MEMORANDUM

Date: April 30, 2004

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2004/05 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2004/05 Budget for Pima County. These recommendations are made based on information available in mid-April 2004. 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, 2004	Budget Hearing
May 25, 2004	Tentative Budget Adoption (Sets Budget Ceiling)
June 15, 2004	Final Budget Adoption
August 16, 2004	Tax Levy Adoption (Date Set by State Statute)

This Recommended Budget is being transmitted prior to adjournment of the Arizona Legislature and adoption of the State Budget for Fiscal Year 2004/05. Many proposals to address the State's current fiscal dilemma are under consideration at the Legislature that would mandate increased expenditures and/or decreased revenues for Pima County. It is not possible at this time to precisely predict what the net impact of the State's Budget, when finally adopted, will be on Pima County. The County's base operating budget for all funds set forth in this recommendation includes a projected total of $15,043,955 in continuing cost shifts and revenue reductions from the State that have been mandated during the past two years. It is probable, however, that this Recommended Budget will require revisions in some amount prior to Final Adoption to reflect additional fiscal impacts ultimately enacted by the State.

Following this Budget memorandum are:

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

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

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

Included within the Recommended Budget is information derived from the zero-base budgeting methodology utilized for select departments. On October 26, 1999, the Board adopted Board of Supervisors Policy No. D 22.5, providing that all departmental budgets undergo a periodic zero-base budget review to evaluate the existing base level of funding as compared to the level and volume of services actually being provided. This year the recommended General Fund budgets of the Board of Supervisors, Clerk of the Superior Court, Constables, Public Fiduciary, Superior Court, Natural Resources, Parks and Recreation, and Human Resources were constructed using a zero-base approach. The results of this process are discussed in Section V of this budget memorandum.

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I. Overview of Recommended Budget

- The Recommended Budget is balanced using available resources and does not propose increasing the primary or secondary property tax rates, establishing new taxes or fees, or shifting any County funding responsibilities to other governments.

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

- This Budget absorbs over $15 million in predicted cost shifts and revenue reductions from the State of Arizona, an amount equivalent to 29 cents of the current primary property tax rate. This $15 million negative impact from the State is about twice the growth in the County's primary property tax collections attributable to market appreciation in the value of all existing property in the County.

- This Budget addresses four primary needs of the County:

  - Fully funds the County's obligations under the newly approved agreement with University Physicians, Inc. to lease, manage and enhance services at Kino Community Hospital and funds assimilation of remaining Hospital employees into other County positions.

  - Provides for the additional operating and maintenance costs to open the new 500 bed Adult Detention Facility and numerous other new County facilities, parks and open space acquisitions.

  - Provides for the continued implementation of existing voter approved bond programs as well as the proposed bond program if approved at the May 18, 2004 election.

  - Awards a meaningful pay package for employees consisting of one step for commissioned and corrections officers and 5 percent for the remainder of the workforce.

- The overall Recommended County Budget is $1,097,721,546 which includes $38,843,488 of bond expenditures contingent upon voter approval on May 18, 2004.

- This Recommended Budget is being transmitted prior to adoption of the State Budget and it is probable that it will be necessary to adjust this recommendation to conform to that enactment.

II. Summary of Key Budget Issues

- The projected General Fund ending balance for Fiscal Year 2003/04 is $16,400,000, an increase of $3,000,000 over the budgeted balance of $13,400,000.

- It is recommended that the one-time Fiscal Year 2003/04 ending balance be allocated for the following purposes:

  - $2,988,874 to temporarily fund positions of Kino Community Hospital employees who have not assumed positions with University Physicians, Inc. and are awaiting permanent assimilation into the remainder of the County workforce as vacancies occur and Hospital transition tasks are completed.

  - $411,126 additional funding for the renovation and expansion of the Forensics Sciences Center.

  - $13,000,000 as the budgeted General Fund ending balance for Fiscal Year 2004/05.

- Assuming continuation of the current primary property tax rate of $4.072, General Fund base revenues and transfers in for Fiscal Year 2003/04 are projected to be $377,745,412.

- General Fund base expenditures and operating transfers out for Fiscal Year 2003/04 are recommended to be $359,741,180 which is $18,004,232 less than projected revenues.

- Recommended adjustments to base expenditures to allocate excess revenues are:

  - $5,317,667 to fully fund the County's obligations under the newly adopted agreement with University Physicians, Inc. to operate Kino Community Hospital.

  - $5,855,459 for an employee compensation package consisting of one step for commissioned and corrections officers and a total of 5 percent for the remainder of the workforce.

  - $968,049 for five zero-based budget departments primarily to adjust for increases in fixed costs and reductions in State funding.

  - $250,000 to continue implementation of the Procurement Improvement Plan.

  - $6,063,057 to fund departmental supplemental requests for funding including $4,863,333 in new operating costs to open the new Adult Detention Facility and funding to continue supporting eight COPS grant sheriff's deputies, acquire cemetery land and increase the resources within Facilities Management and Natural Resources, Parks and Recreation to address the operating and maintenance responsibilities for numerous new County buildings, parks and open space acquisitions.

- The recommended budget for debt service is $62,048,033, a $329,475 decease from this year, and the recommended tax rate is the same as this year's at $0.8150.

- The recommended operating budget for the Library District totals $10,518,681, an increase over this year of $319,219, and the recommended tax rate is the same as this year's at $0.2124.

- The recommended operating budget of the Flood Control District is $7,438,339, a $547,547 increase over this year, and the recommended tax rate is the same as this year's at $0.3546.

- The recommended operating budget for the Stadium District is $1,481,654, a $218,746 decrease from this year's budget.

- The recommended combined County primary and secondary tax rate is $5.4540 per $100 of assessed value, the same combined rate as this year.

- The overall recommended expenditure authority for all funds in the County is $1,097,721,546, a $66,105,207 increase in this year's County Budget of which $38,843,488 is conditioned on approval by the voters of the six pending bond questions on May 18, 2004.

III. General Fund Ending Fund Balance: Fiscal Year 2003/04

A. Positive Ending Fund Balance

The projected General Fund ending fund balance for Fiscal Year 2003/04 is $16,400,000. This is a projected increase in the ending fund balance of $3,000,000 over the budgeted ending balance of $13,400,000. This increase results from an actual beginning fund balance that, based on the final audit of Fiscal Year 2002/03, was $5,496,432 greater than the estimated amount adopted in this year's budget. Had the actual beginning fund balance not exceeded the amount budgeted, the projected ending fund balance this year would be $10,903,568 or $2,496,432 less than the budgeted ending balance of $13,400,000.

Primary factors that contributed to the greater than budgeted actual beginning General Fund balance for Fiscal Year 2003/04 include:

1. Actual collection and receipt last year of various taxes, revenues and fees that were greater than estimated including:

    - Property taxes, current and delinquent — $1.8 million increase.

    - Correctional housing fees — $237,000 increase due to greater utilization from outside jurisdictions.

