

Comprehensive Ten-Year Financial Plan Fiscal Years 2020 through 2029

Introduction

The Comprehensive Ten-Year Financial Plan provides a ten-year perspective on the financial condition of the City of Maricopa's General Fund and any other appropriated fund deemed necessary. The financial plan has as its base the FY2019 budget and provides a long-range context for staff and City Council to make budgetary decisions for the upcoming fiscal years.

This document lays the groundwork for sound fiscal management through a process that incorporates strategic planning, with historical data and economic assessments, along with sound policies. The City's FY2019 budget provides the base on which the multi-year projection of financial resources and expenditures are projected, to allow for growth and expansion, based on the City Council's 2040 vision.

Through this document the City seeks to communicate its goals and objectives within a sound tool for the evaluation of the financial performance and stability of the City, laying the groundwork for future development and prolonged fiscal sufficiency. Working from the City's 2040 Vision, Council adopted wildly important goals (WIGs) as a springboard for the accomplishment of their vision.

Focusing on these goals and their associated objectives, the City set out to compile its ten-year financial plan with the goal of becoming a premier destination for businesses and citizens who are seeking to call the state of Arizona home.

Major Forecast Assumptions and Methodology

Revenues:

- Operating revenues in the local taxes category were forecast based on long-term trends while taking into account the increased economic development throughout the City.
- Since it is impossible to predict the actions of future Legislatures the forecast assumes no more than a 3.5% increase per year with regard to future state shared revenues.
- Other general fund revenues such as charges for services and permits were assumed to grow at a rate not greater than the consumer price index (CPI) 10-year average (1.53%).
- Fund transfers were included in the analysis to more accurately track change in the City's fund balance over the forecast period.
- Investment earnings are expected to be minimal over the forecast period.
- The analysis did not assume any significant economic contraction in the forecast period

Expenditures:

- The salaries and wage forecast assumes that increases occur annually at a rate not to exceed 4% including MOU employees.
- The City's forecast anticipates health insurance costs as a percentage of salaries and wages to increase at no more than 2.08% over the forecast period. The median rate for FY2020 was used to project costs over the forecast period (see Table 1).
- All other expenditures were assumed to grow at the long-term inflation rate of (2%).
- The forecast allows for slight variations in the allowance for contingencies based on the level of available resources
- Capital expenditures were excluded from the analysis.

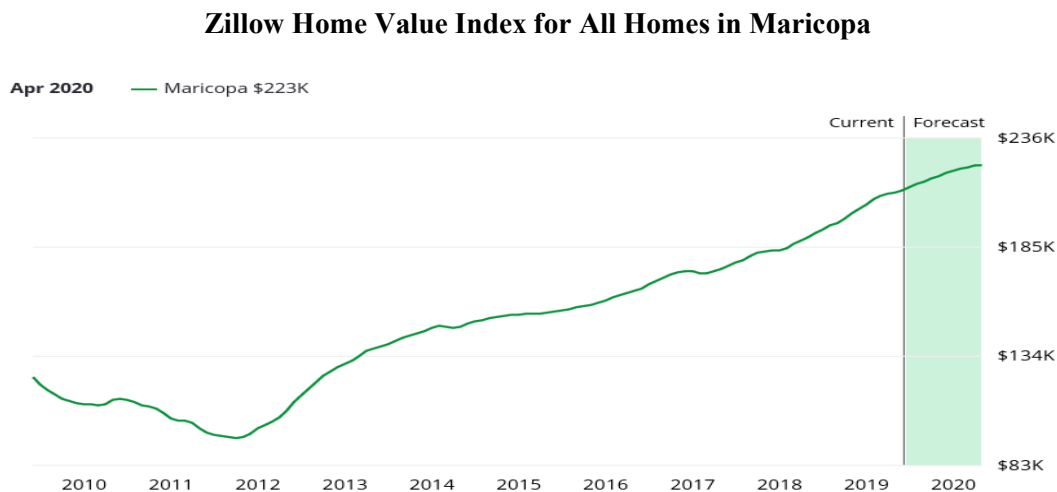
Economic Outlook

The City of Maricopa's economic outlook is promising. The housing market is strong and growing, unemployment remains low, and commercial development is robust. As of April 2019, the City's unemployment rate was 4.2%. The seasonality of agribusiness in Maricopa likely accounted for a slight fluctuation in unemployment over the course of this year.

