

## FINANCIAL POLICIES

This section details the financial policies that guide Pima County's budget development process.

### **Adhere to a Well Defined Budgetary Process**

Refer to pages 2-3 through 2-5 for an in depth discussion of the various elements of the budgetary process including the basis of presentation, basis of budgeting, budgetary control, budget amendments, and budget preparation and approval.

### **Adopt a Balanced Budget**

Arizona Revised Statute 42-17151 states, in pertinent part:

*On or before the third Monday in August each year the governing body of each county shall fix, levy and assess the amount to be raised from primary and secondary property taxation. This amount, plus all other sources of revenue and unencumbered balances from the preceding fiscal year, shall equal the total of amounts proposed to be spent in the budget for the current fiscal year.*

This requirement, in effect, mandates the adoption of a balanced budget. Furthermore, it is Pima County's policy that unencumbered balances from the preceding fiscal year are considered "one-time" monies and are not to be used to fund recurring expenses, i.e., recurring operating expenditures must be matched by recurring operating revenues.

### **Diversify the County's Revenue Sources**

#### Property Taxes

The fiscal year 2005/06 Adopted Budget relies on no change in the property tax rate for General Government, a \$0.1000 decrease in the Debt Service tax rate, a \$0.0451 increase in the Library District tax rate, and a \$0.0200 increase in the Flood Control District tax rate. The total property tax rate for Pima County decreases from \$5.4967 to \$5.4611 per \$100 of assessed valuation. (This includes \$0.0420 of the Fire District Assistance tax rate, set by state formula.)

For fiscal year 2004/05, Pima County had the highest combined property tax rate of any county in Arizona at \$5.4967 per \$100 of assessed value and the third highest primary tax rate at \$4.0720. The County's base of taxable property is relatively weak, consisting of \$6,035 of assessed value per person, whereas nine other counties, including Maricopa County, have a stronger tax base relative to their population. Despite having the highest combined property tax rate, the weaker tax base means Pima County annually collects relatively less local taxes per person.

#### General Government Revenues other than Property Taxes

Excluding revenues related to primary property taxes, projected fiscal year 2005/06 general government revenue from all other sources is \$137.3 million, an increase of \$12.6 million over the fiscal year 2004/05 adopted budget. State shared sales taxes are expected to increase by \$6.7 million. The adopted budget assumes that the \$3.8 million in State funding for Proposition 204 hold-harmless will be received. Other increases in revenue include \$1.5 million in contributions from enterprise funds, a \$642 thousand increase in Vehicle License Tax revenue, \$249 thousand in Federal payments in lieu of taxes, and \$94 thousand more from the County Hotel / Motel Tax. General Government Fees are budgeted to be \$54 thousand higher than last fiscal year's adopted budget. The Business License budget has been increased \$48 thousand and the Alcoholic Beverage Tax budget has been increased \$9 thousand. Revenue from interest has been budgeted to be \$411 thousand less than last year's budget, and the Miscellaneous Revenue budget is \$44 thousand less than the fiscal year 2004/05 budget.

## Departmental Revenue Enhancements/Increases

During each fiscal year's budget planning and preparation, opportunities for non-tax revenue enhancements and increases are routinely explored. For a complete schedule of revenue adjustments, including new fees and other charges, as well as existing fee increases, refer to the *Revenue Sources* section – *Summary of Revenue by Fund, Department, and Category*.

### Local Sales Tax

Several times over the course of the fiscal year 1999/2000 budget planning process, the Board of Supervisors discussed and voted on whether to adopt a half cent general excise tax (sales tax). As permitted by Arizona Revised Statutes, a unanimous vote of the Board would have enacted such a tax. However, a unanimous vote was not forthcoming, despite the County Administrator's strong recommendation that a sales tax be approved. During subsequent fiscal year budget planning processes, there was little such discussion, although the County Administrator remains firm in his belief that a sales tax should be enacted, in order to provide property tax relief, as well as to address the pressing needs of the County.

Unlike property taxes, it is estimated that between 13 and 20 percent of an excise tax in Pima County would be paid by nonresidents of the County. The estimated fiscal year 2004/05 half-cent sales tax revenues of \$61.6 million would have been the equivalent of a primary property levy of \$1.18 per \$100 of assessed value.

