



Board of Supervisors Memorandum

November 1, 2022

Fiscal Year 2023/2024 Budget Process – General Budget Guidance

Background

At the October 4, 2022 board meeting, I provided some basic information. Below is a synopsis of the various components of Pima County’s budget, some historical information to frame the discussion and recommendations for action.

Revenues

There are three main sources of revenue for the County, primary and secondary property taxes, general governmental revenues, and departmental revenues or fees for services.

1. Primary and Secondary Property Tax Rates

Property tax revenues are derived by taking the Net Assessed Valuation (NAV) of properties multiplied by the tax rate. The County also has two Board Policies that impact the property tax revenue. [Policy D 22.12](#) – General Fund Capital Improvement Fund Pay-As-You-Go Fund Program (PAYGO), and [Policy D 22.13](#) - General Fund Impact of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers. The NAV will be tentatively available on or about December 20, 2022, when the Assessor’s Office conveys the 2023 assessment roll, and will be finalized by February 2023. However, we have generated an estimated NAV based on current trends. The following scenarios represent the projected property tax revenue that would be generated using the current estimate of a 4.296% increase in the NAV.

		Percentage Increase
Actual Net Assessed Valuation	\$ 10,132,624,448	
Forecast Net Assessed Valuation	10,567,933,014	
Forecasted Increased in Net Assessed Valuation	435,308,566	4.296%

Scenario #1 – Truth in Taxation

Arizona Revised Statutes §42-17107 and §48-254 require the Board to hold the Truth in Taxation hearings unless the County meets specific requirements. Because the Board has adopted and implemented Board Policy D 22.12 - PAYGO, the County will be unable to meet the statutory requirements to forgo the Truth in Taxation hearings without significant reductions in all primary and secondary tax rates and major changes to the PAYGO policy.

Scenario #2 – Increased NAV and Required Decrease in Debt Service Tax Rate

Annually, Finance & Risk Management reviews the Debt Service Fund Balance to determine how much is required to make future debt service payments and adjusts the rate accordingly. In FY 2023/2024, the Debt Service tax rate should be reduced by \$0.10.

In Scenario #2, the only tax rate change, as discussed above, is the Debt Service tax rate. The additional revenue forecasted is a result of the increase in the NAV. This estimate will be finalized when the Assessor’s Office provides the assessment roll in February 2023.

As shown in the table below, the 4.296% increase in the NAV will generate approximately \$16.9 million in additional revenues for the General Fund. When including the reduction in the Debt Service Tax Rate, the net overall additional revenues total \$11.4 million.

Description	FY 2022/23 Adopted Rates	FY 2023/24 Proposed Rates	Change in Rates
Primary	\$ 3.8764	\$ 3.8764	\$ -
Secondary			
Library District	0.5453	0.5453	-
Debt Service	0.3200	0.2200	(0.1000)
Regional Flood Control District	0.3235	0.3235	-
Total	\$ 5.0652	\$ 4.9652	\$ (0.1000)
Tax Levy	FY 2022/23 Adopted Levies	FY 2023/24 Proposed Levies	Additional Revenue
Primary	\$ 392,781,054	\$ 409,655,356	\$ 16,874,302
Secondary			
Library District	55,253,201	57,626,939	2,373,738
Debt Service	32,424,398	23,249,453	(9,174,945)
Regional Flood Control District	29,639,879	30,956,631	1,316,752
Total	\$ 510,098,532	\$ 521,488,379	\$ 11,389,847

Scenario #3 & #4 – Application of Board Policy D 22.12 – PAYGO and D 22.13 – State Cost Shifts

After applying the BOS Policy D 22.12 – PAYGO, the overall General Fund Primary property tax revenues will be \$409.6 million, or a \$16.9 million increase over the prior year. Per the policy, the portion allocated to PAYGO is calculated to be \$39.3 million, an increase of \$7 million.

As stated in my August 1, 2022, State Cost Shift Update [Memorandum](#), the State transferred approximately \$15.9 million more in costs in FY 2022/23 than in FY 2021/22. According to Board [Policy D 22.13](#), General Fund Impact of State Legislature Cost Shifts

and Disclosure of these Cost Shifts to Taxpayers, this additional \$15.9 million in additional costs could be added to the tax rates for the FY 2023/24 proposed levies, not the \$5.6 million stated in the September 30, 2022, Fiscal Year 2023/24 Budget Process – General Budget Guidance [Memorandum](#). The \$5.6 million was the amount that could have been included in the current FY 2022/23 budget.

