



MEMORANDUM

Date: April 27, 2018

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

From: C.H. Huckelberry
County Administrator 

Re: **Transmittal of the Recommended Fiscal Year 2018/2019 Budget**

Introduction

This memorandum transmits the Recommended Fiscal Year (FY) 2018/19 Budget for Pima County. These recommendations are based on information available in April 2018. **As of today, the Governor and the State Legislature have not adopted a State budget for FY 2018/19. 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 19, 2018.

On March 6, 2018, 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 six public hearings regarding the budget, totaling approximately 20 hours, before the 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 February 5, 2018. 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 2016/17 actual amounts, the FY 2017/18 Adopted Budget, the FY 2017/18 year-to-date amounts as of the date of the report and the FY 2018/19 Recommended Budget. The reports also include two columns of variances that

compare the FY 2017/18 Adopted Budget to the FY 2018/19 Recommended Budget and the FY 2017/18 Adopted Budget to the FY 2017/18 year-to-date expenditures and revenue.

In addition to these reports, the County Budget website includes budget-related communications issued to the Board and County departments throughout the FY 2018/19 budget process to date. This information can be accessed on 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 01, 2018	Board of Supervisors Budget Hearing (afternoon session)
May 08, 2018	Board of Supervisors Budget Hearing (morning and afternoon sessions)
May 15, 2018	Board of Supervisors Budget Hearing (afternoon session)
May 16, 2018	Board of Supervisors Budget Hearing (afternoon session)
May 22, 2018	Tentative Budget Adoption (Sets Budget Ceiling)
June 19, 2018	Truth in Taxation Hearing (Regional Flood Control and the County Free Library)
June 19, 2018	Final Budget Adoption
August 20, 2018	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.

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.

Table of Contents

I.	OVERVIEW OF RECOMMENDED BUDGET.....	4
II.	ISSUES SIGNIFICANTLY IMPACTING THE COUNTY BUDGET.....	7
	A. Current Pavement Rehabilitation and Repair Funding for Local Roads.....	7
	B. Proposed Sales Tax.....	8
	C. State Cost Shifts.....	9
	D. Employee Compensation.....	10
	1. 2.5 Percent County-wide Salary Adjustment.....	10
	2. Sheriff Deputy –Trainee and Corrections Officer Trainee Program.....	10
	3. Retention Incentive for Sheriff Deputies and Corrections Officers.....	11
	4. Sheriff Transition to Merit Based Pay System.....	12
	5. County Attorney Merit Based Pay for Attorney Professionals.....	12
	E. Employee Benefits.....	12
	F. Transition to Pay-As-You-Go Capital Improvement Funding.....	13
	G. Criminal Justice Reform Unit.....	15
	H. Grants Management and Innovation.....	16
	I. Analytics and Data Governance Unit.....	16
	J. Information Technology Costs.....	16
III.	GENERAL FUND ENDING FUND BALANCE: FY 2017/18.....	17
	A. Positive Ending Fund Balance.....	17
	B. Recommended Uses of General Fund Ending Balance.....	18
IV.	GENERAL FUND SUBMITTED BASE BUDGET: FY 2018/19.....	18
	A. General Fund Base Budget Revenues.....	18
	1. General Government Revenues Other Than Property Taxes.....	19
	2. Primary Property Tax Revenues.....	19
	a. Annual Five percent Cap on Taxable Net Assessed Value Increases.....	19
	b. Primary Property Tax Revenues.....	19
	3. Departmental Revenues.....	20
	4. General Fund Submitted Base Budget Expenditures.....	21
	B. County Staffing Increases.....	22
V.	RECOMMENDED ADJUSTMENTS TO GENERAL FUND BASE EXPENDITURES.....	23
VI.	RECOMMENDED ADJUSTMENT TO GENERAL FUND SUBMITTED BASE REVENUES.....	23
	A. Reduce General Fund Primary Property Tax Rate by 14-Cents.....	23
	B. Request Unanimous Board of Supervisors Approval of the \$0.2500 per \$100 of taxable Net Assessed Value Transportation Road Primary Property Tax Rate.....	25
	C. Proposed Half-Cent Sales Tax for Local, Arterial and Collector Roads.....	25
VII.	THE OVERALL BUDGET.....	26
	A. Special Districts and Debt Service.....	26
	1. County Library District.....	26
	2. Debt Service Fund.....	27
	a. General Obligation Debt Service.....	27
	b. Street and Highway Revenue Debt Service.....	27
	c. Certificates of Participation Debt Service.....	28
	d. Sewer Debt Service.....	28
	e. Overall Pima County Debt.....	28
	3. Regional Flood Control District.....	29
	B. Annual Capital Projects Fund Budget and Capital Improvement Plan Budget.....	30
	1. Capital Projects Fund Budget.....	30
	2. Regional Wastewater Reclamation Capital Budget.....	31
	3. Fleet Services Capital Budget.....	31
VIII.	COMBINED TOTAL COUNTY DEBT.....	31
	A. Combined County Property Tax Rate and Levy.....	31
	B. Combined County Budget.....	33

I. OVERVIEW OF RECOMMENDED BUDGET

Pima County's FY 2018/19 Recommended Budget continues the conservative approach to budgeting that has been followed since the start of the last recession. During this time, 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 and Information Technology, 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 primary property tax base in Pima County will increase in FY 2018/19 by 3.21 percent. This is only the fourth time in nine 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. The FY 2018/19 taxable net assessed value is still below FY 2009/10 value. It is expected the property tax base will continue to increase modestly for the next few years.

FY 2018/19 significant budget highlights include the following:

- The projected General Fund available ending balance for FY 2017/18 is \$90,674,735, an increase of \$23,678,889 over the budgeted General Fund Reserve of \$66,995,846. This amount represents the beginning fund balance for FY 2018/19.
- It is recommended that the FY 2017/18 ending balance be allocated for the following purposes:
 - \$16,065,000 to fund Pay-As-You-Go Capital Projects;
 - \$15,000,000 to fund the contract payment to Banner Health on behalf of the Banner–University of Arizona Medical Center South Campus;
 - \$8,537,283 for FY 2018/19 election related costs;
 - \$5,788,742 for increased adult and juvenile inmate healthcare costs;
 - \$1,726,804 to fund the State shift of costs to the County for Juvenile Corrections;
 - \$1,039,000 to fund the State's shift of costs to the County for the Arizona Department of Revenue;
 - \$141,000 to fund State cost shifts to the County for the restoration of Arizona Long Term Care Services (ALTCS) Dental;

- \$1,791,026 of miscellaneous one-time expenditures;
 - \$40,585,880 to fund the total General Fund Budget Reserve, for FY 2018/19.
- The budget assumes the Board of Supervisors unanimous approval to continue the current Road Primary Property Tax at \$0.2500 per \$100 of net taxable value. Budgeted FY 2018/19 collections total \$20,636,092.
 - It is recommended that the General Fund primary property tax rate be reduced 14 cents from the FY 2017/18 rate of \$4.2096 to \$4.0696. Budgeted FY 2018/19 collections total \$341,183,909.
 - The recommended Combined Primary Property Tax Rate (General Fund plus Roads) totals \$4.3196 resulting in FY 2018/19 total primary property tax revenue of \$361,820,001.
 - Assuming the Board adopts the reduced General Fund primary property tax rate of \$4.0696, recommended General Fund revenues and transfers-in for FY 2018/19 are projected to be \$556,637,697, which is \$2,203,783, or 0.40 percent, more than the current year.
 - Excluding primary property taxes, General Government Revenues from all other sources are projected to increase \$4,922,960.
 - The value of the net primary property tax base is projected to increase 3.21 percent. While the valuation is increasing, the proposed General Fund primary property tax rate is recommended to decrease by \$0.1400. This will result in a reduction in the net General Fund primary property tax levy of \$767,315 from the FY 2017/18 levy.
 - General Fund primary property tax revenues from all sources are projected to decrease \$1,123,923 at the reduced tax rate. Primary property tax revenues are different from the tax levy because of the impact of actual tax collection rates, the amount of delinquent tax collected and the associated penalties and interest collected on delinquent taxes.
 - Transportation Road primary property tax revenues are projected to increase \$1,109,567 over FY 2017/18 as the result of an increase in overall taxable net assessed value.
 - FY 2018/19 combined primary property tax revenues are budgeted to decrease by a net of \$14,356.

