

BUDGET ISSUES

This section of the Fiscal Year 2008/2009 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 2008/09 Budget*, dated April 24, 2008; his May 20, 2008 memorandum, *Tentative Budget Adoption: Fiscal Year 2008/09*; his June 17, 2008 memorandum, *Fiscal Year 2008/09 Final Budget Adoption*, and his June 16, 2008 memorandum, *Budget Adjustment Due to Significant Reduction in Acute Care Pima Health System Enrollment*. (The memoranda are located on pages 4-3, 4-31, 4-35, and 4-37, respectively.)

Issues Synopsis

During the development of the fiscal year 2008/09 budget, the following issues were recognized:

County Budget Revenues

Property Taxes – A major concern in this area has been the increase in valuations in the past several years. As in the past two years, the County Administrator again recommended that the County adopt a neutral levy and offset any appreciation in the tax base by reducing the primary and secondary tax rates. To adopt a neutral levy and a corresponding neutral tax rate as defined by the state Truth in Taxation statutes, the primary tax rate will have to be reduced by 21.07 cents from \$3.6020 to \$3.3913 per \$100 of assessed value. Adoption of this neutral levy will reduce the budgeted General Fund base revenues by \$16.8 million.

State-Shared Revenues – State-shared revenues are down significantly, and are not projected to increase any time in the near future. The projected amount to be received in fiscal year 2007/08 from state-shared sales tax and vehicle license tax will be \$8 million less than budgeted. These same reductions, if not more, will carry forward to fiscal year 2008/09.

Grants Cost Shifting to the County – Over the last five years, the County has continued funding of state and federal grant programs even though the revenues from the state and federal governments have been withdrawn for the original grant purpose. It is estimated that as much as \$1.1 million in grants will be lost in fiscal year 2008/09, primarily for the Courts, Sheriff, and County Attorney.

Departmental Revenues – Budgeted revenues from General Fund departments are projected to decrease in fiscal year 2008/09 due primarily to a decrease in recording fees in the Recorder's Office, net reduction in rents from County owned downtown buildings, and projected reduction in traffic fines collected by Justice Courts Tucson. The fees for services revenue in Development Services (an Enterprise Fund department that operates on specific fees for services) is projected to decrease by \$4 million due to the slowdown in construction activity.

Unavoidable Increase in County Budget Expenditures

Primary and General Elections of 2008 – Due to a variety of reasons, the cost of conducting elections is increasing rapidly. The additional cost for the General Fund for these elections is approximately \$4.8 million.

Increased State Retirement Contributions – The contributions required for law enforcement and elected officials retirement systems increased by \$2.6 million for fiscal year 2008/09.

Pima County FY 2008/2009 Adopted Budget

Annualized Cost of Sheriff Department's Pay Raises – The Sheriff's deputies and corrections officers received their pay adjustment in January 2008. Annualizing this salary adjustment will cost the General Fund an additional \$2.4 million.

QWEST Corporation Settlement – The Board of Supervisors recently approved settlement of the County's portion of statewide litigation pending in the Arizona Tax Court relating to claims by the QWEST Corporation that the Arizona Department of Revenue improperly assessed telecommunication property for tax years 2002-2009. Monies to satisfy these claims must be available for payment by July 31, 2008. The estimated share of the County, as a property taxing entity, is \$1.7 million.

Fuel Price Increases – To purchase the same amount of fuel to operate the County fleet will increase the fuel cost by at least \$1 million.

Uncertainty in the State Budget

At the time of the County's final budget adoption, the state General Fund budget deficit for fiscal year 2007/08 was expected to be \$1.2 billion. It is unknown what the ultimate revenue reductions and cost shifts to the County will be, but many of the proposals to balance the state budget will have significant and severe impacts on the County.

Rainy Day Funds

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. Based on revenues and transfers-in for fiscal year 2008/09, \$24 million is needed to reserve five percent of General Fund revenues.

Employee Compensation

Employee compensation is a very important component of the budget. Unfortunately, sufficient resources will not be available in fiscal year 2008/09 to fund salary increases and still meet the County's responsibilities to the public. However, employee benefits are maintained at an increased cost of \$3.7 million to the General Fund.

Departmental Funding Reductions

To balance the fiscal year 2008/09 budget, the County Administrator recommended an across the board reduction in all General Fund departments, except the Sheriff, of 2.3 percent and an additional 2.5 percent reduction in the administrative components of all General Fund departments for a total reduction of \$5.8 million. At the time of the final budget adoption, the state did not have a budget for fiscal year 2008/09, prompting the Board of Supervisors to approve an additional 2.7 percent reduction recommended by the County Administrator. The amount of this reduction, \$7.2 million, was allocated to the Budget Stabilization Fund to offset the potential negative financial impact of state budget balancing actions and to serve as a cushion against a possibly worsening economy that could erode County revenues.

Pima Health System (PHS) Acute Care Contract

PHS Acute Care contract was capped by the state and left with only acute care members who are dual eligible to receive Medicare and Medicaid benefits. This action will reduce both revenues and expenditures in the PHS budget by \$82 million.



MEMORANDUM

Date: April 24, 2008

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

From: C.H. Huckelberry
County Administrator 

Re: **Transmittal of Recommended Fiscal Year 2008/09 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2008/09 Budget for Pima County. These recommendations are made based on information available in mid-April 2008. 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 20, 2008	Budget Hearing
May 20, 2008	Tentative Budget Adoption (Sets Budget Ceiling)
June 17, 2008	Final Budget Adoption
August 18, 2008	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 2008/09. 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.
- Descriptions of all decrement funding packages requested by the County Administrator and prepared by departments.

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. The results of this process for General Fund departments that constructed their budgets using a zero-base approach are discussed in Section V(C)(1)(f) of this memorandum.

Index of Budget Memorandum

I. <u>Overview of Recommended Budget</u>	5
II. <u>Summary of Key Budget Issues</u>	6
III. <u>General Fund Ending Fund Balance: Fiscal Year 2007/08</u>	8
A. <u>Positive Ending Fund Balance</u>	8
B. <u>Recommended Uses of General Fund Ending Balance</u>	9
1. <u>C-Path</u>	9
2. <u>QWEST Settlement</u>	9
3. <u>General Fund Reserve</u>	9
C. <u>Summary of Recommended Uses of General Fund Ending Balance</u>	10
IV. <u>General Fund Base Budget: Fiscal Year 2008/09</u>	10
A. <u>General Fund Base Budget Revenues</u>	10
1. <u>General Government Revenues Other Than Property Taxes</u>	11
2. <u>Primary Property Tax Revenues</u>	12
3. <u>Departmental Revenues</u>	13
B. <u>General Fund Base Budget Expenditures</u>	13
V. <u>Recommended Adjustments to General Fund Base Budget</u>	14
A. <u>Recommended Adjustments to General Fund Revenues</u>	14
1. <u>Primary Property Tax Rate and Levy Reduction</u>	14
2. <u>Use of the Tax Rate Stabilization Fund</u>	15
3. <u>State Appropriation to Kino Hospital (UPKH)</u>	15
B. <u>Summary of Recommended Adjustments to General Fund Base Revenues</u>	16
C. <u>Recommended Adjustments to General Fund Base Expenditures</u>	16

