



MEMORANDUM

Date: April 26, 2017

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

From: C.H. Huckelberry
County Administrator 

Re: **Transmittal of the Recommended Fiscal Year 2017/2018 Budget**

Introduction

This memorandum transmits the Recommended Fiscal Year (FY) 2017/18 Budget for Pima County. These recommendations are based on information available in April 2017. **As of today, the Governor and the State Legislature have not adopted a State budget for FY 2017/18. It is likely the final budget adopted by the State will have impacts on Pima County's final budget and may change the recommendations made in this memorandum.** It is also possible additional relevant information will become available for the Board of Supervisors as it deliberates on the budget prior to final adoption on June 20, 2017.

On March 7, 2017, the Board approved holding five public hearings on the budget. These hearings will be held on the dates shown in the budget schedule below. In total, the Board will hold seven public hearings regarding the budget, totaling approximately 20 hours, before Final Budget Adoption. The budget hearings will be televised, as well as available for viewing through the internet.

Working budget drafts, including budgets submitted by all County departments, have been available on the [County Budget website](#) since January 30, 2017. These reports receive weekly updates throughout the budget process and include the following:

- Recommended Summary by Object Reports for both revenue and expenditures;
- Recommended Detail Line Item by Individual Unit Reports for revenue and expenditures;
- Recommended Positions by Individual Unit.

The above financial reports include the FY 2015/16 actual amounts, the FY 2016/17 Adopted Budget, the FY 2016/17 year-to-date amounts as of the date of the report and the FY 2017/18 Recommended Budget.

In addition to these reports, the County Budget website includes budget-related communications issued to the Board and County departments throughout the FY 2017/18 budget process to date. This information can be accessed at the County's home page (www.pima.gov) by clicking on the County Budget link.

Significant dates in the budget adoption and tax levy processes are as follows:

May 02, 2017	Board of Supervisors Budget Hearing (afternoon session)
May 09, 2017	Board of Supervisors Budget Hearing (morning and afternoon sessions)
May 16, 2017	Board of Supervisors Budget Hearing (afternoon session)
May 17, 2017	Board of Supervisors Budget Hearing (afternoon session)
May 23, 2017	Tentative Budget Adoption (Sets Budget Ceiling)
June 20, 2017	Truth in Taxation Hearing (Primary, Regional Flood Control and the County Free Library)
June 20, 2017	Final Budget Adoption
August 21, 2017	Tax Levy Adoption (Date set by state statute)

The documents shown below follow this budget memorandum.

- Budget schedules showing fund balances, expenditures, revenues, transfers and other financing sources.
- A summary of each department's budget, including a description of the budget on a line-item account basis.
- Descriptions of all supplemental funding packages requested by each department.

The County's base operating budget for all funds set forth in this recommendation includes projected continuing and new cost shifts, revenue reductions and revenue sharing.

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I. OVERVIEW OF RECOMMENDED BUDGET

Pima County's FY 2017/18 Recommended Budget continues the conservative approach to budgeting that has been followed since the start of the last recession over nine years ago. During the recession, the County adjusted its budget in response to reduced revenues and increased service demands. It implemented various initiatives to address redundancy and improve efficiency. The centralization of core internal services, such as Finance, increased efficiency and reduced cost. The size of the workforce shrank, primarily through normal attrition. Priorities were re-evaluated and items of discretionary spending were reduced where appropriate. Department and agency budgets were incrementally reduced over time through a managed, thoughtful process. The cumulative effect of these departmental budget reductions has been substantial. General Fund supported departments have been reduced 13.5 percent, except the Sheriff's Office, which was reduced 4.5 percent.

State cost shifts continue to pose a significant challenge to the County's budget. In recent years, the State began to shift significant costs to Pima County and the other counties in Arizona. The current budget includes State cost shifts totaling \$86 million, or 26 percent of the existing primary property tax rate. County taxpayers continue to subsidize the State.

The primary property tax base in Pima County will increase in FY 2017/18 by 3.3 percent. This is only the third time in eight years the property tax base has increased. Between FY 2009/10 and FY 2014/15, the County's primary net assessed value declined 16.3 percent. It is expected the property tax base will continue to increase modestly for the next few years.

FY 2017/18 significant budget highlights include the following:

- The projected General Fund available ending balance for FY 2016/17 is \$66,995,847, an increase of \$5,754,994 over the budgeted General Fund Reserve of \$61,240,853. This amount represents the beginning fund balance for FY 2017/18.
- It is recommended that the non-recurring FY 2016/17 ending balance be allocated for the following purposes:
 - \$15,000,000 to fund the contract payment to Banner Health on behalf of the Banner–University of Arizona Medical Center South Campus;
 - \$1,039,000 to fund the State's shift of costs to the County for the Arizona Department of Revenue;
 - \$1,726,804 to fund State shift of costs to the County for Juvenile Corrections;
 - \$141,000 to fund State cost shifts to the County for the restoration of ALTCS Dental;
 - \$49,089,043 to fund a portion of the total General Fund Budget Reserve for FY 2017/18.