### State Shared Income Taxes

In the tax equity battle that occurred with the state legislature in the 1990's, tax equity for Pima County was defined as a three-legged stool, with redistribution of sales tax, highway user revenue funds (HURF), and state shared income tax each defining one leg of the stool. Sales tax equity was achieved first, followed by HURF equity in 1997. There has been no progress made in obtaining the third leg of the tax equity stool, which is state shared income tax.

All incorporated jurisdictions in Arizona receive state shared income taxes. If Pima County were an incorporated municipality, it would be the fourth largest city in the state. The County's share of income tax would be equivalent to more than \$30 million each year. If these revenues were received, they could be used to further reduce the primary property tax by \$0.54 per \$100 of assessed value.

### **Stabilize the Property Tax Rates**

Table 1 underscores the Board of Supervisor's commitment to stabilize tax rates. The total rate for fiscal year 2002/03 decreased by slightly more than 1 percent from the previous fiscal year, remained constant through fiscal year 2004/05 (except for the Fire District Assistance Tax, set by State formula), and decreased by 0.7 percent in fiscal year 2005/06.

**Table 1**

#### **Comparison of Property Tax Rates**

	<u>FY 2002/03</u> <u>Tax Rates</u>	<u>FY 2003/04</u> <u>Tax Rates</u>	<u>FY 2004/05</u> <u>Tax Rates</u>	<u>FY 2005/06</u> <u>Tax Rates</u>
Pima County Primary (General Gov't)	\$4.0720	\$4.0720	\$4.0720	\$4.0720
Debt Service	0.8150	0.8150	0.8150	0.7150
Library District	0.2124	0.2124	0.2124	0.2575
Flood Control District	0.3546	0.3546	0.3546	0.3746
Fire District Assistance Tax	<u>0.0458</u>	<u>0.0441</u>	<u>0.0427</u>	<u>0.0420</u>
Total	\$5.4998	\$5.4981	\$5.4967	\$5.4611

### **Maximize the Generation and Collection of Fines, Fees, and Reimbursements**

The former Office of Revenue, Collections and Audit had been reported within the County Administrator's department to provide audit, reporting and collection functions to increase County revenues through improved efficiency and collections. During fiscal year 2004/05, this activity was moved to the Finance Department and combined with the Cash Management section to create the Financial Management and Audit Division. The Financial Management and Audit Division reviews and analyzes the County's cash position, coordinates and monitors County collection activities, and conducts routine cash handling, performance, management, and contract audits pertaining to all County departments and Elected Officials' Offices.

### **Maintain an Adequate Ending General Fund Balance**

Over the past five years, the unreserved ending General Fund balance ranged from an actual high of \$31 million for fiscal year 2002/03 to an actual low of \$19.7 million for fiscal year 2000/01. The Board of Supervisors has adopted an unreserved ending General Fund Balance of \$15.8 million for fiscal year 2005/06, which is 3.8 percent of budgeted operating revenues, below the Government Finance Officers Association (GFOA) recommendation that "no less than five to 15 percent of regular general fund operating revenues be maintained as unreserved fund balance". However, over the past six years, actual unreserved ending fund balance typically has been significantly higher than the amount that had been budgeted, as seen in Table 2 below. If this trend continues, Pima County can again expect to see an actual unreserved ending fund balance that falls within the GFOA guidelines.

**Table 2**

#### **General Fund Unreserved Ending Fund Balance**

	<b>Budgeted</b>	<b>Actual</b>	<b>% of Revenue</b>
Fiscal Year 1999/00	\$ 2,000,000	\$23,221,039	8.4
Fiscal Year 2000/01	\$ 6,780,498	\$19,653,279	6.6
Fiscal Year 2001/02	\$11,500,000	\$28,655,034	9.0
Fiscal Year 2002/03	\$13,600,000	\$30,999,355	9.4
Fiscal Year 2003/04	\$13,400,000	\$24,953,866	6.9
Fiscal Year 2004/05	\$13,000,000	\$19,809,123 *	5.2
Fiscal Year 2005/06	\$15,800,000		3.8

\* projected

Close monitoring of expenditures, and strong intergovernmental revenues (e.g., state shared sales tax, vehicle license tax, etc.) have accounted for the favorable variances from budget. Continuing cost shifts from the State, as it faced its own fiscal crisis, led to a drop in the unreserved ending fund balances since fiscal year 2003/04.

