



MEMORANDUM

Date: September 30, 2022

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

From: Jan Leshner 
County Administrator

Re: **Fiscal Year 2023/2024 Budget Process – General Budget Guidance**

The purpose of the Fiscal Year (FY) 2023/2024 Budget Process agenda item for the October 4, 2022 Board Meeting is to allow the Board to provide staff with strategic direction, general budget priorities, and guidance prior to the beginning of the FY 2023/2024 Budget Process. Below is a synopsis of the various components of the County's budget and some historical information to frame the discussion.

The County builds its budget based on three main components: Revenues, Expenditures, and Fund Balance.

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.

The State Cost Shifts Policy is additive to the PAYGO policy. By increasing the tax rates to cover the additional \$5.6 million in State Cost Shifts, the Total General Fund Primary property tax revenues will increase by approximately \$21.6 million and \$17 million across all taxing authorities.

Description	PAYGO			PAYGO plus 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	\$ 3.9213	\$ 0.0449
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	\$ 5.0184	\$ (0.0468)
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	\$ 414,400,358	\$ 21,619,304
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	\$ 527,091,544	\$ 16,993,012

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.

Staff requests guidance on which property tax scenario the Board would like included when drafting the FY 2023/2024 Budget.

2. Other General Governmental Revenue

Based on the revenues received through the end of August, the County is forecasting approximately \$6.4 million in additional State Shared Sales Tax and Transient Lodging Excise Tax revenues. This amount is below last year’s actual receipts, but given the economic news of the past several weeks, this seems appropriately conservative.

Finance and Risk Management is not forecasting revenues for the FY 2024 Budget at this time. The first forecast will be completed for the November forecast period.

Revenue Category	FY 2021/22 Actuals	FY 2022/23 Budget	FY 2022/23 YTD Actuals	FY 2022/23 Forecast	Variance	Variance as a % of Budget
State Shared Sales Tax	\$169,855,020	\$154,000,000	\$11,911,848	\$160,000,000	\$ 6,000,000	3.90%
Vehicle License Tax	33,484,358	36,243,000	4,285,543	36,243,000	-	0.00%
Overhead General Fund	17,715,017	16,658,843	2,776,474	16,658,843	-	0.00%
Federal In Lieu Payment	3,842,033	4,045,000	-	4,045,000	-	0.00%
Business Licenses & Permits	3,344,319	3,200,000	2,063	3,200,000	-	0.00%
Transient Lodging Excise Tax (Stadium)	3,075,716	2,346,000	179,504	2,720,000	374,000	15.94%
Other General Government Revenue	2,167,059	2,446,872	253,482	2,446,872	-	0.00%
Total	\$233,483,522	\$218,939,715	\$19,408,914	\$225,313,715	\$6,374,000	2.91%

3. Departmental Revenue

Many departments generate fee-based revenue, such as Recorder’s Office, the various Courts, Development Services, Pima Animal Care, Public Health, Natural Resources Parks and Recreation, Regional Wastewater Reclamation, etc. Some fee structures are set by statutes, while other fee schedules are controlled and approved by the Board. As part of preparing the base budgets for the FY 2023/2024, staff requests broad guidance on whether the Board would be willing to entertain increasing fees.

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 HBT Board has established a procedure to evaluate and maintain an adequate reserve requirement in the fund. This requirement is at least four months of forecasted annual costs of medical claims, dental claims, and any purchased insurance, including stop-loss and short-term disability. Based upon a review of

the unaudited financial statements for FY 2021/2022, the HBT Reserve is underfunded by approximately \$6.7 million. This shortfall is primarily due to the pandemic, which caused increased medical and dental claim costs in FY 2021/2022, fewer enrollees in the Health Care Plan, etc. As stated in the Monthly Financial Forecast – August 2022 [Memorandum](#), dated September 29, 2022, the HBT continues to be impacted by these issues.

This shortfall can be covered in two ways, increased premiums to be paid by employees or through an infusion of cash from the General Fund. To remain an employer of choice, County Administration and Finance and Risk Management recommend that the General Fund provide funding to cover this shortfall.

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 come to the Board in either November or December once a rate proposal is finalized.

2. Class and Compensation Study Funding and Employee Raises

As you know, 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 2022/2023. Even with these increases, the County is still likely below the market.

As the study is not expected to be completed until February 2023, it would be prudent to begin to plan for some amount of salary increases. The table below estimates three possible salary increases for all filled positions.

