



MEMORANDUM

Date: May 18, 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: **Updated Information Regarding Tentative Budget Adoption for Fiscal Year 2015/16**

On May 13, 2015, the Board of Supervisors received my recommendation regarding Fiscal Year (FY) 2015/16 Tentative Budget Adoption and had, at that point, conducted five public hearings regarding the County's budget. Prior to adoption, there will be three additional public hearings; one at Tentative Budget Adoption, one at Final Budget Adoption and one at Tax Rate adoption.

It is important the Board receive additional information prior to Tentative Budget Adoption for additional transparency and clarity of the proposed action and the opportunity to provide direction during Tentative Budget Adoption.

Conditional Adoption of Primary Property Tax Rate and Levy

In my Tentative Budget Adoption memorandum, I indicated a primary property tax rate increase of 11 cents and a levy increase of \$8.4 million was necessary due to the magnitude of State budget transfers. The State balanced its budget in part by transferring costs to counties and other entities. Of the transferred total of \$47 million from the State to the 15 counties in Arizona, Pima County received a disproportional cost transfer in the amount of \$23.2 million. We believe a significant portion of this cost transfer, particularly the cost related to the State Aid to Education tax credit that has been paid for by the State for the last 35 years, is illegal. We will soon legally challenge the State budget approved by the Legislature and Governor, and we have and continue to build a significant statewide coalition to either join or support the pending litigation. Entities either already or considering support include other counties, the County Supervisors Association, The League of Cities and Towns, community colleges and others. We are hopeful we will prevail in this litigation and have the State Aid to Education transfer contained in the State's budget invalidated.

For this reason, I believe the increase in our primary property tax rate of 11 cents and levy of \$8.4 million should be conditionally enacted. This means if the County prevails in this litigation, there will be no property tax increase. To be clear, the conditional property tax increase that will be contained in the Tentative Approved Budget is included only due to unprecedented and possibly illegal State cost transfers.

Pima Animal Care Center and the City of Tucson Intergovernmental Agreement

As you heard at the May 12, 2015 budget hearing, the Pima Animal Care Center (PACC) budget is approximately \$350,000 out of balance. This is primarily because the City of Tucson is not paying a significant portion of the agreed upon cost as contained in the approved Intergovernmental Agreement (IGA). Some have asserted this lack of payment by the City because we do not have an IGA with the City. The County has and has always had an IGA with the City, which is adopted every two years. The City has chosen not to pay certain components of their bill; specifically those related to additional shelter housing (tent) and administrative overhead. This totals over \$831,789. I am puzzled by their reluctance to pay the PACC administrative overhead, since the County pays over \$400,000 annually in administrative overhead to the City through an IGA regarding wastewater billing.

One option to resolve this problem would be to raise the property tax rate to offset the lack of City payment for their IGA obligations of the IGA. This would require an increase in the tax rate of approximately 1.13 cents. Another option would be to decrease animal care services. Since Tentative Budget Adoption allows the Board to set tax rate and levy ceilings, if the Board were inclined to pay for the City's lack of IGA payments, the tax rate and levy would need to be increased accordingly.

Tax Increase Perspective

In her May 14, 2015 newsletter, Supervisor Ally Miller makes a number of statements regarding the County's property tax and increase. If Pima County's history began at the start of Supervisor Miller's term in January 2013, the statements would be alarming. However, as I have stated on a number of occasions, over 98 percent of the County's population and taxpayers have been here much longer, so an appropriate perspective is necessary on the County's property tax status.

This perspective is best reflected at a point in time when the County's property tax revenues began to decrease due to the Great Recession. The Board could have, at that time, increased property taxes but did not. The Board majority believed it was more appropriate to lower property taxes during a time of recession rather than increase them. I have repeatedly explained the need for the primary property tax increase last year. I again explained that the increase this year, caused solely by State cost transfers, is conditional. This means that if the County prevails on our position that the State Aid to Education cost transfer was illegal, there will be no primary property tax rate increase.