    - Forensics Sciences Center fees — $230,000 increase due to higher caseloads from outside jurisdictions.

    - Vehicle license taxes — $204,000 increase.

- Recording fees – $160,000 reflecting increased real property sales and refinancing.

- Business licenses and permit fees including cable communications franchise revenue fees – $155,000 increase.

- Justice Court fines – $133,000 increase.

- State collected sales taxes – $129,000 increase.

2. Actual spending last year in various areas that was less than estimated by a net amount of approximately $1.8 million.

In addition to the $5,496,432 increase in the actual beginning fund balance described above, other significant factors occurring during the current year that are projected to positively impact this year's ending fund balance include:

1. Underspending in various departments and funds including Institutional Health, General Contingency and County Administrator's Office totaling $8,066,635.

2. Revenues greater than budget in various departments including:

   - $264,000 in Institutional Health, primarily from behavioral health services provided at the Juvenile Detention Center.

   - $250,000 in Recorder's Office fees due primarily to the continued strong housing market and home refinancing.

   - $190,000 in correctional housing fees.

   - $158,000 in reimbursements from the federal Southwest Border Initiative Program.

   - $148,000 in reimbursements from the federal SCAAP program.

   - $86,000 in Information Technology related to fees for use of County right-of-way.

   - $83,000 in Justice Courts fees and fines.

3. Increased State collected sales taxes of $2,000,000 reflecting a stronger than anticipated economic recovery.

4. Increased Vehicle License Taxes of $800,000.

5. Increased business licenses and permits revenue of $128,000.

The positive gains in the ending fund balance described above will be more than offset by a number of projected negative impacts including:

1. An operating transfer to Kino Community Hospital that is $12,000,000 greater than budget due to declining census and increased labor costs.

2. Overspending by several departments including $2,400,000 in the Sheriff's Office and $954,000 in Indigent Defense contract attorneys.

3. Under-realized collection of delinquent property taxes, interest and penalties from prior years of $2,400,000.

4. Under-realized interest revenue of $550,000 due to continued low interest rates and decreased bank balances maintained.

5. Reductions in federal Payment In Lieu of Taxes receipts of $140,000.

B. Recommended Uses of General Fund Ending Fund Balance

Set forth below are my recommendations for use of the $16,400,000 of non-recurring, one-time monies projected as the ending balance of the General Fund on June 30, 2004.

1. Kino Hospital Employee Transition

In deliberating on the long term agreement with University Physicians, Inc. (UPI) to lease, operate and expand services at Kino Community Hospital beginning in June, 2004, the Board of Supervisors directed that current hospital employees that do not assume positions with UPI be placed in other County positions. This transition process is underway but not complete. Hospital employees remaining with the County are being placed in other departments as vacancies occur.

At the present time the number of employees that need placement exceeds the number of vacant, funded positions. To accommodate these employees pending permanent placement in the County several special projects, including implementation of the new Asset Management System, will be fast tracked. This will allow the County to complete several projects ahead of schedule utilizing the skills of the transitioning Kino employees who are awaiting permanent assimilation.

The Kino Community Hospital Enterprise Fund will cease to exist after June 30, 2004, however, there will be on-going County responsibilities related to the Hospital. Five Kino employees will be permanently transferred to the Department of Institutional Health that will be responsible for monitoring the UPI

lease, ensuring the needs of the community are being met as envisioned by the lease arrangement, and retrieving medical records as required by law. Other functions related to closing out the County's prior operation of the Hospital must be continued temporarily, throughout Fiscal Year 2004/05, and include maintaining the Hospital's financial system to complete audits, processing accounts receivable, preparing and responding to Medicare Cost Report inquiries, archiving financial records, and retaining various computer systems specific to the Hospital to complete these transitional tasks. To accomplish this transition twelve Kino employees will be temporarily transferred to several central service departments in the County. As the transition is completed these employees will then be assimilated into permanently funded positions as they become available.

In order to fund Kino Hospital employees who are awaiting placement in vacant positions and those who will complete the transitional tasks during the next fiscal year, I recommend that $2,988,874 be allocated to the Reserve Contingency for this purpose and distributed as needed. Because the timing of assimilating these employees is substantially driven by variables that cannot be predicted or controlled, this allocation must be closely monitored and may require a Board approved mid-fiscal year transfer of additional funding.

2. **Forensics Sciences Center**

The Board of Supervisors appropriated $2,025,000 in the Fiscal Year 2003/04 Budget toward the estimated cost of expanding and rehabilitating the outdated facility used by the Medical Examiner's Office. The actual cost of this construction, now underway, will be $411,126 more than the initial allocation. I recommend that $411,126 be allocated for this purpose.

3. **Budgeted General Fund Ending Fund Balance: Fiscal Year 2004/05**

During the past five years the Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County including building-up the reserve fund balance. From a low of zero in Fiscal Year 1996/97 the budgeted ending balance has been increased to $13,400,000 this fiscal year.

Having this budgeted reserve has contributed to an enhanced bond rating being assigned to the County and, therefore, saved significant public dollars in reduced interest payments on County bond projects. In addition, the reserve has enabled the County to sustain the negative impacts of a variety of events over which the County has had little or no control. Recent examples include the loss of $4 million that was invested with the State Treasurer, a $5.3 million increase in the County's mandated contribution to the Arizona State Retirement System, substantial shortfalls in State Shared Sales Tax and tourism related revenues in the aftermath of September, 2001, and the devastating impacts of the Aspen Fire.

It has been the Board of Supervisors' goal to build the reserve fund balance to a minimum of 5 percent of General Fund revenues. Based on projected revenues for Fiscal Year 2004/05, $18,812,270 would need to be reserved to achieve this goal next year. Unfortunately, the reserve is now serving its purpose as a rainy day fund given the current extraordinary constraints on revenue and demands on expenditures. The continued confiscation of our local revenue base by the State, projected to be a loss of more than $12 million to the General Fund next fiscal year, is a substantial contributor to these problems.

Consequently, I am only able to recommend that $13,000,000 of this year's projected General Fund ending balance be rolled over and budgeted as the General Fund ending balance for Fiscal Year 2004/05.

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 2003/04 ending fund balance of $16,400,000.

Table 1

Recommended Allocation of Fiscal Year 2003/04 General Fund Ending Balance

Recommendation	Amount
Kino Hospital Employee Transition	$ 2,988,874
Forensics Sciences Center	411,126
Budgeted Ending Fund Balance	13,000,000
Total	**$16,400,000**

What has not been included within my recommendations for use of the ending fund balance is additional funding toward retirement of the Stadium District deficit. In my Recommended Budget to the Board of Supervisors last year I proposed retiring the Stadium District deficit, totaling approximately $6 million, over a three year period. At the time of adopting the Fiscal Year 2003/04 Budget additional one-time dollars had become available and I revised my recommendation to a planned two year retirement. The Board adopted this recommendation and $2,969,521 of the deficit was retired this year. Given the current constraints and demands on County revenues, including a projected confiscation by the State of our local resources totaling more than $12 million for the General Fund, I must recommend reverting to the originally planned three year payment schedule and defer until next fiscal year the allocation of approximately $3 million to complete retirement of this deficit.

