include pension liabilities, certificates of participation, revenue bonds, and claims and judgments. The County’s general obligation bonds were rated as “AAA” (implied) by bond rating firms Standard & Poor’s and Fitch. The general obligation “AAA” rating is the highest possible and is “implied” since no general obligation bonds are outstanding.

The County had \$2.2 billion in long-term liabilities in FY 2018. The largest components of long-term liabilities consisted of net pension liability (\$1,952 million) and certificates of participation (\$122 million). The County’s FY 2018 long-term liabilities were \$499 per person; of which \$452 (91%) per person was related to pension liabilities. Benchmark averages for long-term liabilities, including pension liabilities, per person were \$1,456 and \$745, respectively.

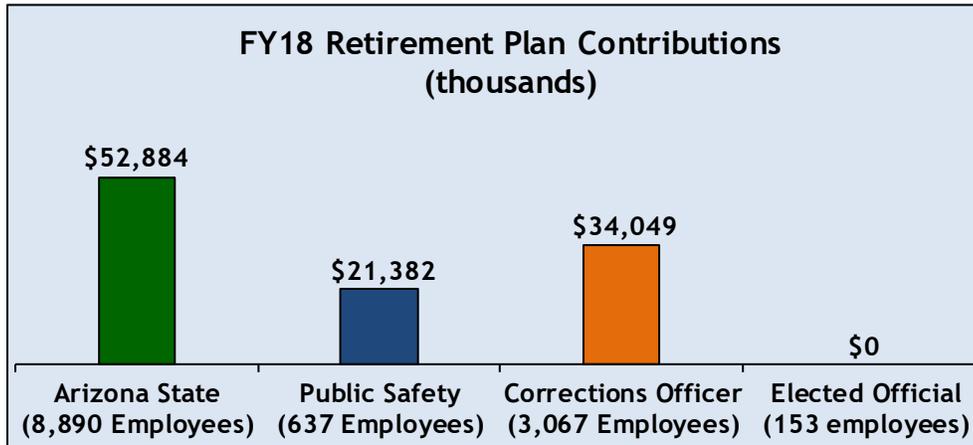
Counties with higher liabilities may provide services such as airports and utilities that Maricopa County does not provide. Some of these counties may provide municipal services that are offered by incorporated cities in Maricopa County. These differences may impact comparability of liability levels.



