MEMORANDUM

Date: May 9, 2017

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

From: C.H. Huckelberry
County Administrator

Re: **County Revenue and Expenditure Projections for Fiscal Year 2017/18**

Attached is a summary from the County Supervisors Association regarding a number of federal and state revenues and payments and/or expenditures related to the State Budget that impacts county budgets. The information includes federal Payment In Lieu of Taxes, Secure Rural Schools, and State revenues such as Highway User Revenue Funds, Vehicle License Tax and State Shared Sales Tax. The summary also includes expenditures such as mandated healthcare-related payments.

This information is self-explanatory. If you have any questions, please contact me.

CHH/anc

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

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Memo

To: County Officials
From: CSA Staff
Date: May 5, 2017
Subject: County Revenue & Expenditure Projections for FY2017-2018

Provided below are the projections of major federal and state revenue streams, as well as mandated payments required of counties through the state budget process for FY 2017-2018.

Federal Revenues

- **Payment In Lieu of Taxes (PILT)**
  Full funding of PILT was included through federal fiscal year 2017 (FFY 2017) in the appropriations process. Final payment amounts for counties are scheduled to be released in June 2017 and will reflect a slight elevation in funding from FY 2016 levels. In the past, the PILT discussion has focused around short, one-year extensions of the program, and has often taken place well into the new fiscal year. The National Association of Counties (NACo) is actively formulating a strategy to address the PILT funding issue moving forward and is continuing to advocate for a long-term solution this year. The inclusion of PILT in the FFY 2017 appropriations process marks the third year in a row in which PILT was funded as a discretionary program instead of funded through an extension of the program's mandatory status (exempt from the appropriations process). Without the mandatory classification, PILT will remain as a discretionary program and is subject to the appropriations process. While an extension of the mandatory authorization is still an option, we are likely to see another push to include the PILT funding in the FFY 2018 appropriations process. In past years when PILT was a discretionary program (1994-2007), funding was usually provided at 66 percent of the formula. Because of the uncertainty surrounding the path forward for the PILT program, CSA has provided a preliminary full funding projection and an alternative 66 percent funding level projection.

- **Secure Rural Schools (SRS)**
  No funding reauthorization was provided for SRS payments in FFY 2016 or FFY 2017. The expiration of SRS has created dramatic budgetary shortfalls to county governments with federal forest payments to counties decreasing by over 80 percent on average. NACo and stakeholders continue to urge Congress to reauthorize SRS going forward and retroactively fund the FFY 2016 program. In the absence of a commitment to SRS in the federal budget, the US Forest Service must revert to making payments to states/counties under the 1908 Act, commonly called the 25% payments, for FFY 2016 and FFY 2017 years. Because of this, CSA has not included any projections for SRS payments and instead provided estimates of the 25% Special Payments expected for FFY 2016 and FFY 2017. If this changes during the year, we will pass along any information.

State Revenues

- **Highway User Revenue Fund (HURF)**[1]
  In FY 2017, the legislature diverted $96.0 million in HURF monies to the Department of Public Safety (DPS). The FY 2018 budget includes a $99.4 million diversion, but includes an outside the formula distribution provision for the $30 million restoration that bypasses the State Highway Fund (SHF). This $30 million distribution is in addition to a $30 million distribution previously programmed for FY 2018, bringing the total local government restoration to $60 million for FY 2018. After accounting for the DPS diversion and the modified distribution mechanism for the $60 million restoration, CSA estimates counties will receive $282,700,000 in FY 2018.

- **Vehicle License Tax (VLT)**[2]
  Counties receive two different payments from VLT, 5.83 percent of total VLT revenue to be used for transportation purposes, and 24.59 percent of total VLT revenue to be deposited into the general fund of each county. Based on ADOT forecasts, CSA estimates counties will receive $58,200,000 in transportation dollars (5.83 percent) and $245,600,000 in general fund dollars (24.59 percent) in FY 2017.

