BUDGET ISSUES

This section of the Fiscal Year 2006/2007 Adopted Budget for Pima County identifies the predominant budget issues faced by the Pima County Board of Supervisors, during the formulation and adoption of this fiscal year's budget. The issues are delineated in the County Administrator's memorandum, *Transmittal of Recommended Fiscal Year 2006/07 Budget*, dated April 26, 2006; his May 16, 2006 memorandum *Tentative Budget Adoption: Fiscal Year 2006/07*; his June 20, 2006 memorandum, *Fiscal Year 2006/07 Final Budget Adoption*. (The memoranda are located on pages 4-3, 4-45, and 4-49, respectively.)

Issues Synopsis

- Budget Increases But Overall Tax Rate Decreases - The overall County budget, including all funds is $1,279,658,041, an increase of $77.2 million over the fiscal year 2005/06 budget. The increase is due to increased expenditures in the General Fund ($35.5 million), in Capital Projects ($12.1 million), the Enterprise Funds ($3.3 million), Special Revenue Funds ($20.6 million) and Debt Service Fund ($5.7 million).

- The total County tax rate decreased by $0.1205. The primary property tax rate for the General Fund decreased by $0.2300; the secondary tax rate for Bond Debt Service and the Regional Flood Control District remained the same; and the secondary tax rate for the Library District increased by $0.1100. The Fire District Assistance rate decreased by $0.0005.

- Library Transition – On February 21, 2006, the Board of Supervisors unanimously approved an agreement with the city of Tucson to transfer library operations and funding to the County Free Library District. The agreement allows the city to decrease its funding for library services incrementally until the year 2010. In the current year, city funding decreased to $8,000,000. For fiscal year 2006/07 the city's contribution will be $6,000,000, decreasing to zero in fiscal year 2009/10. To facilitate the transition of funding of the library system to the County and to provide for new and expanded facilities, the Board approved an increase of $0.1100 in the County Free Library District tax rate.

- Primary Property Tax Rate Reduction – In order to offset the impact of the transition and enhancement of the library system, the Board approved a decrease of $0.1100 in the primary property tax rate. In addition, the Board approved another $0.1200 reduction in the tax rate to lessen the impact of the substantial jump in market appreciation of property on taxpayers in the County. The total reduction in the primary property tax rate of $0.2300 (5.65 percent reduction in the tax rate) reduces the base revenues by $14,371,021.

- $17.3 million of the Fiscal Year 2005/06 Ending Fund Balance Used – The Board of Supervisors adopted the County Administrator's recommendations to use $17,283,497 of the fiscal year 2005/06 ending fund balance to fund fiscal year 2006/07 requirements. The Space Acquisition Fund, established to reserve funds to facilitate workspace expansion, was allocated $3,973,805. The Facilities Renewal Fund, established to provide resources for the on-going need to repair and rehabilitate existing, aging County buildings, was appropriated $3,000,000. The Board allocated $1,671,538 to fund numerous one-time, capital improvement and equipment needs of Natural Resources, Parks and Recreation facilities and properties, and $1,904,500 to fund other departmental requests for supplemental funding for one-time expenditures. The Information Technology Enhancement Fund, established to address the ongoing need to maintain and enhance the County's information systems, was allocated $900,000. The Board allocated $282,459 to retire the Graphic Services deficit, the last remaining long term deficit in the County. Set aside in the Reserve

Contingency Fund were the $375,000 County contribution to the Critical Path Institute, the $150,000 County share to commission a comprehensive study of the viability of a regional water authority, and $5,206,195 reserved for possible unallowable use of Vehicle License Tax (VLT) funds in fiscal year 2004/05.

- Rainy Day Funds Increased – $23,000,000 of the projected fiscal year 2005/06 ending fund balance is budgeted as the ending fund balance for fiscal year 2006/07. This is a $7.2 million increase over the fiscal year 2005/06 budgeted year-end fund balance of the General Fund. Having this budgeted reserve has given the County a favorable bond rating which has produced substantial savings from lower interest payments on County bonds. The reserve has also enabled the County to minimize the negative fiscal impacts of a variety of unforeseen events over which the County has had little or no control.

- Employees Receive a Salary Adjustment – Most County employees will be awarded a 2.8 percent increase to address inflation effective July 1, 2006. The General Fund cost for this salary adjustment for fiscal year 2006/07 is $4,889,494. The Board also approved an additional 1.7 percent salary adjustment to employees participating in the Arizona State Retirement System to offset an equal percentage increase in required employee contributions. The cost to the General Fund for this salary adjustment is $2,018,079. Non-General Fund supported departments will absorb these increases.

- Commissioned and corrections officers assigned to a Step Plan were awarded one step or 5 percent on their anniversary date in classification. The General Fund cost to fund this increase for fiscal year 2006/07 is $645,539.

- Supplemental Requests From Departments – The Board approved a General Fund net negative fund impact of $8,782,665 for supplemental funding requests. More than half of this total went to fund supplemental requests from the Justice and Law Enforcement System.

Board of Supervisors Memorandum

Date: April 28, 2006

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2006/07 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2006/07 Budget for Pima County. These recommendations are made based on information available in mid-April 2006. It is possible that additional relevant information will become available for the Board as it deliberates on the budget prior to final adoption.

Significant events in the Budget adoption and tax levy process are scheduled as follows:

May 16, 2006	Budget Hearing
May 16, 2006	Tentative Budget Adoption (Sets Budget Ceiling)
June 20, 2006	Final Budget Adoption
August 21, 2006	Tax Levy Adoption (Date Set by State Statute)

This Recommended Budget is being transmitted prior to adjournment of the Arizona Legislature and adoption of the State Budget for Fiscal Year 2006/07. Many proposals are under consideration at the Legislature that would affect expenditures and revenues of Pima County. It is not possible at this time to precisely predict what the net impact of the State's Budget, when finally adopted, will be on Pima County. The County's base operating budget for all funds set forth in this recommendation does include projected continuing and new cost shifts, revenue reductions and revenue sharing from the State. It is possible, however, that this Recommended Budget will require revisions in some amount prior to final adoption to reflect additional fiscal impacts ultimately enacted by the State.

Following this budget memorandum are:

- Budget schedules showing fund balances, expenditures, revenues, transfers and other financing sources.

- A summary of each department's budget including a description of the budget on a line-item account basis.

- Descriptions of all supplemental funding packages requested by each department.

Included within the Recommended Budget is information derived from the zero-base budgeting methodology utilized for select departments. On October 26, 1999, the Board adopted Board of Supervisors Policy No. D 22.5, providing that all departmental budgets undergo a periodic zero-base budget review to evaluate the existing base level of funding as compared to the level and volume of services actually being provided. This year the requested General Fund budgets of the Assessor, County Attorney, Finance, Indigent Defense, Justice Court - Ajo, Justice Court - Green Valley, Justice Courts - Tucson, Office of Court Appointed Counsel, Recorder and Sheriff were constructed using a zero-base approach. The results of this process are discussed in Section V.B.(3) of this budget memorandum.

Index of Budget Memorandum

I. Overview of Recommended Budget 6

II. Summary of Key Budget Issues 7

III. General Fund Ending Fund Balance: Fiscal Year 2005/06 9

A. Positive Ending Fund Balance 9

B. Recommended Uses of General Fund Ending Fund Balance 10

1. Budgeted General Fund Ending Fund Balance: Fiscal Year 2006/07 10

2. Retirement of Last Long Term Deficit 11

3. C-Path 11

4. Facilities Renewal Fund 12

5. Natural Resources, Parks and Recreation: Renovations, Improvements and Equipment 12

6. Information Technology Enhancement Fund 13

7. Regional Water Authority Study 13

8. Departmental Requests for One-Time Supplemental Funding 14

9. Space Acquisition Fund 15

C. Summary of Recommended Uses of General Fund Ending Balance 15

IV. General Fund Base Budget: Fiscal Year 2006/07 16

A. General Fund Base Budget Revenues 16

1. General Government Revenues Other Than Property Taxes 16

2. Primary Property Tax Revenues 17

3. Departmental Revenues 18

B. General Fund Base Budget Expenditures 18

V. Recommended Adjustments to General Fund Base Budget 19

A. Recommended Decreases to General Fund Revenues 20

1. Library Transition Offset 20

2. Additional Primary Property Tax Rate Reduction 20

B. Recommended Increases to General Fund Base Budget Expenditures 21

1. Property Tax Rate Stabilization Fund 21

2. Employee Compensation 22

a. Shift Differential Pay Increase 22

b. Commissioned and Corrections Officers Assigned to a Step Plan 22

c. Cost of Living Adjustment 23

d. Employee Retirement Contribution Increase 23

3. Zero-Base Budget Adjustments 24

4. Recommended Departmental Requests for Supplemental Funding 26

a. Justice and Law Enforcement 26

b. Community Programs 28

c. Natural Resources, Parks and Recreation 29

d. Public Health 29

e. Forensic Science Center 30

f. Elections 30

g. Procurement 30

h. Facilities Management 30

VI. Summary of Recommended Adjustments to General Fund Base Budget 31

VII. The Overall Budget 31

A. County Travel Expenditures 31

B. Special Districts and Debt Service 33

1. County Library District 33

2. Debt Service Fund 34

3. Regional Flood Control District 35

4. Stadium District 36

C. Annual Capital Projects Fund Budget and Capital Improvement Plan Budget . . 37

1. Capital Projects Fund Budget 37

2. Wastewater Management Capital Budget 38

D. Combined Total County Budget 39

1. Combined County Property Tax Rate 39

2. Combined County Budget 39

VIII. Conclusion 40

I. Overview of Recommended Budget

- The Recommended Budget reduces the primary property tax rate by 23 cents, a 5.65 percent or $14,371,021 reduction in the levy from the current rate. This reduced rate, at $3.842, is the lowest primary rate in eight years. This reduction is more than the increase in the property tax base resulting from market appreciation of existing property. Therefore, the remaining dollar increase in the primary levy is entirely funded by new growth in the County.

- The combined rate of all County property tax levies is reduced 12 cents as the Library District rate is recommended to increase 11 cents to facilitate the continued transition of Library funding from the City of Tucson to the County and provide for all cost increases and expansions in the Library System next year. The resulting net combined rate, at $5.2991, is the lowest combined rate in eight years.

- Other than the Library District, this Budget does not propose to increase or establish new taxes or fees.

- This Budget continues to fund all existing County responsibilities, programs and functions and does not propose any cuts or eliminations within existing departmental budgets.

- This Budget addresses numerous needs relating to increased mandates, population growth, inflationary cost increases, decreasing grant revenues, and operating costs for new, voter approved bond projects including:

  - A total of more than $10 million of additional funding to enhance the Justice and Law Enforcement System, including almost $1.7 million for full and grant match funding to add 29 new Sheriff's deputies.

