MEMORANDUM

Date: April 27, 2009

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2009/10 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2009/10 Budget for Pima County. These recommendations are made based on information available in mid-April 2009. It is possible that additional relevant information will become available for the Board as it deliberates on the budget prior to final adoption.

Significant events in the Budget adoption and tax levy process are scheduled as follows:

May 19, 2009	Budget Hearing
May 19, 2009	Tentative Budget Adoption (Sets Budget Ceiling)
June 16, 2009	Final Budget Adoption
August 17, 2009	Tax Levy Adoption (Date Set by State Statute)

This Recommended Budget is being transmitted prior to adjournment of the Arizona Legislature and adoption of the State Budget for Fiscal Year 2009/10. Many proposals are under consideration at the Legislature that would affect expenditures and revenues of Pima County. It is not possible at this time to precisely predict what the net impact of the State's Budget, when finally adopted, will be on Pima County. The County's base operating budget for all funds set forth in this recommendation does include projected continuing and new cost shifts, revenue reductions and revenue sharing from the State. It is possible, however, that this Recommended Budget will require revisions prior to final adoption to reflect additional fiscal impacts ultimately enacted by the State.

Following this budget memorandum are:

- Budget schedules showing fund balances, expenditures, revenues, transfers and other financing sources.
- A summary of each department's budget including a description of the budget on a line-item account basis.
- Descriptions of all supplemental funding packages requested by each department.

Included within the Recommended Budget is information derived from the zero-base budgeting methodology utilized for select departments. On October 26, 1999, the Board adopted Board of Supervisors Policy No. D 22.5, providing that all departmental budgets undergo a periodic zero-base budget review to evaluate the existing base level of funding as compared to the level and volume of services actually being provided. The results of this process for General Fund departments that constructed their budgets using a zero-base approach are discussed in Section V(A)2 of this memorandum.

Index of Budget Memorandum

I. Overview of Recommended Budget

At the time the current year's Budget was adopted in June 2008, it was anticipated that numerous cost shifts and revenue reductions impacting the County would be enacted by the State. It was also projected that many revenue sources, both departmental and state shared, would decrease as a result of the downturn in the economy. In response to these projections a variety of expenditure reductions were incorporated into this year's Budget. All General Fund departments, except the Sheriff's Office, were reduced by 5 percent. The administrative functions of each department, including the Sheriff's Office, were reduced an additional 2.5 percent. Some Special Revenue and Enterprise departments, such as Development Services and Transportation, were required to make even greater reductions in order to adjust to severely declining available revenues.

As the current Fiscal Year 2008/09 has progressed, negative impacts from state actions and declines in state shared revenues have exceeded original estimates. In the General Fund more than $7,611,400 of unanticipated negative fiscal impacts from the State have been sustained and a shortfall of $14,375,000 in state shared revenues has occurred.

In response to these changing circumstances, numerous mid-fiscal year initiatives to reduce expenditures were implemented. Included in these adjustments was an additional 2.5 percent across-the-board reduction in all General Fund departments. These additional reductions to budgeted expenditures have covered these shortfalls and resulted in the projected General Fund ending balance for Fiscal Year 2008/09 remaining on its original target of 5 percent of annual revenues.

The Recommended General Fund Budget for next year incorporates all of the reductions implemented in Fiscal Year 2008/09, including the additional, mid-year 2.5 percent downward adjustment. Consequently, even though continuing cost shifts and revenue reductions from the State and declines in state shared revenues have been incorporated into this Recommended Budget, base General Fund revenues exceed base expenditures by $21,740,959.

It is recommended that these unprogrammed dollars be used for two purposes:

- $15,000,000 set aside for potential allocation by the Board of Supervisors to increase assistance to University Physicians Healthcare Hospital to enhance and expand the provision of medical services.

- $6,740,959 to afford property tax relief by reducing the primary property tax rate 7.8 cents.

The secondary property tax rates are recommended to decrease 7.5 cents for the Library District, decrease 3.0 cents for the Flood Control District and increase 10.5 cents for Debt Service. The combined County property tax rates will be reduced 7.8 cents from this year's rate of $4.6291 to $4.5511 per $100 of assessed value.
The total, overall Recommended Budget is $1,371,254,094, which is $6,275,174 or 0.5 percent less than the current year's Adopted Budget.

II. Summary of Key Budget Issues

- This Recommended Budget is being transmitted prior to enactment of the State's Fiscal Year 2009/10 Budget which may affect the projected revenues and expenditures used to develop this recommendation. If this occurs, recommended modifications to this Budget will be transmitted to the Board of Supervisors.

- The projected General Fund available ending balance for Fiscal Year 2008/09 is $24,447,921, an increase of $423,201 over the budgeted reserve of $24,024,720.

- It is recommended that the non-recurring Fiscal Year 2008/09 ending balance of $24,447,921 be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2009/10 to maintain a balance which is 5 percent of General Fund revenues.

- Assuming continuation of the current primary property tax rate of $3.3913, General Fund base revenues and transfers-in for Fiscal Year 2009/10 are projected to be $494,830,854.

