Financial Assessment

The City has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public. The City's financial goals are broad, fairly timeless statements of the financial position the City seeks to attain. The City's overall financial goals are:

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

Doing so not only helps the City to enhance its financial health, it also enhances the image and credibility of the City with the public, bond rating agencies, and investors. The City achieves these goals through its strict adherence to fiscal management policies.

Financial Policy

The City's budget is closely aligned with the financial policies established by the Peoria City Council. The **Principles of Sound Financial Management** are intended to establish guidelines for the City's overall fiscal planning and management. The policies support the continued financial strength and stability of the City of Peoria as reflected in its financial goals.

FUND BALANCE OBJECTIVES

Fund balance is an important indicator of the City's financial position. Adequate fund balances must be maintained to allow the City to continue providing services to the community in case of economic downturns and/or unexpected emergencies or requirements.

General Fund Undesignated Fund Balance

The City of Peoria's undesignated General Fund balance will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.

- The upper goal for the fund balance is 35%, but not less than 10% of the average actual General Fund revenues for the preceding five fiscal years
- Funds in excess of the stated goals should not be used to support recurring operating expenditures
- Funds in excess of upper goal may be considered to supplement "pay as you go" capital outlay expenditures or prepay existing debt

One-Half Cent Sales Tax

The Council has established a special one-half (½) cent sales tax designated primarily for debt service, reserves, and capital needs. These funds must be recorded and expended separately. The one-half (½) cent expenditures and reserves are prioritized as follows:

- First Priority - The debt service for Municipal Development Authority (MDA) bonds for which the payment source is one-half cent sales tax revenues including administrative, accounting and legal costs connected with the bond payment.

- Second Priority – Fund Balance
  - One-Half Cent Sales Tax debt service reserve should be at least $1,000,000 for outstanding bonds being paid from the one-half cent sales tax
  - One-Half Cent Sales Tax reserve goal is thirty-five percent (35%) of the average actual revenues for preceding five fiscal years

- Third Priority – Capital, economic development, and community promotions expenditures

- Fourth Priority – Specific City operational expenditures may be identified by Council through the annual budget process to be funded through the one-half cent sales tax revenues

Enterprise Funds

Government enterprises generate revenue to offset the cost of providing certain services including water, wastewater, and sanitation. User charges are established to offset the cost of providing these services. Accounting systems must be established to separate these revenues and expenses. The City's financial policies establish targets for the enterprise funds as follows:

- The debt service coverage ratio of 1.5 times the amount of the debt service payments, exclusive of expansion fee revenue

- A minimum cash reserve fund balance for the water and wastewater operating funds equal to 50% of the actual operating revenue for the current fiscal year

- A minimum cash reserve fund balance for the solid waste operating funds equal to 20% of the actual operating revenue for the current year

Streets Fund

The City's Streets Fund supports most activities related to transportation within the City. This includes all street maintenance, traffic signal operations, and street signing activities. Any transit-related operations, however, are supported through a separate Transit Fund. The primary source of revenue for the Streets Fund is collections from the State Highway User Revenue Fund. This includes revenue from the sale of gasoline, diesel fuels and other transportation-related fees. A 3/10 of one cent (0.3¢) sales tax specifically designated for transportation generates additional revenue for the fund.

Transit Fund

The City's Transit Fund supports all public transit services operated by the City of Peoria, including the citywide Dial-a-Ride bus system, and the City Travel Reduction and Clean Air programs. The majority of funding for transit operations is derived from the state's allocation of Arizona Lottery proceeds, termed the Local Transportation Assistance Fund (LTAF), the bulk of which must be used for transportation purposes.

