BUDGET ISSUES

This section of the Fiscal Year 2011/2012 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 2011/12 Budget*, dated April 29, 2011; his May 11, 2011 memorandum, *Tentative Budget Adoption - Fiscal Year 2011/12*; his May 17, 2011 memorandum, *Tentative Budget Adoption: Fiscal Year 2011/12;* and his June 21, 2011 memorandum, *Fiscal Year 2011/12 Final Budget Adoption.* (The memoranda are located on pages 4-3, 4-27, 4-29, and 4-33, respectively.)

Issues Synopsis

During the development of the fiscal year 2011/12 budget, the following issues were recognized:

- <u>Property Taxes</u> – The Primary Net Assessed Value of the County for fiscal year 2011/12 decreased $630 million or 7.04 percent from the current year. The market value of existing property actually decreased by more than eight percent, but was partially offset by an increase of 1.33 percent as a result of new construction added to the tax base. Because the tax base has decreased for fiscal year 2011/12, use of the current tax rate results in a levy amount that is $20,858,120 less than the Fiscal Year 2010/11 levy and $24,797,399 below the fiscal year 2011/12 neutral levy as determined by the state's Truth in Taxation statutes. The contraction of the property tax base is expected to continue into fiscal year 2012/13 with the Net Assessed Value projected to decline by 5.1 percent.

- <u>State Cost Shifts</u> – The state's decision to use Pima County's local tax base to balance a portion of Arizona's budget created a deficit of $8,185,242. To fund this deficit, the County required a primary rate increase of 10.45 cents per $100 of assessed value.

- <u>State-Shared Revenues</u> – State shared sales tax revenue is projected to increase by $3 million in fiscal year 2011/12. This modest increase reflects a projected slow economic recovery with only slightly improved consumer spending. Partially offsetting the increase in sales tax revenue is a projected decrease in the vehicle license tax of $1.5 million (5.8 percent) in fiscal year 2011/12.

- <u>University Physicians Healthcare Hospital</u> - In fiscal year 2010/11, the County entered into a two year agreement with the Arizona Board of Regents (ABOR) on behalf of the University of Arizona College of Medicine for funding of the University Physician Healthcare Hospital. Total funding to the hospital for fiscal year 2010/11 was $20,000,000. For fiscal year 2011/12, the final year of the ABOR agreement, the County is obligated to provide funding in a total amount of $15,000,000. Provision of funding by the County after fiscal year 2011/12 will require a new agreement.

- <u>Non-General Fund Subsidies</u> – 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 2011/12. Consequently, the County Administrator is recommending a total of $3.3 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 2011/12, $34,774,388 is needed to reserve seven percent of General Fund revenues.

- Employee Compensation - Employee compensation is a very important component of the budget. Although the Board of Supervisors authorized a one percent increase in salaries for existing employees for fiscal year 2011/12 this was only to partially offset the increase in the employees' share of pension costs which resulted from the State's reducing the employer's share.

- Departmental Requests for Supplemental Funding - The total net negative General Fund impact of all supplemental requests received from departments was over $15.6 million. 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 2011/12 to fund any of the requests.

- General Fund Fiscal Year 2010/11 Ending Fund Balance – The projected General Fund available ending fund balance for fiscal year 2010/11 is $53,651,182. This is an increase of $29,610,967 over the budgeted General Fund Reserve of $24,040,215. This increase is from numerous offsetting increases and decreases in actual expenditures, revenues and operating transfers from the Adopted Budget The primary factor contributing to the increase is a beginning General Fund balance that was greater than was anticipated at the time the fiscal year 2010/11 Budget was adopted. There are two substantial components of that larger beginning fund balance. One was an unanticipated partial refund of $4,573,477 from the State of the County's indigent health care contribution. The refund resulted from a maintenance of effort requirement imposed on Arizona as a prerequisite to receipt of federal funding. The second was actual, net departmental expenditures that were less at the end of fiscal year 2009/10 than were projected mid-year.

- General Fund Base Budget – Projected base General Fund revenues are $8,185,242 less than required to fund projected fiscal year 2011/12 base expenditures and operating transfers. The County Administrator recommended and the Board of Supervisors approved an increase in the primary levy of 10.45 cents per $100 of assessed value. This increased rate will offset the State's costs shifts and decision to use Pima County's local tax base to balance a portion of Arizona's budget.

Since the economic recession began more than three years ago, a series of reductions in departmental budgets have been implemented. The fiscal year 2011/12 Adopted Budget includes an additional 1.5 percent reduction for most departments and a 0.5 percent reduction for the law enforcement functions. Collectively over three years, the cumulative reduction in departmental budgets is approximately 11.5 percent except for the Sheriff's Office which has been reduced by 2.5 percent. Consequently, despite the state cost shifts and declines in state shared revenues, the reductions in departmental budgets, and the available $53.6 million fiscal year 2010/11 ending fund balance enabled the County to have a balanced General Fund budget for fiscal year 2011/12.

The following County Administrator's memoranda details and discusses these issues at length.

MEMORANDUM

Date: April 29, 2011

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2011/12 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2011/12 Budget for Pima County. These recommendations are made based on information available in mid-April 2011. 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 17, 2011	Budget Hearing
May 17, 2011	Tentative Budget Adoption (Sets Budget Ceiling)
June 21, 2011	Final Budget Adoption
August 15, 2011	Tax Levy Adoption (Date Set by State Statute)

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.

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 for Fiscal Year 2011/12.

Index of Budget Memorandum

I. Overview of Recommended Budget

Like all governments in Arizona, Pima County has necessarily adjusted to reduced revenues and increased service demands during this economic recession. More than three years ago, at the beginning of the current recession, Pima County began taking actions in response to declining resources and an increasingly uncertain operating environment. Numerous initiatives were developed and implemented to address redundancy and waste. Internal services were centralized to increase efficiency and reduce cost. 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 this trend by reducing most departmental budgets by 1.5 percent, except law enforcement functions which are reduced 0.5 percent. In total, operating budgets within the County have been reduced during the past three years by about 11.5 percent with the exception of the Sheriff's Office which has been reduced 2.5 percent.

In addition, when adopting the current Fiscal Year 2010/11 Budget, the Board of Supervisors did not commit to future use more than $22 million of base General Fund revenues in order to stabilize property taxes. This was done in anticipation of the significant reduction in the value of the primary property tax base which is now estimated to decline by a net 7.04 percent next year or $20,858,120 using the current tax rate. This contraction in the property tax base will continue in Fiscal Year 2012/13 with an estimated net reduction of 5.1 percent.

During this time of managing through the recession the Board of Supervisors has also provided property tax relief to the community. Over the last three adopted budgets the primary rate has been reduced almost 29 cents with a corresponding three year total reduction in primary levy of $69,092,858.

Notwithstanding these efforts, however, General Fund base revenues are $8,185,242 less than are necessary to fund General Fund expenditures. The amount of direct cost shifts to the Pima County General Fund enacted in the State's Fiscal Year 2011/12 Budget is $8,290,172 or slightly more than the County's General Fund deficit. It is recommended that the State's decision to use Pima County's local tax base to balance a portion of Arizona's Budget be levied as a primary property tax on behalf of the State. To fund the $8,185,242 deficit shifted to the County requires a primary rate of 10.45 cents per $100 of assessed value. This State Assistance Levy, added to the County's current rate of $3.3133, equals a total recommended primary rate of $3.4178.