- Excluding primary property taxes, General Fund revenues from all other sources are projected to decrease $23,875,973 or 11.3 percent from the current year's budget.

- The primary property tax base for next fiscal year, which uses 2007 data, increased 2.22 percent as a result of new development being added to the tax rolls and 6.96 percent as a result of appreciated values of existing property. This growth trend will be severely reversed in future years as the current declines in construction and market values are incorporated into the tax base.

- Base General Fund expenditures and transfers-out total $473,089,895, which is $47,907,048 or 9.2 percent less than the current year's budget.

- Numerous initiatives were implemented during the current budget year to reduce expenditures throughout County operations, including a 2.5 percent across-the-board reduction to General Fund departments except the Sheriff's Office, that are now reflected in base expenditures for Fiscal Year 2009/10.

- General Fund base revenues exceed base expenditures by $21,740,959.

- It is recommended that $15,000,000 of excess base revenues be set aside in the Budget Stabilization Fund and reserved for assistance to University Physicians Healthcare Hospital, subject to conditions and terms approved by the Board of Supervisors.

- It is recommended that the remaining excess base revenues of $6,740,959 be used to afford property tax relief by reducing the primary property tax rate 7.8 cents from the current $3.3913 to $3.3133 per $100 of assessed value, which is the lowest primary rate in the past 35 years.

- The recommended budget for the Library District is $37,483,152 and the recommended tax rate is $0.2643, a 7.5 cent decrease from the current year.

- The recommended budget for Debt Service is $110,138,905 and the recommended tax rate to support the General Obligation portion of that budget is $0.7100, a 10.5 cent increase from the current year.

- The recommended operating budget for the Regional Flood Control District is $12,227,360, a $317,227 decrease from this year, and the recommended tax rate is $0.2635, a 3 cent reduction from the current year's rate.

- The recommended combined County primary and secondary property tax rates are $4.5511 per $100 of assessed value, a 7.8 cent reduction from the current year.

- The overall recommended expenditure authority for all funds in the County is $1,371,254,094, which is $6,275,174 or 0.5 percent less than the current year.

III. General Fund Ending Fund Balance: Fiscal Year 2008/09

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2008/09 is $24,447,921. This is a projected increase of $423,201 over the budgeted General Fund Reserve of $24,024,720. This ending balance represents 5.3 percent of projected revenues for Fiscal Year 2008/09 compared to the target ending fund balance of 5.0 percent. This is non-recurring, one-time cash available to the General Fund.

This projected net increase of $423,201 or 1.8 percent results from numerous offsetting increases and decreases in actual expenditures and revenues from the adopted Budget. As the national and state economies declined precipitously after the

June, 2008 adoption of the current year's Budget, the actual amount of state shared revenues received by the General Fund correspondingly declined below original projections including deficits of $11,800,000 in Sales Taxes and $3,025,000 in Vehicle License Taxes. In response to this progressive deterioration of budgeted revenues numerous mid-year adjustments were implemented including a 2.5 percent reduction in expenditures from all General Fund supported departments except the Sheriff's Office totaling $4,995,978 and a $3,400,000 operating transfer of available, excess equity from the Pima Health System. What was not anticipated was a withholding in March, 2009 of a legislative appropriation to the General Fund of $3,817,000 to hold Pima County harmless from the implementation in 2001 of Proposition 204 relating to the State's indigent healthcare program. This appropriation was retained by the Director of the Arizona Health Care Cost Containment System to supplant state budget reductions to his agency. Had this funding been distributed to Pima County as the Legislature intended, $3,817,000 of additional ending fund balance would have been available to fund next year's Budget.

B. Recommended Use of General Fund Ending Balance: Budgeted Reserve

It has been the stated goal of the County for many years pursuant to Board of Supervisors' Policy to maintain a reserve, or rainy day fund balance at a minimum of 5 percent of General Fund revenues. This goal tracks the recommendation of the Government Finance Officers Association that at least 5 percent of general operating revenues be set aside as fund balance.

In Fiscal Year 1996/97 the General Fund Reserve was budgeted at zero. Since that time the Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County which has enabled the Reserve Fund to be steadily increased. For the past three years the Board of Supervisors has been able to achieve the goal of 5 percent within the adopted Budget.

Increasing the budgeted reserve has contributed to an enhanced bond rating being assigned to the County which has saved approximately $2,000,000 annually in reduced interest payments on County bond projects. The reserve has also enabled the County to sustain the negative fiscal impacts of a variety of unforeseen events over which the County has had little or no control.

Based on projected and recommended adjustments to revenues and transfers-in for Fiscal Year 2009/10, $24,404,495 is needed to reserve 5 percent of General Fund revenues. I recommend that this minimum benchmark continue to be funded and that this year's projected General Fund ending balance of $24,447,921 be rolled-over and budgeted as the General Fund Reserve for Fiscal Year 2009/10.

IV. General Fund Base Budget: Fiscal Year 2009/10

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.3913, projected Fiscal Year 2009/10 base budget revenues and operating transfers to the General Fund total $494,830,854. This is a $1,582,944 or 0.3 percent increase over the current year's budgeted revenues and operating transfers to the General Fund.