FISCAL PLANNING

The City of Peoria identifies and allocates resources among numerous and complex competing needs. The primary vehicle for this planning is the preparation, monitoring, and analysis of the City's budget. It is increasingly important to incorporate a long-term perspective and to monitor the performance of the programs competing to receive funding. The fiscal planning process includes the following:

Annual Budget

The City will establish a balanced annual operating budget. Current operating expenditures, including debt service, will be funded with current revenues. The budget will not postpone expenditures, use one-time (non-recurring) sources to fund ongoing (recurring) uses, or use external borrowing for operational requirements.

Long-Range Forecasting

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

Insurance Reserves

Insurance reserves shall be maintained at a level which, together with any purchased insurance, will adequately indemnify the City's capital assets and its elected officials, officers and directors against loss. When cost effective, the City will further control its exposure to risk through the use of "hold harmless" agreements in City contracts, and by requiring contractors to carry liability insurance.

Replacement Funds

Provisions will be made in the annual operating budget for sufficient maintenance and replacement dollars to ensure that all capital acquisitions, computer hardware and software, and other equipment are properly maintained and replaced in accordance with approved capital and equipment replacement schedules.

CAPITAL IMPROVEMENTS

The City Manager will submit a ten-year Capital Improvement Program for review by the City Council, pursuant to the timeline established in the budget preparation schedule. The program will be updated annually and include the cost of construction and operating expenditures. No capital improvement projects will be authorized or awarded until the funding sources have been established to finance the project.

When current revenues or resources are available for Capital Improvement Projects, consideration will be given first to those capital assets with the shortest useful life, and for assets whose nature make them comparatively more difficult to finance with bonds or lease financing.

CONTROL MEASURES AND COMPLIANCE

Management must ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with legal requirements and policies and procedures set forth by the City.

- The City's annual financial statements and bond representations shall fully disclose all significant events and financial obligations and other related issues as provided by the departments to the Chief Financial Officer.

- Accounting and budgeting functions will comply with standards and guidelines issued by the Governmental Accounting Standards Board, the National Council on Governmental Accounting, the American Institute of Certified Public Accountants, and the Government Finance Officers Association.

- The City shall conduct a review of its development impact fees on a regular basis. Periodically, the City will also recalculate the full costs of activities supported by user fees to identify the impact of inflation and other attendant costs and recommend adjustments where necessary.

- The City shall comply with all state and federal regulations concerning financial management and reporting.

DEBT MANAGEMENT POLICY

The Debt Management Policy provides for the preservation and eventual enhancement of the City's bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument covenants and provisions, and required disclosures to investors, underwriters, and rating agencies.

The City utilizes long-term debt to finance capital projects with long useful lives. Financing capital projects with debt provides for an "intergenerational equity", as the actual users of the capital asset pay for its cost over time.

Long-Term Debt

- The City will not use long-term debt to fund current operations or projects that can be financed from current revenues or resources. The City will first attempt "pay-as-you-go" capital financing and/or the use of operating funds or impact fees where applicable.

- The issuance of variable rate debt by the City will be subject to the most careful review, and will be issued only in a prudent and fiscally responsible manner.

- The term of any bond or lease obligation issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Short-Term Debt

- The City does not intend to issue commercial paper or bond anticipation notes for periods longer for two years, or for the term of a construction project.

Long-Range Financial Forecast

According to the Government Finance Officers Association, there are four critical principles which overlay a good budget process:

1 - Establish broad goals to guide government decision making.
2 - Develop approaches to achieve goals.
3 - Develop a budget consistent with approaches to achieve goals.
4 - Evaluate performance and make adjustments.

To properly apply these principles requires timely and accurate information regarding the expected conditions and events which can shape our community in the future.

The **Long-Range Financial Forecast** is developed annually at the start of the City's budget process. This forecast offers the City Council and management an extended outlook on the flow of expected revenues and expenditures, and helps to define the critical issues and priorities for the upcoming fiscal year.

Throughout the country, governments have wrestled with the issues of a changing environment. Shifts in demographic and economic conditions, as well as changes in societal values, all impact how governments operate. This is especially notable in growing communities such as Peoria, where the City must continually assess its ability to support important programs and services well into the future. By evaluating important trends and economic conditions, the City is better able to gauge our ability to provide services over an extended period of time.

