

BUDGET ISSUES

This section of the Fiscal Year 2009/2010 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 2009/10 Budget*, dated April 27, 2009; his July 7, 2009 memorandum, *Tentative Budget Adoption: Fiscal Year 2009/10*; and his July 28, 2009 memorandum, *Fiscal Year 2009/10 Final Budget Adoption*. (The memoranda are located on pages 4-3, 4-27, and 4-34, respectively.)

Issues Synopsis

During the development of the fiscal year 2009/10 budget, the following issues were recognized:

- **Property Taxes** – A major concern in this area has been the increase in valuations in the past several years. In compliance with the state statute, the levies and tax rates for fiscal year 2009/10 will be based on the Assessor's property valuations set in calendar year 2007. This valuation continues to reflect the market appreciation that occurred during the period of 2004 through 2007. To minimize the impact of increased valuation of property on taxpayers, the County Administrator recommended that the property tax be reduced 7.8 cents. This will reduce the primary tax levy and projected General Fund base revenues by \$6.7 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 2009/10 from state-shared sales tax and vehicle license tax will be \$18.9 million less than the fiscal year 2008/09 budgeted amount.
- **Proposition 204 County Hold Harmless Funds** – In March 2009, the state withheld a legislative appropriation of \$3.8 million to hold the County harmless from the implementation of Proposition 204 relating to the state's indigent health care program. Had this funding been distributed to the County, additional fund balance would have been available to fund the fiscal year 2009/10 budget. This funding will again not be distributed to the counties in fiscal year 2009/10.
- **Departmental Revenues** – Because of the continuing recession in the local economy, General Fund departments' budgeted revenues and operating transfers-in are projected to decrease by \$2.4 million from fiscal year 2008/09.
- **University Physicians Healthcare Hospital** - In 2004, the Board of Supervisors approved a lease with University Physicians Healthcare (UPH) for the operation of a hospital in place of the formerly County owned and operated Kino Community Hospital. Under the terms of the lease, the County would make payments to UPH totaling \$127,000,000 over 10 years. The scheduled payment for fiscal year 2009/10 is \$10 million; however, UPH has requested financial assistance that is substantially more than that amount. The County Administrator recommended that \$15 million be appropriated to the Budget Stabilization Fund and reserved for additional support of UPH hospital.
- **Arizona Long Term Care (ALTCS) Contribution** – The state legislature recently enacted legislation that increased the County's payment for ALTCS by \$3.8 million as a cost shift to balance the state budget.
- **Employee Health Insurance** – The cost of employee health insurance will increase by \$1.8 million as incentives have been provided for employees to shift from the traditional Health

Maintenance Organization (HMO) medical coverage to the Preferred Provider Option (PPO) and High Deductible Health Plan (HDDP) coverage. It is projected that the cost of health benefits will decrease in future years as a result of this action.

- Uncertainty in the State Budget - The County's budget was adopted prior to the adoption of the state budget for fiscal year 2009/10. It is not possible to precisely predict what the net impact of the state budget, when finally adopted, will be on Pima County; but some of the proposals to balance the state budget will have significant cost 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 2009/10, \$24 million is needed to reserve five percent of General Fund revenues.
- Employee Compensation - Employee compensation is a very important component of the budget. County employees did not receive pay raises in fiscal year 2008/09. Unfortunately, sufficient resources will not be available in fiscal year 2009/10 to fund salary increases and still meet the County's responsibilities to the public.
- Departmental Requests for Supplemental Funding - The total net negative General Fund impact of all supplemental requests received from departments is \$9,676,625. Many of these requests were justified and will need to be addressed at some point in the future. However, resources are not available in fiscal year 2009/10 to fund these requests.

To balance the fiscal year 2008/09 budget, all General Fund departments, except the Sheriff, were reduced by five percent. The administrative functions of each department, including the Sheriff's office, were reduced by 2.5 percent. In addition, numerous mid-year initiatives to reduce expenditures, including another 2.5 percent across-the-board reduction in all General Fund departments, were implemented. The additional reductions resulted in the County meeting its budgeted fiscal year 2008/09 General Fund ending fund balance of \$24 million.

The Fiscal Year 2009/10 Adopted Budget incorporates all of the reductions implemented in fiscal year 2008/09, including the additional, mid-year 2.5% reduction. Consequently, despite the state cost shifts and declines in state shared revenues, base General Fund revenues exceed base expenditures by \$21.7 million. This amount plus the available \$24 million fiscal year 2008/09 ending fund balance enabled the County to have a balanced General Fund budget for fiscal year 2009/10.



MEMORANDUM

Date: April 27, 2009

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "C.H. Huckelberry", is written over the printed name of the County Administrator.

Re: **Transmittal of Recommended Fiscal Year 2009/10 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2009/10 Budget for Pima County. These recommendations are made based on information available in mid-April 2009. 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 19, 2009	Budget Hearing
May 19, 2009	Tentative Budget Adoption (Sets Budget Ceiling)
June 16, 2009	Final Budget Adoption
August 17, 2009	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 2009/10. 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 prior to final adoption to reflect additional fiscal impacts ultimately enacted by the State.

The Honorable Chairman and Members, Pima County Board of Supervisors
Transmittal of Recommended Fiscal Year 2009/10 Budget

April 27, 2009

Page 2

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. The results of this process for General Fund departments that constructed their budgets using a zero-base approach are discussed in Section V(A)2 of this memorandum.

Index of Budget Memorandum

- I. **Overview of Recommended Budget**..... 5
- II. **Summary of Key Budget Issues** 6
- III. **General Fund Ending Fund Balance: Fiscal Year 2008/09**..... 7
 - A. **Positive Ending Fund Balance** 7
 - B. **Recommended Use of General Fund Ending Balance: Budgeted Reserve** 8
- IV. **General Fund Base Budget: Fiscal Year 2009/10** 9
 - A. **General Fund Base Budget Revenues** 9
 - 1. **General Government Revenues Other Than Property Taxes** 9
 - 2. **Primary Property Tax Revenues**..... 9
 - 3. **Departmental Revenues** 10
 - B. **General Fund Base Budget Expenditures**..... 10
- V. **Recommended Adjustments to General Fund Base Budget** 12
 - A. **Recommended Adjustment to General Fund Base Expenditures**..... 12
 - 1. **University Physicians Healthcare Hospital**..... 12
 - 2. **Zero Base Budget Requests**..... 13
 - 3. **Departmental Requests for Supplemental Funding**..... 13
 - B. **Recommended Adjustment to General Fund Revenues: Property Tax Relief**..... 14
- VI. **Summary of Recommended Adjustments to General Fund Base Budget**..... 14
- VII. **The Overall Budget**..... 14

A. <u>Special Districts and Debt Service</u>	14
1. <u>County Library District</u>	14
2. <u>Debt Service Fund</u>	15
3. <u>Regional Flood Control District</u>	17
4. <u>Stadium District</u>	18
B. <u>Annual Capital Projects Fund Budget and Capital Improvement Plan Budget</u>	19
1. <u>Capital Projects Fund Budget</u>	20
2. <u>Wastewater Reclamation Capital Budget</u>	20
3. <u>Communications Capital Budget</u>	21
4. <u>Fleet Services Capital Budget</u>	21
C. <u>Federal American Recovery and Reconstruction Act: Stimulus Funding</u>	21
D. <u>Combined Total County Budget</u>	22
1. <u>Combined County Property Tax Rate</u>	22
2. <u>Combined County Budget</u>	22

I. Overview of Recommended Budget

At the time the current year's Budget was adopted in June 2008, it was anticipated that numerous cost shifts and revenue reductions impacting the County would be enacted by the State. It was also projected that many revenue sources, both departmental and state shared, would decrease as a result of the downturn in the economy. In response to these projections a variety of expenditure reductions were incorporated into this year's Budget. All General Fund departments, except the Sheriff's Office, were reduced by 5 percent. The administrative functions of each department, including the Sheriff's Office, were reduced an additional 2.5 percent. Some Special Revenue and Enterprise departments, such as Development Services and Transportation, were required to make even greater reductions in order to adjust to severely declining available revenues.