1.	<u>Recommended Increases in Base Budget Expenditures</u>	16
a.	<u>COPS in Schools Grant Match</u>	16
b.	<u>Replacement of Federal Grant Reductions</u>	17
c.	<u>Election Security Equipment</u>	17
d.	<u>Sportspark Operation</u>	18
e.	<u>Solid Waste Program Operating Losses</u>	18
f.	<u>Zero Base Budget Adjustments</u>	18
2.	<u>Recommended Reductions in Base Budget Expenditures</u>	19
a.	<u>A 2.3 Percent Reduction in Departmental Base Budgets</u>	19
b.	<u>An Additional 2.5 Percent Reduction in Administrative Expenditures</u>	20
VI.	<u>Summary of Recommended Adjustments to General Fund Base Budget</u>	20
VII.	<u>The Overall Budget</u>	20
A.	<u>Special Districts and Debt Service</u>	20
1.	<u>County Library District</u>	20
2.	<u>Debt Service Fund</u>	21
3.	<u>Regional Flood Control District</u>	23
4.	<u>Stadium District</u>	23
B.	<u>Annual Capital Projects Fund Budget and Capital Improvement Plan Budget</u>	24
1.	<u>Capital Projects Fund Budget</u>	25
2.	<u>Wastewater Reclamation Capital Budget</u>	25
C.	<u>Combined Total County Budget</u>	26
1.	<u>Combined County Property Tax Rate</u>	26
2.	<u>Combined County Budget</u>	26

I. Overview of Recommended Budget

Pursuant to state law the valuations of existing property that must be used in calculating property tax liability for Fiscal Year 2008/09 are those set by the County Assessor for 2006. As a result these valuations, on the average, reflect a real estate market that was experiencing rapid, substantial appreciation in property values. This is the case even though current, actual property values are on the average experiencing a decline in value.

In order to eliminate any additional tax dollars from being collected as result of appreciation in the tax base, this Recommended Budget proposes County primary and secondary rates and corresponding levies that are fiscally neutral as defined by state law. The combined County rates consisting of the Primary, Library District, Debt Service and Flood Control District are recommended to be reduced 40 cents from \$5.0291 to \$4.6291 per \$100 assessed value. Levies will be reduced a total of \$35,067,321, in order to give back to property taxpayers all increases that would have occurred as a result of appreciation in their values. If approved this will be the third consecutive year that the primary levy will be set at or below that state Truth in Taxation benchmark of fiscal neutrality. Of the 15 Counties in Arizona, Pima is the only county that has achieved this status both of the past two years.

This Budget recommends additional, supplemental funding only to the extent required to maintain existing levels of staff, cover projected operating losses and carry out previous directives of the Board of Supervisors. These additional expenditures include a grant match to continue funding 14 Sheriff's deputies, replacement of expected declines in federal grants that fund staff within the criminal justice system, new operating costs for Sportspark, equipment to enhance election security and establishment of a reserve to cover losses in the Solid Waste Program. Resources available next year are insufficient to fund an employee compensation package and none is recommended though existing employee benefits are maintained at an increased cost next year of \$3,681,793.

Property taxes fund only 29 percent of the County Budget. In the General Fund revenues other than property tax are projected to decline more than \$8 million as a result of the downturn in the economy. The result is that the General Fund, after reduction of the primary levy to a fiscally neutral level, has a shortfall of \$18,224,310. The General Fund is recommended to be balanced by:

- Transferring to the General Fund the accumulated balance of the Tax Rate Stabilization Fund, \$8.6 million, which the Board of Supervisors established to mitigate the adverse impact of economic downturns on the primary property tax rate.
- Assuming that the State will appropriate \$3,817,000 for an eighth consecutive year to hold Kino Hospital (UPKH) harmless from the State's implementation in 2001 of a proposition to expand indigent healthcare availability.

- Across the board reductions in departments, except the Sheriff, of 2.3 percent and an additional 2.5 percent reduction in the administrative component of all departments for a total reduction of \$5,807,310.

These proposed reductions will not require layoffs, elimination of existing programs or reduction in services available to the public but will require active, innovative management throughout the year to avoid over-expenditure.

The total, overall Recommended Budget for the County is \$1,460,709,938, which is \$22,004,558 or 1.5 percent less than the current year's Adopted Budget.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2007/08 is \$26,141,720, an increase of \$1,641,720 over the budgeted reserve of \$24,500,000.
- It is recommended that the non-recurring Fiscal Year 2007/08 ending balance be allocated for the following purposes:
 - \$375,000 for the fourth of five annual contributions to support establishment of the Critical Path Institute or C-Path.
 - \$1,742,000 to settle Pima County's portion of statewide Tax Court litigation brought by QWEST to challenge prior central assessment methodology applied to its property by the State of Arizona.
 - \$24,024,720 as the General Fund Reserve for Fiscal Year 2008/09 which is 5 percent of General Fund revenues.
- Assuming continuation of the current primary property tax rate of \$3.6020, General Fund base revenues and transfers-in for Fiscal Year 2008/09 are projected to be \$497,612,079.
- Excluding primary property taxes, General Fund revenues from all other sources are projected to decrease \$8,103,227 or 3.9 percent from the current year.
- The primary property tax base for next fiscal year, which uses 2006 data, increased 5.50 percent as a result of new property and construction being added to the tax rolls and 6.85 percent as a result of appreciated values of existing property.
- Base General Fund expenditures total \$495,966,689 or \$1,645,390 less than base revenues.

- Significant additions to base General Fund expenditures include:
 - \$15,000,000 of accelerated subsidy payment to University Physicians pursuant to amendment of their lease to operate Kino Hospital (UPKH).
 - \$4,815,084 for the costs of conducting the 2008 primary and general elections.
 - \$2,626,342 of mandated increased employer retirement contributions for law enforcement officers and elected officials.
 - \$2,406,078 to annualize the cost of salary increases awarded to corrections and peace officers in the current year's budget.
 - \$1,052,358 for the increased cost of fuel for vehicles and equipment.
- It is recommended that the primary property tax levy be reduced by \$16,781,169 and the corresponding rate by 21.07 cents in order to eliminate any growth in levy resulting from appreciation of existing property. The reduced levy and rate of \$3.3913 is a fiscally neutral levy as defined by the state Truth in Taxation statutes because the only growth in the levy is attributable to new property.
- Base General Fund expenditures are recommended to increase by \$3,088,531 to fund:
 - \$560,666 for continued match of a federal COPS grant that currently funds 14 Sheriff's deputies.
 - \$497,525 to replace reduced federal grants which fund positions in the criminal justice system.
 - \$431,900 for equipment to facilitate enhanced election security.
 - \$500,000 to assume operation of Sportspark.
 - \$1,000,000 to cover projected operating losses in the Solid Waste Program.
 - \$98,440 for the cost of increased mandated services in the Superior Court.
- Recommendations to reduce the primary property tax rate and increase General Fund expenditures as itemized above result in a budget deficit of \$18,224,310. It is further recommended that the General Fund budget be balanced by:
 - Transferring the \$8,600,000 accumulated balance in the Tax Rate Stabilization Fund to the General Fund.

- Assuming continued appropriation of \$3,817,000 by the state to assist Kino Hospital (UPKH).
- Reducing departmental budgets except the Sheriff by 2.3 percent and administrative functions within all departments by an additional 2.5 percent for a total reduction of \$5,807,310.
- The recommended budget for the Library District is \$35,607,582 and the recommended tax rate is \$0.3393, a 5.82 cent decrease from the current year.
- The recommended budget for Debt Service is \$100,521,623 and the recommended tax rate to support the General Obligation portion of that budget is \$0.6050, an 8 cent decrease from the current year.
- The recommended operating budget for the Regional Flood Control District is \$14,501,469, a \$2,573,216 decrease from this year, and the recommended tax rate is \$0.2935, a 5.11 cent reduction from the current year's rate.
- The recommended operating budget for the Stadium District is \$3,412,924 which includes an increase of \$879,115 primarily for enhanced capital maintenance and reinvestment.
- The recommended combined County primary and secondary property tax rates are \$4.6291 per \$100 of assessed value, a 40 cent reduction from the current year.
- The overall recommended expenditure authority for all funds in the County is \$1,460,709,938, which is \$22,004,558 or 1.5 percent less than the current year.

