



MEMORANDUM

Date: December 5, 2022

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

From: Jan Leisher 
County Administrator

Re: **Economic Decision Guide**

Prudent financial planning is a hallmark of every effectively run government entity. With that in mind, County Administration, in coordination with Finance & Risk Management, has begun working on an Economic Decision Guide that could be used to help the County navigate through uncertain economic times. Over the last year, higher inflation rates have led to significant expenditure increases in some Pima County departments due to the rising costs of various commodities. In addition, the Federal Reserve's attempts to quell inflation by raising interest rates have directly impacted the cost of issuing new Pima County debt. While these initial impacts are being absorbed in the short term, it would be beneficial to document the steps we would take should economic indicators continue their current trends. For these reasons, the attached draft Economic Decision Guide (Attachment 1) has been created to provide some future guidance during times of economic distress for the County. The indicators included in the guide would be monitored quarterly, and if certain triggering events occur, a series of steps would be implemented to mitigate possible downturns before they develop.

Some factors under consideration as economic indicators are inflation, housing permits, gasoline sales, retail sales, and interest rates. The triggers for each indicator, the performance measures used to initiate various decision levels for each indicator, and the steps that would be taken are included in the Economic Decision Guide. Specific information related to each of the economic indicators listed above are provided in the Economic Indicator Information tables (Attachment 2).

I will provide you with quarterly updates on these economic indicators and include any recommendations for possible actions that may be necessary to maintain the stability of the County's financial health.

JKL/anc

Attachments

c: Carmine DeBonis, Jr., Deputy County Administrator
Francisco García, MD, MPH, Deputy County Administrator and Chief Medical Officer
Steve Holmes, Deputy County Administrator

ATTACHMENT 1



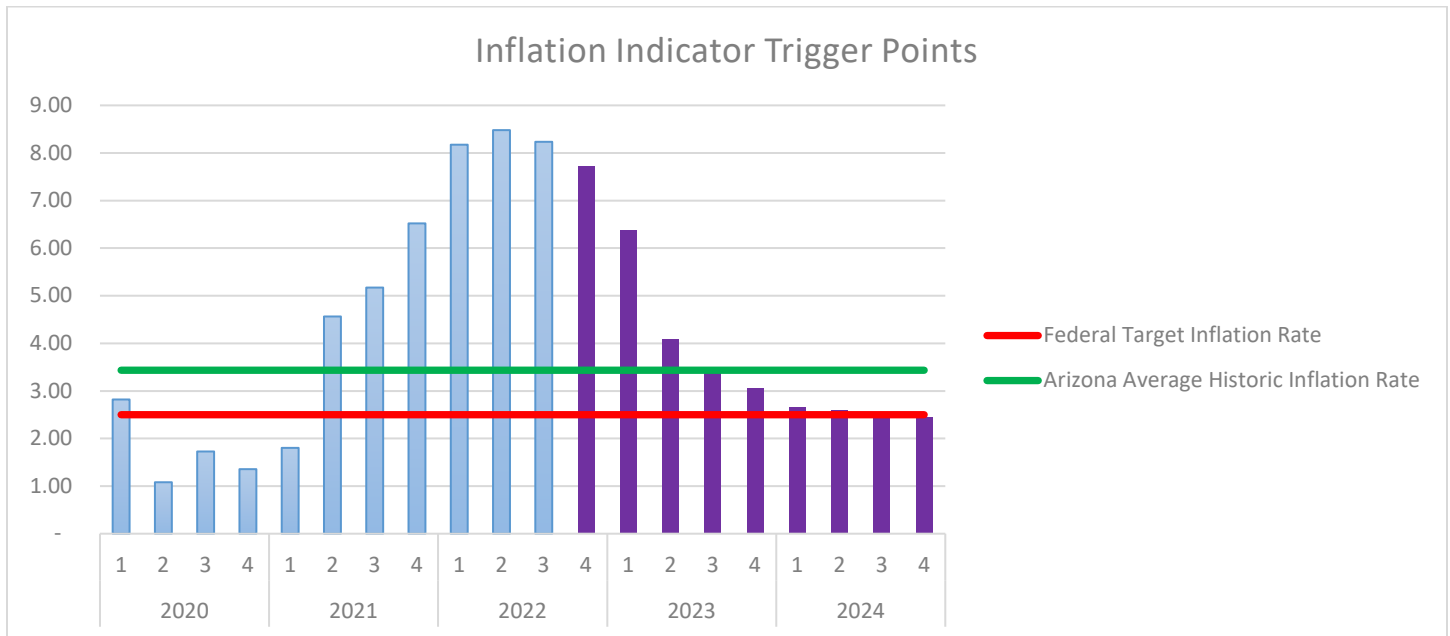
Economic Decision Guide				
The economic performance measures used to initiate a level of decision.				
Stage 1 Trigger	Stage 2 Trigger	Stage 3 Trigger	Stage 4 Trigger	Stage 5 Trigger
2 or more quarters of actual or forecasted negative economic trend and a 2% projected shortfall as a result of one of the following:	4 or more quarters of actual or forecasted negative economic trend and a 2% - 5% projected shortfall as a result of one of the following:	6 or more quarters of actual or forecasted negative economic trend and a 5% - 8% projected shortfall as a result of one of the following:	8 or more quarters of actual or forecasted negative economic trend and a 8% - 12% projected shortfall as a result of one of the following:	10 or more quarters of actual or forecasted negative economic trend and a 12% - 15% projected shortfall as a result of one of the following:
<ul style="list-style-type: none"> * Inflation greater than Arizonas 3.5% historical average with projections to increase * Pima County Single Family Home Permits showing declines against the previous quarters actuals and downward activity * Arizona Gas Sales showing declines against the previous quarters actuals and a downward forecast * Arizona Retail Sales showing declines against the previous quarters actuals and a downward forecast * Federal Funds Rate showing increases against the previous quarters actuals and upward activity 	<ul style="list-style-type: none"> * Inflation greater than Arizonas 3.5% historical average with projections to increase * Pima County Single Family Home Permits showing declines against the previous quarters actuals and downward activity * Arizona Gas Sales showing declines against the previous quarters actuals and a downward forecast * Arizona Retail Sales showing declines against the previous quarters actuals and a downward forecast * Federal Funds Rate showing increases against the previous quarters actuals and upward activity 	<ul style="list-style-type: none"> * Inflation greater than Arizonas 3.5% historical average with projections to increase * Pima County Single Family Home Permits showing declines against the previous quarters actuals and downward activity * Arizona Gas Sales showing declines against the previous quarters actuals and a downward forecast * Arizona Retail Sales showing declines against the previous quarters actuals and a downward forecast * Federal Funds Rate showing increases against the previous quarters actuals and upward activity 	<ul style="list-style-type: none"> * Inflation greater than Arizonas 3.5% historical average with projections to increase * Pima County Single Family Home Permits showing declines against the previous quarters actuals and downward activity * Arizona Gas Sales showing declines against the previous quarters actuals and a downward forecast * Arizona Retail Sales showing declines against the previous quarters actuals and a downward forecast * Federal Funds Rate showing increases against the previous quarters actuals and upward activity 	<ul style="list-style-type: none"> * Inflation greater than Arizonas 3.5% historical average with projections to increase * Pima County Single Family Home Permits showing declines against the previous quarters actuals and downward activity * Arizona Gas Sales showing declines against the previous quarters actuals and a downward forecast * Arizona Retail Sales showing declines against the previous quarters actuals and a downward forecast * Federal Funds Rate showing increases against the previous quarters actuals and upward activity
Guidance provided by:				
Department with Budget/Finance	Department with Budget/Finance	County Administrator	County Administrator	County Administrator/Board of Supervisors
Mitigation actions to be considered:				
<ul style="list-style-type: none"> * Consider reducing non-essential expenditures where reasonably possible * Evaluate rearranging Capital Projects where reasonable * Consider withholding vacancy savings by Department * Prioritize the use of special revenue funds to cover appropriate expenses 	<ul style="list-style-type: none"> * Postpone all non-essential purchases and delay large purchases * Study all non-essential services, programs and projects and limit expansions * Implement interim budget reductions * Evaluate vacant positions for possible delayed start 	<ul style="list-style-type: none"> * Evaluate the possibility of a Board of Supervisors hiring freeze * Consider suspending any salary increases * Consider partial workforce reduction (PT, Temporary staff) * Eliminate all non-essential purchases and capital projects not already in construction * Cover shortfalls with applicable fund balances 	<ul style="list-style-type: none"> * Consider Furloughs where required * Suspend all salary increases * Require strong justification for all large purchases * Evaluate services, programs, and projects for cuts 	<ul style="list-style-type: none"> * Institute furloughs where required * Consider instituting layoffs; Board of Supervisors workforce reduction * Cease all capital projects where applicable * Restructure debt * Implement a major reduction in remaining services