- **State Shared Sales Tax (TPT)**[3]
  State shared sales tax, or Transaction Privilege Tax (TPT), is distributed based upon population, secondary net assessed value, and point-of-sale factors. The population figures reflect the 2010 census and the estimates are CSA adjusted figures provided by the Arizona Department of Revenue (ADOR). Using ADOR base estimates, CSA projects that the total county share of TPT to be $825,000,000.

Expenditures

- **Mandated Healthcare-related Payments**
  The counties are required to assist in the funding of the AHCCCS system, through direct payments to the state as created by statute or the state budget process. Most counties make the following four payments to the state:
  - Budget Neutrality Compensation Fund (BNCF) payment is designed to provide administrative funding for costs associated with Prop. 204 implementation. Total payment is set by statute and adjusted for inflation. Total FY 2018 county payments to the BNCF are $3,655,300.
  - Acute Care (Acute) payment was originally designed to share the burden of state matching requirements for federal funds. Acute payments have been the same for most counties since FY 1996. The FY 2018 Acute payments total $46,813,400.
  - Disproportionate Uncompensated Care (DUC) pool, originally established as part of Prop. 204, monies are now used to offset state general fund expenditures for AHCCCS. FY 2018 DUC pool payments remain unchanged from FY 2016 at $2,646,200.
  - Arizona Long Term Care System (ALTCS) payments are transfers made by counties and, when combined with state dollars, are used as the state match to pull down federal Medicaid funds. Growth in the program is split 50/50 between the counties and the state. Allocation among the counties is based on previous utilization. Total FY 2018 ALTCS contributions are $264,673,200, reflecting an increase of $7.7 million from the

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[1] *A portion of the HURF distribution formula is based on unincorporated populations, currently reflecting the 2010 census.*
[2] *The general portion of VLT is distributed based on a "county of origin" factor. CSA used actual FY 2016 numbers to estimate FY 2018 distributions. The transportation portion uses 2010 census unincorporated population.*
[3] *Based on ADOR preliminary estimates provided to CSA. ADOR will release official estimates in June.*

JLBC Baseline due to anticipated increases in the cost of Prop 206 implementation for ALTCS providers.

- **Arizona Department of Juvenile Corrections (ADJC) Cost Shift**
  A new provision that was put in place two years ago requiring the director of the ADJC to assess a "committed youth confinement cost sharing fee" to each county based on their share of total county population. The provision exempts the fee from the county expenditure limitation and includes flexibility language to allow a county to use any source of county revenue to meet the fiscal obligation. The FY 2018 budget sets the amount to be collected from the counties at $11,260,000. Using one-time monies the FY 2018 budget also includes an $8 million appropriation designed to reduce this amount. After the $8 million is applied, the total impact to counties in FY 2018 from the ADJC cost shift will be $3,260,000.

- **Arizona Department of Revenue (ADOR) Cost Shift**
  A new provision that was put in place in last year's budget requires ADOR to charge every city, town, county, the Maricopa Association of Governments (MAG) and the Pima Association of Governments (PAG) a service fee for the revenue that is collected on behalf of the jurisdiction. The provision exempts this fee from the county expenditure limitation and includes flexibility language to allow a county to use any source of county revenue for the fiscal obligations. The FY 2018 budget sets the amount to be raised from the fee at $20.8 million (unchanged from last year) and lays out a framework for calculating each jurisdiction's share. The aggregate county share of the fee is determined through the following procedure:
  (1) Calculate the aggregate amount distributed to counties from:
    (a) A.R.S. § 42-5029 (TPT distribution base)
    (b) A.R.S. § 42-6103 (county general fund excise tax)
    (c) A.R.S. § 42-6107 (county transportation excise tax for roads)
    (d) A.R.S. § 42-6108 & 42-6108.01 (tax on hotels – Pima only)
    (e) A.R.S. § 42-6109 & 42-6109.01 (jail facility excise tax – Maricopa only)
    (f) A.R.S. § 42-6110 (use tax on electricity)
    (g) A.R.S. § 42-6111 (county capital projects)
    (h) A.R.S. § 42-6112 (county excise tax for county judgment bonds – La Paz only)
  (2) Calculate the aggregate amount distributed to counties, cities and towns, MAG, and PAG from:
    (i) All taxes listed under step one
    (j) A.R.S. § 42-6001 (city excise taxes)
    (k) A.R.S. § 43-206 (urban revenue sharing)
    (l) A.R.S. § 42-6105 (MAG transportation tax)
    (m) A.R.S. § 42-6106 (PAG transportation tax)
  (3) Calculate what percentage the aggregate amount calculated under step one is of the aggregate amount calculated under step two and apply this percentage to the $20.8 million