III. General Fund Ending Fund Balance: Fiscal Year 2007/08

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2007/08 is \$26,141,720. This is a projected increase of \$1,641,720 over the budgeted General Fund Reserve of \$24,500,000. This is non-recurring, one-time cash available to the General Fund.

This projected net increase of \$1,641,720 or 6.7 percent results from numerous offsetting increases and decreases in actual expenditures and revenues from the adopted Budget. The most significant variances were a substantial shortfall in state shared sales taxes in the current year due to the downturn in the economy and a net over-expenditure by departments, primarily the Sheriff's Department, of \$1.4 million. Both of these negative impacts on the ending fund balance were more than offset by an increased beginning fund balance and a state appropriation of \$3.8 million for Kino Hospital that was successfully lobbied after County Budget adoption.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the \$26,141,720 of non-recurring, one-time dollars projected as the available ending balance of the General Fund on June 30, 2008.

1. 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 Fiscal Year 2005/06 Budget. I recommend that the fourth year's contribution of \$375,000 be allocated to the Reserve Contingency Fund for payment to the Institute during the next fiscal year.

2. QWEST Settlement

The Board of Supervisors recently approved settlement of Pima County's portion of statewide litigation pending in the Arizona Tax Court relating to claims by the QWEST Corporation that the Arizona Department of Revenue improperly centrally assessed telecommunication property for tax years 2002-2009. Under the terms of the statewide settlement monies to satisfy these claims must be available for payment by July 31, 2008. The estimated share of Pima County, as a property taxing entity, is \$1,742,000. It is possible, depending upon actions of the State of Arizona, that up to \$569,000 of this amount may be reimbursed by the State to Pima County after July 31, 2008 either next fiscal year or the subsequent fiscal year.

I recommend that \$1,742,000 be allocated to the Reserve Contingency Fund for this purpose.

3. General Fund Reserve

It has been the stated goal of the County for many years pursuant to Board of Supervisors' Policy to maintain a reserve, or rainy day fund balance at 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.

In Fiscal Year 1996/97 the General Fund Reserve was budgeted at zero. Since that time the Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County which has enabled the Reserve Fund to be steadily increased. Last year, in adopting the current year's Budget, the Board of Supervisors was able to achieve the goal of 5 percent for a second consecutive year.

Increasing the budgeted reserve has contributed to an enhanced bond rating being assigned to the County which has saved approximately \$2,000,000 annually in reduced interest payments on County bond projects. The reserve has also enabled the County to sustain the negative fiscal impacts of a variety of unforeseen events over which the County has had little or no control.

Based on projected revenues and transfers-in for Fiscal Year 2008/09, \$24,041,546 is needed to reserve 5 percent of General Fund revenues. I recommend that this minimum benchmark continue to be funded and that \$24,024,720 of this year's projected General Fund ending balance be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2008/09.

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 2007/08 available ending fund balance of \$26,141,720.

Table 1

**Recommended Allocation of Fiscal Year 2007/08
 General Fund Ending Balance**

<u>Recommendation</u>	<u>Amount</u>
C-Path	\$375,000
QWEST Settlement	1,742,000
General Fund Reserve at 5 percent	<u>24,024,720</u>
Total	\$26,141,720

IV. General Fund Base Budget: Fiscal Year 2008/09

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of \$3.6020, projected Fiscal Year 2008/09 base budget revenues and operating transfers to the General Fund Total \$497,612,079. This is a 4.9 percent or \$23,278,826 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 2007/08 base budget General Government revenue from all other sources is \$158,186,316, which is \$6,174,505 or 3.8 percent less than the current adopted budget. Significant revenue sources within this category that are projected to decrease, but which are partially offset by other revenue sources, include:

- State Shared Sales Tax - A \$7,400,000 or 6.6 percent decrease from the current budget. During Fiscal Years 2004/05 and 2005/06, State Shared Sales Tax receipts grew at the highest rates experienced in many decades. This extraordinary growth was caused by federal and state tax cuts enacted after the 2000-01 recession, low levels for both short and long-term interest rates and a housing spending boom. With expanding incomes, low interest rates and new types of mortgage financing, more households could afford home ownership. Purchases by first-time buyers and investors led to increased spending on taxable new home construction. With greater demand for housing, home prices escalated rapidly, allowing homeowners and real estate investors to withdraw significant amounts of equity by refinancing mortgages on properties. These equity withdrawals helped to fund purchases of taxable items such as home renovations and additions, construction of new second homes and rental housing, new vehicles and other retail purchases.

Home prices have been declining steadily during the past year ending much of the buying stimulus caused by the housing boom and ongoing home equity withdrawals. Fallout from a depressed housing market, including many home foreclosures, and the credit crunch that began last August are causing the national and local economies to stall. Higher fuel and food costs have adversely affected retail sales during the past year, while the growth of Internet sales continues to erode the taxable base associated with such sales. Therefore, sales tax revenues are projected to decrease during Fiscal Year 2008/09 because of markedly slower personal income growth, problems with consumers accessing credit and the continuing burden of higher energy and non-taxable food costs.

- Vehicle License Tax - A \$225,000 or 0.8 percent decrease from the current budget. Since the late 1990s the growth rate for County Vehicle License Tax revenues has been trending downward because of reduced spending on new vehicles and a change in the statutory depreciation rate used to determine the taxable basis for license taxes on vehicles already registered in Pima County and those vehicles brought into the County by new residents who migrate from other areas. Although population growth will slowly increase the overall

number of registered vehicles in the County, the expected slowdown in the local economy through Fiscal Year 2008/09 will result in fewer newer, higher valued vehicle sales.

This slow increase in the number of new vehicles and overall vehicle values will not be enough to offset the automatic depreciation of values for vehicles already registered in the County. Consequently, decreasing revenue from the Vehicle License Tax is projected.

- Interest on Cash Balances - A \$419,823 or 19.2 percent decrease from the current budget. Interest revenue is a function of General Fund cash balances and prevailing interest rates. Interest rates will decline over the next year as the Federal Reserve and the Treasury attempt to calm and rebuild the financial markets. On a short-term basis the average cash fund balance of the General Fund is expected to decline slightly. The result is a forecast for reduced interest revenue for Fiscal Year 2008/09.

2. Primary Property Tax Revenue

The Preliminary Primary Net Assessed Value for Fiscal Year 2008/09 totals \$8,239,671,672. This is a 5.50 percent increase over the current year that is attributable to new construction that has been added to the tax base and an additional 6.85 percent increase representing market appreciation in the value of existing property. This is comparable to the growth in the primary tax base last year which increased 6.87 percent from new construction and 6.38 percent through market appreciation.

Though both new construction and market value have steadily declined this fiscal year, the statutory process to amend the tax base lags the current year. Consequently, the property tax base for next year continues to reflect growth in all classes of property including owner occupied residential. The assessment ratio for class one property, consisting of commercial, mines, and utilities, continues, however, to be incrementally reduced as a result of state legislation enacted in 2006 which will be fully phased in by 2011.

Assuming the same primary rate as this year of \$3.6020 per \$100 of assessed value and a collection rate of 96.57 percent, current year General Fund property tax revenues for Fiscal Year 2008/09 are projected to be \$286,608,655 which is \$31,166,291 greater than the current year's projected 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 \$12,509,829. Together with the projected

primary property tax collections next year as discussed above, the total base property tax revenues projected for Fiscal Year 2008/09 are \$299,118,514, a 11.4 percent increase over the current year.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2008/09 are projected to be \$40,307,249 which is a \$1,928,722 net decrease from the current year.

Significant departmental revenue decreases include:

- \$719,500 reduction in recording fees in the Recorder's Office resulting from the downturn in real estate purchases and refinancing.
- \$479,008 net reduction in rents from County owned downtown buildings.
- \$422,941 reduction in projected traffic fines collected by Justice Courts - Tucson as a result of a declining trend in the number of citations issued.
- \$129,200 reduction in Juvenile Court revenues from detention services provided to other governmental entities.