- Recommended General Fund expenditures and transfers-out for FY 2018/19 are projected to be \$647,312,432, which is \$25,882,672, or 4.1 percent, more than the current year's adopted budget.
- Existing State budget cost transfers for FY 2018/19 have an annual budget impact of \$88.7 million, or 27 percent of the recommended General Fund primary property tax rate of \$4.0696.
- The recommended General Fund Budget Reserve totals \$40,585,880, or 7.3 percent of General Fund revenues and operating transfers-in.
- The Recommended Budget for the Library District for operating costs, grants and operating transfers-out is \$47,775,206 a \$618,866 increase from the current year. The secondary property tax rate is recommended to increase one-cent from \$0.5053 to \$0.5153 to fund the Library District's Pay-As-You-Go Capital improvement Program.
- The Recommended Budget for Debt Service is \$160,950,259, a \$26,159,883 increase from the current year. The recommended budget proposes a one-cent decrease in the secondary property tax rate from \$0.7000 to \$0.6900.
- The Recommended Budget for the Regional Flood Control District for operating costs, special fund and operating transfers-out is \$26,302,974, a \$1,753 increase from the current year. The recommended budget proposes a two-cent increase in the secondary property tax rate from \$0.3135 to \$0.3335.
- The combined primary and secondary recommended County property tax rate (excluding the Fire District Assistance Tax) is \$5.8584 per \$100 of net taxable value and is a decrease of \$0.1200 from FY 2017/18. The resulting combined County levy (excluding the Fire District Assistance Tax) is \$485,705,702, a \$5,151,899 increase over the current year.
- The combined, total Recommended County Expenditure Budget for FY 2018/19 is \$1,344,027,134 and is \$76,954,779, or 6.1 percent, more than the current year's Adopted Budget.
- The only budget unknown relates to the Elected Official Retirement Plan where the legislature is presently considering a significant increase in the required county contributions in the amount of \$2.6 million. If enacted, the General Fund primary property tax rate will be increased by an amount sufficient to offset this increased State cost shift.

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 2018/19 Recommended Budget. Further details are contained in various memoranda accessed via the [County Administrator Memoranda FY 2018/19](#) page on the County Budget website.

A. Current Pavement Rehabilitation and Repair Funding for Local Roads (Transportation Road Primary Property Tax)

As part of the FY 2017/18 budget adoption process, the Board of Supervisors approved a new primary property tax dedicated to funding local road pavement preservation and road repair. This Transportation Road primary property tax was adopted by a simple majority of the Board of Supervisors at a rate of \$0.2500 per \$100 of taxable net assessed value, the maximum rate allowed by statute. As originally proposed, this tax is levied for five years raising approximately \$100 million. Tax proceeds are exclusively dedicated to pavement preservation and repair of local roads throughout the County, including cities, towns and unincorporated areas. Arterial and collector roads are funded by their own separate funding mechanism related to pavement preservation and road repair.

FY 2017/18 Transportation Road primary property tax collections are expected to total \$19,526,525. Again, this funding is exclusively dedicated to the repair and pavement preservation of local and neighborhood roads throughout the County. The Board allocated \$8,190,205 of this funding to local roads in unincorporated Pima County, with the remaining \$11,336,320 allocated to cities and towns.

The Board also approved the formation of a 13-member Transportation Advisory Committee as part of the FY 2017/18 final budget adoption. Among others, this committee's responsibilities include making recommendations to the Board for prioritization of local road repairs in the unincorporated area and making joint recommendations to the Board regarding the prioritization of local road repairs in participating cities and towns.

The committee completed an extensive meeting and review process starting in August 2017 and sent their recommendations for a two-year plan covering FY 2017/18 and FY 2018/19 to the Board in November 2017. The Board adopted and approved this plan with changes. This two-year authorization will expend approximately \$38 million on repairing roads throughout Pima County within municipal jurisdictions, cities and towns and the unincorporated area.

The FY 2018/19 recommended budget currently appropriates funding for the second year of the twenty-five cent Transportation Road primary property tax. FY 2018/19 property tax collections are forecast to total \$20,636,092. I previously communicated to the Board my desire to have a separate line item vote on this tax, including the provision that to be

effective, the twenty-five cent property tax allocation for road repair be approved by a unanimous vote of the Board of Supervisors. This would reduce claims that the distribution of funds was either unfair or the roads selected for repair were improper. I discuss my proposal for a unanimous vote of the Board later in this memorandum.

In addition to adopting the new levy and rate in FY 2017/18, the Board also adopted a total of \$0.1100 in offsetting reductions in the General Fund primary property tax rate and secondary property tax rates. At that time the Board approved my plan to make the Transportation Road primary property tax, fiscally neutral to our property taxpayers in FY 2018/19. My FY 2018/19 Recommended Budget accomplishes this by including an additional, \$0.1400 reduction in the General Fund primary property tax rate.

B. Proposed Sales Tax

In addition to adopting the FY 2017/18 Transportation Road primary property tax, the Board of Supervisors approved the formation of a citizen's Sales Tax Advisory Committee (STAC) to explore enacting and levying a half-cent sales tax to fund local road pavement preservation and repair. The committee was charged with reviewing the positive and negative benefits of such a tax as well as how a sales tax could be allocated to roads, property tax relief, etc. A full year's collections, if implemented in FY 2018/19, would yield approximately \$73 million.

The appointed STAC began holding hearings and meetings in the latter half of 2017. The committee sent a final report and recommendations to the Board on March 8, 2018. The Board accepted the committee's report at their April 3, 2018 meeting. The Board directed staff to prepare a draft sales tax implementation ordinance and a draft resolution levying a sales tax for discussion at their meeting on April 17, 2018. The draft ordinance and resolutions are complete and, if adopted by the Board as currently written by staff, would achieve the following;

1. Sufficient funding to improve the condition of all unincorporated paved County maintained local, arterial and collector roads to at least fair condition within ten years;
2. Significant funding to cities and towns for their road repair needs;
3. Assurances that the sales tax funding would be spent, as promised, on pavement preservation and road repair via independent audits and an automatic repeal clause;
4. A \$0.2500 per \$100 of taxable net assessed value reduction of the County's Transportation Road primary property tax rate;
5. Over \$50 million over a ten year period in additional General Fund support for programs that increase the financial stability and health of low-income households to mitigate the impact of the sales tax on these households.

Arizona Revised Statute (ARS) 42-6103 – County General Excise Tax; Authority to Levy; Rate; Distribution; Use of Proceeds allows a county of less than 1.5 million persons to levy and collect a general excise (sales) tax upon a unanimous vote of the Board of Supervisors. Every eligible county other than Pima County levies and collects this tax. This tax would be collected from each person engaging or continuing in a business in the county as described in the applicable associated statutes. The rate in the statute equates to one-half percent for most transactions.

My April 17, 2018 – Draft Sales Tax Implementation Plan Ordinance and Resolution Levying Sales Tax memorandum details the draft ordinance and resolution along with various policy alternatives. Further action on a sales tax is pending awaiting further direction from the Board of Supervisors. The Board discussed the recommendations contained in the memorandum and provided additional direction to staff. Based on this input, I will provide an updated ordinance and resolution for consideration prior to the final budget adoption in June.