The key advantages for the City of Maricopa include the high education levels of its workforce – 67% of adults (25 years of age and older) have post-high school education. The average household income is \$80,801 (ESRI forecast for 2018 based on 2010 US Census Bureau data).

According to Zillow Market Research (see Figure 1), the median home value in Maricopa is \$211,100 and the medial listing price is \$224,900. The home values in Maricopa have risen 10.8% over the past year and are projected to grow 6.1% next year.

Figure 1



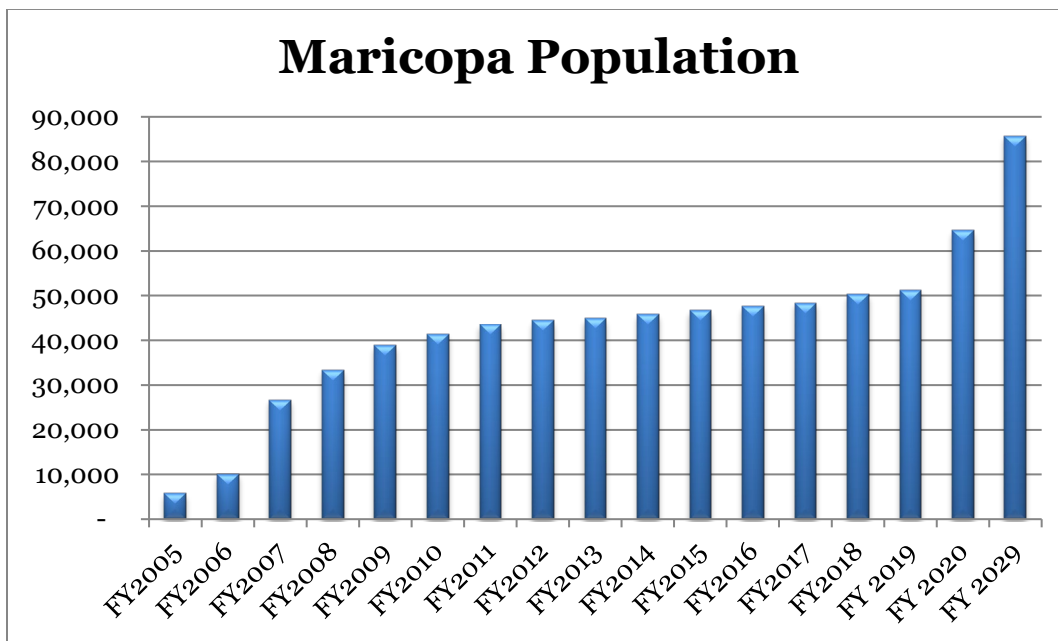
Maricopa's single family residence permit count is 951 for FY2019. This volume of single-family home production is an important local economic indicator. Home production increases the City's assessed values, increases short-term employment, and generally benefits the local economy.

Commercial development is happening all around Maricopa. Just a couple of examples include the City officially closing on the sale of two acres at the Copper Sky Commercial Complex to La Quinta which will bring the city's first hotel to reality in 2020 and water will be extended approximately three miles out Highway 238 to serve the new APEX Motor Club making development possible to thousands of acres going west.

Population

Maricopa experienced some of the strongest population growth in the United States. Since incorporation in October 2003 through the 2010 population census, the City had grown from 5,088 to 41,309 (712%) in that time period. The most current population estimate is 51,272 (see Figure 2). This represents a one year increase of 2.2%.

Figure 2 –



Population is typically used to forecast growth in revenues such as parks and recreation fees, public safety fees, licenses and permits. Additionally, population is the basis of distribution of state shared revenues. Despite Maricopa's significant population growth in the past the forecast was extremely conservative in its projection of population based revenues.

