

Town of Prescott Valley



Financial Trends Analysis For Fiscal Years 2007 - 2011

December 2011

Prepared by
Management Services Department

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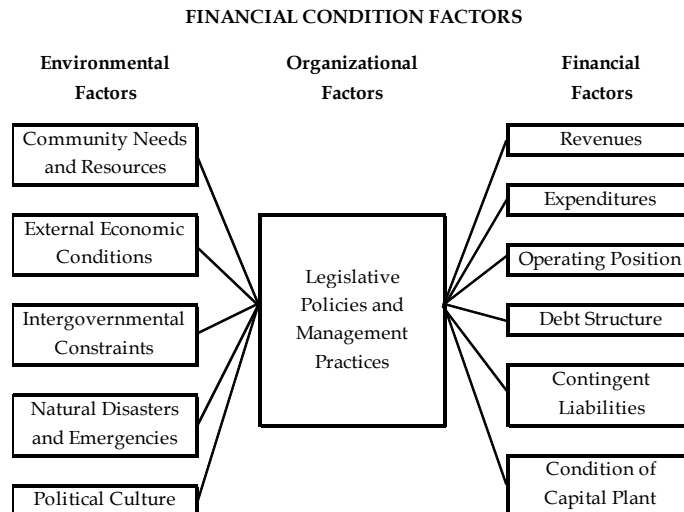
Introduction

The purpose of the financial trends analysis is to provide the Town of Prescott Valley’s (Town) citizens, elected officials, management, staff and other stakeholders with information regarding existing and potential organizational and financial problems that may impact the Town’s future fiscal health. As a useful management tool, it combines budgetary, financial, economic and demographic data to create a series of government indicators that can be used to monitor changes in the Town’s financial condition.

The analysis does not provide solutions to negative trends, nor does it provide a single number or index to measure the Town’s financial condition. When all of the financial indicators are considered together, interested stakeholders can gain a better understanding of the Town’s overall financial condition (e.g. similar to credit rating agency analysis). Using this trend analysis and the framework of the financial policies adopted by Town Council will enable management to strategically plan and budget, provide solutions to negative trends and ultimately preserve the financial health of the Town.

This report contains an analysis of the financial trends for the Town (excluding Community Facilities Districts) for the five-year period of 2007 to 2011. By analyzing these trends, the financial condition of the Town can be monitored, which allows Town officials to better understand the forces that affect the financial condition of the Town and the obstacles associated with measuring the financial condition. It will also allow officials to identify existing and emerging financial problems and develop action plans to remedy these problems. The term financial condition has many meanings. From an accounting standpoint, it refers to the Town’s ability to generate enough cash to pay its bills (e.g. cash solvency). It also refers to the Town’s ability to generate enough revenues over a normal budgetary period to meet its expenditures and not incur deficits (e.g. budgetary solvency). It also includes the ability of the Town in the long run to pay all costs of doing business, including those that are annually budgeted and those that appear only in years in which they must be paid (e.g. long-run solvency). Service level solvency refers to the ability of the Town to support municipal services at an adequate level.

The analysis, as designed by the International City/County Management Association (ICMA), encompasses three primary factors that affect the Town’s financial condition: environmental factors, organizational factors and financial factors. These factors are divided into twelve categories that influence financial conditions. As the chart below illustrates, the factors are arranged as inputs and outputs to each other representing cause-and-effect relationships. The factors are interrelated and, taken collectively, represent an inventory of considerations when evaluating financial conditions.



Evaluating a government's financial condition is a complex process. For this reason, the trend information, whether positive, negative or neutral, should be viewed collectively. A specific trend, if analyzed on its own, may provide a misleading representation of the Town's financial condition.

This report uses numerous indicators, covering separate issues including external revenues, fund balance, liquidity, unfunded liabilities and business activity. Town officials can use these indicators to achieve the following:

- Gain a better understanding of the government's financial condition
- Identify existing and emerging problems before they reach serious proportions
- Present a straightforward picture of the government's financial strengths and weaknesses
- Introduce long-range considerations into the annual budgeting process
- Provide a starting point for setting financial policies

The financial factors are separated into specific trend indicators. The Town's financial policies, community needs and resources and intergovernmental constraints are incorporated into the analysis. Certain environmental and organizational factors cannot be quantified and, therefore, are not part of this analysis.

Executive Summary

During fiscal year 2010/11, the national and state economies continued to struggle with the slowdown in the housing market and rising unemployment. Governments continued to struggle to balance their budgets under declining revenue results.

The national economy based on Gross Domestic Product (GDP) has an average quarterly growth rate of 3.3 percent from 1947 until present. Although this economic index began trending downward in fiscal year 2007/08, we have seen continued positive quarterly growth since the third calendar quarter of 2009. The third calendar quarter of 2011 continues to follow this trend with a reported 2.5 percent expansion in GDP. Although this is a sign that the economic recession has ended, there continues to be concerns about the economy and our weak labor market. The national unemployment rate as of October 2011 was at 9.0 percent. Since economic performance tends to be cyclical in nature, there are short-term and long-term uncertainties that could have an impact on the strength and longevity of the current economic cycle as we head into fiscal year 2011/12. These uncertainties include housing and construction markets, energy prices, inflation, consumer confidence, job market and geopolitical activity.

Arizona has been hard hit by the recession and continues to struggle through this tough economic time. The state economy is currently feeling the effects of some signs of economic expansion, but the recovery will be at a very slow pace. Analysts expect growth to be positive, but slow in the quarters ahead.

The Town's decline in building permit activity has continued, resulting in an 81 percent decline from fiscal year 2006/07. Building activity is projected to remain at these levels in fiscal year 2011/12, continuing the negative impact on the local economy in the housing and construction markets. This decline will provide economic challenges for the Town and its citizens, and will require prudent management of available Town resources to provide current or new Town services and maintain existing infrastructure.

The Town continues to strive to bring new businesses and jobs to the area. Three commercial projects began during the year; a multi-family housing unit and two schools. Yavapai Regional Medical Center East celebrated the opening of a new breast cancer facility during October 2011. Wal-Mart is planned to open in the Glassford Hill Marketplace complex, however a specific date for ground-breaking has not been determined.

The Town continues to complete capital projects funded by a variety of sources including impact fees, grants, Yavapai County funding and .33 percent sales tax revenue.

During fiscal year 2010/11, the project to install a new telecommunications tower on Glassford Hill was completed, improvements were made at Mountain Valley Park and in partnership with the Yavapai County Flood Control District, the Western Boulevard Phase I storm water drainage project was finished. The Town also continued roadway improvement projects on Navajo Drive, Viewpoint Drive and Robert Road.

Based on fiscal year 2010/11 and the outlook for 2011/12, guarded optimism best describes the Town’s current economic prospects. Nationally and locally, the construction and housing industries have experienced a significant drop-off which began at the end of fiscal year 2005/06 and continues through 2010/11. However, prudent long-term fiscal planning dictates a conservative financial approach, focusing on the highest Council and citizen priorities. The challenge for the future is the Town’s ability to absorb, within available resources, increasing operational costs (i.e. rising health insurance costs, utilities, infrastructure maintenance, public safety, etc.) associated with the current population base and continued demands for public services. The use of economic resources to fund future development will have an immediate impact on the Town’s current resources as well.

The budget for the 2011/12 year includes a conservative economic forecast with increased revenues projected over the prior year. The Management Services staff will continue to monitor the Town’s financial trends on an annual basis. If action is required to address unfavorable trends, the Director of Management Services will alert the Town Manager in a timely manner and bring forward strategic options for future consideration.

Community Needs and Resources

The leveling of population in the area is a result of the weak economy and declining jobs in construction and housing. This also results in reduced tax receipts as spending in the Town is decreased. Inflation has declined which has a positive effect by keeping prices for goods at lower levels. Declines in residential development and business activity are currently having a negative effect on the Town’s condition. Concerns in these areas will continue until the local economy experiences a rebound from the 2008 recession. Indicators in the current fiscal year are showing some signs of economic expansion, but there are many concerns on the stability and sustainability of any substantial economic rebound at this time.

Indicator	2009/10	2010/11
Population	Neutral	Neutral
Inflation	Positive	Positive
Residential Development	Negative	Negative
Business Activity	Negative	Negative
Personal Income	Negative	Negative

Revenues

Operating revenues as well as sales tax revenues continue to fall in 2010/11 due to the downturn in the economy. The decrease in per capita revenues is substantial and is now at the level experienced in 2004/05. Restricted revenues are up substantially due to increased grant receipts. Although intergovernmental revenues had a significant reduction in fiscal year 2010/11, they are expected to begin improving in fiscal year 2011/12.

Indicator	2009/10	2010/11
Revenues per Capita	Negative	Negative
Restricted Revenues	Negative	Negative
Intergovernmental Revenues	Negative	Neutral
Elastic Revenues	Neutral	Neutral

Expenditures

The Town experienced a continued decrease in expenditures per capita during fiscal year 2010/11. Expenditure changes tend to lag changes in revenue. This decrease was expected as the Town has taken measures to reduce expenditures in response to reduced revenues over the past few fiscal years. These measures include implementing a hiring freeze and cost reduction controls.

Indicator	2009/10	2010/11
Expenditures per Capita	Neutral	Positive
Employees per Capita	Positive	Neutral
Fringe Benefits	Neutral	Neutral

Operating Position

The operating position indicators reflect an overall solid financial base. Enterprise funds show an increase in earnings in the last year due to increased rates implemented in October of 2010 and reduced administrative expenses. Although the Town is gradually using more of its cash on hand, a majority of the fund balances are unassigned. The percentage of current liabilities to cash and investments remains above industry averages and the Town's liquidity is strong even with a slowed economy.

Indicator	2009/10	2010/11
General Fund Balance	Neutral	Neutral
Enterprise Fund Earnings	Positive	Positive
Liquidity	Neutral	Neutral

Debt Structure

Current liabilities decreased approximately \$828 thousand at the end of the year. Currently the Town has the available funds to make payments for outstanding debt. Net direct debt per capita decreased due to debt service payments made during 2010/11 and the defeasance of the North Wells bonds. During fiscal year 2010/11, the Town's total bonded debt decreased by approximately \$7.3 million.

Indicator	2009/10	2010/11
Current Liabilities	Negative	Negative
Net Direct Debt per Capita	Neutral	Positive
Debt Service	Negative	Neutral
Excise Tax	Positive	Positive
Overlapping Debt	Neutral	Neutral

Contingent Liabilities

The Pension Benefit Obligation - Arizona Public Safety Personnel Retirement System (APSPRS) experienced a decline beginning in fiscal year 2006/07 as a result of changing population demographics, expanded coverage needs and a downturn in the economy resulting in sharply lower returns on investments. The Town has experienced increased funding needs for the pension obligation for the past seven periods. The Defined Contribution Benefit Obligation - ICMA is one hundred percent funded.

Indicator	2009/10	2010/11
Pension Benefit - APSPRS	Negative	Negative
Defined Contribution Benefit - ICMA	Positive	Positive
Compensation Absences	Negative	Negative

Condition of Capital Plant

The Town's maintenance and replacement of capital assets decreased during 2010/11. This is due to the Town reducing expenditures to offset decreases in revenue caused by the slowed economy.

Indicator	2009/10	2010/11
Maintenance Effort	Negative	Negative
Depreciation Expense	Neutral	Neutral

Sources

The following information has been analyzed using the information and analysis suggestions as described in the ICMA publication *Evaluating Financial Condition - A Handbook for Local Government* and the Town's Finance staff. Trend indicators are based primarily on the Town's economic base.

The analytical techniques that are part of this evaluation system are similar to the analytical approaches used by the municipal credit rating industry. For example, certain indicators are adjusted for inflation, as measured by the Consumer Price Index (CPI), to yield constant dollars, thus representing the real growth or decline of the indicators. This technique can help the Town analyze and interpret key financial, economic and demographic trends and can provide management with information needed to improve the Town's overall financial position and aid in the decision-making process.

In order to ensure validity and consistency of the indicators, most data is tied to data published in the Town's Comprehensive Annual Financial Report (CAFR). In addition, many indicators relate directly to information required by municipal credit rating agencies. The rating agencies, bond buyers and other interested parties consider the annually audited and published CAFR as the most reliable financial information source for the Town. The Town presents its CAFR in accordance with Generally Accepted Accounting Principles (GAAP) and in a consistent format as promulgated by the Government Finance Officers Association (GFOA).

Comprehensive Financial Policies

The following excerpts are from the Town-adopted financial policies and establish a framework for overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated.

Adopted financial policies reflect the Town's commitment to sound financial management and fiscal integrity to the credit rating industry and prospective investors (bond buyers). The financial policies also improve the Town's fiscal stability by helping Town officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in Town bond ratings and lower cost of capital. The Town is in compliance with the comprehensive financial policies adopted.