IV. General Fund Base Budget: Fiscal Year 2004/05

A. General Fund Projected Base Budget Revenues

Assuming continuation of the current primary property tax rate of $4.0720, projected Fiscal Year 2004/05 base budget revenues and operating transfers to the General Fund total $377,745,412. This is a 4.8 percent or $17,433,216 increase over the current year's budgeted revenues and operating transfers to the General Fund.

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

1. General Government Revenues Other Than Property Taxes

Excluding primary property tax revenues, projected Fiscal Year 2004/05 base budget General Government revenues from all other sources is $124,715,218. This is $4.7 million or 3.9 percent above the current Adopted Budget. Revenues in this category that are projected to increase next year include:

- State collected sales taxes — $7,000,000 or 8.9 percent increase reflecting progressively stronger local and state economies.

- Vehicle license taxes — $1,700,000 or 7.7 percent increase reflecting a stronger economy and population growth in the County.

- Business license and permit revenue — $250,000 or 12.5 percent increase reflecting growth and development in the unincorporated area of the County which will generate additional revenue from Cable Television hookups and new liquor licenses issued.

Partially offsetting these projected increases to General Government revenues are several decreases including:

- County Hold Harmless from implementation of Proposition 204 — $3,817,800 loss of State funding that expires at the end of the current fiscal year.

- Federal FMAP program for ALTCS — $701,900 loss of this one-time refund received this year as an offset to the County's mandated contribution to fund the State's indigent long term care program.

- Federal Payment In Lieu of Taxes — $140,000 decrease in allocation to the County based on available funding.

2. **Primary Property Tax Revenues**

The Assessor's Office has published the Preliminary Primary Assessed Value (PNAV) for Fiscal Year 2004/05 that totals $5,429,558,800, an 8 percent increase over the PNAV for Fiscal Year 2003/04. Approximately 3.7 percent of the total 8 percent increase in assessed valuation is attributable to new development added to the property tax rolls. The remainder of the increase represents market appreciation in the value of existing property. The assessed value of all classes of properties except centrally assessed mines and utilities have grown over the past few years with the greatest growth being in owner occupied residential properties.

Assuming the same primary rate as this year, $4.0720 per $100 of assessed value and a collection rate of 96.1 percent, General Fund property tax revenues for Fiscal Year 2004/05 are projected to be $212,510,046 which is $16.3 million greater than this year's projected property tax collections.

In addition to collection of current year property taxes, the County also receives revenue from payment of delinquent property taxes and associated interest and penalties which are projected to be $10,556,270. Together with the projected current year primary property tax collections discussed above, the total base property tax revenues projected for Fiscal Year 2004/05 are $223,066,316, a 6.1 percent increase over Fiscal Year 2003/04.

3. **Departmental Revenues**

Base budget General Fund revenues from departments and operating transfers in for Fiscal Year 2004/05 are projected to be $29,963,878. This amount is $214,767 less than the budgeted department revenues and operating transfers in for this fiscal year. The most substantial projected decrease to the revenue streams in this category is the equity transfer from Pima Health System which is projected to decrease $1,882,642 from this year's transfer of approximately $5 million. The State AHCCCS and ALTCS programs require that Pima Health System, as a program contract provider, retain a prescribed amount of equity within their system. Equity in excess of the amount required to be retained is available for transfer to the General Fund with the approval of the AHCCCS Administration to partially offset the County's mandated contributions to fund these two State indigent health care programs. Excess equity available for transfer next year is projected to decrease as a result of capitation rate adjustments by AHCCCS that have reduced revenue and the substantial increases in the cost of medical services. Negotiations are currently underway with the AHCCCS Administration that indicate at least some willingness on the State's part to review their adjusted capitation rates and system equity retention requirements as they apply to Pima County in order to realize the amount recommended for transfer next year.

Almost entirely offsetting the various reductions to departmental revenues are increases to numerous other revenue streams including:

- Elections — $527,300 increase reflecting General, Primary and local elections to be held next fiscal year.

- Information Technology — $495,979 increase consisting of $342,547 from a University Physicians, Inc. charge back for services resulting from the Kino Community Hospital lease agreement and $153,432 from antenna/cellular right-of-way charges.

- Recorder's Office — $404,000 increase. These base revenues were adjusted upward by $300,000 from the base amount requested by the department to more realistically reflect revenues projected to be actually received this year due to the continued strength of the local real estate market and refinancing activity.

- Correctional housing fees — $220,000 increase. These base revenues were adjusted upward by $200,000 from the base amount requested by the department to more realistically reflect revenues projected to be actually received this year.

B. General Fund Base Budget Expenditures

The amount required to fund General Fund supported base budgets for both departmental expenditures and net operating transfers out is $359,741,180. This is $18,004,232 less than projected General Fund base revenues as discussed in Subsection A above. This base expenditure amount represents adopted departmental budgets adjusted for new or increased State mandated payments, recurring supplemental requests adopted for Fiscal Year 2003/04, impacts to base pursuant to Board adopted budget policies and prior directives, and decreases for one-time expenditures in the current year.

Pursuant to Board Policy seven General Fund departments constructed their requested budgets utilizing a zero-base methodology that resulted in requests from five of those departments for base budget amounts that exceed the target base amount that otherwise would have been assigned to them. These additional base amounts have not been approved except as specifically recommended in the following section relating to base adjustments. In addition, five other departments that did not undergo zero-base budgeting, Forensics Sciences, Justice Courts - Tucson, Procurement, Public Works Administration, and Recorder's Office, submitted requested base budgets that exceeded the amount of their target base. Again, these additional amounts have not been approved except as specifically recommended in the following section containing recommended adjustments to base.

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

- State mandated payments to support the Arizona Health Care Cost Containment System and the Arizona Long Term Care System in the total amount of $54,774,260 which includes combined increases next year of $5,773,529.

- State mandated payments to fund the State's indigent mental health program of $8,774,901.

- State mandated employer contributions to the various State retirement systems totaling $10,174,987 which includes combined increases next year of $647,540.

- State mandated cost shift payment to the newly enacted "County Contribution Fund" of $3,827,600.

- State mandated cost shift requiring funding for the State Restoration to Competency Program of $1,065,266.

- Funding for the Primary and General Elections that the County is mandated to conduct totaling $2,500,000.

- Funding for the County's contribution toward the cost of non-retirement benefits, primarily medical insurance premiums, for our employees totaling $32,809,796.

- Annualization of Phase 1 of the opening of the new Adult Detention Facility in a total amount of $1,501,420.

- Annualization of the mid-fiscal year compensation increases for Attorneys awarded by the Board of Supervisors in the total amount of $684,074.

