

GILBERT, ARIZONA

Long Term Financial Plan

2014

2nd



SAFEST COMMUNITY

Earned the designation as 2nd safest city in the U.S. for municipalities over 200,000 residents.

8th



MOST THRIVING

Named the 8th most thriving city in the U.S. based on economic factors including: population, bond ratings, residents' educational attainment and local housing market.

9th



BEST CITY FOR FAMILIES

Ranked 9th out of the 150 largest cities in the U.S. thanks to Gilbert's low crime rate and high median family income.

12th



FASTEST GROWING

Recognized as the 12th fastest-growing city in the country with a population of over 50,000 by the U.S. Census Bureau.

2nd Safest Community

The Town of Gilbert earned its spot as the 2nd safest city in the U.S. by Law Street Media in 2013 for municipalities over 200,000 residents based on the FBI's Uniform Crime Report Statistics. –Law Street Media, Top 10 Safest Cities over 200,000, 2013.

8th Most Thriving

According to the Daily Beast, Gilbert ranks as the 8th most thriving city in the country based on a review of several economic factors including population growth, bond ratings, residents' educational attainment and the local housing market. –Daily Beast, America's Thriving Cities, 2013.

9th Best City for Families

In line with the town's motto of "clean, safe, and vibrant," Gilbert was named the 9th Best City for Families by Wallet Hub in 2014. The report, which compared the 150 largest cities in the U.S., cited the town's low crime rate and high median family income in its findings. –Wallet Hub, Best & Worst Cities for Families, 2014.

12th Fastest Growing

With an estimated FY15 population of more than 233,000 residents, Gilbert ranked as the 12th fastest-growing city in the country with a population of over 50,000 by the U.S. Census Bureau. –U.S. Census, 15 Fastest-Growing Large Cities with Populations of 50,000 or More, 2014.



2014 Long Term Financial Plan



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Town of Gilbert

Town Council

John Lewis
Eddie Cook
Ben Cooper
Jenn Daniels
Victor Petersen
Jordan Ray
Jared Taylor

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember
Councilmember
Councilmember

Administration

Patrick Banger
Marc Skocypec

Town Manager
Deputy Town Manager

Project Director

Dawn-Marie Buckland

Management and Budget Director

Project Lead

Cris Parisot

Management and Budget Analyst

Project Team

Kyle Mieras
Rob Giles
Hakon Johanson
Brian Ruffentine
Laura Lorenzen
Mary Vinzant
Amber Costa
Joseph Go
Pat Slusser
Andi Welsh

Development Services Director
Parks & Recreation Manager
Water Resources Manager
Battalion Chief
Management and Budget Analyst
Management and Budget Analyst
Management and Budget Administrator
Police Planning & Research Coordinator
Water Production Supervisor
Assistant to the Town Manager



Mission Statement



We are a *service organization* committed to enhancing the quality of life and serving with integrity, trust and respect.

Strategic Initiatives

Background

The Strategic Plan for 2011-2016 is centered on the Community Vision, which guides the development of the strategic initiatives of the plan. After adoption, strategic action plans are implemented, and results are measured. Gilbert continues to work toward organizational alignment from strategic initiatives all the way to individual performance standards.

Community Livability

The Town of Gilbert takes pride in being a community with a family focus, special welcoming feel, outstanding service delivery, and firm commitment to retain its defining characteristics while it continues to grow. This strategic initiative provides direction to include livability considerations in all decision-making and service delivery. Our motto is: "Gilbert: Clean, Safe, Vibrant."

Be a Technology Leader

Gilbert leaders place a high value on the potential for applied technology to improve service efficiency. While technology has a cost, it can be used to reduce expenses while expanding service to a growing population. This initiative directs the organization to seek technology improvement that can provide the greatest benefit for the investment. If all segments of service delivery embrace the intention to be a technology leader we will continually improve systems and results.

Long and Short Term Balanced Financial Plans

Gilbert is committed to providing a comprehensive financial perspective that enables proactive management of government finances. Long term financial planning ensures that financial perspective is strategically incorporated into organizational planning, demonstrates good management to all stakeholders including bond rating agencies, and clarifies the organization's strategic direction by identifying and prioritizing the most important issues it faces. Short term financial planning is more tactical in nature, identifying the specific near term objectives that will ultimately help to achieve the long term goals. Gilbert will provide transparency, clarity, and timely visibility and insight into impending issues, allowing for flexibility in decision making and incremental corrections.

Proactively Address Infrastructure Needs

Gilbert will have a strong and effective infrastructure management system. A growing community must pay attention to infrastructure needs by planning for both the future expansion and the deterioration of existing infrastructure. This serves the residents, business and future economic development and contributes to community livability. We will create an infrastructure plan and management system that will support policy decision-making and inform administrative processes.

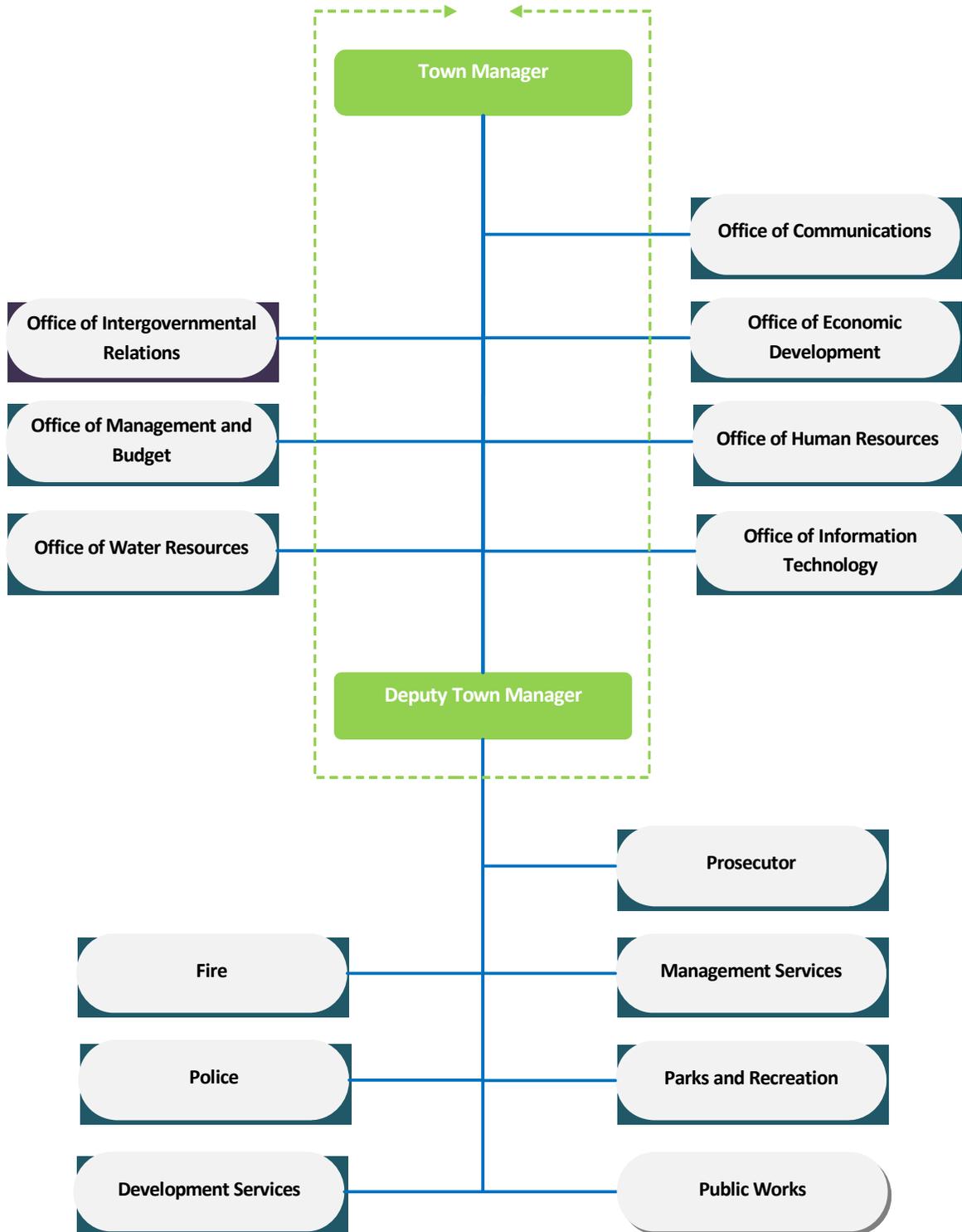
Economic Development with Primary Emphasis on Advancing Science and Technology

Gilbert is committed to attracting, growing and retaining business and industry within the community. The Town Council will be well prepared for the recovering economy and encourage collaboration and innovation that contributes to the community vision. As such, it is important to identify and execute a sound economic development plan that supports an advanced economy conducive to attracting the talent and investment of science and technology-based organizations with an emphasis on the biomedical and life science industry. The appropriate policies and procedures to be business-friendly in support of the Vision and Strategic Initiatives are paramount.

High Performing Government

Gilbert is committed to highly efficient operations while delivering superior results. Excellent performance requires aligning efforts that drive internal effectiveness with those that create external impact. Gilbert will achieve optimal performance by aligning strategy with operational goals supported by best management practices and effective internal and external collaboration. Committed to the initiative of becoming a high performing organization, Gilbert will deliver unparalleled quality of service at the highest value for all of its stakeholders.

Organization Chart



Transmittal Letter

Honorable Mayor, Councilmembers, Town Manager, and the Gilbert Community:

This is an exciting time to be in Gilbert, Arizona. With the ongoing world class development of institutes of higher learning, science facilities ranging from biomedical to satellite production, prestigious “Class A” office space, high-end retail, quality housing and a haven of delectable restaurants, one can easily imagine the heights to which Gilbert could soar. The Town Council and staff are committed to ensuring the decisions made today nurture and develop the Town’s vision for tomorrow.

Gilbert is relatively young; thus we have the privilege of learning from many cities that have reached our size before us. We benchmark each of our lines of service separately against municipalities of comparable size that offer similar programs and are considered to provide a high level of service in a particular area, and strive to achieve similar success. Likewise, taking cues from others’ lessons learned, we ensure the decisions we make today will lead us to the Gilbert we want to be tomorrow.

In The Rise and Fall of the Great Powers, Paul Kennedy cautioned against “imperial overstretch,” and reminded us that leaders should remain attentive of the interaction between *strategy* and *economics*. In many ways, a book written in 1987 about the world’s most powerful nations remains a relevant reminder to local governments today. Focused efforts lead to greatness; chasing every good idea dilutes efforts and results in mediocrity at best. If we reach beyond the capacity of our resources, we will be less secure in the long term. The Town’s mission, vision, values, and strategic initiatives provide that focus and prevent overstretch.

Similarly, Gilbert remains diligently aware of the interaction between *strategy* and *economics*. The Town’s *strategy* is clearly and comprehensively defined. The Town develops and updates its General Plan and functional area master plans to provide a road map; has put into place and adhered to conservative financial policies to guide responsible decisions; and establishes benchmarks against best-in-class communities to measure our progress. The Long Term Financial Plan provides the interface between *strategy* and *economics*.

The 2014 Long Term Financial Plan begins with a discussion of the background and objectives that define and guide the Town’s efforts. The components of the long-term financial plan are integrated into our ongoing processes and planning activities to ensure organizational accountability and sustainability. These components include: financial trend analysis, environmental analysis, financial forecasting, fiscal policy review, debt analysis, financial balance analysis, and financial strategies development.

- The *financial trend/environmental analysis* reviews revenue and expense trends over an historic five year period and notes any potential changes anticipated over the future five year period.
- The Town’s *financial forecast* includes five year plans for the operating funds: General Fund, Water, Wastewater, Environmental Services (residential and commercial waste collection), and Streets. Additionally, this section contains information related to our System Development Funds,

Transmittal Letter

Long-Range Infrastructure Planning, Long-Range Staffing Plans, and Rate/Fee Analysis.

- The Town's *Policies of Responsible Financial Management* establish the framework for overall fiscal planning and management, and are reviewed and updated annually. A summary of any changes will be presented annually in the Long Term Financial Plan.
- The *debt analysis* examines the impact of current and future debt on the Town's financial position, including not only the impact on the Town's operating budget, but also the impact on the community as a whole.
- The *financial balance analysis* synthesizes the results of the prior sections to provide an overall summary of the Town's long term financial future.
- The *financial strategies or gap closing strategies section* summarizes the Town's funding gaps or requirements and make recommendations to mitigate these gaps.

The 2014 Long Term Financial Plan represents a comprehensive look at financial issues and challenges facing the Town over the next five-year period and beyond. The Town remains committed to continual monitoring of this ever-changing environment and to providing best in class service to our citizens.



Background and Objectives

Background

The Town of Gilbert prepares an annual update to the Town's Long Term Financial Plan (LTFP). The LTFP is a tool that provides Council and citizens with information necessary to understand the Town's financial condition. The Long Term Financial Plan consists of several sections with objectives for each identified below:

Financial Trend/Environmental Analysis

Objective

A number of financial indicators are analyzed to determine significant impacts in financial trends. This annual analysis focuses on the Town's General Fund, Special Revenue Funds, Highway User Revenue Fund (HURF), Vehicle License Tax (VLT), and Enterprise Funds (Water, Wastewater, and Environmental Services). This provides a complete picture of the overall fiscal health of the Town of Gilbert.

Long-Term Revenue and Expenditure Forecasting

Objective

To update the five-year financial forecast for the General Fund and Enterprise Funds, and Streets fund, incorporating adopted Town policies of Responsible Financial Management, expenditure patterns, revenue trends, fund balances, and other known financial impacts. Other significant factors are analyzed, such as SDF analysis, the Long-Range Infrastructure Plan, Long-Range Staffing Plan, and Rate and Fee Analysis.

Fiscal Policy Review

Objective

To annually review the Town's Policies of Responsible Financial Management in an effort to determine any updates that will need to be brought to Council for adoption.

Debt Analysis

Objective

To review existing debt structure in relation to long-range financing options (sources) for debt service and repayment, and to recommend alternatives to fund major capital projects, when appropriate.

Financial Balance Analysis

Objective

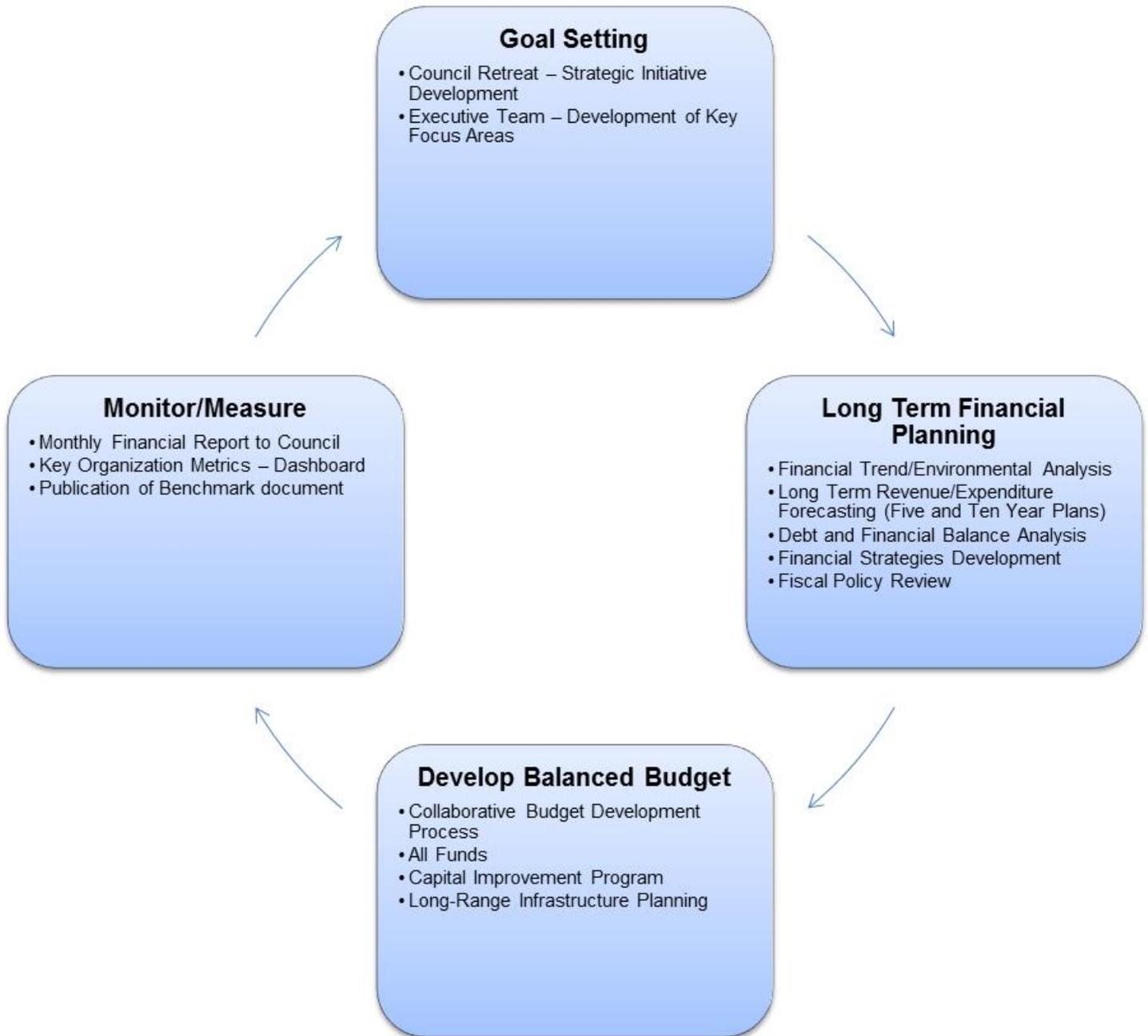
To analyze and recommend appropriate levels of reserve to ensure adequate resources are available to fund operations. Additionally, to ensure compliance with Town policies of Responsible Financial Management and legal requirements.

Financial Strategies Development

Objective

To analyze cash flows and funding gaps for the Town's capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the Town, and ensure that anticipated resources will be able to sustain on-going operations.

Long Term Financial Plan Process



Long Term Financial Plan Process

Planning Process

The long term financial planning activities of the Town of Gilbert are ongoing through-out the fiscal year and coordinate with the budget development process. The illustration on the preceding page represents strategic planning, long term financial planning and budget activities that are executed in a coordinated fashion. Elected officials, Administration, the Office of Management and Budget, and staff in various departments are tasked throughout the year to participate in teams that complete each of these activities.

Goal Setting

Near the beginning of each fiscal year, the Town Council meets with staff at a Council Retreat. Topics of particular interest to Council and staff are presented and discussed. Among those topics is the development of the Strategic Initiatives that guide the organization. Currently the Council has identified six Strategic Initiatives, of which, one is Long and Short Term Balanced Financial Plans. These six Strategic Initiatives were adopted in 2011 and will guide the organization through 2016. After the Strategic Initiatives are developed, the Executive Team is tasked with assessing the Town's needs and determining Key Focus Areas for the budget process.

Key Focus Areas were town-wide interests that concentrated efforts and required additional resources. They are directly related to advancing the Strategic Initiatives and allow the Executive Team to carefully consider the requested resources during the collaborative budget process. For Fiscal Year 2015, the Key Focus Areas are listed below with a brief description:

- Long-Range Infrastructure Planning and Implementation

Costs associated with the maintenance or assessment programs as identified by the Long-Range Infrastructure Plan.

- Deferred Maintenance

Maintenance that has been reduced or delayed in prior years due to economic concerns.

- Maintaining Service Levels

Costs associated with resources needed to maintain current operations; maintenance that is currently due; strategic replacement and accelerated timing to coordinate with other projects.

- Staffing Plans

Gilbert is committed to providing the best service at the lowest possible cost. That means that as Gilbert grows, any staff additions must be done strategically to ensure citizens are receiving the best value. All requests for personnel related resources should be supported departmental staffing plans. The plans will consider factors such as population and growth to project the staffing needs by department through the anticipated build-out date.

- Innovations and Efficiencies

Implementation of new innovations or efficiencies that are designed to generate cost savings or provide 'best in class' service.

- Compensation Maintenance/Implementation of Employee Performance Management

Resources needed to maintain the Classification and Compensation Study that was implemented in FY 2013, as well as implementation of the related employee performance management system.

Long Term Financial Plan Process

Long Term Financial Planning

During the second quarter of the fiscal year, the Town begins its Financial Trend and Environmental Analysis. Team members from various departments are selected based on expertise/experience in a given area. The team members are tasked with reviewing a five-year history for revenues and expenses. Any significant changes in the trends shown are investigated and contributing factors are noted. For example, revenues for a particular area may show an increase in year three of the five-year period and that increase corresponds to the implementation of a new fee. This analysis is the foundation of our Long Term Financial Plan.