Even with the State Assistance Levy added to the current primary rate, the combined rate of $3.4178 is 19.39 cents less than the statutory Truth in Taxation revenue neutral rate and 62.32 cents less than the Constitutional Levy Limit rate. The resulting levy in

Fiscal Year 2011/12 will reduce primary property taxes by $12,174,044 from the current year.

The combined recommended property tax levy of the County next fiscal year, including the primary and secondaries for the Library District, Flood Control, and Debt Service is $17,967,908 less than the current year. This result occurs even though the combined rate is recommended to increase 17.05 cents because the value of the primary property tax base will decrease 7.04 percent and the secondary base will decrease 9.21 percent next year.

The recommended combined, total County Budget for Fiscal Year 2011/12 is $1,295,466,922 which is $136,430,147 or 9.53 percent less than the current year.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2010/11 is $52,827,024, an increase of $28,786,809 over the budgeted reserve of $24,040,215.

- It is recommended that the non-recurring Fiscal Year 2010/11 ending balance be allocated for the following purposes:

  - $15,000,000 to fund the final year of the existing contract for operation of University Physician Healthcare Hospital.

  - $443,180 to fund an additional one-sixth of the increased cost of medical insurance premiums for General Fund supported employees.

  - $37,383,844 as the General Fund Reserve for Fiscal Year 2011/12 which is 8.18 percent of General Fund reserves.

- Assuming continuation of the current primary property tax rate of $3.3133, General Fund base revenues and transfers-in for Fiscal Year 2011/12 are projected to be $457,097,087 which is $23,661,509 or 4.9 percent less than the current year.

- Excluding primary property taxes, General Government revenues from all other sources are projected to increase $2,613,999 or 1.9 percent.

- The value of the net primary property tax base is projected to decrease 7.04 percent which will result in a decreased primary levy of $20,858,120 at the current rate.

- General Fund base expenditures and transfers-out for Fiscal Year 2011/12 are projected to be $465,282,329 which is $69,109,661 or 12.9 percent less than the current year's.

- General Fund base expenditures exceed base revenues by $8,185,242.

- Direct cost shifts to the County's General Fund enacted in the State's Fiscal Year 2011/12 Budget total $8,290,172 or slightly more than the projected deficit in base revenues.

- It is recommended that the State's decision to use Pima County's local tax base to balance a portion of Arizona's Budget be levied as a State Assistance Tax of 10.45 cents per $100 of assessed value.

- Combined with the County's current primary rate of $3.3133, addition of the State Assistance Tax will result in a total primary rate of $3.4178 which is 19.39 cents less than the statutory revenue neutral rate and 62.32 cents less than the Constitutional Levy Limit.

- The resulting combined levy will reduce primary property taxes by $12,174,044 from the current year.

- The recommended budget for the Library District is $32,289,958, a $2,518,680 decrease from this year, and the recommended tax rate is $0.3460, a $0.0360 increase from the current year.

- The recommended budget for Debt Service is $100,824,209, a $5,453,346 decrease from this year, and the recommended tax rate to support the General Obligation portion of that budget is $0.7800, a 3 cent increase from the current year.

- The recommended operating budget for the Regional Flood Control District is $12,043,950, a $183,410 decrease from this year, and the recommended tax rate of $0.2635 is the same as this year's rate.

- The recommended combined, total property tax levy of the County is $17,967,908 less than the current year.

- The combined property tax levy of the County will be reduced by more than 4 percent even though the combined rate is recommended to increase 17.05 cents because the value of the primary property tax base will decrease 7.04 percent and the secondary will decrease 9.21 percent.

- The combined, total Recommended County Budget for Fiscal Year 2011/12 is $1,295,466,922 which is $136,430,147 or 9.53 percent less than the current year.

III. General Fund Ending Fund Balance: Fiscal Year 2010/11

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2010/11 is $52,827,024. This is a projected increase of $28,786,809 over the budgeted General Fund Reserve of $24,040,215. This ending balance represents 11.0 percent of projected revenues for Fiscal Year 2010/11 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 $28,786,809 results from numerous offsetting increases and decreases in actual expenditures, revenues, and operating transfers from the Adopted Budget. The primary factor contributing to the increase is a beginning General Fund balance that was greater than was anticipated at the time the Fiscal Year 2010/11 Budget was adopted. There are two substantial components of that larger beginning fund balance. One was an unanticipated partial refund of $4,573,477 from the State of the County's indigent health care contribution. The refund resulted from a maintenance of effort requirement imposed on Arizona as a prerequisite to receipt of federal funding. The second was actual, net departmental expenditures that were less at the end of Fiscal Year 2009/10 than were projected mid-year.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the $52,827,024 of non-recurring, one-time dollars projected as the available ending balance of the General Fund on June 30, 2011.

1. University Physician Healthcare Hospital

Beginning with the current fiscal year, the County entered into a two year agreement with the Arizona Board of Regents (ABOR) on behalf of the University of Arizona College of Medicine for funding of the University Physician Healthcare Hospital as it transitioned into a newly structured, integrated two-hospital medical education system. Total funding to the Hospital this year is $20,000,000 consisting of $13,416,667 pursuant to the agreement with ABOR and $6,583,333 pursuant to the original lease for the Hospital with University Physicians Healthcare.

Next fiscal year, the final year of the existing ABOR contract, the County is obligated to provide funding in a total amount of $15,000,000. Provision of funding by the County after Fiscal Year 2011/12 will require that a new agreement setting forth a negotiated amount in return for specified services and performance standards be entered into.

I recommend that this $15,000,000 obligation of the County for the remaining year of the ABOR contract be allocated from this year's ending fund balance.

2. **Medical Insurance: Employee Premium Reduction**

At its April 12, 2011 meeting the Board of Supervisors approved the contract for procurement of employee medical insurance for Fiscal Year 2011/12. This approval was specifically limited by the Board to one year with direction to County administration to pursue all available options for Fiscal Year 2012/13 in order to contain these costs. In addition, the Board adjusted the recommendation that employees bear one-third of the increase in premiums next year and, instead, directed that the County pay five-sixths in order that employees pay only one-sixth of the premium increase.

A total of $4,241,262 had been programmed into base budget expenditures for next fiscal year for increased costs of employee benefits countywide, including increased contributions to the six retirement plans in which the County participates, unemployment insurance, and medical insurance. Of that total, $3,000,000 was allocated to the increased cost of medical insurance countywide, of which $1,800,000 is attributable to the General Fund.

The decision of the Board of Supervisors to cover an additional one-sixth of the increase in premiums for employee medical insurance increased the County's cost by $738,634 countywide of which $443,180 must be paid by the General Fund.

I recommend that the $443,180 General Fund portion of this increase be allocated from the projected ending fund balance for this fiscal year. Because this appropriation is from non-recurring, one-time cash, however, it will be necessary in Fiscal Year 2012/13 to either reduce future medical insurance costs or otherwise reduce General Fund base expenditures in an amount sufficient to cover this increase.

3. **General Fund Reserve**

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. This enabled the Reserve Fund to be steadily increased.