Operating Management Policies

1. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements.
2. Budgets for governmental fund types will be adopted on a basis of accounting consistent with GAAP. The budget process is intended to weigh all competing requests for Town resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.
3. The budget shall be adopted at the fund level. Budget development will use strategic multi-year fiscal planning, conservative revenues forecasts and modified zero-base expenditure analysis that require every program to be justified annually in terms of meeting intended objectives (effectiveness criteria) and in terms of value received for dollars allocated (efficiency criteria). The process will include a diligent review of programs by the Town Manager and Town Council.
4. Revenues will not be dedicated for specific purposes, unless required by law or GAAP. The only exception is .33 percent of the transaction privilege taxes that have been dedicated to the Street Improvement Fund. All non-restricted revenues will be deposited in the General Fund and appropriated by the budget process. Special one-time revenues sources will be used to purchase non-recurring items like capital equipment or projects.
5. Current revenues will fund current expenditures and a diversified and stable revenue system will be developed to protect programs from short-term fluctuations in revenue.
6. Addition of personnel will only be requested to meet program initiatives and policy directives; after service needs have been thoroughly examined and it is substantiated that additional staff will result in increased revenues or enhanced operating efficiencies. Personnel cost reductions will be achieved through attrition to the extent feasible.
7. Utility (Water and Wastewater) user charges will reflect cost of service and will be established so that operating revenues are at least equal to operating expenditures. User fees and charges will be examined annually to ensure that they recover all direct and indirect costs of service and be approved by the Town Council.

8. All non-enterprise user fees and charges will be examined annually to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the Town Council.
9. Development impact fees, as permitted by State law, for capital expenses attributable to new development will be reviewed as necessary to ensure that fees recover all direct and indirect development-related expenses and be approved by Town Council.
10. Capital equipment replacement will be accomplished through the use of a replacement fund. The Town will appropriate funds to the replacement fund annually during the budget process to provide for the timely replacement of equipment. Replacement costs will be based upon equipment lifecycle financial analysis.
11. Grant funding will be considered to leverage Town funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in a separate fund, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, Town resources will be substituted only after all program priorities and alternatives are considered during the budget process.
12. Alternative means of service delivery will be evaluated to ensure that quality services are provided to our citizens at the most competitive and economical cost. Departments, in cooperation with the Town Manager, will identify all activities that could be provided by another source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed annually or on an "opportunity" basis.
13. Cash and investment programs will be maintained in accordance with the Town Charter and the adopted investment policy and will ensure that proper controls and safeguards are maintained. Town funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity and financial return on principal, in that order.
14. The Town will follow an aggressive and consistent policy of collecting revenues to the limit of our ability with sensitivity to individuals' circumstances. Collection policy goal will be for all adjusted uncollectible accounts to be no more than .5 percent of the total Town revenues being adjusted for bad debts annually.

Capital Management Policies

1. A five-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure, land improvements, equipment purchases or construction projects which result in a capitalized asset costing more than \$25,000 and having a useful (depreciable) life of two years or more.
2. Proposed capital projects will be reviewed and prioritized by the Town Manager in discussion with the director of the department and overall consistency with the Town's goals and objectives. Financing sources will then be identified for the highest ranking projects.

3. Capital improvement lifecycle costs will be coordinated with the development of the operating budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecast, matched to available revenue sources and included in the operating budget.
4. A portion (.33 percent of the 2.33 percent) of the privilege tax revenues will be restricted for purposes of funding improvements for street and roadway projects.

Debt Management Policies

1. The issuance of long-term debt is limited to capital projects and assets that the Town cannot finance from current revenues or resources.
2. The Town will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.
3. An analysis showing how the new issue combined with current debt impacts the Town's debt capacity and conformance with Town debt policies will accompany every future bond issue proposal.
4. General Obligation (GO) debt, which is supported by property tax revenues and grows in proportion to the Town's assessed valuation and/or property tax rate increases, will be utilized as authorized by voters. Other types of voter-approved debt (e.g., water and sewer) may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).
5. Municipal Property Corporation (MPC) and contractual debt, which is non-voter approved, will be utilized only when a dedicated revenue source (e.g., transaction privilege taxes and state-shared revenues) can be identified to pay debt service expenses. The following considerations will be made to the question of pledging of project (facility) revenues towards debt service requirements:
 - a. The project requires monies not available from other sources.
 - b. Matching fund monies are available which may be lost if not applied for in a timely manner.
 - c. Catastrophic conditions.
 - d. The project to be financed will generate net positive revenues (i.e., the additional tax revenues generated by the project will be greater than the debt service requirements). The net revenues should not simply be positive over the life of the bonds, but must be positive each year within a reasonably short period (e.g., by the third year of debt service payments).
6. Town debt service costs should not exceed 25 percent of the Town's operating revenues in order to control fixed costs and ensure expenditure flexibility. Improvement District (ID) and Community Facilities District (CFD) debt service is not included in this calculation because it is paid by district property owners and is not an obligation of the general citizenry. Separate criteria have been established regarding ID and CFD debt policies.

7. ID and CFD bonds shall be permitted only when there is a general Town benefit. Both ID and CFD bonds will be utilized only when it is expected that they will be issued for their full term. It is intended that ID and CFD bonds will be primarily issued for developments or existing neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, streetlights, parks and drainage.
 - a. ID debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt and 5/1 or higher after construction of improvements. Should the full cash value to debt ratio not meet the minimum requirements, property value may be determined by an appraisal paid for by the applicant and administered by the Town. In addition, the Town's cumulative improvement district debt will not exceed 15 percent of the Town's secondary assessed valuation. Bonds issued to finance improvement district projects will not have maturities longer than ten years.
 - b. CFD debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt and 5/1 or higher after construction of improvements. In addition, the Town's cumulative facilities district debt will not exceed 15 percent of the Town's secondary assessed valuation. The landowner/developer shall also contribute \$.30 in public infrastructure improvements of each dollar of public infrastructure improvement debt to be financed by the district.
8. Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below ten years.
9. Utility rates will be set, at a minimum, to ensure the ratio of revenues to debt service meets our bond indenture requirement of 1.25:1. The Town goal will be to maintain a minimum ratio of utility revenues to debt service of 1.6:1 or greater, to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes, and to ensure a balanced pay-as-you-go Capital Improvement Plan.

Reserve Policies

1. The Town will maintain a stabilization fund or "Rainy Day Fund" as a committed fund balance in the general fund of no less than 10 percent of general fund revenues, excluding transfers.
2. The Town's general fund will maintain an "unassigned" fund balance with a target of a minimum of 25 percent (25%) of General Fund revenues, excluding transfers.
3. Contingency and reserve funds in the Water and Wastewater utility operating funds should be equal to a minimum of ninety days operating expenditures.
4. Fleet Management Reserve will be maintained based upon lifecycle replacement plans to ensure adequate fund balance required for systematic replacement of fleet vehicles and operational contingencies. Operating departments will be charged for fleet operating costs per vehicle class and replacement costs spread over the useful life of the vehicles.

Financial Reporting Policies

1. Contingency and reserve funds in the Water and Wastewater utility operating funds should be equal to ninety days operating expenditures to meet unforeseen emergencies.
2. The Town's accounting, budgetary and financial reporting systems will be maintained in conformance with all State and Federal laws, GAAP, standards of the Governmental Accounting Standards Board (GASB) and the GFOA.
3. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the Town's published CAFR.
4. The Town's CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance-related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.
5. The Town's CAFR will also be submitted to national repositories identified by the Electronic Municipal Market Access (EMMA) as a continuing commitment to disclose thoroughness to enable investors to make informed decisions. The Town budget will be submitted to the GFOA Distinguished Budget Presentation Program.
6. The budget should satisfy criteria as a financial and programmatic policy document, a comprehensive financial plan, an operations guide for all organizational units and a communications device for all significant budgetary issues, trends and resource choices.
7. Financial systems will maintain internal controls to monitor revenues, expenditures and program performance on an ongoing basis.

Intergovernmental Constraints

The following is an overview of various intergovernmental constraints affecting the Town's operations.

State-Shared Revenues

The Town receives a share of its monies collected by the State since cities and towns in Arizona are not permitted to levy an income tax. This year, the Town received revenues for general fund intergovernmental taxes, Highway User Revenue Fund (HURF) and Local Transportation Assistance Funds (LTAF). Some money, such as State-Shared Sales Tax and State Income Tax, are unrestricted as to use. Other revenues, such as HURF and LTAF revenue, are restricted to transportation purposes only.

In addition to the restrictions on the use of these funds, there are also differing methods of distribution that impact the Town's share of revenues. In some cases, United States Census figures are used to calculate revenue distribution. Other revenue distribution method calculations are based on the county in which the revenues originated.

State-shared income tax receipts are received by the Town based on income earned two years prior to distribution. The State of Arizona income tax calculations are tied to the federal tax system and, therefore, fluctuations in federal income tax levels caused by economic downturns or tax cuts can negatively impact the State's income tax revenues. The distribution of the State income tax to the Town is projected to increase in fiscal year 2011/12.

State-shared sales tax receipts to the Town are projected to increase in fiscal year 2011/12 due to an expected increase in state-wide revenues.

Restricted Revenues

Restricted revenues are legally earmarked for specific use as may be required by State law, bond covenants or grant requirements. For example, the State of Arizona requires that gas tax revenues be used only for street maintenance or construction. As the percentage of restricted revenues increases, the Town loses its flexibility to respond to changing conditions. An over-dependence on restricted revenues makes the Town's programs vulnerable to dictation by the funding agencies and may signal a future inability to at least maintain current service levels.

Reporting Requirements

State law requires that the Town establish at least two funds - the general fund for recording "general" Town operations and HURF, which records the monies received from highway user revenues. In addition to these requirements, additional funds are established to respond to reporting requirements for federal grants, bond rating agencies and regulatory accounting agencies.

Community Needs and Resources

Community Needs and Resources encompass various economic and demographic characteristics including population, employment, personal income, property value and business activity. These indicators describe and quantify a community's wealth and economic condition. They provide insight into the community's collective ability to generate revenues relative to the community's demand for public services such as public safety, capital improvements and social services.

Community Needs and Resources are all closely interrelated and affect each other in a continuous cycle of cause and effect. Changes in these characteristics tend to be cumulative.

In addition to analyzing these indicators, the Town may also want to study more subjective issues, such as land-use characteristics, as they relate to the Town's ability to generate revenues and, therefore, provide convenient, efficient public services. Also important are the Town's plans and potential for future development. The diversification of the commercial and industrial tax base should be considered for its revenue generating ability, employment generating ability, vulnerability to economic cycles and relationships within the larger economic region.

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

- A declining tax base and, correspondingly, the community's ability to pay for public services
- A need to shift public service priorities because of demographic changes in the community
- A need to shift public policies because of a loss in competitive advantage of the Town's businesses to surrounding communities or because of a surge in inflation or other changes in regional or national economic conditions

Population

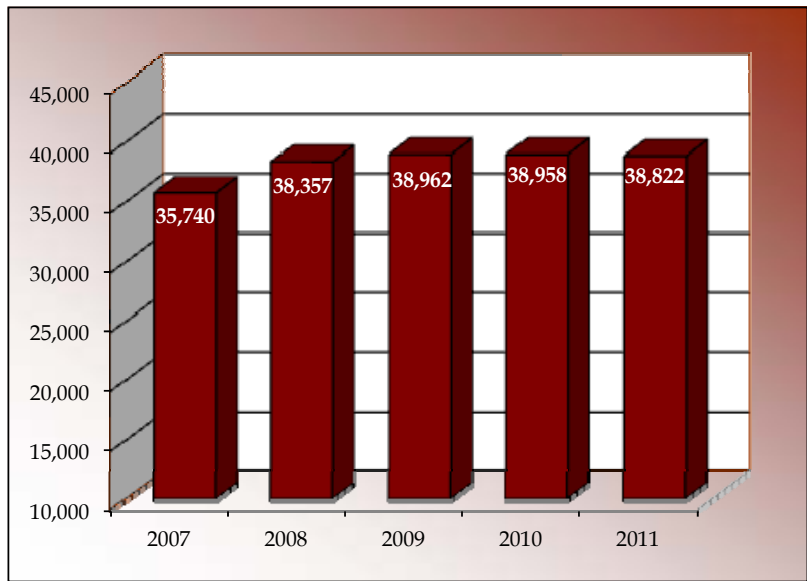
Description

Although the exact relationship between population change and other economic and demographic factors is difficult to evaluate, it is important to realize the effects that both increases and decreases in population may have on a local government. An increase in population will create pressures for new capital outlay and higher levels of service which are offset by a proportionate increase in revenues. A decline in population would, at first glance, appear to relieve pressures for expenditures, because the population is getting smaller. But in practice, a local government faced with a declining population is rarely able to make reductions in expenditures that are proportional to the loss in a critical revenue stream.

Analysis

The Town has experienced a leveling in population growth over the past three years. The leveling of population growth seen over the last four years is related to the downturn in economic conditions in the region. The construction industry has dramatically declined, creating a reduction of jobs in the area. Businesses have struggled in this economy and the Town is still experiencing business closures and lost revenues. Results for the 2010 Census were released in March of 2011. The Town's population has increased by 65 percent since the 2000 Census.