After the historical trends are analyzed, the same team is tasked to anticipate impacts in the coming five-year period. Any significant changes in revenues or expenses is noted. Information gathered during this process also becomes important when developing the Long Term Revenue/Expenditure Forecast. The results of this analysis are published later in this document.

Also during the second quarter of the fiscal year, the Town begins the annual budget development. During this process increases or decreases to the base budgets are requested. Any significant increases/decreases should be consistent with information received during the financial trend and environmental analysis phase of Long Term Financial Planning. The Long Term Revenue/Expenditure Forecasting combine information received from the financial trend and environmental analysis with information received during the upcoming year's budget development process and use it to develop the forecasting models for the General Fund and Enterprise Funds.

In a related effort, the Office of Management and Budget analyzes the current debt structure in an effort to evaluate the revenues source for debt service and repayment. Fund balances are also analyzed to ensure that the appropriate levels of reserves are maintained for compliance with State, County and Local Ordinance, as well as Town policies. If any policy changes are anticipated related to debt or financial (fund) balances, the proposed revisions are brought to Council for consideration and adoption. To date, the revisions made have been to make the policies more accountable and transparent.

Development of financial strategies combines all known information related to cash flows, capital projects, and long range infrastructure plans to obtain a comprehensive forecast of required future resources. This is compared to current available resources, then gap-closing strategies are developed and implemented.

Develop Balanced Budget

In January each year, once the Long Term Financial Plan has been outlined, the collaborative budget development process begins with the Executive Team. The Executive Team meets twice weekly, through the end of February, to review all submitted requests from the departments and evaluate them based on the Key Focus Areas. This would include all CIP and operating requests for General Fund, Enterprise Funds, Internal Service Funds and Special Revenues Funds.

After the Executive Team makes final recommendation to Town management, the budget is presented by the Office of Management and Budget to the Town Council for Preliminary and Final Adoption in accordance with state law.

Monitoring of Budget

Budgets are maintained by the departments through-out the year, utilizing their budget analysts for special requests related to emergencies, or unforeseen opportunities that arise. Quarterly budget reports are provided to Council by the Office of Management and Budget following receipt of that quarter's final sales tax revenues from the Department of Revenue. This cycle is repeated until the following August when the process begins again.

Long Term Financial Plan Process

Historical Perspective on Long Term Financial Planning

In an effort to provide historical perspective on the Town's Long Term Financial Planning efforts the following table has been developed. As you will see, each year presented unique challenges and solutions. These challenges and solutions are summarized below by year.

Fiscal Year	Challenge	Solution
<p style="text-align: center;">2014</p>	<ul style="list-style-type: none"> • LTFP—Year Two, expansion of analyses and publication of formal Long Term Financial Plan document • LRIP— Continuation of the Long Range Infrastructure Plan. Please refer to the Long Range Infrastructure Plan pages of this document. 	<ul style="list-style-type: none"> • Performed all updates of financial information and analyses • Developed document outlining next steps in the development of the Long Range Infrastructure Plan • Developed new rate/fee structure for implementation in FY 2016
<p style="text-align: center;">2013</p>	<ul style="list-style-type: none"> • Prior to 2013 a Long Term Financial Plan (LTFP) had not been published. Long Term Financial Planning Efforts focused on Revenue and Expenditure Forecasting for budgeting of operating and CIP resources. • No formal program for Infrastructure with regard to condition assessment, strategic maintenance and replacement 	<ul style="list-style-type: none"> • Completed Trend Analysis, Environmental Analysis, and Long Range Forecasting Models • Long Range Infrastructure Plan (LRIP) development began. Results of Phase One presented at Council Retreat—August 2013

Financial Trend Analysis

Objective

The Government Finance Officers Association (GFOA) recommends trend projection as part of the analysis that is completed when developing a Long Term Financial Plan. In order to accurately project future revenue/expense trends, we must understand that which influences the revenues and expenses. Are there patterns or cycles that explain fluctuations? What are the factors that contribute to increases or declines? For this analysis, we have focused on the Town's General Fund, Special Revenue Funds, Highway User Revenue Fund (HURF), Vehicle License Tax (VLT), and Enterprise Funds (Water, Wastewater, and Environmental Services). This provides a complete picture of the overall fiscal health of the Town of Gilbert.

It is important to note that revenue/expenditure amounts will not exactly reflect the annual budget document or financial statements, which are published at a specific point in time. The intent in the trend analysis is to isolate the specific revenues and expenditures that contribute directly to the business activity or significant fund activity. For example, in the Streets Fund the primary revenues sources are HURF and VLT. Other minor revenue sources have been excluded for the purposes of the trend analysis. However, all revenue sources are recorded in the annual budget document and the financial statements found on the [Town of Gilbert Website](#).

Background

The Town's historical revenue and expense trends were analyzed utilizing many factors in order to understand the present financial condition of the Town. These factors include:

- The economic condition of the Town and other communities in the Phoenix metropolitan area;
- The types and frequency of the revenues; and
- The expense levels in relation to service levels.

Data used in developing the financial trend analysis was developed from the Town's Financial Management System for the fiscal years FY 2009 through FY 2013.

Ratings

The following rating system was used in the financial trend analysis:

Rating	Explanation
Favorable (○)	Trends with this rating are positive with respect to Town's goals, policies and local economic trends.
Favorable /Caution (◇)	Trends with this rating are in compliance with policies or anticipated results. This finding may change from a positive rating in the near future.
Warning (▼)	Trends with this rating have changed from a positive direction and are going in a direction that may have an adverse effect on the Town's financial condition. This rating is also used to indicate that a trend, although it may appear favorable, is not in compliance with the Town's adopted fiscal policies.
Unfavorable (●)	Trends with this rating are negative, and there is an immediate need for the Town to take corrective action.

One of the ratings shown above was assigned to each of the revenue sources/functional areas listed. The current and past year trend reports are summarized here and identify strengths and weaknesses of the Town's financial condition.

Revenue Trend Analysis

Summary of Ratings of Revenue Trends

Revenue Source (RS)/ Functional Area (FA)	Fund	FY 13 Rating	FY 14 Rating	Trend Change
Local Sales Tax (RS)	General Fund	○	○	
State Shared Sales Tax (RS)	General Fund	○	○	
State Shared Income Tax (RS)	General Fund	◇	○	↑
Property Tax (RS)	General Fund	▽	◇	↑
Parks (FA)	General Fund	○	○	
Recreation (FA)	General Fund	◇	○	↑
Development Services (FA)	General Fund	◇	◇	
Police (FA)	General Fund	◇	◇	
Fire (FA)	General Fund	◇	◇	
Legal and Courts (FA)	General Fund	○	○	
HURF/VLT (RS)	Streets Fund	◇	◇	
Water (RS)	Water Fund	◇	◇	
Wastewater (RS)	Wastewater Fund	◇	◇	
Environmental Services – Residential (RS)	E.S. Residential Fund	◇	○	↑
Environmental Services – Commercial (RS)	E.S. Commercial Fund	○	○	

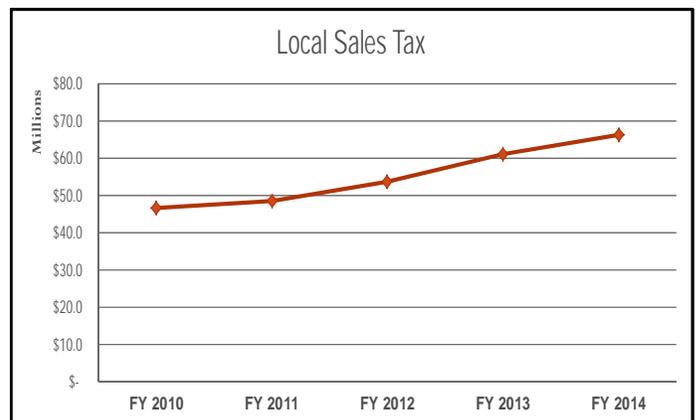
The FY 2014 detailed analysis of each revenue source/functional area is presented below:

General Fund

Local Sales Tax - Favorable

The Local Sales Tax trend continues to be favorable overall and has steadily improved, as the recovery continued at all levels of the economy. Anticipated net impacts of recent legislation have been factored into the five-year plan, and will be revisited annually as more information becomes available.

Recent changes to legislation governing the collection of sales tax include the elimination of construction sales tax on the trade industries (moving to point of sale transactions) and the elimination of commercial lease tax between entities of like ownership. The full impact of these reductions remains to be seen. Increases to date are disproportionately high in construction, lease, and communication, so a continued conservative approach is recommended. Collections will likely remain at a level higher than sustainable over the next year or two, but ongoing revenues should be projected based on retail, restaurant, and other more consistent and sustainable, though cyclical, sources.

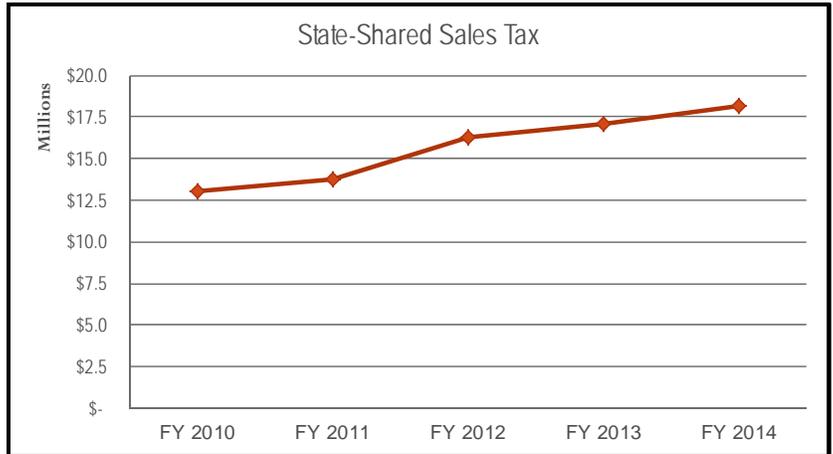


Revenue Trend Analysis

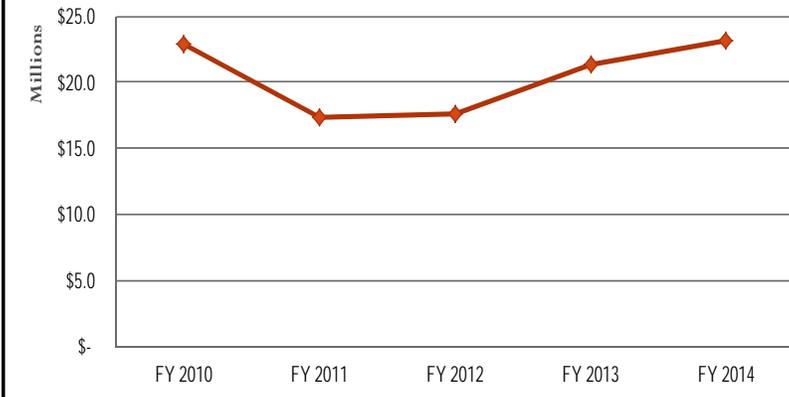
State-Shared Sales Tax - Favorable

After successive years of decline statewide (and nationwide) sales began recovering in FY 2011, and by FY 2012 had again reached FY 2008 levels. Barring any legislative changes to the tax structure or to the distribution formula, staff anticipates continued steady growth.

State-shared sales tax collections reflect the more moderate increases across the state. Staff is cautiously optimistic that these levels reflect a sustainable base for the future, barring any major changes to legislation or economic anomalies.



State-Shared Income Tax



State-Shared Income Tax - Favorable

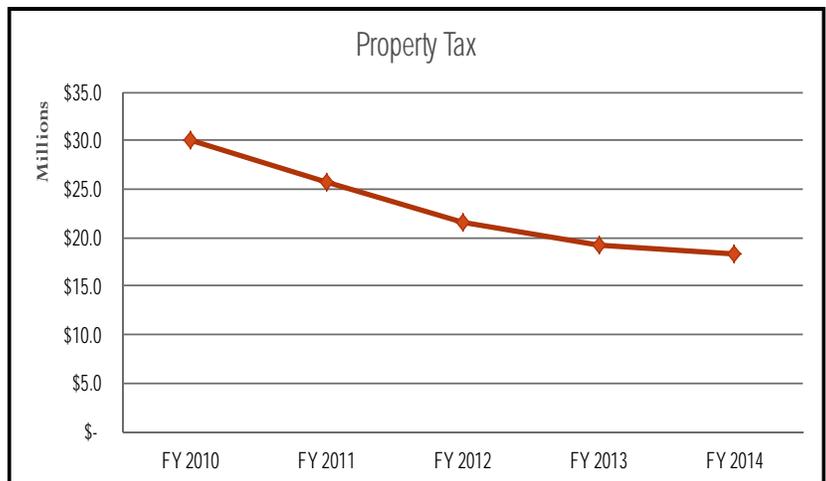
Income taxes began recovering in FY 2012 and the trend continued in FY 2013 and FY 2014. Ongoing forecast reflects the anticipated level of sustainable revenues.

Income taxes are remitted to cities and towns on a lagging basis, so the amount is known in advance of receipt. Preliminary information is typically received during the February - April timeframe. The forecast for the FY 2015 reflects the final amount.

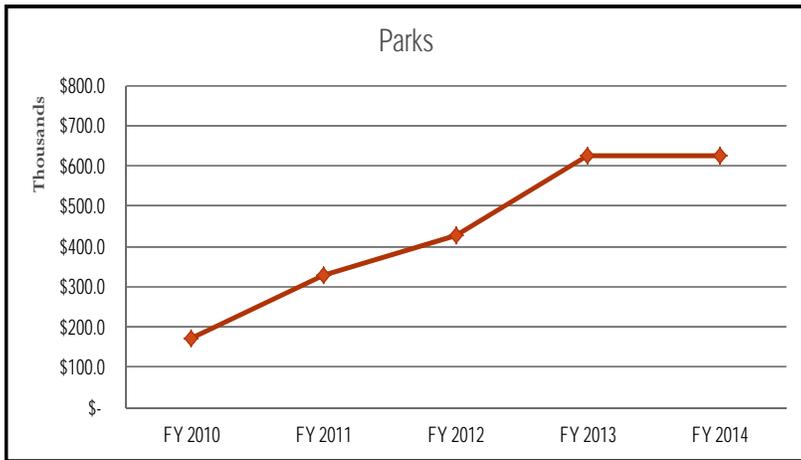
Property Tax - Favorable/Caution

FY 2014 is the fifth year of consecutive declines in property tax collections in the Town of Gilbert and throughout the State of Arizona.

Since property tax collections lag the real estate market by nearly two years, it is anticipated that this trend will begin to recover. Preliminary information from the Maricopa County Assessor's Office indicate that Gilbert can expect to see property values and corresponding tax levies increase beginning in FY 2015. Values will be artificially limited however by legislative limitations beginning in FY 2015.



Revenue Trend Analysis

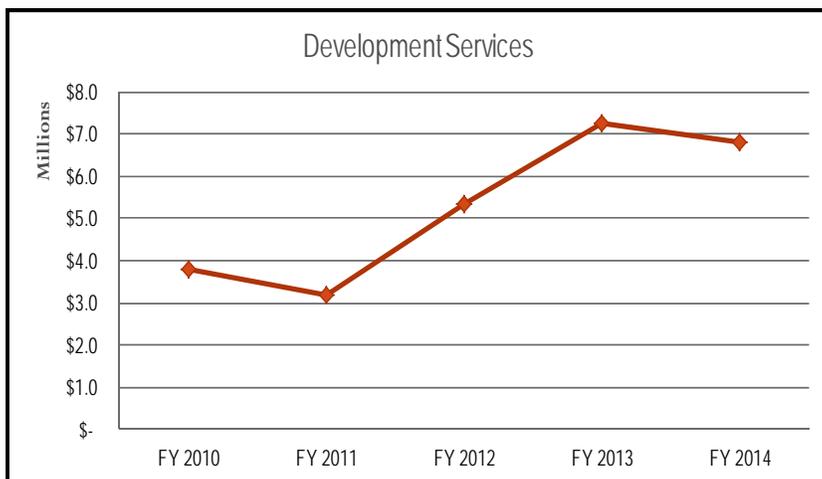
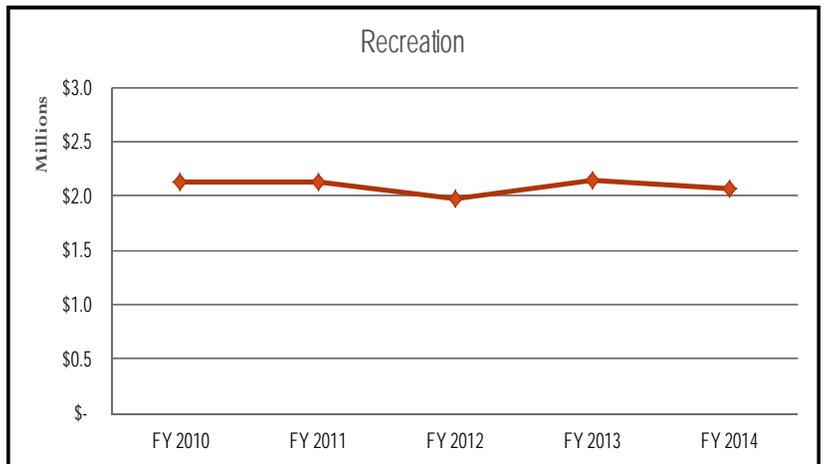


Parks - Favorable

An increase in field rentals have contributed to the revenue increases experienced since FY 2010 - 2013. Revenues remained constant in FY 2014.

Recreation - Favorable

Revenues recovered in FY 2013 due to improvements in the local economic conditions. This revenue source can be impacted adversely by weather conditions. In times of inclement weather, events and programs may be cancelled, thus causing a loss in revenues. The FY 2014 revenues are consistent with historical averages.



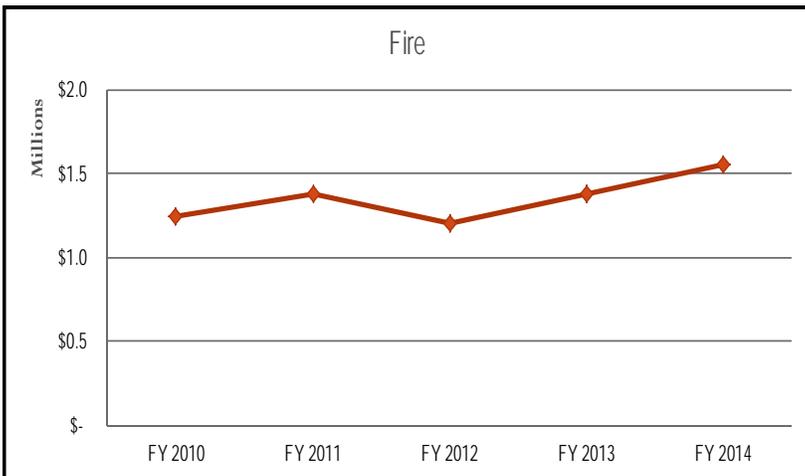
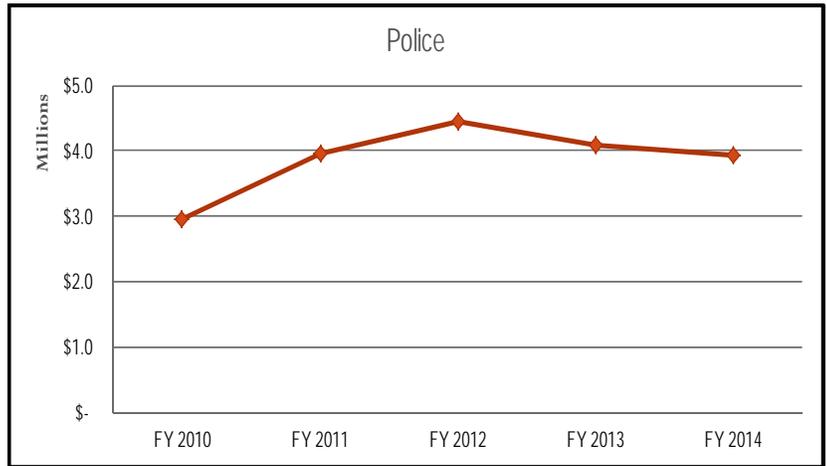
Development Services - Favorable/Caution

Changes in the national, state, and local economy account for the decrease in revenues continuing into FY 2011. FY 2012 showed improvement as the economy began recovering. A slight decline is anticipated in FY 2015 as commercial and residential permitting activity has stabilized. The revenue forecast for FY 2015 - 2019 indicates that single family permit activity is expected to stabilize. However, economic development opportunities and commercial development will offset revenue changes. Caution is warranted as this level of revenue will not be sustainable beyond FY 2019.