The Government Finance Officers Association recommends, as the preferred benchmark, that two month's operating costs or 16.66 percent of operating revenues, be set aside as fund balance. They further recommend that in no event should less than 5 percent be set aside as a bare, minimum amount. For the past five years the Board of Supervisors has been able to achieve the minimum 5 percent reserve 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.

The continuing economic recession has, however, put the County in an increasingly uncertain operating environment. The primary property tax base began contracting this fiscal year and will decrease by an additional net 7.04 percent in Fiscal Year 2011/12. It is estimated that this tax base will contract by another net 5.1 percent in Fiscal Year 2012/13 and that the real estate market and construction industry in the County will take many years thereafter to fully recover. In addition, actions of the State that financially impact the County have become increasingly erratic and unpredictable while trending toward increased shifting of problems to local government.

Given these uncertainties, I recommend that the benchmark goal of the County for the Reserve be raised from setting aside the minimum 5 percent of General Fund operating revenues to at least 10 percent. After the appropriations recommended above, the amount remaining of the projected Fiscal Year 2010/11 General Fund ending balance is $37,383,844. This amount, though less than the benchmark of 10 percent, equals 8.18 percent of General Fund base operating revenues. I recommend that the remaining $37,383,844 be budgeted as the General Fund Reserve for Fiscal Year 2011/12.

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 2010/11 available ending fund balance of $52,827,024.

Table 1
Recommended Allocation of Fiscal Year 2010/11
General Fund Ending Balance

Recommendation	Amount
ABOR Contract: University Physician Healthcare Hospital	$15,000,000
Medical Insurance: Employee Premium Reduction	443,180
General Fund Reserve at 8.18 percent	37,383,844
TOTAL	**$52,827,024**

IV. General Fund Base Budget: Fiscal Year 2011/12

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.3133, projected Fiscal Year 2011/2012 base budget revenues and operating transfers to the General Fund total $457,097,087. This is a $23,661,509 or 4.9 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 2011/12 base budget General Government revenues from all other sources is $135,088,882, which is a $2,613,999 or 1.9 percent increase from the current Adopted Budget. Though a slight increase is projected, General Government revenues other than property taxes will still be $29,137,427 or 17.7 percent less than its Fiscal Year 2006/07 peak of $164,226,309. The largest revenue stream in this category, state shared sales tax, is projected to increase by $3,228,700 or 3.8 percent to $86,228,700. This modest increase reflects a projected slow economic recovery with only slightly improved consumer spending. This estimate also reflects the reduction to the County's allocation of sales taxes, pursuant to statutory formula, that will result from the less than anticipated population of the County as reported by the decennial census. At its peak in Fiscal Year 2006/07 the County received $106,932,435 or $20,703,735 more sales tax than is projected for next fiscal year.

Partially offsetting the increase in sales tax revenues is a projected decrease in the Vehicle License Tax of $1,445,000 or 5.8 percent. This results from anticipated new vehicle sales and population growth that will be insufficient to offset the decreasing value of existing vehicles. The total decrease in Vehicle License Tax received by the County from four years ago is $3,910,668 or 14.4 percent.

Other significant adjustments within this category of revenues include a projected decrease of $366,580 in interest from short-term investment of cash resulting from extra ordinarily low short-term rates and a $185,000 increase in Federal Payments in Lieu of Taxes (PILT).

2. **Primary Property Tax Revenues**

The Preliminary Primary Net Assessed Value for Fiscal Year 2011/12 totals $8,310,120,212. This is a net $629,527,048 or 7.04 percent decrease from the current year. The Primary Net Assessed Value of the County experienced a net 0.51 percent decrease in the current year which was the first decrease in the primary property tax base since 1993. For next fiscal year the market value of existing property in the County will decrease by over 8 percent, however, this will be partially offset by an increase of 1.33 percent as a result of new construction added to the tax base. This contraction of the property tax base is expected to continue. In Fiscal Year 2012/13 the Net Assessed Value is projected to decline by 5.1 percent.

Because the primary tax base will decrease 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 would be $275,339,213. This is $20,858,120 less than the amount levied in this year's Adopted Budget.

State Truth in Taxation statutes determine what the County's revenue 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 $3.6117 or 29.84 cents higher than this year's rate. The resulting neutral primary levy is $24,797,399 or 9 percent greater than the levy produced by the current year's rate.

The Primary Levy Limit imposed by the Arizona Constitution, which affords an annual increase of 2 percent to account for inflation, allows the County's primary rate to be increased to $4.0410 or 72.77 cents higher than the current year's rate. The resulting constitutionally capped levy is $60,472,744 or 22 percent greater than the levy produced by the current rate.

Table 2 below compares the current and possible primary property tax rates and corresponding levies for Fiscal Year 2011/12.

Table 2
Current and Possible Primary Property Tax Rates and Levies for Fiscal Year 2011/12

	Rate per $100 of Assessed Value	Difference	Levy	Difference
Fiscal Year 2010/11	$3.3133		$296,197,333	
Fiscal Year 2011/12				
• **Current Rate**	$3.3133	0	$275,339,213	$20,858,120 (less than last year)
• **Truth in Taxation Neutral Levy**	$3.6117	+$29.84 cents	$300,136,612	$24,797,399 (more than current rate this year)
• **Constitutionally Capped Levy Limit**	$4.0410	+$72.77 cents	$335,811,957	$60,472,744 (more than current rate this year)

In addition to collection of current year property taxes, the County also receives revenue from the payment of delinquent property taxes from prior years and associated interest and penalties. Together with the projected primary property tax collections next year, assuming continuation of the existing rate of $3.3133, the total base property tax revenues projected for Fiscal Year 2011/12 are $278,947,636. This amount is $22,424,999 less than the total primary property tax revenues adopted in this year's Budget.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2011/12 are projected to be $43,060,569. This is a $3,850,509 or 8.2 percent decrease from the current year's Budget. Departmental revenues have declined by a total of $33,595,713 over the past four years when the economic recession began.

Next year's projections for these revenues continue to reflect a severe contraction in local economic activity. The most significant reduction in departmental revenues is a projected decrease next year of $2,228,226 or 54.3 percent from photo traffic enforcement as a result of substantially less violations occurring at these locations in the unincorporated area of the County. Other significant reductions are projected for correctional housing revenues from municipalities and the volume of fees received by Natural Resources, Parks and Recreation.

B. General Fund Base Budget Expenditures

The amount required to fund General Fund supported base budgets for both departmental expenditures and transfers-out is $465,282,329, which is $69,109,661 or 12.9 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.

Since the economic recession began more than three years ago, 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 most departments by an additional 1.5 percent with the exception of law enforcement functions which were reduced by only 0.5 percent. To correspond with these internal reductions, the recommended base appropriation for allocation to outside agencies has been reduced by 1.5 percent or $53,153 to a total of $3,490,385.

Collectively over three years, these actions have reduced General Fund expenditures substantially. The cumulative reduction in departmental budgets during this time has been approximately 11.5 percent, except the Sheriff's Office which has been reduced by 2.5 percent.

Significant components within base budget expenditures include:

- $8,290,172 to fund cost shifts to Pima County's General Fund enacted in the State of Arizona's Fiscal Year 2011/12 Budget.

- $239,252,684 or 51.4 percent of General Fund expenditures for Justice and Law Enforcement functions.

- $67,910,174 for mandated payments to fund state programs for indigent acute, long-term, and mental health, including a $6,498,768 increase next year in the County's required contribution to fund the Arizona Long Term Care System.