Below is a brief discussion of each category of projected General Fund base revenues:

1. General Government Revenues Other Than Property Taxes

Excluding primary property tax revenues, projected Fiscal Year 2009/10 base budget General Government revenue from all other sources is $140,580,301, which is $21,423,015 or 10.8 percent less than the current adopted budget. Significant revenue sources within this category that are projected to decrease, but which are partially offset by other revenue sources, include:

- State Shared Sales Tax – A $15,850,000 or 15.1 percent decrease from the current year. This substantial decrease reflects the reductions in consumer spending and taxable new construction resulting from the economic recession experienced in the current year and projected to continue next year.
- Vehicle License Tax – A $3,075,000 or 11 percent decrease from the current Budget. This reflects the continued decrease in new car sales and less immigration of new residents into the state bringing vehicles that require new registration.
- Interest on Cash Balances – A $1,239,124 or 70 percent decrease from the current Budget. This results from continued, historically low interest returns on cash investments.
- Business Licenses and Permits Revenue – A $513,753 or 17.4 percent decrease from the current Budget as a result of reduced installation of cable services in new and existing homes.

2. Primary Property Tax Revenues

The Preliminary Primary Net Assessed Value for Fiscal Year 2009/10 totals $8,986,316,666. This is a 2.22 percent increase over the current year that is attributable to new construction that has been added to the tax base and an additional 6.96 percent increase representing market appreciation in the value of

existing property. Last year the primary tax base increased 5.50 percent from new construction and 6.85 percent through market appreciation.
Though both new construction and market value have steadily declined this fiscal year, the statutory process to amend the tax base lags the current year. Consequently, the property tax base for next year continues to reflect significant growth, especially in market appreciation. This trend will be severely reversed in future years as the current market conditions are amended into future tax bases.

Assuming the same primary rate as this year of $3.3913 per $100 of assessed value and a collection rate of 96.17 percent, current year General Fund property tax revenues for Fiscal Year 2009/10 are projected to be $293,084,826.

In addition to collection of current year property taxes, the County also receives revenue from payment of delinquent property taxes and associated interest and penalties which are projected to be $14,711,436. Together with the projected primary property tax collections next year as discussed above, the total base property tax revenues projected for Fiscal Year 2009/10 are $307,796,262 a 9.0 percent increase over the current year.

3. **Departmental Revenues**

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2009/10 are projected to be $46,454,291. This is a net decrease from the current year of $2,452,958 which reflects a projected, continued recession in the local economy.

B. **General Fund Base Budget Expenditures**

The amount required to fund General Fund supported base budgets for both departmental expenditures and net operating transfers-out is $473,089,895, which is $47,907,048 or 9.2 percent less than the current year's budget. This base expenditure amount represents adopted departmental budgets adjusted for new or amended federal and state mandated expenditures, recurring supplemental requests, annualized as appropriate, that were adopted in the current year's budget, impacts to base pursuant to Board adopted budget policies and prior directives, and decreases for one-time expenditures in the current year.

The adopted current year's budget reduced base expenditures for all General Fund supported departments, except the Sheriff's Office, by 5 percent and an additional 2.5 percent in administrative expenditures for all departments, including the Sheriff's Office. During the current year, after budget adoption, an additional 2.5 percent across-the-board reduction was implemented. This most recent 2.5 percent reduction, with the exception of the Sheriff's Office, is incorporated into in the recommended General Fund base expenditures. The total amount of across-the-board reductions implemented during the current year and recommended for Fiscal Year 2009/10 is $5,300,892. To correspond with these internal reductions, the recommended base appropriation for allocation to outside agencies has been reduced 10 percent or $396,397 to a total of $3,779,786.

Other significant components in recommended base budget expenditures include:

- $237,210,914 or 48 percent of General Fund expenditures for Justice and Law Enforcement functions.

- $72,834,517 for mandated payments to fund state programs for indigent acute, long term, and mental health care including an increase of $3,794,400 in the payment for the Arizona Long Term Care System recently enacted by the Legislature as a cost shift to balance the State Budget.

- $10,000,000 to fund the County's contractual obligation to University Physicians Healthcare pursuant to the existing lease for University Physicians Healthcare Hospital.

- $13,995,347 for adult and juvenile detention health care.

- $64,634,582 for employee benefits including $24,254,494 for employer contributions to various state retirement systems and $16,516,830 for medical, dental and life insurance premiums.

- $2,000,000 in the Budget Stabilization Fund reserved for continued assistance, as needed, for revenue shortfalls in solid waste services.

- $2,000,000 in the Budget Stabilization Fund reserved for support, as needed, to fund the countywide planning function within the Development Services Department which benefits all County residents but which cannot currently be sustained solely through fee generated revenue given the substantial decrease in development activity.

- $375,000 to fund the fifth and final appropriation, initially approved by the Board of Supervisors in 2004, to support establishment of the Critical Path Institute in order to promote local economic development.

- $795,524 in the Board of Supervisors' Contingency Fund.

- $294,969 to annualize salary increases of County elected officials that became effective in January, 2009 pursuant to state statute.