- Continued funding in the Employee Benefit Liability Fund of $500,000 to be distributed to departments at the end of the fiscal year and, if liabilities exceed available funding, allocated on a pro rata basis.

- Annualized cost of implementing the Two Times Per Day Initial Appearance Program in the criminal justice system in the total amount of $323,258.

- Funding for the cost of self insurance in a total amount of $3,326,604 including an increase of $122,694 next year.

- Funding for three new Constables' Offices previously approved by the Board of Supervisors in Precincts 7, 9 and 10 in the total amount of $185,528.

- Continued funding for the third and final year of the Information Technology Security, Capability and Maintenance Program and support for the County Communication Fund in a total amount of $1,360,000.

- Unreserved Board of Supervisors contingency adjusted to its historic base of $1,000,000.

- Outside Agency funding of $5,240,349 which reflects a decrease of $42,457 to adjust the County's contribution to the Pima Association of Governments to equal the amount to provided by the City of Tucson. Recommendations for allocation of these dollars among requesting agencies will be transmitted to the Board prior to the beginning of next fiscal year.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above the amount required to fund base budget expenditures is $18,004,232 less than the amount of base budget revenues projected for Fiscal Year 2004/05. Set forth below are my recommendations for allocation of these resources.

A. Recommended Increases to Base Budget Expenditures

1. Kino Community Hospital Contractual Obligations

The 25-year lease with University Physicians, Inc. (UPI) for the management, provision, and expansion of services at Kino Community Hospital provides for the payment of a service fee to UPI. This fee will be in an amount equal to the cost of providing these services less the revenue generated by them not to exceed:

Year 1	$ 25,833,333
Year 2	$ 19,791,667
Year 3	$ 14,791,667
Year 4 through 7	$ 10,000,000
Year 8	$ 9,958,333
Year 9	$ 8,958,333
Year 10	$ 7,666,667

The service fee for the first "year" of the lease, which actually covers the period of June 16, 2004 to July 1, 2005 or 12.5 months, is capped at $25,833,333, of which $1,041,666 will be paid from the current year's General Fund transfer to the Hospital. General Fund base for next year already contains $20,000,000 for transfer to Kino Community Hospital based on prior actions of the Board of Supervisors. Therefore, the difference between this base amount and the maximum service fee liability that may be incurred next fiscal year is $4,791,667.

In addition to the service fee, the lease requires the County to complete a number of capital projects, including completion of mold abatement and replacement of malfunctioning air cooling equipment. It is estimated that $526,000 of General Fund support will be required next fiscal year to complete the projects that are not covered by 1997 bond funds. Several other projects, which will require

approximately an additional $1,000,000, will not be complete until Fiscal Year 2005/06 and will require an appropriation in that fiscal year's budget. As part of the lease agreement, UPI assumes responsibility for all other maintenance and capital expenditures related to the existing facilities covered by the lease.

In order to meet the obligations of the County under the UPI lease agreement in Fiscal Year 2004/05, I recommend that $5,317,667 be appropriated for these purposes.

2. Employee Compensation

The most recent countywide employee compensation package was implemented at the beginning of calendar year 2003. Though the County absorbed most of the increased cost of employee medical insurance totaling $5,021,411 countywide, Pima was the only county in the State that awarded no across-the-board salary increases in Fiscal Year 2003/04. The numerous, substantial challenges the County has faced during the past few years, as well as the continued day-to-day provision of exemplary service to the public, could not have been successfully accomplished without the dedication and talent of our workforce. This service has been performed within the progressively difficult context of the reduced resources and increased service demands brought about by a weakened economy. The County cannot afford to fall significantly behind in the marketplace and award of meaningful employee compensation increases should be of the highest priority.

(a) Commissioned and Corrections Officers Assigned to a Step Plan

I recommend that all commissioned and corrections officers assigned to a Step Plan be awarded one step on their anniversary date. The cost to fund this increase next fiscal year is $549,605. The annualized cost in Fiscal Year 2005/06 will be $1,100,376.

(b) All Other Employees

I recommend that all other eligible County Employees, including those assigned to a Step Plan that will not receive a one step increase pursuant to subdivision (a) above because they have reached the top step of their classification, be awarded a salary increase of 2.5 percent effective the pay period beginning August 8, 2004 and an additional 2.5 percent increase effective the pay period beginning December 26, 2004 for a total 5 percent increase during the year. The General Fund cost to fund these increases next fiscal year is $5,305,854 of which $504,916 will fund the increases for employees who are topped-out in a Step Plan. The annualized General Fund cost in Fiscal Year 2005/06 will be $7,594,661. Non-General Fund supported departments will absorb this increase.

3. Recommended Zero-Based Budget Adjustments

Pursuant to the schedule adopted by the Board of Supervisors the following seven General Fund departments developed their budgets using a zero-based approach without regard to their target base which has been the basis for their budget in prior years: Board of Supervisors, Clerk of the Superior Court, Constables, Human Resources, Natural Resources, Parks and Recreation, Public Fiduciary, and Superior Court. The Non-General Fund departments that prepared zero-based budgets were Development Services, Risk Management, and Wastewater Management.

Two departments, the Board of Supervisors and Human Resources, submitted zero-based budgets that had no additional Net General Fund Impact (NGFI). The other General Fund departments are requesting base adjustments that would result in increased net negative impacts to the General Fund. Table 2 below sets forth the NGFI of the base adjustments being requested by each of these departments, as well as my recommended adjustment amount.

Table 2

Zero-Base Review Adjustments

Department	Requested Increase In NGFI	Recommended Increase In NGFI
Board of Supervisors	$0	$0
Human Resources	0	0
Constables	29,801	29,801
Public Fiduciary	116,646	42,759
Natural Resources, Parks and Recreation	601,639	145,245
Clerk of the Superior Court	522,324	150,244
Superior Court	1,275,233	600,000
Total	**$2,545,643**	**$968,049**

Most of the zero-base review departments requested that funding for the 2.5 percent salary attrition directed by the Board of Supervisors to be budgeted for the current fiscal year be restored. Most also requested that funding for the 2 percent general reduction required to be budgeted for this fiscal year likewise be restored. With the one exception noted below, I cannot recommend that funding for either of these reductions be restored as all other General Fund departments will continue to labor under these reductions.

Zero-base adjustments recommended above include:

- Full funding of the Constables' request, that does include restoration of the attrition reduction amount. With only 2.7 non-elected positions, this department cannot absorb the attrition reduction. This amount also includes funding to implement a pay-for-performance plan that was developed at my request for implementation for those Constables elected to a new term beginning January 1, 2005. This plan will be separately transmitted to the Board of Supervisors for approval as required by Statute prior to July 1, 2004.

- Additional funding in the Public Fiduciary's Office for indigent burial costs and software licenses.

- Additional support for Natural Resources, Parks and Recreation for maintenance of the Northwest YMCA Community Center, and various tools and equipment replacement needs.

- Additional courtroom clerks for the Clerk of the Superior Court to handle increasing workload and increased electricity costs related to the Mission Road archives building.

- An addition of $600,000 to the Superior Court budget to partially mitigate the loss of probation funding from the Arizona Supreme Court. Over the last three years, the Superior Court has lost more than $4 million in State funding for probation services. An additional reduction of $855,000 is expected in Fiscal Year 2004/05.

4. **Procurement Improvement Plan**

In order to continue to develop and implement enhancements to the County's procurement process as recommended by the Citizen's Procurement Advisory Committee and directed by the Board of Supervisors in 2002, a Commodity/Contracts Officer classification was developed and approved by the Board this year. The new classification, replacing two existing classifications, will significantly upgrade the professional skills available to enhance financial controls and commodity management as well as provide the resources necessary to implement a variety of strategic improvements including the SPIRIT procurement system, the Synergen purchasing system, reverse auction technology, electronic contract signature and routing, and expanded utilization of the procurement card.

I recommend that $250,000 be allocated to continue implementing this Improvement Plan.

5. **Recommended Departmental Requests For Supplemental Funding**

A separate compilation of all materials submitted by departments in support of supplemental funding requests has been transmitted to the Board in conjunction

with this Recommended Budget. The total net negative General Fund impact of all supplemental requests received from departments is $34,483,611.

Many requests were made that were well justified and need to be funded but which I am not recommending due to lack of available financial resources. Table 3 below lists those supplemental General Fund requests that I am recommending for approval in Fiscal Year 2004/05.

Table 3

Recommendations for Supplemental Funding

Department	Supplemental Request	Additional Net General Fund Impact Amount
Sheriff	Operating Cost for New Jail	$4,863,333
Sheriff	Final Funding for COPS in Schools '01	190,565
Sheriff	Additional Funding for COPS in Schools '02	23,754
Forensics Sciences Center	Toxicology and Histology	81,000
Justice Courts - Tucson	Clerk for 2XIA (Potential $42,676 available from Kino Employee Transition Fund)	0
Legal Defender	Juvenile Pilot Program ($318,174 of base funding for contract attorneys to be set aside)	0
Office of Court Appointed Counsel	Indigency screening and contract oversight (Potential $80,937 available from Kino Employee Transition Fund)	0
Public Fiduciary	Cemetery Land and Maintenance	129,500
Facilities Management	Maintenance Management	95,723
Facilities Management	Trades Maintenance Additional Staffing	356,317
Natural Resources, Parks and Recreation	Open Space Responsibilities	115,400
Natural Resources, Parks and Recreation	Facilities Opening 2004/05	95,723
Natural Resources, Parks and Recreation	Site Security and Conservation	86,742
Natural Resources, Parks and Recreation	Desert Survivor Nursery	25,000
	Total	**$6,063,057**

Below is a brief description of the supplemental requests recommended for funding and listed above in Table 3.

- **Sheriff's Office**

  In the current year's Budget the Board appropriated $770,662 in operating costs to begin the process of opening the new 500 bed Adult Detention

Facility. This appropriation is continued in the recommended base Budget for next fiscal year in an annualized total amount of $1,501,420. Recommended additional supplemental funding of $4,863,333 will fully fund the initial operating costs for the new facility in a total amount of $6,373,753. A total of 140 new correctional positions will be funded with this appropriation.

Also recommended is a total of $214,319 to continue funding for positions added under the federal COPS Grants in Schools Program. Under the terms of the COPS grant agreements approved by the Board, federal funding decreases over a four year period and in the fifth year the County is responsible for the full cost of the program. This recommended funding consists of $190,565 to assume the full, fifth year cost for four deputies and $23,754 to assume the partial cost of an additional four deputies.

- **Forensic Sciences Center**

  This recommended funding of $81,000 represents the increased costs of outside toxicology and histology testing services.

- **Justice Courts – Tucson**

  A request for $42,136 has been made to hire an additional courtroom clerk to fully implement the Two Times Initial Arraignment (2XIA) Program on a seven-days-a-week basis. I recommend approval of this position, however, funding for the position in Fiscal Year 2004/05 is conditioned on filling the position with a suitable Kino Community Hospital employee in need of assimilation into the County and for which funding is available from the Kino Hospital Employee Transition Fund recommended for establishment in Section III (B) (1) above.

- **Legal Defender**

  Over the past several years, the number of child dependency cases filed in the County's Juvenile Court have dramatically increased. Enhanced enforcement by the State's Child Protective Services Program has substantially driven these increases. These cases require that separate attorneys be appointed to represent the parents as well as the children, and in some cases, a separate attorney for each child and/or each parent in a single case if the interests of each individual are divergent. These cases can be protracted and court intensive and, therefore, costly. State legislation enacted in December, 2003 newly provides for the right to a jury trial for parties to a dependency action which will substantially increase even more the cost to the County of providing appointed counsel.

  Currently, all attorneys appointed by the County's Juvenile Court for the indigent in dependency cases are contracted for. The State law allowing the Public/Legal Defender's Offices to represent parties in dependency cases is

recent and neither of these offices has ever provided such representation. The Legal Defender has proposed that her office undertake a pilot program to assume a portion of this caseload to ascertain whether representation in dependency cases can be more cost effectively accomplished using in-house attorneys. I agree with the need to explore this alternative. It will not be possible, however, to successfully quantify and evaluate the results of this pilot program until the systemic reforms now being developed within the Office of Revenue, Collections and Audit and the recommendations from the pending Spangenberg Report have been employed to establish centralized case assignment, tracking and management and uniform policies, universally applied are in place providing for case-weighted attorney workload and case withdrawal standards.

The Legal Defender has requested $318,174 to fund this program beginning January 1, 2005. I recommend that this amount be transferred from the base budget funding for contract attorneys and set aside in the Budget Stabilization Fund to be used for this purpose when and if during Fiscal Year 2004/05 appropriate case management reforms have been developed and instituted to the satisfaction of the Board.

- **Office of Court Appointed Counsel**

In January, 2004 a portion of the administrative unit of Indigent Defense Services was brought into the more centralized Office of Revenue, Collections and Audit and renamed the Office of Court Appointed Counsel. This reorganization was intended to provide additional resources and oversight to a centralized case management system and the contract attorney function, as well as to implement a variety of reforms in these areas. The most significant of these changes currently under development is the creation of a centralized data warehouse that will allow centralized case assignment, tracking and management and which is estimated to be in place at some point during the coming fiscal year. Two additional positions are requested for this office. One would perform indigence screening in Justice Courts to determine eligibility for a County funded attorney and would cost $46,000. This screening is not currently being performed. The second position would increase the resources available to monitor, evaluate and better scrutinize claims made by attorneys under contract to provide indigent representation and would cost $34,937.

I recommend approval of these two positions, however, funding for the positions in Fiscal Year 2004/05 is conditioned on filling the positions with suitable Kino Hospital employees in need of assimilation into the County and for which funding is available from the Kino Hospital Employee Transition Fund recommended for establishment in Section III (B) (1) above.