$$\left(\frac{sum(a,b,c,d,e,f,g,h)}{sum(a,b,c,d,e,f,g,h,i,j,k,l,m)}\right) X\ 20{,}755{,}835 = 6{,}755{,}626$$

  The aggregate county amount calculated through the above procedure is then proportionally billed to each county based on population. CSA estimates that the county aggregate share will be approximately $6.76 million in FY 2018.

- **Sexually Violent Persons (SVP)**
  Carried forward to FY 2018 as session law, the reimbursement percentage for counties is set at 31 percent (unchanged from last year) for the commitment of an individual who has been determined to be a sexually violent person and confined in the Arizona Community Protection and Treatment Center (ACPTC). The provision exempts the payments from the county expenditure limitation and includes flexibility language to allow a county to use any source of county revenue for the fiscal obligations.

- **Restoration To Competency (RTC)**
  Carried forward to FY 2018 as session law, counties are required to reimburse the Department of Health Services 100 percent of the cost incurred by the state for the inpatient competency restoration treatment of a defendant at the Arizona State Hospital (ASH). The provision exempts the payments from the county expenditure limitation and includes flexibility language to allow a county to use any source of county revenue for the fiscal obligations.

Additional information on these items appears in the following attachments.

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PILT Payments to Arizona Counties

	FY 2017 Estimated PILT Funding /1	FY 2018 Projected PILT Funding /2	FY 2018 Projected PILT, 66% Funding /3
Apache	$ 1,849,116	$ 1,900,856	$ 1,254,565
Cochise	$ 2,220,981	$ 2,283,127	$ 1,506,864
Coconino	$ 1,773,366	$ 1,822,986	$ 1,203,171
Gila	$ 3,549,485	$ 3,648,804	$ 2,408,210
Graham	$ 2,884,686	$ 2,965,402	$ 1,957,165
Greenlee	$ 933,261	$ 959,374	$ 633,187
La Paz	$ 1,996,730	$ 2,052,600	$ 1,354,716
Maricopa	$ 3,139,129	$ 3,226,965	$ 2,129,797
Mohave	$ 3,593,303	$ 3,693,848	$ 2,437,940
Navajo	$ 1,454,386	$ 1,495,082	$ 986,754
Pima	$ 3,386,800	$ 3,481,567	$ 2,297,834
Pinal	$ 1,301,589	$ 1,338,009	$ 883,086
Santa Cruz	$ 1,021,967	$ 1,050,562	$ 693,371
Yavapai	$ 3,327,205	$ 3,420,303	$ 2,257,400
Yuma	$ 3,599,025	$ 3,699,729	$ 2,441,821
Total	**$ 36,031,028**	**$ 37,039,215**	**$ 24,445,882**

/1 Payments are estimated by distributing the assumed FY 2017 PILT amount using the actual county proportion for the FY 2016 payments. This approach assumes there has not been any large land acquisitions or sales.
/2 Projected payments based on the FY2017 Omnibus Appropriations bill funding of a $465 million PILT funding level for FY 2017, which provides growth of the FY 2018 amount based on inflation, and distributes these payments based on actual FY 2016 proportions
/3 Projected payments at the 66% funded level assumes that Congress appropriates monies at 66% of the mandatory PILT level. Prior to FY 2008 it was common practice for PILT payments to be underfunded and the historical average was at 66%
Note: All numbers assume that your level of retained funds for future years does not significantly change from FY 2017

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SRS Payments to Arizona Counties

	FY 2016 Estimated 25% Special Act Payment /1 (received in March 2017)	FY 2017 Estimated 25% Special Act Payment /2 (to be received March 2018)
Apache	$ 30,264	$ 31,063
Cochise	$ 73,397	$ 75,334
Coconino	$ 341,075	$ 350,076
Gila	$ 268,429	$ 275,513
Graham	$ 57,861	$ 59,388
Greenlee	$ 44,332	$ 45,502
La Paz	$ -	$ -
Maricopa	$ 103,573	$ 106,307
Mohave	$ 391	$ 401
Navajo	$ 40,484	$ 41,552
Pima	$ 53,181	$ 54,584
Pinal	$ 34,705	$ 35,621
Santa Cruz	$ 62,752	$ 64,408
Yavapai	$ 315,025	$ 323,339
Yuma	$ -	$ -
Total	**$ 1,425,469**	**$ 1,463,088**

/1 Without Congressional reauthorization of the Secure Rural Schools and Community Self Determination Act (SRS Act), the Forest Service must revert to making payments to States under the 1908 Act, commonly called the 25% payments, for the 2017 payment year. Amount includes a 6.9% reduction due to sequestration.

/2 Without Congressional reauthorization of the Secure Rural Schools and Community Self Determination Act (SRS Act), the Forest Service must revert to making payments to States under the 1908 Act, commonly called the 25% payments, for the 2017 payment year. Assumes 2.64% growth, the average over the last 8 years.

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HURF Revenue Estimates for FY 2018

Counties 19% Forecast HURF Distribution - $ 282,700,000 /1

DISTRIBUTION FACTORS

	Fuel Factor (72%) /2	Uninc. Pop.	HURF Estimate /4
	1-year	Factor (28%) /3	1-year
Apache	0.02070	0.04474	$ 7,755,038
Cochise	0.03031	0.03823	$ 9,196,068
Coconino	0.03988	0.03917	$ 11,217,536
Gila	0.01351	0.01872	$ 4,232,576
Graham	0.00783	0.01492	$ 2,773,789
Greenlee	0.00375	0.00326	$ 1,021,826
La Paz	0.01839	0.01004	$ 4,537,399
Maricopa	0.50124	0.20679	$ 118,393,799
Mohave	0.04716	0.05501	$ 13,954,216
Navajo	0.02668	0.04979	$ 9,372,551
Pima	0.14041	0.25831	$ 49,027,174
Pinal	0.05601	0.13712	$ 22,253,499
Santa Cruz	0.01192	0.01877	$ 3,911,029
Yavapai	0.04139	0.06125	$ 13,272,530
Yuma	0.04081	0.04388	$ 11,780,968
Total	**1.0000**	**1.0000**	**$ 282,700,000**

/1 Based on ADOT September 2016 Official Forecast for FY 2018. "Off the top" HURF distributions based on FY 2018 budgeted levels which include $99.4 million to DPS, $0.62 million to MVD for the registration compliance program, and $1.0 million to the Economic Strength Project Fund per statute. Includes the effects of the ongoing $30 million local government HURF restoration and an additional $30 million one-time HURF restoration.

/2 One year average fuel factor for MAR 16 - FEB 17

/3 Unincorporated population factors based on Census 2010 figures dated April 1, 2010

/4 HURF distribution to counties is based on 72% on the fuel factor and 28% on the unincorporated population factor

Note from ADOT: Individual estimates to counties could materially change due to changes in the distribution of gasoline by county.