V. Recommended Adjustments to General Fund Base Budget

As discussed in Section IV above, $473,089,895 is required to fund base budget expenditures which is $21,740,959 less than the amount of base budget revenues projected for Fiscal Year 2009/10. Set forth below are my recommendations for adjustments to base expenditures and revenues.

A. Recommended Adjustment to General Fund Base Expenditures

1. University Physicians Healthcare Hospital

In 2004 the Board of Supervisors approved a lease with University Physicians Healthcare (UPH) for operation of a hospital at the University Physicians Healthcare Hospital facility. The terms of that lease provided that, in order to assist UPH in transitioning and establishing a new hospital in place of the formerly County owned and operated Kino Community Hospital, the County would make payments to UPH totaling $127,000,000 over ten years. These payments were weighted in amount toward the beginning of the ten year term with decreasing annual amounts over time. Since the lease was initially entered into, it was subsequently amended to restructure the payment schedule to further accelerate the amounts paid during the ten year term. At the end of the current fiscal year $110,416,667 of the $127,000,000 total payments under the lease will have been paid to UPH. Under the restructured lease a $10,000,000 payment is to be made in Fiscal Year 2009/10. This amount is included in base General Fund expenditures discussed in Section IV(B) above.

UPH, in conjunction with the University of Arizona, has requested that the County provide financial assistance to the University Physicians Healthcare Hospital that is substantially more than is provided for in the lease. The Arizona Health Sciences Center, consisting of the College of Medicine, University Medical Center and University Physicians Healthcare including the University Physicians Healthcare Hospital at the Kino Campus, is developing a long-term strategic plan scheduled for completion in September, 2009. Objectives of this plan will include enhanced and expanded capacity to provide health care to the underserved in the community and to train and retain health care workers.

In anticipation of implementation of this plan, additional, continuing funding from the County has been requested. For Fiscal Year 2009/10 the request totals approximately $30,000,000 or $20,000,000 more than is programmed in the County's budget for payment pursuant to the lease with UPH. In order to accommodate this request it will be necessary to more fully articulate and quantify the added benefit to the public that this substantial additional investment by the County will support. In particular, recent interpretation of the Arizona Constitution by the Court of Appeals will require that the conditions governing such an allocation adequately describe, benchmark and validate the public purposes to be achieved with this funding.

I recommend that $15,000,000 be appropriated to the Budget Stabilization Fund and reserved for additional support of UPH hospital at Kino subject to future approval of an allocation that includes necessary and appropriate terms and conditions acceptable to the Board of Supervisors.

2. **Zero Base Budget Requests**

Pursuant to the schedule adopted by the Board of Supervisors, ten General Fund budget units and five Non-General Fund programs developed their budget requests using a zero-based approach without regard to their target base which has been the basis for their budget in prior years. A separate report compiling the materials and information generated in the zero-base budget development process for Fiscal Year 2009/10 has been transmitted to the Board of Supervisors in conjunction with this Recommended Budget.

As a result of this process three General Fund budget units have requested increases in their base budget appropriations in the following amounts:

Kino Sports Complex	$ 64,575
Public Fiduciary	257,419
Superintendent of Schools	81,952
Total	**$ 403,946**

While these requests were justified through the zero-based budget methodology, I am unable to recommend that they be funded given the lack of available resources to do so next year.

3. **Departmental Requests for Supplemental Funding**

A separate compilation of all materials submitted by departments in support of supplemental funding requests has been transmitted to the Board of Supervisors in conjunction with this Recommended Budget. The total net negative General Fund impact of all supplemental requests received by departments is $9,676,625.

Many of these requests were justified and will need to be addressed at some point in the future. Lack of available resources next fiscal year, however, prevent any recommendations to fund these requests.

B. Recommended Adjustment to General Fund Base Revenues: Property Tax Relief

Pursuant to the administrative structure for property taxation set forth in state statute, the levies and rates adopted by the Board of Supervisors for Fiscal Year 2009/10 will be based on property valuations set by the County Assessor in calendar year 2007. As a result these valuations continue to reflect the substantial market appreciation that occurred locally, statewide and nationally during the period of 2004 through 2007. This is the basis for next year's property tax levy even though current real property values are experiencing a decline within the County.

In order to mitigate the impact of increased valuation of existing property on taxpayers, I recommend that the primary property tax rate be reduced 7.8 cents, from $3.3913 to $3.3133 per $100 of assessed value. This will reduce the primary property tax levy and projected General Fund base revenues by $6,740,959. The recommended primary property tax rate of $3.3133 is the lowest rate adopted by the County in the past 35 years.

VI. Summary of Recommended Adjustments to General Fund Base Budget

General Fund Base Revenues	$494,830,854
General Fund Base Expenditures	$473,089,895
Base Revenues in Excess of Base Expenditures	**$ 21,740,959**
Recommended Increase in Expenditures:	
University Physicians Healthcare Hospital	($15,000,000)
Recommended Decrease in Revenues:	
Property Tax Relief	($6,740,959)
	$0

VII. The Overall Budget

A. Special Districts and Debt Service

1. County Library District

On February 21, 2006 the Board of Supervisors unanimously approved an agreement with the City of Tucson to transfer all library operations and funding to the Pima County Free Library District. Governance and administration of the library system transferred to the Library District on July 1, 2006. The agreement with City of Tucson allowed the City to decrease its financial support for the library system incrementally until Fiscal Year 2009/2010 when all City funding ends. Since assuming responsibility for Library funding and administration the

District has opened three new branches and one satellite branch, doubled the annual collection purchase budget and extended Sunday hours in thirteen additional branches.

