BUDGET ISSUES

This section of the Fiscal Year 2010/2011 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 2010/11 Budget*, dated April 30, 2010; his May 19, 2010 memorandum, *Tentative Budget Adoption: Fiscal Year 2010/2011*; his June 15, 2010 memorandum, *Fiscal Year 2010/11 Final Budget Adoption;* and his June 15, 2010 memorandum, *Fiscal Year 2010/11 Final Budget Adoption Additional Adjustments.* (The memoranda are located on pages 4-3, 4-35, 4-39, and 4-41, respectively.)

Issues Synopsis

During the development of the fiscal year 2010/11 budget, the following issues were recognized:

- Property Taxes – The Primary Net Assessed Value of the County for fiscal year 2010/11 decreased $46 million or .51 percent from the current year. The market value of existing property actually decreased by more than two percent, but was partially offset by an increase of 1.7 percent as a result of new construction added to the tax base. Because the tax base has decreased for fiscal year 2010/11, use of the current tax rate will result in a levy amount that is $1,526,257 less than the Fiscal Year 2009/10 levy and $6,588,520 below the fiscal year 2010/11 neutral levy as determined by the state's Truth in Taxation statutes. The contraction of the property tax base is expected to continue until fiscal year 2014/15.

- State-Shared Revenues – The state shared sales tax is projected to decrease by $6 million in fiscal year 2010/11. This substantial decrease is due to the continuing economic recession and a recovery that is projected to be slow. The state also terminated the County Assistance lottery funding of $250 thousand. The vehicle license tax which experienced an 11 percent decrease in the current budget is projected to remain flat in fiscal year 2010/11.

- 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 2010/11 is $6,583,333; however, to address an operating deficit at the hospital, the County Administrator recommended that an additional $13,416,667 be appropriated to the Budget Stabilization Fund to be used as needed and subject to review and approval by the Board of Supervisors of the actual amount paid.

- Biennial Elections Cost – In addition to the operating expenditures to the Elections Department and the Recorder's Office, the projected additional cost to fund the biennial Primary and General elections in fiscal year 2010/11 is $5,740,925.

- Non-General Fund Subsidies – It has been the policy of the Board of Supervisors not to allow deficits in non-General Fund funds of the County to roll over from year-to-year on a long term basis. Fund deficits ultimately become liabilities on the General Fund and undermine the fiscal stability and integrity of the County. Three funds in the County are projected to run a deficit in fiscal year 2010/11. Consequently, the County Administrator is recommending a total of $4.5 million be appropriated from the General Fund and reserved in the Budget Stabilization Fund to be used, as needed, to subsidize the funds.

- <u>Rainy Day Funds</u> - 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 2010/11, $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 years 2008/09 and 2009/10. Unfortunately, sufficient resources will not be available in fiscal year 2010/11 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 $4,382,004. 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 2010/11 to fund all the requests.

- General Fund Fiscal Year 2009/10 Ending Fund Balance – The projected General Fund available ending fund balance for fiscal year 2009/10 is $53,633,402. This is an increase of $29,185,481 over the budgeted General Fund Reserve of $24,447,921. This increase is from numerous offsetting increases and decreases in actual expenditures, revenues and operating transfers. Offsetting the negative impacts to the General Fund balance were several positive variances including an actual fiscal year 2009/10 beginning fund balance that was $10,820,421 greater than the budgeted amount. In addition, the state temporarily reduced the County's mandated contribution to the Arizona Long Term Care System (ALTCS) by $14,264,900 and gave the County an unbudgeted refund of $11,370,756 from a prior year's ALTCS contribution.

- General Fund Base Budget – Projected base General Fund revenues exceed expenditures by $22,354,490. The County Administrator recommended that this amount be set aside in the Property Tax Stabilization Fund to avoid future property tax increases that would otherwise be necessary to address projected deficits for the next several years.

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 Fiscal Year 2009/10 Adopted Budget incorporated all of the reductions implemented in fiscal year 2008/09. In total, operating budgets within the County have been reduced during the past two years by about 10 percent, with the exception of the Sheriff Department which has been reduced by two percent.

The Fiscal Year 2010/11 Adopted Budget continues the trend by reducing all of the budgets of General Fund departments by two percent, with the exception of the Sheriff which is reduced by one percent. Consequently, despite the state cost shifts and declines in state shared revenues, base General Fund revenues exceed base expenditures by more than $22 million. This amount plus the available $53.6 million fiscal year 2009/10 ending fund balance enabled the County to have a balanced General Fund budget for fiscal year 2010/11.

The County Administrator's memorandum, *Transmittal of Recommended Fiscal Year 2010/11 Budget* (page 4-3), details and discusses these issues at length.

MEMORANDUM

Date: April 30, 2010

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2010/11 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2010/11 Budget for Pima County. These recommendations are made based on information available in mid-April 2010. 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 18, 2010	Special Election on proposed temporary statewide 1 cent sales tax
May 19, 2010	Budget Hearing
May 19, 2010	Tentative Budget Adoption (Sets Budget Ceiling)
June 15, 2010	Final Budget Adoption
August 16, 2010	Tax Levy Adoption (Date Set by State Statute)

This Recommended Budget is being transmitted prior to adjournment of the Arizona Legislature. Though the State has adopted a Fiscal Year 2010/11 Budget, it is possible that the Budget could be revisited and amended prior to adoption of Pima County's Budget. Also, many non-budget bills are under consideration at the Legislature that would affect expenditures and revenues of Pima County. The County's base operating budget for all funds set forth in this recommendation includes projected continuing and new cost shifts, revenue reductions and revenue sharing already adopted in the State Budget. 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.

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.

<u>**Index of Budget Memorandum**</u>

I. Overview of Recommended Budget

More than two years ago, at the beginning of the current economic recession, Pima County began taking actions in response to declining revenues and an increasingly uncertain operating environment. Numerous initiatives were developed and implemented to address redundancy and waste. The workforce was reduced, primarily through natural attrition. Priorities were re-evaluated and items of discretionary spending, such as travel, have been nearly eliminated. Departmental budgets have been incrementally reduced over time pursuant to a managed, thoughtful process.

This Recommended Budget continues the trend by reducing all of the budgets of General Fund Departments by 2 percent, with the exception of the Sheriff's Office which is reduced by 1 percent. In total, operating budgets within the County have been reduced during the past two years by about 10 percent, with the exception of the Sheriff's Office which has been reduced 2 percent. General Fund expenditures have been reduced by over $62 million annually.

As a result, projected General Fund Revenues for Fiscal Year 2010/11 exceed expenditures by more than $22 million. This has been accomplished despite declining revenues and cost shifts from the State of more than $20 million over the past two years. This also assumes a recommended primary property tax rate next year that reduces the primary levy by $1.5 million and is $6.6 million less than the County's neutral levy pursuant to the State's Truth in Taxation statutes.

The County's on-going fiscal stability is threatened, however, by two future events. The first is a projected decrease in the value of the primary property tax base of 8.3 percent in Fiscal Year 2011/12. The resulting decrease in the primary levy of more than $24 million, together with substantial uncertainty as to the recovery of other revenue sources and continuing cost shifts from the State, is a pending dilemma. The County is likely to be faced with either substantially increasing property taxes or implementation of spending reduction strategies that have so far been avoided such as substantial service reductions and employee layoffs, furloughs and/or salary reductions.

In order to avoid such choices that dismantle the County's infrastructure and frustrate the recovery of our local economy, it is recommended that the $22 million of uncommitted General Fund revenues next year be allocated to the Property Tax Stabilization Fund to afford property tax relief in Fiscal Year 2011/12.

