



MEMORANDUM

Date: March 6, 2015

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 printed name and title.

Re: **Legislative Updates and Direct Budget Impacts to the County**

Various pieces of legislation enacting cost shifts to Pima County have been introduced in the State Legislature. These shifts are contained in a series of budget bills. Of concern are the continuing cost shifts from the State related to the Arizona Department of Juvenile Corrections, paying a portion of the cost to operate the Arizona Department of Revenue, and the one percent constitutional property tax cap liability shift. These three pieces of legislation add nearly \$10 million to Pima County's tax liability and require payments previously made by the State to be made from the County's budget. This is a continuation of a pattern of State cost shifts to the County (see Attachment 1).

Attachment 2 to this memorandum is the paragraph in House Bill 2683 that attempts to implement the one percent constitutional property tax cap liability shift. As you can see, the language is quite confusing and, in essence, appears to require the County to levy a tax on behalf of school districts so the State can keep what it had previously been paying for this constitutional tax liability. We are reviewing with the County Attorney the complicated legal issues associated with this proposed legislation.

Of equal concern is that the promised reduction in State diversions of Highway User Revenue Funds (HURF) to maintain our highways will not occur. This reduction was to be the second year of a move away from using HURF monies to pay for State budget costs. At this time, it appears this legislation is dead; hence, the County will not receive the nearly \$2 million in additional monies we had planned on to maintain our streets and highways in Fiscal Year 2015/16.

Another cost shift by the State has also recently surfaced. The State policy previously paid for all Presidential Preference election costs. Since such is a statewide ballot question, legislation was in process to have the State pay this election cost. Now, it appears the State will be limiting its reimbursement to \$1.25 per voter, or approximately \$200,000; which leaves the County in a deficit position when conducting the election. The estimated cost of the Presidential Preference election will be approximately \$1.5 million based on existing law; hence, County taxpayers will be required to pay \$1.3 million for the Presidential Preference Election. Our estimated cost is based on a two-party Presidential Preference election.

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Legislative Updates and Direct Budget Impacts to the County**
March 6, 2015
Page 2

In summary, based on the present State budget proposals, another nearly \$10 million in cost shifts from the State to the County will occur; bringing the total share of our primary property tax levied to benefit the State to \$93 million, or a tax rate of \$1.28 per \$100 of assessed value, or 30 percent of our primary property tax. Also, the planned additional \$2 million for pavement repair from the previously promised reduction in State HURF diversions will not be received.

CHH/mjk

Attachments

c: Presiding Judge, Superior Court
Elected Officials
Appointing Authorities

THE COUNTY LEVIES PROPERTY TAXES FOR THE STATE
STATE BUDGET IMPACTS ON COUNTY PROPERTY TAXES

The County's primary property tax is \$4.2779 per \$100 of assessed value and supports all County operations, including \$1.1411 per \$100 of assessed value for State-mandated transfer payments to support State programs.

Total Present County Property Tax Support to the State

Table 1: Current (and Recommended Continuing) State-mandated Cost Transfers.

Description	Amount Required from Pima County	Portion of Pima County Primary Property Tax Rate
Arizona Health Care Cost Containment System	\$17,488,764	\$0.2409
Arizona Long-term Care System	39,730,100	0.5473
State Behavioral Health System	3,064,936	0.0422
Restoration to Competency	1,998,099	0.0275
Sexually Violent Persons	1,217,566	0.0168
Superior and Juvenile Court Salaries and Benefits*	19,336,822	0.2664
Totals	\$82,836,287	\$1.1411

**See Table 3 on Page 2 (reverse) for additional information.*

Proposed FY 2015/16 State Budget New Cost Shifts

Table 2: FY 2015/16 Proposed State Budget – New Cost Shifts.

Description	Amount Required from Pima County	Portion of Pima County Primary Property Tax Rate
State Juvenile Corrections	\$1,163,899	\$0.0160
Homeowner Tax Rebates	7,850,548	0.1081
Homeowner Rebate Cap*	Pending	Pending
Restoration of ALTCS Dental	141,000	0.0019
AZDOR Operating Cost	644,070	0.0088
Totals	\$9,799,517	\$0.1348

If the proposed cost shifts in Table 2 above are enacted, **approximately \$92.6 million – nearly 29 percent of the County's total primary property tax levy – will go to State-mandated transfer payments to support State programs.**

*The State pays a portion of residential homeowners' school district primary property taxes via a homeowner's rebate included on individual property tax statements, to a maximum of \$600 per parcel. The rate floats and is currently at 43.6 percent of the Qualifying Tax Rate used to calculate the reimbursement. The Governor proposes to cap this at 44 percent in the future. This change will impact Pima County and its taxpayers. The State has not quantified the impacts to counties at this time.