A decline in population tends to have a negative effect on revenues for the Town and adverse effects on employment, income, housing and business activity. If forecasts are correct, the Town should begin to see a slow recovery over the next few years. This could contribute to an upward trend in population for the region.



Population	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Population	35,740	38,357	38,962	38,958	38,822
% Change ¹	6.4%	7.3%	1.6%	0.0%	-0.3%

Source: Arizona Department of Commerce, Population Statistics Unit
¹ Calculation: (Current Year - Previous Year)/Previous Year

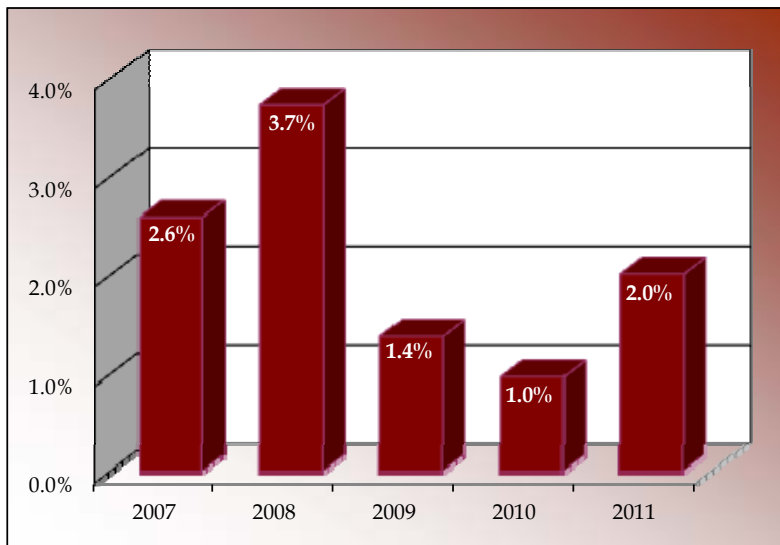
Inflation

Description

The Consumer Price Index (CPI) is one of the most widely recognized and used measures of the average change over time in the prices paid by consumers for goods and services. The CPI is based on a weighted average of prices for a variety of goods from eight different groups: food and beverage, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services (e.g., tobacco and smoking products, haircuts and other personal services). Stability in price level changes is generally beneficial and continued low rates of inflation indicate a positive trend.

Analysis

The rate of inflation continued to decrease in fiscal year 2010/11. The Federal Reserve Board has kept interest rates low in an attempt to stimulate the economy. Low inflation helps prevent costs from rising faster than consumers' paychecks, allowing them to buy more with each dollar. Low inflation also increases incentives for shop owners to increase their inventories. However, with the decline in jobs, the increase in the unemployment rate, the unwillingness of financial institutions to lend and consumers' unwillingness to borrow continues to hold back the consumer spending necessary for a robust recovery. Many factors play into inflation and this analysis is not intended to offer predictions.



<u>Inflation</u>	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011
Consumer Price Index	204.1	211.7	214.7	216.7	221.1
Inflation Rate ¹	2.6%	3.7%	1.4%	1.0%	2.0%

Source: U.S. Bureau of Labor Statistics - CPI

Note: Consumer Price Index is presented using fiscal year averages

¹ Calculation: (Current Year CPI - Prior Year CPI)/Prior Year CPI

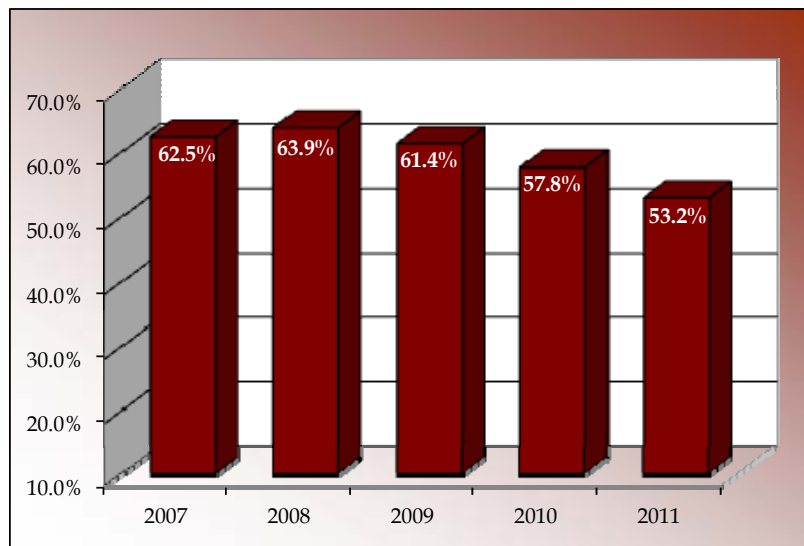
Residential Development

Description

Generally, the net cost of servicing residential development is higher than the net cost of servicing commercial or industrial development. The ideal condition would be to have sufficient commercial and industrial development to more than offset the costs of the residential development. There are exceptions to this situation. For example, a high-density residential area occupied by middle-aged, wealthy families whose children have already left home, who are heavy consumers and who look to the government for very few services, can generate more revenues than service costs.

Analysis

Residential development as a percent of total property continued on a slight downward trend in 2010/11. Part of this decline is related to the devaluation of property values related to the troubled housing market. The Town has experienced a decrease in residential development due to the financial credit crisis and problems experienced in the banking industry within the home mortgage market. The housing market has recently seen some improvements and sales continue to slowly increase. These improvements need to be sustained to fully recover in residential development. Commercial development continues in the Town, but at a much slower rate than in prior years. Because the cost of servicing residential development is generally greater than servicing commercial development, this may become a positive trend in the future. The type of development should be taken into consideration in forecasting service levels and the associated service costs.



Residential Development (in thousands)	Calendar Year				
	2007	2008	2009	2010	2011
Assessed Value Residential Property	\$ 206,616	\$ 278,908	\$ 256,518	\$ 219,527	\$ 177,675
Assessed Value All Properties	\$ 330,513	\$ 436,242	\$ 417,511	\$ 379,921	\$ 334,287
% Residential Development ¹	62.5%	63.9%	61.4%	57.8%	53.2%

Source: Arizona Department of Revenue - Abstract by Tax Authority and Legal Class for the County

¹ Calculation: Assessed Value Residential/Assessed Value All Property

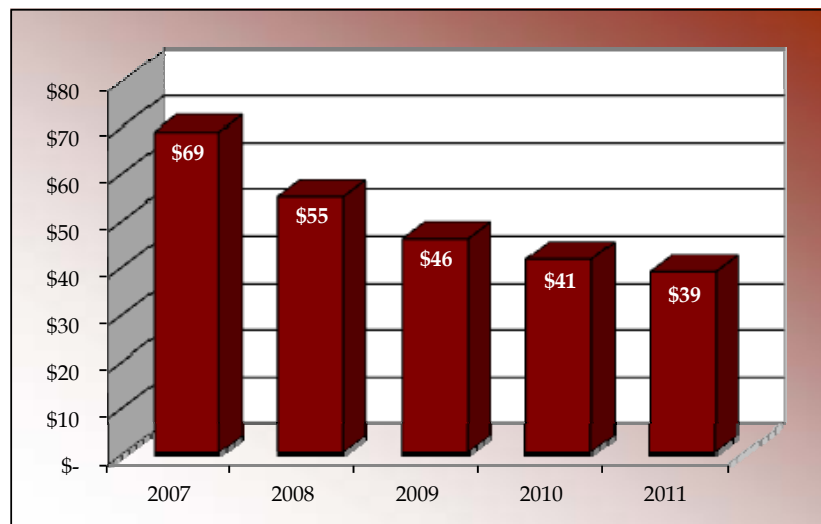
Business Activity

Description

The levels of business activity directly affects the Town's financial condition by revenue sources such as sales tax receipts; and indirectly to the extent that a change in business activity affects other demographic and economic areas such as employment base, personal income or property values. Changes in business activity also tend to be cumulative, causing a positive or negative impact on all related factors such as employment base, income and property value.

Analysis

In the last four fiscal years the Town has experienced a decrease in gross and net sales tax collections. Current year net collections have declined to levels experienced in 2003/04. The Town has several development agreements in place which allow for future sales tax rebates to fund infrastructure expansions. The reduction in sales tax collections is related to the slow economic conditions currently faced nationwide. If the negative trend continues, it will have a negative effect on the Town's revenues and limit the Town's ability to pay for community services.



<u>Business Activity</u> (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Sales Tax Revenue	\$ 14,821	\$ 12,500	\$ 11,172	\$ 10,473	\$ 10,241
Rebated to Developers	819	934	1,340	1,497	1,694
Total Net Sales Tax	\$ 14,002	\$ 11,566	\$ 9,832	\$ 8,976	\$ 8,547
Consumer Price Index	204.1	211.7	214.7	216.7	221.1
Net Constant Dollar					
Sales Tax Revenues ¹	\$ 69	\$ 55	\$ 46	\$ 41	\$ 39
% Change Tax Revenue ²	3.6%	-20.4%	-16.2%	-9.6%	-6.7%

Source: U.S. Bureau of Labor Statistics- CPI, Town of Prescott Valley Finance Division, Comprehensive Annual Financial Report (CAFR) - General Governmental Tax Revenues by Source - Table 5

¹ Calculation: Net Sales Tax/CPI

² Calculation: (Current Year Net Constant Dollar Revenues - Prior Year Net Constant Dollar Revenues)/Prior Year Net Constant Dollar Revenues

Personal Income

Description

Personal income is one measure of a community’s ability to pay taxes. Generally, the higher per capita income, the more property taxes, sales taxes, income taxes and business taxes the Town can generate. If income is distributed evenly, a higher per capita income will usually mean a lower dependency on government services, recreation and welfare. A decline in per capita income results in loss of consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of the Town’s economy. Credit rating firms use per capita income as an important measure of a Town’s ability to meet its financial obligations.

Analysis

The Town continues to experience a downward trend in its per capita personal income. This trend is related to the economic conditions faced regionally and nationally. This indicates a loss of consumer purchasing power and has had a negative impact on the Town’s revenue sources due to decreases in consumer spending. The Town may also experience an increase in demand for services as families in the community face loss of jobs and uncertainty of future income. Businesses struggle with reduced revenues as consumers reduce spending. This may not only place additional demands for services provided by the Town, but limit the ability for the Town to maintain those services.



<u>Personal Income</u>	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011
Per Capita Personal Income	\$ 21,836	\$ 22,133	\$ 21,317	\$ 21,514	\$ 20,837
Consumer Price Index	204.1	211.7	214.7	216.7	221.1
Population	35,740	38,357	38,962	38,958	38,822
Net Constant Dollar Personal Income (in thousands) ¹	\$ 10.7	\$ 10.5	\$ 9.9	\$ 9.9	\$ 9.4

Source: U.S. Bureau of Labor Statistics - CPI, Arizona Department of Commerce - Population Statistics Unit, Comprehensive Annual Financial Report (CAFR) - Demographic and Economic Statistics - Table 15

¹ Calculation: Per Capita Personal Income/CPI/10

Revenues

Revenues determine the capability of the Town to provide services. Important issues to consider in revenue analysis are economic growth, diversity, reliability, flexibility and administration. Revenues should be growing at a rate equal to or greater than the combined effects of inflation and expenditures. Revenues should be sufficiently unrestricted to allow for necessary adjustments to changing economic and operational conditions. Revenues should be balanced between elastic and inelastic sources with respect to economic base and inflation while others should remain relatively constant. Revenues should be diversified by source so as not to be overly dependent on residential, commercial or industrial land uses, or external funding sources such as federal grants or discretionary state aid. User fees should be regularly reevaluated to cover the full costs of services.

Analyzing the Town's revenue structure will help to identify the following types of problems:

- Deterioration of the revenue base
- Internal procedures or legislative policies that may adversely affect revenue yields
- Inefficiency in the collection and administration of revenues
- Over dependence on obsolete or external revenue sources
- Changes in tax burden on various segments of the population
- Lack of cost controls and poor revenue estimating practices

Changes in revenues can be monitored by using the indicators entailed on the following pages.

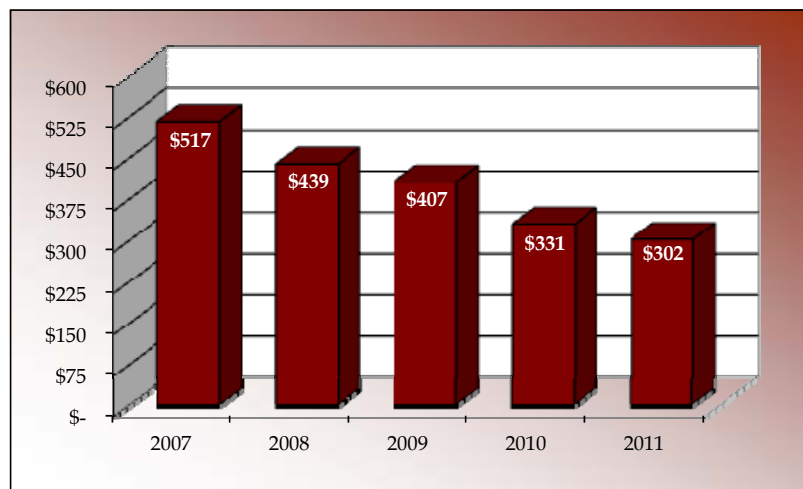
Revenues per Capita

Description

Per capita revenues illustrate operating revenue changes relative to population changes. Operating revenues are comprised of local taxes (transaction privilege, cable TV franchise, and gas franchise taxes), intergovernmental taxes (state revenue sharing, auto lieu, state-shared sales tax and intergovernmental), licenses and permits, charges for services, fines and forfeitures, special assessments, property rental, interest earnings and other revenue. As population increases, it might be expected that the need for services would increase proportionately and, therefore, the level of per capita revenue should remain at least constant in real terms. If per capita revenue is decreasing, it would be expected that the Town would be unable to maintain existing service levels unless it were to find new revenue sources or reduce expenditures.