Revenue Trend Analysis

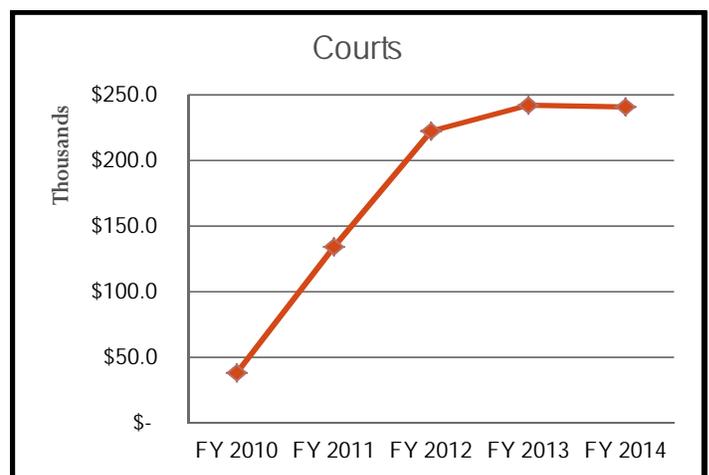
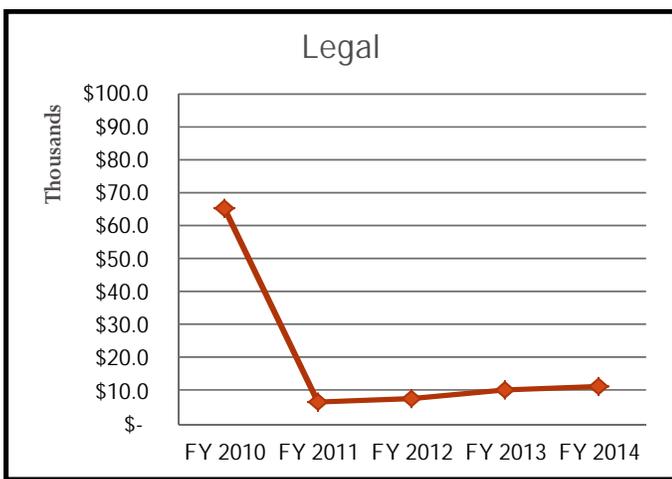
Police - Favorable/Caution

Revenues for the Police Department come from a variety of sources including alarm fees, court-related fines and fee recovery, restitution, grant funding, towing/hearing program fees and asset forfeitures. All revenues excluding grants and restitution, are directly related to police enforcement activities, which by nature is variable. Fees mandated by statute are subject to revisions, while grant funding relies entirely on the funding agency. The variable and inconsistent nature of the funding sources justifies the Favorable/Caution rating. Taking this into consideration, there are no significant changes anticipated for the FY 2015 - 2019.



Fire - Favorable/Caution

FY 2009 was the first year for the collection of revenues related to the County Island Fire District, resulting in approximately \$1M. This revenue source is impacted by the ongoing level of expenses necessary to maintain operations as well as the assessed property valuations for the county island areas. No significant changes are anticipated for FY 2015 - 2019.



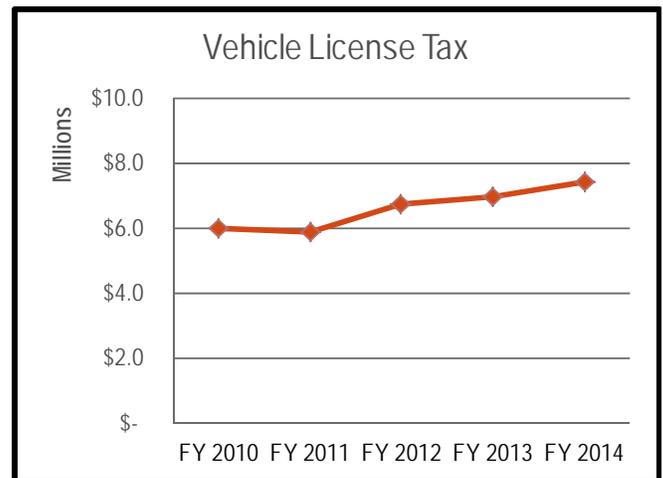
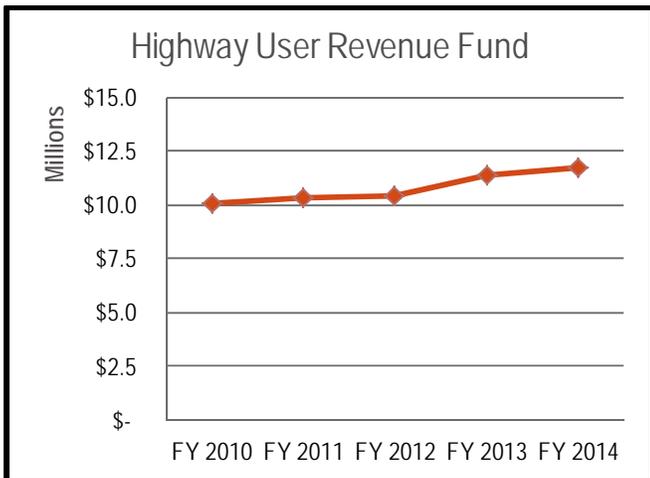
Legal and Courts - Favorable

Both Legal and Court revenues are considered Favorable. Although the Legal revenues show a decline, it is due to a change in financial reporting.

Revenue Trend Analysis

The corresponding increase can be seen in the Court revenues. Additionally, court revenues have increased significantly over the last four years due to increased case filings, local ordinances, and legislation. Of greatest significance, starting in FY 2010 the court was given the legal authority or ordered to collect fees including the: home detention fee, public defender fee, investigating agency fee, and domestic violence fees in addition to basic records related fees authorized by state law. Pending any legislative or police enforcement philosophy changes, the revenues should remain fairly stable for FY 2015- 2019.

Highway User Revenue Fund (HURF)/Vehicle License Tax (VLT) Streets - Favorable/Caution



After years of volatility stemming from repetitive legislative sweeps of HURF revenues, efforts are underway to restore HURF funding to cities and towns. This is a critical revenue source for the maintenance of arterial streets. This revenue is derived from a per gallon charge on gasoline, so as prices go up, often consumption goes down, and therefore revenues go down. This becomes particularly challenging because increasing oil prices mean increasing maintenance costs for streets, even while the corresponding revenues may be decreasing.

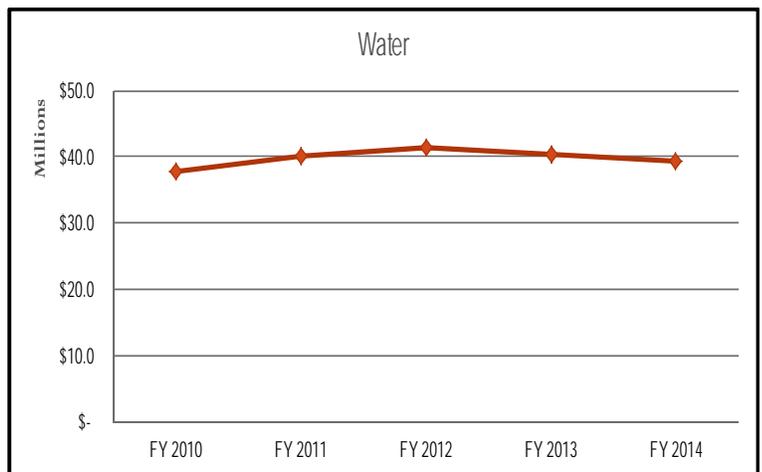
HURF and VLT revenues continue to increase over last year's collections. Based on initial conversations with state representatives and senators, we anticipate the prior funding levels of HURF to be restored. Recent sweeps of funding and subsequent reallocation to non-highway patrol functions of the Department of Public Safety are likely to discontinue in the near future.

Enterprise Funds

Water - Favorable/Caution

FY 2012 revenues increased approximately 3.3% over the prior year, however declined in subsequent fiscal years. Conservation efforts, can negatively impact revenues.

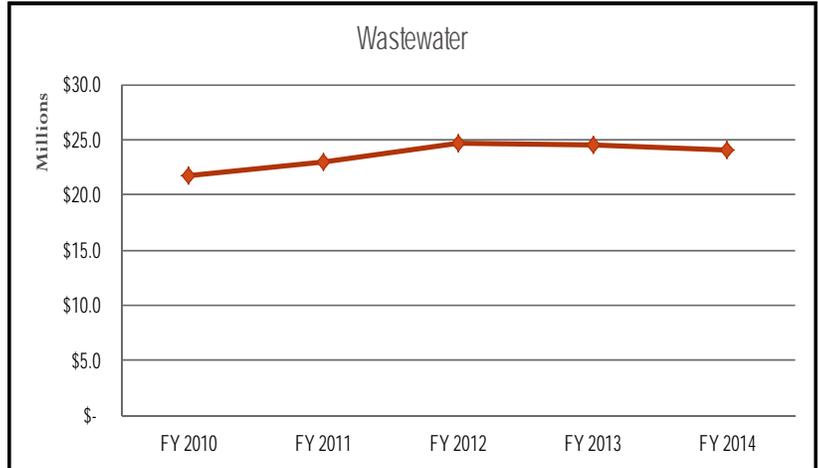
In FY 2014 a utility rate and fee study was conducted and the results of that study will have an ongoing impact to the FY 2015 - 2019 revenue outlook. More discussion is contained in the Rates and Fee Analysis section of this document.



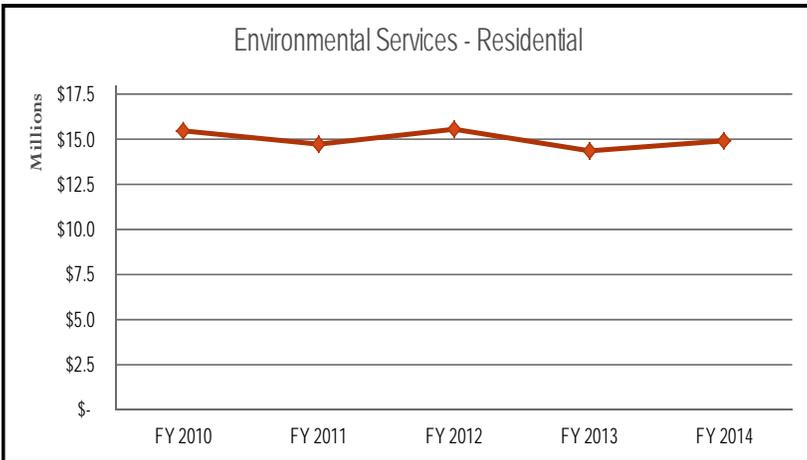
Revenue Trend Analysis

Wastewater - Favorable/Caution

Although revenues in FY 2012 through FY 2014 have improved over prior years, the finding for the revenue source is favorable with caution. Water conservation efforts are expected to impact sewer flows as home renovations and new homes are installing low flow toilets and shower heads. As a result the average sewer flows will decrease. The reduced use of water can increase solids concentrations, and may result in a higher treatment cost per gallon for the sewage entering the treatment facilities, therefore increasing the cost of operations. In FY 2014 a utility rate and fee study was conducted and the results of that study will have an ongoing impact to the FY 2015 - 2019 revenue outlook. Please refer to the Rates and Fee Analysis section of this document for further details.



Please refer to the Rates and Fee Analysis section of this document for further details.



Environmental Services - Residential - Favorable

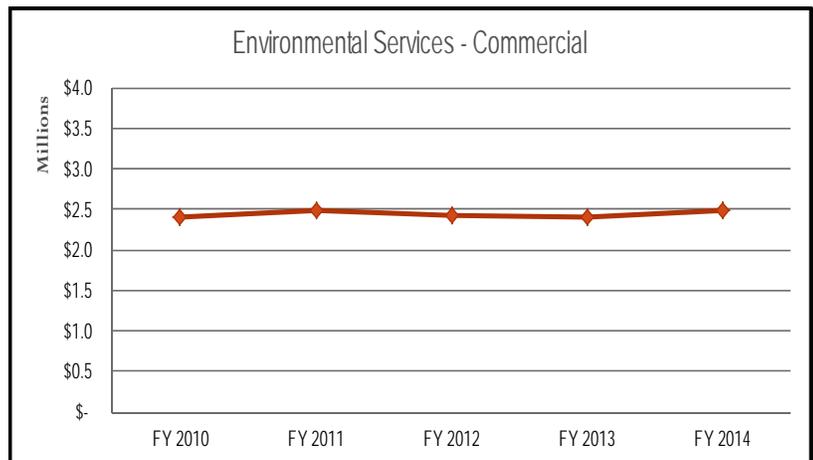
The decline in revenues from FY 2012 to 2013 is the result of a rate reduction implemented at the beginning of FY 2013. The revenues associated with recycling and household hazardous waste are subject to fluctuations based on the commodity pricing, however thus far the fluctuations have not been significant. In FY 2014 a utility rate and fee study was conducted and the results of that study will have an ongoing impact to the FY 2015 - 2019 revenue outlook. Please refer to the

Rates and Fee Analysis section of this document for further details.

Environmental Services - Commercial - Favorable

Revenues for the commercial division have not fluctuated significantly over the last five years.

In FY 2014 a utility rate and fee study was conducted and the results of that study will have an ongoing impact to the FY 2015 - 2019 revenue outlook. Please refer to the Rates and Fee Analysis section of this document for further details.



Expense Trend Analysis

Summary of Ratings of Expense Trends

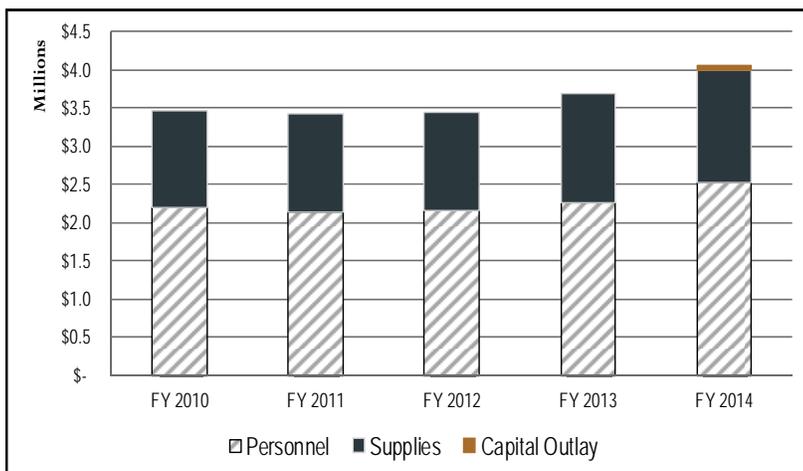
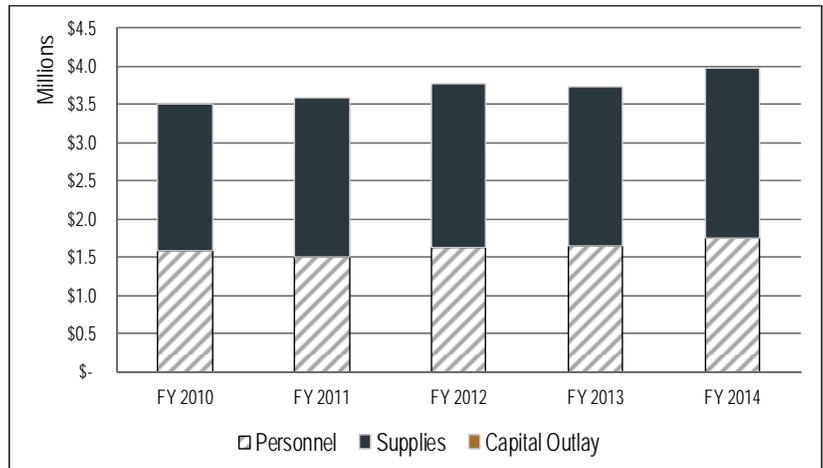
The FY 14 detailed analysis of each expense trend (by functional area) is presented below:

Expenses by Functional Area	Fund	FY 13 Rating	FY 14 Rating	Trend Change
Parks	General Fund	◇	◇	
Recreation	General Fund	◇	◇	
Development Services	General Fund	◇	◇	
Police	General Fund	◇	◇	
Fire	General Fund	○	◇	↓
Legal and Courts	General Fund	◇	◇	
HURF/LTAF (Streets)	Streets Fund	○	◇	↓
Water	Water Fund	◇	◇	
Wastewater	Wastewater Fund	○	○	
Environmental Services – Residential	E.S. Res. Fund	◇	○	↑
Environmental Services – Commercial	E. S. Comm Fund	◇	○	↑

General Fund

Parks - Favorable/Caution

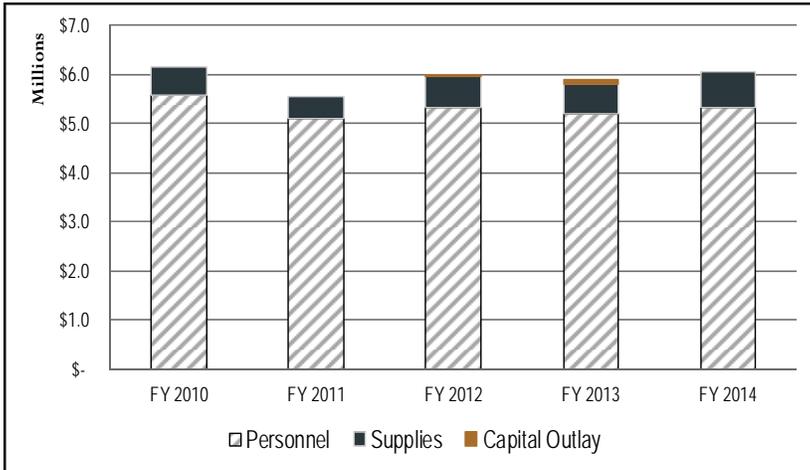
Expenses for FY2011 through FY 2014 have remained stable, which increased slightly from the FY 2010 levels. The favorable with caution finding is based on the aging infrastructure and maintenance that was deferred during the economic downturn. It is anticipated with the implementation of the Long-Range Infrastructure Plan that expenses will increase to ensure proper maintenance and upkeep of the parks.



Recreation - Favorable/Caution

Expenses for recreation have been fairly stable over the past five years. It is anticipated with the implementation of the Long-Range Infrastructure Plan that expenses will increase to ensure proper maintenance and upkeep of aging facilities. This will ensure our ability to meet service demands.

Expense Trend Analysis

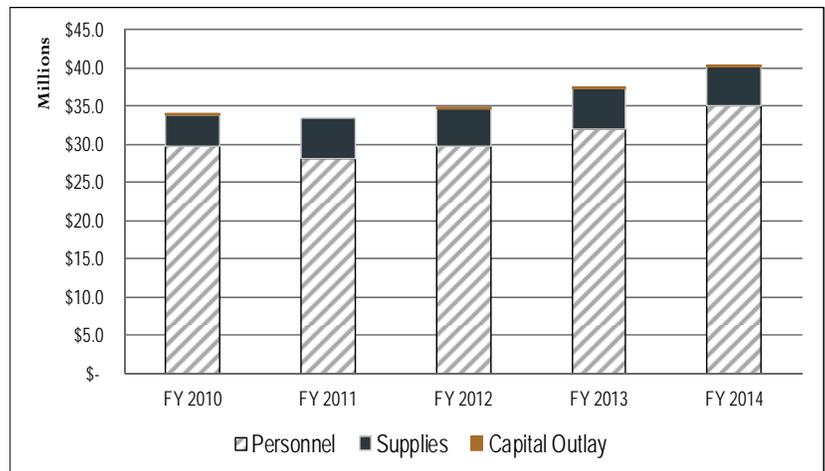


Development Services - Favorable/Caution
 Personnel costs declined between FY 2010 and 2011 following a reduction in force precipitated by a reduced level of development during a poor economy. In FY 2012, inspectors were hired to handle the increase in permits for single family homes, thus accounting for a slight increase in personnel costs. Personnel costs declined in FY 2013, in part due to a reorganization of the department and the implementation of a 'One-Stop Shop'. Customer service functions were combined with Utility Billing. Supplies followed a similar trend with a slight increase in FY 2012, followed by a

decline in FY 2013. Personnel costs increased slightly in FY 2014 due to increased development. Full-time equivalents vs. limited term agreements/contracts were evaluated for cost benefit. Supplies will have moderate increases based on any anticipated personnel changes. Capital outlay will increase due to the replacement of the permitting software.