  - More than $7 million of additional funding to support, enhance and expand the countywide Library System.

  - More than $2.4 million for renovations, improvements and operating costs for new facilities in the Parks System.

  - Almost $1.4 million to replace federal and state grant reductions in criminal justice and job training revenues.

  - Almost $4.5 million for increased payments mandated by the State of Arizona to fund indigent acute and long term care programs.

  - Almost $8 million to remain competitive by increasing the compensation of the County workforce.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2005/06 is $40,283,497, an increase of $24,483,497 over the budgeted balance of $15,800,000.

- It is recommended that the one-time Fiscal Year 2005/06 ending balance be allocated for the following purposes:

  - $23,000,000 as the budgeted General Fund ending balance for Fiscal Year 2006/07 which is 5 percent of General Fund revenues.

  - $282,459 to retire the last remaining accumulated, long-term fund deficit in the County: Graphic Services Internal Service Fund.

  - $375,000 for the second of five annual contributions to support establishment of the Critical Path Institute or C-Path.

  - $3,000,000 for the Facilities Renewal Fund to continue rehabilitation of ageing County buildings.

  - $1,671,538 for renovations, improvements, and equipment for Natural Resources, Parks and Recreation facilities.

  - $900,000 for the Information Technology Enhancement Fund to address related departmental supplemental and zero-base requests for increased funding.

  - $150,000 to fund a Regional Water Authority viability study subject to cooperation and financial participation by the City of Tucson.

  - $1,904,500 to fund a variety of departmental requests for supplemental, one-time funding, including vehicles and equipment for 15 additional Sheriff's deputies.

  - $9,000,000 for the Space Acquisition Fund to afford resources and flexibility to the Board of Supervisors as it considers alternatives to address a shortage of County workspace in the downtown area.

- Assuming continuation of the current primary property tax rate of $4.072, General Fund base revenues and transfers-in for Fiscal Year 2006/07 are projected to be $459,944,492.

- General Fund base expenditures and operating transfer-out for Fiscal Year 2006/07 are projected to be $428,883,506.

- The primary property tax rate is recommended to be reduced by 23 cents from the current $4.0720 to $3.8420 per $100 of assessed value with a corresponding decrease in the primary levy amount of $14,371,021.

- The recommended decrease in the primary levy amount will more than offset, in the aggregate, the increase in the valuation of existing property resulting from market appreciation. The remaining increase in the primary levy will be entirely funded by new growth in the County.

- Recommended increases to base expenditures using the $20,699,088 of excess revenues remaining after reduction of the primary levy are:

  - $3,200,000 set aside in the Property Tax Rate Stabilization Fund to avoid a roller coastering of the primary and County combined tax rates in future years.

  - $7,959,395 for an employee compensation package consisting of a 20 cent per hour increase in Shift Differential Pay, a one step or 5 percent increase for commissioned and corrections officers assigned to a Step Plan, 2.8 percent increase for employees not receiving a step increase to address inflation, and 1.7 percent for employees who are members of the Arizona State Retirement System whose required contribution will increase by that amount.

  - $4,333,066 for adjustments to eleven zero-based department budgets, primarily for increased costs of supplies, fuel and services.

  - $5,206,627 for supplemental departmental funding consisting of:

    - $3,290,780 for Justice and Law Enforcement including funding for 29 new Sheriff's deputies and replacement of over $1 million of reduced federal and state grants.

    - $566,983 for Community Programs including Neighborhood Reinvestment and Affordable Housing and replacement of over $300,000 of reduced federal job training grants.

    - $755,083 for Natural Resources, Parks and Recreation including operating costs for 8 new Parks facilities opening next year.

    - $209,718 for Public Health including additional Animal Care Officers, Public Nursing Services and disease control capabilities.

- $160,086 for the Forensic Science Center to address increased caseloads.

- $223,977 to address deficiencies in Elections, Procurement and Facilities Management.

- The recommended budget for the Library District is $34,445,185, and requires a recommended tax rate of $0.3675, an increase of $0.1100 over the current rate in order to continue to provide increased relief to the City of Tucson's General Fund and pay for increased costs, expanded services, and new facilities in the countywide Library System.

- The recommended budget for Debt Service is $73,418,403, a $5,679,741 increase from this year, and the recommended tax rate to support the General Obligation portion of that budget is $0.7150, the same as the current year.

- The recommended operating budget of the Flood Control District is $8,743,185, a $597,512 decrease from this year, and the recommended tax rate is the same as this year's at $0.3746.

- The recommended operating budget of the Stadium District is $2,478,906.

- The recommended combined County primary and secondary tax rates is $5.2991 per $100 of assessed value, a $0.1200 decrease from the current year.

- The overall recommended expenditure authority for all funds in the County is $1,280,611,368, a $68,189,291 increase in the current year County Budget.

III. General Fund Ending Fund Balance: Fiscal Year 2005/06

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2005/06 is $40,283,497. This is a projected increase in the ending fund balance of $24,483,497 over the budgeted ending balance of $15,800,000. This substantial increase results primarily from two factors:

1. An actual, audited beginning fund balance this Fiscal Year that is $13,362,310 greater than the amount projected at the time this year's budget was developed in the spring of 2005. Significant factors contributing to this exceedance include:

   - Over $6 million of additional revenues including $1.7 million of State Shared Sales Tax, $1 million of property tax resulting from a higher than anticipated collection rate, $1 million of Kino Hospital receivables from prior years, a

$709,000 forfeiture from the Clerk of the Superior Court, $341,000 of fees from the Recorder related to increased housing transactions, and $346,000 of increased collection of contract attorney fees.

- Over $4 million in reduced expenditures including almost $3,000,000 less than anticipated for costs associated with detention healthcare and the state restoration to competency program.

2. Actual revenues in the current year, Fiscal Year 2005/06, that are significantly greater than originally forecast including $10.5 million additional State Shared Sales Tax and $900,000 additional Vehicle License Tax, both resulting from a stronger than anticipated economic recovery.

B. Recommended Uses of General Fund Ending Fund Balance

Set forth below are my recommendations for use of the $40,283,497 of non-recurring, one-time monies projected as the available ending balance of the General Fund on June 30, 2006.

1. **Budgeted General Fund Ending Fund Balance: Fiscal Year 2006/07**

It has been the stated goal of the County for many years pursuant to Board of Supervisors' Policy to build the reserve fund balance or rainy day fund, to a minimum of 5 percent of General Fund revenues. This goal tracks the recommendation of the Government Finance Officers Association that at least 5 percent of general operating revenues be set aside as fund balance.

During the past seven years the Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County including increasing the reserve fund balance. Though resources were insufficient to reach the goal of 5 percent, the Board has steadily increased the reserve from a low of zero in Fiscal Year 1996/97 to $15.8 million this fiscal year.

Having this budgeted reserve has contributed to an enhanced bond rating being assigned to the County which has saved substantial public dollars in reduced interest payments on County bond projects. The reserve has also enabled the County to sustain the negative fiscal impacts of numerous unforeseen events over which the County has had little or no control.

Based on projected revenues and transfers-in for Fiscal Year 2006/07, $22,997,225 would need to be reserved to set aside 5 percent of General Fund revenues. I recommend that this goal, ten years in the making, be achieved next

year and that $23,000,000 of this year's projected General Fund ending balance be rolled over and budgeted as the ending balance for Fiscal Year 2006/07.

2. Retirement of Last Long Term Deficit

In 1998 the Pima County Attorney opined that the County could no longer continue its historic practice of rolling over from one fiscal year to the next accumulated, long-term deficits in any of its various enterprise and special revenue funds. Since that time the Board of Supervisors has appropriated a total $59,371,662 from the General Fund to retire these accumulated deficits. The largest payment of $49,363,539 was to the Kino Community Hospital Enterprise Fund which was retired in its entirety prior to dissolution of the Fund at the time University Physicians Inc. undertook operation of the Hospital.

At the time of adopting the current year Budget for the County the Board of Supervisors appropriated General Fund dollars sufficient to retire the final two remaining long term deficits including $683,123 for the Graphic Services Internal Service Fund. In the fall of 2005, however, the Board addressed a critical issue of attrition and overtime among corrections officers by granting market adjustments that had not been provided for in the Budget. The funding to cover the costs of those adjustments during Fiscal Year 2005/06 was transferred from the appropriation originally directed to the Graphic Services Fund deficit. The amount remaining after the transfer necessary to fully retire this last accumulated deficit is $282,459 which I recommend be appropriated.

3. C-Path

In the fall of 2004 the University of Arizona requested that Pima County provide support to locally establish an Institute for Global Pharmaceutical Development now known as The Critical Path Institute or C-Path. This non-profit Institute is a collaborative partnership involving the University of Arizona, SRI International, and the Federal Drug Administration. The purpose of the Institute is to facilitate expedited development and approval of new medications.

As an enhancement to local economic development, Pima County was asked to contribute $375,000 annually for five years to this project whose total annual budget was projected to be approximately $4 million. The first of these five contributions was appropriated by the Board of Supervisors in the current year's Budget. I recommend that the second year's contribution of $375,000 be allocated to the Reserve Contingency Fund for payment to the Institute during the next fiscal year.

4. Facilities Renewal Fund

Several years ago the Board of Supervisors established a Facilities Renewal Fund, subject to annual appropriation, to provide resources for the on-going need to repair and rehabilitate existing, ageing County buildings. Items that need to be addressed in the next fiscal year include asbestos abatement, chiller replacement, roof replacement, electrical component replacement, building resealing, parking lot repaving, and painting the exterior of the Old Court House. Continued funding of this program will allow the County to prolong the useful life of these structures by addressing issues of building code compliance, public safety, and continued utility.

I recommend that $3,000,000 be appropriated to this Fund to continue the rehabilitative work necessary to maintain the integrity of County buildings.

5. Natural Resources, Parks and Recreation: Renovations, Improvements and Equipment

Natural Resources, Parks and Recreation facilities and properties, including those newly acquired and that will come on line next fiscal year, have numerous one-time, capital improvement and equipment needs. I recommend the following appropriations for these purposes:

- $457,538 – Community Facilities Renovations : Expenditures include repaving at Northwest YMCA Community Center, Arthur Pack Park, Drexel Heights Community Center, and Manzanita District Park Swimming Pool, roof replacements at Centro del Sur Community Center, Ajo Golf Course clubhouse, and Pima Motorsports education building, and renovations for the Los Ninos Pool and bath house.

- $475,000 – Natural Resource Park Improvements: Expenditures include replacement of failing wells and waterlines for Tucson Mountain Park which also serves the leased properties of the Arizona Sonoran Desert Museum and Old Tucson Studios, and construction of new restroom facilities and bridge replacement at Agua Caliente Park.

- $150,000 – A7 Ranch Improvements and Safety: Expenditures include replacement of failing ranch generators and associated fuel tanks, livestock fencing, and improvements to the water storage and distribution system.