Analysis

In fiscal year 2010/11, revenue per capita decreased 9 percent from the prior year, as the poor economic conditions continue. A decline in revenues per capita could indicate the Town may have future difficulties in funding services for the community. The revenue streams affected by the economic downturn include transaction privilege tax (down 2 percent), intergovernmental revenues (down 11 percent) and charges for services (down 26 percent).



Revenues per Capita (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Operating Revenues	\$ 37,690	\$ 35,663	\$ 34,060	\$ 27,919	\$ 25,952
Consumer Price Index	204.1	211.7	214.7	216.7	221.1
Current Population	35,740	38,357	38,962	38,958	38,822
Net Constant Dollar					
Revenues Per Capita ¹	\$ 517	\$ 439	\$ 407	\$ 331	\$ 302
Revenues Per Capita (% change) ²		-3.9%	-15.0%	-7.3%	-18.8%

Source: U.S. Bureau of Labor Statistics - CPI, Arizona Department of Commerce - Population Statistics Unit, Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, CAFR - Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Funds

¹ Calculation: Operating Revenues/CPI/Population*100,000

² Calculation: (Current Year Revenues Per Capita - Prior Year Revenues Per Capita)/Prior Year Revenues Per Capita

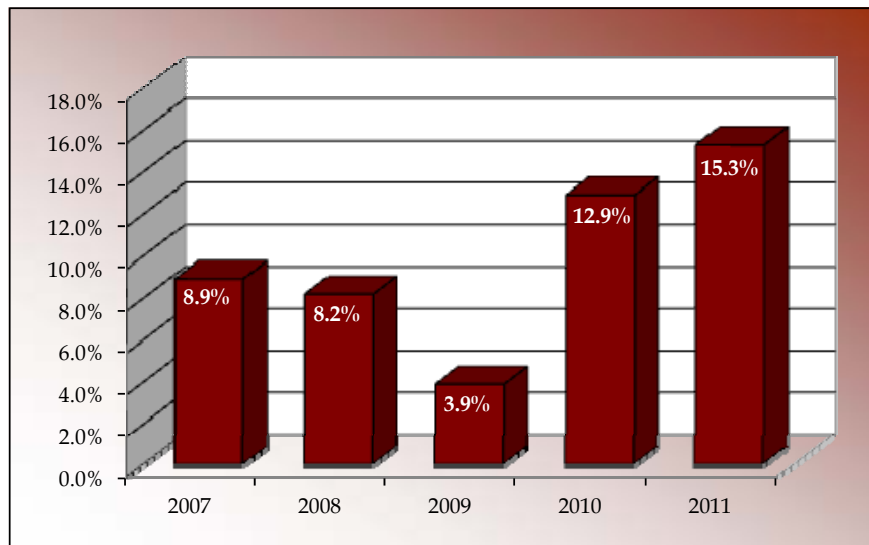
Restricted Revenues

Description

Restricted revenues are legally earmarked for a specific use, as may be required by state law, bond covenants or grant requirements. The Town’s restricted revenues include grants, impact fees and developer contributions. As the percentage of restricted revenues increases, the Town loses its flexibility to respond to changing conditions. An over dependence on restricted revenues makes the Town’s programs vulnerable to restrictions imposed by the funding agencies and may signal a future inability to maintain current service levels.

Analysis

The percent of restricted revenues to operating revenues was declining in fiscal year 2007/08 and 2008/09. However, due to increased grants received by the Town, this trend is increasing. These grants include several awards from the Department of Homeland Security for improvements to safety and communication. Due to fewer building permits being issued, impact fee revenues fell 10 percent from 2009/10 to 2010/11. Restricted revenues have historically been used to fund infrastructure and enhance public safety. A decline in these revenues could delay needed infrastructure and protection for the community.



<u>Restricted Revenues</u> (in thousands)	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011
Restricted Operating Revenues	\$ 3,356	\$ 2,917	\$ 1,320	\$ 3,600	\$ 3,966
Operating Revenues	37,690	35,663	34,060	27,919	25,952
% Restricted ¹	8.9%	8.2%	3.9%	12.9%	15.3%

Source: Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Government Funds

¹ Calculation: Restricted Operating Revenues/Operating Revenues

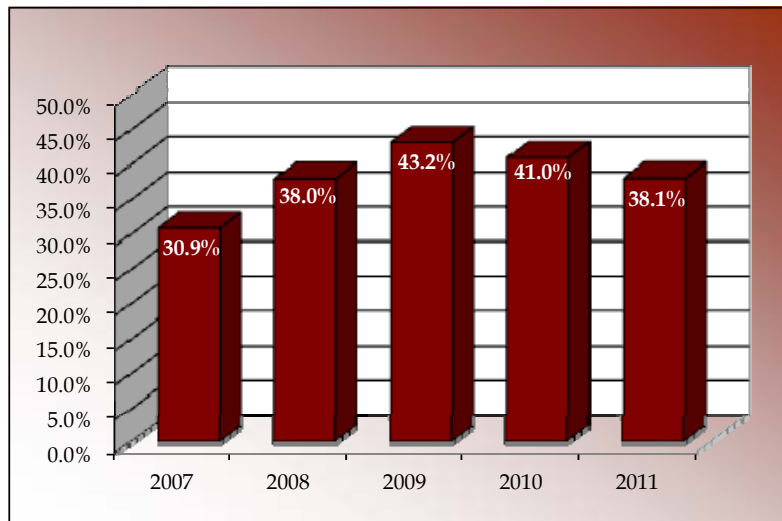
Intergovernmental Revenues

Description

Intergovernmental revenues are received from other governmental entities. Intergovernmental revenues for the Town encompass state revenue sharing, auto lieu, state-shared sales tax and intergovernmental agreements. An over dependence on intergovernmental revenues can have an adverse impact on financial conditions due to restrictions or stipulations that the other governmental entities may attach to the revenues. During declining economic times, state and federal governments may withdraw or reduce payments to local governments.

Analysis

The warning trend for this indicator is an increasing amount of intergovernmental operating revenues as a percentage of operating revenues. Since fiscal year 2009/10, a decline in these revenues was primarily due to a significant decrease in state revenue sharing distributions. The state revenue sharing decline from the prior year was approximately \$1 million while state-shared sales tax revenues increased by \$139,406. Forecasts have projected a modest increase in state-shared revenues for fiscal year 2011/12 which would advance the Town's financial position and improve the Town's ability to maintain current service levels.



Intergovernmental Revenues (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Intergovernmental Revenues	\$11,634	\$13,548	\$14,699	\$11,434	\$ 9,877
Operating Revenues	\$37,690	\$35,663	\$34,060	\$27,919	\$25,952
 % Intergovernmental ¹	 30.9%	 38.0%	 43.2%	 41.0%	 38.1%

Source: Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

¹ Calculation: Intergovernmental Revenues/Operating Revenues

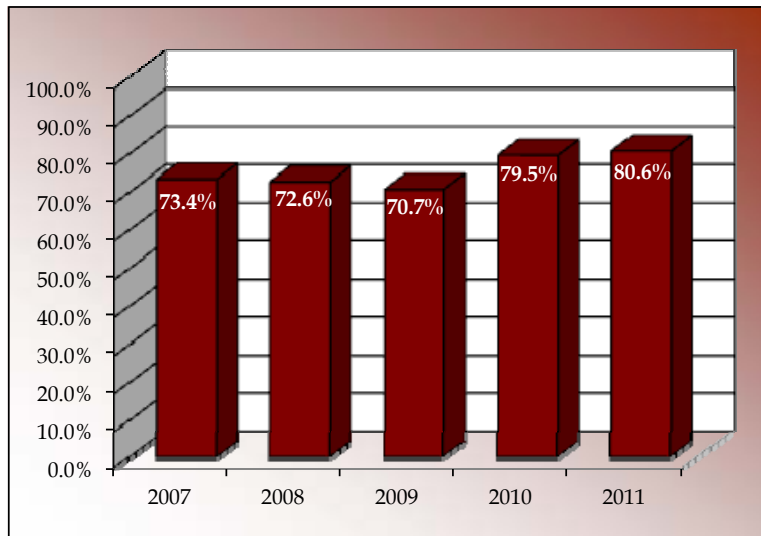
Elastic Tax Revenues

Description

Elastic tax revenues are highly responsive to changes in the economy and inflation. As the economy grows and inflation increases, elastic revenues increase in approximately the same proportion, and vice versa. For example, sales tax revenues rise and fall with increases and decreases in retail sales and corresponding economic growth. Inelastic revenues, such as fixed license fees or user charges, are relatively unresponsive to changes in economic conditions unless there are business closures. The following Town revenues fall within the elastic revenues category: general sales tax, state-shared sales tax, state revenue sharing, auto lieu tax, highway user revenue fund tax (fuel tax) and local transportation assistance fund (portion of state lottery revenues).

Analysis

The change in a municipality's elastic revenues as a percent of operating revenues can be attributed to the growth or decline of retail businesses and population. As a result of a slowed economy, the elastic revenue rate remained relatively unchanged in 2010/11. These ratios are still well within the desired high range to keep pace with inflation which attributes to the higher prices government must pay for its services. The outlook for fiscal year 2011/12 is slightly higher total elastic tax revenues. Since elastic tax revenues represent a significant portion of operating revenues, the percentages are not expected to change dramatically from year to year. Further reductions in these taxes would hamper the Town in maintaining current infrastructure and will limit building any new infrastructure.



<u>Elastic Tax Revenues</u>	FY	FY	FY	FY	FY
(in thousands)	2007	2008	2009	2010	2011
Elastic Tax Revenues	\$ 27,648	\$ 25,899	\$ 24,066	\$ 22,209	\$ 20,928
Operating Revenues	\$ 37,690	\$ 35,663	\$ 34,060	\$ 27,919	\$ 25,952
% Elastic Tax Rev. ¹	73.4%	72.6%	70.7%	79.5%	80.6%

Source: Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis - Governmental Funds

¹ Calculation: Elastic Tax Revenues/Operating Revenues

Expenditures

Expenditures are an approximate measure of the Town's service output. Generally, the more the Town spends in constant dollars, the more service it is providing. These measures do not provide accountability for service delivery efficiency and effectiveness.

The first issue to consider is the expenditure growth rate to determine whether the Town is operating within its revenues. The Town makes every attempt to have a balanced budget, where expenditure growth matches revenue growth. The Town may plan additional capital expenditures in excess of revenues and use fund balances for these projects. The long-run balance between revenues and expenditures warrants separate attention. Common ways to create future problems where expenditures exceed revenues are to use reserve funds, defer maintenance on streets and buildings or by deferring funding of contingent liabilities. In each of these cases, the current budget remains balanced; however, the long-run budget is developing a deficit.

A second issue to consider is the level of mandatory or fixed costs. This is referred to as expenditure flexibility which is a measure of the Town's freedom to adjust its service levels to changing economic, political and social conditions. A town with a growing percentage of mandatory costs will find itself proportionately less able to make adjustments. As the percentage of debt service, grant matching requirements, pension benefits, State and Federal mandates, contractual agreements and commitments to existing capital increase, the flexibility to make spending decisions decreases.

Ideally, the Town will have an expenditure growth rate that does not exceed its revenue growth rate and will have maximum spending flexibility to adjust to changing conditions. Analyzing the Town's expenditure profile will help to identify the following types of problems:

- Excessive growth of overall expenditures as compared to revenue growth or growth in community wealth (personal and business income)
- An undesired increase in fixed costs
- Ineffective budgetary controls
- A decline in personnel productivity
- Excessive growth in programs that create future expenditure liabilities

Changes in expenditures can be monitored by using the indicators detailed on the following pages.

