MEMORANDUM

Date: August 26, 2015

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

From: C.H. Huckelberry
County Administrator

Re: **Growth and Assessed Value Assumption Contained in the Information Packet Required by Arizona Revised Statute (ARS) 35-454**

Later this week, I will transmit to the Board of Supervisors the completed Bond Implementation Plan for your consideration at a Public Hearing on September 15, 2015.

Contained in the Bond Implementation Plan is a Debt Service schedule that demonstrates the bonds sold and corresponding debt service will not exceed the Board's cap on the Secondary Bond Debt Service property tax rate of $0.815 per $100 of assessed value. The schedule of debt issuance, as required in the State-required publicity pamphlet, is largely constrained by the growth in assessed value assumptions required by State law.

"ARS 35-454 A.1(d) states:

> *"In preparing this information and the information prescribed by subdivision (c) of this paragraph, the projected total annual increase in net assessed value for any future year shall not exceed: (i) For the first five years of the estimated debt retirement schedule, the average of the annual percentage growth for the previous ten years in the net assessed valuation of the political subdivision. (ii) For the remaining years of the estimated debt retirement schedule, twenty percent of the average of the annual percentage growth for the previous ten years in the net assessed valuation of the political subdivision."*

This requirement artificially restrains the growth in net assessed value for the first five years. It calculates to be 3.5 percent per year. The balance of the debt service after the first five years calculates at 0.7 percent per year. Our best estimate of actual growth and assessed value is shown in the attached table. The table also includes two different columns for projected taxable assessed value. One is statutorily required pursuant to ARS 35-454; the other is corresponding assessed value based on our estimates of assessed value of growth. Assuming the 0.7 percent growth in assessed value after Fiscal Year 2020/21 is unrealistically low.

In examining actual growth in assessed value over the last 40 years, the average annual growth from Fiscal Year (FY) 1976/77 to FY 2014/15 has been 4.88 percent. If the

hyper-assessed value growth period from FY 2005/06 to FY 2009/10 is removed, the average annual growth rate in assessed value would be 4.03 percent (a 35-year average). Hence, it is clear a future growth rate of 0.7 percent per year in assessed value is unrealistic and not based on economic reality.

We have chosen to use the statutorily required assessed value analysis in computing our debt service, which affects the size and timing of bond sales if approved by the voters. This results in a 12-year program with sales ranging from $60 to $70 million per year. However, it is likely actual assessed value would be significantly higher, thereby shortening the debt issuance period, as well as the peak time period for which the voluntary cap of $0.815 will be in place.

If you have any questions regarding this matter, please contact me.

CHH/mjk

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Nicole Fyffe, Executive Assistant to the County Administrator
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

Comparison of Pima County Estimate of Increases in Assessed Value
vs.
Statutorily Mandated Increases in Estimate of Assessed Value

Fiscal Year	Statutorily Calculated Projected Taxable Assessed Value	Pima County Projected Taxable Assessed Value	Difference County Estimate Over/(Under) Statutory Estimate	Percentage County Estimate Over/(Under) Statutory Estimate	Percent Assessed Value Increase in Statutory Estimate*	Percent Assessed Value Increase in County Estimate
2015-16	7,620,361,635	7,620,361,635	-	-		
2016-17	7,886,822,820	7,838,429,574	(48,393,246)	-0.61%	3.5%	2.9%
2017-18	8,162,601,354	8,169,396,772	6,795,418	0.08%	3.5%	4.2%
2018-19	8,448,023,035	8,437,574,563	(10,448,472)	-0.12%	3.5%	3.3%
2019-20	8,743,425,057	8,702,322,344	(41,102,713)	-0.47%	3.5%	3.1%
2020-21	9,049,156,401	8,963,392,014	(85,764,387)	-0.95%	3.5%	3.0%
2021-22	9,112,437,152	9,232,293,775	119,856,623	1.32%	0.7%	3.0%
2022-23	9,176,160,425	9,509,262,588	333,102,163	3.63%	0.7%	3.0%
2023-24	9,240,329,314	9,794,540,466	554,211,151	6.00%	0.7%	3.0%
2024-25	9,304,946,937	10,088,376,680	783,429,742	8.42%	0.7%	3.0%
2025-26	9,370,016,431	10,391,027,980	1,021,011,549	10.90%	0.7%	3.0%
2026-27	9,435,540,956	10,702,758,819	1,267,217,863	13.43%	0.7%	3.0%
2027-28	9,501,523,694	11,023,841,584	1,522,317,890	16.02%	0.7%	3.0%
2028-29	9,567,967,849	11,354,556,831	1,786,588,982	18.67%	0.7%	3.0%
2029-30	9,634,876,648	11,695,193,536	2,060,316,888	21.38%	0.7%	3.0%
2030-31	9,702,253,341	12,046,049,343	2,343,796,002	24.16%	0.7%	3.0%
2031-32	9,770,101,198	12,407,430,823	2,637,329,624	26.99%	0.7%	3.0%
2032-33	9,838,423,516	12,779,653,747	2,941,230,231	29.90%	0.7%	3.0%
2033-34	9,907,223,612	13,163,043,360	3,255,819,748	32.86%	0.7%	3.0%
2034-35	9,976,504,826	13,557,934,661	3,581,429,834	35.90%	0.7%	3.0%
2035-36	10,046,270,525	13,964,672,701	3,918,402,176	39.00%	0.7%	3.0%
2036-37	10,116,524,094	14,383,612,882	4,267,088,787	42.18%	0.7%	3.0%
2037-38	10,187,268,947	14,815,121,268	4,627,852,321	45.43%	0.7%	3.0%
2038-39	10,258,508,519	15,259,574,906	5,001,066,387	48.75%	0.7%	3.0%
2039-40	10,330,246,269	15,717,362,153	5,387,115,884	52.15%	0.7%	3.0%
2040-41	10,402,485,681	16,188,883,018	5,786,397,336	55.63%	0.7%	3.0%
2041-42	10,475,230,264	16,674,549,508	6,199,319,245	59.18%	0.7%	3.0%
2042-43	10,548,483,549	17,174,785,994	6,626,302,445	62.82%	0.7%	3.0%

* ARS § 35-454(A)(1)(d) mandates the assumption that assessed values will increase for five years at the average rate for the previous ten years, and that it will increase thereafter at the rate of 1/5 of the average rate of increase for the previous ten years. Pima County estimates that a three percent increase annual is more likely to occur.