### **Eliminate Long Term Cash Deficits**

The long-term cash deficits of certain funds are those that have accumulated as a result of losses over multiple years which cannot be covered by accounts receivable for those funds. In recent years, the largest of the County's long-term deficits was attributable to components of the Health Care System. At the beginning of fiscal year 1999/2000, funds within the Health Care System that had accumulated cash deficits were Kino Community Hospital, Posada del Sol, Pima Home Health, and Pima Health System Community Services. The total amount to be repaid was \$49.2 million.

Principally as the result of a 10 percent increase in the General Government tax rate in fiscal year 1999/2000, all of the \$49.2 million was repaid as of the end of fiscal year 2000/01.

Recognizing that the Health Care System would continue to face financial challenges, the Board of Supervisors approved \$12.3 million of General Fund operating transfers in fiscal year 2001/02, \$15.1 million in operating transfers in fiscal year 2002/03, and \$31 million in operating transfers in fiscal year 2003/04 to cover any short term operating deficits of the Health Care System. In fiscal year 2003/04, the Board of Supervisors began the process of leasing and turning over the operation of Kino Community Hospital to University Physicians, Inc. (UPI) in order to stem operating deficits. See page 6-11 of this section for a schedule of payments to UPI to cover the cost of this transition over the next ten years.

The Fiscal Year 2001/02 Adopted Budget included General Fund operating transfers of \$1,173,577 to retire the deficits of the Recycling and Solid Waste Funds. Landfill tipping fees and operations have been restructured to head off any future deficits.

The Stadium District accumulated a cash deficit of approximately \$6 million as of June 30, 2003. In fiscal year 2003/04, \$2.97 million was transferred from the General Fund to cut this deficit in half. In fiscal year 2004/05 an operating transfer from the General Fund addressed the remainder of the accumulated cash deficit.

The Graphic Services Internal Service Fund is projected to have an accumulated cash deficit of \$683,123 at the end of fiscal year 2004/05. This will be paid in fiscal year 2005/06 by a budgeted operating transfer from the General Fund.

#### **Provide Board of Supervisors General Contingency Funding**

The Board of Supervisors unreserved Contingency Fund is funded at \$1.0 million. This is a decrease of \$2.5 million from the fiscal year 2003/04 amount, since there is a reduced need to mitigate possible future adverse state budget actions regarding Arizona counties. With the Board's continued judicious management of these funds, as well as the Budget Stabilization Fund discussed below, it is realistic to assume that the fiscal year 2004/05 ending General Fund balance will be substantially higher than the budgeted amount. For fiscal year 1999/2000, similar planned management was responsible for a large part of the increase in the General Fund ending fund balance from a budgeted amount of \$2 million to an actual amount of \$23.2 million; for the fiscal year 2000/01 ending fund balance increase of \$12.9 million over the budgeted amount; for the fiscal year 2001/02 ending fund balance increase of \$17.2 million over the budgeted amount; for the fiscal year 2002/03 ending fund balance increase of \$17.4 million over the budgeted amount; and for the fiscal year 2003/04 ending fund balance of \$11.5 million over the budgeted amount.

#### **Provide a Tax Reduction/Debt Retirement Fund**

The Tax Reduction/Debt Retirement Fund was established in fiscal year 1999/2000 for the purpose of pooling revenues from various actions or activities in order to offset possible future tax increases. Revenue sources include any new revenues derived from expense recoveries, such as federal or state reimbursements for criminal justice and law enforcement, the sale of surplus property, and fee increases by General Fund departments, where General Fund support is reduced or the fees are not for a specified purpose. Since the fund's inception, over \$5.1 million in federal State Criminal Alien Assistance Program (SCAAP) revenue has been deposited to this fund, and over \$800 thousand in federal Southwest Border Prosecution Initiative revenue has been deposited to the fund.