C. 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 2018/19.

In FY 2015/16, the Governor and the Legislature 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 \$88.7 million, or 27 percent of the General Fund primary property tax rate of \$4.0696. 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 System	\$ 17,626,151
Arizona Long Term Care System	41,453,756
Behavioral Health System State Contribution	3,064,936
Restoration to Competency	1,552,901
Sexually Violent Persons	1,215,782
Superior/Juvenile Court – Salaries and Benefits	18,735,189
Justice Courts – JP Salaries and Benefits	1,203,649
Constables – Salaries and Benefits	905,775
State Juvenile Corrections	1,726,804
Restoration of ALTCS Dental	141,000
AZDOR Operating Cost	1,039,000
Total	\$ 88,664,943

D. Employee Compensation

1. 2.5 Percent County-wide Salary Adjustment

The last County-wide employee compensation adjustments were approved by the Board of Supervisors at the adoption of the FY 2016/17 budget. At that time, sheriff deputies, sheriff sergeants, corrections officers and corrections sergeants received decompression adjustments ranging from 2 to 20 percent. The remainder of eligible employees received adjustments ranging from 2 percent for employees earning more than \$90,001 per year to 6 percent for employees earning 35,000 or less per year.

In forming my FY 2018/19 budget recommendations related to employee compensation, I considered various options. The option that I have chosen to recommend to the Board is a 2.5 percent across the board salary adjustment for all eligible County employees effective on July 8, 2018, the start of the first full pay period of FY 2018/19. I believe that this adjustment strikes a balance between our need to continue to adequately compensate County employees for the value of the services they provide and the additional funds required to fund the ongoing year-to-year costs.

The annual FY 2018/19 County-wide cost of this proposed salary adjustment is \$9.7 million including associated benefits. The cost to the General Fund is \$6.7 million.

Salary adjustments result in additional benefits costs paid by the County on behalf of its employees. These benefits are paid on an employee's salary, overtime, on-call pay and other premium pays. Variable benefits impacted by the salary adjustments include Social Security and Medicare, workers' compensation, County retirement contributions and unemployment insurance. For every dollar increase in compensation, associated additional benefits increases range from 20 cents to 79 cents, depending on the classification of the employee. Of the \$9.7 million annual cost of the proposed 2.5 percent salary adjustment, \$2.2 million represents additional benefits costs.

If the Board approves this recommended salary adjustment, employee eligibility requirements will be sent to departments in a separate memorandum.

2. Sheriff Deputy – Trainee and Corrections Officer Trainee Program

At the Sheriff's request, I have directed staff to create two new trainee status designations within the existing sheriff deputy and corrections officer classifications:

- Sheriff Deputy Trainee - \$20.85 per hour
- Corrections Officer Trainee - \$17.52 per hour

I have also directed staff to adjust the hourly salary range for the existing classifications:

- Sheriff Deputy – Current: \$20.85 to \$29.84 to New: \$23.50 to \$29.84
- Corrections Officer – Current: \$17.52 to \$26.02 to New: \$19.50 to \$26.02

The Sheriff plans to hire new trainees at the rates previous. Once the employee completes their probationary period (Sheriff Deputy Trainee – 18 months and Corrections Officer Trainee - 12 months) the employee will be moved to the new minimum of the existing sheriff deputy and corrections officer salary ranges above.

The estimated \$1.2 million salaries and benefits impact of this plan will be absorbed within the Sheriff's FY 2018/19 recommended budget. The Sheriff has instituted several cost saving measures in FY 2016/17 and FY 2017/18. As of the end of February 2018, the Sheriff is forecasted to come in a net \$2.9 million under budgeted expenditures at year-end. Sufficient annual savings will carry over into FY 2018/19 and ongoing years to make these salary adjustments possible.

3. Retention Incentive for Sheriff Deputies and Corrections Officers

Retention of our experienced sheriff deputies and corrections officers continues to be an issue for the Sheriff. We lose a portion of our deputies and corrections officers to other jurisdictions that, supposedly, provide higher base compensation. I have been working with the Sheriff to develop a plan to improve retention of our experienced mid-level deputies and corrections officers that are the employees most likely to leave the County to work in another jurisdiction or region.

The plan proposed by the Sheriff, and approved by myself, includes a two-fold series of increases for sheriff deputies whose current base salary is \$22.98 to \$27.93 per hour and corrections officers whose current base salary is \$18.92 to \$24.10 per hour:

- a. If approved by the Board of Supervisors, all eligible sheriff deputies and corrections officers in this range will receive the same 2.5 percent County-wide salary adjustment that all eligible employees will receive starting with the pay period beginning on July 8, 2018.
- b. If approved by the Board, all eligible sheriff deputies and corrections officers in this range will receive an additional 5 percent retention incentive base salary adjustment effective the pay period beginning on January 6, 2019.

This retention incentive adjustment will positively impact 146 sheriff deputies and 222 corrections officers. The incremental cost of the retention incentive adjustment plus benefits totals \$716,150 in FY 2018/19. The annualized cost starting in FY 2019/20 and onward will be \$1,432,300.

The cost of the retention incentive is not included in the recommended budget. I will add this funding at the time the Board considers the proposed tentative adopted budget.

4. Sheriff Transition to Merit Based Pay System

Given the five percent mid-year pay adjustment for a large number of deputies and corrections officers, it is appropriate to retain compensation increase equity with other County employees, Sheriff's deputies and corrections officers will forgo any pay increase in FY 2019/20. I intend to recommend an additional pay increase for County employees in FY 2019/20 to remain competitive with the regional workforce. The Sheriff has indicated that if I approve the mid-year pay adjustment, he will not seek any additional compensation for law enforcement or corrections personnel in FY 2019/20.

In addition, during this time period I have asked the Sheriff to develop a new pay plan that rewards merit versus longevity. The Sheriff has agreed to transition to and develop a merit based pay plan beginning in FY 2020/2021.

5. County Attorney Merit Based Pay for Attorney Professionals

The County Attorney has requested, and I have agreed, to provide the 2.5 percent cost of the salary adjustment for attorneys in a manner in which the County Attorney can determine merit based pay among the eligible employees. There are 93 professional attorneys employed in the County Attorney's Office and the 2.5 percent salary adjustment, plus benefits equals \$217,217, of which the County Attorney will determine the distribution.

E. Employee Benefits

Overall, FY 2018/19 County benefits cost are expected to increase by a net of \$1.9 million over FY 2017/18 (from \$149.1 million to \$151.0 million). Most of this increase is attributable to an increase of \$2.4 million in employee benefits impacted by the proposed 2.5 percent employee salary adjustment partially offset by net savings in other benefits costs.

FY 2018/19 will be the County's sixth year under a self-insured model for employee medical and pharmacy benefits. Based on the continued strong performance of the Health Benefits Insurance Trust Fund over the past year, it is recommended that both employer and employee biweekly rates each be reduced by 5.68 percent from the FY 2017/18 rates. Our review of the Health Insurance Benefits Trust financial reports continues to show that transitioning to a self-insured plan was a prudent and beneficial decision for both employees and the County. This adjustment will save the County approximately \$2.3 million in premiums paid on behalf of employees while still allowing sufficient funding for the trust in the coming fiscal year.

The County provides eligible employees with Health Savings Accounts (HSA). 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 expects to spend up to \$9.1 million in FY 2018/19 to fund employee HSAs.

Again, based on the performance of the Health Benefits Insurance Trust Fund, the actual County contributions to employees' HSA accounts will be paid by the Fund rather than by the individual County departments. This one-time change in the source of the County's HSA contributions will offset a significant portion of the FY 2018/19 salary adjustment. Individual departments will restart paying for their HSA contributions in FY 2019/20.