The second threat to the County Budget is more immediate. The State Budget for next year assumes the proposed temporary 1 cent increase in the statewide sales tax, Proposition 100, will be approved at the May 18, 2010 special election. If it fails, various conditionally enacted budget provisions will take effect. Included in these is a permanent shift of over 1,800 inmates from the State Prison System to our County Jail beginning October 1, 2010. This will more than double the population of the Jail and cost at least $35 million annually to operate, plus the cost of construction.

If this occurs, it is alternatively recommended that the $22 million of uncommitted revenues that would have been reserved for future property tax relief be redirected to the Jail. It is also recommended that the primary property tax rate be increased 7.37 cents to the County's neutral levy which will result in $6.6 million of additional taxes available to fund the inmate shift. To the extent that the funding from these alternative recommendations is insufficient to pay for the inmate housing plan ultimately chosen, then recommendations will be transmitted to the Board of Supervisors prior to Final Budget adoption to further reduce other County expenditures.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2009/10 is $51,808,071, an increase of $27,360,150 over the budgeted reserve of $24,447,621.

- It is recommended that the non-recurring Fiscal Year 2009/10 ending balance be allocated for the following purposes:

  - $5,740,925 to fund the additional costs of conducting the biennial Primary and General Elections.

  - $13,416,667 set aside to be used as needed for additional support for University Physicians Healthcare Hospital at the Kino Campus.

  - $4,500,000 set aside to be used as needed to subsidize three Non-General Fund funds that are projected to operate with a deficit consisting of:

    - $1,500,000 for Solid Waste Services.
    - $1,500,000 for Development Services planning function.
    - $1,500,000 for the Stadium District.

  - $4,110,264 for one-time appropriations to General Fund departments consisting of:

    - $140,264 to the County Attorney for continued funding of two auto theft prosecutors.

    - $1,020,000 to the Natural Resources, Parks and Recreation Department for the Pathways and Parking Lot Resurfacing Program.

        - $1,775,000 to the Natural Resources, Parks and Recreation Department to replace obsolete, inefficient ball field lighting systems.
        - $1,175,000 to replace obsolete, non-code compliant playground equipment and install shade canopies.
    - $24,040,215 as the General Fund Reserve for Fiscal Year 2010/11 which is 5 percent of General Fund revenues.

- Assuming continuation of the current primary property tax rate of $3.3133, General Fund base revenues and transfers-in for Fiscal Year 2010/11 are projected to be $480,758,596 which is $7,793,629 or 1.6 percent less than the current year.
- Excluding primary property taxes, General Government revenues from all other sources are projected to decrease $8,105,418 or 5.8 percent.
- For the first time in 17 years the value of the net primary property tax base is projected to decrease 0.51 percent.
- It is recommended that the current primary property tax rate remain unchanged which will decrease the primary levy by $1,526,257 below the current year's levy and $6,588,520 below the Fiscal Year 2010/11 neutral levy as determined pursuant to the Truth in Taxation statutes.
- General Fund base expenditures and transfers-out for Fiscal Year 2010/11 are projected to be $458,404,106 which is $55,130,318 or 10.7 percent less than the current year's.
- General Fund base revenues exceed base expenditures by $22,354,490.
- It is recommended that the $22,354,490 of excess General Fund revenues be set aside in the Property Tax Stabilization Fund in order to avoid precipitous future property tax increases that would otherwise be necessary to address projected deficits for the next several years, including a $24,584,378 loss in Fiscal Year 2011/12 resulting from a projected 8.3 percent reduction in the value of the primary property tax base.
- If the proposed 1 cent state sales tax fails at the May 18, 2010 election, over 1,800 prisoners will be transferred without funding from the Arizona State Corrections Department to the County Jail on October 1, 2010, more than doubling its population at cost next year of at least $27,250,000 for operations plus a yet to be determined amount for start-up and capital expenditures.

- If the sales tax proposal fails thereby triggering the prisoner shift, then it is alternately recommended that: 1) the excess General Fund revenues of $22,354,490 be redirected from property tax relief, 2) the primary property tax rate be increased 7.37 cents to produce $6,588,520 of additional tax levy, and 3) base General Fund expenditures be reduced in a yet to be determined amount to fund this State responsibility.

- The recommended budget for the Library District is $34,808,638, a $2,674,514 decrease from this year, and the recommended tax rate is $0.3100, a 4.57 cent increase from the current year.

- The recommended budget for Debt Service is $106,277,555, a $3,861,350 decrease from this year, and the recommended tax rate to support the General Obligation portion of that budget is $0.7500, a 4 cent increase from the current year.

- The recommended operating budget for the Regional Flood Control District is $12,227,360, and the recommended tax rate is $0.2635, the same as the current year.

- The recommended combined County primary and secondary property tax rate is 4.6368 per $100 of assessed value, an 8.57 cent increase from the current year, however, due to a 0.51 percent decrease in the value of the primary property tax base and a 5.1 percent decrease in the value of the secondary property tax base, the resulting combined County property tax levy is essentially flat, producing only one-tenth of 1 percent additional revenues.

- The overall recommended expenditure authority for all funds in the County is $1,435,652,978 which is $47,781,105 greater than the current year, primarily as the result of the receipt of temporary federal Stimulus (ARRA) and Homeland Security funding for specific programs and increased spending for wastewater reclamation.

III. General Fund Ending Fund Balance: Fiscal Year 2009/10

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2009/10 is $51,808,071. This is a projected increase of $27,360,150 over the budgeted General Fund Reserve of $24,447,921. This ending balance represents 10.6 percent of projected revenues for Fiscal Year 2009/10 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 $27,360,150 results from numerous offsetting increases and decreases in actual expenditures, revenues, and operating transfers from the adopted Budget:

As the national and state economies remained in a state of substantial recession after the June, 2009 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 $6,200,000 in Sales Taxes and $250,000 in Vehicle License Taxes. Property Tax revenues declined by $2,600,000. Further, the State enacted an unanticipated, mid-budget year mandate requiring a payment of $2,985,400 from Pima County to assist in reducing the State's budget deficit.

Offsetting these negative impacts to the General Fund balance were several positive variances including an actual beginning General Fund balance on July 1, 2009 that was $10,820,421 greater than the projected, budgeted balance. In addition, the State of Arizona, as a prerequisite to receipt of Federal Stimulus funding to support the State's indigent acute and long-term care programs, was required to adhere to a maintenance of effort. This resulted in a temporary reduction in the County's current year mandated contribution to the Arizona Long Term Care System of $14,264,900, and an unbudgeted refund of $11,370,756 from a prior year's required contribution that exceeded actual costs. When the State stops receiving additional Stimulus funding for indigent healthcare, its ability to transfer costs for these programs to counties will no longer be capped.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the $51,808,071 of non-recurring, one-time dollars projected as the available ending balance of the General Fund on June 30, 2010.

1. Biennial Elections Costs

In addition to the base annual expenditures to fund the Division of Elections and the Recorder's Office, the projected additional cost to fund the biennial Primary and General Elections next fiscal year is $5,740,925.

Of this total amount I recommend that $4,570,425 be allocated to the Division of Elections and $1,170,500 to the Recorder's Office for this purpose.

2. University Physicians Healthcare Hospital

In 2004 Pima County entered into a long-term lease of the former Kino Community Hospital campus with University Physicians, Inc. (now University

Physicians Healthcare or UPH), the physician practice group of the University of Arizona College of Medicine faculty. The lease included a schedule of payments from the County to UPH in exchange for UPH's promise to operate and further develop a general hospital at the campus that would complement UPH's public health and health education missions. UPH obtained licensing and its own Medicare provider number and began operating the University Physicians Healthcare Hospital at the Kino Campus. The $127 million in payments due to UPH under the lease, through various amendments, have been accelerated, and the balance of payments due UPH under the original lease is $6,583,333, payable in 12 equal installments next fiscal year.

