



MEMORANDUM

Date: April 25, 2017

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

From: C.H. Huckelberry,
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **State Funding Sweeps and Impacts to Transportation Finance**

Attached is an article published in the *Arizona Republic* on April 20, 2017 entitled "Arizona counties in crisis after a decade of state funding sweeps." As you know, I have highlighted on numerous occasions that one of the key reasons our transportation system is failing is State fund sweeps and cost transfers to counties. This article highlights the impacts of these long-term State funding sweeps on county operations. It also states that after continued State sweeps, "counties are watching roads crumble."

In Navajo County, the road repaving schedule has stretched from 20 years to 40 years. In Mohave County, half of their roads are due for replacement, and La Paz County issues bonds to replace outdated road equipment.

The article includes an interesting admission from House Appropriations Chairman Don Shooter. When discussing tax increases, he states, "...if you want roads, you have to pay for them. It's not unreasonable." When asked about passing the political buck to leaders to raise taxes he says, "the truth is the truth...nobody want to make a damned decision."

This article confirms what I have been communicating to the Board for years. Given that every option we offered to increase transportation funding at the State level has failed, we are now left with the only option - make local taxing decisions to repair our roads.

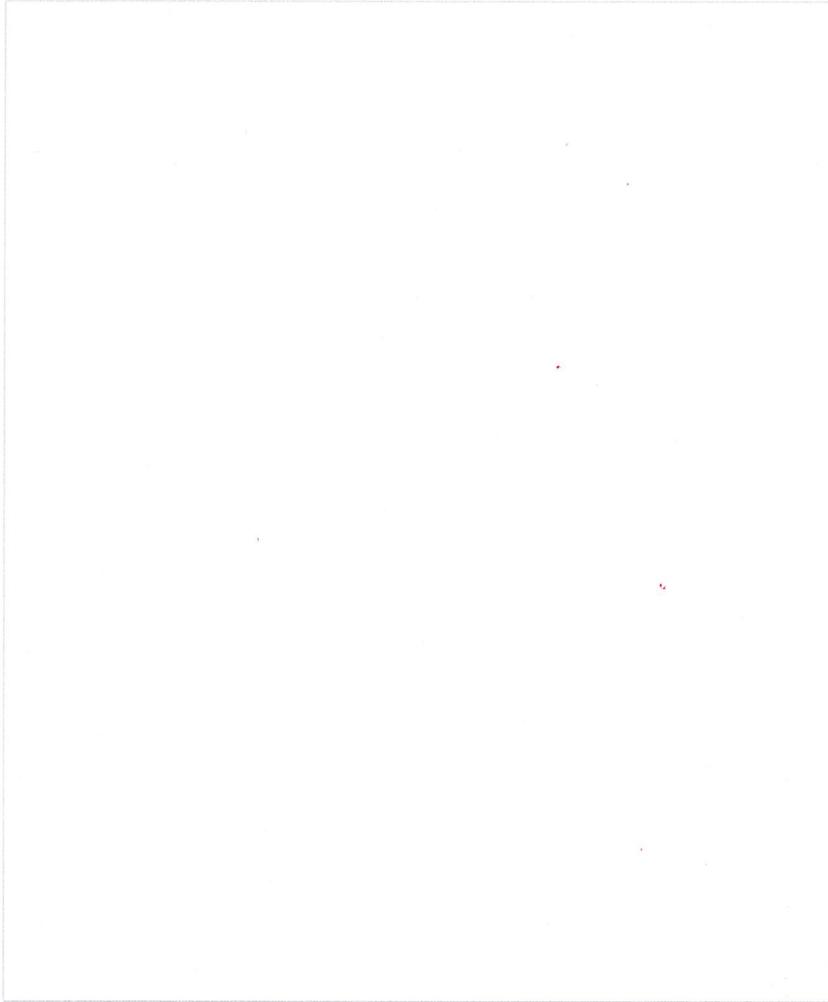
CHH/anc

Attachment

c: Jan Leshner, Chief Deputy County Administrator
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Priscilla Cornelio, Director, Transportation Department

Arizona counties in crisis after a decade of state funding sweeps

Rebekah L. Sanders, The Republic | azcentral.com Published 6:03 a.m. MT April 20, 2017 Updated 3:52 p.m. MT April 20, 2017



Continued financial pressure from the state has affected counties' ability to pay for everything from road improvements to payroll.



(Photo: Graham County Sheriff's Office)

County officials across the state are waiting anxiously for the Arizona Legislature to deliver its 2018 budget to Gov. Doug Ducey, warning they could be on the brink of financial disaster if the state doesn't throw them a bone.

Counties have shouldered more than \$500 million in funding sweeps and cost shifts by state lawmakers since the Great Recession of 2008 blew a gaping hole in state finances, according to the County Supervisors Association of Arizona, a research and advocacy group representing the state's 61 county supervisors.