- $200,000 – Pima Air and Space Museum Water Supply: To be used to engineer, design and install a new water system to replace the existing failing, antiquated system at the Pima Air and Space Museum, a County leased property.

- $147,000 — Rillito Racetrack Improvements: Expenditures include installation of scaffolding for the race stewards, carpet replacement, and renovations to make the grandstand, club house and restrooms compliant with the Federal Americans with Disabilities Act.

- $242,000 — New Facilities Equipment: Expenditures include vehicles, computers, furniture, and tractors for new or expanded park facilities that will open during the first three quarters of next fiscal year including Robles Ranch Clothing and Community Food Banks, Amado Food Bank, Brandi Fenton Park (Phase II), Picture Rocks Pool, Catalina Community Park, Curtis District Park, and McDonald Park ball fields.

The total amount of the appropriations recommended above is $1,671,538. Of that total amount I recommend that the $242,000 for new facilities equipment be allocated to the Natural Resources, Parks and Recreation Department and the remaining amount be allocated to the Facilities Renewal Fund and reserved for these purposes.

6. Information Technology Enhancement Fund

More than $4.5 million in supplemental and zero-base budget requests for increased funding have been made by departments that relate to information technology. Several years ago the Board of Supervisors established an Information Technology Enhancement Fund, subject to annual appropriation, to address the on-going need to maintain, enhance and expand the County's information systems.

I recommend that $900,000 be allocated to this Fund to potentially fund those technology requests that I have not specifically recommended in other sections of this memorandum. Approval for expenditures from the Fund will be made by the County Administrator subject to a review and recommendation by the Information Technology Department based on uniform standards and protocols to be developed by the Department to assess the priority and urgency of a request within the context of all County technology needs, the increased quality and efficiency in the provision of services that will result, and the compatibility, value, and utility of a proposed technology procurement.

7. Regional Water Authority Study

Considerable discussion has occurred among the community, various local governments, and the Board of Supervisors concerning the need for better planning, conservation, and coordination of the limited water resources in eastern Pima County. Given the substantial growth that has and will occur in our region, it has become apparent that the current structure that parcels out control of water and wastewater resources among numerous jurisdictions is not optimal.

Consideration should be given to the possibility of consolidation of the current piecemeal arrangement into a single, regional governing authority to enhance the stewardship of this essential resource.

I recommend that $150,000 be set aside in the Reserve Contingency Fund to commission a comprehensive study of the viability and possible attributes of such a regional water authority subject to the City of Tucson committing to participate in the study and appropriating a like amount of funding.

8. Departmental Requests for One-Time Supplemental Funding

Numerous departmental requests for supplemental funding are for one-time expenditures next fiscal year. Because these costs are non-recurring they can be funded from the projected ending fund balance for the current fiscal year. Such requests that I recommend are:

- $540,000 — Additional Sheriff's Deputies: As further discussed in Section V.B.(4) below I am recommending that 15 new Sheriff's deputies be added to the force. This amount will fund the cost of vehicles and equipment for these new positions.

- $1,000,000 — Sheriff's Mobile Data Computer Replacements: Mobile data computers are used to efficiently dispatch and clear calls for service and perform records checks in the field. These units are heavily used and the existing units, over five years in service, are experiencing a high failure rate. This appropriation will fund the first year of a two year cycle to replace all of these units. I recommend that this amount be allocated to the Information Technology Enhancement Fund for this purpose.

- $152,000 — Elections Equipment Storage: The federal Help America Vote Act has required the County to obtain election computer systems and ballot processing equipment to utilize optical scan and vision impaired voting machines. Storage and maintenance of these new, expensive systems requires additional fixtures and equipment to ensure its protection and security. This amount will fund these items.

- $140,000 — Justice Courts Tucson IVR Phone System: The Justice Courts Tucson is overwhelmed with telephone calls from the public, receiving approximately 200,000 such calls each year. Call holding wait times and rates of customer call abandonment are substantial. This funding will purchase an interactive, automated telephone referral and response system to provide a more acceptable level of service to the public. I recommend that the appropriation be allocated to the Information Technology Enhancement Fund for this purpose.

- $24,000 — Justice Court Green Valley: This appropriation will replace a failing copier machine and worn out carpeting. I recommend that $17,000 of this total be allocated to the Facilities Renewal Fund for recarpeting.

- $20,000 — Forensic Science Remote Access: This appropriation will purchase an additional vehicle with all-terrain capability for the Forensic Science Center which has experienced a significant increase in caseload and must frequently provide service in remote areas of the County.

- $28,500 — Public Fiduciary Renovations: This amount, which I recommend be allocated to the Facilities Renewal Fund, will repair a malfunctioning vault and build-out existing space to accommodate additional workstations.

The total amount recommended above for departmental requests for one-time supplemental funding is $1,904,500.

9. Space Acquisition Fund

Lack of sufficient workspace in the downtown area has been and continues to be a pressing problem which has caused an over-reliance on leased space. While specific authorizations for past and future bond issuances have partially addressed this problem, they are insufficient to keep pace with the expansion of County programs as they respond to growth in the community. This is particularly true of the various offices that make-up the Justice and Law Enforcement System, including efforts to reduce the County's reliance on contracts for indigent defense by expanding in-house capability.

Various alternatives are under review to update the County's long term space needs plan and develop options for future acquisitions. In preparation to implement actions determined by the Board of Supervisors to be appropriate to address space needs, this and future budgets should begin reserving resources for this purpose. Accumulating a cash reserve to facilitate expansion will provide the County with additional flexibility to pursue a wider range of options and allow acquisitions to occur, in whole or part, on a pay-as-you-go basis. I recommend that a Space Acquisition Fund be established and that $9,000,000 be allocated to the Fund with future expenditures subject to specific approval of the Board of Supervisors.

C. Summary of Recommended Uses of General Fund Ending Balance

Table 1 below summarizes the recommendations discussed in Section III.B. above for allocation of the non-recurring, one-time resources projected as the Fiscal Year 2005/06 available ending fund balance of $40,283,497.

Table 1

Recommended Allocation of Fiscal Year 2005/06

General Fund Ending Balance

Recommendation	Amount
Budgeted Ending Fund Balance at 5%	$23,000,000
Retirement of Graphic Services Deficit	282,459
C-Path	375,000
Facilities Renewal Fund	3,000,000
Natural Resources, Parks and Recreation Renovations	1,671,538
Information Technology Enhancement Fund	900,000
Regional Water Authority Study	150,000
Departmental One-Time Supplemental Funding	1,904,500
Space Acquisition Fund	9,000,000
Total	$40,283,497

IV. General Fund Base Budget: Fiscal Year 2006/07

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $4.0720, projected Fiscal Year 2006/07 base budget revenues and operating transfers to the General Fund total $459,944,492. This is a 10.79 percent or $44,802,854 increase over the current year's budgeted revenues and operating transfers to the General Fund.

Below is a brief discussion of each category of projected General Fund base revenues:

1. General Government Revenues Other Than Property Taxes

Excluding primary property tax revenues, projected Fiscal Year 2006/07 base budget General Government revenue from all other sources is $157,099,652, which is $19,745,881 or 14.38 percent more than the current adopted budget. Actual revenues in Fiscal Year 2005/06 will substantially exceed the current adopted budget. This is due to the unanticipated strength of the economy in the State and in Pima County. This results in a large increase between next fiscal year and the current adopted budget but only a marginal increase when comparing the current actual revenues to the revenue forecast for Fiscal Year 2006/07. This is especially true for state shared sales tax and vehicle license tax:

- State shared sales taxes — $15,792,000 or 17.03 percent increase projected over the current adopted budget.

- Vehicle license taxes — $925,006 or 3.8 percent increase projected over the current adopted budget.

Other significant increases in this category of revenues include:

- Business license and permit revenue — $493,096 increase resulting primarily from growth in the number of cable television hookups.

- Interest on cash balances — $1,000,000 increase as a result of substantially higher rates of return.

The State and County economies are projected to continue expanding through the early part of Fiscal Year 2006/07, but then begin to slow during the latter part of the fiscal year. Overall the rate of economic growth next fiscal year is not expected to be as strong as that which occurred in Fiscal Years 2004/05 and 2005/06 which was fueled by substantial population growth, low interest rates, and rapidly rising home prices which enabled more home equity to be converted into cash and spent. Projections for next fiscal year are that property values will rise more slowly, interest rates will continue to increase, and population growth will increase at a slower pace. Consequently, the substantial growth that the County is currently experiencing in General Fund revenues tied to relatively short term economic cycles, such as sales and vehicle license taxes, will not be sustained.

2. <u>Primary Property Tax Revenues</u>

The Assessor's Office has published the Preliminary Primary Assessed Value (PNAV) for Fiscal Year 2006/07 that totals $6,484,671,144, a 10.9 percent increase over the PNAV for Fiscal Year 2005/06. Approximately 5.4 percent of the total 10.9 percent increase in assessed valuation is attributable to an increased number of parcels and new construction added to the property tax rolls. The remainder of the increase represents market appreciation in the value of existing property. The assessed value of all classes of properties has grown over the past few years with the greatest growth being in owner occupied residential properties. Assuming the same primary rate as this year, $4.0720 per $100 of assessed value, and a collection rate of 96.35 percent, General Fund property tax revenues for Fiscal Year 2006/07 are budgeted to be $254,429,399 which is $25,710,053 greater than this year's budgeted property tax collections.

In addition to collection of current year property taxes, the County also receives revenue from payment of delinquent property taxes and associated interest and penalties which are projected to be $13,126,134. Together with the projected primary property tax collections next year as discussed above, the total base property tax revenues projected for Fiscal Year 2006/07 are $267,555,533 a 10.5 percent increase over Fiscal Year 2005/06.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2006/07 are projected to be $35,289,307. This amount is $365,671 less than the departmental revenues and operating transfers-in for this fiscal year. However, when current year one-time revenues to Elections and the Recorder related to the Regional Transportation Authority election, other special elections, and the purchase, with federal monies, of new election equipment complaint with the Help America Vote Act are backed out, departmental revenues will increase by $4,237,049 next fiscal year.

Significant departmental revenue increases include:

- $847,792 resulting from increased facilities rents.
- $280,000 related to primary and general elections services.
- $169,511 increase in wireless cell antenna contract amounts.
- $133,337 additional Parks revenue resulting from cattle sales at the A7 Ranch and Arthur Pack Golf Course rent.
- $125,000 of additional fees generated by the Forensic Sciences Center for services provided to other jurisdictions.

B. General Fund Base Budget Expenditures

The amount required to fund General Fund supported base budgets for both departmental expenditures and net operating transfers-out is $428,883,506 which is $9,732,745 more than the current fiscal year budget of $419,150,761. This base expenditure amount represents adopted departmental budgets adjusted for new or increased state and federal mandated payments, recurring supplemental requests adopted for Fiscal Year 2005/06, impacts to base pursuant to Board adopted budget policies and prior directives, and decreases for one-time expenditures in the current year.