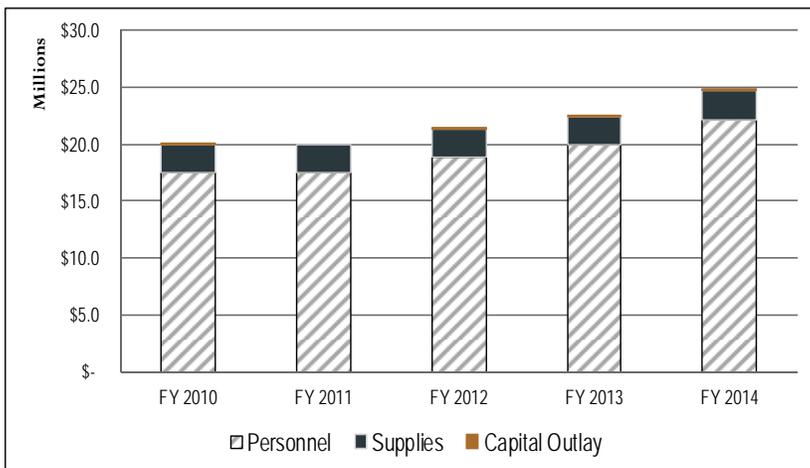
Police - Favorable/Caution

Expenses for the Police department are in line with usage compared to previous years. The increase in personnel expenses is attributed to the implementation of the Town's new Classification and Compensation structure. Personnel expenses increased in FY 2014 due to the addition of three new positions and the full-year implementation of the classification and compensation structure. The favorable with caution rating is warranted as there are anticipated increases to expenses related to the implementation of new technology that will increase officer safety and efficiency. There are potential efficiencies that may be recognized with the implementation of the Joint Detention Facility in FY 2015.



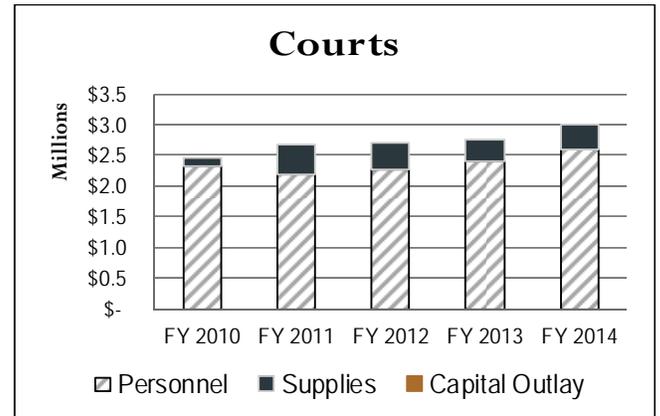
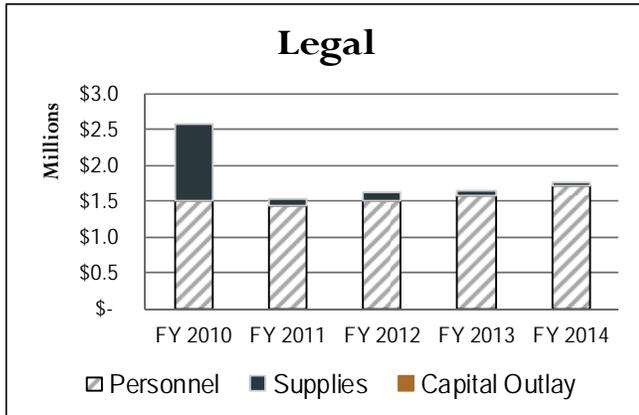
Fire - Favorable/Caution

The increase in personnel costs are attributed to the full year implementation of the classification and compensation structure. The slight increase in supplies is related to the opening of Fire Station #10 and the operating costs associated with it, as well as a 10% increase in call volume. Additionally, new FTE's were added to meet existing service levels in FY 2014 and expenses for replacement of safety equipment is part of the five-year plan.



Expense Trend Analysis

Legal and Courts - Favorable/Caution

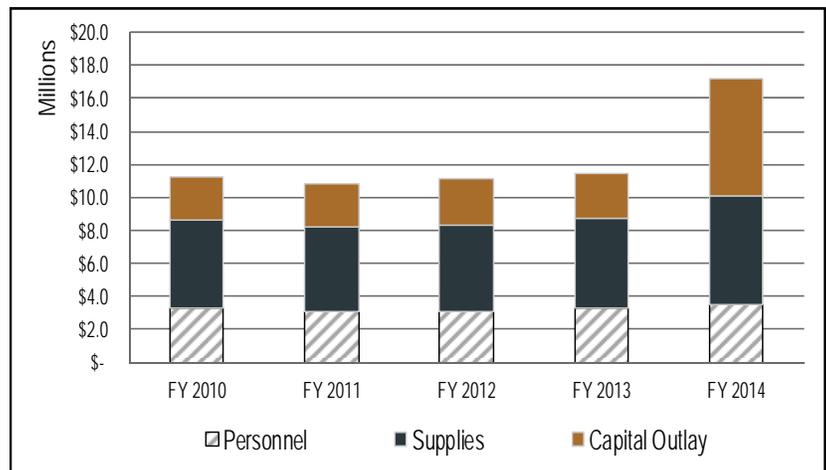


The favorable with caution finding is based on the increase in expenses since FY 2011 for both the legal and court areas. Both the legal and court areas have implemented new technology, programs or efficiencies that have had positive impacts on expenses through these efforts these areas have been able to mitigate more substantial increases in expenses.

HURF/VLT

Streets - Favorable/Caution

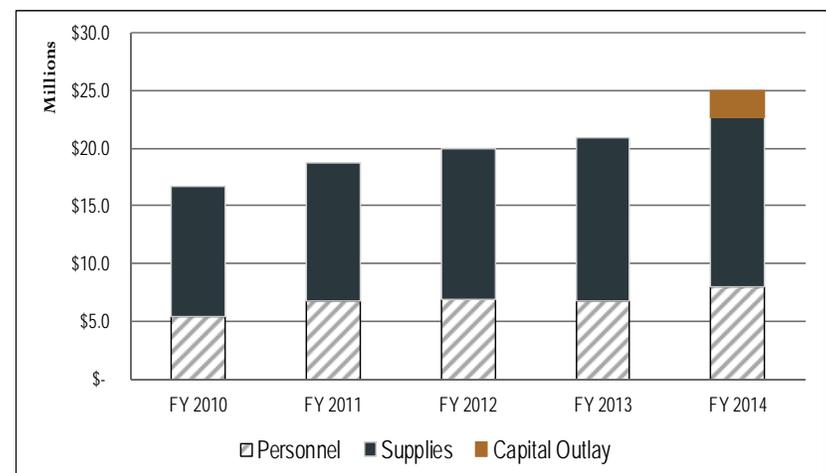
The FY 2014 personnel expenses increased due to the addition of a crack seal team which will increase the preventive maintenance that is done, thus extending the useful life of the assets. Supplies and contractual has increased due to contract increases. As contracts come up for renewal and are put back out to bid, costs for services are showing increases due to improvement in the economy. Capital commitment is relatively unchanged, but reflects as and increase due to a change in capital improvement program budgeting and financial accounting. All projects that are Streets Fund funded are included in the capital expenses shown.



Enterprise Funds

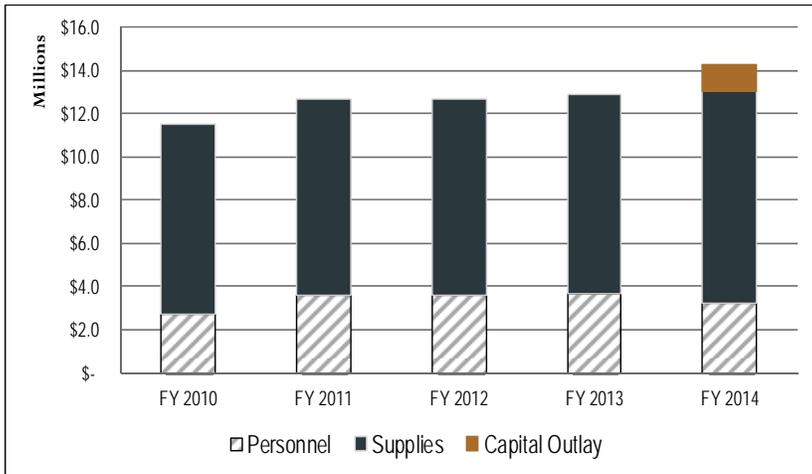
Water- Favorable/Caution

The overall budget increased slightly in FY 2014. Capital commitment is relatively unchanged, but reflects as and increase due to a change in capital improvement program budgeting and financial accounting. All projects that are Water funded are included in the capital expenses.



The favorable with caution finding is warranted as the Town will expand infrastructure repair and maintenance programs to maximize the available resources. Additionally, the cost associated with the purchase of water rights and transportation of the water may be impacted by volatility in the cost of electricity. EPA regulatory and enforcement changes may impact electric costs associated with the coal burning Navajo Generating Station.

Expense Trend Analysis



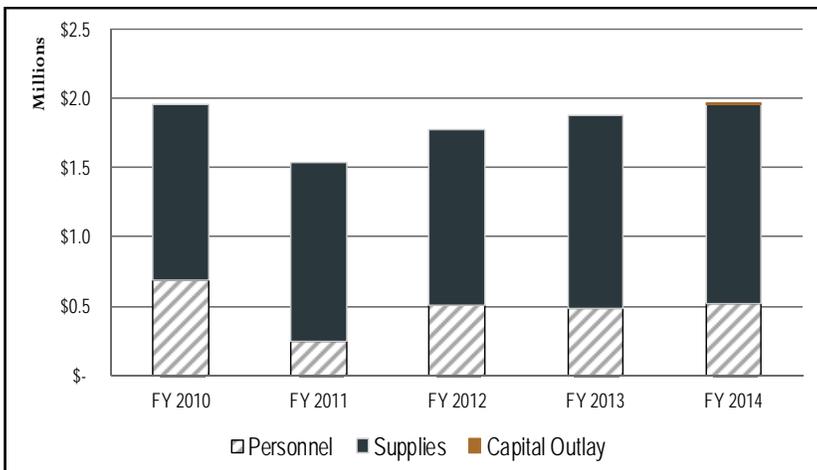
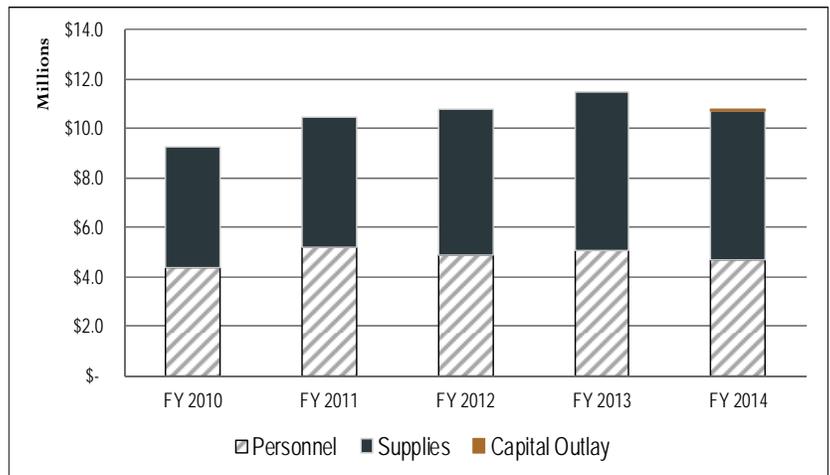
Wastewater - Favorable

Operational expenses stayed fairly consistent in over the five year period. While personnel costs increased slightly due to a new full time position being added in FY 2013, supply costs actually decreased. Capital commitment is relatively unchanged, but reflects as and increase due to a change in capital improvement program budgeting and financial accounting. All projects that are Water funded are included in the capital expenses shown.

Environmental Services - Residential - Favorable

Over the last five years, personnel costs have remained stable, while equipment costs have increased due to additional equipment needs for to accommodate service growth. The Town expects to see continued moderate growth continue in the residential service area.

The conversion of the entire fleet to Compressed Natural Gas (CNG) vehicles over the next 7-10 years should help stabilize fuel expenses as the division moves away from dependence on oil and its market volatility. The ongoing efforts to increase waste diversion will increase recycling revenues, while lowering disposal costs. It is anticipated that the Town will receive more favorable disposal options/pricing by participating in the regional disposal contract negotiations, which will in turn lower operational costs.



Environmental Services - Commercial - Favorable

Over the last five years, personnel costs have remained stable, while equipment costs have increased to accommodate service growth. The Town expects to see moderate growth in commercial business over the next 5 years. Continual commercial building growth will continue to expand through FY 2020, which will result in an increase in equipment needs to accommodate the growth. The conversion of the entire fleet to Compressed Natural Gas (CNG) vehicles over the next 7-10 years should help stabilize fuel expenses

as the division moves away from traditional oil and its market volatility.

Trend Analysis Summary

Summary

The Long-term Financial Plan includes the analysis of 15 revenue trends, made up of nine revenue sources and six functional areas. The expense trend analysis includes 11 functional areas. Of the trends included in this analysis several reflect either positive or negative changes.

Revenue Rating Changes

Three of the revenue sources, and one of the functional areas show improved ratings.

- State Shared Income Tax (RS)
- Property Tax (RS)
- Environmental Services - Residential (RS)
- Recreation (FA)

The remaining revenue trends were unchanged.

Expense Rating Changes

The analysis of 11 functional areas indicates that two trends showed negative changes and two reflect positive changes.

Negative changes:

- Fire
- HURF/LTAF

Positive changes:

- Environmental Services - Residential
- Environmental Services - Commercial

The remaining expense trends were unchanged.

Throughout the process of completing the revenue and expense analysis, we have gained valuable insight into the trends of the last five years. We focused on the underlying issues and factors that contribute to those issues. We have also gained a better understanding of what we can look forward to in the next five years. Revenue sources and functional areas rated as Favorable/Caution will be monitored carefully for changes that would require additional consideration or modification of long term financial planning efforts.

Financial Forecast

Objective

To update the five-year financial forecast for the General Fund and Enterprise Funds, incorporating adopted Town policies of Responsible Financial Management, expenditure patterns, revenue and expenditures trends, fund balances, and other known financial impacts.

Background

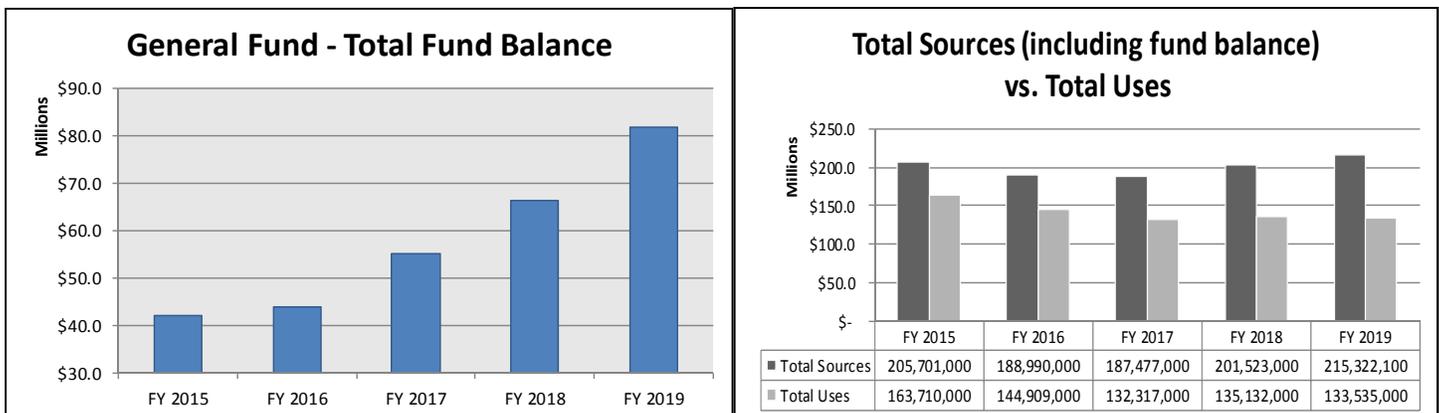
Long term planning is the heart of financial resiliency. The Town of Gilbert not only budgets for anticipated revenues and expenses for the upcoming year, but also projects five years and beyond. This ensures that decisions today are made with the long-term implications in mind.

All town services are based on providing the best possible service at the lowest possible cost. General Fund forecasted revenues are tied indirectly to the cost of service, while utility enterprise funds are tied directly to the cost of service. General Fund revenues limit the level of expenditures, meaning that resources are only allocated to the extent of anticipated revenues. The reverse is true in the Enterprise Funds. For water, wastewater, and environmental services, the level of expenditures is the actual cost of doing business. This cost is evaluated annually during a rate/fee study and the utility rates are adjusted accordingly to allow the Town to recover costs and maintain operations. Therefore, the revenues are based on the anticipated amount of cost recovery.

General Fund Five Year Plan

The General Fund Five Year Plan was developed with the following assumptions:

- Compensation structure is maintained as implemented for FY2015. Beginning in FY2016, an inflationary factor of 0.05% (for sworn positions) was applied annually.
- No increases to the cost of health insurance are forecasted.
- Annual inflationary factor of 2%.
- Minimum fund balance per policy is calculated at three months of operating expenses.



Financial Forecast

General Fund Five Year Plan	Budget FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
BEGINNING FUND BALANCE (Less Committed)	69,060,000	41,991,000	44,081,000	55,160,000	66,391,000
REVENUE					
REVENUES - ONGOING	131,602,000	141,935,000	138,307,000	141,249,000	143,791,500
TOTAL REVENUE	131,602,000	141,935,000	138,307,000	141,249,000	143,791,500
TRANSFERS IN	5,039,000	5,064,000	5,089,000	5,114,000	5,139,600
TOTAL SOURCES	205,701,000	188,990,000	187,477,000	201,523,000	215,322,100
EXPENDITURES					
BASE EXPENDITURES	116,697,000	117,705,000	118,726,000	119,762,000	120,811,000
CIP MAINTENANCE COSTS	-	170,000	53,000	1,308,000	550,000
FIVE YEAR PLAN	-	1,041,000	1,458,000	1,659,000	1,687,000
SUB-TOTAL ONGOING EXPENDITURES	116,697,000	118,916,000	120,237,000	122,729,000	123,048,000
ONE-TIME EXPENDITURES					
SUPPLIES AND CONTRACTUAL	5,276,000	-	-	-	-
FIVE YEAR PLAN	-	3,772,000	3,059,000	3,762,000	1,851,000
CAPITAL	14,744,000	16,778,000	3,032,000	1,884,000	1,408,000
CONTINGENCY	10,648,000	-	-	-	-
ECONOMIC DEVELOPMENT INCENTIVE	5,000,000	-	-	-	-
SUB-TOTAL ONE-TIME EXPENDITURES	35,668,000	20,550,000	6,091,000	5,646,000	3,259,000
TRANSFERS OUT	11,345,000	5,443,000	5,989,000	6,757,000	7,228,000
TOTAL USES	163,710,000	144,909,000	132,317,000	135,132,000	133,535,000
ANNUAL OPERATING RESULT	(27,069,000)	2,090,000	11,079,000	11,231,000	15,396,100
FUND BALANCE	41,991,000	44,081,000	55,160,000	66,391,000	81,787,100
MINIMUM FUND BALANCE	33,560,000	33,060,000	33,430,000	34,250,000	34,680,000
FUND BALANCE ABOVE MINIMUM	8,431,000	11,021,000	21,730,000	32,141,000	47,107,100

*Note: the annual operating result in the first year reflects:

- The expenditure of carryforward expenses from the prior year
- The use of fund balance for specific capital improvement projects
- The entire budgeted contingency and economic development reserve

Financial Forecast

Streets Fund Five Year Plan

The Streets fund five year plan was developed with the following assumptions:

- Revenues - Ongoing - Highway User Revenue Fund (HURF) and Auto Lieu Tax - 3% growth rate annually.
- Revenues - One Time - One Time funding from the State of Arizona as a return of previously swept HURF dollars.
- Base Expenditures - 3% increase for inflation annually.
- Contingency is included in FY2014-15 at \$2M, but will be evaluated annually during the budget process to determine appropriate budget level in subsequent years.

