



City of Peoria

FINANCE DEPARTMENT

8401 West Monroe Street  
Peoria, Arizona 85345  
T 623.773.7150  
F 623.773.7033

October 31, 2013

Honorable Mayor, City Council, City Manager and Citizens of Peoria, Arizona:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Peoria, Arizona (the City) for the fiscal year ended June 30, 2013. The report was prepared by the Financial Services Division of the Finance Department.

This report represents management's report to its governing body, constituents, legislative and oversight bodies, investors, and creditors. Copies of this report will be sent to elected officials, management personnel, bond rating agencies, Nationally Recognized Municipal Securities Information Repositories, and other agencies which have expressed interest in the City's financial matters. Copies of this financial report will also be placed in the City's libraries, as well as on the City's website, for use by the general public.

Management's Discussion and Analysis presented on pages 3-17 has a different focus and purpose than the transmittal letter and should be read in conjunction with this transmittal.

### **THE FINANCIAL REPORTING ENTITY**

The City of Peoria, chartered in 1954, has a Council-Manager form of government with the City Council consisting of the Mayor and six Council Members. Pursuant to an amendment to the City Charter approved by the voters in 1997, the Mayor is elected at-large for a four-year term. Council members are elected, by district, for four-year terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances; adopting the budget; appointing committee, commission, and board members; and appointing the positions of City Manager, City Attorney, and Judge. The City Manager is responsible for carrying out the policies and ordinances of the City Council, as well as overseeing the day-to-day operations of the City.

The City encompasses approximately 179 square miles in the northwestern portion of Maricopa County, and is one of several major cities comprising the greater Phoenix metropolitan area. Between the 2000 census and the 2010 census the City's population increased by more than 42 percent, from approximately 108,300 to approximately 154,065. This followed the more than 100 percent growth that occurred in the preceding 10 years. The estimated current population is 159,600. The City's tremendous growth is attributable to the comparatively affordable housing, an excellent school district, and the expansion of the metropolitan freeway systems, allowing Peoria residents to commute effectively to other cities in the metropolitan area. Population growth trends are expected to continue, though at a slower pace. While growth is positive, this growth will continue to present challenges to the City in providing a high level of services.

The City provides a full range of municipal services, including police and fire protection, solid waste services, water and sewer services, construction and maintenance of streets, recreational and cultural events, library services, public transportation, planning and zoning services, and general administrative services. Peoria offers a wide range of community facilities including two community centers, three swimming pools, two libraries, and 33 neighborhood parks encompassing 356 acres. The Peoria Sports Complex—operated by the City—is the nation's first two-team baseball spring training facility and the spring training home of the San Diego Padres and Seattle Mariners. Lake Pleasant, in northern Peoria, is the second largest lake in Arizona. The City opened its first large community park, Rio Vista Community

Park, in the southern part of the City in fiscal year 2004. This 50-plus acre facility has athletic fields, playgrounds, armadas, an urban lake, skate park and other amenities for the citizens' enjoyment. Phase II of Rio Vista Park, which included a recreation center and additional fields, was completed in 2007. The City's second community park is under construction and will open in fiscal year 2014. The City also has a performing arts center with a 250-seat main auditorium, 80-seat black box theater, and classroom and administrative space in the downtown area.

This report includes financial statements on both a government-wide and fund basis for the primary government as well as its component units. Component units are separate legal entities included in the reporting entity due to the significance of their financial or operational relationship with the City. Criteria used by the City for inclusion of activities in preparing its financial statements are in conformity with GASB Statement No.14, *The Financial Reporting Entity*, as amended by GASB Statement No.61. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the financial reporting entity consists of the City and four blended component units, the City of Peoria Municipal Development Authority, Inc., the Vistancia Community Facilities District, the City of Peoria Employee Benefits Trust and the City of Peoria Workers' Compensation Trust as discussed further in Note 1.A of the notes to the financial statements.