- Assuming continuation of the current primary property tax rate of \$4.2896, recommended General Fund revenues and transfers-in for FY 2017/18 are projected to be \$560,682,404, which is \$1,908,468, or 0.34 percent, less than the current year.
- Excluding primary property taxes, General Government revenues from all other sources are projected to increase \$185,939.
- The value of the net primary property tax base is projected to increase 3.3 percent, which will result in an increase in the primary levy of \$11,078,233 at the current tax rate of \$4.2896.
- Total primary property tax revenues from all sources are projected to increase \$10,288,980 at the current tax rate. Primary property tax revenues are different from the tax levy due to the impact of actual tax collections and delinquent tax collection rates and associated penalties and interest. Note that higher than expected property tax collections in the last three fiscal years slightly offset increased primary property tax revenues collected from all sources.
- Recommended General Fund expenditures and transfers-out for FY 2017/18 are projected to be \$627,678,252, which is \$5,763,622, or 1 percent, more than the current year's adopted budget.
- No supplemental funding requests are recommended.
- Existing State budget cost transfers for FY 2017/18 have an annual budget impact of \$86 million, or 26 percent of the existing primary property tax rate of \$4.2896.
- The recommended General Fund Budget Reserve totals \$56,919,918, or 10.2 percent of General Fund revenues and operating transfers-in.
- The FY 2017/18 recommended budget maintains the current primary property tax rate of \$4.2896 per \$100 of net taxable value. While the property tax rate is unchanged, it will produce \$10,228,980 million, or 3.04 percent, additional total primary property tax revenue. These additional property tax revenues are recommended to offset overspending in the Sheriff's Department, increasing employee pension liability, annualization of the FY 2016/17 salary and decompression adjustments, and other ongoing increased costs.
- The Recommended Budget for the Library District for operating costs, grants and operating transfers-out is \$47,156,340, a \$2,440,898 increase from the current year. The secondary property tax rate is recommended to remain unchanged at \$0.5153.

- The Recommended Budget for Debt Service is \$117,790,376, a \$2,334,975 increase from the current year. The secondary property tax rate is recommended to remain unchanged at \$0.7000.
- The Recommended Budget for the Regional Flood Control District for operating costs, special funds, grants and operating transfers-out is \$26,301,221, an increase of \$1,465,156 from the current year. The secondary property tax rate is recommended to remain unchanged at \$0.3335.
- The combined, total recommended County property tax rate (excluding the Fire District Assistance Tax) is \$5.8384 per \$100 of net taxable value and is unchanged from FY 2016/17. The resulting combined County levy (excluding the Fire District Assistance Tax) is \$469,108,545, a \$15,163,692 increase from the current year.
- The combined, total Recommended County Budget for FY 2017/18 is \$1,243,595,459, which is \$10,823,854, or 0.9 percent, more than the current year's Adopted Budget.

II. ISSUES SIGNIFICANTLY IMPACTING THE COUNTY BUDGET

This section contains a series of brief descriptions of some of the major issues that impact Pima County's FY 2017/18 Recommended Budget. Further details are contained in various memoranda accessed via the [County Administrator Memoranda FY 2017/18](#) page of the County Budget website.

A. State Cost Shifts

The shifting of the State of Arizona's Budget Costs to Pima County continues to have direct, adverse impacts on the programs and services provided by the County in FY 2017/18.

The County has successfully resisted at least a portion of the State cost shifts. Based on a May 2016 decision by the Maricopa Superior Court, the County prevailed in litigation against the State of Arizona regarding the unconstitutional transfer to the County by the State's Property Tax Oversight Commission of property tax liability to fund the State's one-percent homeowner's rebate. This positive ruling relieved Pima County of \$15.8 million of annual payments to school districts in the County. Because of this decision, the Board of Supervisors was able to decrease the final primary property tax rate for FY 2016/17 by \$0.0981 per \$100 of net taxable value from the prior year's rate.

In FY 2015/16, the Governor and the Legislature also transferred \$2,906,804 of new State budget costs to the County. These new costs include funding for State Juvenile Corrections, the restoration of ALTCS Dental Costs and costs associated with the Arizona Department of

Revenue. When these costs are added to the County’s additional costs already determined by the State, overall State cost shifts total nearly \$86 million, or 26 percent of the primary property tax rate. A detailed list of these State cost transfers is shown in Table 1 below.

Table 1: Continuing FY 2017/18 State Cost Transfers to Pima County.

Description	Amount Required From Pima County
Arizona Health Care Cost Containment Syst.	\$ 17,610,721
Arizona Long Term Care System	39,475,000
Behavioral Health System State Contribution	3,064,936
Restoration to Competency	1,706,935
Sexually Violent Persons	1,215,782
Superior/Juvenile Court – Salaries and Benefits	17,692,751
Justice Courts – JP Salaries and Benefits	1,213,688
Constables – Salaries and Benefits	904,437
State Juvenile Corrections	1,726,804
Restoration of ALTCS Dental	141,000
AZDOR Operating Cost	1,039,000
Total	\$ 85,791,054

B. Employee Benefits

The County’s costs associated with providing benefits to its employees continues to increase. FY 2017/18 overall benefits costs are expected to increase by a net of \$3.7 million over FY 2016/17 (from \$145.4 million to \$149.1 million).

FY 2017/18 will be the County’s fifth year under a self-insured model for employee medical and pharmacy benefits. Based on the performance of the Health Insurance Benefits Trust Fund over the past year, it is recommended that both employer and employee biweekly rates remain unchanged from FY 2016/17. Review of the Health Insurance Benefits Trust financial reports continue to show that transitioning to a self-insured plan was a prudent and beneficial decision for both employees and the County.

The County provides eligible employees with Health Savings Accounts (HSAs). Employees can contribute pretax funds to these accounts, subject to Internal Revenue Service limits, to fund future medical costs. The County also contributes to this plan (\$1,000 annually for employee only and \$2,000 annually for all other premium tiers). The County is expected to spend \$8.7 million in FY 2017/18 to fund employee HSAs.

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Retirement costs for certain employee plans continue to rise significantly. Employer and employee contribution rates for our main employee retirement plan, the Arizona State Retirement System (ASRS), will increase very little from FY 2016/17. However, the County's contribution to the Public Safety Personnel Retirement System (PSPRS), Correction Officer Retirement Plans (CORPs) and the Elected Official Retirement Plan (EORP) will experience net increases of over \$5.4 million from the current year.

