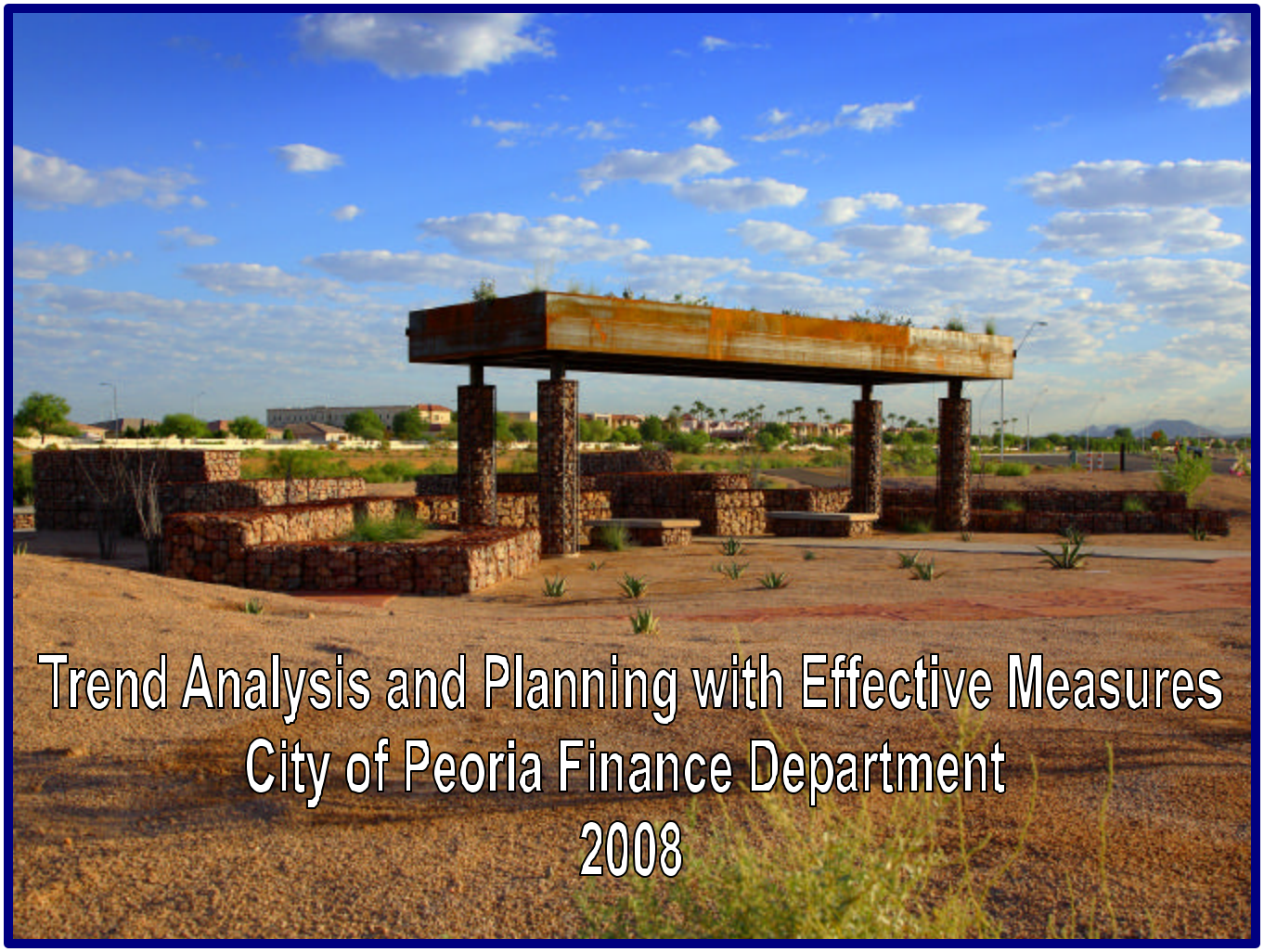
Peoria's TAPE Measure



Trend Analysis and Planning with Effective Measures

City of Peoria Finance Department

2008

PEORIA'S T.A.P.E. MEASURE

(Trend Analysis & Planning With Effective Measures)

City of Peoria, Arizona

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Executive Summary

Executive Summary

The intent of this document is to provide a systematic process to monitor and evaluate the City of Peoria's financial outlook and performance. This is accomplished through the use of the Trend Analysis and Planning with Effective Measures (TAPE MEASURE) system which identifies, measures, organizes, and analyzes various factors that can affect financial condition. Peoria's TAPE MEASURE, when implemented as a continuous monitoring process, serves as a management tool that combines information from the City's annual financial report with applicable economic and demographic data in order to monitor changes in the City's financial condition. The system does not provide specific explanations as to why a problem is emerging, nor does it provide a single index to measure financial health. However, it does provide flags for identifying potential problems, clues about their causes, and an opportunity to take anticipatory corrective action.

This report utilizes twenty-nine key indicators to track financial, economic and demographic trends for the City of Peoria. Of the 29 indicators, 25 include comparisons of the City with six other similar jurisdictions to determine how the City's financial operations measure up to those of comparable governmental units. The municipalities used as a basis of comparison in this report are the cities of Avondale, Chandler, Flagstaff, Gilbert, Glendale and Scottsdale, Arizona.

Evaluating Financial Condition

Financial condition, in the broadest terms, can best be described as a local government's ability to finance its services on a continuing basis. In more precise terms, financial condition refers to a government's ability to (1) maintain required service levels, (2) withstand local and regional economic disruptions, and (3) meet the demands of natural growth, decline and change. Some of the questions that officials and financial decision-makers must address in evaluating financial condition are: Can the local government continue to pay for the services they currently provide? Are there sufficient reserves available for financial emergencies? Is there sufficient financial flexibility to adjust for change?

In order to maintain financial solvency, local governments must be able to continue paying for services they now provide. This includes basic services funded by local revenues as well as programs that are funded by external sources such as federal grants. Current services include the maintenance of capital facilities to protect the initial investment and maintain the facilities in useable condition. Continuation of services also requires funds for the payment of future liabilities such as pensions, employee leave, and debt service.

A sound financial condition also implies that a local government has the ability to withstand regional and national economic disruptions. This may involve the relocation of a major employer to another community, which could adversely impact the community's tax base and decrease the number of local jobs. On a national level, a sudden rise in inflation may affect a city's expenditures more heavily than revenues, leaving the local government with the same dollars, but less purchasing power.

Finally, a local government's financial condition can affect its ability to meet the demands of change. All communities are subject to change over time, and each change creates financial demands. Increasing population growth can force a local government to assume additional debt in order to finance required infrastructure, or it can cause a sudden increase in the operating budget to maintain service levels. Conversely, a decrease in population can leave a community with the same facilities and infrastructure to maintain, but with fewer citizens to pay those costs. Even a stable population with a changing composition can create unforeseen financial demands. A city that is becoming older, younger, poorer or more affluent can require the need to respond with different services and programs. These new programs may require expensive start-up costs, and they may be more expensive to maintain than those services previously provided to the community.

The Trend Analysis Process

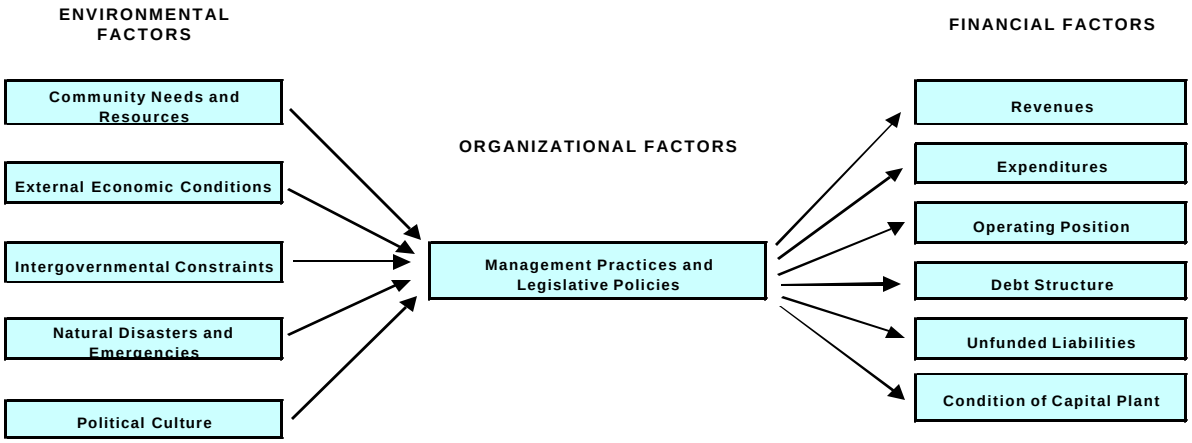
This report provides a framework for monitoring these types of events and provides a method to assist in evaluating the City of Peoria's financial condition. The approach used to develop this financial trend analysis is based upon the practices and principles outlined in Evaluating Financial Condition: A Handbook for Local Government published by the International City Management Association (ICMA). The analysis system for this report utilizes an expanded approach to ICMA's model by providing comparisons of the City of Peoria's data with several other local jurisdictions. This assists us in analyzing how the City's financial operations compare with those other governmental units. The trending analysis system is designed to provide information in the following ways:

- Gain a better understanding of the government's financial condition.
- Identify emerging problems before they reach serious proportions.
- Identify existing problems of which local officials may be unaware.
- Present a straightforward picture of the government's financial strengths and weaknesses to elected officials, citizens, credit rating agencies, and others.
- Introduce long-range considerations into the annual budgeting and revenue forecasting process.
- Provide a linkage to a local government's financial policies.

This information will serve as a valuable resource for the City's long range financial plan. The ten year capital improvement plan and five year forecast are the master plans for the City's finances, quite similar to the master planning documents prepared for water/wastewater operations, transportation systems, and development planning.

Peoria's TAPE MEASURE provides a method to quantify a significant amount of information, while relying on data that exists in the City's records or is otherwise readily available. The data is generally taken from Comprehensive Annual Financial Reports (CAFR) to ensure consistency and validity of the data. The TAPE MEASURE system utilizes both financial and non-financial information in the same analysis. Finally, it also tracks changes over time.

Peoria's TAPE MEASURE is based on twelve factors representing the primary forces that influence financial condition. The twelve factors, illustrated in the following diagram, are classified into three groups: environmental, organizational, and financial.



As the diagram indicates, environmental factors determine organizational factors which in turn determine financial factors. Essentially, the environmental factors are filtered through a set of organizational factors resulting in a series of financial factors that best describe the internal financial state of the local government. Keep in mind, however, that other relationships among the factors are possible.

Environmental factors are considered the external influences on a local government. They can affect the local government in two ways. First, they can create demands on the entity. For example, a population increase may force the local government to add new services, or the acceptance of a new grant may require new audit and accounting procedures. Second, environmental factors can provide resources. The population increase that creates the need for additional services may also increase tax revenues. However, when reviewing the effects of environmental factors on financial condition, the following question should be included in the analysis: *Do the environmental factors provide enough resources to pay for the demands they make?*

Organizational factors are the local government's responses to changes in environmental factors. Theoretically, any government can maintain a satisfactory financial condition if it makes an appropriate organizational response to a changing environment. For example, the entity may reduce services, increase efficiency, or raise taxes in response to changes in the environment. This is assuming that the decision-makers will have advance notice of the change, understand it, know what to do, and are willing to do it. When reviewing the effects of organizational factors on financial condition, the following question should be included in the analysis: *Do the City's management practices and legislative policies enable the government to respond appropriately to changes in the environment?*

Financial factors reflect the condition of the local government's finances and are largely a result of environmental and organizational influence. If the environment's demands are greater than the resources it provides, and if the entity does not provide a response to maintain a balance between demands and resources, the financial factors will eventually show deficits of cash, and budgetary or long-term insolvency. It is in the financial factors that problems left untreated will make themselves known. When reviewing the effects of financial factors on financial condition, the following questions should be included in the analysis: *Is the City currently covering the full cost of its operation or subsidizing it by other*

means? Is it postponing those costs to a future period when revenues may not be available to cover the costs?

Analysis

Of the twelve factors identified in the TAPE MEASURE system, only seven can be quantified; they are the six financial factors and community needs and resources. These six financial factors are measured through a series of indicators that quantify changes in the factors. The quantifiable factors for the City of Peoria are discussed in Part I of this report.

The remaining five factors do not have specific quantifiable indicators. However, they should be considered in the overall analysis as they influence the City's financial condition. These five factors address national and regional economic conditions, intergovernmental constraints, natural disasters and emergencies, the political culture, and financial management practices and policies. The non-quantifiable factors for the City of Peoria are discussed in Part II of this report.

The primary tool for evaluating the twenty-nine individual indicators is the TAPE Measure system – examining and tracking each indicator over a period of time. The steps involved in completing the trend analysis are as follows:

1. *Classify trends*. At the top, right-hand side of each worksheet in Part I is a block depicting the trend of the indicator. If an indicator is moving in the direction described as the warning trend, it should be considered to be – at this point – potentially unfavorable.

2. *Determine when the trend began, how fast the indicator is changing, if it is getting better or worse, and how serious is the problem?* Some indicators can quickly flag potential problems while other indicators must be monitored over time. If an unfavorable trend is developing, it should be carefully examined as a potential problem. No single trend implies good or bad financial condition. It only points to situations that should be examined more closely. Each potentially unfavorable trend should be broken down into its component parts, analyzed in light of its causes and significance, evaluated in relation to other trends as necessary and have an action plan developed and carried out.

Trend analysis methodology offers several advantages. First, it allows the evaluator to determine how quickly an indicator is changing and in which direction. Second, it permits one trend to be evaluated with other trends. Third, it allows local trends to be compared with regional and national trends. Additionally, it provides a database that can be used to make five or more year projections necessary for effective budgeting, capital programming, master planning efforts and general policy making. Finally, the information gathered and provided in the trend analysis helps to demonstrate to bond rating agencies and investors that the City of Peoria is aware of, and in control of, its finances.

Adjusting for Inflation

Many of the indicators in this analysis require that current dollars be expressed in terms of constant dollars to remove the inflationary factor. This common adjustment makes it easier to compare data between time periods without the distorting effects of inflation. For purposes of this report, the Municipal Cost Index (MCI) was chosen to adjust the City's fiscal measures to the base year 2003. The Municipal Cost Index was developed by the American City & County organization to show the effects of inflation on the cost of providing municipal services. The MCI draws on the monthly statistical data collected by the U.S. Departments of Commerce and Labor as well as independently compiled data to project a composite cost picture for the municipal budget officer or operating department manager. Costs of labor, materials and contract services are all factored into the composite MCI. Major indicators of these items used for the MCI include the Consumer Price Index, the Wholesale Price Index for Industrial Commodities (now known as the Producer Price Index) and the construction cost indexes published by the U.S. Department of Commerce, respectively. Each year the base year will be re-set to the first year shown in the TAPE MEASURE report, so that the constant dollars presented will be relatively current. The following chart provides the Municipal Cost Index information used in this report:

MCI Index			
Year	**1982 Based Index**	**Calculation**	**Result: 2003 Base Yr Index**
2003	165.5	Set equal to 100	100.0
2004	173.7	100.0 * 173.7 /165.5	105.0
2005	182.4	105.0 * 182.4 /173.7	110.2
2006	190.0	110.2 * 190.0 /182.4	114.8
2007	196.4	114.8 * 196.4 /190.0	118.7

Part I – The Quantifiable Factors

Part I – The Quantifiable Factors

This section of the report contains the seven measurable factors of the TAPE MEASURE system and the twenty-nine indicators that were selected to evaluate the financial, economic and demographic trends of the City of Peoria. A brief description is provided for each of the seven factors. Each indicator includes a summary description, trend description and commentary section, as well as the actual data and a graph to visualize the trend.

Twenty-five of the indicators provide comparable data, when available, from the cities of Avondale, Chandler, Flagstaff, Gilbert, Glendale, and Scottsdale, Arizona. The remaining indicators include only information for the City of Peoria since comparable data from the other jurisdictions was not readily available.

Revenue Indicators

Revenues

Revenues help to determine the capacity of a local government to provide services. Important issues to consider in revenue analysis are growth, flexibility, elasticity, dependability and administration. Under ideal conditions, revenues should grow at a rate equal to or greater than the combined effects of inflation and expenditures. They should be sufficiently flexible (free from spending restrictions) to allow adjustments to changing conditions. The sources should be balanced between elastic and inelastic in relation to inflation and the economic base; i.e., some would grow with inflation and the economic base and others would remain relatively constant. Revenue sources should be diversified – not overly dependent on residential, commercial, or industrial land uses or on external funding sources such as federal grants or discretionary state aid. User fees should be regularly reevaluated to cover the full cost of services.

The City of Peoria receives a significant share of monies from the State of Arizona. The funds are collected and distributed by the State primarily because cities and towns in Arizona are not permitted to levy an income tax. Peoria received in excess of $45.4 million in fiscal year 2007 as shared revenue from the State. Some monies, such as State Shared Sales Tax and State Income Tax, do not have any restrictions placed on their use. Other revenues, such as Highway User Fuel Tax and Local Transportation Assistance Funds, are restricted and may only be used for transportation-related purposes.

In addition to the restrictions placed on the use of these funds, different allocation methods are utilized to distribute the funds. U.S. Census numbers are used for determining population. An additional calculation is based on the county of origin for the revenues. The mid-decade census resulted in Peoria receiving an increased share for many of these funds.

While regulatory mandates and demands for government services increase, governments at the state and local level struggle to fund their budgets. Revenues shared with cities are at risk as the State balances its own budget. State and federal governments may pass on "unfunded mandates" which cities may need to incorporate into their budgets. These are programs that cities are required to provide with no identified source of funding.

Even though the State of Arizona has experienced record growth, there are always pressures that could potentially disrupt the State's revenue allocation process to cities. Special interest groups successfully lobby the State Legislature each year for tax relief that in turn can reduce the monies available to cities.

Analyzing the City's revenue structure will help to identify various types of potential problems, including:

- Deterioration of the revenue base
- Changes in the tax burden

- Internal procedures or legislative policies that may adversely affect the tax base's ability to generate an adequate revenue flow

- Lack of cost controls or poor revenue estimating practices

- Over dependence on obsolete or intergovernmental revenue sources

- Effects of tax delinquencies

- Efficiency of collection and administration of revenues

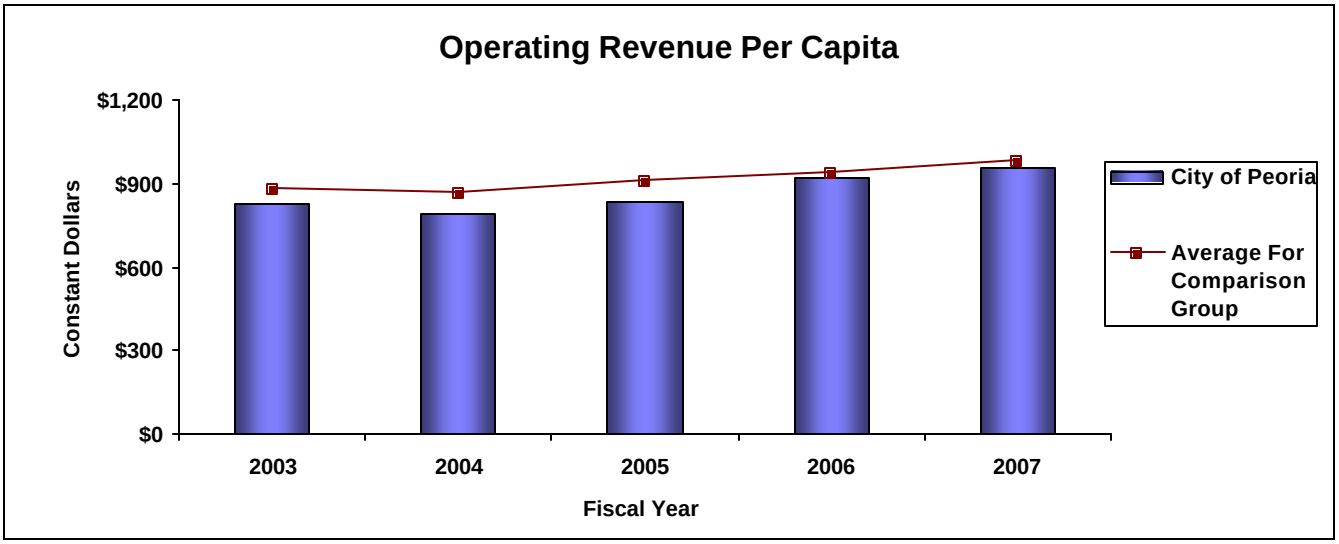
Changes in the City's revenue can be reviewed by using the seven indicators detailed on the following pages.