## Provide a Budget Stabilization Fund

Prior to fiscal year 1999/2000, the only method of managing budget exceedences had been to reserve funding in the Board of Supervisors Contingency Fund for that purpose. In fiscal year 1999/2000 this process was further developed and institutionalized through the establishment of the Budget Stabilization Fund (in the General Fund). For fiscal year 2005/06, expenditure funding in the Budget Stabilization Fund amounts to \$3,343,214. Funding is reserved for the items listed in the following table:

**Table 3**

### **Budget Stabilization Fund**

Superior Court - restoration to competency	\$1,715,266
Sheriff – new jail costs	500,000
Information Technology – various items	400,000
Economic Development – Global Pharmaceutical	375,000
Recorder – special elections	160,435
Justice Courts – Judicial Hearing Officer	133,633
Justice Court - Pro Tem Costs	<u>58,880</u>
Total Budget Stabilization Fund	\$3,343,214

## Promote Budget Accountability

With the fiscal year 1999/2000 budget, the Board of Supervisors adopted a Budget Accountability Policy (see the *Supplemental Information* section - *Pima County Budget Policies*). The purpose of the policy is to establish guidelines and a methodology for the Board of Supervisors to perform their duties related to the budget and to operate Pima County Government as provided by law, by exercising financial and programmatic control over expenditures and revenues related to County programs and services. It specifically addresses appropriations for supplemental funding, transfers of appropriations among programs, and budget exceedence.

## Follow a Programmatic Method of Budgeting

Prior to fiscal year 1998/99, departments within Pima County budgeted solely on a cost center/account line item basis. While this type of presentation provides valuable information, it does not identify the full cost or funding sources associated with programs.

Starting in fiscal year 1998/99, and continuing since then, the budget has been presented using a line item and programmatic method. The goal of this presentation is to plan and measure financial operations and to evaluate programs and the impact they have on the community. *Programs* in this context are defined as *a group of closely related activities or services*. Departments organize their activities into programs and report quantitative results for each. They also provide a statement describing the main function or purpose of each program, the primary services provided, and goals and objectives.

Additionally, departments are asked to provide outcome, quality, output, and/or efficiency performance measures in their program submissions. To highlight performance trends, departments are asked to report each program performance measure for a three-year period, the actual result for fiscal year 2003/04, the estimated result for fiscal year 2004/05, and the planned result for fiscal year 2005/06. As this type of presentation evolves, the goal will be to have quality output and customer service performance measures added to departmental budget submissions.

## **Obtain Preapproval of Grants with Fund Impact**

Pima County receives significant grant funding from federal, state, and local agencies. Often, the Board of Supervisors had not been apprised of grant applications and resulting fiscal impacts to the County, until after grants were awarded and funding was pending or, in some cases, already received. Further, information and analysis accompanying requests for grant acceptance were inconsistent and in some cases insufficient to allow the Board to plan for the short and long term fiscal needs of the County. With the adoption of the fiscal year 1999/2000 budget, the Board directed that a policy be established to address these issues and to detail their expectations concerning acceptance terms and conditions under which grant funding is received. Board of Supervisors Policy No. D22.6 was adopted on October 26, 1999, and is contained in the *Supplemental Information* section - *County Budget Policies*.

## **Conduct Periodic Base Budget Reviews**

Board of Supervisors Policy No. D22.5, adopted on October 26, 1999, mandated that, beginning with fiscal year 2000/01, every department shall develop an annual budget using a zero base budget (ZBB) methodology at least once during each subsequent four-year period. Pursuant to the Board schedule, this fiscal year fourteen departments developed annual budgets using a zero base budget methodology. Other departments used the target base approach traditionally employed by the County.

Each department undergoing the zero base review is asked to budget on the basis of its current level of service without regard to its target base. Increased funding for new programs, mandates, or services is presented in supplemental requests. Departments are asked to conduct a thorough assessment of service demands; review, and if necessary, redefine program goals and objectives; and develop performance measures linked to the goals and objectives. Each line item request has to be fully justified and costs allocated to the appropriate service and activity.