Since several major revenue categories are dependent upon Maricopa's population as a percentage of the state's that makes any disparity between growth in local and state populations significant. For example, if the populations of other municipalities in the state continue to grow at a slower rate than Maricopa's population, Maricopa's relative share of state shared revenue increases. Every five years the sharing

formula is recalculated and the differences in growth rates inevitably impacts Maricopa's share of the total revenue pool.

Revenues

Local taxes remain the largest source of general fund revenue for the City. Property tax levy is restricted to a 2% increase annually, plus allowance for new construction. As such property tax revenues reflect tax levies at a rate slightly above the maximum levy that can be imposed without a public hearing. Based on long-term trends the forecast anticipates growth in property tax levies at a minimal rate of 5%. Since this forecast anticipates housing values to increase at 6.1%, the City does not anticipate any increase in the property tax rate over the forecast period through FY2026.

Due to a strong local economy, stronger sales tax growth trends, new retail development and the much anticipated Copper Sky Commercial Complex, the forecast charts sales tax growth at 3.5%. Local taxes are expected to remain the City's primary source of revenue with property taxes making up the largest share of that revenue category (see Figures 3 & 4). Property taxes are projected to growth at a rate well above the other revenues in the local taxes category (see Figure 5)

Figure 3 - FY29

General Fund Revenue Distribution

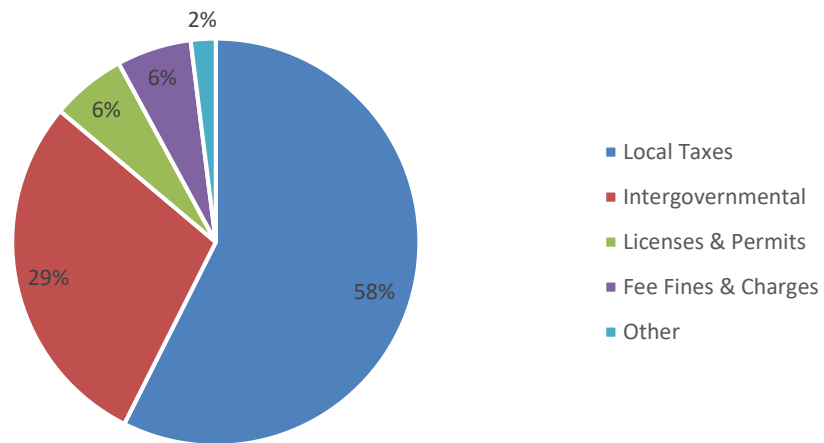
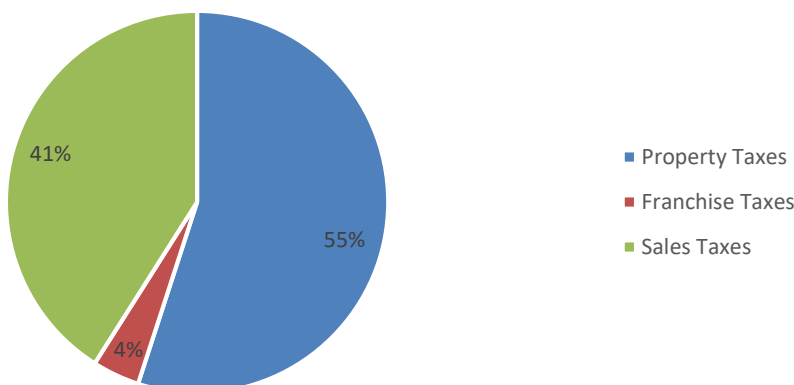