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 \$495,966,689. This base expenditure amount represents adopted departmental budgets adjusted for new or amended federal and state mandated expenditures, recurring supplemental requests, annualized as appropriate, that were adopted in the current year's budget, impacts to base pursuant to Board adopted budget policies and prior directives, and decreases for one-time expenditures in the current year.

Significant increases in Base Budget expenditures for next fiscal year include:

- \$15,000,000 increase in the amount to be paid for operation of Kino Hospital to University Physicians in addition to the \$10,000,000 originally programed. This results from the amendment by the Board of Supervisors of this lease in the fall of 2007 at the request of University Physicians to reapportion the schedule of subsidy payments by the County in order to afford increased payments in Fiscal Years 2007/08 and 2008/09 and decreased payments thereafter.
- \$4,815,084 increase in the budgets of the Elections and Records Offices to fund the cost of the 2008 Primary and General Elections.

- \$2,626,342 of state mandated increases in the employer's contributions to the employee retirement systems for public safety, corrections officers, elected officials, and County Attorney Investigators.
- \$2,406,078 increase to fund the full year cost of salary adjustments for corrections and peace officers awarded by the Board of Supervisors when the current year's budget was adopted at a total annual cost of \$4,812,156.
- \$1,052,358 increase of fuel costs for vehicles and equipment.
- \$251,369 for one-half year of statutory increases in County elected officials' salaries that become effective in 2009.
- \$250,000 transfer to the Transportation Department to fund the Graffiti Abatement Program newly established by the Board of Supervisors.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above the amount required to fund base budget expenditures is \$1,645,390 less than the amount of base budget revenues projected for Fiscal Year 2008/09. Set forth below are my recommendations for adjustments to base revenues and expenditures.

A. Recommended Adjustments to General Fund Base Revenues

1. Primary Property Tax Rate and Levy Reduction

Pursuant to the administrative structure for property taxation set forth in state statute, the levies and rates adopted by the Board of Supervisors for Fiscal Year 2008/09 will be based on property valuations set by the County Assessor in calendar year 2006. As a result these valuations continue to reflect the unprecedented market appreciation that occurred locally, statewide and nationally during the period of 2004 through 2006. This is the basis for next year's property tax base even though current real property values are experiencing a decline within the County. Based on the current primary property tax rate of \$3.6020 per \$100 of assessed value, the levy would increase next fiscal year by \$16,781,169 or 6.85 percent as a result of increases in valuation of existing properties. This increase represents an average of all valuations in the County, consequently almost all individual valuations are either more or less than 6.85 percent.

In order to eliminate any increase in the primary levy resulting from increased valuation of existing property, I recommend that the Board of Supervisors adopt a neutral levy and corresponding neutral rate as defined by the state Truth in Taxation statutes. This results in a reduction in the primary rate of 21.07 cents, from \$3.6020 to \$3.3913

per \$100 of assessed value. Adoption of this neutral levy will reduce projected General Fund base revenues by \$16,781,169. As was the case the past two years when the Board of Supervisors adopted a neutral primary levy, because the only new tax dollars are attributable to new construction added to the tax rolls and no levy is added to address inflation, no special notice or hearing is required pursuant to the state Truth in Taxation statutes.

2. Use of the Tax Rate Stabilization Fund

In adopting the Budget for the past two fiscal years the Board of Supervisors has reduced the primary rate by a total of 47 cents. This reduction represents an elimination of all growth in the primary levy that would have occurred as a result of increased valuations of existing property. The total reduction in the levy was \$31,426,717. During this period the Board of Supervisors simultaneously created a reserve in the Tax Rate Stabilization Fund to insure against future declines in other General Fund revenues. A total of \$8,600,000 was appropriated to this special revenue fund for use as needed to mitigate the affect of economic downturns on the primary rate.

Declines are projected for next fiscal year in state shared sales and vehicle license taxes as well as other General Fund revenues of about \$8 million. Therefore, I recommend that the entire accumulated balance in the Tax Rate Stabilization Fund of \$8,600,000 be transferred for use by the General Fund. These dollars are, however, one-time, non-recurring resources. Consequently, I further recommend that these dollars be programed to fund a portion of the \$15,000,000 increase in the subsidy payment to University Physicians. Next fiscal year is the second and last year under the amended lease schedule that "front loaded" originally agreed upon subsidy amounts so that more dollars are paid sooner. The total payment of \$25,000,000 next fiscal year will be reduced in Fiscal Year 2009/10 to \$10,000,000.

3. State Appropriation to Kino Hospital (UPKH)

At the November 2000 General Election a statewide initiative, Proposition 204, was approved by the voters that significantly expanded eligibility for indigent medical care in Arizona. Legislation was enacted to implement this program that fiscally impacted Pima County in a variety of different ways. The net effect was that the County lost \$3,817,000 annually that otherwise would have been available to fund a portion of the cost to provide services to the uninsured at Kino Hospital (UPKH).

Contained within this implementing legislation was a one-time appropriation for \$3,817,000 to hold Kino Hospital harmless from this loss. Each year thereafter Pima County has lobbied for and received a renewed state appropriation for this purpose. Historically, this appropriation has never been included in base General Fund revenues

The Honorable Chair and Members, Pima County Board of Supervisors
Transmittal of Recommended Fiscal Year 2008/09 Budget

April 24, 2008

Page 16

because it has never been adopted by the Legislature prior to adoption of the Pima County Budget. The result each year has been a receipt of unbudgeted revenue in this amount that is rolled over for use in the next fiscal year as ending fund balance.

It is not yet known whether the State will renew this hold harmless appropriation for Fiscal Year 2008/09. I recommend, however, that this \$3,817,000 be added to base revenues. By making this assumption these dollars can be used next fiscal year rather than being rolled over to Fiscal Year 2009/10. If this appropriation does not ultimately occur, then reductions in this amount will need to be made within the General Fund Budget for next year when this result becomes known. As with the dollars transferred from the Tax Rate Stabilization Fund recommended above, this hold harmless appropriation is legally non-recurring and would also need to be programed to fund a portion of the temporarily increased subsidy payment to University Physicians next fiscal year.

B. Summary of Recommended Adjustments to General Fund Base Revenues

As discussed above, General Fund base revenues are \$1,645,390 more than base expenditures. Table 2 below summarizes recommended adjustments to base revenues.

Table 2

Recommended Adjustments to Base Budget Revenues

Base Revenues in Excess of Base Expenditures		\$1,645,390
Less Primary Tax Rate Reduction of 21.07 cents	(16,781,169)	
Plus Tax Rate Stabilization Fund Transfer	8,600,000	
Plus Kino Hospital Hold Harmless from State	<u>3,817,000</u>	
	Adjusted Total Revenues	\$(2,718,779)

C. Recommended Adjustments to General Fund Base Expenditures

1. Recommended Increases in Base Budget Expenditures

Requests totaling \$39,116,312 for supplemental funding from the General Fund were submitted by departments. I recommend that the following supplemental appropriations totaling \$3,088,531 be added to General Fund expenditures.

a. COPS in Schools Grant Match

In 2005 the County received a COPS in Schools grant from the United States Justice Department that funded 14 additional Sheriff's deputies. Under the terms

of the grant, funding for these positions incrementally shifts to the County until Fiscal Year 2009/10 when all federal dollars expire. I recommend that the amount of additional County match necessary to continue to fully fund these positions next fiscal year, \$560,666, be allocated to the Sheriff's budget for this purpose.

b. Replacement of Federal Grant Reductions

Several reductions in federal grants that are currently funding personnel within the County's justice system are likely to occur during the next fiscal year. I recommend that a total of \$497,525 be allocated to the Budget Stabilization Fund and reserved for replacement of these grant reductions when they are confirmed. Below is a brief description of each reduction.

- \$207,085 reduction in federal Byrne Grant currently used to fund 4 positions in the County Attorney's Narcotics and Property Crime Unit including 2 felony prosecutors.
- \$95,554 reduction in federal Justice Assistance Grant currently used to fund a felony prosecutor in the County Attorney's Office.
- \$173,554 reduction in federal Byrne Grant currently used by the Superior Court to fund one judge pro tempore and a portion of a second judge pro tempore position, both of which are used to process criminal matters thereby expediting case processing and relieving costs at the County Jail.
- \$21,332 reduction in federal Title IV-D Grant currently used by the Superior Court to fund a portion of 2 staff positions that assist in the expeditious processing of child support cases.

c. Election Security Equipment

Among the many recommendations that I have previously made to the Board of Supervisors this year to enhance the security in conducting elections, two require the purchase of equipment in order to implement. The first is a recommendation that early ballots be counted hours rather than days prior to the election in order to eliminate the possibility that reports of early ballot counts could be generated and leaked in advance to influence the ultimate outcome of an election. The cost of highspeed ballot counters necessary to accomplish this is \$291,900. The second recommendation is that ballots be printed on an as needed basis only in order to eliminate the existence of more ballots than are actually required to accommodate voters. The cost of a ballot on demand printing system is \$140,000.

Therefore, I recommend that a total of \$431,900 be appropriated for these purposes.

d. Sportspark Operation

In the fall of 2007 the Board of Supervisors directed that the County take over management and operation of Sportspark which had previously been done by a private vendor pursuant to a lease with the County for use of the property. The Natural Resources, Parks and Recreation Department has submitted a request for \$797,803 in General Fund support to operate the facility in a manner similar to other County parks that offer sports fields.

I recommend that \$500,000 be appropriated for this purpose and that the facility be managed and operated in a manner necessary to bring expenditures in line with these available resources.

e. Solid Waste Program Operating Losses

The Solid Waste Special Revenue Fund has experienced operating losses for the past ten years. The fund balance at the end of the current fiscal year is projected to be \$514,381 which includes a \$500,000 subsidy transfer from the General Fund approved in the current year's budget. Assuming that existing fees and services provided by the program remain constant, this Enterprise Fund is projected to have a \$2,330,418 deficit at the end of Fiscal Year 2008/09.

In order to avoid accumulation of a long term deficit in this Fund, I recommend that \$1,000,000 be allocated to the Budget Stabilization Fund to cover operating losses and that staff develop options for the Board of Supervisors to consider and implement during the next fiscal year that will reduce projected operating losses by \$1,330,418.

f. Zero Base Budget Adjustments

Pursuant to the schedule adopted by the Board of Supervisors, seven General Fund budget units and three Non-General Fund programs, Fleet Services, Pima Health System, and Solid Waste Management, 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. A separate report compiling the materials and information generated in the zero-base budget development process for Fiscal Year 2008/09 has been transmitted to the Board of Supervisors in conjunction with this Recommended Budget.

As a result of this process three General Fund budget units have requested increases in their base budget appropriations in the following amounts:

Clerk of the Superior Court	\$232,662
Superior Court	27,467
Superior Court - Mandated Services	<u>228,583</u>
Total	\$488,712

While these requests were justified through the zero-based budget methodology, I am unable to recommend that they be funded given the lack of available resources to do so next year. Service demands funded through Superior Court - Mandated Services have, however, increased substantially, particularly the need for interpreter services and mental health evaluations, and so I am recommending that \$98,440 of the total \$228,583 increase requested for this budget be appropriated.

2. Recommended Reductions in Base Budget Expenditures

Adjusting General Fund revenues as recommended in Section V(A) above and increasing General Fund expenditures as recommended in Section V(C)(1) above, results in a revenue shortfall of \$5,807,310. Below are my recommendations to reduce expenditures sufficient to balance the General Fund Budget. Attached to this memorandum is a schedule setting forth the reduction recommended for each departmental budget.

a. A 2.3 Percent Reduction in Departmental Base Budgets

In order to balance the General Fund Budget, I recommend that the base budgets of all General Fund departments be reduced by 2.3 percent with the following exclusions:

1. Non-departmental budget units with no personal services expenditures including Contingency and Debt Service.
2. Expenditure components within departmental budgets that are mandated by law including indigent health care contributions to the state, elected officials' salaries, and the cost of the primary and general elections.
3. Three departments with very small budgets, Justice Court-Ajo, Justice Court -Green Valley and Constables, that have little flexibility to absorb reductions.
4. The Sheriff's Department. The Board of Supervisors has for many years worked toward enhancement of the Sheriff's law enforcement capacity and capabilities as resources were available to do so. While it will not be possible to continue this enhancement next fiscal year, I do not recommend imposing a department wide budget reduction which would undo gains already achieved.

The total reduction in General Fund expenditures from this recommendation is \$4,580,442.

b. An Additional 2.5 Percent Reduction in Administrative Expenditures

In addition to the 2.3 percent reduction described above, I recommend a 2.5 percent reduction in all administrative account centers and programs within all General Fund Departments without exception. These reductions, which will not affect programs providing direct, on-line services to the public, total \$1,226,868.

VI. Summary of Recommended Adjustments to General Fund Base Budget

Set forth in Table 3 below are the adjustments to the General Fund base budget recommended in Section V above.

Table 3

Recommended Adjustments to Base Budget

<u>Base Revenues in Excess of Base Expenditures</u>		\$1,645,390
<u>Recommended Adjustments to Base Revenues:</u>		
• Primary Tax Rate Reduction of 21.07 cents	\$(16,781,169)	
• Tax Rate Stabilization Fund Transfer	8,600,000	
• Kino Hospital Hold Harmless from State	<u>3,817,000</u>	
	\$(4,364,169)	
<u>Recommended Increases to Base Expenditures:</u>		\$(2,718,779)
• COPS Grant Match	\$(560,666)	
• Replacement of Federal Grants	(497,525)	
• Election Security Equipment	(431,900)	
• Sportspark Operation	(500,000)	
• Solid Waste Operating Losses	(1,000,000)	
• Superior Court-Mandated Services	<u>(98,440)</u>	
	\$(3,088,531)	
<u>Recommended Decreases in Base Expenditures:</u>		\$(5,807,310)
• 2.3 Percent Departmental Reduction	\$4,580,442	
• 2.5 Percent Administrative Reduction	<u>1,226,868</u>	
	\$5,807,310	
		\$0

VII. The Overall Budget

A. 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 all library operations and funding to the Pima County Free Library District. Governance and administration of the library

system, including all library employees, transferred to the Library District on July 1, 2006. The agreement with City of Tucson allows the City to decrease its financial support for the library system incrementally until the year 2010 at which time the City will provide no funding. For Fiscal Year 2008/09 the City's contribution will decrease to \$2,000,000 or about \$8,000,000 less than the City had been contributing to support libraries prior to the agreement.

The recommended Fiscal Year 2008/09 Library District expenditure budget is \$35,607,582. This will fund:

- 276.5 permanent and 102 part-time and intermittent library staff.
- Maintenance and repair of 319,150 square feet of District facilities.
- Operation of 25 library branches, including two branches that will open in May 2008.
- Support for one satellite library facility in Sahuarita, one affiliate branch in the Town of Oro Valley, and deposit collections at the Pima County jail and juvenile detention center.

In order to mitigate the impact of increases in valuations on property taxpayers, I recommend that the Library District's tax rate be decreased to \$0.3393 per \$100 of assessed value, a \$0.0582 cent reduction from the current rate of \$0.3975. This 14.6 percent reduction in the rate and corresponding levy will more than eliminate any additional property taxes being collected as a result of appreciation in value of existing property in the County.

2. Debt Service Fund

The total Recommended Fiscal Year 2008/09 Debt Service Fund budget is \$100,521,623, a \$1,680,722 reduction from this fiscal year for debt elements other than Certificates of Participation, and an additional \$24,257,000 for the Certificates of Participation expected to be issued for a total debt service of \$100,521,623. 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 Certificates of Participation debt not included in the General Fund budget, 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 rate. The recommended General Obligation debt service of \$55,930,530 will fund existing debt service as well as debt service on a proposed \$65,000,000 bond sale expected to occur in January 2009.

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 and 2006 bonds are being sold incurring new debt. I recommend that the General Obligation Debt Service tax rate be decreased to \$0.6050 per \$100 of net assessed value for Fiscal Year 2008/09, a reduction of \$0.08 from this year's rate of \$0.6850. This 11.7 percent reduction in the rate and corresponding levy will more than eliminate any additional property taxes being collected as a result of appreciation in value of existing property in the County.

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 2008/09 of \$18,515,463 will fund existing debt service.

Highway Expansion/Extension Loan Program (HELP)

In addition to Street and Highway Revenue bonds, the Transportation Department has one HELP loan 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 2008/09 debt service on the existing HELP loans is \$1,061,180. The 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 2008/09 debt service for the Flood Control General Obligation bonds is \$757,450 which represents approximately \$0.0090 of its secondary tax levy.

Certificates of Participation Debt Service

In June 2008, Pima County will issue \$50,000,000 in Certificates of Participation to fund short-term cash flow requirements affecting the construction of sewer facilities funded with sewer revenues and construction of road projects funded with impact fees. The debt service for these Certificates of Participation will be funded with operating transfers from sewer revenue funds and impact fees. The recommended debt service of \$24,257,000 will fund debt service for the 2008 sale as well as debt service on a proposed \$35,000,000 sale expected to occur in May 2009.

3. Regional Flood Control District

The recommended operating budget for the Regional Flood Control District is \$14,501,469, a \$2,573,216 decrease from the current fiscal year. Also recommended are operating transfers totaling \$8,787,716, a \$2,611,545 decrease from the current fiscal year. Of the transfer amount \$8,000,000 is for the Capital Projects Fund; \$757,450 is for payment of Flood Control General Obligation debt service; and \$30,266 goes 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 provide federal and state mandated floodplain management services and to continue the Board approved Riparian Protection Program as a component of the Sonoran Desert Conservation Plan, and to procure flood prone land continuous to existing watersheds within the County. These land acquisitions serve the dual purpose of protecting existing riparian habitat corridors and preventing future flood damages.

In order to mitigate the impact of increases in valuation on property taxpayers, I recommend that the Regional Flood Control District's tax rate be decreased to \$0.2935 per \$100 of assessed value a \$0.0511 cent reduction from the current rate of \$0.3446. This 14.8 percent reduction in the rate and corresponding levy will more than eliminate any additional property taxes being collected as a result of appreciation in value of existing property in the County.

4. Stadium District

Funding for the Stadium District comes from four sources: a \$3.50 per contract car rental surcharge; a \$0.50 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.

Pursuant to newly enacted enabling legislation, the Board of Supervisors was able on September 13, 2005 to increase the hotel/motel tax supporting the Stadium District from 1 to 2 percent. This has generated approximately \$1.5 million of additional revenues annually. Prior to this increase the District experienced operating losses that were necessarily subsidized by the County's General Fund. Since this increase the District has been able to fully fund the debt service on the Stadium, operating expenses, and set asides to address periodic maintenance and reinvestment projects necessary to preserve this venue for public entertainment in good condition.

Transmittal of Recommended Fiscal Year 2008/09 Budget

April 24, 2008

Page 24

The recommended operating budget for the Stadium District is \$3,412,924, an increase of \$879,115. This increase represents use of a portion of the accumulated District fund balance primarily to undertake capital improvements including painting and roof repairs. The District's budget also includes a \$3,033,035 operating transfer to the General Fund to pay the debt service on the outstanding Certificates of Participation used to finance construction of the Stadium.

The tourist related revenues of the District, though projected to be less than those collected two year's ago, are sufficient under this recommended budget to project a District ending fund balance for Fiscal Year 2008/09 of \$1,565,000.

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

As set forth in Table 4 below, the Fiscal Year 2008/09 recommended Capital Improvement Budget, of \$278,402,539 consists of the Capital Projects Fund Budget of \$161,249,329 and the Wastewater Management Capital Budget of \$117,153,210. A complete list of projects for the Recommended Capital Improvement Budget is included in the Capital Projects section of the Recommended Budget Book.

Table 4

Recommended Fiscal Year 2008/09 Capital Projects Fund Budget and Capital Improvement Plan Budget

	<u>FY 2007/08</u> <u>Bond and Non-</u> <u>Bond Project</u> <u>Budgets</u>	<u>FY 2008/09</u> <u>Bond and Non-</u> <u>Bond Project</u> <u>Budgets</u>	<u>Difference</u>	<u>1997 Bond</u> <u>Projects</u>	<u>2004/2006</u> <u>Bond Projects</u>	<u>Non-Bond</u> <u>Projects</u>
<u>Capital Projects Fund Budget</u>						
Facilities Management	\$47,049,935	\$41,340,056	(\$5,709,879)	\$106,491	\$37,414,749	\$3,818,816
Transportation	65,381,165	45,182,383	(20,198,782)	22,009,908		23,172,475
Flood Control	29,722,171	14,423,922	(15,298,249)	2,291,074	5,574,848	6,558,000
Parks and Recreation	14,872,950	15,823,364	950,414	2,929,707	12,893,657	
Open Space	37,800,000	21,000,000	(16,800,000)		21,000,000	
Cultural Resources	4,479,449	3,834,372	(645,077)	227,167	3,607,205	
Neighborhood Reinvestment	10,921,579	3,595,814	(7,325,765)	343,616	3,252,198	
Solid Waste Management	722,000	1,265,419	543,419	1,265,419		
Sheriff Radio System	15,755,456	12,766,002	(2,989,454)		12,766,002	
Information Technology	1,756,000	1,150,300	(605,700)			1,150,300
CIP Administration	1,082,290	867,697	(214,593)	158,974	525,903	182,820
Contingency Amount	21,000,000		(21,000,000)			
Total Capital Project Fund Budget	\$250,542,995	\$161,249,329	(\$89,293,666)	\$29,332,356	\$97,034,562	\$34,882,411
Wastewater Management Capital Improvement Budget	\$93,393,753	\$117,153,210	\$23,759,457	\$591,000	\$59,988,611	\$56,573,599
Total Capital Improvement Budget	\$343,936,748	\$278,402,539	(\$65,534,209)	\$29,923,356	\$157,023,173	\$91,456,010

1. Capital Projects Fund Budget

The \$161,249,329 Capital Projects Fund Budget for Fiscal Year 2008/09 is a decrease of \$89,293,666 or 36 percent below the Capital Projects Fund Budget of \$250,542,995 for the current fiscal year. A portion of this decrease is the discontinuance of the \$21,000,000 contingency amount included in the Fiscal Year 2007/08 Capital Projects Fund Budget. This amount was not used in Fiscal Year 2007/08 and its need is not anticipated for Fiscal Year 2008/09.

Overall the Capital Projects Fund Budget has transitioned from the 1997 bond program to the projects authorized by voters in 2004 and 2006. Of the total Capital Projects Fund Budget, \$29,332,356 is allocated to 1997 bond projects, \$97,034,562 is allocated to 2004 and 2006 bond projects, and the remaining \$34,882,411 is allocated to non-bond projects.

Included in the recommended Capital Projects Fund Budget are construction expenditures for 90 projects now underway totaling \$104,147,380, or 82 percent of the total allocated to construction projects. The remaining balance of project expenditures for construction projects are for planning and design, right-of-way including open space, utility relocation, and public art expenses.