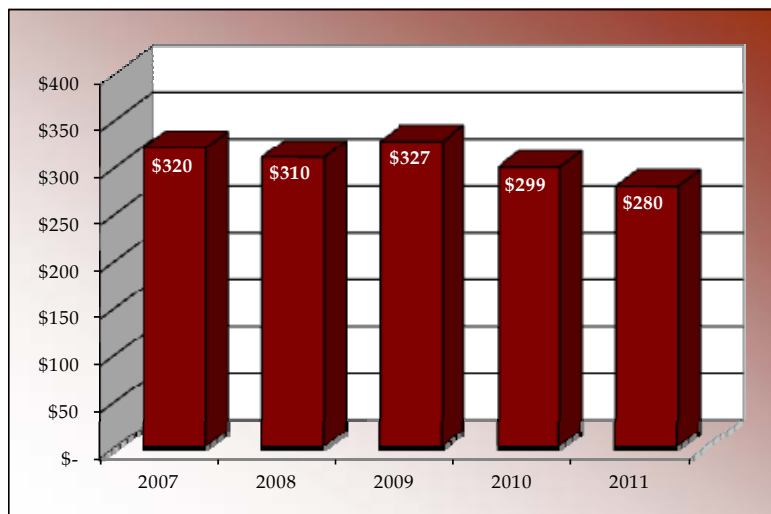
Expenditures per Capita

Description

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 outstripping the Town's ability to pay, especially if spending is increasing faster than the Town's sales tax base. If the increase in spending is greater than would be expected from continued inflation and cannot be explained by the addition of new services, it can be an indicator of declining productivity.

Analysis

The Town has experienced declining revenues for the past five years while expenditures began to decline in 2009/10 and 2010/11. Expenditure changes tend to lag revenue changes (e.g. as revenues decline, expenditures may continue increasing until services can be adjusted to reflect the reduced revenue levels). Under these economic conditions, to balance revenues and expenditures, either expenditures have to be decreased or revenues increased. Another alternative would be to use fund balances to cover operating expenditures. For 2010/11, operating expenditures decreased 5 percent while operating revenues decreased 7 percent. Management has taken steps through reduced spending and a hiring freeze to keep expenditures under control.



Expenditures per Capita (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Operating Expenditures	\$23,371	\$25,176	\$27,347	\$25,279	\$ 23,997
Consumer Price Index	204.1	211.7	214.7	216.7	221.1
Current Population	35,740	38,357	38,962	38,958	38,822
Constant Dollar					
Expenditures per Capita ¹	\$ 320	\$ 310	\$ 327	\$ 299	\$ 280
(% change) ²	7.5%	-3.2%	5.5%	-8.4%	-6.6%

Source: U.S. Bureau of Labor Statistics - CPI, Arizona Department of Commerce - Population Statistics Unit, Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, CAFR - Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Governmental Funds

¹ Calculation: Operating Expenditures/CPI/Population*100,000

² Calculation: (Current Year Expenditures per Capita - Prior Year Expenditures per Capita)/Prior Year Expenditures per Capita

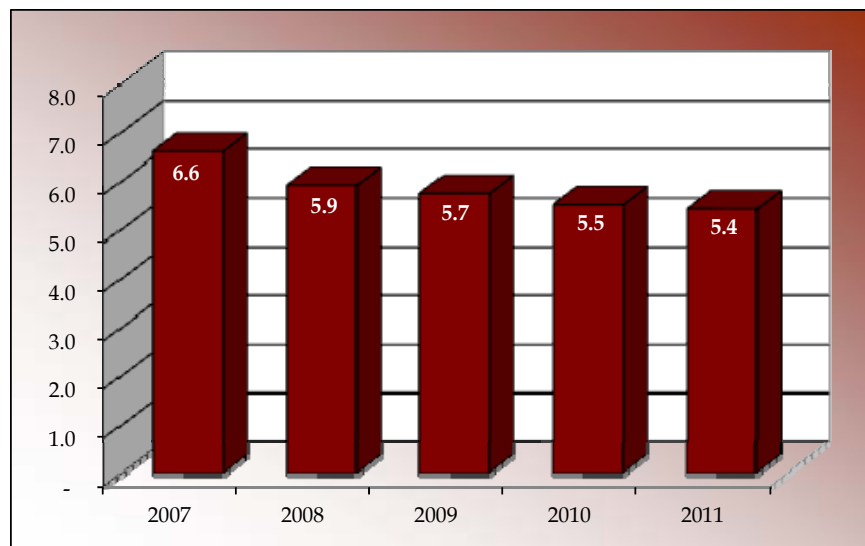
Employees per Capita

Description

Personnel costs are a major portion of the Town’s operating budget. Tracking changes in the number of employees to population is a means to measure changes in expenditures. An increase in employees to population may indicate that expenditures are rising faster than revenues, the Town is becoming more labor intensive or that productivity is declining. A decrease may be indicative of an insufficient number of employees on staff to provide increased or existing services and infrastructure maintenance to a growing community. This indicator needs to be evaluated in conjunction with other measurements (e.g. services provided, efficiency and effectiveness of service levels).

Analysis

Full-time equivalents (FTE) include full-time, part-time and grant-funded employees. For 2010/11, there was a 5 percent decrease in FTE which is attributed to the hiring freeze instituted by the Town in 2007/08 to control expenditures. This calculation is not a measurement of types of service directly provided by Town staff (e.g. work that is contracted out, services provided by other government agencies or the private sector). The trend may suggest that the Town is providing increased service levels and productivity while not becoming more labor intensive.



<u>Employees per Capita</u>	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011
Full-time Staffing Equivalents	236	227	224	215	211
Current Population	35,740	38,357	38,962	38,958	38,822
Full-time Staffing Equivalents (FTE) per Capita ¹	6.6	5.9	5.7	5.5	5.4

Source: Arizona Department of Commerce - Population Statistics Unit, Comprehensive Annual Financial Report (CAFR) - Full-time Equivalent Town Government Employees by Function - Table 17

¹ Calculation: Full-time Staffing Equivalents/Population*1000

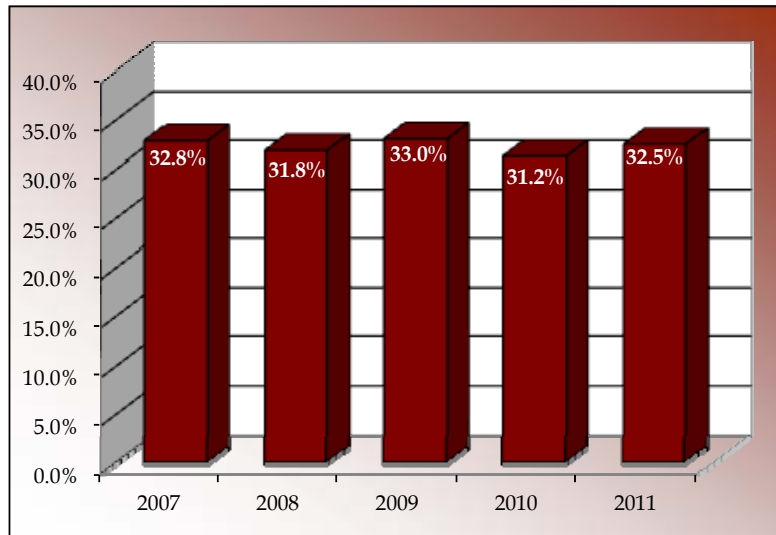
Fringe Benefits

Description

Fringe benefits comprise a significant portion of operating costs. Direct fringe benefits requiring an immediate cash outlay include retirement system contributions, worker’s compensation, life and health insurance, tuition reimbursement and vehicle allowances. Indirect benefits, which include accumulated holiday, vacation and sick leave, do not require immediate cash outlay, but may require paying the opportunity cost of not having the work done or paying others to do the work.

Analysis

The increases over the years in fringe benefit expenditures were primarily attributable to increased retirement contributions offset by a small reduction of employees and lower worker’s compensation costs. In 2009/10 the Town decreased the employer retirement contribution from 12 percent to 8 percent, decreased the employer retirement healthcare savings contribution from 2 percent to 1 percent and implemented a 5 percent furlough. In 2010/11, health care premiums increased accounting for the slight increase in fringe benefit costs. The cost reduction measures and hiring freeze currently in place have enabled the Town to control the salaries and benefit cost during the recession.



Fringe Benefits (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Fringe Benefit Expenditures	\$ 3,548	\$ 3,901	\$ 4,049	\$ 3,554	\$ 3,544
Salaries and Wages	\$10,806	\$12,257	\$12,257	\$11,373	\$10,921
% Fringe Benefits ¹	32.8%	31.8%	33.0%	31.2%	32.5%
Number of Employees	236	227	224	215	211

Source: Town of Prescott Valley Finance Division, Comprehensive Annual Financial Report (CAFR) - Full-time Equivalent Town Government Employees by Function - Table 17

¹ Calculation: Fringe Benefit Expenditures/Salaries and Wages

Operating Position

Operating position refers to the Town's ability to balance its budget on a current basis, maintain reserves for emergencies and maintain sufficient cash to pay its bills on time.

During a typical year, a town will usually generate either an operating surplus, when revenues exceed expenditures, or an operating deficit, when expenditures exceed revenues. An operating surplus or deficit may be created intentionally as a result of a conscious policy decision, or may be created unintentionally because it is difficult to precisely forecast revenues and expenditures. When a deficit occurs, it is usually funded from accumulated fund balances; when a surplus occurs, it is usually dedicated to building prior years' fund balances or to funding future years' operations.

Reserves are built through the accumulation of operating surpluses. Reserves are maintained for the purposes of a financial cushion in the event of a loss of a revenue source, economic downturn, unanticipated expenditure demands due to natural disasters, insurance losses, need for large-scale capital expenditures, other non-recurring expenses or an uneven cash flow.

Sufficient cash or liquidity refers to the flow of cash in and out of the Town treasury. The Town receives many of its revenues in large installments at infrequent intervals during the year. It is to the Town's advantage to have excess liquidity or cash reserves as a cushion in the event of an unexpected delay in receipt of revenues, an unexpected decline or loss of a revenue source or an unanticipated need to make a large expenditure.

An analysis of operating position can help identify the following situations:

- A pattern of operating deficits
- A decline in reserves
- A decline in liquidity
- Ineffective revenue forecasting techniques
- Ineffective budgetary controls

Changes in operating position can be monitored by using the indicators detailed on the following pages.

General Fund Balance

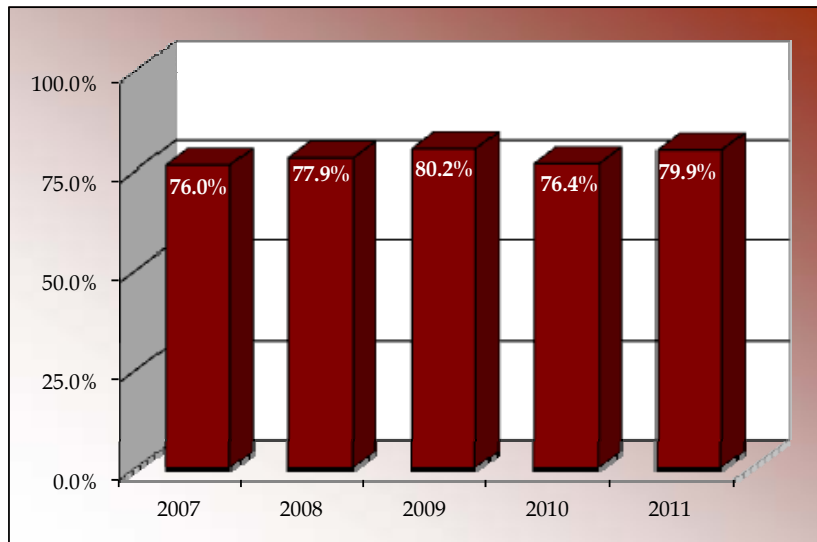
Description

The level of fund balances may determine the Town’s ability to withstand unexpected financial emergencies that may result from natural disasters, revenue shortfalls or steep rises in inflation. Fund balances may also determine the Town’s ability to accumulate funds for large-scale purchases without having to borrow.

Analysis

The Town’s unrestricted fund balance as a percent of operating revenues increased in 2010/11. The decrease in fund balance is the result of planned use of general fund balance to supplement the slower revenue collections. Spending down the unrestricted fund balance only becomes a negative trend when the use is unplanned or if fund balances are dropping lower than is desirable. All fiscal years in the measured period have adopted an annual budget that planned for spending into fund balance.

The Town’s financial policy states that the Town will maintain an unassigned general fund balance that represents at least 25 percent of general fund operating revenues, excluding transfers. Also, the Town must maintain a “Rainy Day Fund” equivalent to 10 percent of general fund operating revenues, excluding transfers. As of June 30, 2011, the Town had an unassigned fund balance equal to 63 percent of general fund operating revenues and a committed fund balance equal to 10 percent of general fund operating revenues.



