



MEMORANDUM

Date: April 30, 2020

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

From: C.H. Huckelberry
County Administrator

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

Re: **Fiscal Year 2020/21 Budget Preparation Update**

I will be transmitting a Recommended Budget to you in the next few days or as late as next week.

Obviously, our budget process has been severely disrupted by the COVID-19 pandemic. This fiscal year's Recommended Budget will have a significantly lower combined property tax rate, in the range of \$0.25 per \$100 of assessed value or more. This is primarily accomplished through a reduced secondary property tax for debt service, approximately \$0.17 and another \$0.08 in reduced primary property tax rates from \$3.99 today to \$3.92 for next year.

I will be recommending we defer the property tax growth component of the pay-as-you-go plan (PAYGO) for at least Fiscal Year (FY) 2020/21, with the hopes that the COVID-19 pandemic will have passed and we will be able to restart the program in FY 2021/22.

Our largest budget challenge is backfilling the revenue losses caused by the COVID-19 pandemic, primarily in the area of State-shared revenues, which are sales taxes, hotel bed taxes, car rental taxes and related shared revenues. The losses for this fiscal year are approximately \$15 million and, for next fiscal year \$25 million.

In addition, due to the anticipated increased delinquency rate for property taxes collections, we are forecasting an approximate \$5 million negative impact on collections next year.

For the Transportation Department, we are also estimating a reduction in the Highway User Revenue Funds and Vehicle License Taxes of approximately \$4.0 million this fiscal year, as well as, \$12.0 million in FY 2020/21. Therefore, the Department of Transportation will have an approximate \$16 million budget deficit to fill.

Also, due to the cancellation of events at the Stadium District that are unlikely to begin anytime soon, we anticipate another \$2 million loss in revenues for the Stadium District.

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These losses add up to over \$60 million in lost revenues, which is the reason I have de-obligated \$15 million of General Fund monies for facility building repairs, called for three percent attrition and asked for another five percent expenditure reduction from County departments and agencies. If we add in increased State cost transfers mentioned below, the budget deficit increases to over \$70 million.

Unfortunately, I do not believe departments or agencies who have responded believe the problem is real and, therefore, have offered up reductions that may not be very well thought out. As I take these reductions to balance the budget, they will understand how serious the matter has become.

For the three percent attrition, I have instructed staff to work with the departments to equate these personnel savings to vacant PCNs. Once obtained, the vacant PCNs will be inactivated and therefore, unavailable for use. For the five percent expenditure reduction, the departments responded with approximately \$39 million of budget cuts, of which approximately \$24 million related to General Fund departments. These expenditure cuts include reductions in personnel costs, operating supplies and services and operating capital expenditures. I have instructed staff to equate the personnel reductions to applicable PCNs. All vacant PCNs identified for the five percent reduction will be inactivated and unavailable for use. For all other expenditure cuts, I have instructed staff to remove these costs from the Post-COVID-19 Recommended Budget. These actions may be able to fill much of the revenue losses, but it is also likely some of the five percent reductions will not be possible.

Because of that, and as an additional safety measure, I will be recommending a salary furlough, effective January 1, 2021 if we do not meet targeted expenditure reductions. This salary furlough will be a certain percentage of salary, graduated from as much as eight percent for our high wage earners to two percent for the lowest paid employees and must raise in the vicinity of \$6 million in savings for the last half of the fiscal year. If necessary, this salary furlough may have to be extended into the following fiscal year.

To prevent departments from going on a year-end spending spree, I have instructed staff to freeze any purchases, procurement, requisitions and/or any other activity in the expenditure of County funds beyond what was forecasted in Financial Reporting Period 9. Obviously, if an emergency needs arise, they can be addressed individually with detailed justification. This action is being taken so that we conserve as much of our ending fund balances as possible.

Unfortunately, the State of Arizona is not helping with our budget shortfall. State cost transfers are actually increasing from \$87.9 million last year to \$96.4 million this year. I anticipate these cost transfers will also increase again and perhaps even more significantly in Fiscal Year 2021/22 as the full impact of increased AHCCCS and ALTCS long-term care costs from COVID-19 become apparent. These additional expenses adds to our budget shortfall an additional \$8.5 million.

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I will not be making any recommendations regarding rate reductions for the Regional Flood Control District or the Library District, primarily because both entities are in the middle of heavy capital programs that are contracted and necessary. They are also in a position to fully transition to a PAYGO capital program and have been able to do so much sooner than the General Fund.

The deferral of the PAYGO capital program means PAYGO funds that would have been transferred to pavement repair or certain capital projects will not occur in FY 2020/21. However, I will recommend the Board of Supervisors enter short term, no longer than five years, Certificate of Participation debt issuance to accelerate pavement repair and critical capital needs. I believe this type of short term borrowing is appropriate given the circumstances we are in and, given the capital borrowing market, which will result in historically low interest rates of one or two percent. Based on capital availability, now is a good time to borrow with the least costly interest rate, particularly if these are short term transactions, such as no longer than five years of debt service.

In the case of the pavement repair program it will allow a \$50 million investment in the program for FY 2020/21, this borrowing will be all for improvements that have an expected life of 20 to 30 years, therefore, there is no inconsistency regarding issuing short-term debt for these capital life spans.

While I have endeavored to eliminate long-term layoffs, it is likely in some departments/organizations layoffs will occur. If such is required, it will be accomplished in accordance with Merit System Rules.

Further details on the FY 2020/21 Budget will be delivered soon, but this memorandum contains the essential components of my recommendation.

CHH/anc

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