ATTACHMENT 2

Economic Indicator Information

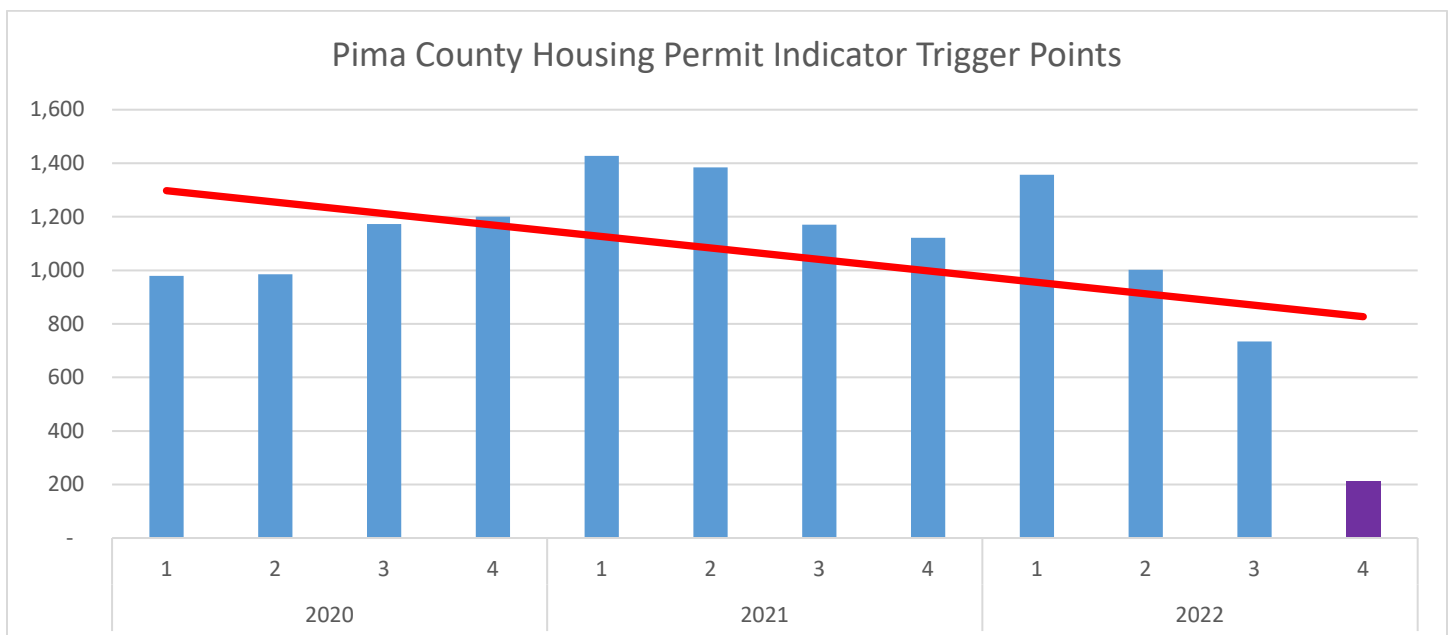
Inflation Indicator:

The Inflation indicator graph has a red line for the Fed Target Inflation Rate of 2.5% and a green line for the historical average of Arizona's inflation of 3.43%. We are currently in Stage 2 due to inflation exceeding the Arizona average inflation rate for five consecutive quarters. We have not transitioned to Stage 3 since inflation for the third quarter of 2022 has gone down, though it's still above the long-term average. It's currently forecast to drop below the Arizona average inflation rate within four quarters and approach the Fed Target Inflation Rate of 2.5% in the second quarter of 2024.



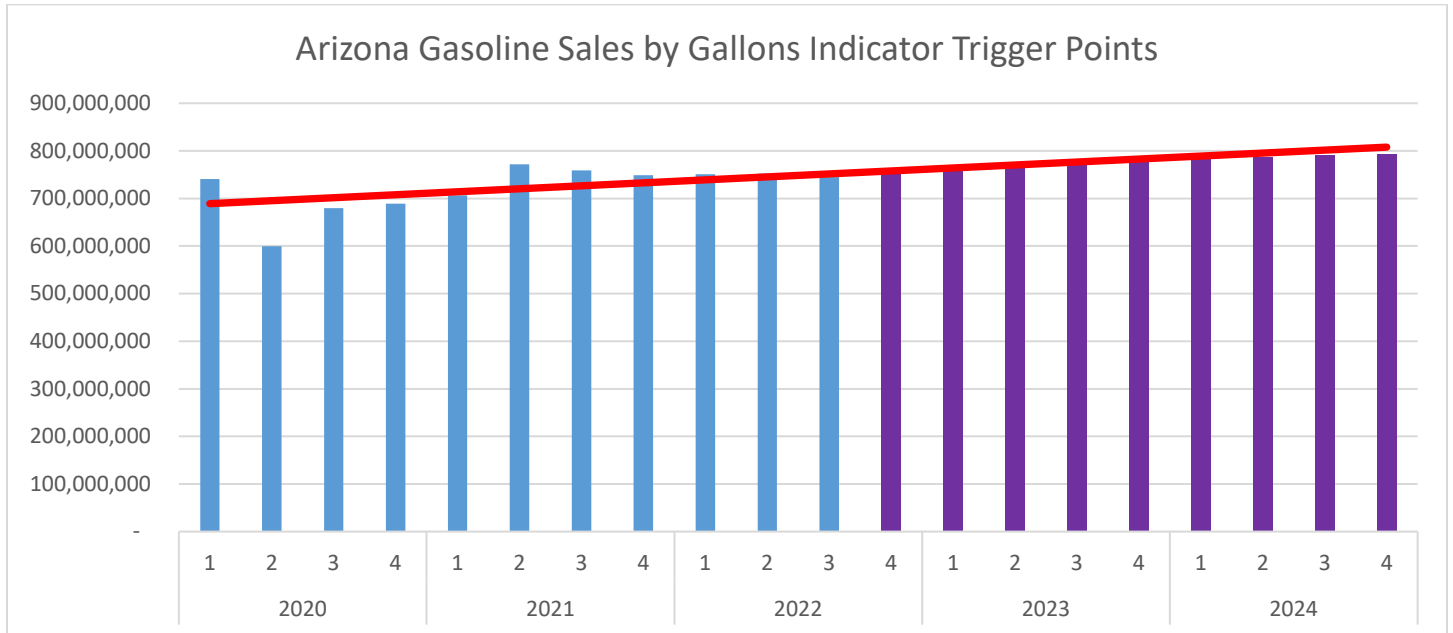
Pima County Housing Indicator:

As housing permits decline, this leads to declines in revenue within departments whose revenues directly correlate to new housing, such as Development Services, Wastewater (connection fees), Assessor (appraisals), etc. A decline in housing permits could also impact other departments whose programs are affected by housing availability, e.g., Community and Workforce Development.