<u>General Fund Balance</u> (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund Unrestricted Fund Balance	\$ 21,328	\$ 21,669	\$ 22,710	\$ 17,307	\$ 16,734
Operating Revenues General Fund Only	\$ 28,048	\$ 27,833	\$ 28,301	\$ 22,648	\$ 20,940
% Fund Balance ¹	76.0%	77.9%	80.2%	76.4%	79.9%

Source: Comprehensive Annual Financial Report (CAF) - Balance Sheet - Governmental Funds, CAFR - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

¹ Calculation: General Fund Unrestricted Fund Balance/Operating Revenues General Fund

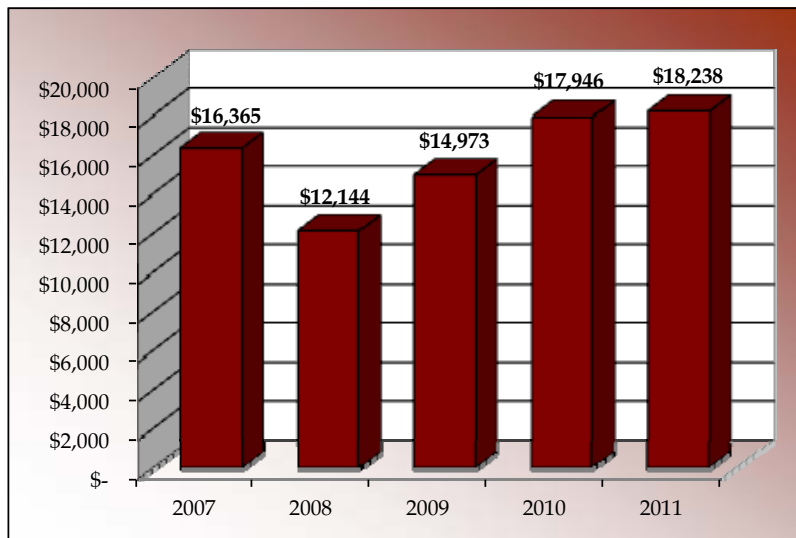
Enterprise Fund Earnings

Description

Enterprises are expected to function as if they were a commercial “for profit” entity and supported by user fees as opposed to a governmental “not for profit” entity supported by taxes. Moderate rate increases are included as part of the budget to offset increasing operational costs, mandated environmental standard compliance and capital assets attributable to repair and replacement of infrastructure, as well as to maintain a net revenue ratio to remain in compliance with bond covenants and the Town financial policy. Positive operating results allow enterprise funds to stabilize rates even in years when large capital expenditures must be made (e.g. the construction of a new plant).

Analysis

The enterprise funds for the Town are the Prescott Valley Water System and Wastewater System. The separate entity of the Prescott Valley Water District was dissolved as of April 30, 2008, and consolidated into the Municipal Water System creating the Prescott Valley Water System. A rate study was complete in 2010/11 with new rates effective November 2010 which increased wastewater service by 4 percent and water service (for customers north of Hwy 89A) by 9 percent. During 2010/11 the number of Water System customers decreased by 31 or .2 percent and consumption decreased by approximately 32 million gallons or 2 percent.



Enterprise Fund Earnings (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Enterprise Funds					
Operating Losses	\$ (550)	\$ (1,979)	\$ (1,508)	\$ (739)	\$ (317)
Depreciation and Amortization	\$ 3,891	\$ 4,550	\$ 4,722	\$ 4,628	\$ 4,349
Consumer Price Index	204.1	211.7	214.7	216.7	221.1
Enterprise Funds Operating Results ¹	\$ 16,365	\$ 12,144	\$ 14,973	\$ 17,946	\$ 18,238

Source: U.S. Bureau of Labor Statistics - CPI, Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

¹ Calculation: (Enterprise Funds Operating Losses + Depreciation and Amortization)/CPI*1000

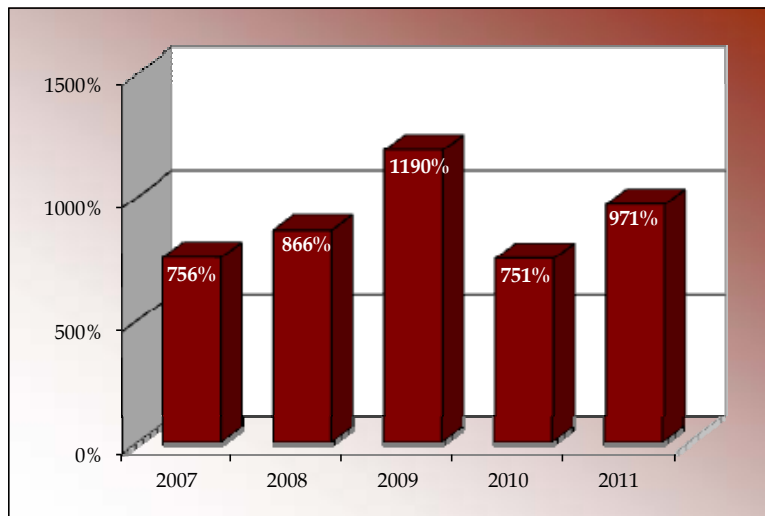
Liquidity

Description

A measure of the Town's short-run financial condition is its cash position. Cash position includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, such as short-term investments. The level of this type of cash is referred to as liquidity. Liquidity measures the Town's ability to pay its short-term obligations. Low or declining liquidity can indicate that the Town has overextended itself in the long-term.

Analysis

Liquidity is a controversial indicator because the ratio changes constantly depending on the time of year for receipt of revenues and the need for expenditures. Fiscal year 2010/11 shows an increase in liquidity reflecting management's efforts to maintain a conservative spending plan. Historically, this trend has fluctuated. For fiscal years 2007/08 and 2008/09 it was an upward trend due to conservative spending while once again a decline was seen in 2009/10 indicating the Town's use of cash on hand to meet operating requirements. Per the International City/County Management Association handbook, if this ratio is less than one to one (or less than 100 percent), the commercial entity is considered to be facing liquidity problems. The Town's percentage of current liabilities to cash and investments remains above industry averages, indicating its ability to meet its short-term obligations.



Liquidity (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund Cash and Investments	\$ 21,567	\$ 34,287	\$ 24,665	\$ 16,220	\$ 13,867
Less: Library Bond Proceeds	\$ -	\$ 13,023	\$ 2,530	\$ -	\$ -
Adjusted Cash and Investments	\$ 21,567	\$ 21,264	\$ 22,135	\$ 16,220	\$ 13,867
Current Liabilities General Fund Only	\$ 2,854	\$ 2,455	\$ 1,860	\$ 2,159	\$ 1,428
% Cash and Investments ¹	756%	866%	1190%	751%	971%

Source: Comprehensive Annual Financial Report (CAFR) - Balance Sheet -
Governmental Funds

¹ Calculation: Adjusted Cash and Investments/Current Liabilities

Debt Structure

Debt structure is important because debt is an explicit expenditure obligation that must be satisfied when due. Debt can be an effective tool to finance capital improvements and to smooth out short-term revenue flows; however, its misuse can cause serious financial problems. Even a temporary inability to repay debt can result in a reduction of the Town's credit rating, increased borrowing costs and loss of autonomy to state and other regulatory bodies.

The Town's most common forms of long-term debt are Municipal Property Corporation (MPC), Certificates of Participation (COP), special assessments, loans and revenue bonds. When the Town issues debt for capital projects, it must ensure that aggregate outstanding debt does not exceed the community's ability to pay debt service as measured by the property value or personal or business income.

Under the most favorable circumstances, the Town's debt should be proportionate in size and growth to the Town's tax base. It should not extend past the useful life of the facilities which it finances, be used to balance the operating budget, require repayment schedules that put excessive burdens on operating expenditures or be so high as to jeopardize the Town's credit rating.

An examination of the Town's debt structure can reveal the following conditions:

- Inadequacies in cash management procedures
- Inadequacies in expenditure controls
- Decreases in expenditure flexibility due to increased fixed costs in the form of debt service
- 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 that the community can absorb

Changes in debt structure can be monitored by using the indicators detailed on the following pages.

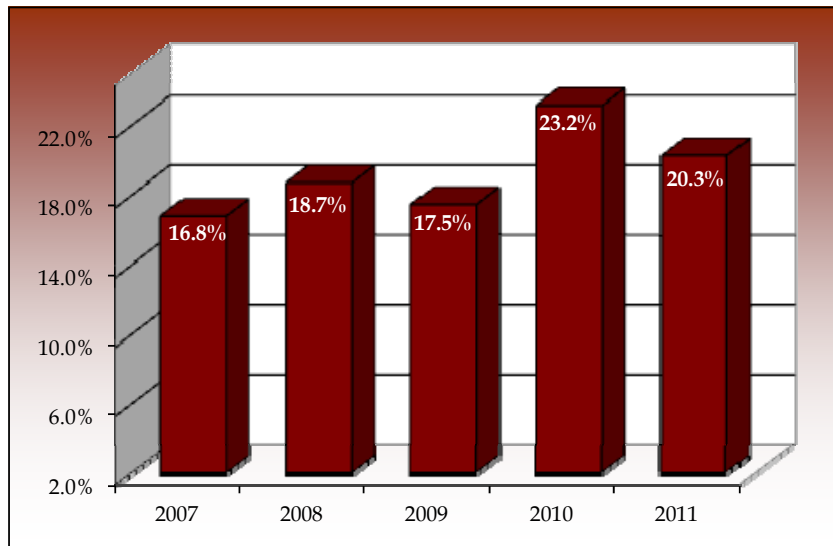
Current Liabilities

Description

Governmental current liabilities are defined as the sum of all liabilities due at the end of the fiscal year, including short-term debt, current portion of long-term debt, accounts payable, accrued liabilities and other current liabilities. Although short-term borrowing is an acceptable way to deal with uneven cash flow, an increasing amount of short-term debt outstanding at the end of successive years can indicate liquidity problems, deficit spending or both.

Analysis

Current liabilities outstanding at the end of the year exceeding five percent of operating revenues are considered a negative trend. According to credit industry benchmarks, the Town has exceeded the five percent threshold for the past five years. Fiscal year 2010/11 saw a decrease in current liabilities from the prior year by approximately \$828 thousand. This is primarily due to a decrease in accounts payable in the general fund.



Current Liabilities (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Current Liabilities	\$ 6,338	\$ 6,675	\$ 5,956	\$ 6,464	\$ 5,262
Operating Revenues	\$ 37,690	\$ 35,663	\$ 34,060	\$ 27,919	\$ 25,952

% Current Liabilities ¹	16.8%	18.7%	17.5%	23.2%	20.3%
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Source: Comprehensive Annual Financial Report (CAFR) - Balance Sheet - Governmental Funds, CAFR - Combining Balance Sheet - Non-major Governmental Funds, CAFR - Notes - Changes in Long-term Liabilities

¹ Calculation: Current Liabilities/Operating Revenues

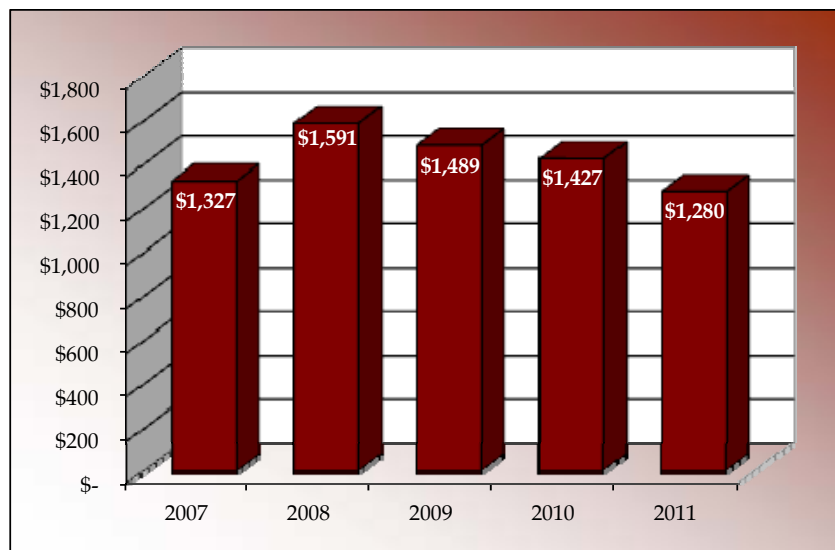
Net Direct Debt per Capita

Description

The per capita measure illustrates how the growth in debt is changing relative to population changes. As population increases it would be expected that capital needs and the associated long-term debt would also increase. If long-term debt is increasing in the face of a stabilizing or declining population, debt levels may be reaching or exceeding the Town's ability to pay.

Analysis

Population has stabilized, most likely due to the slowed economy, and can be expected to increase as the economy recovers. A growing town is expected to have associated debt burden to support its growing infrastructure needs. In 2007/08, the increase was attributable to new debt of \$15.9 million being issued for the new public library construction. For fiscal year 2008/09 and 2009/10, no new long-term debt was acquired and debt decreased due to scheduled principal payments. Debt was further reduced during fiscal year 2010/11 due to the defeasance of the North Wells bonds and regularly scheduled principal payments. This calculation includes MPC, COP, special assessment, long-term obligations and compensated absences (excluding enterprise fund debt).