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FY 2018 County Vehicle License Tax (VLT) Estimated Distributions

Counties VLT 24.59% (General Fund) Forecast Distribution - $ 245,600,000 /1

Counties 5.83% (Transportation) Forecast VLT Distribution - $ 58,200,000 /1

	FY 2016 County of Origin Factor /2	FY 2018 Estimated General Fund VLT /3	Uninc. Pop Factor /4	FY 2018 Estimated Transportation VLT /5
Apache	0.00281	$ 691,240	0.04474	$ 2,603,868
Cochise	0.01696	$ 4,164,530	0.03823	$ 2,224,986
Coconino	0.01641	$ 4,029,744	0.03917	$ 2,279,694
Gila	0.00773	$ 1,898,608	0.01872	$ 1,089,504
Graham	0.00412	$ 1,012,261	0.01492	$ 868,344
Greenlee	0.00165	$ 405,702	0.00326	$ 189,732
La Paz	0.00277	$ 679,361	0.01004	$ 584,328
Maricopa	0.66835	$ 164,146,847	0.20679	$ 12,035,178
Mohave	0.03140	$ 7,711,229	0.05501	$ 3,201,582
Navajo	0.01037	$ 2,546,850	0.04979	$ 2,897,778
Pima	0.12122	$ 29,771,074	0.25831	$ 15,033,642
Pinal	0.04703	$ 11,549,560	0.13712	$ 7,980,384
Santa Cruz	0.00759	$ 1,863,895	0.01877	$ 1,092,414
Yavapai	0.03707	$ 9,103,279	0.06125	$ 3,564,750
Yuma	0.02454	$ 6,025,819	0.04388	$ 2,553,816
Total	**1.00000**	**$ 245,600,000**	**1.0000**	**$ 58,200,000**

/1 Based on ADOT September 2016 Official Forecast for FY 2018
/2 County of Origin for FY 2016. Represents in which county the vehicles were registered
/3 CSA estimates based on FY 2016 actual "County of Origin Factors" reported by ADOT
/4 Unincorporated population factors based on Census 2010 figures dated April 1, 2010
/5 CSA estimates based on unincorporated population factor as reported by ADOT

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FY 2018 Estimated State Shared Sales Tax Revenue to Counties

	FY2018 Estimated State Shared Sales Tax /1
Apache	$ 5,281,243
Cochise	$ 13,009,641
Coconino	$ 22,414,117
Gila	$ 5,565,264
Graham	$ 3,912,714
Greenlee	$ 5,314,794
La Paz	$ 2,286,532
Maricopa	$ 531,620,006
Mohave	$ 22,037,566
Navajo	$ 11,551,150
Pima	$ 113,910,035
Pinal	$ 33,397,026
Santa Cruz	$ 4,860,342
Yavapai	$ 28,488,136
Yuma	$ 21,351,434
Total	**$ 825,000,000**

/1 Based on ADOR preliminary county estimate of $825 million provided to CSA. CSA estimate uses PNAV as reported on the 2017 Levy Limit Worksheet (due to Prop. 117), 2010 Census population, and a 12-month rolling average point-of-sale factor (Apr-16 to Mar-17)

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FY 2018 County Contributions to State AHCCCS System

	Expenditures /1				
	ALTCS	ACUTE Care	DUC Pool	BNCF	Total
Apache	$ 657,500	$ 268,800	$ 87,300	$ 120,500	$ 1,134,100
Cochise	$ 5,241,100	$ 2,214,800	$ 162,700	$ 224,700	$ 7,843,300
Coconino	$ 1,974,000	$ 742,900	$ 160,500	$ 221,700	$ 3,099,100
Gila	$ 2,208,500	$ 1,413,200	$ 65,900	$ 91,100	$ 3,778,700
Graham	$ 1,561,800	$ 536,200	$ 46,800	$ 64,700	$ 2,209,500
Greenlee	$ 28,000	$ 190,700	$ 12,000	$ 16,600	$ 247,300
La Paz	$ 526,000	$ 212,100	$ 24,900	$ 34,500	$ 797,500
Maricopa /2	$ 165,477,400	$ 18,783,100	$ -	$ -	$ 184,260,500
Mohave	$ 8,350,800	$ 1,237,700	$ 187,400	$ 258,800	$ 10,034,700
Navajo	$ 2,721,500	$ 310,800	$ 122,800	$ 169,600	$ 3,324,700
Pima	$ 40,974,000	$ 14,951,800	$ 1,115,900	$ 1,541,300	$ 58,583,000
Pinal	$ 15,344,200	$ 2,715,600	$ 218,300	$ 301,600	$ 18,579,700
Santa Cruz	$ 2,040,600	$ 482,800	$ 51,600	$ 71,300	$ 2,646,300
Yavapai	$ 8,840,500	$ 1,427,800	$ 206,200	$ 284,900	$ 10,759,400
Yuma	$ 8,727,300	$ 1,325,100	$ 183,900	$ 254,000	$ 10,490,300
Total	**$ 264,673,200**	**$ 46,813,400**	**$ 2,646,200**	**$ 3,655,300**	**$ 317,788,100**