Proposed One-time Transfers and Other Budget Reductions that would Adversely Affect Economic Development

- \$4.5 million reduction from the Department of Tourism's marketing budget (100 percent of General Fund marketing support);
- \$75 million from the Arizona Competes Fund, which is used by the Arizona Commerce Authority to incentivize new employers to move to Arizona;
- \$25 million from the Workforce Recruitment and Job Training Fund, which is used to provide training for new employers who may move to Arizona;
- \$20 million from the Highway Expansion Loan Program, which is used for critical infrastructure; and
- \$15 million from the State Aviation Fund, which is used for regular maintenance to areas such as runways and taxiways.

Table 3: County Costs for Superior and Juvenile Court Salaries and Benefits.

Description	FY 2014/15 General Fund Salaries and Benefits Costs
Superior Court Judges and Commissioners	\$ 6,495,647
Superior Court Probation and Surveillance Officers	4,553,493
Juvenile Court Probation and Surveillance Officers	6,262,610
Justices of the Peace (Net of Reimbursements)	1,178,463
Constables	846,609
Total General Fund Cost	\$19,336,822

REFERENCE TITLE: K-12 education; budget reconciliation; 2015-2016

State of Arizona
House of Representatives
Fifty-second Legislature
First Regular Session
2015

HB 2683

Introduced by
Representative Olson (with permission of Committee on Rules)

AN ACT

AMENDING SECTIONS 15-101, 15-183, 15-184, 15-185, 15-187, 15-189, 15-393 AND 15-901, ARIZONA REVISED STATUTES; REPEALING SECTION 15-917, ARIZONA REVISED STATUTES; AMENDING SECTIONS 15-945, 15-961, 15-972, 15-2002, 15-2011, 15-2032 AND 15-2041, ARIZONA REVISED STATUTES; AMENDING TITLE 15, CHAPTER 16, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 15-2042; REPEALING LAWS 2014, CHAPTER 16, SECTION 6, AS AMENDED BY LAWS 2014, CHAPTER 214, SECTION 5; MAKING APPROPRIATIONS; RELATING TO KINDERGARTEN THROUGH GRADE TWELVE BUDGET RECONCILIATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 I. If a parcel of property is owned by a cooperative apartment
 2 corporation or is owned by the tenants of a cooperative apartment corporation
 3 as tenants in common, the reduction in the property taxes prescribed in
 4 subsection D of this section shall not exceed the amounts listed in
 5 subsection D of this section for each owner-occupied housing unit on the
 6 property. The assessed value used for determining the reduction in taxes for
 7 the property is equal to the total assessed value of the property times the
 8 ratio of the number of owner-occupied housing units to the total number of
 9 housing units on the property. For the purposes of this subsection,
 10 "cooperative apartment corporation" means a corporation:

11 1. Having only one class of outstanding stock.

12 2. All of the stockholders of which are entitled, solely by reason of
 13 their ownership of stock in the corporation, to occupy for dwelling purposes
 14 apartments in a building owned or leased by such corporation and who are not
 15 entitled, either conditionally or unconditionally, except upon a complete or
 16 partial liquidation of the corporation, to receive any distribution not out
 17 of earnings and profits of the corporation.

18 3. Eighty ~~per cent~~ PERCENT or more of the gross income of which is
 19 derived from tenant-stockholders. For the purposes of this paragraph, "gross
 20 income" means gross income as defined by the United States internal revenue
 21 code, as defined in section 43-105.

22 J. The total amount of state monies that may be spent in any fiscal
 23 year for state aid for education in this section shall not exceed the amount
 24 appropriated or authorized by section 35-173 for that purpose. This section
 25 shall not be construed to impose a duty on an officer, agent or employee of
 26 this state to discharge a responsibility or to create any right in a person
 27 or group if the discharge or right would require an expenditure of state
 28 monies in excess of the expenditure authorized by legislative appropriation
 29 for that specific purpose.