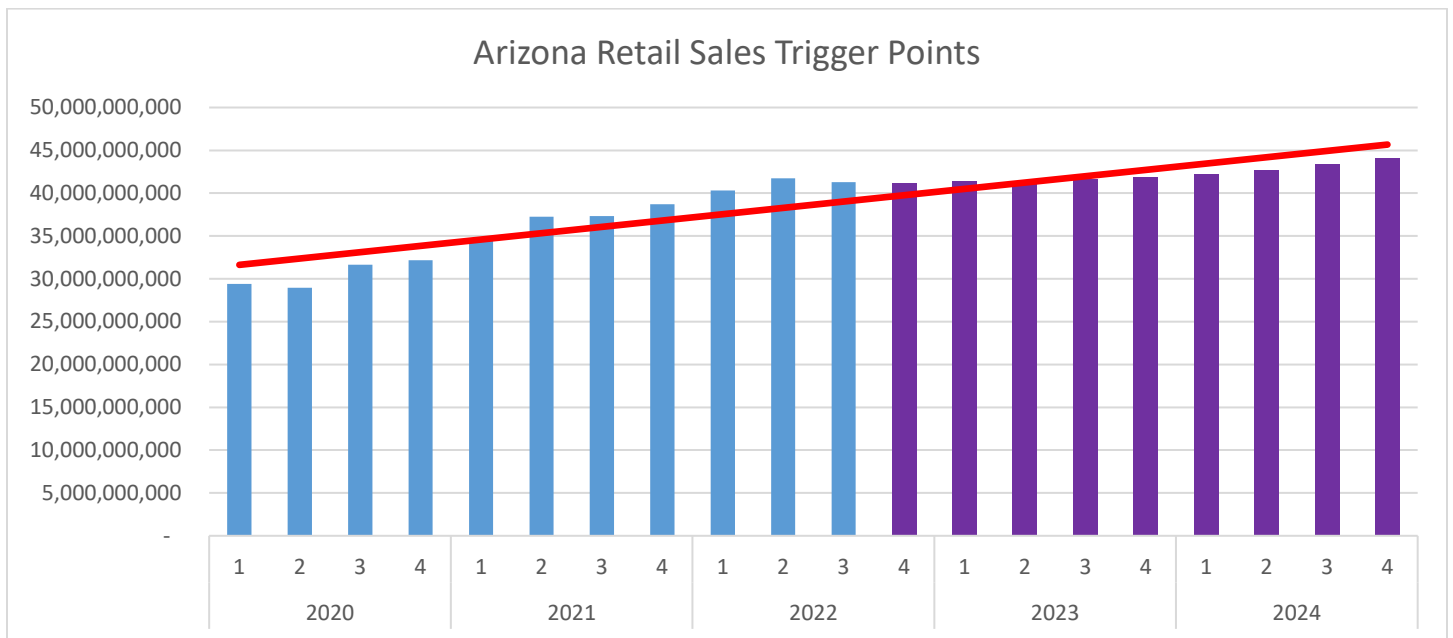
Arizona Gasoline Sales:

As gas sales decline, this directly reduces HURF revenue, negatively affecting General Government revenues and the Department of Transportation. However, as sales fall, it can potentially lead to declines in gas prices due to reductions in demand, but the fall in price tends to be slower than, and not as great as, the decline in revenue.



Arizona Retail Sales:

As retail sales decline, this leads to direct reductions in State Shared Sales Tax revenues within General Government revenues.



U.S. Federal Funds Rate:

As the Federal Funds Rate increases, the cost of issuing debt becomes much higher, putting added pressure on the County. Increased interest rates may improve the return on our investments; however, the interest revenue gained would not offset the cost of issuing debt as the increased rates.

