MEMORANDUM

Date: April 25, 2007

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2007/08 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2007/08 Budget for Pima County. These recommendations are made based on information available in mid-April 2007. 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 22, 2007	Budget Hearing
May 22, 2007	Tentative Budget Adoption (Sets Budget Ceiling)
June 19, 2007	Final Budget Adoption
August 20, 2007	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 2007/08. Many proposals are under consideration at the Legislature that would affect expenditures and revenues of Pima County. It is not possible at this time to precisely predict what the net impact of the State's Budget, when finally adopted, will be on Pima County. The County's base operating budget for all funds set forth in this recommendation does include projected continuing and new cost shifts, revenue reductions and revenue sharing from the State. It is possible, however, that this Recommended Budget will require revisions in some amount prior to final adoption to reflect additional fiscal impacts ultimately enacted by the State.

Following this budget memorandum are:

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

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

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

Included within the Recommended Budget is information derived from the zero-base budgeting methodology utilized for select departments. On October 26, 1999, the Board adopted Board of Supervisors Policy No. D 22.5, providing that all departmental budgets undergo a periodic zero-base budget review to evaluate the existing base level of funding as compared to the level and volume of services actually being provided. The results of this process for General Fund departments that constructed their budgets using a zero-base approach are discussed in Section V(B)(3) of this memorandum.

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I. Overview of Recommended Budget

Pursuant to state law the valuations of existing property that must be used in calculating property tax liability for Fiscal Year 2007/08 are those set by the County Assessor for 2005. As a result these valuations, on the average, reflect a real estate market that was experiencing rapid, substantial appreciation in property values. This has caused concern among property owners in the County as to the effect these increased valuations will have on their property tax liability. Pima County, as one of many property taxing political subdivisions within the County, needs to do what it can to mitigate the impacts of these inordinate increases in assessed value on the community.

This Recommended Budget addresses the issue of substantial increases in property valuations in two significant ways:

- The primary property tax rate is recommended to be reduced 24 cents to more than eliminate any additional tax dollars being collected as a result of the increase in existing property valuations. The combined net County secondary property tax rates are recommended to decrease an additional 3 cents for a total, combined decrease in County property tax rates of 27 cents. The County will receive a total of $19,195,428 less in property tax revenues as a result of these recommendations.

- The primary property tax rate is recommended to be reduced an additional 77.39 cents by substituting the revenues generated by a countywide one-half cent sales tax in effect for the final three-quarters of next fiscal year. This recommendation will correct the historic over-reliance by the County on property taxation that exacerbates the issue of property valuation. It will also provide much needed diversification in County General Fund revenues that is already in place within every other local government in the State. This will enable the County to capture the fair value of services enjoyed by tourists, out of County shoppers and persons residing outside but on the periphery of the County's border rather than requiring County property owners to subsidize these visitors and commuters. Combined with the levy and rate reductions discussed above, the combined County property tax rate will be reduced $1.0439 or 19.7 percent. The total decrease in County property taxes collected will be $74,195,428.

  In addition to providing property tax relief to address the impacts of increased valuations, this Budget continues the County's commitment to invest in the community and improve services to the public. All existing County responsibilities, functions and programs continue to be funded without reduction in the level of services now being provided. This Budget also addresses increased costs of service delivery, increased demand for services as our population grows, progressively decreasing grant dollars received from the federal and state governments, new

mandated legal requirements for service delivery, and the need to fund new operating costs for voter approved bond projects as they come on-line.

Significant additional investments provided for in this Budget include:

- Almost $4 million of new funding specifically to enhance the Justice and Law Enforcement System including $966,106 to establish a Border Crime Unit within the Sheriff's Office.

- More than $1 million to enhance the programs and facilities of Natural Resources, Parks and Recreation including operating and maintenance costs for numerous voter approved new and expanded parks, facilities, trails, and properties.

- Almost $400,000 to enhance and expand Public Health programs including response to the threat of West Nile Virus.

- Almost $11 million for an employee compensation package to continue to invest in the County's workforce and attempt to remain competitive in attracting and retaining personnel.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2006/07 is $41,007,377, an increase of $18,007,377 over the budgeted balance of $23,000,000.

- It is recommended that the one-time Fiscal Year 2006/07 ending balance be allocated for the following purposes:

  - $24,500,000 as the General Fund Reserve for Fiscal Year 2007/08 which is 5 percent of General Fund revenues.

  - $375,000 for the third of five annual contributions to support establishment of the Critical Path Institute or C-Path.

  - $11,345,000 to cover projected operating losses at University Physician's Hospital at Kino in excess of the $10,000,000 available for this purpose pursuant to the existing lease agreement.

  - $1,500,000 for the costs of relocating County tenants into the newly acquired Bank of America building.

  - $500,000 as a set aside to avoid a potential year-end fund deficit resulting from operating losses in the Solid Waste Program.

- $1,050,000 to fund the second, final phase of replacement of the Sheriff's Department's mobile data computers.

- $1,737,377 to fund a variety of departmental requests for supplemental, one-time funding, including vehicles and equipment to establish a Border Crime Unit within the Sheriff's Office.

- Assuming continuation of the current primary property tax rate of $3.8420, General Fund base revenues and transfers-in for Fiscal Year 2007/08 are projected to be $489,666,189.

- The primary property tax rate is recommended to be reduced 24 cents with a corresponding decrease in the primary levy amount of $17,055,696 in order to eliminate collection of any additional taxes resulting from appreciation in value of existing property.

- The primary property tax rate is recommended to be reduced an additional 77.39 cents using $55,000,000 of alternative revenues generated by a one-half cent countywide sales tax effective beginning October 1, 2007.

- The total, combined recommended reduction in the primary property tax rate is $1.0139, from the current rate of $3.8420 to $2.8281. This is a 26.39 percent reduction in the primary rate.

- Recommended increases to base expenditures using the $20,525,256 of excess revenues remaining after reduction of the primary levy are:

  - $5,800,000 set aside in the Property Tax Rate Stabilization Fund to avoid a roller coastering of the primary and County combined tax rates in future years.

  - $10,913,013 for an employee compensation package consisting of a 10 percent increase in the Step Plans for Commissioned Officers, a 5 percent increase in the Step Plans for Corrections Officers and Specialists, a 2.1 percent increase for other employees to address inflation, a 0.5 percent increase for employees who are members of the Arizona State Retirement System to offset a like increase in employee contributions, a 2 percent market adjustment for most employees, and a $1,000,000 set aside to address critically low starting salaries during the coming fiscal year.

  - $523,740 for adjustments to zero-based department budgets, primarily to adjust the cost of supplies and services for inflation.

- $3,288,503 for supplemental departmental funding consisting of:
  - $1,954,006 for Justice and Law Enforcement including funding to establish a Border Crime Unit within the Sheriff's Office.
  - $780,731 for Natural Resources, Parks and Recreation including operating and maintenance costs for numerous new facilities and trails opening next fiscal year.
  - $335,578 for Public Health including an enhanced, expanded response to West Nile Virus.
  - $68,066 for the Forensic Science Center to address increased caseloads.
  - $60,000 to enhance effectiveness and efficiency of property review by the Assessor's Office.
  - $90,122 for operating and maintenance costs at the newly acquired County building on East Broadway.

- The recommended budget for the Library District is $36,618,595 and requires a recommended tax rate of $0.3975, an increase of 3 cents over the current rate to provide increased relief to the City of Tucson's General Fund.

- The recommended budget for Debt Service is $77,945,345, a $4,526,942 increase from this year, and the recommended tax rate to support the General Obligation portion of that budget is $0.6850, a 3 cent decrease from the current year.

- The recommended operating budget for the Regional Flood Control District is $17,074,685, and the recommended tax rate is $0.3446, a 3 cent decrease from the current year.

- The recommended operating budget for the Stadium District is $2,533,809, a $54,903 increase over this year.

- The recommended combined County primary and secondary property tax rates are $4.2552 per $100 of assessed value, a $1.0439 or 19.7 percent decrease from the current year.

- The overall recommended expenditure authority for all funds in the County is $1,463,516,575.

III. General Fund Ending Fund Balance: Fiscal Year 2006/07

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2006/07 is $41,007,377. This is a projected increase in the ending fund balance of $18,007,377 over the budgeted ending balance of $23,000,000. This substantial increase results primarily from two factors:

1. Actual revenues in the current year, Fiscal Year 2006/07, that are significantly greater than originally forecast including:

   - $3.8 million Proposition 204 Hold Harmless funding appropriated by the State Legislature due to successfully lobbied legislation after the Budget was prepared.

   - $1.8 million Vehicle License Tax in excess of budget.

   - $1.0 million excess interest income from pooled investments.

   - $0.9 million unbudgeted election revenue due to the Regional Transportation Authority election.

   - $0.4 million of increased inmate housing reimbursement from the City of Tucson.

2. Actual expenditures in the current year that are significantly less than originally forecast including:

   - $5.2 million reduction in the County's state mandated payment to fund the Arizona Long Term Care System due to successfully lobbied legislation.