In adopting the Fiscal Year 2009/10 Budget, $10,000,000 was included for the current year's payment under the lease. Because it had become apparent that the operating losses at the Hospital would far exceed this scheduled payment, the Board appropriated an additional $15,000,000 for potential use to ensure the Hospital's continued viability.

Because such losses are not sustainable on a continuing basis by the County, the University of Arizona College of Medicine, University Medical Center (UMC), and UPH initiated a study to examine the feasibility of developing an academic medical system centered on two hospitals – UMC and UPH Hospital. The study process, known as the Chartis Study, has been ongoing. The first phase of the Chartis Study examined UPH Hospital and its financial losses and determined that these losses could be reduced by measureable amounts beginning in Fiscal Year 2010/11 to no more than $20,000,000 with further reductions in the following fiscal year to $15,000,000. It is likely that after the second year, beginning Fiscal Year 2012/13, additional County support will be needed for UPH Hospital located on the Kino Campus. The amount is unknown at this time; however, it is certain that the County will continue to provide support.

Based on this study and resulting demonstrable, on-going efforts to restructure and increase both operating efficiencies and hospital utilization, I am again recommending that additional funding be set aside to address an operating deficit at the Hospital.

The current year's Budget appropriated a total of $25,000,000 for this purpose. For Fiscal Year 2010/11 I am recommending a total of $20,000,000. The payment next year to UPH under the existing lease is $6,583,333 and is already included in the recommended General Fund Base Budget. I recommend that the remaining $13,416,667 be allocated from this year's ending fund balance to the Budget Stabilization Fund to be used, as needed, subject to review and approval by the Board of Supervisors of the actual amount paid.

3. **Non-General Fund Subsidies**

It has been the policy of the Board of Supervisors for many years to not allow deficits in Non-General Fund funds of the County to rollover from year-to-year on a long-term basis. Such accumulated deficits ultimately become liabilities on the General Fund and undermine the fiscal stability and integrity of the County. Three funds in the County are projected to run a deficit next fiscal year. Consequently, I am recommending that a total of $4,500,000 be appropriated from the General Fund and reserved in the Budget Stabilization Fund to be used, as needed, to subsidize these operations as itemized below:

- Solid Waste Services - $1,500,000 for continued assistance in addressing revenue shortfalls. This recommended amount is reduced from the current year's budgeted subsidy of $2,000,000 as a result of numerous initiatives that have been implemented to reduce operating costs.

- Development Services - $1,500,000 for continued support of the countywide planning function within the Development Services Department which benefits all County residents and cannot currently be sustained solely through fee generated revenue given the substantial decrease in development activity. This amount is reduced from the $2,000,000 allocated in the current year's budget to reflect further reductions in expenditures for this function.

- Stadium District - $1,500,000 to address the projected loss of revenues as a result of the loss of Major League Baseball Spring Training at Tucson Electric Park and the continued decline in the tourist dependent revenue sources that support the District. Efforts are on-going to secure alternative utilization at this facility which may, in future years, reduce this deficit.

4. **One-Time Departmental Appropriations**

I recommend that a total of $4,110,264 in one-time appropriations be made to General Fund Departments as itemized below:

(a) County Attorney - $140,264 to fund two auto theft prosecutors which had been funded by the Arizona Auto Theft Authority using auto insurance surcharges, but which were unfunded for next fiscal year as a result of a one-time, partial sweep of this fund by the Legislature to balance the State's General Fund.

(b) Natural Resources, Parks, and Recreation

- $1,020,000 for the Pathways and Parking Lot Resurfacing Program to address critical and high priority safety issues resulting from aging pavement infrastructure in parks and facilities throughout the County.

- $1,775,000, allocated to the Facilities Renewal Fund, to replace outdated and energy inefficient ball field lighting systems at parks throughout the County. The new green lighting systems reduce energy costs by as much as 50 percent, reduce light spillage, and improve light effectiveness. These new systems will be centrally controlled and tracked and can be used by the Sheriff's Department's 911 function to remotely turn lights on at any time when an emergency call is received.

- $1,175,000 to replace old playground equipment with new modular structures that are compliant with the Americans with Disabilities Act and meet current safety standards, and to install shade canopies over these new playgrounds at parks throughout the County.

5. 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. For the past four 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 2010/11, $24,037,930 is needed to reserve 5 percent of General Fund revenues. I recommend that this minimum benchmark continue to be funded and that $24,040,215 of this year's projected General Fund ending balance be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2010/11.

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 2009/10 available ending fund balance of $51,808,071.

Table 1
Recommended Allocation of Fiscal Year 2009/10 General Fund Ending Balance

Recommendation	Amount
Biennial Election Costs	$ 5,740,925
UPH Hospital: Additional Support	13,416,667
Non-General Fund Subsides	
• Solid Waste Services	1,500,000
• Development Services: Planning	1,500,000
• Stadium District	1,500,000
Departmental Appropriations	
• County Attorney	140,264
• Natural Resources, Parks, and Recreation	
• Pathways and Parking Lot Resurfacing Program	1,020,000
• Ball Field Lighting Replacement	1,775,000
• Playground Structures Replacement	1,175,000
General Fund Reserve at 5 Percent	24,040,215
TOTAL	**$51,808,071**

IV. General Fund Base Budget: Fiscal Year 20010/11

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.3133, projected Fiscal Year 2010/11 base budget revenues and operating transfers to the General Fund total $480,758,596. This is a $7,793,629 or 1.6 percent decrease from 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 2010/11 base budget General Government revenue from all other sources is $132,474,883, which is a $8,105,418 or 5.8 percent decrease from the current adopted budget.

Most of this reduction results from a projected decrease in state shared sales tax of $5,950,000 or 6.7 percent. This substantial decrease reflects the continued reduction in consumer spending and taxable construction resulting from the continuing economic recession and a recovery that is projected to be very slow.

Another permanent reduction in base revenues resulted from actions of the State Legislature. A portion of the proceeds from the State Lottery were originally designated to assist counties to meet their service demands. In adopting next year's budget, the State amended the Lottery statutes to divert all of that funding into the State General Fund. Consequently, that revenue stream to the County has been zeroed-out at a loss of $249,773 for Fiscal Year 2010/11 and will be for every fiscal year thereafter.

Vehicle License Tax, which experienced an 11 percent decrease in the current year's budget, is projected to remain flat next fiscal year with projected revenues of $24,700,000.

Contributions from County Enterprise funds to the General Fund for overhead have been reduced by $1,780,763 or 10.2 percent to reflect reduced expenditures by Central Services Departments which provide support to these enterprises.

2. **Primary Property Tax Revenues**

The Preliminary Primary Net Assessed Value for Fiscal Year 2010/11 totals $8,939,647,260. This is a net $46,064,570 or 0.51 percent decrease from the current year. The Primary Net Assessed Value of the County has not decreased since 1993. The market value of existing property in the County decreased by more than 2 percent, however, this was partially offset by an increase of 1.7 percent as a result of new construction that was added to the tax base.

This contraction of the property tax base is expected to continue at an accelerated pace. In Fiscal Year 2011/12 the Net Assessed Value is projected to decline by 8.3 percent and will continue to decrease for two more years until Fiscal Year 2014/15. This trend reflects the statutory process to amend the tax base which lags the current year by about eighteen months.

Because the primary tax base has decreased for next fiscal year, use of the current year's tax rate will result in a levy amount which is less than the current year's. Assuming the same primary rate as this year of $3.3133 per $100 of assessed value the primary levy will be $296,197,333. This is $1,526,257 less than the amount levied in this year's Adopted Budget.

State Truth in Taxation statutes determine what the County's "neutral" primary property tax levy is each year. A neutral levy and corresponding tax rate is defined as the previous year's levy plus additions to the tax base from new construction. This statutory benchmark is more restrictive than the County's Levy Limit imposed by the Arizona Constitution which is indexed to reflect a modest annual rate of inflation of 2 percent. The County would have to increase the primary property tax rate in order to reach a neutral levy. Pursuant to statute the County's neutral primary rate is $3.3870 or 7.37 cents higher than this year's rate. The resulting neutral primary levy is $6,588,520 or 2.22 percent greater than the levy produced by the current year's rate.

I am not recommending that General Fund Base Revenues, which assume use of the current year's primary rate, be adjusted to reflect the increased neutral levy. Taxpayers, both individuals and businesses, continue to be negatively impacted by this prolonged economic recession. Recovery of the local economy is projected to be a slow, lengthy process and the County needs to do what it can to facilitate that recovery.

Though I am recommending that the primary levy be reduced by $6,588,520 from the neutral levy, this will not be possible if the State "triggered" Budget becomes effective as a result of the proposed, temporary 1 cent sales tax failing at the May 18, 2010 special election. Should this occur, my alternative recommendation is discussed in Section V(B) below.

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. Together with the projected primary property tax collections next year as discussed above, the total base property tax revenues projected for Fiscal Year 2010/11 are $301,372,635.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2010/11 are projected to be $41,700,429. This is a $2,706,840 or 6.1 percent decrease from two years ago in Fiscal Year 2008/09. The net decrease from the current year is $253,882, which reflects a projected continued lull in local economic activity. The single largest decrease in this category is the result of recent cost shifting by the State which eliminated a portion of their reimbursement for salaries of Justices of the Peace in the amount of $234,390.

B. General Fund Base Budget Expenditures

The amount required to fund General Fund supported base budgets for both departmental expenditures and operating transfers-out is $458,404,106, which is $55,130,318 or 10.7 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.

Two years ago the adopted expenditures and operating transfers-out of the General Fund for Fiscal Year 2008/09 were $520,996,943 or $62,592,837 more than the Base Budget for next fiscal year. Since that time a series of across-the-board reductions in departmental budgets have been implemented. This trend was continued in the development of this Recommended Budget by reducing the base expenditures of departments by an additional 2 percent, except the Sheriff's Office which was reduced by 1 percent. To correspond with these internal reductions, the recommended base appropriation for allocation to outside agencies has been reduced by 2 percent or $82,128 to a total of $4,024,248. Collectively, these actions have reduced General Fund expenditures by $62,000,899. The cumulative reduction in departmental budgets during the past two years has been approximately 10 percent, except the Sheriff's Office which has been reduced by 2 percent.

Significant components within recommended base budget expenditures include:

- $6,596,695 for newly enacted mandated payments to the State to provide relief to the State's General Fund and to fund a portion of the State's Sexually Violent Persons Program.

- $237,296,497 or 48.3 percent of General Fund expenditures for Justice and Law Enforcement functions.

- $64,059,646 for mandated payments to fund state programs for indigent acute, long-term, and mental health care.

- $13,625,612 for adult and juvenile detention health care.

- $6,583,333 to fund the County's contractual obligation to University Physicians Healthcare pursuant to the existing lease for University Physicians Healthcare Hospital.

- $69,450,041, an increase of $4,186,455 over the current year, for employee benefits including $26,690,831 for employer contributions to various state retirement systems and $19,714,799 for medical, dental, and life insurance premiums.

- $756,339 in the Board of Supervisors' Contingency Fund.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above the amount required to fund base budget expenditures is $22,354,490 less than the amount of base budget revenues projected for Fiscal Year 2010/11. Set forth below are my recommendations for adjustments to base expenditures and revenues.

A. Recommended Adjustment to General Fund Base Expenditures

The severity of the current economic downturn and its negative effects on the operation of government has been extreme. Political subdivisions throughout the state and nation are struggling to continue to fulfill their missions of public service and meet their legal responsibilities. These efforts have met with varying degrees of success among the many jurisdictions.

Within our own state and region it has become common practice for governments to necessarily implement employee furloughs and pay reductions, substantial layoffs, reduction in hours and availability of services to the public, elimination of entire service programs, and significant increases in taxes when the public is least able to bear the additional burden. To date Pima County has avoided such actions that dismantle governmental infrastructure and further frustrates the ability of the economy to recover. The County acted early and decisively, beginning more than two years ago, to respond to contracting revenues and an increasingly uncertain operating environment. Numerous initiatives were developed and implemented to address redundancy and waste. The workforce was reduced, primarily through natural attrition. Priorities were re-evaluated and items of discretionary spending, such as travel, have been nearly eliminated. Departmental budgets have been incrementally reduced over time pursuant to a managed, thoughtful process.

Prior to the beginning of this economic recession the Board of Supervisors had over many years initiated numerous financial reforms to enhance the fiscal integrity and stability of the County. Being on solid financial footing going into this recession has substantially assisted the County in avoiding the catastrophic impacts experienced by many other political subdivisions in the State. Since the economic downturn began, the Board of Supervisors has budgeted realistically and prudently with an emphasis on preserving the County's ability to perform under the worst projected circumstances. Consequently, the County has avoided the fate of some jurisdictions whose budgets have assumed a future that never materialized.

The result of these efforts is a General Fund Base Budget for Fiscal Year 2010/11 with $22,354,490 of uncommitted revenues. This has been achieved by the Board of Supervisors while simultaneously reducing the primary property tax rate incrementally since Fiscal Year 2005/06 by 75.87 cents per $100 of assessed value or $64,947,300 less of primary property tax being collected each year.

Going forward, the adoption of next fiscal year's Budget is a critical point in planning not just for the coming year, but for the fiscal stability of the County for several years. As discussed in Section IV(A)2 above, the primary property tax base will for the first time in 17 years decrease in Fiscal Year 2010/11 by 0.51 percent. The following year, Fiscal Year 2011/12, this tax base is projected to decrease by 8.3 percent. This is equivalent to the loss of $24,584,378 of existing primary levy that would require an increase in the existing primary rate of 29.99 cents to replace.

Contraction of the primary tax base may not be the only reduction to General Fund revenues in Fiscal Year 2011/12. This Recommended Budget projects a decrease in State Shared Sales Taxes of $5,950,000 during the coming year. Sales tax collections may or may not stop declining by Fiscal Year 2011/12. Though not predicted, it is possible that the economy, and corresponding sales tax collections, could suffer a precipitous setback next fiscal year. In the current year's Adopted Budget projected Sales and Vehicle License Tax revenues were developed conservatively, but are now projected to fall short by $6,450,000.

In addition, it cannot be predicted whether the Legislature and Governor will continue next year, as they have done for the past three years, to increasingly reduce revenues and shift costs to the County in order to reduce the State's deficit. Already enacted into law is abolishment of the Arizona Juvenile Corrections Department on July 1, 2011. This will require the County to house a population of long-term, serious juvenile offenders with a variety of special needs for which the County does not currently have appropriate facilities or programs and for which no funding exists. If this abolishment of the State Juvenile Corrections Department is not repealed or substantially modified, it is projected to add more than $6,000,000 of unfunded annual expenditures to the General Fund.

As discussed above, one year from now the County is projected to experience a reduction in its primary property tax levy of more than $24.5 million. By comparison, the total recommended General Fund base budget for the Natural Resources, Parks and Recreation Department is $14,203,911. Other factors affecting General Fund revenues may make this situation more difficult. Consequently, I am recommending that provision be made in this Budget in preparation for the shortfall in Fiscal Year 2011/12.

If the County is not prepared, it will no longer be able to avoid the more draconian budget balancing maneuvers now being employed in many other jurisdictions. To replace the loss of $24,584,378 of primary property tax revenue would require an increase in the rate of 29.99 cents per $100 of assessed value. In the alternative, a reduction of expenditures in this amount would require imposition of over 41 mandatory unpaid furlough days, or over 8 weeks per year for every General Fund employee if the Sheriff's personnel were exempted. If this shortfall were addressed by permanent salary reductions, every General Fund employee's salary would be reduced by 15.81 percent if the Sheriff's personnel were exempted. If this savings was achieved using layoffs, it would require elimination of 597 positions, if the Sheriff's personnel were excluded, based on the average cost of a General Fund position.

Therefore, I recommend that the $22,354,490 of Base General Fund Revenues in excess of Base General Fund Expenditures be appropriated to the Property Tax Stabilization Fund to be used as needed, subject to Section V(B) below, to mitigate the need to substantially increase primary property taxes in future years.

B. Conditional, Triggered Recommendation to Adjust General Fund Base Revenues

In March, 2010 the Legislature adopted and the Governor signed into law the State's Fiscal Year 2010/11 Budget. That Budget assumes the proposed 1 cent temporary increase in the statewide sales tax, Proposition 100, will be approved at the May 18, 2010 special election. That same Budget also contains numerous provisions that will be "triggered" and take effect only if Proposition 100 fails at the ballot. These conditional provisions reduce expenditures and shift costs to replace the approximately $1,000,000,000 of revenue that would have been raised by the sales tax increase next fiscal year.

The most significant impact on Pima County if this occurs is a shift of prisoners from the State prison system to our jail on October 1, 2010. Beginning on that date, and permanently thereafter, all adult criminals sentenced to one year or less and all criminals, regardless of their length of sentence, who have only one year remaining on their sentence must be incarcerated in the County Jail. Based on the current prison population, on October 1, 2010 over 1,800 prisoners would be transferred from the State Department of Corrections to our jail. The current population of the jail is about 1,600 and is very near capacity. Therefore, the jail population of the

County would more than double. The initial estimate of the capital cost to double the jail capacity is $150,000,000. Such construction cannot occur prior to October, 2010, however, and other alternatives must be explored. Based on the current costs and model utilized for incarceration at the jail, the additional annual cost for operating and medical services resulting from this prisoner shift is $35,000,000. This is more than the annual budget of the countywide Library District or the combined total General Fund budgets of the County Attorney, Assessor, Recorder, Treasurer, and Board of Supervisors.

If this "triggered" transfer of prisoners occurs on October 1, 2010, at a minimum, three-fourths of the estimated annual operating costs will be required next fiscal year, or $27,250,000, plus a yet to be determined amount as start-up and capital costs to facilitate a doubling of capacity. All of the $22,354,490 of excess Base General Fund Revenues which I recommend in Section V(A) above be used to mitigate primary property tax increases in future years must, necessarily, be redirected to pay for the incarceration of the State's prisoners.

In addition, if Proposition 100 fails, I recommend that the primary property tax rate be increased from $3.3133 to $3.3870 per $100 of net assessed value. This 7.37 cent increase will put the County at the primary rate and levy that has been determined to be neutral pursuant to the Arizona Truth in Taxation statues. The increase will result in an additional $6,588,520 of primary property tax levy. I recommend that all of these dollars be placed in the Budget Stabilization Fund to be used for this purpose. Together with the $22,354,490 of excess Base Revenues that would otherwise be designated for property tax relief, a total $28,943,010 will be available to fund the mandated transfer of the State's responsibility for corrections.

It is probable that it will also be necessary to revisit the General Fund expenditures otherwise recommended in this proposed Budget. The Board of Supervisors is scheduled to adopt the Tentative Budget on May 19, 2010, one day after the sales tax election. This adoption serves the purpose, pursuant to state statute, of establishing the maximum budget amount or ceiling which cannot later be increased. After decisions have been made as to which option or portions of options to pursue in order to house these prisoners, then more exact projected operating and capital costs can be developed. To the extent that these costs exceed the $28,943,010 set aside and discussed above, then General Fund expenditures must be reduced in like amount. After Tentative Budget adoption and before Final Budget adoption, I will transmit to the Board recommended amendments to this proposed Budget to further reduce other expenditures in the amount required.

VI. The Overall Budget

A. Special Districts and Debt Service

1. County Library District

The Library District is funded by a dedicated secondary property tax and serves the entire County. It operates twenty-six branches, provides half the funding for one affiliate branch in the Town of Oro Valley, operates a Book Mobile serving numerous remote locations, and maintains deposit collections at the Pima County Jail and the Juvenile Detention Center. The District has 278 permanent and 110 intermittent positions and occupies 344,250 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 District partners with many community organizations to provide educational opportunities to the public. The Library is a member of the Literacy for Life Coalition which promotes collaboration between business, government, educational organizations, the media, and non-profits to create a culture of literacy. The Library offers tutoring, homework help, language instruction, computer classes and many educational programs for children and adults. The Library is a partner in the Tucson Festival of Books celebrating reading, authors and books. These efforts contribute to economic development and the quality of life in Pima County.

The Fiscal Year 2010/11 Recommended Budget is $34,808,638, which is a $2,674,514 decrease from the current year's budgeted amount. This includes a $1,000,000 decrease in building maintenance, which is possible due to major building renovations completed over the past three years, and a $1,000,000 temporary decrease in acquisition of new book collection materials.

The recommended Library District property tax rate for Fiscal Year 2010/11 is $0.3100 per $100 of assessed value. This is an increase in the current year's rate of $0.0457, which offsets a reduction in the value of the secondary property tax base next year of 5.1 percent. This tax rate is projected to provide $28,424,891 in revenues that will be supplemented by $1,598,780 from fines, interest, grants, and miscellaneous revenue; and $4,784,967 from the Library

District fund balance in order to meet the recommended overall budget of $34,808,638. This will reduce the ending fund balance from a projected $13,018,046 in Fiscal Year 2009/10 to $8,233,079 at the end of Fiscal Year 2010/11. By drawing upon the ending fund balance the Library District will maintain current levels of service.

2. **Debt Service Fund**

The total Recommended Fiscal Year 2010/11 Debt Service Fund budget is $106,277,555, a $3,861,350 decrease 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 levy. The recommended General Obligation debt service of $66,193,680 will fund existing debt service as well as debt service on a proposed $75,000,000 bond sale expected to occur in January, 2011.

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 and 2006 bonds are being sold incurring new debt. The County has several major capital improvement projects this fiscal year, including the psychiatric facilities at the Kino Medical Campus, the Justice and Municipal Court Complex and the Regional Public Safety Radio System (PCWIN).

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 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 biennially for Street and Highway Revenue Bonds.

With a 5.1 percent decrease next year, and expected continuing decreases in net secondary assessed values in the coming years, the debt service rate needs to increase by $0.04 for Fiscal Year 2010/11 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 2011/12 and $0.03 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 $0.7500 per $100 of assessed value for Fiscal Year 2010/11, an increase of $0.04 from this year's rate of $0.7100. This increase in the rate and corresponding levy will enable the County to continue with the construction of the capital program.

- **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 as the County's share of gas taxes collected locally. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2010/11 of $16,242,099 will fund existing debt service.

- **Certificates of Participation Debt Service**

  The 2008 and 2009 Certificates of Participation were issued primarily to fund short-term cash flow requirements affecting the construction of transportation and sewer revenue projects. The debt service for these Certificates of Participation will be primarily funded with operating transfers from transportation impact fees and sewer revenue funds. In January, 2010, the County issued $20,000,000 of Certificates of Participation to fund the PimaCore project for the acquisition of a countywide resource management system. The debt service for the 2010 Certificates of Participation will be paid by the General Fund in Fiscal Year 2010/11. The recommended amount of $23,841,776 will fund existing debt service.

3. **Regional Flood Control District**

The recommended operating budget for the Regional Flood Control District is $12,227,360, which is equal to the current fiscal year's budget. Also recommended is an operating transfer totaling $8,000,000 for the Capital Projects Fund; a decrease of $2,030,266 in operating transfers from the current fiscal year.

Flood Control Capital Projects funds are used to acquire, construct, expand and improve flood control facilities throughout the entire 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 maintained at the current $0.2635 per $100 of assessed value. Overall projected revenues are $22,471,443 for Fiscal Year 2010/11, which is a decrease of $1,127,145 from the current fiscal year. Revenues will decrease, even though the recommended rate remains the same, due to the decrease in the value of the net secondary property tax base utilized for the Flood Control District.

4. **Stadium District**

Funding for the Stadium District comes from four main 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. The recession has severely reduced tourist and recreational activities resulting in an approximately 25 percent decline over the past two years of revenue from the hotel/motel, car rental and recreational vehicle taxes.

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 modifications to the Stadium complex that will enable the District to accommodate new uses in the future.

Also in 2008, the Tucson Sidewinders announced that they were relocating to Reno, Nevada effective in the spring of 2009. In February, 2009 the Arizona Diamondbacks released a request-for-proposals for construction of a new stadium which would result in their departure from Tucson Electric Park by the spring of 2011. Efforts to identify alternate major league occupants have not been successful. As a result, the Stadium is being marketed as a venue for youth and amateur baseball tournaments, community and tournament use for a variety of other sports, and possibly as a spring training site for one or more Japanese or other foreign major league baseball teams.

Loss of Major League Baseball, coupled with the economic downturn, has resulted in the need to take various actions to maintain the financial stability of the Stadium District next fiscal year. Loss of Spring Training alone will decrease revenues to the District next fiscal year by about $1.4 million. Consequently, the Recommended Budget for the Stadium District has been reduced $2,211,117 from $9,568,464 in the current year to $7,357,347, including debt service paid through the General Fund, next fiscal year. Even with this substantial reduction in expenditures and the use of $1,050,088 of the District's fund balance, revenues are insufficient to fund the Recommended Budget amount. Therefore, as discussed in Section III(B)3 above, I am recommending that the General Fund set aside $1,500,000 to subsidize the Stadium District in Fiscal Year 2010/11.

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

As set forth in Table 2 below, the Fiscal Year 2010/11 recommended Capital Improvement Plan Budget of $369,400,099 consists of the Capital Projects Fund Budget of $196,506,642 and the Capital Project Budgets of Wastewater Reclamation at $170,487,957, Communications at $1,965,500, and Fleet Services at $440,000. A complete list of projects for the Recommended Capital Improvement Plan Budget is included in the Capital Projects section of the Recommended Budget Book.

Table 2
Recommended Fiscal Year 2010/11 Capital Projects Fund Budget and Capital Improvement Plan Budget

Capital Improvement Plan Budget	FY 2009/10 Bond and Non-Bond Project Budgets	FY 2010/11 Bond and Non-Bond Project Budgets	Difference	1997 Bonds	2004/2006 Bonds	Non-Bonds
Capital Projects Fund Budget						
Transportation	$ 66,682,839	$ 77,371,716	$10,688,877	$ 8,465,056	$ -	$ 68,906,660
Facilities Management	45,268,470	39,681,788	(5,586,682)	130,000	32,084,476	7,467,312
Flood Control	14,070,845	19,032,132	4,961,287	830,000	3,538,441	14,663,691
Parks and Recreation	13,007,794	14,948,494	1,940,700	1,407,975	12,338,858	1,201,661
Sheriff's Department	27,719,205	13,817,554	(13,901,651)	-	12,486,226	1,331,328
Finance and Risk Management	9,953,468	11,900,000	1,946,532	-	-	11,900,000
Neighborhood Reinvestment	13,595,602	8,304,506	(5,291,096)	-	7,848,907	455,599
Open Space	5,031,694	5,329,505	297,811	-	5,329,505	-
Information Technology	-	1,390,436	1,390,436	-	-	1,390,436
Cultural Resources	2,425,730	2,334,470	(91,260)	42,454	2,242,016	50,000
Solid Waste Management	577,361	1,836,041	1,258,680	836,041	1,000,000	-
Stadium District	1,068,000	560,000	(508,000)	-	-	560,000
CIP Administration	723,504	-	(723,504)	-	-	-
Total Capital Projects Fund Budget	$200,124,512	$196,506,642	$(3,617,870)	$11,711,526	$76,868,429	$107,926,687
Wastewater Reclamation Budget	$ 87,095,084	$170,487,957	$83,392,873	$ -	$ -	$170,487,957
Communications Budget	1,000,000	1,965,500	965,500	-	-	1,965,500
Fleet Services Budget	250,000	440,000	190,000	-	-	440,000
Total Capital Improvement Plan Budget	$288,469,596	$369,400,099	$80,930,503	$11,711,526	$76,868,429	$280,820,144

1. **Capital Projects Fund Budget**

   The recommended $196,506,642 Capital Projects Fund Budget for Fiscal Year 2010/11 is a decrease of $3,617,870 from the current year's Budget of $200,124,512.

   Of the total Capital Projects Fund Budget, $11,711,526 is funded by 1997 bonds, $76,868,429 is funded by 2004/2006 bonds, and the remaining $107,926,687 is funded by other non-bond sources.

   The major budgeted projects for Fiscal Year 2010/11, funded primarily with 2004/2006 bonds, include $20.2 million for the Psychiatric Hospital and Urgent Care facility at the Kino Medical Campus, $13.8 million for the Regional Public Safety Communications System (PCWIN), and $6 million for the Justice Court and Municipal Court Complex. The PimaCore resource management system is budgeted at $11.9 million and is funded primarily with the Certificates of Participation that were issued in January, 2010.

   The Department of Transportation has seven major projects included in the Fiscal Year 2010/11 Budget. Funds for the $11.1 million La Canada Drive project, Ina Road to Calle Concordia, are funded with $10.2 million from the Regional Transportation Authority's (RTA) Sales Tax, $600,000 from Impact Fees, and $300,000 from Highway User Revenue Fund (HURF) bonds. The I-19 Frontage Road project, Continental Road to Canoa Road, budgeted for $11 million is funded with $6 million from Urban HURF, $2.9 million from Impact Fees, and $2 million from HURF bonds. La Cholla Boulevard, River Road to Ruthrauff Road, is budgeted for $8.8 million funded with $7.9 million from the RTA Sales Tax, $800,000 from Urban HURF, and $100,000 from HURF bonds. Tanque Verde Road, Catalina Highway to Houghton Road, is budgeted for $6.3 million funded with $3.4 million from Urban HURF and $2.9 million from the RTA Sales Tax. La Canada Drive, Ina Road to River Road, is budgeted for $6.3 million funded with $5.7 million from Surface Transportation Program funds, $500,000 from the RTA Sales Tax, and $100,000 from Impact Fees. Magee Road/Cortaro Farms Road, Mona Lisa to La Canada, is budgeted for $6 million funded with $5.5 million from the RTA Sales Tax, and $500,000 from Impact Fees. Sunrise Drive, Craycroft Road to Kolb Road, is budgeted for $5.1 million funded with HURF bonds.

   Not included in the Capital Projects Fund budget are $5.5 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 $4.4 million. The major USACOE expenditure will be $5 million for the Arroyo Chico Detention Basin.