Included within base expenditures are new, increased, continued, or adjusted appropriations for:

- State mandated payments to support the Arizona Health Care Cost Containment System and the Arizona Long Term Care System in the total amount of $62,654,074 which includes combined increases next year of $4,465,314.

- State mandated payments to fund the State's indigent mental health program of $8,925,570.

- State mandated cost shift requiring funding for the State Restoration to Competency Program of $2,000,000.

- State mandated employer contributions to the various State retirement systems totaling $18,971,024 which includes combined increases next year of $3,892,525.

- Funding for the County's contribution toward the cost of non-retirement benefits for our employees, primarily medical insurance premiums, totaling $34,148,628 including a combined increase next year of $1,816,938.

- Funding to annualize the cost of departmental supplemental funding requests previously approved by the Board of Supervisors, including the new pay plan for Corrections Officers, totaling $2,505,573.

- Funding for the cost of the 2006 primary and general elections of $3,061,920.

- Funding for adult and juvenile detention healthcare of $14,197,299 including an increase next fiscal year of $1,475,765 for adult detention.

- Funding for the Board Contingency Fund at its historic level of $1,000,000.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV. above the amount required to fund base budget expenditures is $35,070,109 less than the amount of base budget revenues projected for Fiscal Year 2006/07. Set forth below are my recommendations for adjustments to base revenues and expenditures.

A. Recommended Decreases to General Fund Revenues

1. Library Transition Offset

As discussed in Section VII.B.(1) below, I am recommending that the County Library District tax rate be increased by 11 cents in order to facilitate the transition of funding of the Library System to the County from the City of Tucson and to provide for new and expanded facilities and programs as they come on line. In order to offset the impact of this transition and enhancement of the Library System on the community, I recommend that the primary property tax rate be reduced in a like amount of 11 cents per $100 of assessed value. This rate adjustment will reduce projected General Fund base revenues by $6,873,097.

2. Additional Primary Property Tax Rate Reduction

Property valuations locally, statewide and nationally are experiencing unprecedented increases. While this is a positive development in adding significant worth to the property of individual and business owners, it is also adding potential increased property tax liability for these assets at a rapid pace. Based on the current primary property tax rate of $4.072 per $100 of assessed value, the levy will increase next fiscal year by $12,975,906 or 5.45 percent as a result of increases in valuation of existing properties. This increase represents an average of all valuations in the County, consequently many individual property valuations increased by more than 5.45 percent.

Given the substantial jump in market appreciation of property, consideration should be given to balancing the needs served by County programs against the impacts these increased valuations will have on taxpayers in our community. This is particularly important as they affect individuals and small businesses whose income is not increasing at as great a rate, as well as larger businesses that compete in national and international markets. The County needs to do what it can, as one of many property taxing jurisdictions within the County, to moderate these impacts. Therefore I recommend that the primary property tax rate be reduced an additional 12 cents per $100 of assessed value. This rate adjustment will reduce projected General Fund base revenues by an additional $7,497,924.

Combined with the Library District offset recommended above, the total reduction in the primary rate will be 23 cents, from the current rate of $4.072 to $3.842 per $100 assessed value. This is a 5.65 percent reduction in the primary rate and a total reduction in base revenues of $14,371,021. This is the lowest County primary rate in eight years. The amount of this reduction is greater than the increase in the primary tax base resulting from market appreciation of existing property which is $12,975,906 or 5.45 percent. Consequently, in the aggregate

the remaining increase in next year's primary levy will be entirely funded by new growth in the County.

B. Recommended Increases to General Fund Base Budget Expenditures

As discussed above the amount required to fund base budget expenditures is $35,070,109 less than the amount of base budget revenues projected for Fiscal Year 2006/07. This amount is reduced by $14,371,021 by the primary rate reduction of 23 cents recommended above leaving $20,699,088 of additional General Fund revenue available for appropriation. Set forth below are my recommendations for allocation of these resources.

1. Property Tax Rate Stabilization Fund

The recommended 23 cent reduction in the primary property tax rate has been made possible in substantial part by the extraordinary growth in sales tax collections that have occurred during the last year and are projected to continue through the remainder of calendar year 2006. Projected state shared sales taxes for next fiscal year are budgeted at $108,500,000 which is $15,792,000 more than the budgeted amount in the current year. As discussed in Section IV.A.(1) above, however, the pace of this growth is projected to slow beginning in 2007 for a number of reasons. In addition, sales tax, as well as other General Fund taxes such as vehicle license tax, are more sensitive to short term economic conditions and, therefore, more volatile and less predictable than property tax revenues. World events such as that which occurred in September of 2001 can cause sales taxes to decline unexpectedly and precipitously. Provision should be made to ensure that the recommended reduced primary rate and the total combined County rate will remain stable so that a future roller coastering of the rates is avoided. Instability in these rates, coupled with rapid increases in valuation, would make it difficult for individuals and businesses to plan for and accommodate their future property tax liability. Other factors that necessitate provision for future stabilization of the County primary and combined rates include:

- Offset of future increases in the Library District rate as the County continues to provide additional relief to the City of Tucson's General Fund by assuming more of the City's funding liability for the Library System as well as all future growth in Library facilities, programs, services and costs.

- Probable continued reductions and eliminations of long-standing federal and state grant revenues that currently provide significant funding to programmatic areas throughout the County.

- Continued uncertainly as to future actions of the State that would shift costs, reduce shared revenues, and increase mandates to the County, particularly in regard to the County's mandated contributions to fund the State's indigent long term, acute and mental health care programs.

Several years ago the Board of Supervisors established, subject to annual appropriation, a Property Tax Rate Stabilization Fund. In order to provide for future stabilization of the recommended reduced primary and combined property tax rates in this Budget, I recommend that $3,200,000 be allocated to this Fund.

2. Employee Compensation

The County continues to be challenged to remain competitive in attracting and retaining experienced, high quality personnel throughout our workforce. In order to address the continuing problem of loss of employees to other governmental jurisdictions I recommend the following compensation package.

a. Shift Differential Pay Increase

Pursuant to County Personnel Policies employees who work the second or evening shift are paid 40 cents per hour in addition to their regular hourly rate and those who work the third or night shift are paid an additional 45 cents per hour. These rates have not been increased for more than twenty years. As a result the County's shift differential rates are now lower, and in some instances substantially lower, than other local government employers with whom we compete for labor.

Therefore, I recommend that the Personnel Policies be amended to increase these two rates by 20 cents per hour or a total of 60 cents per hour for the evening shift and 65 cents for the night shift. Fourteen County departments have employees who are assigned to work these shifts, however, most, 70 percent, are employed in the Sheriff's Office. The cost of this increase to the General Fund next fiscal year is $406,283 which I recommend be appropriated. The cost to six non-General Fund departments of $74,148 will be absorbed in their existing budgets.

b. Commissioned and Corrections Officers Assigned to a Step Plan

I recommend that all commissioned and corrections officers assigned to a Step Plan be awarded one step or 5 percent on their anniversary date in classification. The cost to fund this increase next fiscal year is $645,539. The annualized cost in Fiscal Year 2007/08 will be $1,265,348.

c. Cost of Living Adjustment

Historically the County has rarely had resources available sufficient to award employee cost of living adjustments in amounts that corresponded to the increases projected by relevant consumer price indexes. While it may not be possible to continue the practice in future years, I recommend that such a corresponding adjustment be awarded next fiscal year given the continuing, widespread problem of losing employees to other government jurisdictions.

The Consumer Price Index for all Urban Consumers in the Western Region of the United States forecasts an increase in calendar year 2006 of 2.71 percent. I recommend that a 2.8 percent increase to address inflation be awarded effective July 1, 2006 to all eligible employees, except those who will receive a step increase pursuant to paragraph b above, but including those who have reached the top of the classification or step plan. The cost to the General Fund next fiscal year is $4,889,494. Non-General Fund supported departments will absorb this increase.

d. Employee Retirement Contribution Increase

The officers and employees of the County participate in one of five different state retirement plans depending upon their status. The required contributions to keep all of these plans adequately funded will increase next fiscal year. As a result of the state laws governing these different plans, however, only one plan, the Arizona State Retirement System (ASRS) to which most County personnel belong, will require both the employer's and the employees' contributions to increase. In the other four plans the entire contribution increase must be borne by the County and employees in those plans will see no change. Table 2 below sets forth increases in contribution rates for the plans in which the County participates.

Table 2

Required Contributions to Retirement Plans

Plan	Required Contributions					
	FY 2005/06		FY 2006/07		Increase	
	County	Employee	County	Employee	County	Employee
Arizona State Retirement System	7.40%	7.40%	9.10%	9.10%	1.70%	1.70%
Public Safety	17.36%	4.00%	22.50%	4.00%	5.14%	0.00%
Correction Officers	6.59%	8.50%	8.46%	8.50%	1.87%	0.00%
County Attorney Investigators	9.35%	7.65%	14.69%	7.65%	5.34%	0.00%
Elected Officials	13.00%	7.00%	17.00%	7.00%	4.00%	0.00%

As this table shows the contribution of employees who belong to ASRS will increase 1.7 percent. Because this cost is in addition to inflationary increases addressed by the compensation adjustment recommended in paragraph c above, I recommend that all county employees who are members of the ASRS on July 2, 2006 receive a 1.7 percent increase effective on that date. The cost to the General Fund next fiscal year is $2,018,079. Non-General Fund supported departments will absorb this cost.

3. Zero-Base Budget Adjustments

Pursuant to the schedule adopted by the Board of Supervisors, eleven General Fund supported departments/programs developed their budget requests using a zero-based approach without regard to their target base which has been the basis for their budget in prior years. Table 3 below summarizes these requests for zero-base budget adjustments.

Table 3

Zero-Base Adjustment Requests

Department	Expenditure Request	Revenue Request	Net General Fund Impact of Request
Assessor	$ 438,613	$ 0	$ (438,613)
County Attorney	956,368	0	(956,368)
Finance	364,617	12,000	(352,617)
Indigent Defense	(1,322)	0	1,322
Justice Court-Ajo	15,334	0	(15,334)
Justice Court - Green Valley	5,767	34,603	28,836
Justice Courts - Tucson	451,889	191,119	(260,770)
Office of Court Appointed Counsel	12,580	0	(12,580)
Contract Defense Attorneys	1,001,621	81,783	(919,838)
Recorder	23,260	(14,000)	(37,260)
Sheriff	2,760,594	209,700	(2,550,894)
Totals	$ 6,029,321	$ 515,205	$ (5,514,116)

I am recommending these requests subject to two adjustments:

1) In Section III.B.(6) above I recommended that $900,000 be allocated to the Information Technology Enhancement Fund to address technology related zero-base and supplemental funding requests with approval for expenditure subject to review for overall priority, resulting improvements to efficiency and quality of services performed, and compatibility, value and integrity of the proposed procurement. Therefore, requested increases in expenditures for Information Technology have been reduced by that amount.