   - $1.8 million reduction in State mandated expenditures for Superior Court and Juvenile Court Probation that were budgeted but not expended due to successfully lobbied legislation.

   - $1.4 million retirement system contribution savings which resulted from successfully lobbied legislation.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the $41,007,377 of non-recurring, one-time monies projected as the available ending balance of the General Fund on June 30, 2007.

1. General Fund Reserve

It has been the stated goal of the County for many years pursuant to Board of Supervisors' Policy to maintain a reserve, or rainy day fund balance at a minimum of 5 percent of General Fund revenues. This goal tracks the recommendation of the Government Finance Officers Association that at least 5 percent of general operating revenues be set aside as fund balance.

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

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

Based on projected revenues and transfers-in for Fiscal Year 2007/08, $24,483,309 is needed to reserve 5 percent of General Fund revenues. I recommend that this minimum benchmark continue to be funded and that $24,500,000 of this year's projected General Fund ending balance be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2007/08.

2. C-Path

In the fall of 2004 the University of Arizona requested that Pima County provide support to locally establish an Institute for Global Pharmaceutical Development now known as The Critical Path Institute or C-Path. This non-profit Institute is a collaborative partnership involving the University of Arizona, SRI International, and the Federal Drug Administration. The purpose of the Institute is to facilitate expedited development and approval of new medications.

As an enhancement to local economic development, Pima County was asked to contribute $375,000 annually for five years to this project whose total annual budget was projected to be approximately $4 million. The first of these five contributions was appropriated by the Board of Supervisors in the Fiscal Year 2005/06 Budget. I recommend that the third year's contribution of $375,000 be allocated to the Reserve Contingency Fund for payment to the Institute during the next fiscal year.

3. University Physician's Hospital at Kino: Excess Operating Losses

In 2004 Pima County entered into a lease agreement with University Physicians, Inc., now University Physicians Healthcare (UPH) to operate Kino Community Hospital. This occurred within the context of numerous developments within the health care industry and indigent health care financing, both locally and nationally, that had combined to increase operating costs and substantially reduce patient utilization, and therefore revenues, of the Hospital. At the time, the continued viability of the Hospital to remain open was in serious doubt.

In entering into the lease UPH was tasked with reinvigorating the Hospital, now University Physicians Hospital at Kino, with an expanded physician base, additional and enhanced healthcare services and infrastructure, increased utilization by the community, and establishment of medical education and research programs. Since 2004 UPH has made a substantial investment in and progress toward achieving these goals. Services available and patient utilization at the Hospital have steadily increased, however, revenues are currently projected to be insufficient under the existing terms of the lease to offset initial capital investments and the costs of operating the Hospital. A significant contributor to this problem is the current patient/payer mix at the Hospital which results in a very high level of bad debt. Self pay/charity care, which drives bad debt, is more than three and one-half times greater at the Hospital than at the next highest level existing in the community at University Medical Center.

Pursuant to the lease UPH receives an annual payment from the County up to a fixed amount of actual operating losses in each year. The amount to be potentially paid began at approximately $25 million in the first year and under the terms of the lease has been reduced $5 million each year since. Recommended General Fund base expenditures for Fiscal Year 2007/08 include $10 million for payment of losses pursuant to the lease. In order to remain operational UPH has requested that the County increase this amount to cover all projected operating losses next fiscal year. The projected additional loss is $11,345,000.

I recommend that this additional $11,345,000 be reserved in the Contingency Fund for potential allocation by the Board of Supervisors based on actual losses next fiscal year as an advance against future year payments under the lease. I am recommending that this funding come from non-recurring revenues because I do not believe that this additional subsidy can continue indefinitely or in this amount if the County is to continue to meet its many governmental service responsibilities to a growing population. It is incumbent upon UPH, the County, the University of Arizona, University Medical Center, and local health care providers to work cooperatively in the coming year toward solutions that will increase patient utilization and improve the payer mix at the Hospital. The potential closure of the

Hospital, including the only emergency medical department south of Broadway Boulevard, would have substantial negative impacts on other hospital providers and the community at-large. Consequently, the entire healthcare community needs to be engaged in this dialogue to ascertain how to sustain this resource.

4. Relocation to Former Bank of America Building

This year the Board of Supervisors will acquire the former Bank of America building at 33 North Stone Avenue to address an acute shortage of downtown office space and reduce a steadily increasing reliance by the County on leased space. During the coming fiscal year the process will begin of relocating County tenants to this new facility. Various costs will be incurred to move, install telephone and computer lines, and modify work space to accommodate the County programs that will be housed there.

To facilitate these relocations I recommend that $1,500,000 be allocated to the Facilities Renewal Fund and reserved for this purpose. I further recommend that all expenditures be conditioned on advance approval of specific relocation plans by the County Administrator to ensure that all costs incurred are necessary, utilitarian and cost effective.

5. Solid Waste Program Operating Losses

Transmitted to the Board of Supervisors earlier this year was a financial audit of the County's Solid Waste Program prepared by an outside consultant. This audit projects an operating loss for the program in Fiscal Year 2007/08 of $1,855,440. In response to this report containing numerous recommendations and options, the Board of Supervisors has taken some actions affecting solid waste operations, and may take further actions next fiscal year, that may result in reduction of the projected operating loss.

Given the difficulty predicting and quantifying the future impacts of operational changes in the Solid Waste Program, I believe it is necessary at this time to set aside General Fund monies to ensure that at the end of next fiscal year a long-term deficit in this enterprise fund does not rollover to the next fiscal year. Solid Waste is projected to end the current fiscal year with a fund balance of $1,431,203 which can be used to partially offset operating losses. I recommend that an additional $500,000 be reserved in the Contingency Fund to cover losses that exceed available fund balance.

6. Mobile Data Computer Replacement

Mobile data computers are used by the Sheriff's Office to efficiently dispatch and clear calls for service and perform records checks in the field. These units are

heavily used and the existing units, over six years in service, are experiencing a high failure rate.

In adopting the current year's Budget the Board of Supervisors appropriated $1,000,000 as the first of a two year program to replace all of these units. As the second and final phase of this replacement I recommend that an additional $1,050,000 be appropriated next fiscal year and reserved in the Information Technology Enhancement Fund for this purpose.

7. Departmental Requests for One-Time Supplemental Funding

Numerous departmental requests for supplemental funding are for one-time expenditures next fiscal year. Because these costs are non-recurring they can be funded from the projected ending fund balance for the current fiscal year. Such requests that I recommend are:

- $491,418 – Additional Sheriff's Personnel: As further discussed in Section V(B)(4) below I am recommending that 8 Deputies, 3 Detectives, and 1 Sergeant be added as a Border Crime Unit within the Sheriff's Department. This amount will fund the cost of vehicles and equipment for these new positions.

- $160,000 – Sheriff's Patrol Equipment: This will fund global positioning systems, radar guns, and portable breath test instruments to enhance the efficiency and effectiveness of the law enforcement efforts of the Sheriff's Patrol Division.

- $270,000 – Sheriff's Support Operations Equipment Replacement: This will fund replacement and upgrade of antiquated telephone switches at Office headquarters and the corrections campus and dictation equipment currently experiencing a high failure rate. I recommend that this amount be reserved in the Information Technology Enhancement Fund for expenditure after the specific proposed procurements are reviewed by the Information Technology Department and approved by the County Administrator.

- $273,714 – Natural Resources, Parks and Recreation: New Facilities and Properties: Numerous new or improved parks, facilities, and trails will open during the coming fiscal year including field lighting at Mehl Foothills Park and Dan Felix Park, Ellie Towne Flowing Wells Community Center, Mt. Lemmon Community Center, Rillito Park soccer fields, historic buildings and projects at Canoa Ranch and Empirita Ranch, and over 46 miles of new trails including portions of Juan Bautista de Anza, Arizona Trail, Robles Pass, Sweet Water, and Jeremy Wash. Capital equipment, tools, and some vehicles necessary to maintain and staff these new facilities is funded by $231,100 of this total. As further discussed in Section V(B)(4) below, the remaining $42,614 will fund

capital costs associated with establishment of an Open Space Operations and Maintenance Unit to maintain, repair, preserve, and monitor over 30,000 acres of open space newly acquired pursuant to the County's Bond Program.

- $36,145 – Public Health West Nile Virus Response: As further discussed in Section V(B)(4) below, I am recommending an enhancement of the County's capability to proactively respond to the threat of West Nile Virus. This amount will fund the cost of equipment related to this program expansion.

- $250,000 – MWBE Disparity Study: Federal law requires that every five years the County conduct an evaluation to determine whether market place discrimination exists against minority, woman-owned business enterprises including construction contracting and subcontracting, and purchase of goods, general services, and professional services. The current study in place expires in May, 2008. I recommend that this amount be reserved in the Contingency Fund for expenditure based on actual costs incurred.