Retirement funding costs for the various employee plans continue to make up a significant portion of the County's benefits costs. The budget for these contributions has increased from \$40.4 million in FY 2012/13 to a now projected \$65.6 million for FY 2018/19. This represents a 62.3 percent increase in funding contributions for retirement benefits for County employees over this five-year period.

The County's employer contribution rate for the Elected Official Retirement Plan (EORP) is currently 23.5 percent. This contribution rate is set by State statute. This plan is underfunded and the current statutory rate is not sustainable. HB 2357 is moving through the State Legislature to allow employer contributions to be determined actuarially based on the plan's funding requirements. If this proposal is successful, the FY 2018/19 County contribution rate will likely increase to 61.5 percent. The \$2.6 million cost of the rate increase is not included in my recommended budget. Note that even if this higher contribution rate is approved, it is likely that there will continue to be significant increases in employer contributions to EORP in future years. If this higher contribution rate is approved by the Legislature, I will likely be asking the Board for an adjustment in the General Fund primary property tax rate to offset the additional cost transferred to the County by the State at the time the tentative adopted budget is considered.

Including the possible increase in County funding contributions for EORP results in potential retirement contributions of \$68.2 million in FY 2018/19. The \$27.8 million increase over the last six-years has made managing budgets and controlling expenses difficult.

F. Transition to Pay-As-You-Go Capital Improvement Funding

The FY 2018/19 Recommended Budget includes the start of a departure from the traditional voter-authorized general obligation bond financing for capital improvement projects to a pay-as-you-go plan. The County will no longer rely on issuing general obligation bonds for the financing of capital improvement projects. Instead, the pay-as-you-go model will rely on funding from a property tax levy or other real-time funding sources that become available.

The County will continue to pay off existing general obligation bond debt already scheduled using the debt service secondary property tax levy. As general obligation bond debt is retired in future fiscal years, the debt service rate and levy will begin to decrease.

The FY 2018/19 budget includes moving \$16.1 million from the General Fund to the Capital Projects Fund to begin to fund a variety of capital improvement projects. A detailed list of these capital improvement projects is shown in Table 2 below.

Table 2: Recommended Pay-As-You –Go Capital Improvement Funding for FY 2018/19.

Recommendation	Amount
Treasurer Relocation ¹	\$150,000
Sports Park Upgrades	\$175,000
Public Service Center 7 th Floor Tenant Improvements ¹	\$476,000
Public Service Center 6 th Floor Tenant Improvements ¹	\$499,000
Parking Lot Paving Rejuvenation	\$500,000
Historic Courthouse – Visit Tucson	\$800,000
Gap Housing and Services Building	\$1,050,000
Defense Services Building	\$1,050,000
Northwest County Service Center	\$3,300,000
Historic Courthouse	\$8,065,000
TOTAL	\$16,065,000

¹These pay-as-you-go capital improvements are for the design of improvements necessary to County facilities to facilitate City Court consolidation. This matter is under active discussion. These funds will not be expended until there is an affirmative decision by the City of Tucson to proceed with court consolidation.

The pay-as-you-go funding concept is already being utilized by the Library District’s capital improvement program. Currently, pay-as-you-go funding is dedicated to the Flowing Wells Library expansion, the initial library construction at Houghton Road and Mary Ann Cleveland Way and library construction in Sahuarita.

The Regional Flood Control District is also continuing to utilize a pay-as-you-go plan. The District will be transferring \$9.1 million to the Capital Projects Fund in FY 2018/19 to fund current and new capital improvement projects.

The Recommended Budget includes increases in the secondary property tax rates for the Library District and the Regional Flood Control District by \$0.0100 and \$0.0200 respectively. These increases are dedicated to each Districts’ pay-as-you-go capital improvement programs.

G. Criminal Justice Reform Unit

This year I formally established a Criminal Justice Reform Unit (CJRU) in my office to continue our efforts at criminal justice reform to both reduce costs and improve outcomes. These efforts began with the formation several years ago of the Justice Coordinating Council. While the Council has successfully improved some communication between our criminal justice budget units, this is not enough. These units are traditionally by design, information silos and act independently of one another. The concept we have of criminal justice as a system is simply a misnomer. The CJRU consists of six employees pulled from other organizational units into a cohesive policy group designed to facilitate and accelerate criminal justice reform. While the CJRU has primary responsibility for the MacArthur Foundation Grant and other grants associated with criminal justice reform, they are also responsible for policy data analysis that can be shared with all elements of our criminal justice system and to encourage reforms that will reduce the cost of this system to our taxpayers as well as improve outcomes for those involved in the system.

The CJRU has a number of policy initiatives that will facilitate reform as follows: a) Safety + Justice Challenge; b) Pre-arrest Deflection; c) Electronic Monitoring; d) Case Processing Review; e) Pretrial Deflection from Detention; f) Re-entry from Prison or Detention and bridge or transitional housing for detention or prison reentry participants; g) High utilizer multidisciplinary detention evaluation; h) Drug possession prosecution or small scale sale and possession; and i) Court sentencing to detention alternatives.

These initiatives that facilitate reform are all designed to reduce costs and improve outcomes and/or system-wide performance. Criminal justice reform will very often require policy decisions of independent elected officials and/or action by the State Legislature; hence, it is important to have a sound factual basis when recommending change, hence, the importance of this CJRU in the County Administrator's Office.

I will be recommending the formation of the Justice Commission, comprised of outside respected experts in criminal justice reform. The purpose of the Commission will be to evaluate the state of the County's justice system and to make recommendations regarding changes that can reduce costs and improve outcomes for the community. These outside experts will represent all facets and components of our criminal justice system, from law enforcement, prosecution and defense, courts, social service agencies, social science, behavioral health and experts in reentry and recidivism reduction.

Upon adoption of the Final Budget, I will recommend the scope and purpose of the Commission as well as necessary bylaws and operating principles.

H. Grants Management and Innovation

Another new operating department within the County and new in this budget year, will be the Grants Management and Innovation Department. This department is being formed from several subunits within County government. The importance of uniform grant administration is evident from the disparate administration and management of certain grants primarily in the criminal justice area. This lack of uniform administration has resulted in the County General Fund having to reimburse federal grant programs for inaccurate charges made to grants. It is important to have a uniform and informed grant management program to avoid unexpected and unbudgeted charges to the County General Fund. This department will ensure uniformity of administration in policy, as well as with grant acceptance and administration.

Furthermore, grants are typically at the forefront of innovation. The best example is the MacArthur Foundation Grant designed to reduce jail and/or detention population. This grant is fostering innovative programs to drive the policy of trying to reduce jail population nationwide. Very often grants are used to test the applicability of innovation in program change or design, particularly governmental programs. It is also important that a unified grants program have a policy that seeks out grants to foster innovation and change. Hence, the emphasis on innovation in this new organization.

I. Analytics and Data Governance Unit

Over the last couple of years, new language has been added to our vernacular. It is – Big Data. In this information technology age, we gather data and information on everything. The explosion of data collection provides new opportunities to analyze divergent data sets to recognize trends to assist in policy decisions that may not be readily apparent. This information may simply better inform policymakers on subjects that may appear to be esoteric or not even related to one another, yet they are. Hence, because of our more sophisticated information technology organization, we are able to gather, store and analyze more data than ever before, hence the need to develop a new organizational unit again from existing County department organizations. A new Analytics and Data Governance Unit within the General Government Services Administration Department to do Big Data analysis for the benefit of program implementation and policy direction is necessary.