As the current Fiscal Year 2008/09 has progressed, negative impacts from state actions and declines in state shared revenues have exceeded original estimates. In the General Fund more than \$7,611,400 of unanticipated negative fiscal impacts from the State have been sustained and a shortfall of \$14,375,000 in state shared revenues has occurred.

In response to these changing circumstances, numerous mid-fiscal year initiatives to reduce expenditures were implemented. Included in these adjustments was an additional 2.5 percent across-the-board reduction in all General Fund departments. These additional reductions to budgeted expenditures have covered these shortfalls and resulted in the projected General Fund ending balance for Fiscal Year 2008/09 remaining on its original target of 5 percent of annual revenues.

The Recommended General Fund Budget for next year incorporates all of the reductions implemented in Fiscal Year 2008/09, including the additional, mid-year 2.5 percent downward adjustment. Consequently, even though continuing cost shifts and revenue reductions from the State and declines in state shared revenues have been incorporated into this Recommended Budget, base General Fund revenues exceed base expenditures by \$21,740,959.

It is recommended that these unprogrammed dollars be used for two purposes:

- \$15,000,000 set aside for potential allocation by the Board of Supervisors to increase assistance to University Physicians Healthcare Hospital to enhance and expand the provision of medical services.
- \$6,740,959 to afford property tax relief by reducing the primary property tax rate 7.8 cents.

The secondary property tax rates are recommended to decrease 7.5 cents for the Library District, decrease 3.0 cents for the Flood Control District and increase 10.5 cents for Debt Service. The combined County property tax rates will be reduced 7.8 cents from this year's rate of \$4.6291 to \$4.5511 per \$100 of assessed value.

The total, overall Recommended Budget is \$1,371,254,094, which is \$6,275,174 or 0.5 percent less than the current year's Adopted Budget.

II. Summary of Key Budget Issues

- This Recommended Budget is being transmitted prior to enactment of the State's Fiscal Year 2009/10 Budget which may affect the projected revenues and expenditures used to develop this recommendation. If this occurs, recommended modifications to this Budget will be transmitted to the Board of Supervisors.
- The projected General Fund available ending balance for Fiscal Year 2008/09 is \$24,447,921, an increase of \$423,201 over the budgeted reserve of \$24,024,720.
- It is recommended that the non-recurring Fiscal Year 2008/09 ending balance of \$24,447,921 be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2009/10 to maintain a balance which is 5 percent of General Fund revenues.
- Assuming continuation of the current primary property tax rate of \$3.3913, General Fund base revenues and transfers-in for Fiscal Year 2009/10 are projected to be \$494,830,854.
- Excluding primary property taxes, General Fund revenues from all other sources are projected to decrease \$23,875,973 or 11.3 percent from the current year's budget.
- The primary property tax base for next fiscal year, which uses 2007 data, increased 2.22 percent as a result of new development being added to the tax rolls and 6.96 percent as a result of appreciated values of existing property. This growth trend will be severely reversed in future years as the current declines in construction and market values are incorporated into the tax base.
- Base General Fund expenditures and transfers-out total \$473,089,895, which is \$47,907,048 or 9.2 percent less than the current year's budget.
- Numerous initiatives were implemented during the current budget year to reduce expenditures throughout County operations, including a 2.5 percent across-the-board reduction to General Fund departments except the Sheriff's Office, that are now reflected in base expenditures for Fiscal Year 2009/10.

- General Fund base revenues exceed base expenditures by \$21,740,959.
- It is recommended that \$15,000,000 of excess base revenues be set aside in the Budget Stabilization Fund and reserved for assistance to University Physicians Healthcare Hospital, subject to conditions and terms approved by the Board of Supervisors.
- It is recommended that the remaining excess base revenues of \$6,740,959 be used to afford property tax relief by reducing the primary property tax rate 7.8 cents from the current \$3.3913 to \$3.3133 per \$100 of assessed value, which is the lowest primary rate in the past 35 years.
- The recommended budget for the Library District is \$37,483,152 and the recommended tax rate is \$0.2643, a 7.5 cent decrease from the current year.
- The recommended budget for Debt Service is \$110,138,905 and the recommended tax rate to support the General Obligation portion of that budget is \$0.7100, a 10.5 cent increase from the current year.
- The recommended operating budget for the Regional Flood Control District is \$12,227,360, a \$317,227 decrease from this year, and the recommended tax rate is \$0.2635, a 3 cent reduction from the current year's rate.
- The recommended combined County primary and secondary property tax rates are \$4.5511 per \$100 of assessed value, a 7.8 cent reduction from the current year.
- The overall recommended expenditure authority for all funds in the County is \$1,371,254,094, which is \$6,275,174 or 0.5 percent less than the current year.

III. General Fund Ending Fund Balance: Fiscal Year 2008/09

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2008/09 is \$24,447,921. This is a projected increase of \$423,201 over the budgeted General Fund Reserve of \$24,024,720. This ending balance represents 5.3 percent of projected revenues for Fiscal Year 2008/09 compared to the target ending fund balance of 5.0 percent. This is non-recurring, one-time cash available to the General Fund.

This projected net increase of \$423,201 or 1.8 percent results from numerous offsetting increases and decreases in actual expenditures and revenues from the adopted Budget. As the national and state economies declined precipitously after the

June, 2008 adoption of the current year's Budget, the actual amount of state shared revenues received by the General Fund correspondingly declined below original projections including deficits of \$11,800,000 in Sales Taxes and \$3,025,000 in Vehicle License Taxes. In response to this progressive deterioration of budgeted revenues numerous mid-year adjustments were implemented including a 2.5 percent reduction in expenditures from all General Fund supported departments except the Sheriff's Office totaling \$4,995,978 and a \$3,400,000 operating transfer of available, excess equity from the Pima Health System. What was not anticipated was a withholding in March, 2009 of a legislative appropriation to the General Fund of \$3,817,000 to hold Pima County harmless from the implementation in 2001 of Proposition 204 relating to the State's indigent healthcare program. This appropriation was retained by the Director of the Arizona Health Care Cost Containment System to supplant state budget reductions to his agency. Had this funding been distributed to Pima County as the Legislature intended, \$3,817,000 of additional ending fund balance would have been available to fund next year's Budget.

B. Recommended Use of General Fund Ending Balance: Budgeted 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. For the past three years the Board of Supervisors has been able to achieve the goal of 5 percent within the adopted Budget.

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 and recommended adjustments to revenues and transfers-in for Fiscal Year 2009/10, \$24,404,495 is needed to reserve 5 percent of General Fund revenues. I recommend that this minimum benchmark continue to be funded and that this year's projected General Fund ending balance of \$24,447,921 be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2009/10.

IV. General Fund Base Budget: Fiscal Year 2009/10

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of \$3.3913, projected Fiscal Year 2009/10 base budget revenues and operating transfers to the General Fund total \$494,830,854. This is a \$1,582,944 or 0.3 percent 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 2009/10 base budget General Government revenue from all other sources is \$140,580,301, which is \$21,423,015 or 10.8 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 \$15,850,000 or 15.1 percent decrease from the current year. This substantial decrease reflects the reductions in consumer spending and taxable new construction resulting from the economic recession experienced in the current year and projected to continue next year.
- Vehicle License Tax – A \$3,075,000 or 11 percent decrease from the current Budget. This reflects the continued decrease in new car sales and less immigration of new residents into the state bringing vehicles that require new registration.
- Interest on Cash Balances – A \$1,239,124 or 70 percent decrease from the current Budget. This results from continued, historically low interest returns on cash investments.
- Business Licenses and Permits Revenue – A \$513,753 or 17.4 percent decrease from the current Budget as a result of reduced installation of cable services in new and existing homes.

2. Primary Property Tax Revenues

The Preliminary Primary Net Assessed Value for Fiscal Year 2009/10 totals \$8,986,316,666. This is a 2.22 percent increase over the current year that is attributable to new construction that has been added to the tax base and an additional 6.96 percent increase representing market appreciation in the value of

existing property. Last year the primary tax base increased 5.50 percent from new construction and 6.85 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 significant growth, especially in market appreciation. This trend will be severely reversed in future years as the current market conditions are amended into future tax bases.

Assuming the same primary rate as this year of \$3.3913 per \$100 of assessed value and a collection rate of 96.17 percent, current year General Fund property tax revenues for Fiscal Year 2009/10 are projected to be \$293,084,826.

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 \$14,711,436. Together with the projected primary property tax collections next year as discussed above, the total base property tax revenues projected for Fiscal Year 2009/10 are \$307,796,262 a 9.0 percent increase over the current year.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2009/10 are projected to be \$46,454,291. This is a net decrease from the current year of \$2,452,958 which reflects a projected, continued recession in the local economy.

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 \$473,089,895, which is \$47,907,048 or 9.2 percent less than the current year's budget. 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.

The adopted current year's budget reduced base expenditures for all General Fund supported departments, except the Sheriff's Office, by 5 percent and an additional 2.5 percent in administrative expenditures for all departments, including the Sheriff's Office. During the current year, after budget adoption, an additional 2.5 percent across-the-board reduction was implemented. This most recent 2.5 percent reduction, with the exception of the Sheriff's Office, is incorporated into in the recommended General Fund base expenditures. The total amount of across-the-board reductions

implemented during the current year and recommended for Fiscal Year 2009/10 is \$5,300,892. To correspond with these internal reductions, the recommended base appropriation for allocation to outside agencies has been reduced 10 percent or \$396,397 to a total of \$3,779,786.

Other significant components in recommended base budget expenditures include:

- \$237,210,914 or 48 percent of General Fund expenditures for Justice and Law Enforcement functions.
- \$72,834,517 for mandated payments to fund state programs for indigent acute, long term, and mental health care including an increase of \$3,794,400 in the payment for the Arizona Long Term Care System recently enacted by the Legislature as a cost shift to balance the State Budget.
- \$10,000,000 to fund the County's contractual obligation to University Physicians Healthcare pursuant to the existing lease for University Physicians Healthcare Hospital.
- \$13,995,347 for adult and juvenile detention health care.
- \$64,634,582 for employee benefits including \$24,254,494 for employer contributions to various state retirement systems and \$16,516,830 for medical, dental and life insurance premiums.
- \$2,000,000 in the Budget Stabilization Fund reserved for continued assistance, as needed, for revenue shortfalls in solid waste services.
- \$2,000,000 in the Budget Stabilization Fund reserved for support, as needed, to fund the countywide planning function within the Development Services Department which benefits all County residents but which cannot currently be sustained solely through fee generated revenue given the substantial decrease in development activity.
- \$375,000 to fund the fifth and final appropriation, initially approved by the Board of Supervisors in 2004, to support establishment of the Critical Path Institute in order to promote local economic development.
- \$795,524 in the Board of Supervisors' Contingency Fund.
- \$294,969 to annualize salary increases of County elected officials that became effective in January, 2009 pursuant to state statute.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above, \$473,089,895 is required to fund base budget expenditures which is \$21,740,959 less than the amount of base budget revenues projected for Fiscal Year 2009/10. Set forth below are my recommendations for adjustments to base expenditures and revenues.

A. Recommended Adjustment to General Fund Base Expenditures

1. University Physicians Healthcare Hospital

In 2004 the Board of Supervisors approved a lease with University Physicians Healthcare (UPH) for operation of a hospital at the University Physicians Healthcare Hospital facility. The terms of that lease provided that, in order to assist UPH in transitioning and establishing a new hospital in place of the formerly County owned and operated Kino Community Hospital, the County would make payments to UPH totaling \$127,000,000 over ten years. These payments were weighted in amount toward the beginning of the ten year term with decreasing annual amounts over time. Since the lease was initially entered into, it was subsequently amended to restructure the payment schedule to further accelerate the amounts paid during the ten year term. At the end of the current fiscal year \$110,416,667 of the \$127,000,000 total payments under the lease will have been paid to UPH. Under the restructured lease a \$10,000,000 payment is to be made in Fiscal Year 2009/10. This amount is included in base General Fund expenditures discussed in Section IV(B) above.

UPH, in conjunction with the University of Arizona, has requested that the County provide financial assistance to the University Physicians Healthcare Hospital that is substantially more than is provided for in the lease. The Arizona Health Sciences Center, consisting of the College of Medicine, University Medical Center and University Physicians Healthcare including the University Physicians Healthcare Hospital at the Kino Campus, is developing a long-term strategic plan scheduled for completion in September, 2009. Objectives of this plan will include enhanced and expanded capacity to provide health care to the underserved in the community and to train and retain health care workers.

In anticipation of implementation of this plan, additional, continuing funding from the County has been requested. For Fiscal Year 2009/10 the request totals approximately \$30,000,000 or \$20,000,000 more than is programmed in the County's budget for payment pursuant to the lease with UPH. In order to accommodate this request it will be necessary to more fully articulate and quantify the added benefit to the public that this substantial additional investment by the County will support. In particular, recent interpretation of the Arizona Constitution by the Court of Appeals will require that the conditions governing

such an allocation adequately describe, benchmark and validate the public purposes to be achieved with this funding.

I recommend that \$15,000,000 be appropriated to the Budget Stabilization Fund and reserved for additional support of UPH hospital at Kino subject to future approval of an allocation that includes necessary and appropriate terms and conditions acceptable to the Board of Supervisors.

2. Zero Base Budget Requests

Pursuant to the schedule adopted by the Board of Supervisors, ten General Fund budget units and five Non-General Fund 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. A separate report compiling the materials and information generated in the zero-base budget development process for Fiscal Year 2009/10 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:

Kino Sports Complex	\$ 64,575
Public Fiduciary	257,419
Superintendent of Schools	<u>81,952</u>
Total	\$ 403,946

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.

3. 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 \$9,676,625.

Many of these requests were justified and will need to be addressed at some point in the future. Lack of available resources next fiscal year, however, prevent any recommendations to fund these requests.

B. Recommended Adjustment to General Fund Base Revenues: Property Tax Relief

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 2009/10 will be based on property valuations set by the County Assessor in calendar year 2007. As a result these valuations continue to reflect the substantial market appreciation that occurred locally, statewide and nationally during the period of 2004 through 2007. This is the basis for next year's property tax levy even though current real property values are experiencing a decline within the County.

In order to mitigate the impact of increased valuation of existing property on taxpayers, I recommend that the primary property tax rate be reduced 7.8 cents, from \$3.3913 to \$3.3133 per \$100 of assessed value. This will reduce the primary property tax levy and projected General Fund base revenues by \$6,740,959. The recommended primary property tax rate of \$3.3133 is the lowest rate adopted by the County in the past 35 years.

VI. Summary of Recommended Adjustments to General Fund Base Budget

General Fund Base Revenues	\$494,830,854
General Fund Base Expenditures	<u>\$473,089,895</u>
Base Revenues in Excess of Base Expenditures	\$ 21,740,959
Recommended Increase in Expenditures:	
University Physicians Healthcare Hospital	(\$15,000,000)
Recommended Decrease in Revenues:	
Property Tax Relief	<u>(\$6,740,959)</u>
	 \$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 transferred to the Library District on July 1, 2006. The agreement with City of Tucson allowed the City to decrease its financial support for the library system incrementally until Fiscal Year 2009/2010 when all City funding ends. Since assuming responsibility for Library funding and administration the

District has opened three new branches and one satellite branch, doubled the annual collection purchase budget and extended Sunday hours in thirteen additional branches.

The Library District operates twenty-six branches, one affiliate branch in the Town of Oro Valley, a Book Mobile serving numerous remote locations, and deposit collections at the Pima County Jail and the Juvenile Detention Center. The District has 278 permanent and 105 intermittent positions and occupies 320,000 square feet of library space.

The District provides numerous community services, including story hours and reading programs for children, adult literacy programs, summer youth reading and activity programs, site-based and internet tutoring programs, numerous art and cultural exhibits and events, and, most recently, in collaboration with Pima County One Stop, special assistance for the unemployed and job seekers. The Library has a collection of 1.4 million catalogued items, provides for public use of 700 computers, and annually has over 4.1 million visits.

The Fiscal Year 2009/10 Recommended Budget is \$37,483,152, which is a \$1,375,570 increase over the current year's budgeted amount. This includes a \$1,187,535 increase in maintenance to address needed repairs at library branches.

The recommended Library District property tax rate for Fiscal Year 2009/2010 is \$0.2643 per \$100 of assessed value, which is \$0.0750 less than the current rate of \$0.3393. This tax rate is projected to provide \$26,001,108 million in revenues that will be supplemented by \$1,631,500 from fines, interest, grants, and miscellaneous revenue, and \$9,850,544 from the Library District fund balance in order to meet the recommended overall budget of \$37,483,152. The Fiscal Year 2009/10 ending fund balance is projected to be \$7,041,336, while the current year's projected ending fund balance is \$16,891,880. Consequently, this recommended rate reduction is temporary, given that a substantial portion of the large, one-time fund balance will be utilized next fiscal year. It is anticipated that the rate will be required to increase in future years.

2. Debt Service Fund

The total Recommended Fiscal Year 2009/10 Debt Service Fund budget is \$110,138,905, a \$9,617,282 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, 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 \$69,367,436 will fund existing debt service as well as debt service on a proposed \$90,000,000 bond sale expected to occur in November 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. The County has initiated several major capital improvement projects this fiscal year, including the psychiatric facilities at the Kino medical campus and the regional public safety radio system (PCWIN), and expects to issue \$90,000,000 of new debt in Fiscal Year 2009/10.

The County manages the issuance of its debt to provide timely, adequate funding to maintain the on-going capital improvement program. In order to properly time the issuance of debt to minimize outstanding balances and manage the level of debt service to avoid significant spikes in payments in any year, the County generally issues debt on an annual basis for General Obligation Bonds and for Sewer Revenue Bonds, and bi-annually for Highway and Streets Revenue Bonds.

With the expected decrease in net secondary assessed values in the coming years, and the need to continue to fund projects from the 2004 and 2006 General Obligation bond authorizations, the debt service rate needs to increase by \$0.105 for Fiscal Year 2009/10 in order to sufficiently finance current capital projects. To continue the 2004 and 2006 capital programs, additional increases in the debt service rate of \$0.03 in Fiscal Year 2010/11, \$0.04 in Fiscal Year 2011/12 and \$0.02 in Fiscal Year 2012/13 are anticipated to be needed to account for the decrease in net secondary assessed values.

I recommend that the General Obligation Debt Service tax rate be increased to \$0.7100 per \$100 of assessed value for Fiscal Year 2009/10, an increase of \$0.105 from this year's rate of \$0.6050. This increase in the rate and corresponding levy will enable the County to continue with the construction of psychiatric facilities at the Kino medical campus and the regional public safety radio system.

- **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 Fund (HURF) revenues the Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2009/10 of \$18,899,469 will fund existing debt service as well as debt service on a proposed \$15,000,000 bond sale expected to occur in November 2009.

- **Certificates of Participation Debt Service**

In June 2009, Pima County will issue \$35,000,000 in Certificates of Participation primarily to fund short-term cash flow requirements affecting the construction of sewer facilities funded with sewer revenues. The debt service for these Certificates of Participation will be primarily funded with operating transfers from sewer revenue funds. In January 2010, the County will issue \$20,000,000 of Certificates of Participation to fund the PimaCore project for the acquisition of a countywide resource management system. The recommended debt service of \$21,872,000 will fund existing debt service as well as debt service on the proposed sales expected to occur in June 2009 and January 2010.

3. Regional Flood Control District

The recommended operating budget for the Regional Flood Control District is \$12,227,360, a \$317,227 decrease from the current fiscal year. Also recommended are operating transfers totaling \$10,030,266. Of the transfer amount \$10,000,000 is for the Capital Projects Fund, 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 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 Regional Flood Control District's tax rate be decreased to \$0.2635 per \$100 of assessed value, which is \$0.03 less than this year's rate.

Overall projected revenues are \$23,598,588 for Fiscal Year 2009/10, which is a decrease of \$2,407,281 from the current fiscal year.

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.

Due to declining economic conditions, Fiscal Year 2009/10 funding from the first three sources will decrease substantially from the amounts budgeted in the current year: car rental surcharges will decrease by \$504,000, or 28 percent; RV space surcharges will decrease by \$126,000, or 58 percent; and Transient Lodging Tax revenues will decrease by \$686,000 or 23 percent. Loss of baseball tenants, as discussed below, will result in an additional loss of revenue in the amount of \$472,000. Collectively, about \$1.8 million less funding will be available next fiscal year to the Stadium District than is budgeted in the current year. This projected shortfall will be addressed by drawing down the Stadium District fund balance in like amount.

In 2008, the Chicago White Sox notified the County that they were relocating their spring training activities to a new stadium in Glendale, Arizona. In November, 2008 the Board of Supervisors, acting as the Stadium District Board, approved a termination of contract agreement that included a one-time, \$5 million settlement payment by the White Sox to the County. It was the intent of the Board that the \$5 million be used, in part, for capital and operating improvements to the Stadium that will prepare it for new uses in the future.

Also in 2008, the Tucson Sidewinders announced that they were relocating to Reno, Nevada effective in spring 2009. In February, 2009 the Arizona Diamondbacks released a request-for-proposals for construction of a new stadium which may result in their departure from Tucson Electric Park by spring of 2011. As a result of these changes, review of the potential to reprogram the use of the Stadium to accommodate greater youth and amateur utilization and possibly as a spring training site for one or more Japanese baseball teams is currently underway.

The recommended operating budget for the Stadium District is \$6,555,529, an increase of \$3,142,605. Almost all of this increase results from two factors. The first is a one-time programming of \$1.7 million of the total \$5 million settlement payment received from the White Sox to fund capital improvements needed to facilitate enhanced use of the facility by youth and amateur sports as was intended by the Board of Supervisors. The second component of the

The Honorable Chairman and Members, Pima County Board of Supervisors
Transmittal of Recommended Fiscal Year 2009/10 Budget
 April 27, 2009
 Page 19

increase is a \$1.3 million reformatting of the Stadium District as a budget unit by transferring the expenditure authority for North Fields, South Fields, and the Kino Ecosystem Restoration Project from the General Fund in order to provide a more complete, consolidated picture of the cost of operating all of the interrelated components of the recreational complex. This \$1.3 million will be offset by an operating transfer from the General Fund to the District. The District's budget also includes a \$3,012,935 operating transfer to the General Fund to pay the debt service on the outstanding Certificates of Participation used to finance construction of the Stadium.

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

As set forth in the table below, the Fiscal Year 2009/10 Recommended Capital Improvement Budget of \$284,862,053 consists of the Capital Projects Fund Budget at \$196,516,969 together with the Capital Project Budgets of Wastewater Reclamation at \$87,095,084, Communications at \$1,000,000, and Fleet Services at \$250,000. A complete list of projects for the Recommended Capital Improvement Budget is included in the Capital Projects section of the Recommended Budget Book.

**Recommended Fiscal Year 2009/10 Capital Projects Fund Budget
 and Capital Improvement Plan Budget**

	<u>FY 2008/09 Bond and Non- Bond Project Budgets</u>	<u>FY 2009/10 Bond and Non- Bond Project Budgets</u>	<u>Difference</u>	<u>1997 Bond Projects</u>	<u>2004/2006 Bond Projects</u>	<u>Non-Bond Projects</u>
Capital Projects Fund Budget						
Facilities Management	\$44,540,056	\$45,188,470	\$648,414	\$537,408	\$38,370,818	\$6,280,244
Transportation	45,182,383	63,434,666	18,252,283	27,787,497	0	35,647,169
Flood Control	16,423,922	14,070,845	(2,353,077)	0	4,148,845	9,922,000
Parks and Recreation	15,823,364	13,007,794	(2,815,570)	1,456,444	11,501,350	50,000
Open Space	21,000,000	5,031,694	(15,968,306)		5,031,694	0
Cultural Resources	3,834,372	2,425,730	(1,408,642)	36,145	2,389,585	0
Neighborhood Reinvestment	3,595,814	14,384,232	10,788,418	160,835	10,723,397	3,500,000
Solid Waste Management	1,265,419	577,361	(688,058)	577,361	0	0
Sheriff Radio System	12,766,002	27,719,205	14,953,203		27,719,205	0
Finance PimaCore	0	9,953,468	9,953,468	0	0	9,953,468
CIP Administration	867,697	723,504	(144,193)	148,100	326,399	249,005
Communications	1,150,300	0	(1,150,300)	0	0	0
Total Capital Project Fund Budget	\$166,449,329	\$196,516,969	\$30,067,640	\$30,703,790	\$100,211,293	\$65,601,886
Capital Project Budget for:						
Wastewater Reclamation	\$117,153,210	\$87,095,084	(\$30,058,126)	\$400,926	\$37,219,273	\$49,474,885
Communications	0	1,000,000	1,000,000	0	0	1,000,000
Fleet Services	0	250,000	250,000	0	0	250,000
Total Capital Improvement Budget	\$283,602,539	\$284,862,053	\$1,259,514	\$31,104,716	\$137,430,566	\$116,326,771

1. Capital Projects Fund Budget

The \$196,516,969 Capital Projects Fund budget for Fiscal Year 2009/10 is an increase of \$30,067,640 over the current fiscal year. Of the total Capital Projects Fund budget, \$30,703,790 is allocated to 1997 bond projects, \$100,211,293 is allocated to 2004/2006 bond projects, and the remaining \$65,601,886 is allocated to non-bond projects.

The major budgeted projects for next year include \$28.9 million for the Psychiatric Hospital and Urgent Care Facility, funded with 2004/2006 Bonds, and \$23.7 million for the Regional Public Safety Communications System, primarily funded with 2004 Bonds combined with \$4.8 million in federal grants. The 1997 HURF Bond Program has two major projects included in the Fiscal Year 2009/10 budget: \$10.3 million is budgeted for the I-19 Frontage Road - Continental Road to Canoa Road which is planned to be funded with \$2.6 million of 1997 HURF Bonds, \$2.6 million of Impact Fees, \$1.0 million of RTA Sales Tax, and \$4.1 million of Urban HURF; and \$6.5 million is budgeted for Sunrise Drive - Craycroft Road to Kolb Road, to be funded with 1997 HURF Bonds. A third major project for Transportation, budgeted at \$7.1 million next year, is a non-bond project: La Canada Drive - Ina Road to Calle Concordia. The PimaCore resource management system is also budgeted at \$10 million and federal stimulus funding of \$9 million is budgeted for pavement preservation.

Not included in the Capital Projects Fund budget are \$2.5 million of expenditures programmed by the U.S. Army Corps of Engineers (USACOE) on four projects for which the Regional Flood Control District has budgeted its cost sharing responsibilities of \$2.0 million. The major USACOE expenditure will be \$2 million for the Arroyo Chico Detention Basin.

2. Wastewater Reclamation Capital Budget

The Fiscal Year 2009/10 recommended capital budget for Wastewater Reclamation is \$87,095,084, a decrease from the current year of \$30,058,126, or 26 percent. Of the recommended budget \$37,219,273 is for 2004 bond projects, \$49,474,885 is for non-bond projects and the small remainder for 1997 bond projects. The major budgeted projects totaling \$56.1 million include Regional Optimization Master Plan (ROMP) Plant Interconnect at \$25 million; Ina Road Water Pollution Control Facility (WPCF) Biosolids Facilities Improvements at \$12.9 million; ROMP Ina Road WPCF High Purity Oxygen Replacement at \$6.8 million; Large Line Rehabilitation and Construction Job Order Contract at \$6.3 million, and Santa Cruz Interceptor, Phase III at \$5 million.