	Budget FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
BEGINNING FUND BALANCE	16,605,000	9,262,000	7,797,000	8,883,000	10,176,000
AVAILABLE FUND BALANCE	16,605,000	9,262,000	7,797,000	8,883,000	10,176,000
REVENUE					
REVENUES - ONGOING	19,174,000	20,263,000	20,870,000	21,495,000	22,138,600
REVENUES - ONE-TIME	500,000	-	-	-	-
TOTAL REVENUE	19,674,000	20,263,000	20,870,000	21,495,000	22,138,600
TRANSFERS IN	50,000	52,000	54,000	56,000	57,700
TOTAL SOURCES	36,329,000	29,577,000	28,721,000	30,434,000	32,372,300
EXPENDITURES					
BASE EXPENDITURES	10,679,000	10,950,000	11,317,000	11,619,000	12,020,000
CIP MAINTENANCE COSTS	-	100,000	100,000	100,000	100,000
FIVE YEAR PLAN	-	-	46,000	-	-
SUB-TOTAL ONGOING EXPENDITURES	10,679,000	11,050,000	11,463,000	11,719,000	12,120,000
ONE-TIME EXPENDITURES					
ONE-TIME EXPENDITURES	508,000	-	-	-	-
FIVE YEAR PLAN - ONE TIME	-	50,000	13,000	50,000	-
CIP - ONE TIME EXPENDITURES	6,559,000	3,188,000	645,000	540,000	2,388,000
OTHER CAPITAL OUTLAY	2,827,000	2,863,000	2,949,000	3,038,000	3,129,000
CONTINGENCY	2,000,000	-	-	-	-
SUB-TOTAL ONE-TIME EXPENDITURES	11,894,000	6,101,000	3,607,000	3,628,000	5,517,000
TRANSFERS OUT	4,494,000	4,629,000	4,768,000	4,911,000	5,058,000
TOTAL USES	27,067,000	21,780,000	19,838,000	20,258,000	22,695,000
ANNUAL OPERATING RESULT	(7,343,000)	(1,465,000)	1,086,000	1,293,000	(498,700)
UNRESERVED FUND BALANCE	9,262,000	7,797,000	8,883,000	10,176,000	9,677,300

Financial Forecast

Water Fund Five Year Plan

The Water fund five year plan was developed with the following assumptions:

- Revenues - Ongoing
 - 2% utility rate increase annually, beginning in FY 2016.
 - New customer accounts estimated at approximately 1900 annually.
- Revenues - One Time - includes investment income, and other account related fees.
- Expenditures
 - Personnel and Fixed Operating - estimated at 95% of budget.
 - Variable Operating and Capital Outlay - estimated at 100% of budget.

	Budget FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
BEGINNING FUND BALANCE	29,758,717	11,480,717	14,579,717	19,406,717	24,364,717
AVAILABLE FUND BALANCE	29,758,717	11,480,717	14,579,717	19,406,717	24,364,717
REVENUE					
REVENUES - ONGOING	37,609,000	39,139,000	41,020,000	43,007,000	45,111,000
REVENUES - ONE-TIME	1,627,000	1,361,000	1,361,000	1,361,000	1,361,000
TOTAL REVENUE	39,236,000	40,500,000	42,381,000	44,368,000	46,472,000
TRANSFERS IN	-	84,000	15,964,000	28,983,000	88,000
TOTAL SOURCES	68,994,717	52,064,717	72,924,717	92,757,717	70,924,717
EXPENDITURES					
PERSONNEL	7,302,000	7,446,000	7,669,000	7,900,000	8,137,000
VARIABLE OPERATING COSTS	8,716,000	9,273,000	9,800,000	10,319,000	10,769,000
FIXED OPERATING COSTS	8,357,000	8,140,000	8,408,000	8,806,000	9,497,000
DEBT SERVICE	-	-	826,000	1,228,000	1,224,000
SUB-TOTAL ONGOING EXPENDITURES	24,375,000	24,859,000	26,703,000	28,253,000	29,627,000
ONE-TIME EXPENDITURES					
DEBT RETIREMENT					
CAPITAL OUTLAY	30,000	-	-	-	-
CAPITAL IMPROVEMENT PROGRAM	20,787,000	2,804,000	16,993,000	30,318,000	676,000
CONTINGENCY	2,500,000	-	-	-	-
SUB-TOTAL ONE-TIME EXPENDITURES	23,317,000	2,804,000	16,993,000	30,318,000	676,000
TRANSFERS OUT	9,822,000	9,822,000	9,822,000	9,822,000	9,822,000
TOTAL USES	57,514,000	37,485,000	53,518,000	68,393,000	40,125,000
ANNUAL OPERATING RESULT	(18,278,000)	3,099,000	4,827,000	4,958,000	6,435,000
UNRESERVED FUND BALANCE	11,480,717	14,579,717	19,406,717	24,364,717	30,799,717

Financial Forecast

Wastewater Fund Five Year Plan

The Wastewater fund five year plan was developed with the following assumptions:

- Revenues - Ongoing
 - No utility rate increases are anticipated.
 - New customer accounts estimated at approximately 1900 annually.
- Revenues - One Time - includes investment income, and other account related fees.
- Expenditures
 - Personnel and Fixed Operating - estimated at 95% of budget.
 - Variable Operating and Capital Outlay - estimated at 100% of budget.

	Budget FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
BEGINNING FUND BALANCE	14,659,862	7,373,862	10,588,862	11,278,862	14,214,862
AVAILABLE FUND BALANCE	14,659,862	7,373,862	10,588,862	11,278,862	14,214,862
REVENUE					
REVENUES - ONGOING	24,415,000	25,022,000	25,695,000	26,385,000	27,124,000
REVENUES - ONE-TIME	34,000	44,000	75,000	123,000	145,000
TOTAL REVENUE	24,449,000	25,066,000	25,770,000	26,508,000	27,269,000
TRANSFERS IN	920,000	920,000	920,000	920,000	920,000
TOTAL SOURCES	40,028,862	33,359,862	37,278,862	38,706,862	42,403,862
EXPENDITURES					
PERSONNEL	3,887,000	3,959,000	4,075,000	4,194,000	4,317,000
VARIABLE OPERATING COSTS	1,642,000	1,697,000	1,754,000	1,812,000	1,872,000
FIXED OPERATING COSTS	9,848,000	8,919,000	9,359,000	9,962,000	9,941,000
DEBT SERVICE	-	-	-	-	-
SUB-TOTAL ONGOING EXPENDITURES	15,377,000	14,575,000	15,188,000	15,968,000	16,130,000
ONE-TIME EXPENDITURES					
DEBT RETIREMENT	-	-	-	-	-
CAPITAL OUTLAY	-	-	-	-	-
CAPITAL IMPROVEMENT PROGRAM	5,738,000	393,000	3,009,000	721,000	1,069,000
CONTINGENCY	3,750,000	-	-	-	-
SUB-TOTAL ONE-TIME EXPENDITURES	9,488,000	393,000	3,009,000	721,000	1,069,000
TRANSFERS OUT	7,790,000	7,803,000	7,803,000	7,803,000	7,803,000
TOTAL USES	32,655,000	22,771,000	26,000,000	24,492,000	25,002,000
ANNUAL OPERATING RESULT	(7,286,000)	3,215,000	690,000	2,936,000	3,187,000
UNRESERVED FUND BALANCE	7,373,862	10,588,862	11,278,862	14,214,862	17,401,862

Financial Forecast

Environmental Services - Residential Fund Five Year Plan

The Environmental Services - Residential fund five year plan was developed with the following assumptions:

- Revenues - Ongoing
 - No utility rate increases are anticipated.
 - New customer accounts estimated at approximately 2000 annually.
- Revenues - One Time - includes investment income, and other account related fees.
- Expenditures
 - Personnel and Capital Outlay - estimated at 100% of budget.
 - Variable Operating - estimated at 90% of budget.
 - Fixed Operating - estimated at 95% of budget.

	Budget FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
BEGINNING FUND BALANCE	14,512,100	10,673,100	11,763,100	9,584,100	8,993,100
AVAILABLE FUND BALANCE	14,512,100	10,673,100	11,763,100	9,584,100	8,993,100
REVENUE					
REVENUES - ONGOING	14,558,000	15,647,000	16,089,000	16,534,000	16,981,000
REVENUES - ONE-TIME	143,000	146,000	189,000	220,000	282,000
TOTAL REVENUE	14,701,000	15,793,000	16,278,000	16,754,000	17,263,000
TRANSFERS IN	155,000	155,000	155,000	155,000	155,000
TOTAL SOURCES	29,368,100	26,621,100	28,196,100	26,493,100	26,411,100
EXPENDITURES					
PERSONNEL	5,908,000	6,083,000	6,263,000	6,449,000	6,640,000
VARIABLE OPERATING COSTS	1,586,000	1,651,000	1,717,000	1,787,000	1,858,000
FIXED OPERATING COSTS	4,659,000	5,694,000	5,811,000	5,941,000	6,104,000
DEBT SERVICE	-	-	-	-	-
SUB-TOTAL ONGOING EXPENDITURES	12,153,000	13,428,000	13,791,000	14,177,000	14,602,000
ONE-TIME EXPENDITURES					
CAPITAL OUTLAY	2,384,000	226,000	233,000	240,000	247,000
CAPITAL IMPROVEMENT PROGRAM	1,497,000	-	-	620,000	-
CONTINGENCY	1,500,000	-	-	-	-
SUB-TOTAL ONE-TIME EXPENDITURES	5,381,000	226,000	233,000	860,000	247,000
TRANSFERS OUT	1,161,000	1,204,000	4,588,000	2,463,000	1,174,000
TOTAL USES	18,695,000	14,858,000	18,612,000	17,500,000	16,023,000
ANNUAL OPERATING RESULT	(3,839,000)	1,090,000	(2,179,000)	(591,000)	1,395,000
UNRESERVED FUND BALANCE	10,673,100	11,763,100	9,584,100	8,993,100	10,388,100

Financial Forecast

Environmental Services - Commercial Fund Five Year Plan

The Environmental Services - Commercial fund five year plan was developed with the following assumptions:

- Revenues - Ongoing
 - No utility rate increases are anticipated.
 - New customer accounts estimated at approximately 10 annually.
- Revenues - One Time - includes investment income, and other account related fees.
- Expenditures
 - Personnel and Capital Outlay - estimated at 100% of budget.
 - Variable Operating - estimated at 90% of budget.
 - Fixed Operating - estimated at 95% of budget.

	Budget FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019
BEGINNING FUND BALANCE	1,823,900	953,900	1,296,900	1,308,900	1,261,900
AVAILABLE FUND BALANCE	1,823,900	953,900	1,296,900	1,308,900	1,261,900
REVENUE					
REVENUES - ONGOING	2,441,000	2,457,000	2,501,000	2,544,000	2,587,000
REVENUES - ONE-TIME	22,000	27,000	35,000	44,000	57,000
TOTAL REVENUE	2,463,000	2,484,000	2,536,000	2,588,000	2,644,000
TRANSFERS IN	-	-	-	-	-
TOTAL SOURCES	4,286,900	3,437,900	3,832,900	3,896,900	3,905,900
EXPENDITURES					
PERSONNEL	552,000	562,000	579,000	596,000	614,000
VARIABLE OPERATING COSTS	297,000	312,000	328,000	344,000	360,000
FIXED OPERATING COSTS	1,045,000	1,065,000	1,097,000	1,129,000	1,162,000
DEBT SERVICE	-	-	-	-	-
SUB-TOTAL ONGOING EXPENDITURES	1,894,000	1,939,000	2,004,000	2,069,000	2,136,000
ONE-TIME EXPENDITURES					
CAPITAL OUTLAY	322,000	-	-	-	-
CAPITAL IMPROVEMENT PROGRAM	128,000	-	-	20,000	-
CONTINGENCY	800,000	-	-	-	-
SUB-TOTAL ONE-TIME EXPENDITURES	1,250,000	-	-	20,000	-
TRANSFERS OUT	189,000	202,000	520,000	546,000	202,000
TOTAL USES	3,333,000	2,141,000	2,524,000	2,635,000	2,338,000
ANNUAL OPERATING RESULT	(870,000)	343,000	12,000	(47,000)	306,000
UNRESERVED FUND BALANCE	953,900	1,296,900	1,308,900	1,261,900	1,567,900

Long Range Infrastructure Plan

Objective

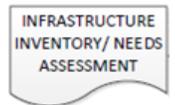
To address infrastructure and asset needs in a predictable, systematic approach, that improves the reliability, performance and useful life of the asset, and lowers the total cost of ownership.

Background

Due to the rapid growth experienced in the Town of Gilbert, many of the Town's infrastructure and key assets were constructed between 2000 and 2009. Therefore, many assets are aging at the same time and many will require critical maintenance or replacement now or in the near future. The challenge becomes how best to move forward strategically and intentionally plan for growth, replacement, and maintenance.

Infrastructure Inventory / Needs Assessment

The Long Range Infrastructure Planning team has identified two phases for the inventory and needs assessment. Below is a summary of the asset areas and responsible departments that are addressed in each phase.



Phase One			
Asset Area	Responsible Department(s)	Asset Area	Responsible Department(s)
Substructure	Facilities	Hydrants	Water
Shell	Facilities	Valves	Water
Interiors	Facilities	Meters	Water
Services	Facilities	Service Laterals	Water
Equipment & Furniture	Facilities	Water Distribution Pipe	Water
Building Site	Facilities	Storm Lines (pipes)	Streets/Wastewater
Street Pavement	Streets	Scuppers	Streets/Wastewater
Sanitary Sewer Manholes	Wastewater	Headwalls	Streets/Wastewater
Gravity Sewer Pipelines	Wastewater	Drywells	Streets/Wastewater
Wastewater Lift Stations	Wastewater	Pump Stations	Streets/Wastewater
Sewer Force Mains	Wastewater	Manholes Covers	Streets/Wastewater
Neely Wastewater Plant	Wastewater	Catch Basins	Streets/Wastewater
Soft Start and Variable Frequency Drives	Wastewater	Retention Basins	Streets/Wastewater

Long Range Infrastructure Plan

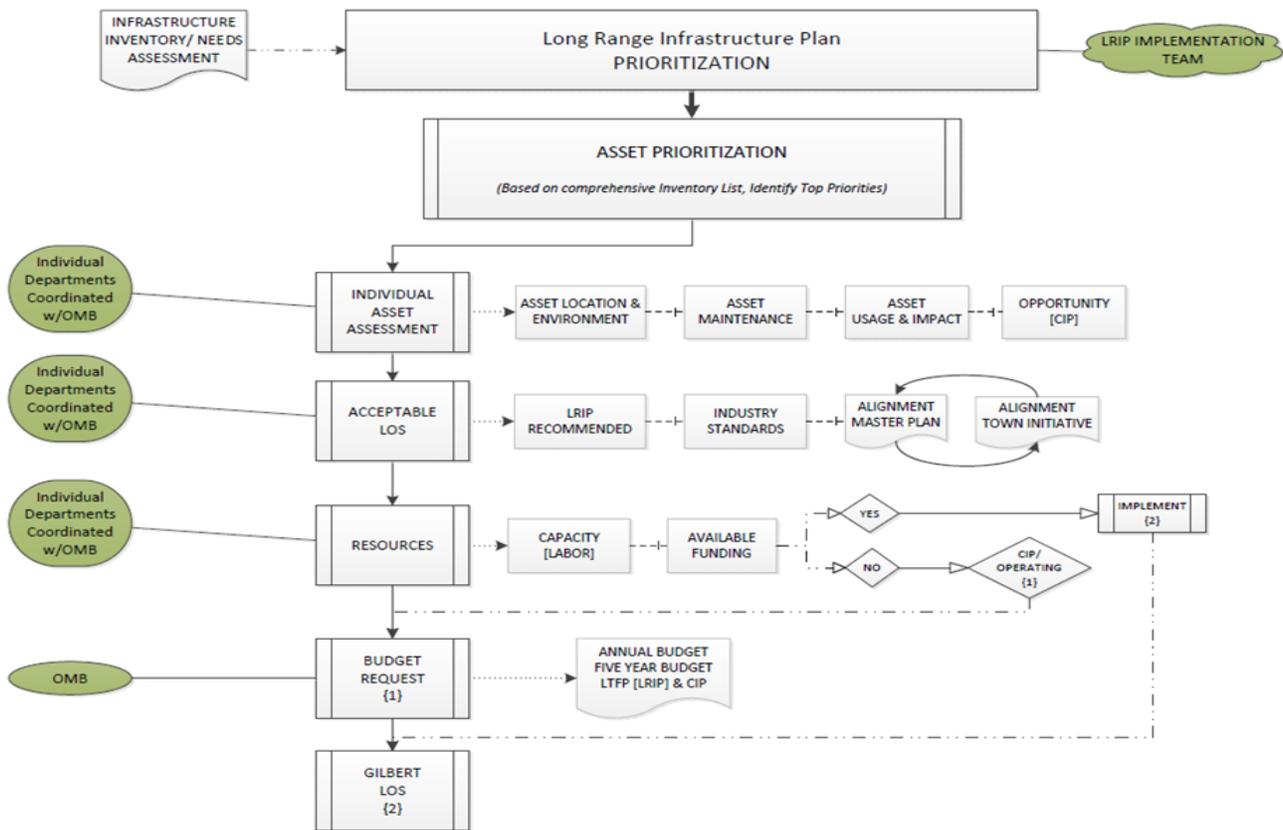
Phase Two				
Asset Area	Responsible Dept.		Asset Area	Responsible Dept.
Wells	Water		Mesquite Aquatic Center	Parks & Recreation
Water Plant - North	Water		Greenfield Pool	Parks & Recreation
Water Plant - South	Water		Williams field Pool	Parks & Recreation
Water Pipelines	Wastewater/Reclaimed		Perry Pool	Parks & Recreation
Valves	Wastewater/Reclaimed		Playgrounds	Parks & Recreation
Air Release Valves	Wastewater/Reclaimed		Playground Wood Chips	Parks & Recreation
Water Meters	Wastewater/Reclaimed		Playground Shade Structure	Parks & Recreation
Pump Stations 200 HP VT/VFD Replacement	Wastewater/Reclaimed		Court Resurfacing	Parks & Recreation
Pump Stations 40 & 60 HP Pump/SS Replacement	Wastewater/Reclaimed		Irrinet Control Systems	Parks & Recreation
Signal Poles	Streets		Irrigation Systems	Parks & Recreation
Signal Cabinets	Streets		Irrigation Trails	Parks & Recreation
Underground Wire/ Conductors	Streets		Lake Dredging	Parks & Recreation
Signal Components/ Electronics	Streets		Concrete Sidewalk Replacement	Parks & Recreation
Streetlight Poles	Streets		Tree Replacement	Parks & Recreation
Fiber Replacement Offsite	Traffic		Skate Park	Parks & Recreation
Fiber Replacement Onsite	Traffic		Light Poles	Parks & Recreation
Future Construction	Traffic		Equipment	Parks & Recreation
Gilbert Pool	Parks & Recreation			

The Long Range Infrastructure Team was made up of key personnel from each of the responsible departments, along with a representative from the Office of Management and Budget, Finance, and the Town Managers Office. The team worked on phase one of the plan, presenting their recommendations to Council in August 2013. The goals of the inventory and needs assessment are:

- Develop the asset and infrastructure inventory for each asset area.
- Develop recommended useful life listing for all assets and infrastructure.
- Evaluate life cycle and replacement costs. Life cycle costs include the planning, design, acquisition, construction, operation, maintenance, rehabilitation/renewal and disposal costs.
- Recommend maintenance programs that optimize operation and extend the useful life of assets and infrastructure.

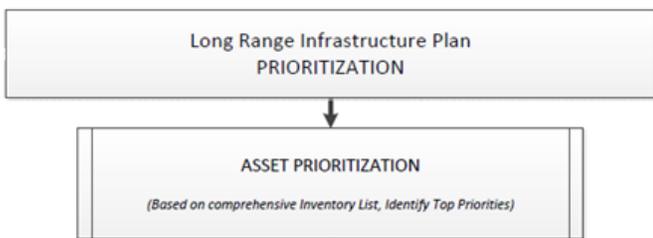
Long Range Infrastructure Plan

Long Range Infrastructure Plan - Implementation Plan



INFRASTRUCTURE INVENTORY/ NEEDS ASSESSMENT

The implementation effort will be driven by several components; the comprehensive infrastructure inventory / needs assessment report, the asset prioritization, the development and implementation of maintenance/replacement standards, the levels-of-service standards, and available resources.



Once the initial draft of the Long Range Infrastructure Plan has been completed, the document will be a living document and subject to annual internal audits to ensure the information remains current and relevant. The LRIP should be able to respond to changing conditions, new regulations, new funding sources, while being mindful of fiscal constraints and capacity.

The long-range infrastructure implementation team consists of; the Director of Public Works, the Director of Parks and Recreation, and the Town Engineer or designee, the Director of the Office of Management and Budget (OMB) or designee and others as appropriate. The infrastructure needs assessment report will be reviewed and prioritized by asset category to ensure that the highest priorities of the town receive adequate funding. The long-range infrastructure implementation team will be responsible for making recommendations for asset prioritization. The asset prioritization will be based on recommendations for maintenance, repair and replacement. Once the asset prioritization recommendations are determined, the responsible departments will be engaged to conduct individual asset assessments.