2) Some of the departments submitted budget requests that reflect vacancy savings resulting from projected employee attrition, at varying rates, and some departments budgeted no vacancy savings. In recent years the countywide average attrition rate has been approximately 10 percent. Actual rates of attrition vary considerably among departments. If departments with less than 12 employees are excluded, current attrition in the zero-base departments ranges from a high of 18.9 percent to a low of 6 percent. Therefore, requested increases in expenditures have been adjusted as necessary to reflect a vacancy savings rate of 3 percent for those departments that are requesting more than $100,000 of increased expenditures and which do not expend substantial amounts for overtime to cover vacant positions thereby offsetting vacancy savings. Should any of these affected departments achieve a vacancy rate of less than 3 percent for an appreciable period during the fiscal year, they can request that the Board of Supervisors approve a mid-year transfer in an amount sufficient to make up the shortfall.

Table 4 below sets forth the zero-base budget requests, adjusted as described above, which I recommend be funded.

Table 4

Recommended Zero-Base Adjustments

Department	Expenditure Recommended	Revenue Recommended	Net General Fund Impact Recommended
Assessor	$ 184,821	$ 0	$ (184,821)
County Attorney	215,726	0	(215,726)
Finance	254,260	12,000	(242,260)
Indigent Defense	(1,322)	0	1,322
Justice Courts- Ajo	15,334	0	(15,334)
Justice Court - Green Valley	5,767	34,603	28,836
Justice Courts - Tucson	375,630	191,119	(184,511)
Office of Court Appointed Counsel	12,580	0	(12,580)
Contract Defense Attorneys	1,001,621	81,783	(919,838)
Recorder	23,260	(14,000)	(37,260)
Sheriff	2,760,594	209,700	(2,550,894)
Totals	$ 4,848,271	$ 515,205	$ (4,333,066)

These recommended adjustments include:

- Increased costs of office supplies.
- Increased costs of fuel.

- Increased costs of equipment maintenance and repair.
- Increased printing costs.
- Increased telephone charges.
- Increased utilization and cost of interpreters.
- Increased appointments of contract juvenile and criminal attorneys to defend the indigent.
- Increased corrections inmate housing revenue from other jurisdictions.

4. Recommended Departmental Requests for Supplemental Funding

A separate compilation of all materials submitted by departments in support of supplemental funding requests has been transmitted to the Board of Supervisors in conjunction with this Recommended Budget. The total net negative General Fund impact of all supplemental requests received by departments is $36,802,142. The amount of available to fund these requests after adjusting base revenues and expenditures as recommended above is $5,206,627.

Categorized below are brief descriptions of the supplemental requests that I am able to recommend.

a. Justice and Law Enforcement

- $852,885 — New Sheriff's Deputies: Funds 15 new positions, 12 for the new Tucson Mountain District and Substation, and 3 for the Park Enforcement Unit. This amount represents operating costs for three-fourths of the fiscal year. The one-time cost of purchasing vehicles and equipment for these deputies has been recommended for funding from the ending fund balance in Section III.B.(8) above.
- $132,523 — COPS in Schools Grant '02: Funds, as required by this grant, the final year of County assumption of the full cost of 4 deputies originally funded with federal dollars.
- $282,893 — COPS in Schools Grant '05: Funds the matching requirements of this federal grant awarded in August 2005 to hire 14 additional deputies.

- $568,194 — Sheriff's Office Grant Reductions: Replaces anticipated reductions or eliminations of federal and state grants that currently fund 11 law enforcement positions. Some uncertainty exists as to exactly when and in what amounts these reductions in revenue will occur during the coming fiscal year. Therefore, I recommend that this amount be allocated to the Reserve Contingency Fund for transfer in appropriate amounts when final confirmation of reductions are received from these granting agencies.

- $500,910 — County Attorney Grant Reductions: Replaces anticipated reductions or eliminations of four federal grants: Local Law Enforcement Block Grant, Edward Byrne Memorial Program (drug prosecution), Justice Assistance Grant, and Gun Prosecution Grant. These revenues fund numerous positions within the County Attorney's Office relating to criminal prosecution. Some uncertainty exists as to exactly when and in what amounts these reductions in revenue will occur. Therefore, I recommend that this amount be allocated to the Reserve Contingency Fund for transfer in appropriate amounts when final confirmation of reductions are received from these granting agencies.

- $289,117 — New County Attorney Support Staff Positions: Funds 8 new positions, 3 legal support staff for misdemeanor prosecution, and 5 legal support staff to assist four existing gun prosecution attorneys currently funded by a federal grant. This amount funds these positions for three-fourths of the fiscal year.

- $255,087 — New Public Defender Support Staff Positions: Currently the ratio of legal support staff to attorneys in the Public Defender's Office is approximately 1 to 1 while the ratio in the County Attorney's Office is approximately 2 to 1. The Public Defender has requested 20 new legal support staff to enhance efficient use and productivity of existing attorney positions. I recommend that 15 of these new positions be approved for next fiscal year and that the remaining 5 positions be considered for approval in Fiscal Year 2007/08 based upon a showing that the first 15 positions have in fact enabled attorneys in that Office to increase their caseloads. I further recommend that one-half of the funding for these positions be transferred from the increased funding for contract defense attorneys recommended in Section V.B.(3) above. Therefore, this $255,087 funds one-half of the cost of these positions for three-fourths of the fiscal year.

- $155,022 — Public Defender Implementation of Twice a Day Initial Appearances: Funds staff to provide client representation at initial appearances pursuant to the newly established twice per day schedule.

- $200,000 — Forensic Exams: Funds forensic exams performed by an outside agency for collection of forensic evidence for use in prosecution of sexual assault cases.

- $(22,041) — Justice Courts - Tucson Case Processing: This request is for $359,433 of additional expenditure authority to enhance the case processing capability of the Court including establishment of a Sentencing Enforcement Unit, adding 7 Case Processing Clerks and 2 Courtroom Clerks, and purchasing an Integrated Voice Response System, to improve Court responses to calls from the public. This Response System, at a cost of $140,000, has been recommended for funding from the ending fund balance in Section III.B.(8) above. The remaining cost of this request, $219,433, is more than offset by additional revenues of $241,474 projected to be generated by these expenditures resulting in a $22,041 positive net impact on the General Fund.

- $42,146 — Indigent Defense Eligibility Screening: Funds an additional position in the Office of Court Appointed Counsel to screen criminal defendants for eligibility as an indigent to receive a defense attorney at County expense.

- 34,044 — Forensic Anthropologist: Funds a new position to perform legally sufficient examinations, evaluations and assessment of skeletal remains for the purpose of reporting findings to law enforcement agencies and the courts.

The total amount recommended above for the Justice and Law Enforcement System is $3,290,780.

b. Community Programs

- $330,350 — Community Services Lost Grant Revenues: Replaces reductions and eliminations that have already occurred in federal grants that have been used to fund Adult Job Training for low-income, unemployed, underemployed and dislocated workers, and Older Worker Training for workers 55 or older to update or learn new skills necessitated by changed technology.

- $236,633 — Community Development and Neighborhood Reinvestment Additional Positions: Funds 5 additional positions to plan, coordinate, develop and implement Neighborhood Reinvestment and Housing Trust Fund projects and initiatives.

The total amount recommended above for Community Programs is $566,983.

c. Natural Resources, Parks and Recreation

- $707,583 — Operating and Maintenance Costs for New Parks: Funds the on-going costs of new or expanded Parks facilities that have recently opened or will open during the first three-quarters of next fiscal year including: Northwest YMCA building expansion and off-leash dog facility, Robles Ranch Clothing Bank, Community Food Bank and new picnic area, Amado Food Bank, Brandi Fenton Park (Phase II), Picture Rocks Pool, Catalina Community Park, Curtis District Park, and McDonald Park ballfield lighting.

- $25,000 — Invasive Plant Management: Funds continuation of an existing agreement with the University of Arizona to coordinate invasive plant management efforts in the County.

- $22,500 — Breast Cancer Boot Camp: Funds programmatic and operational support for the Breast Cancer Boot Camp program operated by an outside agency that will offer a motivational fitness program for victims of breast cancer at park locations throughout the County.

The total amount recommended above for Natural Resources, Parks and Recreation is $755,083.

d. Public Health

- $41,382 — Additional Animal Care Officers: Funds two new Animal Care officers to address call loads that have increased to over 80,000 calls annually for service from the public as result of growth in the County's population. The total cost is $69,382 which is offset by $28,000 of increased revenues projected to be generated by these positions.

- $135,300 — Disease Control Intervention: Funds an additional Communicable Disease Investigator to address increased caseloads and increased costs and utilization of supplies for communicable disease clinics.

- $33,036 — Public Health Nursing Services: Funds demands for Public Health nursing services in the district office that serves Sahuarita, Green Valley, Arivaca and Amado that have increased as a result of substantial growth in this area.

The total amount recommended above for Public Health is $209,718.

e. Forensic Science Center

- $125,412 — Forensic Pathologist: Funds an additional Pathologist to address substantially increased caseloads including increased border crosser deaths. This amount will fund the position for three-fourths of the fiscal year.

- $34,674 — Morgue Operations Supervisor: Funds establishment of this new position to enhance operational efficiency, organization and employee supervision within the Morgue that has experienced substantial increases in caseloads. This amount will fund the position for three-fourths of the fiscal year.

The total amount recommended above for the Forensic Science Center is $160,086.

f. Elections

- $45,000 — New Facility Operating Costs: Funds the additional operating costs associated with the new elections facility on South Mission Road.

g. Procurement

- $33,598 — MWBE Compliance: Funds a new position to ensure compliance with MWBE and Living Wage requirements throughout the County.

- $33,076 — P-Card Compliance: Funds a new position to ensure appropriate use of and compliance with County policies and procedures regulating Purchasing Card transactions.

The total amount recommended above for Procurement is $66,674.

h. Facilities Management

- $112,303 — Additional Positions: Funds 4 new positions to address increased service demands relating to Construction Management Services, Maintenance Operations, and Design Services.

The total amount recommended above to fund departmental requests for supplemental funding is $5,206,627.

VI. Summary of Recommended Adjustments to General Fund Base Budget

As discussed in Section IV. above the amount of projected General Fund revenues for Fiscal Year 2006/07 exceed the amount necessary to fund General Fund base expenditures by $35,070,109. Set forth in Table 5 below are the adjustments to base recommended in Section V. above.