The participating departments and Budget Division staff agree that the ZBB process is time consuming, but benefits derived from the process justify the time and personnel resources used. The ZBB process provides departments an opportunity to assess and justify department operations, identify services needed to meet goals and objectives, determine optimal levels of funding, accurately allocate revenue and expenditures to the appropriate programs, and prioritize services. All departments have completed the ZBB process at least once. In the future, departments will be encouraged to build upon their previous experience and improve on their efforts to achieve the objectives of the process, particularly in the areas of cost justification, performance measures, and operational efficiency.

## **Provide Justification for all Supplemental Requests**

During the budget process, any departmental funding request that exceeds the prior year's level of funding (with authorized adjustments) must include an impact statement describing the ramifications should additional funding not be granted. This impact can be stated in terms of opportunities lost, mandates not met, services not provided, or outcomes not achieved. Departments are also instructed to be as explicit as possible, when describing the effect of unfunded proposals, especially regarding the impact on Pima County residents. For fiscal year 2005/06 funding approved for supplemental requests includes a net fund impact of \$7,913,434 for General Fund operating departments. (See *Summary Schedules* section - *Summary of Adopted Supplemental Packages*.)

## **Provide Adequate Employee Compensation**

In his Fiscal Year 2005/06 Recommended Budget Memorandum to the Board of Supervisors (see *Budget Issues* section), the County Administrator states, "The County continues to struggle to remain competitive in attracting and retaining experienced, high quality personnel throughout our workforce. Approval of an employee compensation package for next year is necessary and appropriate."

With the adoption of the fiscal year 2005/06 budget, the Board of Supervisors approved a general salary adjustment of 2.5 percent effective the pay period beginning July 10, 2005. The Board also approved an additional 1.7 percent general salary adjustment to compensate employees for an equal percentage increase in employee contributions to the Arizona State Retirement System. In addition, Sheriff's corrections officers will receive a one step increase on their anniversary date. The following table summarizes the salary increases over the past seven years.

**Table 4**  
**Salary Increase Summary**

<b>Fiscal Year</b>	<b>Salary Increase</b>
FY 1999/00	2.5% <u>general adjustment</u> effective Jan 2, 2000 2.5% anniversary with successful performance evaluation
FY 2000/01	2.5% anniversary with successful performance evaluation
FY 2001/02	2.5 % <u>general adjustment</u> effective Sep 9, 2001 5.0% <u>market adjustment</u> on anniversary establish <u>step plan</u> for Sheriff
FY 2002/03	\$0.8135 per hour or one time \$500 <u>general adjustment</u> effective Dec 19, 2002 1 <u>step adjustment</u> for Sheriff non command staff effective date in class
FY 2003/04	No general adjustment, anniversary increases, or step increases awarded
FY 2004/05	2.5% <u>general adjustment</u> effective Aug 8, 2004 2.5% <u>general adjustment</u> effective Dec 26, 2004 1 <u>step adjustment</u> for Sheriff non-command staff effective date in class new <u>step plan</u> for Sheriff's non-command staff, offering a market adjustment to bring officers in line with other local jurisdictions
FY 2005/06	2.5% <u>general adjustment</u> effective Jul 10, 2005 1.7% <u>general adjustment</u> effective Jul 10, 2005 to compensate for increased retirement rate contribution for members of the Arizona State Retirement System 1 <u>step adjustment</u> for Sheriff's corrections non-command staff effective date in class

## **Continue to Implement the County Ordinances that Authorize Bond Projects**

### Capital Improvement Plan and Capital Projects Budget

Bonding is not a new or unique method of financing public infrastructure and expansion in Pima County, as there have been nine voter-approved bond elections since 1974 yielding over \$2 billion in voter-approved bonds.