Recent court decisions pertaining to reform of pension contribution rates and retirement benefits for employees enrolled in the PSPRS, EORP and CORP may the County's employer contribution rates in future years. Employees in PSPRS and EORP hired on or before July 19, 2011 recently had their contribution rates reduced and will be receiving refunds from the plans for past year's overpayments. Other elements of the court decisions are under negotiation and the cost of any other refunds is unknown. This decision alone could cause the County to send out nearly \$5 million in the following fiscal year.

C. Supplemental Funding Requests

Various departments submitted 12 supplemental funding requests totaling \$5,590,450. In addition, two supplemental revenue requests totaling \$9,446,627 were submitted by the Regional Wastewater Reclamation Department, but they ultimately rely on sewer user fee increases in the future. Copies of all supplemental requests are located in the "Supplemental Packages" section of the Recommended Budget Book.

The largest set of requests, totaling \$4,791,436, or 86 percent, was submitted by the Sheriff's Department. \$2,566,094 of these requests are related to previous Board approved salary increases where all County departments and agencies were required to accommodate the expenditure increase within their adopted budgets. Of this amount, \$1,400,000 relates to the FY 2014/15 50-cent per hour salary increase, and the remaining \$1,166,094 relates to the FY 2016/17 general and decompression adjustments. The remainder of the Sheriff's requests include funding for motor pool, supplies and services, and various information technology costs. I have not funded these requests for any department, and I will not fund them for the Sheriff's Department.

Other requests by departments include additional funding ranging from additional positions to funding motor pool increases and other supplies and services costs to funding specific programs or Courts and minimum wage adjustments.

I have reviewed all of the supplemental requests submitted, and I am not recommending approving any at this time.

Note: At their meeting of April 18, 2017, the Board of Supervisors approved three-percent increases in sewer user and sewer connection fees for the Regional Wastewater Reclamation

Department. These additional revenues will be included in the proposed tentative adopted budget submitted to the Board in mid-May.

D. Pavement Rehabilitation and Repair Funding

Previous memoranda to the Board discussed various alternatives for funding a pavement rehabilitation and repair program within the County. The options continue to be increasing gas taxes and/or Highway User Revenue Funds (HURF) on a statewide basis. This call for statewide transportation funding has been largely ignored by the Legislature.

Various bills were introduced to permanently reverse HURF diversions to the State Department of Public Safety and return those funds to the various jurisdictions to repair roads, propose a local gas tax option and increase the State gas tax. Unfortunately, these efforts have been unsuccessful, and it appears no meaningful transportation funding reforms will be coming out of the Legislature this session.

The County's Capital Improvement Plan for FY 2017/18 includes \$3 million for arterial and collector highway pavement preservation, maintenance and repair. Any net growth in HURF revenue in the next fiscal year will be dedicated to this project. Approximately \$1.7 million of this funding relies on the Legislature renewing their FY 2016/17 effort to restore a portion of the HURF diversions to local governments. Unfortunately, the FY 2017/18 Governor's budget sets a dangerous precedent and reinstates this portion of the HURF diversions for other uses in the State's Budget.

Local road repair within unincorporated Pima County cannot wait for the Legislature or the development of some type of regional pavement preservation and repair program. Staff is reviewing a number of potential proposals to the Board that, if approved, could provide approximately \$8 million per year of funding for local highway repair in the unincorporated area. I anticipate a plan will be finalized and presented to the Board by mid-May to be considered as part of the Proposed Tentative Adopted Budget submittal.

III. GENERAL FUND ENDING FUND BALANCE: FY 2016/17

A. Positive Ending Fund Balance

The recommended General Fund ending balance for FY 2016/17 is \$66,995,847. This is a projected increase of \$5,754,994 over the budgeted General Fund Reserve of \$61,240,853. This ending balance represents approximately 12 percent of projected General Fund revenues for FY 2016/17.

This net increase of \$5,754,994 results from numerous offsetting increases and decreases in actual expenditures, revenues and operating transfers from the Adopted Budget, including:

- An \$18.4 million larger FY 2016/17 beginning General Fund balance than was anticipated at the time the FY 2016/17 Budget Adoption. \$8.1 million of this amount was the result of Pima County prevailing in its lawsuit against the State of Arizona and its requirement that the County transfer up to \$15.8 million of General Fund dollars to local school districts. In addition, several General Fund departments experienced larger cost savings than originally anticipated when the budget was adopted, including savings in mandated payments, personnel and general facilities costs.
- Projected \$60.6 million in expenditure savings in the FY 2016/17 budgeted General Fund Reserve.
- \$1.7 million of elections related cost savings.
- \$750,000 of additional third-party rents.
- Several departments continue to forecast significant personnel savings due, in part, to the inability to attract qualified applicants.

These savings are partially offset by the following:

- \$6.1 million operating transfer-in from the Capital Projects Fund to the General Fund did not occur.
- Additional \$5 million negative net fund impact in projected Sheriff's Department FY 2016/17 expenditures and revenues due to the Department forecasting the following:
 - \$1.4 million overspending in personnel services, including special pays such as on-call pay, overtime, shift differential and holiday pay;
 - \$2.5 million overspending in various supplies and services objects such as repairs and maintenance, software maintenance, transcription services, law enforcement supplies, etc;
 - \$1.1 in revenue shortfalls from the Arizona Department of Corrections and various Sheriff's fees.
- Additional one-time operating transfers-out to the Capital Project Fund totaling \$8,687,645 to fund various projects.
- \$3 million one-time operating transfer to the Facilities Renewal Fund for Banner Health-South Campus improvements.

B. Recommended Uses of General Fund Ending Balance

Below are my recommendations for use of the \$66,995,847 of non-recurring, one-time resources projected as the available ending balance of the General Fund on June 30, 2017.

1. Banner–University of Arizona Medical Center South Campus

Over the past several years, the partnership between Pima County, The University of Arizona and now Banner Health has allowed the hospital and Pima County to align incentives and expand opportunities within the academic medical system.