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

Any salary increase would need to be funded through an ongoing revenue stream or absorbed within the departmental budgets.

3. New Initiative and Expanded Programs

Every year, the County identifies additional programs it wants to create or expand. It is prudent to begin the discussion of which programs the Board will want to create, expand, or eliminate.

- Affordable Housing
- Conservation Acquisitions
- Sustainability Action Plan for County Operations (SAPCO)

4. Capital Project and Debt Issuances

The County has a five-year Capital Plan that currently includes \$768.5 million. The plan is updated annually as part of the budget cycle. Attached is the CIP Budget as Adopted and the Period Two Forecast by Department. (Attachment 1)

In addition, the County has an [Integrated Infrastructure Plan](#) which seeks to unify the planning process across multiple disciplines and departments. This document contains a ten-year horizon, with projects that may or may not have future funding identified depending on the department funding sources.

The debt issuances currently planned for the next two years consist of:

- FY 2024 \$55 million – \$40 million over 15 years for various Capital Improvement Projects and \$15 million in short-term debt for financing PAYGO-type projects
- FY 2024 \$55 million – Various Wastewater projects funded with Sewer Revenue Obligations
- FY2025 \$55 million – \$40 million over 15 years for various Capital Improvement Projects and \$15 million in short-term debt for financing PAYGO-type projects
- FY 2025 \$55 million – Various Wastewater projects funded with Sewer Revenue Obligations

The County Capital Plan includes funded projects within the five-year window while the Integrated Infrastructure plan is a longer range look at infrastructure projects that impact future funding decisions. Infrastructure projects are considered unfunded and may change until they are formally approved and funded

during the annual CIP budget process. The County is also actively pursuing grant funding via the Infrastructure Investment and Jobs Act (IIJA), which generally require local matching funds.

5. Additional Budget Process Meetings

As the Board requested to be more involved in providing strategic direction and guidance prior to beginning the FY 2023/2024 budget process, the County will begin drafting the budget sometime near the end of November. Included in the draft calendar, May 9-10 are tentatively scheduled for Budget Hearings. A proposed schedule is attached for your consideration. (Attachment 2)

This timeline will ensure that the Board has ample opportunity to provide staff with the direction required to formulate the FY 2023/2024 County budget.

The information provided above is intended to start the discussion process for the creation and to establish the framework of the FY 2023/2024 Budget.

JKL/anc

c: Carmine DeBonis, Jr., Deputy County Administrator
Francisco García, 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, Pima County Administrator's Office

ATTACHMENT 1

CIP Budget Development

County Level Summary by Department



Stage: 007-CIP Board of Supervisors Changes

Planned Expenses

Department Code	Department Name	Estimated Prior Year	Fiscal Year 2022/2023	Fiscal Year 2023/2024	Fiscal Year 2024/2025	Fiscal Year 2025/2026	Fiscal Year 2026/2027	Fiscal Year 2027/2028	Fiscal Year(s) Beyond	Program Total
ADG	Analytics & Data Governance	163,285	11,000,000	6,336,715	-	-	-	-	-	17,500,000
CPO	Capital Program Office	847,500	2,177,500	920,000	4,000,000	3,000,000	-	-	-	10,945,000
DE	Environmental Quality	2,750,000	5,350,000	-	-	-	-	-	5,000,000	13,100,000
FC	Regional Flood Control District	63,425,630	20,748,750	20,327,372	18,396,666	16,886,860	14,100,000	7,500,000	22,500,000	183,885,278
FM	Facilities Management	28,827,979	64,680,000	58,856,090	26,920,931	9,900,000	-	-	-	189,185,000
FS	Fleet Services	1,900,000	1,600,000	-	-	-	-	-	-	3,500,000
IT	Information Technology	-	7,306,000	8,718,500	11,063,750	6,880,025	6,064,000	8,150,000	-	48,182,275
KSC	Stadium District-Kino Sports Complex	4,575,000	10,742,000	1,946,636	-	-	-	-	-	17,263,636
PR	Natural Resources, Parks & Recreation	2,794,968	11,627,806	1,005,000	-	-	-	-	-	15,427,774
SD	Sheriff	1,218,118	5,378,616	7,328,266	2,575,000	-	-	-	-	16,500,000
SUS	Office of Sustainability & Conservation	2,597,377	2,080,000	2,850,000	300,000	552,623	-	-	-	8,380,000
TR	Transportation	83,906,640	41,135,227	31,359,519	887,850	16,322,747	1,135,000	-	-	174,746,983
WW	Regional Wastewater Reclamation	84,370,479	54,119,868	55,067,714	54,050,000	54,300,000	88,450,000	90,200,000	37,006,000	517,564,061
Total Planned Expenses		277,376,976	237,945,767	194,715,812	118,194,197	107,842,255	109,749,000	105,850,000	64,506,000	1,216,180,007