3. Communications Capital Budget

The Fiscal Year 2009/10 recommended capital budget for Communications is \$1 million for the downtown telephone switch replacement/upgrade including relocation of all telephone switch (PBX) equipment and support facilities from the Old Court House building, and upgrade of voice mail/call processing systems. This will be paid for using accumulated fund balance in the Communications Fund.

4. Fleet Services Capital Budget

The Fiscal Year 2009/10 recommended capital budget for Fleet Services is \$250,000 for purchase of a Fuel Management System that will be paid for using existing funds generated by monthly motor pool charges.

C. Federal American Recovery and Reconstruction Act: Stimulus Funding

The federal American Recovery and Reinvestment Act of 2009 was recently enacted to preserve and maintain jobs, stimulate economic recovery, assist individuals adversely impacted by the recession, and provide investments in public infrastructure that will yield long-term benefits. This legislation appropriates a total of \$787 billion, with \$575 billion provided in the form of direct spending and another \$212 billion provided in tax incentives. Counties, cities, states and tribal governments are eligible for the stimulus funds, as are private entities. The funds flow from the federal government to eligible entities in one of four ways: pre-established formula grants, competitive grants, loans and loan guarantees, and tax incentives.

At least twenty-five different federal government agencies are involved with implementing the Act. While some grant application guidelines have already been issued, many others are still being formulated. Funding disbursements are also occurring at a sporadic pace. For example, while Community Development Block Grant and some transportation funds have already been disbursed, other funds will not be released until late 2009 or 2010. Many of the stimulus programs infuse new funding into existing government programs, while others create wholly new programs. Stimulus funds for counties are available in nine broad categories: Energy, Environment, Health, Housing, Job Training and Employment, Public Safety, Small Business and Economic Development, Telecommunications, and Transportation.

Various Pima County departments are currently actively involved in developing proposals and submitting applications, as opportunities become available, for this federal funding to implement a wide variety of projects and programs. In some cases, the County has already received notification of funding awards including \$9 million for pavement preservation and road repair work, a \$10 million Water Infrastructure Finance Authority loan for improvements to the regional wastewater system, \$5.6

million for Workforce Investment Act job training and employment programs, \$695,000 for Community Development Block Grant programs, \$1.1 million for emergency shelter, and \$1.7 million for the weatherization of low-income residences outside the City of Tucson.

Because the federal legislation has only just begun to be implemented, and detailed guidance for many funding opportunities has yet to be released, it is not possible in this Recommended Budget to accurately estimate the actual amount of stimulus dollars the County will receive next fiscal year.

All agreements required for receipt of federal stimulus funding will be transmitted to the Board of Supervisors for review and approval as they may materialize.

D. Combined Total County Budget

1. Combined County Property Tax Rate

The combined primary and secondary property taxes levied by the County currently fund 31 percent of the total County Budget. These are the only County revenues over which the Board of Supervisors has substantial control. The remainder of the 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 7.8 cents. Also recommended are reductions in two of the three County controlled secondary property tax rates, and an increase in the third. The effect all three changes will result in a net zero change in the combined secondary tax rate. The recommended individual changes are: the Library District tax rate is reduced 7.5 cents; the Regional Flood Control District tax rate is reduced 3 cents; and, the Debt Service tax rate is increased 10.5 cents.

The result of these recommendations is a total reduction in the combined County property tax rate of 7.8 cents, from this year's rate of \$4.6291 to \$4.5511.

2. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is \$1,371,254,094. This is a \$6,275,174 or 0.5 percent decrease from the Fiscal Year 2008/09 Adopted Budget.

General Fund expenditure decreases discussed previously in this memorandum total \$7,458,764.

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

- \$30,033,044 in the Pima Health Systems Fund as membership in the Ambulatory Plan continues to decline.
- \$8,303,133 in the Transportation Fund resulting from the elimination of some roadway contract work and the unfunding of vacant positions in order to adjust to reductions in state shared revenues.
- \$3,988,510 in Development Services primarily as a result of reductions in force accomplished by unfunding vacant positions, layoffs, and transfers of staff to other departments.
- \$2,431,137 in Superior Court and Juvenile Court grants as funding administered by the Arizona Administrative Office of the Courts has been reduced. For Superior Court, this includes: Access to Recovery (\$398,600), Intensive Probation (\$386,009), Standard Probation (\$41,839), and Drug Treatment (\$29,331), and for Juvenile Court this includes: Intensive Probation (\$667,507), Standard Probation (\$217,363) and Diversion Consequences (\$194,615).
- \$1,321,272 in Sheriff's grants reflecting the loss of funding for COPS in Schools 2005, Arizona Department of Public Safety GITEM (Gang and Immigration Intelligence Team Enforcement Mission), United States Department of Justice Cold Case with DNA, 2006 Homeland Security, and Vail Unified School District School Resource Officer grants. These grants affect 31 positions, the cost of which will be transferred to the General Fund and absorbed in the Sheriff's department base budget.
- \$1,081,625 in Solid Waste resulting from the implementation of cost cutting measures such as reducing operating hours at landfills, transfer stations and regional collection centers, and eliminating greenwaste grinding.

Partially offsetting these decreases are the following increases:

- \$30,067,640 in the Capital Projects Fund, including \$9,000,000 of federal stimulus funding for Transportation, as discussed above.
- \$9,617,282 in the Debt Service Fund as discussed above.

The Honorable Chairman and Members, Pima County Board of Supervisors
Transmittal of Recommended Fiscal Year 2009/10 Budget
April 27, 2009
Page 24

- \$9,332,109 in the Employment and Training Program including \$6.9 million of federal stimulus funding and increases in Workforce Investment Act (WIA) funding, Low Income Home Energy Assistance Program (LIHEAP) funding, and in various Community Action Agency grants.
- \$3,142,605 in the Stadium District as discussed above.
- \$1,907,478 in the Wastewater Reclamation fund due to increased debt service payments.
- \$1,375,570 in the Library District as discussed above.



Board of Supervisors Memorandum

July 7, 2009

Tentative Budget Adoption: Fiscal Year 2009/10

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 July 28, 2009, 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.

This updated memorandum supersedes and takes the place of the "Tentative Budget Adoption: Fiscal Year 2009/10" memorandum to the Board dated May 19, 2009. This memorandum contains all of the adjustments to the Recommended Budget set forth in the earlier memorandum plus additional recommended changes as set forth below.

Status Report

A. Previous Recommended Adjustments

Set forth below are the adjustments to the Recommended Budget that were originally contained in the Tentative Adoption Memorandum of May 19, 2009:

- Three General Fund departments have submitted requests to carry forward current year's appropriations that will not be fully expended this year: Finance and Risk Management requests \$60,000 to cover a consulting contract for the purchase of a new comprehensive financial system; the Kino Sports Complex requests \$55,000 to complete swimming pool repairs; and, Community Services Employment and Training requests \$23,808 to complete two youth programs. These increases in next year's expenditures, totaling \$138,808, will be funded by an increase in beginning fund balance, and this amount will be placed in the Contingency Fund carry forward center.
- The Public Fiduciary had submitted a Zero Base Budget request for an additional \$257,429 of expenditure authority, of which an additional \$134,196 was requested for burials. At the time I submitted my Recommended Budget to the Board there were not enough available resources to cover this additional recurring expense. However, possibilities for increased revenue production next year have been further reviewed to fund expected increased demands for indigent burial services and an increase of \$120,000 in both budgeted revenues and expenditures is now justified.