- $80,200 – Procurement Enhancements: Of this total $65,200 will fund enhancements to the Synergen system in the areas of P-Card interface, vendor registration and broadcasting, and request for quotes processing. The remaining $15,000 will increase capacity and efficiency in procurement records retention. I recommend that this total amount be allocated to the Information Technology Enhancement Fund for expenditure based on review by the Information Technology Department, advance approval by the County Administrator, and actual costs ultimately incurred.

- $100,000 – Public Fiduciary Accounting Software: This funding will replace and upgrade the accounting and case management software system in the Public Fiduciary's Office to increase capability and efficiency. I recommend that this amount be allocated to the Information Technology Enhancement Fund for expenditure conditioned upon review and recommendation of the Information Technology Department and prior approval by the County Administrator of the specific proposed procurement.

- $47,000 – Clerk of the Board Micrographics Equipment: I recommend that this funding to purchase equipment to facilitate electronic document retrieval and storage be allocated to the Information Technology Enhancement Fund for expenditure conditioned upon review and recommendation of the Information Technology Department and prior approval of the County Administrator of the specific proposed procurement.

- $13,900 – Justice Court Ajo: This appropriation will replace a failing copier machine, a time stamp machine, and worn out carpeting. I recommend that $5,000 of this total be allocated to the Facilities Renewal Fund for recarpeting.

- $15,000 – NACCED Conference: Pima County was selected through a competitive process to host the annual conference of the National Association of County Community and Economic Development in October, 2007. This appropriation will fund the requested contribution of the host county toward a total conference budget of over $100,000.

The total amount recommended above for departmental requests for one-time supplemental funding is $1,737,377.

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 2006/07 available ending fund balance of $41,007,377.

Table 1

Recommended Allocation of Fiscal Year 2006/07
General Fund Ending Balance

Recommendation		Amount
General Fund Reserve at 5%		$ 24,500,000
C-Path		375,000
University Physician's Hospital at Kino:		
Excess Operating Losses		11,345,000
Relocation to Former Bank of America Building		1,500,000
Solid Waste Program Operating Losses		500,000
Mobile Data Computer Replacement		1,050,000
Departmental One-Time Supplemental Funding		1,737,377
	Total	**$41,007,377**

IV. General Fund Base Budget: Fiscal Year 2007/08

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.8420, projected Fiscal Year 2007/08 base budget revenues and operating transfers to the General Fund total $489,666,189. This is a 9.70 percent or $43,312,039 increase over the current year's budgeted revenues and operating transfers to the General Fund.

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

1. General Government Revenues Other Than Property Taxes

Excluding primary property tax revenues, projected Fiscal Year 2007/08 base budget General Government revenue from all other sources is $164,357,261, which is $7,670,733 or 4.90 percent more than the current adopted budget. The projected rate of growth in this category of general revenues is less than one-third of the growth rate experienced during the current fiscal year. The slowing in the growth of these revenue sources is reflective of the overall economy whose growth has been moderated by numerous factors including a downturn in residential construction, a slowing rate of increase in housing prices, uncertainty in the sub-prime mortgage market, rising fuel prices and a volatile stock market. Partially offsetting these negative factors are positive components of our State and local economies including continued population growth, relatively low inflation, rising wages, and higher commodity prices.

Fiscal Year 2007/08 projections for specific increases in revenue sources within this category include:

- State shared sales tax – $3,700,000 or 3.41 percent increase over the current budget. This rate of growth is substantially less than the 17.03 growth rate adopted in this year's budget.

- Vehicle license tax – $900,000 or 3.3 percent increase over projected actual revenues this fiscal year.

- Business license and permit revenue – $453,320 or 18.4 percent increase over the current budget resulting primarily from increases in the number of residences in the unincorporated area of the County and the resulting new cable connections.

- Interest on cash balances – $690,000 increase, a slower rate of growth than adopted in the current year's budget as a result of leveling interest rates.

2. Primary Property Tax Revenues

The Preliminary Primary Net Assessed Value for Fiscal Year 2007/08 totals $7,353,331,088. This is a 6.87 percent increase over the current year that is attributable to new construction that has been added to the tax base and an additional 6.38 percent increase representing market appreciation in the value of existing property. The assessed values of all classes of property has grown over the past few years with the greatest growth being in owner occupied residential properties. The assessment ratio for class one property, commercial, mines, and utilities, is, however, being reduced as a result of state legislation enacted in 2006.

This ratio will be reduced next fiscal year from 24.5 percent to 24 percent and will continue to decrease in one-half point increments each year until the ratio is 20 percent.

Assuming the same primary rate as this year, $3.8420 per $100 of assessed value and a collection rate of 96.64 percent, current year General Fund property tax revenues for Fiscal Year 2007/08 are projected to be $273,033,266 which is $32,128,172 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 $11,758,891. Together with the projected primary property tax collections next year as discussed above, the total base property tax revenues projected for Fiscal Year 2007/08 are $284,792,157 a 12.45 percent increase over projections for Fiscal Year 2006/07.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2007/08 are projected to be $40,516,771. This amount is $4,446,785 more than the department revenues and operating transfers-in adopted for this fiscal year.

Significant departmental revenue increases include:

- $2,853,671 resulting from additional rental revenue from County facilities.
- $317,000 of additional fees from the recently implemented mandatory Vehicle Tow Program.
- $314,600 due to increases in adult correctional housing reimbursements.
- $217,350 due to increases in juvenile correctional housing reimbursements.
- $78,393 resulting from enhanced eligibility screening and collection efforts from criminal defendants who are appointed a contract attorney at County expense but are able to contribute some amount toward the total cost of their defense.

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 $452,085,237. 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.

Included within base expenditures are new, 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 $58,172,600 which includes combined increases next year of $723,626.

- State mandated payments to fund the State's indigent mental health program of $10,563,474.

- Funding for adult and juvenile detention healthcare of $12,403,875.

- State mandated cost shift requiring funding for the State Restoration to Competency Program of $2,400,000 including an increase next year of $400,000.

- State mandated employer contributions to the various State retirement systems totaling $21,398,605 which includes combined increases next year of $1,841,167.

- Funding for the County's contribution toward the cost of non-retirement benefits for our employees, primarily medical insurance premiums, totaling $36,127,267.

- Funding to annualize the cost of departmental supplemental funding requests previously approved by the Board of Supervisors, totaling $1,062,843.

- Funding for the annual total amount of state mandated salary increases for judges awarded in January, 2007 of $534,410.

- Funding for the Board Contingency Fund at its historic level of $1,000,000.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above the amount required to fund base budget expenditures is $37,580,952 less than the amount of base budget revenues projected for Fiscal Year 2007/08. Set forth below are my recommendations for adjustments to base revenues and expenditures.

A. Recommended Adjustments to General Fund Revenues

1. Primary Property Tax Rate and Levy Reduction

Pursuant to the administrative structure for property taxation set forth in state statute, the levies and rates adopted by the Board of Supervisors for Fiscal Year 2007/08 will be based on property valuations set by the County Assessor for calendar year 2005. As a result these valuations continue to reflect the unprecedented market appreciation that occurred locally, statewide and nationally during the period of 2004 through 2006. While this was a positive development in adding significant worth to the property of individual and business owners, it has also added potential increased property tax liability for these assets at a rapid pace. Based on the current primary property tax rate of $3.8420 per $100 of assessed value, the levy would increase next fiscal year by $15,883,268 or 6.38 percent as a result of increases in valuation of existing properties. This increase represents an average of all valuations in the County, consequently many individual property valuations increased by more than 6.38 percent.

Given the substantial jump in market appreciation of property, consideration should be given to balancing the needs served by County programs against the impacts these increased valuations will have on taxpayers in our community. This is particularly important as they affect individuals and small businesses whose income is not increasing at as great a rate, as well as larger businesses that compete in national and international markets. The County needs to do what it can, as one of many property taxing jurisdictions within the County, to moderate these impacts while continuing to meet its responsibilities. Therefore I am recommending that the primary property tax levy and resulting tax rate be reduced in an amount sufficient to eliminate any additional taxes resulting from increases in the valuation of existing property.

Specifically I recommend that the primary property tax rate be reduced 24 cents per $100 of assessed value or a 6.66 percent reduction of the current rate. The current primary rate of $3.8420 will be reduced to $3.6020 which is the lowest County primary rate in ten years. This rate adjustment will reduce projected General Fund base revenues by $17,055,696. As was the case last year when the Board of Supervisors adopted the current year's budget, because the only new tax dollars contained in this recommended levy are entirely attributable to new construction added to the tax rolls and does not contain any additional tax dollars to address inflation, no special notice or hearing will be required pursuant to the state "Truth in Taxation" statutes.

2. Additional Primary Property Tax Rate Reduction Using Alternative Revenues

Since being appointed County Administrator it has consistently been my judgement that the County's General Fund revenues are insufficiently diversified to provide

a stable, predictable and efficient tax base for the institution or the community. The County is far too reliant on property tax. Historical circumstances that have developed over the past thirteen years within the County have reinforced this opinion and illustrated the critical need for enhanced revenue diversification.