Operating Revenue Per Capita

Examining per capita revenues shows changes in revenues relative to changes in population. As population increases it might be expected that revenues and the need for services would increase proportionately and the level of per capita revenues would increase sufficiently to keep up with inflation. If per capita revenues are decreasing, the government may be unable to maintain existing service levels unless it finds new revenue sources or ways to save money. Operating revenues are revenues from the governmental funds only, but exclude capital projects funds and development fee funds.

Favorable Trend
Stable operating revenues per capita (constant dollars)

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	$1,045	$848	$1,149	$683	$858	$1,441	**$959**	**$981**	98%
2006	$904	$766	$1,083	$634	$824	$1,472	**$923**	**$940**	98%
2005	$920	$774	$1,054	$603	$757	$1,433	**$830**	**$912**	91%
2004	$841	$736	$993	$585	$755	$1,321	**$790**	**$870**	91%
2003	$828	$745	$1,054	$627	$735	$1,317	**$826**	**$883**	94%



Commentary

The City of Peoria's trend line shows relatively stable revenues per capita for the last five year measurement period. This indicates the City's revenues were keeping pace with inflation and growth in population. Halfway through 2006, the .3% transportation sales tax went into effect, thereby increasing the per capita operating revenue in both 2006 and 2007 relative to prior years. As the City continues to grow, staff will need to evaluate the cost of services provided, closely monitor existing revenues, as well as identify other possible revenue sources and cost saving measures in order to maintain existing service levels.

(See Executive Summary section titled "Adjusting for Inflation.")

(Operating revenues are from governmental funds only, but exclude capital projects funds and development fee funds.)

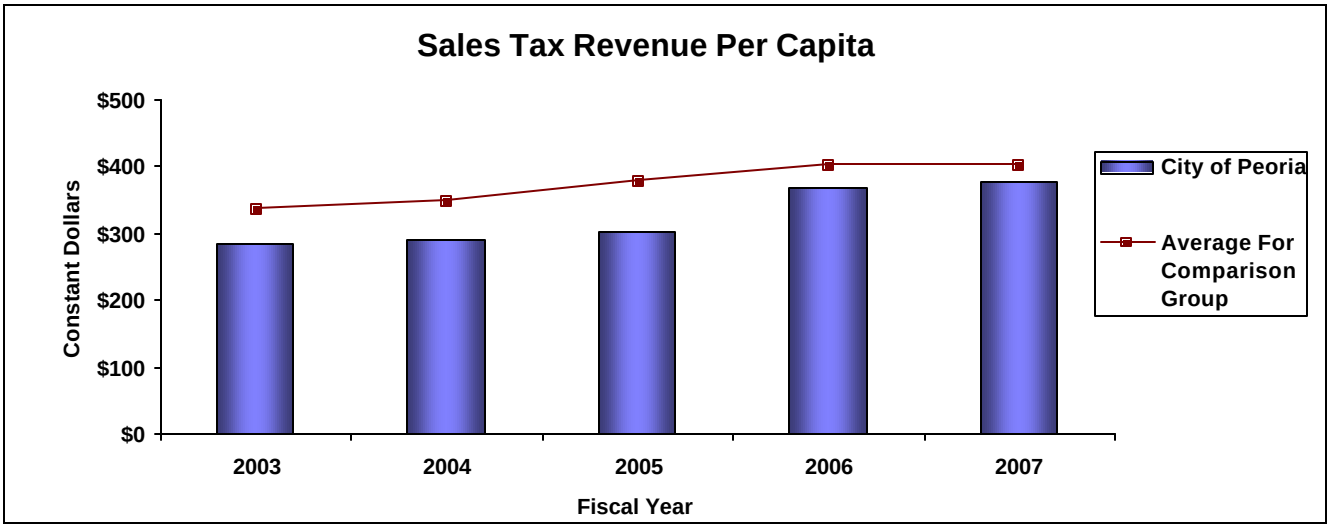
Sales Tax Revenue Per Capita

Favorable Trend
Increasing sales tax revenue per capita (constant dollars)

As the economic base expands, sales tax revenues rise in roughly proportional or greater amounts. Sales tax revenues are also highly susceptible to changes in the strength of the economy. Sales tax revenue is collected on the sale or rental of most tangible property in the City. It should be noted that, although this indicator measures sales tax revenue per capita, the sales tax burden is not borne entirely by the City's population. Regional retail centers can pull shoppers from all over the valley.

This indicator measures, on a constant dollar basis, all sales tax revenues per capita for the City and compares it to average sales tax revenues per capita for the comparison group.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	$539	$325	$414	$239	$335	$663	**$378**	**$405**	93%
2006	$526	$322	$392	$231	$325	$694	**$367**	**$406**	90%
2005	$550	$290	$372	$220	$297	$658	**$302**	**$382**	79%
2004	$409	$281	$364	$202	$306	$561	**$291**	**$350**	83%
2003	$340	$285	$359	$205	$276	$547	**$283**	**$340**	83%



Commentary

In years 2003 through 2005, the City of Peoria's trend indicates sales tax revenues were increasing somewhat in relationship to the City's population. In 2006, the sales tax revenue increase was significantly greater compared to prior years within the measurement cycle, primarily due to the .3% transportation sales tax that went into effect halfway through fiscal year 2006.

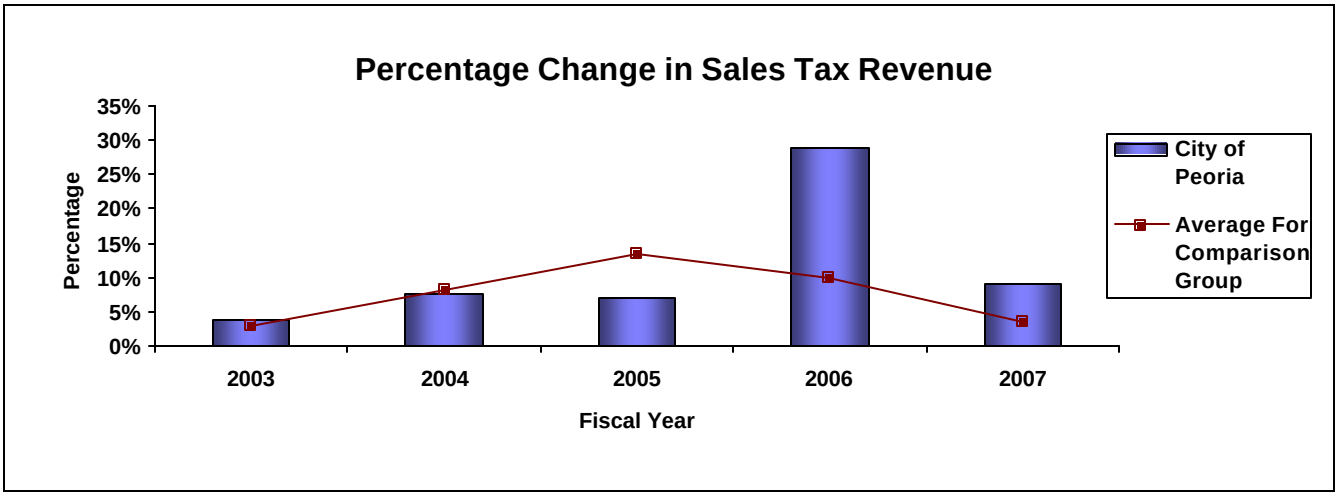
(See Executive Summary section titled "Adjusting for Inflation.")

Change in Sales Tax Revenue

Since sales tax revenues represent a significant portion of the City's total revenues, it is important to track the changes in these revenues on a regular basis. Sales tax revenues normally increase during good economic periods, with the increase in retail business, and decline during poor economic times. The data below shows the change in sales tax revenues for all funds.

Favorable Trend
Increase in sales tax revenues (constant dollars)

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria Change in Sales Tax Revenue (in 000's)
2007	3.5%	3.2%	5.6%	13.4%	4.0%	0.6%	**8.9%**	**3.6%**	$4,751
2006	4.8%	13.5%	6.8%	9.4%	13.2%	8.1%	**28.9%**	**9.8%**	$11,952
2005	50.2%	8.5%	2.2%	17.6%	-1.7%	19.1%	**6.9%**	**13.4%**	$2,674
2004	36.5%	4.8%	1.9%	12.4%	11.5%	4.3%	**7.6%**	**8.2%**	$2,715
2003	9.9%	7.4%	-2.6%	-1.0%	18.4%	-4.8%	**3.9%**	**2.9%**	$1,356



Commentary

The City's trend indicates that sales tax revenues have been increasing over the measurement period. The City places a heavy reliance on city-collected sales tax. In 2007, sales tax revenues comprised approximately 37.1% of General Fund revenues. The City's sales tax rate is currently at 1.8%, with a 5.6% charge on hotel/motel service, 2.8% for restaurant/bar and amusement activities, and 3.3% for utilities.

Halfway through fiscal year 2006, the .3% transportation sales tax went into effect, increasing sales tax revenues between 6% and 8%. From 2006 to 2007, sales tax collections for the utilities, rentals, and retail sales tax categories increased 17.4%, 15.9%, and 11.6%, respectively, on a constant dollar basis. Construction sales tax collections decreased by 4.1% during this same time frame. It should be noted that construction sales tax revenues are particularly susceptible to downturns in the new housing and retail construction markets.

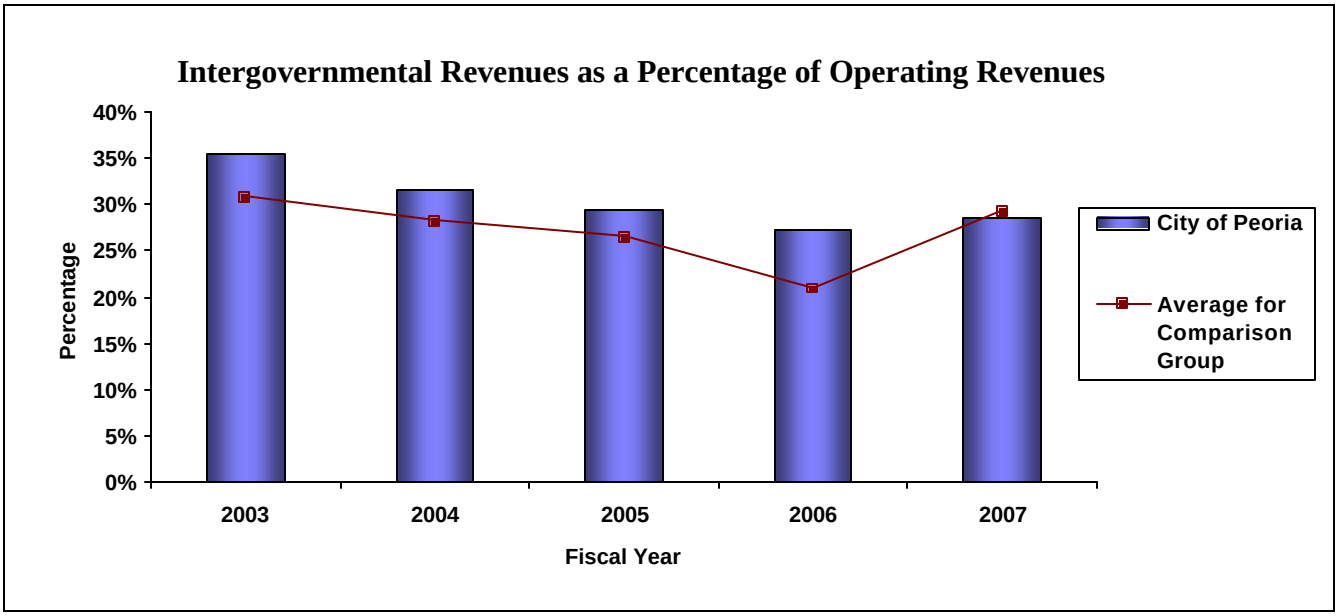
(See Executive Summary section titled "Adjusting for Inflation.")
(Sales tax revenues are from all sales tax funds.)

Intergovernmental Revenues

Intergovernmental revenues are any revenue received from another governmental entity (primarily state or federal). Local governments with budgets largely supported by intergovernmental revenues have been particularly harmed when the external source withdraws the funds entirely or reduces its share of the costs. The overriding focus in analyzing intergovernmental revenues is determining whether the City is controlling its use of the revenues or whether these revenues are controlling the City.

Neutral Trend
Comparable intergovernmental revenues as a percentage of operating revenues

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	29.9%	31.2%	22.2%	36.7%	37.9%	21.7%	**28.6%**	**29.4%**	97%
2006	21.1%	28.3%	22.3%	30.7%	37.6%	3.0%	**27.2%**	**20.9%**	130%
2005	20.7%	25.6%	24.7%	30.5%	38.3%	20.8%	**29.3%**	**26.6%**	110%
2004	24.4%	28.9%	19.0%	33.8%	38.4%	22.7%	**31.6%**	**28.4%**	111%
2003	31.1%	31.6%	18.3%	38.4%	42.1%	24.4%	**35.4%**	**31.0%**	114%



Commentary

During the five year measurement period, the trend indicates the City revenue base continues to grow with increases in sales taxes, charges for service, licenses and permit fees, interest earnings, and other revenue sources without a significantly increased reliance on intergovernmental revenues, which are outside of the City's control. In 2007, state shared revenues and urban revenue sharing represented 23.3% and 23.4% of intergovernmental revenues, respectively.

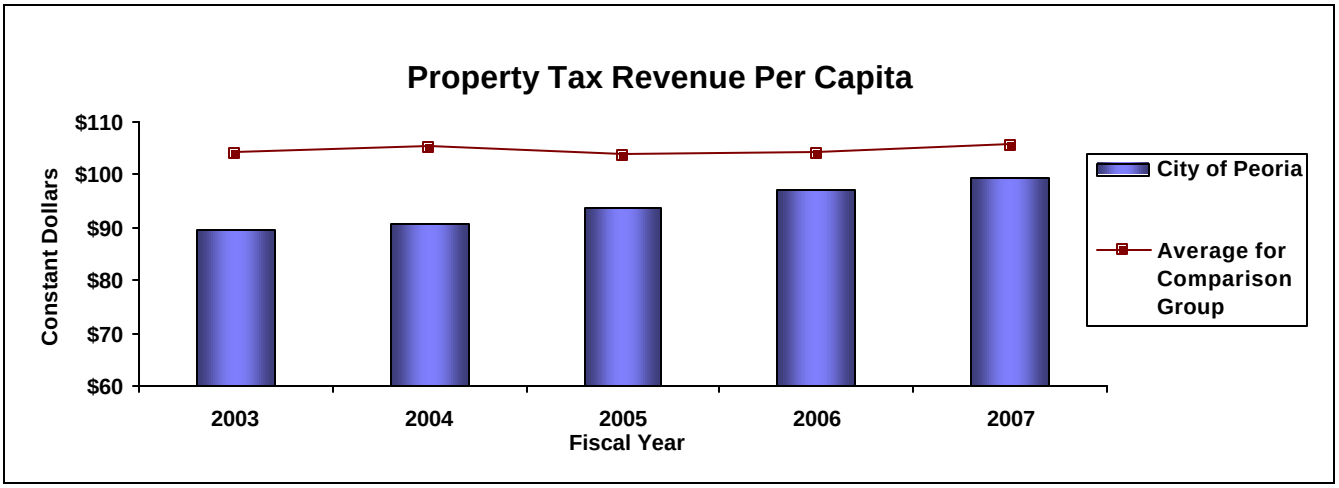
(Intergovernmental revenues are from governmental funds only, but exclude capital projects funds and development fee funds.)
(Operating revenues are from governmental funds only, but exclude capital projects funds and development fee funds.)

Property Tax Revenue Per Capita

Favorable Trend
Increasing property tax revenues per capita (constant dollars)

Primary and secondary property taxes are those taxes conditioned on ownership of real property and measured by its assessed value. Property tax revenue per capita is important to consider since it is a significant source of revenue for the City. A decline or a diminished growth rate in property taxes would have an impact on the City. Primary property taxes can be used for any general government operation while secondary property taxes are used to repay the principal and interest on general obligation bonds.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	$55	$92	$165	$68	$79	$179	**$99**	**$106**	94%
2006	$48	$90	$127	$66	$76	$191	**$97**	**$104**	93%
2005	$47	$87	$126	$61	$75	$198	**$94**	**$104**	90%
2004	$41	$88	$123	$60	$75	$202	**$91**	**$106**	86%
2003	$43	$85	$131	$60	$72	$194	**$90**	**$104**	86%



Commentary

Property tax revenues for the City continue to increase. The City's 2007 total tax rate was $1.48 per $100 of assessed valuation. The City's primary tax rate of $0.28 can be used for any general government purpose. The City's secondary property tax rate of $1.20 supports debt service which has been approved by voters. Although the total property tax rate decreased by $.11 in 2007, the property tax revenue per capita showed a slight increase due to higher assessed property values. Because of lags inherent in assessing property values, the property tax revenue per capita indicator continued to increase through 2007 despite the property tax rate decrease and the recent economic downturn. Property tax valuations, and therefore property tax revenues, are delayed in their response to downturns in the housing market.

(See Executive Summary section titled "Adjusting for Inflation.")

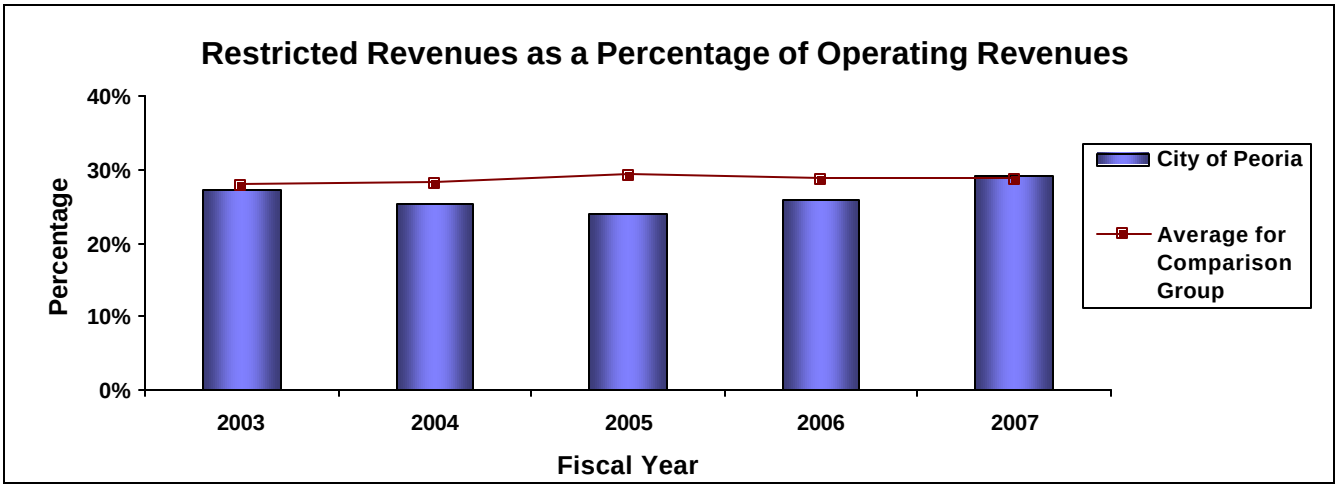
Restricted Revenues

Neutral Trend
Stable restricted revenues as a percent of operating revenues

Restricted revenues are the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes as may be required by state law, bond covenants or grant requirements. For example, the State of Arizona requires that gas tax revenue be used only for street maintenance or construction. Although the City has the option of not accepting a restricted revenue, some essential services are supported with these funds. As the percentage of restricted revenues increases, the local government loses some of its flexibility when responding to changing conditions and citizens needs.