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

- An additional \$3,981,900 in expenditure authority and revenues will be added to the Facilities Management Grant Fund to account for the receipt and expenditure of federal stimulus funds related to the Energy Efficiency and Conservation Block Grant. This money will be used to develop a comprehensive energy plan, implement energy efficiency projects in County facilities, and perform other activities that are determined to be a high priority during the comprehensive energy planning process.
- An additional \$1 million in expenditure authority and revenues will be added to Community Development and Neighborhood Conservation Grants for the Neighborhood Stabilization Program.

There are two additional budget actions that will have a zero net effect on overall County budgeted expenditures:

- The Stadium District had included \$1.5 million in expenditure authority for capital repairs that are more appropriately budgeted in the Capital Improvements Program (CIP) budget. Accordingly, \$1.5 million in expenditure authority in the Stadium District will be replaced by an operating transfer of cash from the Stadium District to the CIP, with the CIP then having the \$1.5 million expenditure authority established in its budget.
- Several weeks ago I approved a plan to increase staffing and support levels for both the Legal and Public Defenders in order to enable these departments to absorb almost 900 additional cases that have been assigned to Contract Attorneys. In order to hire 7 attorneys and 4 support staff, as well as to cover needed supplies and services costs, \$810,995 in expenditure authority will be removed from the Contract Attorney budget and allocated to the budgets of the Legal and Public Defender. I believe this action will save more than the amount removed from the Contract Attorney's budget, and I have notified staff that I will expect a clear and concise accounting record, review, and analysis to determine whether or not it is cost effective.

B. New Recommended Adjustments

Based on additional information available since transmittal of the original "Tentative Budget Adoption: Fiscal Year 2009/10" memorandum to the Board on May 19, 2009, I propose the following additional General Fund adjustments to my original Fiscal Year 2009/10 Recommended Budget:

- Pretrial Services is implementing a program to screen municipal arrestees for expedited release to community mental health providers. Pretrial Services already provides this service to County arrestees. The program screens municipal arrestees for a history of mental illness and, at the initial court appearance, finds community placement for mentally

ill arrestees who are not a public safety risk. The program is intended to reduce the demand for in-custody mental health services and reduce jail costs for the affected municipalities. The total annual cost of this service is \$347,350, and budgeted expenditures will increase by this amount. The affected municipalities are funding the services via payment of the fiscal year 2009/10 jail per diem rate. The Sheriff's Office has incorporated these costs into the new per diem rate, and budgeted revenues have been increased by the same amount, yielding a zero net General Fund impact.

- Justice Courts Ajo has submitted a request to carry forward \$108,928 of current year's appropriations that will not be fully expended this year to cover the cost of needed repairs at the Ajo Justice Court facility. 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, for eventual transfer to the Facilities Renewal Fund as needed.
- I recommend that \$23,750 budgeted in the Economic Development & Tourism Special Revenue Fund as support for the Ajo Chamber of Commerce be covered by a General Fund operating transfer in the same amount. This is consistent with the General Fund support that has been budgeted for the five other economic development related agencies in this special revenue fund. In order for there to be zero net General Fund impact as a result of this action, I recommend that the Board's Contingency Fund be reduced by the same amount.
- As discussed in my June 10, 2009 memorandum "Victim Witness Program" funding, it has been confirmed that the City of Tucson will reduce its contribution to this program by \$5,020. Therefore, General Fund supported expenditures must be decreased by the same amount.
- An additional \$286,542 will be budgeted in the Facilities Renewal Fund to begin the acquisition of an Elections/Voter Registration building. A General Fund transfer of this amount is made possible as a result of revised current fiscal year expenditure and revenue projections made by the Recorder.

In addition to the General Fund adjustments listed above, I recommend several financial adjustments to non-General Fund departments:

- The Community Development and Neighborhood Conservation Department will apply for up to \$10 million in federal stimulus funds to enhance Neighborhood Stabilization Program (NSP) efforts and, if received, will expect to spend up to \$3 million in fiscal year 2009/10. NSP is a federal government grant program that has as its goal the mitigation of the negative impacts of foreclosures in communities. This mitigation is accomplished through the purchase and renovation of foreclosed properties in severely impacted communities.

- The Arizona Secretary of State has sent notice that Pima County can expect to receive \$1,338,651 in Help America Vote Act block grant monies. The money may be utilized for the purchase of voting machines, voter registration enhancements, voter education efforts, and poll worker recruitment and training.
- Several adjustments to the CIP budget are recommended that will add \$6,324,370 in expenditure authority to the amount that has been previously recommended: the Community Development and Neighborhood Conservation Department has received a separate federal grant in the amount of \$970,000 that will be budgeted in the CIP for the purchase and renovation of foreclosed homes that will then be rented to low income families; the Community Development & Neighborhood Conservation Department also requests that its bond-funded CIP budget be increased by \$1,309,370 for several projects; the Transportation Department requests that its CIP budget be increased by \$1,871,000 for several projects; the Transportation Department also will receive an additional \$2,094,000 in federal stimulus money for CIP projects related to road preservation, bike lanes and pathway improvements around Hohokam Middle School, and Sabino Canyon Bridge repairs; and, an \$80,000 operating transfer from the Space Acquisition Fund to the CIP should be budgeted to allow for the expenditure of funds to demolish the Jackson Learning Center for safety reasons.

Finally, there are several additional budget actions that will have a zero net effect on overall County budgeted expenditures:

- The State of Arizona Property Tax Oversight Commission (PTOC) has notified the County of minor changes in the Limited Net Assessed Values, Levy Limit Calculations, and Truth in Taxation rates. These changes, included in other parts of this memorandum, have no effect on budgeted expenditures.
- In a memorandum dated June 1, 2009, I notified the Board that the cost of employee health insurance will increase by \$1.8 million more than was originally budgeted, as incentives have been provided for employees to shift from traditional HMO medical coverage to Preferred Provider Option (PPO) and High Deductible Health Plan (HDHP) coverage. It is expected that the cost of employee health benefits will decrease significantly in future years as a result of this action, thus justifying the increase next year. The schedule included as Attachment 1 estimates that \$1,098,274 of this increased amount will be borne by the General Fund. I recommend that the increased cost of employee health insurance be absorbed by all County departments, including those in the General Fund, thus causing no change to the recommended budget that I have submitted.
- In the same June 1, 2009 memorandum, I notified the Board that the City of Tucson will be increasing its utility tax by 2 percent. This will cost the County an additional estimated \$395,417 annually. I recommend that this increased cost for utility tax be absorbed by all County departments, as indicated in Attachment 2.