To assist with this evaluation, the City of Peoria Budget Department has formulated automated forecast models for each of its operating funds. The models attempt to balance planned or anticipated resources against the expected demands for service in the community. The Long-Range plan is designed to address a number of recurring issues, such as:

- *How will Peoria meet the continuing challenges of growth?*
- *What is the impact of potential citizen initiatives and legislative actions which affect Arizona cities?*
- *How will the City respond to adverse economic or emergency conditions?*
- *How do we deal with cost increases that exceed the rate of inflation?*

These and other questions are incorporated into computer models, which in turn project financial trends for a five-year planning period.

STUDY APPROACH AND ASSUMPTIONS

After an extensive review of issues and events which impact our city, the Budget staff presented a "most likely" scenario to Council in November of 2008. Based on this information, Council utilized the results of the long-range forecast to develop guidelines for the FY 2010 budget process. To be useful, a financial plan must establish a balance between expected service activities and the City's ability to support these activities. As a result, useful financial forecasts must include much more than simple exported statistical data. Great care must be given to assessing the long-term impacts of events and conditions.

FINANCIAL PROJECTION

The financial projection in the upcoming five-year period is based on a number of meaningful economic and demographic factors, as well as a series of presumptions on expected operational needs. The Budget Department has compiled a set of cost and revenue-related assumptions for developing a financial forecast. These assumptions can strongly influence the results of the forecast model, and must be closely analyzed to ensure the accuracy of the study. Among the primary assumptions utilized in the forecast are economic growth rates, retail sales activity, state-shared revenues, census population, and residential development activity.

SCOPE OF STUDY

The FY 2010 Long-Range Financial Forecast includes a narrative discussion on the long-range models for each of the operating funds. Specifically, the Budget Department staff undertook extensive reviews of the following funds:

General Fund – The General Fund supports most general government activities, including public safety, development services, parks and recreation and general government functions. The fund is supported by various revenue sources, including sales and property taxes, user fees and state-shared funding.

Streets Fund – The Streets Fund provides for much of the City's street and traffic operations. The fund is largely supported by the State's Highway User Revenues (fuel taxes) as well as the City's 3/10 of one cent transportation sales tax.

Transit Fund – The City's Dial-a-Ride and fixed route transit systems are all funded out of the Transit Fund. Nearly 70% of the revenue to support transit stems from the State's allocation of Arizona Lottery proceeds.

Water Fund – The City's water operations act as a separate enterprise, relying solely on water rates to support their activities.

Wastewater Fund – The City's sewer collection and disposal operations also act as an enterprise, supported by wastewater rates.

Solid Waste Fund – The City's residential and commercial sanitation functions provide for the collection and disposal of refuse within the City of Peoria. The funds rely on user fees to pay for its operations.

Sports Complex Fund – The Sports Complex fund includes monies to support the maintenance, operation and debt requirements related to the City of Peoria Sports Complex. All ticket, rental and concession revenue collected from the complex are placed into this fund. Additional financial support is provided by the City's General Fund.

ECONOMIC OUTLOOK

The local economic outlook is based on several expert forecasting sources, including those from Elliott Pollack, R.L. Brown, Marshall J. Vest, and economists at the Greater Phoenix Blue Chip Consensus. In addition, city staff has undertaken assessments of commercial and residential development activity in Peoria. Over the last year, aspects of Arizona's economy experienced a steep decline. All indications suggest that overall the state economy is contracting, with this likely to stretch into the next twelve months. Other measures of economic conditions bear out the severity of the economic slowdown. Consumers are currently spending less, which impacts retail sales. Though negative growth in employment continues, current indicators point to a slowing of this trend. The impact of continued slowing of the economy, coupled with the rising cost of fuel, utility and employee benefit costs have been incorporated in the City's financing models.