Long Range Infrastructure Plan

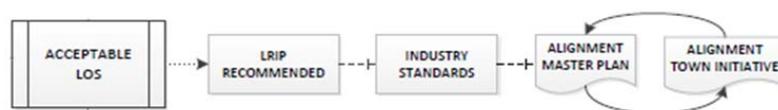


The individual asset assessment will be completed by department directors and staff, working in coordination with the Office of Management and Budget. Assets will be evaluated using criteria such as:

- Asset Location and Environment
 - Material of component (concrete, plastic, rubber, steel, etc.);
 - Exposure of the component to the elements, i.e. frost, heat, rain, corrosive soils, underground moisture (water table, water run-off, etc.) or snow;
 - Interaction of component with chemicals, pressure, heat, force, etc.;
 - Criticality of the component to a system, division, and/or department.
- Asset Maintenance
 - Likelihood of the component being effectively maintained;
 - The complexity of the maintenance required;
 - The required maintenance schedule consistent with the level of service established.
- Asset Usage and Impact on Operations or Risk of Failure
 - Intended use of component (to convey, to store, to mix, etc.);
 - Frequency of use (continuously, hourly, daily, etc.);
 - Level of service of the component (including reliability, responsiveness, environmental acceptability, customer values and cost.
 - Difficulty in acquiring replacement parts for the asset(s).
- Opportunity
 - Coordination of maintenance or repair programs with existing programs, including the Capital Improvement Program (CIP). When efficiencies can be realized, repair and replacement programs for individual assets will “piggy-back” CIP projects.
 - GIS mapping data from phase one and two will be utilized for this effort.
 - Coordination of effort with outside utilities where applicable.

It should be noted that the above criteria are general guidelines. Departments are urged to augment the criteria as necessary to capture the unique aspects of each asset and the intended use.

Upon completion of the individual asset assessments, the responsible departments will work to identify acceptable level-of-service standards for each of the Town's assets.



The determination of acceptable levels-of-service (LOS) will be completed by department directors and staff, working in coordination with the Office of Management and Budget staff. When establishing acceptable levels-of-service, several resources are available as guidelines; however, neither of them should be used exclusively. Instead, each department should use these resources along with Gilbert specific data; i.e. historical levels-of-service, anticipated levels-of-service based on growth projections, population, various master plan(s), and Town initiatives. The acceptable levels-of-service will be developed using:

- LRIP recommendations – identifies the life cycle of assets and maintenance / repair to extend the life span of assets;

Long Range Infrastructure Plan

- Industry Standard recommendations – professional organizations and manufacturers that have published recommended life cycles and required maintenance / replacement guidelines;
- Alignment with Master Plans - consideration must be given to aligning with the various master plans within the Town; Parks, Water Resources, Transportation, General Plan;
- Alignment with Town Initiatives

Once acceptable levels-of-service are identified for each asset area, a final step in the prioritization process and a key component of the implementation process is resource allocation.



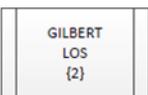
Department directors working in coordination with the Office of Management and Budget staff will formulate an implementation schedule which aligns with resource capacity and available funding.

- Capacity [Labor] - Ability to complete work internally or outsource;
- Available funding - Either through the operating budget or as part of a CIP project

If both capacity and funding are available, the project will become part of the operating budget. If capacity or funding is not available the project will be taken through the annual budget process.

The implementation schedule includes all proposals for action. Components of the implementation schedule include a brief description of the project, timing, priority, lead department, cost estimate and potential funding source(s). The implementation schedule will be a key consideration in the development of the Town's five-year and long range financial plans.

Once the implementation schedule is developed, department directors working in coordination with the Office of Management and Budget staff, will compile one and five year projections for operations and a ten year projection for CIP of the required maintenance and/or replacement needs.



An end product of the Implementation Planning Process is a 'Gilbert' acceptable level-of-service standard, based on thorough comparison and analysis. The implementation schedule can then be used to create / update department operating plans and performance measures.

A key emphasis, however, must be placed on flexibility. The Long Range Infrastructure Plan should be able to respond to changing conditions, new regulations, taking advantage of new revenue sources, and realizing the fiscal constraints of the Town together with the ability to provide and maintain its facilities. The Long Range Infrastructure Plan will be updated annually as part of the Long Term Financial Plan. Once the plan is implemented the various departments will monitor and evaluate the plan implementation through annual progress reports to the Town Manager, Mayor and Council.

Capital Improvement Plan

Objective

To provide an overview of the Capital Improvement Plan (CIP), funding strategies and available resources. To view the adopted CIP and individual projects, refer to the ten year CIP book on the [Town of Gilbert Website](#).

Background

The CIP represents a multiyear forecast detailing the town's capital needs, such as: the timing and costs associated with all capital improvements to roads, land or buildings, and the purchase of major machinery and equipment over the next ten years. The CIP not only identifies capital projects but also the necessary public financing required and impact on the operating budget. Capital projects differ from annual operating expenses in that they involve large dollar amounts (an initial cost in excess of \$100,000), often require special financing, occur at irregular intervals, and involve development of assets expected to have at least a 10-year useful life span.

The town will review and update annually a ten-year CIP; however, only the current year schedule, when adopted by Town Council, becomes part of the operating budget. Future forecasts in the CIP serve the town by helping plan for capital repairs, replacements and acquisitions, which allows for careful and strategic financial planning to ensure the town's fiscal health and credit. The CIP also serves as a foundation to Gilbert's annual review of system development fees and utility rates in order to assure that growth-related capital and operating costs are recovered.

The identification of a project within the ten-year plan does not guarantee construction. The initiation of any project requires other evaluations and approvals that must be completed for a project to advance to design and ultimately construction. Additionally, Council has the ongoing ability to review and revise projects based upon community service demands and financial resources.

To achieve these goals, the following policies and finance strategies guide town staff in the development of the CIP:

- Projects included within the plan are prioritized to ensure funding is applied to the highest needs;
- Projects must have sound cost estimates, an identified location, and verified funding source(s);
- Projects must identify all sources of construction funding, as well as the total cost of operating and maintenance. Adherence to these requirements will assure responsible planning and management of resources; and
- The term of any town debt issued will not exceed the useful life of the asset for which the debt is issued.

The benefits of providing a CIP for the town include:

- Accounts for the timely replacement of facilities and equipment;
- Facilitates efficient allocation of limited financial resources;
- Encourages an enhanced bond rating;
- Educates management and the Town Council on departmental needs; and
- Provides an excellent public relations tool to help citizens of the Town of Gilbert better understand the challenges the town has with a growing population and aging infrastructure, and what is being done to address these challenges.

Process

Projects identified in the CIP are selected based on the current and future needs of the town. During the budget process, these requests are carefully reviewed by a team of representatives from the Office of Management and Budget, Engineering Division, departments submitting projects, the Executive Team, the Deputy Town Manager and the Town Manager.

Capital Improvement Plan

All projects are discussed in detail and prioritized based on a specified ranking criterion, and then carefully considered to identify the projects most likely to be recommended for funding.

Projects are then recommended annually to the Town Council for review. It is important to note that the commitment of financial resources and the construction of publicly owned, operated, and maintained facilities do not occur until individual projects are authorized by the Town Council.

<i>Economic Development:</i>	Extent to which the project benefits the local economy.
<i>Funding:</i>	Extent to which the available funding can be allocated to the project.
<i>Infrastructure Capacity:</i>	Extent to which project increases level of service of deficient infrastructure.
<i>Intergovernmental Agreements:</i>	Extent to which the project fulfills the town's responsibilities on agreements with other agencies.
<i>Master Plans:</i>	Extent to which the project is supported by a Town Master Plan.
<i>Community Livability:</i>	Extent to which the project includes livability considerations.
<i>Safety:</i>	Extent to which the project benefits the environment, safety or public health of the community.
<i>Regional Plan:</i>	Extent to which the project benefits the region and/or has been identified as part of a larger regional project.
<i>Regulatory Agency Compliance:</i>	Extent to which project maintains town compliance with any state or federally mandated requirements.
<i>Technology Leader:</i>	Extent to which the project supports technology improvements.

Prioritization

The Town reviews each recommended capital improvement project based on ten (10) evaluation criteria to determine which projects are the most advantageous to pursue. The evaluation criteria include:

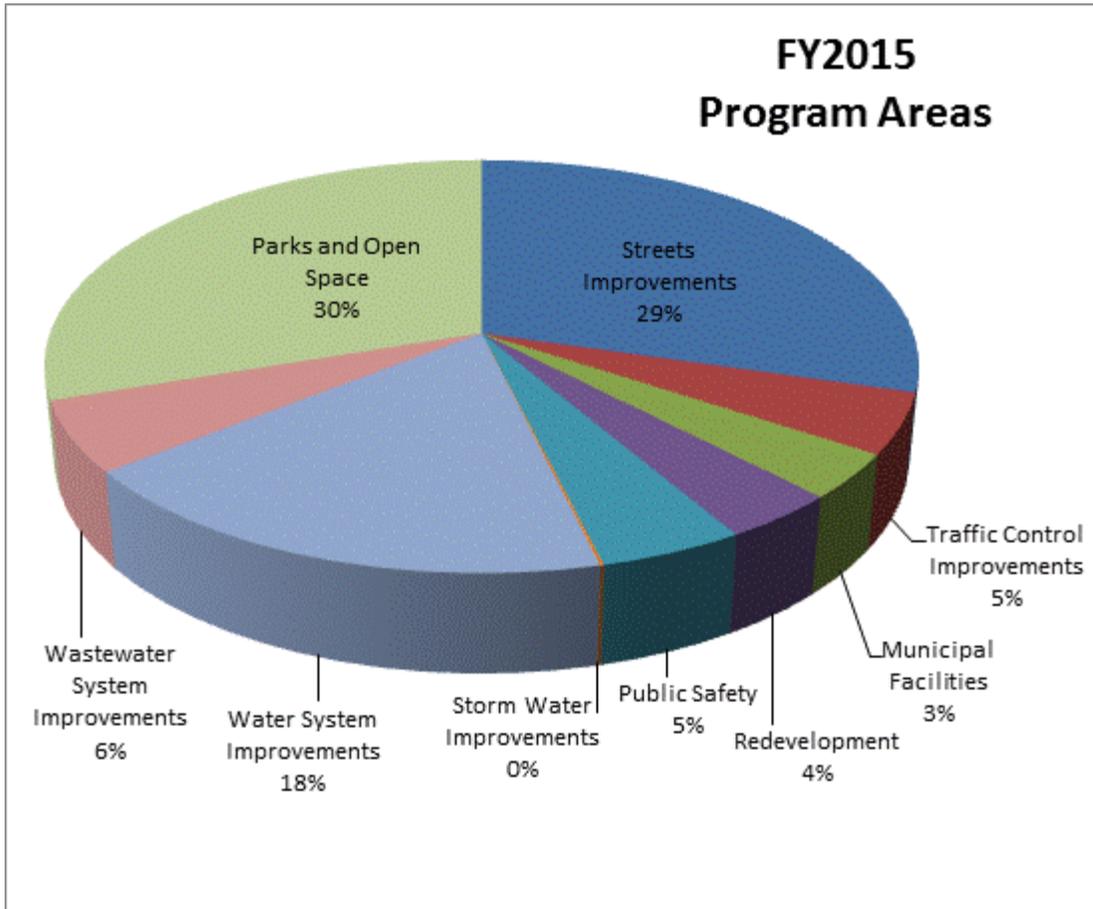
FY 2015 - 19

Over half of the Town's infrastructure was built or installed between 2000 and 2009. Therefore, Gilbert will begin to see a shift in service demand and future capital projects will be focused on critical maintenance and replacement of the Town's infrastructure and key assets. Previously, the focus of many of the capital projects was related to the fast growing community we serve. While the Town will continue to see projects related to growth in the CIP there will be an increased focus on existing infrastructure.

For this reason, every effort will be made to coordinate maintenance and repair projects with existing capital improvement projects. The CIP also identifies the operations and maintenance impacts that are anticipated based on the completion of projects. This allows long-term financial planners to adjust their spending plans, implement efficiencies, or identify funding sources to accommodate the increase in operations and maintenance.

Another critical component of the CIP is the identification of projects funded in future years (unfunded projects). These are projects the organization has identified as desirable but lack funding in the current budget year. While these projects cannot be directly included in a long-range financial plan's expenditure projections; including the projects in the long-range financial plan will enable the Town to recognize the magnitude of unfunded projects. Financial planners can then use the long term financial plan to determine how additional funding can be realized or priorities can be adjusted.

Capital Improvement Plan



<u>Program Area</u>	<u>FY 2015</u>
Streets Improvements	\$411,104,000
Traffic Control Improvements	\$65,790,000
Municipal Facilities	\$49,056,000
Redevelopment	\$51,988,000
Public Safety	\$64,347,000
Storm Water Improvements	\$1,806,000
Water System Improvements	\$250,643,000
Wastewater System Improvements	\$77,165,000
Parks and Open Space	<u>\$419,607,000</u>
Total 2015-19	\$1,391,506,000

Long Range Staffing Plan

Government is often referred to as a service industry. While government does have tangible deliverables such as potable water or capital projects, many of the operating funds are driven primarily by staffing costs for those that are providing public service. A long term financial plan, therefore, is not complete without a thorough examination of the long term needs of staffing.

Town staff has undertaken a long term personnel modeling effort to develop an interactive and dynamic model which will allow staff to run scenarios to see the impacts of changes in growth rates, levels of service, or other factors on future personnel needs. The completed model, which is expected to be available for the development of the FY 2016 budget, will provide one more tool for informed decision-making.

Rate and Fee Analysis

Rate Analysis

Objectives of Rate Analysis

The formal rate study was conducted with the following objectives:

- Reflect fair and equitable cost of providing services to customers;
- Comply with applicable codes, laws, and regulations;
- Provide strategies to maintain or improve revenue stability;
- Avoid large variations in annual rates.

Water and wastewater rates have remained unchanged since July 2009

Background

The Town of Gilbert operates a water, wastewater, and environmental services (both residential and commercial), utility. Each of the utility's activities are recorded and accounted for in separate enterprise funds. Annually, staff conducts an informal rate study, reviewing revenue sufficiency and long term financial plans for each of the enterprise funds. Best practices suggest that every three to five years a formal rate study, utilizing a third party consultant/firm, should be considered. Toward that end, the Town focused efforts on a formal rate study during the fall of 2013. Burton and Associates was contracted to conduct a rate study with completion date of May 2014. For complete details, please refer to the [Utility Fee and Rate Study Report](#).

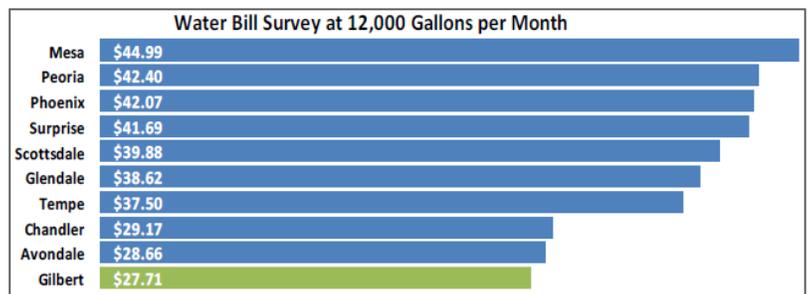
Water Utility — Enterprise Fund

The comprehensive rate study, conducted during the 2014 fiscal year, took into consideration the Town's current financial position related to the Water enterprise fund, including debt service, capital projects, five year plans, and operating fund trends. The result of the revenue sufficiency analysis indicates that revenues are sufficient for the 2015 fiscal year, however beginning in the 2016 fiscal year moderate rate increases will need to be considered. It is anticipated that the rate increases will be approximately 2% annually through fiscal year 2019. The primary driver of the proposed rate increases is a capital project that will expand the San Tan Vista Water Treatment Plant. This plant is operated jointly with the City of Chandler and the expansion is required due to growth in the areas serviced by this plant.

The proposed rate increases will allow the utility to maintain sufficient reserves, in accordance with policy, and still address the long-range infrastructure needs. Further, the proposed rate increases allow Gilbert to maintain rate covenants, which improves our overall financial health and ability to issue debt at the lowest possible cost when in the best interest of the town.

In an effort to mitigate the potential impact to customers of the proposed rate increases, a complete analysis of the current rate structure was conducted by Burton and Associates. The results of the rate structure analysis will be re-evaluated as discussions with Town Council and citizens are conducted.

The Water enterprise fund will be reviewed annually to ensure the long term sustainability of the utility. There are a few factors that have the potential to impact the current financial forecast. The following factors will be monitored and any impacts incorporated into our long-term financial planning efforts.



- Long-Range Infrastructure Planning - As the maintenance and repair/replacement programs are further defined, there may be additional resources required.
- Potential regulatory changes - The water utility is governed by state and federal regulations. Any changes to the current regulations may have an impact on operations and require additional resources.

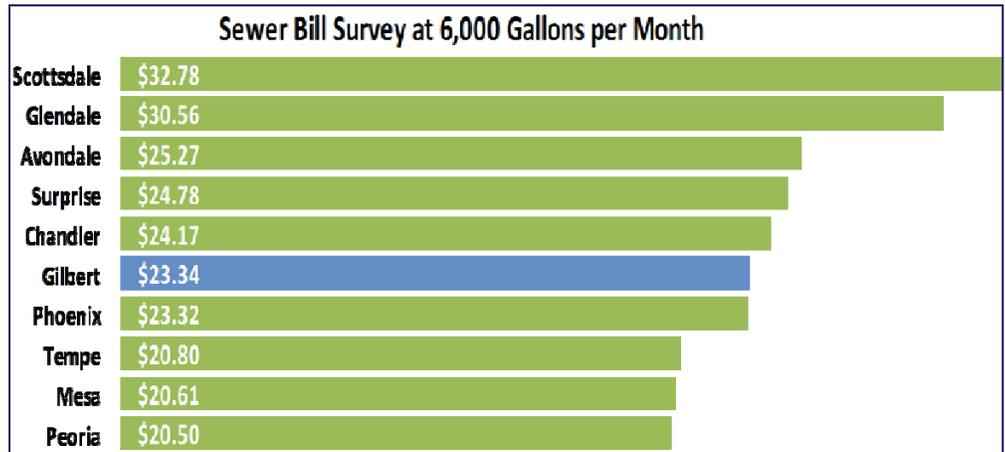
Rate and Fee Analysis

Wastewater Utility —Enterprise Fund

The comprehensive rate study for the Wastewater enterprise fund followed the same process as the Water enterprise fund. The results of the revenue sufficiency analysis indicates that revenues are sufficient for the planning period (FY 2015– 2024). Similar to the Water utility, there is a capital project proposed that will allow the Greenfield plant to expand. The driver of the plant expansion is growth and demand based. This facility is operated by the City of Mesa.

The Wastewater enterprise fund will be reviewed annually to ensure the long-term sustainability of the utility. There are a few factors that have the potential to impact the current financial forecast. The following factors will be monitored and any impacts incorporated into our long-term financial planning efforts.

- Long-Range Infrastructure Planning - As the maintenance and repair/ replacement programs are further defined, there may be additional resources required.
- Potential regulatory changes - The water utility is governed by state and federal regulations. Any changes to the current regulations may have an impact on operations and require additional resources.
- The Neely Waste Treatment Plant is operated by a third party. Potential contract changes may require additional resources in an effort to maintain service levels and maintain the asset.



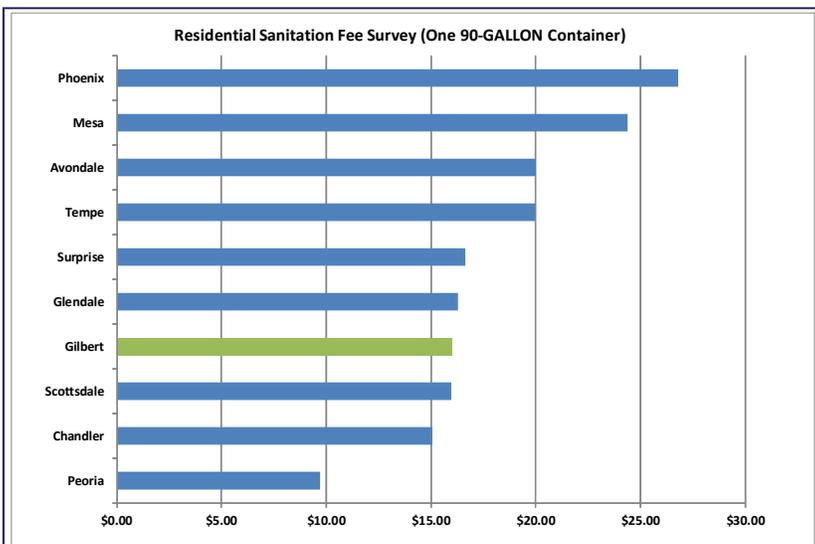
The results of the rate structure analysis for Wastewater will be re-evaluated as discussions with Town Council and citizens are conducted.