This indicator measures revenues for all special revenue funds, other than the City's half cent sales tax fund, as a percentage of total revenues, excluding capital projects funds and development fee fund revenues.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	30.7%	10.2%	40.7%	27.9%	37.0%	33.1%	29.2%	29.0%	101%
2006	29.4%	11.4%	41.0%	27.9%	36.5%	31.5%	25.9%	28.8%	90%
2005	31.4%	13.8%	44.5%	26.7%	36.2%	32.0%	23.8%	29.4%	81%
2004	26.7%	9.9%	42.8%	29.0%	36.5%	31.1%	25.2%	28.4%	89%
2003	23.0%	10.3%	43.0%	29.6%	35.6%	30.2%	27.2%	28.0%	97%



Commentary

This indicator helps measure if the City is becoming overdependent on external revenue sources. Restricted revenues as a percentage of operating revenues for the City increased in 2007 due to transportation sales tax revenues being collected for the entire fiscal year versus only six months in 2006. The major components of restricted revenues for the current year were the Highway User Revenue Fund (HURF), secondary property taxes, and transportation sales taxes, which comprised 27.0%, 28.8%, and 19.7% of the total restricted revenues, respectively.

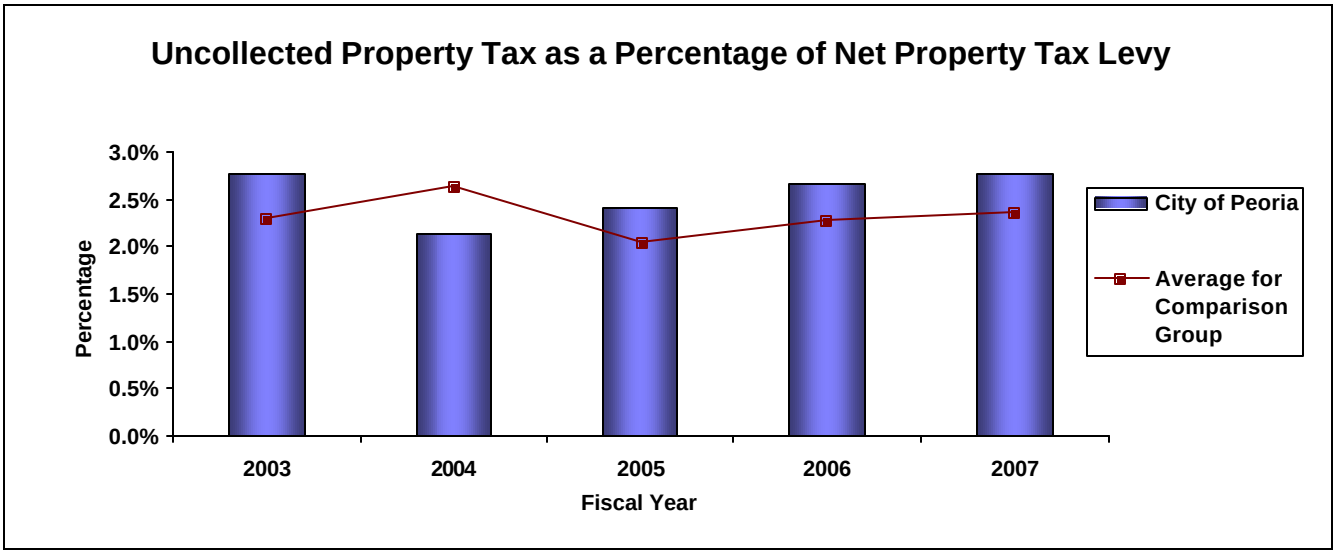
(Operating revenues are from governmental funds only, but exclude capital projects funds and development fee funds.)

Uncollected Property Taxes

Favorable Trend
Stable rate of uncollected property taxes

Maricopa County is responsible for collecting and distributing property tax revenues to the City. Every year, a percentage of property owners are unable to pay their property taxes. Over time an increase in uncollected taxes may indicate an overall decline in the City's economic health and in the local economy. Rating agencies consider an uncollected tax percentage over five percent or an increasing trend over several years as negative factors.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	3.5%	1.7%	1.5%	2.9%	2.7%	2.5%	**2.8%**	**2.4%**	117%
2006	3.2%	2.0%	1.3%	2.7%	2.5%	2.4%	**2.7%**	**2.3%**	117%
2005	3.3%	1.8%	1.9%	2.2%	2.4%	1.9%	**2.4%**	**2.0%**	117%
2004	3.7%	2.6%	2.2%	2.3%	2.9%	2.7%	**2.1%**	**2.6%**	80%
2003	4.2%	0.5%	4.0%	2.5%	2.9%	2.4%	**2.8%**	**2.3%**	120%



Commentary

The City's trend line indicates a stable and normal uncollected tax percentage, as does the average for the comparison group. The City's uncollected tax rate is well below the five percent criteria which is used by credit rating agencies to signal potential problems in the stability of the property tax base. The stable trend in uncollected taxes demonstrates good collection efforts by the county. A change in the economy could affect future property tax collections.

Expenditure Indicators

Expenditures

The demand for public services is affected by population shifts, the economy, the price of services and changes in the wealth of the community. Expenditures are a rough measure of this demand, as well as a measure of the City's service output. However, this measure does not take into account how effectively or efficiently the services are delivered. To determine whether a local government is living within its revenues, several issues need to be evaluated.

The first issue for consideration is the growth rate of expenditures. Because the City of Peoria is required to have a balanced budget, it would seem unlikely that expenditure growth could exceed revenue growth. Nevertheless, the annual budget can be balanced in a number of subtle ways in which expenditure outlays and commitments grow faster than revenues. Some of the more common ways are to use bond proceeds for operations, use fund balance reserves, defer maintenance on assets or defer funding of a future liability. In each of these cases, the annual budget remains balanced but the long-run budget develops a deficit. Although long-run deficits can be funded through sudden revenue surges created by inflation, allowing such deficits to develop is risky.

A second issue to consider is expenditure flexibility. Ideally, a government's expenditure growth rate will not exceed its revenue growth rate, and the government will maintain maximum flexibility to adjust spending to changing conditions. An increase in mandatory costs such as debt service, expenditure matching requirements, pension benefits, state and federal mandates, and other fixed costs renders a government less able to adjust to change.

Analyzing the City's expenditure profile will help to identify the following types of potential problems:

- Growth of overall expenditures as compared to revenue growth or growth in the wealth of the community
- An undesirable increase in fixed costs
- Ineffective budgetary controls
- A decline in personnel productivity
- Excessive growth in programs that create future expenditures

Changes in the City's expenditures can be reviewed by using the three indicators detailed on the following pages.

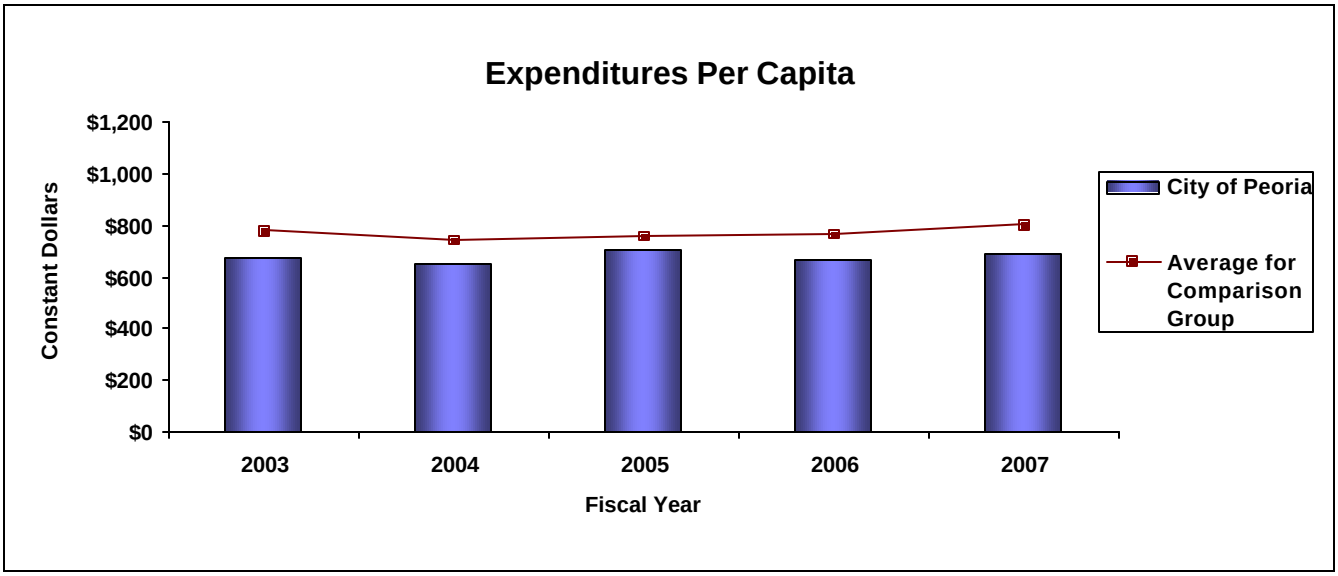
Expenditures Per Capita

Favorable Trend
Stable operating expenditures per capita (constant dollars)

Changes in per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures may indicate that the cost of providing services is exceeding the City's ability to pay, that productivity is declining, or that the City is adding new services. If the increase in spending is greater than can be accounted for by inflation or the addition of new services, it may indicate declining productivity - that is, the City is spending more real dollars for the same level of services.

Expenditures in this indicator include operating expenditures but exclude capital outlay.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	$723	$664	$912	$547	$785	$1,192	**$687**	**$806**	85%
2006	$667	$682	$892	$519	$696	$1,131	**$670**	**$767**	87%
2005	$638	$702	$846	$468	$672	$1,149	**$702**	**$758**	93%
2004	$638	$675	$830	$472	$644	$1,123	**$646**	**$742**	87%
2003	$807	$684	$787	$504	$639	$1,208	**$675**	**$781**	86%



Commentary

The City of Peoria's trend line indicates expenditures per capita for the measurement period is below the comparison group. As inflation and population increased during the measured period, City staff continued to provide a high level of service to the public.

(See Executive Summary section titled "Adjusting for Inflation.")

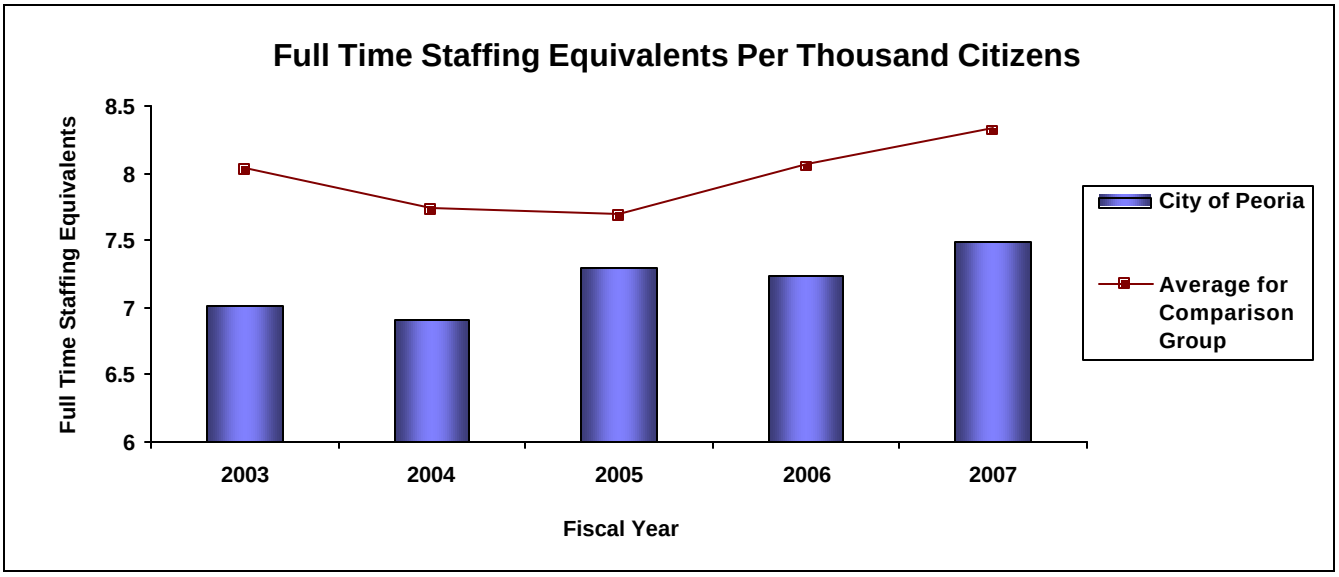
(Expenditures less capital outlay are from governmental funds only, but exclude capital projects funds and development fee funds.)

Employees Per Capita

Personnel costs are a major portion of the City's operating budget. Plotting changes in the number of employees per capita is a good way to measure changes in expenditures. An increase in employees per capita may indicate that services are being expanded, the City is becoming more labor intensive, or that personnel productivity is declining. Figures below are shown as full time staffing equivalents per thousand citizens.

Neutral Trend
Slight increase in the number of employees per capita

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	7.6	6.5	13.1	5.8	8.3	11.4	**7.5**	**8.3**	90%
2006	6.6	6.2	12.4	5.6	7.9	11.5	**7.2**	**8.1**	90%
2005	6.8	6.2	12.2	5.4	7.9	9.9	**7.3**	**7.7**	95%
2004	7.0	6.5	12.1	5.6	7.6	9.7	**6.9**	**7.7**	89%
2003	7.4	6.9	12.1	5.9	7.6	10.0	**7.0**	**8.0**	87%



Commentary

Employees per capita for the City has been slightly increasing over the five year measurement period. While most departments in the City have grown since 2003, the largest increases in full time equivalent employees have been in the following areas: police, fire, community services, public works, and utilities. Over the measurement period, Peoria's number of employees per capita has remained below the average of the comparison group. As the City's population continues to grow, certain departments may require additional employees to expand current services and programs to meet the increasing demands of the community.

Fringe Benefits

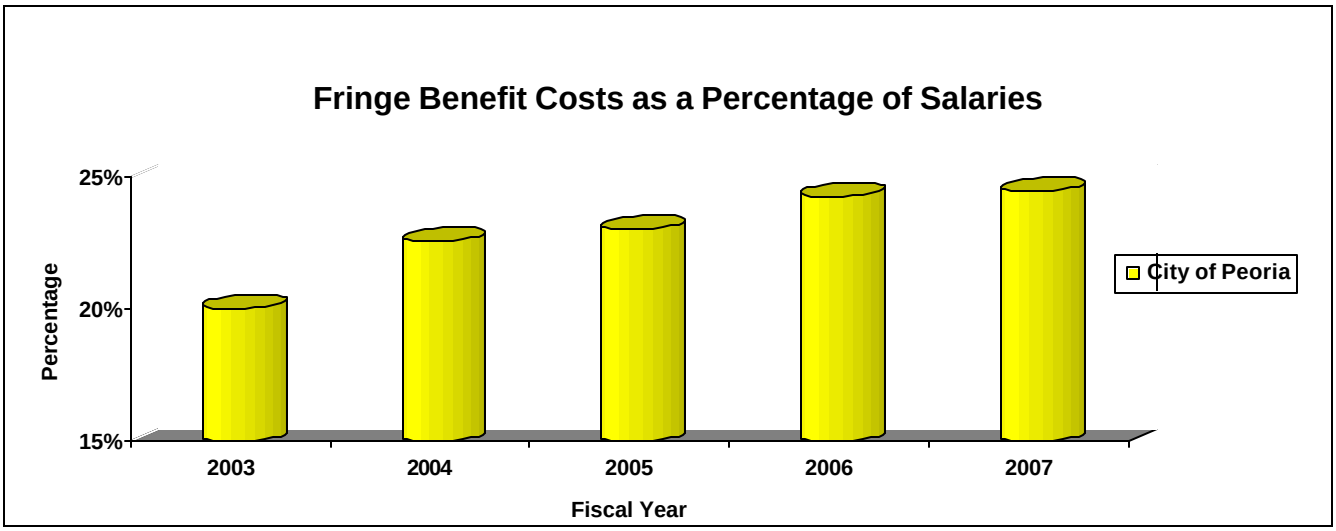
The most common forms of fringe benefits are social security contributions, pension plan contributions, and health and other insurance plan premiums. Fringe benefits represent a significant share of operating costs.

Warning Trend
Gradually increasing fringe benefits costs as a percentage of total salaries and wages

In this indicator, fringe benefit costs are expressed as a percentage of total salaries and wages, including fringe benefits. Included in fringe benefits are items such as tuition reimbursements, employer FICA and pension plan contributions, various medical, life, and workers compensation insurance premiums, and safety shoe, vehicle, and other allowances.

City of Peoria

Fiscal Year	Fringe Benefits Cost as a Percentage of Salaries
2007	24.5%
2006	24.3%
2005	23.1%
2004	22.6%
2003	20.1%



Commentary

The City's trend of fringe benefits as a percentage of total salaries and wages has been increasing over the measurement period, primarily due to increasing health care costs and retirement benefit costs. Arizona State Retirement System (ASRS) employer contribution rates have increased from 2.49% of wages in 2003 to 9.1% of wages in 2007. During the same time period, Arizona Public Safety Fire employer contribution rates increased from 4.31% to 7.86%, while Arizona Public Safety Police employer contribution rates increased from 10.27% to 12.09%. Elected Officials Retirement employer contribution rates increased from 6.97% to 18.55%.

Operating Position Indicators

Operating Position

Operating position refers to a local government's ability to balance its budget on a current basis, maintain reserves for emergencies, and have sufficient liquidity to pay its bills on time. During a typical year, a government can generate either an operating surplus or operating deficit. The operating surplus or deficit may be created intentionally by a budget decision or unintentionally because of difficulty in predicting revenues or trends in the regional or national economy. When deficits occur they are usually funded from accumulated fund balances; when surpluses occur they are often utilized to increase fund balances or to advance one time projects.

Reserves are built up through the accumulation of operating surpluses. They serve as a financial cushion against events such as unanticipated expenditures required by natural disasters or insurance losses, an economic downturn, the loss of a revenue source, other non-recurring expenses, or uneven cash flow. The appropriate level of reserves depends largely on the types of hardships a local government is subject to, the adequacy of its insurance coverage, and the flexibility of the local revenue base.

Liquidity refers to a local government's ratio of cash and investments to current liabilities. A positive ratio indicates liquidity that can be pooled for investment, although cash flows should be analyzed and investments scheduled to ensure maximum cash availability. If a government has a negative cash position it must borrow from reserves or delay paying its bills.