Continued financial pressure from the state after a decade means counties are watching roads crumble, reducing law-enforcement patrols, patching together decades-old equipment, closing facilities and considering the unthinkable in conservative Arizona: raising taxes.

"Year after year after year, (state officials) put their hands in the county's pockets to balance the state budget," said Mohave County Supervisor Steve Moss, whose county has borne about \$16 million in fiscal hits from the state since fiscal 2008. "It's really kicking us in the teeth."

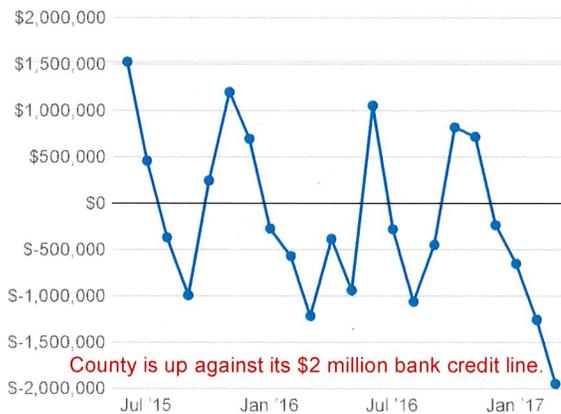


Though heavy equipment should be replaced every 10 years or so, Navajo County's road blader is 37 years old. That's older than some employees, the county's staff jokes. (Photo: Navajo County)

Perhaps most alarming: At least two of Arizona's smallest counties now are unable to make payroll several times a year. After burning through rainy-day funds, Graham and La Paz counties are resorting to bank loans to survive negative cash balances between tax revenue cycles.

Graham County general fund balance

After burning through rainy-day funds, Graham County is resorting to bank loans to survive negative cash balances between tax revenue cycles.



Source: County Supervisors Assoc. of AZ Created with [Datawrapper](#)

Leaders there hope the state provides relief before they have to consider bankruptcy.

"The state has boasted balancing the budget while cutting taxes, but a certain part of that budget has happened on the backs not just of counties, but of cities and schools," Graham County Supervisor Jim Palmer said. "I'm as conservative as they come ... but I also believe government plays a role in our lives like educating our kids and providing safe roads and criminal justice. We've got to find a way to adequately fund those."

But the response from the state Capitol isn't optimistic, with key lawmakers forecasting little, if any, help for the counties this fiscal year.

Cost shifts began slowly



Nearly half of Mohave County's roads are due for replacement, plagued in places by spiderweb cracking and erosion that has eaten chunks from the edges. (Photo: Mohave County Public Works Department)

Counties began helping the state when Arizona was staring down the barrel of a \$1.2 billion deficit (<http://archive.azcentral.com/arizonarepublic/local/articles/2008/11/07/20081107statebudget1107.html>) in the midst of the housing crash. The counties handed over \$7 million at the time.

It was a foot in the door.

By 2012, Arizona's budget stripped \$102 million from counties by sweeping back into state coffers money once dedicated to counties like gas taxes and Lottery revenue, while sending counties bills for services provided by state agencies like the Departments of Revenue and Juvenile Corrections.

Ducey continued shifting costs to counties in his proposed budget this year, even as he modestly increased spending on education and other initiatives and maintained corporate tax cuts.



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"You shifted these things because you needed help," Navajo County Supervisor Jason Whiting said of state decision-makers. "You're pulling out of it (the recession) now. You need to balance it again."

Though Maricopa County is pinched from paying the lion's share of the cost shifts, rural counties are struggling even more.

"It's not sunny days for us in Navajo County," Whiting said.

Slowdowns at farms, coal and copper mines, and generating stations such as the Cholla Power Plant, for instance, have contributed to tight county finances in small-town Arizona.

The consequences:

- Navajo County is purchasing vintage computer parts off eBay because its information technology systems are so old, Whiting said. A county office in Pinetop-Lakeside recently was closed. The county's road repaving schedule has stretched from 20 years to 40 years. Though heavy equipment should be replaced every decade or so, Navajo County's road blader is 37 years old — more ancient than some employees, county staffers joke.
- Graham County, as well as Navajo County, might close its juvenile detention center. Underage offenders would be shipped to facilities hundreds of miles away, ripping families apart, Palmer said. Already he is receiving concerned emails from parents who will no longer be close to their children. Some paved streets in Graham County are deteriorating so quickly, officials are considering converting them back to dirt roads. The Sheriff's Office was forced to patch together patrol cars like Frankensteins from parts scavenged from throw-away Department of Public Safety vehicles. "It's pretty staggering," Palmer said. "When these (cost shifts) were enacted, they were intended to be temporary solutions. But they seem to have become permanent."
- Nearly half of Mohave County's roads are due for replacement, plagued in places by spiderweb cracking and erosion that have taken chunks from the edges, said Public Works Director Steve Latoski. The Sheriff's Office staffing is so low — below 1989 levels despite a doubling of the population since then — that some far-flung parts of the county are not patrolled at times, according to Sheriff Doug Schuster. Within two years, he predicts the department will lack functional boats to patrol Lake Havasu. Crimes are going unsolved without enough investigators. "It's just maddening," Schuster said.
- La Paz County is late on paying bills from a variety of vendors, said Supervisor D.L. Wilson. The county issued bonds, pledging its future revenue as collateral, to replace outdated road equipment and patrol cars pushing 200,000 miles, he said. Like Graham County, La Paz County is using credit lines to make payroll when cash flow dips into the red. "You don't have a choice," Wilson said. "It's kind of a last resort to make ends meet."