Retirement Plans

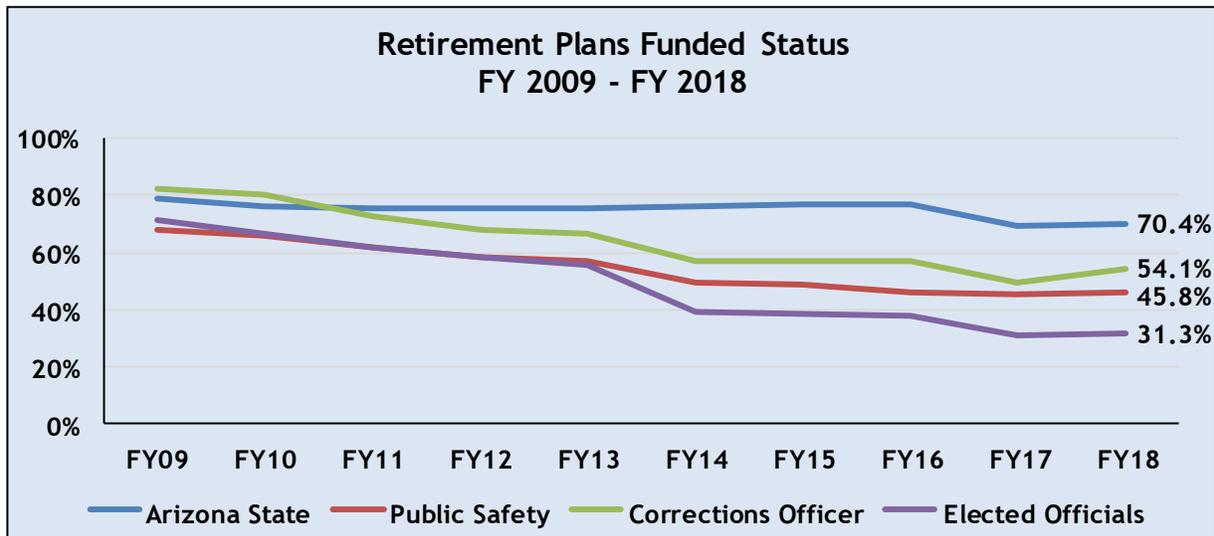
Retirement Plans Remain Underfunded

The County contributes to four main retirement plans: (1) the Arizona State Retirement System (ASRS), (2) the Public Safety Personnel Retirement System (PSPRS), (3) the Corrections Officer Retirement Plan (CORP), and (4) the Elected Officials Retirement Plan (EORP). 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 2018, Maricopa County contributed \$108 million to these plans. Due to a court ruling that reversed a 2011 law that increased employee contribution rates, the County's 2018 EORP contributions were entirely offset and PSPRS contributions were partially offset by credits related to employee pension reimbursements. County contributions and the number of County employees enrolled in each plan are summarized below.



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. 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.

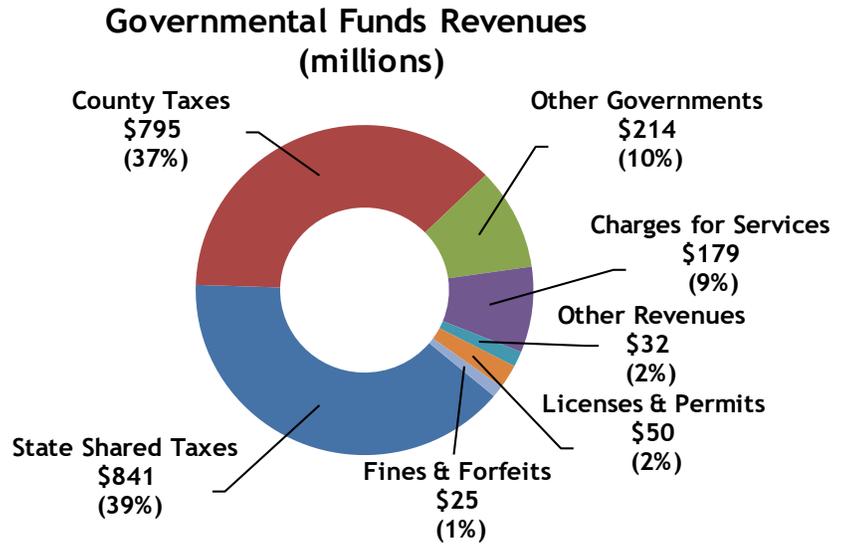


Revenues

Sources of County Funds

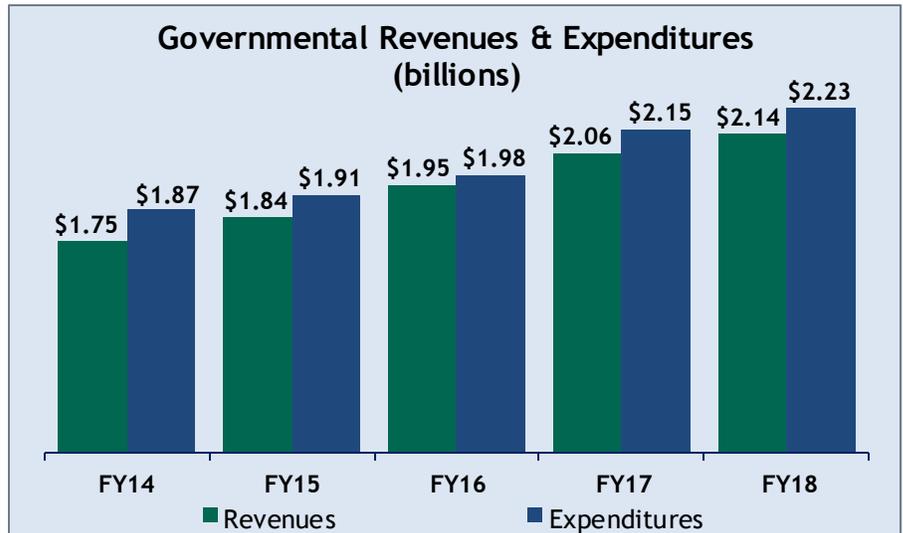
Most of Maricopa County's revenues come from County and State shared taxes (76%).