Table 5

Recommended Adjustments to Base Budget

Base Revenues in Excess of Base Expenditures			$ 35,070,109
Recommended Decreases to Base Revenues:			
• Library Transition Offset: 11 cent Primary Rate Reduction	$ 6,873,097		
• Additional Primary Rate Reduction: 12 cents	7,497,924		
		$14,371,021	
Recommended Increases to Base Expenditures:			
• Property Tax Rate Stabilization Fund	3,200,000		
• Employee Compensation	7,959,395		
• Zero-Based Adjustments	4,333,066		
• Supplemental Department Funding:			
• Justice and Law Enforcement	3,290,780		
• Community Programs	566,983		
• Natural Resources, Parks and Recreation	755,083		
• Public Health	209,718		
• Forensic Science Center	160,086		
• Elections	45,000		
• Procurement	66,674		
• Facilities Management	112,303		
		$ 20,699,088	
Total			$ 35,070,109

VII. The Overall Budget

A. County Travel Expenditures

The inflationary cost increases related to business travel, driven in large part by the cost of fuel, have been and will likely continue to be substantially greater that increases in broader indexes measuring the affects of inflation. The total amount included in this Recommended Budget for travel, including training, is $3,642,218. Table 6 below itemizes this total by department.

Table 6
Fiscal Year 2006/07 Departmental Requests for Travel and Training Expenditures

DEPARTMENT	IN-STATE TRAVEL	IN-STATE TRAINING	OUT OF STATE TRAVEL	TOTAL REQUESTED
COUNTY ADMINISTRATION				
ASSESSOR	1,875	28,400	0	30,275
BOARD OF SUPERVISORS	2,809	500	3,048	6,357
CLERK OF THE BOARD	2,900	500	6,500	9,900
COUNTY ADMINISTRATOR	2,597	2,597	6,232	11,426
ELECTIONS	7,000	3,800	9,500	20,300
FINANCE and RISK MANAGEMENT	2,020	113,670	33,000	148,690
FORENSIC SCIENCE CENTER	0	0	12,200	12,200
HUMAN RESOURCES	0	4,500	0	4,500
INFORMATION TECHNOLOGY	0	120,458	44,800	165,258
PROCUREMENT	6,300	8,200	1,000	15,500
RECORDER	6,450	25,000	15,000	46,450
TREASURER	2,500	15,000	0	17,500
TOTAL COUNTY ADMINISTRATION	34,451	322,625	131,280	488,356
JUSTICE and LAW ENFORCEMENT				
CLERK OF SUPERIOR COURT	3,000	11,600	9,000	23,600
CONSTABLES	300	4,630	4,784	9,714
COUNTY ATTORNEY	34,070	147,027	244,897	425,994
INDIGENT DEFENSE ADMINISTRATION	0	370	0	370
JUSTICE COURTS	7,474	28,591	2,366	38,431
JUVENILE COURT	20,300	33,000	45,701	99,001
LEGAL DEFENDER	0	6,441	15,000	21,441
OFFICE OF COURT APPOINTED COUNSEL	440	3,000	3,000	6,440
PUBLIC DEFENDER	477	52,145	24,500	77,122
PUBLIC FIDUCIARY	409	2,650	2,500	5,559
SHERIFF	9,100	40,000	78,000	127,100
SUPERIOR COURT	24,594	102,790	62,059	189,443
TOTAL JUSTICE and LAW ENFORCEMENT	100,164	432,244	491,807	1,024,215
COMMUNITY and ECONOMIC DEVELOPMENT				
COMMUNITY and ECONOMIC DEVELOPMENT ADMIN	10,000	7,200	10,000	27,200
COMMUNITY DEVELOP and NEIGHBORHOOD CONSERV	18,259	9,910	132,947	161,116
COMMUNITY RESOURCES	5,108	2,395	3,484	10,987
COMMUNITY SVSC, EMPLOYMENT and TRAINING	12,922	3,115	30,123	46,160
COUNTY FREE LIBRARY	37,000	0	65,000	102,000
ECONOMIC DEVELOPMENT	4,050	2,700	6,600	13,350
SCHOOLS	6,200	9,900	10,200	26,300
TOTAL COMMUNITY and ECONOMIC DEVELOPMENT	93,539	35,220	258,354	387,113
MEDICAL SERVICES				
INSTITUTIONAL HEALTH	0	750	5,100	5,850
PIMA HEALTH SYSTEM	73,044	0	0	73,044
PUBLIC HEALTH	39,793	47,569	74,668	162,030
TOTAL MEDICAL SERVICES	112,837	48,319	79,768	240,924
PUBLIC WORKS				
CAPITAL PROJECTS	0	6,600	600	7,200
DEVELOPMENT SERVICES	38,420	260,292	68,020	366,732
ENVIRONMENTAL QUALITY	12,600	16,250	27,500	56,350
FACILITIES MANAGEMENT	9,029	42,095	28,449	79,573
FLEET SERVICES	0	10,500	7,600	18,100
GRAPHIC SERVICES	100	2,600	0	2,700
PARKS and RECREATION	6,200	41,800	5,000	53,000
PUBLIC WORKS ADMINISTRATION	8,000	38,000	35,600	81,600
REGIONAL FLOOD CONTROL DISTRICT	6,785	14,600	31,299	52,684
SOLID WASTE MANAGEMENT	5,000	7,500	10,000	22,500
TRANSPORTATION	42,130	197,050	85,600	324,780
WASTEWATER MANAGEMENT	51,870	197,695	186,826	436,391
TOTAL PUBLIC WORKS	180,134	834,982	486,494	1,501,610
TOTAL ALL DEPARTMENTS	521,125	1,673,390	1,447,703	3,642,218

The County currently has no uniform benchmarks, standards for justification or guidelines for determing either departmental allocations for these purposes or for approval of individual requests for travel. I will be directing staff to research and develop potential models that can be implemented to assist in making these determinations on a consistent, rational basis. While I am not recommending that any of the budget requests itemized in Table 6 be altered at this time, future recommendations to the Board of Supervisors on this subject may include mid-year transfers among travel accounts or an alternative methodology for budgeting travel accounts in future budgets.

B. Special Districts and Debt Service

1. County Library District

On February 21, 2006, the Board of Supervisors unanimously approved an agreement with the City of Tucson to transfer library operations and funding to the Pima County Free Library District. The agreement allows the City to decrease its funding for library services incrementally until the year 2010. In the current year City funding was decreased to $8 million. For Fiscal Year 2006/07, the City's contribution will be $6 million, decreasing to zero in Fiscal Year 2009/10. Governance and administration of the Library System and all library employees transfer to the Library District on July 1, 2006. Pursuant to an Intergovernmental Agreement between Pima County and the Pima County Free Library District, all Tucson/Pima Public Library employees will become Pima County employees on July 1, 2006. For budgetary purposes only, these employees are shown as FTEs within the Pima County Free Library District, and the related salary and benefit costs are budgeted directly in the Library District.

The City will lease all library facilities to the County at no cost. The County will be responsible for maintenance and repairs to most of the leased facilities. At transition, the City will pay the County for accrued employee leave bank expenses and will reimburse the Library District for certain repairs and updates needed for City library facilities.

The recommended Fiscal Year 2006/07 Library District operating expenditure budget is $34,445,185, which is partially offset by $6,000,000 in revenue from the City of Tucson. The budget includes funding for 350 permanent and 200 part-time and intermittent Library staff and for maintenance and repair of an additional 315,000 square feet of City library facilities, as well as for the collection materials and technology support for 24 libraries. There is also funding for purchase of additional library materials which includes books, audio visual materials, and electronic resources. The budget includes funding to open the Martha Cooper Midtown Library, design the new Flowing Wells Library, and begin the acquisition of materials and staff for the Wheeler Abbett Marana Library.

The recommended Library District tax rate necessary to support the recommended budget is $0.3675 per $100 of assessed value. This is an increase of $0.1100 over the current year's rate of $0.2575. This levy rate includes a projected June 2007 fund balance of $2,538,555, which is necessary to complete construction of the Flowing Wells and Marana libraries, to provide for the necessary collection materials and staff at the new libraries, to provide funding for salary and benefit adjustments for employee raises, and to cover unanticipated maintenance, repair, and utility costs which develop in the former City library facilities.

2. Debt Service Fund

The total recommended Fiscal Year 2006/07 Debt Service Fund budget is $73,418,403, a $5,679,741 increase from this fiscal year. The Debt Service Fund includes payments on the County's General Obligation debt, the Street and Highway Revenue Bond debt, Highway Expansion/Extension Loan Program debt, Flood Control General Obligation debt, and Improvement District debt, all of which are long-term debt.

- General Obligation Debt Service

The County's General Obligation Debt Service is funded with a secondary property tax. The recommended General Obligation debt service of $51,091,093 will fund existing debt service as well as debt service on a proposed $95,000,000 bond sale expected to occur in January 2007.

As originally planned when the 1997 Bond Program began, the debt service on new bond sales supported by the secondary tax levy is being offset by ongoing reductions in debt service for existing outstanding bonds. As the 1997 bonds are being retired, 2004 bonds are being sold incurring new debt.

I recommend that the General Obligation Debt Service tax rate remain the same as this year's rate of $0.7150 per $100 of net assessed value for Fiscal Year 2006/07.

- Street and Highway Revenue Debt Service

The 1997 Transportation Bond authorization provides for the sale of Street and Highway Revenue bonds with the debt service being repaid from the Highway User Fees (HURF) the Pima County Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2006/07 of $18,986,218 will fund existing debt service as well as debt service on a proposed $25,000,000 bond sale expected to occur in January 2007.

- Highway Expansion/Extension Loan Program (HELP)

  In addition to Street and Highway Revenue bonds, the Transportation Department has three HELP loans: one for the Shannon Road Project, a second for the Ajo Way Road project, and a third for the Alvernon Way project. HELP is a program developed by the Arizona State Transportation Board to provide short-term funding for specific transportation projects at below market rates. Fiscal Year 2006/07 debt service on the existing HELP loans is $2,194,241. This debt service is also paid from HURF revenues.

- Flood Control General Obligation Debt Service

  The Flood Control District's General Obligation Debt Service is funded by its secondary property tax. The Fiscal Year 2006/07 debt service for the Flood Control General Obligation bonds is $855,395 which represents approximately $0.0145 of its secondary tax rate.

- Improvement District Debt Service

  Pursuant to State law, Improvement Districts can be formed with the approval of the Board of Supervisors and a majority of affected property owners to fund improvements within a specified geographic location. The Fiscal Year 2006/07 Improvement District debt service of $291,456 is paid from direct assessments to the property owners in the respective improvement districts. There is currently one Improvement District paying debt service: La Cholla Boulevard. In addition, bonds are anticipated to be issued for the Camino Ojo de Agua Improvement District by July 2006. Although Pima County is not liable for the debt service of the individual improvement districts, the County is required to include them in its financial reporting.