Environmental Services (Residential and Commercial) — Enterprise Fund

The comprehensive rate study for the Environmental Services enterprise funds followed the same process as the Water and Wastewater enterprise funds. The results of the revenue sufficiency analysis indicates that

revenues are sufficient for the planning period (FY 2015– 2024). The current rates and rate structure will allow the utility to operate with reserves in accordance with policy, as well as to build reserves to fund a proposed capital project in fiscal year 2024. The proposed capital project is the design and construction of a six acre transfer station.

The results of the rate structure analysis for Environmental Services will be re-evaluated as discussions with Town Council and citizens are conducted.



Rate and Fee Analysis

Fee Analysis

Objectives of Fee Analysis -

Beginning in FY 2015 an internal fee analysis will be conducted with the following objectives:

- Reflect fair and equitable cost of providing services to customers;
- Comply with applicable codes, laws, and regulations;
- Provide strategies to maintain or improve revenue stability;
- Further development of the Town's Fee policy, with established parameters of subsidy when appropriate.

As part of the formal comprehensive rate study that was conducted, miscellaneous fees associated with the utilities were reviewed. At this time no changes are recommended.

Efficiencies and Other Efforts

Beginning in the fall of 2014, the Office of Management and Budget (OMB) will undertake a three-year process, working closely with Town departments to review fees that are charged to users. Staff trained in Lean Six Sigma will assist in these efforts, whenever possible, by first mapping the process associated with each fee. Once the mapping of the process is complete, OMB staff will work to appropriately allocate costs to each step in the process. Costs associated with labor/personnel, equipment/computer, vehicle, materials, and overhead will be evaluated to determine the cost of providing the service associated with the fee. When the cost to provide service is determined, policy level decisions will be proposed regarding the level of cost recovery. It is anticipated that an update to the fees and charges policy will be developed for Council consideration. Any proposed fee changes in the first year will be incorporated into the FY 2016 zero based budget process.

Fiscal Policy Review

Objective

The Town's financial policies establish the framework for overall fiscal planning and management. The policies set forth guidelines for both current activities and long term planning. The purposes of the financial policies are:

- **Balanced Budget** – The Town is required, by Arizona Revised Statute, to adopt a balanced budget each fiscal year. A balanced budget is one in which the sum of estimated revenues and appropriated fund balances is equal to appropriations.
- **Fiscal Conservatism** – To ensure that the Town is at all times in solid financial condition, defined as:
 - Maximized efficiency – best possible service at the lowest possible cost
 - Cash solvency – the ability to pay bills
 - Budgetary solvency – the ability to balance the budget
 - Long-term solvency – the ability to pay future costs
 - Service level solvency – the ability to provide needed and desired services
- **Flexibility** – To ensure the Town is in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress.
- **Transparency and Communication** – To utilize best practices in communicating financial information to facilitate sound decision-making, to promote openness and transparency, and to inspire public confidence and trust.
- **Adherence to the Highest Accounting and Management Practices** – As set by the Governmental Accounting Standards Board and the Government Finance Officers Association standards for financial reporting and budgeting.

Background

First adopted on November 5, 2011, by the Town Council, the Policies of Responsible Financial Management. Policies were adopted in May 2013 by Council and establish the framework for overall fiscal planning and management by setting forth guidelines for current activities and long term planning. The purposes of the financial policies are to enhance the transparency of fiscal management practices, provide for a balanced budget, promote fiscal conservatism, provide flexibility and responsiveness, and ensure adherence to the highest accounting and management practices. These Policies of Responsible Financial Management are intended to foster and support the continued financial strength and stability of the Town of Gilbert.

Policy Statement Summary

The Town Council has adopted and committed to an extensive set of Policies of Sound Financial Management. The following is intended to provide a summary of each policy, but is not inclusive of the entire policy. For a complete listing of all policies please visit the Town of Gilbert Website.

Accounting, Auditing, and Financial Procedures

Defines financial reporting and audit requirements. A Comprehensive Annual Financial Report (CAFR) is produced annually according to Generally Accepted Accounting Principles. Independent annual audits are performed; procurement for these services is completed every five years.

Budget Administration

Defines levels of budgetary controls, transfer authority, and appropriation carry forward consideration. The Town Council sets policy and adopts the annual budget at the fund level as a total amount of expenditures. Financial control is set by Council at the fund level, with budgetary control for operating performance administered at the departmental level by the Town Manager. Budget adjustments for special revenue funds, excluding Highway User Revenue Funds, will be administered by the Office of Management and Budget, and will not exceed the available revenues. Grants and restricted appropriations are administered by department. Directors may authorize transfers within non-personnel budget lines at the same

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fund, department, and project level. The Town Manager or his/her designee is authorized to administer a budget adjustment process *within* a fund between departments or projects. The Budget Manager or his/her designee is authorized to approve any adjustments *between* funds, projects, or contingency transactions up to \$25,000. The Town Manager or his/her designee is authorized to approve any adjustments between funds, projects, or contingency transactions up to \$50,000. Council action is required to approve adjustments between funds, projects, or contingency transactions over \$50,000. All annual appropriations lapse at year-end and are considered for inclusion in the subsequent year's budget on a case-by-case basis.

Long-Range Planning

The Town needs to have the ability to anticipate future challenges in revenue and expense imbalances so that corrective action can be taken before a crisis develops. In order to provide Town officials with pertinent data to make decisions, the Budget Director shall annually develop, in coordination with Town departments, five-year revenue and expenditure forecasts for the General Fund, Enterprise Funds, and Streets Fund. These forecasts will identify changes in revenue and expenditures due to projected new development in the Town, economic indicators, legislative or program changes, labor agreements, and capital projects coming online. Oversight of Intergovernmental Agreements, Development Agreements and grant applications is the responsibility of the Office of Management and Budget.

Repair and Replacement Fund

Outlines requirements for each of the Town's repair and replacement funds; Infrastructure, Fleet and Rolling Stock, Information Technology Equipment, and Facilities. Funding for each of the replacement funds will be determined based on the needs of the Town in accordance with plans established to manage the repair and replacement cycles of fleet and infrastructure. An annual review of the replacement fund balances will be done to determine if the fund is over/under funded. The Information Technology Equipment repair and replacement fund policy outlines the recommended replacement cycle for various types of devices and network equipment that is managed by the IT Department.

Contingency

Outlines the budgeting of contingency funds for the General, Water, Wastewater, Environmental Services, and Streets Funds. Funding levels for contingency in each of these funds is determined annually during the budget process and will reflect the most-likely occurrences and levels of service for the following fiscal year. Contingency funds may be requested for unanticipated needs and opportunities that arise during the year.

Revenue Diversification

Provides guidelines for improving the stability of revenue sources in the General Fund. The Town values a diversified mix of revenue sources to mitigate the risk of volatility. The General Fund revenue base includes sales taxes, state shared revenues, and other revenue sources. Gilbert has a secondary property tax which cannot be used for operating expenditures. The Town will strive to maintain a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations by doing the following:

- Periodically conducting a cost of service study to determine if all allowable fees are being properly calculated and set at an appropriate level;
- Establishing new charges and fees as appropriate and as permitted by law;
- Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees;
- Aggressively collecting all revenues, related interest and late penalties as authorized by the Arizona Revised Statutes.

Use of Revenue

Gilbert avoids dependence on temporary revenue sources to fund recurring government services. One-time revenues should be used only for one-time expenditures and not for ongoing expenditures. By definition, one-time revenues cannot be relied on in future budget years.

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Examples of one-time revenues are unexpected audit collections for sales tax, sales of Town assets, or one-time payments to the Town. Sales tax revenue is a volatile source of revenue since it is a direct function of economic cycles. Sales tax revenues that exceed the normal growth rate should be used for one-time expenditures or to increase reserves for the inevitable economic downturns. When sales tax revenue growth is less than the normal growth rate, it may be necessary to use reserves until appropriate expenditure reductions or other measures can be implemented. Interest income is also volatile. Any interest earnings that exceed the average annual earnings over the last ten years should be used for one-time expenditures or to increase reserves.

The best use of one-time revenues is to invest in projects that will result in long term operating cost savings. Appropriate uses of one-time revenues include strategic investments, such as early debt retirement, capital expenditures that will reduce operating costs, information technology projects that will improve efficiency and special projects that will not incur ongoing operating costs. If projects are deemed appropriate strategic investments and do include increased ongoing operating costs, these costs should be acknowledged and planned for in long-range planning efforts prior to approval.

Fees and Charges

User fees and charges are payments for purchased, publicly provided services that benefit specific individuals. The Town relies on user fees and charges to supplement other revenue sources in order to provide public services. On a regular basis, the Town will conduct a cost of service study to identify the full cost of providing a service for which fees are charged. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components; direct labor, direct materials, and departmental or Town-wide indirect cost. User fees related to Enterprise fund operations are calculated to recover the entire cost of operations, including indirect, debt service, reserve for replacement and overhead.

Debt Management

Provides guidelines for the issuance of debt, preservation of the Town's bond ratings, maintenance of adequate debt reserves, and compliance with debt instrument covenants and provisions, and required disclosure to investors, underwriters and rating agencies.

While issuance of bonds is frequently an appropriate method of financing long-term capital projects, such issuance must be carefully monitored to preserve the Town's credit strength and to provide the necessary flexibility to fund future capital needs.

- The Finance and Budget Departments will work together with the Engineering Services Department to identify and prioritize potential capital investments, the related costs and benefits.
- Finance, OMB and Town Managers Office will identify potential funding sources for each improvement as outlined in the CIP.
- Finance and OMB will utilize other professionals as necessary to ensure compliance with the requirements of the issuance of bonds. Approval from Town Council must also be obtained.
- The Finance Department will utilize other professionals as necessary to determine whether the bonds will be sold competitively, or as a negotiated sale, or as a direct placement with a financial institution. The determination will be based on the financing needs and prevailing market conditions.
- Other conditions that need to be considered include: market conditions, financial limits (see below under "Restrictions on Debt Issuance"), long-term forecasts and specific funding sources. Finance and OMB will be responsible for reviewing the funding sources and financial forecasts to ensure compliance with existing bond covenants, debt limits and the potential impact on existing bond ratings prior to the issuance of any new bonds.
- Finance and OMB will ensure that pledged resources of the Town are adequate, in any general economic situation, so as to not hinder the Town's ability to pay its debt when due.

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Types of debt instruments utilized by the Town include General Obligation (G.O.) bonds, Revenue bonds, Municipal Property Corporation (MPC) bonds, and Improvement District bonds.

Restrictions on debt issuance:

- Where appropriate, the Town will consider “pay as you go” capital financing and/or the use of impact fees.
- The Town will not issue bonds to fund current operations.
- The Town will comply with applicable debt service coverage limitations in the bond covenants for Revenue bonds.
- Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, wastewater, electric, parks and open space, streets and public safety purposes may not exceed 20% of Gilbert’s net secondary assessed valuation, nor may outstanding general obligation bonded debt for all other purposes exceed 6% of Gilbert’s net secondary assessed valuation.

Debt Management Process:

- The Town will monitor the debt portfolio for restructuring or refunding opportunities. Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 3% of the principal amount of the bonds being refunded, or if the net present value savings exceed \$500,000, or for the purposes of modifying restrictive covenants or to modify the existing debt structure to the benefit of the Town.
- The Town will maintain regular contact with rating agencies through telephonic conferences, meetings, or visits on and off-site. The Town will secure ratings on all bonds issued when economically feasible.
- The Finance Department shall maintain a debt book for all bonds issued and update the book on an annual basis. This debt book shall include specific information regarding the size and type of debt issued, projects financed by the bonds, debt service schedules and other pertinent information related to each specific bond issue.
- This policy shall be reviewed and updated each year by the Finance and Budget Departments.

Post Issuance Compliance for Tax-Exempt Governmental Bonds

Outlines responsible parties within the organization to ensure compliance with the Internal Revenue Code and Treasury Regulations.

Purchasing

The Town shall require adequate financial controls to be included in the Town’s standard contract terms so as to provide assurance of minimum risk and access to review compliance with contract terms and conditions. Among these controls are the right to audit all provisions of contracts, the right to require appropriate levels of insurance, and the right to require complete financial reports if appropriate for the solicitation. All Purchasing transactions in the Town shall adhere to the adopted Purchasing Code.

Capital Improvement Plan

Gilbert adopts a Capital Improvement Plan (CIP) that provides a prioritized plan for funding major capital needs. The CIP is a public document that communicates timing and costs associated with constructing, staffing, maintaining, and operating publicly financed facilities and improvements with a total cost over \$100,000. The CIP also represents Gilbert’s Infrastructure Improvement Plan. This Plan serves as the basis for Gilbert’s System Development Fee calculations.

Projects included within the ten-year program must have sound cost estimates, an identified site, and verified financing sources, as well as confirmation it can be operationally staffed and maintained within the budget resources.

Fiscal Policy Review

The first five years of projected costs are combined with other data gathering techniques to project operating results for five years. This information is the basis for developing the next year's budget and is incorporated into the five-year financial forecasts. The purpose of the Capital Improvement Program is to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

- The Town Manager will annually submit a financially balanced, multi-year Capital Improvement Program for review by the Town Council pursuant to the timeline established in the annual budget preparation schedule. Submission of the Capital Improvement Program shall be consistent with the requirements of Title 42, Chapter 17, Article 3 of the Arizona Revised Statutes. The Capital Improvement Program will incorporate a methodology to determine a general sense of project priority according to developed criteria.
- The Capital Improvement Program shall provide:
 - A statement of the objectives of the Capital Improvement Program, including the relationship with the Town's General Plan, department master plans, necessary service levels, and expected facility needs.
 - An implementation program for each of the capital improvements that provides for the coordination and timing of project construction among various Town departments.
 - An estimate of each project's costs, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on Town revenues and operating budgets. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably anticipated to be available when needed.
 - For the systematic improvement, maintenance, and replacement of the Town's capital infrastructure as needed.
 - A summary of proposed debt requirements.
- The Town will match programs and activities identified in the Capital Improvement Program with associated funding sources. Reimbursements shall be applied to like projects and activities.
- The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase long term costs. As such, the Town will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the multi-year capital plan and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure assets.

Fund Balance Classifications

- The Governmental Accounting Standards Board (GASB) Statement No. 54 establishes accounting and financial reporting standards for all governments that report governmental funds. Governmental funds are defined as funds generally used to account for activities supported by taxes, grants, and similar resources and include the general fund, special revenue funds, debt service funds, and capital projects funds. GASB 54 does not apply to proprietary or fiduciary funds that include the enterprise, internal service, trust and agency funds.

For purposes of this policy and in accordance with GASB No. 54, unrestricted fund balance shall consist of the "committed", "assigned" and "unassigned" portions of fund balance.

- When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, as a general rule, the Town would consider the restricted amount to have been spent first.
- When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balances are available, as a general rule, the Town would first reduce the committed amounts, followed by assigned amounts, and then unassigned.
- For *committed* fund balance: formal action by Council through resolution is required to establish, modify or rescind *committed* fund balance. Such Council resolution must occur before the end of the reporting period.

Fiscal Policy Review

- For *assigned* fund balance: The Council authorizes the Finance Director to assign fund balance amounts to a specific purpose.

Minimum Unrestricted Fund Balance for the General Fund

Governmental Accounting Standards Board Statement No. 54 requires entities to create a formal policy that establishes a minimum level at which unrestricted general fund balance is to be maintained.

Fund balance is an important indicator of Gilbert's financial position. Maintaining reserves is considered a prudent management practice. Adequate fund balances are maintained to allow Gilbert to continue providing services to the community in case of unexpected emergencies or requirements and/or economic downturns.

A minimum unrestricted fund balance policy ensures the continuance of sound financial management of public resources when faced with unanticipated events that could adversely affect the financial condition of Gilbert and jeopardize the continuation of public services. This policy will ensure Gilbert maintains adequate unrestricted fund balance in the general fund to provide the capacity to:

- Provide funds for unforeseen expenditures related to emergencies
- Mitigate significant economic downturns or revenue shortfalls
- Stabilize the volatility of primary revenue streams
- Allow for responsiveness to legislative changes
- Secure and maintain investment grade bond ratings
- Provide for long-term stability of the Town's financial status

Gilbert shall establish and maintain a minimum unrestricted fund balance for the General Fund. This fund balance shall be adjusted for non-spendable funds to ensure adequate balance is retained based on actual cash available. For purposes of initially establishing the balance and maintaining hereafter, Gilbert shall retain a minimum requirement of 90 days working capital of the current fiscal year, which is equal to approximately 25% of General Fund budgeted expenditures, plus one year's worth of General Fund debt service payments. Current fiscal year expenditures shall be less capital outlay and transfers out budgeted for the General Fund. For purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance. Appropriation from the minimum unrestricted fund balance shall require the approval of Council. The Council may authorize use of the minimum unrestricted fund balance for unanticipated events threatening the public health, safety or welfare. The use of minimum unrestricted fund balance should be utilized only after all budget sources have been examined for available funds.

Any use of the minimum unrestricted fund balance must include a repayment plan based on a multi-year financial projection that plans to restore the fund balance to the minimum adopted level within the three fiscal years following the fiscal year in which the event occurred. Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.

Economic Development Reserve

Recognizing the importance of investment in local economic development activities, the Town shall annually budget an Economic Development Reserve of \$5 million in the General Fund for the purpose of supporting economic development activities in Gilbert. Utilization of this funding shall occur within existing Town policies on expenditures and use of funding, requiring Council approval for expenditures exceeding \$50,000.

To view the Town's financial policies in their entirety please see the [Financial Policy Section](#) of our Annual Budget Document.

Debt Analysis

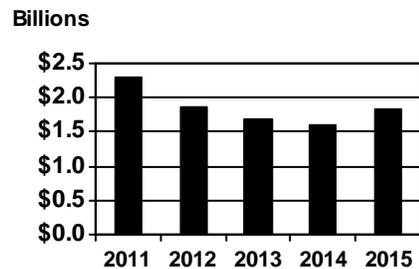
Gilbert issues debt to finance capital project construction. This section of the budget document provides summary information regarding the type of debt issued, the amount of debt outstanding, the legal limit for general obligation debt, the purpose for that debt, and future debt payment requirements.

The following table indicates the outstanding debt by type for Gilbert as of October 2, 2014:

Type of Bond	Principal Amount Outstanding
General Obligation	\$ 135,310,000
Street and Highway User Revenue	14,915,000
Public Facility Municipal Property Corporation	122,215,000
Water Resources Municipal Property Corporation	98,225,000
Improvement District	9,410,000
Total Bonds Outstanding	\$ 380,075,000

General Obligation (G.O.) Bonds are backed by the full faith and credit of the Town. The bonds are secured by the Town's secondary property tax. Capacity is limited based on Arizona's Constitution and the Town's secondary assessed valuation as determined by the Maricopa County Assessor. The following table illustrates the changes in secondary assessed valuation over the past ten years and the amount of property tax received to repay debt.

Secondary Assessed Value



Year	Secondary Assessed Valuation	Percent Change	Property Tax
2010/2011	\$2,297,228,317	-14.1%	\$26,418,130
2011/2012	\$1,861,193,961	-19.0%	\$21,403,731
2012/2013	\$1,675,360,422	-9.98%	\$19,266,645
2013/2014	\$1,594,806,737	-4.81%	\$18,340,277
2014/2015	\$1,829,471,839	14.72%	\$19,500,340

The cost of debt is affected by both credit ratings and market factors. Credit ratings reflect many factors, including a community's financial resiliency, demonstrated financial responsibility, economic development, and demographics. Gilbert has received ten rating increases over the last four years. The current ratings are as follows:

	Principal Amount	% of Total	Underlying Ratings		
			Moody's Investors	Standard & Poor's	Fitch Ratings
General Obligation Bonds	\$ 135,310,000	35.60%	Aa1	AA+	AA+
Street and Highway User Revenue Bonds	14,915,000	3.92%	Aa3	AA+	AA+
Water and Wastewater Revenue Bonds	0	0.00%	Aa3	AA+	N/R
Water Resources Municipal Property Corporation	98,225,000	25.84%	N/R	AA-	AA+
Public Facilities Municipal Property Corporation	122,215,000	32.16%	Aa2	AA	AA+
Improvement District Bonds	9,410,000	2.48%	Aa3	A+	N/R
Total Bonds Outstanding:	\$380,075,000	100.00%			

Debt Analysis

The average annual valuation growth of 10.54% (since 2001) in the Town combined with strategic debt planning allowed the Town to keep the same property tax rate for 17 years prior to FY 2002 and to decrease the rate to \$1.15 per \$100 in secondary assessed valuation for FY 2003. The 14.72% levy increase in FY 2015 is reflective of a property value increase due to new development and economic conditions relative to the real estate market, and reflects a **decrease** in rate to \$1.0659. Assessed value for Property Tax purposes lags market by nearly two years.