- Budgeted revenue for the Wastewater Reclamation Department will be lowered by \$1,889,400 to reflect lower interest rates.
- The Department of Transportation will have over \$100 million in construction activity during fiscal year 2009/10 comprised of large roadway projects and CIP work from other County departments. To gear up for this activity, the Department will add 21 field staff including construction inspectors, surveyors, and materials testing personnel. The budgetary impact is a shift of \$716,827 in budgeted expenditure authority from the CIP budget to Transportation's operating budget.
- A \$3.5 million transfer of budget authority from the CIP to the Community Development and Neighborhood Conservation Department operating budget will occur to more accurately account for federal stimulus dollars that will be used for community development block grants, providing the homeless with shelter, and home weatherization projects for low-income families.
- An operating transfer of \$567,794 from the CIP to the Library District is recommended to address the underspending related to the Flowing Wells Library project.

The effect of all of the recommended adjustments in this memorandum is that the Recommended Budget amount of \$1,371,254,094 will increase by \$16,617,779 to \$1,387,871,873.

Prior to final adoption of the budget on August 3, 2009, 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. Included within such adjustments will be recommendations necessary to absorb unanticipated cost shifts and revenue reductions resulting from the State budget once it is ultimately adopted. 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 2009/10 Budgets and Tax Rates

The table below outlines the budgets and tax rates that I recommend for fiscal year 2009/10. 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.

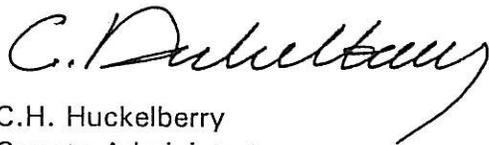
<u>Fiscal Year 2009/10 Budget</u>	<u>Budget</u>	<u>Tax Rate</u>
Total County Budget	\$1,387,871,873	\$3.3133
County Free Library District	37,483,152	0.2643
Flood Control District	12,227,360	0.2635
Debt Service	110,138,905	0.7100
Stadium District	5,055,529	-----

The Honorable Chairman and Members, Pima County Board of Supervisors
Tentative Budget Adoption: Fiscal Year 2009/10
July 7, 2009
Page 6

As amended by the PTOC, Pima County's neutral 2009 Primary Levy will be \$285,305,691. 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. While the recommended budget contains a primary property tax rate reduction of \$0.0780 to partially mitigate the increase in property valuation resulting from appreciation, nevertheless under the recommended budget the County will exceed the neutral levy and will be required to issue a Truth in Taxation Notice and hold a Truth in Taxation public hearing. Preliminary calculations based upon the recommended budget for the Truth in Taxation Notice are contained in Attachment 3. They indicate that the proposed average increase in primary taxes on a hypothetical \$100,000 home is \$13.82. This is somewhat misleading, however, as the actual impact on individual properties will vary on a case-by-case basis depending upon adjustments to assessed value during this year's valuation cycle. For example, if a home was valued by the Assessor at \$100,000 this fiscal year, no adjustments to valuation occurred and the value remains \$100,000 next fiscal year, then the homeowner will see a primary property tax decrease of \$7.80 under this recommended budget.

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 included with this memorandum as Attachment 4.

Respectfully submitted,



C.H. Huckelberry
County Administrator

CHH/jj (June 29, 2009)

Attachments

Note: The final paragraph of this memorandum, Tentative Budget Adoption: Fiscal Year 2009/2010, July 7, 2009, 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

July 28, 2009

Fiscal Year 2009/10 Final Budget Adoption

Background

The Fiscal Year 2009/10 Recommended Budget was transmitted to the Board on April 27, 2009. The Tentative Budget was adopted by the Board on July 7, 2009 as originally recommended, with the following exceptions:

- \$9,075,900 in federal stimulus revenue and expenditures was added for energy efficiency, home foreclosure mitigation, and transportation projects;
- \$3,308,651 in grant revenue and expenditures was added for neighborhood stabilization projects, low income rental assistance, and election equipment;
- \$3,260,370 in expenditure authority was added to the Capital Improvement Program for transportation and neighborhood reinvestment projects;
- \$347,350 was added to the Superior Court budget, with a matching revenue amount added to the Sheriff's budget, to implement a Pretrial Services program that will screen municipal arrestees for expedited release to community mental health providers;
- \$286,542 was added to the Facilities Renewal Fund budget, with funding coming from an increase in the General Fund beginning fund balance, to begin the acquisition of an Elections/Voter Registration building;
- \$247,736 of expenditure authority was added to the Budget Stabilization Fund to accommodate one-time carryover requests, with funding coming from an increase in beginning fund balance;
- \$120,000 was added to both revenues and expenditure authority in the Public Fiduciary's Office to cover the increased cost of burials;
- \$5,020 was removed from the County Attorney's budget to reflect decreased funding from the City of Tucson for the Victim Witness Program; and,
- \$23,750 in expenditure authority was removed from the Board contingency, with the cash being transferred to the Economic Development & Tourism Fund as support for the Ajo Chamber of Commerce.

The net effect of these adjustments was to add \$16,617,779 to the original recommended budget, yielding the Tentative Adopted Budget amount of \$1,387,871,873. Adoption of the Tentative Budget served to set the maximum County expenditure ceiling.

Recommended Adjustments to the Tentative Budget

I recommend three adjustments to the Board-adopted Tentative Budget, all of which can be accomplished within the budget ceiling established by that adoption:

1. Natural Resources, Parks and Recreation - I have directed the Natural Resources, Parks and Recreation Department to close several community centers and parks, and to cease publication of the Leisure Times. Additionally, staff is currently in the process of identifying a new operator for Sportspark. It is estimated that these actions will result in a cost savings of \$739,796. In light of the continued uncertainty regarding the state budget, I am recommending that this amount be placed in the Budget Stabilization Fund for possible future assignment. This recommendation will have a zero net effect on the overall County budget.
2. Graffiti Abatement Program - I have directed the Transportation Department to reduce the Graffiti Abatement Program by half, from \$250,000 to \$125,000, thus reducing the General Fund subsidy for same. In light of the continued uncertainty regarding the state budget, I am recommending that this amount be placed in the Budget Stabilization Fund for possible future assignment. This recommendation will have a zero net effect on the overall County budget.
3. Juvenile Court and Superior Court - The finance divisions of the Juvenile and Superior Courts have been consolidated for the past two years or so, but for various reasons the budgets for the two operations had not been combined. At the request of the Presiding Judge of the Superior Court, I have directed Budget staff to merge the budget of Juvenile Court into Superior Court as they relate to the finance function. This recommendation will have a zero net effect on the overall County budget.

As referenced above, the net effect of state budget actions affecting the County remains unknown at this time because a complete, balanced state budget has not yet been adopted. When the state budget is finalized, we will manage any required adjustments within the budget amounts and tax rates already tentatively adopted by the Board, which are listed below.

Recommendation

Set forth below are the proposed Fiscal Year 2009/10 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 2009/2010 Budget</u>	<u>Budget</u>	<u>Tax Rate</u>
Total County Budget	\$1,387,871,873	\$3.3133
County Free Library District	37,483,152	0.2643
Flood Control District	12,227,360	0.2635
Debt Service	110,138,905	0.7100
Stadium District	5,055,529	-----

Respectfully submitted,



C.H. Huckelberry
 County Administrator

CHH/jj (July 17, 2009)

Attachment

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