3. Regional Flood Control District

The recommended operating budget for the Regional Flood Control District is $8,743,185, a $597,512 or 6.4 percent decrease from the current fiscal year. Also recommended are operating transfers totaling $14,744,261 of which $13,862,600 will be allocated to the Capital Projects Fund, $851,395 for payment of Flood Control General Obligation debt service, and $30,266 to the General Fund to partially offset the County's contribution to the Pima Association of Governments.

Flood Control Capital Projects funds are used to acquire, construct, expand and improve flood control facilities within the County including bank stabilization, channels, drainage ways, dikes, levees and other flood control improvements. This includes funding to continue the Board approved Riparian Protection Program as

a component of the Sonoran Desert Conversation Plan, and to procure flood prone land contiguous to existing watersheds within the County. These land acquisitions serve the dual purpose of protecting existing riparian habitat corridors and preventing future flood damages. I recommend that the District's tax rate remain the same as this year's rate of $0.3746 per $100 of net assessed value.

4. Stadium District

The Stadium District operating budget for Fiscal Year 2006/07 is $2,478,906, a $937,737 increase from this year's budgeted amount. The majority of this increase is due to the payment of $682,783 in administrative overhead to the General Fund, which had previously been waived. The District's budget also includes a $3,020,635 operating transfer from the Stadium District to the General Fund to pay the Stadium District Debt Service on the outstanding Certificates of Participation used to finance construction of the Stadium.

Funding for the District derives from four sources: a $3.50 per contract car rental surcharge, a $.50 per day rental tax on recreational vehicle spaces, a 2 percent hotel/motel tax in the unincorporated area of the County, and revenue from baseball and other events scheduled at Kino Veterans Memorial Stadium. Tourism directly affects the car rental surcharge, recreational vehicle surcharge, and hotel/motel tax, and also affects revenues generated from tickets sales, parking and concessions at Spring Training games.

Efforts are on-going to enhance revenues generated at the Stadium. The County is working closely with the Arizona Diamondbacks and Chicago White Sox to market Spring Training both locally and nationally. Efforts for next year will include aggressive group sales, Pima County Attractions marketing, increased destination marketing with the Metropolitan Tucson Convention and Visitors Bureau and local hospitality partnership marketing with specific focus on increased outreach in the Chicago, northern Arizona, and Mexico markets. In addition, efforts to increase revenues through non-baseball events held at the Stadium and adjacent facilities will continue with more emphasis on community music festivals, and sports tournaments.

On September 13, 2005 the Board of Supervisors approved an increase in the hotel/motel tax which will generate approximately $1.5 million of additional Funding annually for the District. These additional revenues will allow the District to fully fund its Debt Service which had previously been partially funded by the General Fund and to undertake capital improvements necessary to maintain the Stadium as a safe, attractive venue for public entertainment and at standards required for Major League Baseball play.

C. Annual Capital Projects Fund Budget and Capital Improvement Plan Budget

Transmitted under separate cover will be the Fiscal Year 2006/07 recommended Capital Improvement Budget, of $197,871,141, which consists of the Capital Projects Fund Budget of $155,901,786 and the Wastewater Management Capital Budget of $41,969,355 as set forth in Table 7 below.

Table 7

Recommended Fiscal Year 2006/07 Capital Projects Fund Budget and Capital Improvement Plan Budget

	FY 2005/06 Bond and Non-Bond Project Budgets	FY 2006/07 Bond and Non-Bond Projects Budget	Difference	1997 Bond Projects	2004 Bond Projects	Non-Bond Projects
Capital Projects Fund Budget						
Facilities Management	$34,159,949	$28,892,491	($5,267,458)	$737,065	$27,532,920	$622,506
Transportation	56,480,917	53,765,504	(2,715,413)	48,358,856		5,406,918
Flood Control	20,249,835	21,738,778	1,488,943	2,696,704	6,869,254	12,172,820
Parks and Recreation	14,542,719	13,908,586	(634,133)	2,303,490	11,605,096	
Open Space	9,138,000	21,715,199	12,577,199		21,715,199	
Cultural Resources	5,143,722	4,534,256	(609,466)	1,475,433	3,058,823	
Neighborhood Reinvest	1,187,667	4,150,245	2,962,578	845,564	3,304,681	
Solid Waste	2,296,000	5,862,000	3,566,000	5,378,000	484,000	
Sheriff Radio System		414,318	414,318		271,584	142,734
CIP Administration	578,141	920,409	342,268	75,331	845,078	
Total Capital Projects Fund Budget	143,776,950	155,901,786	12,124,836	61,870,173	75,686,635	18,344,978
Wastewater Management Capital Improvement Budget	21,834,215	41,969,355	20,135,140	580,365	31,946,258	9,442,732
Total Capital Improvement Plan Budget	$165,611,165	$197,871,141	$32,259,976	$62,450,538	$107,632,893	$27,787,710

1. Capital Projects Fund Budget

The $155,901,786 Capital Projects Fund Budget for Fiscal Year 2006/07 is an increase of $12,124,836 or 8 percent over the Capital Projects Fund Budget for the current fiscal year.

Overall the Capital Projects Fund Budget transitions from the 1997 bond program to the projects authorized by voters in 2004. Of the total Capital Projects Fund Budget, $61,870,173 is allocated to 1997 bond projects, $75,686,635 is allocated to 2004 bond projects, and the remaining $18,344,978 is allocated to non-bond projects.

Included in the recommended Capital Projects Fund Budget are construction expenditures for 103 projects now underway totaling $114,465,941, or 74 percent of the total. The remaining balance of project expenditures are for planning and design, right-of-way including open space, utility relocation, and public art expenses.

The two major budgeted projects for Facilities Management are the Kino Public Health Center and the Justice Court/Municipal Court Complex, both 2004 bond projects. There are major budgeted expenditures for six Transportation projects, all of which are 1997 bond projects: River Road, Campbell Avenue to Alvernon Way; Alvernon Way, Ft. Lowell Road to River Road; County Club Road, 36th Street to Milber; Craycroft Road, River Road to Sunrise; Cortaro Farms Road, Southern Pacific Railroad Crossing to Thornydale; and Valencia Road, Mark Road to Camino De La Tierra. Other significant projects include Flowing Wells Community Center, Brandi Fenton Memorial Park, and Santa Cruz River Linear Park in the vicinity of Continental Ranch.

Not included in the Capital Projects Fund budget are $10,800,000 of expenditures programmed by the U.S. Army Corps of Engineers (USACOE) on seven projects for which the Regional Flood Control District has budgeted its cost sharing responsibilities of $5,300,000. The major USACOE expenditure will be $8,000,000 for the Arroyo Chico Detention Basin.

2. <u>Wastewater Management Capital Budget</u>

The recommended capital budget for Wastewater Management will be increased by $20,135,140, or 92 percent. The Wastewater Management Capital Budget reflects the substantial completion of the 1997 sewer bond program. With total recommended budgeted capital expenditures for existing projects of $41,969,355, 1997 bond projects account for $580,365, or 1 percent. The 2004 bond projects account for $31,946,258, or 76 percent while the remaining $9,442,732, or 23 percent, are for non-bond projects. These expenditures include construction on the Santa Cruz Interceptor, Prince to Franklin; Marana Treatment Plant expansion and Roger Road Treatment Plant rehabilitation.

D. Combined Total County Budget

1. Combined County Property Tax Rate

The combined primary and secondary property taxes levied by the County fund about 27 percent of the combined total County Budget. These are the only County revenues over which the Board of Supervisors has substantial control. The remainder of the combined County Budget, 73 percent, is supported almost entirely by charges for services and intergovernmental revenues, primarily state revenue sharing and grants.

As discussed above, it is recommended that the primary property tax rate which supports the County General Fund be reduced 23 cents, the Library District rate be increased 11 cents to continue increased relief to the City of Tucson's General Fund and fund increased costs, expanded services and new facilities in the Library System, and that the property tax rates for Debt Service and the Flood Control District remain the same. The result is a net reduction in the combined County property tax rate of 12 cents from this year's rate of $5.4191 to $5.2991.

2. Combined County Budget

The combined total Recommended County Budget, described in the budget schedules and departmental budget summaries following this memorandum, is $1,280,611,368. The total Recommended Budget is $78,189,291 more than the current year. Of this total increase, $34,802,921 is in the General Fund as discussed in Sections IV and V above. Significant non-General Fund increases include:

- $19,460,444 in the County Library District Fund as discussed in Section VII. B.(1) above.
- $12,124,836 in the Capital Projects Fund as discussed in Section VII.D. above.
- $5,679,741 in the Debt Service Fund as discussed in Section VII.B.(2) above.
- $7,124,425 in the Wastewater Management enterprise fund to address increased maintenance and rehabilitation work needed for the ageing sewer system, and treatment capacity increases to accommodate population growth.
- $3,799,072 in Development Services to address the continued high level of development, building, and permitting activity that generates increased revenues but correspondingly requires increased service capacity.

Significant non-General Fund decreases include:

- $13,287,377 in Sheriff's grants as the responsibility for administering High Intensity Drug Trafficking Agency funds for other local jurisdictions has transferred from the Pima County Sheriff to the Arizona Criminal Justice Commission.

- $7,345,787 in Pima Health Systems as a result of implementation of Medicare D-Prescription Drug Coverage on January 1, 2006. The pharmaceuticals for Medicare members that the department is responsible for decreased and revenues from the Arizona Health Care Cost Containment System capitation rates have correspondingly been decreased to reflect this reduction in medical expense.

VIII. Conclusion

This Recommended Budget attempts to balance the impacts of rapidly increasing property valuations on taxpayers in our community against the service needs in our community for which the County is responsible.

This Budget reduces the primary levy which supports the General Fund by 23 cents. This is a 5.65 percent reduction in the rate from $4.072 to $3.842 per $100 assessed value. This is the lowest the primary rate has been in eight years. The reduction in the primary levy from the current rate is $14,371,021 which is more than the increase in the primary levy resulting from market appreciation of existing property. Consequently, in the aggregate the remaining increase in the primary levy is entirely funded by new growth in the County.

The Library District secondary tax is increased 11 cents. These additional revenues will fund continued, increased relief to the City of Tucson's General Fund and pay for increased costs, expanded services, and new facilities in the countywide Library System.

The net combined total County property tax rate for the primary and three secondary rates which the Board of Supervisors sets is decreased by 12 cents from the current rate of $5.4191 to $5.2991 per $100 of assessed value. This is the lowest the combined rate has been in eight years.

In addition to providing property tax relief to moderate the impacts of increased valuations, this Budget continues the County's commitment to invest in the community and improve services to the public. All existing County responsibilities, functions and programs continue to be funded without reduction in the level of services now being provided. This Budget also addresses increased costs of service delivery, increased demand for services as our population grows, progressively decreasing grant dollars

received from the federal and state governments, new mandated legal requirements for service delivery, and the need to fund new operating costs for voter approved bond projects as they come on-line.