An analysis of operating position can assist in identifying the following situations:

- A pattern of continuing operating surpluses or deficits
- Changes in reserve levels
- Changes in liquidity

Changes in the City's operating position can be reviewed by using the six indicators detailed on the following pages.

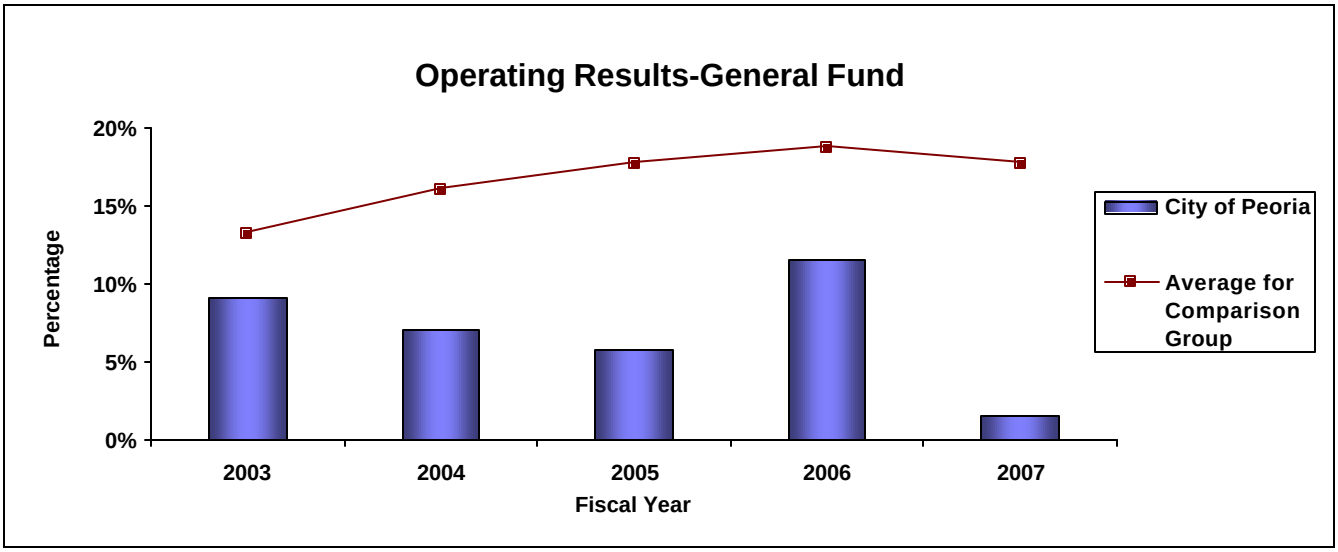
Operating Results-General Fund

Operating surpluses occur when current revenues exceed current expenditures. Reserves are built up through the accumulation of operating surpluses and may be created intentionally by budget decision or unintentionally because of trends in the regional or national economy.

Favorable Trend
Operating surpluses as a percentage of operating revenues

This indicator measures the level of operating surpluses as a percentage of operating revenues in the general fund only.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	31.3%	29.7%	10.4%	23.6%	-3.1%	16.1%	**1.5%**	**17.8%**	9%
2006	27.8%	24.7%	6.4%	20.3%	6.1%	21.6%	**11.5%**	**18.8%**	61%
2005	30.6%	16.3%	10.3%	27.2%	6.4%	20.7%	**5.8%**	**17.9%**	33%
2004	23.4%	17.7%	2.7%	22.2%	12.3%	16.4%	**7.0%**	**16.2%**	43%
2003	15.1%	17.4%	6.6%	19.9%	4.9%	13.9%	**9.1%**	**13.3%**	68%



Commentary

The City's operating results indicate a surplus of revenues over expenditures for all years measured. In fiscal year 2007, the City's unreserved General Fund balance increased $9.6 million. The City's policy is to make excess revenues available for budgeting in the next budget cycle started after the fiscal year in which the revenues are received. The fiscal year 2007 excess revenues will be available for budgeting in fiscal year 2009.

Differences in how the City and the comparison cities report certain revenues and expenditures, like debt service and capital projects, become apparent with this indicator. Since transfers and other financing sources and uses are not included in this indicator, General Fund revenues transferred to other funds, like a capital project or debt service fund, for expenditure would distort this indicator compared to cities that either report capital and debt service expenditures in the general fund, or report both the revenue and expenditure for such items in other funds.

(Operating surpluses and operating revenues are from the general fund only.)

Operating Results-Solid Waste

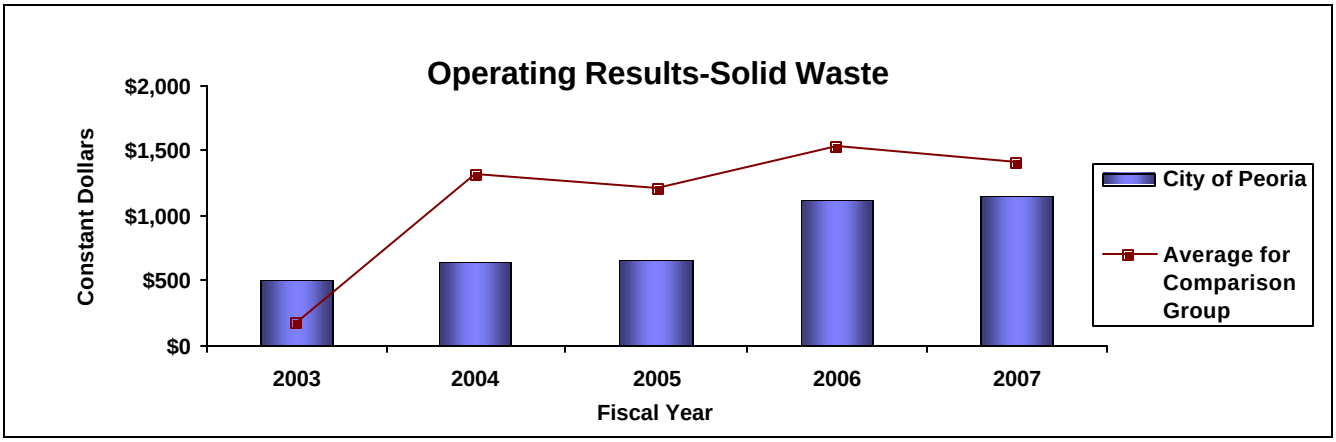
Neutral Trend
Operating surplus (constant dollars)

Enterprise operations function similarly to business entities and are supported by user fees, as opposed to governmental entities, which are supported by taxes. During difficult financial periods, the City may raise taxes to support governmental programs. However, increasing user fees for enterprise operations may result in decreased use of the service and decreased revenues.

Operating deficits can be a distinct indication of emerging problems. This indicator compares operating income (loss) before depreciation expense. Excluded from the measure are investment income, interest expense, sale of capital assets, depreciation, as well as any transfers or capital contributions.

Operating Results-Solid Waste (in 000's)

Fiscal Year	City of Avondale	City of Chandler	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group
2007	$320	$2,808	$1,653	$1,569	$669	**$1,145**	**$1,404**
2006	$426	$3,935	$1,039	$1,565	$833	**$1,109**	**$1,521**
2005	$12	$971	$1,522	$2,060	$1,620	**$651**	**$1,206**
2004		$753	$1,713	$1,312	$1,579	**$646**	**$1,307**
2003		($4,371)	$1,787	$584	$2,781	**$501**	**$190**



Commentary

The solid waste enterprise fund includes all operational and capital costs for both the commercial and residential solid waste functions, as well as the City's recycling program. The City's solid waste operations have generated operating surpluses during the measured period.

Significant costs of this function are disposal costs to area landfills, personnel, equipment, material, and maintenance costs. The number of residential solid waste customers increased from 38,546 in fiscal year 2003 to 46,309 in 2007. In addition, approximately 96,656 tons of commercial and residential refuse were processed and 1,927 tons of materials were recycled.

(See Executive Summary section titled "Adjusting for Inflation.")

(Operating income/(deficit) is from commercial and residential solid waste operations combined.)

Operating Results-Water

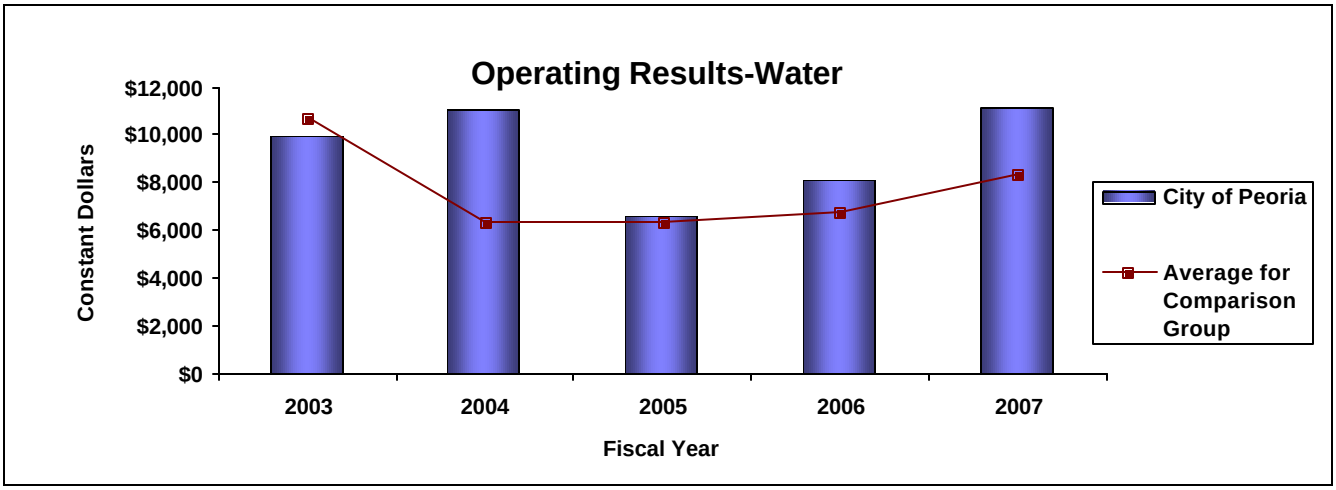
Favorable Trend
Operating surplus (constant dollars)

Enterprise operations function similarly to business entities and are supported by user fees, as opposed to governmental entities, which are supported by taxes. During difficult financial periods, the City may raise taxes to support governmental programs. However, increasing user fees for enterprise operations may result in decreased use of the service and decreased revenues.

Operating deficits can be a distinct indication of emerging problems. This indicator compares operating income (loss) before depreciation expense. Excluded from the measure are investment income, interest expense, sale of capital assets, depreciation, as well as any transfers or capital contributions.

Operating Results-Water (in 000's)

Fiscal Year	City of Avondale	City of Chandler	City of Gilbert	City of Peoria	Average for Comparison Group
2007	$2,645	$15,332	$11,616	**$11,163**	**$8,310**
2006	$2,382	$15,635	$5,954	**$8,123**	**$6,789**
2005	$2,369	$11,493	$7,590	**$6,619**	**$6,328**
2004	$2,434	$11,620	$6,503	**$11,078**	**$6,368**
2003		$14,274	$7,527	**$9,904**	**$10,635**



Commentary

The City's water operations have generated operating surpluses during the measurement period. The surpluses are a result of population growth and operating maintenance efficiencies. Surpluses in one year are often planned and used to help fund capital projects in subsequent years.

Active water customers increased from 37,664 in fiscal year 2003 to 45,630 in 2007. The average customer consumed 180,544 gallons of water in 2003 compared to 195,840 in 2007.

(See Executive Summary section titled "Adjusting for Inflation.")

(Operating income is from the water utility fund only.)

Operating Results-Wastewater

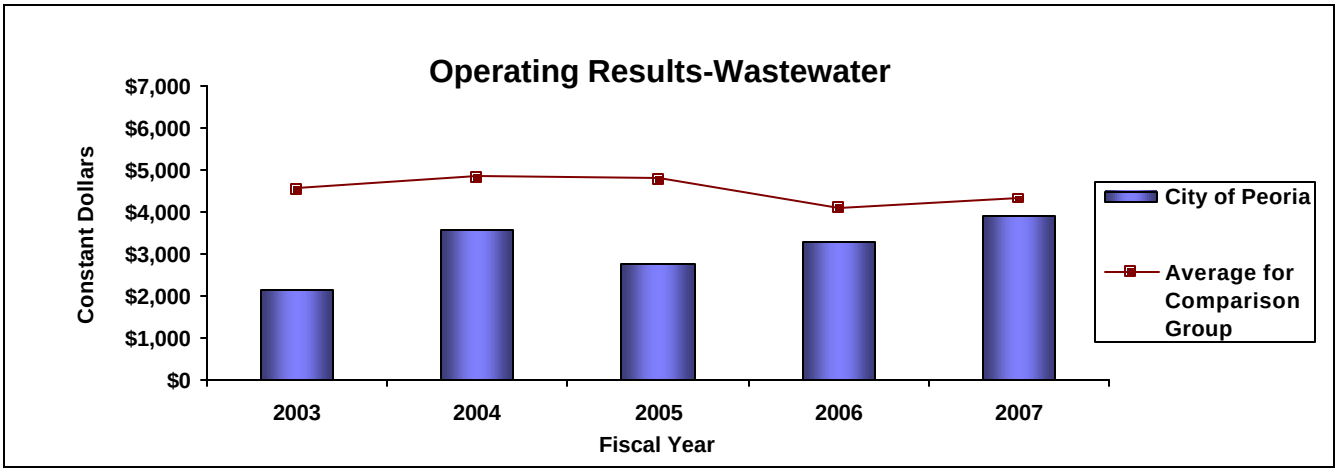
Favorable Trend
Operating surplus (constant dollars)

Enterprise operations function similarly to business entities and are supported by user fees, as opposed to governmental entities, which are supported by taxes. During difficult financial periods, the City may raise taxes to support governmental programs. However, increasing user fees for enterprise operations may result in decreased use of the service and decreased revenues.

Operating deficits can be a distinct indication of emerging problems. This indicator compares operating income (loss) before depreciation expense. Excluded from the measure are investment income, interest expense, sale of capital assets, depreciation, as well as any transfers or capital contributions.

Operating Results-Wastewater (in 000's)

Fiscal Year	City of Avondale	City of Chandler	City of Gilbert	City of Peoria	Average for Comparison Group
2007	$3,059	$5,846	$4,136	**$3,887**	**$4,347**
2006	$3,429	$5,602	$3,593	**$3,300**	**$4,104**
2005	$3,790	$7,043	$3,971	**$2,775**	**$4,812**
2004	$3,562	$7,731	$3,698	**$3,575**	**$4,876**
2003	$2,743	$7,556	$3,702	**$2,161**	**$4,553**



Commentary

The City's wastewater operations have generated operating surpluses during the measurement period. Wastewater rates were increased in 2007 by approximately 3%. Operating surpluses are often planned and used to help fund capital projects in subsequent years. The number of active wastewater customers increased from 39,806 in fiscal year 2003 to 47,831 in 2007. Annual wastewater treated at the Jomax, Beardsley and Tolleson treatment plants was approximately 3.669 billion gallons.

(See Executive Summary section titled "Adjusting for Inflation.")
(Operating income is from the wastewater utility fund only.)

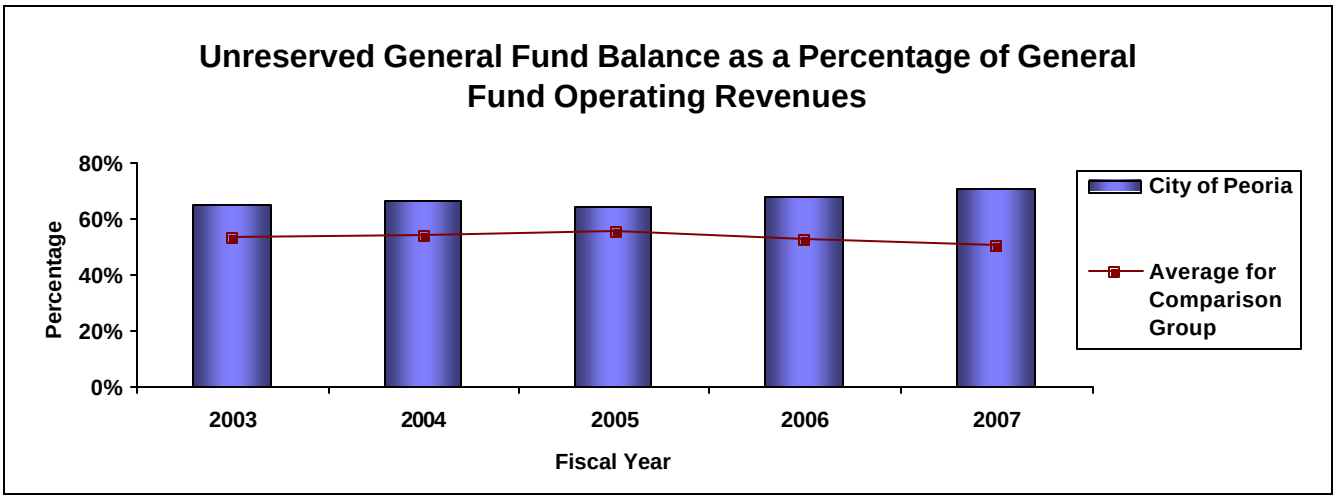
General Fund Unreserved Fund Balance

Favorable Trend
Stable general fund balance as a percentage of revenues

The size of the City's general fund balance can affect its ability to meet special needs and withstand financial emergencies. Available fund balance can be used to fund capital purchases without having to borrow. It is prudent to operate each year at a surplus to maintain positive fund balances and thus maintain adequate reserves. An appropriate target for reserves is often established by council policy and may be related to the degree significant revenue sources are subject to economic fluctuations.

This indicator is a measure of the general fund unreserved balance as a percentage of general fund total revenues (which excludes other financing sources such as bond proceeds and transfers in).

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group
2007	65.2%	88.0%	59.7%	28.8%	36.4%	32.9%	**70.9%**	**50.6%**
2006	56.8%	83.6%	64.1%	39.1%	47.3%	35.6%	**67.6%**	**52.6%**
2005	47.2%	97.1%	73.8%	45.5%	50.7%	30.6%	**64.2%**	**55.9%**
2004	36.9%	104.5%	62.7%	28.9%	50.0%	29.3%	**66.8%**	**54.4%**
2003	31.6%	101.5%	59.4%	26.0%	43.1%	36.8%	**65.3%**	**53.8%**



Commentary

The City's favorable trend indicates stability in the unreserved general fund balance as a percentage of general fund operating revenues. The unreserved fund balance of the general fund amounted to $74.8 million at the end of fiscal year 2007. $52.4 million (70%) of that balance was designated for specific purposes including the Economic Stablization Reserve.

The City's policy is to maintain a general fund balance of at least 10%, with a target of 35%, of the average actual general fund revenues for the preceeding five fiscal years. Funds in excess of the policy target are typically programmed in the subsequent year to support the City's Capital Improvement Program and to fund one-time expenditures.

(Unreserved fund balance and operating revenues are from the general fund only.)