Beginning in 2010, the County entered into a two-year agreement with the Arizona Board of Regents on behalf of The University of Arizona College of Medicine for funding of The University of Arizona Medical Center South Campus. The Board approved additional contracts in 2012, 2014 and 2016, providing for annual base funding at \$15 million in consideration for a variety of services at the South Campus complex that will benefit the County and health of its residents.

This hospital arrangement continues to have my full support. I am recommending the County make the full \$15 million payment to Banner Health in FY 2017/18 out of the FY 2016/17 ending fund balance.

2. Fund Additional State Cost Shifts

As described in Section II.A, the State of Arizona continues to balance the State Budget by continuing a portion of new cost transfers originally sent to the counties in FY 2015/16. While Pima County prevailed in litigation with the State to nullify \$15.8 million of these shifts, \$2,906,804 of these additional costs remain. These additional costs were summarized previously in Table 1.

The County continues its efforts to have these State costs returned to the State Budget. However, it is anticipated the Governor and Legislature will not take action to do so. Since the County will once again be required to pay for these costs, I recommend the full \$2.9 million cost be paid from the FY 2016/17 ending fund balance.

3. General Fund Reserve

In FY 1996/97, the General Fund Reserve was budgeted at zero. Since that time, the Board has taken a variety of significant actions to stabilize finances and enhance the fiscal integrity of the County. This has enabled the Reserve Fund to be steadily restored.

The budget reserve has contributed to an enhanced bond rating for the County, which has saved approximately \$2 million annually in reduced interest payments on County bond

projects. The reserve has also enabled the County to sustain the negative fiscal impacts of a variety of unforeseen events over which the County has had little or no control.

The persistently weak economy has put the County in an increasingly uncertain operating environment. The primary property tax base contracted significantly starting in FY 2010/11. While the taxable assessed value is now increasing for the third consecutive year in FY 2017/18, staff anticipates the real estate market and construction industry in the County will take several more years to fully recover from the impacts of the last recession. In addition, future increases in the tax base will be limited to a five percent Constitutional cap on taxable assessed value increases from year to year. This cap will substantially limit future overall appreciation of the existing property tax base. In addition, actions of the State and Federal governments that financially impact the County have become increasingly more common, erratic and unpredictable. This trend continues to shift State program funding to local governments. Consequently, maintaining the General Fund Reserve Fund balance at an adequate level has become an important goal.

After the appropriations recommended above, funding the County's agreement regarding Banner-University Medical Center South Campus and ongoing new State cost shifts the amount remaining of the projected FY 2016/17 General Fund ending balance is \$49,084,043. I recommend the Board allocate this amount to fund a portion of the General Fund Budget Reserve.

4. Summary of Recommended Uses of General Fund Ending Balance

Table 2 below summarizes the recommendations discussed above for allocation of the nonrecurring, one-time resources projected as the FY 2016/17 available ending fund balance of \$66,995,847.

**Table 2: Recommended Allocation of FY 2016/17
General Fund Ending Balance.**

Recommendation	Amount
Banner–University Medical Center South Campus	\$15,000,000
State Cost Shifts:	
State Juvenile Corrections	1,726,804
Restoration of ALTCS Dental	141,000
Arizona Department of Revenue	1,039,000
General Fund Reserve	49,084,043
TOTAL	\$66,995,847

IV. GENERAL FUND SUBMITTED BASE BUDGET: FY 2017/18

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of \$4.2896, projected FY 2017/18 base budget revenues and operating transfers to the General Fund total \$560,682,404. This is a \$1,908,468, or 0.34 percent, increase from the current year 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 FY 2017/18 base budget General Government revenues from all other sources is \$173,390,017; which is a \$185,939, or 0.1 percent, increase from the current Adopted Budget.

The largest revenue stream in this category – state shared sales tax – is projected to increase by \$3.1 million, or 2.8 percent, to \$115.2 million, reflecting a slow but continued recovery in the local economy. Vehicle License Tax revenue is also projected to show continued improvement next year with an overall increase of \$1.25 million, or 4.6 percent.

2. Primary Property Tax Revenues

a. Annual Five-percent Cap on Taxable Net Assessed Value Increases

FY 2017/18 represents the third effective year of a Constitutional amendment, approved by Arizona voters five years ago, that will substantially limit future overall appreciation of the existing property tax base by setting a five percent cap on taxable assessed value increases from year to year. Previously, the market dictated increases in taxable net assessed value.

b. Primary Property Tax Revenues

The Taxable Assessed Value for FY 2017/18 totals \$8,074,957,717. This is a net increase of \$258,257,957, or 3.3 percent, over the current year and represents only the third annual increase in Taxable Assessed Value since FY 2009/10. While this amount represents an increase from FY 2016/17, the Taxable Assessed Value is still \$910,754,113, or 10.1 percent less than eight years ago in FY 2009/10. In FY 2017/18, the market value of existing property in the County will increase by 1.85 percent. New construction will add 1.43 percent to the property tax base. Because the primary tax base will increase next year, use of the current year's tax rate will result in a levy amount 3.3 percent greater than the current year's levy.

Assuming the same primary rate as this year of \$4.2896 per \$100 of taxable assessed value, the resulting primary levy is \$346,383,386. This is \$11,078,233 more than the amount levied in this year's Adopted Budget.

In addition to collection of current year property taxes, the County receives revenue from the payment of delinquent property taxes from prior years and associated interest and penalties.

Together with the projected primary property tax collection next year, assuming continuation of the existing rate of \$4.2896, the total base property tax revenues projected for FY 2017/18 are \$348,556,322. This amount is \$10,288,980, or 3.04 percent, more than the total primary property tax revenues adopted in this year's Budget. The majority of the difference between the levy amount and the revenues collected is attributable to the overall collection rate and reductions in the forecasted collections of penalties and interest on delinquent property tax collections.