<u>Net Direct Debt Per Capita</u> (in thousands - except population)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Net Direct Long-term Debt	\$ 47,425	\$ 61,017	\$ 58,003	\$ 55,597	\$ 49,707
Population	35,740	38,357	38,962	38,958	38,822
Net Direct Debt Per Capita ¹	\$ 1,327	\$ 1,591	\$ 1,489	\$ 1,427	\$ 1,280

Source: Arizona Department of Commerce - Population Statistics Unit, Comprehensive - Annual Financial Report (CAFR) - Notes - Changes in Long-term Liabilities

¹ Calculation: Net Direct Long-term Debt/Population*1,000

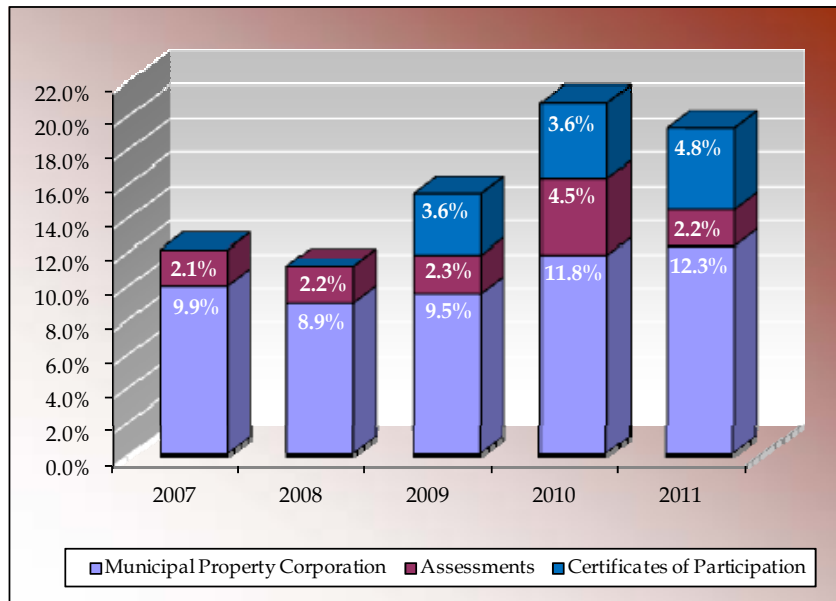
Debt Service

Description

Debt service is defined as the amount of principal and interest that the Town must pay each year on net direct bonded long-term debt plus the interest it must pay on direct short-term debt. As the debt service increases, it adds to the Town's obligations and reduces the Town's expenditure flexibility. Debt service can be a major part of the Town's fixed costs and its increase may indicate excessive debt and fiscal strain.

Analysis

The level of debt service as a percent of governmental fund operating revenues decreased in 2010/11 with the North Wells bond defeasance. The increases for 2008/09 and 2009/10 relate to higher scheduled debt service requirements on previous debt, new debt service requirements for the Library Building Certificates of Participation and Water Importation Municipal Facilities Revenues Bonds, and decreased operating revenues due to the current economic conditions. In 2009/10, the increase in assessments debt service was due to a defeasance of approximately \$576 thousand of bonds. According to the International City/County Management Association handbook, debt service on net direct debt exceeding 20 percent of operating revenues is considered a potential problem; 10 percent is considered acceptable. Per the Town's Financial Policy, debt service costs shall not exceed 25 percent of the Town's operating revenues, so this rate is within limits.



Debt Service (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Governmental Debt Service	\$ 4,545	\$ 3,961	\$ 5,239	\$ 5,782	\$ 4,988
Operating Revenues	\$ 37,690	\$ 35,663	\$ 34,060	\$ 27,919	\$ 25,952
% Debt Service ¹	12.1%	11.1%	15.4%	20.7%	19.2%

Source: Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, CAFR - Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Governmental Funds

¹ Calculation: Governmental Debt Service/Operating Revenues

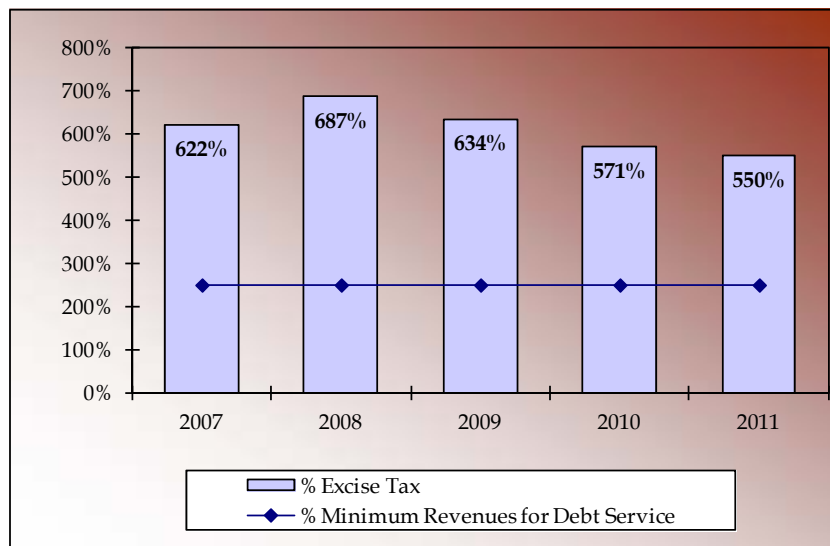
Excise Tax

Description

Excise taxes as a percent of MPC debt service are presented as a measure of the Town's compliance with its bond indenture requirements. Excise tax is a tax levied on the manufacture, sale or consumption of certain (particular) non-essential goods or services (e.g. airline tickets, gasoline, alcohol, tobacco, etc.). An excise tax is levied on a particular product in contrast to sales and use taxes, which are levied because sales occurred, rather than on the product purchased. For the Town, excise tax includes transaction privilege tax, franchise taxes, charges for services, state-shared revenues and fines and forfeitures.

Analysis

Since 2006/07 excise tax revenues have decreased 25 percent primarily due to reduced transaction privilege tax collections and reduced state-shared revenues. For 2010/11, the percentage of excise tax with relation to MPC debt service decreased for the third year in a row, attributable to both a \$1.2 million decrease in revenues and a decrease of \$98,318 in MPC debt service. Excise tax continues to exceed the minimum requirements of bond indentures which are two and one half times the debt service payments.



Excise Tax (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Excise Tax	\$ 23,274	\$ 21,844	\$ 20,446	\$ 18,719	\$ 17,505
MPC Debt Service	\$ 3,743	\$ 3,180	\$ 3,222	\$ 3,281	\$ 3,182
% Excise Tax ¹	622%	687%	634%	571%	550%

Source: Town of Prescott Valley Financial Policies, Comprehensive Annual Financial Report (CAFR) - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual - GAAP Basis - Governmental Funds - General Fund, CAFR - Schedule of Expenditures and Changes in Fund Balances - Budget to Actual - GAAP Basis - Streets Capital Improvement Fund, CAFR - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

¹ Calculation: Excise Tax/MPC Debt Service

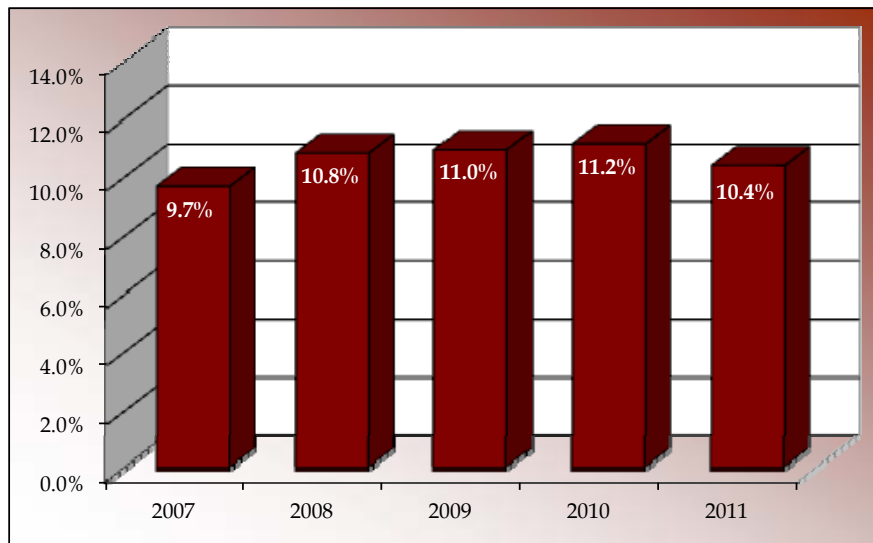
Overlapping Debt

Description

Overlapping debt is the net direct bonded debt of another jurisdiction that is issued against a tax base within all or part of the boundaries of the community. Examples of other jurisdictions are school districts and the County. The overlapping debt indicator measures the ability of the community's tax base to repay the debt of obligations issued by all of its governmental jurisdictions. Overlapping debt needs to be considered in assessing total indebtedness. Although the probability that the community of Prescott Valley would have to repay the debt may be slim, the potential exists.

Analysis

Prior to 2010/11, overlapping net debt as a percent of assessed valuation has increased each year since 2007/08. For fiscal year 2006/07, both Yavapai Community College (YCC) and Humboldt Unified School District (HUSD) increased their net debt outstanding which was offset by a sharp increase in assessed valuation. In 2007/08 the increase is due to HUSD increasing their debt by \$21 million with no increase reported by YCC. Beginning in 2008/09 a decline in assessed valuation is seen. In 2008/09, YCC decreased its net debt by \$5 million while HUSD's net debt remained equal to the prior year. In 2010/11, YCC had a decrease of \$16 million and HUSD of \$8.5 million. The assessed valuation for both YCC and HUSD decreased from the prior year and can be expected to maintain this trend for 2011/12.



Overlapping Debt (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Long-Term					
Overlapping Debt	\$ 31,990	\$ 47,298	\$ 45,721	\$ 42,385	\$ 34,785
Assessed Valuation	\$ 330,513	\$ 436,242	\$ 417,511	\$ 379,921	\$ 334,287
% Overlapping Debt ¹	9.7%	10.8%	11.0%	11.2%	10.4%

Source: Arizona Department of Revenue - Abstract by Tax Authority and Legal Class for the County of Yavapai, Comprehensive Annual Financial Report (CAFR) - Direct and Overlapping Governmental Activities Debt - Table 12

¹ Calculation: Overlapping Debt/Assessed Valuation

Contingent Liabilities

A contingent liability is an existing condition or situation for which the ultimate disposition may not be known or does not have to be paid until a future year and for which reserves have been set aside. A contingent liability is similar to debt in that it represents a legal commitment to pay sometime in the future. Due to the potential magnitude, if these types of obligations are permitted to grow over a long period of time, they can have a significant impact on the Town's financial condition.

The contingent liabilities considered here are significant because they are not readily apparent in ordinary financial records, making it difficult to assess their relative impacts. Additionally, contingent liabilities build up gradually over time making it difficult to notice them until the problem is severe.

An analysis of the Town's contingent liabilities can reveal the following:

- An increase in the Town's pension liability
- Inadequacies in pension plan contributions, pension systems assets and whether the investment earnings are keeping pace with the growth in benefits
- An increasing amount of unused employee leave
- Inadequacies of Town policies for payment of unused vacation and sick leave as compared to the Town's ability to pay
- An increase in the amount of lawsuits and other claims against the Town

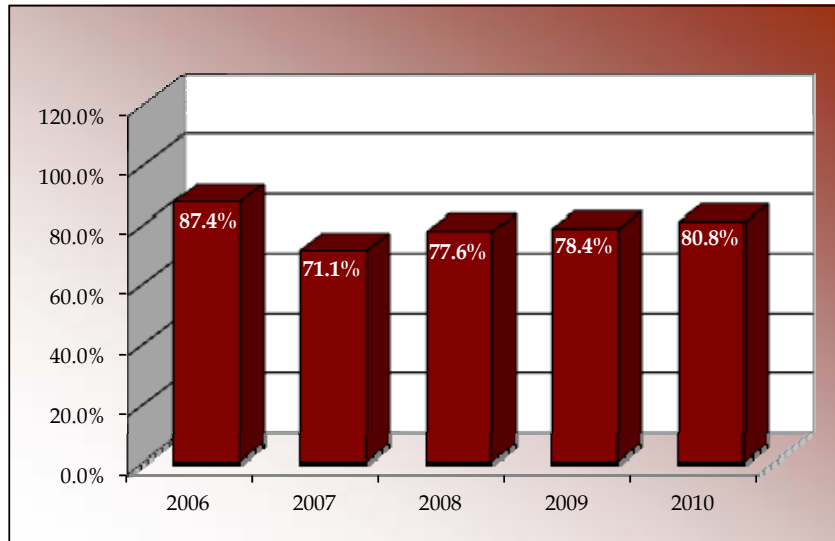
Pension Benefit Obligation Public Safety Employees

Description

Pension plans represent a significant expenditure for the Town. There are two basic ways to fund the pension plans: (1) fund when benefits need to be paid (pay-as-you-go) or (2) fund as benefits accrue and reserve cash for when the benefits will have to be paid (full funding). The State of Arizona administers the Arizona Public Safety Personnel Retirement System (APSPRS) pension plan for the public safety employees. This defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. APSPRS members are required to contribute 7.65 percent of their annual salary. The Town is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2011 was 14.72 percent of annual covered payroll.