- $10,796,754 for adult and juvenile detention health care.

- $1,934,526 for the cost of the 2012 Presidential Preference Election.

- $72,319,155 for employee benefits including $28,288,139 for employer contributions to the six different state retirement systems in which various employee groups and officials participate.

- $2,893,310 for additional motor pool costs including the increased cost of fuel.

- $744,994 in the Board of Supervisors' Contingency Fund, which reflects the 1.5 percent reduction used in developing the Recommended Budget.

In addition, included in base expenditures are continued subsidies to three Non-General Fund funds. 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.

In the current year's adopted Budget a total of $4,500,000 was appropriated to subsidize the operations of these three funds in the following amounts: Solid Waste Services - $1,500,000, Development Services - $1,500,000, and Stadium District - $1,500,000. The need for these subsidies has in large part been caused by the effect of the economic recession on revenues to these funds and, in the case of the Stadium District, termination of agreements for Spring Training by Major League Baseball teams.

Based on the current financial position of these funds, the total subsidy included in recommended General Fund base expenditures for Fiscal Year 2011/12 is $3,300,000 allocated as follows: Solid Waste Services - $800,000, Development Services - $1,000,000, and Stadium District - $1,500,000.

V. <u>Recommended Adjustment to General Fund Base Revenues</u>

As discussed in Section IV above, projected base revenues of $457,097,087 are $8,185,242 less than are required to fund projected base expenditures of $465,282,329.

Pima County has, since the current economic recession began, taken actions necessary to operate with substantially reduced resources while continuing to provide mandated and essential services to the community. Budgeted General Fund property tax, sales tax, Vehicle License Tax and fee revenues have all declined substantially since Fiscal Year 2008/09. Despite this challenge, the Board of Supervisors has reduced the primary property tax rate by almost 29 cents over the past three adopted budgets. This reduction in the rate is equal to $23,031,053 of annual primary property tax relief that has been afforded homes and businesses in the County during this economic recession. Collectively during this three year period property tax relief totals $69,092,858.

In order to do this, General Fund expenditures have been correspondingly reduced. Countywide, employees, or fulltime equivalent positions, have been reduced by 752 or over 9 percent of our workforce. Most General Fund departments have had their budgets reduced by almost 12 percent. These reductions have occurred during a time of significantly increased service demand from the community as it struggles with a troubled local economy. Pima County is doing more with less.

Notwithstanding these efforts to manage through these budgetary challenges and afford property tax relief to the community, General Fund revenues fall short of the amount needed to fund these reduced expenditures by $8,185,242. The amount of direct General Fund cost shifts to the County enacted by the State in its Fiscal Year 2011/12 Budget is $8,290,172. This is in addition to numerous revenue reductions and fund sweeps by the State affecting Pima County next fiscal year.

The County's General Fund deficit represents the State's decision to use the 15 local tax bases of counties, rather than its own statewide tax base, to balance a portion of the State's Budget. Pima County's current tax rate is $3.3133 per $100 of assessed value. The revenue neutral rate pursuant to the statutory Truth in Taxation requirements is $3.6117. The permissible rate allowed by the Levy Limit in the Arizona Constitution is $4.0410. The rate necessary to collect the $8,185,242 deficit caused by State cost shifts is $3.4178 or a 0.1045 increase from the Fiscal Year 2010/11 rate.

I recommend that for Fiscal Year 2011/12 this 10.45 cent primary levy on behalf of the State of Arizona be added to the County's primary levy at the current rate of $3.3133 for a total primary property tax rate of 3.4178 per $100 of assessed value. All of the proceeds from this 10.45 cent increase in the current primary rate will be used to assist the State of Arizona in balancing its Fiscal Year 2011/12 Budget. Notwithstanding this assistance to the State, the resulting total levy of $284,023,289 will reduce primary property taxes by $12,174,044 from the current year.

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 tax preparation assistance, voter registration, computer instruction, homework help for students, 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 700 computers for public use, and annually has over 1.4 million visits. Community groups use library meeting facilities to hold meetings and as gathering places where people interact and share information.

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 businesses, government, educational organizations, the media and non-profits to create a culture of literacy. The Library offers tutoring, homework help, language instruction, GED test preparation, book clubs, 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 total Fiscal Year 2011/12 Recommended Budget for operating costs, grants and operating transfers-out is $32,289,958 which is a $2,518,680 decrease from the current year's budgeted amount. This includes decreases in funding for book collections, building maintenance costs and a $519,430 decrease resulting from a directed 1.5 percent budget reduction. These decreases are partially offset by a $77,362 operating transfer to the Debt Service Fund for the District's share of the 2010 Certificates of Participation debt service.

The recommended Library District property tax rate for Fiscal Year 2011/12 is $0.3460 per $100 of assessed value. This is an increase of $0.0360 from the Fiscal Year 2010/11 rate of $0.3100 and is revenue neutral as defined by State statute in that it offsets a reduction in the secondary net assessed value of 9.2 percent. This tax rate is projected to provide $29,044,489 million in revenues that will be supplemented by $1,406,000 from fines, interest, grants and miscellaneous revenue, and $1,839,469 from the Library District fund balance in order to meet the recommended overall budget of $32,289,958.

2. **Debt Service Fund**

The total recommended Fiscal Year 2011/12 Debt Service Fund budget is $100,824,209, a $5,453,346 decrease from the current 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, 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 $71,180,570 will fund existing debt service, as well as debt service on a proposed $60,000,000 bond sale expected to occur in the spring of 2012.

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 several major capital improvement projects this fiscal year, including the Justice Court/Municipal Court Complex, the communications emergency operations center, the regional public safety radio system (PCWIN), and various neighborhood reinvestment and park improvement projects and expects to issue $60,000,000 of new debt in Fiscal Year 2011/12.

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 debt, and bi-annually for Street and Highway 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 $0.0300 for Fiscal Year 2011/12 in order to sufficiently finance current capital projects. This increase in the rate will generate Fiscal Year 2011/12 net tax levy revenues of $65,603,403, a $3,167,898 decrease from Fiscal Year 2010/11 and will enable the County to continue with the construction of the capital program.

I recommend that the General Obligation Debt Service tax rate be increased to $0.7800 per $100 of assessed value for Fiscal Year 2011/12, an increase of $0.0300 from this year's rate of $0.7500.

- **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 2011/12 of $16,409,574 will fund existing debt service, as well as debt service on a proposed $6,000,000 bond sale expected to occur in the spring of 2012.

- **Certificates of Participation Debt Service**

  The Certificates of Participation debt service includes the Certificates of Participation (COPs) issued for the Jail Facility, the COPs issued in 2007 for the Bank of America Building, the COPs issued 2009 to fund short-term cash flow requirements affecting the construction of sewer projects, and the COPs issued in 2010 to finance the PimaCore project for the acquisition of a countywide resource management system. Beginning in Fiscal Year 2011/12, the debt service payments for the 2007 Certificates of Participation and for the Jail Facility, totaling $5,917,085, which had previously been recorded in the General Fund will be recorded in the Debt Service Fund. The recommended debt service of $13,234,065 will fund existing debt service. A proposed $37,000,000 sale is scheduled for spring of 2012, if necessary, to fund construction of the Justice Court/Municipal Court Complex and to fund construction of Fleet Services improvements.