30 K. NOTWITHSTANDING SUBSECTION E OF THIS SECTION, BEGINNING IN FISCAL
 31 YEAR 2015-2016, THE MAXIMUM AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT
 32 WILL BE FUNDED BY THIS STATE PURSUANT TO SUBSECTION E OF THIS SECTION SHALL
 33 BE ONE MILLION DOLLARS PER COUNTY. FOR ANY COUNTY WITH A SCHOOL DISTRICT OR
 34 DISTRICTS THAT COLLECTIVELY WOULD OTHERWISE RECEIVE MORE THAN ONE MILLION IN
 35 ADDITIONAL STATE AID FOR EDUCATION PURSUANT TO SUBSECTION E OF THIS SECTION,
 36 THE PROPERTY TAX OVERSIGHT COMMISSION ESTABLISHED BY SECTION 42-17002 SHALL
 37 DETERMINE THE PROPORTION OF THE VIOLATION OF ARTICLE IX, SECTION 18,
 38 CONSTITUTION OF ARIZONA, THAT IS ATTRIBUTABLE TO EACH TAXING JURISDICTION
 39 WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS. BASED ON THOSE
 40 PROPORTIONS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL DETERMINE AN AMOUNT
 41 THAT EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR
 42 DISTRICTS SHALL TRANSFER TO THE AFFECTED SCHOOL DISTRICT OR DISTRICTS DURING
 43 THE FISCAL YEAR IN ORDER TO COMPENSATE THE AFFECTED SCHOOL DISTRICT OR
 44 DISTRICTS FOR ITS PRO RATA SHARE OF THE REDUCTION IN ADDITIONAL STATE AID FOR
 45 EDUCATION FUNDING REQUIRED BY THIS SUBSECTION. IN DETERMINING THE PROPORTION

1 OF THE VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA, THAT IS
2 ATTRIBUTABLE TO EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT
3 OR DISTRICTS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL ASSUME A PROPORTION
4 OF ZERO FOR ANY TAXING JURISDICTION THAT HAS A TAX RATE FOR THE FISCAL YEAR
5 THAT IS EQUAL TO OR LESS THAN THE TAX RATE OF PEER JURISDICTIONS, AS
6 DETERMINED BY THE PROPERTY TAX OVERSIGHT COMMISSION.

7 ~~K.~~ L. For the purposes of this section:

8 1. "Owner" includes any purchaser under a contract of sale or under a
9 deed of trust.

10 2. "Residential property" includes owner-occupied real property and
11 improvements to the property and owner-occupied mobile homes that are used as
12 the owner's primary residence and classified as class three property pursuant
13 to section 42-12003.

14 Sec. 13. Section 15-2002, Arizona Revised Statutes, is amended to
15 read:

16 15-2002. Powers and duties; executive director; staffing;
17 report

18 A. The school facilities board shall:

19 1. Make assessments of school facilities and equipment deficiencies
20 and approve the distribution of grants as appropriate.

21 2. Maintain a database of school facilities to administer the building
22 renewal grant fund and new school facilities formula. The facilities listed
23 in the database must include all buildings that are owned by school
24 districts. The school facilities board shall ensure that the database is
25 updated on at least an annual basis. Each school district shall report to
26 the school facilities board no later than September 1 of each year
27 information as required by the school facilities board for the administration
28 of the building renewal grant fund and computation of new school facilities
29 formula distributions, including the nature and cost of major repairs,
30 renovations or physical improvements to or replacement of building systems or
31 equipment that were made in the previous year and that were paid for either
32 with local monies or monies provided by the school facilities board from the
33 building renewal grant fund. Each school district shall report any school or
34 school buildings that have been closed, that have been leased to another
35 entity or that operate as a charter school. The school facilities board may
36 review or audit the information, or both, to confirm the information
37 submitted by a school district. Notwithstanding any other provision of this
38 chapter, if a school district converts space that is listed in the database
39 maintained pursuant to this paragraph to space that will be used for
40 administrative purposes, the school district is responsible for any costs
41 associated with the conversion, maintenance and replacement of that space.
42 If a building is significantly upgraded or remodeled, the school facilities
43 BOARD shall adjust the age of that school facility in the database as
44 follows: