



MEMORANDUM

Date: March 13, 2015

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

From: C.H. Huckelberry
County Administrator 

Re: **State Budget Cost Transfers – Additional Information Regarding Legislative Action**

As I previously reported to the Board, State cost shifts, in order to allow the State to balance their budget, will cause Pima County and all counties in Arizona to pay additional monies to the State, which will force a reduction in existing County programs or increased County taxes. It would appear Pima County was targeted in this legislative process, since we bear a substantially disproportionate share of these cost shifts or impacts.

I have communicated with you individually and through memoranda regarding these impacts over the last few weeks. It is now appropriate to summarize where we thought we were, where we are now, and how we arrived at this point.

First, in the Governor's Address to the Arizona Legislature, we were alerted to State cost shifts to balance the State budget through the State transferring their costs to counties in order to claim they were not raising taxes. At that time, we believed these impacts were in the range of less than \$10 million per year and were to be focused in three primary areas: 1) State detention cost shifts related to juveniles; 2) sharing in the operational cost of the Arizona Department of Revenue for collection of excise taxes; and 3) paying previous State costs associated with implementation of the 1980 Constitutional Amendment regarding limitation of residential property owners and their tax liability.

Attachment 1 to this memorandum is the latest County Supervisors Association (CSA) table of what we now face regarding State cost shifts. These new impacts now exceed \$22.3 million for Pima County alone. Maricopa County, with a population four times larger, is only impacted at \$13.5 million. Our view of these past, continuing and new shifts is shown on Attachment 2. The major difference is we estimate the Presidential Preference Election cost as \$1.1 million rather than \$308,000.

The State Decided the County Should Pay a Disproportionate Share of State Juvenile Detention Costs. This has been a recurring theme in past budgets, but it was never previously implemented. In fact, the State, in the recent past, has discussed eliminating their Juvenile Detention Department. Initially, the State decided the County should pay 25 percent of the cost of detaining juveniles referred to the State system by the County.

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This would have been a cost based on how well the County actually worked to have juveniles not referred to the State system. In our case, we have an excellent record and have referred fewer juveniles than other counties because we have a very intensive, successful Juvenile Detention Diversion Program. Hence, our initial view that our cost for this State budget balancing maneuver would have been less than \$1 million. Unfortunately, when the State budget was being considered in the middle of the night, the decision was made to substitute County population for the actual number of physical referrals of juveniles to the State system by the counties. Such is an obviously easy method of calculating payments from the counties, but it does not relate in any way to actual juvenile referrals. This population methodology increases our cost from less than \$1 million to over \$1.8 million. This arbitrary, last-minute decision cost our taxpayers an additional \$800,000. I have, unfortunately, had to communicate with the leadership of our Juvenile Court Division to inform them the County's General Fund support for their agency will be reduced by an equal amount. This means there will be fewer funds available for diversion, and more Pima County juveniles will be sent to State detention facilities – an extremely unfortunate public policy outcome.

Arizona Department of Revenue Expense Sharing. The State Legislature apparently believes it is appropriate that counties begin to share in the administrative expense of collecting and distributing sales tax revenue in Arizona. This appears reasonable unless a county does not have any sales taxes, as is the case in Pima County. We do not collect sales taxes for any purpose or to supplement or finance any County program. Attachment 3 shows all counties and whether they have supplemental sales taxes; either a general sales tax, road sales tax, health tax, jail sales tax or capital facilities sales tax. Pima County has none of these.

Hence, it is unclear why Pima County taxpayers would have to pay for a portion of this cost. This legislation, again enacted in the middle of the night, asks Pima County taxpayers to pay \$1.5 million to support the Arizona Department of Revenue (ADOR), even though we have no sales tax and have never had a sales tax. Further perplexing is that the regional entities that do have sales taxes, such as the Regional Transportation Authority (RTA), pay nothing. The best that can be said about this cost shift is that it is simply an error; the worst is that it is extremely poorly constructed legislation.

Based on the currently adopted State budget, our taxpayers will pay \$1.5 million to support the ADOR's collection and distribution of sales taxes, even though we levy none. This sounds like taxation without benefit. To offset this cost and place the fiscal responsibility where it belongs, I will be sending the RTA a bill for this total cost.

One-percent Constitutional Cap Shift from the State to Counties. Perhaps the most disturbing piece of legislation relates to the one-percent constitutional residential cap,

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which is derived from the 1980 Constitutional Amendment that reads “owner occupied residential property shall pay no more than one-percent of their value in property taxes.” With legislation enacted to follow the Constitutional Amendment adopted in 1981, the State indicated that because of the complexity of the matter, they would, pay this excess cost. Today, this excess cost in Pima County is estimated to be \$7.8 million to \$18.6 million. The Governor’s Proposed Budget contained a reference to a proportional sharing of this excess among the taxing jurisdictions. There is no reference to whether it is for primary property taxing jurisdictions, secondary property taxing jurisdictions or others.

At best, this proposal is ill-conceived, fraught with legal issues, and fundamentally unfair to Pima County. It appears, in fact, to be designed to punish Pima County. In a state with 15 counties, two are being severely impacted: Pima and Pinal. In my March 11, 2015 memorandum to the Board, I provided the estimated per capita impact on our taxpayers. It is clearly disproportionately impacting Pima and Pinal Counties as compared to others.

At a minimum, the burden of this shift in tax policy by the State should be shared among all taxing jurisdictions. The legislation, again enacted in the middle of the night, is vague, contains undefined terms and rests the authority of who pays the additional tax burden with a commission – the Property Tax Oversight Commission.

The Property Tax Oversight Commission met on March 10, 2015 to discuss implementing this legislation and advanced a very odd and disturbing interpretation of this legislation. The legislation appears to indicate that a “taxing jurisdiction share shall be considered zero or nothing if their tax rate is equal to or less than the tax rate of peer jurisdictions.” The Property Tax Oversight Commission, at their March 10, 2015 meeting, indicated they would likely interpret this section to mean that a jurisdiction would qualify if their current tax rate is above the average tax rate for all other similar jurisdictions in the State. This means Pima County, rather than facing a probable \$7.8 million in liability, could now face an \$18.6 million liability – more than double what was anticipated. The State average primary property tax rate for all counties is \$2.18, \$1.73 for community colleges and \$1.56 for cities and towns. Our primary property tax is greater than the County average, the community college’s is lower than the average, and the city primary is lower than the average. This means the entire liability of \$18.6 million could be shifted to Pima County.

In addition, our \$10.48 per capita impact is based on the \$7.8 million cost in the Governor’s proposal. The interpretation now rendered by the Property Tax Oversight Commission and adopted legislation would increase this per capita impact to \$21.80; more than two to five times any other county. Because of this increase, I have asked the County Attorney to advise the Board of Supervisors if we have recourse regarding this unfair and punitive legislation.

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To educate the taxpaying public regarding where their taxes go, our staff is working to clearly define on our annual tax bill the fact that the State is now responsible for over one third of our primary property tax rate.

As a final note of concern, if the impacts are as great as now forecasted, they will exceed our expenditure limitation; hence, significant reductions in County services will be required.

CHH/anc

Attachments

- c: The Honorable Chair and Members, Pima County Board of Supervisors
Presiding Judge, Superior Court
Elected Officials
Appointing Authorities

Fiscal Year 2016 Continuing and New Impacts to Counties

	Continuing Impacts							New Impacts in FY2016 Budget						Total Continuing and New Impacts to Counties
	SVP Costs at ASH ¹	100% of RTC Costs at ASH ²	Increased County Judicial Salaries ³	ACJC Indigent Defense ⁴	Elimination of County Lottery Revenues ⁵	Elimination of Prop. 204 Funding ⁶	HURF Shifts to DPS ⁷	25% of Costs for Juveniles Housed at DJC ⁸	1% Property Tax Cap Liability Shift ⁹	DOR Appropriation Shift ¹⁰	Additional loss of Lottery Revenue ¹¹	Presidential Preference Election Cost Shift ¹²	Total New Impacts to Counties	
Apache			\$ 58,616	\$ 5,744		\$ -	\$ 337,685	\$ 134,264		\$ 110,515		\$ 29,408	\$ 274,187	\$ 676,232
Cochise	\$ 57,932		\$ 107,463	\$ 11,776		\$ -	\$ 400,446	\$ 246,581		\$ 202,966		\$ 3,067	\$ 452,614	\$ 1,030,232
Coconino	\$ 38,272	\$ 246,984	\$ 65,594	\$ 13,362		\$ -	\$ 464,308	\$ 252,354		\$ 207,717		\$ 34,794	\$ 494,865	\$ 1,323,386
Gila			\$ 37,682	\$ 7,287		\$ -	\$ 187,331	\$ 100,620		\$ 82,822		\$ 18,028	\$ 201,470	\$ 433,770
Graham			\$ 33,495	\$ 4,979		\$ 234,200	\$ 125,306	\$ 69,875		\$ 57,515		\$ 2,226	\$ 129,616	\$ 527,596
Greenlee			\$ 22,330	\$ 1,003		\$ 234,400	\$ 47,235	\$ 15,839		\$ 13,037		\$ 6,965	\$ 35,842	\$ 340,810
La Paz			\$ 54,429	\$ 3,067		\$ 159,700	\$ 197,655	\$ 38,465		\$ 31,661		\$ 17,848	\$ 87,974	\$ 502,824
Maricopa	\$ 2,106,649		\$ 9,012,159	\$ 447,723	\$ 249,772	\$ -	\$ 5,095,023	\$ 7,166,033		\$ 5,898,491		\$ 536,951	\$ 13,601,475	\$ 30,512,801
Mohave	\$ 121,539	\$ 287,224	\$ 96,298	\$ 20,671		\$ -	\$ 609,804	\$ 375,818		\$ 309,342	\$ 550,000	\$ 78,547	\$ 1,313,707	\$ 2,449,243
Navajo	\$ 57,539		\$ 99,089	\$ 13,131		\$ -	\$ 402,498	\$ 201,718		\$ 166,038		\$ 45,457	\$ 413,213	\$ 985,470
Pima	\$ 509,850		\$ 243,897	\$ 88,346	\$ 249,772	\$ 3,817,800	\$ 2,162,508	\$ 1,840,289	\$ 18,610,629	\$ 1,514,775		\$ 308,266	\$ 22,273,959	\$ 29,346,131
Pinal	\$ 190,803	\$ 760,984	\$ 138,167	\$ 29,269		\$ -	\$ 946,390	\$ 705,449	\$ 2,815,942	\$ 580,668	\$ 550,000	\$ 39,883	\$ 4,691,941	\$ 6,757,555
Santa Cruz	\$ 38,272	\$ 244,010	\$ 30,704	\$ 4,210		\$ 214,800	\$ 160,355	\$ 89,024		\$ 73,277		\$ 38,017	\$ 200,318	\$ 892,669
Yavapai	\$ 235,084		\$ 92,111	\$ 28,955		\$ 164,700	\$ 573,546	\$ 396,181		\$ 326,104	\$ 550,000	\$ 3,964	\$ 1,276,249	\$ 2,370,644
Yuma		\$ 33,300	\$ 52,986	\$ 20,777		\$ -	\$ 514,946	\$ 367,492		\$ 302,489		\$ 29,764	\$ 699,744	\$ 1,321,754
Total	\$ 3,355,940	\$ 1,572,502	\$ 10,145,020	\$ 700,300	\$ 499,544	\$ 4,825,600	\$ 12,225,037	\$ 12,000,000	\$ 21,426,571	\$ 9,877,417	\$ 1,650,000	\$ 1,193,187	\$ 46,147,174	\$ 79,471,117

¹Continues a session law provision that requires counties to pay 31 percent of the cost of treatment and confinement for Sexually Violent Persons (SVP) at the Arizona State Hospital (ASH). Based on actual FY2014 billings.

²Continues session law requiring counties to pay for 100 percent of the cost of Restoration To Competence (RTC) treatments at ASH. Based on actual FY2014 billings.

³Starting in FY11, the state share of Justice of Peace salaries is permanently lowered from 38.5 percent to 19.25 percent. The Maricopa County number reflects their requirement to pay 100 percent of superior court judge salaries.

⁴No state appropriation for ACJC State Aid to Indigent Defense is included. These monies are instead used to fund Attorney General and DPS operations.

⁵The statutory distribution of lottery revenue to the counties was originally eliminated in FY11. In FY 2014, a direct appropriation to counties was included to replace this distribution.

⁶Does not restore Prop. 204 Hold Harmless payments.

⁷Shifts \$96,812,300 from the Highway User Revenue Fund (HURF) to the Department of Public Safety (DPS), a \$7,557,300 increase over last year. This does include the effects of the \$30 million local government HURF restoration.

⁸As permanent law, requires the director of the Arizona Department of Juvenile Corrections (ADJC) to assess a "committed youth confinement cost sharing fee" to each county. Session law requires the amount raised from the fees to equal \$12,000,000 and directs the director of ADJC to proportionally bill each county based on county population.

⁹Uses JLBC 1% Cap liability estimates for all counties and applies the current Property Tax Oversight Commission' (PTOC) interpretation of that law, which uses statewide average property tax rates to determine which jurisdictions will be impacted.

¹⁰As Permanent law, requires the Arizona Department of Revenue (ADOR) to assess a fee to every county, city, and town. Session law requires the amount raised from the fees to equal \$20,755,835, of which \$9,877,417 is the aggregate county share, and proportionally allocates each county's share based on county population.

¹¹The Budget removes the county lottery appropriation for Mohave, Pinal, and Yavapai counties.

¹²Arizona Association of Counties (AACo) analysis based on 2008PPE with 2.7 million registered voters, actual costs for a 2016 PPE will likely be greater.

Note: Additional ongoing impacts not quantified include:

- Reduction in county reimbursement for Presidential Preference Elections from 100 percent of the cost incurred, to no more than an amount equal to \$1.25 per active registered voter
- Elimination of Post-Conviction Public Defender's Office
- Elimination of Department of Health Services' grants to counties (Prenatal, Tuberculosis, influenza, food borne illness)
- Suspension of State Lake Improvement Fund (SLIF) grant program
- Reduction of Federal Resources (Secure Rural Schools, Payment In Lieu of Tax, Criminal Justice, Public Health, among others)

ATTACHMENT 2

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 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	Higher Range Portion of Tax Rate
State Juvenile Corrections	\$1,840,289	\$0.0251	
One-percent Homeowner Tax Rebate ²	7.8 to 18.6 million	¹ 0.1063	\$0.2536
Homeowner Rebate Cap ³	To be determined	To be determined	
Restoration of ALTCS Dental	141,000	0.0019	
AZDOR Operating Cost	1,514,775	0.0207	
2016 Presidential Preference Election (Net)	1,100,000	0.0150	
Totals	\$12.4 to \$23.2 million	\$0.1690	\$0.4226

¹Based on the lower end of the estimated range, or \$7.8 million.

²Based on the approved legislation, this liability will likely be more due to "peer" comparisons.

³The 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.

If the proposed cost shifts in Table 2 above are enacted, between **approximately \$95.2 and \$106 million – between 30 and 33 percent of the County’s total primary property tax levy – will go to State-mandated transfer payments to support State programs.**

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

ATTACHMENT 3

 FY2015 County Property & Sales Tax Rates <i>Main Authorities to Fund Mandated County Services</i>							
<u>County</u>	Primary Property Tax	County General Fund Excise Tax	Public Health	Jail Excise Tax	County Road Tax	Maricopa County Healthcare District	County Capital Projects
Apache	\$0.4810	0.50%	\$0.1260	\$0.2916 ^{SPT}	-	-	-
Cochise	\$2.6276	0.50%	-	-	-	-	-
Coconino	\$0.5646	0.50%	\$0.2500	0.50%	0.30% ¹	-	0.125%
Gila	\$4.1900	0.50%	-	-	-	-	-
Graham	\$2.1794	0.50%	-	0.50% ²	-	-	-
Greenlee	\$0.5500	0.50%	\$0.2300	-	-	-	-
La Paz	\$2.2863	0.50%	-	0.50%	-	-	-
Maricopa	\$1.3209	-	-	0.20%	-	\$0.1856	-
Mohave	\$1.8196	0.25%	-	-	-	-	-
Navajo	\$0.8185	0.50%	\$0.2430	-	-	-	-
Pima	\$4.2779	-	-	-	-	-	-
Pinal	\$3.7999	0.50%	0.10% ^{ET}	-	0.50%	-	-
Santa Cruz	\$3.6471	0.50%	-	0.50%	-	-	-
Yavapai	\$1.9580	0.50%	-	0.25%	-	-	-
Yuma	\$2.1608	0.50%	0.112% ^{ET}	0.50%	-	-	-

SPT= Secondary Property Tax, listed as a dollar amount

ET= Excise Tax, listed as a percentage

¹ Coconino County road tax effective January 1, 2015.

² Graham County jail tax effective July 1, 2015.