State shared taxes (39%) include Sales Tax, Vehicle License Tax, and Highway Users Tax. County taxes (37%) include General Property Tax, Jail Tax, and Rental Car Tax. Other Governmental revenues (10%) include federal and state grants. The rest of County's revenue comes from Charges for Services, Other Revenues, Licenses and Permits, and Fines and Forfeits.



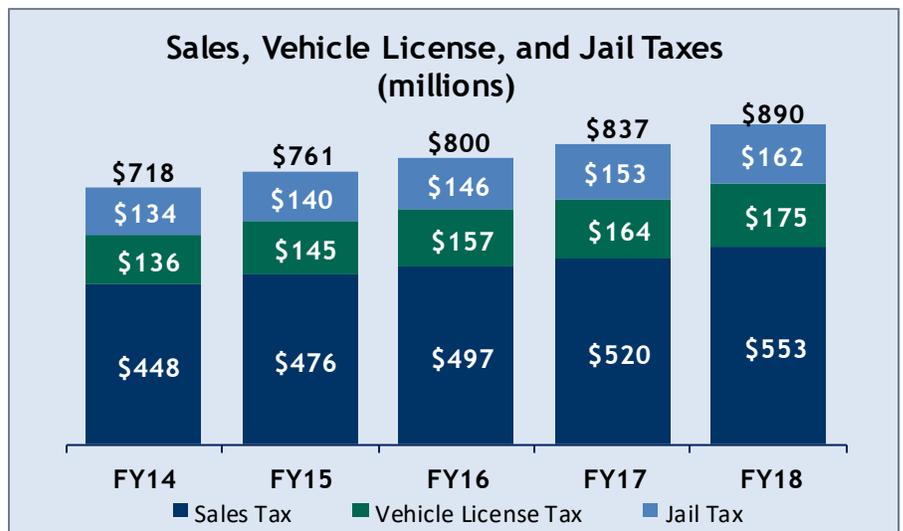
Expenditures Exceed Revenues

The excess of expenditures over revenues from FY 2014 through FY 2018 reflect building construction, technology improvements, and other capital costs that were paid from prior years' savings. The increase in FY18 expenditures is primarily attributable to increases in salaries and benefits, intergovernmental payments, non-capital equipment, and capital outlay.



Shared and Other Tax Revenues are Improving

These tax revenues come from sales, vehicle license, and jail tax revenues. As a result of the improving economy, these revenues have increased over the prior four years by \$172 million.

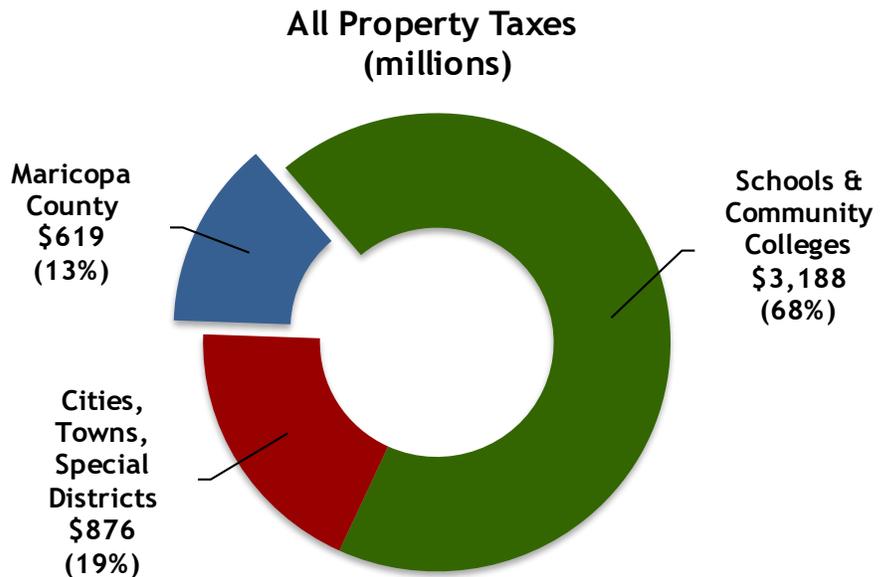


Property Taxes

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. Property tax bills are then prepared and collected by the County Treasurer.