Within Peoria, the recent slowing in the housing and retail sectors continues. Store to store sales have declined. However, the construction and "housing boom" of recent years created the need for building infrastructure whose operating needs have been built into the long-range forecast. The boom also resulted in increased inventories on the market for resale homes. Economists now predict homebuilding and construction will remain depressed until new and used home inventories fall and return to the normal four to five month turnover. Housing prices haven't reached their nadir and another round of foreclosures is anticipated due to the resetting of adjustable rate mortgages. For purposes of the five-year forecast, the Budget Department anticipates low inflation for the planning period. The study of all the indicators also reflects minimal construction activity for the study period.

OPERATIONAL IMPACTS OF THE CAPITAL PLAN

Within the City of Peoria Capital Improvement Program, an extensive effort by city staff is undertaken to assess the operational impacts of new facilities. In addition, City master plans are also utilized to assess future operational needs. The recurring costs identified in these plans are incorporated into the City's long-term financial models.

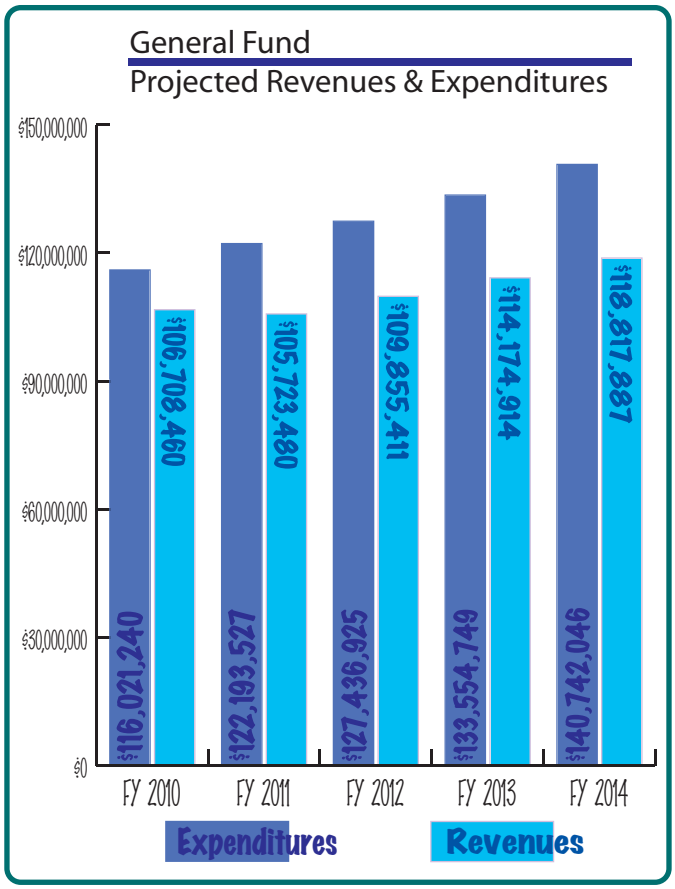
The City's Police Department is committed to maintaining its response levels, while continuing its community-based functions for existing areas. Based on that department's operational plans, additional sworn officers and civilian positions will be needed in the future to respond to these demands. To address some of the immediate demands, additional funding was identified for increased operations support and to expand a School Resource Officer Program in local high schools. In addition, costs to support communication systems, and computer aided dispatch systems have been incorporated into the long-range forecast.