Unlike municipalities, Arizona counties do not receive any portion of the State income tax and can not levy a local income tax. The only other significant local option available to counties to diversify their general fund revenues is a countywide sales tax at a rate not to exceed one-half percent. Of the ninety municipalities in Arizona, all levy a sales tax. Of the fourteen counties in the State that are authorized to levy a sales tax to support general operating expenses, thirteen, all but Pima County, do so.

The dilemma caused by the County's over-reliance on property tax has been well demonstrated by the recent cycle of rapid, substantial market appreciation of property. Individuals and businesses have no control over changes in the market value of their property. While an increase in valuation does not in and of itself create additional tax liability, it creates the potential for an increase in taxes and, therefore, an uncertainty that is difficult to plan for and accommodate. If additional taxes do result, they require cash that is not available from the non-liquid property that is being taxed. Increases in the income sources of taxpayers may not keep pace with the appreciation of their property, as is the case for individuals who are retired or disabled and rely on fixed incomes. Over-reliance on property tax makes all of these problems inherent in property taxation more acute resulting in greater hardships being borne by taxpayers. In addition, over-reliance on property tax, which is paid entirely by owners of property within the County, creates an inordinate property tax burden as compared to other jurisdictions. As such it constitutes a material disincentive in retaining and recruiting business investment in our community. This impediment to local economic development contributes to a declining long-term viability of the County's tax base to generate revenues sufficient to provide services to the community.

Inclusion of a local sales tax in the General Fund revenues of the County will mitigate many of the negative effects of over-reliance on property tax. As compared to property tax, sales tax affords considerable discretion and, therefore, the ability to make choices, manage, plan for, and accommodate the tax liability incurred. This is further facilitated by state statute that exempts food, services, rents, and prescription medication from sales taxation by counties. Unlike property tax, sales tax will not be paid entirely by residents and property owners of the County. As we continue to enhance our efforts to attract more tourists, conventions, and retail shoppers from the Republic of Mexico, the County is simultaneously failing to directly capture the legitimate, equitable share of revenues from these visitors to fund the cost of government services which they enjoy while in Pima County. This is particularly true as regards the enormous cost of our

criminal justice and law enforcement system which accounts for approximately one-half of County General Fund expenditures. Perhaps a more significant development that compels inclusion of a local sales tax in the County's General Fund revenues is the proliferation of residential development outside, but peripheral to the County's border. Approximately 49,000 of such new homes are currently in some stage of actual development and will house over 120,000 people within the next five to seven years. No property taxes will be paid to Pima County on these homes, yet most of their owners will commute to Pima County for work, school, shopping, services and recreation. Failure to capture the fair share of the value of General Fund services to these commuters will result in Pima County property owners subsidizing these distant bedroom communities.

Allowing three months for administrative implementation, levy of a countywide one-half percent sales tax effective October 1, 2007 is estimated to generate $55,000,000 during the next fiscal year. Using these revenues, dollar-for-dollar, as a substitute for existing primary property tax revenue will result in a reduction of the primary rate by $0.7739 per $100 of assessed value. Combined with the 24 cent rate reduction recommended in Paragraph 1 above, the total reduction in the primary rate will be $1.0139 or 26.39 percent less than the current primary rate. Next fiscal year the primary rate will be reduced from the current $3.8420 to $2.8281 per $100 of assessed value. In Fiscal Year 2008/09, during which the sales tax will be in effect for the full year, an additional $0.2394 can be reduced from the primary rate based on current projections.

Excluding sales taxes levied by municipalities, the existing combined sales tax rate in Pima County is 6.1 percent consisting of 5.6 percent by the State and 0.5 percent by the Regional Transportation Authority. Eight of the remaining other fourteen counties have a comparable combined rate that is greater than 6.1 percent as listed in Table 2 below.

Table 2

Combined State, County and Regional Transportation Sales Tax Rates Greater Than 6.1 Percent

County	Combined State, County and Regional Rate	County General Fund	County Jail Tax	County Open Space	County Hospital/ Health Services	Regional Transportation Tax	State
Coconino	6.725 %	0.5%	0.50%	0.125%			5.6%
Yuma	6.7 %	0.5%	0.50%		0.1%		5.6%
Gila	6.6 %	0.5%				0.5%	5.6%
La Paz	6.6 %	0.5%	0.50%				5.6%
Pinal	6.6 %	0.5%				0.5%	5.6%
Santa Cruz	6.6 %	0.5%	0.50%				5.6%
Yavapai	6.35 %	0.5%	0.25%				5.6%
Maricopa	6.3 %		0.20%			0.5%	5.6%

All of the municipalities in Pima County levy a 2 percent sales tax except South Tucson which levies 2.5 percent. The result is that the existing total combined rate for Pima County is 6.1 percent in the unincorporated area and 8.1 percent in 99.76 percent of the incorporated area. Therefore, levy of a 0.5 percent County sales tax would increase the total combined rate within almost all of the incorporated area to 8.6 percent. The total combined sales tax rate within many municipalities throughout the State currently equals or exceeds 8.6 percent including all of the municipalities in Santa Cruz County, Pinal County and Cochise County except Huachuca City and Sierra Vista. Seven municipalities in Maricopa County have a combined rate greater than 8.6 percent.

Using sales tax revenues to reduce the primary property tax rate by $0.7739 per $100 of assessed value will reduce property taxes on the average owner occupied home next year by $119.93. The average full cash value for all owner occupied homes in Pima County is $171,617. It is estimated that the average additional annual sales tax to be paid by this same average household of 2.5 persons would be $91 as a result of levying a County sales tax of 0.5 percent. The resulting average annual net reduction in tax liability for each household is $28.93 and the total combined savings to all homeowners in the County would be $7,406,167. This reflects that all of these property taxes are paid by County residents but sales taxes are not. The $0.7739 reduction in the primary rate will reduce the property tax liability of the average business in Pima County by $1,010 next year and will reduce property taxes to all businesses in the County by a total of $13,572,380. All of these projected reductions in tax liability can increase by approximately 25 percent in Fiscal Year 2008/09 when the sales tax is in effect for the entire year.

Therefore, I recommend that the Board of Supervisors levy a 0.5 percent countywide sales tax effective October 1, 2007 and that the projected revenues be used to reduce the primary property tax rate by $0.7739 per $100 of assessed value. Unlike adoption of the County Budget, levy of the sales tax requires a unanimous vote of the Board of Supervisors pursuant to state statute. If this recommendation to levy a sales tax does not receive a unanimous vote it will not change any other revenues or expenditures in this Recommended Budget. The only effect would be that the primary property tax rate will be $3.6020 instead of $2.8281 and the resulting primary property tax revenues will be $267,736,461 instead of $212,736,461.

B. <u>Recommended Increases to General Fund Base Budget Expenditures</u>

As discussed above the amount required to fund base budget expenditures is $37,580,952 less than the amount of base budget revenues projected for Fiscal Year 2007/08. This amount is reduced by $17,055,696 by the primary rate reduction of 24 cents recommended in Subsection A (1) above. The recommendation to further reduce the primary rate by $0.7739 by substituting sales tax revenue will neither

increase nor decrease available General Fund revenues but will only serve to afford substantial tax relief to property taxpayers. The amount of additional General Fund revenue available for appropriation after the 24 cent rate reduction is $20,525,256. Set forth below are my recommendations for allocation of these resources.

1. Property Tax Rate Stabilization Fund

Last year in adopting the current year's Budget the Board of Supervisors substantially reduced the existing primary property tax rate by 23 cents resulting in $14,371,021 less in property tax revenues going to the General Fund. In doing so the Board simultaneously funded, as a one-year appropriation, the County's Property Tax Rate Stabilization Fund in the amount of $3,200,000. This was done in recognition that the other sources of revenue to the General Fund, as well as required expenditures, are susceptible to many factors over which the County has no control. Examples of such negative factors are unanticipated actions of the federal and state governments that would shift costs , reduce shared revenues and increase unfunded mandates to the County, and catastrophic world events that cause a precipitous decline in the economy and corresponding government revenues.

Setting funding aside in the Property Tax Rate Stabilization Fund will help to avoid a possible roller coastering of the County primary and combined rates. Instability in these rates, coupled with rapid increases in valuation, would make it difficult for individuals to plan for and accommodate their future property tax liability. Given that I am recommending that the primary property tax rate be substantially reduced for a second consecutive year, I am also recommending renewal of this set aside to ensure stability. Therefore I recommend that $5,800,000 be appropriated to the Property Tax Rate Stabilization Fund.