In May and November of 1997, voters authorized approximately \$257 million of general obligation bonds, \$105 million of sewer revenue bonds, and \$350 million of transportation bonds, for a total 1997 authorization of \$712 million. More recently, in May 2004, voters authorized approximately \$582 million of general obligation bonds and \$150 million of sewer revenue bonds, for a total 2004 authorization of \$732 million. Of the \$582 million of 2004 authorization of general obligation bonds, \$174.3 million are designated for open space acquisition use. Combining the 1997 and 2004

authorization provides total bond proceeds of \$1.44 billion. As a result of these approvals, Pima County currently has \$1.92 billion in active, funded capital improvement projects (including Wastewater Management). Of this amount, \$1.51 billion covers bond related projects and \$410 million covers non-bond related projects. The proposed Capital Improvement Plan (CIP) for fiscal years 2005/06 - 2009/10 identifies, among other items: active projects, funding sources, debt profiles, unfunded needs, and a schedule of bond sales. The CIP currently has 205 capital improvement projects and a total of \$165.6 million budgeted for fiscal year 2005/06. Of this amount, \$21.8 million is for projects funded by Wastewater Management, and \$143.8 million was approved in the fiscal year 2005/06 Capital Projects Adopted Budget. In addition, \$18.4 million is expected in matching funds with the primary source being \$10.1 million from the Corps of Engineers for Flood Control projects. (For project-by-project details, see the *Summary Schedules* section – *Summary of Active Capital Improvement Projects*.)

The following table shows that, of the \$712 million in the 1997 bond authorization, \$501.4 million in bonds have been sold; and of the \$732 million in the 2004 bond authorization, \$102 million in bonds have been sold.

**Table 5**

**1997 and 2004 Bond Authorizations**

	<u>1997 Authorization</u>	<u>Amount Sold</u>	<u>Amount Remaining</u>
General Obligation Bonds	\$257.0 m	\$220.6 m	\$ 36.4 m
Sewer Revenue Bonds	105.0 m	99.6 m	5.4 m
Transportation Bonds	<u>350.0 m</u>	<u>181.2 m</u>	<u>168.8 m</u>
Total Bonds	\$712.0 m	\$501.4 m	\$210.6 m
	<u>2004 Authorization</u>	<u>Amount Sold</u>	<u>Amount Remaining</u>
General Obligation Bonds	\$582.0 m	\$102.0 m	\$480.0 m
Sewer Revenue Bonds	<u>150.0 m</u>	_____	<u>150.0 m</u>
Total Bonds	\$732.0 m	\$102.0 m	\$630.0 m

Legal Debt Limits

- County General Obligation Bonds

General obligation debt may not exceed six percent of the value of the County's taxable property as of the latest assessment. However, with voter approval, debt may be incurred up to 15 percent of the value of taxable property. Legal debt margin at June 30, 2004, is as follows (in thousands):

Net assessed valuation:	\$5,221,271
<u>Debt Limit (15% of net assessed valuation):</u>	\$ 783,191
<u>Amount of debt applicable to debt limit:</u>	
General obligation bonds outstanding	\$ 232,105
Less net assets in debt service fund available for payment of general obligation bond principal	<u>(2,648)</u> <u>(229,457)</u>
Legal debt margin available	<u>\$ 553,734</u>

- Flood Control District General Obligation Bonds

Flood Control general obligation debt may not exceed five percent of the value of the Flood Control District's taxable property as of the latest assessment. Legal debt margin at June 30, 2004, is as follows (in thousands):

Net assessed valuation:		\$4,511,100
<u>Debt Limit (5% of net assessed valuation):</u>		\$ 225,555
<u>Amount of debt applicable to debt limit:</u>		
Flood Control general obligation bonds outstanding	\$3,805	
Less net assets in debt service fund available for payment of flood control bond principal	<u>(26)</u>	<u>(3,779)</u>
Legal debt margin available		<u>\$ 221,776</u>

For fiscal year 2004/05, debt percentages were estimated to be 4.13 percent for general obligation bonds and .08 percent for Flood Control general obligation bonds. (For details see the *Supplemental Information* section – *Long Term Debt Service Schedules*.)

- Street and Highway Revenue Bonds

Arizona Revised Statute § 11-378 presently requires that in order for the County to issue bonds payable from Street and Highway Revenues, the County must have received Street and Highway Revenues in the year preceding the issuance of the additional bonds in an amount equal to at least one and one-half times the highest annual principal and interest requirements thereafter to come due on all such bonds to be outstanding following the issuance of the additional bonds, provided that if the Street and Highway Revenues received in the preceding year do not equal at least two times the highest annual principal and interest requirements, the proposed bonds must bear a rating at the time of issuance of "A" or better by at least one nationally recognized credit rating service, taking into account any credit enhancement facility in effect with respect to such bonds.