The Library District operates twenty-six branches, one affiliate branch in the Town of Oro Valley, a Book Mobile serving numerous remote locations, and deposit collections at the Pima County Jail and the Juvenile Detention Center. The District has 278 permanent and 105 intermittent positions and occupies 320,000 square feet of library space.

The District provides numerous community services, including story hours and reading programs for children, adult literacy programs, summer youth reading and activity programs, site-based and internet tutoring programs, numerous art and cultural exhibits and events, and, most recently, in collaboration with Pima County One Stop, special assistance for the unemployed and job seekers. The Library has a collection of 1.4 million catalogued items, provides for public use of 700 computers, and annually has over 4.1 million visits.

The Fiscal Year 2009/10 Recommended Budget is $37,483,152, which is a $1,375,570 increase over the current year's budgeted amount. This includes a $1,187,535 increase in maintenance to address needed repairs at library branches.

The recommended Library District property tax rate for Fiscal Year 2009/2010 is $0.2643 per $100 of assessed value, which is $0.0750 less than the current rate of $0.3393. This tax rate is projected to provide $26,001,108 million in revenues that will be supplemented by $1,631,500 from fines, interest, grants, and miscellaneous revenue, and $9,850,544 from the Library District fund balance in order to meet the recommended overall budget of $37,483,152. The Fiscal Year 2009/10 ending fund balance is projected to be $7,041,336, while the current year's projected ending fund balance is $16,891,880. Consequently, this recommended rate reduction is temporary, given that a substantial portion of the large, one-time fund balance will be utilized next fiscal year. It is anticipated that the rate will be required to increase in future years.

2. <u>**Debt Service Fund**</u>

The total Recommended Fiscal Year 2009/10 Debt Service Fund budget is $110,138,905, a $9,617,282 increase from this fiscal year. The Debt Service Fund includes payments on the County's General Obligation debt, the Street and Highway Revenue Bond debt, and Certificates of Participation debt not included in the General Fund budget, all of which are long-term debt.

- **General Obligation Debt Service**

  The County's General Obligation Debt Service is funded with a secondary property tax rate. The recommended General Obligation debt service of $69,367,436 will fund existing debt service as well as debt service on a proposed $90,000,000 bond sale expected to occur in November 2009.

  As originally planned when the 1997 Bond Program began, the debt service on new bond sales supported by the secondary tax levy is being offset by ongoing reductions in debt service for existing outstanding bonds. As the 1997 bonds are being retired, 2004 bonds and 2006 bonds are being sold incurring new debt. The County has initiated several major capital improvement projects this fiscal year, including the psychiatric facilities at the Kino medical campus and the regional public safety radio system (PCWIN), and expects to issue $90,000,000 of new debt in Fiscal Year 2009/10.

  The County manages the issuance of its debt to provide timely, adequate funding to maintain the on-going capital improvement program. In order to properly time the issuance of debt to minimize outstanding balances and manage the level of debt service to avoid significant spikes in payments in any year, the County generally issues debt on an annual basis for General Obligation Bonds and for Sewer Revenue Bonds, and bi-annually for Highway and Streets Revenue Bonds.

  With the expected decrease in net secondary assessed values in the coming years, and the need to continue to fund projects from the 2004 and 2006 General Obligation bond authorizations, the debt service rate needs to increase by $0.105 for Fiscal Year 2009/10 in order to sufficiently finance current capital projects. To continue the 2004 and 2006 capital programs, additional increases in the debt service rate of $0.03 in Fiscal Year 2010/11, $0.04 in Fiscal Year 2011/12 and $0.02 in Fiscal Year 2012/13 are anticipated to be needed to account for the decrease in net secondary assessed values.

  I recommend that the General Obligation Debt Service tax rate be increased to $0.7100 per $100 of assessed value for Fiscal Year 2009/10, an increase of $0.105 from this year's rate of $0.6050. This increase in the rate and corresponding levy will enable the County to continue with the construction of psychiatric facilities at the Kino medical campus and the regional public safety radio system.

- **Street and Highway Revenue Debt Service**

  The 1997 Transportation Bond authorization provides for the sale of Street and Highway Revenue bonds with the debt service being repaid from the Highway User Fund (HURF) revenues the Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2009/10 of $18,899,469 will fund existing debt service as well as debt service on a proposed $15,000,000 bond sale expected to occur in November 2009.