State Truth in Taxation statutes determine the County's revenue neutral primary property tax levy each year. A neutral levy and corresponding tax rate is defined as the previous year's levy plus additions to the tax base from new construction. Pursuant to statute, the County's neutral primary rate is \$4.2119, or \$0.0777 lower than the current year's rate. The resulting neutral primary levy is \$6,274,242, or 1.81 percent, lower than the levy produced by the current year's rate. If the current year primary rate is not reduced, the County will be required to hold a Truth in Taxation hearing prior to the final budget adoption.

This statutory benchmark is more restrictive than the County's Levy Limit imposed by the Arizona Constitution, which is indexed to reflect a modest annual rate of inflation of two percent. The Primary Levy Limit imposed by the Arizona Constitution allows the County's primary rate to be increased to \$5.1755, or \$0.8859 higher than the current year's rate. The resulting constitutionally capped levy is \$417,919,436, which is \$71,536,050, or 20.7 percent, greater than the levy produced by the current rate.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for FY 2017/18 are projected to total \$38,736,065. This is a \$12,383,387 net decrease from the current year's budget.

Significant decreases in revenues and operating transfers-in include the following:

- Reversing \$6.5 million of one-time operating transfers-in from the Capital Projects Fund;
- Reallocating \$4.3 million of third party and County department rent to the Facilities Renewal Fund to address deferred building maintenance;

- Reducing the Sheriff's State Criminal Alien Assistance Program fees and correctional housing revenue by \$1.3 million;
- Decreasing operating transfers-in from various other County funds.

4. General Fund Submitted Base Budget Expenditures

The amount required in FY 2017/18 to fund department submitted General Fund-supported base budgets for both expenditures and transfers-out is \$552,851,530; which is \$69,063,100, or 11.2 percent, less than the current year's adopted budget. (These amounts do not include my recommendations regarding the use of the one-time FY 2016/17 ending fund balance and additional available funds; see Section V.) This base expenditure amount represents adopted departmental budgets adjusted for the annualized cost of the FY 2016/17 overall employee salary and Sheriff's decompression adjustments; increased benefit costs; impacts to base pursuant to Board-adopted budget policies and prior directives; and decreases for one-time expenditures in the current year.

Significant components within submitted base budget expenditures and operating transfers-out, before adjustment for Final Budget Recommendations, include the following:

- \$284,001,355 of General Fund expenditures for Justice and Law Enforcement functions.
- State cost shifts totaling \$86 million, or 26 percent of the existing primary property tax rate.
- \$45,194,308 of operating transfers to other County funds.
- \$62,800,407 for mandated payments to fund State programs for indigent acute and long-term healthcare, as well as mental healthcare.
- \$13,126,534 for adult and juvenile detention healthcare.
- \$104,406,218 for General Fund employee benefits, including medical insurance, dental insurance, life insurance, workers compensation, unemployment insurance, Social Security, Medicare, employer HSA contributions and contributions to the six separate State retirement systems in which various employee groups and officials participate.
- \$5,114,359 for allocation to Outside Agencies.

Significant additions to General Fund base expenditures for FY 2017/18 include the following:

- \$9,426,505 operating transfer-out to the Capital projects Fund for various projects.

- \$5,088,563 to fund ongoing increases in PSPRS and CORP contributions (\$4,516,537 Public Safety, \$146,005 County Attorney Investigators and \$426,021 Correction Officers).
- \$3,555,758 to fund the cost of the FY 2017/18 elections.
- \$1,673,937 to fund the annualization of the FY 2016/17 general salary and Sheriff commissioned officer decompression adjustments (\$1,062,048 general salary adjustment and \$611,889 decompression adjustments).

B. County Staffing Decreases from FY 2016/17

Over the past several years, Pima County has taken significant actions to maintain an effective and efficient workforce while incrementally reducing unnecessary or redundant positions primarily through attrition.

The overall County workforce has been reduced by over 1,340 Full-Time Equivalent (FTEs), or 16 percent, from its peak staffing in FY 2007/08 as shown in Table 3 below. In addition to decreases in staffing, the County instituted significant changes in the way it budgets and accounts for vacant positions and staff turnover. By having departments budget only for positions they can reasonably expect to fill during the course of the year, FTEs decreased by 194 in FY 2015/16.

FY 2017/18 total budgeted FTEs decrease by a net of 58 from FY 2016/17. The majority of the year-to-year decrease in FTEs occurs in the General Fund. The Sheriff decreased overall funded FTEs by 38.8 by unfunding excess vacant positions. Elections and the Recorder reduced budgeted staffing by a combined 24.8 FTEs to reflect reduced temporary personnel requirements based on planned elections in FY 2017/18. The decrease also represents the net of various increases and decreases in the funded FTE count within the various County departments. Descriptions of FTE changes are included within the individual department descriptions in this book.

**Table 3: Total Budgeted FTE Positions, FY 2007/08
Adopted Budget through FY 2017/18
Recommended Budget.**

FY	Budgeted FTEs	Change in Budgeted FTEs	Cumulative Change in Budgeted FTEs
2007/08	8,396		
2008/09	8,113	(283)	(283)
2009/10	7,838	(275)	(558)

**Table 3: Total Budgeted FTE Positions, FY 2007/08
 Adopted Budget through FY 2017/18
 Recommended Budget.**

FY	Budgeted FTEs	Change in Budgeted FTEs	Cumulative Change in Budgeted FTEs
2010/11	7,753	(85)	(643)
2011/12	7,361	(392)	(1,035)
2012/13	7,314	(47)	(1,082)
2013/14	7,329	15	(1,067)
2014/15	7,255	(74)	(1,141)
2015/16	7,061	(194)	(1,335)
2016/17	7,114	53	(1,282)
2017/18	7,056	(58)	(1,340)

V. RECOMMENDED ADJUSTMENTS TO GENERAL FUND BASE EXPENDITURES

Table 4 below details the FY 2017/18 expenditure adjustments required to assume the additional ongoing State-related cost shifts and fully fund a 10.2 percent budget reserve.