J. Information Technology Costs

For several years, the County has been updating its information technology infrastructure and equipment to handle the ever increasing technology needs and developments. For Fiscal Year 2018/19, Information Technology Department cost allocations are increasing by 12 percent, from \$36,425,576 to 41,542,650. For years, the County has been experiencing similar annual increases in information technology. Most of these costs are captured in four separate Internal Service Funds within the Information Technology Department and are

charged to departments using various cost drivers that reflect the departments' use of technology, such as the number of connections with the system, the type of information technology equipment used, the amount of storage and server space used. Although the budgets for the Information Technology Department General Fund and for the Enterprise Software component of the Information Technology Internal Service Funds remained basically the same as last year, increasing from \$15,576,493 to \$15,831,889, or 1.6 percent, the allocated costs relating to infrastructure, servers and storage, and hardware combined increased from \$20,849,083 to \$25,710,761, or 18.9 percent.

The cost for infrastructure, budgeted in the Telecommunications Internal Service Fund, includes the basic cable backbone of the County's system as well as the phone system, increased by \$971,350, from \$5,535,722 to \$6,507,072. Most of this increase relates to the updating of firewall protecting the County from more than 139 million cyber-attacks each day, the expansion and refresh of the County's wireless access points located in most County facilities, and Access Layer Switches that connect all computers, phones, printers, etc. to the County network. Additionally, we are beginning to set aside funds to replace the existing phone system, possibly as early as Fiscal Year 2020/21.

The cost for servers and storage increased the most representing more than half of the total increase for information technology, increasing from \$7,073,814 to \$9,680,072, a 26.9 percent increase. Several factors are responsible for the increase in this area. For years, we have experienced an annual growth in servers and storage of approximately 20 percent and will likely continue such growth as more and more data is captured and utilized by departments. Additionally, the Pima County Sheriff's Department replacement of servers and related software that is more than five years old has been included in this Server/Storage Internal Service Fund to track the costs.

Hardware costs, primarily for computers, is increasing by \$1,284,070 to \$9,523,617, a 13.5 percent increase. The increase stems from a combination of factors, including the shift to solid state hardware, the increase in the internal storage of the devices from 256 gigabytes to 512 gigabytes to handle the increases in the size and capacity needed for standard software used by the County, as well as increases to cover the replacement of the Sheriff's Department's hardware as the Sheriff's Department becomes more fully integrated into the County's central information technology structure.

III. GENERAL FUND ENDING FUND BALANCE: FY 2017/18

A. Positive Ending Fund Balance

The recommended General Fund ending balance for FY 2017/18 is \$90,674,735. This is a projected increase of \$23,678,889 over the budgeted General Fund Reserve of \$66,995,846. This ending balance represents approximately 16 percent of projected

General Fund revenues plus operating transfers in for FY 2017/18. This ending fund balance is within the recommended guidelines of the Government Finance Officers Association.

B. Recommended Uses of General Fund Ending Balance

The information contained in Table 3 below represent my recommendations for use of the \$90,674,735 of non-recurring, one-time resources, projected as the available ending balance of the General Fund on June 30, 2018.

**Table 3: Recommended Allocation of FY 2017/18
 General Fund Ending Balance.**

Recommendation	Amount
Transfer to Pay-As-You-Go Capital Projects	\$16,065,000
Banner–University Medical Center South Campus	\$15,000,000
FY 2018/19 Elections	\$8,537,283
Increase in Adult and Juvenile Inmate Healthcare	\$5,788,742
State Cost Shifts:	
State Juvenile Corrections	\$1,726,804
Restoration of ALTCS Dental	141,000
Arizona Department of Revenue	\$1,039,000
Miscellaneous One-Time Expenditures	\$1,791,026
General Fund Reserve	\$40,585,880
TOTAL	\$90,674,735

IV. GENERAL FUND SUBMITTED BASE BUDGET: FY 2018/19

A. General Fund Base Budget Revenues (Before my recommended adjustments below)

Pima County currently levies two primary property taxes. The larger of the two rates is the General Fund primary property tax that fund general government operations and will be the revenues discussed in this section. The second is the Transportation Road primary property tax that is used to fund local road pavement preservation and road repair. This portion of the primary property tax is discussed in various other sections of this memorandum.

If the current General Fund primary property tax rate of \$4.2096 were continued into FY 2018/19, projected FY 2018/19 base budget revenues and operating transfers-in to the General Fund total \$567,993,993. This is a \$13,560,079 or 2.4 percent, an increase from the current year budgeted revenues and operating transfers-in 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 General Fund primary property tax revenues, projected FY 2018/19 base budget General Government revenues from all other sources is \$178,312,977; a \$4,922,960, or 2.8 percent, an increase from the current Adopted Budget.

The largest revenue stream in this category – state shared sales tax – is projected to increase by \$5.8 million, or 5.1 percent, to \$121.0 million, reflecting continued growth in the local economy. Vehicle License Tax revenue is also projected to show continued improvement next year with an overall increase of \$1.2 million, or 4.3 percent.

2. Primary Property Tax Revenues

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

FY 2018/19 represents the fourth effective year of a Constitutional amendment, approved by Arizona voters six 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 assessed value.

b. Primary Property Tax Revenues (Before recommended primary property tax rate adjustments)

The Taxable Assessed Value for FY 2018/19 totals \$8,333,892,906. This is a net increase of \$258,935,189, or 3.21 percent, over the current year and represents only the fourth annual increase in Taxable Assessed Value since FY 2009/10. While this amount represents an increase from FY 2017/18, the Taxable Assessed Value is still \$651,818,924, or 7.25 percent less than nine years ago in FY 2009/10. In FY 2018/19, the market value of existing property in the County will increase by 1.33 percent. New construction will add 1.86 percent to the property tax base.

For FY 2018/19, Pima County has one primary tax to support its General Fund and a separate primary tax dedicated to support a local road pavement preservation and road repair program. If the General Fund primary property tax rate for FY 2018/19 continues at the current rate of \$4.2096 per \$100 of taxable net assessed value, the resulting General Fund primary levy is \$350,823,556. This is \$10,900,136 more than the amount levied in the FY 2017/18 year's Adopted Budget. Assuming the Transportation Road primary property tax rate for FY 2018/19 remains the same at \$0.2500 per \$100 of taxable net assessed value, the resulting Transportation Road primary levy will be \$20,834,732, an increase of \$647,338 over the levy in the FY 2017/18 Adopted Budget.

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

Together with the projected primary property tax collection next year, the total base General Fund property tax revenues projected for FY 2018/19 are \$352,540,205. This amount is \$10,232,373, or 2.99 percent, more than the total General Fund primary property tax revenues adopted in the FY 2017/18 Adopted Budget. The total base Transportation Road primary property tax revenues projected for FY 2018/19 are \$20,636,092. This amount is \$1,109,567, or 5.7 percent, more than the Transportation Road primary property tax revenues in the FY 2017/18 Adopted 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 determines the County's 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 FY 2018/19 neutral primary rate is \$4.4014, or \$0.0582 less than the sum of the current year's \$4.2096 General Fund primary tax rate and \$0.2500 Transportation Road primary tax rate. The resulting neutral primary levy is \$4,850,326, or 1.31 percent, less than the levy produced by the sum of the current year's General Fund and Transportation Road primary tax rates. If the current year primary rates remain unchanged, the County would 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 Maximum Allowable Primary Levy Limit imposed by the Arizona Constitution, which is indexed to reflect a modest annual rate of inflation of two percent. The Maximum Allowable Primary Levy Limit imposed by the Arizona Constitution allows the County's primary rate to be increased to \$5.2101, or \$0.7505 higher than the sum of the current year's General Fund and Transportation Road rates. The resulting constitution capped levy is \$434,204,154, which is \$62,545,866, or 16.83 percent, greater than the levy produced by the current rates.