- **Certificates of Participation Debt Service**

  In June 2009, Pima County will issue $35,000,000 in Certificates of Participation primarily to fund short-term cash flow requirements affecting the construction of sewer facilities funded with sewer revenues. The debt service for these Certificates of Participation will be primarily funded with operating transfers from sewer revenue funds. In January 2010, the County will issue $20,000,000 of Certificates of Participation to fund the PimaCore project for the acquisition of a countywide resource management system. The recommended debt service of $21,872,000 will fund existing debt service as well as debt service on the proposed sales expected to occur in June 2009 and January 2010.

3. **Regional Flood Control District**

The recommended operating budget for the Regional Flood Control District is $12,227,360, a $317,227 decrease from the current fiscal year. Also recommended are operating transfers totaling $10,030,266. Of the transfer amount $10,000,000 is for the Capital Projects Fund, and $30,266 goes to the General Fund to partially offset the County's contribution to the Pima Association of Governments.

Flood Control Capital Projects funds are used to acquire, construct, expand and improve flood control facilities within the County including bank stabilization, channels, drainage ways, dikes, levees, and other flood control improvements. This includes funding to provide federal and state mandated floodplain management services and to continue the Board approved Riparian Protection Program as a component of the Sonoran Desert Conservation Plan, and to procure flood prone land contiguous to existing watersheds within the County. These land acquisitions serve the dual purpose of protecting existing riparian habitat corridors and preventing future flood damages.

I recommend that the Regional Flood Control District's tax rate be decreased to $0.2635 per $100 of assessed value, which is $0.03 less than this year's rate.

Overall projected revenues are $23,598,588 for Fiscal Year 2009/10, which is a decrease of $2,407,281 from the current fiscal year.

4. **Stadium District**

Funding for the Stadium District comes from four sources: a $3.50 per contract car rental surcharge; a $0.50 per day rental tax on recreational vehicle spaces; a 2 percent hotel/motel tax in the unincorporated area of the County; and revenue from baseball and other events scheduled at Kino Veterans Memorial Stadium.

Due to declining economic conditions, Fiscal Year 2009/10 funding from the first three sources will decrease substantially from the amounts budgeted in the current year: car rental surcharges will decrease by $504,000, or 28 percent; RV space surcharges will decrease by $126,000, or 58 percent; and Transient Lodging Tax revenues will decrease by $686,000 or 23 percent. Loss of baseball tenants, as discussed below, will result in an additional loss of revenue in the amount of $472,000. Collectively, about $1.8 million less funding will be available next fiscal year to the Stadium District than is budgeted in the current year. This projected shortfall will be addressed by drawing down the Stadium District fund balance in like amount.

In 2008, the Chicago White Sox notified the County that they were relocating their spring training activities to a new stadium in Glendale, Arizona. In November, 2008 the Board of Supervisors, acting as the Stadium District Board, approved a termination of contract agreement that included a one-time, $5 million settlement payment by the White Sox to the County. It was the intent of the Board that the $5 million be used, in part, for capital and operating improvements to the Stadium that will prepare it for new uses in the future.

Also in 2008, the Tucson Sidewinders announced that they were relocating to Reno, Nevada effective in spring 2009. In February, 2009 the Arizona Diamondbacks released a request-for-proposals for construction of a new stadium which may result in their departure from Tucson Electric Park by spring of 2011. As a result of these changes, review of the potential to reprogram the use of the Stadium to accommodate greater youth and amateur utilization and possibly as a spring training site for one or more Japanese baseball teams is currently underway.

The recommended operating budget for the Stadium District is $6,555,529, an increase of $3,142,605. Almost all of this increase results from two factors. The first is a one-time programming of $1.7 million of the total $5 million settlement payment received from the White Sox to fund capital improvements needed to facilitate enhanced use of the facility by youth and amateur sports as was intended by the Board of Supervisors. The second component of the increase is a $1.3 million reformatting of the Stadium District as a budget unit by transferring the expenditure authority for North Fields, South Fields, and the Kino Ecosystem Restoration Project from the General Fund in order to provide a more complete, consolidated picture of the cost of operating all of the interrelated components of the recreational complex. This $1.3 million will be offset by an operating transfer from the General Fund to the District. The District's budget also includes a $3,012,935 operating transfer to the General Fund to pay the debt service on the outstanding Certificates of Participation used to finance construction of the Stadium.

B. Annual Capital Projects Fund Budget and Capital Improvement Plan Budget

As set forth in the table below, the Fiscal Year 2009/10 Recommended Capital Improvement Budget of $284,862,053 consists of the Capital Projects Fund Budget at $196,516,969 together with the Capital Project Budgets of Wastewater Reclamation at $87,095,084, Communications at $1,000,000, and Fleet Services at $250,000. A complete list of projects for the Recommended Capital Improvement Budget is included in the Capital Projects section of the Recommended Budget Book.

