



MEMORANDUM

Date: July 29, 2016

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "C.H. Huckelberry", is written over the typed name and title.

Re: **Various Alternatives to Reduce the Pima County Primary Property Tax Rate for Inclusion in Legislative Agenda**

With the County's successful litigation against the State in their attempt to transfer approximately \$16 million of additional property tax liability to the County and the Board's primary property tax rate reduction to \$4.28, it is likely there will be renewed interest in further reducing the County's primary property tax rate. I have previously issued a number of analyses regarding actions the County can take to reduce this rate; and it is appropriate I review the most contemporary property tax rate reduction proposals, as well as the options that appear to be most viable.

1. Property Tax Reduction Excise Tax. The County, through our legislative lobbyist and staff, spent a great deal of time discussing with the Governor's office and other parties interested in property tax reduction, primarily the Arizona Tax Research Association, options that could be made available to further reduce our primary property tax rate. These options centered on providing the County with realistic access to alternative revenue sources that are now utilized in all other 14 Arizona counties; that being a sales tax or excise tax. The simple option being explored is to allow the Board of Supervisors to impose a one-half cent excise tax through a simple majority vote of the Board, provided all revenues raised were used to reduce the primary property tax rate. This means all of the revenues would be used in reducing primary property tax levies. Under the current estimated proceeds of such a tax for Fiscal Year (FY) 2016/17, this would have resulted in \$70 million being made available for County property tax reduction. Using the current tax base, this would have allowed the primary property tax rate to be reduced by \$0.9298; from \$4.2896 to \$3.3598, a 21.7 percent reduction.
2. Jail Excise Tax. Maricopa has a 0.2-cent jail excise tax used to raise \$149.7 million in revenues to offset the cost of operating the Maricopa County Jail. Pima County uses only property taxes for its jail; and it is estimated that in this fiscal year's budget, the cost to provide jail services – including medical care at the jail – will be \$174 million. If Pima County was offered the same opportunity to have a 0.2-cent jail excise tax and use the proceeds of such to reduce the property tax, another \$0.3719, or 11.07 percent, reduction in the primary property tax rate would occur, dropping the rate to \$2.9874.

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3. Eliminate Recent State Cost Transfers. Counties in Arizona have always shared in the cost of the indigent healthcare system of the State since its inception in the early 1980s; that being our contributions to the Arizona Health Care Cost Containment System and the Arizona Long Term Care System. In more contemporary times, the State has shifted substantial additional cost transfers to counties. We are now paying a portion of the State's juvenile detention costs, costs associated with operating the Arizona Department of Revenue, costs associated with the State's criminal system Restoration to Competency program, and State costs associated with State determinations regarding further treatment and detention of sexually violent persons.
 - A. State Juvenile Detention Cost Shift. The State, for the very first time, transferred the cost of operating a State program, the State juvenile detention system, to counties. Last year, they transferred \$12 million to counties. Of that amount, Pima County was obligated to pay \$1.84 million, even though Pima County has a very good juvenile court system and refers very few juveniles to the State system. In fact, if we were charged on an actuarial basis for referrals, our expenses would be reduced to less than half of the State-mandated cost transfer, which is now simply based on population.
 - B. The Arizona Department of Revenue. Pima County and other jurisdictions are now paying 25 percent of the cost of operating the Arizona Department of Revenue (ADOR). The justification for this charge is that the ADOR collects sales taxes for all of the jurisdictions within the State and distributes State-shared sales tax revenues to cities, towns and counties. The County's share of the cost is \$1.04 million. This cost is somewhat ironic, since Pima County is the only county in Arizona that does not have a sales tax. Hence we need no one to collect any sales taxes for the County.
 - C. Restoration to Competency. The Restoration to Competency program came out of amendments to the criminal justice system statutes by the Arizona Legislature, which opposed insanity as a defense for those who commit crimes. The law was designed to take a person who was mentally unfit to stand trial for a crime and restore them as a competent person who understood the legal proceedings against them in a criminal court and participate in their own defense. This program began in 1995 and was entirely funded by the State until July 1, 2001. Gradually, over the years, the entire program cost has been transferred to counties and cities. This cost transfer by the State is now costing Pima County \$1.7 million per year.
 - D. Sexually Violent Persons. The Arizona Legislature passed legislation that would allow individuals who have served sentences for sex crimes to be confined in the Arizona State Hospital if they were deemed to impose a continuing hazard to the public, even though they had fully served their criminal sentence. The Legislature enacted this legislation in 1995 and in 2001 required the counties to pay a portion of this cost. This year, this cost is estimated to be \$1.22 million.

If these more recent State cost transfers of \$5.8 million were paid for as they should be by the State, Pima County would be able to lower our primary property tax rate by another \$0.0769, further decreasing the rate to \$2.9110.

4. **Tax Base Growth.** We have had a keen interest in economic development for the primary purpose of growing the property tax base. The tax base has taken some very negative swings since the beginning of the Great Recession. The primary tax base decreased by 16.3 percent from FY 2009/10 (\$8,985,711,830) to FY 2014/15 (\$7,518,481,988). Only just recently has the tax base begun to recover. This year, the property tax base grew by 2.58 percent – 1.89 percent in new construction and 0.68 percent in appreciation. Our economic development goal will be to achieve consistent three- to four-percent growth in the tax base, while holding growth in expenses to less than the tax base growth rate, and allowing the difference to be applied for further property tax reduction. If the property tax base grows by three to four percent each year for the next five years, and expenses grow by only two-thirds of the rate of tax base growth each year, the differential could be applied to property tax reduction, and another \$0.1722 of the County primary property tax rate could be eliminated.

The various strategies discussed above to reduce the County primary property tax rate are itemized below.

Primary Property Tax Reduction Strategies.

Strategy	Amount	Rate Reduction (cents)	Rate
FY 2016/17 Tax Rate			\$4.2896
1. Excise Tax, 0.5%	\$ 70,000,000	\$0.9298	3.3598
2. Jail Excise Tax, 0.2%	28,000,000	0.3719	2.9879
3. Eliminate Recent State Cost Transfers	5,800,000	0.0769	2.9110
4. Tax Base Revenue Growth Faster than Expenses for 5 years	13,000,000	0.1722	2.7388
Totals	\$116,800,000	\$1.5508	

Hence, if all four property tax reduction strategies were employed, the rate would drop from \$4.28 to 2.73, a 36.2 percent reduction. Strategies 1, 2 and 3 will require action by the Arizona Legislature.

CHH/mjk

- c: Tom Burke, Deputy County Administrator for Administration
 Keith Dommer, Director, Finance and Risk Management
 Robert Johnson, Budget Manager, Finance and Risk Management