2. Employee Compensation

The County continues to be challenged to remain competitive in attracting and retaining experienced, high quality personnel throughout our workforce. A countywide compensation market study is currently in progress to assess all job classifications to determine which have fallen below the compensation being paid by actual competing employers and to what extent. This study will be complete during the early part of next fiscal year and will be used to develop recommendations for the Board of Supervisors as to which classifications and levels within these classifications need to be addressed and in what amount and order of priority. Pending future implementation of the results of the market study, I recommend the following compensation package for inclusion in the Fiscal Year 2007/08 Budget.

a. Commissioned and Corrections Officers

In 2005 new, competitive pay plans were implemented in the County for commissioned and corrections officers in an attempt to stay in market and address what had become an acute problem in recruiting and retaining personnel that resulted in substantial expenditures for overtime. Since that time market benchmarks for this workforce have continued to increase rapidly. A primary competitor, the City of Tucson, has awarded substantial increases to their uniformed personnel during the past two years and appears likely to do so again in Fiscal Year 2007/08.

Therefore, I recommend the following adjustments:

- That the Step Plans for Commissioned Officers be increased 10 percent effective January 6, 2008. This will raise the starting salary of deputies to $20.24 per hour. The cost to fund this adjustment next fiscal year is $1,798,078. The annualized cost in Fiscal Year 2008/09 will be $3,596,156.

- That the Step Plans for Corrections Officer and Corrections Specialist be increased 5 percent and that the Corrections Sergeant pay range and salaries be increased 10 percent effective January 6, 2008. This will raise the starting salary for Corrections Officers to $17.01 per hour. The cost to fund these adjustments next fiscal year is $608,000. The annualized cost in Fiscal Year 2008/09 will be $1,216,000.

I recommend that this funding be reserved in the Contingency Fund for transfer to the Sheriff's Department in an exact amount after a specific implementation plan has been reviewed by the Human Resources Department and approved by the County Administrator.

b. Cost of Living Adjustment

The increase in the National Consumer Price Index from January 2006 to January 2007, the benchmark used by the City of Tucson to calculate cost of living adjustments for next fiscal year, is 2.1 percent. I recommend that a 2.1 percent increase to address inflation be awarded effective with the pay period beginning July 8, 2007 to all eligible employees, except the standard exclusions and those that will receive an increase pursuant to paragraph (a) above, but including those who have reached the top of the classification or step plan. The cost to the General Fund is $3,911,016. Non-General Fund supported departments will absorb this increase.

c. Employee Retirement Contribution Increase

The officers and employees of the County participate in one of five different state retirement plans depending upon their status. The required contributions to keep all of these plans adequately funded will increase next fiscal year. As a result of the state laws governing these different plans, however, only one plan, the Arizona State Retirement System (ASRS) to which most County personnel belong, will require both the employer's and the employees' contributions to increase. In the other four plans the entire contribution increase must be borne by the County and employees in those plans will see no increase. Table 3 below sets forth increases in contribution rates for the plans in which the County participates.

Table 3

Required Contributions to Retirement Plans

Plan	Required Contributions					
	FY 2006/07		FY 2007/08		Increase	
	County	Employee	County	Employee	County	Employee
Arizona State Retirement System	9.10%	9.10%	9.60%	9.60%	0.50%	0.50%
Public Safety	19.06%	4.00%	21.90%	4.00%	2.84%	0.00%
Correction Officers	6.23%	8.50%	7.44%	7.96%	1.21%	(0.54)%
County Attorney Investigators	12.87%	7.65%	16.04%	7.65%	3.17%	0.00%
Elected Officials	11.00%	7.00%	12.84%	7.00%	1.84%	0.00%

As this table shows the contribution of employees who belong to ASRS will increase 0.5 percent. Because this cost is in addition to inflationary increases addressed by the compensation adjustment recommended in paragraph (b) above, I recommend that all eligible County employees who are members of the ASRS on July 8, 2007, excluding those who are contributing only for the purpose of buying back previous years of service, receive a 0.5 percent increase effective on that date. The cost to the General Fund next fiscal year is $792,725. Non-General Fund supported departments will absorb this cost.

d. Market Adjustment

The countywide compensation market study will be completed and recommendations for its implementation will occur during the coming fiscal year. The study will provide discrete information about the market position of the many job classifications within the County that can be used to strategically address areas in our workforce that are experiencing acute recruitment and

retention problems. Pending future implementation of that plan, sufficient information exists to indicate that, as an initial, first phase, a countywide market increase is appropriate and necessary for inclusion at this time in the Fiscal Year 2007/08 Budget. One example is the City of Tucson which has recommended to its Mayor and Council that, in addition to a cost of living adjustment and holding all employees harmless from retirement system and health insurance premium contribution increases, 5 percent "merit" pay be awarded to 98 percent of their employees next fiscal year.

Consequently, as a first step toward addressing market disparity, I recommend that effective with the pay period beginning July 8, 2007 all eligible employees be awarded a 2 percent market adjustment. Excluded from this recommendation are the commissioned and corrections officers who will receive increases pursuant to paragraph (a) above and employees of the Superior Court, Clerk of the Superior Court and Juvenile Court as these departments implemented the first phase of their plan to address market disparities in the fall of 2006 in an amount equivalent to 2.4 percent of their combined payroll.

The cost to the General Fund for this 2 percent increase is $2,803,194. Non-General Fund supported departments will absorb this cost.

e. Critically Deficient Starting Salaries

It is anticipated that the pending countywide compensation market study will indicate that a number of positions currently have starting salaries that are inadequate to successfully attract and employ new hires. In order to address the most critical of these situations identified by the study next fiscal year, I recommend that $1,000,000 be reserved in the Contingency Fund for this purpose subject to future allocation by the Board of Supervisors.

3. Zero-Base Budget Adjustments

Pursuant to the schedule adopted by the Board of Supervisors, four General Fund supported departments and three Non-General Fund departments, Communications, Regional Flood Control District, and Transportation, developed their budget requests using a zero-based approach without regard to their target base which has been the basis for their budget in prior years. A separate report compiling the materials and information generated in the zero-base budget development process for Fiscal Year 2007/08 has been transmitted to the Board of Supervisors in conjunction with this Recommended Budget. Table 4 below summarizes requests for zero-base budget adjustments from the General Fund supported departments.

Table 4

Zero-Base Adjustment Requests
General Fund Supported Departments

Department		Expenditure Variance Request	Revenue Variance Request	Net General Fund Impact of Request
Facilities Management		$ 0	$9,938	$ 9,938
Information Technology		(633,113)	(6,378)	(639,491)
Procurement		0	0	0
Treasurer		(114,283)	0	(114,283)
	Totals	$(747,396)	$3,560	$(743,836)

I recommend these requests subject to one adjustment. The Information Technology request does not budget any savings resulting from position vacancies. To date the department's actual attrition this fiscal year has averaged 9.9 percent. Therefore, I am recommending that Information Technology's request for $633,113 of increased expenditures be offset by $220,096 representing 3 percent vacancy savings. The resulting recommended net General Fund cost for Information Technology is $419,395. The resulting total net cost to the General Fund of all recommended zero-base adjustments is $523,740 which will primarily fund increased costs for postage, mail pre-sort services, software, printing and additional program service requirements.

4. 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 of Supervisors in conjunction with this Recommended Budget. The total net negative General Fund impact of all supplemental requests received by departments is $43,469,087. The amount available to fund these requests after adjusting base revenues and expenditures as recommended above is $3,288,503.

Categorized below are brief descriptions of the supplemental requests that I am able to recommend.

a. Justice and Law Enforcement

1) $474,688 – Border Crime Unit: Funds creation of a Border Crime Unit within the Sheriff's Office consisting of 3 new Detectives beginning October 1, 2007 and a new operational squad of 8 Deputies and 1 Sergeant beginning January 8, 2008 to address increasing violent crimes

associated with undocumented aliens that have resulted from the federal government's failure to implement effective policies regulating international borders. The one-time cost for vehicles and equipment for these positions has been recommended for funding from the ending fund balance in Section III (B)(7) above. The annualized cost of this package in the second year will be $977,257.

2) $188,492 – COPS in Schools Grant '05: Funds the matching requirements of this federal grant awarded in August 2005 to hire 14 additional Deputies.

3) $611,105 – County Attorney Felony Prosecution: Funds 6 Attorneys, 3 Paralegals, 3 Legal Secretaries and 2 Legal Processing and 1 Administrative Support positions beginning October 1, 2007 to address increased felony caseloads, ensure timely processing and disposition of cases, and reduce pre-trial/disposition incarceration costs at the jail. The annualized cost of this package in the second year will be $802,379.

4) $286,716 – County Attorney Misdemeanor Prosecution: Funds 3 Attorneys, 1 Paralegal, 1 Legal Secretary, 1 Legal Processing Support position and 1 Investigative Support Specialist position beginning October 1, 2007 to address increased misdemeanor caseloads and facilitate the efficient and timely disposition of these cases. The annualized cost of this package in the second year will be $376,819.

5) $96,735 – County Attorney Misdemeanor Victim Notification: Funds 1 Litigation Support position, 1 Administrative Support Specialist position, and supplies and services needed to comply with a recent Arizona Court of Appeals ruling that expands required, state mandated victim notifications to include misdemeanor crimes.

6) $1,095,660 – Contract Criminal Defense Attorneys: Funds the projected increase in costs for Court Appointed Criminal Defense Attorneys for the indigent based on current caseload trends and utilization of the Contract Attorney Program.

7) $73,125 – Public Defender Expansion to Reduce Contract Attorney Costs: The Public Defender has requested $966,318 to add 22 new positions, including 11 Attorneys, and associated supplies and services in order to increase that Office's capacity to represent indigent felony defendants and correspondingly decrease the County's reliance on outside, contract attorneys for these services. The one-time capital costs for equipment to implement this expansion are $73,125 which I recommend for

appropriation. I also recommend approval to establish and fill the requested positions to be funded by transfers from the budget for the Contract Attorney Program based on per case claims made to the Office of Court Appointed Counsel on the same terms, rates and conditions as are made available to private contract attorneys.

8) $86,049 – Public Defender Law Clerk Program: Funds establishment of a Law Clerk Program in this Office consisting of 1 full time clerk and 4 half time clerks to conduct legal research and facilitate more cost effective use of attorneys' time.

9) $81,555 – Justice Courts - Tucson Security: Funds 2 Judicial Security Officers for the Court which is now operating in three separate locations requiring over 400,000 screenings per year of persons entering these facilities.

10) $30,094 – Justice Court Ajo Interpreter: Funds an Interpreter, which the Court does not currently have, to provide judicially mandated services to non-english speaking defendants beginning October 1, 2007.

11) $28,357 – Justice Court Green Valley Security: Funds a Security Officer/Bailiff, which the Court currently does not have, beginning October 1, 2007.

12) $82,473 – Superior Court Grant Replacement: Funds partial replacement of reductions to grants that have been used to fund 2 Judges Pro Tempore for the criminal bench.

13) $207,100 – Superior Court Security System: Funds upgrades to the Court's video surveillance and electronic door locks systems to increase capacity, reliability, and quality of judicial security.

14) $75,330 – Superior Court Security Officers: Funds 2 Security Officers to enhance security at first floor access points to the Court.

15) $43,102 – Superior Court Interpreters: Funds 1 additional Court Interpreter to address a substantially increasing demand for these services.

16) $150,000 – Superior Court Mandated Services: Funds projected increased expenditures for these services, which include provision of jurors and interpreters, primarily as a result of increased case filings. I recommend that this allocation be reserved in the Budget Stabilization Fund for transfer in an amount based on actual additional expenditures.

17) $126,130 – Clerk of the Superior Court Additional Court Support: Funds 1.5 Courtroom Clerks and 3 Support Staff positions to staff 2 new Hearing Officers that were established by the Superior Court during mid-Fiscal Year 2006/07.

18) $25,306 – Forensic Science Center Forensic Investigation: Partial year funding for 1 additional Forensic Medical Investigator to address a substantially increasing caseload and demand for these services from law enforcement.

19) $(1,808,011) – Attrition Adjustments: In several of the Package A, base budget requests submitted by large Justice and Law Enforcement departments no or low rates of attrition, or projected savings from vacant positions, have been budgeted without any corresponding significant overtime being budgeted. A substantial variance exists between the budgeted vacancy savings requested by these departments and the actual average attrition and resulting vacancy savings they are experiencing in the current fiscal year. Therefore, I recommend that personal services within these requested base budgets be adjusted to reflect a more realistic, probable amount of vacancy savings next fiscal year and that these reductions be redirected and used to fund some of the pressing needs in the Justice and Law Enforcement area identified by the supplemental packages recommended above.

- The County Attorney's Office budgeted zero attrition but has had an average attrition rate in the current fiscal year of 10.8 percent. The projected variance in savings is $2,032,008. I recommend that this base budget be reduced by $897,821 and be used to fund recommended Packages 3 and 4 above. This represents an attrition rate of 4.77 percent.

- Indigent Defense budgeted 2 percent attrition and has had an average rate in the current year of 7.7 percent. The projected variance is $775,754. I recommend that this base budget be reduced by $86,049 and used to fund recommended Package 8 above. This represents an attrition rate of 2.64 percent.

- Superior Court budgeted 3 percent attrition and has had an average rate in the current year of 5.9 percent. The projected variance is $715,594. I recommend that this base budget be reduced by $118,432 and used to fund recommended Packages 14 and 15 above. This represents an attrition rate of 3.5 percent.

- Clerk of the Superior Court budgeted 2 percent attrition and has had an average rate in the current year of 6.5 percent. The projected variance is $446,245. I recommend that this base budget be reduced by $126,130 and used to fund recommended Package 17 above. This represents an attrition rate of 3.3 percent.

- Juvenile Court has budgeted 3.3 percent attrition and has had an average rate in the current year of 12 percent. The projected variance is $1,852,798. I recommend that this base budget be reduced by $579,579 and used to fund recommended Packages 9,10,11,12,13, and 16 above. This represents an attrition rate of 6 percent.

The total net amount recommended above for the Justice and Law Enforcement System is $1,954,006.

b. Natural Resources, Parks and Recreation

1) $650,000 – Operating and Maintenance Costs for New Facilities: Funds the on-going costs of new or expanded facilities that will open during the first three-quarters of the next fiscal year including: lighting at Mehl Foothills Park and Dan Felix Park, Ellie Towne Flowing Wells Community Center, Mt. Lemmon Community Center, Rillito Park soccer fields, Robles Park, historic building projects at Canoa Ranch and Empirita Ranch, and over 46 miles of new trail added to Bautista de Anza, Arizona Trail, Robles Pass, Sweetwater and Jeremy Wash.

2) $79,842 – Open Space Operating and Maintenance: Funds establishment of an Open Space Maintenance Program consisting of 1.5 Trades Maintenance Technician positions and associated supplies beginning October 1, 2007 to repair, preserve, and monitor the over 30,000 acres of open space newly acquired pursuant to the County's Bond Program.

3) $50,889 – Shooting Ranges: Funds 1 Recreation Program Manager devoted to shooting sports and associated supplies beginning October 1, 2007 to enhance safety and address increased usage of County Shooting Ranges.

The total amount recommended above for Natural Resources, Parks and Recreation is $780,731.

c. Public Health

1) $261,434 – West Nile Virus Response: Funds enhancement of the Public Health Department's ability to provide a timely, effective response to the threat of West Nile Virus consisting of 4 additional positions and associated

supplies and services to increase surveillance activities, investigations, respond to public complaints, inspections, implement treatment and abatement plans, community education, and enforcement functions.

2) $38,848 – Disease Control Intervention: Funds 1 additional Communicable Disease Investigator to address an inability to serve all clients currently presenting themselves at County clinics seeking HIV/STD services.

3) $35,296 – Animal Care Center Staffing: Funds one-half the cost of adding 2 Animal Care Technicians to enhance the Center's capability to operate the spay/neuter clinic and maintain sanitary, disease free sheltering of animals. I recommend that this funding be placed in reserve in the Contingency Fund for transfer to the Center conditioned upon the City of Tucson providing the remaining one-half of funding needed to affect this upgrade.

The total amount recommended above for Public Health is $335,578.

d. Forensic Science Center

- $68,066 – Body Transportation: Funds 2 Forensic Field Agents and equipment to increase the Center's in-house capability for body removal and transport to address substantial increases in calls for service and reduce the County's current reliance on outside service contractors.

e. Assessor

- $60,000 – Pictometry: Funds one-fourth the cost of enhanced aerial photography to increase the effectiveness of this Office to identify new construction and efficiency in use of staff time. It is anticipated that the full cost of this new service will be shared with the Pima Association of Governments and the City of Tucson. I recommend that this funding be reserved in the Contingency Fund pending commitment by these other entities for the remaining cost.

f. Facilities Management

- $90,122 – New Operating and Maintenance Costs: Funds utilities and maintenance costs for the County building at 6920 East Broadway purchased in the fall of 2006.

The total amount recommended above to fund departmental requests for supplemental funding is $3,288,503.

VI. Summary of Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above the amount of projected General Fund revenues for Fiscal Year 2007/08 exceed the amount necessary to fund General Fund base expenditures by $37,580,952. Set forth in Table 5 below are the adjustments to base recommended in Section V above.

Table 5

Recommended Adjustments to Base Budget

Base Revenues in Excess of Base Expenditures			$ 37,580,952
Recommended Decreases to Base Revenues:			
• Primary Tax Rate Reduction: 24 cents	$ 17,055,696		
• Half Cent Sales Tax Levy/77.39 cents Primary Rate Reduction	0		
		$ 17,055,696	
Recommended Increases to Base Expenditures:			
• Property Tax Rate Stabilization Fund	$ 5,800,000		
• Employee Compensation	10,913,013		
• Zero-Based Adjustments	523,740		
• Supplemental Department Funding:			
• Justice and Law Enforcement	1,954,006		
• Natural Resources, Parks and Recreation	780,731		
• Public Health	335,578		
• Forensic Science Center	68,066		
• Assessor	60,000		
• Facilities Management	90,122		
		$ 20,525,256	
Total			$ 37,580,952

VII. The Overall Budget

A. Special Districts and Debt Service

1. County Library District

On February 21, 2006, the Board of Supervisors unanimously approved an agreement with the City of Tucson to transfer library operations and funding to the Pima County Free Library District. Governance and administration of the library system, including all library employees, transferred to the Library District on July 1, 2006. As a result, the Library District is now responsible for funding 264 permanent and 93.5 part-time library staff, maintenance and repair of all 341,250 square feet of library facilities, and library collection and technology support for all 25 library facilities and 1 affiliate branch in the Town of Oro Valley.

The agreement with the City of Tucson allows the City to decrease its financial support for the library system incrementally until the year 2010 at which time the City will provide no funding whatsoever. For Fiscal Year 2007/08 the City's contribution will decrease $2,000,000 from the current fiscal year for a total decrease of about $6,000,000 as a result of the County's agreement to assume full funding of the library system. In addition, the Library District has funded all subsequent expenditures for growth in the system including the operating costs of new facilities and enhancements to collections, services, programs, and hours. In order to provide this relief to the City of Tucson's General Fund the Library District's secondary property tax rate is now $0.2197 per $100 of assessed value higher than it would have been if the agreement were not in place.

The recommended Fiscal Year 2007/08 Library District expenditure budget is $36,618,595. Included in this recommendation is funding to:

- Upgrade library materials including purchase of books, audio visual materials, and electronic resources.
- Extend Sunday hours at 14 library branches.
- Complete construction of the Wheeler Abbett-Marana and Flowing Wells library branches.
- Acquire initial library collections for the two new branches.
- Provide for operating and maintenance costs of the two new branches when they open during the coming fiscal year.

The recommended Library District levy rate necessary to support the recommended budget is $0.3975 per $100 of assessed value. This is an increase of $0.03 over the current year's rate of $0.3675. This 3 cent increase in the secondary property tax rate will produce the additional levy needed to afford the City of Tucson's General Fund additional relief next fiscal year as provided for in the library transfer agreement.

2. Debt Service Fund

The total Recommended Fiscal Year 2007/08 Debt Service Fund budget is $77,945,345, a $4,526,942 increase from this fiscal year. The Debt Service Fund includes payments on the County's General Obligation debt, Street and Highway Revenue debt, Highway Expansion/Extension Loan Program debt,

Flood Control General Obligation debt, and Improvement District debt payable to third parties, 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 $56,252,488 will fund existing debt service as well as debt service on a proposed $120,000,000 bond sale expected to occur in January, 2008. As originally planned when the 1997 Bond Program began, the debt service on new bond sales supported by a secondary tax levy is being offset by ongoing reductions in debt service for existing outstanding bonds. As the 1997 bonds are being retired, 2004 bonds and 2006 bonds are being sold incurring new debt.

I recommend that the General Obligation Debt Service tax rate be decreased to $0.6850 per $100 of net assessed value for Fiscal Year 2007/08, a reduction of $0.03 from this year's rate of $0.7150 which will adequately fund all existing and planned debt in the coming year.

- Street and Highway Revenue Debt Service

The 1997 Transportation Bond authorization provides for the sale of Street and Highway Revenue bonds with the debt service being repaid from the Highway User Fees (HURF) the Pima County Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2007/08 of $18,057,251 will fund existing debt service as well as debt service on a proposed $25,000,000 bond sale expected to occur in May, 2008.

- Highway Expansion/Extension Loan Program (HELP)

In addition to Street and Highway Revenue bonds, the Transportation Department has one HELP loan for the Alvernon Way project. HELP is a program developed by the Arizona State Transportation Board to provide short-term funding for specific transportation projects at below market rates. Fiscal Year 2007/08 debt service on the existing HELP loan is $2,827,611. This debt service is also paid from HURF revenues.

- Flood Control General Obligation Debt Service

The Flood Control District's General Obligation Debt Service is funded by its secondary property tax. The Fiscal Year 2007/08 debt service for the Flood Control General Obligation bonds is $807,995 which represents approximately $0.0113 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 property owners to fund improvements within a specified geological location. Debt service for Improvement District bonds held by third parties is included in the Debt Service Fund. For Fiscal Year 2007/08, because all outstanding Improvement District debt is held by other Pima County funds, the debt service of $560,124, paid from direct assessments to the property owners in the respective improvement districts, will not need to be included in the Debt Service Fund this fiscal year. There are currently two Improvement Districts paying debt service: La Cholla Boulevard Improvement District and Camino Ojo de Agua Improvement District. In addition, the Hayhook Ranch Improvement District annual assessments are anticipated to begin in December, 2007. 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.

3. Regional Flood Control District

The recommended operating budget for the Regional Flood Control District is $17,074,685. Also recommended are operating transfers totaling $11,401,261. Of this total transfer amount, $10,563,000 is allocated to the Capital Projects Fund, $807,995 is for payment of Flood Control General Obligation debt service and $30,266 goes to the General Fund to partially offset the County's contribution to the Pima Association of Governments.

Flood Control Capital 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.

This recommended budget includes funding to complete emergency repair work begun this fiscal year along the Pantano Wash, Rillito River, and the lower Santa Cruz River which sustained significant damage during the July 31, 2006 flood event. The total cost of these repairs is approximately $10,000,000. It is anticipated that 90 percent of these costs will be reimbursed to the District from FEMA and the Arizona Office of Emergency Management.

In order to mitigate the impact of increases in valuations on property taxpayers, I recommend that the Regional Flood Control District's tax rate be decreased to $0.3446 per $100 of assessed value, a $0.03 cent reduction from the current rate of $0.3746.

4. Stadium District

The Stadium District operating budget for Fiscal Year 2007/08 is $2,533,809, a $54,903 increase from this year's budgeted amount. The District's budget also includes a $3,014,260 operating transfer from the Stadium District to the General Fund to pay the Stadium District Debt Service on the outstanding Certificates of Participation used to finance construction of the Stadium.

Funding for the District derives from four sources: a $3.50 per contract car rental surcharge, a $0.50 per day rental tax on recreational vehicle spaces, a 2 percent hotel/motel tax in the unincorporated area of the County, and revenue from baseball and other events scheduled at Kino Veterans Memorial Stadium. Tourism directly affects the car rental surcharge, recreational vehicle surcharge, hotel/motel tax, and revenues generated from ticket sales, parking and concession at Spring Training games.

Fiscal Year 2007/08 contract car surcharge revenue is expected to total $1,680,000 for an increase of $230,000 over the current year's budgeted collections, and recreational vehicle space revenue is projected at $225,000 for an increase of $20,000 over the current year.

On September 13, 2005 the Board of Supervisors approved an increase in the hotel/motel tax, doubling the Stadium's share and yielding approximately $3.2 million annually in funding from this source. This funding has allowed the District to fully fund its Debt Service, undertake a major capital improvement program to maintain the Stadium as a safe and attractive public entertainment venue, and invest in revenue generating enhancements such as new signage, food and beverage outlets, paving of parking lots, and event marketing programs. Efforts to increase revenues through non-baseball events held at the Stadium and adjacent facilities will continue during the coming fiscal year with additional emphasis on community music festivals and sports tournaments.

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

Transmitted under separate cover will be the Fiscal Year 2007/08 recommended Capital Improvement Budget of $330,230,594, which consists of the Capital Projects Fund Budget of $234,717,175 and the Wastewater Management Capital Budget of $95,513,419, as set forth in Table 6 below.

Table 6

Recommended Fiscal Year 2007/08 Capital Projects Fund Budget and Wastewater Capital Improvement Plan Budget

	FY 2006/07 Bond and Non-Bond Project Budgets	FY 2007/08 Bond and Non-Bond Project Budgets	Difference	1997 Bond Projects	2004/2006 Bond Projects	Non-Bond Projects
Capital Projects Fund Budget						
Facilities Management	$ 28,892,491	$ 46,029,939	$ 17,137,448	$ 500,000	$ 38,267,787	$ 7,262,152
Transportation	53,765,504	63,673,008	9,907,504	46,003,988		17,669,020
Flood Control	21,738,778	23,320,849	1,582,071	1,000,000	13,228,994	9,091,855
Parks and Recreation	13,908,586	15,652,314	1,743,728	5,253,543	10,248,771	150,000
Open Space	21,715,199	34,000,000	12,284,801		34,000,000	
Cultural Resources	4,534,256	4,947,262	413,006	430,508	4,516,754	
Neighborhood Reinvestment	4,150,245	8,534,057	4,383,812	3,033,929	5,500,128	
Solid Waste Management	5,862,000	722,000	(5,140,000)	722,000		
Sheriff Radio System	414,318	15,755,456	15,341,138		15,755,456	
CIP Administration	920,409	1,082,290	161,881	292,200	623,551	166,539
Contingency Amount		21,000,000	21,000,000	5,700,000	12,100,000	3,200,000
Total Capital Project Fund Budget	**$155,901,786**	**$234,717,175**	**$78,815,389**	**$62,936,168**	**$134,241,441**	**$37,539,566**
Wastewater Management Capital Improvement Budget	$ 41,969,355	$ 95,513,419	$ 53,544,064	$ 899,179	$ 79,387,993	$15,226,247
Total Capital Improvement Budget	**$197,871,141**	**$330,230,594**	**$132,359,453**	**$63,835,347**	**$213,629,434**	**$52,765,813**

1. Capital Projects Fund Budget

The $234,717,175 Capital Projects Fund Budget for Fiscal Year 2007/08 is an increase of $78,815,389 or 50.6 percent over the Capital Projects Fund Budget of $155,901,786 for the current fiscal year. Because overall project delivery in the County has improved, implementation of very large projects next fiscal year, such as the Joint Justice and Municipal Court Complex and the Public Safety Wireless Integrated Radio Communication Network, require provision of excess expenditure authority. In order to ensure that the speed with which these projects are actually completed does not cause either a budget exceedence or, alternatively, require an unnecessary delay in implementation, a 9.8 percent expenditure contingency has been included.