3. **Regional Flood Control District**

The recommended operating budget for the Regional Flood Control District is $12,043,950, which is $183,410 lower than the current fiscal year budget and represents a 1.5 percent budget reduction. Also recommended are operating transfers of $14,056,214 including $14,005,988 to the Capital Projects Fund and $50,226 to the Debt Service Fund for the department's share of debt service on Certificates of Participation issued in 2010. This is an increase of $6,056,214 in operating transfers from the current fiscal year.

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 maintained at $0.2635 per $100 of assessed value. Overall projected revenues are $20,418,768 for Fiscal Year 2011/12, which is a decrease of $2,052,675 from the current fiscal year. This reduction reflects the continuing impact of the ongoing decrease in the District's Secondary Net Assessed Value which will contract by 10.10 percent in Fiscal Year 2011/12.

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 Pima 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 approximate 33 percent decline in revenue over the past four years from the hotel/motel, car rental and recreational vehicle taxes.

The loss of Major League spring training has had a profound impact on the District's finances. In 2008, the Chicago White Sox notified the County that they were relocating their spring training activities to a new stadium in Glendale, Arizona. Also in 2008, the Tucson Sidewinders announced that they were relocating to Reno, Nevada effective spring 2009. Finally, in the spring of 2011, the Arizona Diamondbacks relocated to a new stadium in Scottsdale, Arizona. One positive development is that the San Diego Padres minor league affiliate, the Tucson Padres, have temporarily relocated to Kino Veterans Memorial Stadium while awaiting the completion of their new facility in California. This move is projected to add $153,000 in revenue for the District in the next fiscal year.

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 Chicago 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 help the District to transfer to new uses in the future.

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.

The loss of Major League Baseball coupled with the economic downturn has resulted in the need to take actions to maintain the financial stability of the Stadium District. During Fiscal Year 2010/11, revenues are projected to be insufficient to cover the Stadium's operating, maintenance and debt service costs requiring the substantial use of the existing fund balance. Consequently, the budgeted subsidy of $1,500,000 will necessarily be transferred from the General Fund this fiscal year. The District's 2011/12 budget for operating, maintenance and debt service paid to the General Fund is slightly reduced at $7,303,193. Revenues and operating transfers into the District of $5,058,494 and remaining fund balance will not cover the entire recommended budget amount. Therefore, as discussed in Section IV(B) above, I am recommending that the General Fund continue to set aside $1,500,000 to subsidize the Stadium District in Fiscal Year 2011/12.

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

As set forth in Table 3 below, the Fiscal Year 2011/12 recommended Capital Improvement Plan of $457,450,232 consists of the Capital Projects Fund Budget of $215,088,008 and the Capital Projects of Regional Wastewater Reclamation at $238,636,349, Telecommunications at $2,078,000, and Fleet Services at $1,647,875. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 3
Recommended Fiscal Year 2011/12 Capital Projects Fund Budget and Capital Improvement Plan Budget

Capital Improvement Plan	FY 2010/11 Bond and Non-Bond Project Budgets	FY 2011/12 Bond and Non-Bond Project Budgets	Difference	1997 Bonds	2004/2006 Bonds	Non-Bonds
Capital Projects Fund						
Facilities Management	$ 39,681,788	$ 67,190,735	$27,508,947	$ 33,750	$ 43,936,125	$ 23,220,860
Transportation	77,371,716	59,099,509	(18,272,207)	2,395,949	-	56,703,560
Sheriff's Department	13,817,554	26,561,383	12,743,829	-	24,780,055	1,781,328
Regional Flood Control	19,032,132	20,973,632	1,941,500	816,816	3,577,920	16,578,896
Open Space	5,329,505	12,290,824	6,961,319	234,530	5,823,744	6,232,550
Parks and Recreation	17,143,494	12,132,559	(5,010,935)	332,403	11,800,156	-
Finance and Risk Management	11,900,000	5,991,216	(5,908,784)	-	-	5,991,216
Community Development	8,304,506	5,048,550	(3,255,956)	50,000	4,813,635	184,915
Cultural Resources	2,334,470	2,674,225	339,755	30,000	2,155,218	489,007
Information Technology	1,390,436	2,528,696	1,138,260	-	-	2,528,696
Solid Waste Management	1,836,041	596,679	(1,239,362)	576,679	20,000	-
Stadium District	560,000	-	(560,000)	-	-	-
Total Capital Projects Fund	**$198,701,642**	**$215,088,008**	**$16,386,366**	**$4,470,127**	**$96,906,853**	**$113,711,028**
Regional Wastewater Reclamation	$170,487,957	$238,636,349	$68,148,392	$ -	$ -	$238,636,349
Communications	1,965,500	2,078,000	112,500	-	-	2,078,000
Fleet Services	440,000	1,647,875	1,207,875	-	-	1,647,875
Total Capital Improvement Plan	**$371,595,099**	**$457,450,232**	**$85,855,133**	**$4,470,127**	**$96,906,853**	**$356,073,252**

1. Capital Projects Fund Budget

The recommended $215,088,008 Capital Projects Fund Budget for Fiscal Year 2011/12 is an increase of $16,386,366 from the current year's budget of $198,701,642.

Of the total Capital Projects Fund, $4,470,127 is funded through 1997 bonds, $96,906,853 is funded through 2004/2006 bonds, and the remaining $113,711,028 is funded through other non-bond sources.

The major budgeted projects for Fiscal Year 2011/12, funded primarily with 2004/2006 General Obligation Bonds, include $27.2 million for the Justice Court/Municipal Court Complex, $17.1 million for the Communications Emergency Operations Center, $8.5 million for the new courtrooms for the Superior Court, and $6.1 million for the Regional Public Safety Communications System. The budget for the New Justice Court/Municipal Court Complex is $36 million and is funded with $27.2 million in General Obligation Bonds and $8.8 million in Certificates of Participation.

The Department of Transportation has four major projects included in the Fiscal Year 2011/12 Budget. The Magee Road/Cortaro Farms Road: Mona Lisa to La Canada project is budgeted for $8.5 million and is funded primarily with the Regional Transportation Authority (RTA) Sales Tax. The La Canada Drive: Ina Road to River Road project is budgeted for $6.7 million, funded with $2 million RTA Sales Tax and $4.7 million from Federal Surface Transportation Funds. The La Cholla Boulevard: Magee Road to Overton Road project is budgeted for $6.5 million, funded with $4.9 million in RTA Sales Tax and $1.6 million in Impact Fees. The Magee Road/Cortaro Farms Road: Corridor Study and Thornydale Road to Mona Lisa project is budgeted for $5.7 million and is funded with Urban HURF.

2. <u>Regional Wastewater Reclamation Capital Budget</u>

The Fiscal Year 2011/12 recommended capital budget for the Regional Wastewater Reclamation Department (RWRD) is $238,636,349, an increase of $68,148,392 from Fiscal Year 2010/11. The Fiscal Year 2011/12 Capital Program is planned to be funded primarily with RWRD Obligations with an additional $400,000 from Federal Grants. Multiple projects in the Regional Optimization Master Plan (ROMP) total $161.9 million, two Ina Road WPCF Biosolids Facilities Improvement projects are budgeted for a total of $26.3 million, the Santa Cruz Interceptor Phase III is budgeted for $6.6 million, and the Central Laboratory is budgeted for $10.2 million.