- **Public Fiduciary**

  The County Cemetery is estimated to run out of space to accommodate indigent burials during next fiscal year. This recommendation of $129,500 will fund the purchase of additional land and maintenance of graves.

- **Facilities Management**

  A total of $452,040 is recommended to meet a portion of the increasing service demands associated with the opening and operation of new facilities. This amount will fund nine new positions to address the addition of the following buildings: Kino Service Center, Sheriff's Office Property and Evidence Building, Records Center, and the new Adult Detention Facility.

- **Natural Resources, Parks and Recreation**

  A total of $322,865 is recommended to meet a portion of the increasing service demands and responsibilities associated with the opening of new facilities, the expansion of others, and new open space acquisitions. This funding will address additional operating and maintenance costs for the opening of the Ajo Annex Classrooms; expanded operations at Arthur Pack Regional Park and Rillito River Park; and a maintenance crew with supporting supplies and services to maintain open space areas such as the Daily property adjacent to Colossal Cave Mountain Park, the Amado, Carpenter Ranch, and Lords Ranches, and the Alphers/Barnes, Jacobs, Scheer, and Stevens properties.

B. Recommended Decrease to Base Budget Operating Transfers Out

The Public Health Department currently has a fund balance of $988,000. In order to help defray the cost of other expenditures recommended in this Budget such as increases to employee compensation for which the Department will receive additional funding, I recommend that the General Fund base operating transfer to the Public Health Department be reduced by $450,000 for one year only and that the fund balance be expended in lieu of this amount.

C. Summary of Recommended Adjustments to General Fund Base Expenditures

As described in Section IV above the amount of projected General Fund revenues for Fiscal Year 2004/05 exceeds the amount necessary to fund General Fund base expenditures by $18,004,232. Set forth in Table 4 below are the adjustments I have recommended in Subsections A and B above for allocation of these dollars.

Table 4

Recommended Adjustments to Base Budget

Revenues in Excess of Base Expenditures		$18,004,232
Recommended Increases to Base Budget Expenditures:		
Kino Hospital Contractual Obligations	$5,317,667	
Employee Compensation	5,855,459	
Zero-Based Adjustments	968,049	
Procurement Improvement Plan	250,000	
Supplemental Department Funding:		
Sheriff	5,077,652	
Forensics Sciences Center	81,000	
Justice Courts – Tucson	0	
Legal Defender	0	
Office of Court Appointed Counsel	0	
Public Fiduciary	129,500	
Facilities Management	452,040	
Natural Resources, Parks and Recreation	322,865	
Recommended Decrease to Operating Transfers Out:		
Public Health Fund Balance	(450,000)	
TOTAL	**$18,004,232**	

VI. The Overall Budget

A. The County

The overall recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,097,721,546. This is a $66,105,207 increase over the Fiscal Year 2003/04 Adopted Budget. This total amount includes $38,843,488 of capital projects spending that is conditioned on voter approval of the six proposed bond questions at the May 18, 2004 election. Should any or all of these proposals not be approved this Recommended Budget will be adjusted accordingly for Board consideration prior to Final Adoption.

Significant increases in the overall County Budget include:

- $45,711,655 in the Pima Health System Services enterprise fund to reflect the continued growth in indigent acute care and long term care memberships and the continued increase in health care costs.

- $27,339,986 increase in the Capital Projects Fund as discussed in Subsection B below.

- $20,000,000 in this year's base Budget for internal transfer from the General Fund to Kino Community Hospital that must now be reclassified as a portion of the service fee paid to University Physicians, Inc. and is, therefore, now an outside expenditure which requires an increase in the overall expenditure authority of the County.

- $3,234,115 in the Wastewater Management enterprise fund due to increased debt service requirements.

- $1,466,230 in Sheriff grants resulting from an increase in federal grants for High Intensity Drug Trafficking Areas (HIDTA) which the Sheriff utilizes or disburses to other law enforcement agencies.

- $853,034 in Health Department grants due primarily to increases in Homeland Security grants and a new AIDS/HIV grant.

- $700,171 in Sheriff special revenue funds from increased expenditures in Commissary Operations and Inmate Welfare that are funded by increased profits from Commissary Operations, and $476,230 in County Attorney special revenue funds due to increased expenses for Law Enforcement Antiracketeering prosecution and for the Bad Check Program.

- $643,426 in Juvenile Court grants due primarily to increases in State Juvenile Dependency, Juvenile Treatment and Safe Schools grants and a new federal CASA grant.

- $558,206 in the Development Services enterprise fund reflecting a continued high level of building activity that has increased both revenues and expenditures in the Department.

- $547,547 in the Flood Control District special revenue fund primarily due to increased costs of maintaining department property and drainage ways.

Significant decreases in the overall County Budget include:

- $51,784,304 in the Kino Community Hospital enterprise fund to reflect the leasing of the Hospital to University Physicians, Inc., and the dissolution of the fund.

- $2,910,939 in the Employment and Training special revenue fund which represents decreased federal funding for the Youth Opportunity Grant and the H1-B Technical Skill grant. These decreases were partially offset by the Community Action Agency (CAA) funding now budgeted in Employment and Training and previously budgeted in the Community Services grants.

- $1,676,438 in Community Services grants which represents a decrease of $2,002,206 for the Community Action Agency (CAA) that is now budgeted in the

Employment and Training special revenue fund. This decrease was partially offset by various increases in other grants.

- $827,120 in the Clerk of the Court special revenue funds based on reduced spending in order to retain revenue and increase fund balances in Child Support Incentive, Local Court Automation, Document Storage and Retrieval, and Time Pay Fees funds, together with lower revenue from surcharges in the Spousal Maintenance Enforcement Fund.

B. Debt Service and Special Districts

1. Debt Service Fund

The total recommended Fiscal Year 2004/05 Debt Service Fund budget is $62,048,033, a $329,475 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, Highway Expansion/Extension Loan Program debt, Flood Control General Obligation debt, and Improvement District debt, all of which are long term debt.

- **General Obligation Debt Service**

  The County's General Obligation Debt Service is funded with a secondary property tax. The recommended General Obligation Debt Service of $45,409,318 will fund existing debt service and debt service on a proposed $65 million 2004 bond sale scheduled for June 2004. In addition to 1997 authorization, the June 2004 bond sale will be structured to include 2004 bond authorization if the bonds are approved by the voters on May 18, 2004. In compliance with Pima County Ordinance 2004-18, the secondary property tax will not exceed $0.8150 per $100 of assessed value.

  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 retired, 2004 bonds, if approved by the voters, will be sold incurring new debt. Approximately 93 percent of the current outstanding debt is related to the 1997 bond authorizations. I recommend that the General Obligation Debt Service tax rate remain the same as this year's rate of $0.8150 per $100 of net assessed value for Fiscal Year 2004/05.

- **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 Pima County Transportation Department receives from the State of Arizona. Approximately $2.9 million of these revenues were taken from Pima County in the current year by the State to

balance its General Fund. A similar reduction is expected for next fiscal year. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2004/05 is $13,952,013.