The major budgeted projects for Facilities Management are a portion of the Psychiatric Hospital and the Psychiatric Urgent Care Center, 2004 and 2006 bond projects, budgeted for a total of \$21 million, the continuing development of the Justice Court/Municipal Court Complex for \$6.2 million and the Animal Care Center for \$3.2 million. The second largest project expenditure is for the Regional Public Safety Communications System, budgeted for \$12.7 million. There are four major budgeted expenditures for Transportation projects totaling \$17.8 million: 1997 HURF bond project, Ajo Way to Bopp Road; 1997 HURF bond and Regional Transportation Authority project, I-19 Frontage Road: Continental Road to Canoa Road; and two non-bond projects, Kolb and Valencia Intersection Improvement and Canoa Road Interchange.

Not included in the Capital Projects Fund budget are \$3.8 million of expenditures programmed by the U.S. Army Corps of Engineers (USACOE) on six projects for which the Regional Flood Control District has budgeted its cost sharing responsibilities of \$4.2 million. The major USACOE expenditure will be \$2 million for the Arroyo Chico Detention Basin.

2. Wastewater Reclamation Capital Budget

The Fiscal Year 2008/09 recommended capital budget for Wastewater Reclamation is \$117,153,210, an increase from the current year of \$23,759,457, or 25 percent. Of the recommended budget \$59,988,611 is for 2004 bond projects,

\$56,573,599 for non-bond projects and the small remainder for 1997 bond projects. The major budgeted projects include Avra Valley Biological Nutrient Removal Oxidation Ditch Expansion to 4 million gallons per day for \$25.3 million; Regional Optimized Master Plan Plant Interconnect for \$12.7 million; and the Marana Wastewater Treatment Plant Expansion for \$8 million.

C. Combined Total County Budget

1. Combined County Property Tax Rate

The combined primary and secondary property taxes levied by the County currently fund 29 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 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 21.07 cents. Pursuant to state Truth in Taxation statutes this will produce a fiscally neutral levy which adds growth caused by new construction but collects no additional taxes as a result of increases in value of existing property or to address inflationary cost increases. If this recommendation is adopted by the Board of Supervisors, it will be the third consecutive year that the County's primary levy will be at or under the state's Truth in Taxation fiscally neutral benchmark. Two years ago only Pima and Cochise Counties, of the fifteen counties in Arizona, adopted a fiscally neutral primary levy. Last year only Pima and Gila Counties were fiscally neutral.

Also recommended are reductions in the three County controlled secondary property tax rates totaling 18.93 cents per \$100 of assessed value consisting of the following individual reductions: the Library District is decreased 5.82 cents, Debt Service is decreased 8 cents and Regional Flood Control District is decreased 5.11 cents. This 13.3 percent reduction in these combined secondary rates will more than eliminate any additional taxes being collected as a result of increases in value of existing property.

The result of these recommendations is a total reduction in the combined County property tax rate of 40 cents, from this year's rate of \$5.0291 to \$4.6291.

2. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum is \$1,460,709,938. This is a \$22,004,558 or 1.5 percent decrease from the Fiscal Year 2007/08 Adopted Budget.

General Fund expenditure increases discussed previously in this memorandum total \$10,508,168.

Significant Non-General Fund increases in the overall County Budget include:

- \$37,957,367 in the Pima Health System Services Enterprise Fund due to the increased cost of providing medical services to additional members enrolled in the state's indigent ambulatory care program and increases in the rate of medical inflation.
- \$22,576,278 in the Debt Service Fund as discussed above.
- \$7,773,496 increase in the Wastewater Management Enterprise Fund as increased repair and maintenance cost related to aging systems and equipment. Increased investment in the systems as well as expansions to them has led to increased depreciation expense. Also, significant amounts of capital improvements in the conveyance and treatment systems have been bond funded leading to significant increases in debt service.
- \$3,038,809 in the Employment and Training Special Revenue Fund as the County has received three new, substantial grants. These are: the Federal Workforce Innovation Regional Economic Development grant for \$1,666,667; the \$300,000 State Youth grant; and the \$666,667 Regional Logistics Workforce Federal grant.
- \$879,115 in the Stadium District as discussed above.

More than offsetting the increases are the following decreases:

- \$89,293,666 in the Capital Projects Fund, as discussed above.
- \$2,769,637 in the Development Services Enterprise Fund due to the economic slowdown in the housing industry, and its corresponding loss of revenues.
- \$2,571,314 in the Recorder's Document Storage and Retrieval Special Revenue Fund due to the projected completion of two large projects in Fiscal Year 2007/08: redaction of Social Security numbers from public records, and conversion of remaining film and microfiche images to digital format.
- \$1,172,457 in the Information Technology Enhancement Special Revenue Fund, as the County's financial position precludes major expenditures for this purpose next year.

Attachment
Recommended Reductions to General Fund
Departmental Base Budgets

Department	2.3% Reduction	1	2.5% Administrative Reduction	2	Total Reduction
GENERAL FUND					
Assessor	207,764		38,419		246,183
Board of Supervisors	35,581		452		36,033
Clerk of the Board	31,709		20,656		52,365
Clerk of the Superior Court	247,635		9,950		257,585
Constables	0	3	4,405		4,405
County Attorney	478,313		64,050		542,363
County Administrator	42,110		34,862		76,972
Elections	31,690		32,759		64,449
Non-Departmental	0		0		0
Facilities Management	378,917		16,278		395,195
Finance and Risk Management	185,376		12,070		197,446
Information Technology	153,861		20,812		174,673
Institutional Health	72,297		41,223		113,520
Indigent Defense	358,369		24,337		382,706
Contract Criminal Defense Attorneys	0		0		0
Justice Court-Ajo	0	3	0		0
Justice Court-Green Valley	0	3	0		0
Justice Courts-Tucson	17,576	4	46,456		64,032
Office of Court Appointed Counsel	16,314		0		16,314
Public Works Administration	2,300		0		2,300
Community Resources	111,817		15,298		127,115
Community Development & Neighborhood Conservation	121,179		10,000		131,179
Community & Economic Development Administration	17,066		18,557		35,623
Juvenile Court Center	552,984		159,318		712,302
Forensic Science Center	65,832		6,086		71,918
General Government Revenues	0		0		0
Contingency	0		0		0
Community Services	128,836		19,152		147,988
General Fund Debt Service	0		0		0
Human Resources	64,638		14,428		79,066
Nat Resources, Parks & Recreation	380,852		32,442		413,294
Public Fiduciary	57,867		14,012		71,879
Graphics Services Design	18,641		0		18,641
Procurement	55,517		15,308		70,825
Recorder	48,755		12,688		61,443
Sheriff	0		449,586		449,586
School Superintendent	30,071		10,590		40,661
Superior Court	608,179		82,674		690,853
Superior Court-Mandated Services	0		0		0
Treasurer	58,396		0		58,396
TOTAL GENERAL FUND	4,580,442		1,226,868		5,807,310

Note 1: Adjustments for certain mandated costs and non-departmental costs prior to applying percentage.

Note 2: Reduction applied only to those cost centers/programs identified as administrative.

Note 3: Due to the small size of these budgets no reduction was recommended.

Note 4: Department submitted their requested budget 2% (117,176) less than base.