3. <u>Telecommunications Capital Budget</u>

The Fiscal Year 2011/12 recommended capital budget for Telecommunications is $2,078,000, an increase of $112,500 from Fiscal Year 2010/11. The budget includes $1.5 million for the downtown telephone switch replacement/upgrade including relocation of all telephone switch (PBX) equipment and support facilities from the Old Courts building, and upgrade of voice mail/call processing systems. This will be paid for using the accumulated fund balance in the Telecommunications Internal Service Fund.

4. **Fleet Services Capital Budget**

The Fiscal Year 2011/12 recommended capital budget for Fleet Services totals $1,647,875, an increase of $1,207,875 from Fiscal Year 2010/11. It includes $1.5 million for the new Fleet Services Facility that will be funded through Certificates of Participation.

C. Combined Total County Budget

1. Combined County Property Tax Levy and Rate

The combined primary and secondary property taxes levied by the County fund 31 percent of the total County Recommended Budget expenditures. 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.

For only the second time in the last 18 years the value of the County's property tax base will decrease next fiscal year. Consequently, the rates recommended in the sections above will be applied to a primary tax base that is 7.04 percent less than the current year's base and a secondary tax base that is 9.21 percent less. The result is that the recommended combined County property tax levy will decrease by $17,967,908, which is 4.03 percent less than the current year levy as set forth in Table 4 below.

Table 4
Combined County Property Tax Levy

	FY 2010/11 Adopted Levies	FY 2011/12 Recommended Levies	Difference
Primary	$296,197,333	$284,023,289	($12,174,044)
Library District	28,961,940	29,347,550	385,610
Debt Service	70,069,209	66,159,216	(3,909,993)
Flood Control District	22,474,309	20,204,828	(2,269,481)
TOTAL	**$417,702,791**	**$399,734,883**	**($17,967,908)**

As discussed in Section V above, it is recommended that the primary property tax rate which supports the County General Fund increase $0.1045 to $3.4178. This 10.45 cent increase from the current primary rate represents a State Assistance Property Tax Levy. The proceeds will be used to help the State balance its Fiscal Year 2011/12 Budget. Also, recommended is an increase of $0.0300 in the Debt Service rate to $0.7800, as well as an increase of $0.0360 in the Library District rate to $0.3460. The Flood Control District rate is recommended to remain the same at $0.2635.

The result of these recommendations is a total increase in the combined County property tax rate of $0.1705 from this year's rate of $4.6368 to $4.8073.

Table 5
Combined County Property Tax Rates

	FY 2010/11 Adopted Rates	FY 2011/12 Recommended Rates	Difference
Primary	$3.3133	$3.4178	$0.1045
Library District	0.3100	0.3460	0.0360
Debt Service	0.7500	0.7800	0.0300
Flood Control District	0.2635	0.2635	0
TOTAL	**$4.6368**	**$4.8073**	**$0.1705**

2. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,295,466,922. This is a $136,430,147 or 9.53 percent decrease from the Fiscal Year 2010/11 Adopted Budget.

Specific significant decreases in the overall County budget include:

- $136,907,267 in the Pima Health System Fund as the County transferred its operation of the Arizona Long Term Care (ALTCS) and Arizona Health Care Cost Containment System (AHCCCS) contracts under an agreement with Bridgeway Health Services. Pima County's contracts with the State expire on September 30, 2011.
- $6,307,794 in the Public Health Fund primarily due to a reduction in the Communities Putting Prevention to Work federal stimulus grant of $3,643,203 and transfer of the Office of Emergency Management and Homeland Security operating and grant budgets to other funds within the County budget.
- $5,453,346 in the Debt Service Fund as discussed in Section VI(A)(2) above.

- $4,180,094 in net Sheriff's Grants which reflects decreases in funding for Department of Homeland Security grants for the PCWIN Project – Regional Public Safety Communications System of $5,043,658 and which was partially offset by $1,375,000 of other Arizona Department of Homeland Security grants.

- $2,577,401 net reduction in the Employment and Training Grants due to a decrease in federal American Recovery and Reinvestment Act stimulus grants for job training and community assistance, that were partially offset by two new federal grants from the Department of Labor and Health and Human Services.

- $2,596,042 in the County Free Library operating and grant expenditures as discussed in Section VI(A)(1) above.

Partially offsetting these decreases are the following increases:

- $16,386,366 increase in the Capital Projects Fund as discussed in Section VI(B) above.

- $8,744,918 increase in the Regional Wastewater Reclamation Fund primarily due to increases in the debt service costs.

- $2,596,685 in the new Pima Health System Transition Fund to be used for claims processing and other expenses related to the expiring ALTCS and AHCCCS contracts after September 30, 2011.

CHH/dr

MEMORANDUM

Date: May 11, 2011

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

From: C.H. Huckelberry
County Administrator

Re: **Tentative Budget Adoption – Fiscal Year 2011/12**

As part of the Tentative Budget Adoption process for Fiscal Year (FY) 2011/12, I am providing two additional pieces of information. We have previously transmitted a great deal of information regarding the need to maintain a significant positive fund balance to guard against continuing State fund transfers and continued reduction of the property tax base as a result of the contraction in real estate values within Pima County.

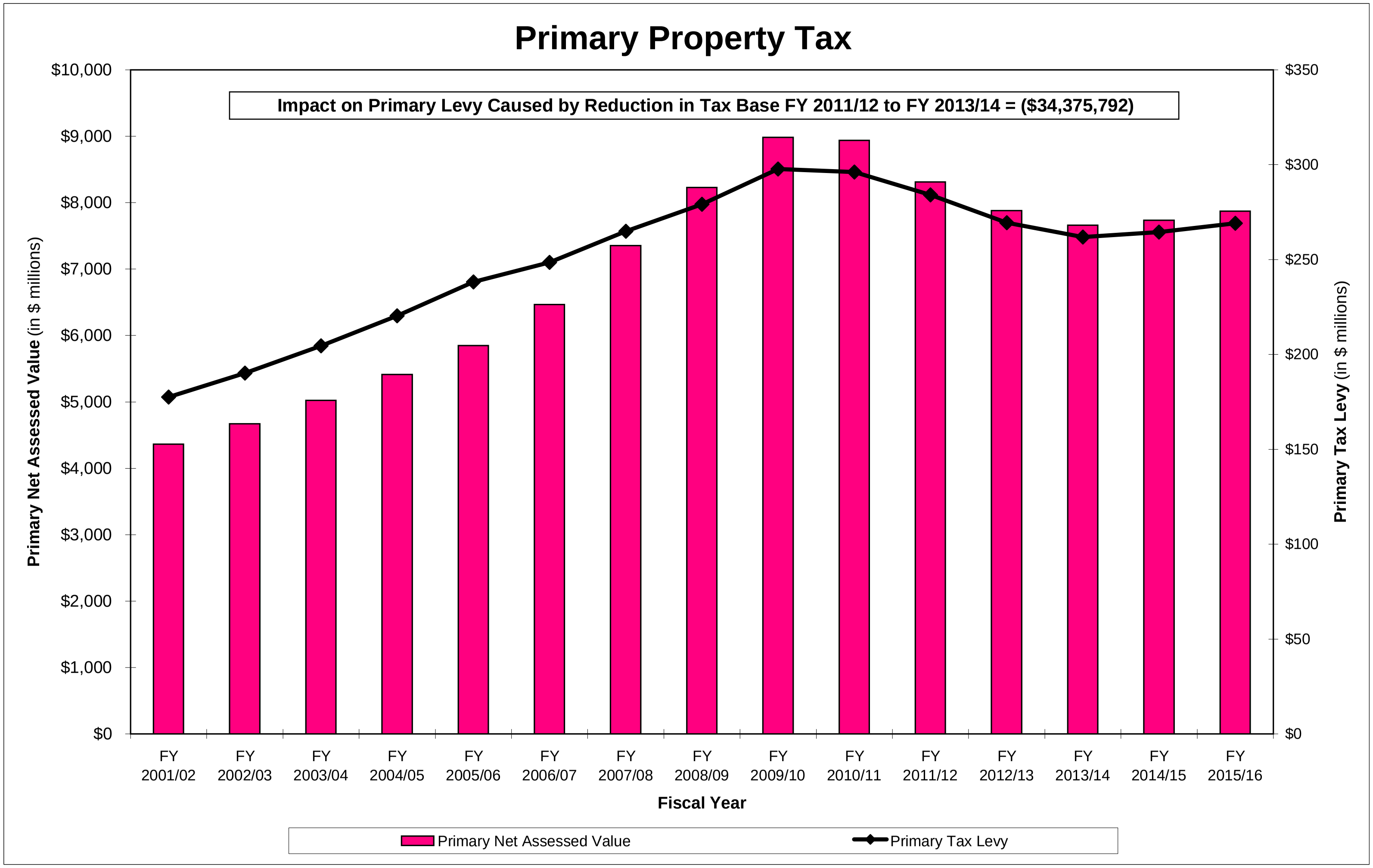
First, with respect to State transfers, as referenced in my budget transmittal memorandum, the State has already enacted into law the obligation of Pima County to provide housing for State prisoners sentenced to one year or less in the Arizona Prison System. This will result in a significant increased burden on the Pima County Adult Detention Center and, hence, our cost. The County Supervisors Association originally estimated this cost impact to be in the vicinity of $7 million. We are currently researching and evaluating the cost impact of this State cost shift, but it will be significant even if we have the additional capacity at the Adult Detention Center. This cost transfer will impact the FY 2012/13 budget as of July 1, 2012.

In addition, I am enclosing a chart illustrating the revenue losses associated with the forecasted continued decrease in the property tax base in Pima County due to declining real estate values. This chart, which shows the forecasted position of the aggregate primary net assessed value for future years, indicates that for the next two fiscal years (FYs 2012/13 and 2013/14), values will continue to decline. The aggregate loss of tax base from holding rates constant at the recommended rate for FY 2011/12 results in a $34.4 million loss in primary property tax levy. This is a significant loss in property tax levy over the anticipated period of continued property tax base decline.

It is primarily for these two reasons I have recommended to the Board that the budgeted year ending fund balance be increased from $24,040,215 to $37,383,844. I believe it would be fiscally imprudent to reduce this amount given the already enacted into law State prisoner cost transfer for next year and the continued contraction of the property tax base.

CHH/mjk
Attachment

c: Martin Willett, Chief Deputy County Administrator
Tom Burke, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management



	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
Primary Net Assessed Value	$4,361,492,992	$4,669,335,684	$5,022,474,184	$5,412,550,080	$5,849,548,818	$6,467,201,516	$7,353,331,088
% change from prior year		*7.06%*	*7.56%*	*7.77%*	*8.07%*	*10.56%*	*13.70%*
Primary Tax Rate	$4.0720	$4.0720	$4.0720	$4.0720	$4.0720	$3.8420	$3.6020
Primary Tax Levy	$177,599,995	$190,135,349	$204,515,149	$220,399,039	$238,193,628	$248,469,882	$264,866,986
$ change in Levy from prior year		*$12,535,354*	*$14,379,800*	*$15,883,890*	*$17,794,589*	*$10,276,254*	*$16,397,104*

	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Primary Net Assessed Value	$8,230,966,534	$8,985,711,830	$8,939,647,260	$8,310,120,212	$7,882,546,987	$7,660,528,449	$7,737,114,136	$7,873,514,017
% change from prior year	*11.94%*	*9.17%*	*-0.51%*	*-7.04%*	*-5.15%*	*-2.82%*	*1.00%*	*1.76%*
Primary Tax Rate	$3.3913	$3.3133	$3.3133	$3.4178	$3.4178	$3.4178	$3.4178	$3.4178
Primary Tax Levy	$279,136,768	$297,723,590	$296,197,333	$284,023,289	$269,409,691	$261,821,541	$264,439,087	$269,100,962
$ change in Levy from prior year	*$14,269,782*	*$18,586,822*	*($1,526,257)*	*($12,174,044)*	*($14,613,598)*	*($7,588,150)*	*$2,617,546*	*$4,661,875*

Note: Forecast beyond FY 2012/13 includes impact of reduced assessment ratio for commercial property but not impacts from change in business personal property exemption and increased depreciation for business personal property as enacted by Laws 2011, Second Special Session, Chapter 1 (HB2001 "Arizona commerce authority; business incentives").

Board of Supervisors Memorandum

May 17, 2011

Tentative Budget Adoption: Fiscal Year 2011/12

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 21, 2011, 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 29, 2011, I propose the following adjustments to the original recommendations:

General Fund

Seven General Fund departments have submitted requests to carry forward current year's appropriations that will not be fully expended this year: The Juvenile Court requests $210,956 for various facilities related projects; the County Attorney requests $200,000 to purchase information technology-related equipment and software in accordance with the department's Automation Plan; the Superior Court requests $119,535 to complete the remodeling of the first floor of the Court's building and other facilities related projects; Community Services, Employment and Training requests $102,947 to complete the Board's Summer Internship Program; the Community Development and Neighborhood Conservation Department requests $20,000 for costs associated with programs in the Pima County Housing Center; Community and Economic Development Administration requests $16,275 for the final two payments to the United Way of Tucson and Southern Arizona for the Employee Combined Appeal; and the Superintendent of Schools requests $4,445 for improvements to their fourth floor office in the Administration Building. These increases in next year's expenditures, totaling $674,158, will be funded by an increase in beginning fund balance, and this amount will be placed in the Contingency Fund carry forward center.

The Natural Resources, Parks and Recreation budget has been adjusted upward by $150,000. These dollars will be used to support components of the Tucson Mountain Park base budget that were previously paid for by the Starr Pass Environmental Enhancement Fund. This increase in expenditures will be funded by an equivalent increase in the beginning fund balance identified subsequent to the submission of the Recommended Budget.

The effect of all of these adjustments is that the General Fund's Recommended Budget amount of $490,951,663 will increase by $824,158 to $491,775,821.