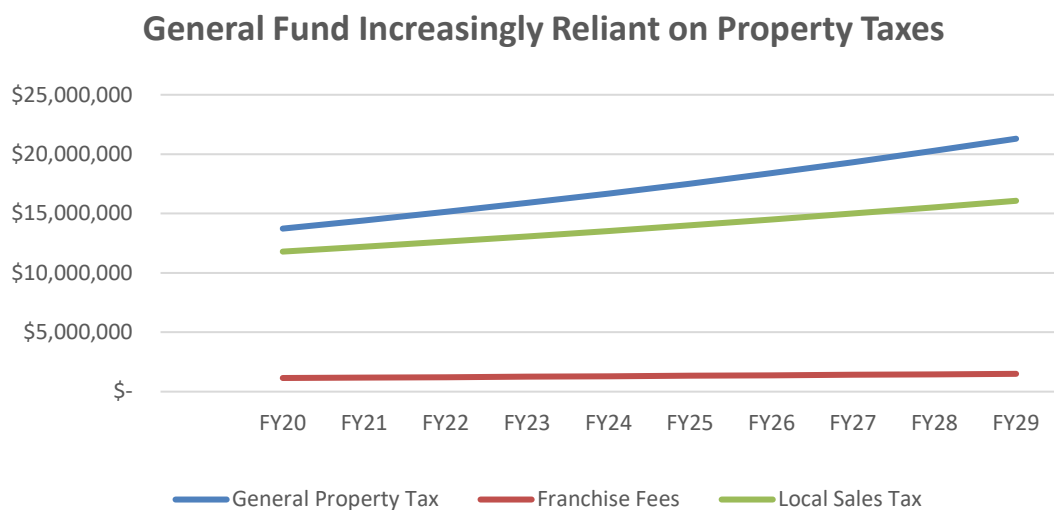
Figure 4 - FY29

Local Taxes Distribution



Intergovernmental revenues otherwise known as state shared revenues include state-shared sales tax, state-shared income tax and vehicle license tax. These “intergovernmental revenues” increased sharply in 2011 due to the 2010 population census despite sharply negative revenues received statewide. Due to rapid population growth the City anticipates these revenues to increase as the 2020 census information is processed. Every other revenue source is charted at the consumer price index (CPI) 10-year average (1.53%).

Figure 5 - FY20-FY29



Expenditures

The salaries and wage costs assume annual merit that increases each year over the forecast period. Beginning with fiscal year 2020 the City set out to normalize non-MOU employee salaries by adding a 2.5% adjustment to the base with merit increases slated to be capped at 1.5% depending upon employees' performance. The forecast therefore assumes increases occur annually on each employee's anniversary date at a rate of 4%, including MOU employees. Since joining the Arizona Metropolitan Trust in FY2017 the City has seen significant leveling of group health insurance costs. The City's forecast anticipates health insurance costs as a percentage of salaries and wages to increase at no more than 2.08% over the forecast period.

City of Maricopa employees contribute to two public retirement plans: the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for the City's sworn Police and Fire personnel. The annual employer's portion of the contribution rates differ by retirement system. Retirement benefits costs projections are based on information in Table 1. The median rate for FY2020 was used to project costs over the forecast period.

Table 1

	FY17	FY18	FY19	FY20
Arizona State Retirement	11.77%	11.48%	11.64%	12.11%
Public Safety Personnel Retirement - Police	12.60%	12.33%	15.54%	14.50%
Public Safety Personnel Retirement Fire	12.94%	13.08%	20.19%	19.53%

Limits on Discretionary Budget Increases

For this forecast and also for the adopted FY2020 budget, no new programs were authorized, as the focus was to maintain basic services and plan for the operational impact of upcoming capital projects. The City Council approved moderate increases to departments' budgets to maintain adequate levels of service relative to the City's population growth.