Table 1 below shows the yearly change on the average net assessed value of residential property from FY 2010/11 to FY 2015/16. The average change and average annual change for the four property taxes collected by the County (primary, secondary, Library District and Regional Flood Control District) is 0.7 percent.

Table 1: Pima County Annual Percentage Tax Change for Residential Property with Average Net Assessed Value.

Jurisdiction	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	% change
Primary Tax	-0.5%	-7.7%	-6.1%	-0.2%	17.8%	7.1%	1.4%
Debt Service	0.2%	-7.8%	-6.2%	-7.0%	-9.3%	4.2%	-4.5%
Library District	11.3%	-1.1%	-6.2%	0.8%	17.3%	18.5%	6.3%
Flood Control	-5.1%	-11.4%	-6.2%	-7.0%	16.5%	7.6%	-1.4%
Total	0.0%	-7.5%	-6.1%	-1.6%	13.5%	7.6%	0.7%

Table 2 below shows this change as an annual dollar tax amount for each of the four property tax levies controlled by the Board. On average, the annual change in all four levies has been \$6.41 per year since 2010.

Table 2: Pima County Annual Dollar Tax Change for Residential Property with Average Net Assessed Value.

Jurisdiction	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	\$ change
Primary Tax	\$ (3.09)	\$ (47.03)	\$ (34.30)	\$ (1.24)	\$ 94.24	\$ 44.36	\$ 8.82
Debt Service	\$ 0.28	\$ (11.02)	\$ (8.04)	\$ (8.56)	\$ (10.47)	\$ 4.26	\$ (5.59)
Library District	\$ 5.88	\$ (0.63)	\$ (3.57)	\$ 0.45	\$ 9.38	\$ 11.80	\$ 3.89
Flood Control	\$ (2.68)	\$ (5.62)	\$ (2.72)	\$ (2.89)	\$ 6.28	\$ 3.37	\$ (0.71)
Total	\$ 0.39	\$ (64.30)	\$ (48.63)	\$ (12.24)	\$ 99.43	\$ 63.79	\$ 6.41

This perspective is indeed educational.

Supervisor Miller also portrays this year's proposed property tax increases for the average valued home; one for \$250,000 and one for \$500,000. Table 3 below is Supervisor Miller's table – with two important additions. First, the percentile of homes that are at or greater than the value listed; and two, a clear indication the increase in the primary tax levy is related solely to State cost transfers.

Table 3: Supervisors Miller Table: Annual Increase in Property Taxes for FY 2015/16 by Assessed Value (additional information shown in green).

Home Value	Increase in Primary Rate	Increase in Secondary Rate	Total Increase in County Property Taxes	Est. Total Primary & Secondary Property Tax	Percentage of Residents in Home Value Classification, at or Higher
\$500,000	\$54.90	\$40.00	\$94.90	\$2,953.25	2.045
250,000	27.45	20.00	47.45	1,476.25	13.250
152,511	16.75	12.20	28.95	900.74	35.573

As can be seen, the real property tax increase to support County operations is almost entirely focused on maintaining our Library District; an important subject the Board has heard many times in our public hearings. Hence, the real increase on the average value residential property imposed by the County is \$10.67 per year, or 89 cents per month. This increase is almost exclusively dedicated to supporting our libraries.

It is also important to note the number of taxpayers who will pay taxes on homes valued at more than \$250,000. Only 13 percent of all residential homeowners in Pima County have homes valued at or greater than the amount listed. Furthermore, only 2 percent of homeowners in Pima County have homes valued at \$500,000 or more. Hence, very few taxpayers will actually pay taxes at a higher rate. More importantly, 64 percent of residential owner-occupied properties will pay less than the average assessed value home of \$152,511.

CHH/anc

- c: Hank Atha, Deputy County Administrator for Community and Economic Development
- John Bernal, Deputy County Administrator for Public Works
- Tom Burke, Deputy County Administrator for Administration
- Jan Leshner, Deputy County Administrator for Medical and Health Services
- Robin Brigode, Clerk of the Board of Supervisors