The revised table below indicates what the primary and secondary property tax rates would need to increase if the Board chooses to apply both the PAYGO Policy and the Cost Shift Policy. The General Fund Primary rate would need to increase to \$0.1430. The Library and Regional Flood Control Secondary rates would also be increased to \$0.0040 and \$0.0019, respectively. The Debt Service Secondary rate would increase by \$0.0024 for a net decrease of \$0.0976.

Description	PAYGO			PAYGO plus \$15.9 M State Cost Shifts		
	FY 2022/23 Adopted Rates	FY 2023/24 Proposed Rates	Change in Rates	FY 2022/23 Adopted Rates	FY 2023/24 Proposed Rates	Change in Rates
Primary	\$ 3.8764	\$ 3.8762	\$ (0.0002)	\$ 3.8764	\$ 4.0194	\$ 0.1430
Secondary						
Library District	0.5453	0.5453	-	0.5453	0.5493	0.0040
Debt Service	0.3200	0.2200	(0.1000)	0.3200	0.2224	(0.0976)
Regional Flood Control District	0.3235	0.3235	-	0.3235	0.3254	0.0019
Total	\$ 5.0652	\$ 4.9650	\$ (0.1002)	\$ 5.0652	\$ 5.1165	\$ 0.0513

Description	FY 2022/23 Adopted Levies	FY 2023/24 Proposed Levies	Additional Revenue	FY 2022/23 Adopted Levies	FY 2023/24 Proposed Levies	Additional Revenue
	Primary	\$ 392,781,054	\$ 409,634,220	\$ 16,853,166	\$ 392,781,054	\$ 424,767,500
Secondary						
Library District	55,253,201	57,626,939	2,373,738	55,253,201	58,049,656	2,796,455
Debt Service	32,424,398	23,249,453	(9,174,945)	32,424,398	23,503,083	(8,921,315)
Regional Flood Control District	29,639,879	30,956,631	1,316,752	29,639,879	31,138,447	1,498,568
Total	\$ 510,098,532	\$ 521,467,243	\$ 11,368,711	\$ 510,098,532	\$ 537,458,686	\$ 27,360,154

As a reminder, the NAV will be tentatively available on or about December 20, 2022, when the Assessor’s Office conveys the 2023 assessment roll, and it will be finalized by February 2023. Therefore, these numbers will change based on what is conveyed by the Assessor’s Office.

Recommendation or Requested Action on Tax Rates:

I request guidance on which of the property tax scenarios the Board would like included when drafting the FY 2023/2024 Budget:

- Scenario #1 – Truth in Taxation
- Scenario #2 – Increased NAV and Required Decrease in Debt Service Tax Rate
- Scenario #3 and #4 – Application of Board Policy D 22.12 – PAYGO and State Cost Shifts

Expenditures:

1. Medical and Dental Rates

The Health Benefits Trust (HBT) fund is where all revenues and expenditures related to the County's medical, dental, and other benefits are managed and monitored. The HBT Board, in conjunction with Finance and Risk Management and Human Resources, works to ensure the fund has a healthy fund balance.

The Health Benefit Trust (HBT) Board has established a procedure to evaluate and maintain an adequate net position, which is very similar to fund balance, within the HBT. This procedure requires the HBT to maintain a net position equivalent to at least four months of forecasted annual costs of medical claims, dental claims and any purchased insurance. Based on the calculation established by the HBT Board, the net position should be \$19.7 million. The unaudited financial statements for FY 2021/2022 have the net position at \$13.0 million. This means that the HBT is underfunded by approximately \$6.7 million. This shortfall did not occur in one year. The HBT was underfunded by approximately \$2.7 million at the end of fiscal year 2020/2021. In FY 2022, the Board increased the employee and departmental medical rates by 11.48%. This was done to address the shortfall in the HBT as well as address the increased costs of medical claims that was anticipated. Unfortunately, FY 2022 saw continued increases in the costs of medical claims as well as fewer enrollees in the healthcare plan.

The HBT shortfall of \$6.7 million needs to be funded. It can be funded through one of the following options:

- A. The Board can transfer \$6.7 million of General Fund cash to the HBT as part of the FY 2024 Budget.
- B. The Board can transfer \$6.7 million of General Fund cash to the HBT over two years, transferring \$3.7 million in FY 2024 and \$3.0 million in FY 2025.
- C. The Board can increase premiums to employees. By covering the HBT shortfall through increasing premiums, employees would be asked to pay an additional \$106 per year for individual coverage and \$345 per year for family coverage. As I indicated in my September 30, Memorandum, Human Resources, Finance and Risk Management and the HBT Board are currently working with our consultant to analyze the data and determine the amount of the increase that will need to occur to the medical and dental rates for FY 2023/2024. This information will be presented to the Board in either November or December for consideration and adoption.

