



# MEMORANDUM

Date: May 31, 2022

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

From: Jan Leshner *Jan*  
County Administrator

Re: **Recommended County General Fund Balance**

Throughout the discussions about Pima County's budget, questions were raised about the General Fund's Ending Fund Balance (Fund Balance) or more specifically about what is the right amount of Fund Balance Pima County should budget and maintain. As the Fund Balance is a key element in the determination of the County's credit rating, which allows the County to issue low interest rate debt to accelerate and fund critical infrastructure such as the Pavement Preservation program and Facilities Management and other PAYGO Capital Improvement Projects, the establishment of an adequate Fund Balance and the maintenance of such should continue to be a primary concern when finalizing the County's Budget for Fiscal Year 2022/23.

The Fund Balance is one of the many variables the private, independent rating agencies use when they evaluate the County's financial situation and determine the County's credit rating. The County's credit rating determines the rate at which the County can borrow money and whether additional Certificates of Participation debt can be issued. Additional Certificates of Participation debt can only be issued if the issuance of additional COPs does not cause the then-assigned rating to be reduced or withdrawn. Our current rating(s) are AA- (Standard & Poor's) and AA (Fitch Ratings), which resulted in the County issuing the last Certificates of Participation at an unprecedented rate of 1.07 percent.

A common metric used by the rating agencies is the General Fund's Ending Fund Balance over the General Fund's Total Operating Expenses per the Audited Financial Statements. Pima County has generally been in the 20-25% range at the end of each fiscal year. Table 1 below illustrates the General Fund's Ending Fund Balance calculation using budget and actuals for the past six (6) years.

Table 1: General Fund Fund Balance by Fiscal Year

Budget	Fiscal Year					
	Adopted Budget					Tentative Budget
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Fund Balance	\$ 50,292,886	\$ 40,342,558	\$ 43,124,606	\$ 49,337,687	\$ 45,212,773	\$ 41,177,804
Operating Expenses	576,235,452	585,335,097	616,076,355	617,270,947	644,509,643	679,892,827
Fund Balance/Operating Expense %	8.73%	6.89%	7.00%	7.99%	7.02%	6.06%
Actuals	Actuals					Projected
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Fund Balance*	108,926,345	102,109,649	98,107,183	148,191,927	137,789,053
Operating Expenses*	501,673,777	517,016,973	517,731,914	543,285,794	576,145,427	
Fund Balance/Operating Expense %	21.7%	19.7%	18.9%	27.3%	23.9%	

\* Excludes PSPRS / CORP Debt Related Expenses and Fund Balance in Fiscal Years 2020/21 and 2021/22

The Honorable Chair and Members, Pima County Board of Supervisors

Re: **Recommended County General Fund Balance**

May 31, 2022

Page 2

As you can see in the table above, the County has ended each year with a healthy Fund Balance primarily due to the County not having to utilize the budgeted Fund Balance reserves, conservative revenue and expenditure estimates, and vacancy savings realized over the past five years.

In addition to the ratio calculated above, the rating agencies will also look at the changes in Fund Balance between fiscal years, as well as, the reasons for those changes. It could be a concern to the rating agencies if the Fund Balance (or "one-time money") is used for on-going expenses such as raises and recurring State cost shifts. It is for that reason I have recommended that all General Fund Departments and all General Fund supported Departments be required to eliminate vacant positions that are not currently being recruited or reduce other operational costs to fund the various pay increase scenarios and reset the Departmental Budgets as necessary to accommodate their Department's proposed salary increases.

As we transition into post-COVID budgets and changing economic conditions it will be important that the County not only closely monitor the Fund Balance but ensure that additional funding is available for new programs and personnel in future budgets.

JKL/anc

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works  
Francisco García, MD, MPH, Deputy County Administrator for Health & Community Services and Chief Medical Officer  
Michelle Campagne, Director, Finance and Risk Management  
Ellen Moulton, Director, Analytics and Data Governance