## **MAJOR INITIATIVES, SERVICE EFFORTS, AND ACCOMPLISHMENTS**

### **For The Year**

In fiscal year 2013, the City continued to invest in programs and amenities that keep Peoria a very livable community. Emphasis was placed on public safety, parks and open space, neighborhood preservation, and human services. Below are some of the service efforts and accomplishments of the City during the fiscal year.

#### **Communications**

- Redesigned the Building Peoria website to interface with the Engineering Department's database, providing the ability to update information about capital projects without the need to edit pages.
- Added a new interactive bulk trash collection map to Peoriaaz.gov, allowing users to enter an address and immediately determine the date of the next pickup.
- Completed the redesign of the Police Department's web pages and added a department employee directory.
- Implemented new citywide graphic design standards.
- Completed 509 design jobs, saving more than \$200,000 in design costs. Projects included the City's Tourism Guide, mobile app, and website; Spring Training material, ads, and promotional items; Economic Development identity and brochures; and Police Annual Report, among others.
- Delivered 324 news releases to the media, generating an equivalent ad value of more than \$3.3 million.
- Hosted another successful seven-week Peoria Leadership Institute, a program to give citizens insight into the operations of the City.

#### **Planning & Community Development**

- Successfully placed the First Presbyterian Church on the National Register of Historic Places.
- Designed and installed interpretive signs at Palo Verde Park, which was recently placed on the National Register of Historic Places.
- Managed the design and installation of new street signs in the Old Town core celebrating the area's historic and cultural heritage.
- Completed the transfer of the City's Public Housing Authority to the Housing Authority of Maricopa County, culminating a four-year effort to transition the City away from public housing and Section 8 management.
- Successfully completed Neighborhood Pride in the Brown Street neighborhood, enhancing 51 homes and leveraging the City's investment through donated goods, materials, and volunteer labor.

### **Economic Development Services**

- Welcomed Trine University, an Indiana-based non-profit university founded in 1884 and boasting academic strengths in graduate and undergraduate engineering programs.
- Maxwell Technologies, a global leader in developing, manufacturing and marketing energy storage and power delivery solutions, opened a manufacturing facility in the City and will create 150 new jobs over three years. The project's capital investment is \$26 million.
- The City's medical device accelerator, BioInspire, opened to six companies in September 2012. In the nine months that it has been operating, BioInspire has created 30 jobs with an average salary of \$50,000. The City's investment of \$977,000 has leveraged \$4.4 million in outside funding, including public grants, angel investment, and venture capital.
- Completed phase 2 of the Commercial Rehabilitation Program at Wagoner Plaza, which included the rehabilitation of a strip center with eight suites. In the two years that the rehabilitation program has been implemented, over \$428,000 has been reinvested by private property owners and vacancy in the two centers has dropped from 50 percent to 10 percent.
- The City's Peoria Eighty Three Entertainment District (P83) improvements, designed to increase pedestrian connectivity, vitality, and safety, will be defined in a design concept report. The first phase has already been funded.
- City Council approved a variety of customer service enhancements regarding site and building development, including the following new programs: electronic plan submittal, over-the-counter permitting, online permitting, and self-certification for certain tenant improvement projects.

### **Community Services**

- Opened the doors of the newly renovated and expanded Peoria Community Center with a re-Grand Opening November 30.
- In November, the City Council adopted the Peoria Youth Master Plan, a comprehensive agenda for children and youth services in the Peoria community.
- Initiated the self-assessment exercise to become an accredited agency through the Commission for Accreditation of Parks and Recreation Agencies (CAPRA).
- Organized several new special events, including Keep It Safe: A Family Affair, Fish with your Kids Day, Festival in the Plaza, Triathlon/Duathlon, Get Your Green On, Big Band Swing On, and St. Patrick's Day Event.
- Received the Outstanding Program Award for populations over 100,000+ from the Arizona Parks and Recreation Association for the City's P83 Party.
- Installed three public art pieces in Old Town Peoria – at Centennial Plaza, Osuna Park, and 84th Avenue.
- Use of library computer labs increased 77 percent, with more than 198,000 users logging in at both facilities.
- Encouraged new digital readers by making 50 ereaders available for circulation. Digital circulation increased 53 percent due to the special project.
- Celebrated 20 years of Spring Training in Peoria.