**Table 4: Recommended Adjustments to FY 2017/18
 Submitted Base Expenditures and Operating Transfers-out.**

Proposed FY 2017/18 Expenditures and Operating Transfers-out	\$552,851,530
Uses of FY 2017/18 Ending Fund Balance:	
Banner-University Medical Center South Campus	\$15,000,000
Fund Portion of 10.2 Percent FY 2016/17 Budget Reserve	\$49,089,043
Ongoing State Cost Shifts:	
State Juvenile Corrections	\$1,726,804
Restoration of ALTCS Dental	\$141,000
Arizona Department of Revenue Costs	\$1,039,000
Fund Remainder of 10.2 Percent Budget Reserve	\$7,830,874
Total FY 2017/18 Recommended Expenditures and Operating Transfers-out	\$627,678,251

The Recommended General Fund budget totals \$627,678,251 and consists of \$582,483,943 of expenditures and \$45,194,308 of operating transfers-out to other County departments and funds.

I am also recommending a General Fund Budget reserve of \$56,919,918. This amount represents 10.2 percent of recommended revenues and operating transfers-in. This reserve meets the Government Finance Officers Association recommendation of a minimum set aside, provides the capacity to accommodate any additional State cost shifts over and above those included in the current recommended budget and retains a reserve capacity for any emergency funding during the course of the coming fiscal year. Additional discussion regarding the value of this reserve occurs in Section III.B.2.

VI. RECOMMENDED ADJUSTMENT TO GENERAL FUND SUBMITTED BASE REVENUES

Assuming continuation of the current primary property tax rate of \$4.2896, projected FY 2017/18 base budget revenues and operating transfers to the General Fund total \$560,682,404.

These base revenues, plus operating transfers-in, plus the \$66,995,847 of FY 2016/17 ending fund balance discussed in Section III.A above, are sufficient to fund the \$627,678,251 of General Fund recommended expenditures and operating transfers-out. Therefore, I am not recommending any changes to the primary property tax rate or to any other revenue contained in the base request.

VII. THE OVERALL BUDGET

A. Special Districts and Debt Service

1. County Library District

The Library District is funded by a dedicated secondary property tax and serves the entire County. In FY 2017/18, the Pima County Public Library budget includes the operation of a Main Library; 25 branches; a bookmobile; and online services, including a dynamic web portal, Infoline, "Ask a Librarian," online homework help, employment and career help, full-text magazine and journal articles and downloadable e-books, audiobooks, video and music.

The Library has a collection of 1.2 million catalogued items, which will be borrowed nearly 7 million times in the course of a year. The Library provides nearly 1,200 computers that generate 1.2 million computer sessions by the public, welcomes 5.4 million visitors through its doors each year, and nearly half of all Pima County residents hold Pima County Public Library cards. The Library offers an increasing number of digital items to its patrons, including e-books and downloadable audiobooks, as well as streaming video. Community groups use library facilities to hold meetings of civic and educational interest, and these facilities are gathering places where people interact, share information and engage in creating content through 21st Century Skills.

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The County Library District's property tax base is increasing for the third year in a row. The tax base is projected to increase 3.3 percent in FY 2017/18.

The FY 2017/18 Recommended Budget for operating costs, grants and operating transfers-out is \$47,156,340, which is a \$2,440,898 increase from the FY 2016/17 budgeted amount of \$44,715,442.

The recommended budget will fund increased operating expenses for salaries and benefits, books and materials, information technology, facilities management, finance and other internal service charges and maintenance costs. Additionally, four Capital Improvement Program projects for new and expanded library facilities are scheduled in FY 2017/18.

The recommended Library District secondary property tax rate for FY 2017/18 of \$0.5153 per \$100 of taxable assessed value is unchanged from FY 2016/17. The recommended tax rate is projected to provide \$41,165,381 in revenues that will be supplemented by a projected \$1,661,500 from fines, interest, grants and miscellaneous revenue and \$4,329,459 from the Library District fund balance in order to meet the recommended overall budget of \$47,156,340.

In FY 2015/16, the State Legislature passed legislation making the Library District secondary property tax levy subject to Truth in Taxation requirements similar to the requirements already in place for the County's primary property tax levy. FY 2016/17 was the first effective year of this requirement. State Truth in Taxation statutes determine the Library District's neutral revenue secondary property tax levy each year. A neutral levy and the corresponding tax rate is defined as the previous year's levy plus additions to the tax base from new construction. Pursuant to statute, the Library District's neutral secondary property tax rate is \$0.5060, or \$0.0093 less than the proposed secondary tax rate of \$0.5153. The resulting neutral secondary levy is \$40,859,286, or 1.8 percent, lower than the levy produced by the current year's rate. As required by the statute, Truth in Taxation notices will be created and advertised by the County. A Truth in Taxation Hearing will be held prior to the final budget adoption.

2. Debt Service Fund

The total Recommended FY 2017/18 Debt Service Fund budget is \$117,790,376, a \$2,334,975 increase from the current fiscal year. The Debt Service Fund includes payments on the County's General Obligation debt, the Street and Highway Revenue Bond debt, and Certificates of Participation debt, all of which are long-term debt.

a. General Obligation Debt Service

The County's General Obligation Debt Service is funded with a secondary property tax levy. The FY 2017/18 recommended General Obligation debt service of \$56,217,356, an increase of \$1,325,038 from FY 2016/17, will fund existing debt service.

As originally planned when the 1997 Bond Program began, the debt service on new bond sales supported by the secondary tax levy was being offset by ongoing reductions in debt service for existing outstanding bonds. As the 1997 bonds were being retired, 2004, 2006, and 2014 bonds were sold, incurring new debt. The County issued the final General Obligation Bond Authorization in FY 2016/17.