CIP Budget Development

County Level Summary by Department



Stage: 007-CIP Board of Supervisors Changes

Planned Funding

Department Code	Department Name	Estimated Prior Year	Fiscal Year 2022/2023	Fiscal Year 2023/2024	Fiscal Year 2024/2025	Fiscal Year 2025/2026	Fiscal Year 2026/2027	Fiscal Year 2027/2028	Fiscal Year(s) Beyond	Program Total
ADG	Analytics & Data Governance	62,281	11,101,004	6,336,715	-	-	-	-	-	17,500,000
CPO	Capital Program Office	3,297,500	47,500	600,000	4,000,000	3,000,000	-	-	-	10,945,000
DE	Environmental Quality	4,750,000	3,350,000	-	-	-	-	-	5,000,000	13,100,000
FC	Regional Flood Control District	63,460,267	20,714,113	20,327,372	18,396,666	16,886,860	14,100,000	7,500,000	22,500,000	183,885,278
FM	Facilities Management	28,613,136	66,794,842	57,121,514	26,920,931	9,900,000	-	-	-	189,350,423
FS	Fleet Services	1,900,000	1,600,000	-	-	-	-	-	-	3,500,000
IT	Information Technology	-	7,306,000	8,718,500	11,063,750	6,880,025	6,064,000	8,150,000	-	48,182,275
KSC	Stadium District-Kino Sports Complex	4,800,000	10,517,000	1,946,636	-	-	-	-	-	17,263,636
PR	Natural Resources, Parks & Recreation	2,979,835	11,442,939	1,005,000	-	-	-	-	-	15,427,774
SD	Sheriff	2,216,139	4,380,595	7,328,266	2,575,000	-	-	-	-	16,500,000
SUS	Office of Sustainability & Conservation	2,597,377	2,080,000	2,850,000	300,000	552,623	-	-	-	8,380,000
TR	Transportation	83,906,640	41,135,227	31,359,519	887,850	16,322,747	1,135,000	-	-	174,746,983
WW	Regional Wastewater Reclamation	84,370,479	54,119,868	55,067,714	54,050,000	54,300,000	88,450,000	90,200,000	37,006,000	517,564,061
Total Planned Funding		282,953,654	234,589,088	192,661,236	118,194,197	107,842,255	109,749,000	105,850,000	64,506,000	1,216,345,430
Over/(Under) Funded		5,576,678	(3,356,679)	(2,054,576)	-	-	-	-	-	165,423



CIP Program Planning

County Level Summary by Department



Planned Expenses

Code	Department Name	Prior Year Expenditure	FY 2022-23 Forecast	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	Future Forecast	Planned Program Total
ADG	Analytics & Data Governance	277,051	11,000,000	6,222,949	-	-	-	-	-	17,500,000
CPO	Capital Program Office	60,620	2,175,890	1,460,771	4,000,000	3,000,000	-	-	-	10,697,281
CR	Community & Workforce Development	173,615	-	-	-	-	-	-	-	173,615
DE	Environmental Quality	1,298,385	6,355,426	646,189	-	-	-	-	5,000,000	13,300,000
FC	Regional Flood Control District	106,022,319	20,749,038	24,672,084	22,291,666	20,221,860	14,100,000	7,820,000	22,500,000	238,376,967
FM	Facilities Management	71,707,179	51,976,686	77,225,962	27,525,607	9,900,000	-	-	-	238,335,434
FS	Fleet Services	3,099,249	532,071	1,075,000	-	-	-	-	-	4,706,320
IT	Information Technology	3,885,421	7,306,000	9,218,500	11,063,750	6,880,025	6,064,000	8,150,000	-	52,567,696
KSC	Stadium District-Kino Sports Complex	5,533,808	7,122,913	6,789,503	-	-	-	-	-	19,446,224
PR	Natural Resources, Parks & Recreation	2,554,174	13,358,209	2,151,396	-	-	-	-	-	18,063,779
PW	Public Works Administration	32,270	-	-	-	-	-	-	-	32,270
SD	Sheriff	1,078,647	8,876,960	7,744,393	-	-	-	-	-	17,700,000
SUS	Office of Sustainability & Conservation	2,477,548	1,480,000	3,450,000	300,000	552,623	-	-	-	8,260,171
TR	Transportation	137,335,845	40,941,217	20,860,807	1,362,850	16,322,747	1,135,000	-	-	217,958,466
WW	Regional Wastewater Reclamation	100,685,709	55,289,415	54,502,518	54,050,000	54,300,000	88,450,000	90,200,000	37,006,000	534,483,642
Total Planned Expenses		436,221,840	227,163,825	216,020,072	120,593,873	111,177,255	109,749,000	106,170,000	64,506,000	1,391,601,865