### **City Clerk**

- Successfully conducted the 2012 Primary and General Election.
- Developed a Public Records Request Policy that can be used citywide for processing public records requests.
- Reorganized the City Clerk Department structure to realize efficiencies and maximize resources.
- Developed a Lobbyist Handbook in accordance with state statute and created corresponding registration and reporting forms.

### **Engineering**

- Widened and reconstructed 83rd Avenue from Butler Drive to Mountain View Road and constructed the north half-street of Butler Drive from 83rd Avenue to 79th Avenue.
- Widened and reconstructed the 75<sup>th</sup> Avenue and Thunderbird Road intersection to accommodate three through lanes, dual left turn and right turn lanes, and traffic signal improvements.
- Completed rehabilitation of 1,916 linear feet of trunk sewer mains throughout Peoria.

- Opened Scotland Yard Neighborhood Park. This eight-acre park features a playground, basketball and tennis courts, enclosed dog park, walking trail, picnic area, ramadas, and citrus orchard.
- Earned LEED Gold certification for the renovation and expansion of the Peoria Community Center, which added 12,000 square feet of program space to the existing 14,000 square foot building in Old Town Peoria.
- Installed conduit, fiber, and network nodes on 75<sup>th</sup> Avenue from Peoria Avenue to Thunderbird Road to complete a redundant fiber link for the City.
- Performed a before and after study on Bell Road to verify the operation of the pilot Adaptive Traffic Control System (In-Synch). The results were positive. The system will be relocated to the Sports Complex area for permanent installation to help improve signal timing in the area.

### **Finance & Budget**

- Issued \$35.5 million in Municipal Development Authority bonds to fund renovations of the team clubhouses at the Peoria Sports Complex.
- Received an incremental increase in rating from Fitch Ratings for the City's bond ratings on Municipal Development Authority bonds.
- Received the 28<sup>th</sup> consecutive Certificate for Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association for the fiscal year 2012 CAFR.
- Completed a major PeopleSoft Financials system upgrade.
- Received the Distinguished Budget Award from the Government Finance Officers Association for fiscal year 2013 budget documents, the City's 20<sup>th</sup> such award.
- Received the Certificate of Excellence from the International City/County Management Association (ICMA) Performance Management Program. This is the seventh consecutive year the City has been recognized for its performance management program.

### **Fire**

- Took possession of a new Rosenbauer Type-3 fire engine that will be stationed at the Lake Pleasant Fire Station and used in an urban-interface capacity.
- Purchased a new support services building to house the department's mechanics and support personnel. The building should be refurbished and occupied early in FY2014.
- Hired six additional firefighters using funds awarded to the City by the U.S. Department of Homeland Security as part of its Staffing for Adequate Fire and Emergency Response (SAFER) grant program. The two-year, \$930,000 grant will give the City the ability to provide 24/7 staffing at the Lake Pleasant Fire Station.
- Participated in studies relating to traumatic brain injury and out-of-hospital cardiac arrests in cooperation with the Arizona Department of Health Services and the University of Arizona.
- Received a 98 percent satisfaction rating for quality of fire service on the 2013 Citizen Survey.

### **Human Resources**

- Held the third annual PACE Civic Engagement Conference. Keynote speakers included John Quinones of ABC News and Pearl Chang Esau, president and CEO of Expect More Arizona.
- Graduated the first class of the Aspiring Supervisor program.
- Coordinated screenings of "Freemont USA" as part of the Diversity Committee Film Series.
- Participated in an Emergency Operations Center tabletop exercise.

