MEMORANDUM

Date: April 14, 2020

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

From: C.H. Huckelberry
County Administrator

Re: **COVID-19 Budget Implications**

COVID-19 budget implications will almost immediately impact our State-shared revenues, such as sales, vehicle license and hotel and car rental taxes. We do not received State-shared income taxes. In addition, the impact on the property tax base will extend over a longer period of time since changes in the tax base lag the real world economy by 12 to 18 months.

Below, is a recent chart from the Joint Legislative Budget Committee estimating the change in tax receipts and/or revenues.

Joint Legislative Budget Committee Estimates

	FY 2020 Q4	**FY 2021**
Retail	(32%)	3%
Contracting	9	2
Use	(25)	2
Restaurant & Bar	(70)	1
Utilities	(6)	(2)
Hotel	(70)	5
TOTAL	**(31)**	**2**

As you can see, the 2020 4th Quarter, that we are now in, has experienced a considerable negative impact. Retail sales receipts are down 32 percent, restaurants, bars and hotels are down 70 percent. This reduction will mean that the overall revenues for this fiscal year will be decreased, but not as significant as the 4th Quarter amounts. The estimate for retail sales in Fiscal Year (FY) 2020/21 is estimated to increase by 3 percent, however, these numbers can quickly change.

In preparing the FY 2020/21 Recommended Budget, which will be transmitted to the Board at the end of this month, we included a forecast for FY 2021 of State-shared revenues being $188.4 million (as opposed to the $181.3 million that was budgeted for this year. I believe it is safe to say that the forecasted growth increment will not occur and the budget I present will not have any growth in State-shared sales taxes. In fact, as we receive more information regarding the impact of COVID-19 on sales taxes, these numbers could further decline. It is likely the negative impact on all State-shared revenues will be approximately $11 million.

I believe it is safe to say that I will not be recommending any supplemental funding to any department or agency budget for FY 2020/21. The larger question is how much of a reduction will occur in each department or agency budget for FY 2020/21? I have asked departments to prepare a five percent expenditure reduction that could be considered if economic conditions continue to deteriorate.

In preparing for next year's budget, I have already decreased all out-of-state travel accounts by 75 percent and office supplies by 15 percent in each budget unit.

It is possible personnel reductions will also occur. Before eliminating personnel and initiating any layoff processes, I will reduce other pay categories such as overtime, shift differential, on-call pay, callback pay and other categories. In the aggregate, all of these special pay categories, if summed in all budget units of the County, equal approximately $7.5 million. I will carefully review these special pay categories to determine which can be reduced and perhaps eliminated before any personnel reductions.

Regarding State cost transfers, I expect these to also increase. I have already provided the Board with information related to the $3 million increase in the County's Arizona Long Term Care System (ALTCS) contribution. In addition, the Joint Legislative Budget Committee has revised the forecast associated with caseloads for the Arizona Health Care Cost Containment System (AHCCCS) which is forecasted to increase by 20 percent through July, 2020 and another 10 percent for the following fiscal year. This will result in increased premiums to be paid by counties.

Finally, the Board of Supervisors has scheduled public hearings and presentations for May 5, 2020 and May 12, 2020. Given it is unlikely we will be able to meet social distancing standards for these presentations, I recommend these hearings be canceled and all of the statutory hearing requirements continue. As you have heard from our public health experts, it is unlikely we can return to normal until after June 1, 2020.

CHH/anc

c: Presiding Judge of the Superior Court
Elected Officials
Appointing Authorities
Jan Lesher, Chief Deputy County Administrator
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer, Health and Community Services
Michelle Campagne, Director, Finance and Risk Management
Patrick McGee, Budget Manager, Finance and Risk Management