/1 Figures are from the FY 2018 state budget and reflects a change from the FY 2018 JLBC Baseline due to the restoration of Adult Dental for ALTCS,
/2 Laws 2005 Chapter 328 (SB 1515) eliminated Maricopa County's DUC and BNCF payments, and annually decreases their Acute Care payments in exchange for the county taking over Adult Probation operations as part of budget agreements.

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FY 2018 County Payments for the Arizona Department of Juvenile Corrections (ADJC)

	FY 2018 ADJC Cost Shift/1	FY 2018 ADJC One-time Reduction/2	Total FY 2018 ADJC Cost Shift Impact
Apache	$ 125,984	$ 89,500	$ 36,484
Cochise	$ 231,375	$ 164,400	$ 66,975
Coconino	$ 236,792	$ 168,300	$ 68,492
Gila	$ 94,415	$ 67,100	$ 27,315
Graham	$ 65,566	$ 46,600	$ 18,966
Greenlee	$ 14,862	$ 10,500	$ 4,362
La Paz	$ 36,093	$ 25,700	$ 10,393
Maricopa	$ 6,724,128	$ 4,777,300	$ 1,946,828
Mohave	$ 352,642	$ 250,500	$ 102,142
Navajo	$ 189,279	$ 134,500	$ 54,779
Pima	$ 1,726,804	$ 1,226,900	$ 499,904
Pinal	$ 661,946	$ 470,300	$ 191,646
Santa Cruz	$ 83,534	$ 59,300	$ 24,234
Yavapai	$ 371,750	$ 264,100	$ 107,650
Yuma	$ 344,830	$ 245,000	$ 99,830
Total	**$ 11,260,000**	**$ 8,000,000**	**$ 3,260,000**

/1 The FY 2018 budget requires ADJC to collect $11.3 million from the counties based on population. CSA estimates distribute the $11.3 million using 2010 census population numbers

/2 The FY 2018 budget includes a one-time distribution of funds to offset the cost of ADJC to counties. This appropriation is for $8 million and is distributed as detailed in the budget

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FY 2018 County Payments for the Arizona Department of Revenue (ADOR) Cost Shift

	FY 2018 ADOR Cost Shift/1
Apache	$ 51,609
Cochise	$ 221,842
Coconino	$ 205,776
Gila	$ 69,590
Graham	$ 49,954
Greenlee	$ 63,405
La Paz	$ 20,726
Maricopa	$ 3,806,720
Mohave	$ 227,242
Navajo	$ 148,624
Pima	$ 866,786
Pinal	$ 366,527
Santa Cruz	$ 60,840
Yavapai	$ 336,177
Yuma	$ 259,809
Total	**$ 6,755,626**

/1 The FY 2018 budget requires ADOR to collect $21 million from counties, cities, the Maricopa Association of Governments (MAG) and the Pima Association of Governments (PAG) based on certain taxes collected on their behalf. CSA estimates the aggregate county share to be $6,755,626, and distributes this using 2010 census population data