Nearly half of Mohave County's roads are due for replacement, said Public Works Director Steve Latoski. (Photo: Mohave County Public Works Department)

Craig Sullivan, executive director of the supervisors association, said counties are on the edge.

"This is not a healthy way to run an operation," he said. "We need to get as many resources back to these counties as possible."

Some counties could raise taxes.

Officials in Mohave County are considering it, said Moss, the supervisor.

residents," he said, noting constituents frequently complain to him about roads and patrol service. "The state is patting themselves on the chest, saying, 'We're not going to raise taxes.' But (they're) going to create the conditions for local governments to need to raise taxes."

Many counties don't even have that option. State law restricts growth in property tax levies, and counties such as La Paz and Graham are nearly capped.

In addition, some rural areas have such limited property rolls that they would have to boost tax rates by as much as \$1 to fill the hole left by the state budget, said Graham County's Palmer.

"We're boxed in," he said. "We have nowhere to go."

Budget Impacts, FY 2008-2018

Figures include mandated contributions, HURF, lost revenue streams, program shifts and state agency cost shifts.

2008	\$7.03 million
2009	\$66.55 million
2010	\$47.33 million
2011	\$70.31 million
2012	\$101.47 million
2013	\$51.28 million
2014	\$41.99 million
2015	\$31.24 million
2016	\$52.78 million
2017	\$34.37 million
2018	\$52.42 million

FY 2018 is estimate

Source: County Supervisors Assoc. of AZ Created with [Datawrapper](#)

Little legislative relief in sight

Republican budget leaders say they understand the counties' pain.

"You've got to remember I am a rural guy. I am from Yuma, so my heart is with them," said state House Appropriations Chairman Don Shooter. "My own personal opinion is we need to try to remediate those policies as quickly as we can."

The 2018 budget probably won't be worse for counties, but it may not be much better, Shooter said.

Raising the gas tax is one way the state could return money to counties. It hasn't been increased since 1991, even as electric and fuel-efficient vehicles drive down gas consumption, he said.

"There are a number of things I'm a heretic on in the Republican Party," Shooter said. "I don't like taxes. I've never liked taxes. But if you want roads, you have to pay for them. It's not unreasonable."

However, there's no appetite at the Legislature, he said.

When asked if state leaders are passing the political buck to local leaders to raise taxes, Shooter laughed.

"The truth is the truth," he said. "Nobody wants to make a damned decision."

Sen. Debbie Lesko, R-Peoria, who leads the Senate Appropriations Committee, said counties might get help this year, but probably not as much as they want.

"It's very difficult to balance all the different requests when you have a limited amount of money," she said. "Is everybody going to be happy? Probably not. We're trying to give as much as possible."

Democrats want to support counties, said Senate Minority Leader Katie Hobbs, D-Phoenix, but the governor "doesn't seem serious" about spending more.

The governor's proposed budget increases county cost shifts to \$52 million this year, from \$34 million last year.

Ducey spokesman Patrick Ptak said the governor is championing other help for counties.



His budget includes \$5 million to expand broadband to rural Arizona schools and libraries. (/story/news/politics/arizona-education/2017/01/13/arizona-budget-governor-ducey-spending-education/96454788/) which could be leveraged with additional state and federal funds to total \$100 million, Ptak said.

Ducey secured transportation spending last year that benefited counties. This year, he is pushing for additional resources for state parks, a major driver of tourism dollars to rural communities, Ptak said.

"A decade ago we were talking about closing down parks. Now they're on the rise and we're reinvesting in them," Ptak said. "We're seeing a turning of the tide."

Arizona also is focusing on economic development, he said.

The state recently offered incentives to attract Dot Foods, a major distributor that will employ up to 170 people, to Mohave County.

Moss, the county supervisor, said those efforts are appreciated.

"Governor Ducey has not ignored the rural areas," he said. "I sing his praises."

But counties are still in a tough spot if cost shifts from the state continue, Moss said.

"It's almost like a slow bleed," he said. "A slow bleed doesn't look that serious when it's a little at a time. But eventually, it kills you."

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