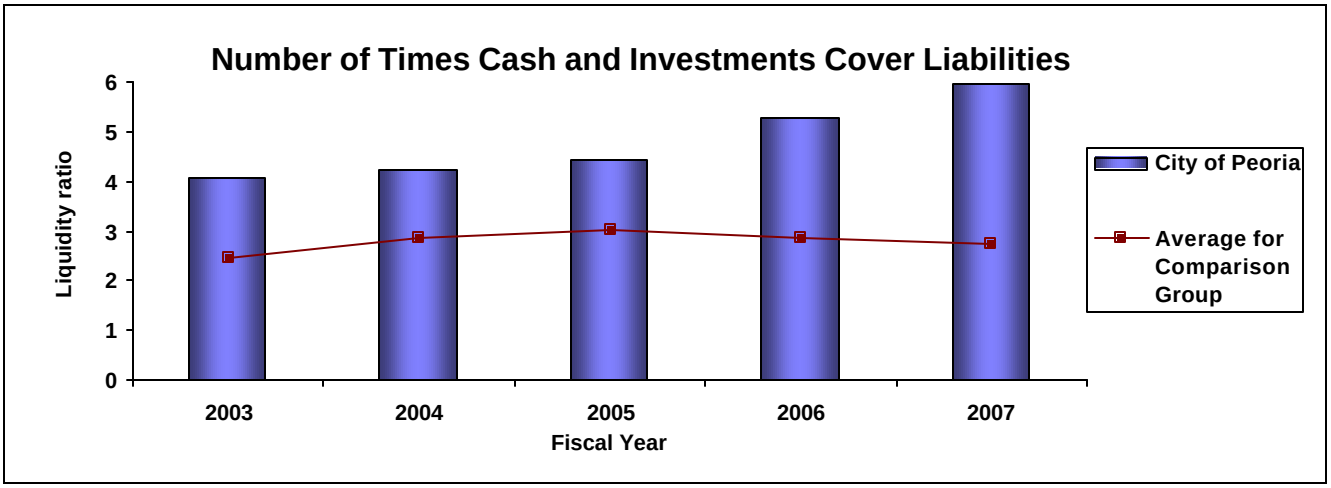
Liquidity

Favorable Trend
Increasing or stable liquidity ratio

A good measure of the City's short-term financial condition is its cash position. Cash on hand in the bank, as well as other assets easily converted to cash, determines a government's ability to pay its short-term obligations. A declining cash position may be an early indicator that the City has overextended itself in the long run.

This data represents the number of times cash and investments, including restricted cash and investments, cover short term obligations. The funds measured for this indicator are the governmental funds, excluding capital projects funds and development fee funds.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	6.7	4.8	2.6	2.2	1.7	2.3	**6.0**	**2.7**	217%
2006	6.3	3.7	2.7	2.1	2.8	2.4	**5.3**	**2.9**	184%
2005	4.4	6.4	4.9	2.1	2.7	1.7	**4.4**	**3.0**	147%
2004	3.3	5.3	4.8	1.7	2.9	1.7	**4.2**	**2.9**	149%
2003	2.1	5.6	4.1	1.7	1.5	1.9	**4.1**	**2.4**	166%



Commentary

The City's favorable trend indicates that cash and investments have consistently exceeded liabilities. The ratio has remained well over 100% and over the five years has been increasing. The liquidity ratio indicates that the City's ability to meet its short-term obligations is excellent.

(Data is from governmental funds only, but excludes capital projects and development fee funds.)

Debt Indicators

Debt Structure

Debt provides an effective method to finance capital improvements and to even out short-term revenue flows. However, because of its explicit contractual obligation, debt must be issued with care as its misuse can create serious financial problems. Even a temporary inability to repay debt can damage a government's credit rating and increase the costs of future borrowing.

The most common forms of long-term debt are general obligation, special assessment, and revenue bonds. Even when these types of debt are used solely for capital projects, local governments need to ensure that their outstanding debt does not exceed their ability to repay, as measured by the community's taxing ability against the wealth of the community (property value or personal and business income).

Another method of evaluating a government's ability to repay is to consider the amount of principal and interest, or debt service that is obligated to be repaid each year. Under the most favorable circumstances, a local government's debt (1) is proportional in size and rate of growth to its tax base, (2) does not extend past the useful life of the facilities that it finances, (3) is not used to balance the operating budget, (4) does not require repayment schedules that put excessive burdens on operating expenditures, and (5) is not so high as to jeopardize the government's credit rating.

Bonding and Bond Capacity

All general obligation and revenue bonds must be approved by a vote of the citizens. Additionally, the state constitution imposes limits on the principal amount of general obligation bonds that can be outstanding at any point in time, depending on the use of the bond proceeds. As of November 2006, subject to voter approval, bonds amounting to 20% of the assessed value of taxable property in the City can be issued for water, wastewater, artificial light, transportation, open space preserves, parks, playgrounds, recreational facilities, and public safety facilities. For all other types of capital expenditures, such as general government facilities, the City is limited to 6% of the assessed value of taxable property. Bond capacity is the portion of the legal debt limit available for bonding.

Revenue bonds are not included in the limit, but carry a higher interest rate because the monies for debt repayment are derived from user charges. Unlike general obligation bonds, revenue bonds are not supported by the full faith and credit of the City.

The City can issue Municipal Development Authority (MDA) bonds that are not included in the debt limit. These types of bonds are the only category not requiring voter authorization. They carry a higher interest rate because the monies for debt repayment are derived from excise taxes. Excise taxes include unrestricted privilege and use taxes, business license fees, permit fees, franchise fees, user fees and charges, fines, forfeitures, and other fees which the City imposes, and state-shared revenues, except those restricted for other purposes. Like revenue bonds, the MDA bonds are not supported by the full faith and credit of the City.

Analyzing the City's debt structure will assist in distinguishing the different bond categories and identifying the following types of potential problems:

- Inadequacies in cash management procedures or expenditure controls
- Increasing reliance on long-term debt
- Decreasing expenditure flexibility (due to increased fixed debt service costs)
- Use of short-term debt to finance current operations
- Existence of sudden large increases or decreases in future debt service
- The amount of additional debt the community can absorb

Changes in the City's debt structure can be reviewed by using the four indicators detailed on the following pages.

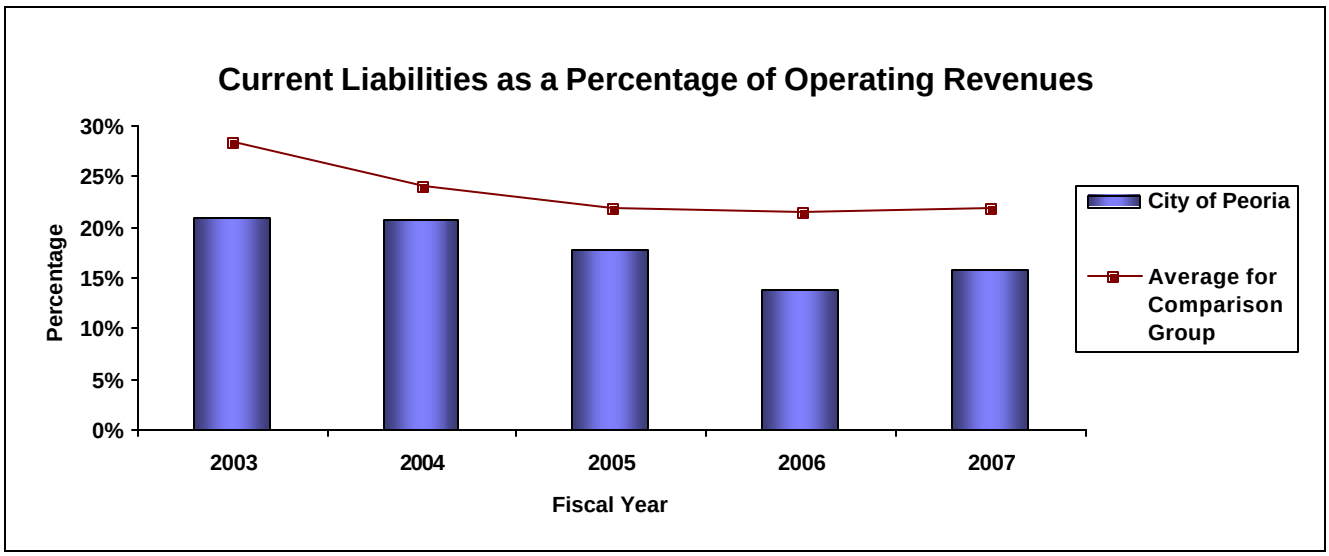
Current Liabilities

Current liabilities are defined as short-term liabilities (i.e. total liabilities on the fund financials) due as of the fiscal year end, including short-term debt, accounts payable, accrued payroll, accrued liabilities and other current liabilities. Although short-term debt is an accepted way to deal with an uneven cash flow, an increasing amount of short-term debt outstanding over successive years may indicate liquidity problems.

Favorable Trend
Decreasing current liabilities as a percentage of operating revenues

This indicator measures liabilities as a percentage of operating revenues in the governmental funds, excluding capital projects funds and development fee funds. Enterprise funds and internal service funds are not included in this measure.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	11.0%	18.6%	26.9%	24.0%	25.5%	22.2%	**15.7%**	**22.0%**	72%
2006	10.6%	22.3%	25.8%	25.3%	21.5%	20.7%	**13.9%**	**21.5%**	65%
2005	13.8%	16.0%	19.2%	28.6%	26.0%	22.5%	**17.8%**	**21.8%**	81%
2004	15.8%	22.3%	21.9%	30.4%	23.4%	25.4%	**20.7%**	**24.2%**	86%
2003	25.6%	22.2%	17.8%	28.9%	39.7%	28.0%	**20.9%**	**28.5%**	74%



Commentary

The City's trend line indicates a generally decreasing percentage of current liabilities as a percentage of operating revenues, which is lower than the comparison group. It should be noted that five of the comparison group cities record a current liability in their year end financial statements for the portion of bonds that will be due and payable on the first day of the following fiscal year. The City does not record next year's principal and interest obligations in the current fiscal year. Both presentations are allowed for financial reporting purposes.

(Data is from governmental funds only, but excludes capital projects funds and development fee funds.)

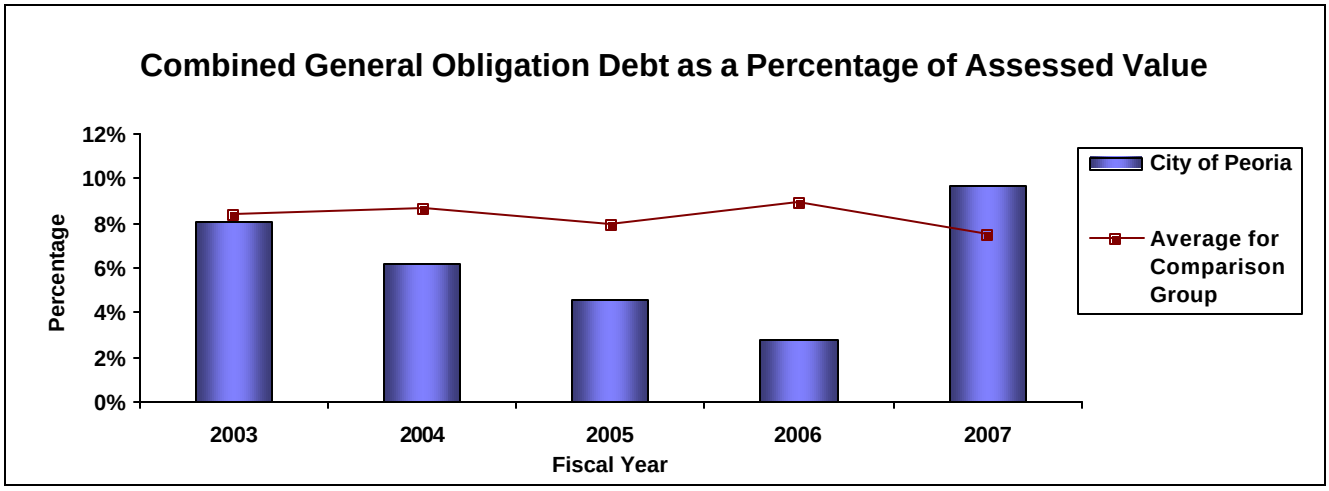
General Obligation Debt as a Percentage of Assessed Value

An increase in general obligation (GO) long-term debt as a percentage of assessed valuation can mean that the City's ability to repay this debt is diminishing. Or it could mean that the City has intentionally increased its debt burden. If the City's ability to repay is diminishing, the City may have difficulty obtaining additional capital funds, may have to pay a higher interest rate for new funds, or may have difficulty repaying existing debt. However, a reasonable level of debt burden is expected in order to meet the needs of a growing city.

Neutral Trend
Reasonable general obligation debt as a percentage of assessed value

For the purposes of this indicator, GO debt does not include the portion of debt that is being repaid from enterprise fund operations.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	2.7%	6.6%	4.1%	3.4%	15.4%	9.0%	**9.7%**	**7.6%**	128%
2006	4.1%	7.2%	5.2%	6.4%	13.1%	10.3%	**2.8%**	**9.0%**	31%
2005	5.4%	6.4%	0.8%	7.5%	13.2%	8.4%	**4.6%**	**7.9%**	57%
2004	7.0%	5.9%	1.2%	8.0%	14.1%	9.7%	**6.1%**	**8.7%**	70%
2003	9.1%	7.7%	1.6%	7.9%	13.0%	8.4%	**8.0%**	**8.4%**	96%



Commentary

In fiscal year 2007, the City issued $94.4 million in new debt and $18.4 million in refunding GO debt. As a result, the net bonded debt (GO debt less debt service reserves) increased by $81.1 million. The assessed valuation increased 15.7%.

Under the provisions of the Arizona Constitution, outstanding GO bonded debt for combined water, sewer, light, parks and open space (and after November 2006) streets, and public safety facilities may not exceed 20 percent of a City's net secondary assessed valuation, nor may outstanding general obligation debt for all other purposes (i.e. operational facilities) exceed 6 percent of a City's net secondary assessed valuation. At the end of fiscal year 2007, the City's GO debt was at 42.5% of the 6% limit and 51.3% of the 20% limit. The City has maintained its debt level well below the levels mandated by the Arizona Constitution.

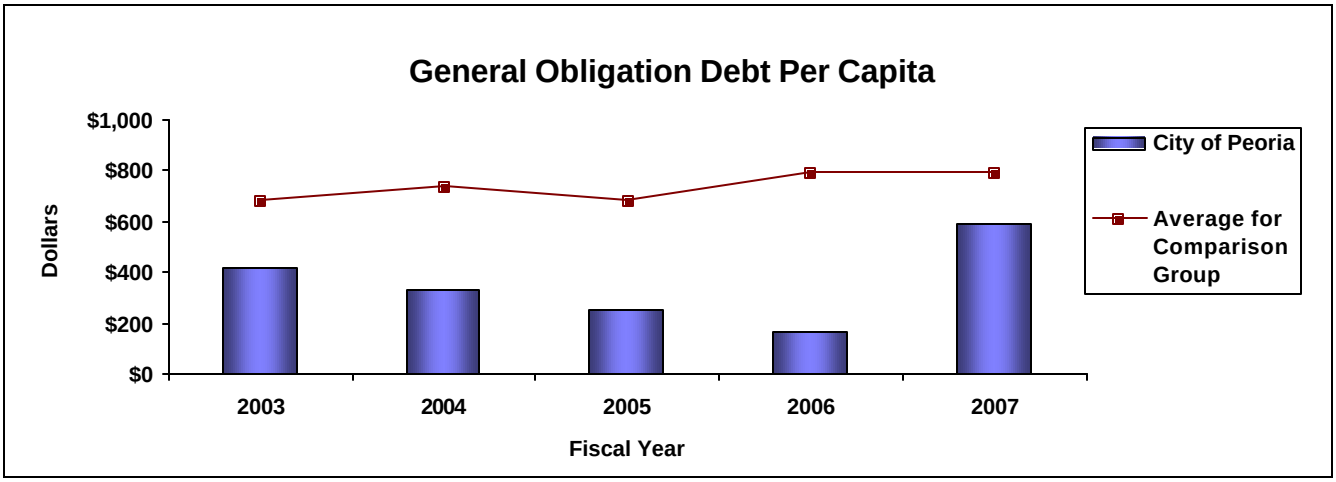
General Obligation Debt Per Capita

General obligation debt per capita relates debt to changes in population. As the population increases, capital needs and long-term debt can logically be expected to increase as well. Alternatively, if general obligation debt per capita is increasing as population stabilizes, this indicator may mean the City's ability to pay is diminishing. Long-term debt should not exceed the City's resources for paying the debt.

Neutral Trend
Reasonable general obligation debt per capita

For this indicator, general obligation debt does not include the portion of debt that is being repaid from enterprise fund operations.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	$204	$672	$419	$332	$725	$1,651	**$593**	**$794**	75%
2006	$209	$505	$457	$439	$592	$1,874	**$162**	**$793**	20%
2005	$263	$439	$63	$481	$583	$1,504	**$250**	**$684**	37%
2004	$330	$407	$90	$486	$621	$1,690	**$331**	**$741**	45%
2003	$404	$483	$122	$499	$556	$1,383	**$420**	**$687**	61%



Commentary

The City's trend line indicates an increased amount of general obligation debt per capita in fiscal year 2007 over prior years. A moderately decreasing indicator would be the natural result of general obligation debt being paid down, with a stable or increasing City population. In a year when new debt is issued, the trend line will jump up that year, then would steadily decrease as debt payments were made, until the next year debt was issued. In fiscal year 2007, the City issued new and refunding GO debt. The City's debt per capita remains lower than the comparison group, indicating the City is effectively managing its debt while experiencing significant population increases. The City's population increased 21.1% between fiscal years 2003 and 2007. At the end of fiscal year 2007, the City's bond ratings for general obligation debt were as follows: Fitch Ratings AA; Moody's Investor Service Aa3; Standard & Poor's AA.

(See Executive Summary section titled "Adjusting for Inflation.")

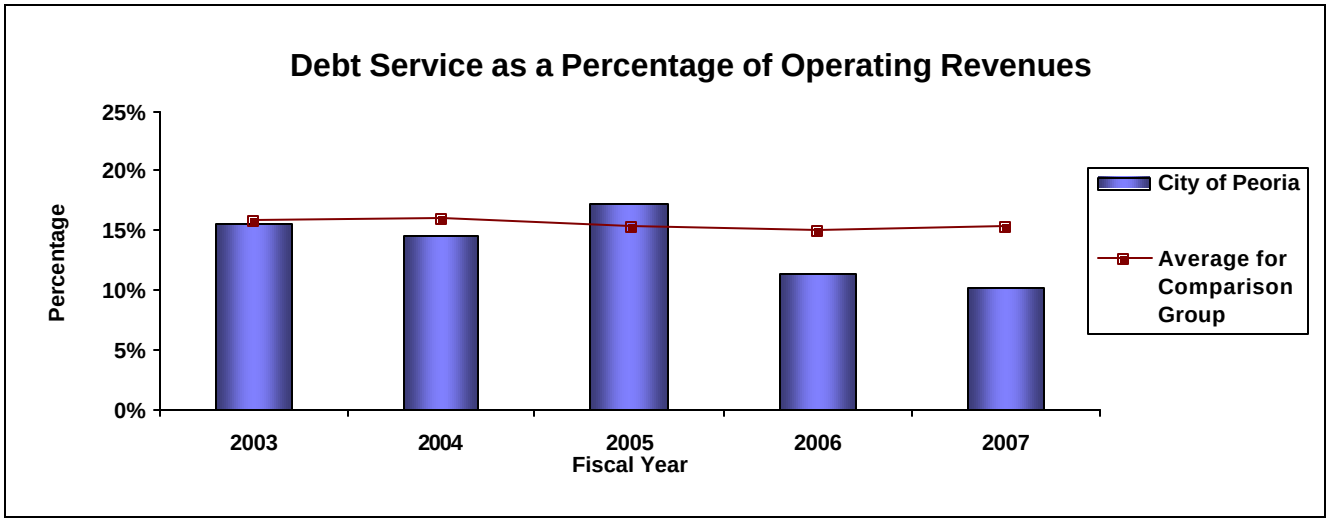
Debt Service

Neutral Trend
Stable debt service as a percentage of operating revenues

Debt service is the amount of principal and interest the City must pay each year on long-term and short-term debt of all types, including payments on general obligation bonds, revenue bonds, municipal development authority bonds, special assessment and community facilities district bonds, as well as contracts and capital leases. Increasing debt service reduces expenditure flexibility by adding to the City's obligations. Debt service increases may indicate excessive debt and fiscal strain, or reasonable increases in capital financing versus pay-as-you go capital financing.