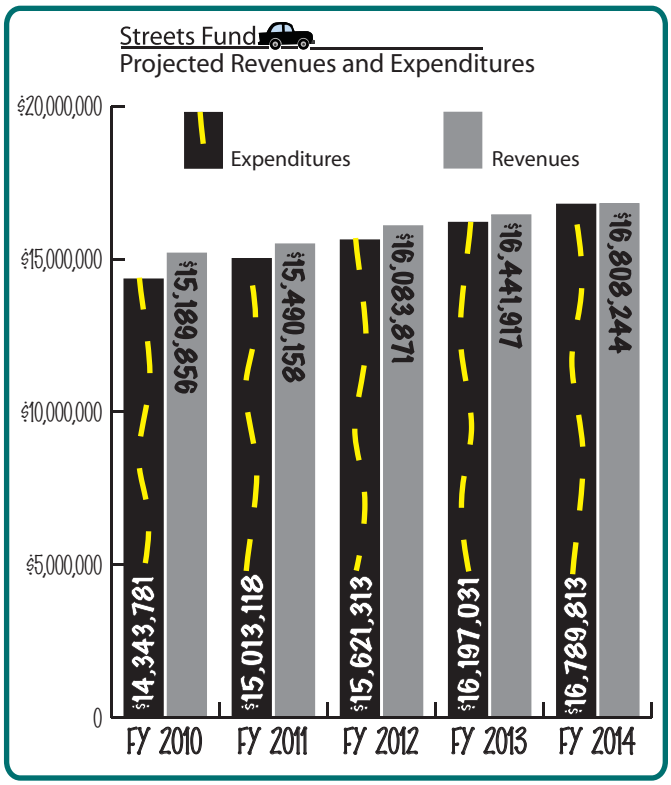
The City's Fire Department will be pressed to maintain its four-minute response time for rural areas of the City. Development trends will be closely monitored to ensure additional firefighters and support staff needs are addressed when appropriate in both the northern and western reaches of the City's planning area during the latter part of the forecast period.

The City's utilities continue to struggle with the operational costs of facilities opened in recent years with increased expenditures budgeted to provide for these needs. The Community Services Department will be opening a new AM/PM Program site and will continue to staff a new branch library with the addition of a librarian and a senior librarian. The Community Development Department will continue the highly successful Neighborhood Grant Program, where neighborhood associations may receive funding for neighborhood improvements throughout Peoria.

GENERAL FUND

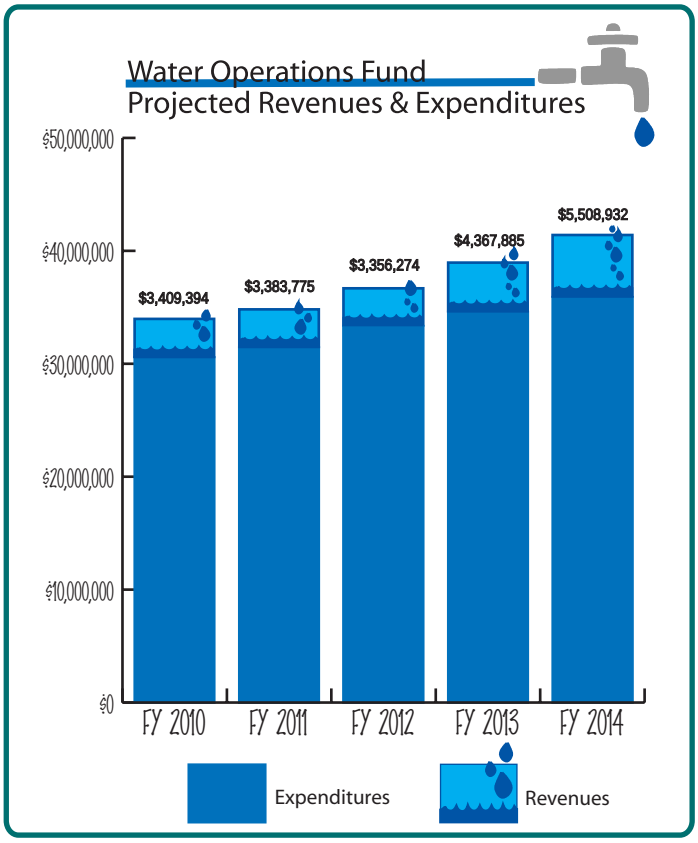
The City is thoroughly examining ongoing General Fund requirements and revenue streams over the next few years to ensure current service levels can be sustained. This should enable the City to maintain a strong unreserved fund balance, while further continuing the practice to fund a number of capital projects on a "pay-as-you-go" basis. However, the growth in planned expenditures is expected to exceed the growth in revenues through much of the planning period.