Overall, the Capital Projects Fund budget transitions from the 1997 bond program to the projects authorized by voters in 2004. Of the total Capital Projects Fund budget, $62,936,168 is allocated to 1997 bond projects, $134,241,441 is allocated to 2004/2006 bond projects, and the remaining $37,539,566 is allocated to non-bond projects.

Included in the recommended Capital Projects Fund budget are construction expenditures for 102 projects now underway totaling $218,713,682, or 80 percent of the total allocated to construction projects. The remaining balance of project expenditures are for planning and design, right-of-way, open space, utility relocation, and public art expenses.

The major budgeted project for Facilities Management is the Joint Justice and Municipal Court Complex, a 2004 bond project. The next largest project expenditure is for the Regional Public Safety Communications System, also a 2004 bond project. There are major budgeted expenditures for three Transportation projects, all of which are 1997 bond projects: Craycroft Road: River Road to Sunrise Road; Kinney Road: Ajo Way to Bopp Road; and Valencia Road: Mark Road to Camino de la Tierra. Other significant projects include the Interagency Victim Advocacy Center, Marana Continental Ranch Library, Colossal Cave Road: Camino Loma Alta to Vail Road, and the Psychiatric Hospital.

Not included in the Capital Projects Fund budget are $10.9 million of expenditures programmed by the U.S. Army Corps of Engineers (USACOE) on five projects for which the Regional Flood Control District has budgeted its cost sharing responsibilities of $5,300,000. The major USACOE expenditure will be $9,000,000 for the Arroyo Chico Detention Basin.

2. Wastewater Management Capital Budget

The recommended capital budget for Wastewater Management is increased by $53,544,064, or 127.6 percent. The Wastewater Management Capital Budget reflects the substantial completion of the 1997 sewer bond program. With total recommended budgeted capital expenditures for existing projects of $95,513,419, 1997 bond projects account for only $899,179, or 1 percent. The 2004 bond projects account for $79,387,993, or 83 percent while the remaining $15,226,247, or 16 percent, are for non-bond projects. Major expenditures include construction on the Avra Valley Biological Nutrient Removal Oxidation Ditch Expansion to 4 million gallons per day; Santa Cruz Interceptor: Prince to Franklin; Marana Wastewater Treatment Plant Expansion; and Ina Road Water Pollution Control Facility Denitrification.

C. Combined Total County Budget

1. Combined County Property Tax Rate

The combined primary and secondary property taxes levied by the County currently fund about 27 percent of the combined total County Budget. Other than the ability to levy a one-half cent sales tax, these are the only County revenues over which the Board of Supervisors has substantial control. The

remainder of the combined County Budget, 73 percent, is supported almost entirely by charges for services and intergovernmental revenues, primarily state revenue sharing and grants.

As discussed above, it is recommended that the primary property tax rate which supports the County General Fund be reduced 24 cents to eliminate the entire increase in the levy resulting from the increase in the valuation of existing property. It is further recommended that the primary rate be reduced by an additional 77.39 cents using all of the revenues of a countywide one-half cent sales tax in effect for the last three-quarters of the fiscal year. The total combined reduction is $1.0139 per $100 of assessed value, from the current rate of $3.8420 to $2.8281. The combined net County secondary property tax rates are recommended to decrease by 3 cents as follows: the Library District is increased by 3 cents to provide additional relief to the City of Tucson's General Fund, Debt Service is decreased by 3 cents, and Regional Flood Control District is decreased by 3 cents.

The result is a net reduction in the combined County property tax rate of $1.0439, from this year's rate of $5.2991 to $4.2552. This is a 19.7 percent reduction in the combined rate. This lower rate will reduce the average homeowner's property tax liability next year by $162 and reduce property taxes for all homeowners by a total of $41,539,935. The average business in the County will pay $1,366 less in property taxes and, collectively, businesses will pay a total of $18,349,216 less next year.

2. <u>Combined County Budget</u>

The combined total Recommended County Budget, set forth in the budget schedules and departmental budget summaries following this memorandum, is $1,463,516,575. This is an increase of $183,858,534 over the current year's budget. Of this total, General Fund expenditure increases account for $45,487,386. These increases are discussed in Sections IV and V above with one exception. The largest single General Fund expenditure increase of $24,500,000 results from a change in accounting procedure that resulted from a reclassification by the State Auditor General of the General Fund Reserve as an "expenditure." Significant non-General Fund increases in the overall County Budget include:

- $78,815,389 in the Capital Projects Fund as discussed in Section VII (A)(2) above.

- $18,434,960 in the Pima Health System Services Enterprise Fund due to the increased cost of providing medical services to additional members enrolled in the long-term care program and increases in the rate of medical inflation.

- $18,060,501 in the Wastewater Management Enterprise Fund to address increased maintenance and rehabilitation work needed for the ageing sewer system, and treatment capacity increases to accommodate population growth.

- $5,903,137 in Transportation for increased road repairs and maintenance, public transportation programs, emergency flood planning, and expanded services related to Regional Transportation Authority funded capital improvements.

- $4,526,942 in Debt Service as discussed in Section VII (A)(2) above.

- $2,173,410 in the County Free Library District Fund to provide increased relief to the City of Tucson's General Fund as discussed in Section VII (A)(1) above.

VIII. Conclusion

Pursuant to state law the valuations of existing property that must be used in calculating property tax liability for Fiscal Year 2007/08 are those set by the County Assessor for 2005. As a result these valuations, on the average, reflect a real estate market that was experiencing rapid, substantial appreciation in property values. This has caused concern among property owners in the County as to the effect these increased valuations will have on their property tax liability. Pima County, as one of many property taxing political subdivisions within the County, needs to do what it can to mitigate the impacts of these inordinate increases in assessed value on the community.

This Recommended Budget addresses the issue of substantial increases in property valuations in two significant ways:

- The primary property tax rate is recommended to be reduced 24 cents to more than eliminate any additional tax dollars being collected as a result of the increase in existing property valuations. The combined net County secondary property tax rates are recommended to decrease an additional 3 cents for a total, combined decrease in County property tax rates of 27 cents. The County will receive a total of $19,195,428 less in property tax revenues as a result of these recommendations.

- The primary property tax rate is recommended to be reduced an additional 77.39 cents by substituting the revenues generated by a countywide one-half cent sales tax in effect for the final three-quarters of next fiscal year. This recommendation will correct the historic over-reliance by the County on property taxation that exacerbates the issue of property valuation. It will also provide much needed diversification in County

General Fund revenues that is already in place within every other local government in the State. This will enable the County to capture the fair value of services enjoyed by tourists, out of County shoppers and persons residing outside but on the periphery of the County's border rather than requiring County property owners to subsidize these visitors and commuters. Combined with the levy and rate reductions discussed above, the combined County property tax rate will be reduced $1.0439 or 19.7 percent. The total decrease in County property taxes collected will be $74,195,428.

In addition to providing property tax relief to address the impacts of increased valuations, this Budget continues the County's commitment to invest in the community and improve services to the public. All existing County responsibilities, functions and programs continue to be funded without reduction in the level of services now being provided. This Budget also addresses increased costs of service delivery, increased demand for services as our population grows, progressively decreasing grant dollars received from the federal and state governments, new mandated legal requirements for service delivery, and the need to fund new operating costs for voter approved bond projects as they come on-line.

Significant additional investments provided for in this Budget include:

- Almost $4 million of new funding specifically to enhance the Justice and Law Enforcement System including $966,106 to establish a Border Crime Unit within the Sheriff's Office.

- More than $1 million to enhance the programs and facilities of Natural Resources, Parks and Recreation including operating and maintenance costs for numerous voter approved new and expanded parks, facilities, trails, and properties.

- Almost $400,000 to enhance and expand Public Health programs including response to the threat of West Nile Virus.

- Almost $11 million for an employee compensation package to continue to invest in the County's workforce and attempt to remain competitive in attracting and retaining personnel.

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