- **Highway Expansion/Extension Loan Program (HELP)**

  In addition to Street and Highway Revenue bonds, the Transportation Department has two HELP loans, one for the Shannon Road Project and a second for the Ajo Way road project. HELP is a program developed by the Arizona State Transportation Board to provide short-term funding for specific transportation projects at below market rates. Fiscal Year 2004/05 debt service on the existing HELP loans is $1,129,010 and is also paid from HURF revenues and federal grants. Fiscal Year 2004/05 is the third year of a five year repayment schedule.

- **Flood Control General Obligation Debt Service**

  The Flood Control District's General Obligation Debt Service is funded by its secondary property tax. The Fiscal Year 2004/05 debt service for the Flood Control General Obligation bonds is $949,395 which represents approximately $0.019 of its secondary tax levy.

- **Improvement District Debt Service**

  Pursuant to State law Improvement Districts can be formed with the approval of the Board of Supervisors and a majority of the affected property owners to fund improvements within a specified geographic location. The Fiscal Year 2004/05 Improvement District Debt Service of $607,237 is paid from direct assessments to the property owners in the respective improvement districts. There are currently three Improvement Districts paying debt service: Country Club Estates, Cimarron Foothills and La Cholla Boulevard. Two additional Improvement Districts have been formed but to date they have not issued any debt. Although Pima County is not liable for the debt service of the individual improvement districts, the County is required to include them in its financial reporting.

2. **County Free Library District**

The Fiscal Year 2004/05 recommended operating expenditures for the County Free Library District total $10,518,681, an increase of $319,219 over this fiscal year. Also recommended is a transfer of $750,000 to the Capital Projects Fund in order to complete the addition to the Bear Canyon Library and to pay for repairs and improvements to a number of the other library branches.

The City of Tucson Manager has stated in his budget transmittal to his Mayor and Council dated April 19, 2004 that his budget proposes "asking the Pima County Library District to fully fund library services for City residents". Apparently he is

proposing to zero-out the City of Tucson's historical support of the libraries in an amount of $9.7 million and shift these resources to enhance City priorities such as resurfacing streets and hiring additional police. Ironically, the State is also considering shifting costs and reducing revenues to Pima County by over $15 million including $2.9 million of County road maintenance funding to support State police.

To supplant the loss of City library dollars would require an 88 percent increase in the Library District property tax rate, from 21 cents to 39 cents per $100 of assessed value. Like the City Manager, I would like to propose a Budget to the Board containing numerous expansions to popular service programs. Unlike the City Manager, I am not proposing to do so by shifting County responsibilities to other governments or instituting new taxes or fees. This Recommended Budget is balanced with existing revenue streams and does not increase any tax rates. The only substantial additional revenue component provided for in this Budget must be voter approved on May 18, 2004.

No dialogue or consultation with the County or Community has occurred with regard to the City Manager's proposal to abandon the Library System. The County will engage in any serious, thoughtful and informed policy discussion concerning the future and funding of the Library system. I cannot, however, seriously entertain the City of Tucson Manager's pronouncement made within the context of financial expediency.

I recommend that the Library District's tax rate remain the same as this year's rate of $0.2124 per $100 of net assessed value.

3. Flood Control District

The recommended operating budget for the Flood Control District is $7,438,339, a $547,547 increase over the current fiscal year. Also recommended are operating transfers totaling $9,854,783 with $8,875,122 going to the Capital Projects Fund, $949,395 for payment of Flood Control General Obligation Debt Service, and $30,266 to the General Fund to partially offset the County's contribution to the Pima Association of Governments.

Flood Control Capital Project funds are used to acquire, construct, expand and improve flood control facilities within the County including bank stabilization, channels, drainage ways, dikes, levees and other flood control improvements. This includes funding to continue the Board approved Riparian Protection Program as a component of the Sonoran Desert 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 District's tax rate remain the same as this year's rate of $0.3546 per $100 of net assessed value.

4. Stadium District

The Stadium District operating budget for Fiscal Year 2004/05 is $1,481,654, a $218,746 decrease from this year's budgeted amount due to a reduction in interest expense as a result of reducing the accumulated cash deficit, and lower interest rates. In addition, a $2,562,178 operating transfer is budgeted from the Stadium District to the General Fund to pay most of the Stadium District Debt Service on the outstanding Certificates of Participation used to finance construction of the Stadium. The total Debt Service for Fiscal Year 2004/05 is $2,769,660. Stadium District revenues are not sufficient to cover the total amount of the Debt Service and require a General Fund subsidy in the amount of $207,482.

Funding for the District derives from four sources: a $3.50 per contract car rental surcharge, a $.50 per day rental tax on recreational vehicle spaces, a 1 percent hotel/motel tax in the unincorporated area of the County, and revenue from baseball and other events scheduled at Kino Veterans Memorial Stadium. Tourism-related tax revenues supporting the District are not expected to increase substantially in Fiscal Year 2004/05. The lack of growth in tourism directly affects the car rental surcharge, recreational vehicle surcharge, and hotel/motel tax, and indirectly affects revenues generated from ticket sales, parking and concessions at Spring Training games.

Efforts are on-going to enhance revenues generated at the Stadium and, hopefully reduce the amount necessary to retire the Stadium District deficit as recommended for Fiscal Year 2005/06. The County is working closely with the Arizona Diamondbacks and Chicago White Sox to market Spring Training both locally and nationally. Efforts for next year will include aggressive group sales, Pima County Attractions marketing, increased destination marketing with the Metropolitan Tucson Convention and Visitors Bureau and local hospitality partnership marketing with specific focus on increased outreach in the Chicago, northern Arizona, and Mexico markets. In addition, efforts to increase revenues through non-baseball events held at the Stadium and adjacent facilities will continue.

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

Transmitted under separate cover will be the Fiscal Year 2004/05 recommended Capital Improvement Budget of $148,496,360, which includes the Capital Projects Fund Budget of $133,516,974 and the Wastewater Management Capital Budget of $14,979,386 as set forth in Table 5 below. The recommended Capital Projects Fund Budget for Fiscal Year 2004/05 includes $98,473,486 for existing bond and non-bond projects and an additional $35,043,488 if voters approve all of the May 18, 2004 general obligation bond questions. The recommended Wastewater Management Capital Improvement Budget includes $11,179,386 for existing bond and non-bond projects and $3,800,000 contingent on voter approval of the sewer revenue bond question at the May 18, 2004 election. If voters reject any of the May 18, 2004

bond questions, then the recommended Capital Projects Fund and Wastewater Capital budgets will be reduced accordingly and reported to the Board prior to final budget adoption.

Table 5

Recommended Fiscal Year 2004/05 Capital Projects Fund Budget and Capital Improvement Plan Budget

	Existing Bond and Non-Bond Project Budgets	2004 Bond Authorization Project Budgets	Total Recommended Budget
Capital Projects Fund Budget			
Facilities Management	$18,356,523	$516,000	$18,872,523
Transportation	45,821,266		45,821,266
Flood Control	14,778,400	469,000	15,247,400
Airport	285,350		285,350
Parks and Recreation	11,049,463	13,469,988	24,519,451
Open Space	2,000,000	18,000,000	20,000,000
Cultural Resources	2,818,303	2,162,500	4,980,803
Neighborhood Reinvestment	2,409,970	250,000	2,659,970
Solid Waste	489,000	176,000	665,000
CIP Administration	465,211		465,211
Total Capital Projects Fund Budget	**98,473,486**	**35,043,488**	**133,516,974**
Wastewater Management Capital Improvement Budget	11,179,386	3,800,000	14,979,386
Total Capital Improvement Budget	**$109,652,872**	**$38,843,488**	**$148,496,360**

Capital Projects Fund Budget

The $133,516,974 Capital Projects Fund Budget for Fiscal Year 2004/05, which includes existing Capital Projects Funds projects and projects funded if the May 2004 bonds are passed, is a $27,339,986 or 26 percent increase over the Capital Projects Fund Budget for the current fiscal year. If the May 2004 bonds are not included, the Capital Projects Fund Budget of $98,473,486 is a decrease from Fiscal Year 2003/04 of $7,703,502 or 7 percent.

The recommended capital budget for Transportation of $45,821,266 is a reduction of $11,563,398 or 20 percent from the Fiscal Year 2003/04 budget of $57,384,664. The reduction in the Transportation budget is the result of completion in the current year of some major projects including Skyline Drive and the decision to take a conservative approach to starting major new construction projects while the Legislature continues to reallocate County HURF funding to cover operating costs of the State Department of Public Safety.

Without expenditures from a successful May 2004 bond election, the recommended Capital Projects Fund Budget for Facilities Management will be reduced by $3,897,628

or 17.5 percent. If voters approve bonds at the May 2004 election, the Fiscal Year 2004/05 budget for Facilities Management will still see a reduction of $3,381,628. These reductions reflect the substantial completion of the 1997 bond program for which Facilities Management is responsible.

Overall the Capital Projects Fund Budget continues to be dominated by projects authorized by voters in 1997. In this Budget $72,511,261 of the total amount for existing capital improvement projects of $98,473,486 is allocated to 1997 bond projects; the remaining $25,962,225 is allocated to non-bond projects.

In the recommended Capital Projects Fund Budget for existing projects, construction expenditures are budgeted for 69 projects totaling $76,464,771, or 78 percent of total existing project expenditures. The remaining 22 percent of existing project expenditures are for Planning and Design at $10,357,055, Right-of-Way, including Open Space at $7,777,842, and miscellaneous, including administrative expenses at $3,873,818.

There are substantial budgeted expenditures for seven Transportation projects, six of which are 1997 bond projects: Wetmore/Ruthrauff; La Cholla, River to Magee; Catalina Highway, Tanque Verde to Houghton; River, Campbell to Alvernon; Cortaro, Union Pacific Rail Road to Camino de Oeste; and Interstate-19, Southbound Frontage Road to Continental and one non-1997 bond project, Veterans Memorial Overpass. Other significant projects include completion of the Sheriff's Maximum Security Detention Center; City of Tucson Mid-Town Library; Forensic Sciences Center Expansion; Mission Wash Drainage Improvements; Holladay/Forrest Drainage Improvements; Town of Sahuarita Drainage Improvement/La Canada-Las Quintas Drainage Improvements; Rillito River Park, Campbell to Alvernon; Freedom Park; Picture Rocks Park; Columbus Park; Clements Center; Quincie Douglas Pool; Canoa Ranch Buildings Rehabilitation; the Valencia Site; and De Anza National Trail and Campsites.

Not included in the Capital Projects Fund budget is $11,770,000 of expenditures programmed by the U.S. Army Corps of Engineers (USCOE) on five projects for which the Flood Control District has budgeted its cost sharing responsibilities of $3,220,400. The major USCOE expenditure will be $8,500,000 for the Arroyo Chico Detention Basin, followed by $1,750,000 for the Rillito/Swan Wetlands restoration project, $700,000 for the Tres Rios del Norte project, $520,000 for the El Rio Medio project, and $300,000 for the Rillito Creek Environmental Restoration/El Rio Antigua project.

Wastewater Management Capital Budget

Without expenditures based upon the May 2004 bonds, the recommended budget for Wastewater Management would be reduced by $15,480,729, or 58.1 percent. If voters approve bonds at the May 2004 bond election, the Fiscal Year 2004/05 budget for Wastewater Management will be lower than the Fiscal Year 2003/04 budget by $11,680,729 or 44 percent. These reductions reflect the substantial completion of the 1997 sewer bond program.

The existing Wastewater Management Capital Budget continues to be dominated by projects authorized by voters in 1997. With total recommended budgeted capital expenditures for existing projects of $11,179,386, 1997 bond projects account for $8,506,986 and non-bond projects $2,672,400. These expenditures will be for completion of the Ina Road Water Pollution Control Facility, continuing work on the Santa Cruz Interceptor, Prince to Franklin; Tanque Verde Interceptor, Craycroft to Tucson County Club; and the New Marana Wastewater Treatment Facility. Additionally, the Department will finalize negotiations and claims relating to the completed Green Valley Wastewater Treatment Facility project.

VII. Conclusion

This Recommended Budget is balanced using available resources. Despite absorbing over $15 million in predicted cost shifts and revenue reductions from the State and continued negative impacts on revenues from a weakened economy, this Budget does not require an increase in the County primary or secondary property tax rates. It does not require imposition of new taxes or fees. It also does not propose to shift County funding responsibilities to other governments.

This Recommended Budget does continue to fund all existing functions and programs of the County and addresses four primary needs of the County:

- All resources necessary to meet the County's obligations under the newly approved lease with University Physicians, Inc. (UPI) to operate and expand services at Kino Community Hospital and to provide for assimilation of Hospital employees that have not assumed positions with UPI into the remainder of the County's workforce.

- Funding necessary to provide for the operating and maintenance costs of the new 500 bed Adult Detention Facility as well as numerous other new County facilities, parks and open space acquisitions.

- Continuation of the County's existing bond programs with $109,652,872 budgeted next year for capital projects already approved by and promised to the public. If the six pending bond proposals are approved at the May 18, 2004 election, an additional $38,843,488 will be programed for the benefit of the community.

- Award of a meaningful pay package for County employees of one step for commissioned and corrections officers and a 5 percent increase for the remainder of the workforce to retain our competitive position in the marketplace and discourage attrition.

This Recommended Budget is being transmitted prior to adoption of the State's Budget for next fiscal year. While my recommendation predicts numerous cost shifts and revenue reductions from the State totaling more than $15 million, it is probable that the actual adopted State Budget will require adjustments to this proposal which will be transmitted to the Board of Supervisors when this information is known.