STREETS FUND

The City's Streets Fund consists of proceeds from numerous sources, with HURF is its primary revenue source. Arizona's Highway User Revenue Fund (HURF) is comprised of revenues including gasoline tax and motor vehicle license taxes and registration fees. These funds are collected and distributed to the State Highway Fund and to local governments. Additionally, contributions from the 0.3¢ transportation sales tax have helped to stabilize this fund. This will allow the Streets Fund to remain financially independent through the planning period.



WATER FUND

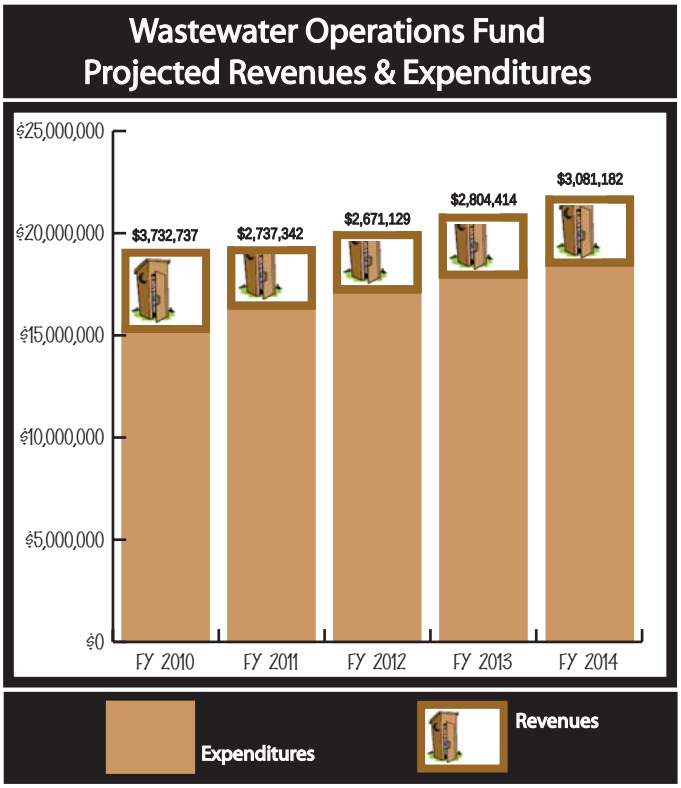
The City of Peoria provides water service to approximately 46,000 accounts within the city limits. All costs for water service are accounted for in the City's Water Fund. The fund is responsible for capital facility needs, debt service payments and operating costs for water service-related activities. The City largely offsets these costs through the use of water service charges.

The water utility implemented cost reduction strategies and adjusted its capital improvement plan to respond to a challenging budget environment. The City does not plan to adjust water user fees in 2010 and will continue to meet the City's financial policies for cash reserves and debt coverage. Forecasts indicate the Water Fund will be financially self-sustaining into the future.

WASTEWATER FUND

The City provides wastewater services to approximately 49,000 accounts within the city. Costs for these activities are accounted for in the Wastewater Fund. The fund is responsible for supporting the operating costs, capital needs, and debt service requirements for wastewater-related facilities. The fund relies on wastewater service charges to support its activities.