### **Information Technology**

- Replaced network infrastructure equipment in City Hall and the Technology Center, and replaced microwave equipment at two locations.
- Implemented new Police computer-aided dispatch (CAD), records management, and mobile systems.
- Installed network and technology equipment in the new Community Center facility.
- Overhauled the PC replacement process and deployment strategy, which resulted in 100 percent of projected deployments being successfully completed.
- Restructured the IT Department project management program, resulting in the creation of the IT Project Oversight Committee that oversees project approvals, prioritization, and scheduling, and monitors ongoing project status.

### **Intergovernmental Affairs**

- Continued to provide a presence in the area of regional transportation to ensure that the City is well represented at all levels of governance and transportation planning.
- Led the City's efforts to explore an international partnership with Mexico with the aim of creating mutually beneficial economic development opportunities.
- Played a key role at the state capital during negotiations over tax reform, helping to strip the final bill of its most detrimental provisions to cities and saving Peoria an estimated \$2 million.
- Received more than \$2.1 million in grant awards.

### **Police**

- Received a meritorious award from the Commission on Accreditation for Law Enforcement Agencies, Inc. (CALEA). The meritorious award recognizes agencies for having been CALEA-accredited for six or more continuous years.
- Expanded the department's park watch program—a partnership among citizens, police, and park rangers. The program protects neighborhood parks and educates citizens about criminal activity in and around their parks.
- More than 50 volunteers and interns donated approximately 10,000 hours to the department, performing critical tasks that saved approximately \$220,000.
- Handed out Community Partnership Awards honoring 10 local organizations that assisted in strengthening the department's relationship with the community on crime prevention.
- Partnered with the Peoria Unified School District and the Glendale Police Department in training for an active-shooter scenario.
- Joined with the Peoria Police Officers Association to honor more than 200 students from the Students With Aspiring Goals (S.W.A.G.) program at the Peoria Sports Complex before taking them to a Diamondbacks game at Chase Field. The program brings together high school students as mentors to middle school students to help them set and achieve high academic goals.
- Expanded the department's Social Media Plan, which includes the department's myPD phone app, Pinterest, Twitter and Facebook. The plan is a communication tool that strengthens community engagement to reduce crime and the fear of crime.

### **Public Works – Utilities**

- Achieved re-accreditation from the American Public Works Association (APWA) with 100 percent full compliance. APWA recognized the City for five model Best Management Practices.
- Received a 94 percent satisfaction rating for solid waste service on the 2013 Citizen Survey.
- Micro sealed 11 miles of roadway, slurry sealed 26.5 miles of roadway, chip sealed 1.5 miles of roadway, and crack filled over 387 miles of roadway.
- Replaced 28 street lights and upgraded 48 others as part of the Street Light Infill and Replacement Program.
- Secured an Americans with Disabilities Act (ADA) reimbursement allocation of \$208,000.
- Remained 100 percent compliant with federal, state, and county water and wastewater quality standards.
- Increased the use of reuse water at our wastewater treatment plants to reduce potable water use and costs.
- Received a \$50,000 grant from the Bureau of Reclamation to install state-of-the-art smart irrigation control devices at several City parks and homeowner associations.
- Developed and implemented a uniform recycling and trash receptacle standard at the City Hall campus. Existing trash receptacles were repurposed to minimize costs.
- Increased the City's drought protection supply to approximately 3.4 years of our six-year goal—a 4 percent increase from 2013.
- Diverted approximately 145,000 pounds of household hazardous waste and recyclables from the landfill.

### **For The Future**

The Council utilizes a process to assist in the identification, prioritization, and management of emerging strategic issues that, by virtue of their scope, complexity, and/or potential impact, require a coordinated

multi-departmental action plan and budget. The City Council works closely with City management to implement specific objectives and tasks designed to meet these goals.