For the purposes of this indicator, debt service expenditures and total revenues (which exclude other financing sources such as bond proceeds and transfers in) were used for the government funds only, but excludes capital projects funds and development fee funds.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	10.4%	9.3%	10.1%	18.1%	18.5%	18.0%	**10.1%**	**15.3%**	66%
2006	11.1%	13.0%	11.1%	17.2%	15.2%	16.8%	**11.4%**	**15.0%**	76%
2005	10.9%	8.7%	9.9%	18.2%	18.0%	18.8%	**17.2%**	**15.4%**	112%
2004	10.2%	10.6%	11.0%	18.4%	17.4%	19.2%	**14.6%**	**15.9%**	91%
2003	9.1%	9.6%	7.9%	14.2%	17.3%	21.7%	**15.5%**	**15.8%**	98%



Commentary

The City's trend line indicates debt service has been consistent with the comparison group over the measurement period. Peoria's debt service ratio is also within acceptable credit industry standards. Debt service exceeding 20 percent of operating revenues may be considered a potential problem by rating agencies and may indicate the inability of an entity to repay its ongoing obligations and meet future capital needs. Debt service for bonds issued in fiscal year 2007 will not substantially affect this indicator until fiscal year 2008.

(Debt service expenditures are from governmental funds only, but exclude capital projects funds and development fee funds.)

(Operating revenues are also from governmental funds only, excluding capital projects funds and development fee funds.)

Community Needs and Resources Indicators

Community Needs and Resources

Community needs and resources is a category in which the City's tax base and economic and demographic characteristics are treated as different sides of the same coin. On one side, the tax base determines a community's wealth and its ability to generate revenue. On the other side are economic and demographic characteristics as they affect community demands for public safety, capital improvements, and social services. Changes in economic and demographic characteristics are important to monitor when analyzing financial condition, particularly in the long run.

Changes in community needs and resources are interrelated in a continuous cycle of cause and effect. In addition, these characteristics tend to be cumulative. For example, a decrease in population or jobs can lower the demand for housing and cause a corresponding decline in the market value of housing; this in turn reduces property tax revenues. These types of characteristics are often the most difficult to formulate into indicators because the data is not easy to gather. The indicators detailed in this section represent only those for which data is reasonably available.

In addition to analyzing the indicators included in this section, the City may also want to look at more subjective issues, such as locational advantages and current land use, especially as they relate to the City's ability to generate revenue. The City's plans for potential and future development should also be evaluated, as well as the City's commercial and industrial diversification, especially as it relates to the ability to generate revenue and employment, and its vulnerability to regional and national economic cycles. Other possible considerations include the City's occupational characteristics, the skills and educational levels of its population, the age and condition of its housing, and the prognosis for new construction and redevelopment. Such information is difficult to quantify but is useful in evaluating financial condition.

An analysis of local economic and demographic characteristics can identify the following situations:

- The level of change in the tax base as measured by population, property value, employment and business activity

- The need to shift public service priorities because of a change in the age or income status of residents

- The need to shift public service priorities because of a change in the type or density of physical development

- A need to reassess public policies if, for example, the City is losing businesses to surrounding communities

- A need to reassess public policies if regional economic conditions have changed

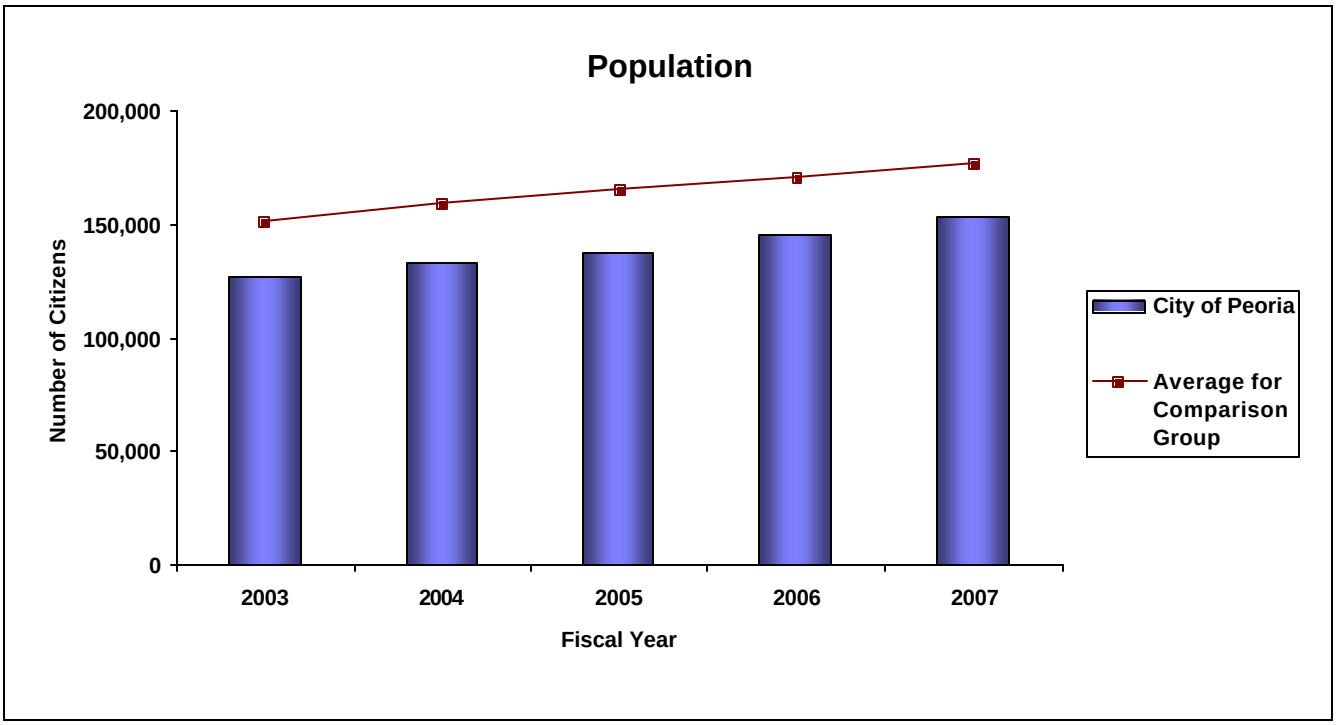
Changes in economic and demographic characteristics are most useful for long-range financial analysis. Changes in the City's community needs and resources can be reviewed using the six indicators detailed on the following pages.

Population

The exact relationship between population change and other economic and demographic factors is uncertain. It is clear that population increases are related to employment, income, housing and business activity. For these reasons, gradual increases in population are favorable in order to afford governments time to put new capital infrastructure in place.

Neutral Trend
Gradually increasing population

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group
2007	66,678	247,097	62,030	203,260	246,000	238,270	**153,592**	**177,223**
2006	66,110	241,910	62,030	185,720	244,000	226,390	**145,125**	**171,027**
2005	60,255	236,877	61,185	178,070	236,000	221,130	**137,045**	**165,586**
2004	53,925	224,644	61,270	164,685	233,000	217,555	**132,805**	**159,180**
2003	47,610	211,984	61,030	144,400	231,000	214,090	**126,815**	**151,686**



Commentary

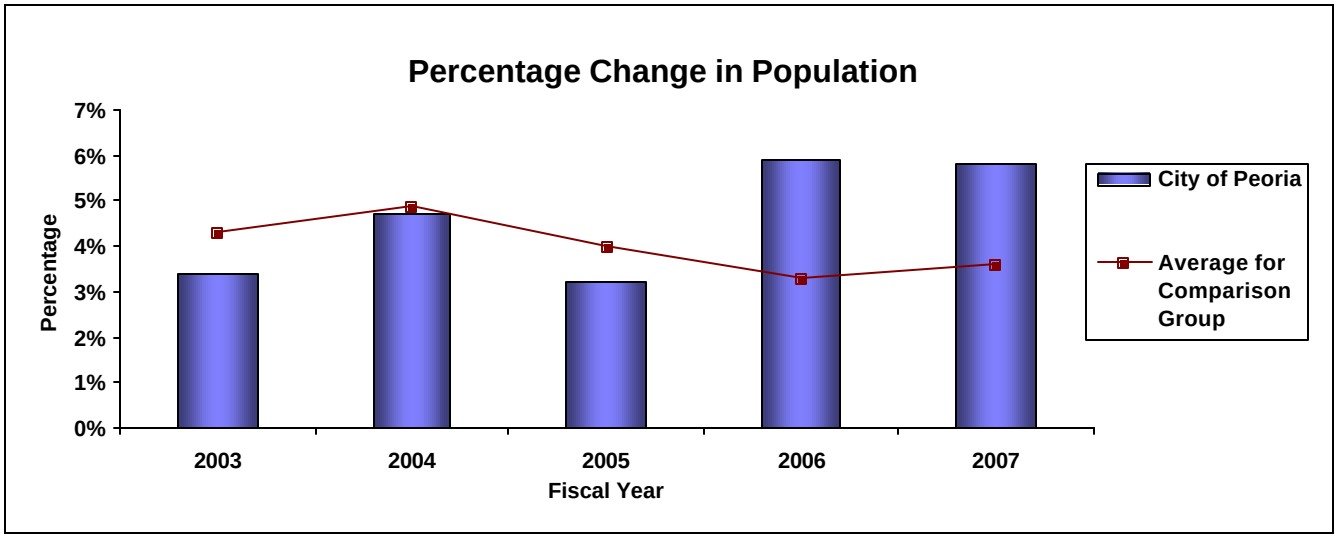
The City and comparison group are both experiencing increases in population. This growth is attributable to affordable housing, an excellent school district and the expansion of the valley's freeway systems, allowing Peoria residents to commute to other cities in the metropolitan area. This growth can present challenges to the City in maintaining a high level of service. As a note, the number of residential building permits issued in fiscal year 2007 decreased by 45% compared to fiscal year 2006 permits. The City anticipates a significant slowing in new development over the next three years.

Percentage Change in Population

Population change can directly affect governmental revenues and expenditures. Several revenue sources are distributed to the City on a per capita basis. Additional expenditures may be required as sudden increases in population can create immediate pressures for new capital outlay and higher levels of service. Growth can also strain one or more of the following: water supply, sewer system capacity, traffic circulation, waste disposal capacity, or open space resources.

Neutral Trend
Gradually increasing population

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	0.9%	2.1%	0.0%	9.4%	0.8%	5.2%	5.8%	3.6%	161%
2006	9.7%	2.1%	1.4%	4.3%	3.4%	2.4%	5.9%	3.3%	179%
2005	11.7%	5.4%	-0.1%	8.1%	1.3%	1.6%	3.2%	4.0%	80%
2004	13.3%	6.0%	0.4%	14.0%	0.9%	1.6%	4.7%	4.9%	96%
2003	17.7%	5.3%	3.2%	8.1%	1.3%	2.0%	3.4%	4.3%	79%



Commentary

As discussed in the population indicator, the City and comparison group are all experiencing increases in population. The City's population grew 21.1% between fiscal years 2003 and 2007.

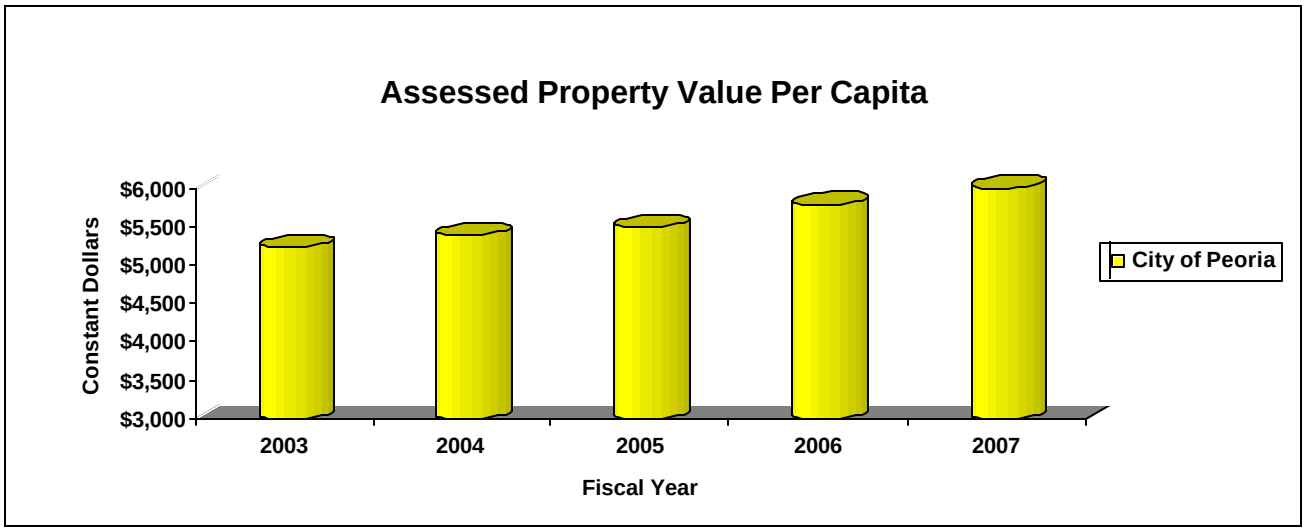
Population estimates for all years were updated in 2007 with the most recent data available. The City anticipates a slowing of growth over the next three years.

Assessed Property Value Per Capita

Changes in property values are very important because many local governments depend on property taxes for a substantial portion of their revenues. This is especially true in localities with a stable property tax rate because the higher the aggregate property value, the higher the revenues. Assessed property values are used in conjunction with the property tax rate to compute property tax revenue. The City's property tax has two components, the primary tax and the secondary tax. The primary property tax is utilized for general government purposes, while the secondary property tax is utilized to pay general obligation debt.

Favorable Trend
Increasing value of assessed taxable property per capita (constant dollars)

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria
2007	$7,406	$10,191	$10,193	$9,824	$4,695	$18,419	**$6,119**
2006	$5,096	$6,989	$8,766	$6,880	$4,532	$18,222	**$5,789**
2005	$4,858	$6,918	$8,256	$6,379	$4,401	$17,824	**$5,480**
2004	$4,684	$6,946	$7,798	$6,086	$4,415	$17,403	**$5,382**
2003	$4,458	$6,289	$7,607	$6,277	$4,282	$16,473	**$5,226**



Commentary

The City's trend line indicates assessed property values per capita have been increasing on a constant dollar basis. Maricopa County is responsible for assessing property values within the City. On a constant dollar basis, property assessments within the City have experienced a 38.3% increase since 2003, due to new growth and increases in existing property values. Residential property value has increased 30.8% since 2003. In addition, the City issued over 10,000 permits for residential dwelling units between fiscal years 2003 and 2007. As discussed in the population indicators, the City is still experiencing growth, but at a somewhat slower pace than in previous years. According to ASU's Realty Studies, the median price for single family resales increased 42.9% from 2004 to 2005, 8.0% from 2005 to 2006, but decreased 4.5% from 2006 to 2007. Single family home resales can be a leading indicator to signal changes in assessed values.

(See Executive Summary section titled "Adjusting for Inflation.")

Residential Development

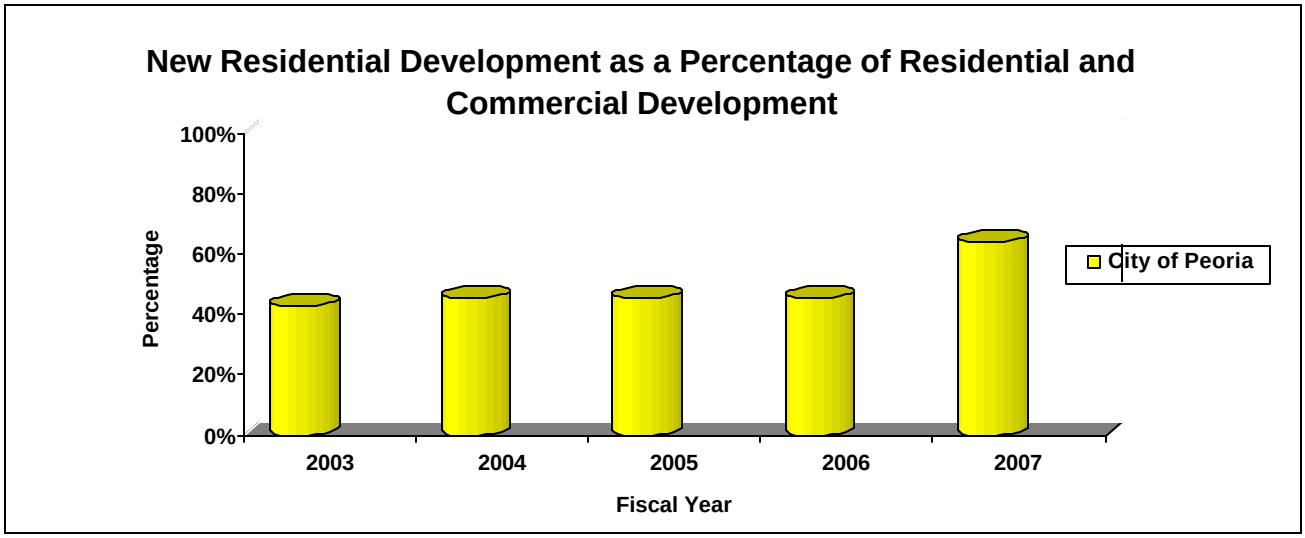
The net cost of serving residential development is generally higher than that of serving commercial development. This is because residential development usually creates more service demands than commercial development. In cities experiencing rapid growth, increasing rates of residential development can be a leading indicator suggesting increases in future service demands.

Neutral Trend
Stable value of residential development to total development

This indicator measures the percentage of growth attributable to residential development as opposed to commercial development.

City of Peoria

Fiscal Year	Residential Permit Value (constant dollars)	Commercial Permit Value (constant dollars)	Residential as a % of Total
2007	$179,467,906	$102,445,251	63.7%
2006	$279,425,564	$336,037,562	45.4%
2005	$339,125,280	$406,178,597	45.5%
2004	$230,367,063	$275,899,403	45.5%
2003	$199,491,258	$266,118,879	42.8%



Commentary

The City's trend line indicates that the percentage of residential to commercial development remains constant for all years until fiscal year 2007. In 2007, the value of residential permits decreased 35.8%, and the value of commercial permits decreased 69.5%. The City anticipates a significant slowdown in new residential and commercial development over the next three years.

As a note, this measure does not measure the rate of growth, only the percentage of new development attributable to residential development versus commercial development.