The above discussion assumes that the General Fund primary property tax rate will remain unchanged from FY 2017/18. As I have indicated earlier in this memorandum, I will be proposing to adjust the FY 2018/19 General Fund property tax rate by \$0.1400 to fully offset the tax increase associated with the Board's adoption of the \$0.2500 Transportation Road primary property tax in FY 2017/18. This discussion can be found in Section VI. below:

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for FY 2018/19 are projected to total \$37,140,811. This is a \$1,595,254 net decrease from the current year's budget.

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

- \$2.9 million reduction in the cash operating transfer from the Stadium District into the General Fund used to pay Stadium District debt. The final payment on this debt was made in FY 2017/18.
- \$600k reduction in revenue received by the Medical Examiner's Office for forensic services provided to other jurisdictions.
- \$710k increase for rent from World View Enterprises
- \$600k increase in cash operating transfer from Park Special Programs into the General Fund for Painted Hills debt repayment.
- \$463k increase, representing reimbursement from the City of Tucson for costs associated with the operation of the shared Public Works Building
- \$107k increase in reimbursements for utilities from the Pima Air and Space Museum

4. General Fund Submitted Base Budget Expenditures

The amount required in FY 2018/19 to fund department submitted General Fund-supported base budgets for both expenditures and transfers-out is \$571,908,886; which is \$49,520,874 or 8 percent, less than the current year's adopted budget. This base expenditure amount represents FY 2017/18 adopted departmental budgets adjusted for increased benefit costs; impacts to base pursuant to Board adopted budget policies and prior directives; and decreases in 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:

- \$283,437,969 of General Fund expenditures for Justice and Law Enforcement functions.
- State cost shifts totaling \$88.7 million, or 27 percent of the existing primary property tax rate.
- \$45,750,335 of operating transfers to other County funds.
- \$64,913,526 for mandated payments to fund State programs for indigent acute and long-term healthcare, as well as mental healthcare.
- \$18,915,276 for adult and juvenile detention healthcare a projected increase of \$5,788,742 over FY 2017/18.
- \$104,787,237 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 to participate.

- \$5,257,359 for allocation to Outside Agencies.
- \$8,537,283 to fund the cost of the FY 2018/19 elections.

B. County Staffing Increases

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 shrunk by over 1,267 Full-Time Equivalent (FTEs), or 15 percent, from peak staffing in FY 2007/08 as shown in Table 4 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. Staffing is also controlled by having departments budget only for positions they can reasonably expect to fill during the course of the year.

FY 2018/19 total budgeted FTEs increased by a net of 73.0 from FY 2017/18. The majority of the increase in FTEs occurs in the General Fund. Elections and the Recorder increased budgeted staffing by a combined 50.9 FTEs to reflect increased temporary personnel requirements based on planned mid-term elections in FY 2018/19. The increase also represents the net of various increases and decreases in the funded FTE counts within the various County departments. Descriptions of changes in the number of FTEs are included in the individual department descriptions in this book.

**Table 4: Total Budgeted FTE Positions, FY 2007/08
 Adopted Budget through FY 2018/19
 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)
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)
2018/19	7,129	73	(1,267)

V. RECOMMENDED ADJUSTMENTS TO GENERAL FUND BASE EXPENDITURES

Table 5 below details the FY 2018/19 expenditure adjustments required to fund pay-as-you-go capital improvement funding, Banner University Medical Center, a 2.5 percent salary adjustment plus benefits, additional ongoing State-related cost shifts and fully fund a 7.3 percent General Fund budget reserve.

**Table 5: Recommended Adjustments to FY 2018/19
 Submitted Base Expenditures and Operating Transfers-out.**

Proposed FY 2018/19 Base Expenditures and Operating Transfers-out	\$571,908,886
Transfer to Pay-As-You-Go Capital Improvement Projects	\$16,065,000
Banner-University Medical Center South Campus	\$15,000,000
One-Time Reduction in Departmental Contributions to Employee HSA Accounts	\$(5,837,014)
2.5 Percent Salary Adjustment Effective July 8, 2018	\$5,067,173
Benefits Increase as the Result of the 2.5 Percent Salary Adjustment	\$1,615,703
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 7.3 Percent Budget Reserve	\$40,585,880
Total FY 2018/19 Recommended Expenditures and Operating Transfers-out	\$647,312,432

The Recommended General Fund budget totals \$647,312,432 and consists of \$585,397,097 of expenditures and \$61,915,335 of operating transfers-out to other County departments and funds.

I am also recommending a General Fund Budget reserve of \$40,585,880. This amount represents 7.3 percent of recommended revenues and operating transfers-in. This reserve meets the Government Finance Officers Association recommendation of a minimum set aside and retains a reserve capacity for any emergency funding during the course of the coming fiscal year.

VI. RECOMMENDED ADJUSTMENT TO GENERAL FUND SUBMITTED BASE REVENUES

A. Reduce General Fund Primary Property Tax Rate by 14-Cents

When I introduced the concept of the \$0.2500 Transportation Road primary property tax for local pavement preservation and road repair, it had been the intent to make the new levy as neutral to the taxpayer as possible. At that time, I had hoped to recommend reducing the

other County primary and secondary property tax rates to offset the increase. Such would have been possible if the County General Fund had not been required to absorb additional General Fund impacts resulting from a \$5 million budget overage in the Sheriff’s Department for FY 2016/17 and an additional \$5 million increase in the County’s contribution to the Public Safety Personnel Retirement System in FY 2017/18. Thus, the Board was only able to offset the new Transportation Road primary property tax rate by reducing the other primary and secondary property tax rates by a combined 11 cents (8-cents in the General Fund primary, one-cent in the Library District secondary and two-cents in the Regional Flood Control secondary).

At the time that the Board of Supervisors approved the new budget and property tax rates, I had indicated that the FY 2018/19 budget would be structured to absorb the full 25-cent Transportation Road primary property tax increase making it neutral from a tax impact to the property taxpayers of Pima County. Thus, my FY 2018/19 recommended budget makes good on that promise and includes a 14-cent reduction in the General Fund primary property tax rate.

Base General Fund revenues plus operating transfers-in prior to the General Fund primary property tax rate reduction total \$567,993,993. This base number plus the FY 2017/18 ending fund balance of \$90,674,735 discussed in Section III.A above, is sufficient to fund the \$647,312,432 of General Fund recommended expenditures and operating transfers-out. These funds will also support a 14-cent reduction in the General Fund primary property tax rate to \$4.0696 per \$100 of taxable net assessed value. This reduction in the tax rate will result in a decrease of \$11,356,296 in FY 2018/19 General Fund primary property tax revenues. Table 6 below shows this revenue adjustment between the base revenues and operating transfers in and the County Administrator recommended revenues and operating transfers-in.

**Table 6: Recommended Adjustments to FY 2018/19
 Submitted Base Revenues and Operating Transfers-in.**

Proposed FY 2018/19 Base Revenues and Operating Transfers-in	\$567,993,993
\$0.1400 Reduction in the General Fund Primary Property Tax Rate (now \$4.0696)	(\$11,356,296)
Total FY 2018/19 Recommended Revenues and Operating Transfers-in	\$556,637,697

As I mentioned in Section IV.A.2.b above, State Truth in Taxation statutes determines the County’s neutral combined primary property tax levy each year. If the General Fund primary property tax rate remained the same as in FY 2017/18, the combined General Fund and Transportation Road primary property tax rates would total \$4.4596 per \$100 taxable net assessed value. The FY 2018/19 Truth in Taxation, tax rate is \$4.4014. Reducing the General Fund primary property tax rate by the proposed 14-cents to \$4.0696, would result in the combined General Fund and Transportation Road primary rates totaling \$4.3196, or \$0.0818 under the Truth in Taxation rate. Thus, if the recommended combined property tax rate is adopted by the Board, the County will not be required to hold a Truth in Taxation Hearing for the combined primary property taxes prior to the final budget adoption.

B. Request Unanimous Board of Supervisors Approval of the \$0.2500 per \$100 of Taxable Net Assessed Value Transportation Road Primary Property Tax Rate

The FY 2017/18 adoption of the \$0.2500 Transportation Road primary property tax rate was not unanimous by the Board of Supervisors. This tax and the resulting budget and levy were approved by a 3-2 series of votes by the Board.

The adoption of the Transportation Road primary property tax was a difficult but necessary action by the Board to begin to address the huge local road pavement preservation and the road repair problem. The two supervisors whose districts benefit the most from this tax voted against it. However, despite these negative votes, the remainder of the Board made the difficult decision to adopt the levy despite their district's lesser benefits.

After much consideration, I propose the Board vote separately on the Transportation Road primary property tax and require a unanimous vote of the Board to include it in the final adopted budget. Political grandstanding on the serious subject of road repair should not be tolerated by the Board.

If the Board of Supervisors does not unanimously approve the continuation of the Transportation Road primary property tax, the proposed final adopted budget will include an additional \$0.2500 reduction in the combined primary property tax rate that will be paid by property owners in FY 2018/19. However, the County will still be required to make debt service payments on the Certificates of Participation issued in FY 2017/18 for the local pavement preservation and road repair program as well as other obligations to jurisdictions who have acted in good faith throughout this year's project allocation process. The source for a significant portion of these funds will be a reduction in the current recommended General Fund Budget Reserve.

The Transportation Advisory Committee was set up by the Board to review local road needs and make distributions to the local jurisdictions that presented their findings and recommendations to the Board earlier in the calendar year. Those recommendations were for two fiscal years. If the Board does not approve the continuation of the Transportation Road primary property tax, the second year project recommendations will be cancelled.

C. Proposed Half-Cent Sales Tax for Local, Arterial and Collector Roads

My recommended budget does not include any revenue or expenses related to a half-cent sales tax currently under consideration by the Board of Supervisors. If the Board later adopts a version of the draft sales tax ordinance and unanimously adopts a version of the draft resolution to levy such a tax prior to the tentative budget adoption, I will direct staff to make the corresponding budget adjustments.

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 2018/19, 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 7 million times in the course of a year. The Library provides 1,200 computers that generate 1.5 million computer sessions by the public, and welcomes on average 5.5 million visitors through its doors annually. 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.

The County Library District's property tax base is increasing for the fourth year in a row. The tax base is projected to increase 3.21 percent in FY 2018/19.

The FY 2018/19 Recommended Budget for operating costs, grants and operating transfers-out is \$47,775,206 which is a \$618,866 increase from the FY 2017/18 budgeted amount of \$47,156,340.

The recommended budget will fund increased operating expenses for salaries and benefits, and other internal service charges and maintenance costs. Additionally, five Pay-As-You-Go Capital Improvement Program projects are scheduled in FY 2018/19. Four are for new and expanded library facilities and one is to update the Library Network Lifecycle.

The recommended Library District secondary property tax rate for FY 2018/19 of \$0.5153 per \$100 of taxable net assessed value is a one cent increase from the tax rate for FY 2017/18. The recommended tax rate is projected to provide \$42,511,264 in revenues that will be supplemented by a projected \$1,851,500 from fines, interest, grants and miscellaneous revenue and \$3,412,442 from the Library District fund balance in order to meet the recommended overall budget of \$47,775,206.

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 determines the Library

District's neutral secondary property tax levy each year. A neutral levy and the corresponding tax rate are 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 \$0.4987, or \$0.0166 less than the proposed secondary tax rate of \$0.5153. The resulting neutral secondary levy is \$41,561,124, or 3.22 percent, lower than the levy produced by the recommended 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 2018/19 Debt Service Fund budget is \$160,950,259, a \$26,159,883 increase from the current fiscal year, which means we are paying our debt back quicker than planned. 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 by a secondary property tax levy. The FY 2018/19 recommended General Obligation debt service of \$58,129,332, an increase of \$1,911,976 for FY 2017-18, will fund the 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.

I recommend the General Obligation Debt Service secondary property tax rate be reduced to \$0.6900 per \$100 of taxable net assessed value for FY 2018/19.

Based on current debt service schedules, the General Obligation Debt Service secondary property tax rate is forecast to decrease to \$0.6800 in FY 2019/20. The rate is expected to decrease another 16 cents in FY 2020/21 to \$0.5200. All General Obligation debt is projected to be completely paid off in FY 2028/29.

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 \$18,589,063, a \$750,794 decrease from FY

2017/18, will fund the existing debt service, as well as debt service on a proposed \$25 million bond sale expected to occur in the spring of 2019.

c. Certificates of Participation Debt Service

The Certificates of Participation (COPs) debt service of \$84,231,864, an increase of \$24,998,701 from FY 2017/18, includes COPs issued in prior years for the acquisition or construction of County facilities such as the Public Service Center, the Fleet Services Facility the Historic Courthouse, Transportation Local Road Repair Program and various sewer projects. In addition, it includes the prepayment of \$12 million of the 2013 COPs used to build the Fleet Services Facility. The 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, 2017, the County had approximately \$1.1 billion of debt from all sources. Of the County's \$1.1 billion debt, \$20,505,000 is for sewer revenue bonds, \$513,430,000 is for sewer revenue obligations, and \$4,099,000 is for loans from the Water Infrastructure Finance Authority of Arizona (WIFA). This total of \$538,034,000, or 49 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 \$39.4 million of the remaining County debt consists of COPs issued to pay for sewer projects. In total, debt for sewer infrastructure is approximately 52 percent of all County debt.

e. Overall Pima County Debt

Pima County issues four types of investment debt: General Obligation Bonds, Street and Highway User Revenue Bonds, Sewer Revenue Debt and Certificates of Participation. The County's investment debt is not a traditional long-term debt. Rather, it is relatively short-term debt and always limited to 15-year repayment schedules.

Pima County's investment debt peaked in FY 2012/13 at \$1.35 billion from all sources. Because the County limits its investment debt to 15-year repayment schedules, at the end of FY 2017/18 current investment debt will be reduced to approximately \$1.03 billion. It is anticipated that total debt at the end of FY 2018/19 will equal \$942 million. This is a 30.1 percent reduction in just six years.

3. Regional Flood Control District

For the fourth time in nine 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 will increase 2.75 percent in FY 2018/19.

The recommended operating budget for the two components of the RFCD is \$16,914,248, a net decrease of \$582,830 under the current year's budget. This amount includes \$16,471,563 for Flood Control Operations and \$442,685 of expenditures related to the Canoa Ranch In-Lieu Special Revenue Fund. The department does not have any grants budgeted for in FY 2018/19.

The RFCD recommended budget also includes operating transfers-out totaling \$9,388,726, an increase of \$584,283 over the current year. These transfers include the following:

- \$9,100,000 transfer to the Capital Projects Fund to fund the District's Pay-As-You-Go Capital Improvement Program
- \$189,602 to the Stadium District for operating and maintenance costs of the Kino Environmental Restoration Project
- \$69,124 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 2018/19 secondary property tax rate increase by two-cents to \$0.3335 per \$100 of taxable net assessed value. The additional collections as the result of this tax rate increase will be applied to the District's Pay-As-You-Go Capital Improvement Program.

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 are 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 \$0.3088, or \$0.0247 less than the proposed secondary property tax rate of \$0.3335. The resulting neutral secondary levy is \$23,395,146, or 7.41 percent less than the levy produced by the recommended 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 RFCD final budget adoption.

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

As set forth in Table 7 below, the FY 2018/19 recommended Capital Improvement Plan of \$218,896,101 consists of the Capital Projects Fund Budget of \$175,155,871, Capital Projects of Regional Wastewater Reclamation of \$41,375,175, and Fleet Services of \$2,365,055. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 7: Recommended FY 2018/19 Capital Projects Fund Budget and Capital Improvement Plan

Capital Improvement Plan	FY 2017/18 Bond and Non-Bond Project Budgets	FY 2018/19 Bond and Non-Bond Project	Difference	1997 Bonds	2004/2014 Bonds	Non-Bonds
Capital Projects Fund						
Transportation	\$70,170,380	\$98,112,222	\$27,941,842	\$24,533,818	-	\$73,578,404
Facilities Management	40,094,909	43,181,339	3,086,430	-	2,323,554	40,857,785
Kino Sports Complex	-	10,959,514	10,959,514	-	-	10,959,514
Flood Control District	13,212,097	19,388,117	6,176,020	-	753,542	18,634,575
Parks and Recreation	1,735,000	145,891	(1,470,669)	-	41,463	104,428
Information Technology	262,000	262,000	-	-	-	262,000
Community Development	3,974,888	690,246	(3,284,642)	17,232	602,213	70,801
Environmental Quality	538,102	656,542	118,440	656,542	-	-
Public Works Administration	-	1,675,000	1,675,000	-	-	1,675,000
Office of Sustainability and Conservation	1,300,476	85,000	(1,215,476)	-	55,000	30,000
Total Capital Projects Fund	\$131,287,852	\$175,155,871	\$43,868,019	\$25,207,592	\$3,775,772	\$146,172,507
Wastewater Reclamation	\$49,257,735	\$41,375,175	(7,882,560.00)	-	-	\$41,375,175
Fleet Services	1,821,500	2,365,055	543,555	-	-	2,365,055
Facilities – Garages	238,761	-	(238,761)	-	-	-
Total Capital Improvement Plan	\$182,605,848	\$218,896,101	\$36,290,253	\$25,207,592	\$3,775,772	\$189,912,737

1. Capital Projects Fund Budget

The recommended \$175,155,871 Capital Projects Fund Budget for FY 2018/19 is an increase of \$43,868,019, or 33.4 percent, from the current year's budget of \$131,287,852.

Of the total Capital Projects Fund, \$25,207,592 is funded through 1997 bonds, \$3,775,772 is funded through 2004/2014 bonds, and the remaining \$146,172,507 is funded through other non-bond sources, including State Revenue, Regional Transportation Authority (RTA) Sales Taxes, Impact Fees, Grants, Certificates of Participation (COPs), and General Funds.

The Department of Transportation has budgeted \$98.1 million for 30 projects. The projects include \$19.5 million for Local Road Repair, \$12.8 million for Valencia Road (Wade Road to Ajo Highway), \$12 million for Broadway Boulevard (Euclid to Campbell), and \$12 million for Valencia Road (Houghton Road to Old Spanish Trail). Funding for the FY 2018/19 Department of Transportation Capital Program consists of \$24.5 million in 1997 HURF Bonds, \$19.5 million from Transportation Property Road Tax, \$15.9 million in Impact Fees, \$12 million in COPs, \$11.3 million in State Revenue, \$8.9 million in Grants, \$3.2 million in RTA Funding, and \$2.8 million from various other funding sources.

Facilities Management has budgeted \$43.2 million for 31 projects. This year's recommended budget includes \$15.6 million for the renovation of the Historic Pima County Courthouse, funded by Other Local Governments and COPs, and \$4.2 million for West Congress Building Exterior Façade Upgrades, funded by COPs.

The Regional Flood Control District has budgeted \$19.4 million for 22 projects, including \$3.7 million for El Corazon de los Tres Rios Del Norte, \$2 million for Urban Drainage, and \$2 million for Santa Cruz River Maintenance Projects, all funded with the Tax Levy Revenue.

2. Regional Wastewater Reclamation Capital Budget

The FY 2018/19 recommended capital budget for the Regional Wastewater Reclamation Department (RWRD) is \$41,375,175, a decrease of \$7,882,560 from FY 2017/18. The FY 2018/19 capital program is planned to be funded entirely with RWRD Obligations. Conveyance projects total \$25 million, including \$10 million for Minor Rehabilitation Projects, \$6.8 million for the Old Nogales Interceptor Augmentation, and \$2.7 million for Gravity Sewer Installation at Twin Peaks and Blue Bonnet. Treatment projects total \$16.2 million and include \$5.3 million for a Biogas Cleaning and Utilization Project and \$4.4 million for Nutrient Recovery, both at the Tres Rios Water Reclamation Facility.

3. Fleet Services Capital Budget

The FY 2018/19 recommended capital budget for Fleet Services is \$2,365,055, an increase of \$543,555 from FY 2017/18. The recommended budget includes \$1.3 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 36 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 General Fund primary property tax rate be reduced by 14 cents from the FY 2017/18 rate of \$4.2096 per \$100 of taxable net assessed value to \$4.0696 per \$100 of taxable net assessed value. In addition, it is recommended that the County's Transportation Property Road primary tax rate remain unchanged at \$0.2500 per \$100 of taxable assessed value pending a recommended unanimous adoption of this tax by the Board of Supervisors. Pursuant to State Truth in Taxation statutes, the levy produced by the sum of the General Fund and Transportation Property Road primary tax rates will be less than the neutral primary levy. A Truth in Taxation hearing will not be required to be noticed and held at the same time as Final Budget Adoption. The County's FY 2018/19 neutral levy tax rate is \$4.4014 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 Library District property tax rate be increased by \$.0100 per \$100 of taxable net assessed value, the RFCD tax rate be increased by \$.0200 per \$100 of taxable net assessed value and the Debt Service property tax rate be reduced by \$.0100 per \$100 of taxable net assessed value. The net of these changes in the secondary property tax rates and increased taxable net assessed values will produce \$5.27 million of additional secondary tax levies in FY 2018/19.

The result of these recommendations is a combined County property tax rate of \$5.8584 per \$100 of taxable net assessed value, a decrease of \$0.1200 from the FY 2017/18 tax rates. The FY 2018/19 recommended primary and secondary County tax rates are summarized in Table 8 below.

Table 8: Combined Recommended County Property Tax Rate.

Description	FY 2017/18 Adopted Rates	FY 2018/19 Recommended Rates	Difference
General Fund Primary	\$4.2096	\$4.0696	(\$0.1400)
Transportation Road Primary	0.2500	0.2500	0.0000
Library District	0.5053	0.5153	0.0100
Debt Service	0.7000	0.6900	(0.0100)
Regional Flood Control District	0.3135	0.3335	0.0200
TOTAL	\$5.9784	\$5.8584	(\$0.1200)

For only the fourth time in nine 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 3.21 percent more than the current year’s base and to secondary tax bases that range from an increase of 2.75 percent (RFCD) to an increase of 3.21 percent (Debt Service and Library District). These net increases in the tax base, combined with recommended primary and secondary property tax rates, result in the recommended combined County property tax levies increasing by \$5,151,899, or 1.07 percent, more than the current year levies as shown in Table 9 below.

Table 9: Combined Recommended County Property Tax Levy.

Description	FY 2017/18 Adopted Levies	FY 2018/19 Recommended Levies	Difference
General Fund Primary	\$339,923,420	\$339,156,105	(\$767,315)
Transportation Road Primary	20,187,394	20,834,732	647,338
Library District	40,802,761	42,944,550	2,141,789
Debt Service	56,524,704	57,503,861	979,157
Regional Flood Control District	23,115,524	25,266,454	2,150,930
TOTAL	\$480,553,803	\$485,705,702	\$5,151,899

B. Combined County Budget

The combined Recommended County Expenditure Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is \$1,344,027,134. This is a \$76,954,779, or 6.1 percent, increase from the FY 2017/18 Adopted Budget of \$1,267,072,355.

CHH/mp