Recommended Fiscal Year 2009/10 Capital Projects Fund Budget and Capital Improvement Plan Budget

	FY 2008/09 Bond and Non-Bond Project Budgets	FY 2009/10 Bond and Non-Bond Project Budgets	Difference	1997 Bond Projects	2004/2006 Bond Projects	Non-Bond Projects
Capital Projects Fund Budget						
Facilities Management	$44,540,056	$45,188,470	$648,414	$537,408	$38,370,818	$6,280,244
Transportation	45,182,383	63,434,666	18,252,283	27,787,497	0	35,647,169
Flood Control	16,423,922	14,070,845	(2,353,077)	0	4,148,845	9,922,000
Parks and Recreation	15,823,364	13,007,794	(2,815,570)	1,456,444	11,501,350	50,000
Open Space	21,000,000	5,031,694	(15,968,306)		5,031,694	0
Cultural Resources	3,834,372	2,425,730	(1,408,642)	36,145	2,389,585	0
Neighborhood Reinvestment	3,595,814	14,384,232	10,788,418	160,835	10,723,397	3,500,000
Solid Waste Management	1,265,419	577,361	(688,058)	577,361	0	0
Sheriff Radio System	12,766,002	27,719,205	14,953,203		27,719,205	0
Finance PimaCore	0	9,953,468	9,953,468	0	0	9,953,468
CIP Administration	867,697	723,504	(144,193)	148,100	326,399	249,005
Communications	1,150,300	0	(1,150,300)	0	0	0
Total Capital Project Fund Budget	**$166,449,329**	**$196,516,969**	**$30,067,640**	**$30,703,790**	**$100,211,293**	**$65,601,886**
Capital Project Budget for:						
Wastewater Reclamation	$117,153,210	$87,095,084	($30,058,126)	$400,926	$37,219,273	$49,474,885
Communications	0	1,000,000	1,000,000	0	0	1,000,000
Fleet Services	0	250,000	250,000	0	0	250,000
Total Capital Improvement Budget	**$283,602,539**	**$284,862,053**	**$1,259,514**	**$31,104,716**	**$137,430,566**	**$116,326,771**

1. **Capital Projects Fund Budget**

   The $196,516,969 Capital Projects Fund budget for Fiscal Year 2009/10 is an increase of $30,067,640 over the current fiscal year. Of the total Capital Projects Fund budget, $30,703,790 is allocated to 1997 bond projects, $100,211,293 is allocated to 2004/2006 bond projects, and the remaining $65,601,886 is allocated to non-bond projects.

   The major budgeted projects for next year include $28.9 million for the Psychiatric Hospital and Urgent Care Facility, funded with 2004/2006 Bonds, and $23.7 million for the Regional Public Safety Communications System, primarily funded with 2004 Bonds combined with $4.8 million in federal grants. The 1997 HURF Bond Program has two major projects included in the Fiscal Year 2009/10 budget: $10.3 million is budgeted for the I-19 Frontage Road - Continental Road to Canoa Road which is planned to be funded with $2.6 million of 1997 HURF Bonds, $2.6 million of Impact Fees, $1.0 million of RTA Sales Tax, and $4.1 million of Urban HURF; and $6.5 million is budgeted for Sunrise Drive - Craycroft Road to Kolb Road, to be funded with 1997 HURF Bonds. A third major project for Transportation, budgeted at $7.1 million next year, is a non-bond project: La Canada Drive - Ina Road to Calle Concordia. The PimaCore resource management system is also budgeted at $10 million and federal stimulus funding of $9 million is budgeted for pavement preservation.

   Not included in the Capital Projects Fund budget are $2.5 million of expenditures programmed by the U.S. Army Corps of Engineers (USACOE) on four projects for which the Regional Flood Control District has budgeted its cost sharing responsibilities of $2.0 million. The major USACOE expenditure will be $2 million for the Arroyo Chico Detention Basin.

2. **Wastewater Reclamation Capital Budget**

   The Fiscal Year 2009/10 recommended capital budget for Wastewater Reclamation is $87,095,084, a decrease from the current year of $30,058,126, or 26 percent. Of the recommended budget $37,219,273 is for 2004 bond projects, $49,474,885 is for non-bond projects and the small remainder for 1997 bond projects. The major budgeted projects totaling $56.1 million include Regional Optimization Master Plan (ROMP) Plant Interconnect at $25 million; Ina Road Water Pollution Control Facility (WPCF) Biosolids Facilities Improvements at $12.9 million; ROMP Ina Road WPCF High Purity Oxygen Replacement at $6.8 million; Large Line Rehabilitation and Construction Job Order Contract at $6.3 million, and Santa Cruz Interceptor, Phase III at $5 million.

3. **Communications Capital Budget**

   The Fiscal Year 2009/10 recommended capital budget for Communications is $1 million for the downtown telephone switch replacement/upgrade including relocation of all telephone switch (PBX) equipment and support facilities from the Old Court House building, and upgrade of voice mail/call processing systems. This will be paid for using accumulated fund balance in the Communications Fund.

4. **Fleet Services Capital Budget**

   The Fiscal Year 2009/10 recommended capital budget for Fleet Services is $250,000 for purchase of a Fuel Management System that will be paid for using existing funds generated by monthly motor pool charges.