CIP Program Planning

County Level Summary by Department



Planned Funding

Department Code	Department Name	Prior Year Funding	FY 2022-23 Forecast	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	Future Forecast	Planned Program Total
ADG	Analytics & Data Governance	62,281	11,214,770	6,222,949	-	-	-	-	-	17,500,000
CPO	Capital Program Office	3,226,375	178,510	640,771	4,000,000	3,000,000	-	-	-	11,045,656
CR	Community & Workforce Development	337,880	-	-	-	-	-	-	-	337,880
DE	Environmental Quality	4,250,000	3,450,000	600,000	-	-	-	-	5,000,000	13,300,000
FC	Regional Flood Control District	105,800,714	20,970,643	24,672,084	22,291,666	20,221,860	14,100,000	7,820,000	22,500,000	238,376,967
FM	Facilities Management	73,680,973	55,439,510	72,133,326	27,323,251	9,900,000	-	-	-	238,477,060
FS	Fleet Services	3,104,504	634,019	1,075,000	-	-	-	-	-	4,813,523
IT	Information Technology	3,885,421	7,306,000	9,218,500	11,063,750	6,880,025	6,064,000	8,150,000	-	52,567,696
KSC	Stadium District-Kino Sports Complex	6,576,783	6,084,544	6,783,753	-	-	-	-	-	19,445,080
PR	Natural Resources, Parks & Recreation	8,815,010	8,248,155	250,000	-	-	-	-	-	17,313,165
PW	Public Works Administration	32,270	-	-	-	-	-	-	-	32,270
SD	Sheriff	2,216,139	7,034,967	8,448,894	-	-	-	-	-	17,700,000
SUS	Office of Sustainability & Conservation	2,428,682	1,480,001	3,450,000	300,000	552,623	-	-	-	8,211,306
TR	Transportation	135,028,182	43,234,970	20,860,807	1,362,850	16,322,747	1,135,000	-	-	217,944,556
WW	Regional Wastewater Reclamation	95,870,549	58,779,292	54,502,518	54,050,000	54,300,000	88,450,000	90,200,000	37,006,000	533,158,359
Total Planned Funding		445,315,763	224,055,381	208,858,602	120,391,517	111,177,255	109,749,000	106,170,000	64,506,000	1,390,223,518



ATTACHMENT 2

Below is the summarized calendar of events for the FY 2023/24 budget process, budget request development and budget adoption. Requested budgets (Operational, Grant and Capital Improvement Program budgets) for FY 2022/23 are due January 14, 2022.

November 28, 2022	Planning and Budgeting System (PB) released for budgeting
November 28, 2022	Base target budgets for General Fund departments, assumptions and other information distributed to departments
December 5, 2022	Organizational, bureau and group structural changes are due
January 13, 2023	Departments submit completed FIN Forms in PB system
February 13, 2023	Operational, Grant and CIP Budgets due to the Budget Division, Departmental Analysis, Grants Management and Innovation, and Finance CIP from departments
March 24, 2023	County Administrator meets with departments to review CIP budgets
March 31, 2023	County Administrator meets with County Budget Division staff
April 28, 2023	County Administrator submits Recommended Budget to the Board of Supervisors
May 9-10, 2023	Proposed Board of Supervisors Departmental Budget Hearings (Multiple Sessions) – Schedule provided at later date
May 16, 2023	Board of Supervisors Tentative Budget adoption
June 20, 2023	Board of Supervisors Final Budget adoption
August 14, 2023	Board of Supervisors adoption of the Levy of Taxes