2. **Wastewater Reclamation Capital Budget**

   The Fiscal Year 2010/11 recommended capital budget for Wastewater Reclamation is $170,487,957, an increase from Fiscal Year 2009/10 of $83,392,873. The Fiscal Year 2010/11 Capital Program is planned to be funded entirely with Regional Wastewater Reclamation Department Obligations. Multiple projects in the Regional Optimization Master Plan (ROMP) are budgeted for a total of $137 million, and the Santa Cruz Interceptor Phase III is budgeted for $11 million.

3. **Communications Capital Budget**

   The Fiscal Year 2010/11 recommended capital budget for Communications is $1,965,500 and includes $1.2 million for the downtown telephone switch replacement/upgrade including relocation of all telephone switch (PBX) equipment and support facilities from the Old Courthouse, and an 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 2010/11 recommended capital budget for Fleet Services of $440,000 is entirely dedicated to a Fuel Station relocation project at the Mission Road facility that will be paid for using existing funds generated by monthly motor pool charges.

C. **American Recovery and Reinvestment Act: Stimulus Funding**

The federal American Recovery and Reinvestment Act (ARRA) was enacted in February, 2009 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.

The ARRA authorizes the spending of $787 billion in three categories: contracts, grants, and loans ($275 billion); tax benefits ($288 billion), and entitlements ($224 billion). Counties, cities, states, tribal governments, private businesses, and individuals are all eligible for some portion of the Stimulus allocations.

Because the ARRA was intended to provide a one-time infusion of dollars into an ailing economy, public entities that receive ARRA contracts and grants typically must spend the money they are allocated within one to three years. The exact time allotted depends on the federal program involved.

In the 14 months since the ARRA was signed into law, Pima County has received 39 Stimulus awards collectively totaling about $71.5 million. Table 3 below sets forth the total distribution of ARRA awards received by the County by functional category including the amounts, totaling $33,608,083, of additional budget authority included in this Recommended Budget that are required in order to spend this Stimulus funding.

Table 3
American Recovery and Reinvestment Act Awards Received by Pima County

Department	FY 2010/11 Budget Authorization	Total Award
Superior Court Adult Probation	$ 476,827	$ 999,735
County Attorney's Office	1,931,611	2,739,016
Sheriff's Department	0	661,862
Superintendent of Schools	0	107,650
Pima Vocational School – Community Services	141,886	145,725
Community Development and Neighborhood Conservation	11,608,695	25,710,747
Community Services, Employment and Training	5,852,000	7,737,892
Facilities Management	1,576,696	3,981,800
Health Department	10,000,000	15,965,245
Department of Transportation	1,900,000	11,144,000
Regional Wastewater Reclamation Department	0	2,000,000
Development Services Department	120,368	295,992
Pima County Public Library (1 award; amount to be determined)	0	TBD
TOTAL	**$33,608,083**	**$71,489,664**

As a result, some Departments have budget authorization requests that are higher than in previous years. This is only a temporary increase, however, as all Stimulus awards received to date are expected to be entirely expended by Fiscal Year 2012/13.

New ARRA funding opportunities will continue to be released during the coming fiscal year. The County's Stimulus allocations have come almost entirely in the form of grants. Of the original $275 billion the ARRA authorized for grants, contracts, and loans, only about one-third or $93.2 billion was paid out by the federal government as of April 9, 2009. While additional funds have been committed to successful grant proposals, it appears that a substantial amount of money still remains to be awarded by the 28 federal agencies responsible for implementing the Act.

At the present time, Pima County has three ARRA grant applications totaling $4.6 million under review by the federal government. 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 and Levy

The combined primary and secondary property taxes levied by the County currently fund 29 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 in Section IV(A)2 above, it is recommended that the primary property tax rate which supports the County General Fund remain unchanged unless the State Sales Tax proposal fails as discussed in Section V(B). The effect of this recommendation is to reduce the primary rate $0.0737 below the neutral rate determined pursuant to the Truth in Taxation statutes. Also recommended is that the Flood Control District's secondary rate remain unchanged and that the secondary rates be increased for the Library District by $0.0457 and Debt Service by $0.04. The net effect of these recommendations is an increase in the combined County property tax rate of 8.57 cents as set forth in Table 4 below.

Table 4
Combined County Property Tax Rates

	FY 2009/10 Adopted Rates	FY2010/11 Recommended Rates	Difference
Primary	$3.3133	$3.3133	$ 0
Library District	0.2643	0.3100	0.0457
Debt Service	0.7100	0.7500	0.0400
Flood Control District	0.2635	0.2635	0
TOTAL	**$4.5511**	**$4.6368**	**$0.0857**

For the first time in 17 years the value of the County's property tax base will decrease next fiscal year. Consequently, the rates recommended above will be applied to a primary tax base that is 0.51 percent less than the current year's base and a secondary tax base that is 5.1 percent less. The result is that the recommended combined County property tax levy is essentially flat, producing only one-tenth of 1 percent more revenues than the current year as set forth in Table 5 below.

Table 5
Combined County Property Tax Levy

	FY 2009/10 Adopted Levies	FY2010/11 Recommended Levies	Difference
Primary	$297,723,590	$296,197,333	$(1,526,257)
Library District	26,062,573	28,971,342	2,908,769
Debt Service	70,012,964	70,091,956	78,992
Flood Control District	23,412,476	22,414,610	(997,866)
TOTAL	**$417,211,603**	**$417,675,241**	**$463,638**

2. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,435,652,978. This is a $47,781,105 or 3.34 percent increase from the Fiscal Year 2009/10 Adopted Budget.

This net increase in the Combined Budget amount is primarily the result of temporary, additional federal Stimulus (ARRA) and Homeland Security funding for specific programs and increased spending for wastewater reclamation. Specific, significant increases in the total Budget include:

- $16,689,043 increase in the Regional Wastewater Reclamation Fund supported by user fees.

- $12,157,615 increase in the Public Health Fund primarily due to additional federal grant funding, the largest being the award of a Stimulus grant, Putting Prevention to Work, aimed at obesity prevention.

- $8,504,446 increase in expenditures for Pima Health System and Services primarily due to increased enrollment in the Arizona Long Term Care System for which the County receives reimbursement pursuant to its contract with the State of Arizona.

- $7,878,435 increase in Sheriff's grants consisting primarily of numerous federal Homeland Security awards relating to the Regional Public Safety Communications System (PCWIN) project.

- $6,278,034 increase in Community Development grants primarily from federal Stimulus (ARRA) awards for neighborhood stabilization.

Decreases in General Fund Expenditures are discussed in Section IV(B) above. Significant non-General Fund decreases in the overall County Budget include:

- $3,861,350 reduction in the Debt Service Fund as discussed in Section VI(A)2 above.
- $3,617,870 reduction in the Capital Projects Fund as discussed in Section VI(A)2 above.
- $2,674,514 reduction in the Library District Budget as discussed in Section VI(A)1 above.
- $2,549,717 reduction in the Employment and Training Fund due to the substantial completion of federal job training and community assistance grants awarded in previous years.

CHH/dr

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Board of Supervisors Memorandum

May 19, 2010

Tentative Budget Adoption: Fiscal Year 2010/2011

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 15, 2010 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 30, 2010, I propose the following General Fund adjustments to the original recommendations:

Five General Fund departments have submitted requests to carry forward current year's appropriations that will not be fully expended this year: Facilities Management requests $150,000 to replace the emergency generator and transfer switch at the Medical Examiner's office; the County Attorney requests $75,000 to purchase IT-related equipment in accordance with the department's Automation Plan; Justice Court Ajo requests $50,000 to complete painting and repairs at the Ajo Court House; Procurement requests $26,523 to purchase desk top personal computers and software; and Community Services, Employment and Training requests $23,808 to complete the final two days of the Board's Summer Internship Program. These increases in next year's expenditures, totaling $325,331, will be funded by an increase in beginning fund balance, and this amount will be placed in the Contingency Fund carry forward center. The effect of all of these adjustments is that the Recommended Budget amount of $1,435,652,978 will increase by $325,331 to $1,435,978,309.