The County has several major capital improvement projects next fiscal year using General Obligations, including the construction of the new Pima Animal Care Center, various community development projects, flood control, erosion control, and urban drainage; and various park improvement projects.

I recommend the General Obligation Debt Service tax rate remain unchanged at \$0.7000 per \$100 of assessed value for FY 2017/18.

b. 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 HURF revenues the Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service of \$19,339,857, a \$356,748 increase from FY 2016/17, will fund existing debt service, as well as debt service on a proposed \$30 million bond sale expected to occur in the spring of 2018.

c. Certificates of Participation Debt Service

The Certificates of Participation (COPs) debt service of \$42,233,163, an increase of \$653,189 from FY 2016/17, includes COPs issued in prior years for the acquisition or construction of County facilities such as the Public Service Center, the Bank of America building, the Fleet Services Facility, and various sewer projects. COPs debt service is paid from funds other than the General Obligation debt service tax levy.

d. Sewer Debt Service

In addition to the debt service included in the Debt Service Fund, Pima County has debt service that is included in the Regional Wastewater Reclamation Enterprise Fund and paid for with sewer system revenues. As of June 30, 2016, the County had approximately \$1.2 billion of debt. Of the County's \$1.2 billion debt, \$104,145,000 is for sewer revenue bonds,

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\$449,500,000 is for sewer revenue obligations, and \$14,934,347 is for loans from the Water Infrastructure Finance Authority of Arizona (WIFA). This total of \$568,579,347, or 48 percent, is the direct debt of the County and is repaid solely from sewer system revenues with no impact on the overall Debt Service Tax Rate. In addition to the direct sewer debt, another \$61 million of the remaining County debt consists of COPs issued to pay for sewer projects. In total, debt for sewer infrastructure is approximately 53 percent of all County debt.

3. Regional Flood Control District

For the third time in eight years, the value of the Regional Flood Control District's (RFCD) property tax base is forecasted to increase. The RFCD's taxable net assessed value is projected to increase four percent in FY 2017/18.

The recommended operating budget for the three components of the RFCD is \$17,496,778, which is a net decrease of \$155,652 under the current year's budget. This amount includes \$16,548,778 for Flood Control Operations, \$107,500 of grant-related expenditures and \$840,500 of expenditures related to the Canoa Ranch In-Lieu Special Revenue Fund.

The RFCD recommended budget also includes operating transfers-out totaling \$8,804,443, an increase of \$1,620,808 over the current year. These transfers include the following:

- \$8,400,000 transfer to the Capital Projects Fund
- \$189,602 to the Stadium District for operating and maintenance costs of the Kino Environmental Restoration Project
- \$107,500 of Flood Control Grants match
- \$77,341 to the Debt Service Fund for the RFCD's share of debt service on COPs issued in 2010 for the Countywide Enterprise Accounting System
- \$20,000 in funding for Tucson Clean and Beautiful
- \$10,000 in funding for the County's Native Plants Nursery

I recommend the RFCD's FY 2017/18 tax rate remain unchanged at \$0.3335 per \$100 of assessed value.

The State Legislature passed legislation making the Regional Flood Control District secondary property tax levy subject to Truth in Taxation requirements similar to the requirements already in place for the County's primary property tax levy. A neutral levy and the corresponding tax rate is defined as the previous year's levy plus additions to the tax base for new construction. Pursuant to statute, the Regional Flood Control District's neutral secondary property tax rate is \$0.3233, or \$0.0102 less than the proposed secondary tax rate of \$0.3335. The resulting neutral secondary levy is \$23,838,114, or 3.06 percent less than the levy produced by the current year's rate. As required by the statute, Truth in Taxation Notices will be created and

advertised by the County. A Truth in Taxation Hearing will be held prior to the final budget adoption.

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

As set forth in Table 5 below, the FY 2017/18 recommended Capital Improvement Plan of \$170,280,461 consists of the Capital Projects Fund Budget of \$118,962,465 and the Capital Projects of Regional Wastewater Reclamation of \$49,257,735, Fleet Services of \$1,821,500, and Facilities Management-Garages of \$238,761. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 5: Recommended FY 2017/18 Capital Projects Fund Budget and Capital Improvement Plan Budget.

Capital Improvement Plan Capital Projects Fund	FY 2016/17 Bond and Non- Bond Project Budgets	FY 2017/18 Bond and Non- Bond Project Budgets	Difference	1997 Bonds	2004/2014 Bonds	Non-Bonds
Transportation	\$50,896,922	\$58,643,855	\$ 7,746,933	\$15,521,756	-	\$43,122,099
Facilities Management	31,441,543	40,094,909	8,653,366	-	13,620,244	26,474,665
Sheriff's Department	300,000	-	(300,000)	-	-	-
Regional Flood Control District	15,632,511	13,212,097	(2,420,414)	-	893,511	12,318,586
Parks and Recreation	1,037,929	1,735,000	697,071	289,000	545,687	900,313
Information Technology	750,000	262,000	(488,000)	-	-	262,000
Community Development	3,614,498	3,176,026	(438,472)	240,500	2,025,526	910,000
Environmental Quality	1,280,615	538,102	(742,513)	538,102	-	-
Office of Sustainability and Conservation	525,151	1,300,476	775,325	-	1,050,476	250,000
Total Capital Projects Fund	\$105,479,169	\$118,962,465	\$13,483,296	\$16,589,358	\$18,135,444	\$84,237,663
Wastewater Reclamation Budget	\$46,733,324	\$49,257,735	\$2,524,411	-	-	\$49,257,735
Fleet Services Budget	3,291,009	1,821,500	(1,469,509)	-	-	1,821,500
Facilities – Garages						
Telecommunications	354,882	238,761	(116,121)	-	-	238,761
Budget	1,575,000	-	(1,575,000)	-	-	-
Total Capital Improvement Plan	\$157,433,384	\$170,280,461	\$12,847,077	\$16,589,358	\$18,135,444	\$135,555,659

1. Capital Projects Fund Budget

The recommended \$118,962,465 Capital Projects Fund Budget for FY 2017/18 is an increase of \$13,483,296, or 12.8 percent, from the current year's budget of \$105,479,169.