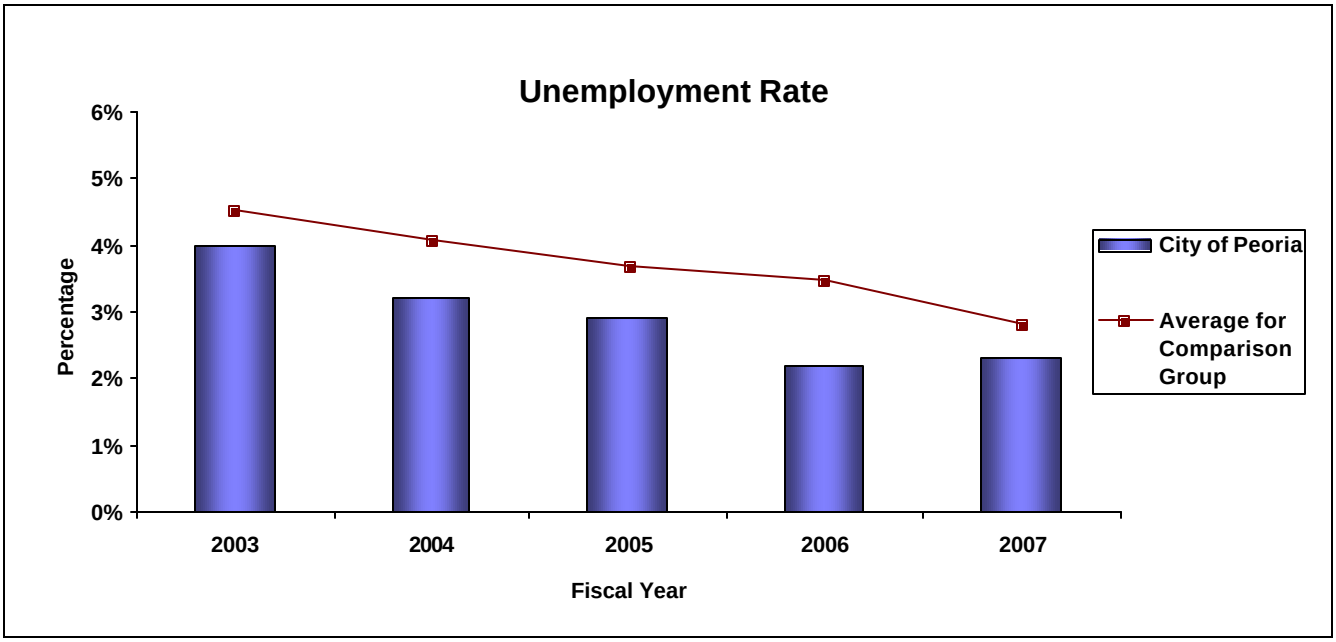
(See Executive Summary section titled "Adjusting for Inflation.")

Unemployment

Changes in the employment rate affect personal income and are a measure of the community's ability to support its business sector. An increase in the unemployment rate can be an early sign that overall economic activity is declining and that government revenues may be declining as well. Conversely, a decrease in the unemployment rate can be an indicator of increasing economic health.

Favorable Trend
Decreasing unemployment rate

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	2.9%	3.0%	3.4%	2.0%	3.1%	2.6%	**2.3%**	**2.8%**	81%
2006	3.7%	3.0%	5.0%	2.2%	3.9%	3.0%	**2.2%**	**3.5%**	63%
2005	4.0%	3.3%	5.1%	2.9%	3.9%	2.9%	**2.9%**	**3.7%**	79%
2004	4.4%	3.1%	5.2%	3.5%	4.4%	3.9%	**3.2%**	**4.1%**	78%
2003	5.4%	4.0%	5.8%	3.1%	5.3%	3.6%	**4.0%**	**4.5%**	88%



Commentary

The City's trend line indicates it has a lower unemployment rate than the average of the comparison group for all periods measured. For fiscal year 2007, the City's unemployment rate of 2.3% was lower than the State of Arizona and Maricopa County unemployment rates of 3.8% and 3.2%, respectively.

It should be noted that the unemployment rate reflects the employment status of citizens who live within a community's geographic boundaries, regardless of whether their jobs are within or outside the community.

Business Activity

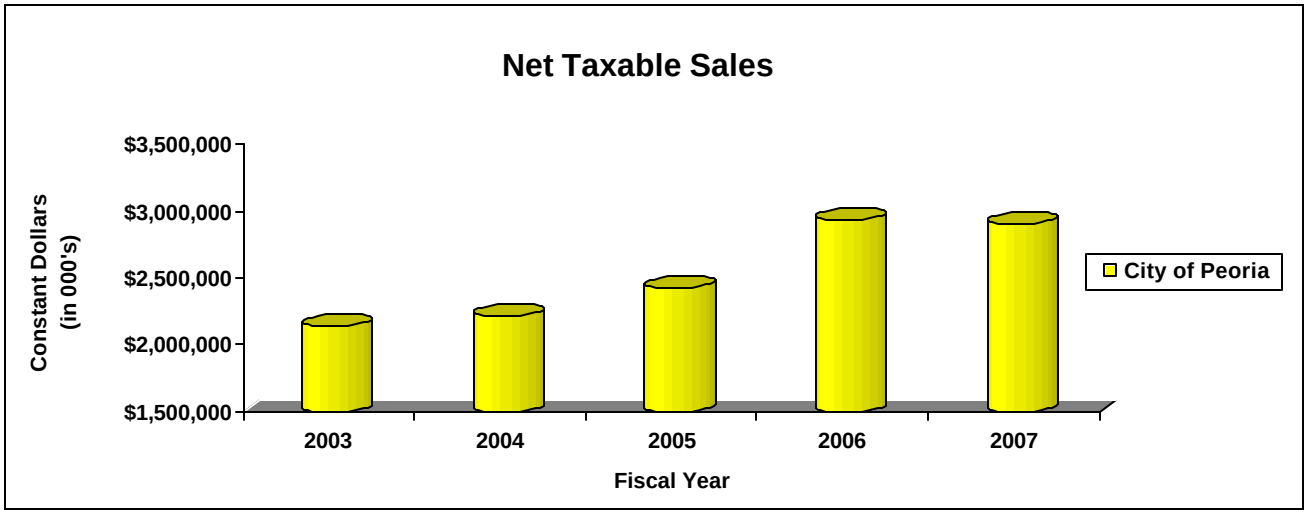
The level of business activity affects the City's financial condition in two ways. First, it directly affects any revenue yields that are a product of business activity, such as those from sales tax receipts. Second, it indirectly affects demographic and economic areas such as personal income, property values, and the employment base, which can in turn affect business activity.

Neutral Trend
Generally increasing net taxable sales (constant dollars)

This indicator measures net taxable sales within the City and is shown on a constant dollar basis. Net taxable sales are estimated based on sales tax revenues excluding penalties, interest and recoveries.

City of Peoria

Fiscal Year	Business Activity (in 000's)
2007	$2,901,018
2006	$2,931,758
2005	$2,420,951
2004	$2,211,245
2003	$2,134,275



Commentary

Until 2007, the City's trend line indicated a modestly increasing sales tax base. In 2007, on a constant dollar basis, the construction gross sales category decreased by 14.4%, which is indicative of the recent housing decline and economic slowing. Excluding this category, in 2007, gross sales increased, on a constant dollar basis, by 4.0%.

Increases in gross sales are due to the migration of new residents to the City, as well as an expanding base of commercial and retail businesses. However, the growth rate may be slowing, as indicated by decreases in construction gross sales and decreases in commercial and residential permit values in 2007 compared to prior years' levels. Construction gross sales were 27% of the total gross sales in 2006, but only 24% in 2007.

(See Executive Summary section titled "Adjusting for Inflation.")

Unfunded Liability Indicators

Unfunded Liabilities

An unfunded liability is one that has been incurred during the current or a prior year, that does not have to be paid until a future year, and for which reserves have not been set aside. It is similar to long-term debt in that it represents a commitment to pay at some time in the future. If such obligations are permitted to grow over a long period of time, they can have a substantial effect on a local government's financial condition.

Two types of unfunded liabilities are considered in this section: pension liability and accumulated employee leave liability. Both can have a significant potential to affect financial condition because they accumulate gradually over time and can go unnoticed until they cause financial problems.

Analyzing these indicators can help to identify the following:

- The rate at which pension liabilities are increasing and how much remains unfunded
- If pension system contributions, assets, and interest earnings are keeping pace with the growth in pension benefits
- If unused vacation and compensatory leave liability are increasing
- Whether policies for payment of accrued vacation are realistic as compared to the City's ability to pay

Changes in the City's unfunded liabilities can be reviewed using the two indicators detailed on the following pages.

Pension Funding

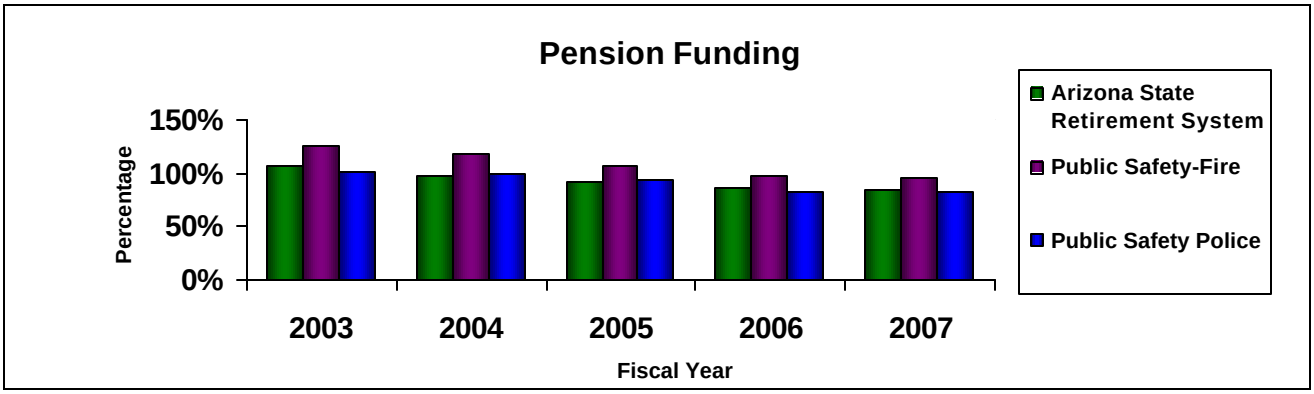
Warning Trend
Decreasing pension funding levels

The City participates in the pension plans provided by the State of Arizona. Each pay period both the City and its employees are required to make payments into the pension plans. Accordingly, the City does not carry a pension liability on its books.

Contribution rates to the pension plans are determined by the state legislature. Each year the State actuarially determines the level of funding for each of the pension plans. The level of funding indicates the percent to which the pension liability at the state has been funded by contributions. A decreasing level of funding, particularly funding below 100% is an indicator that future increases in both the City's and the employees' contribution rates may be instituted.

City of Peoria

Fiscal Year	Arizona State Retirement System	Public Safety Retirement Plan-Fire	Public Safety Retirement Plan-Police
2007	84.3%	95.0%	82.5%
2006	86.1%	96.7%	81.8%
2005	92.5%	107.2%	93.9%
2004	98.4%	117.8%	98.9%
2003	106.4%	125.7%	101.6%



Commentary

All data is for the fiscal year in which the figures were reported in the City's Comprehensive Annual Financial Report. The actuarial calculation date is June 30 of the prior fiscal year. As an example, fiscal year 2007 data shown above is for the actuarial valuation date of June 30, 2006.

For the past few years, the City and its employees have experienced significantly increasing contribution rates. As demonstrated by the decreasing percentages shown above, the pension funding levels have been steadily declining until each plan is less than fully funded. This is due to plan benefit changes, lower than anticipated earnings on invested pension funds, increasing life expectancies, and historically low contribution rates. The increasing contribution rates are an attempt by the State to restore pension liability funding levels.

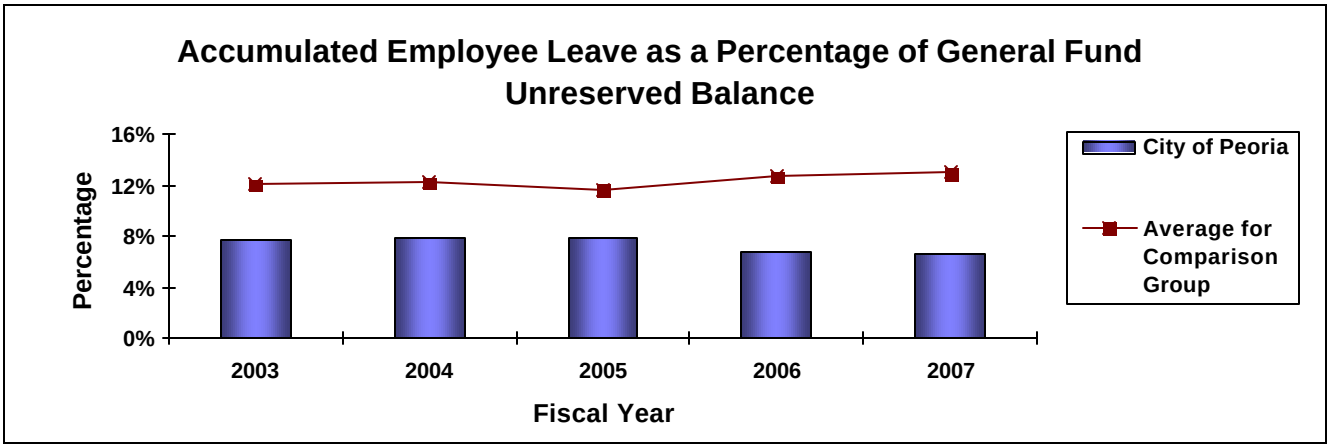
Accumulated Employee Leave

Neutral Trend
Stable compensated absence liability

Annual vacation leave, based on a graduated scale of years of employment, is credited to each employee as it accrues, up to forty days. In addition personal leave days are granted at the beginning of each year, from two to seven days depending on employment status. Compensatory leave accumulates when non-exempt employees elect to accrue time off in excess of pay for hours worked beyond 40 hours per week. Upon employee termination, payment is made to the employee for the unused vacation, personal, and compensatory leave. Personal leave does not carry forward from year to year. Accumulated employee leave measures vacation, personal, and compensatory leave accruals.

The accumulated employee absences measured here represent the government-wide accumulation, or the accumulation for all governmental, enterprise, and internal service fund employees.

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison
2007	6.0%	3.4%	11.7%	19.4%	27.0%	25.8%	6.6%	13.0%	51%
2006	6.3%	3.8%	10.8%	15.9%	21.2%	22.7%	6.8%	12.7%	53%
2005	7.7%	3.2%	11.1%	12.7%	19.3%	25.1%	7.8%	11.6%	67%
2004	8.5%	3.0%	13.1%	18.0%	20.1%	27.7%	7.8%	12.2%	64%
2003	11.2%	3.4%	10.8%	19.5%	23.4%	20.8%	7.7%	12.1%	64%

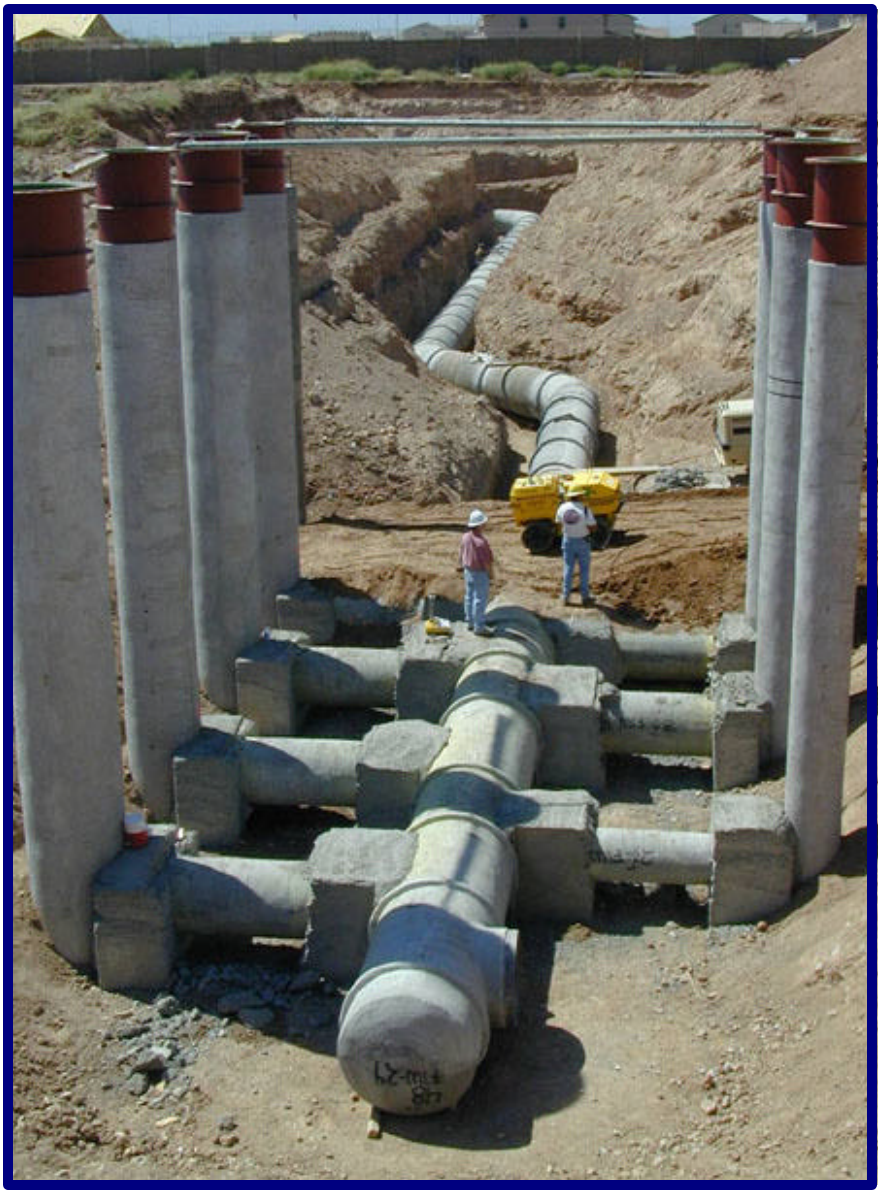


Commentary

For the five year measurement period, the City's trend line of accumulated employee leave as a percentage of the general fund unreserved balance remained relatively stable. It also remained stable in relation to the comparison group.

Accumulated employee leave is classified as an unfunded liability of the City since a liability for compensated absences has been incurred for which no specific reserves have been set aside. Monitoring this indicator will help identify changes in the liability relative to changes in the unreserved general fund balance, which could have a future impact on the City's financial condition.

Capital Plant Indicators



Capital Plant

Most of a government's wealth is invested in its physical assets or capital plant – streets, buildings, utility networks, and equipment. If these assets are not properly maintained or are allowed to become obsolete, the result is often a decrease in the usefulness of the assets, an increase in the cost of asset maintenance and replacement, and a decrease in the attractiveness of the City as a place to live or do business.

Local governments often defer capital plant expenditures because to do so is a relatively painless way to temporarily reduce expenditures and ease financial strain. However, continued deferral can create serious problems because of the huge sums of money invested in capital facilities.