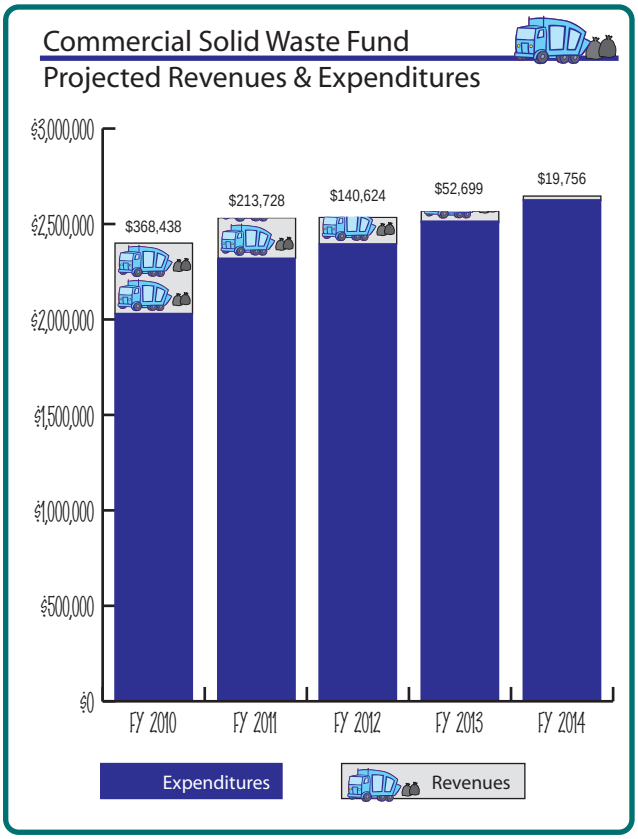
The wastewater utility implemented cost reduction strategies and adjusted its capital improvement plan to respond to a challenging budget environment. The City does not plan to adjust wastewater user fees in 2010 and will continue to meet the City's financial policies for cash reserves and debt coverage. Forecasts indicate the Wastewater Fund will be financially self-sustaining into the future.

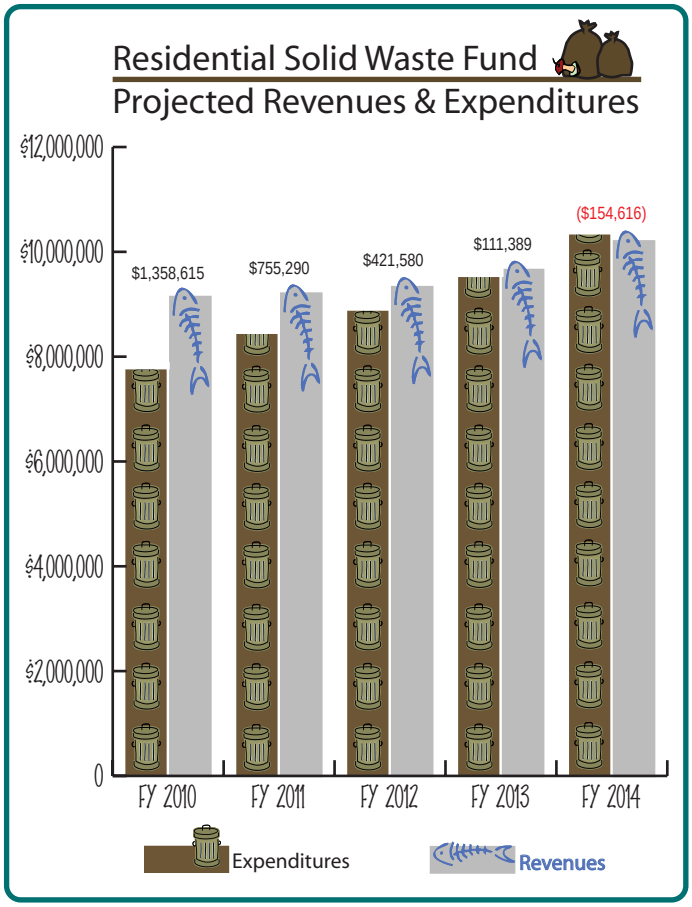


SOLID WASTE FUNDS

The City of Peoria offers both residential and commercial sanitation service to residents and businesses in the City. The two activities are accounted for in separate funds and are supported by distinct revenue sources. Sanitation operations rely on service charges to support its activities.