Capital Improvements Program Operating Budget Impacts

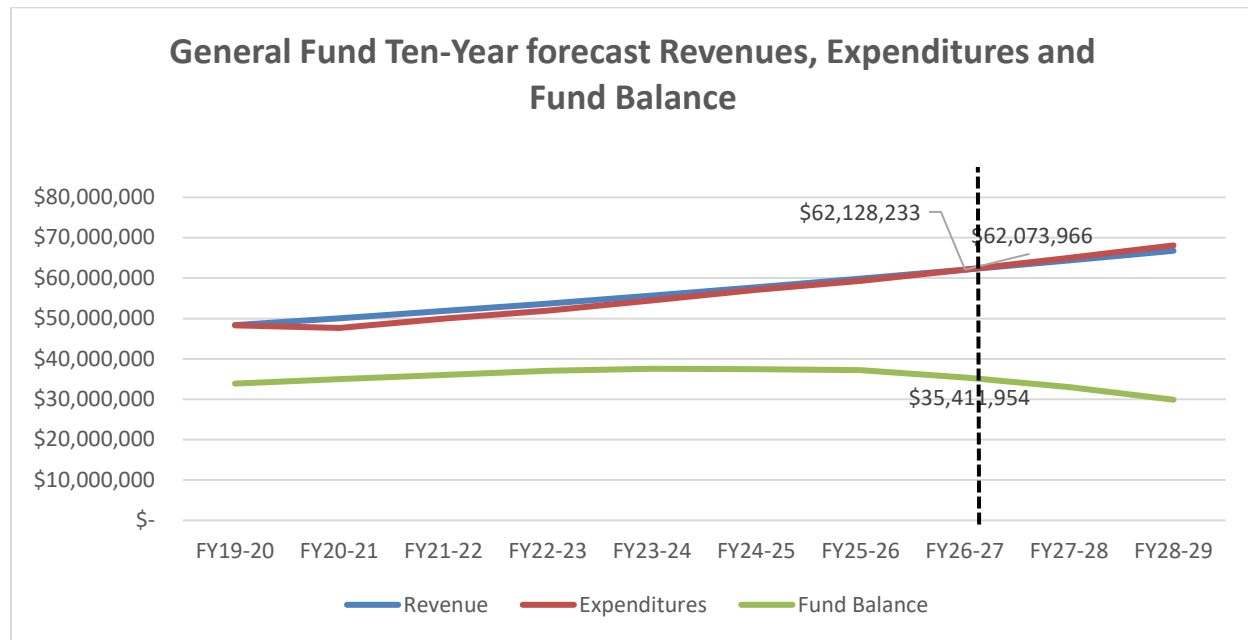
An important aspect of the City's Capital Improvements Program is the identification of operating budget impacts associated with capital projects. Operating impact of FY2020 Capital Budgets are accounted for in the FY2021 projections based on anticipated completion dates or final execution of purchase. Included in the City's FY2020 budget is the construction of a fire administration building. In the FY19 budget operating cost for the building was originally projected at \$410,000 for FY2020. Since the building is projected to be completed in FY2020 and occupied in early FY2021, the City anticipates that it will shoulder operating cost for this project in FY2021.

General Fund Forecast Discussion

In the mid-2000's, Maricopa experienced significant growth in population, construction and resulting sales taxes primarily related to construction. This resulted in significant fund balances in the General Fund. During FY2012, the City established the General Governmental CIP Fund and transferred a significant portion of the fund balances for pay-as-you-go financing of capital projects. Over the years the City has operated with a fund balance well above the national average. The unreserved fund balance is estimated at