Of the total Capital Projects Fund, \$16,589,358 is funded through 1997 bonds, \$18,135,444 is funded through 2004/2014 bonds, and the remaining \$84,237,663 is funded through other

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non-bond sources including Regional Transportation Authority (RTA) Sales Taxes, Impact Fees, Grants, COPs, and General Funds.

The Department of Transportation has budgeted \$58.6 million for 43 projects. The projects include a portion of Broadway Boulevard, Euclid to Country Club for \$10 million and Cortaro Farms Road, Camino de Oeste to Thornydale Road for \$9.7 million. Funding for the FY 2017/18 Department of Transportation Capital Program consists of \$15.5 million in HURF Bonds, \$13.7 million in State Revenue, \$12.7 million in Impact Fees, \$2.3 million in Grants, \$1.6 million in RTA Funding, and \$12.8 million from various other funding sources.

Facilities Management has budgeted \$40 million for 21 projects. This year's requested budget includes \$13.6 million for the new Animal Care Center funded with General Obligation bonds authorized by the voters in 2014 and \$12.4 million for the renovation of the Historic Pima County Courthouse, funded by the General Fund and COPs.

The RFCD has budgeted \$13.2 million for 18 projects including \$2.7 million for Pantano Wash, Fort Lowell Park to Tanque Verde Road, and \$2.5 million for Santa Cruz River maintenance projects, both funded with Tax Levy Revenue.

2. Regional Wastewater Reclamation Capital Budget

The FY 2017/18 Recommended Capital Budget for the Regional Wastewater Reclamation Department (RWRD) is \$49,257,735, an increase of \$2,524,411 from FY 2016/17. The FY 2017/18 Capital Program is planned to be funded entirely with RWRD Obligations. Conveyance projects total \$29.4 million, including \$10 million for Minor Rehabilitation Projects, \$6.9 million for the Southeast Interceptor Augmentation, and \$2.5 million for the Old Nogales Interceptor Augmentation. Treatment projects total \$19 million and include the Continental Ranch Regional Pump Station Modification project budgeted for \$5.5 million.

3. Fleet Services Capital Budget

The FY 2017/18 recommended capital budget for Fleet Services is \$1,821,500, a decrease of \$619,509 from FY 2016/17. The recommended budget includes \$1.5 million for the Houghton Road fuel island that will be funded through Fleet Operations.

VIII. COMBINED TOTAL COUNTY BUDGET

A. Combined County Property Tax Rate and Levy

The combined primary and secondary property taxes levied by the County fund 38 percent of the total County Recommended Budget expenditures. These are the only County revenues over which the Board has substantial control. The remainder of the County budget is

supported almost entirely by charges for services and intergovernmental revenues, primarily State revenue sharing and grants.

As discussed in Section VI, it is recommended that the County’s primary property tax rate, which supports the County’s General Fund, remain unchanged from the FY 2016/17 rate of \$4.2896 per \$100 of taxable assessed value. Pursuant to State Truth in Taxation statutes, the levy produced by this tax rate will be over the neutral levy. A Truth in Taxation hearing will be required to be noticed and held at the same time as Final Budget Adoption. The County’s neutral levy is \$4.2119 per \$100 of taxable assessed value.

The County controls three secondary property tax rates and their associated levies: Library District, RFCD and Debt Service. It is recommended the property tax rates for these three levies remain unchanged from the FY 2016/17 rates. The net of these changes in the secondary property tax rates and increased taxable assessed values will produce \$4 million of additional revenue in FY 2017/18.

The result of these recommendations is a combined County property tax rate of \$5.8384 per \$100 of taxable assessed value, unchanged from the FY 2016/17 tax rates. The FY 2017/18 recommended primary and secondary County tax rates are summarized in Table 6 below.

Table 6: Combined Recommended County Property Tax Rate.

Description	FY 2016/17 Adopted Rates	FY 2017/18 Recommended Rates	Difference
Primary	\$4.2896	\$4.2896	\$0.0000
Library District	0.5153	0.5153	0.0000
Debt Service	0.7000	0.7000	0.0000
Regional Flood Control District	0.3335	0.3335	0.0000
TOTAL	\$5.8384	\$5.8384	\$0.0000

For only the third time in eight years, the value of the County’s overall property tax base will increase next fiscal year. Consequently, the rates recommended above will be applied to a primary tax base that is 3.3 percent more than the current year’s base and to secondary tax bases that range from an increase of 3.3 percent (Debt Service and Library District) to an increase of 4 percent (RFCD). These net increases in the tax base, combined with recommended primary and secondary property tax rates, result in the recommended combined County property tax levy increasing by \$15,163,692, or 3.34 percent, more than the current year levy as shown in Table 7 below.

Table 7: Combined Recommended County Property Tax Levy.

Description	FY 2016/17 Adopted Levies	FY 2017/18 Recommended Levies	Difference
Primary	\$335,305,153	\$346,383,386	\$11,078,233
Library District	40,279,454	41,610,257	1,330,803
Debt Service	54,716,898	56,524,704	1,807,806
Regional Flood Control District	23,643,348	24,590,198	946,850
TOTAL	\$453,944,853	\$469,108,545	\$15,163,692

B. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is \$1,243,595,459. This is a \$10,823,854, or 0.9 percent, increase from the FY 2016/17 Adopted Budget of \$1,232,771,605.