Commercial - The Commercial Solid Waste operation offers both container and roll-off service to Peoria businesses and multi-family developments. Businesses within the City have the option of selecting between the City and private companies for their solid waste services. It is essential for the operation to maintain competitive pricing while also generating sufficient revenues to meet the City's financial policies. The City does not plan to adjust Commercial Solid Waste user fees in 2010. Forecasts indicate the Commercial Solid Waste Fund will be financially self-sustaining into the future.

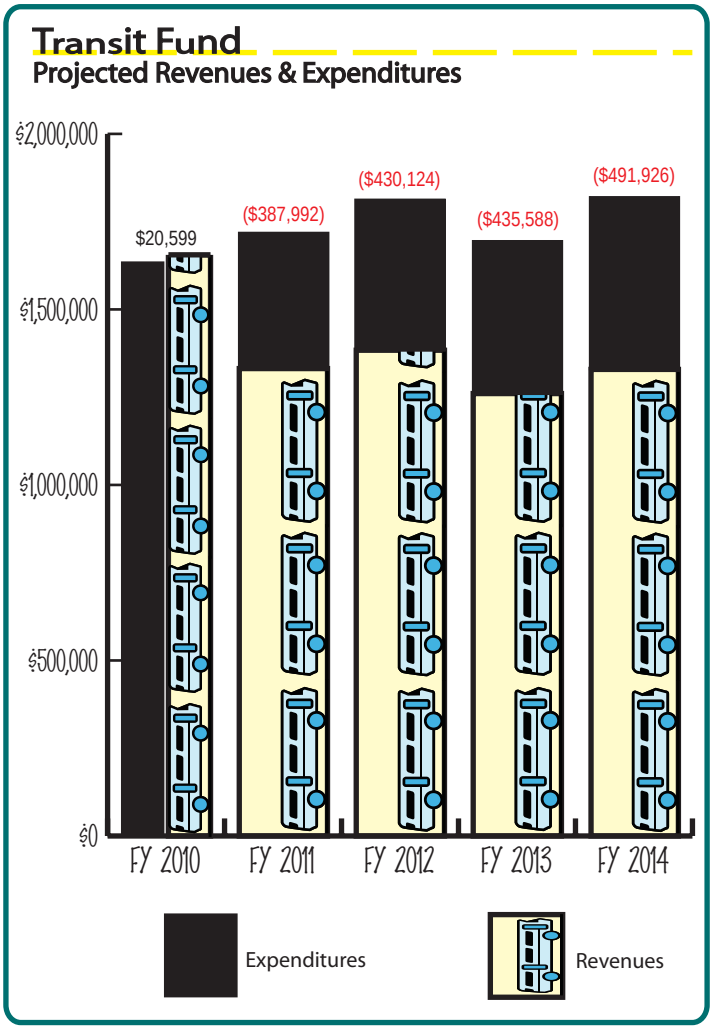




Residential - The Residential Solid Waste operation provides trash collection, recycling, and loose trash pickup for approximately 48,750 residential accounts within the City. The City's Residential Solid Waste operation is the sole provider of service for Peoria residents. The City does not plan rate adjustments to residential service fees for 2010 and will continue to support its operating costs and meet the City's cash reserve targets. Forecasts indicate the Commercial Solid Waste Fund will be financially self-sustaining into the future.

TRANSIT FUND

The transit fund is comprised of several different sources, but is highly reliant on state shared revenues. With the commitment of LTAF II funding, the forecast for the transit fund has stabilized. The projected comparison between revenues and costs does indicate that the Transit Fund will likely have difficulty remaining self-sufficient, should current Local Transportation Assistance Fund (LTAF) dollars continue to only marginally increase. The City will need to carefully consider operational decisions and potential support from other sources to make this fund sustainable.



City of Peoria, Arizona

FY2010 Long-Range Forecast