In addition, there is one budget action that will have a zero net effect on overall County budgeted expenditures: $1,742,320 previously included in the Non-Departmental budget to cover the increase in employee medical premiums now will be distributed to General Fund supported department budgets.

Prior to final adoption of the Budget on June 15, 2010, 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. Presuming the passage of Proposition 100, I will develop any such recommended adjustments within the tax rates already recommended to the Board which are the tax rates listed below. Should Proposition 100 fail, I will recommend that the primary property tax rate be increased from $3.3133 to $3.3870 per $100 of assessed value, and other expenditure adjustments be made as necessary to accommodate the transfer of state prisoners to the County.

Recommended Fiscal Year 2010/2011 Budgets and Tax Rates

The table below outlines the budgets and tax rates that I recommend for Fiscal Year 2010/2011. 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.

Presuming Passage of Proposition 100

Fiscal Year 2010/2011 Budget	Budget	Tax Rate
Total County Budget	$1,435,978,309	$3.3133
County Free Library District	34,808,638	0.3100
Flood Control District	12,227,360	0.2635
Debt Service	106,277,555	0.7500
Stadium District	4,348,162	------

Presuming Rejection of Proposition 100

Fiscal Year 2010/2011 Budget	Budget	Tax Rate
Total County Budget	$1,442,287,279	$3.3870
County Free Library District	34,808,638	0.3100
Flood Control District	12,227,360	0.2635
Debt Service	106,277,555	0.7500
Stadium District	4,348,162	------

According to the Assessor, Pima County's neutral 2010 Primary Levy will be $302,784,891. 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 equal to the current year's rate, because of declining property values the recommended budget will be under the neutral levy amount and the County will not be required 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. Huckelberry

C.H. Huckelberry
County Administrator

CHH/dr (May 12, 2010)

Attachment

Note: The final paragraph of this memorandum, Tentative Budget Adoption: Fiscal Year 2010/2011, May 19, 2010, makes reference to the publication of the Tentative Budget, ". . . in a format prescribed by the Arizona Auditor General" and indicates that the format is presented in the attachment. However, these pages, which show the estimates of revenues and expenditures/expenses, have been withdrawn, since they replicate the information provided in the section labeled State Reports. Please refer to the tab labeled State Reports for the estimates of revenues and expenditures/expenses.

Board of Supervisors Memorandum

June 15, 2010

Fiscal Year 2010/11 Final Budget Adoption

Background

The Fiscal Year (FY) 2010/11 Recommended Budget was transmitted to the Board on April 30, 2010. The Tentative Budget was adopted by the Board on May 19, 2010 as originally recommended, with the exception that $325,331 was added to the Contingency Fund to cover several fund carryover requests made by departments. Facilities Management requested $150,000 to replace the emergency generator and transfer switch at the Medical Examiner's Office; the County Attorney requested $75,000 to purchase information technology-related equipment in accordance with the department's Automation Plan; Justice Court Ajo requested $50,000 to complete painting and repairs at the Ajo Courthouse; Procurement requested $26,523 to purchase desktop personal computers and software; and Community Services, Employment and Training requested $23,808 to complete the final two days of the Board's Summer Internship Program. These increases in next year's expenditures will be funded by an increase in beginning fund balance. The net effect of these adjustments was to add $325,331 to the original recommended budget, yielding the Tentative Adopted Budget amount of $1,435,978,309. 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. Development Services. As part of the Tentative Budget, $1.5 million was set aside in the Budget Stabilization Fund to subsidize the activities of the Development Services Department. At the May 11, 2010 Board of Supervisors meeting, the Board approved increases to development fees. These new fees are expected to generate an additional $806,000 in revenues next year, which will be reflected in the FY 2010/11 Budget, thus reducing the needed General Fund support. I recommend that the $806,000 remain in the Budget Stabilization Fund to be used to upgrade the Permits Plus system in Development Services to a Countywide application with uses in the Health Department and Department of Environmental Quality.

2. Regional Wastewater Reclamation. When the Board of Supervisors approved the increase in sewer user fees and connection fees on March 9, 2010, the Board's motion included the requirement that annual increases in the Regional Wastewater Reclamation Department's operating expenditures be limited to 3.4 percent of the previous year's actual expenditures. At the time of preparation of the Tentative Budget, the expenditures for the Regional

Wastewater Reclamation Department were based on the Period 8 expenditure projections, and the FY 2010/11 expenditures were set at $150,889,870. Based on the Period 10 expenditure projections, a 3.4 percent increase to the projected actual expenditures for FY 2009/10, the total expenditures for FY 2010/11 should be reduced by $5,581,240 to $145,308,630.

3. Information Technology. The Tentative Budget is based on the Period 8 projections of expenditures by the departments. With the Period 10 projections, an additional one-time fund balance of $1.5 million has become available that I recommend be transferred into the Information Technology Enhancement Fund for funding hardware and software needs of the various General Fund departments, including upgrading Office and Outlook, acquiring additional equipment for PimaCore to convert departments' mobile devices, upgrading training facilities, etc.

The net effect of these adjustments is to reduce the Tentative Adopted Budget by $4,081,240 to the Final Budget of $1,431,897,069.

Recommendation

Set forth below are the proposed FY 2010/11 Final Budget amounts and Tax Rates.

FY 2010/11 Budget and Tax Rates

Description	Budget	Tax Rate
Total County Budget	$1,431,897,069	$3.3133
County Free Library District	34,808,638	0.3100
Regional Flood Control District	12,227,360	0.2635
Debt Service	106,277,555	0.7500
Stadium District	4,348,162	------

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.

Respectfully submitted,

C. Huckelberry

C.H. Huckelberry
County Administrator

CHH/mjk – June 8, 2010

Attachments

Board of Supervisors Memorandum

June 15, 2010

Fiscal Year 2010/11 Final Budget Adoption
Additional Adjustments

Background

In my June 8, 2010 memorandum recommending three adjustments to the Tentative Budget, I presented my recommendation for the Final Budget for the County and the respective tax rates.

In addition to those three adjustments, I am recommending an adjustment to clarify information that was presented in the Tentative Budget. There are two supplemental packages recommended in the Tentative Budget for the Natural Resources Parks and Recreation budget. One package is for $1,020,000 for a Pathways and Parking Lot Resurfacing Program to address critical and high-priority safety issues resulting from aging pavement infrastructure in parks and other facilities throughout the County. The other package is for $1,175,000 to replace old playground equipment and to install shade canopies at various parks. Both of these expenditures should have been included in the Capital Projects budget rather than in the operating budget for Natural Resources Parks and Recreation.

Additional Recommended Adjustments to the Tentative Budget

I recommend that the $1,020,000 for the Pathways and Parking Lot Resurfacing Program and the $1,175,000 to replace playground equipment and install shade canopies be transferred as an Operating Transfer from the General Fund into the Capital Projects Fund.

There is no net effect of these adjustments to the Final Budget as a whole. The only effect is to shift $2,195,000 in operating expenditures of Natural Resources Parks and Recreation from the General Fund budget and to put them into the Capital Projects budget.

Respectfully submitted,

C.H. Huckelberry
County Administrator

CHH/mjk - June 9, 2010

Attachments

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