Some of the problems associated with continued deferred maintenance are:

- The potential for safety hazards and liability risks that may result from deteriorating equipment or buildings

- Decreased efficiency of equipment due to obsolescence and deferred maintenance

- An increase in the cost of bringing the facility up to acceptable standards after prolonged deferred maintenance

- The potential for future expenditures created by maintenance and replacement backlogs

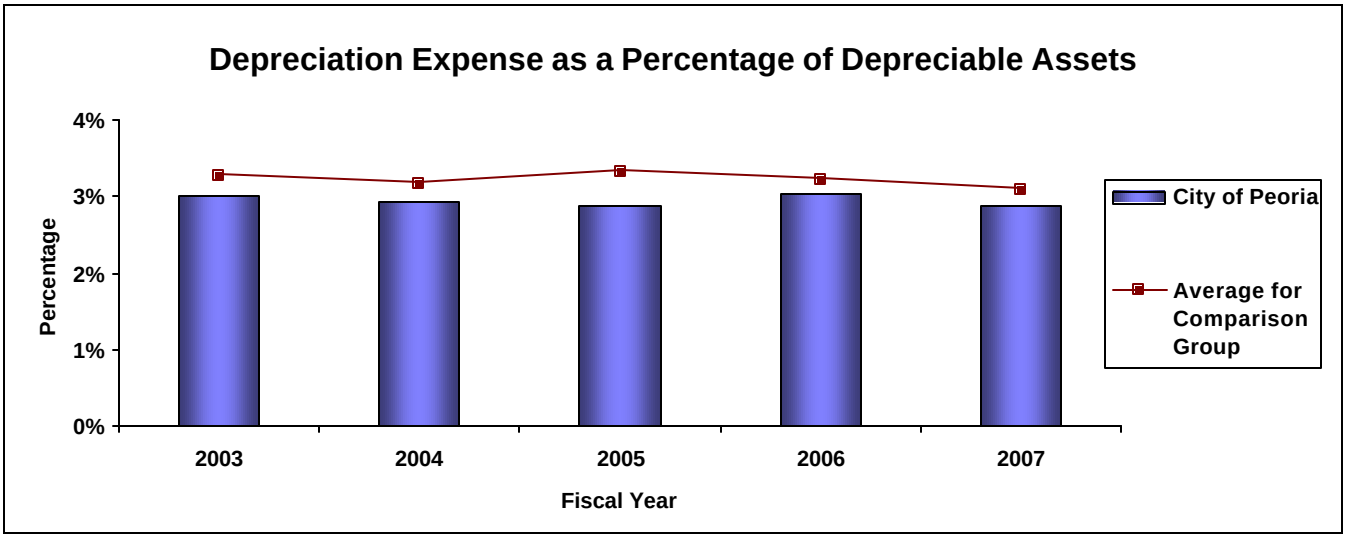
Changes in the condition of the City's capital plant can be reviewed using the indicator detailed on the following page.

Depreciation

Depreciation is the mechanism by which the cost of a fixed asset is amortized over its estimated useful life. As a result of GASB 34, depreciation is recorded in the government-wide financial statements for all fixed assets, whether governmental, enterprise, or internal service assets. Total depreciation cost is generally a stable proportion of the cost of fixed assets.

Favorable Trend
Stable depreciation expense as a percentage of fixed assets

Fiscal Year	City of Avondale	City of Chandler	City of Flagstaff	City of Gilbert	City of Glendale	City of Scottsdale	City of Peoria	Average for Comparison Group	Peoria as % of Comparison Group
2007	2.4%	3.8%	2.7%	3.3%	3.2%	3.0%	2.9%	3.1%	92%
2006	2.6%	3.8%	2.6%	3.6%	3.0%	3.3%	3.0%	3.2%	94%
2005	3.9%	4.0%	2.7%	3.3%	3.2%	3.3%	2.9%	3.3%	86%
2004	4.3%	3.8%	2.9%	3.1%	2.8%	3.2%	2.9%	3.2%	92%
2003	5.3%	3.7%	2.8%	3.7%	2.8%	3.3%	3.0%	3.3%	92%



Commentary

The City's trend line indicates that depreciation expense as a percentage of depreciable assets has remained stable over the five year measurement period and is slightly lower than the comparison group.

If depreciation costs are declining as a proportion of fixed asset costs, it could be an indication that the assets on hand are being used beyond their estimated useful lives. This can result in saving the cost of capital replacement, but that savings may be offset partially or completely by higher maintenance and operating costs.

(Depreciation data is from the government-wide financial statements.)

Part II – The Non-Quantifiable Factors

Part II – The Non-Quantifiable Factors

This section of the report contains several subjective factors of the TAPE MEASURE system: external economic conditions, intergovernmental constraints, natural disasters and emergencies, political culture, and financial management practices and policies. Unlike Part I of this report, these factors have no quantifiable indicators to evaluate trends. They should not, however, be ignored since they assist management in evaluating the practices of the City that influence financial health.

External Economic Conditions

External economic conditions include trends in inflation, employment, economic wealth and business activity – conditions beyond the control of a local government. By and large, local governments can typically only react to changes in external economic conditions. Thus, anticipation and preparation – both in the short run and in the long run – are the best means of adjusting to changes in these conditions.

In the short run, a local government highly dependent on transaction privilege taxes is vulnerable to sudden changes in economic conditions, and it must be prepared to make dramatic and painful adjustments, if necessary. These changes are usually limited to those management policies affecting services and service levels. The way in which these adjustments are made depends on such factors as: the mix of services the City is required by law to provide; the level of fixed costs and the ability to adjust spending levels downward; the composition of the City's tax base and its sensitivity to the external economy; and the flexibility and willingness of public officials to make appropriate budget decisions during economic downturns.

In the long run, preventing such conditions from financially impairing the City means building a local economic base that is protected from sudden downturns in the business cycle. To build such a base, the City must develop and maintain its capital plant and provide a level of services that will encourage businesses to stay and expand. It must also have stable, revenue-producing commercial and industrial sectors whose markets do not diminish during national recessions. The City needs a nearby labor force that suits the available jobs, access to capital for expansion, and other resources such as transportation routes that provide good access to business markets.

Because most objective analytical techniques used to measure the impact of external economic conditions require numerous assumptions and are rarely accurate, assessing these factors may not be effective. Though, while explicit measurement of the influence of such conditions is not possible, some of the indicators in factors one through seven may help evaluate how well the City will be able to adjust to changes in external economic conditions. The relevant indicators are: Operating Revenue per Capita; Restricted Revenues; Sales Tax Revenue per Capita; Property Tax Revenue per Capita; Population and Percentage Change in Population; Unemployment; and Business Activity.

Intergovernmental Constraints

By virtue of state and federal constitutions, local governments are creatures of the state in which they are incorporated. Even in states where local governments are incorporated by charter, like in Arizona, the state often dictates the form and provisions of the charter. In addition, the City is affected by other intergovernmental constraints ranging from cooperative local agreements to federal restrictions. Very often these constraints affect both the City's ability to collect revenue and necessitate expenditures for regulatory items that do not provide a direct service to Peoria residents. These constraints can impact the City's structure, service responsibilities, and financing powers. The following is an overview of some of the intergovernmental constraints affecting Peoria's operations.

Property Tax Limits and the Expenditure Limitation

In Arizona, in response to California's Proposition 13, voters approved two measures to contain local spending.

By a Constitutional amendment, the property tax was split into two different components, primary and secondary. The primary levy is limited in amount but may be used for any purpose. The secondary property tax is unlimited, but can only be used to repay voter-approved debt service. The levy is limited to a 2% increase over the previous year's "maximum allowable levy" plus the addition of any new property not previously taxed. The City must notify the State of any new annexations in order for them to be included on the tax rolls.

The State-imposed expenditure limitation uses actual expenditures of local revenues for fiscal year 1979/1980 as a base, with any voter-approved permanent base adjustments added to that. The expenditure limitation is then increased by factors for population and cost of living increases. Certain expenditures are constitutionally excluded from the expenditure limit. Some examples of those exclusions are federal, state, and local grant expenditures, debt service payments, involuntary tort judgments, expenditures of bond proceeds, highway user revenue expenditures in excess of the 1979/1980 base revenues, contracts with other political subdivisions, and expenditures from amounts accumulated for capital purchase or construction, such as the transportation sales tax. Penalties for exceeding the expenditure limit include the loss of up to one third of the State-shared income tax revenues for the next fiscal year. An alternative expenditure limitation is also available, known as "Home Rule", wherein the city's budget is the limitation. However, this must be approved every four years by the voters. In March 2003, the voters of Peoria approved a $15 million permanent base adjustment. After operating under "Home Rule" from 1980 to 2005, the city began operating under the regular expenditure limitation, as adjusted by the permanent base adjustment, in fiscal year 2006.

Environmental Mandates

Environmental issues continue to have an impact on Peoria's budget. Many aspects of City business are affected by environmental mandates, particularly land acquisition, water, sewer, and solid waste operations.

The City is required to comply with Federal and State regulations regarding the treatment of storm water runoff, testing of drinking water and underground storage leaks. Peoria must also comply with State surface water quality standards, industrial pretreatment requirements, and non-hazardous liquid waste processes. The 1980 Groundwater Management Act requires the City to work toward eliminating its reliance on mined groundwater. Use of Central Arizona Project water, reclaimed water, and the development of programs to obtain other sources of water are costly.

Additionally, the State of Arizona is under Federal mandate to improve air quality. Methods necessary to accomplish this task will cost money for the City to implement. These may include requirements for cleaner-running vehicles, mandatory no-drive days, use of alternative fuels, additional contributions to mass transit, and escalating roadway maintenance.

While these types of intergovernmental constraints are difficult to measure, some of the indicators in factors one through seven may help analyze the effect of these constraints on the City's financial condition. The applicable indicators are: Restricted Revenues and Intergovernmental Revenues (as a Percent of Operating Revenue).

Natural Disasters and Emergencies

Natural disasters include fires, floods, severe storms, tornadoes, environmental disasters, and similar events that may require significant local government expenditures. Though much of the financial burden may ultimately be absorbed by federal and state assistance, the City may still incur substantial costs. Some of these may be direct costs including damage to government equipment and property, the costs associated with providing emergency police, fire, and general welfare services, and the replacement or repair of lost private property. Emergency events may also have indirect costs in the form of disaster-related decreases in business activity and employment, which can result in decreased governmental revenues.

While natural disasters and emergencies are impossible to prevent or predict, local preparedness is evidenced by the City's Emergency Operations Plan. Other factors to consider are the sufficiency of reserves (Unreserved Fund Balance), the City's cash position (Liquidity), the availability and adequacy of insurance coverage, and proactive steps to reduce potential damage in vulnerable areas such as flood zones.

Political Culture

Of all the factors that affect financial condition, political culture is perhaps the most difficult to analyze, explain, and project. This is because the interaction of individuals and their varying economic, ethnic, religious, and social backgrounds influence it. Political culture is important to consider because it influences local attitudes toward taxes and services. This, in turn, affects the body politic of the local government. In addition to social and demographic characteristics, other issues to consider include:

- Manner of political representation
- Extent of citizen participation
- Structure of the government organization
- Decision making process
- Content of political issues
- Age, size, and density of the community
- Character of the geographical region

Because political culture is highly subjective, there are no indicators provided for measuring this factor.

Financial Management Practices and Policies

Financial Management practices and policies are central to the flow of influence and information. A local government's response to changes in environmental factors is filtered through the organizational factors and results in the financial factors. In many respects, financial management practices and policies are the most critical influences upon financial condition because these *are* the factors over which a local government has control. It is through these practices and policies that a government can exert leverage when struggling with financial problems.

When credit rating firms evaluate the financial condition of local governments, they consider management practices and policies to be very important. For example, they assess the "professionalism" of management by examining the quality of financial reporting and capital planning and by checking to see whether the government has used any financial tricks. They determine the responsiveness of the legislative body by considering whether elected officials have been willing to raise taxes or rates when needed. In short, sound financial practices and policies enable a local government to maintain good financial condition and avoid financial emergencies.

Financial Management Practices

It is important that a local government follow sound financial management practices. However, because there are so many varied practices, they can not be fully evaluated in this document. There are some general practices that government officials may use in times of financial stress and political pressure to resolve a temporary financial problem and provide time to find long-term solutions. While these practices are not inherently bad, continued use of such practices can eventually harm a local government's financial condition. The dangers of such practices are summarized below:

1) The frequent use of prior year surpluses to balance the current budget can be a warning sign that the government is continuing a level of services it may not be able to afford. Some indicators of this practice include:

   - *The use of reserves* may allow government officials to meet current cash flow needs, temporary revenue shortfalls, or unexpected expenditure demands without adjusting tax rates or cutting expenditures. A consistent decline in fund balance over several years is one indication that the local government may be sustaining an operating deficit. Relying on reserves to fund the deficit can be damaging in that the local government is left with fewer resources to utilize in the event of a financial emergency. Additionally, reliance on the reserves may affect the government's credit rating, as credit rating firms examine the history of fund balances.

   - *The use of internal borrowing* over time can create a future liability that the local government may not have the resources to meet. This can force a disruption in services or cause a shortage in the fund from which the money was borrowed. For example, taking funds designated for capital improvements and transferring them into the general fund can leave important capital projects without adequate funding.

- *One-time accounting changes* can be used to make a budget appear balanced. Three commonly used one-time accounting changes are (a) postponing current costs to future periods; (b) accruing revenues from a future fiscal year to the current fiscal year (to make current revenues appear higher); and (c) extending the length of the fiscal year – for example, from twelve to thirteen months – so that revenues in the thirteenth month can be counted as revenues for the current year.

2) Deferring costs when a local government can not meet its current expenditure needs is another practice that can harm the entity's financial condition. In addition, such practices can affect the government's bond ratings since unfunded liabilities are an unfavorable sign. Because these costs sometimes do not show up in financial records, their effect may not be recognized until the problem becomes serious. An example of this practice is:

   - *Deferring maintenance expenditures*. This practice may ultimately make the community an unattractive place to live, create safety hazards, and result in a loss of efficiency and productivity.

3) Ignoring the long-range costs of short-term decisions can cause a future imbalance between revenues and expenditures. Examples of these practices include:

   - Not adequately costing out the budget impact of changes in non-salary benefits.

   - Not fully considering the long-range costs of operating and maintaining a capital asset versus contracting out for a service.

City of Peoria's Financial Policies

Establishing and adopting financial policy statements can greatly enhance a local government's credibility and contribute to increased public confidence. Such statements show the credit rating industry and prospective investors a government's commitment to sound financial management. Established policies provide a link between long range financial planning and the day-to-day operations of a government. They encourage local officials to incorporate long range planning into their current approach to financial management. Adopting formal financial policies can also improve fiscal stability and provide the government with consistency in financial planning, especially since local officials change over time.

In keeping with this philosophy, the Finance Department has had financial policies in existence since 1991. These policies provide a written set of principles and guidelines for use in the City's overall fiscal planning and management. The Principles of Sound Financial Management was initially approved by the City of Peoria Council on September 19, 2000. A revised policy was approved on June 7, 2005. The principles were developed to foster and support the continued financial strength and stability of the City as reflected in its financial goals. 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 manner 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 the community and to respond to changes in federal and state priorities and funding as they affect the City's residents.

- To maintain high bond credit ratings in the financial community and assure the City's taxpayers that the City is well managed and financially sound.

Following these principles will enhance the City's financial health, its image and credibility with its citizens, the public in general, bond rating agencies, and investors. As the City continues to grow and develop, it is important to regularly engage in the process of financial planning, including the reaffirmation and update of these financial guidelines. Policy changes will be required as the City continues to grow and becomes more diverse and complex in the services it provides, as well as the organization under which it operates to provide these services to its citizens.

Appendix

Appendix

Indicator Formulas

Revenue Indicators

1. **Operating Revenues Per Capita**
   Operating revenues per capita (constant dollars) =
   (Operating revenues [Total revenues in all governmental funds other than capital projects funds and development fee funds] * 100 / Municipal Cost Index) / Population

2. **Sales Tax Revenue Per Capita**
   Sales tax revenue per capita (constant dollars) =
   ((Sales tax revenues + Use tax revenues) [All governmental funds] * 100 / Municipal Cost Index) / Population

3. **Change in Sales Tax Revenue**
   Change in sales tax revenue (constant dollars) =
   ((Current year sales tax revenue * 100 / Current year Municipal Cost Index) / (Prior year sales tax revenue * 100 / Prior year Municipal Cost Index)) –1

4. **Intergovernmental Revenues**
   Intergovernmental revenues as a percentage of operating revenues =
   Intergovernmental revenues [All governmental funds other than capital projects funds and development fee funds] / Operating revenues

5. **Property Tax Revenue Per Capita**
   Property tax revenue per capita (constant dollars) =
   (Property tax revenues [Govt-wide] * 100 / Municipal Cost Index) / Population

6. **Restricted Revenues**
   Restricted operating revenues as a percent of operating revenues =
   Restricted operating revenues [Total revenues from all governmental funds other than the general fund, half-cent sales tax fund, capital projects funds, and development fee funds] / Operating revenues

7. **Uncollected Property Taxes**
   Uncollected property tax as a percent of the net property tax levy =
   Uncollected property tax for fiscal year / Total tax levy

Expenditure Indicators

8. **Expenditures Per Capita**
   Expenditures per capita (constant dollars) =
   (Operating expenditures [Total expenditures – capital outlay in all governmental funds other than capital projects funds and development fee funds] * 100 / Municipal Cost Index) / Population

9. **Employees Per Capita**
   Employees per capita =
   Number of full time equivalent employees [All employees including governmental, enterprise, and internal service-funded employees] / Population

10. **Fringe Benefits**
    Fringe benefits as a percent of salaries and wages =
    Fringe benefit expenditures / Total salaries and wages [For all employees including governmental, enterprise, and internal service-funded employees]

Operating Position Indicators

11. **Operating Results—General Fund**
    Operating surplus as a percent of operating revenues =
    Excess or deficiency of revenues over or under expenditures [General fund only] / Total revenues [General fund only]

12. **Operating Results for Enterprise Operations—Solid Waste**
    Operating results for enterprise operations—solid waste (constant dollars) =
    (Operating income (loss) + Depreciation and amortization) * 100 / Municipal Cost Index

13. **Operating Results for Enterprise Operations—Water**
    Operating results for enterprise operations—water (constant dollars) =
    (Operating income (loss) + Depreciation and amortization) * 100 / Municipal Cost Index

14. **Operating Results for Enterprise Operations—Wastewater**
    Operating results for enterprise operations—wastewater (constant dollars) =
    (Operating income (loss) + Depreciation and amortization) * 100 / Municipal Cost Index

15. **Unreserved Fund Balance-General Fund**
    Unreserved general fund balance as a percentage of operating revenues =
    Unreserved [designated and undesignated] general fund balance / Operating revenues [All governmental funds other than capital projects funds and development fee funds]

16. **Liquidity**
    Cash and short term investments as a percentage of liabilities =
    (Cash and investments + Restricted cash and investments + Cash with fiscal agent) / Total liabilities [All governmental funds other than capital projects funds and development fee funds]

Debt Service Indicators

17. **Current Liabilities**
    Current liabilities as a percentage of operating revenues =
    Total liabilities [All governmental funds other than capital projects funds and development fee funds] / Operating revenues

18. **General Obligation Debt as a Percentage of Assessed Value**
General obligation debt as a percentage of assessed value =
General obligation net bonded debt / Secondary assessed property value

19. **General Obligation Debt Per Capita**
General obligation debt per capita (constant dollars) =
(General obligation net bonded debt * 100 / Municipal Cost Index) / Population

20. **Debt Service**
Debt service as a percentage of operating revenues =
Debt service expenditures [All governmental funds other than capital projects funds and development fee funds] / Operating revenues

Community Needs and Resources Indicators

21. **Population**
Population =
Population based on City estimates

22. **Percentage Change in Population**
Percentage change in population =
(Population / Prior year population) – 1

23. **Property Value**
Assessed property value per capital (constant dollars) =
(Secondary assessed property value * 100 / Municipal Cost Index) / Population

24. **Residential Development**
Residential development as a percentage of residential and commercial development =
Value of residential permits / (Value of residential permits + Value of commercial permits)

25. **Employment Base**
Unemployment as a percentage of labor force =
Unemployment percent found in each City's comprehensive annual financial report

26. **Business Activity**
Net taxable sales =
General Fund sales tax revenues collected excluding penalties, interest and recoveries / sales tax rate, by category

Unfunded Liability Indicators

27. **Pension Liability**
Unfunded pension liability =
Actuarial reports from Arizona State Retirement Systems

28. Accumulated Employee Leave

Compensated absences as a percentage of unreserved general fund balance =
Compensated absence liabilities [From govt-wide Statement of Net Assets, including governmental activities and business-type activities] / General fund unreserved fund balance

Capital Plant Indicators

29. Depreciation

Depreciation expense as a percentage of depreciable assets =
Depreciation expense [Govt-wide] / Depreciable fixed assets balance [Govt-wide]