Significant additional investments provided for in this Budget include:

- More than $10 million of new funding specifically to enhance the Justice and Law Enforcement System including $1.7 million for full and grant match funding to add 29 new Sheriff's deputies.
- More than $7 million of additional funding to support, enhance and expand the countywide Library System.
- More than $2.4 million for renovations, improvements and operating costs for new facilities in the Parks System.
- Almost $1.4 million to replace federal and state grant reductions in criminal justice and job training revenues.
- Almost $4.5 million for increased mandated contributions to support the State's indigent acute and long term care programs.
- Almost $8 million for an employee compensation package to continue to invest in the County's workforce and remain competitive in attracting and retaining personnel.

This Recommended Budget is being transmitted prior to adoption of the State's Budget for next fiscal year. While this Budget projects probable impacts, the State Budget actually adopted may require adjustments in some amount to this recommendation. This information will be transmitted to the Board when it becomes known.

This page intentionally left blank.

Board of Supervisors Memorandum

May 16, 2006

Tentative Budget Adoption: Fiscal Year 2006/2007

Background

Pursuant to State statute, the Board is required to adopt a tentative budget to establish a maximum ceiling for the County budget. Adoption of the tentative budget serves to set the maximum County expenditure ceiling and establish a maximum tax rate. Prior to final adoption on June 20, 2006 the Board may reallocate expenditures and revenues among departments differently than set forth in the tentative budget and may decrease expenditures as well as corresponding tax rates.

Status Report

Based on additional information available since transmittal of the Recommended Budget on April 28, 2006, I recommend the following adjustments to the original recommendations:

- Recent estimates indicate that the amount of revenues needed to be contributed next fiscal year by the Transportation Department to the Capital Projects Fund in order to implement their programmed projects needs to be increased. The result is that the Department's expenditures will be reduced by $2,500,000 and that amount transferred to the Capital Projects Fund as additional fund balance.

- The Deputy County Administrator for the Community and Economic Development functional area has requested that $580,000 be carried over to: cover the second half of the Summer Youth Intern and Employment Program, which crosses two fiscal years; and, to address timing issues related to the receipt of state and federal Workforce Investment Act Program funds. This increase in next year's expenditures will be funded by an increase in beginning fund balance, and this amount will be placed in the Contingency Fund carry-forward center.

- Facilities Management has submitted a cost listing of various departmental projects that have been started but will not be finished this year, necessitating the carry-forward of $537,094 of this year's expenditure authority to next fiscal year. This increase in next year's expenditures will be funded by an increase in beginning fund balance and this amount will be placed in the Contingency Fund carryforward center.

- Juvenile Court has requested that $311,625 of this year's expenditure authority be carried forward for various unbudgeted capital repair expenditures. Absent an itemized costing of the items specified in their request, and due to the fact that the items requested were not specifically budgeted for this year, I am recommending that this amount be made unavailable to Juvenile Court in this year's budget thereby increasing

next year's beginning fund balance. I am then recommending that this amount be transferred next fiscal year to the Facilities Renewal Fund for purposes deemed appropriate by the Director of Facilities Management, but not necessarily for Juvenile Court projects.

- The Director of the Office of Strategic Technology Planning has requested that $80,000 of this year's expenditure authority be carried forward to next year in order to pay for completion of programming work required for the Synergen System. This increase in next year's expenditures will be funded by an increase in beginning fund balance and this amount will be placed in the Contingency Fund carryforward center.

- The Clerk of the Court has requested that $37,954 of this year's expenditure authority (which had previously been carried forward from last fiscal year and placed in the Contingency Fund carry-forward center) continue to be carried forward to the next fiscal year. This is for unfinished software support for the Clerk of the Court's automated collection system. This increase in next year's expenditures will be funded by an increase in beginning fund balance and this amount will be placed in the Contingency Fund carry-forward center.

The effect of these adjustments is that the Recommended Budget amount of $1,280,611,368 will decrease by $953,327 to $1,279,658,041.

In addition, the way two budgeted transactions are recorded will change from the way they were presented in the Recommended Budget Book schedules. Neither will have any effect on the overall Recommended Budget amount:

- $3,200,000 recommended as being set aside for property tax rate stabilization will be recorded as an operating transfer from the General Fund to the Property Tax Rate Stabilization Special Revenue Fund under the County Administration Department.

- $2,040,000 recommended as being allocated to the Information Technology Enhancement Fund will be recorded as an operating transfer from the General Fund to this Special Revenue Fund under the Information Technology Department.

Prior to final adoption of the Budget on June 20, 2006, I will transmit to the Board any other recommended adjustments to the Recommended Budget that may be necessary to incorporate the most recent information available to project this year's General Fund ending fund balance and next year's revenues and costs. I will develop any such recommended adjustments within the tax rates already recommended to the Board which are the tax rates listed below.

At this point, the only substantial adjustment that may be recommended prior to final Budget adoption relates to possible additional costs to house remanded juveniles at Juvenile Court detention facilities. Due to operational constraints, additional costs by the Sheriff's Office will be incurred. While there has been some recent cooperation among the

parties, a number of issues remain outstanding including facility modification costs. Consequently, a transfer of dollars between these two budget units in some amount may prove to be appropriate.

Recommended Fiscal Year 2006/2007 Budgets and Tax Rates

The table below outlines the budgets and tax rates that I recommend for Fiscal Year 2006/2007. Should the Board at the time of tentative adoption take action to increase County expenditures beyond those included in the Recommended Budget, the budget ceiling and/or the tax rate may increase above the amounts listed below.

Fiscal Year 2006/2007 Budget	Budget	Tax Rate
Total County Budget	$1,279,658,041	$3.8420
County Free Library District	34,917,185	0.3675
Flood Control District	8,743,185	0.3746
Debt Service	73,418,403	0.7150
Stadium District	2,478,906	-------

According to the Assessor, Pima County's neutral 2006 Primary Levy will be $251,079,903. A neutral levy is defined by State statute as containing no increase that results from any increase in the value of existing property in the County due to market appreciation. Under the Recommended Budget, with its 23 cent reduction in the primary property tax rate, the County's 2006 Primary Levy will be less than the neutral levy by $1,938,838 thus obviating the need, under State statute, to issue a Truth in Taxation Notice and hold a Truth in Taxation public hearing.

Following the Board's adoption of the tentative budget, the County is required to publish the tentative budget in a format prescribed by the Arizona Auditor General. The budget, presented in the required format, is attached.

Respectfully submitted,

C.H. Huckelberry
County Administrator

Attachment

Note: The final paragraph of this memorandum, Tentative Budget Adoption: Fiscal Year 2006/2007, May 16, 2006, makes reference to the publication of the Tentative Budget, ". . . in a format prescribed by the Arizona Auditor General" and indicates that the format is presented in the attachment. However, these pages, which show the estimates of revenues and expenditures/expenses, have been withdrawn, since they replicate the information provided in the section labeled State Reports. Please refer to the tab labeled State Reports for the estimates of revenues and expenditures/expenses.

Board of Supervisors Memorandum

June 20, 2006

Fiscal Year 2006/07 Final Budget Adoption

Background

The Fiscal Year 2006/07 Recommended Budget was transmitted to the Board on April 28, 2006. The Tentative Budget was adopted by the Board on May 16, 2006 as originally recommended, with some minor adjustments to accommodate appropriate budgeting organization and formatting for the coming year. Adoption of the Tentative Budget, pursuant to State law, set the maximum County expenditure ceiling.

Recommended Adjustments to the Tentative Budget

I recommend four adjustments to the Board adopted Tentative Budget, all of which can be accomplished within the Budget ceiling previously adopted by the Board:

1. Retirement Rates Adjustment

   During the current legislative session, the State Legislature passed Senate Bill 1357 changing some of the actuarial assumptions used in calculating retirement plan unfunded liabilities, resulting in lower fiscal year 2006/07 employer contribution rates in four of the five State retirement plans (excluding the Arizona State Retirement System). These new employer contribution rates will be lower than the rates previously provided to the County, which were used in developing the Fiscal Year 2006/07 Tentative Budget. The process of recalculating the employer contribution rates is in progress. At this time, revised employer contribution rate information is available only for the Public Safety and County Attorney Investigators retirement plans. General Fund savings from the reduced employer contribution rates for these two plans is estimated at $972,308. The proposed final adopted General Fund budgets for the Sheriff and County Attorney will be reduced by $957,982 and $14,326 respectively, and these savings, less $165,704 for tenant improvements as discussed in item 4 below, will be placed in the Budget Stabilization Fund. Savings for the Corrections Officers and Elected Officials retirement plans will be determined when the revised employer contribution rate information is received, and the resulting savings is also recommended to be moved to the Budget Stabilization Fund.

2. Juvenile Detention Center Remodeling

   At Tentative adoption, the Board approved a $3,000,000 appropriation from the General Fund to the Facilities Renewal Fund to continue the rehabilitative work necessary to maintain the integrity of County buildings. I recommend that up to $1,000,000 of this amount be earmarked specifically for necessary remodeling of the Juvenile Detention Facility to accommodate remanded juveniles who are currently being housed in the Adult Detention Facility.

3. Vehicle License Tax Use

As recommended in my Board Memorandum dated June 20, 2006, $5,026,195 should be set aside in the Budget Stabilization Fund, a General Fund account, for the purpose of paying these expenditures deemed unallowable by the Auditor General as not being for "transportation purposes" if an Attorney General's opinion is issued that indicates that the County's interpretation of allowable Vehicle License Tax expenditures is incorrect. I recommend that this amount be transferred to the Budget Stabilization Fund from the General Fund dollars originally recommended in a total amount of $9 million for appropriation into the Space Acquisition Fund for Fiscal Year 2006/07.

4. Tenant Improvements

The Assessor currently leases office space at 21 East Congress Street, and will soon be expanding that space to include approximately 4000 square feet at 25 E. Congress St. In order to accommodate this expansion, certain tenant improvements need to be made that will cost an estimated $185,704. The Assessor will designate $20,000 of his fiscal year 2006/07 budget for this purpose, leaving a balance of $165,704 that I recommend be covered by the retirement rate decrease savings discussed in item 1 above.

Recommendation

Set forth below are the proposed Fiscal Year 2006/07 Final Budget amounts and tax rates. These amounts and rates are the same as those in the Tentative Budget adopted by the Board and reflected in the attached Arizona Auditor General prescribed schedules.

Fiscal Year 2006/07 Budget	Proposed Final FY 2006/07 Budget Amount	Proposed FY 2006/07 Tax Rate
Total County Budget	$1,279,658,041	$3.8420
County Free Library District	34,917,185	0.3675
Flood Control District	8,743,185	0.3746
Debt Service	73,418,403	0.7150
Stadium District	2,478,906	-----

Respectfully submitted,

C.H. Huckelberry
County Administrator

CHH/jj (June 13, 2006)

Attachment