FY 2018 property taxes totaling \$4.7 billion were distributed to Maricopa County, schools, cities, towns, and special districts. The following chart shows that Maricopa County received 13% of each property tax dollar. Schools and community colleges received 68%, and cities, towns and special districts received 19%.

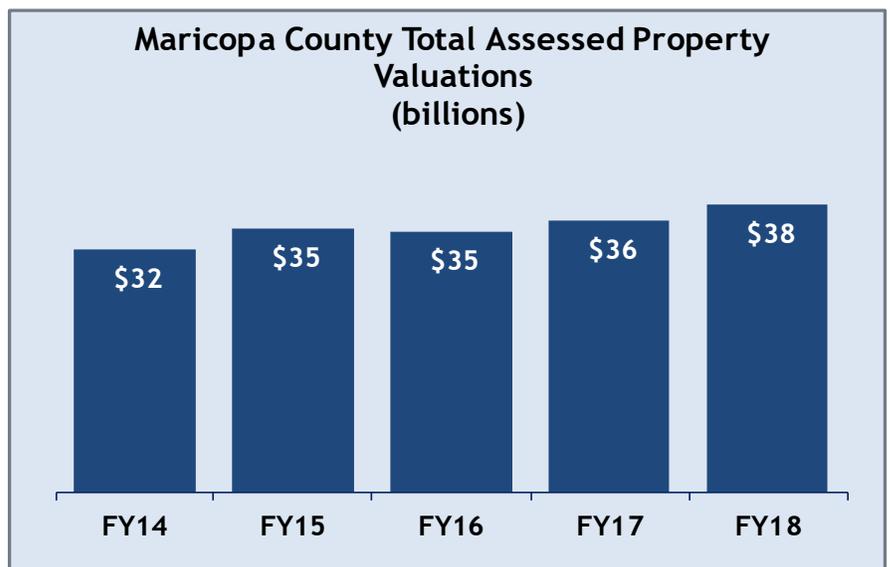


Distribution of the County's Property Tax for FY 2018 (millions)	
County Operating	\$ 536
Flood Control District	\$ 62
Library District	\$ 21
County Total	\$ 619

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 1.46% in FY 2014 to 1.64% in FY 2018.

Assessed values increased \$6 billion between FY 2014 and FY 2018. The increase in property taxes can be attributed to an increase in assessed values as a result of the improved economy.



County Services



MCSO Dive Training



Inspections-Planning & Dev



MC Medical Examiner's Office



Animal Care & Control



SAIL Case Management Program



MC West Immunization Clinic

Public Safety

Total Expenditures	\$ 1,009,352,168
Expenditures per Person	\$ 234
Benchmark Average Expenditures per Person	\$ 388

- 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)
- 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	\$ 512,762,868
Expenditures per Person	\$ 119
Benchmark Average Expenditures per Person	\$ 417

- 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)
- Medical Examiner (conducts public inquiries into sudden or unnatural deaths)
- 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	\$ 158,063,475
Expenditures per Person	\$ 37
Benchmark Average Expenditures per Person	\$ 122

- 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



Voter Registration



Internal Audit

Culture, Recreation, and Education

Total Expenditures	\$ 71,121,964
Expenditures per Person	\$ 16
Benchmark Average Expenditures per Person	\$ 55

- Library District (runs 19 library branches)
- Parks and Recreation (maintains 11 regional parks)
- Education Service (provides financial and support services to school districts)



Archaeology Expo



Northwest Regional Library

Highways and Streets

Total Expenditures	\$ 68,695,845
Expenditures per Person	\$ 16
Benchmark Average Expenditures per Person	\$ 75