Analysis

The plan continues to be funded at a level below the desired 100 percent. This can be attributed to the downturn in the economy, sharply lower returns on investments, expanded coverage needs and changing population demographics as average life expectancy increases. The decrease is also attributable to an increased number of officers retiring. In light of the declining trend, increased contributions to the plans by employees and employers have been necessary to ensure full funding when the returns are less than 100 percent.



<u>Pension Benefit Obligation</u> (in thousands)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Actuarial Value of Assets	\$ 5,620	\$ 6,289	\$ 7,316	\$ 8,800	\$ 9,628
Actuarial Accrued Liability	\$ 6,433	\$ 8,845	\$ 9,433	\$ 11,221	\$ 11,915
% Plan Funded ¹	87.4%	71.1%	77.6%	78.4%	80.8%

Source: Comprehensive Annual Financial Report (CAFR) - Retirement and Pension Plans - Table 20b

¹ Calculation: Actuarial Value of Assets/Actuarial Accrued Liability

Note: Arizona Public Safety Personnel Retirement System report as of June 30, 2011 was not available at the time of this report.

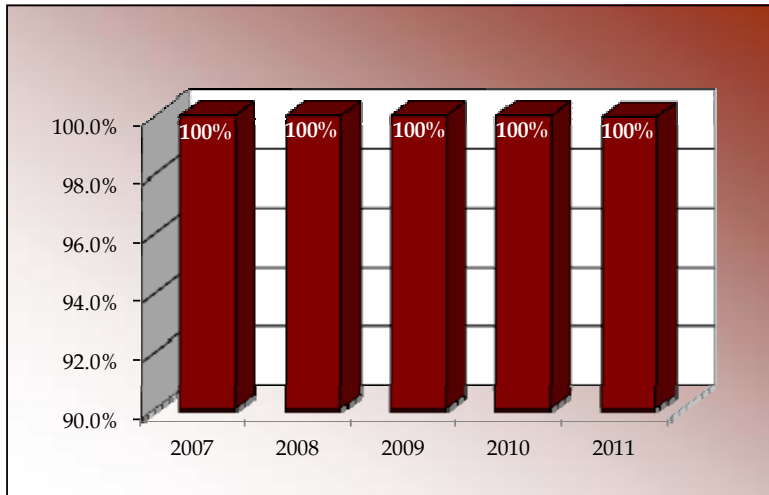
Defined Contribution Plan Obligation Non-Public Safety

Description

In lieu of participating in Social Security, the Town has a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all full-time employees of the Town, except sworn police personnel who are covered under the Arizona Public Safety Personnel Retirement System. In fiscal year 2007/08, the Town began a mandatory Retirement Health Savings Plan (RHS). The Town currently contributes 1 percent and employees contribute 1 percent of their salary.

Analysis

The employee's contribution is 100 percent funded at all times. The vesting schedule for the employer's contribution is 20 percent per year of service, thus employees are one hundred percent vested after five years of service. The ICMA defined contribution plan has been funded at one hundred percent by the employer over the measured periods.



Defined Contribution Obligation

(in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Actual Contribution	\$ 805	\$ 901	\$ 888	\$ 554	\$ 510
Required Contribution	\$ 805	\$ 901	\$ 888	\$ 554	\$ 510
% Plan Funded ¹	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Comprehensive Annual Financial Report (CAFR) - Notes to the Financial Statements - Retirement and Pension Plans

¹ Calculation: Actual Contribution/Required Contribution

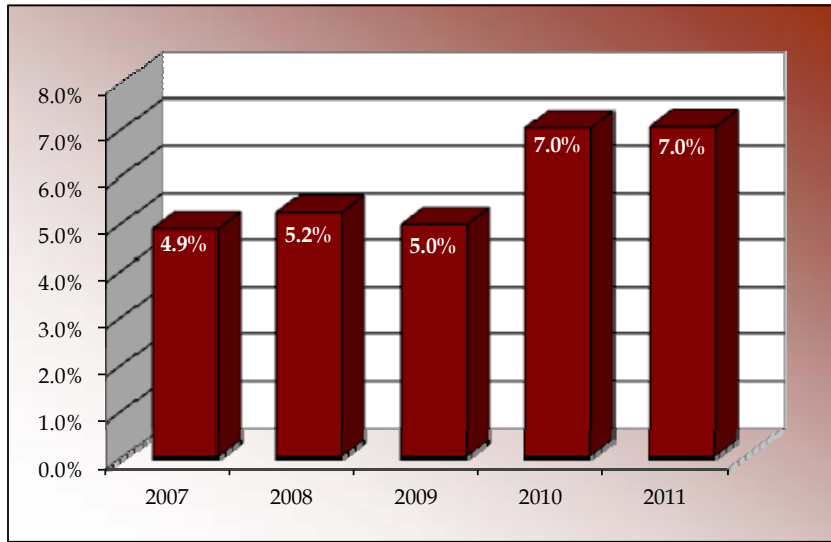
Compensated Absences

Description

Accumulated unpaid general leave is accrued in governmental funds based on time of service and employee status. These accumulated employee benefits are payable to the employee, subject to certain limitations, and represent an unfunded, long-term liability to the Town.

Analysis

The liability for compensated absences has experienced an increase over the prior four fiscal years. In fiscal year 2010/11, this trend has leveled. This trend is due primarily to an increase in employment and long-term employees earning a higher accrual rate. The significant increase in 2009/10 for the percent of compensated absences to unreserved fund balance is the result of increases in employee compensated absences balances due to the 5 percent furlough implemented in 2008/09, the elimination of the one-week vacation buy-back program and a decrease in unreserved fund balances due to the slow economy.



Compensated Absences (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Compensated Absences	\$ 1,082	\$ 1,167	\$ 1,179	\$ 1,344	\$ 1,338
Unrestricted Fund Balance	\$ 22,221	\$ 22,361	\$ 23,778	\$ 19,145	\$ 18,991
% Compensated Absences ¹	4.9%	5.2%	5.0%	7.0%	7.0%

Source: Comprehensive Annual Financial Report (CAFR) - Notes to the Financial Statements - Changes in Long-term Liabilities, CAFR - Balance Sheet - Governmental Funds

¹ Calculation: Compensated Absences/Unreserved Fund Balance

Condition of Capital Plant

Much of the Town's wealth is invested in its physical assets and infrastructure. If these assets are not maintained in good condition or if they are allowed to become obsolete, the result is often a decrease in the usefulness of the assets, an increase in the cost of maintaining and replacing them and a decrease in the attractiveness of the Town as a place to live or do business.

Many towns often defer maintenance and replacement because it is a relatively painless short-run method to reduce expenditures and ease current financial strain. Continued maintenance deferral, however, can create serious long-term problems that become exaggerated because of the large sums of money invested in capital facilities.

The following are some of the problems associated with continued deferred maintenance:

- Creation of safety hazards and other liability exposures
- Reduction in the residential and business value of the Town
- Decreased efficiency of equipment due to obsolescence and deferred maintenance
- Increased costs of bringing the facility up to acceptable levels after continued maintenance deferral
- Creation of a large unfunded liability in the form of a backlog in maintenance that can result in accelerated deterioration

The indicators detailed on the following pages can monitor changes in the condition of capital plant.

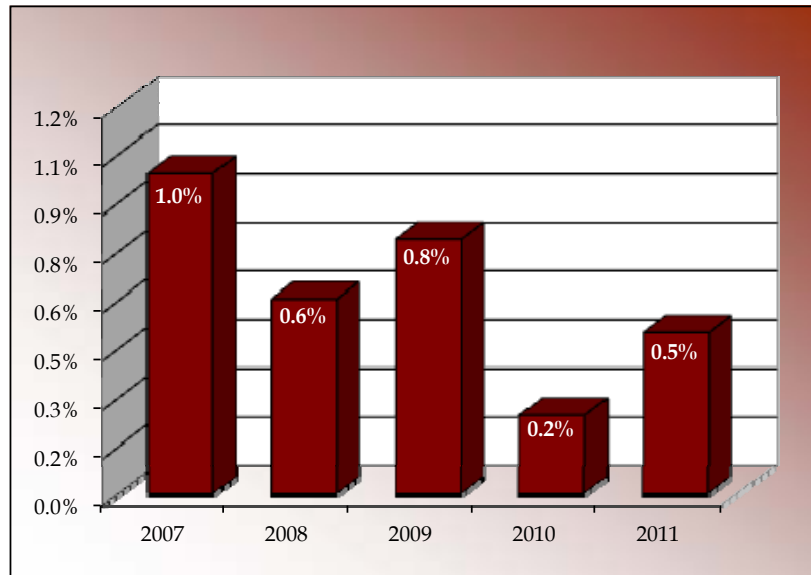
Maintenance Effort

Description

The condition of the Town’s long-lived assets, such as buildings, is significant because of the tremendous cost and far-reaching consequence their decline can have on business activity, property values and operating expenditures. Deferral of maintenance on the assets and the subsequent deterioration can create a significant unfunded liability. Maintenance expenditures should remain relatively constant in relation to the cost and nature of assets maintained. If the ratio is declining it may be a sign that the Town’s assets are deteriorating. This calculation excludes streets and other infrastructure and only focuses on building and building improvements.

Analysis

Maintenance expenditures as a percent of building and improvements increased in fiscal year 2010/11. Building and improvement fixed asset acquisitions also increased during the period. The downward trend experienced in 2009/10 was attributed to adding new buildings and building improvements for the Town (Library Building). The Town replaces assets regularly as they break down or become obsolete. The decrease in maintenance costs in 2009/10 was due to cost savings measures implemented to offset the slowed economy.



Maintenance Effort (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Maintenance Expenditures	\$ 264	\$ 200	\$ 268	\$ 126	\$ 265
Building & Improvement Costs	\$26,587	\$33,025	\$33,885	\$50,843	\$52,808
% Maintenance Expenditures ¹	1.0%	0.6%	0.8%	0.2%	0.5%

Source: Town of Prescott Valley Finance Division, Comprehensive Annual Financial Report (CAFR) - Notes to the Financial Statements - Capital Assets

¹ Calculation: Maintenance Expenditures/Building & Improvement Costs

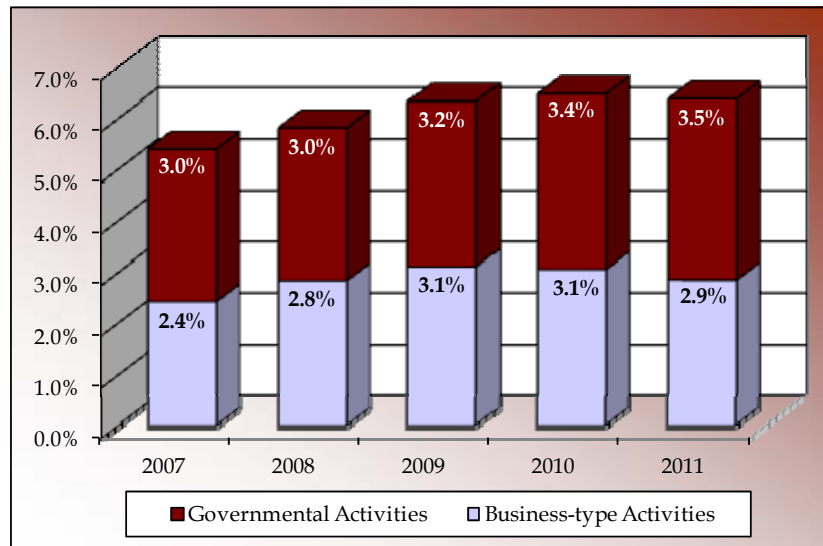
Depreciation Expense

Description

Depreciation is the mechanism by which cost is associated with the use of a fixed asset over its useful life. Depreciation should remain a relatively stable portion of asset cost assuming older assets, which are fully depreciated, are removed from service and replaced with newer assets. If depreciation costs start to decline as a portion of asset costs, the assets are probably being used beyond their useful lives, the estimated useful lives had been initially underestimated or the scale of operations was reduced.

Analysis

Depreciation expense has remained a stable portion of fixed asset costs, which indicates that assets are being fully depreciated and replaced with newer assets on a timely basis. This will prevent a large expense, in any one year, to replace outdated assets. Capital projects will be limited in the future until improved economic conditions and increased revenues are experienced by the Town.



Depreciation Expense (in thousands)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Business-Type Activities					
Depreciation Expense	\$ 3,468	\$ 4,215	\$ 4,648	\$ 4,673	\$ 4,394
Fixed Assets	\$ 142,640	\$ 148,084	\$ 149,153	\$ 152,411	\$ 153,616
% Depreciation Expense ¹	2.4%	2.8%	3.1%	3.1%	2.9%
Governmental Activities					
Depreciation Expense	\$ 5,270	\$ 5,980	\$ 6,708	\$ 7,360	\$ 7,747
Fixed Assets	\$ 177,236	\$ 200,717	\$ 208,203	\$ 215,455	\$ 219,767
% Depreciation Expense ¹	3.0%	3.0%	3.2%	3.4%	3.5%

Source: Comprehensive Annual Financial Report (CAFR) - Notes to the Financial Statements - Capital Assets

¹ Calculation: Depreciation Expense/Fixed Assets