Each time Pima County has issued Street and Highway Revenue Bonds, the County has met the requirements of Arizona Revised Statute § 11-378. In fiscal year 2004/05, the County issued \$51.2 million in Street and Highway Revenue Bonds and met the statutory requirement. Although no additional bonds are expected to be issued in fiscal year 2005/06, HURF revenues are budgeted at \$54.5 million and \$16.9 million in Street and Highway Revenue Bonds debt service is scheduled, providing approximately 3.2 times coverage.

The 1997 and 1999 state legislatures passed what is known as "HURF equity" legislation. This legislation changed the distribution formulas to account for, in part, unincorporated populations, netting Pima County a 28 percent increase in HURF receipts in fiscal year 1997/98, the first year the legislation took effect. Over the ten year period ending with fiscal year 2006/07, the HURF equity legislation is estimated to net an additional \$144.6 million to Pima County. These additional dollars have been and will continue to be used first for debt service on transportation revenue bonds, with the remainder used for other transportation related expenses.

## - Sewer Revenue Bonds

There is no statutory legal debt limit on Sewer Revenue Bonds. Within the bond documents for Sewer Revenue Bonds, the County has provided a covenant to the bond holders which limits the issuance of additional Sewer Revenue Bonds unless the covenant set forth in Board of Supervisors' Resolution No. 1991-138 has been met. That covenant requires that the net revenues of the sewer system for the year preceding an issuance of bonds be at least 120 percent of the maximum annual debt service for all bonds.

### Matching of Bond Proceeds

Over the years, the County has been very successful in matching bond proceeds with other funding sources. For example, the \$712 million 1997 bond authorization is expected to be leveraged with \$788 million in other funding sources, such as federal and state aid, private contributions from home owners associations and developers, Flood Control District tax revenues, HURF revenues, roadway impact fees, lease purchase payments, and sewer connection fees. When completed, the 1997 Bond Program will result in a \$1.5 billion investment in the community. Furthermore, the 2004 bond authorization is expected to leverage between \$116 million to over \$213 million in other funding sources such as those mentioned immediately above, for an additional total potential community investment of \$945 million.

### Operating and Maintenance Costs

The sale of bonds not only obligates the County for the repayment of principal and interest, but also obligates it for the payment of future costs related to the continued operating and maintenance of capital improvements. To plan for these future costs, Pima County routinely studies projected expenditures associated with completed CIP projects. This planning enables the County to better judge the amount of other revenues needed to maintain facilities and identify appropriate alternative sources of funding in advance of actual needs. Additional information about operations and maintenance expenditures associated with capital improvement projects can be found in the *Budget Overview* section - *Pima County Capital Improvement Program*.

### Bond Sales Scheduling

The schedule of bond sales is premised upon pledges by the Board of Supervisors to maintain secondary property taxes for general obligation debt at or below \$0.815 per \$100 of assessed valuation, and debt service for transportation revenue bonds at or below the increment received as a result of passage of "HURF equity" legislation. In general, annual increases in Wastewater Management user fees of 8 percent or less and annual increases in connection fees of 12 percent or less are the goals.

## - General Obligation Bonds

For fiscal year 2005/06, the secondary tax rate was reduced by \$0.1000 from the fiscal year 2004/05 rate to \$0.7150 per \$100 of assessed valuation.

## - Sewer Revenue Bonds

In fiscal year 1997/98, sewer user and connection fees increased 4.3 percent and 12 percent respectively. No fee increases occurred in fiscal year 1998/99. User fees and connection fees increased by 5.3 percent and 11 percent respectively in fiscal year 1999/2000, by 5 percent and 11 percent in fiscal year 2000/01, by 3.8 percent and 12 percent in fiscal year 2001/02, and by 5 percent and 12 percent in fiscal year 2002/03. The Board also approved two additional 12 percent rate increases in Connection Fees (Participating Rates) to be effective on June 1, 2003, and on September 1, 2003. User fees and connection fees increased by 4 percent and 6 percent respectively in fiscal year 2004/05 and by 8 percent and 10 percent in fiscal year 2005/06.

