The Arizona Constitution and State Statute limits Gilbert's bonded debt capacity to certain percentages of Gilbert's secondary assessed valuation by the type of project to be constructed. There is a limit of 20% of secondary assessed valuation for projects involving streets, water, sewer, artificial lighting, parks, open space, and recreational facility improvements. There is a limit of 6% of secondary assessed valuation for any other general-purpose project.

Voter authorization is required before General Obligation Bonds can be issued. In 2001 a Citizens Bond Committee recommended the Council forward to the voters a bond authorization election in the amount of \$57,481,000. The Council approved this action and the bond authorization election was successful. In May 2003, the voters approved general obligation bonds in the amount of \$80 million to pay for street construction and in March 2006, voters approved \$75 million for street improvements and \$10 million for parks and recreation facilities. In November 2007, voters approved \$174 million for street improvements. The following table outlines the remaining authorization for each voter approved election:

<u>Election Date</u>	<u>Authorized</u>	<u>Issued</u>	<u>Remaining 20%</u>
November 2001	\$ 57,481,000	\$ 45,722,000	\$ 11,759,000
May 2003	\$ 80,000,000	\$ 80,000,000	\$ -
March 2006	\$ 85,000,000	\$ 85,000,000	\$ -
November 2007	\$ 174,000,000	\$ 102,990,000	\$ 71,010,000

The information below shows the legal bonding limit for General Obligation bonds as of July 1, 2014:

Debt Capacity with Bond Premiums Included	
6% Limitation	
FY 2014 Secondary Assessed Valuation	\$1,829,471,839
Allowable 6% Debt	109,768,310
Less: 6% Debt Outstanding	0
Unused 6% Debt Capacity	\$109,768,310
20% Limitation	
FY 2014 Secondary Assessed Valuation	\$1,829,471,839
Allowable 20% Debt	365,894,368
Less: 20% Debt Outstanding	(135,310,000)
Unused 20% Debt Capacity	\$230,584,368

The last General Obligation Bond sale occurred in July 2008. That issue received a Moody's rating of Aa2, which was an upgrade from the previous Aa3 rating. Moody's has since upgraded all underlying GO ratings to Aa1; Fitch and S&P have subsequently upgraded their underlying GO ratings for the Town of Gilbert to AA+, the second highest possible rating. This is evidence of the Town's emphasis on responsible financial stewardship, as well a reflection of a great community.

Debt Analysis

Street and Highway User Revenue Bonds are special revenue bonds issued specifically for the purpose of constructing street and highway projects. Gilbert received a ratings upgrade from S&P from a 'AA-' to a 'AA'. Gilbert's HURF bond rating from Moody's was also affirmed at Aa3 when other Arizona municipalities received downgrades due to the volatility of the revenue source. The bonds are secured by gas tax revenues collected by the State and distributed to municipalities throughout the State based on a formula of population and gas sales within the county of origin. These bonds are limited by the amount of HURF revenue received from the State. By state statute, the annual total debt service must not exceed one-half of the annual HURF revenues received.

The following table illustrates the debt service as a percent of anticipated revenue:

Year	HURF Revenue	Debt Service	Coverage
FY 2015	12,200,000	2,723,450	4.5x
FY 2016	12,566,000	3,382,550	3.7x
FY 2017	12,943,000	3,395,050	3.8x
FY 2018	13,331,000	3,411,250	3.9x
FY 2019	13,730,900	3,412,250	4.0x

Water and Wastewater Revenue Bonds are issued to finance construction of water and wastewater facilities. The debt is repaid through user fees. The voters must approve the bonds. The amount of debt issued is limited by the revenue source to repay the debt. In FY 2015 the wastewater portion of these bonds was paid off early, saving additional interest charges.

Water Resources and Public Facilities Municipal Property Corporation Bonds are issued by non-profit corporations created by Gilbert as a financing mechanism for the purpose of funding the construction or acquisition of capital improvement projects. The Municipal Property Corporation is governed by a board of directors consisting of citizens from the community appointed by the Council. These bonds may be issued without voter approval. Water Resources issues are split into two funds based on the revenue source for debt repayment; there is a debt service fund for Water projects and for Wastewater projects.

Improvement District Bonds are issued to repay debt used to finance construction of public infrastructure in a designated area within Gilbert. The property owners must agree to be assessed for the repayment of the costs of constructing improvements that benefit the owners' property. Gilbert is ultimately responsible for the repayment of the debt if the property owner defaults, with the property held as collateral.

The Town currently has two Improvement District bond issues outstanding totaling \$9,410,000.

Future Bonds will be sold to finance the construction of Saint Xavier University in spring 2015. Saint Xavier University's lease payments will be sufficient to cover all of the associated debt service costs. The town also anticipates selling the remaining voter authorized bonds for high priority streets projects over the next five years. The secondary property tax levy is determined on an annual basis based on the G.O. debt service needs.

Debt Analysis

PERSONNEL BY ACTIVITY	Actual FY 2012	Actual FY 2013	Budget FY 2014	Projected FY 2014	Budget FY 2015
No Personnel Allocation	0.00	0.00	0.00	0.00	0.00
Total Personnel	0.00	0.00	0.00	0.00	0.00

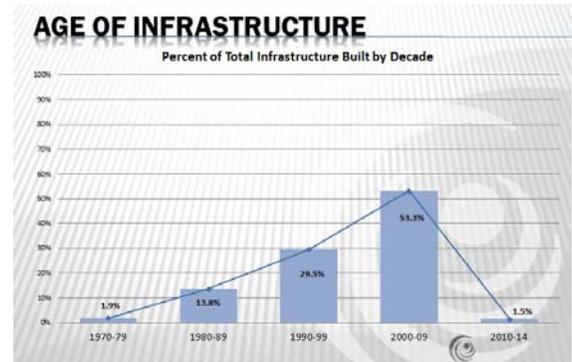
EXPENSES BY ACTIVITY	Actual FY 2012	Actual FY 2013	Budget FY 2014	Projected FY 2014	Budget FY 2015
General Obligation	64,396,121	25,081,510	24,692,120	24,692,120	21,960,350
Improvement Districts	975,728	1,143,920	7,005,415	7,005,415	6,584,050
Public Facilities MPC	15,713,047	13,904,029	21,244,538	15,910,285	19,148,642
Water System MPC	14,664,086	13,324,153	12,430,388	12,430,388	13,093,640
Wastewater System MPC	15,811,297	-	-	-	-
Total Expenses	\$111,560,279	\$ 53,453,612	\$ 65,372,461	\$ 60,038,208	\$ 60,786,682

EXPENSES BY CATEGORY	Actual FY 2012	Actual FY 2013	Budget FY 2014	Projected FY 2014	Budget FY 2015
Personnel	-	-	-	-	-
Supplies & Contractual	111,560,279	53,453,612	57,796,461	57,796,461	55,186,720
Capital Outlay	-	-	7,576,000	2,241,747	5,599,962
Total Expenses	\$111,560,279	\$ 53,453,612	\$ 65,372,461	\$ 60,038,208	\$ 60,786,682

OPERATING RESULTS	Actual FY 2012	Actual FY 2013	Budget FY 2014	Projected FY 2014	Budget FY 2015
Total Revenues	64,515,090	20,680,962	25,525,577	25,525,577	25,761,577
Transfers In	47,794,439	32,648,387	31,987,547	31,987,547	33,307,030
Total Sources	\$112,309,529	\$ 53,329,349	\$ 57,513,124	\$ 57,513,124	\$ 59,068,607
Total Expenses	111,560,279	53,453,612	65,372,461	60,038,208	60,786,682
Transfers Out	1,754,452	5,191,117	205,000	205,000	205,000
Total Uses	\$113,314,731	\$ 58,644,729	\$ 65,577,461	\$ 60,243,208	\$ 60,991,682
Net Operating Result	\$ (1,005,202)	\$ (5,315,380)	\$ (8,064,337)	\$ (2,730,084)	\$ (1,923,075)

Financial Strategies Development

The growth in the Town of Gilbert, particularly during the period from 1996 to 2010, has been characterized as explosive. The population as of July 1, 2014 had more than doubled since 2000, to a current Maricopa Association of Governments (MAG) estimate of 235,000 residents. Town Council and staff have worked diligently to ensure that all residents continue to enjoy exceptional quality of service at the lowest cost in the region. We measure our success in a number of ways, including through our nationally recognized [Performance Benchmarks](#), the continued receipt of exceptionally high marks on the [National Citizen Survey](#) (95 percent of Gilbert residents rated quality of life in Gilbert as Excellent or Good), and through an annual review of local government costs conducted by the City of Tempe.



With growth comes the need for not only additional service delivery, but also additional infrastructure. System development fees, collected at the time of permit, are used to build the additional capacity needed to support the new growth. As that infrastructure ages, however, those same revenue sources cannot be used to repair, rehabilitate, or reconstruct that infrastructure. Rather than waiting until problems become imminent, Gilbert is undertaking a comprehensive Long Range Infrastructure Plan to identify infrastructure needs as far out as 100 years, and develop strategies to effectively meet those needs.

As the Town undertakes staffing studies and master plan updates and completes its long range infrastructure plan, certain areas of deficiency are beginning to emerge. The Town is proceeding with the following strategies to maintain fiscal resiliency and operational excellence:

Identify and prioritize the gaps through master plans, program evaluations, benchmarks, and the long range infrastructure plan (LRIP).

Maximize process efficiencies and develop optimized solutions through Lean Six Sigma, 5S, Continuous Quality Improvement (CQI), Four Disciplines of Execution (4DX), and other tools. Utilize zero-based budgeting every three years to ensure resources are allocated to the highest and best needs.

Ensure the Town's revenue structure is appropriate to meet the community's needs through advocating for the appropriate population-based state-shared revenues, undertaking a mid-decade census adjustment to accurately reflect the Town's current population, and continuing to evaluate the Town's local revenue structure for relevancy, resiliency, diversity, and consistency with community and Council policies and values.

Glossary

Account	Financial reporting unit for budget, management, or accounting purposes.
Accrual	An accounting process that matches revenue to the period earned and the expenditures to the period incurred.
Actuals	Refers to the actual expenditures paid by and revenues paid to Gilbert.
Adoption	A formal action taken by the Town Council that sets the spending limits for the fiscal year.
Allocation	A component of an appropriation that is earmarked for expenditure by specific organization units and/or for special purposes, activities, or objects.
Appropriation	A legal authorization granted by Council which permits Gilbert to make expenditures of resources and to incur obligations for specific purposes.
Assessed Valuation	A valuation placed upon real estate or other property by the County Assessor and the state as a basis for levying taxes.
Asset	Valuable resource that an entity owns or controls. They represent probable future economic benefits and arise as a result of past transactions or events.
Audit	A formal examination, correction, and official endorsing of financial accounts undertaken annually by an accountant.
Available Fund Balance	Funds remaining from the prior year which are available for appropriation and expenditure in the current year.
Balanced Budget	Each fund in the budget must be in balance; total anticipated revenues plus beginning undesignated fund balance must equal or exceed total expenditure appropriations for the upcoming fiscal year.
Bond (Debt Instrument)	A written instrument to pay a specified sum of money (the face value or principal amount) on a specified date (the maturity date) at a specified interest rate. The interest payments and the repayment of the principal are detailed in a bond resolution or ordinance.
Bond – General Obligation (G.O.) Bonds	Bonds that finance a variety of public projects and require voter approval. These bonds are backed by the full faith and credit of the Town. Limitations for bonding capacity are set by State statute. The Town may issue general obligation bonds up to 20% of its secondary assessed valuation for water, wastewater, artificial lighting, parks, open space, public safety and emergency services, streets, transportation, and recreational facility improvements. The Town may issue general obligation bonds up to 6% of its secondary assessed valuation for any other general-purpose improvement.

Glossary

Bond – Highway Users Revenue (HURF) Bonds	This type of revenue bond is used solely for street and highway improvements and requires voter approval. State law imposes the maximum limitation of highway user revenue that shall be used for debt servicing of revenue bonds. The amount shall not exceed 50% of the total from highway user revenue for the previous twelve-month period.
Bond – Municipal Property Corporation (MPC) Bonds	This is a source of funding used to build current municipal facilities as well as major water and wastewater infrastructure facilities. Pledged against these bonds are the excise taxes of the community which include Town sales tax, franchise tax revenue, State shared sales tax, revenue sharing, and system development fee collections for growth-related projects.
Bond – Revenue Bonds	Revenue Bonds are bonds payable from a specific source of revenue, do not pledge the full faith and credit of the issuer, and do not affect the property tax rate. Pledged revenues may be derived from the operation of the financed project, grants, and excise or other specified non-property tax. These bonds require voter approval.
Bond Rating	The Town has an “issuer bond rating” of AA awarded by the rating firm of Standard & Poor’s and a rating of Aa1 awarded by the rating firm Moody’s. This means the Town’s capacity to meet its financial commitment on the debt obligation is very strong.
Bond Refinancing	The payoff and reissuance of bonds to obtain better interest rates and/or bond conditions.
Budget	A financial plan proposed for raising and spending money for specified programs, functions, or activities during the fiscal year. A detailed annual operating plan expressed in terms of estimated revenues and expenses for conducting programs and related services.
Business Unit	A group of activities that, joined together, perform a more inclusive function.
Capital Assets	Assets of significant value and having a useful life of several years. Capital assets are also called fixed assets.
Capital Improvement	Includes any expenditure over \$100,000 for repair and replacement of existing infrastructure as well as development of new facilities to accommodate future growth.
Capital Improvement Plan (CIP)	The CIP is a comprehensive plan of capital investment projects which identifies priorities as to: need, method of financing, project costs, and revenues that will result during a five-year period. The first year of the program represents the capital budget for the ensuing fiscal year and must be formally adopted during the budget process.
Capital Outlay	Purchase of an asset with a value greater than \$10,000 that is intended to continue to be held or used for a period greater than two years. Capital Outlay can be land, buildings, machinery, vehicles, furniture, and other equipment.

Glossary

Capital Projects	Projects typically included in the Capital Improvement Plan (CIP) which results in the acquisition or addition of fixed assets.
Carryforward	Year-end savings that can be carried forward to cover expenses of the next fiscal year. These funds can also be appropriations for encumbered amounts made in one fiscal year that are re-appropriated in a subsequent fiscal year.
Consumer Price Index	A statistical description of price levels provided by the U.S. Department of Labor. The index is used as a measure of the increase in the cost of living (i.e., economic inflation).
Contingency	An amount included in the budget that is not designated for a specific purpose. The contingency amount is budgeted for emergencies and unforeseen events.
Contractual Services	Services rendered to a government by private firms, individuals, or other governmental agencies. Examples include utilities, rent, maintenance agreements, and professional consulting services.
Debt Limit	A State-imposed limit on the amount of debt that can be issued.
Debt Service Department	Principal and interest payments on outstanding bonds. A major administrative division of the Town that indicates overall management responsibility for an operation or a group of related operations within a functional area.
Depreciation	Expiration in the service life of capital assets attributed to wear and tear, deterioration, inadequacy, or obsolescence.
Division	A group of homogeneous cost centers within a department.
Enterprise Funds	A sub-set of the Proprietary Fund Type that requires accounting for activities like a business where the results indicate income or loss from operations.
Expenditure	Actual outlay of funds for obtaining assets or goods and services regardless of when the expense is actual paid.
Fund	A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources.
Fund Balance	Represents the net difference between total financial resources and total appropriated uses.
Fiscal Policy	A written set of policies adopted by Town Council which establishes formal guidelines for financial activities of the Town.
Fiscal Year (FY)	<i>Fiscal Year</i> is the period designated for the beginning and ending of financial transactions. The Town fiscal year is July 1 to June 30.
GAAP	<i>Generally Accepted Accounting Principles</i> are the uniform minimum standards and guidelines for financial accounting and reporting which govern the form and content of the basic financial statements of an entity. These principals encompass the conventions, rules, and procedures that define the accepted accounting practices at a particular time.

Glossary

General Fund	Primary fund used to provide resources for day-to-day activities and services that provide support to direct service areas; the fund to be used for all financial resources except those required to be accounted for in another fund. Examples include Personnel, Technology Services Administration, Prosecution, and Planning and Development.
General Plan	A planning and legal document that outlines the community vision in terms of land use.
GFOA	<i>Government Finance Officers Association</i> is the professional association of state/provincial and local finance officers in the United States and Canada, and has served the public finance profession since 1906. Members are dedicated to the sound management of government financial resources.
General Obligation Bonds	Bonds for which the full faith and credit of the Town is pledged for payment.
Grants	State and Federal subsidies received in response to a specific need.
HOA	<i>Homeowners Association</i> is an organization of all owners of land in the development that is governed by a board. The HOA collects fines and assessments from the homeowners, maintains the common areas, and enforce the association's governing documents, including rules regarding construction and maintenance of individual homes.
HURF	<i>Highway User Revenue Fund</i> is a separate funding source dedicated to provide support for street improvements and maintenance.
IGA	<i>Intergovernmental Agreement</i> is a contract between governmental entities as authorized by state law.
Infrastructure	The physical assets of the town. Assets include streets, water, wastewater, public buildings, and parks.
Interfund Loans	Loans between Town funds, such as from operating funds to system development funds budgeted to complete projects that will be repaid to the operating funds in future years.
Internal Service Fund	A sub-set of the Proprietary Fund Type that accounts for the activity of internal functions providing service to other functional areas. An Internal Service Fund receives revenue by charging other areas in the Town based on services provided.

Glossary

Liability	An obligation of the entity to convey something of value in the future. Liabilities are probable future sacrifices of economic benefit that arise as a result of past transactions or events.
LRIP	<i>Long-Range Infrastructure Plan</i> is a component of the LTFP that seeks to identify assets, recommends repair and maintenance programs and replacement cycles.
LTFP	<i>Long-Term Financial Plan</i> is a plan which identifies fiscal issues and opportunities, establishes fiscal policies and goals, examines fiscal trends, produces a financial forecast, and provides for feasible solutions.
Maintenance	Expenditures made to keep an asset in proper condition or to keep an asset in working order to operate within its original capacity.
MAG	<i>Maricopa County Association of Governments</i> was formed in 1967. It is a voluntary association of governments and Indian communities formed to address regional issues in Maricopa County. MAG is the designated Regional Planning Agency and consists of 31 member agencies.
Modified Accrual	A basis of accounting used by governmental funds where revenue is recognized in the period it is available and measurable, and expenditures are recognized at the time a liability is incurred.
Operating Budget	The portion of the budget associated with providing ongoing services to citizens, includes general expenditures such as personnel services, professional services, maintenance costs, and supplies.
Property Tax Levy	The total amount to be raised by general property taxes for purposes specified in the Tax levy Ordinance. In Arizona, the property tax system is divided into primary and secondary rates.
Property Tax – Primary	Gilbert does not have a primary property tax. A Primary Property tax is a limited tax levy used for general government operations based on the Primary Assessed Valuation and Primary tax rate. The total levy for primary taxes is restricted to a 2% annual increase, plus allowances for annexations, new construction, and population increases.
Property Tax – Secondary	An unlimited tax levy restricted to general bonded debt obligations and for voter approved budget overrides. These taxes are based on the Secondary Assessed Valuation and Secondary Tax rate.
Rates	Refers to established fees for water, sewer and storm drains. Rates include fixed charges, such as water base fees, and variable charges, such as the sewer commodity fees.
Reserve	To set aside a portion of a fund balance to guard against economic downturn or emergencies.

Glossary

Revenue	Receipts from items such as taxes, intergovernmental sources, and user fees or resources from voter-authorized bonds, system development fees, and grants.
SDF	<i>System Development Fees</i> are collected at the time a building permit is issued to pay for the cost of capital improvements required due to growth.
Self Insurance	A calculated amount of money set aside to pay claims and compensate for future loss.
Special Revenue	Special Revenue Funds are a type of fund required to be established to account for a specific activity.
State Shared Revenue	Distribution of revenue collected by the State and shared based on established formulae that typically rely on population estimates.
Zero-Based	The base for the budget built from zero.



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