Other County Funds

The Tentative Budget includes several adjustments to the Capital Improvement Program for Department of Transportation projects from those proposed in the Recommended Budget. Three significant projects were added to the Fiscal Year 2011/12 plan: Houghton Road: Interstate 10 to Tanque Verde (+$3,750,000); and Orange Grove: Camino de la Tierra to La Cholla (+3,700,000). At my request, the Department of Transportation also completed a review of their entire Fiscal Year 2011/12 capital improvement expenditures, and based on scheduling variables, some project budgets were increased while others were reduced from my initial recommendation. The net result of the increase in the three projects mentioned above plus other adjustments within the Capital Projects Fund is a $6,071,452 increase from the recommended amount of $215,088,008 to $221,159,460. This increase in costs will be paid for primarily from the sale of 1997 Street and Highway Revenue Bonds. The adjustment, due to project timing within the Capital Improvement Program, will also result in a net reduction of $2,494,519 of revenues for the Capital Projects Fund from the recommended amount. Most of these funds will be received in future years.

The Development Services Department's budgeted expenditures have been increased by $39,790. This adjustment represents the addition of a temporary building inspector position in order to maintain service levels and avoid an increase in the number of inspections not performed on the scheduled date. The cost of this position will be paid from the fund's existing cash balance.

The effect of all of these adjustments is that the overall County Recommended Budget amount of $1,295,466,922 will increase by $6,935,400 to $1,302,402,322.

Prior to final adoption of the Budget on June 21, 2011, I will transmit to the Board any other recommended adjustments to the Recommended Budget that may be necessary to incorporate the most recent information available to project this year's General Fund ending fund balance and next year's revenues and costs. I will develop any such recommended adjustments within the tax rates already recommended to the Board, which are the tax rates listed below.

Recommended Fiscal Year 2011/2012 Budgets and Tax Rates

The table below outlines the budgets and tax rates that I recommend for Fiscal Year 2011/12. Should the Board at the time of tentative adoption take action to increase County expenditures beyond those included in the Recommended Budget, the budget ceiling and/or the tax rate may increase above the amounts listed below.

Fiscal Year 2011/12 Budget	Budget	Tax Rate
Total County Budget	$1,302,402,322	$3.4178
County Free Library District	32,212,596	0.3460
Flood Control District	12,043,950	0.2635
Debt Service	100,824,209	0.7800
Stadium District	4,282,940	------

According to the Assessor, Pima County's neutral Fiscal Year 2011/12 Primary Levy will be $300,136,612; the Primary Levy being recommended is $284,023,289. 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 10.45 cents higher than 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 for the second consecutive year. Since Fiscal Year 2006/07, the County has been required to issue a Truth in Taxation Notice and hold a Truth in Taxation Public Hearing only in Fiscal Year 2009/10.

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 to this memorandum.

Recommendation

I recommend the Board of Supervisors adopt the Tentative Budget for Fiscal Year 2011/12 as now recommended.

Respectfully submitted,

C. Huckelberry

C.H. Huckelberry
County Administrator

CHH/mjk – May 11, 2011

Attachment

c: Martin Willett, Chief Deputy County Administrator
Hank Atha, Deputy County Administrator for Community & Economic Development
John Bernal, Deputy County Administrator for Public Works
Dennis Douglas, Deputy County Administrator for Medical and Health Services
Jan Lesher, Interim Deputy County Administrator for Medical and Health Services
Sam Negri, Communications Director

Note: The final paragraph of this memorandum, Tentative Budget Adoption: Fiscal Year 2011/2012, May 17, 2011, 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 21, 2011

Fiscal Year 2011/12 Final Budget Adoption

Background

The Fiscal Year (FY) 2011/12 Recommended Budget was transmitted to the Board on April 29, 2011. The Tentative Budget was adopted by the Board on May 17, 2011 as originally recommended, with the following exceptions:

- $674,158 was added to the Contingency Fund to cover several fund carry-forward requests made by departments: the Juvenile Court requested $210,956 for various facilities related projects; the County Attorney requested $200,000 to purchase information technology-related equipment and software in accordance with the department's Automation Plan; the Superior Court requested $119,535 to complete the remodeling of the first floor of the Courts building and other facilities related projects; Community Services, Employment and Training requested $102,947 to complete the Board's Summer Internship Program; the Community Development and Neighborhood Conservation Department requested $20,000 for costs associated with programs in the Pima County Housing Center; Community and Economic Development Administration requested $16,275 for the final two payments to the United Way of Tucson and Southern Arizona for the Employee Combined Appeal Campaign; and the Superintendent of Schools requested $4,445 for improvements to their fourth floor office in the Administration Building. These increases in next year's expenditures will be funded by an increase in the General Fund's beginning fund balance.

- $150,000 of expenditure authority was added to the Natural Resources, Parks and Recreation budget to support components of the Tucson Mountain Park base budget that were previously paid for by the Starr Pass Environmental Enhancement Fund. This increase in expenditures will be funded by an equivalent increase in the General Fund's beginning fund balance identified subsequent to the submission of the Recommended Budget.

- $6,071,452 of expenditure authority was added to the Capital Projects Fund for two additional Department of Transportation projects and adjustments to other Transportation projects based on a review of FY 2011/12 capital improvement expenditures. This increase in costs will be funded primarily from the sale of 1997 Street and Highway Revenue Bonds. This review also resulted in a net reduction of $2,494,519 of revenues from the recommended amount.

- $39,790 of expenditure authority was added to the Development Services Fund budget and represents the addition of a temporary building inspector position. The cost of this position will be paid from the fund's existing cash balance.

The net effect of these adjustments was to add $6,935,400 to the original Recommended Budget, yielding the Tentative Adopted Budget amount of $1,302,402,322. Adoption of the Tentative Budget served to set the maximum County expenditure ceiling.

Recommended Adjustments to the Tentative Budget

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

1. Community Performing Arts Center in Green Valley (CPAC). On June 6, 2011, I sent the Board information regarding purchasing the CPAC Foundation's furniture, fixtures and equipment (FF&E) located in the facility at their present value as such would be required if the County were to find another lessee for the facility. Purchasing the FF&E would be a one-time cost of up to $170,000, not a recurring expense. As such, I recommend the Board reduce the budgeted ending General Fund Reserve of $37,383,844 by $170,000 to $37,213,844 and place this amount in General Contingency for the purpose of this purchase. This budget action has a zero net effect on the overall County budgeted expenditures.

2. General Fund Supported Departments. Previously, $2,243,180 had been included in the Non-departmental budget to cover the County's share of the increase in the cost of employee medical premiums. These funds have now been distributed to General Fund supported department budgets. This budget action has a zero net effect on the overall County budgeted expenditures.

After making the above adjustments, the overall Final Budget remains unchanged from the Tentative Adopted Budget of $1,302,402,322.

Recommendation

Set forth below are the proposed Fiscal Year 2011/12 Final Budget amounts and Tax Rates.

Fiscal Year 2011/2012 Budget	Budget	Tax Rate
Total County Budget	$1,302,402,322	$3.4178
County Free Library District	32,212,596	0.3460
Regional Flood Control District	12,043,950	0.2635
Debt Service	100,824,209	0.7800
Stadium District	4,282,940	------

These amounts and rates are the same as those as 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.

Sincerely,

C. Huckelberry

C.H. Huckelberry
County Administrator

CHH/mjk – June 10, 2011

Attachments

c: Martin Willett, Chief Deputy County Administrator
Hank Atha, Deputy County Administrator for Community & Economic Development
John Bernal, Deputy County Administrator for Public Works
Jan Lesher, Deputy County Administrator for Medical and Health Services
Tom Burke, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

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