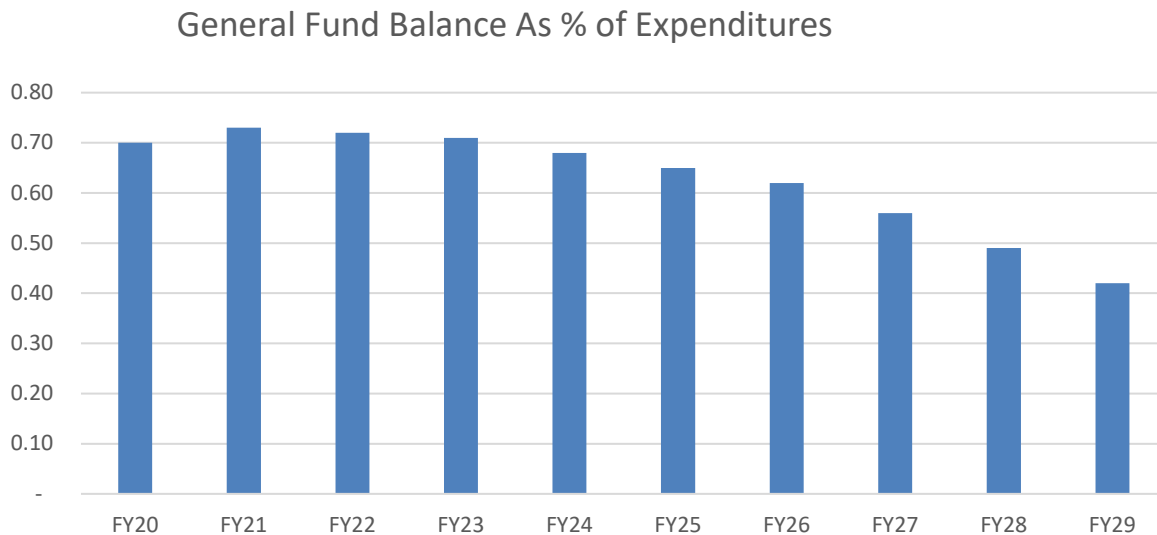
\$34 million at June 30, 2020 or 70% of estimated operating expenditures for FY2020. Over the forecast period the City is expected to see a decline in fund balance from \$34 million, 70% in FY2020 to \$30 million, 44% in FY2029 (see Figure 6). While the forecast highlights the City's strong general fund balance it also reflects a converging of revenues and expenditures with revenues running well below expenditures beginning FY2027 through the end of the forecast period (see Figure 6). The City will continue to monitor activities within the general fund and design and implement a corrective action plan prior to the nexus point, to either reduce expenditures and/or increase revenues to continue to meet service demands.

Figure 6



Beginning with FY2020 the City of Maricopa will maintain a revenue stabilization reserve at a level equal to 30% of the General Fund budgeted expenditures. Any funds in excess of this maximum will be available for capital projects and/or “one time only” General Fund expenditures as approved by the City Council. As a result of City Council action, the City Manager or his/her designee is authorized and empowered to assign fund balance to a specific purpose in accordance with, and in relation to the City budget and financial policies. Note that the fund balance throughout the forecast period does not fall below the revenue stabilization reserve of 30% (see Figure 7).

Figure 7



Note: Decline in fund balance is due to increase in expenditures over forecast period

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the last five years the City has operated with a healthy general fund balance that has allowed the City to directly fund some major capital projects without funding from external sources.

Other Operating Funds

The Highway User Revenue Fund (HURF) revenue source is commonly referred to as the gasoline tax, despite the fact that there are a number of additional fees included in this state shared revenue distribution. The City projects that the Highway Users' Revenue Fund (HURF) operating revenues will grow by an annual average of 3.5% while expenditures grow by 2%. A surplus of \$1.4 million between HURF revenues and expenditures is projected in FY2019. This surplus and the savings generated from re-evaluation of capital projects funded by HURF, provide for a projected \$1.8 million in repayment to the general fund from HURF for projects funded in prior years.

Conclusion

Due to a fast growing local economy and conservative fiscal management both the City's economic outlook and financial position are strong. The ten-year forecast evaluated the City's long-range financial position by considering current economic conditions, operating trends, the City's strategic plan, and financial commitments. The forecast highlights the City's strong general fund balance and the importance of the City taking steps to maintain revenues in relation to expenditures to avoid large operating deficit toward the end of the forecast period.

Through a renewed thrust on efficiency in government, the City stands to deliver excellent quality of service despite future cost pressures. In FY2020 the City projects to fully fund the unfunded pension liability for the Police Department which would place the City in a better position than several other Cities its' size in the State. Finally, the continued pursuit of excellence in quality service, and the marketing of the City of Maricopa, promise an exciting and stable future for the City, as it works toward growth in its population and commercial development.