Board of Supervisors Memorandum

May 20, 2008

Tentative Budget Adoption: Fiscal Year 2008/09

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 17, 2008, 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 24, 2008, I recommend the following General Fund adjustments to the original recommendations:

- Facilities Management has submitted a cost listing of various General Fund departmental projects that have been started but will not be finished this year, necessitating the carry forward of \$699,480 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 carry forward center.
- Several General Fund departments have submitted requests to carry forward current year's appropriations unrelated to facilities improvements, but which will not be fully expended this year: Forensic Sciences requests \$28,000 for the purchase of a mini van; Community Services Employment and Training requests \$50,133 to complete two youth programs; Procurement requests \$56,700 to cover the extension of the Disparity Study of the Minority and Women Business Enterprise Code; Finance requests \$73,000 for consultants to prepare for the securing of a new Enterprise Resource Planning System; and, the County Attorney requests \$700,000 primarily to enforce the Legal Arizona Workers Act. These increases in next year's expenditures, totaling \$907,833, will be funded by an increase in beginning fund balance, and this amount will be placed in the Contingency Fund carry forward center.
- Juvenile Court has requested that \$42,594 be added to their expenditure authority to cover rent increases and utilities' costs. This additional amount will be offset by a reduction of the same amount in Non-departmental expenditures.

In addition to the General Fund adjustments listed above, there are several other adjustments to non-General Fund departments as follows:

- Regional Wastewater Reclamation requests that their budget be reduced by \$786,696 as fiscal charges related to the Water Infrastructure Finance Authority have been reduced, and other adjustments have been made.
- Development Services, Flood Control, and Transportation have requested a net total budget increase of \$111,807 to adjust administrative cost allocations.
- The Library District requests that their budgeted expenditure authority be increased by \$300,000 in order to purchase a bookmobile.
- The Facilities Renewal Fund expenditure budget will be established at \$1,279,298 in order to complete several active projects.
- The CIP expenditure budget will increase by \$3,200,000 in order to complete five projects:

Public Works Building – HVAC refurbish	\$ 300,000
Legal Services Building – cooling tower replacement	\$ 350,000
Downtown Complex – various repairs	\$ 500,000
Central Plant Transformer – replacement	\$ 750,000
Admin Building – 9th floor remodel	\$1,300,000

The effect of all of the bulleted adjustments is that the Recommended Budget amount of \$1,460,709,938 will increase by \$5,711,722 to \$1,466,421,660.

Prior to final adoption of the budget on June 17, 2008, 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.

Recommended Fiscal Year 2008/09 Budgets and Tax Rates

The table below outlines the budgets and tax rates that I recommend for fiscal year 2008/09. 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.

The Honorable Pima County Board of Supervisors
Tentative Budget Adoption: Fiscal Year 2008/09
May 20, 2008
Page 3

<u>Fiscal Year 2008/09 Budget</u>	<u>Budget</u>	<u>Tax Rate</u>
Total County Budget	\$1,466,421,660	\$3.3913
County Free Library District	36,107,582	0.3393
Flood Control District	14,529,660	0.2935
Debt Service	100,521,623	0.6050
Stadium District	3,412,924	-----

According to the Assessor, Pima County's neutral 2008 Primary Levy will be \$279,434,670. 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. The recommended budget contains a primary property tax rate reduction of \$0.2107 to mitigate the increase in property valuation resulting from appreciation. With this reduction, the County's 2008 Primary Levy will be slightly less than the neutral levy, 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

CHH/jj (May 12, 2008)

Attachments

This page intentionally left blank.



Board of Supervisors Memorandum

June 17, 2008

Fiscal Year 2008/09 Final Budget Adoption

Background

The Fiscal Year 2008/09 Recommended Budget was transmitted to the Board on April 24, 2008. The Tentative Budget was adopted by the Board on May 20, 2008 as originally recommended, with the following exceptions: \$1,607,313 of expenditures was added to accommodate one-time carryover requests; \$42,594 in expenditure authority was added to the Juvenile Court budget to cover rent increases and utilities cost, this amount then being offset by an equal amount in Non-departmental expenditures; \$111,807 was added to certain Public Works departments to adjust administrative cost allocations; \$300,000 was added to the Library District's budget in order to purchase a bookmobile; \$1,279,298 was established as the Facilities Renewal Fund budget in order to complete several active projects; \$3,200,000 was added to the Capital Improvements Program budget in order to complete several projects; and \$786,696 was subtracted from the Regional Wastewater Reclamation budget, as fiscal charges related to the Water Infrastructure Finance Authority were reduced, and other adjustments were made. Adoption of the Tentative Budget served to 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 established by that adoption:

1. Public Defender Adjustment

Two new lawyers and a secretary for the Public Defender's Juvenile Division will be added at a cost of \$200,000, which cost will be covered by a reduction of the same amount in the budget of the Office of Court Appointed Counsel. This will have a zero net effect on the overall County budget.

2. Regional Flood Control Operating and Capital Project Budget

An additional \$2,000,000 will be transferred from the Regional Flood Control District to the Capital Improvement Program in order to complete work on the Mission View Wash Detention Basin, Rillito River Park (Alvernon to Craycroft), and the CDO/Omni River Park. This will both reduce the budgeted expenditures of the Regional Flood Control District and increase the budgeted expenditures of the CIP by \$2,000,000, with zero net effect on the overall County budget. Additionally, a special staff assistant position will be transferred from the Regional Flood Control District to the Regional Wastewater Reclamation Department, with zero net effect on the overall County budget.

3. Pima Health System and Services Ambulatory Program

As a result of not receiving an AHCCCS acute care contract award for the contract period beginning October 1, 2008, the expenditure budget of the Pima Health System and Services department will be reduced by \$6,892,392, resulting in a decrease on the overall County by the same amount.

4. Additional 2.7 Percent General Fund Reduction

As of this date the Arizona Legislature has not adopted a State Budget for next year and there is no indication that such adoption will occur prior to final adoption of the County Budget. Consequently, it is unknown what the ultimate revenue reductions and cost shifts to the County will be.

In order to sustain the potential negative impacts of State budget balancing actions, I recommend that all General Fund departments' expenditures be reduced 2.7 percent in addition to reductions already made in the Recommended Budget. The amount of these reductions totals \$7,234,063 which will be allocated to the Budget Stabilization Fund. If all of this funding is not required to offset State actions, the remainder will serve as a cushion against a possibly worsening economy that erodes County revenues beyond current projections.

Recommendation

Set forth below are the proposed Fiscal Year 2008/09 Final Budget amounts and Tax Rates. These amounts and rates are the same as those resulting from the Board's action at adoption of the Tentative Budget and as recommended in this memorandum and reflected in the attached Arizona Auditor General prescribed schedules.

<u>Fiscal Year 2008/2009 Budget</u>	<u>Budget</u>	<u>Tax Rate</u>
Total County Budget	\$1,459,529,268	\$3.3913
County Free Library District	36,107,582	0.3393
Flood Control District	12,544,587	0.2935
Debt Service	100,521,623	0.6050
Stadium District	3,412,924	-----

Respectfully submitted,


C.H. Huckelberry
County Administrator

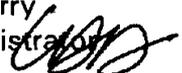
Attachment



MEMORANDUM

Date: June 16, 2008

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

From: C.H. Huckelberry
County Administrator 

Re: **Budget Adjustment Due to Significant Reduction in Acute Care Pima Health System Enrollment**

As I have indicated to the Board previously, the Pima Health System Acute Care contract has been capped by AHCCCS. The agency will be left with only acute care members who are dual eligible to receive Medicare and Medicaid benefits. This simply means that the enrollment of the Pima Health System Acute Care Plan will transition from approximately 30,000 to approximately 3,000 to 4,000 on October 1, 2008. This action will substantially reduce both expenditures as well as revenues in the Pima Health System budget. Due to this action the Pima Health System budget expenditures may be reduced by \$82 million with a corresponding \$82 million reduction in revenues, and the overall budget can be adjusted from \$1,459,529,268 to \$1,377,529,268.

CHH/jj

c: Dennis Douglas, Deputy County Administrator for Medical and Health Services
Karen Fields, Pima Health System Director
Thomas House, Budget Manager, Finance and Risk Management

This page intentionally left blank.