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



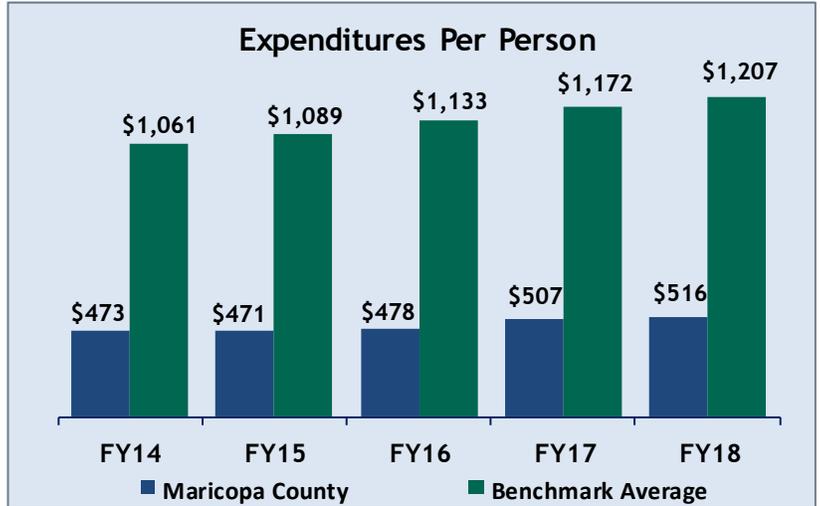
Preservative Seal Application

Expenditures

\$516 Spent Per Person

Maricopa County has practiced conservative fiscal policies. Total FY 2018 expenditures for all governmental funds was \$516 per person. The per person average for 10 benchmark counties was \$1,207. Differences between the benchmark averages and Maricopa County may occur because of the following reasons:

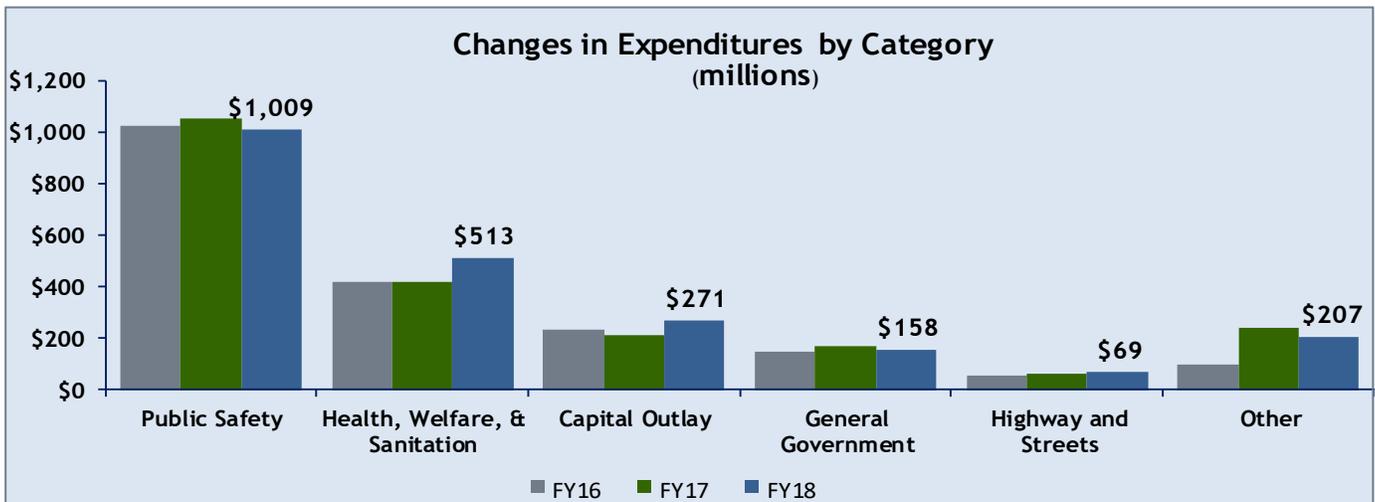
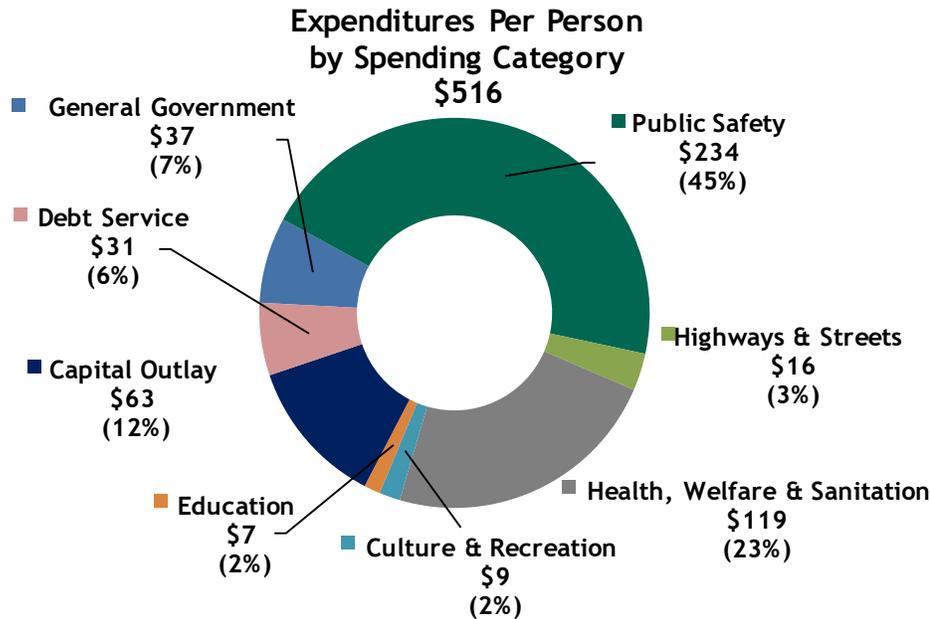
- Proportion of residents living in incorporated cities
- Significantly higher cost of living along the west coast
- Population density and size
- Political influences
- Services provided



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.

The FY 2018 increase of Health, Welfare, & Sanitation expenditures and the decrease in Public Safety expenditures shown in the graph below is primarily due to the County departments of Correctional Health and Medical Examiner being moved from Public Safety to Health, Welfare & Sanitation.



Recognition

Recognition for Popular Annual Financial Reporting

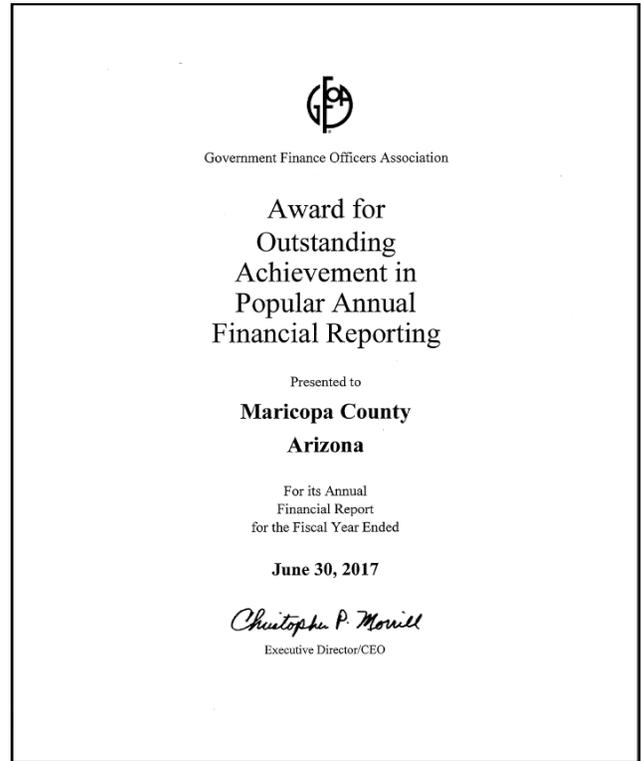
The Government Finance Officers Association of the United States and Canada has given the Award for Outstanding Achievement in Popular Annual Financial Reporting to Maricopa County for its Popular Annual Financial Report for the previous fiscal year.

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

Kenton Schaben, CFE, Senior IT Auditor
Mireyda Leal, Senior Auditor
Kimberly Abbott, Internal Auditor



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 2018 CAFR and prior year CAFRs are available by visiting the Maricopa County Department of Finance website at: <http://www.maricopa.gov/4689/Comprehensive-Annual-Financial-Reports>. These CAFRs will provide additional detail on the content presented in this report.