Recommendation on Health Benefit Trust:

To remain an Employer of Choice, I recommend the Board adopt Option A.

2. Class and Compensation Study Funding and Employee Raises

The County has undertaken a comprehensive [Classification and Compensation Study](#) to ensure that the County’s compensation accurately reflects the market. This study is expected to be completed around February 2023.

The County has provided compensation increases for its employees for the last two fiscal years, a 5% increase in FY 2021/2022 and a tiered range from 8.5% to 1% in FY 2022/23. Even with these increases, the County is still likely below the market in compensation.

As the study is not expected to be completed until February 2023, it would be prudent to identify a dollar amount during the planning phase of the budget for salary increases. The table below provides a range of estimates for three possible salary increases as a placeholder to be set aside until the Compensation Study is completed.

Estimated Costs for a Pay Raise for All Pima County Employees			
Fund	3% Increase	5% Increase	8% Increase
General Fund	\$ 10,974,859	\$ 18,285,309	\$ 29,249,349
Special Revenue Funds	2,132,811	3,553,252	5,684,080
Enterprise Funds	881,967	1,469,532	2,350,667
Internal Service Funds	320,254	533,556	853,353
Total	\$ 14,309,891	\$ 23,841,649	\$ 38,137,449

Recommendation or Requested Action on funding Salary Increases:

As part of preparing the base budgets for the FY 2023/24, I recommend setting aside \$11 million from the General Fund to fund anticipated increases.

3. New Initiative and Expanded Programs

In my October 10, 2022, [Memorandum](#), I requested the Board identify initiatives and programs it wants to create, expand or eliminate as part of the Fiscal Year 2023/24 Budget. Below is a list of initiatives and programs received from individual Supervisors as of October 20, 2022 for preliminary consideration by the Board at the November 1, 2022 meeting.

For reference, one penny on the primary tax rate will raise approximately \$1 million in tax revenue.

Affordable Housing

- District 2 - \$37.9 million for Affordable Housing, to begin implementing the short-term and medium-term recommendations of the Affordable Housing Task Force.
- District 5 - Additional funding (at least \$5 million) for creation of affordable housing.

Climate Change

- District 2 - \$30 million in the Capital Improvement Program budget to accelerate needed renovations to County facilities, including wastewater facilities, in order to cut carbon emissions more aggressively.
- District 5 - Funding for Sustainable Action Plan for County Operations initiatives and water conservation.
- District 5 - Update 2011 fees for Riparian Habitat Mitigation.

Pima Early Education Program (PEEPs)

- District 2 - Additional \$5 million in the Library District Budget to continue building the capacity to fund PEEPs long-term and set the stage to expand its reach to more low-income families after year 3.
- District 5 - Robust funding for the PEEPs program.

Open Space

- District 5 - Additional funding (at least \$2 million) for open-space purchases for conservation.

Communication and Outreach

- District 5 - Funding for marketing/advertising of County initiatives, in Spanish as well as English.

Neighborhood Reinvestment Program

- District 5 - Funding to re-establish the Neighborhood Reinvestment Program.

Community Health and Wellness

- District 5 - Funding for a new mobile clinic for the Health Department.
- District 5 - Funding for mental health issues, including crisis response.

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Fiscal Year 2023/2024 Budget Process – General Budget Guidance**
November 1, 2022
Page 7

Transportation

- District 5 - Additional funding for Sun Tran, Sun Link and Sun Van.

Rental Assistance and Eviction Prevention

- District 5 - Ensure sufficient funding of future rental assistance and eviction prevention programs.

Recommendation or Requested Action on Initiatives and Programs:

I recommend that the Board of Supervisors identify those programs and the funding associated with each for inclusion in the creation of the Fiscal Year 2023/24 Budget.

Sincerely,



Jan Lesher
County Administrator

JKL/mp – October 21, 2022

c: Carmine DeBonis, Jr., Deputy County Administrator
Francisco Garcia, MD, MPH, Deputy County Administrator and Chief Medical Officer
Steve Holmes, Deputy County Administrator
Ellen Moulton, Director, Finance and Risk Management
Michelle Campagne, Senior Advisor, County Administrator's Office