C. **Federal American Recovery and Reconstruction Act: Stimulus Funding**

The federal American Recovery and Reinvestment Act of 2009 was recently enacted to preserve and maintain jobs, stimulate economic recovery, assist individuals adversely impacted by the recession, and provide investments in public infrastructure that will yield long-term benefits. This legislation appropriates a total of $787 billion, with $575 billion provided in the form of direct spending and another $212 billion provided in tax incentives. Counties, cities, states and tribal governments are eligible for the stimulus funds, as are private entities. The funds flow from the federal government to eligible entities in one of four ways: pre-established formula grants, competitive grants, loans and loan guarantees, and tax incentives.

At least twenty-five different federal government agencies are involved with implementing the Act. While some grant application guidelines have already been issued, many others are still being formulated. Funding disbursements are also occurring at a sporadic pace. For example, while Community Development Block Grant and some transportation funds have already been disbursed, other funds will not be released until late 2009 or 2010. Many of the stimulus programs infuse new funding into existing government programs, while others create wholly new programs. Stimulus funds for counties are available in nine broad categories: Energy, Environment, Health, Housing, Job Training and Employment, Public Safety, Small Business and Economic Development, Telecommunications, and Transportation.

Various Pima County departments are currently actively involved in developing proposals and submitting applications, as opportunities become available, for this federal funding to implement a wide variety of projects and programs. In some cases, the County has already received notification of funding awards including $9 million for pavement preservation and road repair work, a $10 million Water Infrastructure Finance Authority loan for improvements to the regional wastewater system, $5.6

million for Workforce Investment Act job training and employment programs, $695,000 for Community Development Block Grant programs, $1.1 million for emergency shelter, and $1.7 million for the weatherization of low-income residences outside the City of Tucson.

Because the federal legislation has only just begun to be implemented, and detailed guidance for many funding opportunities has yet to be released, it is not possible in this Recommended Budget to accurately estimate the actual amount of stimulus dollars the County will receive next fiscal year.

All agreements required for receipt of federal stimulus funding will be transmitted to the Board of Supervisors for review and approval as they may materialize.

D. Combined Total County Budget

1. Combined County Property Tax Rate

The combined primary and secondary property taxes levied by the County currently fund 31 percent of the total County Budget. These are the only County revenues over which the Board of Supervisors has substantial control. The remainder of the County Budget is supported almost entirely by charges for services and intergovernmental revenues, primarily state revenue sharing and grants.

As discussed above, it is recommended that the primary property tax rate which supports the County General Fund be reduced 7.8 cents. Also recommended are reductions in two of the three County controlled secondary property tax rates, and an increase in the third. The effect all three changes will result in a net zero change in the combined secondary tax rate. The recommended individual changes are: the Library District tax rate is reduced 7.5 cents; the Regional Flood Control District tax rate is reduced 3 cents; and, the Debt Service tax rate is increased 10.5 cents.

The result of these recommendations is a total reduction in the combined County property tax rate of 7.8 cents, from this year's rate of $4.6291 to $4.5511.

2. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,371,254,094. This is a $6,275,174 or 0.5 percent decrease from the Fiscal Year 2008/09 Adopted Budget.

General Fund expenditure decreases discussed previously in this memorandum total $7,458,764.

Significant Non-General Fund decreases in the overall County Budget include:

- $30,033,044 in the Pima Health Systems Fund as membership in the Ambulatory Plan continues to decline.

- $8,303,133 in the Transportation Fund resulting from the elimination of some roadway contract work and the unfunding of vacant positions in order to adjust to reductions in state shared revenues.

- $3,988,510 in Development Services primarily as a result of reductions in force accomplished by unfunding vacant positions, layoffs, and transfers of staff to other departments.

- $2,431,137 in Superior Court and Juvenile Court grants as funding administered by the Arizona Administrative Office of the Courts has been reduced. For Superior Court, this includes: Access to Recovery ($398,600), Intensive Probation ($386,009), Standard Probation ($41,839), and Drug Treatment ($29,331), and for Juvenile Court this includes: Intensive Probation ($667,507), Standard Probation ($217,363) and Diversion Consequences ($194,615).

- $1,321,272 in Sheriff's grants reflecting the loss of funding for COPS in Schools 2005, Arizona Department of Public Safety GITEM (Gang and Immigration Intelligence Team Enforcement Mission), United States Department of Justice Cold Case with DNA, 2006 Homeland Security, and Vail Unified School District School Resource Officer grants. These grants affect 31 positions, the cost of which will which will be transferred to the General Fund and absorbed in the Sheriff's department base budget.

- $1,081,625 in Solid Waste resulting from the implementation of cost cutting measures such as reducing operating hours at landfills, transfer stations and regional collection centers, and eliminating greenwaste grinding.

Partially offsetting these decreases are the following increases:

- $30,067,640 in the Capital Projects Fund, including $9,000,000 of federal stimulus funding for Transportation, as discussed above.

- $9,617,282 in the Debt Service Fund as discussed above.

- $9,332,109 in the Employment and Training Program including $6.9 million of federal stimulus funding and increases in Workforce Investment Act (WIA) funding, Low Income Home Energy Assistance Program (LIHEAP) funding, and in various Community Action Agency grants.

- $3,142,605 in the Stadium District as discussed above.

- $1,907,478 in the Wastewater Reclamation fund due to increased debt service payments.

- $1,375,570 in the Library District as discussed above.