The following summarizes the goals identified by the City Council in the 24-Month Business Plan:

- Community Building – Preserve and expand our quality of life:
  - Arts/Culture
  - Parks and recreation opportunities.
  - Quality neighborhoods / revitalization of older neighborhoods / Old Town / Arrowhead Entertainment District
  - Community-oriented services, including Fire and Police
  - Expand civic and not-for-profit partnerships.
- Enhance Current Services:
  - Our City organizational culture
  - Business model for the future
  - IT backup systems off site
  - Cost effective service delivery
  - Next generation of recycling
  - Continue energy reduction programs and LEED-certified buildings
  - Peoria is the employer of choice
  - Use technology to enhance and streamline services
  - Aggressive pursuit of grant opportunities
- Preserve our Natural Environment:
  - Land banking for parks and open space
  - Incorporate open space into our built environment
- Total Planning:
  - Employment / Jobs / Corridor
  - Mix of living environments
  - Infrastructure
  - Prudent fiscal stewardship
  - Broad Internet access
  - Sustainability Action Plan
  - Traffic study
  - Multi-modal transportation infrastructure
- Economic Development:
  - State, National, and the Pacific Rim
  - Analysis – Look at resources to expand Peoria's presence in other states and countries
  - Continue focus on downtown
  - Partner with economic development groups like GPEC
  - Assess new models for economic development
  - Partner with State Lands
  - Strengthen Sister Cities relationships and add an Asian city
  - University / higher education strategy
  - Health care strategy
- Leadership and Image:
  - Locally and regionally
  - Within Arizona
  - Community relations
  - Become a major player
  - Peoria as a destination
  - Marketing campaign promoting Peoria

Progress has been made on these goals during fiscal year 2013. The City has strategically placed itself in a better position to take advantage of opportunities as the economy recovers and development increases.

## **LOCAL ECONOMIC CONDITION AND OUTLOOK**

As the local economy starts to improve, Peoria continues to face many important growth issues as well as opportunities. Peoria leadership is committed to implementing the City Council approved Economic Development Implementation Strategy (EDIS) to meet the development needs of our community. This commitment has helped to make 2013 another successful year and continues to provide a foundation for success in the years to come. The City maintains a strong commitment to continue its focus on the new economic reality and to be a leader in areas such as cost-effective service delivery, improved customer service, and strategic partnerships to maintain and enhance the quality of life in Peoria.

The American League Seattle Mariners and the National League San Diego Padres, professional major league baseball teams, continue their Cactus League Spring Training and minor league activities in Peoria at the City-owned, two-team stadium. In 2013, both teams signed a new twenty-year joint use contract to share the facilities with an option of extending their contracts for an additional ten years. This agreement contributes significantly to the economic impact of the Spring Training Cactus League of Maricopa County and to the City. The already successful Peoria Eighty Three (P83) Entertainment District surrounding the Sports Complex remains a primary focus of continued economic development. The City has begun implementation of the 2010 adopted urban design plan, as a new identity has been established and a Design Concept Report is underway to improve pedestrian connectivity, safety, and vibrancy in the area. Another implementation aspect of that plan is the development of 400,000 SF of mixed use space outside the Sports Complex stadium. An exclusive negotiating agreement is in place with a developer for that project.

In fiscal year 2013, the City has experienced an uptick in the overall economy, especially in terms of new residential development. On the commercial side, space absorption continues to be the most active sector while new builds are slowly on the rise.

This year, new developments are expected to continue in three main focus areas of economic development: entertainment; health care; and higher education. The entertainment concept for the area surrounding the sports complex is already well underway and the City's health care initiative has resulted in progressive efforts as hospital systems plan their next strategic move into the West Valley. Peoria's aggressive university recruitment strategy has resulted in a Trine University branch campus opening in the fall of 2013. The City has also entered into an Exclusive Negotiation Agreement with Huntington University and expect to finalize an agreement by this fall. The City's aggressive pursuit of university expansions involving these private universities has netted other potentially interested candidates to enter the market over the next three years.

There is also significant momentum in redevelopment of the City's older and historic downtown as interest in revitalization continues to rise. The City's implementation of the Old Town Peoria Revitalization Plan is well underway. The City has completed significant capital projects in the area, including two parks, the courthouse renovation and the Community Center remodel. The first and second phase of the Commercial Rehabilitation Program, Wagoner Plazas 1 & 2 have been completed. Contact has also been made with the new owner of the Peoria Town Center and his architectural team in developing a behavior health center in the former Wal-Mart building. Finally, the City has contracted with a development team to do two things: create a Building Re-Use Implementation Strategy for underutilized and vacant buildings in the Old Town area and actively recruit users to those buildings.

The northern part of the City also experienced a boost in prospecting activity resulting from the completion of the Loop 303 freeway and the addition of a secondary access point for the Vistancia Commercial Core. The City has a development agreement in place with the developer, Vistancia LLC that takes an aggressive approach to economic development for the area, primarily through the allocation of free land and funding for infrastructure development. To further promote the Vistancia Commercial Core, Peoria is partnering with Vistancia to produce a familiarization tour and golf luncheon this fall. The objective of the event will be to attract brokers valley wide, to promote and educate on the development opportunities in the 500 acres of Vistancia Commercial Core.

Finally, in 2013, Peoria's BioInspire, a medical device incubator, has celebrated its first year with significant success and recognition. Both Yolia Health and Nasseo, two of BioInspire's companies, were nominated for the "INNOVATOR OF THE YEAR AWARD" presented at the Governor's Celebration of Innovation Awards in November 2013. The facility, managed by BioAccel, a non-profit company that specializes in new technology development, will offer 7,000 SF to house 5-7 start-up companies.

In February 2013, Peoria's third annual investment conference targeting bankers, Real Estate Investment Trusts (REITS), investors, developers, site consultants and entrepreneurs, was held. It is the only one of its kind in Maricopa County and a premier opportunity for the City to showcase itself, its implementation plan, and its economic development initiatives to provide investment and development opportunities for those looking for viable projects to invest in.

### **Economic Outlook**

The unemployment rate in the Phoenix Metropolitan area for June 2013 was 7.2 percent, which remains below both the state (8.0 percent) and national (7.6 percent) averages. The regional economy continues to recover at a slow pace, with population growth in the 1 percent range and modest improvements in job creation over the 12-month period at 2.0 percent, slightly faster than the national rate of 1.6 percent. Construction activity began to improve markedly over the previous year (though much lower than after previous recessions) in the region as home values and re-sale activity rebounded. Most job gains in the state were in the construction, leisure, and hospitality; business and financial services; education; and health care sectors. Peoria also experienced growth in new home starts, with a 40 percent increase in single-family home permits compared to the previous fiscal year. Commercial activity improved during the year, but reflects increases over historically low levels during the previous two fiscal years.

The local housing market began to return to more normal conditions and to recover price losses experienced during the previous years. Growth in median re-sale home prices began to level-off in June 2013 after experiencing consistently strong growth that began in the fall of 2012. At \$200,000 in June 2013, the median price had risen 38 percent from a low-point in January 2012. More importantly, by spring 2013, the number of distressed properties had been reduced significantly, allowing traditional re-sale transactions to return as the primary type of re-sale transaction in the market. Whereas in June 2012, these transactions represented 40 percent of total re-sales, by June 2013 the level had increased 40 percent to a share of almost 70 percent of re-sale transactions. As lower-priced distressed inventory has decreased, so has the downward pressure on overall prices. These factors are anticipated to continue in the future, which will allow the Peoria re-sale market to return to more normal conditions in terms of price appreciation and listings available for sale. New home sale activity increased significantly during FY2013 to end at over 762 units. This compares to 473 during the prior fiscal year, a 60 percent increase. Peoria's median new home sale prices averaged almost \$287,000 in FY2013 compared to \$267,100 during FY2012.

Retail Sales: The City of Peoria, like all Arizona cities, places significant reliance on City-collected sales tax. Overall, local sales tax revenue comprised 34 percent of the City's General Fund revenue in fiscal year 2013. The City's sales tax rate (including the 0.03% transportation sales tax discussed below) remained at 1.8 percent, with a 5.6 percent rate for hotels/lodging activities, 3.3 percent on utilities, and 2.8 percent for restaurant/bar and amusement activities. Approximately 52 percent of sales tax collections were derived from retail sales in FY2013. This category experienced an 8.4 percent increase in FY2013 over the previous fiscal year and accounted for a significant share of tax revenue gains. The primary factor behind the retail gains was the performance of the City's automobile dealerships. Peoria has approximately 20 vehicle dealerships that draw a regional customer base. Auto-related revenue increased by over 17 percent compared to FY2012 and represented approximately 38 percent of all retail sales tax collections.

The City's second-largest source of sales tax revenues is from restaurant/bar activity. This category's 4.4 percent improvement over the prior fiscal year reflects consumers' growing confidence and improved outlook. Construction contracting revenues increased by over 40 percent compared to the prior fiscal year primarily due to the higher level of new home sales cited above. Fiscal year 2013 sales tax collections (all funds) increased 8.6 percent over the prior fiscal year. Fiscal year 2014 sales tax revenues are

anticipated to increase at a more moderate pace of approximately 3 percent. The moderating pace reflects anticipated reductions in the rates of growth in both the automobile sectors as well as in construction activity, but relies on more fundamental sources of growth in consumer spending and expected population increases.

Dedicated City Sales Tax for Transportation: During fiscal year 2005, a Citizens' Bond Committee recommended to City Council that voters be asked to consider an increase of .03 percent (three-tenths of one percent) to the sales tax rate for the purpose of funding the transportation needs of the City. These needs include construction and maintenance of streets as well as expansion of the City's transit program. On September 13, 2005, the citizens approved the sales tax increase by an affirmative vote of 68 percent. The dedicated transportation sales tax, which became effective January 1, 2006, generated \$9.8 million in revenue in fiscal year 2013, up from \$9.0 million in fiscal year 2012. As with other sales tax revenues, a small increase is expected in fiscal year 2014 collections.

State Shared Revenues: The City receives significant revenue allocations from the State of Arizona. These "state shared revenues" include allocations of the state-collected income tax, sales tax, and motor vehicle license fees. Revenues from these sources provided approximately 33 percent of the City's General Fund revenue in FY2013, which helps support the City's day-to-day activities. The City projects an overall increase of nearly 10 percent in these revenues in FY2014, reflecting continuing recovery in the statewide economy and income tax collections. These revenues are distributed based on census population numbers. Peoria's share of the state allocations is approximately 3.1 percent.

Property Tax: The City's property tax rate was \$1.44 per \$100 of assessed valuation for FY2013. The tax rate has not changed since FY2009. Of this, \$.19, or about 13 percent of the total, was levied as the City's primary property tax. The primary tax can be used for any general government purpose, but is limited in size by state statute. The primary tax generated \$2.2 million in revenue for the General Fund in fiscal year 2013.

With an anticipated 7.2 percent decline in the primary assessed value, the City is forecasting \$1.9 million in primary property tax revenue for FY2014—the fourth consecutive year of declining revenue. The primary assessed value will reflect the growth in housing prices seen over the last 18 months beginning in FY2015, and is expected to increase at a moderate rate thereafter.

Labor Force: Peoria has a well-educated and technically skilled labor force. This economic resource is at the forefront of our economic development efforts. The City is a member of the Greater Phoenix Economic Council (GPEC), which has been successful in introducing new businesses to the City. In addition, the City's Economic Development Services Department continues to aggressively seek new development for the City.

## **FINANCIAL CONTROLS**

### **Internal Controls**

The management of the City of Peoria is responsible for establishing and maintaining a system of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition, and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the City's financial statements. All internal control evaluations occur within the above framework. The City's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

## **Budgetary Controls**

The City of Peoria, like all cities in the State of Arizona, is subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity. At a general election held in March 2003, the citizens of Peoria approved a permanent adjustment of the expenditure base from the original 1979-80 base of \$3,247,857 to a new base of \$18,247,857. The permanent adjustment eliminated the need for voter approval every four years. After adjustment for inflation and population growth, the City's expenditure limitation for fiscal year 2013 was \$759,367,985. The City may utilize the additional expenditure authority for any local budgetary purposes.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated operating budget approved by the Mayor and Council. Activities of the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, and internal service funds are included in the annual appropriated budget. The legal level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the total budget, as adopted by the City Council. The City additionally exercises management control and oversight of the budget at the department level within each fund. In addition to maintaining budgetary control via a formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations upon the issuance of a purchase order. Encumbered appropriations lapse at fiscal year-end and are re-budgeted as needed in the next fiscal year.

## **Financial Policies**

The City has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The City needs to ensure that it is capable of adequately funding and providing those government services desired by the community. Ultimately, the City's reputation and success depends on the public's awareness and acceptability of the management and delivery of these services.

The City operates under a comprehensive set of financial policies adopted by Council. The *Principles of Sound Financial Management* establishes guidelines for the City's overall fiscal planning and management. These principles are intended to foster and support the continued financial strength and stability of the City of Peoria as reflected in its financial goals. The City's financial goals are broad, fairly timeless statements of the financial position the City seeks to attain:

- To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the City of Peoria.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the City's residents.
- To maintain a high bond credit rating to ensure the City's access to the bond markets and to provide assurance to the City's taxpayers that the City government is well managed and financially sound.

These policies establish minimum and recommended fund balance/net asset reserves, as well as establishing policies on the use of one-time revenues (to be used for one-time expenditures), fiscal planning and budgeting, expenditure control, capital improvement program, cash management, debt management, and economic development.

## **Strategic Planning**

The City annually updates a five-year long-range forecast, incorporating both projected revenues and expenditures for the City's major operating funds. The five-year revenue forecast only includes revenues that are anticipated to be sustainable over the five-year period. Expenditure projections include anticipated operating impacts of the adopted capital improvement program.

Additionally, the City maintains a 10-year Capital Improvement Program which the City Manager submits annually for review by the City Council. The program is updated annually and includes the cost of construction and operating expenditures. No capital improvement projects will be authorized or awarded until the funding sources have been established to finance the project. When current revenues or resources are available for Capital Improvement Projects, consideration will be given first to those capital assets with the shortest useful life, and for assets whose nature make them comparatively more difficult to finance with bonds or lease financing.

## **OTHER INFORMATION**

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the management of the City. The City has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to allow the compilation of sufficient reliable information for the preparation of financial statements. We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner that fairly sets forth the financial position and results of operations of the City on both a government-wide and fund basis. Furthermore, we believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial activity and financial stability have been included.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The basic financial statements and related notes have been audited by an independent firm of certified public accountants, Heinfeld, Meech & Co., P.C., whose report is included herein. The audit satisfies Article VI, Section 7, of the City Charter, which requires an annual audit of all accounts of the City by an independent certified public accountant. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Peoria, Arizona, for the fiscal year ended June 30, 2013, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the financial statements of the City of Peoria, Arizona, for the fiscal year ended June 30, 2013, are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Additionally, the City is required to have an independent audit ("Single Audit") of federal financial assistance received by the City directly from federal agencies, or passed through to the City by the State of Arizona or other governmental entities during the fiscal year. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements having a direct and material impact on major programs, with special emphasis on internal controls and compliance requirements involving the administration of major federal awards. The results of the City's single audit for the fiscal year ended June 30, 2013, found no instances of material weakness or significant deficiencies in the internal controls. The reports from Heinfeld, Meech & Co., P.C. are available in the City of Peoria, Arizona's separately issued Single Audit Report.

## **Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Peoria, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This is the 28th consecutive year the City of Peoria has received this prestigious award. In order to be awarded a

Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements. As such, we are submitting this report to the GFOA to determine its eligibility for a certificate.

### **Acknowledgments**

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department, especially the Financial Services Division. We want to give special recognition to the City's accounting team for their diligent efforts and superior contributions to this report. We also wish to thank the members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Sincerely,



Brent D. Mattingly  
Chief Financial Officer